Can New York's ailing hotel RevPAR performance be fixed?

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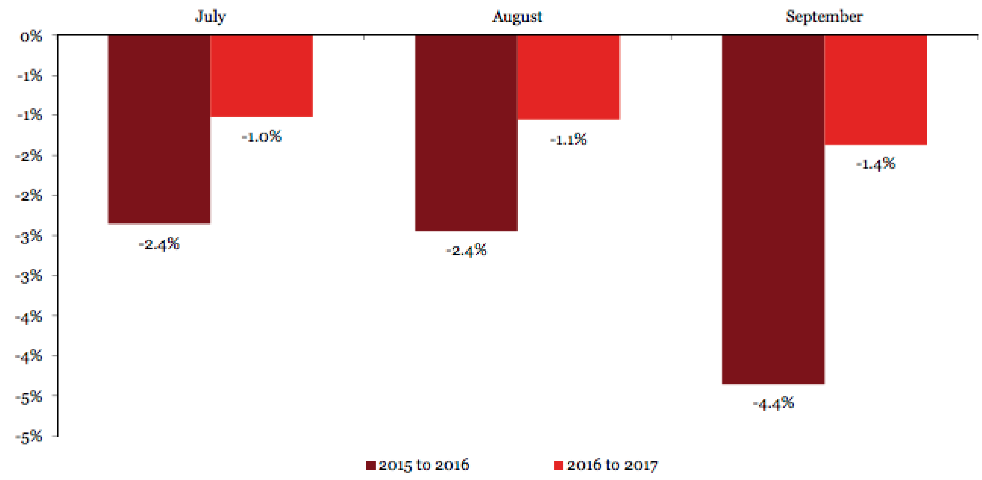
This is not an article about New York's hotels, per se; their glitz and glam. Rather, it's about their declining revenue-per-available-room performance, which begs the question: Why? And: Is there a solution?

New York is the most-visited U.S. city, receiving more than 60 million visitors in 2016, according to NYC & Company, besting Chicago by more than 5 million visitors. To accommodate all these travelers, New York needs a superfluity of lodging. In its current census, Lodging Econometrics reports that New York City, which includes Manhattan, Brooklyn, Queens, Staten Island and The Bronx, has 590 hotels with 114,325 rooms.

High visitor numbers should equate into pricing power for hotels. Or one would think. According to STR, New York posted the highest absolute values across the three key performance metrics in the third quarter 2017: occupancy (90.4 percent), ADR ($258.90) and RevPAR ($234.10). Strong numbers to be sure, but not strong enough to make up for overall declines. The Big Apple, it turns out, is performing more like mushy apple sauce.

That's the sense from PwC's Manhattan lodging index for the third quarter 2017, which shows continual RevPAR declines exacerbated by room-rate dips. According to the data, demand growth during the quarter of 3.4 percent outdid an increase in supply of 2.2 percent, resulting in occupancy being up 1.2 percent. Still, a positive boost in occupancy could not produce a simultaneous bump in rate, as a continued lack of pricing power resulted in a 2.3-percent drop in ADR. As a result, RevPAR declined 1.1 percent and through the first nine months of this year, RevPAR is down 1.3 percent.

Manhattan Q3 RevPAR Growth by Month



Source: PwC, based on STR data

Segment wise, New York's luxury hotels actually had RevPAR growth of 1.5 percent—the only segment that reported positive gains. The lassitude was in the upscale and upper-midscale segments, with RevPAR decreases of 3.5 percent and 2.8 percent, respectively. Similarly, for both the full-service and limited-service segments, occupancy levels increased while ADR decreased, resulting in declining RevPAR levels. Full-service hotels reported a 1.1-percent drop in RevPAR, while limited-service hotels saw a 0.8-percent decline. Through the first three quarters of the year, limited-service hotels increased RevPAR by 0.3 percent, while full-service hotels experienced a decline of 1.6 percent.

Why the shoddy results? For one, supply. New supply that is, which petrifies hotel operators, who think that if they raise rates too much, they will be undercut by competing hotels who will siphon off their guests. It's Psych 101. According to NYC & Company's quarterly development fact sheet, since the beginning of 2017, New York has had 30 new hotel openings accounting for a total of approximately 5,500 rooms. Twelve more properties are slated to open before year end with another 2,300 rooms in the pipeline.

Hotel Development-NYC	Total	Manhattan	Brooklyn	Bronx	Queens	Staten Island
Hotels opened 2015-Sept. 2017	89	55	17	4	12	1
Hotels opened Jan.-Oct. 2017	30	16	5	2	7	NA
Hotels in 2017 Pipeline & Beyond	140	65	25	8	39	3
Rooms in Current Pipeline (estimates based upon available data)	27,000 est.	16,800 est.	3,000 est.	475 est.	5,200 est.	475 est.

It's More Than Just New Hotels

Still, supply growth is not the sole reason for declining RevPAR. In fact, new supply in New York has actually reached an apex and is idling. According to STR, new room supply rose an average of 4.8 percent YOY from 2014 to 2016. Supply growth for New York this year is forecast at 3.7 percent and 3.3 percent next year. Total U.S. supply forecasts are set for 2.0 percent and 2.1 percent for 2017 and 2018, respectively.

"Everyone's been saying that new supply has been the Achilles' heel for the Manhattan lodging market. I'm not so sure that's really the case anymore," said Warren Marr, managing director at PwC. According to Marr, a year ago, just over 7,000 new rooms were scheduled to open in Manhattan during 2017. "Today, we expect less than 2,500 of those will actually have come online before the ball drops in Times Square."

Although supply growth may no longer be the utmost threat to the Manhattan lodging market, there are several other factors, as PwC points out, that are, including perceived political uncertainty and international travel restrictions, as well as a profound shift in demand segmentation. Of that last concern, Marr said, "The root of everyone's angst is the lack of pricing power and a big component of this is a profound shift in the sources of demand. Strength in hotel occupancy continues to be driven by the leisure customer, as opposed to the individual business traveler or group/meeting attendee. Of these three primary segments of lodging demand, the leisure traveler has always been the most price sensitive and most willing to shop around."

On international travel restrictions, Arne Sorenson, CEO of Marriott International, earlier this year called the so-called travel ban "not good" and "frustrating." He said that bookings from the Middle East and North Africa were down up to 30 percent in February, many of this lost business focused on New York.

Other Factors

There is little argument against Airbnb impacting hotel rates and revenue in New York. As of July, there were a reported 30,215 active listings in the city with an ADR around $160. And while Albany is doing its best to curb Airbnb sprawl, there doesn't appear to be any let up. Consider Thanksgiving: Airbnb provided the New York Business Journal with numbers showing a burst of activity throughout the city over the holiday week.
Some 41,286 people booked with Airbnb throughout the five boroughs from November 22 through November 26, a 29-percent increase from 2015. (2016 data were not available.)

New York hotels have their challenges, but buoyed by plus-90-percent occupancy citywide is still not enough to push RevPAR into the positive. Jan Freitag, SVP of lodging insights at STR, is not optimistic this will change for a number of reasons. Regardless of an abatement in supply, New York is and will continue to woo hotel development. This has a profound impact on those charged with running hotels. "It's psychology more than anything," he said. "They see a crane and worry about competition."

This leads hotels to focus on maximizing occupancy at the sake of rate. According to Freitag, there is also another, more overlooked reason New York hotels concentrate on occupancy rather than rate: loyalty programs.

New York, as Freitag puts it, is a "burn" town, meaning that members of a hotel company's loyalty or rewards program typically cash in their points on stays at New York hotels. A business traveler may "earn" points over time on travel to a certain U.S. city, say Denver, then take his or her family to New York, thereby burning the accumulated points. This is a great benefit to travelers, not optimal for hotels.

Here's the hitch, according to Freitag: If a hotel's occupancy at the time of the rewards redemption is less than 95 percent, typically, the hotel, which is reimbursed by the hotel company for the booking, is reimbursed off a pre-negotiated rate. If, however, said hotel's occupancy is at or above 95 percent, they are reimbursed at whatever the ADR of the hotel is on that given night. It, then, behooves and incentivizes New York hotels to keep their occupancy rates as high as possible.

How to Cope

What can be done to accelerate RevPAR is something Daniel Lesser, president and CEO of LW Hospitality Advisors, knows about. He advises hotels in New York to key in on three areas: 1) Focus on direct-booking campaigns to win back control of the guest. "OTAs are not partners with the hotel industry and their existence and use by the traveling public suppresses rates," he said. 2) Hang on until 2021. "After then, there will be minimal new hotel development for three to five years allowing for above-inflationary rate increases," he said. 3) Keep pressure on Airbnb and regulation. "Competitive capitalism is based upon a level playing field," he said.