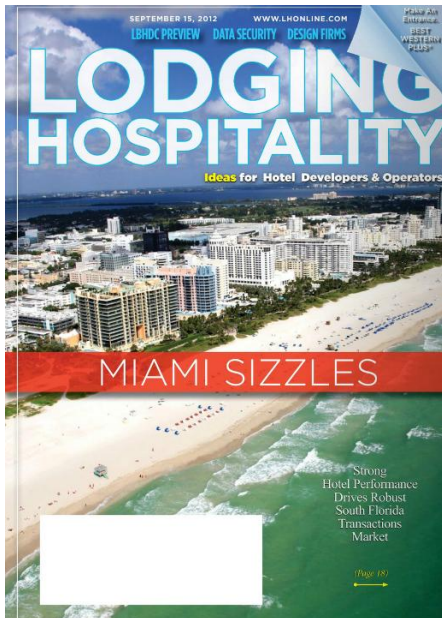


LODGING HOSPITALITY

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MIAMI SIZZLES

STRONG HOTEL PERFORMANCE DRIVES RENEWED INVESTOR INTEREST

BY ED WATKINS

Miami, Miami Beach and all of south Florida may be the hottest hotel market in the U.S. Fueled by droves of international visitors, Miami's growing reputation as a cultural, sports and entertainment hub and massive investments in infrastructure, the region's hotel industry has outperformed the rest of the country. And, in turn, investor interest in the region has never been higher.

Following a rocking 2011, both Miami and Miami Beach are again having stellar years. Through July, occupancy in Miami was 79.6% and 78.0% in Miami Beach, says STR. Increases in both occupancy and average rate have contributed to strong gains in RevPAR: up 9.7% in Miami and 8.4% in Miami Beach, which follow a strong 2011 (up 17.6% in Miami Beach and 11.2% in Miami). It's hard for South Florida hotels to even remember the recession.

"When the recession hit, most other hotel markets col-

lapsed, but Miami didn't waiver," says Gregory Rumpel, managing director of Jones Lang LaSalle Hotels based in south Florida. "It took six or seven months into the down cycle before we saw any evidence of a retraction. And when the recovery came, we came out of it like a rocket. This tells me we have a very international and diversified base of business, which we didn't have in the past."

The hotel boom continues up the coast in Fort Lauderdale and Broward County. Carlos Molinet, senior vice president of the Greater Fort Lauderdale Convention & Visitors Bureau, says rates and occupancy for the area's hotels have been on a steady rise: 32 consecutive months of growth in occupancy and 17 months of steady increases in ADR.

Molinet says although groups are booking with shorter lead times, business is brisk, with the number of attendees and exhibitors increasing at most events held in the city. This year's Fort Lauderdale International Boat Show, one of the biggest in the nautical industry, has yielded a 20% increase in bookings for the event at the end of October.

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The 221-room Hampton Inn in Brickell is one of the largest in the system and includes extensive meeting space, retail and a soon-to-open restaurant.

“And if you look back four years ago, we saw a surge in group bookings following the 2008 elections,” he says. “So with the trend toward shorter lead times and the upcoming election we think we’ll see a big surge in bookings after November.”

The Epic Hotel, the three-year-old, 411-room Kimpton property in downtown Miami, has seen a 10% rise in group business this year, says Eric Jellson, area director of sales and marketing for the chain. While international visitors are driving business for Kimpton’s Miami Beach hotel, the 186-room Surfcomber, the Epic relies on small groups, corporate business travelers and leisure guests on the weekend.

Similarly, revenues for the InterContinental in downtown Miami are up 16% so far this year, says General Manager Robert Hill.

Improvements in the city’s infrastructure are also helping the region’s tourism business. In July, Miami International Airport opened a new international arrivals facility as part of an overall \$6.2-billion capital improvement plan. Last year, passenger volume at the airport grew by 7.2%. Also in July, the city’s Metrorail system opened a station at the airport, connecting passengers directly to downtown Miami and throughout the region.



Buying and Selling

Strong property performance and low supply growth (2.1% in Miami and flat in Miami Beach so far this year) always produce investor interest, and it's no different in south Florida. Hotel transactions volume rose 154% in 2011 and is forecast by Jones Lang LaSalle Hotels to reach \$650 million this year, an increase of 17%. Since 2000, more than \$3.4 billion in hotel real estate has changed hands in the Miami area.

Several high-profile properties traded this year, including the \$150-million foreclosure sale of the 700-room Doral Hotel & Country Club to Trump Hotels and Starwood Capital's purchase of the 593-room Gansevoort Hotel (since rebranded as the Perry) in Miami Beach. A number of other deals could close before the end of the year. A bellwether for the market may be the sale of the Delano, the iconic 194-room boutique property in

South Beach. According to some reports, owner Morgans Hotel Group is seeking \$1 million-plus per-room for the 194-room property and wants to stay as manager of the hotel.



The four-year-old Epic in downtown Miami is Kimpton Hotels' flagship property in the Miami region.

Driving the Market

Of particular interest to investors are the Miami downtown and Brickell submarkets as well as Miami Beach, which local real estate lawyer Suzanne Amaducci says is “beyond hot.” And, says Amaducci, who is a partner in the Miami-based firm of Bilzin Sumberg, “It’s not just that South Beach corridor. Interest is expanding to mid-beach and further north to Surfside and Sunny Isles.”

Limited-service and other less-than-luxury hotels are also prized by investors. Last November, Hersh Hospitality Trust paid \$95 million, or \$361,200 a key, for a 263-room Courtyard by Marriott on Miami Beach. And last year, Kimpton secured management of a former DoubleTree on Collins Avenue and rebranded it as the Surfcomber.

Despite the headline-making deals, local broker Rich Lillis calls the transactions climate “restrained.”

“There’s tremendous interest among buyers to acquire in this market, but sellers are still kind of hesitant,” says Lillis, executive vice president of Colliers International Hotels. “Values plummeted in 2008 and 2009 and while they’ve come back, many sellers are still on the sidelines waiting for values to improve even more.”

And, says Lillis, there are significant quantities of distressed products in the market that still need to be flushed through the system. As examples, he cites the Shore Club and the Sagamore, two South Beach properties mired in foreclosure actions and litigation.

The region’s strong hotel performance is tied directly to an influx of international tourists to the market, many of whom are also investors in condos and other residential or commercial real estate, including hotels. A study by Florida Realtors shows foreign buyers represented 19% of all residential sales volume in the state in the first half of the year. In Miami and Miami Beach, foreign buyers accounted for 31.3% of sales and 11.6% in Fort Lauderdale.

“The real estate market is booming and it is mostly fueled by international sales,” says Scott Brush, president of Brush and Company, a hotel consulting firm based in south Florida. “It’s mostly in condos and mostly as investments. In a lot of countries, rich people need to get their money out of the country and condo purchases are one way to do it.”

In particular, condo sales in the downtown and Brickell areas are booming again. According to Jones Lang LaSalle, more than 90% of the 22,800 condo units built since 2003 are now occupied, mostly with full-time residents. Condo Vultures, a brokerage firm that tracks the market, says 9,000 additional units are in some stage of development.

Buyers from Latin America and the Caribbean accounted for 35% of all foreign purchases in the state, and the vast majority of them (82%) make their purchases with cash. The city’s global reach extends far

beyond this hemisphere, however.

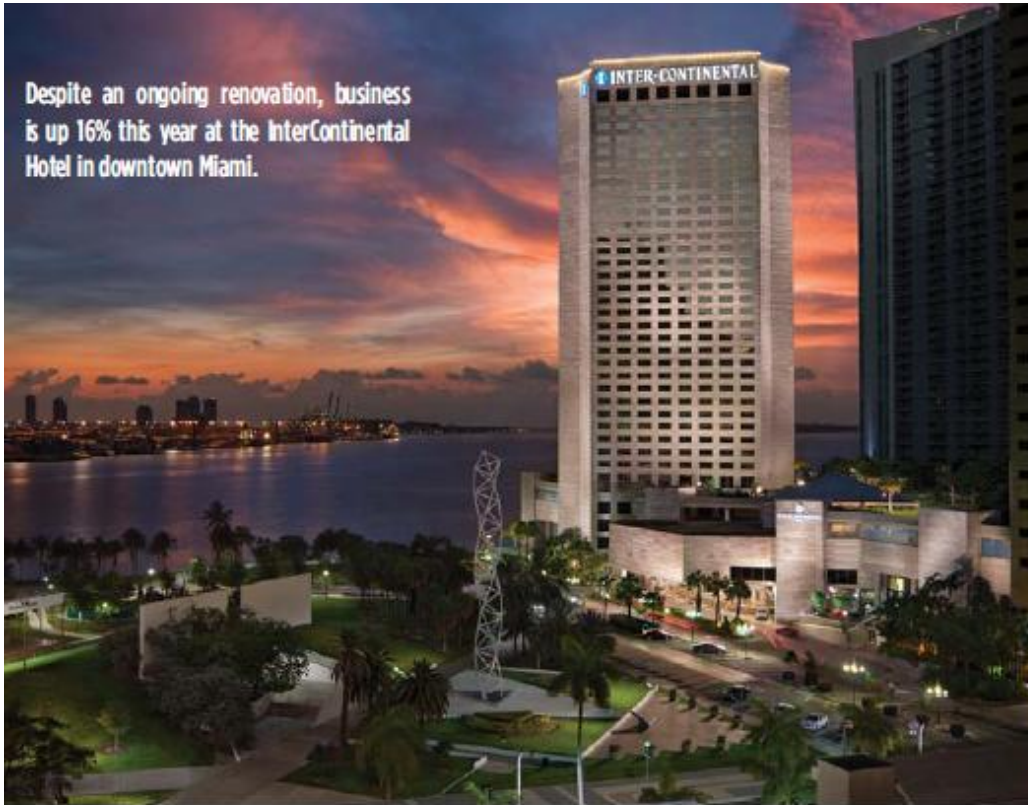
“The entire international economy is in a state of flux so we’re seeing a lot of European investors,” says Amaducci. “People always think of Miami as a north to south market—Latin America. We now need to start thinking about east to west because we’re seeing a lot of investment from western Europe, Russia and beyond to Asia. Miami is a highly sought-after destination from both a tourism and investment standpoint.”

Rumpel of Jones Lang LaSalle believes an even bigger sea change is underway in the region.

“When I first started working in this market 12 years ago, Miami was never among the top MSAs people wanted to invest in. It was always New York, DC, Chicago, Los Angeles and San Francisco,” he says. “But over the past four or five years there has been a significant shift and people now realize Miami is a major international city. Now when I talk to international investors looking to buy in the U.S., Miami comes up in the top three or four markets in which they have interest.”

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Despite an ongoing renovation, business is up 16% this year at the InterContinental Hotel in downtown Miami.



Clear Sailing?

Understandably, most hotel executives in the south Florida market are bullish about its future. Supply growth should be muted and the demographic diversity of visitors—domestic, international, South America, Europe, business, group, leisure—should keep the market on an even keel.

Most of the new properties on the scene are repositionings of existing hotels. The former Ritz Plaza reopened this June as the SLS Hotel Miami Beach following a \$45-million renovation. The Continental Oceanfront, also on Miami Beach, is set to transform to the B South Beach early next year. Additions to the supply will

pick up a little steam next year with openings of a 231-room Hilton on South Beach and the much-anticipated transformation of the Seville into a 350-room Edition, part of Marriott's nascent luxury boutique chain.

A resurgence in the area's once-doomed residential condo market should help tamp down hotel supply growth, believes consultant Brush.

"While the long-term danger for the hotel industry is over-development, a return of the condo market can help solve that problem," he says. "Condo developers are typically willing to pay more for a piece of land than will a hotel developer. In a bidding war, the condo developer will almost always win." LH