Cobo Center
Strategic Planning Analysis



Presented to the:

Detroit Regional Convention Facility Authority

July 1, 2010

CONVENTIONS SPORTS & LEISURE

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1.0 INTRODUCTION

In an effort to enhance the position of Detroit within the national convention and tradeshow industry, significant changes to the structures under which Cobo Center operate were instituted. In September of 2009, approval was given to an agreement between the state, city and the metropolitan area counties to create a new authority under which broad policy direction and day to day operational procedures for Cobo Center would be governed.

The Detroit Regional Convention Facility Authority ("DRCFA" or "Authority") is represented by a five member board whose members are appointed, one each, from the five government jurisdictions. The strategic focus for the DRCFA encompasses five areas related to Cobo Center:

- Financial stability and transparency
- Customer service improvement
- Facility improvement
- Staff training and responsiveness
- Communications and marketing

In February of 2010, the DRCFA adopted several key principals designed to guide their deliberations on future issues. These are summarized as follows:

Vision	*Cobo Center: Where the region comes together to serve you.*
Mission	*Cobo Center is a regional convention facility which provides flexible, full-service event expertise through outstanding customer service.*
Value Proposition	*To create increased measurable economic value to the region by providing a premiere convention and meeting center with flexible uses under one roof.*

By early 2010, the DRCFA had established a new Cobo Center operating entity inclusive of a CEO, CFO and other key leadership positions. Importantly, Center staff with expertise in the facility and its customer base were retained and a close working relationship between the new leadership and existing Center operations expertise was established.

Working together, the new team conducted extensive reviews of existing Cobo Center budget and financial conditions, implemented changes in key decision making procedures and controls, and continued to service important customers within the Center. Major vendor contracts have been reviewed and significant changes have taken place that will provide the Center with significant added revenue.

Important capital planning efforts were also launched, culminating in a three-phased effort targeting critical capital repairs, building systems improvements and overall enhancements designed to improve the functionality and marketability of the Center. A $3.0 million Phase I improvement effort was completed in December of 2009 encompassing upgrades to electrical and fire protection systems, roof repair and other elements critical to successfully producing the North American International Auto Show ("NAIAS" or "Auto Show"). The necessary elements of a Phase II effort have been identified, and include energy efficiency and building systems upgrades, improvements to Internet and audio/visual capacity, and various aesthetic improvements designed to enhance the customer experience.

As planning for Phase III improvements continue, it is important to consider that the DRCFA is, in effect, in the process of reintroducing a convention facility product into a very competitive market, supported in part by the investment of nearly $300 million. With the launching of a product in any industry, it is absolutely critical that a well-researched strategic plan be developed. The purpose of this strategic planning document is to provide guidance into areas that will significantly impact the long-term success of Cobo. Particular emphasis is placed on:

- Developing a Phase III expansion/improvement program plan that addresses the needs of existing Cobo customers, while providing features that increase the competitiveness of the Center for high-impact national conventions and tradeshows. We understand the unique nature of the International Auto Show within this context, and have considered both the significant economic impact of the event, as well as the facility needs of the broader national event market.
- Recommending Cobo Center operational structures designed to meet current industry standards. We note that while current building operational staff have a very detailed understanding of the Center and current customer needs, there are policy, procedural and organizational areas that have not fully responded to changes in the industry over the years. Our recommendations are designed to install a state-of-the-industry Cobo Center management approach.
- Recommending Cobo Center sales and marketing structures, incorporating the efforts of Center staff, as well as the significant efforts of the Detroit Metro Convention & Visitors Bureau. A seamless approach to the sales and marketing process is critical, and our recommendations are designed to enhance the effectiveness of the current approach.
- Evaluating the financial operating profile for Cobo Center, taking into consideration potential changes in financial operating performance, as well as the planned financial participation by the State. Working closely with the current Cobo Center management team, assessments are made as to the near and long-term financial landscape, and implications for future operating and capital funding needs.

Within the remainder of this Strategic Plan, the extensive industry research that has been conducted is summarized, and the specific recommendations are presented.

2.0 SUMMARY OF RESEARCH RESULTS

In developing strategic recommendations for an expanded/improved Cobo Center building program, operational structure, sales/marketing approach and financial operating characteristics, it is critical that significant research unique to Detroit's current and potential position in the convention and tradeshow industry be relied upon.

The specific areas of research summarized herein are as follows:

- Historical Cobo Center Event Performance
- Convention and Tradeshow Industry Trends
- Summary of Comparable and Competitive Facilities
- Event Planner Demand Research

A summary of the research conducted within each of these sections is presented below.

2.1 Historical Cobo Center Event Performance

We have prepared an inventory and analysis of key elements with respect to historical event levels and occupancy for Cobo Center. Understanding utilization levels, event mix and related operational characteristics of the facility is important in order to provide a basis from which to evaluate the magnitude of potential future demand.

2.1.1 Exhibit Space Events

The number of events utilizing exhibit space at the Cobo Center has fluctuated slightly over the four-year period analyzed (2007-2010), with a low of 41 events in 2010 and a high of 49 events in 2009. We have further segmented event data into what could be considered "high impact" events, in terms of their ability to generate significant amounts of economic impact within the community. In particular, this segment consists of events lasting multiple days and attracting 2,500 or more attendees, many of which are non-local in nature.

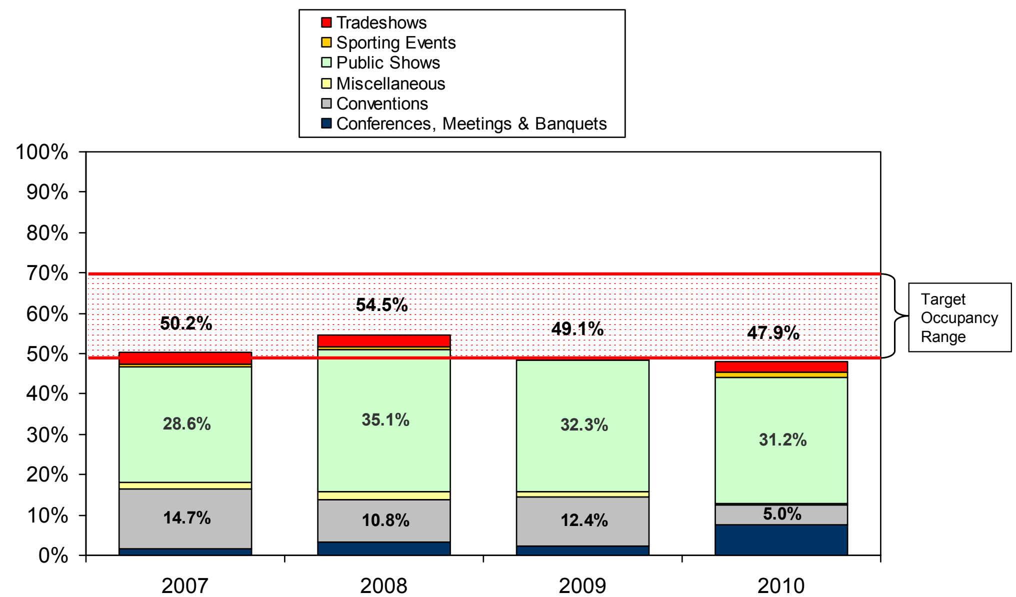
Over the four-year period analyzed, high impact events at the Cobo Center have decreased from 12 in 2007 to eight in 2008 to seven in both 2009 and 2010. These major event levels are low relative to typical event levels in other major markets throughout the country. For example, recent analyses of event levels at the primary convention facilities in Boston, San Diego and San Antonio indicated that these venues typically host 35 to 70 major conventions and tradeshows on an annual basis. We also note that over the past ten years, the number of organizations hosting recurring conventions and tradeshows at Cobo has dropped significantly, from approximately 15 down to two (NAIAS and various smaller SAE events).

2.1.2 Exhibit Space Occupancy

Occupancy levels, measured by dividing the occupied space by available space on an annual basis, can indicate the degree to which usage of the facility has reached a maximum capacity. Occupancy levels below 50 percent may be an indication of excess capacity in the market's convention facility or facilities. Above 70 percent occupancy, a facility may exceed "practical maximum capacity" and may be turning away significant business.

Exhibit 2-1 presents a summary of exhibit space occupancy by event type for all events utilizing exhibit space at the Cobo Center from 2007 through 2010.

Exhibit 2-1
Cobo Center Exhibit Space Occupancy
(2007 – 2010)



Note: Data does not include Michigan Hall or maintenance days.
Source: CSL International, facility management, 2010

From 2007 to 2010, exhibit space occupancy at the Cobo Center ranged from a low of 47.9 percent in 2010 to a high of 54.5 percent in 2008. These occupancy rates are near the low end of what is considered a practical capacity range. In fact, the Cobo Center's exhibit space utilization has fallen below the 50 percent threshold in each of the past two years. These data demonstrate that the event activity held at Cobo does not point to an obvious need for added exhibit space.

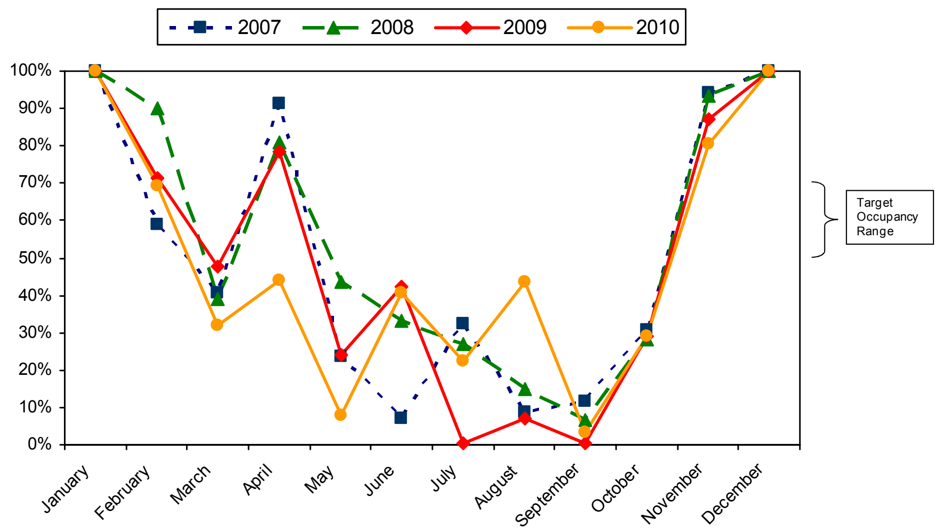
The utilization days for a center comprise all days during which an event is in set up mode, the event itself, and days required to tear down the setup. We note that current Cobo Center occupancy rates reflect a significant number of set up/tear down days for events using exhibit space. For example, in 2009, even excluding the Auto Show, just over 33 percent of total utilization days are comprised of event days. By comparison, approximately 46 to 47 percent of utilization days at the Boston Convention and Exhibition Center and San Antonio's Henry B. Gonzalez Convention Center are categorized as event days.

These statistics are important to consider in that event days serve to generate room nights and economic impact, while the set up/tear down days provide very little impact. The low proportion of event days at Cobo indicates a potential deficiency in overall building functionality.

2.1.3 Seasonality

Exhibit 2-2 presents the seasonality patterns with regard to exhibit space occupancy at Cobo Center from 2007 to 2010.

Exhibit 2-2
Total Exhibit Space Occupancy by Month
(2007 – 2010)



Note: Data includes only the contiguous exhibit space (599,000 GSF) and does not include maintenance days.
Source: CSL International, facility management, 2010

Clearly, event seasonality rates are strongest in the winter months corresponding to several major events, primarily the Auto Show. Occupancy levels drop significantly in the summer months, reflecting both low current demand for Cobo Center and national event seasonality patterns. Nationally-rotating events tend to peak in the spring and fall months, and significant Cobo Center inventory remains unused during the March through October period. Research presented later in this summary will address the market potential for attracting added event activity during this period.

2.2 Convention & Tradeshow Industry Trends

The market success of a convention center can be partially attributed to the characteristics of the industry as a whole. In order to assess the current and future strength of the market with regard to Cobo Center and the Detroit market, it is important to evaluate conditions with respect to the industry nationwide.

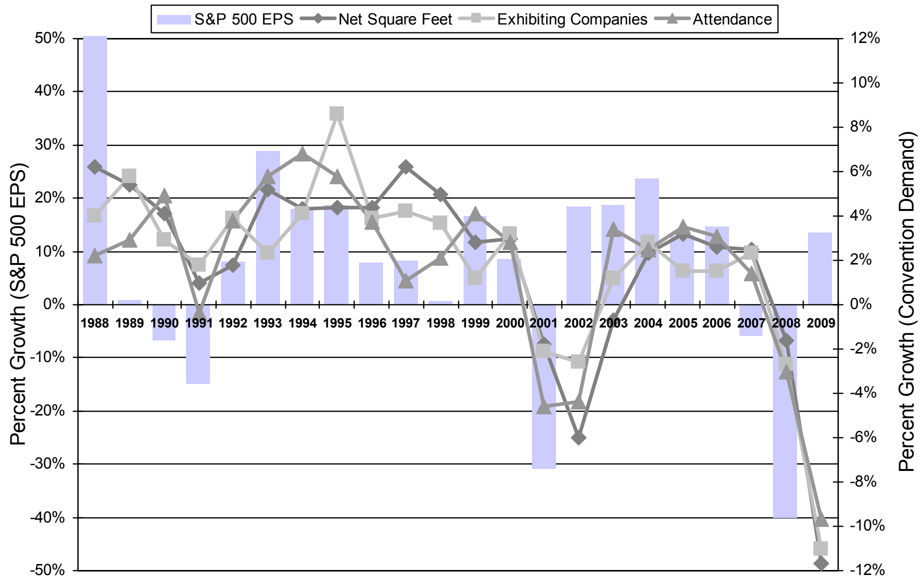
2.2.1 Industry Growth Measures

Three nationwide economic events have led to periods of retraction or growth moderation in the convention industry since 1987. During these periods (early 1990's, early 2000's and today), companies and associations cut spending on discretionary expenses including those for conventions. It is important to note that the recessionary period in the early 2000's carried with it the dramatic impacts of decreased demand for air travel due to the particular aspects of the 9/11 events. Similarly, the overall magnitude of the current economic downturn, often referred to as the "great recession", has had effects that are distinct and more dramatic as compared to previous recessions.

As a result, the convention industry is experiencing downturns that are more significant than in previous recessionary periods. For comparison, the more "traditional" (yet significant) recession of the late 1980's resulted in much less severe impacts on various measures of the convention industry.

To further explore the relationship between the convention industry and overall economic conditions, we present annual changes to S&P 500 earnings-per-share data along with the previous measures of convention performance.

Exhibit 2-3
Annual Changes to Large Convention Demand and S&P 500 EPS



Source: Tradeshow Week, 2010; Standard & Poor's, 2010

The correlation or linkages between overall economic performance and the national convention industry are highlighted when reviewing S&P earnings per share data. The negative overall economic growth in the three recessionary periods is clearly defined, as are the periods of economic and convention industry growth. In the two most recent recessionary periods, economic conditions were exacerbated by military conflict in the Gulf region. Looking at the 2001 through 2003 data, the lag time between S&P earnings growth and rebound in the convention industry could result from lingering effects of 9/11 and a continued reluctance to travel.

While S&P earnings began to increase again in 2009, convention industry demand measures dropped dramatically. This is likely a reflection of the holding pattern that many companies appear to be in with respect to hiring and spending. Decisions to reduce the number of personnel sent to industry conventions, and to reduce the number of conventions that the company participates in, are commonplace during economic downturns, even more so during the current recession.

At the same time, surveys of corporate executives indicate that the role of the convention and tradeshow in the sales, marketing, training, staff motivation and customer relations process will remain important into the future. If projections of future economic growth are generally accurate, and given the continued viability of the convention model as a means of conducting key elements of a successful business, it is likely that while the convention industry will continue to experience a downturn into 2010, a potential recovery in demand is likely to take place sometime in 2011.

Importantly, there is a great deal of speculation as to what an economic recovery will look like. It is very possible that Gross Domestic Product ("GDP") will grow around one percent nationally for the foreseeable future, compared to the one to three percent annual growth rates common over the past ten years. The more modest GDP growth rate could dampen annual growth in various convention and tradeshow demand measures.

A more modest annual growth in various domestic economic measures will have implications for future event activity at Cobo Center. In order to attract new events, it will be necessary to (1) take events that may otherwise have been held at competitive venues, and (2) to attract events tied to emerging industries such as sustainable/green energy, energy storage and others targeted by Detroit area economic development professionals. Detroit may be well-positioned, given the significant base of engineers and manufacturing expertise, to attract businesses and events in these industries.

We also note that there has been a great deal of discussion nationally as to convention center supply and demand conditions, with speculation as to potential overbuilding of convention centers around the country. Our research into convention center supply growth demonstrates an echo relationship of industry supply and demand over the past 18 years. Supply growth exceeded demand during the early 1990's, and new facility development leveled off through the later part of the decade. The growth in demand during the mid to late 1990's spurred communities to finance and construct convention center projects, with supply coming on line in the early 2000's. However, the corresponding significant downturn in demand created a gap in supply and demand that still exists today. Demand growth, as measured by the Center for Exhibition Industry Research (CEIR), began to rebound somewhat in 2002, actually outpacing supply growth between 2005 and 2007. In 2008 and 2009, measures of demand, both from Tradeshow Week and CEIR, showed significant declines. The industry is now in a period where demand growth is insufficient to maintain occupancy levels at existing centers, let alone absorb added supply.

A fundamental question is then whether or not demand will rebound to an extent necessary to create added pressure for increased space industry-wide. We continue to believe that demand for convention and tradeshow space is tied to the overall health of the economy, and that demand levels will rebound by 2011. At some point thereafter, even a more modest annual demand growth could begin to more fully absorb facility supply.

2.3 Summary of Competitive and Comparable Facilities

We have reviewed various physical characteristics and resources of both competitive and comparable facilities and communities. The data helps place the Detroit convention center product within a competitive and comparable market context with respect to facility space, hotel inventory and other related features.

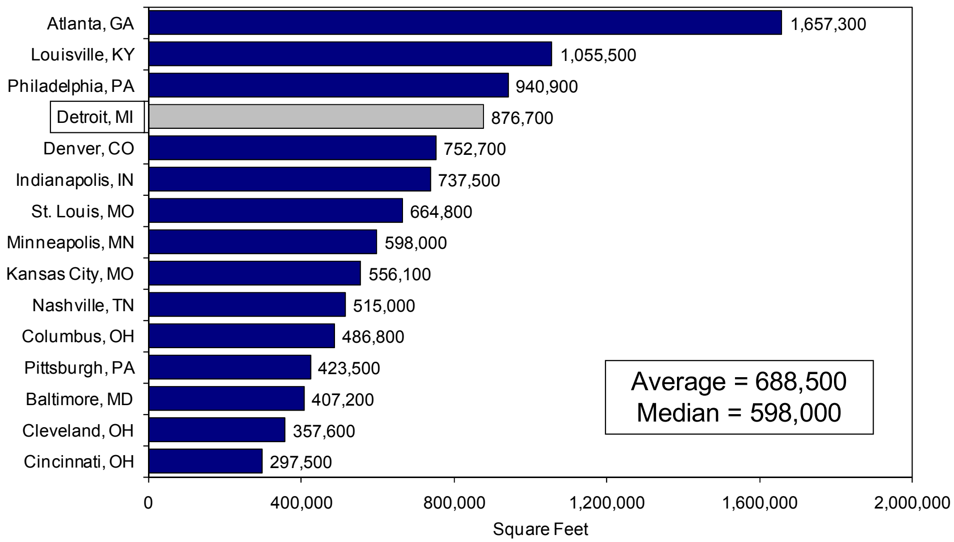
2.3.1 Convention Center Space

A convention center will typically offer exhibit, meeting and ballroom space in order to accommodate the needs of conventions and tradeshows. Our research with respect to Cobo Center in the context of 14 competitive and comparable facilities provides the following findings:

- The average competitive or comparable facility offers approximately 536,500 square feet of total prime exhibit space. The approximate 698,900 square feet of exhibit space currently available at the Cobo Center ranks fourth among the competitive and comparable facilities reviewed.
- Sufficient modern meeting and ballroom space is very important in attracting and accommodating events in the convention and tradeshow industry. The amount of meeting space is broadly distributed among the centers reviewed, averaging approximately 101,700 square feet. The approximately 129,000 square feet of meeting space available at the Cobo Center ranks fourth among the competitive set of facilities analyzed.
- Another important characteristic reviewed by event planners when selecting a potential facility is the amount of available ballroom space. This space can be used for general assemblies, product demonstrations, light exhibits, food and beverage functions and a variety of other uses. The average competitive and comparable facility offers a total of 50,300 square feet of ballroom space, including an average of 34,600 square feet of contiguous space. The Cobo Center offers approximately 48,800 square feet of total ballroom space, ranking ninth among the comparable and competitive facilities, and near the overall average. However, the 27,200 square feet of contiguous ballroom space at the Cobo Center ranks lowest among the 12 facilities analyzed that provide ballroom space.

We have also summarized the rankings of the competitive and comparable facilities analyzed in terms of total sellable space, which includes all available exhibition, meeting and ballroom space. This data is presented in the following exhibit.

Exhibit 2-4
Comparison of Total Sellable Space –
Competitive and Comparable Facilities



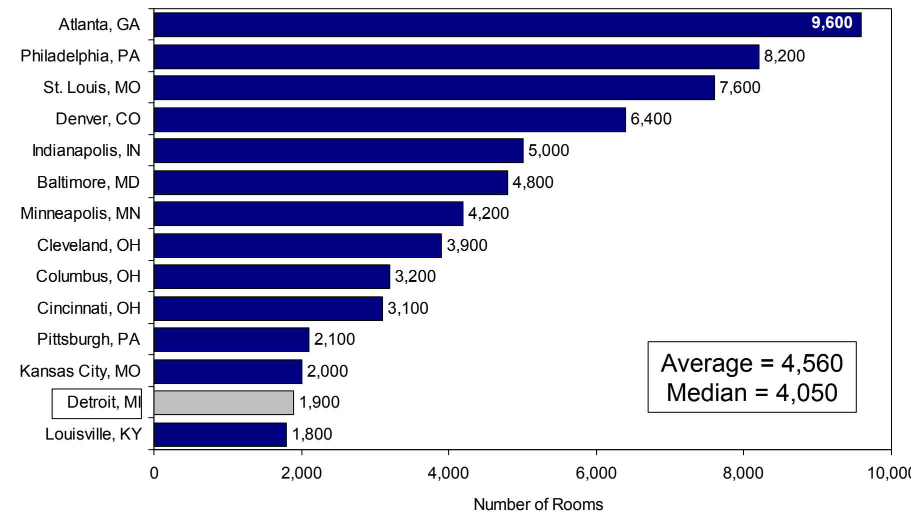
Source: facility floorplans, management, and industry publications, 2010

As shown, the amount of total sellable space offered at the competitive and comparable facilities reviewed varies widely, averaging approximately 688,500 square feet. The Georgia World Congress Center offers the most total sellable space, with approximately 1.7 million square feet. The approximately 876,700 square feet of total sellable space available at the Cobo Center ranks above the average and mid-point of the set of facilities reviewed and is comparable to such facilities as the Pennsylvania Convention Center (in Philadelphia) and the Colorado Convention Center (in Denver).

2.3.2 Hotel Room Inventory

As previously noted, the availability of hotel rooms to serve the requirements of the convention and tradeshow industry is a critical factor in the success of a public assembly facility. The inventory of hotel rooms in a community is measured in many different ways, including the inventory of hotel rooms within one-half mile of their respective convention centers. This is an important statistic because event planners typically prefer to assemble their room block in hotel properties located within a relatively short distance of the event facility. Exhibit 2-5 summarizes the number of hotel rooms located within one-half mile of each competitive and comparable convention center.

Exhibit 2-5
Comparison of Hotel Rooms Within ½ Mile –
Competitive and Comparable Facilities



Note: Nashville has been excluded due to lack of available data.
Source: Destination Marketing Association International CVB Organizational & Financial Profile, 2009; Convention and Visitors Bureaus, 2010.

With approximately 1,900 rooms within one-half mile, the hotel inventory proximate to Cobo Center ranks next to last among the competitive and comparable facilities reviewed. The relative lack of hotel room inventory proximate to Cobo Center represents a competitive disadvantage that will impact the level of nationally rotating convention and tradeshow activity that can be attracted to the market.

2.4 Event Planner Demand Research

To form a basis for the market demand analysis, detailed surveys were completed with meeting planners within various key segments that represent the existing and potential future event demand for Detroit. This data provides a basis for evaluating event potential in the Detroit market, and the facility and amenity characteristics needed to accommodate those markets. Internet-based surveys were completed with event planners with a history of utilizing event space at the Cobo Center, and telephone interviews were completed with approximately 125 convention and tradeshow event planners throughout the United States to evaluate current perceptions of Detroit as an event destination and opinions as to the future industry characteristics among the broader event market.

2.4.1 Analysis of Current and Past Cobo Center Users

In an effort to obtain useful feedback from event planners most familiar with the Detroit market, current and past users of the Cobo Center were surveyed via e-mail and asked to comment on various aspects of the Cobo Center and Detroit's convention package as a whole. Respondents were first asked to indicate the likelihood of their organization returning to the Cobo Center in the future. Responses among the organizations surveyed are summarized as follows.

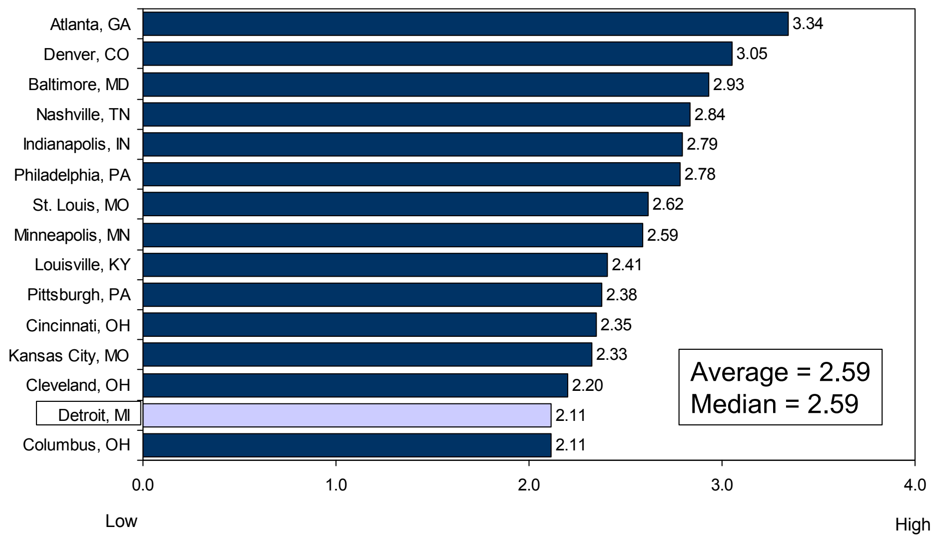
- Potential demand for additional meeting space among several users.
- Registration and circulation areas need to be larger.
- A facelift would be more aesthetically pleasing.
- Cobo is tired and sadly in need of major improvements to modernize and make it more state of the art and safe.
- Some of the complaints that we've received from participants is that they feel they are in a warehouse and it is so "cold" looking.
- It would be nice to have a ballroom with higher ceilings.
- We have experienced parking, service and quality issues.
- Parking needs to be improved.
- The only real problem is the one lane access to and from the facility and the relatively small loading dock.

2.4.2 Analysis of National Organization Market Demand

The survey sample of national conventions and tradeshows was selected through information contained in the empowerMINT database provided by Destination Marketing Association International ("DMAI"), which tracks thousands of nationally-rotating events.

As part of the national convention and tradeshow market analysis, overall industry perceptions were collected from those surveyed regarding the Detroit market in comparison with 14 other selected competitive and comparable markets. Event representatives were asked to rate these markets in terms of their ability to accommodate a successful event and the overall appeal and delegate perception of the market. Those questioned were asked to rate each market on a scale of one through five, with one representing the least desirable rating and five representing the most desirable rating. Exhibit 2-6 presents a summary for all respondents.

Exhibit 2-6
Ranking of Competitive and Comparable Markets (All Respondents) – National Organizations



Note: Data represented includes all organizations interviewed
Source: CSL Interviews, 2010

Atlanta and Denver ranked as the top two markets, with a 3.34 and 3.05 ranking, respectively. On average, the competitive and comparable markets reviewed received an overall rating of 2.59. Based on the survey research of all organizations interviewed, Detroit's rating of 2.11 was tied with Columbus, Ohio, for the lowest rating of the competitive and comparable set. Even when including only those respondents expressing a potential interest in the Cobo Center, Detroit's position remains near the bottom among the markets tested. Typically, we would anticipate a more significant increase in the Detroit market's ranking when only including responses from those with an interest in bringing events to the Cobo Center.

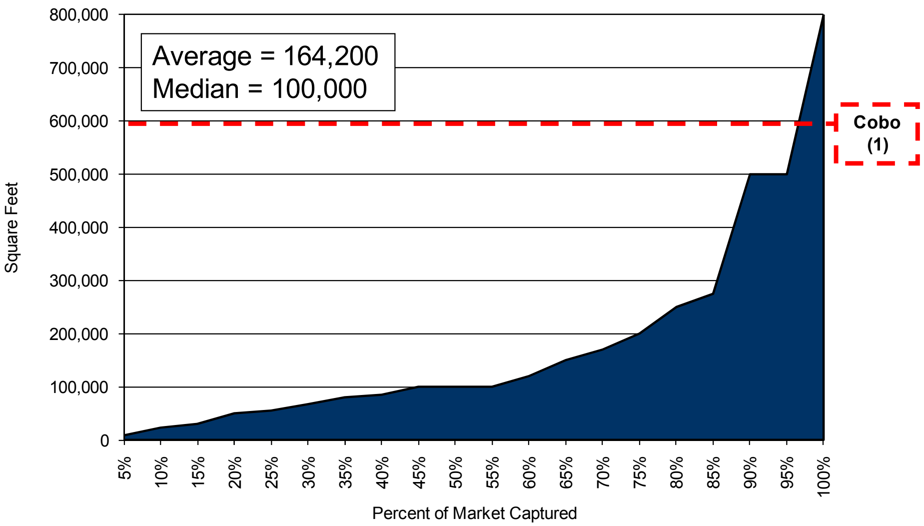
Following several introductory questions, some of which have been discussed previously, national organization event planners were asked to indicate the likelihood of their organization using the Cobo Center in the future, assuming the facility and surrounding hotel base met the needs of their event(s). Respondents were given various options of indicating interest in holding a future event in Detroit from "definitely" to "definitely not" hold an event. Interviews with national organization representatives indicated varying levels of response rates depending on the type of event. Based on these survey results, the positive response percentage ("definitely use", "likely use" and "possibly use") by national conventions and tradeshows approximates 45 percent. A significant percentage of this positive interest (34 percent) can be viewed as "tentative" interest (i.e. those that indicated "possibly" hold an event at the Cobo, rather than "likely" or "definitely").

To place these response rates in context, we have compared the Detroit/Cobo Center interest percentages to those resulting from surveys conducted by CSL in other large markets over the past several years. The Detroit market's 45 percent positive response rate is similar to the overall positive response rates for markets such as Kansas City, Milwaukee and Philadelphia, and lower that response rates for studies conducted in New Orleans, Seattle and Boston.

Several of the reasons indicated for lack of interest in bringing an event to Detroit cannot be addressed through improvements to the facility and convention/tradeshow amenities. For example, the most commonly cited reason for lack of interest in the Detroit market is that it does not lie within the rotational pattern currently implemented by organizers of the event. Similarly 27.5 percent cited weather concerns. These geography-driven factors cannot be controlled, however other reasons cited for lack of interest in the Detroit market could potentially be improved. For example, negative perceptions of the city, safety concerns and the perceived lack of entertainment and attractions could be addressed through improvements to the area surrounding the Cobo Center, increased marketing efforts to modify perceptions of the market and other such steps. Further, while weather concerns may always be present given Detroit's northern climate, it may be possible to reduce the impact of this negative perception by providing hotels and indoor entertainment options within close proximity to the Center, limiting guests' exposure to potential inclement weather.

In order to approximate event space requirements of the national event market specific to Detroit, event planners with a potential interest in the market were asked to estimate the average amount of exhibit, meeting and ballroom space required for their event(s). Responses for exhibit space square footage needs are outlined in Exhibit 2-7.

Exhibit 2-7
Summary of Exhibit Space Demand –
National Organizations



Note: Data represented includes all organizations with a potential interest in an expanded/improved Cobo Center.
(1) Represents the amount of contiguous space available at Cobo Center.
Source: CSL Interviews, 2010

As presented, the average national convention or tradeshow event with a potential interest in Detroit requires approximately 164,200 square feet of exhibit space. Fifty percent of the potential market consists of events requiring approximately 100,000 square feet of exhibit space or less. Approximately 90 percent of the potential national convention and tradeshow market expressing an interest in Detroit requires 500,000 square feet of exhibit space or less.

As previously discussed, meeting and event planners tend to prefer utilizing contiguous event space, and the largest contiguous exhibit space currently available within the Cobo Center is the estimated 600,000 square feet of space. This level of exhibit space is estimated to accommodate approximately 95 percent of the potential national convention and tradeshow market demand for Detroit. This represents a significant capture rate, and provides an indication that very few nationally-rotating conventions and tradeshows are lost to the Detroit market due to lack of exhibit space.

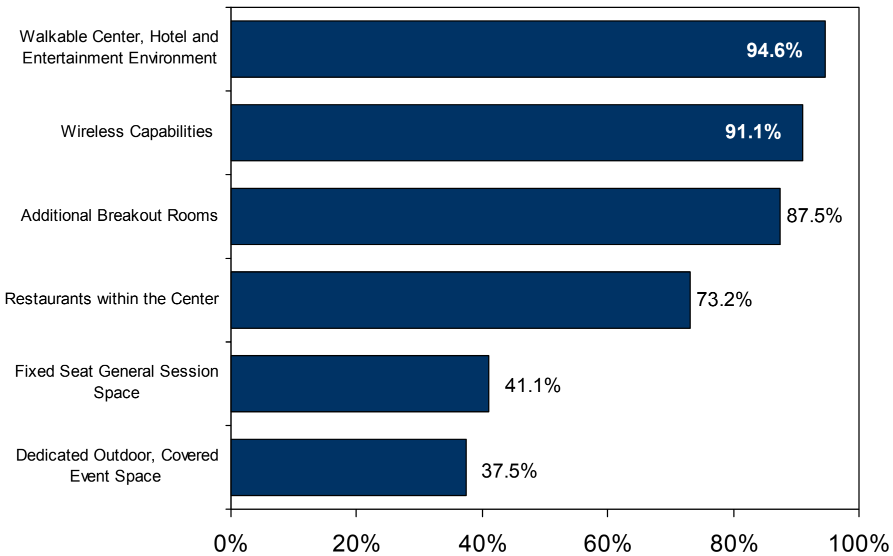
The current level of meeting space available at the Cobo Center (approximately 129,000 square feet) is estimated to accommodate approximately 95 percent of the national organization market when hosting a single event. It should be noted that this data does not take into consideration event planner concerns registered with regard to the layout and configuration of Cobo Center meeting space, as discussed later herein.

The Cobo Center currently offers 48,800 square feet of ballroom space, of which approximately 27,200 is contiguous. This amount of space is adequate to accommodate an estimated 80 to 85 percent of national organization demand. Challenges arise when the ballroom space is needed to accommodate multiple functions for an event such as a banquet and a general assembly. Given these demands, contiguous ballroom space at competitive and comparable centers averages 34,600, and newer center development projects include ballrooms with at least 50,000 contiguous square feet.

Approximately 95 percent of national organizations indicating a positive interest in the Detroit market require a headquarter hotel for their event. The average national convention or tradeshow event with a potential interest in rotating future events to the Cobo Center requires approximately 1,700 peak night hotel rooms. Approximately 90 percent of the potential national convention and tradeshow market consists of events requiring approximately 4,000 peak night hotel rooms or less. Based on the survey responses, the average organization indicating an interest in bringing an event to the Detroit market prefers a block of approximately 860 rooms at a headquarters hotel.

As part of our research, survey respondents were asked to identify which of several convention center and destination features are expected to increase in importance in the future. Results are presented in the following exhibit.

Exhibit 2-8
Convention Center & Destination Features Projected to Increase in Importance – National Organizations



Note: Data represented includes all organizations with a potential interest in an expanded or improved Cobo Center.
Source: CSL Interviews, 2010

As presented above, nearly 95 percent of respondents indicated that providing hotels and entertainment options within walking distance of the convention facility will increase in importance in future years. As cities throughout the country invest in quality convention centers, the ability to provide compact districts surrounding their convention center to create a superior attendee experience is becoming an important point of differentiation.

Approximately 91 percent attested to the growing importance of providing wireless Internet capabilities within the convention facility, evidence of the emerging trend toward greater technological capabilities. A significant majority of respondents indicated that providing additional breakout rooms and restaurants within the convention facility will also grow in importance in the future. Fewer than half of respondents indicated that additional fixed seating general session space or dedicated, outdoor, covered event space would increase in importance in future years.

Finally, national organization survey respondents were asked an open-ended question regarding their impressions of Detroit as a potential host market. The following is a sampling of their responses.

- I like it; it's right on the water, lots of dinning options.
- I like it, we've been there in the past and we would go back. They have a great convention and visitor's bureau.
- I was pleasantly surprised I actually like Detroit; the Cobo Center is close to the convention center.
- There is not much to do there or see it's very expensive and may have union issues - the work rules are very cumbersome.
- I don't see it as being a very attractive venue and city; it is nicely centrally located, but no real favorable opinion.
- Not very good; currently it doesn't have a lot of things we need and it has a bad reputation for crime. I need hotels close by and there needs to be more entertainment downtown which they don't have now.
- I only know about Detroit from what I read and it's not favorable; high unemployment, crime, depressed cities.
- I have concerns about safety issues in the downtown area; just the general safety of our attendees.
- I think it would be a hard to sell; Detroit doesn't have a good image.
- Right now it's questionable; the city is in a rough economic time right now.
- Not the most desirable; not a very green and environmentally friendly city.

Clearly there are perception issues that significantly and negatively impact the ability of Detroit to attract conventions and tradeshows. In addition, comments regarding the need for hotel rooms and entertainment within a walkable district surrounding the Center represent deficiencies in the overall Detroit convention product. The national perceptions of Detroit are likely at their worst point in many years. Improvements to this perception will be necessary in order to realize a material and sustained increase in convention and tradeshow activity. While changes in national perceptions will take a great deal of time and effort, there are signs of improvement in areas such as business development in the alternative fuels and sustainable energy industries.

3.0 SUMMARY OF PROJECT RECOMMENDATIONS

As noted in the introduction to this summary, the purpose of this strategic planning document is to provide well researched guidance into areas that will positively impact the long-term success of Cobo. Particular emphasis is placed on Cobo Center building program issues, operational structures, sales and marketing efforts and financial operating issues.

Within this section of the summary, we present our findings and recommendations.

3.1 Cobo Center Expansion & Improvement Program

In defining the space sizing and characteristics that represent market-supportable targets for a future Cobo Center, we have considered several important aspects. These include, but are not limited to the following:

- The North American International Auto Show represents a significant economic impact within the Detroit community, as well as an important revenue generator for Cobo Center. We have conducted several interviews with NAIAS representatives, and have considered current and future event space needs for this and other large events.
- The existing Cobo Center space can accommodate a very significant share of the existing national convention and tradeshow industry. It does not appear that the market is losing event activity due to a lack of facility size.
- The combined exhibit, meeting and ballroom space at the existing Cobo Center ranks fourth from among 14 competitive and comparable facilities reviewed.
- Occupancy levels at Cobo Center exhibit space have leveled off at approximately 50 percent, just reaching what is considered nationally as the low end of the target range for such venues. Occupancy levels at or above 70 percent tend to indicate a need for additional space.
- National industry trends suggest that the space needs for conventions and tradeshows have receded, lessening the national demand for exhibit space.

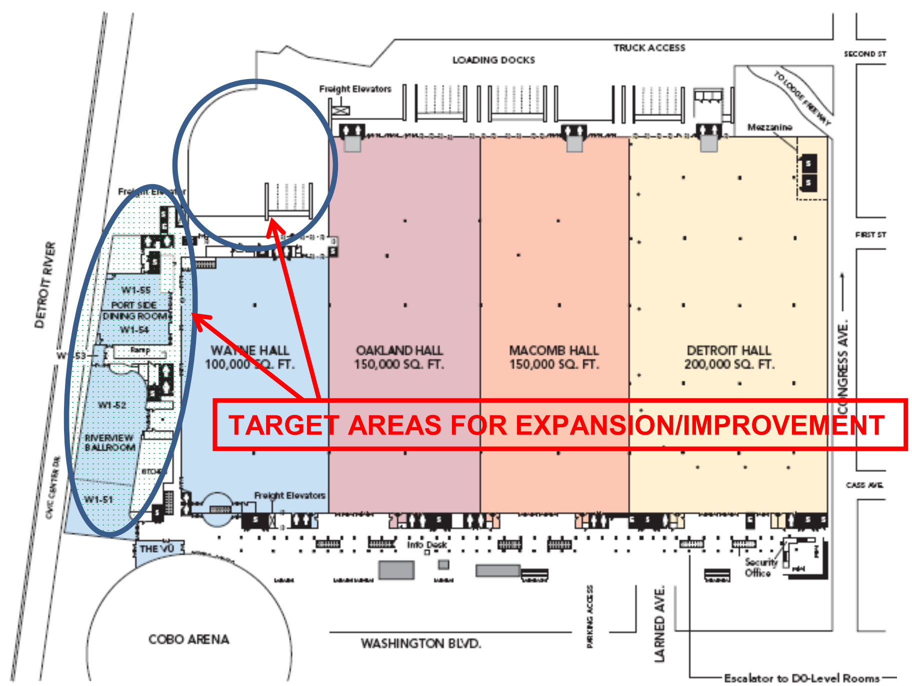
- Longer term, we expect that the convention and tradeshow will continue to be an integral component of conducting business, and demand for convention and tradeshow space will rebound.
- The site area in which the Cobo Center sits lacks restaurant, entertainment and hotel concentration. This will represent a competitive disadvantage as community leaders in other markets seek to create defined convention and entertainment districts.
- The futures of Cobo Arena and Joe Louis Arena are uncertain. Opportunities may exist to reposition the existing venues, or redevelop the sites on which the venues sit.

Based on these and other findings generated through the research conducted as part of the strategic plan, we recommend the following expansion/improvement components for the existing Cobo Center:

- Significant additions of space should not be a near-term priority.
- However, an addition of approximately 25,000 square feet of flexible space should be planned for. Characteristics of this space include:
  - Flexibility, accommodating exhibits, general session and food functions.
  - Focus on (1) southwest corner of existing exhibit space, and/or (2) renovation of Riverview Ballroom/Ambassador Dining Room and Port Side Dining room space.
  - Development of added/improved should be part of a reconfiguration of the south end of the Center.
- Extensive renovations and upgrades to other areas throughout the Center are critical, particularly in the vicinity of Michigan Hall.
- Address back of house issues, particular as they relate to servicing meeting and ballroom space.

The following exhibit presents the areas of the Center targeted for the construction of added space. One area consists of the location just west of Wayne Hall, and has been identified by represents of Center management and the Auto Show as an opportunity for both added space, and creating a more rectangular contiguous exhibit hall.

Exhibit 3-1
Potential Cobo Center Expansion/Reconstruction Scenarios



We also note that the existing Riverview Ballroom is undersized, and lacks many of the amenities included in modern convention center ballrooms (ceiling height, service access, finish, configuration, etc.). We recommend that this area of the Center be explored for possible demolition and replacement of space. Such a scenario could both add recommended space and address ballroom deficiencies in the Center.

It will require highly qualified and experienced architects and planners with extensive expertise in large conventions centers to review specific opportunities for adding and/or reconstructing space within the Center.

We have also taken into consideration the potential for Cobo Arena to contribute to the ability to accommodate convention and tradeshow activity in Detroit. There appear to be two primary options for repositioning Cobo Arena to increase the attractiveness of the overall Cobo Center complex.

(1) Preliminary plans have been developed to convert the existing Arena into a multi-use general session hall. The space would be equipped with retractable seating to create a performance/lecture space. With the seating pushed back, a large floor area would be accessible for exhibits, displays, banquets and other functions. The entire space would be visually contiguous with other Cobo Center prefunction and event spaces.

(2) Consideration could be given to creating a visitor generating attraction on the Arena site. This would help address the lack of activity within the Cobo Center vicinity, could help activate the waterfront, and could serve as more effective link from Cobo Center to the River. Opportunities could be explored to create very unique spaces within the attraction for use by convention and trade events held at Cobo.

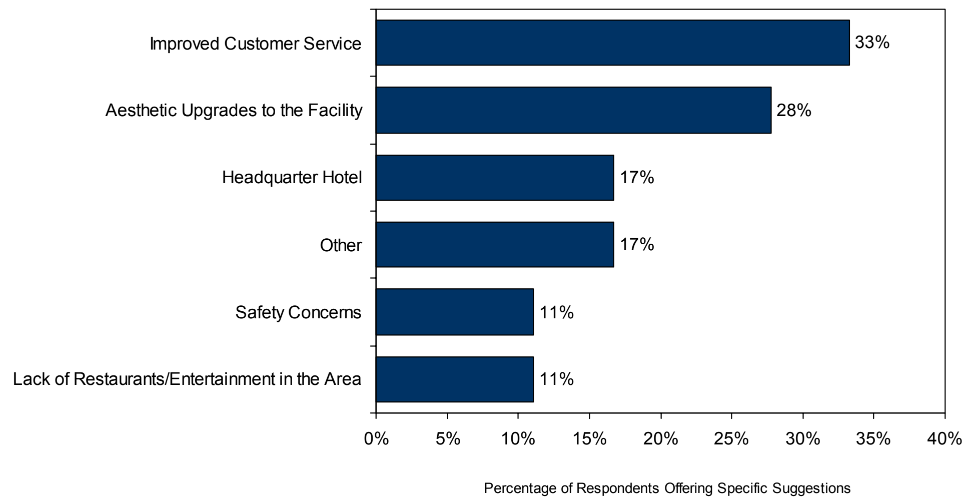
It is not possible to select one or either of these options without additional research as to cost, constructability, financing, operations and related issues. However, the concepts summarized above each have the potential to offer Cobo Center an important and attractive competitive advantage as event planners consider Detroit among other regional and national destinations as an event host.

Beyond the facility issues associated with Cobo Center, research demonstrates that the areas surrounding the Center, the district in which the Center sits, needs to be considered as part of long-term efforts to improve the Detroit convention and tradeshow product. The importance of creating an active district inclusive of entertainment, restaurants, hotel inventory and other visitor assets in a walkable environment is cited by national event planners as the top emerging characteristic in terms of creating a desirable event destination. DRCFA and DMCVB officials should undertake a destination planning exercise encompassing the visitor industry assets within the downtown area, a block by block assessment of the parcels within the vicinity of Cobo Center, and the linkages (pedestrian and public transportation) between Cobo Center and various downtown visitor industry amenities.

3.2 Cobo Center Operations

CSL conducted an online interview with planners of events that have been held at Cobo Center in the past. A summary of suggestions that could improve the Center or Detroit as a host market is presented in the following exhibit.

Exhibit 3-2
Comments on Future Cobo Center Improvements



Note: Data represented includes all organizations interviewed. "Other" suggestions include issues related to parking, transportation and cost.
Source: CSL Interviews, 2010

As noted above, enhanced customer service is the most referenced element of improvement, followed by aesthetic upgrades to the Center. Specific event planner comments include the following:

- Proper staffing is a make-it or break-it deal for anyplace in any city. We need "can do" attitudes with high work ethics.
- We tried to bring a sizable conference to Cobo, but decided not to because we can't get estimates on what the cost would be.
- I had to schedule so many different things and companies from cleaning bathrooms to having bottled water for presenters to having different companies for A/V and the Internet service.
- The cost to have an event there is high. The rent for the Cobo Center is comparable but the "extras" are what run the costs high and the quality is not comparable.
- Some of the partners (cleaning, parking, and catering especially) need a lot of help. We understand that a new caterer will begin in May.
- Address labor costs.
- The ability to use technology and the cost associated with use of technology is exorbitant and may prevent us from returning.
- Quality and service of food and beverage service is an issue.

As part of our research, we also have had the opportunity to work with current Cobo Center management and operations personnel. While we have not conducted a formal operational review, we have made observations with respect to current operational conditions. We note that relatively little change-over in key operating personnel has taken place over the years. While this level of continuity can be beneficial, it appears to have created a situation whereby national industry changes to the way centers service events, contract with vendors, price the facility and services, and conduct the sales/marketing effort have not been fully reflected in the operations of Cobo Center.

We have also researched the opinions of other key stakeholders including planners of major conventions and tradeshows, DMCVB sales staff and leadership, and representatives of key vendors operating in the facility. There appears to be a general sense that some type of new approach to Center management is necessary to represent to the broader convention and tradeshow industry that important changes to Cobo Center are being undertaken.

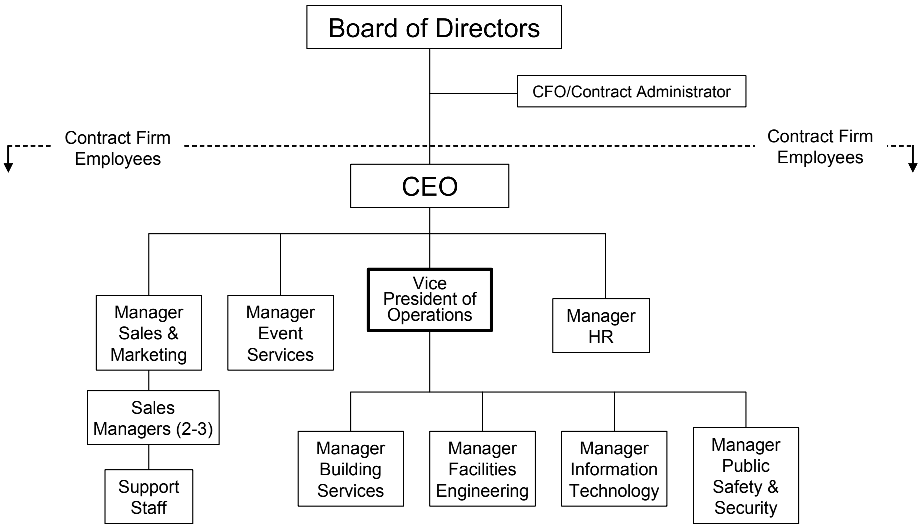
There are two general methods of achieving a change in management approach; (1) retaining a new CEO to implement changes to structures and policies over a one to two year period; and (2) retaining a qualified private management firm to implement a rapid change in Center management approach.

It is clear from our research that Detroit as a convention destination, and Cobo Center as a facility, are not perceived positively within the industry. There is an opportunity, through a significant and impactful change to management approach, to send a signal to the broader industry that positive changes are taking place with respect to the Detroit convention and tradeshow product. We believe that the most effective way to take advantage of this opportunity is to introduce a contract management firm with extensive expertise in the industry. Such an initiative would clearly signal to the national convention and tradeshow industry that a new approach to various management aspects will be implemented quickly.

In pursuing this option, a Request for Proposals should be developed to solicit qualified firms to propose an approach to operating Cobo Center facilities. Once a firm is selected, a relatively rapid, six month period of policy transition could be implemented. Extensive outreach to current and potential customers should be undertaken to ensure that the new management approach receives the broadest possible exposure.

The following exhibit presents a potential version of the Cobo Center organizational structure that could be considered.

Exhibit 3-3
Recommended Cobo Center Operating Structure – Contract Management



Under this structure, the Authority maintains ultimate control over operational policy and philosophy, and would retain a contract administrator and small staff to administrator a contract with a private firm to operate the Center.

A contract management firm would provide a general manager to administer the overall operations of the Center. The contract management company and the appointed general manager would rapidly install a management structure with appointment of key staff. We expect that the majority of existing Cobo Center staff would be retained under the contract management structure.

We would also expect that the selected contract management firm would utilize their national convention center management resources to create a near immediate set of fundamental enhancements to Cobo Center management structures and policies. The Detroit Metro Convention and Visitors Bureau ("DMCVB"), as the primary marketing agency for Cobo Center, would highlight the new management approach as part of their national convention and tradeshow sales and marketing effort.

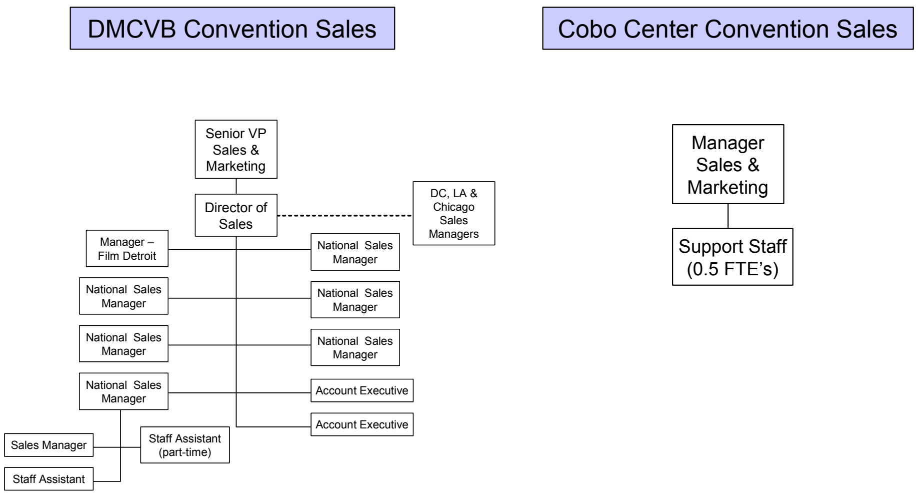
3.3 Cobo Center Sales and Marketing

In a highly competitive industry, it is critical that the sales and marketing effort be afforded adequate resources in terms of budget, staffing and expertise. In Detroit, the DMCVB provides primary sales and marketing efforts for Cobo Center. This type of arrangement is common in the industry, with a CVB traditionally responsible for all sales and marketing efforts designed to attract non-local convention, trade and meeting events. The rationale for this model relates to the requirements of the event planner. Planners, particularly those of large city-wide events, require assistance in developing hotel room blocks, local transportation and shuttling, event entertainment, attendee and spousal entertainment programs and related efforts. A CVB is uniquely structured to address the myriad requirements of event planners.

It is typically the responsibility of center sales/marketing staff to prospect and sell events that book within 12 to 18 months, as events booking within this window have in the past drawn attendees primarily from the local area. Center sales staff are also typically responsible for advising and consulting with operations personnel during the sales process, producing center promotional material, and preparing formal proposals. Center sales staff will also conduct tours of the facility and collect and review post event evaluations from planners/attendees.

The following exhibit highlights the current staffing and organization associated with DMCVB and Cobo Center event sales and marketing efforts.

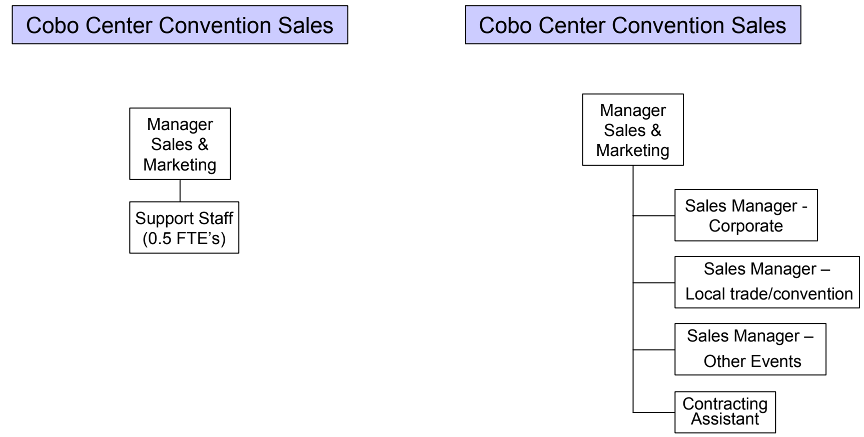
Exhibit 3-4
Existing Cobo Center Sales Staffing & Structures



While we have not conducted an internal analysis of DMCVB sales and marketing efforts, the structure in place appears to reflect a standard industry approach. However, the staffing housed at Cobo Center diverges significantly from approaches typically seen at larger market convention and tradeshow venues.

The staffing and structure currently in place consists of a single manager and one part-time support position. These resources are insufficient to address the responsibilities of a center sales department. The following exhibit presents a recommended staffing level and structure for a Cobo Center sales department.

Exhibit 3-5
Recommended Cobo Center Sales Department



As noted above, we recommend a Cobo Center sales department with four sales professionals and a support position. The ultimately approved number and allocation of sales staff should be carefully reviewed by Cobo Center management in conjunction with leadership at the DMCVB.

Beyond structure and staffing, it is critical to formally define the specific roles obligations of both the DMCVB and Center with respect to convention and tradeshow sales and service. We recommend that a formal written agreement be drafted that defines the responsibilities of both the DMCVB and Cobo Center management. A brief summary of the types of responsibilities that should be reflected in such a formal agreement include the following.

DMCVB Responsibilities

- Create and implement a comprehensive annual sales and marketing plan designed to attract room night generating events.
- Serve as primary respondent to RFP leads.
- Conduct in-person presentations to prospective clients.
- Service non-facility related needs of booked events.

- Include Center sales and management personnel in planning sessions used to create Center sales/marketing materials and strategies.

Cobo Center Responsibilities

- Maintain a clean, safe and secure facility.
- Respond to requests regarding pricing, availability, contracting, etc. in a timely manner suitable to the needs of event planners.
- Participate in pre-convention meetings.
- Provide event production and support services in a professional and customer-friendly manner.

Finally, we recommend that the written agreement between the DMCVB and the Center include a focus on facility pricing and discounting. Given that Cobo Center rates have not been significantly adjusted for many years, current research should be conducted to establish a competitive base level of rent. Agreed-upon policies for discounting from base rent should then be established. The conditions under which discounting should take place for a particular event and by how much should be based on factors such as:

- Number of hotel rooms and economic impact generated.
- Amount of building revenue generated from non-rental sources.
- Potential for the event to recur in future years.
- Past Center use during the dates being considered (dates on which the Center has not traditionally been occupied extensively may receive greater discounts).
- Potential for the event to generate positive national exposure for the city and Center.

These factors should be refined and included in a specific form that is used by DMCVB and Center management as part of the process of considering discounting or providing other financial incentives.

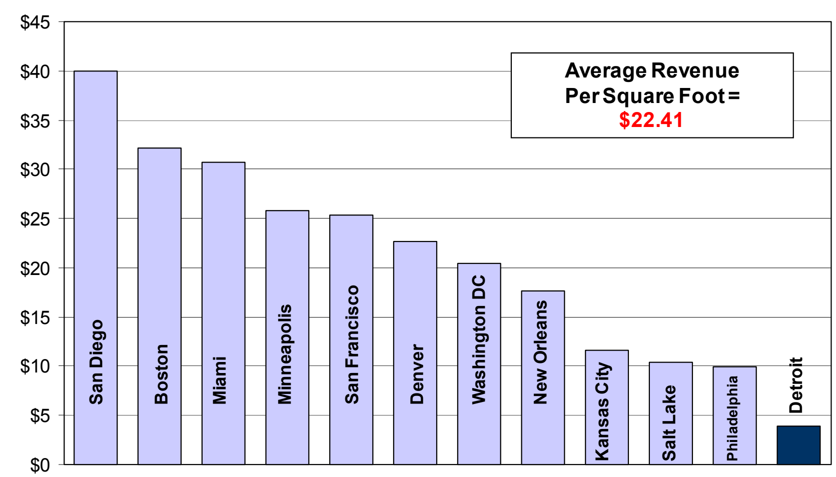
3.4 Cobo Center Financial Operating Conditions

The long-term success of Cobo Center will depend not simply on the ability to attract added convention and tradeshow events, but also on the long-term financial viability of the overall operation. Today, the DRCFA relies on various revenue streams to support Cobo Center operations including state contributions and Center operating revenue. The state contribution is currently set at $11 million annually, but will decline over time to $5 million and, under current plans, will eventually be discontinued.

The financial operating performance of Cobo Center has been carefully evaluated as part of this strategic planning process. We have reviewed recent Center operating revenues and expenses as compared to a variety of competitive and comparable centers, and have worked with Center staff to develop models for assessing potential future financial operating performance.

The following exhibit presents operating revenue per-square-foot of sellable space at Cobo Center, as well as for the comparable/competitive facility set.

Exhibit 3-6
Summary of Per-Square-Foot Operating Revenue



Note: Average excludes Cobo Center
Source: CSL, facility management, 2010

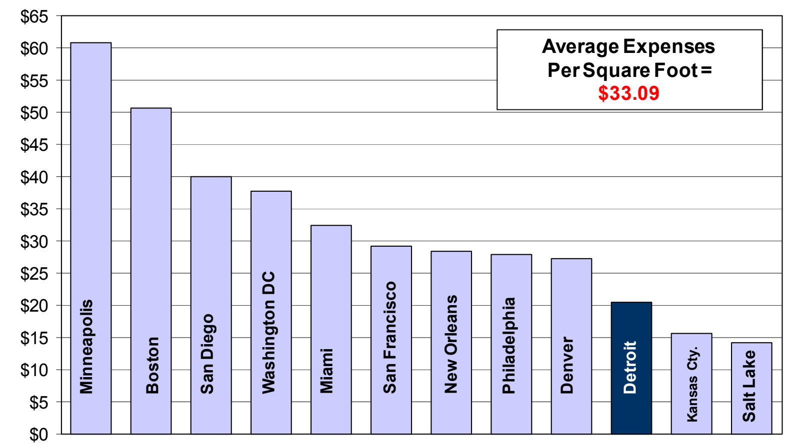
As noted above, the revenue generated at Cobo Center is very low relative to the other centers reviewed. Opportunities to increase revenue include securing more favorable vendor contracts as has been undertaken with respect to catering (newly negotiated contract) and electrical service (newly negotiated contract). In addition, attracting added convention and tradeshow events would increase Cobo revenue.

As part of our analysis, we have developed estimates of the potential for increasing convention and tradeshow activity at Cobo Center, assuming the facility, operational and sales/marketing improvements are implemented as presented herein. As previously noted, national convention and tradeshow event levels at major market centers around the country tend to range between 35 and 70 events annually. At Cobo, this number has remained at 13 to 17 events over the past four years.

By the sixth year of expanded/improved Cobo Center operations, we have assumed that an additional six national convention and trade events could be attracted, which when combined with the recent average for these events held at Cobo would yield less than total 21 events annually. This is still below the range established in other large markets. Successfully attracting and sustain events at this level will also require changes to the general perception of Detroit in terms of its viability as a convention destination, and improvements to the visitor appeal within the district surrounding the Center. Additionally, the development of a true convention center headquarter hotel would be very beneficial in sustaining higher event levels; however, given the current financing climate and hotel conditions in Detroit, such a project can only be viewed as a long-term initiative. The relatively low number of projected added events reflects the current hotel configuration.

Based on our analysis, the resulting revenue per-square-foot could increase to $11.80, still well below the average of other centers reviewed. We have also analyzed operating expenses at Cobo and for the competitive/comparable facility set. The following exhibit presents operating expenses on a per-square-foot of sellable space basis.

Exhibit 3-7
Summary of Per-Square-Foot Operating Expenses



Note: Average excludes Cobo Center
Source: CSL, facility management, 2010

As noted above, operating expenses at Cobo Center are somewhat low with respect to competitive and comparable facilities. As a result, we are reluctant to suggest that future Cobo operating expenses could be reduced. For purposes of this analysis, we have projected annual increases of between two and four percent over a ten-year analysis period. The larger percentage increases correspond to years in which added event activity is assumed.

Given the assumptions relative to future operating revenues and expenses, as well as the base case analysis of financial operations prepared by Cobo Center staff, the financial operating model reflects an annual operating subsidy requirement of approximately $13.2 million to $14.8 million over the analysis period. This would place Cobo Center operating performance within the range established by centers in Boston, Philadelphia and Washington D.C. Conversely, centers in San Diego, Miami Beach and San Francisco operate with significantly lower subsidies; however, we view the large east coast markets as more comparable in terms of labor situation and climate.

Given the currently planned level of state contribution and the estimated Cobo Center financial operating levels, the effective DRCFA fund balance cannot be sustained at a positive level for more than two to four years. Some form of added subsidy will be needed to sustain a positive DRCFA fund balance over the long term. Center staff have worked extensively to evaluate opportunities to leverage existing approved funding as part of a financial operating solution, and this process is on-going. Additionally, other revenue streams commonly used throughout the country to fund convention center operations and debt could be explored. These include funds from an increase in the hotel tax, added food and beverage taxes (city wide or within a district in the downtown area impacted by Center operations), added taxi cab fees, car rental taxes, or other visitor-oriented revenue sources.

3.5 Next Steps

Within this strategic planning document, we have presented a set of findings and recommendations designed to improve the overall Cobo Center building program, operations and sales/marketing structure. Certainly many of these initiatives cannot be considered short-term efforts, rather they should be viewed as long-term planning and implementation initiatives.

Within this section, we present a summary of the timeframe under which the process to implement the various recommendations should be initiated.

Exhibit 3-8
Summary of Implementation Timing

Future Project Task	Project Timeframe
Finalize the key Cobo enhancement/expansion parameters	DRCFA concencus - 60 days
Retain nationally recognized convention center project architects	RFP issue in September/October
Solicit event planner feedback using customer advisory board	On-going process initiating in July
Prepare a destination development plan	Initiate in July
Retain contract management firm	RFP issue in July/August
Formalize sales and marketing agreements with CVB	60 day process to start in July
Evaluate revenue and partnership issues:	On-going process initiating in July
• Refine projections	
• Potential public sector support	
• Potential private sector support	

As presented, the implementation process for the various recommendations could start at various points between July and September of this year, allowing for a 60-day period for the DRCFA to reach consensus on the scope and details of the various recommendations.

Specific steps that can be undertaken quickly include the initiation of the contract management RFP process and preparing a destination development plan for the downtown area. Discussions as to formal DMCVB/Center interparty agreements regarding various sales and operational responsibilities can begin once the building manager is selected, concluding within two to three months. Once consensus is reached on the ultimate program of desired Center improvements and expansions, the RFP process for project architects could commence. Finally, addressing the DRCFA financial operating situation is of utmost importance, and Cobo staff is working aggressively on various solutions.