

Extract from “*11 Bay Street: Economic Impact Study Peer Review and Commentary*”, March 1, 2021, Hall Hospitality Advisors, Inc.

## Part II

### Conference Hotel/Conference Centre Market Commentary

Following review of the EIS Report, Create TO and the City of Toronto posed several questions concerning the convention/meeting industry, (broadly and within Toronto specifically), the importance of convention/meetings generally in a metropolitan area such as Toronto and, the role of the WHC/WHCCC in addressing such a market. Interest was also expressed in any current insights into potential effects from Covid-19. These queries are summarized below and addressed in the following pages.

- Is public-sector support of convention venues commonplace?
- What is the need for the proposed WHCC given other convention/meeting capacity in Toronto?
- How important is the conference centre to the continued viability of the Westin Harbour Castle Hotel?
- What are the short- and long-term impacts from Covid-19 on the convention/meetings industry?

Except where noted, these questions were outside the scope of the EIS Report although information contained in the EIS Report (and subsequent Q+A) has been used to prepare a response. The commentary in Part II is that of HHA.



## PART II: Is Public-Sector Support of Convention Venues Commonplace?

Most of the principal/free standing convention centres in North America were built and are operated as a means of generating economic impact at the local and regional level. Economic impact is maximized by giving priority to those events attracting the largest number of out-of-town visitors (i.e., delegates of regional, national and international conventions).

In Canada, almost all free-standing convention centres are owned (and almost always directly operated) by a provincial government (e.g., Toronto, Ottawa, Montreal, Vancouver) or at the municipal level (e.g., Enercare Centre, Hamilton, London, Calgary, Winnipeg). The bottom-line orientation is not the priority, as the success of these facilities is the volume of spending from venue operations and delegates, not venue profitability. As a result, convention centres are often used as low-cost attractors with competition on a “price” basis becoming commonplace.

The models varies considerably when looking at hotel/conference centre venues (e.g., WHC) as, unlike freestanding convention centres, the majority are either partially or entirely owned by the private sector. In these cases, while the hotel component operates on a self-sufficient basis, the conference space and related amenities (e.g., parking) is supported by the public sector. Public sector support ensures the venue meets minimum space and quality/design standards to ensure competitiveness.

In smaller cities, conference hotels become the de facto principal convention centre for the community. These facilities are often joint ventures between the public and private-sectors where the private-sector partner is a hotel owner/operator and the public-sector partner the land and conference centre owner. The hotelier partner markets and has bottom-line responsibility for the combined operation.

While the WHC/WHCCC has elements of this structure, more recent projects put the public sector in a more central role, for example:

- Charlottetown Area Development Corporation secured funding to construct the Charlottetown Convention Centre adjacent to the Delta hotel. The hotel runs the convention centre and pays nominal rent and reduced property taxes.
- The Province of Quebec introduced a program in the 1980s that saw conference centres added to hotels in Sherbrooke, Levis and Trois Rivières.
- The City of Nanaimo supported development of a Marriott Courtyard hotel adjacent to the Vancouver Island Conference Centre by reducing property taxes and development charges.
- Calgary Municipal Land Corporation is working to secure a hotel development adjacent to the BMO Centre expansion on Stampede Park.

Public support of “headquarters” hotels at principal/free standing convention centres is common in the United States (and is being looked at by a handful of Canadian centres).

Public Sector Participation in U.S. Headquarters Hotel Development									
City	Hotel	Rooms	Year Open	Cost US\$ Million	-----Public Sector Contribution-----				Ownership
					10 - 25%	26 - 50%	51 - 75%	>75%	
Austin	JW Marriott	1,012	2015	303	×				Private
Chicago	Marriott Marquis	1,205	2017	350				×	Public
Dallas	Omni	1,001	2012	486				×	Public
Los Angeles	JW Marriott	1,000	2010	435		×			Private
Nashville	Omni	800	2013	272		×			Private
Phoenix	Sheraton	1,000	2008	373				×	Public
Pittsburgh	Westin	618	2000						Private
Portland	Hyatt Regency	600	2019	220					Private
Washington DC	Marriott	1,167	2013	639		×			Private

Source: CH Johnson Consulting, Hunden Strategic Partners, HVS, Piper Jaffray

Public support is provided via bond financing support, reduction in fees and taxes, cash contributions and other mechanisms.



## PART II: WHAT IS THE NEED FOR THE PROPOSED WHCCC GIVEN OTHER CONFERENCE/MEETING CAPACITY IN TORONTO?

In a major metropolitan area such as Toronto, full-service convention hotels (e.g., WHC/WHCCC) serve two purposes:

1. As a self-contained convention hotel (i.e., accommodating groups where most of the meeting, lodging, F&B and related activities occur within the single venue).
2. As a key component of the “room block” for a city-wide convention (a room block is the package of nearby rooms, offering a range of quality and price, that a convention planner contracts to support a major event at the principal convention centre such as the MTCC). The availability of a room block is one the most important differentiating factor in selecting a city for a major convention. The hotels in the room block are also looked to for additional/overflow meeting and banquet space, determined on an event-by-event basis. A meeting planner will look to assemble the “block” using as few hotels as possible (for efficiency and logistical reasons).

The WHC/WHCCC is a key component of Toronto’s convention offering. Without the WHC/WHCCC, Toronto would host fewer city-wide conventions (those based at the MTCC) as well as being less able to accommodate smaller convention/conference/meeting groups. This conclusion is based on the following:

- A shortage of large, full-service hotels—Only four downtown Toronto hotels offer 1,000+ rooms making the assembly of a room block for city wide conventions problematic. The difficulty in assembling room blocks (Q+A Question 4b, Page 11) is a significant barrier in selling Toronto. Rumours about possible conversion of downtown Toronto hotels to other uses, if true, would be a serious blow to Toronto’s convention industry.

- A shortage of self-contained conference venues—The WHC/WHCCC is one of only three large, self contained convention hotels in the core (i.e., WHCCC, Sheraton Centre, Royal York) offering more than 60,000 square feet of rentable function space The next largest hotel (Hotel X) has just over 30,000 square feet. While a number of alternative meeting spaces exist in central Toronto (MTCC, Beanfield Centre) and at the airport (Toronto Congress Centre), none of these offer a self-contained option.
- Volume of business and competitive dates—The WHC/WHCCC hosts numerous self-contained events annually. Between 2016 and 2019, 876 events with 95,500 room nights were accommodated, 64% of which used all or part of the WHCCC (as opposed to just the meeting space within the WHC). Some 49% of these room nights were sold to delegates outside Ontario. (Q+A, Question 6, Page 17) The majority of these delegates were attending Canadian national events (e.g., national association or corporate meetings) as well as events originating in the United States.

These events are not easily relocated given not only the lack of space, as described above but also the preference to hold events during “prime” times (e.g., Spring, Autumn) and to avoid statutory holidays, special events, vacation periods and seasonality issues (i.e., Canadian winters) The competition for dates is intense and the lack of available venues forces some planners to seek alternate destinations. A lost event at the WHC/WHCCC is not necessarily recaptured within Toronto.

The WHCCC is an important component of the Toronto convention infrastructure and a demand generator. This space will not easily be replaced if lost.



## PART II: HOW IMPORTANT IS THE CONFERENCE CENTRE TO THE CONTINUED VIABILITY OF THE WESTIN HARBOUR CASTLE HOTEL?

### CONTEXT

The larger the hotel, the greater the need for consistent, dependable sources of demand (e.g., groups, contracted guests such as government or airline crew, etc.) versus Meeting and convention space has proven to provide some of the most consistent room demand; most 1,000-room or larger hotels devote considerable floorplate to such space.

### TORONTO MARKET

The customers of downtown Toronto hotels can be broadly split into two groups: individual travellers (e.g., corporate/business, government and leisure) and groups (e.g., conventions/meetings and group leisure/package).

The EIS Report (page 48) notes that the “Meeting/Conference” segment accounts for 29% of total room night sales among the competitive downtown set. The 29% figure is an average for all downtown hotels and includes meeting/conference events held onsite as well as attendees at meetings/conferences held elsewhere downtown (e.g., MTCC). Clearly, the meetings/conference segment is a substantial component of total room sales for most downtown hotels.

As an aside, the Eton Chelsea hotel (Canada’s largest at almost 1,600 rooms) is an anomaly given relatively modest meeting space. The original hotel (facing Gerrard St.) was built as an apartment building with almost no meeting space and subsequently converted to a hotel. The early 1990’s addition provided some additional space but the Chelsea has a long history of focusing on group leisure, theatre traffic and hospital/university demand. Most of these market segments produce a lower average rate than those accommodated at the other “big box” downtown hotels.

### WHC AND WHCCC

From 2016 to 2019 the WHC, and its competitive set of downtown-core hotels, generated occupancy rates in the high 70% range (say 77%). In the case of the WHC, this would equate to 274,600 room nights on an annual basis (365 days X 977 guest rooms X 77% occupancy = 274,600 room nights sold).

Over that same 2016 – 2019 period, the WHC averaged 95,500 room nights annually from meetings and events at the WHC and/or WHCCC. More specifically:

- 35% of total room nights sold at the WHC (95,500 of 274,600) were attributable to events using the WHC and/or WHCCC.
- 22% of total room nights sold at the WHC (60,412 nights) were attributable to those events using just WHCCC event space. (Q+A, Question 6, Page 17).

At least 22% of total room nights sold over the past four years at the WHC were dependent on the WHCCC. The actual proportion of room nights tied to conventions and meetings is likely higher when city-wide convention room demand is considered. The WHC is more likely to be among the handful of “block” hotels given size and potential for supplemental meeting space.

The WHCCC is a very important component of the WHC product offering and central to its continued viability.



## PART II: WHAT ARE THE SHORT- AND LONG-TERM IMPACTS FROM COVID-19?

The EIS Report (completed in July 2020 when the full extent of the pandemic was unknown) contained performance projections for the Toronto and Canadian accommodation market through 2025. The accommodation market is seen as one of the best performance indicators for the broader hospitality and tourism industry, including meetings and conventions.

### REVISED PROJECTIONS

The EIS report estimated that recovery to 2019 levels could reasonably be expected to occur by 2023/2024. CBRE updated these projections as of February 2020 using full-year actual data for 2020 (Q+A, Questions 1a, b and c, pages 1 and 2). Key takeaways include:

- Occupancy and average room rates across Canada fell much more steeply in 2020 than originally projected.
- As a result, a somewhat slower recovery, on a national basis, to 2019 levels is expected with a 50-month (to mid 2024) target compared with 36 months previously.
- Occupancy levels within the Toronto market fell even more sharply than the Canadian average, finishing the year at 20.1% compared to the Canadian average of 32%.
- CBRE projects that recovery in Toronto will take somewhat longer than in the rest of Canada with RevPAR projections for 2024 (as presented in the Q+A) still some 12% below the projection in the EIS Report.

The projections presented by CBRE are generally consistent with recovery levels projected by other hospitality industry forecasters such as STR Global and Kalibri Labs.

### LONG-TERM IMPACTS ON CONVENTIONS AND MEETINGS

Much has been written on recovery times for travel generally and business/convention travel specifically. Those organizations tied to the meetings industry (e.g. Professional Convention Managers Association, Center for Exhibition Industry Research, Northstar Meetings Group) have surveyed, and resurveyed, members and found a consistently positive (if somewhat conflicted) view of recovery. For the most part, a return to “normal” (albeit with complex safety protocols and the emergence of hybrid events incorporating platforms such as Zoom and Teams) is forecasted to start in mid/late 2021 and be largely in place by 2023. The timing may be optimistic, but the key point is the confidence in a return, if not certainty about when.

A less partisan view comes from independent observers that generally see the long-term resilience of business travel and meetings/conventions. Organizations ranging from Harvard University, to McKinsey to BusinessWire\* speak to a gradual recovery. Although detractors exist, the more likely result of Covid 19 is a change in how conventions/meetings are held (more technology) but the demise of conference venues in major business cities like Toronto is unlikely.

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\* <https://news.harvard.edu/gazette/story/newsplus/study-shows-business-travel-correlates-to-economic-growth/>  
<https://www.mckinsey.com/about-us/covid-response-center/leadership-mindsets/webinars/corporate-travel-the-long-road-to-recovery>  
<https://www.businesswire.com/news/home/20201211005329/en/Global-Business-Travel-Market-Report-2020-Market-is-Expected-to-Decline-by--54-in-2020-but-Recover-to-Reach-829.5-Billion-by-the-Year-2027---ResearchAndMarkets.com>

