

Nowadays, about 25 percent of all private residence clubs are in golf-oriented communities. Shown here is Seven Canyons, a master-planned private golf community in Sedona, Arizona.



Golf-In, Golf-Out

SCOTT KAUFFMAN

Fractional-ownership clubs are teaming up with golf.

WHEN STAR RESORTS LLC INTRODUCED the first equity residence club 15 years ago, the property was located within the pricey and snowy confines of Deer Valley Resort in Park City, Utah. The prototypical Deer Valley Club, which offered luxury vacation homeownership with the services and amenities of an upscale hotel, soon spawned similar club concepts in other well-known ski destinations, including Phase I of the Franz Klammer Lodge in Tel-

luride, Colorado, and the Christie Club at Steamboat Springs, Colorado. Subsequently, this blend of high-end residential/resort-style development—in which investors owned a fraction of a unit—slowly spread to other mountain sites. Though this type of development remained principally the domain of top ski destinations for years, this is no longer the case.

Today, these private residence clubs, or fractional ownership clubs as they are sometimes called, are as easy to find in urban or warm-weather venues as they are in the mountains. One segment that is experiencing heightened interest in the newfound high-end fractional market is master-planned golf course communities—particularly private resort-style developments.

At Seven Canyons, a private golf club community in Sedona, Arizona, membership is limited to 325 members with an initiation fee of \$250,000. Seven Canyons offers 30 estate-sized homesites and 84 villas measuring 2,500 square feet sold in one-tenth shares. Twenty of the 30 estate lots, ranging in size from approximately one acre to more than 2.5 acres (0.4 to 1.01 ha), were sold on average for \$1.1 million, with the last lot closing at \$2.9 million; the fractional shares, which

debuted last year, are going for \$429,000, with annual dues running at \$9,950.

“What happened [historically] was that, from a whole-ownership perspective, prices in ski resort areas like Aspen, Vail, and Telluride [had gone] off the wall,” notes industry expert Richard Ragatz of Eugene, Oregon-based Ragatz Associates. The advent of the fractional concept allowed the industry to grow. “Typical prices in golf communities are not as high as they are in ski communities because of the greater supply of land. Now it’s getting up there,” he adds.

“The industry is still in its incubatory stage. It really started about five years ago,” explains Ragatz. “At that time, about 80 percent of the private residence clubs were in ski communities—ski-in, ski-out communities—and not more than 5 percent were in golf communities. In the most recent Ragatz survey on fractional use, probably 25 percent of all private residence clubs were in golf-oriented communities.”

Basically, as the fractional industry continues to be better understood and accepted by real estate investors, due to “the rationality of the concept,” according to Ragatz, private residence clubs will continue to grab more market share from whole ownership vacation homes. That includes all types of vacation homes—in ski, beach, or golf venues.

“In the next two years, the vast majority of resort development that includes vacation home sales will have some form of residence

club/fractional element,” he maintains. “The concept of shared ownership is becoming more rational.”

This also is the opinion of Scott Denney, one of the principals behind Pronghorn, a private golf and resort-style community in Bend, Oregon, that ultimately will have close to 70 fractional villas overlooking the 18th green of the club’s Jack Nicklaus Signature course.

“The trend started in the ski mountains, but it’s now gravitated to golf,” explains Denney, whose residence club was launched to the public this January. “Even though Bend has one of the top ski mountains in Mount Bachelor, we have no ski-in, ski-out. But we have 25 to 28 golf courses [in the area]. We were the first to have an amenitized fractional development in the Bend region. We call it golf-in, golf-out.”

At Pronghorn, that means having access to two private golf courses designed by Nicklaus and Tom Fazio—scheduled to open this month—a distinction that makes Pronghorn the only development in the western region that offers courses by both popular golf course architects. When Pronghorn registered its residence club with the requisite agencies, Denney says they “weren’t sure how the market would

Pronghorn, a private golf and resort-style community in Bend, Oregon, has fractional villas overlooking the greens at the club’s Jack Nicklaus Signature course.

react to the upstart product,” so they decided to register their two- and four-bedroom villas (measuring approximately 2,000 to 2,600 square feet [186 to 242 sq m] each) as one-twelfth interests or four weeks of use time, enabling the club also to market in fractional shares of one-sixth and one-fourth. Prices for the luxury units range from \$157,000 to \$470,800, depending on the size of the unit and the fractional amount of use.

Denney credits the fractional jet industry—in which usage of jet time is sold in different amounts or fractions—for the fractional real estate industry’s continued growth. For example, North American sales volume in the overall fractional real estate industry jumped from \$530 million three years ago to approximately \$2 billion in 2005, according to Ragatz.

“I think the fractional jet market opened the doors,” says Denney, whose 640-acre



Private Courses Show Growth in Resort Settings

IN A GOLF COURSE INDUSTRY experiencing sluggish overall growth, private clubs generally have been the least-favored sector. Developers are building fewer stand-alone private clubs, and golfers increasingly are turning away from them. The fundamental reason for this is that many golfers—particularly those with young families—no longer wish to pay substantial dues for a private club they no longer have the free time to use.

That confluence of decreased leisure time and disposable income—not to mention a greater selection of first-class, daily-fee or public-access courses to play—has caused a marked drop in the number of private clubs operating in the United States. For example, from 1990 to 2005, though the country realized a net gain of 3,238 golf courses, the number of private clubs plummeted by 438 or 0.6 percent (4,810 to 4,372). Last year, 40 new private clubs opened, the lowest total since 36 opened in 1997, according to the Jupiter, Florida-based National Golf Foundation.

Does this signal the demise of private golf clubs? Not in many of America's upscale master-planned resort developments. While the overall private golf club market is flattening, private courses in resort settings show growth. At least that seems to be the case based on a number of resort developers adding or deciding to add high-end private courses to their portfolio.

For example, earlier this year, Kapalua Land Company Ltd.

announced an agreement with golf course architect Tom Fazio to create the first members-only course at Kapalua Resort—the 23,000-acre (9,311-ha) master-planned community on Maui's northwest course that includes two other golf courses. The new Mauka Course, scheduled to begin construction next year, will replace the existing Village Course. In Sarasota, Florida, the Ritz-Carlton introduced the Fazio-designed Members Golf Club this January, while Suncadia, a master-planned resort community in Roslyn, Washington, debuted the private Tom Doak-designed Tumble Creek to members this June—giving Suncadia 54 total holes. According to Chris Kelsey, Suncadia's senior vice president for development, the new private club is an opportunity to “break the community's amenities into different segments and offer different tiers of hikes and price points.”

Longtime real estate developer Ron Boeddeker of Lake Las Vegas Resort was one of the first resort owners to incorporate a private course when he opened the Jack Nicklaus-designed SouthShore Golf Club in December 1995. Boeddeker, who subsequently opened two more resort courses at Lake Las Vegas, says a private course is necessary at his upscale 3,592-acre (1,454-ha) community that includes a Ritz-Carlton, a Hyatt Regency, a 320-acre (129.5-ha) private lake, and the 40,000-square-foot (3,720-sq-m) Casino MonteLago.

“When you go to a resort like this, there's a segment that just wants to have the private aspect of it,” explains Boeddeker. “As baby boomers move in, you'll find groups that like that exclusivity.

The one negative to it these days is that a lot of them are down,” he says. “Our public courses are doing quite well, finally, with 40,000 rounds on each one. But if you don't get enough rounds to make it a sound economic entity,

location, general manager Jim McManemon says the new amenity “makes perfect sense” for the clientele who live at or frequent his downtown Sarasota resort. “Golf is really becoming a resort essential for guests, but not just any golf,”



Suncadia, a master-planned resort community in Roslyn, Washington, includes the new private Tom Doak-designed Tumble Creek golf course.

it discourages a lot of people from building them.”

Boeddeker notes that a fourth course is being added to Lake Las Vegas and he says there was debate over whether to make the proposed new Fazio layout public or private. “We struggled with that,” he relates. “In the end, we needed more golf [for the resort guests], so we went with making it a resort course.”

At the Ritz-Carlton Members Golf Club, a core golf course located at an off-site, 315-acre (127.5-ha)

he adds, noting that the club costs \$100,000 to join. “They want a private course that's generally higher end. They want that experience of a club and the relationships—that discriminating service. They want something experiential that they can talk about like their cars, homes, and travel.”

The concept is working out so well for the Ritz-Carlton, says McManemon, that the company is planning its first stand-alone private golf course community—Creighton Farms—located about 30 miles (48.3 km) west of Washington, D.C., in Aldie, Virginia. “People are coming weekly to see the Ritz-Carlton Members Club,” he adds. “We will be doing more like it.”—s.k.

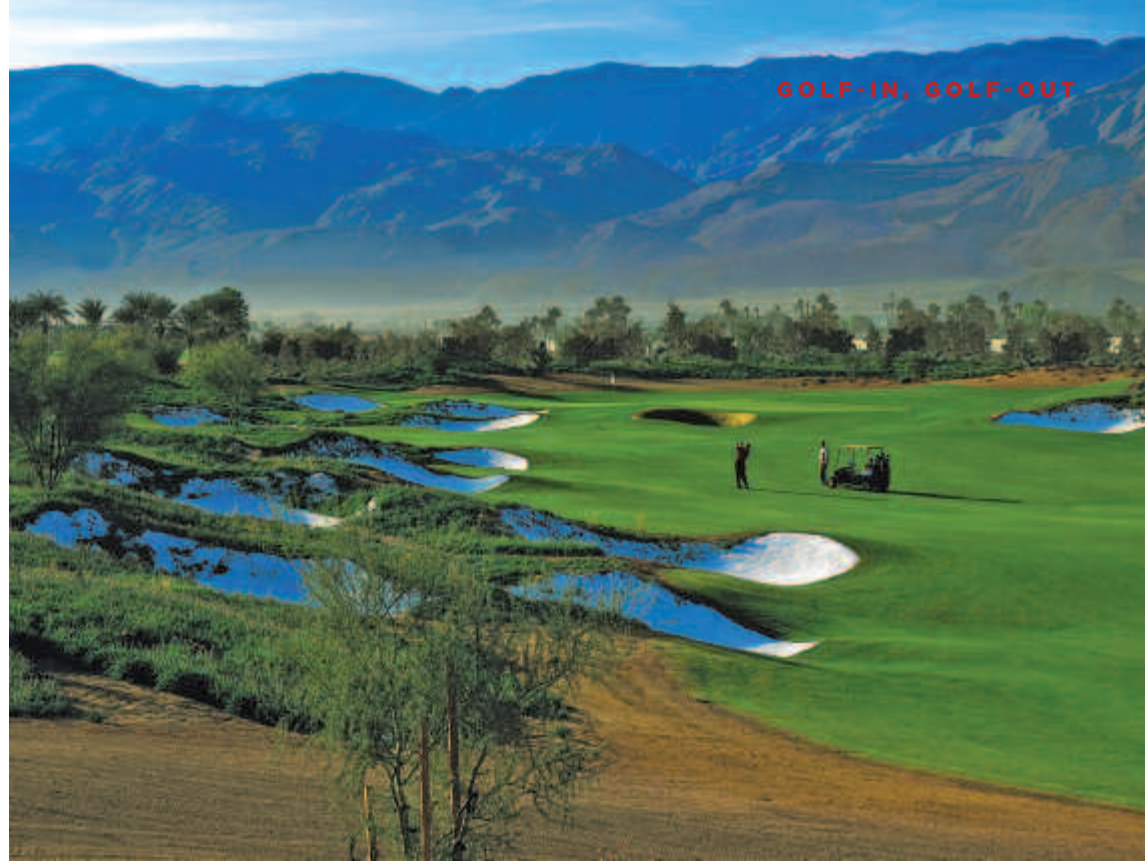
(259-ha) Pronghorn community also offers a variety of wholly owned real estate, ranging in price from \$500,000 to \$2 million for vacant lots to homes that go up to the mid-to-high \$3 million. "I read an interesting article in *Barrons* about the fractional jet industry and how a number of *Fortune 500* companies are dumping corporate jets and buying all the fractionals [in one airplane] so they can put five to seven executives in the air at the same time.

"It really makes sense," he maintains. "You don't have to buy a hangar, and you save on fuel and maintenance. We'd sell these [fractional] villas for \$1.8 million to \$2.2 million. Now you can buy a share, so you get this really cool unit for a fraction of the cost. You say to yourself, 'I can't really get away for more than a month or two months anyway; why not buy what I'll use?'"

Also attractive, according to a number of developers of these fractional products, is the opportunity to invest in a vacation property in which all maintenance-related issues or other typical vacation home responsibilities already are covered by the respective clubs. This is ultimately what James Deutsch and his wife, Deborah, say sold them on the new Residence Club at PGA West in La Quinta, California. Located on the perimeter of the PGA community that includes three world-class resort courses designed by Nicklaus, Greg Norman, and Pete Dye, this 20-acre (8.1-ha) enclave includes 32 freestanding villas, each of which is being sold in one-ninth undivided deeded shares.

"I have several friends who own vacation homes in the Palm Springs area and every time we visit them there, they spend the first day fixing things and waiting for people to show up to take care of something," says Deutsch. "Then, the last day they do the same thing, getting all these things taken care of before they leave. So they spend half their time in the desert not vacationing. I didn't want to have anything to do with all that. The fractional ownership addresses all our needs," he adds.

Residential real estate developer Marc Bailes, principal of Scottsdale-based Bailes & Company, the operating partner behind the Residence Club at PGA West, says all but one of his club's members are from the West Coast and many are drive-in investors from



southern California. Most of them already own fractionals at other ski or beach locations, according to Bailes.

The appeal of his PGA West project is simple, he notes. "Members want a second home in PGA West but don't want to pay \$1.6 million for a home because of their use profile," notes Bailes, who currently is scouting several international sites for another residence club.

Though the Residence Club at PGA West is not part of a self-contained community like Seven Canyons or Pronghorn, it is not lacking in amenities. For example, as part of the gated Residence Club, members have three 6,000-square-foot (558-sq-m) putting greens, a members-only clubhouse scheduled to open early next year, preferential treatment to use five championship golf courses at PGA West and the La Quinta Resort & Club, access to La Quinta Resort's 23 tennis courts and numerous pools, and discounts on spa treatments at Spa La Quinta.

Though Bailes's foray into the fast-moving fractional industry is running ahead of his group's sales projections, he acknowledges that this type of development is challenging to say the least. "These things are hard to do," says Bailes, whose partners are Specialty Financial founder Nello Gonfiantini and long-time West Coast homebuilder Terry Manley.



The new Residence Club at PGA West in La Quinta, California, includes three world-class courses designed by Jack Nicklaus, Greg Norman (top), and Pete Dye, as well as 32 freestanding villas (above), sold in fractional shares.

“This is so incredibly management intensive. Traditional banks still view fractionals as time-shares, so you have to find a nontraditional money source. Plus, you have to spend upfront quite a bit of marketing money with no residual value,” he notes.

When asked about the key to success, Bailes replies: “I think you have to be in highly amenitized areas. You have to be in ski, beach, golf, and island settings or in urban settings like San Francisco or New York. I don’t think you can just stick one in the ground anywhere. Also, you have to have expensive wholly owned real estate around you,” says Bailes, who has developed 37 traditional residential communities in Arizona, Colorado, and California.

East West Partners, a Colorado-based developer of luxury second-home communities, is exploring the concept of incorporating enclaves of fractional residences with wholly owned real estate for its new Tahoe Mountain Club, now under development in North Lake Tahoe, California [see “Sustainable Resorts,” page 78]. Comprising four high-end communities, two of which are golf course developments, Tahoe Mountain Resorts offers memberships in Tahoe Mountain Club, a four-seasons club with full ownership and fractional ownership in ski-in, ski-out residences at the Ritz-Carlton Highlands community, as well as a variety of golf course real estate options at the club’s Old Greenwood and Gray’s Crossing communities. At Old Greenwood, a 600-acre (243-ha) development that includes a Nicklaus Signature course just outside the historic town of Truckee, East West Partners has plans for 159 fractional residences: 85 cabins at Old Greenwood; mountain-themed, three- and four-bedroom units from 2,470 to 3,000 square feet (229 to 279 sq m) along the ninth and tenth fairways; and 74 townhomes, consisting of 1,270-square-foot to 1,760-square-foot (118- to 163-sq-m) units adjacent to the 17th and 18th holes.

The fractional residences are being sold in one-seventeenth shares, and range in price from \$60,000 to \$230,000, depending on the type of unit and the “primary use period,” according to East West Partners’ sales team. The fractional includes the \$30,000 membership fee to join the Tahoe Mountain Club,

Old Greenwood, one of four high-end communities that are part of Tahoe Mountain Resorts, includes fractional residences, such as mountain cabins, and a Jack Nicklaus Signature course. Fractional-ownership residents and guests have full use of the amenities scattered throughout the four communities.



giving fractional residents and guests full use of the numerous amenities scattered throughout the four communities whenever they are in residence.

Fractional buyers are “fundamental to our success” and are noticeably much younger, according to Harry Frampton, founder/managing partner of East West Partners. For example, East West Partners’ typical fractional buyer is 35 to 50 years old, compared with its whole-ownership buyer, who is 50 to 60 years old. Frampton notes that most of the private residence clubs are focused on families and “many who come have kids,” so that one of the driving forces behind fractionals, at least for a lot of the younger families, is the affordability issue.

“What we find is that a lot of the families end up buying wholly owned residences, so it’s a fabulous incubator for the future,” adds Frampton, whose group was the visionary behind Beaver Creek, Colorado, and has also developed numerous other master-planned resort communities over the last 30-plus years. “It’s the best thing to uphold property values because these [younger] people are

buying into communities later,” he explains.

“They’re a little bit younger, so they have more pressures on their time because they have kids or they’re working their butts off. Owning three weeks of time makes a lot of sense for them,” explains Frampton. “We don’t look down at these buyers; we look up and treat this group just the same [as the whole ownership group]. They’re club members, not second-class citizens. It’s very fundamental to our core strategy.”

It is also a strategy that many developers increasingly associate with the game of golf. This strategy—the integration of fractional residences with traditional wholly owned units—is also becoming fundamental to numerous other high-end, resort-style developments and the common denominator for many of them is that age-old amenity: golf. **UL**

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