

COMMERCIAL REAL ESTATE

A Room of Your Own (When the Hotel Isn't Renting It)

By TERRY PRISTIN

CHICAGO — Just south of the Loop, three buildings in the historic Printing House Row district that together housed a fading Hyatt Regency are being transformed into this city's newest boutique hotel. But in contrast to most other hotels, the majority of the rooms will be owned by individual investors.

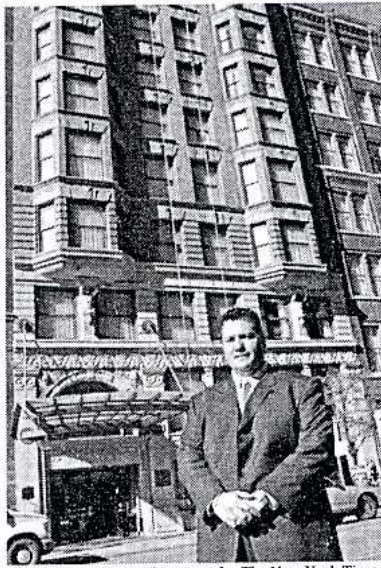
Named the Morton because one of the buildings, completed in 1896, originally served as the headquarters of the Morton Salt Company, the new hotel will be operated by Kimpton Hotels and Restaurants, a San Francisco company known for upscale pet-friendly properties in urban downtowns.

But unlike other Kimpton-managed hotels, the Morton will be a condominium hotel, which means that most of its 162 rooms and suites will be owned by individuals, who will get a portion of the rental proceeds. So far, 102 units have been sold, for prices ranging from \$175,000 for a single room to \$480,000 for a two-bedroom suite, said Robert D. Falor, the president of the Falor Companies, which bought the property in July.

Condo hotels have been around for more than two decades, but until a few years ago, the concept was generally applied only to beach and ski resort areas. But now it is spreading to urban locations, especially in this city, where three other projects that include condo hotels are planned, including one with 227 units that is being developed by the Trump Organization on the site of the recently vacated Sun-Times building along the Chicago River. Unlike a participant in a fractional ownership arrangement, the buyer of a condo hotel room owns the unit and is free to sell it. The hotel unit can be rented out daily, unlike a residence condo.

In recent months, Falor, which was founded here in 1983 by Mr. Falor's father, David, has been on a buying spree, acquiring nine properties for conversion to condo hotels, with five more under contract. Most of these hotels are in Florida, including the Tides, Edison and Breakwater hotels in South Beach and the Cheeca Lodge and Spa in Islamorada, but the company has also just closed on its \$2.3 million purchase of a 1919 office building at the corner of State and Adams Streets, which will be gutted and turned into a condo hotel called the Century.

From January 2004 through next March, the company expects to close



Peter Thompson for The New York Times

Robert D. Falor, president of the Falor Companies, in front of the Morton in Chicago.

executive vice president of PKF Consulting, a company that specializes in hotels.

But he said that selling units to individual investors is becoming a popular form of financing hotel construction, particularly as developers find it increasingly difficult to get public subsidies for these projects. In addition, he said, the terrorist attacks three years ago were disastrous for the hotel industry and also made it difficult to build new full-service hotels. "Since 9/11," Mr. Woodworth said, "there's an element of risk that didn't exist before."

David C. Pisor, the managing partner of the Elysian Development Group, which is developing a 60-story hotel and condominium residence project near this city's Magnificent Mile shopping district, said that selling hotel units to investors would enable him to create an ultraluxurious brand with amenities like kitchenettes concealed behind cabinets and armoires holding personal possessions that can be rolled into the room when the owner stays there.

"This will be an incredible hotel asset with no debt," said Mr. Pisor, who has sold 82 units ranging from 800 to 1,000 square feet at prices from \$650,000 to \$900,000. The project, at Rush and Walton Streets, will have 171 hotel rooms and 50 condominium

residences.

So just how much income can a prospective hotel condo buyer expect to earn when the unit is rented out? Developers and brokers are not allowed to answer this question; if they do, they must register the property as a security subject to the regulations of the Securities and Exchange Commission.

They are also barred from pooling the hotel revenue, which means that the owner is paid only when the actual unit is occupied. Brokers who sell condo hotel units have to guard against running afoul of securities laws because if the project runs into trouble, the buyer may use that violation to break the contract, said Gary Saul, a partner in the Miami office of the law firm of Greenberg Traurig.

Joel Greene, the president of the Condo Hotel Center, a brokerage firm in North Miami, Fla., that handles condo hotel sales around the country, said buyers could expect to cover most of their costs or perhaps even earn a small annual profit on their investment if the condo hotel was in a good location, had good management and was part of a strong brand. "Primarily, you focus on appreciation," Mr. Greene said.

The terms of the rental agreement vary according to the developer. Falor, for example, takes 10 percent off the top and splits the rest with the owner, who also must pay a monthly maintenance fee and the unit's share of the insurance premium and real estate taxes. Another 4 percent is deducted so that the bedspread, say, can be replaced when necessary.

Other condo hotels assess the owners as the need arises. At the Trump International Hotel at Columbus Circle in Manhattan, where all 167 hotel rooms and suites are condos, the owners recently had to pay for a \$12 million upgrade. For a one-bedroom suite facing Broadway, that worked out to about \$35,000, said Douglas Russell, a vice president and director of Brown Harris Stevens Residential.

Completed in 1996, the Trump building may be the only urban condo hotel with a track record. Mr. Russell said that in 2000, a very profitable year for the hotel industry, owners of a one-bedroom suite without a mortgage had a net gain of about \$35,000 from rentals; in 2002, their income dropped to about \$10,000.

As for appreciation, Mr. Russell said he paid \$385,000 for a 691-square-foot one-bedroom suite in 1996 and could sell it today for \$585,000. During that period, however, prices in the building's residential tower have doubled. "We haven't seen quite the appreciation that the tower has," said Mr. Russell, referring to the condo hotel. "Any time you put a restriction on something, you do to some degree hold back appreciation."

Owners of Trump hotel condo units in New York are not allowed to live there full time, because that portion of the project received a 12-year tax abatement. The Trump International Hotel in Chicago, priced from \$700,000 for one 608-square-foot room to \$3 million for a 2,000-square-foot suite, has no such restrictions on occupancy. Buyers are charged \$40,000 a room for the furniture, Mr. Russell said. The 90-story building is expected to be finished in 2007.

Even with all these new projects, Bob Waun, a vice president at Paramount Bank in Birmingham, Mich., said his bank was one of only five across the nation willing to write mortgages for buyers of hotel condo units. The rate is generally one percentage point higher than a traditional loan, he said.

But Paramount Bank is cautious, Mr. Waun said. A borrower can get only one loan in a particular project and is expected to look upon the property more as a second home than as an investment. "We like them to have some commitment to it, to go there," he said. "We don't want it to be a pure investment play." Borrowers who feel some attachment to a property are less likely to default, he said.

As a second home, however, a condo hotel may have some shortcomings. Mr. Falor was asked what would happen if the owner called at the last minute to reserve the unit. "If you call tonight, and the unit's not occupied, it's yours," he said. And if it is occupied? You are welcome to another room, he said, at "the best available rate."

READY-TO-USE OFFICES

Great Space.
Great Rates.
Great Terms.

- Save money: no up-front expenditure
- You choose the terms