

# Lionstone Development CEO discusses Miami and Virgin Hotels strategy

by *Kerry Medina* |

Jun 14, 2016 8:46pm



*Hotel Management* asked Diego Lowenstein what the company's plans are for its Virgin Hotels development efforts and why the company remains so positive about the Miami market as Lionstone celebrates its 50th anniversary there.

## **1) Why are you bullish on Miami despite STR naming Miami the worst of the Top 25 U.S. markets in April?**

We're always optimistic about this market because of the impact from Latin America. When things are going well in Latin America, we have the benefit of positive impact, but when things aren't going well in Latin America, there is also a very positive impact on Miami because of flight of capital from those markets. Latin America always tends to be a mixed bag with some countries going up and some going down. Miami and South Florida have evolved beyond the Northeast and Latin America over the last 10 to 15 years. Now it's opened up to the world

and we have tremendous penetration in Europe, across multiple countries with easy airlift here. So we've invested in major capital improvements to our Ritz Carlton properties in South Beach and Bal Harbour because it's always important to stay competitive.

It's not easy to attribute April's numbers to any one cause, but Brazil is a culprit. Brazilians come in significant numbers to South Florida for leisure, but because of political unrest and uncertainty, Brazilians aren't traveling. But it's cyclical and we've seen it before; Brazil will stabilize with time. But Columbia is very stable and there's still travel from there and Mexico as well. Peru continues to do well and Argentina, which has struggled for more than a decade, now seems to have its political house in order. Miami can also pick up business from Europe, even in summer months when Europeans take a lot of vacation. Also, Middle Easterners are travelling differently because of situations like Egypt and South Florida offers a great beach experience. Speaking for Lionstone's Miami properties, the summer outlook is already quite strong.

## **2) Why bring Virgin Hotels to South Florida?**

We have a property under development in New York and a number of properties that have already been signed, but not yet made public. They will be over the course of the year.

Virgin Atlantic and Virgin America serve both Miami and Fort Lauderdale and we plan on multiple properties in each market. In Miami, we can have an urban presence and a resort feel in order to provide different alternatives for corporate and leisure bases. We haven't developed more quickly in South Florida because the boom on the residential side has priced out a lot of potential to acquire and develop land. So it would be difficult to underwrite a stand-alone hotel. Strong valuations and a lot of foreign buy in South Florida have lead to very few opportunities to buy assets unencumbered by brand management where you could acquire, convert and rebrand. But the residential market has softened up, at least for the near future. So we'll see better acquisition opportunities.

Virgin properties in South Florida will also pave the way for future growth into Latin America, which is another objective. If you want to be a recognized lifestyle brand in Latin America, you need a visible presence in Miami. So it makes sense to showcase the product in South Florida and to drive demand from potential owners and developers who might want to develop with us in South and Central America as well as the Caribbean. Virgin Hotels' corporate headquarters are also based in Miami, another reason why it's important for us to be here.

Miami is also large enough to have different demographic and customer bases. So we can have multiple properties in this market without them eating into each other. Our objective with the brand is to target leisure business and also corporate and small groups. Hopefully over the next five to six years, we'll be able to position ourselves across all of these different markets within South Florida.

## **3) Are you looking strictly for conversions as was the case with Virgin Chicago?**

We look at both, but the physical product must fit our needs and brand standards. A number of our developments in the U.S. are ground-up projects, including New York and Nashville. There are others in the Midwest and West Coast that are also ground up. Like anything in real estate, first it's about location. Conversions can sometimes be more difficult than ground-up development. So we have to be selective. We turn down more opportunities than we actually execute because we want to be careful in crafting a great product in locations that are sustainable in the long-term and can offer strong performance.

#### **4) Following the Virgin Chicago, does Lionstone plan to develop properties beyond Miami and Argentina?**

We've historically elected to invest mostly in the Caribbean as it relates to hospitality. Our program is to acquire a lot of distressed properties to renovate, re-manage and rebrand and we've been very successful at that. So that continues to be a growth strategy for us. We have plans to double our portfolio in the Caribbean over the next three to four years and, with a multi-brand approach, we have some strong developments and new transactions underway. We focus on the upscale and all-inclusive sectors in the Caribbean more so than luxury. I think the Caribbean is changing with the growth of the cruise business and Cuba will open up.

We've looked at other markets in the past, like Costa Rica and Columbia, for luxury products. But we're an investor and an active developer and we like to create product that's very distinct. So you need your own resources present. When you go into markets that you're not familiar with, you don't have political weight. So it becomes more difficult and as my family's business is generational, it can make partnering with locals difficult because you need to be considerate of your partners' needs and if they want to potentially exit or sell, that may not always work for us. We prefer properties that are a two- to three-hour flight from Miami, allowing us to better develop and manage our assets. I'm interested in opportunities in Mexico and very selective Caribbean markets and that has to do with fundamentals like airlift and political stability as well as the political support that you get as a developer.

New York and Boston are also of interest, given the right site and the right acquisition opportunity with strong branding around it.

#### **5) Where do you see opportunity in the current hotel investment environment?**

We're in an election year in the U.S. and there's a lot happening in Europe and China is slowing down. So that's a lot of macro uncertainty and a lot of hold back from potential sellers. But we have to be watchful of the opportunities. In a lot of brand categories, there's very little distinction and some brands are overstepping others and some branded properties coming to the end of their management or franchise agreements are going to look for fresh ideas to stand out in any given market. This will bring conversion and rebranding opportunities in the U.S. and elsewhere. There will be some distress in markets like the Caribbean and Latin America, leading to opportunities to buy some properties that aren't succeeding

because the brand isn't distributing or positioning the asset that well or because of oversight on the part of management. We like to say that we can develop everything from a Ritz Carlton to a Holiday Inn; we're a family that looks at any opportunity with an open approach because not all assets can be Ritz Carltons. Over the years, we've worked with 12 different brands and companies and we understand the industry very well.