

Real Estate Forefront

Emerging Developments in the NYC Marketplace, #16

If You Build It, They Will Come

An Analysis of the Stunning Growth in New York City's Lodging Industry

May 2011



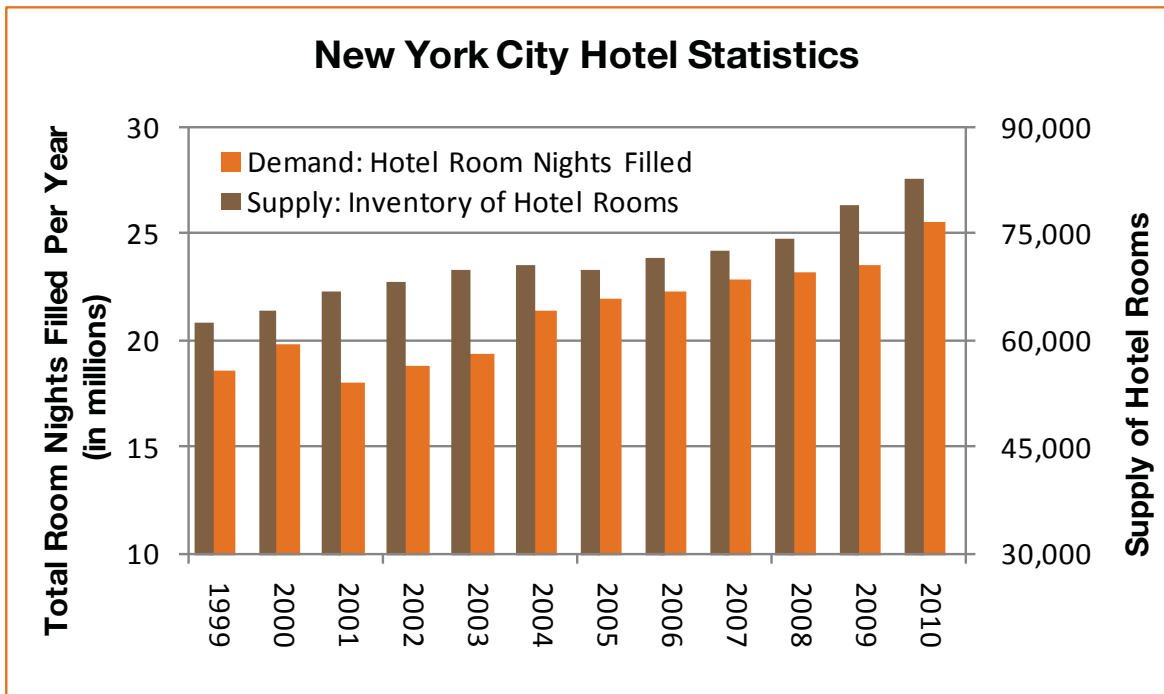
Real estate investment services

While Wall Street was crashing and real estate was imploding from 2007 through 2010, one industry was expanding at a phenomenal rate: New York City’s hospitality industry. Put simply, New York City’s tourism and hotel boom over the last five years is one of the most remarkable success stories in decades mainly because it thrived despite both the national recession and European debt crisis.

Much of the draw to Manhattan and its immediate environs stemmed from not only strong demand but an overwhelming growth in the supply of hotel rooms. This new supply brought the cost of lodging in Manhattan much lower than had these rooms not been added. This study analyzes the tourism industry with details provided on the new hotels and how the supply of hotels likely induced growth in the number of visitors to New York.

Demand and Supply

New York City, and Manhattan in particular, has long been a top tourism destination but New York’s appeal has grown over the last ten years due to both increased demand and supply. The visitor statistics show how both the demand for and supply of hotel rooms has soared since 1999. In fact, the cumulative growth in demand was actually slightly higher than the growth in supply. From 1999 through 2010, the total number of filled hotel rooms climbed 37% while the inventory¹ of hotel rooms climbed 33%.

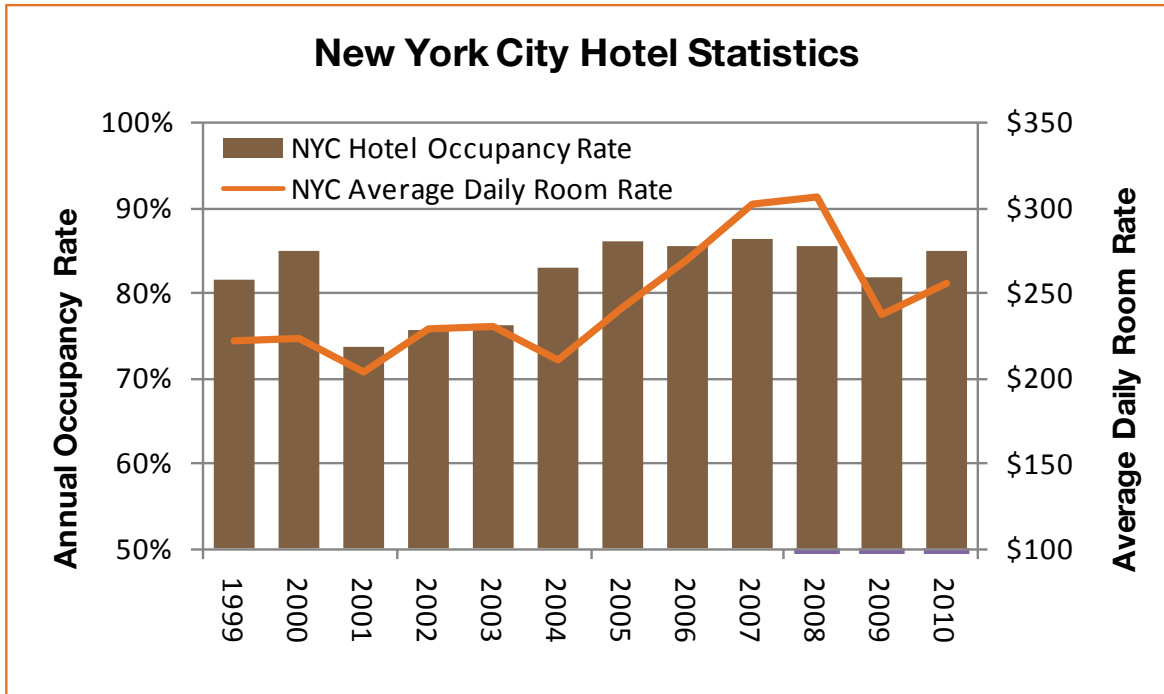


Source: Eastern Consolidated and NYC & Company

In normal economic times, when demand goes up, prices increase along with it unless supply increases at the same rate, in which case, prices stay somewhat the same. Had the last few years been “normal,” the price of hotel rooms would have likely stayed the same over the last few years because of the parallel increase in demand and supply. However, the recession that hit at the end of 2008 was anything but normal.

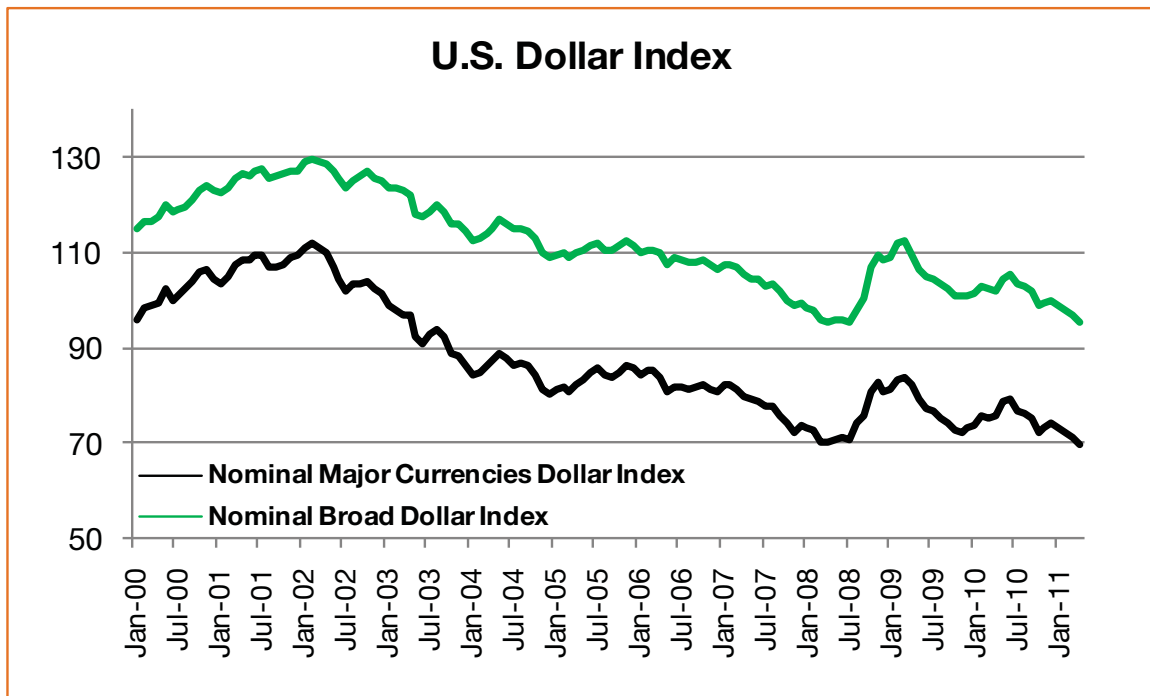
¹ It should be noted that the supply of hotel rooms actually fell in 2004 and 2005 as a number of hotels were converted to residential condominiums. The list of conversions or partial conversions includes The Plaza, the St. Regis, The Stanhope, The Gramercy Park Hotel and the St. Moritz. Approximately 1,200 rooms were converted in 2004 and in 2005, another 200 were converted in 2001 and in 2002.

From 2008 to 2009, the average hotel room rate dropped considerably in New York even though the total number of visitors increased slightly. This room rate decline was likely due to the shift in hotel visitors; that is, fewer business travelers came to New York but more leisure travelers came to the city. Also, the statistics from NYC & Co. show that the number of international visitors to New York City declined in 2009 as well. Indeed the chart below shows that the occupancy rate declined in 2009, but this was due to the growth in supply not the drop in demand. The conclusion one could draw from the slight increase in demand together with the drop in price and increase in supply is that the leisure travelers stayed at lower priced hotels.



Source: NYC & Company

The growth in demand is driven by a number of factors, not the least of which is the fact that many Americans travel to New York City in a tougher economic climate in lieu of a trip abroad; that is, New York’s tourism industry may have actually benefitted from the recent recession. Favorable exchange rates have also helped considerably. As shown in the chart below, the value of the dollar against other currencies has dropped consistently over the last ten years. This not only has attracted international visitors in record numbers, but it has pushed the relative price of traveling to Europe or Asia for Americans much higher. Again, those priced out of a trip abroad will often opt for a visit to New York instead.



Source: The Federal Reserve

The broad index is a weighted average of the foreign exchange values of the U.S. dollar against the currencies of a large group of major U.S. trading partners. The index weights, which change over time, are derived from U.S. export shares and from U.S. and foreign import shares. The major currencies index is a weighted average of the foreign exchange values of the U.S. dollar against a subset of currencies in the broad index that circulate widely outside the country of issue. The weights are derived from those in the broad index.

One other factor rarely mentioned in the tourism economic equation is the role that New York City's exposure on television and movies plays in attracting visitors to New York. These films and programs have included *Sex and The City*, *Gossip Girl* and *Law & Order* to name a few. Estimating the impact of this exposure on visitor statistics is beyond the scope of this study, but it should not be understated as a significant influence on the industry.

While the demand for traveling to New York City is hard to dispute, much of this growth in hotel stays can also be attributed to the overwhelming growth in the supply of hotels over this period. In fact, a thorough review of all the hotels built over the last five years shows that Manhattan alone added 65 new hotels from 2007 through the end of 2010. These hotels added 10,670 hotel rooms to the inventory. Another 13 hotels are due to open this year adding another 2,690 rooms. Beyond that another 26 hotels are actively under construction and will likely open in the next year or more. These will add an additional 4,500 hotel rooms. And still another 14 hotels have started construction but have not filed a construction permit for two years or more.

This growth is not limited to Manhattan. Brooklyn has added 11 new hotels since 2006 and Long Island City in Queens has added 13 new hotels since the early 2000s – nearly all of them were in one zip code: 11101.

Another impetus to the city's tourism industry that also gets overlooked is technology. The Internet drives significant traffic to hotel and booking websites that was non-existent 15 years ago. Moreover, New York City was better known for its select name-brand hotels such as The Plaza, Four Seasons, St. Regis, Ritz-Carlton, Waldorf-Astoria and many others. Yet none of these had an on-line booking website like national chains did starting in the late 1990s.

Prior to 2000, national chain hotels were a rarity in Manhattan. But within the last decade, many hoteliers recognized that travelers to New York City had a difficult time booking a room on-line with so few local hotels with household names. Therefore, many developers built chain hotels to capture this audience. The table below lists the number of new hotels including those that are recognizable national chains (Sheraton, Marriott brands, Holiday Inn, Hyatt, Comfort Inn, Hampton Inn, Ramada, Super 8, Days Inn, etc.).

Manhattan

Timeframe	All New Hotels	All Added Hotel Rooms	New National Chain* Hotels	National Chain Hotel Rooms Added	Percent Of New Hotels That Are Chains
2007 - 2010	65	10,667	23	3,958	37%
2011	13	2,689	1	122	5%
Under Active Construction (1)	26	4,502	15	2,629	58%
Hotels With Stalled Construction (2)	14	2,178	7	1,296	60%

Brooklyn and Long Island City

Timeframe	All New Hotels	All Added Hotel Rooms	New National Chain* Hotels	National Chain Hotel Rooms Added	Percent Of New Hotels That Are Chains
2007 - 2010	24	2,176	17	1,605	74%
2011	3	373	1	131	35%
Under Active Construction (1)	0	0	0	0	
Hotels With Stalled Construction (2)	7	537	2	176	33%

Total**

Timeframe	All New Hotels	All Added Hotel Rooms	New National Chain* Hotels	National Chain Hotel Rooms Added	Percent Of New Hotels That Are Chains
2007 - 2010	89	12,843	40	5,563	43%
2011	16	3,062	2	253	8%
Under Active Construction (1)	26	4,502	15	2,629	58%
Hotels With Stalled Construction (2)	21	2,715	9	1,472	54%

*These chains include recognizable names such as Holiday Inn, Marriott Courtyard, etc. Some hotel brands within umbrella companies that are not household names were not included in this distinction.

**A few hotels were added in the Bronx, Staten Island and near the airports in Queens. These were not included in this study.

(1) "Active" is defined as those whose last construction permit was filed in 2010 or 2011

(2) "Stalled" is defined as those whose last permit was filed in 2007 – 2009.

Source: Eastern Consolidated and NYC & Company

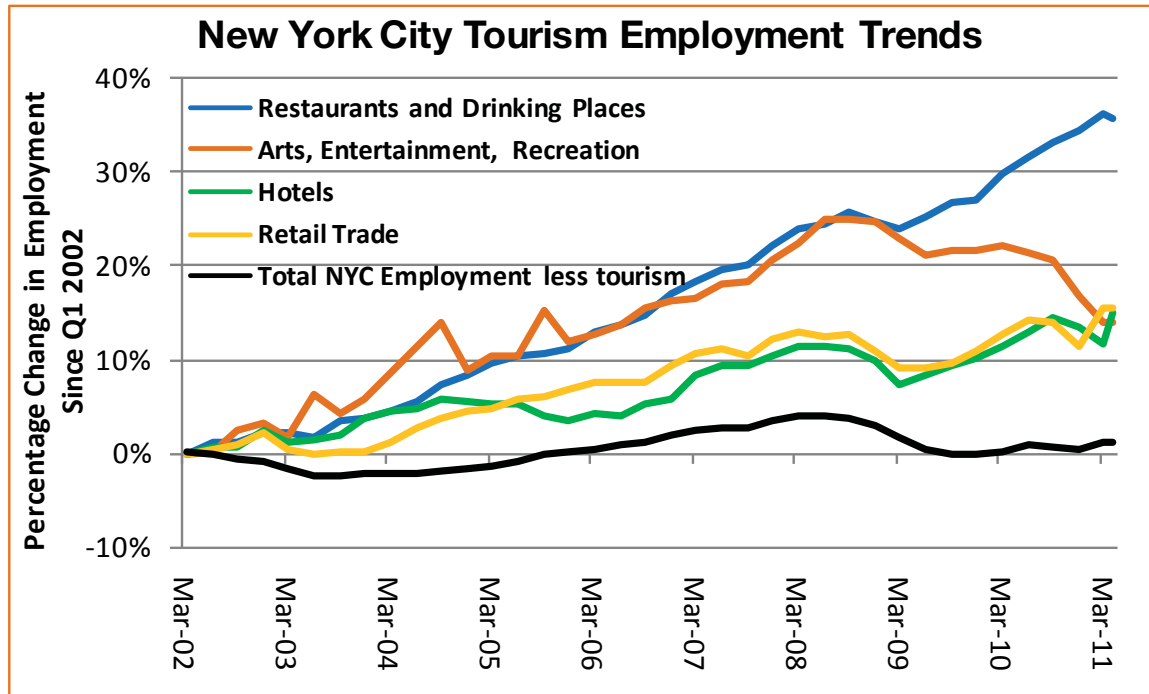
Many of the chain hotels built over the last five years were limited service hotels with few amenities. The room rates for these hotels start at a much lower price than the boutique hotels or full-service hotels. Because of this influx of lower priced hotels, lodging in the city became considerably more affordable to many more people than had been the case prior to the opening of these hotels.

As an illustration, a recent search on a booking website for midweek in June with double occupancy showed prices starting at \$135 per night for a chain hotel in Brooklyn, \$149 for a similar chain in Long Island City and \$191 for a chain in Manhattan. At the upper end, the same room was priced at \$1,000 at the top Midtown hotels.

In short, the opening of these lower-priced national chains combined with the ease of booking from the Internet brought a whole new channel of visitors to New York City that were likely priced out of Manhattan hotels prior to the hotel boom.

Employment Trends

The clearest indicator of tourism’s strength is employment trends in hotels, restaurants, retail and arts and entertainment. The chart below shows how tourism is driving New York City’s economy.



Source: Eastern Consolidated and New York State Department of Labor

Since bottoming at the end of 2001, restaurant employment has grown more than 35%. Retail, arts and entertainment and hotel employment have grown by 15%. Removing these four industries from the total employment base yields a net employment growth rate for New York City of just 1%. In other words, the employment gains in tourism since 2002 (111,800 jobs or 22%) offset all of the losses found in manufacturing (68,100 jobs / 48%), publishing (11,100 / 20%), construction (12,000 / 10%) and financial services (14,900 jobs / 4%).

Yet the 15% growth rate in hotel employment seems significantly under-reported. If the number of hotel rooms grew by one-third, the number of hotel employees most likely grew by more than 15%. Capturing growth in new business employment is difficult for the Labor Department to track, but it is safe to assume that this employment trend is likely much higher.

Hotel Sales

A number of real estate investors have taken note of the exploding tourism industry and have bought hotels, both old and new. The table below lists many of these sales. As shown, the price per room of these hotel sales varied significantly. The differences in price per room had as much to do with the age and condition of the property as it did with the type of hotel.

Selected Manhattan Hotel Sales

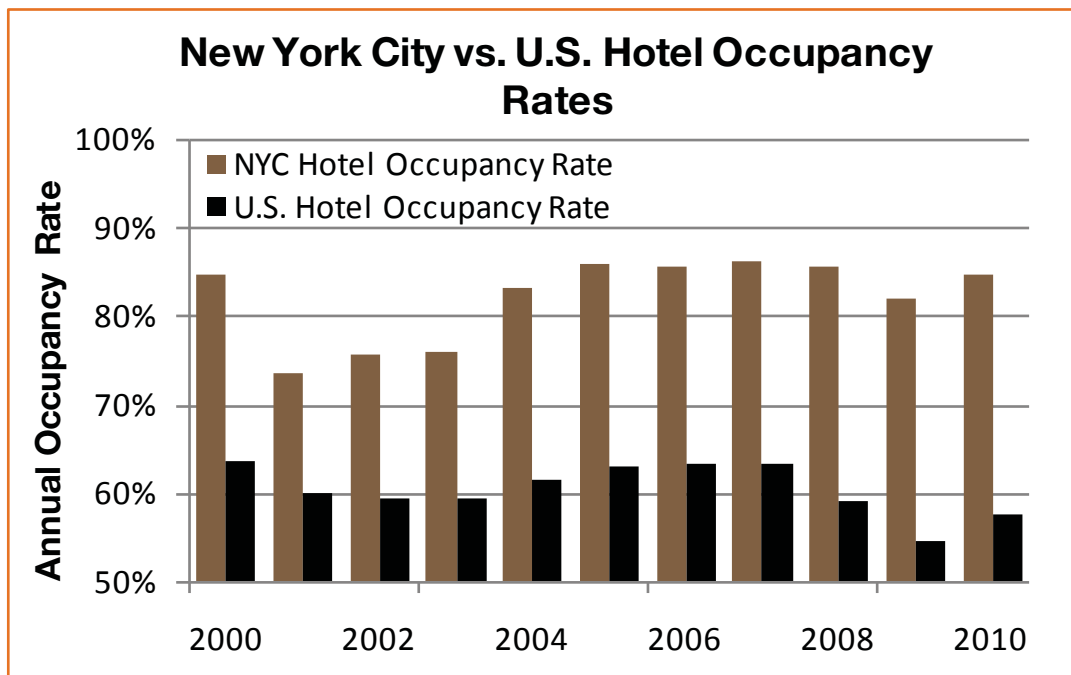
Hotel Name	Address	Sale Date	Rooms	Sales Price	Price Per Room
Best Western President Hotel	Times Square	February-09	334	\$142,000,000	\$425,150
Hilton Garden Inn New York	Garment District	February-09	298	\$121,200,000	\$406,711
Fairfield Inn	Times Square	April-09	244	\$99,500,000	\$407,787
Williams Club	Midtown	June-09	28	\$21,000,000	\$750,000
Holiday Inn Express	Times Square	February-10	210	\$56,500,000	\$269,048
Candlewood Suites	Times Square	February-10	188	\$51,000,000	\$271,277
Hampton Inn	Times Square	February-10	184	\$56,000,000	\$304,348
W New York Court	Midtown	February-10	198	\$29,010,000	\$146,515
W New York Tuscan	Midtown	February-10	122	\$48,350,000	\$396,311
The Helmsley Carlton	Midtown	July-10	161	\$163,977,973	\$1,018,497
W Union Square	Union Square	September-10	270	\$185,250,000	\$686,111
Hilton Garden Inn	Chelsea	September-10	169	\$68,400,000	\$404,734
Fashion 26	Chelsea	September-10	280	\$121,800,000	\$435,000
The Roger Williams Hotel	Midtown	October-10	187	\$90,000,000	\$481,283
The Milford Plaza	Times Square	November-10	1296	\$200,000,000	\$154,321
Doubletree Lexington	Midtown	December-10	760	\$331,630,000	\$436,355
Cooper Square Hotel	Greenwich Village	December-10	148	\$70,921,875	\$479,202
Holiday Inn Express	Financial District	March-11	112	\$36,176,000	\$323,000
New York Helmsley Hotel	Midtown	March-11	775	\$313,500,000	\$404,516

Source: Eastern Consolidated, CoStar, Property Shark and NYC Department of Finance

Some former hotels, such as the Box Tree Inn at 250 East 49th Street, were later sold as development sites and re-built into condo buildings. Other old buildings that were sold and then converted or re-developed into hotels include the new 205,000-square-foot, 184-room Andaz Hyatt Fifth Avenue at 485 Fifth Avenue on the corner of 41st Street that opened at the end of 2010. The developers, Hyatt Hotel Group, had bought the former office building in September 2006 and then converted it into a hotel.

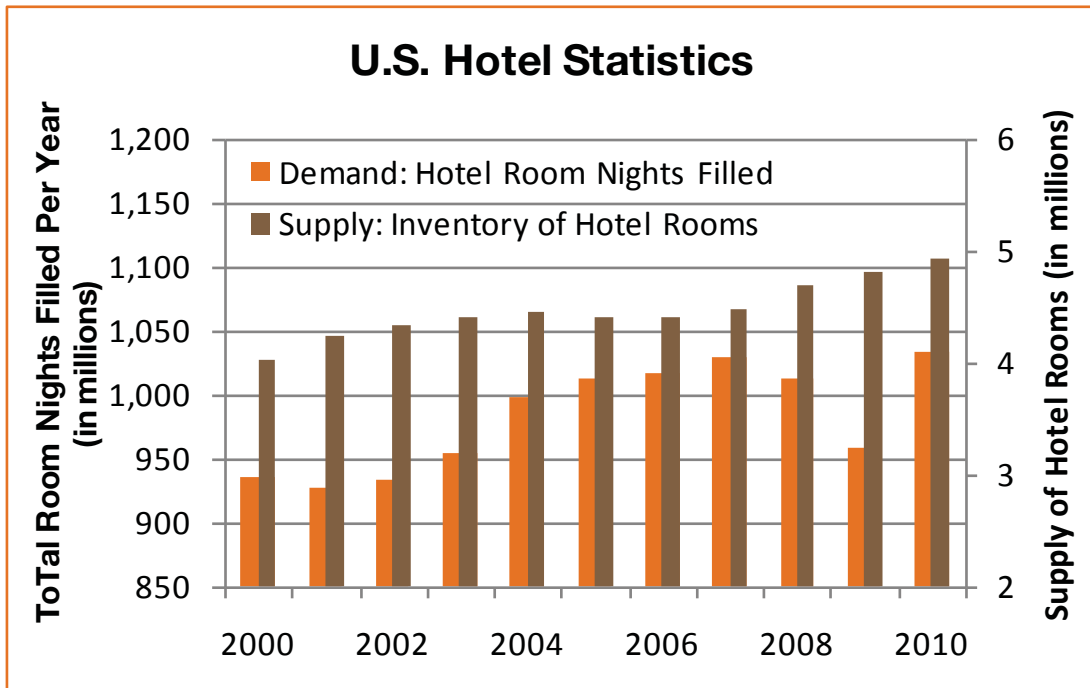
Conclusion

New York City’s lodging industry has soared over the last decade as more and more travelers have been drawn to the city and can reasonably afford to stay overnight. To put New York City’s lodging industry in perspective, consider how much higher New York City’s hotel occupancy rates have been compared to the U.S. New York City’s occupancy rate has averaged 82% over the last decade while the U.S. occupancy rate has averaged 60% during this period.



Source: NYC & Company

The U.S. has enjoyed an expansion in hotels, but not on the same scale as New York City: the U.S. added nearly 900,000 hotel rooms from 2000 to 2010, or 22% compared to New York City's 33% growth in supply.



Source: NYC & Company

Despite the growth in hotels, the market is poised to continue to expand over the next few years. The unveiling of the 9/11 Memorial in the upcoming 10-year anniversary of the tragedy will likely bring new travelers to the City. The projected new hotels in 2011 and beyond will likely keep a lid on room rates, but given how many travelers came to New York during and after the financial crisis, it is reasonable to assume that many will continue to do so in the coming years unless the value of the dollar were to climb considerably.



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