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The rise of destination clubs

Fractional ownership is changing the face of luxury travel – here's how

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Solstice is a small, ultra-luxury club with just 9 homes (plus one under construction) and 73 members. It's no wonder it's on the smaller side, though, with a membership deposit fee of $875,000.

By Danielle Reed
Forbes TRAVELER

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Two years ago, when North Carolina family physician Dr. Hank Capps and his wife had their first baby, they discovered staying in hotels was not as much fun as it once was. But traveling had been very important to them in their pre-child era and they weren't about to give up on it. Instead, they decided on a new vacation option: joining a destination club. For an initial membership deposit and annual dues, the club allowed them to use fully furnished private homes it owned all over the U.S. for 30 days every year. Bonus: the club took care of all the maintenance of the properties and provided the kind of concierge service you'd expect at a five-star hotel.

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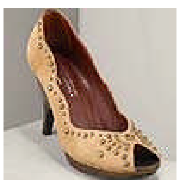

"The concept of having a second home where you don't have to sweat the details" of house maintenance, such as lawn and pool care, was ideal, Dr. Capps said. "So far, we've been incredibly pleased."

As family travel has grown in popularity, so have destination clubs, which offer affluent vacationers a relatively new way to travel. The major selling point: destination clubs offer both the space and privacy of private homes as well as all the services that come with staying at a luxury resort.

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Unlike fractional residences or timeshares, destination clubs for the most part do not give members an ownership stake in real estate (though there are a couple of exceptions to this rule, including BelleHavens, the club Dr. Capps joined). Rather, the typical destination club is structured more like a country club, with members on average paying anywhere from $200,000 to $400,000 in the form of a membership deposit (usually 80% refundable), and annual dues that range from around $15,000 to $30,000 on top of that. This sizeable investment allows the use of whatever properties the club owns for a set number of days in a year, with locations from the **Bahamas** to **Tuscany**. Clubs typically offer concierge services such as stocking the fridge, housecleaning and helping with travel arrangements.

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The industry was launched in 1998, with a company called Private Retreats that is no longer in existence (more on that later). Now there are more than 20 clubs, according to industry consulting firm **Helium Report**. The largest club by far is Exclusive Resorts — chaired by America Online co-founder Steve Case — which boasts about 2,500 members and more than 300 properties, for about a 65 percent share of the destination club market. The membership fee to join Exclusive

Resorts is $475,000, and annual dues are $27,500. The second-largest club, Ultimate Resorts, has 775 members and 105 homes in 26 locations (membership deposit $215,000; annual dues $22,000).

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There are a handful of clubs that focus on travelers with a particular interest, such as fly-fishing or golf. And there are some super-luxury clubs with a very limited membership and only a handful of homes. One example: Solstice, with 9 homes (plus one under construction) with an average value of $6 million, and a membership of deposit of $875,000 plus annual dues of $42,000.

On the lower end, there is High Country Club, geared to a less affluent membership. It costs $50,000 to join with annual dues of $8,400 and currently has 222 members.

Given that one of the least expensive clubs still costs $50,000 to join, it’s clear the destination club product is aimed at travelers with the means to vacation in style. Most often, the destination club member is the same consumer who would typically stay in a luxury hotel for the convenience of all the resort services but is more comfortable staying in a three- to five-bedroom home.

Myla Lapoll, a mother of six based in Los Altos Hills, Calif., says she and her husband decided to join Exclusive Resorts at the end of January because the club’s homes were big enough for them to stay in as a family. “In hotels, we are always in two rooms,” she said, “and the suites are not big enough to allow us to have the family under one roof.” But considering all the shuttling back and forth she has to do when she’s not on vacation, she didn’t want to give up the hotel services. “It makes it so much nicer when someone else is helping with the legwork.”

© www.quintess.com

Quintess, The Leading Residences of the World: Quintess, LRW, founded in 2004, acquired two destination clubs in 2006 – first Dreamcatcher and then Leading Residences of the World. The

For families who are really likely to use the month or six weeks of time they can expect from many destination clubs (there are several that offer unlimited use options), they may even be able to save money compared with the cost of staying in a five-star resort. For a luxury destination acquisitions helped Quintess triple its membership – it's now at more than 325. The club has 51 homes in 27 destinations.

club, the cost per night —based on annual dues—would typically work out to about $1,600 for a three-to-five bedroom home, said Greg Shove, chief executive of Helium Report. Booking a 3-bedroom suite at Las Ventanas in Cabo San Lucas, would cost about $4,000 a night, he said, while a three-bedroom suite at The Peaks in Telluride, Colo., would run about $2,700 a night.

But there are some vacationers who are most likely not cut out for destination club membership. Anyone who likes to travel at the last minute, for example, is probably better off with some other kind of vacation home option, said Shove. "You have to plan ahead to a certain degree. And of course you have to want to go to the locations where (the clubs) have homes." In more exotic locales, such as Asia, he said, destination clubs don't have the coverage just yet.

Also, an individual or couple traveling alone — without children, grandchildren, or friends — may not be able to justify the expense of a destination club. In that situation, said Shove, "if you want to travel for two to three weeks a year, you're kind of paying for extra rooms you don't need."

And until recently, destination club membership was also not a good choice for anyone who wanted to be able to participate in the appreciation of the clubs' real estate. Most clubs are still non-equity, meaning members get to use the properties but not participate in any increase in the value of a club's real estate. However, BelleHavens, founded in 2004, is structured so that members can participate in real estate appreciation, as is a club called Crescendo, founded in 2005.

Clubs of all price ranges are careful to stress they are "lifestyle investments" rather than real estate investments — even those structured so members can benefit from appreciation of the real estate.

Even so, with such a large amount of money tied up in mostly refundable deposits, prospective members are right to be concerned about the safety of their funds. The destination club business is a fairly new industry that's unregulated as of yet. And already there's been one major bankruptcy. The first destination club, Private Retreats, later known as Tanner & Haley, filed in 2006.

The now-defunct club had promised 100% refunds of membership deposits, unlike most clubs, which limit refunds to 80%. And it guaranteed reservations whenever members requested, even during peak holiday season, meaning the club ended up having to lease a lot of properties to accommodate demand. This business model proved unsustainable.

Other clubs are eager to point out how their operations are different from those that led to Tanner & Haley's demise. Industry leader Exclusive Resorts has been at the forefront of establishing formal industry-wide best practices, including limits on the proportion of properties a club leases (rather than owns), and requiring clubs to be able to demonstrate they have enough cash and assets on hand to fully back up member deposit refund requests.

These have always been Exclusive Resort's business practices, says CEO Donn Davis, before and after the Tanner & Haley bankruptcy. Still, he feels it would benefit the industry to have some regulation, and says he is hopeful legislation to that effect will be introduced in a number of state legislatures in 2007. "There need to be standards put in place so consumers can understand if a club is operating responsibly or not," said Davis.

In the meantime, consumers who are considering joining a destination club should ask to see documentation demonstrating that a club can refund deposits, as well as evidence that sales and marketing costs are not covered by the refundable portion of those deposits. Questions like whether there's a waiting list to exit a club or what the ratio of members to properties is should be readily answered by management. If a club won't share such basic information, it's probably best to walk away.

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