

Proposal for:
Feasibility of a Lawrence Conference/Convention Center



City of Lawrence

&



Submitted by:

Strategic Advisory Group
2014

March 20, 2014

PROPOSAL COVER SHEET

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March 20, 2014

Mr. David Corliss
City Manager
Lawrence City Hall
6 East 6th Street
Lawrence, Kansas 66044

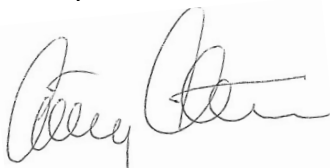
Dear Mr. Corliss:

The Strategic Advisory Group ("SAG") is pleased to present this proposal to assist the City of Lawrence and the University of Kansas (collectively referred to as the "Stakeholders") with understanding the market and financial issues surrounding the potential development of a conference/convention center in the community. For nearly 20 years, our team has been helping communities determine hospitality-related feasibility issues as they impact the overall success of a destination. Our firm delivers high quality analysis and is relentlessly objective in the feasibility study phase, never hesitating to render an infeasible opinion. However, when a project or components of a project are viable, we provide appropriate, creative solutions that achieve results.

Feasibility itself is relative only in terms of its ability to accomplish a goal. The keys, therefore, will be for SAG to work collaboratively with the Stakeholders so that we ask the right questions to the right people, probe the right issues, explore the right kind of possibilities to ultimately determine the best path forward for Lawrence.

We genuinely appreciate the opportunity to provide this proposal and are excited for what could lie ahead. Should you have any questions, please contact me at (678) 584-0727.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tony Peterman', is written over a light gray rectangular background.

Tony Peterman

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SCOPE OF WORK

Proposed Methodology

The research process presented in this proposal was designed to assist the City of Lawrence and the University of Kansas to make informed decisions. In general, SAG will first validate if there is market support for a new conference/convention center project and, if so, develop a market-based facility program. Utilizing that program, SAG will provide an order-of-magnitude development cost estimate, estimate facility performance, project operating revenues and expenses, assess funding and financing alternatives, and present management and ownership alternatives.

When opportunity exists, SAG has the vision to understand it, evaluate it, communicate it, and, if called upon, help bring it to fruition. When opportunity is poor, SAG designs solutions to overcome difficult circumstances, or, when necessary, delivers the hard and honest truth on the lack of market acceptance.

In our experience with similar projects, the scope of services is fluid in nature, changing as goals are identified and prioritized, analyses are completed, new information becomes available, and decisions are made. As your advisor, our primary goal will be to work towards an honest assessment and, if supported, structuring a project that best achieves the community's goals.

SAG envisions its role in Lawrence to include:

Market Validation

1. *Kick-off Meetings & Stakeholder Interviews* – The first and most important task in any engagement is to fully understand the City's study goals and objectives. To that end, SAG will host a series of interview meetings in Lawrence to solicit input on the project from representatives of various local groups that would be impacted by the success or failure of the project. These "stakeholders" would include City elected officials and staff, University of Kansas officials, the CVB staff and board members, Chamber of Commerce board members, local hoteliers and business owners, developers, civic leaders, and any other community leaders you deem appropriate.

During this time, we would also like to tour the potential site areas and further familiarize ourselves with Lawrence and the surrounding area. We will also review any data that may be available that could be useful in the analysis, such as community growth trends, planned project development, lost business reports, etc.

2. *General Economic and Demographic Trends* – Our analysis will address: general economic and demographic characteristics and trends, general market characteristics, travel, tourism

and convention trends, trends in hotel and other real estate development, overall economic development trends, and other market indicators.

3. *Conference & Convention Industry Trends* – SAG will analyze historical and forward-looking information on both the conference and convention industries, including space supply and demand trends, the changes in user preferences and amenities, price sensitivities, and many other industry trends. We will utilize secondary sources such as Tradeshow Week, Tradeshow Week Data Book, Major Exhibit Hall Directory, Tradeshow 200, Successful Meetings, Meetings & Conventions, CEIR, information from the Destination Marketing Association International, and other external and in-house sources for the analysis.
4. *Community Resources* – We will analyze and assess the Lawrence area’s key visitor industry resources that impact the community’s ability to attract conference, convention, trade show, special events, and other types of meetings business. Such resources may include: market demographic characteristics; transportation/air access and costs; convention/meeting related facilities; number of total committable and headquarter hotel rooms; average hotel rates; visitor industry-related taxes (sales, hotel-motel, rental car, etc.); marketing budgets; employment base and corporate climate; retail and entertainment districts, and others as appropriate.
5. *Comparable and Competitive Facilities* – SAG will prepare an analysis of up to five (5) relevant comparable and/or competitive facilities to provide observations on the destination’s ability to penetrate the existing market and grow potential markets. Based on the availability of data, SAG will present a case study of the quantitative and qualitative attributes for relevant facilities, including but not limited to the following:
 - Name and location
 - Size, type, configuration and quality of conference/function space
 - Number, type, and quality of hotel rooms (if any)
 - Number and type of food and beverage outlets
 - Number of parking spaces
 - Year built
 - Ownership and management structure
 - Annual utilization calendar (mix of business by segment)
 - Facility operating budget
 - Rental rate(s)
 - Hotel room rates and occupancy rates (if applicable)
 - Others as appropriate.
6. *Identify Demand – Potential User Interviews* – SAG will conduct interviews of no less than one hundred (100) potential users of the proposed conference/convention center facility. Such interviews will include samples of regional and state association meeting planners, educational groups associated with the University and event planners for University events, local and regional corporate meeting planners, trade show managers, event and party

planners, social groups, civic groups, as well as other local and regional planners. The databases from which these samples will be selected include Destination Marketing Association International's MINT database, Lawrence CVB's lost business reports, University educational associations, Meeting Professional International's database, TradeShow Week, SAG's in-house database of 3,000+ meeting planners, and other available information as required.

Our experience is that the best and most accurate feedback is generated from a combination of face-to-face interviews, telephone, and on-line surveys. SAG will not simply ask questions, but rather strive to gain an understanding of the attitudes and reasoning behind the answers. Information SAG will obtain from the interviews will include:

- Impressions of Lawrence as a meeting/tourist/event destination
- Size and type of event
- Current rotational patterns and locations
- Size, type, configuration, and quality of space needs
- Preferences related to alternative site locations in Lawrence
- Hotel room requirements
- Sensitivity to hotel type (full-service, select-service, other)
- Location of hotel rooms relative to the conference space
- Pricing sensitivity for conference space and (if applicable) hotel rooms
- Quality v. Price issues
- Event parking requirements
- Project amenities required
- Destination appeal issues (restaurants, entertainment, etc.)
- Others as appropriate

7. Facility Program Recommendations - Upon completion of the above steps, SAG will provide a recommendation of the space requirements for a market-supported facility. Our recommendations will outline the need for a conference/convention center, the alternative site locations in order of (and magnitude for) preference, a discussion on the sensitivity for potential need for proximate hotel rooms, and other relevant issues. The recommendation will be in terms of the following:

- Size, type and configuration of meeting facilities/function space
- Site preferences (also presented in next scope step)
- Rentable and support/back-of-house spaces
- Recommended level of furnishings, features, and amenities
- The impact of adjacent hotel rooms
- Quality, size and style of hotel facilities
- Potential and/or appropriate hotel brands for the Lawrence market
- Number and type of food and beverage outlets
- Number of parking spaces
- Others as necessary

8. Site Analysis - Based on the stakeholder interviews, potential user preferences identified through the survey process, as well as SAG's experience with similar projects, we will assess the relative merits of developing a facility in:
 - Downtown Lawrence
 - Clinton Lake
 - University of Kansas
 - Other Identified Area(s) if feasible

Although this step does not anticipate assessing individual parcels, SAG will through the course of the engagement become familiar with Lawrence as it relates to potential areas of the community that may or may not be more appropriate for the development of a conference facility.

Check Point and Deliverable

At this point, SAG would recommend an interim presentation with the Lawrence Stakeholders to review the findings and to determine if sufficient demand exists to warrant further study. SAG can provide this interim presentation face-to-face in Lawrence or via an Internet tool such as GoToMeeting. The following scope steps would be dependent upon the outcome of the market validation assessment.

Financial Analysis

1. Utilization Estimates - Using the above market analysis and the program recommendations, SAG will estimate the utilization by type of event (conference, convention, tradeshow, consumer show, local meeting, etc.) in terms of square feet, attendance, and room nights generated for a typical stabilized year of operations.
2. Operating Cash Flows - Based on the market analysis information and comparable facility operating data, and using the utilization estimates from the earlier step, SAG will estimate the future operating revenues and expenses for the first five (5) years of operation through stabilization. Although there is not an industry-accepted "Uniform System of Accounts" for conference/convention facilities, SAG uses its own internal accounts system of revenues and expenses by department, including: Revenues: Rent, Food & Beverage; Utilities, Equipment Rental, Catering Fees, Event Services, Parking, and others; and Expenses: Salaries and Wages, Operations and Maintenance, Food & Beverage, Utilities, Finance and Administration, Public Safety, Supplies and Repairs, Professional Services, Marketing and Advertising, Insurance, and others. The projections will also include the Net Operating Income available for debt service and return on equity.
3. Project Cost Estimates - SAG will provide general estimates of development cost per square foot to assist in the project's economic planning. As no physical plans will have been drawn and no actual parcel determined, these estimates should be considered only as order-of-magnitude and therefore conceptual and preliminary in nature. However, SAG is active in

the industry with projects recently built and under construction, so our estimates will be as accurate as possible given the stage in the process. Our estimates will be broken down to include hard and soft costs, FF&E, OS&E, general conditions, contingencies and others as appropriate.

4. Management and Ownership Options - At this point in the study, some of the high-level physical, qualitative, and financial issues around the project will begin to be identified. SAG will then be in a position to discuss and present some of the project alternatives available with respect to management and/or ownership. These issues may include the project as a whole, the conference/convention center only, or certain parts of the operation such as food and beverage/concessions operations. The purpose of this step will to begin the education process of what is available in the industry and what options may be most appropriate in Lawrence.
5. Warranted Private-Sector Investment - With an understanding of the net operating cash flows the project could generate, as well as the cost estimates, SAG will project the level of private investment the facility warrants. This step will include an analysis of sources and uses. SAG is currently active with other clients in the marketplace and understands the financing parameters lenders and investors require. This step will include an internal rate of return (“IRR”) calculation for the project(s) based on various debt-to-equity ratios, interest rates, and the reversion value (projected market value at time of sale) for both a five- and ten-year hold period.
6. Discuss the Need for Public Assistance - If net investor cash flows and rates of return are not sufficient to warrant and attract 100% private-sector investment, SAG will help Lawrence understand the likely amount of public assistance that might be necessary to attract private investment and get the project developed. We will work with the Stakeholders to assess all options including: traditional public financing, tax supported revenue bond financing, certificate of participation financing, tax increment financing, conduit financing, joint use agreements, subordinate leases, project financing, “63-20” financing, and any other type of instrument we discover that might be unique to this project. We will provide case studies regarding how other projects were/are funded and financed.
7. Public-Sector ROI & Exit Strategy - If public participation is likely to be required, either via public incentives to the private sector or as a publicly owned project, SAG will model the return on investment (ROI) from the City’s perspective. This analysis will include both direct sources of repayment as well as indirect such as additional tax generation and economic impact. Moreover, SAG will present options and potential timeframes for Lawrence to be “taken out” of the project. Our work will include profiles of similar transactions and how each City dealt with their projects; such as some of the examples of other SAG clients below:

*To make the project feasible, the **City of Charlotte** invested \$25M in their 700-room Westin convention hotel via a subordinate loan and was repaid in full from the private sector developer/owner in less than five years. The City's ROI was shown to be approximately 14% in the overall project.*

*The **City of Myrtle Beach** failed to attract a private sector developer to build and manage a hotel attached to an existing convention center. The City pursued and opened a publicly-owned and developed project. Although missing projections for the first two years since opening, the property is now providing direct returns to the City. The City has decided to continue owning the asset for the foreseeable future.*

*Due to the attractiveness of a highway location outside of Omaha, the **City of La Vista, Nebraska** attracted a private sector developer to build and own a full-service Embassy Suites hotel as well as manage the concurrently developed Conference Center. Although the City had some level of upfront investment into the project, it was minimal. The City chose instead to provide for long-term capital expenses for the Conference Center.*

8. Final Report Delivery & Oral Presentation - Upon conclusion of the above body of work, SAG will compile the study's findings, analyses, conclusions, and recommendations into an oral presentation to be given to the Stakeholders in Lawrence. SAG will also make itself available over a one- or two-day period to present the work to various stakeholders as required. In addition to the oral presentation, SAG will provide an executive summary style written report to accompany the presentation. SAG will also provide monthly update conference calls to provide the clients with the status of the work.

OUR UNDERSTANDING OF THE COMMUNITY AND PROJECT

SAG understands that the City of Lawrence in partnership with the University of Kansas is seeking a consultant to determine the feasibility of a conference/convention center in the community. More than just preparing a feasibility study, SAG is committed to provide the research and advice to help the community maximize its potential as a meeting destination. SAG has over 20 years experience working with communities like Lawrence, and will help you answer important questions such as:

- Can the area support a new conference/convention facility?
- What are the trends in the local, regional and state meetings market?
- What is the best location for the facility?
- How should the public sector be involved?
- What is the best configuration for the facility?
- How can the facility support the community's economic development goals?
- What are University's requirements and project involvement?

While it is known that SAG has professional experience in Kansas; performing both the initial and follow-up feasibility assessments for the recently-opened conference center in downtown Manhattan, Kansas; as well as currently serving as the advisor to the Finance Department of the City of Kansas City, Missouri related to its negotiations for structuring a public-private partnership for a new downtown convention center hotel; it is likely not known that an SAG professional has personal ties to the community.

Mr. Anthony Peterman, the SAG Senior Partner who led the study efforts in Manhattan and will lead the effort in Lawrence for SAG if selected, had a niece and a nephew attend (and graduate) from the University of Kansas from 2007 through 2012. As a frequent visitor during that time, Mr. Peterman gained familiarity with the area, particularly its core industry-related assets such as hotels, meeting spaces, and local visitor amenities. Whether as an overnight guest in such hotels including (but not limited to) The Oread and The Eldridge or as a pedestrian shopper along Massachusetts Street, Mr. Peterman gleaned an understanding of some of the features that make Lawrence unique and could help position it for potential increased penetration into the meetings and convention industry. While there will certainly be a need for a great deal of additional research, this general background on the community allows for a quicker ramp-up period and a more efficient study process.

DISCUSSION OF COST AND COST COMPONENTS

Pending the final agreed-upon scope of services, our total professional fees for the feasibility study as proposed are estimated to range from \$42,000 to \$59,000 with the market component equating to roughly 65% of the project and the financial component equating to approximately 35% of the fees. These fees are based on our hourly billing rates and the length of time estimated to complete the project based on our experience with similar projects.

SAG anticipates completing the work in approximately twelve (12) to fourteen (14) weeks.

COPY OF RECENT STUDY

As suggested in the RFP, included herein is a copy of a recent SAG study similar in scope to the Lawrence conference/convention center project.

On the following pages is SAG's *Final Report* of the market feasibility assessment for a proposed conference center and hotel in downtown Los Alamos, New Mexico.



FINAL REPORT

JANUARY 2012

January 6, 2012

Mr. Harry Burgess
County Administrator
Los Alamos County
33 Central Park Square
Los Alamos, New Mexico 87544

RE: CONFERENCE CENTER MARKET STUDY REPORT

Dear Mr. Burgess:

The Strategic Advisory Group is pleased to present its final report of the market feasibility assessment for the proposed hotel and conference center project in downtown Los Alamos. This report summarizes our research, analyses, conclusions and recommendations for the potential project.

On behalf of all SAG partners and staff, we truly appreciate the opportunity to work with Los Alamos County and other community stakeholders on this engagement. Should you have any questions or require additional information, please contact me at (678) 584-0727.

Sincerely,



Tony Peterman, Senior Partner
Strategic Advisory Group

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INTRODUCTION

Unlike most communities that continue to suffer the impacts of the economic recession that began four years ago, Los Alamos County has much to be thankful for. Unemployment in Los Alamos (LA) never rose above 4%, home prices remained relatively steady, and a recent survey published in *Kiplinger* found Los Alamos to have a higher percentage of millionaires per capita than any other city in America.

Moreover, nearly 400,000 people each year visit LA area's attractions, including Bandelier National Monument, the Bradbury Science Museum, the Historical Museum, and others. The Los Alamos National Laboratory (LANL), employer to nearly 75% of all workers in the area, continues to attract world-class scientists and professionals as well as tourists from around the globe.

Despite its economic stability and positive attributes, LA's hospitality infrastructure typically associated with supporting such a residential and visitor demographic continues to be one of its key challenges.

The quantity and quality of hotel guestrooms and group meeting and conference space is far inferior to that which can be found approximately 30 miles away in neighboring Santa Fe and a variety of destinations around the state.

In fact, research shows that the lack of competitive hotels and function space, combined with a dearth of restaurants and the absence of a

vibrant downtown core are several of the critical issues keeping LA from realizing some its own economic vitality goals, including: supporting the needs of LANL, diversifying the local economic base, and increasing the quality of life opportunities for its citizens.

In response to this situation, a private sector development team offered an unsolicited proposal to LA. The proposal called for combining private and public resources to build a quality hotel, conference center, and restaurant overlooking the canyon in the southeast corner of downtown near the intersection of Trinity Drive and 6th Street.



Does market demand exist for the proposed project? Will it indeed help local businesses? How would it impact the existing hotels? Is the proposed project a good fit for the community?

Before Los Alamos County could act on the proposal, these were the types of questions that needed to be answered. Therefore, LA engaged the Strategic Advisory Group not only to answer these questions, but to assist in plotting out an appropriate path forward as to how such a project might help achieve community goals.

This report is an executive summary of the Strategic Advisory Group's (SAG) research, conclusions, and recommendations. The accompanying appendix presents the detailed analysis as presented orally to the community in November and December, 2011.

DOES DEMAND EXIST FOR PROJECT?

A variety of research methods were used to gauge the level of demand that exists for the proposed project, including: direct interviews, written and on-line surveys, and telephone conversations with potential users; analysis of supply and demand characteristics of existing comparable facilities in Los Alamos and the region; an analysis of local Meeting & Visitors Bureau business activity; discussions with local LA hotels and other businesses; a study of local and national industry trends; an analysis of other data compiled from reliable third-party sources; and other techniques.

Most of the research focused on the needs of potential users and determining those critical factors that influence how individuals and groups make decisions.

The market demand was segmented by user type, including: LANL; New Mexico State Associations; SMERF groups (Social, Military, Educational, Religious and Fraternal) such as sporting events, class reunions, Bradbury Museum events, religious events, dance competitions, festivals, consumer shows, and others; Local events; Business transient travelers; Leisure transient travelers; and a general category for all others.

From this research, it was determined that demand does indeed exist for a quality hotel conference center in downtown Los Alamos. As shown in the table below, nearly 14,000 new and incremental occupied hotel room nights could be

generated each year in the community if an appropriate facility were available.

Most groups and individuals reported a lack of quality guestrooms and function space as the key reason for not bringing the identified 14,000 room nights to LA. LANL itself estimated that approximately 3,000 room nights are lost each year as their vendors and visiting business partners elect to stay in Santa Fe or other cities simply due to these same quality issues.

Market Segment	Incremental Room Nights
LANL (corporate group)	3,500
State Associations	1,700
SMERF (social/sports, military, educational, religious, fraternal)	3,000
Local Events – Chamber	1,000
Transient corporate	3,000
Transient leisure	200
Other	<u>1,500</u>
TOTAL	<u>13,900</u>

With only about 300 hotel rooms in the entire market, the nearly 14,000 incremental new occupied room nights would represent an increase in overall hotel activity of approximately 22%. Clearly, this new market demand would provide a significant positive impact to the local business community.

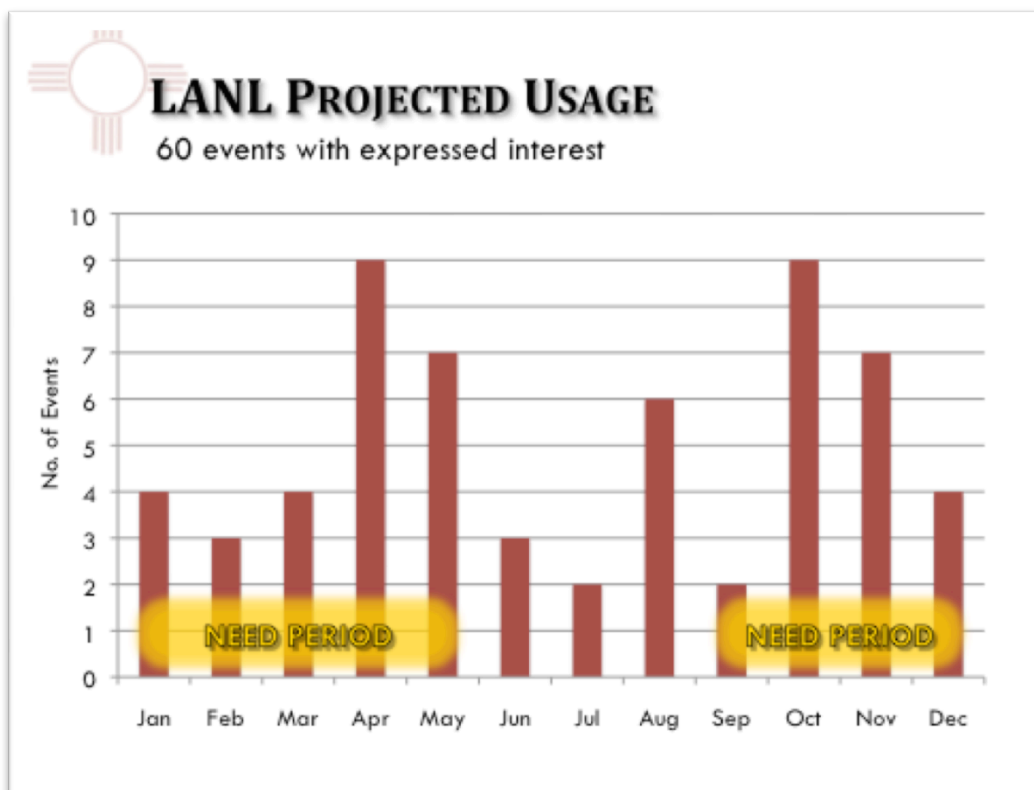
WILL PROJECT HELP LOCAL BUSINESSES?

Assuming that LA were to garner the approximately 14,000 new occupied hotel room nights each year, the economic impact would be significant.

An additional \$1.5M in hotel revenue could be generated each year, providing LA with nearly \$80,000 in additional Lodger's Tax annually. Based on industry standards for typical expenditure amounts for overnight hotel guests, the new guests in the community would generate nearly \$2.7M in direct spending into the local economy. This spending would be realized by hotels, restaurants and food and beverage outlets, retailers, fuel stations, transportation companies,

entertainment venues, and other merchants and businesses. Perhaps as important to LA as the amount of new spending is when it would be spent. As shown in the chart below, much of the new business could be attracted when Los Alamos needs it most, in the non-summer months.

The example below presents when the lost business from the LANL would expect to use a new conference center hotel. Due to the activity at Bandelier National Monument and the summer tourists, the hotels in Los Alamos are typically filled during much of June, July, and August. However, a new conference center hotel that met the needs of its users could help LA provide economic activity during need periods.



WILL PROJECT HURT LOCAL HOTELS?

From the outset of the engagement, one of the concerns of the County was the impact the proposed new hotel and conference center might have on the areas existing hotels. Although it may appear that 14,000 new room nights would be beneficial for all LA hotels, it would not. Analytics show that the proposed project would actually have profound negative impact on the local properties.

As shown in the table below, LA supports four nationally branded hotels, including the Best Western Hilltop House, the Comfort Inn, the Hampton Inn & Suites, and the community's newest property, the Holiday Inn Express, which opened in November 2009.

	Sleeping Rooms	Meeting Sq Ft
Best Western Hilltop House	80	5,200
Holiday Inn Express	86	1,700
Comfort Inn	55	600
Hampton Inn & Suites	<u>72</u>	<u>400</u>
TOTAL	293	7,900
Proposed Hilton Garden Inn	134	8,500

The unsolicited proposal brought to LA by the private sector developers anticipates a 134-room Hilton Garden Inn (HGI) hotel offering 8,500 square feet of quality conference and function space, a three-meal restaurant, as well as the other amenities typically included in a Hilton Garden Inn hotel, which is Hilton's highest quality hotel brand short of its full-service Hilton brand.

Although not necessarily large by industry standards, given the size of LA's small hotel market, the HGI would be increasing the supply of guestrooms in LA by over 45%.

In order for the impact of the HGI to be neutral on the existing hotel market, it would need to generate new room night demand equal to that of its new supply.

Assuming that the HGI would operate at an occupancy level commensurate with the average occupancy of the four LA properties, the HGI would need to generate nearly 27,000 new occupied room nights. As shown earlier, it is estimated that the potential for new hotel business in LA is in the range of 14,000 room nights. Clearly, the HGI's new supply would outpace the potential new demand by a significant margin.

This fact is exacerbated by the current low occupancy levels in the marketplace. As a general industry rule-of-thumb, the average hotel occupancy in a market is considered robust if it reaches 70% or greater, and is often an indicator for the opportunity for increased supply. Average occupancy levels near 50% signal real difficulty for hotel properties.

As shown on the graph on the following page, the three older, existing hotels in the LA market had experienced relatively healthy occupancy levels for the four-year period from 2006 through 2009 (despite the second largest economic downturn in US history). However, when the Holiday Inn

Express (HIX) opened in late 2009, the average occupancy plummeted to below 55%.

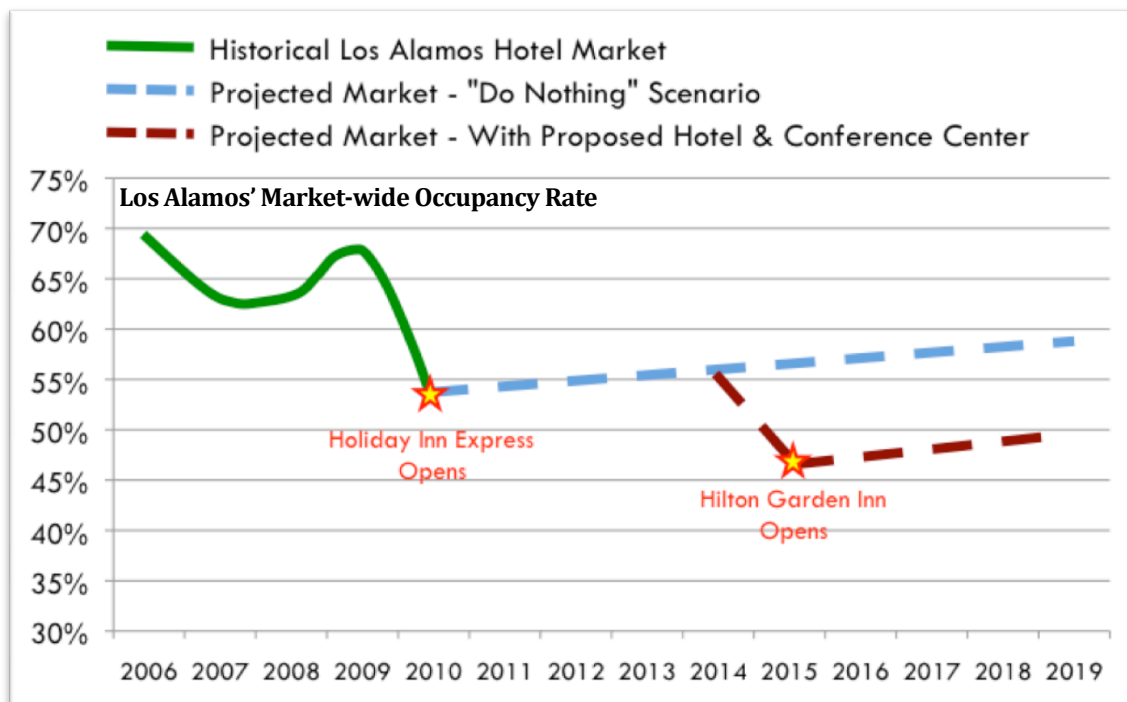
To be certain, the HIX brought beneficial changes to the community, including the addition of a national hotel brand that was not present in the market and arguably the nicest quality guestrooms and public space in the community. Although it elevated the market in some respects, the new business it did generate was less than the new supply it created. Therefore, the average hotel occupancy in the community suffered.

As shown in the graph, assuming the HGI is not developed under the "Do Nothing" scenario, the average occupancy is projected to maintain a slow growth and it may take upwards of 20 years to attain the average occupancy levels once enjoyed by LA.

Assuming now that the HGI is built as proposed and opens in 2015, and the 14,000 new room nights are generated, the average hotel occupancy in LA would fall near 45% and is projected to stay below 50% for up to five years.

It should be noted that these estimates represent the *average* occupancy in LA. It is probable that a few hotels would realize higher occupancy during this period while the others would experience lower actual occupancy rates.

Hotels that operate below 45% for an extended period of time typically find it difficult to survive. As cash flow decreases, building maintenance and operations suffer, creating less demand for the product, resulting in a lower likelihood of ownership seeing any long-term investment potential. Ultimately, a downward spiral can result from which it is difficult to recover.



IS THE PROJECT A GOOD FIT FOR LA?

No. Given the goals of the community and the terms of success for which the proposed project was to be measured, SAG recommends that Los Alamos County not pursue the Hilton Garden Inn project as proposed.

The project would place some if not all of the existing hotels at too great a risk for failure. Moreover, given LA's hotel market rate and occupancy fundamentals combined with today's stringent lending requirements for new hotel product, it is likely that the proposed HGI would face real challenges in securing project financing.

Furthermore, other downtown locations were deemed to represent significantly better opportunities for performance of the hotel and conference center and future downtown development spurred as a result of the project.

Although the HGI project as proposed is not a good fit for the community, there is still an opportunity for Los Alamos.

THE PATH FORWARD

In an effort to help LA realize the potential 14,000 new room nights and all of the associated economic benefits without unduly burdening the existing hotels, SAG offers an alternative, somewhat unconventional approach. This plan essentially replaces some of the existing hotel room supply in the market with new, conference-quality guestrooms. It is recommended that Los Alamos consider the following general steps:

❶ Eliminate Existing Supply

Through a means of either adaptive re-use or direct razing of one or more existing hotels, eliminate no less than 55 and up to 130 existing hotel rooms. Due to the challenges related to acreage and location issues, adaptive re-use appears less viable than direct razing.

❷ Build New Hotel & Conference Center

Pending the amount of rooms eliminated as a result of the first step, effect a new appropriately sized conference center and conference-quality

hotel to attract the lost business and achieve community goals. The project components should be physically attached and should be one operation.

❸ Locate Project in Downtown Core

Locating the new hotel and conference center project in the downtown core will allow LA to realize more of their overall community goals and realize them more quickly, including:

- Support and retain LANL
- Diversify the economic base
- Increase quality of life opportunities
- Improve destination appeal
- Increase local business activity
- Spur additional downtown development
- Create a focal point for downtown

SAG recommends assessing the site potential of the area identified as “Area of Focus” in the graphic below. By building on the base of what Los Alamos has to currently offer, the hotel and conference center could be a major catalyst to begin downtown’s transformation process into a vital and active destination.



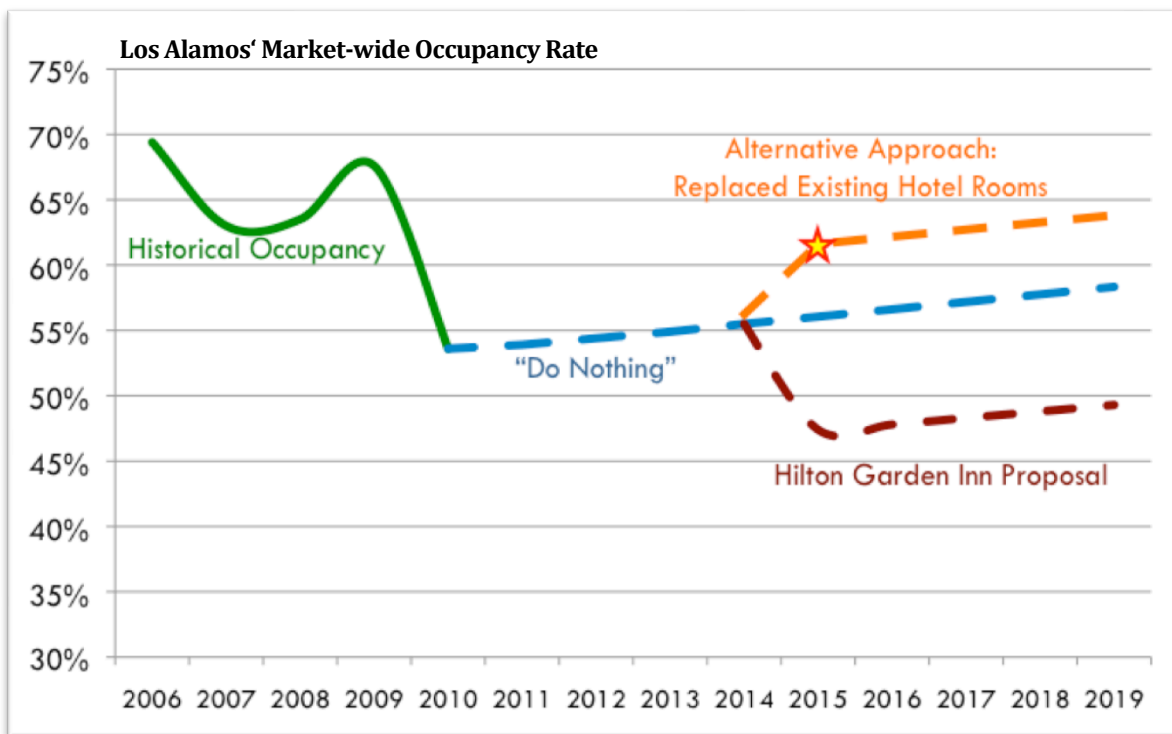
NEXT STEPS

If this approach is adopted and successfully implemented, and assuming that the new hotel and conference center project is able to attract the approximate 14,000 room nights of lost business, the impact on the overall hotel market would be positive growth in average occupancy.

Based on these assumptions, as shown in the graph below, this proposal could immediately bring the average hotel occupancy in the market to over 60% and would grow to nearly 65% within the first five years of operations.

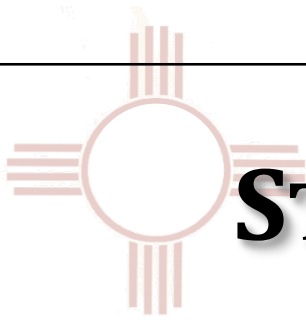
To reiterate, this alternative approach is unconventional. It will take careful consideration by the community, and, not unlike more conventional approaches to addressing economic vitality solutions, will require additional due diligence of the risks and rewards.

However, this general approach to creating a new hotel and conference center while not oversupplying the Los Alamos hotel market offers the potential for realizing many important community goals while minimizing potential negative impacts.

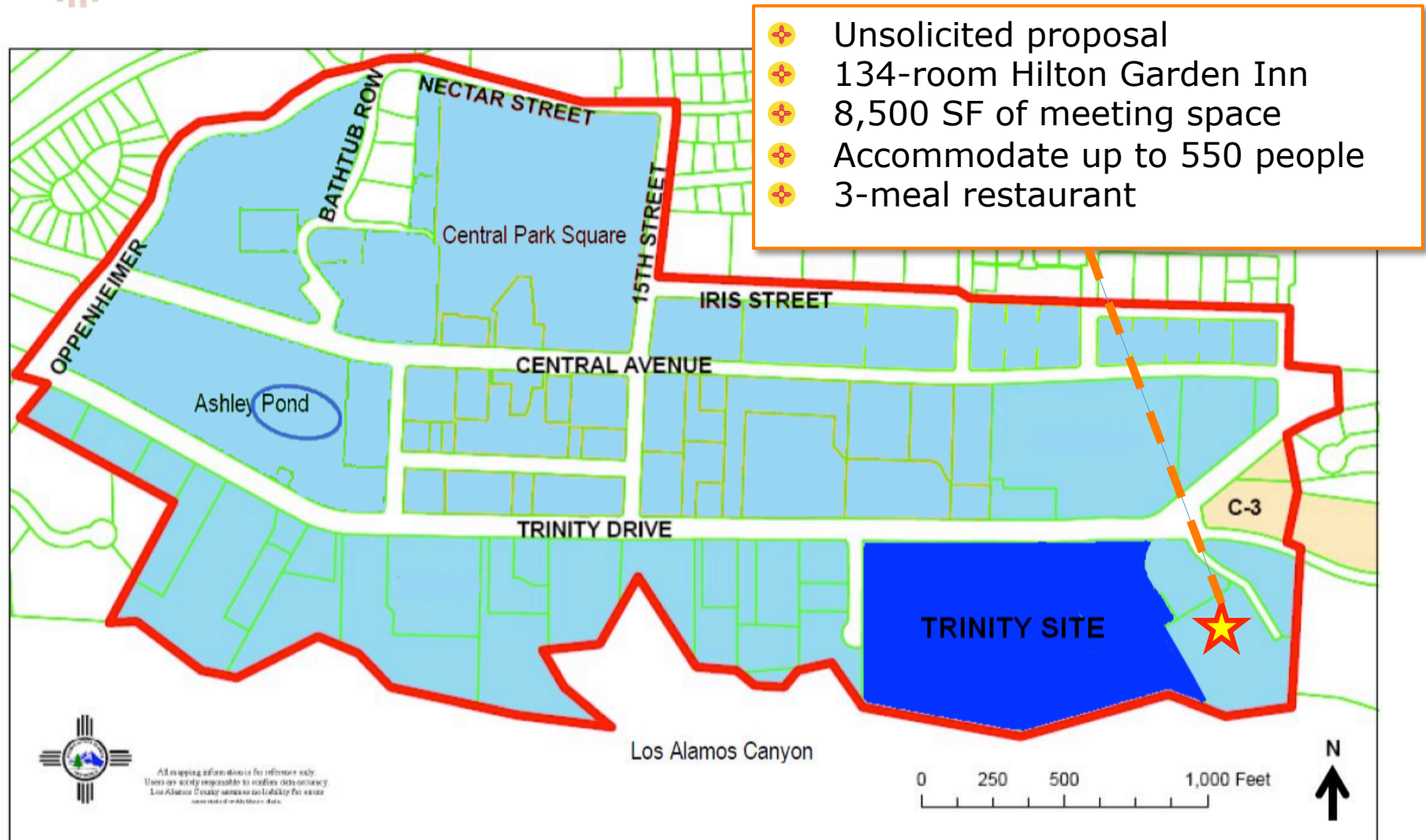


APPENDIX:

ORAL PRESENTATION OF MARKET STUDY



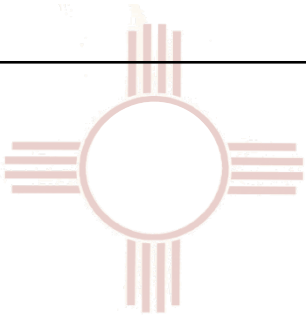
STUDY IMPETUS



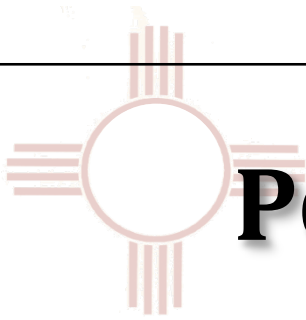


SAG's SCOPE

- ✚ Market demand for the project?
 - ✚ Will it help local businesses?
 - ✚ Will it hurt local hotels?
 - ✚ Project a good fit for the community?
 - ✚ What is the path or paths forward?
-
- ✚ TODAY'S PRESENTATION: Provide an update and to continue to collect input from the community and stakeholders

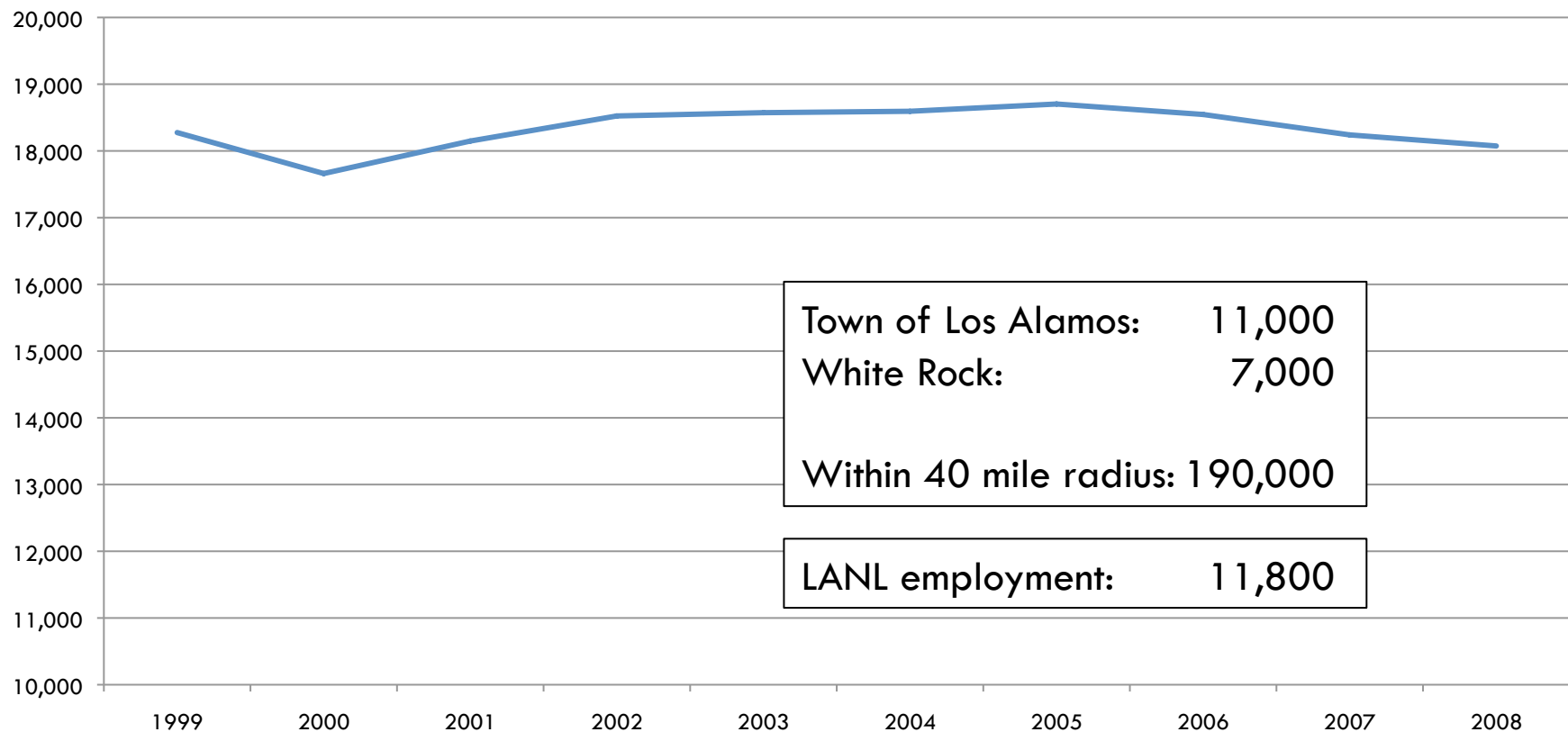


Community Overview

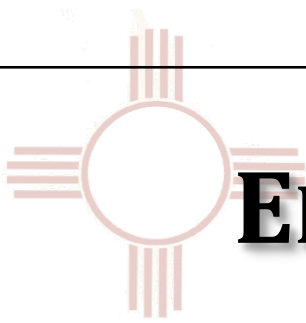


POPULATION GROWTH: FLAT

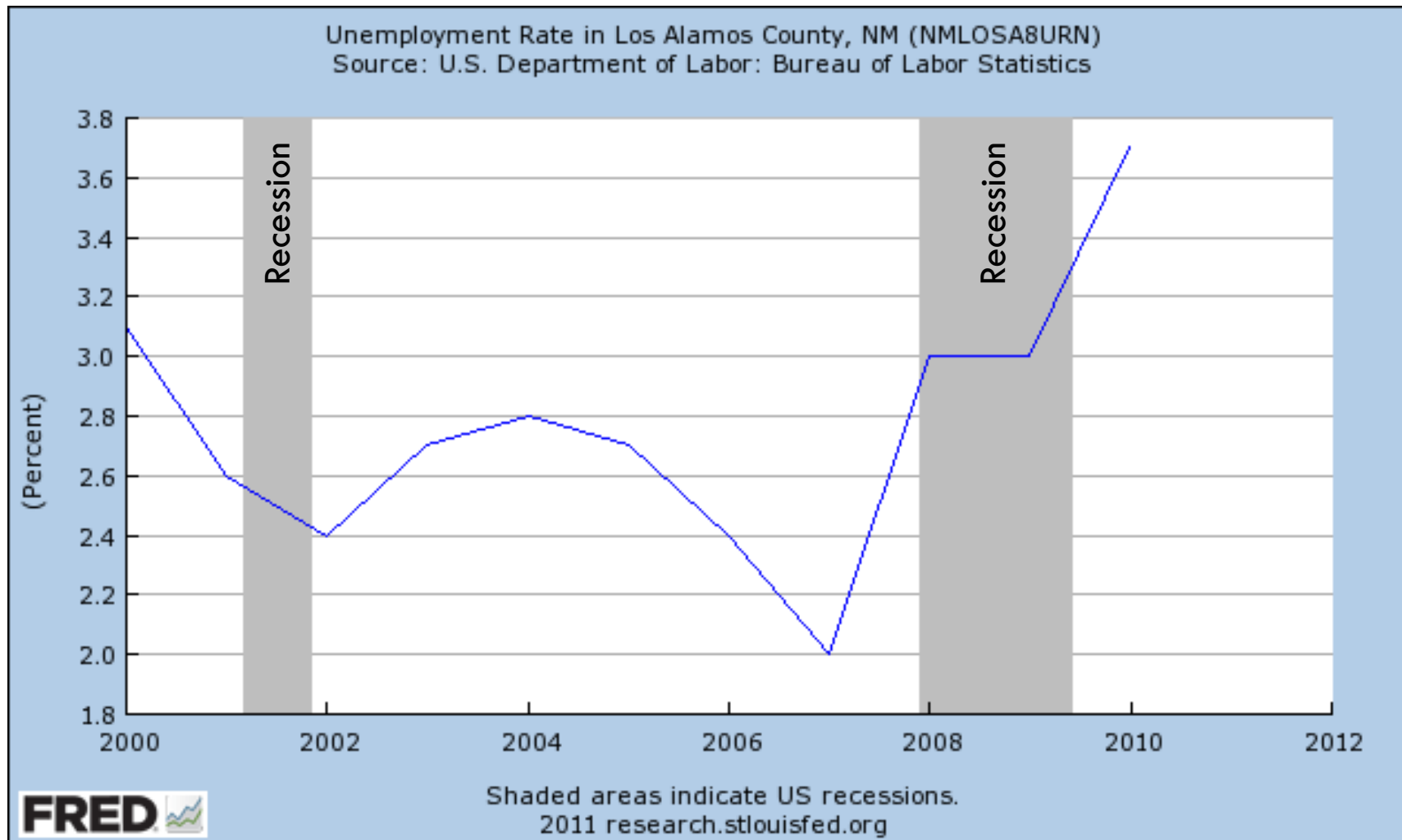
Los Alamos County Population



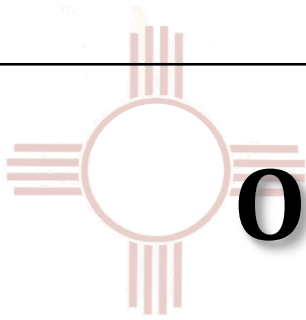
Source: Los Alamos County.



EMPLOYMENT: STRONG

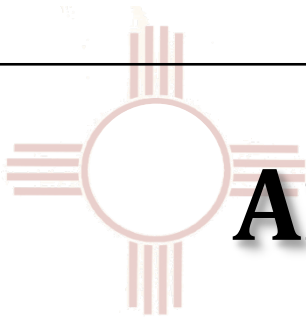


Source: Bureau of Labor Statistics.



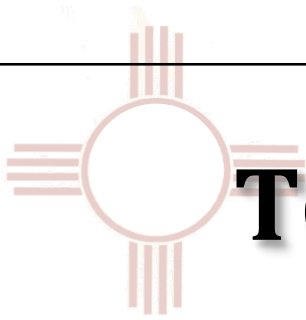
OTHER Eco-DEMO

- ✚ Highly Educated (57% degreed)
- ✚ Cost of living Index of 126.6 (US = 100)
 - Median Home Cost: \$331,600 (US = \$175,100)
- ✚ Limited ethnic diversity
- ✚ Little economic diversity (top occupations below)
 - Life and physical scientists (20%)
 - Engineers (14%)
 - Other management occupations except farmers and farm managers (9%)
 - Computer specialists (7%)
 - Operations specialties managers except financial managers (4%)
 - Business operations specialists (3%)
 - Drafters, engineering, and mapping technicians (3%)



AREA ATTRACTIONS

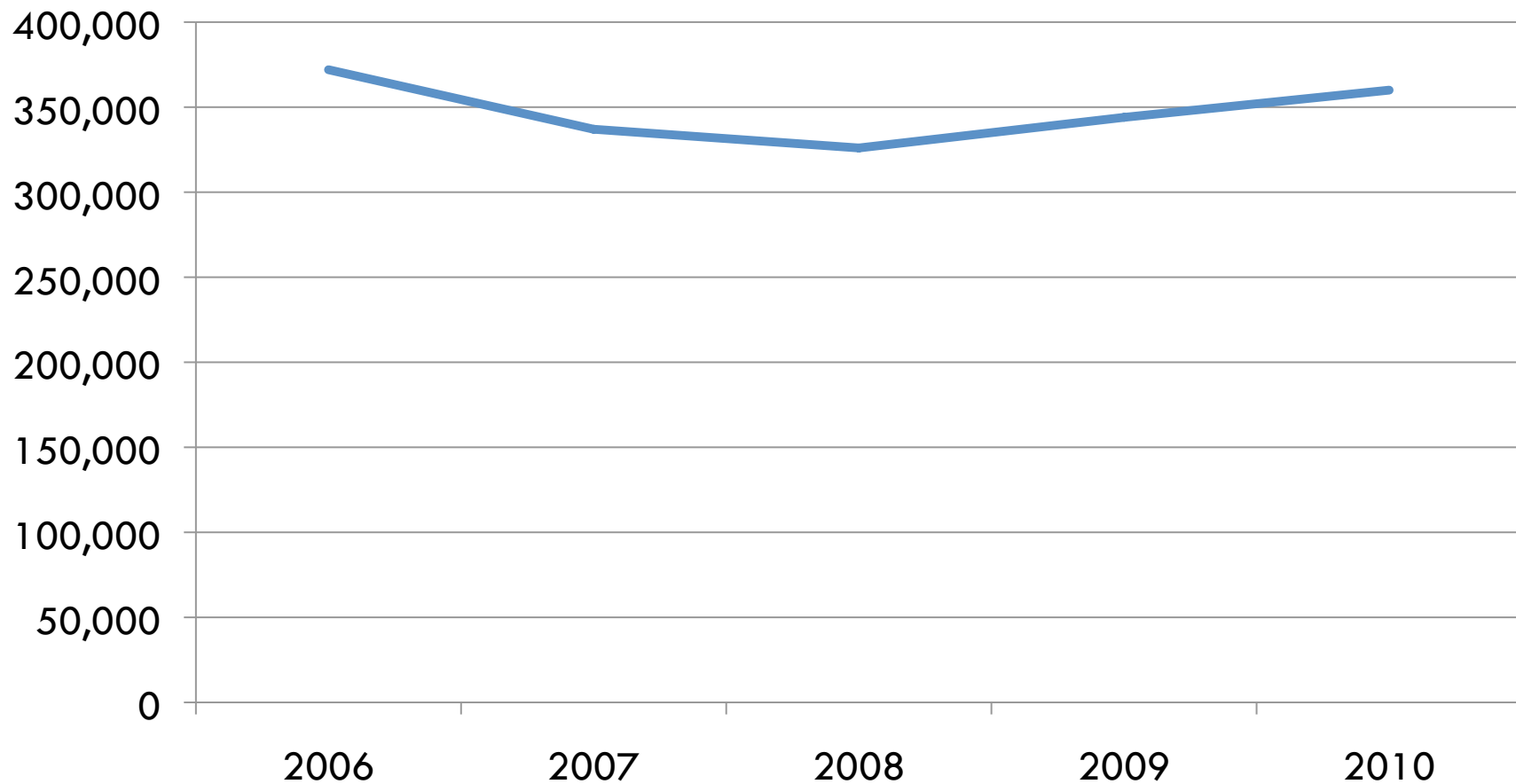
- ✚ Los Alamos National Laboratory
- ✚ Bandelier National Monument
- ✚ Bradbury Science Museum
- ✚ Los Alamos Historical Museum
- ✚ Black Hole
- ✚ Fuller Lodge Art Center
- ✚ Tsankawi Indian Ruins
- ✚ White Rock Overlook Park
- ✚ Pajarito Ski Mountain



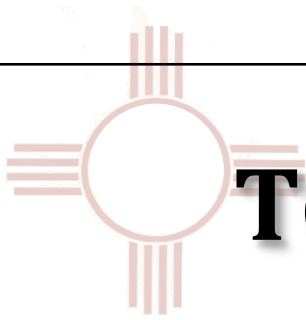
TOURISM VISITATIONS: FLAT

Average Attendance

(Bandelier, Bradbury Science Museum, Historical Museum, Visitor Center visits)



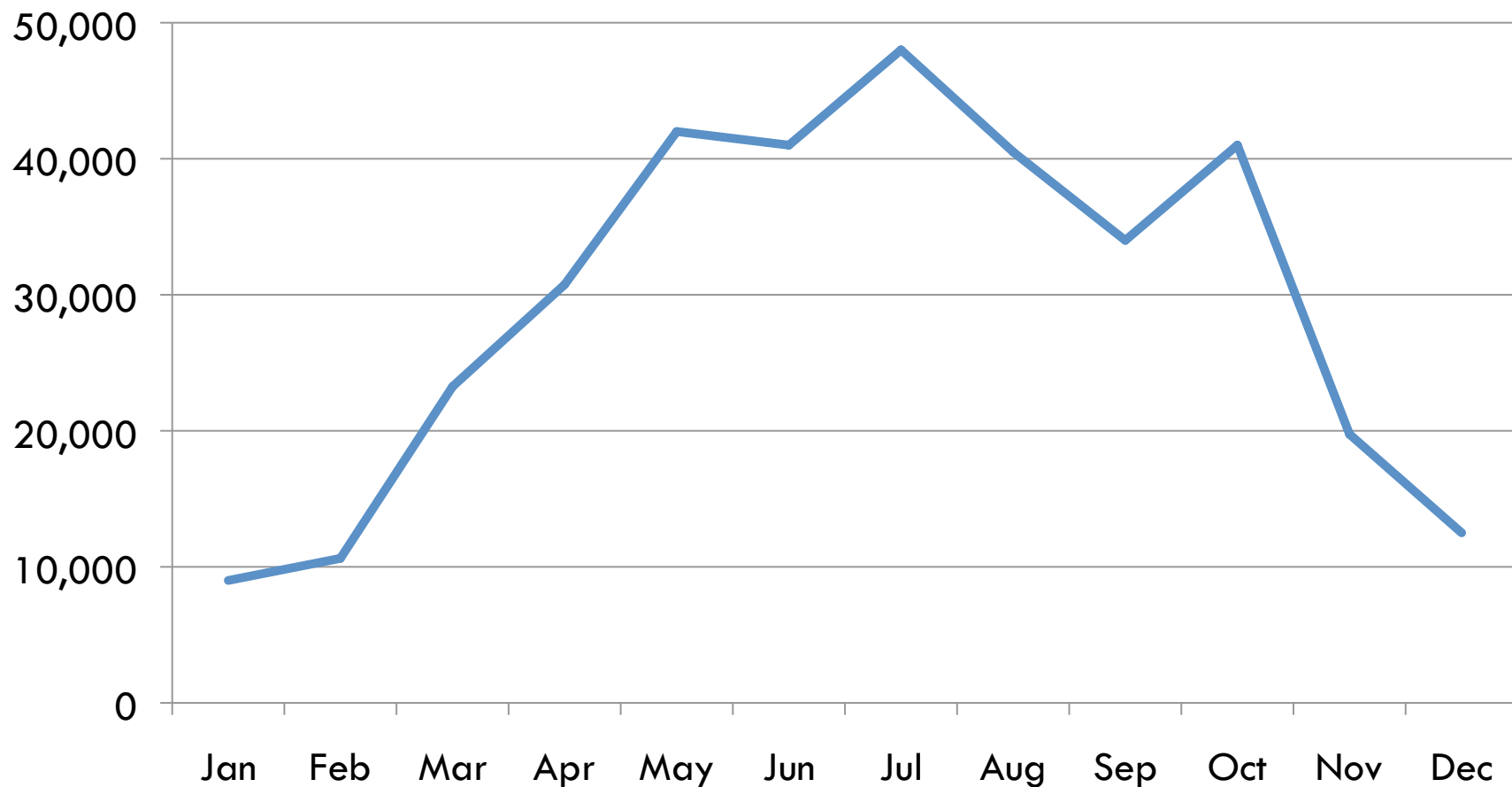
Source: Los Alamos Chamber of Commerce.



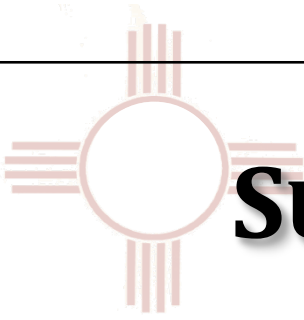
TOURISM SEASONALITY: SUMMER PEAK

Average Attendance

(Bandelier, Bradbury Science Museum, Historical Museum, Visitor Center visits)

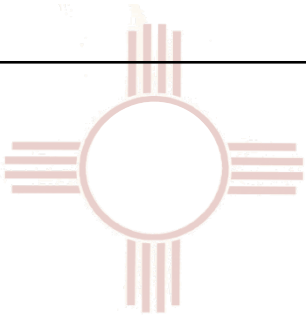


Source: Los Alamos Chamber of Commerce.

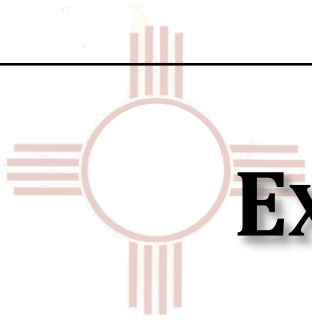


SUMMARY: COMMUNITY OVERVIEW

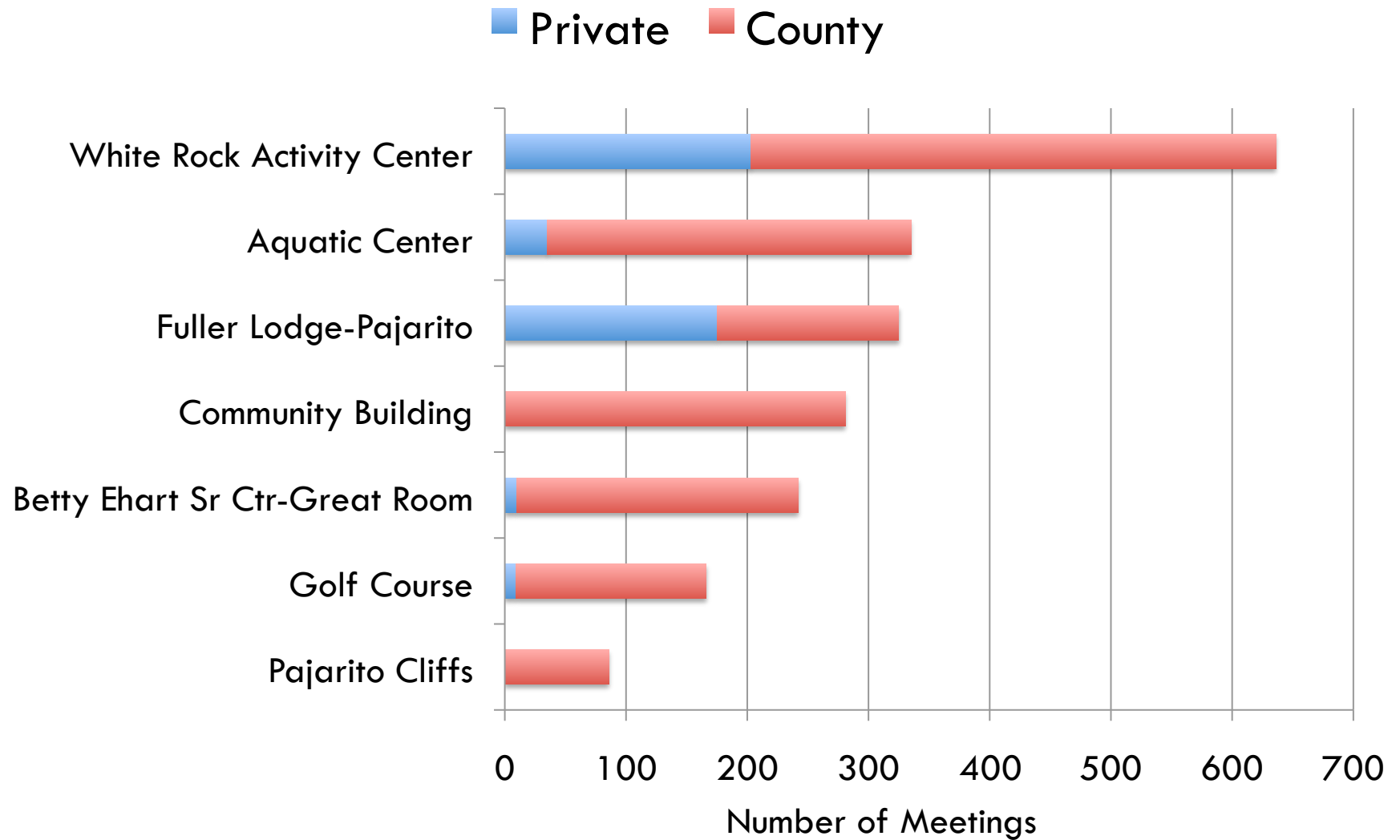
- ✚ Relatively small population base
- ✚ Lack of economic diversity
- ✚ LANL primary employer
- ✚ Tourism flat
- ✚ Conclusion: Hotel demand generators are relatively limited



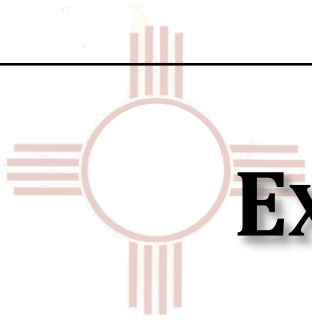
Existing Facilities



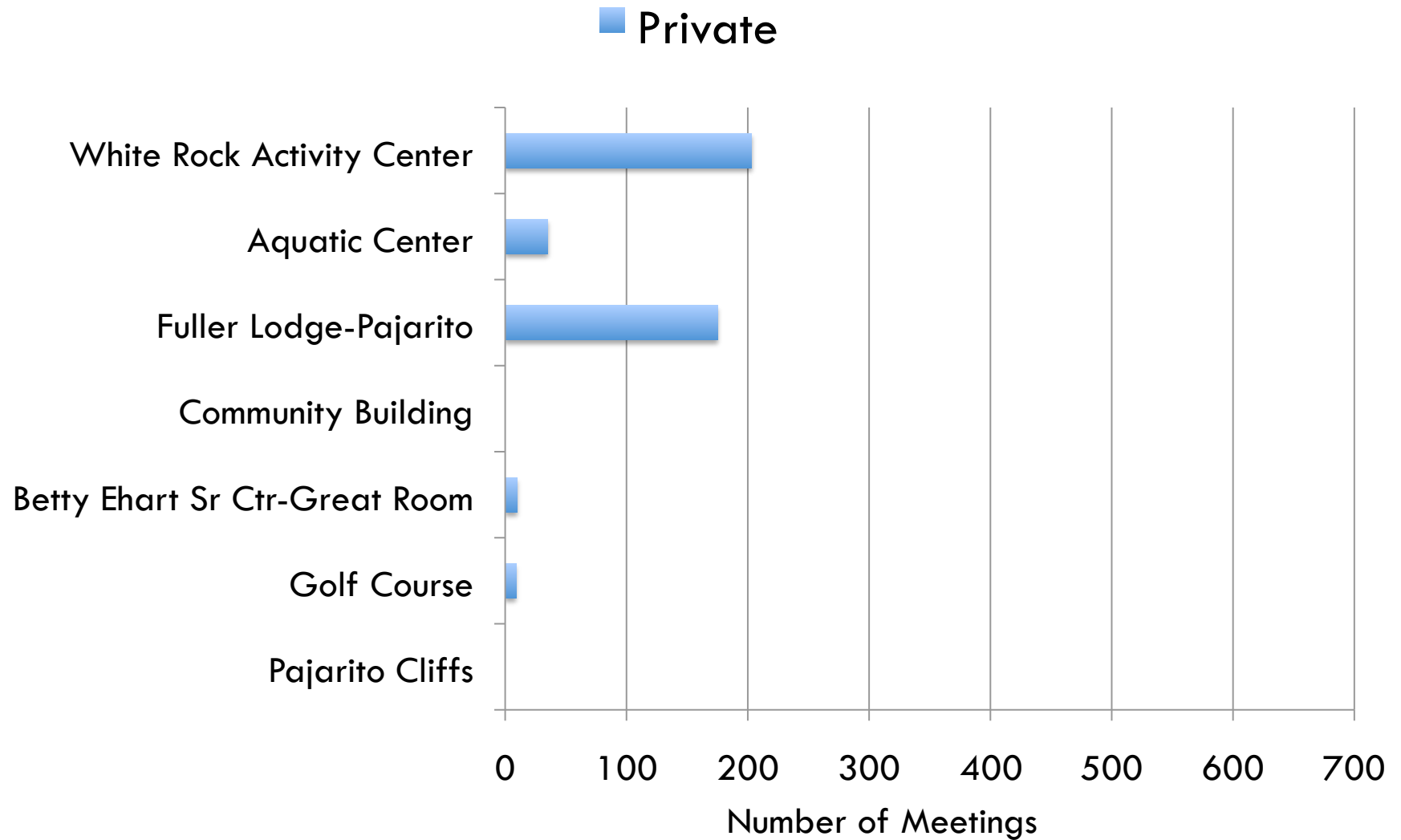
EXISTING FACILITY USAGE (NON-HOTEL)



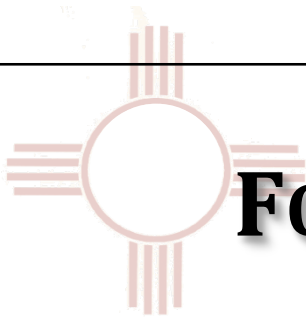
Source: Los Alamos County.



EXISTING FACILITY USAGE (NON-HOTEL)

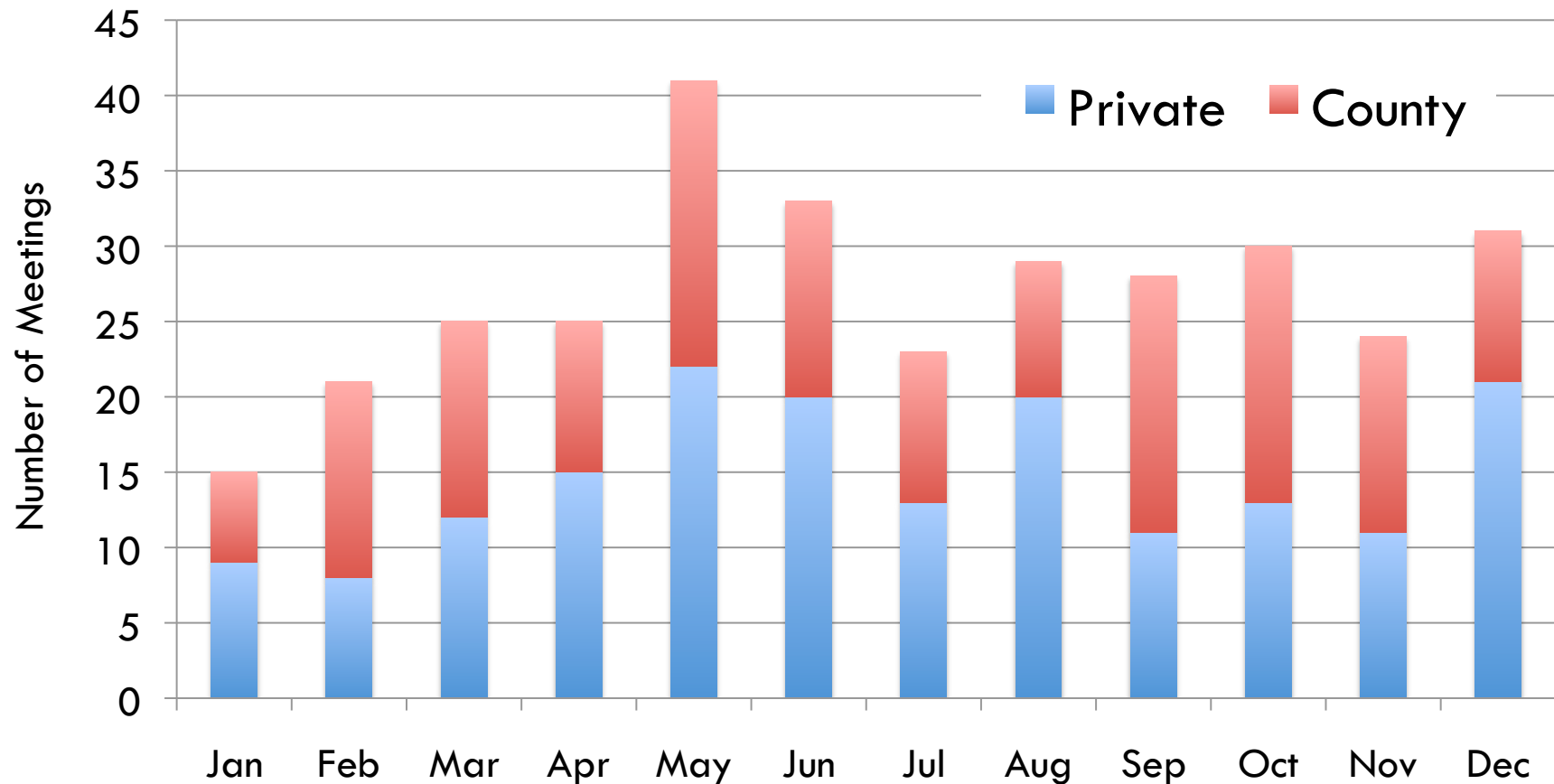


Source: Los Alamos County.

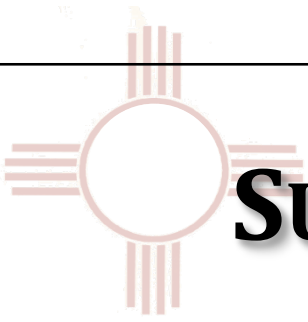


FOCUS ON FULLER LODGE (1,320 SF PAJARITO)

- Fuller Lodge turns down 3 to 5 events monthly – mostly meetings
- Conference center target market meetings require full-service catering and audio-visual capabilities
- Fuller Lodge groups generally expect low rental rates

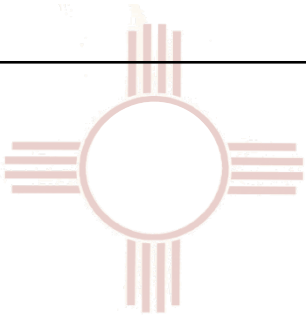


Source: Los Alamos County.



SUMMARY: LOCAL FACILITIES

- ✚ Primarily County activity
- ✚ Few room nights from these groups
 - Less than 10% have out of town attendees
- ✚ No growth
- ✚ Users experience below market rent
- ✚ Little unmet demand
 - County facilities have availability
- ✚ Currently no resources for proactive selling
- ✚ Projected 40% capture rate of displaced business



Hotel Market Overview



HOTEL MARKET OVERVIEW

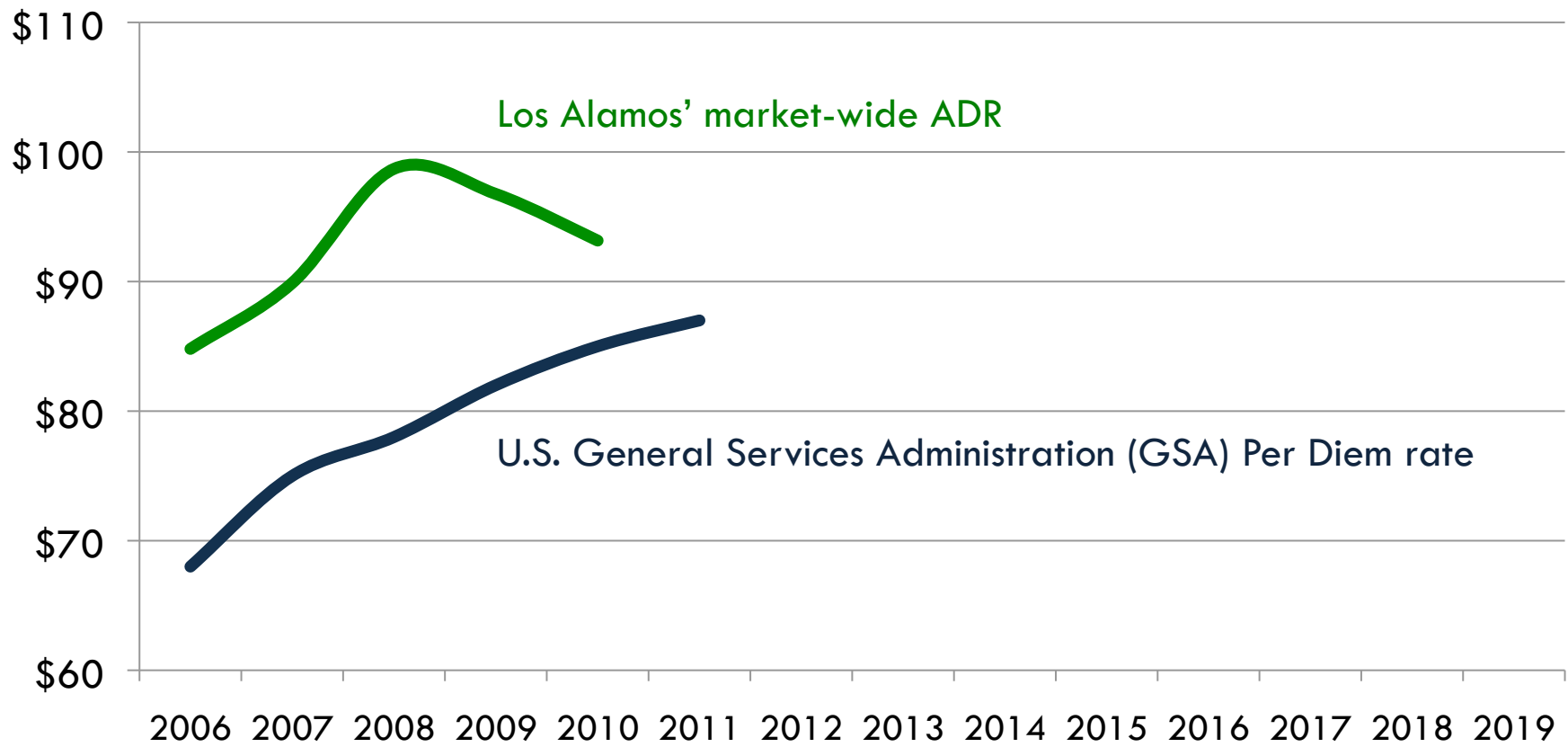
	Sleeping <u>Rooms</u>	Meeting <u>Sq Ft</u>
Best Western Hilltop House	80	5,200
Holiday Inn Express	86	1,700
Comfort Inn	55	600
Hampton Inn & Suites	<u>72</u>	<u>400</u>
TOTAL	293 *	7,900
Proposed Hilton Garden Inn	134	8,500

* Excludes non-conference center hotel properties.



MARKET-WIDE ADR

[Average Daily Room rate]



Source: Smith Travel Research.

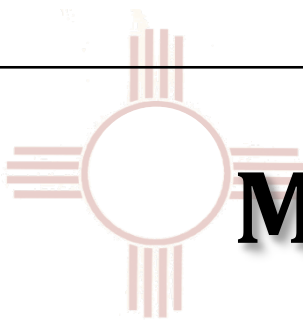


GSA PER DIEM RATES

MAXIMUM LODGING ALLOWANCE*

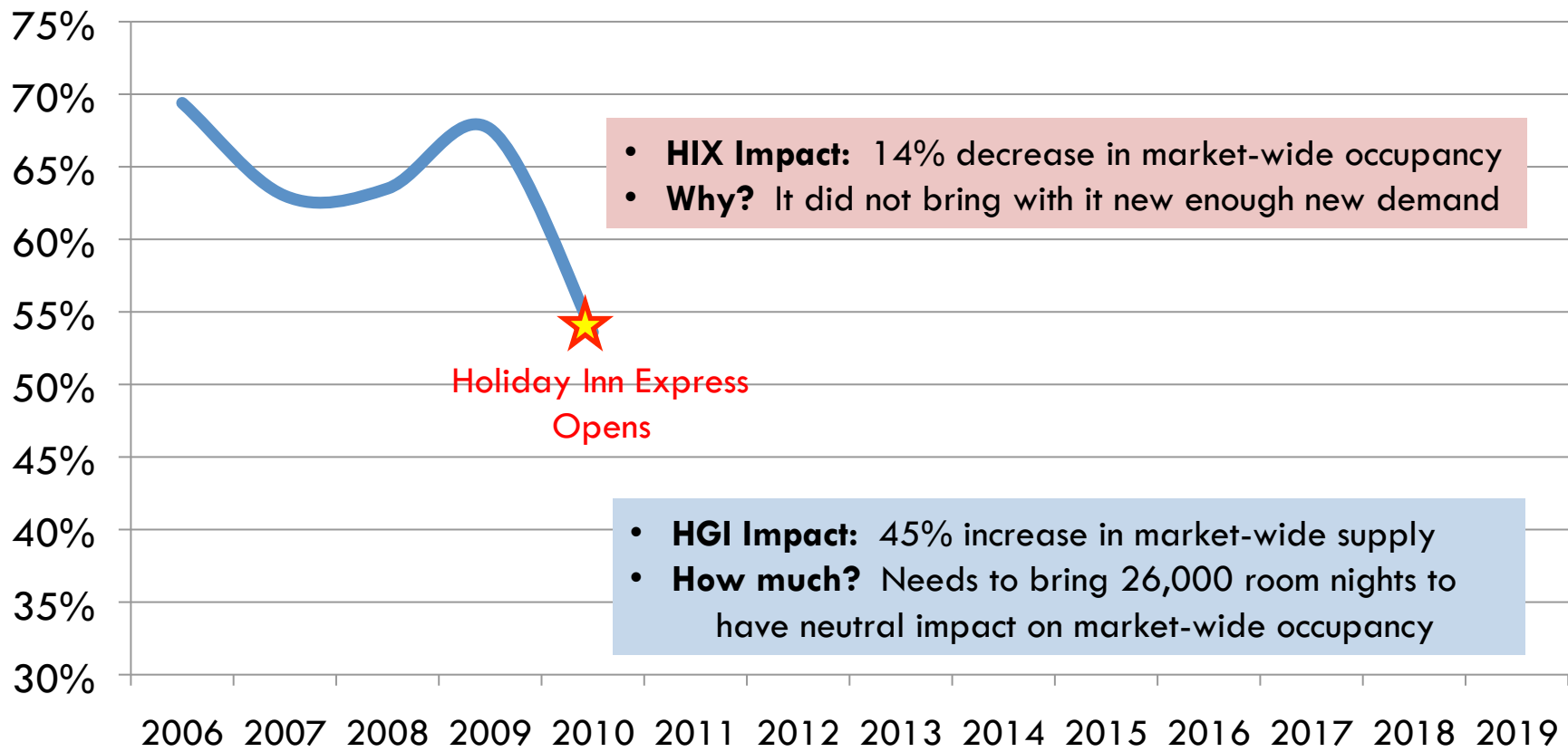
Location	2011			2012									MEALS
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
Standard	\$77	\$77	\$77	\$77	\$77	\$77	\$77	\$77	\$77	\$77	\$77	\$77	\$46
Alb'que	81	81	81	81	81	81	81	81	81	81	81	81	56
Las Cruces	84	84	84	84	84	84	84	84	84	84	84	84	56
Los Alamos	87	87	87	87	87	87	87	87	87	87	87	87	51
Santa Fe	105	83	83	83	83	83	83	83	105	105	105	105	71
Taos	90	90	90	90	90	90	90	90	90	90	90	90	66

* Excludes taxes.

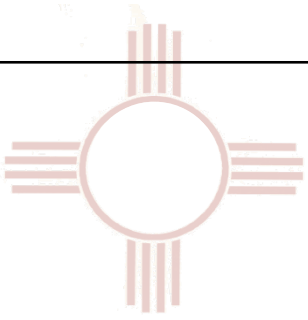


MARKET-WIDE OCCUPANCY

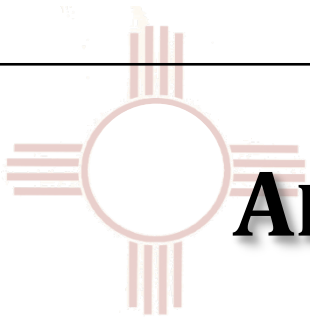
— Market Historical



Source: Smith Travel Research.

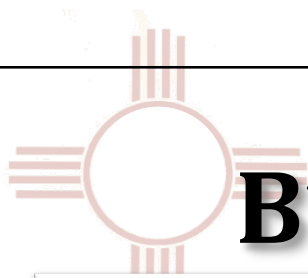


Competitive Landscape

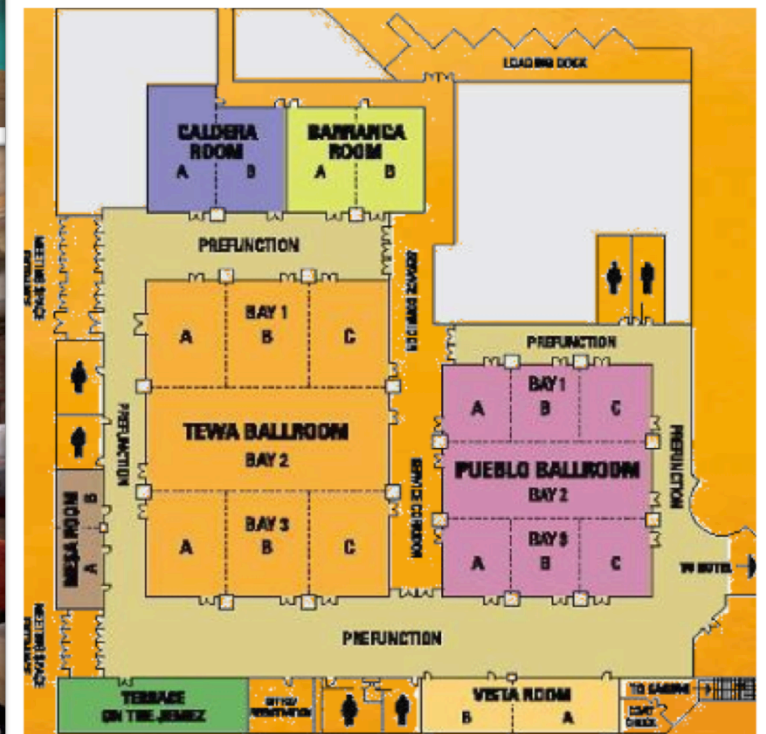


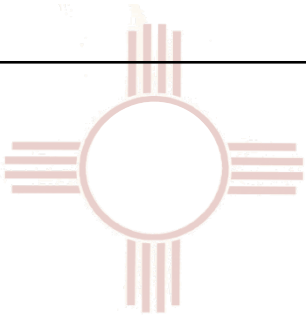
ALBUQUERQUE & SANTA FE COMPETITORS

	<u>Location</u>	<u>Sleeping Rooms</u>	<u>Meeting Square Feet</u>
Buffalo Thunder Resort & Casino	Santa Fe	395	36,400
La Fonda	Santa Fe	172	15,300
Hotel Santa Fe	Santa Fe	198	5,900
Hyatt Regency Albuquerque	Albuquerque	395	26,400
Embassy Suites Albuquerque	Albuquerque	261	21,400
El Monte Sagrado	Taos	84	6,000

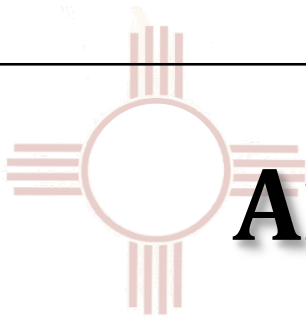


BUFFALO THUNDER RESORT (HILTON)



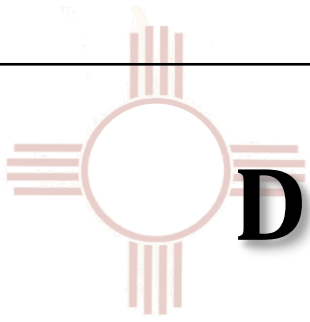


Is there Demand for the Project?



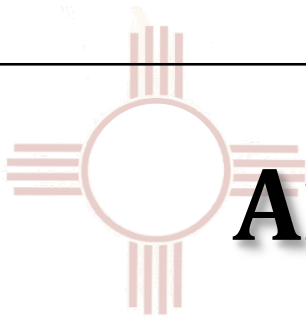
ANALYSIS OF DEMAND

Market	Methodology
LANL (corporate group)	Surveys
State Associations	Surveys
SMERF (social/sports, military, educational, religious, fraternal)	M&VB activity Interviews
Local Events – Chamber	Surveys Analysis of existing facilities
Transient corporate	Trends and LANL interviews
Transient leisure	Trends, interviews, analysis of new attraction potential
Other	Estimate of national & regional groups, other misc.



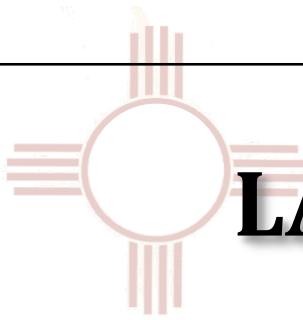
DEMAND SUMMARY

Market	Incremental Room Nights
LANL (corporate group)	3,500
State Associations	1,700
SMERF (social/sports, military, educational, religious, fraternal)	3,000
Local Events – Chamber	1,000
Transient corporate	3,000
Transient leisure	200
Other	<u>1,500</u>
TOTAL	<u>13,900</u>



ANALYSIS OF DEMAND

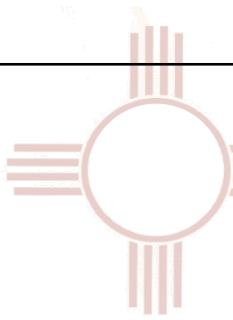
Market	Methodology
LANL (corporate group)	Surveys
State Associations	Surveys
SMERF (social/sports, military, educational, religious, fraternal)	M&CB activity Interviews
Local Events – Chamber	Surveys Analysis of existing facilities
Transient corporate	Trends and LANL interviews
Transient leisure	Trends, interviews, analysis of new attraction potential
Other	Estimate of national & regional groups, other misc



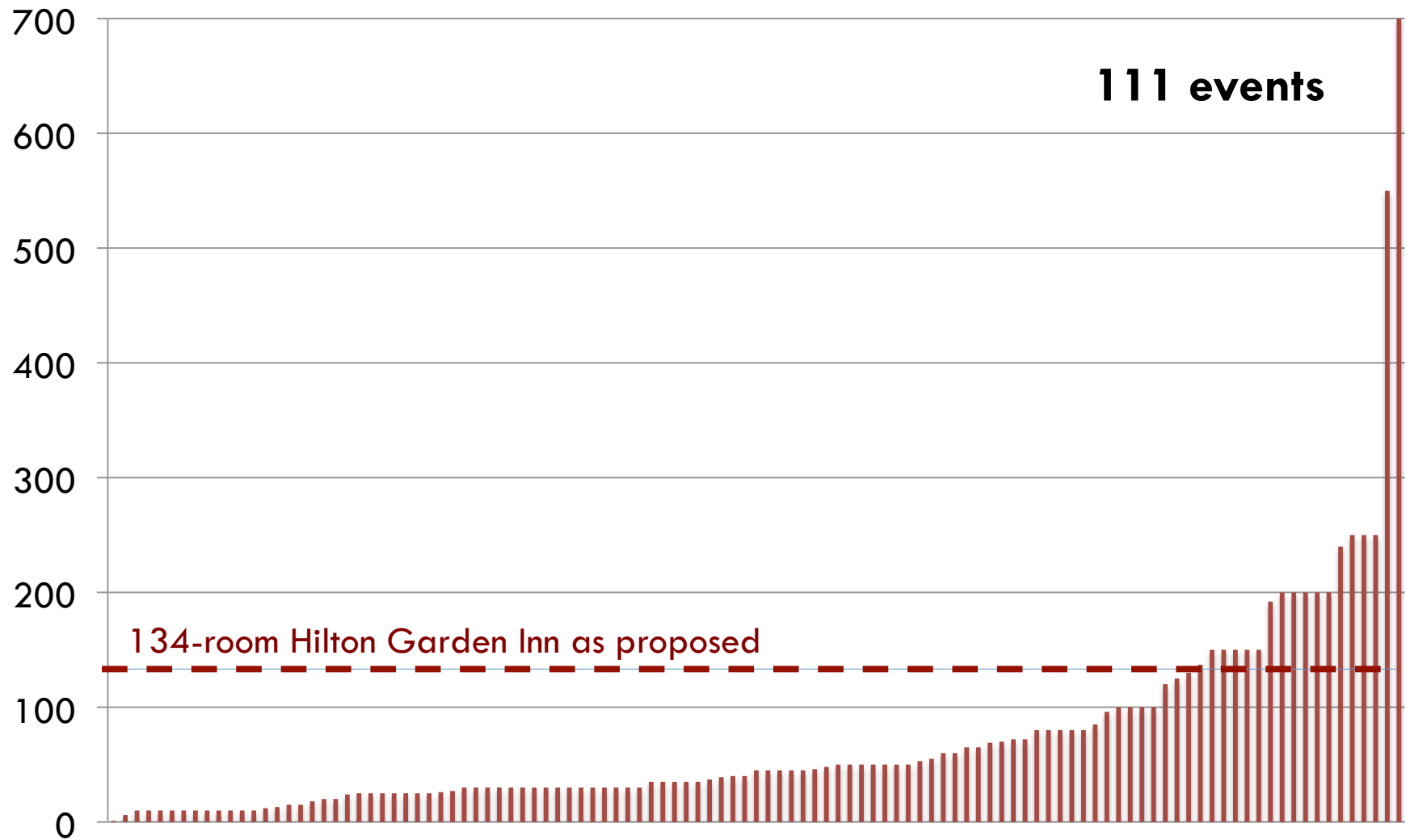
LANL TYPICAL YEAR MEETINGS SUMMARY

	Number of Meetings	Average Attendance	Total Attendance	Total Hotel Room Nights	Incremental New Room Nights
FY 2011 Meetings Protocol Support	78	82	6,370	4,330	1,910
FY 2011 Meetings Non-Protocol	33	58	1,910	4,380	3,230
* Other Potential Functions (estimate by LANL)	75	100	7,500	100	100
Total	186		15,780	8,810	5,240

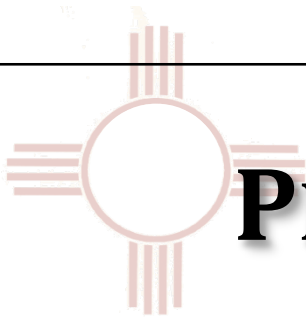
* LANL estimated 50-100 potential functions whose needs are not currently met, such as banquets, holiday dinners/parties, division functions, retreats, catering, etc.



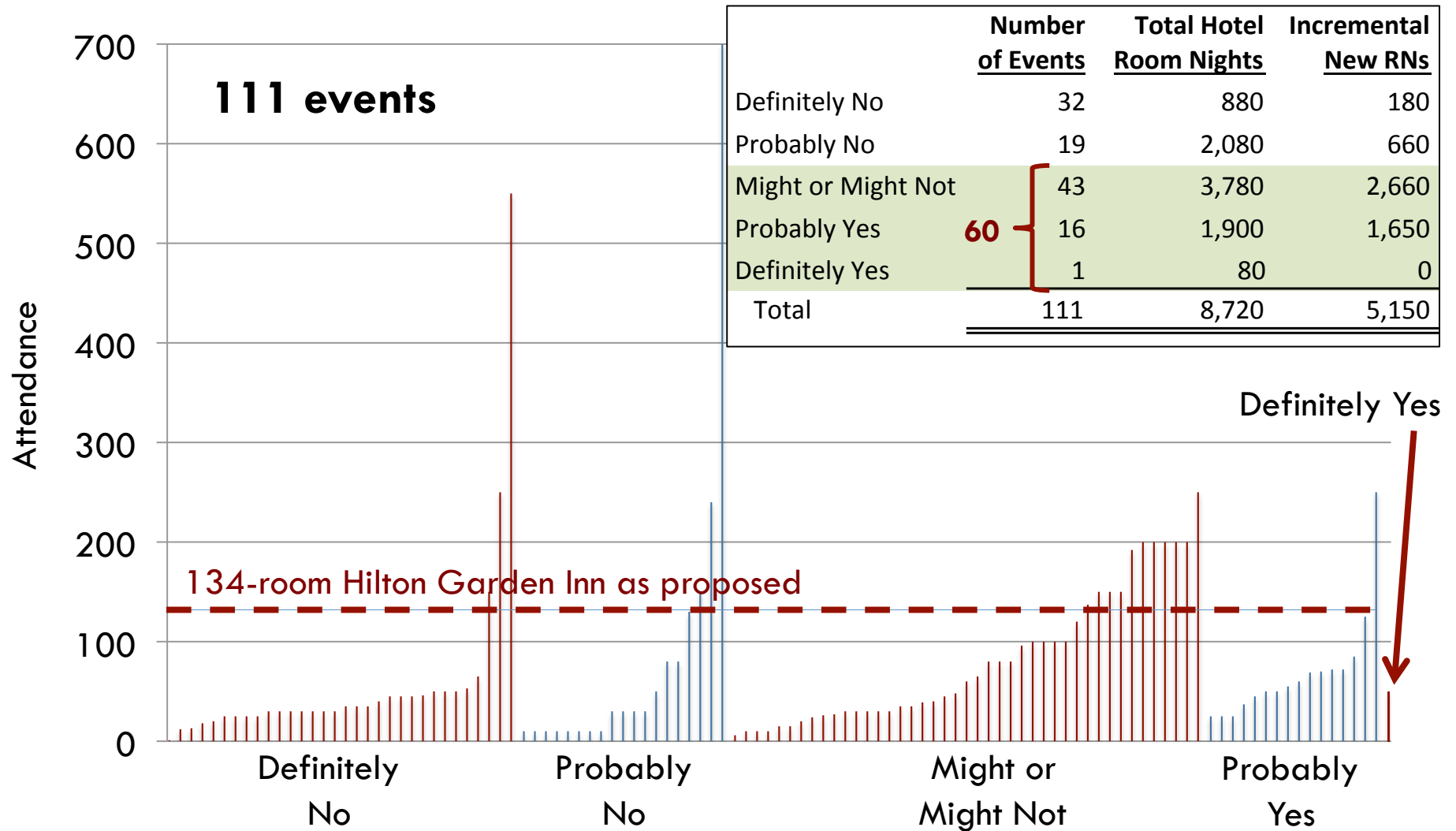
LANL MEETINGS ATTENDANCE



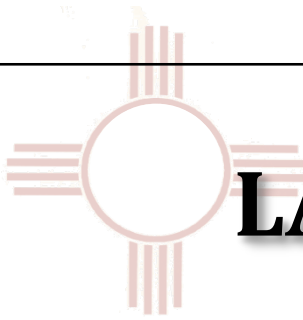
Source: Los Alamos National Laboratory.



PROPENSITY TO USE NEW FACILITY

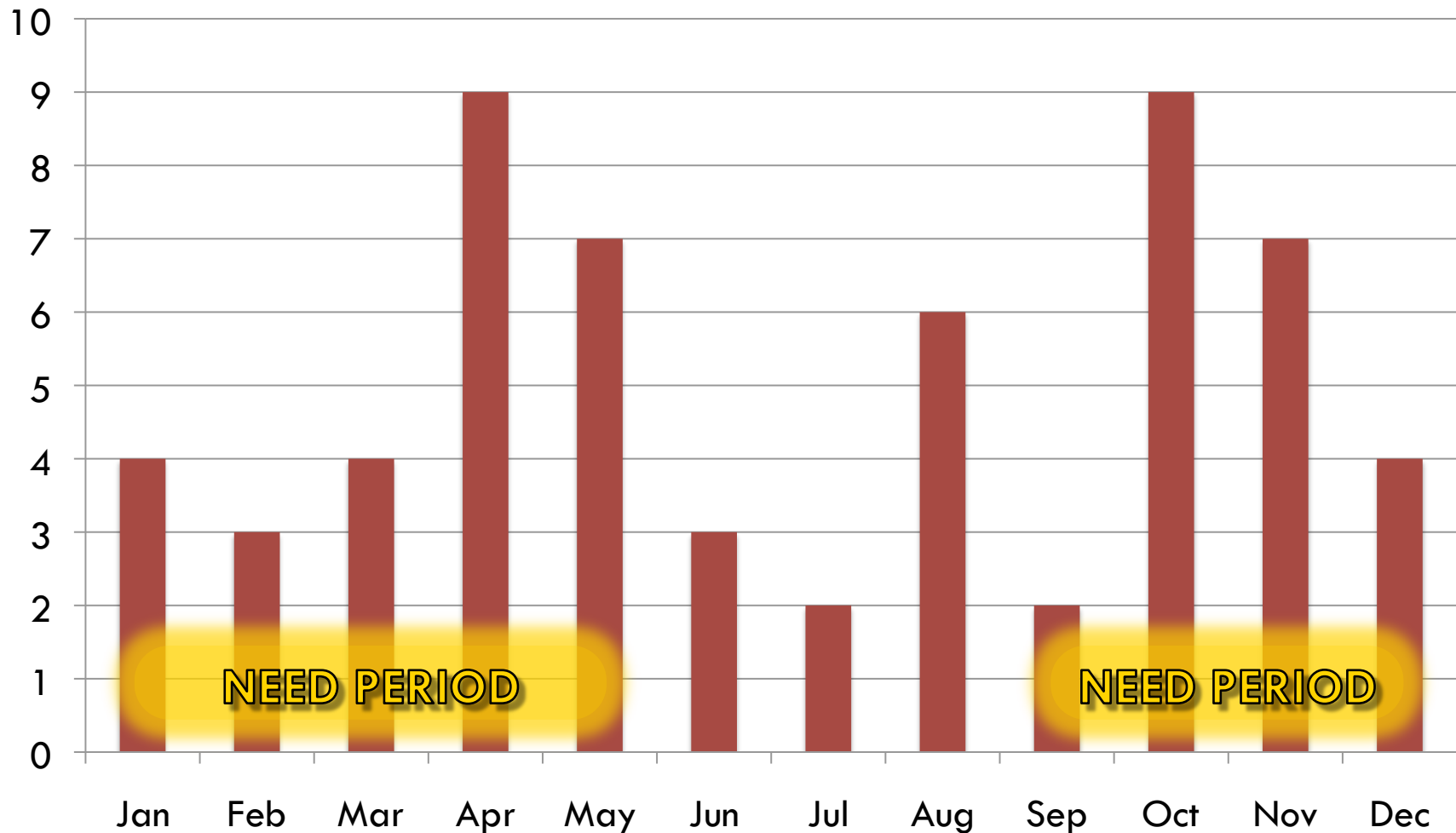


Source: Los Alamos National Laboratory.

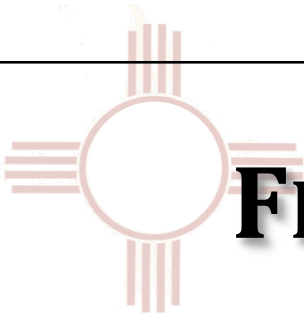


LANL SEASONALITY – NUMBER OF EVENTS

60 events with expressed interest

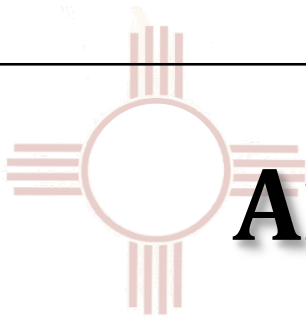


Source: Los Alamos National Laboratory.



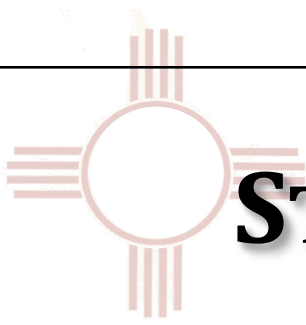
FEEDBACK & COMMENTS: LANL

- ⊕ Meeting planners definitely want new property
 - Don't scrimp on quality
- ⊕ Existing properties generally don't meet our criteria or quality preferences
 - Meeting space and guestrooms
- ⊕ New hotel must offer GSA Diem Rate
- ⊕ Location on bus route a plus
- ⊕ Restaurant/bar for after hours critical
 - Must have liquor license
- ⊕ Lab estimated that Los Alamos was losing 3,000 individual business room nights annually due to quality concerns



ANALYSIS OF DEMAND

Market	Methodology
LANL (corporate group)	Surveys
State Associations	Surveys
SMERF (social/sports, military, educational, religious, fraternal)	M&CB activity Interviews
Local Events – Chamber	Surveys Analysis of existing facilities
Transient corporate	Trends and LANL interviews
Transient leisure	Trends, interviews, analysis of new attraction potential
Other	Estimate of national & regional groups, other misc

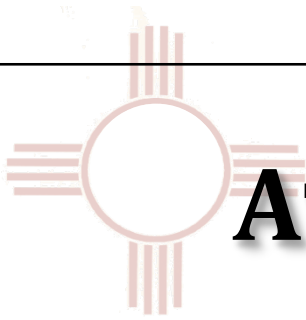


STATE ASSOCIATIONS SURVEYED

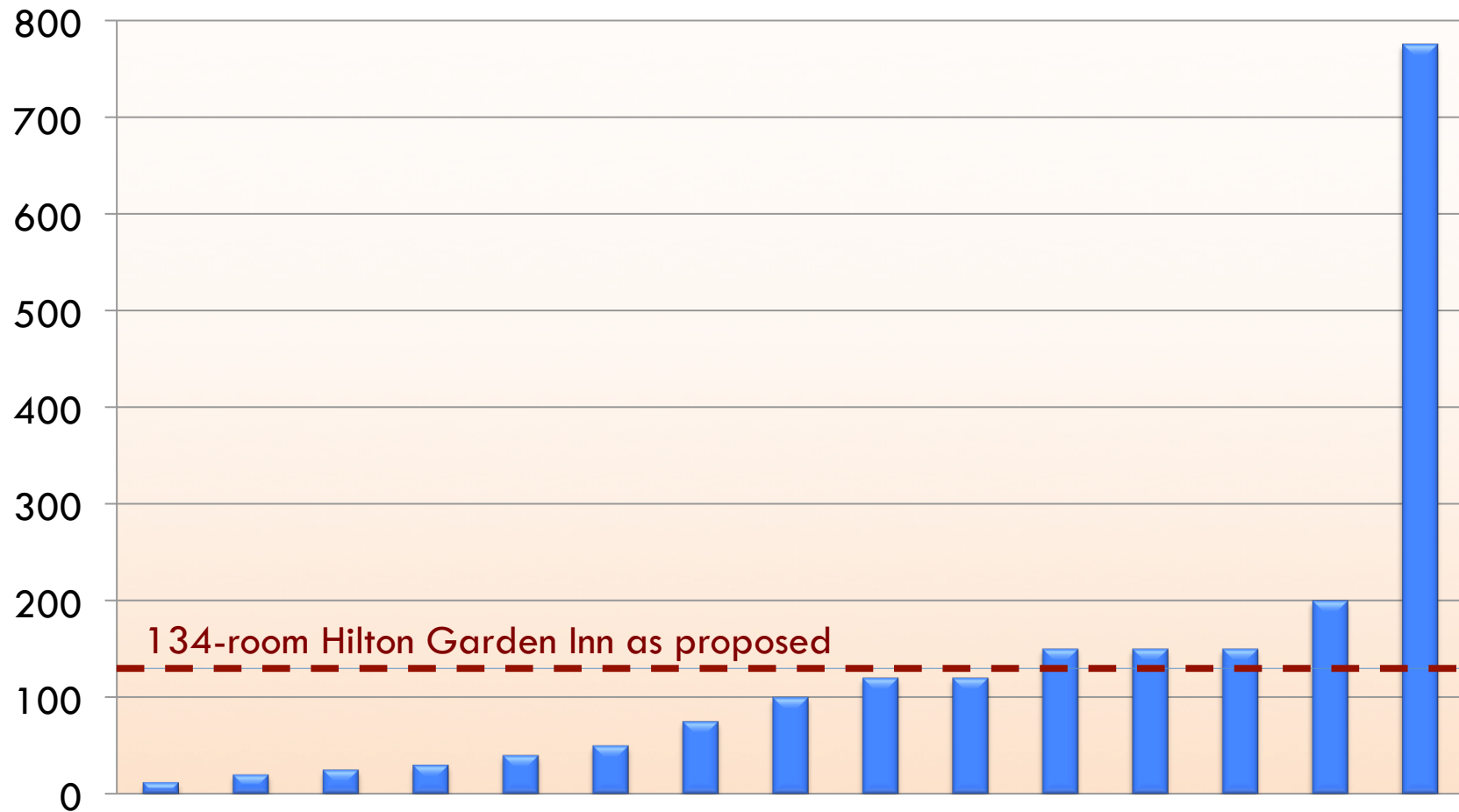
Academy of Family Physicians
Academy of Physician Assistants
Advertising Federation
AIA New Mexico
Aids Service Incorporated
American Indian Science & Engineering Society
American Society of Radiologic Technologists
Apartment Assn of New Mexico
Assn for Home and Hospice Care
Assn of Community Colleges
Assn of Conservation Districts
Assn of Counties
Assn of Independent Colleges
Assn of Mortgage Brokers
Assn of Nursery Industries
Assn of Tobacco and Candy Distributors
Associated Builders & Contractors, Inc.
Automotive Dealers Assn
Bankers Assn
Beef Council
Broadcasters Assn
Building Owners & Managers Assn of NM (BOMA)
Cable Television Assn
Cattle Growers Assn
Center for Nursing Excellence
Chiropractic Assn
NM Clerks, LLC
Commission for Community Volunteerism
Concrete Sand and Gravel Assn
Congress of Parents and Teachers
Consulting Duo LLC
Credit Union Assn of NM
Crime Defense Assn
Dairy Producers
Defense Lawyers Assn
Dental Assn
Farm and Livestock Bureau
Financial & Security Products Assn

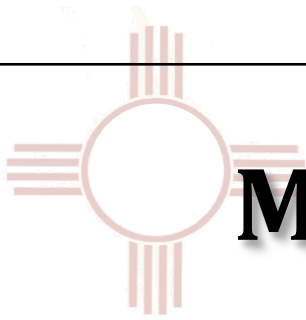
Financial Services Assn
Funeral Directors Assn
Grantmakers
Greater Albuquerque Assn of Realtors® (GAAR)
Greater Albuquerque Medical Assn (G.A.M.A.)
Greater Sandoval County Chamber of Commerce
Grocers Assn
Health Care Assn
Health Resources
Home Builders Assn
Horsemen's Assn
Hospital Assn
Independent Auto Dealers Assn
Independent Community Bankers Assn of NM
Independent Insurance Agents of New Mexico
Internet Professional Assn
Land Title Assn
Las Cruces Convention & Visitors Bureau
Lathing and Plastering Contractors Assn
Lodging Assn
Manufactured Housing Assn
Mechanical Contractors Assn of New Mexico
Medical Society
Mining Assn
Municipal League
Music Educators Assn
National Electrical Contractors Assn, Central New Mexico Chapter
New Mexico First
Nurses Assn
Oil & Gas Assn
Optometric Assn
Osher Lifelong Learning Institute at UNM, UNM Continuing Education
Osteopathic Medical Assn
Petroleum Marketers Assn
Pharmaceutical Assn
Pharmacists Assn

Power Consumers Assn
Press Assn
Primary Care Assn
Propane Gas Assn
Prosperity Project
Psychological Assn
Railroad Committee
Ready Mix Concrete Sand and Gravel Assn
Realtors® Assn of New Mexico
Recycling Coalition
Restaurant Assn
Retail Assn Inc
Retail Liquor Dealers Assn
Rural Water Assn
School Boards Assn
Sheet Metal & Air Conditioning Contractors' Assn of NM
Sheet Metal Contractors Assn
Society of Architects American Institute of Architects
Society of Assn Executives
Society of Certified Public Accountants
Society of Enrolled Agents
Society of Financial Analysts
Society of Health-System Pharmacists
Society of Professional Engineers
Soft Drink Assn
SouthWestern Assn
Special Olympics
State Assn of Life Underwriters
Tax Research Institute
The Rotary Club of Albuquerque
Tourism Assn of New Mexico (TANM)
Trial Lawyers' Assn
Tricia Hall & Associates
Trucking Assn
Utility Shareholders Alliance
Veterinary Medical Assn
Vocational Assn
Wool Growers, Inc.

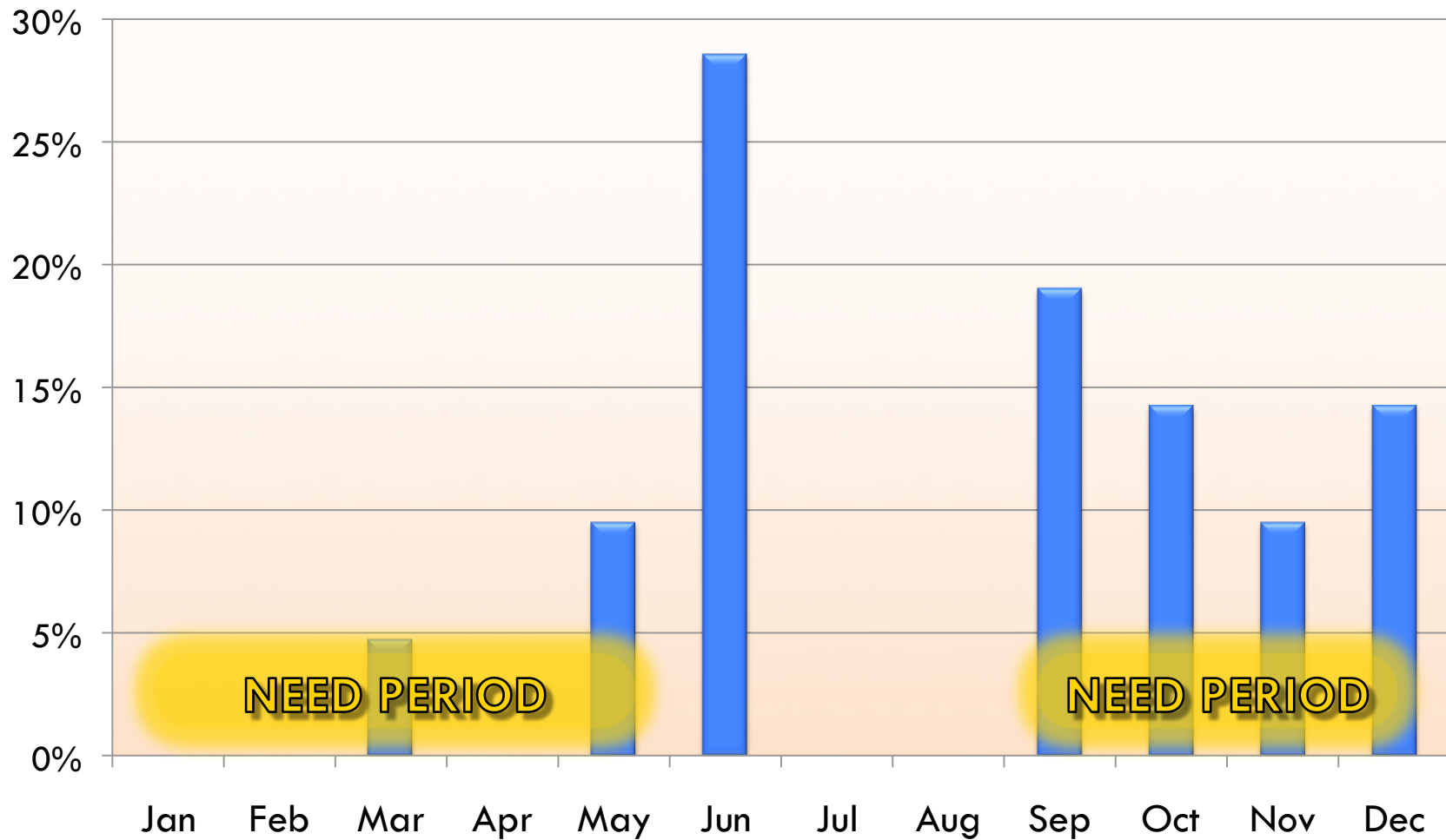


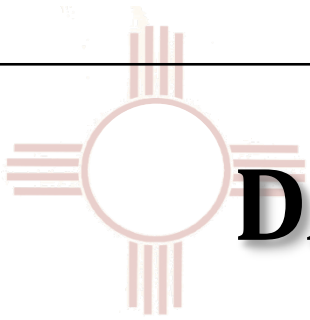
ATTENDANCE BY GROUP



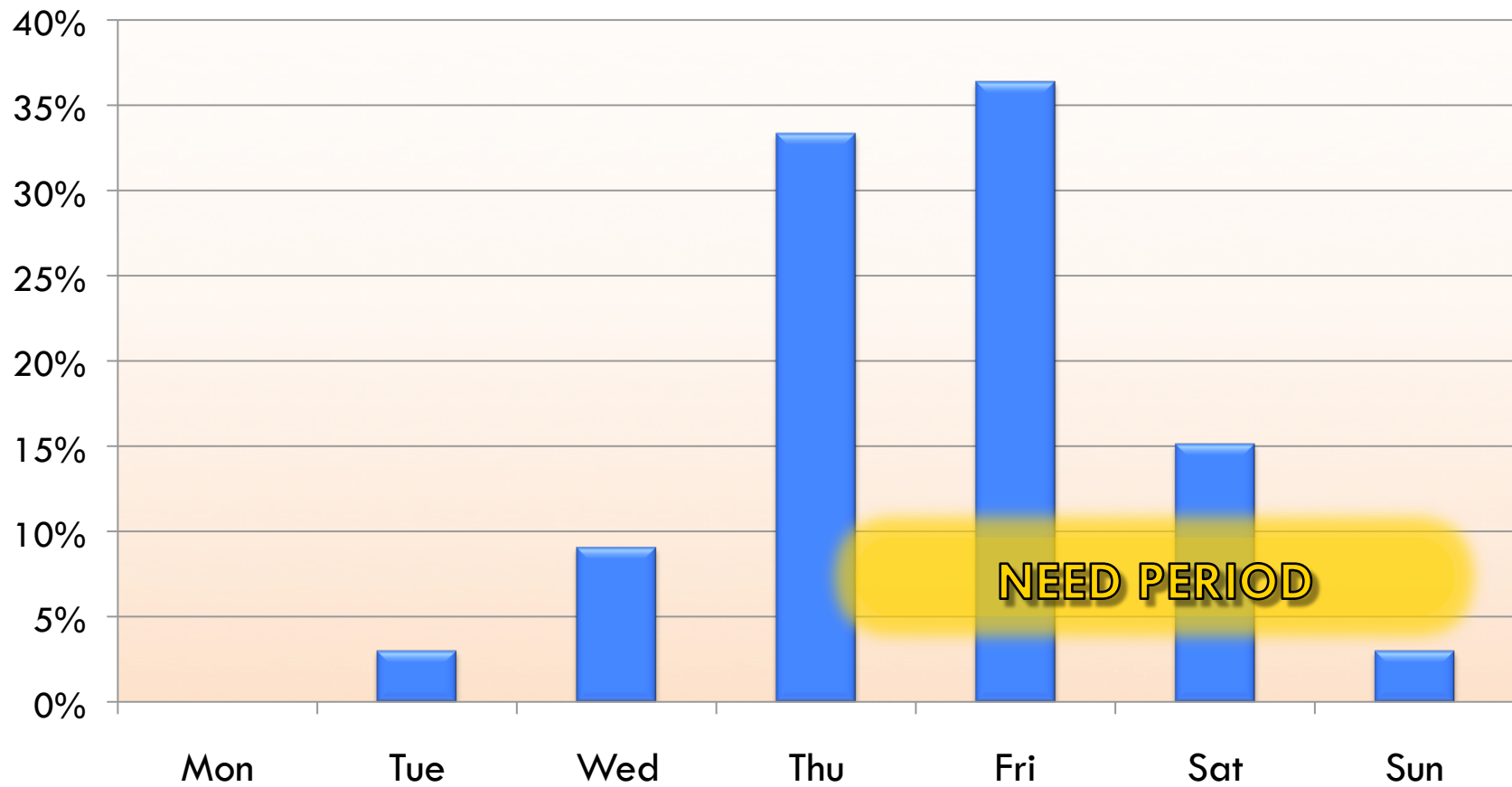


MONTH OF EVENT





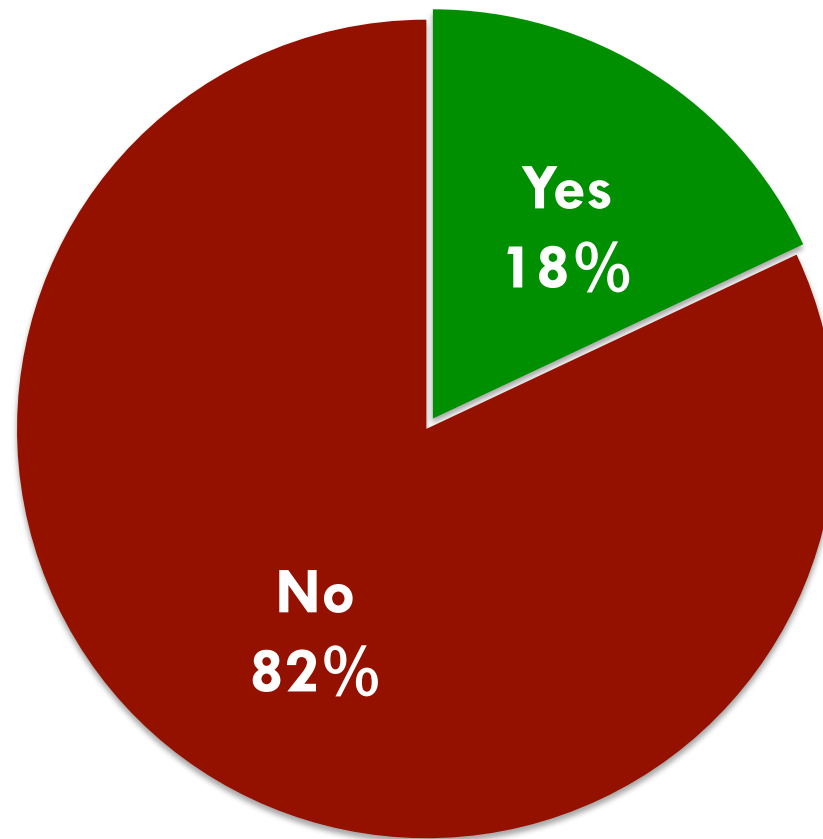
DAYS OF WEEK

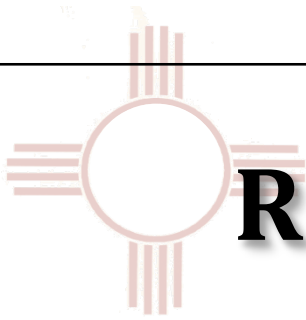




MET IN LOS ALAMOS BEFORE?

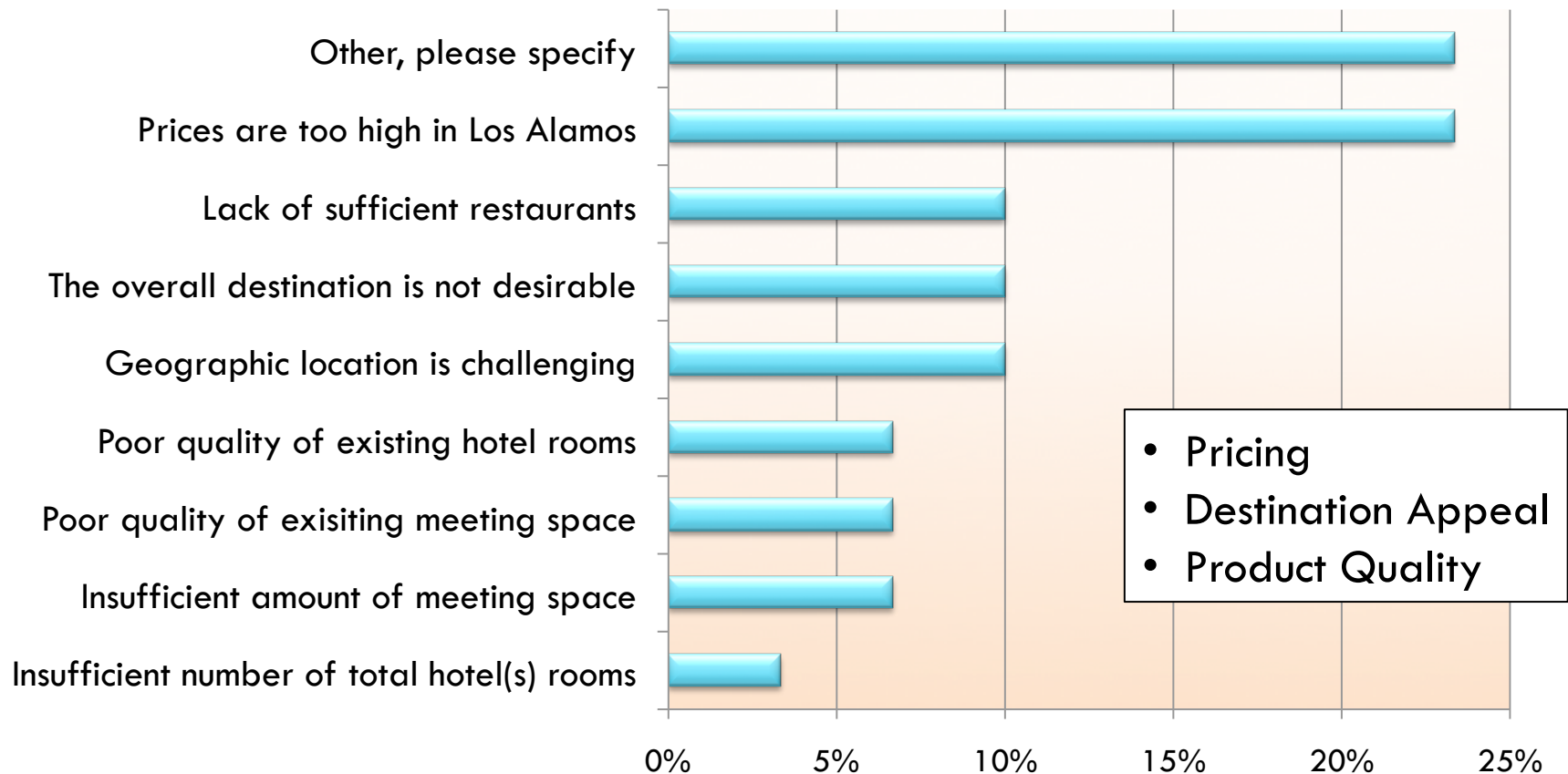
Do you currently or have you in the past three to five years held your meetings business in Los Alamos?

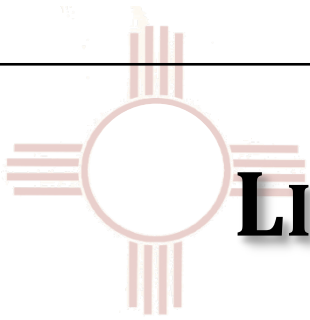




REASONS FOR NOT MEETING IN LA

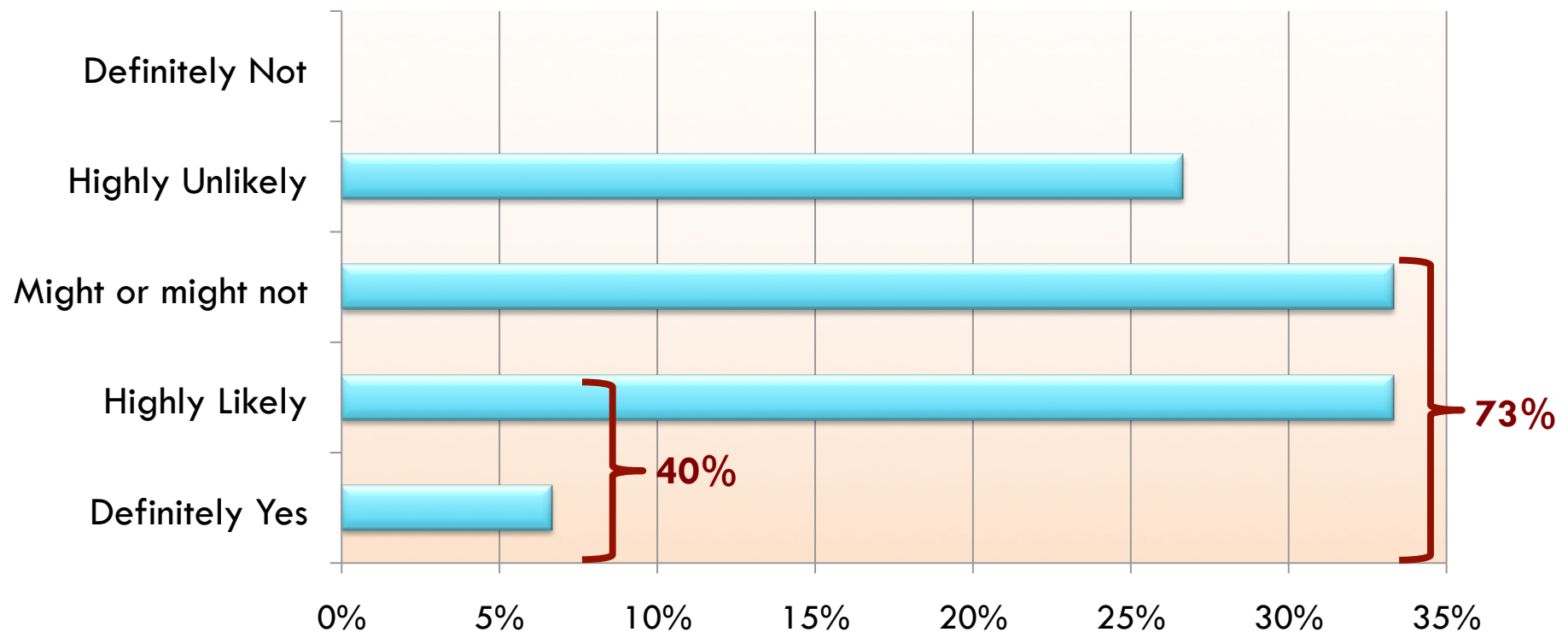
Please identify the reason(s) why you do not meet in Los Alamos? (check all that apply)

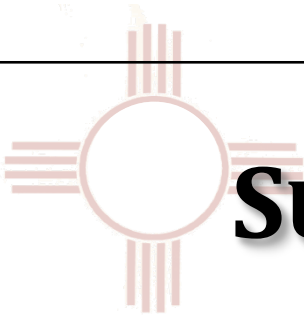




LIKELIHOOD OF MEETING IN LOS ALAMOS

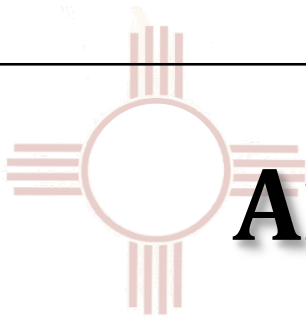
“If this proposed 8,500 square foot Conference Center and the 134-room hotel were built, how would you characterize your likelihood of bringing your meetings business to Los Alamos?”





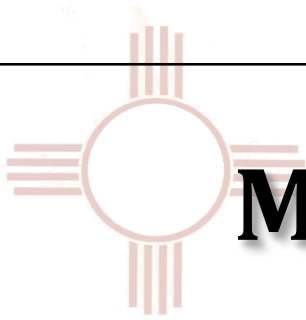
SUMMARY: STATE ASSOCIATIONS

- ✚ Based on 143 New Mexico state associations and the level that expressed strong interest, 60 might be likely to come with a new conference center and hotel
- ✚ Assuming a five year average destination rotation, 12 new state association events per year appears reasonable
- ✚ Estimate: 1,700 additional room nights annually



ANALYSIS OF DEMAND

Market	Methodology
LANL (corporate group)	Surveys
State Associations	Surveys
SMERF (social/sports, military, educational, religious, fraternal)	M&VB activity Interviews
Local Events – Chamber	Surveys Analysis of existing facilities
Transient corporate	Trends and LANL interviews
Transient leisure	Trends, interviews, analysis of new attraction potential
Other	Estimate of national & regional groups, other misc

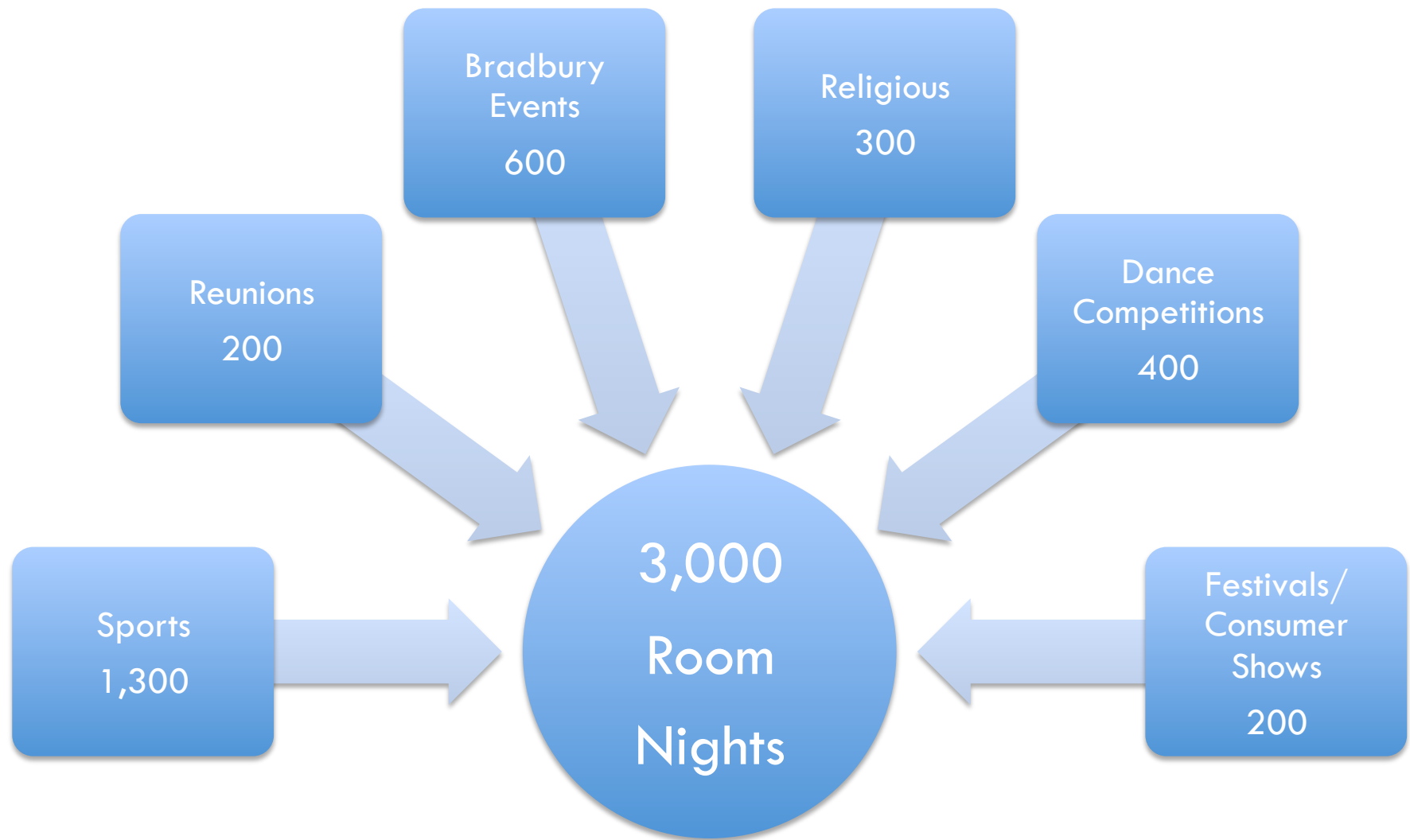


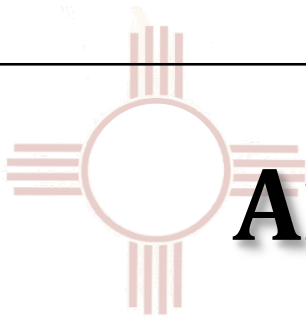
MEETINGS AND VISITORS BUREAU

- ✚ Focus is on tourism marketing
- ✚ Essentially no proactive group sales effort
- ✚ 26 fulfilled group inquiries in past 12 months
- ✚ Average Group size – 86
 - Nine groups over 100 people



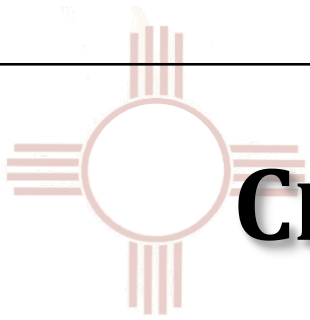
INTERVIEWS WITH EVENT PLANNERS





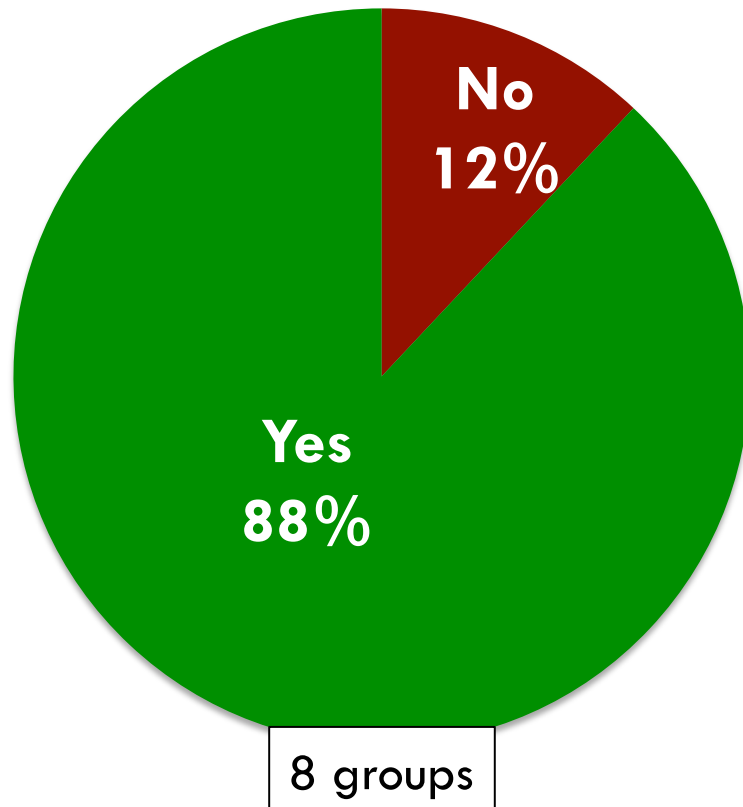
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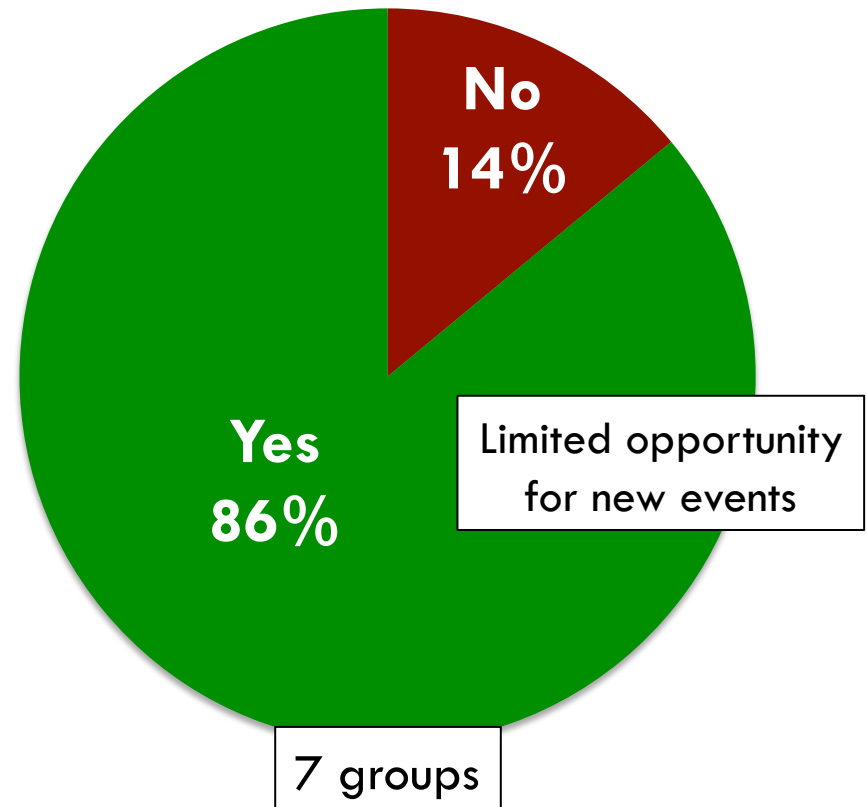


CHAMBER SURVEY

Does your business, or any group you are affiliated with, hold meetings or events?



Are they held in Los Alamos?



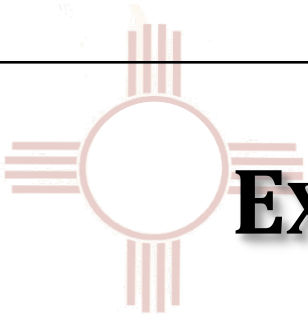


WHERE DO YOU HOLD YOUR EVENTS?

Where do you hold your events?

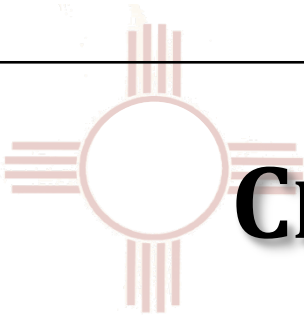


Source: Los Alamos Chamber of Commerce.



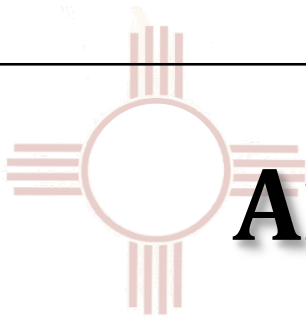
EXAMPLE ADDITIONAL EVENTS MENTIONED

- ✚ New Mexico Historic Preservation Alliance
- ✚ State and Regional Museum Associations
- ✚ State Chamber Executives Association
- ✚ State Main Street Meetings
- ✚ Tourism Association of New Mexico
- ✚ New Mexico IDEA
- ✚ New Mexico Small Business Development Center Meetings
- ✚ Class reunions
- ✚ Religious organizations
- ✚ Bus tours



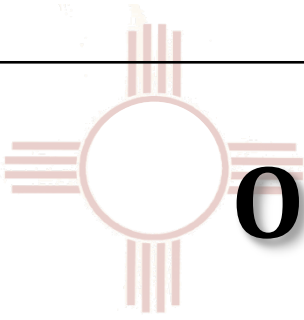
CHAMBER SURVEY: CONCLUSION

- ✚ There is interest in the new conference center and hotel
- ✚ There would be some movement/cannibalization of existing events
- ✚ New events would likely be relatively small
- ✚ Chamber members should be tapped to influence member associations/affiliates to host events in Los Alamos
- ✚ Estimate: 20 new events generating 1,000 incremental room nights



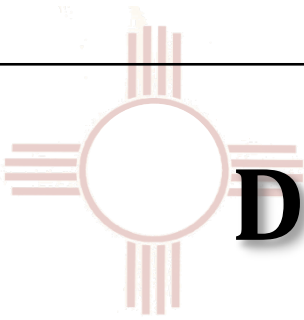
ANALYSIS OF DEMAND

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OTHER ADDITIONAL DEMAND

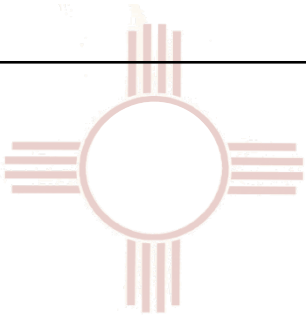
- ✚ Regional and national conferences
- ✚ Hotel brand-generated business
 - Marriott, Hilton, Starwood, etc.
- ✚ Science and technology
- ✚ Multi-cultural
- ✚ Nature, health, golf, and fitness
- ✚ Additional sporting events
- ✚ Estimate: 1,500 room nights



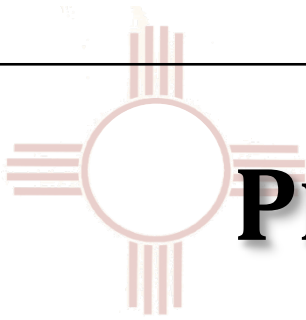
DEMAND CONCLUSIONS

- ✚ SAG: Improvements in a number of areas will need to occur for Los Alamos to make significant strides forward:
 - Product quality
 - Destination appeal
 - Pro-active group sales and marketing

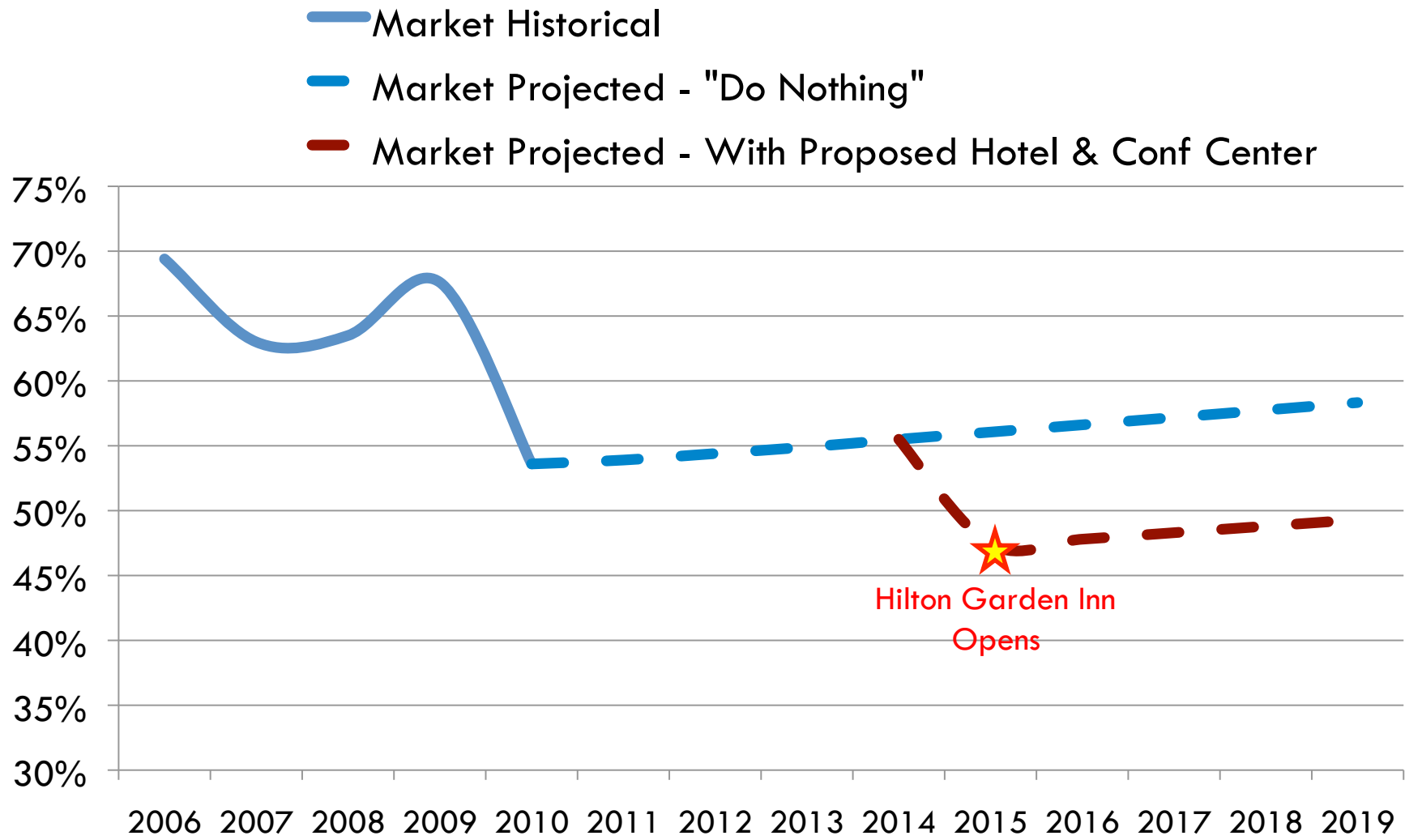
- ✚ Properly located, a new hotel and conference center could attract ~ 13,900 room nights of lost business
 - At what cost?



What is Impact on Existing Hotels?



PROJECTIONS: MARKET OCCUPANCY

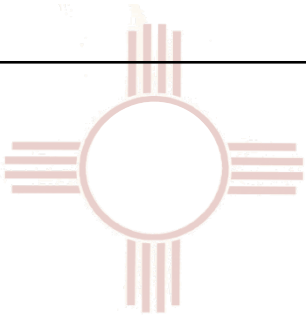


Source: SAG; Smith Travel Research.

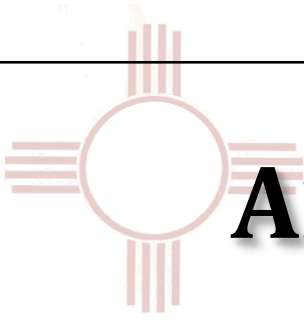


SAG's OPINION

- ✚ As proposed, the new Hilton Garden Inn and conference center project would place the existing local hotels at great risk
- ✚ Given Los Alamos' current and historical hotel market performance, the proposed Hilton Garden Inn would likely face real difficulty obtaining project financing
- ✚ SAG recommends that the County not pursue the development of a project that adds materially new hotel supply to the market



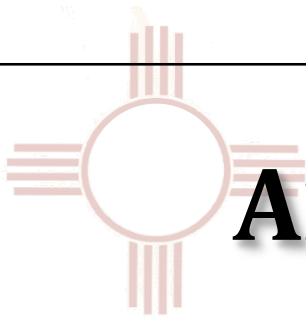
The Path Forward?



ANOTHER OPTION

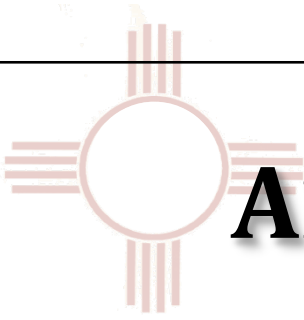
How can the community:

- ✚ Garner the lost business
- ✚ Not place the existing hotels at risk
- ✚ Improve destination appeal
- ✚ Increase local business activity
- ✚ Spur other downtown development
- ✚ Create a focal point for downtown visitation
- ✚ Begin the transformation process



ANOTHER OPTION

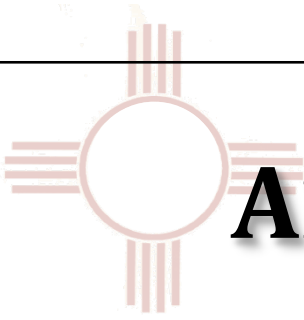
- ✚ Significantly renovate or rebuild one of the existing Los Alamos hotels
- ✚ Develop a new conference center in conjunction with this existing hotel
- ✚ Locate the project within downtown core to maximize impact of project



ANOTHER OPTION: BENEFITS

Phase I: “Begin the Transformation”

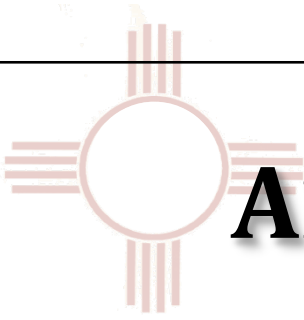
- ✚ Satisfy needs of LANL
- ✚ Garner the lost business
- ✚ Increase market-wide occupancy
- ✚ Increase economic activity for other Los Alamos businesses
- ✚ Set the stage for long-term community vision



ANOTHER OPTION: BENEFITS

Phase II: “Build upon Growth”

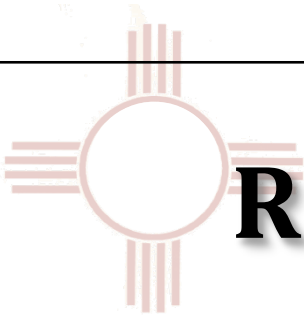
- ⊕ Increased hotel business would allow other existing hotels to further upgrade and improve
 - Incentive Policies
- ⊕ Increased visitation allows for new development
 - Restaurants, retail, entertainment
 - Incentive policies
 - Proactively engage developers for when and where
- ⊕ Diversify the local economy
- ⊕ Increasing quality of life for residents



ANOTHER OPTION: BENEFITS

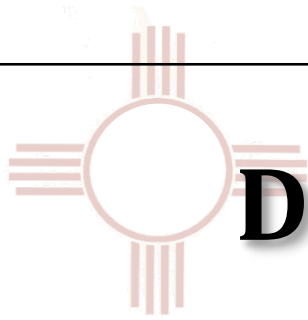
Phase III: “Refine your Brand”

- ✚ With defined sense of place, Los Alamos can begin to penetrate a larger market
- ✚ Use the project to leverage the area’s other tourism and leisure assets
 - Lab/Science, Nature/Sports, etc.
 - Incentive policies to help further that brand
- ✚ Market appropriately (throughout the phases)
- ✚ Continual process of re-evaluation and refinement



RECOMMENDATIONS FOR TODAY

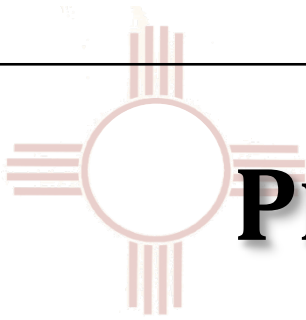
- ✚ New business plan and operational policies for County-run facilities
- ✚ Improve proactive group sales and marketing
 - Designate resources
 - Allocate staffing resources to achieve goals
 - Capture data
- ✚ Hire skilled hospitality sales force to develop group market



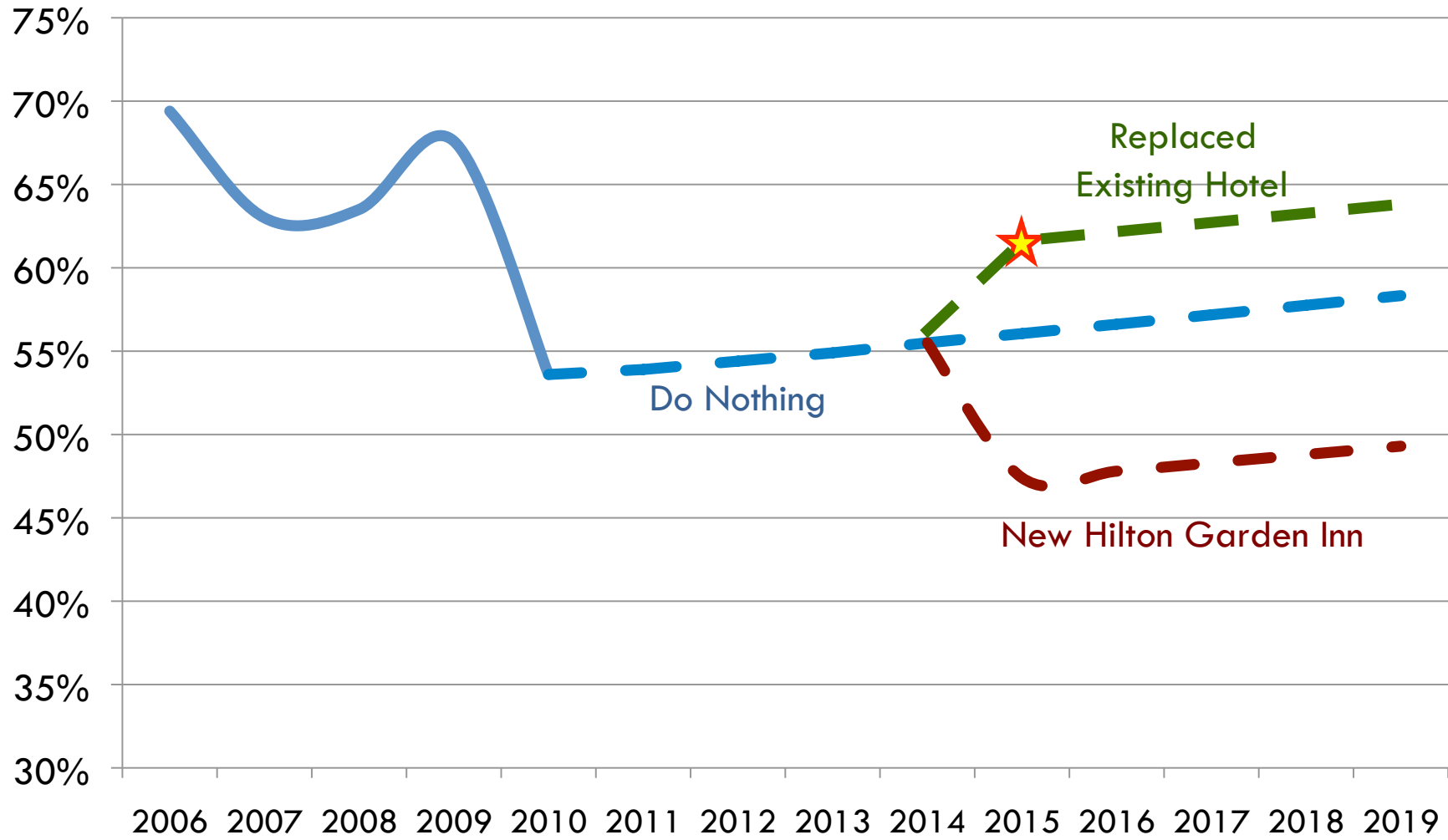
DOWNTOWN CORE



- ✚ Existing hotel is replaced with a 90-room HGI-quality hotel
- ✚ Conference center is built as currently proposed
- ✚ Los Alamos realizes the 13,900 rooms



PROJECTIONS: MARKET OCCUPANCY



Source: SAG; Smith Travel Research.