New York ADR Dilemma

Like most every other role at a hotel, being an owner or investor has never been easy. This is perhaps nowhere more evident than in New York City where exorbitant construction costs mixed with steadily increasing wage rates, maintenance and depreciation can make the break-even point higher than practically any other locale on the continent. Thank goodness this is reflected in the average daily rates.

Regrettably, the Big Apple may have a rotting core. Drawing from STR data, in 2017 the citywide ADR was $256 per night. This alone is no cause for alarm, until you compare it against the ADR posted for 2012 and 2013 which was $258 and $266 per night respectively.

How could that be? Can you name another product or service that has anti-inflationary characteristics like this? I highly doubt a statistical fumble could account for such a non-negligible drop. In this world-class destination with historic occupancies pretty much unchanged around 85%, there must be another series of events that have caused this market decline.

As I always believe that the simplest answer is the most likely one, my hypothesis is that this all boils down to supply and demand – probably the first principle you learn in any economics class. Prices go up when demand exceeds supply and the reverse happens when supply outstrips demand. So, if prices are dropping – even if the year-over-year isn't immediately palpable – it would indicate that supply is increasing. But with hotel occupancies holding steady for the past for past five years, where is the extra supply coming from?

Following this train of thought, next would be to review the number of rooms that have come onto the market. Based upon data from NYC & Company, there were about 116,000 rooms in the city as of the end of 2017. But with another 20,000 rooms expected to come on board in the next three years, why would a series of investors spend the necessary funds to bring this enormous batch of new inventory into a declining market?

Looking for possible answers to this, my next thought is that hotels are starting to feel the effects of the home sharing economy, the largest provider therein being Airbnb. According to Inside Airbnb, as of April 2018 there were roughly 49,000 rooms as well as full residences available across the five boroughs. That works out to about 30% of the total room stock including traditional hotel properties as well as alternate lodgings.

Obviously, this is not the only factor at work here. For instance, many hotels in New York City have started taking advantage of a local government-incentivized practice to house the homeless. Paying a flat $220 per night per room, it is now estimated that as much as 5% of the traditional rooms stock (about 5,500 guestrooms) have been taken out of the available 'visitor' inventory through this approach. However, reducing gross availability should, in theory, force up ADRs. Alas, this has not occurred which reinforces my conviction that we are seeing erosion due to the rapid proliferation of the home sharing economy.

That's my hunch. Now I open this up for a broader debate. What's your hypothesis for this NYC ADR dilemma? On a more personal level, have alternate lodging providers impacted your bottom line?

Article by Larry Mogelonsky, originally published on HotelsMag on July 12, 2018