

Convention Centers: Is the Industry Overbuilt?

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Introduction

Across the United States and Canada, city officials and economic development decision-makers are wrestling with the question of whether to develop new or expanded convention center assets in their communities. Many existing exhibition facilities are not operating at or near full capacity. As supply continues to grow, the utilization rate of exhibit space in the United States and Canada has declined during recent years. Public policy makers, private developers, and concerned citizens wonder: Is the industry overbuilt?

As the industry matures, however, the more appropriate question becomes one of competitive advantage. That is, can a new convention center compete? This article argues that the convention center industry is now mature, characterized by aggressive competition. Facilities compete for limited business and only those with the best competitive positions will succeed.

Industry Overview

Over the past three decades, the meeting and convention industry has evolved dramatically from a budding industry to a mature one that has become an important driver of the national economy. The Convention Industry Council estimates industry expenditures grew to approximately \$103 billion in 2003. The convention center industry is entering a new stage of the industry's lifecycle. Rapid growth in the supply of exhibit space has allowed rapid growth in the industry, as groups that formerly had no appropriate exhibition venue available now have many facilities competing for their business.

As an established industry, continued evolution and growth will come not from latent demand sources, as occurred during the last few decades. Rather, industry growth will depend on new demand, which is affected by numerous factors such as the cost of travel, the importance of face-to-face interaction in certain industries, improvements in facility design, resources available to promote events, and overall growth trends in the national economy.

For the purposes of this article, the distinguishing characteristic of a mature industry is that competitive advantage is the key to a facility's success. In other mature industries, such as shopping malls and movie theaters, new developments are successful only if they have important advantages over their competitors. These advantages are often related to facility design, location strategy, marketing efforts, and technology. As in these other mature industries,

the supply of convention centers now exceeds the demand for such facilities nationally. This means cities can no longer rely on a strategy simply to capture a fair share of the market for meetings and conventions. There is not enough business to go around.

To be successful in today's market, a convention center must compete with numerous comparable facilities for event business. Competitive advantages determine the winners and the losers. If a new convention center is not positioned competitively with respect to location, design, amenities, price, marketing, and management, then it is likely to fail in terms of its financial performance and its ability to generate economic impacts for a community. In short, if you build it, they might not come.

This article will compare trends in supply and demand in the convention center industry to test the hypothesis that the industry is mature. When an industry matures, ongoing increases in supply are not always met with equal increases in demand. A sort of saturation effect takes place, and additional supply can do one of two things. It either dilutes demand, as business is spread out through more and more facilities. Or it consolidates demand by dominating its competitors and taking existing demand away from them. In a mature industry, new supply generally does not generate additional business because there is little or no latent demand to target. New facilities must compete for existing business. This dynamic characterizes the current state of affairs in the convention center industry.

On a national level, growth in supply has begun to exceed growth in demand. Tradeshow Week collects annual data on exhibition demand and the supply of major exhibition facilities in the United States and Canada. This data provides evidence that growth in supply continued while demand actually declined during the latest three-year period for which complete data is available. This phenomenon has not occurred at any other time in the past 32 years, since convention center supply and demand data has been collected.

Most industry data is not standardized and not comprehensive. Therefore, it is difficult to show precisely and conclusively what levels of supply and demand are present in the industry. For example, it is difficult to know when certain facilities become obsolete. Tradeshow Week annually attempts to remove from their database any facilities that have closed in the past year. But there may be

instances where buildings become obsolete as convention centers even though they are still open. Therefore, it is possible that supply has been overstated. On the other hand, Tradeshow Week's database of supply only includes major exhibit halls. Numerous smaller facilities exist throughout the United States and Canada that have fewer than 25,000 square feet of exhibit space. So, it is also possible that supply has been understated. Nonetheless, Tradeshow Week's database represents the most reliable, and most up-to-date, supply and demand data available.

Trends in Supply

A few different facility types provide the vast majority of exhibit space available in the United States and Canada. Convention centers, exposition centers, fairgrounds, and trade centers represent the majority of the supply of exhibit space. Some large hotels, civic centers, and conference facilities also offer exhibit space. According to Tradeshow Week's 2004 Directory of Major Exhibit Halls, the supply of exhibit space in the United States and Canada is approximately 80.5 million square feet.

Table 1 shows the annual growth in available exhibit space in the United States and Canada. Projections are available through 2007.

Table 1
Exhibit Space Supply in the United States and Canada

Year	Major Facilities	% Chg.	Square Feet (millions)	% Chg.
1986	269	-	42.8	-
1987	276	2.6	44.2	3.3
1988	319	15.6	45.5	2.9
1989	320	0.3	47.3	4.1
1990	332	3.8	52.0	9.8
1991	338	1.8	54.6	5.0
1992	361	6.8	55.9	2.3
1993	368	1.9	57.7	3.3
1994	366	-0.5	60.6	5.1
1995	369	0.8	63.4	4.6
1996	363	-1.6	63.2	-0.4
1997	362	-0.3	64.2	1.6
1998	364	0.6	64.2	0.1
1999	366	0.5	63.4	-1.3
2000	379	3.6	65.6	3.4
2001	386	1.8	67.6	3.1
2002	402	4.1	72.4	7.1
2003	418	4.0	77.2	6.6
2004	431	3.1	80.5	4.3
By 2007 ¹	452	1.6	85.5	2.0
Historic ²		2.7%		3.6%
1980's		6.0%		3.4%
1990's		1.4%		3.0%
2000's		2.7%		4.9%

¹ Figure includes proposed exhibition space that may not be realized.

² Average historic growth rate from 1986 to 2004.

Sources: Tradeshow Week, HVS International

Since 1986 the number of major exhibition facilities has increased from 269 to 431. In almost every year since this data has been collected, several new facilities have been developed. The total amount of space available at these facilities has nearly doubled in the past two decades. In the 1980's the supply of exhibit space grew by an average of about 3.4 percent annually. This growth rate slowed to 3.0 percent annually during the 1990's. Rapid growth has resumed since 2000, with an average annual growth rate of 4.9 percent over the past five years. In the next three years, the amount of exhibit space is likely to increase at a somewhat slower rate of 2.0 percent annually, based on planning efforts and construction projects that have commenced recently. However, a

large number of projects appear to be planned for 2008, even though planning is preliminary.

New Construction & Expansions

Since the publication of Tradeshow Week's 2004 Major Exhibit Hall Directory in late August, a number of new convention centers have recently begun construction or are planned. By the end of 2007, planned expansions and new facilities are expected to add nearly 5.0 million square feet of additional exhibit space to the inventory available now. The largest new construction project is in Tunica, Mississippi. The largest expansion project is in New Orleans. Additional projects, that are currently not reported, may increase the supply further during this period.

Table 2 shows new convention centers that are planned or have opened since the publication of Tradeshow Week's 2004 Directory of Major Exhibit Halls. The table shows only those projects with at least 100,000 square feet of exhibit space. Projects are listed from largest to smallest.

Table 2
New Major Exhibit Facilities Planned or Under Construction

New Facilities Planned & Under Construction	Location	Target Date	Total Exhibit Space
Myriad Botanical Resort	Tunica, MS	2006	375,000
Osceola County Convention Center	Kissimmee, FL	2005	250,000
Rosen Shingle Creek Resort & Golf Club	Orlando, FL	2006	195,000
Connecticut Convention Center	Hartford, CT	2005	180,000
Puerto Rico Convention Center	San Juan, PR	2005	152,700
New Raleigh Convention & Conference Center	Raleigh, NC	2007	150,000
Virginia Beach Convention Center	Virginia Beach, VA	2007	150,000
Concord Resort	Kiamesha Lake, NY	2006	150,000
Hampton Roads Convention Center	Hampton, VA	2005	108,000
Schaumburg Convention Center	Schaumburg, IL	2006	100,000
Major New Facilities			1,810,700

Sources: Tradeshow Week, HVS International

More than 1.8 million square feet of new exhibit space will be developed in 10 major convention center projects located in first tier, second tier, suburban, and resort markets, as shown above. Several additional smaller projects are also planned throughout the United States and Canada. Including the smaller

projects, new convention centers will add more than 2.3 million square feet of exhibit space through 2007.

Table 3 shows convention center expansion projects that are planned or have opened since the publication of Tradeshow Week's 2004 Directory of Major Exhibit Halls. The table shows only those projects with at least 100,000 square feet of new exhibit space. Projects are listed from largest to smallest.

Table 3
Planned or Newly Expanded Major Exhibit Facilities

Expansions of Existing Facilities	Location	Target Date	New Exhibit Space
Ernest N. Morial Convention Center	New Orleans, LA	2007	500,000
Phoenix Civic Plaza	Phoenix, AZ	2006	388,000
Colorado Convention Center	Denver, CO	2004	284,000
Ocean Center	Daytona Beach, FL	2007	140,000
The Peabody Orlando	Orlando, FL	2006	130,000
Regina Exhibition Park	Regina, SK	2005	120,000
Novi Expo Center	Novi, MI	2005	116,000
Orlando World Center Marriott	Orlando, FL	2006	105,000
Palm Springs Convention Center	Palm Springs, CA	2005	100,000
Iowa Events Center	Des Moines, IA	2004	100,000
Major Expansions			1,983,000

Sources: Tradeshow Week, HVS International

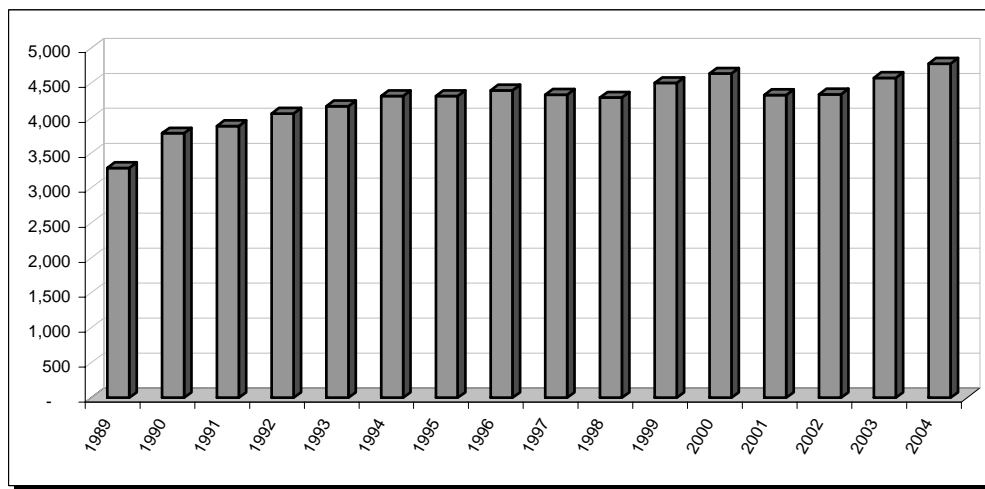
Approximately 2.0 million square feet of expansion exhibit space will be developed, or has recently opened, in 10 major convention and exposition center projects located in first tier, second tier, suburban, and resort markets, as shown above. Several other smaller expansions are planned throughout the United States and Canada. A total of more than 2.6 million square feet of exhibit space is planned or under construction for expansion projects through 2007.

Trends in Demand

One measure of demand in the convention center industry is the number of conventions, tradeshows, and consumer shows that occur each year. Since 1989, Tradeshow Week has tracked the number of these exhibition events that use at least 5,000 net square feet of exhibit space.

Figure 1 shows the number of exhibition events using at least 5,000 net square feet of exhibit space.

Figure 1
Number of Exhibition Events



Despite variations from year to year, the number of exhibition events held annually has increased from 3,289 events in 1989 to 4,779 events in 2004. This represents an annual average growth rate of approximately 2.5 percent in the number of exhibition events over the past 15 years. There are 4,889 exhibition events planned for 2005, according to preliminary estimates from Tradeshow Week.

There are three additional important industry measures for demand. These three measures include the amount of exhibit space rented by exhibitors or net square feet (“NSF”), the number of exhibitors or exhibiting firms, and attendance. Tradeshow Week conducts quarterly surveys to track trends in these three measures of demand for major tradeshow events, defined as business-to-business events that use at least 30,000 net square feet of exhibit space. Because these statistics are available back to 1972, they provide a longer-term view of demand trends in the industry. However, they are limited to tradeshow events and, therefore, do not include consumer shows and other events that may utilize exhibit space at convention centers.

Table 4 shows the historical growth of net square feet used by exhibitors, the number of exhibiting companies, and the annual aggregate professional attendance at major tradeshow events.

Table 4
Historical Annual Exhibition Demand Growth – Percent Change

Year	NSF Used ¹	Exhibiting Companies ¹	Attendees ¹
1972	6.0%	5.8%	10.2%
1973	8.8%	5.0%	5.5%
1974	7.0%	3.5%	3.5%
1975	5.9%	5.8%	3.5%
1976	10.8%	9.8%	9.0%
1977	12.0%	9.2%	9.0%
1978	7.8%	5.6%	6.5%
1979	10.1%	9.0%	8.7%
1980	11.2%	12.0%	8.8%
1981	15.2%	8.3%	10.1%
1982	9.0%	8.4%	6.9%
1983	8.0%	5.8%	2.4%
1984	8.4%	6.0%	7.5%
1985	6.8%	5.2%	3.8%
1986	6.5%	6.0%	2.9%
1987	5.8%	7.2%	7.0%
1988	7.5%	5.7%	4.4%
1989	5.3%	4.9%	3.3%
1990	3.6%	4.0%	4.3%
1991	-0.6%	0.7%	0.6%
1992	0.5%	1.7%	1.5%
1993	5.1%	4.7%	4.9%
1994	4.6%	4.5%	5.7%
1995	6.2%	4.3%	3.9%
1996	5.0%	3.6%	4.0%
1997	6.8%	5.1%	6.4%
1998	5.8%	3.9%	2.3%
1999	3.9%	2.6%	3.9%
2000	3.1%	2.6%	4.0%
2001	-1.5%	-2.7%	-5.8%
2002	-5.3%	-1.8%	-2.2%
2003	-0.4%	0.5%	4.2%
Average Annual Growth Rates			
Historic ²	5.8%	4.8%	4.5%
1970's	8.9%	6.8%	6.5%
1980's	8.3%	6.9%	5.7%
1990's	4.1%	3.5%	3.7%
2000's	-1.1%	-0.4%	0.0%

¹ *Tradeshows with over 30,000 net square feet of exhibit space.*

² *Average historic growth rate from 1972 to 2003.*

Sources: Tradeshow Week, HVS International

Recent industry data from Tradeshow Week shows a decline in demand for exhibit space in the United States and Canada since 2000. This data merits strong consideration by parties planning new facility developments in the current economic environment. In 2001 and 2002 all three measures of industry performance declined. In 2003 the number of exhibitors and attendance grew slightly, but exhibit space rental reflected a continued decline in demand. This represents the first annual decline in rented space in more than a decade. The last three years represent the only sustained decline in demand since Tradeshow Week began collecting industry data in 1972. Preliminary annual data for 2004 indicates a slight increase in demand in each category. Year-end 2004 data will not be available until later in 2005.

Short-term performance measures reflect *general* market conditions, such as the recent economic recession and a downturn in the travel industry. However, the recession technically ended in the fourth quarter of 2001 and the travel industry experienced growth in 2003 and 2004. The statistics also reflect *specific* geopolitical events such as the terrorist attacks in 2001 and U.S. led wars in Afghanistan and Iraq in 2002 and 2003. Moreover, despite the fact that gross domestic product (“GDP”) has grown significantly in the United States during the past three years, the labor market has not expanded rapidly and business spending remains cautious. As market conditions improve, demand for exhibit space is likely to resume growth. Unlike previous decades, however, there is not substantial latent demand that communities can capture simply by developing new facilities. Instead, demand growth is likely to reflect growth in the overall economy.

Longer-term trends in the industry have indicated substantial growth in demand for exhibit space. Over the past 32 years, for example, professional attendance at tradeshow events has grown at an average rate of 4.5 percent annually. The number of exhibiting companies at these events has increased at an average rate of 4.8 percent annually during this period. The amount of space rented for exhibition events has increased at an average rate of 5.8 percent annually since 1972. Long-term growth trends in this industry reflect not only expansion in the overall economy, but also trends in key demand factors. For example, as travel has become more convenient and less expensive in real terms, demand for many events has increased.

Segmenting growth rates by decade, however, shows that growth in demand was very rapid in the 1970's; slower in the 1980's; slower still in the 1990's; and demand has actually declined since 2000. The substantial growth in supply during the past several years has exceeded growth in demand. As growth in supply has accelerated, demand growth has decelerated.

Utilization Factor

By expressing the ratio of demand to supply, one can calculate a utilization factor for convention centers. This is similar to occupancy rates that are used to measure performance in the hospitality industry. The utilization factor of a convention center reflects the percent of gross exhibit space that is rented throughout the course of a given year.

Many of the most reliable sources of industry data report demand in terms of *net* square feet days. Net square feet days refer to the space used by exhibitors and exhibiting companies. Gross square feet days refer to all of the exhibit space used for an event, including aisles and other exhibit space not resold to exhibitors. For the purposes of this analysis a simple ratio of 2.0 is assumed to convert between *net* square feet days and *gross* square feet days, implying event organizers resell half of a venue's floor space to exhibitors.

Annual demand for exhibit space by major exhibition events can be expressed in terms of how many gross square feet are rented for how many days. This measure is termed gross square feet days. Annual demand for exhibit space can be estimated by calculating the product of the annual number of events (4,779, as shown in Figure 1) planned for a given year, the average event length (estimated 4.5 days including move-in and move-out days), and the average event size (225,700 gross square feet, according to recent estimates). This calculation produces an estimate of roughly 4.9 billion square feet days of demand for exhibit space in the U.S. and Canada in 2004. Of course, this figure only represents demand that major exhibition events generate. It does not represent total overall demand for exhibit space.

The annual supply of exhibit space can also be expressed in gross square feet days. We estimated the annual supply of exhibit space by calculating the product of total exhibit space (80.5 million square feet) and the number of potential rental periods in a year (365 days). This calculation produces an estimate of roughly 29.4 billion gross square feet days available.

Given these two calculations it is possible to express an industry utilization factor as the ratio of demand to supply, based on gross square feet days. Although 29.4 billion square feet days of exhibit space were available for rent last year, event organizers of major exhibition events only rented about 4.9 billion square feet days of exhibit space in 2004. This represents an industry utilization factor of approximately 16.52 percent by major exhibition events.

Table 5 summarizes the estimated utilization factor for exhibit facilities in the United States and Canada during the past two decades.

Table 5
Utilization Factor Estimates

Year	Demand (GSFD)	Supply (GSFD)	Utilization Factor
1986	2,806,990,796	15,607,400,000	17.98%
1987	2,969,796,263	16,129,350,000	18.41%
1988	3,192,530,982	16,603,850,000	19.23%
1989	3,361,735,124	17,279,100,000	19.46%
1990	3,482,757,589	18,965,400,000	18.36%
1991	3,461,861,043	19,921,700,000	17.38%
1992	3,479,170,349	20,388,900,000	17.06%
1993	3,656,608,036	21,064,150,000	17.36%
1994	3,824,812,006	22,133,600,000	17.28%
1995	4,061,950,350	23,144,650,000	17.55%
1996	4,265,047,868	23,060,700,000	18.49%
1997	4,555,071,123	23,425,700,000	19.44%
1998	4,819,265,248	23,440,300,000	20.56%
1999	5,007,216,593	23,144,650,000	21.63%
2000	5,162,440,307	23,936,700,000	21.57%
2001	5,085,003,702	24,674,000,000	20.61%
2002	4,815,498,506	26,433,300,000	18.22%
2003	4,796,236,512	28,178,000,000	17.02%
2004	4,853,791,350	29,382,500,000	16.52%

Source: HVS International

The estimated utilization factor in 2004 is only 16.52 percent, based on preliminary quarterly figures. The eight-month economic recession that began in 2001 corresponded with a prolonged decline in the utilization factor. This is not the first time utilization factors have declined. Beginning with the eight-month economic recession that began in 1990, the utilization factor declined for three consecutive years. Rapid economic growth between 1995 and 1999

corresponded with increases in the utilization factor. It reached 21.63 percent in 1999. During the past five years the utilization factor has declined from this high to a low of 16.52 percent in 2004. For the past 19 years the utilization factor has fluctuated between 16.52 percent and 21.63 percent. It is currently the lowest it has ever been, although it is likely to rebound slightly in 2005. The utilization factor is one way of illustrating how competitive the convention center industry is now.

The calculated utilization factor, admittedly, does not represent the overall amount of space facilities rent out because they host more than just the events tracked by Tradeshow Week. Tradeshow Week tracks only conventions, tradeshows, and consumer shows that use at least 5,000 net square feet of exhibit space. Examples of other events that could take place in convention centers include religious assemblies, graduation ceremonies, job fairs, social gatherings, banquets, and sporting events as well as musical and entertainment shows. Therefore, overall utilization is likely to be higher than the calculated utilization factor, even though these additional types of use generally do not represent high-impact events for which most convention centers are intended.

Moreover, demand is not distributed evenly throughout the existing supply. Most successful convention centers experience overall utilization rates in the range of 40 percent to 60 percent of capacity. Other less successful venues are extremely underutilized. The result of a maturing industry is an increased role that competition plays in determining which facilities succeed and which ones fail.

Conclusions

Current levels of supply and demand are consistent with a mature industry. From the national perspective, the current growth in the supply of exhibit space is outpacing growth in demand for such space. This will lead to even more intense competition between exhibition facilities to attract high-impact group business.

The conclusion of this article is not that convention center demand will experience continued declines. In fact, preliminary data indicates increased demand for exhibit space in 2004 and 2005. Nor does it follow that future convention center developments will be unsuccessful. On the contrary, the industry is likely to continue growing in the long term. But there will be winners and losers. Because convention centers are not very standardized,

market share analysis will not provide an accurate projection of a convention center's performance potential. That is, a facility cannot simply expect to attract a fair share of business relative to its size in the overall supply of exhibit space. Rather, a convention center's performance is more likely to depend on its competitive advantages, relative to its peers.

New facilities are most likely to succeed when positioned competitively with respect to market conditions, management, pricing, booking policies, location, amenities, destination appeal, and existing tourism infrastructure. But many other facilities will not succeed as the industry matures. To properly assess the feasibility of a convention center or other public assembly facility, it is more important now than ever to evaluate carefully its demand potential, given its competitive position in today's market.