

TOURISM AS AN ECONOMIC ENGINE FOR GREATER PHILADELPHIA

2015 Visitation and Economic Impact Report



FINAL REPORT SUBMITTED TO:
VISIT PHILADELPHIA
30 S. 17th St, Suite 2010
Philadelphia, PA 19103



FINAL REPORT SUBMITTED BY:
Econsult Solutions
1435 Walnut Street
Philadelphia, PA 19102



TABLE OF CONTENTS

Table of Contents.....	2
Executive Summary	3
1.0 Introduction	10
1.1 Tourism as an Economic Engine	10
1.2 Organization of Report	12
2.0 Visitation to Greater Philadelphia.....	13
2.1 Annual Domestic Visitation	13
2.2 Point of Origin.....	16
2.3 Seasonality of Visitation	17
3.0 Regional Tourism Economic Impact	19
3.1 Direct Visitor Spending	19
3.2 Total Economic Output.....	25
3.3 Tourism Employment.....	27
3.4 Fiscal Impacts.....	34
3.5 International Visitation and Impact	36
3.6 Ancillary Benefits of Tourism Activity	40
4.0 Forward-Looking Trends	43
4.1 National Travel Forecast	43
4.2 Local Factors	45
4.3 Economic Factors.....	47
5.0 Conclusion	51
Appendix A – Detailed Visitor Volume Index Model Methodology	53
Appendix B – Detailed Direct Visitor Spending Model Methodology	55
Appendix C – Detailed Economic and Fiscal impact Methodology.....	56
Appendix D - About Econsult Solutions, Inc.	59

EXECUTIVE SUMMARY

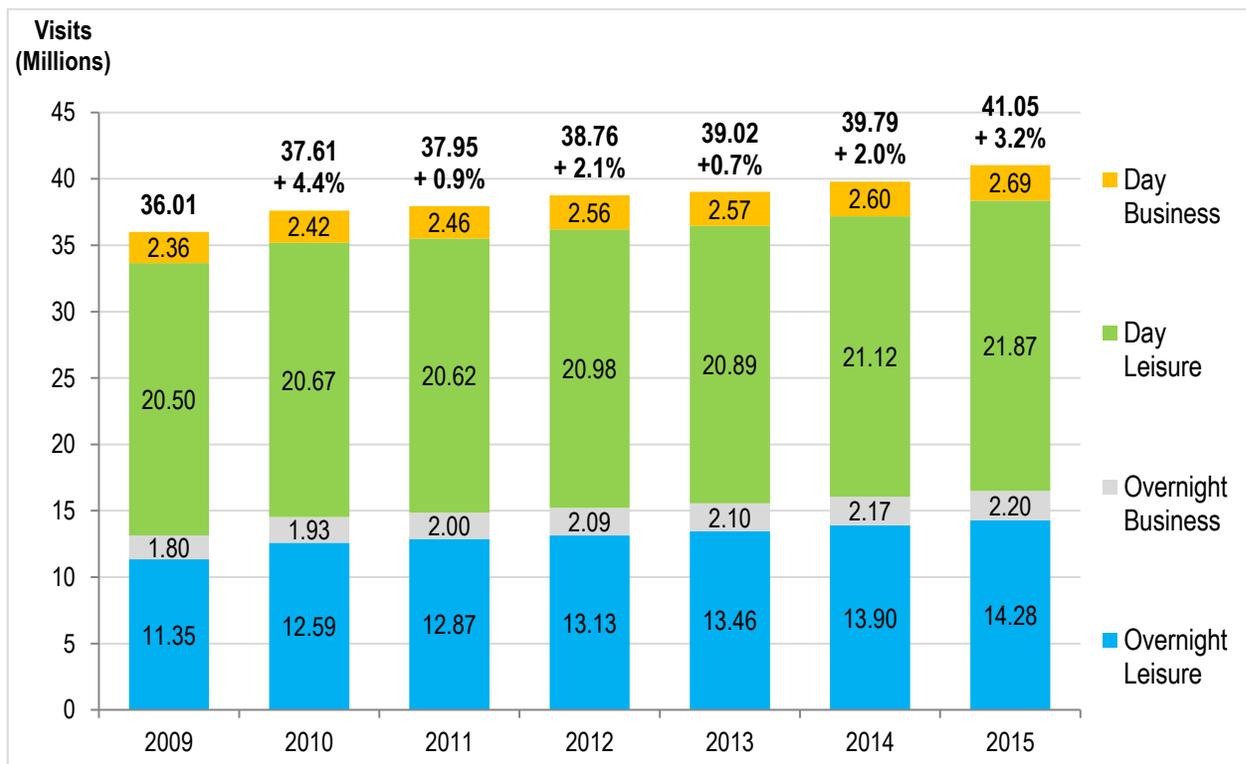
The purpose of this report is to quantify the impact of tourism in the Philadelphia region. Each year, millions of outside visitors inject their spending into the local economy, frequenting local businesses, supporting local jobs, and generating local tax revenues.

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%

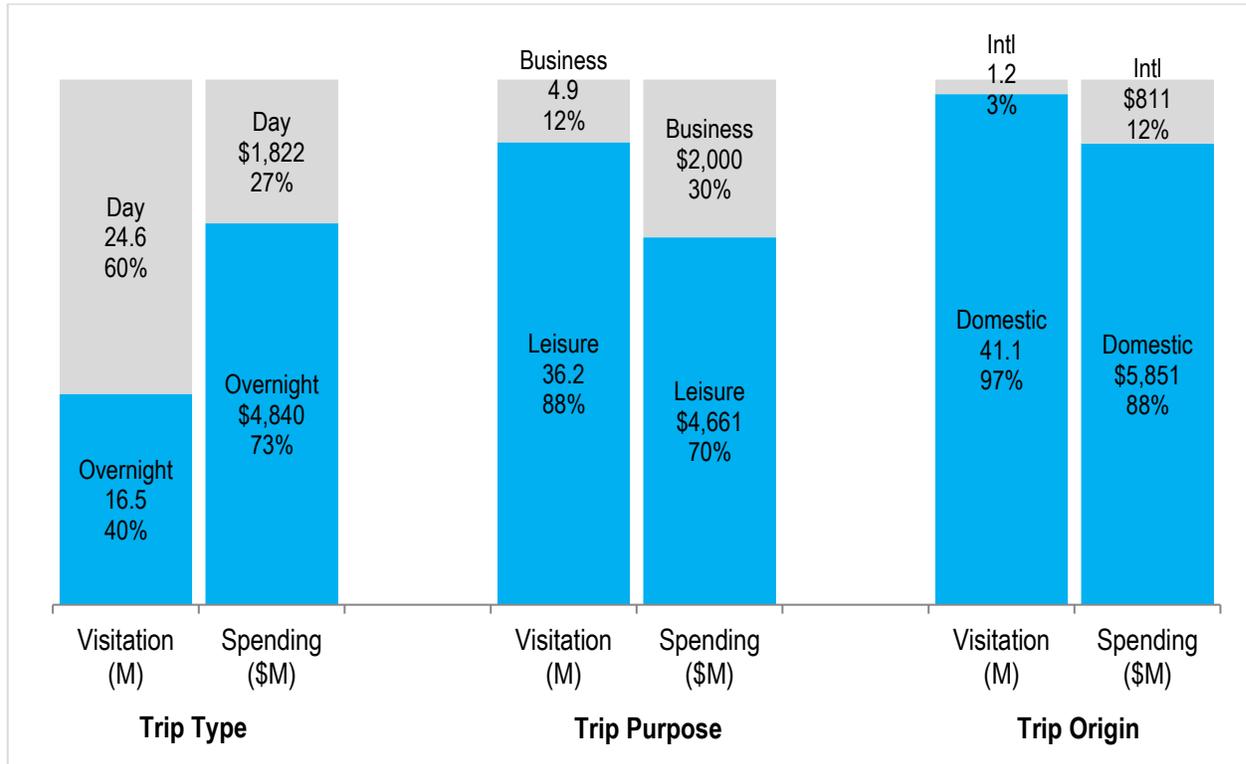
Direct spending is divided across five major sectors of the tourism economy: Food & Beverage and Lodging (which each account for about one-quarter of all visitor spending, and showed healthy growth in 2015), Transportation, Retail, and Recreation/Entertainment. **While economic conditions were generally 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

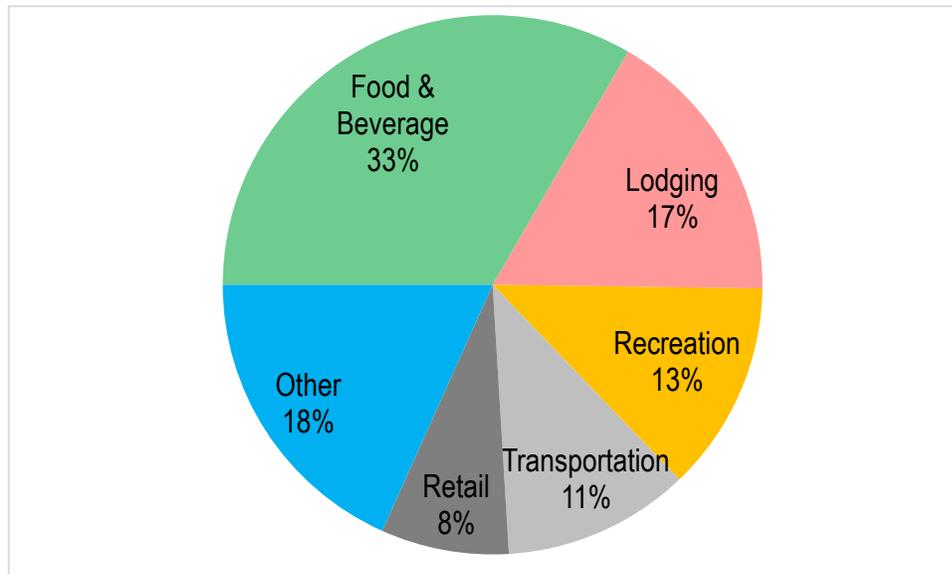
The direct spending by visitors within the region translates into a significant volume of economic impact, supporting employment and generating tax revenues within the region. **In 2015, economic impact from tourism in the region was \$10.7 billion (or \$29 million per day), up 2.5% from 2014.** 58% 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.**

1.0 INTRODUCTION

The purpose of this report is to quantify, explain and contextualize the level and impact and visitor activity in the Greater Philadelphia region.² Each year, millions of visitors choose the Philadelphia region as their destination for a variety of reasons and experiences.³ All of them bring spending power from outside of the region into the local economy, supporting local businesses, workers, and tax bases.

1.1 TOURISM AS AN ECONOMIC ENGINE

Tourism has proven itself a durable economic driver, and an important growth industry, for the Philadelphia region. In historic terms, tourism has been an important component of the region's sometimes difficult transition to a post-industrial economy. Decades ago, Philadelphia was often viewed as a region (and in particularly a city) in decline, and its downtown was largely a daytime destination that closed up shop when night fell. **In recent years, Philadelphia's population, reputation and amenities have rebounded, as the city has re-oriented itself as a place of choice for residents and visitors alike.**

Tourism was an explicit part of Philadelphia's urban economic development strategy first initiated by former Mayor Ed Rendell in the 1990s, complementary to growth in the education and medicine sector that forms the backbone of the modernized regional economy. Philadelphia has undertaken dedicated investment in tourism amenities that have resulted in milestones like the opening and expansion of the downtown Pennsylvania Convention Center, the development and enhancements of cultural districts like the Avenue of the Arts and the Benjamin Franklin Parkway, the opening of a new visitor center and anchor attractions in the historic district, an increase in the number and quality of hotels, and more recently, a bubbling up of amenities friendly to visitors and locals alike (restaurants, parks, beer gardens, museums, and more) across the city. The effectiveness of this plank of the economic development strategy is evident in the results reviewed throughout this report, which show significant increases in visitation to the city and region, growth in spending by visitors, and aggressive growth in employment in the tourism sector.

Tourism was an explicit part of Philadelphia's urban economic growth strategy first initiated in the 1990s...

² Throughout this report, "Greater Philadelphia" refers to the 5-County region of Bucks, Chester, Delaware, Montgomery, and Philadelphia counties in Southeastern Pennsylvania.

³ This analysis adopts the definition of a visit employed by Longwoods International in their Travel USA® panel survey, which defines overnight and day trips as follows:

- An overnight trip is any journey for business or pleasure outside your community and not part of your normal routine, where you spend one or more nights away from home.
- A day trip is any journey for business or pleasure, outside your community and not part of your normal routine, that did not include an overnight stay. Day trips involve travel of more than 50 miles from home.

Total trip volume is measured in "person-trips," which are defined as one trip taken by one visitor (inclusive of both day and overnight trips)

The economic development implications of tourism are not limited to the big headline numbers that it produces. Export industries are a key contributor to regional economic growth. Export is often thought of in a manufacturing sense, where goods produced in one region are then sold to others, bringing external dollars into a local economy. Indeed, Philadelphia was once an industrial power because of its manufacturing might, exporting Baldwin locomotives, Stetson hats and Midvale steel (among countless others) as part of a robust and diversified manufacturing sector. In the modern American economy, the predominance of manufacturing has been greatly reduced, but the

By its very definition, tourism activity brings external dollars into a local economy, stimulating economic growth

importance of export activity remains the same. One source of modern export activity is knowledge, and the Philadelphia region's vaunted education and medicine sector adds billions to the regional economy each year through students from around the country and around the globe flocking to the region with their tuition checks.

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. To be sure, it is important for economies to circulate their own dollars, capitalizing on division of labor advantages to buy and sell goods and services through local activity. When dollars are drawn in from outside of an economic region, however, the local process of local circulation is magnified because it takes place with new external dollars

Export activity therefore is central to growing local employment and to growing the local tax base, which generates revenues to pay for essential services without raising taxes without raising taxes or increasing the burden on local households. While this is true of any export activity, the tourism sector has generates additional tax revenue due to a number of local consumption taxes and fees which are borne disproportionately by visitors. **Within the city of Philadelphia, taxes such as the hotel tax, parking tax, liquor by the drink tax and amusement tax are all applied to activities frequently undertaken by tourists. Each of these is a significant revenue stream for the City or School District of Philadelphia.**

The tourism sector generates additional tax revenue due to a number of local consumption taxes and fees which are borne disproportionately by visitors.

1.2 ORGANIZATION OF REPORT

The remainder of this report is dedicated to quantifying and exploring the impact of the tourism economy on the Philadelphia region. The report proceeds as follows:

- Section 2 reviews *visitation to Greater Philadelphia*, detailing the number and type of visitors, when and why they visit, and how visitation has changed over time.
- Section 3 reviews *regional tourism economic impact* generated by this visitation, including how much and on what visitors spend, how those dollars circulate through the regional economy, and the implications for local employment, tax generation and economic development.
- Section 4 discusses key *forward-looking trends* that will help to shape the regional tourism economic over the near-term, including travel industry, economic and local factors.
- Section 5 *concludes* and summarizes the key findings of the report.

In addition, appendices provide detail on the methodologies used to quantify visitation and economic impact, including detail on the domestic visitor volume index model (Appendix A), direct visitor spending model (Appendix B), and economic and fiscal impact models (Appendix C) developed and employed by Econsult Solutions, Inc. (ESI) in this analysis.

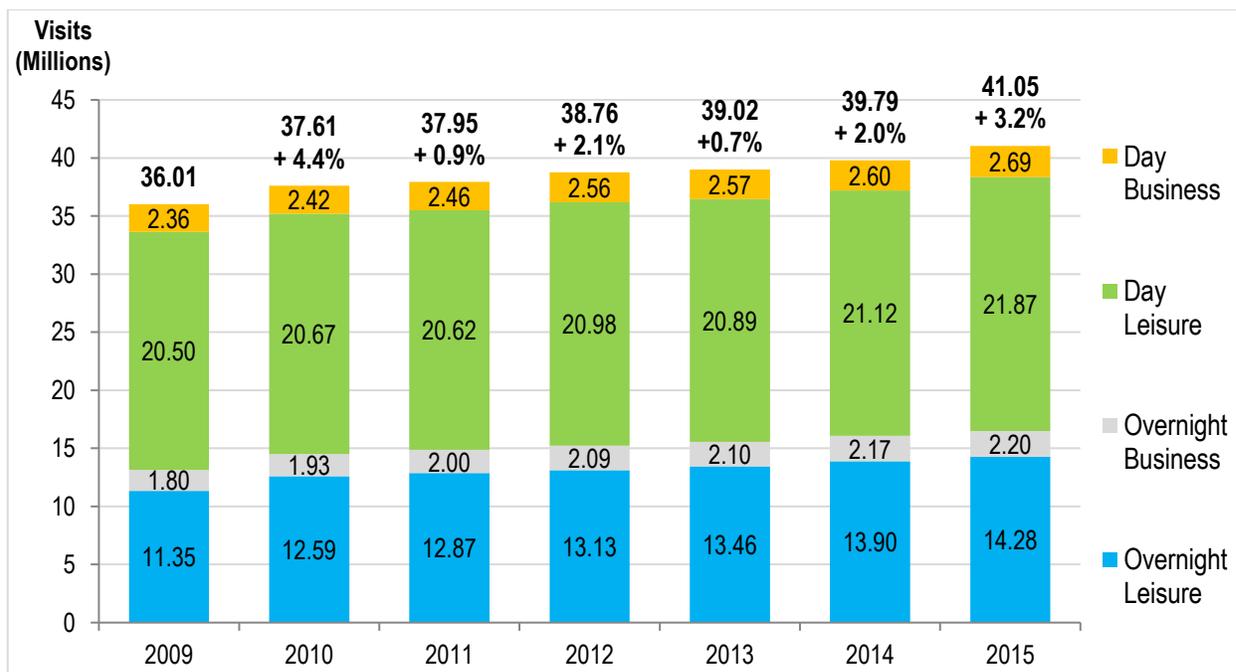
2.0 VISITATION TO GREATER PHILADELPHIA

The Philadelphia region⁴ has a healthy tourism industry that attracts visitors from all corners of the country and globe for a variety of reasons on a consistent basis throughout the year. **Visitation grew for the sixth consecutive year in 2015, as the industry re-affirmed its place as a significant driver in the regional recovery from the recession.** This section reviews a variety of metrics on the level and character of regional visitation, and key trends in Philadelphia's development as a mature tourism destination.

2.1 ANNUAL DOMESTIC VISITATION

Domestic visitation to the Greater Philadelphia region reached a new high of 41 million in 2015, growing 3.1% from 2014. 2015 represents the sixth consecutive year of visitation growth for Greater Philadelphia, helping the tourism industry serve as one of the key drivers of the region's post-recession recovery. Over the post-recession era, total visitation has grown from 36 million in 2009 to 41 million in 2015 (see Figure 2.1).

FIGURE 2.1 - ANNUAL DOMESTIC VISITATION TO GREATER PHILADELPHIA, 2009-2015



Source: Tourism Economics, Longwoods International, Econsult Solutions, Inc.

⁴ As noted throughout this report, Greater Philadelphia refers to the 5-County region of Bucks, Chester, Delaware, Montgomery, and Philadelphia counties in Southeastern Pennsylvania.

Growth in visitation in 2015 is consistent with a range of industry indicators, including strong attraction attendance, strong hotel performance, increases in transportation indicators and growth in leisure and hospitality sector employment. Visitor volume estimates are derived from an index model which considers a range of industry inputs and the historic relationship between these inputs and regional visitation.⁵

- Year-over-year growth was evident in all segments (day and overnight, business and leisure). Day leisure visitation, which represents the largest visitor segment, showed the largest growth increment in 2015, both in percentage (+ 3.5%) and absolute (+ 750,000 visits) terms.
- In total, 16.5 million visitors (40%) stayed overnight, while 36.2 million visitors came for a leisure purpose (88%).
- 63% of regional visitors (25.9 million) visited the city of Philadelphia during their trip, either as their primary destination or in combination with a visit to one of more suburban counties.⁶

TABLE 2.1 - ANNUAL DOMESTIC VISITATION TO GREATER PHILADELPHIA, 2014-2015

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
% Chg	+ 3.2%	+ 2.8%	+ 1.4%	+ 3.5%	+ 3.4%

Year	Total	Overnight	Day	Leisure	Business
2015	41.05	16.49	24.56	36.15	4.90
2014	39.79	16.07	23.73	35.02	4.78
% Chg	+ 3.2%	2.6%	3.5%	3.2%	2.5%

Source: Tourism Economics, Longwoods International, Econsult Solutions, Inc.

⁵ See Appendix A for a detailed description of ESI's domestic visitor volume index modeling approach

⁶ Note that many travelers visit both the city and suburban counties on their visits. Therefore, while this statistic implies that 37% of regional visitors traveled to suburban counties only on their visit, it does not imply that only 37% of regional visitors traveled to a suburban county in total. Instead, visitation to the suburban counties is represented by these 37% of visitors, plus a proportion of Philadelphia visitors who also visited one or more suburban counties on their trip.

Historic Visitation Trend

Table 2.2 shows visitation growth by segment in the post-recession period from 2009 to 2015, and over a longer-term horizon from 1997 to 2015.⁷ **Over each of these periods, total visitation growth has been primarily driven by increases in overnight visitation and in leisure visitation.**

- Overnight leisure is the fastest growing segment since 2009 (growing 26% compared to 14% growth in total visitation) and since 1997 (growing 96% compared to 54% growth in total visitation).

TABLE 2.2 - DOMESTIC VISITATION GROWTH BY SEGMENT, 1997-2015

Year	Total	Overnight Leisure	Overnight Business	Day Leisure	Day Business
1997	26.67	7.30	1.39	15.50	2.48
2009	36.01	11.35	1.80	20.50	2.36
2015	41.05	14.28	2.20	21.87	2.69
% Chg 1997-2015	54%	96%	58%	41%	8%
% Chg 2009-2015	14%	26%	22%	7%	14%

Year	Total	Overnight	Day	Leisure	Business
1997	26.67	8.69	17.98	22.8	3.87
2009	36.01	13.15	22.86	31.85	4.16
2015	41.05	16.48	24.56	36.15	4.89
% Chg 1997-2015	54%	90%	37%	59%	26%
% Chg 2009-2015	14%	25%	7%	14%	18%

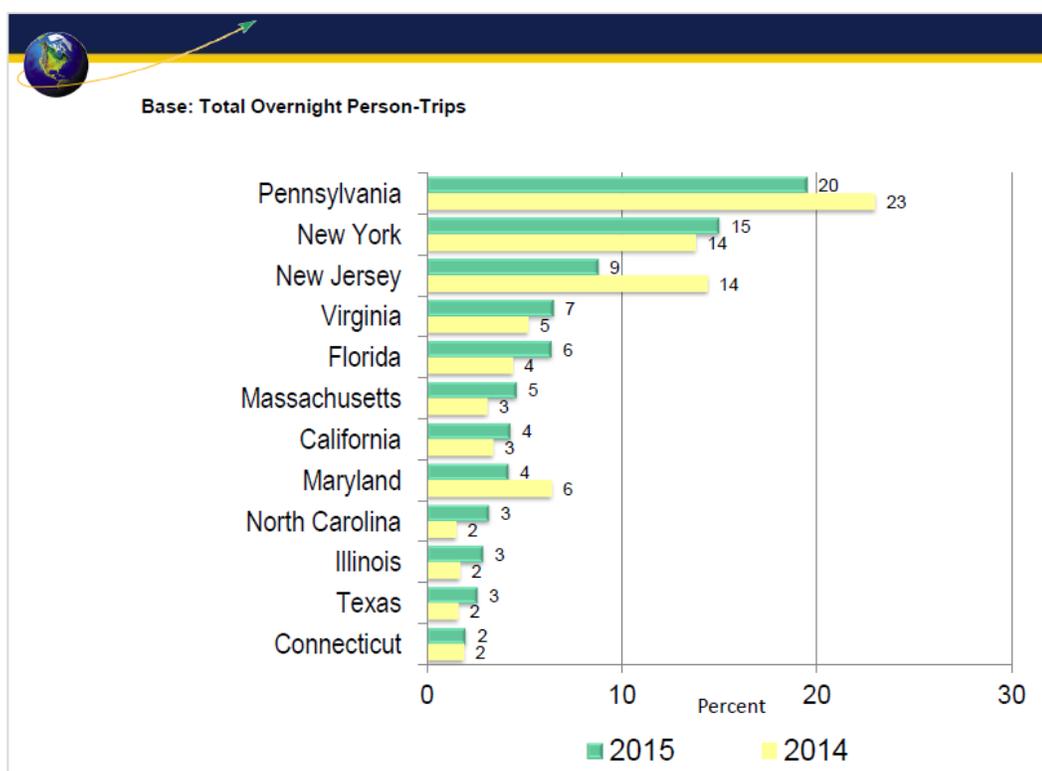
Source: Tourism Economics, Longwoods International, Econsult Solutions, Inc.

⁷ 1997 represents the first year of operations for Visit Philadelphia (then the Greater Philadelphia Tourism Marketing Corporation), and the first year for which comparable data is available,

2.2 POINT OF ORIGIN

Visitor survey panel data from Longwoods International can be utilized to understand composition and trend in the point of origin for visitors to Greater Philadelphia. Longwoods data from 2015 indicates that overnight visitation to Greater Philadelphia is strongest from the mid-Atlantic region, with Pennsylvania, New York, New Jersey, Virginia and Maryland representing 55% of total visitation (see Figure 2.2). Interestingly, that figure declined from 62% in 2014, indicating that **the region increased its share of longer haul visitation in 2015**. This trend is seen in growth from large states scattered across the country, including Florida, California, Illinois, and Texas, all of which appear in the top 10 origin markets.

FIGURE 2.2 – STATE OF ORIGIN FOR GREATER PHILADELPHIA OVERNIGHT VISITORS, 2014-2015



Source: Longwoods International

In terms of metro areas, the major markets of the Acela corridor (New York, Washington DC, Boston and Philadelphia itself) form the key source of visitation. This is reflective in part of Philadelphia's favorable geographic location, with easy road and rail access to major centers of population and commerce. In addition, the region attracts visitors feeder markets across Pennsylvania (Scranton, Harrisburg, Pittsburgh), and from major metro centers nationwide (Chicago, Los Angeles) that parallel to the top states of origin.

2.3 SEASONALITY OF VISITATION

Different aspects of the tourism industry interact over the course of the year, leading to certain well-developed seasonal trends in visitation. For urban destinations like Philadelphia, spring and fall generally represent the strongest seasons for business and convention travel, while leisure visitation is most robust during the summer months. The development of the region as a destination of choice for leisure travelers has helped to smooth cyclical effects, maintaining strong visitation and hotel occupancy across a broader portion of the year. **Analysis of visitation trends by quarter for 2015 show robust growth during the key visitation months following a relatively slow start to the year** (see Table 2.3).

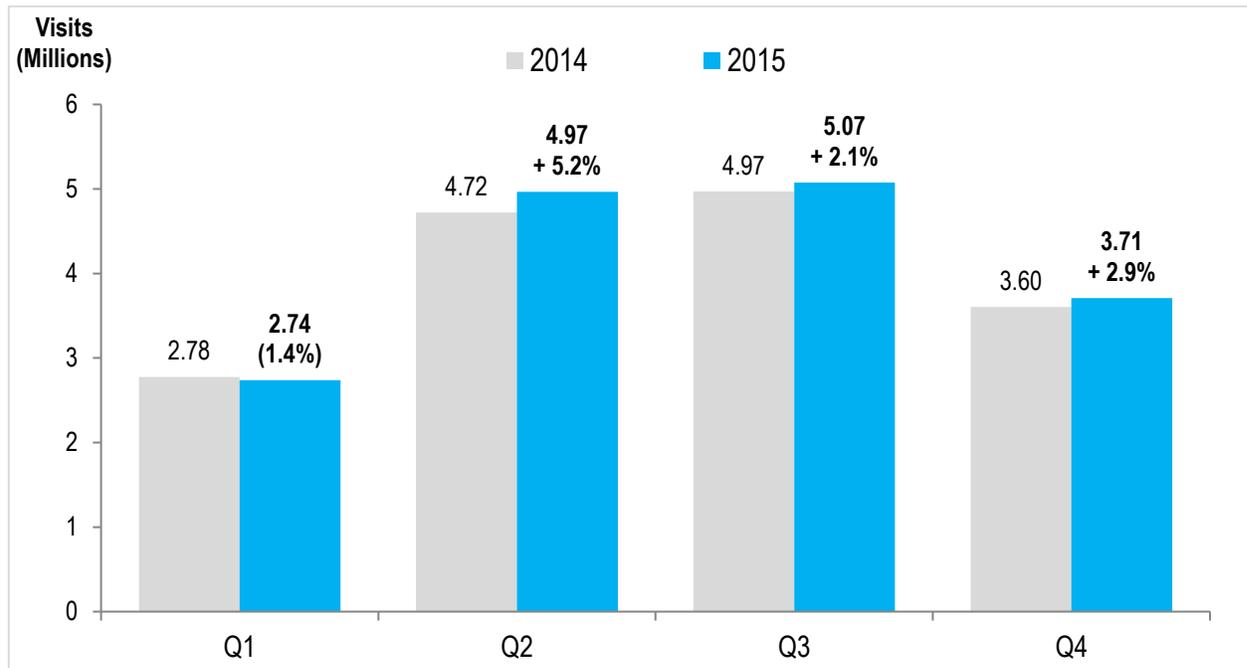
- After a slow start to the year (with a slight decline in Q1), Q2 visitation rebounded strongly, growing nearly 5%.
- Q3 and Q4 showed steady growth (around 3%), supported by growth across all segments (day and overnight, business and leisure).

TABLE 2.3 - QUARTERLY DOMESTIC VISITATION TO GREATER PHILADELPHIA, 2014-2015

Quarter	Total	Overnight Leisure	Overnight Business	Day Leisure	Day Business
Q1 2015	6.46	2.22	0.52	3.07	0.66
Q2 2015	12.55	4.36	0.61	6.88	0.70
Q3 2015	12.92	4.54	0.53	7.14	0.70
Q4 2015	9.12	3.16	0.55	4.77	0.63
Q1 % Chg	(0.1%)	(1.6%)	(0.5%)	+ 1.0%	+ 0.6%
Q2 % Chg	+ 4.8%	+ 5.4%	+ 3.6%	+ 4.7%	+ 4.0%
Q3 % Chg	+ 2.9%	+2.3%	+ 0.5%	+ 3.3%	+ 5.6%
Q4 % Chg	+ 3.5%	+ 3.1%	+ 1.8%	+ 3.9%	+ 3.2%
Quarter	Total	Overnight	Day	Leisure	Business
Q1 2015	6.46	2.74	3.73	5.28	1.18
Q2 2015	12.55	4.97	7.58	11.25	1.30
Q3 2015	12.92	5.07	7.85	11.69	1.23
Q4 2015	9.12	3.71	5.41	7.93	1.18
Q1 % Chg	(0.1%)	(1.4%)	+ 0.9%	(0.1%)	+ 0.1%
Q2 % Chg	+ 4.8%	+ 5.2%	+ 4.6%	+ 5.0%	+ 3.8%
Q3 % Chg	+ 2.9%	+ 2.1%	+ 3.5%	+ 2.9%	+ 3.3%
Q4 % Chg	+ 3.5%	+ 2.9%	+ 3.8%	+ 3.6%	+ 2.5%

Figure 2.3 shows a year over year comparison of overnight visitation by quarter. This comparison illustrates both the strong rebound in visitation after a slow start to the year, and the relative importance of the warmer months of the year in the total mix of regional visitation.

FIGURE 2.3 - QUARTERLY DOMESTIC OVERNIGHT VISITATION TO GREATER PHILADELPHIA, 2014-2015 (MILLIONS)



This strong performance and quarterly growth throughout the year indicates a mature market able to drive visitation beyond specific events which represent spikes in activity. It is further evidenced by longitudinal analysis of the Center City hotel market by PKF Consulting, which shows a significant increase in the proportion of downtown hotel room nights attributable to individual leisure travelers (from 14% in 1997 to 32% in 2015). This increase means that downtown hotels rely on a roughly equal mix of group, commercial and individual leisure travelers to maintain their occupancy, and in 2015, all three segments were contributors to a historically high 77% occupancy rates. This balance provides for more stable visitation throughout the week (with business travel predominant on weeknights and leisure travel on weekends) and throughout the year. This stability and diversity of demand insulates the industry against a potential downturn in any one market component in any given year.

3.0 REGIONAL TOURISM ECONOMIC IMPACT

The visitation described in Section 2 translates into significant economic impact for the Philadelphia region. Visitors spend millions each day on goods and services (most notably lodging, food and beverage, transportation, retail, and entertainment), supporting and sustaining local businesses. These direct dollars are circulated throughout the local economy, supporting other businesses down the supply chain, and result in employee wages which are then re-spent on local goods and services. These impacts are particularly valuable because tourist dollars by definition originate from outside of the region, so this export activity results in external dollars entered the local economy and supporting the local tax base to generate revenue for services. Furthermore, there are a number of unique consumption taxes in Philadelphia that are disproportionately borne by tourists, and here represent a transfer of out of town spending to support local services and public education.

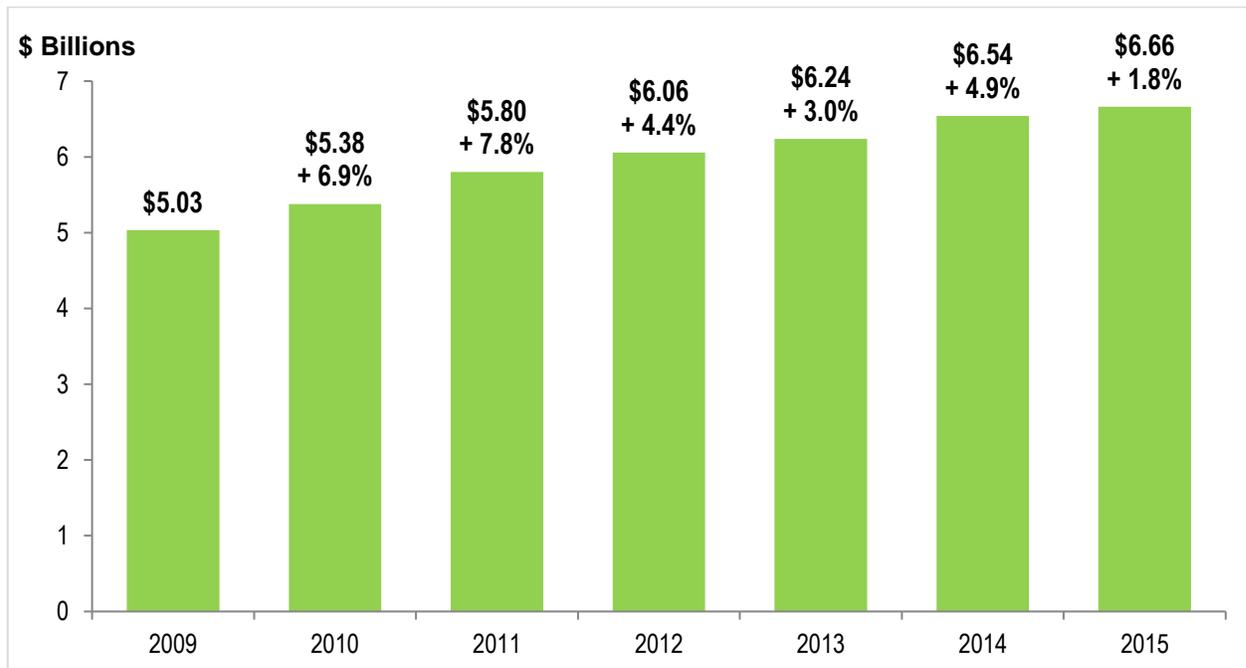
This section reviews a variety of metrics on the magnitude and character of tourism's economic impact on the regional economy, illustrating its power as an economic development strategy.

3.1 DIRECT VISITOR SPENDING

Direct visitor spending (point of sale purchases by visitors, prior to any indirect or induced impacts) within Greater Philadelphia⁸ was \$6.66 billion in 2015, up 1.8% from 2014. 2015 represented the 6th consecutive year of growth in visitor spending in the Philadelphia region. Since the depth of the recession in 2009, direct spending has grown by 32%, from \$5.03 billion to \$6.66 billion (see Figure 3.1). This represents a cumulative annual growth rate of 4.8%, far outpacing measures of inflation (such as the consumer price index or travel price index) during this period.

⁸ As noted throughout this report, Greater Philadelphia refers to the 5-County region of Bucks, Chester, Delaware, Montgomery, and Philadelphia counties in Southeastern Pennsylvania.

FIGURE 3.1 – GREATER PHILADELPHIA DIRECT VISITOR SPENDING, 2009-2015 (\$ BILLIONS)



Source: Tourism Economics, Longwoods International, Econsult Solutions, Inc.

While economic conditions were generally favorable for travel, 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). It should be noted, however, that low fuel prices may have contributed to increases in visitation, and may have boosted spending in other categories. Direct visitor spending was estimated by using available inputs, notably travel panel survey data from Longwoods International, to develop an incremental change model from reported visitor spending levels for 2014.⁹

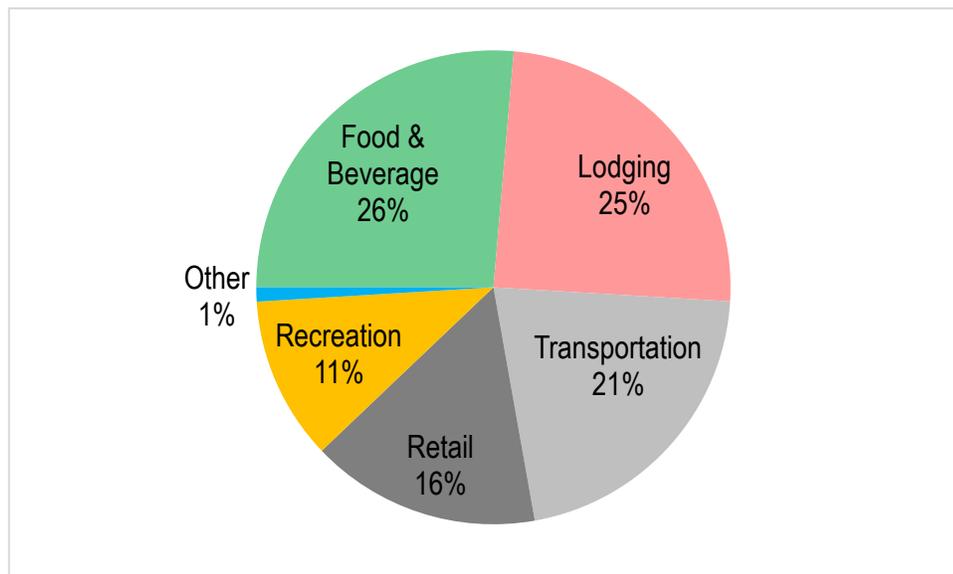
Direct spending is divided across five major sectors of the tourism economy (see Table 3.1 and Figure 3.2). **Largest among these sectors are Food & Beverage and Lodging, which each account for approximately one-quarter of all visitor spending.** Food & Beverage spending showed healthy growth in 2015 (+ 6.8%), reflecting both the continued growth of Philadelphia as a food destination, and the increased availability of discretionary travel dollars due to historically low fuel prices. Next largest is transportation (which includes expenditures by visitors getting around town on their trip, the portion of expenditures on the way to the destination which take place within the region, and fuel purchases). The remainder of spending is primarily in the retail and recreation/entertainment categories

⁹ See Appendix B for more detail on the methodology for estimating changes in direct visitor spending by category.

TABLE 3.1 - GREATER PHILADELPHIA DIRECT VISITOR SPEND BY SECTOR, 2014-2015

Sector	2015	2014	% Chg
Food & Beverage	\$1.76 B	\$1.64 B	+ 6.8%
Lodging	\$1.64 B	\$1.55 B	+ 5.9%
Transportation	\$1.42 B	\$1.50 B	(5.3%)
Retail	\$1.04 B	\$1.07 B	(2.0%)
Recreation	\$743 M	\$726 M	+ 2.3%
Other	\$64 M	\$63 M	+ 1.8%
Total	\$6.66 B	\$6.54 B	+ 1.8%

Source: Tourism Economics, Longwoods International, Econsult Solutions, Inc.

FIGURE 3.2 – DISTRIBUTION OF DIRECT VISITOR SPEND BY SECTOR, 2015

Source: Econsult Solutions, Inc.

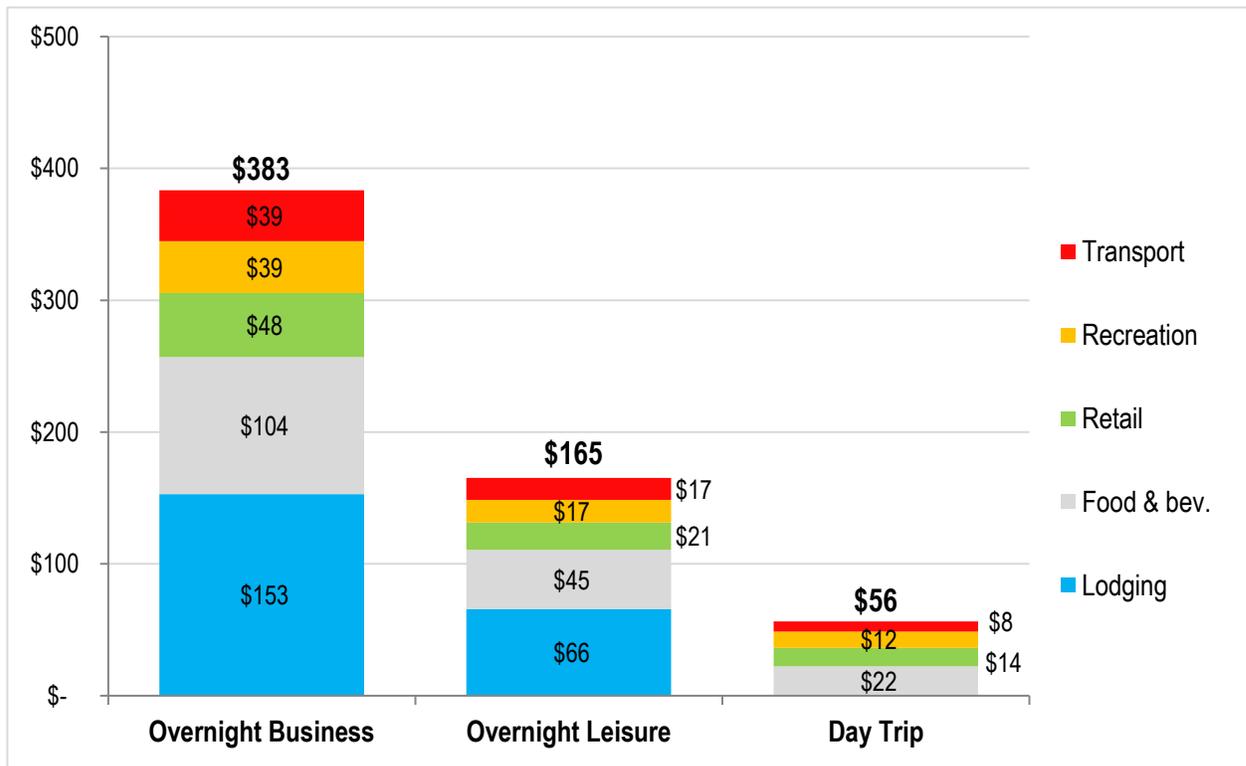
Spending by Visitor Type

Visitors vary in their spending habits, both in terms of the total level of spending, and in terms of the composition of that spend by category. While spend profiles are highly variable based on the economic circumstances and preferences of travelers and the specifics of their trips, visitor spending can be aggregated and broadly categorized into various typologies.

Figure 3.3 illustrates varying traveler spending profiles based on data travel survey panel data provided by Longwoods International. Overnight business travelers are the largest spenders on a

per person, per day basis, with significant expenditures on lodging and food and beverage in particular. Overnight leisure travelers spend an average of \$165 per visitor per day across a variety of categories, with a lower lodging spend in part due to fact that a greater proportion of leisure visitors stay with friends and relatives rather than in paid accommodations. It should also be noted that leisure visitors are more likely to travel in groups, meaning that per person spending differentials do not equate with spending differentials by travel party. Finally, day trip visitors, who do not have any expenditures in the lodging category, spend an average of \$56 per person.

FIGURE 3.3 – PER VISITOR, PER DAY DOMESTIC VISITOR SPENDING BY VISITOR TYPE, 2015



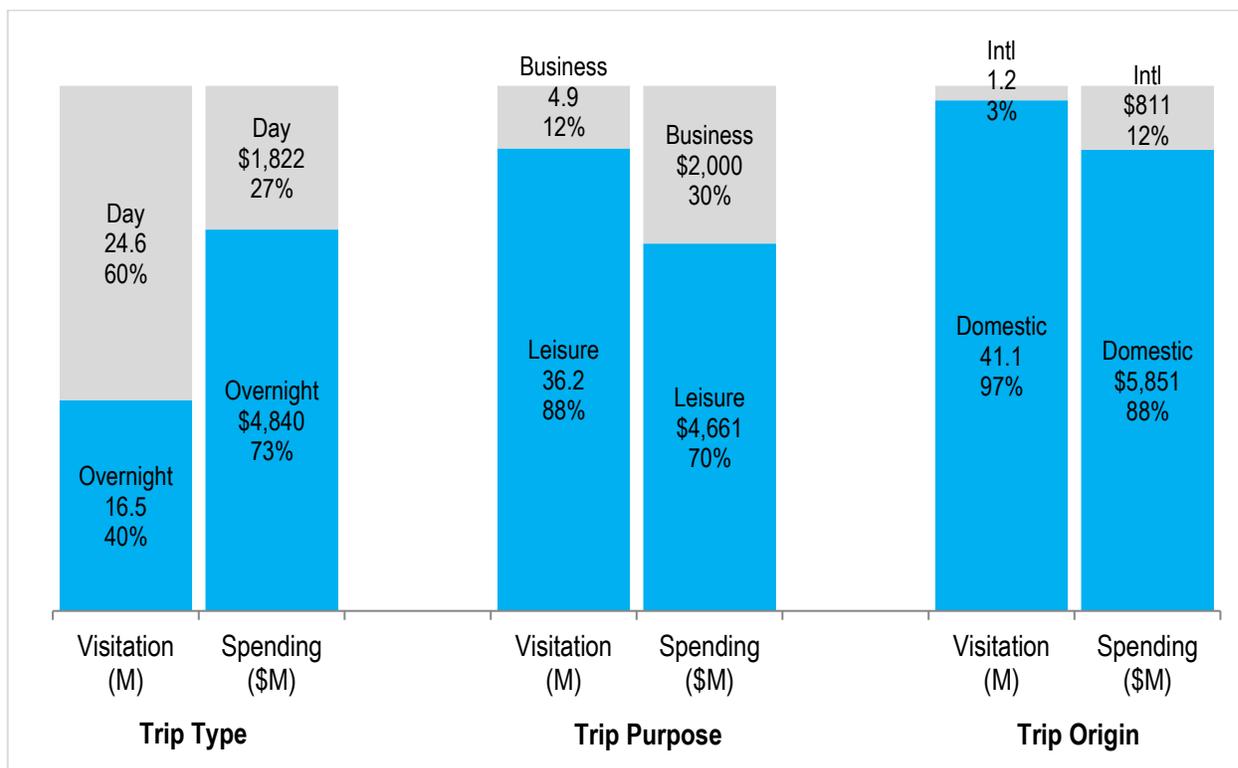
Source: Longwoods International

Total visitor spending by category is reflection both of the spending profile within each category, and of the relative magnitude of the category. Figure 3.4 below shows the categorization of direct visitor spending in Greater Philadelphia in 2015 by trip type, trip purpose, and trip origin.

- While day visitors comprise the majority of visits (60%), **the majority of spending is represented by overnight visitors (73%)**. This disparity is due to the lodging needs of overnight visitors, which represent a key expenditure category, as well as the increased length of stay (averaging 2.5 nights, according to Longwoods International) and the variety of activities associated with longer trips.

- **Leisure travelers represent the majority of spending impact (70%)**, though business travelers spend more on a per person basis, in part due to the ability to pass travel costs on to employers or clients in many instances.
- Similarly, **domestic travelers represent the vast majority of spending impact (88%)**, though international travelers spend more on a per person basis, due to the nature of long-haul travel (which frequently includes an extended stay and paid accommodations).

FIGURE 3.4 - GREATER PHILADELPHIA VISITATION AND DIRECT VISITOR SPENDING BY VISITOR TYPE, 2015



Source: Econsult Solutions, Inc, Tourism Economics

Historic Spending Trend

Over the post-recessionary period, annual growth in direct spending has typically outpaced annual growth in domestic visitation on a percentage basis. **This suggests 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** (see Table 3.2).¹⁰

¹⁰ Notably, annual inflation over this period was approximately 2% (according to the Consumer Price Index, or CPI), indicating that increases in visitor spending were greater than would be suggested by inflation alone.

TABLE 3.2 – 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%

Source: Tourism Economics, Longwoods International, Econsult Solutions, Inc.

This was not the case in 2015, with domestic visitation increasing by 3.2% and visitor spending growing by 1.8%. This differential is largely driven by two specific economic factors.

First, steep declines in gas prices led to decreasing spending at the pump. In fact, the year over year change in all spending categories other than gasoline stations is estimated at 4.2%, above the rate of visitation growth. This decline in direct spending is overstated relative to its impact on the regional economy, because much of “margin” (i.e. profit) on gasoline sales that take place within the region actually accrues to companies located outside of the region.

Second, as discussed in Section 3.6 below, unfavorable exchange rate conditions limited visitation and spending from key international markets, notably Canada and Western Europe. This represented a constraint on visitor spending growth shown above (which incorporates international visitor activity) but is not represented in the visitor volume trend shown above (which is comprised of domestic visitors only).

Comparison to National Trends

Notably, **Greater Philadelphia’s visitation and visitor spending trends have closely paralleled national trends over the past five years**, as reported by the U.S. Travel Association (see Table 3.3). As discussed in Section 4, this correlation bodes well over the short-term future, given the generally positive outlook for the industry nationally.

TABLE 3.3 – ANNUAL GROWTH IN DOMESTIC VISITOR VOLUME AND VISITOR EXPENDITURES, NATIONAL AND GREATER PHILADELPHIA, 2011-2015

Year	National – Domestic Travel Volume	Greater Philadelphia - Domestic Visitor Volume	National – Travel Expenditures	Greater Philadelphia - Direct Visitor Spending
% Chg 2011	+ 1.7%	+ 0.9%	+ 8.7%	+ 7.8%
% Chg 2012	+ 1.6%	+ 2.1%	+ 5.2%	+ 4.4%
% Chg 2013	+ 1.4%	+ 0.7%	+ 3.7%	+ 3.0%
% Chg 2014	+ 2.4%	+ 2.0%	+ 2.1%	+ 4.9%
% Chg 2015	+ 3.3%	+ 3.2%	+ 4.8%	+ 1.8%
Total CAG	+ 2.1%	+ 1.8%	+ 4.8%	+ 4.4%

Source: U.S. Travel Association, Tourism Economics, Longwoods International, Econsult Solutions, Inc.

3.2 TOTAL ECONOMIC OUTPUT

The economic impact of Greater Philadelphia’s visitors is the sum of direct spending by tourists and the effects that those dollars have on the local economy. These “multiplier” effects include both indirect spending (from the supply chain of tourism-serving businesses) and the induced spending (from the labor income generated by tourism-serving businesses). These effects are particularly important because tourism is by definition an “export” activity, with visitors bringing in dollars from outside the region that then enrich the local economy and support local employment.¹¹

In 2015, the regional tourism economy (including both domestic and international visitors) showed **healthy growth in terms of total output, employment and personal income supported. Total direct, indirect and induced output (also referred to as “economic impact”) was \$10.7 billion, up 2.5% from 2014.** This equates to more than \$29 million a day in regional economic impact. This activity supported more than 93,300 jobs, an increase of 1.3% from 2014, including nearly 69,000 jobs supported by direct visitor spending, generating a person income of nearly \$3.2 billion (see Table 3.4).

¹¹ See Appendix C for more detail on ESI’s economic impact methodology.

TABLE 3.4 - GREATER PHILADELPHIA VISITOR ECONOMIC IMPACT, 2014-2015

Metric	Total	Direct Impact	Indirect/ Induced
2015 Output (\$ M)	\$10,731	\$6,662	\$4,069
2015 Employment (jobs)	93,338	68,831	24,507
2015 Personal Income (\$ M)	\$3,237	\$1,933	\$1,304
2014 Output (\$ M)	\$10,465	\$6,542	\$3,922
2014 Employment (jobs)	92,157	67,856	24,301
2014 Personal Income (\$ M)	\$3,166	\$1,900	\$1,266
Output % Chg	+ 2.5%	+ 1.8%	+ 3.7%
Employment % Chg	+ 1.3%	+ 1.4%	+ 0.7%
Personal Income % Chg	+ 2.2%	+ 1.7%	+ 3.0%

Source: *Tourism Economics, Econsult Solutions, Inc., IMPLAN*

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 3.5).

TABLE 3.5 - VISITOR ECONOMIC IMPACT, PHILADELPHIA AND SUBURBAN COUNTIES, 2014-2015

Metric	Total	Philadelphia	Suburban Counties
2015 Output (\$ M)	\$10,731	\$6,231	\$4,499
2015 Employment (jobs)	93,338	41,243	52,095
2015 Personal Income (\$ M)	\$3,237	\$1,802	\$1,435
2014 Output (\$ M)	\$10,465	\$5,984	\$4,480
2014 Employment (jobs)	92,157	39,975	52,182
2014 Personal Income (\$ M)	\$3,166	\$1,740	\$1,427
Output % Chg	+ 2.5%	+ 4.1%	+ 0.4%
Employment % Chg	+ 1.3%	+ 3.2%	(0.2%)
Personal Income % Chg	+ 2.2%	+ 3.6%	+ 0.6%

Source: *Tourism Economics, Econsult Solutions, Inc., IMPLAN*

3.3 TOURISM EMPLOYMENT

Employment impacts generated by the tourism industry can be described in two fundamentally different ways. One method is to consult government data on the volume of employment in sectors that benefit from tourism activity (i.e. “tourism industry employment”). Specifically, the Bureau of Labor Statistics (BLS) aggregates job counts in five sub-sectors (Accommodations, Food Service, Arts, Recreation and Entertainment) into a “Leisure and Hospitality” sector. This data represents an important indicator of the health of the regional tourism industry. However, it is an imprecise measure of the impacts of visitor activity, because not all of the jobs in these sectors are visitor supported (since there is considerable local spending in these sectors), and not all visitor-supported employment is captured within these sectors (since the indirect and induced impacts from visitor spending have “spillover” impacts in a range of sectors).

Therefore, this report also translates the economic activity attributable to direct, indirect and induced visitor spending into commensurate metrics on employment and earnings supported. This approach results in quantification of employment impacts more directly attributable to visitor spending (i.e. “visitor supported employment”).

Visitor-Supported Employment

Visitor spending supports employment across a range of sectors within the Greater Philadelphia economy through its direct, indirect and induced effects.¹² **More than 93,000 regional jobs were supported by visitor spending in 2015, including nearly 69,000 supported by direct visitor expenditures.** Visitor-supported employment grew by 1.3% from 2014 to 2015 (see Table 3.6):

TABLE 3.6 - GREATER PHILADELPHIA VISITOR-SUPPORTED EMPLOYMENT BY SECTOR, 2014-2015

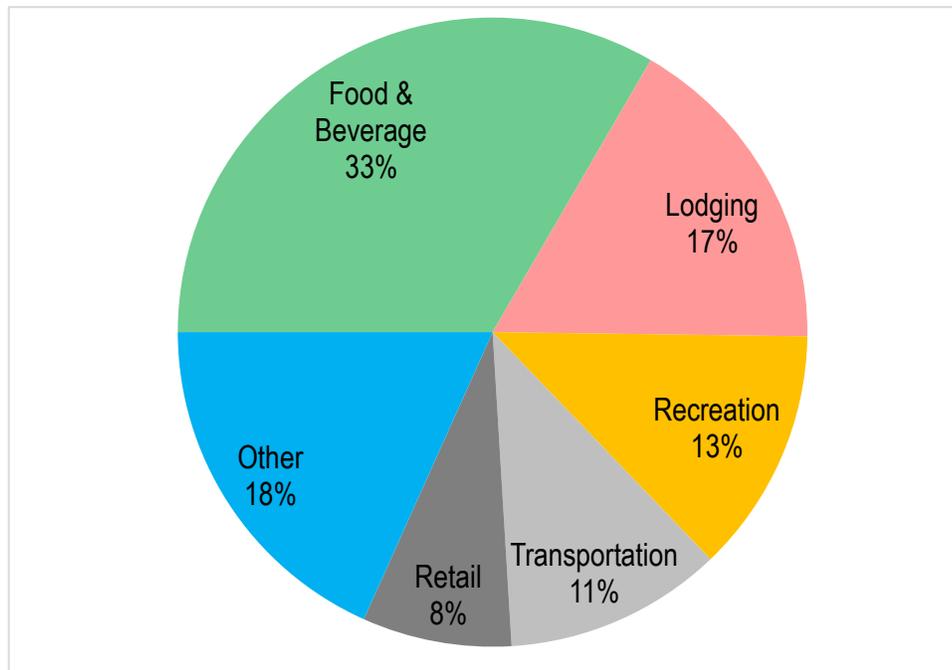
Sector	2015	2014	% Chg
Food & Beverage	31,160	30,230	+ 3.1%
Lodging	15,710	15,140	+ 3.8%
Recreation	11,780	11,980	(1.7%)
Transportation	10,460	10,500	(0.3%)
Retail	7,160	7,350	(2.6%)
Other	17,080	16,960	+ 0.7%
Total	93,340	92,160	+ 1.3%

Source: Tourism Economics, Econsult Solutions, Inc, IMPLAN

¹² See Appendix C for more detail on the methodology for estimating employment impacts.

Food and beverage and lodging are the two largest sectors, accounting for approximately half of total visitor-supported employment. Each saw strong year over year growth. Transportation, retail and recreation all saw small contractions in total visitor-supported employment in 2015. **While other sectors receive very little direct visitor spending, they contain 18% of the employment impact from visitor spending due to spillover indirect and induced effects** in sectors such as business services, education and health care, real estate, etc. (see Figure 3.5).

FIGURE 3.5 – DISTRIBUTION OF VISITOR-SUPPORTED EMPLOYMENT BY SECTOR, 2015



Source: Econsult Solutions, Inc

It is also useful to put visitor-supported employment in the context of other leading industries. Direct jobs supported by visitor spending number 68,800 within the five-county region. Employment data by sector from the Bureau of Labor Statistics indicates that this figure is on par with direct employment within the five-county region in major sectors such as Construction (69,400) and Wholesale Trade (68,900), which rank 9th and 10th respectively in regional employment.¹³

Employment figures presented above represent annual jobs counts, including a mix of full and part-time positions. Census and BLS data can be utilized to estimate the proportion of visitor-supported

¹³ Note that this comparison includes only direct tourism employment of 68,800 rather than the full direct, indirect and induced tourism employment figure of 93,300. Direct employment attributable to visitor is the appropriate apples to apples comparison, since employment and economic activity in other sectors also generates indirect and induced effects (of varying magnitudes). Further, BLS employment counts is the appropriate point of comparison, absent the ability to perform a comparable analysis of total impacts of other sectors.

that is full-time, both by sector and in aggregate.¹⁴ As shown in Table 3.7 below, **full-time jobs are estimated to represent 72% of visitor-supported employment in Greater Philadelphia in 2015**. Full-time percentages show considerable variation by sector, with jobs in lodging and transportation more likely than average to be full-time. In addition, the vast majority of jobs in “other” sectors, which benefit from the spillover effects of visitor spending, are primarily full-time. Jobs in sectors like food and beverage and recreation have higher part-time proportions, although the majority of jobs are still full-time.

TABLE 3.7 – FULL-TIME AND PART-TIME VISITOR-SUPPORTED EMPLOYMENT BY SECTOR, 2015

Sector	Total	Full-Time	Part-Time	% Full-Time
Food & Beverage	31,160	19,060	12,100	61%
Lodging	15,710	13,950	1,760	89%
Recreation	11,780	6,870	4,910	58%
Transportation	10,460	8,120	2,340	78%
Retail	7,160	4,770	2,380	67%
Other	17,080	14,320	2,760	84%
Total	93,340	67,090	26,250	72%

Source: U.S. Census Bureau, Bureau of Labor Statistics, Econsult Solutions, Inc.

Direct Tourism Industry Employment

As previously described, employment metrics reported above represent the level of jobs supported by direct, indirect and induced visitor spending. Alternately, it is possible to measure employment in tourism related sectors (herein called “tourism industry employment”). Employment by sector is reported by the Bureau of Labor Statistics on a regular basis at various geographic levels, and its level and change over time represents an important indicator of the health of the tourism sector and its impact on the regional economy. However, it is a less precise measure of the employment impacts of visitor spending, since tourism sector jobs are supported in part by local spending (in industries like food service, recreation and entertainment), and since visitor spending has impacts outside of the tourism sector through its indirect and induced effects.

Table 3.8 below shows the relative magnitude of industry employment and visitor supported employment by sector. Total employment in the leisure and hospitality sector in Greater Philadelphia was 174,000 at year-end 2015, of which approximately 1/3 (59,000) are directly or indirectly supported by visitor expenditures. These 174,000 jobs represent nearly 10% of total employment in the 5-county region. Among the 1.7 million remaining jobs in the region outside of the leisure and hospitality sector, 2% (35,000) are also supported by visitor expenditures. **Thus in**

¹⁴ Full-time is here defined as greater than 35 hours week, based on the Census definitions.

total visitor supported employment makes up approximately 5%, or 1 out of 20, of all regional jobs.

TABLE 3.8 – GREATER PHILADELPHIA TOTAL, TOURISM INDUSTRY AND VISITOR SUPPORTED EMPLOYMENT, 2015

Sector	Total Employment	Visitor-Supported Employment	% Visitor-Supported
Leisure and Hospitality Industry	174,000	58,600	34%
<i>Accommodations and Food Service</i>	141,900	46,900	33%
<i>Arts, Entertainment & Recreation</i>	32,100	11,800	37%
Other Industries	1,669,900	34,700	2%
Total	1,843,900	93,300	5.1%

Source: Bureau of Labor Statistics, Econsult Solutions, Inc, IMPLAN

Historic data shows the leisure and hospitality sector¹⁵ (defined by the BLS as the sum of Accommodations, Food Service, Arts, Recreation and Entertainment) as a significant growth industry in the city and region in recent years. Figures 3.6, 3.7 and 3.8 below show employment change for each of the major industry sectors in Philadelphia from 1997 – 2015, both in terms of the net change in jobs and the percentage change in jobs over that period.¹⁶ Total employment grew by 17,000 over this period (from 668,000 in 1997 to 685,000 in 2015), an increase of 3%.

Leisure and hospitality has been the second fastest growing sector over this period in terms of net jobs, adding more than 20,000 jobs (from 47,000 in 1997 to 68,000 in 2015), trailing only the education and health sector (which grew by 53,000, from 164,000 in 1997 to 217,000 in 2015). In addition, **leisure and hospitality is the fastest growing sector on a percentage basis from 1997 to 2015 at 44%, outpacing even education and medicine at 32%.**

This comparison illustrates the extent to which the city’s post-industrial transformation has been dependent on both the knowledge economy and the tourism economy. Sectors like manufacturing, trade and transport and construction have seen a contraction in jobs over this time frame, but the city’s overall employment level has remained stable thanks primarily to growth in “eds and meds” and tourism. As noted in Section 1.1, this is reflective in part of an explicit economic development strategy on the part of the city of Philadelphia since the early 1990s to pursue growth strategies and investments in these two sectors and in associated quality of life amenities.

¹⁵ The Leisure and Hospitality super-sector is defined by the BLS as the sum of the Accommodations, Food Service, Arts, Recreation and Entertainment sectors.

¹⁶ Net change is calculated as 2015 jobs minus 1997 jobs, and can therefore either be positive or negative. Percentage change is calculated by dividing this net change by the 1997 job count. Percentage changes for smaller industries will be somewhat more volatile than larger industries, due to the smaller base of the calculation.

FIGURE 3.6 – PHILADELPHIA NET EMPLOYMENT CHANGE BY SECTOR, 1997-2015 (IN 000s)

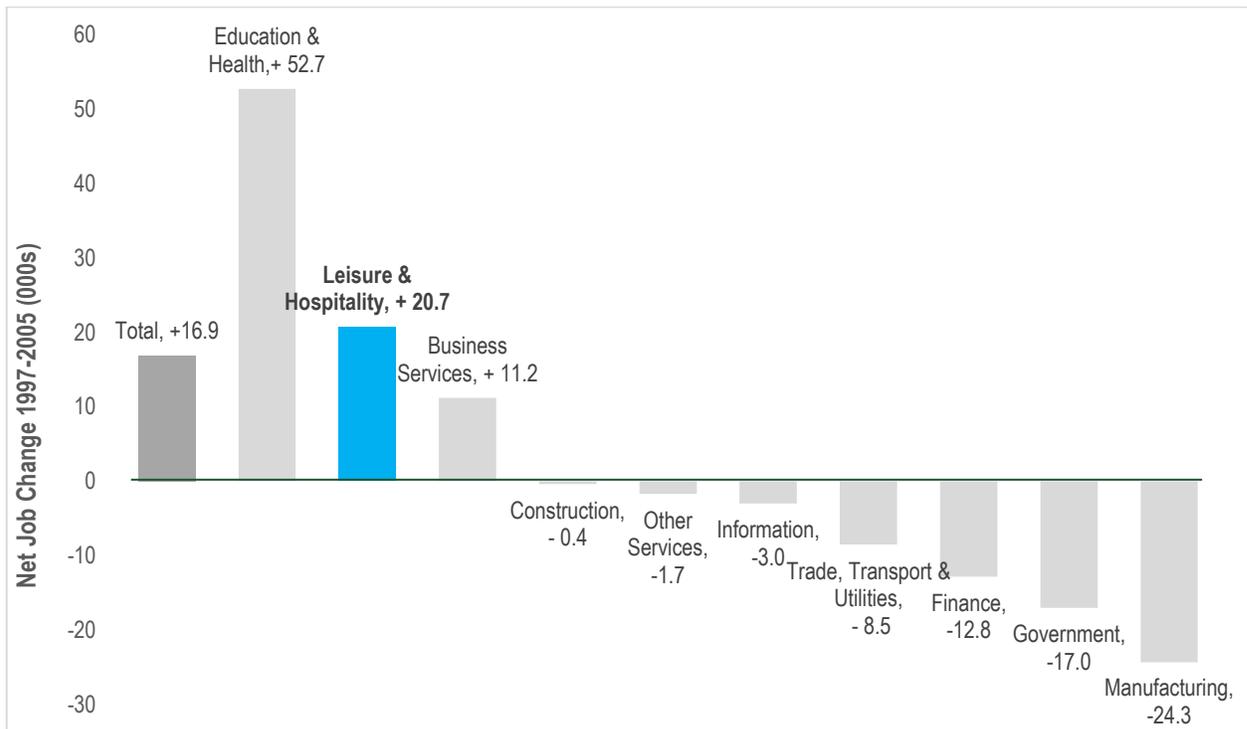
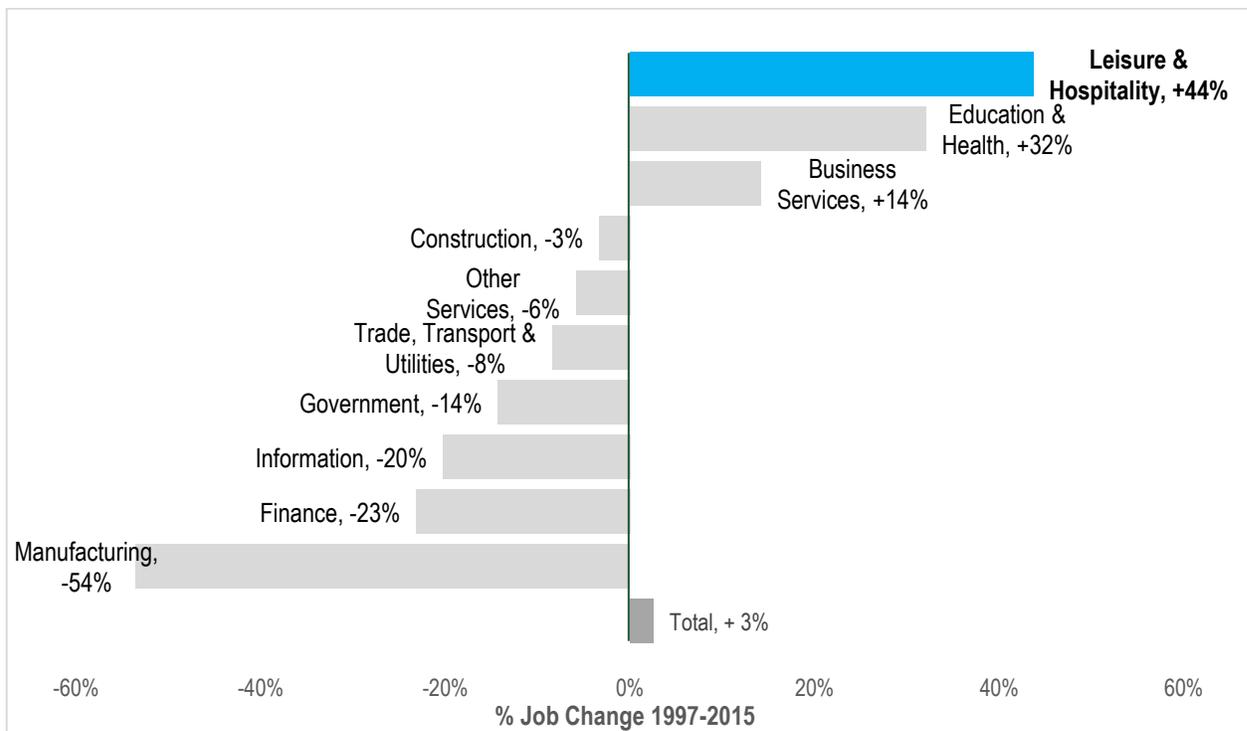
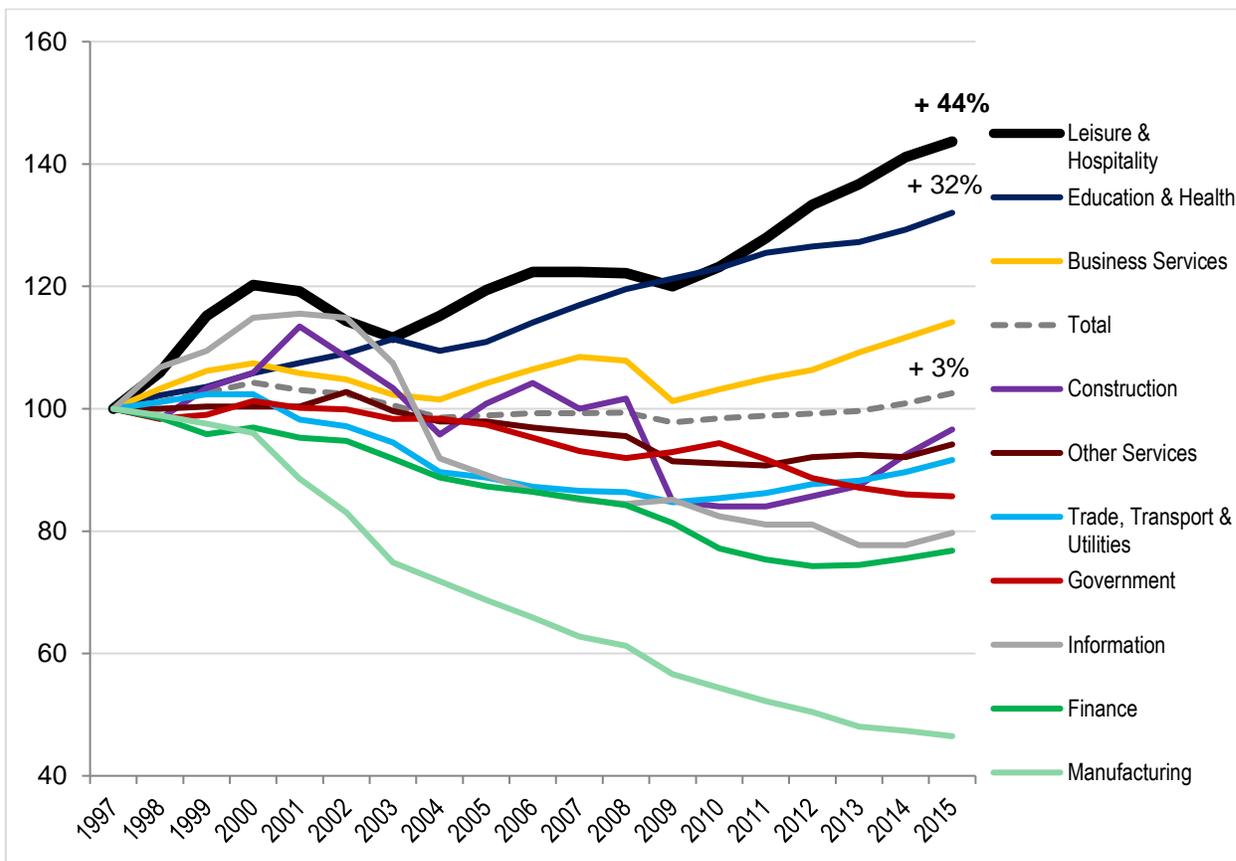


FIGURE 3.7 – PHILADELPHIA PERCENTAGE EMPLOYMENT CHANGE BY SECTOR, 1997-2015



Source: Bureau of Labor Statistics

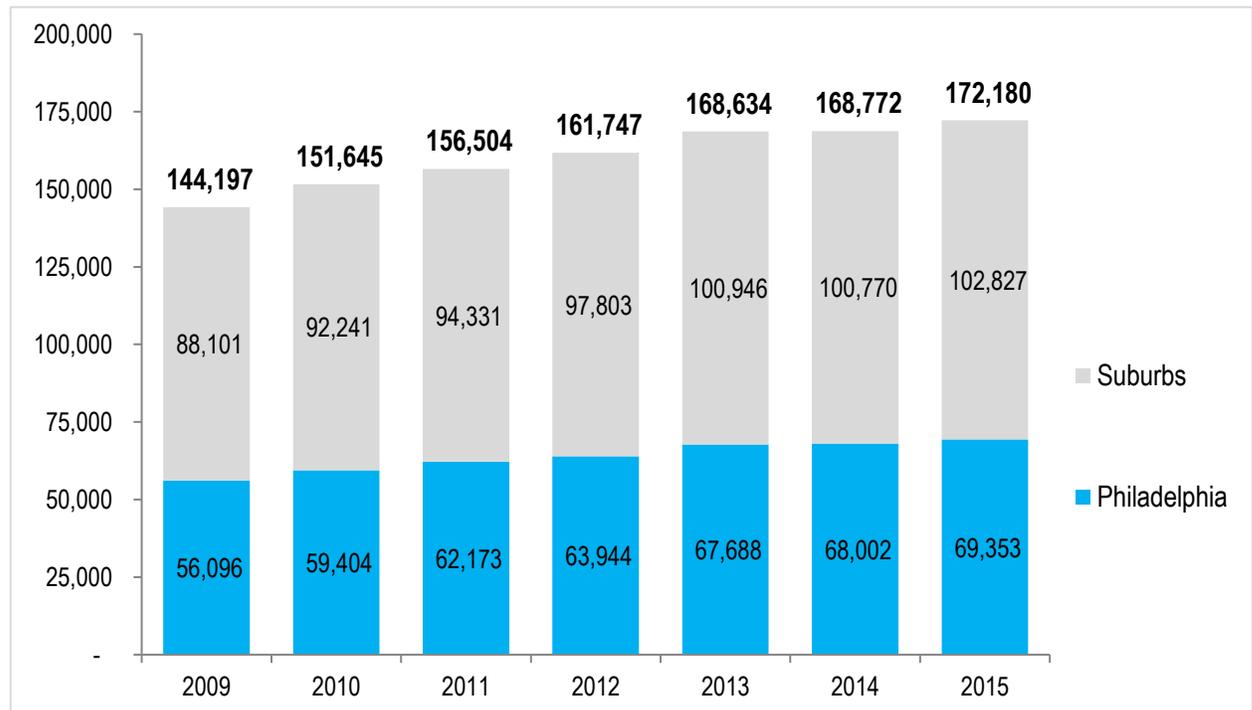
FIGURE 3.8 – PHILADELPHIA INDEXED EMPLOYMENT GROWTH BY SECTOR, 1997-2015



Source: Bureau of Labor Statistics

The Philadelphia region has seen similar robust growth in tourism industry employment in the recovery from the great recession. Figure 3.9 below shows annual growth in leisure and hospitality sector for the five county region (divided into the city and four Pennsylvania suburban counties) over the past six years. Since the depth of the recession in 2009, Q2 regional employment in this sector has grown by 28,000 jobs (from 144,200 to 172,200), or 19%. This far outpaces overall regional job growth during this period, which was 5%. Going back to 1997, regional job growth in the sector is 44%, far outpacing total job growth of 12%.

FIGURE 3.9 – GREATER PHILADELPHIA Q2 LEISURE AND HOSPITALITY SECTOR EMPLOYMENT, 2009-2015



Source: Bureau of Labor Statistics

While the above average job growth in the leisure and hospitality sector is not attributable entirely to visitor spending (since as noted above, jobs in tourism-serving sectors like food and beverage, recreation and entertainment are supported by a mix of out of town and local spending), the growth in these industries signals a growth in quality of life amenities supported by tourists and enjoyed by locals. Further, many such businesses are low margin, and rely on a mix of tourist and visitor spending to remain viable. Growing job counts indicate that visitor spending is helping to enable these businesses not only sustain themselves but for the volume to grow. In other words, **tourist spending helps locals have the choice between an expanding menu of restaurant and entertainment options within their community.**

This represents one of several ancillary benefits of the tourism industry to region from an economy development and quality of life standpoint. These benefits are discussed in more detail in Section 3.4.

3.4 FISCAL IMPACTS

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, business incomes, sales and property values, all of which are taxed by the state and by local municipalities and school districts - **it generates revenue to pay for essential services for regional residents, without raising taxes or increasing the burden on local households.**

In addition, visitor activities are subject to a number of local consumption taxes and fees, which 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).** While these taxes are not borne entirely by out of towners, they all accrue on activity visitors are disproportionately likely to be involved in, reducing the tax burden on locals.¹⁷

Table 3.9 below shows the level and year over year percentage change in tax revenues generated by direct, indirect and induced visitor spending for the Commonwealth of Pennsylvania, City and School District of Philadelphia and for local suburban municipalities and school districts. **In total, state and local taxes generated \$612 million for state and local government in 2015, an increase of 2.4%.** 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.

- Personal income, sales and business tax revenue from tourism activity generated \$216 million in tax revenue for the Commonwealth of Pennsylvania in 2015, up 2.5%.¹⁸
- Within the City of Philadelphia, these categories are supplemented by the local property tax, hotel tax, parking tax, amusement tax, and liquor tax, which generate a combined \$82 million from visitor activities. In total, visitor activity generated \$277 million for the city and school district.
- Within suburban counties, visitor spending generates revenue via the personal income, property and hotel taxes. In total, visitor activity generated \$119 million for local governments and school districts. Local revenues for the City of Philadelphia and surrounding jurisdictions total \$396 million.

¹⁷ See Appendix C for more detail on the methodology for estimating fiscal impact by category.

¹⁸ It should be noted that tax impacts for the Commonwealth are calculated based only on direct, indirect and induced economic impacts taking place within the 5-County region. In practice, direct visitor spending within the 5 county region has some additional spillover effects outside of the 5 county region but within the Commonwealth (for example, a restaurant within the region that sources its food from Lancaster County) which are not captured in this analysis. Fiscal impacts for the Commonwealth are therefore conservative. It should also be noted that while Greater Philadelphia as an economic entity is fully subsumed within the 5 county region, state and local governments are independent entities with different tax bases and revenue sources. Therefore, fiscal impacts to the state, city and local governments are fully additive and not overlapping.

TABLE 3.9 - STATE AND LOCAL TAX REVENUE GENERATED BY VISITOR SPENDING, 2015 (\$M)

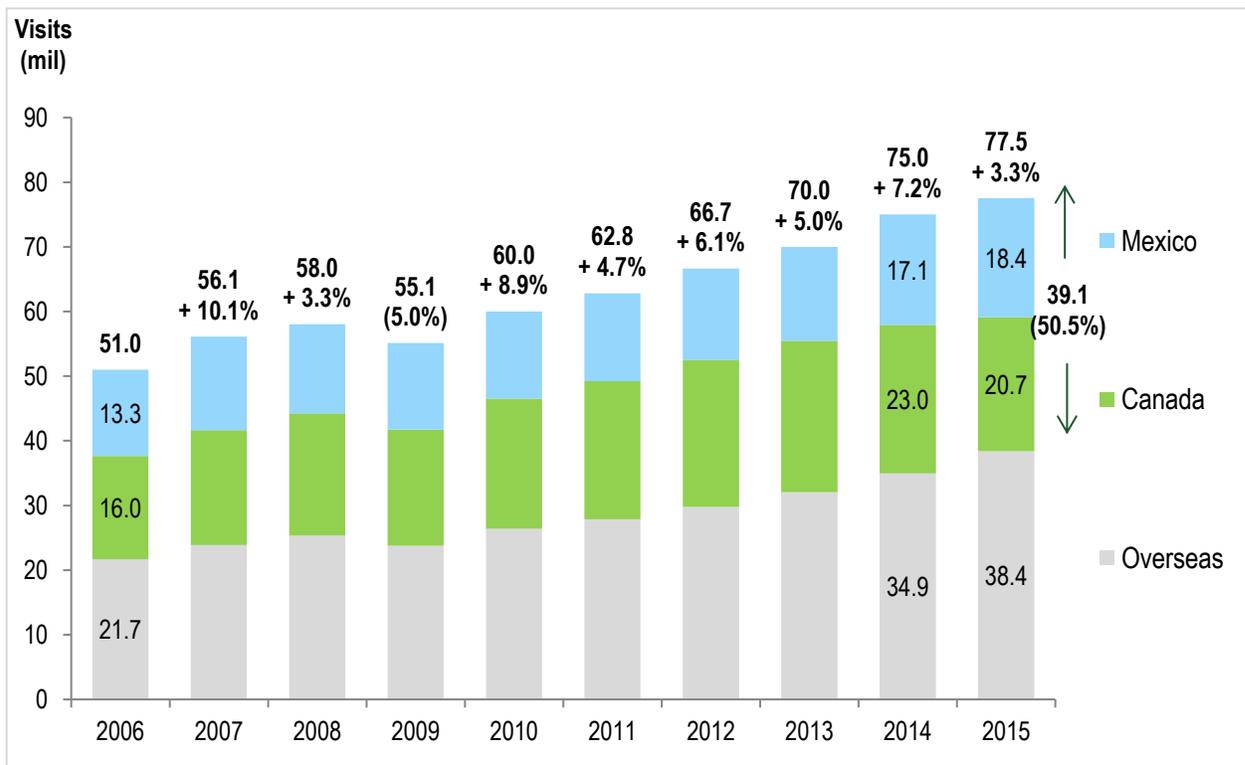
Revenue Source	Pennsylvania	Local – Philadelphia	Local - Suburban	Total State & Local
Local Consumption Taxes	--	81.8 M	\$9.5 M	\$91.3 M
<i>Hotel Tax</i>	--	\$52.4 M	\$9.5 M	\$62.0 M
<i>Liquor Tax</i>	--	\$21.4 M	--	\$21.4 M
<i>Amusement Tax</i>	--	\$5.4 M	--	\$5.4 M
<i>Parking Tax</i>	--	\$2.4 M	--	\$2.4 M
Personal Income Taxes	\$110.9 M	\$59.6 M	\$17.8 M	\$188.3 M
Sales and Use Taxes	\$84.8 M	\$10.3 M	--	\$95.1 M
Business Taxes	\$20.6 M	\$15.9 M	--	\$36.5 M
Property Tax	--	\$109.4 M	\$91.2 M	\$200.6 M
Total	\$216.3 M	\$277.0 M	\$118.5 M	\$611.8 M
Local Consumption Taxes	--	+ 4.0%	+ 1.2%	+ 3.7%
<i>Hotel Tax % Chg</i>	--	+ 3.7%	+ 1.6%	+ 3.3%
<i>Liquor Tax % Chg</i>	--	+ 5.8%	--	+ 5.8%
<i>Amusement Tax % Chg</i>	--	+ 1.2%	--	+ 1.2%
<i>Parking Tax % Chg</i>	--	+1.9%	--	+ 1.9%
Personal Income Taxes % Chg	+ 2.4%	+ 3.5%	(0.8%)	+ 2.4%
Sales and Use Taxes % Chg	+ 2.5%	+ 3.7%	--	+ 2.7%
Business Taxes % Chg	+ 2.5%	+ 3.7%	--	+ 3.0%
Property Tax % Chg	--	+ 3.2%	(0.3%)	+ 1.6%
Total % Chg	+ 2.5%	+ 3.5%	(0.2%)	+ 2.4%

3.5 INTERNATIONAL VISITATION AND IMPACT

National Trends

In addition to the domestic visitors earlier in Section 2, international visitation is also an important component of the regional tourism industry.¹⁹ International tourism is of course not comprised of a single market, but a series of sub markets, whether divided by region of the world, by country, or even by major global metropolitan area. One frequent split divides visitors to the United States into three categories by point of origin: Mexico, Canada and Overseas (which represents visitors from the remainder of the world). According to national data from the U.S. Commerce Department, for the year 2015, slightly more than 50% of the 77.5 million total international visitors to the United States were from Canada or Mexico (see Figure 3.10). Overall, international visitation growth slowed somewhat to 3.3%, after several years of growth at or above 5%.

FIGURE 3.10 – INTERNATIONAL VISITATION TO THE UNITED STATES BY POINT OF ORIGIN, 2006-2015



Source: U.S. Commerce Department Office of Travel and Tourism Industries (OTTI)

¹⁹ It is important to note that while international visitors are outside of the domestic visitor volume totals previously presented in Section 2, they are represented in the hotel market data analyzed throughout this report, as well as in the tourism economic impact analysis that follows in Section 3.

Table 3.10 below shows year over year comparisons of international visitation by region of the world (as defined by the Commerce Department). While Mexico and most overseas markets showed robust growth, visitation from the Canada declined significantly, likely due to economic factors discussed in detail below. Since Canada is the top market of origin for international visitation to the United States (representing more than a quarter of all visits), this decline constrained overall growth.

TABLE 3.10 – U.S INTERNATIONAL VISITATION BY POINT OF ORIGIN, 2014-2015 (IN MILLIONS)

Region	2015	2014	% Chg
North America	39.1	40.1	(2%)
Canada	20.7	23.0	(10%)
Mexico	18.4	17.1	+ 8%
Western Europe	14.8	13.2	+ 12%
Asia	10.8	9.7	+ 12%
South America	5.7	5.5	+ 3%
Oceania	1.8	1.6	+ 11%
Caribbean	1.5	1.3	+ 11%
Middle East	1.3	1.2	+ 10%
Central America	1.1	0.9	+ 14%
Eastern Europe	0.9	1.0	(1%)
Africa	0.6	0.5	+ 8%
Total	77.5	75.0	+ 3.3%

Source: U.S. Commerce Department Office of Travel and Tourism Industries (OTTI)²⁰

²⁰ It is worth noting that while the Commerce Department's official documentation provides year over year comparisons for overseas travelers, it does note that "2015 changes...reflect a combination of additional records counted in 2015 and market conditions." Therefore, methodology is not directly comparable for 2015 and 2014 for overseas markets, which may contribute to an overstatement of visitation growth.

International Visitation to Philadelphia

Like the nation, the Philadelphia region welcomes a relatively even mix of North American and overseas visitors each year. Table 3.11 below shows estimated visitation and direct visitor spending from Canada, Mexico, and overseas markets in 2015.²¹

- **Visitation from Canada is estimated at 527,000 for 2015, representing by far the largest single market for international visitation to Philadelphia.** Total spending by Canadian visitors was down more than 9% year over year, mirroring national declines attributable to exchange rate fluctuations.
- Visitation from Mexico is estimated at 5,600, with visitors spending a total of \$4 million.
- Overseas visitation is estimated at 638,000, with visitors spending a total of \$595 million, for an average spend of \$930.

While visitor spending levels increased year over year for the overseas and Mexican markets, declines in the Canadian market led to a slight year over year decrease in total International visitor spending in 2015 (see Table 3.11).

TABLE 3.11 – CANADA AND MEXICO ESTIMATED VISITATION AND DIRECT SPENDING IN GREATER PHILADELPHIA, 2015

Sector	Visitation	Spending per Visitor	Direct Spending	Direct Spending % Chg from 2014
Canada	526,800	\$400	\$212 M	(9.4%)
Mexico	5,600	\$710	\$4 M	+ 5.3%
Overseas	638,300	\$930	\$595 M	+ 3.2%
International Total	1,170,700	\$690	\$811 M	(0.4%)

Source: Tourism Economics Global City Travel (provided by PHLCVB), VisaVue

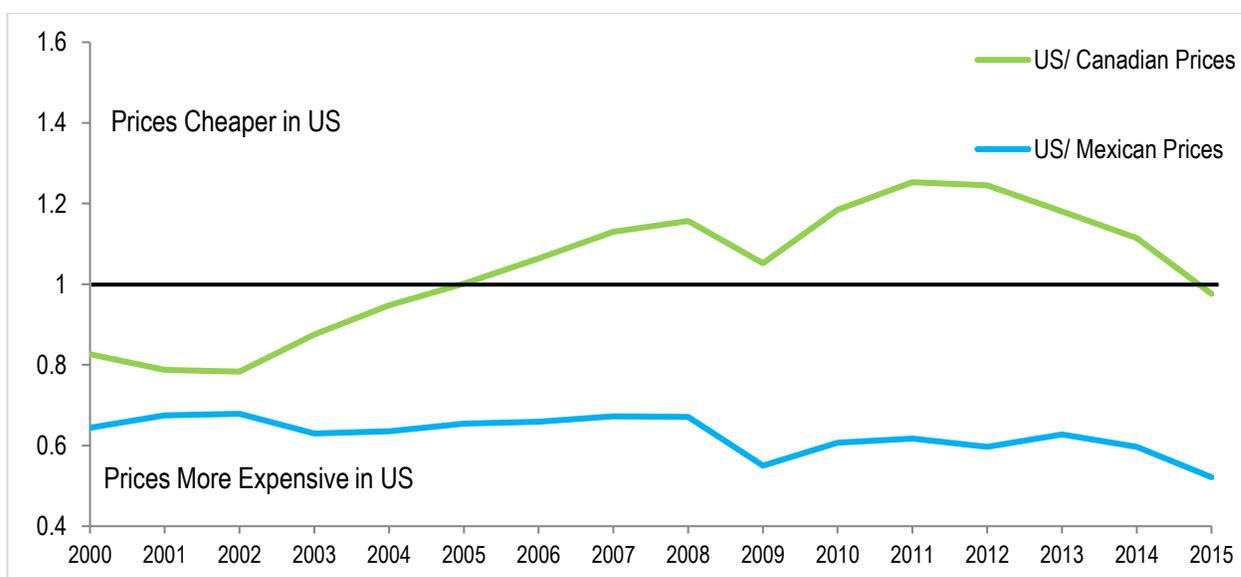
Travel Trends: Canada and Mexico

International travel is impacted by a host of factors, including economic performance and exchange rates in a variety of countries across the globe. Travel from Mexico and Canada represents slightly more than half of all international visitors in 2015, and is therefore a significant contributor to the United States' and Philadelphia's tourism economy. In recent years, the US dollar has appreciated against many foreign currencies including the Mexican Peso and Canadian Dollar (as well as the Euro), making it relatively more expensive for foreign nationals to visit the United States.

²¹ Data is derived primarily from visitation and spending estimates from Tourism Economics' Global City Travel tracking program, provided to Visit Philly by the PHLCVB. Additional data from Visa Vue was utilized to translate spending by Mexican visitors into per visitor spending and total visitation from that market.

The effect of exchange rates may also be compounded by differences in purchasing power parity, the relative price level of goods across countries. Over the past decade, pricing in Canadian dollars has consistently been higher than pricing for comparable goods in the United States, creating an incentive to travel to the United States where prices are cheaper. As shown in Figure 3.11, this trend ended in 2015, with prices reaching relative parity. In Mexico, price levels have remained comparatively low to the United States, but this relationship has shown very little variation, meaning it accounts for little relative change in travel flows from Mexico to the United States. While the peso has weakened against the dollar in recent years, economic and cultural ties between the United States and Mexico have grown, and household disposable income has increased in Mexico over the past decade.

FIGURE 3.11 - COMPARATIVE PRICE LEVELS IN MEXICO AND CANADA VS. UNITED STATES



Source: OECD, Econsult Solutions, Inc.

Within Canada, the **Greater Toronto region is estimated to yield the slight majority of total Canadian visitation and spending in Greater Philadelphia.** Referred to as the “Golden Horseshoe,” this extended metropolitan region contains more than 50% of the population of the province of Ontario, and 20% of the total population of Canada. Granular data on border crossings and airport connections indicate that Ontario is the origin province of approximately 75% of visitation to Pennsylvania, and Toronto is the source market for nearly 90% of plane traffic to Philadelphia. Combining this information with the relative prevalence of different travel modes yields an estimate that 55% of Canadian travel to Philadelphia originates from the Toronto region. This represents an estimated 290,000 visits, and \$117 million in direct visitor spending in 2015.

Travel Trends: Overseas



The overseas travel market, like the North American market, is responsive both to exchange rate trends and to broader economic factors. As noted in a recent report from the U.S. Travel Association, “the value of the dollar surged 13 percent (in 2015), to the highest level since 2003. This marked the largest single-year appreciation of the U.S. dollar in 33 years.”²² While exchange rate fluctuations are always important, they have been overridden to some extent in recent years by a key macro trend in the global economy – the development of a large middle class economy in “emerging” countries such as China, India and Brazil. As the first, second and fifth largest countries on the planet (with a combined population of 2.8 billion, nearly 40% of the global total), economic development trends in these markets have swelled the pool of international citizens with the financial means to travel to the United States.

This trend has driven significant growth in international travel in recent years. However, an economic slowdown has already constrained travel from Brazil (which fell 2% in 2015), and economic concerns in China lead raise doubts as to whether this growth will continue over the short term. In addition, air service to PHL International airport is still strongest to and from the developed economies of Western Europe, which have shown modest growth in recent years. This dynamic leads to a relatively stable overseas market for Philadelphia, though to be sure it has exhibited growth over the long-term.

3.6 ANCILLARY BENEFITS OF TOURISM ACTIVITY

In addition to direct economic benefits and its export orientation, tourism delivers significant ancillary benefits as an economic development strategy. These include quality of life impacts, business attraction and retention impacts, and enhanced transportation connections. In sum, **the ancillary benefits of tourism activity and promotion extend to current and future residents, and current and future businesses, helping spur economic and population growth.** These ancillary benefits, which are described reviewed briefly below, are outside of the scope of the economic impact from visitor activity calculated in this report, meaning that these calculations likely understate the full impact of the tourism sector on the regional economy.²³

Quality of Life Impacts

Amenities supported in part by visitor activity also provide benefits to locals, for the simple reasons that the places that visitors like to eat, visit, and play are the same places that locals enjoy. From an economic standpoint, visitor activity is particularly important in sustaining businesses that rely on high volume and a low profit margin. This business model is common to amenities that serve a mix of locals and visitors, and the injection of revenue from out of towners can make the difference

²² U.S. Travel Association: *The Rising Dollar and International Travel to the United States*. June 2016.

²³ Many of these benefits are explored in greater detail in a 2014 report by Oxford Economics for the Destination and Travel Foundation entitled *Destination Promotion: An Engine of Economic Development*, which refers to these (and other) benefits as “the catalytic effect of destination promotion”

between a restaurant or attraction remaining financially viable or having to close its doors.²⁴ Therefore, **visitors are integral to sustaining the variety of amenities that locals get to experience year round.**

These quality of life enhancements are also central to new resident attraction, and ultimately population growth. It is no accident that after decades of decline, the return of population growth in Philadelphia over the past decade has coincided with an increase in urban amenities sought by residents and visitors alike. This structural change in population has been essential from an economic and fiscal standpoint, helping to stabilize the city's tax base to allow for the greater provision of public services, and setting the stage for economic growth.

Business Attraction and Retention Impacts

Not surprisingly, quality of life issues also have a central role in the attraction and retention of businesses. Most fundamentally, many businesses rely first and foremost on human capital, and talent attraction is in part of function of where workers want to live and recreate. Therefore, as pointed out by scholars on the post-industrial economy such as Richard Florida, **the places where people want to live are not only the places where people want to visit, but also the places where businesses want to locate.**

In-depth statistical analysis has also confirmed the connection between visitation and economic growth. A 2009 study by the Albert Saiz (then of Penn) and Gerald Carlino (of the Federal Reserve Bank of Philadelphia)²⁵ found that the quality of a city's leisure-oriented offerings, as reflected in growth in visitation was a statistically significant indicator of employment and population growth for major metropolitan areas. Cities with a high quality and quantity of leisure attractions appealed to highly-educated individuals, saw faster appreciation in home prices, and saw growth in neighborhoods adjacent to hubs of recreational activity.²⁶ More recently, analysis from Oxford Economics confirmed that increased tourism activity was not just correlated with economic growth, but was a leading indicator, meaning that **“developments in visitor-related sectors are typically followed by gains in other parts of the economy.”**²⁷

These catalytic effects are attributable not only to quality of life impacts, but to a range of business attraction benefits associated with tourism activity and promotion. These include familiarity of place,

²⁴ As explained by Oxford Economics in *Destination Promotion: An Engine of Economic Development*:

For many businesses, whether on the smaller scale of a restaurant or on the larger scale of a theater or sports facility, the difference between breaking even or running at a loss can be thin. As an incremental source of business above and beyond that can be supported locally, visitors provide demand for businesses as well as many not-for-profit institutions, such as museums.

²⁵ Saiz and Carlino. *Beautiful City: Leisure Amenities and Urban Growth*. Federal Reserve Bank of Philadelphia (2009).

²⁶ See also: “*Tourism Specialization and Economic Development: Evidence from the UNESCO World Heritage List*, International Monetary Fund (2009) and *Travel and Tourism as a Driver of Employment Growth*”(2013).

²⁷ Oxford Economics, *Destination Promotion: An Engine of Economic Development* (2014)

which dictates that entrepreneurs and business owners are more likely to relocate or expand their business to a place that they have previously visited and development social ties. Further, reputational factors are important to business location decisions. Here, **tourism promotion provides synergies with business attraction brand building efforts, and more organically, reputations are built in part through the collective reactions and word of mouth reports (online and in person) of millions of visitors to a destination.**

Enhanced Transportation Connection

Travel activity is also a key demand driver for transportation connections between regions, which are another important driver of economic growth. In the modern economy, airline flights serve as key connectors to develop business ties with regions across the country and the world, and a variety of studies have illustrated the statistical relationship between increases in airline service and economic growth for metro areas.²⁸

Growth in airline service is of course tied closely to travel demand. In particular, airline connections rely on continuous travel demand that is fueled not only by economic connections, but by the desirability of a destination as a place to visit. As explained by Oxford Economics “airline cost structures are such that a route with insufficient inbound leisure demand, and therefore lulls in travel around holidays and off-peak periods, is less profitable, or even unprofitable.”²⁹ Thus, **leisure demand is essential to supporting airline connections between regions, which in turn support economic connections and economic growth.** In addition to airline connections, Philadelphia is located at the heart of the “Acela Corridor,” and features Amtrak’s third busiest train station.³⁰ Long-term plans to develop a true high speed rail service through the Northeast corridor are supported not only by the commuter volume throughout the area, but by the deep economic and social connections between metro economies throughout the Northeast supported in part by the easy exchange of visitation between regions.

²⁸See: Blonigen and Cristea, University of Oregon, *Airports and Urban Growth: Evidence From a Quasi-Natural Policy Experiment*. National Bureau of Economic Research (NBER), July 2012. See also: Brueckner, *Airline Traffic and Urban Economic Development*, Urban Studies (2003) Green, *Airports and Economic Development*, Real Estate Economics (2007)

²⁹ Oxford Economics, *Destination Promotion: An Engine of Economic Development* (2014)

³⁰ Amtrak Press Release. *Facade Restoration Work on Philadelphia’s 30th Street Station Set to Begin: Work is Part of Over \$90 Million Investment of Upgrade Amtrak’s Third Busiest Station.*

4.0 FORWARD-LOOKING TRENDS

History has shown that the tourism industry is sensitive to a number of factors that influence its performance. Fundamentally, travel is a somewhat discretionary activity, and with travelers (and in the case of business trips, employers) exhibiting some degree of control over whether trips take place at all, what destinations are visited, and how much spending takes place on the trip.

Local factors... can have significant impacts on individual destination performance, because it is relatively easy for travelers on the margins to switch between destinations.

Therefore, local factors (including changes in tourism product, changes in promotional activity and changes in destination perception) can have significant impacts on individual destination performance, because it is relatively easy for travelers on the margins to switch between destinations. In addition, changes in factors like economic conditions and exchange rates which impact the availability and power of

discretionary spending dollars can have outsized impacts on industry performance.. While each of these factors is subject to unexpected changes, it is possible to identify trends which shed light on potential performance of the region's tourism industry over the near term.

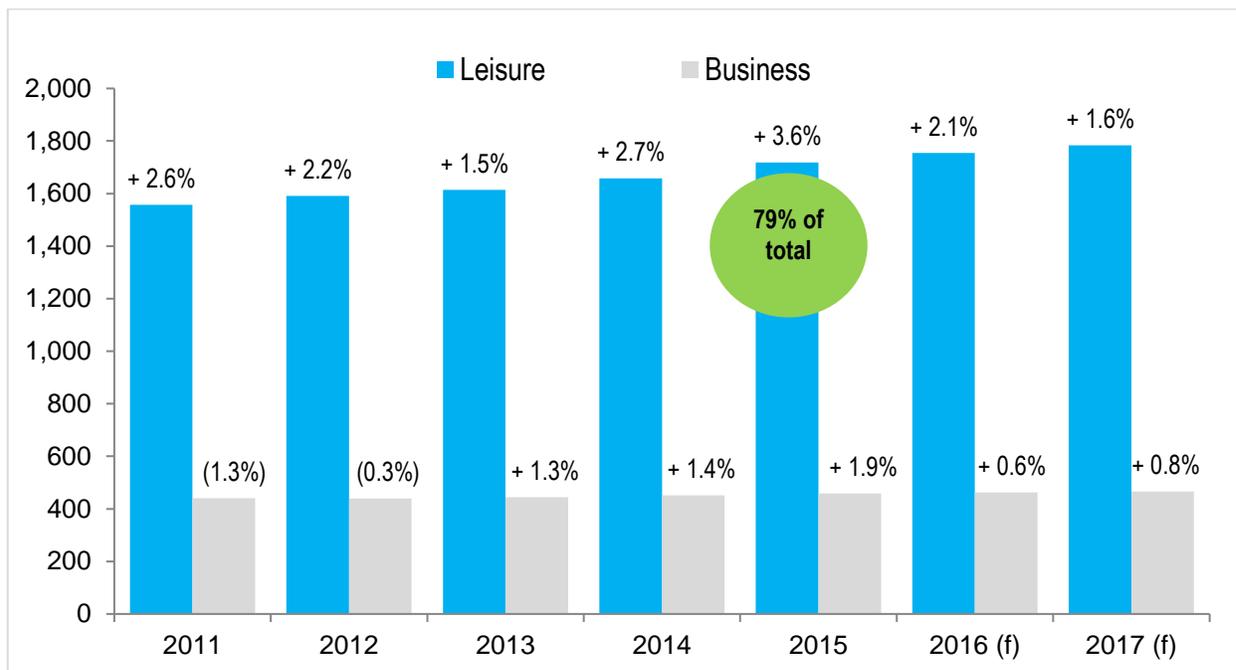
4.1 NATIONAL TRAVEL FORECAST

National travel performance and forecasts are a useful starting point as a benchmark for local tourism industry expectations. According to U.S. Travel Association data, **industry growth has been relatively consistent in recent years, with leisure travel growing faster than business travel**, and 2015 represented the strongest year in the past five, with domestic leisure trips growing 3.6% and domestic business trips growing 1.9% (see Figure 4.1).

Forecasts show... a continuation of the trend of increasing travel volume, with growth largely concentrated in the leisure sector

Forecasts for 2016 and 2017 (as of June 30, 2016) show diminished growth from 2015 levels, but nonetheless a continuation of the trend of increasing travel volume, with growth largely concentrated in the leisure sector.

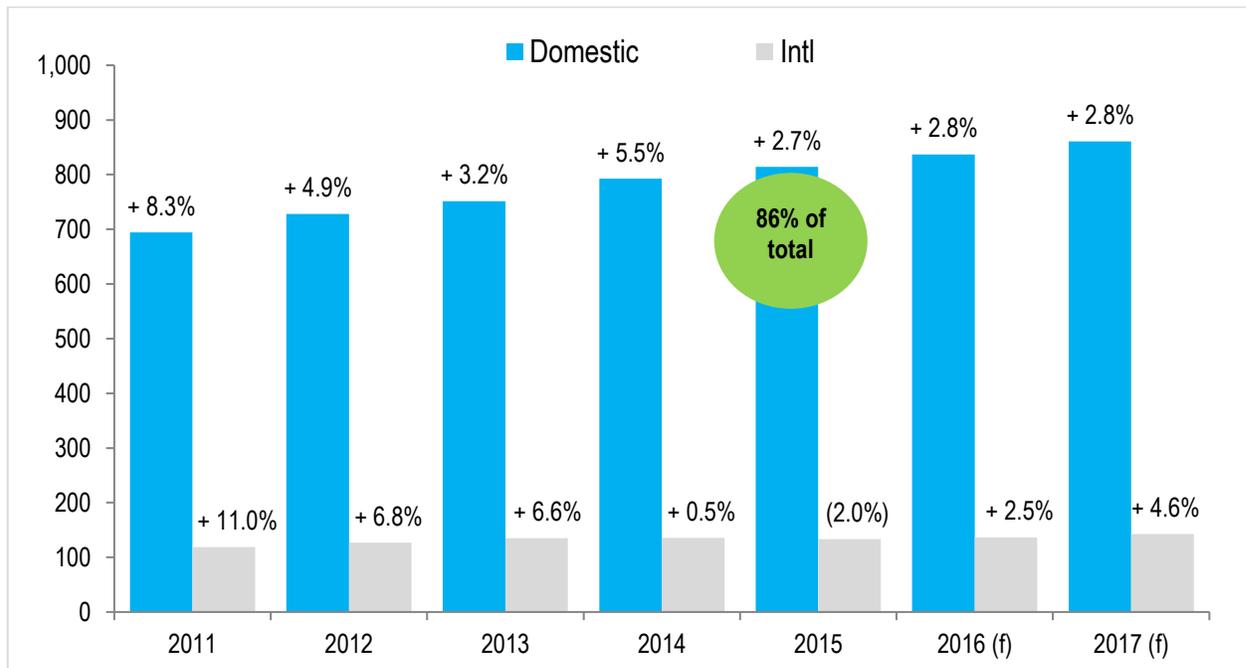
FIGURE 4.1 – DOMESTIC TRAVEL GROWTH AND FORECAST, 2011 – 2017 (IN MILLIONS)



Source: U.S. Travel Association, June 2016

Travel expenditures from domestic and international travelers have also grown in recent years, outpacing inflation from 2011-2014. Spending growth slowed to 2.7% in 2015 for domestic travelers. This suggests cutbacks in spending growth per visitor, since growth in the volume of trips was healthy, as shown in Figure 4.1. Similarly, international visitor spending fell by 2.0% in 2015 despite an increase in trips. This contraction in international spending is likely closely tied to exchange rate fluctuations (as discussed below). Forecasts for 2016 and 2017 project modest growth in both domestic and international visitor spending (see Figure 4.2).

FIGURE 4.2 – TRAVEL EXPENDITURE GROWTH AND FORECAST, 2011 – 2017 (IN \$ BILLIONS)



Source: U.S. Travel Association, June 2016

As noted in Section 3.1, Greater Philadelphia’s growth in visitation and spending has largely paralleled national trends over the past five years. This alignment supports the notion that national forecasts provide a reasonable starting point for anticipated performance for the Greater Philadelphia tourism market. However, a review of economic and unique local factors provides a greater depth of insight into potential performance drivers over the near term.

4.2 LOCAL FACTORS

In addition to economic variance, destination-specific factors will impact tourism performance over the near term. This section identifies and reviews some key local trends impacting tourism in Greater Philadelphia.

Hotel Development

Center City Philadelphia is in the midst of what the Philadelphia Inquirer described as a “Hotel Building Frenzy,”³¹ with at least 10 new hotel development projects in the pipeline as of the end of 2015. This trend represents an affirmation of the current strength of Philadelphia’s

³¹ The Philadelphia Inquirer. *Philadelphia is in the Midst of a Hotel Building Frenzy*. Jacob Adelman. June 22, 2015.

tourism market, and a signal that investors anticipate continued growth in demand in the future. Further, upgrades to the hotel product are likely to themselves stimulate further demand growth.

Collectively, projects recently completed, under construction or currently planned are expected to add more than 2,000 rooms of supply to the Center City hotel market, an increase of nearly 20 percent to the current stock of approximately 11,500. 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.³² 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. Such an infusion of hotel will no doubt put pressure on some existing hotels to upgrade their offerings or perhaps exit the market – a natural part of the refreshing of the hotel stock over time – but on balance will likely “grow the pie” of visitation to the region. Further, **the guests attracted to these hotels are likely to be in a position to spend significantly both inside and outside of the hotel on food, entertainment, and other amenities, making them particularly desirable from an economic impact perspective.**

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...rather than simply shift demand.

National and International Recognition

Philadelphia has also landed in the national and international spotlight several times over the past year, including its designation as a world heritage city, its visit from Pope Francis at the World Meeting of Families in 2015, and playing host to the Democratic National Convention in July 2016. While large events represent a one-time stimulus of visitation, the greater economic impact may result over the long-term from the attention and reputational value that they deliver to a destination. **Each of these events yielded wall to wall news coverage over an extended period that featured Philadelphia as a backdrop**, with news networks stationing broadcasts from various venues around the city above and beyond their coverage of the event in question. These images showcase prime destinations within Philadelphia directly, but also serve to surface the region in the consideration set of potential travelers more generally. This tradition continues with Philadelphia’s selection to host the NFL Draft in the spring of 2017, which will yield several days of live national coverage from Philadelphia’s iconic Parkway.

³² Notable boutique brands and projected opening dates include: Study (2017), Aloft (2017), W and Element (2018), AC Marriott (2018)

In addition, this recognition confers a reputational benefit on the Philadelphia region as a place where exciting things are happening. The designation of Philadelphia in November 2015 as the nation's first world heritage city has similar implications, particularly among potential international visitors who may previously have lacked familiarity with the city. While these reputational enhancements are unlikely to deliver a short-term windfall of visitation, they are important to the

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.

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.

4.3 ECONOMIC FACTORS

On balance, **economic conditions impacting travel demand are largely favorable over the short-term**, although they do not necessarily support the significant growth rates in annual travel activity seen in the recovery from the recession.

Consumer Confidence and Discretionary Income

Discretionary spending categories like travel and tourism are very sensitive to economic conditions. National economic performance, exchange rates, consumer confidence, household disposable income, and price levels both across sectors and across countries correlate with changes in travel patterns. Current economic indicators on balance bode well for travel demand over the near future. Gains in employment, consumer confidence, and broader measures like GDP are important signals on the overall strength of the economy and the financial health of households. Initial indicators for consumer and producer sentiment in 2016 suggest that the economic growth is starting to slow as the economy is reaching full employment, but nonetheless remain in positive territory.

It is also notable that in the domestic travel market, some travel types have proven more resilient to downward trends in economic indicators. For instance, contraction in leisure demand was about half that of business demand at the height of the recession. Leisure travel has also rebounded more strongly during the recovery, growing by 2.1% annually from 2010-2015 compared to 0.6% for business (according to U.S. Travel Association data on domestic travel volume). This may be in part due to a substitution effect in leisure travel, where more expensive destinations and activities can be replaced by less expensive ones when discretionary dollars are tight, where business trips are more likely to be eliminated entirely due to cost concerns.

Fuel Prices



Fuel prices are another important contributor to the cost of travel. Figure 4.3 below shows that U.S. gasoline prices were well below historic norms in 2015, and remain so through the first half of 2016.

The drop in fuel prices has come at a time of relative economic stability. This bodes well for the ability of consumers to capitalize on lower prices through additional trips or through shifts in their travel spending patterns.

Unlike in 2008, where the drop in gas prices corresponded with a drop in discretionary dollars, the current drop has come at a time of relative economic stability. This bodes well for the ability of consumers to capitalize on lower prices through additional trips, or through shifts in their travel spending patterns, with savings on fuel costs

allowing for greater spending on areas like lodging, food & beverage, and entertainment.

FIGURE 4.3 – AVERAGE U.S. REGULAR GAS PRICES, 2007-2016



Source: Gasbuddy.com based on U.S. Energy Information Administration Data

Exchange Rates

As discussed in Section 3.6, international tourism trends are likely to be responsive to some extent to the overall strength of the US Dollar and international economic growth trends. Globally, the US Dollar appreciated to its highest value in a decade in 2015, causing the cost of travel to the United States to jump. Throughout 2016, however, the US dollar has begun to depreciate against the currencies of key travel markets. Most notably, the Canadian dollar gained 7% against the US dollar from January – June of 2016, reversing some of the losses that led to the contraction of the Canadian travel market in 2015.

One key market that has seen an unusual weakening of its currency is the United Kingdom. Following the June referendum vote to leave the European Union, the traditionally strong pound depreciated significantly, reducing household wealth and making foreign travel more costly for British residents. Given that Philadelphia's busiest international airport connection is to London (serving 455,000 passengers each year), this drop and any continued weakness in the UK economy may have implications for visitation.

It is also important to note that domestic travel is also marginally affected by exchange rates fluctuation. International travel represents a substitute to domestic travel for U.S. residents, and therefore if exchange rate conditions raise or lower the price of outbound overseas travel, domestic travel may be impacted. Outbound travel among U.S. residents fell slightly from 2009 to 2013 (from 62.1 million to 61.3 million) despite improving domestic economic conditions, likely due in part to the relative weakness of the dollar. It then spiked 10% in 2014 and 8% in 2015 (to 73.5 million) as the dollar strengthened.³³ It is likely that absent these fluctuations, many of the 12 million additional outbound trips taking place in 2015 relative to 2013 would have been domestic trips instead. **As the dollar weakens somewhat in 2016, this dynamic may favor domestic travel over international outbound travel for U.S. residents.**

The Sharing Economy and New Ways to Stay

The rise of "collaborative consumption" technologies (alternately referred to as the "sharing economy") has had a profound and growing impact on many sectors, and travel is no exception. Ridesharing technologies like Uber and Lyft have gained significant attention for their disruption of the taxi industry and entry into the personal travel market, and appear poised to gain full legal status in Philadelphia. While these services are utilized by both locals and out of towners, they are well-situated to serve visitors who are regular users in their home location, and thus are familiar with the technology and its ease of use. To the extent that the adoption of this technology reduces a barrier to ease of travel, urban destinations with sufficient density for comprehensive ridesharing service coverage may benefit. Further, the City of Philadelphia has recently added bike sharing service (Indego), which offers travelers a low cost option for transportation around town.

Sharing technology is also beginning to transform how and where people stay on their vacations. Most notable is Airbnb, which specializes in the rental of residential units while owners or tenants are out of town, providing a vacation rental experience at a lower price point generally lower than hotels. Over the past year, Airbnb has agreed to bring its service within the hotel tax structure for both the city of Philadelphia (as of July 15, 2015) and the Commonwealth of Pennsylvania (as of

³³ Data comes from the U.S. Department of Commerce, Office of Travel and Tourism Industries (OTTI), which also tracks inbound international travel to the United State.

July 1, 2016).³⁴ As of June 2016, Airbnb reports more than 8,000 active rentals in the Philadelphia region, two-third of the total available in Pennsylvania.³⁵

Current demand levels may represent just the tip of the iceberg for this segment of the travel market. Worldwide bookings through Airbnb reportedly doubled from 40 million to 80 million in 2015,³⁶ and an array of competitor sites each serving unique niche in the market (VRBO, Home Away, URHomePhilly, Roost) are now available in Philadelphia. One consequence of this changing environment is that growth in traditional hotel metrics alone is likely to understate the growth in the leisure market, which will be augmented by increasing use of these new ways to stay (without well-established tracking baselines). The inclusion of Airbnb within the regulatory framework will not only serve as a revenue generator for the city and industry, supporting future promotional activity for the region, but will also help to provide benchmark data on a sector of the accommodations industry likely to continue to grow far faster (on a percentage basis) than the traditional hotel market.

Growth in traditional hotel metrics alone is likely to understate the growth in the leisure market, which will be augmented by increasing use of these new ways to stay.

³⁴ The Philadelphia Inquirer. *PA, Airbnb Reach Agreement*. Linda Loyd, June 17, 2016.

³⁵ *Ibid*

³⁶ Reuters.com. *Exclusive: Airbnb to Double Bookings to 80 million this year.* Heather Somerville, September 28, 2015.

5.0 CONCLUSION

As illustrated throughout the course of this report, tourism is a significant and growing economic engine for the Philadelphia region. Tourism has been an explicit component of Philadelphia's economic development strategy as it has undergone a post-industrial transformation over the past few decades, and growth trends in key industry metrics illustrate the benefits that the city and region have reaped from pursuing that strategy. Tourism is effective as a regional economic anchor in part because it is by definition an export activity, bringing in dollars (attached to visitors) from outside of the region, which then circulate in the local economy. Growth in tourism and tourism amenities also has demonstrated ancillary benefits for economic growth, quality of life, and resident attraction. After all, the same features that make destinations attractive to visitors make them attractive to residents, and by extension, to business seeking talent.

Domestic visitation to Greater Philadelphia increased for the sixth consecutive year in 2015, growing more than three percent to 41 million visits. Growth in visitation both since the recession and over the past two decades has been driven by overnight visitors and in particular by overnight leisure travelers. Overnight leisure visitation has been the fastest growing visitor segment. As Philadelphia has increased its standing as a destination of choice, its tourism industry has been a year-round economic driver, with a steady stream of discretionary travelers augmenting major events and gatherings. This base of travelers yields greater stability and less cyclical change in tourism demand both within the week and across seasons.

Growing visitation has yielded commensurate and growing increases in economic impact attributable to tourism, which has also grown in each of the last six years, recovering strongly from the recession. The direct, indirect and induced impacts of visitor spending totaled \$10.7 billion in 2015, or nearly \$30 million per day. This activity supports more than 93,000 jobs, which accrue across a variety of sectors, as spillover effects reach businesses that do not directly serve tourists. The leisure and hospitality sector has been among the leaders in job growth for the region and city, both in the recovery from the recession and over the past two decades. These increases in employment in areas like food service and entertainment don't only correspond with more places for locals to work – they correspond with more local options for dining, relaxing and recreating. This activity is also a significant tax revenue generator for state and local government, both through general increases in economic activity, and through specific consumption taxes (like Philadelphia's hotel, liquor by the drink and amusement taxes) which are levied on activities disproportionately undertaken by out of towners. In total, \$612 million in state and local taxes were generated in 2015 due to visitor spending – all of which originated outside of the region and now support local schools and services.

National trends and forecasts indicate that the outlook for the tourism industry remains healthy over the near term. Economic conditions remain steady, and the strength of the dollar is receding from recent highs thus far in 2016, making inbound international visitation relatively cheaper and domestic tourism options more attractive relative to outbound international travel for U.S. residents. In Greater Philadelphia, where metrics have largely tracked with national performance in recent

years, there is reason for additional optimism due to local factors, including a boom in high end hotel development in Center City Philadelphia which is likely to both fulfill and generate continued demand growth. Finally, Philadelphia has taken the world stage on multiple occasions in recent months, including the Papal Visit, Democratic National Convention, and designation as a World Heritage City). These events and honors are not merely a short term infusion, but serve as a billboard for the region over the long-term, helping to raise its profile, build its brand, and keep visitation strong moving forward.



APPENDIX A – DETAILED VISITOR VOLUME INDEX MODEL METHODOLOGY

Index modeling is a frequently applied technique in economic forecasting that combines a variety of inputs to develop a composite estimate of year over year change for a given metric. For estimating visitor volume to a destination, this approach offers certain methodological advantages over estimates derived from survey panel data alone.

- While panel data is balanced to attempt to achieve representativeness of the full population (in this case all visitors to Greater Philadelphia) that it seeks to describe, sample bias may still occur.
- In addition, even a perfectly representative sample is subject to a margin of error in extrapolating to the full population.
- Finally, a number of assumptions are required to extrapolate the results from the sampled population to the entire population.

Panel data remains an invaluable source of information on travel behavior and preferences, and it utilized within this methodology as the base source for the level of visitation to the destination. However, annual changes in visitation are typically small relative to the full volume of visitors (generally just a few percentage points in either direction). Such a calculation magnifies the weaknesses of panel data relative to “on the ground” metrics of visitor activity. A single data source with an acknowledged margin of error may show percentage changes that conflict with observed and tracked visitor activity in hotels, attractions, transportation providers, and employment in the tourism sector. While any one such indicator is by itself far from sufficient to determine trends in visitation (as each contains its own weaknesses and biases), collectively, such indicators are highly correlated with tourism activity, and can serve as a more reliable benchmark of annual changes in visitation.

Building on the work of Tourism Economics, which developed and implemented a visitor volume index model for Visit Philadelphia to produce estimates of the annual change in domestic travel volume by segment for several years, ESI analyzed the relationship between relevant and available indicators of tourism activity and travel volume by segment as reported by Longwoods International for travel years 2009 – 2015. This statistical exercise yielded insight into the nature and strength of the relationship between various inputs and visitation in the various segments, which were used to define the weight given to the observed changes in each metric on a year over year basis in estimating changes in volume.

Table A.1 below shows index components by visitor segments. Input data was provided on a quarterly basis by Visit Philadelphia, with the original source frequently the travel service provider itself (attraction, hotel, transportation provider, etc.). Index components with the highest weight while those with the lowest weight are highlighted in gray



TABLE A.1 – ESI GREATER PHILADELPHIA VISITOR VOLUME INDEX MODEL COMPONENTS

Year	Overnight Leisure	Day Leisure	Overnight Business	Day Business
Hotels				
Rooms Sold – 5 County	✓	✓	✓	✓
Rooms Sold – CC	✓	✓	✓	✓
CC Leisure Demand	✓	✓	✓	
CC Commercial Demand			✓	✓
CC Group Demand	✓	✓	✓	✓
Attractions				
INHP Visitation	✓	✓		
Other Attraction Visitation	✓	✓		✓
Transportation				
PHL Domestic Scheduled Arrivals	✓	✓	✓	
AMTRAK non-commuter Arrivals	✓	✓	✓	✓
Employment				
Tourism Sectors	✓	✓	✓	
Business Sectors			✓	✓
Weighting Key				
High Weight	[Green Box]			
Medium Weight	[White Box]			
Low Weight	[Grey Box]			

Index results were calculated quarterly by segment, and are expressed as a percentage change in visitation from the same quarter in the previous year (2014). These incremental changes were applied to volume levels by quarter by segment reported by Tourism Economics for Visit Philly, using a similar index model approach. Volume levels are set to estimates developed and reported by Longwoods International for travel year 2009, with incremental change estimates applied to each subsequent year.

APPENDIX B – DETAILED DIRECT VISITOR SPENDING MODEL METHODOLOGY

Similarly to the index model approach to estimating visitor volume described in Appendix A, direct visitor spending is estimated by category on an incremental annual change basis, and those estimates are applied to direct spending estimates for travel year 2014 developed and reported by Tourism Economics for Visit Philly.

Spending profiles by category and geography are derived primarily from comparisons of 2015 and 2014 travel survey panel results provided by Longwoods International. This source yields per person expenditures for domestic visitors to Greater Philadelphia visitors of various trip types in key expenditures categories such as lodging, food and beverage, retail, recreation, and transportation. Changes in spending profiles are aggregated into total changes in domestic spending based on the relative changes in visitation by segment derived from the visitor volume index model described in Appendix A. This estimate is supplemented with an incremental change estimate of fuel spending derived from analysis of historic relationships between fuel prices, visitation, and fuel spending in Greater Philadelphia.

International visitor spending estimates are provided to Visit Philly by the Philadelphia Convention and Visitors Bureau (PHLCVB) based on calculations from Tourism Economics' Global City Travel service.³⁷ Estimates are validated with data from VisaVue on spending patterns by international visitors using Visa cards in the Philadelphia region to affirm per visitor spending profiles and to model spending by category.

³⁷ For more information, see: <https://www.oxfordeconomics.com/travel/overview>

APPENDIX C – DETAILED ECONOMIC AND FISCAL IMPACT METHODOLOGY

The scale and scope of tourism activity makes it an important component of the regional economy. This report articulates and quantifies the direct spending impacts within the city and regional economy across a number of categories (as described in Appendix B). Input-output modeling is then used to estimate the spillover (indirect and induced) impacts of that direct spending within the regional economy, and to translate those impacts into employment and labor earnings supported. A custom fiscal model is then used to estimate the impact of that direct, indirect and induced economic activity on state and local tax bases.

Input-Output Theory

In an inter-connected economy, every dollar spent generates two spillover impacts:

- First, some amount of the proportion of that expenditure that goes to the purchase of goods and services gets circulated back into an economy when those goods and services are purchased from local vendors. This represents what is called the “indirect effect,” and reflects the fact that local purchases of goods and services support local vendors, who in turn require additional purchasing with their own set of vendors.
- Second, some amount of the proportion of that expenditure that goes to labor income gets circulated back into an economy when those employees spend some of their earnings on various goods and services. This represents what is called the “induced effect,” and reflects the fact that some of those goods and services will be purchased from local vendors, further stimulating a local economy.

The role of input-output models is to determine the linkages across industries in order to model out the magnitude and composition of spillover impact to all industries of a dollar spent in any one industry. Thus, the total economic impact of visitor spending in Greater Philadelphia is the sum of direct spending (and its attendant economic footprint) plus the indirect and induced effects generated by that direct spending.

Input-Output Model Mechanics

To model the impacts resulting from the direct visitor expenditures, ESI developed a customized economic impact model using the IMPLAN input/output modeling system. IMPLAN represents an industry standard approach to assess the economic and job creation impacts of economic development projects, the creation of new businesses, and public policy changes.

IMPLAN is one of several popular choices for regional input-output modeling. Each system has its own nuances in establishing proper location coefficients. IMPLAN uses a location quotient to

determine its regional purchase coefficient (RPC). This represents the proportion of demand for a good that is filled locally; this assessment helps determine the multiplier for the localized region. Additionally, IMPLAN also accounts for inter-institutional transfers (e.g. firms to households, households to the government) through its Social Account Matrix (SAM) multipliers. IMPLAN takes the multipliers and divides them into 440 industry categories in accordance to the North American Industrial Classification System (NAICS) codes.

Similarly to the methodologies employed for visitation and direct visitor spending described in Appendix A and Appendix B, input-output results were calculated on an incremental change basis, and this modeled change was applied to reported results for travel year 2014. To derive a comparable percentage change, direct visitor spending estimates for 2014 and 2015 were input into the same input-output model, and the resulting percentage change in indirect and induced economic activity and employment and wages were observed. These proportionate changes were then applied to the established 2014 baseline to yield estimates for 2015.

Employment Impacts

Part of the total expenditure effect is actually the increase in total wages and salaries (usually referred to as labor income), which the model can separate from the expenditure estimates. Direct payroll estimates are fed into the “household” industry of the input-output model. Impacts of this industry are estimated using the personal consumption expenditure breakdown of the national input-output table and are adjusted to account for regional consumption spending and leakages from personal taxes and savings. The direct, indirect, and induced labor income represent a component of the total economic impact attributable to wages and salaries. Finally, the model calculates the total expenditures affecting the various industries and translates this estimate into an estimate of the total labor (or jobs) required to produce this output. Since these indirect and induced impacts are generated by supply chain and employee spending, they tend to ripple across a wide range of industries within the broader economy, well beyond the categories like lodging and food and beverage that capture the bulk of the initial spending.

As described above, annual employment change attributable to tourism activity was estimated by modeling direct expenditures for 2014 and 2015 in parallel and observing the percentage change in results to yield estimates of total direct, indirect and induced employment. Incremental change was also calculated by sector, by category (direct and indirect/induced) and by geography (city vs. suburban counties). A statistical process was applied to derive the combination of incremental change by sector, category and geography that most closely matched modeled incremental change at each level while summing to the total modeled incremental change. Full-time and part-time employment was derived from employment by sector by applying full-time and part-time employment ratios by sector derived from Census and BLS data.

Fiscal Impacts

The economic impacts described above in turn produce one-time or ongoing increases in various tax bases, which yield temporary or permanent increases in various tax revenues. The IMPLAN model does provide a rough estimate of the fiscal impact of this increase activity on state and local governments. To develop more precise estimates in certain categories, ESI has developed a custom fiscal model for the City of Philadelphia and Commonwealth of Pennsylvania that translates total economic impacts (as estimated by the IMPLAN model described above) into their commensurate tax revenue gains for the City and Commonwealth by calculating the effective tax rate on various types of economic activity.

Further, ESI's analysis recognizes that certain specific local taxes are borne disproportionately by out of town visitors and merit specific analysis. For the City of Philadelphia, these include the hotel tax, liquor by the drink tax, amusement tax, and parking tax. Estimates for these taxes are developed using a bottom up approach, in which IMPLAN estimates of spending in the relevant categories are assigned a taxable proportion estimate, which is multiplied by the tax rate to yield a revenue estimate. This estimate is then compared to total collections for each tax to ensure that the proportion attributed to visitor activity is reasonable.

APPENDIX D - 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.

