



Balancing act: NYC hotels balancing migrant housing and tourism - by Anudeep Gosal

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New York City's hotel industry contends with a unique quandary in its post-pandemic resurgence. Over 140 city hotels are doubling as migrant accommodations, especially in the certain neighborhoods in the boroughs. This is limiting inventory availability and inadvertently boosting property values.

Despite concerns about displaced tourists, New York City's comptroller Brad Lander reports city hotels approaching pre-pandemic booking levels—three million rooms per month. Hotel tax collections reflect this, doubling from \$200 million in early 2022 to \$475 million through April 2023. However, the city's efforts to house the estimated 41,000 asylum seekers are sparking debates on balancing responsibilities. There are 130,000 hotel rooms in New York City, of which 41,500 asylum seekers are housed in previously unused or closed properties.

Though occupancy is still down for the upscale segment of properties in Manhattan, hotel owners in the boroughs are finding their valuations increasing due to high revenue collected from New York City agencies fueling this artificial compression. This is occurring particularly in submarkets like Long Island City, which has a high concentration of limited service hotels that saw a sharp decline after the Amazon HQ2 deal fell apart.

Previously distressed properties like the Holiday Inn FiDi and Roosevelt Hotel now house migrants, illustrating how vacant non-performing properties are now cash flowing overnight. The confluence of rising interest rates, lower loan-to-value ratios, and highest performance since 2019 are widening the gap between buyer and seller pricing expectations. While we are seeing more transactions, 2023 transaction volume may remain lower than expected. Unlike the sentiment coming out of the pandemic, many sellers (especially those with lower leverage) no longer feel the urgency to dispose of their assets as they are heading into summer seeing increased performance month over month versus 2019 with or without the city's help.

Significantly, higher borrowing costs and limited inventory is challenging potential buyers, given New York City's mayor Adams' \$250 million contract with the Hotel Association of NYC for additional migrant housing.

Despite international travel not quite back to pre-COVID levels, this unique situation paints an intriguing future for New York City's hotel industry and what is the new norm. The interplay of rising demand, constrained supply, and the city's role in the migrant crisis may not last forever, though it will certainly shape the industry's trajectory over the immediate one to two years.

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