

Hotel Condo Market Requires the Right Fit, Speakers Say

by Ed Finkel, Staff Writer, ULI Chicago

A summary of the September 28, 2006 ULI Chicago breakfast meeting presentation, "The Hotel Condo Market" held at the Chase Building's Mid-Day Club.

Featured Panelists:

David C. Pisor, *Managing Partner/CEO*, Elysian Hotels & Private Residences

Scott Manlin, *Vice President/Regional Manager*, Fremont Investment & Loan

Donald A. Shindler, *Partner*, DLA Piper US LLP

Hotel condominium properties can succeed in the right climate if built for the right reasons and if deals are structured the right way, said panelists.

Fremont Investment & Loan "exited the hotel business" after the downturn in 2001 but views condo hotels as being more akin to condominium opportunities and continues to pursue them, said Scott Manlin, vice president and regional manager. But it finances only "a handful" of deals per year, he said.

To succeed, such properties need "an urban lifestyle component" and a demand for second and third homes, either in destination locations or in markets where condo-hotel units are more affordable than comparable condominium properties, Manlin said. A third reason can be investment opportunity, but that's "the least important driver," he said.

Challenges facing condo-hotels include the overall downturn in the real estate market and rising costs that are generally higher than comparable condominiums, "except for at the very high end," Manlin said. "The cost of providing services, and whether they can be delivered on-budget, is becoming more and more of an issue. ... It's certainly a very different [real estate] market than it was a year ago."

Such projects succeed where they have a strong brand associated with them, Manlin said. "From a lending perspective, that gets us comfortable," he said. "This product type is here to stay. But it's not the solution for every hotel property that's not performing."

Elysian Hotels and Private Residences has had "tremendous success" in both the corporate and individual market, both locally and nationally, said David Pisor, managing partner and chief executive officer of the River North firm.

About 55 percent of Elysian residents maintain homes in the suburbs and are between 45 and 65 years old. "That's the sweet spot," he said. Another 20 percent are from out of state, occasionally international and 15 percent are corporations buying the units to use them rather than as investments, Pisor said.

The company's 188 hotel suites start at \$480,000 for studio suites and \$640,000 for one-bedrooms, while upper-floor private residences, which range from 3,400 to 12,000 square feet, begin at \$2.5 million.

Condo-hotels can be the worst of two worlds: a "real estate deal where you don't have control," and a business based on day-to-day service "down to the finest detail," said Donald Shindler, partner at DLA Piper US LLP, adding that such deals tend to be "document- and detail-rich."

As attorneys, Shindler and his colleagues are often asked to structure deals so developers are insulated from liability yet have the flexibility to "move with the market," he said. But those goals often conflict.

Illinois and Chicago are easier places to build with less oversight than other top markets like California, New York and Florida, Shindler said. But developers often make the mistake of thinking they can structure deals identically to those of other jurisdictions. "You've got to understand what the law requires," he said.

Shindler agreed with Manlin that condo-hotels are "not a flash in the pan" but believes they remain a questionable proposition. "Some would say the jury's out. The jury's been out for a number of years," he said. "They can do well. They require some patience. This is not quick money. The key is to understand what you're getting into."

"Look to what your purposes are and what your needs are," and then, from a legal perspective, "make sure everything's done right," Shindler said. "You need experienced counsel and properly structured legal documentation."

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