SMARInsights

Travel Trends

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The Economics of Hosting the Olympic Games

The costs of hosting the Olympics have skyrocketed, while the economic benefits are far from clear. The 2024 Paris Olympics could be a test of whether reforms to the process have made hosting a better deal.
The Olympics have evolved dramatically since the first modern games were held in 1896. In the second half of the twentieth century, both the costs of hosting and the revenue produced by the spectacle grew rapidly, sparking controversy over the burdens host countries shouldered. A growing number of economists argue that the benefits of hosting the games are at best exaggerated and at worst nonexistent, leaving many host countries with large debts and maintenance liabilities. These analysts suggest that Olympic committees reform the bidding and selection process to incentivize realistic budget planning, increase transparency, and promote sustainable investments that serve the public interest. Still, the International Olympic Committee (IOC) and its supporters contend that hosting can raise a city's global profile and generate economic benefits through tourism and investments in infrastructure.

Recent games have highlighted the ongoing debate over the costs and benefits of hosting such a mega-event. The 2020 Tokyo Olympics continued a decades-long streak of overrunning costs, which rose more than expected after an unprecedented pandemic delay. Now, summer host Paris will likewise face a multibillion-dollar bill. And with other former hosts still struggling with the debts they incurred, some candidate cities for future games have withdrawn their bids or scaled down their plans.

In 1972, Denver became the first and only chosen host city to reject the opportunity to host after voters passed a referendum refusing additional public spending for the games.

Los Angeles was the only city to bid for the 1984 Summer Olympics, allowing it to negotiate exceptionally favorable terms with the IOC. Most importantly, Los Angeles was able to rely almost entirely on existing stadiums and infrastructure rather than promise lavish new facilities to entice the IOC selection committee.

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Photo credit to Michel Euler

2024 Paris Olympics: Impact on Tourism & Beyond

This month, the world's eyes have turned to Paris for what is billed to be the largest event ever organized across France. The 2024 Summer Olympics will provide an important opportunity for the host nation, France, as the events attract tourists from both domestic and overseas markets.

As part of the bid to host the Olympics, an economic impact study was conducted. This study quantified the impact that the 2024 Olympics may generate at up to €10.7 billion and up to 247,000 jobs. Of the €10.7 billion, approximately €1.4-€3.5 billion (13-33%) is attributed to tourism-related economic impact . These figures should be interpreted with caution as much has changed since the 2016 economic impact study, most notably the pandemic and inflation.

IMPACT OF THE OLYMPICS

Leading up to the opening ceremonies, high-frequency data was illuminating the Olympics' actual impact on hotels and tourist activity. Hotel prices were, as expected, priced at a premium for the event and have even further elevated by an increase in the tourist tax. This increase is resulting in tourists paying nearly 200% more tourist tax per night, according to accommodation type. The tax now ranges from a relatively affordable €2.60 to €14.95 for luxury accommodation per night. The average hotel prices among three to five-star hotels rose 41-64% above the yearly average during the event. The expected hotel occupancy rates were slow to increase at the start of 2024, likely due to the inflated prices.

But the latest data from STR shows occupancy rates are up both in Paris and across the Île-de-France region as of the end of June.

The slower-than-expected initial uptake of rooms likely contributed to some discounting in room rates reported over the last month and highlights affordability as a key concern for those wanting to attend the games. However, the recent pick up in occupancy across the Île-de-France region was an encouraging sign from a value perspective. This indicates that tourism revenue will likely be a bit more widespread extending to other less-visited towns and cities outside of the capital. A key side-effect of this is that tourists will explore destinations they may not have otherwise stayed at and will encourage future trips outside of Paris.

With benefits, come drawbacks. Closures around the city have reduced traffic flows, thus impacting local businesses who rely on normal, footfall tourist volumes. Additionally, event-related increases in the tourism tax compress travel budgets resulting in less spending at tourist attractions and retail establishments. Increased disruptions and higher costs have deterred travel leading up to the games starting.

STR data shows that Paris hotel bookings are slightly down on the year overall for around a month prior and vendors reported disappointing bookings numbers outside of event-goers.

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That, combined with a sharp jump in television broadcast revenue, made Los Angeles the only city to turn a profit hosting the Olympics, finishing with a $215 million operating surplus.

Los Angeles' success led to a rising number of cities bidding—from two for the 1988 games to twelve for the 2004 games. This allowed the IOC to choose the cities with the most ambitious—and expensive—plans. In addition, as researchers point out, bidding by developing countries more than tripled after 1988. Countries such as China, Brazil, and Russia have been eager to use the games to demonstrate their progress on the world stage. However, these countries invested massive sums to create the necessary infrastructure. Costs spiraled to over $50 billion for the 2014 Winter Games in Sochi, $20 billion for 2016 Summer Games in Rio de Janeiro, and a reported $39 billion for the 2022 Winter Games in Beijing (China said the games cost just $4 billion). These costs have led some cities to withdraw their bids for upcoming games. In 2019, the IOC adopted a process to make bidding less expensive, extending the bidding period and broadening the geographic requirements to allow multiple cities, states, or countries to cohost. But this has not yet translated into more bidders. In 2021, Brisbane, Australia, the 2032 Summer Games' host, became the first city to win an Olympic bid unopposed since Los Angeles did so in 1984.

Cities invest millions of dollars in evaluating, preparing, and submitting a bid to the IOC. The cost of planning, hiring consultants, organizing events, and the necessary travel consistently falls between $50 million and $100 million. Tokyo spent as much as $150 million on its failed 2016 bid, and about half that much for its successful 2020 bid, while Toronto decided it could not afford the $60 million it would have needed for a 2024 bid.

Once a city is chosen to host, it has around a decade to prepare for the influx of athletes and tourists. The Summer Games are far larger, attracting hundreds of thousands of foreign tourists to watch over ten thousand athletes compete in about three hundred events, compared with under three thousand athletes competing in about one hundred events during the Winter Games.

The Olympic and Paralympic Games will return to Los Angeles in the summer of 2028 for the first time since 1984 and the LA28 nonprofit organizing committee are taking the same approach as they did in 1984 versus what other host cities have done over the last four decades. According to Janet Evans, an Olympic medalist in swimming and the chief athlete officer of LA28, the Villages will require no new construction. "We're fitting the Olympics and Paralympics into our city, we're not reshaping our city for the Games," Evans said. "I mean, the Coliseum was built in hopes of securing an Olympic Games, so the tradition is strong (and) rich for our venues, but it's also very exciting to have these grand new, incredible stadiums being built … because we are such a sports town."

While the city doesn't plan to fully transform itself, some real estate developers and business owners are looking to build or upgrade properties. According to Sonnet Hui, general manager and vice president of downtown-based Project Management Advisors Inc., the city is experiencing more upgrades of existing facilities than construction of fresh infrastructure. She said that hotels are looking to renovate guest rooms and public spaces to prepare for an "influx" of guests, and that her firm is seeing increased mixed-use development. "We're seeing things starting to stabilize, there's more interest and projects are starting to restart, but in the last year a lot of projects went on hold because of interest rates," Hui said. She added that regulations such as the United to House Los Angeles 'Mansion Tax' measure have impacted real estate transactions, slowed down forward-thinking plans and led to more "opportunistic development." She added that, while things will likely ramp up in the next year, timing may get tight to finish development in time for the Games. "I think it's going to be a mad rush," Hui said. "All eyes are on Paris right now for the (2024) Olympics and how they roll out their services. Once that Game is over there's going to be a lot more creative thinking as it relates to L.A. and how we prepare for the 2028 Olympics. We have so many commercial assets with high vacancy rates and I'm hoping there's going to be renewed interest in repurposing a lot of the infrastructure and facilities that we have in L.A.". Alan Reay, president of Newport Beach-based Atlas Hospitality Group, said he believes the city has enough hotel rooms to support the Olympics, but agreed that interest rates and market trends are "overpowering" anyone looking too far ahead in the future. Renovations completed now, he said, might require another renovation by 2028. He added that his firm is not seeing many hotels being planned solely for the Olympics, but that hotels that were already being planned may see the event as a benefit. Reay said developers and business owners must look past the Olympics and evaluate the economy as a whole to see if renovations will be worthwhile in the long-term. Doane Liu, executive director of the city's tourism department, agreed with Reay's sentiment that business owners need to ensure that building projects will be beneficial after the Olympics' relatively brief run. He added that, as part of L.A.'s bid to host the Olympics, the city committed to deliver the Games "without building anything." "It's not prudent to make huge investments for a 10-day event … you've got to be able to sustain that after the Olympics leave," The 2028 Games are expected to drive tourism and make an indelible impact on L.A., as the event did back in 1984: the economic impact from the 1984 Games on Southern California totaled $3.3 billion and kicked off a slew of city projects.

J. McBride, N. Berman & M. Manno, Council on Foreign Relations
G. Harmon, Los Angeles Business Journal

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The early-summer lull in arrivals to France and Paris is expected to be temporary as some travelers try to avoid crowds. That said, France is still an attractive destination for various source markets. Tourists who could not afford to visit during the Summer Olympics will likely come at a later date or they may choose to travel while the Paralympic Games are underway at the end of August through the start of September. This is supported by STR data which show that hotel bookings remain elevated on the year out to the middle of September so far.

WHAT DOES THIS MEAN FOR FRANCE AS A WHOLE IN 2024?

The country is set to remain the largest European destination in terms of international arrivals, reaching 101 million this year (up from 98.2 million in 2023) based on the latest forecasts. A stronger relative performance is anticipated for Paris as it enjoys a larger direct impact from the event with international arrivals into Paris rising to 14% above 2019 levels and France just 11%.

The Olympics' impact on spending will also differ between France and Paris—one reason being the higher relative cost of staying in Paris compared to nearby, commutable destinations such as Chartres and Reims.

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