HVS

MARKET REPORT

Market Intelligence Report: Charleston, South Carolina

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Shipping, health care, higher education, tourism, and the military are just some of the industries that diversify Charleston's economy and help area hotels fare better than in most other markets during the recession.

Charleston's hotel market draws upon a broad base of demand generators. The city's long history and distinctive southern character make it a top tourist destination. Industries such as the military, health care, and higher education diversify Charleston's economic base, and this diversity is crucial to surviving the recession. This article explores the makeup of Charleston's major demand generators for area hotels.

Major Industries and Employers

Many of Charleston's corporations and institutions belong to industries that form the cornerstones of the city's economy, as described below.

Shipping and Commerce

Despite a decrease in import and export distribution since 2006, the Port of Charleston remains the second-largest container seaport on the East Coast and the fourth-largest container seaport in North America. One of the port's largest shipping companies, Maersk, began to carry one less line to Charleston beginning in March of 2009. The South Atlantic Express, another Maersk Line, left Charleston in February of 2009, its shipments being rerouted to Norfolk, Virginia and Savannah, Georgia. Nevertheless, with approximately 20 million square feet of distribution space and vacancy in the low single digits, there is room for growth in the market.[1]

Military Presence

Walking around Charleston you can't help but notice a strong military presence. Whether it's a Citadel Cadet, a Marine, or a member of the Air Force or Navy, the city is rich with uniformed personnel, and military operations produce a significant amount of demand for area hotels. The U.S. Navy C/O Naval Weapons Station is home to the Nuclear Power Training Unit. The U.S. Navy Nuke School, which was established in Charleston in 1998, features six barracks, the "refueling complex," an activity center, a central energy plant, and a 250,000-square-foot training center. The 437th Airlift Wing of Charleston Air Force Base in North Charleston comprises four airlift squadrons, an operations group, a maintenance directorate, a mission support group, and a medical group. In recognition of excellence, the base's 315th and 437th Maintenance Groups were awarded the 2008 Air Force Clements McMullen Memorial Daedalian Weapon System Maintenance Trophy.

A former Navy base in North Charleston is being converted into a 340-acre urban mixed-use development that will include commercial, retail, restaurant, office, and condominium space. Early stages of the project have been completed, including

new office buildings such as the WPC Engineering Headquarters.[2] The former base is also utilized in the filming of Lifetime's "Army Wives," a popular television show filmed throughout the Charleston area. Area hotels benefit from room nights generated by the cast and crew of the show, as well as the increased commercial activity (and commercial and leisure travelers) of the mixed-use complex.

Medicine and Health Care

The medical and healthcare industry is a key component of Charleston's economy. The Medical University of South Carolina (MUSC), which opened in 1824, is one of the first medical schools in the United States. In 2005, MUSC announced a 20-year extension plan for the hospital. The first phase of the expansion was completed in February of 2008; the new $275-million Ashley River Tower houses the hospital's new cardiac and digestive centers. The 641,000-square-foot hospital offers 156 beds and nine operating rooms, as well as outpatient clinics with the capacity to accommodate up to 100,000 visits annually.

Expansion being driven by another of the city's key medical institutions, Roper St. Francis Healthcare (RSFH), is reflective of the expanding needs of the greater Charleston area. RSFH officials have received state approval to build a new, full-service hospital in Berkeley County. The hospital will be part of a 2,300-acre mixed-use planned community in the new commercial corridor being developed by The Daniel Island Company. The proposed development will comprise 50 outpatient beds; 24-hour emergency care; inpatient and outpatient surgery; intensive and critical care units; and imaging, laboratory, and pharmacy facilities.

Trident Health System also plans to build a new medical complex on 20 acres in Berkeley County. Trident Technical College's acclaimed nursing program has a two-year waiting list for admission. In addition, a 250,000-square-foot 140-bed acute-care hospital is under construction on 52 acres adjacent to East Cooper Regional Medical Center in Mount Pleasant. The new, "green-friendly" hospital is expected to open in early 2010 and will serve as a replacement for the existing medical center.[3]

Higher Education

Charleston offers a wide array of higher education facilities. The College of Charleston, located in the downtown area, is one of the oldest colleges in the country, counting among its founders three signers of the Declaration of Independence and three framers of the U.S. Constitution. The College of Charleston is continually expanding, and a new $47-million basketball arena opened at the college for the 2008/09 season. Other important institutions in the area include The Citadel and Charleston Southern University.

According to Dr. Stephen Litvin, Professor of Hospitality and Tourism at the College of Charleston, area colleges have a considerable economic impact on local hotels through major events such as Move-in Weekend, Parents' Weekend, graduation ceremonies, and student orientations throughout the summer months. Demand created by the colleges is also far less vulnerable to the economic pressures that have forced a downturn in corporate and leisure demand.

Hospitality and Tourism

Hospitality and tourism has long-been an important economic driver for the Charleston area. For 16 consecutive years, Charleston has been named a Top 10 travel destination in the United States by readers of *Condé Nast Traveler*. In 2008, Charleston took over the number two position, just behind San Francisco and just ahead of New York City. According to the Charleston Regional Business Journal, visitors spend, on average, $234 per person per day while staying in the city.

Charleston's tourism attractions include the Old Slave Mart Museum, the Hunley, Fort Sumter, Rainbow Row, and an array of old plantations such as Boone Hall Plantation. Major annual events continue to sell out hotels on the Peninsula and surrounding areas every year, including the Southeastern Wildlife Exposition and the Spoleto Festival USA. Despite the recession allowing for less city funding in 2009, these events are still expected to have a major economic impact. The Southeastern Wildlife Exposition, which is now in its 27th year, attracts 35,000+ attendees to Charleston each February.[4] The Spoleto Festival USA, which fills the city's historic theaters, churches, and outdoor spaces for 17 days and nights each

spring, also fills hotels for three consecutive weeks.[5]

While the economy may make for fewer travelers this year, hotels should still receive a significant boost in occupancy during these events. According to the 2009 Office of Tourism Analysis at the College of Charleston, over 4 million visitors come to Charleston annually, accounting for more than $3 billion in total economic impact.

Hotel Trends

In 2007, occupancy for hotels, motels, and inns in Charleston County reached a ten-year high at 73.5%. Average rate for the area reached a high of over $150 in 2007. In 2008, occupancy rates for Charleston County fell 5.4% compared to 2007; however, average rate increased 4.2% in 2008.

In March of 2009, occupancy rates for hotels in the Charleston area averaged 73.3%, a 9.2% decrease from March of 2008; average rate has decreased 7.7% year-to-date.[6] Despite the recent decline, Charleston hotels still have relatively high occupancies, and little new hotel construction is underway in the market; a few projects are under construction in North Charleston, and a few more have been proposed for the downtown area, but even if these all come to fruition they are not expected to materially impact the market's overall occupancy levels.

Conclusion

Though the nation is in a lull, Charleston is expected to rebound strongly once the recession lifts. The area continues to grow with new retail developments, as well as expansions at medical facilities and colleges, and the city is destined to remain a popular tourist destination for years to come. Rhett Butler says in "Gone with the Wind": "I'm going back to Charleston, back where I belong." Area hoteliers are hoping that the city's charm will court more travelers into following his example, especially once the economy begins to rebound.

1 Charleston Regional Business Journal: Market Facts 2008

2 Navyyardsc.com

3 Roperstfrancis.com

4 Charleston Convention and Visitors Bureau

5 Charleston Regional Business Journal

6 Accommodation Occupancy Trends for Charleston County, South Carolina. March 2009. Office of Tourism Analysis. College of Charleston