Hospitality Research
State Report

Second Half 2018

Marcus & Millichap

New York State

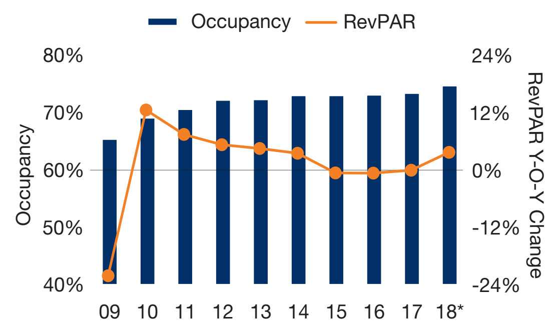
Occupancy Strengthens Amid Growing Supply Concerns in New York City

Tourism, business travel sustain hotel demand in the state of New York. Record levels of tourism within New York City and a healthy pace of office-using job growth continue to sustain room demand from a variety of travelers to the state. Increased room nights have driven a significant boost in occupancy improvement during the past 12 months compared with the prior year, supporting growth in the average daily rate (ADR) and RevPAR. Demand will remain strong through year end despite a flurry of construction. The brunt of deliveries will be received in the NYC metro. More than 6,500 hotel rooms were completed in the past 12 months and an additional 16,100 rooms are underway marketwide. While the NYC metro maintains the largest pipeline in the U.S., robust demand has kept up with supply additions within the market.

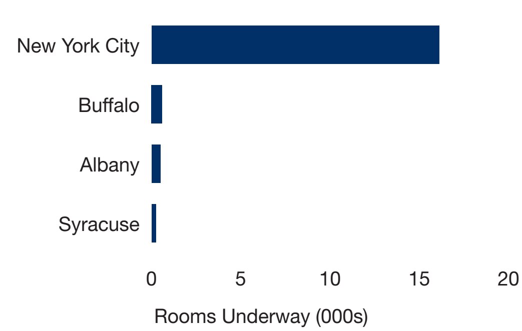
Limited listings command premium pricing. The number of hotel transactions within the state held steady during the past 12 months ending in June. Limited listings for economy and upper midscale properties drove up average prices per room among these segments notably. Cap rates for these properties started in the mid-4 percent range and above 9 percent depending on property type and location.

- **Occupancy escalates in New York.** First-half occupancy in the state of New York is up considerably from the same time period last year, rising 220 basis points to 71.8 percent. The increase has boosted annual occupancy 130 basis points on a year-over-year basis to 74.4 percent in June. In the New York City metro, room demand edged up 5.3 percent, lifting annual occupancy 120 basis points to 87.4 percent in June. This pace of growth in both the state and the New York City metro should continue through year end as strong demand outpaces the influx of supply.
- **ADR and RevPAR growth picks up after a few years of stalled gains.** Improving hotel occupancy is boding well for hotel revenue metrics in the state, with both ADR and RevPAR increasing at a modest clip after declining throughout much of the past three years. During the year ending in the second quarter, ADR in New York ticked up 1.1 percent to $201.80 while RevPAR climbed 2.9 percent to $151.04. In New York City, ADR rose 1.0 percent during this same time frame to $256.75 while RevPAR posted a 2.3 percent increase to $226.09.
- **Independent properties highly targeted; private buyers look for assets outside of NYC.** Independent hotels remain a popular target among buyers in New York, which has placed upward pressure on prices for these assets. While the bulk of these trades were located within New York City during the previous four quarters, sales velocity for independent hotels edged higher in the Albany/Schenectady/Troy area. Here, properties changed hands at around $66,400 per key on average, providing opportunities for investors that have been priced out of New York City. Overall, larger institutional buyers in the $20 million price tranche and above accounted for the bulk of trades within the New York City metro. Hotel assets within the market traded with average first-year returns in the low-5 percent band.

Annual Occupancy & RevPAR



Rooms Underway as of June 2018



* Forecast

National Hospitality Group

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