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**Q2 2016**

## **MARKET FOCUS: FLORIDA**

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*June 1, 2016*

The allure of Florida, and especially its coastal submarkets, continues to attract visitors and lodging investors alike. Notwithstanding challenges facing other key leisure destinations, the state continues to post record tourism figures, and the strength of hotel and resort investments are evident in the performance figures reported quarter after quarter. But what is it that continues to make Florida so attractive?

We gathered insights from industry experts and a variety of owners and investors as we prepared this issue in our Market Focus series. We thought it important to share what we have learned with our clients and friends who have an interest in Florida investments, own lodging assets in the state, or both. We discussed with these institutional and independent owners the resurgence of group and leisure business, hotel developments throughout the state, as well as some of the challenges that might lie ahead, with a focus on submarkets along both coasts. We hope that you find this information to be both informative and actionable. We welcome the opportunity to discuss your hotel and resort holdings with you, whether in Florida or elsewhere.

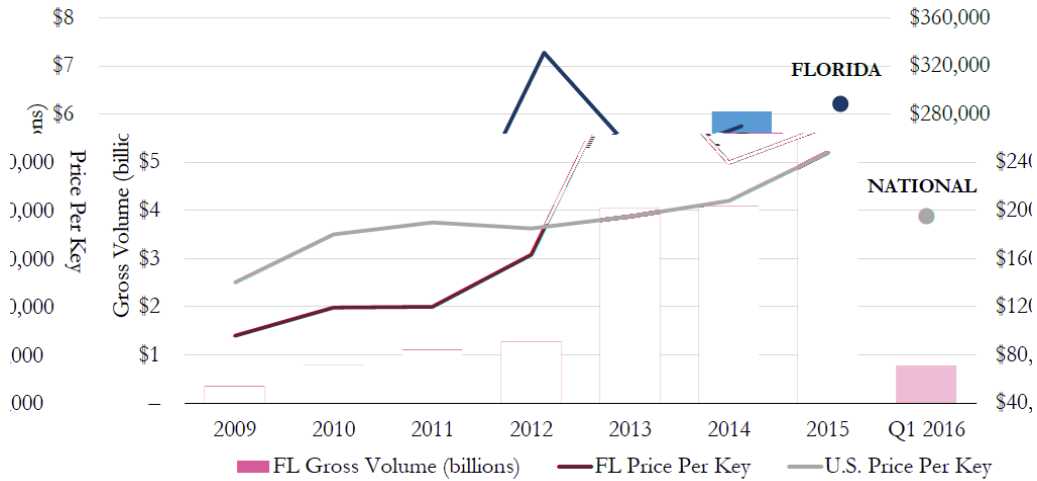


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### **A Sunny Outlook for Florida Lodging Investments**

As the nationwide lodging investment environment continues to mature in this part of the economic cycle, most Florida markets have delivered strong hotel operating results. Asset valuations and transaction pricing are still reflecting what is generally viewed as a positive outlook on future performance across the state. Florida hotel and resort transactions account for about 18% of total U.S. transaction volume since 2009 (only New York was higher in the same period). And, as indicated in the graph on the following page, Florida fared better than the rest of the nation when it came to transactions on a price-per-key basis. Today, Florida lodging transactions are approaching an average of \$290,000 per key, outpacing the U.S. average of about \$190,000 per room and already ahead of the 2007 peak of roughly \$270,000 per key.

## U.S. Hotel Market Transaction Volume



Note: 2013 price per key for Florida includes the sale of the Fontainebleau Miami Beach and the Hyatt Regency Orlando Convention Center, the two largest transactions by volume in the entire date range, which account for the peak in FL Price Per Key that year.

Source: Real Capital Analytics. Includes all transactions over \$10 million.

Most Florida markets have also enjoyed strong RevPAR growth compared to other U.S. cities. In 2015, that growth came mainly in the form of increases in ADR, which exceeded the U.S. average ADR growth of 4.4%.

### 2015 RevPAR

Market	RevPAR	% Change	ADR	% Change	Occ.	% Change
Tampa/St. Petersburg	\$82.28	13.8%	\$114.56	7.7%	71.8%	5.6%
Orlando	\$86.19	9.1%	\$112.00	4.8%	77.0%	4.1%
Miami	\$152.83	6.0%	\$195.75	5.9%	78.1%	0.0%
<b>Top 25 Markets</b>	<b>\$108.47</b>	<b>6.1%</b>	<b>\$147.30</b>	<b>4.3%</b>	<b>73.6%</b>	<b>1.7%</b>
<b>All Other Markets</b>	<b>\$64.88</b>	<b>6.4%</b>	<b>\$104.97</b>	<b>4.5%</b>	<b>61.8%</b>	<b>1.8%</b>
<b>Total United States</b>	<b>\$78.67</b>	<b>6.3%</b>	<b>\$120.01</b>	<b>4.4%</b>	<b>65.6%</b>	<b>1.7%</b>

Source: Smith Travel Research

For the first quarter of 2016, Tampa and Orlando, both in the top 10 in RevPAR performance, continue to grow their rates, although occupancies have declined slightly. Miami has been hardest-hit by new supply and a slow-down in international visitation.

### Q1 2016 RevPAR

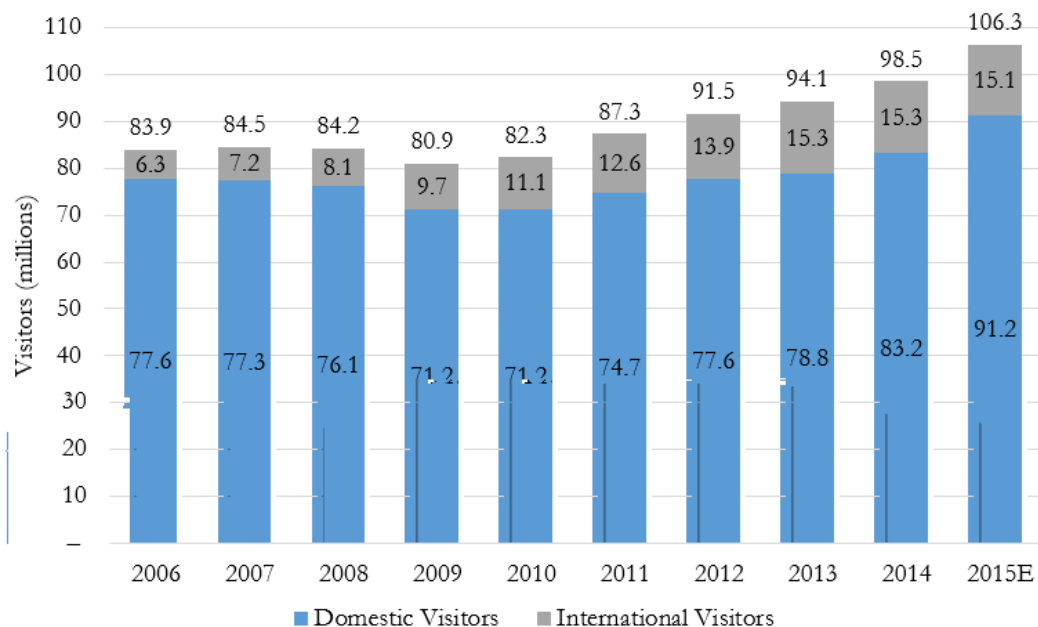
Market	RevPAR	% Change	ADR	% Change	Occ.	% Change
Tampa/St. Petersburg	\$110.71	6.2%	\$138.01	7.4%	80.2%	(1.1%)
Orlando	\$104.87	4.7%	\$129.48	6.4%	81.0%	(1.5%)
Miami	\$205.03	(3.6%)	\$246.30	(1.7%)	83.2%	(1.9%)
<b>Top 25 Markets</b>	<b>\$102.45</b>	<b>2.8%</b>	<b>\$145.49</b>	<b>3.2%</b>	<b>70.4%</b>	<b>(0.4%)</b>
<b>All Other Markets</b>	<b>\$59.80</b>	<b>2.5%</b>	<b>\$106.57</b>	<b>3.1%</b>	<b>56.1%</b>	<b>(0.6%)</b>
<b>Total United States</b>	<b>\$73.34</b>	<b>2.7%</b>	<b>\$120.92</b>	<b>3.2%</b>	<b>60.7%</b>	<b>(0.5%)</b>

Source: Smith Travel Research

## Demand: Florida Visitor Profile

Florida tourism attracted just over 105 million visitors last year, generating \$89 billion in sales and 1.2 million jobs for the state's economy. However, international visitation is down year-over-year, as shown in the graph below. Some speculate that inbound international travel to Florida will continue to be sluggish due to a weakened Canadian dollar, the spread of the Zika virus and political and economic turmoil in Latin America, among other factors.

**Florida Visitor Volume (2006-2015)**



Source: Visit Florida

While the ratio of Florida visitors naturally leans to leisure travelers, we see significant opportunity for hotels and resorts to grow the business segment, given a per day spend that is almost 60% higher than that of leisure visitors.

**Florida Visitor Profile by Trip Purpose (2015)**

	Leisure	Visiting Friends & Relatives <sup>(1)</sup>	Business
Percentage of Total Domestic Visitation	89%	26%	11%
Per Day Spend	\$145	\$97	\$260
Average Length of Stay	4.5 nights	4.3 nights	3.1 nights
Paid Accommodation	60%	21%	84%
Average Party Size	2.3	1.9	1.4
Leading Season	Summer (30%)	Winter (29%)	Fall (29%)
States of Origin	Georgia (10%) New York (9%) Ohio (5%)	New York (12%) Georgia (10%) Pennsylvania (5%)	Georgia (13%) New York (11%) Texas (9%)
Trip Value	\$1,751	\$931	\$1,401



**Opportunity exists to grow the business segment of Florida travel, given a per day spend that is almost 60% higher than that of leisure visitors.**

(1) Visiting Friends & Relatives data not included in Leisure. Note: Visitors visiting friends and relatives typically inspire increased entertainment and travel spending by their hosts, which is not reflected in this study.

Source: D.K. Shifflet & Associates; Visit Florida

## Supply: How Much Is Too Much?

Demand continued to outpace supply nationally in 2015, however, the number of new rooms opening across the U.S., mainly in the higher-end select-service segment, will definitely have an impact in 2016 and 2017. For example, an anticipated 4,297 rooms (8% of existing supply) are slated for the greater Miami area alone. Fortunately, the recent tightening of construction financing terms should govern the pace of new supply.

It seems that Florida tourism and business travel will continue to support moderate supply growth across most of the state. However, in South Florida—from Boca Raton to Miami Beach—the new construction pipeline may threaten occupancy, and consequently, average rates. The following table highlights key lodging developments on both Florida coasts.

### Hotels Under Construction in Florida

Hotel	City	Class	Open Date	Hotel	City	Class	Open Date
AC Hotel Corporate Center	Aventura	U	Nov-16	Hampton Inn Midtown	Miami	UM	Q1 2017
Aloft Hotel at ParkSquare	Aventura	U	Jul-17	Hotel Indigo Brickell	Miami	U	Q1 2017
Holiday Inn Express & Suites	Aventura	UM	Oct-16	Hyde Midtown	Miami	UM	Q4 2017
Hyatt Place at CityScape	Boca Raton	U	Q3 2016	Overtown Gateway	Miami	U	Q4 2017
Holiday Inn Express & Suites	Boynton Beach	UM	Q2 2016	Panorama Tower	Miami	UU	Q1 2018
Hyatt Place Lakewood Ranch	Bradenton	U	Q1 2017	Residence Inn Sunny Isles	Miami	U	Q3 2017
Bay Esplanade Hotel	Clearwater	UM	Q1 2017	SLS Lux Brickell	Miami	L	Q4 2016
Entrada Clearwater Beach	Clearwater	UM	Dec-16	TownePlace Suites Airport	Miami	UM	Q1 2017
Hampton Inn & Suites	Clearwater	UM	Q2 2016	Triptych Miami, Curio	Miami	UU	Q1 2018
SpringHill Suites/Residence Inn	Clearwater	U	Q2 2017	Twelfth on West Hotel	Miami	U	Q1 2017
Wyndham Grand Resort	Clearwater	UU	Q3 2017	Berkeley Shore	Miami Beach	U	Q2 2016
Aloft	Coral Gables	U	Jan-17	Collins Park	Miami Beach	UU	Q4 2017
Conrad	Ft. Lauderdale	L	Sep-16	Esplendor Bay	Miami Beach	U	Q3 2016
Four Seasons	Ft. Lauderdale	L	Q1 2018	Fasano Shore Club	Miami Beach	L	Q3 2017
Hampton Inn & Suites	Ft. Lauderdale	UM	Q2 2017	The Greystone Hotel	Miami Beach	UU	Q1 2017
Hotel Indigo	Ft. Lauderdale	U	Q1 2017	Residence Inn West	Pompano Beach	U	Q1 2017
Tribute/Element	Ft. Lauderdale	UU	Q1 2018	Embassy Suites	Sarasota	UU	Q2 2017
TRYP Marina	Ft. Lauderdale	UM	Dec-16	Hotel Sarasota, Curio	Sarasota	UU	Q3 2017
Hyde Resort	Hollywood	UU	Q1 2018	Westin Sarasota	Sarasota	UU	Q4 2016
The Circ at Hollywood Circle	Hollywood	UU	Q1 2017	Four Seasons Surf Club	Surfside	L	Q4 2015
Hampton Inn Marathon Key	Marathon	UM	Q4 2016	Hampton Inn Airport	Tampa	UM	Q3 2016
Aloft Airport	Miami	U	Mar-17	Hampton Inn Busch Gardens	Tampa	UM	Q4 2016
Four Points Airport	Miami	U	Q3 2017	Holiday Inn Express	Wesley Chapel	UM	Q4 2016

#### Class Legend:

UM: Upper Midscale; U: Upscale; UU: Upper Upscale; L: Luxury

Note: Projects highlighted in green are on Florida's East Coast. Projects highlighted in blue are on Florida's West Coast.

Source: Lodging Development Corporation

## Investments: A Tale of Two Coasts

For as much as Florida's Gulf Coast and Atlantic Coast have in common, there are some stark contrasts, too. The dichotomy of each coast's valuations and investment dynamics should continue to play out as an interesting story.

Southeast Florida hotel investments continue to receive more attention from foreign capital than Gulf Coast hotels, particularly because international investors are less familiar with Florida's west coast.

In evaluating transactions in Florida markets over the past several years, one only has to look back to April 2015 to find 25 sales over \$10 million in Southeast Florida. On the other coast (from Tampa to Naples), the same analysis requires looking all the way back to December 2012. There are simply fewer large transactions on the Gulf Coast.

The last 25 Southeast Florida lodging assets transacting for over \$10 million tended to be smaller, more premium properties with about a 77% higher price per key as compared to the Gulf Coast, as the averages in the table below demonstrate.

### 25 Most Recent Florida Transactions by Coast

Market	Date Range	Avg. Keys	Avg. Price	Avg. Per Key
Gulf Coast	Dec-12 to Apr-16	224	\$46,498,868	\$207,103
Atlantic Coast	Apr-15 to May-16	147	\$45,926,880	\$366,360

Note: Includes transactions over \$10 million. Source: Real Capital Analytics

## Challenges Remain

As astute investors well know, it is virtually impossible to find a single market that can offer opportunities without offsetting challenges. While the future for Florida hotels is promising, several new threats are appearing on the horizon:

- The Zika Virus has evolved to be a widespread public health concern in many tropical and subtropical regions. Press coverage is shifting from Brazil and the Caribbean to Florida where 121 total cases have been confirmed by the Centers for Disease Control as of May 25. The spread of the virus has prompted corporate meeting planners to cancel group bookings in affected regions. More cancellations are expected and RFPs to these areas will likely abate as well. The effects of this health crisis on the industry are likely to become more pronounced as we approach the 2016 Summer Olympics in Rio de Janeiro.
- Airbnb and the rest of the peer-sharing economy are here to stay and continue to disrupt the hotel industry, especially in Florida resort venues. Some hoteliers are even experimenting with offering unbooked rooms through these services, opting to work with the trend instead of fighting it. Meanwhile, major lobbyists continue to fight for fair collection of bed taxes in many currently unregulated or under-enforced municipalities.
- Florida faces a slowdown in inbound foreign visitors for the balance of 2016. A variety of factors come into play, including continued economic woes in Argentina, Brazil, Puerto Rico and Venezuela, as well as competition from this summer's Olympic games in Brazil. Further, up to three million Britons may have to cancel their U.S. travel due to an American anti-terror law quietly introduced on April 1. While they may have valid visas, they could be turned away at airports if they do not possess the latest biometric passports that now include electronic chips.

## Summary

If hindsight serves us well, it's likely that we experienced the peak of the cycle in the latter half of 2015. If you're considering the sale of an asset in Florida or elsewhere, it may be prudent to execute while values generally remain higher than pre-recession peaks. And if you're interested in acquiring a hotel, we recommend the approach that we have suggested to dozens of investors we've spoken with over the past few quarters: seek out hotels or resorts with historically stable cash-on-cash returns and properties that can be acquired at a meaningful discount to replacement cost.

If you're seeking advice on the sale, purchase or financing of an asset in Florida, please don't hesitate to give us a call. While our reach is nationwide, our local knowledge and operations experience sets us apart when it comes to the nuances of Florida hotel and resort investments. We've transacted dozens of

properties in the state in the past decade, and have been entrusted with numerous asset management and other consulting engagements from the Panhandle to the Keys.

For more on our capabilities in Florida and elsewhere, please visit our website at [www.tpghotels.com](http://www.tpghotels.com). While you're there, we encourage you to review recently published insights on the broader U.S. lodging marketplace contained in the Summer 2016 Lodging Investment Roadmap. We're continually looking for ways to improve the information and insights we provide to you. Please feel free to drop me a note at [lplascencia@tpghotels.com](mailto:lplascencia@tpghotels.com) with your feedback. All the best from the Sunshine State!

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## Relevant Engagements by The Plasencia Group


Headquartered in Tampa, The Plasencia Group's professionals have been active in the Florida market for over 30 years. During the past decade alone, the Plasencia Group has completed dozens of consulting and disposition engagements in the state with a total transaction volume of approximately \$878 million, representing nearly 8,000 keys.




**Amelia Island Plantation**  
Amelia Island, FL | 362 Keys  
Amelia Island Company



**InterContinental Miami**  
Miami, FL | 641 Keys  
InterContinental  
Hotels Group



**Tampa Marriott Waterside**  
Tampa, FL | 719 Keys  
Host Hotels & Resorts



**Ritz-Carlton Fort Lauderdale**  
Fort Lauderdale, FL | 192 Keys  
McNeel International




**DoubleTree Bahia Mar**  
Fort Lauderdale, FL | 259 Keys  
Thayer Lodging Group



**PGA National Resort**  
Palm Beach Gardens, FL | 339 Keys  
Ecclestone Organization




**Hyatt Regency Tampa**  
Tampa, FL | 521 Keys  
Cornerstone Real Estate



**Marriott Palm Beach Gardens**  
Palm Beach Gardens, FL | 279 Keys  
Host Hotels & Resorts




**InterContinental Tampa**  
Tampa, FL | 323 Keys  
Oaktree Capital



**DoubleTree Grand Key Resort**  
Key West, FL | 216 Keys  
RLJ Lodging Trust



**South Seas Island Resort**  
Captive Island, FL | 600 Keys  
MeriStar Hospitality



**Streamsong Resort**  
Bowling Green, FL | 216 Keys  
Mosaic Company



**Hilton Univ. of Florida**  
Gainesville, FL | 248 Keys  
Xenia Hotels & Resorts



**JW Marriott Marquis**  
Miami, FL | 248 Keys  
MetLife Real Estate



**Embassy Suites Westshore Tampa**  
Tampa, FL | 243 Keys  
American General Insurance



**Loews Don Cesar Resort**  
St. Pete Beach, FL | 277 Keys  
Loews Hotels