FINANCIAL POST

Fractional ownership adds up to affordable luxury

Camilla Cornell, Financial Post Published: Saturday, January 19, 2008

Who doesn't long for the comfort, privacy and prestige of a luxury vacation home? The problem: If you're still gainfully employed, it's likely your ski-in chalet or bungalow on the beach will remain empty for a large chunk of the year. Hence the rise of private residence clubs, fractional interests and destination clubs -- the newest and hottest segment of the luxury travel market.

Three years ago, if you put all three categories together, they accounted for about $530-million of sales volume, according to Richard Ragatz, president of Ragatz Associates, an international consulting company in the resort industry. "Last year it was about $2-billion," he says. "So it's growing rapidly."

The concepts bear a passing resemblance to time-shares, but these clubs target the well-heeled buyer, often with swishy properties in one-of-a-kind locations. The main selling point: You buy the block of vacation time you need and don't pay for time you don't use.

At the more affordable end of the spectrum, fractional ownership is the equivalent of sharing a cottage or ski chalet between a number of families. You buy deeded ownership in a property, ranging from two weeks to three months of annual use. But instead of getting a flimsy shack furnished with beer-cap coasters, hand-me-down furniture and a bathroom sign that reads "if it's yellow, let it mellow," these vacation homes are luxurious affairs with all the amenities.

Toronto-based International Projects Marketing Ltd., for example, sells five-week blocks at its Muskokan Resort on Lake Joseph for $135,000. The semi-detached cottages have lake views, vaulted ceilings, grand Muskoka fireplaces, marble bathrooms and gourmet kitchens.

Private residence clubs operate on the same principle of fractional ownership, says Mr. Ragatz, but they are a higher end product. "Once you're paying over $1,000 a square foot, we call them residence clubs." A good example: Fairmont Heritage Place, the private residence club for the Fairmont hotel chain. Launched in 2004, it targets the top 2% to 3% of the population (by income and assets) with swish properties in Acapulco, Telluride and San Francisco (in mid-2008). Projects in South Africa and Dubai are scheduled to open in 2010. Rather than buying the vacation homes outright, purchasers pay a fee (typically about US$200,000 and up to a four-week block) to buy in, plus annual dues of roughly $7,000 to $12,000.

The homes vary in style and size, but at Fairmont Heritage Place Acapulco Diamante, for instance, two-storey beach-front homes boast more than 3,000 square feet of indoor space and a further 1,500 square feet of outdoor space, including a private plunge pool and patios overlooking Acapulco Bay.

In the end, sums up Mr. Ragata, you don't buy into a fractional scheme of any kind for the resale value, "you buy it for use." But, he says, "at least you're not going to lose money. All the evidence we have is that the resale value is very good. Unlike time-shares, where you can lose 40% to 60% on the value of the purchase the day after you buy it, resale prices for this category have been slowly escalating."