

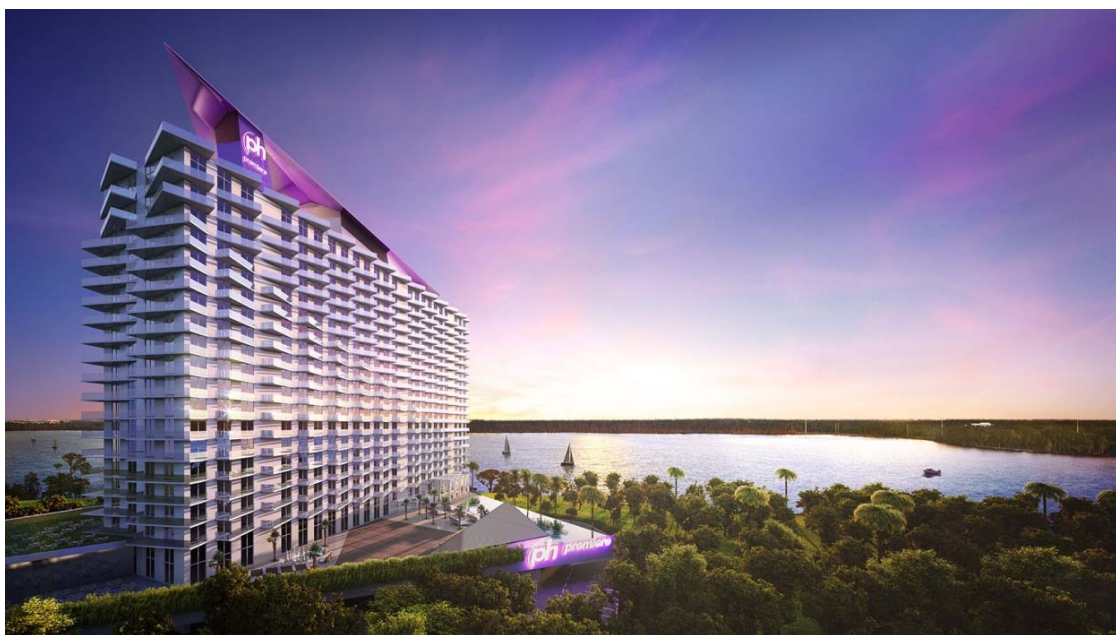
## THE CONDO HOTEL REPORT

### Is a Condo Hotel Right for You?

#### Q. What is a condo hotel?

A. Condo hotels are usually large, high-rise, properties located on prime real estate and operated by the biggest names in the business including Trump, Four Seasons, Ritz-Carlton, Sonesta, Starwood, Hilton, W, Planet Hollywood, Hard Rock Hotel, Hyatt and Le Meridien.

Condo hotel units are sold to individual investors who may use their unit when they want and place it into an organized rental program when they're not in residence. A portion of the rent revenue the unit generates goes to the hotel operator, and the balance goes to the unit owner, helping to defray the costs of ownership.



ph Premiere Hotel & Spa Orlando is a lakefront condo hotel located near Orlando, Florida's many theme parks and attractions.

#### How does a condo hotel differ from a traditional condo?

Every unit in a condo hotel looks identical to one another and is maintained by management at the highest possible standards. Condo hotels are designed to be vacation/second homes that are typically used only a few weeks each year by their owners.

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When owners are not in residence, they can place their unit into the hotel rental program and receive a percentage of the revenue the unit earns.

A traditional condo is designed to be a primary residence. It may or may not have a major franchise like Ritz Carlton or Four Seasons running it, but it does not offer owners the opportunity to rent their units for them.

Owners can live in the condo full time or treat it as a vacation/second home. They can rent it out if they want and can also decorate it the way they want. By the way, if you're interested in a traditional condo in Florida, we have many properties we can show you upon request.

#### **Q. What are the main advantages of condo hotel ownership?**

A. Most condo hotels are exceptional properties. They have four- or five-star amenities like world-class spas, resort-style pools, state-of-the-art health and fitness centers, gourmet restaurants and fully-equipped business centers.

They may also provide an expanded array of hotel services such as valet, concierge and maid service.

Most condo hotels are built on prime, highly desirable property. For example, the majority of condo hotels located in South Florida and in the Caribbean are either right on the ocean or within a few blocks of the beach.

Condo hotels in Orlando are built close to the area's theme parks. Out West condo hotels are often built near popular ski slopes. Condo hotels in Las Vegas are built on or near The Strip.

Condo hotel unit owners can receive revenue from participating in the condo hotel's rental program, helping to offset their ownership expenses and possibly resulting in a small annual return.

Finally, condo hotel ownership is 100% hassle-free. Property maintenance, upkeep, operation of the amenities and guest service issues are all handled by management.

#### **Q. What is the main role of the condo hotel operator?**

A. The operator of the rental program, in exchange for a share of the revenue, markets the units as a hotel, takes reservations, operates the front desk, staffs and maintains the entire property, and provides the services hotel guests expect, such as housekeeping, food and beverage, and concierge.

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Additionally, unit owners are more likely to receive a higher level of rental income by being in a rental program with a recognized professional operator because the hotel's national affiliation, sophisticated reservation system, brand recognition, and management expertise helps ensure higher occupancy rates and the ability to charge higher rental rates.



W Ft. Lauderdale Hotel & Residences is a condo hotel built in 2009. It has a premium location just across the street from the beach in Ft. Lauderdale, Florida.

**Q. What is the typical revenue split?**

A. Although it varies by condo hotel, usually it's in the 50-50 range. That is, after expenses have been deducted, 50% goes to the individual condo hotel unit owner and 50% goes to the condo hotel operator.

**Q. Are revenues from the condo hotel units in a property pooled?**

In U.S. properties, revenues cannot be pooled, according to regulations of the Securities and Exchange Commission. Thus, the revenue you receive will be directly correlated to the revenue your condo hotel unit generates.

In other countries, some properties do pool revenues, however, there is a formula to ensure that owners receive a fair percentage based on the specific unit they own.

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### Q. Who pays for maintaining and repairing common areas of the condo hotel?

The cost is divided up among the owners who must pay a monthly HOA fee. The fees typically cover common area maintenance, property insurance, utility expenses and reserves. The hotel management company pays for its costs of operation including marketing, reservation systems, salaries and other direct hotel expenses.



Most condo hotels have four- or five-star amenities like world-class spas, resort-style pools, health and fitness centers, gourmet restaurants and business centers.

### Q. Will developers guarantee occupancy rates in their condo hotels?

A. No. They will not guarantee occupancy rates or revenues. This is in accordance with SEC regulations which prohibit forecasting returns.

For that reason, you want to be sure that you select a property that has a well-known brand, good amenities and an appealing location to help ensure occupancy rates are high.

### Q. Why are there so many condo hotels in Florida, more so than in any other state?

A. Florida is credited with leading the condo hotel trend. The concept was started in the South Florida area 20+ years ago, and there were many hotels converting into condo hotels at that time.

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The Mutiny was the first South Florida property to test the condo hotel concept.

Most were conversions of 1950's-built hotels and lacked the quality and "pizzazz" that today's condo hotels possess. In addition, some tax laws changed, and condo hotels became less attractive investments. Many conversion projects came to a screeching halt.

Fast forward to the late 1990's and the owners of an apartment building called The Mutiny in Miami's Coconut Grove area gutted their property and created a condo hotel, re-introducing to the area the concept of the condo hotel again, this time with tremendous success.

The Mutiny's prices from beginning to sell-out increased a record 10 times. Buyers, particularly those who got in early, were pleased, and other developers saw the potential to capitalize on The Mutiny's success and began coming into the market.

**Q. What is the appeal of condo hotels for buyers versus the appeal for developers?**

A. Buyers recognize that condo hotels are some of the most desirable real estate to own. They are first-class properties located on prime land. Buyers like the fact that they can own a hassle-free, luxurious vacation home that also generates rent revenue.

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For the developer, condo hotels make good financial sense. Construction loans for condo hotels are often cheaper and easier to obtain than hotel construction loans.

The developer of a condo hotel can recoup much of his construction costs up front, in some cases breaking even upon completion.

Plus he still receives approximately 50% of the revenue stream from the rental of the condo hotel units and retains whole ownership of the property's meeting facilities, restaurants, lounges and spas.

Finally, if the condo hotel is operated by a major branded manager, the developer will be able to sell the units at a premium and receive a higher rate of return than he likely would have if developing a traditional hotel or condominium.



Pool at Residences at Hard Rock Hotel, Daytona Beach, Florida

**Q. Are all condo hotels new construction?**

A. No. Many are new construction, but there are also some condo hotels that are conversions from existing hotels and resorts.

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The Plaza in NYC is a 1907 hotel that recently underwent a \$350-million renovation to become a luxury condo hotel.

**Q. Which is better, a newly constructed condo hotel or a conversion?**

A. While new construction is nice for obvious reasons, conversions offer the benefit of an operating history that will help you forecast the potential success of the condo hotel.

Also, turnaround time from initial reservation of a condo hotel unit until you're actually able to use your vacation home is usually much sooner with conversions than new construction.

Finally, in popular locations, there just may not be any land available for new construction. So, for example, if you want a condo hotel on South Beach near Miami, Florida, you're more likely to find a converted property.

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Melia Costa Hollywood Beach Resort is a mixed-use condo hotel in Hollywood, FL, just steps from the beach. It encompasses an upscale outdoor entertainment district containing restaurants and shops.

**Q. How does a condo hotel unit differ from a traditional hotel room?**

A. Condo hotel units are usually larger than your standard studio hotel room. Often they are comparable to an apartment or traditional condo.

Decorated in designer furnishings, they may have bedrooms that are separate from the main living room.



Master bedroom at Melia Costa Hollywood Beach Resort in Hollywood Beach, Florida

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Most have some sort of kitchen facilities, although these may range from a sink, small refrigerator and microwave to a fully-equipped kitchen.



Condo hotel kitchen at Provident Doral at the Blue, Doral, Florida

Some condo hotel units have owner's lockout closets which enable you to store personal belongings when you're not in residence.



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Condo hotel bedroom at 6080 Collins Avenue Beach House in Miami Beach, Florida

The biggest difference, however, is that a hotel is typically owned by one owner or corporation, whereas a condo hotel property may have as many individual owners as there are rooms in the property.



Pool and sundeck at Hyde Beach House Resort Condominium & Residences, Hollywood Beach, Florida

#### **Q. How much does a condo hotel unit cost?**

A. Prices vary, as you might expect, but generally speaking, they range from \$300,000 to \$1,500,000+. The actual price depends on a variety of factors starting with location. Prime locations, particularly those on the ocean, such as many condo hotels in the Miami-Ft. Lauderdale area of Florida are more costly.

Price is also based on the quality of the condo hotel and its amenities. Is it a three-, four- or five-star caliber property?

Another factor is whether the condo hotel is associated with a brand, such as Trump, Hilton, Hyatt, Starwood, etc. You do pay more for a brand name but presumably you'll earn more revenue because a brand name property typically has a more sophisticated marketing and reservation program and can charge higher nightly rates to guests.

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Finally, the size of the individual unit you select (studio, one-, two- or three-bedroom) and its location in the building (higher floors with better views cost more) also affect price.

**Q. What kind of cash down is typically required to purchase a condo hotel?**

A. First, it's important to realize that many condo hotels are sold in pre-construction phase. In those situations, most condo hotel developers require as much as 50% deposits, paid in installments as the property is being constructed.

Typically, the last 10% deposit is due at completion of construction. Upon closing, the balance of the price for the condo hotel unit is due but can be financed much like any real estate transaction.

**Q. Is financing available?**

A. Yes, but rates are slightly higher as lenders consider loans on second homes to be somewhat more risky than those on primary residences.

We recommend working with a good mortgage broker who can help you find lenders offering the best programs and rates.



Lake Buena Vista Resort Village & Spa is a condo hotel in Orlando, Florida.  
It offers units with one to four bedrooms with 2,170 sq. ft.

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At Condo Hotel Center we can provide you with a referral to a mortgage broker who we feel is knowledgeable, service oriented and familiar with condo hotel loans.

**Q. When is the best time to buy a condo hotel unit?**

A. If you want the best price and the widest selection, your best bet is to purchase a condo hotel in early preconstruction stages. Most developers begin selling their condo hotel units 18 to 24 months before construction is complete.

By reserving a condo hotel unit at this stage, you'll be able to pay today's prices for tomorrow's real estate, and you will likely benefit from price increases as more of the development is sold. Of course, that also means you'll have a bit of a wait before you can use your condo hotel vacation home.



A 17-acre resort in Doral, Florida, Provident Doral at the Blue is a condo hotel with five championship golf courses, making this resort a golfer's dream as a second home.

**Q. How do you find out about condo hotels in pre-construction stages, especially when you're looking for one that's out-of-state?**

A. Condo Hotel Center is constantly adding new properties to its website. You can view New Listings at the top of this page, <http://condohotelcenter.com/condo-hotels/featured-properties.html>.

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**Q. How well do condo hotel units resell? Will I likely see an increase in price if I sell in say five years?**

A. Appreciation really is the best selling point for condo hotels when you're considering the investment aspects, and the way to maximize appreciation is to get in early when the property first comes on the market.

Prime real estate, such as the kind where most condo hotels are built (i.e. on the ocean or on the Las Vegas Strip), has a long history of appreciation. There's no reason to believe that this trend won't continue, but please keep in mind, the past is no guarantee of future appreciation.



Private balcony at W Ft. Lauderdale Hotel & Residences in Fort Lauderdale, Florida

There are far fewer condo hotel units than traditional condos, further enhancing their value. As long as interest rates remain reasonable, more baby boomers reach an age where they're seeking and can afford vacation homes, and more people in general look to diversify their investment portfolios with real estate, condo hotels have a great deal of appeal.

To be objective, you should consider a condo hotel as a real estate investment subject to the same potential ups and downs as all real estate.

**Q. Does it cost more to use a real estate broker to purchase a condo hotel unit?**

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A. No, the prices are exactly the same whether you use a broker or buy directly from the developer. The developer sets the prices of the units. Everyone, including the in-house sales staff and outside real estate brokers, all work off the same price list.

Furthermore, all sales commissions are paid by the developer, never the buyer. Either the commission is paid to the on-site salesperson who, by virtue of his job, is looking out for the best interest of the developer, or it is shared with an outside real estate broker representing the buyer.

**Q. What is the benefit of using a real estate broker to buy a condo hotel unit rather than going directly to the developer?**

A. Brokers can provide you with objective information about all the different condo hotel properties available. They can help you comparison shop. Their only goal is to help you find the property that best meets your needs, regardless of the seller.

The information you get from on-site sales people will of course be biased toward the property they represent. Using a real estate broker is like hiring a personal consultant to protect your best interests, without any additional cost.



Hard Rock Hotel Daytona Beach is a 28-story tower that sits perpendicular to the ocean,

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offering immediate access to the beach and dramatic water views from all rooms.

When you think about it, if you contact a developer's sales team directly, they have only one goal: sell their property to you or else find their jobs are in jeopardy.

They will never tell you that the condo hotel being built down the block is newer or better priced, or that a competing hotel to be built across the street will be announced next month, because it is not in their best interest to do so.

Independent real estate brokers can freely share with you their expertise on the market as a whole, not just the one property that you may be familiar with.

**Q. Specifically, what kind of information can real estate brokers provide?**

A. They can give you the background (including the positives and negatives) of each property, developer, franchise flag and management company.

They can provide you with comparable sales and price comparisons, area occupancy rates, appreciation potential, possible risks, financing and insurance options, and information about the area in which the property is located.



Pool at the Fontainebleau Miami Beach, in Miami Beach, Florida, a condo hotel located on 22 oceanfront acres and with 1,504 condo hotel units.

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All of this data is important, especially when you're buying a property in pre-construction stages and having to essentially make forecasts about its potential success. The more you know, the better decision you can make.

#### **Q. How risky is investing in a condo hotel?**

A. It's not any more or less risky than other real estate. Some investors believe it may be a safer bet because when you are ready to sell, you not only have the building's amenities to offer a potential buyer, but also the services of a luxury hotel that you just don't get in a traditional condominium.

Furthermore, the property will have been maintained and kept up-to-date by the property's management. In the case of a brand-name condo hotel, like a Hyatt or Starwood, you can be assured of the property's quality, as it will be in keeping with the requirements of the franchise.



A 70-unit condo hotel directly across from the beach, 6080 Collins Avenue Beach House is a \$30 million development featuring Streamline Moderne architecture, a late style of Art Deco design.

#### **Q. Bottom line, is a condo hotel a good investment?**

A. Condo hotel units represent a unique real estate ownership opportunity. However, in accordance with SEC regulations, they can be sold only as a lifestyle, a luxury vacation

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home, and not as a revenue-generating investment.

Condo hotels are not for everyone. If you're strictly interested in rental income, there are just too many variables that can affect the annual revenue generated from your unit, and you might want to consider a more traditional type of rental property.

If, however, you plan to use your unit as a vacation home, a condo hotel can be a wonderful investment. You get a first-class vacation property in a highly-desirable location. And when you're not using it, someone else takes care of renting, managing and maintaining it for you. Talk about hassle-free!

Finally, if you're interested in condo hotels primarily as an investment, you should be satisfied with sufficient rent revenue to offset your ownership costs but more focused on the property's potential for long-term appreciation. In that case, the condo hotel concept is worthy of your consideration.

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**If you have additional questions about condo hotels condos or would like information on specific properties, please visit our website, [www.CondoHotelCenter.com](http://www.CondoHotelCenter.com).**

**Or contact us directly at:**

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