DEVELOPMENT Miami projects fill a void

Mid-priced hotels target younger business travelers

by Eric Kalis
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Five years ago, on the eve of a national real estate collapse, Pedro Villar completed the shell of a condominium building in Miami’s Brickell area but was worried about finishing the rest of the project.

Mulling his options while waiting out the industry downturn, Villar decided the project could be saved by partnering with hospitality veteran Francisco Arocha to construct a mid-priced hotel on the 1001 SW Second Ave. property. Villar’s Mary Brickell Village Hotel LLC in January secured $7.5 million in construction financing from City National Bank and is now close to completing Aloft Miami-Brickell, which will target younger business travelers.

SEE HOTELS, PAGE A14
HOTELS: Former bank building being converted into boutique hotel

Aloft has “a very chic, urban style,” Villar said. “I think the area is in need of that type of hotel.”

Developers like Villar, Stambul USA and Bernard Wolfson’s Hospitality Operations Inc. have identified what they believe is an underserved hospitality sector in Miami’s Central Business District. The area boasts numerous high-end hotels like the JW Marriott Marquis and the Four Seasons Hotel Miami for visitors with no budget constraints and a smattering of cheaper options for price-conscious travelers.

What the area lacks, local hospitality observers say, are medium-tier urban-concept hotels that provide the amenities business travelers need without having to pay five-star rates.

The main reason the void has not been filled is that raw land in the district has generally been much too expensive to justify a mid-priced hotel, said hospitality consultant Guy Trusty, president of Lodging & Hospitality Realty Advisors in Coral Gables.

“As prices escalated in terms of land costs, mid-priced hotels from the late ’90s on couldn’t afford to be there,” Trusty said. “That was the product of rates. The big picture was a huge demand for mid-level, select-service hotels like the Hampton Inn, but there was not an opportunity for anyone to develop because of the economic barriers to entry.”

LAND PRICES

Thanks to the rapid pace of condominium absorption in the district, land prices are approaching pre-recession levels. That forces developers like Villar and Stambul to get creative with their projects.

When Villar suspended construction on his condo project, most competing residential developments in the area were either completed or not yet started.

“Very few projects were stalled halfway through,” said Gary Fitzgerald, executive vice president, real estate banking executive at City National. In addition to financing Aloft Miami-Brickell, City National also provided a loan for Aloft Orlando Downtown, the conversion of a former Orlando Utilities Commission building into a 119-room hotel by New York developer GDC Properties.

Aloft is one of the brands of hospitality giant Starwood Hotels & Resorts Worldwide Inc.

“This is a relatively unique example of a developer who had the wherewithal and foresight to put the brakes on a condo project” in favor of an alternative use, Fitzgerald said.

Before City National agreed to finance the project, it was “very difficult, almost impossible” for Villar and his partners to find a lender for nearly any kind of development, let alone the conversion of a stalled condo project into a hotel, Villar said.

The bank got on board with the Aloft projects in Miami and Orlando because of the strength of Starwood’s brand and an extensive market analysis that determined mid-priced hotels were an “underserved sector” in the urban cores of the cities, Fitzgerald said.

“It’s only fair to also talk about the importance of developer and borrower sponsorship in the deal,” he added.

Like the Aloft Orlando Downtown developer, Miami-based Stambul is repositioning a historic urban building into a hotel.

Stambul is in the midst of redeveloping the 87-year-old former Miami National Bank building in downtown Miami into the Langford Hotel, which the company hopes to open by the end of 2013. The Langford has been designed as a luxury boutique hotel with 130 rooms and two suites that, like Aloft and Hospitality Operations’ Hampton Inn & Suites Miami Brickell-Downtown, targets mid-priced business travelers.

“The market we’re attacking now hasn’t been covered by hotels in the area,” Stambul general manager and director Daniel Pena-Giraldo said. “We’re smack in the middle.”

A Stambul spokeswoman said Pena-Giraldo and other company executives are conducting business in Asia and would be unavailable for further comment until the end of the month.

The 160-room Aloft Miami-Brickell is also targeting that pricing middle ground with a projected average room rate be-
tween $120 and $140 a night, Villar said. The hotel should be in operation by March or April 2013.

The repositioning of older buildings in the district is reminiscent of projects prominent hotel developer Morgans Hotel Group completed in New York City, said real estate attorney Steven Carlyle Cronig, a partner at based in the Coral Gables office of Hinshaw & Culbertson.

“There are three or four buildings like that in downtown that immediately come to mind” as candidates for redevelopment into a hotel, Cronig said.

The business hotel patron “needs something to walk to,” he said. “There needs to be a definite event they are going to, and the sort of business traveler who stays at these places has to answer to someone who approves their expenses.”

**HEAD START**

Open since September 2011, the Hampton Inn at 50 SW 12th St. has had a head start in capturing the pent-up business traveler demand. The early signs are promising, according to Wolfson.

“We seem to fill a niche,” he said.

The 15-story, 220-room hotel, which has rates ranging from $169 to $249 a night for standard rooms and $229 to $359 a night for suites depending on the season, is the top-ranked Miami-area hotel out of 130 properties on vacation review website TripAdvisor.

Wolfson, whose company owns four other Hampton Inns in South Florida, had long wanted to add a Brickell-area Hampton Inn to his portfolio.

But “the land prices went out of sight because of the demand for condos,” he said. “We couldn’t find a piece of land that made sense.”

In late 2007, Wolfson acquired a 0.86-acre property from Coral Way LLC, which developed the Camden Brickell apartments. The company was considering a second phase for the condo project before selling the land to Wolfson.

It took nearly two years for Wolfson’s company to secure the necessary approvals. Finding a willing lender was a struggle, Wolfson said. The company ultimately obtained a loan from Wells Fargo Bank and started construction in the summer of 2010.

The potential exists for other hotel developers like Villar and Stambul to have similar success if their operating fundamentals are strong, Wolfson said.

“Let’s say someone opens up a 150-room mid-priced hotel,” he said. “If it’s not the right flag, with a good staff that knows what they are doing, it won’t be as successful. Aloft is not a bad name; it’s new, edgy and upscale.”

Beyond the Hampton Inn, Aloft and Langford, the CBD hospitality market has room for an additional similar hotel, according to Trusty, the hospitality consultant.

“But then it gets a little harder” for mid-price hotels, he said. “It’s hard for more of them in the Mary Brickell Village area unless they are on distressed land.”

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