Appendix 7-1

Econ Impacts Gaylord RCC, Feb 2006

SAN DIEGO UNIFIED PORT DISTRICT

DATE: February 7, 2006

SUBJECT: **PRESENTATION OF REPORT ON POTENTIAL ECONOMIC IMPACTS OF A GAYLORD HOTEL AND CONFERENCE FACILITY BY ECONOMICS RESEARCH ASSOCIATES**

EXECUTIVE SUMMARY:

Since Gaylord Entertainment first expressed interest in developing a facility in Chula Vista, there have been some concerns relative to the potential competitive impacts that the opening of a Gaylord type facility might have on the San Diego Convention Center and supporting hotels. In answer to these concerns the District retained Economics Research Associates (ERA) to analyze the impacts that Gaylord's newer facilities have had on the convention centers and hotel properties in their respective markets, and to estimate what impacts the proposed Gaylord hotel could have on the San Diego Convention Center and existing local hotels, as well as on the Transient Occupancy Taxes (TOT) those hotels generate for the City of San Diego.

ERA's conclusions will be reported herein only in generalities. The report will be final and available prior to the February 7, 2006 Board meeting. A detailed presentation will be given by a representative of ERA at the Board meeting.

ERA concluded that the potential impact to the San Diego Convention Center (SDCC) will vary depending upon the season, and that Gaylord will be competitive for groups up to 2,400 delegates, which is only a minority portion of SDCC's events. During peak months, some groups that SDCC must turn-away due to lack of availability will probably backfill most potential transfers to the proposed Gaylord property. Also, the Gaylord facility could potentially capture some groups that the SDCC cannot accommodate today because of scheduling conflicts or because the group wants to book a single lodging location. Consequently, the San Diego area will be able to capture some of the events lost during peak months by adding the new Gaylord conference center hotel to the regional offerings. During off-peak months, the increase in convention capacity in the region might take longer to absorb, and impacts from Gaylord's project may be felt to a greater extent.

The findings indicate that while there will likely be a transfer of some hotel room nights when the Gaylord Hotel enters the market due to the transfer of some convention and meeting demand to the new Gaylord facility, area hotel occupancy among hotels that service the meetings market will still be above the desired 70% threshold. And, overall, there will be a net gain to the region in terms of room night demand and resultant tax revenues, even given any possible transfers, as Gaylord attracts new trade to the region through its marketing of its growing national network of conference hotels.

RECOMMENDATION:

Presentation of report on potential economic impacts of a Gaylord Hotel and Conference Facility by Economics Research Associates.

FISCAL IMPACT:

This agenda item is a presentation only, there is no Board action recommended and therefore no fiscal impact.

DISCUSSION:

The District received an unsolicited proposal from Gaylord in June 2005 expressing its interest in developing a major hotel and conference facility on Port property in Chula Vista. The large-scale hotel/conference concept was determined to be a suitable anchor for the Chula Vista Bayfront Master Plan. The District issued a Request For Qualifications (RFQ) in August 2005 seeking other developers interested in the opportunity through the competitive process. As a result of the RFQ process, Gaylord was selected to develop and operate a 1,500 – 2,000 room hotel (1,500 rooms in the first phase) with a significant meeting and conference component, and was granted an Exclusive Negotiating Agreement.

The Port of San Diego retained ERA to evaluate the potential impact that a new Gaylord hotel and conference facility in Chula Vista may have on the local hotel and convention market. Gaylord focuses on the large-group meetings segment of the hotel industry and develops properties that accommodate the needs of the various groups in one location. Amenities typically include state-of-the-art meeting facilities as well as a variety of leisure activities and restaurants.

In order to project potential impacts to the San Diego market, ERA first analyzed the impacts that Gaylord's facilities in Kissimmee, Florida and Grapevine, Texas had on those convention and hotel markets. In summary ERA found the following:

Gaylord's Impacts in the Orlando Metro Area:

- Gaylord had a marginally competitive impact on the hotel market when first introduced in January 2002, though probably a greater impact on nearby convention hotels, and may have delayed their recovery from 9/11 impacts by a year to the extent that Gaylord Palms drew trade that would have otherwise gone to some of the existing hotels. However, hotels were able to match Gaylord's performance within a relatively short period at an acceptable occupancy rate, indicating that the Orlando market was able to absorb the increase in capacity in two to three years.

- While the market appears to have responded to Gaylord's competition and generate acceptable occupancy rates, room rates overall have declined slightly, even for Gaylord in real terms adjusted for inflation.

- It appears that Gaylord had a competitive impact on the Orange County Convention Center (OCCC) for selected group sizes, especially among those seeking facilities of 100,000 to 300,000 square feet. According to a senior representative of (OCCC), Gaylord may take away more than 10 groups that would have otherwise used the convention center, which equals approximately 5 percent or more of the center's annual convention and meetings volume, though the OCCC does not keep track. This competitive impact is felt particularly during shoulder and off seasons, when OCCC is less able to replace the lost business.

- On net, growth in the overall Orlando Metro Area, group, meetings, and hotel tourism market increased, even after accounting for the possible loss of business at the OCCC and transfers within the region.

Gaylord's Impacts in the Dallas Metro Area:

- The introduction of the Gaylord Texan in April 2004 added competitive inventory to an already overbuilt and under-performing hotel market. It is still rather early to assess Gaylord's competitive impact on a sustained basis given its recent opening. While the hotel occupancies grew during the year that Gaylord opened, they were still well below industry standards, and to the extent that potential demand was transferred from these hotels to the new Gaylord Texan, the Gaylord Texan's introduction to the market may delay full recovery in the local hotel market.

- Senior management at the Dallas Convention Center do not attribute their decline in events and flat attendance between fiscal years 2003 and 2004 to Gaylord's entry into the market. In fact, the data shows that the number of events and attendance at DCC grew between fiscal years 2004 and 2005, which more closely coincides with the Dallas Texan's first full year of operation.

- Since the reported impact to the Dallas Convention Center is minimal, Gaylord's conference trade appears to be mostly new business for the Dallas metro market, which mitigates the potential amount of trade that might have been transferred from existing convention-serving hotels.

- The senior manager interviewed at the Dallas Convention Center felt that while Gaylord may eventually lead to some competition, competition is good for consumers and forces existing facilities to improve in order to compete.

Potential Impacts to San Diego Convention and Hotel Markets:

The potential impact to the SDCC will vary depending upon the season. Gaylord will be competitive for groups up to 2,400 delegates and seeking 20,000 to 220,000 square feet of meeting space. Groups larger than this size may find the Gaylord facility too small, and other convention hotels in the market already compete with the SDCC to accommodate smaller groups.

During peak months, however, other groups that SDCC must turn-away due to lack of availability will probably backfill most transfers to the proposed Gaylord property. Also, the Gaylord facility will be particularly competitive for groups that the SDCC cannot accommodate today because of scheduling conflicts or because the group wants to book a single lodging location. Consequently, the San Diego area will be able to capture some of the events lost during peak months by adding the new Gaylord conference center hotel to the regional offerings. During off-peak months, the SDCC has more capacity to accommodate demand and the increase in overall convention facility capacity in the region might take longer to absorb. The proposed Gaylord facility will be particularly competitive, at a potential loss to the SDCC, for some group business during these off-peak periods.

The SDCC is in a more competitive position than its counterparts in Orlando and Dallas that have had to compete with new Gaylord conference hotels, because of its very marketable urban waterfront location that is centrally located and within a short distance of multiple entertainment attractions, such as the Gaslamp District, Embarcadero, the Ballpark District, Balboa Park, and numerous quality hotels of various types and price points. Meeting planners whose potential delegates prefer the type of variety and urban amenities that the SDCC offers, in ERA's opinion, will tend to choose the SDCC. Meeting planners who prefer the convenience of a single location for meetings and rooms, facilitated advanced multi-year bookings, and whose delegates are less attracted to the urban environment that Downtown San Diego offers may have greater interest in the proposed Gaylord facility in Chula Vista.

The ERA report assumes an occupancy rate of 75%, 1,400 total rooms (based on the size of their existing facilities), an ADR of $180 and TOT at 10% in Chula Vista, and estimates the TOT revenues for Chula Vista to be about $6.9 million if the Gaylord hotel is built. Potential TOT revenues lost as a result of net room night transfers (primarily from the City of San Diego, including District hotel properties) range from about $341,000 to $918,000 at San Diego's 10.5% TOT rate. The net gain in TOT revenues to the region is estimated between $6.0 and $6.6 million if Gaylord locates in Chula

Vista. A large portion of this net gain would be forfeited if the Gaylord facility is not built within the San Diego region.

A representative from ERA will present the study and its conclusions in more detail at the public Board meeting.

Port Attorney's Comments:

Not applicable.

Environmental Review:

This proposed Board action is not subject to CEQA, as amended.

Equal Opportunity Program:

Not applicable.

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