2010 Manhattan Hotel Market Overview

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Manhattan Hotel Market Overview

HVS Global Hospitality Services, in cooperation with New York University's Preston Robert Tisch Center for Hospitality, Tourism, and Sports Management, is pleased to present the thirteenth annual Manhattan Hotel Market Overview.

Steve Rushmore
President and Founder, HVS Global Hospitality Services

Historical data illustrate that the Manhattan market is prone to high volatility, as the market incurs strong declines during recessionary periods, followed by even stronger gains during the recovery. Abiding by the former dynamic, the Manhattan market realized the largest RevPAR decline in 2009 among the top 25 markets in the U.S. A significant decrease in average rate was the major cause of this decline, as local hoteliers opted to maximize occupancy while facing a noteworthy expansion in supply. This strategy yielded a strong occupancy level of over 80% in 2009, despite a roundly 5.0% increase in supply. Since the fourth quarter of 2009, the market has illustrated signs of a prospective recovery. Occupancy levels have consistently trended upward, and RevPAR has been positive since the beginning of 2010.

Given these trends, HVS estimates that hotel values in the Manhattan market have bottomed out. Beginning in 2010, we anticipate that marketwide RevPAR will progressively trend upward, surpassing its pre-recession high of 2008 by 2013. We expect hotel values in Manhattan to follow a similar trend, returning to the previous peak level by 2014; this scenario assumes that the current recession will not fundamentally change corporate and transient customers' travel patterns over the long term and that financing returns to normal leverage levels. Overall, the Manhattan market still remains the premier lodging market in the U.S., given its standing as the world's financial capital and status as a prominent leisure destination.

Despite the worst recession since the Great Depression, a staggering credit crisis involving New York City's financial sector, and a substantial influx of new lodging supply, Manhattan is a real success story, remaining the top hotel market in the U.S. in 2009. Tourism fell less than expected, and for the first time in 20 years, New York City became the most popular tourism destination in the country, surpassing Orlando. This performance proves that New York City's attributes and strong foundation allow it to bounce back quickly from crises. From an operating standpoint, hotels in Manhattan were able to maintain a strong occupancy level, just above the 80% mark. The Manhattan lodging market was sustained by a weak dollar, low airfares, and a decline in hotel room rates, which all contributed to push monthly hotel occupancy rates up slightly from September to December 2009, above the corresponding 2008 levels. As many hotels in Manhattan employed a strategy of aggressive rate discounts to stimulate demand and maintain occupancy levels, marketwide average rate decreased in 2009, resulting in a double-digit RevPAR decline of 26.5% compared to 2008, the market's peak RevPAR performance. Overall, while the latest economic crisis has negatively influenced marketwide RevPAR levels in the short term, we expect the market to remain strong over the long haul, given its strong fundamentals and world-class destination status. In light of the current economic climate and market parameters, including a further increase in supply, we anticipate that the market will bottom out in 2010, with pricing power returning during the second half of the year. As such, we forcast a healthy increase of 4.6% in RevPAR in 2010 and a substantial gain of close to 10.0% in 2011. With the anticipated economic recovery, we forecast double-digit increases in RevPAR in 2012 and 2013. Based on these forecasts, RevPAR for Manhattan hotels should exceed the pre-recession level by 2013.

HVS Global Hospitality Services

HVS is a global services and consulting organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980 by President and CEO Steve Rushmore, MAI, FRICS, CHA, the company offers a comprehensive scope of services and specialized industry expertise to help you enhance the economic returns and value of your hospitality assets. Through a network of 30 offices worldwide staffed by approximately 400 seasoned industry professionals, HVS offers a wide scope of services that track the development and ownership process.

Starting with an HVS market feasibility and appraisal study, a newly conceived project is justified. Financing through the HVS investment banking team is then arranged, interiors designed, and management hired. Sales and marketing strategies are developed, and organizational assessments are made. When a client requires actual, on-site hotel or restaurant management and marketing, HVS offers these specialized services as well. HVS asset management provides constant operational oversight to ensure the maximization of economic returns and asset value. No other organization offers such a broad range of services. HVS also has specialists in parking operations, golf courses, and convention centers.

Since the year 2000, HVS has performed approximately 24,000 assignments throughout the world for virtually every major industry participant. Our principals literally "wrote the book" on hospitality consulting, authoring numerous authoritative texts and hundreds of articles. HVS is client driven, entrepreneurial, and dedicated to providing the best advice and services in a timely and cost-efficient manner.

About NYU's Preston Robert Tisch Center for Hospitality, Tourism, and Sports Management

The Preston Robert Tisch Center for Hospitality, Tourism, and Sports Management, a division of NYU's School of Continuing and Professional Studies (www.scps.nyu.edu), offers undergraduate, graduate, and continuing education programs that develop professionals with in-depth industry knowledge and the critical thinking skills necessary for leadership roles in the fields of hospitality, tourism, and sports management. The Center's full-time and adjunct faculty is composed of leading practitioners and researchers. Its board of advisors includes senior executives who advise on curricula development and help ensure that coursework reflects the latest industry trends and needs. The Tisch Center's location in the heart of New York City—one of the world's premier tourism and sports destinations—provides its students with multiple internship and networking opportunities, as well as the chance to study at several on-site "industry classrooms" at such venues as The New York Marriott Marquis, The Waldorf=Astoria, Chelsea Piers, and the NBA Store.

New York University Annual International Hospitality Industry Investment Conference

The 32nd Annual NYU International Hospitality Industry Investment Conference is Sunday, June 6, 2010, to Tuesday, June 8, 2010, at the New York Marriott Marquis. The Preston Robert Tisch Center is the host of the event, and HVS is a valuable partner. Once again, our team of professionals looks forward to welcoming you to this prestigious event.

Acknowledgements

Randy Smith of STR Global provided the Survey's comprehensive hotel statistics for Manhattan. STR continues to be the leading source of hospitality industry operating statistics. HVS also acknowledges the assistance of STR's Jan Freitag, who rendered valuable support. We would also like to thank Joseph E. Spinnato and Rick Amato of the Hotel Association of New York City (HANYC), as well as Brenda Fields and Kathie Stapleton of the Greater New York Chapter of the Hospitality Sales and Marketing Association International (HSMAI) for their assistance. Additionally, in cooperation with New York University, the data-gathering process was largely a contribution of five Tisch Center graduate students—Michael J. Ahn, Laura Arneson, Monette DeLeon, Zhe Li, and Jason Sturtevant—through the coordination of Dr. Ginger Smith and Dr. Mark Warner. HVS is pleased to have been a part of this enriching educational process.

HVS Global Hospitality Services would also like to thank its own Manhattan specialists, **Roland de Milleret**, MAI, Managing Director, and **Jonathan B. Sebbane**, Vice President, for their invaluable contribution and dedication to this project.

Operating History

The following table illustrates aggregate annual room counts, occupancies, and average rates for contributing Manhattan hotels since 1987, as compiled by STR Global. The table also summarizes marketwide rooms revenue per available room (RevPAR); this figure, which is calculated by multiplying occupancy by average rate, provides an indication of how well rooms revenue is being maximized.

Year	No. of Rooms	% Change	Occupied Rooms	% Change	Occupancy	% Change	Average Rate	% Change	RevPAR	% Change
1987	52,683	—	14,624,039	—	76.1	—	$113.05	—	$85.98	—
1988	52,768	0.2	14,634,194	0.1	76.0	(0.1)	120.11	6.2	91.26	6.1
1989	52,724	(0.1)	13,873,898	(5.2)	72.1	(5.1)	132.09	10.0	95.23	4.3
1990	54,421	3.2	14,139,816	1.9	71.2	(1.3)	132.34	0.2	94.21	(1.1)
1991	55,058	1.2	13,442,624	(4.9)	66.9	(6.0)	127.54	(3.6)	85.31	(9.4)
1992	56,235	2.1	13,871,555	3.2	67.6	1.0	126.27	(1.0)	85.33	0.0
1993	56,190	(0.1)	14,494,889	4.5	70.7	4.6	126.33	0.1	89.28	4.6
1994	56,083	(0.2)	15,156,219	4.6	74.0	4.8	136.12	7.7	100.78	12.9
1995	57,205	2.0	16,240,921	7.2	77.8	5.1	145.44	6.8	113.12	12.2
1996	57,372	0.3	16,906,189	4.1	80.7	3.8	160.98	10.7	129.97	14.9
1997	58,245	1.5	17,416,819	3.0	81.9	1.5	177.31	10.1	145.26	11.8
1998	58,586	0.6	17,609,297	1.1	82.3	0.5	198.31	11.8	163.31	12.4
1999	59,911	2.3	17,730,575	0.7	81.1	(1.5)	208.64	5.2	169.17	3.6
2000	61,464	2.6	18,771,462	5.9	83.7	3.2	222.73	6.8	186.37	10.2
2001	63,433	3.2	17,236,084	(8.2)	74.4	(11.0)	195.94	(12.0)	145.86	(21.7)
2002	64,727	2.0	17,728,649	2.9	75.0	0.8	185.55	(5.3)	139.24	(4.5)
2003	66,627	2.9	18,467,072	4.2	75.9	1.2	180.14	(2.9)	136.80	(1.8)
2004	66,317	(0.5)	20,106,518	8.9	83.1	9.4	199.89	11.0	166.04	21.4
2005	65,321	(1.5)	20,244,232	0.7	84.9	2.2	230.50	15.3	195.71	17.9
2006	64,587	(1.1)	19,918,956	(1.6)	84.5	(0.5)	263.90	14.5	222.98	13.9
2007	65,680	1.7	20,473,745	2.8	85.4	1.1	297.25	12.6	253.86	13.8
2008	67,114	2.2	20,692,202	1.1	84.5	(1.1)	304.56	2.5	257.26	1.3
2009	70,420	4.9	20,657,567	(0.2)	80.4	(4.9)	235.12	(22.8)	188.97	(26.5)
Average Annual Compounded Change										
1987-2009:		1.3		1.6		0.3		3.4		3.6

Source: STR Global

Michael R. Bloomberg
Mayor of the City of New York

Dear Friends:

It is a great pleasure to welcome all those attending the 32nd Annual New York University International Hospitality Industry Investment Conference.

New York City was the most popular tourist destination in the United States last year, attracting more than 45 million visitors and adding new jobs in the leisure and hospitality industries. From our world-class restaurants and shops to the many events taking place every day throughout the five boroughs, there is more to see and do in New York City than ever before. That's why, despite the global economic downturn, we expect to welcome 50

million annual visitors by 2012.

Tourism continues to be one of the Big Apple's most successful industries, and I applaud everyone who made this event possible for their vital contributions to our City's economic and cultural vitality. On behalf of the City of New York, I offer my best wishes for an enjoyable and productive conference.

The Manhattan hotel market has experienced dramatic cycles since the late 1980s. A significant downturn occurred in the early 1990s, reflecting the combined impact of supply additions, a nationwide recession, several disappointing years in the financial markets, and the Persian Gulf War; the result was a substantial decline in both occupancy and RevPAR. Signs of true recovery began to appear in 1993, and by the end of 1994, it was clear that a dramatic improvement in the market was underway.

Supply decreased slightly in 1994 while demand growth accelerated, engendering a 4.6% increase in the number of occupied rooms. Marketwide average rate exhibited a robust increase of 7.7%. As a result of these factors, RevPAR jumped by 12.9%. The improvement that was evident in 1994 came as a result of a number of factors, not the least of which was the onset and acceleration of the nationwide economic recovery. In addition, the state's 5.0% tax on hotel rooms that cost more than $100 was repealed on September 1, 1994, and the city's room tax was reduced by one percentage point. These changes lowered the city's hotel room tax from 19% (which had been the highest in the nation) to 13%. The metropolitan area also hosted World Cup Soccer and the Gay Games in the summer of 1994; both of these events contributed to record occupancies during what is typically considered to be the off-season.

Demand growth accelerated in 1995, causing marketwide occupancy to increase to 77.8%. Given the seasonality of the Manhattan market, as well as typical weekly patterns, it is clear that occupancy was reaching a saturation point in 1995, and a large amount of demand was left unaccommodated. This high occupancy also led to further gains in average rate.

We note that there were also a number of special events that took place in 1995. The two most significant occurred during periods that are generally characterized by strong demand. The visit of Pope John Paul II and the United Nations' 50th anniversary celebration resulted in virtually sold-out conditions throughout the city in October and early November. In addition, the December holiday shopping season was unusually strong. With overall occupancies nearing 80% in April, May, June, August, and December, and exceeding 85% in September, October, and November, it is apparent that New York City hotels were turning away a significant amount of business.

Despite an unusually harsh winter and the lack of any major citywide events in 1996, demand continued to grow at a strong rate, limited primarily by the lack of available accommodations, particularly during peak periods. Manhattan hotel operators took advantage of the undersupply of hotel rooms by pursuing aggressive pricing policies, which resulted in an average rate increase of 10.7%.

Although 1997 saw a slight increase in guestroom supply (which resulted primarily from the reopening of the 1,013-room Roosevelt Hotel), demand increased by 3.0%, and occupancy rose by 1.5%. In 1998, despite the opening of four new hotels late in the year, the overall room supply grew by only 0.6%, which was largely reflective of the closing of the Peninsula and the Beverly (now the Benjamin), which were undergoing renovation. Although the market was believed to have reached a maximum occupancy, there was a further occupancy gain of 0.5% in 1998, to a level of 82.3%. Average rate rose by a strong 11.8%, reaching $198.31. These increases resulted in RevPAR growth of 12.4%.

In 1999, the 1,642 new rooms that entered the market (a net addition of 1,325 rooms) had only a minor impact on occupancy. Room supply increased by 2.3%, outpacing the 0.7% growth in demand, and as a result, occupancy slipped by 1.5%. We note that the year ended on a relatively strong note; although demand dropped during the first six months of 1999, causing many hotel operators to wonder if New York had out-priced itself, demand rose by 10.4% during the last half of 1999 compared to the first half of the year.

The year 2000 was another record year for the Manhattan hotel market. Boosted by exceptionally strong first and second quarters, the Manhattan lodging market posted a 10.2% gain in RevPAR in 2000, the market's eighth consecutive RevPAR increase. Demand for room nights increased 5.9% over 1999's record level, causing citywide occupancy to reach an impressive 83.7%. With the exception of 1999, which saw a substantial increase in supply, RevPAR registered double-digit growth each year from 1994 through 2000.

However, supply increases significantly outpaced demand growth in the last quarter of 2000 and the first quarter of 2001. Although the market was easily able to absorb the new rooms over the summer and fall months of 2000, the first quarter of

2001 was more problematic, as five new hotels with a total of 573 guestrooms opened between December 2000 and February 2001.

A second significant downturn started in 2001, as a result of the slowdown in the national and regional economies, the backlash from the dot-com debacle, and the September 11 terrorist attacks; the result was even more dramatic than that of the previous recession, with a RevPAR decline of 21.7%. We note that the number of occupied rooms, or demand, started declining as of March 2001.

In 2002, marketwide occupancy rose slightly, as many hotels employed a strategy of aggressive rate discounts to stimulate demand and maintain occupancy levels; marketwide average rate decreased further, resulting in a RevPAR decline of 4.5%, compared to 2001. Following a RevPAR decline of 1.8% in 2003, composed of a 1.2% gain in occupancy and a 2.9% decline in average rate, 2004 and 2005 ended on very positive notes for the Manhattan lodging market, recording RevPAR increases of 21.4% and 17.9%, respectively. Between 2003 and 2005, average rate rose by more than $50.00, or an increase of almost 28.0%, while occupancy improved by nine percentage points, from 75.9% in 2003 to 84.9% in 2005.

Occupancy in Manhattan remained relatively stable in 2006, which was not a result of an economic slowdown but reflective of the extraordinarily high occupancy levels registered during the first three months of 2005. This strong demand was caused by an art installation in Central Park that took place in February and March 2005, and attracted a significant number of visitors to New York City, which resulted in occupancies of 80.6% in February and 87.5% in March 2005, unusually high levels for the city’s generally low-season first quarter. Thus, occupancy declined during the first quarter of 2006. In addition, due to continued strong demand levels in the market in 2006, hotel operators focused primarily on average rate growth rather than volume by accommodating greater numbers of higher-rated commercial travelers; this strategy allowed average rate to grow by double-digit numbers every month in 2006 (with the exception of December). Marketwide average rate rose by 14.5% in 2006, causing RevPAR to increase by a noteworthy 13.9%.

Hotels in Manhattan pushed their aggregate performance to new heights in 2007, setting records for occupancy, average rate, and RevPAR. Occupancy rose to 85.4%, while average rate soared to $297.25. We note that demand growth was impacted by capacity constraints imposed by the city’s room inventory, which operated at near-maximum-capacity levels during many months of the year. As a result, occupancy rose by a modest 1.1% in 2007, attributable to a 2.8% increase in demand. The increasing supply compression allowed Manhattan hotel operators to realize an average rate gain of 12.6% in 2007, causing RevPAR to increase by 13.8% compared to 2006 and resulting in the fourth consecutive year of double-digit RevPAR growth. In terms of both average rate and RevPAR, Manhattan hotels reported the highest levels of any U.S. city in 2007. Although a slowing U.S. economy was evident in the second half of 2007, Manhattan hotels experienced a very strong performance during this period.

This upward trend continued through the third quarter of 2008, albeit at a slower pace, as indicated by the 1.1% increase in occupancy and the 7.8% gain in average rate, yielding a RevPAR increase of 9.0%, compared to the first nine months of 2007. In October 2008, the Manhattan hotel market posted its first decrease in RevPAR since June 2003, as a result of the economic recession. During October, occupancy decreased by 5.8%, while average rate declined by 3.0%, resulting in a RevPAR contraction of 8.6% compared to October 2007. Although the Manhattan market experienced moderate RevPAR growth of 1.3% in 2008, RevPAR posted consistent declines in the last three months of the year as the economic crisis heightened.

In 2009, the downward trend triggered by the prolonged economic crisis continued through the end of the third quarter. Despite the substantial amount of new supply entering the Manhattan market, stronger increases in demand as of September 2009 resulted in a positive increase in occupancy after 12 consecutive months of negative changes in occupancy. The Manhattan lodging market was maintained by a weak dollar, low airfares, and a decline in hotel room rates, which all contributed to push monthly hotel occupancy rates up slightly from September to December, above the corresponding 2008 levels. Overall in 2009, hotel occupancy rates declined by 4.9%, to 80.4%, while average rate decreased by 22.8%, to $235.12. Many hotels in Manhattan employed a strategy of aggressive rate discounts to stimulate demand and maintain occupancy levels in 2009, resulting in a double-digit RevPAR decline of 26.5% from the market’s peak RevPAR performance in 2008. Although the latest economic crisis negatively influenced marketwide RevPAR levels in the short term, we expect the market to remain strong over the long haul, given its strong fundamentals and world-class destination status.

The following tables set forth monthly changes in occupancy, average rate, and RevPAR from 1988 to 2009.

Occupancy													
Month	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total Year
1988	(3.0) %	(2.3) %	6.0 %	(2.1) %	(2.5) %	6.5 %	0.2 %	(0.2) %	(3.2) %	(1.2) %	(1.8) %	3.6 %	(0.1) %
1989	(8.0) %	(1.7) %	(5.4) %	(5.2) %	(7.5) %	(7.4) %	(10.5) %	(5.7) %	0.2 %	(7.7) %	0.7 %	(2.0) %	(5.1) %
1990	2.7 %	2.6 %	5.6 %	2.7 %	1.6 %	(3.7) %	3.6 %	(4.3) %	(3.3) %	(3.5) %	(9.1) %	(7.9) %	(1.3) %
1991	(13.5) %	(16.6) %	(22.1) %	(10.9) %	(9.3) %	2.4 %	(4.2) %	(0.5) %	(3.4) %	0.8 %	(0.3) %	4.2 %	(6.0) %
1992	0.6 %	13.6 %	14.2 %	1.9 %	(4.7) %	(5.4) %	(1.1) %	(6.0) %	0.4 %	(2.9) %	2.8 %	5.9 %	1.0 %
1993	4.3 %	0.3 %	2.6 %	8.6 %	10.6 %	1.0 %	4.6 %	5.4 %	1.7 %	7.0 %	3.9 %	5.2 %	4.6 %
1994	8.9 %	3.6 %	4.2 %	5.6 %	4.8 %	13.3 %	4.8 %	4.9 %	6.8 %	6.9 %	6.8 %	7.3 %	6.5 %
1995	3.5 %	0.8 %	6.5 %	4.9 %	4.2 %	(2.7) %	3.1 %	4.2 %	5.9 %	1.9 %	2.0 %	3.0 %	3.1 %
1996	2.0 %	5.0 %	4.1 %	5.7 %	5.9 %	4.9 %	4.8 %	3.4 %	1.9 %	3.5 %	3.3 %	2.7 %	4.0 %
1997	4.4 %	14.3 %	5.3 %	(0.7) %	(1.4) %	0.6 %	(0.3) %	0.6 %	0.9 %	(3.3) %	1.0 %	0.6 %	1.5 %
1998	4.3 %	2.4 %	2.1 %	3.5 %	2.3 %	3.6 %	1.2 %	(3.0) %	(3.1) %	0.9 %	(3.6) %	(2.1) %	0.6 %
1999	(1.1) %	(8.2) %	(2.7) %	(3.8) %	(3.6) %	(6.3) %	1.9 %	2.6 %	2.1 %	0.3 %	4.9 %	(5.1) %	(1.5) %
2000	2.2 %	7.6 %	6.2 %	9.2 %	4.9 %	7.2 %	3.9 %	3.1 %	1.2 %	(4.1) %	(3.1) %	2.1 %	3.2 %
2001	(1.5) %	(5.4) %	(9.0) %	(12.4) %	(9.6) %	(8.3) %	(8.8) %	(7.9) %	(29.8) %	(17.9) %	(10.8) %	(6.7) %	(11.0) %
2002	(9.4) %	(4.6) %	(3.3) %	(3.9) %	(1.5) %	(4.9) %	(4.4) %	(2.5) %	20.0 %	12.4 %	5.0 %	10.1 %	0.8 %
2003	(0.5) %	(3.4) %	(10.1) %	(10.6) %	(2.2) %	6.5 %	6.6 %	4.0 %	7.5 %	6.5 %	4.6 %	3.3 %	1.1 %
2004	10.8 %	8.1 %	23.6 %	28.1 %	13.5 %	8.6 %	9.0 %	1.7 %	6.7 %	3.0 %	3.2 %	3.3 %	9.4 %
2005	6.5 %	8.5 %	3.4 %	1.6 %	2.6 %	9.0 %	3.7 %	4.1 %	2.5 %	(1.7) %	0.6 %	(3.2) %	2.2 %
2006	1.7 %	(5.7) %	(3.2) %	1.4 %	(1.7) %	(2.3) %	(1.9) %	2.1 %	(1.0) %	1.7 %	1.2 %	1.5 %	(0.5) %
2007	0.3 %	2.3 %	1.0 %	(0.6) %	1.5 %	0.9 %	1.6 %	4.3 %	(1.7) %	2.0 %	0.0 %	1.0 %	1.1 %
2008	1.8 %	2.6 %	0.2 %	(2.2) %	1.4 %	1.1 %	2.5 %	2.3 %	(0.6) %	(5.8) %	(10.9) %	(4.6) %	(1.1) %
2009	(16.0) %	(16.4) %	(14.9) %	(2.8) %	(7.5) %	(4.9) %	(5.8) %	(5.2) %	3.1 %	3.5 %	1.3 %	4.4 %	(4.9) %

Source: STR Global

Average Rate													
Month	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total Year
1988	6.7 %	6.4 %	4.8 %	5.1 %	6.3 %	8.1 %	5.1 %	7.1 %	5.9 %	6.8 %	3.6 %	9.2 %	6.2 %
1989	15.0 %	10.0 %	9.2 %	13.8 %	10.1 %	9.2 %	11.9 %	10.1 %	10.9 %	8.0 %	9.2 %	3.4 %	10.0 %
1990	2.7 %	3.1 %	1.9 %	(1.9) %	3.3 %	(0.2) %	(1.2) %	(1.0) %	(1.6) %	(0.4) %	(1.0) %	0.6 %	0.2 %
1991	1.4 %	(0.5) %	(1.7) %	(1.5) %	(6.5) %	(5.7) %	(5.5) %	(6.4) %	(3.0) %	(5.3) %	(2.9) %	(2.8) %	(3.6) %
1992	(5.9) %	(5.7) %	(4.0) %	(3.1) %	0.0 %	4.4 %	8.0 %	(0.7) %	(2.3) %	(2.7) %	(1.1) %	(0.7) %	(1.0) %
1993	(2.1) %	(1.4) %	(1.0) %	(2.5) %	(0.5) %	(2.3) %	(3.6) %	1.8 %	0.5 %	2.7 %	3.3 %	3.7 %	0.1 %
1994	5.0 %	6.2 %	4.2 %	6.7 %	4.4 %	9.2 %	4.8 %	3.6 %	5.4 %	8.0 %	5.4 %	7.2 %	6.0 %
1995	3.7 %	3.8 %	6.1 %	5.4 %	5.9 %	1.7 %	5.2 %	8.7 %	11.7 %	15.2 %	11.1 %	11.1 %	7.8 %
1996	5.5 %	7.3 %	10.2 %	11.9 %	14.3 %	14.5 %	11.9 %	10.5 %	13.3 %	11.0 %	11.2 %	12.0 %	11.3 %
1997	8.4 %	8.5 %	6.9 %	10.6 %	9.4 %	9.6 %	8.4 %	10.2 %	13.3 %	9.3 %	11.6 %	14.2 %	10.0 %
1998	10.1 %	12.4 %	13.3 %	11.7 %	13.2 %	14.1 %	12.0 %	11.6 %	10.3 %	14.0 %	11.8 %	11.0 %	12.1 %
1999	5.1 %	4.2 %	5.0 %	3.1 %	3.4 %	1.8 %	2.2 %	1.2 %	6.0 %	5.3 %	8.4 %	12.1 %	5.0 %
2000	6.7 %	3.8 %	5.5 %	7.8 %	8.1 %	11.1 %	6.5 %	8.2 %	11.5 %	8.1 %	7.2 %	0.2 %	6.8 %
2001	0.9 %	2.4 %	0.4 %	(1.9) %	(5.5) %	(7.4) %	(6.1) %	(8.2) %	(21.0) %	(30.2) %	(25.3) %	(24.7) %	(12.0) %

2002	(10.3) %	(10.6) %	(14.0) %	(10.6) %	(9.8) %	(11.1) %	(9.6) %	(10.0) %	(1.7) %	12.2 %	5.1 %	9.5 %	(5.0) %
2003	(4.1) %	(5.2) %	(5.1) %	(8.3) %	(6.3) %	(6.3) %	(4.0) %	(3.7) %	(0.5) %	0.5 %	2.6 %	3.7 %	(2.5) %
2004	(0.5) %	0.2 %	7.7 %	9.5 %	14.3 %	14.7 %	12.1 %	15.3 %	14.2 %	13.2 %	14.7 %	14.1 %	11.0 %
2005	7.1 %	10.6 %	10.9 %	16.0 %	12.7 %	17.0 %	13.8 %	12.3 %	24.4 %	18.1 %	20.3 %	18.9 %	15.3 %
2006	16.6 %	12.7 %	15.2 %	15.7 %	17.7 %	16.3 %	13.4 %	13.2 %	12.9 %	14.0 %	13.3 %	11.0 %	14.5 %
2007	9.5 %	11.5 %	13.4 %	12.4 %	11.7 %	11.8 %	11.1 %	14.6 %	12.1 %	16.4 %	14.6 %	10.7 %	12.6 %
2008	9.5 %	8.2 %	8.6 %	7.5 %	6.6 %	6.3 %	9.6 %	8.7 %	7.9 %	(3.0) %	(11.9) %	(10.2) %	2.5 %
2009	(13.5) %	(18.3) %	(25.5) %	(27.0) %	(31.1) %	(32.2) %	(28.6) %	(29.2) %	(24.7) %	(18.9) %	(17.4) %	(11.5) %	(22.8) %

Source: STR Global

RevPAR													
Month	**Jan**	**Feb**	**March**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Total Year**
1988	3.5 %	4.0 %	11.1 %	2.9 %	3.6 %	15.1 %	5.3 %	6.9 %	2.5 %	5.5 %	1.8 %	13.1 %	6.1 %
1989	5.8 %	8.2 %	3.3 %	7.9 %	1.8 %	1.2 %	0.2 %	3.9 %	11.1 %	(0.3) %	10.0 %	1.4 %	4.3 %
1990	5.4 %	5.8 %	7.6 %	0.8 %	4.9 %	(3.9) %	2.3 %	(5.2) %	(4.9) %	(3.9) %	(10.0) %	(7.4) %	(1.1) %
1991	(13.2) %	(17.1) %	(23.5) %	(12.3) %	(15.2) %	(3.4) %	(9.4) %	(6.9) %	(6.4) %	(4.6) %	(3.2) %	1.3 %	(9.4) %
1992	(5.3) %	7.1 %	9.6 %	(1.3) %	(4.7) %	(1.3) %	6.8 %	(6.6) %	(1.9) %	(5.5) %	1.7 %	5.1 %	0.0 %
1993	2.1 %	(1.1) %	1.6 %	5.9 %	10.0 %	(1.3) %	0.8 %	7.3 %	2.2 %	9.9 %	7.4 %	9.2 %	4.6 %
1994	14.3 %	10.1 %	8.6 %	12.8 %	9.4 %	23.7 %	9.8 %	8.7 %	12.5 %	15.4 %	12.5 %	15.0 %	12.9 %
1995	7.4 %	4.7 %	13.0 %	10.6 %	10.4 %	(1.1) %	8.6 %	13.2 %	18.3 %	17.4 %	13.3 %	14.4 %	11.2 %
1996	7.6 %	12.7 %	14.7 %	18.2 %	21.1 %	20.1 %	17.3 %	14.3 %	15.5 %	14.9 %	14.9 %	15.1 %	15.8 %
1997	13.1 %	24.0 %	12.5 %	9.8 %	7.8 %	10.3 %	8.1 %	10.8 %	14.4 %	5.7 %	12.7 %	14.8 %	11.7 %
1998	14.9 %	15.1 %	15.7 %	15.5 %	15.8 %	18.2 %	13.4 %	8.3 %	6.9 %	15.0 %	7.8 %	8.7 %	12.7 %
1999	4.0 %	(4.4) %	2.1 %	(0.9) %	(0.4) %	(4.7) %	4.1 %	3.8 %	8.2 %	5.7 %	13.7 %	6.3 %	3.4 %
2000	9.1 %	11.7 %	12.1 %	17.7 %	13.3 %	19.1 %	10.6 %	11.5 %	12.9 %	3.8 %	3.8 %	2.3 %	10.2 %
2001	(0.6) %	(3.1) %	(8.7) %	(14.1) %	(14.6) %	(15.1) %	(14.4) %	(15.4) %	(44.5) %	(42.7) %	(33.4) %	(29.8) %	(21.7) %
2002	(18.7) %	(14.8) %	(16.8) %	(14.1) %	(11.2) %	(15.4) %	(13.6) %	(12.3) %	17.9 %	26.2 %	10.4 %	20.6 %	(4.3) %
2003	(4.5) %	(8.5) %	(14.7) %	(18.0) %	(8.4) %	(0.2) %	2.3 %	0.2 %	7.0 %	7.0 %	7.3 %	7.1 %	(1.4) %
2004	10.2 %	8.3 %	33.1 %	40.3 %	29.7 %	24.5 %	22.2 %	17.2 %	21.8 %	16.5 %	18.4 %	17.9 %	21.4 %
2005	14.1 %	20.0 %	14.7 %	17.8 %	15.6 %	18.1 %	18.1 %	16.9 %	27.5 %	16.0 %	21.0 %	15.1 %	17.9 %
2006	18.6 %	6.3 %	11.5 %	17.3 %	15.7 %	13.6 %	11.3 %	15.6 %	11.8 %	16.0 %	14.6 %	12.7 %	13.9 %
2007	9.8 %	14.1 %	14.5 %	11.8 %	13.4 %	12.7 %	12.8 %	19.5 %	10.2 %	18.8 %	14.6 %	11.9 %	13.8 %
2008	11.5 %	11.0 %	8.8 %	5.2 %	8.1 %	7.5 %	12.4 %	11.2 %	7.2 %	(8.7) %	(21.5) %	(14.4) %	1.3 %
2009	(27.3) %	(31.7) %	(36.6) %	(29.1) %	(36.2) %	(35.5) %	(32.7) %	(32.8) %	(22.3) %	(16.1) %	(16.3) %	(7.7) %	(26.5) %

Source: STR Global

The combination of an improved economic climate in 2004, and the market's poor performance during the first four months of 2003 owing to the war in Iraq and the outbreak of the SARS epidemic, resulted in an exceptionally strong 21.4% RevPAR increase in 2004, compared to the prior year. Monthly statistics for 2004 indicate that year-over-year RevPAR increases ranged from a low of 8.3% in February to a high of 40.3% in April. While RevPAR growth during the first four months of 2004 was paced by strong increases in occupancy, average rate growth exceeded the corresponding occupancy growth from May through December, suggesting that the heightened demand compression in the market enabled hoteliers to achieve robust year-over-year room rate increases. For the first time since 1994, room supply declined slightly in Manhattan from 2004 to 2006 as a result of the closing of several hotels for conversion to condominiums. In 2005, the positive trends prevailing in the market continued, and RevPAR grew by 17.9%, compared to 2004. With overall occupancy near a maximum-capacity level in 2005, year-over-year monthly RevPAR increases ranged from 14.1% to 27.5%.

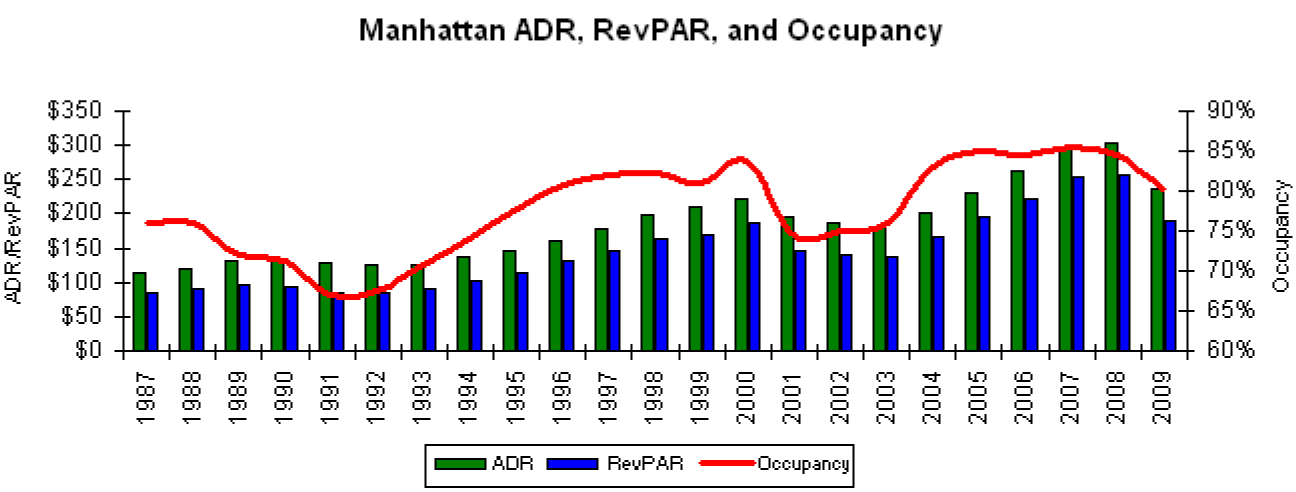
October and December 2005 registered minor declines in occupancy. Slightly higher decreases occurred in February and March 2006; as mentioned previously, these declines in 2006 were the result primarily of the exceptionally high occupancy levels, in the high-80s, registered during the prior year's first quarter, which is typically Manhattan's low-season period. Average rate continued its upswing in 2006, at a strong rate of 14.5%, contributing to a RevPAR gain of 13.9%.

Hotels in Manhattan pushed their aggregate performance to new heights in 2007, setting records for occupancy, average rate, and RevPAR. Occupancy in the leading hotel market in the U.S. rose to 85.4%, while average rate soared to $297.25. For the fourth consecutive year, RevPAR recorded double-digit growth in 2007, climbing 13.8%, indicative of the continued strength of the Manhattan lodging market.

An analysis of the monthly RevPAR indicates that the Manhattan hotel market experienced two to three years of negative RevPAR change during the late 1980s recession and the 2001 aftermath. During these periods, it took about five years for the market to return to its previous RevPAR peak (1989 to 1994; 2000 to 2005). While 2008 represented the first year of the recession for most U.S. hotel markets, the Manhattan lodging market was able to weather the economic recession and the fall-out from Wall Street during the first nine months of the year, closing 2008 with moderate growth in RevPAR of 1.3% and remaining the top-performing hotel market in the U.S.

As mentioned previously, in light of the substantial amount of new supply entering the Manhattan market, stronger increases in demand as of September 2009 resulted in a positive increase in occupancy after 12 consecutive months of negative changes in occupancy. Overall in 2009, hotel occupancy rates declined 4.9%, to 80.4%, while average rate declined by 22.8%, to $235.12. Many hotels in Manhattan employed a strategy of aggressive rate discounts to stimulate demand and maintain occupancy levels in 2009, resulting in a double-digit RevPAR decline of 26.5% compared to the market's peak performance in 2008.

The following chart illustrates Manhattan's lodging market performance from 1987 through 2009.



As evidenced in the preceding chart, overall RevPAR bottomed in 1991 and peaked in 2008, exceeding the previous cycle's peak level (year 2000) by roundly $71, or 38.0%.

New Supply

Jonathan Tisch
Chairman & CEO, Loews Hotels

Even in light of the continuing economic challenges that are being felt in the United States, as well as many countries around the world, the travel and tourism industry continues to be a pillar of strength for New York City's economy.

And at its core is our city's lodging industry, which still boasts one of the highest citywide occupancies in the country, and provides good jobs for thousands of New Yorkers.

In 2009, the Manhattan lodging market experienced a noteworthy increase in room supply with the addition of 2,892 new rooms, or 17 hotels. At the same time, roundly 1,300 rooms in Manhattan were taken off the market near the end of 2009 for renovation purposes. The 1,301-room Milford Plaza near Times Square closed on December 12th and suspended its renovation plan indefinitely due to the lack of financing. Some hotels remained open during renovations in 2009 and early 2010 including:

- ***The Trump International Hotel*** at Central Park West is undergoing a $30-million, two-phase renovation that started in January 2010.
- ***The New York Helmsley Hotel*** updated its lobby and restaurants during the first quarter of 2010.
- ***The Hotel Plaza Athenee*** completed a multi-million-dollar refurbishment in March 2010, including a new style for most guestrooms and suites, the redesign and enlargement of bathrooms, a new lobby décor, and the addition of a new spa. A total of 78 guestrooms, including all suites, were completely renovated. The hotel added four premier luxury suites to its room mix, including two presidential suites featuring 2,000 square feet of space. The new spa is scheduled to open in the spring of 2010.
- ***The Grand Hyatt New York*** has completed a $12-million renovation of its Empire Ballroom.

We note that Starwood removed the Sheraton flag from the 665-room Sheraton Manhattan Times Square while they redevelop the property. The hotel will remain open during the redevelopment, and as of April 2010, will be operated by Starwood as an independent property. In addition, the 192-room Helmsley Middletowne Hotel, one of four Manhattan hotels in the estate of the late Leona Helmsley, plans to close its doors in May 2010, according to a filing with the New York State Department of Labor.

The following table lists the hotels that opened during 2009.

Name of the Hotel	Room Count	Opening Date	Type	Neighborhood
Hilton Garden Inn West 35th Street	298	Feb 2009	Mid-scale	Midtown West
Smyth Tribeca	100	Feb 2009	Boutique	Downtown
Fairfield Inn Times Square South	244	Feb 2009	Mid-scale	Midtown West
Ace Hotel New York	260	May 2009	Boutique	Midtown West
Comfort Inn Manhattan Bridge	60	Jun 2009	Economy	Downtown
Four Points Times Square South	244	Jun 2009	Mid-scale	Midtown West
Doubletree Chelsea	236	Jul 2009	Mid-scale	Midtown West
Candlewood Suites Times Square South	188	Jul 2009	Extended-stay	Midtown West
Hampton Inn Times Square South	184	Jul 2009	Mid-scale	Midtown West
Holiday Inn Express Times Square South	210	Jul 2009	Mid-scale	Midtown West
Comfort Inn New York	70	Aug 2009	Economy	Midtown West
Hotel 99	99	Sep 2009	Economy	Upper West Side
Kimpton Ink 48 Hotel	222	Sep 2009	Boutique	Midtown West
Hotel Indigo Chelsea	122	Oct 2009	Boutique	Midtown West
Crosby Street Hotel by Firmdale	86	Oct 2009	Boutique	Downtown
The Strand	177	Nov 2009	Boutique	Midtown West
Fairfield Inn & Suites Manhattan	92	Dec 2009	Mid-scale	Midtown West
Total	**2,892**			

PROPOSED HOTELS

The following table sets forth the number of new rooms that are anticipated to become available from 2010 through 2011.

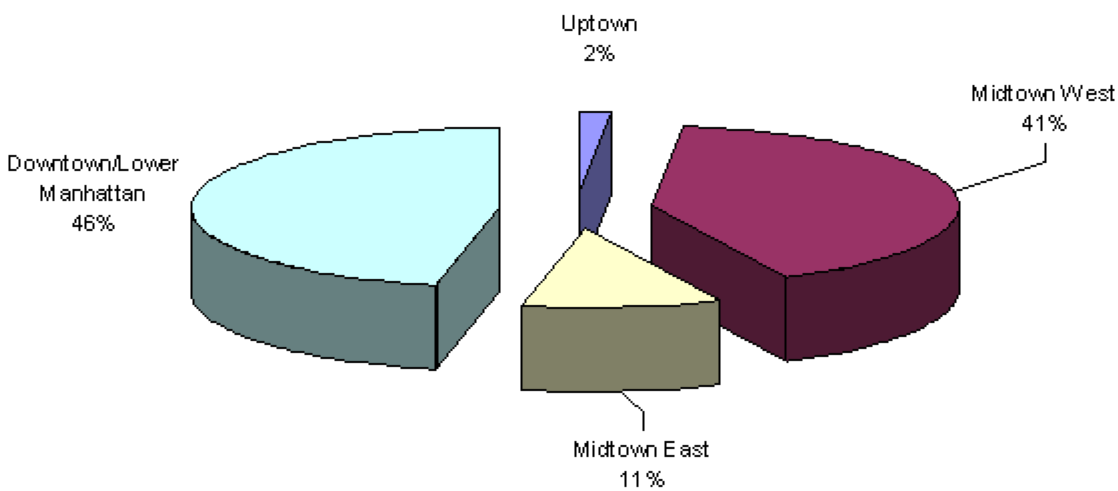
Project	Location	Type	No. of Rooms	Anticipated Opening	Developer	Under Construction
Upper Manhattan/Uptown						
aloft	2296-2308 Frederick Douglass Boulevard	Boutique	124	Jul 2010	Capital Dreams LLC	Yes
Midtown West						
Staybridge Suites	334 West 40th Street	Extended-stay	310	Apr 2010	Mehta Family, LLC	Yes
Distrikt Hotel (Clarion)	342-344 West 40th Street	Economy	155	Feb 2010	Greenway Realty Holdings	Open
The NoMad Hotel	1170 Broadway (28th Street)	Boutique	171	Early 2011	GFI Development Co.	Yes
Fashion 26 (Wyndham Hotel)	152-158 West 26th Street	Full-service	280	Spring 2010	Flintlock Construction Services, LLC	Yes
Fairfield Inn Chelsea	114-116 West 28th Street	Mid-scale	112	Feb 2010	Midtown West Hotel	Yes
The Chatwal	130 West 44th Street	Luxury	88	Spring 2010	Hampshire Hotels & Resorts	Yes
	Hampshire Hotels & Resorts will open The Chatwal New York in the spring of 2010. The hotel will re-create the iconic glamour and style of the 1930's Gotham. It will be located on the Great White Way, the theater district block in the building that was originally host to the Lambs Club, America's first professional theater club. The hotel will be affiliated with the Leading Hotels of The World.					
element	311 West 39th Street	Extended-stay	411	Aug 2010	McSam Hotel Group	Yes
Cassa Hotel & Residences	45th Street bet. Fifth and Sixth Avenues	Boutique	166	Spring 2010	Tecton Hospitality/Desires Hotels	Yes

Hotel Eventi (Kimpton Hotels)	839 Avenue of the Americas	Boutique	292	Spring 2010	J.D. Carlisle Development Corp.	Yes
InterContinental Times Square	44th Street	Full-service	613	Jul 2010	InterContinental Hotels Group	Yes
YOTEL New York	440 West 42nd Street	Boutique	669	Apr 2010	Yotel Limited/IFA Hotels & Resorts	Yes
	YOTEL will open a 669-room hotel in West Times Square in 2011 as part of Related Company's 1.2-million-square-foot, 60-story complex, which will include residential units and the Frank Gehry-designed Signature Theater. The YOTEL property is being designed by the Rockwell Group and Softroom and will feature a restaurant, a bar, meeting rooms, a Club Lounge, and a large terrace space.					
Midtown East						
48Lex Hotel	517 Lexington Avenue	Boutique	116	Late 2010	Hersha Construction Group/Hunter Roberts	Yes
Andaz by Hyatt	485 Fifth Avenue (b/w 41st & 42nd Streets)	Boutique	184	Fall 2010	Hyatt Hotels & Resorts	Yes
Gansevoort Park	420 Park Avenue South	Boutique	249	Summer 2010	Tawil Group & Achenbaum/Kislin Group	Yes
	Hotel will include three levels of outdoor rooftop space totaling over 13,000 square feet dotted with fireplaces, a plunge rooftop pool, a lounge, and event space. In addition to 249 guestrooms and suites that average over 450 square feet, the hotel will offer a full-service spa by Exhale and a 10,000-square-foot signature restaurant.					
The Setai	400 Fifth Avenue	Luxury	214	Sep 2010	The Setai Group	Yes
Lower Manhattan						
Holiday Inn Express	126 Water Street	Economy	112	Jul 2010	McSam Hotel Group	Yes
Trump Hotel & Tower SoHo	246 Spring Street	Luxury	391	Apr 2010	Sapir & Bayrock Group	Yes
	The 46-story, 391-room glass tower hotel will feature Quattro Gastronomia Italiana restaurant, the Spa at Trump, and other Trump signature services.					
Andaz by Hyatt	75 Wall Street	Boutique	253	Jan 2010	Hakimian Group	Open
	The 42-story building was built in 1986 and will be converted to a luxury hotel containing 250 guestrooms in the lower portion of the building and 350 luxury condominiums on the upper 24 floors. The building will be redesigned by David Rockwell. The lower floors will include meeting space, a restaurant located off Water Street, and a bar.					
Sheraton	370 Canal Street	Full-service	368	Sep 2010	McSam Hotel Group	Yes
The Nolitan	153 Elizabeth Street/40 Kenmare	Boutique	60	Mid 2010	Veracity Development	Yes
Courtyard	181 Varick Street	Mid-scale	122	Sep 2010	Ocean King LLC	Yes
The James New York	23 Grand Street	Boutique	114	Summer 2010	Brack Capital Real Estate	Yes
	The developer, Brack Capital Real Estate, is planning to build a 17-story rectangular glass tower on Grand Street. In addition to guestrooms, the hotel will feature two restaurants and a bar, a lobby lounge, a rooftop bar, a business center, a fitness room, and a rooftop swimming pool.					
Mondrian	9 Crosby Street	Boutique	274	Mid 2010	Cape Advisors, Inc.	Yes
	Cape Advisors, Inc. is converting an existing building in Soho and adding 14 floors to the existing 12 levels. The property, which will feature a restaurant, two bars, a rooftop bar, and ±5,400 square feet of meeting space, will be managed by Morgans Hotel Group.					
W New York – Downtown & Residences	123 Washington Street	Boutique	217	May 2010	Moinian Group	Yes
	The mixed-use property will consist of 222 condos and 217 guestrooms. Of the 222 condos, 55 will be studios, 125 will be 1 Br's, and 42 will be 2Br's. A total of 64 condos will come furnished. Designed by Gwathmey Siegel & Associates Architects, the hotel will offer meeting rooms, a spa, and a restaurant. The top floor will feature a garden for the residents. The W New York – Downtown Hotel & Residences will be the first W residential development in Manhattan. It will be the sixth W in New York City.					
DoubleTree	8 Stone Street	Full-service	410	Late 2010	McSam Hotel Group	Yes
Club Quarters Hotel/ (World Center Hotel)	130 Cedar Street	Full-service	200	Early 2010	Masterworks Development Company	Open

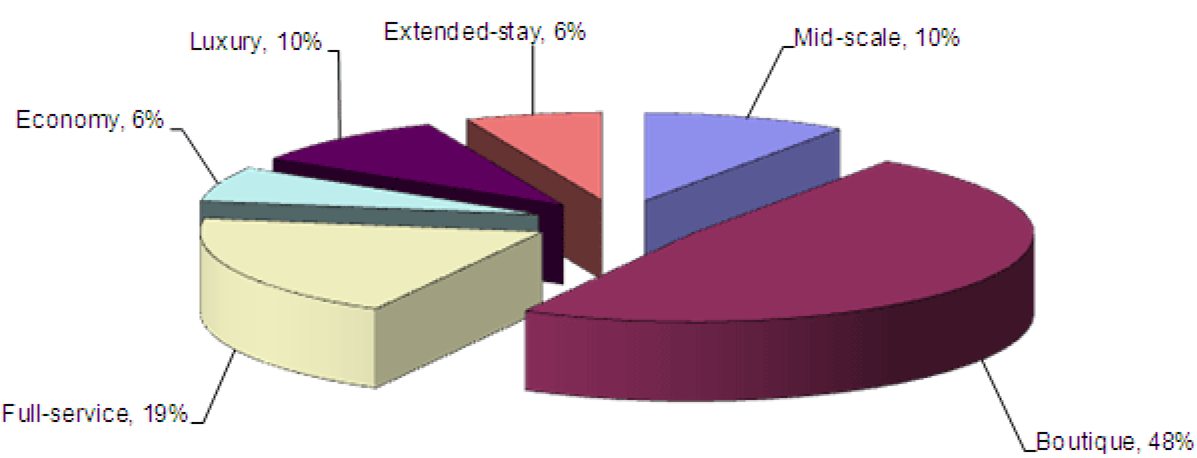
High Line Hotel (Habita)	West 27th Street (High Line)	Boutique	56	Late 2010	Black House Development	Yes
The Dream Downtown	346 West 17th Street (Covenant House)	Boutique	316	Late 2010	Hampshire Hotels and Resorts	Yes
Select-Service Hotel	99 Washington Street	Mid-scale	370	Late 2010	McSam Hotel Group	Yes
Wyndham	93 Bowery Street (Corner Hester Street)	Full-service	106	Sep 2010	Unknown	Yes
		Total	**7,523**			

Source: HVS New York Office

It is important to mention that even though the Manhattan lodging inventory declined in 2004, 2005, and 2006, supply experienced a noteworthy increase in 2009 and is expected to grow substantially in 2010 and 2011. As illustrated in the preceding table, as many as 7,523 new rooms, or 31 properties, may enter the Manhattan market from 2010 to 2011. The proposed supply represents 10.7% of the 2009 Manhattan room supply, increasing the number of guestrooms from 70,420 in 2009 to 77,943 (assuming a full room count) as of 2011. The following chart presents the pipeline by neighborhood.



It is important to note that the recent protracted disruption in the capital markets could still have an impact on the development stages of the current pipeline. Of the anticipated new projects, boutique hotels dominate the mix, equating to 48% of the new supply, while full-service properties rank next, accounting for 19%. The following chart illustrates the anticipated new supply for Manhattan, consisting of luxury, boutique, full-service, mid-scale, extended-stay, and economy hotels.

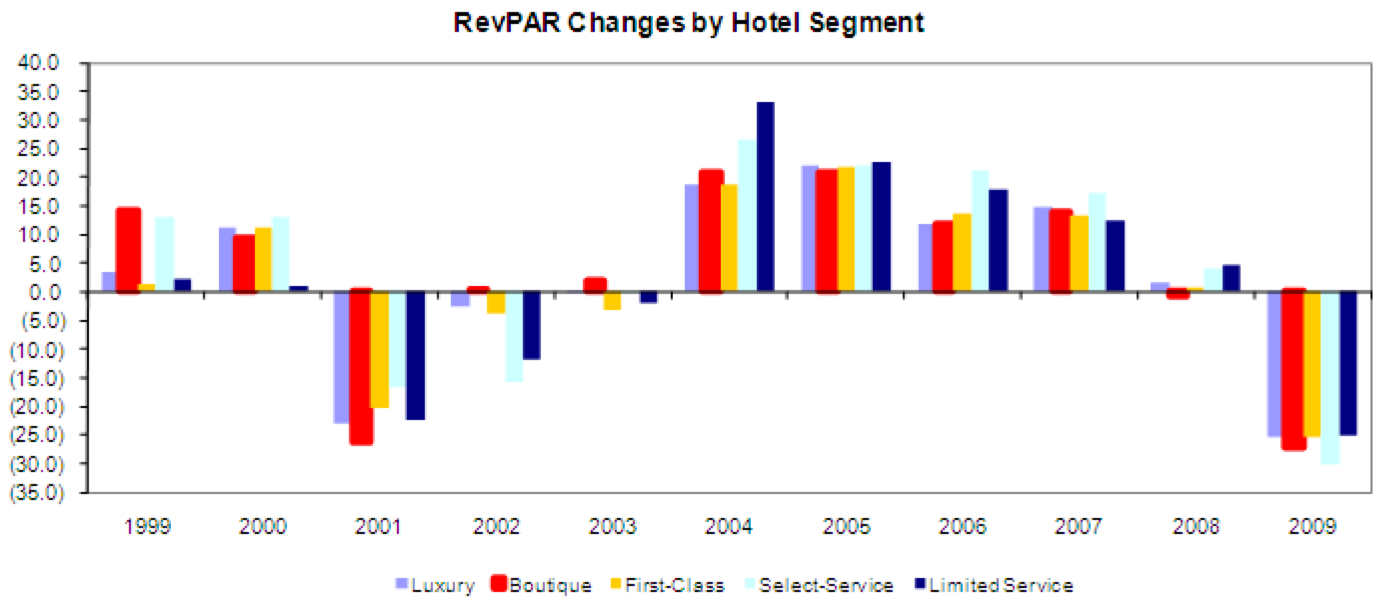


Manhattan Operating Statistics by Hotel Segment

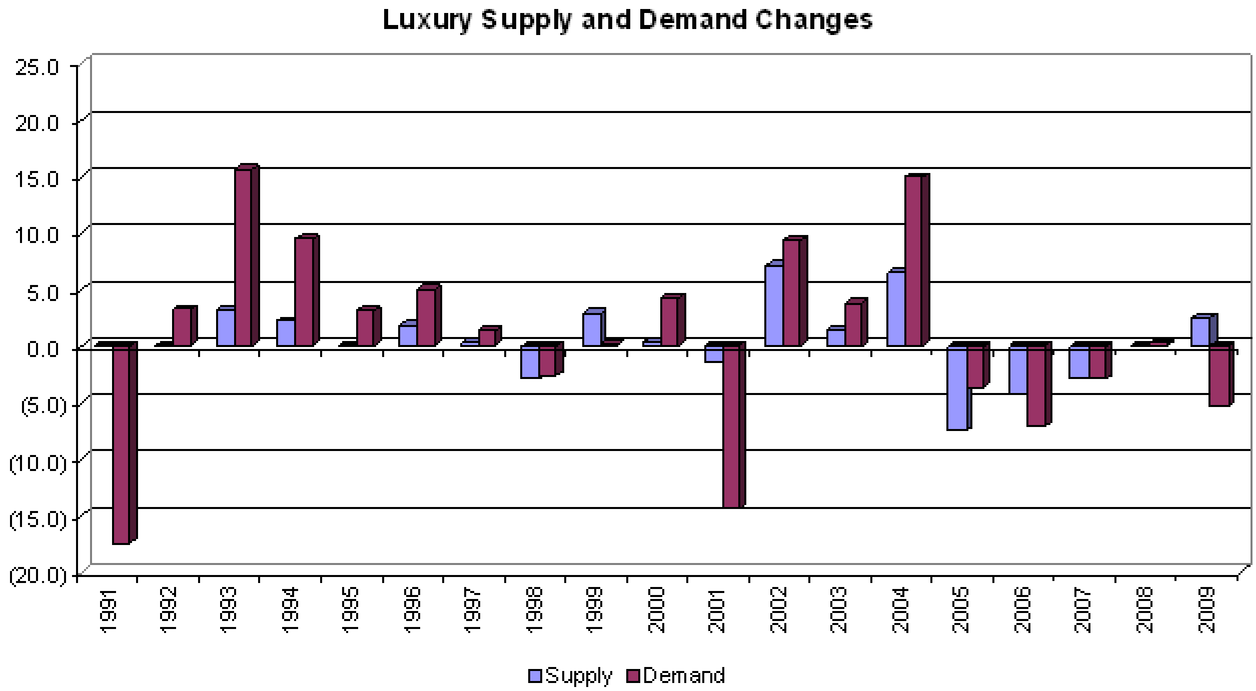
George Fertitta
CEO, NYC & Company

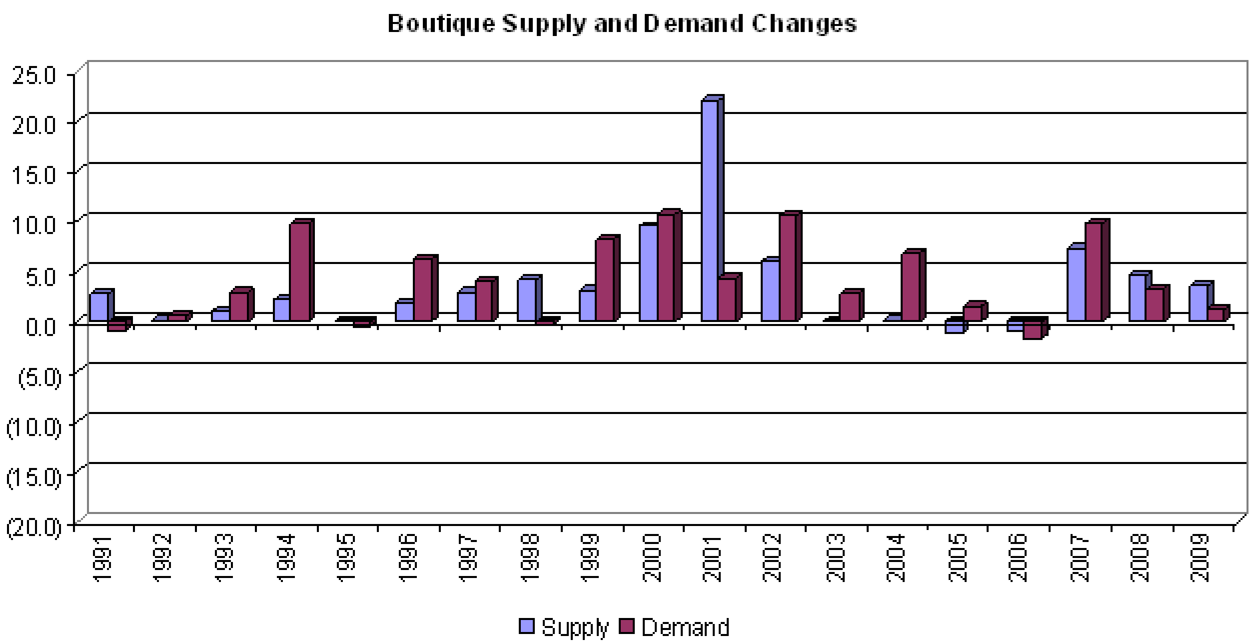
In early January, New York City announced that it was the most popular tourist destination in the United States in 2009, surpassing rival cities such as Los Angeles and Orlando by welcoming 45.25 million tourists. This accomplishment marked a first for NYC in nearly 20 years, with its total number of visitors exceeding projections, declining just 3.9 percent from 2008 versus the expected 10 percent. 2010 looks to be an even greater year, with a forecasted 3.2 percent increase in tourism and an expected 46.7 million visitors to New York City. In late March, NYC & Company announced a two-year comprehensive partnership with American Airlines consisting of an integrated domestic and international media campaign, aimed at attracting additional visitors to New York City and staying on track to meet the Mayor's mandate to reach 50 million visitors annually by 2012. This year also promises significant hotel development, with more than 6,700 rooms slated to open in 36 properties, bringing the City's hotel inventory to nearly 87,000 by year end; these will include several new hotels in Lower Manhattan, Brooklyn, and Queens.

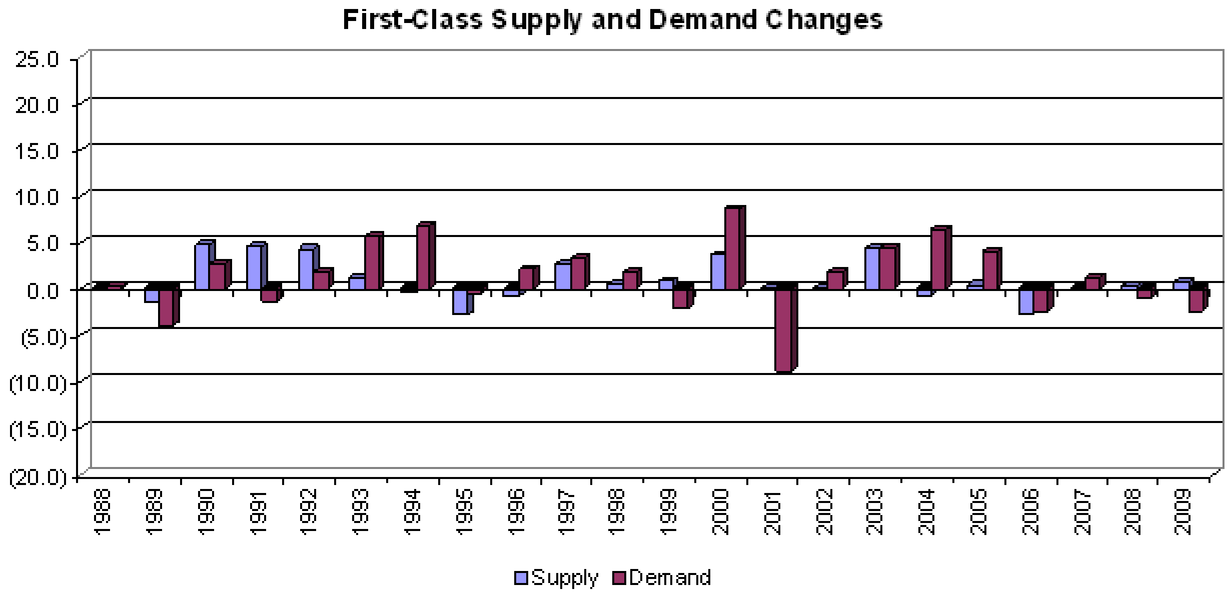
HVS Global Hospitality Services has analyzed data provided by STR Global to illustrate the effects of the current state of the economy on different classes of hotels in Manhattan. The following graph presents the annual percentage RevPAR changes since 1999 for the luxury, boutique, first-class, select-service, and limited-service hotel segments.

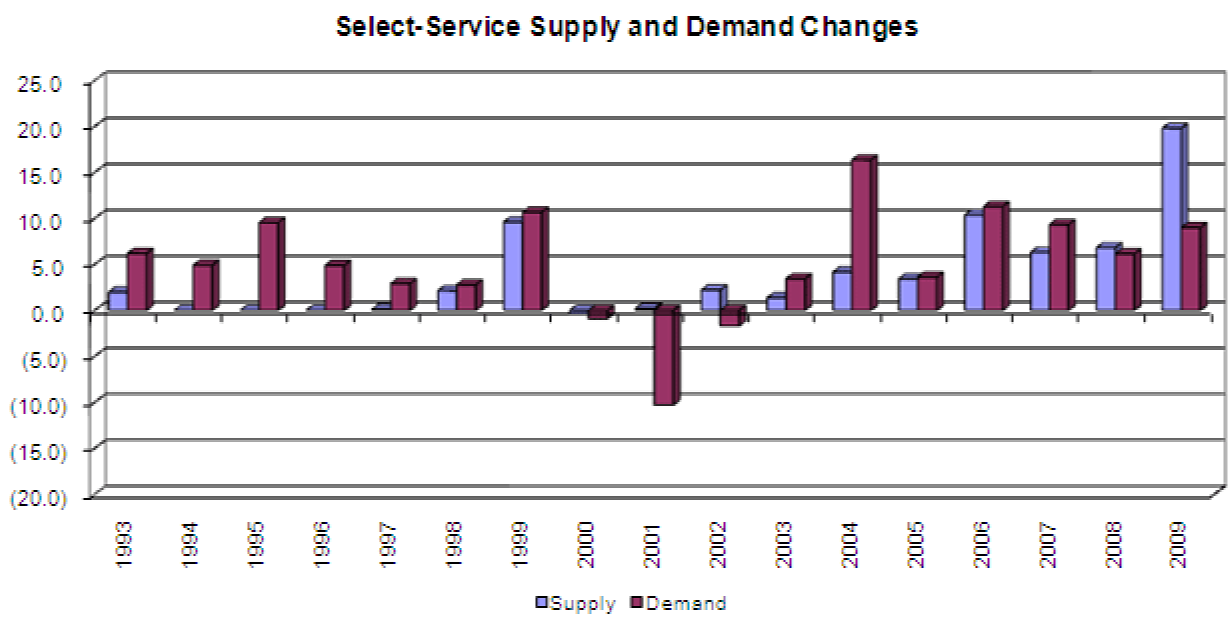


The following graphs compare the supply and demand changes, categorized by individual hotel segment, for all reporting hotels in Manhattan, using the historical data available through 2009. We note that the annual periods vary.


Luxury Supply and Demand Changes
25.0
20.0
15.0
10.0
5.0
0.0
(5.0)
(10.0)
(15.0)
(20.0)
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Supply
Demand


Boutique Supply and Demand Changes
25.0
20.0
15.0
10.0
5.0
0.0
(5.0)
(10.0)
(15.0)
(20.0)
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Supply
Demand


First-Class Supply and Demand Changes
25.0
20.0
15.0
10.0
5.0
0.0
(5.0)
(10.0)
(15.0)
(20.0)
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Supply
Demand


Select-Service Supply and Demand Changes
25.0
20.0
15.0
10.0
5.0
0.0
(5.0)
(10.0)
(15.0)
(20.0)
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
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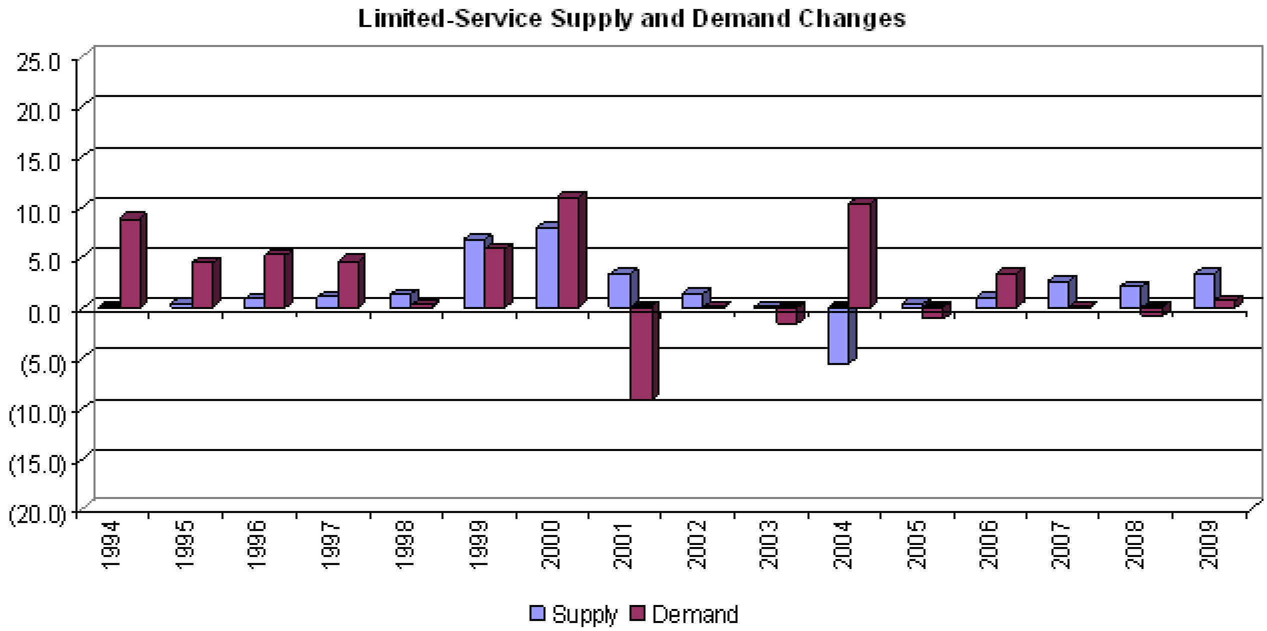
2007
2008
2009
Supply
Demand



A review of the previous charts reveals the following:

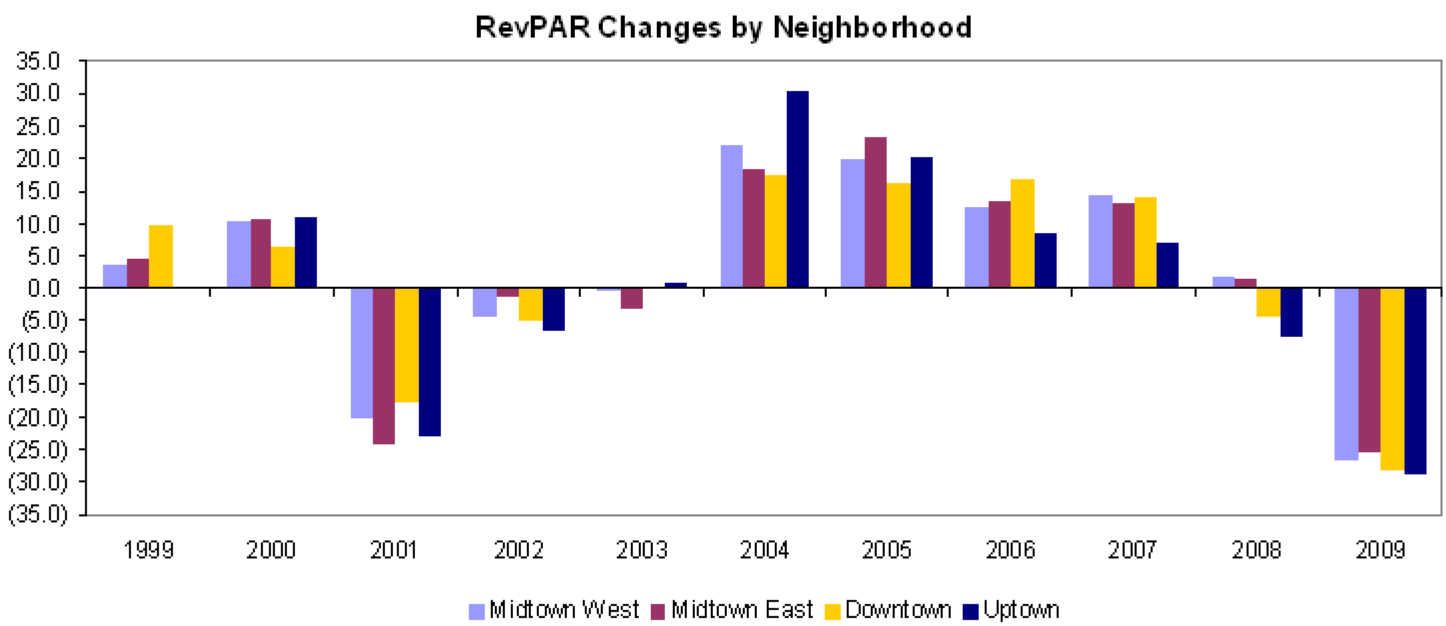
- Despite the recent tumultuous economic times and the previous recessions that affected the Manhattan hotel market, all segments still experienced overall growth in demand stronger than the growth in supply during the observed periods, indicating the strength of the Manhattan market.
- The luxury segment experienced the slowest growth in supply, expanding at an average annual compounded rate of 0.4% from 1990 to 2009, and representing a net addition of roundly 580 rooms only. As a result of the closing of several luxury hotels for conversion to condominiums, supply within the luxury segment decreased by roundly 14% between 2004 and 2007. The change in supply in 2009 resulted from the reopening of 150 transient rooms at the Mark Hotel as well as the reopening of the Surrey as a luxury hotel.
- The select-service segment experienced the greatest increase in supply during the observed period, expanding at an average annual compounded rate of 3.9% from 1992 to 2009. In 2009, this segment experienced a roundly 20% increase in supply due to the opening of several properties on the city block bounded by 39th and 40th Streets and Eighth and Ninth Avenues. In 2009, the boutique segment recorded the second-strongest increase in supply, growing by 3.5%; this growth included the opening of several properties in Midtown, such as the Ace Hotel, and in Downtown, such as the Crosby Hotel.
- As a result of the strong supply and demand dynamics, average rate grew at an above-inflation level for most segment types during the observed period, with the select-service and limited-service segments exhibiting the strongest increases, at 4.7%. The strong performances associated with the select-service and limited-service segments indicated a notable amount of unaccommodated demand for those two segments; this demand is being accommodated by the large number of select-service and limited-service hotels that opened recently in Manhattan and continue to be absorbed. All segments were negatively affected by the latest recession. Nevertheless, most segments achieved occupancy levels at or above the 80% mark. The luxury segment was the only one to maintain price integrity, with an average rate decrease below that of the market. The below-market performance experienced by the boutique segment is the result of the lack of both a brand affiliation and a strong reservation system, as well as its greater exposure to the financial sector.

Operating Statistics by Neighborhood

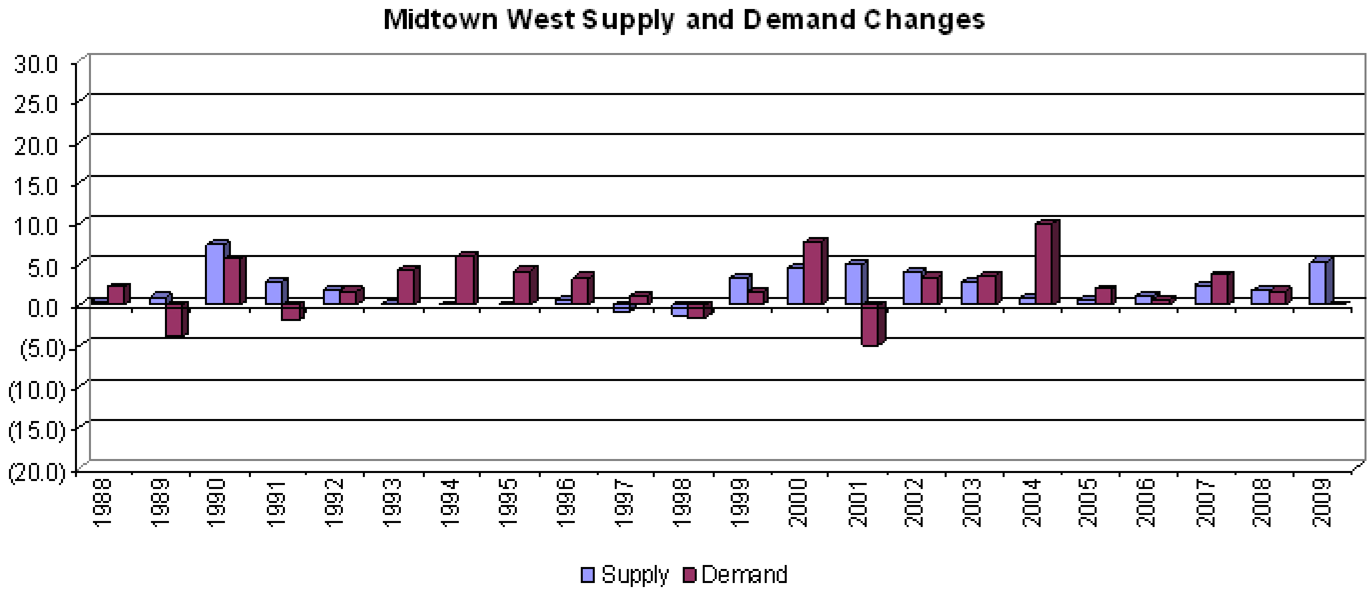
Mark Lomanno
President, STR Global

The New York City hotel market has finally begun its long-awaited performance turnaround. While there is still much work to be done, the underlying fundamental of any recovery, strong demand, is on the way back. Through March of this year, the city has now had six consecutive months of demand improvement when compared to the same month of the prior year. While the comparisons are certainly easy, it nonetheless indicates improvement. The next challenge will be in increasing room rates, which are still well below the levels reached in mid 2008. To date, room rate recovery has not begun, and in fact rates are still declining slightly. Hopefully, increased demand, along with occupancy levels approaching the high 70s, will begin the room rate recovery process.

HVS Global Hospitality Services has analyzed data provided by STR Global to illustrate the effects of the current state of the economy on different Manhattan neighborhoods. The following graph presents the annual percentage changes in RevPAR since 1999 for all four neighborhoods: Midtown West, Midtown East, Downtown, and Uptown.



The following graphs compare the supply and demand changes of all reporting hotels in Manhattan, categorized by individual neighborhood, using the historical data available through 2009. We note that the annual periods vary.


Midtown West Supply and Demand Changes
30.0
25.0
20.0
15.0
10.0
5.0
0.0
(5.0)
(10.0)
(15.0)
(20.0)
1988
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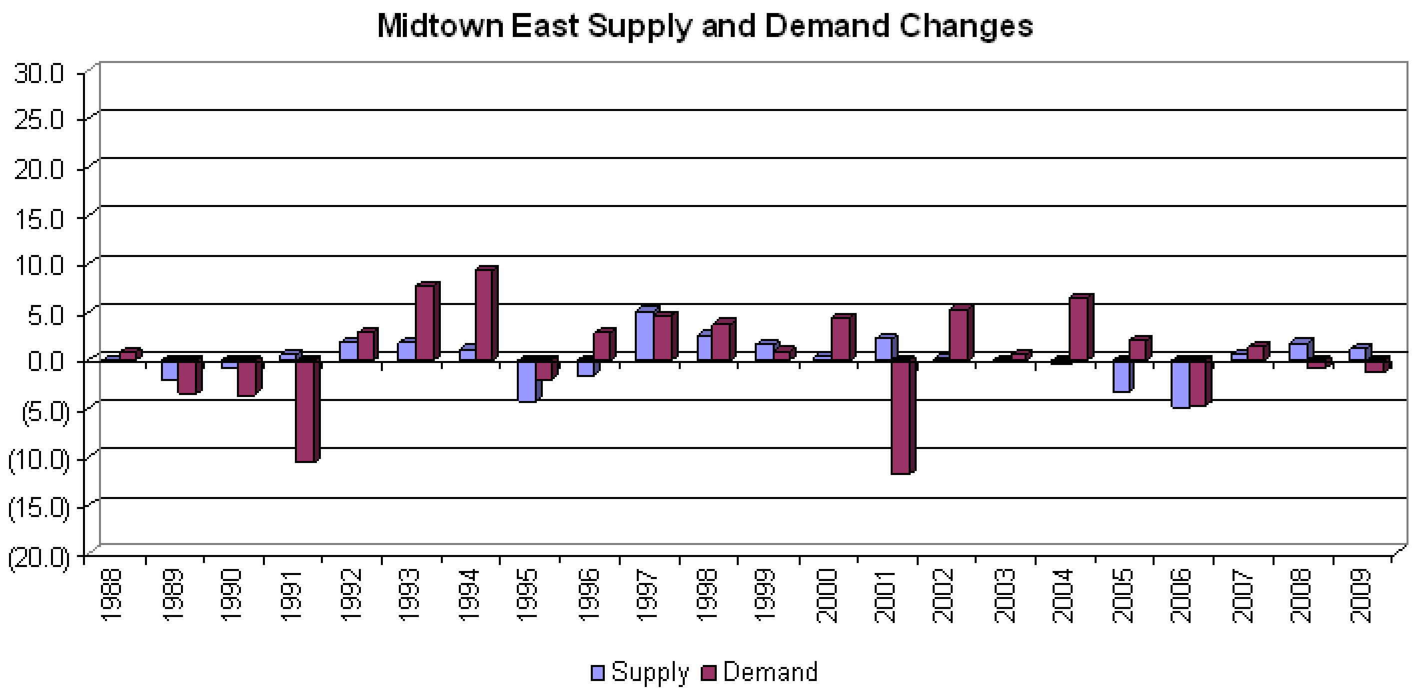
Supply
Demand


Midtown East Supply and Demand Changes
30.0
25.0
20.0
15.0
10.0
5.0
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(10.0)
(15.0)
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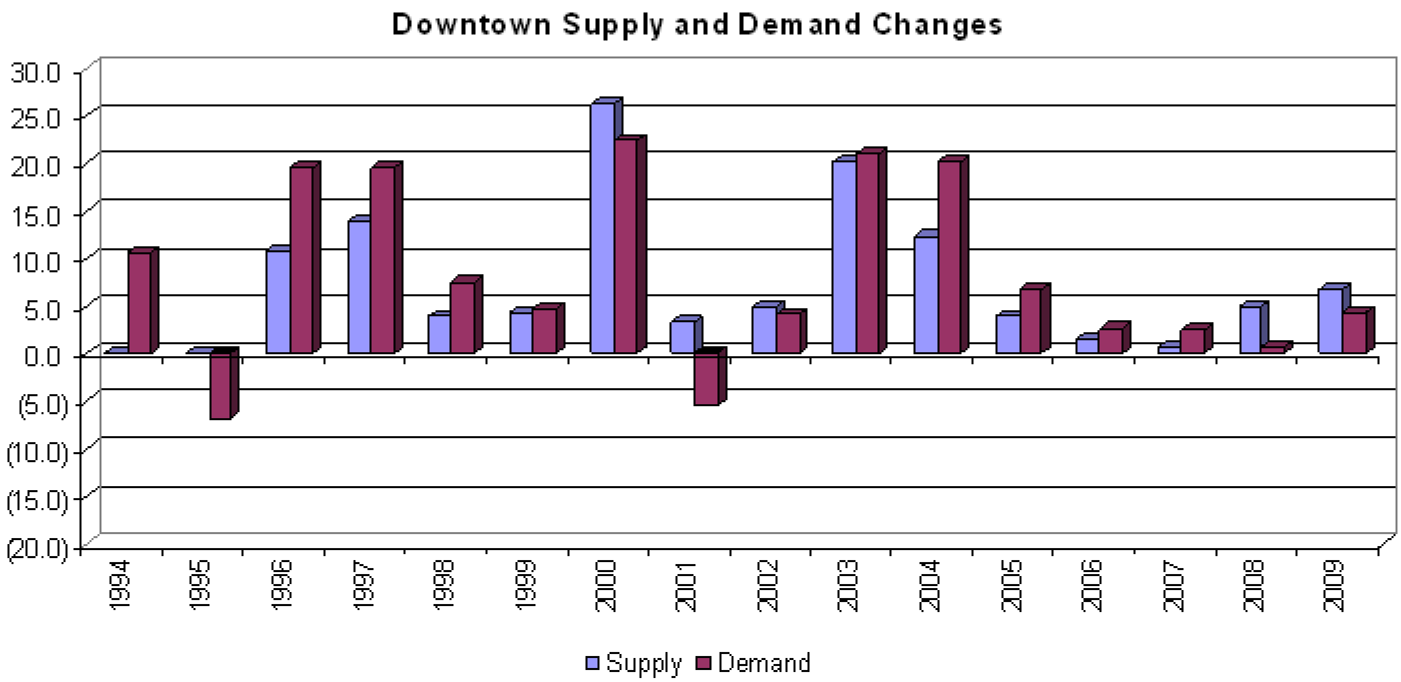
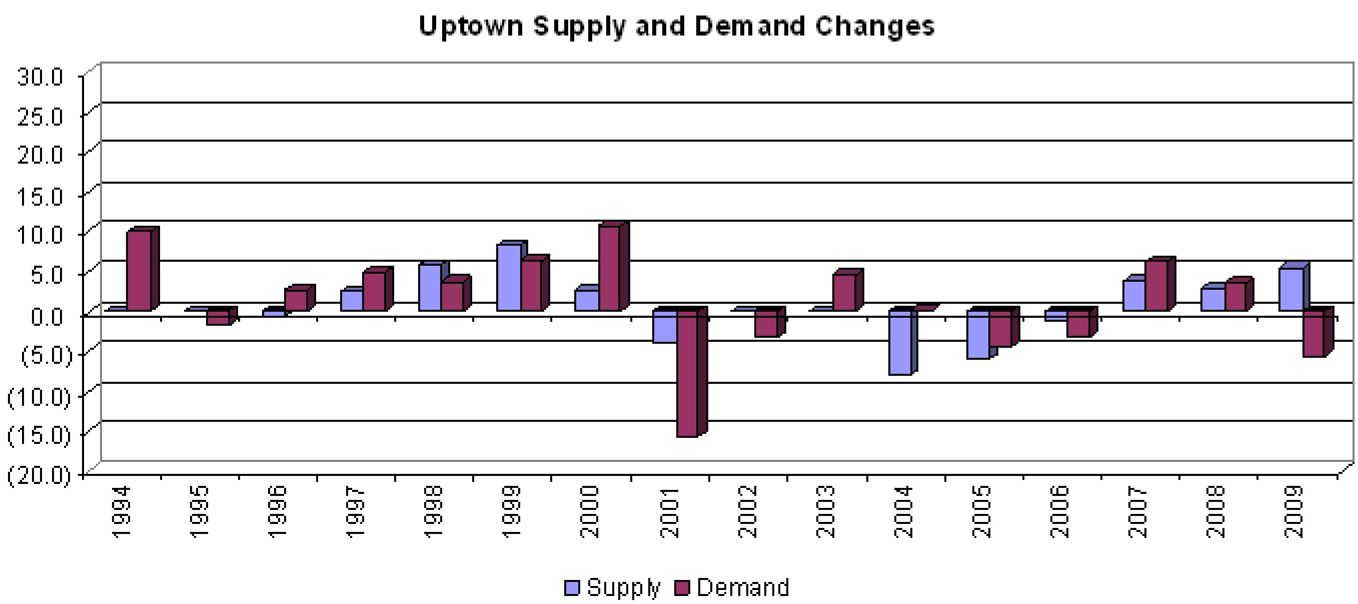




A review of the previous tables reveals the following:

- All neighborhoods experienced growth in demand that was stronger than the growth in supply during the observed periods, indicating the strength of the entire Manhattan market.
- The Downtown neighborhood experienced the most rapid supply growth, expanding at an average annual compounded rate of 7.1% from 1993 to 2009, while the other neighborhoods experienced limited supply growth during their respective historical periods.
- Although the Midtown East area experienced the highest level of occupancy in 2009, at 82.0%, significant rate discounting caused average rate to decline by roundly 24.0% in that neighborhood. The Uptown area recorded the strongest decrease in RevPAR in 2009, given its large proportion of independent hotels, whose lack of a strong reservation system hampered their performance during the downturn.

2010 Manhattan Hotel Market Overview Survey Result Analysis

Respondents: Members of the Hotel Association of New York City and the Greater New York Chapter of Hospitality Sales and Marketing Association International
Prepared by Michael Ahn, Laura Arneson, Monette DeLeon, Zhe Li, and Jason Sturtevant

Lalia Rach, Ed.D.
Divisional Dean and HVS International Chair
The Preston Robert Tisch Center for Hospitality, Tourism, and Sports Management

To paraphrase the lyrics from the song Spinning Wheel, by Blood, Sweat and Tears, "What goes down, must go up…" is a good measure for 2010. It will be a year of incremental recovery for business and consumers. For consumers, the gradual improvement will depend on the state of employment, the availability of credit, and the improvement in value of major assets for these determine the confidence and comfort levels of travelers and guests. A return by consumers to "old spending habits" is not realistic in light of the challenges. Post-Great Recession, the Industry issues that remain include loan maturation deadlines, cost flow recovery, brand homogenization, and the reset of the price-value equation. Conventional wisdom which posits the cyclical nature of Industry recovery is in for a rough ride as "normal" is anything but. The challenges for consumers and industry will extend well beyond 2010.

INTRODUCTION

This report presents the results and data analysis of the 2010 Manhattan Hotel Market Overview survey conducted by graduate students of New York University's Preston Robert Tisch Center for Hospitality, Tourism, and Sports Management in collaboration with HVS Global Hospitality Services. The objective of this research is to identify hotel professionals' perspective on the current economic state of New York City, and determine specifically whether the Manhattan hotel market is on the road to recovery.

An online survey was developed and targeted to members of the Greater New York Chapter of the Hospitality Sales and Marketing Association International (HSMAI) and the Hotel Association of New York City (HANYC). The survey was sent to 354 members of HSMAI and 291 hoteliers from HANYC. Of these members, 3 opted out of taking the survey, 53 email addresses were invalid, and 4 members expressed they were not the appropriate contact to take the survey. This eliminated 60 members, resulting in a potential sample size of 585 members from HSMAI and HANYC. Representing professions in the sales and marketing, revenue management, and property operations fields, these hotel leaders serve as an excellent barometer of the industry climate in New York City and are most likely to benefit from the knowledge derived from this study.

Survey questions were limited to those related to operational themes and strategies that could be reasonably answered by this particular target audience. Though there were other pertinent issues that could have been included in the survey, it was limited to 23 questions to increase the potential response rate.

New York University's Preston Robert Tisch Center for Hospitality, Tourism, and Sports Management and HVS Global Hospitality Services thank all of the respondents for their participation in this study. We also thank Kathie Stapleton, Executive Director of HSMAI, and Rick Amato, Vice President of HANYC, for their support of the survey.

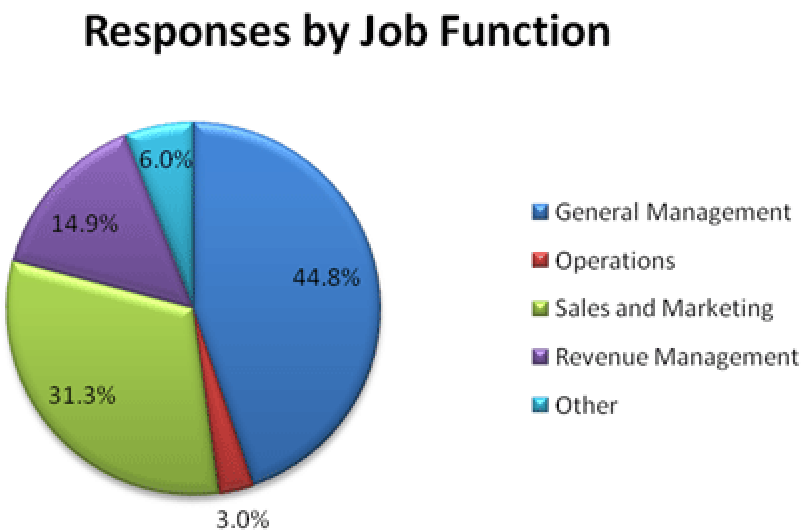
SURVEY FINDINGS

The purpose of the survey is to determine executive attitudes on when the Manhattan hotel market will enter the recovery phase of the business cycle. Overall, a total of 68 respondents started the survey, but only 44 respondents (64.7%) completed the survey, leaving 24 surveys (35.3%) only partially completed. This corresponded to a response rate of 11.6% (including both fully and partially completed surveys).

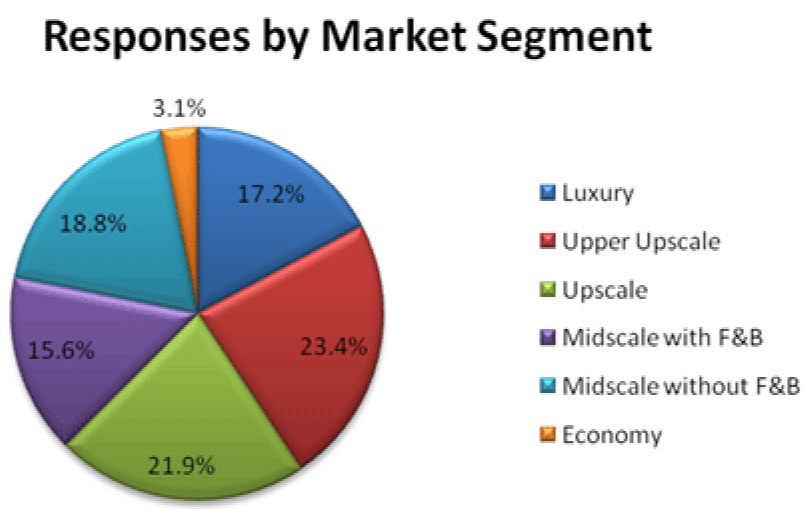
The general sentiment from respondents indicates that the Manhattan market has already hit its trough, and as of the first half of 2010, the market is in the recovery cycle. The 2010 survey indicated that 45% of all respondents expect an increase of 1-10% in year-over-year demand in all segments. In 2009, only 12.5% of respondents expected a higher annual occupancy; however, in 2010, 42.1% of all respondents expect year-end occupancy to increase by 1-5%. The 2009 survey showed that 79.5% expected their year-end 2009 ADR to be lower than year-end 2008, while the 2010 survey respondents were more optimistic as 44.7% of them expect ADR to increase by 1-5%. A high percentage (32%) of respondents believed that RevPAR will return to peak levels by 2012. These data support the hypothesis that the recovery phase for the Manhattan lodging market has begun.

The findings outlined below are based on this 2010 Manhattan Hotel Market Overview survey. The number of responses for each question varies; therefore, the analysis reflects the actual number of answers for the individual question.

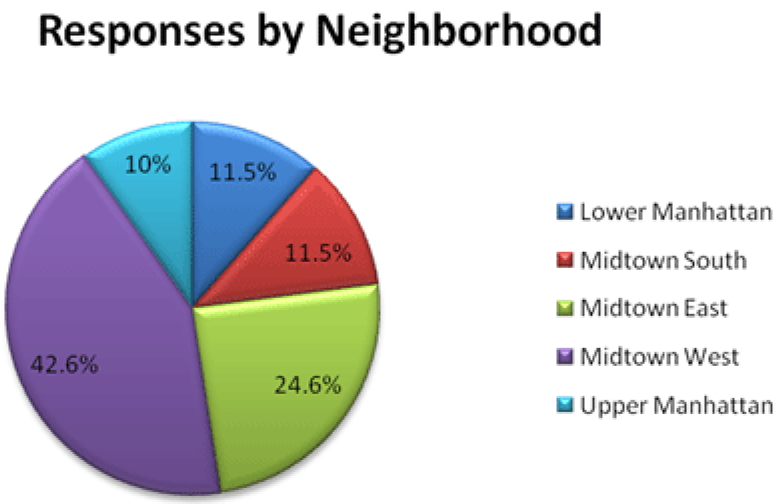
"Control" Questions 1-4 Results



- In terms of job functions, more than three quarters (76.1%) of the respondents were General Managers (44.8%) and Sales & Marketing staff (31.3%). Revenue Managers (14.9%), Operations (3.0%), and employees with other job roles (6.0%) made up the remaining 23.9% of respondents. Other job functions included Vice President of Operations, Consultant, and Management Recruiter.



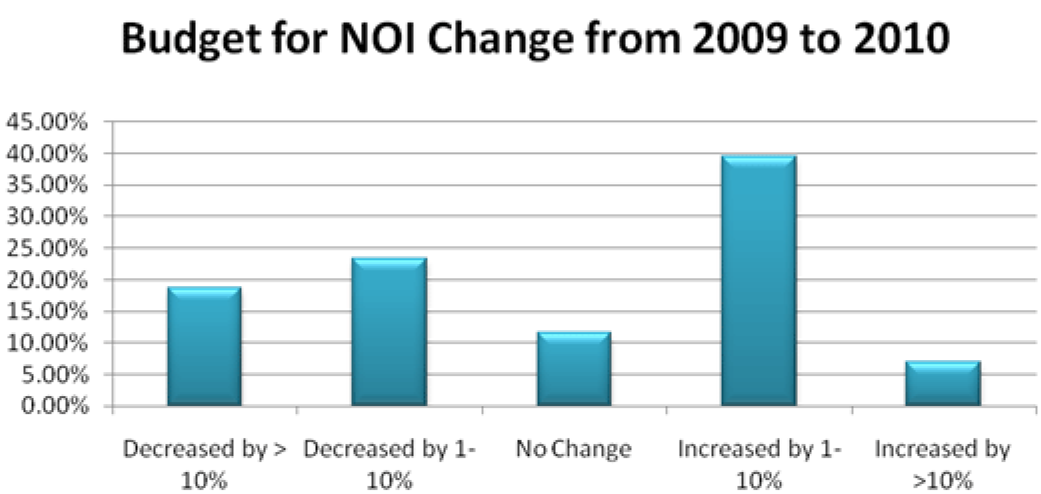
- Focusing on hotel market segments, the top three participating segments are the Upper Upscale segment (23.4%), the Upscale segment (21.9%), and the Midscale without F&B segment (18.8%), which made up 64.1% of the total respondents. The Luxury (17.2%), Midscale with F&B (15.6%), and Economy (3.1%) segments constituted the remaining 35.9% of total respondents.



- Examining results by Manhattan neighborhoods, the Midtown area (Midtown East with 24.6%, Midtown West with 42.6%, and Midtown South with 11.5%) accounted for 78.7% of the results, with Lower Manhattan (11.5%) and Upper Manhattan (9.8%) totaling 21.3% of the results.

- Studying results by brand affiliation, the majority of respondents (66.7%) were in fact brand affiliated. Brand affiliations include Choice, Hilton, Holiday Inn, Hyatt, Mandarin Oriental, Marriott, Morgans Hotel Group, Radisson, Sheraton, Waldorf=Astoria, and Wyndham, among others.

Question 5: How has your budget for Net Operating Income (NOI) changed for 2010 as compared to 2009?



- Overall, 46.5% of respondents replied that they budgeted for an increase in NOI, while 41.9% budgeted for a decrease, and 11.6% said that there was no change.

- At 39.5% of respondents, an NOI increase of 1-10% was the most common response.

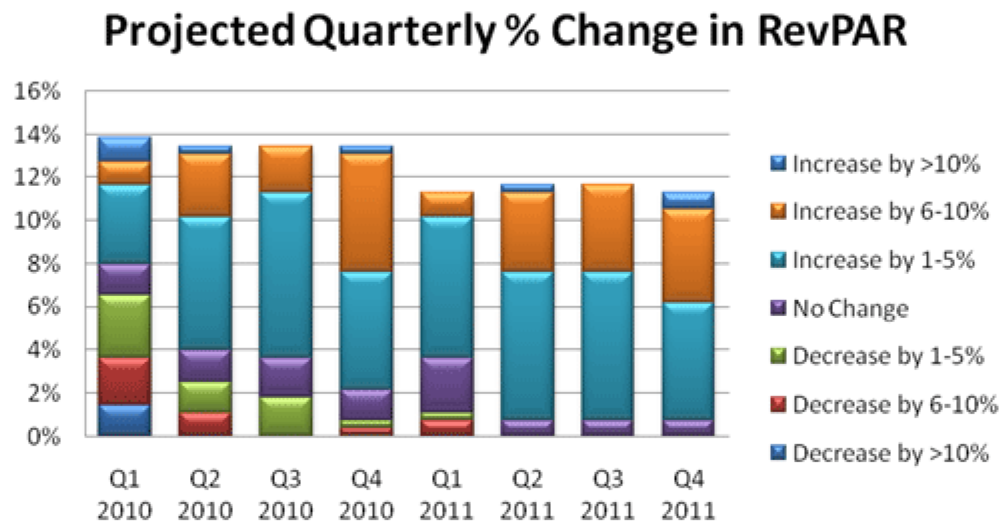
- At 23.3% of respondents, an NOI decrease of 1-10% was the second most common response.

- It is interesting to note that 56% of hoteliers working in higher-end properties (Upscale to Luxury) responded that NOI was budgeted to increase, while the majority (44.4%) of hoteliers working in lower-end properties (Economy to

Midscale) reported that NOI was budgeted to decrease.

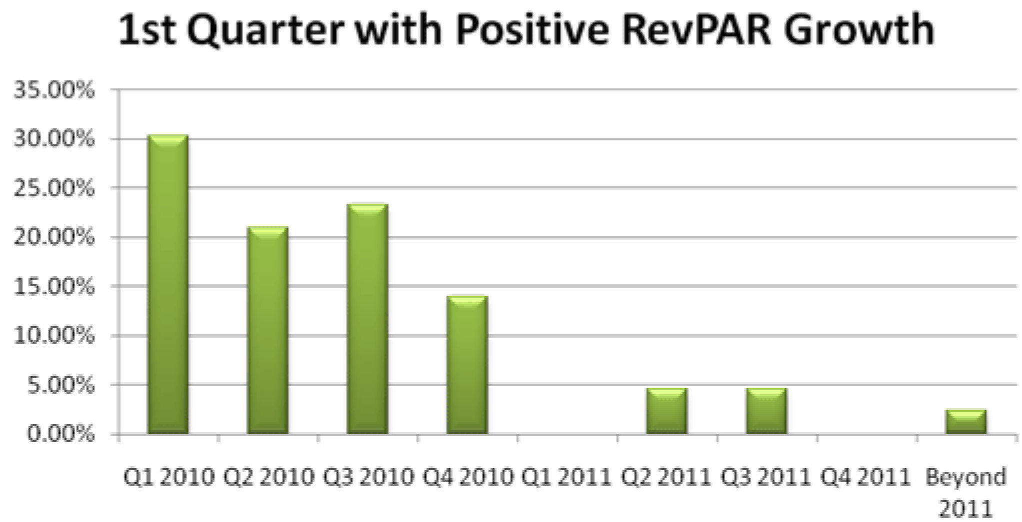
- It is also worthy to note that 53.1% of hoteliers working in Midtown Manhattan (East, West and South) responded that NOI was budgeted to increase, while 66.7% of hoteliers in Upper and Lower Manhattan reported that NOI was budgeted to decrease.
- Finally, 56% of hoteliers working in branded hotels responded that NOI was budgeted to increase, while the majority (47.1%) of hoteliers working in independent hotels reported that NOI was budgeted to decrease.

Question 6: What is the projected percentage change in RevPAR from Q1 2010 through Q4 2011?



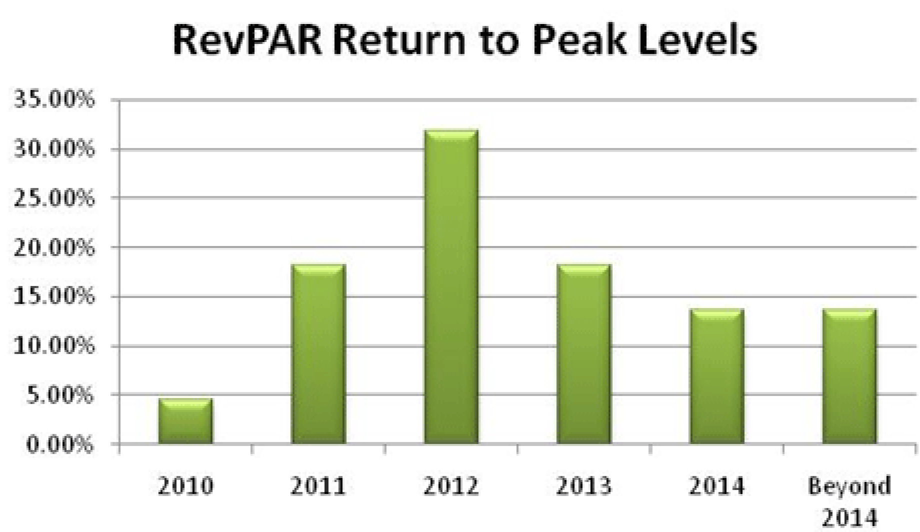
- Overall, the most common response was a quarter-over-quarter percentage growth in RevPAR of 1-5% (frequency of response: 26.3% to 59.4%).
- When broken down by job function, General Managers, Sales & Marketing Executives, and Revenue Managers were more optimistic about higher levels of RevPAR growth in 2011.
- Of all job functions, General Managers were the least optimistic, with the majority indicating that positive RevPAR growth will probably first occur in Q2 2010.
- Hoteliers working in higher-end properties (Upscale to Luxury) generally anticipated immediate quarterly RevPAR growth, while many hoteliers in lower-end properties (Economy to Midscale) expected that positive growth would not be seen until Q2 or Q3 of 2010.
- Hoteliers in Midtown East were the most optimistic, with the majority of responses indicating that positive RevPAR growth would be seen in Q1 2010. Hoteliers in Midtown West, Midtown South, and Upper Manhattan generally replied that this would occur in Q2 2010. The least optimistic neighborhood was Lower Manhattan, where the responses were highly fragmented and only converged to indicate that continuous RevPAR growth would be seen as of Q2 2011.
- The majority of independent hoteliers believed that positive RevPAR growth would not occur until Q2 2010, while branded hoteliers were generally more optimistic and indicated that positive RevPAR growth would be realized in Q1 2010.

Question 7: Please indicate the first quarter in which positive RevPAR growth is expected.



- Overall, 88.4% of respondents reported that their hotels would experience positive RevPAR growth in 2010.
- 51.2% of respondents believed that their hotels would experience positive RevPAR growth in the first half of 2010, while 37.2% said it would be the second half of 2010.
- At 30.2% of respondents, Q1 2010 was the most common response.
- It is interesting to note that 70.8% of hoteliers working in higher-end properties (Upscale to Luxury) responded that positive RevPAR growth would first be experienced in the first half of 2010, while the majority (50.0%) of hoteliers working in lower-end properties (Economy to Midscale) reported that it would come in the second half of 2010.
- It is also interesting to note that 60.0% of hoteliers working in branded hotels responded that positive RevPAR growth would first be experienced in the first half of 2010 while the majority (50.0%) of hoteliers working in independent hotels reported that growth would occur in the second half of 2010.

Question 8: When do you expect your RevPAR to return to 2008 peak levels?

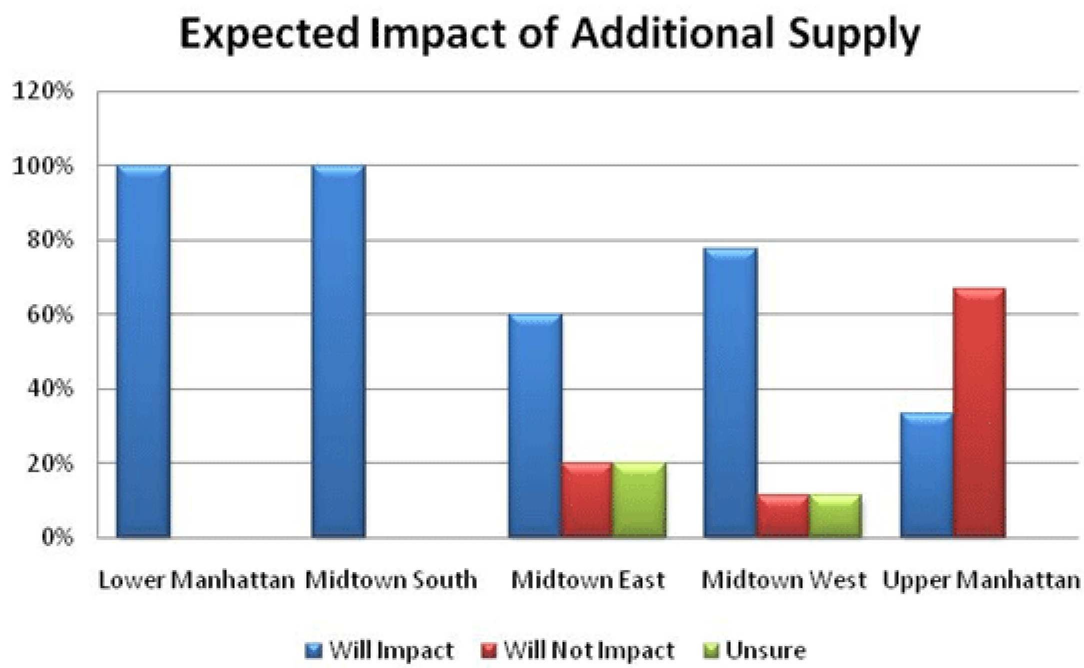


- Overall, 68.2% of hoteliers believed that their RevPAR would return to 2008 peak levels from 2011 to 2013.
- With 31.8% of responses, 2012 was the most common response.
- It is interesting to note that hoteliers working in branded hotels tended to feel more strongly that RevPAR would return to 2008 peak levels in 2012 (42.3%), while hoteliers working in independent hotels were split between 2011 and 2013 (37.5% and 31.3%, respectively).

Question 9: Please rank the following strategies by importance in 2010, with 1 as the least important and 5 as the most important.

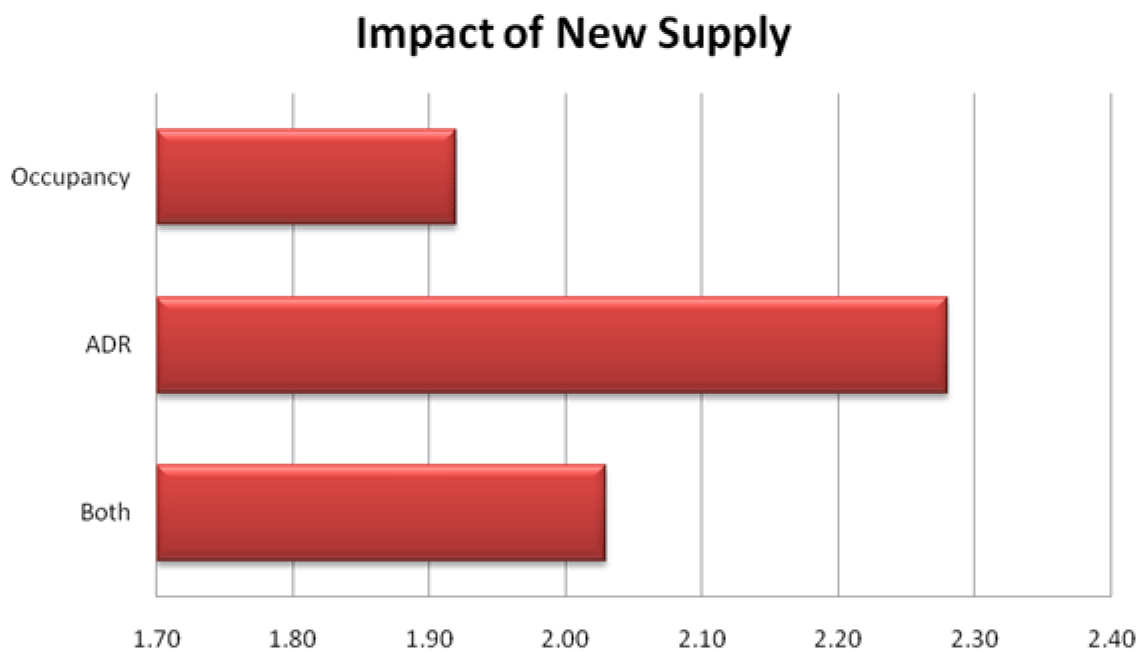
- Maximizing room rate, occupancy, and operational efficiency were the top three strategies for increasing revenue in 2010, with rankings of 4.41, 3.03 and 3.02, respectively.
- 43.9% of all respondents reported that maximizing room rate would be the best strategy for 2010, while only 2.5% of respondents stated that room rate would not be a strategy for 2010.
- Between 49-53% of respondents (depending on chain scale, location, and brand affiliation) reported that occupancy would be a key strategy in 2010.
- On average, 26.2% of respondents stated that Operational Efficiency would be the best strategy for their properties in 2010.
- The majority of respondents reported that Return on Marketing Investment (ROMI) was the least important strategy for 2010. 52.2% of General Managers responded accordingly.
- Lower Manhattan respondents were least concerned with room rates as a strategy for 2010, with none of them identifying room rate strategy as greatly important, compared to 66.7% of Midtown West respondents, who identified it as the greatest strategy for 2010.
- 48.0% of respondents from branded properties believed room rate was the most important strategy, while 31% of respondents from independent properties thought the same.

Question 10: With the Manhattan market expected to add approximately 10% more rooms within the next two years, do you think this influx will have an impact on your property?



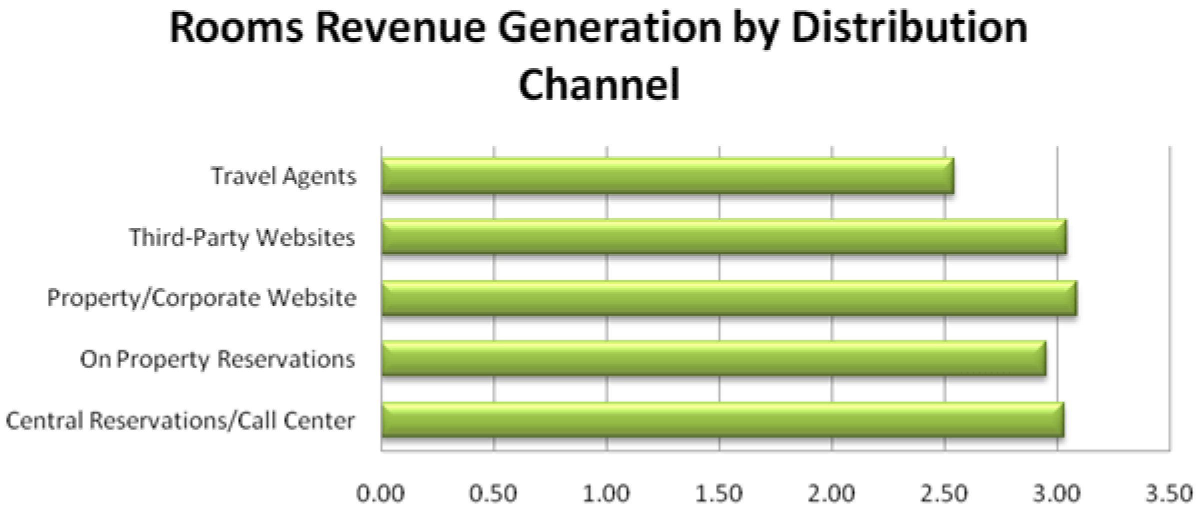
- 73.3% of respondents reported that the expected increase in room supply in Manhattan will have an impact on their property. Of those respondents, 70% are General Managers.
- 71.4% of respondents from all chain scales agreed that the influx of supply will have an impact on their property.
- Those properties most concerned with the influx of supply over the next two years are located in Lower Manhattan, Midtown South, and Midtown West, with 100%, 100%, and 77.8% respondents, respectively.
- 81.3% of hotel professionals at independent properties claim that the influx of room supply will have an impact on their properties compared to 69.2% of hotel professionals at branded hotels.

Question 11: Please rank which of the following will be affected the most by the new supply, with 1 having the least impact and 3 having the most impact.



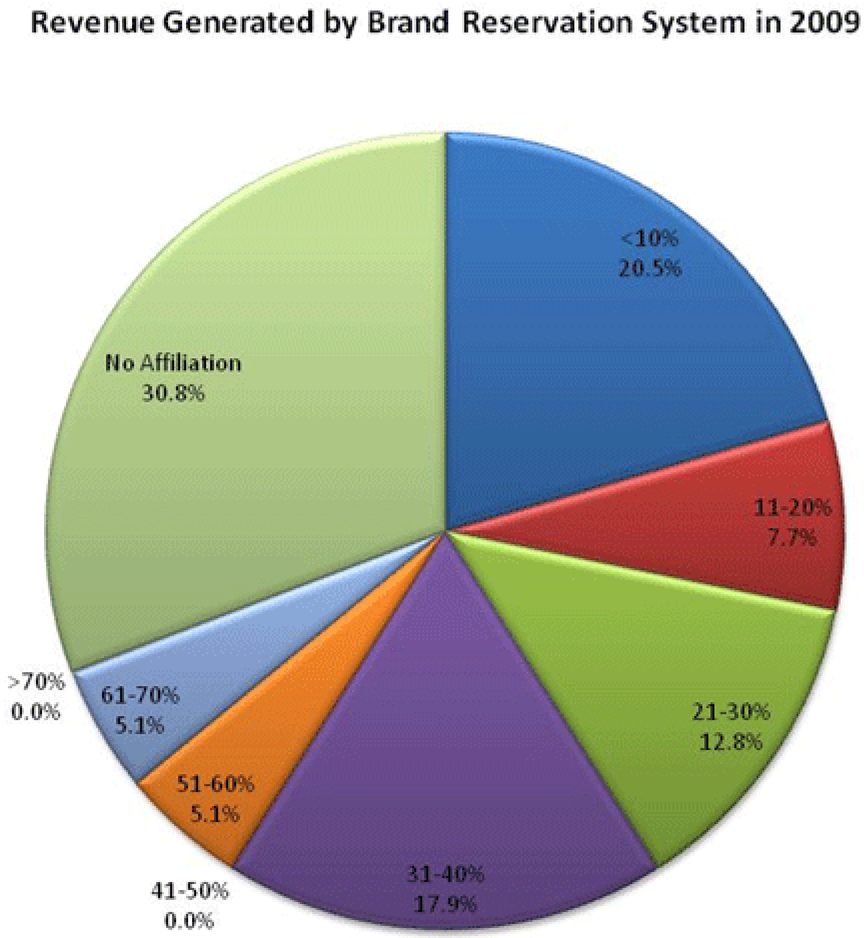
- Results from the survey indicate that ADR will be affected the most by the new supply, with a weight of 2.28. "Both occupancy and ADR will be affected equally" came in second with a rank of 2.03, and finally, respondents indicated that occupancy would have the least impact, with a rating of 1.92.
- 48.0% of respondents who reported that the new supply would have great impact identified ADR as the revenue factor that would be affected the most.
- 47.1% of respondents agreed that the new supply would have the greatest impact on both indicators.
- 100% of respondents from the luxury chain scale stated that both indicators would be greatly impacted by the new supply expected.
- 50% of respondents from both branded and independent properties believed that both indicators would be impacted by the new room supply.
- The majority of all respondents across geographic location – Lower Manhattan, Midtown South, Midtown East, and Midtown West – anticipated the new supply to greatly impact both indicators, with responses of 50.0%, 50.0%, 60.0%, and 75.0%, respectively.

Question 12: Please rank the following distribution channels for rooms revenue generation with 1 as the least and 5 as the greatest revenue generator.



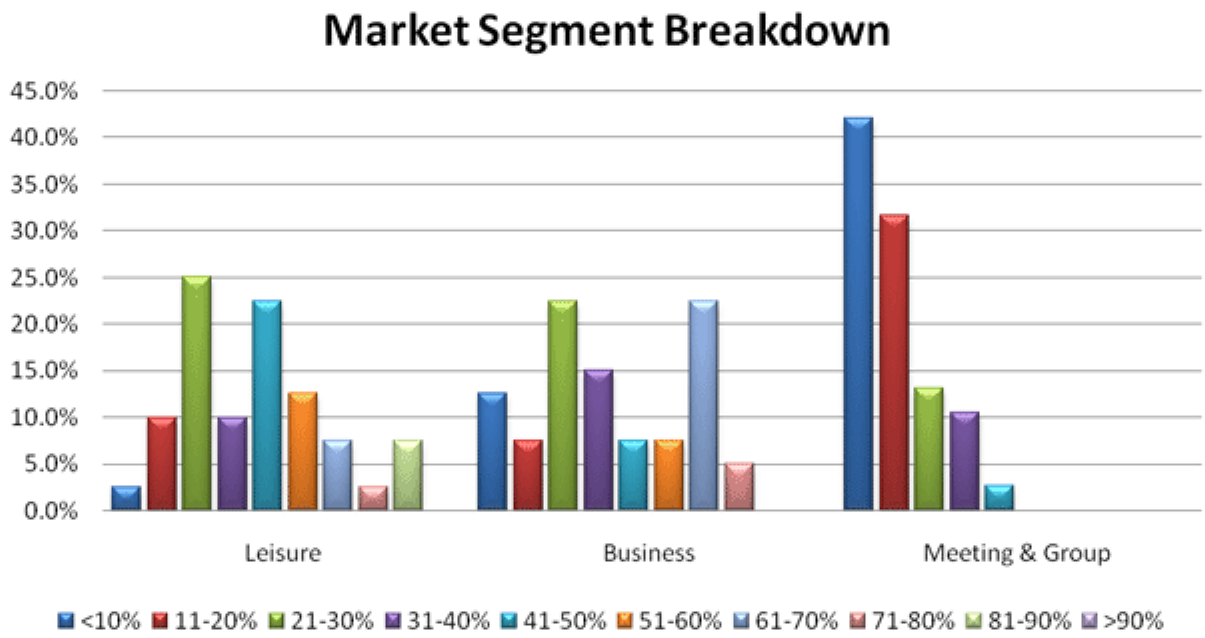
- The top three rooms revenue generators were found to be the property/corporate website, third-party websites, and the central reservations/call center, with scores of 3.09, 3.04, and 3.03, respectively.
- Respondents indicated that travel agents are the least effective in revenue generation, with a rating of 2.54.
- 27.9% of respondents rated property reservations as the most important channel of distribution, while 30% ranked it as the least.
- 31.8% of GMs believed that the Central Reservations/Call Center is the least effective channel of revenue distribution.
- 37.5% of Revenue Managers stated that the Central Reservations/Call Center is the least effective channel of revenue distribution.
- 37.0% of hotel professionals who work at branded properties believe that the Central Reservations/Call Center is the best revenue generator compared to 20.0% of hotel professionals at independent properties.

Question 13: In 2009, what was the revenue generated from your brand reservation system?



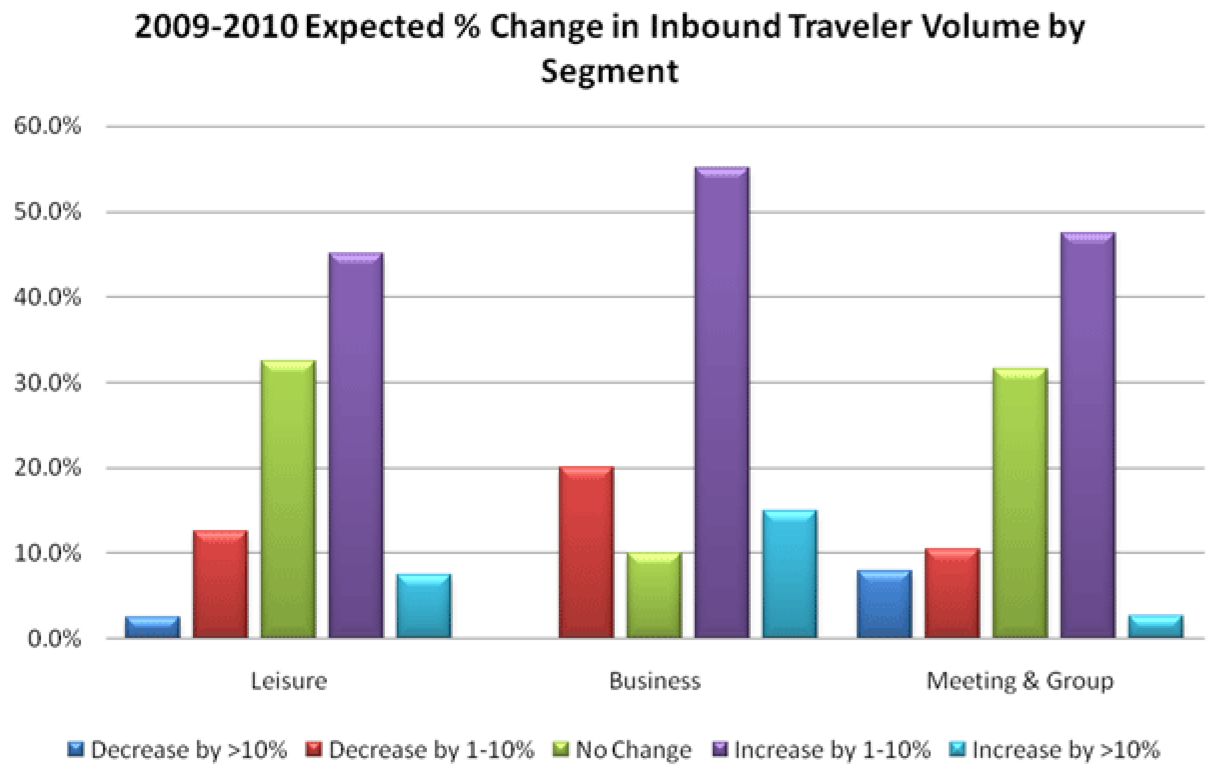
- The majority of respondents (30.8%) were not affiliated with a brand and therefore did not rely on brand reservation systems.
- 20.5% of respondents reported that less than 10% of their 2009 revenue was generated from brand reservation systems.
- 75.0% of Luxury hotel respondents received less than 10% of their revenue from brand reservations systems. Comparatively, 23.1% of Upper Upscale respondents reported that they received 41-50% of their revenue from brand reservations systems.
- None of the chain scales reported receiving over 70% of their revenue through their brand reservations systems. Only 14.3% of Midscale properties with Food and Beverage reported seeing 61-70% of their revenue from brand reservations systems.

Question 14: What percentages of your guests fit the following categories?



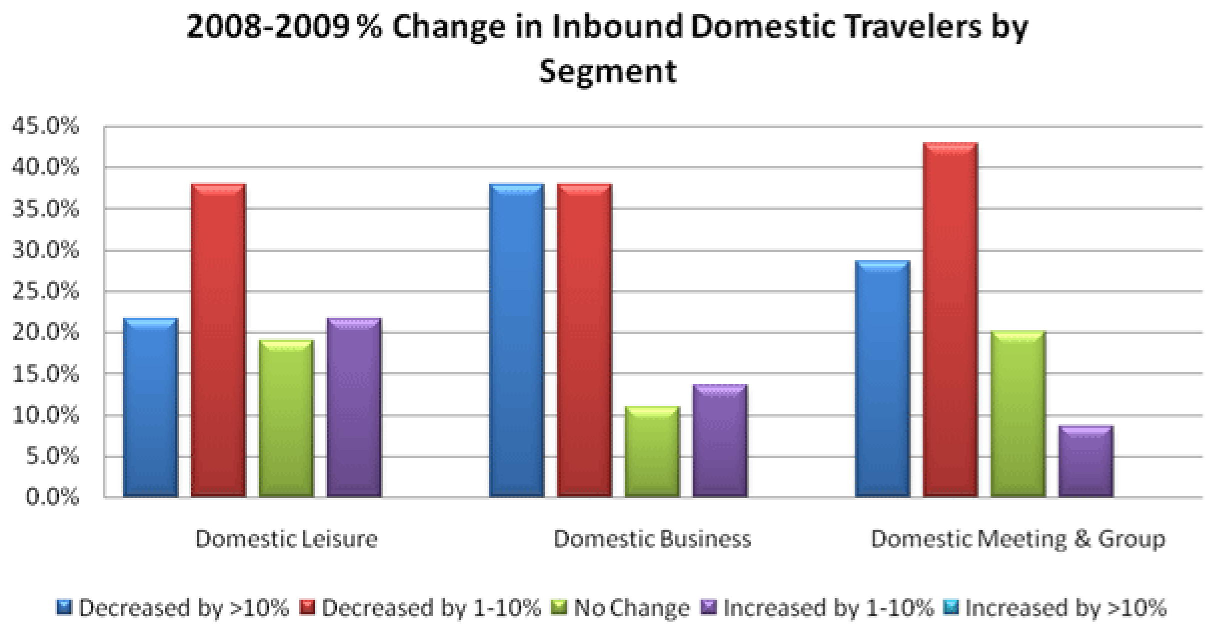
- A majority of survey respondents (25%) indicated that the leisure segment accounted for 21-30% of their hotel guests.
- 22.5% of the survey respondents indicated that the business segment makes up 21-30% of their hotel guests, while another 22.5% of the survey respondents indicated that the business segment represents 61-70% of their guests.
- A majority of survey respondents (42.1%) indicated that the meeting & group segment represents less than 10% of their hotel guests.

Question 15: How do you anticipate that demand for your hotel in 2010 will change from the 2009 level in the following guest categories?



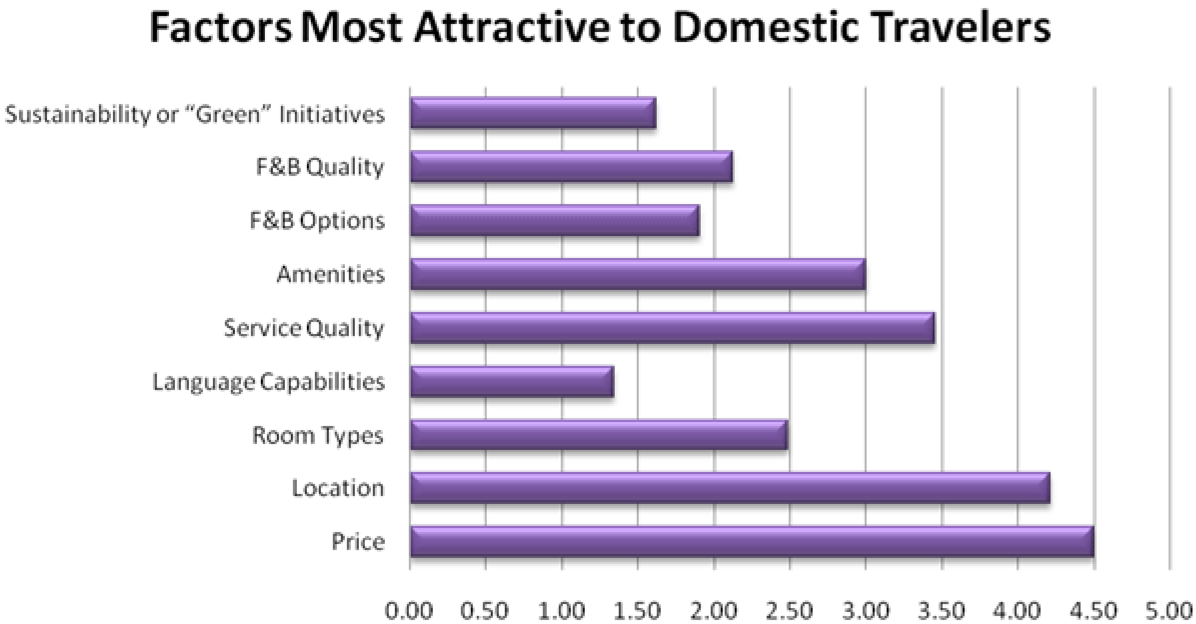
- Overall, more than 45% of the respondents anticipate that demand will increase by 1-10% across all segments.
- In the leisure segment, the majority of respondents (45.0%) anticipate that demand will increase by 1-10%.
- For the business segment, the majority of respondents (55.0%) anticipate that demand will increase by 1-10%.
- Finally in the meeting & group segment, the majority of respondents (47.4%) anticipate that demand will increase by 1-10%.
- Respondents working in higher-end (Upscale to Luxury) hotels display a more positive attitude than lower-end chain segments respondents (Economy to Midscale) with regards to the business and meeting & group segments. In higher-end properties, 76.2% of the hoteliers expect meeting & group demand to increase, while 62.5% of hoteliers in lower-end properties predict that meeting & group demand will not change or will even decrease. According to 66.7% of Luxury hoteliers, business demand will increase more than 10%, 61.8% of the Upper Upscale to Midscale without F&B expect business demand will increase by 1-10%, and 100% of the Economy scale hoteliers expect business demand will not change.
- It is important to note that in terms of leisure business, certain neighborhoods display more resistance to recovery than others. 50% of Lower Manhattan and Midtown East hoteliers indicate that there will be no change in leisure demand. 53.8% of Midtown South, Midtown West, and Upper Manhattan hoteliers anticipate a 1-10% increase in leisure demand.
- Hoteliers in Midtown South are less confident than those from other neighborhoods with regards to the business and meeting & group segments. 50% of Midtown South hoteliers expect there will be no change in the above segments, while 56.1% of hoteliers in other neighborhoods expect a 1-10% increase in these segments.

Question 16: How did the volume of your domestic traveler segment change in 2009 compared to the volume for the prior year?



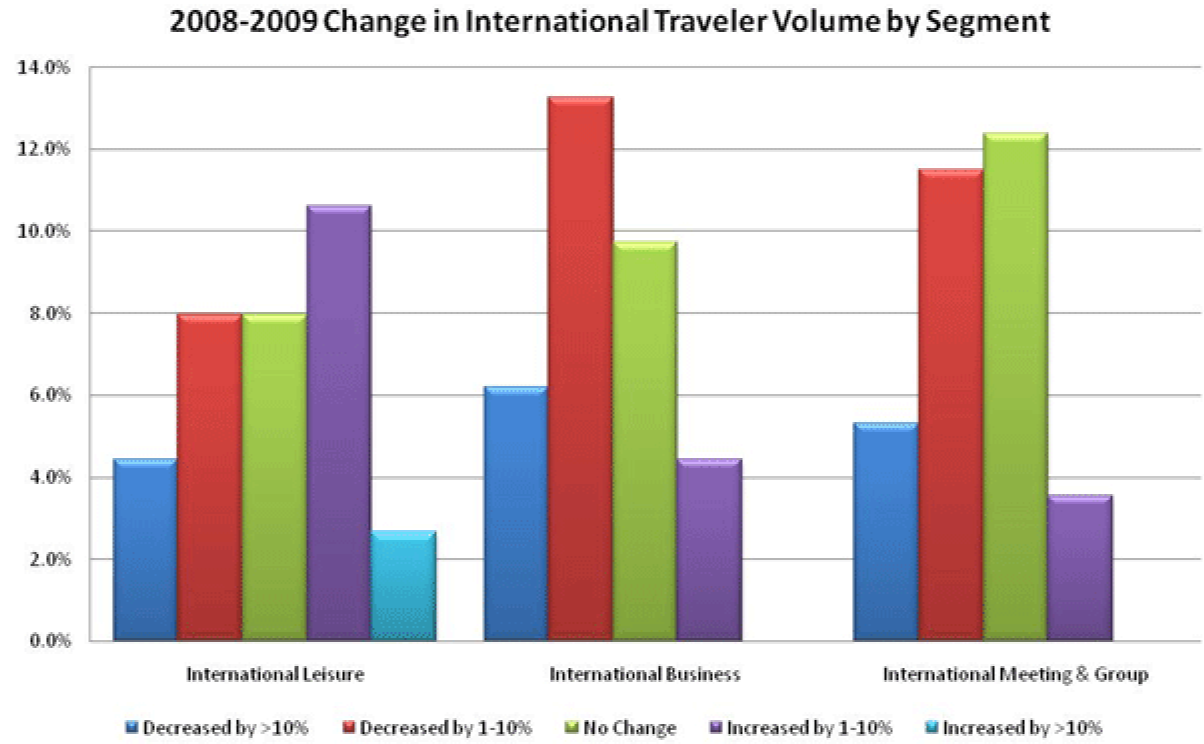
- More than 37.8% of the overall survey respondents indicated that domestic demand decreased 1-10% across all segments in 2009.
- In terms of the domestic leisure segment, 37.8% of the respondents indicated that demand decreased 1-10% in 2009.
- With regards to the domestic business segment, 37.8% of the respondents indicated that demand decreased 1-10% in 2009, while another 37.8% reported that demand decreased more than 10%.
- As for the domestic meeting & group segment, 42.9% of the respondents indicated that demand decreased 1-10% in 2009.
- Upper Upscale is the only segment in which most hoteliers (50%) experienced positive growth in domestic leisure demand, while 63% of other segments experienced a decrease in domestic leisure demand in 2009.
- Lower Manhattan is the only neighborhood where most of the hoteliers experienced positive growth in domestic leisure demand. Specifically, 50% of the Lower Manhattan hoteliers reported a 1-10% increase in domestic leisure demand, while 61.3% of hoteliers in other neighborhoods experienced a decline in domestic leisure demand.
- Independent hotels experienced a steeper decline in domestic business demand than branded hotels. Specifically, 42.9% of independent hoteliers reported a more than 10% decline in domestic business demand, while 50% of branded hoteliers reported a 1-10% decline.

Question 17: Please rate each of the following factors in terms of its importance in attracting domestic guests to Manhattan hotels.



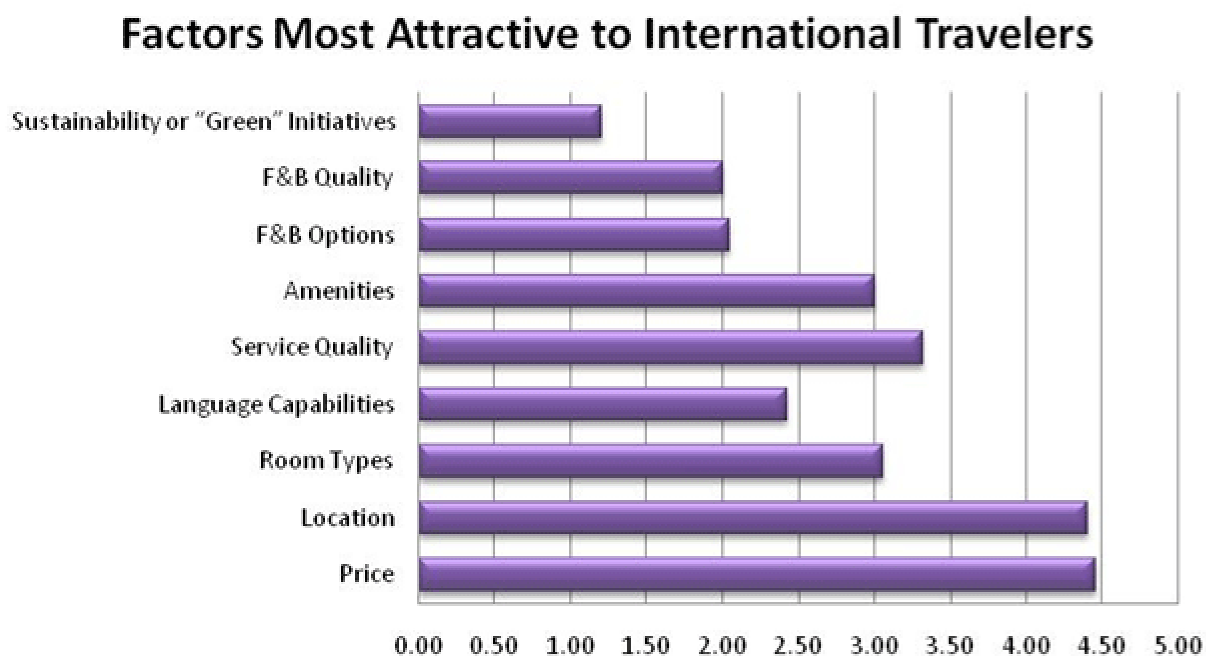
- Price, location, and service quality are ranked the top 3 most important factors in attracting domestic guests to Manhattan hotels, with ratings of 4.5, 4.21, and 3.45, respectively.
- Language capabilities, sustainability initiatives, and F&B options are ranked the 3 least important factors to attract domestic guests, with ratings of 1.34, 1.62, and 1.90, respectively.
- The Luxury segment is less price-sensitive than other chain scales. Hoteliers in this segment ranked location as the most important factor, with a 4.75 rating, and rank price as the second most important factor, with a 4.50 rating. Hoteliers of the other chain scales rank price as the most important factor, with an average rating of 4.51.
- The Midtown East neighborhood is less price-sensitive than other neighborhoods. The hoteliers in this neighborhood rank location as the most important factor, with a 4.44 rating, and rank price as the second most important factor, with a 4.11 rating. Hoteliers of the other chains rank price as the most important factor, with an average rating of 4.60.
- Price, location, and service quality are the top 3 factors for General Managers and Sales and Marketing staff. Meanwhile, in addition to these factors, amenities is among the top 3 factors for Operations and Revenue Management staff.

Question 18: Did the volume of your 2009 international traveler segment change compared to the level for the prior year?



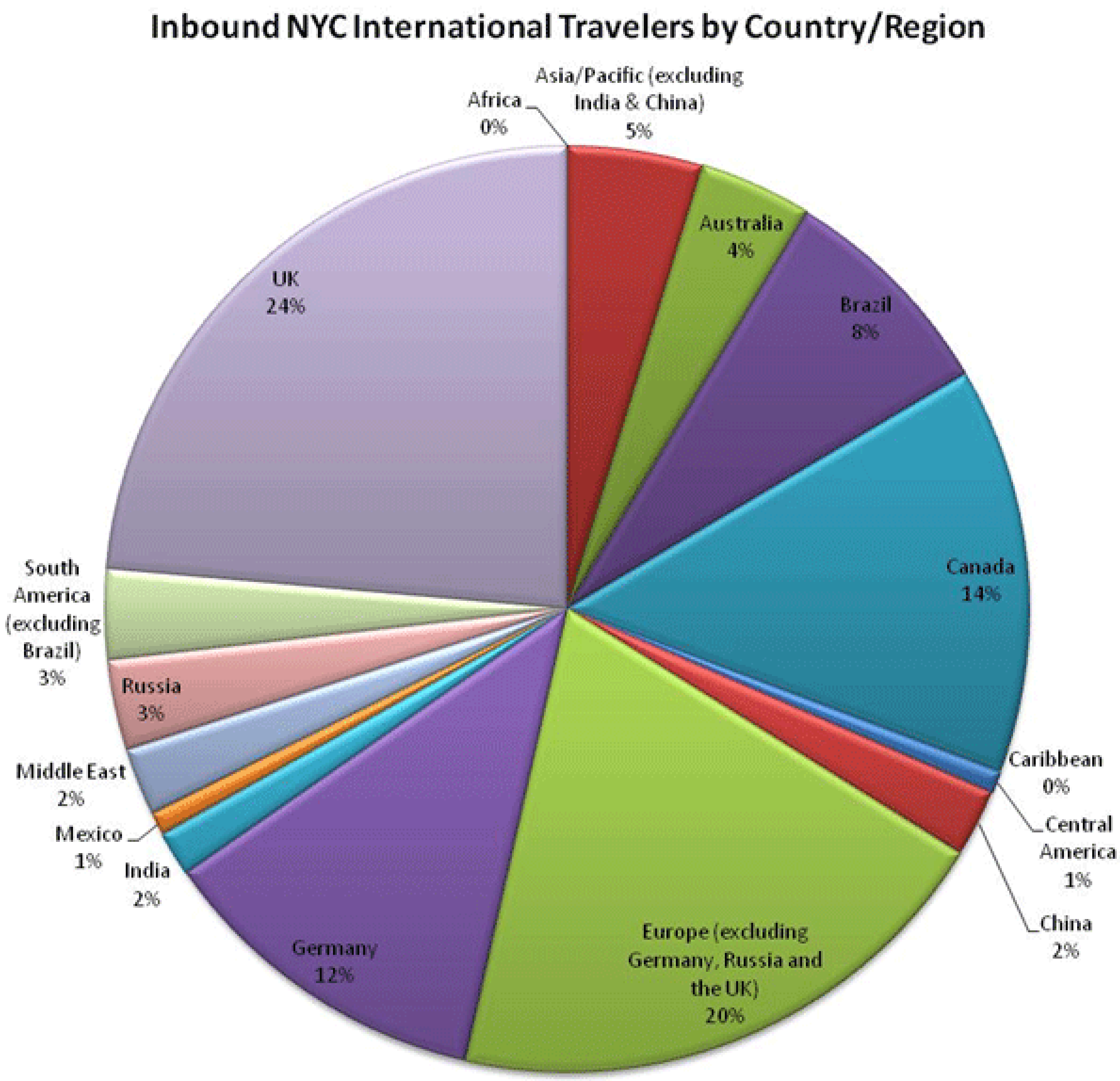
- About 32.7% of Manhattan hotels experienced a 1-10% decrease in overall international travel volume, with the highest drop noted in the international business traveler segment. Additionally, 30.1% of the hotels experienced no change in international travel segments, while 18.6% experienced a 1-10% increase, with the highest increase seen in the international leisure segment.
- Overall, 18.6% of respondents anticipate international inbound traveler volume to increase by 1-10% across all segments.
- In the international leisure segment, 10.6% of the respondents anticipate that demand will increase by 1-10%, which is the majority for this particular segment.
- For the business segment, the majority of respondents (13.3%) anticipate demand to decrease by 1-10%.
- As for the meeting & group segment, the majority of respondents (12.4%) reported no change in demand.
- Surprisingly, only 5.3% of Luxury segment respondents experienced a 1-10% decrease in the international business segment, with 13.2% of Midscale with F&B hotels showing the highest drop in this segment. About 10.5% of respondents in Upscale hotels saw the greatest increase in international leisure travelers.
- The Midtown West area saw the greatest fluctuations in international travel, with a 27.8% decline in international business travelers, as well as a 20% decrease in the international meeting & group segment.
- 24.8% of both brand-affiliated and independent properties saw the greatest declines of 1-10% in the international business and international meeting & group segments.

Question 19: Please rate each of the following factors in terms of its importance to attracting international guests to Manhattan hotels.



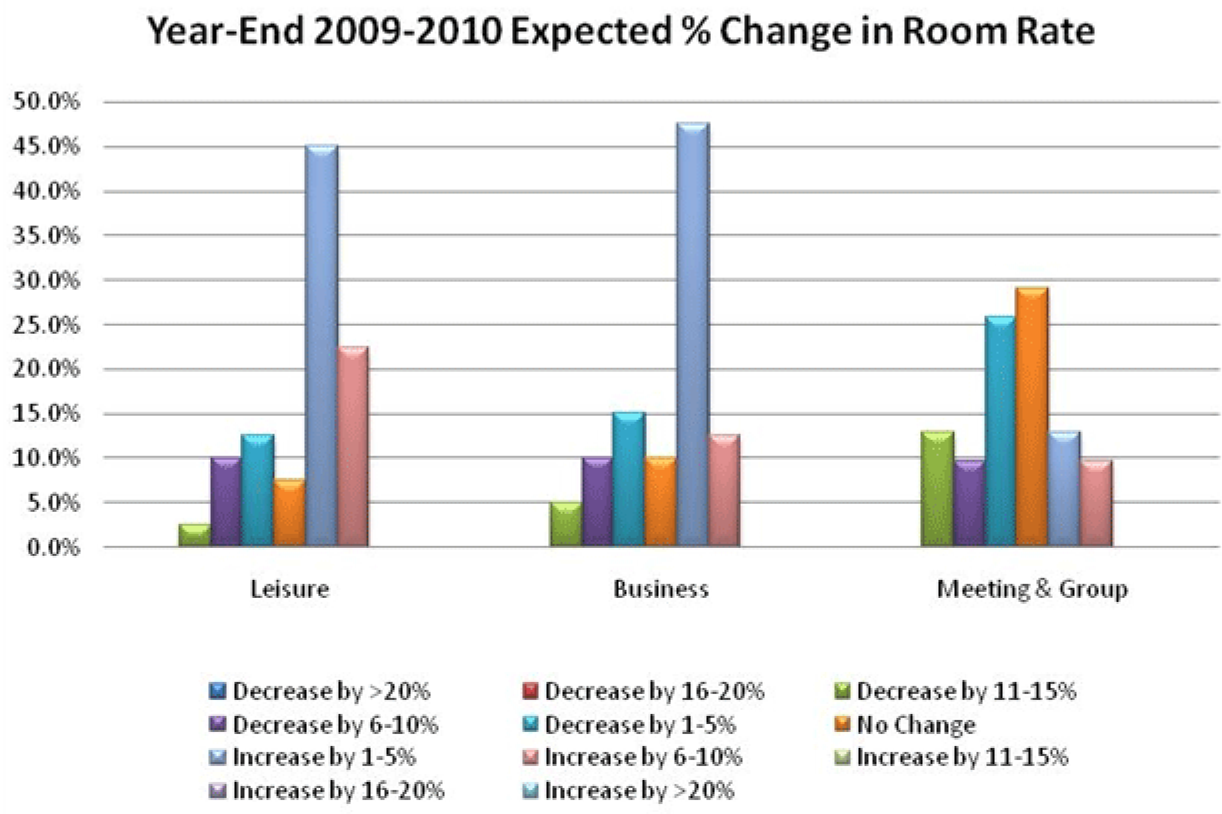
- Price, location, and service quality were ranked as the top 3 most important factors in attracting international guests to Manhattan hotels, with ratings of 4.45, 4.40, and 3.32, respectively.
- Sustainability initiatives, F&B quality, and F&B options were ranked the 3 least important factors to attract international guests, with ratings of 1.20, 2.00, and 2.05, respectively.
- Although international travelers who stay at Luxury segment hotels are seemingly less price-sensitive than international travelers at other chain scales, hoteliers ranked price and location as the two most important factors in attracting these particular travelers, with ratings of 4.5 and 4.8, respectively.
- Midtown West was the most price-sensitive neighborhood for international guests, rating price at an average of 4.6 out of 5. On the other hand, Midtown East was the least price-sensitive neighborhood for this segment, rating price at an average of 4.2 out of 5.
- Price, location, and service quality were ranked as the top 3 most important factors for attracting international travelers by General Managers and Sales and Marketing staff. Amenities also ranked highly among General Managers and Revenue Managers, with ratings of 3 out of 5, and 3.3 out of 5, respectively.

Question 20: Which 3 countries/regions are the strongest generators of international travelers to your hotel?



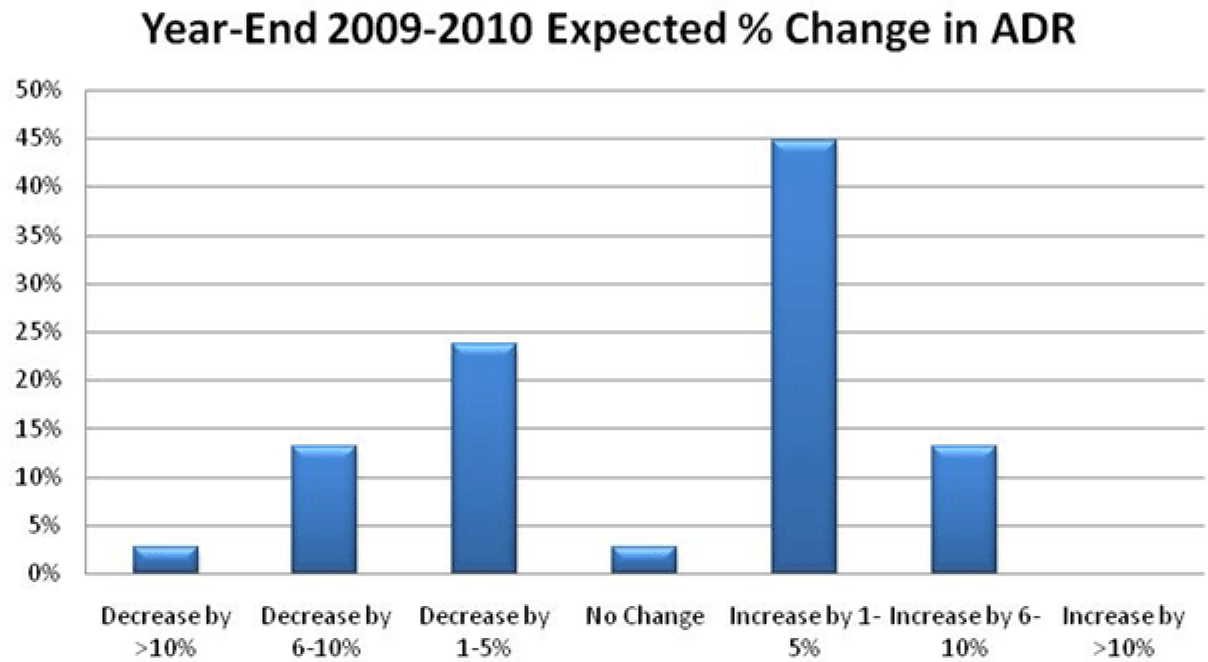
- Results indicated that the top 3 countries/regions that generate the highest volume of international travelers are the UK with 23.6%, Europe (excluding Germany, Russia, and the UK) with 19.7%, and Canada with 14.2%.
- Results from General Managers reflected the above results. However, results from Sales & Marketing respondents showed Canada tied with Germany as the third country/region, while results from Revenue Managers rated Brazil and Germany tied as the third country/region.
- Brazil ranked highly in Midtown East and Upper Manhattan properties, while Germany also ranked highly in Lower Manhattan and Midtown West hotels.
- Independent hoteliers responded that the UK, Europe (excluding Germany, Russia, and the UK), and Germany were their top 3 countries/regions.

Question 21: By what percent do you expect your room rates to change from 2009 to 2010?



- Almost 50% of all respondents expect the leisure, business, and meeting and group segments to increase between 1% and 10%. 29% percent of all respondents expect the meeting and group segment to have no change, and decreases of 1-5% are expected by 15.0% of respondents in the business segment, and 12.5% in the leisure segment.
- 52% of branded hotels expect leisure room rates to increase 1-5% from 2009 to 2010.
- 35.7% of independent hotels expect an increase in room rate of 1-5%, while 28.5% of the same group expect an increase of 6-10% in the leisure segment.
- Much like the leisure segment, 52% of branded hotels expect an increase of 1-5%. Different from the leisure segment, 43% of independent hotels expect an increase of 1-5%.
- On the meeting and group segment side, branded hotels are split, with 24% in each of these categories: increase 1-5%, no change, and decrease 1-5%.
- Of the independent hotels, 46% expect a 1-5% increase, while 30% expect a decrease of some kind.
- When broken down by chain scale segment, 82% and 87% of Upper Upscale and Upscale, respectively, expect some kind of increase in room rate, while only 66% of Midscale with F&B and 50% of both Economy and Luxury segments expect increases.

Question 22: How do you expect your hotel's year-end 2010 ADR to compare to ADR as of year-end 2009?

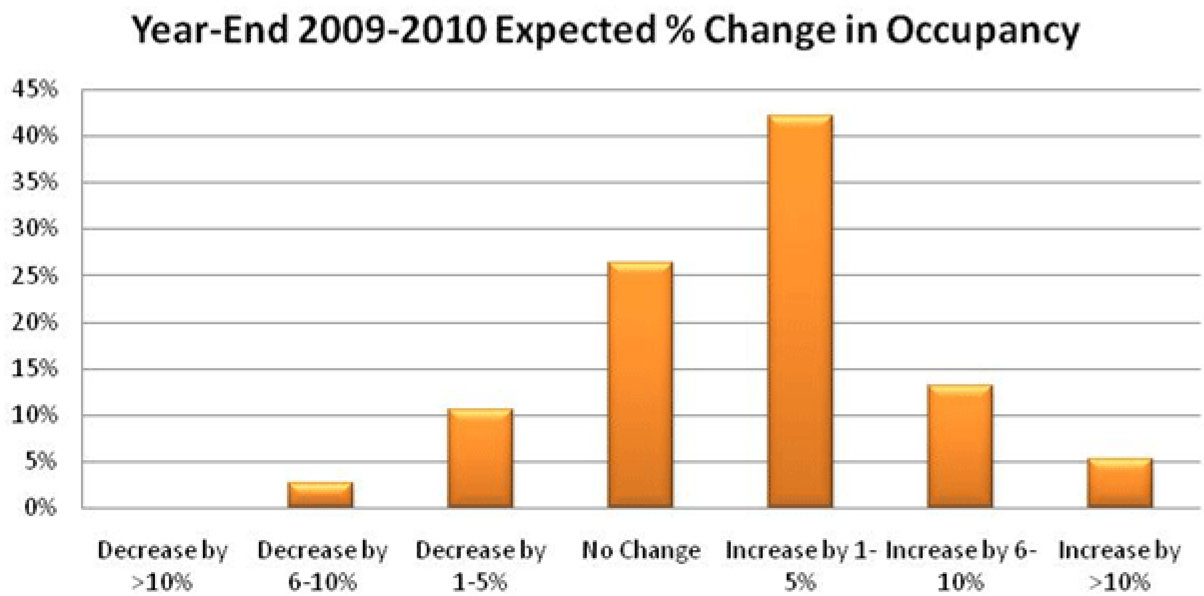


- Overall, 44.7% of respondents expect ADR to increase in 2010 by 1-5%; however, 23.7% expect a decrease of 1-5% in ADR. Only 15.8% expect ADR to decrease more than 5%, and only 13.2% expect an increase of more than 5%. No respondents expect more than a 10% increase in ADR year over year.

- 50.0% of independent hotels expect an increase of 1-5% in ADR, while only 39.1% of branded hotels agree. 22.7% of branded hotels expect a decrease of 1-5%, and 17% expect a decrease of 6-10%.

- 40.9% of General Managers expect an increase of 1-5% in ADR as do 47% of Sales and Marketing respondents. Twenty percent of Sales and Marketing respondents expect a decrease of 6-10% in ADR, while 13.6% of General Managers expect a 6-10% increase in ADR.

Question 23: How do you expect your hotel's year-end 2010 occupancy to change from the year-end 2009 level?



- 42.1% of all respondents expect year-end occupancy for 2010 to increase by 1-5%, while 26.3% of all respondents expect no change. 13.2% of all respondents expect a decrease, while 60.5% of all respondents expect an increase in year-end occupancy.
- 30.4% of hoteliers in branded hotels indicate that they do not expect any change in occupancy while 64.3% of hoteliers in independent hotels say they expect an increase of 1-5%.
- 28.5% of General Managers responded that there would be no change, while 38.1% answered that there would be a 1-5% increase, and 19% forecasted a 6-10% increase.
- 43.7% of Revenue Managers and Sales and Marketing Executives also expect a 1-5% increase, while 25% expect no change.
- 45.4% of Upper Upscale hotels expect an increase of 1-5%, while 66.6% of Midscale with F&B hotels expect no change.

YEAR OVER YEAR COMPARISON

The following analysis is a comparison between years 2009 and 2010 based on the Manhattan Hotel Market Overview survey results. In addition to a general edit of the 2009 survey, five questions were removed and four new questions were added to make the 2010 survey more relevant to the theme of hotel market recovery.

- The 2009 survey indicated that the majority (74%) of all respondents expected a decrease in demand in their leisure market, while the most common response in the 2010 survey was that 45% of all respondents expect a 1-10% year-over-year demand increase in the leisure segment.
- In the business segment, 2009 respondents were less optimistic as 85% anticipated a decrease in their year-over-year demand, while 55.0% of all 2010 respondents anticipated an increase of 1-10% in business demand.
- In terms of the meeting & group segment, a majority of 2010 respondents (47.4%) anticipate that demand will increase by 1-10%, while in 2009, 67.2% anticipated a decrease in demand for that year.
- The majority of 2009 survey respondents reported a decrease of less than 10% in their domestic leisure travelers for 2008. They also reported a decrease in domestic business and domestic meeting & group demand of greater than 10% in the same year. However, the 2010 survey indicates that the decrease in the domestic business and domestic

meeting & group segments has slowed, as the majority reported a 1-10% decrease across all domestic segments in 2009.

- The majority of respondents in both 2009 and 2010 reported a decrease in international travelers over the respective prior years, with the highest drop in the international business traveler segment. Both surveys indicated that the top three countries/regions that generate the highest volume of international travelers are the UK, Europe, and Canada.
- In 2009, only 12.5% of respondents expected a higher annual occupancy, with the majority of all respondents anticipating a lower occupancy; however, according to the 2010 survey, 42.1% of all respondents expect year-end occupancy for 2010 to increase by 1-5%, while 26.3% of all respondents are expecting no change.
- With regard to ADR, the 2009 survey showed that 79.5% of respondents expected their year-end ADR for 2009 to be lower than for year-end 2008. The 2010 survey respondents were more optimistic, as 44.7% expect ADR to increase by 1-5%.
- In 2009, the three most important strategies were maximizing occupancy, maximizing room rate, and maximizing operational efficiency, in that order. In 2010, however, respondents indicated that maximizing room rate was of the greatest importance, while maximizing occupancy and operational efficiency were tied for second.
- In 2009, third-party websites was ranked as the top distribution channel while property/corporate websites was rated the top in 2010. This displays the hoteliers' efforts in maximizing room rate as the costs associated with using third-party websites to sell rooms are high.

CONCLUSION

This survey research indicates that Manhattan hoteliers are confident that the recovery phase in the business cycle has begun. The general expectation from the respondents is that there will be an increase in demand from all segments of the market, and year-over-year occupancy will increase. ADR and RevPAR are also expected to increase; however, RevPAR is not expected to return to peak levels until 2012.

Maximizing room rate, occupancy, and operational efficiency are at the top of all hoteliers strategies for increasing revenue in 2010. However, it is anticipated that this will be difficult due to the increase in room supply in Manhattan, which will have an impact on existing hotels.

This project will contribute to the New York City hotel industry by providing a comprehensive understanding of how the economy affects the hotel industry, especially the perspective on the current economic state of New York City and its stage in the business cycle. This research is also significant in identifying future trends and how these trends will affect the New York City hotel market specifically. In addition, the project has provided valuable information on the Manhattan hotel market in 2010 and can serve as a reference for future research.

Manhattan Forecast

Joseph Spinnato
President & CEO, Hotel Association of NYC

2009 has proven to be a rather interesting year for the hotel industry in New York City. While the average occupancy for 2009 has come in at the 80% range, revenue received by hotels during that period has been a challenge. The projections for 2010 appear to be somewhat improved over 2009 although some experts are predicting that this year will be flat. The continuing goal for our industry here in the City of New York is to continue aggressive marketing strategies that will continue to lure foreign visitors to our city.

The Hotel Association of New York City continues to partner with NYC & Company to insure that these marketing efforts will convince foreign visitors that New York continues to be an extremely affordable destination.

Based on an analysis of the historical data and a review of proposed hotels, we have prepared the following forecast for the Manhattan lodging market. We note that the increases in supply in 2010 and 2011 are based on hotels under construction as of March 2010 and also factor in anticipated hotel closings during these years.

Year	No. of Rooms	% Change	Occupied Rooms	% Change	Occupancy	% Change	Average Rate	% Change	RevPAR	% Change
2007	65,680	—	20,473,745	—	85.4	—	$297.25	—	$253.86	—
2008	67,114	2.2	20,692,202	1.1	84.5	(1.1)	304.56	2.5	257.26	1.3
2009	70,420	4.9	20,657,567	(0.2)	80.4	(4.9)	235.12	(22.8)	188.97	(26.5)
Forecast										
2010	74,715	6.1	22,434,118	8.6	82.3	2.4	$240.30	2.2	$197.68	4.6
2011	77,629	3.9	23,645,560	5.4	83.5	1.4	259.35	7.9	216.43	9.5
2012	77,947	0.4	24,142,117	2.1	84.9	1.7	285.63	10.1	242.37	12.0
2013	77,947	0.0	24,238,685	0.4	85.2	0.4	319.05	11.7	271.81	12.1
2014	78,025	0.1	24,287,163	0.2	85.3	0.1	338.83	6.2	288.95	6.3

Sources: STR Global (historical); HVS (forecast)

Based on recent trends, we anticipate that the market will bottom out, then begin to recover in 2010. As such, we forecast a healthy increase of 4.6% in RevPAR in 2010. Assuming the continuation of the economic recovery, our forecast indicates three years of consecutive strong growth in RevPAR from 2011 through 2013. As a result, we expect the Manhattan RevPAR to exceed its pre-recession level by 2013.

Overview of Sales Transactions in Manhattan

The following table sets forth an overview of major hotel sales transactions (defined as those with a purchase price in excess of $10 million) in Manhattan during the past five years. In 2009, four transactions were identified, including three hotels that sold as turnkey properties, with sales prices negotiated prior to the recession.

Michael C. Pomeranc
Partner, Thompson Hotels

New York: Are Things Getting Better or Are We Getting Smarter?

New York approached 2010 with some of the greatest risk (and potentially highest reward) opportunities for the hotel entrepreneur that I can remember.

Modification of existing assets has become the challenge due to lingering lackluster performance. Once again, cash is king, and the limits in the lending market have made acquiring quality assets in markets with already considerable barriers to entry even more difficult than before. Despite the abundance of product, the barriers to entry have caused creative "re-thinking" to be the most important tool in a developer's arsenal in order to sustain viable enterprises from a cash flow perspective. Owners and operators must be more sensitive and responsive than ever to each other's needs to alleviate the difficulties of restarting the growth process.

The travel/tourism sector will always be enamored by the glory and glamour of New York, and the world's financial balance (in trade and currency values) will continue to affect that sector, and this very tedious balance will continue as always.

The good news, however, is that things are only getting better for our industry. We have survived the worst and should welcome this new time of opportunity with open arms, with improved communication between owners and brands, and with creative approaches to thriving in this time of change.

Property	Date of Sale	Address	No. of Rooms	Seller	Buyer	Price	Price per Room
W New York – The Court & The Tuscany	Apr-10	120-130 East 39th Street	320	Starwood Hotels & Resorts Worldwide	St. Giles Hotels, LLC	$78,000,000	$244,000
Helmsley Carlton House***	Mar-10	680 Madison Avenue	160	Leona Helmsley/Helmsley Hotels	Angelo, Gordon & Company and Extell Development Company	170,000,000	1,063,000
Candlewood Suites Times Square South	Feb-10	339 West 39th Street	188	McSam Hotel Group	Hersha Hospitality Trust	51,000,000	271,000
Hampton Inn Times Square South	Feb-10	337 West 39th Street	184	McSam Hotel Group	Hersha Hospitality Trust	56,000,000	304,000
Holiday Inn Express Times Square South	Feb-10	343 West 39th Street	210	McSam Hotel Group	Hersha Hospitality Trust	58,000,000	276,000
Hilton Garden Inn TriBeCa**	Aug-09	6 York Street	151	McSam Hotel Group	Hersha Hospitality Trust	62,000,000	411,000
Hilton Garden Inn 35th Street**	Feb-09	63 West 35th Street	298	Brack Capital Real Estate	RLJ Development	121,200,000	407,000
Fairfield Inn at Times Square **	Feb-09	330 West 40th Street	244	Fashion Times Square LLC (The Lam Group)	Gehr Development	99,500,000	408,000
Best Western President*	Feb-09	234 West 48th Street	334	Bridgewater Realty, LLC	Investcorp International Inc.	150,000,000	449,000
Wyndham Garden Hotel Chelsea**	Nov-08	37 West 24th Street	124	McSam Hotel Group	Gemini Real Estate Advisors	39,060,000	315,000
Hampton Inn 35th Street, Empire	Oct-08	59 West 35th Street	146	McSam Hotel Group	Magna Hospitality Group	46,340,000	317,000

State Building**							
Quality Hotel Times Square (now Stay)	Apr-08	157 West 47th Street	202	Hampshire Hotels and Resorts	Rockefeller Group Development Corp.	75,000,000	371,000
Hotel QT	Apr-08	125 West 45th Street	139	André Balazs Properties / Greenfield Partners	Room Mate Hotels	82,000,000	590,000
Comfort Inn New York 36th Street	Jan-08	442 West 36th Street	56	McSam Hotel Group	Gemini Real Estate Advisors	25,000,000	446,000
Hotel Riverview (now The Jane)	Jan-08	113 Jane Street	211	Hotel Associates, Inc.	BD Hotels/Sean MacPherson, Eric Goode	27,000,000	128,000
Hotel 57	Jan-08	130 East 57th Street	200	Rockpoint Fund II Acquisitions LLC	Apple Eight Hospitality Ownership, Inc.	99,000,000	495,000
Hilton Garden Inn Times Square	Nov-07	790 Eighth Avenue	369	Highgate Holdings/Rockpoint Group	Michigan Retirement	261,990,000	710,000
Hampton Inn Times Square	Nov-07	851 Eighth Avenue	300	Highgate Holdings/Rockpoint Group	Michigan Retirement	213,000,000	710,000
Comfort Inn Times Square	Nov-07	305 West 39th Street	78	M&R Hotel Times Square, LLC	Gemini Real Estate Advisors	31,700,000	406,000
Tudor Hotel *	Sep-07	304 East 42nd Street	300	Highgate Holdings	The Procaccianti Group	114,000,000	380,000
Holiday Inn Soho	Sep-07	138 Lafayette Street	227	Highgate Holdings	The Procaccianti Group	130,000,000	573,000
On The Ave Hotel	Jul-07	2178 Broadway at 77th Street	267	Rockpoint Group	Highgate Holdings	204,000,000	764,000
				(as renovated, assuming a $8.0-million infusion)		212,000,000	794,000
Dylan Hotel	Jun-07	52 East 41st Street	107	Fortuna Realty Group (Moinan)	Hotusa Group/Losan Hotel Group	78,000,000	729,000
Mandarin Oriental	Feb-07	80 Columbus Circle	248	Mandarin Oriental Hotels/Apollo Real Estate Advisors/The Related Companies	Istithmar Hotels FZE (acquired 75% of the interest)	340,000,000	1,371,000
Doubletree Guest Suites Times Square*	Dec-06	1568 Broadway	460	GE Pension Trust	Whitehall/Highgate Holdings/Sunstone Hotel Investors	300,000,000	652,000
W Hotel Union Square	Oct-06	201 Park Avenue South	270	Related Urban Development	Istithmar Hotels FZE	285,000,000	1,056,000
Embassy Suites *	Sep-06		463		Goldman Sachs	225,000,000	486,000
				Additional $10 million to convert property to a franchise		235,000,000	508,000
Swissotel The Drake	Apr-06	440 Park Avenue	495	Host Marriott Corporation	Macklowe Properties	440,000,000	889,000
To be demolished for the development of a mixed-use residential condominium							
Hilton Times Square *	Mar-06	234 West 42nd Street	444	Forest City Ratner Co. JV Hilton Hotels Corp.	Sunstone Hotel Investors	242,500,000	546,000
				Additional $15 million to convert property to a franchise		257,500,000	580,000
The Mark Hotel *	Jan-06	25 East 77th Street	176	Mandarin Oriental Hotels	Izak Senbahar and Simon Elias	150,000,000	852,000
Sold for Condo Conversion							
Marriott East Side	Nov-05	525 Lexington Avenue	646	Strategic Hotel Capital, Inc.	Prime Property Fund (Morgan Stanley)	287,000,000	444,000
Holiday Inn Express	Sep-05	15 West 45th Street	125	McSam Hotel Group	MG-45, LLC	36,500,000	292,000
Westin Essex House	Sep-05	160 Central Park South	605	Strategic Hotel Capital, Inc.	Dubai Investment Group	400,000,000	661,000
Assuming Partial Condo Conversion				(as renovated, assuming a $50-million infusion)		450,000,000	744,000

Portland Square	Sep-05	128-134 W 47th Street	140	David & Lina Putchall	47th Hotel Associates LLC	19,300,000	138,000
Howard Johnson Express	Sep-05	135 East Houston Street	45	Houston Lodging, LLC	Gemini Real Estate Advisors, LLC	13,750,000	306,000
Algonquin Hotel	Sep-05	59 West 44th Street	174	Miller Global	HEI Hospitality	74,100,000	426,000
				(as renovated, assuming a $3.5-million infusion)		77,600,000	446,000
Avalon Hotel	Aug-05	16 East 32nd Street	100	Hotel Stanford LLC	Ferrado US LLC	35,700,000	357,000
Holiday Inn SoHo	Aug-05	138 Lafayette Street	227	Great Canal Plaza Inc.	Highgate Holdings	42,500,000	187,000
				(as renovated, assuming a $4.5-million infusion)		47,000,000	207,000
Clarion Park Avenue	May-05	429 Park Avenue South	60	Palace International Properties, Ltd.	Park Avenue Hotels New York LLC	11,350,000	189,000
Crowne Plaza UN (35 years remaining)*	May-05	304 East 42nd Street	300	InterContinental Hotels Group	Highgate Holdings	34,000,000	113,000
				(as renovated, assuming a $10-million PIP)		44,000,000	147,000
The Sutton	Apr-05	330 East 56th Street	85	Glenwood Management	Alchemy Properties	52,400,000	616,000
Rihga Royal*	Mar-05	151 West 54th Street	506	Lehman Brothers	Blackstone Real Estate Group	193,000,000	381,000
Best Western Convention Center	Feb-05	522-524 W 38th Street	83	Unigroup Hotel LLC	522 W 38th St NY LLC	15,785,000	190,000
Manhattan Seaport Suites	Jan-05	129-31 Front Street	57	Target Two Associates	129 Front Realty LLC/Heng Sang Realty	11,750,000	206,000
The Stanhope Park Hyatt* Sold for Condo Conversion	Jan-05	995 Fifth Avenue	169	Hyatt Hotels	Intell Management	70,000,000	414,000

**Leasehold Interest*
***Property under contract before pre-recession period. Sold as turnkey.*
****Includes 15,000 square feet of retail space; assuming residential conversion.*
Note: Price for the Rihga Royal includes termination fees paid to Marriott