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Taking Reservations

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JUST when investors thought they knew everything about vacation home purchases, along comes a brand-new way to spend lots more money.

Hybrid condo-hotels — luxury hotels whose rooms or suites are sold as condominiums and are available to owners from a week to three months a year — are on their way to California, with 22 projects already announced and more planned.

In the Southland, 5,500 people seeking a youthful, urban scene already are on a list at the new Hard Rock Hotel San Diego to purchase rooms that start at \$400,000. Resort enthusiasts who want to watch dolphins frolic outside their ocean-facing rooms are signing up to buy casitas and villas at Terranea Resort in Rancho Palos Verdes, starting at \$1.9 million. The Remington Las Montanas Resort Hotel & Spa in Indian Wells soon will be selling units from the low \$900,000s. And La Costa Resort and Spa in southern Carlsbad has built 21 of 39 units, called the Villas, with plans for more. The condos run from about \$1 million, for 1,780 square feet, to \$1.5 million for 2,500 square feet.

Several other projects, not yet confirmed, are being talked about for Santa Monica, West Hollywood and Beverly Hills. The newly renovated Beverly Hilton is considering a number of options for the landmark, including possible condo-hotel units. The 118-year-old Hotel del Coronado in San Diego is developing 28 condo-hotel units on the property, and at least two condo-hotels are slated for Anaheim.

The concept — in which buyers are the sole owners of furnished units they can use and rent out — took hold in Hawaii and South Florida three decades ago but only recently caught on in Las Vegas, Chicago and New York. Nationwide, 228 U.S. condo-hotels are in the pipeline, according to Jan Freidag of Smith Travel Research, a leading lodging-industry research firm.

To attract buyers, developers partner with brand-name chains, such as Four Seasons, Starwood and Mandarin Oriental. By selling individual units, developers get some of the construction money up front, which in turn spurs lenders to finance projects they view as producing a more stable revenue flow than traditional hotels.

And those who invest? “It gives them use in a really glamorous, high-profile place with a clubby, well-known brand,” said Rick Davis, a

Los Angeles hotel-industry attorney. “And it gives buyers some amount of income to offset ownership costs.” Under most condo-hotel plans, rents are split 50-50 with the hotel owners, who often, but not always, manage the rentals.

This is no time-share arrangement, in which participants buy a week’s stay in a unit, for example, as part of a pool of as many as 51 other owners.

With condo-hotels, the time allowed for owner use varies and is tied to the rules established by the hotel. Time allotments also typically are dictated by the city in which the hotel is located. When owners are not occupying the units, the rooms are rented out. When owners sell the units, they get all the proceeds.

The hotel owns and maintains the common spaces, such as pools, restaurants and spas, to which condo owners have full access. Unit owners pay monthly fees — which vary according to the number and quality of amenities.

“I want the Hard Rock cachet and the four-star service it provides,” said Gregersen, who lives in Los Gatos, Calif. “I’m buying a good investment and a lifestyle.” “I view this as a long-term investment,” he added. “I think I can’t go wrong in San Diego.”

—JEFF GREGERSEN

He plans to invest in the condo-hotel.

As condo-hotels have grown in popularity and conventional lenders have become better educated about this type of housing, banks have stepped up to provide mortgages as they would for any second home, said James Butler, a Los Angeles real estate and hospitality attorney. Buyers pay their own property taxes on the units.

Owners have the same tax assessments and benefits as typical condo owners. If the unit is a second home, it’s treated like a rental property, so the owner is taxed on the rental income that remains after the deductions for expenses. The portion of mortgage interest that is related to personal use may be deducted as second-home interest, said Mike Cain, a Woodland Hills accountant.

Sound good? Don’t start packing any suitcases yet. Very few Southland condo-hotel rooms are available at present, and most won’t be until at least next spring.

That has not deterred Jeff Gregersen, a single, 35-year-old real estate-investment consultant who is on an interest list for a condo at San Diego’s Hard Rock Hotel. The resort began taking deposits Thursday. This spring, when units hit the market, Gregersen said he will select a condo in the \$600,000-to-\$800,000 range.

The businessman chose San Diego for a vacation home because of the city’s year-round temperate climate and the night life in the Gaslamp Quarter, which is stuffed with restaurants and clubs. He rejected the idea of buying a single-family home, which he said would be hard to rent out short-term and too far from the downtown action. His move-in-ready, furnished hotel room will generate about \$200 a night from conventioners and leisure travelers.

The Hard Rock, which is being developed and managed by Tarsadia Hotels, will offer all of its 420 suites for sale, including 320-square-foot rooms and 1,700-square-foot “Rock Star” suites. Owners can occupy them up to 28 days a year.

Oceanfront casitas with sweeping views of Catalina Island attracted Robert Floe to Lowe Destination’s Terranea in Rancho Palos Verdes — a planned 400-room hotel on the old Marineland site with 82 condo units for sale.

Already the owner of a penthouse time-share condo in Hawaii, the 50-year-old Pasadena investment advisor wanted an amenity-stocked weekend getaway much closer to home. So he and a business partner purchased a 2,000-square-foot casita on the bluff at Terranea for more than \$2 million. The owners can divide the 60 days per year they’re entitled to use the casita and draw income from renters they hope will occupy the unit the other 305 days.

“The minute I saw the property, I was very interested,” Floe said. “I know how scarce that land is in Los Angeles and wanted a part of it.”

The condo-hotel property, on a promontory that provides a marine-mammal show 100 feet offshore, will feature adult and children’s swimming pools, a spa overlooking the coast, a beach club, conference rooms and restaurants.

In Indian Wells, Remington Las Montanas is scheduled to begin construction next year on a 265-unit condo-hotel with two-bedroom suites, each occupying 1,442 square feet plus 475 square feet of outdoor space with an outside fireplace. Rooms will sell from about \$900,000 to about \$1.4 million, depending on the view,

said Robert Haiman, senior vice president of Remington Hotel Corp. The desert hotel also will have restaurants, pools, a spa and 60,000 feet of meeting space.

Although the condo-hotel concept is riding a wave of popularity, there are some obstacles. The urban models are successful only if they attract rent-paying guests on weekends as well as weekdays, experts say.

Owners of resort condo units may have to plan their own vacations around the high season to maximize the rents they receive and to cover the low-season months when rents run dry, said

Steven Roszell, owner of the online directory CondoHotels.com.

Developers must follow strict rules set out by the Securities and Exchange Commission, which considers a condo offering a security if prospective buyers are told in advance of their purchase about potential revenue and tax benefits, attorney Davis said.

Because most developers want to avoid selling their projects as securities, they typically do not discuss the financial benefits with potential buyers, so some buyers may purchase units without knowing all the facts.

“Unfortunately, some developers look at this concept and jump right on the bandwagon,” whether they’re experienced enough to run the complicated venture or not, research analyst Freidag said.

There’s no denying the appeal, though, buyers say.

“From my home, I can be at an oceanfront property I own, with a spa, bars and golf course, in 50 minutes,” Floe said. “You can’t beat that.”

How condo-hotels measure up

A comparison of condominiums, condo-hotels and time shares.

Category	Condominium	Condo-hotel	Time share
What you get	Often two and three bedrooms, and always with a kitchen Condo-hotel	A hotel room, from standard to suite, often without kitchen facilities	Ranges from studios to penthouses, usually with kitchenettes
Length of stay	May occupy unit anytime, 365 days a year	Generally, the length of stay is limited—typically one week to three months	Entitled to occupy during the share purchased—one or two weeks, for example
Cost	\$275,000 and up, beyond \$2 million in many Southern California locations	About \$350,000 (studio) to \$15 million (penthouse)	\$4,500 to \$25,000 per week
Ownership of unit	Whole	Whole	Shared
Additional annual fees	\$175 to \$1,150 (generally excludes utilities)	\$350 to \$2,300 (usually includes utilities)	\$450 to \$750
Owner income	Rentals may be restricted by homeowners association CC&Rs Condo-hotel	Owners usually must make the unit available for rent when not occupying it by joining the developer’s sponsored rental program, hiring an independent rental agent or renting the unit themselves	Varies by management company

Price comparisons are estimates and vary by development.

Sources: Greenberg Traurig, Conde Nast Traveler, CondoHotels.com

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