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Conventions, Tourism & Hotels

No sector in Philadelphia was challenged more profoundly by the pandemic than tourism and conventions. The sudden loss of visitors rippled through the local economy, eliminating jobs in hotels, restaurants, and cultural organizations, depressing airline travel, tax revenues and vitality on Center City sidewalks. Hotel occupancy dropped from 76.3% in 2019 to 14.8% in the second quarter before inching up slowly in the fourth quarter of 2020 to 22.5%. The pandemic resulted in the loss of 600 scheduled group events, a 78% decline in international travel and an estimated loss of \$3.2 billion in spending, according to the Philadelphia Convention and Visitors Bureau.

Recovery will be gradual. As vaccination rates increase, leisure travel should return first as consumers choose shorter trips to nearby destinations. In 2019, leisure travel accounted for 33% of room demand. Philadelphia's location on the dense Northeast Corridor, well served by highways and trains, provides a distinct advantage. Business travel, which accounted for 31% of room demand in 2019, will mirror the process of business openings throughout 2021 and 2022. Conventions, trade shows and group travel, which accounted for 32% of room demand in

2019, could rebound slowly by the second half of 2021 with new safety protocols in place. Conventions may also include hybrid models with reduced in-person attendance and increased virtual programming.

During the last three decades, Center City emerged as a highly competitive convention and tourist destination, due to major investments in the Pennsylvania Convention Center, new visitor destinations around Independence National Historical Park, and new hotels, restaurants and cultural institutions throughout the downtown. Promoted by sustained marketing and sales efforts, the city experienced steady growth in convention, group, business and leisure travel. This produced significant job growth, with accommodation and food services adding 17,850 private sector jobs citywide from 2002 to 2019. The COVID-19 pandemic temporarily erased these gains, with a loss of 23,400 jobs from March to September 2020, a 40% decline. As restrictions relax on business activity, as travelers gain confidence and as vaccinations increase and cases decline, employment will steadily rebound.

Prior to the pandemic, the Pennsylvania Convention Center hosted 17 conventions and events in early 2020, with 1.2 million attendees. It then took on new civic purposes, serving as a vote counting center in the general election of 2020 and a mass vaccination site in 2021.

To position the center for the return of conventions and other events, the Pennsylvania Convention Center Authority made new investments to enhance health safety, including upgraded air handling units, and received the Global Biorisk Advisory Council's (GBAC) Star accreditation on outbreak prevention, response and recovery. There are currently 18 major conventions still on the books for 2021, although plans are subject to change, given the uncertainty of health guidelines for large events. The Philadelphia Convention and Visitors Bureau (PHLCVB), which is prepared to start booking new events, conservatively estimates that total attendance for 2021 will be 100,000, less than one-tenth of 2019 levels. To promote leisure travel, which accounted for 464,000 room nights in 2020, Visit Philadelphia's marketing campaign, #ourturntotourist, is focused on those within easy driving distance.

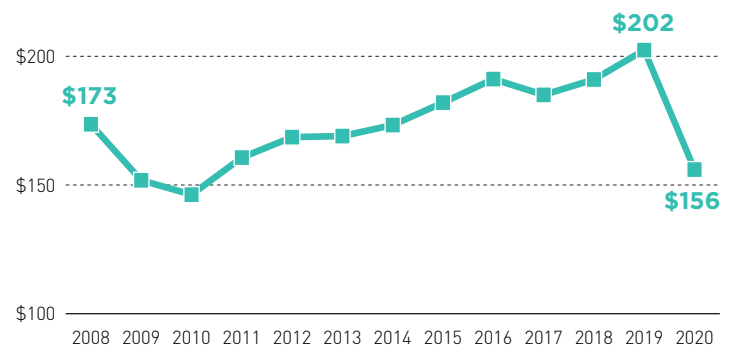
In 2020, counting about 75 days of normal business before the pandemic, the yearlong occupancy rates averaged 30.9% with 1.1 million occupied hotel room nights. Many Center City hotels decided by the end of March 2020 to temporarily suspend operations, including The Loews Hotel Philadelphia, the Downtown Marriott and the Warwick Rittenhouse Square, while others were repurposed by the City as quarantine sites for the homeless, including the Holiday Inn Express at Sansom and Juniper streets and the Fairfield Inn. With temporary hotel closures, room inventory dropped to 10,016.

The average daily room rate (ADR) for Center City decreased from a high of \$202 in 2019, to \$156 in 2020, comparable to rates during the Great Recession in 2008-2009. Rates are forecast to gradually increase over the next three years, as demand increases. Total hotel revenue decreased from a modern-day high of \$707 million in 2019 to \$176.9 million in 2020.

Nonetheless, betting on a strong recovery for Center City's leisure sector, the Canopy by Hilton and the Hyatt Centric opened in 2020, increasing downtown room inventory to over 13,000.

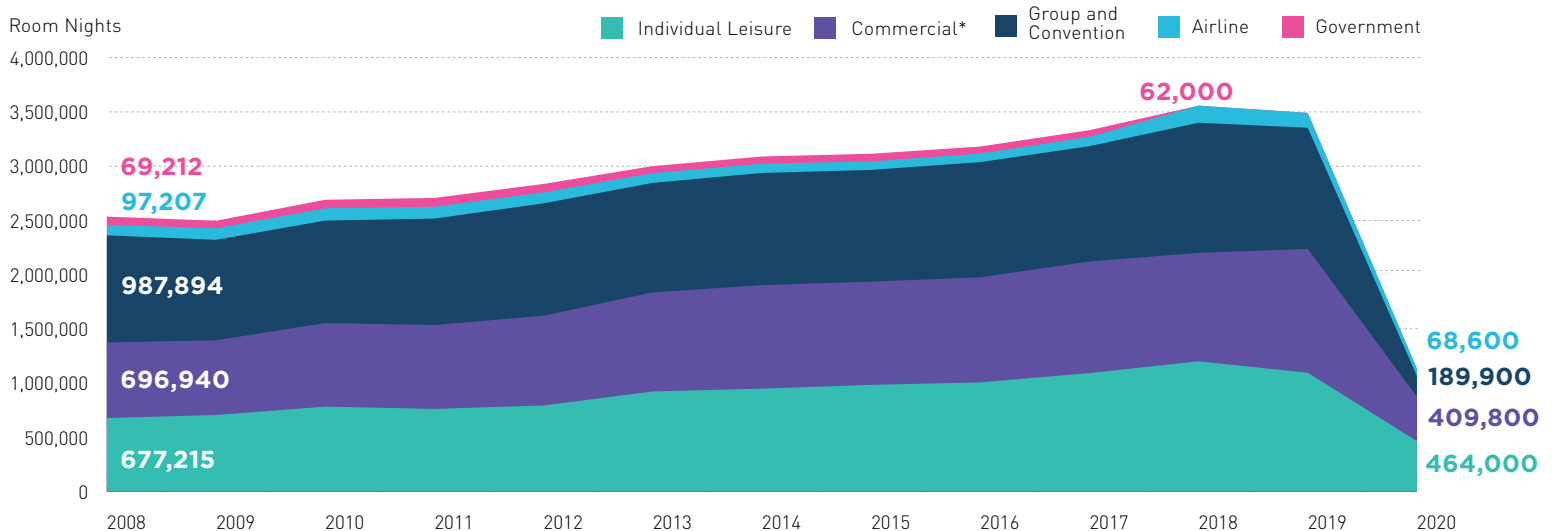
Forecasts for Center City anticipate a slow recovery in 2021 as the vaccine becomes more widely available, with increasing demand in the third and fourth quarters. It is estimated that ADR and occupancy rates may not return to 2019 levels until at least 2023.

Average Daily Room Rate for Center City Hotels



Source: Philadelphia Convention & Visitors Bureau

Occupied Center City Hotel Rooms by Purpose of Trip, 2008-2020



*Beginning in 2018, the commercial category includes government.

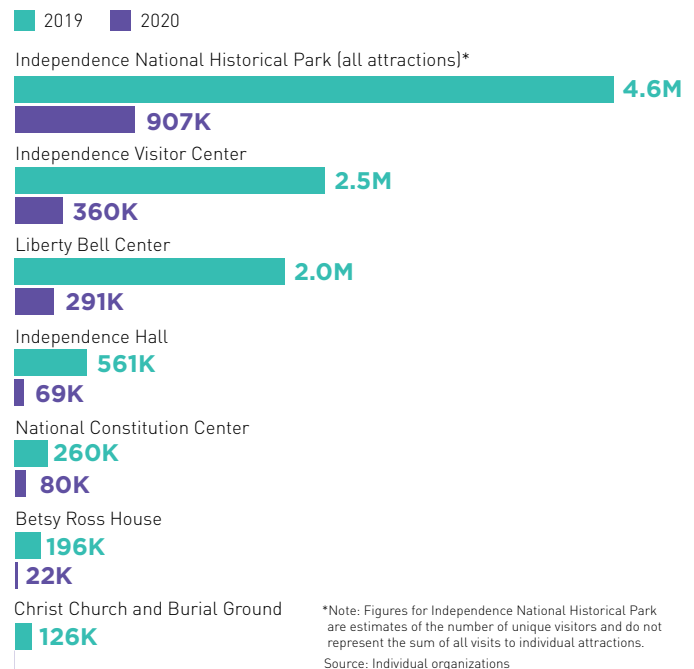
Source: STR Inc. and TravelClick, provided by Philadelphia Convention & Visitors Bureau

In 2020, 366,300 international visitors came to the Philadelphia region, generating an economic impact of \$253.3 million. Visitors from Canada and Mexico accounted for 68% of international travelers. Due to pandemic-related travel restrictions, Philadelphia International Airport handled fewer than 11.9 million passengers in 2020, a 64% decrease from the 2019 all-time annual record of 33 million passengers. January and February 2020 had year-over-year increases in travelers, 2.5% and 4.45% respectively. PHL was temporarily stripped of its “funneling airport” status, resulting in nearly six months where it was unable to receive travelers from countries including the top two feeder markets, the U.K. and China. International travel suffered an almost 83% drop and domestic travel fell by 61% from 2019. During this time PHL increased its airmail capacity, transporting upwards of 53,268 tons of mail in 2020, an almost 87% increase from 2019.

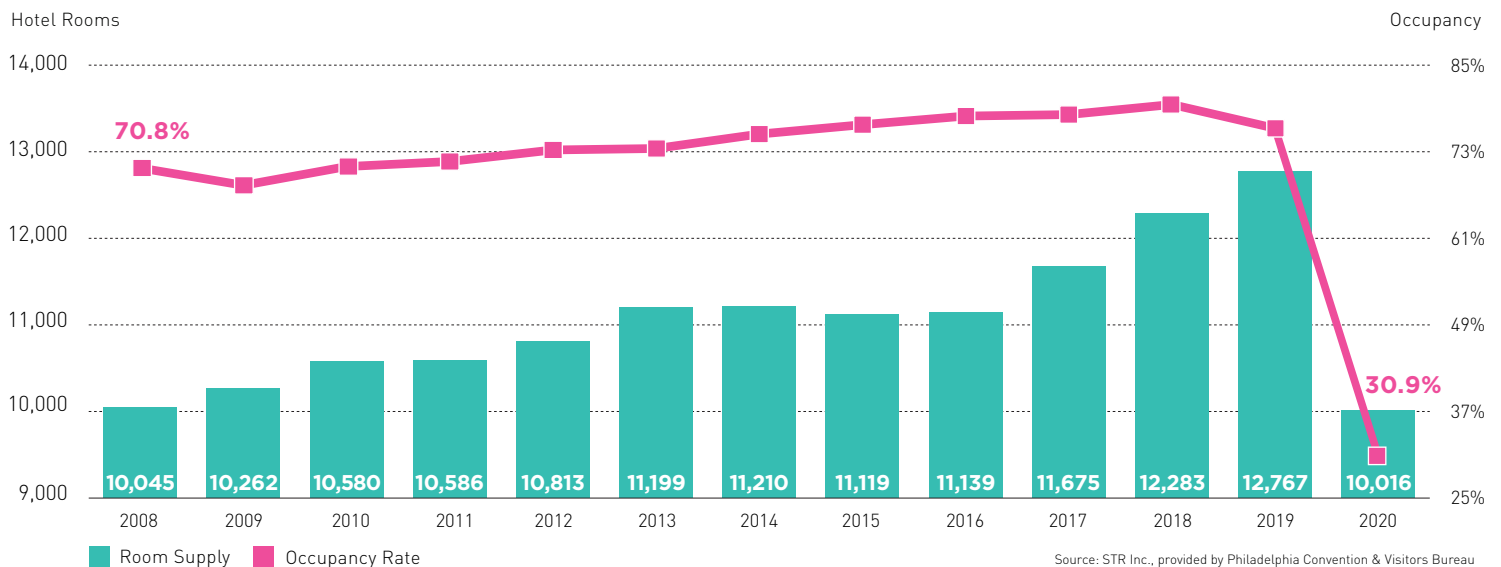
Eight hotel projects under construction or proposed in Center City will expand downtown supply to more than 14,000 rooms by the end of 2021. Those currently in the pipeline with an anticipated completion date of 2021 include the Element by Westin, W Hotel, MainStay Suites/Ascend Hotel Collection and Comfort Inn Arch Street. Collectively, they will add 1,093 rooms. In the planning phases are 1101 Walnut Street, a short term apartment concept operated by San Francisco-based Sonder, AC Hotel by Marriott, 2300 Market Street and Blue Ivy Hotel. These will join the recently opened Canopy by Hilton Philadelphia Center City and Hyatt Centric Philadelphia.

Older hotels are responding with rebranding and renovations. The Sheraton Philadelphia Downtown underwent a \$30 million upgrade to its 760 rooms and fitness center. The Philadelphia Marriott Downtown began extensive renovations including technology upgrades to public workstations and WiFi access points, renovations to the hotel entrance and all 1,408 guest rooms, and a new grab-and-go market in the lobby.

Historic Attraction Attendance, 2019-2020

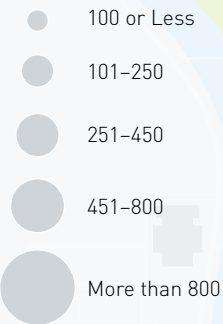


Availability & Occupancy of Center City Hotel Rooms, 2008-2020

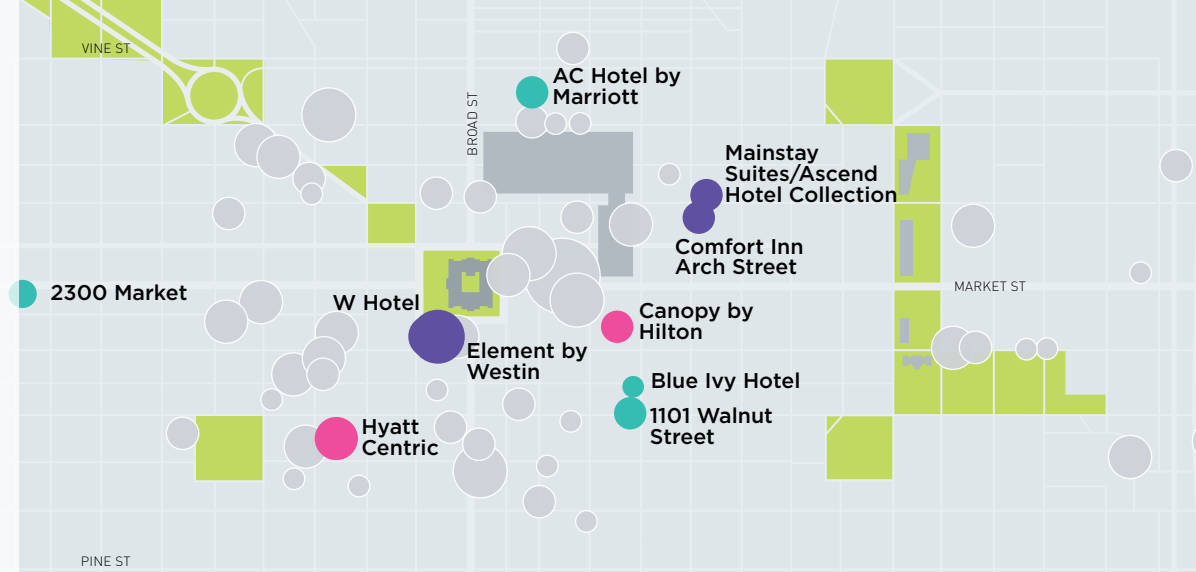


Hotel Developments in Center City, 2020 and 2021

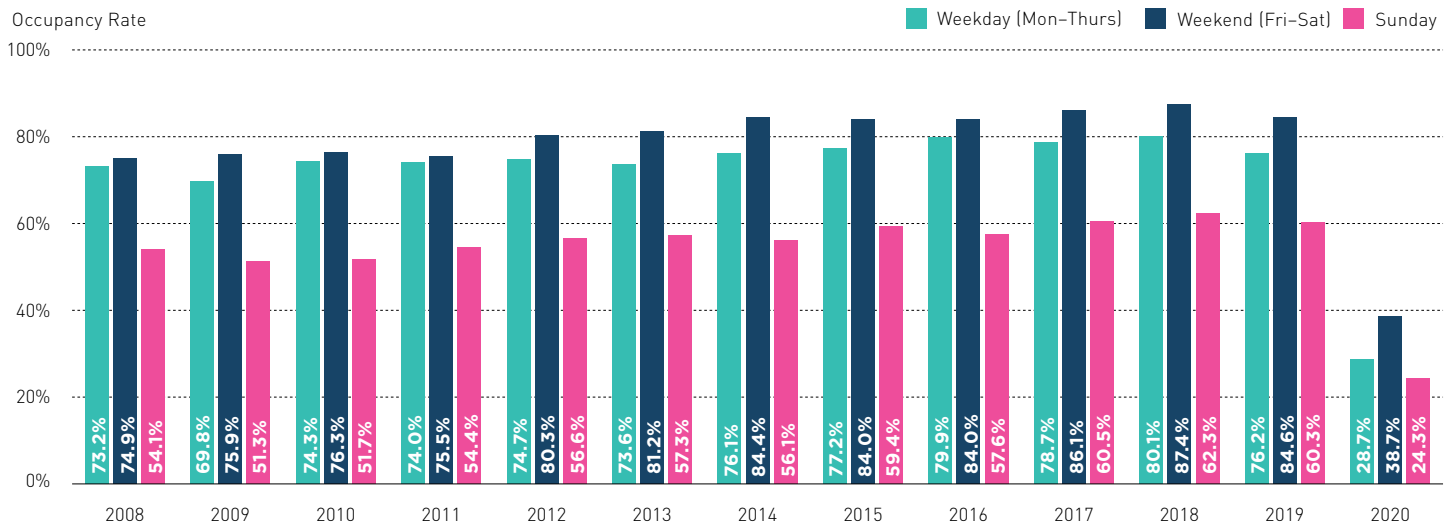
Rooms:



Source: Visit Philadelphia, Center City District, and Philadelphia Convention & Visitors Bureau



Center City Hotel Occupancy, Weekday vs. Weekend, 2008-2020



Source: STR Inc., provided by Philadelphia Convention & Visitors Bureau