

Tourism industry growth in NYC: Will continue to transform and cater to increased global demand - by Michael Zysman

July 16, 2019 - New York City (<https://nyrej.com/section/NYC>)



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According to the Brookings Institute, over the next 10 years the middle-class population around the world is going to increase from 3.8 billion to 5.6 billion. That is roughly 160 million additional people a year entering the middle class around the world. Many of these newly minted members of the world's middle class will travel to the world's cultural meccas, which includes NYC. As a result, NYC will continue to transform and cater to the increased global demand for its cultural attractions, and developers who understand this trend will continue to build profitable projects.

The hotel market in NYC has grown substantially over the past decade. Total hotel room supply in NYC increased from 73,692 rooms in 2007 to 115,532 rooms in 2017, or an increase of 56.1%. Even with the large increase in supply, NYC's 2018 ADR was one of the highest on record at \$292 with an 88.3% average occupancy rate according to NYC & Company, NYC's official tourism arm. Much of the new demand for NYC hotels has been coming from international tourism which increased from 4.8 million visitors in 2003 to 13.6 million visitors in 2018, or an increase of 183%. The NYS Comptroller's Office recently put out a report stating the leisure and hospitality industry added the second-highest number of jobs out of any sector in the NYS economy and grew the fastest (50 percent) from 2009 - 2018.

To further accommodate global travel demand for NYC, the State of New York has proposed a \$13 billion overhaul of JFK Airport, and LaGuardia Airport is currently undergoing an \$8 billion renovation. Once these projects are complete, more flights to NYC will be available which will lower the cost of air travel and further increase NYC's tourism demand. In addition, improvements in rideshare technology and the onset of driverless cars will make transportation around NYC more cost effective and convenient for tourists.

The boom in NYC's tourism industry has helped other commercial real estate sectors, as well. According to Visa, NYC's large department stores receive 48% of their revenue from tourists and NYC retail on average receive 25% of its sales from tourists. Increases in retail sales from tourism will continue to put upward pressure on retail rents. As older office buildings continue to be converted to hotels, the decrease in office supply will continue to put upward pressure on office rents. Also, the NYC multifamily business has benefited from apartment units being rented as short-term stays, which puts upward pricing pressure on multifamily rents. Owners of retail real estate who have turned their properties into tourist destinations have achieved outsized returns as well. Also, the condo market has benefited from a large influx of second home buyers. In addition, the international college student population in NYC has increased dramatically, which has benefited real estate around institutions of higher education. Not to mention, the continued job creation in the hospitality industry increases demand for apartment and retail demand as well.

The hotel boom is here to stay due to the increased global economic expansion, New York State's investment in transportation infrastructure, and the cultural significance of NYC. As a result, it will continue to increase the city's employment, tax base, retail sales, and be a net positive to other sectors of the commercial real estate investment industry. Property owners and developers need to cater their buildings to accommodate the growing tourism industry, which is evolving from a major industry in NYC to potentially the dominant industry.

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