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The ASPEN Business JOURNAL

Friday, February 11, 2011

Aspen Real Estate

Fractional Real Estate Back on the Radar

By Jonathan Boxer

After hitting a series of sour notes in the recession, fractional ownership in Aspen – and possibly around the world – is showing itself once again to be a serious contender for luxury destination aficionados. During the recession, even for real estate gurus, following the string of pending foreclosures, bankruptcies and lawsuits in the fractional universe and trying to predict the outcomes was virtually impossible. Now, with the dust settling, the landscape is gaining clarity and fractional is back on the radar. *The Aspen Business Journal* spoke with key players in the fractional market to get an insiders look.

At the base of the gondola, steps to everything Aspen, [The Residences at The Little Nell](#) is arguably at the epicenter of the Western Slope. At the peak of the boom, RLN was the envy of the fractional world. Gravity disappeared and prices soared in a buying frenzy to acquire what was perceived as the best. In 2008, global markets sank and despite its market position, RLN was clearly challenged. RJ Gallagher oversees the property's marketing and sales efforts. "The recession caught the Aspen/Snowmass market by storm because of the huge amount of available inventory and the general reluctance of the real estate marketplace to adjust pricing in a timely and proactive way based on market and financial crisis realities."

With the storm clouds parting, RLN is climbing to new heights. According to Gallagher, "RLN experienced huge sales success in 2010, with 40 closed transactions representing more than \$42 million in gross revenues generated. We also managed nine resales resulting in more than \$13 million in revenue generation. In total, our internal sales team managed to close more than \$55 million in transaction in 2010." Gallagher is confident that this is not just a blip. "We have become, quite possibly, the most successful fractional Private Residence Club marketing, sales, design support organization in the industry."

Still, hurdles remain for the fractional industry as a whole. Gallagher believes that "the challenge is absorbing the available inventory, which in some markets will take two-plus years. The other challenge is the pricing of inventory, which in some cases is 30% to 40% below 2008." However, Gallagher remains confident that clients recognize the "value, unprecedented service and amenities provided by the only Forbes Five Star- and AAA Five Star-awarded operator, The Little Nell."

If RLN is the shooting star of fractional, [The Ritz-Carlton Club](#), at the base of Aspen Highlands, sets the standard, quietly fulfilling the needs of its broad-based and loyal clientel. Coming out of a distinctly difficult period, Ed Kinney, vice president for The Ritz-Carlton Destination Club stills sees a continued need for fractional ownership. "Although the market has changed considerably, especially in condominium development, our real estate options are unique. The last two years have had a significant impact on many industries, and ours was no exception. However, the Ritz-Carlton

Destination Club is seeing that vacations are still very important to our Members, even in the midst of challenging times."

As a way of continuing to expand its product offerings, The Ritz-Carlton is looking beyond its own clubs for growth. Kinney notes, "our focus is to continue to push the luxury travel envelope- adding partnerships with like-minded industry veterans such as the Abercrombie & Kent Residence Club. Our Members have shared their desire to be in exceptional locations where we don't necessarily have a Club, and we are excited to bring it to them."

Who are tomorrow's buyers of fractional real estate? Kinney believes that while affluent international buyers are showing up, more growth is expected from the U.S. "These future owners are seeking a luxury second home without the maintenance responsibilities. Furthermore, loyal Ritz-Carlton guests historically lead the way in overall sales, as they understand and have experienced The Ritz-Carlton service tradition."

What's the future of fractional ownership? According to Kinney, "Points-based programs are becoming more common giving Members more flexibility when they travel."

Ivan Skoric, sales manager for the Ritz-Carlton Club at Aspen Highlands works with more than 700 members and has been selling Ritz-Carlton fractions for almost nine years. Ivan agrees, "The product is morphing – the industry is changing. The Ritz is expanding into a true destination club offering greater flexibility to adapt to travel choices."

Despite the challenging times, according to Skoric, "The Ritz-Carlton Club has thrived because it works. We continue to be a terrific way of achieving second home ownership in Aspen. And while the market has been through a challenging few years, the bucket of distressed opportunities is dwindling. Most folks who own are locked in, secure and enjoying their second home. And now we have multiple buyers-new buyers-looking for a piece of Aspen but hesitant to launch into a multi-million dollar venture. The Ritz-Carlton is a great option."

In the core of Aspen, Tom Carr, co-owner of [Leverich & Carr](#), sits in the fractional catbird seat. With his office only steps away from the Grand Hyatt, Carr has become the go-to broker for fractional owners looking to sell and for fractional buyers who prefer to have a real estate guide that understands all the offerings. Today, Carr is seeing a mixed market. "The dollar volume did decrease considerably, but there has been a new wave of activity on resale units that are priced competitively. In 2009, the dollar volume was actually quite strong. The Residences at The Little Nell represented a large chunk of the dollar volume (about 68% of the fractional market) for 2010. The Hyatt Grand Aspen was next with about 10% of the sales."

Any time the market softens, inventory increases – and the Aspen market has been no exception. Still, Carr sees a steady stream of buyers. "I have sold to people from all over the world, thought mainly U.S. buyers. The second largest market for our office has been Australia. There is still a market there for those who are coming a few weeks a year and don't want to spend millions. I noticed that many of the buyers prefer the services and amenities that the fractional ownership projects provide."

Moving forward, Carr expects to see some type of stabilization of pricing. "With the lack of financing in the marketplace I don't foresee too many new projects coming on, but I do think we will see quite a bit of activity on the resale market."