

Notes on my meeting with Chuck Skelton

I heard about Chuck Skelton from John Hansen. John recommended that I meet with Mr. Skelton to learn more about hotels and hotel placement when John and I met for breakfast last fall. Chuck Skelton is president of Hospitality Advisors Consulting Group which performs site analysis, feasibility and valuation of hotels all over the country.

It took several months to get together. Finally, Peter Allen was able to arrange a meeting, and also attended.

We met at Casey's.

Peter and Chuck arrived together, but during the course of the conversation, several things became clear. They hadn't discussed the various proposals together before we met. Chuck had read the Valiant proposal but not the others; Peter hadn't. Chuck was familiar with the current demand for conference space in Ann Arbor; Peter wasn't. Everything Chuck had to say was as new to Peter as it was to me.

I came prepared with general questions, but most of them became unnecessary as Chuck brought his own narrative to the table. I've rearranged the order of information, but not altered what I learned.

The following is Chuck's take on the viability downtown.

Coincidentally, Chuck was asked by Fritz Seyfirth, a long time friend of his, to meet with Bruce Zenkel and the president of a hotel management company. The meeting took place nearly a year ago. Mr. Zenkel described a facility much larger than ultimately proposed and asked Chuck what he thought.

Chuck informed them that market conditions nationally were bad and Michigan was the worst market in the country. At that time, full service hotels (those with restaurants and meeting space) in Ann Arbor were performing in the low 60% occupancy range (he advised us that at year end '09 they had deteriorated to 55%) and that those in the downtown area were performing below that level. (He relayed to us that a rule of thumb is that full service hotels need to perform at around 60-65% to break even. At lower levels they typically are losing money). He also related that the historical growth in the full service segment in Ann Arbor was about ½ % per year over the past seven years. He also relayed that average rates for hotels in Ann Arbor had grown at only about 1 ½% per year over that same period and that currently full service rates are around \$99. These factors have eroded hotel values. Needless to say the hotel developers were surprised and stated that it was always difficult to get rooms when they came into town and that rates were always above \$200 at the Campus Inn. When asked when it was that they came to town they admitted it was typically during football season and graduation. Chuck stated that those were the exceptions and from November through March one could find significantly lower rates.

I asked about the impact of building any of the hotels proposed on the existing hotels. Chuck said that given the historical growth in the market the addition of new rooms of any kind would impact the existing properties both downtown and on the perimeter negatively. He stated that he did not believe the conference center proposed by Valiant would have much impact as it is really not large enough to generate new demand but would only further divide existing business. He suggested that if a conference center were built it would need to be twice as big as the one proposed to have much impact on the market as that would allow the convention bureau to reach out to new markets instead of the ones it already serves. He warned however that meeting and convention business is on the decline nationally and any facility would be risky and more than likely would not pay for itself though there could be some economic impact if in fact the new markets could be attracted.

Chuck stated that regionally conference and convention centers are struggling as corporate meetings are declining and in some markets are off 30-50%. Companies are doing many more virtual meetings and the younger generation is taking to it like has not happened in the past. Twenty years ago trade show and corporate training meetings in smaller markets like Ann Arbor were flourishing. However over the last decade these smaller venues are propping up such facilities and they have become competition for private sector facilities as business has diminished.

He stated that it was interesting that all three proposals for hotels that were presented in response to the RFP

expected some level of support from the City. He seemed most familiar with the Valiant proposal but had some knowledge of all three that included lodging. He felt that any lodging/meeting project had inherent risk but particularly at this time in slow growth markets. Additionally, he said that in a small market like Ann Arbor there would be an impact on existing businesses. Typically, if the prospects were economically sound the City would not have to provide financing assistance.

Near the end of the meeting, Peter Allen asked, “ You mean there is no way a hotel can be successful? How about a boutique hotel?” Chuck responded by saying, “It is doubtful at this time given these market conditions.”

Peter responded, “You mean, Dahlmann’s right?” Mr. Skelton had not read Dahlmann’s proposal.