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Part 1 of 2

Ritz-Carlton, Key Biscayne

Ritz-Carlton, Kapalua

Ritz-Carlton, Bachelor Gulch

Ritz-Carlton, Rancho Mirage

From The Ground Up

Founder Karim Alibhai has built Gencom into a major force in luxury development

Story begins on page 16



From The Ground Up

Gencom rides luxury development wave

BY BRUCE SERLEN

MIAMI— With breathtaking views of Biscayne Bay, Karim Alibhai's offices at the Gencom Group at the top of a Brickell Avenue high-rise would normally be an island of calm. But that serenity was disrupted last month—if

only temporarily— by construction that will double Gencom's space in the building.

The expansion is certainly warranted. In the past few years, Gencom has had a run of success developing luxury, mixed-use projects, so the firm is in serious need of additional room. In-

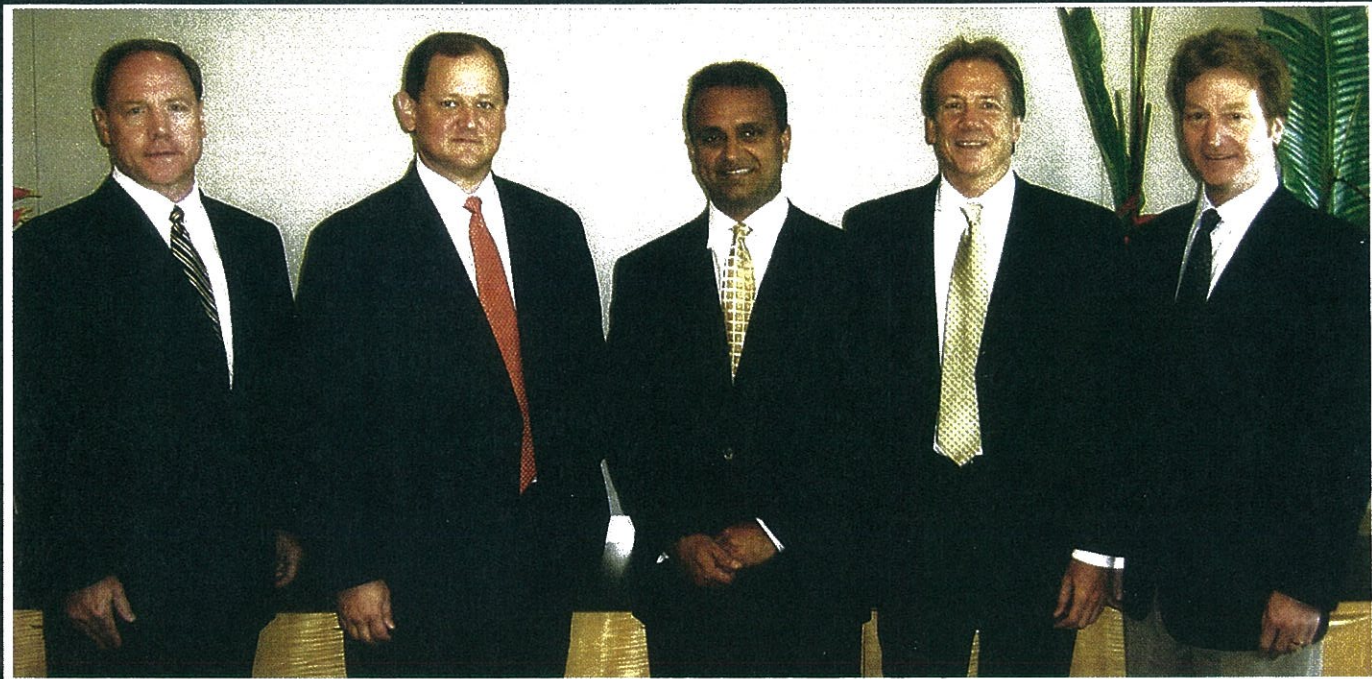
deed, the expansion includes a dedicated floor for the residential component of Gencom's growing portfolio.

Seated at the top of this burgeoning empire is Alibhai, its founder and principal, whose personal story is as attention-grabbing as Gencom's. Originally from Kenya, his family of Indian ancestry, Alibhai emigrated to the U.S. in the early-1980s to continue his education. His family had invested in a Best Western hotel in a depressed neighborhood near Houston and he was soon running it. "It was a true, roll-up-your-sleeves, make-things-work kind of experience. But looking back, one of the best lessons I learned was how to build something from the ground up as opposed to entering an established business, where procedures are already set," he recalled.

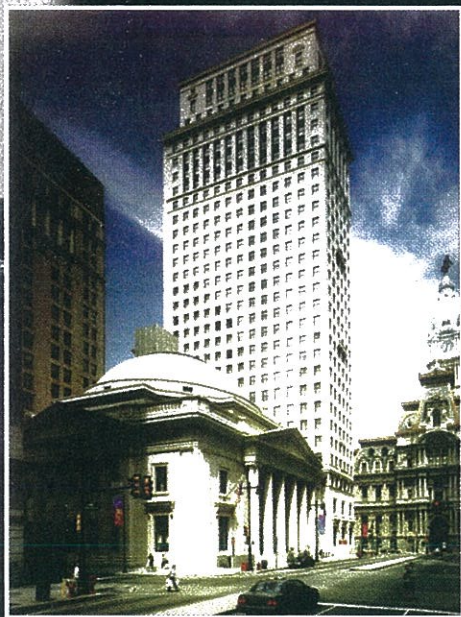
Helping Gencom become an established business in its own right has been a series of Ritz-Carlton trophy projects that have

"The great thing about this country is anyone has a chance if they want to work hard and have the right team."

**—Karim Alibhai
Gencom Group**



The Gencom Group team, from left: Thomas Bezold, executive vp, finance/CFO; Greg Denton, executive vp, development and acquisitions; Karim Alibhai, founder and principal; Gary Lake, executive vp, finance and development; and Jerry Landeck, senior partner.



Gencom is in the process of building residences adjacent to The Ritz-Carlton in Philadelphia.

skillfully blended lodging and residential components. Key Biscayne in South Florida, Kapalua on Maui, Rancho Mirage in Palm Springs, CA, and Bachelor Gulch in the Colorado ski country, among others, have attracted a range of guests—both leisure and corporate group—as well as potential residents. They've been drawn to the natural beauty of the locations and the physical comfort of the accommodations, not to mention Ritz-Carlton's

renowned service standard. Gencom is also the developer of Molasses Reef on the island of West Caicos in the Turks & Caicos, the first of Ritz-Carlton's newly-named Ritz-Carlton Reserves.

Yet not all Gencom's projects with Ritz-Carlton entail sun-swept beaches or rugged mountain terrain. In fact, the firm is in the process of building The Residences at the Ritz-Carlton Philadelphia with 289 condominiums. It sits right next to the 300-

room Ritz-Carlton Philadelphia that Gencom already owned, an adaptive reuse of a landmark downtown bank building.

Nor for that matter is luxury development the sum of Gencom's lodging activities. While the luxury portfolio represents a roughly \$4.5 billion investment, Gencom also has a roster of 26 upscale hotels, located in both the U.S. and international markets, branded with such names as

continued on page 18

Unique MUD projects help define Gencom; generate profitability

BY BRUCE SERLEN

MIAMI—In becoming a major developer of Ritz-Carlton mixed-use hotel and residential projects, the Gencom Group's founder and principal Karim Alibhai has approached each project on a case-by-case basis. In a category by itself is The Residences at the Ritz-Carlton Philadelphia, currently under construction adjacent to the existing 300-room Ritz-Carlton Hotel, Philadelphia.

Not only is it a downtown project, compared to other Gencom/Ritz developments—all resorts in high-end destinations on the order of Kapalua on Maui or Rancho Mirage in Palm Springs, CA. But the size of the Philadelphia Residences—48 stories containing 289 condos plus three penthouse floors—dwarfs the number of units in the resort projects.

Unlike the other projects as well, the Philadelphia hotel, which opened in 2000 in an historic reuse of the landmarked former Mellon Bank, was envisioned as strictly a hotel. "There was no residential component at all. Consequently, we acquired land next door to the hotel that was being used as a parking garage to construct what will be a 440,000-square-foot building," explained Alibhai.

Yet the Philadelphia project holds a higher degree of risk than do the residential developments in, say, Maui or Palm Springs or, for that matter, Key Biscayne, FL, or Avon, CO, sites of other Gencom combined hotel/residential undertakings. This is because the demand for homes in those communities is strong at the same time the barriers to entry for new development are very high, meaning it's not easy to get new construction approved there.

"There have been a lot of people second-

continued on page 22



Gencom has added condo hotel units and fractionals to The Ritz-Carlton Bachelor Gulch in Avon, CO.



Mixed-use works for Gencom

continued from page 17

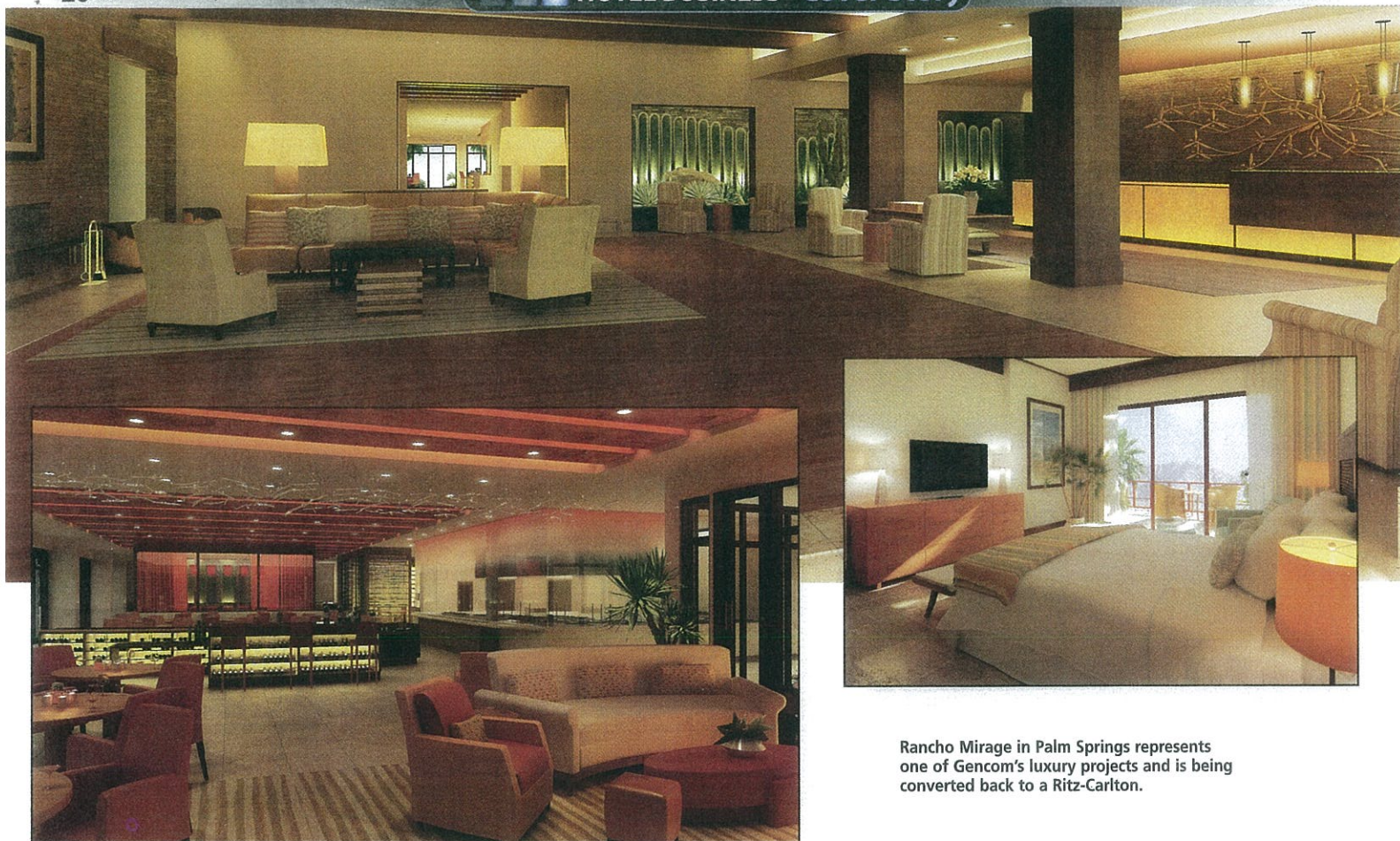
Marriott, Holiday Inn, and Doubletree. In addition, there's a growing portfolio of assets in the extended-stay category mostly aligned with Global Hyatt Corp.'s Hyatt Summerfield Suites brand. Combined, these parts of the firm's business represent approximately another \$1-billion investment.

That's a long way from when the company got started with that Best Western before Alibhai's family began establishing a track record, acquiring more—mostly economy and mid-price—hotels. By the early-1990s, their family business, then named Gentle American Hospitality, owned 55 hotels. Considering the abundance of distressed hotel properties available at the time, including through the Resolution Trust Corp. (RTC), Gentle American had ample opportunity to grow. In fact, the company had already moved up and acquired some full-service hotels.

The Gencom name grew out of Gentle American, but Alibhai still wasn't sure if lodging was meant to be his true career. "The idea that we would own a luxury Ritz-Carlton one day still seemed far-fetched. It wasn't even in the equation," he noted. The Alibhai family had traditionally been in the trading business, so other aspects of commerce appealed to him as well.

In 1995, Alibhai co-sponsored the initial public offering of Patriot American, the largest IPO of a hospitality REIT up to that time. Gencom contributed 11 of the initial 20 hotels that combined to create Patriot American. In a

continued on page 20



Rancho Mirage in Palm Springs represents one of Gencom's luxury projects and is being converted back to a Ritz-Carlton.

Gencom sees upside of condo, mixed-use development projects

continued from page 18

multiple-step transaction in 1997-98, Alibhai took the lead in creating a four-way merger of GAH, CHC, CHC Lease Partners and a portfolio of 10 hotels, eight of which were controlled by Gencom. That combined entity was subsequently acquired by Patriot American. As a result, he became president/COO of Patriot American's operating company, Wyndham International, Inc., a position he held until 2000.

While the relationship with Wyndham eventually soured, Alibhai will only say it proved "unsatisfactory." But looking back on that period today, Alibhai still describes it as a watershed event personally. "In many ways, it opened the door to us for doing projects on the order of Ritz-Carlton and then to doing mixed-use developments," he said.

"Up to that point, we didn't realize how significant mixed-use would become, but today it makes so much sense. In fact, it's the only form under which we think a successful luxury project can be done," Alibhai explained. "A hotel can't finan-

cially sustain itself and meet all the luxury standards that are required today without it."

Having the benefits of wholly-owned residences, condo hotel units, and/or fractional ownership paves the way for the project to move forward. "Each element has become a part of our thinking," he said.

Gencom's financial partners on its various projects have included Lehman Brothers, Goldman Sachs' Whitehall Group, Credit Suisse First Boston, and Jamestown Investors.

The Ritz-Carlton Key Biscayne, which opened in mid-2001, was Gencom's first experience with mixed-use. The project included 300 hotel rooms and 180 condo hotel units, which owners can opt to put into a rental program. When Gencom took over the project that became the Ritz-Carlton Bachelor Gulch in Avon, CO, it had a 237-room hotel and small residential component. Gencom has since created 50 condo hotel units plus a Ritz Club with 54 fractional ownership units. In another example, Gencom acquired Rancho Mirage,

which was once part of Ritz-Carlton, in 2005 and is in the process of converting back to a Ritz. The mix there will be 240 hotel keys and 138 newly-built condo hotel villas.

"The condo hotel originally represented just a way to finance our hotel deal," Alibhai said. "The units look and smell like hotel suites. You're operating as a hotel, you're getting the benefits of hotel revenue, but you've taken down your cost structure by people buying them."

Financing vehicle

In effect, the residential portion finances the hotel, according to executive vp, finance and development Gary Lake. "It's gotten to the point in today's environment that you just can't build a luxury hotel on a stand-alone basis," Lake confirmed. "You need to have a residential component to make that happen."

By the same token, there are opportunities in a residential market to help sell the units or at least differentiate the proj-

ect from other developments. "In other words, you may want to add a hotel to the project to give it something special. It also becomes a way of providing residents with a lot of hotel-type services that other condominium projects don't have. So mixed-use really works both ways, whether you're in a hotel market or residential market," Lake said.

With condo hotel developments having gotten so popular in the past few years, some analysts express concern that the market has become saturated. "Like with a lot of things, if you're successful, you get imitated. Consequently, a lot of deals have gotten done that don't adhere to the fundamentals," said executive vp, development and acquisitions Greg Denton. "Condo hotels need to have a relevant destination and a reason to be there. A lot of them are now being built in locations where they're simply being used as a financing vehicle."

The Gencom development formula sticks to several essentials, Alibhai noted. First is the importance of brand. "Be-

cause our business started in earnest on the luxury side with Ritz-Carlton, we've almost become their number one, go-to developer," he said. "If they have a project, they want to see get done. Gencom is usually among the first companies to get a call."

Alibhai described the relationship as mutually rewarding. "When we have a deal, we think of them among the first names, and vice versa," he said.

Second is a preference for developing in high-barrier-to-entry markets. Gencom chose to develop in Key Biscayne, for example, as opposed to nearby Miami, because potential guests and residents found it highly desirable and there was limited land available for development, easing concerns about overbuilding.

Certainly by the time The Ritz-Carlton Bachelor Gulch opened in late-2002, any lingering doubts Alibhai had about his long-term career had been resolved. The lodging business would be his life's work. "President Ford attended the opening.

continued on page 22

Gencom's mixed use development pipeline is full

continued from page 20

That was definitely a proud moment," he recalled. "Our family and friends came from Texas. I just sort of stepped back and took a moment to reflect, how is all this possible? Which is a great thing about this country. Anyone has a chance, if they want to work hard and they have the

right team working with them. There'll undoubtedly be setbacks, but you learn from them and move forward. There's a positive side to everything."

The hectic pace at Gencom is likely to continue for the foreseeable future. New projects are on the drawing board, including a proposed Ritz-

Carlton development on Rose Island in the Bahamas. Molasses Reef and The Residences, Philadelphia, both open in 2008; and construction/renovations in Rancho Mirage and Kapalua are ongoing. Last year, Gencom formed a joint venture with Highgate Holdings to pursue

opportunities in Europe.

But Alibhai remains centered and calm. With the expansive blue-green waters of Biscayne Bay as a backdrop, he points out where his newly-reconfigured office is being constructed. One feature he's particularly pleased about: the office will include a yoga studio. **HB**

Gencom bets on success in Philadelphia

continued from page 17

guessing if we could sell residential in Philadelphia that's not on Rittenhouse Square," Alibhai noted. His response? "The success of a project like this will prove you can almost create the location, if you have a) the right brand, and b) a unique, one-of-a-kind hotel adjoining it,"

He cited potential residents who want the lifestyle that living in a development like The Residences confers. "They come through the hotel lobby and say, 'We want to be part of this.' Owning a residence comes with access to hotel services, so residents are able to come down and enjoy afternoon tea or cocktails or dinner in this special luxury

Doubters were critical when the hotel itself first opened. "Downtown

Philadelphia wasn't an area many people felt could support a Ritz-Carlton hotel, but we proved them wrong. In fact, it became an anchor of downtown's revitalization," said Gary Lake, executive vp for finance and development. "Any luxury hotel being built there now would include a residential component from the beginning. We were just fortunate we were able to secure the adjoining piece of land."

For developers, determining the right mix of elements in a project is akin to a balancing act. In any mixed-use project, for example, there has to be a clear need for a hotel, Alibhai

"Whether it's condo hotel units or a hotel with wholly-owned residences, there has to be demand for hotel rooms. Otherwise, you won't get sufficient occupancy to make the hotel vi-

"Residential with a modest number of hotel keys can make sense, but even residential with no hotel keys can make sense in certain markets," Lake added.