For Local Hotels' Bottom Lines, 'It's Always About the Rate'

New York City and Long Island's combined approximate 70 million annual tourists ensure consistent and strong hospitality demand, but the competitive landscape makes the asset class volatile. The average occupancy for local hotels significantly exceed the national average, with Manhattan's average occupancy levels around 85% and Long Island's around 73%. Thus, a modest price bump, even one imperceptible to guests, can triple profits. Conversely, having to lower rates, even incrementally, to match nearby hotels can make margins razor thin, easily halving or eliminating net income.

To demonstrate the sensitivity of earnings to rate fluctuations in a nine-year span, MCR Development CEO Tyler Morse cites the Sheraton New York Times Square Hotel.

"It's always about the rate," Berdon LLP Chair of Real Estate Services Maury Golbert said.

"Experiential" is a word often used to describe the preferences of the modern young consumer, who is spending a greater share on travel and restaurants than material goods.

"From a macro level, the hospitality and tourism industry are doing great. People are travelling more," Morse said. "The demand is up, but the world moves in cycles."

To insulate against uncertainty, Morse stresses the importance of geographic diversification in investors' hotel portfolios. MCR hedges, with assets in comparably stable White Marsh, Maryland and Egg Harbor, New Jersey to temper those in big name markets.

In this way, Morse said MCR hedges against the volatility of the institutional capital hot spots, larger cities like Miami, San Francisco and NYC. Although America's hotel stock grows one to two percent per year, Manhattan's room count grew from 70,000 to 105,000 between 2007 and 2017. Morse and Golbert discuss more NYC hospitality topics in the video below.

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