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HOTEL INVESTMENT OPPORTUNITIES IN MIAMI STILL HOT:

OPPORTUNITIES IN FORT LAUDERDALE AND FLORIDA KEYS UPCOMING

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It is no secret that hotel investors have been scouring greater Miami for investment opportunities for the last few years (more so lately than ever) as they have been aggressively acquiring hotels and entering into new development ventures in hopes of capitalizing on the surging demand levels. At HVS, we work with all types of investors; Miami, specifically the downtown, Brickell, and Miami Beach submarkets, is at or near the top of virtually all of their target investment lists.

From a hospitality and tourism perspective, Miami has been the city in the United States that has benefited most from the growing and emerging South American economies.[1] Few would argue that Miami is now considered a "gateway market." Its gateway market resilience is evidenced by the strong, positive economic growth projections for these South American source markets, a reduction in the wait and processing time for tourist visas, along with a well-diversified foundation of leisure, corporate, and MICE (meeting, incentive, convention, and event) business. These factors should serve to insulate Miami well from demand losses during future market pull-backs.

City officials are optimistic that changes in the United States' tourist visa policies will induce additional visitors and hotel demand. Presently, ±40 percent of the United States' international visitors currently require visas; however, the U.S. government is facilitating travel to America by: [i] working on legislation to strengthen and expand the visa waiver program eligibility to nations with low visa refusal rates and rapidly growing economies, [ii] increasing the awareness amongst tourists regarding the visa waiver program, [iii] streamlining visa processing, which will free up more interview slots for first-time applicants and allow consular officers to more effectively spend their time evaluating higher-risk visa applicants, by waiving in-person interviews for certain low-risk, qualified individuals, such as those renewing their visas within 48 months of the expiration of their previous visas, and Brazilian applicants below the age of 16 and older than 66, and [iv] building capacity in high-growth and high-potential markets (the U.S. government is set to invest a total of ±$68 million in 2012 on existing facilities in Brazil and ±$22 million in China: the government is adding interview windows, expanding consular office space, and improving waiting areas.[2] These improvements should further increase international travel to Miami.[3]

Jones Lange LaSalle, a global hotel investment and brokerage company, announced in a recent publication[4] that hotel transaction volume in Miami increased by 154% from 2010 to 2011, reaching $557 million (the second-highest level since 2005). They anticipate Miami transaction volumes to increase further in 2012, reaching $650 million, given the scorching investor interest. We, along with most experts in the industry, have little doubt that Miami will be the subject of constant and aggressive investor attention going forward, but it should be known that there are viable hotel investment alternatives in the Miami area: investors do not need to be chasing the same deals and be paying the large premiums associated with Miami's most high-profile locations.

The continued success of Miami's primary markets is now spilling over into Miami's secondary and surrounding markets. The secondary submarkets of Coconut Grove, Coral Gables, and North and South Dade are posting some of the highest occupancy gains (higher than downtown, Brickell, Miami Beach, and the airport) in the Miami area. The downtown, Brickell, and Miami Beach hotels have been able to yield manage and raise ADR so quickly that more price-sensitive visitors are being displaced to the city's secondary markets

Due to the overwhelming demand for Miami's prime assets and the purchase premium associated with the buyer competition, many investors' hurdle rates can no longer be attained. Opportunities do exist for investors who are willing to (1) take on more risk by deploying equity in broken and distressed projects, (2) accept a lower return or find ways to find "cheap money" which would increase returns,[5] and/or (3) consider projects in Miami's secondary and up-and-coming submarkets.

[1] Overnight visitation to Miami increased significantly from 2010 to 2011 from Brazil (+14.2%), Argentina (+9.5%), Colombia (+8.5%), and Venezuela (+8.3%). Though not contributing as many room nights, Chilean visitation is on the rise (+11.0%). For a frame of reference, Canadian and German overnight visitation increased by 6.9% and 2.0%, respectively, while and overnight visitation from England declined by 1.8% from 2010 to 2011.

[2] "Obama Administration Continues Efforts to Increase Travel and Tourism in the United States," The White House

[3] International passenger arrivals at MIA are up 8.1% in the trailing-twelve-month period ending in July 2012 relative to the prior 12 months; domestic passenger arrivals are only up 4.9% over the same period

[4] "Hotel Transaction Volumes in Miami to Reach Second Highest Level in a Decade in 2012," Jones Lang LaSalle

[5] As discussed in the last South Florida Newsletter, the EB-5 program is growing in popularity and we are aware of multiple projects in the market being funded through this program including, potentially, the former Miami National Bank

Statistics show that Miami is not the only hotel market in South Florida illustrating strong performance indicators. Investors could benefit from widening their "gateway city myopia." We would encourage investors to explore alternative South Florida markets such as the Florida Keys, Fort Lauderdale, and West Palm Beach.

Occupancy Levels in South Florida's Primary Cities

The following figures illustrate the occupancy statistics for South Florida's primary markets through the year-to-date July 2012 period and, for comparison, the July 2011 year-to-date period. These data indicate that Miami, though at the top of many investors' lists, is not actually South Florida's strongest-performing market with regard to occupancy.

FIGURE 1: OCCUPANCY THROUGHOUT SOUTH FLORIDA

	Occupancy (Year-to-date, July)		
	2011	2012	Change (Points)
1 Florida Keys	80.3 %	82.5 %	2.2
2 Miami-Dade	77.4	78.5	1.1
3 Fort Lauderdale	73.9	75.8	1.9
4 West Palm Beach	70.2	71.6	1.4
Florida	*67.1*	*69.1*	*2.0*
5 Fort Myers	61.1	63.6	2.5
United States	*60.6*	*62.3*	*1.7*

Source: Smith Travel Research, Greater Miami Convention and Visitors Bureau

South Florida's Average Daily Rate

Average daily rate ("ADR"), another indicator which must be considered when analyzing a hotel investment market, has been improving consistently since mid-2011 in most South Florida markets. As discussed earlier, when the economy declined and occupancy levels subsided, operators were forced to reduce ADR in an effort to incentivize consumers to (1) travel at all and (2) stay at their property as opposed to their competition. Given the relatively thin demand levels, operators became more aggressive in reducing rates as occupancy levels slipped further; however, now that occupancy has recovered to pear or near peak levels in many South Florida markets, operators in these markets have the flexibility to be more selective with their rate discounting (i.e. phasing out lower-rated demand) and improve yield management. In markets where there is adequate room night demand, hoteliers are making a concerted effort to push ADR and maximize total revenue per available room ("RevPAR"), displacing some room night demand to secondary, lower-priced markets.

FIGURE 2: AVERAGE RATE THROUGHOUT SOUTH FLORIDA

	Average Rate (Year-to-date, July)		
	2011	2012	Change (Percent)
1 Florida Keys	$206.89	$222.00	7.3 %
2 Miami-Dade	160.55	172.39	7.4
3 West Palm Beach	145.32	153.33	5.5
4 Fort Myers	132.49	135.90	2.6
5 Fort Lauderdale	117.80	122.10	3.7
Florida	113.45	118.61	4.5
United States	101.17	105.53	4.3

Source: Smith Travel Research, Greater Miami Convention and Visitors Bureau

As with occupancy statistics, Miami-Dade ranks well in ADR levels, but is not first in South Florida, based on year-to-date July figures. The Florida Keys ranked first, bolstered by a 7.3% gain relative to the year-to-date period from one year ago.

Revenue per Available Room throughout South Florida

Though trends in occupancy and average rate help us to forecast future revenue levels, marketwide RevPAR, the product of occupancy and average rate, reveals the full potential of a hospitality market and one market's performance relative to another.

FIGURE 3: REVPAR THROUGHOUT SOUTH FLORIDA

	RevPAR (Year-to-date, July)		
	2011	2012	Change (Percent)
1 Florida Keys	$166.13	$183.15	10.2 %
2 Miami-Dade	124.27	135.33	8.9
3 West Palm Beach	107.39	116.22	8.2
4 Fort Lauderdale	93.01	97.30	4.6
5 Fort Myers	79.04	84.37	6.7
Florida	69.32	75.44	8.8
United States	61.31	65.75	7.2

Source: Smith Travel Research, Greater Miami Convention and Visitors Bureau

As with the occupancy and ADR statistics, the Florida Keys and Miami-Dade registered the strongest performance while Fort Lauderdale and Fort Myers lagged the other markets. The investors' analysis should be taken to the next level, however. Fort Lauderdale RevPAR is equal to 75% of Miami Dade's RevPAR; if a Fort Lauderdale asset can be acquired for 60% of the cost per key of a Miami-Dade hotel, which investment is more attractive?

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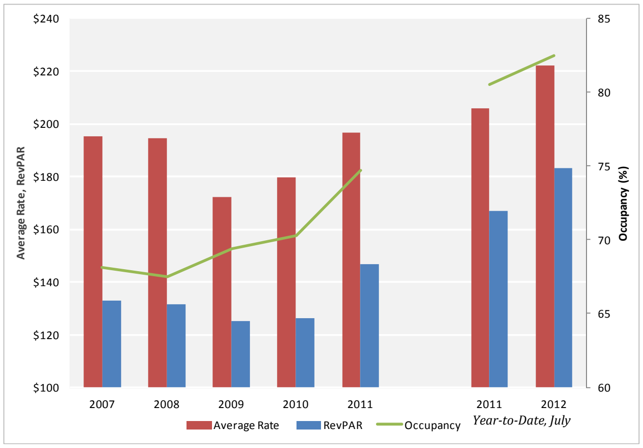
building (in the early planning stages, slated to be transformed into a boutique hotel called Langford Hotel).

The Florida Keys: Paradise for Hotel Owners

There are few hotel markets in the United States that pose barriers to entry as significant as the Florida Keys. Given a finite amount of available land and a maximum number of legally allowable hotel rooms, the relatively limited amount of hotel inventory and the ever-growing levels of room night demand have placed hotel owners (and owners of the hotel room rights) in an enviable position. In fact, the Florida Keys achieved the highest occupancy, average rate, and RevPAR levels in all of South Florida based on the latest available statistics.

FIGURE 4: OCCUPANCY, RATE, AND REVPAR IN FLORIDA KEYS



While development opportunities are obviously limited given the restricted amount of allowable inventory, opportunities with upside do exist for those investors willing to consider a strategy of acquisition, investment, and repositioning.

Florida Keys Case Study: Buccaneer Lodge Transforms into Tranquility Bay Beach Resort

One of the more successful and creative cases of acquisition, investment, and repositioning occurred in Marathon, Florida at what is now known as *Tranquility Bay Beach Resort*. Singh Hotels & Resorts, a prominent resort developer, owner, and operator in the Florida Keys, purchased all but roughly 150 weeks of timeshare ownership (about 3% of total inventory) from individual owners at a "tired" timeshare resort called Buccaneer Lodge and redeveloped the property into an upscale resort community. Singh Hotels & Resorts negotiated with the timeshare owners who were unwilling to sell their ownership interests in the Buccaneer Lodge; in exchange for the necessary approvals from the owners who held out, Singh granted ownership interests in the new resort, Tranquility Bay.

To further increase revenue generation, Singh operates the resort as both a transient lodging facility and a timeshare resort, by managing both unused timeshare inventory and its own units as transient hotel inventory. In this manner profits are generated for Singh and for timeshare owners who offer their intervals for rental by Singh management.

FIGURE 5: TRANQULITY BAY BEACH RESORT

Tranquility Bay has been so successful for Singh Hotels & Resorts that ownership, following its acquisition of development rights for 16 additional units, is now planning to construct additional inventory. This is the type of creative, out-of-the-box thinking in which investors must engage, should they wish to cost-effectively enter the ever-appealing Florida Keys hospitality market.

We are interested to see how development in the area proceeds, as additional projects are slowly being pieced together. The Prime Group recently received county approval for a 163-room, 10-bungalow, phased resort development in Key Largo. Also, in an article written by Ryan McCarthy and published by the *Florida Keys Noter*, it was discussed that developer The Prime Group received approval from the local Planning Commission to amend their development agreement and conditional use plan (increasing the allowable number of hotel rooms at the site from 80 to 95 units) for a proposed Courtyard by Marriott hotel project. Nearby Faro Blanco Resort and Coconut Cay Resort & Marina have also been granted amended development agreements in recent months (Faro Blanco developers, Spottswood Companies, added 25 rooms to its 100-room Hyatt-affiliated hotel design. Nearby, Coconut Cay was approved to add 20 units, thereby increasing the room count from 22 to 42 one- and two-bedroom units).

Fort Lauderdale: A Beneficiary of Miami's Growth and Development

According to the Fort Lauderdale Convention and Visitors Bureau, the city recorded roughly 11 million visitors in 2011, roughly 23-24% (approximately 2.6 million visitors) being from international markets.

While not on the radar of international visitors to the level that Miami presently is (48% of total demand was from international source markets in 2011), Fort Lauderdale's tourism foundation has been augmented by growth in international demand over the last few years.

Miami's growing international popularity has brought attention to the city's surrounding areas and, since 2007, the rate of growth for international visitors has outpaced that of domestic visitors, raising Fort Lauderdale's international market share.

As discussed, the city of Fort Lauderdale has benefited from international consumers seeking lodging, shopping, dining, and leisure alternatives. Consumers' desires for new destinations and its location just north of Miami positions Fort Lauderdale to capture more of Miami's visitor overflow going forward.

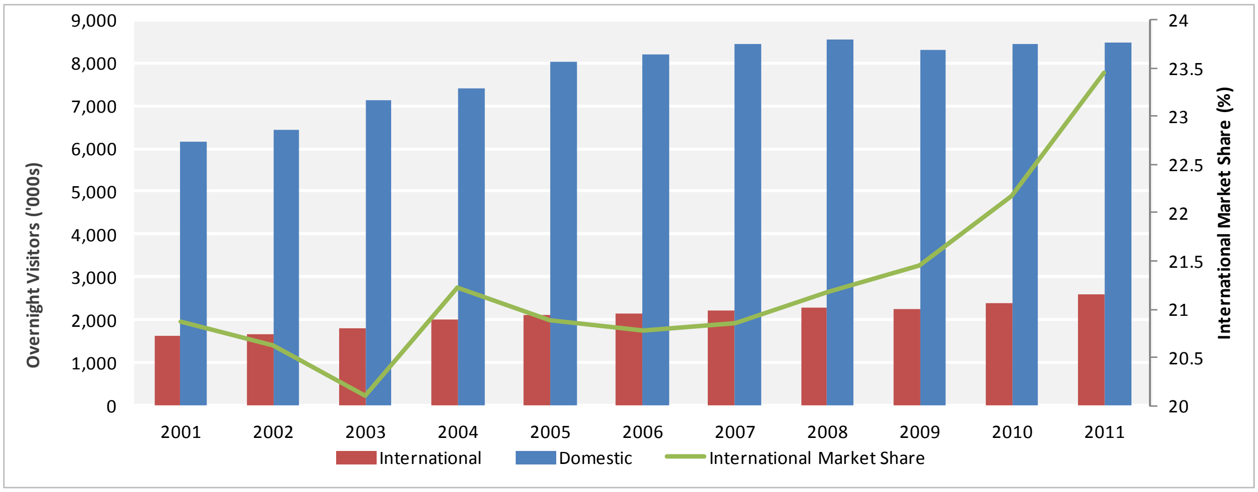
Robert Todak, President of Tailored Hospitality,[6] reported during an interview that wholesalers presently selling hotel and vacation packages feel that the action is shifting north relative to Miami's "core." Todak confirmed, "Ocean Drive is becoming less appealing due to noise, traffic, and escalating prices, while hotels in Fort Lauderdale are attractive to consumers given that many international consumers have not been there before and the city's reputation is growing and awareness is improving."

HVS feels that the ramping up of hotels that anchor Fort Lauderdale beach, such as the "W" and the new "B Hotel," as well as new developments currently in the pipeline which should bring in new consumers, will continue to contribute to the growing status of the city. Todak goes on to say, "Europeans are still favoring boutique, independent, design-driven hotels while a higher portion of Latin Americans proactively seek a branded property with which they are familiar. If consumers are set on Miami Beach, the movement is still north of what was the core, and consumers are focusing on hotels north of 16th Street."

South Florida's Marketwide Investment and Operations Outlook

While we stated that most viable development and investment opportunities in Miami are now in secondary markets, it is worth noting the relatively significant attention Miami's "mid beach" has recent received. Since land is scarce in South Beach's core (5th Street to 15th Street), development must move north and fill the void between Miami Beach's northern

FIGURE 6: DOMESTIC AND INTERNATIONAL VISITATION TO FORT LAUDERDALE



[6] Todak has been involved in managing many iconic hotels in the area, including the Anglers, the Betsy, and the Delano

anchors, being the Fontainebleau, Eden Roc, Soho Beach House, and the relatively new Grand Beach. Active hotel operators and investors on Miami Beach have been commenting that both the consumer and the investor appeal is shifting north and filling this space.[7]

Outside of this hotel development "pocket," most development must occur to the north of Miami given the limited potential for room supply to the south (Florida Keys) and the city's natural boundaries to the east (Atlantic Ocean) and west (the Everglades). We believe that there are viable investment opportunities in Fort Lauderdale as well as in Miami and the Florida Keys through broken and out-of-the-box deals. The pending redevelopment of the Miami Beach Convention Center[8] should further incentivize investment on Miami Beach and improve the destination's position relative to other major MICE destinations.

The drastic plans for casino development in downtown Miami, led by Genting, have been put on hold following the Florida Legislature's decision not to grant casino licenses have been significantly altered. Following their disappointment, the Miami Herald reported that Genting remains dedicated to development in Miami; the group is slowly moving forward with a revised plan that could be presented to the city in late 2012 or early 2013. The Miami Herald reported that Genting's preliminary plans call for a luxury hotel with fewer than 500 rooms and two residential condominium towers. The total space devoted to restaurants and retail outlets would be less than 100,000 square feet. With regard to the hotel component, Genting is apparently considering approximtely one dozen luxury hotel brands that have expressed interest in the project. The hope is to start demolition in May 2013 when the Herald vacates the bayfront land it now occupies. Genting reportedly paid $236 million for the 13.9-acre site in 2011.

The South Florida region displays strong tourism growth potential, with Fort Lauderdale set to capture Miami's overflow, as the area's international visitation continues to grow and international airlift to Fort Lauderdale continues to expand. Also, look for West Palm Beach to induce new demand as a result of the entrance of new hotel brands (aloft, for example) and the development of the new headquarter convention center hotel, anticipated to be affiliated with Hilton. Bargain acquisition opportunities with potential upside exist in West Palm Beach (a recent HVS Hotel Valuation Index, published in January 2012, reported that West Palm Beach/Boca Raton hotels lost the most value from 2006 to 2010 (77%) of any hotel market in the United States). The latest HVS Hotel Valuation Index ("HVI"), published In October 2012, ranked West Palm Beach third (of the ten markets that experienced the worst declines during the downturn) as far as cities expected to show the highest nominal hotel value increases through 2016 ($89,902 per room). The same HVI report stated West Palm Beach hotel values per room increased by 37% from 2010 to 2011.

We anticipate local hotel operators achieving strong ADR growth in the region's primary markets, likely at the expense of occupancy in the mid-term (being displaced to secondary submarkets), until the development financing bottleneck is relieved, and developers are able to bring new hotels on line (already underway in downtown Miami and more so in Miami Beach). The resulting increase in hotel supply will benefit consumers and ease marketwide occupancy and ADR growth rates. In most South Florida markets, we believe that existing hotels are generally safe from new competition in the near term, but operators should plan and budget appropriately for new, competitive, high-quality hotel supply three to four years from now.

[7] Recent and upcoming hotel investments and developments in the area include the renovation of the Surfcomber (17th Street), the SLS opening (17th Street), a potential sale/renovation of the Raleigh (18th Street) the construction of a boutique, food-, beverage-, and entertainment-focused hotel concept called the Vintro (22nd Street), the recent sale/renovation of the Perry (24th Street), a proposed aLoft hotel by Starwood (26th Street), the Marriott Edition (29th Street), and the renovation of the old Saxony Hotel (32nd Street).

[8] Miami Beach hotel bed taxes are set to increase, with the incremental revenue slated for an escrow account to fund the development of an enhanced convention center and new supporting facilities, including a hotel. City officials estimate the tax increase will produce $8.5 million to $9 million a year in additional tax collections on room rates at Miami Beach hotels and other short-term rentals. A development team will partner with the city to redevelop up ±52 acres of city-owned property, including the convention center and its surroundings, in an effort to make Miami Beach more competitive in the meetings industry.

HVS Miami

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**.

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HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. 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. For further information regarding our expertise and specifics about 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 and appraisal services for a number of hotels throughout the United States and the Caribbean (focusing on South Florida and Mexico). Prior to joining HVS, he provided a range of consulting services to the public and private tourism development sectors throughout Australia, New Zealand, and portions of Asia. Andy holds a degree in Economics from the University of Colorado, Boulder. For additional information, please contact Andy at:

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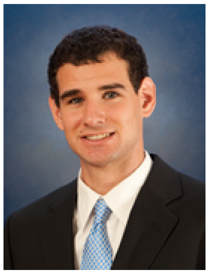

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