Condotels: A Branded Urban Lifestyle For Second-Home Owners

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"Moonlight as a VIP. Guests demanding top-rate business facilities fully wired for maximum productivity share the elevator with travelers on the prowl during a hedonistic holiday of beauty treatments, top restaurants and a lively night life."

Sound like your cup of tea? Well, for just a bit over $500 a square foot you, too, can buy a piece of the new W Hotel & Residences.

The focal point of Victory Park, a $3 billion minicity sprawling across 75 acres near the heart of downtown Dallas, the 250-room W Hotel will set a new standard of opulence when it opens in June. But the hottest properties in town are atop the hotel: 66 condos priced from $400,000 to $7 million.

"We're selling an urban lifestyle to people in their 20s with trust funds and married professionals in their 40s," explained Clay Likover, a senior associate with developer Hillwood Capital. "We have a psychographic, not a demographic."

The W Hotel & Residences is part of a property development trend that has spread fast over the past two years: the condotel. Throughout the U.S., hotels in prime urban areas are being redeveloped to include homes that can be bought outright like a normal condominium or acquired on a fractional basis.

In White Sulphur Springs, W.Va., the 200-year-old Greenbriar resort is getting into the ownership game by building 500 homes on lots ranging from $400,000 to $2 million. So is the Fontainebleau Hilton Resort in Miami Beach, which manages two condo towers.

Most new condotels are not resorts, however. More often they are redeveloped historic buildings in big cities with strong condo markets, high hotel occupancy rates and shopping and cultural amenities that entice baby boomers interested in a second home.

Because they are selling a lifestyle, most are run by luxury brands like Mandarin Oriental, Starwood's St. Regis, Marriott's Ritz-Carlton and Hilton's Conrad division.

"Eighty percent of hotel condos are bought as second homes and 20% for appreciation and tax benefits," said Robert Falor, CEO of privately held Falor Cos. in Chicago. "This is a way to own a second home without the hassles."

Falor owns three existing hotel condos in Chicago. It also has seven projects in South Florida. It plans to expand to Boston, Los Angeles, San Francisco and Washington, D.C.

Fractional owners buy access to a specific hotel room for a set number of days. Unlike a time share, a fractionally owned room is real property that can be depreciated, resold or passed on to heirs. Owners not in residence often elect to recoup part of their taxes and mortgage payments by putting their rooms in a rental pool run by the hotel.

Hotel condos often are owned by suburban baby boomers who took some savings out of the stock market after the dot-com collapse and used favorable interest rates to buy a second home in the city. But the amenities and cachet of a luxury hotel do not come cheap.

Besides hefty management fees, owners pay a service charge when they occupy the room. Part of that money is returned when a room in the rental pool is occupied by a paying hotel guest, but not all. Hotels normally take 50% of any rental income a privately owned condo generates plus a 25% booking fee.

For developers, a condotel is all upside. Hotel units sold before construction generate revenue. That can help a developer get construction debt and equity. Lenders usually finance condo hotels with only 20% equity due to pre-construction sales. Otherwise they want 40%.

Also, condos serviced by a four- or five-star hotel sell at a premium above similar luxury condos nearby.

"On average, a hotel condo can be sold for 38% more than a regular condo," said David Parham, a senior analyst with Delta Associates, a real estate research and consulting firm in Alexandria, Va.

The homes and hotel aren't always physically connected.

Late next year, the historic Chronicle Building on San Francisco's Market Street will reopen as The Ritz-Carlton Club & Residences. One of the first homes of the San Francisco Chronicle, the 115-year-old structure will contain 52 privately owned condos and 49 units offered for sale on a fractional basis.

Redeveloped at a cost of $90 million, the building is almost a mile from the Ritz-Carlton Hotel. Yet the 101 designer-ready homes being developed by Hunter Group of Alameda, Calif., collectively are expected to sell for $250 million.

No one knows for sure how the housing cool-down will affect condotels. Industry officials argue the scarcity of prime urban locations will keep condotels in demand.

The market is luring hotel management firms from Asia and Europe. Shangri-La Hotels & Resorts of Hong Kong is developing condotels in Miami, Chicago and Vancouver, British Columbia.

The Vancouver project includes a 120-room hotel plus homes costing $1.5 million to $2.6 million.

"All but eight of our 288 condo units already are sold, and construction has yet to reach the ground floor," said Stephen Darling, Shangri-La regional vice president.

Buying a five-star condo hotel is not for everyone, Darling cautions. Although separately owned units can be resold as easily as any condo, the market for fractional shares is not as robust. Said Darling: "We're selling a lifestyle to affluent baby boomers, people who want service without the servants."