

## Equity residence clubs, pioneered in Utah growing in popularity nationwide

By Frances Johnson

*The Enterprise*

With the Baby Boom generation entering its prime spending years, second home and vacation home ownership is increasingly common — and increasingly expensive. Equity residence clubs are emerging around the country, and the world, as a lower-cost, higher-service alternative.

The equity residence club, or fractional ownership, market has enjoyed phenomenal growth, with the number of fractional interest projects and private residence clubs in North America up from 188 in 2005 to 254 last year. The industry was pioneered by Park City-based DCP International, which opened the Deer Valley Club in 1992, “and really invented the modern day concept of residence clubs,” said Jeff Heilbrun, vice president of product development for DCP. “Deer Valley Club was really the start of the current model.”

Equity residence clubs are different from timeshares and destination clubs. With a timeshare, Heilbrun said, owners get a fixed amount of time each year at a fixed time of year with little or no flexibility. With destination clubs, there is more flexibility in terms of when units can be reserved and used, but clients don’t have



*Park City-based DCP International opened the first modern-day residence club, Deer Valley Club, in 1992.*

any actual ownership in the development.

“With us, you actually hold the deed like you would on a second home,” Heilbrun said.

In an equity residence club, clients become fractional owners of the develop-

ment. The fraction of ownership, usually one-sixth or one-eighth, is determined by a variety of market conditions. There is no rubber stamp model, Heilbrun said.

“We evaluate each individual project based on that market and then we make the

decision about what fraction to select and how that reservation system works,” he said.

Depending on the market, a one-sixth ownership share might give the buyer three reserved stays of seven days each, or

it might guarantee only one stay of seven days. The price paid for that fractional ownership also depends on the market.

"The fraction is very carefully determined based on the use in the market. It's not an arbitrary price," Heilbrun said. "It really is tied to the pricing of second home ownership in a given market. As goes real estate pricing, so goes our pricing."

Most residence clubs offer a variety of units, such as two-, three- or four-bedroom houses. Owners buy into one of the varieties of units. Each owner can reserve a certain amount of time, perhaps three stays of seven days, for any time of year in any of the three bedroom residences in the club. On top of those guaranteed reservations, owners can also reserve a unit on shorter notice, depending on availability. And for no extra cost, residence club owners can occupy more than one unit simultaneously, Heilbrun said.

"More and more wealthy households are starting to see fractional ownership as a viable alternative to second home ownership," he said.

Fractional residence club ownership brings the amount of money spent on a second residence, and the amount of time spent in that residence, into better balance, said Donald Resnick, developing partner of The Residences at The Chateaux, a residence club in Deer Valley developed with the help of DCP International.

"A lot of people invest a lot of money to buy a condo unit in a resort, especially Deer Valley, and they might only use it a few weeks out of the year," he said. "If

you can create that facility, give them a lot of service and let them have those prime weeks every year, but instead of paying \$2 million they only pay \$300,000 or \$400,000, that makes a lot of sense to people."

The first two phases of The Residences at The Chateaux project were developed as whole ownership units, Resnick said, but a residence club had always been a possibility for the project's final phase.

"Several years ago, as we were starting to plan for our last phase, we saw that the market was not that great for whole units," he said. "When we looked at the pluses and the negatives [of a residence club] we didn't have too many negatives."

Service available to owners at The Residences, a one-sixth deeded ownership interest property, include airport pick-ups and private shuttle services, a stocked kitchen upon arrival and access to the Chateaux Hotel restaurants and spa services, as well as a private club with a toddler room and a teen room and daily events and activities for owners.

Not only do residence club owners pay less than they would for a whole-unit second home, they get more for their money by way of service and amenities. All the time spent in a residence club is spent enjoying, not worrying about maintenance and upkeep.

"In our clubs all the inconveniences of second home ownership are handled by the club," Heilbrun said. "It's second home ownership without the second home

ownership."

Many of the clubs handled by DCP International include package amenities beyond the services of the development. Several projects include automatic membership to a nearby country club while owners are in residence. One club in Florida offers owners access to a fleet of boats while in residence.

"We package a level of amenities and service that you don't see in timeshares or anywhere else," Heilbrun said.

Ski resorts, such as Deer Valley, were the birthplace of the equity residence club concept, but interest is now shifting to beach and golf properties, Heilbrun said. Europe is also developing quickly; DCP International is currently involved with a project in downtown Florence and one in central Tuscany.

"I would say Asia is probably not too far behind," Heilbrun said.

There is also a strong trend toward regional markets with growing urban populations, such as Atlanta and Southern California. Many people are looking for an easy vacation destination closer to home.

"Time is the new commodity," Heilbrun said. "It's places where people can vacation and escape but they don't have to spend all their time in airports to get there. They can just get in their car and go."

The largest residence club in the DCP portfolio is the Phillips Club in Manhattan, near Lincoln Center. Many owners in that project, as well as owners in other residence clubs, use their units not only for

vacations, but for business trips, both for employees and for clients.

"What can you use a second home for?" Heilbrun said. "We're no different."

And while most owners are interested in the market in which their fractional ownership property is located, many residence clubs, including The Residences at The Chateaux, have an exchange program through associations such as Elite Alliance or Destination Exchange International. An owner in Utah or Florida might book time in his or her residence club, then trade that time with the time booked by an owner in Mexico or Italy. The only requirement is that the season, as in high or low season — not the time of year — match, and that the types of residences match as closely as possible.

"That's an added benefit that you don't really get with a second home," Heilbrun said.

The equity residence club market is currently a \$1.1 billion category, and things are only expected to improve. Increasing consumer awareness is key, Heilbrun said. A higher proliferation of residence clubs offering a wider variety of exchange opportunities is also a driving force behind the industry's growth.

"I think it's the opportunity to have the luxury you would like to have, but not the cost," Resnick said. "The interest is tremendous. The hottest thing in the marketplace are residence clubs. They're just all over."