



## NYC Hotel Rates Rise As Occupancy Soars

By Bruce Serlen

MAY 16, 2005 -- New York hotels in the first quarter of the year posted the highest average daily rate and revenue per available room of any major business travel market in the country, as tracked by Smith Travel Research. In addition, growth in New York's occupancy, ADR and RevPAR for the first three months easily outstripped the same metrics from the same period one year ago.

Both distinctions indicate that the lodging industry rebound, while a factor in numerous markets across the country, is occurring most forcefully in the Big Apple. Consequently, securing midweek room nights in New York has become more of an issue than in most other cities for travel buyers. Complicating the situation, New York is the center of so much business activity that the looming availability squeeze factors to some degree in most buyers' hotel programs. Large program buyers who have chainwide deals may find their preferred hotels enforcing more last room availability restrictions. For their part, small and midsize buyers may have to resort to using more small, independent or less-conveniently located hotels in order to get the room nights they need.

Meanwhile, owners of older, well-located properties this spring remained under pressure from the booming market for residential real estate to convert their properties—either entirely or in part—to condominiums ([BTN, March 21](#)). With no new upper upscale or deluxe hotels under construction in Manhattan and the pipeline for new hotel construction of any price point at near historic lows, the city in 2005 faces a cumulative loss of full-service rooms.

Meanwhile, the owners of the most visible of the hotel-to-apartment conversions, The Plaza, in April reached a compromise with the hotel workers' union to retain more hotel rooms in the now-closed building when it reopens in 2007.

New York occupancy for the first quarter reached 77.1 percent, almost 20 percent above the U.S. average of 58.4 percent. ADR in New York for the period was \$175.61, again significantly above the national average of \$90.25. RevPAR in the city set the pace for the country as well at \$135.44, up 15.2 percent, versus the national average of \$52.74, up 7.2 percent.

New York, furthermore, significantly bettered its performance compared to the same quarter in 2004. According to Smith Travel, occupancy year over year grew 6.1 percent and ADR growth jumped 8.6 percent in addition to the 15.2 percent boost in RevPAR growth.

"The city had one of the best first quarters ever," said consultant Sean Hennessey, president of Lodging Investment Advisors. "The quarterly performance was especially impressive, considering that Easter this year fell in March as opposed to April, Easter week typically being a slow period for business travel."

Hennessey noted that occupancy rates in the city actually have begun to moderate, but that the leveling off does not indicate a slowdown in demand. "The improvements in occupancy have been smaller and smaller with each passing quarter, starting about nine months ago," Hennessey said. "The reality is that New York hotels are getting pretty near capacity on a lot of nights. There still might be availability during flat periods and shoulder periods, but on peak nights buyers can expect more and more sell-outs at many hotels. The industry overall is performing very well at this point."

ADR still is trending upward. "There's been a lot of improvement in terms of room rate, which is good for hotels, less good for buyers," Hennessey said. "Room rate increased significantly during the first quarter, which is consistent with the strong room rate gains we've seen in the past year."

New York came out of the industry slowdown earlier than other U.S. markets and has continued to set the pace in 2005, said Stevan Porter, president of the Americas for InterContinental Hotels Group. "We started to see some nice movement as early as late 2003 and had a solid uptick in 2004, affecting both transient and group business," Porter said. IHG manages hotels at a range of price points in New York, including midprice with food and beverage Holiday Inns Downtown and Midtown, upscale Crowne Plazas on the East and West Sides and upper upscale The InterContinental Barclay. Its first midprice without food and beverage Holiday Inn Express in Manhattan opens next month in Midtown.

To put the health of today's market in perspective, analysts typically compare it against 2000, New York's—and the overall industry's—last banner year. "On the occupancy side, we are about at the point where we were in 2000, which saw the industry's strongest performance in 20 years," Hennessey said. "Room rates still are not as high as they were that year, but they are basically at the 1999 level. We're within spitting distance."

According to New York boutique hotel owner/manager Richard Born, the current market conforms to the traditional supply and demand pattern. "If 2004 was the recovery year, 2005 clearly is the boom year," said Born, whose portfolio with partner Ira Druckier includes The Mercer, Maritime and Chambers hotels. "No new major projects are about to open, however, which creates a vacuum in terms of development."

Born said he expects developers to announce a number of new projects that will begin later this year and in 2006, which will signal a new wave of construction. These hotels, though, won't open until late 2007 or 2008 at the earliest.

One hotel that is reaping major benefits from the current development vacuum is the Mandarin Oriental New York, which opened in December 2003 at Columbus Circle. "We have the distinction of being the most recent deluxe hotel to enter the market," according to director of sales and marketing Kristin Ruble. "When it comes to the latest design and technology, we're the new kid on the block—and hope to stay that way for a while."

As part of its compromise with the hotel workers union, Elad Properties, owner of The Plaza, agreed to retain 348 of the hotel's 805 rooms when it converts the building at 59th St. & Central Park South to apartments. Elad originally had intended to retain only half that number of rooms. In addition, Elad agreed to preserve The Plaza's grand ballroom and other public spaces. While the building's exterior has historical landmark protection, the interior does not. In addition to The Plaza, the InterContinental Central Park South, the St. Regis and other hotels, the owners of the Melrose Hotel, formerly the famed residential Barbizon Hotel, on East 63rd St. in April announced that they were planning to convert the entire building to condominiums as well.

In the aftermath of The Plaza controversy, industry speculation regarding the future of still other New York City hotels has intensified. When Hilton Hotels Corp., for example, last month announced it was weighing the sale of company-owned assets such as The Waldorf-Astoria, UBS lodging industry analyst William Truelove suggested that Hilton could get maximum value by selling to a condominium developer.

"Along with the Palmer House in Chicago, another prime candidate for sale, The Waldorf is an older hotel facing substantial capital expenditure needs with a cachet name that could sell well in the condo market," Truelove said.