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Florida's Hotel Market Will Present Tremendous Opportunities

Tampa and Orlando, Florida, September 23, 2009

—On the one-year anniversary of the bankruptcy of *Lehman Brothers*—one of the most active hotel lenders over the previous five years—*HREC Investment Advisors* (HREC) and *Sexton Realty Advisors* (SRA) have jointly completed the first comprehensive analysis of the effect of the financial crisis on Florida's hotel real estate market.

"From a performance perspective, Florida's hotel market is experiencing a significant downturn; however, investors continue to show interest in Florida due to a long-term positive outlook for the market," said Scott Stephens, a Tampa-based partner of HREC, one of the nation's largest hotel investment banking firms.

"In light of the illiquidity of the debt markets, Florida should present significant hotel buying opportunities over the next two years for well-

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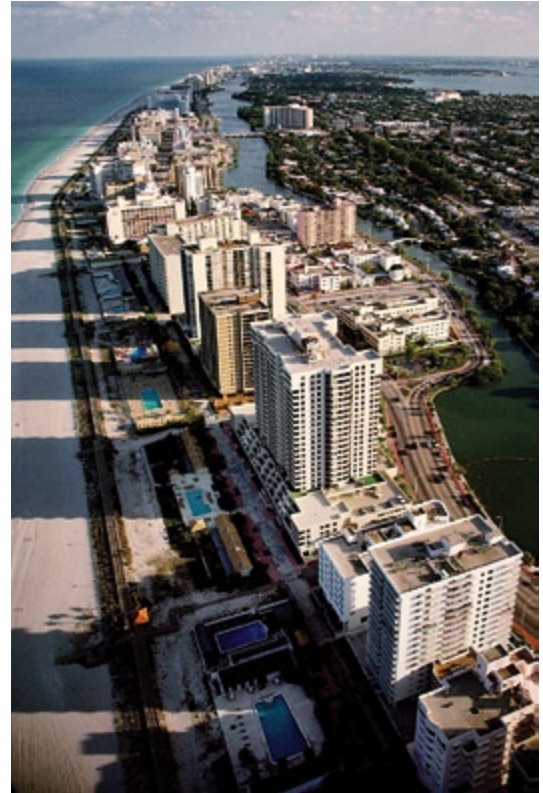
capitalized investors," added Paul Sexton, President of SRA.

Further stated Peter Laack, a Tampa-based Vice President of HREC, "Florida currently presents a unique

opportunity to acquire hotels. These opportunities will only grow in the future, but now is the pre-eminent time to acquire hotels in Florida. We anticipate a glut of distressed assets over the next year to two years, but performance will also begin to improve, providing a relatively short window to acquire assets at historically low pricing."

Hotel Market Overview

The HREC/SRA investigation revealed that there are currently 3,538 hotels encompassing approximately



404,000 guest rooms in the state. This makes Florida the second largest hotel market in the nation, smaller only than California which has some 497,000 guest rooms.

Nationwide, the supply of hotel rooms has grown by 8% since 2003—the beginning of the last up market. Over the same period, however, Florida's hotel supply has grown by only 2%. The limited growth in the state is attributed to three primary factors: (1) the conversion of numerous hotels to condominiums, especially in South Florida and on the West coast, (2) the shuttering of some hotels subsequent to hurricane damage and (3) the fact that many prime hotel sites were developed as condominiums.

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Large hotel projects—representing over \$2.0 billion in new investment—that have opened since the crash of the financial markets in 2008 include: the 1,504-key redevelopment of the *Fontainebleau* in November 2008; the 162-unit *Viceroy* at the *Icon* complex in downtown Miami in February 2009; the *W Hotel Fort Lauderdale* in June 2009; the 312-room *W Hotel South Beach* in July 2009; the 1,400-key *Hilton Orlando* in September 2009; and the 1,497-unit *Hilton/Waldorf=Astoria* resort complex in the Bonnet Creek area surrounded by *Walt Disney World® Resort* in October 2009.

Additional large hotels still under construction include: the 750-room expansion of the *Peabody Orlando* (November 2010); the 351-key *JW Marriott Marquis Miami* (July 2010); and the 298-room *Trump Hotel Ft. Lauderdale* (late 2009).

Further, an estimated additional 20,000 guest rooms are expected to be added to Florida's troubled hotel sector by 2011, which represents 2.5 times the number of hotel rooms that were built in the state between 2003 and 2008.

From the market's peak in 2007, Florida hotel revenues, as measured by revenues per available room (RevPAR), have plummeted by 20%, with additional declines predicted by various industry prognosticators – albeit at a more moderate pace – through most of 2010. On a national basis,

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Florida Commercial Real Estate

HREC/SRA found that at mid-year 2009, there were approximately 79 distressed hotels in Florida's six major markets, representing some \$1.2 billion in value. Hotels accounted for 10% of all distressed commercial real estate assets in the major market areas of the state, which had \$12.4 billion in total distressed assets.

Florida Market	Total CRE Assets	Hotel Assets	
	\$ Million	\$ Million	% of Total
Miami	4,773.4	547.9	11%
Orlando	1,676.9	304.5	18%
Palm Beach	1,603.7	39.2	2%
Tampa	1,537.4	110.7	7%
Broward	1,491.1	125.6	8%
SW Florida	891.7	45.0	5%
Jacksonville	453.0	71.4	16%
Totals	12,427.0	1,244.0	10%

Source: Real Capital Analytics

However, Florida compared favorably to six other comparative tourism markets—Hawaii, Las Vegas, Los Angeles, Orange County (CA), Phoenix, San Diego and San Francisco—where hotels accounted for 18% of all distressed commercial real estate assets.

Of particular note, the Las Vegas hotel market is plagued by numerous casino hotel bankruptcies and overbuilding. Likewise, Hawaii's lodging market has been experiencing systemic weakness since the rise in fuel prices in 2008 that led to unaffordable increases in air fares to the islands; and the California and Arizona markets have seen the failure of several very large destination resorts.

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RevPAR has dropped 17% over the same period. By comparison, "peak-to-trough" RevPAR declines in Florida and the country overall after the high-tech bust and events of 9/11 were just 6.5% and 9.6% respectively.

Because declines in RevPAR translate into double or triple times decreases in operating profit (depending on type of hotel), many hotels throughout the state are finding it harder to pay their operating expenses, not to mention their debt service.

Hotel Financing

"Based on the available information, I would not be surprised if we see nationwide hotel loan defaults reach 15%–20% by the time it is all said and done," said Paul Sexton of SRA. "If one applies the national rate of default to the Florida market, we can anticipate that over the next couple of years there will be between 500 and 700 hotels in Florida that will end up either being foreclosed upon or refinanced at a much lower value basis with significant losses to both borrower and lender."

The most recent national data suggests that 11% of hotels financed with CMBS debt are not currently able to cover their debt service and another 19% have debt service coverage ratios so low that the properties have been added to the "troubled" column.

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Said Laack, "at the market values we anticipate seeing over the next several years, very few hotels with CMBS debt will be able to successfully refinance their loans once they come due, the result being that there will be significant buying opportunities at values well below both the outstanding principal amounts and replacement cost."

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In fact, with 26% of the Florida CMBS loans backed by hotels coming due by 2012 (with another 54% coming due between 2015 and 2017) and a lack of financing, HREC/SRA anticipates that there will be an enormous number of hotels coming to the market for sale due to maturity defaults or to borrowers simply turning the properties back over to the special servicers via jingle mail.

"For the most part, lenders have been kicking the can down the road on their troubled hotel loans," stated Sexton. "But they don't have enough feet to kick all the cans just around the bend."

According to several sources, CMBS loans constitute roughly one quarter of all hotel financings nationwide. That being said, Stephens stated that "because traditional lenders have much more flexibility in working with borrowers, we will not see the same rate of foreclosures by traditional lenders as we will on CMBS loans."

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Notable Distressed Florida Hotels

Bray & Gillespie Management, LLC (Daytona Beach)

—In September 2008, this developer and owner of 24 hotels filed for bankruptcy on behalf of 78 of its subsidiaries after defaulting on \$400 million in debt. The company reemerged from bankruptcy in July 2009 as *Ocean Waters Holding Company*, with 16 hotels and \$250 million in debt. The debt is spread across multiple lenders depending on the property.

Fontainebleau Miami Beach

(Miami Beach)
—In 2008, *Fontainebleau Resorts* sold a 50% stake in the property (then under redevelopment)

to *Nakheel Hotels* for \$375 million. Although the 1,504-room resort reopened in November 2008, lingering construction issues have put the owners in technical default of their \$680 million loan to a syndication of banks led by *Bank of America*. The *Fontainebleau Miami Beach* waters have been muddied by the June 2009 bankruptcy of *Fontainebleau Resorts'* \$2.9 billion unfinished casino resort project in Las Vegas.



Sheraton Orlando

Downtown (Orlando)—

Gramercy Capital Corporation initiated foreclosure on this asset in September 2009, and a trustee's sale has been scheduled. *Gramercy* was originally marketing the note for sale at a significant discount, but was unable to obtain a purchaser. As a result, *Gramercy* will likely take control of this property from *CF Hospitality, Inc.* and its outstanding mortgage of roughly \$44 million (the original principal amount equated to \$50 million).



Extended Stay America—Acquired by *Lightstone Group* in 2007 from *Blackstone Group* for \$8.0 billion, including \$7.4 billion in debt, this company filed for bankruptcy in June 2009. *Extended Stay* has 47 hotels (including *Extended Stay America, Homestead Studio Suites* and

Crossland Economy Studios) in Florida.



Royal Palm (Miami Beach)—A victim of the condo-hotel bust and owner infighting, this 409-key oceanfront resort, which is majority owned by Guy Mitchell, was issued a notice of foreclosure by *Wachovia* bank in March 2009 after months of anticipation. Additionally, *BlackRock, Inc.*, through one of its debt subsidiaries, had previously attempted to take control of the asset.

Coconut Grove Hotel

(Coconut Grove)—Formerly the *Wyndham Grand Bay Hotel*, this property was acquired by an affiliate of the *Merco Group* from *Gecom Group* in 2005 for \$30 million and financed by a

\$40 million loan from *Caja de Ahorros de Galicia*. *Caja de Ahorros* filed a foreclosure notice on the property in August 2009. *The Merco Group*, which is owned by members of the Meruelo family of South Florida, has been named in five separate foreclosure suits over the last year.



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Transactions

According to HREC data, through 2009 year-to-date, there have been just thirteen hotel transactions totaling \$170 million in value in Florida’s six largest markets of Miami, Broward, Palm Beach, Orlando, Tampa and Jacksonville. By comparison, there were 180 hotel transactions, representing \$4.81 billion in value, at the market’s peak in 2007 and 41 hotels/\$1.25 billion in value in 2008 as the market began to soften.

Nationwide, hotel transactions (including single-asset and portfolio acquisitions and M&A transactions) have fallen from their peak of 2,716 during a 12-month period spanning 2006/2007 to just 212 through mid-year 2009.

The largest transaction in Florida this year was the \$54.8 million acquisition by *Apple REIT*, a private real estate investment trust, of the 200-room *Springhill Suites by Marriott* and the 200-room *Fairfield Inn by Marriott* near *SeaWorld* in Orlando. Three other top sales in the state were the 124-key *Sombrero Resort & Lighthouse Marina* in Marathon Shores in the Florida Keys which was acquired by *Summit Development* for \$21.6 million, the *Hampton Inn & Suites* in Panama City, a 95-unit property that was bought by *Apple REIT* for \$11.6 million, and the Raleigh Hotel in Miami Beach which sold for approximately \$30 million.

One recent hotel transaction of particular note in Florida was the August 2009 acquisition of the *Doubletree Coconut Grove* by an affiliate of the *Robert Finvarb Cos.* from *General Electric Pension Trust* for \$13.0 million (\$66,327/key). The new owners plan to reopen the property as a *Courtyard by Marriott* after a \$5.0 million renovation.

At the peak of the market in 2007, the national average selling price per room for hotels greater than 200 rooms was \$170,000 and \$81,000 for hotels with less than 200 rooms. Based on the few hotel transactions that have actually occurred in 2009, these averages have dropped to \$61,000 and \$51,000 respectively.



The average price per room for all hotels sold so far this year in Florida is \$76,000.

Into the Future

Based on the available information, it is highly likely that the lodging industry in Florida will begin to see a substantial number of distressed properties come to market. At the same time, it is also probable that the economic recovery for Florida will lead that of the national recovery, as this is typically what has occurred during past market cycles.

Said Sexton: “Hotels are inherently more risky than other types of commercial real estate—so values typically drop more quickly during recessions, but are also quicker to recover. Because this often creates a smaller window of opportunity than for other classes of commercial real estate, we are advising our private equity clients to begin sticking their toes in the water now—often by buying discounted notes backed by hotels—in preparation for a robust buying season beginning in 2010 for both bulk note sales and real property assets.”

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"I truly believe that we are in one of the best—if not *the* best—times to acquire lodging assets in the history of the industry. As the economy improves, Florida is poised to lead the way due to its significance as a major corporate, group and leisure destination. That being said, now is the time to acquire assets in Florida, while pricing is still depressed and assets are, or soon will be, distressed. Acquiring hotels in the state of Florida presents a rare opportunity to benefit from historically low pricing and the future economic upswing—one that will likely precede the national recovery," added Laack.

"The very well capitalized buyers are certainly the ones that will be able to take advantage of these buying opportunities in the near term. Due to the current state of the debt markets, the old adage "cash is king" has never been more relevant," noted Stephens.

Overall, the Florida lodging market has experienced a decline since its peak in 2007. More distressed assets are anticipated to come to market for sale due to the lack of available financing and the inability of borrowers to cover debt service. However, these factors will create a very frothy environment for buyers of hotels. The Florida market is down, but certainly not out, and now is the time to be acquiring hotel properties. Those that take advantage of the current opportunities will likely see a substantial windfall in the future, as the economy corrects itself and liquidity returns to the capital markets.

About *Sexton Realty Advisors, Inc.*:

Based in Winter Garden, FL, *Sexton Realty Advisors, Inc.* specializes in acquisition advisory services to private equity and institutional clients with a focus on hotels, resorts, timeshare resorts and other vacation real estate.

About HREC: ***Hospitality Real Estate Counselors*** (HREC) is the nation's leading lodging and gaming real estate advisory firm specializing in property sales, mortgage brokerage, equity/JV structuring, consulting (market studies and appraisals), asset management and litigation support. With eleven offices throughout North America, HREC is distinguished by unwavering commitment to client service through its team approach, intellectual capital and hotel/casino specialization.



SCOTT STEPHENS

Principal, HREC Investment Advisors

Scott Stephens is the principal in-charge of HREC Investment Advisors – Tampa. Scott was formerly a managing director of *Insignia/ESG Hotel Partners* where he specialized in hotel, resort, and golf single asset investment sales. Scott has extensive experience in the lodging and recreational real estate industries, having successfully completed over 500 transactional and advisory engagements in Florida, the Caribbean, and Latin America throughout his career. Prior to joining *Hotel Partners*, he was a principal in *International Hospitality Advisors*, a highly respected real estate consulting firm. He was also an associate at *PKF Consulting*, where he advised major institutional hotel owners and completed hospitality real estate valuation, feasibility, and market studies throughout North America and Europe. Scott is a graduate of Florida State University. He maintains the MAI designation from the *Appraisal Institute* and is a licensed Florida Real Estate Broker. He is also a member of *The Society of Golf Appraisers* (SGA). **E-mail: sstephens@hrec.com**

PAUL R. SEXTON

President, Sexton Realty Advisors

Paul Sexton has over 20 years of experience in real estate with particular emphasis in the acquisition and development of hotels and resorts, condominiums, timeshare/fractionals, condo-hotels, single-family subdivisions, small-scale office and small-scale retail. Prior to forming *Sexton Realty Advisors*, Paul was engaged by *Cendant Corporation* where he directed and/or participated in company mergers and acquisitions, strategic development planning for the company's *Fairfield Resorts* timeshare division and strategic planning for the company's *RCI Europe* subsidiary. Before that, Paul was with *Sunterra Corporation* where he was charged with the orderly disposition of over 25 resort properties and related assets with an aggregate market value of \$150 million. During the mid-1990's, Paul was a regional developer for *La Quinta Inns* where he was responsible for expanding the *La Quinta Inn and Suites* concept throughout the western United States. Paul received his BS in Hotel, Restaurant and Tourism Management from Oregon State University in 1988. **E-mail: prs@sextonadvisors.com**



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Prior to joining *HREC Investment Advisors'* Tampa office, Peter was a Senior Associate with *Hospitality Real Estate Counselors, Inc.* in Denver, where he performed appraisals, consulting assignments and litigation support on hotel and gaming assets throughout North America. Peter began his career in the hotel industry on the operational side, acquiring experience with such companies as *Hyatt Corporation*, *Sage Hospitality Resources*, *Interstate Hotels & Resorts* and *Promus Hotels*. Over the past eight years, Peter has accumulated experience in over 30 states and Mexico, handling both consulting and brokerage assignments. Peter holds an undergraduate degree from the University of Denver and is a licensed sales associate in the state of Florida. **E-mail: plaack@hrec.com**

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