2000/2001
Manhattan
Hotel Market Overview

NEW YORK UNIVERSITY
School of Continuing and Professional Studies

Preston Robert Tisch Center for Hospitality, Tourism, and Travel Administration

HVS INTERNATIONAL

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Rudolph W. Giuliani, Mayor, New York City

One of the most striking measures of New York City's resurgence is the fact that the number of visitors to our City has increased from 22 million in 1991 to well over 38 million in the year 2000. In fact, New York City is the number one place to visit and do business in the United States, and remains the number one destination for foreign tourists.

According to a 2000 Zagat survey, travelers ranked New York City as the best city to visit. In 1997, ***Fortune*** *named New York City the most improved city for business in North America, and in 2000, the magazine named our city the number one place for business in North America.*

Economic development has also been critical to improving the quality of life in New York City. Tax cuts, combined with fiscally responsible policies, have resulted in broad private-sector job growth. In 2000, the City created 88,000 new private-sector jobs — more jobs than at any time since records began to be kept in 1953.

In short, we've returned the value of work to the center of our City life, and the result is a vibrant atmosphere of optimism, confidence, and entrepreneurial activity. New York City is again a City on the rise, worthy of the title, "Capital of the World."

NEW YORK CITY HOTEL SURVEY

HVS International, in cooperation with New York University's Preston Robert Tisch Center for Hospitality, Tourism, and Travel Administration, is pleased to present the fourth annual Manhattan Hotel Market Overview. Our research and findings indicate that the New York City hotel market had yet another record year, with RevPAR increasing by 11.1% over 1999; however, the addition of 3,222 new rooms in the first quarter of 2001 has had a significant impact on occupancy.

Going forward, new supply will continue to impact the market, particularly in light of current economic uncertainty. However, the bulk of the new supply has already entered the market, and although some neighborhoods and market segments will be impacted later this year, we anticipate the second half of 2001 to be much stronger than the first.

HVS International

HVS International is a global hospitality consulting organization with offices in New York, San Francisco, Miami, Boulder, Vancouver, Toronto, São Paulo, Buenos Aires, London, New Delhi, and Singapore. Its professional staff of more than 150 industry specialists offers a wide range of services, including market feasibility studies, valuations, strategic analyses, development planning, and litigation support. Through its divisions, HVS supplies unique hotel consulting expertise in the areas of executive search, environmental services, food and beverage operations, gaming, operations analysis, asset management, timeshare consulting, operational and management strategy development, investment counseling, and marketing communications. Since 1980, HVS International has provided consulting and valuation services for more than 8,000 hotels in all 50 states and over 60 foreign countries.

The Preston Robert Tisch Center For Hospitality, Tourism, and Travel Administration

The Preston Robert Tisch Center for Hospitality, Tourism, and Travel Administration at New York University is a dynamic and growing educational and research center located in the heart of Manhattan. The Tisch Center offers an extensive complement of hospitality and tourism academic programs of study, including two bachelor's degree programs and four master's degree programs (two on-site and two online). In concert with its location in the financial and hotel capital of the world, coursework is focused on the areas of asset management, financial analysis, revenue management, customer relationship management, e-commerce, and information technology relative to the international hospitality and tourism industry. As entrepreneurial educators, administrators and faculty are experienced in the profession and bring the reality of the industry into the classroom. The Tisch Center's motto encapsulates its uniqueness — The City is our laboratory, the industry is our faculty, and our students are the future of the profession.

New York University Annual International Hospitality Investment Conference

For 18 years, HVS International has played an integral role in New York University's Annual International Hospitality Industry Investment Conference. Once again, our team of professionals looks forward to welcoming you to this prestigious event, which is scheduled for Sunday-Tuesday, June 3-5, 2001, at New York City's Marriott Marquis Hotel.

Acknowledgements

Randy Smith of Smith Travel Research has provided the Survey's historical operating data. Smith Travel Research continues to be the leading source of Hospitality Industry operating statistics. We would also like to thank Donna Quadri of Hotel RevMAX, a New York-based performance data company, which has provided comprehensive hotel statistics for this survey. Additionally, in cooperation with the New York University Preston Robert Tisch Center for Hospitality, Tourism, and Travel Administration's Research Program, the data-gathering process was largely a contribution of two graduate students, Jean Gibbons and Peggy Yip, through the coordination of Dr. Mark M. Warner, Director for Graduate Programs. HVS International is pleased to have been a part of this enriching educational process.

Stephen Rushmore President HVS International	Frank P. Dougherty Senior Vice President HVS International	Michael Hay Senior Associate HVS International	Lalia Rach, Ed.D Associate Dean The Preston Robert Tisch Center for Hospitality, Tourism, and Travel Administration New York University

Jonathan M. Tisch, Chairman and CEO, Loews Hotels; Chairman, Travel Business Roundtable

While the New York hotel industry has enjoyed several continuous years of record-level occupancy and revenues, there is reason to be concerned about the future. With the addition of 3,000 new rooms in 2000 and a slowing economy, there are indications that these numbers will decline in the coming months. However, it is important to keep the industry's performance in perspective, as the travel and tourism industry continues to have the potential for growth as one of the fastest-growing and most vital sectors of the nation's economy.

Joseph E. Spinnato, President, Hotel Association of NYC, Inc.

In 2000, the New York City hotel industry enjoyed its highest-ever occupancy rates, at a record of 84.1%, up 2.5% from 1999. This accomplishment came at a time when the City also experienced a development boom, with 11 new hotels opening in Manhattan.

While some have sounded a cautionary note about the ability of the hotel industry to maintain its extraordinary health given the softening economy in 2001, there is every reason to believe that owning and operating a hotel in Manhattan continues to be an excellent venture.

With new initiatives afoot, including a drive to expand the Jacob Javits Convention Center and to secure a future summer Olympics here, the hotel industry will continue to be well supported and new audiences will continue to be attracted to Manhattan.

MANHATTAN

Operating Statistics

2000 was yet another record year for the Manhattan hotel market; however, supply increases significantly outpaced demand growth in the last quarter of 2000 and the first quarter of 2001.

Due to exceptionally strong first and second quarters, the Manhattan lodging market posted an 11.1% gain in revenue per available room (RevPAR) in 2000, its eighth consecutive RevPAR increase. Real demand for room nights increased 5.1% over 1999's record levels, causing citywide occupancy to hit a stratospheric 84.1%.

Instead of reacting exuberantly, however, by year's end, many hoteliers questioned the strength of the market. By April of 2001, some thought that "the wheels had come off the bus." In telephone interviews, sales directors across the city concurred that they had experienced a softening in demand. They voiced concern about an economic slowdown, but largely pointed to a substantial supply increase as the cause of Manhattan's occupancy drop in the first quarter of 2001.

Manhattan Operating History

Year	No. of Rooms	Percent Change	Occ.	Occupied Rooms	Percent Change	Average Rate	Percent Change	RevPAR	Percent Change
1988	50,567		79.5%	14,669,464		$118.81		$94.43	
1989	50,262	(0.6)%	78.5	14,409,284	(1.8)%	128.45	8.1%	100.89	6.8%
1990	51,725	2.9	71.5	13,491,758	(6.4)	132.15	2.9	94.44	(6.4)
1991	52,318	1.1	68.0	12,985,547	(3.8)	125.12	(5.3)	85.08	(9.9)
1992	53,687	2.6	68.0	13,326,528	2.6	123.58	(1.2)	84.04	(1.2)
1993	53,635	(0.1)	70.6	13,820,421	3.7	125.77	1.8	88.79	5.6
1994	54,135	0.9	75.5	14,909,928	7.9	133.59	6.2	100.80	13.5
1995	54,607	0.9	78.7	15,677,688	5.1	143.59	7.5	112.94	12.0
1996	54,832	0.4	80.7	16,156,868	3.1	160.04	11.5	129.20	14.4
1997	55,816	1.8	81.9	16,692,185	3.3	175.73	9.8	143.98	11.4
1998	55,965	0.3	82.5	16,859,189	1.0	192.18	9.4	158.61	10.2
1999	57,709	3.1	82.0	17,272,575	2.5	202.90	5.6	166.38	4.9
2000	59,139	2.5	84.1	18,146,455	5.1	219.83	8.3	184.80	11.1
12-Year Average Compounded Change:					1.8%		5.3%		5.8%

Source: Smith Travel Research

New Supply

Eleven new hotels opened in Manhattan from May to November of 2000, releasing some of the occupancy pressure that area hoteliers had come to enjoy. New supply had a particular impact during the fourth quarter of 2000, causing occupancy to fall during what is historically the strongest part of the year. The opening of the 810-room Hudson, which represents 29% of the rooms added in 2000, contributed to a 5% increase in room nights during the fourth quarter.

While Manhattan is often seen as a collection of neighborhoods, the impact of these new rooms has been felt citywide. Several hoteliers indicated that "any new supply is competition." June's opening of the 455-room Hilton Times Square and July's debut of the 398-room Sofitel allowed Midtown hotels to capture unaccommodated demand for that area, lessening spillover effects by sending fewer travelers uptown or downtown in search of rooms. Hoteliers outside of Midtown also pointed to introductory rates at new properties that peeled away some customers. While the hotels that opened in 2000 did not achieve quite the occupancy levels of established hotels, they lagged only by 4.4%, suggesting that these new additions are stabilizing quickly. Manhattan was still able to finish 2000 at a record occupancy, due both to new hotels opening late in the year and to record demand levels in 2000. Those factors delayed the brunt of the new supply's impact until the first quarter of 2001.

Surprisingly, real demand in the first two months of 2001 nearly achieved the record levels it set in 2000. Smith Travel Research reports a decline of only 15,000 occupied room nights, six-tenths of a percent, to just under 2.5 million for the first two months of the quarter. However, demand fell by over 80,000 rooms in March, 2001, which led to a 2.4% decline in demand for the first quarter. Coupled with the decline in demand was a significant increase in supply. There were 3,222 more hotel rooms in the first quarter of 2001 than in the same period in 2000, causing a significant dilution of market occupancy, from 78.5% for the first three months of 2000 to 72.5% for the first three months of 2001. While ADR increased slightly, up 2.0% to $200.47 in the first quarter of 2001, the occupancy decline caused RevPAR for the quarter to fall 5.8% to $145.38.

Randy Smith, President, Smith Travel Research

New York City ended 2000 as one of the strongest markets in the U.S., with an occupancy of 84.1%, three full percentage points higher than the second-strongest market, San Francisco. Room rates came in at approximately $220, a significant premium over any other major market. Revenues rose in the market in excess of 19% over 1999. Indeed, it was a banner year for the New York City market.

Unfortunately, the first quarter of 2001 has seen some of the sharpest declines in occupancy of any major market. In addition to the meetings market decline, New York has experienced some downturn in international visitation. People have been reluctant to travel to London (due to agricultural concerns), resulting in a decline in travel and tourism on the London/New York and Paris/New York routes.

Also, the stock market roller coaster has created concern in the financial communities. There have been cancellations of the traditional roadshows related to IPOs that have collapsed along with the IPO market.

Smith Travel expects that difficulties will continue into the summer due to expensive gasoline prices, high airfares, and a general concern about the economy. However, as we progress into the fall of 2001, we anticipate that the situation will improve and that the Big Apple is likely to be one of the first beneficiaries of the upturn.

We expect that 2002 will move back up to more traditional levels.

Recent Changes to Hotel Supply in Manhattan

Hotel Name	Location	Type	No. of Rooms	Opening	Developer
Midtown West					
Chelsea Savoy Hotel	23rd & 7th	Mid-Scale	90	Mar '97	Not available
Holiday Inn	32nd & Bwy	Mid-Scale	531	Sep '98	Thurcon Properties
Courtyard by Marriott	114 W. 40th (Bwy & 6th)	Mid-Scale	244	Nov '98	Granite Park (Harry Gross)
Millennium Bwy Addition	44th (Bwy & 6th)	Upscale	125	Nov '98	CDL Hotels
Time Hotel	224 W. 49th St.	Boutique	192	Jun '99	Hampshire Hotels*
Philips Club Addition	Bwy & 67th	Timeshare	92	Nov '99	Millennium Partners
Herald Hotel	34th & Bwy (SE Cnr)	Ext. Stay	60	Jan '00	JEMB Realty
St. Moritz Closed	6th & Central Pk S.	Mid-Scale	(689)	Jan '00	Millennium Partners
Red Roof Inn	6 W. 32nd	Economy	171	Jun '00	Apple Core Hotels
Hilton Times Square	42nd (7th & 8th)	Upscale	455	Jun '00	Forest City Ratner
Sofitel	44th (5th & 6th)	Upscale	398	Jul '00	Accor
The Muse	130 W. 46th	Boutique	200	Aug '00	Cornerstone
Hudson Hotel	57th (8th & 9th)	Mid-Scale	810	Nov '00	Ian Schrager Hotels
* renovation of Consulate Hotel					
Midtown East					
Roosevelt Hotel Closed	45th & Madison	Mid-Scale	(1,040)	Jul '95	Closed for renovation
Mayfair Hotel Closed	Park & 55th	Luxury	(210)	Feb '97	Converted to residences
Quality Inn	161 Lexington	Economy	76	Jun '97	G-2 Management
Roosevelt Hotel Reopens	45th & Madison	Mid-Scale	1,013	Jun '97	Reopens after significant renov.
Westbury Hotel Closed	69th (Madison & 5th)	Luxury	(238)	Dec '97	Converted to residences
Peninsula Closes	5th & 55th	Luxury	(242)	Jan '98	Closed for renovation
Beverly Hotel Closed	50th & Lexington	All-Suite	(186)	Jan '98	Manhattan E. Sts. buys / closes
Avalon Hotel	16 E. 32nd St.	Boutique	100	Apr '98	
Fitzpatrick Grand Central	44th (Lex & 3rd)	Boutique	155	Sep '98	Fitzpatrick Hotels
Courtyard by Marriott	53rd & 3rd	Mid-Scale	320	Nov '98	Witkoff Group
Peninsula Reopens	5th & 55th	Luxury	242	Jan '99	Reopens after renovation
Benjamin Hotel **	50th & Lexington	All-Suite	209	Apr '99	Reopens after $40 million renov.
Hotel Giraffe	Park Ave. S. & 26th	Boutique	73	Dec '99	Henry Kallan
Habitat	57th & Lexington	Economy	220	Dec '99	PMG
Thirty Thirty	E. 29th (Park & Lex)	Mid-Scale	251	Jul '00	PMG
Library Hotel	229 Madison @ 41st	Boutique	60	Aug '00	Henry Kallan
Dylan Hotel	52 E. 41st	Boutique	108	Sep '00	Morris Moinian / Allied Hospitality
** (formerly the Beverly)					
Upper West Side					
Quality Inn	94th & Bwy	Economy	251	Jun '99	Hampshire Hotels
Hotel 71 (Comfort Inn)	31 W. 71st	Mid-Scale	88	Jun '99	Hampshire Hotels
On the Ave	Bwy & 77th	Mid-Scale	250	Dec '99	PMG
SoHo					
SoHo Grand	310 W. Bwy (Canal)	Boutique	367	Aug '96	Hartz Mountain Industries
Mercer Hotel	Prince & Mercer	Boutique	75	Jan '98	Balaz & Partners
TriBeCa Grand	6th & White	Boutique	203	May '00	Hartz Mountain Industries
W Hotel	Union Sq. (Park & 15th)	Boutique	270	Nov '00	Starwood / Related Cos.
Downtown					
Holiday Inn	Gold & Platt	Mid-Scale	138	Jul '99	RD Management
Wall Street Inn	9 S. William	Boutique	46	Jul '99	Norman Rutta
Regent Hotel	55 Wall	Luxury	144	Dec '99	Sidney Kimmel, Jones NY
Embassy Suites	Battery Park City	All-Suite	463	Jun '00	Forest City Ratner

Source: HVS International

Eleven new hotels, with a total of 1,622 rooms, will open in 2001. The opening of three boutique hotels in February of 2001 added to the first quarter occupancy woes. More than half of 2001's new rooms will enter in the third quarter, including the 526-room W Times Square. The fourth quarter will see the opening of Ritz-Carlton's 298-room Battery Park City hotel. By location, 58% of the new rooms will enter in Midtown West, 27% in downtown, and 15% in Midtown East.

The boutique hotel segment continues to transform the Manhattan hotel market. The majority of recent development — 60% of new rooms in 2000 and 64% in 2001 — consists of boutique hotels. Even as the Hudson and the W's challenge the boundaries of "boutique," the Manhattan boutique segment is experiencing real demand growth. Boutique hotels are also crossing the boundaries of traditional luxury hotels, as $500-$600 standard room rates at the Mercer, Bryant Park, and the Chambers indicate.

Stephen Rushmore, President and Founder, HVS International

HVS International is proud to partner with NYU's Preston Robert Tisch Center for Hospitality, Tourism, and Travel Administration in the publication of the 2000/2001 Manhattan Hotel Market Overview. An important component of this annual industry research project is the data continuously collected by our appraisers for the HVS International Lodging Databank that serves as the cornerstone for the statistics contained in HVS reports. Combined with the efforts of NYU's talented graduate students, we are pleased to present this Overview.

New York City has been referred to as the "center of the universe." Unique in every way, it is unlike other cities in the United States that constantly add a significant number of hotel units. The new rooms planned for New York City are essentially inconsequential to the total room base and, therefore, should not have a prolonged influence on its future occupancy.

It is common knowledge that the industry is feeling the effects of a downturn. For the first time in many months, we have seen advertisements for discounted weekend hotel rates for NYC hotels in the Sunday ***New York Times*** *Travel Section. Though this signals a slight decline in occupancy, the City's hotels are still realizing tremendous profits.*

As we have witnessed previously, the recent challenges experienced by investors on Wall Street are impacting the travel and leisure industries. However, we believe that the hotel segment has remained relatively strong and will continue its gradual recovery as we approach the 2001 winter holiday season.

Manhattan First-Quarter Operating History (1996 Through Year-To-Date March, 2001)

1st Qtr	No. of Rooms	Percent Change	Occ.	Occupied Rooms	Percent Change	Average Rate	Percent Change	RevPAR	Percent Change
1996	54,166		69.3%	3,415,233		$146.66		$101.62	
1997	54,346	0.3%	74.8	3,697,272	8.3%	159.96	9.1%	119.59	17.7%
1998	55,041	1.3	76.4	3,826,478	3.5	175.00	9.4	133.69	11.8
1999	56,847	3.3	74.7	3,866,468	1.0	183.84	5.1	137.41	2.8
2000	57,074	0.4	78.5	4,075,033	5.4	196.60	6.9	154.25	12.3
2001	60,296	5.6	72.5	3,979,167	(2.4)	200.47	2.0	145.38	(5.8)

Source: Smith Travel Research

Data provided by Hotel RevMAX, a New York-based hotel data reporting and revenue management service, suggests that the boutique segment may be capturing customers from the first-class and luxury segments. Hotel RevMAX compared the performance of a sample of Manhattan hotels from the first quarter of 2000 to the first quarter of 2001, reporting results for the boutique, first-class, luxury, and tourist segments. Supply of boutique hotel rooms increased 39% from the first quarter of 2000 to the first quarter of 2001. In the same period, the number of occupied room nights in the boutique segment increased by 67,312 nights, or 25%. Occupied room nights in the first-class and luxury segments combined declined by 75,337 rooms from 1,944,922 in 2000. The rough balance of the boutique segment's gains and the first-class and luxury segment's losses suggests that the boutique segment may have sifted off about 3% of their combined demand.

The tourist segment has so far experienced the fewest additions to supply; only the Red Roof Inn joined the tourist market in 2000. A Best Western and a Comfort Inn, both in the under-supplied Javits Center area, will open in 2001. In the Hotel RevMAX sample, a slight decline in the number of available room nights and a small increase in occupied rooms between the first quarter of 2000 and the first quarter of 2001 enabled the tourist segment to improve its market penetration. Of the four segments, only the tourist hotels enjoyed a RevPAR increase in the first quarter of 2001. We note, however, that the Hotel RevMAX data does not include the operating results of the Red Roof Inn, and consequently, first-quarter data for this segment is slightly skewed.

Proposed Hotels in Manhattan

Project Name	Location	Type	No. of Rooms	Est. Open	Developer	Rating
Midtown West						
W Hotel - Times Sq.	47th & Bwy, SW cnr	Upscale	526	Sep '01	Intell Real Estate / Starwood	5
Bryant Park Hotel	40th (5th & 6th)	Boutique	130	Feb '01	Pilevsky & McNally	5
The Chambers Hotel	56th (5th & 6th)	Boutique	77	Feb '01	Ira Drukier & Richard Born	5
WestPark Hotel	308 W. 58th (8th & 9th)	Boutique	106	Mar '02	Pomeranc Group	3
Ritz-Carlton	6th & Central Pk S.	Luxury	286	Jan '02	Millennium Partners	5
Westin	8th (42nd & 43rd)	Convention	860	Jan '03	Tishman Realty & Cons.	5
Mandarin Oriental	59th & Bwy	Luxury	249	Jan '04	Time Warner, et al.	5
Lambs Club	44th (6th & 7th)	Mid-Scale	135	Unknown	Hampshire Hotels	2
Hampton Inn	48th & 8th, NW cnr	Mid-Scale	175	Unknown	Hampshire Hotels	2
Best Western	522-24 W. 38th (10th & 11th)	Economy	84	Oct '01	Unigroup Hotels LLC	5
Comfort Inn	442 W. 36th (9th & 10th)	Economy	56	May '01	Heena Hotel LLC	5
City Club Hotel	55 W. 44th	Boutique	65	Sep '01	Metropolitan Hotels, LLC	5
Midtown East						
Park South Hotel	122 E. 28th	Boutique	143	Jul '01	Atlantic Stars	5
Boutique Hotel	1 E. 35th	Boutique	219	Jan '03	Metro One Hotel, LLC	3
Luxury Hotel	60 E. 55th	Luxury	113	Jan '03	Davis & Partners	3
Le Marquis	12 E. 31st	Mid-Scale	94	Sep '01	Le Marquis Associates	5
Mid-Scale Hotel	45th (2nd & 3rd)	Mid-Scale	200	Jun '02	Gama Holdings	3
Savoy / Connaught	59th & Lexington	Luxury	200	Jan '04	Vornado	2
Downtown						
60 Thompson St.	60 Thompson St.	Boutique	101	Feb '01	Pomeranc Group	5
Howard Johnson	135 E. Houston	Limited-Svc	46	Jul '01	Metro One Hotel, LLC	5
Ritz-Carlton	Site 1, Battery Park City	Luxury	298	Oct '01	Millennium Partners	5
Mid-Scale Hotel	Bowery & E. 4th	Mid-Scale	210	Jan '03	Private Developer	1
Greenwich Village Htl	Hudson & 13th	Boutique	195	Jun '03	Madison Equities	2
Astor Place Hotel	Astor Place & Lafayette	Boutique	100	Jun '03	Schrager & Related Cos.	2

Ratings Scale

5 = under construction; 4 = financing in place, not under construction; 3 = land acquired, no financing in place, likely to occur; 2 = rumored development, less than 50% chance of coming to fruition; 1 = rumored development, unlikely

Source: HVS International

Cristyne L. Nicholas, President & CEO, NYC & Company

Between 1993 and 1999, the number of visitors to New York City grew by more than 37%; visitor spending jumped 54%; and the total economic impact of tourism grew by 59%. Family travel alone has increased 27% since 1995. Tourism supports 277,000 New York City jobs and annually generates more than $863 million in New York City taxes.

In 2001, we expect there to be modest growth - 2% to 3% - in the visitor industry. It is important to keep in mind the fact that overall visitor activity is still robust, although not at the unprecedented boom level of 2000. New York City, this year, is well ahead of 1999 levels and is keeping on track in a 5-year pattern of growth.

We expect the third and fourth quarters of this year to rebound from the current downtrend and the city to welcome more than 39 million visitors by the end of 2001, with a total economic impact close to $25 billion.

In the first-class market, an 8% increase in available room nights from the introduction of the Hilton Times Square, the Embassy Suites Battery Park City, and the Sofitel, coupled with a 3% drop in real demand, caused the segment's occupancy to drop by 9.4%. Still to come in this segment in January of 2003 is the 860-room Westin, a convention hotel at 8th and 42nd that will be the largest addition to the city's supply of first-class convention-oriented hotels since the Crowne Plaza Times Square opened in 1991. Not surprisingly, Midtown operators alluded to particular concern about the Westin's upcoming impact.

The luxury segment, the hardest hit by occupancy declines, is also poised for several significant additions. The opening of two Ritz-Carltons, one at Battery Park City in October of 2001 and one on Central Park South in January of 2002, will increase luxury supply by more than 584 rooms. Construction continues on the Mandarin Oriental, which is due to open in January of 2004. From the first quarter of 2000 to the first quarter of 2001, real demand for luxury room nights dropped 13%, causing the segment to post a 68.3% occupancy level.

Though significant supply increases eroded occupancy levels in the fourth quarter of 2000 and the first quarter of 2001, as of May, 2001, the majority of new supply has entered the market. In addition, historical data has shown that increases in demand generally lag supply by anywhere from three to six months, indicating that the second half of 2001 should be significantly stronger than the first. Future supply increases should prove to be more manageable citywide, though particular additions — the W Times Square, the two Ritz-Carltons, and the Westin — may impact particular properties or segments. New supply is stabilizing quickly, as shown by the comparative performance of established and new hotels.

The reactions of hotel operators to the diluted occupancies and the potential softening in demand will shape the performance of the Manhattan lodging market into the second quarter and beyond. HVS selected a pool of Sales Directors and General Managers at 38 Manhattan hotels to interview in order to inquire about their reactions to the changes in the market and to gauge the severity of the downturn. Graduate students of NYU's Preston Robert Tisch Center for Hospitality, Tourism, and Travel Administration conducted telephone and e-mail interviews with members of the pool between April 13, 2001, and April 27, 2001. Interviewees concurred both on a softening in market demand and on evidence of an economic slowdown in their advance bookings for 2001.

For the first quarter of 2001, hotel operators reported occupancy declines ranging from 1% to 10%. Within the pool of interviewees, large branded properties, particularly those in Midtown, suffered less of an occupancy drop than independent, boutique, or luxury properties; those outside Midtown; or those dependent on particular industries or demand generators. Changes in ADR were split evenly between increases and decreases over the first quarter of 2000, ranging from a 7% increase to a 2% decrease. First-quarter RevPARs dropped between 2% and 9%.

By April, several operators had revisited their annual budgets and adjusted their forecasts downward. For the year, most operators predicted that occupancy would drop 2% to 6% from 2000 levels. ADR predictions for the year ranged from no change over 2000 to a 5% increase. Generally, hotel operators believe that year-end RevPAR results will fall from last year, though certain operators forecasted an increase of up to 5%.

First-Quarter Operating Statistics By Market Segment

Segment	1st Qtr	No. of Available Room Nights	Percent Change	Occ.	No. of Occupied Room Nights	Fair Share	Mkt. Share	Mkt. Penet.	Avg. Rate	Percent Change	RevPAR	Percent Change	Yield Penet.
Boutique	'00	341,533		79.8%	272,669	10.3%	10.3%	100.0	$233.52		$186.43		101.53%
	'01	473,580	38.7%	71.8	339,981	13.2	12.9	97.6	229.89	(1.56)%	165.04	(11.48)%	98.13
Tourist	'00	620,439		69.2	429,320	18.7	16.2	86.7	167.42		115.85		63.09
	'01	615,641	(0.8)	70.8	435,829	17.1	16.5	96.2	166.69	(0.44)	118.00	1.86	70.17
First-Class	'00	2,026,480		83.4	1,690,331	61.1	63.9	104.5	223.52		186.44		101.53
	'01	2,180,097	7.6	75.6	1,647,189	60.6	62.3	102.7	224.23	0.32	169.42	(9.13)	100.74
Luxury	'00	327,052		77.8	254,591	9.9	9.6	97.5	374.86		291.81		158.92
	'01	325,440	(0.5)	68.3	222,396	9.1	8.4	92.9	379.42	1.22	259.29	(11.14)	154.18
Total	'00	3,315,504		79.8	2,646,911				230.00		183.62		
	'01	3.594,758	8.4	73.6	2,645,395				228.52	(0.64)	168.17	(8.41)	

Source: Hotel RevMAX

Dr. Lalia Rach, Associate Dean, Preston Robert Tisch Center for Hospitality, Tourism, and Travel Administration, New York University

What a difference a year makes! During the first quarter of 2000, all New York City hotel indicators were on a record-breaking trajectory. It was a seller's market characterized by inexhaustible demand that accepted whatever rates were quoted. Now, 12 months later, the first quarter of 2001 has an entirely different look and feel. There is an uncertainty in the marketplace; demand has changed; and consumers are more cautious, expecting a two-way discussion concerning the value of their business. The supply side is searching for answers and trying to understand the direction of the marketplace. What remains to be seen is how the industry will respond to the shift — will the discipline imposed by revenue and asset management established over the past few years stimulate growth?

In times like this, certain events take on even greater importance for the industry in general. By all counts, the annual NYU Hospitality Industry Investment Conference will be the place to be in early June, as the global hotel industry searches for a way back to better times. The conference serves as the backdrop for intense networking and deal making. It is wholly possible that, because of this three-day event, a new phase will take root and the second half of the year will present a ground-breaking demand-supply equation that moves the industry to new levels of success.

In addition to soft occupancies and RevPARs, hoteliers reported evidence and effects of the economic slowdown. Asked when this lull began, interviewees were split between October of 2000 and December of 2000/January of 2001. Several felt that tremors from the stock market, disappointing corporate earnings announcements, and the uncertainty of the presidential race contributed to their customers becoming a bit more cost-conscious and slowing their booking pace. Some reported that their booking demand did not exhibit the same pressure in December of 2000 as in previous Decembers, or described negative growth in their competitive set occupancies in the fourth quarter. Others reported that firms have cut their travel budgets. Some cited specific fallouts from the financial and internet industries, which have been particularly plagued by economic turmoil, and spoke of their intention to diversify their market mix. Another hotelier reported that his hotel's drop in occupancy correlated to a decline in museum attendance counts. Only one hotelier sounded an optimistic note, proposing that the Fed's surprise rate cut in mid-April might help to revive demand. Asked to guess how long the softening would last, most hoteliers claimed that their crystal balls were in the shop for repairs, but went on to predict either until the Fall or Winter of 2001.

The substantial increase in competition in the Manhattan lodging market challenges hotel operators to effectively price and promote their properties. The additional 4,935 rooms entering the market over the next four years will further widen the available choices for guests and can clearly separate the "winners" from the "losers."

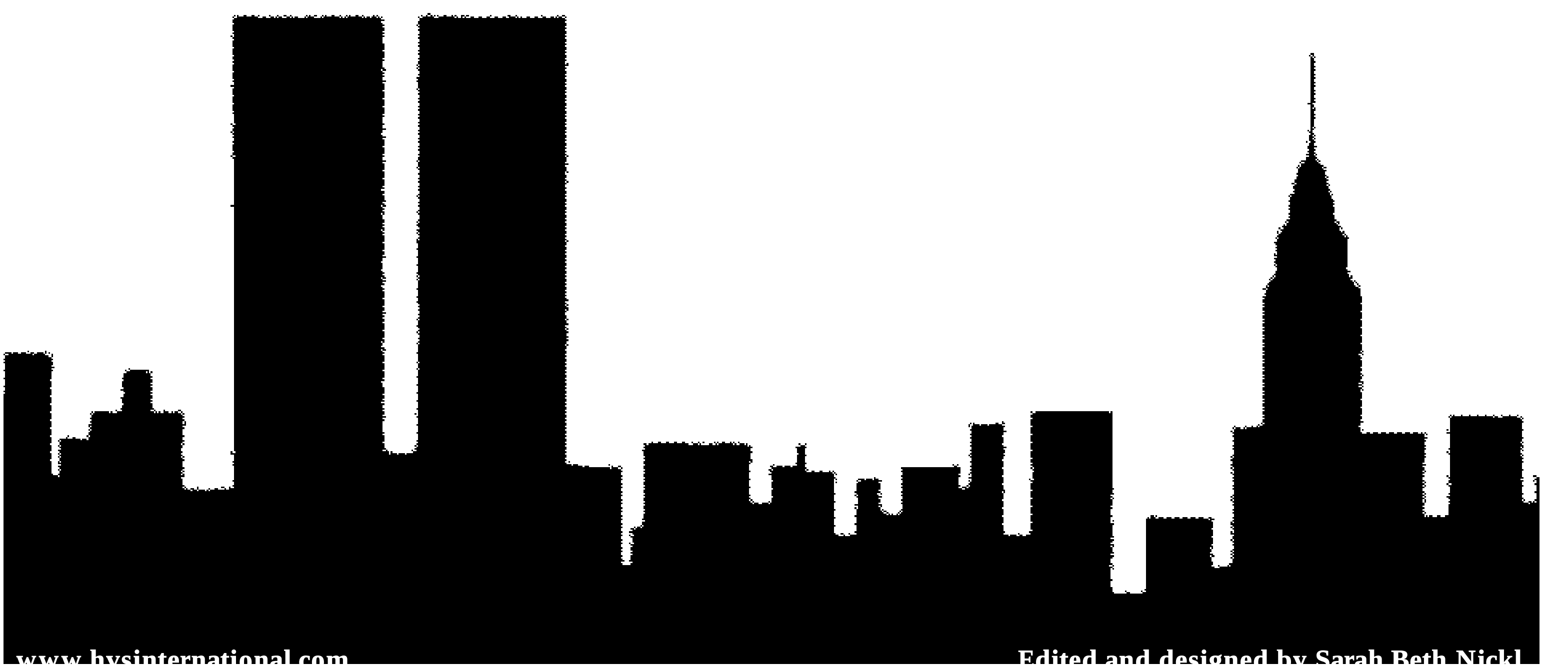
Interviewees spoke about the ways in which they intend to "work harder" to capture market share in this new competitive environment. Nearly all of the interviewees intend to lower rates in some fashion, whether it be "selected price flexibility," lowering corporate rates, joining Priceline, or increasing leisure travel promotions. Hoteliers also widely mentioned intensifying their sales and marketing activities, including more client visits, direct mailings, and developing new promotions. Several noted that they were less rigid about choosing clients than in previous quarters, and had changed their revenue management filters and re-evaluated negotiated rate business that they had previously rejected. New distribution channels, including the Internet and wholesalers, would help hotels to find new clients to close revenue gaps. Customer relationship management is another way in which operators are trying to stay close to their current customers. Manager receptions allow sales teams to meet customers and uncover how best to serve them. Hoteliers believe that, in the end, a slowdown in demand does not essentially change the most successful marketing strategy, which is to stay customer-focused and relationship-driven.

Based on our discussions with Manhattan hotel operators, as well as an analysis of the historical data and a review of proposed hotels, we have prepared the following forecast for the Manhattan lodging market.

Manhattan Operating History and Forecast

Year	No. of Rooms	Percent Change	Occ.	Occupied Rooms	Percent Change	Average Rate	Percent Change	RevPAR	Percent Change
1988	50,567		79.5%	14,669,464		$118.81		$94.43	
1989	50,262	(0.6)%	78.5	14,409,284	(1.8)%	128.45	8.1%	100.89	6.8%
1990	51,725	2.9	71.5	13,491,758	(6.4)	132.15	2.9	94.44	(6.4)
1991	52,318	1.1	68.0	12,985,547	(3.8)	125.12	(5.3)	85.08	(9.9)
1992	53,687	2.6	68.0	13,326,528	2.6	123.58	(1.2)	84.04	(1.2)
1993	53,635	(0.1)	70.6	13,820,421	3.7	125.77	1.8	88.79	5.6
1994	54,135	0.9	75.5	14,909,928	7.9	133.59	6.2	100.80	13.5
1995	54,607	0.9	78.7	15,677,688	5.1	143.59	7.5	112.94	12.0
1996	54,832	0.4	80.7	16,156,868	3.1	160.04	11.5	129.20	14.4
1997	55,816	1.8	81.9	16,692,185	3.3	175.73	9.8	143.98	11.4
1998	55,965	0.3	82.5	16,859,189	1.0	192.18	9.4	158.61	10.2
1999	57,709	3.1	82.0	17,272,575	2.5	202.90	5.6	166.38	4.9
2000	59,139	2.5	84.1	18,146,455	5.1	219.83	8.3	184.80	11.1
2001	61,820	7.1	80.4	18,146,455	0.0	225.99	2.8	181.74	(1.7)
2002	62,965	1.9	79.4	18,237,187	0.5	232.54	2.9	184.53	1.5
2003	63,825	1.4	78.7	18,328,373	0.5	238.82	2.7	187.89	1.8
2004	64,074	0.4	78.8	18,420,015	0.5	245.98	3.0	193.74	3.1
2005	64,074	0.0	79.2	18,512,115	0.5	253.36	3.0	200.50	3.5

Source: Smith Travel Research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