

Home suite home

Hotel condos offer an unusual way of living and investing

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December 11, 2005

Hotel-style living isn't just for vacations anymore.

For those who relish the perks of a luxury hotel stay – from spa treatments and room service to valet parking and concierge services – ownership of a condominium hotel unit may be just the thing.

Resort destinations like San Diego and Las Vegas are suddenly attracting developers seeking to market the hotel experience to investors interested in owning a piece of the action. Not only is the concept appealing to developers, who can secure upfront financing from buyers of the hotel units, but it also is proving intriguing to investors, who like the idea of being able to reap room rental revenue from the units they purchase.

In San Diego, the first two condo hotels to debut here are linked to brands that already have high name recognition – the Hard Rock and the House of Blues.

The idea is simple: Individual hotel rooms, already furnished, are sold as condominiums where buyers can live part time and also rent them out to hotel guests through a program overseen by the hotel operator. Typically, revenue from the hotel units are split 50-50 with the hotel operator, and owners are responsible for a monthly association fee.

In San Diego, there are also occupancy limits, with condo owners permitted to stay in their individual units no more than 30 consecutive days at a time.

"One reason why we like them is there's a huge, burgeoning accumulation of wealth through baby boomers and gen-Xers, who are lifestyle-driven," said Greg Casserly, president of Tarsadia Hotels, which will operate the 12-story Hard Rock Hotel to be located in the downtown Gaslamp Quarter at 5th Avenue and L Street.

"They like second, third, fourth, fifth homes but don't like the hassle of private ownership and having them sit empty while they're not there. So the condo-hotel model allows them to have the lifestyle they want but not have the incredible carrying costs, because they can put their unit in the rental pool."

While the condominium hotel concept already is firmly entrenched in places like south Florida and New York, projects are starting to spring up in other major metropolitan areas across the country. Real estate experts believe San Diego is a prime candidate because of its relatively high year-round hotel occupancy rate and thriving condo market.

At the Hard Rock Hotel, 420 luxury rooms and suites are planned, with prices expected to range from \$400,000 for a 375-square-foot unit to more than \$1 million for "rock star suites" that the hotelier hopes will be designed by actual rock celebrities.

The units will be designed with entertainment in mind, furnished with



The Rockwell Group
A proposed suite at the Diegan, a condo-hotel to be built next to the House of Blues in downtown San Diego, is designed to inspire a feeling of an urban beach.

plasma screen television sets, "maxi bars" that can accommodate full-size bottles of booze, and entertainment centers outfitted to play CDs, DVDs and iPods.

The hotel itself will feature a spa and fitness center, a screening room, a landscaped outdoor pool deck with private cabanas and a 7,000-square-foot music venue.

"Our hotel is set up for those who can't stand the idea of cooking a meal," Casserly said. "This is not ownership in a residential complex. It's a hotel lifestyle you can own a piece of."

Also under way downtown is the Diegan, which will include 161 studio and one-bedroom suites, plus 24 penthouse suites on the upper floors of the 21-story hotel. Typical rooms will range from 400 to 900 square feet in size, while the more deluxe rooms will be anywhere from 900 square feet to 2,800 square feet for a three-bedroom unit. The most expensive two-story penthouse will likely be priced at \$4 million, said Jim Trammell, president of Newport Beach-based 5th Avenue Partners LLC, which is developing the Diegan.

Located on Fifth Avenue, just north of the Gaslamp Quarter, the hotel will include a rooftop pool bar atop the House of Blues on the fourth floor, a 5,000-square-foot spa, a fitness center and pool, a recording studio and a 27-seat screening room. There will be valet parking for guests and owners, who will likely pay a discounted parking rate.

More than 70 percent of the units have been reserved for purchase, and a majority of the buyers are from San Diego, said Trammell. The project is expected to be completed by the latter part of 2007, he added.

"This is new to San Diego, but a wave has been hitting Chicago and Miami Beach and New York over the last two years," he explained. "San Diego is the top investment real estate market in the U.S., even though there are thousands of units in planning, so we're really bullish on San Diego."

Developers of condo hotels are quick to point out that their projects are a breed apart from developments like the Omni Hotel next to Petco Park where 11 stories of full-size condominiums are located on the upper floors atop the 21-story hotel. In projects like the Omni, there is a clear separation between the residential units and the units that do double duty as hotel rooms and condominiums.

Cole Petersen, a real estate agent, and his wife Molly, a school administrator said they were one of the first to make a deposit on a condo unit in the Diegan after reading about the project on the city's downtown Web site. The unit they've reserved is a little over 400 square feet on one of the lower floors and is selling for \$550,000.

"I'm just getting into real estate and investing, and I knew that short-term investing now has gone by the wayside," said Petersen. "This is the only type of investment downtown that will have positive cash flow on a monthly basis unless you have a lot of cash to invest in a property, and I liked the idea of having a monthly income in real estate downtown."

Petersen acknowledged, however, that on his unit, he'll likely have some negative cash flow, assuming his monthly payments are \$3,500 and his share of monthly room revenue is roughly \$3,000. That's based on his own calculation that presumes his unit would be rented to hotel guests an average 20 nights a month at \$300 a night, he said.

"We kind of feel like, whether or not we stay in San Diego for the rest of our lives, we would like to keep our condominium hotel in San Diego so that when we visit we could come back and stay there."

Hotel consultants say that the concept of merging hotel and condominium units into one project has proven alluring to



EARNIE GRAFTON / Union-Tribune
The Lafayette Hotel, a longtime landmark in University Heights, will be part of a project that will include 80 condo-hotel units to be purchased by investors.



Tarsadia Hotels
The Hard Rock Hotel, which will be located in the Gaslamp Quarter, calls for 420 luxury rooms and suites, with prices starting at \$400,000.

developers, who now have a convenient way to help put together the equity they would normally need to come up with themselves when developing a hotel. Now they can use the money they get up front from condo buyers to throw into the financing mix.

"It's a very good deal for the developer because you get a lot of the revenue back on the front end on the units, and you also share in the revenue stream, whereas in a hotel, you have to wait for many years for the revenue to build up and pay off debt," explained David Neff, a Chicago attorney who represents developers of condo hotels and is chairman of the International Society of Hospitality Consultants.

Las Vegas, where thousands of condo hotel rooms are planned, is now one of the biggest draws for this latest hotel model, Neff said.

Developer Ian Bruce Eichner, chief executive officer of the nearly \$2 billion Cosmopolitan Resort & Casino under construction in Las Vegas, says there are currently more than 7,000 condo hotel rooms either in the construction or planning stage in Las Vegas. His own development will encompass 3,000 rooms, 2,000 of which will be condo-hotel units. Roughly 80 percent already have been sold, he said.

"Las Vegas has a high percentage of repeat business, people who like to come here as the city has evolved from a gaming jurisdiction to a resort destination where you can have entertainment, shopping and restaurants and not be a gamer at all," said Eichner, who also has experience developing in New York and Florida. "Once people start thinking, 'We're going to be in Vegas three or four times a year,' they start to be interested in owning something."

Neff says it's too early to know whether condo hotels are a surefire investment.

"The jury is still out as to how good an investment it is for the person who buys the unit," he said. "They're depending on their room being rented and the appreciation of the hotel."

Beyond downtown San Diego, there is one other condo hotel project planned here, this one in the University Heights area on El Cajon Boulevard. Just behind the historic Lafayette Hotel, where Bob Hope and other Hollywood elite once stayed, a 17-story residential tower is planned that will include 250 condos, 80 of which will be available to rent out to hotel guests.

Developer Chris Foster, president of Hampstead Partners, which is developing the project, said the 80 units will feel more like residential spaces than a hotel room, featuring larger kitchen areas than the typical condo hotel unit. Prices will range from \$300,000 to \$1.1 million, Foster said.

"We're a national developer, and we've been in places around the country where this is happening a lot," he added. "I think we'll still see more of these in San Diego but not as many of them as there are in Miami. We already have a lot of people who stay here at the Lafayette two weeks out of the year, people from Arizona, who would be excellent candidates to be buyers of the hotel condo units."

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