



Photograph courtesy of Exclusive Resorts

## At Home Around the Globe

From a farmhouse in Tuscany to beaches in Los Cabos, destination clubs offer members access to second homes with all the finest amenities. But along with rewards, this growing industry comes with some risks.

During the past two years or so, Beth Jackman has swum with dolphins in Hawaii and has learned how to prepare an authentic Italian meal in a restored farmhouse in Tuscany. She has walked the pristine beaches of Los Cabos, Mexico, just miles from the town of Cabo San Lucas, and stayed at the luxurious Palms in Turks & Caicos in the Caribbean.

Not a bad substitute for a second home. For Jackman, flying off to her second home means choosing from an array of 300 multimillion-dollar homes around the world. Depending on her mood, she can stay at a traditional stone lodge in Devon, England, or at a *piéd-a-terre* in the heart of Florence. For more placid views,

she might consider a villa facing the waters of the Mediterranean or the rolling Provençal hills. All the homes are immaculately maintained, boast scenic views and offer the best in services and amenities.

Jackman is one of a growing number of people who have turned to destination clubs as an alternative to buying a vacation home. For an upfront membership fee — usually of several hundred thousand dollars — and annual dues generally costing up to \$30,000, club members are entitled to a number of days per year at the high-end properties, which often are in popular resort locations. The lead times needed to reserve a spot vary among clubs and destinations. So those looking to book a hotspot



during the holidays had best make arrangements months in advance. The clubs generally do, however, try to accommodate members' wishes. The club's management attends to all the details that can make a vacation tedious, from making dinner reservations and setting up tee times for golf to maintaining the multimillion-dollar properties themselves.

"Instead of buying a second home in one particular location, if it's the right club, you could actually have an opportunity to stay at a wide choice of very high-level places, much higher level than you'd find buying a house. Plus, it has services like hotel services," says Richard Davis, co-chair of the hotel, resort and club practice of the law firm Greenberg Traurig in Los Angeles. "It's very appealing on that level."

### **Second Homes Around the Globe**

Jackman, who lives in Englewood, Colo., with her family, says she and her husband bought a trip to a destination club property in Mexico at an auction several years ago and got hooked on the experience. After thinking about purchasing a second home in the Colorado mountains as many of their friends had done, they opted instead to join Exclusive Resorts, a Denver-based destination club. "We thought about that

long and hard," Jackman recalls. "It's hard to have a second home. It's a lot of work, and you just go to that one place. We didn't want to have that headache of ownership."

Members have all their travel plans handled by a club concierge who becomes familiar with all their likes and dislikes. "You get to spend time with family and friends without the brain damage of figuring out the time and the activity. And the places are so spectacular you don't want to leave," Jackman says.

The goal is to offer members the comforts of home with the services and amenities of a five-star resort. Members should feel like they can travel extensively to places they have never been before, as well as places they like to go every year, says Michael Beindorff, Exclusive Resorts' chief operating officer.

"Make the world your second home; that's the invitation we make to people when we talk to them about the club," Beindorff says.

### **Growing Pains**

In 2005, the total sales volume for destination clubs grew 42.5% to \$725.5 million, according to a report on the industry prepared by Ragatz Associates, a consulting firm. Some 22 clubs were active in sales during that year. And the industry

is likely to continue to grow, says Dick Ragatz, president of Ragatz Associates, with more varieties and more affinity-type clubs or those that focus on one regional area.

As interest grows, however, clubs' business models could face greater scrutiny. The industry was rocked by a recent bankruptcy filing of one major player, Tanner & Haley. The July 2006 filing left Tanner & Haley's more than 800 members wondering what would happen to their travel plans that year, not to mention the upfront membership fees they had paid.

In November 2006, another destination club, Ultimate Resort, announced an agreement to acquire Tanner & Haley's real estate assets. Under the terms of the deal, members of Tanner & Haley's three clubs would be allowed limited access to Ultimate Resort properties.

After news of the bankruptcy spread, other clubs were quick to distance themselves from the Tanner & Haley business model. They promised

greater financial transparency and protections in an industry that is largely unregulated.

Among Tanner & Haley's problems, industry experts note, was a policy to seldom refuse a client's travel request. If a desired property was not available, the company often entered into costly short-term leases to accommodate their members' wishes.

### **A Lifestyle Investment**

Joining the traditional destination club is not a wise choice for someone expecting financial return. It is a lifestyle investment rather than a financial one, Beindorff says. Jackman likens the experience to joining a high-end country club.

At most destination clubs, members do not hold equity in the properties (unlike timeshares), and if they leave the club, they typically can get most of their initial membership fee back.

"It is purely a prepaid vacation," Davis says. "There is no guarantee or assurance that those



Photograph courtesy of Exclusive Resorts

Destination clubs offer members the luxury comforts of a private home combined with the services and amenities of a five-star resort. Members can travel to places they have never been before, as well as places they like to go every year.

properties will be there, that they'll actually get that money back or that the company that owns those properties won't go bankrupt." Davis suggests that anyone interested in a destination club check out the club's finances and consult with someone who is familiar with the companies in the industry before joining.

It also is wise to investigate what percentage of properties the club owns and what percentage it leases. If it leases a high percentage of properties, it may be more financially vulnerable. Prospective members might also want to investigate the club's ratio of properties to members. They should ensure there are enough homes that members are able to stay where they want when they want, as long as they plan ahead. It also doesn't hurt to check how many members resign in a given year.

### Growing Trend in Equity

As the destination club industry matures, clubs have tried to differentiate themselves with unique themes, more varied locations and different types and levels of membership plans.

While about 90% of destination clubs do not offer members any equity in their real estate properties, a small number do, and that number may grow in the coming years, Ragatz says.

"With an equity club," he says, "if you were to sell your membership, you would participate in the appreciation of the real estate from when you bought to the time you sell. It's more appealing to the consumer because a lot of consumers like to own something tangible, and they think the real estate is going to appreciate in value."

Crescendo, a luxury real estate investment group, is one such equity club. Michael Burns, the private company's chairman, says Crescendo's members purchase an equity interest in the group that is analogous to buying into a mutual fund of luxury residences. The upfront capital cost is comparable to those of other destination clubs. In winter 2007, it was expected to be roughly \$335,000. Members then select one of three usage plans: gold, platinum or platinum unlimited.

Members sign on for a specified period of roughly 10 to 12 years, and at the end of that period, they can opt to cancel their membership and recoup their initial fee plus the appreciation of their portion of the real estate value, or they can roll their investment into a new partnership. If a member wants to cancel their membership before the agreed-on period is over, they receive the appreciation minus a 10% penalty.

James McMahan, a consultant and mortgage banker who lives in Dallas with his wife and three teenagers, says his family had a second home in Crested Butte, Colo., for 17 years. Then, they traded it in for an interest in Crescendo. In addition to the pleasures of staying at a \$3 million, 8,300-square-foot home in Punta Mita, Mexico, and in other spectacular locations, McMahan says he likes the idea that as the club grows, he is a part owner in more properties without having to increase his initial investment.

"We just love it, it's been incredible. To have the dynamic side of the organization growing, knowing you'll have choices without additional cost is very exciting to me," McMahan says. ■

## Levels of Luxury

Many destination and equity clubs offer different membership tiers based on your travel needs.

	SILVER	GOLD	PLATINUM
Membership Fees	\$100,000 to \$225,000 (80% refundable)	\$200,000 to \$350,000 (80% refundable)	\$345,000 to \$425,000+ (80% refundable)
Annual Dues	\$10,000 to \$13,500	\$20,000 to \$25,000	\$24,000 to \$32,000+
Number of Days Included	15 to 21 days	15 to 30 days	30 to 50 days+

Sources: Dream Catcher Retreats/Quintess, Exclusive Resorts, Portofino Destination Clubs, Crescendo