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New York Construction

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No Hospitality

Some Hotels Continue to Rise in Brooklyn While Others Wait

By Debra Wood

The spurt in Brooklyn lodging construction projects, spurred by a dearth of existing hotel properties and consumers eager to save money when staying in New York, has now slowed to a trickle..

"There has been a big slowdown," says Thomas McConnell, a senior managing director of Cushman & Wakefield Sonnenblick Goldman in New York. "Construction financing for hotels has dried up severely. And the hotel market is slowing, too."

Ofer Cohen, managing director of Terra CRG, a Brooklyn real estate broker, adds that projects that were financed continue to go up, but the ones that were pursuing money are stuck.

"They are not happening," Cohen says. "The boom is over."

Hugh Finnegan, a partner and co-director of the real estate department at the law firm Sullivan & Worcester in New York, says that lenders are hesitant to finance lodging properties, except in perceived prime areas such as tourist-rich Times Square..

"Why lend on an asset where you have to start from zero every morning," Finnegan says. "You never know who will be there. And traveling is down generally as people cut back on [spending] money."

McConnell says the hospitality industry typically gets hit quickly in a recession but also will bounce back fast.

"Even in a down market, it's a good time to develop because you will be coming out of the ground when the market cycles back," he adds. "But it's hard to get financing, so it's a Catch-22."

Why Brooklyn?

"Brooklyn is growing," says Carl Hum, president & CEO of the Brooklyn Chamber of Commerce. "We are 2.5 million people right now and have grown steadily."

Many hotel patrons visit relatives and friends who live in the borough, whether for a vacation or a wedding or special event. Some of the guests are attorneys with cases



Gene Kaufman is designing the Holiday Inn at 300 Schermerhorn in Downtown Brooklyn, one of the few hotel projects still moving forward in the borough. (Rendering courtesy of Gene Kaufman Architects)

before the federal court, entertainers playing at Brooklyn venues or people conducting business in the borough.

Finnegan says that between 1930 and 1998, not one hotel was built in Brooklyn, so the supply of hotel rooms was miniscule in comparison to the number of people.

Joe Chan, president of the Downtown Brooklyn Partnership, adds that Brooklyn has undergone "a great economic renaissance."

The success of the New York Marriott at the Brooklyn Bridge, developed and operated by Muss Development of Forest Hills, N.Y., prompted some other developers to recognize a need for more rooms in the borough.

"Before the Marriott, there was no hotel downtown," Chan says. "They satisfied the proof point that downtown Brooklyn can play a meaningful role in New York's hospitality market."

The Marriott opened in 1998 with about 400 rooms and expanded in 2006 to 667 rooms. Chan says the hotel frequently turns potential customers away because it is full.

The Marriott "was the watershed event that made people start to focus on Brooklyn and the other outer boroughs to develop hotels," McConnell adds.

Hersha Development Corp. of Philadelphia opened the 93-room Nu Hotel in downtown Brooklyn last year. Naveen Kakarla, executive vice president of Hersha, says the boutique property had done well, ramping up faster than other hotels in the Hersha portfolio, which includes ?? properties in ?? states.

"We think that's due to a real need in Brooklyn for the type of hotel we designed and developed and is also attributable to Brooklyn itself and the location of our hotel," Kakarla says. "And as Manhattan's pricing continued to rise in the last decade, Brooklyn came up as an increasingly meaningful alternative to businesses that wanted to be in New York."

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Post-Sept. 11, occupancy throughout New York dropped off, but by 2004, the industry started seeing healthy growth signs in smaller, nontraditional Manhattan locations. McConnell says citywide occupancy rates hovered near 85% and overflow spilled into the outer boroughs, New Jersey and Long Island.

"It's pretty much physically impossible to get higher because it's a night-to-night business," he adds. Cohen agrees that as rates in prime locations in the city skyrocketed, there was a need for economy hotels within a 20-minute ride to Manhattan, an. that led to budget brands opening, such as a Comfort Inn and a Sleep Inn.

McConnell adds that most of Brooklyn's limited-service hotels carry national brand names, helping them to attract guests. He says budget properties, also called limited- or select-service hotels, cost less per room to build because they have limited public spaces.

In addition, the cost to build in Brooklyn is less. McConnell estimates that it's at least \$100,000 per room less than a similar property in Manhattan.

In part, that's because Brooklyn zoning regulations allow hotels to be built on manufacturing sites, which generally are more affordable than those in a commercial district.

Projects now under way

Chan says 1,300 new rooms are in construction or under development.

All of the hotel construction has used private money, with no government incentives, Hum says.

Construction continues on the 325-room Sheraton Brooklyn Hotel and the 175-room Aloft Brooklyn/Downtown, designed by Gene Kaufmann Architects and developed by the Lam Group, both of New York. Both 25-story buildings are constructed on adjacent sites across from a future city park.

“They are designed to be different but to coordinate with each other,” says Gene Kaufmann, founder and principal of Gene Kaufmann Architects. The hotels are independent but will share back-of-house spaces for operating efficiencies. The Sheraton is scheduled to open this year and the Aloft in 2011.

“This represents an important development for an area that has a tremendous potential, and we’ve already seen other development this has sparked,” Kaufman says.

“Despite the current conditions, the developers of these hotels are still optimistic.”

Kaufman also is consulting on a Holiday Inn at 300 Schermerhorn for the Mehta Family of Garden City, N.Y., and a 174-room Hyatt Place hotel on Schermerhorn being developed by Hersha and McSam Hotel Group of Great Neck, N.Y., both with experience building hotels in Brooklyn. Kakarla says Hersha expects to start construction by summer and open in late 2010. The team has not yet selected a contractor.

Demolition is under way at the site of a planned \$60 million, 164-room boutique Hotel Indigo in downtown Brooklyn, which is being developed by V3 Hotels of Long Island City, N.Y.

Lodging chains, including Cambria Suites, Homewood Suites and a Hilton Garden Inn, have announced plans for Brooklyn hotels, but they have not yet broken ground.

Finnegan says he thinks once the financial markets improve, more projects will move forward, but it will not happen in 2009.

“That need will be there,” he adds. “It will make sense eventually.”

Chan agrees. He expects a higher-end, boutique hotel will locate in downtown Brooklyn when the financial market improves.

“The demand here is just beginning to be realized, and you can look for the hotels under way and being completed to be successful,” Chan says. “

Useful Sources:

Aloft

<https://www.starwoodhotels.com/preferredquest/property/overview/index.html?propertyID=3192>

Sheraton Brooklyn Hotel

<http://www.starwoodhotels.com/sheraton/property/overview/index.html?propertyID=1727>

Hotel Indigo



The 325-room Sheraton Brooklyn Hotel is expected to open this year on Duffield Street. (Rendering courtesy of Gene Kaufman Architects)

<http://www.ihgplc.com/index.asp?PageID=116&NewsID=1921>

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