

NYC Hotel Market Analysis

Existing Conditions and 15-Year Outlook

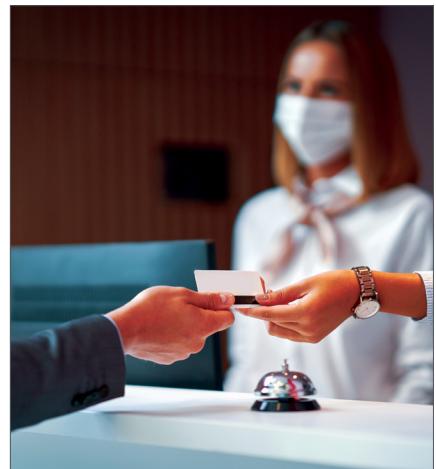
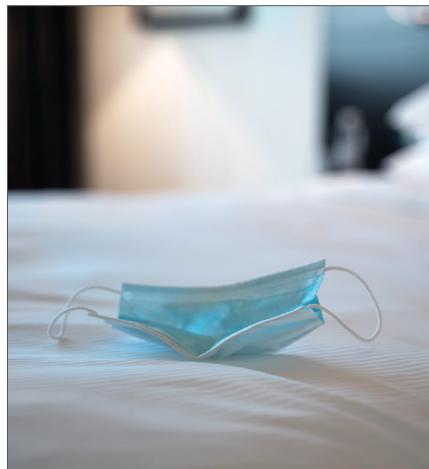
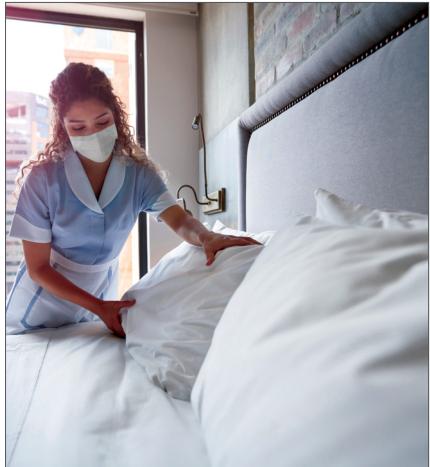


Table of Contents

Prepared for **New York City Department of City Planning** by

- **BJH Advisors** (bjhadvisors.com)
- **BAE Urban Economics** (bae1.com)

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**New York City Department of City Planning
CENTRAL OFFICE**

120 Broadway
31st Floor
New York, NY 10271

Tel. 1-212-720-3300
Fax. 1-212-720-3488

<http://www.New York City.gov/planning>

EXECUTIVE SUMMARY	1
INTRODUCTION	1
COVID Pandemic Shutdown	1
Purpose of Study	2
Methodology	3
Data Sources	3
Approach	5
Key Definitions	6
DEFINING THE NYC LODGING MARKET	8
Lodging Typologies	8
Existing Clientele and Customer Base	13
Hotel Development, Ownership and Management	15
Geographies: Defining NYC Borough Markets and Submarkets	24
Land Use Controls and New Regulation	25
NYC AND SUB-AREA HOTEL MARKET EXISTING CONDITIONS	28
Impact of COVID-19 on the New York City Hotel Market	28
HOTEL CLOSURES: THE STATE OF THE NYC HOTEL MARKET IN OCTOBER 2020	34
ROLE OF THE SHORT-TERM RENTAL MARKET	60
ECONOMIC IMPACTS, 2019	63
RECOVERY PROJECTIONS	65
NEW YORK CITY HOTEL MARKET OUTLOOK	72
New York City Projected Hotel Demand	72
Outlook and Future Trends	75
APPENDIX I: LITERATURE REVIEW	87
APPENDIX II: HOTEL ASSET CLASSES	89
APPENDIX III: HOTEL SUBMARKET MAP	91

Table of Tables

TABLE 1: PERMANENT HOTEL CLOSURES IN NEW YORK CITY CONFIRMED BY HANYC, OCTOBER 2020	35
TABLE 2: PERMANENT HOTEL CLOSURES REPORTED IN THE PRESS BUT NOT CONFIRMED BY HANYC, OCTOBER 2020	36
TABLE 3: BUSINESS AND LEISURE TRAVEL, NYC AND U.S.	73
TABLE 4: EXISTING HOTEL DEMAND, SEPTEMBER 2020	74
TABLE 5: PRE-COVID NYC HOTEL DEMAND, JANUARY 2020	75
TABLE 6: LEISURE HOTEL DEMAND PROJECTIONS BY BOROUGH, 2020–2035	77
TABLE 7: BUSINESS HOTEL DEMAND PROJECTIONS BY BOROUGH, 2020–2035	78
TABLE 8: PROJECTED ROOM DEMAND BY BOROUGH AND TRAVEL TYPE, 2025–2035	79
TABLE 9: ROOM CLOSURES AND REOPENINGS, FALL 2020	80
TABLE 10: GROSS UNMET ROOM DEMAND BY BOROUGH, TEMPORARILY CLOSED ROOMS REOPEN, 2025–2035	81
TABLE 11: GROSS UNMET ROOM DEMAND BY BOROUGH, TEMPORARILY CLOSED ROOMS PERMANENTLY CLOSE, 2025–2035	82
TABLE 12: RESIDUAL ROOM DEMAND BY BOROUGH, 2020–2035	84
TABLE 13: ADJUSTED ROOM DEMAND BY BOROUGH, 2020–2035	85

Table of Figures

FIGURE ES-1: NYC HOTEL ROOM SUPPLY AND DEMAND, 2020–2035, TEMPORARILY CLOSED ROOMS REOPEN	II
FIGURE ES-2: NYC HOTEL ROOM SUPPLY AND DEMAND, 2020–2035, TEMPORARILY CLOSED ROOMS BECOME PERMANENTLY CLOSED	II
FIGURE 1: NET IMPACT OF COVID-19 ON NEW YORK CITY HOTELS AND ROOMS, JANUARY–SEPTEMBER 2020	29
FIGURE 2: GEOGRAPHIC DISTRIBUTION OF HOTEL ROOMS IN NEW YORK CITY BY BOROUGH, JANUARY–SEPTEMBER 2020	30

FIGURE 3: DISTRIBUTION OF HOTEL ROOMS IN NEW YORK CITY BY CLASSIFICATION, JANUARY–SEPTEMBER 2020	31
FIGURE 4: PERCENTAGE OF ROOMS CLOSED BY CLASSIFICATION, NEW YORK CITY, JANUARY–SEPTEMBER 2020	32
FIGURE 5: NEW YORK CITY REVPAR TRENDS, JANUARY 2018–SEPTEMBER 2020	33
FIGURE 6: NEW YORK CITY REVPAR TRENDS, JANUARY 2018–SEPTEMBER 2020	34
FIGURE 7: PERCENTAGE CHANGE IN ROOM CLASS TYPE BY BOROUGH, JANUARY–SEPTEMBER 2020	38
FIGURE 8: MANHATTAN HOTEL MARKET REVPAR TRENDS, JANUARY 2018–SEPTEMBER 2020	40
FIGURE 9: UPPER EAST SIDE/UPPER WEST SIDE/HARLEM/UPTOWN HOTEL MARKET REVPAR TRENDS, JANUARY 201–SEPTEMBER 2020	41
FIGURE 10: MIDTOWN WEST/TIMES SQUARE HOTEL MARKET REVPAR TRENDS, JANUARY 2018–SEPTEMBER 2020	43
FIGURE 11: MIDTOWN EAST HOTEL MARKET REVPAR TRENDS, JANUARY 2018–SEPTEMBER 2020	45
FIGURE 12: MIDTOWN SOUTH HOTEL MARKET TRENDS, JANUARY 2018 – SEPTEMBER 2020	47
FIGURE 13: SOHO/UNION SQUARE/VILLAGE/TRIBECA/LOWER EAST SIDE HOTEL MARKET TRENDS, JANUARY 2018–SEPTEMBER 2020	49
FIGURE 14: FINANCIAL DISTRICT HOTEL MARKET TRENDS, JANUARY 2018–SEPTEMBER 2020	50
FIGURE 15: QUEENS HOTEL MARKET TRENDS, JANUARY 2018–SEPTEMBER 2020	52
FIGURE 16: BROOKLYN HOTEL MARKET TRENDS, JANUARY 2018–SEPTEMBER 2020	55
FIGURE 17: BRONX HOTEL MARKET TRENDS, JANUARY 2018–SEPTEMBER 2020	58
FIGURE 18: STATEN ISLAND HOTEL MARKET TRENDS, JANUARY 2018 – SEPTEMBER 2020	60
FIGURE 19: NEW YORK CITY AIRBNB LISTINGS, JANUARY 2020 – SEPTEMBER 2020	62
FIGURE 20: DIRECT SPENDING, LEISURE VS. BUSINESS AND DOMESTIC VS. INTERNATIONAL TRAVELERS, 2019	63
FIGURE 21: VISITOR SPENDING BY CATEGORY (IN BILLIONS), 2019	64
FIGURE 22: NYC HOTEL ROOM SUPPLY AND DEMAND, 2020–2035, TEMPORARILY CLOSED ROOMS REOPEN	82
FIGURE 23: NYC HOTEL ROOM SUPPLY AND DEMAND, 2020–2035, TEMPORARILY CLOSED ROOMS BECOME PERMANENTLY CLOSED	83

Executive Summary

This report presents an overview of the hotel industry and accommodation market in New York City, pre-COVID and post-COVID, as well as current and projected future conditions. It is intended to provide guidance to the New York City Department of Planning (DCP) regarding the potential impacts of imposing a Special Permit for hotel development throughout New York City. It analyzes trends related to hotel development patterns and typologies, demand drivers, occupancy and revenue and projected development pipeline for hotel construction and delivery, with particular focus on the current and projected impacts of COVID-19 on the hotel industry.

Key Findings

New York City's robust visitor numbers before the COVID-19 pandemic generated strong demand for hotel rooms, reflected by recent average occupancy rates that were among the highest of any urban market in the United States. With the pandemic, the hotel industry throughout the U.S. suffered and the New York City hotel market, as a result of its characteristics and specific dependencies to international and business travel and the broader tourism infrastructure (e.g., Broadway), experienced an even greater drop in demand relative to national levels. Several industry analysts project that the New York City tourism sector and related hotel demand will not recover until 2025. While a return to pre-COVID levels of tourism by 2025 is projected, it is dependent on a variety of factors that make predicting a recovery year challenging.

The supply side of the hotel market has also seen significant negative impacts. Because the market has seen nearly 40,000 rooms go offline since the COVID pandemic began, the analysis evaluates a potential range of hotel supply to meet future demand bookended by two scenarios. Scenario 1 assumes all confirmed closed hotels remain out of the hotel inventory, but all temporarily closed hotels return by 2025. Scenario 2 assumes all hotels that were closed either permanently or temporarily as of Fall 2020 permanently close.¹

As seen in the following figures, despite permanent hotel room reductions, either resulting from immediate closures in the wake of the pandemic or other factors detailed in this report and given a projected 2025 return to pre-COVID growth rates, the analysis finds that by 2035 there will be net residual demand (total future demand minus today's existing and permitted supply) for between 21,500 additional hotel rooms (Scenario 1) and 52,400 additional hotel rooms (Scenario 2) citywide.

It is important to note that net residual demand may not be met if a significant portion of the currently closed hotel rooms in the City are unable to reopen and/or if supply is unable to grow during and after recovery. The timing of recovery will require getting to positive public health outcomes, as well as other market factors supporting new hotel development, which are subject to many variables. We have noted these risk factors in the analysis.

¹As presented in Section 3, as of Fall 2020 there were 3,500 rooms permanently close and another 34,300 rooms temporarily closed. Temporarily closed rooms include those that have not issued WARN notices to the City and were not otherwise confirmed permanently closed by industry stakeholders.

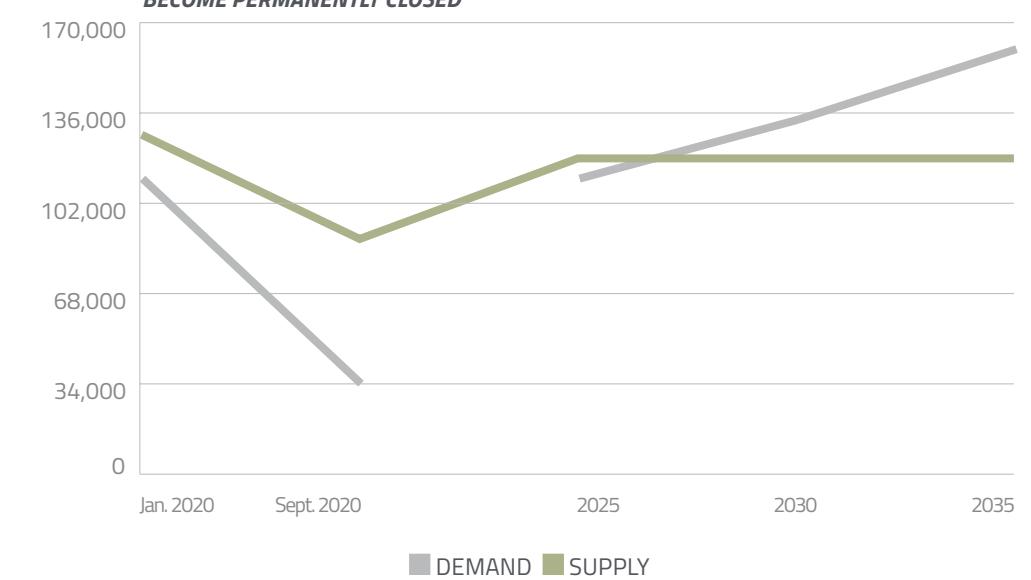
FIGURE ES-1: NYC HOTEL ROOM SUPPLY AND DEMAND, 2020-2035, TEMPORARILY CLOSED ROOMS REOPEN



Scenario 1: Assume all temporarily closed hotel rooms reopen and pipeline rooms delivered by 2025. Assume demand recovery in 2025 and historic 3.7% annual growth rate in demand for 2025–2035.

SOURCES: STR; HANYC; BJH; BAE; all 2020.

FIGURE ES-2: NYC HOTEL ROOM SUPPLY AND DEMAND, 2020-2035, TEMPORARILY CLOSED ROOMS BECOME PERMANENTLY CLOSED



Scenario 2: Assume no temporarily closed hotel rooms reopen and pipeline rooms delivered by 2025. Assume demand recovery in 2025 and historic 3.7% annual growth rate in demand for 2025–2035.

SOURCES: STR; HANYC; BJH; BAE; all 2020.

Methodology

A general New York City market overview is followed by a more in-depth analysis of hotel submarkets within New York City, which include each borough as well as intra-borough submarkets. The final section of the report provides an outlook for hotel development based on an analysis of supply and demand recovery projections, as well as forecasts as to how projected future New York City hotel room supply would be able to meet projected future demand, absent any land use restrictions on future hotel development in the city. Demand drivers include visitor projections; supply drivers include estimation of the number of hotels that will permanently close due to the pandemic and how many hotel projects are in the development pipeline.

In preparing this report, the Consultant Team relied on both primary and secondary data sources, including stakeholder interviews, proprietary data from Smith Travel Research (STR) regarding the New York City lodging industry, and a literature review that included market reports and periodicals.

New York City Hotel Supply and Trends

According to Smith Travel Research (STR), a third-party data vendor that provides hotel industry data, as of January 2020, there were 127,810 hotel rooms in over 705 hotel properties in the five boroughs of New York City. During the five years between 2015 and 2019, New York City saw a significant growth of hotel supply, with a 40 percent increase in rooms coming on-line over the previous five-year period. Another feature of this period was hotel supply growing across all five boroughs and not just Manhattan.

In March 2020, New York City's tourism sector, along with much of the rest of the city's economy, came to a sudden halt as the global coronavirus pandemic spread widely in the city. Hotels shuttered, some temporarily and some permanently, as travel to the city abruptly ceased. As of October 2020, over 37,000 hotel rooms in the city remained closed, over ten percent of them closed permanently.

Projected Pipeline of Hotels

According to data from the New York City Department of Buildings that was provided to the Consultant Team by the DCP, there are currently 30,300 pre-construction hotel rooms in the development pipeline. These are considered active development projects that have filed an application, have had an application approved, or have been permitted for construction.²

² Hotels permitted for construction include those that have begun construction but have not achieved substantial completion (80 percent complete and/or achieved certificate of occupancy). City records for this period show no hotels that have achieved substantial completion but are not yet open.

Hotel Demand Drivers

The hotel industry in New York City depends on demand from both domestic United States-based travelers and overseas visitors. As New York City is a larger international destination than most other markets in the United States, New York City hotels have historically been more dependent on international visitors, who tend to stay longer and spend more. In 2019, New York City drew a record 66.6 million visitors, a 2.4 percent increase over 2018 and reflective of an uninterrupted 12-year run of consecutive increases in visitor counts. The indefinite travel ban imposed by the U.S. government on travelers from many countries due to the pandemic means that international travel, a vital component of the city's hotel demand, has virtually disappeared. The closure of attractions, entertainment and restaurants in the city has served as a discouragement for domestic travelers as well. By the end of 2020, New York City is expected to see only 22.2 million visitors, a 67 percent decline from 2019.

There are two major hotel demand drivers in New York City and the nation as a whole - leisure travel, which includes both tourism and visitation of family and friends, and business travel, which includes conference and group travel as well as individual business travel. According to both NYC & Company and U.S. Travel Association data, leisure travel in New York City historically comprises approximately 79 percent of room demand while business travel has historically made up the remainder, or approximately 21 percent. Both leisure and business travel to New York City are currently severely diminished.

Occupancy and Room Rates

New York City's robust visitor numbers before the pandemic had led to a strong demand for hotel rooms, reflected by annual average occupancy rates that were among the highest of any urban market in the United States, ranging from 85-90 percent.

The pandemic's impacts have drastically decreased hotel occupancy. To date, the NYC hotel market has seen nearly 40,000 rooms go offline, including rooms that have gone offline since September 2020. Of this total, 3,484 are permanently closed and not expected to return to the market, while another 3,390 that were temporarily closed in Fall 2020 have already reopened in that they are accepting reservations for 2021. This leaves a net total of 34,288 temporarily closed rooms that could come back online as demand recovers.

However, some industry stakeholders interviewed indicate that up to 25 percent of rooms may not reopen at all. While the summer of 2020 saw some tourism return to New York City, hotel occupancy only reached 30 percent, with two-thirds of that occupancy rate is attributable to government contracts to accommodate homeless residents and healthcare workers at below-market rates. Room rates are also at historically low levels.

Recovery Projections

The hotel industry has been among the hardest hit sectors by the pandemic and New York City hotels have experienced greater negative impacts than hotels across the United States as a whole. Several industry analysts and independent economic and real estate analyses project that the US hotel sector will likely recover by 2023; yet, because of its characteristics and specific dependencies, New York City's hotel sector will not recover until 2025.

While 2025 is the projected year of recovery, a return to pre-COVID levels of tourism depends on a variety of factors, including confidence of travelers and positive public health outcomes in the coming years. Within this recovery, it is estimated that leisure travel will return before business travel and domestic travel will return before international travel. All projections assume no recovery until after a vaccine is widely available. Because of this factor in addition to consumer confidence, it is assumed that recovery will be slower in the period 2021–2023 and will then accelerate before stabilizing to pre-COVID levels in 2025.

New York City Hotel Market Outlook

Using historic pre-COVID visitation projection data, along with national tourism demand trends and New York City hotel development pipeline information from the Department of Buildings, the report's market outlook analysis evaluates projected hotel room demand and supply growth for New York City through 2035. As noted above, based on data and recovery projections for the New York City hotel market, this analysis assumes that the city's hotel market will have fully recovered, reaching pre-COVID January 2020 demand levels, in 2025.

Assuming a range of hotel room supply reductions, those resulting from immediate observed closures in the wake of the pandemic, and other factors detailed in this report, the analysis shows that by 2035, there will be residual, or net, demand for between 21,500 and 52,400 additional hotel rooms citywide that may not be met unless hotel owners are able to reopen hotel rooms and/or grow supply via new development. Some additional new hotel closures could yet occur, as government contracts for temporary housing expire or demand for short-term, COVID related stays dissipates. These potential closures are not possible to anticipate. However, the ranges presented account for a variety of likely permanent closure possibilities, which could include new, additional closures.

It should be noted that some of the future hotel rooms identified as part of the development pipeline may end up being delayed or unbuilt for a variety of reasons. Hotels are the most difficult real estate project to acquire financing. If some of the hotels do not proceed or become hybrid residential/hotel projects in order to attract funding, the unmet demand could be substantially higher than projected here. Additionally, it is unknown how deep or long of a recession the global, national, and NYC economies will face due to COVID-19.

If tourists delay travel because of economic losses or declining income, some pipeline hotels could be delayed or not built. Further, current land use restrictions specific to new hotel development that are now being considered by the DCP, may also impede future hotel supply in the city.

Finally, in the short- and mid-terms, the difficulty of hotel projects to obtain financing or approval may stifle the return of travel demand. Tourists who are willing and able to travel to New York City may find that there are not enough rooms available, as supply increases lag demand while banks become more pessimistic on the return of the tourism and lodging markets.

Introduction

As of January 2020, New York City remained one of the world's most popular travel destinations, the third largest hotel market in the United States after Las Vegas and Orlando, and the largest hotel supply pipeline in the nation according to *Lodging Magazine*.¹ In 2019, New York City drew a record 66.6 million visitors, a 2.4 percent increase over 2018 and reflective of an uninterrupted 12-year run of consecutive increases in visitor counts. 28 million of those visitors stayed in hotels in the city, accounting for over \$13 billion in direct and indirect business sales.

2019 also saw the continuation of an unprecedented boom in hotel development in New York City that had begun in 2007 and has added over 54,100 hotel rooms since that year, a 73 percent increase in supply. This growth was remarkable for its endurance as the five years between 2015 and 2019 saw over 21,000 hotel rooms come online in the city, a 40 percent increase over the number of rooms that came online during the previous five-year period.

As a global destination, New York City continued to grow in popularity over the past five years and, notably, this popularity now expanded beyond Manhattan to the other boroughs. Reflecting this trend, another feature of this period of hotel growth has been its occurrence across all five boroughs. Since 2010, Queens and Brooklyn have both seen hotel room count increases of over 50 percent, with similar growth rates in the smaller markets of the Bronx and Staten Island. Also noteworthy has been the expansion of hotel development into areas of the city that had never supported substantial hotel development before, including light manufacturing districts in every borough.

The City's special permit requirement for new hotel development in M1 zoning districts, instituted at the end of 2018, has halted new hotel development in these areas that wasn't grandfathered by the text amendment. However, 2019 saw almost 6,000 new hotel rooms added to the city's supply with almost 20 percent of the city's hotel room inventory outside Manhattan. Despite this new supply, hotel occupancy rates in New York City remained among the highest in the nation at over 88 percent.

COVID Pandemic Shutdown

In March 2020, New York City's tourism sector, along with much of the rest of the city's economy, came to a sudden halt as the global coronavirus pandemic reached the Tri-State region and spread widely in the city. Hotels shuttered, some temporarily and some permanently, as both leisure and business travel to the city abruptly and effectively ceased. The closure of Broadway theaters, restaurants and other attractions in New York City, in addition to the indefinite halt to a majority of international travel to the United States meant that a vital component of the city's hotel demand completely disappeared. In 2018, international visitors accounted for over 37 percent of all hotel guests in the city, an all-time record, with Canada, Europe, Brazil and China accounting for the majority of these travelers.² With no definitive timetable for relaxation of international travel restrictions, recovery of the hotel sector remains far off.

¹ "Five U.S. Markets with the Largest Hotel Pipelines," *Lodging Magazine*, August 5, 2019.

² NYC & Company, *Hotel Visitors: Visitor Market Profile*, August. 2019.

While the summer of 2020 saw some tourism return to New York City, hotel occupancy only reached 30 percent. Two-thirds of that occupancy rate was attributable to government contracts to accommodate homeless residents and healthcare workers at below-market rates, making the impact on hotels even more severe. By the end of 2020, New York City is expected to see only 22.2 million visitors, a 67 percent decline from 2019, with a significant portion being day-trippers from the Tri-State region. As of October 2020, over 37,000 hotel rooms in the city remained closed, over ten percent of them permanently.

Current forecasts estimate the recovery of the New York City tourism sector to 2019 levels will not take place until the end of 2024 or the beginning of 2025. NYC & Company estimates that full recovery of the international visitors' segment may take longer. A variety of factors, including positive public health outcomes and consumer confidence makes projecting a recovery year challenging. With the schedule for recovery of the sector uncertain, some hotel owners are actively looking to convert their hotels to other uses. When tourism and conventions do return to the city, however, it will be necessary that the city have sufficient hotel rooms to accommodate them.

Purpose of Study

The New York City Department of City Planning (DCP) is studying the introduction of a Special Permit for all new hotel development citywide. The restriction under study may have potential long-term impacts on the tourism industry, an important economic driver in New York City that generated \$71 billion in economic activity and \$7 billion in local tax revenue in 2019. The proposed action could also have potential effects on industry sectors beyond hotels that are reliant on tourism, including food and beverage, retail, entertainment, and transportation. Accordingly, a detailed study of the hotel industry in New York City - including recent pre-COVID development trends, the impacts of the COVID pandemic, and forecasts for recovery and future demand—is warranted.

This report provides an overview of the pre-COVID hotel industry in New York City over the last decade and trends related to hotel development patterns and typologies, factors that drive hotel demand, occupancy and revenue and projected development pipeline, including analyses of pre-COVID hotel markets in each borough and specific submarkets. Additionally, the report includes economic impact analysis of the hotel industry in the city.

The report then examines the impact of the COVID pandemic on the city's hotel industry and current conditions as of the fall of 2020, including hotel closures and trends in closures, trends in occupancy and room rates, the role of the short-term rental market and economic impacts. The report also includes a detailed New York City hotel market and supply profile as of October 2020.

Finally, the report provides recovery projections for leisure, business, domestic and international travel and uses these projections to inform a post-recovery New York City hotel market outlook that assumes no special permit restrictions. This outlook includes projected hotel demand drivers for leisure and business travel, existing room demand and future hotel demand projections for leisure and business travel, projected room demand by borough and travel type, and residual room demand.

Methodology

In analyzing current market trends and outlook related to projected hotel development patterns in New York City and projected forecasts for post-COVID recovery of the city's tourism and hotel sectors, this report relies on both primary and secondary data sources. Primary data sources used by the Consultant Team include interviews with hotel developers, tourism industry representatives and local economic development professionals, in addition to NYC & Company. The principal secondary data source used was STR's proprietary database on New York City hotel inventory, supplemented by data from NYC & Company and the City of New York. The Consultant Team also reviewed numerous reports and media articles related to the New York City and national hotel industry and economic forecasts for the recovery of the New York City, national and global tourism and hotel sectors. A detailed description of major data sources follows.

Data Sources

Primary Data

The Consultant Team collected original primary data through an interview process that extended over several weeks in the fall of 2020. In total, the Consultant Team undertook interviews with hotel developers, local economic development leaders, NYC & Company staff, real estate professionals, leadership from the Hotel Association of New York, and others who are able to speak knowledgeably about hotel development in New York City, trends and outlook, demand drivers, supply, and impacts.

Secondary Data

The Consultant Team used secondary data sources for specific analyses, which are cited throughout the report. The main secondary data sources used in the report are proprietary datasets from STR, which the Consultant Team analyzed in depth at various geographic and hotel typology levels, in addition to the impact that the COVID pandemic had on temporary and permanent hotel closures beginning in March of 2020. The STR datasets are:

- **STR Hotel Inventory for New York City for the 2009—2019 Period:** This dataset describes historic and existing hotel inventory as well as pipeline hotel developments in New York City for the requested period. The Consultant Team purchased an updated version of this dataset directly from STR in January 2020.
- **STR Hotel Inventory for New York for 2020:** The Consultant Team purchased an updated version of the Hotel Inventory for New York City from STR in October 2020 in order to document changes to hotel inventory since the onset of the COVID pandemic. STR inventory notes those hotels that have ceased reporting occupancy data but do not explicitly confirm if a hotel has permanently closed.

- **STR Trends Data:** This dataset compiles and averages hotel operating statements from participating hotels in order to provide aggregated occupancy rates ADR (average daily rates), RevPAR (revenue per available room) and revenue year-over-year with percentage changes. The Consultant Team originally purchased this dataset directly from STR in January 2020, which gave a ten-year trends overview through the end of 2019. The Consultant Team then purchased an updated dataset in October 2020 in order to review the impacts that the COVID pandemic had on hotel occupancy, rates and revenue in New York City.

The Consultant Team used additional secondary data sources, including:

- **New York City Department of Building (DOB) Data:** The Consultant Team reviewed DOB permit data provided by the New York City Department of City Planning that showed building permits or hotel projects under construction and in the pre-construction process as of October 2020
- **NYC & Company Reports:** The Consultant Team reviewed NYC & Company's 2019 Travel & Tourism Trend Report, which covered the tourism industry in the city through 2018 and the 2020 report All in NYC: Roadmap for Tourism's Reimagining and Recovery, which provided an overview of the city's tourism industry in 2019. These summaries provide an overview of New York City travel and tourism trends, including total domestic and international visitors and visitation by segment, in addition to hotel performance. NYC & Company also provided the Consultant Team with economic impact data for the tourism and lodging sectors. It should be noted that, because of COVID's unprecedented impact on the city's tourism and hotel sectors, NYC & Company did not issue a report or economic overview for 2020.
- **New York State Department of Labor Worker Adjustment and Retraining Notification (WARN) Reports:** The New York State Worker Adjustment and Retraining Act requires covered businesses in New York State to provide early warnings of closures and layoffs to workers, employee representatives, the State Department of Labor (NYSDOL), and local workforce development boards. As many hotels faced sudden and unexpected closures or extreme slowdowns in business due to the COVID pandemic, WARN notices were filed as hotels laid off or furloughed employees. The Consultant Team reviewed NYSDOL's WARN reports to determine those hotels that were no longer operating as of October 2020. WARN notices by themselves, however, are not indicative of a hotel's permanent closure and the Consultant Team worked with the Hotel Association of New York to confirm which hotels were permanently closed and should be removed from the inventory of supply.
- **Literature Review:** The Consultant Team undertook an overview and analysis of published sources that provided an overview of trends in the tourism and hotel sectors both in New York City and nationally, in addition to projections and forecasts related to recovery and trends moving forward. Sources included third party market evaluation and outlook reports, industry reports and outlook projections, in addition to relevant recent news articles in local and national newspapers, magazines and industry trade publications that focus on the travel and hospitality industry and New York City real estate. A bibliography of literature is attached in Appendix I.

Approach

This market study evaluates projected hotel room demand and supply growth in New York City, both citywide and in each of the five boroughs, through 2035. The market outlook relies on historic pre-COVID (pre-2020) visitation projection data along with national tourism demand trends.

Based on recovery projections and industry analysis related to the New York City, national and international hotel markets, described in detail in Section 3, the hotel market outlook analysis for New York City assumes 2025 as the recovery year for the New York City hotel market, when demand levels will return to those of January 2020.

Once the New York City hotel market reaches recovery in 2025, the market outlook analysis projects hotel demand by market segment—both leisure and business travel—and then subtracts the total future projected hotel supply, comprising existing hotel supply as of the fall of 2020 plus hotel rooms identified in the development pipeline, to estimate a residual future demand for hotel rooms.

Hotel Supply: Existing and Future Outlook

To determine existing hotel supply conditions, the Consultant Team analyzed data from STR and other sources for the city as a whole and as specific geographic submarkets. STR data includes number of hotels and existing room counts by geography. In addition, the Consultant Team compared STR data for the New York City market from October 2020 with STR data from January 2020 in order to determine those hotels that were no longer reporting data to STR and were likely to be closed, either temporarily or permanently, due to the COVID pandemic. To identify hotel closures, the Consultant Team also reviewed WARN reports from the New York State Department of Labor, media reports about hotel closures, and confirmed permanent hotel closures with the Hotel Association of New York City.

Data on pipeline hotel development (hotels that are either currently under development or in pre-construction phase) were provided by the Department of City Planning and based on data from the New York City Department of Buildings. In addition, the Consultant Team confirmed pipeline data with leadership and staff from multiple business improvement districts in the five boroughs.

Because the New York City hotel market has lost more than 40,000 hotel rooms since the COVID pandemic began in mid-March 2020, this analysis assumes a range of future hotel room supply based on two scenarios for hotel room closures—one where all confirmed permanently closed hotels as of Fall 2020 remain permanently out of the hotel room inventory and a second scenario where all hotels, both permanently and temporarily, as of Fall 2020 will be permanently closed as of the 2025 recovery. It is recognized that the probable hotel room supply in 2025 will likely be somewhere within that range.

Hotel Demand: Existing and Future Outlook

As noted above, this market analysis assumes that demand for hotel rooms in New York City will recover to pre-COVID January 2020 levels in the year 2025 and will resume pre-COVID growth rates from that year moving forward. Future hotel demand in New York City was estimated through observation of several pre-COVID indicators, including tourism trends, business trends, and occupancy and pricing data. The pre-COVID strength and direction of the New York City hotel market was determined using data from NYC & Company—including its pre-2020 Hotel Development Reports, annual volume studies, visitor profile reports and City Tourism Impact report—plus additional third party market studies identified as part of the literature review.

Quantitative Analysis Projecting Outlook to 2035

The Consultant Team undertook a quantitative analysis in order to evaluate whether projected future hotel supply can absorb projected demand. Residual hotel room demand represents the number of rooms, if any, that would be expected to be delivered to the market in the ten-year period following recovery, or by 2035, after the market absorbs the current pipeline of hotel rooms. The analysis assumes a market equilibrium in 2035 where the supply of hotel rooms will meet projected demand; the analysis also supposes that January 2020 pre-COVID hotel occupancy rate of approximately 86 percent will be reflected in the 2035 occupancy rate.

Key Definitions

The STR data reports on three key hotel market indicators that the Consultant Team uses throughout the analysis. These indicators are Occupancy Rate, Average Daily Rate (ADR) and Revenue per Available Room (RevPAR), all of which are identified as key performance indicators for the hotel industry. Further information about each of these indicators follows:

- *Occupancy Rate* refers to the ratio of rooms that are booked or occupied compared to the total amount of available rooms over a specific period of time, usually calculated as an annual average. In the United States, an occupancy rate of 76 percent or higher has traditionally indicated a tight hotel market. In the decade pre-COVID, New York City reported annual occupancy rates above 85 percent, the highest in the country. In a market with high occupancy rates, hotel rooms continue to be built and absorbed; however, occupancy rates alone do not indicate whether new hotel development is feasible a hotel market should also have sufficiently high revenue to support new construction or renovation.
- *Average Daily Rate (ADR)* is a metric that is widely used in the hotel industry to indicate the average realized room rental per paid occupied room per day. In New York City, ADRs are more likely to fluctuate or stagnate than occupancy rates. Because room prices can fluctuate daily, by day of the week or by season, hotels can quickly adjust ADRs to maintain high occupancy rates.

Defining the NYC Lodging Market

- *Revenue per Available Room (RevPAR)* shows the impact of room vacancy rates on average daily rates and is calculated by multiplying a hotel's ADR by its occupancy rate or by taking a hotel's gross room revenue and dividing it by the total available room nights, calculated as the number of rooms in the hotel multiplied by 365. As RevPAR incorporates both occupancy rates and ADR, it is useful for tracking market performance over time. A rising RevPAR could reflect increasing occupancy rates, ADR, or both, but would show that the market is strengthening. If ADRs and occupancy rates are moving inversely, but RevPAR is still increasing, it indicates that the market is still strong despite a declining ADR or occupancy rate. A flat or declining RevPAR indicates that markets are not keeping up with general inflation and could be weakening. A market with continued declining RevPAR is unlikely to support new hotel development.

The following section provides an overview of the New York City lodging market as of the end of calendar year 2019 and before the impacts of the COVID-19 pandemic were in place. By January 2020, the New York City tourism and lodging market were in the thirteenth year of a continuous growth pattern that came to a sudden halt in March 2020. An overview of the current conditions of the post-March 2020 New York City hotel market and the impacts of the pandemic is provided in Section III.

Lodging Typologies

As of January 2020, the lodging sector in New York City comprised the third largest hotel market in the United States by number of hotel rooms, behind Las Vegas and Orlando. Over the past decade, the traditional hotel market in the city was also joined by a short-term rental market that is now the largest in the country and one of the largest in the world.

Hotels

As of December 2019, New York City had approximately 670 individual hotels with a total of almost 122,000 rooms. These hotels consisted of a broad array of service types, from full-service luxury to limited-service economy.

The United States does not have an official common industry standard for categorizing hotels and other lodging facilities, as exists in the European Union and the United Kingdom. However, while there is no standardized classification of hotel typologies, there are commonly accepted hotel categories, such as budget, midscale, upscale and luxury. Additional descriptive categories that are commonly used for hotels, include such terms as boutique, extended stay, inn/B&B, and, increasingly, micro-hotels.

In lieu of standardized typologies, the Consultant Team has turned to STR, the nation's premier firm for tracking supply and demand data for multiple hotel markets. STR uses a six-tier categorization system that is primarily based on Average Daily Rate (ADR) rather than on general assumptions related to hotel quality, amenities, or other features within the local markets it examines. STR's tiers are described below:

ECONOMY

- Examples: Econo Lodge, Rodeway Inn, Days Inn

UPSCALE

- Examples: Best Western Premier, Radisson, Hyatt Place, DoubleTree, Hilton Garden Inn

MID-SCALE

- Examples: Best Western, Quality Inn, Ramada

UPPER UPSCALE

- Examples: Hilton, Radisson Blu, Kimpton, Sheraton, Hyatt Regency, Marriott, Wyndham

UPPER MID-SCALE

- Examples: Best Western Plus, Comfort Inn, Clarion, Hampton Inn

LUXURY

- Examples: Ritz Carlton, JW Marriott, Conrad, Andaz, Grand Hyatt, Intercontinental

Because STR's classifications are so focused on room rate positions within the market over other considerations, the Consultant Team decided to augment the STR classifications with definitions from three broad asset classes used by the hotel industry that are based more on featured services and amenities. These asset class categories are (1) Limited-Service, (2) Select-Service and (3) Full-Service.

- *Limited-Service* is defined as a hotel without restaurants or banquet facilities. The services and amenities offered to guests of hotels in this asset class are typically simple and might include a business center, a fitness room, a guest laundry facility, a market pantry, an indoor and/or outdoor pool and small meeting rooms.

- *Select-Service* hotels are defined as properties that offer the fundamentals of those in the Limited-Service class together with a limited selection of the services and amenities characteristic of Full-Service properties.

While not a perfect correlation, it can generally be assumed that hotels in New York City classified as Upscale and Luxury by STR are Full-Service hotels, hotels classified as Midscale are Select-Service, and hotels classified as Economy are Limited-Service. However, some Midscale hotels at the lower end may also be classified as Limited-Service and some Upscale hotels may be considered Select-Service. In order to delineate more clearly defined asset classes that better align with the purposes of this study, the Consultant Team collapsed STR's six categories as described above into four typologies:

ECONOMY

This category describes the lowest tier of hotel in terms of pricing and services/amenities within the market. Many of the new hotels recently developed in areas outside of Manhattan include Economy and Midscale facilities. In the past two years, the trend of "micro-hotels" has spread in New York City, primarily in Manhattan. These hotels offer very small rooms (150–300 square feet) at more affordable rates, though are also often characterized by high levels of design and onsite amenities that distinguish them from other economy hotels. Despite their amenities, some unique boutique hotels, such as the Freehand and the Pod Hotels, are classified as Economy due to the small size of their rooms and their affordable rates.

MIDSCALE

This category describes midrange, primarily nationally branded hotel properties with Limited-Service attributes, such as breakfast room, business center and perhaps a fitness center. Many of the hotels that opened in West Midtown, Gowanus and Long Island City in the past decade can be classified as Midscale.

- *Full-Service* hotels offer an abundant provision of food and beverage services suitable for both guests and groups. Full-Service hotels, unlike hotels in other categories, typically play a significant role in servicing the meeting and special events needs in their market area. A more detailed description of the three asset classes, as defined by U.S. Hotel Appraisals, one of the nation's largest firms for hotel property valuation, is presented in Appendix II.

UPSCALE

Upscale hotels are generally Full-Service properties with restaurants and, potentially, banquet facilities. This is the largest category of hotels in Manhattan and many newer hotels in Long Island City, Downtown Brooklyn, Jamaica and Flushing fall into this category. The new cohort of hotels in North Brooklyn is also classified as Upscale, more than in any other submarket. Properties in North Brooklyn tend to be independent rather than branded.

LUXURY

These are the highest scale and most expensive hotel properties in the city, equivalent to the "five-star" properties that attract the global elite. As of today, there are no Luxury hotel properties outside Manhattan, though some new hotel properties in Brooklyn, such as the 1 Hotel Brooklyn Bridge and the William Vale, are categorized by STR as Upper Upscale.

Short-Term Rentals

The New York City lodging market, like many urban lodging markets in the United States and elsewhere, has been reshaped in recent years by a significant increase in the number of short-term rentals, many in neighborhoods that have not had or are not zoned for hotel development. While there are a number of online platforms that offer access to short-term rentals, the large majority in New York City are offered through Airbnb.¹ Recently, additional platforms, including Lyric, Domio and Sonder have entered the New York City market.

Under New York City law and the New York State Multiple Dwelling Law, unhosted short-term rentals, meaning rentals of less than 30 days where the permanent resident is not present at the property, are strictly prohibited in Class-A multiple dwelling buildings, which are defined as buildings with three or more separate units. A permanent resident is defined as a "natural person" so that corporate hosts for less than 30 days are also illegal.²

Peer-to-Peer Platforms

Peer to peer sharing of short-term rentals of apartments has significantly impacted the hotel industry worldwide, particularly in global travel destinations such as New York.

AIRBNB

Airbnb is the dominant platform in this industry and New York City is its largest market in the United States. By some estimates, there are approximately 50,000 Airbnb listings in the five boroughs at any given time, a figure that is approximately 40 percent of the total number of traditional hotel rooms in the city. As Airbnb expanded aggressively in the five boroughs over the past several years, the platform was viewed by many critics as creating a de facto, shadow hotel market.

¹ Office of the NYC Comptroller Scott Stringer, *Impact of Airbnb on NYC Rents*, April 2018.

² NYC Office of Special Enforcement, <https://www1.nyc.gov/sitespecialenforcement/stay-in-the-know/information-for-hosts.page>.

Many Airbnb hosts, both corporate operators and individual hosts, were also found to be illegally renting rooms, thus shrinking the availability of affordable permanent housing and negatively affecting the quality of life for neighbors. By some analyses, up to 28 percent of Airbnb listings in the city were being offered illegally by commercial operators.³ In June 2020, Airbnb agreed to share data regarding its hosts with the City of New York, making it easier for the City to enforce its short-term rental law; some analysts believe that this will lead to a significant decline in the number of Airbnb listings in the city.⁴

HOMEAWAY/VRBO

VRBO was established in 1995 and bought by HomeAway in 2006. Unlike Airbnb which has a strong focus on urban markets and offers rooms within an apartment or house, VRBO's focus is entire houses and apartments, unhosted and often in non-urban areas; another major difference between the two platforms is that VRBO charges a subscription fee to listers. Because of these factors, HomeAway/VRBO has limited viability in New York City and has not been a major player in the city's short-term rental market.

Extended Stay Hotels and Temporary Apartments

Temporary and/or corporate housing in New York City is accommodated both in extended stay hotels and corporate apartments. Extended stay hotels include national flags such as Marriott's TownePlace Suites and Residence Inn, Hilton's Homewood Suites, and InterContinental's Staybridge Suites, in addition to independent properties, which can range from upscale facilities such as the Beekman Tower on the East Side of Manhattan or budget facilities such as Off-Soho Suites. Unlike corporate apartments, which can be in residential properties similar to peer-to-peer short-term rentals, extended stay hotels are classified as hotel properties (use group 5).

Corporate apartments are generally provided to employees who have temporary assignments away from home or are relocating. They are fully-furnished apartments or—more rarely in New York City—houses, that are commonly rented on a monthly or longer-term basis. Corporate apartments within Class-A multiple dwelling buildings are subject to New York City's short-term rental laws and cannot be rented out for less than 30 days. Corporate apartments offer hotel amenities such as housekeeping and fast WiFi and, because they are often rented on a monthly basis and do not include hotel taxes, they can be more cost-effective than a long hotel stay. To compete with more flexible options such as Airbnb, some housing services are starting to offer online booking and a limited number of weekly stay options. These changes could start attracting more vacation renters, thereby expanding the market for corporate apartments.

CORPORATE APARTMENT-HOTEL HYBRID

Alternative accommodations also include a new hybrid of a corporate apartment-hotel hybrid. In this model, pioneered by a cohort of startups that include Lyric Hospitality, Sonder Corporation and Domio, Inc.

³ Alastair Boone, "What Airbnb Did to NYC," *Bloomberg CityLab*, March 5, 2018.

⁴ Erik Engquist, "Why Did Airbnb Give in to de Blasio?" *The Real Deal*, June 15, 2020.

In this model, the hospitality companies typically lease blocks of apartments on the same floor of a residential building or office building, or even entire buildings, under a long-term master lease agreement. The hospitality companies then fully furnish the apartments and then rent them out to travelers who are seeking more of an apartment experience than a traditional hotel stay; travelers can stay for as long as several weeks or as short as one night, unlike most corporate apartments in New York City that legally require a minimum 30-day stay. In order to comply with New York City's short-term rental regulations, these companies master lease units in properties that meet the zoning and building requirements of a hotel. The units look like residential apartments, but they are actually built out legally as hotel suites. These hospitality companies hope to appeal to landlords by offering them a higher net operating income and the stability of a long-term commercial lease.⁵

While offering the online convenience of a peer-to-peer home-sharing platform, this model puts more focus on quality control, hotel-like amenities, and brand predictability than the home-sharing model. In turn, labor costs are kept down through a reliance on apps and online reservations and communications.

Because of New York City's strict short-term rental regulations, this new hybrid model was introduced relatively late to this market compared to some other urban markets in the United States. Sonder entered the New York City market in October 2018 when it master-leased 169 units at an office-to-residential conversion at 20 Broad Street. Lyric entered the New York City market in 2019 with a master lease at a similar conversion project at 70 Pine Street. Rooms can be booked even a day before the reservation date on their own website, Airbnb or Expedia.

In addition, as Airbnb looks to increase supply of high-quality lodging for business travelers, the company itself has invested capital in corporate apartment companies such as Lyric. As the New York State Multiple Dwelling Law does not apply to commercial buildings, this has also induced short-term rental companies like Airbnb to partner with commercial real estate firms to develop quality short-term stay units for business travelers.

Traditional Hotel Brands Offering Home Share Rentals

Some major hotel brands have been looking for ways to maintain customer loyalty in the face of a growing short-term rental market. Rather than trying to attract new customers, these hotels are emphasizing the advantages of a traditional hotel such as reward points, select hotel amenities, 24/7 guest support, and professional quality control and encouraging their existing business travelers to redeem their loyalty points for short-term vacation stays.

For instance, in April 2019, Marriott began partnering with property developers in 100 markets in the U.S., the Caribbean, Latin America, and Europe to offer short-term rental of entire private homes. There are approximately 2,000 premium and luxury homes available through this program. Choice Hotels, owner of the Comfort Inn and Quality Inn brands, is also partnering with property managers to offer approximately 20,000 home rentals in major U.S. vacation markets. However, it must be noted that this model is not prevalent in New York City.

⁵ Konrad Putzer, "How Sonder Hacked NYC's Short-Term Rental Law," *The Real Deal*, October 24, 2018.

Traditional hotels so far have had mixed success in the home share market.⁶ Wyndham Hotels, which has offered vacation rentals since 2010 through a fully-owned property manager, Wyndham Vacation Rentals, recently exited the home sharing market to focus on its time share business. Accordingly, the owners of the luxury brands Sofitel and Fairmount, have been struggling to profit from its luxury vacation rental platforms.⁷

Existing Clientele and Customer Base

New York City has now experienced ten years of continuous tourism growth with no signs of a permanent abatement of this trend. NYC & Company reported that 66.6 million visitors came to New York City in 2019, a 2.4 percent increase over 2018, which was a 3.7 percent increase over 2017.⁸ The chief executive of NYC & Company, stated that, despite what he described as economic and geopolitical headwinds, tourism to New York City continues to grow, although visitors have cut back on their spending.⁹

Where visitors to NYC Come From

In 2019, almost 80 percent of visitors to New York City came from elsewhere in the United States while 20 percent came from abroad. This distribution of the visitor profile has remained relatively constant since 2010, although international visitor count to New York City grew by almost 38 percent between 2010 and 2018 while domestic visitor count grew by 32 percent. Despite some challenges in key international markets, such as the United Kingdom, Brazil and China, international visitation maintained its 2018 growth levels in 2019.

- **Domestic:** Of the 51.5 million domestic visitors to New York City in 2018, 27.1 million, or 53 percent, stayed overnight and required lodging. According to NYC & Company, long-haul markets, meaning travelers to New York City coming from further than 250 miles, have grown faster than short-haul drive markets, which helps explain the faster year-over-year growth for overnight visits (4.2 percent) versus day visits (3.1 percent).¹⁰ The largest source for overnight domestic visitors to New York City is the New York City metropolitan region itself,¹¹ accounting for 13 percent of visitation. Boston and Philadelphia together account for 16 percent of overnight domestic visitors to New York City, although both of these markets have seen declines since 2017, while overnight visitation from Washington, DC and Los Angeles has seen large increases.¹²

⁶ Deanna Ting, "Why More Hotel Brands than ever are Offering Homesharing," *The Points Guy*, July 7, 2019.

⁷ Ibid.

⁸ NYC & Company, *NYC Travel & Tourism Trend Report 2019*.

⁹ "NYC is on Pace to Draw a Record 67 Million Tourists This Year," *The New York Times*, August 19, 2019.

¹⁰ NYC & Company, *NYC Travel & Tourism Trend Report 2019*.

¹¹ NYC metropolitan region is a tri-state geography, representing NYC and surrounding 26 counties in portions of New York, New Jersey and Connecticut.

¹² NYC & Company, *NYC Travel & Tourism Trend Report 2019*.

- **International:** New York City is the most popular destination for international visitors in the Western Hemisphere and the fifth largest international tourist market in the world. The top five international markets for visitors to New York City in 2018 were the United Kingdom, China, Canada, Brazil and France, with some of the largest year-over-year growth seen from Spain, Colombia, the Netherlands, Brazil and France. NYC & Company reported that strategic investments in emerging and developing markets in addition to a greater focus on convention and trade show visitation from Europe and Asia, has contributed to continuing increases in numbers of international visitors to New York City.

Why Visitors Come to NYC

Visitors come to New York City for numerous reasons—general tourism, business, conventions and trade shows, and large annual events such as the New York Marathon, the U.S. Open and the United Nations General Assembly.

For international visitors, who make up over 20 percent of visitors to the city and account for half of all visitor spending, New York City beckons as a global city, one of the most multicultural in the world, the cultural capital of the United States, a major shopping destination, and the Data from NYC & Company and the U.S. Department of Commerce shows that in 2018, shopping and sightseeing were the principal activities for over 86 percent of international visitors.¹³ International visitors tend to stay longer and spend more money during their stay than domestic visitors.

Domestic visitors are also attracted to New York City for its cultural offerings and urban vibrancy as the nation's largest city. New York City is also easily accessible to much of the United States via direct flights. In addition, New York is located at the hub of the Northeast Corridor with a population of over 36 million people within a 150-mile radius. While this leads to a significant number of day visitors (24.4 million in 2018), it also contributes significantly to the city's hotel sector. Data from NYC & Company shows that, in 2018, over 80 percent of the 51.5 million domestic visitors to New York City were traveling for leisure, with the four principal activities being dining, shopping, museums, and theater/dance performances. In 2018, over 27 million domestic visitors stayed overnight in New York City and 56 percent of these visitors stayed in hotels.¹⁴

Leisure visitors make up 80 percent of all visitors to New York City; in 2018 there were over 53 million visitors to New York City, 78 percent domestic and 22 percent international. 47 percent of domestic leisure visitors stayed overnight in the city and just over half of the overnight visitors stayed in a hotel. While domestic leisure visitors stayed on average 1.9 days, international leisure visitors stayed on average 7.3 days and 76 percent stayed at a hotel.

As a global financial capital and business hub, New York City is also a significant destination for both domestic and international business travelers. Of the 13.1 million business visitors who came to New York City in 2018, 54 percent could be classified as transient travelers, meaning solo or independent business travelers, while 46 percent were affiliated with conventions, large meetings and/or trade shows.

¹³ U.S. Department of Commerce/NTTO, *NYC & Company Overseas Visitor Market Profile*, August 2019.

¹⁴ NYC & Company 2018–19 data.

Hotel Development, Ownership and Management

Development

Before COVID, New York continued to experience a hotel development boom, with almost 6,000 rooms added in 2019, compared with just over 4,200 rooms added in 2018. In addition, many new hotel brands, including international ones, are entering the New York City market. However, high construction costs and more restrictive financing for new hotel projects present challenges to hotel development in the five boroughs.

HOTEL FINANCING OVERVIEW

LENDING MARKET

Most hotels in New York City rely on traditional financing, including a combination of investor (both institutional and individual) and developer-contributed equity and debt underwritten by investment banks, capital management firms and traditional lenders.

Beginning in 2017, hotel developers in New York City were reporting that lenders were becoming increasingly reluctant to make loans on new hotel projects in New York City until current inventory was absorbed.¹⁵ As hotel supply has continued to increase during the following two years, the tightening of the lending market has also sustained though there has also been some optimism.^{16 17}

In February 2020, *The Wall Street Journal* reported that, due to deterioration in the New York City hotel market, more New York City hotel owners were defaulting on their mortgages. As of February 10, 2020, the research firm Trepp LLC had found that at least 21 mortgages backed by hotels (as opposed to individual hotel properties) in New York City were on a watch list for potential difficulties, although that figure only includes loans that were packaged into bonds. Principal factors cited for these defaults included the pressure on revenue and profitability due to increased supply and its pressure on rates, in addition to increasing labor costs and other expenses.

EB-5 PROGRAM

The federal EB-5 program has also been an important tool for financing commercial, mixed-use and hotel projects in New York City for the past two decades. The program, administered by U.S. Citizen and Immigration Services, is unique in that it is a visa program designed to allow foreign investors to gain permanent residence in the United States in exchange for investment in job-creating developments, such as hotels, with lower investment requirements in rural or targeted high unemployment areas where unemployment is 150% of the national average. There are a maximum of 10,000 EB-5 visas available each Fiscal Year.

¹⁵ NYC Department of City Planning, *NYC Hotel Market Analysis: Existing Conditions and 10-Year Outlook*, 2017.

¹⁶ Rushi Shah, "Finance and Review," *Today's Hotelier*, January 4, 2019.

¹⁷ Dana Miller, "Hotel lenders give insight into 2019 landscape," *Hotel News Now*, January 28, 2019.

New York City has been one of the largest markets in the nation though in the past three years there have been concerns that regulatory changes, stricter rules, visa backlogs, and economic slowdown in China—long the largest source of EB-5 applications—would have a negative impact on the program. In the fourth quarter of 2018, EB-5 applications hit a five-year low, though in 2019 there were still a number of hotel projects utilizing EB-5 financing, including the Flag Luxury Group's NoMad Ritz Carlton, which raised \$125 million in EB-5 financing.¹⁸ Other recent hotel projects in the city that have relied on significant EB-5 financing include the Times Square Edition at 701 Seventh Avenue and the Four Seasons Downtown. One trend that has been noted is less participation by Chinese investors in the program.¹⁹

HOTEL CONSTRUCTION COSTS

While New York City continued to see the most hotel construction activity of any major market in the United States through 2019, it also continued to be one of the country's most expensive markets for hotel construction. A 2019 construction cost survey by the New York Building Congress found that, at \$600 of construction cost per square foot, New York is on par with San Francisco though recently surpassed by Chicago; it is considerably more expensive than its global peers, such as London, where hotel construction is less than \$500 per square foot.²⁰ It should be noted that the cost indices used by the New York Building Congress examine only the hard costs of construction (labor, materials, equipment, utilities and site preparation costs) and do not include land costs or soft costs, such as architectural, engineering and legal fees. Soft costs can be 10–12 percent of total project costs.

The New York Building Congress noted that the disparity between construction costs in New York City and other U.S. markets reflect what was, up until 2019, a thriving local construction market that has put high demand on labor and materials. Construction costs increased five percent in 2017 and 2018 and had risen continually since 2010. The most significant increases in construction costs in New York between 2017 and 2018 were seen for prime office buildings, hotels, retail and multifamily residential properties.

HVS, a national hospitality consulting firm, reported that in 2019, New York City continued to have the highest hotel construction costs per key in the country. HVS forecast that rising national construction costs and a tighter hotel financing market would begin to curb new hotel construction in New York.²¹

As land costs are most expensive in Manhattan, the total all-in development costs of hotels in Manhattan tend to be higher than those in the other boroughs. In addition, there is a range of construction costs based on the hotel type. For example, Cumming Corporation Construction Cost Insights 2020 report cites that, in New York City, per-foot construction costs for 3-star hotels range from \$625 to \$749 per square foot while costs per square foot for 5-star hotels range from \$892 to \$1,108. Cumming reports that New York City is the most expensive hotel construction market in the United States, with San Francisco right behind it at costs per square foot of \$555 to \$731 for 3-star properties and \$761 to \$1,044 for 5-star properties.²²

¹⁸ Erin Hudson, "NoMad Ritz Carlton secures \$125 million in EB-5 funds," *The Real Deal*, April 19, 2019.

¹⁹ Tom Rosenfeld, "Immigration restrictions likely to hurt major construction projects," *Crain's*, March 2, 2020.

²⁰ New York Building Congress, *Construction Outlook Update: NYC Construction Costs 2019*, February 2019.

²¹ HVS, *HVS Perspectives on the NYC Lodging Market*, June 2019.

²² "U.S. Costs per GSF: Hospitality and Lodging," *Cumming Corporation Construction Cost Insights*, 2020.

PROPERTY TAX

Many hotel owners in New York City have cited property taxes in New York City as an inequitable burden, noting that property taxes on hotels as a percentage of net operating income have increased disproportionately as compared to other commercial (Class 4) properties. The New York City Department of Finance determines assessed value of properties based on net operating income, cap rates and other factors; net operating income is established by the Department of Finance by deducting expenses from gross revenue. However, hotel owners assert that hotel net operating income is more variable than that of other Class 4 properties, particularly office properties, due to the less predictable nature of hotel occupancy and rates. Some hotel owners have requested that the Department of Finance address this burden by considering the adjustment of cap rates to better reflect the risks and other unique elements of the hotel industry, and to consider adjustment of the calculation of net operating income to reflect the greater variability of income compared to other commercial properties.²³

NEW YORK DEVELOPERS PIONEERED NEW MIDSCALE PRODUCT

In the past 12–15 years, the New York City hotel market has been transformed by locally based developer-owners who specialize in Limited Service and Select Service hotel projects that cater to more budget-minded travelers. These developer-owners pioneered a midscale more standardized hotel product with smaller rooms that was appropriate for the New York City market. While the national industry standard for hotel rooms has been a minimum of 350-square feet, these developers were able to create 200 square-foot hotel rooms that were more economically suitable for smaller Manhattan development footprints by developing unique room layouts and custom furniture. This product was very popular with national franchise brands and allowed for their unprecedented expansion in the city during the 2010s, often by putting two to three separately branded hotels in a single building, known as “two-packs” or “three-packs”, which were initially popular on the West Side of Manhattan but can now be found in other submarkets, including Long Island City and Jamaica. Developer-owners of this product tend to affiliate with Economy and Midscale brands though they have been expanding to Upscale brands as well, such as the Courtyard by Marriott/Residence Inn Central Park. In recent years, this product has also expanded nationally beyond New York City, including “two-pack” and “three-pack” hotels in Chicago, Atlanta, and Nashville.

Ownership Profile of New York City Hotels**HOTEL COMPANIES TAKE AN “ASSET LIGHT” APPROACH**

New York City’s hotels are owned by a broad assortment of both New York City-based and national private developers, real estate investment trusts (REITs), and investment partnerships. Characteristic of most major hotel markets in the United States, hotel companies, such as Marriott and Wyndham, take an “asset light” approach and do not own the hotel properties that bear their names, but rather affiliate with developer/owners through a franchise agreement. The majority of hotel rooms in New York City are in such an arrangement. In considering such an agreement, a hotel owner will consider where the hotel best fits the competition among branded hotels within the immediate market area, the upfront cost to affiliate, the specific brand’s required

²³ Consultant conversations with hotel owners and Hotel Association of New York City.

physical improvements, the costs of doing business under the brand affiliation, and the financial benefits a specific brand may bring to the property’s operation. A hotel owner will likely collaborate with its financial partners and lenders to determine the optimal brand. Some developers/owners may tend to affiliate with the brands of only one company—such as Marriott International—whose assortment of brands encompasses the range of hotel typologies from Luxury to Economy. Most developer-owners, however, partner with a wide range of hotel brands or “flags.” The past five years have seen much consolidation in the hotel industry and there are currently five major hotel companies active in the New York City market: Marriott, Wyndham, Choice, and Hilton. Hyatt, the other major U.S. hotel company, has a smaller presence in New York.

Approximately 35 percent of hotel rooms in New York City are independent, meaning they are not affiliated with the major national brands. Many of these unaffiliated hotels are Upscale category boutique hotels, such as the Refinery Hotel in Midtown Manhattan, owned by Charles Aini and the new 1 Hotel Brooklyn Bridge in Brooklyn, owned by 1 Hotels, that benefit from a unique and fashionable product. One-third of the almost 116,000 independent hotel rooms in New York City are categorized as Luxury or Upscale. In Brooklyn, this trend is even more marked, where over 80 percent of rooms in independent hotel properties built in the past five years are categorized as Luxury or Upscale.

Twenty-eight percent of independent hotel rooms in the city are Economy class, though many of these hotels are older.

On the other hand, Midscale hotels that are unaffiliated have historically been challenged by their lack of access to national reservation systems or visible brands. Nevertheless, the dominance of online travel agencies, such as Expedia, have made it easier for these hotels to compete in the market by providing them with a platform independent of the national brands’ reservation systems.

NEW HOTEL BRANDS ENTERING MARKET

The past five years have seen a number of new non-U.S. brands enter the New York City market. Three Spanish hotel companies—Iberostar, Riu and Melia, which are large players in the European market but not in the United States—have all opened their first U.S. hotels in Manhattan and Florida during this period. These brands are well known by European and, to a lesser extent, Latin American travelers as upscale chains, it is likely that their initial focus was meant to be international visitors.

In 2020, the Thai luxury hotel company, Six Senses, which has many properties in Asia and Europe, will open its first U.S. location at HFZ Capital Group’s XI development in Chelsea in Manhattan and will be managed by Six Senses. Similar to the three Spanish brands mentioned above, Six Senses is well known by many higher end international travelers as a luxury brand but less known by Americans.

New U.S. brands are also entering the New York market—in 2021, California-based Montage Hotels will open its first Pendry brand hotel at Brookfield’s Manhattan West development. Pendry has other locations in U.S. cities, including Los Angeles, Washington, DC and Chicago markets itself as an upscale boutique brand offering unique experiences.

Hotel Operations and Management

Hotels in New York City, similar to other major markets in the United States, are operated and managed in three ways:

1. **Managed and operated by a third-party hotel management company.** This is the most prevalent model and there are multiple hotel management companies. Real Hospitality is one of the largest hotel management companies in the United States and manages hotels of multiple brands, including Hilton and Marriott. In New York City, Real Hospitality operates hotels for numerous owners, both branded and independent, in Manhattan, Brooklyn and Queens.

Other third-party hotel management companies active in New York City include Interstate Hotels and Resorts (based in Virginia), Hersha Hospitality

A significant portion of New York City hotels follow the first structure above, and are managed by third party companies, many of which are national in scale and manage multiple hotels under multiple brands.

Industry Trends and Innovations in Hotel Models

NATIONAL TRENDS

Before the COVID pandemic upended the hotel industry beginning in March 2020, the hotel sector nationwide and in many of New York's peer global city markets was influenced by a series of dynamic industry and technological trends that have had an impact on the traditional lodging business structure. These trends include the growing significant role of online travel agencies, the impact of virtual travel communities and online rating sites, and the continued expansion of short-term rental platforms such as Airbnb. The U.S. hotel industry is facing rising labor costs in many of its premier markets. Each of these trends has factored in the current pressure on hotel revenues.

In addition, many hotels had incorporated new automation technologies—including kiosk card and remote check-ins, smart building systems, digital concierge services, manual luggage storage machines, and even robotic room service—that were implemented to reduce staffing needs but may also have a longer-term impact on improving hotel health and safety protocols during COVID.

Management (based in Pennsylvania), Highgate Hotels (based in New York City), and M&R Hospitality (based in Nassau County).

2. **Managed directly by the brand.** Other large brands have dedicated management arms and will directly manage hotels on behalf of property owners.

3. **Managed and operated directly by the hotel owner.** Some hotel owners and developers have the resources and expertise to manage their own hotel properties. This is particularly true for many independent Upscale and Luxury hotels.

- **Online travel agencies (OTAs),** such as Booking Holdings (owner of Priceline and Booking.com) and Expedia Group (which owns Expedia, Expedia Corporate Travel also known as Egencia, Hotels.com, TripAdvisor, and Hotwire.com, among other platforms) have been essential components of the travel industry for over two decades, serving as vital distribution partners for hotels and valuable tools for hotel customers. In 2016, OTAs surpassed direct hotel bookings in total U.S. online gross bookings and now account for approximately 40 percent of the U.S. online digital booking market.²⁴ This has helped to equalize what had been a largely asymmetric information distribution between hotels and customers and has been an important factor in creating more competitive pricing.

While OTAs have placed downward pressure on hotel rates and have eroded hotel revenue through high commission fees, they have also resulted in higher occupancy rates, particularly in large markets such as New York. Some in the hotel industry have noted that OTAs are now becoming many hotels' biggest customers.²⁵

OTAs have been beneficial to smaller and independent hotels by providing a broad online platform that allows them to reach more travelers through marketing and booking. They also provide cross-marketing and cross-selling packages, generally increasing occupancy, particularly during off-peak times. Consequently, OTAs allow independent hotels to compete with chain hotels on a more level playing field.

To circumspect OTAs' increased commissions and growing market dominance, some large hotel chains are developing new initiatives in order to incentivize customers to book directly with the hotel through guaranteed price matching, loyalty rates and points for direct booking, and enhanced onsite amenities. Others, however, are finding other ways. For instance, Marriott, the world's largest hotel company, signed an agreement with Expedia Group that allows the latter to become the exclusive "global optimized distributor" of Marriott's wholesale rates, availability, and content to a network of global travel providers. Through this agreement, it is expected that Marriott will be able to work with Expedia to leverage its huge scale and secure lower commissions as well as other fees.

- **Virtual Travel Communities and Online Review Sites,** most notably TripAdvisor, have also become a major factor in travel and hotel booking and studies show that their impact continues to grow. A 2017 Oxford Economics Study found that TripAdvisor users were responsible for \$546 billion, or over ten percent, of global tourism spending and, like OTAs, TripAdvisor is now able to influence hotel rates through both positive and negative customer ratings.²⁶ Some studies have shown a correlation between five-star ratings on TripAdvisor and increased bookings at individual hotel properties.²⁷ Moreover, like OTAs, online review sites can also provide more visibility and an even playing field for independent and smaller hotels.

²⁴ Hotel Management, January 11, 2018.

²⁵ Bisnow Hospitality Investment & Development Summit, NYC, January 9, 2020.

²⁶ Oxford Economics Global Travel Market Study, May 2017.

²⁷ Joint study by AccorHotels and TrustYou, September 2015.

- **Short-Term Rental Platforms**, mainly Airbnb, continue to have an impact on the U.S. hotel industry. However, in the top 10 metropolitan markets—including New York, Los Angeles, Miami, Orlando, San Francisco and Washington, DC—short-term rental units now comprise almost 30 percent of the total supply. Of these short-term rental listings, however, less than 25 percent of the supply are comparable to hotels—largely studio and one-bedroom units.²⁸ The supply penetration rate of short-term rental units in the United States reached 10.4 percent of total traditional hotel rooms in the United States in 2019 and is expected to hit 12.2 percent of total traditional hotel rooms in the United States in 2020 with the addition of more than 100,000 net new short-term rental units nationwide.

As the online short-term rental industry matures, however, supply growth of short-term rental units in the top-ten markets is slowing. Nationwide, short-term rental supply grew by 26 percent in 2019, down from 39 percent growth in 2018 following seven years of exponential growth. In 2020, the national growth of the short-term rental market is expected to slow further to 19 percent. In those cities that have introduced regulations to curb proliferation of short-term rentals, the slowdown in growth has been even more pronounced. New York, Washington, DC, and San Francisco all reported negative change in the supply of short-term rental units between June 2018 and December 2018, though each city saw a slight increase during the first quarter of 2019.²⁹

Furthermore, while Airbnb has a dominant position in the short-term rental sector, a number of branded apartment/hotel models have entered the market in the past two to three years, such as Lyric, Domio and Sonder, as described earlier in this section.

As short-term rentals become a larger and more permanent aspect of the lodging market, they will continue to have an impact on hotel property valuations and pipeline development. CBRE Group, Inc., one of America's largest commercial real estate services and investment firms, stated in its 2020 assessment of the U.S. short-term rentals market that a reasonable understanding of the local short-term rental market will now be required in order to properly value hotels.³⁰ The Hotel Association of New York has also noted that the short-term rental inventory is not currently factored into the hotel development cycle, which has contributed to an oversupply of hotel rooms in the short-term.

- **Revenue-Generating Responses to Labor and Construction Costs:** The national hotel sector has also been impacted by rapidly rising labor and construction costs, in addition to stricter impediments for new construction financing. As labor costs have eaten into hotel revenue in several markets around the country—most notably New York, San Francisco and Chicago—many hotel operators have responded by instituting new revenue sources, particularly destination fees, also known as resort or amenities fees.³¹

²⁸ Hotel News Now (published by STR), September 10, 2019.

²⁹ Hotel News Now (published by STR), September 10, 2019.

³⁰ CBRE, *Short-Term Rentals: A Maturing U.S. Market and its Impact on Traditional Hotels*, January 2020.

³¹ HVS Market Pulse: Perspectives on the NYC Lodging Market 2019, June 26, 2019.

These are additional “hidden” fees charged to guests’ hotel bills that are not quoted in the hotel rate. While traditionally common in resort destinations such as Miami and Las Vegas, HVS reports that these factors have now become more common in New York City. Conde Nast Traveler reported in 2019 that approximately 19 percent of hotels across the five boroughs were now charging these additional fees.³²

- **Micro-hotels:** New York and other expensive hotel markets around the world, including London, Amsterdam, Tokyo and many other Asian cities (where the trend originated) have seen the growth of the micro-hotel concept over the past five years. While a traditional hotel room is approximately 300 square feet, micro-hotel rooms can be as small as between 100 and 150 square feet and provide a more affordable alternative for travelers to these markets. In addition, micro-hotels allow hotel operators to maximize revenue by squeezing many more units into a smaller development envelope. One hotel industry analyst noted that micro-hotels can change the industry metric paradigm from revenue per available room to net operating income per square foot.³³ Micro-hotels that have opened in New York City include Yotel, Arlo and the London-based Hoxton, which opened a hotel in Brooklyn in 2018.

Another developer in NYC, BD Hotels inaugurated the micro-hotel concept in New York with the opening of Pod 51 and Pod 39 and later expanded to Washington, DC and Philadelphia. In the next ten years, BD Hotels is also planning 50 new micro-hotels in North America and considering listing Pod hotels on Airbnb.³⁴

Larger hotel companies have also begun to compete in this market; Marriott’s Moxy brand, which currently has three hotels in Manhattan, offers rooms as small as 150 square feet. Moreover, in the fourth quarter of 2019, Hilton announced that it has reached deals to open six locations of its new micro-hotel brand, Motto, around the United States, including locations in Manhattan and Brooklyn. Motto’s average room size is 163 square feet.

NEW YORK CITY TRENDS

In 2019, the New York City lodging industry continued to see record tourism and remains the only U.S. city that attracts both transient customers and group business from both domestic and international travelers at high levels, making it a global destination on par with London, Paris, Singapore and Tokyo, and unlike any of its domestic peers.

- **Declining RevPAR:** While the city drew a record 67 million visitors in 2019, it was the only top 25 urban market in the United States that experienced negative RevPAR growth and had its worst RevPAR showing since 2015.³⁵

³² Juliana Shalcross, "Watch out for these hidden hotel fees on your next NYC stay," *Conde Nast Traveler*, January 10, 2019.

³³ Bisnow Hospitality Investment & Development Summit, NYC, January 9, 2020.

³⁴ Ibid.

³⁵ "Tourism is up so why is NYC's hotel market slumping?", Skift, August 27, 2019.

Hotel industry analysts have identified many of the same national trends that are impacting the hotel industry, most notably high labor costs and third-party commission fees of up to twenty percent from OTAs, to be the cause for the RevPAR decline. However, multiple sources—including HVS, Skift, STR and the Hotel Association of New York itself—recognized increased supply and competition from a broader choice of hotel types as a reason for depressed revenue in the New York market. Increased supply and the availability of short-term rentals also limits hotels' traditional abilities to charge higher rates during so-called "compression" periods, when room demand is higher, as detailed further below.

- **Continued Growth in Supply:** Sizable growth of hotel room supply has been a prevailing factor in the New York City hotel market for much of the past decade. Between 2009 and 2019, the total number of hotel rooms in the New York City market grew from just over 80,000 to over 127,800, an increase of almost 60 percent.

Analysis by HVS shows that, in the first quarter of 2019, supply of hotel rooms outpaced demand for the first time in the current economic cycle. During the first three quarters of 2019, hotels in New York City experienced decline in occupancy as well.³⁶ STR has forecast that hotel room supply growth in New York City will continue to outpace demand through 2020.

The current supply of hotel rooms in New York is expanded further by the "shadow inventory" of short-term rentals. Although it was recently surpassed by Los Angeles, New York City has been Airbnb's largest U.S. market with some estimates showing 50,000 Airbnb units in the City.³⁷ This would represent between 25 and 30 percent of New York City's total lodging supply. While there is disagreement among hotel industry experts regarding the direct impact short-term rentals have on hotels, there is some consensus that their growth has largely eliminated the opportunity for "compression days." These are days when hotel room occupancy is above 95 percent (often during major events such as the New York Marathon) and room rates can therefore be raised. Compression days have the effect of offsetting losses during slower periods; however, with the growing use of short-term rental platforms by both domestic and international travelers, many customers can avoid these rate increases, putting downward pressure on RevPAR.

- **New Local Regulatory Environment:** In the past three years, New York City has enacted a new land use restriction and allowed another regulation to expire. These actions together will have a potential impact on the continued growth of hotel supply in the city. The first is the new zoning text amendment, adopted in December 2018, requiring a NYC City Planning Commission special permit for new hotel construction and conversions in light manufacturing, or M1, zoning districts. Because of the cost, time and uncertainty associated with the application process, this requirement has diminished new hotel development in M1 districts, particularly in areas outside Manhattan. In the period between 2007-2017, 36 percent of hotels that came online in the boroughs outside Manhattan were in M1 districts.

³⁶ HVS Market Pulse: Perspectives on the NYC Lodging Market 2019, June 26, 2019.

³⁷ The New York Times, January 14, 2019.

In 2017, there were 11,400 hotel rooms in the projected hotel development pipeline that were in M1 districts, representing 30 percent of the total citywide pipeline of hotel rooms. Since enactment of the Special Permit requirement, there has not been an application filed for a new hotel special permit in an M1 district.³⁸

Additionally, in June 2019, the City allowed Local Law 50 to expire,³⁹ therefore allowing hotel owners to convert more than 20 percent of their rooms to other uses.

- **Tightening of Hotel Financing:** as noted in Section II-c above, in the period before COVID, the landscape for new hotel financing has become more restrictive as lenders are increasingly reluctant to make loans on hotel projects until the current pipeline is absorbed. Conversations with some hotel developers confirmed that this trend had been ongoing since 2016 while hotel room supply continued to increase, although some sources have noted that lenders were becoming less restrictive by 2019 and prior to the COVID pandemic.⁴⁰
- **Assessment of Local Property Taxes:** Many representatives of the hotel industry in New York City have stated that the City's method for assessing hotel properties does not reflect hotel earnings. As the net operating income for hotels is much more variable than office buildings and other commercial properties with stable income streams benefitting from long-term leases, this may place an undue tax burden on hotels as compared to other commercial properties. This Hotel industry representatives attest that, as RevPAR continue to stagnate, the City's assessed values of hotel properties continue to escalate, contributing to higher property taxes that impact hotel profitability.

Geographies: Defining NYC Borough Markets and Submarkets

In examining the lodging market and new hotel development in New York City, this report considers various geographies at differing scales. First, the report evaluates New York City as a whole and then each of the five boroughs. Within Manhattan, Brooklyn and Queens, the report also considers specific submarkets as follows (these markets are generally based on major existing tourism markets or, in the cases of Brooklyn and Queens, where recent hotel development clusters have been established in addition to the hotel hubs around Kennedy and LaGuardia Airports).

MANHATTAN

- | | |
|--|--|
| <ul style="list-style-type: none"> • Upper East Side/Upper West Side/Harlem/Uptown • Midtown West/Times Square • Midtown East | <ul style="list-style-type: none"> • Midtown South • SoHo/Union Square/Chelsea/Village/Tribeca • Financial District |
|--|--|

³⁸ NYC Department of City Planning, *NYC Hotel Market Analysis: Existing Conditions and 10-Year Outlook*, 2017.

³⁹ Local Law 50, also known as NYC's Hotel Conversion Moratorium of 2015, effected restrictions on conversion of hotel to non-hotel uses.

⁴⁰ Dana Miller, "Hotel lenders give insight into 2019 landscape," *Hotel News Now*, January 28, 2019 (plus conversations with hotel developers in October 2020).

BROOKLYN

- Downtown/Gowanus/Red Hook
- Williamsburg/North
- Other

QUEENS

- Long Island City
- LaGuardia Airport/Flushing/113xx Zip Codes
- JFK Airport/Jamaica/114xx Zip Codes

BRONX

- Entire borough, no submarkets

STATEN ISLAND

- Entire borough, no submarkets

Within these submarkets, where appropriate, the report addresses specific neighborhoods based on their differentiated markets and trends. For example, in the Upper Manhattan submarket, Harlem, the Upper East Side and the Upper West Side each have unique inventories and demand drivers. In Brooklyn, the Gowanus neighborhood also has unique market trends that differentiate it from Downtown Brooklyn. The report will also address areas of the city that currently have zoning or other restrictions on new hotel development. Appendix III contains maps of each submarket.

Land Use Controls and New Regulation

In New York City, transient hotels (Use Group 5) are permitted as-of-right in C1,⁴¹ C2,⁴² C4, C5, C6 and C8 districts. Hotels are also permitted in Mixed Use (MX) Districts, paired M1/R districts, and on airport property, but prohibited in all Residential (R) Districts and Heavy Manufacturing Districts (M2 and M3). Furthermore, in several areas in NYC, hotels are permitted only by a special permit. This is the case in R10-H Districts and several Special Purpose Districts. Special Purpose Districts have been established by the City Planning Commission to achieve specific planning and urban design objectives in defined areas with unique characteristics.

While most Special Purpose Districts do not have specific controls regarding hotels, there are some exceptions. Hotel Special Permits exist in parts of Special Clinton, Hudson Square, Tribeca, Jerome Corridor, Inwood, 125th Street, East Harlem, and the Vanderbilt Corridor in Midtown.⁴³ The Garment Center Special District prohibits conversion to hotels in what is known as Preservation Area 1, east of Eighth Avenue. In Preservation Area 2, between 35th and 40th Streets and Eighth and Ninth Avenues, new hotel construction is permitted though conversion of larger buildings to hotel use is permitted only by authorization of the City Planning Commission. The Long Island City Mixed Use Special District promotes the longstanding mix of residential, commercial, industrial and cultural uses and features “paired districts” that, similar to MX districts, combine Manufacturing and Residential districts. This Special District has experienced extensive hotel development in recent years.

There have been three major changes to the regulatory environment of the hotel industry in New York City since the release of the previous hotel market study. Two of them specifically impact the hotel supply. The first is the M1 Zoning Text Amendment, adopted on December 20, 2018 and the second is the recent expiration of Local Law 50 prohibiting conversion of large hotels to other uses. The third regulation affects the lodging landscape by increasing the City's enforcement of home-sharing companies such as Airbnb.

M1 Zoning Text Amendment

On December 20, 2018, the New York City Council approved the M1 Zoning Text Amendment. From 2010–2018, there was a citywide increase in hotel construction in M1 zones. The Amendment created a citywide Special Permit required by the City Planning Commission (CPC Special Permit)⁴⁴ for new hotels, motels, tourist cabins, and boatels in light manufacturing (M1) zones: M1-1, M1-2, M1-3, M1-4, M1-5, M1-6. According to the City, the CPC Special Permit will help ensure that hotel development occurs only on appropriate sites, based on reasonable considerations regarding whether a hotel presents potential conflicts with the surrounding industrial and manufacturing uses and how well a hotel reflects the general character of the surrounding area.

Some properties are exempt from the CPC Special Permit. Most notably, hotels in MX (mixed-use) or paired M1/R districts, airport property providing essential airport services and accommodations, transient hotels operating for public use, existing hotels in M-1 zones that do not enlarge their zoning lot or exceed more than 20% of existing floor area, developments with building permits issued before the referral date of the amendment (April 23, 2018) as well as developments that had completed the foundation before the date of adoption (December 20, 2018).

Enforcement of Illegal Short-Term Rentals

Short-term rentals have been restricted in New York State since 2011 under the New York State Multiple Dwelling Law (MDL). This law prohibits owners in Class A multiple dwelling buildings to rent space for less than 30 days unless the permanent tenant is residing in the apartment during the guest's stay. A “Class A multiple dwelling” is defined as the residence of three or more families living independently of each other.

Enforcement of the Multiple Dwelling Law, however, has been challenging. The federal Communications Decency Act (Section 230) of 1996 has protected online companies like Airbnb from being responsible for what users post on their platforms. Thus, Airbnb has historically taken a hands-off approach to its listings, which has enabled the proliferation of illegal rentals.

⁴¹ Except for C1-1, C1-2, C1-3 or C1-4 Districts.

⁴² In C2 districts, transient hotels may be located within a 1,000-foot radius of the entrance and exit of a limited access expressway.

⁴³ Some ongoing DCP PLACES studies also propose hotel Special Permits.

⁴⁴ The CPC Special permit is a discretionary action by the City Planning Commission. The application process includes a public review by ULURP and reviews by the Community Board, Borough President, and City Planning Commission. The City Council and Mayor also have the option to review the application.

NYC and Sub-Area Hotel Market Existing Conditions

In early 2018, New York City enacted a local law to force short-term rental platforms such as Airbnb to share all of their listing data with City authorities so that their legality could be verified. In December 2018, the U.S. District Court in Manhattan stopped the local law by way of an injunction on the grounds that the law could violate the Fourth Amendment. In 2019, however, the Mayor's Office of Special Enforcement (OSE) reached an agreement with Airbnb and HomeAway, which have agreed to provide 17,500 listings to OSE for review. The City has also increased OSE's budget as it continues to file multiple lawsuits, primarily against building owners who have illegally converted multiple dwelling units into short-term rentals. In 2019, the agency conducted 5,775 reviews, a 30 percent increase over 2018.

Expiration of Local Law 50

To preserve hotel jobs in the midst of a strong luxury condo-market the City passed Local Law 50 in 2015. This law prohibited owners of hotels larger than 150 rooms from converting more than 20% of rooms to other uses, such as condos. The law expired on June 2, 2019 and many hotel industry experts expect it to have a relieving factor on the oversupply of hotel rooms in New York as older properties or less successful hotels are taken off the market, converted to residential or a hotel/residential mix, such as those at the Plaza and Waldorf Astoria Hotels that greatly reduced room count. For example, one of the first planned conversions since the law's expiration is the Grand Hyatt Hotel near Grand Central Terminal. The hotel will be demolished and replaced with a larger multi-use building. The Grand Hyatt initially had around 1,300 hotel rooms and is projected to have only 500 hotel rooms in the new building.

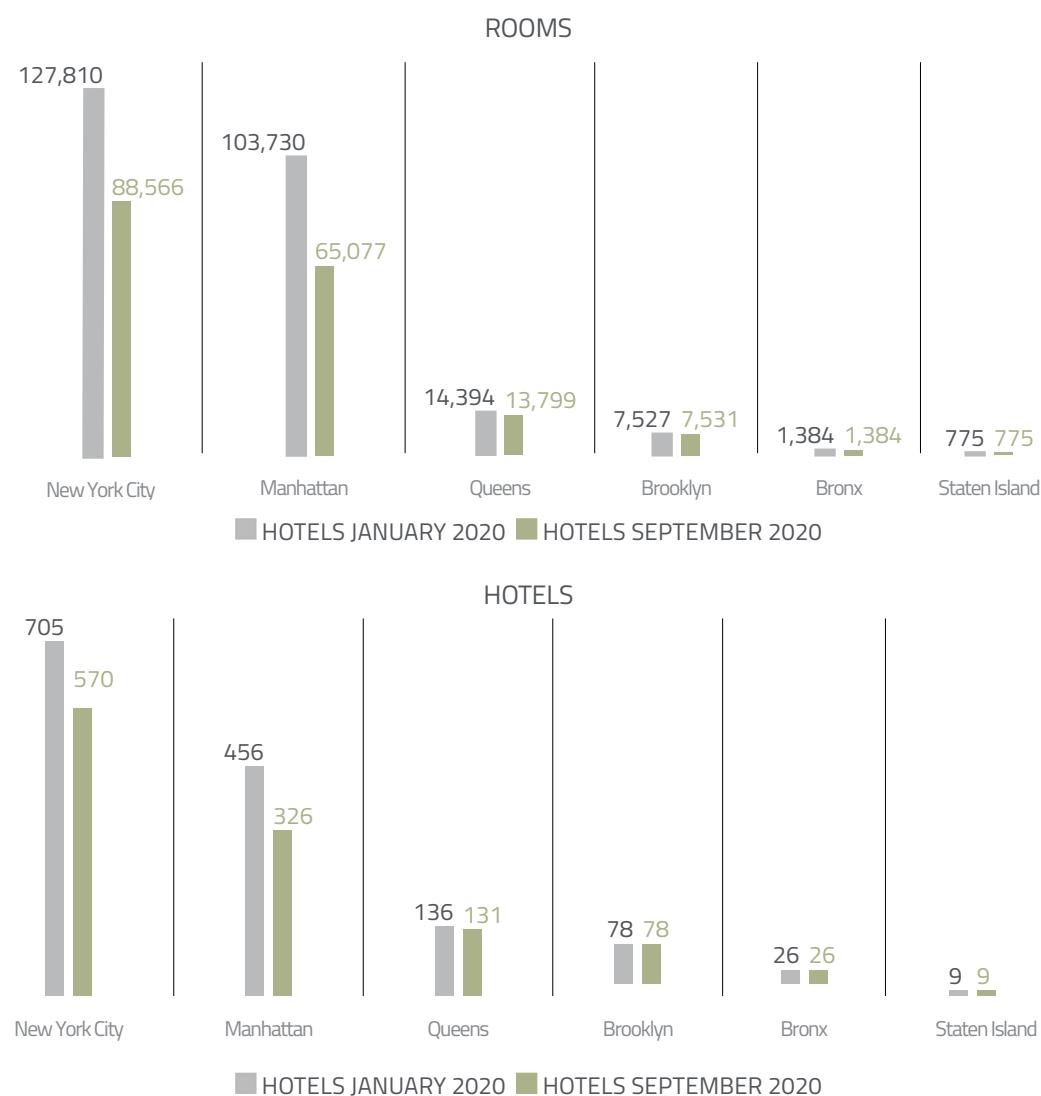
Impact of COVID-19 on the New York City Hotel Market

The COVID-19 pandemic has had a disastrous, ongoing effect on the New York City hotel market, and there have been no signs of recovery since lockdowns and travel restrictions took effect in March 2020. The pandemic has massively reduced the hotel and rooms inventory in Manhattan specifically, and citywide, occupancy rates and ADRs are historically low and have not responded to typical seasonal fluctuations.

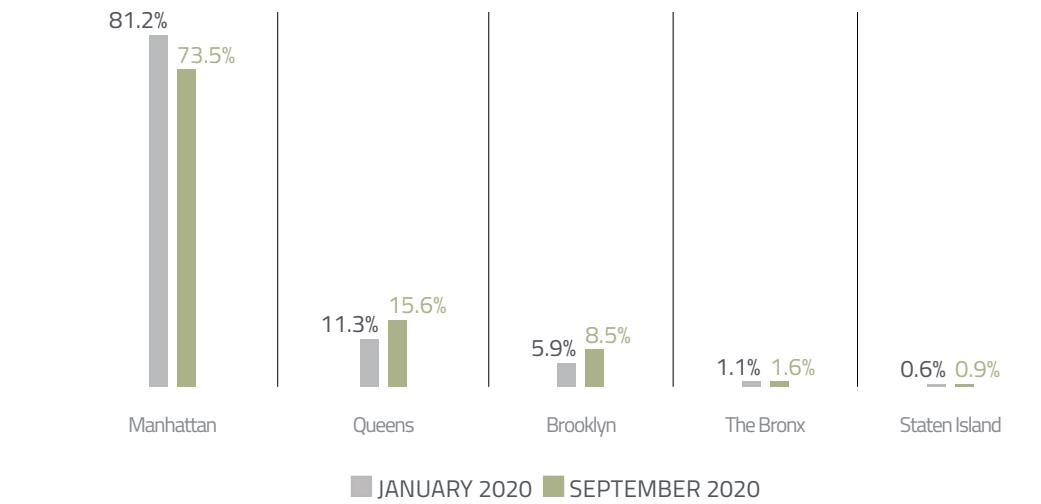
While the impacts have been drastic, they predictably correspond with the severity of restrictions on domestic and international travel currently imposed by local governments and other countries limiting travel to the United States. While the effects are alarming for both the City and its hotel industry, the occupancy rate citywide has not dipped below 38.0 percent since March 2020. Because the vast majority of all NYC rooms are located in Manhattan, Citywide occupancy rate and ADR averages are heavily skewed by conditions in Manhattan, suggesting there is a floor of demand for lodging in New York City.

Between January and September 2020, a net total of 135 (out of 705) hotels and 39,244 (out of 127,810) rooms closed in New York City, representing a decline of 20 and 31 percent, respectively. With 96.3 of these room closures occurring in Manhattan, citywide trends are driven almost entirely by the pandemic's specific impact on the Manhattan hotel market, which experienced a 37 percent loss in total rooms.

Queens had the second-largest impact of any borough, with a net loss of five hotels and 595 rooms, representing a four percent loss. The numbers of hotels and rooms in the Bronx, Brooklyn, and Staten Island remained constant between January and September 2020. However, Brooklyn experienced a shift in hotel typologies, losing some upscale rooms, and adding more economy rooms. Figure 1 shows net changes in the numbers of hotels and rooms in NYC and each of the five boroughs.

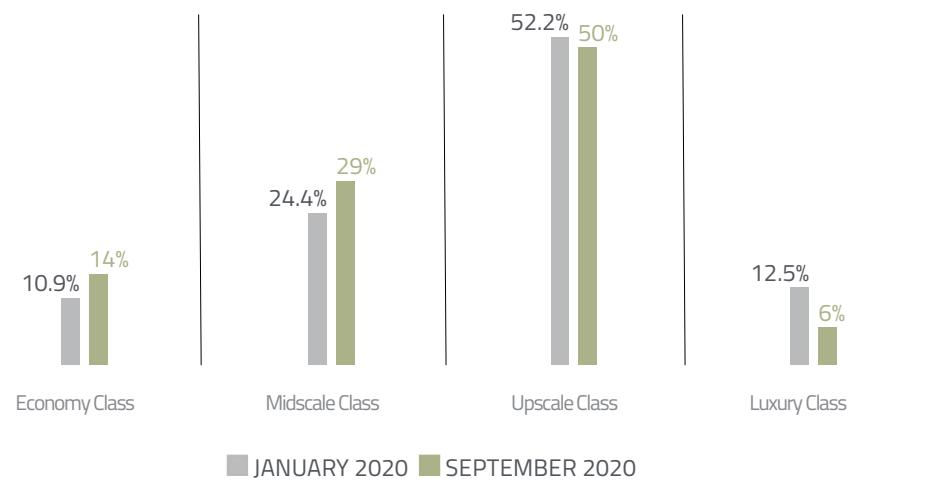
FIGURE 1: NET IMPACT OF COVID-19 ON NEW YORK CITY HOTELS AND ROOMS, JANUARY–SEPTEMBER 2020

As of September 2020, Manhattan's share of New York City hotel rooms has fallen to 65 percent, which is down from 81 percent in January. This is a significant shift in the geographic distribution of hotel rooms in New York City. Between 2009 and 2019, Manhattan lost five percent of its market share to the other Boroughs due to increased hotel development in the other boroughs, and particularly Queens and Brooklyn. As Figure 2 and Figure 3 show, Queens now has nearly a quarter of New York City hotels, and 16 percent of rooms, while Brooklyn now has six percent of hotels and nearly nine percent of rooms.

FIGURE 2: GEOGRAPHIC DISTRIBUTION OF HOTEL ROOMS IN NEW YORK CITY BY BOROUGH, JANUARY–SEPTEMBER 2020

Luxury rooms across the City were also disproportionately impacted. Before the COVID-19 pandemic, luxury rooms accounted for 12.5 percent of all hotel rooms in NYC, while now they only account for 6.2 percent. Upscale rooms have also lost market share, citywide, decreasing from 52.2 percent of the market to 50.1 percent of the market. Economy and midscale hotels, which have lower ADRs have increased market share during the pandemic. Figure 3 shows the share of rooms across NYC in January 2020 and September 2020.

FIGURE 3: DISTRIBUTION OF HOTEL ROOMS IN NEW YORK CITY BY CLASSIFICATION, JANUARY–SEPTEMBER 2020



SOURCE: STR, 2020.

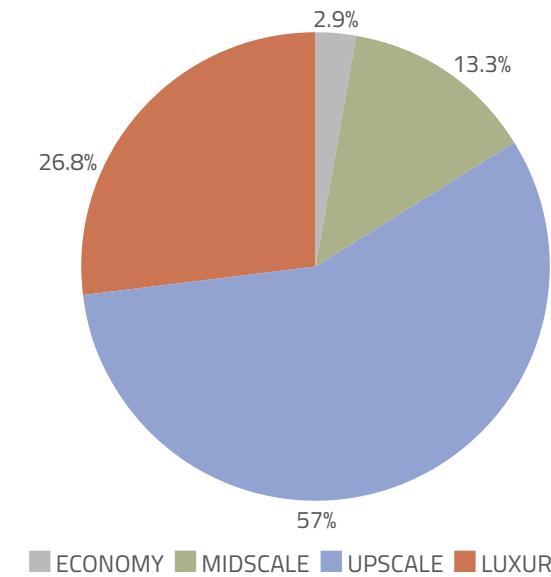
Rooms classified as Upscale¹ accounted for 57 percent of closures, while Luxury rooms accounted for an additional 27 percent, thus representing the vast majority of closures, as shown in Figure 4. This may be unsurprising given that demand for these class types of rooms are elastic, depending largely upon tourism, which has nearly ceased, and business travelers, who have been meeting virtually. This has accelerated growth in the share of Midscale rooms, which increased from 25 percent of the inventory in January to 30 percent in September. Economy rooms were particularly resilient to the effect of the pandemic, accounting for less than 4 percent of closures in Manhattan and a net gain of 237 economy rooms in Queens and Brooklyn.²

The resilience of economy hotels during this pandemic may be related to their lower operating costs compared to upscale, which offer more services, like room service, that require higher levels of employment. Economy hotels generally do not offer services with high staffing needs and operating costs, and they require lower average daily rates to break even financially.

¹ For example, Upscale hotels in NYC include the Hilton Garden Inn New York Times Square, the Empire Hotel, and the Crowne Plaza Times Square Manhattan.

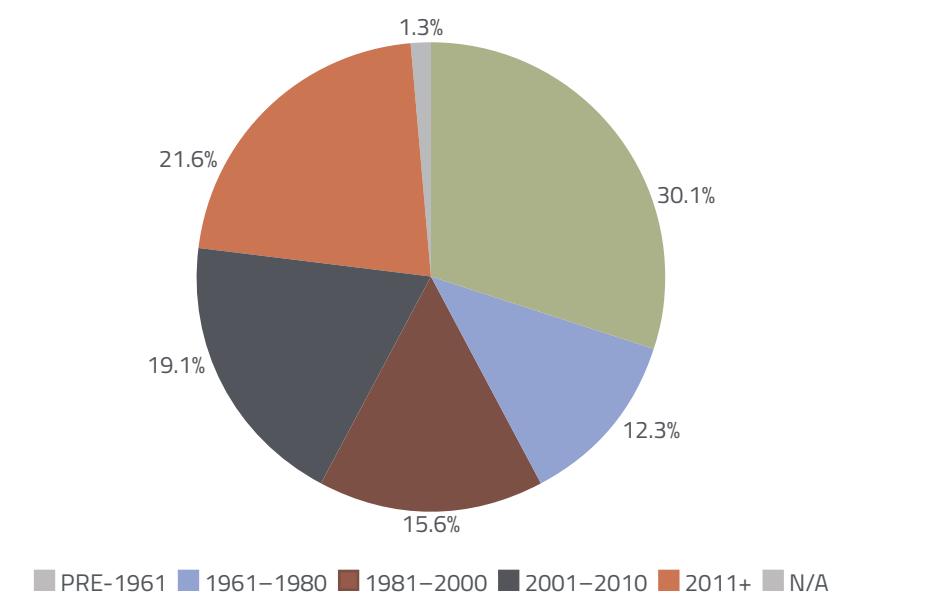
² Because Smith Travel Research (STR) categorizes hotel rooms by ADR, changes in room rates can result in a shift between categories with no other changes to the hotels. For example, a hotel charging \$325 per night would be categorized as upscale, while the same hotel charging \$120 per night would be categorized as economy.

FIGURE 4: PERCENTAGE OF ROOMS CLOSED BY CLASSIFICATION, NEW YORK CITY, JANUARY–SEPTEMBER 2020



SOURCE: STR, 2020.

Citywide, the age of the hotel inventory in September 2020 is slightly younger than in January 2020. The average hotel age fell from 28 years to 25 years, while the median age of hotels fell from 12 to 11 years. Of the hotels that closed in Manhattan, the average age was 38 years, which is older than the January 2020 average age of 35 years. As this suggests, some well-established Manhattan hotels including the St. Regis and The Empire Hotel have closed due to the pandemic. The median age of closed hotels was 18 years, while the January 2020 median age of all hotels was 12 years. Therefore, while most of Manhattan hotels are newer, it was the older stock of pre- and post-millennium hotels that were more likely to close due to the pandemic. Specifically, as shown in Figure 5, just over 30 percent of offline rooms were in hotels built before 1961, while 40.7 percent of offline rooms were in hotels built after 2000. Hotels built in the 40 years between 1961 and 2000 were relatively resilient, accounting for 27.9 percent of room closures.

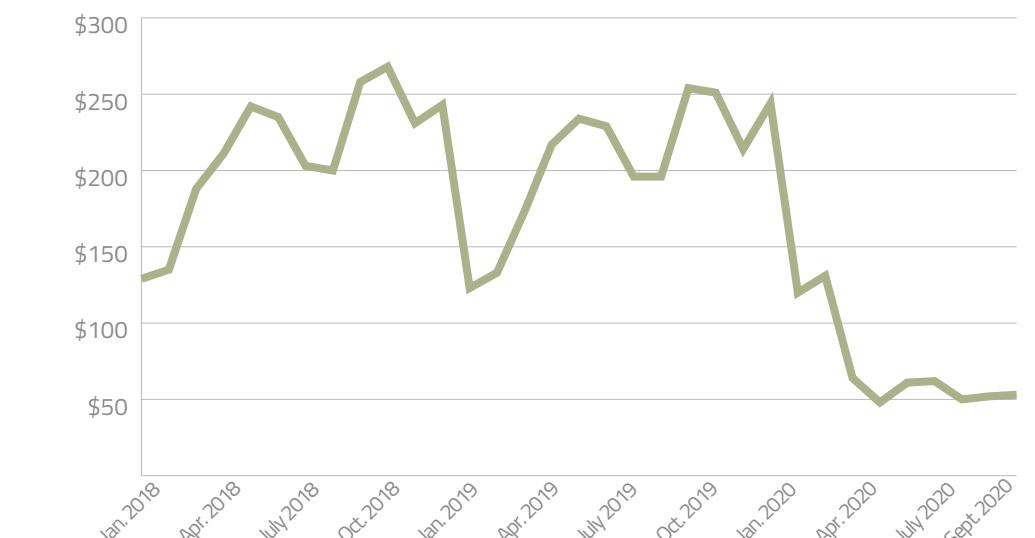
FIGURE 5: NEW YORK CITY REVPAR TRENDS, JANUARY 2018–SEPTEMBER 2020

In addition, the number of boutiques, small independent hotels of under 200 rooms, fell from 97 to 62 in Manhattan, but none of the 14 boutiques in the other boroughs, including the nine in Brooklyn, closed.

While the pandemic has disproportionately affected Manhattan, the Queens hotel inventory was also impacted. Queens lost over 1,000 existing rooms but gained a new Upscale hotel of 512 rooms (the TWA Hotel at JFK Airport), which opened right at the start of the pandemic. It has not closed, but it is likely struggling to keep up its occupancy rates and ADRs. Nonetheless, Manhattan hotels have been the primary victim of the pandemic as occupancy rates and ADRs have fallen more significantly on average than in Queens, where the decline in rates is comparable to Brooklyn, which had no net loss in rooms or hotels.

As of September 2020, citywide occupancy rates are down 56.9 percent from 89.6 percent in September 2019 to 38.9 percent in September 2020, which is an unprecedented low for New York City. New York City consistently ranks as one of the top hotel markets in the country, with an 86.7 percent average annual occupancy rate in 2019. Similarly, ADRs are down 52.3 percent citywide from \$307 in September 2019, to \$137 in September 2020. This leads to the current RevPAR of \$53.13, which is down from \$253.52 at the same point last year. As with all COVID-related and general hotel trends, NYC's RevPAR is driven by Manhattan where the RevPAR is \$43.61, which is the lowest among the boroughs.

Brooklyn and Queens have comparable RevPARs between \$76 and \$79, while the Bronx has the highest RevPAR (\$100.16), and Staten Island has the second lowest (\$55.93). Figure 5 shows the changes in RevPAR for the City since January 2018. Clearly, the seasonal fluctuations in rates that are evident and consistent in 2018 and 2019 have not been present since March 2020. In the seven months since the start of the pandemic, normal economic conditions have not recovered to the point where demand changes seasonally. Interviews with hotel industry professionals suggest that out of a currently occupancy rate of 38 percent, traditional lodgers account for a 10 percent occupancy rate, with the remaining 28 percent coming from government contracts for shelters or health workers.

FIGURE 6: NEW YORK CITY REVPAR TRENDS, JANUARY 2018–SEPTEMBER 2020

HOTEL CLOSURES: THE STATE OF THE NYC HOTEL MARKET IN OCTOBER 2020

As of the end of September/beginning of October in 2020, around 55% of U.S. hotels were at break-even occupancy, which is around a 40% occupancy rate. The New York City hotel market is currently underperforming relative to most large U.S. cities. Atlas Hospitality Group forecasts that the state of New York will have 1,500 hotel closings, behind only California at 3,800, TX at 3,700, and Florida at 2,500.³

³ "Hotel Industry Girds for Estimated 38,000 Property Closings Without New Federal Aid," CoStar, September 30, 2020.

One of the main reasons cited is New York City's heavy dependence on international and business travel, which have been severely limited since March 2020. For the week ending on September 26, 2020, New York City had an occupancy level of 38.3%. This was behind 11 large markets, including San Diego (53.6%), Los Angeles (52.7%), Phoenix (49.9%), Atlanta (49.7%), Philadelphia (47.6%), New Orleans (46.2%), Dallas (44.8%), Anaheim/Santa Ana (43.7%), San Francisco (40.5%), D.C. (39.7%), and Seattle (38.5%).⁴ WARN data from the NYS Department of Labor shows that from March 2020 to October 2020, approximately 212 hotels in NYC filed as closing, temporarily closing, or conducting temporary mass layoffs. Hotels are required to issue WARN notices if (1) their planned closing affects 25 or more workers; (2) there are planned layoffs involving 25 or more workers and that constitutes at least 33% of the workforce at the property; (3) there are planned mass layoffs involving 250 or more workers; and (4) there are certain other planned relocations or specific reductions in work hours. The vast majority of these filings are noted as temporary closings or layoffs, not permanent closures.⁵

STR reported a total of 140 hotel "closings" in New York City as of September 2020. STR defines "closing" as hotels that have stopped reporting data to them; the company does not make a distinction between a permanently or temporarily closed hotel. Based on both STR and DOL data, PricewaterhouseCoopers' estimates that approximately 58% of total hotel rooms in Manhattan are still closed as of early September 2020.⁶ For a definitive listing of permanently closed hotels, the Consultant Team spoke with the Hotel Association of New York City (HANYC), which closely tracks the status of its members. According to HANYC, ten hotels in New York City have indeed permanently closed, all at least Upper Midscale class and all located in Manhattan. These confirmed permanent hotel closures are detailed in Table 1.

TABLE 1: PERMANENT HOTEL CLOSURES IN NEW YORK CITY CONFIRMED BY HANYC, OCTOBER 2020**HOTEL CLOSURES CONFIRMED BY HANYC**

HOTEL NAME	NEIGHBORHOOD	ROOMS	CLASS	AFFILIATION	CONVENTION SPACE	TOTAL MEETING SPACE (SF)
ACE HOTEL SISTER CITY	VILLAGE/SOHO/TRIBECA	200	UPPER UPSCALE	ACE HOTEL	N	N/A
COURTYARD NEW YORK MANHATTAN / CENTRAL PARK	MIDTOWN WEST / TIMES SQUARE	378	UPSCALE	COURTYARD	N	2,321
COURTYARD NEW YORK MANHATTAN / HERALD SQUARE	MIDTOWN SOUTH	167	UPSCALE	COURTYARD	N	750
OMNI BERKSHIRE PLACE	MIDTOWN EAST	399	UPPER UPSCALE	COURTYARD	N	7,000
SALISBURY HOTEL	MIDTOWN WEST / TIMES SQUARE	197	UPPER MIDSCALE	INDEPENDENT	N	1,500
THE BLAKELY NEW YORK HOTEL	MIDTOWN WEST / TIMES SQUARE	118	UPPER MIDSCALE	INDEPENDENT	N	750
THE FREDERICK HOTEL	FINANCIAL DISTRICT	131	UPSCALE	INDEPENDENT	N	N/A
THE MAXWELL NEW YORK CITY	MIDTOWN EAST	697	UPPER UPSCALE	TRIBUTE PORTFOLIO	N	5,473
THE ROOSEVELT HOTEL	MIDTOWN EAST	1,025	UPSCALE	INDEPENDENT	Y	25,798
WESTHOUSE HOTEL NEW YORK	MIDTOWN WEST / TIMES SQUARE	172	UPPER UPSCALE	INDEPENDENT	N	N/A
TOTAL		3,484				43,592

SOURCES: HANYC; STR; both October 2020.

⁴ NYC & Company, Monthly Tourism Dashboard Development, October 2020.

⁵ <https://labor.ny.gov/app/warn/>.

⁶ PwC, Manhattan Lodging Index: Q2 2020.

In addition to the ten hotels in Table 1, HANYC has noted that, although it does not have formal confirmation of W Hotel New York Downtown closing, it confirms that Marriott divested from the property and that the future of the hotel is unclear. Despite press reports of its closure, HANYC notes that the Hilton Times Square is not closing permanently and is accepting reservations starting on January 1, 2021. There are reports in the press and WARN filings that three other hotels have permanently closed; however, HANYC cannot confirm these.

HANYC has noted that some hotels remain closed but are in the process of changing ownership or negotiating with lenders to maintain their properties as hotels. For example, Marriott has divested in its New York Marriott East Side hotel and changed the hotel operator to Aimbridge, however, the hotel remains closed. The Marriott Times Square Edition filed a closing with DOL in May 2020, but according to some press reports, the developer, lender and Marriott International have since come to a financing agreement and now plans to re-open on January 2021.⁷

Although STR does not make a distinction between permanently closed and temporarily closed hotels, analyzing its list of hotels that have stopped reporting data helps to provide a picture of the impact of COVID-19 on the hotel market. Note, that there are 3 hotels that HANYC confirmed as closed that were still reporting data to STR as of September 2020. These three unconfirmed additional hotel are shown in Table 2 below.

TABLE 2: PERMANENT HOTEL CLOSURES REPORTED IN THE PRESS BUT NOT CONFIRMED BY HANYC, OCTOBER 2020**HOTEL CLOSURES CONFIRMED BY HANYC**

HOTEL NAME	NEIGHBORHOOD	ROOMS	CLASS	AFFILIATION	CONVENTION SPACE	TOTAL MEETING SPACE (SF)
AKA WALL STREET	FINANCIAL DISTRICT	132	LUXURY	AKA	N	N/A
EDITION TIMES SQUARE	MIDTOWN WEST / TIMES SQUARE	452	LUXURY	EDITION	N	N/A
EXCELSIOR HOTEL MANHATTAN	MIDTOWN WEST / TIMES SQUARE	198	UPPER UPSCALE	INDEPENDENT	N	180
TOTAL		782				180

SOURCE: *The Real Deal*, September 30, 2020.

Meeting and Convention Space

As of January 2020, STR reported approximately 1,746,000 square feet of meeting and convention space in New York City hotels. As of the end of September 2020, the hotels reported closed by STR and/or HANYC comprised 622,600 square feet of meeting and convention space, 36 percent of the total that existed at the beginning of the year. The hotels confirmed as permanently closed by HANYC as of October 2020 contained a total of 43,600 square feet of meeting and convention space, or two percent of the total.

⁷ "Times Square Edition to reopen as Maefield clears up debt dispute," *The Real Deal*, July 14, 2020.

NEW YORK CITY BOROUGH & SUBMARKET PROFILES

Manhattan

Manhattan is the tourism and business hub of New York City and by far the largest and most diverse hotel market of any borough in the City. As of September 2020, Manhattan had 65,077 rooms in 326 hotels, representing 73.5 percent of New York City's inventory. Rooms classified as Upscale or Luxury in Manhattan make up 64.8 percent of all hotel rooms in the borough, while 26.9 and 8.3 percent of the rooms are classified as Midscale and Economy, respectively. Manhattan also contains 62 of the City's 76 small independent hotels of under 200 rooms (boutiques).

Although Manhattan still dominates the City's hotel market, it was also most affected by the economic impacts of COVID-19. In January 2020, prior to the start of the crisis in the United States, Manhattan had 103,730 rooms in 456 hotels, which accounted for 81.2 percent of the City's inventory. Of the 39,244 rooms that went offline between January and September of 2020, 96.3 percent were in Manhattan. The magnitude of COVID-19's impact on Manhattan's hotel market compared to the other boroughs has shifted the lodging profile of the city. COVID-19 has diminished Manhattan's share of the City's hotel rooms, which has fallen from 81.2 percent in January 2020 to less than three-quarters of the City's inventory in just nine months. Although Manhattan has comprised a smaller share of the City's inventory every year since 2009 due to the relatively rapid rate of hotel construction in the other boroughs, the 7.7-point decline in Manhattan's share due to COVID-19 has exacerbated that gradual shift.

Given Manhattan's scale and diversity, it has numerous distinct submarkets with their own unique demand drivers and hotel supply profile. These include the core of the Midtown business and theater district, the Garment and Flatiron Districts, SoHo and the Lower East Side, and the Downtown Financial District, in addition to the Upper West and Upper East Sides and Harlem. As a result, this study provides a deeper understanding of trends in six submarkets. These markets are defined to be: Upper East Side/Upper West Side/Harlem/Uptown; Midtown West/Times Square; Midtown East; Midtown South/Chelsea; Soho/Union Square/Village/Tribeca/Lower East Side; and the Financial District. More detail on these submarkets is discussed later in the section.

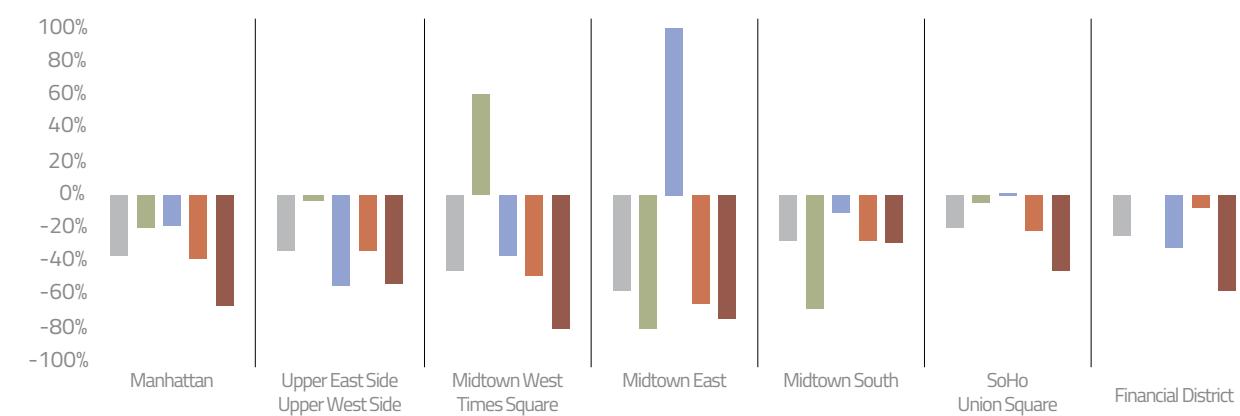
MANHATTAN HOTEL SUPPLY

CHANGE IN TYPOLOGY

Between 2009 and 2019, the number of Midscale rooms in the Manhattan grew by 62 percent, a rate faster than any other class of hotel. This is comparable to the rate of growth in Upscale rooms, which increased by 58 percent during the same period. Upscale rooms are the most common, accounting for 56.7 percent all Manhattan hotel rooms in September 2020, which is comparable to the share of this room-type in 2009, when Upscale rooms comprised 55 percent of the inventory. This is notable because in January 2020, the number of upscale rooms peaked, accounting for 63 percent of the inventory, which was largely attributable to the nationally branded Limited-Service and Select-Service hotel product pioneered in Manhattan by a new cohort of hotel developers.

However, due to COVID-19, the number of Upscale rooms fell by 38.2 percent, and Luxury rooms declined by 66.7 percent, both of which outpaced the 13.9 percent decline in Economy and Midscale rooms. This is shown in Figure 7. As a result, the share of Economy and Midscale rooms has increased to over 35 percent of Manhattan hotel rooms, compared to just over 27 percent in January. Indeed, despite the overall net loss in every room type across Manhattan submarkets, there was a net increase of 925 economy-class rooms in Midtown West, and 1,325 new midscale rooms in Midtown East, which is due to the shift in class type based on falling ADRs. In Midtown West 921 rooms were reclassified from Midscale to Economy, while in Midtown East, 6,505 rooms were reclassified from Upscale to Midscale. Nonetheless, Manhattan contrasts with the other boroughs in terms of typology, as Economy and Midscale rooms comprise over 50 percent of the hotel inventory everywhere else in the City.

FIGURE 7: PERCENTAGE CHANGE IN ROOM CLASS TYPE BY BOROUGH, JANUARY–SEPTEMBER 2020



SOURCE: STR, 2020.

CHANGE IN AVERAGE HOTEL SIZE

Similar to overall New York City hotel supply trends, the new Manhattan supply was built, on average, in smaller hotels. For instance, whereas hotels built after 2009 (but prior to COVID) had an average room count of 204, those built in 2009 and before had an average of 242 rooms. The most marked difference is in Economy and Upscale class hotels, where the average room count has dropped by 44 and 25 percent, respectively. Midscale and Luxury class hotel sizes also declined, though at more modest rates of 11 and nine percent, respectively. This can be attributed to the new types of Upscale and Luxury hotels that have been built in the past decade in Manhattan, including more Select-Service and smaller "boutique" style hotels that were less prevalent in the market in 2009. Interestingly, but perhaps unsurprisingly, larger hotels have closed as a result of the pandemic, thus accelerating the shift towards smaller hotels. The average number of rooms per hotel, regardless of year built, has fallen between January and September 2020. Hotels built after 2009 now have an average of 185 rooms, compared to 208 rooms in hotels built before 2009.

HOTEL DEMAND DRIVERS

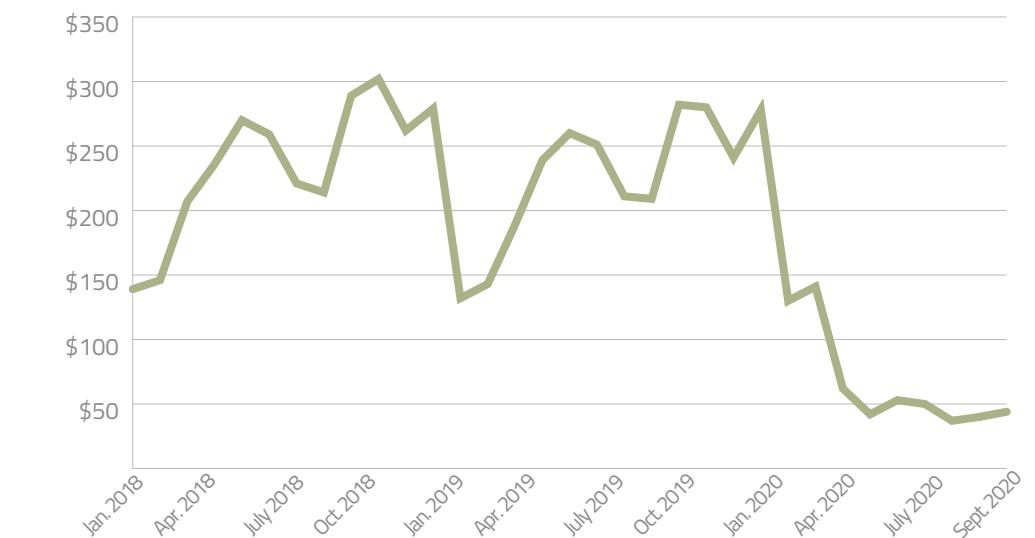
As the business, cultural and tourism hub of New York City, Manhattan is one of the largest and most active hotel markets in the world. Both domestic and international travelers are drawn to Manhattan for its theater, museums, restaurants, shopping, and other attractions. Business travelers are drawn to the Borough because it is the commercial capital of the United States. As noted, demand for hotels in Manhattan has continued to grow with the large increase in supply over the past decade. Visitors also have a much wider array of choices in nationally branded Midscale and Upscale properties close to Midtown and the Theater District with a recent spurt of development in Midtown South. These have proven to be very popular with both international and domestic travelers looking for predictable quality rooms in Manhattan at a lower price point. In addition, the development of Hudson Yards has brought new hotel development to the far West Side, while the Lower East Side has seen a boom in independent and boutique hotels. Ongoing lockdowns and travel restrictions related to the COVID-19 pandemic, heavily impacted the industries Manhattan relies on to drive demand for hotels. This is particularly true for tourism, as tourists are unlikely to travel to New York given the required two-week quarantine period, including from domestic travelers coming from any state other than New Jersey, Pennsylvania, and Connecticut. Moreover, as businesses continue to allow work from home and virtual meetings options, and transition to telecommuting on a more permanent basis, hotels dependent on business travelers may struggle to recover to pre-COVID levels. Still, and as shown in the following subsections, while Manhattan occupancy and ADR levels are at unprecedented lows for the borough, the pandemic has not eliminated demand all together, and there exists a floor for hotel demand in Manhattan.

OCCUPANCY RATE TRENDS

In 2018 and 2019, occupancy rates in Manhattan ranged from lows of 75 percent in January to over 90 percent during the peak Fall to Christmas seasons. These seasonal trends have historically been consistent, and Manhattan's occupancy rates even during off-peak months far exceeded the U.S. average of 66.1 percent in 2019 and were higher than all its national peer markets. However, as shown in Figure 7, occupancy rates are very low compared to recent years, and the changes in rates by month since March 2020 do not follow the seasonal patterns expected for the borough, suggesting demand is still primarily affected by the pandemic. Whereas occupancy rates have increased by up to 14 percent between February and September in past years, occupancy rates are down 60.8 percent between September 2020 and February 2020. The occupancy rate in Manhattan as of September 2020 is 31.3 percent, which is 65.7 percent lower than the 90.6 percent occupancy rate in September 2019.

REVENUE TRENDS

ADRs and RevPAR declined slightly between 2018 and 2019, continuing a downward trend from their peaks in 2014. Prior to COVID-19, many market analysts and hotel developers indicated that the hotel supply in Manhattan had reached saturation due to the recent hotel boom and noted that both occupancy rates and average daily rates could not remain at previous levels due to increased competition. This is not a concern in the aftermath of COVID, as the 38,653 rooms that went offline in Manhattan between March 2020 and September 2020 is greater than the 34,804 total rooms added between 2009 and 2019. As of September 2020, the RevPAR is \$53, which is 79.4 percent lower than in September 2019. While RevPAR in Manhattan has increased by 90 percent between February and September in recent years, ADRs between February and September 2020 have fallen by 59.4 percent.

FIGURE 8: MANHATTAN HOTEL MARKET REVPAR TRENDS, JANUARY 2018–SEPTEMBER 2020

SOURCE: STR, 2020.

Manhattan Submarket Profile: Upper East Side/Upper West Side/Harlem/Uptown

The Upper East Side/Upper West Side/Harlem/Uptown submarket, which includes the whole northern portion of Manhattan north of 59th Street, is the smallest hotel submarket within Manhattan, accounting for 6.0 percent of the borough's hotel rooms. While the submarket has the fewest number of rooms within Manhattan (3,905), it has more hotels (31) than Midtown East (26) or the Financial District (28), as of September 2020. The rate of rooms going offline in the submarket was approximately average for the borough; while Manhattan lost 37.3 percent of rooms between January and September, The Upper East Side/Upper West Side/Harlem/Uptown submarket lost 34.2 percent.

SUPPLY

The Upper East Side/Upper West Side/Harlem/Uptown Manhattan hotel market is a mature and slow-growth submarket distinguished by the fact that so few of its hotel rooms are located in nationally-branded hotel properties. Approximately 75 percent of the hotel properties and 70 percent of the hotel rooms in this submarket are independent unaffiliated properties. Other than the Aloft Harlem, no other branded hotels have opened in this submarket in the past decade in part due to a lack of available development sites and limited commercial zoning. Unlike many of the other Manhattan submarkets, the Uptown submarket has seen little new construction or addition of hotel properties in the past decade. Since 2010, only three new hotels have opened in this submarket with a total of 230 rooms. Two of these hotels are located in the Washington Heights neighborhood, while the third and largest hotel, a 124-room Aloft, is located in Harlem. There are two hotels in the pipeline for this submarket that have been permitted for construction, accounting for 418 rooms.

Luxury class hotels account for a relatively large portion of the hotel supply in this market, with 20.3 percent of the hotel rooms in Luxury class properties, located primarily on the Upper East Side in the blocks near Central Park. Similarly, nearly one-half of the hotel rooms in this submarket are in Upscale properties, located primarily on the Upper West Side and Upper East Side. There are relatively few Midscale hotel rooms in this submarket (3.7 percent of the total), and they are located predominantly on the Upper West Side. Economy class properties are clustered in Harlem and the northern Upper West Side (north of W. 92nd Street)

This submarket has the highest RevPAR in Manhattan as of September 2020, which the product of a \$221 ADR and 42.6 percent occupancy rate, both of which are also the highest among Manhattan submarkets. In fact, only the Bronx borough is reporting a higher RevPAR than the Uptown submarket. Nonetheless, there is a significant gap between the RevPAR in September 2019 and September 2020, which fell by 72 percent. Furthermore, RevPAR has increased in the Uptown submarket by nearly 100 percent between February and January of recent years, but RevPARs down 46 percent since February 2020.

FIGURE 9: UPPER EAST SIDE/UPPER WEST SIDE/HARLEM/UPTOWN HOTEL MARKET REVPAR TRENDS, JANUARY 2018–SEPTEMBER 2020



SOURCE: STR, 2020.

Demand Drivers

The Uptown Manhattan submarket, particularly on the Upper East Side, contains many of New York City's "grand dame" Luxury class hotels, including the Sherry Netherland, the Plaza-Athénée, the Carlyle and the Pierre. These properties cater to a global elite clientele and those seeking a very specific New York City experience. Midscale hotels on the Upper West Side offer a lower cost alternative than many similar hotels in Midtown and serve visitors to Columbia University. Harlem, on the other hand, is an emerging hotel market that attracts budget travelers and many visitors that wish to specifically be in Harlem. With the exception of the Aloft, which opened ten years ago, Harlem is dominated by smaller independent and boutique hotels. No new hotels have opened in Harlem in five years.

Manhattan Submarket Profile: Midtown West/Times Square

Extending from the southern boundary of Central Park to 42nd Street, the Midtown West/Times Square submarket is one of the largest in Manhattan, with 69 total hotels and 20,292 hotel rooms in September 2020. This submarket was distinctly the largest submarket in Manhattan as of January 2020, when it had 113 hotels and approximately 37,000 rooms, 8,000 more rooms than the next largest submarket, Midtown South. Midtown West now only has roughly 200 more rooms than Midtown South, as Midtown West lost 45.2 percent of its rooms due to COVID-19 and accounted for 43.2 percent of rooms that went offline in Manhattan between January and September 2020.

Hotels with meeting space and conference facilities were disproportionately affected in this submarket. In total, Midtown West lost nearly 292,000 square feet of meeting space in 36 hotels, accounting for 48 percent of all the meeting space lost in Manhattan. Nearly 82 percent of the hotels closed in this submarket had meeting space, compared to the citywide average of 70 percent. This is second only to Midtown East, where 89 percent of hotels closed had meeting space, although they accounted for just over 162,000 square feet of lost meeting space. Conversations with stakeholders indicate that convention hotel facilities were struggling financially, both nationally and in NYC before the pandemic. In many cities across the nation, hotel developers require subsidies to open hotels of this type. Thus, small changes to profitability from losses to RevPAR can have a disproportionate impact on these hotels compared to hotels overall.

Supply

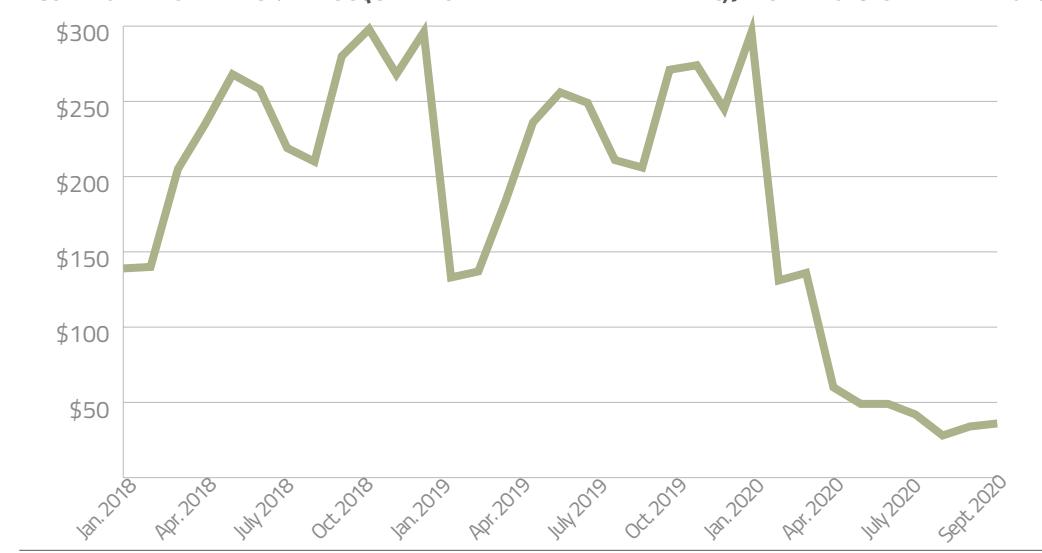
The Midtown West/Times Square submarket contains a diverse inventory of hotel properties, in terms of size, age and class. While four of the top five largest hotels are in the Midtown West/Times Square submarket, including the Marriot New York Marquis, Hilton Midtown, Sheraton Times Square, and Row NYC all with over 1,300 rooms, the submarket also has a variety of small boutique and independent hotels. In terms of hotel age, the submarket contains a significant inventory of older hotels, and has experienced a modest amount of new development since 2010. The hotels built since 2010 tend to be concentrated in two areas, along 57th Street and Broadway, as well as around Times Square.

Currently, Midtown West accounts for 21.2 percent of Manhattan hotels and 31.2 percent of rooms in the borough, indicating larger average hotel sizes within this submarket relative to other Manhattan submarkets. Additionally, although the Midtown West/Times Square area is the largest hotel submarket, it experienced a lower amount of new development over the past decade relative to other emerging submarkets in Manhattan prior to COVID. Since 2009, 34 new hotels have been delivered in this submarket, including 8,730 hotel rooms. This accounts for 20 percent of the new hotels and 25 percent of hotel rooms delivered in Manhattan over the past decade. There are an additional 2,427 rooms in the pipeline in 5 new hotels for the submarket, and another 448 rooms in existing hotels that have applied to expand their hotel. If all rooms in the pipeline are delivered, development will be consistent with share of development in this submarket over the past decade, as the pipeline accounts for 24 percent of rooms in the pipeline for Manhattan.

While Upscale hotels account for the majority of the existing room inventory, this submarket has the largest share of Midscale class hotels with 33.7 percent. Together with the Economy Class rooms, 9,268 (45.7 percent) of Midtown West hotel rooms are either Economy or Midscale, which in terms of percentage and absolute numbers is the largest concentration of such rooms in Manhattan.

RevPAR in this submarket is down by 87 percent to just \$36 since September 2019. This decrease reflects this submarket's reliance on tourism, conventions, and other industries that COVID has directly undermined. This is the second-lowest RevPAR of all submarkets, and almost equal to the \$35 RevPAR in Midtown East, which has the lowest RevPAR in the city.

FIGURE 10: MIDTOWN WEST/TIMES SQUARE HOTEL MARKET REVPAR TRENDS, JANUARY 2018–SEPTEMBER 2020



SOURCE: STR, 2020.

Demand Drivers

Midtown West/Times Square draws hotel guests to a wide variety of lodging that is close to the Theater District and Hell's Kitchen's lively commercial and restaurant corridors. In addition, many of the larger hotels in this submarket serve as convention hotels for meetings at the Javits Center. While the past decade saw many select-service, nationally branded midscale hotels open in the Far West Side that cater to both domestic and international budget-minded leisure travelers, recent years have seen smaller boutique and independent hotels that cater to more discriminating travelers who still want to be in the heart of the Theater District.

Manhattan Submarket Profile: Midtown East

The Midtown East submarket has a relatively small inventory of hotels, with 26 total hotels containing 5,927 rooms, perhaps due to a relative lack of tourist amenities sought by non-business travelers. The hotels in the Midtown East submarket tend to be older, with an average age of 43 years. This has also been driven by limited new development, with only ten new hotels opening since 2010. Geographically, hotels tend to be concentrated around Grand Central Station. Midtown East has also been heavily impacted by COVID-19, experiencing the largest percentage change in total rooms, with 57.3 percent of rooms in this submarket going offline. This submarket lost nearly 8,000 rooms and lost more rooms overall than any other submarket other than Midtown West, which was nearly three times as large in January 2020. In fact, Midtown East lost more rooms overall than Midtown South, which had more than double the number of rooms than Midtown East in January. Midtown East now has the second-smallest share of hotel rooms in Manhattan, with more rooms than only the Upper East Side/Upper West Side/Harlem/Uptown submarket. With more than 162,000 square feet of offline meeting space, Midtown East lost the second most meeting space of all Manhattan submarkets, nearly 90 percent of offline hotels in this submarket had meeting space.

Supply

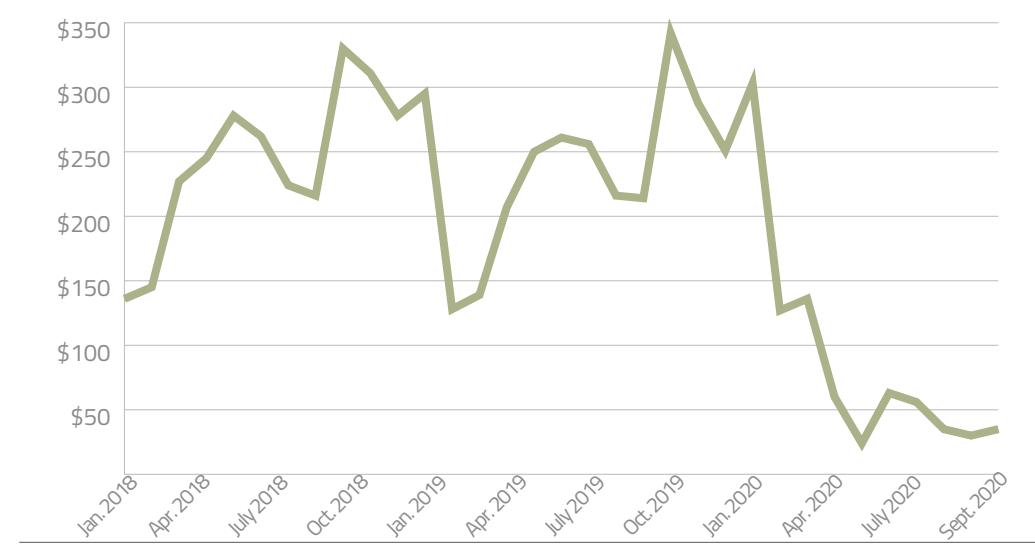
As noted above, the Midtown East hotel submarket has generally consisted of older and higher-end hotels. However, in Manhattan, Luxury and Upscale hotels were the biggest casualties of the pandemic in terms of rooms going offline, and given the concentration of such hotels in Midtown East, the profile of Midtown East hotels has changed drastically since January 2020. Whereas 94 percent of all hotel rooms were either Upscale or Luxury prior to COVID, this figure is now 69.6 percent, with Midscale rooms comprising 29.1 percent of hotel rooms, compared to just 2.9 percent in January.

Moreover, of the hotels opened in Manhattan between 2010 and January 2020, only ten were in Midtown East, accounting for 1,535 rooms, or 11 percent of the submarket's inventory. On average, over one-third of Manhattan hotel rooms were built after 2010 in January 2020, suggesting new hotels are relatively underrepresented in the Midtown East submarket. In fact, despite the significant expansion of hotels in New York City, the Midtown East submarket has not seen a new hotel deliver since 2016. While the older hotels tend to be independent hotels, the recent deliveries are typically affiliated with national brands, including Hilton and Hyatt.

Since 2011, only two of the seven new hotels were independent. In addition, the pipeline data for Manhattan hotel rooms suggest that only one new hotel is expected to be built in this submarket, accounting for 161 new rooms, while two hotels are permitted to be altered for a net loss of 1,111 rooms. Therefore, there is a net loss of 950 rooms projected for Midtown East, the only submarket where this is the case.

As of September 2020, as shown in Figure 10, the RevPAR was \$35, which is the lowest among all Manhattan submarkets. Midtown East is experiencing the largest gap between the typical change in RevPAR between February and September in recent years compared to 2020. RevPAR increased by 146.3 percent between February and September of 2019, while decreasing by 74.3 percent in 2020—a gap of 220.6 points.

FIGURE 11: MIDTOWN EAST HOTEL MARKET REVPAR TRENDS, JANUARY 2018–SEPTEMBER 2020



SOURCE: STR, 2020.

DEMAND DRIVERS

Midtown East attracts business travelers to its largely upscale hotels, who are drawn to the proximity to core office building corridors along Lexington, and Third Avenues. The United Nations (UN) also serves as an important demand driver in this submarket, with many hotels in the far East 40s and East 50s catering to UN diplomats and staff. Proximity to Grand Central Terminal is also a demand driver in Midtown East.

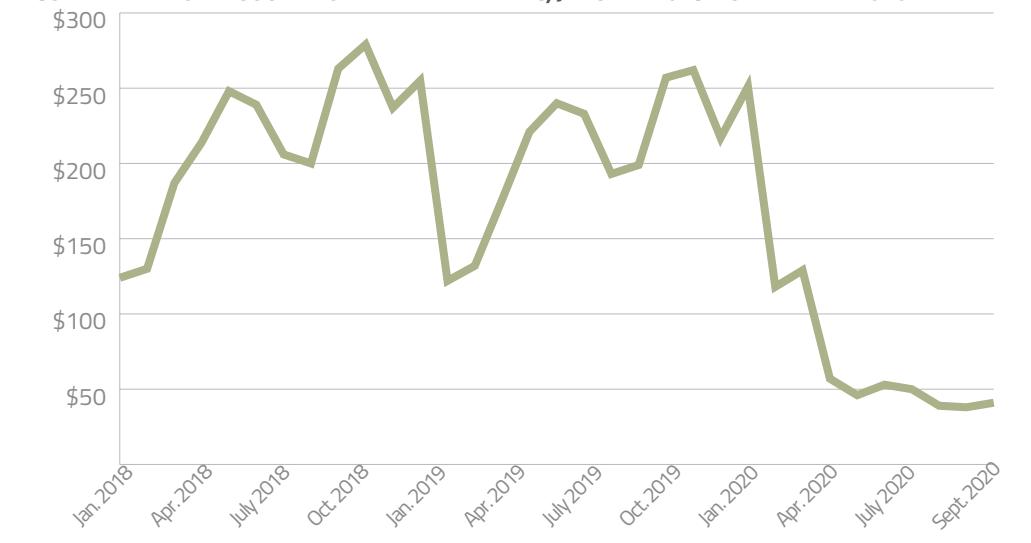
Manhattan Submarket Profile: Midtown South/Chelsea

The Midtown South/Chelsea submarket of Manhattan is the largest hotel submarket in the borough, although roughly the same size as Midtown West, which was previously the largest hotel submarket until the pandemic. In past years, this submarket has been the least expensive submarket within Manhattan, with the lowest inventory of Luxury hotels, and this remains the case in September 2020. Covering a significant area within Manhattan, the Midtown South area encompasses both existing and emerging hotel markets. The most significant expansion of the hotel inventory is in the garment district, with close proximity to Penn Station, Hudson Yards, and the Javits Center. The Midtown South/Chelsea submarket also has a cluster of hotels just outside of the Flatiron district and near the Empire State Building.

SUPPLY

Midtown South experienced the highest rate of inventory growth between 2010 and January 2020, with 66 new hotels and 14,620 new rooms delivered. These make up 42 percent of all hotel growth in Manhattan during the same period, even though the submarket only contained 27 percent of the borough's inventory in January 2020. As of September 2020, the submarket contains 51.8 percent of all Manhattan hotel rooms built after 2010. The majority of newer rooms are in the Garment District, with close proximity to Penn Station, Hudson Yards, and the Javits Center, with two additional clusters in between Penn Station and the Flatiron Building and near the Empire State Building. These new deliveries were mainly Upscale hotels from major national hotel brands (Hyatt, Courtyard, Fairfield Inn, Sheraton, Hilton, Radisson, etc.). Pipeline data suggests these trends would continue, as Midtown South accounts for 6,247 rooms in 28 proposed hotels, which is over half of all rooms in pipeline for the borough.

As of September 2020, the RevPAR in Midtown South was \$41, which is slightly higher than the Financial District and the other Midtown submarkets. Although affected by COVID, Midtown South has been more resilient than the other Midtown submarkets, losing fewer rooms than Midtown East despite being nearly twice as large. Nonetheless, in recent years, RevPAR had increased by over 94 percent between February and September, but they are down 68 percent since the start of the pandemic due to a lack of demand from tourists and business travelers, which is a gap of over 150 points. This is presented in Figure 11.

FIGURE 12: MIDTOWN SOUTH HOTEL MARKET TRENDS, JANUARY 2018 – SEPTEMBER 2020

SOURCE: STR, 2020.

DEMAND DRIVERS

Midtown South/Chelsea is currently the fastest growing hotel market in Manhattan, drawing travelers attracted to its proximity to the Theater District, the Javits Center, Hudson Yards, and Penn Station. Many hotels in this submarket still brand themselves as "Times Square" despite their location several blocks to the south. While hotel guests have a wide variety of Midscale and Upscale nationally flagged properties to accommodate them in this submarket, new independent hotels have also opened in the West 30s and parts of Chelsea. In addition, the independent Freehand Hotel on Lexington Avenue near Gramercy Park, together with other independent hotels in this area, have created a fashionable cluster of unique hotels in this area that have little connection to the rest of Midtown South. Conversations with stakeholders indicate that tourists are attracted to the Chelsea and Flatiron areas because of they feel different than other parts of the Midtown Manhattan submarkets and have good proximity to restaurants and other entertainment.

Manhattan Submarket Profile: Soho/Union Square/Village/Tribeca/Lower East Side

The Soho/Union Square/Village/Tribeca/Lower East Side is a relatively small hotel submarket within Manhattan, accounting for 8,102 rooms, or 12.4 percent of the Manhattan inventory. The hotel inventory contains of variety of class types, with independent hotels accounting for the majority of existing hotels. However, more recent trends point to an increase in Midscale and Upscale chain hotels.

Until the pandemic, it was the second smallest submarket within the borough although it is now the third smallest after the drastic impact COVID-19 has had on the inventory in Midtown East. This submarket was also the least affected by the pandemic, relatively, with only 19.9 percent of rooms going offline compared the borough-wide average of 37.3 percent.

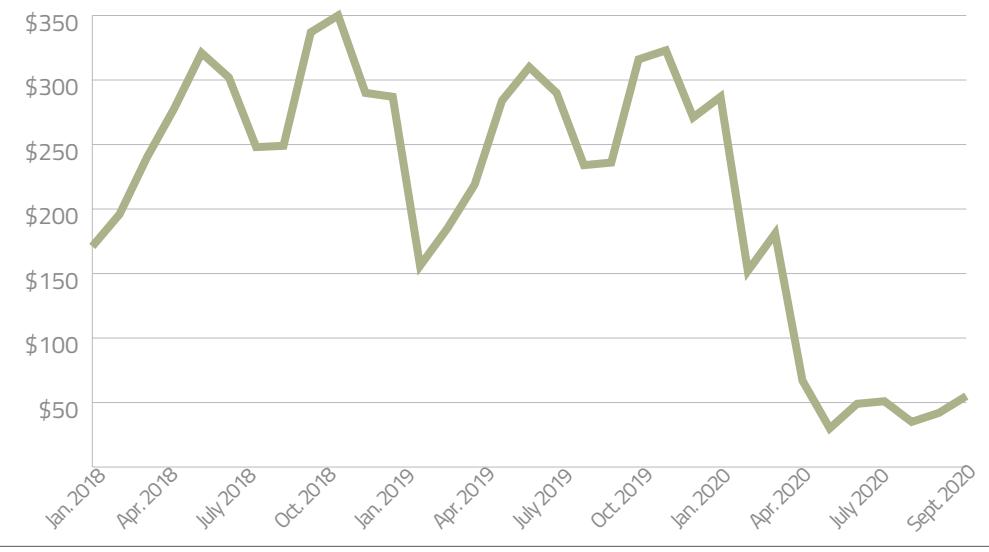
SUPPLY

Despite the small inventory, the submarket had expanded significantly in the past decade. Conversations with stakeholders indicate that this growth may be related to tourists who are looking for areas outside of Midtown that have good proximity to restaurants and other entertainment. Nearly half of the existing hotel rooms are in properties built since 2010. Most of the new hotel development has occurred near the terminus of the Manhattan Bridge and along Bowery in the Lower East Side and Chinatown districts. The hotel inventory is diverse and generally mirrors the distribution of hotel classes boroughwide. Nearly three-quarters of all hotels in the submarket are independent, although more recent trends indicate an increase in midscale and upscale hotel chains, including the MOXY East Village, Ace Hotel Sister City, and the Joie De Vivre 50 Bowery.

This profile has remained consistent even after accounting for the effects of the pandemic, despite the decline in the share of Luxury and Upscale rooms, and corresponding increase in the share of Economy and Midscale rooms. Both this submarket and the Upper East Side/Upper West Side/Harlem/Uptown submarket lost a similar number of rooms overall. However, as this submarket lost more hotels overall, the rooms lost were in smaller hotels. Indeed, over 40 percent of the hotels closed due to the pandemic were Boutiques, compared to an average of 27 percent in Manhattan overall. Pipeline data projects delivery of 1,045 rooms in six new hotels, which would be an average size of 174 rooms, which would be consistent with the profile of hotels in this submarket prior to COVID-19.

As shown in Figure 12 occupancy rates have fluctuated between 2013 and 2019, though generally remain between 85 and 88 percent. Similar to all other Manhattan submarkets, occupancy rates declined between 2018 and 2019, however to a lesser degree relative to other submarkets. As of September 2020, the occupancy rate is 40.0 percent and the ADR is \$139, which are, respectively, 57 and 62 percent below September 2019 levels. This is roughly in line with trends in Manhattan between January and September. Nonetheless, the Soho/Union Square/Village/Tribeca/Lower East Side submarket has the second highest RevPAR in September 2020 among all Manhattan submarkets, at \$55.50, compared to \$43.60 borough wide.

FIGURE 13: SOHO/UNION SQUARE/VILLAGE/TRIBECA/LOWER EAST SIDE HOTEL MARKET TRENDS, JANUARY 2018–SEPTEMBER 2020



SOURCE: STR, 2020.

DEMAND DRIVERS

This submarket attracts travelers looking for a unique New York experience in iconic fashionable Manhattan neighborhoods. Many of the business travelers who stay in hotels in this submarket work in the “TAMI” (Technology, Arts, Media and Information) sectors and have a wide option of unique independent hotels and smaller boutique properties to accommodate them. Almost all new development in this submarket in the past two years have been upscale independent properties located on the Bowery and the Lower East Side. New commercial developments around Hudson Square are also being complemented with new hotels on the Far West Side of this submarket.

Manhattan Submarket Profile: Financial District

The Financial District is Manhattan's second smallest hotel market, after Midtown East, despite the significant number of business-oriented travelers. Home to 28 hotels and 6,417 hotel rooms, the Financial district has experienced robust new hotel growth between 2010 and 2019. Specifically, nearly 54 percent of all hotels and 50 percent of the current hotel rooms were built since 2010. The hotel typology distribution is heavily skewed towards Upscale and Luxury hotels, which account for more than 75 percent of all hotels. Only 1.8 percent of the existing hotels are considered Economy, representing the second lowest share of any Manhattan Submarket, after Midtown East (1.4 percent).

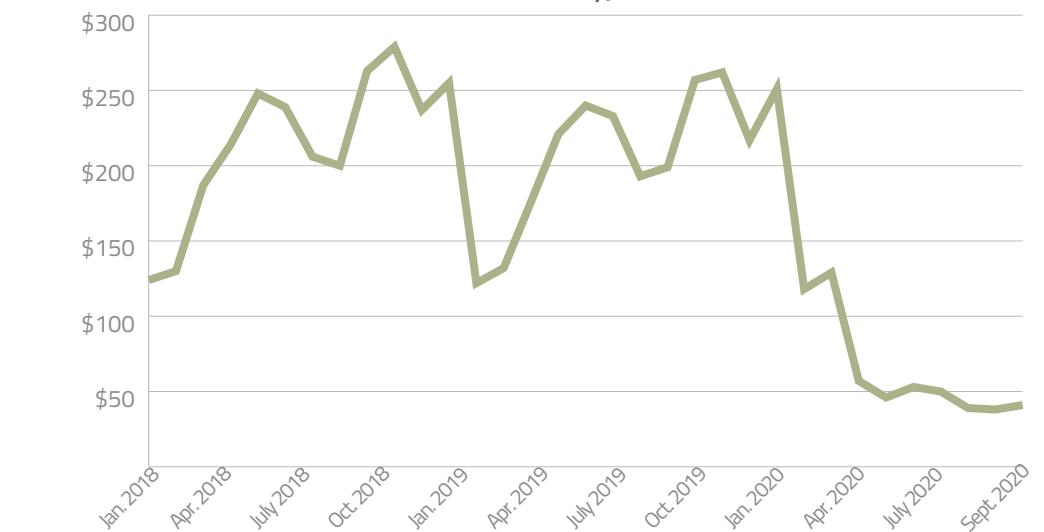
Hotels are evenly dispersed throughout the submarket, with one expanding cluster near the World Trade Center area. Similar to the other downtown submarket, it accounted for a relatively small 5.3 percent of Manhattan rooms that went offline due to the pandemic.

SUPPLY

The Financial District submarket includes 64.3 percent of rooms classified as Upscale, which is above the borough average of 56.7 percent, and the highest share of Upscale and Luxury rooms, comprising 76.0 percent of all rooms in the submarket. Interestingly, this submarket experienced the smallest change in Upscale rooms, which only declined 7.7 percent - by far the lowest among the submarkets. Also, pipeline data indicates that Financial District is projected to add another 2,026 net total rooms, which is on par with the other Manhattan submarkets.

The occupancy rate as of September 2020 is 33.8 percent, with an ADR of \$114, which is the lowest in Manhattan. The RevPAR of \$38.70 is below the Manhattan average of \$43.60. This is unsurprising given the impact of travel restrictions and teleworking on business travel. In recent years, the growth in occupancy rates between February and September has been around 20 percent, which is among the highest for Manhattan submarkets and likely coincides with the seasonal business cycle, but occupancy rates between February and September 2020 have fallen by 56 percent. This is summarized in Figure 13.

FIGURE 14: FINANCIAL DISTRICT HOTEL MARKET TRENDS, JANUARY 2018–SEPTEMBER 2020



SOURCE: STR, 2020.

DEMAND DRIVERS

Hotel development in the Financial District has traditionally been driven by commercial activity, particularly within the finance sector, in what is New York City's second largest Central Business District. However, recent years have seen this submarket diversify, with less reliance on the traditional FIRE (Finance, Insurance and Real Estate) sectors, an expanding residential population, and the full rebirth of the World Trade Center and nearby Brookfield Place. In the past two years, new hotel development in this submarket has been characterized by small independent boutiques or new national brands, such as Marriott's MOXY, that cater to millennial or "Next-Gen" travelers.

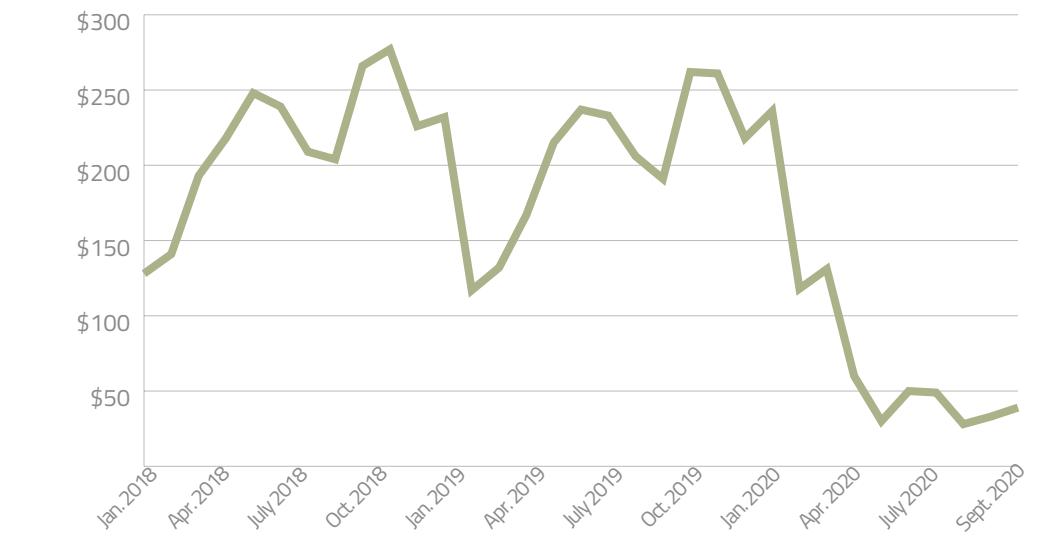
Queens

Queens, home of JFK and LaGuardia Airports, is the second largest hotel market of the five boroughs. As of September 2020, Queens has 13,799 rooms in 131 hotel properties, nearly twice as many as the next largest market, Brooklyn. Queens hotel rooms are more evenly distributed between Economy, Midscale and Upscale, though Midscale accounts for the largest category at 38 percent of its room inventory. While the airports have been an important driver for Queens hotel demand, it has also increasingly been driven by the borough's booming neighborhood submarkets as well. Most prominent among these is Long Island City and Flushing, which have seen some of the most significant hotel growth in New York City outside Manhattan in the past decade.

While the impact of COVID on the Queens hotel market is clear in the data, the effect pales in comparison to Manhattan, which ultimately drives the citywide trends. Still, Queens is the only other borough to demonstrate an impact on the market from COVID. Six hotels closed in Queens, accounting for 754 rooms. However, Queens also added the TWA Hotel near JFK just as the pandemic began, adding 159 Upscale rooms to the borough's inventory.

The hotel inventory in Queens over the past decade has expanded significantly. From a base of 7,838 rooms in 73 hotel properties in 2009, the room count in Queens has nearly doubled in ten years to over 14,394 rooms in 136 properties. Despite this growth in supply, occupancy rates in Queens increased steadily between 2013 and 2019. Specifically, occupancy rates increased from approximately 80 percent in 2014 to 85 percent in 2018. More recent trends, however, show a decline in occupancy rates in Queens, down to 83 percent in 2019, which mirrors broader citywide trends. Contrary to the City overall, however, average daily rates in Queens steadily increased between 2013 and 2019, leading to a significant overall increase in RevPAR.

As mentioned, Manhattan drives trends in the citywide impacts of COVID, so the change in occupancy (-32.7 percent) and ADR (-31.5 percent) between September 2019 and September 2020 is well below the City average. The September 2020 RevPAR was \$76.20. The change in RevPAR since February 2020 is much lower than it was in 2018 and 2019, as shown in Figure 14, which is a trend across the City and shows that the Queens hotel market is still very much under the influence of the pandemic.

FIGURE 15: QUEENS HOTEL MARKET TRENDS, JANUARY 2018–SEPTEMBER 2020

SOURCE: STR, 2020.

Queens Submarket Profile: Long Island City

Long Island City has been the engine of recent hotel growth in Queens and remains the largest submarket in the borough. According to STR, the Long Island City submarket contains 3,497 rooms in 34 hotels.

The Long Island City Partnership (LICP) reports that there are currently 3,500 hotel rooms in the submarket in approximately 35 properties, while STR reports nearly 4,000 hotel rooms. As recently as 2010, there were only a few major hotels in all of Long Island City and a group of smaller midscale and economy hotels clustered in Dutch Kills. Since then, there have been several hubs of hotel development in Long Island City in addition to Dutch Kills, including Queens Plaza, Courthouse Square, the waterfront, 44th Avenue, and Ravenswood. The eastern edge of Queens Plaza has become a hub of recent activity with the opening of 520 rooms in an Aloft, Courtyard by Marriott, and Hilton Garden Inn. Pipeline data shows 3,454 total net rooms for Long Island City, with 2,990 rooms in 20 new buildings permitted for construction. This level of projected development is greater than all other New York City submarkets except Jamaica/JFK in Queens and Midtown South in Manhattan.

Since January 2020, a net total of 369 rooms have closed in three hotels, and all of them Midscale. Midscale rooms still account for 43.9 percent of the Long Island City inventory. Occupancy and ADR in this submarket are both 38 percent lower than in September 2019, at 5.4 percent and \$115, respectively. This is below the borough average of 59.9 percent and \$127.

Queens Submarket Profile: Flushing/LGA/North Queens

The Flushing/LGA/North Queens market is driven both by the bustling, largely Asian central business district of Downtown Flushing and the airport-related business from LaGuardia. While some hotels in Downtown Flushing brand themselves as airport hotels, such as the Sheraton LaGuardia East, the growth of the Flushing business community has become an equally important demand driver. The manager of the Sheraton told the Consultant Team that, while airport business has dropped, non-airport business accounted for 50 percent of the hotel's guests prior to the pandemic. Five new hotels opened in Downtown Flushing between 2010 and January 2020, and the Queens EDC, in addition to the manager of the Sheraton LaGuardia East, expressed concern about saturation in this market.

As of September 2020, the occupancy in Flushing/LGA/North Queens is 61.6 percent, and the ADR is \$132, which is the highest in Queens but only two dollars higher than in the JFK submarket. Compared to the rest of Queens, occupancy and ADR are down the least from their September 2019 levels, although these are also comparable to the JFK submarket.

Queens Submarket Profile: Jamaica/JFK

Hotel development in Jamaica has been catalyzed by the development of the AirTrain with direct service to JFK, in addition to the 2007 rezoning that created the Jamaica Downtown Special District. Jamaica hotels are attractive to those travelers that want quick and easy access to JFK and do not want to pay Manhattan hotel prices. New hotels, such as the Hilton Garden Inn and Courtyard by Marriott will also focus on hosting flight crews.

On a net basis, this submarket was relatively unimpacted by COVID. Although there was a decline of over 400 midscale rooms, only one hotel with 60 rooms closed, and the new TWA hotel with 512 new Upscale rooms was added in March 2020. The net total number of rooms (5,718) and hotels (54) has remained relatively unchanged, although the impact of COVID is evident on occupancy and ADR. The September 2020 occupancy rate of 61.9 percent is 32.4 percent below its September 2019 level. ADR has fallen at a similar rate to \$130. In addition, according to pipeline data, the Jamaica/JFK submarket is projected to add 3,613 new hotel rooms, which is the highest projection of any submarket in New York City except for Midtown South in Manhattan.

Brooklyn

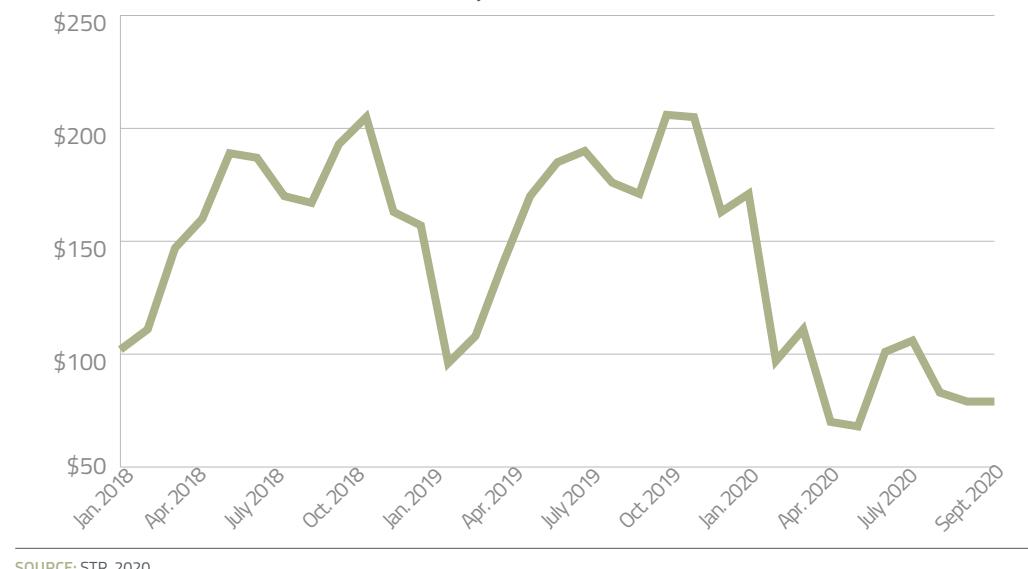
Brooklyn, with the third largest inventory of the five boroughs, is a dynamic hotel market that has grown quickly over the past decade and encompasses a diverse typology of hotels, from the new business-oriented Select-Service nationally branded Midscale and Upscale Downtown, to more leisure-oriented independent Full-Service hotels in North Brooklyn, to Limited-Service hotels in Gowanus and Sunset Park.

As of September 2020, Brooklyn has 7,531 rooms in 78 hotel properties. Reflecting the considerable evolution of the Brooklyn market and the large upmarket hotels that have opened recently in Downtown, in addition to relatively large independent hotels in North Brooklyn, STR ranks over 40 percent of the hotel rooms in Brooklyn as Upscale, over 30 percent as Midscale, and 25 percent as Economy. Yet, the smaller scale of the Brooklyn hotel market is evident in the fact that over one-third (37 percent) of the hotel rooms in the borough are in independent properties and that nearly 75 percent of Brooklyn's hotel properties have less than 100 rooms.

No hotels in Brooklyn closed as a result of the pandemic, and there was a net gain of four rooms. There was a marginal decrease of 103 Upscale rooms and 65 Midscale rooms, but an increase of 172 Economy rooms. As there was no change in the number of hotels, it is possible that some, if not all, offline Upscale and Midscale rooms were reclassified as Economy rooms, which is ultimately determined by STR based on relative price point.

Despite the significant expansion of hotel development in Brooklyn since 2010, occupancy rates generally increased until the start of the pandemic. Between 2016 and 2019, occupancy rates in the borough increased from 78.9 percent to 84.3 percent, suggesting Brooklyn was able to absorb the substantial inventory of hotels delivered in the past decade. It is worth noting that Brooklyn occupancy rates were still slightly below the citywide rate of 86 percent in January 2020. Despite no effect on the hotel inventory, occupancy rates in Brooklyn were clearly impacted by COVID-19, with a 36.6 percent decline in occupancy rates from September 2019 to September 2020, second only to Manhattan. As of September 2020, the occupancy rate in Brooklyn is 55.5 percent. This is summarized in Figure 15.

As occupancy rates increased in Brooklyn between 2016 and 2019, ADRs also increased over the same time period, suggesting strong demand in the borough. Average daily hotel rates in Brooklyn in 2016 were roughly \$176 and increased to \$196 in just three years. This ADR trend also translates into increasing RevPAR in the borough. Specifically, RevPAR in Brooklyn increased 20 percent between 2016 and 2019, from \$139 to \$165. However, despite the recent strength of this market, Brooklyn's ADRs fell 35.9 percent to \$142 between September 2019 and September 2020, which is more than any borough other than Manhattan over the same time period. The continued relative strength of the Brooklyn hotel market compared to the other boroughs remains evident as Brooklyn's September 2020 RevPAR is \$79.07, the second highest among boroughs after the Bronx. Although the occupancy rates and ADR have fallen in Brooklyn at greater rate than in Queens, RevPAR is still slightly higher in Brooklyn.

FIGURE 16: BROOKLYN HOTEL MARKET TRENDS, JANUARY 2018–SEPTEMBER 2020

Brooklyn also has numerous distinct submarkets. Downtown Brooklyn/Gowanus/Red Hook encompasses the City's largest central business district outside Manhattan in addition to rapidly changing industrial neighborhoods along the Gowanus Canal and the South Brooklyn waterfront. North Brooklyn includes Williamsburg and Greenpoint, two neighborhoods that, despite their lack of direct subway service to Midtown or Downtown Manhattan, have developed a cluster of independent Full-Service hotels. While this report is not analyzing them in detail, Brooklyn has also recently developed additional clusters of hotels in Greenwood/Sunset Park and along the Atlantic Avenue corridor east of Flatbush Avenue.

The Brooklyn hotel market is driven by several factors, depending on exact location of specific submarket within the borough. The Downtown Brooklyn hotel market is focused on New York City's largest Central Business District outside Manhattan with many business-oriented Select-Service and Full-Service properties, while also benefiting from its position as a major subway transportation hub with easy access to Manhattan. In addition, with amenities, the Brooklyn Academy of Music, and a vibrant retail sector that has evolved at City Point/DeKalb Market and the surrounding neighborhoods, Downtown Brooklyn has become a destination in its own right. To the south of Downtown, Gowanus and Sunset Park offer multiple parcels in Light Manufacturing districts that have been ideal for the development of Economy Limited-Service hotels that benefit from easy access to Manhattan for leisure travelers. While Downtown Brooklyn and environs experienced a hotel boom between 2010 and 2017, no new hotels have opened in this submarket since 2017.

Brooklyn Submarket Profile: Downtown/Gowanus/Red Hook

Downtown Brooklyn is the oldest and most established submarket in the borough and home to Brooklyn's largest and longest established Full-Service Upscale hotel, the 666-room Brooklyn Bridge Marriott. In the past decade, the Downtown business district has seen other large Upscale hotels develop that cater to the business traveler, including the 200-room Brooklyn Hilton and the 245-room Brooklyn Holiday Inn.

Gowanus was one of the first neighborhoods in Brooklyn outside Downtown to experience growth in hotel development. For example, in 2007, the independent upper midscale Hotel LeBleu opened on 4th Avenue in Gowanus. Further, between 2006 and 2011, a Holiday Inn Express, Super 8, and Fairfield Inn opened within blocks of each other near 3rd Avenue and Union Street. Since 2011, Gowanus has seen the delivery of two upscale hotels, both under the Ascend Collection of the Choice Hotels brand. With an occupancy rate of 47.4 percent in September 2020 and an ADR of \$142, the RevPAR of \$67.20 is the lowest in Brooklyn. Indeed, occupancy is down nearly 50 percent from September 2019, which represents the largest decrease in all Brooklyn submarkets.

Brooklyn Submarket Profile: North Brooklyn

North Brooklyn, encompassing the neighborhoods of Williamsburg, Greenpoint, and Bushwick, is a dynamic and fast-growing hotel submarket that has grown almost entirely in the past ten years. Today, this submarket boasts nearly 1,650 hotel rooms in over 15 hotel properties, with over 60 percent classified as Upscale by STR. The hotel inventory here is largely in independent hotels, such as the William Vale, Wythe, Williamsburg, and Condor hotels that cater to a fashionable, young, and international clientele. It is not uncommon for these properties to command ADRs comparable to or higher than hotels in Manhattan. Customers at North Brooklyn hotels generally are not looking for less expensive options with easy access to Manhattan, such as those in Gowanus. According to hotel developers and others with whom the Consultant Team spoke, for hotel guests in North Brooklyn, North Brooklyn is often the primary destination.

The September 2020 occupancy rate is 47.1 percent, which is the lowest among Brooklyn submarkets, while the ADR is \$171, which is the highest among Brooklyn submarkets. As a result, the RevPAR of \$80.25 is almost equal to the borough average of \$79.07.

Brooklyn Submarket Profile: Remainder of Brooklyn

The largest cluster of hotels in Brooklyn outside the Downtown/Gowanus and North Brooklyn submarkets is Sunset Park, particularly along 4th Avenue and 39th Street. Tourists are attracted to ADRs that have been far below those in Manhattan and Downtown Brooklyn (as little as \$130 per night during certain times of the year), while still having direct access to the subway.

There are currently ten hotels in this area, nine of which opened since 2010. Most of these hotels are Economy or Midscale, though Upscale properties have also been built closer to Greenwood Heights on the northern edge of Sunset Park. Many of these hotels followed the service and product model of Economy and Midscale hotels that opened earlier in Gowanus, along the R subway line to the north. Because of land prices, these hotels can offer ADRs lower than those in Gowanus. The submarket is projected to add 3,234 rooms, based on pipeline data, representing over half of all pipeline rooms in Brooklyn.

Other noteworthy hotel clusters include East New York/Brownsville, and the Atlantic Avenue corridor in Crown Heights. Hotels in East New York/Brownsville tend to be Economy class branded hotels, such as Days Inn. Hotels on the Atlantic Avenue corridor have historically also been Economy class. However, two new independent boutique hotels have opened in the past five years, including the 34-room Brooklyn Hotel and the 58-room Lynx.

This submarket was particularly resilient to the effects of COVID-19, as occupancy rates fell by less than 20 percent since September 2019 to 72.3 percent in September 2020. Similarly, ADRs are \$131, which is down 19.7 percent from September 2019. The RevPAR of \$94.43 is considerably higher than the Brooklyn average, is the second highest in the City after the Bronx, and equals the September 2020 RevPAR in the Uptown Manhattan submarket.

The Bronx

There are currently approximately 26 hotel properties in the Bronx with 1,384 total rooms. Most of these properties, however, are independent older motor inns and other Limited-Service economy hotels. Other than an Econo Lodge, which was built in 2000, there were no nationally branded hotels in the borough until 2006, when the Bronx Howard Johnson's opened with 45 rooms on E. Tremont Avenue. In the last five years, however, four large higher quality hotels have opened in the Bronx – the Residence Inn by Marriott at the Hutchinson Metro Center (125 rooms), the Holiday Inn Express at Yankee Stadium (85 rooms), a Comfort Inn in Mott Haven (84 rooms), and the Best Western Plus Stadium Inn (60 rooms). Two independent boutique hotels have also opened in The Hub, the Umbrella Hotel and the Opera House Hotel.

The Bronx has a small but growing hotel inventory, with almost half of the current rooms built since 2010. From a base of 716 rooms in 2010, almost all of which were Economy class hotels, the Bronx's hotel supply has added about 670 rooms in 10 properties, an average of 67 rooms and one hotel per year. While the majority of these new hotels have been Economy class, the Bronx has also gained two new Upscale hotels, the Residence Inn and the boutique Umbrella Hotel in The Hub, as well as four Midscale hotels, all situated on the southern border of the Bronx with easy access to Manhattan.

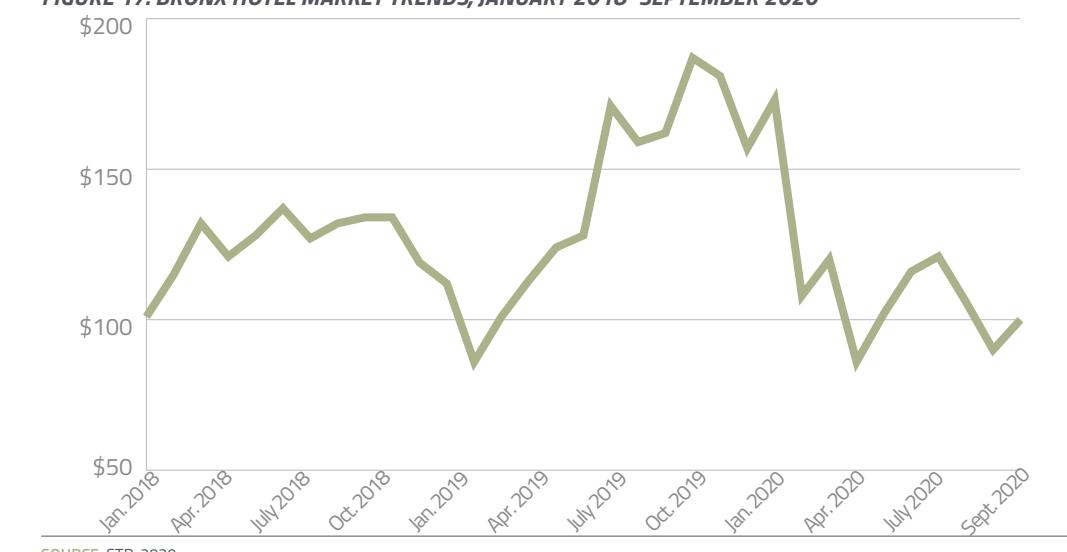
The visitor profile for hotels in the Bronx is dependent on the location. The borough's biggest, most upscale hotel, the Residence Inn at the Hutchinson Metro Center, serves guests that are doing business at the business park or in nearby Westchester County, in addition to visitors to nearby Albert Einstein College of Medicine and Mercy College.

It is not easily accessible by public transit and does not generally serve tourists who want access to Manhattan. The Holiday Inn Express at Yankee Stadium and Comfort Inn both serve guests who want to be near Yankee Stadium or the courts and tourists looking for easy subway access to Manhattan at ADRs that are a fraction of those in Manhattan (sometimes as low as \$130 per night, prior to COVID). The hotels in The Hub serve the same market segment, as well as hotels near Fordham University that also serve the University market.

The Bronx hotel market is very new, and its market demand is being tested. The Comfort Inn and Holiday Inn Express have shown favorable occupancy rates and new hotels are planned in the South Bronx by local developers, including a 150-room Hampton Inn that would be the biggest hotel in the borough and a planned 130-room La Quinta Inn in Port Morris.

As the Bronx hotel market is new, STR has only recently begun to track it separately. Between 2016 and 2019, occupancy rates increased by nearly ten percentage points, from roughly 72 to 82 percent. Over that same time period, ADRs in the Bronx also increased, from a 2016 average rate of \$145 to \$178 in 2019. These trends run contrary to broader Citywide trends but are comparable to the other boroughs outside of Manhattan, most notably Brooklyn and Queens. Because of the increasing ADRs and occupancy rates, RevPAR in the Bronx increased significantly between 2016 and 2019. From an annual average RevPAR of nearly \$105 per room in 2016, revenue per available room increased nearly 40 percent through 2019, reaching \$146 per available room. With a stable demand base, the Bronx has the highest pandemic RevPAR in September 2020, at \$100.16, which is a product of a 66 percent occupancy rate and \$152 ADR, both the highest of any borough. This may be due to a previously limited market experiencing greater demand from government contracts.

FIGURE 17: BRONX HOTEL MARKET TRENDS, JANUARY 2018–SEPTEMBER 2020



Staten Island

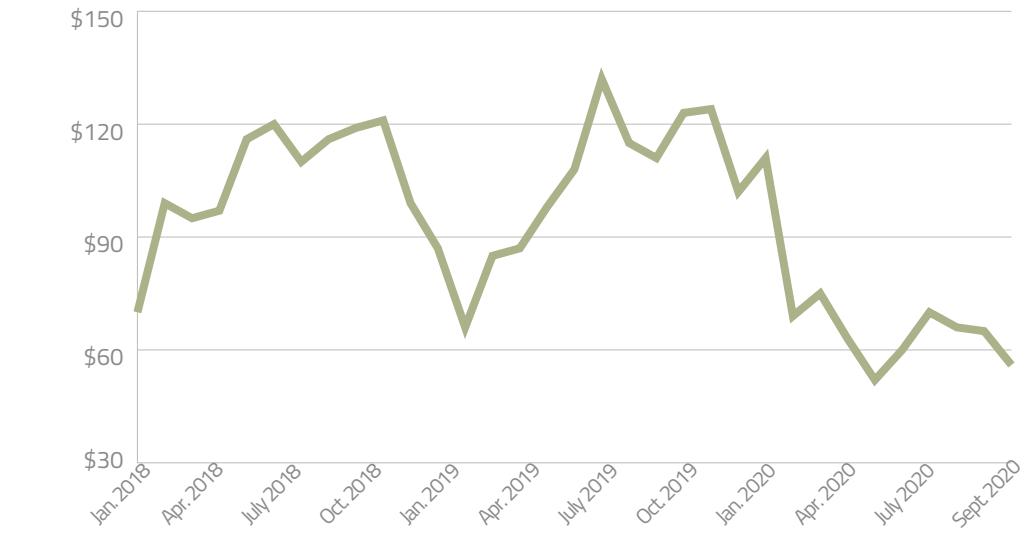
With fewer than 800 rooms in less than ten individual hotel properties, Staten Island has the smallest hotel market in New York City. Because of its distance from the rest of the City, Staten Island's hotel market is different from the other boroughs' in that it is much more of a stand-alone market that serves a more local clientele. Unlike Manhattan, where maximizing guest rooms is paramount to economic success and food & beverage is less important, Staten Island's major hotel developer told the Consultant Team that food and beverage sales, as well as meeting space are much more important for economic success in the borough. Parking is also a much more important factor in Staten Island than in Manhattan, Brooklyn, Queens, or the Bronx, which have access to greater public transportation options. The Hilton Garden Inn on the West Shore, which opened in 2001, is Staten Island's only Upscale hotel and accounts for almost one-quarter of the borough's current room inventory.

While the Hilton Garden Inn and (after 2007) the adjacent Hampton Inn, with over 300 rooms combined, dominated the Upscale and Midscale hotel market in Staten Island for a decade, the borough's market changed in 2010 when a Comfort Inn and Holiday Inn Express opened on the West Shore, followed by the 100-room Fairfield Inn delivered nearby in 2014. In the relatively near future, an Upscale Westin with 175 rooms will open in St. George near the Ferry Terminal in addition to another planned hotel as part of the Empire Outlets/Staten Island Wheel project in St. George.

While the developer of the planned Westin Hotel is optimistic about the area's prospects and the potential to attract tourists and businesses from Manhattan with easy access from the ferry, the existing hotel cluster on the West Shore faces different market dynamics. The West Shore is removed from St. George and public transportation and will likely continue to be dependent on the local market. The developer/owner of the Hilton Garden Inn is pessimistic about the West Shore's prospects and believes the market has become oversupplied. The corporate park is not driving business to hotels, and New Jersey offers lower ADRs and taxes for travelers needing lodging near Newark Liberty Airport.

The data from STR show a sizeable decrease in occupancy rates between 2013 and 2014, but this is due to the impact of Superstorm Sandy and the number of Staten Island residents and work crews that stayed in local hotels in 2013. After reaching a low of 65 percent occupancy in 2014, occupancy rates in Staten Island have generally trended upwards, reaching a high of 73.4 percent in 2018, followed by a small decline in occupancy in 2019. Over this time, ADRs remained stable between 2014 and 2017, followed by fairly significant increases in ADRs between 2017 and 2019, although it continued to trail other boroughs prior to COVID. RevPAR in September 2020 is 53 percent below where it was in September 2019. The occupancy rate of 49.9 percent and ADR of \$112 yields a RevPAR of \$55.93, which is higher than the Manhattan average RevPAR, but lower than the current RevPAR of most borough submarkets.

FIGURE 18: STATEN ISLAND HOTEL MARKET TRENDS, JANUARY 2018 – SEPTEMBER 2020



SOURCE: STR. 2020.

ROLE OF THE SHORT-TERM RENTAL MARKET

The U.S. market for short-term vacation rentals is doing better during the pandemic than the traditional hotel market. Initially, from January 2020 to April 2020, short-term rentals fell by 47%.⁸ As stay-at-home orders began to lift, short-term rental bookings began to increase more than hotel bookings. STR Data and AirDNA report that average RevPAR was down 65% for hotels in June 2020 but only 5% for STRs; Transparent Data shows occupancy rates for short-term rentals in the U.S. returning to pre-COVID levels.⁹ This may be due to the fact that people feel more comfortable driving to a nearby town and staying in an STR with more privacy and social distancing space, instead of flying internationally and staying in a hotel with common spaces such as lobbies, elevators, and restaurants.

The impacts of the short-term rental business by companies such as Airbnb, VRBO and HomeAway.com on the hotel industry may intensify. Trends in the post-COVID short-term rental market include longer stays as more people are working remotely. We may be seeing a change in the market where short-term vacation rentals become mainstream and are used more for business travel.¹⁰

⁸ <https://www.usatoday.com/story/travel/hotels/2020/08/26/airbnb-vrbo-more-popular-than-hotels-during-covid-19-pandemic/5607312002/>.

⁹ McKinsey Skift Report, *Travel Industry Turned Upside Down*, September 2020.

¹⁰ Ibid.

Additionally, people have been showing preference for locations within a 250-mile radius of home and those in less-dense towns near national parks, beaches and mountains.¹¹ According to Airbnb, June 2020 earnings for hosts in rural areas increased by 25% over the previous year while less than 10% of earnings were for rentals in the 10 most populated U.S. cities.¹²

The short-term rental market, however, has experienced significant impacts. Like traditional hotel operators, hosts of short-term rentals are required to change their operations to minimize spread of the coronavirus. Before check-in, hosts must verify that renters traveling from high-risk states have quarantined for 14 days. Airbnb has also banned all parties and events at its listings and capped occupancy at 16 people.^{13 14} Airbnb was forced to raise \$2 billion in debt to get through the pandemic and to reduce workforce by 25%. VRBO has performed better than Airbnb partly because their properties tend to be more detached and less urban.

Additionally, the short-term rental market's master lease model has collapsed. This is when a short-term rental management company signs multiyear lease contracts with building owners, often with guaranteed payment clauses. Stay Alfred ceased operations and Sonder and Lyricare downsizing payroll and operations considerably.¹⁵

New York City

Two hotel operators the Consultant Team spoke with said that, pre-COVID, the short-term rental market did not significantly impact the NYC hotel market. Any competition occurred mainly during compression nights and affected pricing, not occupancy. AllTheRooms Analytics estimates that short-term rental bookings in New York City dropped by 25% during the summer.¹⁶ In contrast, NYC & Company estimates that NYC hotel occupancy was at 45% in July 2020, while it was at almost 90% in July 2019.¹⁷

The website InsideAirbnb.com provides publicly available data on worldwide Airbnb listings. Figure 18 below shows an analysis of their New York City listings. The city saw a drop in total listings of approximately -11% from January 2020 (51,361) to September 2020 (45,756). Listings in Manhattan fell just over -10% during the same period. The largest monthly decrease occurred between July and August, with -4% throughout the city and almost -5% in Manhattan. The composition of listings throughout the 5 boroughs remained constant during those eight months, with Manhattan and Brooklyn comprising approximately 44% and 40% of total listings, respectively.

¹¹ <https://www.bloomberg.com/news/articles/2020-06-07/airbnb-joins-vacation-rental-sites-seeing-surge-in-summer-demand>.

¹² <https://news.airbnb.com/rural-stays-and-online-experiences-boost-host-income/>.

¹³ <https://news.airbnb.com/airbnb-announces-global-party-ban/>.

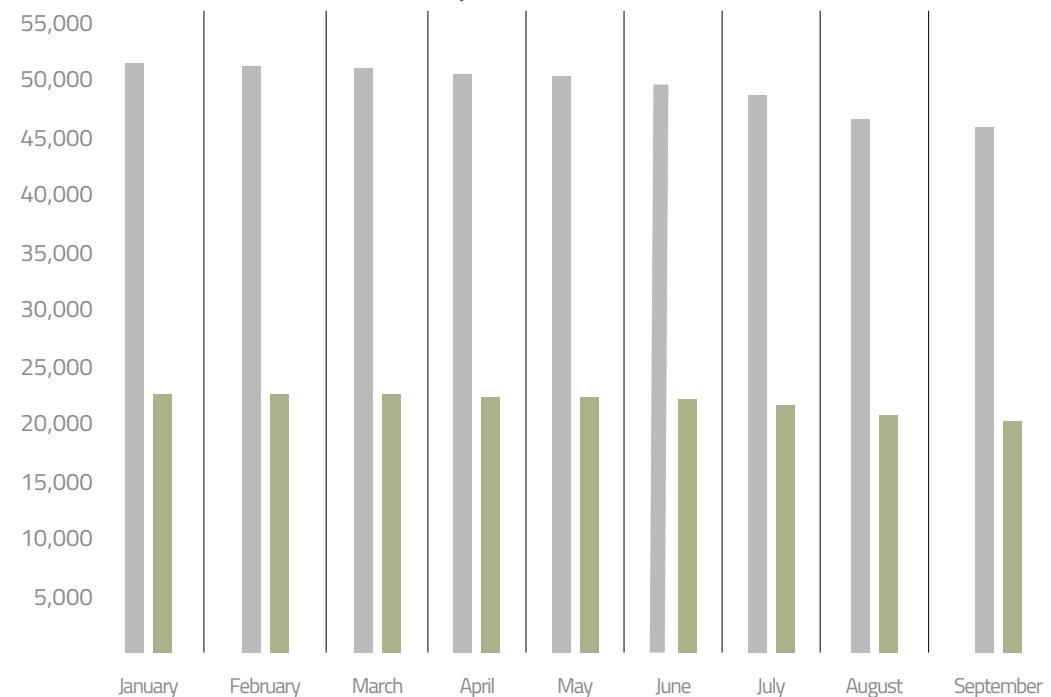
¹⁴ <https://www.ny1.com/nyc/all-boroughs/coronavirus/2020/08/20/airbnb-limits-house-parties>.

¹⁵ McKinsey Skift Report, *Travel Industry Turned Upside Down*, September 2020.

¹⁶ <https://www.cnbc.com/2020/08/06/rural-airbnb-bookings-are-surging-as-vacationers-look-to-escape-the-coronavirus.html>.

¹⁷ NYC & Company, *NYC Hotel Occupancy, ADR & Room Demand 5 Year Trend Report*, September 1, 2020.

FIGURE 19: NEW YORK CITY AIRBNB LISTINGS, JANUARY 2020 – SEPTEMBER 2020



SOURCE: Inside Airbnb, October 2020.

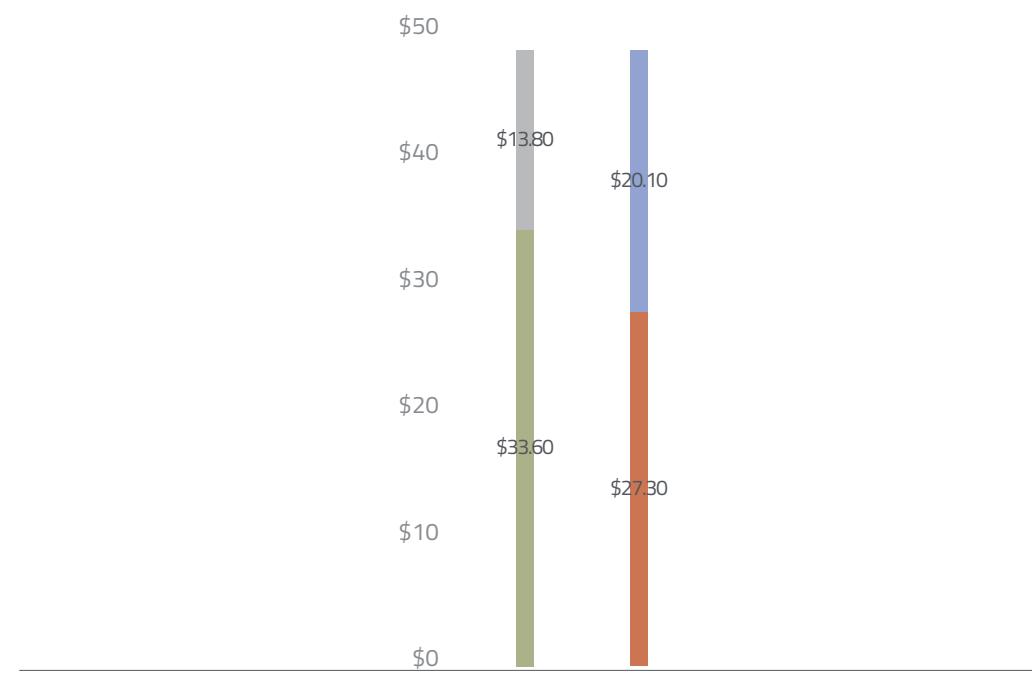
ECONOMIC IMPACTS, 2019¹⁸

Tourism Industry Impacts

Tourism is a critical generator of economic activity for New York City. According to NYC & Company, in 2019 the travel and tourism industry experienced its 10th consecutive year of visitor growth with a record 66.6 million visitors. This made New York City the most popular big-city destination in the country. Activity from visitors supported a total of almost \$72 billion in sales to NYC businesses. Measured by direct employment, the tourism sector is the seventh largest industry in New York City, directly supporting 305,900 jobs.

In 2019, visitors generated almost \$47.7 billion in sales in New York City. Over 70 percent of this spending was from the leisure traveler market, underscoring this segment's importance to the tourism economy. Additionally, the domestic traveler market generated the majority of sales, at 58 percent. Figure 19 shows direct spending by category of traveler.

FIGURE 20: DIRECT SPENDING, LEISURE VS. BUSINESS AND DOMESTIC VS. INTERNATIONAL TRAVELERS, 2019



¹⁸ Note that data in this section has been provided by NYC & Company.

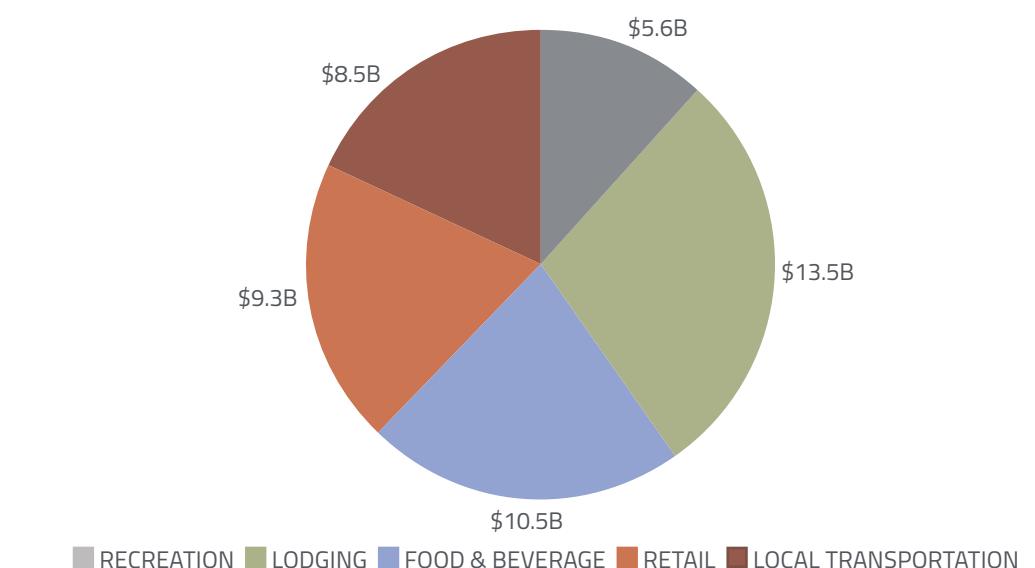
When indirect and induced employment is added to direct employment, the tourism sector supported a total of 403,200 jobs in 2019. Consequently, the tourism sector generated almost \$30 billion in direct, indirect and induced personal income.

In 2019, visitors to New York City generated \$2.1 billion in State tax revenue and \$4.9 billion in local tax revenue, for a total of \$7 billion in tax revenue.

Lodging Industry Impacts

The lodging industry is one of the largest sectors impacted by tourism. Most significantly, lodging employment is 100 percent dependent on tourism. In addition, the largest portion of visitor dollars go to the Lodging industry. In 2019, the Lodging industry captured \$13.5 billion of the \$47.7 billion in visitor spending, surpassing the Food & Beverage, Retail, Local Transportation and Recreation industries.

FIGURE 21: VISITOR SPENDING BY CATEGORY (IN BILLIONS), 2019



The Lodging sector accounted for almost 55,000 of total jobs supported by the tourism industry, behind only the Food & Beverage (120,000), and Recreation and Entertainment (62,000) sectors.

Of the almost \$30 billion of total (direct, indirect and induced) personal income produced from tourism, almost \$5.5 billion was generated by the Lodging sector. The average annual wage for a worker in the lodging sector is \$65,000.¹⁹

Post-COVID Economic Impact

Tourism Industry

According to NYC & Company, 12 million people visited New York City before the end of March 2020. For the balance of 2020, the company estimates that number to be only up to 10 million people, including visiting healthcare workers.²⁰ In June 2020, The Real Deal, citing analysis from Crain's and Oxford Economics, reported that the loss of tourism could drain New York State of \$1.8 billion in tax revenue from hotels. This included \$968 million in room occupancy taxes and \$342 million in other state and city taxes but did not include property taxes.

Lodging Industry

As noted previously in the report, the pandemic has impacted the lodging industry particularly hard. New York City's Independent Budget Office estimates that New York City will lose 197,000 jobs in the leisure and hospitality industry in 2020, comprising over 1 in 3 of all job losses.²¹²²

RECOVERY PROJECTIONS

The hotel industry has been among the hardest hit sectors by the pandemic and New York City hotels have experienced greater negative impacts than hotels across the United States as a whole. Several industry and independent economic and real estate analyses project that the US hotel sector will take at least three years to return to pre-COVID levels and that, because of its characteristics and specific dependencies, New York City's hotel sector will take two years longer to recover than the national market, which may be due to visitor preferences for less dense places to visit in the near term. McKinsey and Skift jointly issued a report in September 2020 entitled *Travel Industry Turned Upside Down* in which they projected that, nationally, hotel demand was not likely to reach pre-COVID levels until 2023. Citing STR projections, the report also noted that RevPAR may not recover nationally until 2024.²³

¹⁹ Quarterly Census of Employment and Wages, 2019.

²⁰ "Tourism, Engine for N.Y.C. Economy, May Not Fully Recover Until 2025," *The New York Times*, November 16, 2020, <https://www.nytimes.com/2020/11/16/nyregion/nyc-tourism-covid.html>.

²¹ <https://ibo.nyc.ny.us/iboreports/adopted-budget-snapshot-july-2020.html>.

²² According to the NYC IBO, Leisure and Hospitality Industry includes sports and entertainment, accommodations and bars and restaurants.

²³ Joint report by McKinsey and Skift, *Travel Industry Turned Upside Down*, September 2020.

Hotel Market: National

In its August 2020 report, *State of the Hotel Industry Six Months After COVID*, the American Hotel and Lodging Association (AHLA) reported in August 2020 that consumer travel is at an all-time low and that "the hotel industry in the United States remains on the brink of collapse." As of the report, 40 percent of hotel sector employees were still not working and 65 percent of hotels remained below 50 percent occupancy (which AHLA noted is the threshold for hotels to be able to break even and pay debt).²⁴

The U.S. hotel industry's occupancy rate hit bottom by early April, falling by 50 percent. With leisure travel returning in the summer, occupancy rates began to rebound somewhat toward the end of the second quarter in June. During this period, hotels in urban markets were more severely impacted than hotels in rural or beachside locations. Major destination urban markets²⁵ saw bigger declines in hotel revenues than midsize urban markets. For example, CBRE reported that, during the second quarter of 2020, the largest drops in RevPAR were seen in major destination urban markets as Boston, San Francisco and Washington, DC, and popular destinations such as Hawaii and Orlando, all experienced drops in RevPAR in excess of 90 percent. New York City experienced a lower drop in RevPAR of 82 percent but also saw the smallest recovery of RevPAR at the end of the second quarter. In contrast, the midsize urban markets of San Bernardino, Jacksonville and Memphis, saw the smallest decreases in RevPAR at 50–60 percent.²⁶

Economy hotels, leisure resorts and larger chains may see a faster recovery while hotels in large urban markets may experience a slower recovery. Hotel News Now reported in September 2020 that the US hotel market will lag its counterparts in East Asia and Europe and not see recovery until at least 2023, though US markets that rely more heavily on domestic travel may see recovery of their hotel markets earlier.²⁷

Hotel Market: Slower Recovery Projected for New York City

A number of market analysts and hotel industry stakeholders with whom the Consultant Team spoke believe that New York City's hotel recovery will lag the rest of the country's. Mark Zandi, the chief economist at Moody's Analytics, told the New York Times in October 2020 that the economic recovery for New York City is likely to be slower and more protracted than that of the rest of the United States as the city's previous strengths—dense high-rise office buildings, global market focus, global and national meetings and conventions, live music and Broadway theaters—are now its vulnerabilities. COVID is an event that uniquely undermined all of New York City's comparative advantages and Zandi expects that New York City will likely take two years longer than the rest of the nation to recover, with the United States experiencing recovery in 2023 and New York City not recovering until 2025.²⁸

²⁴ *State of the Hotel Industry Six Months After COVID*; American Hotel & Lodging Association, August 2020.

²⁵ CBRE, *US Hotel Figures, 2020 Quarter 2*, July 2020.

²⁶ Ibid.

²⁷ Joint report by McKinsey and Skift, *Travel Industry Turned Upside Down*, September 2020.

²⁸ Patrick McGeehan, "Why NYC's Recovery May Lag the Rest of the Nation," *The New York Times*, October 26, 2020.

Dan Peek, president of the Hotels Group at the investment bank Hodges Ward Elliott told Bloomberg News in October 2020 that "New York City faces unique challenges that will likely result in a much slower recovery than the nation as a whole."²⁹ Douglas Hercher of Robert Douglas Investors in New York said in October 2020 that certain urban hotel markets in the United States are going to recover more slowly. Due to its qualities, New York City is a prime example and will be challenged "for a while." Until restaurants, Broadway theaters, international travel and "the general tourism engine" open up, there will just not be high demand generators for travel to New York City.³⁰

Interviews that the Consultant Team conducted with hotel industry stakeholders underlined this sentiment. One large hotel operator said the hotel market is "very challenging, particularly in NYC" where, in the fall months, hotel occupancy should be around 90 percent. In contrast, true occupancy rates (i.e., subtracting for government contracts) as of November 2020 were between 10-35 percent. Main reasons for the sustained drop are that the public still perceives the city as an epicenter of the pandemic, almost all international travel has been halted, Broadway theaters and other prime New York City attractions remain closed, many companies still have a "no-travel" policy, and group convention travel has stopped. One developer stated that there will be no tourism recovery until a vaccine is implemented, echoing the opinion of some market analysts.

To operate their businesses during the pandemic, hotel operators have cited contracts for hosting large groups, such as homeless residents, airline crews, or healthcare workers as a main component of revenue. Through the end of October 2020, the City has registered \$893 million in COVID-related contracts for hotels, which is 20 percent of total contracts.³¹ Most hotels have conducted mass furloughs and some large hotels are facing mounting union severance costs. In fact, one hotel developer stated 25-30 percent of hotels will close permanently and that if an owner is not actively considering other uses for their hotel properties, they are "being derelict." The most common conversion cited are to residential buildings, though other commercial uses are also being considered due to zoning.

Leisure Travel

In 2018, leisure travel accounted for approximately 78 percent of hotel visitors in New York City, 71 percent of domestic hotel visitors and 90 percent of international hotel visitors.³² The McKinsey-Skift report notes that, as of September, there was pent up demand for leisure travel, but leisure travelers are restrained by the inability to do anything meaningful at destinations.

²⁹ Patrick Clark, "With Prices Down by \$200, NYC Hotels Brace for More Pain," *Bloomberg News*, October 9, 2020.

³⁰ Katherine Kallergis, "Hotel Owners in Big Cities Hit Major Tipping Point, *The Real Deal*, October 19, 2020.

³¹ <https://comptroller.nyc.gov/newsroom/new-york-by-the-numbers-weekly-economic-and-fiscal-outlook-no-23-november-2-2020>.

³² NYC & Company, *Hotel Visitors: Visitor Market Profile*, August 2019.

Due to social distancing restrictions and closures, attractions at urban destinations were particularly limited. Therefore, much of the leisure travel market has been directed towards nature-oriented or beachside destinations that allow for easier social distancing and are not dependent on attractions that are subject to COVID-related closures. It should also be noted that the remote work culture engendered by COVID has blurred the lines between leisure and business travel.³³

In New York City, where international travelers make up 43 percent of leisure hotel visitors, restrictions on international travel have had a particularly detrimental impact on hotel demand. Domestic travel has also been greatly limited by New York State's 14-day quarantine requirements, which were eased and then put back in place in October as COVID cases in many states increased. (Note that Governor Cuomo announced on October 31, 2020 that the quarantine requirement was transitioning to a testing requirement, though interstate travel was still being discouraged.)

Deloitte's *Travel Market Report* was issued in May 2020, when some rebound was being observed in the US leisure travel market as the summer travel season approached. However, this report warned that, if the pandemic and economic instability persisted, or if there was a second wave (as is being experienced in much of the United States and Europe in the fall of 2020), then there would be a significant decrease in both leisure and business travel.³⁴ Should this pandemic period continue in a prolonged fashion, with social distancing and isolation becoming the norm, Deloitte projected that the travel industry would see a steep decline with significant number of hotels closing. Deloitte's report foresaw an increase in shorter distance trips with less pre-planning and advanced bookings. There would also be a marked decrease in New York City of previously highly attended events, such as concerts at Madison Square Garden, the New York Marathon or US Open, many of which are already being cancelled or curtailed. In the most extreme pandemic scenario, with no signs of decreased cases, new waves of infections and slow delivery of a vaccine or therapeutics, then leisure travel would be limited to regional destinations with less emphasis on elaborate vacations and underutilization of Luxury class hotels.

Business Travel

In 2018, business travel accounted for 22 percent of hotel visitors in New York City, 29 percent of domestic hotel visitors (with 18 percent for Group/Meeting business travel), and 10 percent of international hotel visitors.³⁵ McKinsey, in a report on the corporate travel market in August 2020, noted that, historically, business travel has been more volatile and slower to recover than leisure travel after economic downturns and other disruptions to travel patterns.³⁶ This trend was present in the 2008-09 recession when international business travel from the United States declined at almost twice the rate as international leisure travel.

³³ Joint report by McKinsey and Skift, *Travel Industry Turned Upside Down*, September 2020.

³⁴ Deloitte, *The World Remade: Travel & Hospitality Scenarios*, May 2020.

³⁵ NYC & Company, *Hotel Visitors: Visitor Market Profile*, August 2019.

³⁶ "For Corporate Travel, A Long Road Ahead," *McKinsey*, August 13, 2020.

And while international leisure travel fully recovered within two years, international business travel didn't fully recover to pre-recession levels for five years. Deloitte reports that, with COVID, companies face an increased burden of proof to demonstrate that business travel is necessary. This will continue to lead to significant declines in business travel. Deloitte did forecast that, with the increased onshoring of supply chains, there may be an increase in domestic business travel to some locations in the United States, though these are unlikely to be in dense urban locations such as New York City.³⁷

New York City has seen cancellation of almost all large business events and conventions. In addition, Bloomberg News reports that risk averse corporate travel departments have been wary of allowing business travel to New York City. This sentiment has been exacerbated by New York State government quarantine requirements for visitors, which were strengthened again in October 2020. Lukas Hartwich, sector head for lodging and healthcare at Green Street Advisors in New York told Bloomberg News in October 2020 that it will be 2022 before the New York City hotel market simply gets to where it was at the worst point of the 2008–09 recession.³⁸ PwC, in its Manhattan Quarterly Lodging Index for Q2 of 2020 stated that there will be no meaningful increase in operating metrics for Manhattan hotels until the return of business travel and that will not happen until a vaccine or therapeutics are widely available.³⁹

Underscoring this forecast, United Airlines CEO Scott Kirby remarked on United's third quarter earnings call in October 2020 that he did not expect air travel to recover until there is a widely available vaccine and that likely won't be before early 2022. Even then he said it will take at least two additional years, until 2024, for business travel to return to pre-COVID levels.⁴⁰ Analysts at Cowen, an investment bank and advisory firm, reported a more conservative forecast, estimating that the potential of business air travel will not return to pre-COVID levels before 2027.⁴¹ The CEO of Southwest Airlines, Gary Kelly, has stated that he does not expect a recovery of business travel for five to ten years.⁴² The hotel developers the Consultant Team interviewed agreed that the New York City hotel market could take as long as 2025 to recover and that the soonest group travel would resume was in 2022, assuming a vaccine was implemented.

McKinsey's analysis projects that once companies and their employees are prepared to return to the use of airports and hotels in larger numbers, they will do so in phases. The three leading indicators for this return are (1) public health and government regulations; (2) vendors and customers' health and safety policies; and (3) employees' willingness to travel. McKinsey also noted that some industry sectors will resume business travel more quickly than others, with healthcare, education and professional services taking the longest. McKinsey summarized the three phases of business travel resumption as such.⁴³

³⁷ Deloitte, *The World Remade: Travel & Hospitality Scenarios*, May 2020.

³⁸ Patrick Clark, "With Prices Down by \$200, NYC Hotels Brace for More Pain," *Bloomberg News*, October 9, 2020.

³⁹ PwC, *Manhattan Quarterly Lodging Index Q2 2020*, July 2020.

⁴⁰ United Airlines *Third Quarter 2020 Quarterly Earnings Report*, as reported by CNBC, October 15, 2020.

⁴¹ Cowen Analysts, *Airlines: A Winding Road to Recovery from COVID-19*, September 2020.

⁴² Yahoo Finance, July 23, 2020.

⁴³ "For Corporate Travel, A Long Road Ahead," *McKinsey*, August 13, 2020.

- **Earlier recovery:** Regional travel with few overnight stays, chiefly for small in-person sales or client meetings. Primary industry sectors will be manufacturing, pharmaceuticals and construction.
- **Mid-term recovery:** Domestic travel by plane or train, chiefly for internal meetings, training programs and small group gatherings. Primary industry sectors will be technology, real estate, finance and energy.
- **Longer-term recovery:** International travel, chiefly for large meetings, conferences and conventions. Primary industry sectors will be healthcare, education and professional services.⁴⁴

While the convention sector will likely be among the last components to recover, it will be important that New York City have the hotel rooms and hotel meeting conference space to accommodate this segment and its visitors. As noted above, 36 percent of the city's hotel meeting and convention space was either temporarily or permanently closed as of September 2020.

International Travel

International travelers accounted for 37 percent of hotel visitors in New York City in 2018, a percentage that has stayed relatively stable for much of the past decade.⁴⁵ This segment is the most impacted by federal COVID travel restrictions. The US government has prohibited entry by citizens from countries that comprise some of the largest markets for international travelers to New York City, including China and the nations of the European Union. In addition, the border between the United States and Canada, a significant source of overnight international visitors to New York City, remains closed with no timeline for reopening.

Deloitte projected in summer 2020 that, should the pandemic persist or experience a second wave, then it should be expected to see continued diminished spending in international business travel and a drying of trade links between the United States and the European Union. International leisure travel would be severely restricted and seen as privilege that would not see a recovery until national governments ease or lift restrictions on citizens from traveling abroad and foreign nationals from visiting.⁴⁶

Hotel News Now reported in September of 2020 that for international travel to return to pre-COVID levels will require the travel industry and, more specifically, national governments in leading travel markets to maintain a consistent level of containing the pandemic. Hotel News Now reported that, among major global travel markets, China is leading this effort, trailed by both the European Union and the United States. Prior to the second wave in October 2020 and renewed national shutdowns, the European Union was projected to reach the break-even hotel occupancy rate of 60 percent in 2022 and the United States would not reach 60 percent hotel occupancy until 2023, though areas of the United States that are less reliant on international travel may recover earlier.

⁴⁴ "For Corporate Travel, A Long Road Ahead," *McKinsey*, August 13, 2020.

⁴⁵ NYC & Company, *Hotel Visitors: Visitor Market Profile*, August 2019.

⁴⁶ Deloitte, *The World Remade: Travel & Hospitality Scenarios*, May 2020.

New York City Hotel Market Outlook

Domestic Travel

Domestic travelers accounted for 63 percent of hotel visitors in New York City in 2018.⁴⁷ As noted above, domestic travel in New York City has been negatively impacted by the decline in business travel, wariness of airline travel among domestic leisure travelers who do not live within driving distance of New York City, and New York State's quarantine requirements for travelers arriving in state from a majority of US states. Although COVID infection rates continue to steeply rise in many US states, particularly in the Midwest, South and Rocky Mountain West, New York has also seen a modest increase in infection rates. In response, the governors of New York, New Jersey and Connecticut announced on October 31, 2020 that they were ending the Tri-State Travel Advisory List that required 14-day quarantines for travelers arriving in the Tri-State region from a list of 41 states. Instead, travelers to New York State will now be required to test negative before and after arrival. However, interstate travel will still be highly discouraged.

An area of opportunity for New York City hotels is regional travel, specifically from the Tri-State region and other proximate states - including Massachusetts and Pennsylvania. NYC & Company has launched a regional travel promotion campaign, highlighting that 40 million people live within driving distance from New York City, and New York City hotels have seen increases in occupancy rates on weekends, most notably during the three-day Columbus Day weekend in October 2020.⁴⁸ Hotel operators the Consultant Team interviewed agreed that one bright spot has been occupancy in unique, boutique hotels in Manhattan. Occupancy rates in this segment have climbed as high as 50 percent. This demand is fueled by regional tourists looking for a staycation and booking luxury suites at affordable prices.

Based on McKinsey's broader projections for the corporate travel segment, domestic business travel will recover more quickly than international business travel. Leisure travel will likely continue to see some modest gains, however, until the principal demand drivers for travel to New York City return, such as theater, dining and large events, there will not be significant recovery in the hotel market.

Using historic pre-COVID visitation projection data, along with national tourism demand trends and New York City hotel development pipeline information based on active hotel construction permits from the New York City Department of Buildings, the following analysis evaluates hotel room demand and supply growth for New York City in total, and by borough, through 2035. Based on industry data and recovery projections for the New York City, national, and international hotel markets as outlined in Section 3, this analysis assumes that in 2025 the New York City hotel market will have fully recovered, reaching January 2020 demand levels. It should be noted, however, that this recovery depends on the availability and wide distribution of a vaccine and could change based on disruptions to projected inoculation schedules, issues with production, and/or logistics challenges, in addition to consumer confidence public health factors and, more generally, economic conditions.

Assuming a range of hotel room supply reductions, those resulting from immediate observed closures in the wake of the pandemic, and as detailed further in this section, the analysis shows that by 2035, there will be residual, or net, demand for between 21,500 and 52,400 additional hotel rooms citywide. It should be noted that some additional new hotel closures could yet occur, as government contracts for temporary housing expire or demand for short-term, COVID related stays dissipates. These potential closures are not possible to anticipate. However, the ranges presented account for a variety of likely permanent closure possibilities, which could include new, additional closures.

New York City Projected Hotel Demand

This analysis projects post-recovery hotel demand for the market's two principal segments, leisure travel and business travel. The analysis then estimates future residual demand for hotel rooms by subtracting the existing hotel room supply and the pipeline of hotel rooms in development (based on active hotel construction permits) from the projected future hotel room demand. However, because the New York City hotel market has seen nearly 40,000 rooms go offline since the COVID pandemic began in March 2020, the analysis evaluates a potential range of hotel supply to meet future demand. This range is bookended by two scenarios:

1. Where all confirmed closed hotels remain out of the hotel inventory but all temporarily closed hotels return.
2. Where all hotels closed both permanently and temporarily as of Fall 2020 permanently close before recovery in 2025.¹

As noted above, in addition to the hotels that are currently closed, it is possible that a segment of the hotel rooms currently in operation as of Fall 2020 could close permanently before 2025. This may include additional losses of rooms in all boroughs resulting from change of use for older properties that were operating at marginally profitable levels before COVID, as well as properties becoming permanent homeless shelters.

¹ As presented in Section 3, as of Fall 2020 there were 3,500 rooms permanently close and another 34,300 rooms temporarily closed. Temporarily closed rooms include those that have not issued WARN notices to the City and were not otherwise confirmed permanently closed by industry stakeholders.

⁴⁷ NYC & Company, *Hotel Visitors: Visitor Market Profile*, August 2019.

⁴⁸ Ibid.

While this analysis presents a range of potential future hotel room supply conditions based on current temporary and permanent hotel closures, the inventory of hotel rooms is fungible and therefore, whichever cohort of hotel rooms are permanently taken out of the supply, future hotel room supply will still likely fall within the range bookended by the two scenarios, which reflects best estimates as of Fall 2020 based on data analysis and stakeholder interviews. Changes in the pandemic timeline, federal support, government lodging contracts, availability of construction financing, traditional real estate market cycles, and/or other operating conditions could impact future supply estimates.

In order to determine the number of additional hotel rooms, if any, that developers would need to build through 2035 to meet projected demand, the analysis calculates a residual room demand by subtracting future room supply at the various ranges described above from projected room demand. If this calculated residual demand exceeds projected supply, the market will have a shortage of rooms. If the projected supply exceeds residual demand, the market will have an oversupply of rooms, and RevPAR would be expected to decrease below levels seen in January 2020. In the absence of a City action that could impact hotel supply, this analysis assumes that supply will return online as demand increases, resulting in a market equilibrium.²

Hotel Demand Drivers

There are two major hotel demand drivers in the U.S. and New York City:

- Leisure Travel (tourism and visitation of family and friends)
- Business Travel (including conference/group travel)

Each of these drivers is a component of overall hotel room demand and is considered separately in projecting new room demand through 2035. NYC & Company tracks leisure and business visitation for New York City, while the U.S. Travel Association tracks leisure and business visitation for the U.S. overall. Table 3 shows the share of total travel in New York City and the U.S. for leisure and business travel.

TABLE 3: BUSINESS AND LEISURE TRAVEL, NYC AND U.S.

TRAVEL TYPE	NYC	US	2023
BUSINESS	21.0%	20.1%	18.8%
LEISURE	79.0%	79.9%	81.2%
TOTAL, ALL	100%	100%	100%

SOURCES: NYC & Company; US Travel Association; Statista; BAE; all 2020

- Leisure Travel: According to both NYC & Company and U.S. Travel Association data, leisure travel in New York City historically comprises approximately 79.0 percent of room demand. This includes tourists visiting destinations, as well as leisure travelers visiting family and friends, some of whom stay in hotels during their visits.

² Supply could lag demand due to investor confidence or other factors.

- Business Travel: Business travel has historically made up the remainder of visitation, representing approximately 21.0 percent of room demand in New York City.³ This includes large and small group/conference travel.

The analysis below applies these percentages to recovery-year room demand by borough to estimate 2025 room demand by segment, and then applies the relevant projection growth rates to determine the number of new rooms demanded through 2035 by borough. Although the ratio is expected to change at the national level by 2023, the national projected recovery year, this analysis assumes that by 2035 the ratio will return to long-term trends seen in New York City. Per NYC & Company, the ratio of business and leisure travelers has been stable for decades. Since industry analysts and other stakeholder have no consensus on the long-term impacts to business travel, this analysis uses the historic rates. These present a conservative estimate of future hotel room demand.⁴

Current room demand for September 2020 does not attempt to differentiate between leisure and business travel as both markets are severely diminished. Government contracts supporting public purposes, including for housing homeless populations, health care workers, and people requiring quarantine provide up to two-thirds of the current lodging market.⁵

Existing Room Demand

Existing room demand is defined as total occupied rooms for September 2020. Applying the occupancy rate to the total number of rooms provides the number of occupied rooms, or total existing room demand. According to STR, in September 2020 there were 88,566 rooms in New York City, of which 34,096 were fully occupied on average on a nightly basis. Table 4 shows the occupied rooms or total nightly room demand by borough in 2020.

TABLE 4: EXISTING HOTEL DEMAND, SEPTEMBER 2020

BOROUGH	ROOMS AS OF SEPTEMBER 2020	OCCUPANCY RATE	OCCUPIED ROOMS/TOTAL DEMAND (a)
BRONX	1,384	66.0%	913
BROOKLYN	7,531	55.5%	4,183
MANHATTAN (d)	65,077	31.3%	20,350
QUEENS	13,799	59.9%	8,263
STATEN ISLAND	775	49.9%	387
TOTAL, ALL NYC	88,566		34,096

NOTES: (a) Average occupied rooms per night, or total occupied rooms.

(b) Accounts for the addition of the rooms reopened since September 2020 (3,390) and the number of rooms closed since September 2020 (1,341).

SOURCES: STR; BAE; all 2020.

³ NYC & Company and U.S. Travel Association, 2020.

⁴ Business travel grows at a slower rate than leisure travel.

⁵ NYC & Company, conversation, October 2020.

Outlook and Future Trends

Hotel Demand Recovery

As previously stated, analysts and industry experts project that the hotel industry, tourism, and business travel will fully recover by 2025, at which time, demand will return to pre-COVID (January 2020) levels. This recovery schedule, however, is dependent on multiple factors, including vaccine distribution and consumer confidence. While sentiment is building that people want to travel, some travel industry experts, including NYC & Company, have noted that recovery is likely to be slower initially, such as between 2021–2023, and then accelerate as consumer confidence builds before stabilizing to pre-COVID levels.⁶⁷

As Table 5 shows, before the pandemic, travelers occupied nearly 111,300 rooms per night. This analysis assumes that recovery will occur when pre-COVID demand is reached and annual demand growth rates return to pre-COVID levels. Thus, it uses January 2020 demand as the 2025 projection estimates.

TABLE 5: PRE-COVID NYC HOTEL DEMAND, JANUARY 2020

BOROUGH	2020 ROOM DEMAND				
	EXISTING ROOMS (a)	OCCUPANCY RATE (b)	OCCUPIED ROOMS/ TOTAL DEMAND (c)	LEISURE (d)	BUSINESS (e)
BRONX	1,384	81.3%	1,125	889	236
BROOKLYN	7,527	84.0%	6,322	4,994	1,328
MANHATTAN	103,730	88.1%	91,341	72,159	19,182
QUEENS	14,394	82.9%	11,939	9,432	2,507
STATEN ISLAND	775	72.2%	559	442	117
TOTAL, ALL NYC	127,810		111,286	87,916	23,370

NOTES: (a) Existing room supply as of January 2020.

(b) 2019 average occupancy rate by borough.

(c) Average occupied rooms per night, or total rooms demanded equals the existing rooms times the occupancy rate.

(d) Leisure demand as a share of total demand: 79.0%.

(e) Business demand as a share of total demand: 21.0%.

SOURCES: STR; BAE; all 2020.

⁶Patrick McGeehan, "Tourism, Engine for NYC Economy, May Not Fully Recover until 2025," The New York Times, November 16, 2020.

⁷Tariro Mzewewa, "Nine Ways the Pandemic Will Change Travel in 2021," The New York Times, December 22, 2020.

Hotel Demand Projections

Using the leisure and business segments' pre-COVID shares of total room demand by borough, along with underlying demand driver projections, the analysis estimated room demand through 2035 by borough. Projecting demand at the borough-level allows for flexibility in development based on market saturation, emerging market conditions, and diminishing availability of suitable sites. Based on an understanding of the interplay of various markets, such as Downtown Brooklyn and Lower Manhattan, some submarkets will likely continue to expand upon recovery, while others may lag due to high land prices or shortages of developable and/or attractive sites, near required transit and other amenities sought by travelers. Still other markets currently unknown, may emerge or existing markets may expand as new areas of the city become destinations for travelers.

Although some industry analysts project that business travel's share of total demand may fundamentally shift after recovery due to expanded use of Zoom and other virtual meeting platforms, there is no consensus yet on how those changes may manifest or whether the relative shares of each segment will return to pre-COVID levels over time. In addition, because business travel grows at a slower annual rate than leisure travel, using the long-term shares of demand segments (leisure and business) provides a conservative estimate of future post-recovery demand.

LEISURE TRAVEL

Leisure travelers include those people coming for arts, culture, music, or sporting events, as well as tourists, and those traveling to see family and friends. According to NYC & Company, between 2009 and 2019, leisure travel New York City from both domestic and international travelers increased 3.7 percent per year. Since the pandemic's long-term effects on visitation are unclear once the travel and tourism market recovers, this analysis conservatively projects stable growth at these Pre-COVID levels, resulting from a return in tourism to NYC from both regular travelers as well as emerging middle-class travelers from China, South Korea, India, and other international locations.

The 3.7 percent historic average annual growth rate used to project leisure travel through 2035 indicates that demand for hotel rooms will increase to 2019 levels (87,916) by 2025, increasing to nearly 105,400 rooms in 2030 and over 126,400 rooms in 2035. Table 6 shows demand for leisure travel hotel rooms through 2035.

TABLE 6: LEISURE HOTEL DEMAND PROJECTIONS BY BOROUGH, 2020–2035

BOROUGH	PROJECTED LEISURE HOTEL DEMAND (c)					ADDITIONAL SUPPORTABLE ROOMS		
	2020 (a)	2025 (b)	2025 (d)	2030 (e)	2035 (e)	2020-2025	2020-2030	2020-2035
BRONX	913	1,125	889	1,066	1,278	167	344	557
BROOKLYN	4,183	6,322	4,994	5,989	7,182	1,690	2,684	3,877
MANHATTAN	20,350	91,341	72,159	86,534	103,772	56,083	70,457	87,695
QUEENS	8,263	11,939	9,432	11,311	13,564	2,904	4,783	7,036
STATEN ISLAND	387	559	442	530	635	136	224	330
TOTAL, ALL NYC	34,096	111,286	87,916	105,429	126,432	60,980	78,494	99,496

NOTES: (a) Average occupied rooms per night, or total occupied rooms.

(b) Average occupied rooms per night, or total occupied rooms at recovery.

(c) Business share of total demand in NYC: 79.0%

(d) Assumes demand recovers to pre-COVID levels from 2019. Therefore, this is equal to the number of rooms in September 2020 by borough, multiplied by the 2019 annual average occupancy rate by borough, multiplied by the share of Business rooms.

(e) Based on historic annual average business travel growth rate, 2017–2019: 3.7%.

SOURCES: STR; NYC & Company; US Travel Association; BAE; all 2020.

BUSINESS TRAVEL

According to NYC & Company, business travelers accounted for 21.0 percent of hotel demand across New York City in 2019.⁸ These travelers come to visit businesses, seek services, and attend conferences. Business travel grew annually at 1.0 percent per year, pre-COVID. This growth rate is lower than that of leisure travel, though still positive. Some of this relatively slower growth, compared with leisure, is attributable to the maturity of New York City's labor markets and the increase in room supply in a variety of secondary metro-area commercial markets.

While some industry analysts question whether business travel and lodging patterns will ever return to pre-COVID levels, others offer that peer pressure to conduct face-to-face business and attend meetings in competitive industries will drive demand back to pre-COVID levels. For the purposes of this study, the analysis assumes that growth rates will return to pre-COVID levels. As Table 7 shows, demand from business travelers will be able to support more than 23,300 rooms by 2025, 24,500 rooms by 2030, and 25,700 rooms by 2035.

TABLE 7: BUSINESS HOTEL DEMAND PROJECTIONS BY BOROUGH, 2020–2035

BOROUGH	PROJECTED BUSINESS HOTEL DEMAND (c)					ADDITIONAL SUPPORTABLE ROOMS		
	2020 (a)	2025 (b)	2025 (d)	2030 (e)	2035 (e)	2020-2025	2020-2030	2020-2035
BRONX	913	1,125	236	248	260	44	56	68
BROOKLYN	4,183	6,322	1,328	1,392	1,460	449	514	582
MANHATTAN	20,350	91,341	19,182	20,118	21,099	14,908	15,844	16,826
QUEENS	8,263	11,939	11,939	2,507	2,630	2,758	772	1,023
STATEN ISLAND	387	559	117	123	129	36	42	48
TOTAL, ALL NYC	34,096	111,286	23,370	24,510	25,706	16,210	17,350	18,546

NOTES: (a) Average occupied rooms per night, or total occupied rooms.

(b) Average occupied rooms per night, or total occupied rooms at recovery.

(c) Business share of total demand in NYC: 21.0%

(d) Assumes demand recovers to pre-COVID levels from 2019. Therefore, this is equal to the number of rooms in September 2020 by borough, multiplied by the 2019 annual average occupancy rate by borough, multiplied by the share of Business rooms.

(e) Based on historic annual average business travel growth rate, 2017–2019: 1.0%.

SOURCES: STR; NYC & Company; US Travel Association; BAE; all 2020.

Multiplying the projected 2025 recovery year⁹ 22,400 business-supported hotel rooms by 365 nights shows that business travelers in 2019 spent more than 7.3 million nights in New York City hotel rooms; after recovering to that number in 2025, demand by 2035 will increase to more than 9.5 million nights.

GROSS HOTEL DEMAND PROJECTIONS

Adding together the existing and projected additional room demand from business and leisure travelers provides gross hotel room demand by borough in 2025, 2030, and 2035. As Table 8 shows, there will be demand for just over 174,700 rooms in New York City by 2035, if each borough returns to its pre-COVID 2019 occupancy rate.

⁸ See Table 3.

⁹ Also, the number of rooms demanded in 2019.

TABLE 8: PROJECTED ROOM DEMAND BY BOROUGH AND TRAVEL TYPE, 2025–2035

BOROUGH	2020 EXISTING ROOM DEMAND (a)	ADDITIONAL ROOM DEMAND		FUTURE DEMAND	STABILIZED OCCUPANCY RATE (b)	DEMAND WITH VACANCY
		LEISURE	BUSINESS			
2020–2025						
BRONX	913	167	44	1,125	81.3%	1,384
BROOKLYN	4,183	1,690	449	6,322	84.0%	7,527
MANHATTAN	20,350	56,083	14,908	91,341	88.1%	103,730
QUEENS	8,263	2,904	772	11,939	82.9%	14,394
STATEN ISLAND	387	136	36	559	72.2%	775
TOTAL, ALL NYC	34,096	60,980	16,210	111,286		127,810
2020–2030						
BRONX	913	344	56	1,314	81.3%	1,616
BROOKLYN	4,183	2,684	514	7,381	84.0%	8,789
MANHATTAN	20,350	70,457	15,844	106,651	88.1%	121,117
QUEENS	8,263	4,783	894	13,940	82.9%	16,807
STATEN ISLAND	387	224	42	653	72.2%	905
TOTAL, ALL NYC	34,096	78,494	17,350	129,940		149,233
2020–2035						
BRONX	913	557	68	1,538	81.3%	1,892
BROOKLYN	4,183	3,877	582	8,642	84.0%	10,290
MANHATTAN	20,350	87,695	16,826	124,871	88.1%	141,808
QUEENS	8,263	7,036	1,023	16,322	82.9%	19,678
STATEN ISLAND	387	330	48	765	72.2%	1,059
TOTAL, ALL NYC	34,096	99,496	18,546	152,138		174,727

NOTES: (a) Represents number of occupied rooms.

(b) Assumes occupancy rates will equal their 2019 levels by borough from 2025 to 2035.

SOURCES: STR; BAE; all 2020.

Future Supply Range

To date, the NYC hotel market has seen nearly 40,000 rooms go offline, including rooms that have gone offline since September 2020. Of this total, 3,484 are permanently closed and not expected to return to the market, while another 3,390 that were temporarily closed in Fall 2020 have already reopened in that they are accepting reservations for 2021. This leaves a net total of 34,288 temporarily closed rooms that are assumed could come back online as demand recovers. Some hotel owners are evaluating other uses for possible conversion. While hotel owners in the four outer boroughs are considering converting their hotels for use as permanent homeless shelters, owners of older hotels in Manhattan that were marginally profitable before COVID-19 are considering redevelopment and/or conversion to residential, office, or institutional uses. During stakeholder interviews, some industry stakeholders predict that up to 30 percent of New York City's hotel rooms will not reopen.

TABLE 9: ROOM CLOSURES AND REOPENINGS, FALL 2020

BOROUGH	PERMANENTLY CLOSED	TEMPORARILY CLOSED	ROOMS REOPENED	NET
				TEMPORARILY CLOSED ROOMS
BRONX	0	0	0	0
BROOKLYN	0	46	0	46
MANHATTAN	3,484	36,814	3,390	33,424
QUEENS	0	818	0	818
STATEN ISLAND	0	0	0	0
TOTAL, ALL NYC	3,484	37,678	3,390	34,288

SOURCES: STR; HANYC; BJH; BAE; all 2020.

Because there is no way to project the total number of rooms that the market will permanently lose before recovery, this analysis provides a range of future hotel room supply based on two scenarios for hotel room closures in order to understand how much demand will need to be met by future hotel development. Table 9 shows the number of room closures and re-openings by borough through Fall 2020.

TEMPORARILY CLOSED ROOMS REOPEN

The first scenario assumes that all temporarily closed rooms are available to reopen when demand returns. This scenario provides the highest potential future supply of hotel rooms. At this end of the range, there is latent supply of 34,288 rooms that can absorb future demand, although they are not part of current supply estimates. However, the 3,484 permanently closed rooms do not return to the market, representing a 2.7 percent loss to NYC's hotel room supply.

TEMPORARILY CLOSED ROOMS PERMANENTLY CLOSE

Under the second scenario, all temporarily closed rooms permanently close before the market recovers. This scenario provides the lowest potential future supply of hotel rooms considered in this analysis. At this end of the range, only the 3,390 rooms already reopened will be part of the ongoing room supply. The market will lose 37,772 rooms, representing a 29.6 percent loss to NYC's hotel room supply.

Actual future room supply will likely fall within this range. However, it should be noted that the location of closed and reopened rooms may vary from that presented in this analysis. Hotels outside of Manhattan, which have not experienced many closures to date, may close in the future if hotels convert to permanent social services facilities or other uses such as assisted living or pure residential. Likewise, hotels across Manhattan submarkets may also close and change their uses. Because the pandemic remains ongoing at the time of this analysis, it is not possible to predict the total number of permanent room closures, or the distributions of their locations or typologies. It can be stated that older hotels in Manhattan that were marginally profitable before COVID are most at-risk for permanent closure.

Gross Unmet Hotel Room Demand

Gross unmet demand equals the gross room demand minus the number of existing hotel rooms and temporarily closed rooms expected to reopen under each scenario. Permanently closed are not subtracted from the remaining room demand.

TEMPORARILY CLOSED ROOMS REOPEN

At the low end of the potential unmet demand range, where temporarily closed rooms are assumed to reopen, there would be gross unmet demand of over 5,000 rooms in Manhattan by 2025, and nearly 51,900 rooms citywide by 2035. Of the total 122,854 rooms in the existing supply, 88,566 are currently online, with the remainder assumed to open as demand returns. Table 10 shows a minimum gross unmet room demand of nearly 51,900 rooms by 2035, and Figure 22 graphically shows the gap between supply and demand.

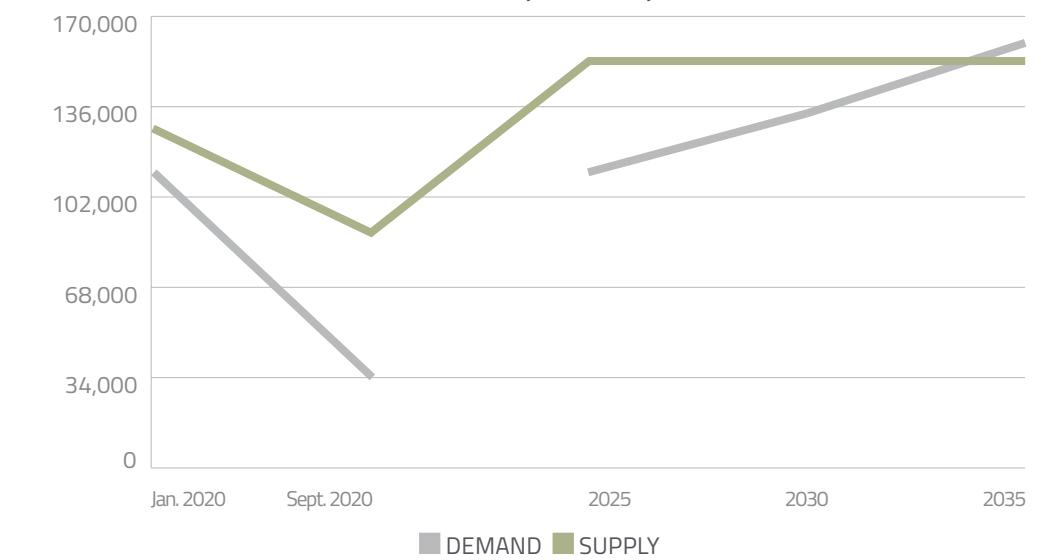
TABLE 10: GROSS UNMET ROOM DEMAND BY BOROUGH, TEMPORARILY CLOSED ROOMS REOPEN, 2025–2035

BOROUGH	EXISTING DEMAND	GROSS FUTURE DEMAND			LESS EXISTING SUPPLY (a)	GROSS UNMET ROOM DEMAND		
		2025	2030	2035		2025	2030	2035
BRONX	913	1,384	1,616	1,892	1,384	0	232	508
BROOKLYN	4,183	7,527	8,789	10,290	7,577	0	1,212	2,713
MANHATTAN	20,350	103,730	121,117	141,808	98,501	5,229	22,616	43,307
QUEENS	8,263	14,394	16,807	19,678	14,617	0	2,190	5,061
STATEN ISLAND	387	775	905	1,059	775	0	130	284
TOTAL, ALL NYC	34,096	127,810	149,233	174,727	122,854	5,229	26,379	51,873

NOTE: (a) Supply as of September 2020 plus reopened rooms and temporarily closed rooms.

SOURCES: STR; HANYC; BJH; BAE; all 2020.

FIGURE 22: NYC HOTEL ROOM SUPPLY AND DEMAND, 2020–2035, TEMPORARILY CLOSED ROOMS REOPEN



SOURCES: STR; HANYC; BJH; BAE; all 2020.

TEMPORARILY CLOSED ROOMS PERMANENTLY CLOSE

At the high end of the potential unmet demand range, where temporarily closed rooms are assumed to permanently close before the market returns, there would be gross unmet demand of nearly 35,900 rooms citywide by 2025, nearly 57,300 rooms citywide by 2030, and nearly 82,800 rooms citywide by 2035. Of the total 91,956 rooms in the existing supply, 88,566 are currently online, with the remainder already taking reservations for 2021. Table 11 shows a potential maximum gross unmet room demand of nearly 82,800 rooms by 2035, and Figure 23 graphically shows the gap between supply and demand.

TABLE 11: GROSS UNMET ROOM DEMAND BY BOROUGH, TEMPORARILY CLOSED ROOMS PERMANENTLY CLOSE, 2025–2035

BOROUGH	EXISTING DEMAND	GROSS FUTURE DEMAND			LESS EXISTING SUPPLY (a)	GROSS UNMET ROOM DEMAND		
		2025	2030	2035		2025	2030	2035
BRONX	913	1,384	1,616	1,892	1,384	0	232	508
BROOKLYN	4,183	7,527	8,789	10,290	7,531	0	1,258	2,759
MANHATTAN	20,350	103,730	121,117	141,808	68,467	35,263	52,650	73,341
QUEENS	8,263	14,394	16,807	19,678	13,799	595	3,008	5,879
STATEN ISLAND	387	775	905	1,059	775	0	0	284
TOTAL, ALL NYC	34,096	127,810	149,233	174,727	91,956	35,858	57,277	82,771

NOTE: (a) Supply as of September 2020 plus reopened rooms and temporarily closed rooms.

SOURCES: STR; HANYC; BJH; BAE; all 2020.

FIGURE 23: NYC HOTEL ROOM SUPPLY AND DEMAND, 2020-2035, TEMPORARILY CLOSED ROOMS BECOME PERMANENTLY CLOSED



Scenario 2: Assume no temporarily closed hotel rooms reopen and pipeline rooms delivered by 2025. Assume demand recovery in 2025 and historic 3.7% annual growth rate in demand for 2025-2035.

SOURCES: STR; HANYC; BJH; BAE; all 2020.

Residual (Net) Hotel Demand/Future Unidentified Supply

As of September 2020, there are 30,331 pre-construction hotel rooms in the development pipeline, having filed an application, having an application approved, or permitted for construction by the New York City Department of Buildings.¹⁰ If they deliver, their addition to the hotel supply would reduce the unmet room demand. Table 12 shows that by 2025, if all temporarily closed rooms reopen, there are enough rooms in the pipeline to meet the remaining room demand. However, by 2030, Manhattan would be short of supply by nearly 10,700 rooms and by 2035, there will be a need for an additional 31,400 rooms to meet demand. If temporarily closed rooms do not reopen, then by 2025 there will be demand for more than 23,300 new rooms in Manhattan, 40,700 new rooms by 2030, and more than 61,400 new rooms by 2035. The supply in every other borough, at both ends of the range, would meet demand by 2035, with more than enough rooms in the pipeline to meet future demand even with some existing room closures. This analysis assumes that absent any actions that impact market conditions (e.g., recessions, regulatory actions), developers will respond to increases in demand and bring new hotel rooms online until the market returns to equilibrium.

¹⁰ Hotels permitted for construction include those that have begun construction but have not achieved substantial completion (80 percent complete and/or achieved certificate of occupancy). City records for this period show no hotels that have achieved substantial completion but are not yet open.

TABLE 12: RESIDUAL ROOM DEMAND BY BOROUGH, 2020-2035

TEMPORARILY CLOSED ROOMS RETURN ONLINE

BOROUGH	REMAINING ROOM DEMAND			DISTRIBUTION OF NYC RESIDUAL DEMAND, 2035		PIPELINE HOTEL ROOMS	RESIDUAL NET ROOM DEMAND / UNIDENTIFIED FUTURE SUPPLY		
	2025	2030	2035	PERCENT	ROOMS		2025	2030	2035
BRONX	0	232	508	1.0%	508	2,288	0	0	0
BROOKLYN	0	1,212	2,713	5.2%	2,713	6,335	0	0	0
MANHATTAN	5,229	22,616	43,307	83.5%	43,307	11,939	0	10,677	31,368
QUEENS	0	2,190	5,061	9.8%	5,061	9,273	0	0	0
STATEN ISLAND	0	130	284	0.5%	284	496	0	0	0
TOTAL, ALL NYC	5,229	26,379	51,873	100%	51,873	30,331	0	10,677	31,368

BOROUGH	REMAINING ROOM DEMAND			DISTRIBUTION OF NYC RESIDUAL DEMAND, 2035		PIPELINE HOTEL ROOMS	RESIDUAL NET ROOM DEMAND / UNIDENTIFIED FUTURE SUPPLY		
	2025	2030	2035	PERCENT	ROOMS		2025	2030	2035
BRONX	0	232	508	0.6%	508	2,288	0	0	0
BROOKLYN	0	1,258	2,759	3.3%	2,759	6,335	0	0	0
MANHATTAN	35,263	52,650	73,341	88.6%	73,341	11,939	23,324	40,711	61,402
QUEENS	595	3,008	5,879	7.1%	5,879	9,273	0	0	0
STATEN ISLAND	0	130	284	0.3%	284	496	0	0	0
TOTAL, ALL NYC	35,858	57,277	82,771	100%	82,771	30,331	23,324	40,711	61,402

SOURCES: New York City Planning Department; BAE; all 2020.

Table 12 also shows the distribution of residual demand by borough, revealing that Manhattan accounts for between 83.5 percent and 88.6 percent of unmet demand by 2035. If hotel rooms do not reopen in Manhattan, room shortages ranging between 31,400 and 61,400 rooms may impact New York City's ability to attract tourism and conventions. While some tourists have been more willing to stay in Brooklyn and Queens in recent years, proximity to Broadway, Times Square, and the Javits Center are critical to the City's ability to attract tourists and conventioners who may be less familiar with getting around New York. In addition, borough hotels may not be acceptable to business travelers who want to be near to Manhattan offices.

On the supply side, trends since 2010 and prior to COVID-19 have shown that hotel room development is occurring at a much faster pace in the other boroughs, and the share of rooms in Manhattan has steadily declined. This is in part due to the relatively high hotel development costs in Manhattan compared to the other boroughs as well as diminishing suitable sites and emerging submarkets in other boroughs.

Therefore, although future citywide demand is driven by Manhattan, new hotel room supply could be more evenly distributed throughout the city. Assuming that future supply will deliver based on the distribution of hotel rooms currently in the pipeline, as shown in Table 11, and that lodgers demanding rooms in Manhattan will stay in the other boroughs, residual demand would range between approximately 21,500 rooms and 52,400 rooms. This would require more than half of future lodgers to stay in Queens or Brooklyn, despite more than 85 percent wanting to stay in Manhattan. If travelers are unwilling to stay in Queens or Brooklyn, residual demand will look more like the ranges presented in Table 10 above.

TABLE 11: ADJUSTED ROOM DEMAND BY BOROUGH, 2020-2035

TEMPORARILY CLOSED ROOMS RETURN ONLINE

BOROUGH	ADJUSTED DISTRIBUTION OF NYC RESIDUAL DEMAND, 2035 (a)	ADJUSTED REMAINING ROOM DEMAND			PIPELINE HOTEL ROOMS	RESIDUAL NET ROOM DEMAND / UNIDENTIFIED FUTURE SUPPLY		
		2025	2030	2035		2025	2030	2035
BRONX	7.5%	394	1,990	3,913	2,288	0	0	1,625
BROOKLYN	20.9%	1,092	5,510	10,834	6,335	0	0	4,499
MANHATTAN	39.4%	2,058	10,384	20,419	11,939	0	0	8,480
QUEENS	30.6%	1,599	8,065	15,859	9,273	0	0	6,586
STATEN ISLAND	1.6%	86	431	848	496	0	0	352
TOTAL, ALL NYC	100%	5,229	26,379	51,873	30,331	0	0	21,542

TEMPORARILY CLOSED ROOMS PERMANENTLY CLOSE

BOROUGH	ADJUSTED DISTRIBUTION OF NYC RESIDUAL DEMAND, 2035 (a)	ADJUSTED REMAINING ROOM DEMAND			PIPELINE HOTEL ROOMS	RESIDUAL NET ROOM DEMAND / UNIDENTIFIED FUTURE SUPPLY		
		2025	2030	2035		2025	2030	2035
BRONX	7.5%	2,705	4,321	6,244	2,288	417	2,033	3,956
BROOKLYN	20.9%	7,489	11,963	17,288	6,335	1,154	5,628	10,953
MANHATTAN	39.4%	14,115	22,546	32,581	11,939	2,176	10,607	20,642
QUEENS	30.6%	10,963	17,511	25,305	9,273	1,690	8,238	16,032
STATEN ISLAND	1.6%	586	937	1,354	496	90	441	858
TOTAL, ALL NYC	100%	35,858	57,277	82,771	30,331	5,527	26,946	52,440

NOTE: (a) The distribution of the remaining room demand by borough is adjusted to the distribution of rooms in the construction pipeline.

SOURCES: New York City Planning Department; BAE; all 2020.

It should be noted that some of the pipeline rooms may also be delayed or unbuilt. Hotels are the most difficult real estate project to acquire financing. Banks consider the low levels of profitability and a dependence on the ability to attract travelers higher risk than other types of real estate, like residential, retail, or office uses. Investors may want to wait to see if New York City will continue to be as attractive a destination as it was in the pre-COVID era. If some of the hotels do not proceed or become hybrid residential/hotel projects in order to attract funding, the unmet demand could be substantially higher than projected here. In addition to financing challenges, restrictive land use policies related to new hotel development that are currently being considered by the New York City Department of City Planning may create further hurdles to increasing hotel supply to meet future demand.

Further, COVID-19 has impacted nearly every sector of the economy. As of December 2020, it is unknown how deep or long of a recession the global, national, and NYC economies will face. Traditional market cycles can also delay or kill pipeline hotels if tourists delay travel due to economic losses or declining income.

Finally, in the short- and mid-terms, the difficulty of hotel projects to obtain financing may stifle the return of travel demand. Tourists who are willing and able to travel to NYC may find that there are not enough rooms available, as supply increases lag demand while banks evaluate the return of the tourism and lodging markets.

Appendix I: Literature Review

The Consultant Team undertook an overview and analysis of published sources related to the tourism industry and projections for hotel development in New York City. Sources for review include third party market evaluation and outlook reports, industry reports and outlook projections conducted by New York City government agencies, and reports conducted by NYC & Company, in addition to relevant recent news articles in local and national newspapers, magazines and industry trade publications that focus on the travel and hospitality industry and New York City real estate.

Private Third-Party Market Reports

- Horwarth HTL, *Market Report USA: Hotel Market Trends in the Covid Era*, September 2020.
- Skift Research in partnership with McKinsey & Company, *The Travel Industry Turned Upside Down: Insights, Analysis and Actions for Travel Executives*, September 2020.
- American Hotel & Lodging Association, *State of the Hotel Industry Analysis: COVID-19 Six Months Later*, August 31, 2020.
- CBRE, *US Hotel Outlook: Down, But Not Out!*, August 27, 2020.
- Tourism Economics, an Oxford Economics Company, *Employment Situation in the Leisure and Hospitality Industry Through July 2020*, August 2020.
- CBRE Econometric Advisors, *Hotel Industry Update: A Slower Recovery Ahead*, July 2020.
- Trepp, *Historical CMBS Report: An Update on Hotel Commercial Real Estate*, July 2020.
- McKinsey & Company, *Hospitality and COVID-19: How long until 'no vacancy' for US hotels?*, June 2020.
- CBRE; U.S. Hotel Figures; Q2 2020.
- PwC, *Manhattan Lodging Index Second Quarter 2020*, 2020.
- Deloitte, *The World Remade: Travel and Hospitality Scenarios, the "Next Normal"*; May 2020.

Public Sector Reports

- NYC Comptroller, *New York by the Numbers Weekly Economic and Fiscal Outlook*, November 2, 2020.
- NYC & Company, *NYC Hotel Occupancy, ADR & Room Demand 5 Year Trend Report*, September 1, 2020.
- NYC & Company, *All In NYC: The Roadmap for Tourism's Reimagining and Recovery*, July 2020.
- NYC & Company, *Annual Report 2018-2019*, 2019.
- NYC & Company, *Economic Impact of Tourism in New York City 2019*, 2019.
- NYC & Company, *Travel & Tourism Trend Report 2019*, 2019.
- NYC & Company and U.S. Department of Commerce, *Visitor Market Profile*, August 2019.
- Office of NYC Comptroller, *Impact of Airbnb on NYC Rents*, April 2018.
- NYC Department of City Planning, *NYC Hotel Market Analysis: Existing Conditions and 10-Year Outlook*, 2017.

Periodicals and Articles (sampling)

- "Slumping Sales: Pandemic Continues to Batter City Economy," *Citizens Budget Commission Blog*, October 27, 2020.
- "Investors are looking for chances to repurpose now-empty hotels," *Crain's NY Business*, October 26, 2020.
- "CMBS Foreclosures Start Rising as Hotel Defaults Break 50% in Some Cities," *Bisnow*, October 6, 2020.
- "Pummeled by the Pandemic, Hotel Owners Get Creative With Their Space," *The New York Times*, October 6, 2020.
- "Queens casino forges ahead with plans for \$400M Hyatt despite bleak hotel market," *Crain's NY Business*, October 6, 2020.
- "Hotel Industry Girds for Estimated 38,000 Property Closings Without New Federal Aid," *CoStar News*, September 30, 2020.
- "Hotels Face a Dire Winter Without More Aid From Congress," *Northstar Meetings Group*, September 30, 2020.
- "The Future of Airbnb," *The New York Times*, September 24, 2020.
- "Recovery in boutique hotel segment varies by location," *Hotel News Now*, September 18, 2020.
- "Creativity tapped to stretch leisure season past summer," *Hotel News Now*, September 15, 2020.
- "NYC hoteliers navigate 'tricky' quarantine mandate," *Hotel News Now*, September 14, 2020.
- "Nearly 160,000 hotel jobs lost since mid-August," *Hotel News Now*, September 11, 2020.
- "Economy Extended-Stay Hotels Hold Up Best During Q2 2020," *HVS*, September 4, 2020.
- "HVS Monday Musings: Improving Hotel ROI—Thinking Out of the Box from Designs to Operations," *HVS*, August 31, 2020.
- "Report: Hotel Industry Facing Historic Wave of Foreclosures," *American Hotel & Lodging Association*, August 18, 2020.
- "Demand drags on occupancy, not rate, in new US forecast," *Hotel News Now*, August 14, 2020.
- "HDC: Overcoming the industry's biggest obstacle," *Hotel News Now*, August 14, 2020.
- "Times Square Edition to reopen as Maefield clears up debt dispute," *The Real Deal*, July 14, 2020.
- "COVID-19 Travel Industry Research," *U.S. Travel Association*, weekly data.
- "Five U.S. Markets with the Largest Hotel Pipelines," *Lodging Magazine*, August 5, 2019.
- "What Airbnb Did to New York City," *Bloomberg City Lab*, March 5, 2018.

Appendix II: Hotel Asset Classes

Limited Service

Originally defined as a hotel without restaurant or banquet facilities, the services and amenities offered to guests of Limited Service hotels are typically simple. However, these services and amenities have expanded over the past decade and, in today's market, a limited service hotel's range of amenities might include a business center, a fitness room, a guest laundry facility, a market pantry, an indoor and/or outdoor pool and small meeting rooms.

"Budget" Limited Service hotels offer no-frills rooms at modest prices. More robust Limited Service hotels offer many of the same high-quality amenities that guests would expect from Full Service hotels, with one significant difference: Limited Service hotels lack a dedicated, revenue-producing food and beverage component.

Because of this, Limited Service hotels typically have the lowest operating costs of all three segments because they do not offer catering services or restaurants. Room rates are typically on the lower end of the scale as well, because demand for Limited Service properties generally comes from price-sensitive commercial and leisure travelers.

Examples of brands belonging to the Limited Service asset class include: Comfort Inn, Fairfield Inn, Holiday Inn Express, Homewood Suites, La Quinta, SpringHill, and Staybridge Suites.

Select Service

Select Service hotels are a hybrid category that offers the fundamentals of Limited Service properties together with a selection of the services and amenities characteristic of Full Service properties. Generally, this means certain restaurant and banquet facilities but on a less elaborate scale than one would find at Full Service hotels. On the whole, Select Service properties have more in common with hotels in the Limited Service category, but specific offerings of Select Service properties vary.

Select Service hotels keep operating costs down by offering services and amenities in moderation. Hotels in this category generally do not feature multiple restaurants, expansive catering services, or an abundance of meeting space. For example, a Select Service hotel's restaurant is likely to offer a limited menu and generally does not open for all three meals, seven days a week.

In-room amenities, however, can approach or meet the levels found at Full Service hotels. In fact, commercial demand has grown among Select Service hotels since 2007, as budgets for business travel tighten. The Select Service segment has continued to increase its competitive advantage by offering the in-room amenities of Full Service hotels while keeping prices low in the absence of a full-spectrum product offering.

While the term "Select Service" may be relatively new to the lodging scene, the concept has been around for many years. For most people, a Hilton Garden Inn, a Courtyard by Marriott, or a Hyatt Place evokes an image of the quintessential Select Service hotel. But the term also describes individual properties from largely Limited Service brands such as Best Western, Days Inn, and Clarion when those properties feature on-site restaurants or a more elaborate array of in-room amenities.

Similarly, the line between Full Service and the Select Service hotels has become increasingly blurred with the release of several new prototypes by Full Service brands such as Holiday Inn and Wyndham. The new prototypes, which include less expansive food and beverage services and feature a smaller overall building footprint, provide for greater operating efficiency for a hotel that is less expensive to build and maintain.

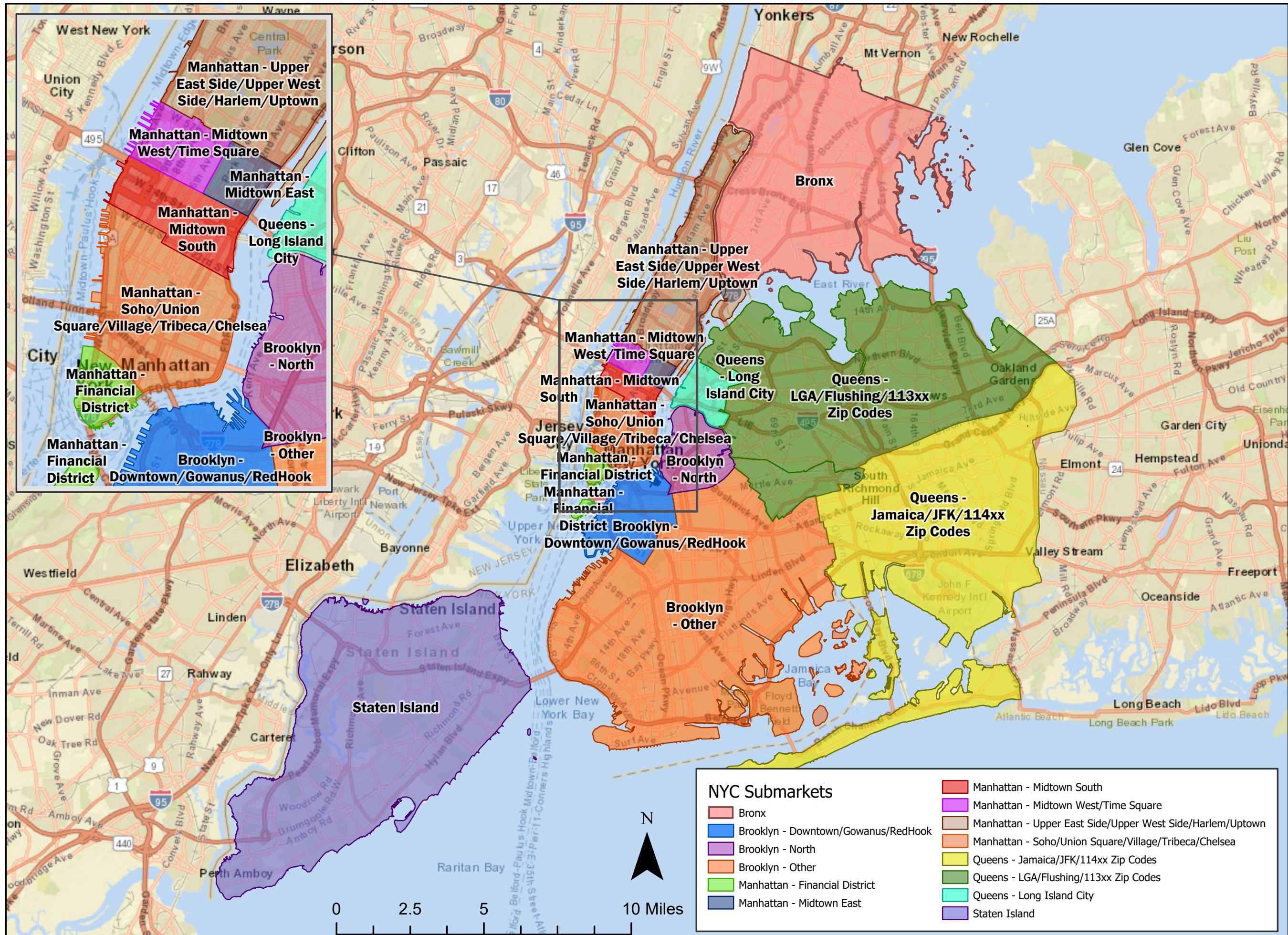
Full Service

The most distinguishing feature of a Full Service hotel is the abundant provision of food and beverage services suitable for both guests and groups. Full Service hotels, unlike hotels in other categories, typically play a significant role in servicing the meeting and special events needs in their market area. Therefore, on-site restaurants, lounges, and group meeting spaces with banquet facilities are the cornerstones of the Full Service offering. Furthermore, selective amenities such as spas, elaborate banquet rooms, doormen, valet parking, extended room service, concierge services, and high-end restaurants and boutiques distinguish many Full Service properties.

These multiple services and amenities come at a higher operational cost for the Full Service hotel, but they also help the hotel capture more selective demand and command a higher average rate. Groups requiring meeting space are a significant source of business for Full Service properties, as are business travelers willing to pay the higher room rates generally charged at these hotels. Leisure and vacation travelers, especially at the upscale and luxury levels, are also a significant market for many Full Service hotels. In all cases, Full Service hotel guests seek the extra amenities and service levels found only at these properties.

Examples of brands belonging to the Full Service asset class include: Hilton, Marriott, Hyatt, InterContinental, Radisson, Renaissance, Ritz Carlton, W and Westin.

Appendix III: Hotel Submarket Map



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New York City Department of City Planning
CENTRAL OFFICE

120 Broadway
31st Floor
New York, NY 10271

Tel. 1-212-720-3300
Fax. 1-212-720-3488

<http://www.New York City.gov/planning>