



MANHATTAN HOTEL INDUSTRY IN NYC

————— **Manhattan report 2010, 2nd Edition**

DOMAIN PROPERTIES

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Since the premiere edition of the 'Manhattan Hotel Report 2010,' dealing with the Manhattan hotel industry, was released by Domain Properties in February 2010, hotel sales continue to go through the roof in New York City. Domain Properties assists buyers and sellers of 'off market' hotels and offer direct discreet buyer to seller meetings. With rising hotel rates and high occupancy levels, the Manhattan hotel industry is a lucrative market for investors. Luxury hotels are in highest demand – especially with international travelers who want to stay in Manhattan.

NYC HOTELS – EXPECTED TO OPEN MID-2010

Hotel Name	Hotel Type	Number of Rooms	Address	Neighborhood
Trump Soho	Condo-Hotel	391	246 Spring Street	SoHo
Staybridge Suites - Times Square	Limited-Service	310	310- 334 West 40th Street	Midtown West
Comfort Inn Lower East Side	Limited-Service	32	136 Ludlow	Lower East Side
The Chatwal New York	Boutique	88	128-130 West 44th Street	Midtown West
Mondrian SoHo	Full-Service	270	150 Lafayette Street	SoHo
48 Lex	Extended Stay	124	517 Lexington Avenue	Midtown East
Cassa NY Hotel & Residence	Hotel + Condo	166	66 West 45th Street	Midtown West
James New York SoHo	Boutique	114	27-31 Grand Street	SoHo

The above table indicates just a few of the NYC hotels slated for development during this second half of 2010. Forty-six hotels are scheduled to open in New York City before the end of the year. More than six hotels will have opened between June and August.

In the first half of 2010, nine hotels opened and added 1,633 rooms to the NYC hotel industry. During the second half of the year, more than 5,100 extra rooms will be available in the city. This thriving global center will have 86,500 hotel rooms by year's end.

Another 4,000 rooms are expected to be added in the near future. NYC developments for 2011 include Clarion Brooklyn (65 rooms) on 1120 36th Street in Brooklyn, NoMad Hotel (160 rooms) on 1170 Broadway at 28th Street, and Holiday Inn Express (198 rooms) at 505 W. 43rd Street.

In July, the Hyatt Hotels' 184-room Andaz opened at 485 Fifth Avenue at 41st Street. This site will be fully operational in September. Hyatt already operates the Grand Hyatt on 42nd Street in Manhattan, According to Smith Travel Research, Hyatt will open four NYC hotels - two under the Andaz brand (including a 253 - room Andaz at 75 Wall Street) and two under the Hyatt Place brand.



Trump Soho Hotel - bedroom

As well, the 607-room InterContinental Hotel Times Square opened its doors. This development is the largest ground-up Manhattan hotel to go up in eight years. Actually, InterContinental will open four hotels in New York City as well as others under the Holiday Inn Express and Staybridge Suites brands.

Lower Manhattan welcomed the 58-story W Downtown Hotel & Residences at 123 Washington Street. The ultra-modern Eventi Hotel in Chelsea at W. 30th St. opened in May and The Gansevoort Park welcomed guests in July. Other developments include the 83-room Chatwal New York at 130 West 44th Street and the Cassa Hotel and Residences (an example of the luxury market) at 70 West 45th Street.

Well-known luxury NYC hotels have changed hands in recent months. In April 2010, the W New York – The Court & The Tuscany - was bought by St. Giles Hotels, LLC. The McSam

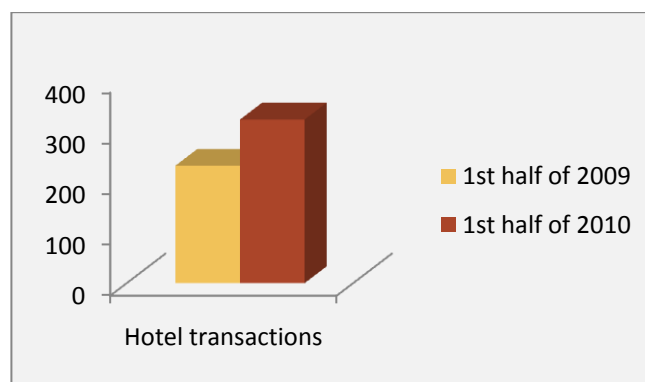
Hotel Group sold four hotels to the Hersha Hospitality Trust. The four hotels are Hilton Garden Inn in TriBeCa, Holiday Inn Express, and Hampton Inn, as well as Candlewood Suites. Keep in mind that Times Square is one of the most popular areas in New York City.

September will see the opening of the 114-room James New York and the 133-room Fairfield Inn & Suites at 181 Third Avenue in Boerum Hill, Brooklyn. The lower-end Fairfield Inn New York Manhattan Chelsea on W. 28th is planning a September debut. Other hotels will be coming to the Bronx and Queens.

Some owners of the future **NYC hotel developments** will be foreign operators. US real estate continues to appeal to international investors. The US system accommodates foreign buyers. International investors have to follow certain guidelines but the process is straightforward and foreign-friendly for investors from outside the US.

In 2009, 506 hotel transactions (including individual, portfolio, merger and acquisition transfers) took place. In the first half of 2010, 322 hotel sales (at least \$2.59 billion in hotel properties) and property transfers have been completed already in New York City. During the same period in 2009, there were 231

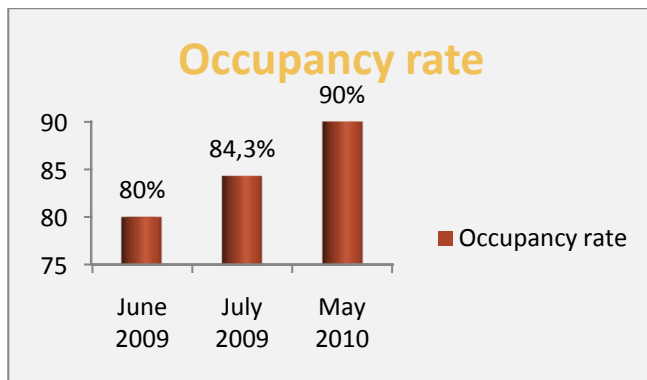
deals (worth \$1.82 billion). As a percentage of overall property investments, hotel sales have increased from less than 8% to more than 10%. Major hotel chains are putting out the welcome mat in New York City.



Successful hotel chains are not in the habit of opening in depressed areas. All hotel buyers and sellers can take comfort in the fact that top hotel chains are expanding in the Big Apple. This activity indicates the strength of the NYC hotel industry at this time. The Marriott alone will open five hotels in the city under the Courtyard and Fairfield Inn brands. Starwood is opening six hotels under the Sheraton, Four Points by Sheraton, and Aloft, as well as W and Element brands.

BUYER'S MARKET

There never was a better time to buy a NYC hotel. Occupancy rates are going through the roof. They soared to more than 90% (an 8% increase over 2009) in Manhattan during May, 2010. The condo-hotel Trump Soho, offering 300 rooms for short-term guests, has been bringing in revenues of 30 percent above internal predictions. In addition, it is possible to pick up a quality NYC hotel for a bargain.



Nobody is worried about competition from other hotels. Some experts suggest that new hotels are synonymous with new life. They will result in more people coming to live in the neighborhood.

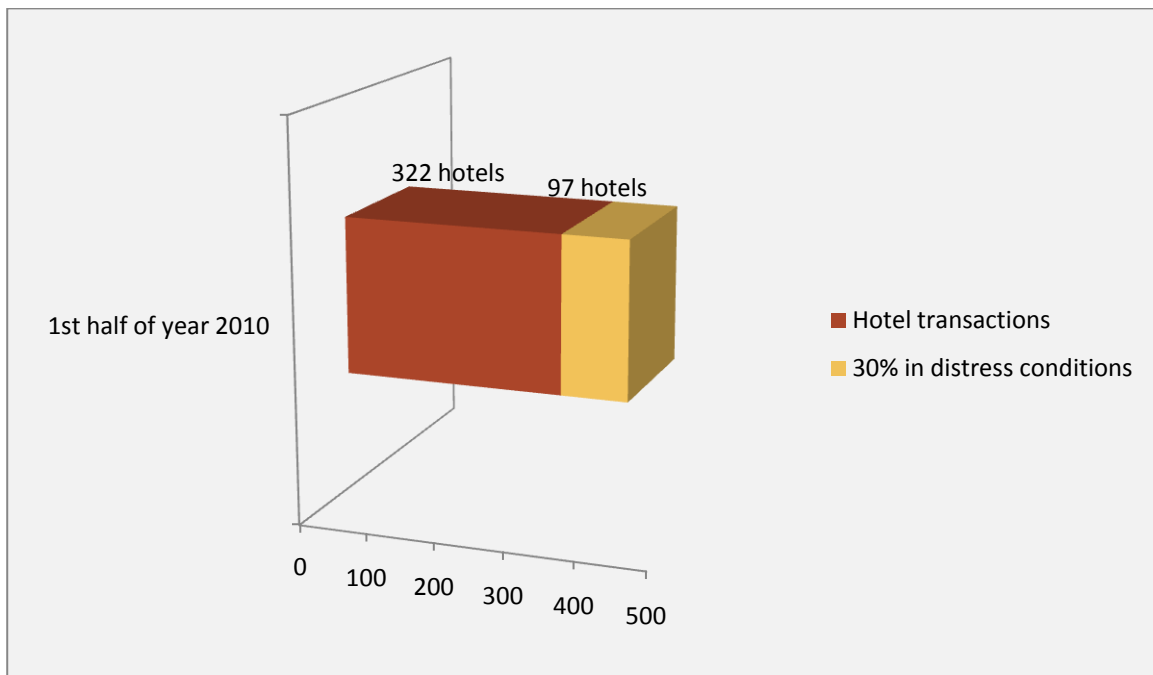
Since most hotels offer unique features, multiple hotels can survive in Manhattan. Within its different areas, the Manhattan neighborhood can support various hotels. The accommodations differ in size, style, and location.

Some hotels target the luxury market. Modern consumers associate luxury with exceptional quality – not just extravagant touches. The NYC real estate scene is a diverse environment with luxurious rooms as well as simpler but comfortable accommodations. As the US economy recovers, NYC is expected to continue as a thriving metropolis with a booming real estate market.

New York, New York, showed the highest ADR (5.4% to US \$209.42) in the first half of 2010. The Big Apple achieved a RevPAR of 15.2% putting it at US \$162.56. Only four markets (New York, Boston, New Orleans, and Miami–Hialeah, Florida) reached a RevPAR over ten per cent.

SELLER'S MARKET

Hotel sellers also recognize the demand. Any owner who needs to raise quick capital is seizing the opportunity to find a buyer. As the country recovers from an economic downturn, many people need capital to cover debts. Therefore, they are willing to let go of their property.



Several New York hotels experienced challenges (defaults, foreclosure, receivership, or bankruptcy) in this recent financial crisis. One-third of hotel transactions in the first half of 2010 involved distress conditions. Banks do not like keeping these properties because they are expensive to keep on their balance sheet.

INVESTOR'S MARKET

Therefore, investors can buy a hotel at a reasonable price and turn it into a paying venture in the revived economy. Troubled hotels that have sold already included the W Hotel on Union Square, the Four Seasons on 57th Street, and the Time Hotel on 49th Street. Even high-end properties have sold in distressed condition. For example, Danske Bank sold the historic Knickerbocker Hotel in New York City. Distressed properties are expected to add up to a considerable percentage of **hotel sales** in the coming months.

NYC hotels in desirable locations did best during the recession. Boutique hotels, however, suffered as they are looked on by some as frivolous choices. New York City is expected to make the swiftest recovery from the widespread economic turmoil.

The demand for accommodations is at its highest level since 2004. Demand is calculated by considering the number of rented rooms over a monthly period. Investors are buying into the city's hotel industry because they have confidence in the marketplace.



Mondrian Soho - garden

CUSTOMER'S MARKET

This period of impressive growth in the New York City hotel industry is also favorable to the hotel guest. The corporate traveler is driving this trend but is also benefiting from the vibrant NYC market. With industry growth expected to come in between 10% and 12%, there will be no shortage of hotel rooms.

Some new hotels will be discounting initial prices to gain a market share at the beginning of their venture. Of course, even the established hotels will have to discount to match the pricing of the new hotels. Although hotel guests can expect to see higher prices in the future, they can enjoy discount prices at present for affordable and comfortable NYC hotel rooms.

If an investor is planning to purchase a NYC hotel, the occupancy rate is an encouraging sign for a perspective buyer. Yet a few investors might worry about having to offer discount prices. The slashing of rates for hotel rooms is a temporary situation.

When advance bookings increase, discounting disappears and is replaced by standard

pricing. Industry specialists explain that a decline of one percentage point in room revenue results in two percentage points of net losses. This scenario occurs because of the associated fixed costs (labor, insurance, taxes) of hotels.

Some people might wonder why hotels are appearing on every corner in Manhattan. The country has been in a recession. Yet hotel development requires considerable planning in advance of development.

A hotel might have been planned in better times. By the time that the hotels are completed, a downturn can be history and recovery might be on the horizon. Today's hotels were in the planning stages in 2006 and 2007.

UPDATE

According to data from STR, the U.S. hotel industry reported increases in all three key performance measurements during the week of August 15-August 21, 2010. New York reported a 13.2% ADR increase to US \$206.73. San Francisco/San Mateo, California is the only other market to report a two-digit increase ((10.4 percent rise in ADR to US \$135.02).

CONCLUSION

During the second half of 2010, more NYC hotels will be available for purchase. Occupancy rates will be at an all-time high and the NYC hotel industry will be favorable to buyers, sellers, and even hotel guests (although they can expect room rates to rise in the near future). It takes a 5%-6% occupancy rate to bring back pricing power. Hotel sellers will note the demand and buyers are bound to discover an excellent price.

Several distressed properties are selling at bargain rates. An investor has every chance of making a go of these businesses as the economy regains strength. Previous owners may have encountered challenges during the economic downturn.

The luxury market is also a growing market. The future of **NYC real estate** looks rosy for all parties and every type of hotel. As long as the demand stays steady or grows, the city's hotel industry will continue to blossom and grow in leaps and bounds. If they are not involved in the process, NYC lenders want to get into hotel lending. Almost every investment bank has billions of capital in a fund to buy hotels or invest in other related endeavors.

During 2010, New York City expects to entertain 46.7 million visitors – up 3.2% from 2009. Thousands of hotel rooms will be created throughout 2010. Investors should not let such a fantastic opportunity slip through their fingers. **Buy into the NYC hotel industry!**



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Current Market Condition – Perfect

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