THE INTERNATIONAL CLUB FOR ROLLS-ROYCE & BENTLEY OWNERS

LUXURY TRAVEL GUIDE

ROLLS-ROYCE OWNERS' CLUB

Photo courtesy of Tucker's Point Club

Above: The Beach Club at Tucker's Point in Bermuda. Fractional owners at this property automatically become members of the Beach Club.

Left: Bachelor Gulch, a Ritz-Carlton Private Residence Club on Beaver Creek Mountain in Colorado.

Photo courtesy of The Ritz-Carlton Club

OWN A SLICE OF IDEAL VACATION

FRACTIONAL OWNERSHIP OF LUXURY VACATION RESIDENCES

BY VERA MARIE BADERTSCHER

Picture yourself returning to your ski-in condo in Colorado as the snow gently begins to fall, or shaking the water off your wet suit after scuba diving in the Caribbean.

You turn to your companion and say, "If we bought a house here, we could spend endless amounts of time in the place we love most." If we had a soundtrack, at this point the background music would screech and jump as someone turned the power off. The reality of second-home ownership may not quite live up to the dream.

In fact, people with vacation homes average fewer than five weeks a year of usage, according to Richard Ragatz, head of Ragatz Associates, who specializes in vacation-home research. Yet the responsibilities continue all year.

People who want a special place to vacation with their family or friends in a highly desirable vacation spot, but do not want the burden of year-round ownership, have spurred the growth of a new concept – fractional ownership of luxury vacation residences.

What are fractionals? What should you consider when purchasing one? We talked to several experts and owners to find some answers and to bring you examples from luxurious apartments to trophy mansions, many with 24-hour pampering by attentive staff.

DEFINITIONS

Fractional Real Estate. Private Residence Clubs. Destination Clubs. Fractional Estate Ownership Clubs™. For an industry that is only about 12 years old, fractional ownership has spawned a lot of terminology.

Basically, fractional ownership covers a deeded portion (commonly 1/12, but ranging from 1/2 to 1/24) of any type of residence. Owners can use a certain number of days each year, and in most cases can swap for other properties developed by the same company.

Some come with additional features like country club membership or a yacht.

The fractional owner can sell or pass on his deed in his estate. The deed differentiates fractional ownership from the older concept of timeshares or the luxury Destination Clubs, which sell portions of time rather than property. In addition to the purchase price, owners pay an assessment to cover maintenance and management as in any homeowner's association.

In the early '90s, developers first planned fractional sales at the Deer Valley Club in Utah and Franz Klammer Lodge in Colorado. David Disick and his partners opened the ski resort Franz Klammer Lodge in Telluride in 1996. Fairmont Resorts now operates the lodge. Twelve years ago, while working on the project, Disick coined a phrase to explain what he was doing: "You can have the same realistic use you would make of a comparable quality whole-ownership home for a fraction of the price, plus five-star services and amenities."

As a measure of the concept's success, a report issued in March 2007 by Ragatz Associates says, "It is estimated that total sales volume in the shared-ownership resort industry in 2006 was $2.1 billion." Ragatz limited this report to North American, Caribbean, and Mexican sales. The report adds, "It is estimated that 40,000 households have purchased shared-ownership resort real estate. This represents about one percent of all households in the U.S. with incomes over $200,000 (the assumed income-eligibility at this time)." It indicates that the industry will continue to grow.

The developers are responding to an enthusiastic market. Ragatz, founder of the Eugene, Oregon-based research company, says that, "In measuring satisfaction ratio, we have found it to be extremely high – 95 percent in the five major Private Residence Clubs."

Although most Private Residence Clubs make exchanges available at other properties in their chain, Jamie Cheng, a founder of the luxury buyers' guide Helium Report (www.heliumreport.com) says, "The fundamental difference is you make that decision [to buy a fractional] because you love that [specific] place and you want to travel there most often."

Allan Hurwitz, reached at his vacation home in Aspen Highlands, personifies Cheng's definition. He describes

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The infinity pool at Capella Pedregal in Cabo San Lucas. Owners at Capella Pedregal receive personalized service from attentive staff.

Photo courtesy of Capella Pedregal

himself as a nester. A passionate skier, for 30 years he went to the same Austrian resort, before he started vacationing in Aspen. He and his wife and two children rented rooms at the Little Nell Hotel. It became very expensive to rent two or three hotel rooms every year, so when Ritz-Carlton opened Aspen Highlands, a Private Residence Club, he and his wife considered the option of fractional real estate.

"I don't believe in timeshares," Hurwitz, a real estate investor, says. "They aren't a good investment in any way, shape, or form. And I didn't want to buy a full-time condo. I did not want to spend that kind of money and I did not want to be obligated to be here that long. So this had a definite attraction," he says. "Since then I think it is one of the better things I've done in my life."

Sherman Potvin, one of the pioneers in the business, now consults with developers and buyers and runs the Web site Luxury Fractional Guide (lfguide.com). He illustrates why fractional ownership has become one of the fastest-growing segments of real estate with a story from his early days as a salesman.

"A couple owned a ski-in, ski-out home and Ritz-Carlton was building their sales office at Beaver Creek. That couple came in with their three boys and said, 'I understand you are building a fractional?' 'We are but we're not ready,' said the salesperson. 'Well, I want to leave our name because we want to purchase two fractions. We own a home here. We have it for sale. It is costing us nearly $10,000 a year to own, and we can come out only two weeks a year or three.'"

"So they sold," says Potvin, "for $5.5 million. They made $3-4 million. They paid $650,000 for two fractions at Beaver Creek (a Ritz-Carlton Private Residence Club). They took $4 million of their money and put it in investments."

For some people, the question "why buy a fractional?" comes down to an alternative to pricey hotel rooms. Ownership of property appeals to those who like the idea of possible appreciation of value and the ability to sell it if their lifestyle changes. Some, as in Potvin's example, are looking for an alternative to owning an entire second home. And Cheng points out that a fractional allows you to live part-time in a place that might be unattainable otherwise. "These are very unique properties in popular places. How many places can you still build in Aspen?" he says.

COMPARING THE VACATION OPTIONS

Private Residence Clubs

Many Private Residence Clubs (PRCs) are co-located with luxury hotels. Four Seasons was the first major brand hotel to open a Private Residence Club, in Jackson Hole, Wyoming. They since have opened in Scottsdale, Arizona, and Costa Rica. Ritz-Carlton was second with St. Regis in Aspen and Manhattan soon after. Now Fairmont, Hyatt, Westin, and venerable resorts like Hilton Head and Homestead have joined the trend. Their operating models are similar.

Beth Ridenour of Ritz-Carlton (ritzcarltonresidences.com) says her company, which opened their first PRC in Aspen in 2001, now runs four Residence Clubs, with 282 separate residences for the 3,000 people who own existing properties or fractions of coming developments. They will

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This page: The Franz Klammer Lodge, opened in 1996 in Telluride, Colorado, was one of the first fractional offerings. The Lodge's Himmel Spa Suite (below left) and the Club Room (below right) are pictured here.

Opposite top: The Ritz-Carlton Club, Aspen Highlands.

Opposite bottom: The Ritz-Carlton Golf Club & Spa, Jupiter in Florida.

Photos courtesy of Fairmont Heritage Place Franz Klammer Lodge

OWNER SALES

Speaking of his Luxury Fractionals Guide Web site (www.lfguide.com), Sherman Potvin says, "We get an average of 8,000 new people to our Web site every month, and 67 percent of those, the first button they push is the private home button." Overwhelmed by the inquires on the Web, he wrote a book, *Fractionalize to Maximize: Dividing Your Vacation Home Into Profit.*

He says, "All the data shows that 81 percent of the vacation-home owners use their homes only three weeks a year. The rest of the time they try to rent it or it sits there and it drives them crazy." Additionally, when the market is soft, this enables people to make money from their investment.

DESTINATION CLUBS

Destination Clubs ask for a deposit, starting around $30,000, plus yearly five-figure annual dues of several thousand dollars. You get no deed, and only the developer can resell the property. Generally, you are promised an 80 percent to 90 percent refund if you want to leave, but in most cases, not until three new members sign on. All provide luxurious residences and services and multiple locations.

Helium Report lists 25 Destination Clubs, four in the ultra-luxury category, with deposits of $550,000 to $3 million. Of the luxury category ($200,000 to $500,000), Exclusive Resorts is the largest, with 300 homes in 35 locations.

Portofino, a slightly smaller organization, was one of the first to offer Destination Club vacations. They offer what President Rance Rogers describes as 31 second homes instead of one, without the burden of maintenance. Like most Destination Clubs, Portofino makes available a variety of places such as New York City, Scottsdale, London, Venice, Florence, Florida, Mexico, or Hawaii, with only a handful of homes in each. "For every seven full members, we buy another property."

Photos courtesy of The Ritz-Carlton Club

The 2007 Ragatz report says, "Approximately 5,000 members are in the 21 (Destination) clubs."

Photo courtesy of Tucker's Point Club

The Tucker's Point Golf Club House in Bermuda. Owners at Tucker's Point gain membership at the Golf Club, Beach Club, and Tennis Club.

be opening five more by 2009, including their first urban offering, in San Francisco, before the end of 2007.

Most of their residences offer 2,000-3,000 square feet with two-three bedrooms. The majority of the Ritz-Carlton properties are 1/12 interest, but the number of days may vary depending on location from 21 days to 28 days. For instance, an owner at Aspen of a 28-day share gets seven days in the summer, 14 days in the winter, or vice versa. These days are pre-scheduled and the weeks available shift by one week each year so that all owners get a chance at the highly desirable weeks. Plus member/owners can use seven "shoulder" days any time there is space available at any of the Ritz-Carlton clubs in the world.

Owner Hurwitz says, "Last year, when we left here, we went to St. Thomas and we loved it. We could not get back in this year. ... And sometimes, the times are just lost - I haven't used it all."

Since owners pay a hefty annual homeowner's fee for maintenance, many like to rent out their extra days, using an outside agency, in order to recoup some of their costs.

Tucker's Point in Bermuda demonstrates another model of PRC. Although it is a stand-alone club, it allies itself to others through The Elite Alliance, an agency that links fractionals so that members of one can have reciprocal rights in others. For Jason Bruhl, an American living in Great Britain, that right is just "icing on the cake." He may visit the offerings in Florence or at a ski resort in the future, but for now his family enjoys the activities in Bermuda. The more than 50 residents of Tucker's Point homes automatically become members of the Golf Club, Tennis Club, and the Beach Club.

At the top of the market, David Disick's first Chateaux Society (www.chateauxsociety.com) offering in Vail, Colorado, offers Chateau Faucon, a trophy home of 7,128 square feet. He says that owners will soon be "chateau hopping to St. Andrews in Scotland, Lake Tahoe, Hawaii, and other top locations, where they will own part of $6-8 million estates."

Timeshares

Although the laws that regulate developers are still the old timeshare laws, fractionals are not timeshares, which tend to attract mid-market rather than high-end buyers.

Because of the increased level of service, some people refer to them as "timeshares on steroids."

When confronted with the question, "Aren't they all just timeshares?" Disick says, "A Quality Inn is a hotel. A Ritz-Carlton is a hotel. The fact they are both hotels is irrelevant. The question is, what is the qualitative level of the physical facility and the service?" Fractional real estate may fall under the legal term "timeshare," but there remains a world of difference.

Destination Clubs

Fractionals also differ from Destination Clubs, (see sidebar) which provide an arrangement more like a country club and the ability to visit multiple destinations around the world. Membership in a Destination

Club, however, does not come with a deed. A study by PricewaterhouseCoopers, done for Ritz-Carlton, found that, of the high income people they surveyed, "Only seven percent prefer to travel to the same destination, while one in five prefer to travel to new destinations for their vacation experience." Those vacationers with itchy feet may be better suited to the Destination Club.

Helium Report's Cheng cautions that all definitions are dicey. "By and large, in our belief, Destination Clubs are a membership-based program," he says. "They are targeting consumers who want multiple bedrooms in multiple destinations, whereas a Private Residence Club focuses on a single destination and generally offers smaller units. It is much more of a fractional ownership, or real estate transaction." He admits that consumers may get confused because there are no fixed parameters in this business. Rather than "getting hung up on definitions, pick what fits you," Cheng advises.

Left: Florida's Ritz-Carlton Golf Club & Spa, Jupiter, boasts a Jack Nicklaus Signature Course.

Right: Club Homes at the Jupiter fractional offering include amenities such as lanais with private whirlpools and summer kitchens.

Cheng does not see the two forms of vacationing as competitive, because some people opt for the best of both worlds, he says. "Quite often our readers belong to a Destination Club and then own a fraction of a Private Residence Club."

Independent Fractionals

Although most fractionals are part of Private Residence Clubs, some stand independently and come with all the services, like Capella Pedregal in Cabo San Lucas, Tucker's Point in Bermuda, and myriad others.

Ragatz Associates divides the pie differently, calling anything selling for less than $1,000 per square foot "fractional interest" and those selling for more than $1,000 per square foot "Private Residence Clubs."

San Francisco attorney Andy Sirkin represents fractional interest properties around the globe. He says, "The most valuable benefits of ownership are right to use and right to earn rental income." Sirkin does not stress services because his properties, although many are luxurious and located in spectacular locations, are self-governed by the owners, and do not come with a promise of extra service. The advantages to owners, Sirkin feels, include cost and control. His model costs less for acquisition and continuing costs, and the owners have complete control over management, as opposed to handing it over to the developer.

Fractional ownership is an increasingly popular real estate option, and more offerings are appearing in desirable locations. For instance, the Ritz-Carlton Club has properties in the continental United States, including Colorado's Bachelor Gulch (left), as well as in the Caribbean (in St. Thomas, pictured at right) and Hawaii.

Photos courtesy of The Ritz-Carlton Club

LOCATIONS

The fractional ownership concept has roots in Colorado, which is still a hotbed of fractional development and conversion. For instance, Hyatt and St. Regis and the Little Nell Hotel are all developing PRCs in downtown Aspen. Both hotels and private builders are active

Fractional ownership offers a solution to those who want the luxury and relaxation of a vacation home without the headaches of maintaining a secondary residence.

in the Caribbean. Cheng says that the Dominican Republic is getting a lot of attention, and the *Robb Report* says, "Tucker's Point Club brings an unparalleled standard of luxury to Bermuda." Owner Jason Bruhl picked Bermuda for ease of travel from England as well as the United States.

Helium Report lists over 250 Private Residence Clubs around the world that they consider four- or five-star facilities, and Cheng believes the list is fast approaching 300. They list a few fractionals each in Great Britain, Italy, and Portugal.

Limited to North American sales alone, the March 2007 Ragatz report says, "Some 254 fractional interest projects and private residence clubs were identified in the survey, along with 21 destination clubs."

Disick says, "Hawaii is at the outset of the growth curve." He also believes that St. Andrews in Scotland and locations in France will begin to draw attention. His company and many others are moving to urban locations, looking at London, New York, and San Francisco.

Potvin points to an enormous number of fractionals under development in South Africa. His other predictions for hot spots include Costa Rica and Panama. "Panama is up and coming. Costa Rica has been for about five years. Americans historically don't like to put their money into other countries," he says, but developers have found a way to make them more comfortable. "Now they have the opportunity to buy a peach of a house with everything taken care of in an LLC that they are familiar with. So it is a way to own real estate – have their cake and eat it too."

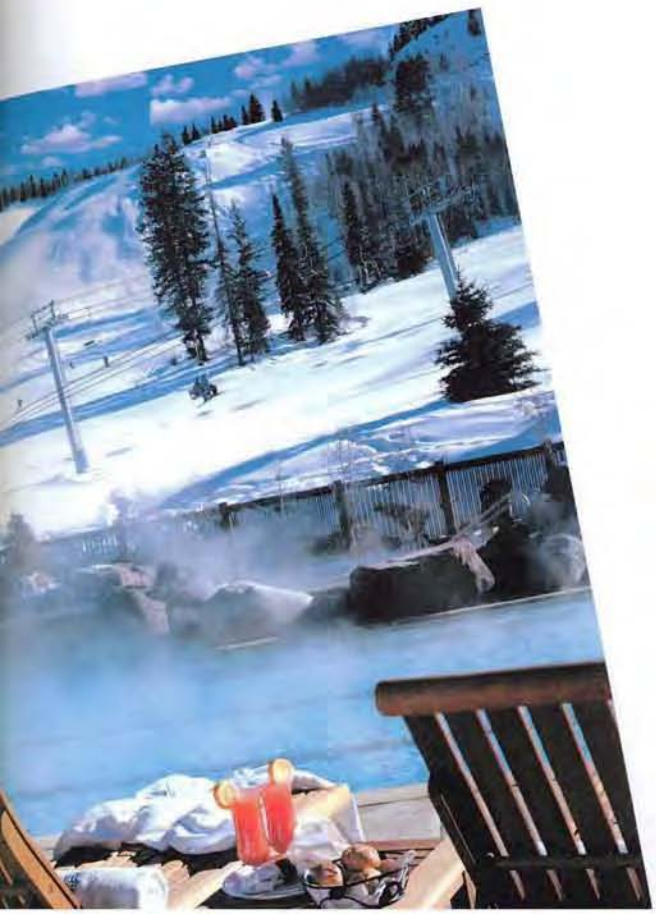

Photo courtesy of The Ritz-Carlton Club

GUIDE FOR BUYING

Potvin says, "I sell it [the concept of fractionals] as a lifestyle investment, not as an investment to make money, even though historically they do well. They have increased, I think, 5.5 percent a year.

"People should really do their due diligence," Potvin says. "There are fractionals selling from $50,000 to $2 million. In New York City, the St. Regis goes for $2.5 million. It is a question of where you want to be and what you can afford."

His three rules:

- Make sure the developer has the wherewithal to build what he is promising.
- Buy close to home. Ideally, you could purchase a fractional in your very favorite place near your primary home so that you could drive to it and take advantage of space available and of all the amenities that go along with these properties.
- Look at the use plan. Be sure it is something you can live with, that it complements your lifestyle.

Ragatz spells out pricing decisions. "In Private Residence Clubs, 50 percent of the sales value goes into land, infrastructure, construction, furnishings, financing; 20 percent into marketing and sales. The mark-up on total shares sold over purchase is between 1.5 and 2 times. Divide the sales price by the number of shares to get equitable share price."

Sirkin has a few more suggestions:

- Add up the annual costs and divide by the number of days you get for per-night cost.
- Find out if you have any control over increasing costs.
- Are you free to rent out the home and control what rent is charged?
- How easy is it to get a vacation somewhere else (as in reciprocal agreements)?

Get tips from Sirkin's and Potvin's Web sites, www.andysirkin.com and www.lfguide.com. For complete lists, reviews, and additional products like private jets and yachts, www.heliumreport.com.