

**Councilman DeSteph's
Convention Center Hotel Questions
November 29, 2011**

- 1) PLEASE PROVIDE A COPY OF THE HVS REPORT.
Please see attached.
- 2) HOW MUCH DID WE PAY FOR THE HVS REPORT?
\$103,000, which covered background work as well as details of the study over a period of time dating back to 2008.
- 3) WHAT OTHER REPORTS DID HVS PREPARE FOR THE CITY IN THE LAST 10 YEARS?
As part of this study, the company did a feasibility review first. HVS has not done any other work for us.
- 4) SPECIFICALLY HOW DOES THIS QUALIFY UNDER THE PPEA PROCESS?
*The Public –Private Education Facilities and Infrastructure Act (PPEA) is the procurement process the City Council asked the Virginia Beach Development Authority (VBDA) to use to accomplish Council's goal of bringing a headquarters hotel to the Virginia Beach Convention Center. The PPEA allows a public body to enter into an agreement with a developer to construct (as part of a larger project) a "qualifying project." As set forth in § 56-575.1 of the Code of Virginia, "qualifying project" means:
*(i) any education facility, including, but not limited to a school building, any functionally related and subordinate facility and land to a school building (including any stadium or other facility primarily used for school events), and any depreciable property provided for use in a school facility that is operated as part of the public school system or as an institution of higher education; (ii) any building or facility that meets a public purpose and is developed or operated by or for any public entity; (iii) any improvements, together with equipment, necessary to enhance public safety and security of buildings to be principally used by a public entity; (iv) utility and telecommunications and other communications infrastructure; (v) a recreational facility; (vi) technology infrastructure, services, and applications, including, but not limited to, telecommunications, automated data processing, word processing and management information systems, and related information, equipment, goods and services; (vii) any services designed to increase the productivity or efficiency of the responsible public entity through the use of technology or other means, (viii) any technology, equipment, or infrastructure designed to deploy wireless broadband services to schools, businesses, or residential areas; (ix) any improvements necessary or desirable to any unimproved locally- or state-owned real estate; or (x) any solid waste management facility as defined in § 10.1-1400 that produces electric energy derived from solid waste.**

This project falls within the PPEA under subsection (ii), above. The conference center and the bridge are to be built by the developer, be publicly owned, and will further promote the Virginia Beach Convention Center. The remaining aspects of the projects are accomplished under the general grant of power to the Development Authority found in § 15.2-4905 (including the express authority to make loans). It is important to note that the Authority could have entered into negotiations directly with a developer for this project. The PPEA was viewed as a way to ensure all interested parties had an opportunity to submit proposals for this public-private partnership.

- 5) JIM RICKETS STATED “THE HILTON IS NOT THE HEADQUARTERS HOTEL” IF THIS IS THE CASE WHAT DO WE CALL IT NOW AND WHY DID WE CALL IT THE HEADQUARTERS HOTEL FOR SO LONG?
The Hilton Virginia Beach Oceanfront was never defined as a Headquarters Hotel. The hotel is considered a Primary Convention Hotel.
- 6) DO THE OWNERS OF THE HILTON KNOW THAT WE NO LONGER CALL IT THE HEADQUARTERS HOTEL?
Since the Hilton does not provide the City with a substantial room block agreement that gives the City the ability to have preference of up to 80% of the rooms, nor is it adjacent to the convention center, we do not believe it considers itself a headquarters hotel.
- 7) JIM RICKETS STATED THAT “THE CITY PUSHES 15 FULL SERVICE HOTELS” WHAT ARE THEY?
Primary Hotelier – *Hotel must be open year-round and contain a minimum of 3600 square feet of dedicated meeting space. The hotel must have a minimum block of 100 convention sleeping rooms, full-service food and beverage services on premises year-round and be in compliance with all state regulations and city codes and ordinances.*

Best Western Plus Oceanfront

The Cavalier Hotel

Crowne Plaza Virginia Beach

Doubletree Hotel Virginia Beach

The Founders Inn

*Hilton Garden Inn Virginia Beach
Town Center*

Hilton Virginia Beach Oceanfront

Holiday Inn & Suites North Beach

*Holiday Inn Va. Beach-Norfolk Hotel & Conference
Center*

Quality Inn & Suites Oceanfront

Ramada On The Beach

Sandcastle Oceanfront Resort Hotel

Sheraton Virginia Beach Oceanfront Hotel

Surfside Oceanfront Inn & Suites

Virginia Beach Resort Hotel & Conference Center

Westin Virginia Beach Town Center

Wyndham Virginia Beach Oceanfront

Support Hotelier – *Hotel must be able to commit a minimum block of 35 convention sleeping rooms year-round and be in compliance with all state regulations and city codes and ordinances.*

Barclay Towers

Beach Quarters Resort

Boardwalk Resort

Comfort Inn & Suites Oceanfront

Comfort Inn At The Beach

*Country Inn & Suites (formerly Howard
Johnson)*

*Country Inn & Suites Norfolk Airport
South*

Courtyard by Marriott Oceanfront North

Courtyard by Marriott Oceanfront South

*Courtyard by Marriott Virginia Beach
Norfolk*

Days Inn Oceanfront

Dolphin Inn

Hampton Inn Norfolk Virginia Beach

Holiday Inn Express (formerly Holiday Inn Surfside)

Holiday Inn Oceanside

Homewood Suites by Hilton

La Quinta Inn & Suites

Marjac Suites

Newcastle Hotel

Ocean Beach Club Resort

Oceanfront Inn

Quality Inn Pavilion

Schooner Inn

Springhill Suites Virginia Beach Oceanfront

*Econo Lodge Oceanfront
 Fairfield Inn & Suites Oceanfront
 Hampton Inn Oceanfront North
 Hampton Inn Oceanfront South*

*The Grand Ocean Hotel (formerly Atlantic Sands
 Oceanfront Hotel)
 Turtle Cay Resort
 Wingate by Wyndham*

- 8) IT WAS STATED THAT ARMADA HOFFLER HAS CRESTLINE MANAGEMENT, CRESTLINE MANAGES THE WESTIN AND 9 OTHER HOTELS.
 a. WHAT ARE THE 9 OTHER HOTELS?

Property	Rooms
<i>Courtyard 25th Street</i>	<i>141</i>
<i>Courtyard 37th Street</i>	<i>160</i>
<i>Fairfield Inn & Suites Oceanfront</i>	<i>114</i>
<i>Holiday Inn Beachside</i>	<i>143</i>
<i>Holiday Inn Oceanside</i>	<i>150</i>
<i>Holiday Inn North Beach</i>	<i>238</i>
<i>Residence Inn Oceanfront</i>	<i>72</i>
<i>Sheraton Oceanfront</i>	<i>198</i>
<i>SpringHill Suites Oceanfront</i>	<i>168</i>
<i>Virginia Beach Westin</i>	<i>236</i>
Number of Properties:	10
Number of Rooms:	1,620

The additional Hotels are:

Hampton Roads	Rooms
<i>Courtyard Suffolk</i>	<i>92</i>
<i>Fairfield Inn & Suites Oceanfront</i>	<i>114</i>
<i>Marriott Chesapeake</i>	<i>226</i>
<i>Marriott Newport News</i>	<i>256</i>
<i>Staybridge Suites Chesapeake</i>	<i>115</i>
<i>TownePlace Suites Suffolk</i>	<i>72</i>
	875

- b. PLEASE PROVIDE A LIST OF THE OFFICERS AND MANAGEMENT STAFF OF CRESTLINE MANAGEMENT.
Please see attached
- c. PLEASE PROVIDE THE OFFICERS AND MANAGEMENT STAFF OF ARMADA HOFFLER.
Please see the attached
- 9) JIM RICKETS STATED THAT “THE CITY PUSHES THE WESTIN AS A FULL SERVICE CONVENTION HOTEL.”
 a. WHAT QUALIFIES AS A “FULL SERVICE CONVENTION HOTEL”?
Please refer to question# 7

- b. WHAT OTHER HOTELS IN VIRGINIA BEACH DOES THE CITY MARKET AS “FULL SERVICE CONVENTION HOTELS?

The City does not market individual hotels, but a list of Virginia Beach full services hotels is provided in the answer to question # 7.

- c. HOW MUCH DOES THE CITY SPEND ADVERTISING THESE FULL SERVICE CONVENTION HOTELS?

We advertise Virginia Beach as a destination. We do not advertise individual properties, attractions or hotels. Our marketing and communications budget for meetings and conventions for FY12 is \$1.8 million.

- d. HOW MUCH DOES THE CITY SPEND ON ADVERTISING FOR ALL OF YOUR HOTELS?

The balance of the marketing and communications budget, which markets Virginia Beach as a destination, is \$7.4 million for FY12.

- e. HOW MANY HOTELS ARE IN THE CITY OF VIRGINIA BEACH?

107 hotels with more than 11,438 rooms.

10) JIM RICKETS STATED THAT “A CONVENTION CENTER HOTEL NEEDS TO HAVE AT LEAST 500 ROOMS.” I NOTICED ON OUR LIST OF CITIES THAT WE COMPETE WITH MOST HAD CONVENTION CENTER HOTELS OF OVER 500 ROOMS AND THE EXCEPTIONS HAD, WITHIN 100 METERS, AT LEAST ONE, OR IN SOME CASES MULTIPLE, LARGE HOTELS.

- a. WHAT ARE THE REASONS THAT WE DO NOT NEED 500 ROOMS ON OUR CONVENTION CENTER HOTEL?

We believe we will be able to compete very well with a 361-room project. If it does well a second phase will be considered that could bring the number of rooms to 700.

- b. WHAT IS THE MARKET DRIVING FOR THE AREA AROUND THE CONVENTION CENTER?

According to our lost business report, our National Association Marketing is driving the need for a Headquarters Hotel that is adjacent or attached to the VB Convention Center.

- c. IF THIS IS THE CASE WITH OUR COMPETITION WE WILL HAVE THE LOWEST NUMBER OF ROOMS AVAILABLE. HOW WILL THIS HELP US OR HURT US FROM A CONVENTION COMPETITION STANDPOINT?

Yes, for a headquarters hotel, we have the fewest number of rooms. However, this size is comparable to Savannah, Myrtle Beach, Richmond and Raleigh. This size project enables us to compete effectively for national association business.

11) WHO WERE ALL OF THE PLAYERS INVOLVED WITH THE NEGOTIATIONS FOR THE CONVENTION CENTER HOTEL?

The VBDA appointed a negotiating team that includes the VBDA Council liaisons (the Vice-Mayor and a district Councilmember) and a number of community business leaders including Don Jellig, Linwood Branch, and John Richardson. In addition to the VBDA’s consultant, the following staff members also worked on this project: Steve Herbert (City staff team lead), Patti Phillips, Jim Ricketts, Warren Harris, Rob Fries, Rob Hudome, Mary Hancock, Marc Davis and Al Hutchinson. The City Attorney actively participated along with the City Manager in the negotiations with Armada Hoffer. Alex Stiles from the City Attorney’s Office, represented the VBDA throughout the process.

12) WHO WAS THE CAPTURE MANAGER?

- a. WHAT OTHER PROJECTS/DUTIES DID THE CAPTURE MANAGER HAVE WHILE WORKING ON THE CONVENTION CENTER HOTEL?

There was no capture manager in the sense that private industry uses that term. The PPEA process was managed by a team identified by the Development Authority. (Please see question #11).

13) WHO WAS THE BUSINESS MANAGER?

The PPEA process did not involve the appointment of an individual designated as a business manager. Rather a team was brought together, and private consultants were used as an adjunct to this team. (Please see question #11).

- a. WHAT OTHER PROJECTS/DUTIES DID THE BUSINESS MANAGER HAVE WHILE WORKING ON THE CONVENTION CENTER HOTEL? *N/A*

- b. WHAT QUALIFICATIONS DOES THE BUSINESS MANAGER HAVE WHO NEGOTIATED THIS DEAL? *N/A*

14) PLEASE DEFINE THE FOLLOWING TERMS:

- a. CONVENTION CENTER HOTEL

This term, along with b, c, and d below are often used interchangeably. We use Primary and Support categories as it pertains to our convention hotels.

A Convention Center Headquarters Hotel, which we are referring to is either attached to a convention center or adjacent to the center where most functions related to a convention, conference, or large event have been scheduled. Traditionally, Headquarters Hotels include the following; 24-hour room service, meeting and ballroom space that complements the convention center, a restaurant, and has a national sales force.

Tourism: Principles, Practices, Philosophies defines a Headquarters Hotel as a hotel that provides facilities and services geared to meet the needs of large group and association meetings and tradeshow. They often work in concert with other convention hotels and convention centers to provide facilities for city-wide conventions and tradeshow.

- b. CONVENTION HOTEL

See above.

- c. HEADQUARTERS HOTEL

See above.

- d. CONVENTION CENTER HEADQUARTERS HOTEL

See above.

- e. FULL SERVICE HOTEL

A hotel that has a restaurant and often has room service.

- f. FULL SERVICE CONVENTION HOTEL

Same as above. Full service, but may have additional dedicated meeting space.

g. BACK OF HOUSE

Back of House is the support services necessary to operate the Conference Center, banquet rooms and certain hotel operations. The Back of the House includes the main kitchen, employee services areas, housekeeping, laundry and storage areas. In addition it includes the mechanical, electrical and fire pump rooms.

h. HOTEL SERVICES UNIT

In our project, this term refers to the areas on the first and second floor, of approximately 19,713 sf. necessary to operate a four star full service hotel. The Unit includes the lobby, check in area, restaurant, bar, administrative offices, Regency Room. The Hotel Services Unit is subject to a Capital lease with the developer.

15) WHAT IS THE REGENCY CLUB?

The Regency Club room is a lounge that will be used as flex meeting space for small meetings and parties. It also fulfills the Hyatt brand requirement for "Regency" hotel status.

16) PLEASE EXPLAIN WHY THE DOUBLE TREE DOES NOT QUALIFY AS A CONVENTION CENTER HOTEL?

The Double Tree Hotel is considered one of our primary hotels; however, it does not meet the qualifications of a Headquarters Hotel. Please refer to #14

- *24 Hour Room Service*
- *National Sales Force*
- *Meeting and Ballroom Space that complements the Convention Center.*
- *Immediately adjacent to, or across the street from, the Convention Center.*

The Double Tree Hotel does not meet these Criteria.

Hilton Worldwide Headquarters indicates that the Double Tree brand is usually not recognized as a convention anchor hotel under the Hilton Flag.

17) IT WAS STATED THAT IN 4 YEARS WE DID NOT GET 77 CONVENTIONS WORTH 236,899 ROOM NIGHTS.

THIS STATED I HAVE THE FOLLOWING QUESTIONS:

- a. THAT WOULD MEAN THAT THE AVERAGE CONVENTION WOULD HAVE 3,076 ROOM NIGHTS ASSOCIATED WITH THE CONVENTION, IS THIS CORRECT?

Yes, you are correct

- b. OF THE 77 CONVENTIONS THAT WE DID NOT GET OVER THE LAST 4 YEARS HOW MANY OTHER CITIES WERE IN THE COMPETITION?

Meeting Planners do not always disclose competing cities; however, we usually receive Request for Proposals (RFP) that include 4 - 10 cities.

- c. I BELIEVE IT WAS STATED THAT THE AVERAGE CONVENTION THAT IS PUT OUT FOR BID GOES TO BETWEEN 10 AND 15 VENUES/ CITIES, IS THIS CORRECT?

It is solely up to the meeting planner to decide how many venues to solicit. The more typical range is from four to 10 locations.

- d. WHAT IS THE CALCULATION ACTUALLY USED THAT SHOWS HOW MUCH REVENUE THE CITY WOULD USE?

Based on our lost business report, as of 2007, the City lost approximately \$55 million in direct spending due to the lack of a Headquarters Hotel.

We base our calculations utilizing the following formula:

*Out of town attendees X Number of days X Average daily spend = Direct Spending.
(Source: Destination Marketing Association International)*

18) WHAT ARE THE HOTEL ORGANIZATIONS THAT DEFINE OUR COMPETITION FOR US?

Hotel organizations do not define our competition. Because of that, we must define our own competitive set. We do this with the help of meeting planners who are planning to hold mid-sized conventions in the Mid-Atlantic region. Meetings planners also group destinations together in categories using the following factors: geographic area, size of convention center, hotel inventory, air lift and available rates.

19) WHERE IS THE UPFRONT FINANCING COMING FROM FOR THIS DEAL?

We anticipate the VBDA would issue public facility revenue bonds in early 2014. This is when the project is scheduled to be complete.

20) WHAT IS THE TOTAL TRUE COST OF THIS DEAL?

*We understand this question to ask “what is the total cost to the public of this transaction?”
See the chart below:*

Initial Costs	
<i>VBDA Conference Space</i>	<i>\$34.7</i>
<i>Streetscapes</i>	<i>2.7</i>
<i>Connector Bridge</i>	<i>5.3</i>
Subtotal	42.7
<i>Mezzanine Loan</i>	<i>13.8</i>
<i>Hotel Services Unit - Lease</i>	<i>5.3</i>
<i>Subtotal</i>	<i>\$61.8</i>
<i>Mezzanine Loan – To be repaid</i>	<i>(13.8)</i>
<i>Hotel Services Unit Loan – To be repaid</i>	<i>(5.3)</i>
<i>Connector Bridge – State Funded</i>	<i>(5.3)</i>
<i>Net VBDA Initial Costs</i>	<i>\$37.4</i>
Other Costs	
<i>EDIP to be paid over 3 years</i>	<i>-\$4.8 million Total</i>
<i>FFE/Management overhead contribution</i>	<i>-\$450,000/year</i>
<i>Land for parking ,conference space, hotel</i>	<i>-Condominium</i>

The land on which the improvements will sit will be contributed to a condominium regime, of which the VBDA will be an owner

- a. DOES IT INCLUDE THE LAND? *No, see above.*
 - i. IF NOT WHAT IS THE CURRENT VALUE OF THE LAND?
\$5.35 million is the assessed value

- ii. WHAT IS THE PROJECTED VALUE OF THE LAND IN 20 YEARS?
The value will depend on future development. We hope this project will spur additional development in this area, increasing the land value throughout the area.
- iii. WHAT IS THE PROJECTED VALUE OF THE LAND IN 30 YEARS?
See #20 a ii
- b. DOES IT INCLUDE THE RELOCATION OF THE LIGHT HOUSE CENTER?
No
 - i. WHAT WAS THE ORIGINAL COST OF THE LIGHT HOUSE CENTER?
\$455,859 to construct and furnish.
 - ii. WHAT WAS THE ORIGINAL COST OF THE LAND FOR THE LIGHT HOUSE CENTER?
We are still researching this through Public Works Real Estate.
 - iii. WHERE WERE THE FUNDS OF THE LIGHT HOUSE CENTER OBTAINED?
The City received a \$800,000 special purpose grant from the federal government via HUD in 1995 for "capital costs for innovative homeless facilities." The \$455,859 came from this grant.
 - iv. DO THE AGENCIES THAT HAVE PROVIDED THE ORIGINAL FUNDING FOR THE CONSTRUCTION OF THE LIGHT HOUSE CENTER APPROVE OF THE RELOCATION?
Yes, we have a letter from the Associate Deputy Assistant Secretary of HUD giving us permission to demolish it as long as we replace it and provide at least the same level of services.
 - v. DO THE AGENCIES WHO PROVIDED THE FUNDS FOR THE OPERATIONS AND MAINTENANCE FUNDS FOR THE LIGHT HOUSE CENTER APPROVE OF THE RELOCATION?
The City annually provides 100% of the operational and maintenance costs for the Lighthouse Center building. In addition, we provide the majority of the funding for the services provided through the Winter Shelter program and daytime services. Volunteers of America has sought and obtained additional outside funding based on the services provided, not having to do with the facility; therefore there are no other stakeholders involved in determining the appropriateness of the relocation.
- c. WHAT WILL THE DEMOLITION OF THE LIGHT HOUSE CENTER COST?
We estimate between \$40,000 and \$50,000.
- d. WHAT WAS THE ORIGINAL ACQUISITION COST FOR THE PROPERTY THAT IS PROPOSED FOR THE CONVENTION CENTER HOTEL?
\$4.447 million
- e. WHAT WOULD THAT PROPERTY BE WORTH TODAY FULLY ASSEMBLED?
We believe that the parking lot where the hotel will sit is one parcel, and its valued as such now (25.9 acre tract) at \$4.447 million. We have asked the Assessor for a full calculation of its current value.

- f. WHAT WAS THE PROJECTED AMOUNT OF TAX REVENUE LOST WITH THE ACQUISITION OF THE PROPERTY?

The City acquired the properties in the early 1970's. The records aren't easily available for that far back. The property is not currently taxable. If this is important, we can search for files to assemble them, but it will be a large commitment of resources.

- g. HAVE THE PROPERTY OWNERS WHO LOST THEIR PROPERTY TO THE CONDEMNATION BEEN TOLD THAT THEIR PROPERTY TAKEN FOR A PUBLIC PARKING LOT IS NOW GOING TO BE GIVEN TO A DEVELOPER FOR A CONVENTION CENTER HOTEL?

As there is no requirement for such notification under existing law, it is not standard practice for us to do this.

- 21) WHAT IS THE AVERAGE COST OF A ROOM NIGHT PER CONVENTION GOER IN VIRGINIA BEACH?

We do not track Average Daily Rate (ADR) for specific types of visitors. However, according to Smith Travel Research, in 2010 our ADR was \$134.35 for Upper Upscale Class Hotels and \$107.35 for hotels in all classes citywide.

- 22) PLEASE PROVIDE AN ASSESSMENT OF THE CANNIBALIZATION IMPACT THE HOTEL WILL HAVE DURING THE SUMMER MONTHS, WHICH WAS BRIEFED AS NON-CONVENTION BUSINESS TIME IN BRIEF TO COUNCIL LAST TUESDAY, ON THE CURRENT HOTEL BASE?

In computing the fiscal impacts to the City the consultant has taken into account the displacement effects. There will be very little cannibalization impact, if any, during the summer months.

- 23) WHAT HAS BEEN THE CANNIBALIZATION EFFECT OF THE HILTON AND WESTIN ON NON-PUBLICLY SUBSIDIZED HOTELS? FOR EXAMPLE, NAACP DINNER THAT WAS HELD AT HOLIDAY INN ON NEWTON ROAD OR OTHER PLACES.

While there may have been some displacement following the openings of the Hilton and Westin today we believe that their presence has had a positive effect on overall occupancy and ADR across the city.

- 24) WHAT SMALLER EVENTS, NOW HELD AT THE PAVILION, WOULD NOW BE HELD TOTALLY WITHIN THE CONVENTION HOTEL?

The event or meeting planner would make this decision. Certainly the addition of meeting space will add capacity and flexibility for additional event planning in the city. However, the overall fiscal impact study looked at net benefits to the City.

- 25) PLEASE PROVIDE IN NET PRESENT VALUE TERMS (PLEASE IDENTIFY THE DISCOUNT RATE USED) BY YEAR OVER THE LIFE OF THE AGREEMENT THE ONE-TIME CAPITAL INVESTMENTS BY SOURCE AND IN THE CASE OF THE CITY THE SPECIFIC BUDGET CATEGORY AND LINE ITEM, RECURRING CITY PAYMENTS TO ANY PARTNER, SUBSIDIARY, OR CONTRACTUAL AGENT OF THE PARTIES TO THE PROPOSED DEAL, DEPRECIATION EXPENSE ON "PUBLIC USE FACILITIES," AND ALL DIRECT REVENUES RECEIVED SEGREGATED BY TYPE OF REVENUE AND BUDGET CATEGORY THE REVENUES ARE DEPOSITED IN.

The City has prepared detailed proformas and spreadsheets to determine this information, with breakdowns by overall project, by TIP fund and other funds. We are prepared to review this with you in detail.

26) PLEASE IDENTIFY THE 900 JOBS CLAIMED TO CREATED USING THE STANDARDS OCCUPATIONAL LABOR CATEGORIES EMPLOYED BY THE DEPARTMENT OF LABOR AND NOTE BY YEAR WHEN THE JOBS COME ON LINE OR GO OFF LINE.

IMPL AN Expense Category	Direct	Indirect	Induced	Total
Food Services and Drinking Places	219	12	22	268
Retail Stores	129	2	36	171
Hotels and Motels	100	0	0	109
Transit and Ground Transportation	39	0	0	43
Other Accommodations	37	0	0	41
General and Consumer Goods*	36	0	0	40
Facility Support Services	20	0	0	22
Real Estate Establishments	-	14	11	20
Other**	20	101	100	185
Total	600	130	170	900

*Excludes video tapes and discs.

**Includes 196 job categories with more that zero but less than 20 jobs.

a. PLEASE PROVIDE THE PROJECTED SALARY LEVEL FOR THESE 900 JOBS.

We have asked HVS to provide this data.

27) WILL THE AGREEMENT PRECLUDE THE HOTEL FROM EMPLOYING INDIVIDUALS ON CULTURAL EXCHANGE OR OTHER TYPE OF VISAS?

a. IF NOT, HOW MANY OF THE JOBS CREATED WILL BE FILLED BY AMERICANS?

There is no agreement on this subject matter.

28) HOW WAS THE OPPORTUNITY COST OF THE PROPOSED PUBLIC INVESTMENT IN THE PROPOSED CONVENTION HOTEL CALCULATED? IF OPPORTUNITY COST WERE NOT COMPUTED HOW WAS IT DETERMINED THAT THIS INVESTMENT DELIVERED THE HIGHEST VALUE OUTPUT?

Based on adopted plans, the stated need, and longstanding council goals, council has determined that a HQ hotel is the best use of this land.

a. WHAT ARE THE ECONOMIC ASSUMPTIONS ON WHICH THE MODEL IS BASED?

Please refer to the copy of the full fiscal impact study that is provided in #1.

29) WHAT REVENUE IS THE CITY GUARANTEED ?

There are no guaranteed revenues. Our independent consultant's projections indicate that revenue will begin coming to the City starting in year two and the amount will escalate through the life of the project.

a. WILL GO INTO THE GENERAL FUND FOR UNRESTRICTED USE AND IN WHAT YEAR?

About \$2 million a year beginning in year 6.

b. IF NONE, WHY IS THE FORTY PERCENT INVESTOR BEING GUARANTEED A RETURN ON THEIR INVESTMENT, WHEN THE PUBLIC IS NOT GUARANTEED A RETURN ON ITS MAJORITY INVESTMENT?

There is no guarantee of any equity investment. Any return on the equity investment is based on the performance of the project.

- 30) WHAT SENSITIVITY ANALYSIS WAS CONDUCTED TO ASSESS THE IMPACT OF NEGATIVE CHANGES IN DISPOSAL INCOME, ECONOMIC GROWTH, ETC. ON NET PRESENT VALUE REVENUE COLLECTIONS?
We relied on both staff and consultant projections that the revenues will be there. Developer proformas were also used as the main source of repayments of loans since they were more conservative than consultant projections.
- 31) WHY IS THE MANAGER OF THE “PUBLIC USE FACILITIES” BEING COMPETED?
Experience and the requirements of this project dictate use of a private company. Coordination of conference space with convention space is critical in the long run. There will be collaboration between City staff and conference staff to ensure efficient operation.
- 32) WHY CAN'T THE CITY MANAGE THE “PUBLIC USE FACILITIES ITSELF”?
See #31. We prefer that the hotel operator manage the public meeting space to ensure coordination with hotel operations. In addition, the hotel operator will coordinate closely with the City staff at the convention center, in accordance with the management agreement.
- 33) WHO IS CURRENTLY MANAGING THE PAVILION?
City staff is currently managing the Convention Center.
- 34) WHAT SPECIFIC ACTIVITIES ARE PERFORMED AND THE OUTPUTS PRODUCED BY THE “PUBLIC USE FACILITIES” MANAGER/MANAGEMENT AGENT?
Staff is responsible for programming, maintenance, and operation of the 210,000 SF of meeting and exhibit space and ballrooms.
- 35) IF THE PROJECT WERE TO GO INTO BANKRUPTCY, WHAT WOULD BE THE CITY'S LIABILITY?
There is no circumstance where we would be liable in case of bankruptcy.
1. *The bank most certainly would foreclose and equity investors would likely lose their investment. The city has no responsibility to the bank or equity investors.*
 2. *Bank will seek new owner, who would be bound by the terms of the agreements with the Authority or lose access to the hotel services unit and conference space – both critical to the operation of the hotel.*
 3. *If the management agreement with The Authority is breached, the Authority can “lock out” the hotel lobby space and all hotel services unit spaces (lobby, front desk, pool, fitness, restaurant, kitchen) and the rest of the hotel services unit.*
 4. *While there could be risk on the repayment of the balance on the two loans to the developer, the ability to control the public spaces noted above provides leverage to negotiate repayment.*
- 36) WILL PROPERTY TAXES BE PAID ON THE PUBLIC USE FACILITIES?
On the Authority spaces, no taxes are paid. But taxes will be paid on the hotel services unit
- a. IF YES, HOW IS IT COMPUTED?
Taxes will be computed as other lease-hold taxes in the city.
 - b. WHAT ARE THE PROPERTY TAXES PAID ON THE PUBLIC USE FACILITY IN WESTIN HOTEL (HOW MANY SQUARE FEET AND TAX PER SQUARE FEET)?
There are no property taxes paid on the public use facility in the Westin.



ECONOMIC IMPACT ANALYSIS

Economic Impact Analysis Convention Center Headquarters Hotel

VIRGINIA BEACH, VA



SUBMITTED TO:

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July 1, 2011



July 1, 2011

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Re: Convention Center Headquarters Hotel
Virginia Beach, VA

Atlanta
Boston
Boulder
Chicago
Dallas
Denver
Las Vegas
Mexico City
Miami
Nassau
New York
Newport
San Francisco
Toronto
Vancouver
Washington
Athens
Buenos Aires
Dubai
Hong Kong
Lima
London
Madrid
Mumbai
New Delhi
Sao Paulo
Shanghai
Singapore

Dear Mr. Fries:

Pursuant to your request, we herewith submit our Economic Impact Analysis of a Convention Center Headquarters Hotel in Virginia Beach, VA.

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

It has been a pleasure working with you. Please let us know if we can provide any additional services.

Sincerely,
HVS Convention, Sports & Entertainment
Facilities Consulting

Thomas A Hazinski
Managing Director



Table of Contents

SECTION	TITLE
1.	Introduction
2.	Demand Analysis
3.	Spending Impacts
4.	Statement of Assumptions and Limiting Conditions
5.	Certification

1. Introduction

Nature of the Assignment

The Virginia Beach Convention and Visitor's Bureau ("VBCVB") engaged HVS Convention, Sports & Entertainment Facilities Consulting ("HVS") to provide an economic and fiscal impact analysis of the proposed headquarters hotel in Virginia Beach, Virginia. This study measures the potential increase in visitor spending that would be generated by: 1) the new events that the proposed hotel would attract to the Virginia Beach Convention Center ("VBCC") and 2) the new visitors staying at the proposed hotel that may not be attending convention center events. In this study, HVS also estimates the fiscal impacts (new tax revenue) that would be generated for the City of Virginia Beach (the "City") and the Commonwealth of Virginia (the "Commonwealth") if the proposed hotel is built.

Description of the Project

For the purpose of this study, HVS assumes the headquarters hotel will open on January 1, 2013 and will feature 361 rooms, a restaurant, a lounge, 16,858 square feet of meeting space, a pool, an exercise room, a business center, a gift shop, a vending area, and a guest laundry room. The hotel would also include back-of-the-house space necessary to support full-service hotel operations.

Product Quality Category and Brand Affiliation

The hotel would be full-service in nature and with finishes typical of a first-class convention headquarters hotel. The hotel's facility is expected to be of high quality, conforming at a minimum to the brand specific guidelines set forth by the operator that is chosen for the hotel. The hotel's facilities are expected to be similar in finish and first-class feel to the Marriott Raleigh, the Hyatt Greenville, or the Marriott in Louisville. By the time of its opening, the hotel's product design and quality should place it as the preeminent hotel in the downtown full-service lodging market.

Developer Solicitation

The City of Virginia Beach Development Authority ("VBDA") followed the procedures regarding requests made pursuant to the Public-Private Education Facilities and Infrastructure Act of 2002 ("2002 Act") after receiving an unsolicited proposal for a convention center headquarters hotel. Pursuant to the 2002 Act, a proposal process is being conducted by the City and the VBDA that will determine the selection of the private developer, the level of financial assistance by the City, the final design, and brand of the proposed convention center headquarters hotel. The VBDA is currently in discussion with a development team led by Armada Hoffer Development Company.

Description of the Virginia Beach Convention Center

The VBCC sits roughly seven blocks from the Virginia Beach oceanfront and boardwalk. The City of Virginia Beach owns and operates the facility.

VIRGINIA BEACH CONVENTION CENTER



The VBCC features four exhibit halls totaling 150,012 square feet and the largest ballroom in Virginia, measuring 31,029 square feet and divisible into three sections. The facility also offers 22 meeting rooms totaling 28,929 square feet. A tower and landmark feature offers an observation deck, a VIP lounge, a boardroom, and a coffee bar.

The facility was constructed in two phases. The first phase, which opened in July 2005, included the ballroom, approximately 55,600 square feet of exhibit space, and almost 20,000 square feet of meeting room space. The second phase opened in January 2007, and increased total flexible event space to 500,000 square feet.

The VBCC offers 2,230 surface parking spaces. State-of-the-art technological amenities include a 360° video wall and wired and wireless high-speed Internet access throughout. A Doubletree hotel with 292 rooms sits to the west of the VBCC but is not directly connected.

Methodology

The potential for increased positive economic impacts provides the primary rationale for public investment in the proposed hotel. When attendees come from outside the local market area and make purchases during shows and meetings, they inject new income into the local economy. In addition to attending events, industry participants may also generate economic impacts as tourists both before and after events. However, some of the new spending may displace other spending that would occur if these visitors were not in town. For example, attendees at a

consumer show may forego other entertainment opportunities in the City. HVS uses a methodology that quantifies the economic impacts net of any displaced spending.

The HVS analysis proceeds in four steps:

1. Analysis of Convention Center Demand – The objective of this analysis is to properly categorize event demand at the VBCC and to quantify out-of-town visitation and day trips by VBCC attendees.
2. Identification of Impact Generators – HVS identified sources of impact and estimated the amounts in 2011. These sources include: 1) net new overnight visitors, 2) daytrip visitors from outside the local market area, 3) exhibitor spending, and 4) event organizer spending.
3. Spending Impacts – Using various surveys and data sources, HVS estimated the amount of direct spending by each of the sources of impact. HVS then ran an input-output model (IMPLAN) to estimate the indirect and induced spending and number of jobs associated with the direct spending.
4. Fiscal Impacts – HVS measured the new governmental revenue that would be generated by the proposed project. This revenue can be thought of as the public sector share of the spending impacts.

2. Demand Analysis

HVS forecast the event demand for the Virginia Beach Convention Center (“VBCC”) with and without the proposed headquarters hotel for a 5-year period. For the purposes of this analysis, HVS assumes the proposed headquarters hotel will open on January 1, 2013. These projections are based on the event history of the VBCC, reports of lost business, research on comparable properties, as well as survey data from the 2008 HVS “Market Study - Virginia Beach Convention Center Headquarters Hotel” report.

The draft demand projections presented herein reflect the existing building program for the convention center and the development of the headquarters hotel building program. Demand projections also assume highly qualified, professional sales and management teams for the hotel and the VBCC.

Historical Demand

The VBCC provided HVS with a list of events that occurred at the facility between the calendar years 2006 through 2010. The data set included event names, a description of the type of the event, start dates and end dates, and estimates of attendance and associated room nights generated. Based on this information, HVS reclassified event types into standard event categories so as to allow comparisons with other venues. The figure below summarizes the event and attendance history at the VBCC.

FIGURE 2-1 EVENT AND ATTENDANCE HISTORY

Data Year	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	Average
Number of Events						
Conventions	20	19	17	15	18	18
Tradeshows	10	10	10	11	11	10
Conferences	3	6	5	5	5	5
Consumer Shows	27	26	25	27	33	28
Banquets	84	82	88	72	78	81
Meetings	155	193	186	163	146	169
Assemblies	4	5	4	5	6	5
Sports	11	14	18	16	20	16
Concerts & Entertainment	0	1	2	1	2	2
Other	21	37	41	18	14	26
Total	335	393	395	333	333	358
Average Attendance						
Conventions	2,262	2,938	4,316	2,920	2,940	3,075
Tradeshows	1,501	1,663	1,904	1,455	940	1,492
Conferences	286	854	1,490	712	627	794
Consumer Shows	4,353	4,816	4,618	4,312	3,997	4,419
Banquets	512	432	372	356	306	396
Meetings	222	148	148	99	114	146
Assemblies	14,888	15,087	17,330	14,134	11,683	14,624
Sports	8,588	8,776	8,444	8,951	10,859	9,124
Concerts & Entertainment	0	1,000	2,000	6,200	3,043	3,061
Other	560	747	1,053	637	655	730
Overall Average	1,259	1,256	1,377	1,361	1,626	1,376
Total Attendance						
Conventions	45,238	55,830	73,364	43,793	52,928	54,231
Tradeshows	15,009	16,625	19,035	16,002	10,342	15,403
Conferences	859	5,123	7,450	3,559	3,135	4,025
Consumer Shows	117,519	125,216	115,449	116,427	131,913	121,305
Banquets	43,017	35,414	32,696	25,649	23,896	32,134
Meetings	34,400	28,476	27,594	16,115	16,715	24,660
Assemblies	59,552	75,435	69,318	70,672	70,098	69,015
Sports	94,466	122,864	151,995	143,223	217,171	145,944
Concerts & Entertainment	0	1,000	4,000	6,200	6,085	4,321
Other	11,762	27,633	43,186	11,466	9,172	20,644
Total	421,819	493,616	544,087	453,106	541,455	490,817

*Average the only available data.

Source: VBCC

The VBCC has averaged 358 events and approximately 491,000 attendees per year from 2006 through 2010. In 2010, the number of events declined to 333, but total attendance remained high at 541,000 due to an increase in consumer show events and attendance.

In addition to event and attendance data, the VBCC provided HVS with information regarding the estimated number of room nights associated with events as well as the estimated number of out-of-town guests for each event. The figure below summarizes the total attendance figures, out of town attendance, and estimated room nights for events held at the VBCC over the last five fiscal years.

FIGURE 2-2 EVENT AND ATTENDANCE HISTORY

Calendar Year	Total Attendance	Out of Town Attendance	Estimated Room Nights
2006	421,819	81,242	116,840
2007	493,616	90,647	134,157
2008	544,087	87,533	143,859
2009	453,106	84,733	120,381
2010	541,455	93,410	135,725
Average	490,817	87,513	130,192

Source: Virginia Beach Convention Center

Estimated room nights average 130,000 per year.

The figure below summarizes recent annual event and attendance data for the VBCC and select comparable facilities.

FIGURE 2-3 EVENTS AND ATTENDANCE AT COMPARABLE VENUES

Data Year	Baltimore	Charlotte	Atlanta	Richmond	Louisville	Myrtle Beach	Raleigh	Average*	Virginia Beach
	FY 2009	FY 2009	FY 2007	FY 2009	CY 2008	FY 2008	FY 2010		CY 2010
Number of Events									
Conventions & Tradeshows	0	27	60	36	28	45	55	42	29
Consumer Shows	0	20	34	32	11	17	24	23	33
Banquets	0	0	164	50	17	0	68	75	78
Meetings & Conferences	0	0	761	115	63	81	188	242	151
Assemblies, Sports, Concerts & Other	0	303	54	289	103	30	31	135	42
Total	0	350	1,073	522	225	197	366	456	333
Average Attendance									
Conventions & Tradeshows	0	4,199	1,707	2,358	0	0	1,186	2,363	2,182
Consumer Shows	0	7,597	4,932	2,732	0	0	10,750	6,503	3,997
Banquets	0	0	405	472	0	0	401	426	306
Meetings & Conferences	0	0	149	176	0	0	105	143	131
Assemblies, Sports, Concerts & Other	0	528	638	433	0	0	2,367	992	7,203
Overall Average	0	1,215	451	654	1,659	2,753	1,212	1,324	1,626
Total Attendance									
Conventions & Tradeshows	244,812	113,372	102,423	84,885	0	0	65,240	122,146	63,270
Consumer Shows	82,926	151,946	167,701	87,438	0	0	258,010	149,604	131,913
Banquets	3,300	0	66,474	23,622	0	0	27,270	30,167	23,896
Meetings & Conferences	78,139	0	113,126	20,288	0	0	19,711	57,816	19,850
Assemblies, Sports, Concerts & Other	26,815	160,104	34,470	125,189	0	0	73,386	83,993	302,526
Total	435,992	425,422	484,000	341,422	373,249	542,300	443,617		541,455

*Average the only available data.

Sources: Event Data from Respective Facilities as Classified by HVS

The VBCC generated more attendance than most of its competitors in 2010, despite hosting fewer total events than four of its competitors in the above set.

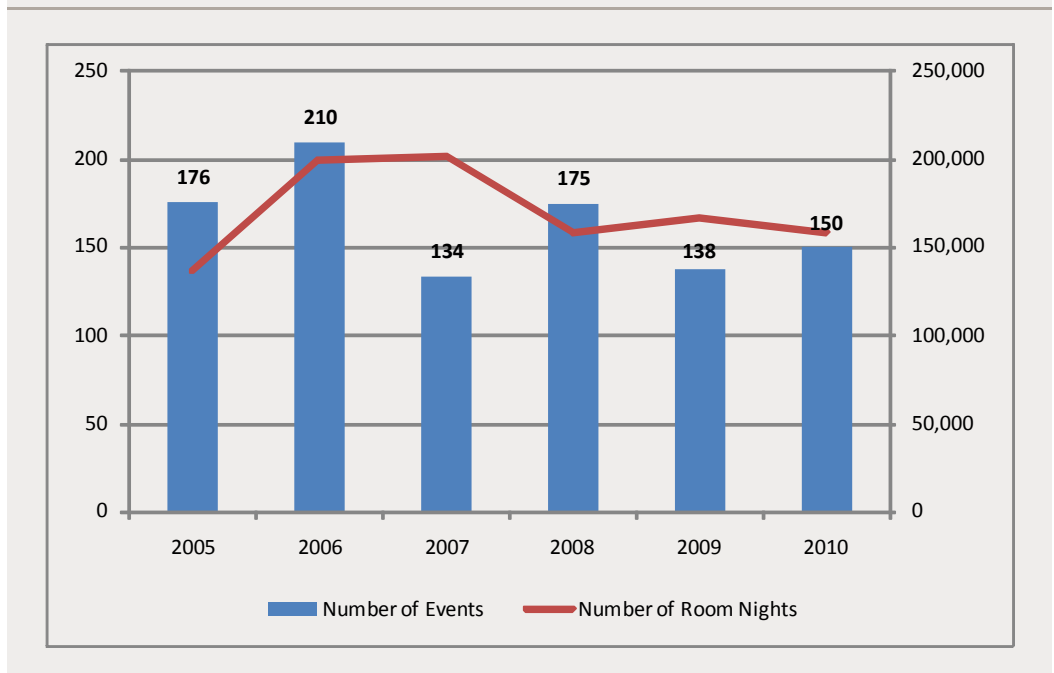
The VBCC hosts a higher than average number of consumer shows and a lower than average number of convention and tradeshow events. The facility hosts a comparable number of banquets, but fewer total meetings and conferences, and sports, assemblies and concerts than the competitors' average.

The VBCC compares similarly to the competitive set in average attendance for most event types. Consumer show attendance at the VBCC averages 40 percent less attendance. Total and average attendance at sports events at the VBCC was significantly higher than comparable facilities, due to the large marathon and half-marathon events which use the facility.

Lost Business

HVS analyzed the lost business report submitted by the Virginia Beach Convention and Visitor's Bureau ("VBCVB") for lost business between 2005 and 2010. An event is considered lost business if the event planner had booked tentative dates in the VBCC, but ultimately decided to book the event in another venue. The VBCC records the number of lost events and the potential room nights associated with each event. The figure below provides an annual summary of lost business by the year in which the events would have occurred.

FIGURE 2-4 LOST EVENTS AND ROOM NIGHTS



The lost business data set listed 35 separate reasons codes for lost business for all events. HVS classified three of these reason codes - “Political/Board Decision”, “Competitor Offered Better Overall Package,” and “Competitor - Draw Appeal” as unknown reasons, since they do not specify a decision criteria.

HVS reclassified the remaining reason codes into six categories and calculated the percent of lost room nights attributable to each of the six lost business categories. The figure below shows the percent of lost room nights by each category.

FIGURE 2-5 CATEGORIES OF LOST BUSINESS (% OF LOST ROOM NIGHTS)



Source: Virginia Beach Convention and Visitor's Bureau

Forty-four percent of lost business results from the lack of a headquarters hotel or enough quality hotel rooms in the market. The addition of the proposed headquarters hotel would address this concern and allow the VBCC to recover some of this lost business.

To estimate the number of annual lost room nights for each category of lost business, HVS applied the above distribution of lost business to the average annual total room nights lost from all lost business events from 2005 through 2010 (170,335). The following figure shows the average estimated annual room nights for each category of lost business.

FIGURE 2-6 ESTIMATED ANNUAL LOST ROOM NIGHTS

Reason for Lost Business	Actual Average Room Nights Lost for Events with Reasons	Average Estimated Annual Room Nights Lost for All Lost Business
Lack of HQ Hotel or Rooms in Market	46,471	74,711
High Rates	19,957	32,085
Lack of Available Dates or Space	13,198	21,218
Destination Characteristics	12,604	20,263
Lack of Private or Public Subsidies	9,303	14,956
Other	4,417	7,101
	105,949	170,335

Source: Virginia Beach Convention and Visitor's Bureau and HVS

For many events, event planners provided two or three reasons for not holding their event at the VBCC. Because the criteria used in event planners' decision making is multi-layered, the addition of a headquarters hotel would not result in 100 percent recovery of business lost due to lack of a headquarters hotel or proximate room supply. To assess potential recovery of lost business, HVS calculated the number of room nights that could be recovered in a range of 30 to 70 percent recovery of lost business. See the figure below.

FIGURE 2-7 POTENTIAL TO RECOVER BUSINESS WITH PROPOSED HOTEL

Percent Recovered	Annual Number of Recovered Room Nights
30%	51,101
40%	68,134
50%	85,168
60%	102,201
70%	119,235

Under these assumptions, the VBCC could recover between 51,000 to 120,000 room nights per year. This range provides the boundaries of a reasonable estimate of new VBCC room nights generated by the addition of a headquarters hotel.

Demand Projections

The information revealed in the market overview, lost business reports, analysis of comparable facilities, and event planner surveys indicates that the development of a headquarters hotel attached to the VBCC could generate an increased amount of event demand.

Based on the results of event planners surveys previously conducted by HVS, we understand that event planners consider the facility's event space, staff, and destination appeal among the VBCC's strengths, but consider the lack of a headquarters hotel adjacent or attached to the facility a weakness. The lack of a headquarters hotel was also cited in several instances by event planners when asked why they located their event outside of the VBCC.

Once the proposed headquarters hotel has been opened for a period of time, event demand is projected to level off and stabilize. For the VBCC, HVS projects that event demand and attendance will stabilize in FY 2016. The addition of a headquarters hotel would likely increase the number of conferences, meetings, conventions, and tradeshow taking place at the VBCC, but it would likely not affect the number of assemblies or entertainment events that occur at the facility.

FIGURE 2-8 SCENARIO 1 - EVENT DEMAND FORECAST WITHOUT HOTEL

	2011	2012	2013	2014	2015	2016
Events						
Conventions	15	15	14	14	14	14
Tradeshows	10	10	10	10	10	10
Conferences	5	5	5	5	5	5
Consumer Shows	28	28	28	28	28	28
Banquets	75	75	75	75	75	75
Meetings	160	158	157	155	154	152
Assemblies	5	5	5	5	5	5
Sports	15	15	15	15	15	15
Concerts & Entertainment	2	2	2	2	2	2
Other Events	25	25	25	25	25	25
Total	340	338	336	334	333	331
Average Attendance						
Conventions	2,900	2,900	2,900	2,900	2,900	2,900
Tradeshows	1,200	1,200	1,200	1,200	1,200	1,200
Conferences	670	670	670	670	670	670
Consumer Shows	4,200	4,200	4,200	4,200	4,200	4,200
Banquets	330	330	330	330	330	330
Meetings	100	100	100	100	100	100
Assemblies	12,900	12,900	12,900	12,900	12,900	12,900
Sports	9,900	9,900	9,900	9,900	9,900	9,900
Concerts & Entertainment	4,600	4,600	4,600	4,600	4,600	4,600
Other Events	650	650	650	650	650	650
Total Attendance						
Conventions	43,500	43,500	40,600	40,600	40,600	40,600
Tradeshows	12,000	12,000	12,000	12,000	12,000	12,000
Conferences	3,350	3,350	3,350	3,350	3,350	3,350
Consumer Shows	117,600	117,600	117,600	117,600	117,600	117,600
Banquets	24,750	24,750	24,750	24,750	24,750	24,750
Meetings	16,000	15,800	15,700	15,500	15,400	15,200
Assemblies	64,500	64,500	64,500	64,500	64,500	64,500
Sports	148,500	148,500	148,500	148,500	148,500	148,500
Concerts & Entertainment	9,200	9,200	9,200	9,200	9,200	9,200
Other Events	16,250	16,250	16,250	16,250	16,250	16,250
Total	455,650	455,450	452,450	452,250	452,150	451,950

Without the addition of a headquarters hotel, HVS projects that demand at the VBCC will decline slightly as competitors may improve their convention centers and hotels.

The figure below shows the HVS forecast of VBCC event demand assuming the hotel opens in January 2013.

FIGURE 2-9 SCENARIO 2 - EVENT DEMAND FORECAST WITH HOTEL

	2011	2012	2013	2014	2015	2016
Events						
Conventions	15	15	20	21	22	22
Tradeshows	10	10	11	12	12	12
Conferences	5	5	10	10	10	10
Consumer Shows	28	28	28	28	28	28
Banquets	75	75	81	81	81	81
Meetings	160	158	162	171	180	180
Assemblies	5	5	5	5	5	5
Sports	15	15	18	19	20	20
Concerts & Entertainment	2	2	2	2	2	2
Other Events	25	25	30	30	30	30
Total	340	338	367	379	390	390

*Proposed headquarters hotel to open January 1, 2012

Average Attendance						
Conventions	2,900	2,900	2,900	2,900	2,900	2,900
Tradeshows	1,200	1,200	1,200	1,200	1,200	1,200
Conferences	670	670	670	670	670	670
Consumer Shows	4,200	4,200	4,200	4,200	4,200	4,200
Banquets	330	330	330	330	330	330
Meetings	100	100	100	100	100	100
Assemblies	12,900	12,900	12,900	12,900	12,900	12,900
Sports	9,900	9,900	9,900	9,900	9,900	9,900
Concerts & Entertainment	4,600	4,600	4,600	4,600	4,600	4,600
Other Events	650	650	650	650	650	650
Total Attendance						
Conventions	43,500	43,500	57,420	60,610	63,800	63,800
Tradeshows	12,000	12,000	13,680	14,400	14,400	14,400
Conferences	3,350	3,350	6,700	6,700	6,700	6,700
Consumer Shows	117,600	117,600	117,600	117,600	117,600	117,600
Banquets	24,750	24,750	26,730	26,730	26,730	26,730
Meetings	16,000	15,800	16,200	17,100	18,000	18,000
Assemblies	64,500	64,500	64,500	64,500	64,500	64,500
Sports	148,500	148,500	178,200	188,100	198,000	198,000
Concerts & Entertainment	9,200	9,200	9,200	9,200	9,200	9,200
Other Events	16,250	16,250	19,500	19,500	19,500	19,500
Total	455,650	455,450	509,730	524,440	538,430	538,430

The addition of a headquarters hotel would substantially increase the attractiveness of the VBCC for conventions and tradeshow, conferences, banquets, meetings, and sports, as these events typically require significant room blocks proximate to convention space. The addition of a headquarters hotel would likely not affect the number of consumer shows, assemblies, or entertainment events that occur at the facility because these events do not require hotel room blocks.

The figure below shows the change in event demand between scenario 1 - without headquarters hotel, and scenario 2 - with headquarters hotel. HVS calculated the change for a stabilized year of event demand (2016).

FIGURE 2-10 CHANGE IN VBCC EVENT DEMAND

	Stabilized Year		Change
	Without Hotel	With Hotel	
Events			
Conventions	14	22	8
Tradeshows	10	12	2
Conferences	5	10	5
Consumer Shows	28	28	-
Banquets	75	81	6
Meetings	152	180	28
Assemblies	5	5	-
Sports	15	20	5
Concerts & Entertainment	2	2	-
Other Events	25	30	5
Total	331	390	59
Total Attendance			
Conventions	40,600	63,800	23,200
Tradeshows	12,000	14,400	2,400
Conferences	3,350	6,700	3,350
Consumer Shows	117,600	117,600	-
Banquets	24,750	26,730	1,980
Meetings	15,200	18,000	2,800
Assemblies	64,500	64,500	-
Sports	148,500	198,000	49,500
Concerts & Entertainment	9,200	9,200	-
Other Events	16,250	19,500	3,250
Total	451,950	538,430	86,480
Total Room Nights			
Conventions	85,300	134,000	48,700
Tradeshows	3,600	4,300	700
Conferences	1,300	2,500	1,200
Consumer Shows	7,800	7,800	-
Banquets	1,700	1,900	200
Meetings	1,100	1,300	200
Assemblies	600	600	-
Sports	74,300	99,000	24,700
Concerts & Entertainment	-	-	-
Other Events	300	400	100
Total	176,000	251,700	75,700

Based on HVS demand projections, the VBCC would generate an additional 75,000 room nights annually in a stabilized year as a result of increased demand at the VBCC due to the addition of a headquarters hotel. In addition to the room nights generated by VBCC events, the headquarters hotel itself would also induce new room nights. In 2008, HVS performed a market study for the proposed 361-room

property. This analysis relies on the estimate of hotel occupancy contained in the HVS Headquarters Hotel Market Study. The figure below shows the estimated number of room nights and the percent that are considered new to the market.

FIGURE 2-11 ROOM NIGHTS INDUCED BY THE PROPOSED HQ HOTEL

Market Segment		Year 1	Year 2	Year 3	Year 4	Year 5
Occupied Room Nights						
Commercial		6,600	7,900	9,300	9,400	9,500
Meeting and Group		42,200	48,800	56,400	57,100	57,800
Leisure		17,300	18,800	20,300	20,500	20,800
Total Room Nights		66,100	75,500	86,000	87,000	88,100
<i>Estimated Occupancy Rate</i>		50%	57%	65%	66%	67%
New Room Nights						
	Percent					
Commercial	10%	660	790	930	940	950
Meeting and Group	30%	12,660	14,640	16,920	17,130	17,340
Leisure	10%	1,730	1,880	2,030	2,050	2,080
New Hotel Room Nights		15,050	17,310	19,880	20,120	20,370

Source: HVS Headquarters Hotel Market Study Estimates Adjusted to a 361 room property

In a stabilized year of demand, the proposed hotel would generate an estimated 20,000 new room nights from commercial, leisure travels, and in-house meeting and group business.

The combined impact of convention center and hotel based events would generate an estimated 96,000 new room nights in the Virginia Beach market as a whole. As shown in the table above, the headquarters hotel with 361 rooms would absorb an estimated 88,000 total room nights in a stabilized year of demand. Consequently, the headquarters hotel is not expected to have a negative impact on market-wide occupancies.

The preceding event demand and room night estimates are subject to the assumptions and limiting conditions described throughout the report. In addition, we highlight the following assumptions that are important factors in achieving the forecasted results.

- The headquarters hotel will open on January 1, 2013 and will feature 361 rooms, a restaurant, a lounge, 16,858 square feet of meeting space, a pool, an exercise room, a business center, a gift shop, a vending area, and a guest

laundry room. The hotel would also include back-of-the-house space necessary to support full-service hotel operations.

- As the primary sales and marketing arm for the City of Virginia Beach, the VBCVB is adequately funded to successfully implement an approved sales and marketing strategy.
- Adequate surface and/or garage parking is available for event attendees which is both proximate to the VBCC and conveniently accessible to patrons.
- Collateral development within the VBCC area proceeds commensurate with the development of the proposed headquarters hotel, and an adequate number of retail, dining and entertainment options are available for event attendees during the initial years of operation.
- The operator and brand selection process for the proposed hotel proceeds on schedule with a high-quality operator in place at opening.

3. Spending Impacts

Methodology

HVS identified the new spending that would occur in the local economy due to the operations of the VBCC, assuming that the headquarters hotel opens on January 1, 2013. HVS direct spending estimates include only new spending that originates from outside the two market areas analyzed in this report: the City of Virginia Beach (the “City”) and the Commonwealth of Virginia (the “Commonwealth”). Spending by delegates who live within the market area is a transfer of income from one sector of the area’s economy to another; therefore, this analysis does not count spending by local residents as a new economic impact.

Direct, Indirect, and Induced Spending

Spending falls into three categories:

- Direct spending impacts include the new spending from four sources as defined below. For example, a delegate’s expenditure on a restaurant meal is a direct economic impact.
- Indirect spending impacts are generated from the business spending resulting from the initial direct spending. For example, a delegate’s direct expenditure on a restaurant meal causes the restaurant to purchase food and other items from suppliers. The portion of these restaurant purchases that remain within the City and the Commonwealth is counted as an indirect impact.
- Induced spending impacts represent the change in local consumption due to the personal spending by employees whose incomes are affected by direct and indirect spending. For example, a waiter at a local restaurant may have more personal income as a result of convention delegates dining at the restaurant. The amount of the increased income that the waiter spends in the local economy is considered an induced impact.

HVS enters the direct spending estimate into the IMPLAN input-output model of the local economy to estimate indirect and induced spending. The sum of direct, indirect, and induced spending estimates make up the total estimated spending impact of the VBCC operations.

Indirect and induced impacts are often referred to as multiplier effects. The relationship between direct spending and the multiplier effects can vary based upon the specific size and characteristics of a local area’s economy.

Sources of Direct Spending

HVS identified five sources of new direct spending impact for the City and the Commonwealth:

- **Overnight Attendees:** Participants, including delegates, event organizers and exhibitors, who attend convention center events and require paid lodging.
- **Daytrip Attendees:** Participants, including delegates, event organizers and exhibitors, who attend convention center events and do not require paid lodging.
- **Event Organizers:** Individuals, associations, or other organizations that plan, sponsor, organize, and coordinate events that take place at the convention center.
- **Exhibitors:** Individuals or companies that rent exhibition space, typically from event organizers, to display information or products at convention center events. Exhibitors typically are present at conventions, tradeshow, and consumer shows.

Overnight and Daytrip Attendee Assumptions

Attendees at conventions, tradeshow, and other events are classified as either overnight or daytrip delegates, depending on whether they require overnight lodging. Typically, events attract a mix of local and non-local attendees. For example, nearly all delegates to national conventions require lodging, while regional tradeshow and local consumer shows may have a much lower percentage of delegates requiring paid lodging. HVS estimated the percentage of room nights, day trips, exhibitor spending and organizer spending that is new to the City and to the Commonwealth. The figure below summarizes these assumptions.

FIGURE 3-1 NEW TO THE MARKET

Geographic Area/ Event Type	Percent Lodgers	Percent Net New to Market Area			
		Room Nights	Day Trips	Exhibitor Spend	Organizer Spend
City					
Conventions	60%	100%	70%	100%	100%
Tradeshows	20%	100%	70%	100%	100%
Conferences	25%	100%	70%	100%	100%
Consumer Shows	3%	100%	70%	100%	100%
Banquets	7%	100%	70%	100%	100%
Meetings	7%	100%	70%	100%	100%
Assemblies	1%	100%	70%	100%	100%
Sports	50%	100%	70%	100%	100%
Concerts & Entertainment	0%	100%	70%	100%	100%
Other Events	2%	100%	70%	100%	100%
Commonwealth					
Conventions	60%	50%	25%	50%	50%
Tradeshows	20%	50%	25%	50%	50%
Conferences	25%	75%	25%	75%	75%
Consumer Shows	3%	75%	50%	75%	75%
Banquets	7%	75%	50%	75%	75%
Meetings	7%	75%	50%	75%	75%
Assemblies	1%	75%	50%	75%	75%
Sports	50%	75%	50%	75%	75%
Concerts & Entertainment	0%	75%	50%	50%	50%
Other Events	2%	75%	50%	75%	75%

The assumptions of the percent of attendees that are lodgers are based on historical analysis of VBCC event data. Since the City is a smaller market area than the Commonwealth, HVS assumes that the percent room nights, day trips, and exhibitor and organizer spending that is new to the Commonwealth is significantly less than the spending that is new to the City.

Sources of Impact

Combining the event demand forecast (described in the previous section of this report) with the assumptions of the percent of demand that is new to the market yields an estimate of the sources of impact shown in the table below.

FIGURE 3-2 SOURCES OF NEW IMPACT (FOR A STABILIZED YEAR)

Event Type	Attendee Days *	Overnight Stays*	Day Trips*
City			
Conventions	104,400	48,720	29,232
Tradeshows	6,000	720	3,360
Conferences	8,375	1,256	4,397
Consumer Shows	0	0	0
Banquets	2,376	139	1,547
Meetings	4,200	196	2,734
Assemblies	0	0	0
Sports	168,300	24,750	58,905
Concerts & Entertainment	0	0	0
Other Events	4,550	66	3,120
Headquarters Hotel	0	20,120	0
Total	298,201	95,967	103,295
Commonwealth			
Conventions	52,200	24,360	10,440
Tradeshows	3,000	360	1,200
Conferences	6,281	942	1,570
Consumer Shows	0	0	0
Banquets	1,782	104	1,105
Meetings	3,150	147	1,953
Assemblies	0	0	0
Sports	126,225	18,563	42,075
Concerts & Entertainment	0	0	0
Other Events	3,413	50	2,229
Headquarters Hotel	0	18,108	0
Total	196,051	62,633	60,572

*New to Market

These estimates of attendee days, overnight stays, and day trips provide the basis for estimating new spending.

Spending Parameters

Delegates, attendees, event organizers, and exhibitors spend locally on lodging, meals, local transportation, facility rentals, vendor services, meeting room rentals, equipment rentals, and other goods and services.

In order to estimate average spending by overnight delegates, daytrip delegates, event organizers, and exhibitors in the City and Commonwealth, HVS evaluated data from three visitor spending surveys. First, the 2004 Destination Marketing Association International (“DMAI”) survey (the most recent one available) focuses on spending by convention and tradeshow participants. Second, the 2010 Corporate Travel Index (“CTI”) survey focuses on visitor spending in the top 100 business destinations in the country. HVS uses the CTI survey to index the national

results contained in the DMAI survey so that they more accurately reflect the probable level of spending in the District. Thirdly, lodging expenditures were based on Smith Travel Research data on city-wide average daily room rates for the year 2010.

Adjusting the average DMAI data with the CTI creates spending parameters for the City and Commonwealth (referred to herein as the “Daily Spending Parameters”). All parameters are stated as the daily spending by individual overnight delegates, day trippers, event organizers, and exhibitors. All Daily Spending Parameters (shown in the figures below) are stated as the daily spending by individual overnight delegates, day trippers, event organizers, and exhibitors in 2011 dollars.

Overnight Attendee Spending

Multiplying the number of new overnight stays by the Daily Spending Parameters produces an estimate of new spending by overnight attendees as shown in the figure below.

FIGURE 3-3 OVERNIGHT ATTENDEE SPENDING (IN 2011 DOLLARS)

Daily Spending Parameter	Spending Per Overnight Stay	Overnight Attendee Stays	Overnight Attendee Direct Spending
Lodging and Incidentals	\$131.54		
Hotel F&B	28.72		
Restaurants	49.18		
Tours/Sightseeing	5.52		
Recreation	1.84		
Sporting Events	0.85		
Retail Stores	28.89		
Local Transport	8.34		
Auto Rental	5.65		
Gasoline, Tolls, Parking	8.67		
Other	0.17		
Total	\$269.38		
City	\$269.38	X 95,967	= \$25,852,000
Commonwealth	\$269.38	X 62,633	= \$16,872,000

HVS estimates that the addition of a headquarters hotel would generate 96,000 overnight stays new to the City, and 63,000 overnight stays that are new to the Commonwealth.

These overnight attendees purchase lodging, restaurant meals, retail goods, transportation services, and other goods and services that would result in approximately \$25.9 million and \$16.9 million in new spending to the City to the Commonwealth, respectively.

Daytrip Spending

Daytrip spending is generated by delegates and other attendees to conventions, tradeshow, and consumer shows who do not stay overnight. In most markets day trippers typically spend \$40–\$80 per day on meals, shopping, local transportation, recreation and entertainment and other goods and services while in town.

Multiplying the number of new delegates to the City and Commonwealth by the estimated daily spending figure produces an estimate of new spending by daytrip delegates in the City and Commonwealth, as shown below.

FIGURE 3-4 DAYTRIP SPENDING (IN 2011 DOLLARS)

Daily Spending Parameter	Spending per Day Trip	Number of Day Trips	Day Tripper Spending
Restaurants	\$24.59		
Retail Stores	14.45		
Local Transport	4.17		
Gasoline, Tolls, Parking	5.06		
Total	\$51.10		
City	\$51.10	X 103,295	= \$5,278,000
Commonwealth	\$51.10	X 60,572	= \$3,095,000

Approximately 103,000 new day trips to the City and 61,000 new day trips to the Commonwealth generate \$5.3 million and \$3.1 million to the City and Commonwealth, respectively.

Event Organizer Spending

Event organizers spend on lodging, meals, local transportation, facility rentals, equipment rentals and other goods and services required to plan and organize a successful event. Adjusted DMAI data provides estimates of organizer spending per attendee day as shown in the figure below.

FIGURE 3-5 EVENT ORGANIZER SPENDING

Daily Spending Parameter	Spending per Attendee Days		Number of Attendee Days		Event Organizer Spending
Hotel	\$0.00				
F&B	6.23				
Exhibition Space Fees	5.50				
Services Hired	5.18				
Equipment Rental	2.28				
Advertising	0.00				
Technology Services	0.39				
Additional Spaces	0.28				
Local Transportation	0.24				
Other	1.09				
Total	\$21.19				
City	\$21.19	X	298,201	=	\$6,319,000
Commonwealth	\$21.19	X	196,051	=	\$4,154,000

Based on \$21.19 in daily spending per delegate, event organizers would generate approximately \$6.3 million and \$4.2 million to the City and Commonwealth, respectively.

Exhibitor Spending

Exhibitor spending includes the local spending within the area by exhibitors that participate in events taking place at the VBCC. Exhibitors purchase lodging, meals, local transportation, vendor services, meeting room rentals, equipment rentals, and other goods and services required for their events. Adjusted DMAI data provides estimates of exhibitor spending per attendee day.

FIGURE 3-6 EXHIBITORS SPENDING (IN 2011 DOLLARS)

Daily Spending Parameter	Spending per Attendee Days		Number of Attendee Days		Exhibitor Spending
Hotel	\$6.51				
Vendor Services	11.97				
F&B	11.79				
Advertising	0.00				
Local Transportation	2.75				
Equipment Rental	10.29				
Service Hired	2.06				
Additional Meeting Rooms	1.53				
Other	5.36				
Total	\$52.26				
City	\$52.26	X	298,201	=	\$15,584,000
Commonwealth	\$52.26	X	196,051	=	\$10,245,000

New spending by exhibitors is typically one of the larger sources of direct economic impact generated by convention centers. Using historical attendance data, as provided by the VBCC, estimated new spending by event organizers generates approximately \$15.6 million and \$10.2 million to the City and Commonwealth, respectively.

The following table summarizes the new spending estimates derived from overnight delegates, daytrip delegates, event organizers, and exhibitors.

Summary of Direct Spending

FIGURE 3-7 ESTIMATED DIRECT SPENDING (IN 2011 DOLLARS)

Source	City - Spending (\$ millions)	Commonwealth Spending (\$ millions)
Overnight Attendees	\$25.9	\$16.9
Day Trippers	5.3	3.1
Exhibitors	6.3	4.2
Event Organizers	15.6	10.2
Total Direct Impact	\$53.0	\$34.4

Total estimated direct spending attributed to activities of the VBCC as a result of the addition of a headquarters hotel opening on January 1, 2013 is \$53.0 million for the City and \$34.4 million for the Commonwealth.

Indirect and Induced Spending Estimates

HVS uses the IMPLAN input-output model to estimate indirect and induced impacts. IMPLAN is a nationally recognized model developed at the University of Minnesota to estimate indirect and induced economic impacts. An input-output model generally describes the commodities and income that normally flow through the various sectors of a given economy. The indirect and induced spending and employment effects shown here represent the estimated changes in the flow of income and goods caused by the estimated direct spending. The IMPLAN model accounts for the specific characteristics of the local area economy and estimates the share of indirect and induced spending that it will retain.

HVS categorized new direct expenditures into spending categories that are inputs into the IMPLAN model. Specifically, the IMPLAN model relies on spending categories defined by the U.S. Census according to the NAICS. Because the spending data from the DMAI surveys do not match the NAICS spending categories, HVS translates the DMAI spending categories into the NAICS spending categories that most closely match the intent of the survey.

The following table shows new direct spending, categorized into each of several major NAICS spending categories, or sectors of the local economy, that are compatible with the IMPLAN model.

FIGURE 3-8 DISTRIBUTION OF DIRECT SPENDING

Category	City		Commonwealth	
	\$	% Total	\$	% Total
Local Transport	\$ 1,721,000	3.2%	1,097,000	3.2%
Tours/Sightseeing	518,000	1.0%	338,000	1.0%
Gasoline, Tolls, Parking	1,336,000	2.5%	837,000	2.4%
Supplies & Misc. Retail	5,667,000	10.7%	3,606,000	10.5%
Auto Rental	822,000	1.5%	517,000	1.5%
Equipment Rental	2,922,000	5.5%	1,921,000	5.6%
Technology Services	1,734,000	3.3%	1,140,000	3.3%
Event Services	4,059,000	7.7%	2,669,000	7.8%
Sporting Events	80,000	0.2%	52,000	0.2%
Recreation	173,000	0.3%	113,000	0.3%
Hotel Services	12,918,000	24.4%	8,431,000	24.5%
Space Rental	4,441,000	8.4%	2,919,000	8.5%
Food & Beverage	16,643,000	31.4%	10,726,000	31.2%
TOTAL	\$ 53,033,000	100%	34,367,000	100%

Indirect and Induced Spending

The following table shows the output of the IMPLAN model—the projected new direct, indirect, and induced economic impacts and that would be caused by the proposed headquarters hotel.

FIGURE 3-9 STABILIZED INDIRECT AND INDUCED SPENDING (\$2011)

City	Spending (in thousands)		Jobs
	Spending	Jobs	
Direct	\$53,000	600	
Indirect	16,000	130	
Induced	19,700	170	
Total	\$88,700	900	
Commonwealth			
Direct	\$34,400	310	
Indirect	12,200	60	
Induced	14,000	80	
Total	\$60,600	450	

Total spending in a stabilized year (2016) of demand is estimated approximately \$88.7 million in the City and \$60.6 million in the Commonwealth.

Jobs can also be used to measure economic impact. Total spending supports employment. Using the IMPLAN model, HVS estimates the VBCC would support roughly 900 new jobs in the City and 450 new jobs in the Commonwealth.

Fiscal Impacts

Fiscal impacts represent the public sector share of the economic impacts, as represented by tax collections on new spending. The previously discussed spending estimates provide a basis for estimating potential tax revenue as some of the spending will be subject to taxation.

City Fiscal Impacts

The IMPLAN analysis results in indirect and induced spending classified into hundreds of detailed spending categories. HVS evaluated each of these spending categories to determine which taxes would apply to each type of spending output. The appropriate tax rates are then used to estimate the amount of tax revenue. The following table lists the local sales and use taxes that apply to spending in the City. The table also shows the respective tax rates for each category. The business tax rates vary depending on the nature of the business.

FIGURE 3-10 SALES AND USE TAX RATES

Tax Categories	Rates
Admissions	10.0%
Admission to Participatory Events	5.0%
Cigarettes	\$0.65/20 pack
Mobile Local Telephone Service	5.0%
Restaurants & Meals	5.5%
Retail Sales*	2.25%
Transient Accommodations**	8.30%
Business License Tax	% of Gross Receipts

*The City of Virginia Beach receives 1.0% of the Commonwealth of Virginia's 5.0% retail sales tax. The school district receive 1.25%

**8.0 % plus a \$1.00/night accommodations tax.

Source: City of Virginia Beach Commissioner of Revenue

HVS applied these tax rates to a detailed breakdown of spending categories that result from direct, indirect and induced spending in the local economy. HVS then estimated the potential revenue from each tax source as shown in the following table.

**FIGURE 3-11 CITY ESTIMATED INCREMENTAL SALES AND USE TAX REVENUES
(IN THOUSANDS)**

CITY OF VIRGINIA BEACH			
Tax Category	Tax Base (\$)	Effective Tax Rate	Estimated Tax Revenue (\$)
Admissions	190,000	8.40%	16,000
Restaurant & Meals	18,896,000	5.50%	1,039,300
Transient Accommodations*	12,945,000	8.30%	1,074,400
Business License Tax	54,064,000	0.39%	212,600
Property Taxes (proposed hotel)	68,599,000	0.89%	610,500
Property Taxes	9,066,000	0.89%	80,700
Retail Sales**	51,547,000	2.30%	1,185,600
Business Property Tax	2,517,000	3.70%	93,100
Total			\$4,312,200

*8.0% nominal tax rate plus \$1.00/night included in tax rate.
**1.0% of State tax distributed to the City plus 1.25% to the school district.

HVS estimates that the event activity associated with the proposed headquarters hotel in Virginia Beach will generate approximately \$4.3 million in local sales and use tax revenues in 2016. While Virginia Beach also levies a sales tax on cigarettes and a use tax on local mobile telephone services, the incremental revenue generated by each source is likely to be very small when compared to the other tax revenue sources.

Commonwealth Fiscal Impacts

HVS applied the sales and use tax, personal income, and corporate income tax to the detailed breakdown of spending categories that result from direct, indirect and induced spending within the Commonwealth.

**FIGURE 3-12 COMMONWEALTH ESTIMATED INCREMENTAL TAX REVENUES
(IN THOUSANDS)**

Tax Category	Tax Base (\$)	Effective Tax Rate	Estimated Tax Revenue (\$)
Sales and Use Taxes	35,787,000	4.00%	1,431,500
Personal Income	22,508,000	5.17%	1,163,700
Corporate Income Taxes	2,366,000	6.00%	142,000
Total			\$2,737,200

Long-Term Local Fiscal Impacts

HVS estimates that the event activity associated with the proposed headquarters hotel in Virginia Beach will generate approximately \$2.7 million in state sales and use tax revenues, personal income tax revenues, and corporate income tax revenues in a stabilized year (2016).

HVS also estimated the long term fiscal impact of the proposed headquarter hotel by calculating the Net Present Value (“NPV”) of the potential tax revenue streams for the City.

FIGURE 3-13 LONG TERM FISCAL IMPACTS – CITY OF VIRGINIA BEACH

	Year	2011 Dollars*	Nominal Dollars	Discounted Values
Year	1	2011	-	-
Year	2	2012	-	-
Year	3	2013	2,566,000	2,387,000
Year	4	2014	3,665,000	3,328,000
Year	5	2015	4,312,000	3,823,000
Year	6	2016	4,312,000	3,732,000
Year	7	2017	4,312,000	3,643,000
Year	8	2018	4,312,000	3,556,000
Year	9	2019	4,104,448	3,304,000
Year	10	2020	4,104,448	3,226,000
Year	11	2021	4,104,448	3,148,000
Year	12	2022	4,104,448	3,074,000
Year	13	2023	4,104,448	3,001,000
Year	14	2024	4,104,448	2,929,000
Year	15	2025	4,104,448	2,859,000
Year	16	2026	4,104,448	2,791,000
Year	17	2027	4,104,448	2,725,000
Year	18	2028	4,104,448	2,660,000
Year	19	2029	4,104,448	2,597,000
Year	20	2030	4,104,448	2,535,000
Year	21	2031	4,104,448	2,475,000
Year	22	2032	4,104,448	2,416,000
			Total	\$ 60,209,000

*Property taxes estimated to decrease by roughly 33% after 2018 due to change in assessed values based on construction costs to values based on capitalized income streams.

Assuming a 2.5% inflation rate and a 5% discount rate, HVS estimates the net present value of the fiscal impact of the first 22 years of the hotel’s operations totals \$60.2 million.

HVS also estimated the long-term fiscal impact of the proposed headquarters hotel for the Commonwealth as shown in the figure below.

FIGURE 3-14 LONG TERM FISCAL IMPACTS – COMMONWEALTH

Year	2011 Dollars	Nominal Dollars	Discounted Values
2011	-	-	-
2012	-	-	-
2013	1,628,000	1,753,000	1,514,000
2014	2,326,000	2,567,000	2,112,000
2015	2,737,000	3,097,000	2,427,000
2016	2,737,200	3,174,000	2,368,000
2017	2,737,200	3,254,000	2,313,000
2018	2,737,200	3,335,000	2,257,000
2019	2,737,200	3,418,000	2,203,000
2020	2,737,200	3,504,000	2,151,000
2021	2,737,200	3,591,000	2,100,000
2022	2,737,200	3,681,000	2,050,000
2023	2,737,200	3,773,000	2,001,000
2024	2,737,200	3,868,000	1,954,000
2025	2,737,200	3,964,000	1,907,000
2026	2,737,200	4,063,000	1,861,000
2027	2,737,200	4,165,000	1,817,000
2028	2,737,200	4,269,000	1,774,000
2029	2,737,200	4,376,000	1,732,000
2030	2,737,200	4,485,000	1,690,000
2031	2,737,200	4,597,000	1,650,000
2032	2,737,200	4,712,000	1,611,000
Total			\$ 39,492,000

HVS estimates that the Commonwealth could generate a NPV of 100% in fiscal impact over a 20-year period.

Summary and Conclusion

The following table shows a summary of the projected impact the proposed headquarters hotel will have on the local Virginia Beach economy in 2016.

FIGURE 3-15 SUMMARY OF IMPACTS FROM THE HEADQUARTERS HOTEL IN A STABILIZED YEAR (2016)

Summary of Impacts*	Virginia Beach	Commonwealth
Economic Impact	\$88.7 million	\$60.6 million
Fiscal Impact	\$4.3 million	\$2.7 million
Jobs	900	450

*In a stabilized year.

HVS estimates the proposed headquarters hotel will generate economic impacts of approximately \$88.7 million to the City in a stabilized year (2016) and \$60.6 million to the Commonwealth. The fiscal impacts, or tax revenues, generated by the new spending associates with the VBCC are projected at approximately \$4.3 million for the City and \$2.7 million for the Commonwealth. The new economic activity associated with the project is projected to support roughly 900 full-time equivalent jobs annually for the City and 450 full-time equivalent jobs annually for the Commonwealth.

4. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. All information, financial operating statements, 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.
3. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
4. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
5. 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.
6. 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.
7. We take no responsibility for any events or circumstances that take place subsequent to the date of our report.
8. The quality of a lodging facility's on-site management has a direct effect on a property's economic performance. The demand and financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results and the value estimate.
9. The impact analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to sharp rises and declines. Over the projection period considered in our analysis, wages and other operating expenses may increase or decrease due to market volatility and economic forces outside the control of the hotel's management.
10. Since the estimates are based on numerous assumptions about future events and circumstances and although we consider these reasonable assumptions, we cannot provide assurances that the project will achieve

the forecasted results. Actual events and circumstances are likely to differ from the assumptions in this report and some of those differences may be material. The readers should consider these estimates as a mid-point in a range of possible outcomes.

11. 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. Thus, these figures may be subject to small rounding errors.
12. 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.
13. Although this analysis employs various mathematical calculations, the final estimates are subjective and may be influenced by our experience and other factors not specifically set forth in this report.
14. This report was prepared by HVS Convention, Sports & Entertainment Facilities Consulting, a division of HVS Global Hospitality Services. 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.
15. This report is set forth as an impact study of the proposed subject project; this is not an appraisal report.

5. 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 we have no current or contemplated interests in the real estate that is the subject of this report;
4. that we have no personal interest or bias with respect to the subject matter of this report or the parties involved;
5. 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;
6. 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;
7. that our engagement in this assignment was not contingent upon developing or reporting predetermined results; and
8. 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 economic impact study.



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

LEADERSHIP TEAM

Crestline Hotels & Resorts, Inc. Executive Management Leadership Team

Leadership combined with professional opportunity and personal growth is the foundation of success for Crestline Hotels & Resorts. Each of the Company's senior executives averages more than 25 years of hospitality experience and has built an esteemed reputation upon the management of financially successful hotels. Through these strong leadership role models, and a focus on internal professional development in a competitive atmosphere, Crestline is building the hotel industry leaders of tomorrow as part of our hotel management team today. It is this focus on developing the best talent in the hospitality and hotel management industry that radiates from each of our Senior Executives as we work towards our ultimate objective - enhancing each hotel's value for the owner and hotel management team.

- President & Chief Executive Officer
- EVP General Counsel
- EVP Finance and Business Development
- SVP Sales and Marketing
- VP Human Resources
- VP Information Technology
- Corporate Controller

James Carroll President & Chief Executive Officer

James Carroll is the President and Chief Executive Officer of Crestline Hotels & Resorts. Mr. Carroll joined Barceló Crestline Corporation in 2004 from Dell, Inc., where he held several operations and financial management positions. In his initial role at Barceló Crestline, Mr. Carroll served as SVP & Treasurer. In 2006, he was promoted to Chief Financial Officer, and in 2009, was promoted to Chief Operating Officer of Crestline Hotels & Resorts. In 2010, he assumed the position of President and CEO of both Crestline Hotels & Resorts, as well as Barceló Crestline Corporation.



As President and CEO, Mr. Carroll has responsibility for the day-to-day management of both companies and all management and operations of the Company's portfolio of managed and owned properties throughout the U.S.

Mr. Carroll holds a Master in Business Administration degree from the Harvard Business School. He is a graduate of the U.S. Naval Academy, having graduated with Merit with a Bachelor of Science degree in Systems Engineering. Previously, he served as a Naval Aviator and Lieutenant Commander in the United States Navy.

Liz Lieberman Executive Vice President and General Counsel

As General Counsel, Ms. Lieberman oversees the legal operations of the Company, including acquisition of Company-owned and managed assets, joint venture agreements, strategic alliance agreement, management agreements, brand franchise agreements and pre-opening agreements; hotel operations for the Company's managed hotels (such as, corporate-wide hotel system agreements, trademark registrations, property contracts, group sales and marketing activities, licenses and permits); ongoing owner relations, asset management of Company-owned assets and leased portfolios; legal support for the Company's divisions, including human resources and accounting; and corporate secretary responsibilities.



Ms. Lieberman joined the Washington D.C. law firm of Cleary Gottlieb Steen & Hamilton upon graduating from law school in 1985. She joined the Marriott Corporation law department's development/acquisition and hotel operations teams in 1988. Ms. Lieberman became a member of Host Marriott's legal department in 1996, heading up the department's asset management division. She joined the Crestline legal team when the Company was launched in 1998 and became General Counsel of Barceló Crestline and Crestline Hotels & Resorts in 2003.

Liz Lieberman holds a Bachelor of Science degree in Psychology and Social Work from Nebraska Wesleyan University in Lincoln, Nebraska, and a J.D. from The Catholic University of America, Columbus School of Law in Washington, D.C. She is a member of the Washington, D.C. and Maryland State Bar Associations.

Ed Hoganson Executive Vice President, Finance & Business Development

As Executive Vice President of Finance and Business Development, Mr. Hoganson oversees the company's assets and leads the push to acquire new properties for management.

Mr. Hoganson rejoined Crestline in 2007 from Sunrise Senior Living where he served as Senior Vice President of Finance and Acquisitions. Prior to that, Mr. Hoganson was Vice President of Acquisitions for Barceló Crestline and then for Highland Hospitality Corporation. He was instrumental in the growth of Crestline from its merger with Barceló Hotels & Resorts to the creation of Highland Hospitality Corporation, an independent REIT that was spun off from Barceló Crestline. He has more than 15 years of financial and hospitality industry management experience. He began his career with Deloitte & Touche and then joined Marriott International where he held various finance positions during a six year period, prior to joining what was then Crestline Capital.

Mr. Hoganson holds a Bachelor of Arts degree from Yale University, a Master of Arts in International Relations from the University of Pennsylvania, and a Masters of Business from The Wharton School, University of Pennsylvania.



Vicki Denfeld Senior Vice President, Sales & Marketing

As Senior Vice President of Sales and Marketing, Vicki Denfeld is responsible for the development and implementation of the sales and marketing function for each of Crestline Hotels & Resorts' managed hotels as well as for Barceló Crestline.

Most recently, Ms. Denfeld was the Director of National Sales and Marketing for KSL Resorts, an owner/manager of luxury golf resorts. Prior to KSL, she held a similar position at the Miraval Resort in Tucson, Arizona.

Ms. Denfeld began her sales career as a District Manager with New York Airlines, followed by a 10-year career with The Ritz-Carlton Hotel Company. She held the positions of Associate Director of Sales at The Ritz-Carlton, Boston, and Director of Sales & Marketing at The Ritz-Carlton, Washington, DC, and The Ritz-



Deanne Johnson-Anderson
Vice President, Human Resources

Ms. Johnson-Anderson is responsible for overseeing the Human Resources initiatives for Crestline Hotels & Resorts, Inc.

Prior to joining Crestline, Ms. Johnson-Anderson served as the Area Director of HR for Starwood Hotels, providing support and counsel to 14 hotels and 1 private club in the Southern Mid Atlantic Region. She also served as a property Director of HR for the Wyndham Bristol and Omni Shoreham Hotels. Her significant achievements include receiving Starwood's "Gold Star" award in 2002 for outstanding performance and commitment to goals and values; membership in Starwood's Founding Corporate Diversity Council; and a keynote speaker at the National Society of Minorities in Hospitality.

Ms. Johnson-Anderson earned her Bachelor of Science in Hotel Management & Administration from Cornell University and received her Master in Business Administration degree in Organizational Behavior & Development from George Washington University.



Jerry Galindo
Vice President, Information Technology

As Vice President Information Technology, Jerry Galindo oversees the Information Technology initiatives including voice and data systems at Crestline's corporate headquarters as well as our managed hotel properties.

Prior to joining Crestline, Mr. Galindo was the Senior Manager of Information Systems for Host Marriott Corporation where he was responsible for all facets of the company's information systems infrastructure. Prior to joining Host Marriott he worked for Marriott International's Hotel Systems Division.

His first position with Marriott Corporation, prior to the formation of Host Marriott, was as Manager of Systems Support. In 1994 he moved to Host Marriott and served as Senior Project Leader, Information Systems. He was promoted to Manager, Information Systems in 1997 and Senior Manager, Information Systems in 1998.

Mr. Galindo holds a Bachelor of Science degree in Business from the University of Maryland. Prior to joining Marriott, Mr. Galindo was with MCI Communications, Blue Cross and Blue Shield of the National Capital Area and has served as a consultant to the U.S. Agency for International Development.



Pam Siegler
Corporate Controller

As Corporate Controller at Crestline Hotels & Resorts, Pam Siegler is responsible for the hotel accounting and finance discipline for all property level operations.

Pam previously served as Crestline's Senior Director of Hotel Accounting, Director of Field Accounting, and as a property Director of Finance at both the Georgia Tech Hotel & Conference Center and Marriott's Bay Point Resort. She has been with Crestline for the past 15 years.

Prior to her time with Crestline, Pam held various accounting positions within the hotel industry during her tenures with Interstate Hotels Corporation and Stormont Trice. Pam is a graduate of the University of Oregon and holds a Bachelor of Science in Accounting.



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DANIEL A. HOFFLER

CHAIRMAN OF THE BOARD, ARMADA HOFFLER

It was Dan Hoffler's vision that gave birth to Armada Hoffler in 1979 and today continues to foster its growth. Since then, Armada Hoffler has become one of the premier commercial real estate development and construction companies on the East Coast. Prior to Armada Hoffler, he held the position of Vice President of Marketing with Eastern International, Inc. Earlier in his career, Mr. Hoffler was employed as Regional Manager for Dun and Bradstreet.

A former "Outstanding Citizen of Hampton Roads", Mr. Hoffler has served on a number of boards, currently with The Shaw Group a fortune 500 company, serving the energy, chemical, environmental, infrastructure and emergency response industries. Prior board service includes Governor's Advisory Board for Industrial Development for the Commonwealth of Virginia, Virginia Racing Commission, Virginia Department of Game and Inland Fisheries, Department of Transportation, University of Virginia's Board of Visitors and former Chair of Hampton Roads Partnership. Mr. Hoffler received his Bachelor of Science degree in Business Administration from Campbell University in North Carolina.

LOUIS S. HADDAD

PRESIDENT & CHIEF EXECUTIVE OFFICER, ARMADA HOFFLER

In 1985, Mr. Haddad joined Armada Hoffler Construction Company as a Superintendent and as a result of his stellar performance he was promoted to President of the Construction Company in 1987. In 1996 Mr. Haddad became President of Armada Hoffler Holding Company, the parent company of all Armada Hoffler entities, and in 1999, the additional title of Chief Executive Officer was added. As CEO, Mr. Haddad oversees the day-to-day operations of all Armada Hoffler entities.

Mr. Haddad is the Co-Founder and Benefactor, along with his wife Mary, of the Mary C. Henninger and Louis S. Haddad Foundation, dedicated to improving the lives of disadvantaged and at-risk children. Additional organizations he has been involved with include Big Brothers/Big Sisters, Governor's School for the Arts, Special Olympics, United Way, March of Dimes, and many others.

A. RUSSELL KIRK

VICE CHAIRMAN, ARMADA HOFFLER

As Vice Chairman of the corporate parent, Mr. Kirk is responsible for investment decisions including structuring and negotiating partnerships and joint ventures, as well as making financial arrangements with the company's lenders for the umbrella group of Armada Hoffler Companies. Immediately prior to joining Armada Hoffler, Mr. Kirk was with the prestigious law firm of Kaufman and Canoles for ten years. While with Kaufman and Canoles, he specialized in tax and financial law, with special emphasis on structuring, marketing and financing real estate investments. Mr. Kirk is a former board member of the Virginia Port Authority, Forward Hampton Roads, Dominion Land Management and Resource Bank. He completed his undergraduate studies at the University of Virginia and received a law degree from Washington and Lee School of Law, where he graduated in the top 5% of his class and was elected to the Order of the Coif.

ANTHONY P. NERO

PRESIDENT, ARMADA HOFFLER DEVELOPMENT COMPANY

As President of Armada Hoffer Development Company, Mr. Nero is responsible for the strategic direction and supervision of the real estate development operations for the company. He joined Armada Hoffer in 1989 and initially served as Treasurer and Chief Financial Officer. Prior to that, he was Vice President and Treasurer of the Washington Corporation, a northern Virginia development company, and worked for Arthur Anderson as well. Mr. Nero graduated with honors from Georgetown University with a Major in Finance and received an MBA in Accounting from George Washington University. He is a certified public accountant and licensed real estate agent. Mr. Nero currently holds memberships in the American Institute of Certified Public Accountants, International Council of Shopping Centers, serves on the Boards of the Neptune Festival and Virginia Beach Vision and was recently named King Neptune XXXVIII.

ERIC APPERSON

PRESIDENT, ARMADA HOFFLER CONSTRUCTION COMPANY

Mr. Apperson began his career with Armada Hoffer in 1987 and held various positions prior to becoming President of Goodman Segar Hogan Hoffer Construction (a subsidiary of Armada Hoffer) in 1997. Due to his wide range of experience in management, he was appointed President of Armada Hoffer Construction Company in 2000. In addition to being responsible for the overall management, strategic growth and financial health of the Construction Company, he focuses on developing and cultivating relationships with new and existing clients, subcontractors and employees. Mr. Apperson holds a Bachelor of Arts degree from Hampden-Sydney College. Mr. Apperson served on the Board of the Chamber of Commerce and was a Triton on the Neptune Court in 2007. Mr. Apperson has also been a member of Bank @lantec since 2007 and is currently serving as Chairman of the Board.

MICHAEL P. O'HARA

CHIEF FINANCIAL OFFICER, ARMADA HOFFLER

Mr. O'Hara joined Armada Hoffer in 1996 as Controller of the Construction Company. He was then promoted to Controller of the Holding Company and has resided as Chief Financial Officer of the entire company since 2002. In this position, he oversees the financial and accounting responsibilities of all company divisions and projects. Prior to joining Armada Hoffer, Mr. O'Hara was Controller of Beacon Construction in Boston, Massachusetts. He received his Bachelor of Science in Accounting from Fairfield University in 1982 and his Massachusetts CPA designation in 1986. Mr. O'Hara is the Finance chair for St. Joseph's church and Treasurer for Timberlake Waterski Club.

JOHN DAVIS

EXECUTIVE VICE PRESIDENT, ARMADA HOFFLER CONSTRUCTION COMPANY

Mr. Davis joined Armada Hoffer in 1985 as an Assistant Superintendent and worked his way up through the ranks to his most current position of Executive Vice President. As Executive Vice President, he is responsible for the overall operations management of the Construction Company including: risk management, recruitment, legal, contractual agreements, policies and procedures. Mr. Davis graduated Cum Laude from Old Dominion University with a degree in Civil Engineering Technology. Additionally, he holds a Class A Contractors License in Virginia, North Carolina and South Carolina. Mr. Davis is also on the Board for the Tidewater Chapter of the Appalachian Trail Conference.

ALAN HUNT

EXECUTIVE VICE PRESIDENT, ARMADA HOFFLER CONSTRUCTION COMPANY

Mr. Hunt joined Armada Hoffler in 1991 as a Project Superintendent. In 2001, he was promoted to Site Manager and then became a Partner with a promotion to Vice President in 2004. In 2007, Mr. Hunt was promoted to Executive Vice President and has been overseeing the Baltimore /Washington, DC office since the late 1990's. He has widely diversified construction and field management expertise with experience in commercial, hotel, retail, and institutional facilities, as well as, residential building construction and renovations. Mr. Hunt received his degree in Computer Science from the State University of New York at Alfred.

SHELLY HAMPTON

VICE PRESIDENT, ASSET MANAGEMENT, ARMADA HOFFLER

Ms. Hampton started her career with Armada Hoffler in 1999 as the Director of Asset Management and was promoted to Vice President in 2009. Under her guidance, the Asset Management division focuses on the long-term financial health of the organization by overseeing property performance, maximizing returns and aiding in the decision-making process regarding potential acquisitions and dispositions. She served as a Controller of several corporations in New England, and Vice President of Finance at JLM Holdings immediately prior to joining Armada Hoffler. Ms. Hampton holds an AAS in Business Management from Metropolitan College and graduated Cum Laude with a BSBA in Management from Western New England College.

W. CHRISTOPHER HARVEY

EXECUTIVE VICE PRESIDENT, ARMADA HOFFLER DEVELOPMENT COMPANY

Mr. Harvey joined Armada Hoffler in the summer of 2002 as an intern for the Holding Company. In his current role as Executive Vice President, Mr. Harvey oversees the strategic direction and development of Alliance Hospitality, Armada Hoffler's \$100 million joint-venture to develop multiple hotel and hospitality projects around the country.

Prior to joining Armada Hoffler, Mr. Harvey was a National Sales Manager for Pepsi Cola. He received his Bachelor of Arts in Government/Foreign Affairs from the University of Virginia in 1995. In 2002, Mr. Harvey received a Master of Business Administration in Management and Business Development from the Kogod School of Business at American University in Washington, DC. Mr. Harvey currently serves on the Governor's Advisory Board for Supplier Diversity.