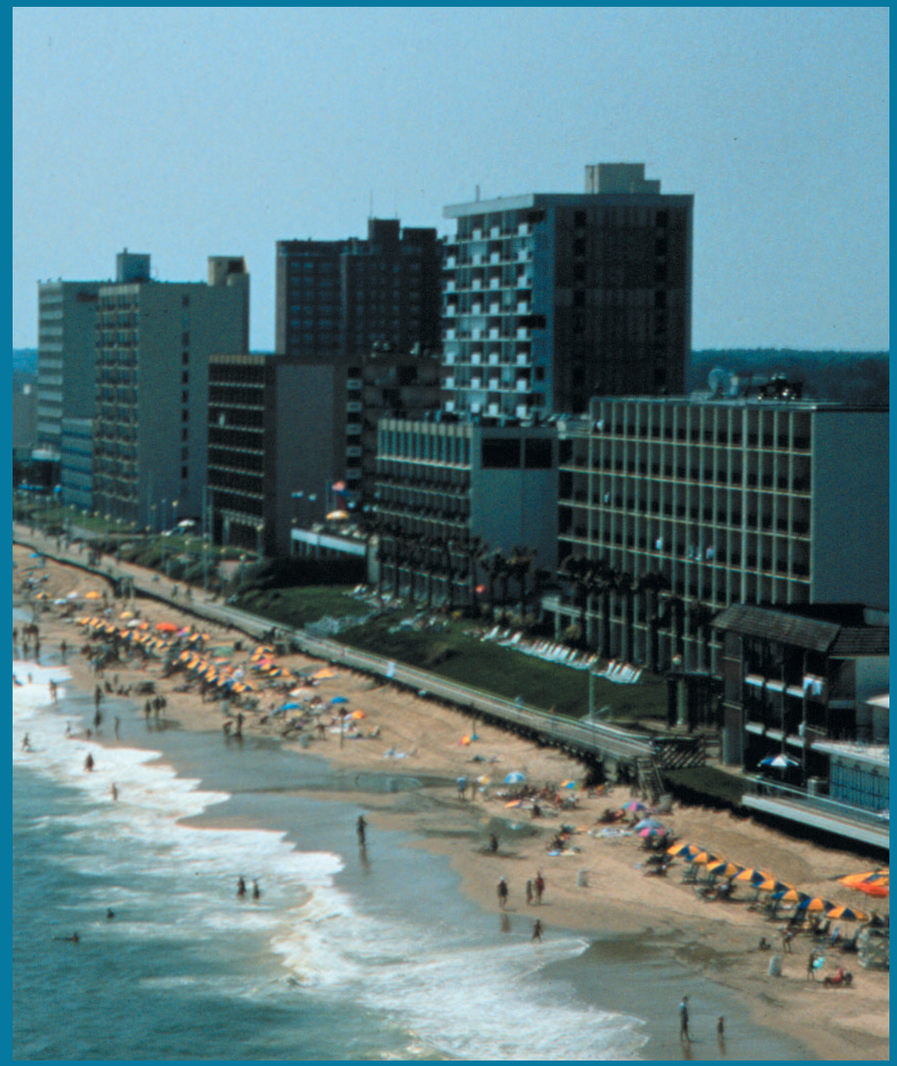


THE STATE OF TOURISM

Is upscale the way to go to attract more tourist dollars?

If Virginia is for lovers, then Hampton Roads is for lovers of vacations. From the historic streets of Colonial Williamsburg to the surf and sand of modern-day Virginia Beach, this region offers visitors a wide variety of enticing attractions.

Without question, tourism and related travel spending spell big business for Hampton Roads, and its impact on the region has been on the rise. Since 1990, tourism expenditures have jumped from $1.48 billion to $2.25 billion, or 52 percent, and have been growing more rapidly here than elsewhere. During the same time period, tourism expenditures grew only 44.5 percent and 48.4 percent in Virginia and the entire United States, respectively. **Further, travel spending in Hampton Roads accounted for 5.08 percent of the Gross Regional Product (GRP) in 1990 and 5.41 percent of the GRP in 1998. In other words, more than $1 of every $20 in the region's GRP is derived directly from tourist expenditures.** Meanwhile, tourism as a share of the Commonwealth's Gross State Product declined from 5.46 percent in 1990 to 4.84 percent in 1998. The same trend held for the country as a whole, where travel spending accounted for 5.75 percent of the Gross Domestic Product in 1990, but only 5.6 percent in 1998.

Why Most Cities Are in the Dark About Their Tourism

Although tourism is an important and expanding industry in Hampton Roads, reliable primary data on tourism is available only for the City of Virginia Beach. The resort city has been commissioning surveys of out-of-town visitors every month from May to September since the early 1980s. In 1994, Virginia Beach started additional surveys of overnight visitors for March/April and October/November. Additionally, the city has commissioned a monthly occupancy study of hotels/motels every year for at least the past 10 years. These surveys provide information on characteristics, plans, activities and vacation patterns of tourists, as well as their socio-economic status and demographic characteristics.

No other locality in Hampton Roads, including historic Williamsburg, which clearly is a major destination market in the region, systematically collects, analyzes and provides information on tourism. Therefore, information about tourists and other travelers coming to Hampton Roads must be obtained from secondary sources. Two of the major sources of this data are the Virginia Tourism Corporation (VTC) and Smith Travel Research (STR). Yet, there are potential problems with both of these sources.

VTC has compiled and published annual data on traveler spending, travel payroll, travel employment, state travel taxes and local travel taxes generated in all cities and counties in Virginia since 1990. However, VTC does not provide estimates of visitors either for any locality or for the Commonwealth.

Smith Travel Research collects information only from hotels/motels in the United States. The information collected includes the number of hotels or motels, the number of hotel rooms available, occupancy rates, average daily room rates and revenue earned by operators per available room. STR collects this information through a sample of hotels that voluntarily provide information. The proportion of hotels reporting to STR has significantly increased over time. For example, the number of hotels in the United States providing information to STR increased from 49.6 percent in 1990 to 65.6 percent in 1999. From 1990-99, the sample proportions for the Commonwealth of Virginia increased from 61.5 percent to 77.4 percent, and for Hampton Roads from 55.5 to 69.5 percent. Information from STR, as stated above, is available for the United States, Virginia, Hampton Roads and various cities located within the region for each month starting with January 1990 and ending with April 2000.

Tourism Trends

The best available measure of tourism activity for Virginia and Hampton Roads is total travel spending, as reported by VTC. Travel spending is defined as the direct spending by all travelers, including meals, lodging, transportation, shopping, admissions and entertainment. VTC also reports four other travel impact categories: (1) travel payroll, which represents wages and salaries corresponding to direct travel-related employment; (2) travel-related employment; (3) direct travel-related state taxes generated within a locality; and, (4) direct travel-related local taxes generated within a locality. All of the above categories exclude indirect or multiplier impacts.

Traveler spending in Virginia increased from $8.1 billion in 1990 to $11.7 billion in 1998, or by 44.5 percent. The Virginia portion of the Washington, D.C., MSA is by far the most dominant area in traveler spending. This area accounted for 48.1 percent of traveler spending in the Commonwealth in 1990, but fell to 45 percent in 1998. Hampton Roads, the second largest metropolitan area in traveler spending, accounted for 18.35 percent of traveler spending in 1990, a share that increased to 19.3 percent in 1998. Richmond/Petersburg was a distant third. These three areas together account for roughly three-quarters of traveler spending in Virginia. All other measures of travel impact reported by VTC exhibit similar patterns.

VTC also provides information on traveler spending and other travel impact categories for cities and counties in Virginia. For the sake of clarity, Hampton Roads is divided into four distinct areas: James City County, Williamsburg (comprising York County and Williamsburg); Peninsula (comprising Gloucester County, Hampton, Newport News and Poquoson); South Side (comprising Isle of Wight County, Mathews County, Chesapeake, Norfolk, Portsmouth and Suffolk); and, the City of Virginia Beach, which stands alone as Virginia Beach.

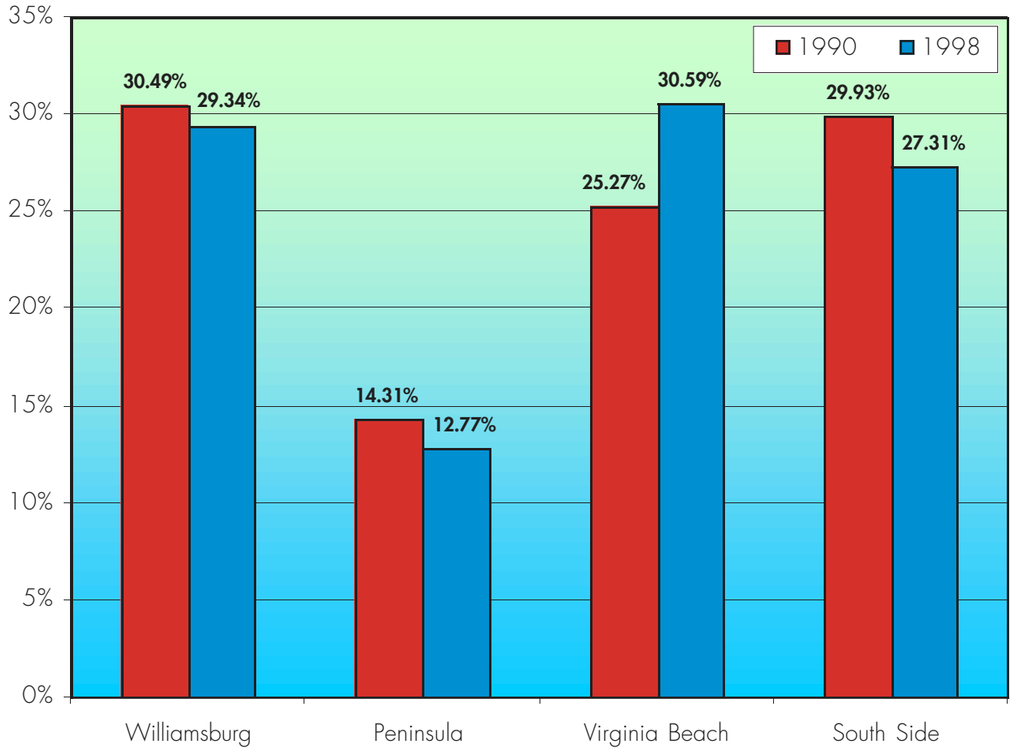
Within Hampton Roads, the two largest tourist destination markets are Virginia Beach and Williamsburg. These two areas together accounted for 60 percent of the region's traveler spending in 1998. Traveler spending in Virginia Beach increased from $374.9 million in 1990 to $689.6 million in 1998, or 83.9 percent. By contrast, in Williamsburg, traveler spending increased by only 46.2 percent in the same time period, from $452.2 million to $661.3 million. Hence, in 1990, Williamsburg tourism was larger than that of Virginia Beach by almost 21 percent. By 1998, however, things had reversed and traveler spending in Virginia Beach exceeded that in Williamsburg by 4.3 percent.

Graph 1 shows the percentage distribution of traveler spending by the four distinct areas of Hampton Roads. It is evident from this data that Virginia Beach's share of direct regional traveler spending increased from 25.3 percent in 1990 to 30.6 percent in 1998. The other three areas, particularly Williamsburg, have grown at a slower pace than Virginia Beach and their shares of traveler spending have declined. Similar trends exist with respect to direct travel payroll, direct travel employment and state travel taxes generated in Hampton Roads.

A 1998 survey of U.S. resident travelers, conducted by Travel Industry Association of America, revealed that 46 percent of travelers stay in a hotel or motel; 13 percent stay in campgrounds, cottages, condominiums and other places; 35 percent stay with friends and relatives; and another 13 percent take day trips and do not "stay over." Visitor surveys in Virginia Beach for 1998 and 1999 reveal similar patterns: about 56 percent of visitors stayed in hotels or motels; 9 percent stayed in campgrounds, cottages or condominiums; 20 percent stayed with friends and relatives; and about 15 percent were day trippers.

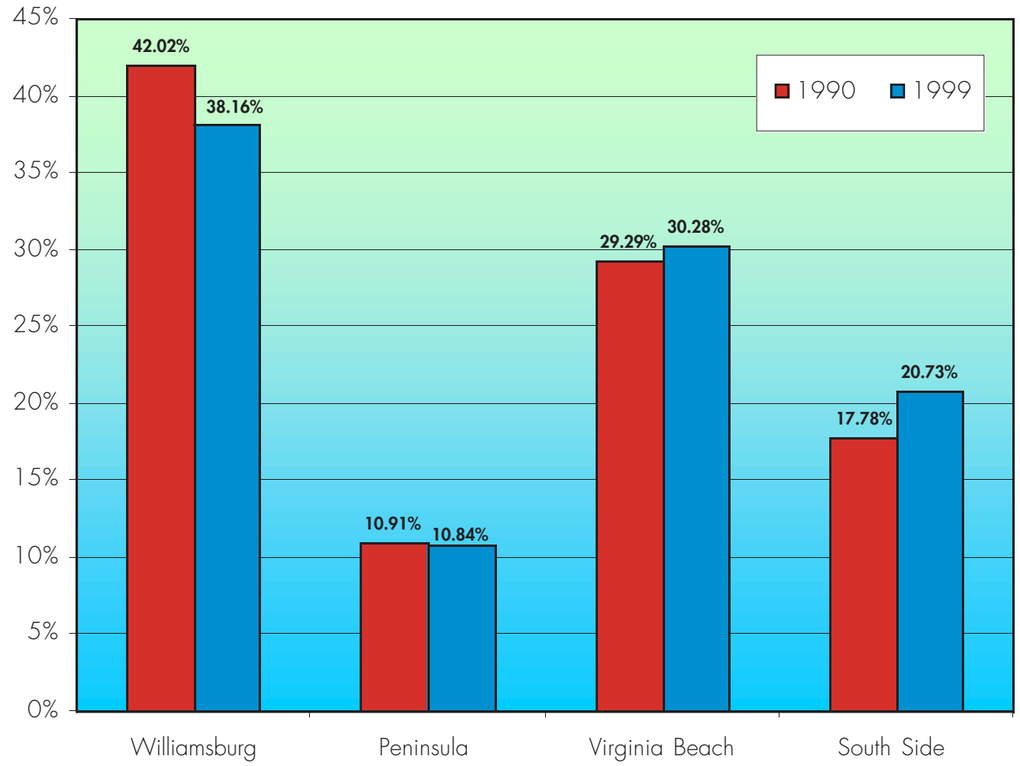
Lodging sales constitute a second measure of tourism activity in Hampton Roads. The Virginia Department of Taxation collects monthly information on lodging sales for various cities and counties in the Commonwealth. Lodging sales, for this analysis, represent retail sales in hotels/motels, campgrounds, bed and breakfast facilities, and the like. Note that lodging sales therefore include both room sales and nonroom sales, such as business at gift shops and restaurants located within tourist destination premises.

GRAPH 1
Percent Distribution of Travel Spending in Hampton Roads MSA, 1990 and 1998



Source: Virginia Tourism Corporation

GRAPH 2
Percent Distribution of Lodging Sales in Hampton Roads MSA, 1990 and 1998

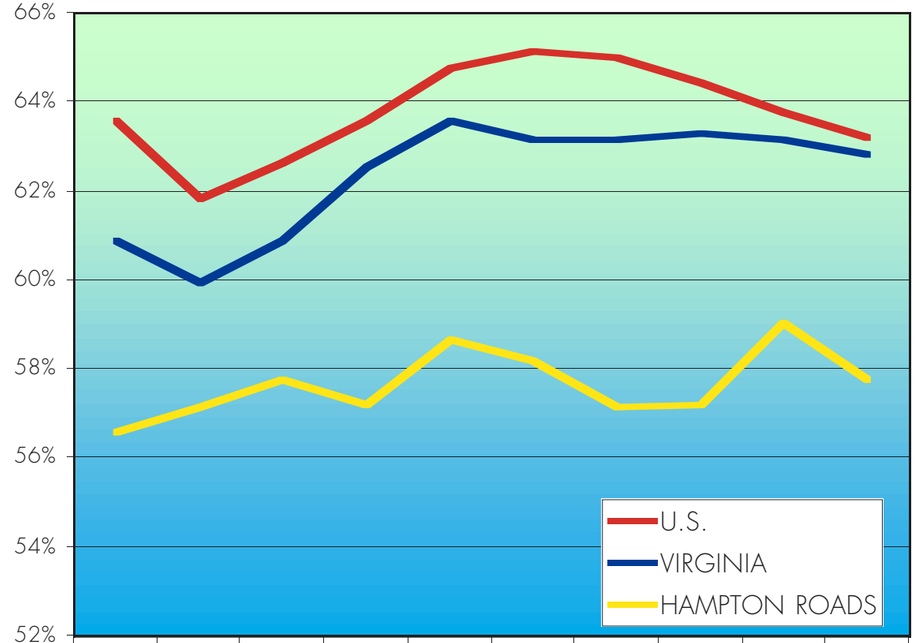


Source: Virginia Tourism Corporation

Lodging sales in Hampton Roads jumped from $407 million in 1990 to $584 million in 1999, a 43.5 percent increase. However, recent growth in lodging sales for the two destination markets in Hampton Roads has been quite uneven. Virginia Beach enjoyed a growth of 48.3 percent in its lodging sales, while Williamsburg increased by only 30.3 percent. The distribution of lodging sales in Hampton Roads by the four areas defined earlier is exhibited in Graph 2. Note that the share for Williamsburg declined from 42 percent in 1990 to 38.2 percent in 1999. This is in contrast to Virginia Beach and the South Side, where the shares of lodging sales have increased.

A third measure of tourism activity is hotels and motels, where about 50 percent of travelers stay during their visit. A look at the number of hotel and motel rooms available over the past decade demonstrates that the growth in Hampton Roads has been quite modest. The number of rooms in Hampton Roads increased only 6 percent from 1990-99, even though there was 15 percent growth in Virginia and 21 percent growth in the United States during the same time period.

GRAPH 3
Hotel Occupancy Rate, 1990-99

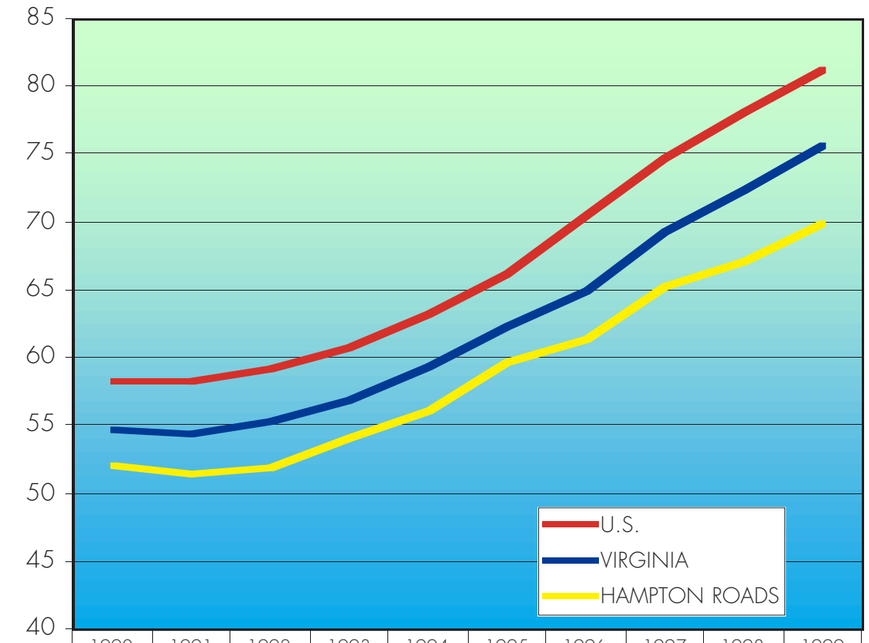


	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
U.S.	63.57%	61.85%	62.63%	63.56%	64.76%	65.13%	64.99%	64.46%	63.80%	63.22%
VIRGINIA	60.87%	59.93%	60.88%	62.53%	63.59%	63.16%	63.16%	63.30%	63.17%	62.84%
HAMPTON ROADS	56.58%	57.15%	57.79%	57.21%	58.66%	58.22%	57.17%	57.18%	59.04%	57.79%

Source: Smith Travel Research

Why did the number of available hotel and motel rooms expand so slowly in Hampton Roads? Presumably because of low room occupancy rates and low average daily room rates. These in turn reflect an apparent lack of profitability. **In simple terms, the supply of rooms has not increased more rapidly because it has not been profitable to build more hotels and motels. Tourism in Hampton Roads did expand during the '90s, but it was not especially profitable.** Graphs 3 and 4, respectively, illustrate the room occupancy and room rate phenomena. Throughout the '90s, room occupancy rates in Hampton Roads were much lower when compared to Virginia or the nation. Likewise, the average daily room rates in Hampton Roads, though they increased by about 34 percent during the decade, always have been lower than those in Virginia, or the rest of the country.

GRAPH 4
Average Daily Rate, 1990-99

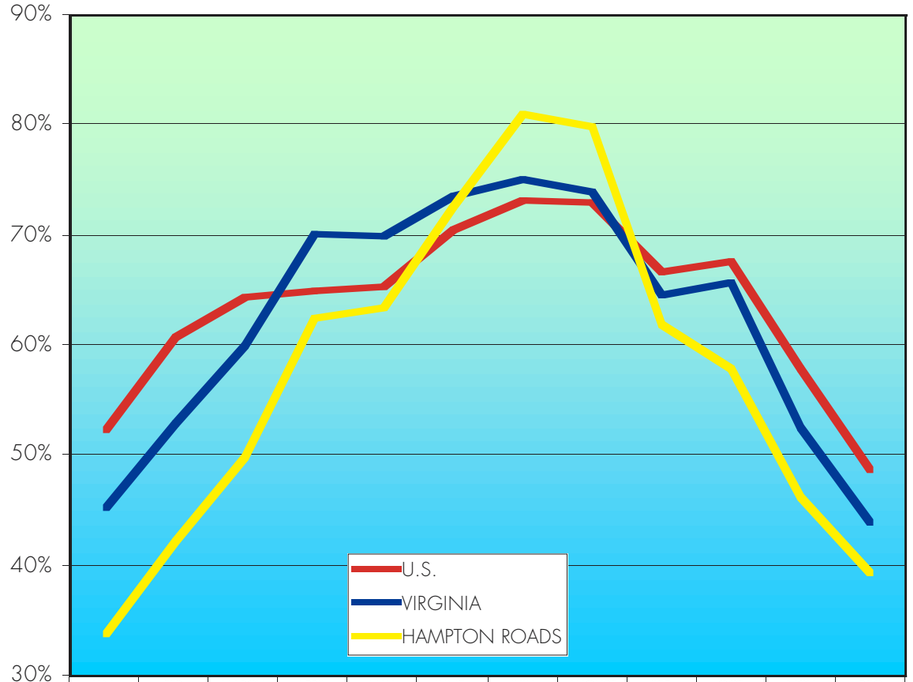


	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
U.S.	58.33	58.34	59.22	60.83	63.24	66.26	70.57	74.76	78.18	81.33
VIRGINIA	54.74	54.36	55.33	56.96	59.35	62.32	65.00	69.36	72.44	75.66
HAMPTON ROADS	52.14	51.50	52.00	54.19	56.10	59.69	61.48	65.22	67.19	69.92

Source: Smith Travel Research

Occupancy rates and daily room rates are subject to strong seasonal variations. Graphs 5 and 6 demonstrate this for Hampton Roads. Room occupancy rates as well as average daily room rates are the highest in Hampton Roads in July and August and exceed those in Virginia for those months. Patterns for the month of June in Hampton Roads are similar to those for Virginia and the entire country. Nonetheless, in every other month, both room occupancy and average daily room rates are significantly lower in Hampton Roads.

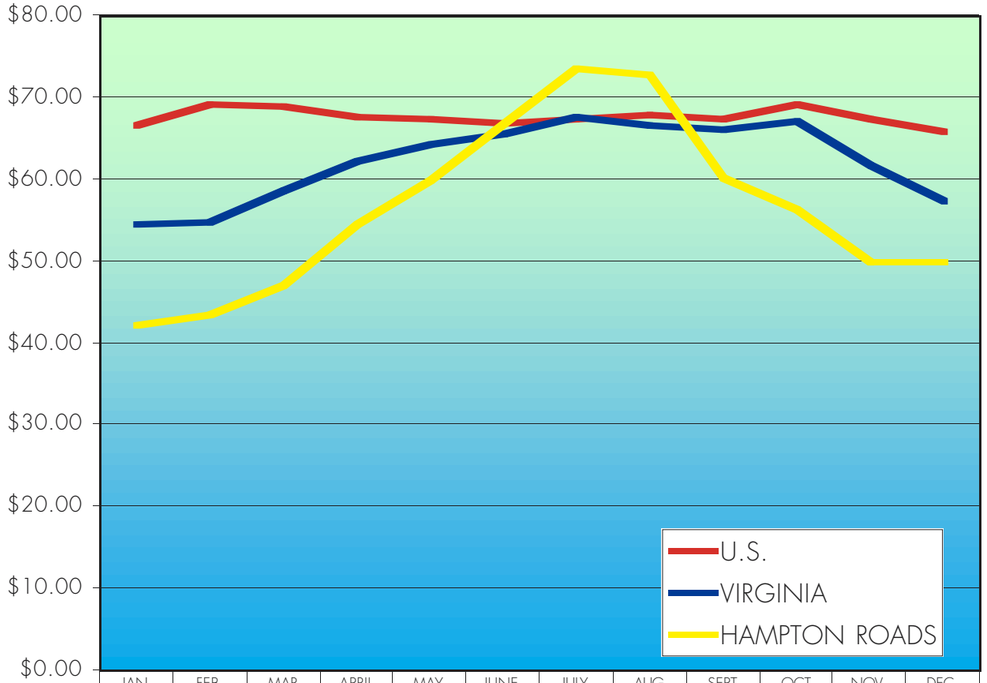
GRAPH 5
Monthly Average Occupancy Rates, 1990-99



	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEP	OCT	NOV	DEC
U.S.	52.31%	60.70%	64.47%	64.93%	65.43%	70.60%	73.10%	73.01%	66.65%	67.69%	57.98%	48.64%
VIRGINIA	45.23%	52.92%	60.07%	70.13%	70.02%	73.55%	75.11%	73.90%	64.65%	65.68%	52.63%	44.02%
HAMPTON ROADS	33.87%	42.25%	49.87%	62.52%	63.51%	72.61%	81.08%	79.84%	62.00%	57.96%	46.27%	39.30%

Source: Smith Travel Research

GRAPH 6
Monthly Average Daily Rate, 1990-99



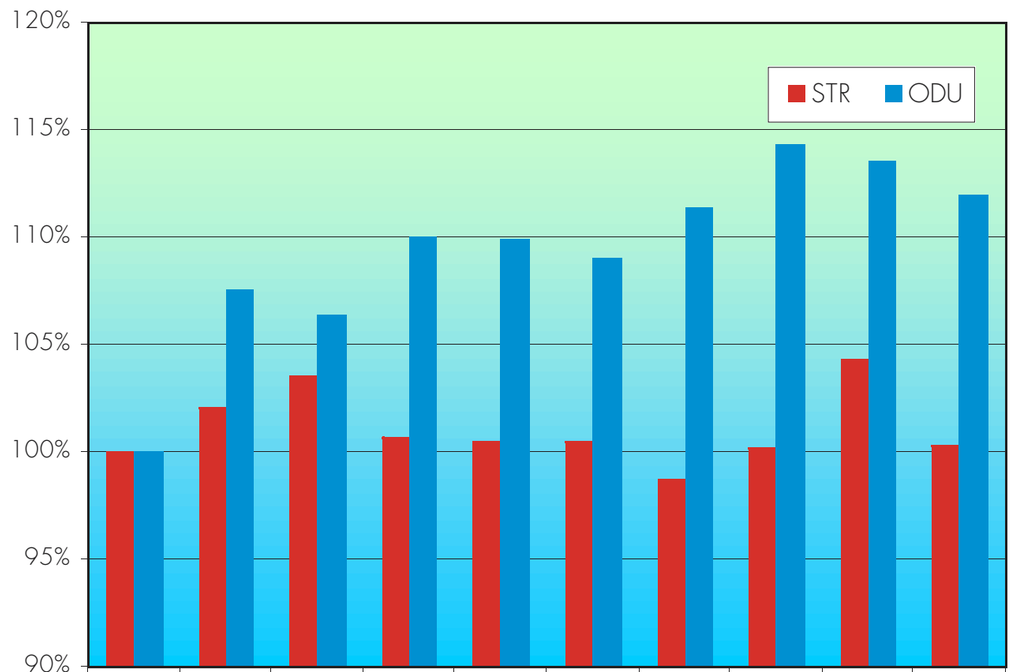
	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
U.S.	66.58	69.08	68.93	67.57	67.27	66.77	67.41	67.79	67.44	69.24	67.38	65.85
VIRGINIA	54.56	54.74	58.69	62.20	64.38	65.53	67.70	66.67	66.08	67.07	61.62	57.36
HAMPTON ROADS	42.27	43.55	47.16	54.59	59.90	66.85	73.60	72.69	60.29	56.42	49.93	49.93

Source: Smith Travel Research

A Closer Look at Virginia Beach

Research conducted by Old Dominion University using primary data, exhibited in Graph 7, shows that hotel room nights in Virginia Beach increased by about 12 percent between 1990 and 1999. Contrast this to the finding of Smith Travel Research that almost no increase occurred. What accounts for this difference? STR's data is generated from its statistical sampling of Virginia Beach hotels and motels. There are two problems associated with this approach. First, STR's sampling includes only about 70 percent of hotel and motel rooms in Virginia Beach. Second, STR's sampling focuses on franchise hotels and motels. Yet, 47 percent of Virginia Beach's hotel and motel rooms are nonfranchise and independently owned; only 18 percent of these hotel rooms are represented in the STR data.

GRAPH 7
Room Night Index for Virginia Beach, 1990-99



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
STR	100.00%	102.02%	103.53%	100.65%	100.46%	100.53%	98.75%	100.16%	104.28%	100.25%
ODU	100.00%	107.52%	106.32%	109.99%	109.90%	108.98%	111.37%	114.30%	113.57%	112.01%

Sources: Smith Travel Research and Summer 1999 Virginia Beach Overnight Visitor Profile (ODU)

The most reliable measure of tourism activity in Virginia Beach is the city's hotel and motel occupancy tax records. Hotels and motels have been required to pay a $1 tax since September 1, 1995, on each room occupied in their facilities. Therefore, Virginia Beach's occupancy tax receipts obviously are the most reliable measure of how many rooms have been occupied in the resort city. Indeed, these tax revenues rose from $1.93 million in 1996 to $2.02 million in 1999, a 5.1 percent increase.

Utilizing occupancy tax receipts and other data, it is apparent that Virginia Beach has experienced a significant increase in out-of-town visitors over the past decade. Thus, between 1994 and 1999, the number of overnight visitors rose from 1.69 million to 2.23 million (32.3 percent), and the total number of visitors (day and overnight) increased from 1.9 million in 1994 to 2.64 million in 1999, or almost 39 percent. Out-of-town visitor spending jumped from $471.1 million to $601 million, an increase of 27.6 percent. These visitors generated $32.6 million in direct city revenues in 1994 and the city's revenues increased to $46.1 million in 1999. On a net basis, after deducting the city's costs associated with tourism, Virginia Beach netted an estimated $13.5 million from tourism in 1994 and $18.2 million in 1999 (a 34.8 percent increase). Research conducted by Old Dominion University also shows that the tourism industry created 10,190 jobs in 1994 and 11,493 in 1999 (a 12.8 percent increase).

The bottom line is that Smith Travel Research data is a less reliable measure of tourism activity than actual room occupancy tax receipts. This is because the STR data represents primarily the franchise hotel industry. The truth is that tourism in Virginia Beach has been much more robust than STR data has suggested.

Tourism in Virginia Beach tends to be an upper-income activity, particularly where overnight guests are concerned. In 1992, the average household income of the city's visitors was $55,187; this increased to $66,482 by 1999. Visitor-party spending during the same time also increased, from $891 in 1992 to $1,229 in 1999. However, to use the language of economists, it also is true that the income elasticity of visitor spending is very low. That is, high-income visitors do not spend proportionally more than low-income visitors. For example, visitors earning $55,000 a year spent $1,215 during their visit to Virginia Beach in summer 1999. This spending rose only to $1,526 (a 25.6 percent increase) for those with incomes of $112,500, more than twice as high.

The Seasonal Problem

Except in the months of June, July and August, room occupancy rates in tourist-oriented Hampton Roads hotels and motels are quite low, and average daily room rates are comparably low. This is a classic "excess capacity" problem that to one extent or another also afflicts a variety of other industries, most obviously education, but also Christmas-oriented enterprises, baseball teams and even the stock market. In each of these cases, firms in the industry deal with seasonal or periodic demand, and therefore experience time periods when there is little or no demand for their product and their facilities stand idle. The classic solutions for excess capacity problems are either to shut down production facilities completely (which reduces costs, but does not eliminate them) or to find other uses for the facilities. Thus, universities offer summer school, continuing education programs and camps; Christmas-oriented firms begin to produce goods and services focused upon other times of the year; baseball stadiums host rock concerts; and the stock market extends trading into the evening and weekends.

The tourism industry in Hampton Roads needs to find ways to utilize its excess capacity during the nonpeak tourist times of the year. It is in the best interests of the Hampton Roads citizenry and its governmental units to encourage and assist the tourism industry in doing so, for the result will be more jobs and higher tax collections. Greater emphasis must be placed upon Hampton Roads hosting large regional and national conferences that might take place in November or February, for example. In order to do so, the region may need to develop larger and more attractive convention facilities in its major tourist venues of Williamsburg and Virginia Beach. Needless to say, this could cost multiple millions of dollars and it does not follow that it would be profitable for the region to utilize tax funds either to construct extremely large convention centers or to build large stadiums or arenas that

might serve convention purposes. **The region should be very hard-headed as it analyzes whether the construction of large public convention, stadium and arena facilities would be worth its while as a partial solution to the excess room capacity problem the tourist industry experiences. The solution conceivably could be more expensive than the problem.**

A related challenge for the tourism industry in Hampton Roads that also has strong seasonal overtones is the regional transportation system. Traffic congestion is an impediment to tourism. There are three major "choke" points with respect to tourism in Hampton Roads: (1) its water crossings, primarily the Hampton Roads Bridge Tunnel and the Monitor-Merrimac Bridge Tunnel; (2) the increasingly problematic two-lane configuration of I-64 between Newport News and Richmond; and, (3) interestingly, Route 168 in Chesapeake, whose fate is connected primarily to non-Hampton Roads tourism on the Outer Banks. Without question, a third tunnel crossing would reduce driver and tourist unhappiness and help attract more visitors to the region, and widening and improving I-64 and Route 168 would improve circumstances. Once again, however, it does not follow that expenditures of any magnitude are merited. Fortunately, in each of these cases, proposed improvements would have multiple uses throughout the year (not simply tourism) and conceivably are connected to national defense considerations as well.

Finally, as the data presented above demonstrate, overnight tourism in Hampton Roads is an activity that caters to higher income individuals. National evidence indicates that such people increasingly are interested in upscale hotels and motels, as well as pricey recreation and entertainment, including golf courses that may be destinations in their own right. Hilton Head, S.C., and sites too numerous to list in states such as Arizona, California, Florida, Hawaii and Texas, reflect this trend. Williamsburg is the only area of Hampton Roads that currently fills this bill and, somewhat perversely, its tourism performance over the past decade has been unimpressive.

If, indeed, overnight tourism is increasingly morphing into an upper-income activity, and Hampton Roads wishes to play seriously in this arena in the future, then it must devise a strategy that will put its best foot forward. This strategy might well include convention, stadium or arena facilities, destination golf courses and tennis complexes, improved transportation, and other enticements. It is not clear that such investments would be more productive than alternatives, such as greater expenditures for K-12 education to raise teachers' salaries and reduce class sizes, or investments in technology-oriented university research and development facilities, or investments in cultural and recreational enterprises ranging from the symphony and opera to OpSail. Hard policy choices will need to be made among competing alternatives, each of which has its own attractions and supporters. Making the right choices is ultimately why some regions grow more rapidly than others, and why some regions are considered better places to live than others. Hampton Roads should not shrink from such public policy considerations.