

## Fractionals in the Midst of the Recovery

Where are the high-end buyers? What do they want?

BY STEVEN D. PETERSON AND MICHAEL G. BURNS

**T**o start, let's take a look at today's marketplace and landscape.

The current status of the high-end fractional buyer is well summarized by Rob Kaplan-Sherman of The Research Intelligence Group (TRiG), who helped the AIF conduct the *2010 AIF Shared Vacation Ownership Owners Report*.

Kaplan-Sherman says: "When will fractional and private residence club (PRC) owners get back into the purchasing game? Soon. In research conducted during the spring of 2010, 40% of fractional and PRC owners reported they were planning to purchase additional fractional or PRC products within the next two years. An additional 20-35% said that they are keeping their options open and will shop for the best deal—whether that be a fractional, PRC, or very high-end traditional vacation ownership product. The good news is that they intend to buy."

Fractional market research specialist, Dick Ragatz, Ph.D., is also upbeat. He notes: "Consumer surveys and focus groups indicate a strong untapped interest in fractionals due to their 'value and rationality' as a high quality, hassle-free product for just the amount of time one has for vacations and discretionary income to spend. We continue to be optimistic about fractionals, especially regarding iconic locations with strong demand for high-end resort real estate."

Accordingly, based on the research outlined above, there is clearly a market and future for fractional ownership as a practical, sensible alternative to owning



a second home. All of the demographic, psychographic, and social trends clearly support the concept and its future.

Consumer confidence, however, will be key to the recovery for fractionals. And while there is increasing economic evidence that recovery is underway, it will require more time and patience as developers sell unsold inventory at significant discounts and owners re-sell product at lower prices. Given some time, there is reason to believe the industry will recover strongly in the long term.

Of note to mention is that there has been a significant shift in what the high-end

buyer now wants in the product—which is a meaningful departure from what it was at the height of our economy.

### Fractional Basics

In terms of fundamentals, location has always been at the top of any list for a successful project, and it may be even more critical today. If you don't have a true "one of kind" location, with a research-proven customer base and no significant competition, you should reconsider moving forward with a fractional development. Drive-to markets are also more popular, as the consumer is more sensitive to high airfare rates. The value of the product is found in its use, so accessibility is critical. Look for sites that allow phasing options so as to manage risk and minimize borrowing for construction, which remains very difficult to secure.

With these elements in place, make sure that your market is very well defined, with a very conservative quantification of the overall size of that market. Whatever you

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believe the size to be, take that number, cut it in half and determine if you still believe the project is viable. Then, throughout all phases of the project, keep a clear, well-defined focal point on your target customer, how many there are, and how you will reach them at a reasonable cost.

## Incentives for Purchase

Today, the developer must recognize that even the high-end buyer is not vacationing for as long, so sizing the fraction appropriately is important. If time and money allow, a consumer can purchase an additional interest in the future. The watch word, however, is “smaller share size.”

The size of the accommodation is also critical in attempting to drive the price-point down as much as possible without sacrificing the basic floor plan and livability of the accommodation. It makes no sense to invest in wasted or marginally used space. This requires a much clearer understanding of what is most important to your customer and then designing the product with great attention to detail and functionality. Bottom line: don't over-build relative to square footage and overall level of quality. Then, clearly

align each component along these same principles, managing the investment in the physical product at every level.

The same discipline and planning should be applied to amenities and their size and design, as all of this will combine to help achieve a price-point correctly sized to today's market and what the customer can truly afford. Offering a lower price-point is fundamental in our new economic reality. It is also important to lower the annual operating assessment and those amenities/services that will be most valued and used. Look critically at the overall level of service and hours of operation—there is no reason to provide 24-hour concierge service (unless this is tied to other operations within the development, such as a hotel). The same approach is appropriate for housekeeping services. Then, pay close attention to a well-maintained property overall and a solid reserve plan for future refurbishment.

## Points of Optimism?

As we emerge from this recession, we must recognize that it will take time to absorb existing inventories, manage the re-sales that must be sold due to economic hardship,

and allow overall pricing to recover. In some of the more seriously impacted markets, this could take years.

Throughout this process, the critical elements of a successful project should be solidly in place, supported by thorough, objective analysis and a solid business plan. That includes identifying and quantifying a very clear market and affordable access to prospective customers. Overall demographics, psychographics, and social trends point to the positive attributes and long-term success of fractional ownership. But developers, marketers, and operators must execute with an even higher level of knowledge, skill, and expertise.

With a recovering economy and strong fundamentals, we have good reason to be optimistic about this industry sector's future. To see this through successfully, however, what will remain critical are these key elements: patience, business acumen, objectivity, and near-perfect levels of execution. ■

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