

VIRGINIA BEACH VISION

Statement of Position and Key Points of Consideration in Support of the Headquarters Convention Hotel proposal from Armada Hoffler Adopted December 30, 2011

The Virginia Beach Vision Board of Directors has adopted a position in support of the headquarters convention center hotel proposal as a public-private partnership (P3) between the City of Virginia Beach and Armada Hoffler.

Through extensive review and discussion at four specially called meetings, members of Virginia Beach Vision evaluated the feasibility and viability of a convention center hotel, the financial terms of the hotel proposal, and a preliminary, competing proposal for upgrading the existing Double Tree hotel to serve as the convention hotel.

The position recommending City Council approve the P3 with Armada Hoffler is based on the following findings:

Should a convention center hotel be built?

YES - To compete effectively for convention business, Virginia Beach must have a headquarters hotel.

- The competitive market has changed. Of eight (8) primary competitors for convention business, Virginia Beach is the only one without a headquarters hotel. Three have been built since the Virginia Beach Convention Center opened in 2007.
- Since its opening, the convention center has lost 77 conventions due to lack of HQ hotel, with attendance numbers exceeding 116,500. This represents over 200,000 room nights and over \$55 million in direct spending lost.
- HVS (consultants) report projects 96,000 new room nights annually; 900 net new jobs; 50 new events at the Convention Center, an 18% increase; \$88.7 million in new direct and indirect spending and \$4.3 million in new tax revenues annually.

Are the national consultant's forecasts reasonable?

YES, we believe so. -

- City staff reviewed and compared the economic impact methodology and accuracy to HVS predictions against actual experience in other markets including Raleigh and Dallas and found them reasonable.
- Crestline management, which will operate the hotel, and Armada Hoffler, the project developer, each prepared independent analysis, both with findings within 6% of those found by HVS.

Must it require public investment?

YES -

- All eight of the competitive markets mentioned above have built their HQ hotels in the last 10 years as either P3s or publicly owned hotels.
- Only the City can derive incremental revenue from the increase in tax revenue created by the 96,000 new room nights.
- Cost to build full-service headquarters hotel rooms is greater than the room rates the

- created by the 96,000 new room nights.
- Cost to build full-service headquarters hotel rooms is greater than the room rates the market will bear because of:
 - Room block requirements by convention center at discounted prices years in advance requiring HQ hotels to subsist almost solely on discounted convention business
 - Added cost of amenities for a full service, high quality hotel such as 24-hour concierge

Is it a good deal for the taxpayer?

YES -

- Will attract "shoulder season" business in the resort district; will spur redevelopment of the 17th and 19th Street corridors; will grow the city's second largest industry, tourism, that generated \$95 million in tax revenues in 2010 and will NOT negatively impact the City's general operating fund or its ability to fund City services.
- Projected annual tax revenue generated by project **\$4.3 million**
- Projected net revenue to city over 20 years = **\$53.3 million**
- Provides new convention and meeting space.
 - Provides 82,600 sf of new first class space including public space, back of the house operations space and 18,700 sf of new meeting space, addressing the number 3 reason we are currently losing large conventions.
 - The City will own the new meeting space and finance its cost of \$34.7 million through bonds backed by the Tourism Investment Fund (TIF) that is comprised of hotel, admissions and meals tax revenues on resort area business.
- City gets 4 star hotel as expected and required by major convention planners.
- City retains long term control of the property through a condominium structure and the right to purchase the hotel under certain conditions.
- Direct city investment will be:
 - \$34.7 million for conference/meeting space (Annual debt service on bonds of \$2 million using TIF funds)
 - \$2.7 million for improved streetscapes
 - \$5.3 million for connector bridge (Paid for from recapture of state sales tax revenues generated at site)
 - \$450,000 annually in FFE/management overhead contribution averages \$5.50/sq. ft. and is considered a competitive rate in the market for management and replacement of all furniture, fixtures and equipment over the life of the project
- Indirect City investment will be:
 - Mezzanine Loan - \$13.8M to be repaid by cash flow from the project and in all events within 22 years. If the project is sold, then this gets repaid before any equity. If not paid the City can shut down the hotel.
 - Hotel Service Unit lease - \$5.3M to be repaid by the project and in all events paid off completely within 32 years with City right to shut the hotel if in default.

Does the developer carry financial risk?

Yes

- Developer debt and equity will total \$47.4 million
- Developer takes all risk in project construction and is solely responsible for any project cost overruns
- Developer is responsible for repaying Virginia Beach Development Authority loans of \$19.1 million with interest. It is a secured loan and not subordinate to the 1st primary loan. If the developer defaults on the loan, the City will have the right to take over the hotel service unit which includes the lobby and restaurant.
- There is no City guarantee of room nights or income to the hotel or developer

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Is the Harmony Hospitality/Harmony Investments project a better alternative?

No -

- There is no actual proposal from Harmony Hospitality at this time. They have ideas and thoughts but no concrete proposal. It would be months before such a proposal could be fully developed. At this point, we do not have the ability to make a judgment on its viability, desirability or return to the City.
- Industry experts and customers say the DoubleTree is too far removed from the existing Convention Center, is a 30 year old property and is without the amenities and features of a headquarters quality hotel. The site of the Armada Hoffer proposed HQ Hotel has long been recommended as the optimal site location by urban planners and groups supporting convention center visitor development.
- What has been suggested will not provide significant new convention and meeting space and space will not be owned or controlled by the City. The planned new tower will add only 7,000 square feet of new meeting space to the existing 12,000 square feet of space in the existing hotel.
- The final cost to the city is, as yet, unknown but will almost certainly exceed projections of \$5 to \$10 million.
 - The City will finance an enclosed walkway between the hotel and Convention Center. The distance, 700 feet, is significantly greater than that proposed for the Hyatt and would likely cost closer to \$15 million.
 - Expansion of the Convention Center would require tearing out the same walkway - a waste of its full cost.
 - The City will fund any upgrades or additional features to the property that the City requests "for its sole benefit." The specifics and related costs are unknown.
 - Requires a long term agreement that the City will not allow another hotel on land controlled by the City through ownership or zoning within a designated area.
 - No agreement of block nights and other booking issues which have been worked out in proposed contract with Armada Hoffer.
- Requires the City to violate the intent of the competitive bid process.
 - Harmony Hospitality was a respondent and was evaluated as one of four proposals during the 2008 competitive bid process. It was ranked fourth.
 - It was ranked fourth out of four bids and was rated poorly on eight of nine criteria:
 - experience with similar properties
 - demonstration of ability to build and operate a headquarters hotel
 - management approach to working with the city
 - ability to arrange financing
 - project definition
 - proposed schedule
 - understanding of the Virginia Beach market and convention bureau's requirements
 - construction quality standards
 - For the City to consider alternate proposals such as the Double Tree they must first terminate and abandon the current P3 process. Starting over will involve considerable additional cost, lost opportunity, and lost time.
 - Harmony Hospitality's principal indicated that they had reinvigorated their proposal at the request of a City Council member. This is contrary to the intent of the PPEA bid process and at best sets a bad precedent for future public/private partnerships.

