

HOTEL INVESTMENT ALERT: Jacksonville & St. Augustine, FL



Jacksonville, FL Skyline

Key Indicators: The Jacksonville & St. Augustine metropolitan area (Duval & St. Johns Counties) is experiencing one of the strongest growth surges witnessed in decades as evidenced by the recent accolades and statistics noted below:

- Ranked by Forbes Magazine as a Top 10 city for attracting college graduates
- Ranked by Wallet Hub as the #1 city to start a new business
- Ranked in Top 10 of Best Cities to relocate by Mobility Magazine
- Ranked #5 “Best Cities to live in” by CNN’s Money Magazine and by U.S. News & World Report as a Top 10 place to live
- Region is now home to 3 Fortune 500 companies headquarters and home to another 80 national or divisional headquarters



Market Dynamics: Jacksonville is the largest city (population of 1.4 million) in north Florida and is the hub of commerce and leisure activity for the entire north Florida/south Georgia region. Several facets of the Duval and St. Johns metropolitan area worth noting include:

- Jaxport (Jacksonville Port Authority) is one of the largest, most active ports along the SE coast responsible for over 10,000 direct jobs and over \$27 billion in economic impact for the region. Jaxport has received over \$600 million in new investment in recent years and boasts the widest channel of any port along the eastern seaboard.
- Jacksonville possesses the infrastructure (Jaxport, Jacksonville International Airport and Interstates 95 and 10) and significant land areas available for development, along with a relatively low-cost of living compared to other Florida metro areas like Miami/Ft. Lauderdale and Tampa/St. Petersburg/Clearwater which makes it a very attractive market for companies looking to relocate in Florida.
- Mayo Clinic, located on the SE side of Jacksonville, is one of 3 Mayo facilities in the country and is responsible for Jacksonville becoming a major regional hub for healthcare. Mayo Jacksonville is now ranked by U.S. News & World Reports as the #1 medical campus in the entire state of Florida. Mayo expanded its facilities in 2008 with a 304-bed hospital and will continue to expand its footprint in Jacksonville with additional facilities both on-campus and in surrounding communities.
- University of North Florida is located in SE Jacksonville and is the fastest growing 4-yr. college campus in the state of Florida boasting a total enrollment of over 15,000 students in 2015.
- St. Johns Town Center, also located in SE Jacksonville, is the heart of retail shopping for the entire 2-county region with over 2 million square feet of retail and restaurant space. SJTC is continuing to grow with an additional 200,000 square feet to be added in a new project called The Strand, which is currently under construction and should be completed by the end of 2017.
- St. Augustine, famous for being the “Oldest City in America”, has become one of the most popular tourist destinations in Florida and the entire southeast region. The charm and history of the walkable Historic District along with the popularity of the nearby St. Augustine beaches combine to provide a unique experience with a variety of activities for tourists of all kinds. St. Augustine has witnessed a surge in tourism over the last five years with an estimated 3.5 million overnight visitors in 2015 – a 9.9 percent increase over 2014 levels and 2016 tourism is expected to hit another double-digit increase once the year-end results are tallied.

Hotel Transactions: The Jacksonville/St. Augustine market has been relatively quiet in terms of recent hotel transactions, but there have been several deals worth noting, including:

- Hampton Inn Jacksonville/Southbank was purchased in June 2016 by Lowe Enterprises for \$16.9M or \$143,220 per room
- Courtyard by Marriott @ Flagler Center in south Jacksonville was purchased in October 2015 by Condor Hospitality Trust for \$14.0M or \$116,667 per room
- Hampton Inn & Suites Jacksonville Beach (converted Comfort Inn & Suites) was purchased by ROCH Capital in June 2015 for \$41.5M or \$234,463 per room

Transactions Analysis								
Significant Transactions within the Jacksonville Market since 2015								
#	Property	Buyer	Seller	Date	Year Built	Sale Price	Rooms	Price/Room
1	Dual Branded Hilton Garden Inn/Homewood Suites	Lingerfelt Common-Wealth Realty Partners	Unknown	Feb-17	2009	\$24,700,000	221	\$111,765
2	Fairfield Inn and Suites	AHIP REIT	3H Group Inc	Oct-16	2009	\$6,801,244	89	\$76,418
3	Homewood Suites Jacksonville Deerwood Park*	StepStone Real Estate	The Generation Companies	Oct-16	2008	\$6,747,329	118	\$57,181
4	Hampton Inn Jacksonville	Lowe Enterprises	BlueShore Investments & Management LLC	Jun-16	1998	\$16,900,000	118	\$143,220
5	Aloft Hotel	Peachtree Hotel Grp	Summit Hotel Properties	Jun-16	2009	\$8,840,000	136	\$65,000
6	Marriott Jacksonville**	Columbia Sussex Corp	Durbin Jacksonville Holdings LP	May-16	1986	\$2,250,000	255	\$8,824
7	Radisson	New California Hotels	AMC Delancey, Paramount Hotel Group	Apr-16	1989	\$6,500,000	167	\$38,922
8	Courtyard Flagler	Condor Hospitality Trust	Peachtree Hotel Grp	Oct-15	2007	\$14,000,000	120	\$116,667
9	Hampton Inn & Suites - Jacksonville Beach	ROCH Capital	Magna Hospitality Grp	Jun-15	1976	\$41,500,000	177	\$234,463
10	Sheraton Jacksonville	Argosy Real Estate, Peachtree Hotel Grp	Aimbridge Hospitality	Jun-15	2008	\$15,800,000	159	\$99,371
11	Hyatt Place Jacksonville Airport	BPR Properties	Peachtree Hotel Grp	May-15	2009	\$10,750,000	127	\$84,646
Average						\$14,071,688	153	\$94,225

* Part of portfolio sale-pricing not reflective of actual allocation to this hotel
 ** Land Sale Only

Source: HREC IA, CoStar, & Real Capital Analytics

Transaction volume in Jacksonville during the past several years has been picking up pace, as the various submarkets begin to show solid gains in RevPAR and the supply that was added during the recent downturn has been absorbed. The RevPAR's achieved in nearly all submarkets, particularly in South Jacksonville, Jacksonville Beaches and St. Augustine, are now above levels achieved pre-recession, and the current and anticipated growth throughout the region will boost hotel performance and valuations in both Jacksonville and St. Augustine in the foreseeable future.



Jacksonville Beach

New Hotel Development: In **Jacksonville**, most of the activity for new hotel development is on the south side of town, focused around the St. Johns Town Center and Deerwood Park Corporate Center along J. Turner Butler Boulevard (“JTB”) and the new I-295 East bypass:

- The Sheraton Hotel is converting to a Doubletree Hotel by Hilton
- A new 160-room Hyatt Place is expected to begin construction as part of The Strand retail/residential development inside St. Johns Town Center
- A new 104-room Home2Suites by Hilton is planned for a site near the SE corner of JTB and Gate Parkway
- A new 122 room Residence Inn by Marriott just opened in March in Bartram Park next to the Hampton Inn & Suites on the far south side of Jacksonville along I-95

In the **Orange Park** market near the Jacksonville Naval Air Station in SW Duval County there are two new hotels under construction or planned:

- A 112-room Hampton Inn & Suites is under construction in the SE quadrant of I-295 West and US 17
- A 100± room Home2Suites by Hilton is also planned for a site on the south side of I-295 West and US 17

And finally, a 100± room Holiday Inn Express is under construction at Interstate 10 and Commonwealth Blvd. in the industrial sector on the west side of Jacksonville.

In **St. Augustine**, there are several new hotels that have either opened recently or under construction both of which are at the beaches, including:

- A 200-room Courtyard by Marriott opened in mid-2016 in St. Augustine Beach
- A new 200-room Embassy Suites is under construction also on St. Augustine Beach with opening anticipated for late 2017

Interestingly, the strongest submarket in the region – the **Jacksonville Beaches**, has no new supply planned which is due to the referendum that was passed nearly 10 years ago in all of the Jacksonville Beach communities (Atlantic Beach, Neptune Beach, Jacksonville Beach and Ponte Vedra Beach) that now restricts commercial development to 3-stories or 35 feet in height, effectively making it nearly impossible to build a new hotel in these communities.

MARKETS OF FOCUS

The submarkets that an investor should focus on in particular are as follows:

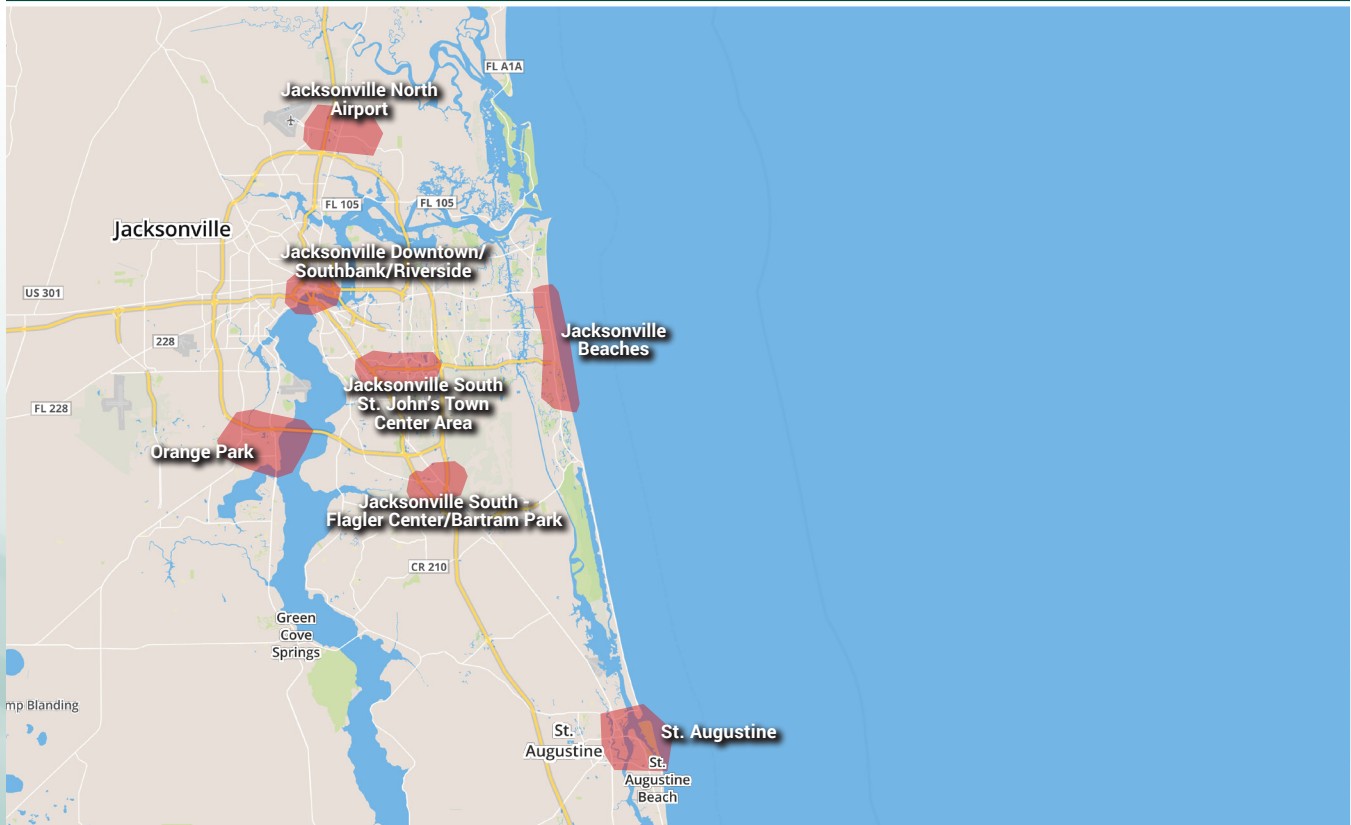
Jacksonville South/St. Johns Town Center Area:

The market in and around the popular St. Johns Town Center (“SJTC”), situated near the juncture of I-295 East and J. Turner Butler Boulevard (“JTB”) is by far the most robust area of development and activity in the Jacksonville metro area. St. Johns Town Center is by far the most popular retail, residential and entertainment district in the region and is also the largest corporate office market as well with Deerwood Park containing over 14.0 million square feet of Class A office space and home to several mega corporate complexes including Merrill Lynch and Florida Blue Cross. Additionally, SJTC includes the University of North Florida campus, one of the State’s fastest growing 4-year Universities as well as proximity to the Mayo Clinic Health Campus a short 5 minute drive directly east on JTB with the Jacksonville Beaches just 10 minutes away.

Jacksonville South/Flagler Center & Bartram Park:

This market area on the far south side of Jacksonville situated directly along Interstate 95 at Old St. Augustine Road, is the fastest growing area in terms of residential growth and along with it, corporate and commercial services. Flagler Center, situated on the east side of I-95, is a 1,022-acre master-planned corporate campus anchored by Baptist Health Center & Hospital South and an additional 1.4 million square feet of corporate office space that includes Citibank’s national Card-Services Division campus of over 600,000 square feet. Bartram Park, situated on the west side of the interchange is a 4,000-acre master-planned development that is home to Brooks Rehabilitation campus that sits on 100 acres, and slated for more than 9,700 residential units at build-out, along with a retail district that will contain over 500,000 square feet of retail and restaurants along with several hotels including a Hampton Inn & Suites and the new Residence Inn.

MAP OF JACKSONVILLE MARKETS



Jacksonville Southwest/Orange Park:

The Orange Park market located in the SW sector of Jacksonville along the I-295 West corridor is home to the Jacksonville Naval Air Station, one of the largest and most important Naval bases to the U.S. military in the country and a huge driver of business in this sector of the city. The Orange Park area is also one of the largest residential communities in the metro area and continues to experience strong growth in residential and retail development.

Jacksonville North/Airport:

The north sector of Jacksonville, situated along I-95 north including the Jacksonville International Airport, had been a sleeper market for many years, but as Jacksonville continues to grow and the population base pushes out of the traditional markets, the north side of Jacksonville has come to life. In addition to the Airport and close proximity to Jacksonville Port, one of the largest container ports in the country, this sector is home to the Jacksonville Tradeport with over 100 million square feet of industrial space. Additionally, this market now has one of the most vibrant new retail districts in the metro area with River City Marketplace that encompasses nearly 900,000 square feet of outdoor retail and restaurants and next to River City Market Place is the new University of Florida Medical North campus.

Jacksonville Downtown/Southbank/Riverside:

Downtown Jacksonville, situated in the heart of the greater metro area along the St. Johns Riverfront is seeing signs of growth, largely in new residential condominium development more so than corporate office, but as more and more residents move into the downtown area to take advantage of downtown along the riverfront setting, corporate office growth will surely follow. Downtown Jacksonville is the center for corporate office space (insurance and banking), and government, along with the 265,000 square foot Prime F. Osborne II Convention Center and Everbank Field, home to the Jacksonville Jaguars NFL franchise. Southbank is home to a number of large medical complexes and the popular San Marco retail district and the relatively new Riverside District, situated along the west riverbank has seen the most active development of corporate office space in recent years.

Jacksonville Beaches:

The Jacksonville beaches, comprised of the communities of Jacksonville Beach, Neptune Beach and Ponte Vedra Beach, has emerged from a rather tarnished past during the 1990's and early 2000's to become one of the most vibrant submarkets in the greater Jacksonville metro area as significant re-investment since the recent economic downturn has completely revitalized these beach communities. Ponte Vedra Beach, one the most affluent communities in Florida and home to the PGA Tour and the famous TPC Golf Club has always been a high-end residential community, but since the rebirth of this entire area, both Jacksonville Beach and Neptune Beach are now taking on a life of their own with people moving back to these popular beach communities and with new retail and restaurants in the respective "downtown" areas, tourism has come back to the beaches as well. As mentioned previously, new commercial development in these strict communities now limits development to 3 stories/35 feet in height which will make it extremely difficult for new hotel development in these markets and will practically insure that the hotels that are currently in these market will continue to enjoyed unprecedented performance with little to no risk of new competition.

St. Augustine/Beaches/I-95 Exit:

The three submarkets in St. Augustine proper are the downtown Historic District, St. Augustine Beach and the I-95/Hwy. 16 Exit which is the gateway into St. Augustine. Both the Historic District and the Beach markets are very difficult to find development sites and the high barrier to entry has allowed the hotels in these two submarkets to flourish. With that said, the beach market has a new 200-room Courtyard that is not located on the beach and a new 200-room beachfront Embassy Suites in now under construction after several years of planning. Additional new development in this market will be very difficult. In the downtown Historic District, again, the lack of any development sites large enough to accommodate a hotel has and will keep new hotel development to a minimum and allow the existing hotels to increase in value. Out at the I-95/Hwy. 16 exit there are at least 12 hotels, primarily low to mid-level transient-oriented hotels – many of them 20+ years old and as the Historic District and the Beaches become more difficult for travelers to get into or to afford, there may be opportunities to replace many of the old, antiquated product with new generation hotels.

Conclusion: Jacksonville and St. Augustine are experiencing strong growth and the factors setting up that growth are fundamentally solid and as a result the entire region should continue to experience strong economic growth with a robust hotel market for the foreseeable future. Hotel asset pricing in both Jacksonville and St. Augustine are low relative to other major Florida markets and now is the time to consider investment opportunities in this area before the anticipated boom takes affect.

About HREC[®]:

HREC[®] is the nation's leading lodging and gaming real estate advisory firm specializing in property sales, mortgage brokerage, consulting (market studies and appraisals), and litigation support. With 17 offices throughout North America, HREC[®] is distinguished by unwavering commitment to client service and success through its team approach, intellectual capital and hotel/casino specialization.

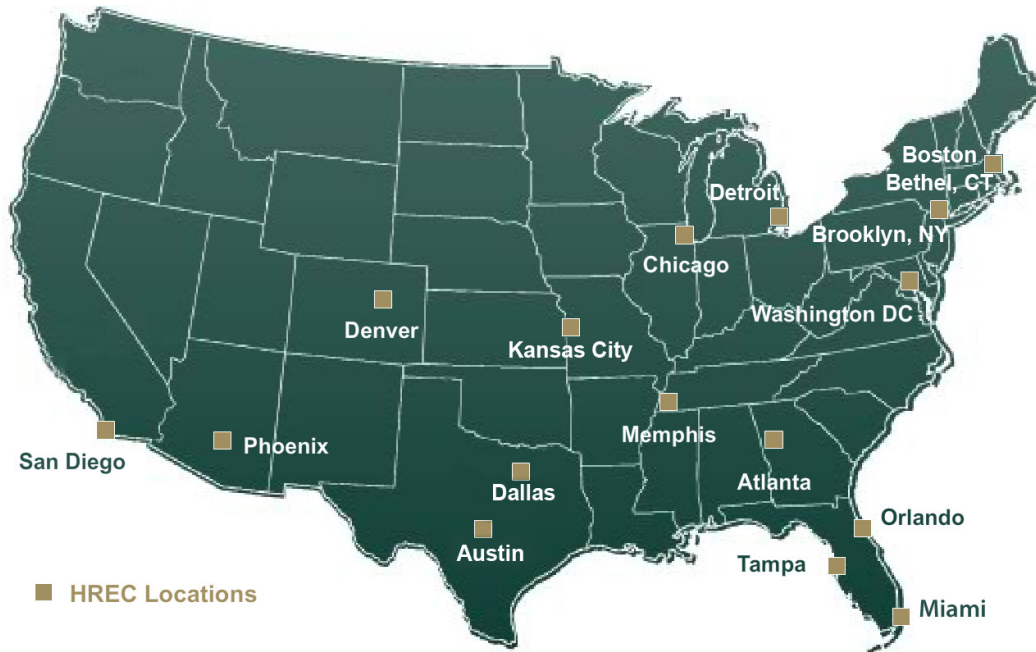
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Tom Huegel is one of the country's top hotel brokers and a Senior Vice President in HREC's Atlanta office. His wide success in closing lodging transactions is based on a 32 year career in hotel real estate. Prior to brokerage, Tom worked in hotel feasibility & development and franchising, most notably with Holiday Corporation and Promus Hotels. Huegel was also Senior Director of Franchise Development where he oversaw all Hilton branded hotels in the SE region. Most recently, Tom was a partner with Hotel Assets Group in Atlanta where he was responsible for producing over \$400M in asset sales.



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