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## Study sees a tough year for fractional market

What was once the hottest market segment is facing glut of inventory

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The Aspen Times

Despite a resurgence for fractional ownership projects this spring, a recent study sees a tough year ahead for what was once the hottest market segment in Aspen and Snowmass Village real estate.

There were 20 sales of fractional interests in various projects in April for \$10.25 million, according to Land Title Guarantee Co.'s monthly analysis of market activity. The dollar volume was up 91 percent from April 2009.

But for the year to date, there have been 57 sales of fractional interests, a decrease of 56 percent, Land Title Guar-

antee Co. reported. The dollar volume through April was \$28.9 million, a decrease of 77 percent from the same period in 2009.

The lack of activity isn't for lack of inventory. Aspen Appraisal Group did a recent analysis of all segments of the Aspen-Snowmass real estate market and found a "huge amount of unsold inventory" in fractional ownership condominiums, relative to other market segments.

"We have what is to most knowledgeable observers an oversupply of fractional interest units for a resort the size of Aspen/Snowmass," wrote Randy Gold, a principal in Aspen Appraisal Group who has been a real estate appraiser in Aspen for more than 30 years.

By Gold's count, there are about 3,300 ownership interests in nine fractional condominium projects in Aspen and

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Snowmass Village. There are 200 interests for sale through the Aspen Multiple Listing Service. Most of those are resales listed by current owners rather than units the developers are trying to sell.

"Between unsold developer units at the Hyatt, Ritz, Dancing Bear and the Residences [at the Little Nell], it is easy to see at least another 500 interests that have not been sold," Gold wrote. "With a ballpark of 700 available interests, this translates to about 20 percent of the total supply."

Fractional ownership interests are like timeshares except buyers actually acquire a piece of the property rather than using a certain time period. Interests are different in the various projects, ranging from 1/8th to 1/20th ownership interests.

The fractional market has been on a roller coaster since 2006, in part because of the availability of new products, like the Residences at the Little Nell (RLN), a project at the base of Aspen Mountain.

Total sales of fractionals hit nearly \$182 million in 2006, when Aspen's real estate market peaked. Sales of fractionals fell to \$90.2 million in 2007 and bottomed out at \$50.5 million in 2008. Total sales ballooned back to \$181.9 million last year, although many closed deals were signed before the real estate market collapsed.

Gold's report said the fractional market showed considerable weakness in 2009, with the exception of the RLN and Dancing Bear. "Those two projects accounted for 85 percent of the total sales volume of \$182 million and nearly 50 percent of the transactions," Gold said.

Sales prices at various projects have dropped anywhere from 11 to 39 percent from recent peaks.

R.J. Gallagher, managing director of sales and marketing for the RLN, said prices there have stabilized and actually crept up. Ownership interests in three-bedroom units soared from an initial price

of \$900,000 to a high of \$1.9 million at the end of 2008, according to Gold's research.

The price fell to \$1.25 million last year, but the developer recently raised it to \$1.3 million, Gallagher said. Interests in the four-bedroom units have stabilized at \$1.8 million, he said.

The prices have been established by a flurry of sales activity. Gallagher said there have been 22 closings this year of RLN shares, and 12 more are scheduled.

RLN has 208 interests. At one point, it was almost entirely under contract, but construction delays and the recession spurred scores of prospective buyers to try to cancel their contracts. As of today, there are 15 contracts in arbitration. RLN won two arbitration hearings and settled another case before it got that far, according to Gallagher.

The project recently surpassed the 50 percent sold mark. Gallagher said 110 of the 208 shares are sold, and 12 more are

under contract. That leaves the developer with 86 remaining to sell.

Gallagher said his team remains "bullish" about their project despite an oversupply at some projects. He said he believes some independent projects — like RLN, Dancing Bear and the Innsbruck — have unique-enough qualities to keep them attractive in a slow market.

Gold cautioned that the market may become even more saturated if current owners come under financial pressure and are forced to try to resell their shares.

"The fractional interest market will likely remain weak for quite a while, and likely weaker than we saw in 2008," Gold said.

His analysis of the entire Aspen-Snowmass real estate market is available for sale at his firm's website: [www.aspenappraisalgroup.com](http://www.aspenappraisalgroup.com).

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