Speculating on La La Land Values

Developers like BRUCE MAKOWSKY are engaged in a high-stakes dance of risk and reward as they build new homes asking hundreds of millions

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The luxe frontier: Hotel-branded condos

Barriers to entry are huge — but so is the payoff — for properties that bank on brand recognition

BY KATHERINE CLARKE

Jonathan Gorton is spending a lot of time in the air these days, boarding jets to Jakarta, Riyadh and Beijing. He’s making presentations to hundreds of the world’s wealthy, in the hope that they’ll pony up all-cash deposits for his latest project, the Four Seasons Condominiums in Beverly Hills.

He was recently approached by a Chinese investor following one such presentation.

“That’s a fake sky, right?” the investor asked, pointing at the near-cloudless azure depicted in a rendering of the project, which stood in stark contrast to the gray, polluted sky outside the Beverly hotel. Not so, Gorton responded. In Los Angeles, the sky is always blue.

Jet-setting foreign investors are a key to Gorton’s plan to sell the Four Seasons. Of the 18 buyers who’ve already paid deposits, the vast majority are from overseas, he said. The idea is that foreigners will be particularly swayed by the strength of the Four Seasons brand. After all, Four Seasons operates more than 100 hotels around the world, including in key cities such as Jakarta and Beijing, and is owned by internationally recognized names including ex-Microsoft Chairman Bill Gates and Saudi Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud.

“If you’re talking about branded residential, there just aren’t a lot of brands that translate to a residential experience,” Gorton said. “This is one of them.”

Gorton is not alone in his thinking. The hotel-branded condominiums are increasingly becoming a fixture of the Los Angeles market, which has been embracing condos at a much faster clip in recent years. Developers asking the highest prices in the tonier areas of Beverly Hills and West Hollywood think partnering with a hotel brand will give both foreign and local buyers more confidence in the project, particularly if it’s still under construction or in the planning phase.

“It gives the buyers or the renters comfort that the brand’s standards, and all these things they premium for, are going to be there,” said Rob Ghasssemieh, a developer building a branded hotel in Beverly Hills.

Other hotel-condo projects on the horizon include the Edition Hotel by New York developer the Witkoff Group. Also, Ghasssemieh’s company, the development firm behind the Mr. C Beverly Hills — a glamorous Hollywood-style hotel that debuted in 2011 — plans to bring five ultraluxury Cipriani-affiliated Mr. C-branded private residences to a building next door to the hotel.

That adds to the existing inventory of projects like the Ritz-Carlton at LA Live and the Montage Residences Beverly Hills.

“These are some of the most challenging pieces of real estate to sell because on a price-per-square-foot basis, you’re competing with houses in high-end areas.”

— YVONNE ARIAS, PROPERTY LAB

In the case of the Four Seasons, Gorton is reportedly planning to ask as much as 50 percent more for his units than other condo buildings in the neighborhood, including other hotel-branded condos like the Montage and the celebrity hot spot Sierra Towers. Deals at Sierra are rare, but when TV producer Burt Sugarman bought a unit there from Twinkies heir Evan Metropoulos last year, he paid $4.65 million, or $2,735 per square foot, records show.

The boutique townhouse-style homes at the Mr. C Care was slated to be some of the priciest apartments to hit the market in Beverly Hills. And Witkoff is rumored to be asking big numbers for the 20 condominiums at its Edition in West Hollywood, though official prices haven’t been released yet.

The risk factor is high, since the path of condo development in NIMBY-run areas like Beverly Hills and West Hollywood is rarely a smooth one.

In the case of the Four Seasons, Gorton is soliciting offers on units before he’s even secured a construction loan to move ahead with the project. The development has been in the works since 2008, when Gorton acquired the site, and was approved in 2009 by the City Council. But it’s faced a series of obstacles since then, including community opposition to its height and a battle with the owners of the Four Seasons Hotel next door.

Real estate magnate Brenn Alagem spent years battling with the city to get two condo towers approved on the site of his Beverly Hilton hotel in 2008. But when he tried to amend the approvals to combine them into one taller tower, he failed. He spent $7 million promoting a ballot initiative that would have allowed him to construct the tower last year, only to see it shot down in the final vote.

Some developers said they see L.A.’s barriers to entry as an advantage. If they can make it work, they’ll stand out in the market with little competition.

“It’s not Los Angeles for us, it’s West Hollywood, which we regard as maybe the toughest barrier-to-entry market in the country,” Steve Witkoff told The Real Deal last year. “It’s very difficult to get approvals and entitlements there. I think it’s even tougher than San Francisco.”

But the biggest challenge lies in finding buyers willing to pay the premium, especially when so few comps exist in L.A. Most other condos are trading at between $600 and $1,000 a foot, sources said. In other words, why would someone pay more than three times that for an apartment when they could own an entire single-family home in the hills for that same price? Access to hotel amenities also holds less weight than it used to, since most high-end rental and condo projects across the city have significant amenity offerings.

The homeowners’ association fees typical of a condo project are also a factor. Buyers are slated to pay about $5,000 per month for the larger units at the Four Seasons.

“People sometimes think, ‘If I’m going to spend that money, I should just get a house,” Arias said. “But when you’re up in the hills, you have to drive everywhere or send someone out.”

Developers said they derive comfort from the lack of inventory on the market.

“If we were selling 300 units, we might have to be a little more thoughtful about the initial pricing,” said Alex Witkoff, Steven’s son, who said the developers have a long list of parties vying for units.

And some said that if the market doesn’t produce the buyers they hope for, they can always hold the inventory as rentals.

“It makes perfect sense to keep them,” Ghasssemieh said.