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HOTEL DEVELOPMENT IN NYC: ROOM FOR IMPROVEMENT

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I. SUMMARY

This policy brief considers the impact and implications that the recent proliferation of hotel development has had on neighborhoods and land use patterns in New York City. It calls for expanding the use of special permits to guide this development citywide. The tourism and hospitality sector has grown dramatically in the City and this growth, in concert with the economics of the hotel industry, has made hotel development extremely profitable. Meanwhile many other land use objectives, from office uses to manufacturing to affordable housing, are undermined by this rampant growth. New York City needs a diverse economy that includes a healthy tourism sector; however, the growth of land uses associated with this sector should be balanced with other land use needs. The creation of a special permit process for hotels would provide the opportunity for communities and elected officials to balance competing land uses, to channel hotel development to where it is most appropriate, and to negotiate for better quality hotel jobs that can potentially go to local residents.

II. RECENT HOTEL DEVELOPMENT: CONFLICTING POLICIES AND PROBLEMATIC LOCATIONS

New York City's tourism and hospitality industry is booming and successive mayoral administrations have relied on this sector to help diversify and expand the City's economy. Over the past ten years, the number of visitors to the City increased from 37.8 million to 54.3 million, an increase of 43.6%. During the same time, visitor spending grew from \$18.49 billion to \$38.8 billion.¹ Hotel development mirrored this trend with 180 hotels built between 2004 and 2013, an increase of 35%.²

However, this growth in tourism and hotels does not necessarily translate into good jobs for New Yorkers as the recent proliferation of non-unionized hotels in the outer boroughs shows. A 2013 study by the CUNY Graduate Center's Labor Market Information Service found that people who worked in Manhattan's traveler accommodation industry earned an average of \$55,390 a year, a much higher figure than Brooklyn at \$35,276 or Queens at \$31,695. The study related this disparity to the concentration of unionized hotels in Manhattan.³

The growth of tourism and hospitality is also impacting land use patterns in neighborhoods throughout the City. While hotels used to be largely confined to many of Manhattan's business and tourist districts, recent construction has occurred not only in every outer borough but in neighborhoods that once might have seemed unimaginable locations for hotels, such as industrial areas and residential areas with limited commercial amenities. (See Map 3) Local stakeholders have responded; in recent community planning processes in Gowanus and Chinatown, people have spoken out for greater restrictions on rampant hotel development in their neighborhoods.

Much of this recent hotel development conflicts with the intentions of the various public land use policies and plans for these areas. Pratt Center illustrated this conflict by mapping both existing hotels and hotels in the development pipeline over geographic districts with plans

and/or policies that are inconsistent with hotel development including: Industrial Business Zones (IBZs), manufacturing zoning districts, four special purpose zoning districts, and community-initiated 197-a plans.⁴ For example, between 2007 and 2014, 11 hotels were built in IBZs, areas which are intended as stable "safe havens" for industrial firms to invest in their businesses and create jobs.⁵ Mapping also shows that sixteen hotels were built in areas where a 197-a plan prioritized land uses such as affordable housing and neighborhood-oriented retail (uses that are typically outbid by hotel development).

According to the New York Hotel & Motel Trades Council's dataset of hotels that are being planned or under construction, it appears that hotels are

¹ NYC & Company, "NYC Statistics." <http://www.nycandcompany.org/research/nyc-statistics-page>

² New York City Hotel & Motel Trades Council

³ City University of New York Graduate Center Labor Market Information Service. *New York City's Traveler Accommodation Industry: A Guide for Education and Workforce Development Professionals.* (New York: New York, 2013): 21.

⁴ The New York City Zoning Handbook contains summaries of the intent and purpose of each of the City's special purpose zoning districts. The ones that were deemed to be inconsistent with hotels yet experienced new hotel development after they were designated are: Special Bay Ridge District, Special Tribeca Mixed Use District, Special Garment Center District, and Special South Richmond Development District. 197-a plans that are inconsistent with hotels yet saw new hotels built there after they were adopted are in Red Hook, Williamsburg, and Chelsea.

⁵ The recommendation to require special permits for hotels in IBZs is one of several reforms that are needed to strengthen IBZs and encourage investment and job creation by manufacturers in those areas. The topic of how to improve zoning in the IBZs is discussed in another policy brief and includes consideration of special permits for self-storage facilities, big box retailing, some schools and other uses.

Chart 1: Hotels in Areas with Policy or Planning Contradictions

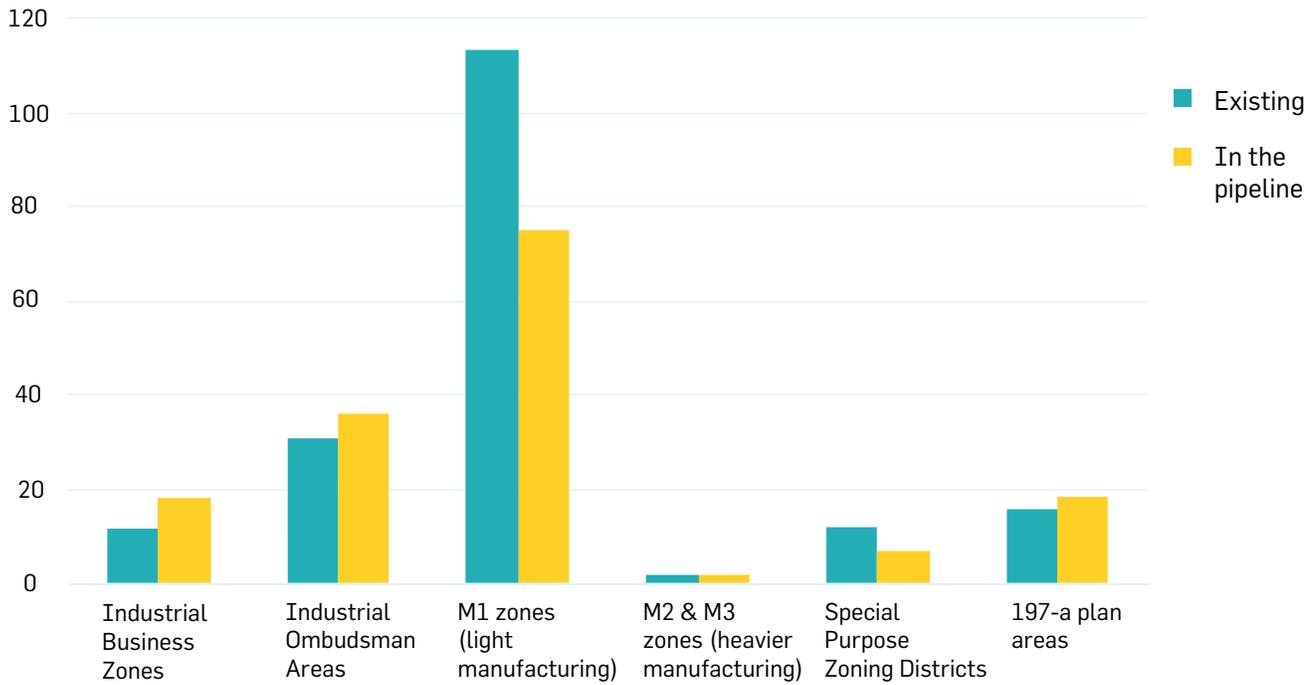
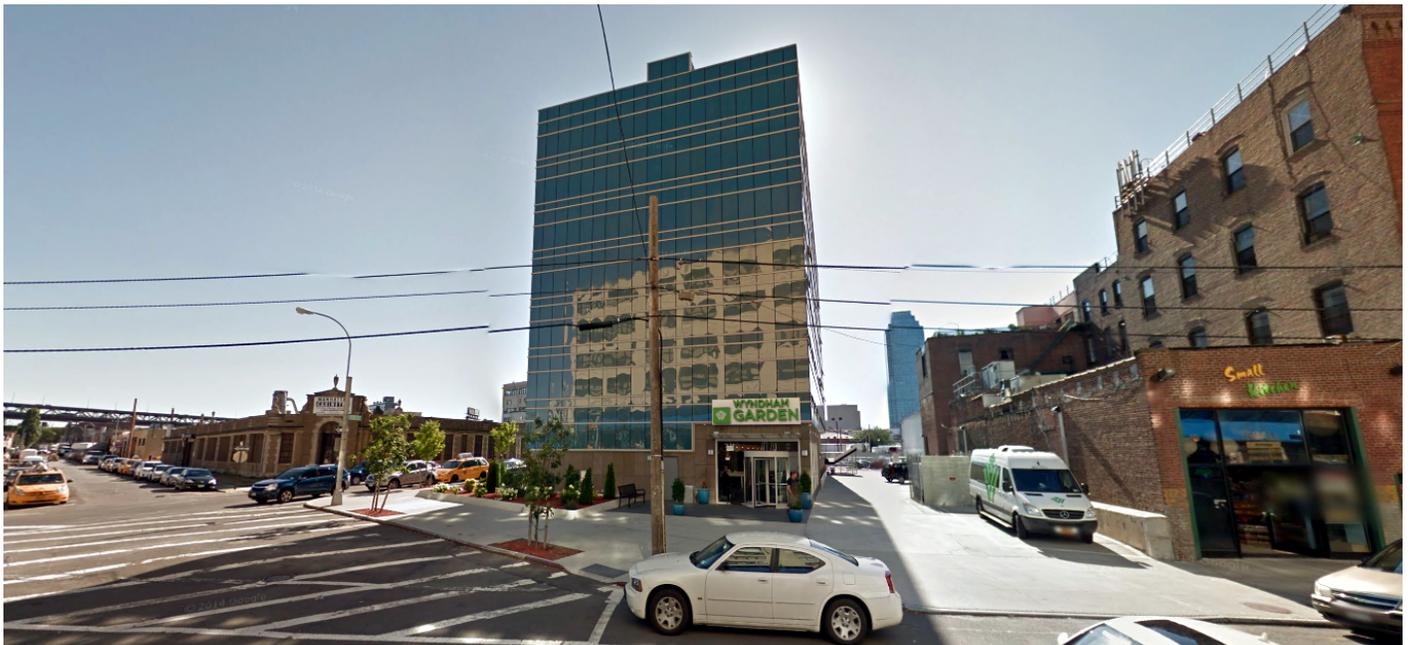


Chart only includes existing hotels built after a zone or area was designated. Many zones and/or districts geographically overlap.

Data source: New York Hotel & Motel Trades Council, 2014

in the pipeline for areas where their development would be inconsistent with existing community or City Hall intentions. For example, 16 hotels in the development pipeline are planned for IBZs. The proliferation of hotels in areas where City or

community-initiated plans are inconsistent with new hotel development is primarily driven by two conditions: permissible zoning regulations and the profitability of hotel development.

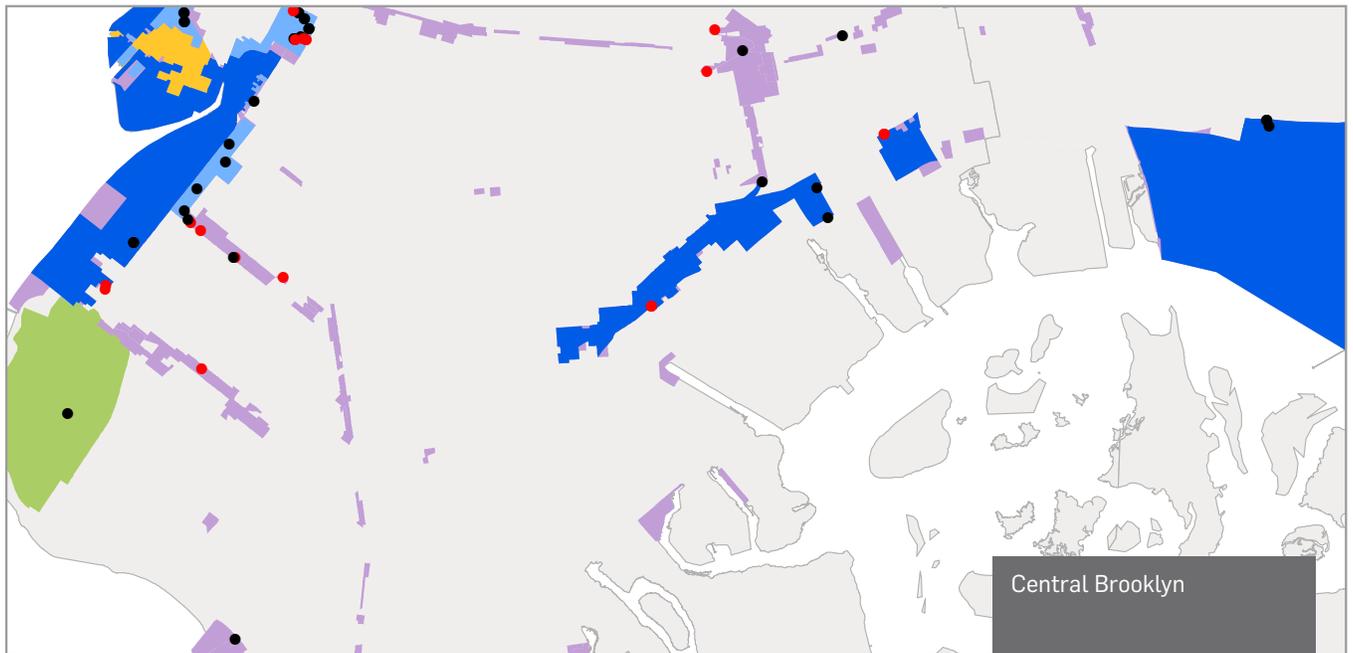
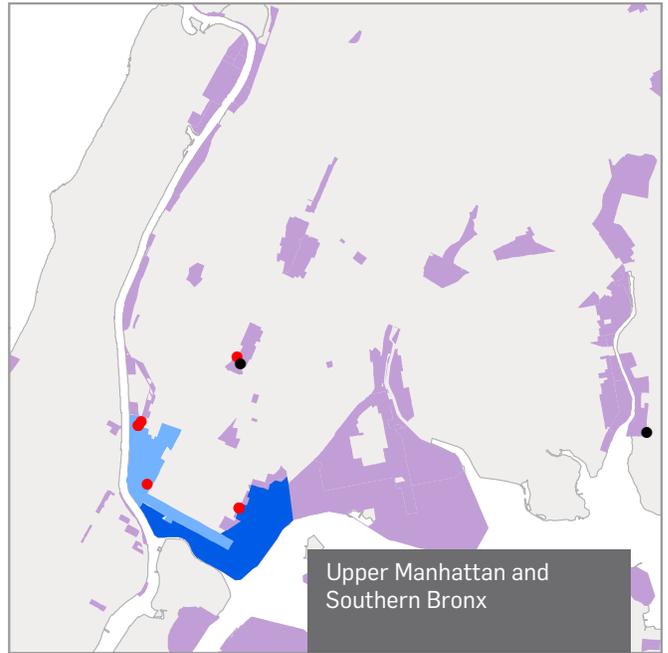
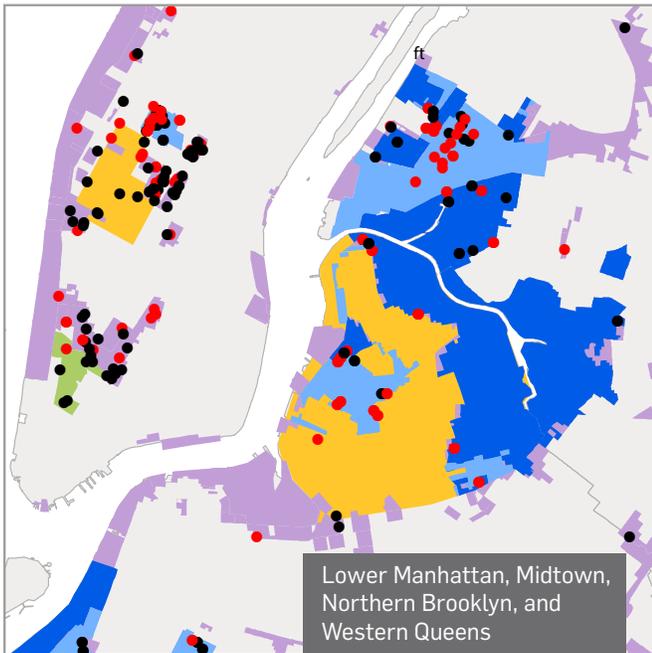
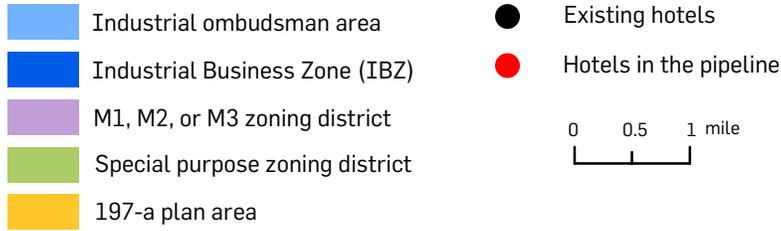


Wyndham Garden, Long Island City

Photo credit: Google Maps

Map 1: Hotels in Areas with Policy or Planning Contradictions

Only areas inconsistent with hotel development are shown on this map, and the only hotels on this map are those that were built after the area was designated. The only exception to this are M1, M2, or M3 zoning districts that do not have an IBZ or Ombudsman area overlaid onto them; for these areas, all hotels regardless of opening date are displayed. Also, many of these areas are geographically overlap.



Data source : New York Hotel and Motel Trades Council, 2014

III. PERMISSIBLE ZONING REGULATIONS

New York City has very porous zoning regulations, allowing hotels to be built as-of-right in most of the commonly mapped non-residential zoning districts, such as M1 and C8 (light industrial); several C1 and C2 commercial districts and commercial overlay districts; and C4, C5, and C6 higher-density commercial districts (See Map 2).

This as-of-right treatment means that land can be used for hotel development without any opportunity for public input. In an as-of-right development, residents, planners, and elected officials have no opportunity to weigh the pros and cons of a particular location, mitigate any anticipated negative impacts, or improve upon the development proposal. This is the case even in neighborhoods where there is a plan or policy inconsistent with hotel development.

This highly permissible regulatory framework is affecting a number of neighborhoods that only very recently have become home to clusters of hotels. For example, of the 19 hotels in Long Island City, 15 opened since 2005. An additional eight hotels are under construction.⁶ Gowanus did not have any hotels until 2006; now there are seven hotels with 561 rooms, and an additional six hotels with at least 460 rooms are being planned.⁷ These hotels are helping to undermine the industrial character of both neighborhoods because they have been built in manufacturing and MX (mixed-use) zoning districts. Moreover, despite their proximity to New York City Housing Authority (NYCHA) developments, public housing residents in Long Island City are not being hired for the jobs being created by these hotels. A special permit process could create opportunities to develop mechanisms for recruiting, training and placing residents in new jobs and for strategies to mitigate potentially negative impacts from construction.

Another example of hotels undermining a neighborhood's land use goals is the Garment Center in Manhattan, which has anchored the City's extraordinarily important fashion industry for decades. The 15-block area is composed of both a Special Garment Center District where the

conversion of manufacturing space is restricted and an Industrial Ombudsman area where conversion is allowed but services are provided to strengthen the garment businesses. The Garment Center has seen a proliferation of hotels, largely because the underlying zoning is M1 which allows them as-of-right. There are now 14 hotels with approximately 2,800 rooms in the Garment Center, and there are eight more hotels in the development pipeline.

Hotel development has not only undermined the City's goal of preserving space for the fashion industry, but it is undermining the City's efforts to nurture the high-tech sector. Successive mayoral administrations have pointed to the Garment Center as a place to help address the need for Class B and C office space in order to capitalize on the recent growth in advanced technology firms. In particular, early stage business ventures, which are outgrowing a limited supply of incubators and co-working spaces, need this type of space as they begin to generate more jobs, a primary goal of public investment in the high-tech sector. Striking the right balance and creating mechanisms to enforce the balance between space for the fashion industry and space for high-tech firms is not easy.⁸ Removing scarce, lower-cost office space from the real estate inventory in order to enable hotel development undermines the city's ability to strike that balance.

⁶ Lisa Fickenscher, "Who needs Manhattan? Queens Hotels Boom," *Crain's New York Business*, 15 June 2014.

⁷ New York City Hotel & Motel Trades Council, Summer 2014.

⁸ Pratt Center has long advocated that the restrictive zoning designation intended to protect apparel production be replaced with a model that relies on ownership of space by a non-profit organization whose mission would be to strengthen the apparel industry. This would allow more flexibility for office development in the surrounding area. See http://prattcenter.net/sites/default/files/future_of_fashion_issue_brief_final_011112.pdf

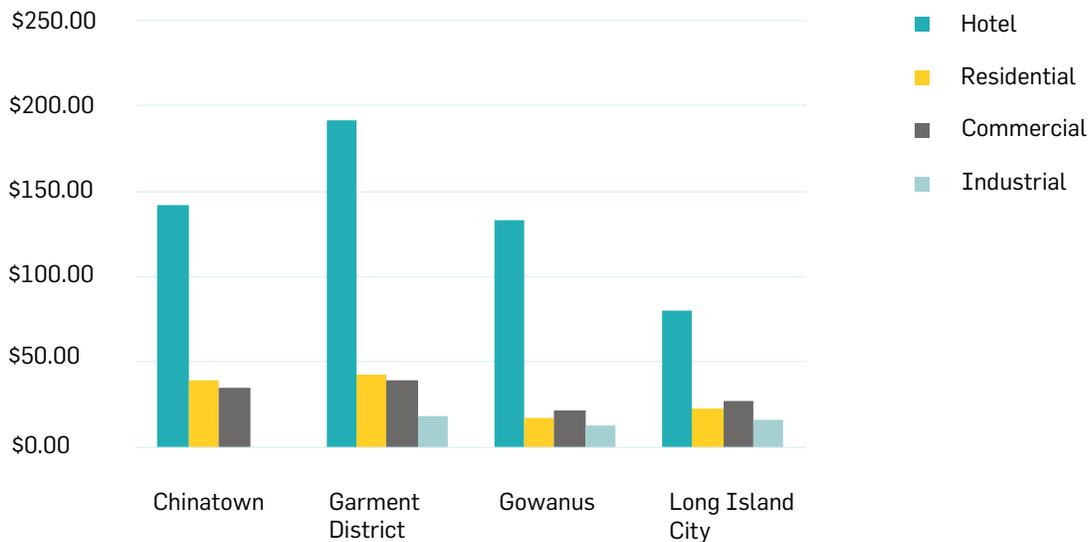
IV. PROFITABILITY OF HOTELS

The second condition that drives hotel proliferation is that they are very profitable and can generally outbid virtually all other competing land uses such as manufacturing, housing, and many types of office uses. To illustrate the relative profitability and displacement potential of hotels, Pratt Center and the New York Hotel & Motel Trades Council compared revenue, net operating income, and market value of land used for hotels with that of land used for manufacturing, residential, and other commercial uses.

NYC Department of Finance property data was used for a sample set of properties in Gowanus, Chinatown, Long Island City, and the Garment Center -- four neighborhoods that have

experienced significant surges in hotel development. Compared to other land uses, hotel properties have the highest per square foot net operating incomes, revenues, and market values.⁹

Chart 2: Hotels Generate Significantly Greater Average Revenue Per Square Foot

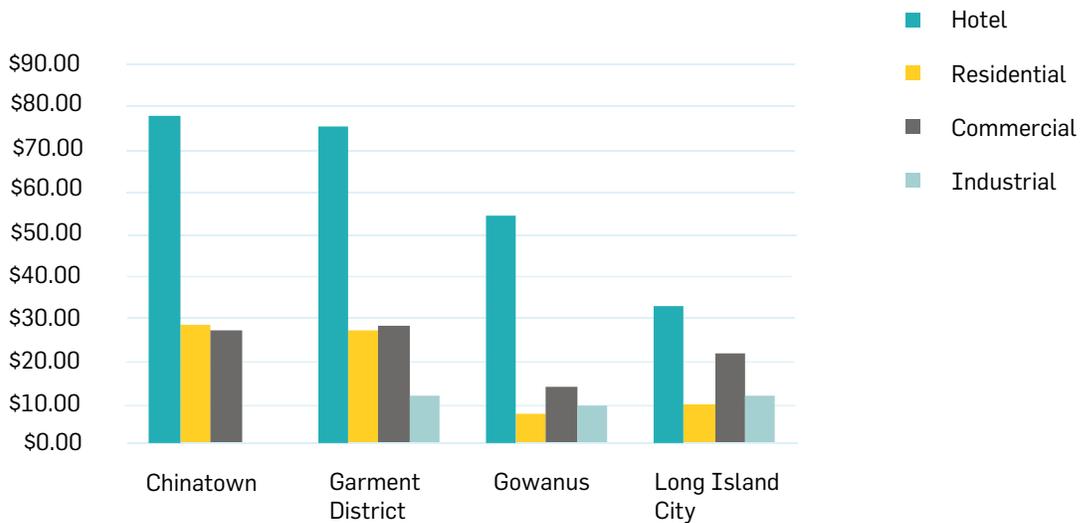


In all four neighborhoods, hotel uses yielded more than double the amount of revenue than residential, commercial, and industrial uses. In Chinatown, the Garment District, and Gowanus, hotel revenue was three times higher than these other land uses.

Data source: NYC Department of Finance, 2014

⁹ We did not analyze industrial properties in Chinatown because there were very few active industrial uses near existing clusters of hotels.

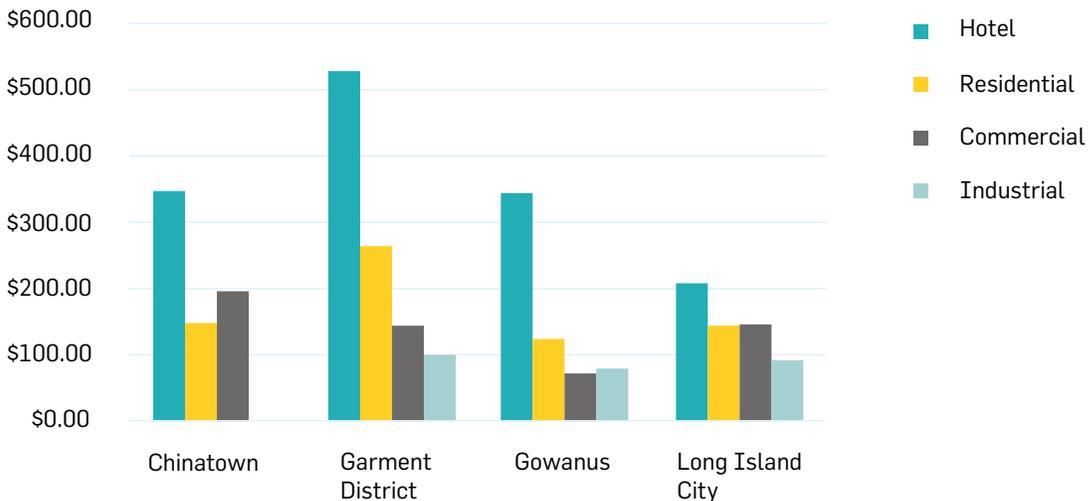
Chart 3: Hotels Yield Significantly Greater Average Net Operating Income per Square Foot



Net operating income is calculated by subtracting a property’s expenses from its revenue. On average, hotel properties in Chinatown, the Garment District, and Gowanus had net operating incomes that were at least twice as high as residential and commercial uses.

Data source: NYC Department of Finance, 2014

Chart 4: Hotels Have Significantly Greater Market Value per Square Foot



The NYC Department of Finance (DOF) calculates a property’s market value by dividing the net operating income by the overall cap rate, which is calculated by adding the effective tax rate to the base cap rate. The base cap rate is DOF’s estimate of the rate of return that an ordinary investor would expect on their investment for the particular type of property in question. Apart from Long Island City, hotel properties in each of the neighborhoods had a market value at least twice as high as residential and commercial properties.

Data source: NYC Department of Finance, 2014

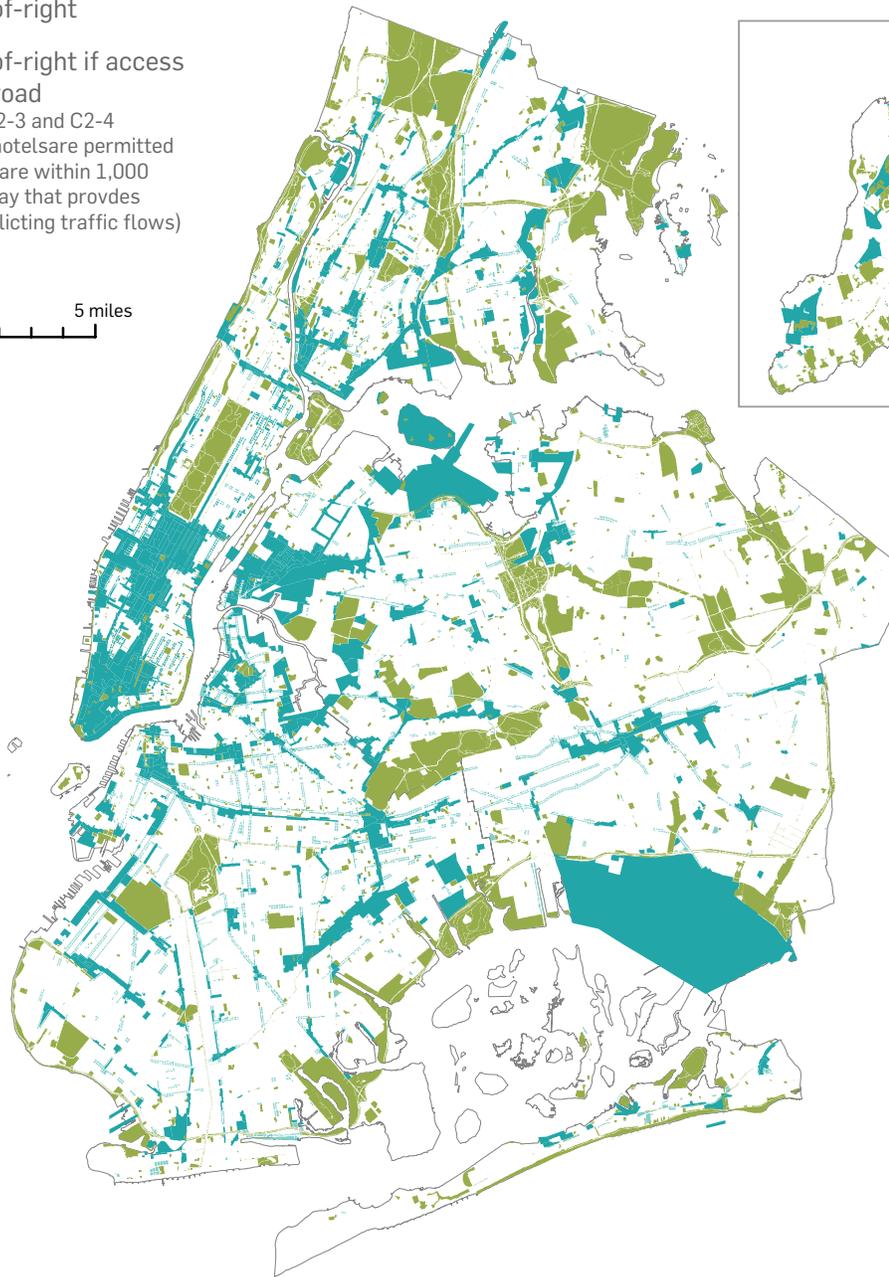
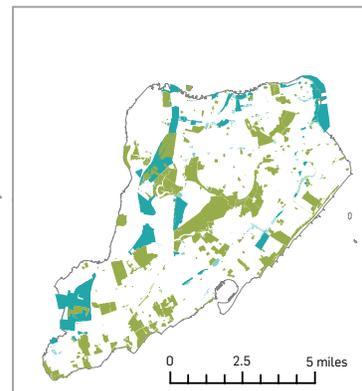
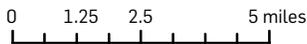
Each of these financial measures highlights how hotels are not just more lucrative than other land uses but many times more profitable than even residential and commercial land uses in the same neighborhood. This disparity gives hotel developers an advantage over developers of housing and commercial space and exacerbates the challenges of increasing the inventory of affordable housing, affordable office space for the emerging hi-tech sector, as well as local neighborhood services and retail.

Given permissive land use and zoning regulations

along with the relative profitability of hotel properties, a new way must be found to balance hotel development with other City needs and policy objectives. A growing tourism industry is an important contributor to the City's economic well-being, and new hotel development is vital to that industry. However, developing affordable housing, preserving Class B office space for high-tech and related entrepreneurs, and preserving and expanding the city's manufacturing sector and industrial infrastructure are also important policy goals that should not be secondary to the goal of expanding the hospitality sector.

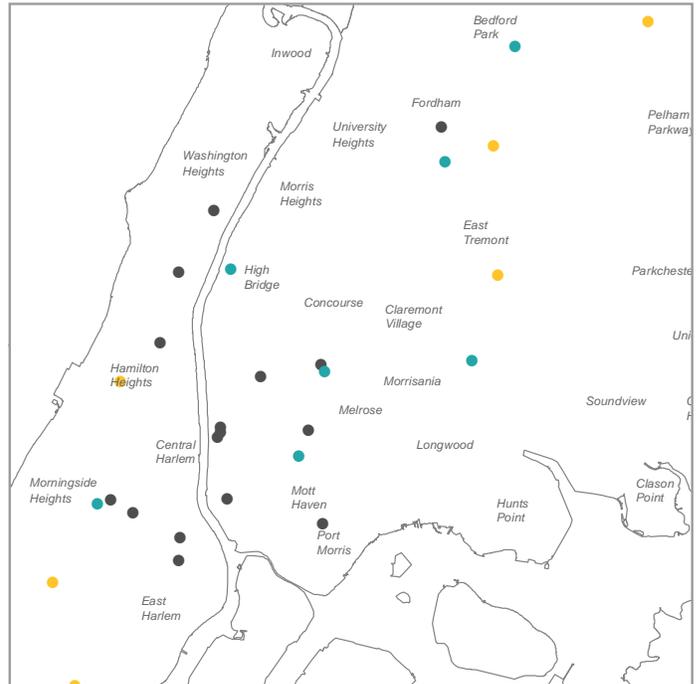
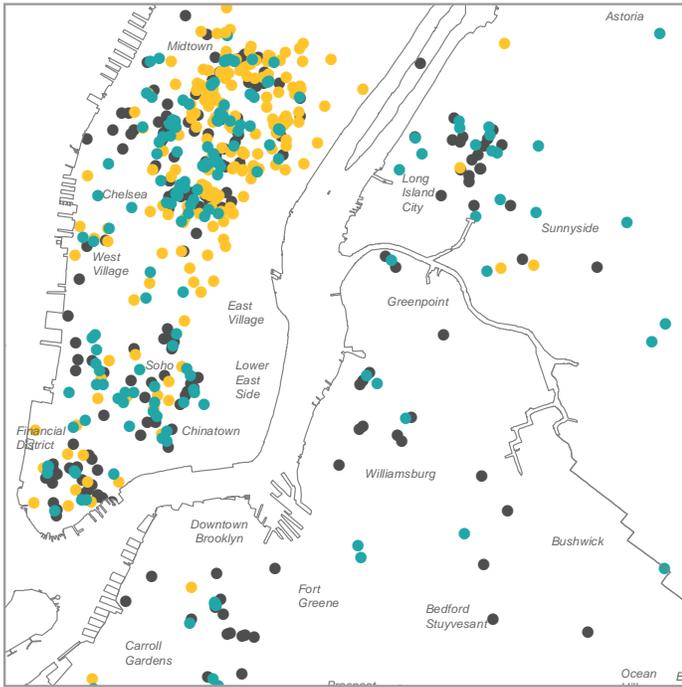
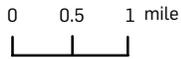
Map 2: Zoning Districts and Overlays that Permit Hotels As-of-right

- Parks and open space
- Permitted as-of-right
- Permitted as-of-right if access to separating road
(In C2-1, C2-2, C2-3 and C2-4 overlay districts, hotels are permitted as-of-right if they are within 1,000 feet from a roadway that provides separation of conflicting traffic flows)



Map 3: Hotel Proliferation Since 2004

- Built before 2004
- Built since 2004
- Hotels in the pipeline



Data source : New York Hotel and Motel Trades Council, 2014

V. STRIKING A BETTER BALANCE: EXPANDING THE USE OF SPECIAL PERMITS FOR HOTELS

Mayor de Blasio recognized the potential incompatibility and unintended consequences caused by hotels during his mayoral campaign and called for the use of special permits for hotels in industrially-zoned areas. Since then, the real estate challenge presented by other high priority goals including the creation of more affordable housing and the provision of Class B office space for the expansion of the “innovation economy” has become even more urgent.

The New York City Department of City Planning (DCP) has already adopted a special permit process for hotels in two recent special zoning district designations. In both the Special Hudson Square District and the Special Tribeca Mixed Use District, the City seeks to preserve “a vibrant mix” of commercial uses while encouraging new residential development, and is requiring a special permit for hotels of more than 100 rooms in an effort to meet those policy goals. A 2011 rezoning of the Fur District in the West 20s requires hotels with over 100 rooms to get a permit. DCP has also suggested a special permit provision for the development or enlargement of hotels as part its East Midtown rezoning proposal. While these particular cases are encouraging, in the coming years the citywide inventory of hotels is poised to grow by over 40% as hotel projects currently in the development pipeline come online.¹⁰ This scale and urgency should compel the City to implement a less piecemeal approach to regulating hotel development.

In order to help balance the competing priorities of affordable housing, Class B office space, and the hospitality industry, the City should geographically expand its requirement for special permits for hotels of any size throughout most of the City. Issuance of the special permit for hotels should depend on findings that the proposed project will not directly displace an existing industrial use, encourage speculation, and price out all other uses that are permitted in the particular zoning district, or conflict with other policy objectives established through ULURP (Uniform Land Use Review Procedure) or through a community planning process. Based on existing land use policy, the special permit requirement would not be applied to the Financial District in lower Manhattan (excluding Chinatown) where the City continues to support a more diverse mix of uses to enliven the area after regular work hours.

¹⁰ According to Summer 2014 data from the New York Hotel & Motel Trades Council, 213 hotel projects in the development pipeline are classified as “moving forward.”

Zoning Requirements for Hotels in San Francisco

A “conditional use” permit is needed to build a hotel anywhere in San Francisco. This requires a public Planning Commission hearing in order to determine if the proposed hotel is “necessary” or “desirable” to the neighborhood, whether it may potentially have a negative impact on the surrounding neighborhood, and whether it complies with the San Francisco General Plan. During this hearing the Planning Commission will grant a conditional use permit for a hotel proposal by applying operational conditions that may mitigate neighborhood concerns as well as apply conditions that may be required by the city’s Planning Department and the Planning Code. If the Commission’s decision is appealed, it goes to the Board of Supervisors.

Source: San Francisco Planning Department

VI. CONCLUSION

A citywide requirement for a special permit for hotels will help the City advance important land use and economic development goals by creating a process for balancing the development of hotels, housing, commercial and office uses, and manufacturing space. A special permit requirement will help channel hotel development to where it is most appropriate, creating opportunities for local stakeholders and policy-makers to weigh in on and suggest improvements to hotel project proposals. This includes winning commitments for better wages and local employment. It will also help to reduce real estate speculation that is undermining other important policy objectives.