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Condo Hotels Sweeping Metro Orlando

By Christopher Boyd, The Orlando Sentinel, Fla.
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If hotel-development plans arrived with the thunder of artillery shells, this would be a year of deafening roars.

After years bemoaning a lack of decent business-class hotels, Central Florida's travel industry may finally get what it wants.

But what makes this wave so unique are the hotels' owners. These new projects would have hundreds of them, most with only a vague understanding of the hospitality industry.

Meet the condominium hotel. Developers plan to sell rooms and suites as condos, marketing them as vacation homes that generate a cash flow. Buyers can use their rooms for vacations and collect money the rest of the year as their property is rented to hotel guests.

"Condominium hotels offer a way for developers to get into sites where the highest and best use for the land is a hotel," said Mark A. Lunt, a lodging-industry expert with Ernst & Young in Miami.

From the Lexington at Orlando City Place, a 227-room hotel in downtown Orlando, to the 1,260-room InterContinental Resorts & Residences at Palazzo del Lago on Lake Bryan off International Drive, condo hotels are sweeping the region.

Central Florida isn't alone. Las Vegas, Chicago, Miami Beach and Palm Springs, Calif., are germinating condo-hotel projects of their own. Taking deposits from buyers before construction starts gives hotel developers the money to get construction loans, which sometimes are for hundreds of millions of dollars.

"Construction costs have gone up so much that they have forced some developers out of the market," Lunt said.

In Central Florida, commercial-construction costs have exploded, climbing about 40 percent during 2005 alone. That has added enormously to the cost of new projects.

Condo hotels first appeared in the 1970s, but they were rare. Until recently, most hotels were built the old-fashioned way, as business propositions with a single owner. By contrast, associations of buyers own condo hotels, retaining management companies to

handle day-to-day business. In many cases, condo-hotel developers move on after their projects are built and sold out.

Lodging-industry experts say a lot needs to be learned about condo hotels, including what will happen to owners' units if the hotel doesn't prove financially successful.

Developers avoid depicting the hotel units as investments, saying that federal securities regulators restrict such pitches. Instead, they call them vacation residences.

"They can't be sold as investments," said Pat Ford, president of Lodging Econometrics, a hotel-real-estate consulting and research firm in Portsmouth, N.H. "If you are looking to invest money and receive a normal rate of return, you would be better off putting your money elsewhere."

Like any hotel project, condo hotels should be built to meet a need, Ford said. He advised buyers to consider how well the hotel is likely to perform once it is built.

"There has to be a reason for the hotel to be built," he said. "There has to be sufficient demand from the market, and there has to be a desire on the part of the consumer to use the hotel for repeat vacations."

Ford said the most obvious locations are tourist destinations, where a strong demand for hotel space is matched with a location where buyers would want to go again and again. He said Florida meets those conditions, and that 40 percent of the condo hotels announced so far are in the state.

"The top locations have an oceanside, casinos or theme parks," Ford said.

"I would call this a unique opportunity for people who want to use the property for 60 or 90 days a year," said Camilo Aguirre, a principal in CMA Development Group of Miami Beach, which announced plans for The Blue Rose, a 1,300-room condo hotel on Universal Boulevard. "We're finding all kinds of people who want a vacation home."

Aguirre is building another condo hotel on South Beach.

"The condo hotel is a perfect fit for beach people," Aguirre said. "If they owned a regular condo, they would have had restrictions on how often they could rent it out. With a condo hotel, renting isn't a problem."

Conventional condominiums often place restrictions on rentals, making it difficult for owners to rent to short-term tenants. That problem doesn't exist in a hotel.

Most hotel developers don't expect owners to occupy their properties for long stretches. But there are exceptions. Victor Barrios of Clermont says he is interested in buying a condo-hotel suite as a residence.

"My wife and I would want to live in the hotel," he said. "It has a certain appeal, though I guess after three or four years you might get tired of hotel living."

Barrios said he thinks a hotel suite would be a good investment if he finds one offered at a reduced pre-construction price.

"Mostly it's an investment opportunity," he said. "If you can get in at a good price, you can make a hefty little profit after it is built."

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