

# 2002 Florida Lodging Forecast

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Dear Colleague:

We hope you enjoy the 2002 edition of the Ernst & Young Florida Lodging Forecast. The Ernst & Young Hospitality Services Group regularly provides Florida developers, lenders, owners, and operators with an array of advisory services, and the Florida Lodging Forecast is meant to provide our broad sense on the direction of the state's lodging industry.

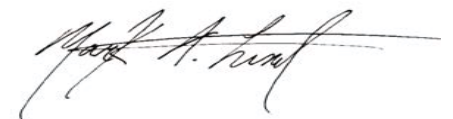
Inside we offer our thoughts on key Florida lodging industry trends, as well as specific information on metropolitan area events and performance. For this year's edition we have also included an analysis of the impact of the September 11 events on key Florida markets. Additional copies of this report are available through our local office or on our Web site, both noted at the end of this report.

Please feel free to call us or any of our other hospitality industry professionals when we may be of service.

Sincerely

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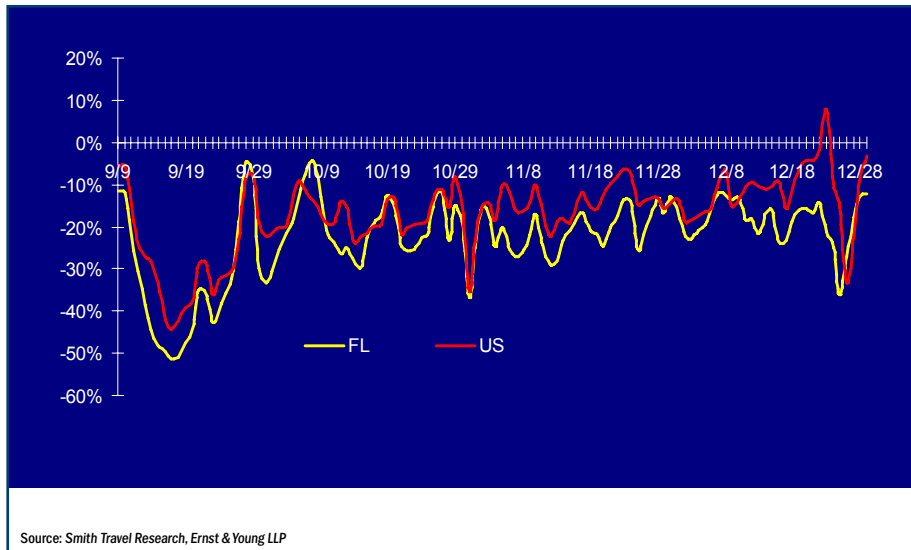




## 2001 AT A GLANCE

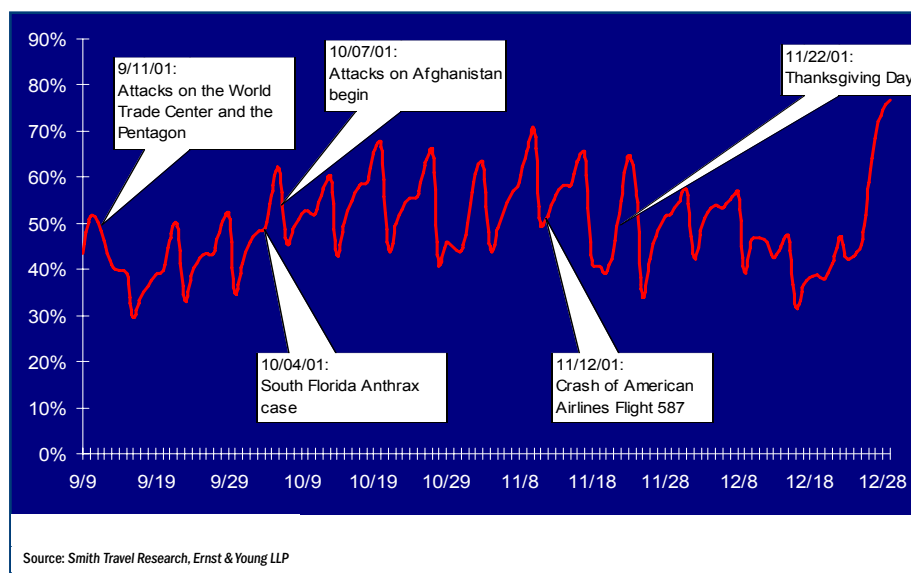
### Year Over Year Change in Daily RevPAR

#### 9/11 Impact: Florida vs. U.S.



The tragedy of Sept. 11 (9/11) plunged the already withering U.S. economy into an officially declared recession, distressing virtually all industries across the nation. The hospitality industry was certainly no exception, as it suffered through the worst short-term prospects since the Gulf War. Repercussions from the events were not evenly felt across the country, however, as several demand-based factors influenced the extent to which a particular region's lodging industry was affected. Florida, with a mix of drive-to, fly-in, commercial, and leisure driven destinations saw some improvement in occupancy and rate through the end of the year, albeit at a slightly slower pace than the rest of the nation. With 30% of the state's hotel room inventory, Orlando was one of the hardest-hit cities across the nation, heavily influencing statewide performance levels.

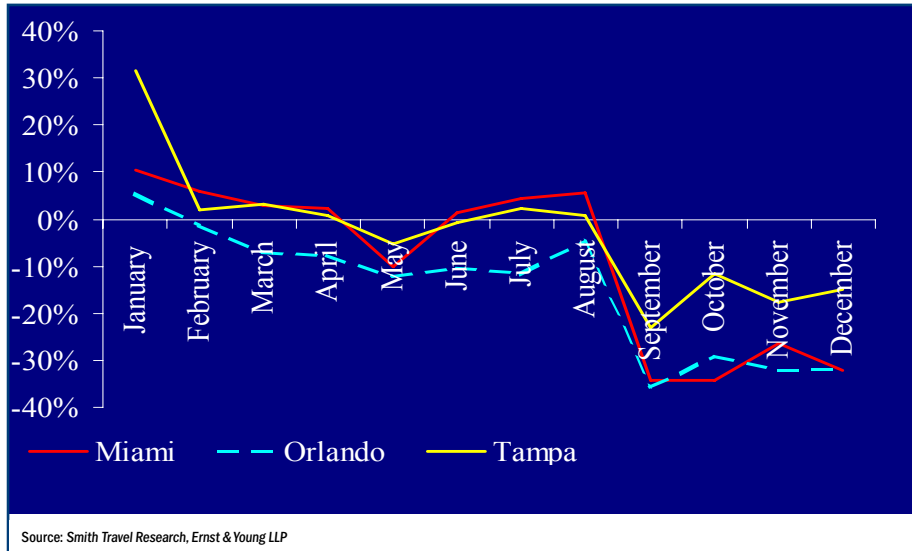
### Florida Daily Occupancy Performance



Prior to the attacks, Florida's lodging industry performance was on par or slightly above that of the nation during 2001. The hospitality industry, however, was already losing ground in response to declines in consumer confidence and corporate spending due to the weakened economy on a national level. The state's Revenue Per Available Room (RevPAR) had been declining steadily with the exception of improved performance during the summer months. Operators struggled to

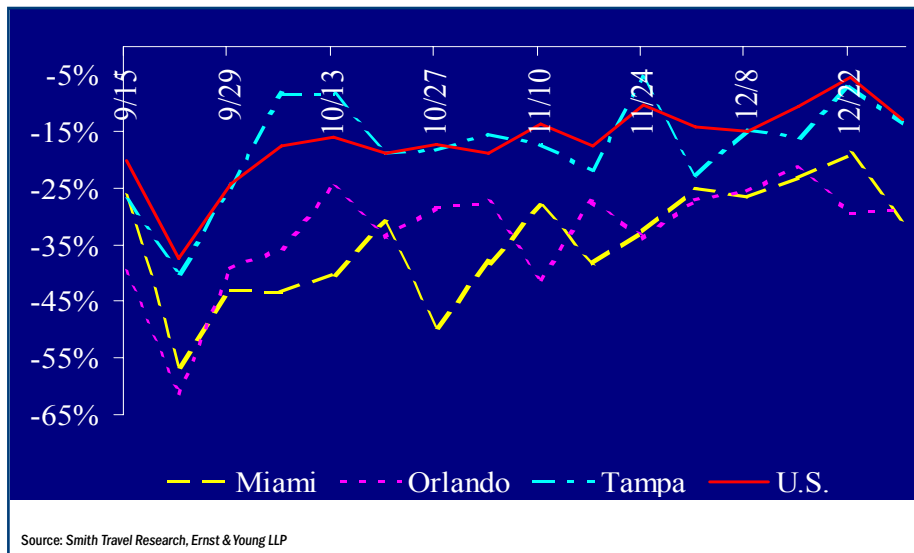
## Year Over Year Change in Monthly RevPAR

### Miami, Orlando, and Tampa



## Year Over Year Change in Weekly RevPAR

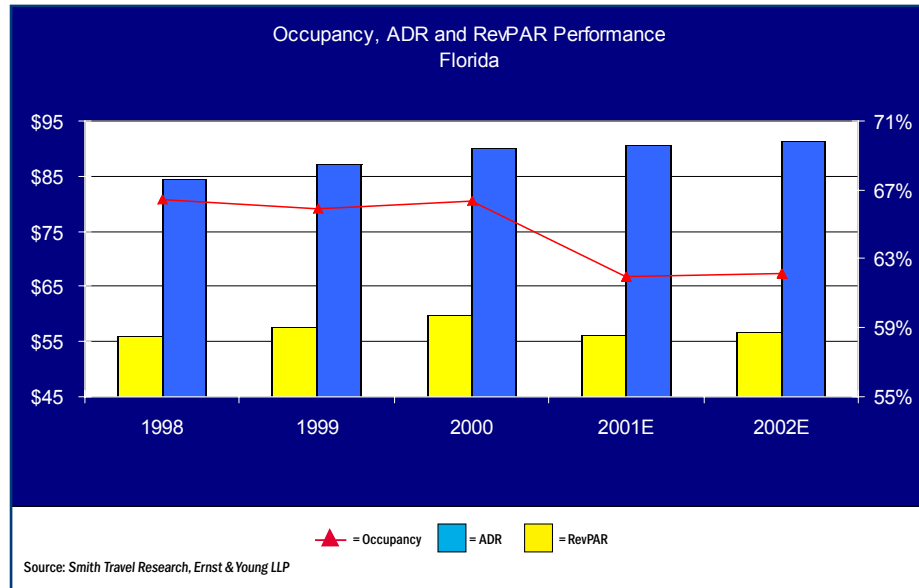
### 9/11 Impact: Miami, Orlando, Tampa, and U.S.



maintain rate integrity, sacrificing occupancy. Following the attacks, however, operators employed rate discounting strategies to boost occupancies. Average daily rates (ADR) in 2001 edged up slightly to \$91 from \$90 in 2000, while occupancy was estimated to have fallen to 61.9%, a decrease of approximately 4.5 percentage points from the previous year. Overall, the state's 2001 RevPAR is estimated at \$56, down 6.2% from 2000.

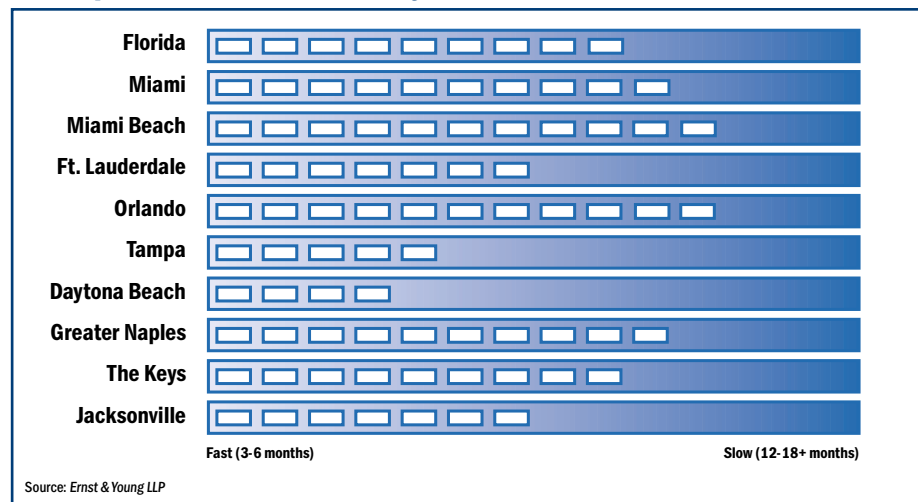
In 2002, the state's group travel is anticipated to recover ahead of corporate transient and leisure demand. Although several of the state's convention centers are reporting bookings below 2000 and 2001 levels and attrition rates have been increasing, the impact of 9/11 and the recession on group demand are not as severe as on the corporate and leisure segments. With approximately 1.4 million square feet of new convention space anticipated to be delivered by the end of 2003, the state will be well poised to capture additional group demand. As the U.S. climbs out of the recession, corporate travel and general business activity is anticipated to gain momentum, gradually increasing occupancies in the corporate segment over the course of 2002. Recovery in leisure-dependent locations such as Orlando and Miami Beach, however, is more highly correlated to increases in the nation's consumer confidence levels as well as rebounds in air passenger traffic. Those individuals still

## Florida Overall Occupancy, ADR, and RevPAR



traveling may not only opt to drive to their destination but also shorten their length of stay to decrease expenditures. The state's drive-to markets, such as Daytona Beach, are experiencing healthier rebounds in leisure travel, although advance bookings are still down. Last-minute reservations and walk-in demand has also increased as consumers search for deals. The ongoing recovery of both the commercial and leisure segments in Florida is also linked to the recovery of international markets such as Latin America, given the state's large proportion of international visitation, particularly in South Florida. Taking into account these factors, the state's ADR is estimated to remain stable at \$91 in 2002 while occupancy is anticipated to increase slightly to 62%. As such, RevPAR is anticipated to increase 1.2% to approximately \$57.

## Anticipated Market Recovery Period



While Florida's lodging industry is not anticipated to improve until the third quarter of 2002, a narrowing supply pipeline offers some consolation. Overall, a reduction in new supply throughout the state combined with a rebound in demand is anticipated to strengthen the industry's supply and demand fundamentals in the mid and long-term.





## FLORIDA QUICK FACTS

- Florida welcomed an estimated 71.5 million visitors in 2000.
- Domestic visitors statewide accounted for nearly 89% of total visitors while international tourists represented the remaining 11%. Orlando’s domestic visitation was similar to statewide levels at 91%, while Miami observed an influx of only 45%.
- The top three domestic visitor markets in the state were New York, Atlanta, and Chicago, while Canada, the United Kingdom, and Venezuela account for the top three international markets. Canada alone accounts for 3% of the total visitor market.
- Fifty three percent of visitors came by air and 47% via car, RV, train, bus or other means of transportation. New York, Chicago, and Boston represented the top three air markets, while Atlanta, New York, and New Orleans were the top three markets for auto visitors.
- The average length of stay for domestic visitors was 5.4 nights.
- Taxable spending in the tourism and recreation category totaled \$50.7 billion.
- Travel related jobs represent 11% of the labor force, approximately 843,000 people.

Source: Visit Florida, Standard & Poor’s



## TOP TEN THOUGHTS

- **Loan Defaults**
- **Airport Expansions and Renovations**
- **Convention and Conference Center Expansions**
- **Urban Revitalization**
- **Cruise Industry Growth**
- **Vacation Ownership**
- **Condominium-Hotels**
- **Native American Casinos**
- **Environment**
- **Cuba**



## TOP TEN THOUGHTS

### 1 Loan Defaults

Uncertain and anxious over the economic downturn and impact of 9/11, hospitality industry lenders have virtually disappeared and hotel financing has become notably scarce while nationwide delinquency rates on hotel loans doubled in the fourth quarter of 2001. Approximately 13% of hotel loans with collateral in the state of Florida were delinquent at the end of 2001, many of them as a result of 9/11. Orlando in particular, the largest hotel inventory in the state and second in the country after Las Vegas, accounts for the largest share of defaults in the nation, approximately 25%. Unlike the early 1990s, however, when hotel lenders consoled themselves by foreclosing on troubled properties, lenders today are taking a different approach and are working with borrowers and third party advisors to restructure their loans and monitor the assets in hopes of reaching a solution. Delinquencies, nonetheless, should continue in 2002 and are not expected to decline until mid-year.

### 2 Airport Expansions and Renovations

To support growing levels of tourism visitation as well as corporate travel, major airports in Florida are undergoing renovations and expansions in excess of \$4 billion. Despite the decline in passenger traffic across the nation as a result of 9/11, the state's airports are still moving forward with short-term projects and expansion programs already underway. Long-term projects have not been cancelled but many are under scrutiny and may be deferred until passenger traffic picks up. A \$400 million expansion project is planned for the Tampa

International Airport, \$250 million of which is currently underway with the remainder to be phased out over several years. Orlando International Airport is currently engaged in a \$1.2 billion expansion including the construction of a fourth runway. Orlando's passenger traffic surpassed the 30 million mark in 2000 and its long-term expansion plans are expected to increase capacity to 75 million passengers upon completion in 15 to 20 years. Miami International Airport is currently undergoing a nearly \$2 billion expansion program, which includes a fourth runway as well as north and south terminal expansions with total completion anticipated by mid-2006. The Fort Lauderdale International Airport is also executing a \$655 million expansion through 2004, as it anticipates that its 15.8 million-passenger level in 2000 will surpass 30 million by 2020.

### 3 Convention and Conference Center Expansions

Florida's convention centers continue to expand to accommodate an ever-growing demand for flexible convention space. An expansion of the Broward County Convention Center, located in Fort Lauderdale, is currently underway, with an additional 50,000 square feet of exhibit space to be delivered in February 2002. After 10 years of planning, construction of the \$75 million, 350,000-square foot Palm Beach convention center broke ground in June 2001 and is anticipated to be completed by the fall of 2003. The expansion of the Orange County Convention Center in Orlando will add approximately one million square feet of exhibit space to the center by the end of 2003. Although no specific plans have been announced, Miami is currently scrutinizing its fragmented inventory and formulating a strategy to increase its competitiveness. Upon completion of approximately 1.4 million additional square feet of convention space, Florida should be poised to capture an increasing number of group room nights during the next few years.

## Urban Revitalization

As Florida's suburbs become increasingly crowded and urban sprawl continues, more efforts are being focused on redeveloping the downtown core of major cities as a center of activity. The revitalization of Florida's downtown areas is drawing both tourists and businesses, as demonstrated by the success of Las Olas Boulevard in Fort Lauderdale and Clematis Street and City Place in West Palm Beach. In Jacksonville, the 966-room Adam's Mark Hotel is expected to serve as a catalyst for new development while in Daytona Beach, the \$250 million Ocean Walk Village redevelopment project is anticipated to further enhance the destination. In Miami, the Heat's American Airlines arena has led the way for new real estate development including the \$334 million Performing Arts Center for the Miami Ballet, Opera, and Symphony, to be built proximate to the Arena. Plans for a new baseball stadium for the Florida Marlins are still under consideration despite initial funding problems. Several other significant downtown mixed-use projects are currently underway, including the Four Seasons Hotel & Tower, Espirito Santo Plaza and the \$1 billion Miami One development. Upon completion of these developments, hotels planned for Florida's downtown areas hope to benefit from their location within walking distance of financial centers during the day and supporting retail/entertainment establishments at night.

## Cruise Industry Growth

In 2000 alone, passenger demand grew by 16.8% to a total of 6.9 million passengers, driven in part by an 11% increase in the number of berths in state-of-the-art cruise ships. Moreover, the cruise industry is anticipated to add approximately 50% additional capacity to the North American market over the next five years. 2001, however, proved to be a disappointing year for the industry as Port Canaveral's passenger traffic was down approximately 8% through August compared to the same period in 2000. The Port of Miami, on the other hand, experienced a moderate 0.8% increase in passenger traffic during its 2001 fiscal year, ended September 30. During September and October, however, the port began experiencing signs of weakening passenger traffic compared to 2000, posting declines of 12.5% and 17.6%, respectively. The decline was attributed not only to weakening consumer demand but also to the loss of several cruise liners seized by creditors. Although discounting techniques to lure back passengers have resulted in bookings at or above the prior year levels, they have cut into corporate revenues. Fortunately, the 2001 holiday season experienced strong demand with bookings at or near 2000 levels in response to lower rates. The rerouting of itineraries to leave from domestic ports within easy driving distance from several markets also helped to bolster demand post 9/11. Despite the failure of Ft. Lauderdale-based Renaissance Cruises and the bankruptcy of Miami-based American Classic Voyages, a possible merger of Royal Caribbean and P&O Princess Cruises would solidify South Florida's title as the world's cruise capital, controlling approximately 80% of the world's cruise capacity. Cruise industry professionals are bullish on the globalization of the industry and key demand growth indicators. As such, cruise demand is anticipated to gain momentum by late 2002 and early 2003. Although the cruise industry lends minimal



impact on the overall lodging industry, it may present a direct threat to the leisure segment and draw more guests away from resort destinations and theme parks.

### **Vacation Ownership**

Vacation ownership companies continue to diversify into new products and market segments. The industry has evolved from fixed weeks to floating weeks and diverse point-based programs, offering greater flexibility to owners. More affluent buyers also have their own selection of fractional products, including independent and brand-affiliated resorts. Following state-wide lodging trends, vacation ownership properties have experienced lower occupancies after 9/11 and sales have declined during 2001 in response to the recession and a decline in travel, which has impacted the level of prospective consumers visiting properties. Orlando remains the timeshare capital of the United States and Marriott's Horizons mid-level product is one of the latest additions to the city's timeshare market. The Villas at Disney's Wilderness Lodge, a new themed product, opened this past winter and Disney has already announced another vacation ownership resort, Disney's Beach Club Villas, scheduled to open in the fall of 2002, as well as plans to convert a portion of the Disney Institute's rooms to vacation ownership. As major leisure markets in the United States become highly developed with timeshare projects, it is possible that long-term cannibalization of hotel products may occur.

### **Condominium-Hotels**

Condominium-hotels, which many of us remember as a bold new concept of the early 1980s, have resurfaced as a hot new development trend in Florida. Particularly prominent in traditionally seasonal resort areas, this interesting hybrid between investment and second home properties is becoming increasingly popular from Miami Beach to the Florida Panhandle. These projects are expected to remain attractive for developers seeking instant financing and to buyers seeking help to defray mortgage costs for vacation properties. Conflicting interests between developers and hotel operators, however, remain an ongoing challenge. Condominium developers typically seek to minimize public space and maximize living space, while hotel operators seek the opposite. Often, developers focus on selling units and give little attention or regard to the needs of the hotel operation. These conflicting interests result in challenging development, marketing, and operating issues.

### **Native American Casinos**

Floridians have repeatedly voiced their opposition towards legalizing casino gambling in Florida. Their efforts, though, have not prevented the Seminoles and Miccosukees, two Native American tribes, from establishing as many as six gambling ventures in South Florida. The state, however, considers their casinos to be illegal and infringing upon Florida Law, as the tribes have not obtained a "compact," a license from the federal government to open a casino on tribal land, to establish their operations. While the issues remain unresolved, the Seminoles have partnered with the Cordish Company to develop a \$300 million, 750-room Hard Rock Hotel and Resort in Hollywood anticipated to open by fall of 2003. In Tampa, a 250-room Hard Rock Hotel and Casino is

also anticipated to open by late fall of 2003, with a cost of more than \$130 million. The purchase of a \$28.7 million, 1,124-acre parcel in Osceola County in 2001 is yet another indication of the tribe's intent to establish another significant venture in the state.

### Environment

The protection of the environment and the adverse impact that new and existing development may have on Florida's ecosystems are matters of concern for officials and residents throughout the state. Fears of unplanned and disorganized development, as well as new construction that may result in regional ecological imbalances has led city executives to issue moratoriums in Naples and The Keys to control urban sprawl. The Bush administration is also using caution as it considers oil-drilling opportunities off the Panhandle; Vice President Dick Cheney has suggested that the administration would try to keep any new drilling about 100 miles from the state's coast. Florida also recently obtained an important win by having a \$43.4 million budget for beach restoration projects along the eastern shore approved by the House of Representatives; the budget is \$34.5 million more than what was originally proposed by President Bush. Seasonal wild fires continue to impact visitation to and within the state, as smoke from the blazes force officials to close interstate highways and detour traffic to alternate roads. Tampa's Busch Gardens, for example, suspended operations of its tour buses from Orlando in late February 2001 due to closed sections of Interstate 4. Droughts throughout Central and South Florida may also adversely impact tourism to the region as The Everglades become particularly dry, diminishing the amount of observable wildlife and attractiveness of the area.

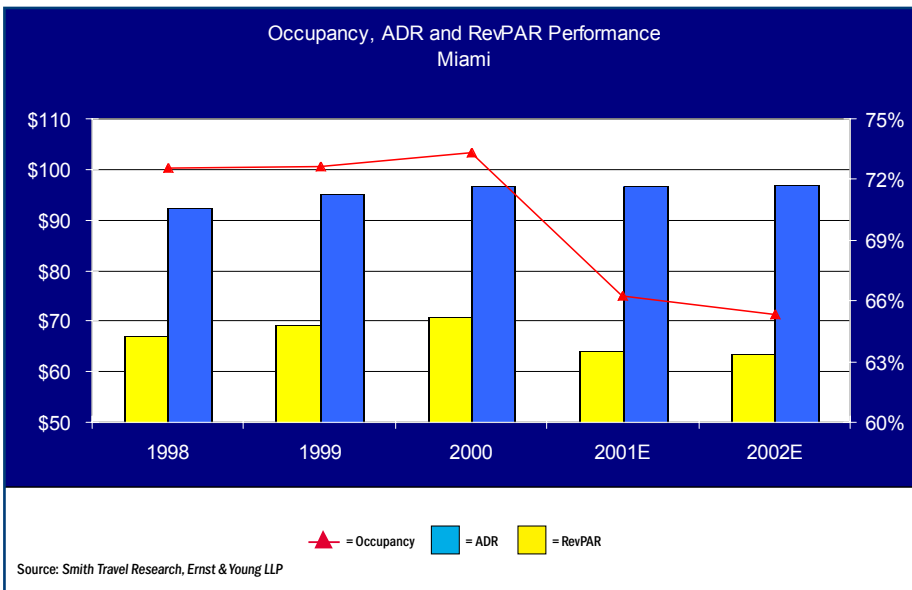
### Cuba

Despite former President Clinton's efforts to loosen policy on Cuba, further changes are not expected under the Bush Administration. The novelty of a new and exotic destination that is 12 times as large as Puerto Rico, has 4,000 keys, 100 miles of beaches and is only 90 miles away from Key West is attracting many curious Americans and many more value-seeking European tourists. Cuba, however, faces numerous challenges, including weak infrastructure and a lack of hotel and airlift capacity relative to well-established destinations in Florida and the Caribbean. Furthermore, a history of human rights issues, labor practice violations, a communist controlled economy and a lack of hard currency suggest that this island nation still has a long way to go to position itself as a competitive Caribbean destination.



MIAMI

### Anticipated Market Recovery Period



While the Miami area exhibited positive rate growth in 2001 due to an increasing presence of luxury hotels, annual occupancy reached a 10 year low as a result of oversupply combined with poor performance over the last four months of the year. A weakening of the national and Latin American economies, fear of flying and a surge in new hotel development are anticipated to result in further declines in occupancy and average daily rate for 2002, with a possible rebound by early 2003.

### Major Demand Changes

The horrific events of 9/11 compounded by the U.S. recession and political and economic crises in Latin America sent the Miami tourism industry into a tailspin. Given the area's dependence on the Latin American commercial and banking sector coupled with an overwhelming majority of visitors arriving by air, the speed of recovery for Miami is expected to lag the overall state and U.S. lodging markets.

Despite recent events, the city remains focused on servicing the needs of an increasingly sophisticated leisure and business traveler as well as providing the proper environment for local business to thrive. A rapid transformation is occurring and numerous projects are expected to reshape the Miami skyline over the next several years. Several mixed-use projects, which are expected to impact the office and residential markets, include the Espirito Santo Plaza and the Four Seasons Hotel and Tower, which are currently under construction, and the \$1 billion Miami One mixed-use development. Revitalization of the area north of downtown along Biscayne Boulevard is another major focus. The city is planning a \$334 million Performing Arts Center on Biscayne Boulevard within walking distance of the Arena, which is expected to help transform Miami into an important cultural center. The structure is expected to occupy 570,000 square feet and house the ballet opera house, concert hall, and studio theater. Upon its completion in 2005, the center is expected to have an estimated economic impact of \$690 million. In the long term, the center should help reverse a decline in property values in the currently depressed surrounding neighborhoods and spur significant commercial and residential development.

Furthermore, the development and renovation of several cultural attractions including the \$10 million Patricia and Phillip Frost Museum of Art, the \$6.5 million renovation of the Actor's Playhouse and the \$5 million refurbishment of the historic Seminole Theater are also expected to enhance the area.

Discussions to build the \$385 million, retractable-roof stadium for the Florida Marlins have progressed, although the final location and source of funds have yet to be determined. In addition, the redevelopment of existing attractions such as the \$46 million relocation of Parrot Jungle and Gardens to Watson Island and the \$3 million renovation of Miami Metrozoo should provide more attractive alternatives for Miami visitors. Miami will continue to serve as a haven for international shoppers as more high-end retailers further enhance Miami's image. In West Miami, the \$270 million, 1.4 million square-foot Dolphin Mall opened in 2001 and includes 150 shopping, dining, and entertainment outlets anchored by a 400,000 square-foot entertainment center. In Coconut Grove, an additional \$7 million office and retail expansion of Cocowalk is currently underway and expected to be completed by late 2002. In Coral Gables, the Village of Merrick Park, an 850,000 square-foot landmark mixed-use project anticipated to open in September 2002, is currently being developed by The Rouse Company and is expected to include office and residential components.

Current projections indicate that the Miami International Airport (MIA) will handle more than 40 million passengers in the next several years. In an effort to accommodate the anticipated increase in demand, MIA

is undergoing a nearly \$2 billion expansion program, which includes a fourth runway as well as north and south terminal expansions with total completion anticipated by mid 2006. The 8,600-square foot runway is expected to increase airfield capacity by 22% and is scheduled for completion in 2003. It is anticipated that the plan will maintain MIA's competitiveness with other airports, alleviate congestion and facilitate passenger traffic through the airport. Additional large-scale capital improvement plans for the Miami International Airport are planned but may be deferred in response to a decline in passenger traffic following 9/11.

In order to relieve congestion in MIA's terminal roadways, as well as increase curb capacity, there are plans to restrict access to the terminal curb for all vehicles other than private automobiles and taxis. The Miami Intermodal Center (MIC), therefore, is proposed to serve as a regional transportation hub as well as an extension of MIA's ground transportation network. The MIC will accommodate courtesy vans, buses and limousines previously destined for MIA's terminal curb, thereby relieving approximately 30% of MIA's curb-front traffic. The MIC will also serve as an intermodal hub for Amtrak, Tri-Rail, Metrorail, a proposed East-West rail line, buses, taxis, and private automobiles. All modes will be connected to MIA via an automated, fixed guideway transit system, the MIC/MIA Connector. The MIC will also house selected airport landslide terminal functions, such as ticketing and baggage service, and will accommodate the Airport/Seaport Connector, providing premium rail service between MIA and the Port of Miami.

## Major Supply Changes

Given the amount of luxury hotel projects entering the Miami market, many are concerned about Miami's ability to absorb so many four- and five-star rooms. Although developers expect that distinct sub-markets and unique positioning will differentiate their products, it is more likely that such increases in supply will have a dampening effect on the market. Furthermore, luxury and first-class properties will be increasingly challenged due to recent additions to supply, a greater inflexibility in minimizing overhead to maintain service levels and the effect of consumers trading-down to upscale and midscale hotels to decrease spending.

Among the most recent luxury developments in the Downtown Miami/Brickell submarket are the \$80 million, 300-room J.W. Marriott (October 2000), the \$100 million, 329-room Mandarin Oriental (December 2000) and the \$34 million renovation of the 639-room Inter-Continental Hotel. A \$350 million Four Seasons hotel is expected to open in late 2003. With 222 rooms, 176 condo units and 84 condominium-hotel units, the property is being co-developed by Millennium Partners and Terremark Group and is anticipated to be the tallest building south of Atlanta and the tallest residential complex south of New York City. In addition, the existing apartment complex of Dupont Plaza Center, in the downtown area, is expected to be converted into a 146-unit Residence Inn by summer 2002. Plans are also underway to upgrade the office component of Dupont Plaza as Class B and reposition and re-brand the existing 297 hotel rooms. Lionstone Hotels and Resorts, the current owners,

plan to develop a travel and trade center in the renovated complex that would centralize foreign consulates, chambers of commerce and trade shows.

On nearby Watson Island, opposite Parrot Jungle's new home, plans for a \$281 million upscale mixed-use development are underway. The project is anticipated to include two luxury hotels, a marina, an open-air fish market and ancillary restaurant and retail facilities.

The \$176 million, 352-room Ritz-Carlton located on Key Biscayne opened in July 2001 complementing the 188-unit condominium-hotel, while the 115-room Ritz-Carlton in Coconut Grove is anticipated to open in April 2002 along with the Residences at Ritz-Carlton, a 175-unit luxury condominium project. The condominium-hotel niche has proven to be a popular concept for the Coconut Grove area, with the luxury \$70 million, 224-condominium-hotel Sonesta Mutiny Park anticipated to open in April 2002.

As a result of the airport expansion and development of the Miami Intermodal Center, several hotel properties were acquired and permanently closed, resulting in a decline of approximately 830 rooms in hotel inventory. While the airport area has experienced a surge in limited service and extended stay hotel developments in recent years, several full-service hotel projects are in early development stages. Starwood Hotels & Resorts has been in discussions with developers since early 1999 to develop a hotel in the airport area. Reportedly, Starwood and HI Development were in discussions to convert the existing 260-room Miami International Airport Hotel to a Sheraton



property. The project is expected to include an additional tower containing 200 rooms; formal plans, however, are still on hold. In addition, a possible hotel site near the Marriott Complex on Le Jeune Road for a 450-room Sheraton is rumored.

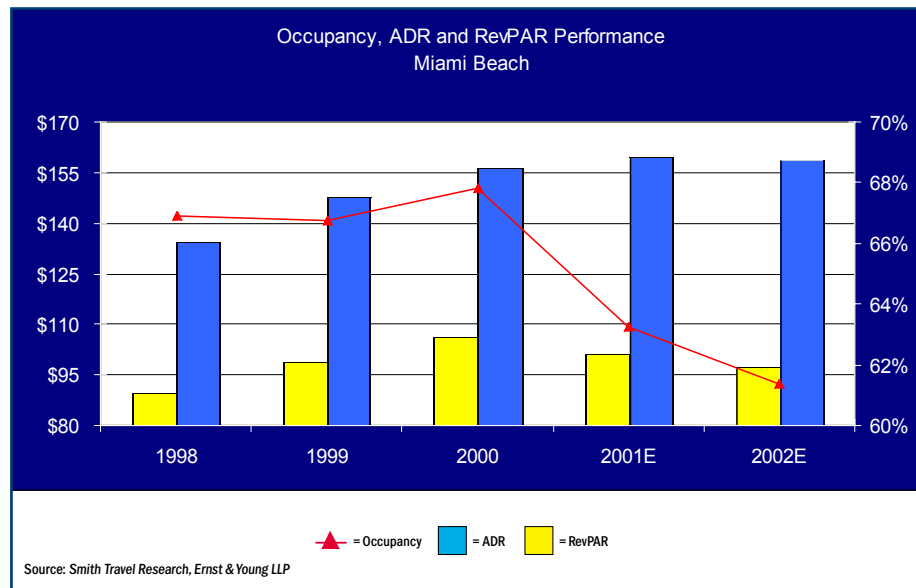
### **Political/Economic/Legal Changes**

The Elian Gonzalez saga put Miami in the world spotlight for a five-month period in 2000 and revived local friction over the Cuba ordinance – a legislation that bars county support for companies that have involvement with Cuba. The resulting turmoil at city hall was one of the factors that led to the lost opportunity to host the inaugural Latin Grammy's music awards to the city of Los Angeles in 2000. A strong lobbying campaign by influential activists brought the Latin Grammy's to Miami in 2001, only to learn three weeks before the event that the organizers decided to take the venue back to L.A. due to safety concerns for attendees and performers. This major blow to Miami was estimated to have a direct impact on the economy of approximately \$35 million, while the loss of 15,000 visitors and transmission to over 800 million viewers in over 120 countries may have wider repercussions for the local lodging industry.



MIAMI BEACH

### Anticipated Market Recovery Period



Hotels in Miami Beach are still finding themselves in an emergency mode in the short term, leading to slashed rates of over 50% to entice Florida residents to take a vacation close to home. Given the area's heavy reliance on tourism and convention activity, as well as high levels of international visitors, the lodging market's recovery in 2002 may move at a slightly slower pace as compared with the overall state and U.S. lodging markets.

### Major Demand Changes

With approximately 96% of the area's visitors arriving by air, Miami Beach's lodging industry has continued to fare well below state and U.S. levels in the wake of 9/11. The Greater Miami Convention and Visitors Bureau ("GMCVB") estimates a loss of approximately \$750 million in tourism-related business through November 2001 as a direct result of the terrorist attacks, despite aggressive marketing campaigns. The GMCVB recorded seven major meeting cancellations after 9/11, resulting in a loss of approximately \$3.9 million in revenues; these seven events have not been rebooked. The cancellation of a leading international art show, Art Basel, which hosts over 1,000 artists from 150 galleries worldwide, presented a major loss for the area in December 2001. Fortunately, the show has been rescheduled for December 2002. While the outlook for convention bookings remains cautiously optimistic for 2002, attrition rates are expected to range from 10% to 20%. The county is also currently scrutinizing its fragmented inventory of convention space and formulating a strategy to become more competitive, although no specific plans have been announced.

In response to the recent terrorist attacks, the GMCVB is attempting to entice travelers by appealing to them on an emotional level with the roll out of the \$2.2 million 'What Makes You Happy' campaign, offering special hotel rates and encouraging nearby drive-to markets to vacation close to home. Severe drops in domestic and international air travel due to a combination of corporate belt-tightening and fear of flying will continue to pose threats to the tourism campaign. Overall visitation is expected to decline between 12% and 15% in the first quarter of 2002, the peak of Miami Beach's tourist season.

Despite these events, the revitalization of South Beach continues to be a major focus and numerous luxury hotel and residential projects are underway, as well as supporting retail and office developments. While Miami Beach has primarily been a leisure destination, it has attracted several information technology companies in recent years. Despite several Internet companies going bust, South Beach, which has been referred to as Silicon Beach, remains an e-commerce hub for Internet companies serving the Americas, including YupiMSN.com and Fiera.com. The area is also becoming increasingly popular for entertainment companies focusing on Latin America, as well as art-based tourism and conventions.

### Major Supply Changes

Although the Miami Beach lodging market commands a \$60 average daily rate premium over Miami, the area is concerned about the depth of demand willing to pay high prices given the wave of luxury hotel projects entering the market. No one knows for sure how dramatic the impact will be in the near term, particularly during the summer months when every hotelier slashes rates to capture visitors; however, the surge of upscale commercial, retail and recreational development bodes well for the area's overall lodging demand in the long term.

Among the most recent upscale developments in Miami Beach are the 324-room Shore Club (July 2001), the 385-room Ritz-Carlton, the planned 200-room W Hotel by Starwood and the 90-room Setai. These projects involve extensive redevelopment efforts to blend the extravagance of luxury hotels with the sleek art-deco style of South Beach. Another proposed entry to the South Beach luxury set, The Victor, a historic Art-Deco style hotel, is currently in the planning stages by ZOM properties to be developed into a luxury hotel adjacent to Gianni Versace's former mansion. Casa Casaurina, as the mansion is known, will also have its share of renovations. Plans are to make the building more public by turning it into a 15-suite, "six-star" hotel or fractional ownership property. Following a \$100 million renovation and expansion of the DiLido Hotel, originally constructed in 1953, the Ritz-Carlton, located on the same block of Collins Avenue as the stylish Delano Hotel, is scheduled to open in August 2002. Within one block of the Ritz-Carlton, a joint venture between Starwood Hotels and Resorts and Ritz Plaza Associates will develop a 200-room W Hotel, also opening in late 2002. Just a few blocks north of The Shore Club is The Setai, a \$120 million, 90-room, all-suite resort, being developed by Adrian Zecha, founder of Aman Resorts, expected to open in early 2003.

Other well-established hotel chains are also finding Miami Beach a desirable market. In October 2000, Marriott opened its first resort in South Beach along Ocean Drive. In addition, the 422-room Royal Palm Crowne Plaza, located adjacent to the Loews Miami Beach, is anticipated to open in February 2002, despite numerous construction delays.

In addition to these large-scale and chain-affiliated projects, independent boutique hotels are flourishing in South Beach and are contributing to the supply increase in the area. Given the high barriers to entry in this market, these properties are typically adaptive reuses. Recent reopenings of boutique hotels within the past few years include the Townhouse, Whitelaw, Mercury, Abbey, Wave, and Crescent. The 242-room, boutique style Miami Beach Ocean Resort also underwent a \$5 million renovation and converted to The Palms in late 2001. In addition, The Arden Group recently purchased the Savoy Hotel for \$18 million; the property is expected to be redeveloped and operated by S&S Hotel Management.

The Fontainebleau Hilton and Turnberry Associates recently announced plans to build The Tower Residences at the Fontainebleau, a condominium-hotel on the south end of the 18-acre property. The new \$200 million, 36-story project will feature 464 residences and is scheduled to open in December 2004. In South Beach, the 109-unit Bentley Beach condominium-hotel is anticipated to open in June 2002. Another South Beach development, the De Soleil South Beach, an 80-unit project located on Ocean Drive between 14th and 15th Street, is expected to open in the spring of 2003. Condominium-hotel projects are also being developed in Sunny Isles, including the 166-unit Ocean Point (January 2001) and the 381-unit Trump International Beach Resort, managed by Sonesta International Hotels, anticipated to open in September 2003. In addition, Acqualina Ocean Resort & Residences, a 50-unit luxury condominium-hotel and 65-room hotel to be managed by Rosewood, is anticipated to open in late 2003.

The Westin Diplomat Resort & Spa in nearby Hollywood is expected to present a possible threat to several group hotels on Miami Beach. Featuring 998 rooms and over 200,000 square feet of meeting space, the property opened in January 2002. In order to maintain their competitive posture in the midst of significant new supply, existing properties in Miami Beach have completed major renovations. The historic landmark Eden Roc Resort & Spa underwent a \$26 million upgrade and repositioning as a Renaissance property. Sheraton Bal Harbour Beach Resort also completed an \$11 million renovation while the Turnberry Isle Resort & Club recently added a 25,000-square foot spa with a \$10 million price tag. Furthermore, Roney Palace Resort and Spa completed a \$25 million renovation and redevelopment of its 5.5 acre site.

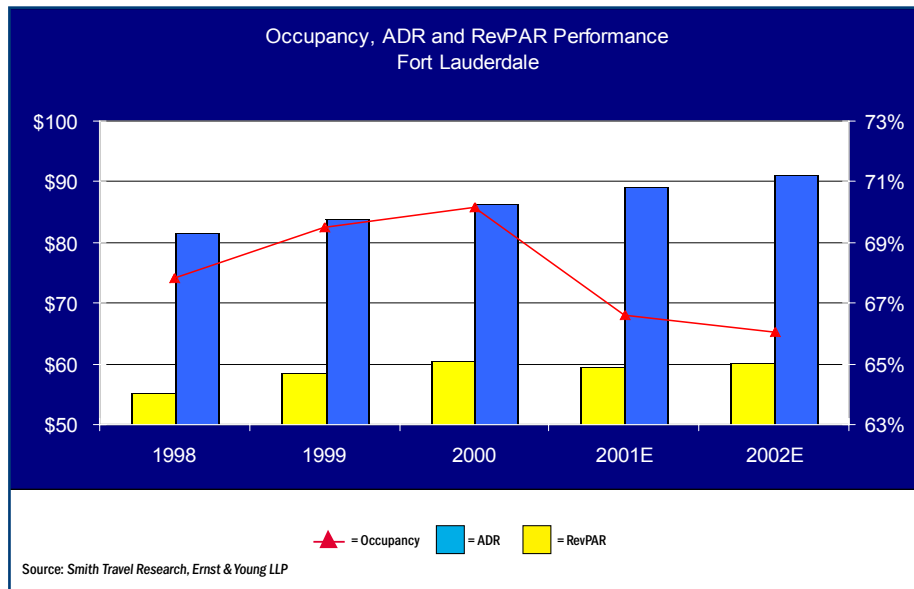
### **Political/Economic/Legal Changes**

Despite the revitalization efforts in Miami Beach, the city is struggling to keep up with the growth in the immediate area. Traffic congestion and lack of parking continue to be problems for both locals and incoming tourists. As visitation and new developments along the skyline are expected to increase in the coming years, these issues are expected to aggravate and negatively impact the quality of life of residents. In addition, the city's inability to control and comfortably accommodate visitor attendance during large celebrations deserve particular attention by city officials. Furthermore, the results of recent mayoral elections in Miami Beach may limit prospects for new development.



## FORT LAUDERDALE

### Anticipated Market Recovery Period



The events of 9/11 contributed to declines of approximately 16% in occupied room nights and 4% in average daily rate for Fort Lauderdale during the last quarter of 2001 when compared to the same period in 2000, as leisure and group demand diminished. Despite this tough period, the city remains committed to undergo a dramatic facelift to enhance its image as a vibrant commercial city and upscale South Florida vacation destination. Upcoming commercial, infrastructure and recreational developments in Fort Lauderdale are expected to contribute to healthy lodging demand in the future, although an estimated 6% increase in new supply in 2002 is anticipated to negatively impact occupancies.

### Major Demand Changes

Following the sudden drop of tourism traffic in the wake of the 9/11 attacks, hospitality and political leaders responded by launching multi-million dollar marketing programs. The Greater Ft. Lauderdale Convention & Visitors Bureau initiated a multi-faceted marketing initiative directed primarily at Florida encouraging people within driving distance to vacation in South Florida.

Despite monthly declines in passenger traffic of 26%, 17% and 15% between September and November 2001 respectively, year to date figures through November at Fort Lauderdale/Hollywood International Airport indicated a 5% increase in demand relative to the same period in 2000. An increase in airlift capacity by Continental, JetBlue, Northwest and Spirit contributed to the rise in demand, bringing the total number of passengers through November to nearly 15.1 million. Domestic traffic exhibited positive growth of 6%, while international passenger traffic declined approximately 3% over the prior year. The city's airport continues to succeed as a convenient and often less expensive alternative to the more congested Miami International Airport. The heavy presence of low-cost carriers, which capture more than 25% of the market, also makes this area popular among domestic tourists. Fort Lauderdale/Hollywood International Airport is in the midst of a \$655 million expansion program, which includes additional gates within the terminal complex, an extension of the runway, two additional parking garages, as well as access improvements. An additional nine-gate concourse in the new terminal is expected to be completed by late 2002.



An expansion of 50,000 square feet of exhibit space at the Broward County Convention Center (BCCC) is currently underway, bringing total exhibit space to 230,000 square feet. With an expected delivery date of February 2002, the increase in meeting capacity is expected to enable the city to compete more effectively among other destinations for trade show and association group demand.

### Major Supply Changes

Similar to its neighbor to the south, Fort Lauderdale is anticipated to experience a surge in new luxury hotel supply over the next few years. Ground was broken for Florida's first St. Regis Hotel & Residences in January 2002 along Ft. Lauderdale Beach Boulevard. This \$135 million, 197-unit beachfront project is scheduled for completion in late 2003 and will also include penthouse residences and vacation ownership units. Directly to the north of The St. Regis, at Terramar Street, a 124-unit luxury condominium-hotel, The Atlantic, is currently planned and is expected to begin construction in June 2002 and be completed in late 2003. Plans for a proposed Club Regent, a 34-unit luxury fractional ownership property located to the south of The St. Regis, on Seabreeze Boulevard, were canceled. The developer is planning to develop an 81-unit luxury condominium-hotel and is expected to begin construction in April 2002, with completion set for late 2003. On North Atlantic Boulevard, the \$100 million Costa Dorada, a 278-unit condominium hotel, is slated to begin construction in September 2002 and is expected to open in early 2004. Plans have also been unveiled for The Capri, a \$150 million

resort, which is scheduled to commence construction in late 2002 with completion in early 2004. The 346-room resort, which is also expected to include an additional 171 timeshare units, is reportedly in management negotiations with Regent Hotels.

In conjunction with the BCCC expansion, Peebles Atlantic Development Corporation formed a partnership with Wyndham International to develop the \$70 million, 506-unit Wyndham Fort Lauderdale Hotel. Disagreements between the development company and Broward County officials over the terms of the ground lease, however, terminated negotiations between the two parties and forced Wyndham to withdraw its support for the project. Located within two blocks of the BCCC is the \$37 million, 233-room Renaissance Fort Lauderdale, which opened in June 2001. In downtown Fort Lauderdale, a new \$15 million, 156-room Hampton Inn opened in January 2002. The area will also welcome the expansion of the landmark Riverside Hotel with an additional 116 rooms, increasing the hotel's inventory to 217 rooms by March 2002.

Two major resort projects are currently underway in nearby Hollywood. After experiencing construction delays and management turnover, the 998-room Westin Diplomat Resort & Spa opened in January 2002. With more than 200,000 square feet of meeting space, golf facilities, retail outlets and spa, the Diplomat is expected to compete with South Florida's premier destination resorts. Its sister property, the Diplomat Country Club & Spa, opened in March 2000 just across the street from the Westin and became a member of Starwood's Luxury Collection. The second Hollywood project is the Seminole Hard Rock Hotel & Resort, which is located on tribal land and currently under construction. The

\$300 million complex is expected to include a 750-room hotel, a health spa, extensive lakeside beach club, gaming facilities, retail/entertainment complex and a Hard Rock Café restaurant. Completion is scheduled for late 2003.

A surge in full-service hotel development within Fort Lauderdale's suburbs is also occurring. The newest addition to the market is a 250-room Crowne Plaza Hotel in Sunrise, which opened in December 2001 while the 250-room Renaissance Hotel Plantation is expected to open in September 2002. Marriott's second hotel in Plantation, the 250-room Marriott at Sawgrass, located near the National Car Rental Center and Sawgrass Mills, began construction in June 2001 and is scheduled for completion in early 2003.

In order to maintain their competitive posture during significant supply additions, existing properties are undergoing major renovations. The Holiday Inn Plantation/Sawgrass completed a \$5 million renovation in April 2001. The Marriott Fort Lauderdale North recently upgraded amenities, improved guest services, and refurbished guestrooms and meeting space at a cost of \$8.5 million. In Fort Lauderdale Beach, the Radisson Bahia Mar Beach Resort underwent a major renovation of its rooms in February 2001 while the Marriott Harbor Beach Resort recently completed the second phase of a \$36 million refurbishment project. The resort's new \$8 million, 22,000-square foot spa opened in June 2001. The Pelican Beach Resort, located in North Fort Lauderdale Beach, is expected to demolish eight of its nine aging buildings to make way for a new 168-room oceanfront hotel. Construction is scheduled for

August 2002 and inauguration planned for late 2003. Other hotels, such as the Sunrise Hilton, which built a professional soccer field 20 yards from its main entrance, expect to maintain their competitiveness by capitalizing on niche markets.

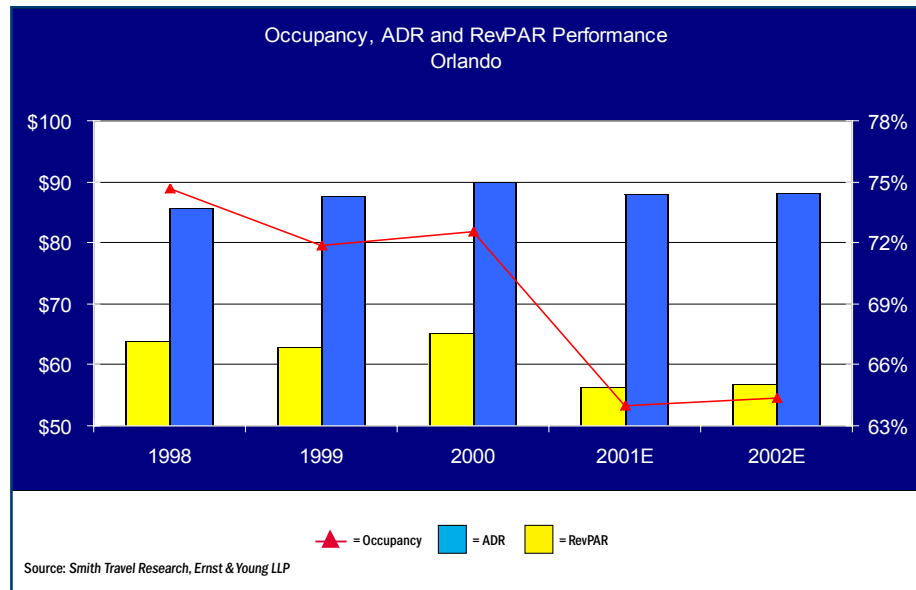
### **Political/Economic/Legal Changes**

Growth in western Broward has boomed throughout the 1990s, as businesses and residents have flocked to the new suburbs, setting off a construction boom that has helped drive the metro area's gains. The Eastward Ho! Regional Planning Movement is attempting to reduce sprawl, preserve rapidly vanishing green space and protect the Everglades by encouraging high-density development in urban areas. Fort Lauderdale's downtown area continues to undergo a major transformation to an urban center for residents to live, work, and play. The success of Las Olas Boulevard started the current development scramble and has encouraged developers of other projects to move forward. With a surge of high-rise, upscale residential projects under construction, the lack of mass transit options for the area – the cornerstone for urban revitalization – remains a concern.



ORLANDO

### Anticipated Market Recovery Period



Orlando's position as a successful leisure and convention destination, with one of the largest hotel inventories in the nation, was significantly challenged by the 9/11 events, lower consumer spending and cuts in corporate travel during the latter portion of 2001. Occupancy in Orlando plummeted by 24% in October and November 2001, compared to the same period in 2000, while Disney park attendance reportedly dropped by 25%. Given recent signs of positive improvement in the U.S. economy, however, hoteliers are predicting slow but continued recovery of Orlando's lodging industry in 2002.

### Major Demand Changes

Airport passenger traffic was down a slim 5% for the year through August 2001, but in September and October these figures dropped significantly to 32% and 23%, respectively. In response to lower levels of visitation and occupancy declines of 24% during the latter part of the year, theme parks and lodging facilities began regional marketing campaigns to attract visitors within driving distance of Orlando in hopes of combating the decline in air travel. These campaigns helped boost visitation levels during the month of December. Since then, passenger traffic and hotel occupancy declines have become less severe – occupancies declined by 18% and 9% during the last two weeks of December compared to the same time in 2000.

After breaking ground in March 2000, the \$748 million expansion of the Orange County Convention Center (the OCCC) is anticipated to add approximately one million square feet of exhibit space, increasing the facility's size to 2.1 million square feet by October 2003. The expansion site is located across International Drive and both buildings will be connected through an enclosed, air-conditioned walkway with a people-mover. Despite declines in convention attendance of approximately 3% pre 9/11 and 16% post 9/11, the OCCC's expansion plans continue as scheduled. It is anticipated that in 2005, the first full calendar year following the completion of the OCCC's expansion, attendance will increase by 56% over 2002 levels, according to the OCCC. The OCCC estimates that convention attendance will be down by 15% during the first quarter of 2002, improving gradually throughout the remainder of the year.

Disney World's year long celebration of the 100th anniversary of Walt Disney's birth started in October of 2001 and will include special events, new attractions and live entertainment. These special events and attractions are anticipated to generate increased media awareness for the parks to boost demand. In fact, two of its parks, Magic Kingdom and EPCOT Center, reached maximum capacity during the December 2001 holiday season.

Disney World will be adding a new attraction in 2003. The Space Pavilion at EPCOT Center will feature a series of interactive exhibits and space exploration-themed shows. The motion-simulator ride will be based on the equipment that NASA astronauts use to prepare for space flights. Details of the project are still being finalized but Disney is moving forward with the \$200 million project and has already begun preliminary work inside the Horizons Pavilion at Epcot.

Plans are still underway to build a World Expo Center in Osceola County, with an estimated opening date of 2005. After the original developer was unable to move forward with the project, the county re-bid the project and the developers of the Gaylord Palms Hotel, Xentury City, plan to place a bid. Once built, the World Expo Center is anticipated to generate additional convention and group demand for the Orlando area.

### **Major Supply Changes**

Prior to 9/11, the Orlando lodging sector responded to increasing room demand by aggressively adding hotel rooms, and observed inventory increases of approximately 26% between 1995 and 2000.

Approximately 3,400 additional rooms were added in 2001 for a total of 105,800 rooms, a 3% increase over 2000. Between 2002 and 2005, approximately 10,800 rooms are anticipated to enter the market, bringing Orlando's supply to 116,600 rooms, a 10% increase. Limited-service hotels comprise 14% of this pipeline, which does not include hotel projects placed on hold or rumored.

In Kissimmee, the Gaylord Palms Hotel, formerly known as the Opryland Florida, located two miles from the proposed World Expo Center, opened its doors ahead of schedule in January 2002. The \$450 million hotel features 1,406 rooms on 68 acres and approximately 400,000 square feet of meeting space, including a 178,000-square foot exhibition hall. Developers expect occupancy in the first year to reach approximately 60%, largely comprised of convention and group business. A third Loews property at Universal Studios, the 1,000-room Royal Pacific Resort, is anticipated to open in July 2002. Orlando's Grand Lakes Resort, along John Young Parkway, is under construction and will feature a 584-room Ritz-Carlton Hotel and a 1,000-room JW Marriott Hotel, both of which are expected to open in July 2003. Four Seasons is reportedly also looking to make an entry in the local market.

The \$700 million, 1,200-acre Champions Gate master-planned resort development adjacent to Celebration, including a 730-room Omni Hotel, was delayed due to slower economic trends. The Omni Hotel will reportedly feature 80,000 square feet of meeting space and is now expected to open in early 2004. Another major planned community, the Reunion Resort and Club, has plans for up to 3,000 hotel rooms on its 2,300-acre site, in addition to 5,000 resort homes, three golf courses,

an equestrian center and other recreational facilities to be delivered in 2003.

Hyatt Hotels acquired land in the vicinity of the OCCC for a 1,500-room hotel with a tentative opening date in 2005. Also adjacent to the Center, Hilton Hotels Corporation has plans to build a 1,200-room hotel on land it purchased from Universal Orlando. The proposed Hilton expects to offer 100,000 square feet of meeting space. Construction was expected to commence in early 2002, however, the project was placed on hold as a result of unfavorable market conditions.

Hotelier Harris Rosen acquired from Universal Studios a \$30 million, 230-acre site near the Bee Line Expressway, to build a 1,500-room convention hotel, with a golf course and 250,000 square feet of meeting space. Construction is expected to start in early 2003, with the hotel opening in 2005. Development of Disney's 5,760-room economy-style Pop Century Hotel was indefinitely postponed following the events of 9/11.

The 2,267-room Swan and Dolphin hotels are undergoing a \$75 million expansion and enhancement project to be completed in the fall of 2002, which includes the addition of 79,000 square feet of meeting space to the Swan property. The two hotels' exhibition space will also be expanded from 61,000 to 111,000 square feet, and the properties are upgrading their facilities to become more competitive with new group and convention-oriented hotel supply anticipated to come on line in the next three years. Finally, 1,500 limited-service hotel

rooms, ranging from a 100-room Comfort Inn to a 350-unit Residence Inn are anticipated to open through the end of 2004.

### **Political/Economic/Legal Changes**

Despite recent declines in lodging industry performance, the majority of Orlando's service industry jobs have been saved and local county governments as well as tourism-related entities have approved millions of dollars for emergency marketing spending. Recent economic changes, however, indicate that Orange and Osceola counties are especially vulnerable to declines in this tourism-based economy. Walt Disney World cut 4,000 jobs and reduced work schedules for 40,000 employees. There are discussions taking place regarding possible increases in the tourist bed tax and a change in Florida State law to use a portion of the tax proceeds to spur economic development and to further diversify the local economy.

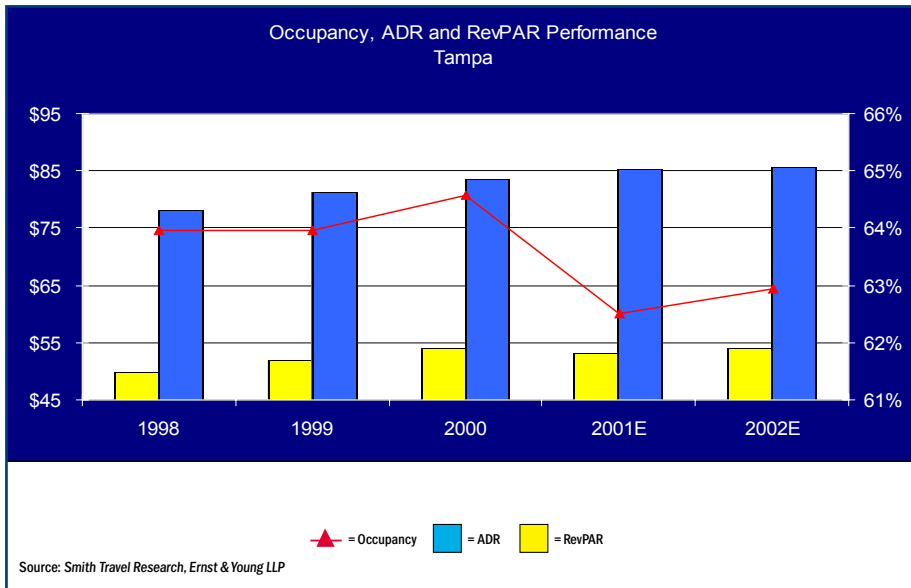
A mid-term solution to traffic congestion is becoming increasingly important. New transportation improvement projects, totaling over \$3 billion, are currently being discussed and involve the widening of Interstate 4 through Orange, Seminole, and Osceola counties, the addition of high-occupancy vehicle and possibly toll lanes, as well as a new rail system. Passenger traffic at the Orlando International Airport surpassed the 30 million mark in 2000 and the airport is now completing a \$1.2 billion expansion program. Despite the recent impact of 9/11 events on the aviation industry, airlift capacity improvements are crucial to sustain long-term tourism and business growth.





TAMPA

### Anticipated Market Recovery Period



While hotel demand growth outpaced supply growth in 2000, the events of 9/11 resulted in declines in hotel demand during the latter portion of 2001, while supply remained relatively stable. Compared to lodging activity in other Florida markets, however, Tampa was not as adversely impacted during the 2001 calendar year. More than 5,000 new hotel rooms are in the pipeline for the next three years; the majority of projects are rumored or in the early planning stages. Hotel occupancies are anticipated to improve in the third quarter of 2002 and newly built shopping malls and entertainment complexes are expected to contribute to an increase in areawide lodging demand.

### Major Demand Changes

Tampa has observed a recent boom in shopping mall, retail and entertainment complex construction. Local hoteliers expect new shopping and entertainment centers to increase local hotel demand from tourists extending their stay in Central Florida to shop after trips to Disney World and the west coast beaches. In Ybor City, Steiner & Associates opened Centro Ybor, a \$45 million, 210,000-square foot retail and entertainment complex with upscale shops, restaurants, a 20-screen Muvico Movie Theater, Game Works and a comedy club. The company expects the new mall to receive three million visitors per year, including non-regional tourists in the area visiting other attractions.

The Tampa Convention Center re-adapted its 600,000 square foot facility to accommodate 36 breakout rooms, from the existing 18, through the reconfiguration of storage and office space. Following the \$6 million renovation project, completed in October 2001, the Center now offers 200,000 square feet of exhibit space and 85,000 square feet of meeting space. The increase in the number of breakout rooms is expected to improve the Convention Center's ability to accommodate smaller groups, therefore generating more convention activity to the area. In 2000, Tampa hosted 108,000 convention delegates, while in 2001, convention attendance increased by 80% to 194,000, as a result of the Super Bowl.

Annual passenger traffic at the Port of Tampa reached 519,000 in 2001, up 13% from 2000, as a result, in part, of two new cruise ships, the Royal Caribbean Rhapsody and the Celebrity Venus, which began sailing in the latter part of the year. Passenger volume in 2002 is

expected to further increase to approximately 600,000, according to the Port Authority. As most cruise line visitors require overnight accommodation prior to departure, hotel demand is expected to be positively affected.

### Major Supply Changes

A number of full-service hotels are currently underway in the Greater Tampa area. Westin Hotels & Resorts unveiled plans for a 300-room luxury hotel scheduled to open in mid-2004 at Tampa Bay I, a \$200 million office and retail center planned for Interstate 275 and Dale Mabry Highway. Despite the events of 9/11, the upscale 1.2 million-square foot International Plaza shopping mall in the Westshore business district opened in mid-September 2001. The \$200 million project was developed by a Michigan-based REIT and is anticipated to further include a four-star hotel with approximately 300 rooms and a target opening date in 2003. Negotiations are still underway to select a hotel operator. In the meantime, the mall has been attracting out of town visitors and offering hotel packages on its Internet site.

The Tampa Port Authority has a master-plan development to enhance dockside attractions for visitors and the local community. The Shops at Channelside, comprising the first phase of the plan, are a joint development of the Hogan Group and Orix Corporation and opened in the spring of 2001. The urban entertainment center is a 230,000 square foot, \$35 million complex, adjacent to the Florida Aquarium and cruise terminal. The open mall includes a nine-theater movie complex, a number of specialty restaurants, and retail. The master

plan further includes the addition of three more cruise terminals (including Cruise Terminal 3 which is already under construction), an expansion of the Tampa Florida Aquarium and a hotel with up to 1,000 rooms and meeting space. According to the Port Authority, there are no significant negotiations taking place between the Port and a possible developer for the hotel site at this time. The entire plan for the area will take five to 10 years to implement.

The Tampa Bay area's newest hotel is the \$130 million, 266-room luxury waterfront Ritz-Carlton in Sarasota, which opened in November 2001. The hotel features 18,000 square feet of meeting space and \$48 million condominium units. The hotel development triggered \$1 billion in real estate and infrastructure construction and redevelopment in downtown Sarasota and along the waterfront. The hotel plans to further add a 15,000-square foot spa and private beach club in the fall of 2002.

A second luxury hotel is proposed as part of an \$80 million redevelopment project including a 17-story luxury condominium tower, upscale retail and an 86-room luxury hotel at the intersection of Drew Street and Osceola Avenue, in Clearwater. Construction may start in 2003, depending on economic conditions at the time.

Additional new supply in the Greater Tampa area includes a 160-suite Residence Inn by the McKibbin Brothers, which opened in the Westshore business district across from the International Plaza mall in November 2001. Furthermore, a 205-room Radisson Hotel and Conference Center in St. Petersburg and a 115-room Hilton Garden Inn in the Sarasota-Brandenton International Airport also opened in December 2001.

In addition to the proposed full-service hotel supply, several Microtel Inn & Suites, Holiday Inn Express & Suites, Bradbury Suites, Marriott limited-service products, Wingate Inn and Hilton Garden Inn properties are proposed in the Greater Tampa area to be developed in the next three years. In the all-suite segment, Matrix Lodging plans to launch a new hotel concept, eSuites, in 2002. One of nine initial 150-unit technology-oriented eSuite hotels is expected to be built in Tampa.

### **Political/Economic/Legal Changes**

Tampa is one of the top cyber cities in the country and ranks fifth among the top cities in the nation for high-tech jobs. It is estimated that approximately 1,600 high-tech businesses have settled in the Tampa Bay area. Although at a slower pace than in past years, high-tech companies continued to relocate to Tampa and expand existing facilities in 2001. Tampa's recognition as the heart of the state's high-tech corridor significantly contributes to the immediate area's overall economic development.

Tampa International Airport is a fast growing airport handling more than 16 million passengers per year. Prior to 9/11, airport passenger activity was up by 5% in 2001 compared to the prior year. Following the terrorist events, however, the number of enplaned and deplaned passengers experienced declines ranging anywhere from 13% to 27% for the period between September and December 2001. Despite the recent decline in passenger activity, Tampa International Airport is undergoing a five-year, \$400 million expansion project to accommodate an increasing number of passengers in the mid- to long-term,

which includes the renovation and expansion of two airside terminals, the addition of aircraft parking, the refurbishment of ticketing areas, the construction of a 2,100-car passenger parking lot, the upgrade of the monorail system and a \$7 million renovation of the Airport Marriott Hotel. Local airport authorities expect the expanded airport to be capable of supporting growing passenger traffic resulting from increased business and tourism travel to the area. It is anticipated that construction and renovations will be completed by 2005.



## OTHER FLORIDA MARKETS

### Daytona Beach

Traditionally known as the premier racing destination along Florida's east coast, Daytona is undergoing the biggest tourism expansion in its history and was fortunate enough to be one of the few markets throughout the state to be only marginally impacted by the events of 9/11. According to Mid-Florida Marketing and Research, Inc., occupancy in September following the attacks dropped approximately five points to 48% compared to the same period during the prior year. While occupancy remained fairly stable for the remainder of 2001, average room rates surprisingly increased by as much as 9%. ADRs in November, for example, increased from \$64 in 2000 to approximately \$70 in 2001.

This stellar performance -relative to other destinations in Florida and considering the impact of 9/11 throughout the state- was largely attributed to the drive-in nature of this market. It is estimated that approximately 85% of visitors drive to Daytona, a figure that is expected to remain stable in the near term due to limited airlift to the city – the only airline carrier to now service Daytona is Delta Airlines, after Continental Airlines decided to cancel its flights in mid-2001. Another factor that helped Daytona post better-than-anticipated performance in 2001 was that hotel owners avoided heavy rate discounting by attracting higher paying visitors who would normally fly to other destinations but opted to drive to Daytona as a result of 9/11 events. For 2002, general managers and other lodging

professionals expect occupancy in Daytona to recover within the first six months and room rates to show positive growth throughout the year.

Daytona observed in 2001 the construction of the \$250 million Ocean Walk Village redevelopment project, which includes upscale hotels, boutiques, restaurants, and shopping. The project is expected to reshape the city as an attractive convention destination and a more upscale leisure alternative. The 300-room Ocean Walk Resort at the Village, which opened in mid-2001, is Daytona's newest oceanfront condominium-hotel. Significant renovations underway include the \$37 million refurbishment of the Plaza Resort and Spa, which will include the renovation of its 322 rooms and public areas and an increase of 32,000 square feet in meeting space, anticipated to be completed in early 2002. Another important project, the \$53 million, 310-room expansion of the Adam's Mark Hotel, planned for early 2002, is expected to add 35,000 feet of new meeting space and increase the hotel's inventory from 436 to 746 guestrooms. Plans are also underway to break ground on a second phase of the Ocean Walk Resort in 2002, which will feature 264 additional units in a \$40 million tower.

### Greater Naples and Marco Island

With the most golf holes per capita and ranking among the Top 25 art markets in the nation, Collier County is recognized as one of the premier resort destinations on the Gulf Coast of Florida, boasting renowned hotels such as the 463-room, five-star, five-diamond Ritz-Carlton Naples and the 474-room Registry Resort. Given that the area is a high-end golf and leisure destination comprised mostly of affluent, fly-in visitors

with substantial discretionary income, this market was significantly impacted by the events of 9/11, as its customer base dramatically cancelled its travel plans after the attacks. According to Research Data Services, occupancy in Collier County for September 2001 declined significantly to 39% from 59% the previous year while direct visitor expenditures were just over \$8 million, a 36% drop compared to 2000 levels. Hotel owners are concerned that warmer weather in the Northeast, a shorter winter season due to Easter Holidays occurring earlier this year in late March and a slower booking pace from Canadian and European visitors may further delay the area's recovery in 2002.

In terms of development, Naples is yet another city in the state to be placed under a moratorium on new construction as a result of fears of unmanaged growth. Officials are concerned that the area may grow in a disorganized fashion and have issued restrictions on land use in Naples, including hotel projects, to allow time for officials to dialogue with landowners, developers, and environmental groups and identify better ways to control urban sprawl and preserve agriculture and the environment. This measure, however, only impacts future projects and is not expected to affect several hotels that are already under construction. In 2001, Naples welcomed the 456-room Hyatt Regency Coconut Point, which opened in October and a 51,000 square foot spa at the Ritz-Carlton Naples. Several renovations were also completed such as the refurbishment of 63 suites at the Edgewater Beach Hotel and the redecoration of 256 rooms at the Naples Beach Hotel and Golf Club. Neighboring Marco Island also welcomed the

luxurious Marco Beach Ocean Resort in December, which features 103 one- and two-bedroom suites, a full-service spa and approximately 12,000 square feet of meeting space.

Major developments for 2002 include the opening of the \$75 million Ritz-Carlton Golf Resort, which features 295 rooms overlooking a 36-hole, Greg Norman golf course and a signature 18-hole putting green, the \$45 million renovation of the 189-room La Playa Beach and Golf Resort and the introduction of a 124-room Four Points Sheraton in downtown Naples. The Marco Island Marriott Resort and Golf Club is expected to launch a major \$43 million refurbishment project to be completed by mid-2003, which will include renovating all of its guestrooms, adding a full service spa, 10,000 square feet of meeting space and renovating its 18-hole golf course. In Naples, the Inn on Fifth will also undergo a \$700,000 renovation project to upgrade its guestrooms and public areas.

### Florida Keys

Although September is typically considered a slow period for hotel owners in the Florida Keys (The Keys), the events of 9/11 impacted visitation to the region causing occupancy to decrease by as much as 10% for the same period during the prior year. Lodging performance was further affected in November 2001 due to concerns that Hurricane Michelle could hit The Keys, forcing city officials to order a mandatory evacuation and to postpone the final race of the Powerboat World Championship. Although the lodging sector showed some signs of recovery during the last two weeks of the year – posting occupancies in



the high eighties — this demand came at a high price to hoteliers, as they were required to deeply discount room rates to lure drive-in visitors.

Given the drive-in nature of The Keys' market, lodging professionals are banking on increased levels of in-state visitors to help support occupancy levels in 2002, although this demand is anticipated to come in at reduced rates. Recent meetings between OPEC members, however, are signaling a possible nationwide increase in gasoline prices, which may have a negative impact in the area as Floridians may decrease vacation travel within the state. In general, 2002 is expected to be a challenging year for The Keys. Hotel owners hope that increasing consumer confidence as a result of improvements in the economy and last-minute bookings will improve the sector's performance by third-quarter 2002.

Fortunately for The Keys, the area has only experienced a limited amount of new development in recent years — preventing occupancies from further decreasing — as a result of a construction moratorium imposed by authorities due to their concerns about the appropriateness of evacuation routes should a natural disaster strike. The last major new hotel development in the area was the construction of the 216-room full-service Grand Key Resort in August 2000. That same year in March, the 74-room Hampton Inn in Marathon Key opened its doors and in July, the Econolodge in Key West was repositioned as a Radisson Hotel. Other recent additions to the area include the development of 247 villa units at Hawks Cay Resort, which has been phased over the past three years. The resort also

added 15,000 square feet of meeting space in 2001 and now features one of the largest ballrooms in the region. Cheeca Lodge, a 203-room property built in 1946 and affiliated with Small Luxury Hotels of the World, also recently completed a 5,200 square-foot spa.

Given the moratorium on new construction, The Keys experienced a wave of repositionings and limited new development in 2001. The Holiday Inn La Concha, for example, was repositioned as a Crowne Plaza in January. The Howard Johnson, which remained closed for over two years, became the 64-room Courtyard Key West Waterfront in May after extensive renovations, while the Ramada Hotel was also repositioned as the 104-room Courtyard Key West By-the-Sea. The pipeline for 2002 looks narrow, as the only major development in the region is a rumored timeshare development by Spottswood Companies. The lack of significant new supply is anticipated to accelerate the speed of recovery for The Keys.

### **Jacksonville**

Jacksonville's \$2.8 billion tourism economy was particularly affected by the events of 9/11. For the past few years, the city has worked hard to change its image and become a more attractive convention destination. This stronger reliance on the group and meetings segment and the heavy cancellations that occurred post 9/11, however, resulted in losses of as much as \$28 million according to the Convention and Visitors Bureau. Suffering from a retraction in corporate travel expenditures, the events of 9/11 further exacerbated declining occupancies due to the city's dependence on the group and meeting segment. In 2002, hotel

owners expect the booking pace to pick up and meeting planners to rebook meetings and conventions. Overall, the city is expected to observe some signs of recovery by mid-2002.

For the past three decades, Jacksonville has not experienced major hotel developments in or around downtown. This trend, however, is being reversed as the city welcomed a 966-room Adam's Mark Hotel in February 2001. The \$126 million project is one of the largest meeting hotels in Northeast Florida and should become the centerpiece for the city's plans to attract larger conventions and become known as a meetings destination. The new development is also expected to serve as the catalyst for several new construction projects and corporate relocations to the downtown area.

According to the Convention and Visitors Bureau, in addition to the Adam's Mark project, the city observed the development of approximately 605 hotel rooms in 2001, driven primarily by limited service and midscale properties. This new inventory, however, is not expected to help the city in its efforts to generate additional convention business, as these facilities feature limited meeting space. As such, officials are being forced to reconsider the future of the Prime Osborn Convention Center and its implications on the local economy. Two alternatives being analyzed are the development of a new 150,000 square foot facility with an attached hotel or the expansion of the existing infrastructure.



## DEVELOPMENT PIPELINE

MIAMI			
Selected New Hotels in 2002			
Hotel	Location	# of Rooms	Opening
Sonesta Hotel & Suites	Coconut Grove	224	Mid 2002
Ritz Carlton Hotel	Coconut Grove	115	Mid 2002
Radisson Hotel	Kendall	156	Mid 2002
Selected Under Construction Hotels			
Hotel	Location	# of Rooms	Opening
Four Seasons Hotel	Brickell Avenue	306	Late 2003
Selected Proposed Hotels			
Hotel	Location	# of Rooms	Opening
Espirito Santo Plaza	Brickell Avenue	200	Late 2003

MIAMI BEACH			
Selected New Hotels in 2002			
Hotel	Location	# of Rooms	Opening
Royal Palm Crowne Plaza	South Beach	422	Early 2002
Ritz Carlton	South Beach	385	Mid 2002
W Hotel	South Beach	200	Late 2002
Selected Under Construction Hotels			
Hotel	Location	# of Rooms	Opening
Setai Resort and Residences	South Beach	90	Early 2003
De Soleil South Beach	South Beach	80	Mid 2003
Trump International Beach Resort	Sunny Isles Beach	381	Late 2003
Acqualina Ocean Resort	Sunny Isles Beach	115	Late 2003
Selected Proposed Hotels			
Hotel	Location	# of Rooms	Opening
Tower Residences at Fontainebleau	Miami Beach	463	Late 2003
The Victor	Miami Beach	N/A	Undetermined

FORT LAUDERDALE			
Selected New Hotels in 2002			
Hotel	Location	# of Rooms	Opening
Westin Diplomat Resort & Spa	Hollywood	998	Early 2002
Renaissance Hotel Plantation	Plantation	250	Late 2002
Selected Under Construction Hotels			
Hotel	Location	# of Rooms	Opening
St. Regis Hotel & Residences	Ft. Lauderdale Beach	197	Late 2003
Seminole Hard Rock Hotel & Resort	Hollywood	750	Late 2003
Selected Proposed Hotels			
Hotel	Location	# of Rooms	Opening
The Atlantic	Ft. Lauderdale Beach	124	Late 2003
Costa Dorada	Ft. Lauderdale Beach	278	Early 2004
The Capri	Ft. Lauderdale Beach	346	Early 2004

ORLANDO			
Selected New Hotels in 2002			
Hotel	Location	# of Rooms	Opening
Gaylord Palms	Kissimmee	1406	Early 2002
Royal Pacific Resort	Universal Studios	1000	Mid 2002
Selected Under Construction Hotels			
Hotel	Location	# of Rooms	Opening
J.W. Marriott	Grand Lakes Resort	1000	Mid 2003
Ritz-Carlton	Grand Lakes Resort	584	Mid 2003
Disney's Pop Century Hotel	Disney-MGM Studios	5760	Undetermined
Selected Proposed Hotels			
Hotel	Location	# of Rooms	Opening
Omni Hotel	Champion's Gate	730	Early 2004
Hyatt Hotel	International Drive	1500	2005
Rosen Convention Hotel	Bee Line Expressway	1500	2005
Hilton Hotel	International Drive	1200	Undetermined
Reunion Resort & Club	Kissimmee	3000	Undetermined

TAMPA			
Selected Proposed Hotels			
Hotel	Location	# of Rooms	Opening
Four-Star Hotel	International Plaza Mall	300	2003
Westin Hotel	I-275 & Dale Mabry Hwy.	300	Mid 2004
Luxury Hotel	Clearwater	86	Undetermined
Full-Service Hotel	Channelside	1000	Undetermined

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