

Travel and Tourism

The American Riviera?

Forget finding a bargain near the beach. That strip of South Florida has gone luxury, and it's not coming back.

By Rowland Stiteler.

Within a few years, you'll be hard-pressed to find a mid-priced hotel near the beach in South Florida. Hotel developers have been batting around the phrase "America's Riviera" for a few years, and as high land prices drive up room rates near the sand, that phrase has become less marketing slogan and more mantra, a pronouncement of what South Florida has become and where its future lies.

"It's not an overstatement to say South Florida—and Miami Beach and South Beach in particular, has taken its place as one of the great Riviera destinations of the world," says Tony Goldman, CEO of New York City-based Goldman Properties Inc., and a long-time developer of upscale boutique hotels in Miami Beach. "When you look at what South Beach is today, it certainly compares with places like Rio de Janeiro or the South of France. It's grown into one of the great destinations of the world, and it attracts the type of traveler who goes to places like Rio."

The quality — and the price point — of hotels in the beach areas from South Beach up to Palm Beach certainly reflect that concept. **Developers have gone on a luxury hotel building binge in the past few years, and room rates have been propelled into the stratosphere relative to what they were before.**

The average hotel room rate in Palm Beach County — the tri-county's highest — was \$171.38 during the first six months of 2006, according to data compiled by Smith Travel Research of Hendersonville, Tenn. In Miami-Dade County, the rate jumped to \$155.33, Smith Travel says — and the Greater Miami Convention & Visitors Bureau says Miami Beach pulled in average rates of \$164.20. Even Fort Lauderdale, the region's relative bargain destination, saw room rates of \$132.61 in that period. The nationwide average was just \$96.56, according to Smith Travel.

THE SAND FACTOR

The common factor pushing up hotel rates, and fueling a huge amount of luxury hotel development in all three South Florida counties is the obvious — the beach itself, according to Richard Millard, CEO of Miami-based Tecton Hospitality, which operates both mid-priced and luxury hotels around the Southeast, from South Beach to Atlanta to North Carolina.

"When you factor in proximity to a beach anywhere, you are talking about land that has shot up in price considerably in the past few years, no matter where it is," Millard says. "But when you look at South Florida, the only place in the continental United States where it is comfortable to go to the beach 12 months out of the year, you've got something that becomes the top echelon in terms of desirability. There is nowhere else you can go to replicate what we have here."

If fact, it is the so-called "beach factor" that Nicki E. Grossman, president of the Greater Fort Lauderdale Convention & Visitors Bureau, credits most for of the upward momentum in South Florida tourism.

"We can all pat ourselves on the back a little for our strategies and our marketing capabilities, but when you get right down to it, everything comes back to what God created here before mankind ever set foot on this place — the beaches, the sunshine, the wonderful weather that makes this a pretty compelling place to be when February rolls around," she says.

Research by the Greater Miami CVB bears out Grossman's point. In a 2005 survey, 50.5 percent of Miami-Dade tourists cited the weather as a primary reason for visiting, followed in popularity by the beaches at 31.5 percent.

But while South Florida's beaches and weather have not appreciably changed in the past millennium or so, what has been built on and around those beaches in the past half decade is nothing short of a man-made miracle in the eyes of tourism industry analysts.

"What's really ironic is that in the early 1980s when the TV show 'Miami Vice' came along and defined this place in the eyes of the world as a really cool place to be, there was not a five-star hotel in Dade or Broward Counties," says Stuart L. Blumberg, CEO of the Greater Miami and the Beaches Hotel Association. "And if you had really looked closely at those art deco hotels that looked so good on the TV screen, they weren't exactly plush inside. ... The reality of what we had was not completely in sync with what the TV show was creating for us."

But Blumberg and other long-time South Florida travel industry observers say that what "Miami Vice " and the plethora of TV shows and movies set in South Florida have wrought is an image of desirability that hotel and retail entrepreneurs have rushed in to capitalize on.

"There is no question that the image of this being the coolest place on this planet ... is a huge factor in what brought in the movie stars and rock stars to hang out on Ocean Drive," Greater Miami CVB CEO William D. Talbert III says. "That, in turn, set the stage for the development of the Ritz-Carltons and the designer boutiques and everything else that goes with being a world-class destination, a place that everyone wants to be because it makes them feel good about themselves."

In 2009, Miami-Dade will become the only area in North America with four Ritz-Carlton resorts, although that distinction will in some ways be a technicality, since

the upcoming Ritz-Carlton Club and Residences (opening on the site of the former Seville Beach Hotel at 29th and Collins Avenue in South Beach) will offer only condo units to be used by their owners. Palm Beach already has a Ritz-Carlton.

But what is definitely not a technicality in the eyes of hospitality industry analysts is the phenomenal cascade of upscale hotels that have been developed in Miami-Dade in the past five years, including three Ritz-Carlton hotels, a Four Seasons, a Mandarin Oriental, a Conrad Hotel (the top new brand from Hilton) and the Setai (arguably the most exclusive and expensive hotel in the county).

RAISING THE ROOF AND THE ROOM RATES

Those pricey hotels have become even pricier in the midst of South Florida's big real estate boom. It has also changed the way developers finance hotels. **The dominant method of financing hotels anywhere near a beach in the past few years has been the condo-hotel, in which individual buyers finance the property by plunking down their money upfront.** That pays the cost of building the hotel immediately, instead of through rent collected over decades.

"It's not just the preferred way of financing in the beach towns, not only in Miami Beach but in all of South Florida — **it's the only way you are going to see properties financed in those areas,**" says Miami-based hotel analyst Scott W. Brush, president of Brush & Co. "Land prices have made hotel construction cost-prohibitive if you try to go with any other formula. Essentially, you are not going to see anything built in the beach towns that is not condo-driven, and you are not going to see anything in the areas far away from the beaches that is."

The bottom line, say Brush and several other industry analysts, is that old mom-and-pop hotels that used to dot the beach highways from Palm Beach to South Beach will disappear.

"It's not economically feasible to build anything new that is mid-priced or low-priced in a beach area," says Joseph J. West, dean of Florida International University's School of Hospitality and Tourism Management. "The rental income from a new mid-priced beach property could never pay for the land or construction costs alone. And eventually, the value of the land on which the few remaining mom-and-pop properties exist now will dictate that their owners sell them, cash in on the profit to be made from the land sale, and watch them get replaced by a luxury condo-hotel."

That luxury phenomenon has reached well up the shore into Broward County, where Florida's first St. Regis Hotel & Resort is set for completion by the end of this year, and South Florida's first W Hotel is set to open in 2008. The W and the St. Regis are the top two luxury brands offered by their parent company, hotel conglomerate Starwood Lodging.

"There is no question that this luxury hotel boom that started in Miami Beach has certainly moved north to our shore, and it is transforming Fort Lauderdale as a destination," says Christopher Pollock, CEO of the Greater Fort Lauderdale Chamber of Commerce. "This is definitely not the place it was when the spring break kids

were coming here a generation ago.”

With that spring break business gone, though, are there enough high-end tourists coming to South Florida to sustain three counties’ worth of luxury properties?

Some analysts are not sure, and question whether the luxury boom in South Florida can sustain itself, and whether the pricey tourism status quo will push away middle-income visitors.

“Sometimes you can have too much of a good thing, and you can price yourself right out of the market,” West says. But he predicts that, while beachfront hotel rooms will be out of reach for the middle class, there will be mid-priced rooms further west. “There will still be plenty of lodging choices by which they can afford to come to South Florida and stay in a hotel from which they can easily drive to the beach. I don’t think the middle-class market is going away,” he adds.

“No destination can live off upscale travelers alone,” West says. “There’s a reason the majority of hotels in the world cater to middle-income travelers — because that’s who the majority of the travelers are.” West adds that although a small, niche destination such as a Colorado ski town or a Caribbean Island can do well catering exclusively to extremely affluent travelers, a major destination like South Florida cannot.

SPENDING ON EVERYTHING

But if prices are moving out of their range, the majority of tourists do not seem to notice, especially in Miami-Dade. When asked what they did not like about their visit to greater Miami, just 4 percent of visitors said prices were too high in last year’s Greater Miami CVB survey.

Miami-Dade visitors have not damped down their spending as room rates have risen, either. On the contrary, they spend considerably more than the average visitor to Florida: \$185 a day in 2004, versus \$136 a day in Florida as a whole, according to data from the Greater Miami CVB study and a survey by VisitFlorida, the statewide tourism marketing entity. (2004 is the most recent year for which VisitFlorida has computed statewide spending data). The average spent per day by a tourist (including lodging but not travel costs) in Miami-Dade rose to \$197 in 2005.

Goldman, a veteran of more than two decades in the Miami Beach hotel business, says the rising of daily spending, and of room rates, will continue.

“I see it as a logical progression of the market,” he says. “There is clearly demand for luxury hotels and all the fine restaurants and shops you find around them. I think the clientele that comes to Miami Beach expects that.”

Retailers from around the world have taken notice of South Florida tourist spending, and industry experts say it is the reason for a proliferation of upscale retail stores in the region. In Miami-Dade, for instance, tourists spent 29 percent of their money shopping last year, making it the largest part of their expenditures, according to the

Greater Miami CVB survey. That translates to about \$6 billion a year that tourists spend on shopping in just one county.

"I am not saying there would not be any designer shops up and down Collins Avenue if it were not for the tourists," says the Greater Miami CVB's Talbert. "But there would certainly be fewer of them."

Retailers largely agree with Talbert's analysis, saying dollars from shop-till-they-drop tourists have driven much of the growth of upscale malls in recent years.

"Traditionally, tourists have represented from 30 to 40 percent of our customer base. That's significant," says Tracy Kaplan, director of marketing for Aventura Mall.

The mall, home to Bloomingdale's and Macy's, will add a Nordstrom in early 2008, and is scheduled to add several smaller, high-end retailers by the end of this year, including Fila, a premium sportswear brand, and shoe retailer Donald J. Pliner.

Sawgrass Mills, a 350-store mega-center in Sunrise, recently added a \$38 million expansion, The Colonnade Outlets at Sawgrass, to its galaxy of upscale outlet stores. Its new retailers include Barneys New York, Coach, Cole Haan, Crate & Barrel, Hugo Boss and St. John Knits.

LITTLE PRICE RESISTANCE

The shopping is one small reason why tourists seem to be coming back in record numbers. Miami-Dade County had a record 11.3 million visitors in 2005; Broward County a record 10.03 million; and Palm Beach County had 4.3 million visitors last year, slightly off from its record 4.8 million in 1998.

With that many tourists, hotel developers say the upscale wave in South Florida construction is far from over.

"I consider our project to be at the beginning of the wave, not at the end of it," says David Edelstein, CEO of New York-based Tristar Capital LLC, which is developing the new W Hotel & Residences South Beach, a 500-unit property set to open in 2009. Edelstein says that seeing new resorts such as the Setai commanding rates of more than \$2,000 a night for suites and doing a brisk business convinced him there is a lot of life left in the upscale hotel boom.

Industry experts expect to see development of more moderately priced properties, as well — largely because there is clearly money to be made in that market.

"There is big demand for mid-priced and economy hotel product," Blumberg says. "I can see a good deal of mid-priced hotel development coming in the next few years in the airport area and the suburbs to the north and west."

The Miami International Airport area offers bargains right now, Blumberg notes. The average room rate around MIA was \$85 a night in 2005, when Miami Beach hotels were commanding \$164.20 a night.

David Burke, vice president of marketing and sales at The Breakers, the historic luxury resort in the Town of Palm Beach, says he would like to see more development of mid-priced hotels in Palm Beach County. He believes that will bring more tourists to the county (which currently sees less than half the volume of Broward or Miami-Dade), more airline capacity and more marketing of the destination.

"What benefits the tourism economy as a whole benefits each element of the market," Burke says. "We'd love to see more development across the price spectrum here."

W.E. "Mac" McLaughlin, CEO of the Palm Beach County Convention & Visitors Bureau, says he hopes to see about 4,000 additional hotel rooms, largely in the moderate price range, developed in Palm Beach County in the next few years.

At the moment, though, there seems to be a dearth of new hotel construction announcements in Palm Beach County. The only exception is The Harrick, a 20-story luxury condo-hotel with 138 suites that is scheduled to open in January 2007, near downtown West Palm Beach's Palm Beach County Convention Center and CityPlace retail development. McLaughlin, though, is confident that high occupancy numbers in Palm Beach County's hotels will attract new projects, and industry analysts agree.

"Hotel developers don't like to leave potential revenue on the table," Brush says. "When you see high occupancy numbers for existing hotels in a destination, you can bet other developers are giving that destination a close look."

And logically, according to Brush and other analysts, the development focus will be on West Palm Beach, where land acquisition costs are lower, and retail areas such as Clematis Street and CityPlace are adding economic vibrancy to once-moribund areas of town.

"I don't think it is going to be difficult to attract more mid-range hotels to the area, and it is certainly something that would be beneficial to both the hotels and the destination," McLaughlin says.

The market works best when there is a place for everybody, McLaughlin adds — even in America's Riviera.