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MIAMI CONTINUES TO APPEAL TO HOTEL INVESTORS

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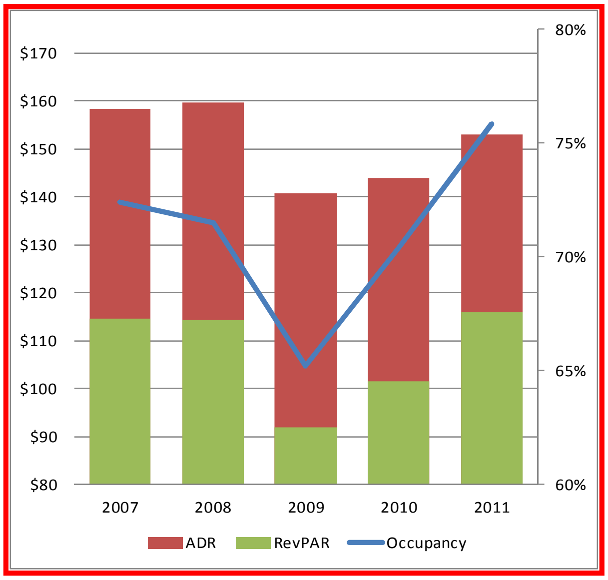
2011 Year in Review – Miami

The Third Quarter 2011 Florida Newsletter (*“Miami’s Hotel Performance and Values are Set to Heat Up”*) highlighted the fact that Miami’s hotel sector was displaying very strong market indicators. The investor and market participant sentiment was positive and both debt and equity investors were bullish on Miami – and for good reason. Year-end 2011 RevPAR (revenue per available room) for hotels throughout Miami-Dade County surpassed the 2007 benchmark, or what is generally regarded as the peak of the market. The **Miami Beach, Downtown/Brickell**, and the **Airport** markets, specifically, performed strongly and are poised to have another great year. Miami has established itself as a gateway hospitality market and is favorably viewed by conservative debt investors who are ready and willing to make loans on existing and proposed hotel assets in the market area.

The Third Quarter 2011 article leaned on indicators such as hotel transaction volume, trends in domestic and international visitation, growing international source markets (notably **Brazil, Argentina**, and **Colombia**), strong occupancy and average rate trends, and hotel investment and new developments as we concluded significant upside existed on a wide variety of local assets. Hotel performance and values not only improved, but the market value for a significant portion of residential and commercial real estate increased dramatically and far ahead of the pace that was projected by the bulk of industry experts in 2010 and early 2011. For example, it was anticipated that the overbuilding of residential condominiums in the Brickell submarket would take years to be fully absorbed – an influx of unforseen foreign investment resulted in this excess condominium supply being absorbed well ahead of projections. Trends in office and retail vacancy and rental rates also confirm the city’s strong economic recovery and are reflective of the city’s status as a gateway market.

Revenue per Available Room in Miami Hotels has Exceeded the 2007 Peak



As illustrated, revenue per available room (“RevPAR”) in 2011 ($115.85) has exceeded the 2007 RevPAR peak ($114.71) as a result of very strong occupancy performance. As a result of the economic downturn, a very limited amount of hotel development commenced in 2009, 2010, and 2011 which has allowed existing hotels to benefit from growing demand levels by achieving historic occupancy levels. With tighening corporate and personal budgets in 2009 and 2010, consumers’ price-sensitivity increased dramatically and hotels were forced to rely more on discount, wholesale, and third-party entities to sell room nights, all of which contributed to the decline in average rate. The challenge many operators now face is yield management: hoteliers must strategically phase out the lower-rated discounted demand that properties relied on during the downturn. With occupancy at peak levels, owners and operators in Miami are now in position to employ yield management strategies; potentially at the expense of occupancy, but to the benefit of overall RevPAR levels. We anticipate strong rate growth in 2012 throughout much of the county. This newsletter also identifies a variety of hotel development projects within Miami-Dade county that will have an effect on the hotel landscape.

HVS

Current Status of the Hotel Transaction Market in South Florida

Hotel transaction volume is a critical guage which is regularly used to measure the health of the hospitality market. Keeping in regular contact with hotel brokers who actively work in the transaction market is an important part of the work HVS performs. In addition to the volume of transactions, the disparity between the asking price, the bid price, and the final sale price, the investment parameters used to complete a deal (such as capitalization rates, required debt and equity yield rates, loan-to-value or debt-to-equity rates, and projected debt coverage ratios) are excellent indicators.

Recent notable transactions in the southeast region of Florida have been presented in the following table. The “upcycle” in Miami should continue, noting that Smith Travel Research (STR) projects RevPAR in Miami to grow between 5.0-10.0% in 2012. In fact, Miami is one of only eight cities for which STR has projected RevPAR growth between 5.0% and 10.0% for the 2012 year.

Property	Location	Sale Date	Price	Rooms	Price/Rm	Year Opened
Marriott Doral	Doral, Miami, Florida	Feb-12	$150,000,000	693	$216,450	1965
Indian Creek Hotel	Miami Beach, Florida	Jan-12	12,000,000	61	196,721	1936
Courtyard Miami Beach Oceanfront	Miami Beach, Florida	Nov-11	95,000,000	263	361,217	1940
Hyatt Place Fort Lauderdale 17th St.	Fort Lauderdale, Florida	Sep-11	12,000,000	126	95,238	1997
Sun & Surf Motel	Miami, Florida	Sep-11	1,200,000	24	50,000	1951
Continental Bayside	Miami, Florida	Sep-11	13,500,000	243	55,556	1935
Cheeca Lodge & Spa	Islamorada, Florida	Aug-11	101,250,000	214	473,131	2009
Marco Island Lakeside Inn	Marco Island, Florida	Aug-11	1,300,000	19	68,421	1983
Boulevard Hotel	Miami Beach, Florida	Aug-11	6,800,000	35	194,286	1995
Hotel Victor Miami Beach	Miami Beach, Florida	Jul-11	26,000,000	88	295,455	1938
Bahia Beach Hotel	Fort Lauderdale, Florida	Jul-11	2,000,500	37	54,068	1964
Blue Moon Hotel	Miami Beach, Florida	Jun-11	12,580,000	75	167,733	1934
Winter Haven Hotel	Miami Beach, Florida	Jun-11	14,100,000	71	198,592	1939
Grand Bay Hotel Miami	Coconut Grove, Florida	Jun-11	24,000,000	177	135,593	1983
Viceroy Miami Hotel & Resort	Miami, Florida	May-11	36,500,000	148	246,622	2009
Universal Palms Hotel	Fort Lauderdale, Florida	May-11	4,500,000	195	23,077	1974
Royal Palm Hotel Miami Beach	Miami Beach, Florida	Apr-11	130,000,000	409	317,848	2004
Continental Hotel South Beach	Miami Beach, Florida	Apr-11	61,000,000	251	243,028	1950
Ocean Grande Motel	Miami Beach, Florida	Mar-11	5,025,000	72	69,792	1980
Angela's Beach Resort	Fort Lauderdale, Florida	Feb-11	1,550,000	19	81,579	1987
Tropi Rock Resort	Fort Lauderdale, Florida	Feb-11	2,812,000	33	85,212	1958
Holiday Inn Express Hotel & Suites Ft. Lauderdale	Plantation, Florida	Feb-11	4,750,000	153	31,046	1978
Crowne Plaza West Palm Beach	West Palm Beach, Florida	Jan-11	16,000,000	219	73,059	1983
Ocean Point Beach Resort	Pompano Beach, Florida	Jan-11	8,550,000	100	85,500	1970
Islander Bayside	Islamorada, Florida	Jan-11	6,700,000	25	268,000	2010

Brokers' 2012 Miami-Dade County Market Sentiment

- **Scott Wadler** and **Max Comess** of Holliday Fenoglio Fowler ("HFF") reported to HVS that investor interest in Miami hotels is currently at an all-time high. HFF, the only intermediary hotel investment brokerage actually based in Miami, is one of the more active hotel brokers in the local market. Of late, virtually every hotel investor they speak with is targeting acquisitions in Miami.
- Scott and Max regard Miami as a "generational" market. Given the difficulty associated with acquiring a hotel property in Miami, the holding period for an asset is generally significantly longer than the national average. As such, the valuations made by buyers are based on longer term holds in addition to relatively aggressive projections on marketwide growth.
- Many of the sellers for transactions that occurred in the Miami area in 2011 were under financial duress and forced to sell their assets during the recovery. 2012 is poised to see a significant amount of hotel transactions given the reemergence of hotel sales
- Pricing has returned and is now at or above historical peak levels. HFF represented a party in the sale of the 214-room Cheeca Lodge, one of the most expensive hotel sales in the nation closed in August 2011 ($101.25 million, or roughly $473,000 per guestroom). The Cheeca lodge is located in the south Florida, specifically Islamorada in the Florida Keys.
- As the local hotel marketplace, bolstered by economic growth in international source markets, RevPAR levels in Miami (and Miami Beach, specifically) should continue to grow. Scott and Max anticipate a very strong 2012 with regards to Miami's hotel performance, buyer interest, sales volume, and investor interest.

The "EB-5" is a Viable Hospitality Investment Vehicle

The HVS Miami office has been working with a number of developers and project managers who are acquiring equity capital to develop hotels in the greater Miami area by virtue of the EB-5 program. We expect this niche source of equity capital to continue to grow over the next few years until more traditional source of debt and equity capital return to the hotel sector.

The EB-5 program is one path to a conditional green card for foreign investors who invest a minimum of $1,000,000 in the United States (or $500,000 if the investment is in a "targeted employment area") and create at least ten jobs for U.S. workers per EB-5 investor.

Recently, with the contraction of both the equity and the debt capital, developers have looked to the EB-5 program as an alternative source of capital for hotel development. Historically, the U.S. government has passively promoted the EB-5 as a way to spur the domestic economy; however, more recently, added attention has been given to this program in an effort to increase the number of applicants and provide a much needed boost to domestic employment levels. According to the Unites States Citizenship and Immigration Services (USCIS), by the end of the 2011 fiscal year, more than 3,800 EB-5 applications had been filed, compared to fewer than 800 applications in 2007.

Given the relatively high number of jobs created at a hotel, feasible hotel development projects are frequently sought after by designated regional centers who help to facilitate the EB-5 program. The construction of hotel complexes is included in the allowed activities of the South Florida Investment Regional Center (SFIRC) Geographic area, which covers Monroe and Miami-Dade counties.

Equity investment through the EB-5 is anticipated to gain traction, and we encourage those with questions to contact our team here given our experience in assisting in successfully qualifying local hotel developments for the EB-5 program. Ultimately, these successes should lead to green cards for foreign investors as well as assisting in the development financing for income-producing hotels in the market.

The Miami-Dade County Development Pipeline

The Downtown Miami/Brickell and Miami Beach submarkets are regarded by many as two of the more attractive and high-profile submarkets for hotel investment within the county; not surprisingly, these two submarkets also pose some of the greatest barriers to entry with regards to new development. While debt capital is generally more favorable in these high-performing submarkets, the costs associated with acquiring the land and the limited land availability often makes it difficult for a new hotel development to "pencil out." These high development costs have not deterred all developers, however, as evidenced by the status of the current development pipeline.

The future direction of hotel development in **Downtown Miami/Brickell** could very well hinge on the approval or denial of casino gambling permits, a hot topic that is currently being discussed in the Florida Legislature. **While the discussion was recently tabled, the potential development looms over the hotel landscape of South Florida.** An organization called the Genting Group, based in Malaysia, in a combined effort with Las Vegas Sands and other hopeful casino developers, is leading an attempt to convince the state's legislators to approve the casino gambling license with a $3 billion master plan for a development called Resorts World Miami. The company has acquired roughly 30 acres of land in downtown Miami (including the Miami Herald building in May 2011 and the Omni Center in September of 2011) and is poised to begin development upon the Legislature's approval. With the Omni being the first stage of Resorts World Miami, Genting could quickly offer casino jobs and revenues by fitting out the vacant 650,000-square-foot Omni Mall with a casino. At completion, the property will be roughly ten million square feet and feature four hotels (spanning 5,200 hotel rooms, or an increase of roughly 10% of the current inventory in Miami-Dade County), two residential condominium towers featuring approximately 1,000 units, more than fifty restaurants and bars, and luxury retail shopping mall, and 750,000 square feet of meeting and function space. Genting estimates that Resorts World Miami would create 15,000 direct and indirect temporary construction jobs and 30,000 permanent jobs in addition to between $1.4 to $2 billion in casino revenues, which would make the property the highest-grossing casino in the United States. The group is hoping for a completion date in the Fall of 2014. As the bill currently stands, though tabled for now, it would allow three casino licenses in South Florida.

HVS Miami News

- This March, HVS Miami will celebrate its **20th anniversary.** Over the last twenty years, the Miami office has happily served the needs of clients, located all over the world, contributed to the strong global reputation of HVS, and been an active and supportive member of the local Miami community. We look forward to continuing to serve your needs for the next twenty years and wish everyone a happy and healthy 2012.

- **Jim Whitteron** joined the office in the middle of the 2011 year. Jim is the Director of the Marketing/Sales Solutions for the HVS Shared Ownership Services Division. For existing hotel and vacation home developers, Jim and his HVS team provide the strategic planning necessary to transition to a fractional ownership product with their extensive experience in product design, business planning and budgeting, usage programs, HOA services, hospitality management, regulatory and project documentation. Most importantly, Jim and his team thoroughly understanding of the needs of this "new' fractional ownership purchaser. Jim will be a panelist at the upcoming **CHRIS Conference** here in Miami, Florida.

- In addition to Jim, HVS Miami Director/Partner **John Lancet** will be a panelist at the upcoming **CHRIS Conference.** Please look for our booth at the event in May.

- John Lancet is also scheduled to speak at the **HOLA Conference**, held in Miami immediately following the CHRIS Conference in May.

- Ms. **Kristina D'Amico** joined the office as a full-time analyst. Kristina attended college at Florida International University on an academic scholarship and graduated Cum Laude with a Bachelors of Business Administration in Finance, a minor in Hospitality Studies, and served on many organizations, including holding the position of President of the National Society of Collegiate Scholars

Miami Beach is one of the most sought after hotel real estate markets in the country, as evidenced by its year-end 2011 RevPAR of over $159. If one would isolate the Miami Beach submarket and compare it to the top 25 hotel markets in the country, as per data from Smith Travel Research, this submarket would rank second only behind New York City. Given the consistently strong RevPAR performance by hotels in Miami Beach and the future outlook of the submarket, which is poised for significant demand growth from both domestic and international visitors, it is no wonder why hotel investors are presently clamoring for opportunities to own a hotel on Miami Beach, either by acquiring an existing property or developing one from the ground up.

The Miami International Airport is a key driver for room night demand throughout Miami and in the **Airport/Civic Center** and **Doral** submarkets, specifically. Hotel developers have taken notice that these two submarkets regularly post some of the highest occupancy levels in Miami-Dade county. In 2011, the Airport/Civic Center and the Doral submarkets achieved annual occupancy levels of 82.1% and 81.0%, respectively. Based on the multitude of research, interviews, and market studies that we have performed for clients in the area, we believe there are significant levels of unaccommodated room night demand in the submarkets. This conclusion is confirmed by the industry-wide rule-of-thumb that suggests unaccommated room night demand exists in a competitive market that posts annual occupancy levels above 70%.

Miami-Dade County

From the start of 2007 to the start of 2012, Miami-Dade County's hotel room inventory increased by a compounded annual average rate of 2.2% per year, but from 2011 to 2012, as a result of the difficulty in sourcing financing and weak economic conditions in 2009 and 2010, room supply increased by only 0.6% while room night demand increased significantly. Increasing demand with little-to-no increase in room supply has resulted in strong marketwide hotel performance.

According to data requested from Smith Travel Research, 54.9% of the hotel supply in Miami-Dade County is branded and 45.1% is independent.

Luxury

Of all of the branded hotel properties in Miami-Dade County, those considered to be "luxury" by Smith Travel Research have grown at the fastest rate from 2007 to January 2012, increasing by a compounded annual average rate of 3.7%. Presently there is one branded property classified as "luxury" in the development pipeline, being the 261-room Edition, which is scheduled to open in the Fall of 2013 on the 29th Street block of Collins Avenue on Miami Beach.

Upper Upscale

Representing the largest segment of branded hotel supply in the county (25.9%), having an accurate pulse on the development pipeline of "upper upscale" properties is critical to existing hotel operators and prospective developers alike. From 2007 to January 2012, upper upscale room supply increased by an annual average of 2.9%. Currently there are two properties spanning 647 guestrooms in the planning stage of development, one of which is a 247-room Embassy Suites which will open in Downtown Miami while the other is a 400-room hotel slated for Miami International Airport. These properties are anticipate to open in late 2013 or later and will increases the branded upper upscale hotel rooms in the county by roughly 9.8%.

Upscale

Hotel properties considered to be "upscale" account for 22.7% of the branded room supply in Miami-Dade County, according to data requested from Smith Travel Research. From 2007 to the start of 2012, the room supply within this tier has grown by a compounded annual average rate of 3.3%. The following figure presents the active projects and the respective stages of development for the nine hotel developments within this upscale tier that HVS is aware of. The HVS Miami office contributed to the development process for a hotel property in the Brickell area that just acquired financing, in part through the EB-5 program, and is set to break ground in the coming months.

	Under Construction	Final Planning	Planning	Pre-Planning	Total
Properties	2	3	2	2	**9**
Rooms	260	370	282	360	**1,272**
Percent Growth **Based on Existing Room Supply**	4.5%	6.4%	4.9%	6.2%	**22.0%**

Consumers nationwide are quickly gaining awareness for Starwood's "aLoft" brand. As such, many developers are actively considering building hotels and flagging them with this up-and-coming, modern brand. In fact, of the nine hotel development projects within the county, three hotels (totalling 525 guestrooms) are anticipated to operate as aLoft hotels. Based on our research as well as data provided by Smith Travel Research, of the branded quality tiers, the upscale quality tier is anticipated to see the greatest increase in room supply, at 22.0%.

Upper Midscale, Midscale, and Economy

Properties that fit within these three quality classifications account for 34.1% of Miami-Dade County's total branded room supply. The total inventory within these segments has essentially remained flat from 2007 to the start of 2012. Specifically, the Hampton Inn brand is gaining market share within downtown Miami/Brickell, noting the 221-room Hampton Inn that opened in Brickell in September 2011 and the fact another Hampton Inn is slated to open in "Midtown," Miami in the late Summer of 2014.

Independent

It may come as a surprise to many, but hotels not affiliated with a nationally-recognized brand account for roughly 45% of all hotel rooms within Miami-Dade County. Independent hotel guestrooms within the county have increased by an average of 2.8% per year from the start of 2007 to the start of 2012. At the moment, within Miami-Dade County there are sixteen hotel development projects in various planning or construction stages; a significant portion of these hotels are to be developed in the downtown area.

Miami-Dade Hotel Marketplace Outlook

- Macroeconomic indicators and local trends point towards a strong 2012 for Miami-Dade County hotels. County-wide occupancy and RevPAR levels are above the peak levels that were recorded in 2007 and 2008. Going forward, as confirmed by local research and market interviews, we anticipate significant growth in marketwide ADR in 2012 that will contribute to record-breaking RevPAR levels, however occupancy will likely suffer as price-sensitive room night demand is phased out of the market.

- The greater Miami region will see a resurgence in meeting and group business from both a volume and a revenue perspective. Due to the significant advanced booking window and the decline in groups' propensity to travel in 2009 and 2010, the city is now poised to capture groups that had previously elected not to travel or negotiated during the downturn for very low hotel room rates.

- Potentially an immediate impact on the region (and one of the most prolific hotel developments in the history of South Florida), if casino licenses and Resorts World Miami are approved, Genting estimates that Miami International Airport would achieve an additional 5.4 million airline passengers (which would reportedly yield a 30% increase in airline revenues) and that the Miami-Dade County hotel industry would see a 50% gain in revenue (or about $1 billion). Its acquisition of the debt on the Omni in late 2011 would allow for the immediate fit out of a 650,000-square-foot space with a casino following the approval of the gambling bill and the granting of a license.

- In an interview of Scott Wadler and Max Comess of Holliday Fenoglio and Fowler, one of the most active intermediary hotel groups in Miami, commented that the greater Miami transactions market in 2012 is anticipated to be active and very competitive, with a large supply of buyers seeking properties and hotel values having recovered, and in some cases surpassed, historical peak levels. Many properties that changed hands in 2011 were due to the seller being under financial duress; without pressure to sell, prices are anticipated to continue to increase. Many submarkets are relatively protected from significant additions to supply in the immediate future given the difficulty that developers came across when sourcing financing in 2008, 2009, and 2010.

- In the near and mid term, we anticipate that many equity investors in the Miami-Dade market area will utilize the EB-5 program in order to (1) finance hotel development and (2) acquire green cards for South American investors. HVS Miami has worked with developers who have successfully raised money through this program and began construction on hotels that have been conditionally approved for the program.

HVS Miami provides a variety of consulting and valuation services for hotels, mixed-use real estate, and shared ownership projects. HVS Miami professionals have completed over 1,300 engagements, of which 54% were located throughout Florida. They have also worked in 28 Caribbean islands and 12 Central and South American countries. In addition to certified valuations, the HVS Miami office also provides feasibility studies, acquisition due diligence, asset management, expert witness testimony, and marketing and sales solutions for mixed-use and shared ownership real estate developments. For further information on all of our services, please visit **www.hvs.com/offices/miami**.

About HVS

HVS is the world's leading consulting and valuation services organization focused on hotel, restaurant, shared ownership, gaming, and mixed-use real estate. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry, including financing, marketing and sales solutions for shared ownership real estate. For further information on all of our services, please visit **www.hvs.com**.

About the Author

Andy Reed is an Associate in the Miami office of HVS, the premier global hospitality consulting firm since 1980. Since joining HVS, Andy has provided consulting services for a number of hotels, resorts, and mixed-use hospitality assets throughout the United States and the Caribbean. Geographically, his particular markets of interest include Miami, Orlando, the Florida Keys, and remote areas in the Caribbean. Prior to joining HVS, Andy provided a range of consulting services to the public and private tourism and economic development sectors throughout Australia, New Zealand, and portions of Asia. As a graduate of the University of Colorado, Boulder, Andy holds a Bachelors degree in Economics. For additional information, please contact Andy at:

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