



Economics Research Associates

Memorandum – Final Report

Date: September 13, 2007
To: City of Tempe
From: Economics Research Associates
RE: Assessment of Conference Center / Meeting Facility Development Potential in Tempe
Project: ERA No. 17216

Introduction

The City of Tempe is considering the development of a conference center or meetings facility in order to enhance the hospitality and tourism sector of the City's economy. With a thriving commercial district on Mill Avenue and Tempe Town Lake, the city of Tempe has numerous assets on which to build upon to attract meeting attendees. A study conducted four or five years ago suggested strong demand for such a facility in Tempe, but since then, conditions have changed. The Phoenix Convention Center has undergone a significant expansion, several hotels in the region have expanded their meeting space capacity, and there are also new hotels proposed in Tempe, most without significant meeting spaces of their own.

In order to re-assess the market potential for a conference facility in Tempe, the City of Tempe retained Economics Research Associates (ERA) to conduct a study analyzing the following questions:

- Is there demand for additional meeting space in Tempe? Is there a specific niche market regionally remaining to be filled?
- If so, how large and what type of facility should be developed?

The purpose of the study is to provide a recommendation and expert opinion based upon market indicators and limited market research, not a comprehensive demand and feasibility analysis.

In order to develop indicators of market potential, ERA conducted the following tasks:

- Met with City staff to discuss project background and issues and identify potential sites;
- Conducted an inventory of existing and proposed facilities;
- Visited potential sites for conference center development;
- Interviewed members of the Tempe hospitality community, including Convention and Visitors Bureau staff and hotel managers;
- Surveyed competing facilities in the region; and
- Surveyed previous and potential user groups of Tempe meeting space, including “lost business” files.

A concise summary of ERA’s research and our recommendations to the City are presented in this memorandum report.

It should be noted first and foremost that “success” for a conference center is seldom based on operating cash flow. Typically, meetings facilities are built for their economic impact on area hotels and businesses. On an operating basis, most conference centers operate with a negative cash flow, but after considering hotel tax and economic impact generated for the local economy, they have a positive impact.

Review of Existing and Proposed Facilities

In order to understand the current meeting facility market, ERA reviewed size of meeting space in existing facilities in Tempe, Phoenix, and Scottsdale.

Tempe Hotels and Meeting Space

As shown in **Table 1**, there are currently three major full service hotels with significant meeting space in Tempe: Tempe Mission Palms, The Buttes (Marriott), and Fiesta Inn Resort.

- Tempe Mission Palms – The Tempe Mission Palms property is one of the most successful meeting facilities in Tempe. With its desert resort theme, high standard for management, and proximity to downtown, it has very high occupancy rates throughout the year. The facility currently has 24,000 square feet of meeting space. While there has been discussion in the past about expanding the Mission Palms, the expansion has never occurred for various reasons. The facility hosts numerous training events and has an average group size of 25 to 40 people, although it also hosts much larger events. Group business accounts for approximately 50 percent of total hotel room business at the Mission Palms.

Table 1
TEMPE HOTEL ROOMS AND MEETING SPACE INVENTORY

| Property | # of Rooms | Indoor Meeting Space (SF) | Largest Meeting Room (SF) |
|-------------------------------------|-------------------|----------------------------------|----------------------------------|
| Full Service | | | |
| The Buttes- Marriott | 353 | 35,000 | 9,000 |
| Tempe Mission Palms | 303 | 24,000 | 9,400 |
| Fiesta Inn Resort | 270 | 16,000 | 3,600 |
| Subtotal Full Service | 926 | 75,000 | n/a |
| Limited Service | | | |
| Embassy Suites Phoenix Tempe | 224 | 11,000 | 4,000 |
| Sheraton Phoenix Airport Hotel | 210 | 10,000 | 3,450 |
| Holiday Inn Phoenix- Tempe/ASU | 190 | 3,184 | 2,204 |
| Hampton Inn & Suites Tempe ASU | 160 | 1,950 | 1,300 |
| Holiday Inn Express Hotel & Suites | 128 | 1,800 | 900 |
| Hyatt Place Tempe/Phoenix Airport | 123 | 1,586 | 1,586 |
| Inn Suites Hotel | 160 | 1,500 | 1,500 |
| Twin Palms Hotel | 140 | 1,500 | 1,000 |
| Best Western Inn of Tempe at ASU | 103 | 1,426 | 506 |
| Courtyard By Marriott Downtown | 160 | 1,365 | 800 |
| Country Inn & Suites | 83 | 800 | 800 |
| Residence Inn by Marriott | 126 | 574 | 574 |
| Comfort Inn & Suites Tempe at ASU | 72 | 530 | 530 |
| Spring Hill Suites | 99 | 500 | 500 |
| Comfort Suites | 92 | 500 | 500 |
| Holiday Inn Express | 158 | 450 | 450 |
| Country Inn & Suites By Carlson | 139 | 429 | 429 |
| Marriott SpringHill Suites | 121 | 400 | 400 |
| LaQuinta Inn Tempe | 128 | n/a | n/a |
| Red Roof Inn- Tempe/Phoenix Airport | 125 | n/a | n/a |
| Candlewood Suites Tempe | 122 | n/a | n/a |
| Marriott TownePlace Suites | 118 | n/a | n/a |
| Days Inn Tempe ASU | 102 | n/a | n/a |
| Airport Tempe Quality | 100 | n/a | n/a |
| America's Best Value Inn | 89 | n/a | n/a |
| Hawthorn Suites Tempe | 68 | n/a | n/a |
| Ramada Limited Tempe ASU | 56 | n/a | n/a |
| Tempe Super 8 Motel | 55 | n/a | n/a |
| Airport Quality Inn | 52 | n/a | n/a |
| Subtotal Limited Service | 3,503 | 39,494 | n/a |
| Grand Total | 4,429 | 114,494 | n/a |

Source: Tempe CVB and Individual Properties.

- The Buttes (Marriott) – The Marriott Buttes property is positioned as a luxury, mountain resort conference hotel. While it is more isolated in location than the Mission Palms, It caters to groups who look for a resort conference experience, with numerous activities on site to occupy meeting attendees. It is the largest property in Tempe, with 353 guest rooms.
- Fiesta Inn Resort – The Fiesta Inn Resort is also located outside of Downtown Tempe. It is the smallest of the three major hotels with 270 rooms and 16,000 square feet of meeting space. The facility is currently undergoing an expansion to increase its meeting space by 30,000 square feet, although it the new meeting space will not be adjacent to the existing space.

In total, there are around 32 hotel properties with over 4,400 hotel rooms in Tempe, though the vast majority of these are limited service hotels with very small amounts of meeting space. Approximately 450 hotel rooms are located in Downtown Tempe. The three largest properties and meeting facilities are still fairly modest in size, and the largest ballroom size is around 9,500 square feet, accommodating a maximum meeting size of approximately 500 people.

Regional Hotels and Meeting Space

A summary of meeting space and hotel rooms in the Phoenix region by size is shown in **Table 2**, with a graphical depiction in **Figure 1**. As shown, the vast majority of the larger facilities are in Scottsdale and Phoenix, where there is a relatively high number of resorts and other facilities with significant amounts of meeting space. While the Scottsdale resorts have had a fairly long history as successful meeting venues, Phoenix is likely to become more competitive in future years with the expansion of the Convention Center and other developments.

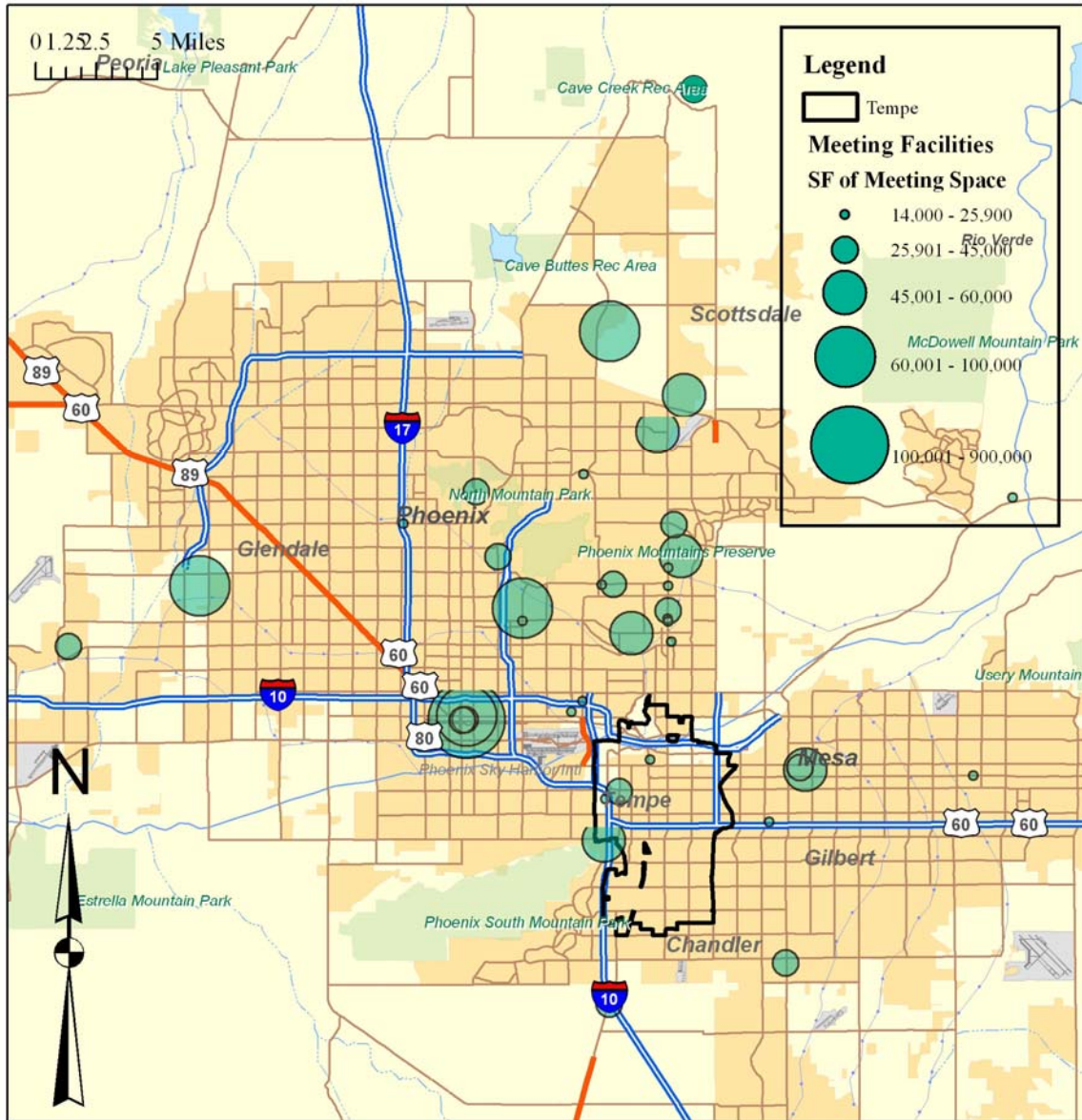
The Phoenix Convention Center is currently undergoing a \$600 million expansion, and in 2009, will triple the amount of space it has to just under 900,000 square feet. It is expecting 350,000 to 375,000 delegates per year. There are plans to continue the development of downtown Phoenix, and Arizona State University (ASU) is creating a downtown campus with 10,000 students who will be connected to Tempe via the light rail.

Table 2
HOTEL MEETING SPACE IN THE PHOENIX REGION

| Property by Size | # of Rooms | Indoor Meeting Space (SF) | Largest Meeting Room | City |
|--|-------------------|----------------------------------|-----------------------------|-----------------|
| 100,000+ SF of Meeting Space | | | | |
| JW Marriott Desert Ridge Resort & Spa | 950 | 100,000 | 33,000 | Phoenix |
| Arizona Biltmore Resort & Spa | 739 | 100,000 | 24,576 | Phoenix |
| Sheraton Phoenix Downtown Hotel- Opening Fall 2008 | 1,000 | 80,000 | 28,665 | Phoenix |
| Subtotal 100,000+ SF Meeting Space Facilities | 2,689 | 280,000 | n/a | |
| 40,000 to 80,000 SF of Meeting Space | | | | |
| Marriott Renaissance Westgate/Glendale | 320 | 80,000 | 28,800 | Glendale |
| Westin Kierland Resort & Spa | 732 | 60,000 | 25,000 | Scottsdale |
| The Phoenician | 654 | 60,000 | 22,000 | Scottsdale |
| Pointe South Mountain Resort | 640 | 57,273 | 20,000 | Phoenix |
| Fairmont Scottsdale Princess | 651 | 53,000 | 22,500 | Scottsdale |
| Phoenix Marriott Mesa | 273 | 52,000 | 15,000 | Mesa |
| Scottsdale Resort & Conference Center | 326 | 50,000 | 10,000 | Scottsdale |
| Hyatt Regency Phoenix | 712 | 45,000 | 10,168 | Phoenix |
| Wyndham Phoenix Hotel | 532 | 41,100 | 10,092 | Phoenix |
| Camelback Inn, JW Marriott Resort & Spa | 453 | 40,000 | 15,366 | Scottsdale |
| Subtotal 40,000-80,000 SF Meeting Space Facilities | 5,293 | 538,373 | n/a | |
| 20,000 to 40,000 SF of Meeting Space | | | | |
| Fiesta Inn Resort- New 30,000 SF Conf. Center Opens in 11/07 | 270 | 45,000 | 7,400 | Tempe |
| Pointe Hilton Tapatio Cliffs Resort | 585 | 39,040 | 16,000 | Phoenix |
| The Wigwam Golf Resort & Spa | 331 | 38,000 | 10,800 | Litchfield Park |
| Sheraton Wild Horse Pass Resort & Spa | 500 | 35,224 | 17,376 | Chandler |
| Hyatt Regency Scottsdale Resort & Spa at Gainey Ranch | 490 | 35,000 | 14,280 | Scottsdale |
| Crown Plaza San Marcos Golf Resort | 295 | 35,000 | 5,500 | Chandler |
| The Buttes- Marriott | 353 | 35,000 | 9,000 | Tempe |
| Carefree Resort & Villas | 465 | 34,332 | 10,000 | Carefree |
| Pointe Hilton Squaw Peak Resort | 563 | 31,506 | 9,760 | Phoenix |
| Doubletree Paradise Valley Resort | 387 | 30,000 | 12,960 | Scottsdale |
| Sheraton Crescent Hotel | 342 | 25,900 | 9,000 | Phoenix |
| Scottsdale Plaza Resort | 404 | 25,000 | 10,080 | Scottsdale |
| Montelucia Resort Spa & Residences | 293 | 25,000 | 9,216 | Scottsdale |
| Radisson Fort McDowell Resort & Casino | 248 | 25,000 | 18,000 | Fort McDowell |
| Hilton Scottsdale Resort & Villas | 187 | 25,000 | 10,000 | Scottsdale |
| Tempe Mission Palms | 303 | 24,000 | 9,400 | Tempe |
| Hilton Phoenix East/Mesa | 260 | 20,000 | 7,200 | Mesa |
| Subtotal 20,000 - 40,000 SF Meeting Space Facilities | 6,276 | 528,002 | n/a | |
| 14,000 to 20,000 SF of Meeting Space | | | | |
| Chapparral Suites Resort Scottsdale | 311 | 18,936 | 11,200 | Scottsdale |
| Embassy Suites Phoenix North | 314 | 17,475 | 4,852 | Phoenix |
| Phoenix Airport Marriott | 345 | 16,500 | 6,970 | Phoenix |
| Ritz-Carlton, Phoenix | 281 | 15,000 | 7,728 | Phoenix |
| Scottsdale Marriott Suites | 251 | 15,000 | 12,000 | Scottsdale |
| Windermere Hotel & Conference Center | 114 | 15,000 | 3,570 | Mesa |
| Embassy Suites Hotel-Phoenix-Scottsdale- A Golf Resort | 270 | 14,000 | 6,100 | Phoenix |
| Caleo Resort & Spa | 204 | 14,000 | 6,800 | Scottsdale |
| Subtotal 14,000 to 20,000 SF Meeting Space Facilities | 2,090 | 125,911 | n/a | |
| TOTAL ALL PROPERTIES | 16,348 | 1,472,286 | n/a | |

Source: Greater Phoenix CVB.

Figure 1: MAP OF PHOENIX AREA MEETING SPACE BY SIZE



Source: Phoenix CVB, GIS.

Proposed Hotel and Other Developments in Tempe

An important consideration in evaluating the market potential for new meeting facilities in Tempe is the number and location of proposed new hotels. While ERA was not asked specifically to evaluate sites, the location of any new meeting space became an important issue identified through our research. This issue is discussed in more detail in our summary of interviews and findings, but in order to provide a context for sites, we have also examined the proposed new hotel developments (see **Table 3**). As shown, there are 15 proposed hotel developments in Tempe with nearly 3,000 hotel rooms. Approximately half of these proposals include a modest amount of meeting space (between 1,500 and 20,000 square feet). The majority of the proposed hotel developments are located in either Downtown Tempe around Mill Avenue or near Tempe Town Lake.

There has been a significant amount of development interest in Tempe recently, and there are a number of proposed residential and commercial developments that, while not directly relevant to demand for conference center space, could play an important role in contributing to the lively and active environment for which Tempe is known. There are currently over 40 proposals for residential, office, retail, and cultural developments in Tempe, including the Artisan Village at Town Lake, which could provide another venue for conference related special events.

Summary of Interviews

As part of this study, ERA interviewed leaders in the hospitality industry, key stakeholders, and previous and potential user groups of meeting space in Tempe. Many of the comments during our interviews focused on the strengths and limitations of Tempe as a venue for meetings, so we have included a strengths, weaknesses, opportunities, and threats (SWOT) analysis as part of our summary.

Strengths and Opportunities

- Tempe is located close to the airport, which is an extremely important characteristic for meeting attendees, particularly in the Phoenix metropolitan area which is considered to be a sprawling destination involving fairly long travel times. Transport costs are less to Sky Harbor from Tempe than from other locations.
- The weather is a significant asset.

Table 3
PROPOSED HOTEL DEVELOPMENTS IN TEMPE (AS OF AUGUST 2007)

| Property Name | Meeting Space (Sq. Ft.) | # of Rooms | No. of Hotel Condo Units | Retail / Spa | Opening Date | Designated Flag | Site |
|-----------------------|------------------------------------|-----------------------|-------------------------------------|---------------------|---------------------|------------------------|--|
| Le Meridien | 15,000 | 184 | part of HFL | spa | 2009 | Starwood | Hayden Ferry Lakeside Development |
| Mission Palms | 10,000 | 200 | - | - | n/a | Destination | 5th Street & Mill Avenue |
| Residence Inn | 3,700 | 173 | - | retail | Spring 2010 | Marriott | 125 E. 5th Street |
| Marriott Club Sport | 10-15,000 | 240 | - | - | Spring 2010 | Marriott | South of 7th Street & East Mill Avenue |
| University Square | 15,640 | 224 | 100 | - | Spring 2010 | Starwood | 110 E. University |
| Lumina Tempe | - | 205 | 25 | spa/retail | 2010 | Lumina Tempe | Veterans Way & College Avenue |
| Aloft | - | 136 | - | - | Fall 2009 | Starwood | Playa del Norte Development |
| The Pier at Town Lake | 20,000 | 285 | - | spa/retail | Spring 2009 | n/a | North side of Rio Salado / Town Lake |
| Four Points | 3,000 | 190 | 50 | - | Summer 2008 | Starwood | Apache Blvd. Holiday Inn Remodel |
| Homewood Suites | - | 140 | - | - | 2008 | Hilton | Tempe Marketplace Development |
| Summerfield Suites | 1,500 | 131 | - | - | 2009 | Hyatt | 8575 S. Priest Drive |
| 100 Mill Avenue | - | 295 | - | - | n/a | n/a | Mill Avenue & Rio Salado Parkway |
| Centerpoint on Mill | - | 25 | - | spa | n/a | n/a | West of Mill Avenue & 7th Street |
| Drury Inn & Suites | - | 180 | - | - | n/a | Drury Inns | 8737 South Emerald Drive |
| Marina Heights | - | 400 | 50 | - | Spring 2009 | n/a | 600 East Rio Salado Parkway |
| Total | ~80,000 | ~3,000 | 225 | | | | |

Source: City of Tempe.

- Mill Avenue is active, lively, and youthful in character, and is one of the most important features that attracts meeting attendees to Tempe. This particularly applies to meeting attendees who stay at the Tempe Mission Palms, since they can walk to all of the retail and restaurants in the evenings and do not need to be dependent upon buses for transportation.
- The presence of Arizona State University (ASU) in Tempe can drive demand for meeting space.
- Tempe will soon be connected to Downtown Phoenix and the airport via light rail.
- There is a growing corporate presence in Tempe, with America West, Google, and others, in addition to increasing biotech.
- Tempe Town Lake has been developed into a pleasant amenity that is unique in the Phoenix region.
- The proximity to Scottsdale and Spring Training drives business during that time of the year.
- Tempe is perceived as a safe, charming, and compact community.
- Tempe is viewed throughout the region as having very good potential as a conference center location.
- Proximity to Mexico may be a future driver of demand.
- Tempe is a very unique experience in the Phoenix region. Most of the Scottsdale and Phoenix properties are self-contained resorts. Only Tempe has the ability to capitalize on both the warm, desert weather *and* an exciting downtown destination.
- The Tempe Mission Palms and Marriott Buttes are very nice, quality properties.

Weaknesses and Threats

Overall, most people interviewed were extremely positive about Tempe. There were only a handful of weaknesses discussed in relation to Tempe as a meeting location and to future expansion of meeting facilities.

- The current meeting space inventory is limited, and many groups are outgrowing or have outgrown the meeting facilities in Tempe.
- Tempe is a college town, which can also have negative implications for groups that are looking for a higher end resort experience.
- Tempe is in the flight path, so airplane noise can sometimes be an issue.
- Groups who attend meetings in Tempe tend to be very price sensitive. During the off season, Scottsdale rates can be very competitive with Tempe.

- Financing a new facility may present challenges. Tempe cannot increase the hotel tax without being at a significant competitive disadvantage to Phoenix and Scottsdale.
- There is increased competitiveness with additional and expanded meeting facilities as part of hotels region wide.
- Meeting planners would prefer facilities that are attached to hotels to avoid the cost of paying for the meeting space.

Implications and ERA Recommendations

ERA has developed a set of implications for a proposed conference facility based upon our examination of the existing meeting and hotel room inventory, proposed developments, and interviews with industry leaders, user groups, and “lost” business, or users who for various reasons did not choose Tempe after expressing interest.

Key findings are as follows:

- **National Market Appeal** - Tempe has developed strong market appeal in recent years, and it has developed a reputation among meeting planners and has a “buzz” nationally.
- **Major Assets** – The major reasons for this reputation are a unique set of assets: 1) Mill Avenue and a pedestrian friendly, active, lively, and youthful environment; 2) Proximity to airport; 3) Desert resort feel; 4) Tempe Town Lake; 5) Value; and 6) The presence of at least two high quality, well-run hotels with conference space.
- **Success of Existing Facilities** - Mission Palms and the Marriott Buttes are currently the most successful meeting facilities in Tempe. The Tempe Mission Palms is unique region wide due to its proximity to an active retail and restaurant environment.
- **Competition** – While Scottsdale and Phoenix both have numerous resorts with large amounts of meeting space, neither location can offer the Mill Avenue environment. Successful meeting spaces in these locations tend to follow the conference resort model. Scottsdale resorts are particularly competitive and in the off-season compete on price as well.

Recommendations

Based on our analysis, ERA believes that if done correctly, the City of Tempe has a unique, boutique, niche opportunity to develop additional conference space due to a great combination of assets. Specific issues rrelated to this recommendation are as follows:

- **Site Location** - It is essential that any new conference center be located within walking distance of the retail and restaurants on Mill Avenue, as this is the competitive advantage of Tempe versus other locations within the Phoenix region.
- **Hotel Room Stock** - There are currently not enough hotel rooms concentrated within walking distance of Mill Avenue to support an expansion of conference center space. However, there is significant hotel growth projected to come online in the next few years that could support increased expansion. Busing does not work given the specific dynamics of the Tempe market and the user group motivation for coming to Tempe.
- **Joint Development** - ERA believes that it would make most sense to develop a conference center jointly with a hotel.
- **Facility Size** - There is no one perfect size for a meeting facility, as there are groups of every size. Group size is also a dynamic characteristic, as groups grow and decline over time. That being said, it does not make sense to build a new facility with only a small incremental increase in capacity. The “test concept” which we were provided with was a facility of 60,000 to 75,000 square feet of space with a 20,000 to 25,000 square foot ballroom. It is ERA’s opinion that this would be the next logical size and that there would be demand to support this facility, assuming that it located within downtown, ideally part of a hotel development, and has enough convention grade hotel rooms in the surrounding area to support meetings at this new scale.
- **Partnership with University** - ASU may be a potential and important partner. A mixed-use project on the University site on Mill Avenue with hotel, meeting space, and University business school uses could make sense. ASU business would be a potential driver of demand and development partner, and we strongly recommend that the City work with ASU. We do not believe that two separate conference facilities should be developed.
- **Facility Design** - Any new facility should be developed with respect to the desert environment (i.e. outdoor spaces, water features, etc.) rather than just another enclosed urban hotel with meeting space. A facility that is well-designed for groups and strong management will be important factors to the success of the new facility.
- **Potential Costs** - Development costs for this size facility could be around \$50 to \$60 million, based on recent construction costs for convention and conference centers.

Options and Issues

Major options as we see them are as follows:

- Option #1 – Expand an existing hotel close to downtown (i.e. Tempe Mission Palms) and subsidize the expansion.
- Option #2 – Build an independent conference center on a site within walking distance of downtown.
- Option #3 – Joint develop with a proposed hotel, subsidize the development (some part of it) to expand the meeting space to the amount required.
- Option #4 – Partner with ASU to develop a mixed-use, business school conference center development that may include private commercial uses as well.

We do not believe that Option #2, the development of an independent conference center, is ideal from a financing, resources, or user group standpoint. Finally, while ERA believes that there is a significant opportunity for a new conference facility in Tempe, the following issues will have to be addressed:

- Site availability in Downtown Tempe;
- Hotel stock within walking distance of the new conference facility;
- Financing strategy; and
- Local visitor industry / hotelier politics, depending on the location and financing mechanism.