Analysing Economic Promises from a Developer: The Case of The George Hotel and Residences

George Hotel Proposal View from Harbour Application Drawing Town of Gibsons

If The George Hotel as proposed had fit into the Zoning Bylaw and the Official Community Plan (OCP) of the Town of Gibsons, there would be no need to analyse its financial and economic data. But, since September 2012, the developer has been marketing his proposal based specifically on economic promises that sound very attractive, while assuming that the Town Council will grant significant variances and concessions in return. If trade-offs are to be made, then Gibsons Town Council and taxpayers alike need to understand what they are likely to get in return.

There are eight steps that we need to take when evaluating economic promises in this or any similar project. We can explore these steps using specific data from the recently-completed expert report, Economic Impact Analysis of The George Proposal.

Step 1: Identify the downside risks to be managed

In any business proposition, there is a best case scenario (which the developer has presented), a worst case scenario that we need to guard against, and a likely scenario. A best case scenario is just that – what the developer wishes for or wants others to believe will occur in the future. It is like hoping we will win the lottery when we buy a lotto ticket even though the chances are extremely unlikely.

Just as there is a best case scenario, there is always a worst case scenario – what could happen if we are not careful. Possible worst case scenarios are not reasons to abandon a project; rather they provide alerts about what risks we need to manage if we want an attractive likely scenario instead.

In the case of The George, we can identify a range of risks to guard against. Here are a few examples: The developer could request a municipal property tax holiday or abandon a large "white elephant" on the shoreline if the hotel is not successful.

By creating a new commercial/community hub in the Landing (with retail, restaurants, and a spa), The George could draw business away from Landing (and other Gibsons) merchants. If The George were to use "loss leader" pricing to fill rooms, local hotels and B&Bs could be put out of business.

Since the developer has stated on the Smart Development Checklist that no features have been built into The George to offset the costs of the ongoing operation, maintenance and eventual replacement of the public service infrastructure needed by The George, the taxpayers would assume that unknown financial burden going forward.

If a new business starts up within OCP and zoning guidelines and is more successful than existing businesses, so be it. But if a new business is more profitable because of significant concessions from the Town that existing businesses were not given, that is another matter. Under that scenario, an uneven playing field would have been created, and we would need to figure out how to even it up.

Step 2: Identify the necessary constraints

There are always constraints on development in a community in order to balance conflicting interests and ensure that core community values are respected. Development submissions in the Town of Gibsons are governed primarily by the OCP and the Zoning Bylaw. Within the OCP, the Harbour Area Plan has as its first goal: "Retain the scale and character of the Harbour Area," detailed as "ensure new development is compatible in scale with existing development in the Harbour Area" and "ensure new development evokes a west-coast, seaside village feel."

Other relevant statements include "seeks to maintain the 'small-town atmosphere'" (section 1.4) and "village scale and character" (section 2.1). Development Permit Area No. 5, within which The George would fall, states guidelines such as “village in scale” and “human in scale.” For the area known as the Village Waterfront along the foreshore near the post office, the Zoning Bylaw sets height restrictions at 7.5 meters north of Winn Road (next to Winegarden Park) and 10.0 meters south of Winn Road.

In the case of The George, the present design contravenes both the OCP and the Zoning Bylaw. It is urban in design and almost three times higher than the allowed height. In searching for options, we would want to ensure that the alternative was smaller and more in keeping with a village (rather than an urban) “feel.”

Step 3: Identify the relevant benchmarks

In order to analyse financial or economic data, we need benchmarks or industry best practices against which to evaluate them. These benchmarks are usually published by industry associations (like the Hotel Association of Canada) or organizations that measure and publish industry trends (like the Canadian Monthly Lodging Outlook or Western Investor) or statistical agencies (like Statistics Canada or BC Stats). When a commercial venture conforms to those benchmarks or best practices, it increases its likelihood of profitability. When it violates those benchmarks or best practices, its likelihood of profitability drops and questions need to be asked.

In the case of The George, we can identify a number of industry benchmarks to use in analysis, for example:
Occupancy rate 63% [the developer also states 63%] Staff per room 0.62 [The George proposes 1.33]
Conference space 5,900 sq. ft. [The George proposes 14,000 sq. ft.] Spa space 4,000 sq. ft. [The George proposes 9,000 sq. ft.]

We can also identify benchmark numbers for statements like “The George will diversify the Gibsons economy” – the relevant benchmark from BC Stats indicates that the Gibsons economy is already well diversified. Or for statements like “The George will reduce unemployment” – the reported unemployment rate in Gibsons currently stands at a low 4.8% compared with 7.5% for the province as a whole.

Step 4: Identify the actual reference groups

If a promise of benefits is relevant, it needs to provide those benefits to the group from which concessions are expected. All too often the benefits statement is general (“this will provide long-term benefits”) without being clear about precisely who will benefit.

In the case of The George, concessions are being asked of the taxpayers in Gibsons while many of the benefits are actually stated as being for (a) the Sunshine Coast as a whole rather than specifically for Gibsons, or (b) are for the developer, not the community at large. For example, the full statement from the developer was that The George will “reduce unemployment on the Sunshine Coast,” not “reduce unemployment in Gibsons.” The unemployment rate in Sechelt is reported as 7.8% (compared to 4.8% in Gibsons). Jobs created at the hotel will not necessarily go to Gibsons residents. They could very well be awarded to persons who would live (and spend their money) elsewhere on the Coast or who would commute from the mainland.

As another example, a promise has been made of $7.9 million in spending from at least 32,000 new visitors, with an implication that current Gibsons merchants (especially those in the Landing) will benefit. Careful analysis shows, though, that virtually all of those new visitors would be staying (and likely eating) at The George and most, if not all, of the spending would be within The George (lodging, meals, retail, spa), not in the community at large.

Step 5: Identify the external factors that will affect success

No commercial venture occurs in a vacuum. The success of ventures in the tourism and hospitality sector are directly influenced by factors like the propensity of visitors to travel, the impact of foreign exchange rates on the cost of transportation, environmental factors like severe weather, social or political unrest, shifting preferences for various destinations, and the choices available to visitors at a given destination. The conference market in particular is also affected by technology enhancements that increasingly support teleconferencing and “virtual conferences” rather than travel to a conference destination.

In the application from the developer, a promise is made that The George will “stabilize” the Gibsons economy. The American College of Real Estate Lawyers is on record as stating that “hotels are among the most economically fragile, capital intensive, failure-prone forms of real estate development.” So one would not look to a new hotel development to provide economic stability. It is almost impossible to predict what the BC tourism market will be like in three years. At the present time, hotel occupancy in BC is lagging behind Canada as a whole.

There is also the competitive environment on the Coast once visitors have chosen the Coast as their destination. In the initial February 2013 application, the numbers cited by the developer indicated an average per night room rate of $223, which would put The George in competition with the four other resort hotels on the Coast rather than with local lodging. In his statement to the Advisory Planning Commission in November 2013, however, the proponent stated that The George would begin by charging $105 (and up) per night. That room rate would put The George in direct competition with all hotels and B&Bs in the Gibsons area – a positioning with a very different likely economic impact for the Gibsons business community.

Step 6: Examine the time line implied

One of the ways that we can misinterpret economic data is by not recognizing the underlying time frame. In order to compare apples with apples instead of oranges, we need to make sure that we are using a common frame of reference throughout the analysis. One statistical technique used to achieve this end when financial benefits occur at different times is to bring all calculations back to present time – a technique known as calculating net present value.

In the case of The George, we have at least two examples where time needs to be taken into account. The first is the developer's statement that $1 million in annual property taxes means $87 million over 50 years. Our first adjustment to a figure like this needs to be to quote it in "present time" rather than "future time" since other figures refer to the present, not 50 years hence. The second adjustment is to use a more common 25-year time frame. Instead of $87 million, these adjustments would give us a net present value for $1 million of $18.9 million.

A second example is the promise of 245 construction "man years." Our question needs to be how "man years" translate into employment, which is stated everywhere else as number of persons. To answer this question, we need to make an assumption about how long construction will take. If we assume two years, then 245 man years would translate into 122.5 full-time equivalent two-year jobs.

Step 7: Examine the composition of numbers cited

Thinking again about not mixing apples and oranges, we need to be careful that any single number is comprised of the same kind of components. If we talk about number of staff jobs, then we either need to be referring to direct hires or we need to specific that "x" number of jobs are direct hires and that "y" number of jobs are projected spin-off employment elsewhere. And we need to be careful not to double count or be overly inclusive.

The property taxes promised in The George proposal are a good case in point. First, the $1 million figure is not property taxes that would accrue to Gibsons. Only approximately $315,675 of that starting figure would be municipal property taxes (the rest would go to the province). Second, property taxes are already being paid on the properties involved so to cite the full $315,675 would be double counting. We need to subtract the approximately $11,845 already being paid annually in order to arrive at a more realistic figure of $303,830 that might be paid in municipal taxes for both the hotel and the condos, or $5.7 million over 25 years (net present value). Further adjustments are also needed to arrive at the likely net amount of municipal property tax revenues, but the figures shown illustrate the process.

Data cited on construction man years and staffing patterns provide other examples of adjustments needed. When examined more closely, only 183 construction man years (or 92.5 full-time equivalents) would be direct on-site employment during construction, of which an unknown but probably low percentage of those hired might actually be Gibsons residents. The rest are predicted as spin-off jobs, which would likely to be created in Lower Mainland wholesale suppliers.

Staffing patterns are a similar mixture, this time being a composite of 60% full-time and 40% part-time employment (out of the latest figure of 157 staff). The average wage being cited is based on "annualized" salaries for part-time staff rather than on the actual amounts that would be paid. For 43% of staff other than senior managers, the annual wages work out to be approximately $23,000 or less.

Step 8: Test conclusions through triangulation

Just as the economic figures presented by the developer need to be examined, so too do the industry benchmarks. A general average for Canada, for example, might not apply in BC. The process of testing is often referred to as "triangulation, " a concept borrowed from navigational techniques. The idea is that we can be more confident in a conclusion if two or more different methods or sources provide approximately the same result.

In drawing conclusions about the likely economic impact of The George, here are two examples of triangulation. First we can consider the expected annual average occupancy rate, which takes into account that occupancy will vary throughout the year (high season, low season, shoulder seasons). The Hotel Association of Canada gives an average occupancy rate as 63%. Is that likely for The George? G.P Rollo states 63% as the expected occupancy rate for The George, so that is one cross-verifying source. The Canadian Monthly Lodging Outlook, as another cross-verifying source, cites an average occupancy rate for BC hotels as being 55.1%-64.8%. Taking these three sources together, we can conclude that a 63% occupancy rate is not too low and is, if anything, slightly optimistic.

A second example is the matter of conference space. The developer is planning for 14,000 square feet of conference space, with the statement: “The scale and size of the conference facility…is an offering that does not exist in the Gibsons area.” That amount of space may be unique for a reason – is it actually realistic? One industry benchmark is 50 square feet per room, which would suggest 5,900 square feet as an appropriate size for a 118-room hotel. Hotel conference planning tools indicate that meetings of 250 people need between 3,100 and 5,000 square feet in space, and that 14,000 square feet is an appropriate size for a gathering of around 1,100 people.

Examination of meeting room space at the Pan Pacific Hotel in Vancouver (excluding the exhibition space) indicates that this more than 500-room hotel has 9,018 square feet in meeting room space on the lobby level and a total of 28,194 square feet throughout the hotel. So is 14,000 square feet an appropriate and profitable choice for a 118 room hotel? Probably not.

From the above discussion, we can see the care that we need to exercise whenever we are made promises that seem almost too good to be true. Buyer beware – or in this case, taxpayer beware. Ask questions instead of accepting numbers at face value.

So what about The George Hotel and Residences as proposed, requiring major concessions from Gibsons taxpayers? Look at the attached Economic Impact Analysis of The George Proposal and see if you agree that The George as proposed could cost Gibsons more that it would gain for its concessions. Then think about a less risky, more beneficial alternative – a 56-room boutique hotel, designed to blend into the Landing, with a residence complex of 20 condominiums and a different marketing strategy that would build a steady stream of repeat business for events of up to 250 people.

Which option is really better for Gibsons?

Economic-Impact-Analysis-of-The-George-Proposal.pdf

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