CITY OF CORAL GABLES

- MEMORANDUM -

TO:	CATHY SWANSON-RIVENBARK CITY MANAGER	**DATE:**	May 26, 2018
FROM:	LEONARD ROBERTS ECONOMIC DEVELOPMENT INTERIM DIRECTOR	**SUBJECT:**	BILTMORE HOTEL ASSESSMENT

Background:

The City executed a lease with the Biltmore Hotel Limited Partnership (the "Hotel") on February 10, 1986. The lease was amended several times with the latest amendment occurring on January 2, 2001, (the "Lease"). The Hotel is managed by Seaway Biltmore Inc. whose sole General Partner is Gene Prescott. Under the same ownership, the Biltmore Golf operations are managed by Biltmore Hotel Gold Management, LLC. In 1996, the Hotel was designated by the Federal Government a National Historic Landmark.

The Hotel pays the greater of a base rent of $639,364.28 (adjusted for CPI in 2017) or 3.5% of revenue to the City. The Lease has several stipulations, one of which requires the Hotel to "...operate the Hotel and Premises as a luxury first-class destination resort hotel and conference center in the manner in which other similar class destination hotels and conference centers in the industry (Comparable Hotels) are operated..." The requirement for Comparable Hotels is further defined as three hotels selected by the City and Hotel "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." The Mobil Guide is now Forbes Travel Guide and it is recognized as the Mobil Guide equivalent. Mobil Four Star is defined as "...a Hotel/Resort/Inn which provides a luxury experience with expanded amenities in a distinctive environment."

The Assessment Report (the "Report") evaluated the following 3 components of the Hotel:

1. To determine if the physical structure and the quality of the service are in compliance with the luxury standard established in the Lease
2. Compare the Hotel's financial operations to comparable hotels
3. Compare the Hotel's capital expenditures to comparable hotels taking into consideration the historic nature of the building.
   (Results provided in the attached report)

The City wanted to ensure the Hotel adhered to the luxury standard. In order to verify the luxury standards, the Hotel hired Hotel Consulting Int'l (HCI), Mr. Thomas O'Neill, to complete an assessment report which was received by the City on April 30th, 2018. Mr. O'Neill earned a Degree in Real Estate Development & Investments from NYU; is an MAI certified appraiser (highest appraiser designation); a member of Fellow Royal Institute of Chartered Survey; a former member of the Int'l Society of Hospitality Consultants, is an expert witness on hotel matters; and, has 40 years of experience in the hotel industry.

Analysis:
The 15-page Report summarizes his findings related to the three questions noted above. Per Economic Development's review of the summary report, the consultant made several unannounced visits to the Hotel where he completed the leading qualification assurance evaluation developed by the Leading Hotels of the World (LHW) and re-tested the Forbes Travel Guide rating system. LHW is one of the largest luxury hotel collections in the world and recognizes the Hotel as 1 of 7 leading hotels in Miami and Forbes Travel Guide recognizes it as a 4 Star rating. The Comparable Hotels, as defined by the Lease were not selected by the City or the Hotel. HCI noted the three most comparable hotels based on the Lease definition could include, The Breakers Hotel in Palm Beach (1896), Vinoy Park Hotel in St Petersburg (1925), and Waldorf Astoria in Boca Raton (1926). The data needed for purpose of comparison was not available for these hotels, individually or collectively; hence, the consultant's testing included comparisons to the 7 hotels (Comparable Set) obtained from Smith Travel Guide's host report (one of hotels is the Waldorf Astoria). The consultant determined these hotels are comparable on the basis of resort/hotel classification, performance indicators, and comparable operations.

STR #	PROPERTY NAME	CITY	ST	ZIP	RMS	SUBMARKET NAME	BRAND	PARENT COMPANY
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							

The consultant's reviews and testing determined the Hotel adheres to the luxury and four-star rating based on, but not limited to, his individual testing, Forbes 900 objective standards, LHW Standards, several hotel rating organizations (e.g. Travel & Leisure, Trip Advisor, etc..), and customer ratings. (See Report for further analysis). He did note, the luxury testing standards are based more on guest experience and less on maintenance issues. His individual observation noted there were operating and maintenance deficiencies and therefor were scored lower in those areas. The overall rating still maintained the luxury standard, and there is minimal risk in losing their designation.

The maintenance issues were driven by what the City defines as functional obsolescence (defined as when a property is impacted by architectural design, building style, size, outdated amenities, local economic conditions and changing technology); these finding would apply to many historical buildings in use today. For instance, the Hotel is spread out over a large footprint and the configuration creates built-in inefficiencies that add to the cost of operations. In addition, the size of the building in today's market would have more units with smaller rooms.

The consultant concluded the hotel performed in line with the Comparable Set except for the operating and capital cost which were higher. A contributing factor to the higher operations and maintenance costs is the repair vs. replacement requirement established by the Historical Landmark designation. Due to higher maintenance costs, the Hotel's strategy to stay profitable is that of sacrificing occupancy to maintain lower maintenance expense without sacrificing its room rates.

The industry norm's capital reserve (% of revenue dedicated to capital improvements) is estimated to be 3% to 4%. The Hotel's average capital expenditures have been 7.9% of revenue (approx. $80 Million in capital expenditures over the past 25 years; and approx. $63 Million in operations and maintenance for the same period). Capital expenditures are projected to be $21.5 Million which includes windows, room upgrades, elevators, etc. (See Table 1-2 in report for further details). These costs represent a capital reserve greater than 8% over the next five years. In an interview with the Hotel's executive team, they stated they could not accomplish these renovations in the five years due to cash flow constraints, which was corroborated by the consultant. The executive team projected the improvements will help increase occupancy by as much as 10% (average of 6%), reduce operating expenditures, and help bring its margins more in line with the Comparable Set. This increase in occupancy will result in increased revenue. In addition, the Hotel is exempt from real estate taxes due to its historical designation. This exemption has existed from as early as the lease commencement date, and is estimated to be approximately $850,000 annually to the County and includes $250,000 to the City based on the 2017 County value. The exemption has provided relief, but not enough to mitigate the capital cost.

The Consultant did review the Hotel's capital plan which addressed items such as windows, room re-designs, new carpeting, doors, elevators, etc. To ensure sufficient capital improvements are budgeted, the Consultant recommended the Hotel maintain a 4% capital reserve due to lender requirement and seek assistance from the City for additional reserves. The 4% does not allow for a timely completion of their capital plan and more than 4% reserve would impact cash flows. Even though there were no going concern opinion noted in their 2017 and 2016 audited financial statement it is recommended the City fully understand the type of capital cost, the impact of capital expenditures to cash flows in order determine the appropriate contribution.

Thank you,

Leonard Roberts