
Raleigh Convention Center Business Plan

Raleigh Convention Center Steering Committee

Raleigh, North Carolina

Submitted to:

Mr. Michael S. Patterson
Chairman
Convention Center Steering Committee
P.O. Box 1879
Raleigh, NC 27602-1879
(919) 781-3114 Phone

Prepared by:

HVS Convention, Sports &
Entertainment Facilities Consulting
A Division of HVS International
445 West Erie, Suite 1-A
Chicago, IL 60610
(312) 587-9900 Phone
(312) 587-9908 Fax
Web Site: www.hvsinternational.com

June 4, 2003

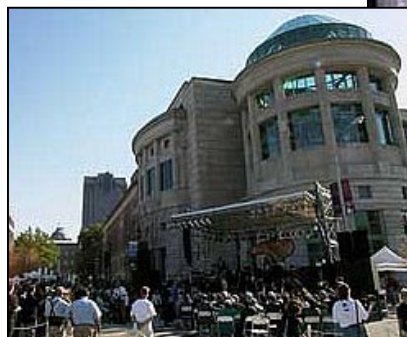


Table of Contents

Transmittal Letter

Executive Summary

- 1. Introduction**
 - 2. Market Overview**
 - 3. Peer Market Analysis**
 - 4. Event Planner Surveys**
 - 5. Facility Recommendations and Operating Projections**
 - 6. Site Selection and Physical Planning**
 - 7. Financing Plan**
 - 8. Statement of Assumptions and Limiting Conditions**
 - 9. Certification**
- Appendix**

June 4, 2003

Mr. Mike Patterson
Chairman
Convention Center Steering Committee
P.O. Box 1879
Raleigh, NC 27602-1879

Re: Raleigh Convention Center Business Plan

Dear Mr. Patterson:

HVS herewith submits our Raleigh Convention Center Business Plan. Please provide us with any comments or questions you may have on the report. We have analyzed current market conditions and the potential demand for a convention center in Raleigh, North Carolina. Our conclusions are based on our present knowledge of the convention and meetings industry and the fieldwork and research completed to date.

We hereby certify that we have no undisclosed interest in the project, and our employment and compensation are not contingent upon our findings. Our recommendations and projections are subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

It has been a great pleasure working with you and the Convention Center Steering Committee. The considerable efforts of you and your fellow committee members were instrumental in the efficient and effective development of this business plan.

Very sincerely yours,



Thomas Hazinski, *Managing Director*
HVS Convention, Sports &
Entertainment Facilities Consulting
A Division of HVS International

445 West Erie
Suite 1-A
Chicago, IL 60610
(312) 587-9900
(312) 587-9908 FAX
www.hvsinternational.com

New York
San Francisco
Boulder
Denver
Miami
Dallas
Chicago
Rockville, MD
Weston, CT
Phoenix
Vancouver
Toronto
London
Madrid
New Delhi
Singapore
Hong Kong
Sydney
São Paulo
Buenos Aires

Executive Summary

The need for a new convention center in Raleigh has been under consideration for some time. The interlocal agreement between Wake County (County) and the City of Raleigh (City) signed in November 1991 included a list of specific projects that would be funded by the hotel room occupancy and prepared meals taxes that passed as part of the agreement. Among these projects was a reserve fund for, "Construction of a new convention center in the City of Raleigh." In 2002 the County and the City appointed a Convention Center Steering Committee (Committee) comprised of representatives from throughout the community. The Committee hired a team of consultants that includes the firms of HVS International Convention, Sports & Entertainment Facilities Consulting and LMN Architects, Inc. (Consulting Team) to advance previous feasibility work regarding the need for additional convention center space and to develop a business plan for implementing any recommended improvements.

Summary of Key Findings

This report recommends that Wake County (County) and the City of Raleigh (City) pursue the development of a new convention center in downtown Raleigh with 150,000 square feet of exhibit space in its first phase of development. A new headquarters hotel with 450 guest rooms will be necessary to provide a sufficient supply of rooms to support the recommended improvements to Raleigh's convention center facilities.

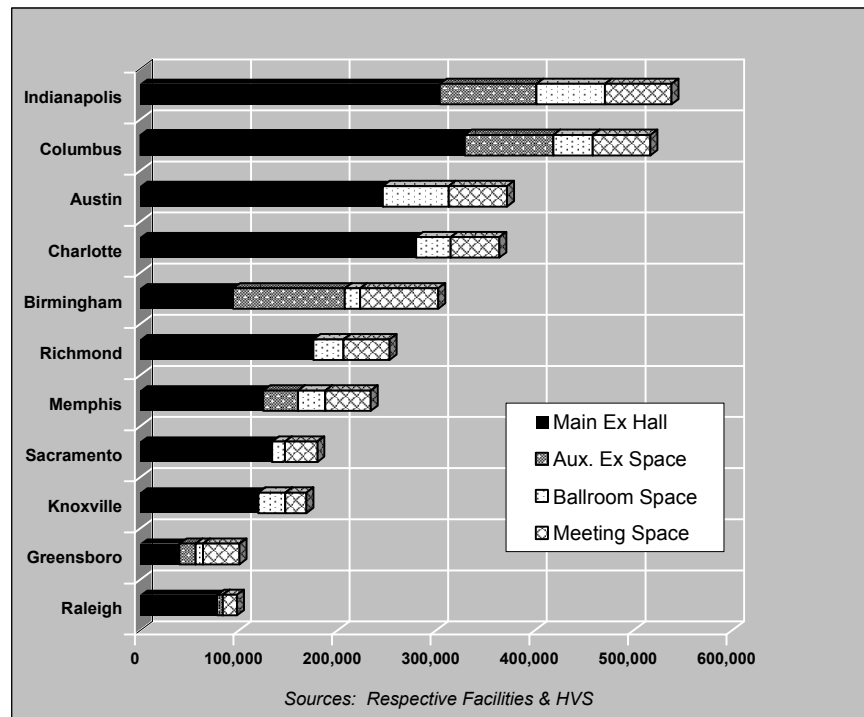
Existing Conditions

The existing Raleigh Convention and Conference Center (RCCC) is inadequate to enable the community to compete effectively for conventions, tradeshows, and other events that attract significant amounts of out-of-town visitors and associated new spending. The overall quality level of the facility, while adequate for some civic functions, is not comparable to the primary convention facilities in Raleigh's peer markets. The design of the RCCC and the topography to the west of the existing exhibit space precludes an efficient expansion of its existing exhibit areas. Furthermore, the Livable Streets Planning Process, a comprehensive planning process aimed at developing a

framework for downtown revitalization in Raleigh, has identified the restoration of the vista between the State Capital building and the BTI Center as a priority, which is mutually exclusive to maintaining the majority of the existing RCCC, much less expanding it.

Figure 1 shows the amount of function space in the RCCC and the amounts in the primary convention centers in a set of Raleigh’s peer markets.

Figure 1
Square Feet of Function Space by Type in Primary Convention Centers



Raleigh ranks at the bottom among this set of peer markets in terms of total function space in its primary convention center facility.

Table 1 shows a summary of the headquarters and downtown hotel supplies available to support the primary convention center facilities in each of the peer markets.

Table 1
Peer Market Headquarters / Downtown Hotel Supplies

Facility	Headquarters Hotel(s)	Number of HQ Rooms	Downtown Hotel Rooms
Raleigh Convention & Conference Center	Sheraton Capital Center	355	616
Charlotte Convention Center	Westin	700	4,118
Koury Convention Center-Greensboro	Sheraton Greensboro	1,017	377
Indiana Convention Center & RCA Dome-Indianapolis	Marriott, Hyatt, Westin, Crowne Plaza	2,720	5,289
Columbus Convention Center	Hyatt Regency, Crowne Plaza, Drury Inn	1,197	3,163
Sacramento Convention Center	Hyatt Regency, Sheraton Grand	1,006	2,399
Austin Convention Center	Hilton	800	4,700
Memphis Cook Convention Center	Marriott	603	2,424
Knoxville Convention Center	Hilton	317	1,400
Greater Richmond Convention Center	Marriott	402	1,879
Birmingham-Jefferson Convention Complex	Sheraton	770	1,031
Peer Facility Average		953	2,678

Source: Respective facilities & CVB's

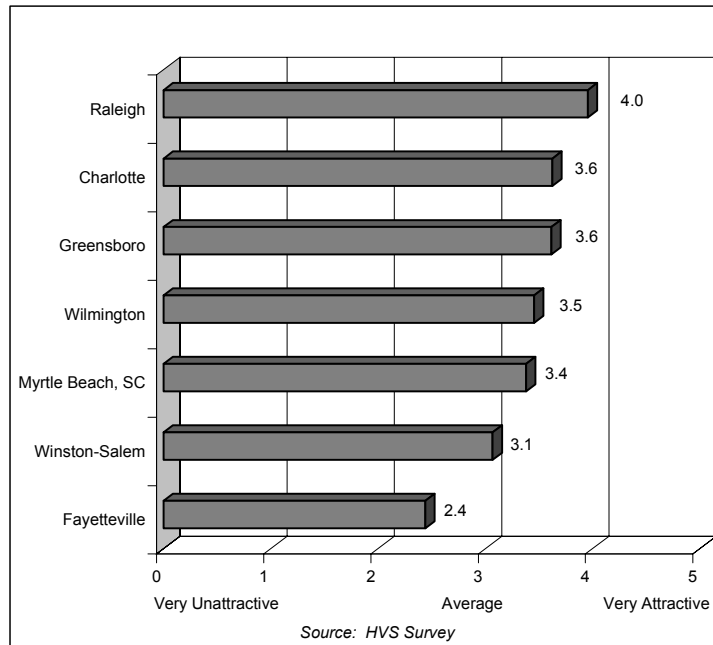
The size of Raleigh's convention center headquarters hotel and its overall downtown hotel supply is considerably less than most of the peer markets.

Input from Event Planners

HVS surveyed State association event planners in North Carolina to learn about their perceptions of Raleigh's attractiveness as a location for their events and to gauge their overall level of interest in bringing events to Raleigh. HVS received 66 completed survey responses.

One of the key survey questions asked event planners to rank the overall attractiveness of a set of leading North Carolina State association event locations assuming that a new convention facility in Raleigh was available. Figure 2 shows the relative ratings of the markets.

Figure 2
Ratings of Overall Attractiveness of Cities as Event Locations



State association event planners ranked Raleigh ahead of any of these other destinations in its attractiveness for their events.

In another key question, HVS asked event planners to indicate how frequently they planned on bringing events to Raleigh given its current facilities, suggest needed improvements, and then indicate how those improvements would change their anticipated frequency of holding events in Raleigh. Many of the suggested improvements focused on new convention center space and proximate hotel rooms. Table 2 shows State association event planner anticipated frequency of bringing events to Raleigh before and after the suggested improvements.

Table 2
State Association Event Planner Anticipated Frequency of Conducting Events in Raleigh

Frequency of Use	Current	After Recommended Improvements	Difference
Annually	7.5%	20.4%	12.9%
Once Every 2-5 Years	13.2%	42.9%	29.7%
Once Every 6-10 Years	11.3%	12.2%	0.9%
Less than Once Every 11 + Years	11.3%	4.1%	-7.2%
Never	56.6%	20.4%	-36.2%

Source: HVS Survey

A drastic shift in the anticipated frequency of use is evident in the two scenarios. The shift in the never category from over 56 percent in the current scenario to close to 20 percent in the second is particularly significant.

Recommended Facility Program

Table 3 shows the recommended facility program for the facility.

Table 3
Recommended Phase I Facility Program

Area	Square Feet
Exhibit Space	150,000
Main Ballroom	32,000
Junior Ballroom	10,000
Meeting Rooms	30,000
Total	222,000

Source: HVS

This facility program represents a first phase of development. The design of the facility should anticipate future demand growth and enable a contiguous expansion of the exhibit hall.

Demand Projections

Table 4 shows the projected number of events and attendees by type of event between 2007 and 2011, the point at which the analysis estimates that the facility would reach a stabilized point of demand.

Table 4
Projected Events and Attendance 2007 – 2011

Event Type	2007	2008	2009	2010	2011
Number of Events					
Conventions	7	15	22	25	28
Tradeshows	2	4	6	8	9
Consumer Shows	15	17	18	18	18
Meetings	140	145	150	165	170
Banquets	70	75	80	82	85
Assemblies	5	6	6	7	7
Sports & Entertainment	4	4	5	5	5
Other	15	16	18	19	20
Total	258	282	305	329	342
Average Attendance					
Conventions	2,143	2,320	2,427	2,486	2,532
Tradeshows	2,000	2,200	2,350	2,425	2,467
Consumer Shows	7,000	7,250	7,500	7,750	8,000
Meetings	270	280	285	295	300
Banquets	425	430	440	450	450
Assemblies	3,300	3,350	3,400	3,500	3,500
Sports & Entertainment	2,900	3,000	3,000	3,000	3,000
Other	450	475	500	500	500
Total Attendance					
Conventions	15,000	34,800	53,400	62,150	70,900
Tradeshows	4,000	8,800	14,100	19,400	22,200
Consumer Shows	105,000	123,250	135,000	139,500	144,000
Meetings	37,800	40,600	42,750	48,675	51,000
Banquets	29,750	32,250	35,200	36,900	38,250
Assemblies	16,500	20,100	20,400	24,500	24,500
Sports & Entertainment	11,600	12,000	15,000	15,000	15,000
Other	6,750	7,600	9,000	9,500	10,000
Total	226,400	279,400	324,850	355,625	375,850

Source: HVS

The projection estimates that total attendance would increase from 226,400 in 2007 to 375,850 in 2011. The main difference between the existing demand at the RCCC and the projected demand at a new convention center is the greater number of attendees to true convention and tradeshow events. Attendees to conventions and tradeshows are the most likely to come from out of town and spend more money on average in the market than attendees to other events.

Table 5
Projected Convention Center Revenue and Expenses

Revenue/Expenses	2007	2008	2009	2010	2011
Revenue	\$4,826,003	\$6,342,231	\$7,946,969	\$9,202,943	\$10,127,987
Expenses	\$6,528,506	\$8,430,893	\$9,898,888	\$11,024,987	\$11,903,534
Net Income	(\$1,702,503)	(\$2,088,662)	(\$1,951,919)	(\$1,822,044)	(\$1,775,547)

Source: HVS

The financial operating projections estimate that the facility would operate at a deficit of between \$1.7 and \$2.1 million a year, stabilizing at approximately \$1.8 million in 2011. Operating deficits in this range are typical for convention center facilities of this size. The existing Raleigh Convention & Conference Center, a much smaller facility that generates far less economic impact than the proposed new facility would, had an approximate operating deficit of \$1.6 million in fiscal year 2002.

Site Selection

The Committee considered 12 potential sites—eight downtown sites and four suburban sites. LMN Architects prepared concept plans for three finalist sites. After a careful analysis of the various relative strengths and weaknesses of the remaining three sites, the Site and Facilities Subcommittees jointly selected a site just west of the existing Raleigh Convention & Conference Center as the preferred site. The primary factors that led the Committee to select Site B were:

- Proximity to Fayetteville Street Mall,
- Proximity to the existing Sheraton Capital Center hotel, and
- Relative Attractiveness of planning opportunities afforded by each of the sites.

Financing Plan

In the United States, cities almost always finance the construction of civic centers and convention facilities with public debt, which is repaid over a 20- to 30-year period. Cities justify public investment on the basis of the potential economic impact of a project or because it represents the development of a community asset with broad support that would not be developed without public spending. Communities frequently use hotel room occupancy and prepared meals taxes, the two taxes utilized to fund the County and City interlocal agreement, to finance convention center projects.

Table 6 shows the estimated future amounts of uncommitted hotel room occupancy and prepared food & beverage tax dollars combined and the amounts at 70, 75 and 80 percent of the total uncommitted funds.

Table 6
Estimated Future Uncommitted Funds

Fiscal Year	Uncommitted Funds	70%	75%	80%
2004	7,753,999	5,427,799	5,815,499	6,203,199
2005	8,469,445	5,928,612	6,352,084	6,775,556
2006	9,216,745	6,451,722	6,912,559	7,373,396
2007	9,998,324	6,998,827	7,498,743	7,998,659
2008	10,814,454	7,570,118	8,110,841	8,651,563
2009	11,666,668	8,166,668	8,750,001	9,333,334
2010	12,558,304	8,790,813	9,418,728	10,046,643
2011	13,489,632	9,442,742	10,117,224	10,791,706
2012	14,463,088	10,124,162	10,847,316	11,570,470
2013	15,480,476	10,836,333	11,610,357	12,384,381
2014	16,543,330	11,580,331	12,407,498	13,234,664
2015	17,655,259	12,358,681	13,241,444	14,124,207
2016	18,817,164	13,172,015	14,112,873	15,053,731
2017	20,031,751	14,022,226	15,023,813	16,025,401
2018	21,301,457	14,911,020	15,976,093	17,041,166
2019	22,629,619	15,840,733	16,972,214	18,103,695
2020	31,532,911	22,073,038	23,649,683	25,226,329
2021	32,250,893	22,575,625	24,188,170	25,800,714
2022	32,985,834	23,090,084	24,739,376	26,388,667
2023	33,744,508	23,621,156	25,308,381	26,995,607
2024	34,520,632	24,164,442	25,890,474	27,616,505
2025	35,314,606	24,720,224	26,485,955	28,251,685
2026	36,126,842	25,288,790	27,095,132	28,901,474
2027	36,957,760	25,870,432	27,718,320	29,566,208
2028	37,807,788	26,465,452	28,355,841	30,246,231
2029	38,677,367	27,074,157	29,008,025	30,941,894
2030	39,566,947	27,696,863	29,675,210	31,653,557
2031	40,476,987	28,333,891	30,357,740	32,381,589
2032	41,407,957	28,985,570	31,055,968	33,126,366
2033	42,360,340	29,652,238	31,770,255	33,888,272

Sources: City of Raleigh & First Southwest

LMN Architects developed cost estimates for the new convention center and headquarters hotel. Table 7 displays the development cost estimates for the convention center and the headquarters hotel.

Table 7
Development Cost Estimates for the Convention Center and Headquarters Hotel

Project Element	Dollars (000)
Convention Center	
Construction Cost	\$166,729
Land Acquisition	<u>16,000</u>
Total	<u>\$182,729</u>
Hotel	
Construction Cost	\$79,222
Land Acquisition ¹	<u>0</u>
Total	<u>\$79,222</u>

¹ Included in convention center estimate

Sources: HVS & LMN

The preceding cost estimates include both hard and soft construction costs.

Convention Center Financing Plan

The limited amount of resources available to repay debt in the early years is the primary constraint on financing capacity provided by the Uncommitted Funds. Furthermore, rating agencies do not consider revenues from the Room Tax and F & B Tax to be sufficiently creditworthy as stand-alone resources to pay debt service without coverage ratios (available funds to required debt payments) in excess of two. The recommended approach to financing attempts to maximize the debt proceeds given the constraints imposed by the available revenue streams.

In North Carolina, many communities use Certificates of Participation (COPs) to fund special projects. In a COP financing tax revenue streams repay debt service, but the credit worthiness of the debt issue results from a pledge of publicly owned assets to the bondholders. The pledged asset may be the convention center or another unrelated asset. Since the issuance of COPs does not require the borrowing of large reserve funds (as with revenue bonds), COPs are the most efficient financing resource available for financing convention center debt.

Consistent with the public purpose served by the convention center, the bonds would be eligible for exemption from Federal Income Tax under IRS regulations. In consultation with the City's financial advisor, First Southwest,

the Consulting Team estimated the financing capacity of the Available Funds assuming 25 and 30-year amortization schedules, as shown in Table 8.

Table 8
Estimate of Financing Capacity (\$ millions)

% of Available Fund Used	25-Year Amortization			30-Year Amortization		
	70%	75%	80%	70%	75%	80%
Par Amount of Bonds	\$188.0	\$201.8	\$215.0	\$207.0	\$222.5	\$237.5
Construction Funding	\$158.0	\$169.6	\$180.7	\$173.7	\$186.7	\$199.3

Source: First Southwest

Depending on the percent of available Taxes used to repay debt and on the schedule of amortization, the estimates of financing capacity range from \$188.0 to \$237.5 million. However, the par amount of bonds issued will exceed the amounts of proceeds available for construction funding by roughly 20 percent due to additional debt issuance costs (approximately 2.0 percent) and the need to capitalize interest in the initial years after issuance. The analysis shows that amounts in excess of the \$182.7 million construction funding for the convention center could be raised using the recommended financing approach.

Hotel Financing

In the current economic environment, only a handful of institutional lenders are financing hotels. Because of the high cost of conventional financing and the high construction cost of quality, full-service properties, few proposals generate the forecasted cash flow necessary to attract financing.

In the view of HVS, the proposed hotel in Raleigh appears to be no exception to this general trend. HVS conducted a market and feasibility study for the proposed headquarters hotel, which is included in a separate report. That study presents a pro forma operating statement for the hotel before the repayment of any debt or distributions to the owners. Projections indicate that in a stabilized year of demand, the hotel would generate approximately \$5.7 million in net operating income.

Given the approximate \$80 million dollar development cost estimate, the projected net operating income of the proposed hotel will not generate sufficient return on equity for a private development company. Consequently, some form of public support may be necessary. The amount of necessary public support for the project will depend in large part on the level

of developer interest in the project, their willingness to invest, and their required return on equity.

Tax-exempt bond financing can significantly change the financial calculus of a project's feasibility. In North Carolina, a legal prohibition against public hotel ownership precludes the option of financing the hotel on a tax-exempt basis. However, certain public areas of the hotel, such as the ballroom and meeting rooms could be owned and financed by a public entity and leased to the hotel owner and operated under a qualified management agreement. HVS recommends that the County and City pursue a public/private partnership for the development of the proposed hotel with the goal of minimizing the level of public financial support.

1. Introduction

The Greater Raleigh Convention and Visitors Bureau (Raleigh CVB) commissioned a market and feasibility study of additional convention center space in Raleigh, North Carolina. This study, which was completed in July 2002, found that there was a need for additional convention center space in the market and that the best way to meet the market demand for this space was to build a new convention center. This study recommended the development of a convention center with 150,000 square feet of exhibit space, a 32,000 square foot ballroom, and 30,000 square feet of meeting space.

The need for a new convention center in Raleigh has been under consideration for some time. The interlocal agreement between Wake County (County) and the City of Raleigh (City) signed in November 1991 included a list of specific projects that would be funded by the hotel room occupancy and prepared meals taxes passed as part of the agreement. Among these projects was a reserve fund for, "Construction of a new convention center in the City of Raleigh."

In an effort to follow up on the findings of the Raleigh CVB feasibility report, the County and the City appointed a Convention Center Steering Committee (Committee) composed of representatives from throughout the community. The Committee brought together involved citizens and public leaders possessing a variety of experience and skills. The goal of this advisory Committee is to critically assess the need for additional convention center space and to develop a specific plan for implementing improvements deemed to be a wise use of the available interlocal funds. It is then up to the County and the City to determine whether to implement the Committee's recommendations.

The Committee hired a team of consultants comprised of the firms of HVS International Convention, Sports & Entertainment Facilities Consulting and LMN Architects, Inc. (Consulting Team) to advance the previous feasibility work regarding the need for additional convention center space and to develop a business plan for implementing any recommended improvements.

The intent of this business plan is not to replicate past feasibility analysis, but to confirm or refute prior conclusions about the market potential and need for improved convention facilities and to assist the community in achieving its desired objectives. At the direction of the Committee, the Consulting Team has not repeated certain analysis typically included in convention center feasibility studies, such as a review of the convention industry. The Consulting Team's main task in conducting this study is to help the Committee advance from the stage of recognized potential need for improved convention facilities to identifying the specific characteristics and location of appropriate improvements and the adequacy of available revenues to pay for them.

The Consulting Team analyzed the demand potential for a new convention center in Raleigh. The analysis provides a basis for a recommended convention center physical program and potential hotel development and for projecting the events, attendance, and room nights the new facility would generate. The Consulting Team based its recommendations and projections on the following analysis:

- A Summary of Raleigh's destination characteristics in terms of its overall tourism infrastructure and key development initiatives that are designed to augment the City's appeal,
- Comparable market and facility analysis that evaluates Raleigh as an event location relative to a set of other comparable and competing markets,
- Review of historical events and attendance at the Raleigh Civic & Convention Center,
- Evaluation of lost business reports maintained by the Greater Raleigh Convention & Visitors Bureau that provide information on the types of events that have considered coming to Raleigh, but elected to go elsewhere for various reasons, and
- Surveys of event planners providing valuable insight into the perceived attractiveness of Raleigh as a convention/meetings destination.

Each of these analytical tasks is designed to help the Committee identify and approve of the appropriate facility program for improved convention center space in Raleigh and select the most appropriate site for this space. The Consulting Team assisted the Committee in this process and estimated the

level of potential demand for the facility, recommended any necessary complementary visitor infrastructure improvements, developed preliminary concept plans, and estimated the financial operations of the facility. The Committee was involved in reviewing and shaping the recommendations and concepts presented in this report throughout the study process. The effort of the volunteers on the Committee and their commitment to setting an informed course for the community was instrumental in the successful development of this business plan for improving Raleigh's ability to attract and host conventions, tradeshow, and local events that benefit the community.

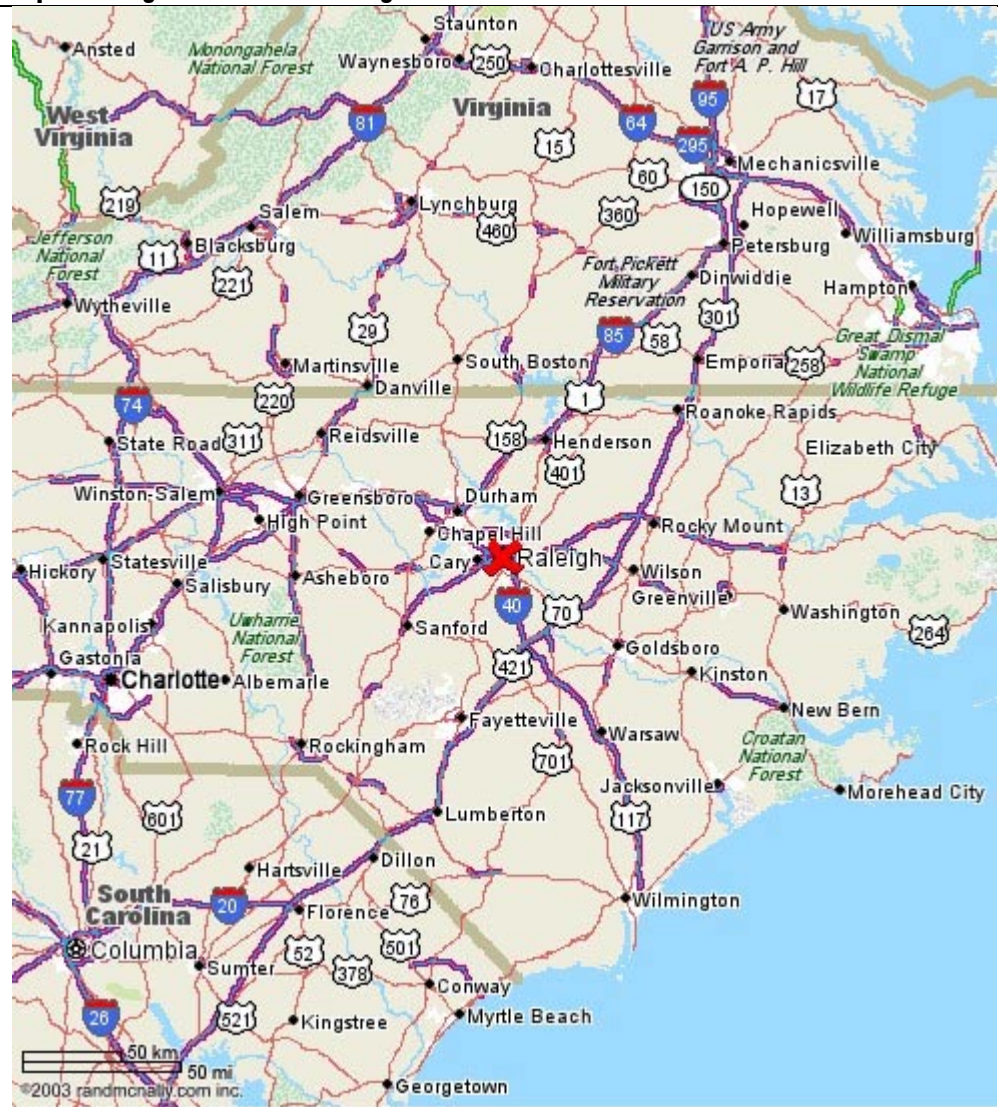
2. Market Overview

Characteristics of the local area surrounding improved convention facilities in Raleigh will influence the ability of the facility to attract attendees to its events, particularly in regard to those events that attract attendees from out of town. This section focuses on some elements particularly important to the attractiveness of Raleigh.

Proximity to Potential Event Attendees

A key factor for regional and state markets in attracting events and attendees is their location and overall accessibility. From the perspective of State events, Raleigh has the advantage of being fairly centrally located in North Carolina and benefiting from good interstate highway access. Figure 2-1 shows a map of Raleigh and its surrounding area.

Figure 2-1
Map of Raleigh and its Surrounding Area



North Carolina’s primary east-west highway, Interstate-40, runs through Raleigh and links it to Interstates 85 and 95. Raleigh is not located at the geographic center of the State, but its highway accessibility makes it convenient to other major population centers.

Table 2-1 shows the population of metropolitan statistical areas in North Carolina and nearby states and the distance and estimated driving time between each of them and Raleigh.

Table 2-1
Population, Distance, and Drive Time from Raleigh, NC

Metropolitan Statistical Area	MSA 2000 Population	Miles from Raleigh	Drive Time from Raleigh
North Carolina			
Raleigh-Durham-Chapel Hill	1,187,941	--	--
Charlotte-Gastonia-Rock Hill	1,499,293	171	2:49
Greensboro-Winston-Salem-High Point	1,251,509	81	1:25
Hickory-Morganton-Lenoir	341,851	177	2:58
Fayetteville	302,963	63	1:06
Wilmington	233,450	127	2:17
Asheville	225,965	251	4:05
Jacksonville	150,355	116	2:17
Rocky Mount	143,026	58	1:06
Greenville	133,798	85	1:48
Goldsboro	113,329	51	1:11
Region			
Richmond-Petersburg, VA	996,512	157	2:54
Norfolk-Virginia Beach-Newport News	1,569,541	185	3:38
Roanoke, VA MSA	235,932	188	3:41
Washington, DC	4,923,153	293	4:54
Columbia	536,691	226	3:45
Greenville-Spartanburg-Anderson	962,441	267	4:21

Sources: Census Bureau 2000 and Mapquest

Charlotte, the State's largest metropolitan market, is just under a three-hour drive away and Greensboro, the second largest market, is about one and one half hour drive away. Raleigh's proximity to the State's major population centers makes it an appealing drive-in event destination. Outside the State, Raleigh is within a three-hour drive of Richmond, VA and a three and one half hour drive from Norfolk.

Convention Destination Characteristics

Characteristics of the local area influence the ability of a convention center facility to attract attendees to its events, particularly in regard to those that attract attendees from out of town. The market area analysis details the

market's hotel supply, visitor attractions, and overall character. This section focuses on elements particularly relevant to the attractiveness of the area as a convention destination.

Hotel Supply

The quality of hotel properties accessible to convention facilities and the quantity of rooms are key factors in the demand potential for events that attract out-of-town attendees. Important questions event planners consider in potential venues are "How many hotel rooms are located close by?" and "Is there a headquarters hotel attached to the venue?"

Table 2-2 shows the hotels in downtown Raleigh and its surrounding area, the number of rooms in each property, the number of rooms available for group room blocks, and their distance from the existing Raleigh Convention and Conference Center.

Table 2-2
Downtown and Neighboring Raleigh Hotels and Committable Room Blocks

Hotel	Number of Rooms	Committable Rooms	Distance from RCCC
Downtown			
Sheraton Capital Center	359	250	adjacent
Clarion State Capital	202	100	7 blocks
Days Inn	55	50	9 blocks
Downtown Total	616	400	
Other Area Properties			
Red Roof Inn	133	20	1.5 miles
Innkeeper South	68	25	1.5 miles
Holiday Inn Brownstone	192	100	2 miles
Velvet Cloak Inn	159	75	2 miles
Other Total	552	220	
Total	1,168	620	

Source: Greater Raleigh CVB

The Sheraton, Clarion, and Days Inn are the only hotels located in the downtown area. With only 616 total hotel rooms and 400 committable rooms downtown, the hotel supply restricts the size of event Raleigh can effectively accommodate. In addition, the overall quality level of available rooms is somewhat below the expectations of many event planners. Event planners

typically look for what is referred to as “convention quality” hotel properties, which are full-service hotels with amenities like in-house meeting and ballroom space, a restaurant, a business center, a fitness center, and others.

Recent renovations to the Sheraton have vastly improved the quality and service level at this property, however it still operates at a level below the primary headquarters properties in most peer markets. The Clarion and Days Inn hotels are comparable to properties in other markets that would provide overflow alternatives to primary convention properties or more affordable alternatives to cost conscious event attendees. The City’s room supply suggests that there are an insufficient number of quality hotel rooms to attract significant numbers of out-of-town attendees. Consequently, complementary hotel development should accompany any recommended improvements to convention facilities in Raleigh.

Accessibility, Character, and Environment for Event Attendees

In many ways, downtown Raleigh is at a crossroads in its development and role in the larger Raleigh-Durham metropolitan area. Besides the community’s effort to develop a premiere convention center in downtown Raleigh, the City is also undergoing a planning process entitled “Livable Streets,” designed to develop a framework for improving the downtown area’s overall appeal and augment its role as a commercial and residential center. Success in spurring revitalization of downtown Raleigh is an important element in its efforts to maximize its potential as an event destination.

Downtown Raleigh has experienced many of the same struggles as other downtown cores located in metropolitan areas that grew rapidly over the past thirty years. The effects of suburban sprawl on downtown Raleigh are evident. The shortage of retail and hotel development in the downtown core is symptomatic of redirection of investment to outlying areas. A prime example of these effects is the condition of the Fayetteville Street Mall. Once a commercial and symbolic core of the City, today the Mall has little retail or restaurant development and is generally underutilized. However, downtown Raleigh shows signs of a brighter future and many assets needed to support a more vibrant downtown are already in place or in the planning stages.

Recent / Planned Developments

Certain planned developments and planning initiatives are evidence of Raleigh’s efforts to revitalize its downtown core.

Livable Streets

During the past several months citizens of the city of Raleigh have participated in a community-based planning process designed to develop a planning framework for the future of downtown Raleigh. The Livable Streets downtown plan involved a partnership of approximately 400 persons participating in six monthly work sessions held from September 2002 to February 2003. Citizens submitted ideas via postcard responses, essays and messages sent by mail and by email, through group discussion, drawings, and in person at Livable Streets work sessions and at Steering Committee meetings with a variety of targeted stakeholder groups. A design charrette in February 2003 classified the input into a series of approximately 130 actions and strategies in 12 topic categories. The group then organized this input into a targeted five-part Action Plan. The intent is to implement this plan during the next five years.

Progress Energy

Progress Energy is planning a new mixed-use development adjacent to its current office building on Fayetteville Street Mall that would include 25,000 square feet of retail space, 30 to 40 residential units, and 125,000 square feet of office space occupied by Progress Energy in its first phase.

Regional Rail

As a result of several years of planning, the Triangle Transit Authority and the Triangle Region's two Metropolitan Planning Organizations have adopted the Regional Transit Plan. This plan includes Regional Rail service and expanded bus service, shuttles, park-and-ride facilities, and enhanced pedestrian and bicycle access to transit. The plan is divided into phases. The first phase includes regional rail service on existing railroad rights of way connecting Durham, RTP, Cary, Raleigh and North Raleigh. The plan calls for service to be operational by 2007. Because there is no existing rail right of way to the airport, there won't be a direct rail connection in the first phase. The service would provide event attendees with the ability to visit different areas of the region, but without a direct airport connection its value relative to event attendees is modest.

This proposed convention center development could play an important role in Raleigh's overall efforts to revitalize its downtown. The influx of visitors would provide additional demand for restaurant and retail development. Continued progress on the revitalization efforts over the next several years is

necessary for the planned convention center to reach its full demand potential.

Visitor Attractions

Event attendees at convention facilities are often interested in more than simply going to the scheduled events at the facility. Many conventions, trade shows, meetings, and corporate events provide attendees with opportunities to socialize and experience the local attractions that the area surrounding the event site and the host city has to offer. One factor that event planners consider is the availability of entertainment for their attendees after the planned activities end.

Raleigh City Market

A short walk from downtown, this restored 1914 Spanish mission-style marketplace features a collection of restaurants and shops. City Market was originally built to serve as a farmers market in the early 1900s. Although a produce center is still located here, a variety of art galleries, restaurants and specialty shops now make up this downtown district. On the first Friday of every month, City Market hosts Gallery Walks where people can enjoy art, live music, food, and drinks.

BTI Center for the Performing Arts

Located directly south of the Raleigh Convention and Conference Center, the BTI Center for the Performing Arts provides four distinct venues for live performances. The Memorial Auditorium, originally opened in 1932, has hosted concerts, sports, and various other events in downtown Raleigh. The City completed a \$10 million renovation of the facility in 1989 and 1990. The auditorium has 2,277 seats and is home to the North Carolina Theatre. The auditorium also features performances in opera, ballet, orchestral music, theater, comedy, and popular music. The new 1,700-seat Meymandi Concert Hall is home to the North Carolina Symphony. The Fletcher Opera Theater is a 600-seat venue designed for opera, dance, and theatrical performances. The BTI Center also features the Kennedy Theater, a 160-seat black-box theater.

Alltel Pavilion at Walnut Creek Amphitheatre

This performance venue is situated in a natural setting on 212 acres. Walnut Creek can accommodate 20,000 spectators, with theatre-style seating for 7,000 in an open-air pavilion and lawn seating for 13,000.

The Amphitheatre at Regency Park

This outdoor amphitheater located in Cary features 500 fixed seats and capacity for 6,500 attendees on lawn seating. The facility hosts the North Carolina Symphony's annual Summerfest concert series.

RBC Center

This 21,000-seat arena is located by the NC State Fairgrounds west of downtown Raleigh. The venue is home to the Carolina Hurricanes of the National Hockey League and the NC State University men's college basketball team. The facility also hosts a series of concerts and various other entertainment events.

Local Businesses

The density and character of local businesses largely determines the level of demand for corporate events such as training seminars, shareholder meetings, sales meetings, awards banquets, and other similar events. Some of these events, particularly training seminars, shareholder meetings, and employee appreciation events can attract out-of-town visitors and associated spending. Table 2-2 shows the largest employers in Raleigh by sector of the economy.

Table 2-2
Largest Employers in Raleigh

Employer	Number of Employees	Employer	Number of Employees
Retail		Technology / Research	
Food Lion Stores	1,500	International Business Machines (IBM)	13,000
Kroger Stores	1,500	GlaxoSmithKline, Inc.	5,850
Services		Nortel	4,848
Waste Industries	2,000	SAS Institute	3,600
Research Triangle Institute	1,900	Cisco Systems	2,800
Longistics	1,540	Government	
TCPU¹		State of North Carolina	23,230
Progress Energy	3,428	Wake County Public School System	12,500
MCI WorldCom	2,000	North Carolina State University	7,787
Verizon Wireless	1,600	Wake County	3,300
Medical Services		City of Raleigh	3,000
WakeMed	5,000	Finance, Insurance, and Real Estate	
Rex Healthcare	3,779	First Citizens Bank & Trust Company	1,574
Dorothea Dix Hospital	1,900	First Union Mortgage Corporation	1,500

¹ TCPU: Transportation, communication, and public utilities

Source: Greater Raleigh Chamber of Commerce

The largest employers come primarily from the technology/research, government, and medical sectors. The technology/research sector normally generates significant demand for events. The lack of manufacturing presence indicates that Raleigh may have less success attracting tradeshow than other markets of a similar size.

Raleigh Convention & Conference Center

The existing Raleigh Convention & Conference Center (RCCC) serves as the primary venue for meetings, conferences, large consumer shows, and banquets in downtown Raleigh. The RCCC opened in September 1977 with 99,000 square feet of function space, including a 4,000-seat arena. During 1995 and 1996 the City renovated and expanded the facility, which reopened in January 1997. Table 2-3 shows the function spaces and their sizes and capacities.

Table 2-3
Raleigh Convention & Conference Center Spaces

Function Room	Sq. Ft.	Ceil. Ht.	8'x10' Exh. Booths	Banquet	Theater	Class.
E. Assembly Hall 1	6,700	20'	50	350	600	350
E. Assembly Hall 2	9,800	20'	65	650	1,200	550
E. Assembly Hall 3	12,060	20'	65	550	1,200	400
Arena	19,600	50'	100	1,400	2,195	800
W. Exhibit Hall 1	6,700	20'	50	350	600	350
W. Exhibit Hall 2	9,800	20'	65	650	1,200	550
W. Exhibit Hall 2A	8,500	20'	53	550	1,000	500
W. Exhibit Hall 3	4,900	20'	40	300	500	300
Conference Room A & B	2,100	10'	12	112	150	96
Conference Room C	3,350	10'	30	200	350	180
Conference Room D	1,800	10'	10	80	175	80
Conference Room E	2,700	10'	20	120	250	125
Conference Room F	3,108	10'	25	120	200	100
Suites 1 - 4	360	8'	N/A	16	25	16
Board Room	775	10'	N/A	30	50	32
Total	92,253		585	5,478	9,695	4,429

Source: Raleigh Convention & Conference Center

The RCCC has 92,253 square feet of function space, with 78,060 square feet of exhibit space combining the east and west halls and the center arena.

Figure 2-2 shows a diagram of the RCCC and its primary (upper level) function spaces.

Figure 2-2
Raleigh Convention & Conference Center Primary (Upper Level) Function Spaces



The RCCC's 78,060 square feet of exhibit space is divided into different sub areas and falls short of achieving the functionality of a single, contiguous exhibit space. The arena is the only space with ceiling heights in excess of 20 feet. Industry standards for exhibit areas call for ceiling heights of approximately 30 feet. The stairwells at each corner of the arena isolate the arena space somewhat from the balance of the exhibit space. The arena space doubles as the facility's main ballroom. Events that require banquet functions concurrently with exhibits or other activities are limited to the two halls at either side of the building, which each feature a little less than 30,000 square feet of space. The meeting rooms are located on the lower level of the facility. The facility has difficulties associated with its loading docks. The main building entrance on Lenoir Street doubles as a loading dock. Generally, the building is well maintained, but it does not offer the level of amenities and overall quality typically found in primary convention center facilities in other similar markets.

A department of the City of Raleigh is responsible for operating the existing facility and the BTI Center across the street. RCCC management provided HVS with detailed information on historical events and attendees at the

Table 2-4
Raleigh Convention & Conference Center Historical Events and Attendance 1993-2001

Type of Event	1993	1994	1995	1996	1997	1998	1999	2000	2001	Average
Number of Events										
Conventions / Tradeshows	38	33	22	15	27	22	28	31	30	27
Public Shows	13	25	29	24	5	6	7	5	6	13
Consumer Shows	3	2	3	3	9	11	5	3	3	5
Meetings	297	262	280	142	125	97	111	93	125	170
Banquets	41	47	49	37	175	162	153	155	128	105
Concert	12	10	8	9	9	22	11	23	19	14
NC Symphony Concert	0	0	0	0	0	2	4	0	0	1
Performing Arts	2	4	6	4	1	3	1	0	0	2
Sports	13	4	9	5	3	6	6	4	4	6
Dance	24	15	14	6	13	8	11	11	10	12
Graduations	15	18	6	24	22	34	26	12	36	21
Miscellaneous	23	33	32	17	38	27	30	37	31	30
Rehearsals	5	5	3	1	3	2	12	5	0	4
Total	486	458	461	287	430	402	405	379	392	411
Average Attendance										
Conventions / Tradeshows	1,209	1,457	1,635	1,887	1,535	1,391	1,521	1,413	1,355	1,471
Public Shows	1,403	3,226	2,888	3,015	4,000	3,667	3,429	4,100	3,250	3,085
Consumer Shows	20,000	20,000	20,000	20,000	7,267	6,382	9,300	15,000	15,000	10,936
Meetings	167	155	146	196	263	364	254	279	184	199
Banquets	455	429	702	439	213	322	260	281	266	313
Concert	2,367	1,748	1,257	1,703	1,675	1,505	1,871	2,413	2,799	1,974
NC Symphony Concert	na	na	na	na	na	2,277	1,789	na	na	1,301
Performing Arts	1,075	1,407	1,158	1,982	2,000	1,400	99	na	na	1,609
Sports	2,304	1,763	3,111	3,120	2,000	1,845	2,000	1,325	1,375	2,231
Dance	856	670	618	883	817	563	773	779	805	785
Graduations	1,763	1,611	1,758	1,963	1,534	1,823	1,831	1,583	1,758	1,792
Miscellaneous	391	717	669	807	569	582	432	747	873	640
Rehearsals	1	1	204	1	70	70	93	690	na	154
Attendance										
Conventions / Tradeshows	45,946	48,075	35,980	28,300	41,450	30,600	42,600	43,800	40,650	39,711
Public Shows	18,235	80,650	83,750	72,350	20,000	22,000	24,000	20,500	19,500	40,109
Consumer Shows	60,000	40,000	60,000	60,000	65,400	70,200	46,500	45,000	45,000	54,678
Meetings	49,671	40,565	40,883	27,823	32,814	35,355	28,204	25,986	23,047	33,816
Banquets	18,653	20,163	34,375	16,252	37,219	52,122	39,723	43,542	33,997	32,894
Concert	28,400	17,477	10,052	15,327	15,077	33,100	20,577	55,500	53,177	27,632
NC Symphony Concert	0	0	0	0	0	4,554	7,154	0	0	1,301
Performing Arts	2,150	5,627	6,950	7,927	2,000	4,200	99	0	0	3,217
Sports	29,950	7,050	28,000	15,600	6,000	11,070	12,000	5,300	5,500	13,386
Dance	20,550	10,050	8,650	5,300	10,620	4,505	8,500	8,570	8,050	9,422
Graduations	26,450	29,000	10,550	47,100	33,750	61,975	47,600	19,000	63,300	37,636
Miscellaneous	8,998	23,677	21,420	13,715	21,635	15,720	12,945	27,639	27,065	19,202
Rehearsals	5	5	611	1	210	140	1,120	3,450	0	616
Total	309,008	322,339	341,221	309,695	286,175	345,541	291,022	298,287	319,286	313,619

Sources: RCCC and HVS

facility. Table 2-4 shows the historical events and attendees by type of event between 1993 and 2001.

Changes in the way RCCC staff recorded event attendance over this period complicate comparisons between years. The attendance entries for certain types of events in certain years appear to reflect daily rather than total attendance. HVS analyzed the data and attempted to adjust for apparent inconsistencies. The resulting attendance data reflects the most accurate estimate achievable given the available information. In addition, it is important to note that the RCCC's event categories differ in their definitions from the data shown later in this report on peer facilities and the Consulting Team's projections for future demand. For instance, a number of the events that RCCC classifies as conventions/tradeshows would fall under the consumer show or meeting categories in the classification system the Consulting Team employs.

The decline in conventions and tradeshows in 1995 and 1996 was largely due to the renovation of the facility. RCCC management reports that they have shifted their focus toward consumer shows and other local events such as banquets over the years because of the inconsistent operations and service level offered by the adjacent Sheraton Hotel. Recent renovations and a change in chain affiliation have resulted in a significant improvement in the level of service at the hotel, but the RCCC has not been able to recapture the convention and tradeshow demand that was lost due to deficiencies in the supporting hotel supply.

Several of the consumer and public shows in the area that had used the RCCC were forced to find other venues during the renovation of the building. A portion of these events remained at other locations such as the North Carolina State Fairgrounds subsequent to the renovation. The limited amount of exhibit space at the RCCC and its lack of free parking limit its ability to capture many of these events. The RCCC promotes some of its consumer shows itself to increase the level of activity in the facility and generate additional operating revenue. A summary of historical RCCC financial operations is included in Section 5 of this report.

Other Local Facilities

There are two other primary facilities that currently host large events in the Raleigh area that could potentially influence the demand for events at new and/or improved convention facilities. The following is a brief description of these facilities.

North Carolina State Fairgrounds – The fairgrounds has five buildings with function space that can host a variety of events from consumer shows to agricultural fairs. Table 2-5 shows each of the facilities and the square feet of function space available to events occurring at the fairgrounds.

Table 2-5
NC State Fairgrounds Buildings with Function Space

Facility	Square Feet Function Space
Dorton Arena	25,000
Jim Graham Building	98,000
Gov. W. Scott Keer Building	22,128
Gov. James E. Holshouser Building	13,600
Gov. James B. Hunt, Jr. Horse Complex	81,000
Total	<u>239,728</u>

Source: NC State Fairgrounds

The facilities lack sufficient breakout space to attract the type of tradeshow that would typically utilize a convention center. The Jim Graham building has a 3,000 square foot meeting room, but otherwise the complex has no breakout meeting space. However, the facilities at the fairgrounds do compete with the existing RCCC for consumer shows. The primary advantages of the fairgrounds are its ample free parking and its relative affordability. These facilities are not air-conditioned and do not offer the types of food and beverage, audio/visual, and overall services found in convention and meeting venues.

RBC Center – The arena has 27,500 square feet of floor space and can accommodate assemblies and small expos. However, the RBC Center rarely hosts events that utilize its flat floor for exhibits and generally does not compete directly for the types of events that would be held in new and/or improved convention facilities in Raleigh.

Currently Booked Events

The Greater Raleigh Convention & Visitors Bureau (Raleigh CVB) provided HVS with a list of events it has booked and other events it is actively pursuing. The Raleigh CVB's current marketing efforts are focused on events that will generate room nights, such as conventions, tradeshow, and other events that attract out-of-town attendees. However, without a true convention center facility capable of competing effectively with other facilities in North Carolina and cities such as those included in the set of peers, the bureau is largely relegated to smaller events that can fit in single

hotels, usually requiring 200 rooms or less. Examples of such events include smaller State association gatherings and various social, religious, and sports events.

Table 2-6 shows the number of events the Raleigh CVB has booked in 2004 and beyond.

Table 2-6
Greater Raleigh CVB Booked Events 2004 and Beyond

Event Name	Number of Event Days	Number of Events
2004		
NCAA Men's Basketball	5	
North Carolina Paralegal Association	4	
Mid-Atlantic Bridge Tournament	8	
Southeast Region Wound, Osmotic and Continence Nurses	5	
Southern Criminal Justice Assn.	6	
Southern Regional Council of Educational Administration	5	
NC League of Municipalities	4	
Foreign Language Assn. Of NC	3	
Capital Area Soccer League, Inc.	9	
Total 2004	49	9
2005		
NC Association of Educators	3	
Neighborhoods USA	6	
Nat'l Assn of Academic Advisors for Athletics	7	
National Supreme Council and Order of the Eastern Star	10	
Total 2005	26	4
2006		
Mid-Atlantic Bridge Tournament	8	
Foreign Language Assn. of NC	3	
Total 2006	11	2
2007		
NC Assn. of Educators	5	
Total 2007	5	1
Overall Total	91	16

Source: Greater Raleigh CVB

The booked events include both those occurring in the RCCC and in other venues. The limitations of the current facility and the number of proximate convention quality hotel rooms severely restrict the ability of the Raleigh CVB to book convention and tradeshow events. Considering that most

conventions and tradeshow book convention center space at least three years prior to when the events occur, it is evident that Raleigh is not currently competing effectively in the market for such events.

Lost Business Analysis

The Raleigh CVB maintains a list of potential events that were tentatively scheduled or those whose planners previously considered coming to Raleigh, but ended up being held elsewhere. This database includes events that would have been held in the RCCC, hotels, and other meeting venues in Raleigh. The Raleigh CVB tracks summary information on these events, including:

- Estimated attendance
- Event days
- Total room nights, and
- The reason cited for selecting another location.

The Raleigh CVB provided HVS with lost business reports covering 576 events entered between April 1997 and April 2003. Table 2-7 shows the total and average attributes of the lost events.

Table 2-7
Summary of Lost Business Data

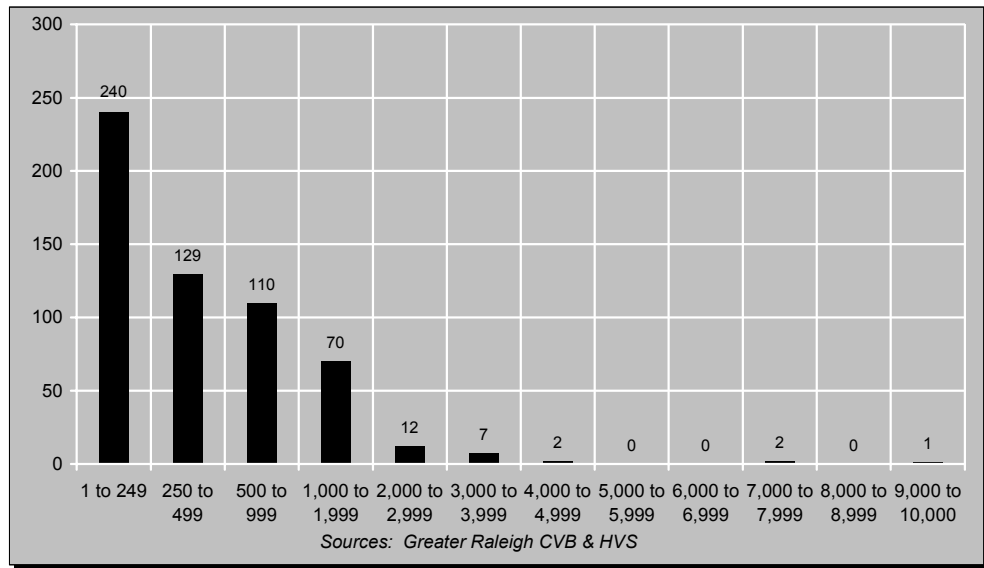
Attribute	Total	Average
# of Events	576	--
Event Days	2,899	5.0
Attendance ¹	354,544	616
Room Nights ¹	326,179	566

¹ Average of those with data reported

Source: Greater Raleigh CVB

These lost events amounted to a total of 2,899 event days. The average length of each event was 5 days, ranging in length from one day to three weeks. The attendance for these events totaled 354,544. The largest event was the National Hockey League All-Star game, which was estimated to attract 40,000 persons. Figure 2-3 shows a distribution of the number of total room nights these lost events generate.

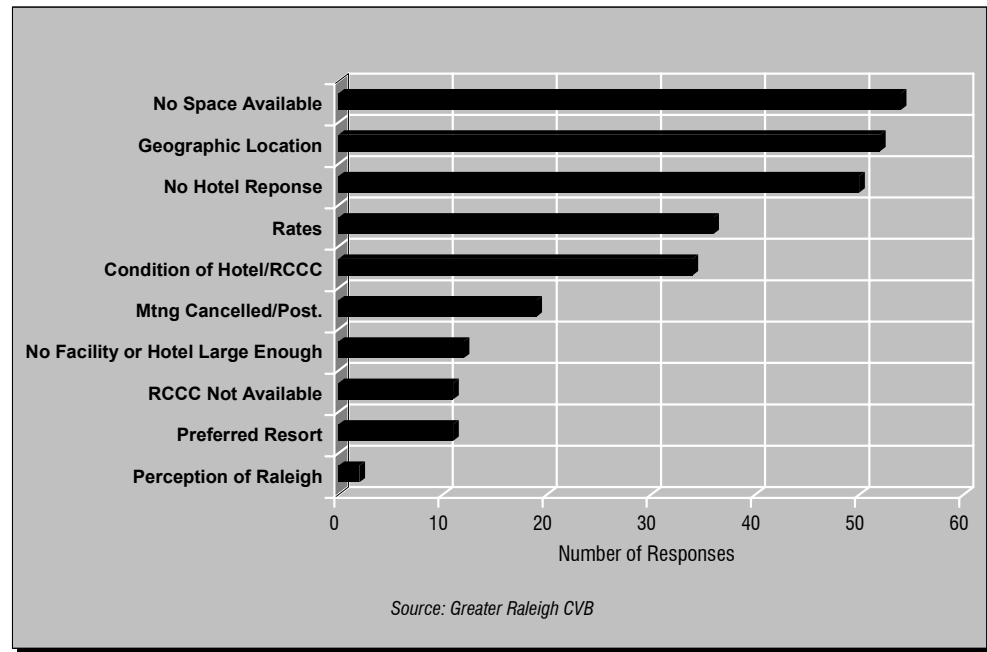
Figure 2-3
Distribution of Lost Business Events by Number of Room Nights



The RCVB has room night data for all but one of the lost events. Just under 65 percent of these lost events had less than 500 room nights, which is indicative of the smaller size of events the Raleigh CVB focuses its marketing efforts on due to the limitations of the RCCC and its supporting hotel supply.

HVS grouped the reasons cited by the planners of these lost events for selecting other locations into ten categories. Some of the event planners did not provide a specific reason for selecting another city. However, many of the decision makers for the lost events cited specific reasons why they did not bring their event to Raleigh. Figure 2-4 shows the reasons, sorted from most to least frequent, that event planners cited for selecting other cities.

Figure 2-4
Reasons Cited for Not Bringing Events to Raleigh



The most frequent reasons given for lost business were no space available, geographic location, and no hotel response. No space available generally indicates that a hotel or another facility was already booked for the days an event planner needed for their event. Instances when the RCCC was unavailable are listed separately and appear much further down the list. The frequency of geographic location most likely reflects efforts by the Greater Raleigh CVB to attract national events that decided against an east coast or southeast location. No hotel response is an indication that hotels were either unable or unwilling to accommodate the needs of events. The relative lack of hotel rooms in the downtown area likely contributes to the incidence of no hotel response.

Combined, events lost due to the condition of the RCCC/hotel and no facility or hotel large enough amount to 34,965 attendees and 52,596 room nights. These larger events averaged 760 attendees and 1,143 room nights. If the Greater Raleigh CVB marketed more towards such larger events the numbers for these categories would be considerably higher.

**Implications of the
Market Overview**

Analysis of the need for improved convention facilities and market demand potential is an iterative process. The review of Raleigh's supporting visitor infrastructure, including its hotel supply and attractions reveals both positive attributes and areas in need of improvement. Raleigh has a significant number of visitor attractions and amenities that lend themselves to attracting and bringing back out-of-town event attendees. However, relative to other competing markets, Raleigh lacks a centralized core of attractions and activities that lend themselves to comprising an attractive and convenient environment for out-of-town event attendees. Raleigh's ongoing efforts at downtown revitalization are promising signs for developing such a core area that is attractive to visitors.

Data such as historical event demand and future bookings provide a very limited view of potential demand because the existing convention facilities and hotel supply may be leading factors in restricting Raleigh's ability to attract and host events. Lost business reports suggest that a lack of adequate convention center space and downtown hotel rooms are leading factors in the decisions of event planners to hold their events elsewhere. Further analysis, including detailed comparisons to a set of peer markets and event planner surveys, is necessary to develop a detailed assessment of Raleigh's needs for convention center facilities, supporting visitor infrastructure, and its overall demand potential.

3. Peer Market Analysis

One method of estimating the demand potential and facility needs of a community is to compare it to a set of peer markets in order to determine whether there are any obvious opportunities or deficiencies that indicate how effectively a community should be able to attract and accommodate events. A combination of objective data and subjective comparisons is necessary to accurately assess the relative market potential of various communities. This peer market analysis is one of several factors that HVS considers when developing its facility recommendations and demand and operating estimates.

HVS selected ten national peer markets to assess as part of a comparable demand analysis. HVS based the selection of peer markets on:

- Similarities in market size,
- Geographic location (cities located in the same general region as Raleigh),
- State capitals, and
- Markets that function as second-tier event destinations.

Raleigh competes directly with other cities in North Carolina for State association events as well as cities outside the State for regional and, to a lesser extent, national rotating events. HVS does not intend for the list of peer markets to include all of the markets Raleigh will compete with for events, but rather a subset of primary peer markets and facilities that are particularly informative regarding Raleigh's event potential. For instance, any facility with as much exhibit space as is proposed in this project will compete with cities like Las Vegas, Orlando, and Chicago for rotating conventions and tradeshows. However, simply because Raleigh competes with such cities for events does not mean that comparisons between their populations, air service, and other factors are relevant to the potential event demand for

Raleigh. The intent of the market comparisons that follow is to quantify some objective factors that can serve as indicators of the relative demand potential of Raleigh and the appropriate convention center facility program necessary to achieve this potential. In addition, comparisons regarding the supply of available hotel rooms will enable the assessment of the ability of the existing hotel supply to accommodate potential future demand and suggest any need for additional capacity in the market.

Population and Income Comparisons

Although there is no direct correlation between population and income and the demand for events, this data reveals trends in the overall economic climate of an area and its ability to support both local consumer events and provide and maintain sufficient visitor-related infrastructure and attractions. High population or income density and/or growth rates can indicate significant capacity to support local public events and a likelihood that the area will add to its existing urban attractions. Strong population growth also suggests an increasing commercial and fiscal base to support convention facilities. Population changes often reflect underlying trends in business activity and the attractiveness of an area as a place to live and as a place to visit.

Table 3-1 shows population, per capita income, personal income, and employment figures for the peer markets.

Table 3-1
Population and Income of Peer Markets

Market	MSA Population 2000	MSA Population 1990	Compund Annual Growth	Per Capita Income 2001	Personal Income (\$millions) 2001	Employment (thousands) 2001
Raleigh	1,187,941	855,545	3.3%	\$30,495	\$35,116.6	850.0
Austin	1,249,763	846,227	4.0%	\$29,660	\$35,917.6	853.9
Birmingham	921,106	840,140	0.9%	\$27,346	\$25,515.1	597.9
Charlotte	1,499,293	1,162,093	2.6%	\$29,226	\$42,749.4	1,007.1
Columbus	1,540,157	1,345,450	1.4%	\$28,722	\$43,611.9	1,075.6
Greensboro	1,251,509	1,050,304	1.8%	\$27,744	\$33,437.9	847.4
Indianapolis	1,607,486	1,380,491	1.5%	\$29,464	\$46,182.1	1,088.5
Knoxville	687,249	585,960	1.6%	\$24,983	\$17,278.8	443.9
Memphis	1,135,614	1,007,306	1.2%	\$28,314	\$31,892.9	747.0
Richmond	996,512	865,640	1.4%	\$29,272	\$28,713.2	684.6
Sacramento	1,628,197	1,340,010	2.0%	\$27,967	\$46,116.1	948.4
Peer Average	1,251,689	1,042,362	1.8%	\$28,270	\$35,141.5	829.4
Subject % of Average	95%	82%	182%	108%	100%	102%

Sources: Census Bureau & Woods & Poole

The Raleigh MSA has the 7th largest population of the peer markets, with 1,187,941 residents. Raleigh's annual compound rate of population growth of 3.3 percent is the highest outside of Austin and well above the peer average of 1.8 percent.

Similar to population figures, income and employment statistics provide insight into the general health of the area's economy and its ability to generate locally based event demand and supply, while sustaining visitor infrastructure and attractions.

Per capita personal income reflects the relative spending capacity of local residents, and provides another benchmark for assessing the region's ability to develop and maintain both public and private services and attractions that help make an area an attractive place to live and visit. The Raleigh MSA has the highest per capita income at \$30,495. Raleigh's total personal income is nearly equal to the peer market average. Despite a below peer average population, Raleigh's 849,995 employees places it just above the average of the peers. In general, these demographic and economic measures indicate that the Raleigh market is relatively strong and continues to grow at a rate in excess of most of its peers.

Primary Convention Facilities and Supporting Hotel Rooms

HVS identified the primary convention center facilities in each of the selected peer markets. Each of these markets may have two or more facilities capable of hosting events with exhibits, but in each case there is one facility that serves as the primary destination for conventions and tradeshow. For instance, the North Carolina State Fairgrounds in Raleigh is capable of hosting events in its function spaces, but is not adequate for most convention and tradeshow events that require breakout meeting rooms, audio-visual presentation capabilities, and other amenities typically associated with convention centers.

Table 3-2 shows a summary of the amount of exhibit and breakout space in the primary convention facilities in each of the selected peer markets and information on the hotel supply directly accessible to each facility.

Table 3-2
Attributes of the Prime Convention Facility in Peer Markets and their Supporting Hotel Supply

Facility	Prime Exhibition Space (SF)	Number of Breakout Rooms	Square Feet of Breakout Space	Ratio of Breakout to Exhibition Space	Headquarters Hotel(s) Name	Number of HQ Rooms	Downtown Hotel Rooms	On-Site Parking Spaces	Nearby Parking Spaces
Raleigh Convention & Conference Center	78,060	16	14,193	18%	Sheraton Capital Center	355	616	2,500	7,500
Charlotte Convention Center	280,000	38	84,335	30%	Westin	700	4,118	330	7,500
Koury Convention Center-Greensboro	40,000	54	44,283	111%	Sheraton Greensboro	1,017	377	2,200	2,200
Indiana Convention Center & RCA Dome-Indianapolis	303,851	60	136,806	45%	Marriott, Hyatt, Westin, Crowne Plaza	2,720	5,289	2,266	33,000
Columbus Convention Center	329,236	66	98,212	30%	Hyatt Regency, Crowne Plaza, Drury Inn	1,197	3,163	3,000	10,000
Sacramento Convention Center	134,006	31	45,772	34%	Hyatt Regency, Sheraton Grand	1,006	2,399	0	1,157
Austin Convention Center	246,097	61	125,807	51%	Hilton	800	4,700	0	1,400
Memphis Cook Convention Center	125,000	31	73,633	59%	Marriott	603	2,424	1,200	7,000
Knoxville Convention Center	119,922	23	48,595	41%	Hilton	317	1,400	0	2,500
Greater Richmond Convention Center	175,712	35	77,238	44%	Marriott	402	1,879	450	4,600
Birmingham-Jefferson Convention Complex	94,269	49	94,609	100%	Sheraton	770	1,031	2,550	12,500
Peer Facility Average	184,809	45	82,929	45%		953	2,678	1,200	8,186

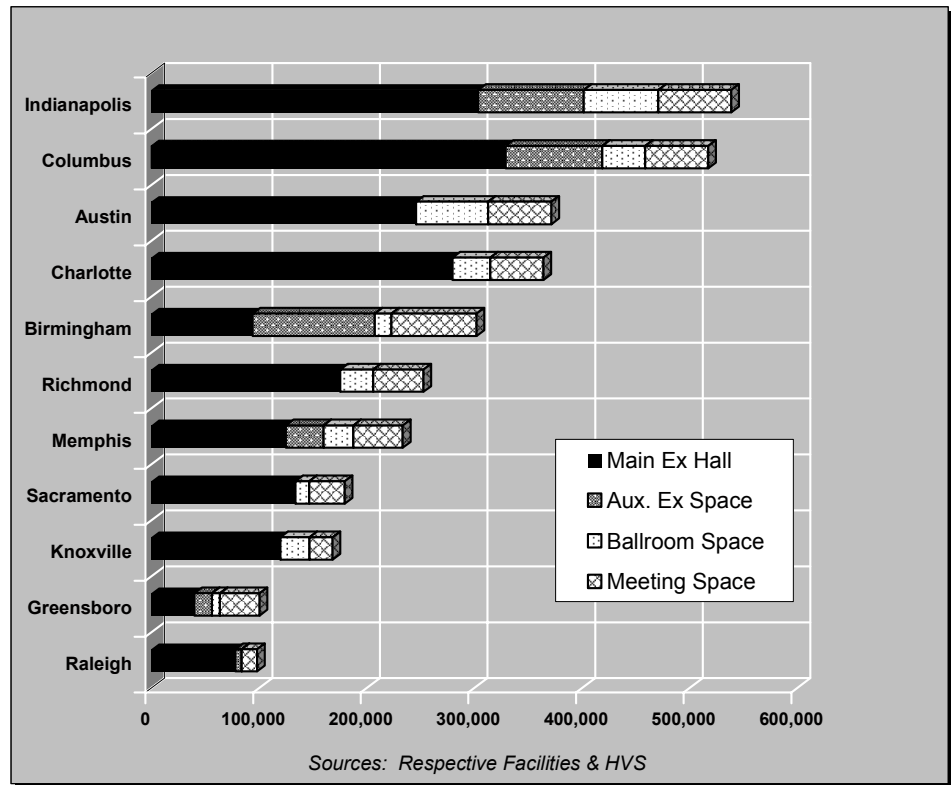
Sources: Major Exhibit Hall Directory 2002 and respective facilities

The existing Raleigh Convention and Conference Center has less prime exhibit space than all but one of the primary facilities in the peer markets. The RCCC also has a considerably lower ratio of breakout to exhibit space than its peer facilities. The peer facilities average 45 breakout rooms providing an average of 82,929 square feet of space. Each of these primary convention center facilities has one or more attached or adjacent headquarters hotel properties. The supply of headquarters hotel rooms in the area surrounding the convention centers varies greatly among these peer markets, ranging from 317 rooms in Knoxville to 2,720 in Indianapolis. HVS includes properties that are connected or adjacent to convention centers as headquarters properties, even though some may only function as true headquarters hotels for larger events. The Koury Convention Center in Greensboro is not located downtown, which is why the number of headquarters hotel rooms can exceed the downtown supply.

Comparison of Primary Convention Centers

HVS compiled detailed information on the exhibit, ballroom, and meeting space of the primary convention facilities in each of the peer markets. Figure 3-1 shows the existing function space by type in the primary convention center in each market.

Figure 3-1
Square Feet of Function Space by Type in Primary Convention Centers



The Raleigh Convention and Conference Center has the least amount of total function space among the peer facilities. Many of these peer facilities have either been recently expanded or are relatively new. Columbus, Austin, Memphis, and Sacramento have recently completed expansions. Richmond and Knoxville have each developed new convention centers within the past year.

One measure of the relative supply of convention center space is to calculate the square feet of exhibit space per capita in the primary convention center facilities. Table 3-3 shows the per capita exhibit hall space of the peer markets.

Table 3-3
Per Capita Exhibit Hall Square Footage

City	2000 MSA Population	Contiguous Primary Exhibit Hall Space SF	Per Capita (in hundreds) Exhibit Hall SF
Columbus	1,540,157	329,236	21.4
Austin	1,249,763	246,097	19.7
Indianapolis	1,607,486	303,851	18.9
Charlotte	1,499,293	280,000	18.7
Richmond	996,512	175,712	17.6
Knoxville	687,249	119,922	17.4
Memphis	1,135,614	125,000	11.0
Birmingham	921,106	94,269	10.2
Sacramento	1,628,197	134,006	8.2
Raleigh	1,187,941	78,060	6.6
Greensboro	1,251,509	40,000	3.2
Peer Average	1,251,689	184,809	14.6
Subject % of Average	95%	42%	45%

Sources: Respective Facilities and Census Bureau

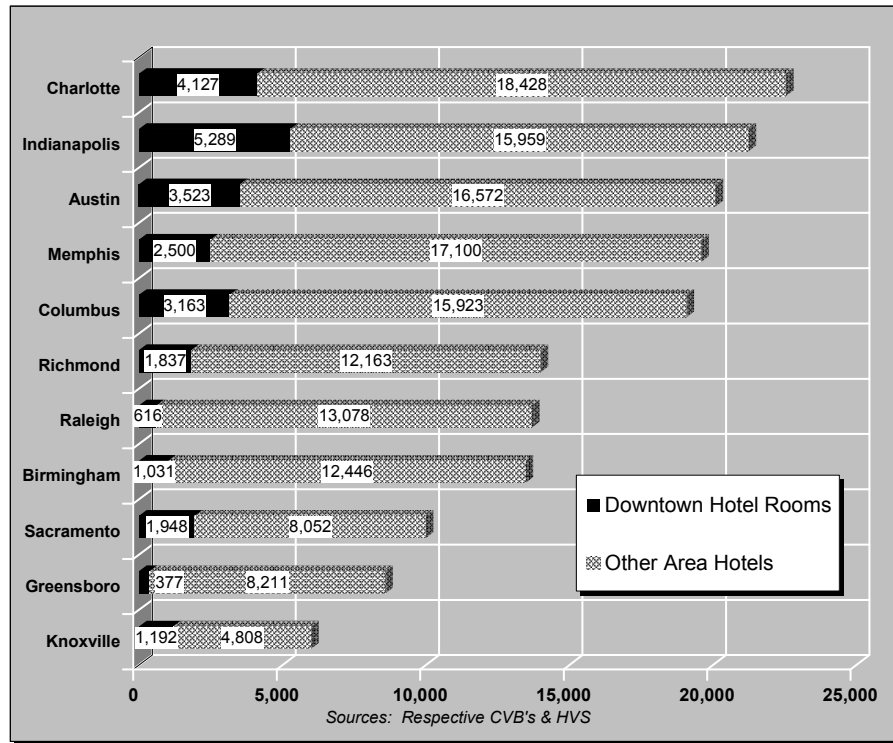
Raleigh would need approximately 174,000 square feet of exhibit space in its primary convention facility to match the peer market average figure of 14.6.

Raleigh exceeds only Greensboro in terms of square feet of primary convention center exhibit space per capita and is less than half of the average of the peer markets. It is important to note that while Greensboro has the lowest exhibit space per capita in its primary convention center facility, it also has the Greensboro Coliseum Complex, which has nearly 120,000 square feet of exhibition space. Although the Coliseum caters more toward consumer shows and other public events, it also hosts approximately 10 conventions/tradeshows annually and is more capable of functioning like a convention center than the facilities in Raleigh at the State Fairgrounds. As a result, Greensboro's capacity to host events is actually greater than the amount of exhibit space in its primary convention center facility suggests.

Overall Availability of Sleeping Rooms

In addition to the hotel rooms that most directly support convention center facilities, the overall downtown and metro area supply of hotel rooms has implications for a market's ability to support convention and tradeshow activity. Figure 3-2 shows the availability of hotel rooms in the Raleigh area and its peer markets. Area figures include hotel rooms throughout the area covered by the convention and visitors bureau of each market.

Figure 3-2
Number of Hotel Rooms in Raleigh and its Peer Markets



Raleigh ranks 7th out of the 11 peer markets in total area rooms with 13,694, and next to last in downtown rooms with 616. Rooms outside of Raleigh’s downtown can assist in accommodating hotel demand for larger events, but attendees typically prefer to stay close to their events. Raleigh’s relative lack of downtown rooms place it at a considerable disadvantage in its efforts to attract larger regional and national events.

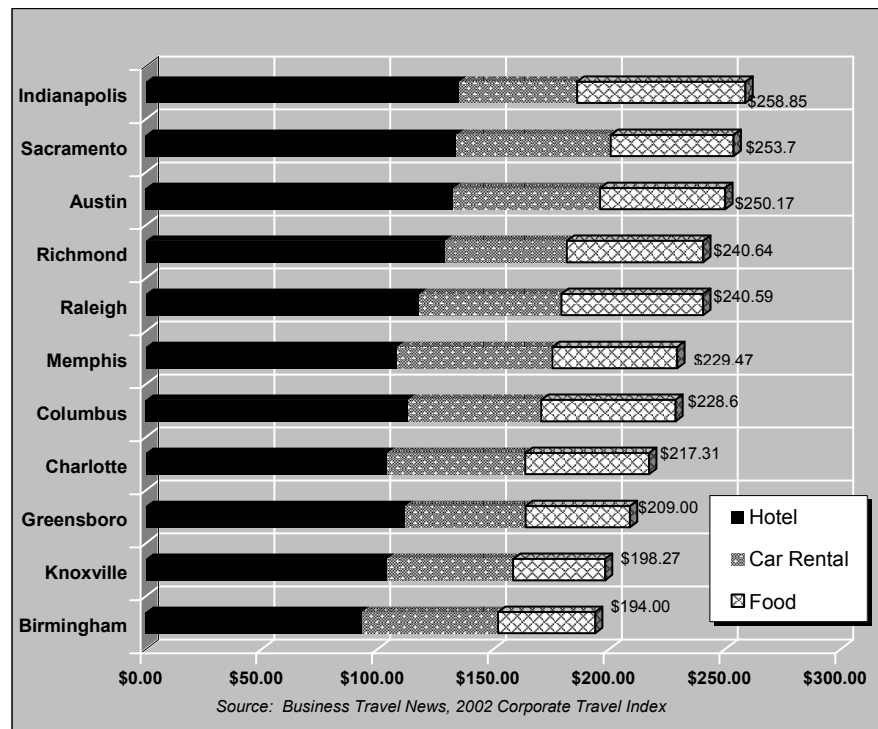
Affordability

The 2002 Corporate Travel Index, as compiled by *Business Travel News*, tracks the relative costs of business travel to major metropolitan markets. This index does not attempt to measure total daily expenditures by travelers, but rather the relative costs of three primary components of business travel expenditures:

- Hotel room rental,
- Food and beverages (for breakfast, lunch, and dinner), and
- Car rental.

Figure 3-3 shows the average travel per diems for each peer market.

Figure 3-3
Average Travel Per Diems in Peer Markets

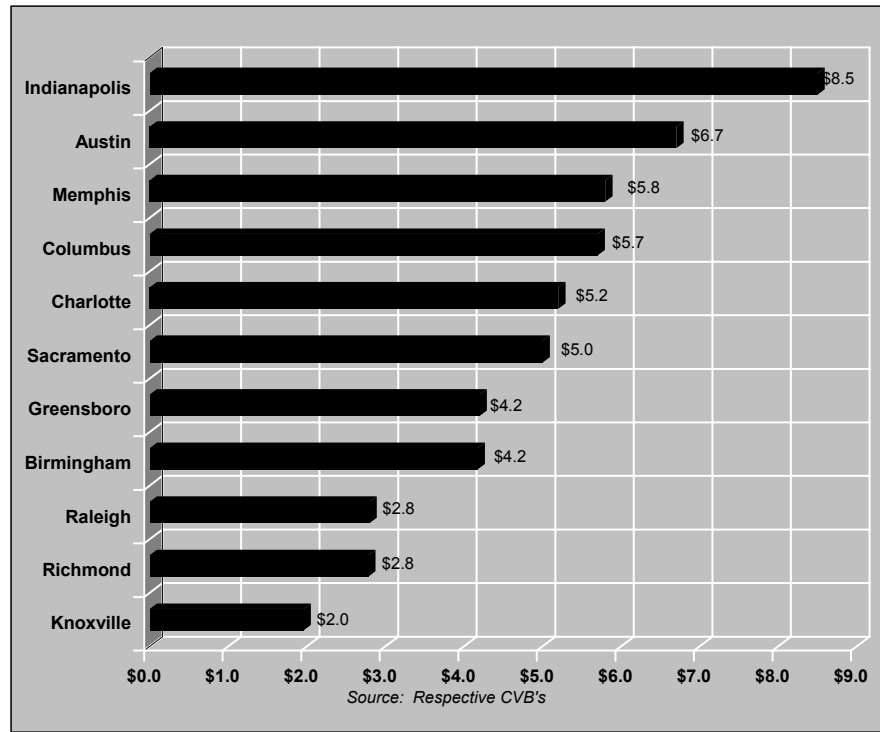


Raleigh is more affordable than four of the eleven peers. Raleigh has the 34th highest per diem out of the 100 top cities in the US. Raleigh’s per diem of \$240.59 is 105.5 percent of the \$228.01 average of the peers. The average travel cost in Raleigh relative to its peers is largely neutral in respect to Raleigh’s ability to attract events.

CVB Budgets

The budget of the convention and visitors bureau serving a particular market is one measure of the marketing resources available for promoting a convention facility. Figure 3-4 shows the annual CVB budgets for Raleigh and its peer markets.

Figure 3-4
Annual CVB Budgets of Raleigh and its Peers (\$ in millions)



The annual CVB budget does not indicate the amount of money a particular CVB spends on marketing their convention facilities. The budget figures presented here include spending on destination marketing, tourism, and other typical CVB activities. Additionally, convention facilities may also spend money on marketing and promotion, which is not reflected in this data. However, the CVB budget figures indicate the relative amount of resources that are available to each bureau for marketing a city as a destination and its primary event facilities. Raleigh’s annual CVB is approximately the same as Richmond and exceeds only Knoxville. This comparison of CVB budgets suggests that additional convention center marketing resources, regardless of where they are allocated, would be necessary to effectively market a new convention center.

Table 3-4 shows the ratio of annual CVB budgets to the number of metro area hotel rooms in Raleigh and its peers.

Table 3-4
Ratio of CVB Budgets Per Metro Area Hotel Rooms

City	Annual CVB Budget	Number of Area Hotel Rooms	CVB Dollars per Hotel Room
Sacramento	\$5,000,000	10,000	\$500
Greensboro	\$4,200,000	8,588	\$489
Indianapolis	\$8,500,000	21,248	\$400
Austin	\$6,702,954	20,095	\$334
Knoxville	\$1,958,600	6,000	\$326
Birmingham	\$4,175,000	13,477	\$310
Columbus	\$5,700,000	19,086	\$299
Memphis	\$5,800,000	19,600	\$296
Charlotte	\$5,200,000	22,555	\$231
Raleigh	\$2,800,000	13,694	\$204
Richmond	\$2,784,599	14,000	\$199
Peer Average	\$5,002,115	15,465	\$338
Subject % of Average	56.0%	88.5%	60.4%

Sources: Respective CVB's and HVS

The Greater Raleigh Convention and Visitor Bureau's (Raleigh CVB) annual budget per hotel room is \$204, which is approximately 60 percent of the average of its peer markets. As in Raleigh, many CVB budgets are dependent on revenue generated from hotel room taxes. For this reason, the relatively small size of the Raleigh hotel market place the Raleigh CVB at a competitive disadvantage with respect to marketing resources from room tax revenue. Inadequate marketing resources are more likely to affect performance in the national meetings market, which often requires more extensive marketing efforts than local and state markets. In order to reach the peer average of \$338 per hotel room, the Greater Raleigh CVB's annual budget would have to increase to \$4.6 million, a \$1.8 million increase over its current level. However, the overall level of marketing effort is a function of both the CVB's resources and efforts and those of the convention facility. The distribution of resources and responsibilities differs in each market and achieving the correct balance is important for maximizing the overall efficiency of efforts to sell the primary convention facility and the overall destination to event planners.

Air Service

The accessibility and affordability of a destination via air travel is an important consideration for planners of national and certain regional events because it affects a destination's ability to attract attendees. Table 3-5 shows

the number of enplaned passengers and commercial flights in 2001, the most recent year for which this data is available.

Table 3-5
Air Service in Peer Markets in 2001

Market	Total Passengers	Commercial Flights
Charlotte	23,166,464	461,264
Memphis	11,761,432	394,826
Raleigh	9,544,365	274,013
Sacramento	8,003,858	83,567
Indianapolis	7,277,075	244,799
Austin	7,199,322	220,439
Columbus	6,680,897	243,201
Birmingham	3,008,525	148,869
Greensboro	2,608,715	133,212
Richmond	2,411,732	144,107
Knoxville	1,433,651	149,342
Peer Average	7,355,167	222,363
Subject % of Average	130%	123%

Sources: Airports Council International & individual airports

Among the twelve markets, the level of air service Raleigh offers ranks third in total passengers and third in flights. The only city among the peers that functions as a major regional hub is Charlotte. Raleigh's above average level of air service among the peer markets gives it a competitive advantage in competing for regional and national events. In addition, Raleigh does benefit from having a significant amount of low-cost air service provided by Southwest Airlines. Raleigh is within one connection of most cities in the U.S. and has considerable direct service to major hubs like New York City and Chicago.

Events and Attendance at Peer Facilities

Table 3-6 shows events and attendance for the primary convention facilities for which such data is available.

Table 3-6
Events and Attendance at Peer Facilities

Event Type	Charlotte Convention Center	Sacramento Convention Center	Memphis	Austin Convention Center	Columbus Convention Center	Greater Richmond Convention Center	Comp Average
Number of Exhibit Hall Events							
Conventions/Tradeshows	41	73	26	42	85	23	48
Consumer Shows	19	22	10	18	9	16	16
Meetings	159	383	100	129	212	71	176
Banquets	--	161	61	32	37	59	70
Assemblies	7	--	--	--	--	--	7
Sports / Entertainment	--	--	--	--	21	--	21
Other Events	--	124	11	9	10	17	34
Total Events	226	763	208	230	373	186	331
Attendance ¹							
Conventions/Tradeshows	355,965	--	141,004	116,335	357,614	91,650	212,514
Consumer Shows	110,643	--	49,182	196,308	303,158	135,000	158,858
Meetings	66,558	--	16,086	35,588	107,361	30,545	51,228
Banquets	--	--	14,339	18,345	32,405	37,814	25,726
Assemblies	32,113	--	--	--	--	--	32,113
Sports / Entertainment	--	--	--	--	101,919	--	101,919
Other Events	--	--	10,063	2,667	37,797	78,980	32,377
Total Attendance	565,279	1,025,396	230,674	369,243	940,254	373,989	614,734
Average Attendance							
Conventions/Tradeshows	8,774	--	5,423	2,770	4,232	3,985	4,411
Consumer Shows	5,823	--	4,918	10,906	34,647	8,438	10,167
Meetings	419	--	161	276	506	430	292
Banquets	--	--	235	573	888	641	368
Assemblies	4,323	--	--	--	--	--	4,323
Sports / Entertainment	--	--	--	--	4,853	--	4,853
Other Events	--	--	915	296	3,897	4,646	948
Total Average Attendance	2,501	1,344	1,109	1,605	2,523	2,011	1,857

¹ Average Attendance does not include Sacramento figure

-- not available

Sources: Respective Convention Centers & HVS

As there is no standard method of classifying events by type in use among all convention center facilities, it is difficult to draw comparisons of demand among different convention centers. For instance, the data the Sacramento Convention Center provided on attendance clearly includes components not included in the other summaries. Despite the limitations, this demand data provides a general sense of the level and type of activity occurring in these convention centers and serves as one guide for determining the demand potential for a new facility in Raleigh.

Implications of Peer Market Analysis

Despite being comparable to the set of peer markets in terms of key characteristics relative to event demand potential, Raleigh has a significant lack of quality exhibit space. Raleigh also lacks the representative supply of

downtown hotel rooms needed to complement convention and tradeshow activity. Considering that, with the exception of Austin, the Raleigh market is growing at a faster rate than any of the peer markets, it is likely the existing convention center and supporting hotel supply will be increasingly inadequate in the years to come.

Raleigh compares favorably to the set of peer markets in respect to each of the factors assessed in this analysis, except for its supply of exhibit space and downtown hotel rooms. The convention and visitor bureau spending is also relatively low in Raleigh, both in terms of total spending and the ratio of spending to hotel rooms. It is evident that the primary characteristics that are currently lacking in Raleigh in respect to its relative capacity to host events are those that the community can address through investments in event-related facilities and marketing. Other factors that are more difficult to quantify, such as overall destination appeal, are also relevant to convention center demand potential. However, this peer market analysis provides a base of information to help guide the facility recommendations and demand and operating projections, which are detailed in the subsequent report sections. Surveys of event planners, detailed in Section 4 of this report, provide insight into the more subjective aspects relating to Raleigh's demand potential.

4. Event Planner Surveys

A thorough analysis of convention center demand potential and the development of facility recommendations relies in part on direct, detailed input from event planners. Event planners play a leading role in selecting event locations and provide valuable insight regarding the overall attractiveness of a market and its convention facilities relative to other potential event locations.

A primary source of event demand for a new convention center in Raleigh would be the State association market. Raleigh will also attract event demand from regional and national sources. However, based on the experiences of similar markets, a new convention center in Raleigh is likely to function, especially in its first few years of operations, primarily as a venue for State association events.

AENC Member Data

The Association Executives of North Carolina (AENC) is an association for association executives in the State. Not all associations in the State are members of AENC, but the organization has a diverse set of members from all across the State. AENC maintains data on the characteristics of events that member organizations conduct. The AENC data includes information on 108 different associations in North Carolina. HVS tabulated and summarized this event data, as shown in Table 4-1.

Table 4-1
North Carolina State Association Event Characteristics

Attribute	Average	Median	Max
Attendance	395	225	5,000
Total Room Nights	370	275	1,800
Peak Room Nights	150	115	600
General Session Attendance	234	150	2,000
Number of Breakout Rooms Used	4	3	25
Number of Exhibits	33	11	550

Source: AENC Member Survey

The AENC database includes associations that conduct smaller events that typically occur in single hotel properties on up to associations that conduct larger events with up to 5,000 delegates and tradeshow with over 500 exhibits.

HVS Web-Based State Association Survey

HVS conducted a web-based survey of state association event planners located in North Carolina. HVS identified survey recipients from databases maintained by AENC and augmented the list with other industry sources. HVS attempted to contact 234 State association event planners, including personnel of State associations and independent event planners. Among the contacts, ten were out-of-date or incorrect and nine responded stating that they did not believe the survey was applicable to them. Out of the remaining 215 contacts HVS received 66 completed responses, or approximately 31 percent of the applicable event planners in the survey. This survey is not intended to serve as a statistically valid measure for the future demand for the facility, but rather serves as a tool to measure the general interest level in a new convention facility and to determine how event planners view Raleigh as a potential location for their events.

Table 4-2 shows the frequency in which the survey respondents indicated they plan or manage various types of events.

Table 4-2
Most Common Event Types Planned or Managed by Survey Respondents

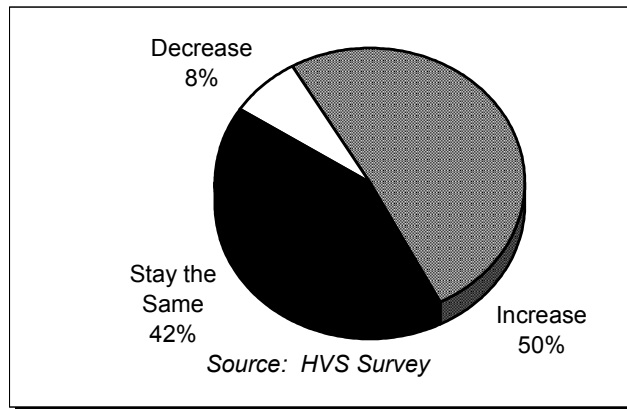
Choice	Count	Percent of Sample
Meetings	50	75.8%
Conventions	43	65.2%
Trade Shows	32	48.5%
Training Seminars	30	45.5%
Banquets	23	34.8%
Other	8	12.1%
Consumer Shows	2	3.0%

Source: HVS Survey

The respondents indicated that they were involved in a variety of events, with meetings and conventions mentioned most frequently.

The survey addressed whether the planners expect attendance at their events to increase, decrease, or remain the same over the next five years. Figure 4-1 shows the result of the question regarding trends in attendance.

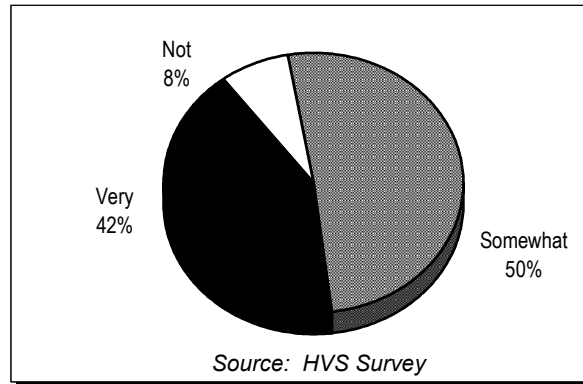
Figure 4-1
Expected Trend in Event Attendance Over the Next Five Years



Despite the ongoing difficult economic conditions and the downturn in travel nationally, only 8 percent of responding event planners surveyed anticipate attendance at their events will decrease. Half of the respondents believe attendance will increase over the next five years.

HVS asked event planners to rate their level of knowledge of Raleigh as a convention/meetings destination. Raleigh has not had a true convention center in the past, and as a result, it is possible that some event planners may not have a thorough knowledge of what Raleigh offers as an event location. Figure 4-2 shows the results of the question concerning event planner knowledge of Raleigh.

Figure 4-2
State Event Planner Knowledge of Raleigh as a Convention / Meetings Destination



The fact that over half of the respondents characterized themselves as not being very knowledgeable of Raleigh as a convention / meeting destination is indicative of the absence of a true convention center in the City and the relative lack of association event activity currently occurring in the market.

The survey also asked event planners a series of questions concerning their facility needs, event attributes, and hotel room needs. Table 4-3 shows the average, median, and maximum responses for the various attributes covered in the survey.

Table 4-3
Facility Requirements, Event Attributes, and Hotel Room Needs

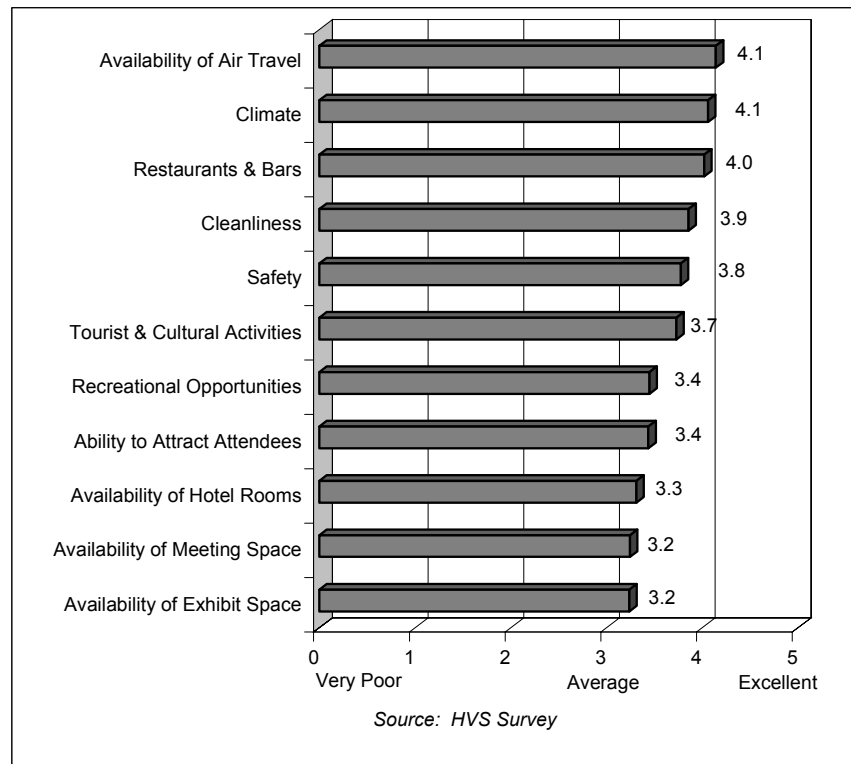
Attribute	Average	Median	Maximum
Facility Requirements			
Exhibit Space	59,800	20,000	250,000
Meeting Space	19,589	10,000	70,877
Ballroom Space	12,531	8,718	75,000
General Session / Fixed Seating Capacity	385	325	1,200
Event Attributes			
Attendance	1,151	625	7,500
Number of Exhibitors	106	100	500
Show Days	2.4	2	6
Move In / Move Out Days	2.3	2	8 / 4
Hotel Room Needs			
Peak Room Nights	321	250	900
Minimum Required Room Block	265	200	1,200
Preferred Room Block	381	288	1,600

Source: HVS Survey

The survey responses are indicative of the fact that there are a larger number of smaller events, which creates low median figures relative to the mean. Despite the larger number of smaller events in the sample, the average facility requirements nearly exceed the capacity of the existing Raleigh Convention & Conference Center (RCCC), as the events require an average of 91,920 total square feet of function space and simultaneous use of exhibit, ballroom, and meeting space. The average event also exceeds the capacity of the Sheraton Capital Center hotel, which has 250 committable rooms for group room blocks.

Event planners consider several criteria when selecting a location for their event. HVS asked event planners to rate various attributes of Raleigh in comparison to other cities in which they have held, or may hold, events. Figure 4-3 summarizes the survey responses regarding Raleigh's event destination characteristics relative to other event locations.

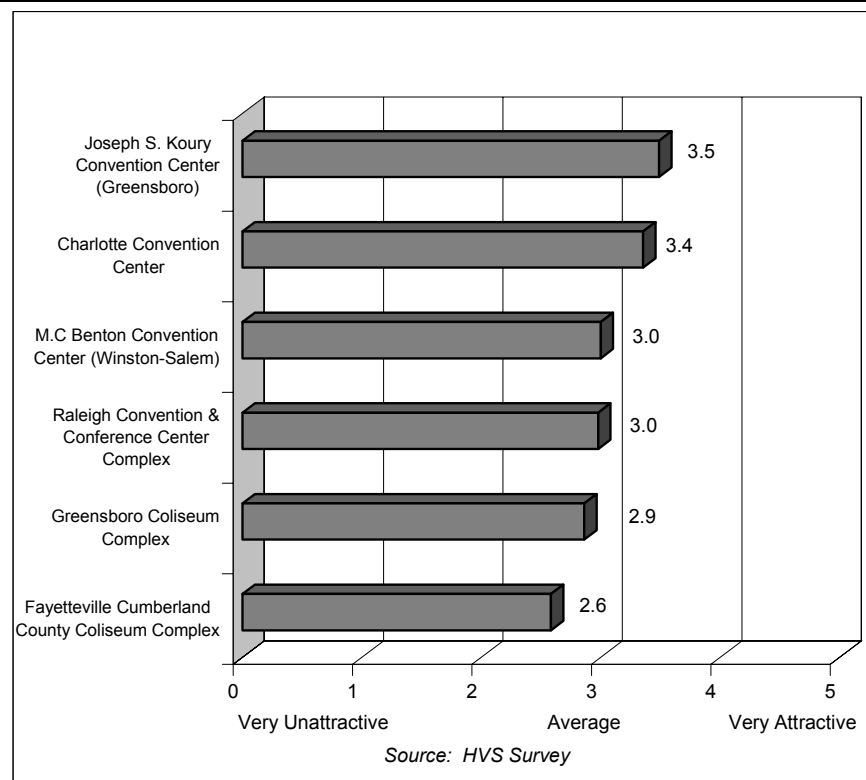
Figure 4-3
Ratings of Raleigh Event Destination Characteristics



The criteria relating to Raleigh’s accessibility and destination appeal received the highest ratings. Other criteria relating to the convention facilities and supporting hotel supply received the lowest ratings. Attractiveness to attendees is one of the more important qualities analyzed in this survey, as it can be the defining factor for event planners in scheduling an event at a facility. This characteristic is particularly important for conventions and tradeshow that draw many attendees from out-of-town. In rating the overall allure of locations for their events, event planners consider a host of factors including both their own perceptions of the desirability of the market and the perceptions of potential attendees. Event planners rated Raleigh’s attractiveness to event attendees as above average, but towards the lower end compared to other characteristics. This indicates that event planners may perceive that the image of Raleigh among potential event attendees does not match its actual attributes.

A key criterion for selecting a location for an event is the event planner's perception of the overall quality of the facility in question. HVS asked survey planners to rate the overall attractiveness of the existing RCCC and the primary convention facilities in the set of primary convention/conference facilities that frequently host State association events. Figure 4-4 shows the average ratings of convention facilities in selected markets in North Carolina.

Figure 4-4
Relative Attractiveness of Selected Convention Facilities in North Carolina

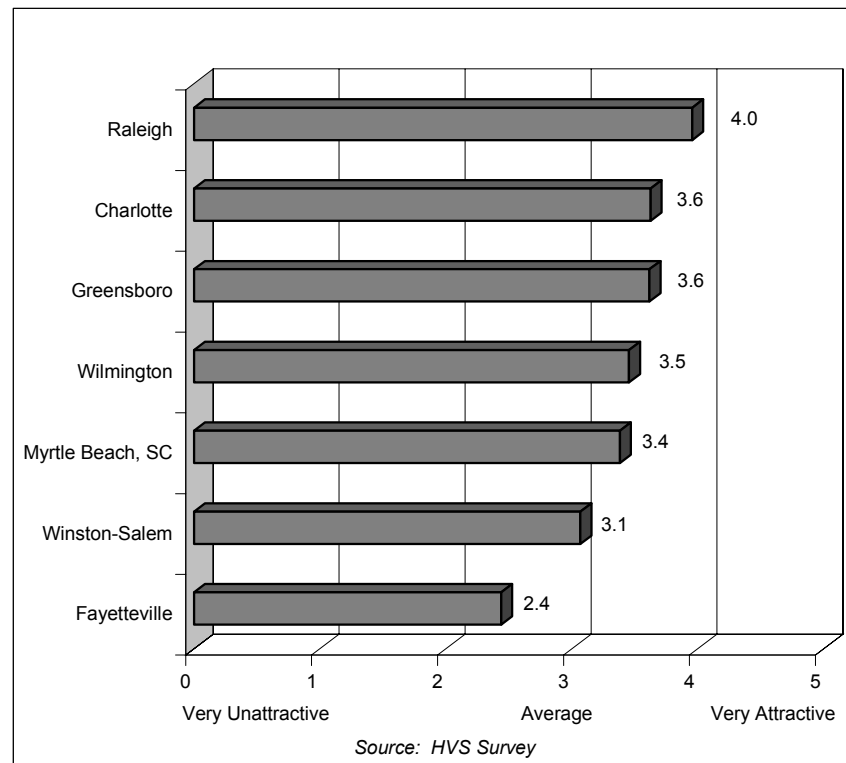


Event planners rate the RCCC behind the primary convention centers in Charlotte and Greensboro. The high rating for the Koury Convention Center likely reflects the appeal to event planners of facilities that offer a significant number of connected hotel rooms.

HVS then asked event planners to rate the overall relative attractiveness of Raleigh and the other selected markets assuming that a new convention center was successfully developed in Raleigh. Figure 4-5 shows the event

planners ratings of a set of markets that frequently host events conducted by State associations.

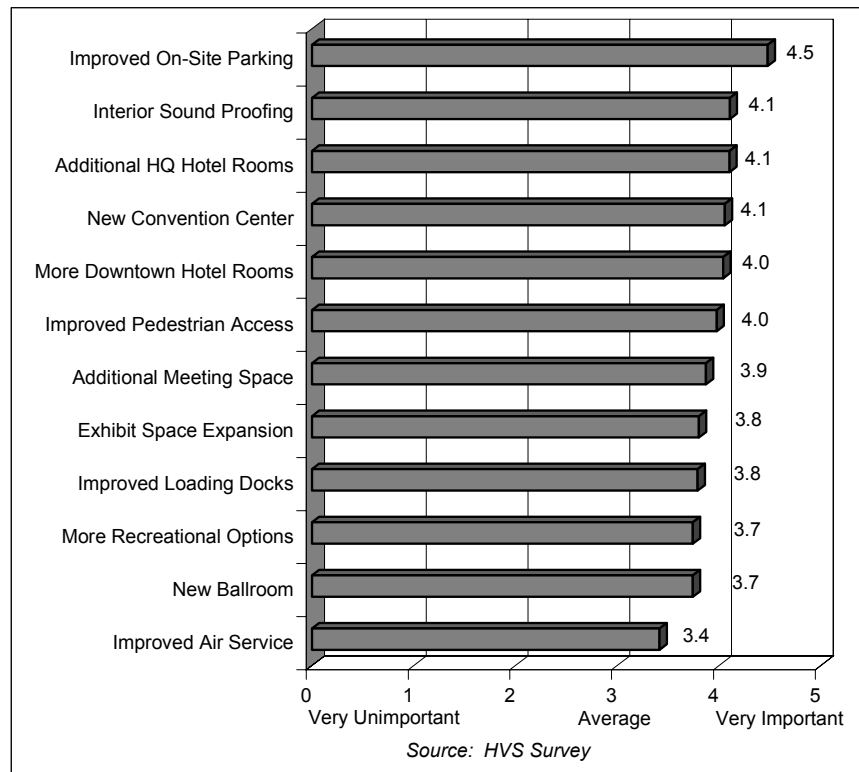
Figure 4-5
Ratings of Overall Attractiveness of Cities as Event Locations



Event planners rated Raleigh as being the most attractive event location among the selected markets, assuming that it has a new convention center. Questions asking event planners to rate a market that is the subject of a study against others typically result in some bias in favor of the market in question. However, Raleigh's high rating and the gap between it and Charlotte and Greensboro is indicative of a very favorable perception among event planners of the attractiveness of Raleigh as a location for their events.

The survey also asked event planners to rate the relative importance of potential improvements to Raleigh's attractiveness as a location for their events. Figure 4-6 shows the results sorted from most to least important.

Figure 4-6
State Event Planner Ratings of Relative Importance of Potential Improvements



Parking is always a primary concern for event planners, particularly in a State market where most attendees drive rather than fly to events. A new convention center and headquarters hotel are both ranked as the next most important improvements, along with soundproofing.

The survey invited event planners to provide comments on the strengths and weaknesses of Raleigh as a location for their events. HVS consolidated these comments into major topics, which are shown in Table 4-4.

**Table 4-4
Summary of Event Planner Comments on the Strengths and Weaknesses of Raleigh**

Strengths	Weaknesses
State Capital	Perception of Downtown Crime
Location	Parking
New Museums	Traffic
Culture	No Large Facilities
Sporting Events	Lack of Full Service Downtown / HQ Hotel Rooms
Affordability	Current Facility is Poor
Air Service	Lack of Nearby Recreational Opportunities
Golf Nearby	Difficult to Walk Places
	Downtown Needs Revitalization
	Retail Stores Close Early

Source: HVS Survey

The strengths event planners mentioned most frequently are primarily oriented towards Raleigh’s status as the State Capital, its location, and some of its cultural and recreational attractions. The weaknesses were focused largely on typical complaints such as parking, crime, and traffic; the size and condition of existing meeting facilities; and the lack of adequate downtown hotel rooms.

HVS asked survey recipients to indicate the frequency with which they anticipate bringing their events to Raleigh under two scenarios. The first scenario assumes that the current RCCC and Sheraton hotel is available and no major improvements are made. HVS then asked the event planners to suggest potential improvements that Raleigh could make and assume in the second scenario that these suggestions were implemented. Many of the suggested improvements dealt with improved convention center facilities and more proximate hotel rooms. Table 4-5 shows the anticipated frequency in which responding event planners would utilize Raleigh for their events under these two scenarios.

Table 4-5
State Association Event Planner Anticipated Frequency of Conducting Events in Raleigh

Frequency of Use	Current	After Recommended Improvements	Difference
Annually	7.5%	20.4%	12.9%
Once Every 2-5 Years	13.2%	42.9%	29.7%
Once Every 6-10 Years	11.3%	12.2%	0.9%
Less than Once Every 11+ Years	11.3%	4.1%	-7.2%
Never	56.6%	20.4%	-36.2%

Source: HVS Survey

A drastic shift in the anticipated frequency of use is evident in the two scenarios. The shift in the never category from over 56 percent in the current scenario to close to 20 percent in the second is particularly significant.

HVS asked the event planners to provide comments about the overall strengths and weaknesses of Raleigh as a location for their events. The following are selected excerpts from these comments that provide a general sense of the opinions of responding event planners.

- Property must be attractive, extremely functional, with hotel accommodations and adequate parking that is not outrageously expensive.
- New museums in downtown have been a plus. More retail stores open until 8:00 PM or 9:00 PM in downtown area would be desirable.
- Perception of downtown crime, street people, dirty, parking is a nightmare.
- Raleigh is a great location to hold a meeting because it is easily accessible. However, as a meeting planner I have limited options where to hold our conferences. We definitely need larger facilities with more meeting room space.
- Inadequate downtown hotel space. The Sheraton has been upgraded but additional rooms are needed. Recreational opportunities are lacking downtown but there are a lot of good restaurants. Access to state government is the key strength.

- Raleigh has a lot to offer with regard to cultural and sporting events. A larger, nicer convention center would certainly attract events the current center is just too small to handle.
- Strengths—cultural aspects, museums, state government complexes, symphony, appearance of city, safety. Weaknesses—Raleigh needs to do a better job selling itself to visitors. The Raleigh area has a great deal going for it, but we may have failed to share the good news.
- Poor facility, poor location, poor parking. Good air service, good restaurants, central location relative to the entire state, reasonable meal and room rates.
- Raleigh is a great destination. It has historic, cultural, sports, and social attractions. The drawback for this association is the fact that the Sheraton Capital City is the only hotel close by and there needs to be at least one additional hotel of at least 250 rooms. Parking is a problem.
- Lack of hotel space, current convention center is unappealing.
- Strengths: airline access and climate. Weaknesses: too spread out, downtown needs more vitality.
- As a State Gov. meeting planner, most government employees like to get out of town for conferences; however budget restrictions will make Raleigh more attractive if they are competitive rate-wise. There is nothing close to the convention center that feels safe and attractive for attendees to do at night.

Overall, these comments reflect that Raleigh has some important primary advantages as a location for events, such as its role as the State Capital, its accessibility to the rest of the State, and the new attractions like museums and the arena. Despite this strong base of advantages for attracting events, there are some recurring themes that currently limit Raleigh's overall attractiveness. The need for a nicer, larger convention center and more full-service downtown hotels is evident. In addition, event planners frequently mention concerns associated with the need to further the ongoing efforts to revitalize the downtown area. These revitalization efforts are important to upgrading Raleigh's overall attractiveness. Parking is another primary

concern, although this is generally the case regardless of the supply of proximate spaces in downtown settings where fees are charged for parking.

Input from National Event Planners

HVS conducted a smaller web-based survey of national event planners to get some initial feedback concerning Raleigh's potential to begin to attract regional and national events. Even with the addition of a new headquarters hotel, the downtown hotel supply in Raleigh will limit its capacity to attract and host many national conventions and tradeshow. The intent of this survey is to provide a sense of the potential for Raleigh to increase its role in the regional and national event markets and what additional improvements are likely to be necessary before this can happen. The input from event planners and the list of contacts can also provide a starting point for future marketing efforts and focus groups aimed at enabling Raleigh to begin to effectively compete for these types of events.

HVS contacted 114 national event planners and received 16 completed survey responses. The relatively low response rate is likely a reflection of a lack of awareness among national event planners of the characteristics of Raleigh as an event destination. Event planners that know little about a market are less likely to fill out a survey concerning its attributes. However, the data from the responses HVS did receive provides some general insight into how knowledgeable national event planners are of Raleigh and their perceptions of its attributes as a convention/meeting destination.

Table 4-6 shows the reported level of knowledge of Raleigh among national event planners.

Table 4-6
National Event Planner Knowledge of Raleigh as a Convention / Meetings Destination

Choice	Count
Not Knowledgeable	11
Somewhat Knowledgeable	4
Very Knowledgeable	1

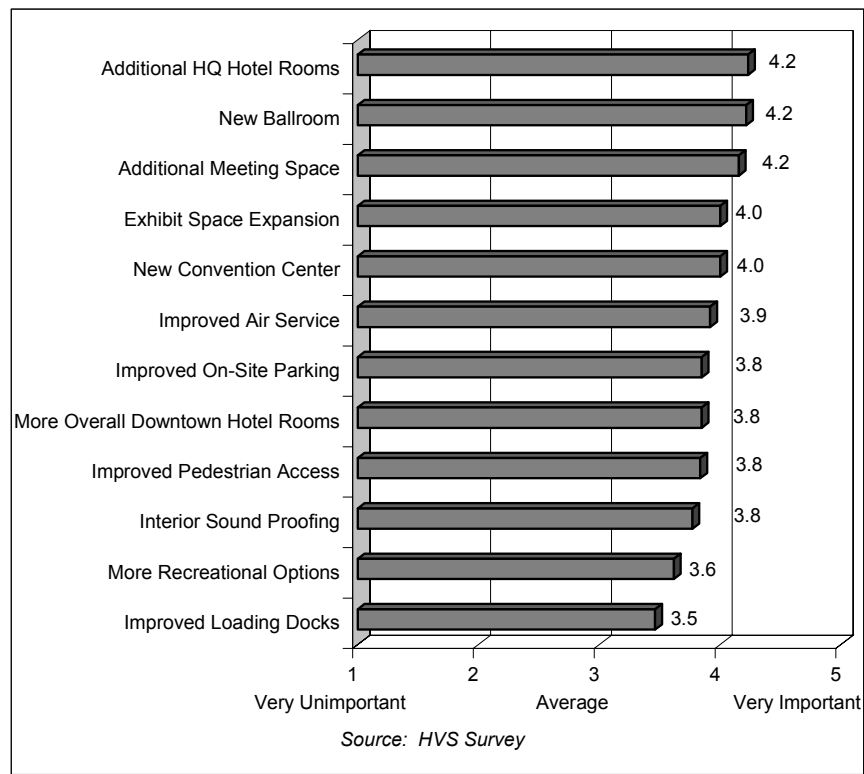
Source: HVS Survey

Only one national event planner responded indicating that they were very knowledgeable of Raleigh as a convention/meetings destination. This lack of knowledge is likely a reflection of the lack of convention facilities more so than any specific deficiencies in marketing. However, the lack of knowledge demonstrates that a significant marketing effort will be necessary to make

national event planners aware of Raleigh in advance of effectively booking national events in improved convention facilities.

HVS asked national event planners to rate the relative importance of potential improvements to Raleigh’s attractiveness as a location for their events. Figure 4-7 shows the results sorted from most to least important.

Figure 4-7
National Event Planner Ratings of Relative Importance of Potential Improvements



National event planners rated additional headquarters hotel rooms and improved convention facilities as the most important potential improvements.

HVS asked survey recipients to indicate the frequency with which they anticipate bringing their events to Raleigh under two scenarios. The first scenario assumes that the current RCCC and Sheraton hotel is available and no major improvements are made. HVS then asked the national event planners to suggest potential improvements that Raleigh could make and

assume in the second scenario that these suggestions were implemented. As in the state survey, many of the suggested improvements dealt with improved convention center facilities and more proximate hotel rooms. Table 4-7 shows the anticipated frequency in which responding national event planners would utilize Raleigh for their events under these two scenarios.

Table 4-7
National Event Planner Interest in the Raleigh Convention Center

Frequency of Use	Current	After Recommended Improvements	Difference
Less than Once Every 11+ Years	12.5%	23.1%	10.6%
Once Every 6-10 Years	31.3%	53.8%	22.5%
Once Every 2-5 Years	0.0%	7.7%	7.7%
Annually	0.0%	0.0%	0.0%
Never	56.3%	15.4%	-40.9%

Source: HVS Survey

The frequency in which national event planners anticipate bringing events to Raleigh increases significantly assuming the recommended improvements, primarily more hotel rooms and improved convention facilities, are implemented.

The national surveys reveal a relative lack of knowledge among event planners of Raleigh as a convention/meeting destination. A vigorous marketing effort would be necessary for Raleigh to compete effectively for national events. Various improvements such as additional downtown hotel rooms and continued progress in revitalizing the downtown area are also essential to making Raleigh more appealing to national event planners.

Implications of the Event Planner Surveys

The following points summarize the primary conclusions that emerged in the course of analyzing the survey results:

- The existing RCCC is inadequate relative to both the amount of function space it offers and its overall attractiveness as an event venue.
- The number of hotel rooms proximate to the existing facility is insufficient and would increase significantly to accommodate the room night demand that would accompany major improvements to Raleigh's convention facilities.

- Aside from the current status of Raleigh's convention facilities and downtown hotel supply, the biggest concerns among event planners are the desire for continued progress in the revitalization of the downtown area and parking. Perceptions regarding crime downtown are also a concern and are linked in part to the need for continuing downtown revitalization efforts.
- Considering that Raleigh is the State Capital and one of the larger metropolitan markets in North Carolina, the current level of knowledge of it as a convention/meeting destination is much lower than one would assume. National event planners are even less familiar with Raleigh. Significant marketing efforts will be necessary for improved convention facilities to reach their full market potential.
- State event planners rate Raleigh above other leading markets that frequently host North Carolina association events as an event location, assuming that adequate convention facilities are available.
- Event planners indicate a strong level of interest in increasing the frequency in which they bring events to Raleigh if improvements are achieved in its convention facilities and hotel supply.

The overall responses indicate that there is a significant volume of unaccommodated demand for conventions, meetings, and other events in Raleigh. However, it will take more than minor modifications, upgrades, or expansions of existing facilities for Raleigh to achieve its demand potential.

5. Facility Recommendations and Operating Projections

This section identifies the convention center facility program that would best serve the demand potential in the market. This program takes into account historical event demand, unaccommodated demand, and potential future demand for convention center space in Raleigh. HVS also recommended the minimum number of additional headquarters hotel rooms necessary to support additional convention center event demand. HVS then developed a demand projection tailored to the market potential and the recommended facility program. Finally, HVS projected the number of room nights this new facility would generate in the market for use in the feasibility analysis of the proposed headquarters hotel (conducted in a separate HVS report).

Recommended Convention Center Facility Program

HVS utilized the information in the preceding market and demand analysis to develop a recommended convention center facility program for Raleigh. This recommended program identifies the size and characteristics of the ideal facility to serve the demand for event space in Raleigh. This recommended facility program serves as a guide for subsequent architectural analysis aimed at providing the desired program elements on the most suitable site.

HVS tailors its facility program recommendation to enable the facility to fulfill the market's demand potential. The facility must be capable of accommodating a wide array of events, which include small meetings, large conventions and trade shows, and various civic functions that can require the simultaneous use of ballroom, exhibition, and meeting space. The overall character and quality level of the facility should be comparable to modern convention facilities and should present a welcoming atmosphere for attendees.

Table 5-1 shows the recommended function spaces for Raleigh's convention center.

Table 5-1
Recommended Raleigh Convention Center Function Spaces

Area	Square Feet
Exhibit Space	150,000
Main Ballroom	32,000
Junior Ballroom	10,000
Meeting Rooms	30,000
Total	222,000

Source: HVS

HVS recommends that Raleigh develop 150,000 square feet of contiguous, single-level exhibition space. The exhibition space should be divisible to accommodate simultaneous events. A 32,000 square foot main ballroom and a total of 30,000 square feet of meeting room space should be accessible to the exhibit hall. The ballroom and meeting room spaces should be divisible and situated such that simultaneous events occurring in the exhibit hall can access portions of this breakout space without crossing through other concurrent events. In addition, HVS recommends a 10,000 square foot junior ballroom adjacent to the headquarters hotel's meeting space that could serve both convention center and hotel function space needs.

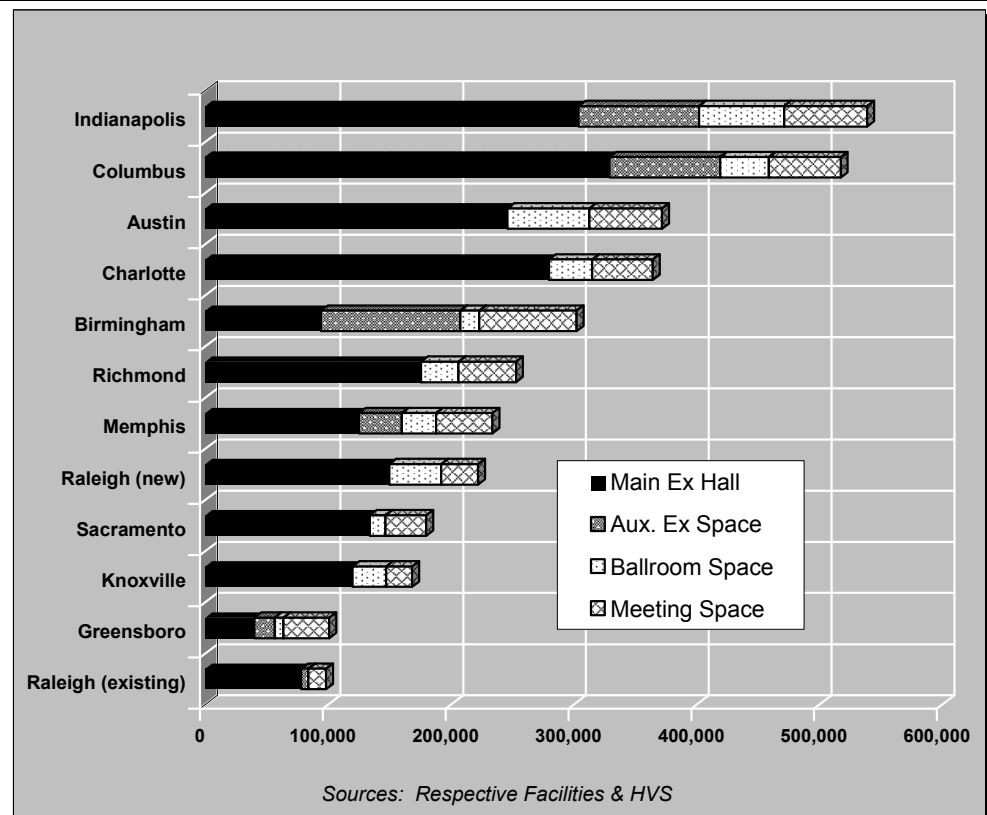
The ratio of meeting and ballroom space to exhibit space is important because conventions and certain tradeshow require the simultaneous use of exhibit, ballroom and meeting space. For the recommended convention center, this ratio is 48 percent, which is relatively high compared to facilities located in similarly situated regional convention markets. HVS anticipates that the demand for events in Raleigh will be meeting space intensive, as the market lends itself more towards conventions and meetings than manufacturing-based tradeshow that use less breakout space. This amount of ballroom and meeting space should be sufficient for the size of most events that are likely to be held in Raleigh. Consumer shows, which require little meeting and ballroom space compared to conventions and tradeshow, will primarily utilize the exhibition hall.

The overall character and quality level of the space make it difficult to expand an existing ballroom and achieve the same type of seamless environment that can easily be achieved with an expansion of exhibit hall space. Anticipating the need for future exhibit hall expansion and the difficulty of expanding

ballroom space, the Consulting Team recommends that the first phase facility program include a 32,000 square foot main ballroom, despite the fact that a 25,000 square foot main ballroom would likely be sufficient to serve initial demand levels. The Site Selection and Concept Plan section of this report includes diagrams and descriptions of the concept plan for the recommended facility.

For reference, Figure 5-1 shows the amount of function space the recommended new Raleigh Convention Center would have relative to the primary convention center facilities in the set of peer markets and also the amount it has in its existing facility.

Figure 5-1
Recommended Raleigh Convention Center Function Space Relative to Peer Market Facilities



The recommended facility program for the new Raleigh Convention Center would place it just below the Memphis Cook Convention Center, which just completed an expansion project.

**Recommended
Headquarters Hotel**

A new headquarters hotel is necessary in order for the new Raleigh Convention Center to achieve its demand potential. This facility should have a minimum of 450 rooms and be located adjacent to the new convention center. The hotel should be a full-service property with a restaurant and access to a meeting room block. HVS' hotel feasibility study, conducted as part of this consulting engagement and presented in a separate report, provides a detailed description of the recommended hotel.

**New Construction Over
Expansion / Renovation**

There are key reasons why the Committee is recommending the development of a new convention center rather than some form of expansion or renovation of the existing Raleigh Convention & Conference Center. The following points summarize the reasons for recommending a new facility rather than a renovation or expansion of the existing facility.

**Issues Regarding the Functionality and Attractiveness of the Existing
Facility**

The existing Raleigh Convention & Conference Center does not meet the expectations of today's convention and tradeshow planners. The facility's exhibit halls are undersized and segmented such that they do not provide the single contiguous exhibit space event planners seek. The supply of meeting rooms is limited and their overall level of quality is not comparable to that which competing cities offer. The loading docks are inefficient and the City eventually had to convert the building's main entrance into a combination entrance and loading dock in an attempt to address the problem.

The Committee has determined that Raleigh is drastically underserved by its convention facilities. A significant investment to develop a first-class convention center is needed to enable the community to achieve its potential as an event destination and to attract new spending and development. The extensive nature of the renovations that would be necessary to bring the existing facility up to a level at which it could attract the volume of conventions and tradeshows the market should be capable of achieving would be cost prohibitive. The extent of the required improvements would likely drive the costs of an expansion and renovation of the existing facility to a point equal to or more than new construction. Prior attempts to renovate the facility have been largely unsuccessful in broadening the base of event

demand it hosts. The Committee has determined that further attempts to address the deficiencies of the existing facility would not be a sound investment.

Fayetteville Street Mall

Ongoing planning efforts in the community have identified the reopening of portions of Fayetteville Street Mall to vehicular traffic and reestablishing the vista between the Capital and the BTI Center as important objectives for reshaping downtown Raleigh. It is not possible to achieve that objective and retain the majority of the existing facility.

Contiguous Area/Topography

In order to expand the existing facility, the new exhibit hall would need to be contiguous with the existing exhibit space. Without a contiguous expansion of the existing exhibit space, any utility in retaining the existing space would be lost because of the need for a minimum amount of contiguous exhibit space. The topography surrounding the existing exhibit space works against its expansion because of the drop in elevation moving west from the existing facility. A contiguous expansion of the existing exhibit space to the west would require the floor level to be increasingly higher than grade level. This increasing difference between the floor level and grade level would require elevated loading docks and access ramps. As there is not nearly enough total facility program space to fill the area beneath the exhibit hall, the result would produce a very undesirable "lid" condition across large portions of the site.

Demand Projections for Raleigh Convention Center Events

For the purposes of this demand projection, HVS estimates that the Raleigh Convention Center will open on January 1, 2007 and that the planned headquarters hotel would open at the same time. If the Raleigh Convention Center opens before the headquarters hotel, the absence of these headquarters hotel rooms would have an adverse effect on the facility's initial demand potential. HVS bases its demand projections on the several key factors analyzed in the preceding report sections, including:

- The levels of historical event demand at the RCCC,
- Surveys and interviews with event planners,
- Comparative analysis of the Raleigh market relative to a set of peer markets,

- The actual event demand in selected peer markets with convention center facilities, and
- Analysis of Raleigh CVB lost business reports and interviews with their sales staff.

Table 5-2 shows event projections for the new Raleigh Convention Center for 2007 through 2011.

Table 5-2
New Raleigh Convention Center Projected Events and Attendance 2007 – 2011

Event Type	2007	2008	2009	2010	2011
Number of Events					
Conventions	7	15	22	25	28
Tradeshows	2	4	6	8	9
Consumer Shows	15	17	18	18	18
Meetings	140	145	150	165	170
Banquets	70	75	80	82	85
Assemblies	5	6	6	7	7
Sports & Entertainment	4	4	5	5	5
Other	15	16	18	19	20
Total	258	282	305	329	342
Average Attendance					
Conventions	2,143	2,320	2,427	2,486	2,532
Tradeshows	2,000	2,200	2,350	2,425	2,467
Consumer Shows	7,000	7,250	7,500	7,750	8,000
Meetings	270	280	285	295	300
Banquets	425	430	440	450	450
Assemblies	3,300	3,350	3,400	3,500	3,500
Sports & Entertainment	2,900	3,000	3,000	3,000	3,000
Other	450	475	500	500	500
Total Attendance					
Conventions	15,000	34,800	53,400	62,150	70,900
Tradeshows	4,000	8,800	14,100	19,400	22,200
Consumer Shows	105,000	123,250	135,000	139,500	144,000
Meetings	37,800	40,600	42,750	48,675	51,000
Banquets	29,750	32,250	35,200	36,900	38,250
Assemblies	16,500	20,100	20,400	24,500	24,500
Sports & Entertainment	11,600	12,000	15,000	15,000	15,000
Other	6,750	7,600	9,000	9,500	10,000
Total	226,400	279,400	324,850	355,625	375,850

Source: HVS

The projection assumes that demand will stabilize in 2011. The term “stabilized demand” does not mean that the demand stops increasing. Rather, a new facility reaches stabilized demand after sufficient time has passed since the announcement and completion of a project so that its demand potential is no longer restricted by the fact that it is a planned or a new facility. Booking a facility that is under development presents challenges because potential tenants must consider the possibility that the facility will not open as scheduled. In addition, some potential tenants are cautious of being one of the first events booked into a recently opened facility, due to concerns regarding the potential for operational problems associated with new facilities. When a facility reaches its stabilized level of demand, it has achieved its demand potential relative to its peer facilities.

Convention facilities take longer than smaller conference centers and hotel facilities to reach stabilized demand. Conventions and tradeshow that use convention centers of a size similar to that recommended for Raleigh typically have booking lead times of three to five years. Assuming that the recommended facility opens in 2007, the facility will complete five years of operation by the end of 2011.

The reluctance among event planners to schedule events in newly opened facilities has grown in recent years as a result of the recent influx of new facilities. The greater number of available convention center facilities enables event planners to be more selective and less likely to assume the risk inherent in scheduling an event in a facility soon after its scheduled opening. Raleigh will not only be dealing with the opening of a new convention center facility, but also a new headquarters hotel as well. Delays in the opening of headquarters hotels are relatively common and there will be considerable uncertainty among event planners concerning the actual opening date of the hotel until its construction is well underway. In recognition of this, HVS has projected a modest level of demand in the first year of operations and a gradual increase to the point of stabilized demand.

The following points provide details on HVS’ demand projections for the various event categories.

Conventions/Tradeshows

The primary benefit of the addition of the new Raleigh Convention Center and the headquarters hotel would be the increase in the number and size of conventions and tradeshow in the market. The existing facility is not capable

of accommodating and/or attracting most conventions and tradeshow because of the limitations discussed earlier in this report section. The new convention center and headquarters hotel would enable Raleigh to compete effectively for State association business. Even with the additional hotel rooms in a new headquarters hotel, the supply of nearby convention-quality rooms will be less than most of Raleigh's peer markets. This deficit in hotel rooms will limit Raleigh's ability to attract regional and national conventions and tradeshow. However, as the revitalization of the downtown core progresses and more development occurs, it is likely that additional hotel rooms will be developed. The additional rooms, in conjunction with improvements in downtown Raleigh's overall visitor infrastructure, could eventually enable Raleigh to make larger inroads into the regional and national event market than the projections in this report indicate.

Table 5-3 shows the estimated annual number of conventions by geographic scope.

Table 5-3
Geographic Scope of Conventions/Tradeshows 2004 - 2008

Scope	2007		2008		2009		2010		2011	
	#	%	#	%	#	%	#	%	#	%
Conventions										
National	1	14%	1	7%	2	9%	3	12%	3	11%
State & Regional	6	86%	14	93%	20	91%	22	88%	25	89%
Total	7	100%	15	100%	22	100%	25	100%	28	100%
Tradeshows										
National	-	0%	-	0%	1	17%	2	25%	2	22%
State & Regional	2	100%	4	2%	5	83%	6	75%	7	78%
Total	2	100%	4	100%	6	100%	8	100%	9	100%

Source: HVS

As the prior discussion of meeting planner surveys indicated, the response of State association meeting planners showed a relatively high level of interest in Raleigh as an event destination. Raleigh offers some advantages over any other destination in the State for conventions and tradeshow because of its central location and role as the State Capital.

The State association market is clearly the primary market for conventions and tradeshow in Raleigh. Many State associations generate a majority of their annual income from a single annual convention or tradeshow. The presence of a first rate facility in Raleigh may encourage some State

associations that have used the existing facility to increase the size of their events to take advantage of the increased amount of available space.

Consumer Shows

The Raleigh market is capable of supporting a substantial number of consumer events. Table 5-4 shows a list of selected recurring consumer shows in the Raleigh market.

Table 5-4
Selected Consumer Shows in Raleigh

Consumer Shows	Facility
Women's Show	Raleigh Convention & Conference Center
Home Show	Raleigh Convention & Conference Center
Boat Show	Raleigh Convention & Conference Center
NC RV & Camping Show	State Fairgrounds
Bass & Salt Water Show	State Fairgrounds
Carolina Power & Sailboat Show	State Fairgrounds
Southern Ideal Homeshow	State Fairgrounds

Sources: *Tradeshow Week* and *HVS*

The State Fairgrounds and the RCCC each host several of the largest consumer show events in Raleigh. HVS interviewed the promoters of several of these consumer show events. The key consideration of these consumer show promoters is accessibility to event attendees and the primary factor influencing accessibility in the perception of promoters is parking. The fairgrounds has the advantage of offering plentiful free parking and is also located just off of Interstate-40. Most markets comparable to Raleigh have a similar exhibition facility or fairgrounds campus located outside the city center that caters to consumer events that do not require certain amenities provided by convention centers such as air conditioning, breakout meeting spaces, and high-quality banquet services. Typically, convention centers attract the subset of consumer shows that cater toward people with higher expectations of the condition and amenities of the facility. Examples of consumer shows where people may be looking for more amenities include senior lifestyle expos, women's shows, and auto shows. A downtown convention center may also be the preferred location for certain consumer show events because it offers more contiguous exhibit space in a single building than may be available in a fairgrounds complex for instance.

In Raleigh, the distinctions between the existing RCCC and the facilities at the fairgrounds are not as sharp as a result of the relatively small amount of

contiguous exhibit space and the scarcity of breakout meeting spaces and other amenities the RCCC offers. As a result, many consumer shows that would typically be inclined to utilize a convention center have instead become accustomed to utilizing the fairgrounds. The RCCC has in recent years produced its own series of consumer shows in an effort to retain a more representative share of consumer shows. The self-promoted events have been successful and have contributed net income to the RCCC's operations. However, the limitations of the existing facility preclude it from attracting the overall volume of consumer show business that a downtown convention center typically achieves in a market the size of Raleigh. With a new convention center in Raleigh, a more typical distribution of events between the convention center and the fairgrounds should occur.

Meetings

The new Raleigh Convention Center's meeting rooms would not only serve as break out space for convention and tradeshow events, but also serve as space for smaller meetings. Meetings as defined in this market analysis include various smaller gatherings such as business seminars, employee training sessions, civic events, classes, and other similar events. HVS considered the existing supply of meeting spaces in area hotels and other facilities in determining reasonable levels of meeting demand.

Banquets

The main ballroom at the recommended convention center would be the premiere banquet space in the Raleigh market, both in terms of size and overall quality of the space. Just as in the case of the meeting rooms, the ballroom would not only serve as a breakout space for conventions and tradeshows, but also host stand-alone banquets. Examples of such events include receptions, holiday parties, civic luncheons and dinners, chamber of commerce functions, and others. HVS anticipates that the new facility will be particularly successful in attracting stand-alone events that utilize the ballroom spaces in part because of the current small supply of hotel-based ballroom space in downtown Raleigh.

Other Events

HVS based its projections of other types of events on the levels of demand at comparable facilities and the historical event data from the existing RCCC. Assemblies include functions such as graduations and religious gatherings. Sports events include any indoor sports that can utilize flat floor space. The facility could serve as a host for various tournaments. The other category includes any events that do not fall into one of the prior categories.

Projected Room Nights from Convention Center Demand

HVS has estimated room night generation by multiplying the number of estimated attendees by two factors: 1) the percent of attendees requiring lodging and 2) the average length of stay in the market. The projection presents attendance by type and scope of event, and the assumptions regarding lodging demand vary accordingly. The average length of stay is calculated according to assumptions regarding data on event length. Information from the actual event statistics of existing convention centers in other markets, historical event data at the existing facility, and industry standards inform these assumptions regarding average event length. The assumptions regarding the percentage of attendees requiring lodging is based on the experience of comparable facilities and CVBs in booking national, state, and local events. HVS tailored these assumptions specifically for Raleigh based on the characteristics of events appropriate for the market and the likelihood that attendees to state events would come from far enough away to require overnight lodging. Table 5-5 shows the assumptions regarding the percentage of attendees requiring lodging and the number of room nights per lodger.

Table 5-5
Percent of Attendees Requiring Lodging

Event Type	% Requiring Lodging	# of Room Nights Per Lodger
Conventions-national	85%	3.00
Conventions-state	45%	2.00
Tradeshows-national	75%	3.00
Tradeshows-state	40%	2.00
Consumer Shows ¹	4%	2.50
Meetings	25%	1.00
Banquets	5%	1.25
Assemblies	25%	1.00
Sports & Entertainment	3%	1.00
Other	5%	1.00

¹ Consumer show attendance includes exhibitors

Source: HVS International

Table 5-6 shows the resulting projection of room nights generated by event type from 2007 through 2011, the year when HVS estimates that demand will stabilize.

Table 5-6
Projected Room Nights 2007 – 2011

Event Type	2007	2008	2009	2010	2011
Conventions	17,500	35,600	57,000	69,500	77,700
Tradeshows	3,200	7,000	15,100	23,200	25,600
Consumer Shows	10,500	12,300	13,500	14,000	14,400
Meetings	9,500	10,200	10,700	12,200	12,800
Banquets	1,900	2,000	2,200	2,300	2,400
Assemblies	4,100	5,000	5,100	6,100	6,100
Sports & Entertainment	400	400	500	500	500
Other	300	400	500	500	500
Total	47,400	72,900	104,600	128,300	140,000

Source: HVS

HVS estimates that the new convention center, with the support of the headquarters hotel, would induce approximately 47,400 new room nights in the market as a whole in 2007 and 140,000 by 2011. The new headquarters hotel would capture a large portion of these room nights. This induced demand represents only the portion of the total estimated meeting and group demand in the market that is directly attributable to event activity at the new Raleigh Convention Center. Other meeting and group events that occur in hotel meeting spaces and other facilities generate additional room nights that are not included in the preceding table. The projection of Raleigh Convention Center event-related room nights serves as a primary input in the feasibility study for the proposed headquarters hotel, conducted concurrently with the development of this business plan for a new convention center in Raleigh. The hotel feasibility study predicts the share of Raleigh Convention Center event-related room nights that the headquarters hotel would capture.

Organization of Marketing Efforts

The demand projections assume that Raleigh will adopt policies and procedures that are typical of booking practices currently implemented in peer markets with convention centers. These policies grant priority to events that generate substantial numbers of room nights. In Charlotte for example, there is a three-tiered system of booking priority. Events that generate in excess of 1,700 peak room nights have first priority, followed by events with 1,100 to 1,700 peak room nights. The third tier, called need period business, includes events that require less than 1,100 peak room nights.

Most markets with convention centers comparable to the one recommended for Raleigh grant first scheduling priority for eighteen months or more prior

to event dates to those events that will generate a minimum number of room nights. Within 18 months facilities are usually free to book any type of business deemed worthwhile for the community, regardless of the number of room nights it generates. This type of policy insures that convention facilities do not lose out on the most lucrative events in terms of economic impact because the facility's schedule is filled with less productive local events that attract relatively less new spending. However, it is also common to exempt a small number, around three to five, of annually recurring local consumer shows or other types of locally oriented events from this room night requirement.

In most cases, sales and marketing for convention facilities is the joint responsibility of the local convention & visitors bureau and the management staff of the facility. These entities are expected to cooperate on proposals for group business. The bureau focuses its efforts on events such as conventions, tradeshow, and others that generate a substantial number of room nights. The convention center sales staff is usually more focused on attracting events that generate net operating income and help to nullify any operating deficits of the facility. These dual marketing aims help maintain a balance between the desire to utilize the convention center as a tool for attracting event attendees from out-of-town and the resulting economic impact they generate and the need to keep any necessary operating subsidies for the facility to a minimum.

Without a major convention and meeting facility and a sufficient supply of convention-quality downtown hotel rooms, the Greater Raleigh Convention & Visitors Bureau's prior marketing and sales efforts have been largely directed at hotel-based events. This analysis assumes that the Greater Raleigh Convention & Visitors Bureau will begin convention center marketing and sales efforts in earnest as soon as the project financing is in place, and that these efforts will be comparable to the efforts of other peer markets assessed in this report. This will require an increase over existing marketing resources devoted to promoting Raleigh as a destination for state, regional, and national events. The degree to which these increased resources come from an increase in existing funding sources, new funding sources, and/or a reallocation of existing sources is a matter for the involved municipalities and the Raleigh CVB to assess and is beyond the scope of this analysis.

The necessary increase in convention-oriented marketing efforts will not only be a function of resources, but will also require a significant change in the emphasis of overall bureau activities. The emergence of Raleigh as a market

that is truly competitive and active in the convention and tradeshow industry will require a similar shift in the functions and focus of the Raleigh CVB. The City and County should consider various ways of assisting the efforts of the Raleigh CVB and providing incentives to help protect their investment in a new convention center.

**Convention Center
Financial Operating
Model**

HVS uses a detailed financial operating model to estimate revenues and expenses. This software quantifies the key variables and operating ratios that determine the income and expense of a convention facility. This model separates the fixed and variable components of revenue and expenses. Variable components of expenses are estimated based on the level of anticipated convention center revenue. The model projects fixed expenses based on data from the historical operations of the existing Raleigh Convention and Conference Center (RCCC) and comparable facilities in other markets. HVS calibrated its operating model to project future income and expenses for the recommended new Raleigh Convention Center by adjusting the income and expense assumptions to more closely resemble similar facilities in other markets. The existing facility's relevance to the recommended new Raleigh Convention Center is limited because of the differences between the types of events the existing facility attracts and those that should occur in the new center.

**Convention Center
Financial Operating
Data**

RCCC staff assisted HVS in understanding its historical financial operating data and in separating the operations of the RCCC from those of the BTI Center. HVS then took the financial statements and summarized them in a standardized format that corresponds to the line items used in presenting sample financial statements from other facilities and in the forthcoming financial projections. Table 5-7 shows a summary of the historical operating revenues and expenses for the RCCC over the past three years.

Table 5-7
Raleigh Convention & Conference Center Summarized Financial Operating Data

Revenue / Expense	Fiscal Year 1999/2000	Fiscal Year 2000/2001	Fiscal Year 2001/2002	Average FY 1999-2001
REVENUE				
Event Space Revenue	\$815,723	\$688,179	\$588,622	\$697,508
Food & Beverage	184,343	256,865	201,662	214,290
Service Charges	317,024	353,701	348,272	339,666
Parking	209,435	101,589	134,384	148,469
Other	6,585	11,284	18,106	11,992
Total	\$1,533,110	\$1,411,618	\$1,291,046	\$1,411,925
OPERATING EXPENSES				
Event Services	\$572,264	\$604,567	\$600,235	\$592,355
Facility Services	180,973	159,911	187,223	176,036
Utilities	367,351	399,315	474,712	413,793
Promotion & Advertising	47,989	84,290	56,505	62,928
Total	\$1,168,577	\$1,248,083	\$1,318,675	\$1,245,112
TOTAL OPERATING INCOME	\$364,533	\$163,535	(\$27,629)	\$166,813
NON-OPERATING EXPENSES				
Administrative Salaries	\$868,270	\$941,708	\$1,130,020	\$979,999
Benefits	204,000	234,445	286,412	241,619
Insurance/Legal/Prof Svcs	89,473	74,487	104,534	89,498
General and Administrative	9,665	12,085	9,780	10,510
Total	\$1,171,408	\$1,262,725	\$1,530,746	\$1,321,626
NET INCOME	(\$806,875)	(\$1,099,190)	(\$1,558,375)	(\$1,154,813)

*Does not include Home Show Revenue or expense or parking rental expense.

Sources: RCCC & HVS

Inflationary increases in expenses and a decline in event revenues has contributed to a rising deficit over this period.

HVS also analyzed financial operating data from a set of comparable convention centers to provide a better understanding of the financial operations of facilities that are more similar to the proposed Center than the existing RCCC. Table 5-8 shows a summary of the operating revenues and expenses of five sample convention centers.

Table 5-8
Sample Convention Center Operating Revenues and Expenses

Square Feet of Exhibit Space	Facility 1 280,000	Facility 2 160,000	Facility 3 120,000	Facility 4 290,000	Facility 5 85,000	Average 187,000
REVENUE / EXPENSE	Rev/Exp	Rev/Exp	Rev/Exp	Rev/Exp	Rev/Exp	Rev/Exp
Event Space Revenue	\$ 1,923,308	\$ 624,846	\$ 331,407	\$ 2,512,203	\$ 769,525	\$ 1,232,258
Food & Beverage	3,668,522	245,644	3,023,428	965,438	1,999,138	1,980,434
Other	1,473,289	471,427	(81,964)	813,984	560,824	647,512
Total Revenue	\$ 7,065,119	\$ 1,341,916	\$ 3,272,871	\$ 4,291,625	\$ 3,329,486	\$ 3,860,203
OPERATING EXPENSES	\$ 3,030,256	\$ 1,420,780	\$ 4,464,235	\$ 5,259,251	\$ 2,631,679	\$ 3,361,240
TOTAL OPERATING INCOME	\$ 4,034,863	\$ (78,864)	\$ (1,191,364)	\$ (967,626)	\$ 697,807	\$ 498,963
NON-OPERATING EXPENSES						
Administrative Salaries	\$ 2,738,672	\$ 1,662,755	\$ 655,568	\$ 573,393	\$ 1,300,000	\$ 1,386,078
Other	2,448,565	-	944,110	450,807	794,051	927,507
Total	\$ 5,187,237	\$ 1,662,755	\$ 1,599,678	\$ 1,024,200	\$ 2,094,051	\$ 2,313,584
NET INCOME (Loss)	\$ (1,152,374)	\$ (1,741,619)	\$ (2,791,042)	\$ (1,991,826)	\$ (1,379,244)	\$ (1,811,221)

Sources: Respective Facilities and HVS

Each of the sample facilities ran an annual operating deficit. These annual operating deficits ranged from \$1.2 million to \$2.8 million. The financial operations of convention centers are dependent upon a variety of factors such as the character of demand they attract, existence of competing facilities, local labor costs, and other factors. However, analysis of other convention center facilities provides an important basis for comparison to help evaluate the reasonableness of projections for the proposed new Raleigh Convention Center.

Income and Expenses

HVS' convention center model estimates individual line-item income and expense items. The model assumes an annual inflation rate of 3.0 percent, unless indicated otherwise.

Income

The HVS model uses a series of income assumptions on a per attendee or per square foot of rented exhibit space basis.

Event Space Revenue—reflects the rental revenue the facility receives from clients that reserve the facility. Convention centers typically charge conventions, trade shows, consumer shows, and other events that utilize the exhibit hall at a rate per occupied gross square foot of exhibit space. Facilities often charge other events, such as conferences, meetings, and banquets, a

fixed daily rental fee. In certain cases, a facility will waive the space rental fees if the event reaches a certain threshold of food and beverage charges.

Food & Beverage—includes charges to events for food and beverage services. Most events that utilize convention center function space will arrange for food service for their attendees during their events. This food service can range from light snacks associated with a meeting to a full dinner associated with a convention or banquet.

Equipment Rental—includes fees charged for the use of various types of equipment that the facility provides to events, such as audio/visual equipment, forklifts, certain types of furniture, computers, and various other items. The model estimates equipment rental on a per square foot of occupied space basis so that this item varies with the level of event activity.

Service Charges—includes the fees charged to tenants for services such as security, cleaning, set-up and take down of function spaces, electrical, commissions from decorators, and other services provided to events.

Advertising & Sponsorships—includes revenue from interior and exterior signage, promotional activities, program advertisements, and exclusive vendor contracts.

Other—other operating income includes a variety of items such as interest, licensing fees, and commissions from preferred providers of products and services.

Certain items of operating income vary by type of event. Table 5-9 shows the operating income assumptions for the Center by type of event.

Table 5-9
Operating Income Assumptions by Type of Event in Year 2002 Dollars

Event Type	Rent per GSFD	Event Services per GSFD	Service Charges per GSFD	Information Technology per GSFD	Flat Rate Rent per Event	F&B Per Caps (Gross)
Convention-National	\$0.037	\$0.024	\$0.024	\$0.011	\$0	\$22.00
Convention-State	\$0.037	\$0.024	\$0.024	\$0.011	\$0	\$20.00
Tradeshaw-National	\$0.057	\$0.046	\$0.046	\$0.003	\$0	\$20.00
Tradeshaw-State	\$0.057	\$0.046	\$0.046	\$0.003	\$0	\$19.00
Consumer Shows	\$0.057	\$0.009	\$0.009	\$0.000	\$0	\$1.40
Meetings	\$0.390	\$0.122	\$0.122	\$0.126	\$0	\$14.25
Banquets	\$0.014	\$0.024	\$0.024	\$0.017	\$0	\$32.00
Assemblies	\$0.000	\$0.000	\$0.000	\$0.000	\$3,000	\$1.50
Sports & Entertainment	\$0.000	\$0.001	\$0.001	\$0.003	\$4,000	\$4.00
Other	\$0.000	\$0.000	\$0.000	\$0.000	\$0	\$1.50

Source: HVS

Expenses

The HVS model includes assumptions for fixed and variable components of operating expenses. The variable expenses are dependent upon the level of event activity in the facility, measured by occupied gross square foot days or as a percentage of operating revenue.

Administrative Salaries—includes the salaries of full-time administrative staff responsible for operating the facility, marketing, and scheduling events.

Benefits—includes health care premiums, retirement plan contributions, employer's share of income taxes, and any other benefits.

Event Labor—expense covers the annual salary expense of event labor incurred by the facility.

Food & Beverage—represents the costs associated with providing food service to events at the facility. The food service costs vary with the level of food and beverage revenue.

Equipment Rental Costs—includes the costs of operating and maintaining equipment rented to facility tenants.

Event Services—represents the costs to the facility of providing event services such as security, cleaning, and event set-up to its event tenants.

Utilities—include heating, cooling, electricity, and water charges paid by the facility.

Building Maintenance & Repair—includes both routine and one-time expenses for maintaining the facility and repairing damaged or worn-out equipment.

Supplies—includes computers, office materials, furniture, and other items required to support the operations of the facility.

Travel—covers travel by management and marketing staff for the purposes of attracting events, professional development, and other related purposes.

Promotion & Advertising—includes expenses for advertising in various trade publications and other activities designed to attract demand to the facility. This line item only includes promotional activities the facility itself performs and does not include convention and visitor bureau marketing costs.

General & Administrative—includes various costs associated with the general operations of the facility. Examples of these costs include telephone charges, printing, association dues, licenses, and others.

Legal, Insurance & Professional Services—includes the costs for insurance and various professional services that may be required, such as legal, accounting, consulting, and others.

Table 5-10 shows a summary of the expense assumptions that include fixed components and/or variable components based either on per square foot of occupied exhibit space or as a percent of total revenue.

Table 5-10
Summary of Expense Assumptions

Expenditure	Variable Expense	Percentage Expense	Fixed Expense for Base Year
Event Services	\$0.004 <i>per</i> GSFD		
Facility Services	\$0.018 <i>per</i> GSFD		
Food & Beverage		70.0% <i>of</i> Food & Beverage	
Utilities	\$0.010 <i>per</i> GSFD		\$500,000
Supplies	\$0.002 <i>per</i> GSFD	5.0% <i>of</i> Total Event Revenues	
Technical Services		5.0% <i>of</i> Total Event Revenues	
Promotion & Advertising	\$0.005 <i>per</i> GSFD	5.0% <i>of</i> Total Event Revenues	\$167,040
Other		5.0% <i>of</i> Total Event Revenues	
Administrative Salaries			\$1,400,000
Benefits		25.0% <i>of</i> Total Wages	
Insurance/Legal/Prof Svcs.			\$250,000
Capital Maintenance Reserve		2.5% <i>of</i> Total Revenue	
General and Administrative		11.0% <i>of</i> Total Revenue	

Source: HVS

Financial Projections

Table 5-11 displays projected financial operations for the facility from opening to a stabilized point of demand in the fifth year.

Table 5-11
Projected Financial Operations in Inflated Dollars

	2007	2008	2009	2010	Stabilized
REVENUE					
Event Space Revenue	\$1,149,472	\$1,457,777	\$1,765,761	\$2,006,152	\$2,159,703
Food & Beverage	2,433,615	3,273,325	4,154,786	4,831,220	5,383,625
Event Services	369,646	523,437	698,445	840,401	928,424
Service Charges	369,646	523,437	698,445	840,401	928,424
Information Technology	184,823	235,891	291,166	336,099	368,360
Advertising & Sponsorship	289,819	298,513	307,468	316,693	326,193
Total	\$4,797,021	\$6,312,380	\$7,916,073	\$9,170,966	\$10,094,730
OPERATING EXPENSES					
Event Services	\$94,033	\$123,938	\$154,686	\$175,407	\$190,156
Facility Services	331,830	424,620	514,530	566,460	596,205
Food & Beverage	1,703,530	2,291,328	2,908,351	3,381,854	3,768,537
Utilities	793,349	878,703	966,496	1,032,038	1,084,560
Supplies	146,422	193,362	243,003	280,883	305,680
Technical Services	103,679	137,027	172,691	201,153	219,246
Ticket Expense	0	137,027	172,691	201,153	219,246
Promotion & Advertising	410,592	537,796	670,418	770,141	841,774
Other	103,679	137,027	172,691	201,153	219,246
Total	\$3,687,116	\$4,860,829	\$5,975,556	\$6,810,241	\$7,444,650
TOTAL OPERATING INCOME	\$1,109,906	\$1,451,551	\$1,940,517	\$2,360,724	\$2,650,080
NON-OPERATING INCOME					
Interest & Miscellaneous	\$28,982	\$29,851	\$30,896	\$31,977	\$33,257
Total	\$28,982	\$29,851	\$30,896	\$31,977	\$33,257
NON-OPERATING EXPENSES					
Administrative Salaries	\$1,622,984	\$1,671,673	\$1,721,823	\$1,773,478	\$1,826,682
Benefits	405,746	417,918	430,456	443,370	456,671
Insurance/Legal/Prof Svcs	289,819	549,994	618,869	674,396	719,669
Miscellaneous	0	251,481	311,401	357,703	393,476
Capital Maintenance Reserve	96,823	125,740	155,700	178,852	196,738
General and Administrative	426,020	553,258	685,082	786,947	865,647
Total	\$2,841,390	\$3,570,064	\$3,923,331	\$4,214,745	\$4,458,884
NET INCOME	(\$1,702,503)	(\$2,088,662)	(\$1,951,919)	(\$1,822,044)	(\$1,775,547)

Source: HVS

The projection estimates that the Center will operate with an annual deficit, which is typical for this type of facility. The estimated net operating loss ranges from \$1.7 million to \$2.1 million, stabilizing at approximately \$1.8 million.

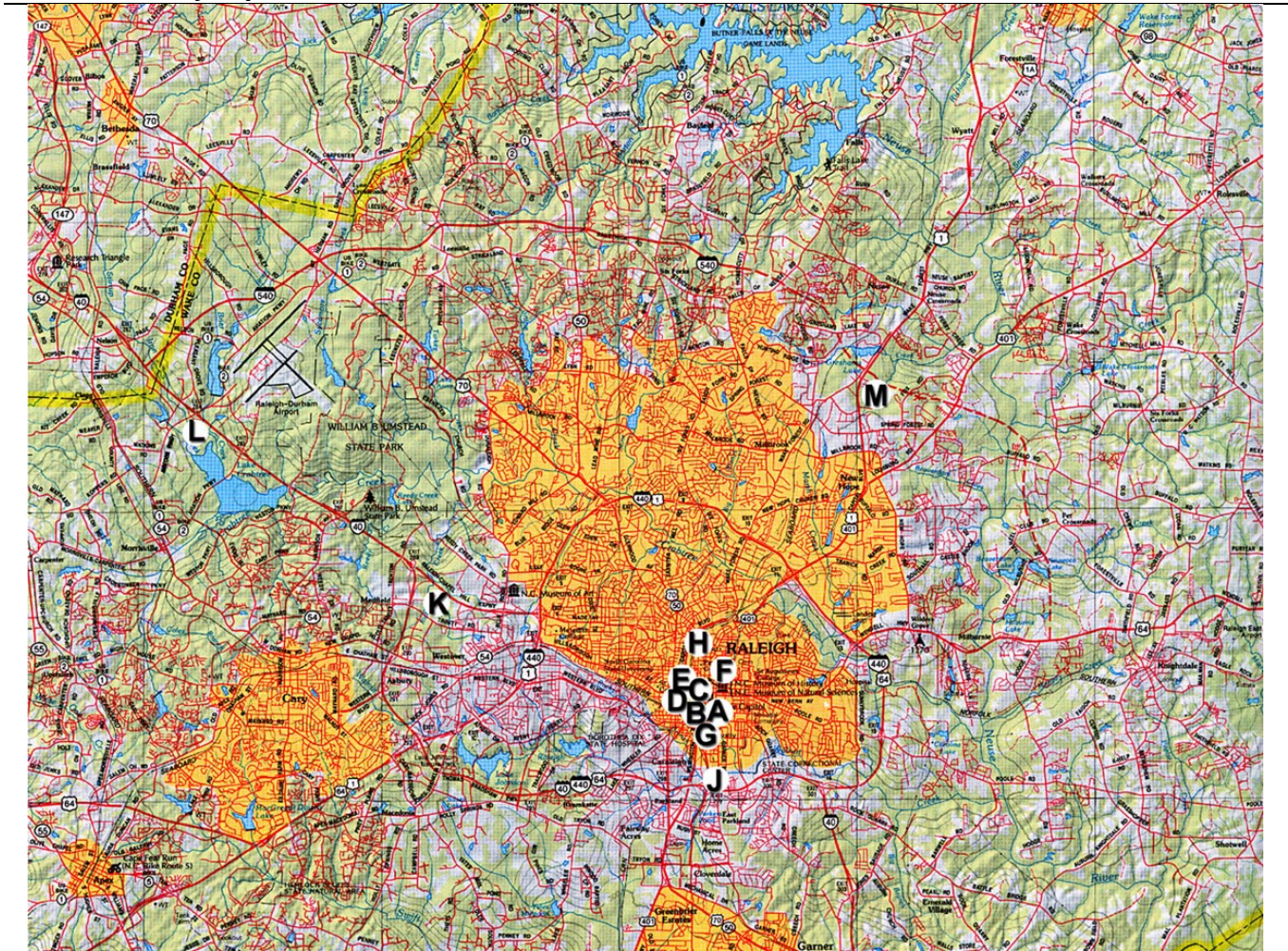
6. Site Selection and Physical Planning

The Convention Center Steering Committee (Committee), with the assistance of The Consulting Team, evaluated potential sites for a new convention center facility, selected a preferred site, and approved a preliminary concept plan for the proposed facility.

Site Selection

The Site Selection Subcommittee (Site Subcommittee) began the site selection process by identifying a range of potential sites in Raleigh. Potential sites must be at least two blocks long and one block wide, with a third adjacent block available for future expansion. For reference, a square block is approximately 425 feet by 425 feet, or 180,625 square feet. The entire three block site must be acquirable and ideally, would be underutilized, minimizing the number of existing business relocations. This analysis produced 12 potential sites—eight downtown sites and four suburban sites, as shown in Figure 6-1.

Figure 6-1
Potential Sites Key Map



The Appendix to this report includes detailed site maps of each of the 12 sites.

The Site Subcommittee developed a list of evaluation criteria to use in assessing the relative strengths and weaknesses of the various sites. The evaluation criteria includes issues concerned with:

- Compatibility with adjacent uses,
- Infrastructure capacity and future expansion,
- Access to transportation,

- Proximity to adjacent amenities,
- Aesthetic impact and urban design issues,
- Potential for maximizing financial impact while minimizing cost, and
- Consistency with Raleigh and Wake County land-use and zoning objectives.

Table 6-1 shows the complete list of 26 original site criteria developed by the Site Subcommittee.

Table 6-1
Original Site Criteria

Compatibility with Adjacent Uses	Aesthetic Impact
Neighborhood Impact	Raleigh/Wake County Character Opportunities
Capacity of Infrastructure	High Degree of Walkability
Potential for Expansion	Security: Lack of Crime/Attractiveness of Area
Ease of Traffic Flow	Potential Site Acquisition Cost
Access to Airport	Potential for Return on Investment
Access to Public Transportation	Potential for 'Leveraging' Other Funding Sources
Access by Trucks with Minimal Traffic Impact	Potential for Related Development
Proximity to Parking	Relative Ease of Constructability
Proximity to Hotels	2 Blocks - 90 feet in height
Proximity to Shopping and Entertainment	Zoning Compliance - Height
Proximity to Restaurants	Number of Streets Closed
Proximity to Cultural Facilities	Number of Streets Bridged

Source: LMN

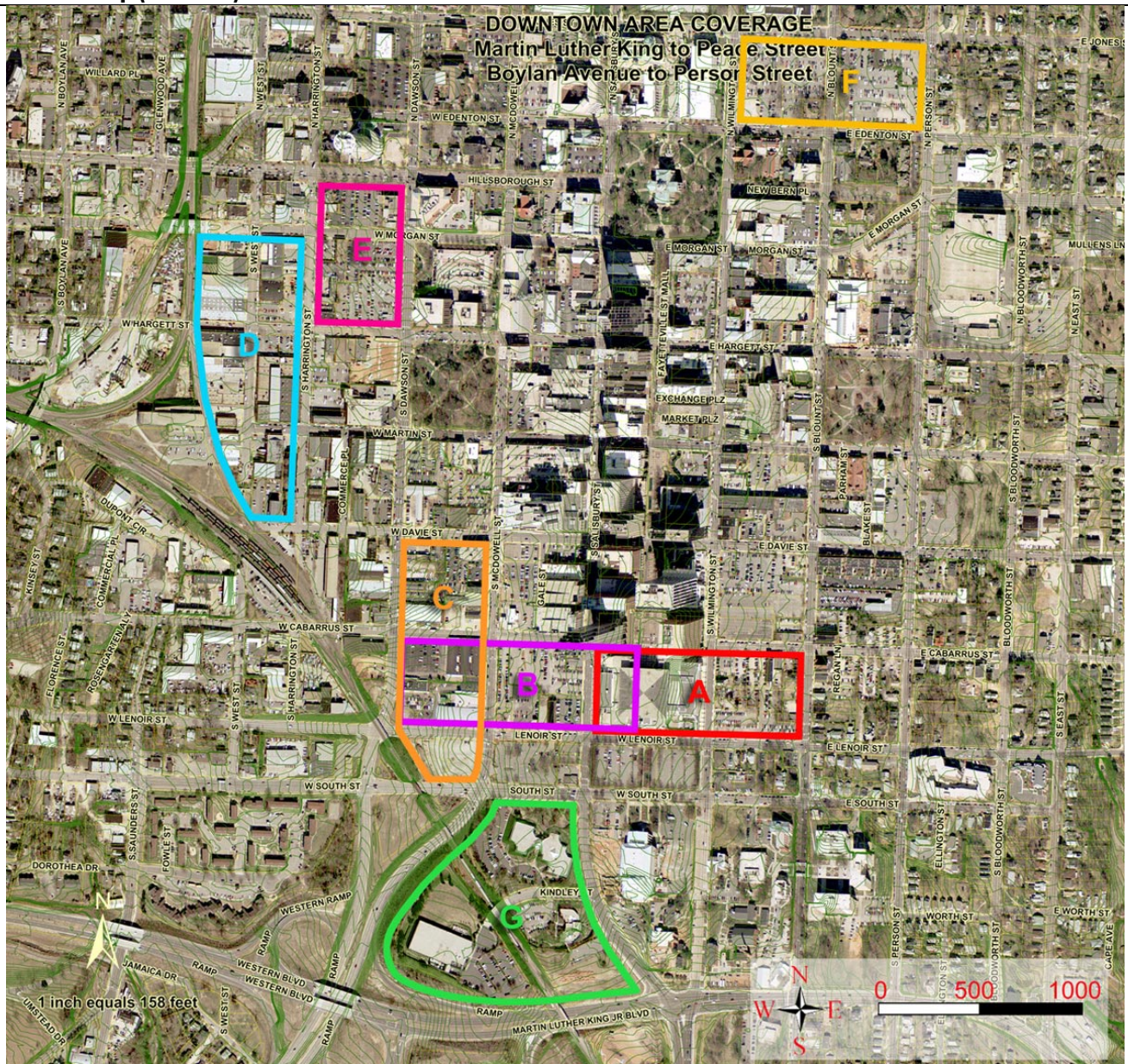
The Site Subcommittee developed the list of 26 site criteria in the abstract, prior to any specific site analysis. Then the Site Subcommittee used the original criteria to develop a site evaluation matrix specifically tailored to the review of potential sites in Raleigh. During this process, the Site Subcommittee expanded the single site criterion "Proximity to Parking" to include two degrees of proximity "Proximity to Contiguous Parking" and "Proximity to Off-Site Parking." This tailoring of the original criteria also resulted in changing the criterion "High Degree of Visibility" to "High Degree of Walkability", reflecting the desire for a high degree of pedestrian connectivity. Finally, the two site criteria "Zoning Compliance" and "Building Mass" evolved into two specific site evaluation criteria. The first, "2 Blocks - 90

feet in height," pertains to the capacity of each potential site to accommodate the minimum footprint area (assuming a two story scheme). The second, "Zoning Compliance – Height," pertains to the ability of each site to accommodate the height associated with a two-story scheme (which uses the smallest amount of footprint area), while complying with existing City of Raleigh zoning requirements.

The Site Subcommittee analyzed each of the 12 sites for conformance relative to the 26 site criteria. The first step in the analysis was to look for potential fatal flaws—aspects of the site that are deemed to be so onerous as to eliminate that site from serious contention. The original site criterion included "Site Acquisition Cost." Rather than investing the time and resources to estimate the specific site acquisition costs of every potential site, the Site Subcommittee elected to only look for site acquisition cost fatal flaws as a first step rather than attempting to grade them each on their level of compliance. This criterion, while important, was not thought to be important enough to eliminate what might otherwise be a potential site finalist because of marginal cost differences. As the analysis progressed to finalist sites, the Site Subcommittee and the Consulting Team assessed site acquisition costs in greater detail to determine whether there were differences significant enough to effect the selection of a preferred site.

The Site Subcommittee determined that two of the sites, Site E and Site F, had fatal flaws and removed them from consideration. Figure 6-2 shows a detailed map of the Downtown Sites, Sites A-G.

Figure 6-2
Downtown Map (Sites A-G)



The Site Subcommittee deemed that Site E, bounded by Hillsborough Street on the north, Hargett Street on the south, Harrington Street on the west and Dawson Street on the east had a fatal flaw related to Site Acquisition. A condominium project is underway on that site. The Site Subcommittee also

determined that Site F, bounded by Jones Street on the north, Edenton Street on the south, Wilmington Street on the west and Person Street on the east, has three fatal flaws. Two flaws are related to neighborhood impact and compatibility with adjacent uses, as the site is adjacent to the Governor's mansion and a residential neighborhood. A high-density urban land use such as a convention center is usually not compatible with a typical low-density residential neighborhood, due to the levels of auto, truck, and pedestrian traffic they generate. Site acquisition would likely be highly problematic on this site because of the existing residential uses.

The Site Subcommittee evaluated the remaining sites against each of the 26 site criteria using a four-tiered compliance grading structure:

- Strong compliance,
- Adequate compliance,
- Minimal compliance, and
- Potential fatal flaw.

Table 6-2 shows the Site Subcommittee's site evaluation matrix.

**Table 6-2
Site Evaluation Matrix**

Key:	X	Potential Fatal Flaw
	○	Minimal to No Compliance with Criteria
	◐	Adequate Compliance with Criteria
	●	Strong Compliance with Criteria

Site Alternative Characteristics	Sites:	Site Area A	Site Area B	Site Area C	Site Area D	Site Area E	Site Area F	Site Area G	Site Area H	Site Area J	Site Area K	Site Area L	Site Area M
Site Characteristics													
1 Compatibility with Adjacent Uses		○	●	●	●		X	●	◐	○	◐	◐	◐
2 Neighborhood Impact		○	●	●	◐		X	●	●	○	●	●	●
3 Capacity of Infrastructure		●	●	●	●			●	●	○	●	●	●
4 Potential for Expansion		◐	●	●	●			◐	●	●	●	●	●
5 Ease of Traffic Flow - Note 5		●	●	●	●			●	◐	●	◐	◐	●
6 Access to Airport		●	●	●	●			●	●	●	●	●	●
7 Access to Public Transportation		●	●	●	●			●	●	◐	○	○	○
8 Access by Trucks with Minimal Traffic Impact		●	●	●	◐			●	●	●	●	●	●
9 Proximity to Contiguous Parking - Note 1		●	●	◐	◐			◐	○	●	●	●	●
10 Proximity to Off-site Parking - Note 2		●	●	●	●			◐	●	○	○	◐	◐
11 Proximity to Hotel Rooms - Note 3		●	●	●	◐			●	○	○	○	○	○
12 Proximity to Shopping/Entertainment		●	●	◐	◐			◐	○	○	◐	◐	●
13 Proximity to Restaurants		●	●	●	●			◐	○	○	○	◐	●
14 Proximity to Cultural Facilities		●	●	◐	○			●	○	○	◐	○	○
15 Aesthetic Image/Impact		●	●	●	◐			●	●	○	●	●	○
16 Raleigh/Wake County Character Opportunities		●	●	●	◐			●	●	○	○	●	○
17 High Degree of Walkability		●	●	◐	◐			◐	○	○	○	○	○
18 Security: Lack of Crime/Attractiveness of Area		●	●	●	●			●	●	●	●	●	●
19 Potential Site Acquisition Cost						X	X						
20 Potential for Return on Investment		●	●	●	●			◐	◐	◐	◐	◐	◐
21 Potential for 'Leveraging' Other Funding Sources		○	○	○	●			○	◐	○	○	●	○
22 Potential for Related Development		●	●	●	●			◐	◐	○	●	●	●
23 Relative Ease of Constructability		○	◐	◐	◐			◐	●	●	●	●	●
24 2 Blocks - 90 feet in height		○	●	●	●			●	●	○	●	?	●
25 Zoning Compliance - Height		○	●	●	●			●	●	○	●	●	●
26 Number of Streets Closed - Note 4		1	2	1	0			0	0	0	0	0	0
27 Number of Streets Bridged - Note 4 (similar)		0	0	0	1			0	0	0	0	0	0

Notes:

- 1 Strong compliance are sites with 1,500 on-site or adjacent parking spaces
Adequate compliance are sites with 1,000-1,500 on-site or adjacent parking spaces
Minimal compliance are sites with less than 1,000 on-site or adjacent parking spaces
- 2 Strong compliance are sites with 7,000 or more off-site parking spaces within a 5 minute walking radius
Adequate compliance are sites with 4,500-7,000 off-site parking spaces within a 5 minute walking radius
Minimal compliance are sites with less than 4,500 off-site parking spaces within a 5 minute walking radius
- 3 Strong compliance are sites with 300 or more rooms within a 5 minute walking radius.
Adequate compliance are sites with 200-300 rooms within a 5 minute walking radius.
Minimal compliance are sites with less than 200 rooms within a 5 minute walking radius.
- 4 Strong compliance are site configurations with no street closures.
Adequate compliance are sites with one street closure.
Minimal to no compliance are sites with two or more street closures.
- 5 Potential conflict when other facilities in use.

The Consulting Team applied various weighting techniques to the matrix, looking for patterns and trends in the rankings. The appendix contains a detailed discussion of the weighting process. This weighting process identified four potential sites that consistently ranked above the others. The committee selected the following four sites for further investigation, without ranking each of the four finalist sites against one another at this point in the process.

Site B

Bounded by Cabarrus Street on the north, Lenoir Street on the south, Dawson Street on the west and the Fayetteville Street Mall on the east.

Site C

Bounded by Davie Street on the north, South Street on the south, Dawson Street on the west and McDowell Street on the east.

Site D

Bounded by Morgan Street on the north, Davie Street on the south, the railroad tracks on the west and Harrington Street on the east.

Site G

Bounded by South Street on the north, Western Blvd. on the south, McDowell Street on the west and Salisbury Street on the east.

The Consulting Team assisted the Site Subcommittee in a more detailed investigation of site acquisition issues and related schedule implications. This process led the Site Subcommittee to the assessment that Site G was not feasible due to potential difficulties associated with the railroad bifurcating the site. The difficulty and timing of acquiring air rights over the railroad, along with the long-term viability of buildings existing on the site conspired to eliminate Site G from contention.

Facility Program

HVS determined the basic program elements of the recommended convention center and supporting headquarters hotel based upon its analysis and market research. Those program elements include 150,000 square feet of exhibit hall area, 30,000 square feet of meeting room area, and a 25,000 square foot ballroom. However, due to difficulties associated with expanding a dedicated ballroom, the Consulting Team recommends that the main ballroom be sized large enough to accommodate the needs of future

expansion. Therefore, the Consulting Team recommends a 32,000 square foot main ballroom in the first phase. This size strikes a balance between existing market needs and the ability of the ballroom to function adequately as the main ballroom after future expansion of the exhibit hall. The facility program recommendation also calls for a 450-room, full-service headquarters hotel.

Based on this information, LMN Architects developed the complete facility program based on a specialized, meeting intensive program model. This meeting intensive model reflects the findings of the market analysis and the recommended high ratio of breakout to exhibit space of 43.3 percent. The resulting convention center facility is just over 500,000 square feet. The hotel program adds another 390,000 square feet of space. The program also includes 338 parking stalls for the hotel and related retail development, bringing the total area for the development to 1,063,175 square feet. Table 6-3 shows the detailed facility program.

Table 6-3
Space Allocation Summary

Functional Areas:	SPECIALIZED *		PROPOSED		REMARKS
	MODEL FACILITY	MODEL %	EXPANSION PROGRAM	PROGRAM %	
Lobby/Prefunction Areas	65,625	14%	66,400	14.98%	including Lobby to Mall and Visitor's Center
Exhibit Hall	150,000	32%	150,000	33.83%	750 booths, 6,500 seating capacity for convocation
Exhibit Hall Support	28,125	6%	30,100	6.79%	
Ballroom/Meeting Rooms	79,688	17%	62,000	13.98%	32,000 s.f. Ballroom, 30,000 s.f. Meeting Rooms
Ballroom/Meeting Room Support	9,375	2%	9,300	2.10%	
Administrative Offices	9,375	2%	6,900	1.56%	
Food Service	18,750	4%	16,500	3.72%	
Building Operations & Service/Dock	23,438	5%	28,800	6.50%	
Operational Area Totals:	384,375	82%	370,000	83.45%	
General Building Circulation	56,250	12%	60,000	13.53%	Stacked scheme inefficiency
Mechanical/Electrical Equipment	28,125	6%	13,400	3.02%	
Convention Center Subtotals:	468,750	100%	443,400	100.00%	Working Total
Enclosed Loading Dock/Apron			63,500		Unique to below-grade scheme
Convention Center Totals:	468,750		505,900		Actual Total
Co-Development Areas:					
Retail/Commercial Areas	0		15,400		Shelled space
Parking & Parking Support Area	0		151,875		335 parking stalls
Hotel Development	0		390,000	257,700	Guest room area - 450 rooms with support
				132,300	Function / Public space - 32,180 s.f. meeting space
Consolidated Facility Totals:	937,500		1,063,175		

* Model facility based on distribution of functional areas in comparable convention center facilities favoring a higher percentage of meeting rooms, such as Baltimore.

Cost Estimates

The Consulting Team developed cost estimates for the Site B and Site C alternatives, along with the hotel program. A professional cost estimating firm developed the cost estimates based upon the recommended facility program and local market conditions in Raleigh relating to the estimated costs of labor, materials, and other project costs. Table 6-4 shows the cost estimate by major line items.

**Table 6-4
Convention Center and Hotel Cost Estimate**

CONVENTION CENTER COST SUMMARY

	SCHEME B			SCHEME C		
	GSF	\$ / S.F.	\$ X 1,000	GSF	\$ / S.F.	\$ X 1,000
Convention Center Building	506,900 sf	\$209.34	\$106,116	534,399 sf	\$199.56	\$106,647
Sitework			\$4,656			\$3,439
Bridge to Hotel			not req	1,700 sf	\$400	\$680
Partial Demolition of Existing Facility for Lobby	23,400 sf	\$5.00	\$117			not req
Partial Demolition of Existing Facility for Hotel	45,000 sf	\$5.00	\$225			not req
Temporary Construction at Interface			\$395			not req
Demolition Across Right-of-Way	28,000 sf	\$5.00	\$140			not req
Total Direct Construction Cost (March 2003):			\$111,649			\$110,765
Escalation to Start Date (April 2005)	5.00%		\$5,582			\$5,538
Total Direct Construction Cost (April 2005 Start Date):			\$117,231			\$116,304
Construction Manager Staffing		4.00%	\$4,689			\$4,652
Construction Manager Fees and Reimbursables		3.50%	\$4,267			\$4,233
Total Hard Construction Cost			\$126,187			\$125,189
Project Soft Costs						
Owner's Construction Change Order Contingency @ 5.00%			\$6,309			\$6,259
Land Acquisition, Remediation, Relocation, Roadwork			TBA			TBA
Furniture, Fixtures and Equipment Allowance @ 6.00%			\$7,571			\$7,511
Telecom / Security / Computer Systems @ 2.00%			\$2,524			\$2,504
A/E Fees and Reimbursables @ 10.00%			\$12,619			\$12,519
Testing and Permits @ 1.00%			\$1,262			\$1,252
Reproductions			\$500			\$500
Utility Consumptions			\$400			\$400
Owner Project Administration Expenses Allowance			\$4,500			\$4,500
Owner's Project Reserve @ 3.00%			\$4,856			\$4,819
Total Estimated Project Cost			\$166,729			\$166,454

HOTEL COST SUMMARY

	GSF	TOTAL	
		\$ / SF	\$ X 1,000
Hotel Guestrooms	257,724 sf	\$120.00	\$30,927
Public Spaces and Function Areas	132,363 sf	\$150.00	\$19,854
Parking Garage	151,875 sf	\$25.00	\$3,797
Sitework Allowance			\$3,000
Total Direct Construction Cost (March 2003):			\$57,578
Escalation to Start Date (April 2005)	5.00%		\$2,879
Total Hard Construction Cost:			\$60,457
Project Soft Costs			
Owner's Construction Change Order Contingency @ 3.00%			\$1,814
Land Acquisition, Remediation, Relocation, Roadwork			TBA
Furniture, Fixtures and Equipment	390,087 sf	\$15.00	\$5,851
Kitchen Equipment, Banquetware, etc.	390,087 sf	\$5.00	\$1,950
Telecom / Security / Computer Systems			\$1,209
A/E Fees and Reimbursables @ 8.00%			\$4,837
Testing and Permits @ 1.00%			\$605
Reproductions			\$250
Utility Consumptions			\$250
Owner Project Administration Expenses Allowance			\$2,000
Total Estimated Project Cost			\$79,223

There is very little difference in the estimated costs of the convention center on the two sites. The Consulting Team anticipates that the estimated construction cost of the hotel would be the same on either site.

Land Acquisition

Members of the Convention Center Steering Committee assisted the Consulting Team in obtaining the assessed value of the property included within the boundaries of the three leading potential sites. Table 6-5 shows the assessed value of the sites that are publicly and privately held and the total value. The table also shows the number of different public and private owners on each site.

Table 6-5
Assessed Value of Property on Potential Sites

Site	Government Owned	Privately Held	Total	Number of Public Owners	Number of Private Owners
Site B	\$52	\$8,130	\$8,182	1	10
Site C	\$1,305	\$8,349	\$9,654	2	16
Site D	\$0	\$9,983	\$9,983	0	16

Source: Wake County Tax Assessor's Office

There is relatively little disparity in the assessed values of Site C and Site D, but Site B is \$1,472,000 less than either of the others. Site B also benefits from having a smaller number of different landowners, which could make site acquisition relatively easier. Assessed value is not necessarily an indication of the actual purchase price of property. Given that the disparity in costs was not large enough to materially influence the decision on a preferred site unless two sites were very closely ranked, the Site Subcommittee decided to develop an estimate of land acquisition costs subsequent to the selection of a preferred site. The Financing Plan section of this report addresses the estimates of land acquisition costs.

Preferred Site and Physical Planning

LMN Architects prepared concept plans for Sites B, C and D. After a careful analysis of the various relative strengths and weaknesses of the remaining three sites, the Site and Facilities Subcommittees jointly selected Site B as the preferred site. The primary factors that led the Committee to select Site B were:

- Proximity to Fayetteville Street Mall,
- Proximity to the existing Sheraton Capital Center hotel, and

- Relative Attractiveness of planning opportunities afforded by each of the sites.

The appendix includes plans of Sites C and D, along with alternate layouts of Site B.

Site B

The selected configuration on the preferred site locates the exhibit hall at the grade of Dawson Street (the low side of the site), with the meeting and ballroom level above, located at the level of Salisbury Street (the high side of the site). The primary pedestrian convention center entry would be located on the Fayetteville Street Mall, adjacent to the new headquarters hotel. The new convention center lobby would provide access to the drop-off lobby along West Cabarrus by means of a connection under Salisbury.

This configuration would place the exhibit hall under McDowell Street, requiring no street closures. The primary advantages of this configuration are:

- The undesirable bulk of the “big-box” of the exhibit hall and truck dock are largely hidden, buried below grade.
- Trucks enter the loading docks on the southwest corner of the site, prior to entering the downtown core’s City street system.
- The parts of the program that is above grade and “exposed” are the meeting room and ballroom lobbies and prefunction areas, while the lower level truck dock is lidded with retail space. This configuration provides active, pedestrian uses on all sides of the facility.

This approach meets the urban design objectives included in the site evaluation criteria and the committee recommended this layout as the preferred configuration on the selected site. The following figures show different views of the recommended facility concept design.

Figure 6-3
B Phase I



Figure 6-4
View West from Fayetteville Street Mall

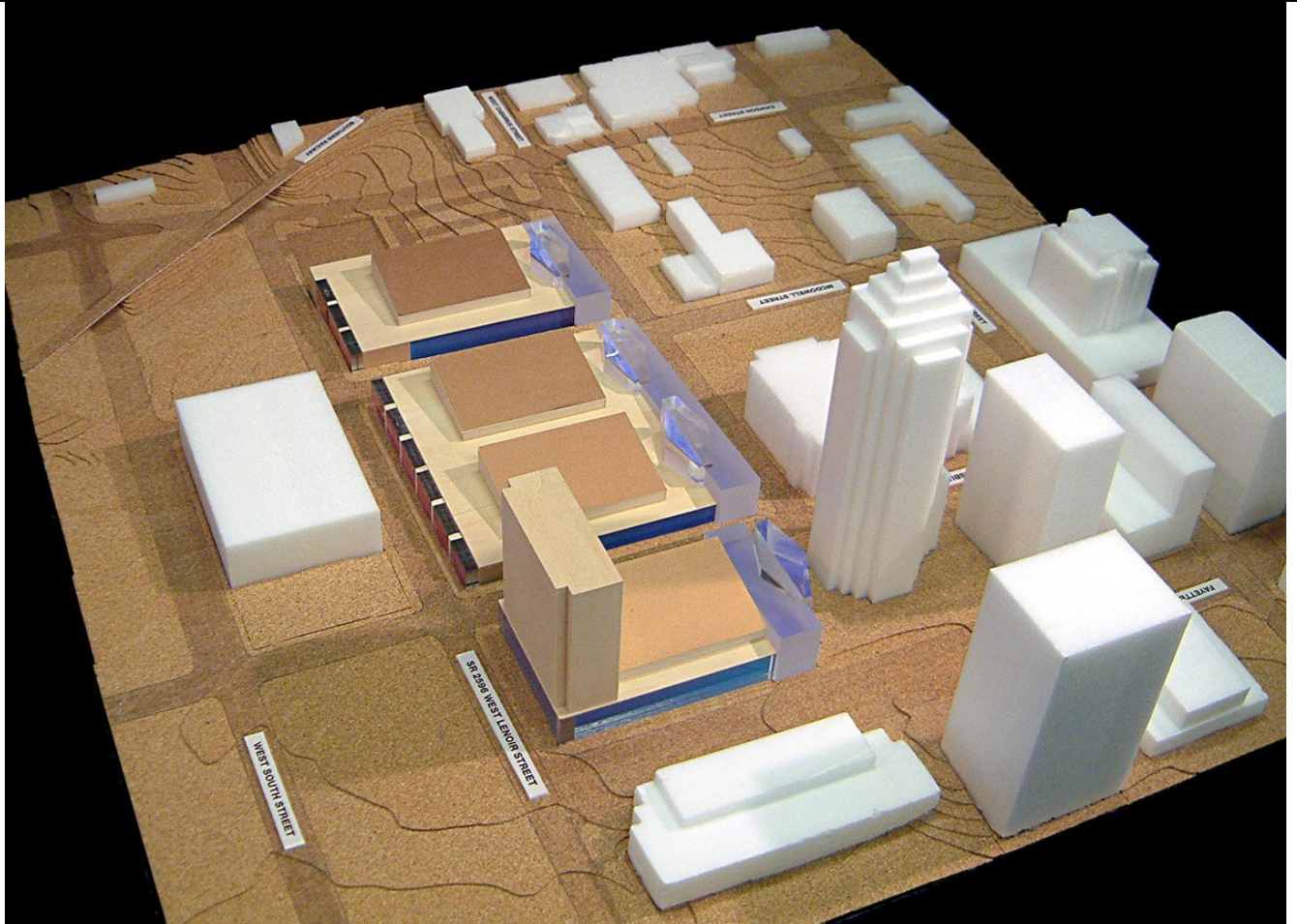


Figure 6-5
View north from Lenoir Street

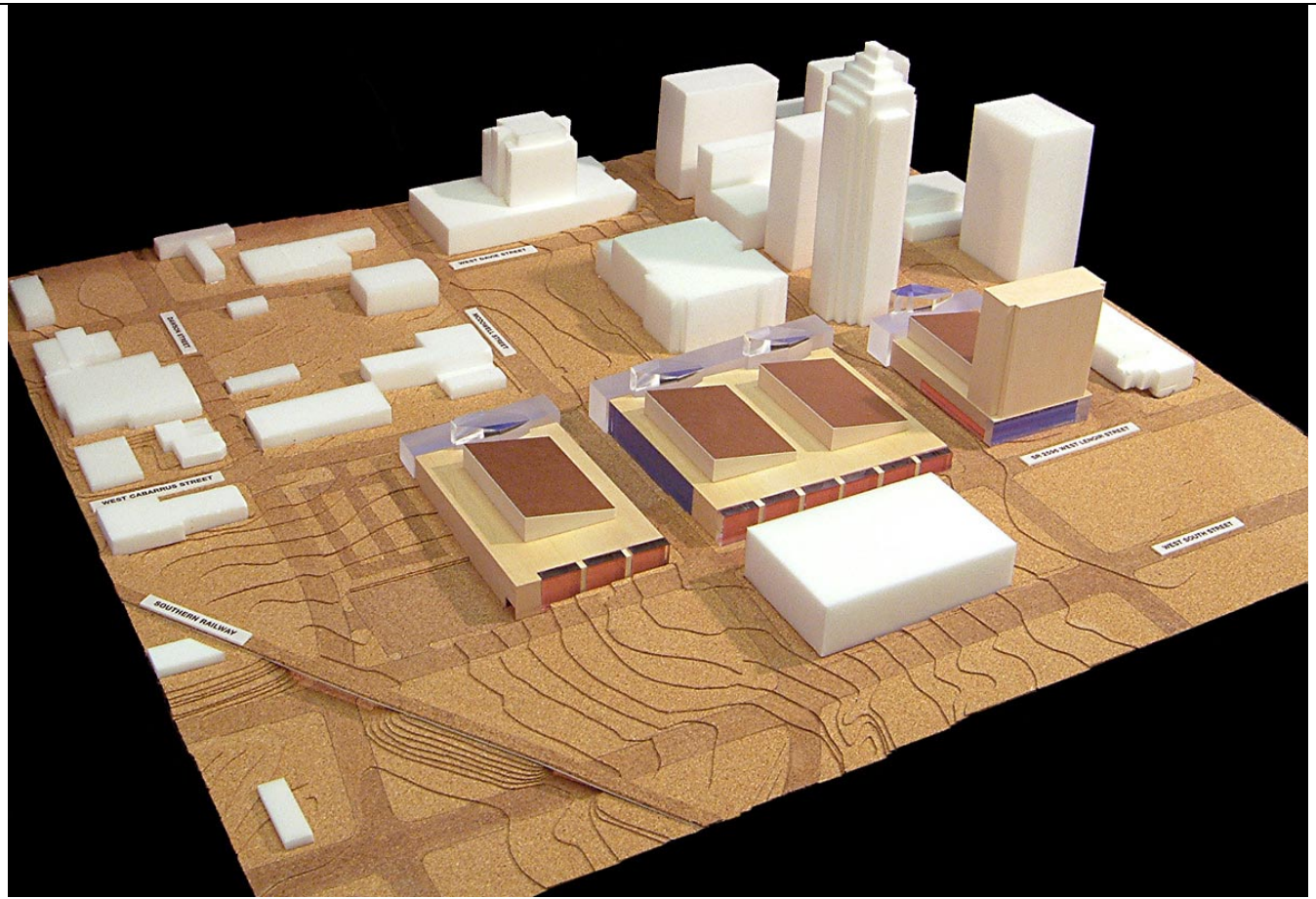
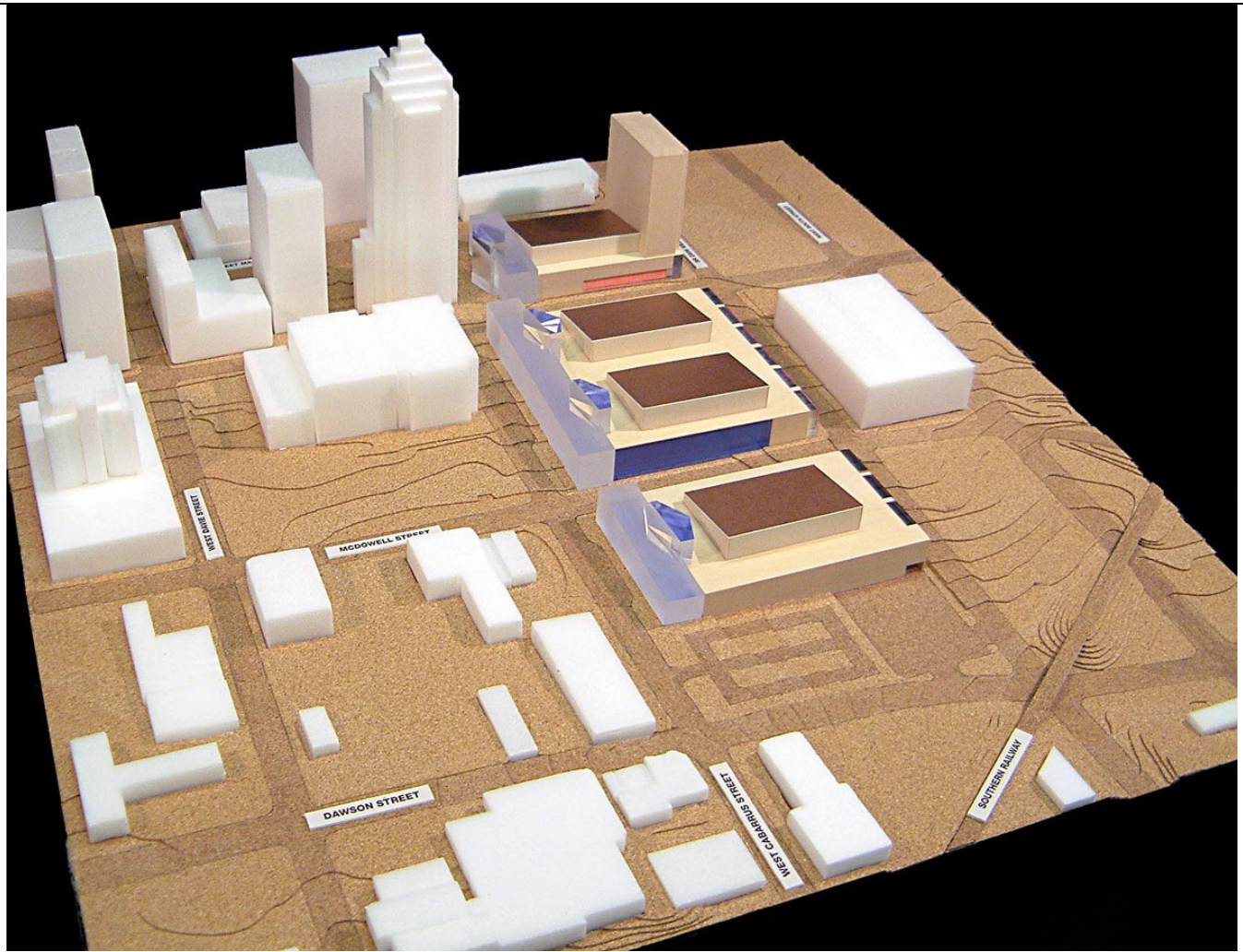


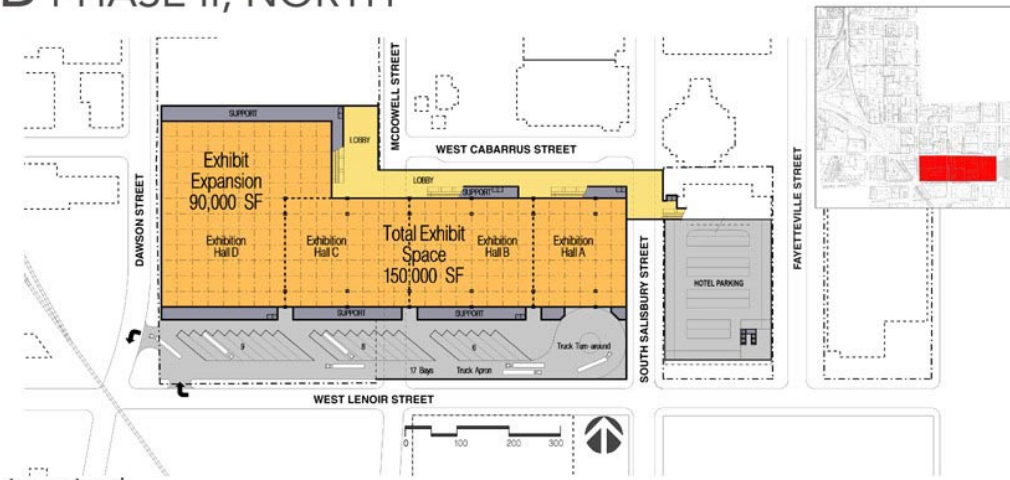
Figure 6-6
View east from Dawson Street



LMN Architects prepared two expansion diagrams for Site B. The north expansion alternative would close West Cabarrus Street and expand the lobby and exhibit hall to the north and west, with the meeting rooms also expanding to the north. The retail “lid” above the loading dock would also expand to the west. To the south, the loading dock would expand to Dawson Street, on the western edge of the site. Figure 6-7 shows the alternative with the expansion to the north.

Figure 6-7
B Phase II, North

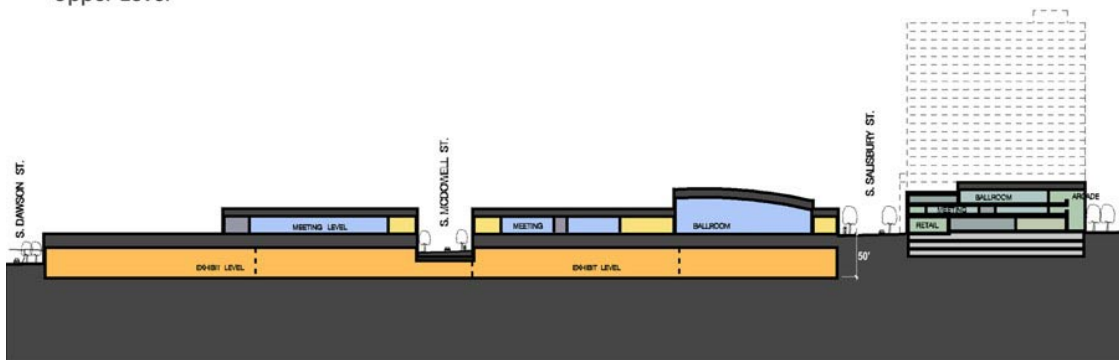
B PHASE II, NORTH



Lower Level



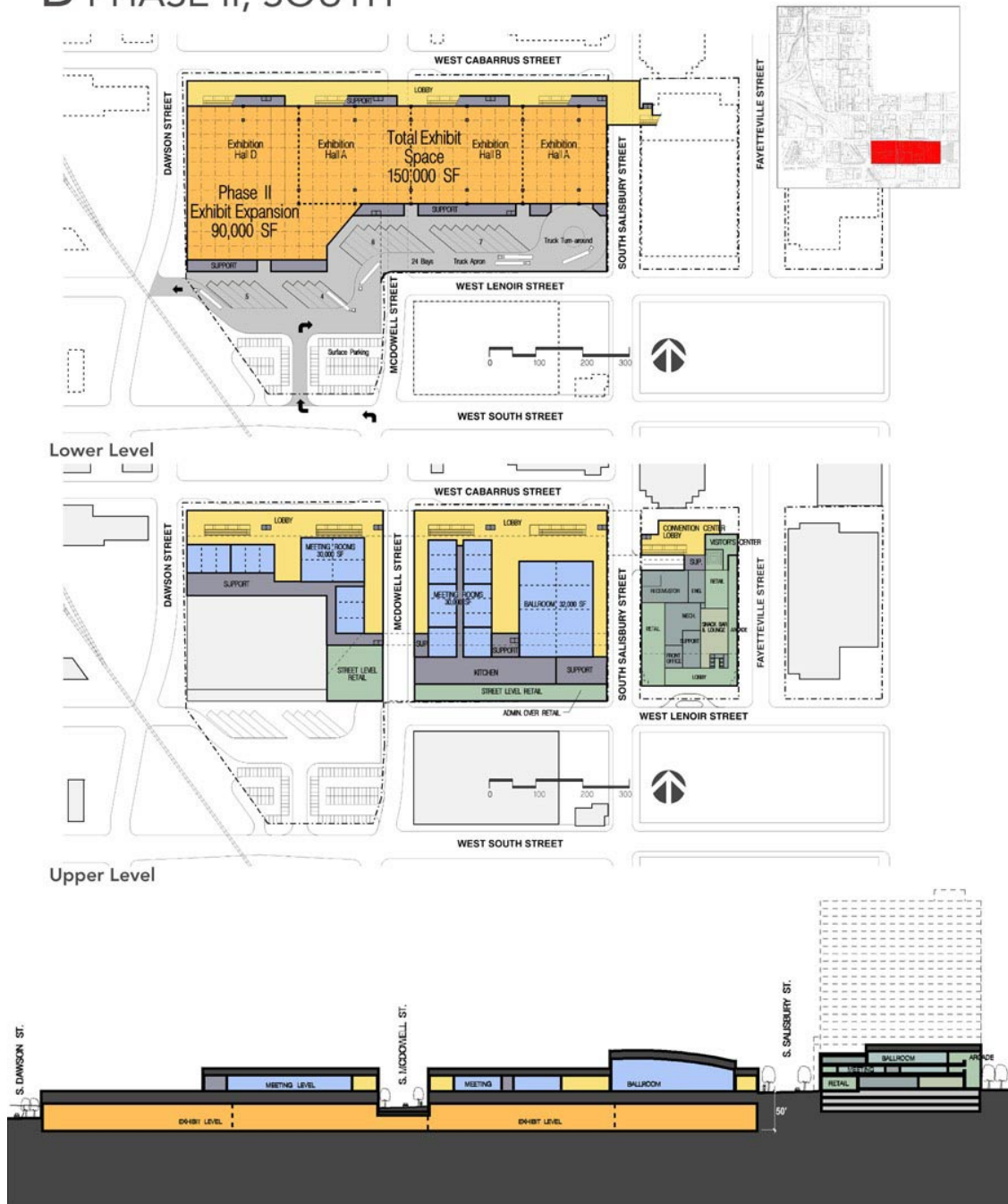
Upper Level



The south expansion alternative would close West Lenoir Street and expand the lobby and exhibit hall to the west and south, with the meeting rooms also expanding to the west on the upper level. The retail “lid” above the loading dock would also expand to the west. To the south, the expansion would extend the loading dock to Dawson Street on the western edge of the site, and across the closed Lenoir Street. Figure 6-8 shows the alternative with the expansion to the south.

Figure 6-8
B Phase II, South

B PHASE II, SOUTH



The Committee did not narrow the possible expansion sites to one or the other, preferring to keep open the possibility that either or both may be required at some point in the future. It is possible that after five-to-ten years of operations the amount of potential convention business Raleigh could capture would necessitate an expansion of the existing exhibit hall of more than the 90,000 square feet identified in each of the two alternatives. Therefore, the committee is recommending that the City of Raleigh and Wake County consider the possibility that both sites may be needed for expansion and to gain control of the adjacent sites. Due to the uncertain nature of future expansion needs, one approach would be to take out an option on the land rather than purchase it at this time, but the exact approach is dependent upon several factors that will be determined in the period when the community funds and develops the initial convention center.

Existing Convention Center

The existing Raleigh Convention & Conference Center (RCCC) is located in the center of the Fayetteville Street Mall right of way, blocking the historical view of the performing arts center from the State Capitol Building. The objectives expressed in the recently completed "Livable Streets" program point to reestablishing the vista and removing the existing convention center. As a practical matter, the existing convention center does not meet current industry standards and topography issues prevent a contiguous expansion of the existing exhibit space contained in the building. Figure 6-9 shows a series of photographs and diagrams of the existing RCCC and photographs of different views in the surrounding area.

Figure 6-9
Existing Raleigh Convention Center



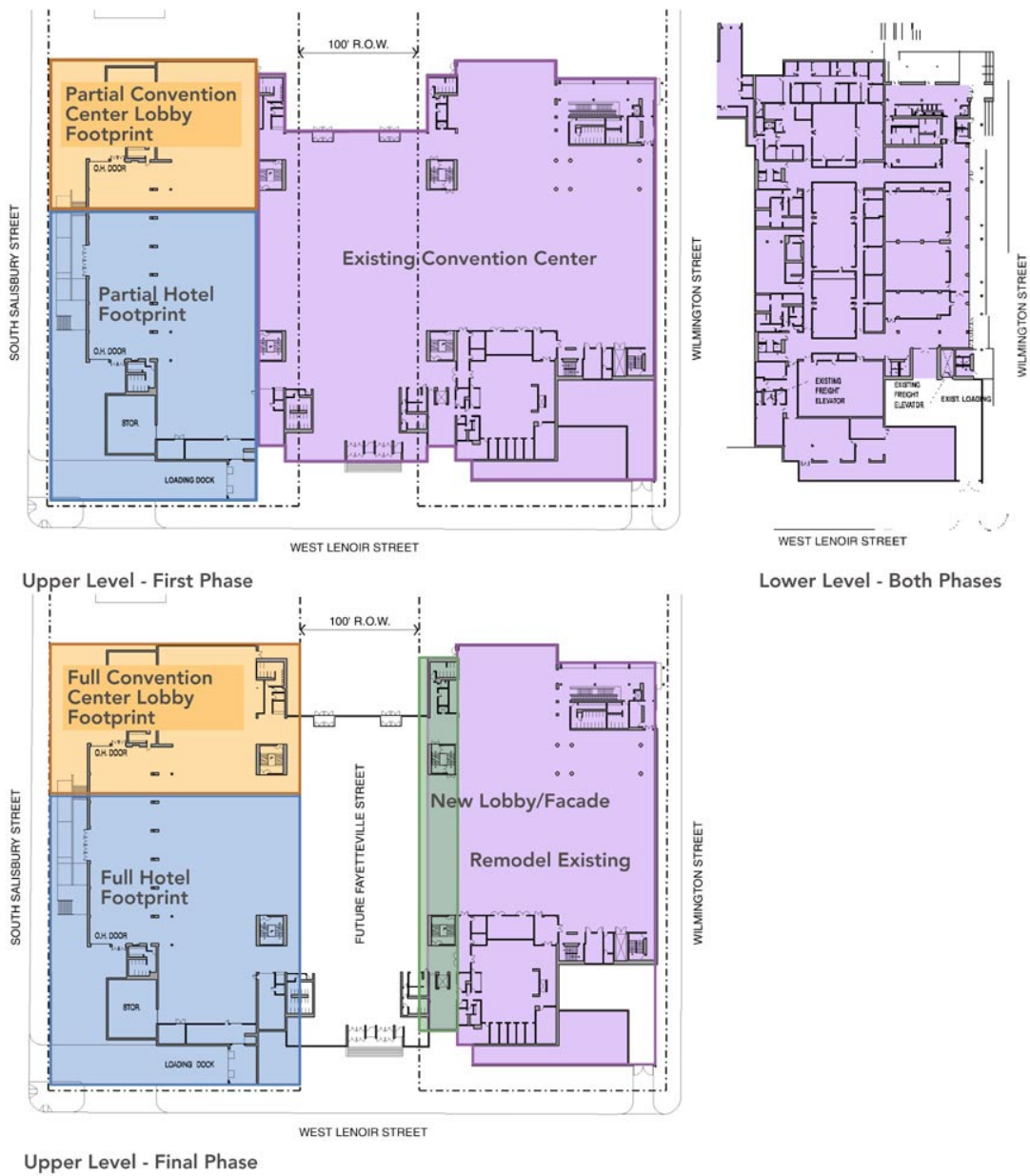
As the physical site limits of Site B include the western half of the existing convention center, phasing of the new construction is important in order to keep the existing building in operation for as long as possible, minimizing construction impacts to the RCCC's event schedule. The phasing diagrams outline a conceptual approach to accomplishing that objective.

Phase One would demolish the portion of the RCCC west of the existing stairs including the structure just west of the Fayetteville Street right of way. This would create the footprint for the new hotel and convention center lobby. The south lobby would serve as a loading dock for the existing building, as occurs currently. When operations of the existing building can be moved into the new building, several months prior to opening, the existing building would be further demolished – at least to a point on the east side of the Fayetteville Street right of way, restoring the vista between the State Capital and the BTI Center. The eastern portion of the existing building could be retained or remodeled with the addition of a new lobby along Fayetteville Street, or could be demolished. The recommended program plan does not include any portion of the existing building in the recommended facility needs for the new Raleigh Convention Center. Therefore, any future use of the remaining portion of the existing RCCC would be independent of the operations of the new convention center. The scope of this analysis does not

include an assessment of the need for or market potential of future operations of the portion of the RCCC that does not need to be demolished to accommodate the new convention center and headquarters hotel and restore the vista between the State Capital and the BTI Center. Figure 6-10 shows the phasing diagrams for the new Raleigh Convention Center.

Figure 6-10
New Raleigh Convention Center Site B Phasing Plans

B PHASING PLANS



7. Financing Plan

The purpose of this section is to provide a financing plan for the proposed new Raleigh convention center and recommendations for an approach to financing the recommended hotel project. This section looks at industry trends, presents case studies of convention center financings, discusses the resources available to finance the project, and offers a proposed approach to financing. The financing of each component of the overall project is a separate part of the plan, but each are interrelated.

The primary focus of this section is on the public financing of the convention center. Private sources would provide the primary financing for the hotel and the specific hotel finance plan would result from negotiations with a development team. However, HVS analyzes and comments on the capacity of the projected net operating income of the hotel to support debt service.

The convention center project would require the City to issue long-term bonds to fund the development of the new facility. Consideration of funding the projected operating deficits of the convention center and providing funding for marketing are also important to the success of the financing plan. As in most communities, a high level of commitment and a coordinated community-wide effort that includes city and county governments and the private sector will be necessary to successfully fund this project.

Industry Background

In the United States, cities almost always finance the construction of civic centers and convention facilities with public debt, which is repaid over a 20- to 30-year period. Cities justify public investment on the basis of the potential economic impact of a project or because it represents the development of a community asset with broad support that would not be developed without public spending.

Projects that are relatively small or that are financed in municipalities with rapidly growing tax bases are sometimes paid for directly out of appropriated funds. However, this type of pay-as-you-go financing is not common for large projects such as convention centers. In Raleigh, as in most cities, the difficulty

of providing sufficient revenues to pay for the entire project during the construction period effectively eliminates the pay-as-you-go option.

Long-term debt provides the funding for the majority of facilities so that the payment of capital costs corresponds to the period over which the facility is used and its economic and public benefits are realized. Cities typically structure the debt in the form of bonds. One strategy to repay these bonds is to use general fund revenue, backed by the full faith and credit of the subject government, to make scheduled payments over the life of the bonds. These are called general obligation bonds.

Another strategy to repay bonds is to use revenues from specific tax sources to make debt payments. Bonds repaid from specific dedicated sources are called revenue bonds. Cities often target those taxes or fees that derive from the activities or businesses that are most likely to use, or otherwise benefit from, the facility. Hotel room occupancy taxes, sales taxes, car rental fees, parking taxes, food and beverage taxes, airport access fees, and development fees are the revenue sources most commonly used to repay debt service for civic and convention center revenue bonds. In addition, cities frequently use these tax sources to finance ongoing operating and marketing needs of the facility.

The type of bonds used for particular projects depends on the size of the investment, lending rates, the creditworthiness of the borrowing entity, and the availability of revenue sources to repay the debt. The mix of revenue sources selected for particular projects depends on the comparative level of existing taxes or fees, as well as what is considered to be both fair and feasible under the unique political and economic circumstances of each development. In Raleigh, hotel room and food and beverage taxes have been established explicitly for the purpose of construction, marketing, and maintaining a new convention center.

Case Studies

A brief overview of financing methods and strategies used in other cities around the country can be useful to demonstrate a range of options that have been applied in different situations. HVS identified a number of recent projects to use as examples. Table 7-1 below summarizes financing deals for public facilities that have occurred in these other cities around the country during the past decade.

Table 7-1
Financing Public Facilities in Other Cities

Facility	City	Issuer	Amount Issued	Types of Debt	Source of Payment	Source of Credit
Greater Richmond Convention Center	Richmond	Greater Richmond Convention Center Authority	\$158 M	Revenue Bonds	Lodging Tax	Lodging Tax
Midwest Airlines Center	Milwaukee	Wisconsin Center District	\$184 M	Revenue Bonds	Hotel, F&B, Car Rental Tax	Moral obligation pledge from State of WI
Georgia International Convention Center	College Park	College Park Business and Development Authority	\$29 M	Revenue Bonds	Hotel, Drinks, Property Tax	
Orange County Convention Center	Orlando	Orlando County	\$380 M	Revenue Bonds & Com Paper	Sales, Tourism Develop. Tax	City pledge portion of Sales Tax
McCormick Place	Chicago	State of Illinois	\$800 M	General Obligation Bonds	Hotel, Meals, Airport, Car Tax	Moral obligation pledge from State of IL
Cox Business Services Convention Center	Oklahoma City	Oklahoma City	\$346 M	Revenue Bonds	Sales Tax	City pledge incremental Sales Tax

Source: HVS

The following brief case studies illustrate methods that other communities have utilized to finance convention centers. The case studies feature various types of financing strategies.

Greater Richmond Convention Center Richmond, Virginia

The Greater Richmond Convention Center Authority (Authority), a political subdivision of the Commonwealth of Virginia, was created on January 9, 1998 pursuant to the Public Recreational Facilities Authority Act, Chapter 56 of Title 15.2, Code of Virginia. The political subdivisions participating in the incorporation of the Authority are the City of Richmond and the Counties of Chesterfield, Hanover, and Henrico. These municipalities recognized that convention centers function as regional facilities and that a regional authority would enable the communities to jointly operate and finance the facility. A five-member commission comprised of the chief administrative officer of each of the four incorporating subdivisions and the President and CEO of the Retail Merchants Association of Greater Richmond governs the Authority.

The City of Richmond would not have been capable of financing the expansion of the Richmond Center on its own without suffering considerable fiscal distress. An initial \$10-million equity contribution from the State enabled project planning, land acquisition, and design work to proceed. In order to reflect its relative share of the benefit of the convention center, the City of Richmond agreed to pay for approximately half of the construction costs. However, its share of available lodging-tax revenue was not initially

sufficient to cover half of the annual debt service and operating deficit. An inter-local agreement allows the City of Richmond to effectively borrow a portion of its share from the other participating localities until the city's lodging-tax revenue grows to a level that is sufficient to cover half of the cost and repay the other municipalities.

The Authority's charge was to acquire, finance, expand, renovate, construct, lease, operate, and maintain the facility and grounds of a visitors and convention center or centers including the facility and grounds known as the Richmond Center. The Authority is also charged with constructing access, streetscape, and any other on-site and off-site improvements. Each participating municipality pledged its gross revenues from the assigned lodging taxes to pay the Authority's debt and operating deficits. Any funds remaining after such debt service requirements and operating deficits are paid may be returned to the localities at the discretion of the Authority.

The surrounding counties agreed to this financing approach for several reasons:

- The regional benefits of a vibrant downtown core and the important role that an expanded convention facility would play in strengthening that core,
- The benefits of having a large events venue capable of hosting national and regional consumer and cultural events and other civic functions,
- The economic benefits they will receive in increased hotel, restaurant, recreational, and other visitor spending that will occur within their communities, and
- The increased national and regional exposure that the expanded facility would generate through the incremental increase in out-of-area visitors to the region.

The formation of the Authority and the inter-local agreement required a great deal of intergovernmental cooperation over a period of approximately ten years. The Authority successfully funded the construction of a new convention center, the Greater Richmond Convention Center, which opened February 23, 2003.

**Midwest Airlines
Center
Milwaukee, Wisconsin**

The County and City of Milwaukee (separate but overlapping jurisdictions) also used a district approach to finance a new downtown convention center. The Wisconsin Center District (District) is a “local exposition district” with limited taxing powers created under the 1993 Wisconsin Act 263.

The District Board is composed of appointees from the state, city, and county governments. The District was established to assume ownership of then-existing convention facilities and to construct and expand such facilities. In January 1996, the District issued \$184 million of dedicated tax revenue bonds to finance the development of the Midwest Airlines Center, the first phase of which was completed in July 1998. In order to maximize financing capacity and reduce borrowing costs, the District issued senior and subordinated debt. Certain tax revenues remaining after the payment of debt service requirements are used to fund the operation of District assets and the marketing efforts of the Greater Milwaukee Convention and Visitors Bureau. In order to enhance the creditworthiness of the issuance, the State of Wisconsin provided its moral obligation to back the debt issuance.

The first phase included construction of a new 127,000-square foot exhibition hall, a 38,000-square foot ballroom, 32 meeting rooms, and associated pre-function and service areas. The prior convention facility remained in operation during and after the first phase. The second phase, which was completed in December 1999, involved the demolition of the former convention facility and expansion of the exhibition hall to approximately 188,000 square feet.

The District generates its tax revenues from a hotel occupancy tax, a local food and beverage tax, and a local car rental tax. The District also produces net operating income or a net operating deficit from operations of its facilities, which include the Midwest Airlines Center, the U.S. Cellular Arena, and the Milwaukee Theatre. Central oversight of these various public assembly facilities enables the District to prioritize its capital financing needs on a District-wide basis and address its most pressing needs.

**Georgia International
Convention Center
College Park, Georgia**

The Georgia International Convention Center (GICC) was constructed in two phases, both of which were bond-financed. The College Park Business and Development Authority issued \$16 million in tax-exempt bonds in 1985 to finance the initial construction of the facility. In 1990, the Authority issued an additional \$28.5 million to finance an expansion of the facility. The 1990 issue was split into a taxable and a tax-exempt series. The taxable proceeds from this debt issuance were used to finance a portion of the facility shared by the GICC and its adjoining hotel.

**Orange County
Convention Center
Orlando, Florida**

Three different revenue sources repay the debt on the GICC's bonds. First, net revenues of GICC operations are pledged to repay bonds. However, the GICC generally breaks even or experiences an operating deficit and has required tax support to cover its shortfalls. Second, a hotel tax and an excise tax on mixed-drink sales in the City of College Park are pledged to pay the debt service. These taxes generate approximately \$4.5 million annually. Third, a special taxing district for the area that surrounds the GICC helps fund the facility. A separate tax is levied on all real and personal property within the district at a rate of 0.75 cents per \$100 of assessed valuation. The special district levy generated approximately \$900,000 in 1995.

Aside from a land grant by the Lockheed-Martin Corporation, public sources financed the entire Orange County Convention Center (OCCC). Subject to voter approval, Florida counties have statutory authority to levy a tourist development tax of up to four percent on hotel and accommodation charges. Orange County voters originally approved a two-percent tax, and in 1989 approved an increase to the current rate of four percent.

The OCCC was constructed in four phases. Public bonds primarily financed all four phases of construction, although the County made small equity contributions from excess tourist development taxes. In 1994, the County issued \$165 million in revenue bonds and contributed \$70 million in commercial paper proceeds to finance portions of the Phase III and IV expansions. The commercial paper debt is subordinate to the tourist development revenue bonds and would be paid from future excess tourist development tax collections. The subsequent expansion phase had a projected cost of \$145 million, which was to be funded by an additional \$86 million in tourist development tax revenue bonds and County commercial paper issuance.

The revenue bonds are payable from three sources: net revenues of the convention center, tourist development tax revenues, and a portion of the City of Orlando's sales tax revenues (up to \$5.25 million per year). The County's tourist development tax collections support debt service and operations of the OCCC. In 1995, tourism development taxes generated over \$51 million in revenue. The City of Orlando initially pledged a portion of its sales tax revenues to increase debt service coverage. The achievement of certain coverage targets triggers the release of this pledge.

All revenue bond issues related to the OCCC have received an "A" rating or have been insured based on the strength of tax collections and Orange County's substantial tourism base. After the most recent bond issue in 1994,

the coverage ratio of annual tax revenues to annual debt service (based on historical tax revenues) declined to 1.24 from 1.70. Despite the smaller coverage ratio, Moody's Investors Service affirmed an "A" rating because of the strong history of tax collections, the tourism base, and the ability of the County to make equity contributions to Phases IV and V from accrued excess tax revenues. These excess revenues have been transferred to the OCCC's renewal and replacement fund and would be used to make equity contributions to future expansions and capital improvements.

**McCormick Place
Chicago, Illinois**

The Metropolitan Pier and Exposition Authority owns and operates the McCormick Place convention complex. The governor of Illinois and the mayor of Chicago appoint the Authority's board members. The governor, with approval of the mayor, selects the Board Chair.

Two sources financed the \$312 million expansion of McCormick Place in 1985: 1) the State increased the sales tax on soft drinks and issued \$60 million in bonds backed by the State sales tax, and 2) State tax revenue bonds supported by a dedicated state hotel tax, which provided \$252 million.

The subsequent McCormick Place expansion required \$987 million in funding that included several infrastructure improvements. The city's and the state's share of infrastructure costs totaled approximately \$187 million. State general obligation bonds were issued and provided the underlying credit for the bonds. However, repayment of the bonds was supported by a mix of local taxes levied by the Authority, including a hotel tax, a restaurant tax levied on a special district within Chicago, an airport access fee, and a car rental tax.

**Cox Business Services
Convention Center
Oklahoma City,
Oklahoma**

The citizens of Oklahoma City voted to approve and extend a one-cent sales tax to support a collection of public recreation, entertainment, educational and cultural facilities known as Oklahoma City's Metropolitan Area Projects (MAPS). A five and one-half year, one-cent sales tax will fund the \$346-million MAPS initiative. In 1999, the City expanded and upgraded its Cox Business Services Convention Center (Cox Convention Center) (formerly the Myriad Convention Center and originally constructed in 1972) with a new 25,000-square foot ballroom, 21 new meeting rooms, new registration and pre-function areas, and a renovated exhibit hall. The City has also constructed a new downtown arena directly across the street from the Cox Convention Center. The arena has a seating capacity of approximately 20,000.

The MAPS program also includes a new downtown minor league baseball stadium, a renovated Civic Center Music Hall, a canal in the Bricktown redevelopment area, a seven-mile development of the North Canadian River

including three dams, State Fairgrounds improvements, a new downtown Library Learning Center, and a rubber-tired trolley transit system. The MAPS program has generated additional private investment in downtown Oklahoma City, including the Renaissance Hotel, with 311 rooms, adjacent to the Cox Convention Center. Additional planned projects include a performing arts theater, a restaurant, and a retail complex to be located one block east of the Cox Convention Center in Oklahoma City's historic Bricktown entertainment and restaurant district.

Revenue Sources for Financing Debt

If a city uses revenue bonds to finance a civic center project, the city must decide which revenue source or sources are appropriate and feasible for paying off the bonds. The most frequently used sources of debt service financing for civic and convention centers around the country are revenues from the following types of taxes:

- Hotel,
- Sales,
- Prepared food & beverage, and
- Auto rental.

The following points summarize the characteristics of various taxing tools available for the proposed convention center project in Raleigh:

Hotel Tax – Hotel taxes have the major advantage of primarily taxing out-of-town visitors rather than local residents. Convention centers in Chicago, Orlando, Los Angeles, New Orleans, Atlanta, Charlotte, Houston, Indianapolis, Miami, Philadelphia, St. Louis, and San Francisco, among many others, pay the debt service on their convention centers totally or in part with dedicated hotel tax revenues.

Food & Beverage Tax – Taxes on prepared meals (i.e. restaurants) have been used in several cities, particularly in the Midwest, to support the costs of convention and sports facilities. Like hotel taxes, they are directed toward beneficiaries of the project and to some extent, non-residents. A subset of an overall sales tax, meals taxes can also generate substantial revenue. In some cases it can be difficult to define the appropriate geographic boundaries within which such a tax should be applied.

Other Sources – Other potential funding sources include private equity, developer equity, car rental taxes, taxi airport access fees, and parking taxes.

Taxing Capacity

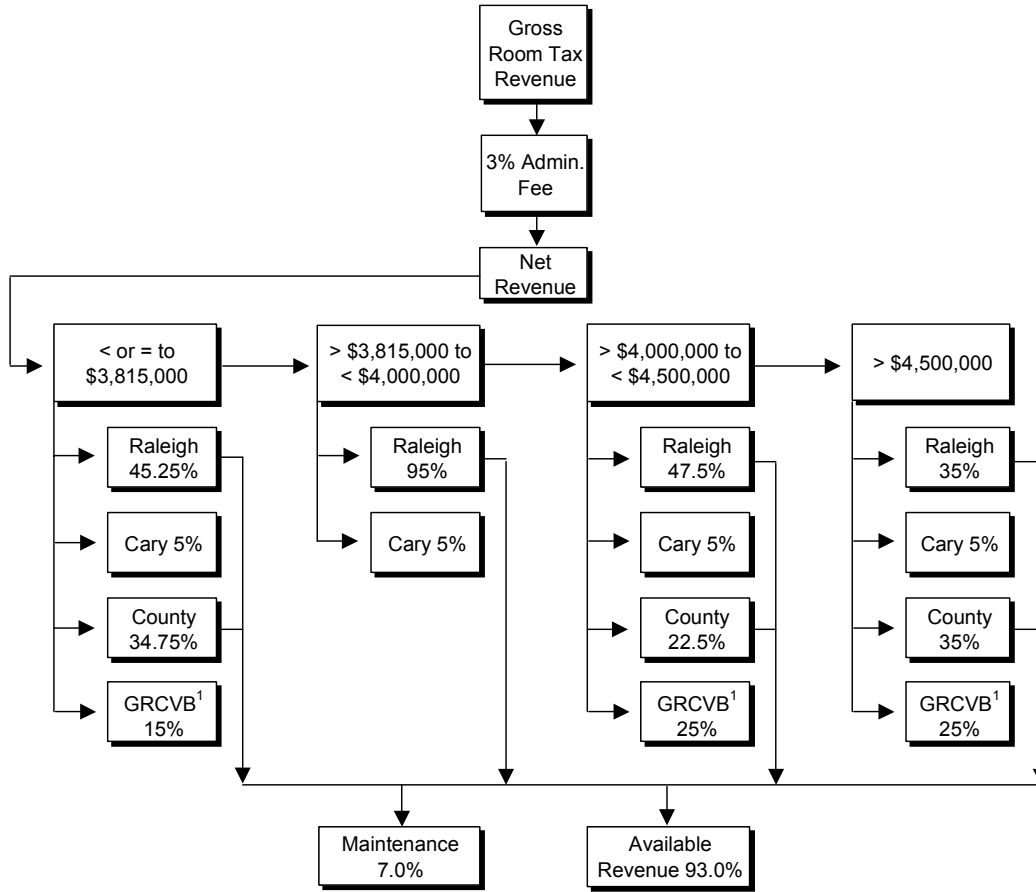
The State of North Carolina authorizes Wake County to levy taxes on the rental of hotel rooms and on the sale of prepared food and beverages (collectively referred to herein as the Taxes).

Description of the Room Tax

The State of North Carolina approved a Wake County Room Occupancy Tax (Room Tax) of up to 6.0 percent in 1991. No other municipalities within the boundaries of Wake County (County) are authorized to enact a room tax. The authorizing legislation established a formula for the distribution of Room Tax revenue to the County, the City of Raleigh (City), the Town of Cary, and the Greater Raleigh Convention and Visitors Bureau (GRCVB). Use of Room Tax revenue is, for the most part, restricted to the construction of public assembly facility projects and for the development of tourism and cultural activities. The legislation also requires the City and the County to enter into an interlocal agreement on the type and general location of capital projects to be funded with the proceeds of the tax. The County levied the Room Tax, which became effective on January 1, 1992, at the maximum rate of 6.0 percent. The City administers and collects the tax and retains a 3.0 percent administrative fee on gross revenues.

Figure 7-1 shows the Room Tax distribution formula.

**Figure 7-1
Room Tax Distribution Formula**



¹ The GRCVB is guaranteed to receive a minimum of \$1 million per year.

Sources: City of Raleigh and Wake County

The municipalities of Wake County, the City of Raleigh, and the Town of Cary each get a share of the Room Tax revenue based on a formula tied to the total amount of net revenue. The GRCVB also receives a percentage of net Room Tax revenue based on such a formula. The GRCVB receives 15 percent of the first \$3,815,000 in net Room Tax revenue. In addition, the GRCVB receives 25 percent of net Room Tax revenue of \$4.0 million or more. The formula includes a provision that guarantees the GRCVB a minimum of \$1.0 million per year. To date, the GRCVB’s share of Room Tax revenue has always exceeded \$1.0 million. The remaining revenues from the Taxes are

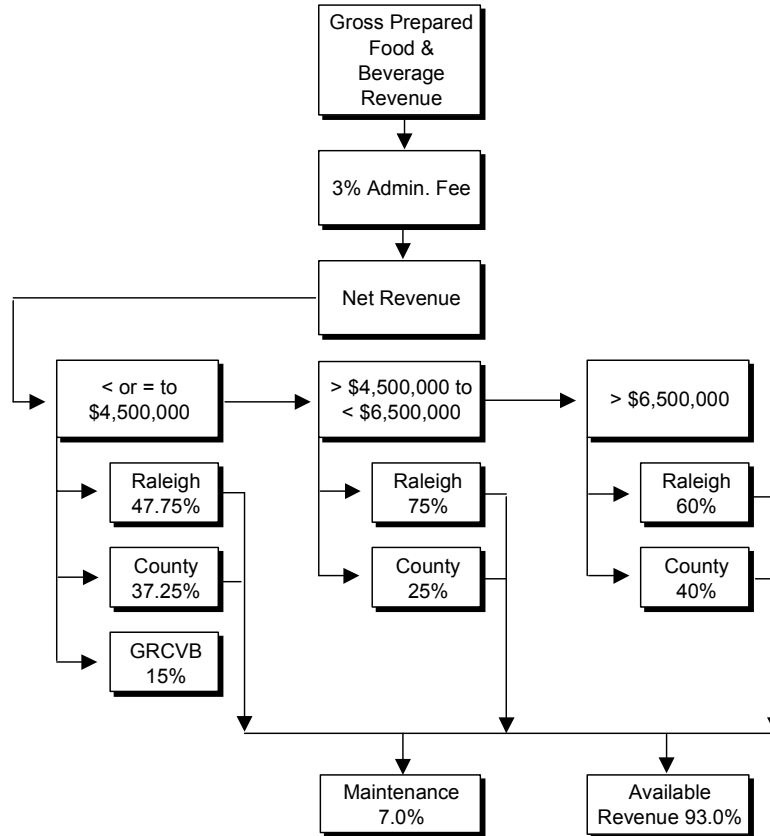
available for capital improvement projects authorized under the legislation (Available Revenue).

Description of Prepared Food and Beverage Tax

The State of North Carolina authorized a Prepared Food and Beverage Tax (F&B Tax) under G.S. 105-64.4(a)(1). The Wake County Board of Commissioners levied a 1.0 percent tax on the sale price of prepared food and beverages effective January 1, 1993. This tax is applicable to all prepared food and beverages sold at retail for consumption, on or off the premises, by any retailer with sales in Wake County that are subject to sales tax imposed by the State. This tax is collected by the merchant, in addition to N.C. State Sales Tax, and is remitted to the county on a monthly basis.

Any food or beverage which is prepared to the order of the purchaser or which is cooked and/or maintained at or near the cooking temperature or kept at or above room temperature to make it, or for it to remain, palatable and suitable prior to sale, shall be considered to be made available for immediate consumption and subject to the F & B Tax. Figure 7-2 shows the F & B Tax distribution formula.

Figure 7-2
F & B Tax Distribution Formula



Sources: City of Raleigh and Wake County

Unlike the Room Tax, distributions of the F & B Tax do not include the Town of Cary. The City and County cap contributions from the F & B Tax revenues to the GRCVB at 15 percent of the first \$4.5 million in net revenue, or \$675,000.

Use of the Tax Revenues

The authorizing legislation describes the purposes for which the City and the County can use revenue derived from the Taxes. The County administers the Taxes and receives a three percent administrative fee. The amount of revenue from the Taxes remaining after the deduction of administrative fees is referred to as “Net Tax Revenue.”

The City may use the first \$680,000 of the Net Tax Revenue to fund the acquisition, construction, financing, debt servicing, maintenance, or operation of convention centers, civic centers, performing arts centers, coliseums, auditoriums, and museums. The City can also use Net Tax Revenue for off-street parking in conjunction with such facilities, and to fund visitor-related programs and activities, including cultural and festival programs and activities of the GRCVB. The City is to use any additional Net Tax Revenue for the acquisition, construction, renovation, financing, debt service, maintenance, and operation of expansions and additions to the Raleigh Civic Center Complex (referred to in this report as the Raleigh Convention and Conference Center) or similar facilities, and the construction of sports, cultural, and arts facilities.

The County may expend Net Tax Revenue only for the Raleigh Civic Center Complex or similar facilities or for construction of sports, cultural, and arts facilities. Both the City and the County can expend Net Tax Revenue only after they have agreed on the amount and purpose of the expenditure and the respective governing bodies have approved of the expenditure in a resolution. The primary use of Net Tax Revenue to date has been the funding of the RBC Center arena. The City and County have also used these funds to develop Exploris Museum and a number of smaller projects.

Historical Collections

Table 7-2 shows the historical growth of the two taxes from their inception through 2002.

Table 7-2
Historical Room Tax and Occupancy Tax Receipts

Fiscal Year	Room Tax		Food & Beverage Tax	
	Gross Receipts	% Change	Receipts	% Change
1992 ¹	\$2,217,328	--	\$0	--
1993 ²	\$5,126,514	131.2%	\$2,296,595	--
1994	\$5,443,045	6.2%	\$5,790,558	152.1%
1995	\$6,314,461	16.0%	\$6,200,999	7.1%
1996	\$7,019,692	11.2%	\$6,826,269	10.1%
1997	\$8,295,744	18.2%	\$7,388,035	8.2%
1998	\$8,867,779	6.9%	\$7,264,714	-1.7%
1999	\$9,773,588	10.2%	\$8,617,689	18.6%
2000	\$11,063,803	13.2%	\$9,328,661	8.3%
2001	\$11,270,248	1.9%	\$10,060,735	7.8%
2002	\$9,814,845	-12.9%	\$10,641,584	5.8%
CAGR Room Tax 1993-2002		7.5%		
CAGR Prepared F&B Tax 1994-2002				7.9%

¹ Room Tax initiated January 1, 1992 (half fiscal year of collections)

² Prepared F&B Tax initiated January 1, 1993 (half fiscal year of collections)

Source: Wake County

Gross Room Tax receipts have grown at a compound annual growth rate of 7.5 percent from FY1993 through 2002. The F & B Tax gross receipts have grown at a compound annual growth rate of 7.9 percent from FY1994 through 2002. In FY2002, Room Tax revenue declined sharply, by 12.9 percent, as the combined effects of a struggling economy and safety concerns resulted in a reduction in travel. Revenue growth in the F & B Tax in FY2002 was the lowest in five years, but receipts still increased by 5.8 percent over the prior year.

Table 7-3 shows the County and City's projections of gross Room Tax and F & B tax receipts through 2033.

Table 7-3
Projected Room Tax and F & B Tax Receipts

Fiscal Year	Gross Room Tax Receipts	Growth Rate	Prepared Food & Beverage Tax Receipts	Growth Rate	Total Room and F&B Receipts	Growth Rate
2004	10,109,000	--	11,620,000	--	21,729,000	--
2005	10,412,000	3.00%	12,201,000	5.00%	22,613,000	4.07%
2006	10,724,000	3.00%	12,811,000	5.00%	23,535,000	4.08%
2007	11,046,000	3.00%	13,452,000	5.00%	24,498,000	4.09%
2008	11,377,000	3.00%	14,125,000	5.00%	25,502,000	4.10%
2009	11,718,000	3.00%	14,831,000	5.00%	26,549,000	4.11%
2010	12,070,000	3.00%	15,573,000	5.00%	27,643,000	4.12%
2011	12,432,000	3.00%	16,352,000	5.00%	28,784,000	4.13%
2012	12,805,000	3.00%	17,170,000	5.00%	29,975,000	4.14%
2013	13,189,000	3.00%	18,029,000	5.00%	31,218,000	4.15%
2014	13,585,000	3.00%	18,930,000	5.00%	32,515,000	4.15%
2015	13,993,000	3.00%	19,877,000	5.00%	33,870,000	4.17%
2016	14,413,000	3.00%	20,871,000	5.00%	35,284,000	4.17%
2017	14,845,000	3.00%	21,915,000	5.00%	36,760,000	4.18%
2018	15,290,000	3.00%	23,011,000	5.00%	38,301,000	4.19%
2019	15,749,000	3.00%	24,162,000	5.00%	39,911,000	4.20%
2020	16,221,000	3.00%	24,609,000	1.85%	40,830,000	2.30%
2021	16,708,000	3.00%	25,064,000	1.85%	41,772,000	2.31%
2022	17,209,000	3.00%	25,528,000	1.85%	42,737,000	2.31%
2023	17,725,023	3.00%	26,000,590	1.85%	43,725,613	2.31%
2024	18,256,519	3.00%	26,481,929	1.85%	44,738,447	2.32%
2025	18,803,952	3.00%	26,972,178	1.85%	45,776,130	2.32%
2026	19,367,801	3.00%	27,471,503	1.85%	46,839,304	2.32%
2027	19,948,556	3.00%	27,980,073	1.85%	47,928,629	2.33%
2028	20,546,727	3.00%	28,498,057	1.85%	49,044,783	2.33%
2029	21,162,833	3.00%	29,025,630	1.85%	50,188,463	2.33%
2030	21,797,414	3.00%	29,562,970	1.85%	51,360,384	2.34%
2031	22,451,024	3.00%	30,110,258	1.85%	52,561,281	2.34%
2032	23,124,232	3.00%	30,667,677	1.85%	53,791,909	2.34%
2033	23,817,627	3.00%	31,235,416	1.85%	55,053,043	2.34%

Source: Wake County

The assumed growth rates for Room Tax and F & B Tax revenues in the preceding estimates are both well below historical levels. The Room Tax revenue estimates assume a stable long-term growth rate of 3.0 percent, which is less than half the historical compound annual growth rate of 7.5 percent. The F & B Tax revenue estimates assume 5.0 percent annual growth through 2019 and 1.85 percent thereafter, a compound annual growth rate of

3.5 percent that is also less than half the historical compound annual growth rate of 7.9 percent.

Table 7-4 shows City/County estimates of the remaining taxes that are not committed to other projects (Uncommitted Funds). Uncommitted Funds may be used to fund any number of projects in addition to improved convention facilities. At the direction of the City and its financial advisors, HVS calculated the available resources for the convention center project assuming the use of 70, 75, and 80 percent of the Uncommitted Funds.

Table 7-4
Estimated Future Uncommitted Funds

Fiscal Year	Uncommitted Funds	70%	75%	80%
2004	7,753,999	5,427,799	5,815,499	6,203,199
2005	8,469,445	5,928,612	6,352,084	6,775,556
2006	9,216,745	6,451,722	6,912,559	7,373,396
2007	9,998,324	6,998,827	7,498,743	7,998,659
2008	10,814,454	7,570,118	8,110,841	8,651,563
2009	11,666,668	8,166,668	8,750,001	9,333,334
2010	12,558,304	8,790,813	9,418,728	10,046,643
2011	13,489,632	9,442,742	10,117,224	10,791,706
2012	14,463,088	10,124,162	10,847,316	11,570,470
2013	15,480,476	10,836,333	11,610,357	12,384,381
2014	16,543,330	11,580,331	12,407,498	13,234,664
2015	17,655,259	12,358,681	13,241,444	14,124,207
2016	18,817,164	13,172,015	14,112,873	15,053,731
2017	20,031,751	14,022,226	15,023,813	16,025,401
2018	21,301,457	14,911,020	15,976,093	17,041,166
2019	22,629,619	15,840,733	16,972,214	18,103,695
2020	31,532,911	22,073,038	23,649,683	25,226,329
2021	32,250,893	22,575,625	24,188,170	25,800,714
2022	32,985,834	23,090,084	24,739,376	26,388,667
2023	33,744,508	23,621,156	25,308,381	26,995,607
2024	34,520,632	24,164,442	25,890,474	27,616,505
2025	35,314,606	24,720,224	26,485,955	28,251,685
2026	36,126,842	25,288,790	27,095,132	28,901,474
2027	36,957,760	25,870,432	27,718,320	29,566,208
2028	37,807,788	26,465,452	28,355,841	30,246,231
2029	38,677,367	27,074,157	29,008,025	30,941,894
2030	39,566,947	27,696,863	29,675,210	31,653,557
2031	40,476,987	28,333,891	30,357,740	32,381,589
2032	41,407,957	28,985,570	31,055,968	33,126,366
2033	42,360,340	29,652,238	31,770,255	33,888,272

Sources: City of Raleigh & First Southwest

The amount of projected uncommitted funds increases from \$7.8 million in 2004 to \$42.4 million in 2033.

Project Cost Estimates

LMN Architects and Davis Langdon Adamson, a firm that specializes in professional construction cost estimation, developed a cost estimate for the new convention center in Raleigh. The cost estimate is based on the recommended facility concept plan on Site B and the specific characteristics of that site relevant to construction costs, such as the amount of excavation, necessary demolition, and building heights. The cost estimate also considers local labor conditions and materials costs. Table 7-5 shows the cost estimate for the new convention center.

Table 7-5
New Raleigh Convention Center Construction Cost Estimate

Cost Elements	GSF	\$/SF	Dollars (000)
Convention Center Building	506,900	209.34	\$106,111
Sitework			4,656
Partial Demolition of Existing Facility for Lobby	23,400	5.00	117
Partial Demolition of Existing Facility for Hotel	45,000	5.00	225
Temporary Construction at Interface			395
Demolition Across Right of Way	28,000	5.00	140
Total Direct Construction Cost (March 2003)			\$11,649
Escalation to Start Date (April 2005)	5.00%		\$5,582
Total Direct Construction Cost (April 2005 Start Date)			\$117,231
Construction Manager Staffing		4.00%	\$4,689
Construction Manager Fees & Reimbursables		3.50%	\$4,267
Total Hard Construction Cost			\$126,187
Project Soft Costs			
Owner's Construction Change Order Contingency		5.00%	6,309
Furniture, Fixtures & Equipment Allowance		6.00%	7,571
Telecom / Security / Computer Systems		2.00%	2,524
A/E Fees & Reimbursables		10.00%	12,619
Testing and Permits		1.00%	1,262
Reproductions			500
Utility Consumption			400
Owner Project Administrative Expense Allowance			4,500
Owner's Project Reserve		3.00%	4,856
Total Soft Costs			\$40,541
Total Construction Costs			\$166,729
Land Acquisition, Remediation, Relocation, Roadwork			\$16,000
Total Convention Center Cost			<u>\$182,729</u>

Sources: Davis Langdon Adamson, LMN, & HVS

The estimated construction cost of \$166.7 million includes all hard and soft construction costs (including contingencies). An allowance for land acquisition, remediation, relocation and roadwork of \$16.0 million brings the total convention center cost to \$182.7 million.

The total assessed property values of the various parcels that make up the site (detailed in Section 6 of this report) serve as the basis for estimating land acquisition and associated costs. The land acquisition and site costs include the convention center and the headquarters hotel on the recommended Site B. This allowance is deemed to be adequate to acquire and prepare the site,

however; actual land and site preparation costs will be determined through the negotiations involved in the site acquisition process, detailed site and soil analysis, and engineering analysis.

The Consulting Team used the same approach in estimating the hotel construction costs. Table 7-6 shows the estimated construction cost of the proposed headquarters hotel, including hard and soft costs.

Table 7-6
Headquarters Hotel Construction Cost Estimate

Cost Elements	Dollars (000)
GSF	390,087
Construction Cost	\$57,578
Construction Cost Inflated to 2005	\$60,457
% of Total Construction Cost	100%
Soft Costs	
Contingency	\$1,814
FF&E	5,851
Kitchen	1,950
Telecom / Security / Computer Systems	1,209
A/E Fees & Reimbursables	4,837
Testing & Permits	605
Reproductions	250
Utility Consumption	250
Owner Project Administrative Expense Allowance	<u>2,000</u>
Total Soft Costs	\$18,765
Total	<u><u>\$79,222</u></u>

Sources: Davis Langdon Adamson, LMN, & HVS

The total estimated construction cost of the headquarters hotel is \$79.2 million. This hotel cost estimate includes the cost of the recommended 10,000 square foot junior ballroom plus the remainder of the hotel's meeting room block. The land cost estimate included in the convention center cost estimate includes all of the land necessary for the convention center and the headquarters hotel, so the cost estimate for the hotel does not include any additional land costs.

Convention Center Financing Plan

The recommended approach to financing assumes the use of 70 percent to 80 percent of Uncommitted Funds for the repayment of municipal bonds. Due to the existing commitments, most notably the funds already committed to

repaying the RBC Center debt, a significant increase in the available funds occurs in year 2020, when the RBC Center debt is retired. Since convention center debt is typically amortized over a 25 to 30 year period, the available funding for the convention center project is heavily weighted in the latter half of the amortization period.

The limited amount of resources available to repay debt in the early years is the primary constraint on financing capacity provided by the Uncommitted Funds. Furthermore, rating agencies do not consider revenues from the Room Tax and F & B Tax to be sufficiently creditworthy as stand-alone resources to pay debt service without coverage ratios (available funds to required debt payments) in excess of two. The recommended approach to financing attempts to maximize the debt proceeds given the constraints imposed by the available revenue streams.

In North Carolina, many communities use Certificates of Participation (COPs) to fund special projects. In a COP financing tax revenue streams repay debt service, but the credit worthiness of the debt issue results from a pledge of publicly owned assets to the bondholders. The pledged asset may be the convention center or another unrelated asset. Since the issuance of COPs does not require the borrowing of large reserve funds (as with revenue bonds), COPs are the most efficient financing resource available for financing convention center debt.

Consistent with the public purpose served by the convention center, the bonds would be eligible for exemption from Federal Income Tax under IRS regulations. In consultation with the City's financial advisor, First Southwest, the Consulting Team estimated the financing capacity of the Available Funds assuming 25 and 30-year amortization schedules. In both scenarios, the analysis assumed a 5.25 percent true interest cost, which is approximately 60 basis points above the market as of May 2003. Table 7-7 shows the financing capacity estimates.

Table 7-7
Estimate of Financing Capacity (\$ millions)

% of Available Fund Used	25-Year Amortization			30-Year Amortization		
	70%	75%	80%	70%	75%	80%
Par Amount of Bonds	\$188.0	\$201.8	\$215.0	\$207.0	\$222.5	\$237.5
Construction Funding	\$158.0	\$169.6	\$180.7	\$173.7	\$186.7	\$199.3

Source: First Southwest

Depending on the percent of available Taxes used to repay debt and on the schedule of amortization, the estimates of financing capacity range from \$188.0 to \$237.5 million. However, the par amount of bonds issued will exceed the amounts of proceeds available for construction funding by roughly 20 percent due to additional debt issuance costs (approximately 2.0 percent) and the need to capitalize interest in the initial years after issuance. The analysis shows that amounts in excess of the \$182.7 million construction funding for the convention center could be raised in the 75 and 80 percent scenarios using the recommended financing approach.

At the time of financing, debt capacity could vary from the projected amounts for the following reasons.

- Capacity projections depend on interest rate levels not exceeding 5.25 percent, which is above current rates of approximately 4.65 percent. Consequently, timing is a critical factor in determining capacity. Assuming that interest rates are currently at a low point, an early financing will mitigate the risk of interest rate increases.
- Depending on market conditions, alternative financing structures may be available that could increase capacity such as the use of some variable rate debt or the use of Capital Appreciation Bonds.
- Other existing projects, which are competing for Uncommitted Funds, could be financed rather than using the remaining Uncommitted Funds for pay-as-you-go projects. Leveraging Uncommitted Funds for other projects may increase the overall financing capacity of Uncommitted Funds and potentially allow a larger allocation of debt proceeds to the convention center project.

Hotel Financing

Convention centers stimulate local economic activity by attracting visitors to the community. In an increasingly competitive convention market, success in attracting new visitors depends on having hotels proximate to the convention center. Recognizing hotel proximity as an important competitive factor, many cities are pursuing development of quality, full-service hotels adjacent to their convention centers. These hotels, which serve as headquarters for convention attendees, are called “headquarters hotels.”

As demonstrated recently in several other cities, conventional financing for headquarters hotel properties presents great challenges. In the current economic environment, only a handful of institutional lenders are financing

hotels. The financing that is available imposes a 50 to 60 percent loan to value limit and prices construction loans at 3 to 4 percent over the London InterBank Offering Rate. Equity investors in hotel financings require 20 to 30 percent leveraged return in a three- to seven-year holding period. Because of the high cost of conventional financing and the high construction cost of quality, full-service properties, few proposals generate the forecasted cash flow necessary to attract financing.

In the view of HVS, the proposed hotel in Raleigh appears to be no exception to this general trend. HVS conducted a market and feasibility study for the proposed headquarters hotel, which is included in a separate report. That study presents a pro forma operating statement for the hotel before the repayment of any debt or distributions to the owners. Projections indicate that in a stabilized year of demand, the hotel would generate approximately \$5.7 million in net operating income. (For further details see the "HVS Market Study, Proposed Convention Hotel" dated March 26, 2003.)

Given the approximate \$80 million dollar development cost estimate, the projected net operating income of the proposed hotel will not generate sufficient return on equity for a private development company. Consequently, some form of public support may be necessary. The amount of necessary public support for the project will depend in large part on the level of developer interest in the project, their willingness to invest, and their required return on equity.

Public sector incentives and funding support for a convention center headquarters hotel can come from a variety of sources:

- Contributions of land, infrastructure, and parking facilities,
- Municipal financing of public areas of the hotel,
- Credit enhancement, and
- Others.

Tax-exempt bond financing can significantly change the financial calculus of a project's feasibility. In North Carolina, a legal prohibition against public hotel ownership precludes the option of financing the hotel on a tax-exempt basis. However, certain public areas of the hotel, such as the ballroom and meeting

rooms could be owned and financed by a public entity and leased to the hotel owner and operated under a qualified management agreement.

Recommended Steps to Hotel Financing

HVS recommends that the County and City pursue a public/private partnership for the development of the proposed hotel with the goal of minimizing the level of public financial support for the project. The public/private partnership may include some or all of the following elements:

- The selection of a development team through a competitive process with the stated goal of minimizing public financial support. The development team could include the developer, builder, architect and operator. This team could be chosen as a whole or in parts. The County and City should evaluate the merits of selecting the hotel operator separately.
- The provision of the necessary land to the hotel owners through favorable lease terms. The City currently owns the proposed site for the hotel.
- Any necessary public equity contribution should be invested in the public areas of the hotel project. Ballrooms, conference and meeting space and/or parking would be used in conjunction with the convention center and could be funded through public sources to the extent necessary to make the overall hotel development feasible.
- The use of remaining resources from the Uncommitted Funds to bond finance any publicly owned portions of the hotel.

Timing

Successful financing of the convention center and hotel project will require a focused effort by the County and the City over a period of between six and nine months. Current market conditions are extremely favorable for financing and constructing these types of large projects. Interest rates are at their lowest point in some time and the lingering difficult overall economic conditions have driven construction labor and materials costs down. The combination of these factors makes the current financing and construction environment highly favorable. If the County and City are able to confer and act upon advancing the project soon substantial costs savings could result.

8. Statement of Assumptions & Limiting Conditions

1. This report is to be used in whole and not in part.
2. No responsibility is assumed for matters of a legal nature.
3. We have not considered the presence of potentially hazardous materials on the proposed site, such as asbestos, urea formaldehyde foam insulation, PCBs, any form of toxic waste, polychlorinated biphenyls, pesticides, or lead-based paints. The appraisers are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
4. We have made no survey of the property, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the land and improvements is within the boundaries of the property described, and that there is no encroachment or trespass unless noted.
5. All information, estimates, and opinions obtained from parties not employed by HVS are assumed to be true and correct. We can assume no liability resulting from misinformation.
6. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
7. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
8. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
9. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per diem fees and travel costs are paid prior to the appearance.

10. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
11. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
12. The quality of a convention center facility's on-site management and organization that market the facility have a direct effect on a center's economic viability. The forecasts presented in this analysis assume responsible ownership, competent management and effective marketing and sales. Any departure from this assumption may have a significant impact on the projected operating results.
13. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.
14. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
15. This report was prepared by HVS Convention, Sports & Entertainment Facilities Consulting, a division of HVS International. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of these two organizations, as employees, rather than as individuals.
16. This report is set forth as a market study of the proposed subject project; this is not an appraisal report.

9. Certification

We, the undersigned, hereby certify:

1. that the statements of fact presented in this report are true and correct to the best of our knowledge and belief;
2. that the reported analyses, opinions, and conclusions presented in this report are limited only by the assumptions and limiting conditions set forth, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. that Chris Eseman of LMN Architects, Inc., Paul Sajovec, and Thomas Hazinski personally inspected the recommended convention center site described in this report.
4. that we have no current or contemplated interests in the real estate that is the subject of this report;
5. that we have no personal interest or bias with respect to the subject matter of this report or the parties involved;
6. that this report sets forth all of the limiting conditions (imposed by the terms of this assignment) affecting the analyses, opinions, and conclusions presented herein;
7. that the fee paid for the preparation of this report is not contingent upon our conclusions, or the occurrence of a subsequent event directly related to the intended use of this report;
8. that our engagement in this assignment was not contingent upon developing or reporting predetermined results; and
9. that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this market study.



Thomas Hazinski
Managing Director, HVS Convention, Sports &
Entertainment Facilities Consulting



Paul Sajovec
Senior Vice President, HVS Convention, Sports &
Entertainment Facilities Consulting