Taking Away the Ladder of Opportunity:

Hotel Conversions and the Threat Posed to
New York City's Tourism Jobs
and Economic Diversity

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Executive Summary

Tourism has helped lead New York City's economy back from the bleak days of September 11. The total number of visitors to New York rose over 7% in 2003 and increased further to nearly 40 million in 2004. Last year, New York's hotel occupancy rates increased more than in any other year in at least 20 years, and are on track to reach the highest levels in the last two decades.

Direct spending by tourists and business travelers was $18.49 billion in 2003, the latest year for which estimates are available from the city's official tourism agency. New York City received an estimated $1.35 billion in tax revenue in 2003 related to tourism, according NYC & Company. The hotel and other tourism-related industries together employ 220,000 workers, and supported an additional 80,000 city jobs through ripple effects. Tourism's 220,000 jobs make it the largest employer among New York City's top ten export-oriented sectors that bring spending into the region and power the local economy. These export-oriented sectors are the prime engines of the city economy, bringing in spending from outside the region and generating broad multiplier effects.

Because it is a large employer and has been growing overall, tourism is often touted as the leading job generator for resident city workers, particularly less-educated New Yorkers and recent immigrants. Many tourism-related jobs pay only modest wages. However, the heavily unionized hotel industry provides some of the best jobs within the tourism sector. The hotel industry is a major source of good-paying jobs with family-supporting benefits.

Yet, at precisely the time when hotel and tourism demand are booming at near-record levels, the industry's future has suddenly become clouded by a wave of conversions of high-end hotel rooms to luxury condominiums. The supply of Manhattan hotel rooms actually dropped in 2004 and is projected to decline further in 2005. Over 3,200 Manhattan hotel rooms will be lost in 2004 and 2005, primarily to luxury condo conversions, with most of those conversions occurring in the heart of the city's prime Midtown hotel district. Industry sources have identified another eight major hotels with a combined total of over 3,000 rooms that are being considered for condo conversions.

For the seven years prior to the acceleration of the hotel-to-condo conversion boom in 2004, the net hotel stock grew each year by 1,600 rooms. But while the current state of hotel demand is surpassing the levels of the late 1990s, the supply response is the opposite of what should be occurring. It is projected that there will be a net reduction of over 1,300 Manhattan hotel rooms over the 2004-2005 period. The out-of-control condo market has created a situation where the hotel real estate market has failed to function properly.

Hotel conversions have already started to cut deeply into hotel employment. Despite the extraordinary strength of tourism and business travel to New York City, seasonally adjusted hotel employment actually fell by 2,200 (or five percent) from September 2004 to March 2005. A decline of this magnitude is normally seen only in a recession.

It is just a matter of time before the decline in the net number of hotel rooms starts to deter visitors and restrain the total level of visitor spending in New York City. If room rates rise even faster because of the reduced availability of hotel rooms, visitors will be discouraged from staying in New York City, or from even traveling to New York. At that point, the city will have lost not only hundreds of good-paying hotel jobs, among the very best that exist for many city residents, but the city will also have lost jobs in other sectors closely tied to tourism and business travel. Further, the city stands to lose some of the lucrative flow of tax revenues associated with visitor spending.

If a large number of rooms are converted the likely economic, employment and tax revenue impact on the city would be significant. For every 1,000 hotel rooms lost, New York City stands to lose 1,000 hotel jobs, another 3,000 or more jobs in other industries, and total tourism and business traveler spending of well over $200 million. The tax revenue loss to New York City associated with the loss of 1,000 hotel rooms would be roughly $20 million a year.

The frenzied luxury condo market has prevented the normal operation of the hotel real estate market. New supply is not being planned because luxury condo development is more lucrative for property owners. Limiting the conversion of valuable hotel rooms is a sound economic policy response. Considering the importance of a prosperous tourism sector to the city's economy and the critical jobs that the hotel and related tourism industries provide to New York City residents, city government must act to ensure that hotels can continue to exist and draw tourist and business travelers to the city. The hotel industry is particularly important since it is a major source of family-sustaining employment opportunities for New York City residents. Luxury condo developments can and will occur in other parts of Manhattan and the city, particularly Lower Manhattan and the Far West Side.

At a time when New York City's economy is still 160,000 jobs short of the average level for 2000, before 9/11 and the 2001-to-2003 recession, the city can ill-afford to stand by while thousands of jobs in the tourism and related sectors are jeopardized by an overheated real estate market. Moreover, New York is still a long, long way from dealing effectively with the growing polarization in wages, family incomes and opportunities that has characterized the city over the last few decades. The hotel-to-luxury condo conversion trend intensifies that polarization and accommodates the very rich at the direct expense of good jobs and livelihoods for average New Yorkers.

About the Fiscal Policy Institute

The Fiscal Policy Institute (FPI) regularly monitors economic and labor market conditions and their effect on working people and their families in New York City and New York State. FPI biennially publishes **The State of Working New York** report and has produced a series of labor market profiles for the New York City Employment and Training Coalition. After September 11, FPI conducted extensive analysis of the impact of the terrorist attacks on New York City's economy and labor force. In 2004, FPI released four studies on various aspects of minimum wage employment in New York. FPI has also prepared in-depth studies on several important sectors of the New York City economy, including the securities, non-profit social services, laundry, building service, apparel manufacturing, and construction industries. This report on the hotel industry is the latest in this series. These publications are available on FPI's website: www.fiscalpolicy.org.

The Fiscal Policy Institute is a nonpartisan research and education organization that focuses on the broad range of tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York State residents. Founded in 1991, FPI's work is intended to further the development and implementation of public policies that create a strong, sustainable economy in which prosperity is broadly shared by all New Yorkers. FPI has offices in Albany and New York City.

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Introduction

New York City's hotel and tourism industry was among the hardest hit of all industries by the September 11, 2001, terrorist attacks. All segments of the tourism business suffered gravely as domestic and international business and leisure travel to New York plummeted. The Marriott Hotel at the World Trade Center was destroyed and the Millennium Hilton Hotel, located directly across from Ground Zero, was forced to close for nineteen months. Business activity and employment dropped at hotels across the city and in the nation's other major tourist destinations.

As the region gradually crept toward recovery, tourism has been leading New York City's economy back from the very tough months after September 11. The total number of visitors to New York rose 7.1% in 2003 and increased further to 39.6 million in 2004. Last year, occupancy rates in the city's hotels increased more than in any other year in at least 20 years, and are on track to reach the highest levels over the last two decades.[1] Reportedly, there were 200 nights in 2004 when New York's hotels were sold out and business was turned away.[2] For 2005, according to PKF, a prominent hospitality research firm, New York City is projected to far outdistance all of the other top fifty hotel markets in the U.S. in terms of the level of hotel room rates and growth in average daily room (ADR) rates compared to last year. A forecast increase of 13.7% in New York City's ADR in 2005 would put the average room rate at $236.97, nearly $100 above the next ranking markets in Honolulu, Boston and San Francisco.[3]

Since data on the profitability of market-wide hotel operations in New York City are not available, the trend in "revenue per available room (RevPAR)" is a reasonable proxy for the trend in profitability. PriceWaterhouseCoopers recently reported that, for the Manhattan lodging market, RevPAR grew by 22% in 2004, the fastest increase in a decade. The PKF/Hospitality Research Group & Torto Wheaton Research projects that RevPAR for full service city hotels will increase by 16% in 2005.[4]

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[1] Occupancy data from PKF Consulting.
[2] BTNonline.com, "NYC Demand Boom Stiffens Hotel Meeting Contracts," March 21, 2005.
[3] PKF Hospitality Research and Torto Wheaton Research, "Room Rates Across the Top 50 Hotel Markets in the U.S. Will Increase by 3.7% in 2004," Dec. 13, 2004. www.hotel-online.com/News/PR2004_4th/Dec04_PKFRoomRates.html.
[4] Price Waterhouse Coopers, "Manhattan Lodging Index," Fourth Quarter Update 2004; PKF Hospitality Research and Torto Wheaton Research, "The Single Market Hotel Outlook, New York," Winter 2005. According to Smith Travel, RevPAR rose 23 percent in New York City in the first quarter. "Righa Royal, Blackstone ink hotel deal," New York Post, May 3, 2005.

Yet, at precisely the time when hotel and tourism demand are booming at near-record levels in New York City, the industry's capacity for expansion has suddenly become stymied by a wave of conversions of high-end hotel rooms to luxury condominiums. In a completely unprecedented development, PriceWaterhouseCoopers (PWC) estimates that the supply of hotel rooms in Manhattan actually declined in 2004 and is projected to decline further in 2005.[5] According to PWC, over 3,200 Manhattan hotel rooms will be lost in 2004 and 2005, primarily to luxury condo conversions driven by a frenetic real estate market, with most of those conversions occurring in the heart of the city's prime Midtown hotel district. Industry sources have identified another eight major hotels with a combined total of over 3,000 rooms that are reportedly being considered for condo conversions.

The overheated high-end residential real estate market in Manhattan is acting to impede the normal operation of the hotel market. The supply of hotel rooms is prevented from responding to the red-hot demand for hotel rooms. Luxury housing construction is proceeding at a feverish pace in many parts of New York City, among them Harlem, Chelsea, Tribeca, Lower Manhattan, Williamsburg, and Long Island City. Under normal conditions, the exceptionally strong hotel market would generate several new hotel projects, renovations or expansions. Today, however, with some developers seeking to quickly cash in on the feverish luxury condo market, hotel rooms are being lost by the hundreds through conversion into luxury condos. In the process, because condo conversions can be completed faster than new construction, prime midtown hotel locations are being lost to residential uses and will be difficult to return to hotel uses, even if the residential market cools off. The appetite for luxury residences and quick profits has trumped the hotel market as well as good sense and sound economics.

According to hotel trade expert John Fox of PKF Consulting, "Real estate prices have been driven up to the point where you can make more money selling off the rooms as apartments than selling them overnight as hotel rooms. There has not been a parallel building boom because there are no sites available for hotel development."[6]

As a result, New York City stands to lose an important part of its tourism industry, a sector that has been one of the few truly bright spots in the city's economic future. In a totally perverse development considering the extraordinary strength of tourism and business travel to New York City, hotel employment has dropped by 2,200, or five percent, in the six months from September 2004 to March 2005. This is a pace of job decline ordinarily seen only under recession conditions. Figure 1 shows the monthly trend in hotel employment (seasonally adjusted) and hotel occupancy rates (on a 6-month moving average basis). Normally, employment increases or at least holds steady while occupancy rates are high and rising. The figure makes clear that this relationship started to diverge around the middle of 2004, with hotel employment falling as occupancy

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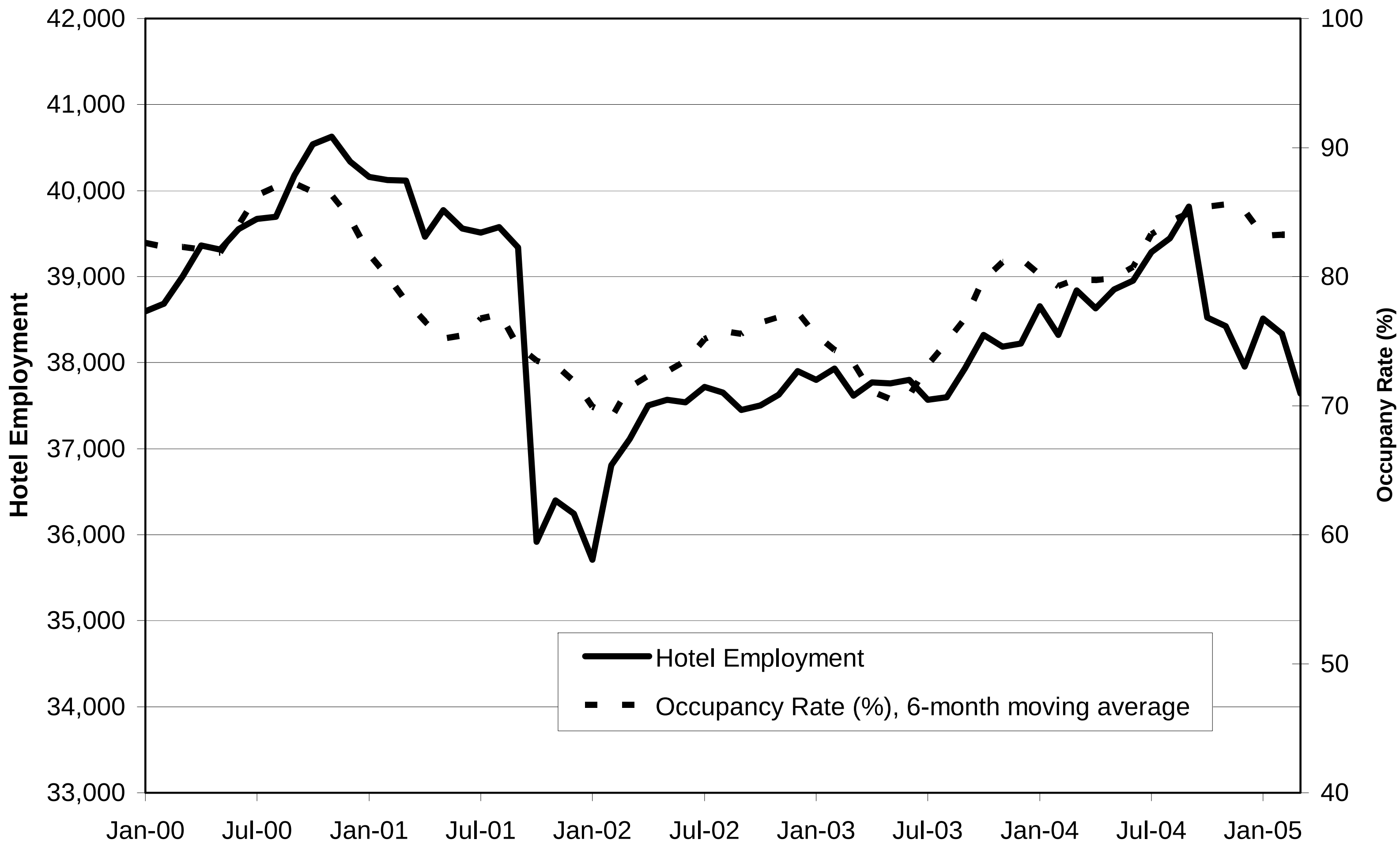
[5] Price Waterhouse Coopers, "Manhattan Hotel Room Supply Update," April 2005.
[6] Charles V. Bagli, "As City Expands Plans for Tourism, Hotels Are Turning Rooms Into Apartments," New York Times, March 6, 2005.

continued to increase. This decline in hotel employment cannot be attributed to a shift from full-service to limited-service hotels. The demand for the amenities of full-service hotels remains strong. Rather, this staggering decline in hotel employment can appropriately be attributed to the accelerating trend in the conversion of hotel rooms to luxury condos.

Figure 1: Hotel Employment and Occupancy Rates in New York City, Jan. 2000 to Mar. 2005



It is probably just a matter of time before the decline in the net number of hotel rooms starts to deter visitors and restrain the total level of visitor spending in New York City. If room rates rise even faster because of the reduced availability of hotel rooms, visitors will be discouraged from staying in New York City, or from even traveling to the city. At that point, the city will have lost not only hundreds of good-paying hotel jobs, among the very best that exist for many city residents, but the city will also have lost jobs in other sectors closely tied to tourism and business travel. Further, the city stands to lose some of the lucrative flow of tax revenues associated with visitor spending. NYC & Company estimates that in 2003, the latest year for which data are available, visitor spending in New York City totaled $18.49 billion and generated $1.35 billion in tax revenues for the city.

At a time when New York City's economy is still 160,000 jobs short of the average level for 2000, before 9/11 and the 2001-to-2003 recession, the city can ill-afford to stand by while thousands of jobs in the tourism and related sectors are jeopardized by a frenzied real estate market. Moreover, New York is still a long, long way from dealing effectively with the growing polarization in wages, family incomes and opportunities that has characterized the city over the last few decades. The hotel-to-luxury condo conversion trend accommodates the very rich at the direct expense of good jobs for average New Yorkers and intensifies that polarization.

The Importance of the Tourism and Business Travel Sector in New York City

The tourism and business travel sector includes those industries that directly benefit from spending by out-of-town visitors to New York City, whether visiting for leisure or for business purposes. The city's tourism promotion organization, NYC & Company, defines a visitor as someone who travels 50 or more miles one way to New York City or stays overnight. By number, leisure visitors accounted for a little over three-fourths (77%) of the 37.8 million visitors in 2003, and for 68% of the tourist spending. Business visitors accounted for about one-third (32%) of the spending although the number of business visitors was less than one-quarter (23%) of the total.[7] Thus, business travelers, on average, spend 60% more per person than leisure travelers.

While the total number of visitors to New York City has reached record levels in the last two years, this has largely been driven by the increase in domestic visitors. Domestic visitors accounted for 87% of all visitors in 2003, with international visitors accounting for 13% of the total. At 5.3 million, the number of international visitors in 2004 was still more than a million less than the number visiting the city from other countries during the late 1990s. International visitors spend considerably more per capita than domestic visitors. In 2003, the average spending by an international visitor was $1,715, or more than four-and-a-half times the spending by a domestic tourist or business traveler.

As Figure 2 indicates, tourism spending occurs in several industries in addition to the hotel industry. Using two national surveys of international and domestic visitors, NYC & Company has estimated, for 2003, the amount of visitor spending that took place in the restaurant and beverage industry, in the arts and entertainment sector, in air and ground transportation and transportation services, and in the retail trade sector. In the arts and entertainment area, tourists patronize Broadway theater and other live arts performances, museums, and professional sports. Altogether, total spending by tourists and business travelers in 2003 was estimated at $18.49 billion.

When the indirect economic impact is included, that is, the volume of activity that direct tourism spending generates in industries that supply such tourist-oriented businesses as hotels, restaurants, retail stores, and museums, the total direct and indirect economic impact is estimated at $24.08 billion. In turn, this activity produces a sizable amount of tax revenues for all levels of government. The total tax impact in 2003 was $4.91 billion, with $1.35 billion of that coming to New York City. The City received tourism-related revenues in the form of corporate and personal income, sales, property, and hotel taxes and fees. The city’s tourism sector also generated an estimated $709 million in state taxes and $2.8 billion in federal taxes.

[7] NYC & Company, "Tourism's Economic Impact in New York City -- 2003", no date.

Figure 2 Tourism and Business Travel Sector, Direct Spending by Travelers in New York City, 2003

	Visitor Spending ($ billions)
Hotels and lodging	$4.21
Food service and drinking places	$4.27
Arts and entertainment	$3.58
Air transportation	$1.49
Other transportation services	$1.27
Retail trade	$3.67
TOTAL, NYC Tourism and Business Sector	**$18.49**

Source: NYC and Company

Figure 3 Components of New York City Tourism and Business Travel Sector, Direct Employment, 2003

	Employment
Hotels and lodging	34,948
Food service and drinking places	79,128
Arts and entertainment	40,365
Air transportation	7,642
Other transportation services	28,219
Retail trade	22,337
TOTAL, NYC Tourism and Business Sector	**212,639**

Source: NYC and Company

Tourism is a large job generator as well. The direct visitor spending of $18.49 billion in 2003 as estimated by NYC & Company translates into a combined employment of 212,639 in the six core tourism industries. Figure 3 provides the employment levels for each of these industries. This figure includes only the employment within those industries that can be directly attributed to tourism and business traveler spending. This level of direct tourism employment yields $7.5 billion in annual wages in New York City.

Another $4.1 billion in wages in New York City is generated by employment that tourism spending supports in supplier industries (indirect) and in consumption sectors of the local economy as the wages paid in the tourism sector and its supplier industries is spent for food, shelter, health care, clothing, transportation, banking services, etc. Altogether, the total economic impact of tourism supported a total of 292,000 jobs in New York City in 2003. This number breaks down as follows: 212,600 ***direct*** jobs in the tourism sector, 32,500 ***indirect*** jobs in supplier industries, and 46,900 jobs as a result of ***induced*** spending, primarily as the consumption of locally-generated goods and services. The *indirect* and *induced* jobs are produced by the ripple effects of *direct* tourism spending.

The direct jobs that tourism creates make it the largest employer among the top ten export-oriented sectors in the New York City economy. Figure 4 shows the employment levels for the ten industries that are the prime engines of the city economy, bringing in spending from outside the region and generating broad multiplier effects like those described above for tourism. These are the main industries that propel the city's economy forward. As the table indicates, the tourism sector is larger in terms of jobs than professional and technical services, the Wall Street securities and commodities brokers business, media, banking, fashion, etc.

Because it is a large employer and has been generally growing, tourism has been regularly touted as the leading job generator for city resident workers, particularly less-educated New Yorkers and recent immigrants. With the continued decline of the city’s manufacturing sector, the traditional employer of this segment of the labor force, tourism has been touted as the substitute source of jobs.

Tourism’s role as a major job generator also frequently has been held up to help justify the need for public investments in several major economic development projects in recent months, most notably a $1.4 billion state and city investment in the expansion of the Javits Convention Center and $600 million in state and city subsidies to help construct the Jets Stadium.

Figure 4 The Tourism and Business Travel Sector is the Leading Employer Among Major Export-Oriented Sectors in New York City, 2004

Export-oriented Sector	2004 Employment
Tourism and Business Travel	219,000
Professional and Technical Services*	205,100
Securities and Commodities Brokers	164,500
Media and Telecommunications (except motion pictures)	126,700
Credit Intermediation (includes banking)	88,700
Fashion **	80,000
Management of Companies	56,000
Advertising	47,400
Motion Picture, TV and Commercial Production***	40,000
Insurance Carriers	33,500

* Advertising shown separately
** Fashion includes apparel manufacturing and wholesaling, estimate by FPI.
*** This is a preliminary FPI estimate and includes employment in industries closely allied to movie, tv, and commerical production.

Source: New York State Department of Labor, NYC & Co., Fiscal Policy Institute estimates.

The Promise of Tourism Jobs and the Value of Unionized Hotel Jobs to New York City

The tourism sector is appropriately looked to as a source of badly needed jobs for city residents. But in addition, with the hotel industry as the foundation of the city's tourism sector, the fact that hotels are heavily unionized in New York City means that the industry is a major source of good-paying jobs with family-supporting benefits. And in New York City, as in many parts of the U.S. today, good-paying jobs with family-supporting benefits are becoming harder and harder to come by. Unionized hotel jobs provide workers who, in many cases, do not have a college education, a ladder of opportunity into the middle class. Relatively few jobs in the city provide such an opportunity.

Many union hotel workers make about $20 an hour. A $20 hourly wage is higher than the earnings of two-thirds of New York City's resident workers.[8] Under the New York Hotel and Motel Trades Council industry-wide collective bargaining agreement, housekeepers, who are predominantly female, make $20 an hour. Wages at this level are on a par with the median wage earnings for female full-time, year-round workers in New York City.[9]

A New York City family with one union hotel job can make it into the middle class. With the pronounced and continuing economic polarization in New York City, middle-income jobs are justifiably prized and city government should be doing everything it can to maintain these opportunities. Rapidly rising housing costs and shrinking middle-income paying jobs are squeezing the city's working families. According to the Census Bureau's American Community Survey, the share of city families with incomes in the middle range from $35,000 to $100,000 declined from 45.8% in 2000, to 42.8% in 2003.[10] This meant that in this decade so far the share of the city's families with middle incomes has declined by one percent per year.

Unlike many of the city's export-oriented sectors, such as securities, banking and advertising, the overwhelming share of hotel and tourism workers in New York City also live right here in the city. Commuters do not pay any New York City income or property taxes.

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[8] According to the Current Population Survey, the 67th percentile wage in 2004 for New York City resident workers was $19.25.

[9] U.S. Census Bureau, American Community Survey, 2003. The median yearly earnings for female full-time, year-round workers was $35,838 in New York City.

[10] The middle income range is measured in 2003 constant dollars. American Community Survey, Selected Economic Characteristics: 2003.

In addition to middle-income wages, unionized hotel workers receive a full benefit package. At a time when only half of city workers have employer-provided health insurance of any kind[11], unionized hotel workers receive full family health coverage, including dental and optical benefits. Hotel workers receive a completely employer-funded pension benefit while only 45% of New York State's private sector workers are covered by an employer-provided pension plan.[12] Union hotel workers also receive paid holidays, vacation, sick days and personal days, whereas a significant portion of workers in New York City with incomes at or above those of hotel workers do not have such benefits, and very large shares (one-half to two-thirds) of workers with earnings below that of unionized hotel workers do not receive such benefits.[13]

[11] United Hospital Fund, "Health Insurance Coverage in New York, 2002", May 2004.
[12] Current Population Survey data analyzed by the Economic Policy Institute, 2004.
[13] Community Service Society, "The Unheard Third 2004: Bringing the Voice of Low-Income New Yorkers to the Policy Debate," January 2005. For example, this CSS survey found that one-third of moderate and higher income workers (defined as 200% of poverty -- that is about $38,300 for a family of 4 in 2004 -- and above) did not have family health insurance and 24% of such workers did not have an employer-provided pension plan.

The Conversion of Hotel Rooms and the Threat to New York City's Economic Well-Being

The conversion of midtown Manhattan hotel rooms to luxury condominiums is being driven by five key forces. Three are general characteristics and two are specific to the hotel market: continued strong demand and rising prices for luxury condos, low interest rates, limited supply of condos on the market, the ability of most hotel owners to readily deliver a property empty (without existing tenants), and the potential to rapidly convert hotel space to a different residential usage (a zoning change is not required). These forces have combined to create a frenzied high-end condo market in the heart of the upscale Midtown hotel district. In short, this overheated condo market has blocked the normal operation of the hotel real estate market.

In the last four years, fifteen Manhattan hotels have either already converted, are in the conversion process or will soon be converting all or part of their hotel rooms to condos. (See Figure 5) The latest reports indicate that over 3,500 hotel rooms have or will be lost due to these conversions. Of the fifteen conversions, twelve are full conversions, in that all of the rooms will become residential units. The vast majority (96%) of these conversions have taken place in the Midtown Manhattan area, a location vital to NYC tourism and convention business.

While conversions began at the end of 2001, the pace of conversions significantly accelerated in 2004. On average, in 2004, a different hotel announced conversion of at least part of its room stock every six weeks. In the first three and a half months of 2005, another three hotels have announced conversion plans, putting this year on track to exceed the rate of conversion in 2004.

In addition, industry sources indicate that another eight New York City hotels, all located in Midtown Manhattan, are likely to convert to condominiums. (See Figure 6) The conversion of these eight hotels has not been publicly announced to date. The rooms that would be lost due to these potential conversions number over 3,000. While Price Waterhouse Coopers estimates that up to 1,000 new hotel rooms may be added to the hotel stock in 2006, this potential increase in supply will not be large enough to overcome the likely drop in supply that would result if only one-half of these likely conversions are completed.

Figure 5: New York City Hotel to Condominium Conversions

Hotel Name	Address	Midtown *	Rooms Lost	Sale Date	Sale Price (mil $)	No. of condos
Hotel Delmonico	502 Park Avenue	X	193	Nov. 2001	115	n.a.
Gramercy Park Hotel [1]	2 Lexington Ave (at 21st St)	X	327	2003	undisclosed	30
Helmsley Windsor Hotel	100 W. 58th Street	X	242	Fall 2003	55	125
Empire Hotel	44 West 63rd street	X	373	Nov. 2003	80	125
Mayflower Hotel [2]	15 Central Park West (b/w 61st and 62nd St)	X	365	Feb. 2004	275	250-280
Regent Wall St. Hotel	55 Wall Street		144	Mar. 2004	60	n.a.
St. Regis New York [3]	2 East 55th Street (at 5th Ave)	X	59	2004	n.a.	30
Intercontinental Central Park South	112 Central Park South	X	211	Apr. 2004	63.5	65
Hotel Olcott	27 W. 72nd Street	X	238	Apr. 2004	70	n.a.
Plaza Hotel [4]	5th Avenue & Central Park S.	X	457	Apr. 2004	675	150
Sheraton Russell	45 Park Ave (at 37th Street)	X	146	Aug. 2004	42	n.a.
Melrose (formerly the Barbizon)	140 East 63rd Street (at Lexington Ave)	X	306	Sept. 2004	undisclosed	n.a.
Stanhope Hotel	995 5th avenue	X	185	Jan. 2005	79	n.a.
Sutton Hotel	330 E. 56th Street	X	84	Mar. 2005	undisclosed	75
Millennium UN Plaza Hotel [5]	1 United Nations Plaza	X	200	2005	n.a.	n.a.
	Total Rooms Converted:		**3530**			

* Midtown is defined as the geographic area bounded by 14th Street and 72nd Street.

1 The Gramercy Park Hotel is to be converted from a 507-room hotel into 30 residential units and a 180-room hotel. Thus, the net room loss is 327 rooms.

2 The reported sale price of 401 million for the Mayflower Hotel includes both the hotel and the empty lot adjacent to it. According to yhe 2005 market value assesment by the NYC Department of Finance, approximatley 67.15% of the total value is attributable to the hotel. Thus, the price of the hotel alone is estimated to equal 67.15% of $401 million, which is $275.3 million.

3 The St. Regis converted 59 of its 315 rooms into condos in 2004. There was no accompanying ownership change thus the date provided is the date of conversion rather than the date of sale.

4 The owners of the Plaza plan to convert the 805-room hotel to 150 condos and a 457-room hotel.

5 The Millennium UN Plaza has applied to the UN Development Corporation for permission to convert 200 of its 426 rooms into condos in 2005.

Source: Various Press Reports, New York Hotel and Motel Trades Council

Despite very strong hotel demand, with occupancy high and room rates rising, there has been a limited supply response. A new report from Price Waterhouse Coopers demonstrates that the number of rooms added to the Manhattan hotel stock fell short of conversions in 2004 and is projected to fall short again in 2005. (See Figure 7) For the two years combined, rooms lost total 3,221 while rooms added total only 1,893. This represents a net reduction in hotel rooms over 2004 and 2005 of 1,328 Manhattan hotel rooms, an average decline of about 665 rooms per year.

During the boom years of the late 1990s, from 1996 to 2001, an average of 1,600 hotel rooms were added each year to New York City's net hotel stock. The supply response during that period was such that the city's hotel stock continued to increase at that pace for the two subsequent years, 2002 and 2003. Thus, for the seven years prior to the acceleration of the hotel to condo conversion boom in 2004, the hotel stock grew each year by 1,600 rooms. The current state of hotel demand – as measured by such indicators as total visitors and occupancy rates – is surpassing the levels of the late 1990s. Yet, the supply response is the opposite of what should be occurring.

As Figure 7 indicates, the supply decline is concentrated in Midtown. While the hotel stock outside of Midtown Manhattan increased modestly last year and is likely to rise modestly again in 2005, these supply increases do not compensate for the losses in the Midtown area, particularly given current high occupancy and average daily rates.

With skyrocketing prices for luxury condos, and the growing differential between the value of Midtown hotel properties as hotels versus condos, real estate economics suggests more hotel room conversions. Both the Mayflower and Plaza Hotels sold for prices that are roughly double what their value as hotel properties would be.[14]

The growing differential between values as luxury condos and hotel uses presents a clear case of real estate market failure: strong profitability and strong demand for hotel rooms, yet inadequate supply response in the form of new hotel construction.

More hotel conversions will mean fewer hotel rooms and more hotel jobs lost AND lost tourism spending in New York City. If a large number of rooms are converted, the likely economic, employment and tax revenue impact on the city would be significant. For every 1,000 hotel rooms lost, the Fiscal Policy Institute estimates that New York City would stand to lose 1,000 hotel jobs (most of which would be union jobs with decent wages and benefits), another 3,000 or so jobs in other industries, and total tourism and business traveler spending of well over $200 million. The tax revenue loss to New York City associated with the loss of 1,000 hotel rooms would be roughly $20 million a year.

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[14] A standard formula for estimating the valuation of hotel properties is: hotel value = ADR x 1000 x number of hotel rooms. (John W. O'Neill, "ADR Rule of Thumb," Cornell Hotel and Restaurant Administration Quarterly, August 2003.) Using this formula, and applying it to the number of hotel rooms at the Mayflower and the Plaza, estimated values as hotel properties would be about half what the properties sold for.

Figure 6: Hotels Being Considered for Condominium Conversion

Hotel Names	Address	Midtown *	Lost Rooms
Essex House **	160 Central Park South (b/w 6th & 7th Ave)	X	600
Intercontinental Barclay	111 East 48th Street (b/w Lexington and Park Ave)	X	686
Salisbury	123 West 57th Street (b/w 6th & 7th Ave)	X	201
Sheraton Manhattan	790 7th Avenue (at 51st)	X	665
W New York -- The Court	130 East 39th Street (at Lexington Ave)	X	198
W New York -- The Tuscany	120 East 39th Street (at Park Ave)	X	130
Waldorf Towers	100 East 50th Street (at Park Ave)	X	180
Warwick	65 West 54th Street (at 6th Ave)	X	422
		Total Rooms:	**3082**

* Midtown is defined as the geographic area bounded by 14th Street and 72nd Street.

** The Essex House already has 150 condominiums in addition to its 600 hotel rooms.

Note: According to a PriceWaterhouseCoopers report Manhattan Hotel Room Supply Update (April 2005), six new hotel projects with 998 rooms are projected to open in 2006.

Source: PriceWaterhouseCoopers *Manhattan Hotel Room Supply Update* (April 2005) & the New York Hotel and Motel Trades Council

Figure 7 Supply Changes in Available Manhattan Hotel Rooms: 2004 and 2005

	All Manhattan			**Midtown Manhattan ***			**Non-Midtown Manhattan ***		
Year	**Rooms Added**	**Rooms Lost**	**Net Change**	**Rooms Added**	**Rooms Lost**	**Net Change**	**Rooms Added**	**Rooms Lost**	**Net Change**
2004	544	1272	-728	205	1128	-923	339	144	195
2005 [1]	1349	1949	-600	1112	1949	-837	282	0	282
Totals	1893	3221	-1328	1317	3077	-1760	621	144	477

* Midtown is defined as the geographic area bounded by 14th Street and 72nd Street; Non-Midtown Manhattan covers all of the remainging area

[1] Expected as of April 8, 2005

Source: PriceWaterhouse Coopers *Manhattan Hotel Room Supply Update* (April 2005)

Arguably more important than the tax loss to the ity is that fewer hotel rooms would mean losing valuable, scarce and badly needed employment opportunities for New York City residents. Destroying tourism jobs would also mean a major setback to New York City's efforts to diversify its economy and provide for more broadly shared prosperity

Conclusion: Preserving Hotel Rooms Preserves New York's Promise of Tourism, Opportunity and Diversity

Limiting conversions of valuable hotel rooms is a sound economic policy response to the frenzied luxury condo market's negative impact on the normal operation of the hotel real estate market. The out-of-control condo market has created a situation where the hotel real estate market has failed to properly function. Considering the importance of a prosperous tourism sector to the city's economy and the critical jobs that the hotel and related tourism industries provide to New York City residents, the city government must act to ensure that hotels can continue to exist and draw tourist and business travelers to New York City. The hotel industry is particularly important since it is a major source of family-sustaining employment opportunities for New York City residents. A vibrant hotel and tourism sector will help the city address growing economic polarization and will help diversify the city's economic base. Luxury condo developments can and will occur in other parts of Manhattan and the city, particularly lower Manhattan and the Far West Side.