

December 15, 1999

The City of Las Cruces
Las Cruces, New Mexico

Re: Potential Convention Center in Las Cruces, New Mexico

Dear Mayor and Honorable City Council Members:

Pursuant to the terms of our engagement letter dated March 25, 1999, we have completed our study of the potential market demand for a convention center to be located in Las Cruces, New Mexico. We have also developed a statement of estimated annual operating results for the proposed convention center.

The conclusions and recommendations set forth in this report are based on an analysis of the existing and future supply of and demand for the competitive convention center market, as of the completion of our fieldwork on December 1, 1999. This report has been prepared to assist the City of Las Cruces in securing funding sources that would enable the construction of a public convention center facility.

As in all studies of this type, the estimated results are based on competent and efficient management and presume no significant change in the status of the competitive convention center market from that set forth in this report. The terms of this engagement are such that we have no obligation to revise this report to reflect events or conditions which occur subsequent to the date of completion of our fieldwork. However, we are available to discuss the necessity for any revisions in view of changes in the economy or market factors affecting the relevant convention center market.

Since the potential project's future performance is based on estimates and assumptions, which are subject to uncertainty and variation, we do not represent them as results that will actually be achieved. However, our estimates and assumptions have been conscientiously prepared on the basis of information obtained during the course of this assignment and our experience in the industry.

To the best of our belief, this study conforms to requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute,

and the Uniform Standards of Professional Appraisal Practice (USPAP) as established by the Appraisal Foundation. Our report is subject to the certification and statement of assumptions and limiting conditions presented in the Addenda. It has been a pleasure to work with you on this assignment. If we can be of any further assistance in the interpretation of our findings, please do not hesitate to contact us.

Yours sincerely,

PKF Consulting

MAI

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Executive Vice President

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SECTION I
INTRODUCTION

A. INTRODUCTION

1. Overview of the Market Study

PKF Consulting has been retained by the City of Las Cruces to conduct a study of the potential market demand for a convention center to be located within the city. This study includes an assessment of the level of demand for a potential convention center in Las Cruces, and which sites within the city would be most appropriate for the development of such a facility.

According to the City of Las Cruces Convention & Visitors Bureau (LCC&VB), the local visitor industry has been in need of a convention center for the past 15 years. The LCC&VB feels that a considerable amount of groups have been lost due to the lack of adequate meeting space for large conventions. However, various other projects and commitments have deferred the potential development of a convention center.

It is our understanding that the Greater Las Cruces Chamber of Commerce, Hispano Chamber of Commerce, Las Cruces Lodgers Association, LCC&VB, New Mexico State University, and the Las Cruces Restaurant Association are anticipating this potential project.

2. Methodology

In conducting this study, we:

- *Analyzed relevant socio-economic data regarding the regional and local market areas to determine whether the economic environment appears suitable for the development of a convention center in Las Cruces;*
- *Provided a trend analysis of the national meetings market;*
- *Determined and then researched the competitive supply of competitive convention centers serving the regional market for groups that Las Cruces could potentially attract. Variables addressed included square footage of net meeting space, historical utilization levels, future bookings, and expansion plans;*
- *Analyzed the Las Cruces hotel market, with a focus on group meetings demand;*
- *Conducted a survey of selected organizations to determine their preferences, their basis for selecting locations*

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for meetings, and their potential interest in meeting in Las Cruces. Our survey included a mailing to approximately 160 meeting planners for associations, and other groups with demonstrated histories of holding meetings in New Mexico and the Southwest. We supplemented these surveys with phone calls to selected meeting planners. In total, we received 30 responses from meeting planners either through the mail, by telephone, or by personal interview. This survey provided primarily a qualitative analysis on the regional meetings market, and the potential for Las Cruces to compete effectively in this market;

- Assessed the existing meeting facility infrastructure in Las Cruces, and visited a number of regional convention centers in other Southwestern cities;
- Analyzed the level of lost convention business in Las Cruces attributed to the lack of sufficient meeting space in the city;
- Inspected 11 potential development sites identified by the City of Las Cruces, and analyzed each site in terms of access and visibility from major highways, location relative to hotel supply, ambiance of the surrounding area, and size and topography relative to required facilities. Of the 11 potential sites, we identified four specific sites which we deem most appropriate for the development of a convention center in Las Cruces;
- Developed, in conjunction with Ellerbe Becket, a leading architectural firm, a recommendation for the optimum type of convention facility to be located at any one of the four most appropriate sites, which, in our opinion, will best meet demonstrated market demand. Our recommendations include: concept and quality level of the facility; total square footage; net meeting space, including exhibit space, largest function room, and breakout/conference rooms;
- Based on the results of our market study, we made projections of estimated utilization levels of a potential convention center, including operating income and expenses;
- Prepared estimates of the total construction costs of the recommended facility by working with Ellerbe Becket, and using standard industry factors for development; and

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- *Recommended different sources of funding for the proposed convention center.*

Several sources were used in compiling the background information and preparing the analyses contained in this report. These resources included: *Trends in the Conference Center Industry*, published by PKF Consulting; the International Association of Assembly Managers (IAAM); data on the regional convention center market gathered through direct interviews with convention center directors and meeting planners; data on the local lodging industry via interviews with hotel managers; and socio-economic data on the region collected from various market research entities, as well as regional and local governmental entities.

3. Summary of Conclusions

Based on the work program outlined above, we have determined that there is a level of demand to justify the development of a convention center in Las Cruces. We have identified three sites within the city that are most appropriate for the development of a convention center, and have made a recommendation as to the optimal sizing for such a public facility. The conclusions of our research and analyses are summarized in the following statements.

- *The State of New Mexico, along with much of the Southwest, is one of the faster growing regions in the U.S, and Las Cruces, the second largest city in New Mexico, is also experiencing steady growth. However, the city's location in southeast New Mexico is distant from the state's governmental, commercial, and cultural centers of Albuquerque and Santa Fe. In addition, Las Cruces does not benefit from direct air transport to other parts of the U.S., hindering, to a certain degree, its overall marketability as a destination for meetings.*
- *Neutralizing these unfavorable conditions is the affordability of Las Cruces in terms of lodging, eating/drinking, and the general cost of conducting business, making the city an attractive destination for state and other associations. As will be discussed in detail in this report, regional and state associations, as well as local meetings, are envisioned to be the primary demand generator for the proposed convention center in Las Cruces.*
- *We have focused our research on convention centers located in cities that are more comparable to Las Cruces in terms of overall image, profile, population, and commercial*

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base. These identified cities have convention centers with an average size of approximately 40,000 square feet of net meeting space (excluding foyer, back-of-house, patio space, etc.), an average attendance ranging from 60,000 to 740,000. The average size of exhibit hall is approximately 22,500 square feet.

- Our analysis of existing meeting space in Las Cruces indicates that the city has a limited and dispersed inventory of quality, dedicated meeting space. Moreover, Las Cruces currently lacks a large exhibit hall to attract national, regional, and state associations.
- Demand for convention centers in New Mexico emanates from a variety of generators. Based on our interviews with regional convention centers and statewide meeting planners, demand is derived from four sources: local, state, regional/national groups, and consumer shows.
- The responses to the qualitative survey indicate that there is interest in a potential convention center in Las Cruces, and that the city would be a desirable location for group meetings. Approximately 55 percent of the respondents indicated that they would consider Las Cruces for a meeting.
- After analyzing the 11 sites that were brought to our attention by the City of Las Cruces, and accounting for such variables as visibility and accessibility to highways, proximity to the Las Cruces hotel inventory, as well as the site selection criteria indicated via the demand surveys, it is our opinion that the four following locations/sites are the most suitable for a potential convention center: University Avenue and Interstate 25, Hickory Loop and Hickory Drive near Avenida de Mesilla, Hickory Drive and Campbell Drive, and a site located at the Mesilla Valley Mall.
- Based on our market research and analysis, and our knowledge of the industry, it is our opinion that the construction of a modern, strategically located convention center is deemed necessary for Las Cruces, to accommodate current and potential levels of meeting demand in the Southwest. Specifically, we recommend the construction of a convention center with approximately 80,000 square feet of gross building area, including 40,000 square feet of net meeting space. Such a facility would also comprise a 25,000-square-foot exhibit hall, on par with the average of the most comparable convention facilities analyzed. The recommended square footage of the convention center

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is deemed sufficient given the location and overall profile of Las Cruces as a potential meetings destination. A summary of the recommended facilities is presented on Page I-6 of this section.

- Our analysis yields an estimated total annual attendance of approximately 88,000 by 2004 (the third year of operation), or close to 7,000 attendees per month. It is our opinion that this level of attendance is appropriate for the proposed facility, given the regional market supply and demand dynamics.
- Based on our analysis of facility rental, food and beverage revenue, other operating revenues, and expenses for the first three years of operation, total income in the stabilized year is expected to be \$290,000 annually (in 1999 value dollars), or \$3.45 per gross square foot. Total expenses are expected to be approximately \$630,000, or \$7.50 per gross square foot. The resulting operating deficit is expected to be approximately \$340,000 annually, which is close to 54 percent of total income, and is within the range of the deficits highlighted by the financial statements of comparable convention centers, that indicated a mid-point of nearly 52 percent. This operating deficit is envisioned to be offset by additional sources of funding such as a potential increase in sales tax, the creation of a countywide tourism tax, and direct funding granted by the State of New Mexico or the Federal Government. Although beyond the scope of this assignment, the positive impact of the proposed facility on the local economy via the multiplier effect should also be considered.
- The estimated schedule of operating results for the first three years of operation for the proposed 81,000-square-foot convention center is provided at the end of this section. The table provides our estimates in 1999 value dollars, indicating our revenue and expenses projections on a gross square-foot basis.
- According to Ellerbe Becket, the total construction cost for the proposed convention center in Las Cruces is estimated at approximately \$12.1 million, as summarized below. Of note is that this cost does not include land.

Total Estimated Construction Costs Proposed Convention Center in Las Cruces, New Mexico			
Cost	Sq. Ft.	\$/Sq. Ft.	Cost
Total Building Construction Cost	81,000	\$124.2 0	\$10,060,000

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Total Site Work Construction Cost	416,000	\$2.41	\$1,001,000
Subtotal (Hard Costs)	-	-	\$11,061,000
Escalation Factor	X 1.03 (1999 to 2000) = \$332,000		
Subtotal	-	-	\$11,383,000
Architect and Engineering Fees (Soft Costs)	-	-	\$740,000
Total Construction Cost (Rounded) ⁽¹⁾	-	-	\$12,123,000
⁽¹⁾ Excludes land cost, capitalized interest, funded reserves, and off-site infrastructure costs. Source: Ellerbe Becket			

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Summary of Recommended Facilities Proposed Convention Center in Las Cruces, New Mexico	
Facility	Square Feet
<u>Exhibit Hall</u>	12,500 x 2
<i>Subtotal of Exhibit Hall</i>	<i>25,000</i>
<u>Meetings Rooms:</u>	
1)	5,000 (2,500 x 2)
2)	2,500 (1,250 x 2)
3)	2,500 (1,250 x 2)
4)	1,000
<i>Subtotal of Meeting Rooms</i>	<i>11,000</i>
<u>Breakout Rooms:</u>	
1)	500
2)	500
3)	500
4)	500
5)	500
6)	500
7)	500
8)	500
<i>Subtotal of Breakout Rooms</i>	<i>4,000</i>
<i>Subtotal of Net Meeting Space</i>	<i>40,000</i>
<u>Additional Space:</u>	
Back-of-House ⁽¹⁾	15,000
Pre-function/Entry	16,000
Kitchen	4,000
Public Circulation	6,000
<i>Subtotal of Additional Space</i>	<i>41,000</i>
Gross Square Feet of Building Area	81,000
⁽¹⁾ Includes 1,200 sq. ft. of administrative office space.	
Source: Ellerbe Becket and PKF Consulting	

Ten-Year