DEMAND AND SUPPLY OF EXHIBITION FACILITIES IN HONG KONG

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by
Crow Maunsell Management Consultants
in association with
OGDEN International Facilities Corporation & GHK (HK) Ltd

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Crow Maunsell Management Consultants in association with Ogden International Facilities Corporation and GHK Hong Kong Ltd were commissioned by the Commerce, Industry and Technology Bureau to provide advice in response to the Atrium Proposal presented by the Trade Development Council to provide additional exhibition space at the Hong Kong Convention and Exhibition Centre.

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The Hong Kong Trade Development Council has developed a proposal for extending the Convention and Exhibition Centre at Wanchai.

In providing a review of the proposal, the objective of this study is to assess and quantify the likely unmet demand for exhibition facilities over the coming five to ten years, and to determine any economic implications of either meeting, or not meeting any shortfall identified. Reliable predictions beyond this period are difficult as there are too many factors which impact on the business.

The review also considered whether there are any viable alternatives to an extension of the Wanchai building, which would serve this unmet demand.

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There is no single collection agency for data on convention and exhibition centres and nor is data which is available, necessarily accurate and consistent.

The first-hand experience of Ogden International Facilities Corporation in operating centres in Australia and Asia together with their relationships with other operators has enabled an informed review of the state of the industry in the Asia-Pacific region. Use has also been made of information collated by industry organisations including the International Association of Convention Centres (ICCA) as well as an extensive archive of material published in industry journals and papers.

The review has set out to predict the likely ongoing demand for exhibition space in Hong Kong, considering a number of factors including current developments within Hong Kong, competition from other venues in the region both existing and anticipated, and experience from other comparable marketplaces.

Projections were also developed for the economic benefit of proceeding with the proposed expansion and also the likely economic impact of losing one major exhibition from Hong Kong.

Discussions were held with the operators of the HKCEC and AsiaWorld-Expo, with a number of HKECIA members who are exhibition organisers, and representatives of companies which participate in exhibitions or which are currently on waiting lists to get space at shows at the HKCEC. Interviews were also conducted with the HKTB and with operators of centres in Singapore, Bangkok, Kuala Lumpur, Australia and the USA.

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The HKCEC has provided extensive historical data on exhibition activity at the Centre.

The Centre currently has five dedicated exhibition halls which provide a total of 46,296 square metres of exhibition space catering for up to 2,828 exhibition stands or booths. However, by also using all of the Centre's other spaces including meeting rooms and foyer areas, a total of 64,000 square metres is being used for a number of trade exhibitions.

Interviews with many organisers and exhibitors emphasised the industry maxim that a show's success is driven by the number of international buyers who are attracted. This is the clear number one influencing factor for participation in an exhibition, and the secondary issue of cost-of-participation is much less important.

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Accepting that the HKCEC has been operating at capacity during the peak exhibition periods of April and September/October, the Centre's management has tried to broaden this pattern of peaks through innovative rental strategies which have had some success, as indicated in this graph examining three 2 year periods. The figures for 2003 were ignored due to the impact of the SARS outbreak.

It can be seen that the pattern for the first two years, in black, was much more sharp in its peaks and valleys, whereas the most recent period, in blue, shows a broadening of activity into the periods on either side of the April and September/October seasons.

These figures do not include all of the days required for setting up the Centre, and for cleaning and maintenance.

Taking the seasonal activity pattern into consideration, the report considers that the Centre is being operated at a high level of utilisation by world standards and considering what is feasible for such a centre. It is important to examine such issues rather than simply raw percentages of total potential days used, or unachievable expectations will be set up.

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The report lists the detailed event activity at the Centre for the past couple of years and particularly examines the business which could NOT be taken.

In 2004 there were 27 exhibition events and 11 conventions which the Centre could not accommodate through lack of available vacancies in its schedule.

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Eight of the Centre's existing shows are running at full capacity and another six are growing strongly.

Of these 14 shows, 9 are operated by the HK Trade Development Council.

SLIDE 8

The Atrium Link Proposal will add another 19,400 square metres of dedicated exhibition space to the Centre by extending two of the existing halls. This will also improve the quality of its space because it will be offered in larger spaces rather than spread over a number of smaller halls.

The expansion will allow for an immediate increase in the number of exhibitors participating in the shows which are already operating at the Centre's full capacity, and which have large waiting lists for exhibition booths. Furthermore, all of the shows operating at or near capacity have restricted exhibitors in the booth space they can use. With additional space provided by the expansion, many exhibitors will rent additional space. These increases have been used to develop economic impact figures. It is important to note that, on average, more than half of the exhibitors at shows in Hong Kong come from outside the SAR and provide valuable income. Furthermore, bigger shows will be able to continue to compete strongly against competitive shows in other cities, which will become a major risk for the health of Hong Kong's exhibition business.

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Whilst the Report does not intend to provide a review of the soon-to-open AsiaWorld-Expo centre at Chek Lap Kok, its emergence in the marketplace demands consideration.

It will provide ideal, single level exhibition space attractive to all users with easy flexible access for set-up and pull-down, and high load bearing floors.

The centre’s operators are developing a busy schedule of events with more to be announced as the opening draws near.

It is an important asset in the battle for this valuable high-profile trade activity with its aim to bring new and additional business to Hong Kong.

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AW-E Management Ltd has attracted international organiser Global Sources to the Hong Kong market and is working with other organisers including TDC to develop new initiatives.

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Our interviews with organisers and exhibitors of established shows at HKCEC indicate the general opinion that they will not move their shows, as it would potentially impact on the success of these established events. They believe that the buyers who attend regularly, place importance on the familiarity of the Wanchai location. Furthermore, many of the major exhibitors have their own offices and showrooms in the vicinity of Wanchai which allows buyers and staff to easily travel between the show and these offices throughout the day.

However, this is not an issue for new shows which might be developed, which is to the benefit of AW-E particularly as additional hotel, shopping and other commercial facilities are being developed at the airport.

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Our review of industry trends around the world is done in the face of numerous factors which present some complexity in making deductions for the purpose of predicting future patterns for Hong Kong.

Generally, trade exhibitions are initially tied to the industries they represent. As the underlying economic activity ebbs and flows, and moves around geographically, so the exhibition industry is impacted. However, other issues also influence the location of trade shows overlaying the basic economic drivers. It is important to analyse these factors to understand their likely impact on projections for Hong Kong.

These include short term events such as the downturns which followed SARS and the September 11 attacks in the USA.

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In the traditional markets which comprised much of the consumption of goods exhibited at trade shows, the general economic slowdown has been echoed by a marked slowing of building of exhibition space, which is the most accurate measure available. This is particularly evident in the USA where the additional impact of September 11 led to a huge reduction in travel by Americans. Fortunately this mainly affected trade shows in North America and had no long term impact on buyers from other parts of the world.

At the same time, Las Vegas has become an exhibition and convention phenomenon with vast facilities being developed at both the dedicated Las Vegas Convention Centre and many of the casino hotels. This has been funded by direct investment of hotel tax and from gambling revenue. Many major US exhibitions have moved to Las Vegas from traditional eastern exhibition cities such as Pittsburgh and Chicago.

In Europe there is ongoing development of exhibition space, particularly in former eastern bloc countries. Transference of business is occurring, with many copy-cat shows competing for the existing business. This is leading to fragmentation in some industry sectors which is causing general weakness amongst the competitive shows. A number of new shows have lasted for only a couple of years before folding. European buyers are still prepared to travel around the world but reportedly have less time available to spend on such trips.

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Asian cities have experienced a variety of complicating factors which have impacted on their success with exhibitions during the past five years, despite a reasonable amount of newly-built space.

It was felt that Singapore provides the most comparable market for this study. However, whilst both cities have seen a reduction in the amount of lower tier manufacturing which depended on cheap labour, the consequent impact on local trade exhibitions has been markedly different. Because Hong Kong is still geographically adjacent to the new manufacturing centres, and because it is still the home of many of the owners of the manufacturing, it has experienced less impact as a result. Many of the exhibitors interviewed are selling products manufactured on the mainland but stated clearly that their customers prefer to do business in Hong Kong for reasons of perceived reliability as well as personal convenience of international flights and lack of visa requirements.

It is considered that whilst there are a number of new exhibition centres in mainland cities, they are not being run effectively and represent little competition to Hong Kong exhibition activities. There is also concern over lack of Intellectual Property protection. The strongest show on the mainland is the Canton Trade Fair held in Guangzhou which only admits Chinese companies. It is generally regarded as presenting too many low quality products and is thus unattractive to exhibitors of quality products.

The greatest threat is likely to come from Macau with the development of new casino facilities introducing Las Vegas operators who have experience with the success of exhibitions and conventions at their properties.

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On the basis of available known demand for exhibition space and some interpolation of the seasonal patterns, projections have been developed for use of the additional space in the Atrium Link should the proposal proceed.

It was also considered viable for the HKCEC to host some additional convention business with the release of some of the non-exhibition space currently being taken up by trade shows. Whilst this has less financial return for the Centre, it is a valuable economic driver and assists in maintaining Hong Kong’s profile as an international destination.

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The Report specifically examines alternatives to the expansion.

Whilst the Centre currently has space available at various times of the year, it is accepted that this business is particularly seasonal. For example, there is a particular period of the year when buyers are placing orders for the major selling period of Christmas, therefore December will not be a viable sourcing time for any such activity.

As the normal rules of supply and demand are skewed in the take up of exhibition space, it is not practical to simply move shows into slower periods when space is available.

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The option to split the existing major shows into a second venue was canvassed with the exhibition organisers and exhibitors who were interviewed, and received a negative response.

It was felt that buyers generally are limited for time and could not be relied upon to visit both sites. Exhibitors particularly felt that this would see the development of a perception of primary and secondary sites and that no one would want to take space at the secondary site, even if it was offered at a discounted rate.

A number of other international markets were examined for similar experiences, but little such activity is evident. The only major exhibition which could be represented as having been staged in such a fashion was CommunicAsia 2002 and BroadcastAsia 2002 held at SingExpo and the Singapore Convention & Exhibition Centre, which used approximately 65,000 square metres. We are told that there was little overlap of buyers. The next occurrence of this event will be this year in a single venue. There is a major furniture fair in Las Vegas which appears to use two venues, but the second is only used as a back-up storage location for additional samples.

A number of exhibitors interviewed remarked on the issue of participating at major European shows in complexes, for example in Frankfurt, which comprise multiple buildings spread across large sites. Exhibitors not situated in the main building are clearly disadvantaged by their locations.

The Canton Fair uses two separate locations but the exhibitors in each of the venues are split by industry type, so buyers are not forced to visit both venues.

With this poor history, and given the views of the major show organisers, this option is not considered feasible.

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The possibility of relocating shows from Wanchai to AW-E was also considered and discussed with all interview subjects. As previously mentioned, it was not supported by organisers of existing exhibitions who do not wish to disrupt the success of their events.

In the face of the likely competition that is building in Macau and adjacent mainland cities, it is not judged wise to disrupt existing successful shows as changes will open an opportunity for copy-cat shows to weaken the Hong Kong shows. In the face of such competition, it will be important to strengthen Hong Kong's competitive position and not endanger its existing assets.

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This Report recommends that the government approve the Atrium Expansion Proposal.

This will meet the immediate requirement for growth of existing exhibitions at the HKCEC and secure Hong Kong's status as an international convention and exhibition destination and bring substantial economic benefits.

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The Report provides detailed economic projections on the economic benefit to Hong Kong which will flow from additional business take up with the expansion.

The figures represent only the incremental component of exhibition activity in the expanded exhibition halls plus an allowance for additional convention activity in meetings facilities freed up as a consequence of the additional dedicated space for exhibitions, and includes only the nett additional value added for Hong Kong.

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Whilst no value has been included in the projections for the downstream benefits that flow as a result of business being done in Hong Kong, this is clearly a vital ongoing spin-off of a successful trade show industry and is one of the great successes of Hong Kong's Trade Development Council.

As part of a strategy to maintain Hong Kong's position in the face of the explosion of activity on Mainland China it is important that nothing causes any loss of momentum as it would likely be impossible to regain any lost ground in this economic battle.

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In seeking to evaluate the cost of not proceeding, it was judged that the restriction on the growth of exhibitions could eventually lead to at least one show moving away from the Hong Kong Convention & Exhibition Centre. By the time that happens, there may well be competition from venues other than AW-E which sees a show leave Hong Kong.

On the basis of the loss of one major show, the total economic loss is $407million for the Hong Kong economy for one year. There is no reason to believe that another show of equivalent value is lurking unknown ready to fill this gap.

We believe that this potential loss should encourage the approval of the Atrium Proposal.

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We recommend that the Government supports the TDC Scheme to undertake the Atrium Link Proposal.

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