LONG-TERM OUTLOOK ROSY FOR NYC HOTEL MARKET DESPITE PAIN IN THE FORECAST

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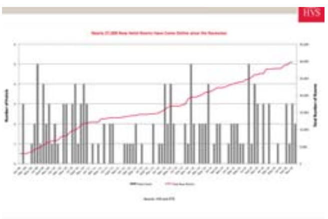
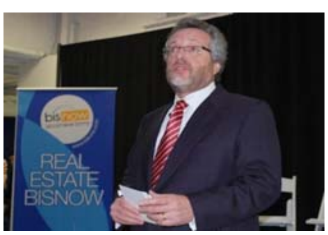
Four thousand hotel rooms opened in Manhattan in 2016, according to a new report, and more than 5,800 are expected to open this year, followed by another 4,900 in 2018 and 4,200 in 2019. Room rates have already been plummeting, so the New York City hotel market is bracing for a few more years of choppy waters.



The market has already brought 27,000 new rooms online since the recession, according to a report by HVS. From 2007 to the end of next year, Manhattan will have grown from about 66,000 total rooms to about 104,000.

Despite the rush of new supply, demand has largely kept pace. Manhattan hotels are still around 87% occupied, a number that has not dipped below 86% since 2012, despite the prolonged influx of new hotels. More importantly, occupancy and revenue are expected to pick up in the next few years, after another dip in 2017.

"Short term, from an operational perspective, New York is going to see some pain," LW Hospitality CEO Dan Lesser, who will be a panelist at *Bisnow*'s NYC's Hospitality Climate event on March 7, said. "Long term, I think it's an amazing story. It's an 85% market today, and occupancy is not going down, there's no reason for it to. I think New York is fundamentally, on a long-term basis, even today, under-hoteled."



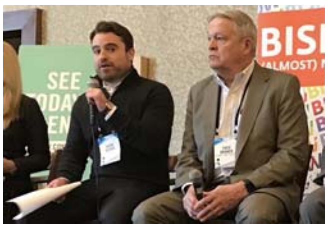
Lesser said the short-term pain will lead to opportunities, but they will be hotly contested. As loans mature this year, it is safe to expect some borrowers will be forced to either sell or risk foreclosure.

"There's lots of capital out there to take advantage of other people's pain," Lesser said.

Yotel is developing a 100-key hotel in Williamsburg, chief development office Jason Brown said, after opening its major Hell's Kitchen location in 2011. Brown said he does not know when Yotel would open its next Manhattan hotel, but it will not be soon.

The supply problem is an issue, he said, but more so is the rate that hotels are charging: revenue per average room dropped 2.3% in 2015 and 2.6% in 2016, and HVS is projecting another dip of 0.8% in 2017 before room rates can bump back up in 2018. Longer-term, again, is a rosier outlook: HVS projects RevPAR gains of 5.6%, 6.9% and 6.3% from 2019-2021.

"It's typical of New York when big supply comes out, we kind of shoot ourselves in the foot as an industry and drop rate drastically," Brown said. "We've seen some stabilizing of that, which is nice to see."



The big cloud hanging over the entire hospitality industry resides at 1600 Pennsylvania Ave. in Washington, D.C. Yotel is developing hotels all over the world, and Brown said he has already heard of instances where people have demurred visiting New York City over its global competitors.

"A disturbing long-term trend is the U.S. is not as important anymore in a lot of regards to what they see as an Asian influence in global leadership," Brown said. "They're going to Hong Kong and Tokyo, not New York. Just the implication of what has happened is going to have a very long-term, disturbing effect."

It is still far too early to make statistical projections on what the impact of the populist movements in Western nations will mean to the tourism industries in gateway cities. Because of that, long-term hotel projects in NYC are rosy: HVS predicts record RevPAR in Manhattan by 2020, with more growth in the years that follow.

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