



Memorandum

TO: COMMUNITY & ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Nanci Klein

SUBJECT: CONVENTION CENTER EXPANSION STRATEGIC PLAN **DATE:** September 13, 2019

Approved

/s/

Date

Kim Walesh

RECOMMENDATION

Accept a verbal report on the work completed to date on the Convention Center Expansion Strategic Plan and cross-reference it for City Council consideration.

OUTCOME

Committee members will receive a summary overview of the work that has been completed by Convention, Sports & Leisure International around the potential expansion of the San Jose McEnery Convention Center. The overview will include results from a situational analysis, comparable cities analysis, industry trends analysis and current market demand analysis.

BACKGROUND

The City and the former Redevelopment Agency envisioned expansion of the San Jose McEnery Convention Center onto the South Hall site at 435 S. Market Street (between Balbach Street and Viola Avenue) since its original construction in 1989 when the facility opened with approximately 242,000 square feet of space. In 1998 the Agency hired LMN Architects and Price Waterhouse to prepare an expansion study for the site. The former Redevelopment Agency purchased the South Hall properties (blue tent site) between 1999 and 2001. In 2005, the South Hall was constructed and added 80,000 square feet of exhibit space to the facility. In October of 2013, Phase I of the Convention Center masterplan was completed by expanding the facility by 125,000 square feet on the former site of the City's main library. The Convention Center currently includes 367,500 square feet of space (excluding the South Hall site) comprised of 214,800 square feet of exhibit space, 43 meeting rooms, and banquet facilities.

In April 2018, the Successor Agency placed the South Hall Site out to bid. The City was the highest bidder at \$47 million and escrow closed on the sale in September 2018. The City of San José Financing Authority issued \$42.4 million in commercial paper notes to assist the City with the acquisition of the site and currently \$42.4 million remains outstanding. Any financing plan

for the expansion of the Convention Center will require a repayment of the outstanding commercial paper notes. The Convention Center is a successful venue for hundreds of conventions annually in Downtown San Jose. Approximately 800,000 people attend events at the Convention Center and direct visitor spending is estimated to be approximately \$100 million each year. Team San Jose estimates that Convention Center activities generate close to 135,000 contracted room nights, providing significant Transient Occupancy Tax and Convention Center Facility District Tax revenues. This estimate is conservative as industry experts estimate that one in three convention rooms are booked outside of a contracted room block.

The South Hall site is critical to the overall operations of the Convention Center. Many of the largest and most significant events depend on the South Hall site for exhibition or banquet use. Without the South Hall site, many key users would not have the capacity to hold their events at the Convention Center. Of the nearly 135,000 contracted room nights last year, 23,000 were linked to events that rely on South Hall. Team San Jose staff regularly reports that Convention Center space is insufficient to meet space demands and loses events to competing facilities with more capacity.

Pursuant to the direction approved by Council at its August 14, 2018 meeting, staff began the work to determine the planning process and timeline for a potential Convention Center expansion. Conventions, Sports & Leisure International was contracted for this effort, leveraging their previous work in San Jose and reputation as the leading consultant in the convention and hospitality industry.

ANALYSIS

Conventions, Sports & Leisure International's work to date includes analyzing existing economic, demographic and convention industry conditions, conducting a comparable and competitive facilities analysis, generating a market demand assessment, and providing facility and site use recommendations. Still to come as part of their work product is estimating facility financial projections and producing an economic impact analysis. Their research included 100 telephone interviews with national, state and regional event planners, more than 20 in-person meetings with local stakeholders, comparable cities analysis against 10 other cities, interviews with independent and corporate meeting planners representing more than 1,000 off-site events, extensive review of the Convention Center's exhibit hall usage and hotel room availability, a detailed SWOT (strengths, weaknesses, opportunities and threats) analysis and identifying convention industry trends.

The results of this extensive research and analysis confirm the need for additional exhibit or flexible space, as well as additional meeting space, at the San Jose McEnery Convention Center. New construction could also likely include flexible outdoor space. All totaled, Convention Center useable space should expand by 110,000 to 130,000 square feet to meet demand. An additional 1,000 to 1,500 hotel rooms are needed within a half mile distance of the Convention Center to maintain an industry standard ratio of convention center space to hotel rooms. Based

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on current market projections, this would best be achieved by constructing a 600 to 800-room headquarter hotel on the South Hall site. For any headquarters hotel, the Convention Center operator must be able to lock in a block of rooms, months or years in advance, at a pre-determined rate as part of their negotiation with an event planner.

NEXT STEPS

Conventions, Sports & Leisure International's report will be cross-referenced to the full City Council. Staff anticipates that the financial projections and economic impact analysis portions of the consultant's current scope of services will be complete by then. Staff also anticipates recommending next steps in this process at that time.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the September 23, 2019 Community and Economic Development Committee meeting.

COORDINATION

This memorandum has been coordinated with the City Manager's Budget Office, Finance Department, and the City Attorney's Office.

/s/

NANCI KLEIN
Assistant Director
Office of Economic Development

For questions please contact Blage Zelalich, Downtown Manager, at (408) 535-8172.