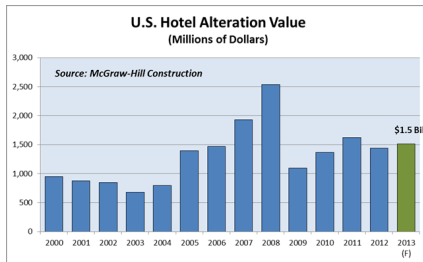


Emerging Trends And Opportunities:

Renovating And Retrofitting Hotel Properties In New York



McGraw-Hill Construction estimates the hotel industry's 2013 alteration expenditure at \$1.5 billion for improvements to or transformation of the building itself. The chart starts at 2000 and shows the effect of the recession.

What are the challenges right now in renovating hotels and converting existing buildings into hotels? Last March, HEANY convened a panel of experts in hospitality architecture, construction, engineering, finance, and management to ask just that. This report distills their answers to the critical questions, including:

- What will be the growth locations in the near future, and what unique problems can their landmarks and zoning restrictions pose?
- How do you ensure resiliency and operability during extreme weather events and other emergencies?
- Are renovations and profitability mutually exclusive? Should you close during renovation? How can you leverage to maintain cash flow?
- What can guarantee project quality? How can you keep design and construction teams in alignment?
- What do the city's new water management and sustainability regulations require? What strategies and technologies address them?
- What financial incentives and tax abatements are available for renovating in specific locations and for addressing sustainability issues?

At many properties, renovation was deferred in recent years. Manhattan hotel occupancy now hovers around 90 per cent, and demand will soon outstrip supply. Given still low interest rates, investors are eager to rebuild, rebrand, and repurpose existing buildings. HEANY'S goal is to help you participate in and profit from the coming cycle of growth. Here's the information you need to do so.

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Founding Principal, Helpern Architects

“Our first task when we work on a building is research.”

We ask: Under what zoning and codes was it built? What governs it now? Do original or current as-built drawings exist? How has the building been used and altered across its life? We conduct field measurement, probing walls, ceiling, and structure for closed-over space that can be reabsorbed and repurposed - for example, original elevator shafts that can carry new conduits.

“Know your building’s context. How could that make development and change possible - or thwart it?”

Newly expanded FEMA flood zones overlay some locations where demand for added capacity will be strong. We designed the Soho Grand knowing it was in a flood zone, putting registration, the bar, and dining up one flight. Vaults for the transformer and other systems are watertight. There is no basement. Sandy’s tidal surge came in that far inland, along Canal Street, but the hotel got through just fine.

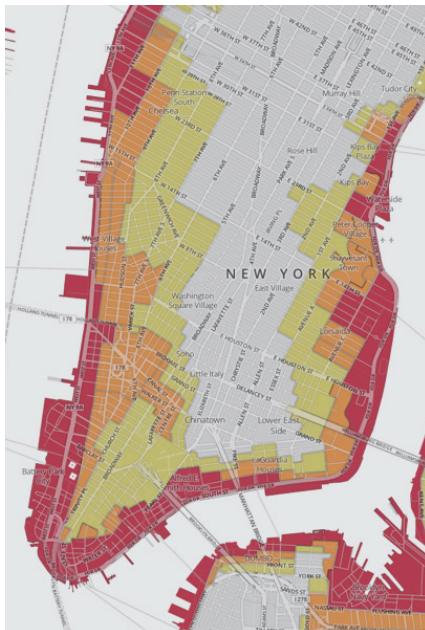
Historic districts like Madison Square North offer possibilities for converting buildings into hotels that can be chic, quirky, and popular. But landmarked districts, with their preservationist constituencies, aren’t always kind to developers.

If proposed upzoning of Midtown East is enacted, hoteliers will have desirable options there. Some of the 36 hotels there now may be landmarked, which will entail restrictions. But air rights would be available for purchase, and other existing buildings could be expanded or replaced with larger ones

“Buy as much quality as you can afford. Just be sure that your own definition becomes everyone else’s.”

Hold vendors and contractors to that standard of quality. Workmanship matters as much as materials; redoing things is costly.

LEED standards ensure code-compliant and energy-efficient systems, and LEED designation supports socially-responsible marketing. We use LEED as a visible way to hold building contractors accountable for building to higher standards.



This National Oceanic & Atmospheric Administration map delineates areas most vulnerable to surges from storms like Sandy – also where flood insurance will rise greatly, even if owners adapt their buildings according to new FEMA guidelines.



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Kevin J. Lorenz, AIA

President, Allied/CMS, Inc.

“The next wave of hotel construction will be conversions and retrofits.”

They're more difficult than new builds. The deep floor plates of office and commercial buildings don't readily lend themselves to hotel layouts. And you're trying to strike a balance between existing infrastructures and the needs and brand standards of the hotel.

“Credits can drive the design of the project.”

Know about them from the start. Tax incentives are available for rehabilitating historic structures, location-related redevelopment, and technical things like energy efficiency. Some – but not all – require extra front-end investment to qualify, but the return is great. [See Sidebar]

“The hospitality industry's focus in Manhattan is shifting downtown.”

The World Trade Center site adds a strong tourist draw to an area where demand for hotel capacity is already strong. But much of that area is vulnerable to flooding. It will be difficult in the next two years to comply with uncertain and evolving regulatory requirements. Loss of usable below grade space and parking will be a challenge.

Property Redevelopment Tax Credits

Federal:

The Historic Preservation Tax Incentives Program provides for 20% rehabilitation tax credit of the amount spent in a certified rehabilitation of a certified historic structure. A 10% tax credit is available for the rehabilitation of non-historic buildings placed in service before 1936.

<http://tiny.cc/heany10>

New York State:

Rehabilitation Tax Credit for Commercial Properties.

<http://tiny.cc/heany11>

The Brownfield Cleanup Program provides incentives such as liability relief and tax credits.

<http://tiny.cc/heany12>

Similar credits and incentives are available in New Jersey.

Thanks to WeiserMazars LLP for this information.



Founded H2 Hospitality Group, a boutique hospitality services company that supports the mid-market, in 2007;

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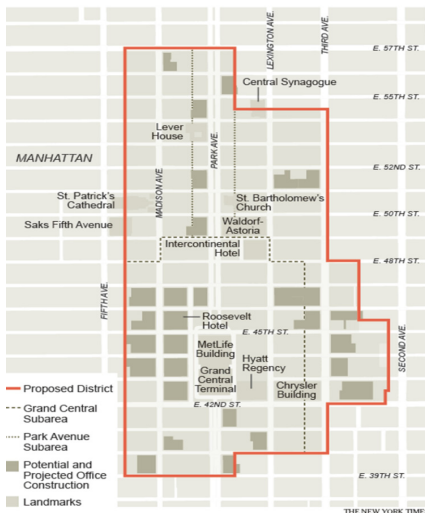
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Sean Holmes

President, H2 Hospitality Group

“Get the building's engineer involved at the very start.”

We have a tendency to make all decisions with respect to capital improvement programs around a boardroom table attended by corporate and senior management levels. By involving the Chief Engineer, however, you'll get systems that perform better, that are easier maintained and ultimately result in strengthening the bottom line. The decorator's function is important to create the product, but the engineer will qualify it for functionality and the cost to maintain it.



The fate of 36 hotels is part of the discussion about rezoning Midtown East to make the district more dense and more competitive.



Area VP/GM of the Ritz-Carlton Hotels of New York & Boston; a 30-year industry veteran.

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“You need financing and reserves to pay for the current project and the inevitable next renovation – while still showing investors a return.”

The industry standard is to set aside four percent of gross revenue as a reserve for replacement. Due to the recent market conditions, many owners have been unable to do that. Now, when refinancing, many are forced to build funds into the re-fi in order to compensate for postponed renovation programs. Given evolving trends, the four percent reserve isn't always enough to remain competitive, particularly when renovating older properties, as hidden conditions often emerge.

“To maintain a revenue stream, phase the renovation.”

Closing down entirely is not an option, unless the overall plan is to reposition or re-flag the property. Prioritize around the revenue-generating components of the work, they can help fund the back end of the renovation program. Delays prove very costly, so project schedules must be monitored diligently to ensure that phasing remains on target.

Scott Geraghty

Area Vice President/General Manager,
 Ritz Carlton Hotels of New York & Boston

“Communication has got to be very, very tight.”

A smooth renovation is the responsibility of the entire hotel staff. But that depends on information from the contractor, and on his communication with the workers. Know who is working where, doing what. We communicate that daily, in a morning operations meeting. Both staff and workers need to know which areas of the building will be closed to guests. And those are the only places where construction work can be done; no exceptions, and no surprises.

“Our goal is to minimize negative impact on guests.”

We draw up a “renovation blueprint.” It's not an engineering plan, but for everybody else in the building, a guide for maintaining our quality of hospitality despite the inconvenience. We can't put guests where work is going on. We can't have workers cutting tile at 4 a.m. If there's a water shutdown, we do it midday when everybody's out of the hotel, or from midnight to 5 a.m.

“Don't hide from guests during renovations.”

We communicate clearly with guests within the hotel so they know where the work is going to be, when the water stoppages might be, and just how inconvenienced they may be, if at all. Decide in advance what amenities will be suspended, and whether room discounts and rebates will be offered.

The last thing you want is guests walking away miffed because you didn't acknowledge imperfect service or you failed to apologize. Follow up with those who complain to retain their loyalty.



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“Energy efficiency measures may cost more to install, but they save in the long run.”

Besides, new city laws require it. Local Laws 84, 85, 87 and 88 mandate annual energy audits and retrofits, oblige renovated buildings to meet current energy code, and mandate energy-efficient lighting upgrades. But the cost of incorporating energy-saving technologies as you renovate can be offset if you take advantage of available incentives and credits.

Among the many new technologies that are especially appropriate for hotels are LED and compact fluorescent lighting, which last longer than conventional bulbs and burn cooler, making air conditioning more effective. Energy-recovery ventilators capture energy contained in exhausted air and use it to recondition incoming outdoor air. Solar and geothermal water heating systems are becoming common.

“Improved indoor air quality and lowered maintenance needs will mean happier guests and smoother operation.”

Some systems compound savings on energy with lower maintenance because they have fewer parts. Displacement ventilation systems supply conditioned air at floor level; the air rises through natural convection and is extracted above. Valence passive heating and cooling systems, installed near the ceiling, operate by convection and radiation to heat or cool; they use forced water, which eliminate fans, motors, filters, and ducts.

Energy Efficiency Tax Credits and Incentives

Federal

Deductions can be taken against the cost of certain energy-efficiency upgrades.

<http://tiny.cc/heany13>

<http://www.efficientbuildings.org/>

New York State

New York State renewable and energy efficiency tax credits are available for hotels.

<http://tiny.cc/heany14>

The New York State Energy Research and Development Authority (NYSERDA) offers several programs.

<http://tiny.cc/heany15>

Flextech Engineering Analysis pays 50% of engineer's fees for an economic analysis yielding energy savings options.

The Existing Building Program offsets the cost of energy improvements in existing facilities.

The Green Building Program offers incentives for achieving LEED certification.

New York City

Property tax abatements are available for solar electric-generating systems.

<http://tiny.cc/heany16>

Con Edison

Incentives and rebates are offered for upgrades including lighting fixtures, chillers, HVAC systems, and boilers.

<http://tiny.cc/heany17>



Speakers at the HEANY 2013 “Trends & Opportunities” are, L to R, Kevin J. Lorenz, David Paul Helpern, John Rice, Sean Holmes, and Scott Geraghty.

The Takeaways

Trends and Opportunities for Renovating and Retrofitting Hotels

- Demand and opportunity for new hotel capacity will likely be focused in certain areas like the financial district and Midtown East.
- Thoroughly researching your building and its location is essential to reveal the opportunities and constraints each presents.
- Resiliency strategies and energy-efficiency technologies are increasingly required; they’ll pay back over time in smoother or uninterrupted operation and lower utility costs.
- LEED can help you meet sustainability goals; it can also ensure quality construction.
- Tax credits and incentives available for redevelopment and green technologies should inform your planning from the start.
- Budget now to pay for the inevitable next renovation, even while conducting this one.
- If you can’t close, phase the renovation. While work is underway, make communication between contractors and staff, and between staff and guest, a priority.
- The building engineer’s input is critical, from the first investigation of a property’s attributes to managing the phases of a project.



The Hotel Engineers Association of New York’s (HEANY) mission is to assist engineers and general managers throughout the Metropolitan New York Area to keep up on the latest developments in engineering, legislation, technology, and issues relating to the physical plant of hotels. The Association provides a forum for the exchange of information among members and networking, as well as educational seminars.

www.hotelengineers.org

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