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Miami Area Hotel Market Commentary

Short-Term Rentals and Pandemic Disruption

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Hotels, the lynchpin of South Florida's vital tourism sector, have prospered since the financial crisis 10 years ago. Over the last few years, hotels have found a formidable competitor in short-term rentals (STR), such as Airbnb. Now, the market disruption spurred by the COVID-19 pandemic poses an unprecedented threat to hotels, with STRs looking to gain broader market share in the region. Understanding this dynamic is key to finding a path to success for hotels as they navigate the ongoing crisis.

COVID-19 is causing profound disruption to travel, tourism and lodging industries as governments have mandated social distancing, shelter-in-place and drastic travel restrictions to impede the spread of the virus. Since mid-March, State and local governments have restricted hotel use to "Essential Lodgers" — mainly healthcare workers and other first responders. All four South Florida counties have instituted similar restrictions which started in mid-March and are ongoing as of this writing. The most stringent is Monroe County which is completely shut down to all visitors.

Prior to the COVID-19 disruption, regional hotels have thrived. For instance, from 2009 to 2019, Miami-Dade's hotel room inventory grew from 47,000 to 58,000 as investment capital poured in, while revenue per available room (RevPAR) shot up from $94 to $155, according to Smith Travel Research. Robust lodging demand growth has been largely fueled by the dynamic tourist sector of strong international and domestic visitors — including approximately 46 million passengers at Miami International Airport (MIA) in 2019, record cruise passengers, global events like Super Bowl and Art Basel, and the promising introduction of Virgin Train.

The Miami-Dade metro area has matured as a top-tier international destination for beaches, entertainment, culture, urban design and fine dining. The Florida Keys and Key West have become one of the top performing hotel markets anywhere due to its unique tourist appeal and its highly restrictive development codes. Additionally, business-travel related lodging demand was spurred as the regional economy diversified into technology, trade, banking, healthcare, education, entertainment and real estate.

Hotels in Miami-Dade, Broward, Palm Beach and Monroe Counties are highly sought-after by investors including domestic institutional investment funds and foreign investors from Latin America, Europe and beyond. South Florida hotels' investment values are on par with top U.S. and global destinations.

As the South Florida hotel market has boomed, copious investment dollars have flowed into numerous new developments in submarkets such as Brickell, MIA, Doral, Aventura, Miami Beach, Sunny Isles Beach, Dania Beach and Fort Lauderdale — ranging from midscale limited-service up to luxury hotels and residences. The region boasts a few hotel mega-projects with enormous capital investments, including the recently-opened iconic Guitar Hotel, the expansion at Seminole Hard Rock Hotel and Casino Hollywood at a development cost of $1.5

billion, the planned Marriott Marquis World Convention Center Hotel, the Miami Beach Convention Center Hotel, and the Omni Hotel at Broward County Convention Center.

STRs have taken hold in the economy, especially in Miami Beach and Miami, where there were more than 5,000 active Airbnb units as of March 2020. High hotel occupancy and room rates, coupled with a large apartment inventory, supports a perfect storm for STR. Airbnb guests pay 20% less than the average hotel guest —price is a primary motivator for people choosing STRs. Miami Beach is a top 10 U.S. market for Airbnb with a significant 20% lodging market share —much higher than 10% nationally.

The City of Miami Beach attempts to strictly regulate STRs by restricting them to operate in certain neighborhoods, requiring owners to have a current business license and to collect and pay resort tax.

STR units added to the region's lodging market are having an impact on traditional hotel performance in subtle ways. During peak times such as Art Basel, the malleable STR inventory grows to take advantage of the surge of visitors, which tends to reduce hotels' market leverage to raise room rates. South Florida's hotel room rate growth is flattening, although proliferation of new hotels is also a factor, as new supply absorption takes time.

The STR market started as a rental option for the random condominium owner but has evolved to attract commercial investors who own blocks of STR apartments, and in some cases whole apartment buildings. Branded STR platforms, such as Domio and Sounder, are a recent trend as commercial investors seek consistent quality and amenities to develop customer loyalty.

The COVID-19 disruption has shaken the lodging industry with steep declines in business levels. Since mid-March 2020, weekly U.S. hotel revenue is off by 80% compared to the corresponding week in 2019. March 2020 data —which represents a blended period partially before and after the government mandates —indicates Miami-Dade hotel revenue per available room was off by nearly 60% compared to March 2019, according to Smith Travel Research and Greater Miami Convention and Visitors Bureau.

STRs are not immune to the the impacts of the pandemic. According to data provided by Airdna, Miami Airbnb revenue was off by 76% from early February to mid-April. Additionally, five cities in South Florida were named in a list of the top 20 most vulnerable North American cities in times of crisis by Airdna.

With the exception of the small percentage of hotels officially designated for essential lodgers, most South Florida hotels are temporarily closed until government restrictions are lifted. According to Smith Travel Research, a total of 269 hotels (35,300 rooms) were closed in Miami-Dade, 100 hotels (6,990 rooms) closed in the Florida Keys and 29 hotels (7,800 rooms) closed in Broward County.

Hotel owners, investors and managers are taking all necessary steps to take care of guests, employees and other constituents and shore up business matters to be able to navigate the COVID-19 disruption and emerge when conditions improve and lodging demand rebounds. Unfortunately, hotel employee furloughs and layoffs are widespread; at the end of March 2020, the American Hotel and Lodging Association and Oxford Economics estimated 336,467 total hotel-supported jobs were lost in the State of Florida.

Many hotel owners have applied for aid under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, including the Paycheck Protection Program (PPP), which will support rehiring staff. With the drop in cash flow, hotel owners are negotiating temporary forbearance and other concessions on their mortgage loans and taking other steps to preserve liquidity for the disruption duration.

Quite a few new hotels are under development across South Florida in various stages. It is unclear how the COVID-19 disruption will affect such projects, although projects which are in construction are proceeding to completion. Projects that have not broken ground might be postponed or reconsidered by the investors and lenders, although industry experts expect most will move forward.

The industry looks forward to moving past the COVID-19 disruption and welcoming back guests to our South Florida hotels. Lodging demand closely tracks the macro-economy. Lodging economists are predicting 2020 U.S. hotel revenue to be off between 36% and 50%. Ramp-up to achieve 2019 business levels once again is expected in 2021and 2022.

In the near term, some change in travel patterns is to be expected, even after restrictions are lifted. Hotel brands are responding with new cleaning regimens, as announced by Marriott on April 21st. We expect strong demand for “staycation” drive-to trips to the beach in the very near term as folks want to break out, and the beach might be the best option for “social distancing.” Surely, the disruption will affect the STR segment; some suggest the inventory will shrink as long-term rentals become relatively more attractive to unit owners. On the other hand, STRs might be able to exploit their lower cost structure to garner more lodging market share.

The South Florida lodging market will recover, despite the oppressive uncertainty. Tourists, business travelers and conventioneers will be back to enjoy the incomparable South Florida experience. How that will play out over the traditional hotel sector, STRs and beyond, remains to be seen. The industry remains confident, however, that the COVID-19 disruption will spur a new cycle of investment in South Florida lodging by enthusiastic investors, lenders and other capital market participants.