

Hotel Mania Strikes Miami's Urban Core

By [Boaz Ashbel](#) Managing Director, Aztec Group | June 24, 2018

Thanks to an enviable climate and miles of sandy beaches lined with towering big-name hotels, Greater Miami has had an enduring reputation as America's subtropical capital of sun and fun.

But that picture needs updating. The country's southernmost metropolis has been reinventing itself for more than a decade. New, hip neighborhoods within Miami's urban core that offer easy access to sports arenas, performing arts venues, art galleries, and first-class dining and shopping are now luring visitors inland, changing the tourism and travel industry in the process.

By the Numbers

The number of tourists visiting Downtown Miami has grown from 3.1 million in 2010 to more than 5.4 million in 2017 — an increase of 74 percent, according to the Greater Miami Convention & Visitors Bureau. Growing interest in booming downtown neighborhoods such as Brickell, the Design District, Edgewater, Midtown and Wynwood has not escaped the attention of hotel brands. The industry is shifting from planting new flags in traditionally favored beachfront sites to seeking locations in Miami's emerging urban markets.

The inventory of hotel rooms in Miami's urban core has grown by more than 30 percent since 2009 — from 6,100 to 8,100 — as investors pour big dollars into one of the country's fastest growing business and lifestyle destinations. Over the past year alone, six new hotel brands — national and international — have opened in the urban core. The already dense Brickell Financial District added nearly 1,000 new hotel rooms and suites with the completions of SLS Brickell; EAST Miami, the first Swire Hotels property in North America; Atton Brickell Miami, the premier U.S. flagship hotel of the Latin American brand Atton Hotels that was recently acquired by AccorHotels; and recently opened Hyatt Centric Brickell Miami. Midtown welcomed a Hampton Inn & Suites. ME by Meliá, the boutique brand of the Spanish hotel giant Meliá, opened in the Arts & Entertainment District.

Initially, skeptics scoffed at announcements of two new hotels in Midtown — the 151-key Hampton Inn & Suites Miami Midtown and AC Marriott, a 153-key property targeted for completion next year. Now Midtown and other trendy re-imagined neighborhoods just north of the Central Business District — including the Design District, Edgewater and Wynwood — are becoming hotbeds for new hotel starts and proposals. Older submarkets such as Doral, Coral Gables, Miami International Airport area, Dadeland and Aventura also continue to ignite interest for new hotel product.



The 153-key AC Marriott Hotel is under construction in Miami's Midtown neighborhood and is set to open in mid-2019. Services and amenities will include restaurant, bar and lounge, business center, meeting space and swimming pool.

Why Now?

Until recently, hotels were underrepresented in Miami's urban neighborhoods, particularly mid-price hotels and new trendy concepts. A number of factors have converged to bring about this turnaround.

One is a broad-based lifestyle change. In most large cities, people used to work downtown and then depart for a home in the suburbs, leaving the business district

shuttered and dark. That's no longer the case. Younger generations prefer urban live-work-play environments. As a result, urban cores have become 24/7 communities that have a lot to offer, not just as business centers but also in terms of shopping, dining, entertainment and cultural events. The growth seen in lodging development over the past 10 years is a result of that generational shift, as hotel chains scramble for inland sites with an eye on cashing in on the wave of demand that emerging downtown communities are creating.

Many of the chains expanding into Miami are international brands, which historically have preferred to launch flagships in New York City and Los Angeles. They see that their customers favor Miami as a destination, and they want to accommodate and service them as well as introduce their product to the U.S. market.

While Miami's location makes it a natural entry point from South America and the Caribbean, it's increasingly becoming a gateway city from Europe and Asia as well. This has come about in tandem with deliberate efforts to diversify Miami's economy, once fueled almost entirely by tourism, by leveraging its advantages as a multicultural city with easy access to global markets.

Advantages

Greater Downtown Miami offers hotel developers and operators a number of competitive advantages. This is where the greatest demand is found for hotel accommodations, which enhances the ability to price rooms competitively.

From an exit strategy perspective, there's a much bigger pool of buyers interested in urban locations — and with good reason. While beachside locations are geared to tourism and, in some cases, group demand, urban locations appeal to a more diversified customer base such as leisure, business and commercial groups.

New Hotel Concepts

It's not just traditional flags that are looking to establish a foothold in mainland Miami. Trendsetters in hospitality lodging are attracted to the city's large and varied visitor profile as a testing ground for innovative concepts. For example, the micro-unit concept has worked well in New York City, and a few of these small-room hotels have been announced in Greater Downtown Miami.

Yotel — the British chain known for small, affordable rooms equipped with high-tech luxury features — will soon be launching one of its new hotel-condo hybrids in the heart of downtown. YotelPad, a 30-story tower, will offer 250 Yotel-branded “cabins” and 208 condos units. When not in residence, condo dwellers will have the option to add their units to the hotel inventory for short-term rentals. This is a new concept that has proven to work well in a municipal setting where there is a high barrier to entry, and where costs of construction and development are also very high.

Airbnb, the online marketplace and hospitality service that facilitates short-term rentals of space in private homes, is actively seeking approvals from developers and property managers to allow Airbnb rentals in their properties. In the wake of tax agreements with some Florida counties that effectively legalize online vacation rental platforms, some developers have been looking into opportunities to develop Airbnb as a brand. Last year, Airbnb host income in Miami-Dade reached \$134.6 million, the highest of any Florida county.

Miami-based Newgard Development Group, which is partnering with Airbnb on the first Airbnb-branded apartment building in the U.S. just outside Orlando in Kissimmee, has announced plans to unveil a similar project in Miami this year.

Visitor Preferences

New hotel concepts are in general designed to appeal to Millennial-minded travelers who want to experience the heritage, culture and hidden gems of the communities they visit. Pricing does not have to be low budget to cater to this market. Millennials tend to be brand-agnostic, seeking out cool lodgings that facilitate new encounters and experiences no matter what flag they're flying.

This outlook lends itself very well to innovative concepts, which is why mainland Miami is seeing a proliferation of boutique and soft brands creatively designed to be unique to specific markets and locations and reflect the communities they're coming into.

Mixed-use Options

Several hotel brands opening in Miami's urban core are anchoring large scale, mixed-use projects that create built-in demand and value-added synergies. Condo residents will tap into the food and beverage offerings of a hotel, while guests can enjoy other amenities made possible by mixed-use offerings such as shopping malls, movie theaters and bowling alleys.

Given the high cost of land and development in South Florida, it's very difficult to finance development of a stand-alone hotel in a highly desirable location. Developing as part of a mixed-use project is a practical solution.

It's important that the hotel be part of a large project with many different components. A good example is the Hyatt Centric Brickell Miami, a 208-room, full-service hotel occupying the first 19 floors of the new 83-story Panorama Tower in the thriving Brickell Financial District.

Considered the tallest residential tower south of New York City, Panorama's design — which incorporates 821 luxury rental apartment units, 108,000 square feet of office space, 52,000 square feet of retail and 2,400 parking spaces — offers an attractive menu of building amenities. These include private theaters, social lounges, cybercafe and coffee bar, pet spa, yoga and Pilates studio, and children's playroom. This type of project can make the economics of development more appealing.

Financing

Securing construction financing is becoming more and more challenging, and the pool of lenders with the expertise to administer and service construction loans is small. It's an inherently risky business due to the hazards associated with construction. Lenders, of course, like to limit their exposure. Some will only deal with existing customers and may refrain from underwriting new loans until existing loans are paid off. Others have opted out of construction lending altogether.

Bottom line: construction financing is extremely limited, going to very qualified, experienced developers with strong balance sheets.

In the hospitality sector, branded hotels are more likely to secure ground-up financing. However, while in years past lenders were adamant that hotel projects had to be branded, they are a lot more knowledgeable about the hospitality industry now and understand that in certain locations or markets branding is not as critical as it once was. For example, branding is less important for projects of fewer than 200 units in an area with high demand and high barriers to entry.

Once a property is up and operating, the universe of available lenders is much larger. For properties with stabilized cash flow, permanent loans are available.

The challenges associated with building and operating hotels are many and constantly changing. It's important that investors understand the risks involved and align their expectations accordingly. The selection of an experienced operator or operating partner is crucial —one that is vertically and horizontally integrated, adept at managing day-to-day operations and possess the resources necessary to handle all the challenges that may pop up.

Still, for a well-run hotel the cards are stacked in favor of success. Rates in Greater Downtown Miami rank within the top five in the nation, with an average charge per room-night of \$189. Miami's hotel market consistently ranks as one of the top hospitality markets in the nation and globally, outpacing cities such as Beijing, Paris and Rome.

Millennial-minded travelers love Downtown Miami's edgy vitality. Commercial travelers enjoy access to numerous companies and headquarters that are based in the city. Corporate meeting planners favor its year-round temperate climate. Leisure travelers value its cultural offerings, shopping, and access to Port Miami, the largest cruise port in the world. All travelers to Miami benefit from excellent air access via Miami International Airport, which is one of the busiest airport hubs worldwide. For hotel chains, that's a combination hard to beat.