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## CONDOTELS

'Home Away From Home' Concept Hits Chicago

by Erin Breerton

Your clients may understand that buying a second home can be a great investment—but imagine that investment including a maid, a concierge, a personal spa and more.

Sound impossible? It's not. It's luxury meets residential living; and it's the theory behind one of the hottest real estate trends today, the hotel-condominium combo, or "condotel."

Widely attributed to being pioneered by the Trump Corporation—which claims to have dreamed it up in 1997 when they were trying to create uses for a very specific, commercially zoned portion of the Trump International Hotel and Tower—the concept involves selling suites as residential units within a renovated hotel or one that is new construction. Although the amount of residential units in each condotel differs, they typically offer some similar amenities such as hotel service, along with the ability to make money off otherwise-empty units.

The Trump Organization is building perhaps the most high-profile condotel project, Chicago's upcoming Trump International Hotel and Tower, atop the former Chicago Sun-Times site at 401 N. Wabash

Avenue. Supervision of the construction project was local businessman Bill Rancic's prize for winning the first season of Donald Trump's hit show "The Apprentice," and since hitting the market, the building's 286 hotel condominium units are selling fast at a whopping \$1,200 per square foot.



Simulated view of Lake Michigan from a living room model in Trump International Hotel and Tower

Although this is Trump's first project in Chicago, vice president of Development and Acquisition, Donald Trump Jr., wasn't surprised the Windy City proved to be such a strong condotel market.

"It's an incredible city, similar to New York with a lot of wealth," says Trump, who travels here weekly to stay updated on the project's progression. "There are sophisticated buyers here who were really ready for a Trump project. They've done well for themselves and don't mind being pampered."

Indeed they will be at the Trump International Hotel and Tower, which will sport a 60,000-square-foot health club and spa, 1.2-acre Riverwalk Park with a residents-only dog run, 24-hour doorman (clad in white gloves), concierge and boutique shops, among other things, upon its 2008 completion.

The luxury condotel units come in three variations: studios, which range

from 526 sq. ft. to 907 sq. ft.; one-bedroom/two-bath units, which range from 1,067 sq. ft. to 1,538 sq. ft. and two-bedroom/three-bath units, either 2,032 sq. ft. or 2,245 sq. ft. The hotel is responsible for all decor, which includes a luxurious bathroom, fully equipped urban-style kitchen, as well as state-of-the-art technology including flat-screen plasma TV, DVD and CD players, and wireless internet access.

But luxury isn't a condotel's only calling card. Those looking at property as an investment could also benefit from owning a condotel, as the unit can start making them money—physically, not figuratively—from the day they close.

“With ours, when you buy a key, you own it,” Trump says. “When there is a wedding in the ballroom, the revenue from that event is distributed to all the owners.” For those who opt into the rental program, a black-box system allocates guestrooms over time so each interested owner gets a chance to rent theirs out. Revenues from individual unit rentals, after taxes and assessments, are paid to the owner on a quarterly basis. The hotel management does not share in the revenues.



**Trump International Hotel & Tower**

At Trump International Hotel and Tower, there is no limit to the amount of use that an owner may have of a condotel suite. However, the hotel amenities are not free; owners must pay a Per Use Fee to stay in their unit, which covers housekeeping, maintenance and other amenities. Also, spa use, room service dining and parking will also cost owners extra.

“The biggest challenge in selling our condominium hotel units is differentiating our [building] from the current perceptions of what exactly the buyer is purchasing and the options this type of ownership offers,” says Tere Proctor, director of sales for the project through Koenig & Strey GMAC. “Trump Tower is unique in the following ways: One, you are purchasing a condominium fee-simple, just as you purchase any other condominium (no shared ownership). Two, you use your unit as much or as little as you like, or not at all. Three, you pay 100 percent of the cost of ownership, and you get 100 percent of any income derived from the hotel renting out your unit, should you choose to do so. Trump manages the hotel for a fee to the association.”

These key selling points have helped woo many buyers considering the Chicago Trump property.

“Once buyers understand the product they are very receptive,” Proctor says. “They realize the many opportunities that this type of ownership offers. [We have] second- and third-home buyers, in-town homeowners, investors. We even have a plastic surgeon who [purchased] several to use for his clients.”

In addition to Chicago, the Trumps are also building a huge condotel—sans casino—in Las Vegas. The approximately 1,300-unit building, which is still under construction, sold out after only three months on the market.

### **THE HOUSE WINS, TOO**

Condotel owners aren't the only ones winning with this unique residential model. In the days when Trump Jr. notes that even the finest hotels are only occupied 75 to 80 percent of the time, having a condo component to a hotel can greatly increase that hotel's chances of securing backing.

“It's very difficult to finance an ultra-luxury hotel in today's marketplace without a real estate component,” says Mary Beth Malone, vice president of Marketing and Public Relations for the Elysian.

The 40-story Elysian building, developed by the Elysian Development Group, will be located on the corner of Rush and Walton streets and will feature 183 studio and one-bedroom units ranging from 608 to 1,264 sq. ft. The 608 and 632 sq. ft. studio suites currently start at \$460,000. Construction is set to be done in 2006, and the building's condo units are already 65-percent sold.

“We started marketing quietly in 2003,” Malone says. “Our [driving force] is to create the finest ultra-luxury, a new brand in hotels. Almost all suites have terrace, fireplaces, two plasma TVs and separate bedrooms.”

The Elysian also will feature a street-level bistro, 18,000-square-foot spa and exercise center and a ballroom that seats 125. The structure will be smaller than some of its kind, but Malone says that helps the

building's overall goal.



**The Elysian**

“We offer a very personal degree of service when [guests or owners] arrive,” she says. “The smaller number of suites enables us to offer more personalized services.” Because condotels are, after all, designed to be more accommodating than your average one-bedroom home.

“It’s not a condo where you arrive [after being gone for a time] and find there is mostly nothing in the fridge, that you need to turn up the heat and clean the place,” Malone says. “All hotel services are right in the building. The fireplace is lit. Candles are ready. Sheets have been cleaned—you can just slip in. There is maid service, too. Your second home is ready.”

The second-home mentality is a key selling point buyers should be made aware of, according to Elysian Sales Manager Olivia Cardenas.

“Purchasing [one of our] condos lets buyers have the benefits of a luxury hotel at their fingertips,” Cardenas says. “With the year-round maintenance, it’s truly a lifestyle purchase.”

### **WHO BUYS A CONDOTEL?**

Some condotel buyers are frequent Chicago travelers. Others are out-of-towners with family in the area. Still others are real estate investors.

Yet even though it offers all the elegance, prime location and service found exclusively in five-star hotels, the condotel isn’t for everyone. In addition to a regular mortgage payment (condotels are financed, for the most part, like any other home purchase), those amenities can come at

a high cost, making the units in some cases quite expensive. In order to enroll in the condotel rent-out programs in some of the hotels, you may need to pre-designate when you will and won't be occupying the unit. Some programs also require the house gets its share of your profit.

At the Elysian, you are required to purchase your unit fully furnished and can opt into the rental program for 14, 35 or 90 nights. Your rental revenue is determined by which program you participate in—for example, renting your unit out will you 42 percent of the rental charges for the room.

Malone says most of the potential buyers visiting the Elysian sales office, which operates by appointment only, are either people looking to just invest in real estate or those looking for a unique second home.

“It’s interesting,” she says. “This is the second or third home for most of our purchasers. For the guest suites, our typical buyer is in the [age] 40 range, and it’s people who live in the suburbs, who at one time lived in the city, and once their kids are raised want to move back to the city; or [it’s people] who want to stay connected to the city.”

These empty-nesters are thrilled to find a location so close to Gold Coast shopping gems like Michigan Avenue and Oak Street that also offers them significant space.

“[These are people with] large, large homes in the ‘burbs who want to move into the city, but they want to replicate their large homes,” Malone says. “It’s the opportunity to have a place in a very desirable location.” It’s also the chance to have a place that doesn’t sit vacant—sans food, heat and cleaning—for months at a time, says Robert Falor, president and CEO of Falor Companies, a leading condotel developer.

“Some buyers have told us, ‘Gee, I have this one-bedroom unit downtown and when I come down, we stay at hotel or have to go out to breakfast,’” Falor says. “These are people who buy real estate hoping that it appreciates. They want the amenities but not the hassle—that’s mainly the profile of the buyer outside of Chicago.”

Even though the building’s two audiences—hotel guests and unit owners—may have very different agendas and experiences while staying at any given condotel, the developers don’t anticipate any problems. According to Malone, having hotel guests come in and out of the property constantly isn’t a huge detriment to the condo unit owners.

“There is no friction because people buying them know they are buying in a hotel,” she says. And to ensure the peace, the Elysian has designed a private elevator and entrance on Walton Street.

### **HOTTEST HOMES ON THE MARKET**

As the condotel juggernaut rattles on, it picks up more and more supporters. And to many, it’s an easy sell because even though the condotel system is new, it has a familiar ring to it.

“Before, it was ‘Buy a condo or timeshare,’” Falor says. “Now it’s ‘Buy



[condotels]. [Buyers] know what a condo is, so it makes it easy for them to understand whole concept. They can wake up one day and want to sell it, and when they're not using it they can go into the management program and cover some expenses.”

Since Falor Companies began converting hotels into condos two years ago, it has become one of the leading condotel forces in the market with more than 12 locations in places such as South Beach and Sausalito, Calif. The company has two Chicago locales, the Aldens Hotel and Hotel Blake. The 162 deluxe guestrooms at the Blake are priced from \$227,000 to \$585,000, and range in size from approximately 355 sq. ft. to 950 sq. ft.

Darlene Faust, RPA, real estate and hotel condominium specialist at Sudler Sotheby's International Realty, handling sales for Hotel Blake Condominium Residences, says, “Purchasing hotel condominiums is distinguished from purchasing traditional condominiums by essence of its unique alternative to own a pied-a-terre in the city with well-appointed benefits, features and amenities, [including] alleviating the burden of day-to-day cleaning and maintenance. Hotel Blake delivers to owners a furnished, chic suite within a luxury boutique hotel and at attractive purchase prices.”

To Falor, who says his company was the first to get involved in simultaneous multiple conversions in different areas of the country, molding hotels into homes made perfect sense.

“We've been in the hotel business forever. I've been in it for 16 years and my dad has been in it for 42 years,” Falor says. “We've been buying and renovating buildings forever, and it was just a natural progression. This is a great resort market. The property has a long history of people who come back year after year.”

One 203-unit building Falor renovated featured 96 condo-converted units that were expected to sell for \$750 a foot. Once the building hit the market, they sold for \$1,400 a foot.

The company is now working on its 12th such development, having recently closed on the Hotel 71 space on Wacker Drive. The \$25-million renovation of the building—including a new lobby space, redone bar, completely gutted guest rooms and the addition of an 8,000-square-foot full-service spa—is slated to be done in April 2006, but units will go on sale within the next three to four months.

“We felt it was a demand,” Falor says. “People told us it was crazy, it would never work in Chicago, Boston or D.C., yet we found tremendous amount of demand.”

As Malone pointed out, the condotel concept may be fairly new to the Chicago market, but the idea of luxury is anything but. “Coco Chanel and Frank Sinatra lived in hotels because of the service,” she says. “We saw it as a great opportunity to allow people to have something in town that won't sit empty when they're not in it.”

### **Trump International Hotel and Tower - Sales Center**

900 N. Michigan Ave., Suite 1700  
312.644.0900; [www.trumpchicago.com](http://www.trumpchicago.com)

### **Elysian - Sales Center**

605 N. Michigan Ave., 3rd floor  
312.664.9500; [www.elysianhotels.com](http://www.elysianhotels.com)

### **Hotel Blake - Sales Center**

500 S. Dearborn Ave.  
312.344.4966; [www.hotelblake.com](http://www.hotelblake.com)

## **Questions agents should ask on behalf of interested condotel buyers:**

#### **1. IF OPTING INTO THE RENTAL PROGRAM, IS MY CLIENT'S SUITE ROTATED EQUALLY WITH OTHER SUITES?**

Some management companies offer preferential treatment instead of a standardized system. At the Falor Companies' properties, fairness is ensured by an equal rotation of rental units, controlled by an independent software system.

#### **2. HOW MUCH NOTICE DO OWNERS NEED TO GIVE WHEN THEY WOULD LIKE TO OCCUPY THEIR UNIT?**

Some units require you to sign up for a two-year program stating how many days you will be in the unit. Some, like Falor Companies, are more flexible. "Depending on the time of the year, the time can range as low as a few days to several weeks notice," Falor says. There is no limit to the amount of owner use at Trump Hotel and Tower, which requires only a 24-hour notice, and if the owner's unit is rented, they will put them up in an available unit.

#### **3. WILL MORE HOTEL ROOMS BE CONVERTED INTO CONDO UNITS IN THE FUTURE?**

Although some new-construction properties, such as the Elysian, say the numbers are a little fluid as the project moves forward, others have set numbers, which is key in larger buildings where service could suffer if condo occupancy is at a higher rate.

#### **4. WHO MANAGES THE BUILDING?**

Is it a reputable management company? The hotel/condo arrangement is a delicate blend of timing, service capability, attention to detail and more, so having an inexperienced group managing the building could mean parts of it fall into neglect or programs discontinue.