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VACATION *Variations*

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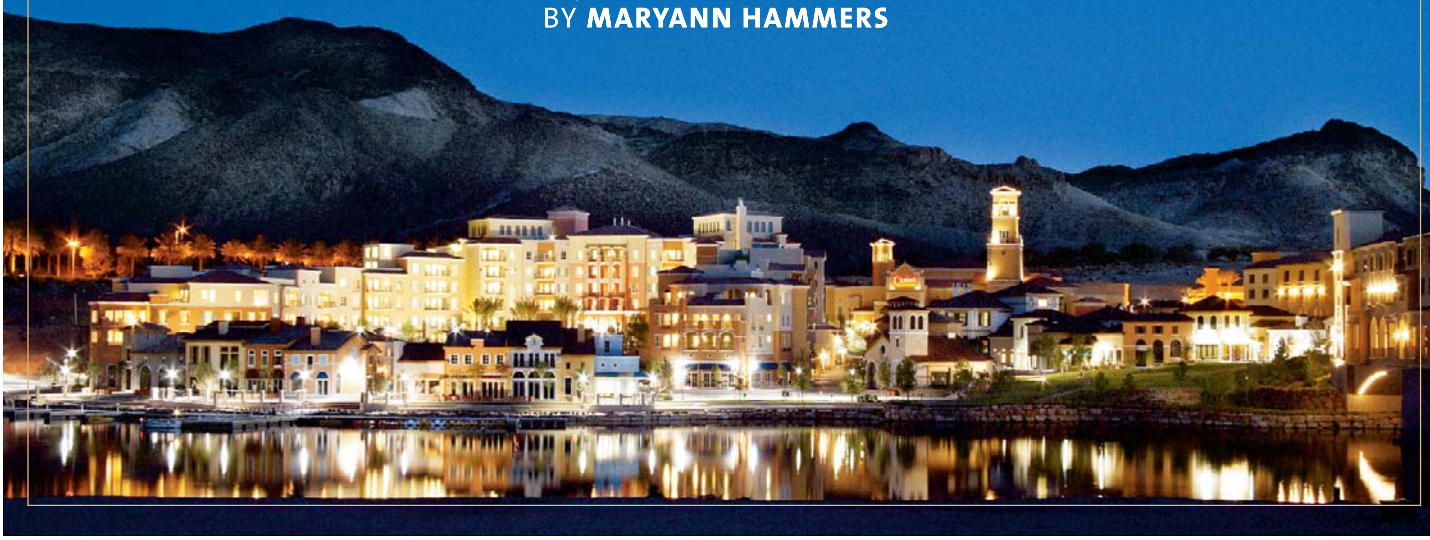

IN A FRENZIED world where holidays are more prized than gold, the vacation home often presents a mixed blessing. For a few restorative weeks each year, this edifice provides shelter from the storm of daily responsibility. Yet the majority of the time, it sits empty, an underutilized asset that can require years to deliver a substantive return in either dollars or enjoyment.

Such was the case for Art Savage, majority owner and CEO of the Sacramento River Cats, a Triple-A league baseball franchise in Sacramento. For several years, Savage and his wife, Susan, owned a vacation home on California's rugged Central Coast near the town of San Luis Obispo. For the Savage family, this retreat provided much-needed refuge from the hectic pace of life. But as time passed, it became more difficult to get away. "When we first bought it, we used it for three months each summer," says Savage, "but as the kids got older, we used it less and less. Ongoing maintenance of the place became an issue, and we really couldn't justify keeping it."

Since selling this home, Savage and his wife have found several vacation investment properties that they believe do justify the expense. They have recently purchased two condominiums at a "condo-hotel" in the Squaw Valley ski resort area, and fractional ownership in a $3-million home at nearby Lake Tahoe, where they may spend up to six weeks a year. "We were looking for a vacation property that had all the amenities without the maintenance," says Savage. "Plus, I didn't want to spend $3 million or $5 million for a place I only go to for six weeks."

Judging by the growing popularity of alternatives to the traditional vacation home investment model, many of us are looking for the same combination of high comfort and low commitment. Numerous exclusive vacation destinations now feature condominium-hotel suites, like the two units Art and Susan Savage own, which combine the services and amenities lacking in a vacation home with some of the investment benefits of outright ownership. "Residence clubs" offer fractional ownership of an actual resort home for those who consistently vacation in one place, for a limited time each year. Finally, for those who never repeat the same vacation twice, "destination clubs" offer access to popular beach and mountain resorts worldwide, but no equity.

These options all guarantee fully furnished, luxury accommodations with no maintenance responsibilities for a smaller capital investment than that of vacation homes. However, they differ in cost, availability, location, amenities and equity. In general, the less equity and profit potential, the greater the service, amenities and destination flexibility.

Because one person's vacation is another's ordeal, none of these options will satisfy everyone's financial and leisure goals. But, say experts, each is designed to meet certain common needs in the market. "A fractional share is best suited to an affluent person who has some pride of ownership and/or desire for interest in real property," says real estate attorney Vernon C. Watters, a partner with Holland & Knight in San Francisco, who specializes in resort development, condo-hotels and fractional share transactions. "The condo-hotel is for the buyer who makes repeated visits to the same resort," he adds. "The destination club concept is intended to appeal to those who desire a great deal of exclusivity, variety and flexibility."

According to David Doll, president and COO of Kanaly, a Houston, Texas-based investment management and financial planning firm, we must weigh the intangibles—such as the prospect of future enjoyment—against the financial investment and profit potential in deciding which option will best suit our individual lifestyles. "Keep in mind that a transaction balance sheet cannot account for pure love of a destination, contentment in a community, or the thrill of a new project," he says. "Passion for a location or love of family and friends can make the business aspect worth the cost and effort. So before becoming emotionally committed, consider cost, location, travel ease, investment and utilization."

ROOM WITH A VIEW

Before investing in two condos at the Village at Squaw Valley USA, a development built and managed by Vancouver-based resort company Intrawest, Savage determined that this vacation property option was ideal for a winter getaway. Each two-bedroom unit is located at the base of ski slopes in the majestic Sierras that surround Squaw Valley. More important to Savage, the units are fully maintained by Intrawest. "These are not as large as a home, but they are not as big a hassle either," he notes. "I don't feel obligated to come here if I don't want to, like I did with a vacation home."

The condo-hotel is a maintenance-free, fully owned vacation home. Units typically range in size from studios to three or four bedrooms. Most have full kitchens and separate living and dining areas, with more square footage, storage space and conveniences than typical hotel suites. Housekeeping, room service and a concierge are usually available, as are on-site restaurants and spas.

"Typically the interior appointments would be similar to those of a four-star hotel," explains Intrawest regional vice president Douglas Ogilvy. "In-room amenities, such as high-speed Internet access, oversized TVs and DVD players, are also becoming the norm. It really depends on the chain [or management company] as to what is offered."

Most prevalent in ski resorts, condo-hotels are also becoming increasingly popular in metropolitan areas and in Florida; moreover, they are springing up nationwide, from Lake Las Vegas, Nev., to New York. "South Florida is experiencing a tremendous boom in condo-hotels. All the major luxury hotel brands—Ritz-Carlton, Four Seasons, Mandarin Oriental, Fontainebleau—are playing in this space," says Ron Molko, a principal of South Beach Resort Development, which is developing the Regent South Beach in Miami. "The concept is also very popular in Colorado, with properties in all the major cities. Manhattan is also seeing growth in this sector."

Montelago Village, Lake Las Vegas, Nevada

As with any real estate transaction, prices vary according to location, size, construction cost and quality, but tend to come in somewhat higher a square foot than freestanding homes in very popular areas. "These properties typically fetch a premium price, since they are located in the most desirable locations and blend the best aspects of a traditional second home and luxury resort," notes Ogilvy. "A mature resort will fetch a higher price, as opposed to one that is in its infancy. In Vail or Whistler you might be looking at a $400,000 to $500,000 starting range, whereas at an up-and-coming destination, you have the opportunity to get in early and be part of the evolution while prices are relatively affordable."

According to Savage, each of his two units at the Village sold in the $650,000 range—a considerably lower price than comparable vacation homes in the area. At MonteLago Village, a developing resort community in Lake Las Vegas, studios currently sell for around $300,000, while three-bedroom condominiums at some Colorado ski resorts have sold for $1.7 million. "The typical range is probably $400,000 to $700,000 at the ski resorts and $350,000 in the warm weather destinations," Ogilvy observes.

The slightly higher costs of a condo-hotel unit can be offset by renting it out when it is not in use through the hotel's management company, as Savage does with one of his two units. "Most people don't rent their vacation homes out," he observes. "Because of that, the only return they are looking at is through real estate appreciation. Here, we've got rental income coming in from one of our condos, which is great."

In addition to rental income, Savage is enjoying significant appreciation in the value of his condo units. According to Ogilvy, resales at the Village at Squaw Valley USA have averaged 20 percent over the original purchase price. "This is a good option for those who place a higher priority on investment, because you realize equity growth similar to traditional second home ownership."

MORE THAN A TIME-SHARE

Savage enjoys skiing on water as much as on snow, so last year he purchased a 1/7 share of a waterfront home on the north shore of Lake Tahoe. This property is part of a residence club development known as Tonopalo, and, like his condos, is managed by Intrawest. "We wanted a summer place, but most of the properties on Lake Tahoe list for millions," says Savage. "We paid $400,000 for a fractional share of a $3 million lakefront home that we can use for six weeks out of the year, which is as long as we would use it anyway. It has a private beach and a boat dock, and you are sitting on the lake, all for $400,000. With all this," he enthuses, "why would you buy a complete home?"

At an increasing number of resort locations, residence clubs offer partial ownership of a vacation home in an exclusive ski, golf or waterfront community, for a small percentage of the cost of outright home ownership. The arrangement is ideal for those, like the Savages, who frequently vacation in the same favorite location and want quality accommodations—yet cannot justify paying millions of dollars for a home that they use only a few weeks each year.

At Nature's Door, Whistler, British Columbia

Also called "fractionals" because owners hold deeded title to a fraction—usually 1/4 to 1/21—of a home, residence clubs are becoming an important segment of the vacation-ownership market. According to Ragatz Associates, an international research and consulting firm serving the resort industry, sales of high-end fractionals jumped from $170 million in 1999 to almost $358 million in 2002. Unlike traditional time-shares, which are typically sold in one-week increments at prices starting as low as $8,000, fractional shares offer stays from two weeks to three months a year, usually in summer-preferred or winter-preferred time slots. "Fractional ownership is suited for buyers who are less interested in a capital investment and who want to own a slice of the resort lifestyle without jumping in all the way," says Ogilvy.

Depending on location, number of bedrooms (usually two or three), and share size, prices typically range from less than $200,000 to more than $600,000—averaging about $1,000 to $1,300 a square foot. At more exclusive locations, these prices may be higher. For example, at the newly opened St. Regis Residence Club in Aspen, a 1/11 share (which equals four weeks of use a year) runs to seven figures.

The services and amenities available to members, however, truly differentiate residence clubs from other vacation property options—particularly outright home ownership and time-shares. These services typically include daily housekeeping, room service, valet parking, priority tee times, baby-sitting services and free transportation, among others. Resort staff stock units with our favorite food items and unpack clothing for us upon arrival. At the end of each visit, the staff will pack and store such items as skis, mountain bikes and golf clubs.

Savage was initially wary of fractional ownership because he thought it would include some of the negative aspects of time-share arrangements. "It is kind of like a time-share, and I didn't want any part of that," he says. "But when you look at the amenities they offer, like buying your groceries and washing your car while you are out on the lake for the day, it is hard to turn down."

Some fractional projects are affiliated with an exchange service, meaning members can swap time with owners in other locations around the world. Owners with a major brand, such as Ritz-Carlton, enjoy priority exchange privileges within that company's portfolio. And if we ever tire of the place, we can sell our share, just as with any other real estate holding.

As an investment, however, residence club memberships do not currently offer a significant return. While Ritz-Carlton claims that the two Colorado residence clubs have seen price increases, the company does not market the properties as investment opportunities. Also, since members own just a fraction of a residence, they also realize just a fraction of the capital appreciation on the property, if there is any. "You can't rent these out, and I do not expect the equity to appreciate much in value," says Savage. "This is just for our personal vacation pleasure."

DESTINATION CLUBS

For those of us who prefer a variety of locations, destination clubs can accommodate us. Members of these clubs do not receive a deed to a property, and their investments have no tax advantages or appreciation potential. Instead, they get privileged, "anytime, anywhere" access to exclusive luxury homes, villas, estates, penthouses and condominiums in some of the world's most desirable vacation destinations.

Typically, members pay a one-time initiation fee, that is wholly or partially refundable upon resignation, as well as annual dues. For example, Exclusive Resorts, a major player in this space, requires an initiation fee of $325,000 (which is 80 percent refundable), and annual dues range from $12,000 for 30 days to $18,000 for 60 days. For more information on Exclusive Resorts, see page 94 in the May 2004 issue of *Robb Report* magazine.Membership at Private Retreats by Abercrombie & Kent, another major name in the luxury destination club market, starts at $250,000 (100 percent refundable) with annual dues of $8,750 and up, plus $150 nightly fees.

According to Amber Raleigh, Exclusive Resorts' vice president of marketing, such fees represent a better investment than buying or renting comparable residences. "For what you pay in property taxes on a single $2.5-million home, you have access to multiple multimillion-dollar homes," she explains. "Anyone who spends at least $20,000 a year in [renting] luxury travel accommodations can justify paying the annual dues."

Destination flexibility is the key draw. Membership clubs trumpet their variety of accommodations in premier ski, beach and golf resort locations, as well as in major cities throughout the world. Private Retreats by Abercrombie & Kent provides members with access to yachts, houseboats, private aircraft, tours and safaris as well. Exclusive Resorts offers its members stays in a suite aboard ResidenSea's *The World*, a luxury liner that continuously circumnavigates the globe.

An extra measure of service is another lure. While the amenities that vacationers enjoy at condo-hotels and residence clubs may be impressive, leading destination clubs take often take personal service to the next level. "We take care of you at whatever level you desire," says Tom Fulton, Abercrombie & Kent's executive vice president of sales and marketing.

A TRANSACTION balance sheet cannot account for pure love of a destination, contentment in a community, or the thrill of a new project.

Typically, destination clubs allow members up to 14 consecutive days in each location, so this option is not suited to those of us who like to stay in our vacation home for frequent or months-long visits. Nor is it geared toward those seeking an investment opportunity. "This is for members who want to stay in exquisitely furnished, fabulous residences in multiple destinations across the world, with no maintenance, high overhead or rigid schedules to adhere to," Fulton says. "This is a lifestyle investment."

	VACATION EXPERIENCE	LENGTH OF STAY	DESTINATION CHOICE AND FLEXIBILITY	OWNERSHIP	EARNINGS POTENTIAL
CONDO-HOTELS	Services and amenities similar to luxury hotel	Unlimited	None; single location	100 percent	Rental income; capital gains if property appreciates; tax advantages of second home-ownership
FRACTIONALS/ RESIDENCE CLUBS	Superior amenities and service in exquisite accommodations	Depends on size of share; typically two weeks to three months a year	Ability to swap time with other owners through an exchange service	Partial ownership of residence	Limited; while properties may appreciate somewhat, they are not marketed as investments
DESTINATION CLUBS	Unmatched amenities and service in exquisite accommodations	Unlimited; up to 14 consecutive days in each location	Extensive; major destination clubs have worldwide offerings	No equity	None