

Headquarters Hotel – Frequently Asked Questions

Jan. 18, 2011

THE HOTEL STRUCTURE (PRIVATELY FINANCED)

What will the headquarters hotel look like?

The hotel will be a modern-looking glass-and-steel structure that complements the Virginia Beach Convention Center across the street. It will be 15 stories tall with 361 rooms. It will be built on 5.7 acres across 19th Street from the Convention Center, on part of the current parking lot.

Will it be a brand-name hotel?

Yes, it will be a 4-star Hyatt hotel – the only one in Hampton Roads. This is a prestigious brand with national appeal to high-end conventioners. There are 18 other Hyatt headquarters hotels nationwide.

Will the city run the hotel?

No. Crestline Management, a local hotel group, will be an equity partner in the project and will manage the day-to-day operations.

Why isn't the hotel placed closer to the Oceanfront?

Meeting planners tell us that the hotel must be as close as possible to the Convention Center. This makes it more convenient for conference attendees to move between meetings, and to and from their hotel rooms.

THE CONFERENCE CENTER, MEETINGS ROOMS AND PEDESTRIAN BRIDGE (PUBLICLY FINANCED)

What's included in this portion of the project?

This will include 82,648 square feet of public space, including 18,741 square feet of meeting rooms and ballrooms. This portion will be funded by the city. It also will include a second-story pedestrian bridge linking the Convention Center to the hotel and conference space.

COSTS

Who will pay for this project?

On the public side, mostly visitors and tourists. Public funding would come from hotel taxes, admission taxes and meal taxes. No money would come from taxes on homes. In other words, this is largely tourism paying for tourism.

On the developer's side, the money would come from Armada Hoffer, its private investors, a bank loan and two Development Authority loans.

How much will the city, the state and the developer pay for this project?

Total cost will be \$109.2 million.

Combined, the city and state will contribute \$42.7 million to build the conference and meeting space, streetscapes and a pedestrian bridge. The city's cost for its part of the project will be \$37.4 million. This will pay for the public conference and meeting spaces plus streetscapes. It's true that the city Development Authority will loan the project \$19.1 million, but that will be repaid to the authority over time, with interest. That is part of the developer's cost.

The state will rebate sales taxes to cover the \$5.3 million cost of the pedestrian bridge. The developer will pay \$66.5 million, which includes repayment of the Development Authority's \$19.1 million loan. In other words, most of the money for this project will come from the developer, his bank loan and his equity investors.

How much is the developer putting in?

Armada Hoffer must come up with \$47.4 million in equity and bank loans. That includes money from investors and money from the company itself. An additional \$19.1 million will come from two loans from the city Development Authority, which will be repaid to the city in full, with interest.

Will the city guarantee a certain number of occupied rooms?

- There is no city guarantee of room nights or income to the hotel or the developer
- The developer is taking all the construction cost overrun risk; if the project costs more to build, the developer is responsible.
- The city receives 100% of cost savings, based on an independent audit of the project.

Will the Development Authority charge interest on its loan?

Yes, 3.2% a year of simple interest, which is approximately the city's borrowing cost. This would increase the lease payoff balance of about \$540,000 in accrued interest.

How will the Development Authority loans be repaid?

The first loan - \$13.8 million – will be repaid in annual payments from the hotel's net income. If the hotel is sold, the authority will be repaid out of sale proceeds, after the bank is repaid. In other words, the Development Authority is second in line – behind the bank, but ahead of the equity investors. All sums are due within 22 years, if not repaid sooner.

The second loan - \$5.3 million – will be repaid in annual payments of \$120,000, starting in year 6. The annual payment will then increase 3% a year. If the hotel is sold, the authority will be repaid out of sale proceeds, after the bank, the \$13.8 million loan and the equity investors. If the Development Authority is not repaid in full from the sale proceeds, the debt will roll over to the new owners and will be paid in full by 2046.

Is the city responsible for any cost overruns for the project?

No. That is Armada Hoffler's responsibility. The city will pay for the conference space, bridge and streetscapes only upon completion of the hotel and issuance of the certificate of occupancy. The city has a guaranteed maximum price for these public components.

Is the city providing any other money?

Yes. The Development Authority will provide \$4.8 million over three years under the Economic Development Incentive Program. This program is available to any business that creates jobs or invests in capital funding of new or expanded facilities. The same formula is applied to all businesses. The hotel project qualifies for \$4.8 million in EDIP grants.

The city also will pay \$450,000 a year to buy and maintain furniture, fixtures and equipment in the publicly owned spaces, as well as for management of the public spaces, such as conference rooms and ballrooms. This is about 1.3% of the city's capital cost for maintenance – in line with industry standards and less than the maintenance cost at the Westin Hotel at Town Center.

How much of this will come from taxes on my home?

None! Not one penny of the city's costs will come from real estate taxes on Virginia Beach homeowners. All the city's costs will come from taxes paid primarily by visitors – hotel taxes, admissions taxes and restaurant meals taxes paid by visitors.

What will residents get out of this?

A profit that will help pay for citywide services.

The headquarters hotel and conference center will generate more money in taxes and other revenues than it will cost. According to research conducted by a consultant and the city staff, the project will more than pay for itself.

Over 20 years, the public cost will be **\$98.8 million**. Over the same 20 years, the project will generate **\$152.1 million** in taxes and revenues. That's a net surplus of **\$53.3 million** – or about \$2.5 million a year to be used for vital city services like schools, police, roads and libraries.

THE NEED FOR A HEADQUARTERS HOTEL

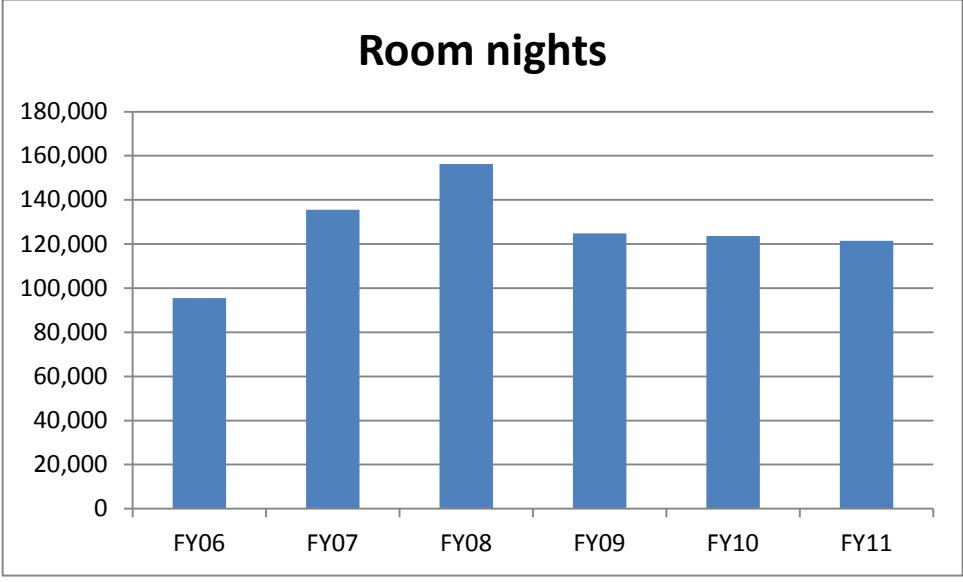
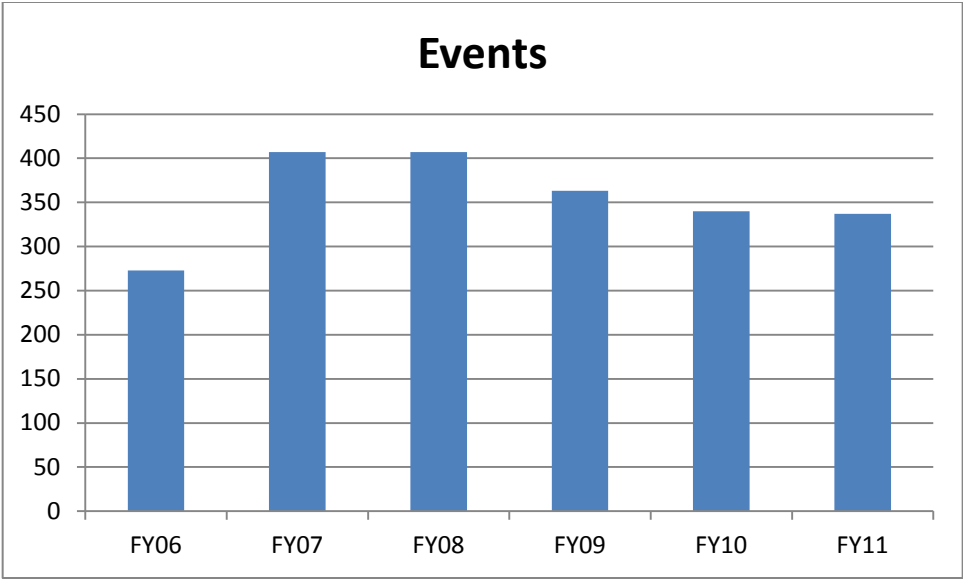
Why does Virginia Beach need a headquarters hotel?

The competition for national conventions has changed drastically in recent years. At one time, it was enough to have a large, modern convention center with hotels in walking distance. Now, national conventions demand more – a first-class hotel that is physically connected to (or, at worst, across the street from) the convention hall. Many conventions refuse to even consider cities that do not have headquarters hotels.

How has the Convention Center fared since opening in 2005?

At first, extremely well. Lately, business has dipped and flattened – partly because of the recession, partly because of competition from cities with headquarters hotels.

As you can see in the charts below, the number of events and room nights jumped immediately after the Convention Center opened, then dipped a bit and are now on a plateau. Without a headquarters hotel, we believe the numbers will gradually decline.



Since opening in 2005, the Convention Center has roughly doubled the number of events coming to Virginia Beach, compared with the old Pavilion.

Average Events/Year		
	Pavilion	VBCC
	Jan 2002-July 2005	July 2005- July 2012
Conferences	2.5	6.9
Conventions	10.6	19.0
Participatory Sports	10.1	16.6
Trade Shows	4.5	10.0
Total	27.7	52.4

Several high-quality events left Virginia Beach during the Pavilion years, but returned when the Convention Center opened, including the Association of Old Crows, the American Helicopter Association and Mary Kay. The latter left Virginia Beach because the Pavilion could no longer fit them into the springtime dates they needed. Mary Kay returned to Virginia Beach primarily because the Convention Center has more space and can host the group along with other simultaneous events.

Do other cities our size have headquarters hotels?

Yes. In fact, there are no cities in our competitive set that do not have headquarters hotels. Savannah, Myrtle Beach, Charlotte, Richmond, Louisville, Baltimore, Raleigh and Nashville all built headquarters hotels since 1999.

Has Virginia Beach lost convention business because it does not have a headquarters hotel?

Yes – a lot of business! It is the No. 1 reason Virginia Beach loses business to other cities. Since 2007, when the new Convention Center fully opened, Virginia Beach has lost 77 conventions because it lacks a headquarters hotel. Officials with each of those 77 conventions specifically cited the lack of a headquarters hotel as the main reason for not coming to Virginia Beach. As a result, Virginia Beach lost 236,000 room nights and \$55 million in direct spending by conventioners.

For example...

- Kathy Smith of the American Association of Neuromuscular & Electrodiagnostic Medicine, a convention with 1,200 delegates, wrote: “It will take a luxury to high level hotel, which is either connected to or immediately across the street, in order for us to seriously consider Virginia Beach as a destination.”

- Dale Shuter of the Electrical Apparatus Association, a convention with 3,000 delegates, wrote: “The lack of a headquarters hotel is troublesome.”

What about the Hilton Hotel on 31st Street?

The Hilton is a fabulous, top-quality resort hotel, and a tremendous success. It has raised the bar for quality throughout the resort. But the Hilton sits on the Boardwalk at 31st Street – 16 blocks away from the Convention Center at 21st Street and Parks Avenue. That’s too far. Today’s conventioners demand a first-class hotel physically connected to the convention hall.

BENEFITS

How important is the tourism and convention business to Virginia Beach’s economy?

After the military, it is the No. 2 industry in Virginia Beach. Visitors spend \$1.1 billion a year in Virginia Beach, creating more than 11,000 jobs. This generates about \$95 million in taxes a year for the city and state.

What does the Virginia Beach Convention Center contribute to this industry?

Over the past four years, the Convention Center has generated 526,000 room-nights for Virginia Beach hotels. Visitors to the Convention Center have spent \$161 million over the same four years for things like hotel rooms, restaurant meals and entertainment.

How much will Virginia Beach benefit from this headquarters hotel?

A Hyatt Regency at the Convention Center would bring in a huge amount of business and taxes – creating jobs throughout the resort at restaurants, shops, attractions and even other hotels.

The nation’s leading expert on analyzing the economic impacts of hotels, HVS Consulting of Chicago, found that the hotel will produce:

- 96,000 new room nights per year – the equivalent of 20 new Shriners convention. Many of the stays will be at other Oceanfront hotels.
- 900 new jobs
- 59 new events at the Convention Center – an 18% increase
- 86,480 new attendees at the Convention Center – a 17% increase
- \$88.7 million a year in new spending
- \$4.3 million a year in new tax revenues to the city
- \$2.4 million a year in new tax revenues to the state
- Over the first 20 years, the project will generate \$111.7 million in new taxes to Virginia Beach

In addition, Crestline management and Armada Hoffler each conducted an independent analysis of the project's projections. All three projections were virtually the same: they fell within a range of 6%. This not only bolsters and further validates the HVS findings, but it also gives confidence to the project's potential for success.

Where will these new taxes come from?

These reflect new taxes collected on admissions, restaurant meals, hotel rooms, business licenses, real estate, retail sales and business properties.

How will this affect other hotels at the resort?

The new hotel will raise hotel occupancy throughout the city. Most large conventions will have more delegates than can fit into the new hotel. They will stay at other Virginia Beach hotels. And most of those new room nights will be in the off-season, not the summer.

What kind of delegates will the new hotel attract?

Generally, national conventions and trade shows draw higher-spending delegates than the kind that usually come to Virginia Beach. That means each delegate will spend more money in local hotels, restaurants, shops and attractions.

Do these benefits justify the public costs?

Yes! The headquarters hotel will generate more money in taxes and other revenues than it will cost. **The project will pay for itself.**

Over 20 years, the public cost will be **\$98.8 million**. That includes interest, which will be repaid by the developer. Over the same 20 years, the project will generate **\$152.1 million** in taxes and revenues. That's a net surplus of **\$53.3 million** – or about \$2.5 million a year to be used for vital city services like schools, police, roads and libraries.

THE DEVELOPER

Why was Armada Hoffler chosen to develop the hotel?

The process began in June 2007, when the City Council adopted a resolution asking the Development Authority to pursue the hotel and conference center. The authority began a public bidding process under the Public-Private Education Facilities and Infrastructure Act. Four proposals were submitted. An evaluation committee chose the proposal by Garfield Traub of Dallas as its top-rated bid. The city began negotiations with Garfield Traub, the top-rated bid, in 2008, but the company withdrew its bid in October 2010.

Subsequently, the city began negotiations with the committee's second choice, Armada Hoffler.

What experience does Armada Hoffler have?

The company, based in Virginia Beach, has a long, successful history of public and private developments. Most prominent is the Virginia Beach Town Center, a popular and thriving mixed-use development of offices, hotels, restaurants and shops. The company also built the Mandarin Oriental Hotel in Washington, the Four Seasons Hotel in Baltimore, the Newport News Marriott Hotel and Conference Center, the Norfolk Waterside Marriott Hotel, and the Emory Hotel and Conference Center in Atlanta, among many others. The company's website is at www.armadahoffler.com.

DOUBLETREE PROPOSAL

I heard about a competing proposal from the owners of the Doubletree Hotel, for less money. That hotel is already near the Convention Center, so why isn't that being considered?

Actually, it was considered – in 2008. The city solicited bids that year, and four were received. One came from the owners of the Doubletree. An evaluation committee sorted through the bids and ranked them in order of merit. The Doubletree proposal was ranked last of four.

Recently, in October this year, the Doubletree owners submitted another proposal. It is substantially the same as the proposal that was rejected in 2008. It is not of the same quality as the Hyatt proposal and it is physically farther from the Convention Center.

According to Hilton's corporate headquarters, the DoubleTree brand is usually a support hotel, not a headquarters hotel, in cities across the country.

2005 CONVENTION INDUSTRY REPORT

I heard about a report that said the convention industry is declining, and public investment in convention centers and headquarters hotels is a bad idea. Is that true?

No. The report exists – that's true – but it was written in January 2005 and was based on an industry that was struggling to recover from 9/11. That's no longer true.

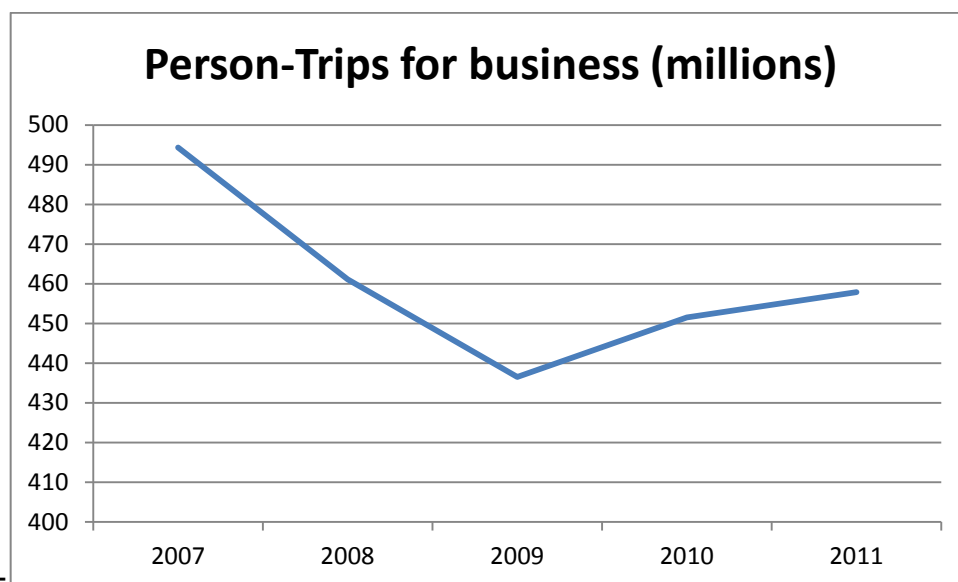
The report, titled "Space Available," was written by a Texas college professor. He based his conclusions on a sampling of the 200 largest trade shows out of 4,800 total. It was a snapshot of a few very-big conventions in some very-big cities, at an unusual moment in

time. It did not accurately reflect the overall convention industry at the time. It certainly doesn't reflect the state of the industry today – nationally or in Virginia Beach.

The report suggests that all convention projects are bad public investments, and it fails to mention that numerous convention center projects have met or exceeded performance expectations.

Today, the meetings industry is on a rebound.

- Total meetings travel **grew 6.8% this year**, according to Destination Marketing Association International.
- Exhibitions have shown **five straight quarters of growth**, according to the Center for Exhibition Industry Research (Dec. 1, 2011)
- Total business travel mileage nationwide plummeted during the early recession years of 2008 and 2009, but it is now **climbing back up**. See the chart below.



- "The results show that the exhibition industry is **healthy, vibrant and growing** despite a relatively sluggish economy." – Doug Ducate, President/CEO of the Center for Exhibition Industry Research (Dec. 1)
- "Is the glass half-full or half-empty? I would say its **half-full and filling up gradually.**" -- Michael D. Gehrish, President/CEO of Destination Marketing Association International (Dec. 16)