

Finding a Trump in the bargain aisle

By Dennis Rodkin September 12, 2015

The Trump name has been getting a surge of attention recently, and New York investor Gary Cioffi was intrigued. He checked out the candidate, liked what he saw and put down his money.

This was no campaign contribution, though. Cioffi bought a hotel room at the Trump International Hotel & Tower and followed that purchase with three more, paying a total of about \$1.5 million in August for units on the 19th, 20th and 25th floors of the riverfront skyscraper.

"When I flew down to Chicago, I saw the building was so beautiful, the location was so great, and the hotel provides its guests service," says Cioffi, an investor based in Hicksville, N.Y. At Trump, private owners can purchase hotel rooms condominium-style and let the hotel operator put them into the hotel rental pool. They're known as hotel-condos.

Cioffi got all four hotel-condo units at discounts from their original 2008 or 2009 purchase prices. The steepest was the 25th-floor unit that he bought for \$375,000, 30 percent off the \$537,000 the seller had paid for it new in 2008.

Discounts are the norm in Trump hotel-condo sales. Only one of 13 hotel-condos sold in the building in the past year has gone for more than its sellers paid the developer in 2008 or 2009. Some have sold for as little as 30 percent of the original purchase price, although the discounts have been narrowing all year.

In August, five sales came within 10 percent of their previous purchase price, and one, on the 22nd floor, came in at 117 percent of the sellers' 2008 purchase price.

When Trump Organization was selling in 2008 and 2009, the original buyers were paying upward of \$1,300 a square foot, and a few paid well over \$1,400, according to records provided by a real estate industry source familiar with the building. The top price was \$1,481 a foot, which a buyer paid in 2008 for a 604-square-foot studio on the 24th floor. Three years later, it resold at \$392 a square foot. This year's sales mostly have been in the range of \$450 to \$550 a square foot.

In 2008, "pricing was a moving target," says Phil Skowron, an @properties agent in Chicago who has handled several hotel-condo sales. "It was a new concept and people were trying to figure out exactly what the value would be. It had to correct itself."

A hotel-condo unit is owned privately but booked with paying guests by the hotel management, with proceeds split between the owner and the hotel. The owner has association fees, taxes and other typical costs of ownership.

Sales of regular residential condominiums in the building have been running at over \$1,000 a square foot, such as the sale in early September of a 4,000-square-foot unit for \$4.1 million, or \$1,025 a foot, and the **89th-floor penthouse** that went for \$17 million in December. Its 14,000 square feet went for \$1,214 per square foot.

Eric Trump, senior vice president of Trump Organization and Donald Trump's son, says the New York-based firm decided about five years ago to stop selling hotel-condo units in its Chicago building and still owns about 180 of the hotel's 339 rooms.

"I'm proud of our sales team that they sold them" at the high prices, he says, but the deeply discounted resale prices "reflect that Chicago hasn't recovered as much as some cities have."

In Las Vegas, the firm has a **64-story project** where all 1,282 units are hotel-condos, Trump says, and “they’re selling north of 800 bucks a square foot.”

Only a few dozen of the hotel-condo units in Chicago have been resold. Chezi Rafaeli, a Chicago Coldwell Banker agent who has represented many condominiums and hotel-condo units in the building, suggests that this is evidence that most unit owners “were willing to wait until they had experienced the hotel market growing up around Trump.”

The tower was relatively isolated from the main hotel areas when these buyers got their units, Rafaeli says. Now the Langham is across the street, and several new hotels are in the works within a few blocks of where Wabash Avenue crosses the Chicago River.

When it was under construction in the early 2000s, Trump’s Chicago tower was one of several downtown developments that included hotel-condos in the mix. Only one other was completed, though, the Raffaello, an 18-story structure on Delaware Place built in the 1920s as apartments. Prices have been sagging there, too. A 400-square-foot unit on the 12th floor of the Raffaello sold in mid-August for \$110,000. The sellers had paid \$290,000 for it in 2007, according to the Cook County Recorder of Deeds.

In the mid-2000s, many hotel-condos were **pitched to suburban homeowners and out-of-towners** who wanted a getaway in the city that could make them some money when they weren’t using it. Now, Skowron and Rafaeli say, they appeal primarily to investors who have little intention of using the units themselves.

Cioffi says he first invested in hotel-condos in 1999, in a Trump project in New York, and has owned many others there and in Florida. He says he plans to spend about \$5 million on them this year.

“The pricing was at a very good number” in Chicago, he says, “but that didn’t necessarily make them a good buy. I could buy at depressed prices in Detroit.” He said the units are rented to hotel guests “75 percent to 85 percent of the time,” generating a good return after expenses.
