

What Is A Condo-Hotel?

The hotel industry buzzword of the year must be “condo-hotel.” While everyone seems to be doing some type of condo-hotel project, I have found there is no consensus as to exactly what a condo-hotel actually is. I can think of at least three different and very distinct definitions and product types for the term “condo-hotel.” Unfortunately, hotel industry players use this term indiscriminately, which creates much confusion and misunderstandings. My column this month will attempt to provide a uniform definition for the term condo-hotel by utilizing the following three examples:

The Ritz-Carlton, Boston

The new Ritz-Carlton in Boston is often referred to as a condo-hotel because it contains a number of residential condominium units housed in the same building as the hotel. Most of these units were sold to people who wanted a primary residence in the center of Boston where they could utilize some of the services provided by the hotel, such as catering, spa and housekeeping. The residential condominium units are apartments containing separate living and sleeping rooms and full kitchens. They utilize a separate entrance, lobby area and elevators from the hotel.

The hotel benefits from the residential component through the sale of hotel services along with a higher usage of the restaurant, lounge and spa facilities. The synergistic effect of a hotel/residential condominium typically enables the developer to sell the condominiums at prices 10% to 30% higher than residential projects without a hotel component. Since this type of hotel/residential development is aimed at the primary homebuyer, there is usually not a rental pool program where the condominium owner allows the hotel to rent their unit to transient guests and split the room revenue with the owner. This type of condo-hotel typically is located in city center and residential communities.

The Ritz-Carlton, Key Biscayne

The Ritz-Carlton in Key Biscayne, Florida, often is referred to as a condo-hotel because it contains a number of residential condominium units housed in an adjacent building to the hotel. Unlike the Ritz-Carlton in Boston, these condominiums were sold as vacation homes to buyers desiring to utilize them as secondary residences during the winter for one to four months. When the owners are not occupying their units, they can be put into rental pool and rented to transient guests by the hotel. The room revenue is typically split 50-50 between the hotel and condominium owner.

The residential component contains apartments with separate living and sleeping rooms and full kitchens. Because these units need to be rented as hotel rooms, they are usually fully integrated within the hotel complex. The hotel benefits from this arrangement because it increases its inventory of rooms to sell without the capital investment risk. The unit owner benefits from the services provided by the hotel, which often includes the pool and other recreational facilities along with the rental pool income and, in some

cases, income tax benefits. This type of condo-hotel typically is located in leisure destinations.

Westin Grand, Vancouver

The Westin Grand Hotel in downtown Vancouver, Canada, is referred to as a condo-hotel because each hotel room is a separate condominium that has been sold to an individual investor. Room revenue generated from the rental of the guestrooms is put into a rental pool and divided among the condominium owners based on a usage formula. Unlike the previous residential condo examples, these units look like regular hotel guestrooms—without kitchens and extensive living areas. To the transient guest, the Westin is a normal hotel.

The owners of this type of condominium are looking primarily for a return on their investment rather than a place to stay. In some instances, they structure their ownership as a business and take advantage of depreciation and other tax advantages. The condo-hotel developer benefits by having an immediate (and often lucrative) exit strategy by selling the hotel units to investors at prices that often exceed what can be raised through limited partnerships. This type of hotel can be located almost anywhere.

Well there you have it—three examples of how the term “condo-hotel” is often misused. Let me propose the following solution to this definitional nightmare.

The term “condo-hotel” will be applied to the type of hotel ownership structure described in the Westin Grand Hotel in Vancouver. Since the hotel itself has been “condominiumized” rather than just the adjacent residential component, this is the most logical application of the term condo-hotel.

I would call the hotel described in the Ritz-Carlton Boston as a “hotel with a primary residence condominium component,” usually without a rental pool. In this example, the hotel component would be owned in its entirety rather than as separate condominium units sold to individual investors.

The Ritz-Carlton in Key Biscayne would be called a “hotel with a secondary residence condominium component,” usually with a rental pool. As with the Ritz-Carlton in Boston, the hotel component would be owned in its entirety rather than as separate condominium units sold to individual investors.

Of course, there could be different permutations of these structures that could blur these definitions. But this is a good start, and I would appreciate hearing from anyone who might have suggestions for improving my first attempt. I look forward to your e-mails. ♦



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