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SPECIAL ADVERTISING SECTION

Sales Boom in an Increasingly International Industry

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One January morning, Chris Kearny was sipping cold drinks on Grand Cayman Island but by nightfall he was back home, being buffeted by New York's blustery winter weather.

He's not complaining, though, because while he's shoveling snow, his condo-hotel unit on Grand Cayman is working for him, generating cash as part of the hotel's rental pool. And he knows the same things that attracted him will appeal to other vacationers. "Grand Cayman is the nicest island in the Caribbean," he says from his office in Little Falls, N.J.

Mr. Kearny, a relationship manager for a large New York City-area outsourcing company, owns a three-bedroom condo-hotel unit in The Ritz-Carlton, Grand Cayman on Seven Mile Beach. He has also purchased units in Dubai, Panama and the Turks and Caicos, making him part of an emerging trend in the condo-hotel market: U.S. citizens buying units abroad. At a time when the U.S. real estate market in general is leveling off, developers are planning and building luxury hotels, resorts and condo-hotel units in sunny vacation spots from Mexico to Dubai. Condo-hotel units are usually hotel rooms or suites that individuals can buy, use, and place in the regular hotel rental pool when they are not there.

That is not to say that the domestic condo-hotel market is dead. In fact, we haven't seen anything yet, says Dante Alexander, president and CEO of the Scottsdale, Ariz.-based National Association of Condo Hotel Owners. "When people go to Las Vegas and stay in a unit and realize that they can own one, there is not going to be enough to meet the demand," he says.

Joel Greene, president of CondoHotelCenter.com in North Miami, reports selling 20 condo-hotel units in Morocco, Dubai, the Bahamas and Mexico to U.S. buyers between Jan. 1 and mid-February. "International condo-hotel sales flourished as the slowdown in the U.S. economy affected home and second-home sales," he says from his Plantation, Fla., office. "We've been getting more international properties to handle. They are newer and we immediately send out letters to alert our readers." He publishes an email newsletter that covers the condo-hotel market.

In the U.S., Florida and Nevada account for the majority of the condo-hotel units, according to data supplied by Smith Travel Research in Hendersonville, Tenn. With 37,433 units available, Florida

edges out Nevada with 34,155. The next closest state is California, with a relatively paltry 5,943. Las Vegas has the most condo-hotel units of any individual market, coming in at 32,831, far outstripping the next highest, Orlando, with 15,517.

Although Mr. Alexander says that his organization has yet to "get a handle" on the foreign market, he points to new condo-hotel projects either in the planning stages or under construction in such places as Mexico, Belize, the Bahamas, Costa Rica, Panama, Australia and Dubai.

The key seems to be ease of travel, as well as Western-style amenities, warm climates and sunny beaches. Most Americans do not want to spend more than 45 minutes getting to their destination from the airport. Mr. Alexander predicts that Costa Rica's new San Jose International Airport will open new resort opportunities in the west of that country.

Western-style amenities in international condo-hotels can include designs by well-known architects, a spa, pool with cabanas, fitness center, restaurant, 24-hour concierge service, housekeeping and valet parking. And U.S. buyers in foreign projects will naturally compare what they can get there with what they can get at home. Many of these amenities are offered in upscale condo-hotels in the U.S. For example, the 1,543 unit Vdara, part of the MGM City Center project in Las Vegas, will feature all of these services and more.

Tony Dennis, residential division executive vice president of MGM City Center, is seeing the flip side of U.S. interest in overseas projects. While the majority of "reservations of interest," for which prospective buyers did not have to commit any money, for Vdara come from southern California, Illinois, New York, the Eastern Seaboard and Canada, there also are a significant number from Asia, Russia and Europe.

Vdara, which broke ground last fall and is expected to open in November 2009 as part of the \$7 billion MGM City Center along the Las Vegas Strip, will feature studios, deluxe studios, one-bedroom suites and one- and two-bedroom multi-level penthouse suites, ranging from 500 to 1,850 square feet, and selling for between \$500,000 and \$2 million.

By contrast, Mr. Kearny paid a pre-construction price of \$3.5 million for his Cayman island unit two and a half years ago, and estimates that it now is worth about \$5 million. During the high season it rents out for \$4,500 a night and in the low season \$2,500 a night, of that he nets 35%. At the lower end of the scale, CondoHotelCenter.com's Mr. Greene points to the preconstruction price for a unit that is part of an oceanfront five-star hotel in Morocco, now selling for \$149,000.

While buyers like Mr. Kearny clearly look on these properties as investments, Mr. Greene, Mr. Dennis and other sellers tiptoe around that aspect, carefully adhering to U.S. Securities and Exchange Commission regulations. Under SEC regulations, if the seller stresses the investment potential, it comes under the SEC jurisdiction, rules and restrictions, it is taxes as an investment, and must be marketed by an investment broker, not a realtor. "We are not selling an investment," says Mr. Greene. "We talk in terms of real estate, hassle-free ownership and the potential for appreciation."

"In Europe and Asia, [condo-hotel units] are sold directly as economic investments," says Jim Butler, who heads the Global Hospitality Group at the Los Angeles law firm Jeffer Mangels Butler & Marmaro. "In the U.S., however, they are thought of as real estate and that is how they are sold."

In fact, even foreign developers selling to U.S. citizens must be careful. "If a U.S. resident is buying the property, then U.S. securities laws apply," Mr. Butler says. "If there is one phone call, one letter, one email, any communication inside the U.S., then they must adhere to U.S. securities regulations."

Buyers like Todd Spence, however, consider condo-hotel units as part of his investment portfolio. Mr. Spence, of St. Louis, was formerly head of MDI Technologies, a specialty software company, and is now retired. He originally bought conventional condominiums in the North Redington, Fla., and Lake of the Ozarks, Mo. They were, he says, his winter and summer playgrounds. Unfortunately, they also proved to be expensive hassles. Although he tried, he was never able to rent out the Florida and Missouri units when he wasn't there, and he had responsibility for all the maintenance. When he loaned them out to friends, they were treated as outsiders by the condo associations and not afforded the same amenities.

Then in 2005, on a trip to Las Vegas, he learned about the MGM Grand's condo-hotel and put a down payment on a unit. "It allows me to freely rent it out, provides on-site management who will cater to my guests, and guarantees me some cash," he says. Under his agreement, participation in the rental program is optional. He now has five more in Las Vegas, two at the Cosmopolitan, two at the Palms and one at W Las Vegas. He's also purchased in Barefoot Beach, Fla., Regent Bal Harbor, Fla., Bella Maya Resort in Placencia, Belize, and the Windsor Residence of Dubai. While these are or will be in a managed rental program, he has developed a Web site to drive traffic to his units, in an effort to insure that he will get an ample return on his investments.

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