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# Condo-hotels create risks, opportunities for buyers

## Costs, time limits reside with convenience, prestige

**By Noelle Knox**  
**USA TODAY**

If only Eloise could see the new rooms at The Plaza Hotel, where the famous 6-year-old children's book character lived on the top floor. The bathrooms have marble vanities and chandeliers. There's a mini wireless computer that can change the temperature, order theater tickets or make dinner reservations. And there's a butler on every floor.

"Charge it, please," she'd say.

When The Plaza reopens in spring — after a \$350 million renovation — you, too, will be able to live at the landmark building on Central Park South.

Well, sort of. The Plaza will be a condo-hotel, whose 152 rooms will be sold for \$1.6 million to \$9 million apiece. In exchange for an address to die for, the owners will be able to stay in their condos for up to 120 days a year.

The other nights? The owners' belongings will be locked in a closet, and the room will be rented out to hotel guests at top rates. The owners also chip in to pay the hotel's maintenance and marketing bills, though they do receive a portion of the revenue when guests stay there.

The Plaza's conversion to a condo-hotel spotlights a real estate phenomenon that is creating new opportunities and risks for people in search of vacation homes. There are nearly 250 condo-hotel projects underway nationwide, representing almost 10% of all hotel rooms in the works, according to Smith Travel Research. Most of the condo-hotels are being built or converted in destination cities, such as Las Vegas, Miami, San Diego and Chicago.

"This is a major part of what we are doing in the future," says Donald Trump Jr., executive vice president of development and acquisitions for the Trump Organization, which has seven projects underway, including one in the Soho area of Manhattan, one in Chicago and three in Florida. "We have north of 3,000 rooms coming online in the next two years."

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Though the concept has been around since the '70s, condo-hotel construction exploded in the past three years. As construction costs soared during the real estate boom, and as many hotels were converted into condos, the idea of the hybrid condo-hotel took off. For hotel developers, it's often the easiest way to finance a project.

Last month, the historic Hotel del Coronado in San Diego announced it was building 35 condo-hotel rooms to help pay for expanding the 118-year-old Victorian-style hotel. Buyers can use their units for up to 90 days a year — but for only 25 days within a 50-day period.

At a cost of \$2.7 million to \$3.9 million each, that would pencil out to a per-night room cost of at least \$6,000, excluding real estate taxes and maintenance fees, if the buyer kept the unit for five years. How much of that cost would be offset by renting out the room to hotel guests on the other nights depends on vacancy and room rates.

Buyers of condo-hotel units can sell them like any other property. That's both an advantage and a risk. The resale value is based as much on tourism and business travel in the area as on the housing market.

Investor speculation in condo-hotel construction has been rampant. On the Las Vegas Strip, the first tower of the MGM Signature condo-hotel was finished over the summer, and already about 25% of the 576 units are up for sale.

“Just a small handful are selling below market, in some cases up to \$100,000 below market,” says Bruce Hiatt of Luxury Realty Group in Las Vegas. “We're getting investor calls trying to buy some of those, trying to buy at the bottom.”

Tony Kim has bought nine condo-hotel units, including one in the second tower of the MGM Signature, to be completed around Thanksgiving. It's crucial, he says, to buy in the preconstruction phase, when prices are at a low. And location, he says, is critical.

Kim, president of Mid-K Beauty Supply in Omaha, stays a week or two a year at his units in Las Vegas and Toronto and is waiting for his units in Chicago to be built. When construction is done on all of his units, “I will be flipping some of them to be debt-free,” says Kim, 44. “Probably three or four.”

There are clear advantages for buyers. The condo-hotels offer room service, maids and other luxuries of hotel living. Someone cares for the property when you're away. And the rental income, which is shared roughly 50-50 with the hotel operator (depending on the contract), can help cover your mortgage, taxes and association fees.

The disadvantages, though, are also plain: You have to reserve your own room far in advance (60 to 90 days at The Plaza, depending on the season). The restrictions on the amount of time you can use your room vary from city, state and country. The hotel management furnishes all rooms the same.

As with most hotel rooms, you get not a kitchen but a kitchenette with a mini-fridge and a microwave. And if the hotel has a high vacancy rate, you'll still have to help pay the salaries of a lot of idle porters and maids.

The contracts and risks are eye-crossingly complex. The Securities and Exchange Commission bars developers from marketing condo-hotels to buyers as investments.

As a result, the developer can't give out projected occupancy or room rates to potential buyers. It can be difficult for buyers to estimate rental income from the property.

Understanding the details in the contract — specifically, who pays for what — is critical, as Michael Dorio learned after he bought a condo-hotel unit in Montreal.

Canadian regulators ruled that the property was a business investment instead of a residential investment, which raised the property and water taxes. The operator also asked residents to pay its business taxes, which Dorio said wasn't mentioned in the prospectus.

“We had additional expenses we were never anticipating and were never in the prospectus or any documentation,” says Dorio, 65, of Westchester County, N.Y. “Several of us have filed small-claims actions” against the operator.

That said, his condo-hotel unit generates “good revenue that covers most of our expenses.”

At The Plaza, entry-level buyers are paying \$1.6 million for a unit, plus about \$51,600 a year in maintenance fees and taxes. Since the condo-hotels went on sale over the summer, 22 have been sold.

So far, most of the buyers have been corporations that want rooms for clients, investment bankers who work late in the city and Japanese businessmen.

“And, hopefully, Eloise will come back, as well,” says Miki Naftali, CEO of El Ad Properties, The Plaza's new owner.

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