Fun with Fractionals

Resorts are rebuilding with luxury time shares to attract second-home buyers

BY BOB DIDDLEBOCK DENVER

IN THE GILDED BUBBLE OTHERWISE KNOWN AS ASPEN, COLO., THE local pecking order isn't kind to outsiders. At the top are the natives, then the Johnny-come-latelies, followed by the tourists—who are vermin in most resort towns. But in Aspen, the bottom slot goes to guys like David Massarano, a prosperous real estate attorney from Houston who recently dropped $470,000 for three slices of a one-bedroom condo in the six-week-old Hyatt Grand Aspen, 157 steps from the gondola at the base of Aspen Mountain.

Doesn't seem hospitable to label a Texan of some standing a sucker in a small western town—a small western town with an airport, at least one $46 million ranch and visits from Cher—where his ski-happy family has been oiling the local economy since he was a kid. But Massarano doesn't mind. "I've been called worse things, being from Texas," chuckles the 50-year-old, who searched Pitkin County for years before finding the deal of his downhill dreams in the sprawling Hyatt, where the ghosts from bacchanals at the torn-down Continental Inn still dance.

Massarano is not the only flatlander engaged in a high-stakes land rush for fractionals—the new-millennium term for time shares in lavish condominium projects in Aspen and other beautiful-people playgrounds sprouting around the world. Shelling out an average $221,600 for a deeded share, these Range Rover-in', Fendi-friendly folks who live to ski, golf and power shop are buying a couple of weeks of prime time in first-class venues stretching from the West Coast through the Rockies to the Gulf of Mexico. More often than not, though, the tab ranges from $300,000 to $750,000 and up in the higher elevations of Lake Tahoe, Calif., Jackson, Wyo., and, of course, Aspen, where the Hyatt Grand has sold nearly half its 1,000 shares, selling for $80,000 to $1 million apiece. Nor is it that much cheaper at sea level at Ritz-Carlton residences in St. Thomas, U.S. Virgin Islands, and Jupiter, Fla.

Little wonder that the market in 2004 generated $1.5 billion in sales, triple 2003's, according to Ragatz Associates, a consulting and market-research firm in Eugene, Ore. That kind of volume is beginning to pay off for the hospitality industry's big guns—Ritz-Carlton, Four Seasons, Starwood, Hilton, Marriott and Hyatt, among others—which have bottle-fed the fractionals concept for more than a decade. The motivation? Financing expensive hotel projects is easier and far more lucrative this way. "The time-share business has been a very good business for these companies because it tends to have high margins," says Bill Crow, an analyst with Raymond James & Associates in St. Petersburg, Fla. "Three to five to six years after you've opened, you've made your money back—compared to the 10 years or more it usually takes [with a hotel-only project]."

Wielding the algorithmic model refined by NetJets and other fractionals businesses (if I have X customers, how many jets, boats, rooms, etc. will I need to meet demand at any given time period Y?), developers have zeroed in on a core market: older, well-heeled baby boomers, high-level executives and flush empty-nesters who want to play among themselves or with their families.

Many of them have annual household earnings of $500,000 and up, but chances are, they won't move into Goldie Hawn's or Harrison Ford's neighborhood, where homes can fetch $3 million or so in year-round hot spots like Aspen and Jackson Hole. The thinking of the committed fractionalist: 'tis far better to own a tiny piece of the real deal than spend time and money getting to the seashore or overpaying in resort hotels. Another bonus: second-home headaches like broken pipes and spent microwaves are nonissues. "I don't have the time or interest for those kinds of things," says Matthew Dwyer III, a money manager from Atlanta who has invested $2 million in three Hyatt units. "All I'm excited about is the skiing. It's a no-brainer." Project managers can vanquish almost any problem short of

Matthew Dwyer and David Massarano savor their investments in the hot Aspen market

JEFFREY AARONSON—NETWORK ASPEN FOR TIME

▲ A share at the Ritz-Carlton Club in St. Thomas can cost upwards of $300,000

► Starwood's St. Regis Resort, in Aspen, has 11 shares for each of its 25 units

▼ London's Marriott Grand Residence has a sister club in South Lake Tahoe

Lavish condo shares offer pieces of some of the world's swankest resorts

a shredded ACL. And there's room service.

A mecca for serious skiers and show-biz Brahmins with serious egos since the 1960s, the Aspen resort could very well be the epicenter of the fractionals boom, thanks to the pricey action at nearby Snowmass Village, the colossally developed Aspen Highlands ski area; and downtown's Hyatt, the Aspen Ski Co.'s Residences at the Little Nell and Starwood's St. Regis Resort, Aspen. The fact that there's little nearby land left to develop, coupled with Aspen's Hollywood and Wall Street rep, has transformed developments like the sumptuous St. Regis into platinum mines. With 98 hotel rooms converted into 25 two- and three-bedroom units, 275 fractional shares are selling for $300,000 to $1.5 million each. All should be gone this summer, according to the bullish Starwood, which is busily carving up the St. Regis in New York City and building more resorts in Punta Mita, Mexico, and Bora Bora, French Polynesia, among others. The average share price: $475,000. Google, eat your heart out.

At Aspen's Little Nell, the most luxurious place in a town built to please, a one-eighth share in a four-bedroom unit, good for four weeks annually, has gone up 67%, to $2.25 million, since bidding started in July. A piece of a three-bedroom residence is a more affordable $1.3 million. The complex opens next winter.

The fractionals land rush comes at a good time for Aspen, where the glitter factor had dulled because of terrorism-related travel fears and lousy snow and the number of hotel rooms had declined—replaced by private housing. Local officials love the fractionals concept. Their thinking: the more "hot," or filled, beds developers can deliver per night by selling condo shares and leasing vacant units, the better. "It allows the community to create a more year-round visitor base, which gets people into the stores, restaurants and activities," says Debbie Contini Braun, CEO of the Aspen Chamber Resort Association. "These projects also create year-round jobs, which has a stabilizing effect on the economy."

In this "economic freak show," as a prominent Aspenite calls the fractionals party, buyers in the Hyatt, including Massarano and ex–N.Y. Met Keith Hernandez, are center stage. They've put up huge sums for properties that are hostage to the vagaries of the economy, the weather and obnoxious co-owners. Sure, the turndown service, wine bar and ice rink are nice. But what if Massarano wants to sell in a few years and buyers are scarce? (Hello, Pocono Mountains, Pa.!) "I'm just glad to have a place here," he says. "When I get to where I can't ski, and if I want to sell, I'd like to at least get back what I've put into it. But things like that don't bother me when I'm on top of Highlands Ridge, ready to take an express elevator straight down the mountain."

At the rate fractionals are selling, the next stop could be, say, Talladega, Ala., or Hanover, Pa., where the NASCAR and horse crowds hang. A wild thought, perhaps. But when cattle used to outnumber people in the Roaring Fork Valley, who would have believed a visitor could find this place, let alone drop a million bucks to stay on Durant Avenue so he could boogie at the Belly Up club? ■

RIGHT, FROM TOP: RITZ-CARLTON; STARWOOD HOTELS AND RESORTS; MARRIOTT