Flawed Forecasts:
A Critical Look at Convention Center Feasibility Studies

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Executive Summary

An increasing number of American cities are pursuing an economic development strategy aimed at boosting convention and visitor activities. From Boston to Atlanta, San Antonio to San Francisco, cities are mounting massive construction projects to provide new or expanded convention center space. The rhetoric of convention center investment is drawn from "feasibility studies," generally developed by a national accounting or economic research firm. These studies lay out the (invariably positive) market analysis for more local convention space. On the basis of these studies, public funds are appropriated and increasingly enormous facilities are constructed. Yet for all their specificity in predicting outcomes, these studies have only rarely been subject to serious review and examination. This paper, based on review of more than 30 such studies, takes a hard look at each feasibility study component to gauge its utility to policymakers and others who rely on these studies to make public investment decisions.

Throughout the 1990s, forecasts of national convention and tradeshow demand made in consultants' feasibility studies have been consistently optimistic about demand growth and the economic value of conventions. Although most studies recognized the impact of the Gulf War and recession on the industry in the early 1990s, they regularly predicted a pattern of steady growth. These forecasts were essentially naive extrapolations of historical data; there were no underlying models of specific sectors of demand, or, indeed, of larger factors like changing travel costs, business restructuring, or family time demands. Thus even 1996 industry projections do not appear particularly reliable after a modest span of three years.

Close examination of data from Meetings and Conventions, Tradeshow Week, and the Center for Exhibition Industry Research (CEIR) refutes the assumption of regular annual growth, yet these sources are commonly cited as evidence for a positive trend. Declaring that "overall growth is expected to be strong," a 1997 study for Boston cited CEIR data, which predicted a total of 4,683 shows nationally by 1999. The actual 1999 figure was just 4,503 shows. The 514 million net square feet of exhibit space used in 1999 was below the predicted 522 million. And tradeshow attendance for 1999 proved a notable miss, with the actual figure of 102 million well below the predicted 129 million attendees.

The image of continued substantial growth in space supply is common to all recent feasibility studies. Supply data are commonly misrepresented and are used exclusively to promote building new facilities and expanding existing ones.

Two dominant methodologies are employed to estimate market appeal. One relies on surveys of convention and tradeshow meeting planners about their interest in meeting in a particular city, a kind of beauty contest in which they are queried as to

the likelihood of using new convention space in a specific city. The second approach quantifies a set of factors the consultant deems central to convention center success, including measures of airline service, the number of local hotel rooms, and size of the metropolitan area population. (In the second approach, the factors considered vary for different cities and are clearly chosen to skew the results in favor of increasing exhibit space.)

Estimates of likely new business are an input to the forecasts of attendance, job creation, and economic impact that are central to selling a new or expanded convention center. Some studies lay out elaborate calculations and deductions but include at least one component, such as "market capture rate," that simply reflects the consultant's judgment or perceptions. Other studies provide a list of "factors" but offer no explanation of how they combine to form estimates of future activity. Successive studies of the same city can also vary markedly.

The logic of calculating the direct spending generated by a convention center is quite reasonable and straightforward-multiply estimated attendance by estimated average length of stay by estimated average daily spending. Yet its validity depends on the strength and accuracy of its components. Studies often estimate the average length of a visitor's stay at four or more days, although available data show an almost one-to-one relationship between attendance and hotel nights. Convention center feasibility studies generally stand alone, with little detailed comparative data on the performance of other centers or cities, and little evidence of the conclusions of the same consultant to a competing center just down the Interstate or across the state border. Plausible alternatives to adding space, including serving selective market niches, improving the quality or amenities of convention centers, or accepting a limited market share rarely, if ever, appear as market alternatives.

In an era in which both politicians and the public follow carefully gathered statistics on urban crime, student performance on standardized tests, and local property tax rates and values, they have access to little or no real data on what convention centers deliver for the public investment.

Recommendations

1. If the analytical marketplace held feasibility studies to a high standard, with regard to both methodology and forecasting, this would inform the public debate. Establishing a public record of predictions and actual convention center performance would bring their true economic value to light, but would take years to inform the decision-making process.
2. A long-term alternative is to oblige convention centers or sports facilities to finance capital costs out of their true fiscal impact (taxing the hotel rooms of only convention attendees, for example), rather than promoting such revenues as a fiscal boon while tapping other, more substantial sources unrelated to their performance. That would provide a clear market discipline and attach real world consequences to predictions.
3. A strategy to force capital investments to compete among themselves for political support is to issue legal debt restrictions, as many states did in the wake of localities' overabundant issuance of speculative debt for railroad construction in the nineteenth century. These typically limited the total size of local debt and required a majority (often two-thirds) public vote on any debt issue.

4. In combination with the previous recommendations, a fixed cap on debt and capital spending, such as the one already in place in Massachusetts, would impose a kind of fiscal and analytical discipline often lacking in public investment decisions. Regardless of purpose or backing, a project would be obliged to compete with others-the convention center against the stadium against the airport. Paired with an annual limit on the capacity to take on new debt, this would offer some real feedback from the political marketplace. Adopting these recommendations would begin to give the public and policymakers the information necessary to choose the best public project and ensure that investments of hundreds of millions of dollars bring real economic benefit to the community.

About the Author

Heywood T. Sanders is professor and director of public administration at the University of Texas at San Antonio. This paper was written when he was professor of Urban Studies in the Political Science Department at Trinity University in San Antonio, Texas. He has written extensively on convention centers and is the author of two earlier Pioneer White Papers, "Challenging Convention(al) Wisdom: Hard Facts About the Proposed Boston Convention Center" and "If We Build It, Will They Come? And Other Questions about the Boston Convention Center."