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Condotels Meet Investors' Business and Leisure Objectives, Offering First-Class Amenities and Share of the Revenues

By Julie Bennett

Bob Waun is CEO of Vacation Finance, a mortgage brokerage and lending company in Birmingham, Mich. He owns two hotel rooms that pay him to stay away.

Until recently, Mr. Waun owned a traditional vacation home, a cottage in upper Michigan. But after a particularly bad winter -- he arrived during a snowstorm to find that the plow service hadn't cleared the driveway and that the pipes had burst -- he sold the cottage and bought two condo hotel units instead.

Now, Mr. Waun and his family vacation in resort hotels in Michigan and Florida, and earn money when the rooms they own are rented out to other guests. Mr. Waun, his wife Lynn and their nine-year-old daughter spent the Memorial Day weekend in their unit at the Inn at Bay Harbor in Petoskey, Mich., a 152-unit condotel managed by Marriott's Renaissance brand.

"As we were checking out, someone else was checking into our room and I made \$60 that night," Mr. Waun says. "If Marriott rents out the unit during the Fourth of July holiday, I'll make enough money to take my family on a trip to Mexico."

Experiences like Mr. Waun's are driving the market for condotels -- condominiums you buy that can be rented out as hotel space. According to Smith Travel Research in Hendersonville, Tenn., almost 10% of all hotel rooms under construction in the U.S. are condotel units and there are plans for 232 condotel projects with 98,237 rooms that could be built within the next decade.

Condotels are also being developed in Europe, South Africa, the Middle East and the Caribbean. Joel Greene, president of the Condo Hotel Center in Miami, a real estate brokerage firm that deals mostly in pre-construction units, lists 115 projects on his Web site, including five in Dubai.

A financing solution

Guy Maisnik, an attorney with the Global Hospitality Group of Jeffer, Mangels, Butler & Marmaro LLP in Los Angeles, says his firm has handled 65 condo hotel projects and "almost all the new projects we see have a condo hotel component. This is a concept that definitely has legs."

Condotels started in Europe and first appeared in south Florida in the 1980s, but did not become popular until the travel slump after 9/11 made it difficult for hotel developers to obtain conventional financing for new projects. They turned to the condotel concept, pre-selling rooms to individual investors, to raise equity.

In theory, the condotel meets two objectives -- that of the developer to get a project built and that of the buyer who, like Mr. Waun, wants a hassle-free place to vacation and the chance to make a little money on the side. Baby boomers are becoming active vacation homebuyers, says Mr. Maisnik.

"If you buy a condo in Aspen," he says, "you're not likely to use it more than 30 days a year. If you want to rent it out, you'll have to hire a management company and take your chances. The attraction of a condotel is that you can own a unit in a hotel with a well-known name, like Trump or Mandarin Oriental, enjoy first-class amenities and standards of maintenance, then let the hotel company arrange all rentals for a 30% to 60% share of the revenues."