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Hotel &amp; Motel Management



Mark Tobin [left], president of HREC Development Resources, and Sean Hennessey, c.e.o. of Lodging Investment Advisors, share some downtime during the LIIC meeting in September. (H&MM/heather gunter)

PHOENIX—A softening market for condo-hotels doesn't mean the concept's heyday has passed, but the lodging industry and lenders are taking extra long looks before jumping into such projects, according to several members of the Lodging Industry Investment Council.

During a meeting in Phoenix before the start of The Lodging Conference in September, Scott Johnson, v.p. of acquisitions and development for Omni Hotels, said his company remains interested in the concept, but how much it delves into the condo-hotel phenomenon in the future will be directly related to the costs of construction and building materials.

"I'm seeing the condo market softening in a lot of markets. ... I mean, a lot of projects have been falling off the board," Johnson said. "... People that I'm talking to are all

talking about needing to get \$400 or \$425 a square foot for a condo. Construction costs for a condominium that's going to sell for that are well over \$300, so there's not much spread in there anymore. Two years ago, we were talking about \$220 or \$230 [per square foot] construction costs. So for us right now, it's difficult to find that—and that's not a margin that makes sense for us. ... But it's still out there and we're still looking at them."

Rich Conti, president of The Plasencia Group, who was president and c.o.o. of Boykin Lodging Co. at the time of the meeting, said a lot of demand for condo-hotels has dried up thanks to one group of former investors.



Making a point Mike Blahosky [right], first v.p.-director, CB Richard Ellis, discusses issues with Jim Butler [left], partner, Jeffer Mangels Butler & Marmaro and Douglas N. Dreher, president, The Hotel Group, during the Lodging Industry Investment Council meeting held before the start of The Lodging Conference in September. (H&MM/heather gunter)



LIIC's mission

"[At one time] 30 percent of our [condo-hotel] buyers were all speculators, and that 30 percent went away," he said. "These guys would buy any type of condo, let alone a hotel, pay \$600,000, wash the windows and sell it in three days for \$750,000. That has gone away."

Conti said one other phenomenon is occurring that he has never seen: Investors are walking away from deposits.

"You're having people walk away from hard money. You're seeing that happen today because they don't have anybody to close," he said.

But that doesn't mean there aren't pockets of success for the condo-hotel concept.

"If you drive down [from] Sunny Isles [Beach, Fla.] to Miami, you will see more cranes than you saw in Dallas in the heyday of construction, and half of these are going to be condos or condo-hotels," he said. "There's going to be a lot of opportunities there."

Mark Tobin, president of HREC Development Resources, said the condo-hotel craze has even had an effect on public-private hotel development.

"What's happening is the condominiumization of our hotels, and we're scrambling because there's a reduction in the available room supply, a reduction of available room blocks per key, and the notion that total room count and total room block availability diminishes, is causing municipalities to look at alternate capital structures to have access that they can control," Tobin said. "So we're seeing a lot of interest in the product in some of those states; anywhere you can find a place that has a place for condominium attraction and interest, you see an interest on the part of municipalities."

The change in the condo-hotel climate is causing other subtle changes, said Jim Butler, partner with Jeffer Mangels Butler & Marmaro. The law firm has assisted in more than 80 condo-hotel deals.

"We're really rethinking that name, we're now calling them 'hotel-enhanced mixed use,' because at least our projects aren't intended to sell the floor model if somebody takes the hotel and converts 100 percent of the



Changing Flags

rooms to condos," he said.

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