

Fractional Resort & Private Residence Clubs? Carl G. Berry, CEO, Star Resort Group

Fractional real estate can be defined as a vacation home sold to more than one person with a set of governing documents that spell out the rights and obligations of the owners. Therefore, one buys a fraction of a vacation home; compared to a fraction of a jet airplane, a sailboat, an uber-luxury car, or costly jewelry.

What's in a Name?

Why determine what to call a project by what it costs to buy?

Private Residence Clubs [PRCs] are a fractional project sold at over \$1000/per square foot.

One could base price on the size of the condo or house, or whether it's located at a destination or regional resort, or a host of other things. However, hanging a moniker on a resort project needs some definition.

If one was making a hotel reservation the acknowledged ranking is the number of stars [by Mobile] or diamonds [by AAA]. These companies inspect and rate hotels based on an exhaustive list of criteria. Hotels have similar amenities and features: a lobby, guest rooms and in-room amenities, public amenities, a restaurant and bar, meeting space, etc. Hotel brands operate within a ranking e.g., Four Seasons 4 or 5 star, Marriott 3 or 4 star.

Resort projects, however, cater to a different market. Their guests or owners stay longer, are repeat visitors and know what they want in a residence. They don't need as much public space, the guest rooms are condos or homes, and the amenities may be the resort that surrounds the project. Resort projects come in all sizes and shapes, so rating them like hotels does not make sense.

So, back to the purchase price equated to the size of the unit, as it's an indicator of the quality built into the project beginning with the land price, the construction and the fixtures and furnishings.

Hence, the 'Private Residence Club' that sells for over \$1000 per square foot. Follow me on this: a 2200 square foot unit, sold on an 8th share, for example, at \$450,000 per share totals \$3.6 million divided by 2200 square feet is \$1636 per square foot.

Fractional Project

That's compared to a '**fractional project**' which are sold up to \$999 per square foot.

A rule of thumb is that private residence clubs tend to be in destination resorts like Aspen, Deer Valley, or Vail, while fractional projects are in regional and drive-to resorts like Lake Tahoe to the San Francisco Bay Area, or New England to Boston or New York

Why? To begin the price of land in a destination resort is higher, the cost of construction may be higher and those who come to the resort may have more money to spend.

These two levels have nothing to do with the owner's enjoyment of the fraction, the use and the eventual resale. It's a personal decision on what and where to buy.

The fractional project can have as many 'bells and whistles' as a private residence club, just at a lesser cost. It may be more fitting for families and certainly less pretentious.

From a cost comparison to the private residence club example above a 2800 square foot unit, [larger because the land cost is less] sold on a 5th share, for example, at \$225,000 per share totals \$1.125 million divided by 2200 square feet is \$402 per square foot.

All fractions are a personal use product.

Before Buying

The two key elements in deciding to buy a fraction are [#1] how the reservations plan, or use plan, works, and whether it works for you, and [#2] what the annual costs are for upkeep; compared to spending that amount of money on other things.

The size of the fraction.... a quarter, a fifth, an eighth, a tenth or a twelfth will dictate the amount of time you can use your resort home. Many destination resorts, that may be far away from where the owners come from, offer smaller fractions like a 1/12th or 1/10th. Conversely, regional resorts, where the owners can drive to the resort in a few hours offer larger fractions like a 1/4th or a 1/6th.

Unless a fraction has a fixed, rotating schedule of use whereby each owner gets a consecutive week that then advances each year; all other fractions offer some variety of flexible time with a set number of weeks that are 'guaranteed' by advanced reservation each year. They also offer 'space available' time for impulse use.

The annual costs are necessary to support the vacation home: for the people to run and clean it, for the maintenance of the project as a whole, and the exterior and interior of the unit itself. Add to that reserves for the replacement of

everything from TVs to beds to appliances to the roof, and you have an all-in-one fee that guarantees carefree use.

Why Buy?

The answer is carefree use. In a fractional project all services are provided, so the owner can have fun, it's as simple as that! Arrive - drop your bags and get outside and enjoy! When you get ready to depart, just lock the door and walk out and housekeeping will do the rest.

Those who have owned a vacation home know that much of the time spent there is tied up in home maintenance, care of the furnishings, and other property improvements. Certainly, if one owns a condo there is less upkeep. But, upkeep there is.

Also, there is all the unused time where nobody is using the vacation home, yet the cost of owning, the mortgage, electricity; and/or the spa service, go on and on.

So, just by a part, and that's a fraction!

Is it a Timeshare?

Nope. Call it a first cousin. Timeshares are sold by the week. Fractions are sold for longer time periods of use. Timeshares are a travel product. Fractions are a vacation home. The legal structure is the same; one that guarantees the rights and obligations of all owners, so all can have their investment protected and enjoy their use of the property. Different products for different motivations.

Exchange?

Certainly. As timeshares have proven, variety is the oft-said spice of life. Fractional owners can swap some of their weeks for similar, fractional properties around the World. What could be better?

Condo Hotels & Destination Clubs

Condo hotels are a composite product; a hotel with condos as guest rooms vs. regular hotel rooms. The owner invests in the property, has minimal use of their unit and hopes for the hotel management company to earn income by renting out the condo like a hotel, and splitting the revenue with them. Condo hotels are an investment product.

Destination clubs offer multi-site locations of homes or condos with unlimited use of their system of homes. Usually, there is no deeded real estate, as the

promoter or sponsor of the club owns that. The user has a certificate of use. Many clubs offer a 'buy back' provision subject to their ability to sell the membership. Destination Clubs are a vacation product without ownership.

Tying it all Up

Resort home fractions are not new in a sense. Folks have bought vacation homes together since the early 1900s. What's different today is that fractions have governing documents that ensure not only deeded ownership, but the separate ownership of the fraction, so it can be sold, willed or kept in the family with no concern about the other owners.

That's why resort fractions, the private residence clubs regular fractions, have taken off in recent years. It's an idea whose time has come: Why own the whole vacation home? Why pay 100% of the costs? Why not buy the fraction equal to the time you want to use the resort and the home? And, on top of that, make it carefree ownership, where the number of owners who support services one could not afford on their own?

Sounds too good to be true? Pretty much so, but it is true.