Common Council Actions

COMMON COUNCIL **SPECIAL MEETING**

MAY 1, 2003

NORWALK, CONNECTICUT 8:00PM EST, COUNCIL CHAMBERS

ALL COMMON COUNCIL ACTIONS TAKEN AT THIS MEETING TO APPROVE EXPENDITURES AND CONTRACTS OR TO ACCEPT BIDS AND OTHER PROPOSALS REQUIRING THE EXPENDITURE OF CITY FUNDS ARE SUBJECT TO THE AVAILABILITY OF FUNDS.

ATTENDANCE: **Matthew Miklave, President; Carvin Hilliard; Barbara Hudgins; Betsy Bain; Ken Baker; Judith Rivas; William Krummel; Fred Bondi; Chris Perone; Douglas Sutton; J. Olmstead-Sawyer; Kevin Poruban**

STAFF: **Timothy Sheehan, Director, Redevelopment Agency; John Burritt, Jr., Asst. Director, Redevelopment Agency**

OTHER: **Mayor Alex Knopp (7:30)**

CALL TO ORDER

The Chairman called the meeting to order at 7:05 p.m.

Mr. Sheehan read the Notice of Special Meeting.

**** MS. RIVAS MOVED TO CALL THE SPECIAL MEETING TO ORDER MOTION CARRIED UNANIMOUSLY.**

GENERAL BUSINESS

A. REED PUTNAM URBAN RENEWAL PROJECT

1. Development Parcel 3 - Hotel Feasibility Study

Mr. Sheehan said the negotiated Land Disposition Agreement ("LDA") was an agreement entered into by and among the City of Norwalk, the Redevelopment Agency and

Maritime Place, LLC. It provided that a hotel feasibility study be undertaken to investigate the feasibility of developing a first class, full service hotel on Parcel 3. It was agreed that the study would be completed within 180 days after Maritime garage construction commenced.

Mr. Sheehan said the purpose of the meeting was to understand how feasibility findings were made and to discuss said findings. He also said the approval of the plan was solely the responsibility of the RDA and the Common Council.

Mr. Sheehan then introduced Mr. Daniel C. Hanrahan of the Pinnacle Advisory Group, specialists in hotel consulting.

Mr. Hanrahan said the study had considered the following objectives: projection of probable costs, occupancy, room rates, value upon completion; preparation of complete income statement; development of a valuation matrix using market-based investment parameters; estimation of probable findings; development of range of probable turn-key cost; consideration of land use controls; and profiles of weather, employment, personal income, and retail sales.

Mr. Hanrahan said market feasibility begins with hotel performance; and in projecting the performance of this proposed hotel, he had used a five-year historic perspective (1997 - 2002). He said the hotel would be competing with 3,430 already existing rooms, and that between 1997 and October 2002, market demand for room occupancy had fluctuated between a high of 68.5% to a low of 58.5%. He further stated that captured demand in the competitive market decreased at a compound annual rate of .7% with an average annual occupancy rate of approximately 64%, and that these declines, and the anticipated time required for market recovery, would pose economic hurdles to both existing and proposed hotels over the foreseeable future. These factors served as the foundation for the projection. He said modest growth levels had been forecast through 2006, and that corporate demand remained the dominant demand segment. However, demand in this segment decreased by 10.6% in 2001, due not only to the terrorist acts of September 11th but also to the relocation of some corporations. He said demand through October 2002 declined by 4.5% from 2001 levels for the same time period. The principal reason for the decline was cut backs in travel from local and regional companies. He said no growth or decline was projected for 2003; moderate growth of 2% was projected for 2004; 4% for 2005; and 3% for 2006. Thereafter, growth is expected to level off at 2%. In all, corporate demand was expected to increase by 4.8% from the end of 2001 through 2007. Two percent was forecast from 2008 until 2010, when the market is expected to re-stabilize. Mr. Hanrahan believes corporate demand would account for between 65% and 70% of the hotel's occupancy, based on its proposed 2007 opening date.

Mr. Hanrahan said group demand consists of corporate groups, social groups, tour and travel groups and sports teams. It constituted 26% of total market demand in 2001. Demand in this area decreased at a compound rate of 4.6% from 1999 to 2001. Year-to-date through October of this year indicated a 4% increase in demand. From 2004 through 2006, demand is expected to grow at 3%. Demand in 2007 is projected to decrease to 1%;

and increase at an annual rate of 1% from 2008 until 2010, when the market is expected to stabilize.

Recognizing that the hotel would naturally capture some portion of existing group demand, Mr. Hanrahan estimated that the hotel would capture an additional one room night per square foot, per year for each square foot of meeting space, for a total of 20,000 rooms.

Mr. Hanrahan said leisure demand was the smallest source of demand for room nights. This market segment is comprised of travelers visiting family and overnight demand from events held in the area. He said demand would be strongest on weekends in the fall and summer. Demand in this area is forecast to increase by 2% in 2003, and by 1% from 2004 until 2010.

After interviewing management from all of the defined hotels and a number of demand generators, Mr. Hanrahan believes the hotel would still have to generate a significant amount of its own demand to ensure economic viability.

Mr. Krummel asked if copies of the presentation materials were available. Mr. Burritt said copies of the studies had been sent to Council members through the mail. Mr. Krummel said he did not receive his copy. Mr. Burritt said he would make sure he did. Mr. Miklave asked Mr. Krummel to keep his questions brief. Mr. Krummel asked if the hotel would not be extremely competitive and capture a greater amount of the market than its fair share in this segment if the group demand segment started at 150% to 172%.

Mr. Hanrahan said the leisure segment would generate 100% of its fair share; and by the fourth year, it would have captured 107% of its fair share. He said the average rate was projected on a segment-by-segment basis, the room revenue being the average room rate multiplied by occupancy.

Mr. Hanrahan believes, based on the Marshall Valuation Service for Hotels, that the hard costs will range from $18.8 million - $22.4 million, FF&E costs from $4.7 million to $5.6 million, and soft costs from $3.76 million to 4,48 million. He believes the total probable cost for the hotel is between $27.26 million and $32.48 million, not including land cost and entrepreneurial profit. He said cost parameters were developed by using industry sources based on Connecticut and northeast based hotels; and the most probable value upon completion of the hotel will be between $32.5 million and $34.1 million.

Mr. Hanrahan has determined that the project, as scoped and designed, is not feasible unless they have $27.2 million - $27.3 million. This is determined from a cost and value basis. Market based land cost was waived; and no entrepreneurial profit was taken. The cost is at the high end of range; and probable value is at the low end. When the two are compared, the profit margin is $20,000. He concluded that the profit margin was not feasible enough, at this time, to attract investors. He said although the property would garner 107% of market share over a four-year period, it would not grow back fast enough to cover the actual cost. It is, therefore, Mr. Hanrahan's view that, although the location is good and the facility appropriate, the timing is wrong, based on current market conditions.

Mr. Sheehan said they had already put $3.7 million into the garage; and with the finding of economic unfeasibility, it would be compounded when the cost of the garage was added.

The Mayor asked what were some of the variables that, if changed, could make a hotel on the site feasible. He asked Mr. Hanrahan what he would recommend, given the assumption that a hotel was a necessary development. Mr. Hanrahan said that although the hotel was a full service facility, given the [projected] change in the market, it would not make sense to build a limited-market hotel. The Mayor then asked if hotels presently under construction in Stamford were likely to be as unfeasible. Mr. Hanrahan said the dynamics and product base in Stamford were different from that in Norwalk. He said Stamford would be targeting different markets than the ones Norwalk would be targeting. The Mayor then asked how were the markets different. Mr. Hanrahan said, for example, one hotel is an extended stay hotel where guests would stay from five to thirty days, and the difference is the demographics of where the hotels are to be located. He said the Norwalk site did not call for that type of demand. The Mayor asked if there were any types of hotels [being constructed in Stamford] other than the extended service type. Mr. Hanrahan said limited service hotels were being built in Stamford. He also said significant infrastructure and corporate demand fed into the equation and that a hotel would be far more competitive in a corporate segment. The Mayor then asked if office space being constructed in the usual period of time would create demand for a hotel comparable to the ones in Stamford. Mr. Hanrahan said scaling back to a building having 20,000 sq. ft. [of office space] would not be sufficient to support anything other than a full service hotel. He said he could not recall what clientele Stamford hotels catered to.

Ms. Bain asked if such a hotel would be feasible, but not at this time, to what extent would the region have to change to make it feasible. Mr. Hanrahan said he had projected feasibility in 2007. He said he sees accelerating economics in the market not slowing for a number of years [after 2007].
Mr. Sutton asked if it could be inferred that the current stock of hotels was sufficient for the Norwalk market. Mr. Hanrahan said they did seem to be meeting the needs of the current market, but that at some point in time, the market would re-stabilize.

Mr. Bondi asked what if they planned a large ballroom. Mr. Hanrahan said it would be feasible relative to the competitive market. Mr. Bondi said he believed there was a great need for one. He said it would be a big factor in the hotel being developed as well as in occupancy rates. Mr. Hanrahan said utilization could change; but 10,000 sq. ft. would be the largest. Mr. Bondi then said Norwalk did not have a facility to hold very large crowds, but needed a facility that could hold six hundred to seven hundred people.

Mr. Krummel asked if Mr. Hanrahan had taken into account such events as the Marine Boat Show and the Oyster Festival that might bring revenue to the hotel. Mr. Hanrahan said he had. He said he had correlated these events to transferable room nights.

Mr. Miklave said it seemed that one of the reasons Mr. Hanrahan reached the conclusion that the hotel was unfeasible was the economic downturn in the country for the past several years. Mr. Hanrahan acknowledged that economic downturn was one of the factors he had considered. Mr. Miklave then asked if, considering other hotels would be competing in this market, might Mr. Hanrahan have spoken with or interviewed people who might have had reasons for skewing their numbers. Mr. Hanrahan said he was constantly in dialog with investors and lenders and had referenced and cross-referenced the information he obtained to make sure it was not skewed. He said it was not any one interview that was weighted, but a synthesis of all information. Mr. Miklave asked if the study had taken into account how planned projects along West Avenue and Wall Street might impact feasibility. Mr. Hanrahan said every development of any kind that they were able to investigate went into the dynamics. He said not only projects under development, but projects rumored to be in development were also factored into the equation. Mr. Miklave then asked if there were any circumstances that Mr. Hanrahan envisioned occurring that would make a hotel feasible where it is unfeasible now. Mr. Hanrahan said, based on what was known and could be foreseen at the time of the work, the overall economic and demographic profile was based on historical analysis. He said he could not point to any one thing.

Mr. Sutton asked how sure did a rumor have to be before it was included in the evaluation. Mr. Hanrahan said he looked at such things as secured site financing, in-place management, etc. He said it was based on informed estimates, not certainty.

Mr. Krummel said one of the charts showed the work rate for the total number of rooms in the area to be 3,000 rooms. He asked if the average occupancy rate was 67%. Mr. Hanrahan said the occupancy rate was 65.2, and that occupancy rate was based on the amount of public meeting space and its ability to capture the group demand in the market place. He said the hotel market was made up of a lot of hotels -- some below 100% and some above 100%. Mr. Krummel said folks building office space say they would like a first class hotel. He then asked if there were things the community could do to subsidize economics so as to make it more attractive for developers. For example, if one million sq. ft. were built, would it likely be more attractive to developers. Mr. Hanrahan said he believed it was the underlying growth in the corporate demand segment, timed out at two percent, which would carry out the stabilization. He said just the mere fact that the space is there is not a sufficient reason to build a hotel.

Mr. Bondi said he had heard that the hotel would have a 60% occupancy rate. He asked why couldn't they build a smaller hotel and have 100% occupancy. Mr. Hanrahan said all the space would be needed if it were going to cater to the targeted market. He said if it were smaller, it would not be able to cater to future demand.

The meeting adjourned at 7:50 p.m.

Respectfully submitted,

Linda Maddox
Telesco Secretarial Services