THE WALL STREET JOURNAL.

March 19, 2019 **UMV: 43,471,073**

REAL ESTATE

New Hotels Mushroom in Miami

Developers add thousands of new rooms as sales set records

Hotel construction is booming in Miami thanks partly to the growing appeal of the city's downtown district and the flocking of well-heeled tourists to South Beach.

But while room revenues have been rising overall and most observers believe the trend will continue, some say construction is outpacing tourism growth in parts of the city, hurting profits.

Over the past five years, the number of hotel rooms in Miami-Dade County increased 17% to 57,154, according to a report from the Miami Downtown Development Authority. Recent additions include Ignazio and Maggio Cipriani's 100-room Mr. C hotel in Coconut Grove, which is set to open this spring.

And the boom shows no signs of stopping. Rooms under construction account for 4.3% of existing supply, according to data from hotel-data company STR Inc. cited by brokerage firm JLL—the fourth-highest share among 25 major U.S. markets.

Many investors continue to be bullish on the market. February saw two of the county's most expensive hotel sales on a per-room basis on record: Host Hotels & Resorts Inc.'s acquisition of the 429-room 1 Hotel South Beach in Miami Beach for $610 million from Starwood Capital Group and LeFrak Organization Inc., and designer Tommy Hilfiger's $103 million sale of the Raleigh Hotel in Miami Beach to a group of U.S. and

European investors.

The massive Miami Worldcenter mixed-use project downtown is slated to include a 1,700-room Marriott Marquis hotel. Nitin Motwani, a managing principal of the project's master developer, said the downtown hotel market has seen a combination of surging construction and rising hotel revenues on a per-room basis in recent years.

"That's what you dream of as a hotelier," Mr. Motwani said. The average daily room rate in Miami-Dade County was $199.35 last year, up from $176.66 in 2013.

But while revenues have been rising, occupancy rates fell by 1.5% in Miami-Dade County between 2013 and 2018, to 76.7%, according to the Miami Downtown Development Authority. The drop in Miami Beach, the county's largest hotel market, was even steeper at 2.8%, to 75.9%.

"Certain submarkets have seen an abundance of new supply coming on line, most notably Miami Beach, and that has probably hurt hotel performance," said Bo Ashbel, managing director at real-estate-development and investment-banking firm Aztec Group Inc. The market has also been hurt by economic malaise in some Latin American countries and by the strength of the U.S. dollar, which makes trips to Miami more expensive for overseas visitors, said Mr. Ashbel, adding that he continues to be bullish on the market overall.

Another challenge, particularly for low-cost hotels, is the rise of Airbnb and other short-term rental listing services. In greater downtown Miami, for example, the share of overnight visitors who rented a house or apartment was 9% in 2018, up from 3.8% in 2014 and zero in 2011, according to DDA data.

Gregory Rumpel, a managing director at JLL's Hotels and Hospitality Group in Miami, said revenues are likely to keep rising even if occupancy rates fall, because new hotels tend to charge higher rates. "Maybe we'll have the same bodies in the rooms," he said, "but they'll be paying more."