

November 2006

St. Louis Renaissance Hotel

# OPERATIONS REVIEW

Final Report

SUBMITTED TO:  
UMB Bank & Trust, N.A., as Master Trustee

SUBMITTED BY:  
C.H. Johnson Consulting, Inc.

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**I. TRANSMITTAL LETTER**

# C.H. JOHNSON CONSULTING, INC.

EXPERTS IN CONVENTION, SPORT AND REAL ESTATE CONSULTING

November 15, 2006

UMB Bank & Trust, N.A., as Master Trustee  
2 S. Broadway, Suite 435  
St. Louis, MO 63102

UMB Bank & Trust, N.A.:

Pursuant to our contract with UMB Bank & Trust, N.A., as Master Trustee (the "Master Trustee") in connection with the St. Louis Renaissance Hotel (sometimes the "St. Louis Renaissance" or "hotel"), C.H. Johnson Consulting, Inc. ("Johnson Consulting") performed an operations review of the hotel and its relationship with the broader hotel community, convention center, and the Convention and Visitors Commission ("SLCVC"). The study includes a market analysis, demand and operating projections, and recommendations to improve the hotel's ability to pay its debt service. The attached report explains the methods used to conduct this evaluation and discusses results and recommendations.

Operating estimates presented in this study are based on trends, assumptions, and current market factors, which usually result in differences between the projected results and actual performance. As events and circumstances often do not occur as expected, those differences may be material. The financial projections in this report assume that on average there will be relatively reasonable economic growth and that recessions will be offset by periods of economic prosperity.

Johnson Consulting has no responsibility to update this report for events and circumstances that occur after the date of this report. The findings presented herein reflect analysis of primary and secondary sources of information. Johnson Consulting utilized sources deemed to be reliable but cannot guarantee their accuracy.

We have enjoyed serving you on this engagement and look forward to providing you with continuing service.

Sincerely yours,



C.H. Johnson Consulting, Inc.

Attachment

## **II. INTRODUCTION AND EXECUTIVE SUMMARY**

## INTRODUCTION

The Master Trustee engaged Johnson Consulting to conduct an evaluation of the hotel's operations, its cash flow and the dynamics that exist between the hotel, convention center and the SLCVC, which may be impacting the hotel's performance.

The St. Louis Renaissance is a very unique property composed of the Grand and Suites, each of which have reported financials autonomously but share many operational aspects (we understand this separate reporting will end in 2007). For purposes of this study Johnson Consulting has treated the two properties as a single hotel which in large measure is how they must function to serve as a headquarters hotel. Johnson Consulting's analysis assumed that these properties will operate as a single entity because the following services are shared by both properties, but housed in the Renaissance Grand.

- A single leadership team,
- Food and beverage purchasing,
- A single sales & marketing force,
- A common meeting room complex.

Opened in 2003 as a headquarters hotel, the subject property was thought to be the catalyst to reinvigorate the St. Louis convention and tradeshow market. Unfortunately, this has not been the case as the St. Louis Renaissance has not achieved the demand and financial projections originally forecasted since its inception, and competitor markets have matched and exceeded St. Louis' efforts to reposition their communities. Johnson Consulting's study is aimed at identifying the key drivers behind the hotel's poor performance and provides short and long-term solutions to solve these issues.

The elements of this evaluation include:

- An evaluation of physical and operational best practices of the SLCVC,
- A Strength, Weaknesses, Opportunities and Threats (SWOT) analysis of the physical property comparing meeting and ballroom capacities, as well as amenities, to other like properties, and identifying weaknesses of the subject property,

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- St. Louis market review and analysis of its ability to attract and service demand,
- A review of the hotel's relationship with the broader hotel community, convention center, and the SLCVC
- A review of the hotel's cash being yielded and its liabilities, what has been paid and what supplemental payments have been made to bondholders from reserves and other sources.

This report presents the results of a broad evaluation and outlines recommendations in regard to operations and physical limitations of the St. Louis Renaissance. It also provides recommendations to address problems and makes suggestions to help influence matters outside of its control, such as destination marketing, convention center relations, physical modifications to the hotel and America's Center, and continued redevelopment of the area around the hotel and America's Center. This report should be read as a whole and used in its entirety as each element of the analysis builds on information presented in successive sections. The contents of this report are organized as follows:

**Section 1** - Report Letter

**Section 2** - Introduction, Methodology Review, and Executive Summary & Recommendations

**Section 3** - Statement of the Problem

**Section 4** - Economic Profile

**Section 5** - Comparison of physical profiles of peer properties

**Section 6** - Comparative attributes of peer convention centers and CVBs

**Section 7** - Benchmarking analysis and future cash flows

## **About the Authors**

**C.H. Johnson Consulting** is a nationally-recognized hotel, real estate and economic development consulting firm with extensive experience in the development of hotels and public assembly facilities such as conference centers, convention centers, and other sports facilities. For this report, Johnson Consulting conducted the market study, operations analysis, competitive positioning analysis, hotel market review, prepared the demand and operating projections, and provided general strategic advisory services.

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**Jim Reilly** has 27 years experience in management, marketing and development of publicly focused real-estate. He served as the CEO of the Metropolitan Pier and Exposition and head of the Chicago Convention and Tourism Bureau. Mr. Reilly was responsible for the successful redevelopment of Navy Pier into the largest and most visited cultural, recreational, and tourism attraction in Illinois and the Midwest. Jim was also responsible for the seamless integration of McCormick Place and Navy Pier, the addition of the Hyatt to the McCormick Place campus, and addressing its deficiencies as it was originally developed.

## **METHODOLOGY**

In order to complete its assessment and recommendations concerning the St. Louis Renaissance, Johnson Consulting performed the following tasks:

- Toured the hotel and met with the personnel responsible for its operations,
- Reviewed the operations of the Convention Center and evaluated management practices,
- Reviewed the relations, services, and management reporting from the America's Center and SLCVC, testing for innovation, performance of duties, and improvements since prior reports were prepared,
- Met with the SLCVC
- Compiled data on selected "peer markets" based on primary research, review of secondary material, and consultant file information providing a broad level view of how St. Louis competes with other cities in the conventions market,
- Gathered data on physical space, and SLCVC budgets, and operating policies for competitive convention centers,
- Interviewed St. Louis governmental officials and other civic stakeholders,
- Developed case studies on comparable hotels and markets,
- Performed a SWOT analysis intended to identify critical weaknesses in St. Louis Renaissance physical space,
- Recommended facility operation and physical improvements and additions for the hotel,



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- Prepared a financial model and projections regarding the hotel's future operating revenues, expenses, and its forecasted cash flow and its ability to satisfy debt service.

## EXECUTIVE SUMMARY

Since its inception, the St. Louis Renaissance has experienced financial difficulty. A myriad of internal and external factors have contributed to the financial woes of the property. The City of St. Louis, and other parties, have begun to remedy some of the challenges that have impeded the vitality of the hotel. With the City proactively addressing external issues that have plagued performance of the hotel, the internal issues must be addressed.

Since its inception, the St. Louis Renaissance has failed to generate enough cash to adequately meet its debt service. Hotel operations are the only identified resources for remaining debt payments. In order to maximize cash flow, the St. Louis Renaissance management has identified areas where improvements can be made in its cost structure and has made changes which will be reflected in 2007.

In 2005, at an approximate cost exceeding \$300,000 annually, the St. Louis Renaissance began a "super marketing program" which helped the hotel's performance dramatically in 2005. These improvements are reflected in the projections in this report. This program was viewed as a one time compensatory effort, but will need to be continued unless additional meeting space is added. As such, it is assumed that the hotel will continue this aggressive marketing program to drive new, higher margin, business.

Being a rehabilitated property, appended to new construction, the capital budget of the hotel was very high on a per room cost basis. In addition, lackluster performance of the SLCVC over the last decade, combined with too little meeting space at the hotel and at the America's Center are major contributors to the hotel's poor performance. Moreover, the hotel's bonds were sold with very aggressive occupancy projections from HVS, the City's consultants, at the time when disaster hit the tourism market nationally. All these factors have contributed to the financial distress of the hotel today.

A new director at the SLCVC has now been installed and a new dynamic board chair has also been installed. The new leadership has restructured the SLCVC's sales and marketing groups to focus on new, higher margin business.

At the hotel itself, Marriott appears to be performing at a very competent level. In our opinion the management team has squeezed as much cash out of the cost structure as possible and has explored aggressive strategies to build occupancy and

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room rate. Time is required to build the top line revenues. The bigger issues are structural. The hotel is undersized in terms of meeting and ballroom space. America's Center also has not been improved cosmetically or physically, while its competitors have experienced continual upgrades and refinements.

Johnson Consulting has provided three operating scenarios each of which will generate different levels of cash flow which can be used to pay back debt. In scenarios A, B & C, beginning in 2008, the hotel will generate enough cash to meet Series A debt service. Principal payments, in addition to interest, begin in 2010 but the hotel should have enough cash flow to make such payments.

- Scenario A - the hotel will operate under Marriott's reduced cost structure in 2007 and with these lower costs, occupancy and room rate growth will continue to a level where interest payments should be able to be covered for the Series A debt by 2008. In this scenario, the structural issue of meeting space shortage at the hotel will continue to plague the property and constrain occupancy, average daily rate (ADR) and food & beverage sales growth potential. Further, the hotel will be plagued by extraordinary expenses of extra direct sales efforts and renting meeting space from the America's Center.

In a perfect world, the City will follow the path of other cities and continue to improve its convention center package. Two key issues are: ultimately addressing the meeting space shortage at the hotel; and upgrading and adding ballroom space at Americas Center. In our opinion, these are the key factors affecting the hotel today. As such, we prepared scenarios B and C below for use in discussions with the City and other stakeholders. We have been informed that the City and SLCVC may be interested in studying these matters from a cost and design standpoint at a later date.

- Scenario B - involves placing a new meeting space / ballroom block under control of the St. Louis Renaissance and continue all strategies in Scenario A. It is important to understand that at this point the hotel cannot fund the additional debt to accomplish this; it needs to be an augmentation to the hotel paid for by others. The financial projections provided in this report for Scenario B assume additional meeting space is added to the hotel or at an adjacent facility and is under the control of the Renaissance. This is the best scenario.
- Scenario C - involves an expansion and renovation of the America's Center. The America's Center ballroom space is significantly undersized and the facility has not seen any aesthetic improvements since opening of the domed stadium. The addition of ballroom space and a facelift will help draw more group business which in turn will benefit the hotels in the immediate area.

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It is apparent that the St. Louis Renaissance will need assistance from external forces if the property is going to be a self sustaining, financially successful entity. Additional monies will be needed and must come from either private or public sources for the hotel. For America's Center, government entities must spend the monies necessary for renovations and improvements. Letting the facility operate on its current path will inhibit the property from achieving the level of success shared by its peers in other markets.

### **III. CURRENT STATE OF ST. LOUIS' CONVENTION AND TOURISM MARKET**

## **CURRENT STATE OF ST. LOUIS' CONVENTION AND TOURISM MARKET**

This report section addresses key variables in the community and city, convention and tourism markets and external factors that have led to undesirable results in the meetings industry and the hotel's performance in St. Louis.

St. Louis is characterized as a struggling regional convention center market relative to its peers. The hotel was seen by many as the panacea, but in fact it was only a step in the required continual process of destination development. In the past and today, the City has been plagued with many actual and perceived barriers to entry for meeting planners. Among those are:

- The St. Louis Renaissance does not have an appropriate balance of function space to support itself with in-house group business,
- Unions in St. Louis are perceived as presenting serious obstacles for meeting planners,
- St. Louis' downtown is not perceived to be vibrant or exciting in relation to comparable cities. There is a perception of "nothing to do" downtown,
- A historically stagnant and inefficient SLCVC.

Continual press about the hotel's financial straits in local and national trade press convey a picture of impending failure, which dog the community. Further, jealousy among local hoteliers exists and when tactics are used or suggested that will benefit the St. Louis Renaissance, other downtown hoteliers react negatively. This is an overall shortsighted view.

To its credit, the City has taken several steps in the right direction to proactively address these issues. Unfortunately, old perceptions die hard and the changes made by the City have not been fully realized by the meeting planner community. St. Louis has proactively dealt with the issues as follows:

- A major effort is currently underway to bring energy and enthusiasm back to the City with the downtown redevelopment effort,
- The SLCVC has hired both a new president and a new board chair to reinvigorate the SLCVC. There is great excitement regarding this, but the influence the SLCVC can have on the market demand situation will take time to materialize.

- The City has made a commitment to redevelop the current downtown area surrounding the America's Center. The redevelopment effort is a plan put in place to bring back retail, restaurant and residential activity to the downtown area. The new Busch Stadium and Pinnacle Casino developments have certainly provided a boost to help jumpstart this process. To ensure the continued momentum of the current effort, the City is continuing to work with each party involved to ensure that potential synergies are identified and capitalized upon.

The gravest matters affecting the hotel are:

- The SLCVC has suffered from poor execution over the course of the past decade. The SLCVC concentrated heavily on tourism marketing and neglected the convention and meetings industry. This strategy proved harmful for the America's Center which has not met the original performance projections. The SLCVC has hired a new president and recently added a new public relations campaign to try and combat some of the negative perceptions held by the meetings industry.
- The product at both the hotel and America's Center are out of balance. Even though the per room costs were very high for the St. Louis Renaissance, it is short well over 25,000 square feet of meeting space. Further exacerbating this is the small ballroom size at America's Center and the declining condition of the Center itself. America's Center is the only facility among its peers that has not gone through a facelift, expansion or renovation in the last decade.

### **Original Barriers to the St. Louis Renaissance Success**

The St. Louis Renaissance has experienced a rocky start since its inception in 2003 and had to deal with several issues that have played critical roles leading to the financial distress of the hotel. The capital budget on the project was very large at \$277 million, of which \$80 million was financed by the public sector. Critical elements were overlooked because by the time they were addressed in the planning/construction phase the capital budget was so large adjustments could not be made. The meeting space in the St. Louis Renaissance is the most evident example of poor planning in the project. This issue will be discussed in detail in Section 5 of the report. In addition to the large capital budget of the project, the hotel was confronted with several challenges from external forces which it could not control.

The hotel opened during the height of a hotel industry recession and hotel management has had to deal with some of the toughest industry conditions seen in two decades. The hotel also opened during a period of explosive growth in the hotel

inventory in downtown St. Louis. Since 2000, more than 2,400 hotel rooms have been added to the downtown hotel inventory. These factors have helped bring in incremental room nights to the City but increased competition as well.

The heart of the problem is that the hotel was designed, planned and built under inaccurate assumptions about the strength and size of St. Louis' convention industry and the proximity to the convention center was seen as diminishing the need to construct meeting space within the hotel which is now urgently needed in order to offset the inadequacy of the America's Center.

### **Summary of Prior Consultant Reports**

The Master Trustee and the Obligated Group had separate consultants review and comment on the state of the hotel and SLCVC. One report, commissioned by the Master Trustee and published by House Park & Dobratz, P.C. (HPD), was more academic in nature and focused on hotel operations relative to its peers. The other report, commissioned by the owners and published by The Idea Institute, was more strategic in nature, making high-level policy recommendations which needed to be addressed to get the convention and tradeshow business back on track in St. Louis. Neither report, in our opinion, addressed the structural issue associated with meeting and ballroom space at both the Center and the hotel.

### **HPD Report**

HPD reported on the market and financial conditions of the two properties regarding the hotel operations. HPD found that the future potential cash flow from operations is significantly less than the original projections made by Hospitality Valuation Services (HVS). Assumptions used to formulate the revised cash flows are as follows:

- General fallout of the lodging industry after the September 11<sup>th</sup>, 2001 terror attacks.
- Continued supply additions in the downtown area even as demand in the market was dwindling
- Significant reduction in airline service by American Airlines, the primary hub airline for Lambert St. Louis International Airport
- Inability of the SLCVC to deliver on forecasted convention and tradeshow activity at America's Center. Actual room night bookings were approximately 50% of original forecast.

Table 3-1 provides HBD's best estimate of projected revenues and expenses.

**Table 3-1**

Prior Consultant Best Estimate Projections and Variance							
Property	Historical		Forecasted				
	2004	2005	2006	2007	2008	2009	2010
<b>Renaissance Grand</b>							
Occupancy	50.0%	60.2%	60%	63%	66%	69%	69%
Average Room Rate	\$115.63	\$118.38	\$131.25	\$140.00	\$143.50	\$147.00	\$150.75
Rooms Revenue	\$19,383,000	\$23,828,965	\$26,421,000	\$29,680,000	\$31,886,000	\$34,207,000	\$35,080,000
Cash Flow Available for Debt Service	\$2,682,000	\$5,147,000	\$8,041,000	\$10,319,000	\$11,567,000	\$12,881,000	\$13,219,000
<b>Renaissance Suites</b>							
Occupancy	62.0%	69.7%	70.0%	72.0%	74.0%	74.0%	74.0%
Average Room Rate	\$103.64	\$114.37	\$120.75	\$129.25	\$132.50	\$135.75	\$139.25
Rooms Revenue	\$3,870,000	\$4,790,246	\$5,108,000	\$5,700,000	\$5,843,000	\$5,987,000	\$6,141,000
Cash Flow Available for Debt Service	\$539,000	\$885,000	\$1,127,000	\$1,520,000	\$1,558,000	\$1,593,000	\$1,636,000
<b>Consolidated</b>							
Occupancy	52%	62%	62%	64%	67%	70%	70%
Average Room Rate	\$113.50	\$117.44	\$129.64	\$139.04	\$141.99	\$145.75	\$149.48
Rooms Revenue	\$23,253,000	\$28,619,211	\$31,529,000	\$35,380,000	\$37,729,000	\$40,194,000	\$41,221,000
Cash Flow Available for Debt Service	\$3,221,000	\$6,032,000	\$9,168,000	\$11,839,000	\$13,125,000	\$14,474,000	\$14,855,000

Source: HPD Report

- Johnson Consulting believes that revenue is overstated in these projections due to an unachievable ADR in early years. ADR was forecasted at \$129.64 in 2006, the property will likely end the year around \$121.75. Cash flow available for debt service is also believed to be overstated in the projections. The consultant projected \$9.168 million available for debt service. Johnson Consulting believes this is overstated by approximately \$2 million. Greater detail on cash available for debt service is provided in Section 7.

### The Idea Institute Report

This report was an evaluation of the convention industry in St. Louis. The Idea Institute performed a thorough review of the initial convention and tradeshow projections forecasted by the SLCVC. This original study indicated that room nights would increase from 400,000 to 800,000 which was the foundation for the headquarters hotel development project. The Idea Institute found that the market can ultimately support 800,000 room nights as initially forecasted, but drastic changes are needed to meet those goals. Several of The Idea Institutes' recommendations have already been implemented. Among them are:

- Consummating new labor agreements at America's Center, making it easier to do business there,
- New and renovated inventory of hotel rooms in close proximity to America's Center,
- Greatly improved dining and nightlife districts nearby,



- Redeveloping the SLCVC sales force to place an emphasis on corporate meetings,
- Launch a widespread advertising campaign to build a new image for downtown St. Louis and shed the old image that has been a burden to the City for several decades.

These changes are being made, and along with the new leadership at the SLCVC are steps in the right direction to address the existing problems and image issues with the City.

In general, we agree with the projections made by The Idea Institute of additional demand at the Center, but the changes mentioned above have been slow in coming and the physical issues at America's Center and the hotel will plague market growth until they are addressed.

### **Summary of Reasons For Poor St. Louis Renaissance Hotel Financial Performance**

The St. Louis Renaissance has experienced financial difficulty since its inception. The poor performance at the hotel can be attributed to a myriad of different events and circumstances, among a few of them are:

- **Inaccurate convention and tradeshow projections**—HVS, the City's consultants, and the SLCVC initially projected that the Center and hotel package would produce 800,000 room nights by 2004. In 2004, 449,923 convention center and leisure group sales room nights were generated, and 444,539 were generated in 2005. This is 56% of the projected 800,000 room nights that served as the basis for original projections for the hotel. This unrealistic projection of room nights served as a dominant justification for the St. Louis Renaissance's expected demand during the planning and development stages of the hotel.
- **Large capital budget** - Due to the nature of historic renovations and the overall size and quality of the hotel, the hotel was developed with an extremely large capital budget.
- **Physical space issues at the St. Louis Renaissance** - The St. Louis Renaissance has a drastic shortage of meeting space relative to the number of rooms at the property. This shortage of meeting space will be addressed in greater detail in section 5.

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- **Undersized ballroom space at the America's Center** - The America's Center has an average of approximately 20,000 less square footage than the average of peer convention centers. This will be addressed in greater detail in section 6.
- **Poor image of downtown St. Louis** - Downtown St. Louis suffers from an image stereotype that has developed over the course of the past two decades. Meeting planners have traditionally viewed the downtown area as stagnant and dull with no real entertainment options. The downtown redevelopment effort along with new SLCVC marketing strategies are addressing these image issues.

These events and factors in conjunction with others have led the St. Louis Renaissance into a state of financial distress. On the following page in Table 3-2 is a summary of the:

- Historical (and 2006 expected) cash flows of the St. Louis Renaissance.
- The annual debt service since 2003.
- Sources of funding utilized to meet the hotel's debt service.

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**Table 3-2**

<b>St. Louis Renaissance History (2006 Forecast) of Cash Available for Debt Service - Consolidated Proforma</b>					
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006*</b>	<b>Total</b>
<b>Total Sales (Revenue)</b>	\$31,599,318	\$38,610,091	\$46,037,284	\$52,103,718	\$168,350,411
<b>Total Department Cost</b>	19,083,183	20,413,655	23,252,859	24,788,116	87,537,813
<b>Total Support Cost (SG&amp;A)</b>	11,776,551	14,117,224	14,848,755	14,871,123	55,613,653
<b>House Profit</b>	739,584	4,079,212	7,935,670	12,444,479	25,198,945
<b>Other Deductions</b>	3,279,438	5,519,720	6,330,307	7,174,543	22,304,008
<b>+ 1/2 FF&amp;E</b>	172,561	373,823	649,139	754,752	1,950,274
<b>Cash Available for Debt Service</b>	<b>(\$2,367,293)</b>	<b>(\$1,066,685)</b>	<b>\$2,254,502</b>	<b>\$6,024,688</b>	<b>\$4,845,211</b>
<b>Required Debt Service</b>	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$28,074,660
<b>Net Income (Loss) After Debt Service</b>	<b>(\$9,385,958)</b>	<b>(\$8,085,350)</b>	<b>(\$4,764,164)</b>	<b>(\$993,978)</b>	<b>(\$23,229,449)</b>

*\*2006 revenue & cost is actual through May 31 and the balance was forecasted using hotel management's expected performance*

*Note: Other deductions consists of Base Mgt. Fee, FF&E Escrow, Other Deductions*

<b>Summary of Series A Note Payments</b>					
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>Total</b>
<b>Required Debt Service</b>	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$28,074,660
<b>Less: Balance in Series A P&amp;I Account</b>	(2,971,987)	(71,768)	(1,289,131)	(1,815,226)	(\$6,148,112)
<b>Less: Balance in Capitalized Interest Acco</b>	(1,702,174)	-	-	-	(\$1,702,174)
<b>Net Shortage</b>	<b>2,344,504</b>	<b>6,946,897</b>	<b>5,729,534</b>	<b>1,694,107</b>	<b>\$16,715,042</b>
<b>Sources for shortage</b>	-	-	-	-	-
Excess Construction Proceeds	-	-	-	-	-
Excess Capitalized Interest Proceeds	-	-	-	-	-
Obligated Group Contingency Fund	140,102	-	-	-	140,102
General Costs Account	5,055	-	-	-	5,055
Other Project Fund Accounts (Pro-Rate)	135,771	96,476	-	-	232,247
Revenue Fund	-	-	-	700,000	700,000
Obligated Group Surplus Fund	400,878	-	-	-	400,878
Deferred Development Fee Fund	262,114	-	-	-	262,114
Draw on Series C Note	1,400,584	4,319,963	-	-	5,720,547
Hotel Manager Incentive Fee Fund	-	-	-	-	-
Wire from Obligated Group	-	-	-	850,000	850,000
Series A Debt Service Reserve Fund	-	2,530,458	5,729,534	144,107	8,404,098
<b>Total Used</b>	<b>\$2,344,504</b>	<b>\$6,946,897</b>	<b>\$5,729,534</b>	<b>\$1,694,107</b>	<b>\$16,715,042</b>

*Source: UMB Bank, Johnson Consulting*

As seen above, the St. Louis Renaissance has experienced net income losses in each of its first three years of operation and is forecasting a net loss of \$990,000 in 2006. During 2003 and 2004, the property didn't generate any positive cash flow available for debt service. In 2005, cash flow available for Series A debt service was positive for the first time at \$2.25 million but still significantly inadequate to cover the annual Series A debt service of \$7 million. As of November 7, 2006 hotel operations will not cover the entire December interest payment, but is forecasted to cover eighty-five percent of the \$3.5 million payment.

The lower portion of Table 3-2 shows the summary of Series A debt service payments and sources that have funded them since 2003. The St. Louis Renaissance has not had adequate cash flow to meet its debt service since inception. The property has been consistently short of cash from \$2.3 million to \$6.9 million during

2003 to 2005 and was approximately \$1.7 million short on the first of its two debt payments this year.

From a big picture standpoint, virtually all the reserves have been consumed and hotel operations are the sole source for all future debt payments. Management at the hotel has been streamlining operations and further reductions may start to affect service and physical appearance, starting the classic downward spiral. From the City's standpoint, this is an untenable situation and would defeat the original intent of the project. The balance of this analysis projects if there will be relief from this pressure in the near term.

## **Conclusion**

The St. Louis Renaissance's poor financial performance has been a result of many external and internal events and issues at the hotel and City. It is our projection that in 2008, without implementing any of our recommendations, the hotel will be able to make its Series A debt service, with a modest profit, but it is one bad year from falling back into the same condition that it faces today unless reserves are rebuilt. Physical issues still exist with the St. Louis Renaissance and until the space limitations are addressed the hotel will continue to operate with modest gains, as set forth herein. If the physical issues are addressed and the St. Louis Renaissance is able to add/acquire meeting space which balances it with peers, the property should begin to generate incremental gains in revenue volume, primarily through food and beverage sales and higher occupancy and ADR. Until the physical issues are addressed, the hotel will continue to have to spend extraordinary amounts on marketing and will have a structural ceiling on its occupancy due to insufficient meeting space.

Outside of the hotel, the City is working to address several of the external issues over which the St. Louis Renaissance has no control, and has taken steps in the right direction with SLCVC leadership and commitment to the downtown redevelopment effort.

#### **IV. ST. LOUIS GENERAL MARKET AREA ANALYSIS**

## **ST. LOUIS GENERAL MARKET AREA ANALYSIS**

This section profiles the St. Louis market in terms of market-wide characteristics as well as general visitor attractions. This data provides a high level economic and demographic profile of the City. Additionally, data on peer cities is presented to provide the reader with an idea of where St. Louis stands relative to its competitive set.

### **Market-wide Characteristics**

The City of St. Louis is located on the eastern border of Missouri. The St. Louis MSA includes 16 counties of which 8 are in Missouri and 8 are in the state of Illinois. Approximately 2.7 million people lived in the St. Louis MSA in 2006.

St. Louis, since 2000, has had an average annual growth rate of -.86% while the St. Louis MSA has grown 2.47% and Missouri has grown 2.73% annually. St. Louis' growth relative to the MSA and State is declining, highlighting the fact that population growth is continuing to disperse further throughout the area.

### **Air Service**

St. Louis has several airports within the region. The largest is the Lambert-St. Louis International Airport with 15 airlines and 83 gates used on a daily basis. The airport offers nearly 800 daily arrivals and departures and non-stop service to 90 destinations. In April of 2006 the airport completed a \$1 billion expansion adding a third major runway which will improve capacity. American Airlines is the largest service provider and St. Louis has as good or better air service than many cities that perform better than St. Louis as a tourist and convention destination.

The region's second largest airport is Mid America St. Louis Airport located adjacent to Scott Air Force Base approximately 24 miles from downtown St. Louis.

### **Economic and Demographic Overview**

The following text and tables summarize important characteristics of the local market, as defined by various geographical regions. These characteristics help to define the strength of the market.

Table 4-1 shows the population changes in the St. Louis MSA from 2000 to 2004.

Table 4-1

Population - St. Louis (MSA)						
AreaName	2000	2001	2002	2003	2004	Growth Rate 2000 - 2004
United States	282,193,477	285,107,923	287,984,799	290,850,005	293,656,842	4.1%
Missouri	5,606,265	5,643,326	5,681,045	5,718,717	5,759,532	2.7%
St. Louis, MO-IL (MSA)	2,701,834	2,720,010	2,735,875	2,752,530	2,768,641	2.5%
St. Louis	1,016,419	1,016,483	1,014,515	1,011,781	1,007,723	-0.9%

Source: bea.gov

The US population grew 4.1% from 2000 to 2004, much of this due to immigration and growth in the sunbelt states. Missouri as a state and the St. Louis, MO-IL MSA also saw positive growth during this period. St. Louis however saw a .9% decrease in population during the same period. This data suggests that market conditions are soft around the City and action needs to be continued to reverse this trend. The City has already begun addressing this issue with considerable investment in a downtown redevelopment/restoration program.

### Income and Employment

Table 4-2 summarizes the historical growth in income and employment in the MSA (previous boundaries) from 1994 through 2004, based on the most recent data provided by the Bureau of Economic Analysis.

Table 4-2

St. Louis, MO-IL Metropolitan Division and Income				
Year	Personal income (\$000)		Total employment	
	Millions	% change	(000s)	% change
1994	\$62,219,775		1,513	
1995	\$65,198,028	4.79%	1,547	2.25%
1996	\$68,178,679	4.57%	1,573	1.68%
1997	\$72,311,738	6.06%	1,598	1.59%
1998	\$76,583,068	5.91%	1,621	1.44%
1999	\$79,051,973	3.22%	1,642	1.30%
2000	\$84,221,759	6.54%	1,663	1.28%
2001	\$85,766,667	1.83%	1,661	-0.12%
2002	\$89,125,391	3.92%	1,655	-0.36%
2003	\$92,668,367	3.98%	1,654	-0.06%
2004	\$96,169,527	3.78%	1,661	0.42%
<b>Average Annual Change</b>		<b>4.45%</b>	<b>0.94%</b>	

Note: Income Figures are not adjusted for Inflation  
Source: Bureau of Economic Analysis

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Each year St. Louis has shown growth in earnings, with an average annual increase of 4.45% per year since 1994. Employment has not experienced growth as strong as earnings, decreasing steadily from 1994 to 2004. These employment figures mirror the negative population growth the City has experienced. Johnson Consulting will examine the corporate presence in St. Louis to determine if the corporate base is weak in relation to peers.

Table 4-3 displays the St. Louis Metropolitan non-farm employment by sector.

**Table 4-3**

<b>St. Louis Metropolitan Non-Farm Employment By Sector 2004</b>		
<b>Sector</b>	<b>St. Louis MSA</b>	<b>United States</b>
Construction and Mining	6%	6%
Manufacturing	11%	11%
Trade Transport and Utilities	19%	19%
Information	2%	2%
Financial Activities	6%	6%
Professional and Business Services	14%	12%
Educational and Health Services	14%	14%
Government	15%	14%
Leisure, Hospitality, and other services	13%	16%
<b>Total</b>	<b>100%</b>	<b>100%</b>

*Source: St. Louis Regional Chamber and Growth Association*

The St. Louis metropolitan environment is right in line with national averages in every major employment category. This data doesn't reveal any irregularities about St. Louis' employment by industry, except, germane to this study, it has slightly lower rates in the leisure and hospitality sector.

Table 4-4 displays per capita income over a four year period from 2000 to 2004 for the United States, Missouri, St. Louis MSA and St. Louis CSA.



**Table 4-4**

<b>Per Capita Income</b>						
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>Growth 2000-2004</b>
<b>United States</b>	\$29,845	\$30,574	\$30,810	\$31,484	\$33,050	<b>10.74%</b>
<b>Missouri</b>	\$27,241	\$27,809	\$28,358	\$29,210	\$30,475	<b>11.87%</b>
<b>St. Louis, MO-IL (MSA)</b>	\$31,172	\$31,532	\$32,577	\$33,667	\$34,735	<b>11.43%</b>
<b>St. Louis-St. Charles-Farmington, MO-IL (CSA)</b>	\$30,942	\$31,301	\$32,335	\$33,414	\$34,461	<b>11.37%</b>

*Source: Bureau of Economic Analysis*

The St. Louis County Statistical Area (CSA) area has generally outperformed the United States, Missouri and the St. Louis MSA over the four year period. Per capita income in the St. Louis CSA has experienced positive growth of 11.37% over the four year period.

### **Peer City Comparison**

In addition to analyzing St. Louis' per capita income relative to the United States and the state of Missouri, Johnson Consulting compared St. Louis to a group of peer cities. Peer cities were identified based on market characteristics such as population, geographic location, competing convention center facilities and income and employment demographics. Johnson Consulting worked with representatives of the SLCVC and Marriott Renaissance to define the set of peer properties. Table 4-5 displays the per capita income of 9 peer cities.

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**Table 4-5**

Per Capita Income - Peer Cities					
	2000	2001	2002	2003	2004
<b>United States</b>	\$ 29,845	\$ 30,574	\$ 30,810	\$ 31,484	\$ 33,050
Indianapolis-Carmel, IN (MSA)	31,916	32,507	33,013	33,631	35,266
Minneapolis-St. Paul-Bloomington, MN-WI (MSA)	36,838	37,379	37,853	38,836	40,915
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD (MSA)	34,059	34,982	35,970	36,971	38,768
Kansas City, MO-KS (MSA)	31,607	32,213	32,724	33,191	34,585
Columbus, OH (MSA)	30,743	31,432	32,278	32,794	34,128
Baltimore-Towson, MD (MSA)	33,293	34,880	35,903	36,757	38,813
Houston-Sugar Land-Baytown, TX (MSA)	34,040	35,490	34,599	35,304	36,852
Detroit-Warren-Livonia, MI (MSA)	34,047	34,460	34,708	36,330	36,650
Denver-Aurora, CO (MSA)	37,848	39,449	38,827	39,212	40,939
<b>Average</b>	\$ 33,424	\$ 34,337	\$ 34,669	\$ 35,451	\$ 36,997
<b>St. Louis, MO-IL (MSA)</b>	\$ 31,172	\$ 31,532	\$ 32,577	\$ 33,667	\$ 34,735
<b>Variance</b>	\$ (2,252)	\$ (2,805)	\$ (2,092)	\$ (1,784)	\$ (2,262)

Source: bea.gov

As shown in Table 4-5, St. Louis trails the average of the peer cities by several thousand dollars each year during the evaluation period. This data indicates that the disposable income for residents in the St. Louis MSA is slightly less and their buying power is not as strong.

## Income

Residents' effective buying income helps demonstrate the amount of disposable income that is available locally. This data is shown in Table 4-6.

**Table 4-6**

Effective Buying Income						
Location	Total EBI (000s)	Median Household EBI	% of Households by EBI Group			Buying Power Index
			\$20,000- \$34,999	\$35,000- \$49,999	50000 +	
<b>Indianapolis</b>	\$34,481,445	\$43,095	22%	20%	41%	0.5889
<b>Minneapolis</b>	\$71,789,306	\$48,419	19%	20%	48%	1.2527
<b>Philadelphia</b>	\$125,125,596	\$44,060	19%	19%	43%	2.1021
<b>Kansas City</b>	\$40,377,676	\$42,594	22%	20%	40%	0.7086
<b>Columbus</b>	\$35,229,795	\$41,736	22%	20%	40%	0.6343
<b>Baltimore</b>	\$56,727,191	\$44,629	20%	19%	43%	0.9615
<b>Houston</b>	\$105,996,411	\$43,055	21%	18%	42%	1.8568
<b>Detroit</b>	\$96,852,596	\$43,666	20%	18%	43%	1.6406
<b>Average</b>	\$70,822,502	\$43,907	21%	19%	42%	1.31
<b>St. Louis</b>	\$56,044,339	\$40,830	22.6%	20%	38%	0.95
<b>Variance</b>	(\$14,778,163)	(\$3,077)	2.0%	0.4%	-4.0%	(0.36)

Source: Sales and Marketing Management

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As the table shows, the St. Louis MSA has a total effective buying income (EBI) of \$56 billion and a median household EBI of \$40,830. The median household EBI of St. Louis was lower than the peer cities average by approximately \$3,000. The MSA's share of \$50,000 + households is fewer than the peer cities average by 4%. This data suggests that the St. Louis economy is poorer than the peer set.

Important to note, St. Louis' Buying Power Index (BPI) is .9514 which is .356 lower than the average of the peer cities. The BPI is a weighted index that converts three basic elements-population, effective buying, and retail sales-into a measurement of a market's ability to buy. St. Louis' has a poorer population than the set of peer cities which can help explain the soft retail market in the city.

After the data presented above in Table 4-6 demonstrated St. Louis' weaker purchasing power relative to peer cities, Johnson Consulting analyzed the EBI of St. Louis MSA residents relative to the inventory of hotel rooms in the downtown area. We analyzed whether the large supply of hotel rooms in a softer market and lack of purchasing power by its local residents may have an impact on food and beverage sales. Table 4-7 displays the EBI income of St. Louis and its peer cities relative to hotel room supply in the respective downtown areas.

**Table 4-7**

City	EBI Relative to Downtown Hotel Room Inventory		
	# of Hotel Rooms City Wide	Total EBI / # of Hotel Rooms Downtown	Median Household EBI / # of Hotel Rooms Downtown
Philadelphia	10,677	\$11,719.17	\$4.13
Baltimore	7,000	\$8,103.88	\$6.38
Minneapolis	5,829	\$12,315.89	\$8.31
Kansas City	5,800	\$6,961.67	\$7.34
Indianapolis	5,420	\$6,361.89	\$7.95
Houston	4,815	\$22,013.79	\$8.94
Columbus	3,200	\$11,009.31	\$13.04
Detroit	3,000	\$30,266.44	\$14.56
<b>Average of Comparable Cities</b>	5,718	\$13,594.01	\$8.83
<b>St. Louis</b>	7,699	\$7,279.43	\$5.30
<b>Variance</b>	1,981	(\$6,314.57)	(\$3.53)

*Source: Johnson Consulting*

As seen above, total EBI per room ranges from \$30,266 in Detroit to as low as \$6,361 in Indianapolis and median household EBI per room ranges from \$14.56 in Detroit to \$4.13 per room in Philadelphia. St. Louis falls well below the average in each category. Total EBI per room is \$6,314 less than the average of the peer set and the median household EBI per room is \$3.53 short of the average of peer cities. St. Louis' total EBI per room is the third smallest, at \$7,279 per room, among cities in the peer set and median household EBI, at \$5.30 per room, was the second smallest. These figures result largely from St. Louis' hotel supply. The City has 1,981 more

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rooms than the average of the peer set. This large hotel supply accompanied by weaker buying power has created softer market conditions for local banquet, social and meeting business.

This data suggests that the hotel inventory in St. Louis is saturated relative to the purchasing power of local residents, which partially explains why the St. Louis Renaissance's banquet sales are comparatively low. The large supply of hotel properties provides St. Louis MSA natives more options to hold local business while they have less money to spend on the events. Market conditions such as these present a challenge to hotel management to attract local banquet/meeting business and run a fair margin while doing so. Further analysis will be performed on food and beverage sales later in the report.

## **Corporate Presence**

Corporate presence is an important contributor to the financial vitality of a city. St. Louis has 19 companies based in the MSA that rank in the Fortune 1000, of which 8 reside in the Fortune 500. Table 4-8 shows the largest public and private companies in St. Louis.

**Table 4-8**

<b>Summary of St. Louis largest public ally and privately held companies</b>	
<b>Fortune 1000 Companies</b>	<b>Top Privately Held Companies**</b>
Emerson*	Apex Oil Co.
Express Scripts, Inc.*	CCA Global Partners, Inc.
Anheuser-Busch Companies, Inc.*	Center Oil Company
Monsanto company*	Edward Jones
Ameren Corporation*	Enterprise Rent-A-Car
Charter Communications*	Graybar Electric
Graybar Electric*	Harbor Group
Peabody Energy*	Maritz Inc.
Energizer Holdings, Inc.	McCarthy Building Companies, Inc.
Solutia, Inc.	Prairie Farms, Inc.
Kellwood Company	Schnuck Markets, Inc.
A.G. Edwards	UniGroup, Inc.
Furniture Brands International	World Wide Technology
Olin Corporation	
Brown Shoe Company, Inc.	
Arch Coal, Inc.	
Ralcorp Holdings, Inc.	
Maverick Tube Corporation	
Sigma Aldrich	

*\*Fortune 500 Company*  
*\*\*Includes with 2003 revenue exceeding \$1billion*  
*Source: St. Louis Regional Chamber and Growth Association*

The data above suggests that St. Louis' MSA has a strong corporate base of public and private companies. St. Louis' location with excellent transportation networks provides companies which distribute large quantities of goods an ideal and cost effective means for executing business. This central location with excellent transportation channels has helped St. Louis develop a strong corporate base. Provided below in Table 4-9 is a high level summary of corporate employment in St. Louis.

Table 4-9

<b>Regional Employers By # of Employees</b>	
<b>Employment Range</b>	<b># of Companies</b>
More than 10,000 employees	8
5,000 - 10,000 employees	10
2,500 - 5,000 employees	9
1,000 - 2,500 employees	16

*Source: St. Louis Regional Chamber and Growth Association*

The St. Louis MSA has 8 companies which employ 10,000 and 19 companies that employ between 2,500 and 10,000 employees in the region. Businesses of this size generally provide a stable environment for employment.

### Higher Education

The presence of colleges, universities, and educational institutions serves as a feeder for local and regional businesses to draw talent from. Keeping the existing and future talent cultivated in local/regional universities is crucial to the future success of St. Louis' business environment.

Table 4-10 displays the colleges and universities in the St. Louis MSA and their respective student enrollment.

**Table 4-10**

<b>Higher Education</b>	
<b>Institution</b>	<b>Total Enrollment</b>
University of Missouri - St. Louis	15,498
Saint Louis University	14,549
Southern Illinois University - Edwardsville	13,493
Washington University in St. Louis	13,380
Lindenwood University	8,615
Webster University	7,250
Missouri Baptist University	4,058
Maryville University	3,140
Fontbonne University	2,827
McKendree College	2,258
Harris-Stowe State University	1,605
Greenville College	1,137
Blackburn College	594
Principia College	542
<b>Total</b>	<b>88,946</b>

*Source: St. Louis Regional Chamber and Growth Association*

## Real Estate Market

The St. Louis real estate market is currently very dynamic. Demand in the retail and residential market is growing due to the City's downtown redevelopment master plan. The office market is slowly recovering from a rough five year period.

## Residential Market

The City of St. Louis has made a concerted effort to revitalize the downtown area. Over nine million square feet of downtown office and industrial building space has been converted to other uses, mostly residential. Downtown St. Louis has had \$1 billion in residential development committed between 1999 and 2006. Over 1,700 new residential units were completed during the period 1999 to 2005 with an additional 3,200 units under construction and 2,500 units planned. This commitment to bring residential living back downtown will help stimulate the soft retail market in the city.

## Office Market

The downtown inventory of office space has decreased dramatically over the past several years. Over 3.5 million square feet of office space has been converted or planned for conversion to other uses, most of which is apartments and

condominiums. These conversions have had a positive effect, seen in rising occupancy rates, but at the expense of job losses downtown.

## Retail Market

Downtown St. Louis is taking steps to solve the soft downtown retail market. There are several development efforts occurring which complement the current downtown residential development movement.

Other current and upcoming major developments include Ballpark Village, associated with the new Busch Stadium, Pinnacle Casino and Hotel, Chateau's Landing and an expansion of the Federal Reserve Bank. Each of these developments will help revive the downtown's image to a fresh and vibrant area. Affecting the hotel specifically is the blight associated with St. Louis Center, which is located at Washington Avenue and 7th Street. This project has stigmatized the area for over 15 years. Its conversion and removal of the overpass should help continue the Washington Avenue redevelopment immensely.

## Summary

The St. Louis market has the population base and infrastructure to ensure that the City continues to serve as a commerce and cultural center for the central US. There are certain obstacles which are currently plaguing the City, including image and comparatively low income levels. The City is currently experiencing declines in population. To combat this, the City has already made a significant investment in residential development/redevelopment in the downtown area. This should help bring back some density to the bleaker areas of the downtown. A lack of corporate presence does not appear to be an issue in the area as St. Louis' downtown area has 19 companies in the Fortune 1000 and several private companies which gross over \$2 billion in revenues each year.

The City has very well respected and established academic institutions in and around the region that help serve the corporate base of the area. However, demographics show that St. Louis is a "poorer" city relative to a set of peer cities. The population has a weaker buying power which has contributed to softer retail market conditions. To combat this, the City has made a significant time and financial investment in downtown redevelopment with several new entertainment districts being added. These improvements should help breathe vibrancy back into the downtown and make it a stronger area for social and corporate activity. Even in spite of its increasingly bold efforts, this City, in our opinion, is just keeping up with other communities. Chicago, Baltimore, Kansas City, Indianapolis, and Minneapolis are pushing the envelope farther and faster than St. Louis and represent major competitive threats for convention and tradeshow business.



## **V. ANALYSIS OF PHYSICAL DEMAND GENERATOR CHARACTERISTICS**

## **ANALYSIS OF PHYSICAL DEMAND GENERATOR CHARACTERISTICS**

This section provides an analysis of demand generators believed to play a significant role in event bookings and hotel nights. Johnson Consulting has performed a meeting space analysis of the St. Louis Renaissance relative to comparable Marriott properties in peer markets.

Johnson Consulting has identified three factors that individually have contributed to the poor performance of the St. Louis Renaissance and collectively have forced the hotel into financial distress. The St. Louis Renaissance needs to address physical space issues discussed in this chapter and work with the America's Center and SLCVC to influence external factors over which it does not have any control.

## **ANALYSIS OF ST. LOUIS RENAISSANCE GRAND & SUITES MEETING SPACE**

The following provides a summary and interpretation of the findings regarding meeting and ballroom space at the St. Louis Renaissance relative to comparable Marriott properties in similar/competitive markets. Johnson Consulting worked with hotel management to identify and select the set of peer properties used in the analysis. The comparable properties were selected because of similarities to the St. Louis Renaissance in size, amenities, and market.

### **Background**

The amount of meeting space provided at the subject hotel evolved for two key reasons:

It was assumed that the America's Center would support the hotel's meeting space inventory; and

The capital budget of the hotel was so great, it became easy to fall back on point one as a legitimate reason for cutting back space.

### **Theory vs. Reality**

In our opinion the decision to reduce meeting space at the hotel has caused a structural issue that will plague the hotel until a solution is provided. Table 5-1 summarizes the number of occasions where the St. Louis Renaissance's in-house meeting facilities were inadequate to meet the needs of the groups staying in the hotel.

Table 5-1

Summary of Lost Meeting Business 2005 - 2006		
	2005	2006
<b># of Events</b>	24	22-26
<b># of Events Direct</b>		
<b>Cost to Marriott</b>	\$375,000	\$390,000 - \$400,000
<i>Note: 2006 are estimates provided by Marriott Management</i>		
<i>Source: St. Louis Renaissance Grand</i>		

In 2005, the St. Louis Renaissance paid either the America’s Center or reimbursed the group staying at the hotel (so they could rent space from the America’s Center) \$375,000 to use space at the America’s Center because the meeting facilities at the hotel were inadequate. Marriott management at the subject property forecasts approximately \$390,000-\$400,000 in expenses for groups to use America’s Center space during 2006. This expense will be incurred on an annual basis until an alternative solution is provided. Table 5-1 displays the actual cost to the hotel that inadequate meeting facilities are creating. It *does not* examine the amount of revenue which could be generated from space rental, food service and room sales if the property had adequate meeting facilities. The hotel currently negotiates or “comps” the meeting space as an incentive to bring in group room nights because of the soft market conditions in St. Louis.

Johnson Consulting gathered meeting space data from Mpoint.com to use to prepare an “apples to apples” comparison. It was found that the individual hotel websites did not provide a fair reporting of true “rentable” meeting space as they typically exaggerate their offerings for sale purposes. The space was divided into four separate categories:

- Meeting space,
- Ballroom space,
- Largest ballroom, and
- Total space.

“Ballrooms” smaller than 4,000 square feet were included in meeting space rather than as ballroom space. The following assumption was also made to configure total function space available in the properties. Pre-function space, registration space, Foyer, Terrace, and similar areas were not included in the total function space because they support areas for the actual meeting space. Table 5-2 provides an inventory of the available meeting space at the St. Louis Renaissance and

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comparable Marriott properties. An average was then taken for each category of the comparable Marriott properties to establish a benchmark.

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**Table 5-2**

	Peer Properties Profiles						
	St. Louis Renaissance Grand & Suites	Average of Comparable Properties	Kansas City Downtown Marriott	Indianapolis Downtown Marriott	Detroit Marriott at the Renaissance Center	Philadelphia Downtown Marriott	Baltimore Harborplace Renaissance
<b># Of Rooms</b>	875	950	946	587	1298	1332	586
<b># of Suites</b>	208	46	37	28	52	76	36
<b>Total Available Rooms</b>	1,083	996	983	615	1,350	1,408	622
<b>Rentable Space</b>							
Total Space (square feet)	46,954	64,868	75,642	38,194	87,419	97,141	25,946
Meeting Room Space	11,012	25,896	43,522	8,866	44,751	25,001	7,340
Number of meeting rooms	30	34	42	34	27	52	17
Total Ballroom Space	35,942	32,372	32,120	29,328	42,668	39,140	18,606
Largest Ballroom	20,203	22,282	17,040	21,008	25,801	33,000	14,560
Maximum Seating Capacity	2,700	2,210	2,400	2,700	2,200	2,950	800
<b>Ratio Analysis</b>							
<b>Relative to Guest Rooms</b>							
Total Space SF / Total Available Rooms	43.36	62.90	76.95	62.10	64.75	68.99	41.71
Meeting Room Space SF / Total Available Rooms	10.17	24.28	44.27	14.42	33.15	17.76	11.80
Total Ballroom SF / Total Available Rooms	33.19	33.94	32.68	47.69	31.61	27.80	29.91
Largest Ballroom Space / Total Available Rooms	18.65	23.49	17.33	34.16	19.11	23.44	23.41
<p><i>Note: Total Function, Meeting and Ballroom Space was configured to Johnson Consulting's interpretation of industry standards</i></p> <p><i>Ballroom space under 4,000 sq. ft. was not included as ballroom space, but meeting space</i></p> <p><i>Total Space = Meeting Space + Ballroom Space</i></p> <p><i>Pre-function, Registration, Foyer, Terrace space etc. was not included in the total function space</i></p> <p><i>Source: Mpoint.com, Johnson Consulting</i></p>							

## **Rooms Inventory Analysis**

Johnson Consulting took an inventory of rooms and suites from the St. Louis Renaissance and comparable Marriott properties. The results were used to gauge the size of the St. Louis Renaissance relative to the market and served as a multiple used in the ratio analysis that was completed to measure the performance of the St. Louis Renaissance relative to the comparable properties. It is important to note that the St. Louis Renaissance Grand & Suites are viewed as a single property for purposes of this analysis. The peer properties were selected because of their proximity to, amenities and ability to serve the convention centers in their respective cities.

As seen above in Table 5-2, the St. Louis Renaissance has 1,083 total available rooms, while the comparable Marriott properties average 996 rooms. The St. Louis Renaissance's inventory of rooms is greater than the average and ranks third behind Detroit Marriott and Philadelphia Marriott.

As discussed earlier, the St. Louis Renaissance (Grand & Suites) is a very unique property. The Grand is aided by the Suites property that is located directly adjacent to it. The Suites utilizes the Grand's meeting space, food and beverage services, as well as sales and marketing staff. Because the Suites relies on the Grand for operations, services, and physical space, the properties are considered a single entity in this analysis. Based on the inventory of rooms at the St. Louis Renaissance and comparable Marriott properties, Johnson Consulting concludes a lack of rooms is not a contributing factor to poor hotel performance. The St. Louis Renaissance offers a more than adequate supply of rooms for a headquarters hotel in a second-tier market.

## **Meeting Facilities Analysis**

Johnson Consulting compiled available, rentable meeting space at the St. Louis Renaissance and comparable Marriott properties. Findings suggest that St. Louis Renaissance suffers from a shortage of meeting space. Total space available at the St. Louis Renaissance, configured by Johnson Consulting in accordance with industry standards, is slightly less than 47,000 square feet. The comparable set's average is significantly larger with just under 65,000 square feet. The St. Louis Renaissance ranks fourth in total space among properties in the comparable set. This space gap between the St. Louis Renaissance and the comparable Marriott properties will be addressed in more detail in the ratio analysis below.

The number of meeting rooms in the comparable set ranged from as few as 17 at the Baltimore Inner Harbor to 52 in the Philadelphia Downtown Marriott. Total meeting space available at the St. Louis Renaissance is sparse given the quantity of rooms

available at the hotel. With a total of 11,012 square feet of meeting space it ranks fourth among the comparable set. The comparable set ranges from 7,340 square feet at the Baltimore Harborplace Renaissance to 44,751 square feet at the Detroit Marriott at the Renaissance Center. The ratio analysis provided below will help elucidate why the St. Louis Renaissance’s current meeting space facilities are *significantly* undersized.

Average space of the largest ballroom at the comparable properties is 22,282 square feet. The St. Louis Renaissance’s largest ballroom falls short of the average by approximately 2,000 square feet. Largest ballroom size, in the comparable set, ranges from 17,040 square feet at the Kansas City Marriott to 33,000 square feet at the Philadelphia Marriott. The St. Louis Renaissance ranks third with the 20,203 square foot ballroom. Johnson Consulting also analyzed each property’s total ballroom space. The St. Louis Renaissance has 35,942 total square feet of ballroom space and ranks third among the comparable set behind the Detroit Marriott and Philadelphia Marriott. The 35,942 square feet is larger than the average total ballroom space of the comparable set by approximately 3,500 square feet.

### Ratio Analysis

The ratio analysis provides a comparison of the St. Louis Renaissance’s meeting and ballroom space relative to the comparable Marriott properties. Please note, “total space” is defined as meeting space plus ballroom space. Table 5-3 provides a ratio analysis of the St. Louis Renaissance function space relative to comparable Marriott properties.

**Table 5-3**

Ratio Analysis of St. Louis Renaissance and Comparable Marriott Properties							
	St. Louis Renaissance Grand & Suites	Average of Comparable Properties	Kansas City Downtown Marriott	Indianapolis Downtown Marriott	Detroit Marriott at the Renaissance Center	Philadelphia Downtown Marriott	Baltimore Harborplace Renaissance
<b>Relative to Guest Rooms</b>							
Total Space SF / Total Available Rooms	43.36	62.90	76.95	62.10	64.75	68.99	41.71
Meeting Room Space SF / Total Available Room	10.17	24.28	44.27	14.42	33.15	17.76	11.80
Total Ballroom SF / Total Available Rooms	33.19	33.94	32.68	47.69	31.61	27.80	29.91
Largest Ballroom Space / Total Available Room:	18.65	23.49	17.33	34.16	19.11	23.44	23.41

Note: Total Function, Meeting and Ballroom Space was configured to Johnson Consulting's interpretation of industry standards  
 Note: Ballroom space under 4,000 sq. ft. was not included as ballroom space, but meeting space  
 Note: Total Space = Meeting Space + Ballroom Space  
 Note: Pre-function, Registration, Foyer, Terrace space etc. was not included in the total function space  
 Source: Mpoint.com, Johnson Consulting

The ratio analysis of total space relative to guest rooms uncovers the most startling evidence of St. Louis Renaissance’s undersized facilities.

### Total Meeting Space per Available Room

As seen in Table 5-3, the average total meeting space (which includes ballroom(s) and meeting rooms) per room in the comparable set of Marriott properties is 62.90 square feet per room. The St. Louis Renaissance has 43.36 square feet of total space

per room. The variance between the comparable set and subject property is 19.54 square feet per room. The St. Louis Renaissance needs an additional 21,162 square feet of rentable meeting space to just meet the average of the comparable properties. An additional 30,000 square feet of space is recommended if the property desires to be a market leader in its peer set.

### Meeting Room Space per Available Room

A ratio analysis of total meeting space to available rooms reveals similar shortages. The St. Louis Renaissance has 10.17 square feet of meeting room space per room.

The comparable set in Table 5-3 has 24.28 square feet of meeting space per room. This suggests that at a minimum, the St. Louis Renaissance needs at least twice the current meeting space or 15,519 square feet to attain the average of the comparable set, and a 150 percent increase would be ideal to reposition itself as a market leader among similar properties.

### Ballroom Space per Available Room

The St. Louis Renaissance has 33.19 square feet of ballroom space per room with the average of the comparable set 33.94 square feet per room.

The comparable set ranges from 29.91 square feet per room at the Baltimore Harborplace Marriott to 47.69 square feet per room at the Indianapolis Downtown Marriott. The metrics indicate the St. Louis Renaissance has adequate ballroom space per room relative to the comparable set in Table 5-3. However, Johnson Consulting believes this is misleading and additional ballroom space is needed. This would allow the hotel to host smaller events within the hotel itself.

### Largest Ballroom Space per Available Room

At the St. Louis Renaissance, the size of the largest ballroom translates to 18.65 square feet per room; at the comparable set, they translate to an average of 23.49 square feet per room. The St. Louis Renaissance's largest ballroom needs an additional 5,242 square feet to attain the average of the competitive set. Johnson Consulting believes a ballroom of approximately 35,000 to 40,000 square feet is appropriate for this property and market.

A high-level summary, displaying where the St. Louis Renaissance ranks in each of these analysis categories has been provided. The ranking criterion is configured so that the number 1 indicates the greatest volume or multiple and then trickles down in descending order. Table 5-4 shows each property with its ranking by category.



**Table 5-4**

	Ranking of Meeting Space Capacity					
	St. Louis Renaissance	Kansas City Downtown	Indianapolis Downtown	Detroit Marriott at the Renaissance	Philadelphia Downtown	Baltimore Harbor at Camden Marriot Inner
<b># Of Rooms</b>	4	3	5	2	1	6
<b># of Suites</b>	1	4	6	3	2	5
<b>Total Available Rooms</b>	3	4	6	2	1	5
<b>Rentable Space</b>						
Total Meeting Space (square feet)	4	3	5	2	1	6
Meeting Room Space	4	2	5	1	3	6
Number of meeting rooms	4	2	3	5	1	6
Largest Ballroom	4	5	3	2	1	6
Total Ballroom Space	3	4	5	1	2	6
Maximum Seating Capacity	2	4	2	5	1	6
<b>Average</b>	<b>3.2</b>	<b>3.4</b>	<b>4.4</b>	<b>2.6</b>	<b>1.4</b>	<b>5.8</b>
<b>Ratio Analysis</b>						
<b>Relative to Guest Rooms</b>						
Total Meeting Space SF / Total Available Rooms	5	1	4	3	2	6
Meeting Room Space SF / Total Available Rooms	6	1	4	2	3	5
Total Ballroom SF / Total Available Rooms	2	3	1	4	6	5
Largest Ballroom Space / Total Available Rooms	4	6	1	5	2	3
<b>Average</b>	<b>4.3</b>	<b>2.8</b>	<b>2.5</b>	<b>3.5</b>	<b>3.3</b>	<b>4.8</b>

Source: Johnson Consulting

As seen above, each property is ranked by category. The St. Louis Renaissance averages are as follows:

- Rentable Space – mean ranking is 3.2

Ratio Analysis of meeting space to guest rooms – mean ranking is 4.3

The St. Louis Renaissance ranks right around the average in rentable space. A larger discrepancy exists in the ratio analysis relative to guest rooms where the St. Louis Renaissance ranks fifth out of the six properties.

## Findings

The ratio analysis uncovered evidence suggesting the meeting space at the St. Louis Renaissance is significantly undersized relative to the size of the hotel. The St. Louis Renaissance needs a doubling of meeting space to attain the average ratio of rentable space to available rooms in the comparable set. However, it is recommended that if the St. Louis Renaissance does pursue an opportunity to add additional meeting space, it seek at least a doubling of meeting space and more ballroom space as discussed below.

Ballroom space at the St. Louis Renaissance could be improved upon. It is believed that if the St. Louis Renaissance had a ballroom of 35,000 to 40,000 square feet it would be considerably more competitive in serving the higher revenue generating corporate group market. Like other Marriotts, notably Orlando’s Marriott World Center, such a ballroom serves as ballroom and exhibit space, allowing the center to hold more and better in-house events. This would compensate for the America’s

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Center's small ballroom and would also allow the hotel to improve its opportunities during football season when America's Center exhibit space is restricted.

These findings provide evidence that the most apparent void between the St. Louis Renaissance and the comparable set of Marriott properties resides in the inadequacy of ballroom and meeting space at the property.

## **VI. PEER MARKET ANALYSIS**

## PEER MARKET ANALYSIS

This chapter presents an overview of selected peer markets and then analyzes the St. Louis hotel market in greater detail, specifically analyzing supply and demand growth as well as the changing quality level of hotel supply. Also analyzed is a comparison of actual convention center demand in St. Louis and a subset of the peer cities. Peer market cities include Houston, Minneapolis, Detroit, San Antonio, Columbus, Kansas City, Baltimore, Indianapolis, Denver, and Philadelphia and have been selected based on market size, size of convention center facilities and geographic location. The data shows where St. Louis exceeds or trails its competitive set of cities as identified by the St. Louis Convention and Visitors Commission.

### Hotel Supply

With the growth of the travel industry in the past decade, the US lodging industry has experienced strong expansion. Table 6-1 shows the number of hotels in each city with more than 1,000 rooms.

Table 6-1

Comparison of Hotels Offering More Than 1,000 Rooms		
City	Hotel	Number of Rooms
Philadelphia	Marriott Philadelphia Downtown	1,408
Detroit	Detroit Marriott at the Renaissance Center	1,298
Denver	Adams Mark Hotel	1,225
	Hyatt Regency Denver at Colorado Convention Center	1,100
Houston	Hilton Americas Houston	1,203
<b>St.Louis</b>	<b>Renaissance Grand Hotel</b>	<b>1,083</b>
San Antonio	San Antonio Marriott River Center	1,001
Minneapolis	N/A	0
Kansas City	N/A	0
Indianapolis	N/A	0
Columbus	N/A	0
Baltimore	N/A	0

*Source: Respective Convention and Visitor Bureaus*

The 2003 addition of the 1,083 room St. Louis Renaissance places St. Louis fifth in the comparison of peer cities. While the new hotel allows St. Louis to attract large groups requiring more than 1,000 rooms on peak nights, other cities like Philadelphia, Detroit, Denver and Houston offer at least 200 additional rooms per

night. Currently many peer cities offer 1 hotel with 1,000 rooms with the exception of Denver which offers two properties. The addition of the 1,100 room Hyatt Regency Denver has significantly improved it's attractiveness to larger conventions. A major threat to St. Louis is San Antonio which ranks last in the number of hotel rooms over 1,000. However, a Grand Hyatt Convention Center Hotel and J.W. Marriott are currently under development and scheduled to open in 2008 and 2009. The addition of these properties will add 2,000 rooms to San Antonio's inventory. Other peer markets such as Minneapolis, Kansas City, Baltimore, Indianapolis and Columbus, do not have a hotel offering 1,000 rooms. Table 6-2 illustrates the concentration of hotel rooms within the downtown area in each peer market.

**Table 6-2**

<b>Comparison of Downtown Hotel Rooms</b>	
<b>City</b>	<b>Number of Rooms</b>
San Antonio	11,262
Philadelphia	10,677
<b>St.Louis</b>	<b>7,634</b>
Denver	7,413
Baltimore	7,000
Minneapolis	5,829
Kansas City	5,800
Indianapolis	5,420
Houston	4,815
Columbus	3,200
Detroit	3,000

*Source: Respective Convention and Visitor Bureaus*

A large downtown hotel inventory places St. Louis third in the comparison of peer markets. In 2006, downtown supply increased to 7,634 rooms with the addition of the Residence Inn Downtown. San Antonio has the largest inventory of hotel rooms in its downtown market. The city experienced an increase due to the addition of seven hotels in 2006 adding over 1,000 rooms to the local area. There are approximately 2,400 rooms planned for the San Antonio downtown area increasing the total supply to over 13,000 rooms by 2009.

The quantity of rooms accessible to conference and convention facilities is a key factor in the demand potential for events that attract a large number of attendees. Table 6-3 shows the comparison of committable rooms within one mile of the convention center.

**Table 6-3**

<b>Comparison of Room within One Mile of Convention Center</b>	
<b>City</b>	<b>Number of Rooms</b>
San Antonio	7,000
Denver	6,302
<b>St. Louis</b>	<b>5,000</b>
Minneapolis	4,851
Baltimore	3,700
Philadelphia	3,500
Indianapolis	3,200
Houston	2,800
Detroit	2,681
Columbus	2,500
Kansas City	2,086

*Source: Respective Convention and Visitor Bureaus*

The St. Louis market has over 5,000 committable rooms within 1 mile of the Americas Center and ranks third behind San Antonio and Denver. The opening of the St. Louis Renaissance allows St. Louis to attract groups requiring large blocks of rooms with conveniently located Convention Center facilities. San Antonio leads the competitive set with 7,000 committable rooms and Denver offers approximately 1,300 more rooms (than St. Louis) within walking distance to its convention center. The proximity of the 1,100 room Denver Hyatt Headquarters hotel has attracted larger national conventions and trade shows that require room blocks of 2,000 to 5,000 rooms, increasing the city's ability to compete with larger markets such as Chicago and Orlando that also offer more exhibit space.

Convention center room nights are key performance indicators measuring how effectively a City is marketing itself to meeting planners and the general tourism industry. Shown below in

Table 6-4 shows the 2004 reported room night goals each CVB set and their actual results from the time period.

**Table 6-4**

<b>Peer CVB Convention Roomnight Goal and Actual</b>					
	<b>Reported Goal</b>	<b>Primary Exhibit Space</b>	<b>Goal v Square Foot</b>	<b>Reported Actual</b>	<b>Actual vs. Goal</b>
Denver	494,000	584,000	85%	500,000	101.2%
Columbus	300,500	413,600	73%	292,143	97.2%
Indianapolis	531,000	400,000	133%	487,000	91.7%
Minneapolis	585,000	480,000	122%	513,000	87.7%
Kansas City	425,000	388,000	110%	310,185	73.0%
<b>Peer Average</b>	<b>467,100</b>	<b>453,120</b>	<b>104%</b>	<b>420,466</b>	<b>90%</b>
St. Louis	500,000	502,000	100%	405,000	81.0%

*Note: Totals and space are from 2004. Some facilities are currently undergoing expansions*  
*Source: Respective CVBs, Johnson Consulting*

The SLCVC achieved 81% of its targeted room night bookings in 2004 with 405,000 room nights sold. CVB's in the competitive set averaged 90% of their actual goal in 2004. This performance indicator is not necessarily a perfect reflection of a CVB's success or failure as some Bureau's may be setting their targets too high or low. When room night goals are compared to primary exhibit space offered, St. Louis does fall slightly below the average with 100%.

The SLCVC has not seen consistent growth in room nights over the course of the past four years. Total room nights have ranged from 396,000 in 2003 to 452,000 in 2006. Table 6-5 shows the historical room nights booked since 2002 along with the confirmed and tentative future room nights.

Table 6-5

<b>America's Center Group Room Sales Results &amp; Projections</b>			
<b>Year</b>	<b>Confirmed Room Nights</b>	<b>Tentative Room Nights</b>	<b>Total Potential Room Nights</b>
2002	413,000		
2003	396,000		
2004	405,000		
2005	398,000		
2006	452,800		
2007	279,578	135,000	414,578
2008	216,571	201,000	417,571
2009	142,688	157,100	299,788
2010	130,400	171,800	302,200
AAGR	0.18%		
<i>Source: SLCVC</i>			

In June of 2006, the SLCVC restructured the way sales productivity is measured and how incentives are paid to the sales force. The SLCVC sales team's new strategy aggressively seeks higher margin corporate business. This strategy has placed a focus on generating *new* business as the social, military, education, religious, fraternal (SMERF) and Association market has historically accounted for the lion's share of the America's Center room night volume. Incentive compensation is also paid out on a quarterly basis, as opposed to semi-annually, and productivity from one period can't be rolled over to a subsequent period to help smooth out annual results.

Group room night sales booked via the SLCVC has declined at an average annual rate of 1.23% from 2002 to 2005. Table 6-6 shows the room nights booked by the SLCVC sales team and the hotel demand of the St. Louis Renaissance's downtown competitive set.



**Table 6-6**

<b>America's Center Group Room Nights vs. Downtown Competitive Set</b>		
<b>Year</b>	<b>Confirmed Room Nights</b>	<b>Downtown Hotel Competitive Set</b>
2002	413,000	574,894
2003	396,000	539,841
2004	405,000	652,771
2005	398,000	547,633
AAGR	-1.23%	-1.61%

*Source: SLCVC, Smith Travel Research*

Downtown room demand in the competitive set has followed the declining trend of convention center room nights with an average annual decline of 1.61%. If this relationship continues to exist moving forward, the changes implemented in the SLCVC sales model should begin to have a positive impact on hotel room nights and generate greater room volume for hotels in close proximity to the America's Center. Johnson Consulting believes the changes made in the SLCVC will return the City's room night demand to positive annual growth and help increase ADR for properties in the competitive set.

### Convention Center Physical Space and Demand Review

Table 6-7 summarizes actual convention and tradeshow demand at America's Center and a select set of competitor buildings. As noted, demand compared to the competitors is weak.

**Table 6-7**

<b>2005 Number of Events by Type and Attendance</b>				
<b>Event Type</b>	<b>St. Louis</b>	<b>Minneapolis</b>	<b>Denver</b>	<b>Baltimore</b>
<b>Number of Events</b>				
Convention	13	40	41	40
TradeShow	10	13	16	23
Consumer Show	N/A*	59	34	38
<b>Attendance</b>				
Convention	135,813	44,285	172,541	147,105
TradeShow	43,368	23,349	30,678	73,212
Consumer Show	N/A*	369,213	453,811	225,857

\*America's Center Data was reported without Consumer show data  
*Source: Respective CVBs*

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The America's Center hosted 13 conventions in 2005. The cities in the select set hosted 40, 41 and 40 respectively. The America's Center was more competitive in the tradeshow market hosting 10 events in 2005. The select set of competitors hosted between 13 and 23 tradeshow events. Unfortunately, consumer show events and attendance were not reported with the data Johnson Consulting received from the America's Center management. The America's Center convention and tradeshow business generated 179,181 attendees during 2005. Denver and Minneapolis's convention and tradeshow business generated 203,219 and 220,317 attendees in 2005. The America's Center will continue to under-perform relative to its peers as long as the physical, aesthetic and space issues exist within the venue.

Table 6-8 compares the attributes of prime convention facilities.

**Table 6-8**

Peer Market Convention Center Physical Space Analysis							
City	Exhibit Space	# of Ballrooms	Ballroom Space	# of Meeting Rooms	Meeting Space	Ratio of Ballroom space to Exhibit space	Ratio of Ballroom and Meeting to Exhibit Space
San Antonio	440,000	3	40,000	35	206,000	9%	56%
Minneapolis	480,000	1	28,000	87	80,000	6%	23%
Columbus	413,640	4	40,000	61	72,000	10%	27%
Denver	584,000	8	85,000	63	100,000	15%	32%
Baltimore	300,000	1	36,672	50	85,000	12%	41%
Philadelphia	541,000	2	62,000	87	233,000	11%	55%
Detroit	700,000	1	27,400	80	178,446	4%	29%
Indianapolis	400,000	1	33,000	48	140,000	8%	43%
Kansas City	443,800	1	100,000	29	129,876	23%	52%
Houston	893,590	1	31,590	12	185,000	4%	24%
<b>Averages</b>	519,603	2	48,366	55	140,932	10%	38%
St. Louis with Exhibit Hall 6	502,000	1	28,000	83	155,000	6%	36%
St. Louis without Exhibit Hall 6	340,000	1	28,000	83	155,000	8%	54%

Note: Only 340,000 SF is available year round, 145,000 SF is not available three weekends per month during the NFL football season.  
Source: Johnson Consulting

## Exhibit Space

In 2006, all markets are faced with the challenges of attracting and retaining convention business. Starting with the declines in 2001, the attacks on September 11th and the slowing economy, conventions and tradeshow events have experienced lower attendance for both attendees and exhibitors. Exhibit, ballroom and meeting space have become key factors for most groups wanting to maximize their attendance. As shown in Table 6-8 above, St. Louis America's Center has a considerable amount of exhibit space with 502,000 square feet ranking fourth behind Detroit, Denver and Philadelphia. However, it is important to note, available gross square feet is reduced to 340,000 when Hall 6 (the Dome) is unavailable during football season. The reduction in space forces groups to look towards St. Louis' competition for solutions during the NFL football season. Chicago, Indianapolis, Kansas City, Denver, Baltimore, and Pennsylvania all have completed expansions or have expansion projects underway.

The America's Center ratio of ballroom space to exhibit is below the average of the peer set. Ballroom space in the peer set averages 10% of exhibit space, at the America's Center ballroom space represents only 6% of total exhibit space. This metric provides evidence that the America's Center's current ballroom space is undersized.

Meeting space and ballroom space to exhibit space is also slightly below the average of the peer set. In the peer set, meeting and ballroom space is 38% of exhibit space. The America's Center, with exhibit hall 6, has meeting and ballroom space at 36% of exhibit space. Although the America's Center is competitive with the average of the peer set, 40,000 SF of additional ballroom space along with a facelift would substantially increase the convention center's appeal to meeting planners.

### Meeting Space

St. Louis ranks fifth in the comparison of peer cities for meeting space at the convention center. The America's Center has over 155,000 square feet that can be configured into 83 combinations. Houston and Detroit plan to add more meeting space in their expansion projects to attract larger meetings. The convention center in Indianapolis ranks the lowest in the comparison of peer markets but its expansion will address this deficiency. The SLCVC has reorganized its sales team to focus on larger corporate meetings that would best utilize the meeting space at the convention center.

### Ballroom Space

The America's Center ranks low in the comparison of ballroom space, relative to peer convention centers, with 28,000 square feet. Other peer markets such as San Antonio, Columbus and Baltimore offer approximately 35,000 square feet. Kansas City leads the peer set with 100,000 feet of ballroom space.

### CVB Budgets

Convention and Visitors Bureaus have become vital in attracting new business to cities. CVB budgets have increased each year to help attract new business and visitors. Table 6-9 shows the annual CVB budgets for St. Louis and its peer markets.

**Table 6-9**

	Peer CVB Allocation			
	Total Expenses (000's)	% of Expense Allocation		
		Direct Promotions	Personnel Costs	Administration and Other Expenses
San Antonio	\$16,600	60%	33%	7%
Indianapolis	\$9,100	39%	41%	10%
Minneapolis	\$9,400	46%	28%	27%
Peer Average	\$8,142	48%	34%	15%
St. Louis	\$11,500	46%	42%	12%

*Source: Respective CVBs, Johnson Consulting*

Shown above are the 2006 CVB marketing budgets and their cost allocations from three cities in St. Louis' competitive set. St. Louis trails only San Antonio, with the largest budget at \$16.6 million. St. Louis dedicates 46% of its annual budget to direct promotions where the average of the peer set dedicates 48%. Personnel expenses require 42% of the budget, 12% higher than the competitive set, and administration expenses require 12% which is slightly below the average of the competitive set. These budgets are strictly for the marketing operations, there are no expenditures for the operations of any of these venues presented above.

**Delegate Costs**

Table 6-10 lists the delegate spending in St. Louis and other peer markets.

**Table 6-10**

Comparison of Delegate Spending	
City	Spending
Denver	\$300
San Antonio	\$252
Minneapolis	\$236
Baltimore	\$236
Detroit	\$235
Indianapolis	\$235
Philadelphia	\$226
Houston	\$223
<b>St. Louis</b>	<b>\$210</b>
Kansas City	\$210

*Source: Respective Convention and Visitor Bureaus*

Direct spending shown above represents money spent directly by hotel guests on room or other goods and services. The estimated average spending ranges from \$210 to \$300. St. Louis ranks very low on the list for delegate spending at an average spend of \$210. This confirms the hotel management comments that the price structure in St. Louis is low, inhibiting their ability to achieve a higher average daily rate.

## **Conclusion**

The St. Louis hotel market has suffered as a result of the economic downturn and this continued until recently. While St. Louis has made considerable efforts to advertise to the convention center customer, marketing the City as a destination remains a challenge. The openings of a new ball park this year and a casino in 2007 are great assets to the City. These developments will prove vital in its efforts to market the City as a destination and provide entertainment to groups looking to hold meetings in the City.

The America's Center offers 500,000 SF of exhibit space. Unfortunately, only 340,000 SF is available three weeks a month during the NFL season. This seriously inhibits the SLCVC sales force to market the Convention Center from August - January. Ballroom space is undersized at the America's Center with 28,000 SF, while the peer set average is 48,366 SF. This shortage exacerbates a shortfall of meeting space at the St. Louis Renaissance Hotel. Additional ballroom space at the America's Center would help service larger groups, which in turn would aid hotels in the immediate area. The America's Center is the only venue in its competitive set that has not undergone an expansion or renovation in the past decade. A facelift to the America's Center will add to the aesthetic appearance of the venue and make it more appealing to meeting planners. Improvements to the America's Center would be consistent with the Washington Avenue redevelopment effort and add to the revitalization of the area.

As the demand comparison shows, the America's Center is not performing as well as its peers today. While we are optimistic about the changes at the SLCVC, it is our sense that there is a feeling in St. Louis that all the other collateral development in the City is keeping the City on par with other markets. Even with the efforts being made in the City and SLCVC, in our opinion, the demand prospects at the America's Center will just be maintained or could even decline unless upgrades and expansions at the Center are made at the level seen in other markets.

**VII. OPERATIONAL PERFORMANCE RELATIVE TO PEER  
MARRIOTT PROPERTIES AND FUTURE CASH FLOW  
PROJECTIONS**

## **OPERATIONAL PERFORMANCE RELATIVE TO PEER MARRIOTT PROPERTIES AND FUTURE CASH FLOW PROJECTIONS**

This section evaluates the St. Louis Renaissance's operational performance from several revenue streams and compares how the property performs relative to peer Marriott properties in different cities, and the competitive set of properties in downtown St. Louis. To provide a thorough understanding of how the St. Louis Renaissance is performing, Johnson Consulting benchmarked its performance against a set of peer Marriott properties. Data on the benchmark properties was provided by management at the St. Louis Renaissance. The properties selected by Marriott management include:

- Detroit Marriott at the Renaissance Center
- Philadelphia Downtown Marriott
- Baltimore Harborplace Renaissance

The benchmark properties were selected due to similar characteristics to the St. Louis Renaissance, such as size of the property, proximity to convention center and unionized labor. The data in the benchmark set was presented as an average of the three selected properties to protect the integrity of the individual hotel's performance. Marriott management was able to provide the occupancy rate and average daily rate for each property individually, without identifying what property was associated with the data set. This analysis is intended to bring attention to how large an impact the lack of meeting space and food and beverage sales at the St. Louis Renaissance (and America's Center) are having on the financial performance of the hotel.

It should be noted that we were also given data on a set of suites properties as well. That information was reviewed and considered in our analysis as well. Our overall conclusion is that the two properties function as one unit so our analysis focuses on the benchmark data for the larger Marriott only.

Finally, we analyzed costs among the hotels and found that operating costs are not the issue. In fact, the subject hotel is very effectively operated on a cost per room basis. From a cost standpoint, there are two extraordinary items that do affect this property:

- The approximate \$350,000 that was spent in sales in 2005 to build demand,
- Compliance with the empowerment zone program that requires extra expense at the human resources level. The recent expansion of the

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empowerment zone will not affect the hotel proforma from an expense standpoint one way or another as those costs are already reflected within the hotel's operating costs.

In the bigger picture of expenses these are not material and management has reduced costs in other areas to help fund these required costs.

## Financial Performance

The benchmarking data included information on a wide variety of metrics used to analyze the properties' performance. Johnson Consulting selected several categories which provide a high-level but thorough depiction of the hotel's operating performance relative to the peer set. The comparable properties have an average of 1,109 rooms while the ST. Louis Renaissance data is based on 1083 rooms.

Table 7-1 provides the high-level operating summary for the St. Louis Renaissance and a set of three comparable Marriott properties from January 1, 2006 through May 19<sup>th</sup> 2006. The comparable properties have an average of 1,109 rooms while the ST. Louis Renaissance data is based on 1083 rooms.

**Table 7-1**

<b>St. Louis Renaissance vs. Comparable Set of Marriott Properties</b>			
<b>January 1, 2006 - May 19, 2006</b>			
	<b>St. Louis Renaissance</b>	<b>Marriott Comparable Set</b>	<b>Variance</b>
<b>Total Sales PAR</b>	\$132.18	\$171.30	(\$39.12)
<b>Room Sales PAR</b>	79.05	111.12	(\$32.07)
<b>Occupancy Rate</b>	64.5%	67.3%	-2.8%
<b>Average Daily Rate</b>	\$122.57	\$168.77	(\$46.20)
<b>Room Sold</b>	81,503	101,667	(20,164)
<b>Average Group Banquet Dinner Check</b>	\$36.11	\$53.99	(\$17.88)
<b>Total Food and Beverage Sales</b>			
Restaurant and Lounge	\$1,200,000	\$1,900,000	(\$700,000)
Banquet	\$3,700,000	\$4,930,000	(\$1,230,000)
<b>Total Sales POR</b>	\$205	\$260	(\$55)
<b>Total Room Revenue</b>	\$9,989,822.71	\$17,158,339.59	(\$7,168,517)
<b>Total Sales</b>	\$16,704,045.11	\$26,450,896.07	(\$9,746,851)

Source: St. Louis Renaissance



As the table shows, the St. Louis Renaissance trails the average of the comparable set of Marriott properties in every major metric used. One significant variance occurs among the ADRs of the St. Louis Renaissance and the comparable set. As noted in the economic overview section of the report, this is a demographic issue with the St. Louis market to a certain degree, because its income and demographics fall behind these markets somewhat.

- **Average Daily Rate (ADR)** - The St. Louis Renaissance achieved an ADR of \$122.57 during this period while the comparable set achieved \$168.77.
- **Room Nights Sold** - During this period, the St. Louis Renaissance sold 81,503 room nights while the comparable set surpassed this number by 20,164 room nights. Together, the variance in the ADR and room nights sold created a \$7.16 million room sales variance between the St. Louis Renaissance and the comparable set.
- **Total Food and Beverage Sales** - Produce significant shortfalls in revenue at the St. Louis property. The comparable set has generated more than \$1.9 million in food and beverage sales during the evaluation period. If the St. Louis property and the comparable set continue the year at the same pace the comparable set will finish the year with approximately \$4 million more in food and beverage revenue.

A significant portion of the revenue variance can be attributed to the markets which each property serves. St. Louis is not likely to support ADRs in the high \$160 range and up. However, the St. Louis Renaissance could keep pace with the comparable properties relative to room nights sold. This lack of room nights sold, relative to the comparable Marriott properties, has a direct impact on room revenue and food and beverage sales.

Johnson Consulting has provided a performance index which benchmarks the St. Louis Renaissance against the comparable Marriott properties. This performance index provides data on operational metrics which these hotels measure themselves.

Table 7-2 shows the results from the St. Louis Renaissance and the average of the comparable Marriott properties along with the performance index, measuring the St. Louis Renaissance's efficiency, or inefficiency, against the results of the comparable benchmark properties.

Table 7-2

Performance Index			
	St. Louis	Competitive Set	St. Louis vs. Competitive Set
Front Office Productivity	0.23	0.33	70%
Housekeeping Productivity	0.86	0.94	91%
Mgmt Wages as % of Rm Sales*	2.5%	1.1%	227%
Act Rms Managers*	19	13	146%
Guest Support POR	\$1.68	\$1.67	101%
Rooms CPOR	\$32.79	\$44.06	74%
Repairs & Maintenance PAR	\$6.68	\$8.04	83%
Phone Margin	-27.2%	-52.7%	52%

\*A resource action was implemented in 2006, 7 management positions will be eliminated effective Jan. 1, 2007  
 Source: St. Louis Renaissance

The St. Louis Renaissance productivity metrics, which measure efficiency of hourly workers, are more efficient than those of the competitive set. The St. Louis Renaissance front office functions take 70% of the time to complete their responsibilities than those of the competitive set and housekeeping activities require 91%. Management wages as a percent of room sales is 227% of the benchmark properties. St. Louis Renaissance management approved and executed a resource reduction program during 2006 where 7 management positions have been eliminated. This resource reduction program will decrease the total number of active managers to 12 in 2007, which will be 92% of the benchmark average. Estimated cost savings from this program are \$400,000 annually. This should significantly reduce the management cost as a percent of sales.

The St. Louis Renaissance currently operates more efficiently in room cost per occupied room (CPOR) at 74% of the benchmark properties CPOR. Repairs and maintenance per available room (PAR) at the St. Louis Renaissance are 83% of the benchmark properties. These metrics provide evidence that management is running an efficient operation and will have difficulty squeezing additional costs out in the future.

### Market Segmentation

Johnson Consulting evaluated the current market segmentation at the property. Hotel management conveyed the message that they were not attracting the big \$ spending guests and this could be a contributing factor to weaker food and

beverage and room revenue sales. Table 7-3 displays the St. Louis Renaissance and peer Marriott properties market segmentation.

Table 7-3

2005 Market Segmentation				
Group Room Nights	St. Louis Renaissance		Benchmark Properties	
		ADR		ADR
Corporate Group	38.0%	\$118.00	37.0%	\$185.00
Association Group	9.0%	117.00	69.0%	168.00
Other Group	53.0%	132.00	6.0%	145.00
<b>Transient Room Nights</b>				
Corporate & Above	14.0%	\$185.00	42.0%	\$337.00

Source: St. Louis Renaissance

Johnson Consulting reviewed the market segmentation at the St. Louis Renaissance to determine if the current mix of guests differs from that of the peer Marriott properties.

In 2005, Group room nights consisted of:

- **Corporate Group, 38 percent** - ADR was \$118 which is substantially lower than the 2005 annual peer ADR,
- **Association Group, 9 percent** - ADR was \$117 which is significantly lower than the peer annual ADR at \$168,
- **Other Group, 53 percent** - ADR was \$132 and the largest classification of the three group room nights,
- **Corporate and Above, consisted of 14 percent** of transient room nights in 2005. The corporate and premium transient room nights' ADR was \$185, slightly higher than the corporate group and other group room nights at the St. Louis Renaissance.

It is evident that the St. Louis Renaissance does not attract a comparable ADR relative to the benchmark properties.

The benchmark properties attract a significantly larger demand and greater ADR from the higher margin Corporate and Above segment. These properties generate 40 percent of transient business from the Corporate and Above segment whereas the St. Louis Renaissance generates only 14 percent of its transient business from Corporate and Above room nights. The most significant statistic here is the variance in ADR of the Corporate and Above segment generated at the properties. The peer Marriott properties receive \$152 more than the St. Louis Renaissance and host 28 percent more business in this segment. These numbers help explain how the large variances found in Table 7-1.

Although the St. Louis Renaissance's performance doesn't match those of comparable Marriott properties in different markets, the hotel is performing well versus those in St. Louis. Table 7-4 provides the 2006 year-to-date market segmentation for properties in the St. Louis downtown competitive set.

**Table 7-4**

<b>2006 Year to Date Market Segmentation - Downtown St. Louis</b>				
	<b>St. Louis</b>		<b>Competitive Set</b>	
		<b>ADR</b>		<b>ADR</b>
<b>Transient</b>	31%	\$113.31	45%	\$116.92
<b>Group</b>	69%	\$125.82	44%	\$114.37
<b>Contract</b>	-		11%	\$32.52
<b>Total</b>	100%		100%	

*Source: Smith Travel Research, Renaissance*

The St. Louis Renaissance market mix consists of 69 percent of group and 31 percent transient. The competitive set has experienced a more balanced mix with 45 percent transient, 44 percent group and 11 percent contract.

Important to note here is that the lion's share of the St. Louis Renaissance business is done with the higher margin group segment. ADR in 2006 for the group market is \$12.51 greater than transient business. The St. Louis Renaissance's mix can be attributed to its close proximity to the convention center. It is the natural choice for groups who use the America's Center space.

With SLCVC under new leadership and committed to targeting the corporate group meeting market, which generally produces higher room rates and food and beverage sales, this could lead to greater long-term revenue volume for the St. Louis Renaissance.

**Operational Performance Relative to Downtown St. Louis Hotel Market**

Johnson Consulting analyzed data provided by Smith Travel Research regarding St. Louis’s downtown hotel market. The data provided by Smith Travel Research was comprised of a list of properties that was determined to be in the St. Louis Renaissance’s competitive set in the downtown market. Johnson Consulting, working with Marriott management, concluded that not every property in the downtown area is a true competitor with the St. Louis Renaissance. The competitive set with which the St. Louis Renaissance is compared is highlighted below. Table 7-5 provides an inventory of the entire St. Louis downtown hotel market.

**Table 7-5**

<b>St. Louis Downtown Hotel Supply</b>		
<b>Name of Establishment</b>	<b>Open Date</b>	<b># of Rooms</b>
W S Hotel	6/1/1901	78
Omni Majestic Hotel	9/1/1913	91
Renaissance Grand Hotel	6/1/1917	918
Renaissance St Louis Suites Hotel	9/1/1929	165
Hampton Inn Downtown Union Station	5/1/1966	239
Millennium Hotels St Louis	6/1/1969	780
Hampton Inn St Louis Downtown Gateway Arch	6/1/1974	190
Radisson Hotel & Suites St Louis	1/1/1975	440
Hilton St Louis @ The Ballpark	3/1/1979	675
Holiday Inn Select St Louis Downtown	3/1/1981	295
Econo Lodge Riverfront	6/1/1985	48
Hyatt Regency St Louis	6/1/1985	539
Adam's Mark St Louis	3/1/1986	910
Embassy Suites St Louis Downtown	7/1/1986	297
Drury Inn St Louis Union Station	6/1/1988	177
Drury Inn & Suites St Louis Convention Center	5/1/1990	178
Roberts Mayfair Hotel & Tower	7/1/1990	182
Courtyard St Louis Downtown	7/1/1990	151
Holiday Inn Express Hotel St Louis	9/1/1999	65
Drury Plaza Hotel St Louis Downtown	1/1/2000	355
Westin St Louis	3/1/2001	255
Sheraton Hotel St Louis City Center	7/1/2001	288
Hilton St Louis Downtown	3/1/2005	195
Residence Inn St Louis Downtown	1/1/2006	188
<b>Total</b>		<b>7,699</b>

*Source: St. Louis Renaissance*

Downtown St. Louis has 7,699 total hotel rooms comprised of 24 properties. The St. Louis Renaissance competitive set, shaded in the above table, consists of five properties ranging in size from 255 rooms at the Westin St. Louis to 910 rooms at the Adam’s Mark. Factors considered when selecting the competitive set of properties included quality, number of rooms, and location. The hotels in the competitive set are:

- Millennium Hotels St. Louis – 780 rooms,
- Hilton St. Louis @ the Ballpark – 675 rooms,
- Hyatt Regency St. Louis – 539 rooms,
- Adam’s Mark St. Louis – 910 rooms, and
- Westin St. Louis – 255 rooms.

Table 7-6 shows the summary of occupancy and ADR for the St. Louis Renaissance’s competitive set in downtown St. Louis from 2003 through July of 2006.

**Table 7-6**

<b>Historical Occupancy and ADR for St. Louis Downtown Competitive Set</b>						
<b>Year</b>	<b>St. Louis Renaissance</b>		<b>Competitive Set</b>		<b>Variance</b>	
	<b>Occupancy</b>	<b>ADR</b>	<b>Occupancy</b>	<b>ADR</b>	<b>Occupancy</b>	<b>ADR</b>
<b>2003</b>	43.8%	\$ 109.81	53.6%	\$ 109.53	-9.8%	\$ 0.28
<b>2004</b>	51.9%	\$ 113.50	55.9%	\$ 113.67	-4.0%	\$ (0.17)
<b>2005</b>	61.5%	\$ 117.44	54.4%	\$ 112.20	7.1%	\$ 5.24
<b>2006</b>	67.7%	\$ 121.73	62.1%	\$ 104.22	5.6%	\$ 17.51
<b>Average Annual % Change</b>	15.6%	3.5%	5.0%	-1.6%		

*Note: 2006 data is from January through July*  
*Source: Smith Travel Research*

From 2003 to 2006 the St. Louis Renaissance has seen increases in occupancy from 43.8 percent to 67.7 percent. The competitive set has seen much smaller increases in occupancy during the same period from 53.6 percent in 2003 to 62.1 percent in 2006 (please note 2006 data is January through July). The St. Louis Renaissance’s average annual occupancy growth has been 15.6 percent while the competitive set has seen gains of 5 percent during the period.

ADR during 2003 and 2004 were relatively similar between the competitive set and the St. Louis Renaissance. The variance ranged from \$0.28 to -\$0.17. In 2005 and

2006, the St. Louis Renaissance experienced ADR growth which significantly separated itself from the competitive set of properties. In 2005, the St. Louis Renaissance's ADR was \$5.24 greater than the competitive set and during January through July of this year ADR has been \$17.51 greater than the competitive set. The competitive set has experienced an average annual decrease in ADR of 1.6 percent since 2003. Conversely, the St. Louis Renaissance has experienced an average annual increase of 3.5% in ADR.

## Recommendations for Future

Appropriate action needs to be taken to ensure the St. Louis Renaissance develops into a self sustaining and successful hotel. As noted above, the cost structure is in line and, except for the extra marketing costs which we believe will have to be continued, we make no recommendations concerning hotel operations.

Johnson Consulting has identified several potential solutions which will serve as a catalyst to help get the hotel to a self sustaining state. These recommendations are presented in three separate scenarios A, B and C. A five-year financial proforma has been provided with the assumptions for each scenario built into the model. It is important to note that there are several constant assumptions in each of these scenarios:

- The positive efforts and energy being displayed by the SLCVC result in better penetration of the convention market for city-wide events,
- The cost savings from the resource reduction which will be effective Jan 1, 2007 are recognized scenario A, B and C's cost structure,
- On average, the economy will experience reasonable economic growth,
- On average, recessions will be offset by periods of economic prosperity.

Johnson Consulting has devised the following scenarios for the St. Louis Renaissance moving forward:

- **Scenario A** - This scenario assumes that the physical plants at both the hotel and the convention center remain unchanged. Specifically, no additional meeting and ballroom space are added at either location, continuing the structural demand problem at the hotel. Modest ADR growth and occupancy growth max out at 71 to 72 percent. Unless the convention center is upgraded, the convention demand is expected to be static, even with the expected improved efforts at the SLCVC. Given the improved product in

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competitor markets, the America's Center will be fortunate just to keep the demand it currently has.

- **Scenario B** - Ballroom / meeting space is added under the control of the hotel, which balances out the hotel with its peers analyzed for this report. There will be a substantial gain in food and beverage sales and rate and occupancy can achieve levels of occupancy and ADR growth higher than in Scenario A.
- **Scenario C** - As noted elsewhere, the America's Center's ballroom space is smaller than its peers. The Center has not had any material improvement for several years and is falling behind other venues. If the facility soon adds additional space and conducts a facelift, it would help both the City and the hotel perform better. Under this case, the hotel will increase its ADR and occupancy at a rate greater than in Scenario A, but will not get the food and beverage sales it would see in a Scenario B case because the additional space will draw people primarily to the Center, not to the hotel, and the hotel will principally benefit only from the additional room sales.

## Scenario A – “As Is”

Johnson Consulting has identified physical space limitations with the St. Louis Renaissance as discussed in section 5. Scenario A can be considered the “As Is” scenario. This scenario provides the financial projections if the hotel continues to operate without any significant adjustments being made. Table 7-7 shows the projected operating performance under Scenario A.

**Table 7-7**

St. Louis Renaissance - "As Is" Proforma									
	2003	2004	2005	2006*	2007	2008	2009	2010	2011
<b>Occupancy</b>		52.0%	62.0%	67.0%	68.0%	68.7%	69.4%	70.1%	70.8%
<b>Average Daily Rate</b>		\$ 113.50	\$ 117.44	\$ 121.75	\$ 124.50	\$ 129.17	\$ 134.01	\$ 139.04	\$ 144.25
Total Sales (Revenue)	\$31,599,318	\$38,610,091	\$46,037,284	\$52,103,718	\$54,865,541	\$58,489,987	\$62,380,503	\$66,106,306	\$69,574,212
Total Department Cost	19,083,183	20,413,655	23,252,859	24,788,116	26,275,403	28,011,170	29,318,836	31,069,964	32,699,880
Total Support Cost (SG&A)	11,776,551	14,117,224	14,848,755	14,871,123	14,914,679	15,899,951	16,957,551	17,970,375	18,913,092
House Profit	739,584	4,079,212	7,935,670	12,444,479	13,675,459	14,578,867	16,104,116	17,065,967	17,961,240
Other Deductions	3,279,438	5,519,720	6,330,307	7,174,543	7,492,779	7,820,563	8,158,180	8,505,925	8,864,103
+ 1/2 FF&E	172,561	373,823	649,139	754,752	795,550	848,105	1,216,420	1,289,073	1,356,697
<b>Cash Available for Debt Service</b>	<b>(\$2,367,293)</b>	<b>(\$1,066,685)</b>	<b>\$2,254,502</b>	<b>\$6,024,688</b>	<b>\$6,978,230</b>	<b>\$7,606,409</b>	<b>\$9,162,356</b>	<b>\$9,849,115</b>	<b>\$10,453,834</b>
<b>Required Debt Service</b>	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$6,919,615
<b>Principal Payment on Debt</b>								\$1,415,000	\$1,515,000
<b>Net Income (Loss) After Debt Service</b>	<b>(\$9,385,958)</b>	<b>(\$8,085,350)</b>	<b>(\$4,764,164)</b>	<b>(\$993,978)</b>	<b>(\$40,435)</b>	<b>\$587,744</b>	<b>\$2,143,691</b>	<b>\$1,415,450</b>	<b>\$2,019,219</b>
<b>Expected Results with Management's Anticipated Cost Savings in 2007</b>									
Savings from Consolidated Reporting					\$300,000				
Resource Reduction Savings					\$400,000				
<b>Total Cost Savings Expected in 2007</b>					<b>\$700,000</b>				
<small>Note: Other deductions consists of Base Mgt. Fee, FF&amp;E Escrow, Other Deductions Source: St. Louis Renaissance, Johnson Consulting</small>									



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With the existing physical space at both the hotel and the convention center the hotel will see modest growth in occupancy at 1 percent per year and ADR growth which slightly outpaces inflation. The hotel will not generate sufficient cash to service its debt until 2008. Food and beverage sales will not grow at an accelerated pace due to the physical issues still existing at the hotel.

## Scenario B

In Scenario B, the St. Louis Renaissance will see the greatest gains in occupancy and ADR due to the physical space issues being addressed. Scenario B is the “best-case” scenario. Table 7-8 provides operating forecasts under the assumption that the physical issues are addressed at the St. Louis Renaissance and its meeting space is comparable to similar properties with approximately the same amount of rooms.

**Table 7-8**

	Renaissance Best Estimate Scenario B Proforma								
	2003	2004	2005	2006*	2007	2008	2009	2010	2011
<b>Occupancy</b>		52.0%	62.0%	67.0%	68.0%	69.4%	70.7%	72.2%	73.6%
<b>Average Daily Rate</b>		\$113.50	\$117.44	\$121.75	\$124.50	\$131.10	\$138.05	\$145.36	\$153.07
<b>Total Sales (Revenue)</b>	\$31,599,318	\$38,610,091	\$46,037,284	\$52,103,718	\$54,865,541	\$60,064,062	\$66,216,683	\$73,076,556	\$79,613,358
<b>Total Department Cost</b>	19,083,183	20,413,655	23,252,859	24,788,116	26,275,403	28,765,003	31,121,841	34,345,981	37,418,278
<b>Total Support Cost (SG&amp;A)</b>	11,776,551	14,117,224	14,848,755	14,871,123	14,914,679	16,327,848	18,000,380	19,865,172	21,642,140
<b>House Profit</b>	739,584	4,079,212	7,935,670	12,444,479	13,675,459	14,971,211	17,094,462	18,865,403	20,552,940
<b>Other Deductions</b>	3,279,438	5,519,720	6,330,307	7,174,543	7,492,779	8,031,029	8,659,879	9,402,790	10,143,140
<b>+ 1/2 FF&amp;E</b>	172,561	373,823	649,139	754,752	795,550	870,929	1,291,225	1,424,993	1,552,460
<b>Cash Available for Debt Service</b>	<b>(\$2,367,293)</b>	<b>(\$1,066,685)</b>	<b>\$2,254,502</b>	<b>\$6,024,688</b>	<b>\$6,978,230</b>	<b>\$7,811,111</b>	<b>\$9,725,809</b>	<b>\$10,887,606</b>	<b>\$11,962,260</b>
<b>Required Debt Service</b>	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$6,919,615
<b>Principal Payment on Debt</b>								\$1,415,000	\$1,515,000
<b>Net Income (Loss) After Debt Service</b>	<b>(\$9,385,958)</b>	<b>(\$8,085,350)</b>	<b>(\$4,764,164)</b>	<b>(\$993,978)</b>	<b>(\$40,435)</b>	<b>\$792,446</b>	<b>\$2,707,144</b>	<b>\$2,453,941</b>	<b>\$3,527,645</b>
<b>Expected Results with Management's Anticipated Cost Savings in 2007</b>									
Savings from Consolidated Reporting					\$300,000				
Resource Reduction Savings					\$400,000				
<b>Total Cost Savings Expected in 2007</b>					<b>\$700,000</b>				
<b>Scenario B Adjustments</b>									
Ballroom and meeting space is added under control of the hotel									
<i>Note: Other deductions consists of Base Mgt. Fee, FF&amp;E Escrow, Other Deductions</i>									
<i>Source: St. Louis Renaissance, Johnson Consulting</i>									

In Scenario B, occupancy will rise to 73.6% in 2011 and ADR will increase by roughly 1.5% annually. The property will produce enough cash to service its debt in 2008 with \$7.8 million in cash available for debt service of \$7 million, but the margin for error is thin. A major driver of new revenue resulting from the increased meeting space will be additional food and beverage sales. Food and beverage sales will increase at an average annual rate of 13.5 percent versus the 8.5 percent in Scenario A. In 2008, the hotel will generate a net income of \$792,446 which will rise to \$3.5 million in 2011. Johnson Consulting understands the space limitations existing at the hotel but believes if the property is able to devise a solution for the lack of meeting space there is the opportunity to capitalize on substantial increases in revenue volume. Note that the projections do not take into consideration the

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effect of any capital or other costs associated with additional construction if borne by the hotel. Any such costs borne by the hotel would negatively affect our projections. On the other hand, if such costs were borne by others, e.g. governmental entities, then the foregoing projections would be attainable.

## Scenario C

Scenario C produces occupancy and ADR improvements in the middle range of Scenarios A and B. This scenario addresses the physical plant problems at the America's Center Convention Center which is discussed in section 6. Table 7-9 provides the best estimate proforma if the convention center adds additional ballroom space and conducts a facelift to the venue.

**Table 7-9**

Renaissance Best Estimate Scenario C Proforma									
	2003	2004	2005	2006*	2007	2008	2009	2010	2011
<b>Occupancy</b>		52.0%	62.0%	67.0%	68.0%	69.0%	70.1%	71.1%	72.2%
<b>Average Daily Rate</b>		\$ 113.50	\$ 117.44	\$ 121.75	\$ 124.50	\$ 129.85	\$ 135.44	\$ 141.26	\$ 147.34
<b>Total Sales (Revenue)</b>	\$31,599,318	\$38,610,091	\$46,037,284	\$52,103,718	\$54,865,541	\$58,959,958	\$63,381,933	\$67,705,978	\$71,844,649
<b>Total Department Cost</b>	19,083,183	20,413,655	23,252,859	24,788,116	26,275,403	28,236,242	29,789,509	31,821,810	33,766,985
<b>Total Support Cost (SG&amp;A)</b>	11,776,551	14,117,224	14,848,755	14,871,123	14,914,679	16,027,708	17,229,780	18,405,231	19,530,289
<b>House Profit</b>	739,584	4,079,212	7,935,670	12,444,479	13,675,459	14,696,009	16,362,645	17,478,938	18,547,374
<b>Other Deductions</b>	3,279,438	5,519,720	6,330,307	7,174,543	7,492,779	7,883,401	8,289,148	8,711,755	9,153,368
<b>+ 1/2 FF&amp;E</b>	172,561	373,823	649,139	754,752	795,550	854,919	1,235,948	1,320,267	1,400,971
<b>Cash Available for Debt Service</b>	<b>(\$2,367,293)</b>	<b>(\$1,066,685)</b>	<b>\$2,254,502</b>	<b>\$6,024,688</b>	<b>\$6,978,230</b>	<b>\$7,667,527</b>	<b>\$9,309,445</b>	<b>\$10,087,449</b>	<b>\$10,794,977</b>
<b>Required Debt Service</b>	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$7,018,665	\$6,919,615
<b>Principal Payment on Debt</b>								\$1,415,000	\$1,515,000
<b>Net Income (Loss) After Debt Service</b>	<b>(\$9,385,958)</b>	<b>(\$8,085,350)</b>	<b>(\$4,764,164)</b>	<b>(\$993,978)</b>	<b>(\$40,435)</b>	<b>\$648,862</b>	<b>\$2,290,780</b>	<b>\$1,653,784</b>	<b>\$2,360,362</b>
<b>Expected Results with Management's Anticipated Cost Savings in 2007</b>									
Savings from Consolidated Reporting					\$300,000				
Resource Reduction Savings					\$400,000				
<b>Total Cost Savings Expected in 2007</b>					<b>\$700,000</b>				
<b>Scenario C Adjustments</b>									
America's Center adds ballroom space and conducts a facelift on the facility - in this scenario the hotel does not see the greater F&B sales as scenario B									
<i>Note: Other deductions consists of Base Mgt. Fee, FF&amp;E Escrow, Other Deductions</i>									
<i>Source: St. Louis Renaissance, Johnson Consulting</i>									

In this scenario, the hotel will increase its occupancy and ADR at a greater rate than Scenario A but will not benefit from the incremental food and beverage sales seen in Scenario B. The property will generate net income of \$648,862 in 2008 and this will increase to \$2.3 million in 2011. Scenario C ensures the facility will become a self sustaining entity, but will never capture the incremental revenue from food and beverage sales in Scenario B. The increased food and beverage sales under Scenario C will be captured by the America's Center as the groups will be using its new space.

## Conclusion

The St. Louis Renaissance trails the set of peer Marriott properties in every major benchmark category and revenue stream. The most significant statistics uncovered in the benchmarking analysis were rooms sold from January through May and the associated ADRs at the properties. The \$7.17 million variance in room revenue between the St. Louis Renaissance and the peer properties is staggering. This variance can largely be attributed to factors discussed in the analysis of the lack of meeting space between the St. Louis Renaissance and peer properties. The lack of meeting space at the St. Louis Renaissance and current physical issues at the America's Center has likely had a significant impact on the amount of group business the St. Louis Renaissance has contracted.

A large variance of \$1.93 million also exists in food and beverage sales between the peer Marriott properties and the St. Louis Renaissance. Two variables contribute to this variance, the difference in occupied room nights and average banquet room check. Together, the occupied room nights and food beverage sales account for a \$9.09 million variance. If this variance did not exist, the St. Louis Renaissance would currently be experiencing financial success rather than financial distress.

The St. Louis Renaissance is performing very well relative to the competitive set in its market, downtown St. Louis. The property has experienced positive occupancy and ADR growth since its inception, while the set of competitive properties in the downtown St. Louis market have experienced much smaller average annual occupancy growth and a declining average annual ADR growth. This data illustrates that while performing well in its market, the St. Louis Renaissance is performing poorly relative to peer properties with similar characteristics in other cities.

The hotel is burdened by physical limitations which can be addressed and external factors which exist due to the market. St. Louis, as a City, is generally considered a second-tier market and over the past decade has been regarded as a last stop for conventions and tradeshow. The City has taken several proactive steps to address these issues. Millions of dollars are being invested downtown in order to spur residential, retail and recreational development. The SLCVC has replaced its leadership and appears to be taking steps in the right direction to change the appeal of the City to meeting planners. These steps will help generate long-term growth in the convention and tradeshow industry.