



Commonwealth of Massachusetts

Decision Points for
Massachusetts Convention Center Boston Facilities

September 16 and 19, 2019

Overview

MCCA has reached a turning point for its two Boston facilities due to:

- Normal competitive pressures and evolving market demands in the convention and event industry over the past 15 years
- Increasing capital demands required to address normal life cycle capital replacement projects and to modernize facilities to respond to shifts in the market and ensure continued growth
- Dramatic changes in land use in Seaport and Back Bay neighborhoods over the last decade, which now have resulted in a major inflection point—and opportunity—immediately at hand

How can the Commonwealth and MCCA achieve best outcomes and maximize value of available resources?

Two Facilities with Diverging Prospects

1 Boston Convention and Exhibition Center (BCEC)

- Operating at a high level of utilization and improving cash flow
- Near peak capacity based on current inventory and type of available event space
- Need to expand and update facility to meet evolving market demand:
 - More space and greater variety of spaces to remain competitive
 - Second ballroom and additional exhibit hall to allow closer scheduling of major events and enable continuous revenue-generating activity
 - Increases in overall revenue and operational efficiency
 - Steadier bookings to attract needed hotel development
 - Migration toward higher quality, higher-yield business mix
 - Multi-day events with higher-spending attendees and associations
 - BCEC as marketplace convening industries rather than venue hosting shows
- Facility design will accommodate new spaces that can flexibly respond to evolving user needs
- Expansion will encourage commercial development on private land to connect BCEC more completely to vibrant Seaport/Innovation District neighborhood

Two Facilities with Diverging Prospects

2 Hynes Convention Center

- Substantially underperforms peer facilities in comparable markets
- Event mix includes lower-margin and fill-in or overflow business that drives proportionately lower values in hotel nights and associated economic activity
- Key limitations are antiquated layout and design and predictable losses to BCEC in competition for events and access to hotel rooms
- 40+ year old facility with key building systems requiring replacement along with substantial regular on-going capital needs:
 - \$25-30 million in required systems replacement in next 24 months
 - Nearly \$200 million in capital maintenance required over next 10 years
- Dramatic changes in neighboring property uses under way
 - Major shifts in surrounding land uses are accelerating
 - Hynes land has enormous unlocked financial value as MCCA capital source and unrealized public value as re-imagined center of Back Bay

Rationalizing MCCA Boston Portfolio

Current market conditions create opportunity and impetus to act:

- Two-venue arrangement is inefficient
 - Redundant costs without corresponding return in revenue or other, ancillary benefits
 - Most desirable Hynes bookings can be consolidated at expanded BCEC
- Neighboring properties also face challenges that may undercut long-term viability of Hynes as a convention venue:
 - Nearby third-party owned commercial properties also require significant capital investment and possible redevelopment
 - Planned neighborhood construction projects over next 3 years will substantially restrict access to Hynes loading areas, adding cost and complication to exhibitors
- Ongoing redevelopment projects nearby highlight accelerating change in property uses surrounding Hynes location:
 - 888 Boylston: Class A office recently completed by Boston Properties
 - 1 Dalton Street: Four Seasons Hotel and luxury condominium nearly complete
 - Dalton Street garage: planned redevelopment as mixed rate residential

Comparable transactions indicate enormous unrealized capital value of Hynes site

Capitalizing on the Opportunity

Sale of Hynes and reinvestment of proceeds in BCEC would:

- Provide capital required for BCEC expansion and modernization
- Reduce financial burden on taxpayers and preserve Commonwealth creditworthiness
- Permit MCCA to consolidate Boston event business in an optimized BCEC
 - increased efficiency and offerings for a full range of large and small events
 - no MCCA job loss as Hynes business migrates to BCEC
- Support long-term sustainability of MCCA, BCEC, and the Convention Center Fund
- Open up a major Back Bay land parcel for creative redevelopment that could significantly influence the ongoing re-making of the surrounding neighborhood

The highest and best use of the Hynes site is to enable new Back Bay development and to provide capital funding for an optimized BCEC

Strategic Investment in BCEC

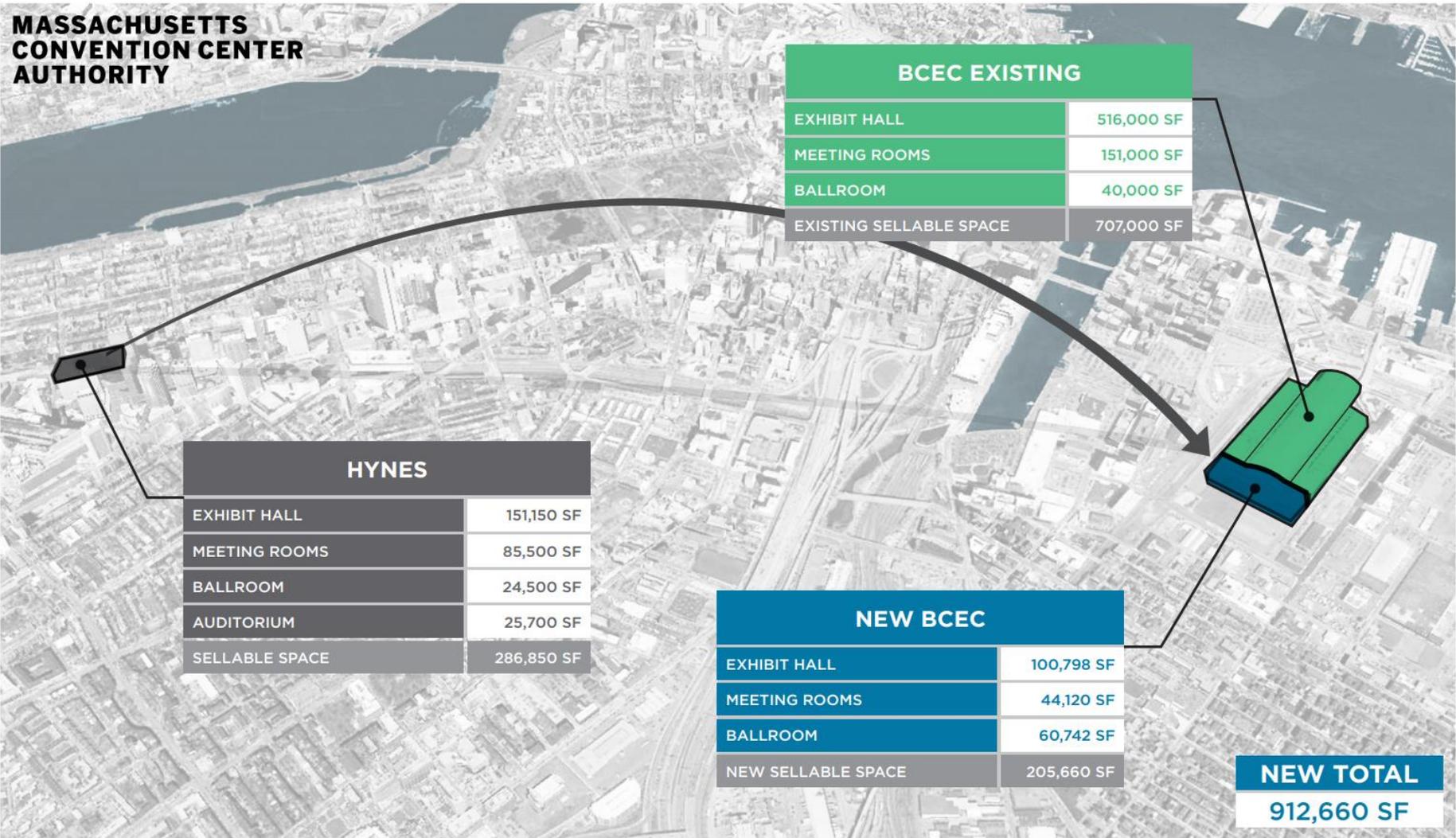
Key elements of BCEC proposed improvement and expansion plan:

- 100,000 square foot additional exhibit hall
- 60,500 square foot flex Ballroom
- 44,000 square feet in additional meeting rooms
- No new debt
- Creates conditions to support commercial development of surrounding property by existing private landowners
- Returns to City of Boston remaining, unused portion of BCEC land originally purchased by City to assemble BCEC site

Consolidating Boston's convention business at an optimized BCEC provides the most efficient and fiscally responsible approach to maximizing economic benefits to the Commonwealth for the future

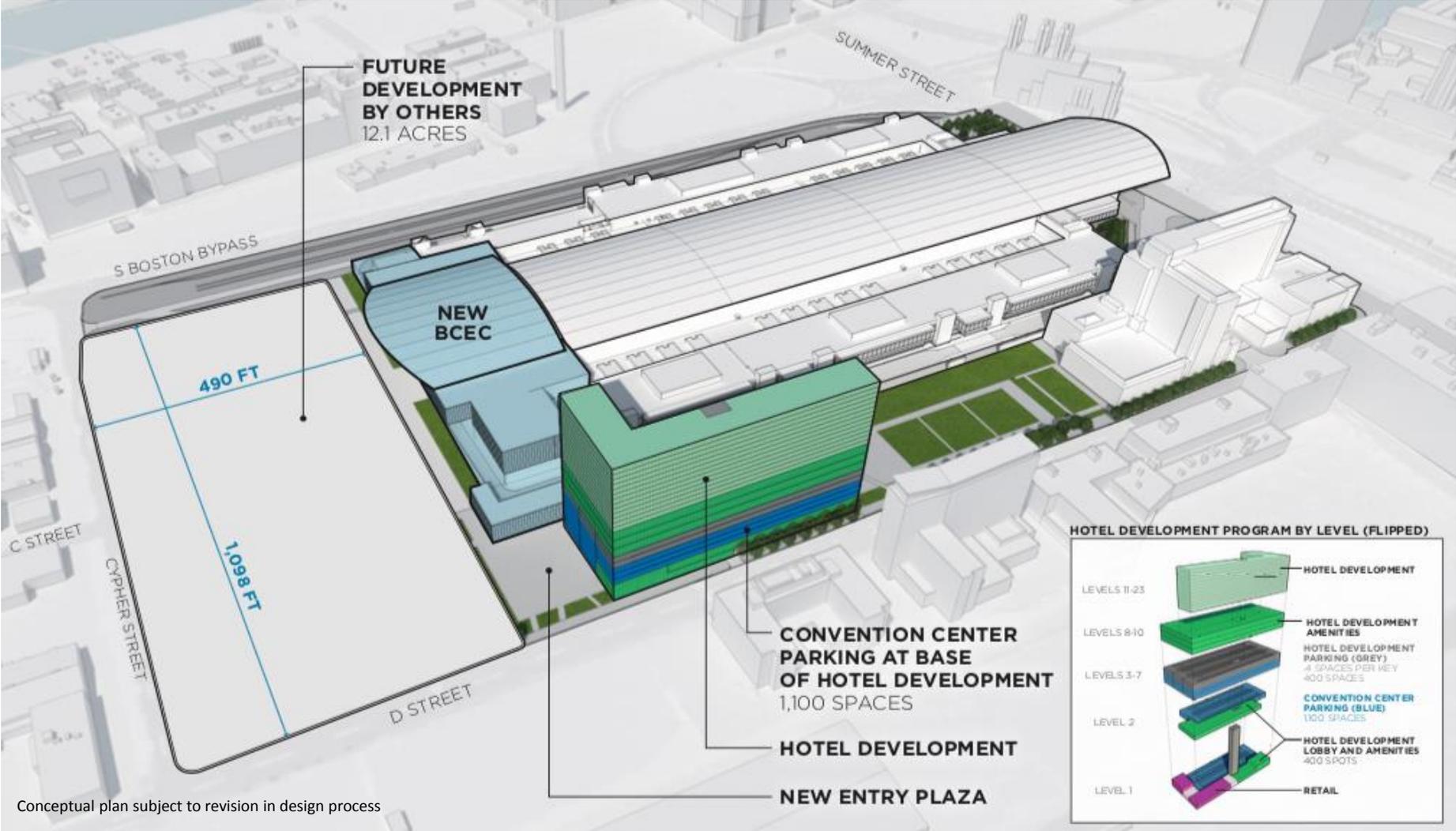
Strategic Investment in BCEC

Key elements of BCEC proposed improvement and expansion plan



Proposed BCEC Design

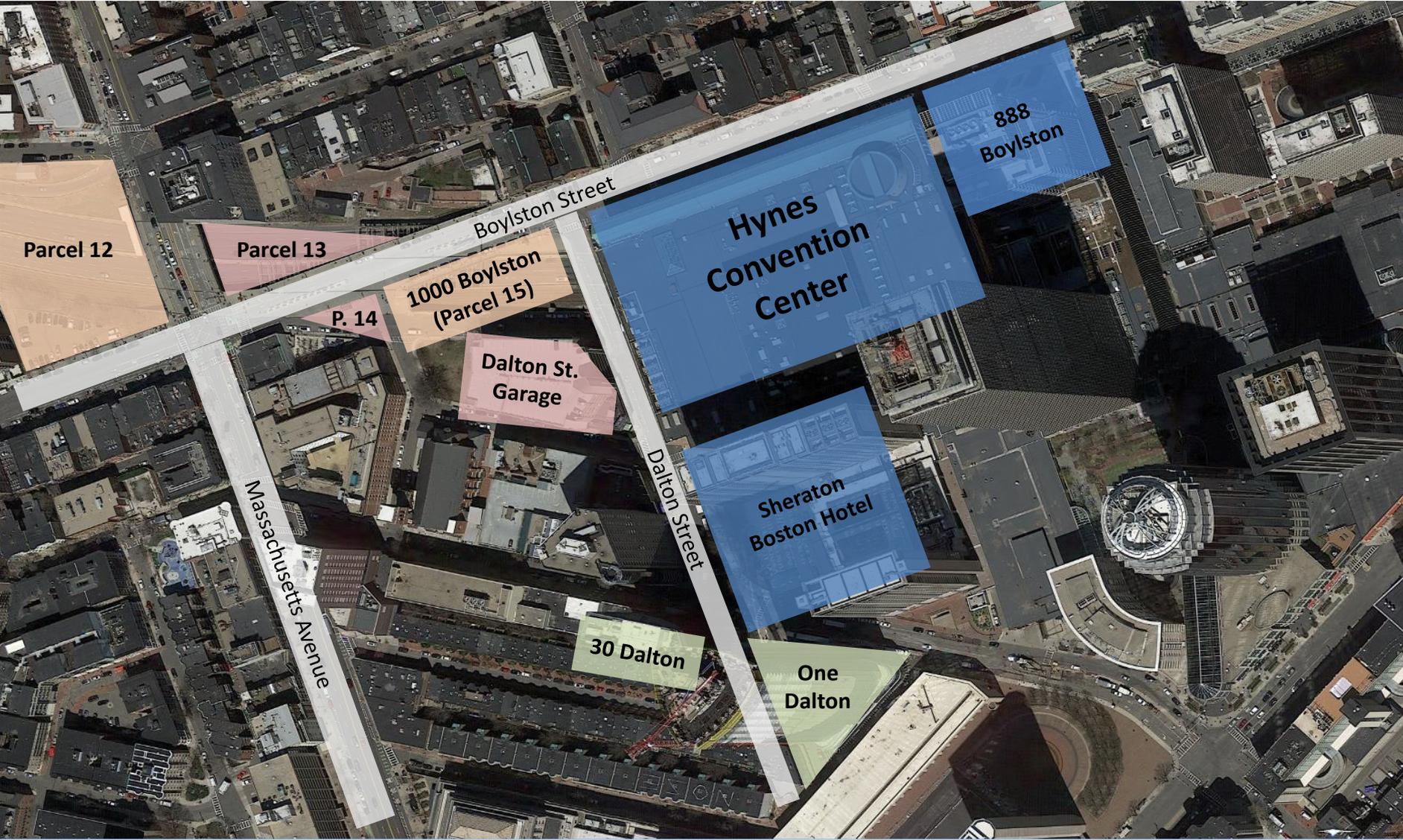
Key elements of BCEC proposed improvement and expansion plan



Projects in motion surrounding Hynes Convention Center



Major properties and development parcels surrounding Hynes Convention Center



Hynes Opportunities and Challenges

Strengths

- Back Bay neighborhood appeals to smaller clients willing to overlook practical limitations of venue, but existing hotel meeting spaces can easily fill this demand
- Facility can work reasonably well for small and medium sized meetings that utilize upper floors, but again existing hotels can fill this need

Opportunities

- Consistently underperforms venues of similar size in other leading markets
- Underperformance in some degree structural as Hynes must compete with BCEC for available hotel inventory
- Limitations of structure and lack of available land severely limit re-design options

Challenges

- Exhibit Halls sit on different levels—no contiguous, expansive space
- Interior columns limit layout options and make space undesirable for show managers
- Tight urban environment adds complication and expense to loading and unloading
 - Requires use of marshaling yards in Allston/Brighton
 - Further difficulties will result from neighborhood construction for next 3-5 years
- Aging structure requires continuing capital investment disproportionate to economic returns of venue—many building systems now at end of life and logistically difficult to replace

BCEC Opportunities and Challenges

Strengths

Location

- Innovation District supports draw of Boston as marketplace for exchange of ideas and hub of innovation economy
- 7 minutes from Logan Airport
- Immediately accessible from I-90 and I-93

Design

- Wide spreads of column-free, contiguous space
- Architectural icon with natural light and highly functional spaces
- Facility design and available contiguous land provide for flexible expansion and response to changing trends over time

Opportunities

- Outperforms venues of similar size in other leading markets
- High demand from top-level corporations and associations currently outstripping availability
- Property is scalable for additional capacity – allows for addition of needed exhibit hall space, second ballroom, and large meeting rooms

Challenges

- Some major groups have outgrown currently available space and hotel capacity
- Single ballroom located at one end of property limits ability to maximize steady stream of activity—load next event while current event in progress
- Current lack of immediately proximate hotel inventory
- Need for addition of large meeting rooms to match industry trends
- Need to update current food and beverage concepts

Facility Snapshot and Comparison

	BCEC	Hynes
Year completed	2002	1963
Total cost	\$850 million	N/A
Most recent significant capital update	Capital maintenance spending commencing	1988
Square footage		
Exhibition	516,000	175,000
Meeting	161,000 (80 rooms)	91,000 (37 rooms)
Ballroom	41,000	25,000
Tenants	FedEx Business Center	Capital Grille, Towne Restaurant, FedEx Business Center
Summary financials (FY19 projected)		
Revenue	\$39,400,000	\$15,600,000
Direct expense	\$35,800,000	\$15,900,000
Pre-overhead profit/loss	\$3,600,000	(\$250,000)
Debt against property	\$700 million	None
Required capital expenditures		
Projected 10 year average spend	\$39 million per year	\$17.6 million per year
Exhibit hall occupancy (2018 PWC report)		
Actual occupancy	68%	44%
Major markets (30,000+ hotel rooms)	62%	62%
Similarly sized facilities	63%	47%
Employees		
FTE	221	72
FTE sales	12	6

Source: MCCA reports