

## Redefining Luxury: Your Piece of Paradise



Looking for the rebound in the vacation home market? Some experts water luxury fractionals will lead recovery in this sector.

By Camilla McLaughlin

The concept underlying fractional ownership is straightforward. "You get to own a piece of a multi-million dollar property," explains Rudy Valli, an owner at The Reef's Club in Southampton, Bermuda. "We have a beautiful home, maintained by someone else, that we get to utilize for a core set of weeks, as well as other times on a casual basis, in a place we love."

Few ideas align better with luxury consumers' new quest for value more than the "cost commensurate usage" fractional mantra. Couple that with gorgeous multi-million dollar homes in stellar locations, a high degree of personal service, and the potential of enjoying more than one destination and it is easy to see the appeal.

"It's a concept that really fits well with the economic times we're in and it makes a lot of sense to the buyers," says Rob Harper, real estate investment and development manager for Unity Hunt Inc., the developer of El Corazon de Santa Fe, which includes whole ownership residences as well as a fractional residence club, steps from the plaza in Santa Fe. Harper has witnessed the evolution of luxury's new attitudes. Many of those inquiring and buying today would have opted for whole ownership two years ago, he says.

When appreciation was being clocked at 15 percent it was easy to justify a vacation home purchase even if the actual usage was only a month or a few weeks out of the year. "The days of buying for glitz and show are over for some time," says Richard Ragataz, Ph.D., who has followed the fractional industry for decades.

Over the last six years, scores of new Private Residence Clubs (PRCs) and a dozen or more Destination Clubs debuted, making fractional ownership the fastest-growing segment of the vacation home market. As with any emerging industry, there have been shake ups, particularly among Destination Clubs, with the demise of some clubs and the merger of others; but, overall, fractionals have held their own during the downturn. In 2008, sales in the shared ownership sector of resort real estate were down year-over-year by 34 percent, which actually compares well with whole ownership, which was off by 40.5 percent. Among fractionals, PRCs were the most resilient with a decrease in sales of 24 percent, while Destination Club sales fell 43 percent, according to the Ragataz Associates annual survey of the industry.

### Making the Case



Steve Dering, a partner in Dering Elliott Associates, which pioneered one of the first PRCs in 1992, the Deer Valley Club, expects demand to grow. "Affluent households will always want a vacation home. Research shows it's second only to college educations for their children as the most desired, big-ticket discretionary expenditure. Residence Clubs are going to be seen as a more rational decision, a choice that makes sense. The logic of the purchase is going to resonate with new consumer values. Additionally, we are a green product since one home serves eight different buyers," he says.

"The economics work for us," says Tim Reilley about his membership in Ultimate Escapes, a club that resulted from the combination of Ultimate Resort and Private Escapes Destination Clubs. "We were used to having a second home but we decided that the economics of joining a club with the variety of destinations made sense for our family," he says.

"It takes away the responsibility of owning a second home. Plus it is more affordable," says Carol Kadison of her ownership at the Ritz-Carlton Club and Residences, Aspen Highlands.

"It's chic to be smart with your money right now," says Phil Meckelburg, CEO of Equity Estates, an equity destination club that offers members an interest in the club and the real estate it owns. Beyond the financials, shared ownership matches the lifestyle and travel desires of upscale consumers. Like many, Reilley and Kadison first experienced their clubs as guests of existing members. Both frequently travel with friends or extended family. "With a vacation home you have to have something large enough for 10 or 12 but most of the time it's only two people using it. Plus, we are the kind of travelers who like to do many different things from boat excursions to climbing to the top of a mountain," explains Reilley.

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## Amping Up Service

PRCs and Destination Clubs incorporate a level of personal service that would be hard to match either with whole ownership or luxury vacation rentals. "It's all about the customer. We go out of our way to make sure every detail is taken care of," says Harper.

Even the Ritz-Carlton had to step up its legendary platinum service. "Members expect more," says Bob Phillips, chief customer officer for the recently launched Ritz-Carlton Destination Clubs.

Travel planning and concierge service is standard and it goes way beyond planning trips and pre-arrival grocery shopping. Compared to typical upscale consumers, fractional owners and members are "less traditional and much more experiential in their vacationing," observes Gregg Anderson, vice president and global marketing director of The Registry Collection luxury exchange program. Members expect concierges and travel planners to come up with vacations and activities tailored to their interests.

Reilley was surprised with the level of expertise of his planner at Ultimate Escapes. "I have found it to be much more sophisticated than I had expected. It's been over the top." Although this service didn't even figure into his decision to join Ultimate Escapes, Reilley admits it plays a big role in his satisfaction.



## Making It Work for You

Understanding the reservation system and ensuring enough weeks are allocated in prime season are essential due diligence for prospective members of both PRCs and Destination Clubs. Members say learning the system, often booking dates ahead of time, finding a planner you like and continuing to work with them is important to making it all work for your benefit. When Reilley first joined, he actually flew out to his club's membership center to meet his travel planner.

Unlike Destination Clubs, most PRCs are tied to a single location, but typically owners can exchange time with affiliated clubs or through exchanges such as the Registry Collection. Already, Valli has planned a week in Florence.

Kadison often trades winter weeks in Colorado for St. Thomas. She always has received the time she has requested, including a prime week at the recently opened club in Maui. "It's just a matter of being organized," she says. Most importantly, whether she is staying in her unit or another, Kadison really does feel as though she's going home.



One region in demand from both Americans and Europeans, according to Anderson, is the Caribbean. Both the Ritz-Carlton and Four Seasons have clubs there. Opening in December in St. John is Pond Bay on 15 acres overlooking Chocolate Hole Bay. Developed by FOLIO Collection and managed by Auberge Resorts, Pond Bay joins FOLIO's other club located on St. Barts.

In the future, Ragataz expects more clubs in urban locations and in regional destinations. Good examples are new clubs on Florida's panhandle — which draws visitors from New Orleans, Atlanta and Memphis — and Mission Bay in San Diego.

Looking ahead, Anderson says there is a lot of development in the pipeline in Europe. Under construction is the newest entry to the Timbers Resorts, The Links Cottages at Doonbeg, County Clare, Ireland. Florence and Tuscany are two popular club locations, as is Mexico and Costa Rica.

Among Destination Clubs, most don't expect to see many new clubs in the U.S. And any new clubs are apt to offer some type of an equity arrangement as the Ritz-Carlton has done with its Portfolio Club, which gives members an equity interest in a real estate trust that is subject to the same regulations and oversight as timeshares.

In the end, like beauty, value is apt to be in the eye of the beholder.

## PRCs Vs. Destination Clubs

Upscale fractionals include Private Residence Clubs (PRCs) and Destination Clubs. PRCs offer a share in a specific property that guarantees usage for a definite number of weeks (determined by the size of the fraction) in prime seasons and often unlimited usage on a space available basis.

**Destination Clubs** offer a membership that guarantees a specific length of stay in club homes and often usage on a space available basis. The largest, Denver-based Exclusive Resorts, owns more than 400 homes, a portfolio valued at approximately \$1.1 billion, in 37 locations. Member perks include special opportunities such as a private journey to Antarctica aboard Lindblad Expedition's National Geographic Explorer or a family winter ski ranch vacation in the Rocky Mountains.

The average cost for a PRC share is \$331,475, according to the most recent industry survey compiled by Ragataz Associates. The average cost for destination Club membership is \$326,500, although most clubs offer different levels of membership.

**Both PRCs and Destination Clubs** charge annual maintenance fees or dues. A PRC interest can be resold just like wholly owned real estate, while most Destination Clubs have some type of an exit policy in place. Looking ahead, developers are still tinkering with equity models for Destination Clubs so members would actually own an interest in real estate.

## Before Buying

- Spend time researching both PRCs and Destination Clubs to determine which would be the best match for you
- Perform due diligence through researching the property, club history, financials and management company.
- Research the reservation system. Ask to see how it works and how you would use it. The more transparent the better.
- Interview current members. Ask about any special fees or assessments.
- Decide how much service is important to you

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