Strong Demand For NYC Hotel Rooms Keeps Supply Fears At Bay

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New York hotel occupancy rates and revenue per available room are ticking upward, indicating there are good days ahead for the city's densely supplied hotel sector.

In excess of 6,500 hotel units in New York City were finished over the last year, and there are more than 16,000 underway, according to Marcus & Millichap's hospitality research state report for the second half of 2018. But despite that heavy supply, sources said, steady tourism and a healthy economy mean the outlook for demand is bright.

"We are seeing strong demand in New York City," Marcus & Millichap Hospitality Group National Director Peter Nichols said. "That will continue for the next 12 to 24 months at least. … We are seeing great absorption in terms of new supply coming on board."

There is no doubt New York City is in the middle of a hotel supply boom, one that is expected to continue for the next two years. Hospitality research firm HVS predicts the city's annual supply increase to be around 6% through next year, making it one of the densest pipelines in the United States.

The stiff competition has not been a deterrent. Brookfield, for example, is planning a 164-room Pendry hotel as part of its Manhattan West development.

Marx Development plans to bring a 531-room hotel to Hudson Yards. Sam Chang's Hyatt Place at 350 West 39th St., which features 518 rooms, topped out this summer.

Development is certainly not limited to Manhattan. Plans were filed in 2016 for a 50-story, 1,260-room Tokyo Inn hotel in Long Island City, during a wave of hotel development in the area.

London-based hotel developer and operator Ennismore opened the 175-room The Hoxton at 97 Wythe Ave. in Williamsburg this month.

The flood of supply dampened revenue per available room, or RevPAR, for a three-year stretch.

It began to turn a corner this year, and the outlook remains bright. Room demand in the city increased by 5% during the first half of the year, according to Marcus & Millichap's report, pushing the annual occupancy up to 87% in June. The increase in occupancy buoyed revenue metrics, with RevPAR in the city increasing 2.3% to hit $226 in the first six months of 2018.

"I think the increase in demand is largely driven by the economic conditions," Nichols said, adding that low unemployment and a healthy economy is good news in terms of the number of both business and leisure travelers who come to the city.

"I like to think of the hospitality space as the canary in the coal mine," he said. "As soon as there is negativity or headwinds, hospitality will be the first that is affected … [But] by the same token, hospitality is the first to recover."

Despite fears that President Donald Trump's anti-immigration policies would negatively affect the number of people coming to New York, nearly 63 million tourists visited New York City in 2017, a record high.

“New York is a terrific market,” LW Hospitality Advisors President Daniel Lesser said.

His firm’s report on the second quarter found that, across the country, there was a total of $3.5B in major hotel transactions — up from $2.8B during the same period last year. New York, California and Florida were the most active markets, according to the report.

“There has been a lot of new supply that has come along … [But New York City] is the capital of the world. Everyone wants to be here, visit here, invest here. I don’t see that changing on the short-term horizon.”