

2-22-1988

## Burbank Entertainment Center Summary Observations

Harrison Price Company

Winslow, Nicholas S.



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February 22, 1988

TO: Alan Epstein, Disney Development Corp.  
Juliann Juras, Walt Disney Imagineering

FROM: Nick Winslow, Harrison Price Co.

RE: Burbank Entertainment Center - Summary Observations

On Friday, February 19, the economic planning team for the Burbank Entertainment Center met at WDI to reconcile sizing and economics for the various components proposed for inclusion in the project. This process resulted in an overview assessment of the Burbank project, an examination of the design and analytical work conducted, and the implications of the Burbank Center findings on the "Disney Center" concept. The following paragraphs summarize my thoughts and understanding of the discussion.

### THE DESIGN AND EVALUATION PROCESS

The process of getting the Burbank analysis to this point has proven to be very complex, occasionally cumbersome, objective and creative. To address each point:

**Complexity** - Developing a concept and economic model for the Burbank Entertainment Center required pulling together a resource team with a wide range of disciplines to create and evaluate a program which was beyond the experience of any one of the participants. A great deal of time and energy was necessarily spent establishing a common frame of reference for all of the participants. Varying understandings of the market, location, professional semantics, project scope and the "Disney process" had to be articulated and accommodated. It was a learning experience for all. The logistics of getting the right people together at the right time proved difficult because of the size of the planning team, geography, and other commitments. In view of the above, I believe the project was conducted with remarkable efficiency and speed without ever losing sight of its purpose. Keeping the team intact will significantly shorten the learning curve and increase efficiency on the next entertainment center project.

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**Objectivity** - The leadership of the planning team constantly challenged all members to put aside prejudices concerning site, concept and project components, and deal pragmatically with all issues. This insistence on objectivity forced a number of revisions in the content and scope of the project based on increasingly sound data, and in my opinion resulted in a technically solid analysis.

**Creativity** - The Burbank Entertainment Center concept went beyond amalgamating standard theme park, festival marketplace, and entertainment/dining components into a single place and calling it an entertainment center. Cinemagic and Hyperdrome are both hybrid attractions which were conceived and designed in the context of a multi-purpose entertainment center, not a major outdoor theme park. The retailing and dining concepts proposed for Provedencia and the other sections far exceed what has ever been done in a festival marketplace. The Burbank concept breaks new ground and is a useful model for entertainment centers in other locations.

## **BURBANK ASSESSMENT**

The process of reconciling the Burbank development program deemed minimally acceptable by all segments of the planning team with market realities, including fair and reasonable assumptions for project synergy, made it clear that the Burbank Entertainment Center is fundamentally unfeasible because of the disequilibrium between project critical mass needs and total available market support. For each major project component - retail, food and beverage, clubs, and attractions - the critical mass necessary to achieve the market penetrations and spending levels required to support the project results in a project which is oversized for the Burbank location. Conversely, cutting the project down to a size supportable by the available market would result in an emasculated concept with insufficient critical mass to generate needed attendance and spending. A reconciliation of program and economics is thus not possible due to the inadequacies of the market. The following findings illustrate the problem:

**Retail** - The Burbank Entertainment Center program calls for 195,000 square feet of retail space (excluding Cataport), including 155,000 square feet in Provedencia and 26,000 square feet in Cinemagic. EDC is firm that the program for Provedencia is a bare minimum. The retail program for



Cinemagic is clearly too large and could be reduced, but such a reduction would negatively affect patronage to Cinemagic. The market for retail space is approximately 172,000 square feet at an acceptable level of sales per square foot. The imbalance is largely attributable to the size and character of the close in retail market.

**Food & Beverage** - The innovative food and beverage program proposed for the Burbank center includes 145,000 square feet of space, including 64,000 square feet in Cinemagic and 158,000 square feet in Provedencia. The market suggest demand for 85,000 square feet of space, largely because of the small daytime and evening populations directly available to the project.

**Clubs** - The proposed program for clubs includes 86,000 square feet of space. Market demand is for 65,000 square feet, again largely because of the weak evening market.

**Attractions** - The attraction components of both Hyperdrome and Cinemagic require more space and investment to achieve necessary critical mass than the market can support. Under even the most optimistic circumstances, Hyperdrome would have to be built for \$354 per square foot and Cinemagic for \$477 per square foot, which is not sufficient to cover projected costs. The supportable level of investment for Hyperdrome is lower than for Cinemagic because it is more reliant on the resident market for its support, particularly teens and young adults, than Cinemagic. Resident youth markets have higher seasonal and daily peaking characteristics than adult and tourist markets, resulting in higher design day capacity requirements and thus higher investment per guest. The Hyperdrome concept would benefit from a location with an existing base of young tourist visitors.

Perhaps the most significant finding of this process was that the entire team converged on a concept and scope for a Disney Entertainment Center which, with some adjustments for local conditions, was deemed to be feasible in a stronger location.

## IMPLICATIONS

In my opinion, the Burbank exercise proved that a new and unique product - a Disney Entertainment Center - can be designed which is worthy of Disney involvement and presents a profitable financial opportunity. The Burbank site, unfortunately, poses too great a market risk to offer an acceptable financial risk. The design and analysis conducted to date, however, provide an excellent base upon which to establish minimum market criteria for Disney Centers in other locations. To further our understanding of how these centers will function economically, I suggest the following general approach:

- Study all cost to determine fixed and variable costs for each component.
- Using the sizing model, break apart attendance and spending characteristics for each market segment. Determine economic contribution of each market segment to each project component and relate it to propensity to patronize.
- Establish economic breakeven levels based on assumed capital and operating costs, and fixed and variable costs.
- Back into a matrix of market characteristic minimums needed to achieve the minimally acceptable level of financial performance.

This process is not intended to provide a definitive assessment of feasibility at a given location, but should enable Disney to preliminarily screen potential markets prior to going into a more exhaustive, and expensive, drill.



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market for retail space is approximately 172,000 square feet at an acceptable level of sales per square foot. The imbalance of total project retail is largely attributable to the size and character of the close in retail market.

**Food & Beverage** - The innovative food and beverage program proposed for the Burbank center includes 145,000 square feet of space, including 64,000 square feet in Cinemagic and 58,000 square feet in Providencia. The market suggest demand for 85,000 square feet of space, largely because of the small weekday evening populations directly available to the project.

**Clubs** - The proposed program for clubs, which is considered the minimum necessary to achieve adequate critical mass, consists of 94,000 square feet of space. Market demand is for 77,000 square feet, again largely because of the modest weekday evening market.

**Attractions** - The attraction components of both Hyperdrome and Cinemagic require more space and investment to achieve necessary critical mass than the market can support. Under even the most optimistic circumstances, Hyperdrome would have to be built for \$354 per square foot and Cinemagic for \$477 per square foot, which is not sufficient to cover projected costs. The supportable level of investment for Hyperdrome is lower than for Cinemagic because it is more reliant on the resident market for its support, particularly teens and young adults, than Cinemagic. Resident youth markets have higher seasonal and daily peaking characteristics than adult and tourist markets, resulting in higher design day capacity requirements and thus higher investment per guest. The Hyperdrome concept would benefit from a location with an existing base of young tourist visitors.

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- Study all costs to determine fixed and variable costs for each component.
- Further refine the analysis of alternative gating strategies.
- Using the sizing model, break apart attendance and spending characteristics for each market segment based on geography, demography, lifestyle and tourist/resident split. Determine economic contribution of each market segment to each project component and relate it to propensity to patronize.
- Establish economic breakeven levels based on assumed capital and operating costs, and fixed and variable costs.
- Back into a matrix of market characteristic minimums needed to achieve the minimally acceptable level of financial performance.

This process is not intended to provide a definitive assessment of feasibility at a given location, but should enable Disney to preliminarily screen potential markets prior to going into a more exhaustive, and expensive, drill.



**BURBANK ENTERTAINMENT CENTER**  
**Hyperdrome-Preliminary Economic Test**

**DERIVATION OF NOI**

Attendance(000)	<u>1,000</u>	<u>1,000</u>	<u>1,500</u>	<u>1,500</u>	<u>1,750</u>	<u>1,750</u>
Per Capita	\$9.00	\$11.00	\$9.00	\$11.00	\$9.00	\$11.00
Gross Revenue(\$000)	9,000	11,000	13,500	16,500	15,750	19,250
NOI @ 30% of Gross	2,700	3,300	4,050	4,950	4,725	5,775

**SUPPORTABLE INVESTMENT(\$000)**

@8% Cap. Rate	33,750	41,250	50,625	61,875	59,062	72,188
@9% Cap. Rate	30,000	36,667	45,000	55,000	52,500	64,167
@10% Cap. Rate	27,000	33,000	40,500	49,500	47,250	57,750

**MEDIAN SIZING PARAMETERS**

Hourly Ent. Cap.(units)	5,688	5,688	8,533	8,533	9,950	9,950
Gross Floor Area (s.f.)	146.2	146.2	219.4	219.4	256.0	256.0

**FEASIBLE COST PARAMETERS**

Cost per Ent. Unit(9%)	5,274	6,446	5,274	6,446	5,276	6,449
Cost per Square Foot	205	251	205	251	205	251



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**BURBANK ENTERTAINMENT CENTER  
Hyperdrome - Preliminary Findings**

- Hyperdrome is an attractive concept which would fill a void in the teen market - a place to go which would have more action than a mall but be less expensive and require less commitment than a visit to Magic Mountain.
- Attendance patterns at Hyperdrome would most likely be comparable to those of Magic Mountain because of its teen orientation, i.e. 85% resident attendance. It would have less seasonal and weekly peaking because it is indoors, proximate to the market, and easily accessible for short periods of time on weeknights.
- Capture rate and length of stay would both be lower than Magic Mountain (2.8 million attendance) because of the more limited scope of the attraction. Capture rates would be significantly higher than a teen club. There are no direct comparables; however, attendance between the Tier 2 and Tier 3 attractions appears reasonable - a range of 1 to 2 million.
- The scope of the attraction as proposed suggests an average visitor length of stay of 2.5 to 3 hours, based on previous experience at other enclosed attractions.
- The scope and length of stay suggest a total in-facility per cap of \$9.00 to \$11.00, based on the experience at other enclosed attractions. An additional +/- \$3.00 will be spent in the Disney Center but outside the attraction.
- To meet an attendance goal of 1.5 million, the Hyperdrome should have at least 8,500 units of hourly entertainment capacity and 200,000 square feet. Current planning parameters of 6,900 units of hourly entertainment capacity and 110,000 square feet of gross floor area are not sufficient to accommodate attendance of 1.5 million.
- Supportable investment at 1.5 million attendance is \$45 to \$55 million. Total supportable costs translate into \$5,274 to \$6,446 per unit of hourly entertainment capacity, or \$205 to \$251 per square foot of the attraction.



**BURBANK ENTERTAINMENT CENTER**  
**Hyperdrome-Preliminary Economic Test**

**DERIVATION OF NOI**

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## BURBANK ENTERTAINMENT CENTER Proposed Attractions

### HYPERDROME

- Key features
  - "Gated teen club" featuring a mix of thrill rides, games, quick food and novelty retail.
  - No direct comparables. Not a theme park. Not a teen club in the strict sense. Functions as a hybrid - a cross between hanging out in a mall or Westwood, and a visit to Magic Mountain.
  - Alcohol? Doubtful.
  - Strongest market will be teens residing within 30 minutes of the site. Tourist appeal will be modest.
  
- Sizing
  - Currently sized at 110,000 square feet, including 10,000 s.f. of retail, 10,000 s.f. of food service, 40,000 s.f. backstage, and 50,000 s.f. of public space.
  - Hourly entertainment capacity has not been set by design team.

### WORLD OF DISNEY

- Concept
  - Gated attraction with three distinct theme area:
    - 1) The Disney Story
    - 2) Magic of Moviemaking
    - 3) Disney Center Tour (possibly an add-on to gate charge for 1) and 2).
  - Static attractions with an entertainment theme which could be considered comparables include the following:
    - 1) NBC Studio Tour (150,000)
    - 2) Country Music Hall of Fame (400,000)
    - 3) Graceland (500,000)
    - 4) Movieland Wax Museum (700,000?)
  
- Sizing



- Size is currently estimated at 40,000 square feet.
- Hourly throughput capacity has not been established.

**BURBANK ENTERTAINMENT CENTER**  
**Proposed Attractions (cont.)**

**CINEFANTASY**

- Concept
  - Gated attraction themed on science fiction. Specific attractions may include a special format theater and a museum of sci-fi movie memorabilia.
  - Narrow themed museum attractions which may be considered comparables include the following:
    - 1)