

NEW YORK POST

ROOM AT THE INN

By LOIS WEISS

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HOTEL operators were finally caught in the economic squeeze as tourism suddenly declined in late fall. For the first time in recent years, the nights between Thanksgiving and New Years were not all sold out.

Additionally, room reservations for future bookings were bleak for a time that is traditionally the worst of the year. To make matters worse in the eyes of hoteliers, Mayor Bloomberg signed a bill increasing the hotel taxes.

"It is a shortsighted and wrongheaded decision," said Lalia Rach, divisional dean of the NYU Preston Robert Tisch Center for Hospitality, Tourism and Sports Management, who says the city needs instead to spread the word that it's a great place to come for great values.

The international tourists who shopped their way through the city for the last two years are also disappearing as their own economies are on the fritz.

"One of the great strengths of New York City - international tourism - is waivering ," said Rach, who cited a "trifecta" of bad news as domestic, international, leisure and global business travelers are all being impacted. "You can't say to people, 'Come here and spend your money,' when they don't have money to spend."

Hotel operators are reluctant to drop room rates because when they did so after 9/11, it took years to bring them back up.

"It's never been proven that if you cut room rates you get heads in the beds," said Daniel Lesser, senior managing director, CB Richard Ellis. "The operators are trying to hold room rates as much as they can and letting occupancy levels fall."

To get heads in beds, some are trying to develop value added packages that include free dinners and theater tickets - which all reduce the bottom lines.

According to a report from PKF Hospitality research, hotels are in the initial stages of what could be "one of the deepest and longest recessions in the history of the domestic lodging industry." They are predicting a nationwide 7.8 percent drop in revenue per room.

In the space of a few months, the city has gone from full room rates and 93 percent occupancy to not being at "rack" rates and admitting to occupancies in the 80s, with some in the 70s.

"I think the hoteliers are looking at a very optimistic read of the numbers," said Tom McCartin President of WKPSpier, a communications agency. "January and February are traditionally tough times, and we will be

in tough straits."

McCartin said, "If you run a good business and have assets in reserve, this is the time to collect market share and improve the communications so the increased market share turns into increased profits."

Hotels also have better control of inventories by guaranteeing the best rates through their own Web sites rather than having third party providers run "auctions" for rooms that merely drives down rates, said Lesser.

There are also hotel rooms coming online that have been in the pipeline for last two years that are adding to the supply at the same time the demand is going down.

According to Lesser, there are 9,670 hotel rooms under construction with another 10,294 rooms in various stages of future development. Some of the developers are now putting plans on hold due to the lack of financing.

As for the sales market, Lesser says there is still a big disconnect between bid and ask. "Someone who doesn't need to sell a hotel, and decides to sell, is going to be looking for a higher price than someone looking to buy," Lesser said. "The assumption is that it is distressed, and it may not be true."

There is also not a lot of financing for existing properties, let alone proposed properties, Lesser added.

Mark Gordon, head of the US hotel group for Cushman Wakefield Sonnenlick Goldman, said last week that lenders who were on the sidelines were suddenly more responsive to some of the opportunities they are marketing.

"We are encouraged by their reaction," Gordon said. "I just don't know how they will be underwritten or priced, but there is an increased receptivity. The more financing that becomes available, the more interest there will be in hotel acquisitions."

HOTEL SALES IN 2008

- * Wyndham Garden Hotel 124 rooms Total price: \$39.06 million Price per room: \$315,000
- * Hampton Inn - West 35th Street 146 rooms Total price: \$46.348 million Price per room: \$317,452
- * The Madison Hotel 74 rooms Total price: \$32 million Price per room: \$432,432
- * Quality Inn Hotel Times Square 200 rooms Total price: \$75 million Price per room: \$375,000
- * Hotel QT (now Hotel Grace) 139 rooms Total price: \$82 million Price per room: \$589,928
- * Times Square Comfort Inn 78 rooms Total price: \$24.64 million Price per room: \$315,897
- * Comfort Inn 56 rooms Total price: \$18.75 million Price per room: \$334,821
- * Duane Street Hotel 45 rooms Total price: \$24.75 million Price per room: \$550,000
- * Hotel Riverview 54 rooms Total price: \$27 million Price per room: \$500,000 Source: CB Richard Ellis

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