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HOTEL INDUSTRY

As Miami-Dade hotel market booms, more players want in

Miami-Dade is in the throes of a hotel buying-and-building boom. Or, more appropriately, a re-building boom.

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A birds-eye view atop a Collins Avenue construction site shows the past, present and future of South Beach, set to a symphony of construction noise.

The trailblazing Delano, which revitalized the destination in 1995 and is now being marketed for sale after an \$11 million renovation, is flanked by the historic National Hotel, in the midst of a major restoration, and the Philippe Starck-designed SLS, formerly the Ritz Plaza, which opened in June after eight years and about \$85 million.

“Miami is a hot market now, so it’s hard to get a hotel,” said Keith Menin, principal of Menin Hotels, which is developing the latest — but certainly not last — addition to the busy scene. The company’s 87-room Gale South Beach & Regent Hotel at 1690 Collins Ave. is set to open in early December, more than a year after finishing most of the renovations on the family-owned Shelborne just up the road.

After a recession-fueled pause, when visitor numbers dropped and financing dried up, Miami-Dade is in the throes of a hotel buying-and-building boom. Or, more appropriately, a *re*-building boom.

Local investment is following a national trend.

SHELLING OUT BILLIONS

According to a recent report from Bjorn Hanson, a dean at the Preston Robert Tisch Center for Hospitality, Tourism and Sports Management at New York University, the lodging industry is expected to shell out a projected \$5 billion this year on upgrades after curtailing spending since 2009.

Improvements could include everything from redesigned lobbies to better technology in rooms and meeting areas and more appealing fitness centers and restaurants, according to the report, which notes that the expected spending boost is due to vastly improved occupancy numbers and average daily rates.

In Miami, industry experts say robust tourism numbers, the scarcity of available land and the willingness of banks to lend money again are drawing waves of investors who see hotels in the destination as a must for their portfolios. Potential buyers include private equity firms, real estate investment trusts, major brands and some foreign investors.

“Miami is improving faster than a lot of the other markets, and it is a major, major market,” said Suzanne Amaducci-Adams, head of the hospitality group at the Bilzin Sumberg law firm. “So everybody wants to be here.”

Through September, hotels in Miami-Dade were more than 76 percent full, a small gain over the first nine months of 2011 despite a dip during the summer. But room rates have continued to climb, up nearly 7 percent to almost \$163. And hotels countywide are making more revenue per available room; that figure grew about 8 percent to more than \$124.55 through September.

Observers say the area is also gaining stature internationally because of the growth of arts and culture, as well as its ability to attract business from places including Russia and Asia in addition to Latin America.

“We really are just maturing and becoming a much more sophisticated global destination, and that’s really what is driving this,” Amaducci-Adams said.

Hotel transactions volume is expected to reach \$650 million in the county this year, a 13 percent increase over 2011, according to brokerage Jones Lang LaSalle Hotels. And that figure doesn’t include the hundreds of millions more being poured into upgrades at properties including the Perry Hotel South Beach (formerly Gansevoort Miami Beach) and Trump Doral Golf Resort & Spa, which mogul Donald Trump says he’s spending \$200 million to fix up after he bought it for \$150 million earlier this year.

Like the Doral and a few sites near Miami International Airport, a sliver of the current action is happening on the mainland. Only a Hampton Inn has gone up in the downtown Miami or Brickell area since the JW Marriott Marquis opened in late 2010, capping a decade that saw the arrival of the Mandarin Oriental, Four Seasons, JW Marriott, Conrad, Viceroy and Epic.

HOTEL UPGRADES

Now, the stalwart InterContinental Miami is about to wrap up a \$30 million upgrade and the former Continental Bayside Hotel is undergoing a renovation that is expected to finish in early 2013, when the property at 146 Biscayne Blvd. will become the first hotel in the budget-friendly b2 brand.

But the bulk of the investment action is happening in Miami Beach, which still commands the highest room rates.

Gregory Rumpel, managing director of Jones Lang LaSalle Hotels in Miami, calls it “a truckload of cash” that will reinvigorate the remaining properties in disrepair to push rates even higher when all the projects are done.

“Once we get these derelict buildings renovated and repositioned, I think it really helps the image, improves the vibe,” he said. “It creates more

velocity, more activity.”

Like Menin’s Gale, many projects are resurrections of dilapidated, decades-old buildings that are historically significant. Because most of the popular areas for hotels lie within protected historic districts, any changes are subject to tough standards and approval.

“It would be a lot cheaper for developers to come in and knock down these buildings, but you can’t,” said Max Comess, a director in the hotel group at commercial real estate investment banking firm HFF. “And the trade-off is that you have some really amazing architecturally significant buildings to work with. I think that’s what makes Miami so appealing, not only to investors: It’s really like you’re staying in a museum.”

RESTORATION

Kobi Karp Architecture and Interior Design, a Miami firm, is working on a handful of such projects on the beach, including the restoration and addition of new buildings at the Surf Club in Surfside, which will include a condo-hotel; the transformation of a complex of decrepit buildings into boutique hotels in the Collins Park neighborhood of Miami Beach and the Hotel Versailles in Miami Beach.

The firm’s principal, Kobi Karp, said the volume of hotel restoration projects has increased in the last couple of years.

“They are challenging, but they’re also inspirational because you get to work with a history and a story that was there before you,” he said.

Comess is marketing the Haddon Hall hotel at 1500 Collins Ave. and adjacent apartments to potential buyers. That traditional South Beach area has been on the front end of development, with renovated properties on Ocean Drive and Collins Avenue including Hotel Breakwater, Dream South Beach, Room Mate Waldorf Towers, the Surfcomber and the Shelborne all coming online last year.

After a summer soft opening, the SLS at 1701 Collins Ave. holds its official grand opening event in early November, when the renovated and newly branded James Royal Palm also opens and the Ritz-Carlton, South Beach finishes a \$10 million room refresh.

Many projects are still in the pipeline, including the transformation of the Continental Oceanfront South Beach Hotel at 1825 Collins Ave., which is scheduled to open next year as B South Beach.

The Chetrit Group, a New York-based developer that bought the Tides at 1220 Ocean Dr. last year and made it part of the hip King & Grove brand, is behind the planned restoration of the Collins Park buildings and the Hotel Versailles. The group is also planning an extension of the Tides as well as a project at the empty Fairwind Hotel at 10th Street and Collins Avenue.

Often finding themselves priced out of the heart of South Beach — or simply without anything to buy there at any price — investors are also looking north for opportunities.

New York-based Sydell Group, which owns the NoMad Hotel in Manhattan and developed the Ace hotels there and in Palm Springs, had five cities in mind when executives decided to start an upscale hostel concept. They found the first location off the beaten path in Miami Beach at the old Indian Creek Hotel, 2727 Indian Creek Dr., some 10 blocks north of the heart of South Beach buzz. After buying the hotel for \$12 million in January and putting about \$8 million into upgrades, the company will launch the new 65-room Freehand with a soft open in December.

Sydell Group CEO Andrew Zabler said the goal was to create a place with an affordable price point that would attract youth and energy — distance from the South Beach action notwithstanding.

“I really like the location. I think a lot of our audience are going to ride bicycles,” he said. “The beach is not that big a place. You can pop from one place to the next on a bicycle. I think a lot of the energy is moving up the beach.”

MORE BUZZ

At the Lifestyle/Boutique Hotel Development Conference at the Fontainebleau Miami Beach earlier this month, a panel of industry experts agreed that the south doesn't have a monopoly on buzz.

"South Beach is starting to creep up to this part of the beach as well," said Patrick Goddard, president and chief operating officer of Trust Hospitality.

The popular W South Beach, at 22nd Street, and Perry at 24th have already pushed the hip factor far north of Lincoln Road, and the upcoming Edition at 29th Avenue is expected to do the same when it opens late next year.

Marriott announced two years ago that it was buying the old Seville Beach Hotel to become an Edition, a chic and exclusive new brand formed in partnership with hotelier Ian Schrager. The Miami Beach location will be the only one in the United States when it opens.

Jay Coldren, Marriott International's vice president of lifestyle brands, said at the hotel conference that the company's investment in the Edition is unusual — Marriott does not typically own the hotels it operates — and a sign of Miami's significance in the world.

"We're really serious about this market, the future of this market and what it means to the global positioning of the brand," he said.

Slightly north of the Edition, the Saxony hotel at 3201 Collins Ave. is coming back to life courtesy of Argentine developer Alan Faena. And the old Cadillac Hotel at 3925 Collins Ave., now the Courtyard Miami Beach Oceanfront, changed hands late last year for \$95 million. New owner Hersha Hospitality Trust is adding a tower with another 93 rooms to the property, scheduled for completion by the end of 2013.

Hersha, a Philadelphia company that also has property in New York,

Boston, Washington, D.C., Philadelphia and California, had been eyeing Miami for years before making the purchase. Back during the height of the real estate market, said CFO Ashish Parikh, prices were prohibitive.

“The market obviously went into a freefall,” he said. “At that point we really didn’t know where Miami was going to shake out. As we looked at the trajectory, we thought last year Miami was shaping up to have a nice long run — and it seems like that’s coming to fruition.”

Comess, of HFF, predicts a “wave” effect that started with reconstruction of oceanfront hotels and will move inland to properties across from the beach, then farther away from the water in Miami Beach, followed by downtown Miami, Coconut Grove and Coral Gables.

A fall newsletter from hospitality consulting firm HVS Miami suggests investors should consider looking beyond Miami-Dade to the Fort Lauderdale area, Florida Keys and West Palm Beach. While Broward has seen some investment, the volume is far less than its southern neighbor.

OTHER MARKETS

“Statistics show that Miami is not the only hotel market in South Florida illustrating strong performance indicators,” the HVS report says. “Investors could benefit from widening their ‘gateway city myopia.’”

But for those who are set on Miami-Dade, Comess said, Miami Beach could start to get too pricey.

“The premium’s obviously on the beach, and that’s the first place everyone wants to be,” he said. “But as pricing gets ridiculous on the beach and exceeds peak levels, both guests and investors will start coming inland to find more attractive deals in terms of places to stay.”

Some of the most talked-about future projects are planned for the mainland, though specifics are far from clear. Genting Group, the

Malaysian company that bought the Miami Herald building for \$236 million last year, had initially said it planned a 5,000-room resort complex with a casino. But after state legislators failed to approve expanded gaming, the company has said it plans to scale the project down.

Swire Properties plans to include a 265-room hotel in its \$1.05 billion Brickell CitiCentre project, and developer Craig Robins has said his \$312 million vision for the Design District includes a hotel.

And the market is clamoring for more select-service hotels such as Courtyard by Marriott, said Ezra Katz, chairman of real estate investment banking firm Aztec Group. In Miami-Dade, at least two Aloft hotels from Starwood are on the books for early 2013, in the Brickell area and Doral.

The Miami International Airport area also has potential for future development, Katz said.

“It’s a very healthy market, and that airport generates a lot of traffic,” he said. “You may not get rich, but you won’t get poor.”

The South Florida hospitality industry, of course, is wary of boom-and-bust cycles after recovering from the impact of the Sept. 11, 2001 terrorist attacks and the recent worldwide recession. Industry players say there doesn’t appear to be a bubble in the making but warn about the unexpected.

OUTSIDE INFLUENCE

Peter Zalewski, a principal with Bal Harbour-based consultancy Condo Vultures, said added inventory could be an initial drag on occupancy and pricing. And, he pointed out, hotels are especially vulnerable to outside events.

“We’re one international incident away from the whole scene changing,” he said.

In this post-recession phase, tourism boosters and visitors alike are enjoying the progress.

Interior designer Colette Anderson, visiting from the Atlanta area recently as part of the lodging conference held at the Fontainebleau, toured the new SLS with a group and “took 100,000 pictures.”

“It’s just quite fascinating that there’s a big construction boom down here in South Beach,” she said.

The constant redevelopment helps to keep interest fresh in Miami, especially as northerners are making their winter vacation plans, said Chanize Thorpe, editor of the Condé Nast site HotelChatter.com.

“You’ve got these kind of classic hotels that are reinventing themselves,” she said. “I think that’s one of the reasons why people will continually be interested in what’s going on.”

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<http://www.miamiherald.com/2012/10/28/v-fullstory/3072008/as-miami-dade-hotel-market-booms.html#storylink=cpy>