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FiDi's Development Attracts Visitors of All Types

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At the recent Massey Knakal CRE Summit, Larry Silverstein delivered a rousing keynote address outlining his company's extensive development activities in Lower Manhattan. He enthusiastically described his firm's remarkable World Trade Center buildings as well as its residential, retail, and hotel projects which are reinventing Lower Manhattan. No longer is Lower Manhattan merely a place where people show up to work. Rather the area is quickly becoming a seven day a week destination for all: business people, leisure travelers, and residents. Given the tremendous momentum that Lower Manhattan's real estate projects are gaining, Mr. Silverstein's enthusiasm is well founded. With over \$30 billion in combined private and public investment in Lower Manhattan over the last 10 years, Silverstein Properties, and many other notable New York developers, have been compelled to spend much of their time, energy, and resources there. Given the amenities which the influx of development activity has produced, an increasing number of future visitors to the City will likely feel the same way. With Lower Manhattan's vibrant new atmosphere, improved access and upgraded attractions, this burgeoning hotel market is poised for more growth and prosperity.

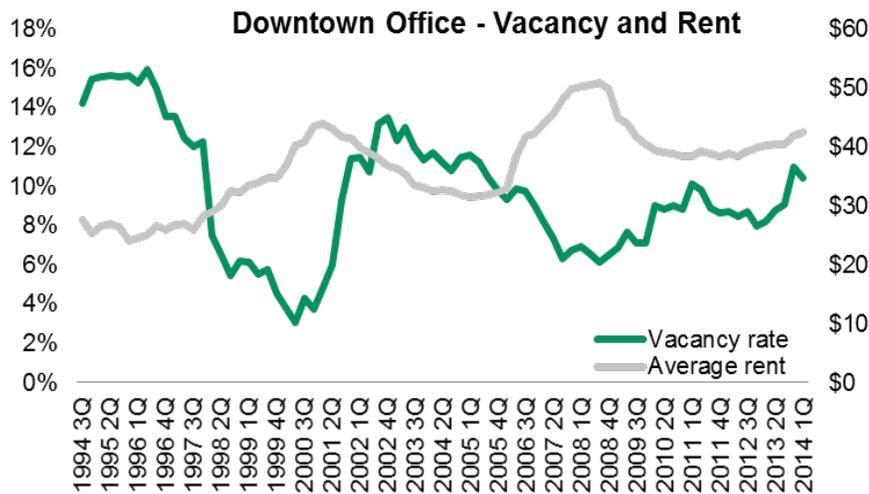
Lower Manhattan, specifically the Financial District ("FiDi"), which spans the southernmost portion of Manhattan below Chambers Street, currently offers 19 hotels providing over 4,200 rooms per night for visitors. Hotel options range from limited-service selections, such as the Holiday Inn Express Wall Street, and the Best Western Seaport, to full-service hotels like the Millennium Hilton Hotel and the Andaz Wall Street. The market's performance across all product types has been strong. According to Lesser Weiss Hospitality Advisors, the average daily rate (ADR) for FiDi is \$260 with an overall occupancy rate of 83% producing revenue per available room (RevPAR) of \$215.80. These strong performance metrics and the impending delivery of so many new market drivers, has developers scrambling to meet the increasing demand. At present, there are 16 hotels in Lower Manhattan's development pipeline totaling approximately 3,274 rooms, thus adding 78% more inventory to the market over the next 36 months. While that seems like a daunting number on its face, the emerging supply must be viewed in the context of the fundamental change occurring in the very nature of FiDi.

Lower Manhattan Hotel Pipeline				
Property	Location	Rooms	Opening	
1 Hampton Inn	32 Pearl Street	80	2014	
2 Holiday Inn	99 Washington Street	350	2014	
3 Aloft Hotel	49 Ann Street	113	2014	
4 Fairfield Inn & Suites	161 Front Street	200	2014	
5 Marriott Residence Inn	170 Broadway	243	2014	
6 Four Points by Sheraton	217 Pearl Street	262	2014	
7 Extended Stay	70 Pine Street	132	2014	
8 Boutique	100 Greenwich Street	200	2014	
9 Independent Hotel	24-26 John Street	128	2015	
10 Boutique	Battery Maritime Building	61	2015	
11 Thompson Hotels	5 Beekman Street	287	2015	
12 Courtyard by Marriott	133 Greenwich Street	317	2015	
13 Hilton	6 Water Street	249	2015	
14 AKA	84 William Street	141	2015	
15 Four Seasons	30 Park Place	189	2016	
16 Residence Inn/Courtyard by Marriott	215 Pearl Street	322	2016	

(Source: Alliance for Downtown New York)

For years, FiDi catered primarily to business travelers, and as a result, was only a five night per week hotel market with decreased occupancy and rate on Friday and Saturday nights. However, with over 11.5 million visitors in 2012, that trend is shifting. Lower Manhattan is transforming toward a strong seven night per week market attracting both business and leisure travelers. There are already popular attractions for tourists in FiDi including the iconic “Charging Bull,” Battery Park, the Brooklyn Bridge and City Hall. Additionally there are numerous museums such as The National Museum of the American Indian, the Museum of Jewish Heritage - A Living Memorial to the Holocaust and the Museum of American Finance. However, the opening of the 9/11 Memorial Museum on May 21, 2014, is a major step toward solidifying FiDi as a world renowned tourist destination. Already, over 10 million people have visited the 9/11 Memorial since it opened in 2011; and the new 9/11 Memorial Museum is expected to dramatically increase the number of visitors to the site. This is evident by the high demand for tickets which are already sold out several months in advance.

While tourism in FiDi will certainly boost demand for room nights, growth of the office market will continue to buoy FiDi’s core hotel driver – the business traveler. FiDi already offers 85 million square feet of office space and is home to approximately 310,000 jobs, yet the market is poised to add substantially more. At Silverstein’s World Trade Center project, 4.4 million square feet of state-of-the-art office space will be complete by 2015.



Source: CoStar, Massey Knakal Research

As evident in the graph above, despite the delivery of new office product, both vacancy rate and rental rate are generally trending in positive directions. As the FiDi office market continues to grow, both organically, and through relocation, the demand for FiDi hotel product will also benefit.

FiDi is also experiencing commensurate growth in retail and residential development. With so much business and leisure activity now occurring in FiDi, retailers and residential developers alike have targeted the market. Over 1.5 million square feet of retail space is scheduled to deliver in FiDi over the next 24 months. Several of the most notable retail projects include: Westfield World Trade Center; which will offer 350,000 square feet of lifestyle retail; Brookfield place, which will feature a high-end mix of retail and dining, as well as hosting 100 free events per year; and the new South Street Seaport totaling 365,000 square feet of mixed use space with a 4,000 person amphitheater.

By 2016, FiDi will offer some of the most exciting retail and entertainment options of any neighborhood in New York. As a result, demand for high-quality residential product has also increased and will be met by thirteen residential projects providing 2,700 units by 2017, a 4% increase in housing stock.

Like most major New York City development trends, mass transit is playing a critical role in the growth of FiDi. The MTA is expanding its already outstanding service to the area with the addition of the Fulton Center. This ultra-modern station, which cost approximately \$1.4 billion, will serve an estimated 300,000 commuters per day and will make accessing FiDi convenient for business and leisure travelers alike.

FiDi's development momentum is undeniable across all sectors. The hotel space is no exception. With so many new reasons to visit FiDi, this increasingly popular and attractive hotel market is getting even stronger.