EXECUTIVE SUMMARY

THE SHARED-OWNERSHIP RESORT REAL ESTATE INDUSTRY IN NORTH AMERICA: 2019

FRACTIONAL INTERESTS
PRIVATE RESIDENCE CLUBS
DESTINATION CLUBS

Introduction

This document is an Executive Summary of a larger survey conducted by Ragatz Associates of the shared-ownership resort real estate industry in North America as of March 2019. Included in this overall sector of the resort real estate industry are three components: fractional interest projects, private residence clubs and destination clubs.

The first two components are similar, in that both typically sell deeded ownership in shares of vacation homes, ranging from a 1/21 share with two weeks of annual use to a 1/4 share with three months of annual use. However, the two components vary in terms of price, quality of product and degree of services and amenities. Ragatz Associates simply assumes that product selling for less than $1,000 per square foot falls into the fractional interest category, and product selling for more than $1,000 per square foot falls into the private residence club category.

A destination club typically sells 30-year memberships on a non-equity basis into a wide network of vacation homes in multiple locations. Some clubs are equity-based, however. The concept is further characterized by a refundability policy when members leave the club. And, some are rental clubs.

The survey represents our 19th annual edition. Once again, it is thought to be the most thorough and comprehensive survey conducted of the industry.

Size of the Industry

Some 316 fractional interest (FI) projects and private residence clubs (PRC) were identified in the survey, along with eight destination clubs. Of the 316 developments, 50 actually made some sales in 2018, as did all eight destination clubs. The 50 FI and PRC projects are the primary focus of the survey.

Included in the 316 developments are 67 percent in the United States, 17 percent in Canada, nine percent in the Caribbean and seven percent in Mexico. The two states of Colorado and California contain 19 percent of all developments. Of the 50 active developments, 58 percent are fractional interest projects and 42 percent are private residence clubs. Most of the 266 inactive developments are older, sold-out fractional interest projects.

There were 51 active projects making sales in 2017. Between 2017 and 2018 there were four new projects, two projects re-starting sales from the previous year, five projects attaining sell-out, and two stopping sales.

It is estimated that total sales volume in the shared-ownership industry in 2018 was about $471 million. This amount includes new closed sales, presales, and in-house resales. When looking at the three individual components, sales volumes were $40 million for fractional interest projects (eight percent), $144 million for private residence clubs (31 percent), and $287 million for destination clubs (61 percent). Some 58 percent of the 50 active projects were fractional interests, but they generated only eight percent of the total sales volume in the overall industry.

Sales volume at $471 million in the shared-ownership industry in 2018 was the lowest since we started the survey in 2004, down from $480 million in 2017. However, the annual sales volume over the last nine years has been fairly consistent, ranging from $471 million in 2018 to $552 million in 2011, and averaging $509 million. In 2018, destination clubs decreased by $18 million (six percent), fractional interest projects decreased by $3 million (seven percent), and private residence clubs increased by $12 million (nine percent). Sales volume was down by 79 percent (-$1.8 billion) since the peak year of 2007.

Shown below are industry sales volumes over the past years.

year	sales volume (mil.)	year	sales volume (mil.)
2004	$1,544	2011	$552
2005	$1,968	2012	$497
2006	$2,152	2013	$517
2007	$2,300	2014	$516
2008	$1,473	2015	$505
2009	$860	2016	$516
2010	$530	2017	$480
		2018	$471

In 2018, the average annual sales volume in the 50 active projects was $1.4 million for fractional interest projects and $6.9 million for private residence clubs. However, if excluding the top three private residence clubs, the average for that component would decline to $3.2 million. If excluding the top three selling fractional interest projects, the average for that component would drop to $850,000. Of the total 50 active projects, eight percent had sales over $10 million, while 46 percent had sales of less than $1 million.

Several critical factors once again were in play in 2018 to cause stagnation in the sales performance of the shared-ownership industry. These same factors have negatively impacted the market since the last quarter of 2007.

- uncertainty about the country’s long-term economic stability
- almost complete lack of consumer financing
- decrease in primary home equity funds for purchasers who previously paid cash

- lack of marketing funds
- an excess supply of whole-ownership vacation homes on the market, with decreasing prices
- increasing competition from vacation home rentals and rental clubs

Prices

Prices in the shared-ownership industry range widely. For fractional interest projects, selected average prices include $164,750 per share, $23,550 per week (when dis-aggregating shares to an individual weekly basis), and $630 per square foot. Among private residence clubs, these averages are $236,350 per share, $52,225 per week, and $1,800 per square foot. Per week and per square foot prices tend to decrease as the size of the unit and share increase. In comparison with 2017, average prices increased by $5,800 per share (three percent), $2,900 per week (eight percent), and $110 per square foot (nine percent). When compared to the peak year of 2007, per share prices have decreased by 21 percent and per week prices by 13 percent. Per square foot prices have actually increased by 12 percent. Again, all numbers are skewed by the small sample sizes.

Per square foot prices vary significantly by country, e.g., from $475 in Canada, to $1,100 in Mexico, to $1,320 in the Caribbean, to $1,450 in the United States. They also are higher in ski communities and at developments offered by branded hotel companies.

Annual maintenance fees average $8,400 per share, ranging from $6,775 among fractional interest projects to $9,950 among private residence clubs. On a per week basis, such averages are $1,200 and $1,975, respectively.

Operating costs (including marketing, sales and general administration) were about the same in 2018 compared to previous years, at about 15 to 20 percent of the overall sales volume. Product costs were about 50 to 55 percent.

Product Characteristics

Upon completion, the average development will contain 33 units. Some 64 percent of the units are either two-bedrooms (38 percent) or three-bedrooms (26 percent). Among all units, the average size is 1,585 square feet.

There are at least nine different sizes of shares being sold. Most frequent sizes for fractional interest projects are in the 1/10 to 1/8 range (50 percent). For private residence clubs they also are in the 1/10 to 1/8 range (54 percent). In efforts to have lower prices in accord with declining market conditions, there was a tendency in 2018 (as in recent years) to have smaller shares, fewer bedrooms and smaller floor areas.

On-site amenities and services are extensive in the industry, especially at the private residence club level. However, there was a trend in 2018 (as in recent years) to have fewer on-site services in order to conserve on annual dues. At the same time, there was a trend to provide more owner benefits such as rental and resale programs, and external exchange.

Destination Clubs

The average initiation deposit for membership in the eight (one less than in 2017) destination clubs is $177,000. The average residence in the clubs has a reported value of $3.3 million and contains

3,350 square feet. The average term is 30 years, and the average ratio of members per residence is 14. Approximately 19,150 members are in the eight clubs.

Future Trends

It is still felt that the shared-ownership components will rebound in the future. Reasons include being a concept that is based on: (1) personal use rather than speculation; (2) being able to purchase only the amount of time that have vacations to use and discretionary income to spend on; (3) lowering household spending habits and capabilities; (4) being hassle-free, i.e., “show up and enjoy;” and (5) the opportunity for flexibility and variety of use due to the external exchange process.

Based on 45 years of experience in the resort real estate industry, we expect the shared-ownership industry to once again be on a growth track as the national economy further improves. Our consumer research suggests the decline in the industry’s sales performance since the last quarter of 2007 has been more due to external factors such as the economy and lack of financing, and less due to lack of consumer interest in the concept.

The complete report is available for purchase from Ragatz Associates at www.ragatzassociates.com.