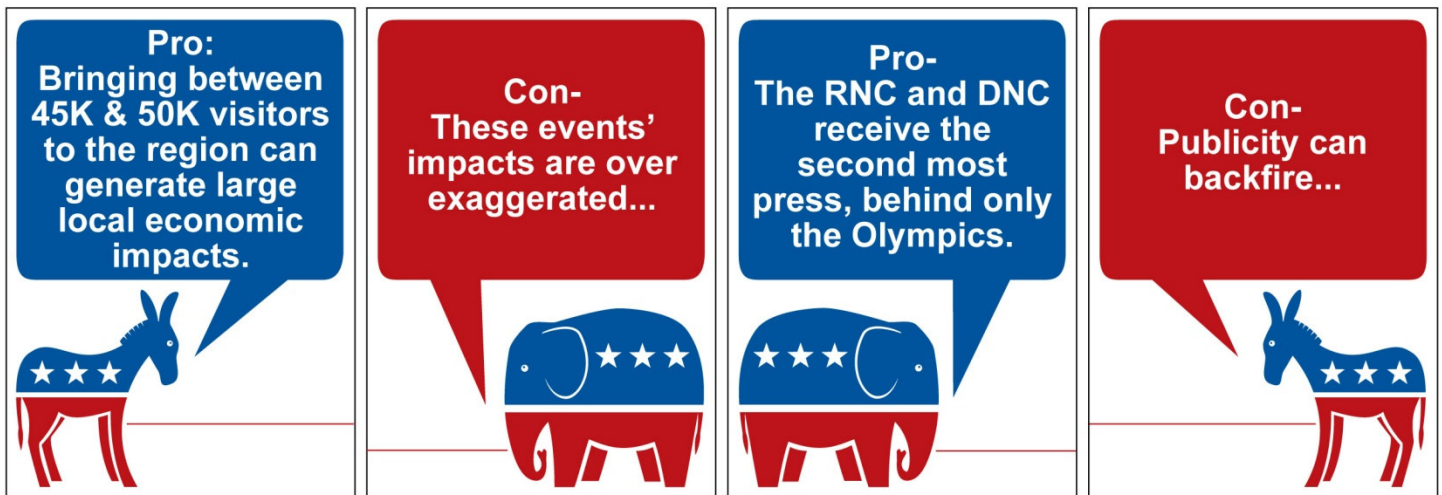


## Cost – Benefit analysis of hosting a political convention: *An insight into two cities*



**Pro:** The convention industry generates more than \$120 billion in direct spending and supports 1.7 million jobs nationally. Therefore, having the largest political convention at your doorstep is an excellent way to boost the local economy over a short period of time.

**Support:** We find that the overall economic impact is the most quoted number of the event, and is typically how cities sell hosting the event to their constituencies. Looking at past conventions, it is certainly true that they can generate large local economic impacts. For example, the 2008 Republican National Convention (RNC) in Saint Paul is estimated to have brought in 50,000 visitors who stayed, on average, six nights and spent \$1,600. Furthermore, the Host Committee estimated that the 2008 RNC generated a total economic impact of \$168.2 million. Other conventions have demonstrated similar results. The 2008 Democratic National Convention drew a crowd of 45,000 visitors and generated a total impact of \$127.3 million. Additionally, the 2004 conventions, which the Democrats held in Boston and the Republicans in New York City, were estimated to have economic impacts of \$154.2 million and \$255 million, respectively. The Democrats brought 35,000 visitors into Boston, while 48,000 people descended upon Manhattan for the convention.

**Con:** The economic benefits of hosting a convention are exaggerated.

**Support:** Independent economic analysis suggests that the economic benefits of hosting these conventions are far less than reported by the Host Committees. These analyses cite three sources of overlooked costs for the host city. One, the substitution effect means that a portion of the spending at the convention is by locals who would have spent that money in the city anyway. This amount is hard to quantify, but does factor into the overall tally.

Two, the crowding out effect, which can be seen from locals leaving the area during the convention, which results in spending losses that would have otherwise occurred, and from pushing out other events. In 2004, Broadway theaters reported that attendance was down by over 20.0 percent for the week of the convention, compared to the same week in year prior. Researchers use this as an example of the Host Committees not taking into account lost expenditures. Meanwhile, Boston lost two other events in the city – Sail Boston 2004 and the U.S. Gymnastics Qualifying Tournament – which took \$95.6 million and \$15.0 million, respectively, away from the city. Thus, in 2004 Boston's total economic

impact of the convention was actually lowered by a total of \$110.6 million due to lost events. Moreover, the crowding out effect also leads to losses in tourism that would have occurred anyway. Critics reason that about 10 percent of tourists will decide not to travel to the host city during the convention. This robbed New York City of \$25.0 million and Boston of \$8.6 million.

Three, critics argue that increased congestion in the cities leads to large losses in productivity. In 2004, Boston is estimated to have lost \$36.7 million due to congestion and its resulting losses in productivity. Additionally, New York City's losses to productivity were estimated at around \$19.1 million. However, Denver found that most workers were able to still work downtown, no major events were displaced and visitors likely adjusted their travel dates to before or after the event.

Therefore, critics argue that after all costs are properly included, the actual effects of the conventions are much less pronounced than originally announced. Independent economic analysis found that in 2004, New York City actually saw an economic impact of \$163.0 million, which was \$93 million lower than what the official Host Committee reported. Moreover, Boston actually ended up losing about \$8.6 million, according to this analysis.

**Pro:** The Democratic and Republican National Conventions receive the second most media attention, behind only the Olympics.

**Support:** The Minneapolis-Saint Paul Host Committee's official report claimed the metropolitan statistical area received over 10 billion media impressions, which equates to \$407 million in advertising spending. Moreover, they estimate this is the equivalent of 150 Super Bowl ads.

**Con:** Publicity can backfire

**Support:** Critics point to the various media-heavy events that have gone terribly wrong for the host cities, including the 1968 Democratic National Convention in Chicago, the 1972 Olympics in Munich, as well as the 1996 and 2002 Olympics in Atlanta and Salt Lake City, not to mention some of the recent scandal currently in Charlotte.

**Con:** There are no long term economic benefits.

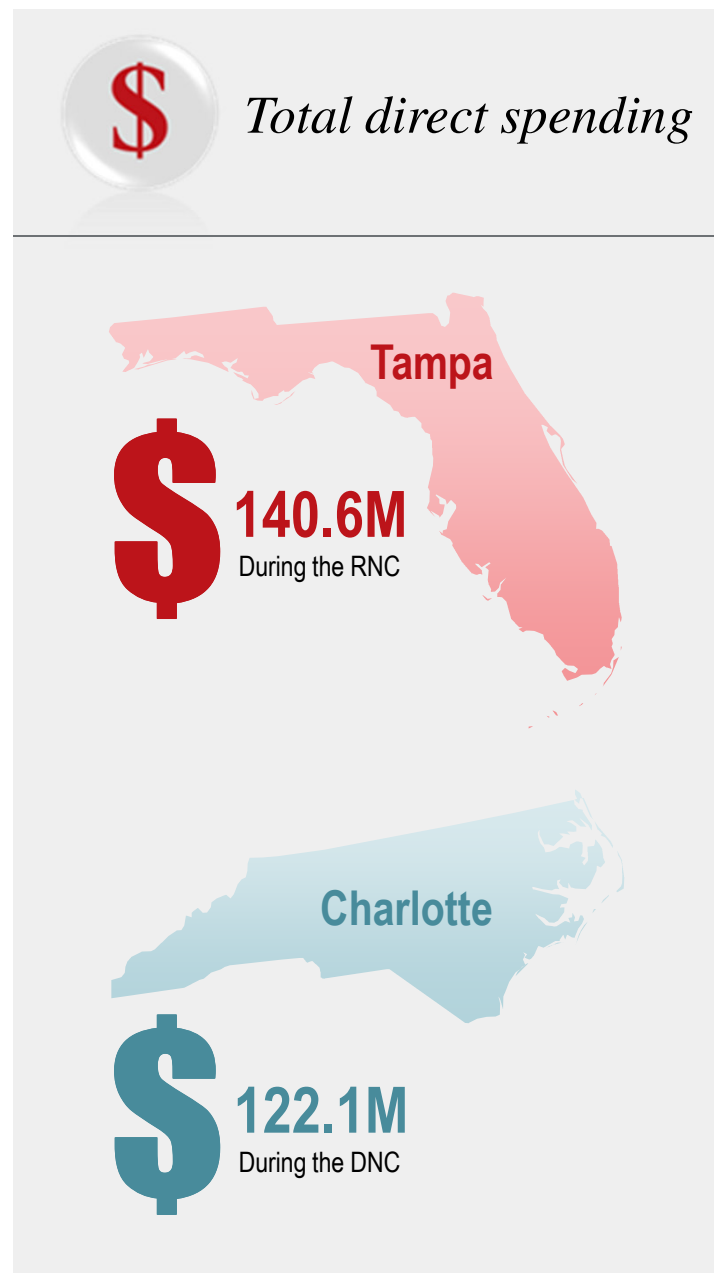
**Support:** In our analysis of major tenants relocating after political conventions, we find no evidence to suggest that political conventions will result in tenant relocations.

Additionally, economic analysis finds that there is no statistically significant impact on long-term employment or personal income for the cities that have hosted Democratic or Republican National Conventions.

**2012 Expected Issues:**

**Worker displacement:**

Some of Charlotte's biggest companies are considering telling their employees to steer clear of Uptown. Wells Fargo, Bank of America and Duke Energy are all three considering many alternative options for the first week of September as they are unsure how parking, commuting and foot traffic could affect the efficiency of doing business. In turn,



many restaurants and retailers who rely on the local business are wondering whether the influx of delegates and visitors that week might be enough to replace their regulars. On a daily basis Bank of America, Wells Fargo, and Duke Energy have more than 35,000 employees in the Uptown area, the majority of which use local amenities for their meals and daily errands. If each employee spends an average of \$12.00 a day, and none of the employees came into work for an entire week, businesses in the Uptown submarket would be missing out on \$420,000 in revenue each day. In total there are an estimated 77,000 office employees who commute in and work in the Uptown district every day. When we assume the average Charlotte CBD workers spends \$12 for lunch, if 20.0 percent of workers avoid the area, the substitution effect would negate nearly \$585,000 in total spending over the four days of the convention.

Meanwhile, many of Tampa's downtown businesses are also considering telling employees to stay home for the week. With approximately 25,000 office employees in the area, and a Downtown that already sees large congestion before one of just several access points is closed, the losses could be substantial. If we assume the average Tampa CBD worker spends \$10 for lunch, if 20.0 percent of workers avoid the area, the substitution effect would negate nearly \$150,000 in total spending in the local economy.

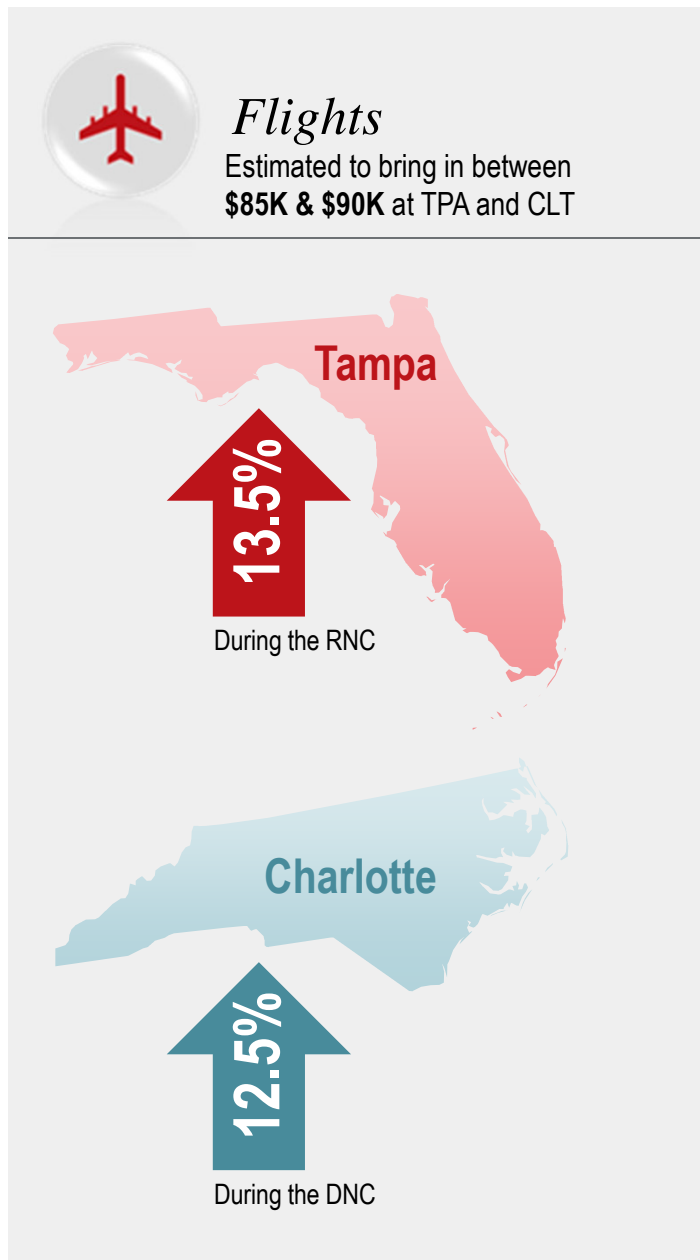
**Tourist displacement:**

The Democratic National Convention, in addition to potentially displacing Uptown workers in the first week of September, could also be displacing potential visitors to the area. Beginning on Labor Day, Charlotte's political convention is overlapping with one of the largest travel days of the entire year and the demand to travel to the area can be seen in the price of airplane tickets to Charlotte Douglas International. In a study of the cheapest round trip flights through Charlotte from Los Angeles, Chicago, New York City, Washington, and Atlanta prices for a round trip



Chicago, New York City, Washington, and Atlanta prices for a round trip arriving on Sunday, September 2 and departing on Friday, September 7, the average price increased by 12.5 percent over comparable flights two weeks earlier. This significant uptick in cost to travel to Charlotte could deter potential visitors looking to come to the Queen City for their Labor Day weekend.

While the heightened prices in tickets may deter the average tourist, an estimated 50,000 delegates, media members, politicians, and interested parties will descend upon Charlotte in the first week of September. A Charlotte Chamber of Commerce report shows that September is one of the slower months of the year at the airport, with just 1,527,700 passengers last year down by over 90,000 passengers from 2010.



Using estimates on revenue generated per passenger, the addition of 50,000 passengers coming in and out of Charlotte Douglas International Airport has the potential to add nearly \$90,000 to the airport's operating revenue.

In Tampa, the same bundle of flights increases by 13.5 percent for the days at the start of the Republican National Convention, compared to the same days two weeks prior. While Chicago, Los Angeles and New York City all saw declines or just slight increases in rate, Atlanta's total rate increased by 19.5 percent and Washington D.C.'s rate spiked by 119.3 percent. We suspect that both increases are influenced by the convention. Atlanta is a major transfer hub for flights to Tampa so the increase could reasonably be from more people flying into Tampa, via Atlanta. Additionally, the increased pricing from Washington D.C. appears to be deeply linked to the convention. We would expect that this is resulting from the political professionals that will be coming into the city.

The convention will likely help Tampa International Airport. Records show that August is one of the slower months of the year for the airport, with just 1,318,497 total passengers for the month, down by over 30,000 passengers from 2010. Moreover, using estimates on revenue generated per passenger, the addition of 50,000 passengers coming and out of Tampa International Airport has the potential to add over \$85,000 to the airport's operating revenue.

As for potential negative substitution effects, if we assume that 10.0 percent of the average daily over-night visitors to the Tampa-St. Petersburg-Clearwater metropolitan statistical area will choose to stay home, and that these tourists would have spent the average 2011 amount, then we find that the overall losses from tourism are just \$2.3 million for the week.

### Hospitality

The one sector within Charlotte that will undoubtedly experience the most positive economic impact is the hospitality sector. The DNC in 2008 contracted with 93 hotels throughout the Denver Metro area to provide lodging; over the week an estimated 12,500 visitors stayed in just over 8,300 hotel rooms in downtown Denver. The surge in demand brought the average room rate in downtown Denver to over \$180 per night in August 2008, up from an average of \$151 per night in August of 2007.

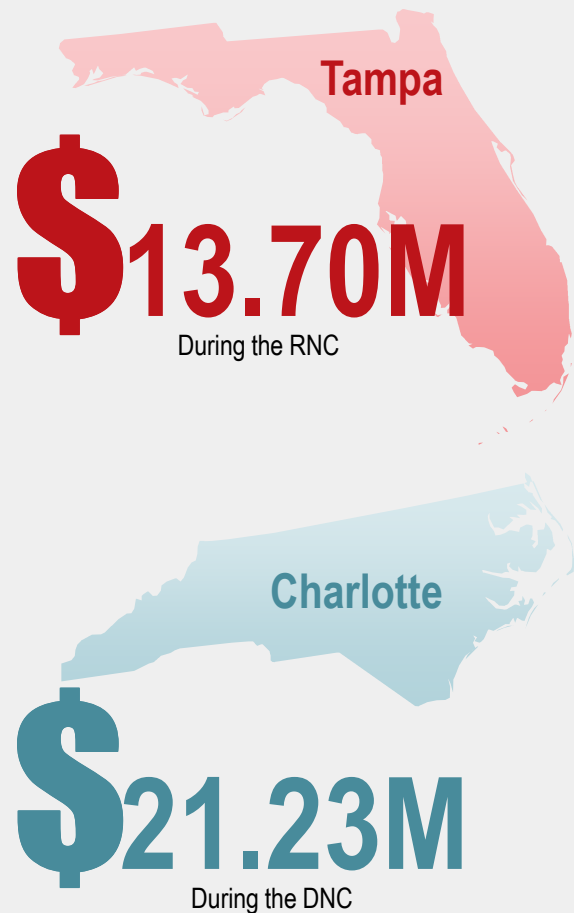
In Charlotte the Hilton Center City and Westin Charlotte will serve as the hotel headquarters for the Convention's – both of which are completely booked for the entire week of the Convention. Because their

rates are based upon occupancy, they are sure to rake in extra revenue throughout the week. According to a TNS Travel America Survey and Charlotte Regional Visitors Authority, in 2011 the average visitor's length of stay was 3.78 days and the daily hotel rate was \$133.76. With the convention kicking off on Monday, September 2 and culminating with President Barack Obama's acceptance speech on Thursday evening in Bank of America Stadium, many visitors to the Charlotte region will be staying for at least five nights. There have already been 56 hotel assignments for 6,000 convention delegates located in Uptown, Southpark, I-77, Airport, University, and Concord including 15,000 rooms in 150 hotels contracted out for the first week of September. Were we to assume that these contracted hotels provided a 10.0 percent discount to the average daily rates for hotel rooms in the Charlotte region, the influx in visitors would generate \$1.8 million of revenue for the hotels each night. Following this logic, the visitors for the Democratic National Convention in the first week of September would provide \$9.0 million in total revenue for the hospitality sector. Additionally, we anticipate that other guests will book an estimated 27,500 rooms. If they book these rooms at the full 2011 price of \$133.76 per-night, we would expect \$12.26 million in revenue. Thus, we anticipate that the hospitality sector will see at least \$21.23 million in revenue from the Democratic National Convention.

Meanwhile, the Republican National Convention has already booked 16,000 hotel rooms across 100 Tampa Bay area hotels. Assuming bulk rates provided a 10.0 percent discount to August 2011 average daily rates for hotels in the area, this would generate nearly \$1.25 million of revenue for the hotels per night, or a total of \$6.2 million in economic impact. Meanwhile, if other convention goers were able to find rates at the August 2011 average, then the economic impact could total \$7.5 million. This leads us to assume that the economic benefit for hotels could be more than \$13.7 million.



## *Hotels (estimated revenue)*



## Conclusion

Charlotte's Democratic National Convention on September 3 through September 6 will provide a great boost for the city in addition to putting the Queen City in the worldwide spotlight. We suspect that substitution and crowding will eliminate roughly \$6.69 million in the total impact. But our analysis finds that total spending by visitors would be approximately \$85.6 million, while host committee expenses would total \$36.5 million. This brings total direct spending to about \$122.1 million. Thus, with an indirect spending multiplier like that used for the 2008 convention, we would find total revenue of nearly \$135.4 million. With the substitution effect eliminating a total of \$6.69 million, we arrive at a total economic impact of \$128.7 million.

Tampa Bay's Republican National Convention during the final week of August, we find, will have a significant impact on the local economy. We suspect that substitution and crowding out will eliminate roughly \$2.4 million in the total impact. But our analysis finds that total spending by visitors would be approximately \$85.6 million, while host committee

expenses would total \$55 million. This brings total direct spending to about \$140.6 million. Thus, with an indirect spending multiplier like that used for the 2008 convention, we would find total revenue of nearly \$156 million. With the substitution effect eliminating a total of \$2.4 million, we arrive at a total economic impact of \$153.56 million. We stress that this is a conservative estimate and that a more slightly more optimistic estimate of a 1.25 would deliver a total economic impact of \$173.3 million.

While the economic impact will be beneficial, the potential disruption of the local population trends should not be overlooked. Events similar to the protesting that was observed in Chicago with the NATO convention can provide significant draw backs to an otherwise momentous event. Potential offsets such as worker displacement and mass protesting will allow for some significant downside risk to large economic impact forecasts that are being publicized by city boosters and host committees.





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