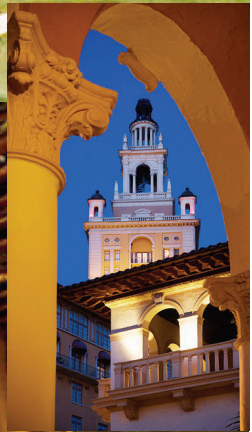


CONFIDENTIAL CONSULTING REPORT  
THE BILTMORE HOTEL OF CORAL GABLES  
1200 ANASTASIA AVENUE,  
CITY OF CORAL GABLES, FLORIDA.



prepared by:  
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Submitted to:  
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Miami, FL 33131



## CONFIDENTIAL SUMMARY REPORT

### THE SUBJECT – THE BILTMORE CORAL GABLES

The subject of the assignment is the Biltmore Hotel (the “Biltmore”) located at 1200 Anastasia Avenue, City of Coral Gables, Florida. The Biltmore is distinguished with a Forbes Travel Guide four-star ranking and its Palme d’Or fine dining restaurant has a AAA Five Diamond award. It is the only resort in South Florida distinguished as a National Historic Landmark. The Biltmore is owned by the City of Coral Gables (the “City”) and leased to and operated by The Biltmore Hotel Limited Partnership (the “Tenant/Operator”) pursuant to the Lease Agreement executed by the City and the Tenant/Operator dated February 10, 1986 and subsequently amended and restated as of July 29, 1999 (as amended and restated, the “Lease Agreement”).

### PURPOSE OF ASSIGNMENT

The purposes of this assignment are as follows:

1. *To determine if the operations of the property are in compliance with the Lease Agreement:* A property product evaluation and quality assurance evaluation (collectively, the “Product and Quality Assurance Evaluations”) has been undertaken that compares the Biltmore’s physical product and quality level, including its quality of service, to comparable four-star ranking hotels in Florida or hotels that are part of Historic Hotels of America or similar, with over 200 rooms (hereinafter referred to as “Comparable Hotels”).
2. *To undertake a comparative analysis of the Biltmore’s financial operating performance as compared to Comparable Hotels:* Revenue and expense ratios for departmental, operating and fixed expenses are compared as part of this analysis. We render an opinion on the results of this comparative analysis in terms of quality of the operation and financial stewardship.
3. *To analyze the capital expenditures undertaken and to compare this analysis with Comparable Hotels, considering historic considerations:* We analyze the projected capital plan for five (5) years, by line item, in terms of its adequacy. In addition, we present a scenario that provides for the financial viability and funding of the capital plan.

### USE AND UNDERSTANDING OF THE STUDY

This study is being prepared for the exclusive use the owner, The City of Coral Gables (the “City”), and The Biltmore Hotel Limited Partnership (the “Tenant/Operator”) pursuant to the Lease Agreement executed by the City and the Tenant/Operator.

The parties agreed that materials supplied in connection with the engagement be treated as proprietary and confidential, remaining exclusively with the divulging party.

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## CONSULTANT PROFESSIONAL QUALIFICATIONS

Your assignment has been performed by Mr. Thomas O'Neill, FRICS, MAI, CHA, Managing Director of Hotel Consulting International. He has 40 years of hotel operations, ownership, development, consulting, valuation and investing experience. Designations include: Fellow, Royal Institute of Chartered Surveyors (FRICS); Member Appraisal Institute (MAI). He has been qualified as an expert witness on hotel matters in legal proceedings. In addition, he has been a Senior Advisor for OPIC and EBRD (European Bank for Reconstruction and Development).

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## DATE OF INSPECTIONS

The subject property was inspected by Thomas F. O'Neill, MAI, FRICS, CHA on February 13<sup>th</sup>, 20<sup>th</sup>, March 4<sup>th</sup>, 9<sup>th</sup>, 10<sup>th</sup>, 11<sup>th</sup> and a final inspection on March 25<sup>th</sup> 2018, while reviewing the draft report.

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## OPERATION STANDARD, 4 STAR MOBIL GUIDE OR SIMILAR OPERATION

According to the Lease Agreement City and the Tenant/Operator agree that the standard for comparison at the applicable time shall be to those hotels which are luxury first class destination resort hotels having a historic designation and at least a four-star rating in the Mobil Guide or its equivalent”

A Mobile Four-Star Establishment “is a Hotel/Resort/Inn which provides a luxury experience with expanded amenities in a distinctive environment. Services may include, but are not limited to: automatic turndown service, 24 hour room service and valet parking.” An important distinction is that there is a star rating in the Mobile/Forbes Guide superior to that in the Lease Agreement.

The Lease Agreement defines Comparable Hotels as three hotels agreed upon by the City and Tenant/Operator. In lieu of the three hotel requirement, Comparable Four-Star Hotels and/or Historic Hotels of America with over 200 rooms were selected as the Comparable Hotels.

The Lease Agreement requires that the Hotel and Conference Center operate in a manner similar to other luxury class destination Hotels and Conference Centers in the industry.

The seven Comparable Hotels selected, comprising 3,240 rooms, included The Waldorf Astoria Boca Raton Resort, The Marriott Grand Hotel Resort Golf Club & Spa, The Marriott Sawgrass Golf Resort & Spa, The Renaissance St Augustine Resort World Golf Village, The Marriott Fort Lauderdale Coral Springs Hotel Golf Club & Convention Center, The Ritz-Carlton Golf

Resort Naples. The room count ranges from The Waldorf Astoria Boca Raton Resort with 1,047 rooms to The Marriott Fort Lauderdale Coral Springs Hotel Golf Club & Convention Center, with 224 rooms. These properties presented in the table below, were selected for the custom HOST report based on their resort hotel classification, performance indicators and comparable operations. Other hotels were considered but were not contributors to STR Global for a custom HOST report. This was particularly true for the Historic Hotels. The Waldorf Astoria represents 32.3% of the set and is also an historic hotel, but is not a listed as a National Historic Landmark hotel.

Table- 1-1 Operating Performance -HOST Custom Report Comparable Hotels Selected

STR #	PROPERTY NAME	CITY	ST	ZIP	RMS	SUBMARKET NAME	BRAND	PARENT COMPANY	2016	2015
5323	Waldorf Astoria Boca Raton Resort	Boca Raton	FL	33432-6127	1047	Boca Raton, FL	Waldorf Astoria	Hilton Worldwide	•	•
6768	Marriott Grand Hotel Resort Golf Club & Spa	Point Clear	AL	36564-0639	405	Mobile, AL (Area)	Marriott	Marriott International	•	•
23864	Marriott Sawgrass Golf Resort & Spa	Ponte Vedra Beach	FL	32082-3036	514	Jacksonville Beaches, FL	Marriott	Marriott International	•	•
36700	Renaissance St Augustine Resort World Golf Village	St Augustine	FL	32092-2719	301	Jacksonville Other Areas, FL	Renaissance	Marriott International	•	•
38144	Marriott Fort Lauderdale Coral Springs Hotel Golf Club & Conventio	Coral Springs	FL	33076-1941	224	Coral Springs/Pompano Beach, FL	Marriott	Marriott International	•	•
42687	Ritz-Carlton Golf Resort Naples	Naples	FL	34109-3500	295	Naples, FL	Ritz-Carlton	Marriott International	•	•
42703	Hyatt Regency Coconut Point Resort & Spa	Bonita Springs	FL	34134-7234	454	Fort Myers Beach/Sanibel Island, FL	Hyatt Regency	Hyatt	•	•

Total Properties: 7 Total Rooms: 3,240

#### COMPLIANCE WITH THE QUALITY ASSURANCE COVENANT

*Is the operations of the property in compliance with the Lease Agreement's quality assurance covenant?*

*The consultant concludes that the Biltmore Operator is complying with the Lease Agreement quality assurance covenant.*

The agreement states that "City and Developer agree that the standard for comparison at the applicable time shall be to those hotels which are luxury first class destination resort hotels having a historic designation and at least a four-star rating in the Mobil Guide or its equivalent".

1. There is no official rating system in the U.S and there is no set standard for luxury. Globally, luxury is an adjective for a range of quality levels that has been degraded by its overuse. However, the Lease Agreement specifies that it is the second ranking quality level in the Mobil Guide that applies. Mobil Guide was acquired by Forbes Travel Guide. Their incognito inspectors evaluate properties based on up to 900 objective standards. It awarded the Biltmore, its Four-Star award. This verifies that the Biltmore is in compliance with the terms of quality standards of the Forbes Travel Guide, the successor to the Mobil Guide for Four-Star Rating.
2. The Biltmore also adheres to a Four-Star Rating equivalent to the Mobil Rating. The Biltmore is a member of The Leading Hotels of the World (LHW), that is an equivalent to the Forbes Guide Four Star designation. LHW is a consortium of more than 375 Hotels and Resorts in more than 75 countries. To qualify, LHW requires "a hotel must be in

the luxury category and meet the most exacting standards”. LHW claims only the world’s most distinguished properties are admitted. During the most recent inspection, the Biltmore achieved a report score of 82.2% while the average score was 82.3%. It ranked 9<sup>th</sup> out of 20 hotels in the LHW competitive set located in Florida.

3. The Biltmore’s signature French restaurant helmed by Michelin starred Chef Gregory Pugin, Palme d’Or, has received top honors from Zagat, the coveted Five Diamond Award from AAA and the Forbes Four-Star Award. These honors provide further evidence of compliance with quality assurance covenants.
4. Because of ambiguity around the term luxury, we also considered other recognitions to determine an opinion as to adherence to the quality level intended in the operating agreement. The Biltmore ranked #10 in Top Hotels in Miami in the Condé Nast Traveler Readers’ Choice Awards - 2017. It was #4, in 2016. It ranked #4 of The Best Resort Hotels in Florida - Travel & Leisure 2017. It was awarded the Trip Advisor Green Leaders Gold Award 2017 and within the Top 10 of South Florida Golf Courses by Golf Advisor 2017. It was the Winner of the 2016 Editors Picks Award as Best Hotel Wedding Venues. Jim McLean Golf School, which recently relocated to the Biltmore Golf Course, ranked #4 in ‘The Best Teachers in America’, by Golf Digest for 2017-2018.

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#### COMPLIANCE WITH NATIONAL HISTORIC LANDMARK DESIGNATION AND CULTURAL COVENANTS.

#### *Is the Biltmore Operator in compliance with the National Historic Landmark designation and cultural covenants?*

*The consultant concludes that the Biltmore Operator is complying with the cultural covenant. It was awarded the National Historic Landmark designation, a unique distinction for a South Florida hotel.*

1. In 1996 under the stewardship of the current operator, the hotel was officially designated by the Federal Government as a National Historic Landmark. The impact on the Biltmore Hotel of its Historic Landmark status has benefits, both taxation and guest appeal but it is also an encumbrance due to associated high maintenance costs and restrictions.
2. In the Operations Agreement, Developer agreed to promote “programs of the arts and humanities” and to “cooperate with the City in facilitating and staging such arts and humanities programs at the Biltmore. In addition to the GableStage, a highly acclaimed live theater operating on-site, the Biltmore also welcomes non-hotel guests to the property, including groups, on tour as well as weekly scheduled lectures on Biltmore history.

*There are opportunities for further cooperation with the City in developing additional arts and humanities programs at the Biltmore Coral Gables.*

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## CONSULTANT'S QUALITY ASSURANCE REVIEW

### *Is the Biltmore Operator in compliance with the quality assurance covenant in the Lease Agreement?*

*The consultant performed multiple inspections and studied LHW's Leading Quality Assurance (LQA) inspections reports; and concludes that the Biltmore Operator is complying. The consultant's report corroborates the quality assurance conclusions of LHW.*

1. LHW consistently evaluates potential and existing member hotels by a demanding set of quality standards. The most recent inspection for the Biltmore Hotel was January 24<sup>th</sup> 2017. During this inspection, the Biltmore achieved a report score of 82.2% while the average score was 82.3%. Average score relates to all LQA audits performed in the 12-month period. The Biltmore Hotel ranked 9<sup>th</sup> out of 20 hotels in the LHW competitive set analysis of other LHW hotels.
2. LHW provides audit tools to assist management in maintaining standards; we based our inspection on the LQA forms available at their website. The subject property was inspected by this consultant on February 13<sup>th</sup>, 20<sup>th</sup>, March 4<sup>th</sup>, 9<sup>th</sup>, 10<sup>th</sup>, 11<sup>th</sup> and a final inspection on the 25<sup>th</sup>, 2018. We conducted 7 inspections, 5 incognito, including a two-night stay. We scored quality using LQA criteria. We concluded with a score of 91.6%, significantly higher than the 82.3% score. An idiosyncrasy in the LQA audit methodology is that each criterion carries the same weight and is mostly based on guest experience and less on maintenance issues. For example, a perfectly served coffee carries the same weight as the much more complex "tasting offering" of Palm d' OR. The housekeeping score was somewhat weighted down by the Property Operations and Maintenance (POM) failures. In general, the hotel was very clean, the many public toilets were serviced frequently. However, maintenance was lacking in the rooms and some of the public areas. It is likely that the Property Operations and Maintenance (POM) is overwhelmed, partly due to inadequate capital programs that demand constant maintenance and less dependence on replacements. The Historical Landmark status frequently demands repair over replacement.; the elevators for example must be rebuilt to comply with restrictions for a Historic Landmark. This deficiency should be addressed by an adequate investment in the capital programs. Overall there appears to be minimal risk in losing this status based on the criteria and weighing of LHW's LQA scoring. The 32 page LQA style audit performed by Hotel Consulting International is a separate report within the supporting documentation.

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## CONSULTANT'S COMPARATIVE ANALYSIS- FINANCIAL OPERATING PERFORMANCE BILTMORE

### *Is the Biltmore's financial operating performance in line with Comparable Hotels?*

*The Consultant believes the hotel has performed in line with comparable hotels and its peers in the industry for most benchmarks. The only exceptions are the operating expenses and capital costs that are substantially higher. These expenses relate to the property upkeep that includes POM, capital and utilities. They also relate to administrative and marketing expenses that are driven by the Biltmore's wide range of facilities for a property with such a low room count. However, these facilities add to the resort ambiance of the Biltmore. We render an opinion on the results of this comparative analysis in terms of quality of the operation and financial stewardship.*

STR Global, a hotel data benchmarking company, prepared 3 Trend Reports for the Biltmore, encompassing hotels and resorts considered most comparable for operating performance evaluation purposes. While the Average Daily Rate (ADR) recent positioning for the hotel has improved significantly, there has been a demand trade-off, because of higher ADRs. In 2017, the ADR gained 11.1% over 2015. The Biltmore posted an occupancy rate, 8 percent points below the Competitive Set. In 2015 and 2016, the Biltmore occupancy compared more favorably with the set. However, it was the lowest ranking occupancy performer in 2017 within the set. These statistics indicate that the subject potential ADR increases may be limited in the future as pricing sensitivity is evident. In addition, there are challenges going forward with the entry of new hotels that are inducing demand away from hotels like the Biltmore and locations like Coral Gables. In addition, the cost to operate and maintain an historic landmark hotel is substantially higher than the Competitive Set. The RevPAR (Revenue Per Available Room) decline of 5.52% since 2015, supports that view, with the drop attributable to the decline in occupied rooms. There are some advantages of trading ADR for Occupancy in that it provides more unoccupied rooms to sell that will provide capacity for further growth in both rooms and other departments revenues. The Marketing Department is currently focused on increasing the group business. The consultant has studied the hotel's very comprehensive Marketing Plan and is impressed with the action plan to capture more business yet maintain its pricing integrity. Other than improving profitability, another advantage of trading average rate for occupancy is lower maintenance costs as less occupancy typically requires less 'wear and tear' and thus lower maintenance expenses. The current pricing strategy should be maintained as long as market conditions supports it and there are no major shifts in the economy.

Once the Capital Plan is executed, the improved room product will permit a more aggressive pricing strategy



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CAPITAL PLAN ANALYSIS, PLAN, FUNDING, VIABILITY

*Are the capital expenditures in line with industry norms? How will the Proposed Capital be funded, so that it is viable?*

*Historical capital expenditures have been significantly higher than industry norms of 3% to 4%. The Biltmore has special challenges in operating a National Historic Landmark hotel, an off-beach resort location, expansive facilities with inadequate room count, to support them. In addition to major increases in new hotels that induce demand away from existing hotels and locations like Coral Gables. The Capital Plan is critical, ahead of a flood of new hotels and in preparation for the next economic downturn.*

In 1985, the City of Coral Gables leased the subject hotel to the Worsham Brothers who restored the building at a cost of approximately \$55 million. In June of 1992, The Seaway Group, became the new operator of the Biltmore and subsequently made significant investments in restoring and refurbishing the property, left unfinished by the original developer/operator. The total capital (Capital) expenditures over the 25 years (1992-2017) are \$79,862,570 including \$8,294,780 in grants. During the same time-frame, a total of \$62,825,054 was also expended on Property Operations & Maintenance (POM). The total expenditures, both Capital and POM, totals \$142,667,624. From an accounting perspective, Capital and POM are separate line items, but there may be overlap. For the subject, the POM expense is also much higher than the industry norm. The annual average for Capital, before grants, was 7.85% of total revenue, or an accumulate of \$260,247 per room, over a 25-year period. The most recent Capital expenditure was \$2,391,403 or 5.13% of revenue and \$8,696 per room for 2017. The lowest Capital was for 2014 at \$742,690 or 1.54% of revenue. The highest was in the year 2000, when \$19,743,708 or 56.86% of revenue was the Capital expended. That figure spiked as it was also the year the Biltmore's Conference Center of the Americas (CCA) was built.

In 2005, the 12,000-square foot Biltmore Spa was developed on the seventh floor at a cost of \$3.2 million The Biltmore Golf Course (Donald Ross Golf Course) operation commenced in January 2004. The facility was restored, under the direction of noted architect, Brian Silva and reopened in November 2007. Course drainage was improved and a new irrigation system was installed. In 2009, The Biltmore Culinary Academy and the GableStage



Theater began operation. In 2012, the pool was restored and a pump heater was also installed. The project was part of a structural work program that was completed and paid for by a County Grant. For 2016, capital projects included 30 rooms renovation with A/C raiser pipe re-insulation and guestroom A/C plenum; bathtub to shower conversion. This 30-room project included bathrooms and room tile, plumbing, oxidation, drywall and paint. Further projects include ballroom/meeting rooms, pre-function space. Similar capital projects were completed in 2017 at a total cost of \$2,391,402.

Typical Reserve for Replacement (R&R) for Capital is to 3% to 4% and is an industry average. However, the Comparable Hotels R&R reserve, is a low 1.2% of revenue. By a significant margin, the Biltmore is much more aggressive in capital and POM maintenance spending, than its competitor set hotels. The Biltmore is much more expensive to operate in terms capital and POM maintenance than its competitor set hotels.

The future capital projects have been reported to the City of Coral Gables, amount to \$21,535,000 and are summarized in the table below. They include replacing Chiller and Air Handling Units, Re-building both Guests and Service Elevators, Repair /Replacing Boilers and Pumps and attention to Life Safety Issues. The Guestrooms FF&E, Bathrooms and the hallways would be refreshed. In addition, the Biltmore proposes to upgrade the Banquet Space and the Lobby Décor - both Upper and Lower. Also, a priority is the Upper Driveway & Parking Garage and Roof Replacement. The Biltmore 10 Years Recertification and CCA (Conference Center of the Americas) 40 Years Recertification also needs to be completed.

Table 1-2 Future Capital Projects

Projects	Description	Classification	Total Cost
Windows / Doors	See detailed worksheet	Capital	\$5,500,000
HVAC	Hotel Chiller and Air Handling Unit	Capital	\$1,420,000
Elevators - Guest	3 elevators including service	Capital	\$1,600,000
Elevators - Service	8 elevators including service	Capital	\$1,200,000
CCA Chiller & Cooling Tower	Cooling base rusted, needs a rebuild, need fresh air make up control room	Capital	\$385,000
Hotel HVAC	Air make up on floors, coils in rooms, air handlers	Capital	\$265,000
Boilers & Jockey Pumps	Boilers & storage tanks are underground, way past useful life span - in progress	Capital	\$260,000
Upper Driveway & Parking Garage	Can not support weight of modern vehicles, walkway requires nonslip surface, garage has cracks and spalling	Capital	\$200,000
Biltmore 10 Yrs Recertification	Exterior certification plus courtyard second floors cracks, guest room decks, emergency stair cases & slab below Cascade Bar.	Capital	\$185,000
CCA 40 Yrs. Recertification	Required by city & county code - in progress to include storage rooms lower level southfacing	Capital	\$120,000
Roof Repairs	Roof Repairs	Capital	\$100,000
Life Safety	New alarm panels in CCA and Main Hotel Building	Capital	\$200,000
Rooms FF&E	See Design Scope (not attached)	Capital	\$7,000,000
Room Hallways	See Design Scope (not attached)	Capital	\$550,000
Room Bathroom Refresh	Replace all hardware, refinish tubs, new lighting	Capital	\$450,000
Banquet Space	FF&E Replacement Carpet, Paint, Trim and Drapes	R&R	\$950,000
Lobby Décor - Upper	Includes all FF&E, Lighting Rugs Drapes and Window Treatment	R&R	\$550,000
Lobby Décor Lower	Includes all FF&E, Lighting Rugs Drapes and Window Treatment	R&R	\$600,000
<b>Grand total</b>			<b>\$21,535,000</b>

Source -Biltmore Hotel

Table 1-3 assumes that the Capital Funding could be accelerated to a two-year time frame and a reserve of 4% of revenue is forecasted over a five-year schedule. The shortfall would be \$12,462,049. This scenario is not viable as the Biltmore's profitability is inadequate to support such an aggressive expenditure schedule.

To complete and accomplish the objectives of the capital plan, it will likely be necessary to increase the Operator's contribution by increasing the reserve substantially, and build in a contribution from the City as owner.

**Table 1-3 Future Capital Funding**

	Total Cost	2018	2019	2020	2021	2022
<b>Sub Total</b>	<b>\$20,782,068</b>	<b>\$10,789,174</b>	<b>\$8,992,894</b>	<b>\$550,000</b>	<b>\$450,000</b>	<b>\$0</b>
<b>Total Capital</b>	<b>\$22,629,856</b>	<b>\$12,636,962</b>	<b>\$8,992,894</b>	<b>\$550,000</b>	<b>\$450,000</b>	<b>\$0</b>
Biltmore Projection of Total Revenue	47,240,380	49,467,795	50,951,829	52,480,384	54,054,795	55,676,439
Reserve Additions @4%		1,889,615	1,978,712	2,038,073	2,099,215	2,162,192
<b>Annual Shortfall</b>	<b>(12,462,049)</b>	<b>(10,747,347)</b>	<b>(7,014,182)</b>	<b>1,488,073</b>	<b>1,649,215</b>	<b>2,162,192</b>

In our analysis which is summarized below in Table 1-4, the consultant presents a scenario where the Annual Reserve is increased by 50% over the standard 4% of revenue, to 6%; and the City contributes half of the lease payments it receives. In 2017, the total lease amount was 3.5% of adjusted revenue, which amounted to \$1,675,804. We have also extended the capital projects out two further years for a four-year plan. In this scenario, there remains a net shortfall of \$2,929,729. How the shortfall is addressed should be accomplished by either reducing the capital plan, increasing both contributions, or by extending the contribution time frame. We have not proposed extending the capital plan deadline beyond four years as the hotel needs to be well prepared, for the next downturn, the next flood of new hotel product, by accomplishing the capital plan objectives without saddling the operation with additional debt. We conclude that the capital plan is necessary to maintain the competitiveness of the Biltmore. It has unique physical challenges, but also faces external factors such new competitive hotels and at some future date, an economic downturn.

**Table 1-4 Future Capital Funding & Proposed Scenario for Funding**

	Total Cost	2018	2019	2020	2021	2022
<b>Sub Total 2 Years</b>	<b>\$20,782,068</b>	<b>\$10,789,174</b>	<b>\$8,992,894</b>	<b>\$550,000</b>	<b>\$450,000</b>	<b>\$0</b>
<b>Total Capital Plan exrtended to 4 Years</b>	<b>\$22,629,856</b>	<b>\$6,318,481</b>	<b>\$6,318,481</b>	<b>\$4,496,447</b>	<b>\$4,496,447</b>	<b>\$1,000,000</b>
Biltmore Projection of Total Revenue	47,240,380	49,467,795	50,951,829	52,480,384	54,054,795	55,676,439
Reserve Additions @6%		2,834,423	2,968,068	3,057,110	3,148,823	3,243,288
Owner/City Contribution 1.75%		826,707	865,686	891,657	918,407	945,959
<b>Total Contribution</b>		<b>3,661,129</b>	<b>3,833,754</b>	<b>3,948,767</b>	<b>4,067,230</b>	<b>4,189,247</b>
<b>Annual Shortfall</b>	<b>(2,929,729)</b>	<b>(2,657,352)</b>	<b>(2,484,727)</b>	<b>(547,680)</b>	<b>(429,217)</b>	<b>3,189,247</b>

These factors do create a sense of urgency in addressing the capital needs. How the shortfall is addressed should be accomplished by negotiations between the City and the Operator.

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#### BILTMORE HOTEL IMPROVEMENTS

*How does the Biltmore's facilities and layout compare with peers in the industry?*

*The Biltmore has a wide range of facilities that compare favorably with comparable hotels. This is advantageous for attracting guests to the area. The high-quality level of the amenities distinguishes the hotel and partially compensates for its off-beach location. The layout configuration compliments the resort ambiance as a first-class destination and enhances the area but creates built-in inefficiencies that add greatly to the cost of operation. Another cost factor is that of the 275 guest rooms, 170 rooms are designated as luxury suites. As a result, this large room inventory is costlier to maintain. It is also challenged with a low room count relative to the scale and operational costs of its facilities and amenities. The room count is also too low for a large segment of the group business.*

In addition to 275 guestrooms, the resort includes four restaurants, with a combined seating capacity of approximately 500 persons, two bar lounges, 76,000 square feet of meeting space, 30,000 square feet of leased office space, a spa, fitness center, an outdoor heated swimming pool, a parking garage, on-site surface parking and other amenities. The William H. Kerdyk Biltmore Tennis Center featuring ten lighted courts, is City managed and available to guests. The hotel boasts one of the largest pools in the U.S. and its style and function is very popular, however it has been costly to operate. The Golf operation is a separate affiliated company operating under a management agreement.

The Biltmore is designed in the Mediterranean revival style with large stone columns, decorative hand-painted ceilings, Italian marble floors and an open-air courtyard, with fountains and terraces. The Biltmore has a four-star, four-diamond ranking and is the only resort in South Florida designated a National Historic Landmark.



The Biltmore's expansive meeting facilities are approximately 76,000 square feet mostly in the main hotel and in the adjacent Conference Center of the Americas (CCA). Total available interior space is 64,720 square feet. The Main hotel building features 16 meeting rooms (14,720 square feet) and 17 rooms (24,439 square feet) including two amphitheaters in the Conference Center of the Americas. There is about 11,280 square feet of additional outdoor banquet pre-function space.

The amount of space is greater than is typical for a 275-room hotel, which remains a challenge to the subject as long as there is such a low room count. Approximately 35% of the Biltmore's total revenue is attributed to rooms revenue and the 65% balance is derived from other departments. This rooms revenue percentage is well below the Competitive Set and industry norms and negatively affects Gross Operating Margins. The competitive set's rooms revenue was 39.9% of total revenue reflecting their larger room count and 60.1% from other departments.

The Biltmore is located in the heart of Coral Gables on an expansive ( $\pm 6.69$  acre) site. The facilities are extensive but are spread out over a large footprint. The configuration compliments the resort ambiance as a first-class destination and enhances the area but creates built-in inefficiencies that add greatly to the cost of operation. It is also challenged with a low room count relative to the scale and operational costs of its facilities and amenities. The room count is also too low for a large segment of the group business. It has one of the largest pools in the U.S. and its style and function is very popular, however it has been costly to operate beyond the norm for a resort. It was these inefficiencies and unfavorable market conditions that forced the Sovereign Group, who operated the hotel from January 1987 to March 1990, to file for bankruptcy.

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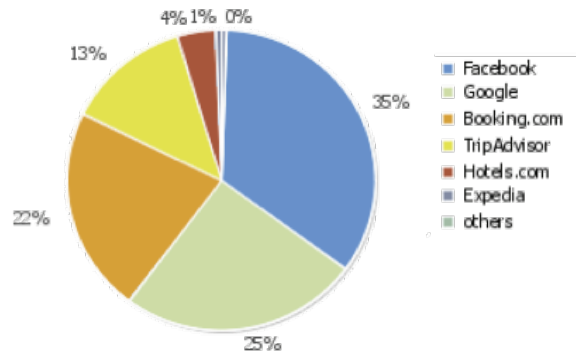
#### **SOCIAL MEDIA AND TRAVEL WEBSITES ANALYSIS**

According to a new report by Revinat Marketing, a hotel marketing data solution provider, the top 4 media sites generated 74% of all Biltmore reviews, with Facebook entering the top four for the first time and Google doubling its review volume versus 2016. Revinat's software platform helps hotels collect and sort data from consumer review websites such as TripAdvisor, an official partner, and Google Reviews, as well as social networks such as Twitter, Facebook, LinkedIn, Foursquare. The timely data is then used to adjust hotel operations and allow hotels to respond quickly to online reviews. The platform also measures guest experiences through reviews, survey data and social media mentions. Among its key findings, Revinat reports 27% more reviews in 2017. Hoteliers responded to 29.7% of their reviews, most often to 5-star reviews (32.8%).

The Revinat report contains an overview of the key metrics shows the distribution of reviews across top websites. The "Competition Overview" compares

the Biltmore to its competitive set, and the "Review Rating Detail" displays detailed ratings. The number of Reviews on the Biltmore Hotel, according to Revinate website was Facebook #1 with 35% of total, Alphabet's Google was #2, with 25%, Booking.com at #3 and 22% share. TripAdvisor was 13%.

Table 1-5 Review by Websites-Revinate



### 1-6 Competition Overview

Competition Overview						
	Review Rating	Pos. Reviews	Recommended	# of Reviews	Review Share	TA Pop. Index
The Biltmore Coral Gables Miami, FL	4.44	81%	100%	106	10%	92%
Conrad Miami, FL	4.06	67%	80%	147	14%	88%
Four Seasons Hotel Miami	4.66	91%	100%	124	12%	98%
Mandarin Oriental Miami, FL	4.48	83%	85%	171	17%	96%
Turnberry Isle Miami, FL - Autograph Collection	4.31	80%	60%	99	10%	81%
The Ritz-Carlton Coconut Grove	4.27	81%	75%	42	4%	82%
Boca Raton Resort & Club. A Waldorf Astoria Resort, FL	1.40	10%	100%	345	33%	82%

According to Revinate 81% of the Biltmore's ratings were positive compared with only 10% for Boca Raton Resort & Club and 67% for the Conrad, Miami. Of the 106 Reviews for the Biltmore, 100% recommended the hotel. The Biltmore ranked # 1, in terms of value, #2 in Cleanliness #3 overall, #4 in Rooms and Service. The location rated last at 7<sup>th</sup> place ranking, as being the least favorable location of the set.

Table 1-7 Review Rating Detail

Review Rating Detail					
	Jan '18	Since Last Month	Dec '17	Comp Rank	Comp Set
<b>Overall</b>	4.44	2%	4.36	<b>#3</b>	3.27
Cleanliness	4.71	1%	4.67	<b>#2</b>	4.42
Location	3.00	-31%	4.33	<b>#7</b>	4.50
Rooms	4.40	-1%	4.43	<b>#4</b>	4.30
Service	4.14	10%	3.75	<b>#4</b>	4.20
Value	5.00	47%	3.40	<b>#1</b>	3.75

According to the Revinate Report the Biltmore was trending positive in terms of General Staff Quality and Service, and Food & Beverage. However, sentiment trended negative in terms of Room Décor and Design, and Pool Facilities.

Trip Advisor ranked the Biltmore as the top hotel of 12 hotels in Coral Gables. Of 1,896 reviews the rating was 4.5 star, with 58% attributing an excellent assessment, 24% very good and 3% a terrible rating. The reviewers ranked the Biltmore Sunday Champagne Brunch, the Fontana as #3, #4 of 36 Coral Gables Restaurants, both with 4.5 star ratings. Orbitz 573 reviewers rated the Biltmore 4.5 star. Kayak rates the subject as 4 star with particularly high marks for the pool and Spa. According to the Trip Advisor Sentiment Analysis from full year 2017 the overall score for the Biltmore was 59, 3.3% lower than in 2016. The analysis encompassed 1,233 reviews. The highest scores were attributable to Service and Food and Beverage while the lowest was for rooms and value. Areas needing attention included front desk communications skills, internet access, manager helpfulness, newspaper, pests and room lighting. While “Value” rated low here with Revinate, it ranked first.

Currently Expedia travel site rated the Biltmore Hotel at a rating of 4.5 of 5 with 90% of guests recommending the hotel. It rated Room Cleanliness at 4.7, Service & Staff at 4.6. Room Comfort at 4.5 and hotel condition at 4.5. The rating was based on 580 verified reviews. Trivago current guest rating based on 1,018 reviews scored the hotel as 8 excellent and 8.7 score. The Biltmore ranks #1 in Coral Gables under rating search. Hotels.com rated the Biltmore as excellent 4.4 out of 5 based on 169 reviews. Further statistics and displays are presented in the supporting documentation.

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## REVIEW OF SUBJECT OPERATING STATEMENTS

We evaluated the hotel as to its performance and reviewed the operation and evaluated its performance in comparison to other comparable hotels where financial information was available. A full Report is within the supporting documentation with actual performance for the property for 2016 and 2017. These statements were provided by the Biltmore’s management and are based on audited financial statements.

The number of occupied rooms (2017 vs. 2016) declined 7.9%, a loss of 5,287 room nights resulting in a 5% decline in revenue. This was a direct result from lower demand for banqueting and meeting space. This, in turn, led to reductions in demand for all other services and resulted in a marginal decline in other departments. The loss was partially absorbed by higher pricing. The pricing strategy has been successful, but may have impacted demand in 2017. Regaining market share is management’s objective for 2018 while maintaining pricing integrity.



We have also reviewed data from STR Global relating to income and expense for comparable properties. STR Global provided a custom HOST (Hotel Operations Statistics) report for selected properties, referred to as Comparable Hotels. The properties summarized in Table 1-1 were selected by Hotel Consulting International as they were upscale resort properties, with golf amenities, in Florida with similar attributes, and with stabilized operations. They are not perfect matches; many enjoy waterfront locations or benefit from a more favorable configuration and are less spread out, thus easier to operate. The STR Global 2017 data is not available until May. As set forth previously, the STR Global data benchmarking statistics, illustrated that while the Biltmore's occupancy performance has trended lower the Average Daily Rate (ADR) has trended much higher over the past two years. Overall RevPAR has been consistently higher.

Approximately 35% of the Biltmore's total revenue is attributed to rooms revenue and the 65% balance is derived from other departments. The Biltmore's Total Revenue Per Occupied Room (POR) is 53% higher than STR Host set, reflecting that all departments are consistently higher in terms of (POR). The Banqueting/ Meeting POR is more than double the set and the Spa and Retail also outperform with this benchmark. Furthermore, Restaurant Food POR is higher than the set.

The Departmental Expenses PAR (Per Available Room) are higher than the set, but the ratios to revenue demonstrate the management's success in controlling departmental costs. The Food & Beverage (F&B) Department operates at 75.2% of F&B Revenue is 65.1% more than set. Telephone expense ratio is at 74.4% better than set at 76.9%. Total Departmental Income posted a POR 69%, greater than the set. Rooms expense is 27.9% of rooms revenue, costlier than set at 24.3%. This further reflects the less favorable configuration and layout of the subject's facilities, that adds to operational costs.

However, Operating Expenses A&G (Administrative & General) Expense PAR (Per Available Room) are 84% higher than the set and this significantly weighs on the House Profit ratio. Marketing Expense PAR is 65% greater than set. Property Operations and Maintenance (POM) is 81% higher and reflects the challenges of the property layout and its Historical Landmark status. Utility Costs PAR are, higher by 85%, again due to configuration, historical preservation and other related challenges. Past Reserve for Replacement (R&R) for the Biltmore's Capital is 4%. By a significant margin the Biltmore is much more expensive to operate in terms capital and POM maintenance than the competitor set hotels.

The Net Operating Income (NOI) Ratio was below the set 2016 and 2017. Personal property tax is presented in the set there is no real property taxes for the Biltmore. In comparison, Real Estate Taxes were \$3,050 PAR for set. The tax savings, however are absorbed by the higher Operating Expenses, partic-

ularly POM and Utilities, without any overage for the capital costs. The Management Fee of 3%, has not been taken for years which demonstrates a commitment to the Biltmore. This fee is at lower end of industry norm of 3% to 4%, lower than Competitive Set 2.1%. Incentive Fees are common and typically raise the management fees above the norm especially during good economic periods.

The following are highlights of our conclusions most pertinent to the assignment.

- ❑ This rooms revenue percentage is well below the Competitive Set and industry norms and negatively affects Gross Operating Margins. The competitive set's rooms revenue was 39.9% of total revenue reflecting their larger room count and 60.1% from other departments.
- ❑ Management has been successful in maintaining existing levels of department expenses whereby total departmental profit percentage has remained essentially the same in 2016 and 2017.
- ❑ Operating Expenses A&G Expense PAR (Per Available Room) are significantly higher than the set. Property Operations and Maintenance (POM) is 81% higher and Utilities PAR is 85% higher than the set and reflect the operational challenges.
- ❑ Past Reserve for Replacement (R&R) provisions for the Biltmore's Capital has been 4%. Actual Capital expenditure have average much higher 7.85%. By a significant margin the Biltmore is much more expensive to operate in terms of capital and POM maintenance than its competitor set hotels.
- ❑ Greater capital investment should lead to higher occupancy. Pricing has been aggressive, but greater capital investment may provide an opportunity to increase revenues by increasing utilization and maintaining a price premium in all departments.

A SWOT analysis (strengths, weaknesses, opportunities and threats) was also performed and forms part of the supporting documentation. This analysis concludes the Biltmore Hotel historically, has very low profitability as it is encumbered with high operational and capital costs. POM, Utility, Operations, Capital Expenses are exceptionally high, well above the level the HOST comparable set reported. The operational costs are high due to dispersed configuration, large pool, low room count. It is also encumbered also by National Historic Landmark requirements. Furthermore, It is also external challenged of a drop off in its marketwide demand caused by overwhelming new supply of hotels and other competitors such as Airbnb. The property needs the capital improvements program to be escalated to counter new competition, to meet its unique operational challenges and to prepare effectively for the next economic downturn.