



Convention Centers: Is the Industry Overbuilt?

2008 Update

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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. Even as demand slowed throughout the first part of this decade, supply continued to expand, resulting in facility utilization rates near historic lows. 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 \$107.2 billion in 2006, compared to an estimated \$103 billion in 2003. The convention center industry has entered 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. In recent years, the proximity of full-service hotels to event facilities has become a primary determinant in the

decision to locate a convention at a particular location. Cities lacking suitable hotel properties typically lose business to cities with a superior "hotel package." Additionally, as meeting planners now have a wider array of choice in venues, nearby amenities including restaurants, retail and entertainment venues have become strong competitive advantages. In an attempt to gain this potential competitive advantage, a number of cities look to further develop areas surrounding stand alone convention centers, while other cities and developers invest in mixed-use developments, in which a convention center is the core of a "district" offering almost everything a delegate, event organizer or exhibitor could want in one area.

As in 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, technology, 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.

Isolated data from the early 2000's may have looked to some as if the industry was in decline, while recent data from the past four years may look to some as if the industry is in a growth stage. 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 continual fluctuations do not end and neither does the prospect for new supply or demand. What does change, when an industry matures, is competition.

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 in the United States and Canada.

As our previously published report from 2005 stated, growth in supply had begun to exceed growth in demand in the early 2000's. However, from 2003 growth in demand has risen, surpassing growth in supply in 2005, and remaining stable, with a moderate decline in 2007, according to three out of four key metrics, explained later.

Tradeshow Week collects annual data on exhibition demand and the supply of major exhibition facilities in the United States and Canada. This data for the latest four-year period for which complete data is available, provides evidence that, contrary to the early 2000's, growth in demand has resumed as growth in supply has slowed to its lowest rate since 1999.

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 2007 Directory of Major Exhibit Halls, the supply of exhibit space in the United States and Canada is approximately 85.9 million square feet.

Table 1 shows the annual growth in available exhibit space in the United States and Canada. Projections are available through 2010.

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
2005	452	4.9	82.3	2.2
2006	470	4.0	85.1	3.4
2007	469	-0.2	85.9	0.9
By 2010 ¹	479	0.7	92.1	2.4
Historic ²		2.7%		3.4%
1980's		6.0%		3.4%
1990's		1.4%		3.0%
2000-2004		3.3%		4.9%
2005-2007		2.9%		2.2%

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

² Average historic growth rate from 1986 to 2007.

Since 1986 the number of major exhibition facilities has increased from 269 to 469. In almost every year since this data has been collected, several new facilities have been developed. From 2006 to 2007, supply increased 400,000

square feet, indicating expansions, not new facilities, provided the majority of new supply.

The total amount of space available at these facilities has more than 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. More rapid growth resumed in 2000 with an average annual growth rate of 4.9 percent from 2000-2004. From 2005 to 2007, growth in supply grew at a much slower annual rate of 2.2 percent, the lowest growth rate in supply since the late 1990's. During the next few years, the amount of exhibit space is likely to increase at a relatively slow rate of 2.4 percent annually, based on planning efforts and construction projects that have commenced recently. However, a considerable number of projects appear to be planned for 2011 and beyond, even though planning is preliminary.

New Construction & Expansions

Since the publication of Tradeshow Week's 2007 Major Exhibit Hall Directory in late August, a number of new convention centers have recently begun construction or are planned. At mid-2007 planned expansions and new facilities, in various stages of development, totaled 7.79 million square feet of exhibit space. The largest new construction projects are Gaylord National Resort and Convention Center in National Harbor, Maryland and Expo Imperial in Acapulco, Mexico. 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 2007 Major Exhibit Hall Directory. 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	ND	375,000
ECHELON	Las Vegas, NV	Fall '10	320,000
New Cleveland Convention Center	Cleveland, OH	ND	300,000
Gaylord National Resort and Convention Center	National Harbor, MD	Apr '08	180,000
Raleigh Convention Center	Raleigh, NC	Sept '08	150,000
Sevierville Events Center at Bridgemont	Sevierville, TN	Sept '07	127,551
InterContinental Resort and Residences Orlando at Palazzo del Lago	Orlando, FL	Aug '09	121,000
Major New Facilities			1,573,551

Sources: Tradeshow Week

1- Construction Under Discussion or Feasibility Study Underway; 2- Legislative Approval or Funding in Place; 3- Design Plans, Architectural Rendering or Scale Model Completed; 4- Groundbreaking through Initial Construction; 5- Construction 50% or More Completed; ND- Not Determined

More than 1.9 million square feet of new exhibit space will be developed in eight 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 2.2 million square feet of exhibit space through 2011.

Table 3 shows convention center expansion projects that are planned or have opened since the publication of Tradeshow Week's 2007 Directory of Major Exhibit Halls. The table shows only those projects with at least 150,000 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
Toronto Congress Centre	Toronto, ON	2007	500,000
McCormick Place	Chicago, IL	2007	470,000
Phoenix Convention Center	Phoenix, AZ	2008	438,000
Gaylord Opryland Resort and Convention Center	Nashville, TN	2010	400,000
Jacob K. Javits Convention Center of New York	New York City, NY	2014	340,000
Vancouver Convention and Exhibition Centre	Vancouver, BC	2009	280,000
Olympic Stadium	Montreal, QC	2010	267,500
Pennsylvania Convention Center	Philadelphia, PA	2010	260,000
Indiana Convention Center and RCA Dome	Indianapolis, IN	2010	251,877
Northlands	Edmonton, AB	2009	249,414
Nashville Convention Center	Nashville, TN	2011	231,000
Orlando World Center Marriott	Orlando, FL	2007	186,000
The Peabody Orlando	Orlando, FL	2010	150,000
Major Expansions			4,023,791

Sources: *Tradeshaw Week, HVS International*

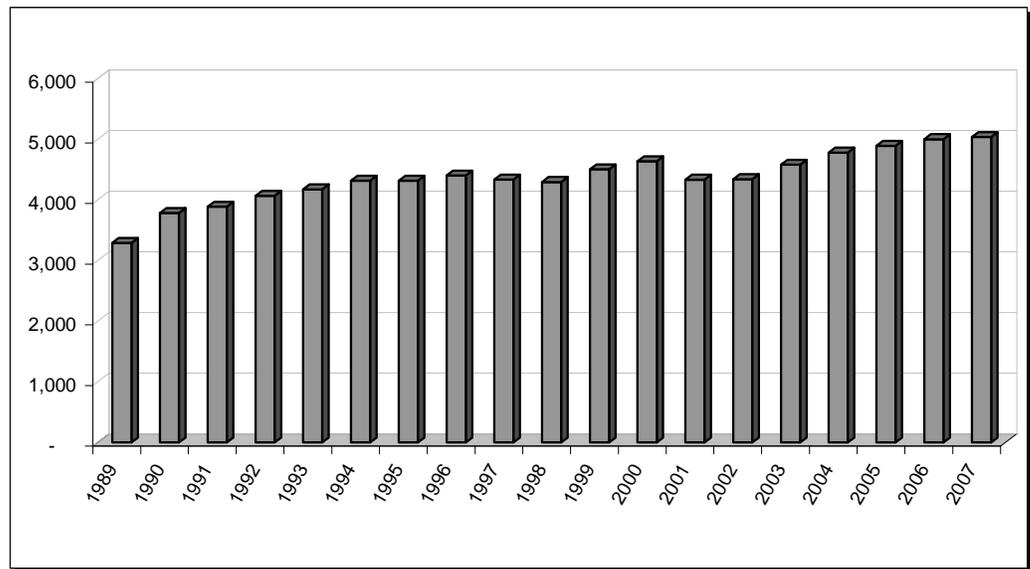
Approximately 4.2 million square feet of expansion exhibit space will be developed, or has recently opened, in fourteen major convention and exposition center projects located in first tier, second tier, suburban, and resort markets, as shown above. Several other smaller expansions are planned throughout the United States and Canada. A total of more than 4.3 million square feet of exhibit space is planned or under construction for expansion projects through 2011.

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, Tradeshaw 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

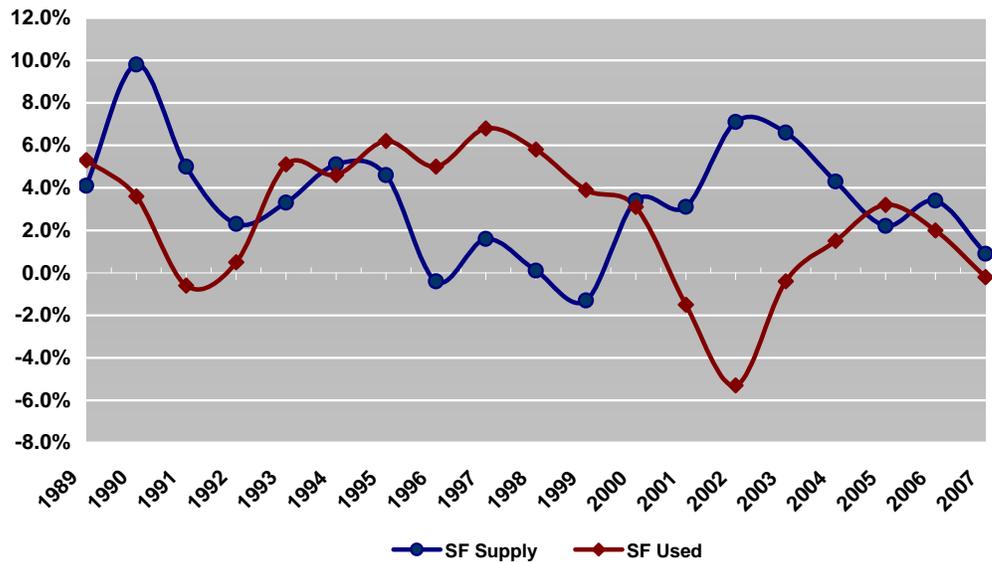


Source: Tradeshow Week

Despite variations from year to year, the number of exhibition events held annually has increased from 3,289 events in 1989 to 5,036 events in 2007. This represents an annual average growth rate of approximately 2.4 percent in the number of exhibition events over the past 18 years. In 2006 there were a recorded 5,001 events, while in 2007 there were 5,036. According to preliminary estimates from Tradeshow Week, 4,924 exhibition events planned for 2008, a 2.2 percent decrease from 2007.

The following graph illustrates the annual percent change in square feet of exhibit space and square feet of exhibit space used from 1989 to 2007.

Figure 2
Annual Percent Change in Square Feet of Exhibit Space and Square Feet of Exhibit Space Used



Source: *Tradeshaw Week, HVS International*

This graph demonstrates how growth of supply and demand has changed, in relation to each other, over the past eighteen years. From 1994 to 2000 the growth of demand remained above or close to the growth of supply which experienced little growth from 1996 to 1999. Beginning in 2000, the growth of supply increased as the growth of demand sharply decreased, at its lowest point reaching -5.3% growth in 2002. From 2003 to 2005 supply growth decelerated as demand growth resumed. Since then, both supply and demand growth has moderated. Data as of the end of the third quarter of 2007 indicated demand growth has returned to the negative growth rate of -0.2%. Although this may stimulate cause for concern, smaller fluctuations, like the trend from 2003 to 2007, are characteristic of mature industries, which continually experience fluctuations in demand and supply, but in the long run experience stability and modest growth.

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. Tradeshaw Week conducts quarterly surveys to track trends in

these three measures of demand for major tradeshows, 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 tradeshows 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%
2004	1.5%	1.6%	2.7%
2005	3.2%	1.8%	3.1%
2006	2.0%	1.3%	1.9%
2007	-0.2%	1.6%	0.7%
Average Annual Growth Rates			
Historic ²	5.4%	4.5%	4.4%
1970's	8.5%	7.3%	7.2%
1980's	8.3%	6.7%	5.6%
1990's	4.1%	3.4%	3.8%
2000-2003	-1.3%	-0.4%	0.1%
2004-2007	1.6%	1.4%	2.5%

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

² Average historic growth rate from 1972 to 2007.

Recent industry data from Tradeshow Week shows stability in demand for exhibit space in the United States and Canada since 2004. Data from 2001 to 2003 merited strong concern for the industry as all three measures of industry performance declined. However, from 2004 to 2006 all three measures of industry performance increased steadily, indicating a rebound in the industry. Data from the first three quarters of 2007 indicates a very small decrease in net square feet used, while both exhibiting companies and attendees decreased slightly. Four years of sustained stability and modest growth in all three measures further indicates that the industry is mature.

Short-term performance measures reflect *general* market conditions, such as economic recession and a downturn in the travel industry, as experienced in the early 2000's or renewed corporate optimism and investment and healthy corporate profit increases, as experienced from 2004-2007. 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, beginning in 2002. 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 35 years, for example, professional attendance at tradeshow events has grown at an average rate of 4.4 percent annually. The number of exhibiting companies at these events has increased at an average rate of 4.5 percent annually during this period. The amount of space rented for exhibition events has increased at an average rate of 5.4 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 and the 1980's; significantly slower in the 1990's; negative from 2000 to 2003, and resumed growth from 2004 to 2006, with a small decline in 2007. The substantial growth in supply in the early 2000's exceeded growth in demand as it was decelerated. Since 2004, demand has resumed moderate growth as supply is no longer increasing at such a high rate.

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 (5,036), as shown in Figure 1, planned for a given year, the average event length (estimated 4 days including move-in and move-out days), and the average event size 127,263 gross square feet, according to recent estimates). This calculation produces an estimate of roughly 2.5 billion square feet days of demand for exhibit space in the U.S. and Canada in 2007. 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 (85.9 million square feet) and the number of potential rental periods in a year (365 days). This calculation produces an estimate of roughly 31.4 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 31.4 billion square feet days of exhibit space were available for rent last year, event organizers of major exhibition events only rented about 5.2 billion square feet days of exhibit space in 2007. This represents an industry utilization factor of approximately 16.47 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	2,656,630,782	15,607,400,000	17.02%
1987	2,829,311,783	16,129,350,000	17.54%
1988	2,993,411,866	16,603,850,000	18.03%
1989	3,217,917,756	17,279,100,000	18.62%
1990	3,388,467,398	18,965,400,000	17.87%
1991	3,510,452,224	19,921,700,000	17.62%
1992	3,489,389,510	20,388,900,000	17.11%
1993	3,506,836,458	21,064,150,000	16.65%
1994	3,685,685,117	22,133,600,000	16.65%
1995	3,855,226,633	23,144,650,000	16.66%
1996	4,094,250,684	23,060,700,000	17.75%
1997	4,298,963,218	23,425,700,000	18.35%
1998	4,591,292,717	23,440,300,000	19.59%
1999	4,857,587,695	23,144,650,000	20.99%
2000	5,047,033,615	23,936,700,000	21.08%
2001	5,203,491,657	24,674,000,000	21.09%
2002	5,125,439,282	26,433,300,000	19.39%
2003	4,853,791,000	28,178,000,000	17.23%
2004	4,834,375,836	29,382,500,000	16.45%
2005	4,906,891,474	30,039,500,000	16.33%
2006	5,063,912,001	31,061,500,000	16.30%
2007	5,165,190,241	31,353,500,000	16.47%

Source: HVS International

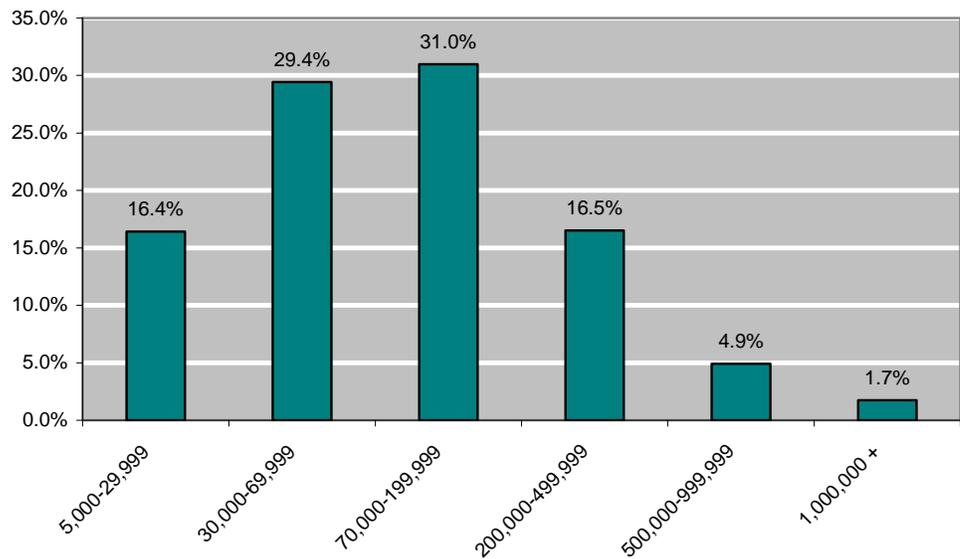
The estimated utilization factor in 2007 is only 16.47 percent, based on preliminary figures. The eight-month economic recession that began in 2001 corresponded with a prolonged decline in the utilization factor; this factor appears to have stabilized since 2004. Beginning with the eight-month economic 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 four years, however, the utilization factor has remained stable, only fluctuating 0.17% from 2006 to 2007. Nevertheless, the utilization factor is currently near historic lows, indicating how competitive this mature industry is.

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 excess of 40 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.

Likewise, the size distribution of demand does not resemble a straight line. The following graph shows the size distribution of events held in 2007, as reported by Tradeshow Week. The majority of events utilized between 30,000 to 199,999 square feet. Large shows were much less frequent, with only 23.1 percent of events reporting a size greater than 199,999 square feet. There were a substantial number of small events – 16.4 percent of events were between 5,000 and 29,999 square feet. Depending on community's' priorities and target market, this data provides guidance concerning the appropriate amount of space that convention centers should offer.

Figure 3
Size Distribution of Demand



Source: *Tradeshov Week, HVS International*

Conclusions

Current levels of supply and demand are consistent with a mature industry. From the national perspective, the current growth in the demand of exhibit space and growth of supply are very similar, reflecting a change from the early 2000's –characterized by a large swell of new facilities and temporarily declining demand. As supply continues to grow, intense competition will continue between exhibition facilities to attract high-impact group business.

The conclusion of this article is not that convention center utilization rates will experience continual decline. Nor is the conclusion of this article that supply has no room to grow. The industry is in a mature stage and will likely to continue to experience some growth 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, technology, 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 competitive advantages that lead to its demand potential, given its competitive position in today's market.