

# SOUTH FLORIDA BUSINESS JOURNAL

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## Growth of hotel sector uncertain

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## Forces batter South Florida hotels

BY EMON REISER  
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**D**emand for South Florida's beaches has never been higher. Record numbers of visitors and sky-high hotel room rates across the tri-county area attest to that.

But that could change. Unprecedented pressures are stunting the once-steady growth of the region's hotel industry, and the forces at work are beyond the control of the tourism bureaus that tout it.

Economic and political turmoil abroad, warmer winters and the strength of the dollar are slowing demand for hotels across South Florida. A slew of newly built hospitality properties have piled on the pressure, adding thousands of rooms to an already stocked inventory. And visitors haven't filled those new rooms as quickly as expected.

It's a troubling sign for developers with thousands of rooms still in the pipeline, many in projects that have yet to break ground.

"The question is: 'Is demand increasing at the same rate supply is increasing?'" said Boaz Ashbel, managing director of Miami-based Aztec Group, a firm that focuses on hospitality property investments across South Florida. "The answer is probably 'no.'"

That's bad news for one of the region's biggest industries and the many businesses that depend on it for survival. But the convention and visitors bureaus in Broward, Miami-Dade and Palm Beach counties continue to report that tourism is still booming and the perceived dip in demand is not what it seems.

"Yes, 2016 is a year when there's going to be a lot of pressure for individual hoteliers, but Miami as a brand is still strong," said Rolando Aedo



Rolando Aedo



JOCK FISTICK

*A slew of new properties have added thousands of hotel rooms to an already stocked inventory.*

do Aedo, senior VP of marketing and tourism with the Greater Miami Convention and Visitors Bureau. "Come 2017 ... we [expect] to resume positive growth on all our key metrics."

### Reached its peak?

During its first quarter conference call, Marriott International called Miami a "weak" market because of its vulnerabilities to Brazil's economic downturn and its impending influx of luxury hotel rooms.

This comes from a global hospitality company with a big stake in the market. Among its many properties is the massive planned Marriott Marquis Miami Worldcenter, which recently scaled back 100 rooms to 1,700.

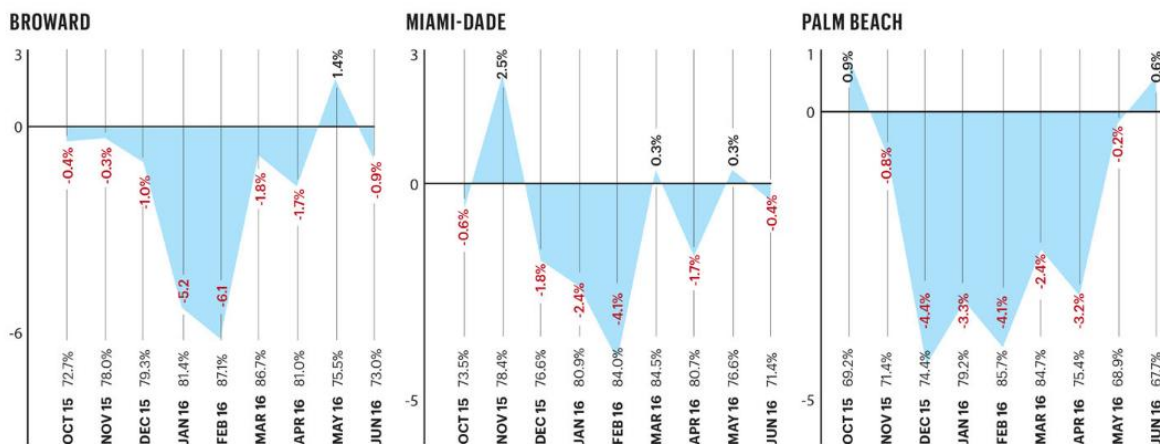
Nothing was said of softening demand in downtown Miami. Instead, MDM Development said reducing rooms would speed up the construction process expected to begin in 2017.

Even more telling is the performance reported by South Florida's hotel properties.

STR Inc., a hospitality research firm that collects data from hoteliers, has reported a slowdown across Broward, Miami-Dade and Palm Beach counties. The firm's numbers show year-over-year drops in occupancy – the total number of rooms divided by the rooms with guests – average daily rates, revenue per available room and other indicators. The lag started last winter, when demand was supposed to be strongest.

### HOTEL OCCUPANCY: On the decline

Source: STR Inc.





STR's statistics highlight drops in hotel occupancy that haven't been seen in South Florida in at least six years.

Hotel occupancy in Broward has fallen every month since October 2015, except May, according to STR. The county's average daily rate, however, shows no signs of slowing, with monthly year-over-year gains since October 2013. The county's average occupancy in June was 73 percent, and its average daily rate was \$111.65.

Hotel occupancy in Miami-Dade has fallen nearly every month since December 2015, and its average daily rate has fallen every month, year-over-year, since February. The county's average occupancy in June was 71.4 percent, and its average daily rate was \$147.95.

In Palm Beach County, hotel occupancy has fallen nearly every month, year-over-year, since November 2015. However, its average daily rate has stayed mostly steady. The county's average occupancy in June was to 67.7 percent, and its average daily rate was \$120.82.

"It's always a challenge when you're looking at numbers because they depict something linear," JLL Managing Director Gregory Rumpel said. "We've taken a significant amount of supply into the marketplace ... and we're only marginally down. But when you look at room demand, we're actually up."

### Visitors still coming

Although growth is slowing year-over-year, South Florida's occupancy remains well above the national average. Tourism bureaus report that visitors are still arriving at a record pace.

"We have 4.5 percent more visitors [year-over-year]," Aedo said, comparing the start of this year to the start of 2015, which broke the CVB's all-time record for overnight stays, with 15.4 million visitors to Miami-Dade County. "We have a lot more inventory, which puts a lot of



Jorge Pesquera

downward pressure on the rates our hotels are able to charge."

Palm Beach County has also posted gains in visitors although its occupancy numbers are falling.

"From [January] to May 2016, the Palm Beaches sold 1.4 percent more room nights than during the same time last year," said Jorge Pesquera, president and CEO of

Discover the Palm Beaches, the county's tourism marketing agency. "[But] rate growth is beginning to be affected by the increase in supply."

That trend can be seen in all three counties. Broward's inventory increased 1 percent, year-over-year, with 30,421 hotel rooms reported to STR in June. Miami-Dade had 53,084 hotel rooms in June, a 3.7 percent jump compared to the same month last year. Palm Beach had a 4 percent year-over-year increase in rooms, to 16,654 in June.



Stacy Ritter

"An increase in hotel inventory of nearly 4 percent, coupled with a mild winter up north and the strengthening of the U.S. dollar, have had an impact on occupancy," said Stacy Ritter, president and CEO of the Greater Fort Lauderdale Convention & Visitors Bureau. But average daily rates have steadily grown in Broward, she noted.

"It is a simple case of supply and demand," Ritter said. "Hotel renovations occurring throughout the summer and an additional 2,000 rooms coming online in 2017 will likely impact all economic indicators for the short term."

Aztec's Ashbel said although there is a continued increase in demand to stay overnight in South Florida, he anticipates more declines in metrics such as average daily rates – but not by much.

"Historically, hotel owners and operators have been very quick to begin to reduce rates and offer discounts when occupancies begin to decline, but so far ... the industry is doing a much better job holding rates" compared to previous slowdowns, he said.

### The sharing economy

If economic factors, weather and an oversaturated market weren't enough to concern industry insiders, there's another irreversible change threatening profits in the sector: the sharing economy.

For example, San Francisco-based Airbnb is an online marketplace for users to list their homes, apartments or condominium units for travelers to rent, instead of booking hotels. With this technology, hundreds of South Florida dwellers have essentially turned their homes into full-time hotel rooms, often at a margin of the cost of a

traditional hotel room.

A study from the American Hotel & Lodging Association and the American Hotel & Lodging Education Foundation found that the practice of frequently listing multiple properties on Airbnb was more prevalent in the tri-county area than in the nation's other large metropolitan areas.

In 2015, 87,000 people visited Miami using Airbnb and stayed an average of 4.8 nights. That's less than 1 percent of the 15.4 million people who visited the county last year – but that portion is expected to rise due to Airbnb's explosive growth. In the summer of 2010, about 47,000 people stayed with an Airbnb host, *Business Insider* reported. Last summer, that number grew to nearly 17 million.

Miami and Miami Beach have ordinances in place to address Airbnb, and Florida has begun to tax Airbnb rooms. But that might not be enough, as Airbnb accommodations are often cheaper than traditional hotels, especially in large metro areas. What's more, a recent Goldman Sachs study obtained by Bloomberg said 79 percent of Airbnb users don't want to go back to traditional hotels.

### The unstoppable threat

Another serious challenge to South Florida's hospitality sector is global warming.

Stories about New Yorkers jogging in Central Park this past winter hinted at the snowbirds who remained home because they had no need to seek out warmer weather in the Sunshine State.

Additionally, Brazil and Venezuela – typically major tourism draws for South Florida – became embroiled in severe economic and political issues that kept many more travelers away.

Still, South Florida's hospitality industry has rebounded from worse setbacks, such as the Great Recession and the Sept. 11 terrorist attacks.

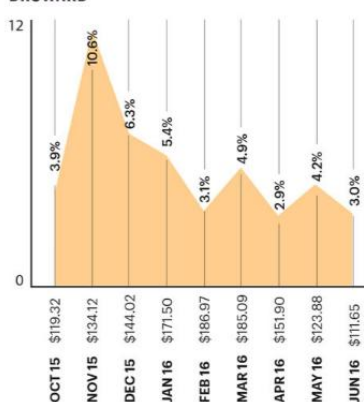
This time around, the industry likely will – once again – find ways to adjust to the different challenges of a volatile hospitality market.

"There are a lot of states that would love to deal with the ups and downs of such a large tourism sector, but that's the nature of the beast," said Sean Snaithe, director of the University of Central Florida's Institute for Economic Competitiveness.

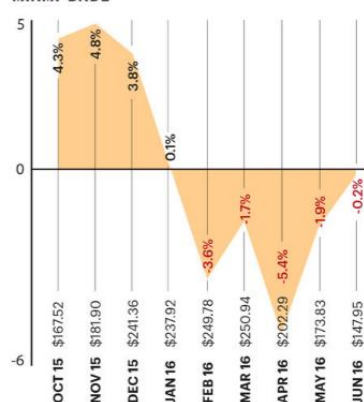
## AVERAGE DAILY RATES: Dropping in some counties

Source: STR Inc.

### BROWARD



### MIAMI-DADE



### PALM BEACH

