

HVS Market Intelligence Report: Philadelphia, Pennsylvania

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With institutions of culture, tourism, business, and government, Center City Philadelphia comprises its own little world. Yet, sitting at the crossroads of Interstates 95 and 76, and drawing international visitors in droves, it's also well connected to the world without. In the following, we'll look at what's happening in Center City and what it means on the lodging front.

Expanding Commercial Activity

Philadelphia's business landscape is both dense and diverse, with the healthcare and education sectors contributing significantly to the area's overall stability. In addition, major entities representing the legal, architectural, financial, insurance, real estate, pharmaceutical, and high-tech sectors have continued to help drive room-night demand for Center City hotels.

One of Center City's biggest projects was the recent construction of the 58-story Comcast Center, which houses the headquarters for Comcast Corporation. The Comcast Center opened in late 2007 and features more than 1.25 million square feet of Class A office space, including nearly 40,000 square feet of retail and restaurant space. According to the ownership entity, Liberty Property Trust, the Comcast Center has the distinction of being the nation's tallest "green" office building.

Moreover, the University of Pennsylvania Health System and Unisys Corporation recently signed lease agreements to relocate their administrative and corporate space to Center City, which has helped considerably in reducing the area's office vacancy rate. Other major companies in Center City have also renewed leases or occupied additional space Downtown, further helping to shore up occupancy numbers. The following table illustrates the ten largest office lease transactions in Center City for 2007.

Ten Largest Lease Transactions - 2007

Tenant	Size (SF)
University of Pennsylvania Health System	177,627
Comcast Corporation	151,647
National Union Fire Co. of Pittsburgh	123,485
Day & Zimmerman	122,000
Morgan, Lewis & Bockius, LLP	96,279
Unisys Corporation	95,000
BDP International	80,000
City of Philadelphia BRT	78,695
Buchanan Ingersoll & Rooney PC	77,000
Dilworth Paxson, LLP	72,000

Source: Studley - 2008

Convention-Related Demand

The Pennsylvania Convention Center (PCC) is currently undergoing a major expansion that will add 376,000 square feet of space to its existing 624,000 square feet by early 2011. According to PCC officials, the one million square feet of saleable space will feature the largest contiguous exhibit space in the Northeast, capable of hosting large tradeshow or two major conventions simultaneously. The PCC expansion is expected to bring more than 280,000 additional room nights and more than \$140 million in annual economic impact to Greater

Summary

A sluggish national economy hasn't held back growth in Center City Philadelphia, where expansions of business, tourism, and the convention center bring on a need for new hotels.

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These forecasts have triggered the need for additional hotel inventory in Center City. Jack Ferguson, Executive Vice President of the Philadelphia Convention & Visitors Bureau (PCVB), stated that "2,500 new rooms (in Center City) would . . . prevent a hotel inventory overbuilding that would pull down occupancy rates among existing hotels." These 2,500 rooms are expected to come online by 2013, with at least one convention-oriented hotel housing more than 500 rooms. Ed Grose, Executive Director of the Greater Philadelphia Hotel Association, stated that "there needs to be a big-box hotel with somewhere around 600 rooms that is close to the Convention Center. When meeting planners come in, they don't want their convention attendees to be too spread out. They want to keep them to fewer hotels."

Tourism

Tourism will continue to play a vital role in the overall growth of the Center City economy. According to *The Philadelphia Inquirer*, the city hosted approximately 550,000 international visitors in 2007, an increase of nearly 100,000 over the previous year. The increase in tourism was attributed to the PCVB's strong international marketing efforts, notably targeting France, Germany, and the United Kingdom. This marketing campaign has gathered steam from a favorable currency exchange rate and an increasing number of international flights at the nearby Philadelphia International Airport.

Given the uncertainty of the international financial markets, it remains to be seen whether these exchange rates and flight schedules will continue to bestow favor on Philadelphia as a destination for foreign visitors. In an effort to propel the momentum, an additional 1.5% hotel tax was recently approved to help fund both tourism marketing efforts and the convention center expansion.

New Hotels

Local hoteliers and city officials report that lodging demand in Philadelphia has slowed since 2007, a trend expected to continue through 2009. Nonetheless, lodging supply in Center City is in fact expected to increase through 2013, with the expansion of the nearby Pennsylvania Convention Center, the construction and revitalization of high-rise buildings, and an increase in tourism all contributing to the need for additional rooms.

The 234-unit Hotel Palomar, the 202-unit Le Meridien, and the 90-unit Four Points by Sheraton are currently underway in Philadelphia. All three projects are slated to open within the next two years, and many existing hotels in Center City are undergoing significant renovations to stay competitive with the upcoming supply. According to the PCVB, the Marriott, Ritz-Carlton, Embassy Suites, Westin, and Park Hyatt, among others, have all undergone multi-million-dollar renovations during the last two years. It is estimated that the total budget for the renovations and three hotel projects currently underway will total more than \$231 million in Center City hotel investment, a sum that does not include several speculative hotel projects seeking approval.

Conclusion

The convention center expansion, new and revitalizing office developments, and increasing tourism in Center City Philadelphia are helping to offset the ill-effects of the recent economic downturn. Room-night demand is expected to decrease over the next two years because of drops in business and leisure travel brought on by the current economic blight. But travel should rebound with the lifting of the recessionary clouds, and the completion of the convention center's expansion should favorably coincide with the advent of new hotel supply. If forecasts for an industry upswing circa 2010 hold true, the growing expanse of hotels in Center City should have little trouble filling its rooms.

About **Jerod S. Byrd, MAI**



Jerod Byrd, one of HVS' premier experts on hotel markets in the northeast, New England, and Mid-Atlantic regions, is Managing Director and Senior Partner for HVS Philadelphia. Jerod has been involved in thousands of hotel consulting and appraisal assignments at HVS, including market studies, feasibility studies, and valuations of existing and proposed hotels and portfolios throughout the Mid-Atlantic region and has been featured at various industry events. Jerod earned dual BBA degrees in Hospitality & Resort Management and Real Estate from The University of Memphis and is a state-certified appraiser and Member of the Appraisal Institute. Contact Jerod at (901) 481-3058, or [\[email protected\]](#).