

TOURISM AS AN ECONOMIC ENGINE FOR GREATER PHILADELPHIA

2015 Visitation and Economic Impact Report



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EXECUTIVE SUMMARY

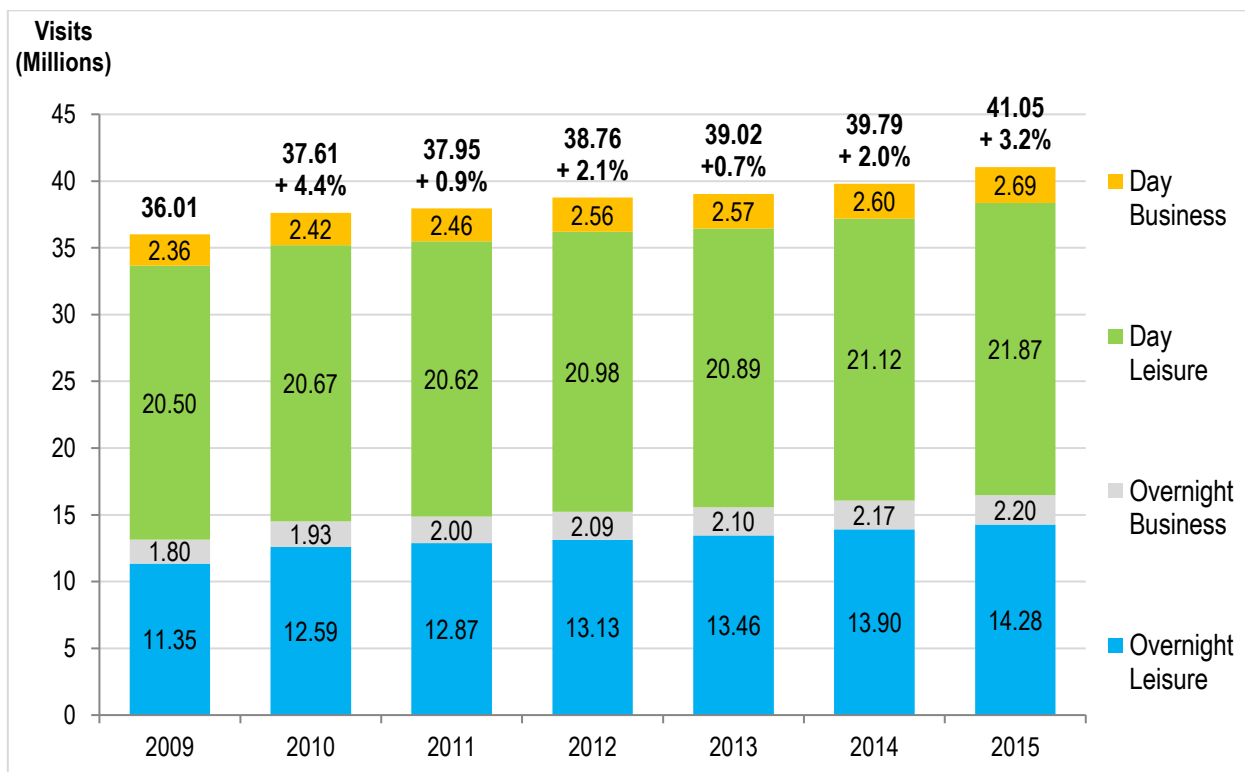
The purpose of this report is to quantify the impact of tourism in the Philadelphia region. Each year, millions of outside visitors inject their spending into the local economy, frequenting local businesses, supporting local jobs, and generating local tax revenues.

Tourism was an explicit part of Philadelphia’s urban economic development strategy first initiated by Mayor Ed Rendell in the 1990s. Since then, the region has seen dedicated investment in tourism amenities, resulting in significant increases in visitation to the city and region, growth in spending by visitors, and aggressive growth in employment in the tourism sector.

Visitation

Domestic visitation to the Greater Philadelphia region reached a new high of 41 million in 2015, up 3.2% from 2014. Growth was evident in all segments (day and overnight, business¹ and leisure), with day leisure visitation showing the largest year over year increase. This represents the sixth consecutive year of visitation growth since the depth of the recession in 2009, with total visitation increasing by 14%, or about 5 million visitors, over that time (see Figure ES.1).

FIGURE ES.1 - ANNUAL DOMESTIC VISITATION TO GREATER PHILADELPHIA, 2009-2015



¹ Business visitation includes trips taken for commercial business, a conference/convention and other group business meetings.

Over a broad time frame, **overnight leisure has been the fastest growing segment both post-recession** (up 26% since 2009) **and over the past two decades** (up 96% since 1997 – see Table ES.1). This leisure growth is reflective of the transformation of the regional tourism industry into a more mature market, with a steady stream of discretionary travelers augmenting major events and gatherings. This yields greater stability of demand across the days of the week and the seasons of the year.

TABLE ES.1 - DOMESTIC VISITATION TO GREATER PHILADELPHIA – HISTORICAL GROWTH BY SEGMENT

Year	Total	Overnight Leisure	Overnight Business	Day Leisure	Day Business
2015	41.05	14.28	2.20	21.87	2.69
2014	39.79	13.90	2.17	21.12	2.60
2009	36.01	11.35	1.80	20.50	2.36
1997	26.67	7.30	1.39	15.50	2.48
% Chg 2014-2015	3.2%	2.8%	1.4%	3.5%	3.4%
% Chg 2009-2015	14%	26%	22%	7%	14%
% Chg 1997-2015	54%	96%	58%	41%	8%

Visitor Spending

Direct visitor spending in Greater Philadelphia has also grown each of the past six years and was \$6.66 billion in 2015, up 1.8% from 2014. Since 2009, direct spending has grown by 32%, from \$5.03 billion to \$6.66 billion. This represents a cumulative annual growth rate of 4.8%, generally outpacing annual percentage increases in visitation growth (see Table ES.2). This indicates **that growth in visitor spending has generally been attributable to a combination of increases in the number of visitors and to increases in the level of spending by those visitors**, which has grown faster than inflation.

TABLE ES.2 – ANNUAL GROWTH IN DOMESTIC VISITOR VOLUME AND DIRECT VISITOR SPENDING, 2009-2015

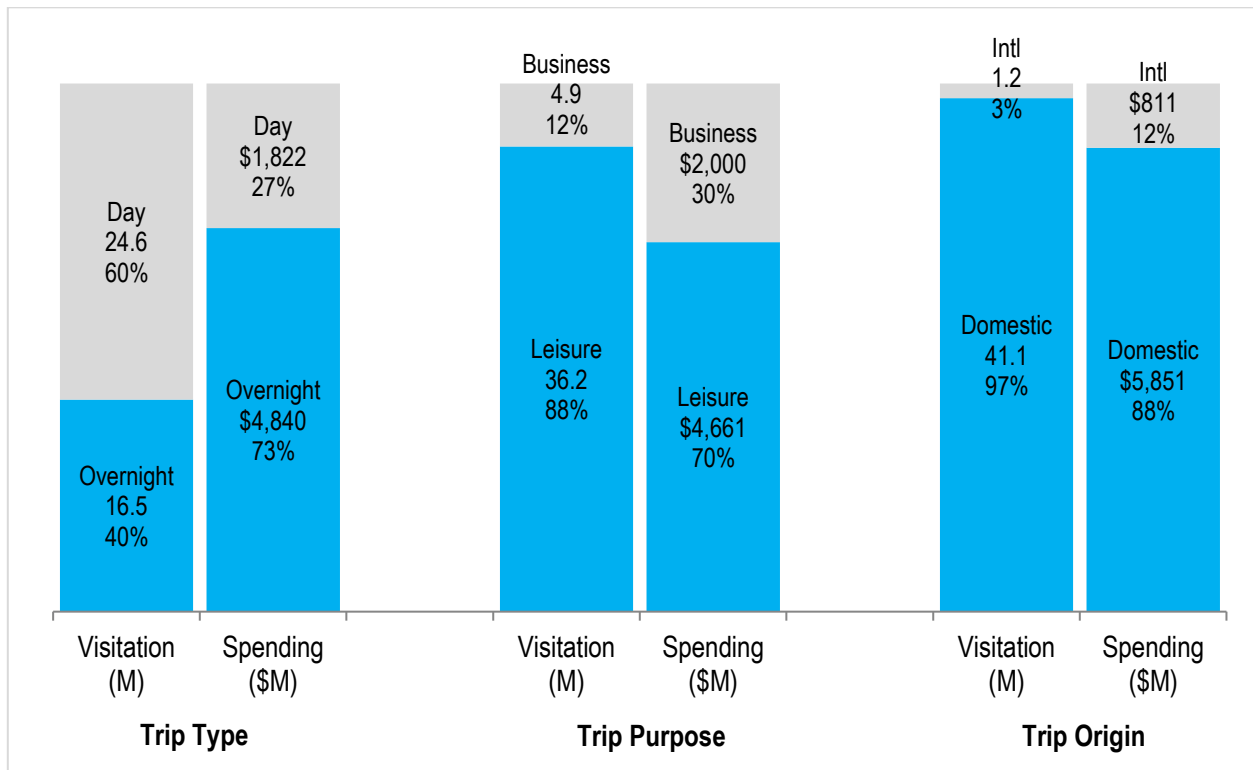
Year	Domestic Visitor Volume	Direct Visitor Spending
2009	36.01 M	\$5.03 B
% Chg 2010	4.4%	6.9%
% Chg 2011	0.9%	7.8%
% Chg 2012	2.1%	4.4%
% Chg 2013	0.7%	3.0%
% Chg 2014	2.0%	4.9%
% Chg 2015	3.2%	1.8%
2015	41.05 M	\$6.66 B
Growth 2009-2015	5.04 M	\$1.63 B
% Chg 2009-2015	14.0%	32.4%
CAG	2.2%	4.8%

Direct spending is divided across five major sectors of the tourism economy: Food & Beverage and Lodging (which each account for about one-quarter of all visitor spending, and showed healthy growth in 2015), Transportation, Retail, and Recreation/Entertainment. **While economic conditions were generally favorable for travel in 2015, total spending growth was constrained by the significant drop in gasoline prices** (which impacted transportation spending) and by the strong dollar (which constrained international visitor spending, and made outbound international travel more appealing for U.S. residents). However, these low fuel prices may have contributed to increases in visitation, and may have boosted spending in other categories by freeing up travel budgets.

Spending profiles and magnitudes vary by visitor type and by trip type. Overnight business travelers are the largest spenders among domestic visitor types on a per person, per day basis, averaging \$383 in 2015. Overnight leisure travelers spend an average of \$165 per visitor per day, while day trip visitors, who do not have any expenditures in the lodging category, spend an average of \$56 per person.

Similarly, international travelers typically have a higher spending profile than domestic visitors due to their longer stays and lodging needs. These include both overseas travelers, and those visitors from Canada and Mexico (which represent about half of all international trips nationwide). The 527,000 Canadian visitors to Greater Philadelphia spent an estimated \$212 million in 2015.

In total, **leisure travelers and domestic travelers make up the vast majority of visitors to Greater Philadelphia, and therefore represent the majority of total spending** (70% for leisure and 88% for domestic – see Figure ES.2).

FIGURE ES.2 – GREATER PHILADELPHIA VISITATION AND DIRECT VISITOR SPENDING BY VISITOR TYPE, 2015

Economic Impact

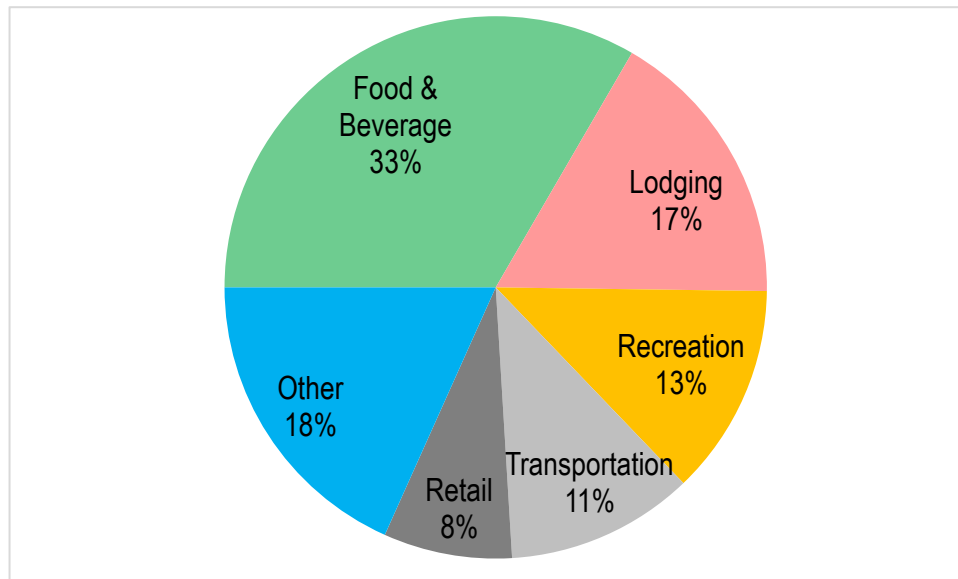
The direct spending by visitors within the region translates into a significant volume of economic impact, supporting employment and generating tax revenues within the region. **In 2015, economic impact from tourism in the region was \$10.7 billion (or \$29 million per day), up 2.5% from 2014.** 58% of regional economic impacts (\$6.2 billion) took place within the city of Philadelphia, spurred by \$3.9 billion in direct visitor spending within the city. The majority of regional activity growth was concentrated in Philadelphia, which saw a 4.1% increase in economic output, while the surrounding counties grew by 0.4% compared to 2014 (see Table ES.3).

TABLE ES.3 - 2015 VISITOR ECONOMIC IMPACT, PHILADELPHIA AND SUBURBAN COUNTIES

Metric	Total	% Chg vs. 2014	Philadelphia	% Chg vs. 2014	Suburban Counties	% Chg vs. 2014
Output (\$ M)	\$10,731	+ 2.5%	\$6,231	+ 4.1%	\$4,499	+ 0.4%
Employment (jobs)	93,338	+ 1.3%	41,243	+ 3.2%	52,095	(0.2%)
Personal Income (\$ M)	\$3,237	+ 2.2%	\$1,802	+ 3.6%	\$1,435	+ 0.6%

This activity supported 93,000 jobs and labor income of \$3.2 billion, representing 5% of all regional employment. Full-time jobs are estimated to represent 72% of this total. Employment impacts accrue across a variety of sectors, including not only those that directly serve visitors, but those that benefit from the indirect and induced effects of visitor-driven economic activity (see Figure ES.3).

FIGURE ES.3 – DISTRIBUTION OF VISITOR-SUPPORTED EMPLOYMENT BY SECTOR, 2015



Visitor-supported employment differs from direct employment within the leisure and hospitality sector (which includes the Accommodations, Food Service, Arts, Recreation and Entertainment industries) in part because these sectors are also supported by local spending. It is notable, however that **leisure and hospitality has been the fastest growing sector of the Philadelphia economy on a percentage basis since 1997, with employment increasing by 44%**, or about 21,000 jobs.

These growing job counts indicate that Philadelphia's commitment to tourism as an economic development strategy is paying dividends, and that visitor spending is helping to enable leisure and hospitality businesses not only to sustain themselves, but to grow in number and size. In other words, tourist spending helps locals have the choice between an expanding menu of restaurant and entertainment options within their community. **Growth in tourism and tourism amenities also has demonstrated ancillary benefits for economic growth, quality of life, and resident attraction, since the same features that make destinations attractive to visitors make them attractive to residents, and by extension, to businesses seeking talent.**

Fiscal Impact

The economic activity and employment that visitor spending supports are also major revenue generators for state and local governments and school districts. Tourism by its nature brings dollars from outside the region into circulation in the regional economy. When these dollars grow the local tax base – by increasing personal income, sales and business income, all of which are taxed at the local and state levels - it **generates revenue to pay for essential services for regional residents, without raising taxes or increasing the burden on local households.**

In addition to these overall increases in economic activity, activities that are disproportionately undertaken by visitors are subject to a number of local consumption taxes and fees. By their nature, these **consumption taxes are borne by out of towners, but generate revenue for local government entities.** The City of Philadelphia, for example, levies taxes on hotel rooms, ticketing amusement activities, parking lots (all of which accrue to the City) and liquor purchased by the drink (which goes directly to the School District of Philadelphia, with the exception of a small service fee). These taxes alone generated an estimated \$82 million for the City and School District in 2015.

All told, **state and local taxes generated \$612 million for state and local government in 2015, an increase of 2.4% from 2014**, including \$216 million for the Commonwealth of Pennsylvania, \$277 for the City and School District of Philadelphia, and \$119 million for suburban municipalities and school districts (see Table ES. 4). Absent these, each of the 1.5 million households in the five-county region would have to pay \$405 in taxes to generate the same revenues.

TABLE ES.4 - STATE AND LOCAL TAX REVENUE GENERATED BY VISITORS TO GREATER PHILADELPHIA (\$M)

Jurisdiction	2015 Revenue	% Chg vs. 2014
Commonwealth of Pennsylvania - Total	\$216 M	+ 2.5%
Philadelphia City and Schools – Total	\$277 M	+ 3.5%
Philadelphia City and Schools – Consumption Taxes	\$82 M	+ 4.0%
Philadelphia City and Schools – Other	\$195 M	+ 3.3%
Suburban Municipalities and Schools – Total	\$119 M	(0.2%)
Total	\$612 M	+ 2.4%

Export Activity

The economic and fiscal impacts of tourism are particularly powerful from an economic development perspective due to the manner in which they are generated. While virtually all economic activity has multiplier effects within a given geographic, economic growth is ultimately tied to the export sectors that bring external dollars into a local economy. Export is often thought of in a manufacturing sense, where goods produced in one region or country are then sold to others. In the modern post-industrial economy, export often takes the form of more ephemeral goods like

knowledge and ideas. **Another key modern export sector is tourism, where the item for sale is the experience offered by a destination.** Each year, millions of travelers from outside the Philadelphia region **purchase the range of experiences that the region has to offer.** By its very definition, tourism activity brings external dollars into a local economy, stimulating economic growth. **Tourism is thus intertwined with virtually all of the major industries in the region, by bringing external dollars into the area which ultimately circulate through the local economy.**

Forward-Looking Trends

Looking forward, there is reason for optimism for the local tourism economy in the near future. National economic conditions remain steady, and the strength of the dollar is receding from recent highs, making US tourism options more attractive to both domestic and international travelers. Further, gas prices remain historically low, encouraging a greater volume of trips and freeing up discretionary travel dollars for other uses. National forecasts from the U.S. Travel Association anticipated a continuation of recent growth in travel volume for 2016 and 2017, though at slightly lower growth rates than in 2015, with growth projected to be largely concentrated in the leisure sector.

Greater Philadelphia, which has largely tracked the national trends in visitation and spending in the post-recession era, is well positioned to capitalize on these trends. **A significant volume of new hotel development projects are nearing completion in Center City Philadelphia, affirming both the current strength of the hospitality market and investor confidence in its continued growth.** Notably, the new stock is primarily aimed at the luxury end of the hotel market, and features a number of boutique brands making their first entry into the Philadelphia market. **This market positioning suggests that new product is likely to cater and market to new travelers to the region** (starting with the extensive and loyal guest lists that these brands bring from other destinations) rather than simply shift demand from existing Center City hotel options.

Finally, Philadelphia has taken the world stage on multiple occasions in recent months, including the Papal Visit, Democratic National Convention, and its designation as a World Heritage City. These events and honors are not merely a short-term infusion, but yielded wall to wall coverage that serves as a billboard for the region, helping to raise its profile and build its brand. While these reputational enhancements are unlikely to deliver a short-term windfall of visitation, they are important to the continued development of the destination brand over the long-term. **Crucially, this long-term brand building process does not pay off in one-time infusions but in sustainable growth in the volume and character of the regional tourism industry and its role as an engine of economic development.**

ABOUT ECONSULT SOLUTIONS, INC.

This report was produced by Econsult Solutions, Inc. (“ESI”). ESI is a Philadelphia-based economic consulting firm that provides businesses and public policy makers with economic consulting services in urban economics, real estate economics, transportation, public infrastructure, development, public policy and finance, community and neighborhood development, planning, as well as expert witness services for litigation support. Its principals are nationally recognized experts in urban development, real estate, government and public policy, planning, transportation, non-profit management, business strategy and administration, as well as litigation and commercial damages. Staff members have outstanding professional and academic credentials, including active positions at the university level, wide experience at the highest levels of the public policy process and extensive consulting experience.

