

Unpacking the Strength of New York City's

HOTEL MARKET





Today, New York City's hotel market is among the nation's leaders in post-COVID recovery. As of the end of the third quarter of 2024, CoStar reported a 12-month occupancy of 84% with an ADR of \$313.39, placing New York at number one among the Top 25 hotel markets in the country. NYC Tourism and Conventions reported 62.2 million visitors to the city in 2023, which is 93% of the 2019 total, and expects that number to reach 64.5 million visitors in 2024 and 68 million visitors in 2025. Along with this strong influx of visitors, hotel owners and operators are expected to benefit from three market-specific factors that will limit hotel supply while driving room rates higher: stricter regulations on short-term rentals, a newly implemented zoning text amendment and special permitting process, and both the temporary and permanent closure of tens of thousands of hotel rooms. However, labor negotiations and casino development may put pressure on rates through higher operating expenses and increased supply, respectively. We explore each of these factors below.

Limiting Additional Supply Through Short-Term Rental Regulation

Some rate growth in New York's hotel market can be attributed to Local Law 18, a Short-Term Rental Registration Law. Short-term rental hosts are required to register with the Mayor's Office of Special Enforcement (OSE) and prohibits booking platforms (such as Airbnb, VRBO, and Booking.com) from processing transactions for unregistered rentals. Taking effect on September 5, 2023, the law requires all hosts to comply with zoning, dwelling, and safety codes to operate legally. Booking platforms must verify that hosts are registered with OSE to avoid penalties, with both hosts and platforms facing fines of up to \$1,500 for illegal rentals. Additionally, rentals can only accommodate up to two guests, a minimum length of stay of 30 days is required, and hosts must remain on premises throughout the duration of the stay.

Skift, a prominent travel news provider, recently highlighted data from AirDNA showing that Airbnb listings for stays of 30 days or more dropped by 83% from July 2023 to July 2024, reducing the number of listings from 21,900 to 3,700. This will likely boost hotel rates, especially for weekend leisure travelers and during peak demand periods.¹ AirDNA also reported a surge in short-term rental listings in New Jersey.² Pre-COVID, Manhattan hotel operators often cited the short-term rental economy and new hotel supply as factors for rate erosion. The recent reduction of this "shadow" inventory is expected to support ADR growth going forward.

¹ Dennis Schaal, "Banned in NYC: Airbnb One Year Later," Skift, September 1, 2024, <https://www.skift.com/2024/09/01/banned-in-nyc-airbnb-1-year-later>.

² Amanda Hoover, "6 Months After New York Banned Airbnb, New Jersey is Doing Great," Wired, March 5, 2024, <https://www.wired.com/story/6-months-after-new-york-banned-airbnb-new-jersey>

Zoning Amendments and Building Permits

New York hotel development is expected to be constrained for the foreseeable future. Since the onset of COVID, the citywide hotel pipeline has decreased considerably by 49%, from 15,777 rooms under construction midway through 2020, to over 8,000 rooms under construction as of October 2024.³ Recently passed legislation impacting the hotel permitting process, along with the current interest rate environment placing pressure on underwriting, has resulted in a dramatic decrease in hotel construction financing, which in turn will limit citywide supply growth. The new zoning text amendment (approved in December 2021) requires developers to obtain a special permit to build or expand a hotel in New York City.

As of November 2024, according to the Department of City Planning online data portal, only three hotel special permit applications have been filed in the past 12 months, representing three potential developments with a total 656 rooms. These projects consist of a 130-room hotel across 10 floors of 10 Rockefeller Plaza (a landmarked 22-story building), a mixed-use 255-room hotel and office development at 515 7th Avenue, and a 265-room office to hotel conversion at 220 W 42nd Street. The majority of rooms under construction are expected to open by 2027, at which point the development pipeline in Manhattan is expected to be remarkably low relative to prior years. During periods when the Manhattan market introduced less than 2% of new supply, such as between 1993-1998 and 2004-2007, RevPAR increased by more than 10% annually. As supply side pressure subsides over the next few years, hotel owners and operators are expected to benefit from a multi-year period of strong compression and ADR growth.

In addition, there is a perception that hotels proposed to be built and/or operated with non-union labor will not be approved. In general, hotels operated with union labor are more costly and less flexible than hotels operated with non-union labor due to negotiated work rules and wages, putting further downward pressure on new development. Even for projects expected to be approved, market participants estimate the permitting process can take 24 to 36 months. These factors, combined with the current lending environment, significantly impact the feasibility of new development.



³ Amanda Hoover, "6 Months After New York Banned Airbnb, New Jersey is Doing Great," *Wired*, March 5, 2024, <https://www.wired.com/story/6-months-after-new-york-banned-airbnb-new-jersey>

Temporary and Permanent Hotel Closures

New York City currently has approximately 43,650 hotel rooms permanently or temporarily closed. Manhattan hotels account for 35% of the total, with approximately 15,433 rooms permanently or temporarily closed. The majority of closed hotels are located in the boroughs of Queens and the Bronx. As of October 2024, over 16,000 hotel rooms citywide were being leased temporarily to house refugees, immigrants, and the unhoused. STR-CoStar data indicates that Manhattan currently has approximately 6,326 rooms, or 4% of total supply, comprised of 22 hotels being used as temporary housing as detailed in the chart below.

Temporary Housing - Shelter Hotels				
Property Name	Property Address	Rooms	Year Built	Submarket Name
Holiday Inn Manhattan-Financial District	99 Washington St	492	2014	Financial District
Radisson Hotel New York Wall Street	52 William St	289	1902	Financial District
The Roosevelt Hotel	45 E 45th St	1,025	1924	Midtown East
Casamia 36 Hotel	449 W 36th St	39	2005	Midtown South
nyma The New York Manhattan Hotel	6 W 32nd St	171	2000	Midtown South
Clarion Hotel Park Avenue	429 Park Ave S	60	1900	Midtown South
The Redbury New York	29 E 29th St	259	1902	Midtown South
St. Giles Hotel New York The Court	130 E 39th St	199	1927	Midtown South
Stewart Hotel	371 Seventh Ave	610	1929	Midtown South
The Hotel @ New York City	161-163 Lexington Ave	117	1997	Midtown South
Ramada by Wyndham New York Times Square West	343 W 44th St	70	2009	Midtown West/Times Square
The Hotel @ Times Square	59 W 46th St	213	1906	Midtown West/Times Square
Hotel 46 Times Square	129 W 46th St	79	1902	Midtown West/Times Square
The Square Hotel	226 W 50th St	141	1904	Midtown West/Times Square
Washington Jefferson Hotel	318 W 51st St	164	1920	Midtown West/Times Square
Night Hotel Theater District	132 W 45th St	72	1900	Midtown West/Times Square
The Watson Hotel	440 W 57th St	597	1963	Midtown West/Times Square
Row NYC	700 8th Ave	1,331	1928	Midtown West/Times Square
The Bentley Hotel	500 E 62nd St	197	1998	Uptown
Hotel Newton	2528 Broadway	110	1913	Uptown
Windsor Hotel	108 Forsyth St	41	2000	Village/Soho/Tribeca
Liberty Inn	500 W 14th St	50	1910	Village/Soho/Tribeca
TOTAL : 6,326				

Source: STR/CoStar, Cushman & Wakefield

In Manhattan, the use of temporary migrant shelters is expected to wind down over the next two to three years. A recent New York Times article indicated that evictions are on the rise in some shelters, such as the tent encampment erected on Randall's Island, which accommodates up to 3,000 migrants.⁴ Larger hotels such as Row NYC, The Roosevelt Hotel, The Watson Hotel, and the Stewart Hotel, with a combined 3,563 rooms, will likely serve as primary relief centers as the need for temporary housing decreases.

⁴ Luis Ferre-Sadurni, "New York City Moves to Shut Down a Growing Migrant Encampment," The New York Times, August 19, 2024, <https://www.nytimes.com/2024/08/19/nyregion/homeless-migrants-encampment-randalls-island-sweep>.

Once these short-term agreements expire within the next year or two, select hotels in viable locations are expected to reopen; however, many represent older hotel stock that suffer from functional obsolescence and are at the end of their useful economic life. As a result, the vast majority are expected to remain closed, resulting in a decrease in economy class hotel supply. For example, the 1,025-room Roosevelt Hotel is currently leased and operated as a migrant shelter and is subsequently expected to be razed and redeveloped into a mixed-use class-A trophy development.

Hotel Conversions

The recent closure of hotel rooms, and the resulting increase in vacant hospitality space, has also led to conversion opportunities. Cushman and Wakefield has identified approximately 7,370 permanently or temporarily closed rooms that have recently been, or are expected to be, converted to an alternative use such as student housing, apartment rental, residential condominium, and/or office. These conversions generally consist of very large hotels with over 500 guestrooms:

Hotel Conversions					
Property Name	Property Address	Rooms Removed	Current / Proposed Use	Year Built	Submarket Name
Sutton Court Hotel Residences	417 E 57th St	107	Rental Apartments	1974	Midtown East
Avalon Hotel	16 E 32nd St	100	TBD	1998	Midtown South
Marriott	525 Lexington Ave	655	Student Housing	1923	Midtown East
DoubleTree by Hilton Hotel Metropolitan - New York City	569 Lexington Ave	764	Student Housing	1960	Midtown East
Hudson Hotel	353 W 57th St	876	Rental Apartments	1929	Midtown West/Times Square
The Roosevelt Hotel	45 E 45th St	1,025	Shelter/TBD	1924	Midtown East
Hotel Pennsylvania	401 Seventh Avenue	1,705	Office	1919	Midtown South
Grand Hyatt	175 Park Avenue	1,100	Office/Hotel	1919	Midtown East
Waldorf Astoria	301 Park Avenue	1,038	Hotel/Residential	1931	Midtown East
TOTAL : 7,370					

Source: STR/CoStar, Cushman & Wakefield

Housing Our Neighbors with Dignity Act (HONDA)

In August 2021, Governor Andrew Cuomo passed the Housing Our Neighbors with Dignity Act (HONDA), which provides a path for the State of New York to finance the acquisition and/or conversion of distressed hotels by nonprofit organizations with the objective of increasing affordable housing. This effort was advanced further in June 2022, when Governor Kathy Hochul enacted new legislation aimed at creating more flexible rules for converting underutilized hotel space into permanent housing. The new law allows Class B hotels that are located in or within 400 feet of districts that permit residential use, and meet defined qualifications, to use their existing certificate of occupancy to operate as a residential building. Governor Hochul also presented a \$25 billion, five-year housing plan aimed at creating or preserving 100,000 affordable homes in urban and rural areas across the state. Furthermore, the governor announced \$100 million commitment in HONDA funding to convert distressed hotels throughout New York.



Safe Hotels Act

In an effort to enhance public safety and worker protection, on July 18, 2024, the New York City Council introduced Int 991-2024 (Int. 991), an amendment to the administrative code of the city of New York, related to licensing hotels. On October 23, 2024, the amendment was adopted by City Council and signed into law on November 4, 2024. Specifically, the bill requires hotel operators to:⁵

- Obtain a license in order to operate a hotel in the City. The application term runs two years, and there is a license fee of \$350.
- Schedule staff that provide continuous coverage of their front desk. Large hotels are required to schedule a security guard to provide continuous coverage on the hotel's premises while any room is occupied.
- Maintain the cleanliness of each guest room, which would include daily cleaning unless such service is declined by the guest.
- Directly employ their core employees, subject to enumerated exceptions.
- Equip all core employees with panic buttons and provide core employees with human trafficking recognition training.
- Pay civil penalties for violating the license conditions.

Market participants believe operating expenses will increase moderately, particularly for select lower-tier and mid-market hotels that will have to purchase panic buttons for core employees while maintaining required front desk and security staffing levels. Upscale properties, which represent the majority of hotels in Manhattan, will likely experience a more muted impact, since many upscale hotels are believed to be largely in compliance already.

5 The New York City Council, Int 0991-2024 Legislation Details, November 4, 2024

Union Contracts & Collective Bargaining Agreements

Owners and operators are closely monitoring upcoming union negotiations with the Hotel and Gaming Trades Council, AFL-CIO, set to begin in 2025. The contract for many unionized staff will expire in 2026, and there is a general expectation among owners that hourly wages will see a material increase. Given the role of unions in passing both the short-term rental ban and new zoning laws, the union is perceived by some to have increased its negotiating leverage with hotel owners. Although the new legislation has certainly benefitted owners with marked improvement to bottom line profits, long-standing owners of Manhattan hotel assets are largely opposed to the new special permitting rules. Investors considering hotel investments in Manhattan should consider an increased labor cost structure after 2026, factoring in higher union wages. Non-union hotels may also follow the new wage standards to stay competitive.

Hotel Casino Development

Finally, hotel casino development is expected to impact supply over the next five to ten years. In March 2024, the state Gaming Commission announced a plan to issue three downstate gaming licenses in late 2025. There are over 10 proposals being considered, with a minimum investment requirement of \$500 million. Two of the proposals contemplate expansion and redevelopment of existing long-established gaming sites that have hosted horse racing events since the late 1800s. Empire City Casino, located at Yonkers Raceway, and Resorts World, located at Aqueduct Racetrack, are perceived as likely to be awarded licenses considering their existing racino uses, ability to expand, infrastructure, and location. The Aqueduct Racetrack also sits on government owned land, potentially enhancing its position as a front runner.

There are five known casino proposals located in Manhattan with a combined total of approximately 4,150 hotel rooms. However, if a license is to be awarded in Manhattan, many market observers believe only one will be granted. The current proposals located in Manhattan include hotels ranging in size from 600 to 1,750 rooms, representing the range of new rooms attributed to one potential gaming license being awarded in Manhattan. There are also other casino proposals in Manhattan, such as Saks Fifth Avenue, that do not contemplate hotel rooms. The following table summarizes potential casino developments being considered throughout New York City:

Potential NYC Casino Developments		
Property Name	Hotel Rooms Proposed	Rooms Removed
Mohegan Freedom Park Casino Hotel	600	Midtown South
Wynn New York City	1,750	Midtown South
Caesars Times Square Casino Hotel	800	Midtown West Times Square
The Avenir	1,000	Midtown South
Saks Fifth Avenue	N/A	Midtown West/Times Square
Empire City Casino	N/A	Yonkers
Bally's Golf Links at Ferry Point	N/A	Bronx
Willets Point	2,300	Queens
Nassau Coliseum	1,670	Long Island
Resorts World New York City	1,600	Queens
Coney Island	500	Coney Island
St. George Terminal	N/A	Staten Island
TOTAL : 10,220		

Source: STR/CoStar, Cushman & Wakefield



While much will depend on the number and size of proposals that are granted licenses, casino development is one of the most likely sources of new hotel supply in New York, with the potential to put some downward pressure on room rental rates.

Favorable Hotel Fundamentals for the City That Never Sleeps

In summary, both economic factors and public policy changes will significantly constrain the supply of hotel rooms in New York. Overall, the interplay of these factors suggests that the hotel industry in New York will experience a period of robust pricing power, benefiting from the limited availability of rooms and sustained demand. While certain elements such as rising operating expenses and the introduction of new supply from casinos may pose challenges, the current environment and market's outlook appear favorable for hotel owners and operators alike.