The fractional-interest vacation ownership market continues to evolve to meet the changing needs of discerning travellers

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BY ANGUS WILKINSON

The Four Seasons Residences Club Aviara in North San Diego, Calif. is a recent entry into the vacation ownership market

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The vacation ownership market is clearly on the rise. There are now more than 1,600 timeshare and fractional ownership resorts in the U.S., with two million owners, and 1,300 in Europe with 1.2 million owners. Worldwide these resort developments have grown from 500 in 1980 to more than 6,000 in 2000, while the annual real estate sales volume has grown from US$490 million to US$6.5 billion during the same time period. There are now more than seven million owners of vacation timeshare and fractional real estate worldwide, with a projected growth rate of 23 per cent for this industry in 2001. And surveys have indicated that 40 per cent of existing owners of vacation property wish to purchase more, while 53 per cent of people who have no vacation ownership say they are interested in purchasing. But the demands of these well-heeled travellers have been changing in recent years, and there are several trends that operators interested in capturing or retaining a share of this lucrative market should consider.

Recent surveys by Yesawich, Pepperdine & Brown show that many leisure travellers now prefer shorter trips and want condominium residential-style accommodations. Time poverty is cited as the main reason travellers are planning more trips to a variety of locations, but for shorter periods. Gone are the three- or four-week vacations for working executives. Today, the most popular vacations are three- to seven-day trips, with travel time to both resort and urban destinations limited to less than two hours.

But while this market wants shorter holidays, it doesn't want to sacrifice comfort. Instead, consumers are demanding that real estate vacation ownership be coupled with the services of a luxury hotel with amenities such as spas, restaurants, bars, butler services, shops and health club facilities. In short, buyers are looking for a high-quality experience in both facilities and services, combined with hassle-free real estate ownership in prime vacation locations with high barriers to entry.

Buyers in the luxury vacation ownership market are typically married couples, 60 per cent of whom are in the 45 to 74 age bracket, and 63 per cent of whom do not have children under 18 still living at home. On average they have annual family incomes in excess of US$250,000. While most do not buy vacation ownership properties as a money-making investment, historically fractional-interest vacation homes have re-sold at a premium, reflecting appreciation in the real estate of the particular location. What's also interesting about this market is that 18 per cent of buyers have less than a five-per-cent fractional interest in a vacation property, although many indicate that they want to purchase more fractional ownership.

So what type of luxury vacation and hotel properties do

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these buyers invest in? Currently in the U.S., 58 per cent of properties are oceanfront beach destinations; 14 per cent are mountain ski resorts; 13 per cent are lakefront; and eight per cent are in close proximity to a theme or entertainment park (such as Las Vegas, Orlando, Fla. or Anaheim, Calif.). These upscale fractional projects must deliver exceptionally high-quality residences, combined with superb amenities and services in a world-class location.

In the U.S., high-end fractional ownership has been shown to generate the highest value for developers of resort residential property, especially when operated in conjunction with an established four- or five-star resort hotel. This demand for higher-quality accommodation and services has led most of the upscale international hotel companies to develop and sell vacation real estate ownership. Marriott, one of the first to enter this market, now has more than 175,000 owners, while Hilton Grand Vacations has more than 40,000 owners. Other recent entries to this market include Four Seasons Residences Club, Ritz-Carlton Club, Hyatt, Starwood Vacation Ownership, Wyndham Vacation Club, Club Regent and Carlson Vacation Ownership.

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In Canada, sales of fractional-interest ownership have been extremely successful in Whistler, B.C. The resort town's recent Montebello project that was sold in quarter fractions is now fully sold, with 340 quarters in 85 two-storey townhouses. These were sold and developed in four phases between March 1999 and February 2001 at an average price of $235,000 per quarter, or $547 per sq. ft. Re-sales are going for as high as $795 per sq. ft. As the owner of both of the ski operations, Vancouver-based Intrawest Corporation is the lead developer at this resort. The company has also sold out two further projects as fractionals in the past year, but without the luxury full-service hotel component. A Four Seasons Hotel is planned for Whistler to be sold to condo hotel investors starting at approximately $800 per sq. ft.

In the U.S., where the fractional ownership/hotel combination has been successful for several years, selling prices for vacation homes have ranged from US$854 to US$1,867 per sq. ft. Fractional ownership units have been sold from one-twelfth to quarter shares in units ranging in size from 1,000 to 2,500 sq. ft.

Financing traditional hotels is difficult at the best of economic times, and this is not the best of times. However, by developing a project that includes vacation ownership, the pre-sales of this component and the resulting developer profits can provide a substantial subsidy for hotel financing. And, with the help of an internationally recognized hotel brand, the sale of vacation ownership real estate becomes less risky. Resorts enjoy the high occupancy generated by vacation clubs — traditionally higher than hotel occupancy — while increased occupancy means more customers for the resort's restaurants, bars, spas, shops and other revenue-generating services. This is especially valuable to resort communities in highly seasonal locations where construction of new hotels may not be financially feasible. In this way, smaller boutique hotels with affiliated vacation clubs are able to improve their operating economies by spreading operating and fixed costs over a larger lodging base, while boosting restaurant, bar and other fee-generating services. ◆

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