



Is a Convention Center Hotel Warranted?

Proponents of a convention center hotel are lamenting the fact that, after a decade since the completion of the new center, the hotel project has failed to get underway. Advocates are looking for a 500-room full service hotel that would act as a “front door” for the convention center. Their argument: the hotel is necessary to maximize the center’s potential and they are willing to throw taxpayer money at it to make it happen.

A \$34 million state subsidy had been secured for the project, but has since been rescinded by the state with the understanding that it could be raised again from slots revenue. However, there are two major problems with obtaining any taxpayer funding for the hotel. First, \$34 million is not enough according to hotel developers who responded to the most recent request for proposals, and secondly with the economy still floundering, the state may have trouble coming up with any money at all for the project. Keep in mind that the Governor just ordered cuts to many items in his budget including those for public school funding. Finding extra money for a hotel project in this environment may be out of the question.

But that hasn’t stopped developers, hotel chains and supporters from holding their hands out. The chairman of the Sports and Exhibition Authority, State Senator Wayne Fontana, suggested that it will require a subsidy of more than \$50 million to get the project started. As he noted in a recent article “It just seems to me that nobody wants to step up and use their own money.” As one real estate expert noted, a full service hotel would be very expensive to build and “the economics just don’t justify that cost without a subsidy to bridge the gap.” And isn’t that the basic point? If costs are expected to exceed the benefits and are thus keeping private developers away, why should the taxpayers be asked to absorb that loss?

After all, taxpayers ponied up close to \$400 million to build the center a decade ago and have been contributing millions in operating subsidies since it was completed. Moreover, back when the convention center was projected to cost \$270 million, the Mayor of Pittsburgh assured taxpayers that the new center would create enough room demand that no taxpayer funds would be necessary to get additional hotels built.

Maybe the reason developers are asking for subsidies is that because—for the better part of the last decade and a half—most major developments, from ballparks to department stores to office buildings, have been done with at least some public money. But these

projects have borne little fruit for the public as the City remains in financial oversight and private sector job growth in the City is virtually non-existent other than for education and health care—which have their own taxpayer support.

Is there adequate demand for another major hotel downtown? If the demand for a convention center hotel were strong enough then a hotelier would not require a subsidy and would in fact be willing to bear the risk of entering the Pittsburgh market. According to published data the Downtown hotel occupancy rate has hovered around 65 percent from 2007 through 2010 and is predicted to be about 65.5 percent in 2011. The consistency of this data implies that either the demand has leveled off or the smaller hotels that have been built around the City are sufficient to handle demand increase.

Moreover, it appears Countywide hotel demand is showing little growth. Hotel occupancy tax collections were \$22.7 million in 2007, \$24.6 million in 2008, fell to \$22.3 million in 2009 and rose in 2010 to \$24.6 million. There are two things to note with this data. First, it is Countywide and we do not have an updated hotel room count for the County. Second, the hotel tax collection is not a perfect measure of room nights used since the tax is based on the price of the rooms and can rise or fall with price changes. Nonetheless, the data do provide enough information to suggest that room night demand is growing slowly, if at all, and that is a key factor in any decision to build a large hotel.

To round out the analysis will require detailed information on room nights used in Downtown hotels and close-in hotels that are directly related to convention center activity. That can only come from the Center operator and the Downtown hotels. Building a large new hotel near the center could hurt the business of existing hotels that currently depend on convention goers for a significant fraction of their room usage. And that would be especially galling if \$50 million or more tax dollars were to be used to subsidize the construction of a convention center hotel.

Before the talk of subsidy goes any further, it is incumbent on the advocates to share the data on current room night usage attributable to convention goers and on the annual pattern of room night demand. Building a hotel to accommodate a couple of large conventions that creates a glut of rooms for the rest of the year is a non-starter. And the claim that a lot more conventions generating room demand would come has to be more than just a claim. It is not enough to say build it and they will come. Promises and claims are easy. Taxpayers are jaded and skeptical about the promised payoffs from the use of their money on politicians' favorite schemes.

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