

The New York Times

Sharing a piece of Europe

By Michelle Higgins (July 28, 2006)

(The New York Times) Captivated by its rolling hills, simple food and fine wines, Bob Alter has vacationed in [Tuscany](#) for the last eight years. He has thought of buying a second home there, but the idea of dealing with all the chores that come with home ownership turns him off.

"I don't need that hassle in my life," said Mr. Alter, who lives in Newport Beach, Calif., and is the chief executive of a hotel real estate investment trust. "I need to make a reservation, show up and have the sheets on the bed and the groceries in the fridge — not find out who's going to mow the field or worry about property taxes."

So when Mr. Alter heard about a luxury resort and fractional-residence club that was being built 20 minutes west of Siena, he hopped a flight to [Italy](#) to see it. And he plunked down \$515,000 for a 10th share in a restored four-bedroom farmhouse with an infinity-edge pool, part of the Castello di Casole, which was renovated by the Timbers Company of Carbondale, Colo.

Over the last few years, so-called fractional residences have been gaining popularity with buyers in the [United States](#) who want the convenience of a full-featured second home without the problems that come with owning it. But few developers have taken the concept abroad — until now.

On May 1, Timbers opened the first six Tuscan farmhouses, or casali, that it is restoring at Castello di Casole, on a 5,500-acre historic estate. Another nine casali are under renovation and priced at \$5 million or \$6 million for whole ownership, with fractional ownership available for \$585,000 to \$645,000. Maintenance fees are expected to run at about \$15,000 a year. So far, 36 fractional shares have been sold, and 10 homes have been sold outright. The company is also considering locations in [Paris](#) and southern [France](#).

In [Florence](#), the Washington-based Kitebrook Partners and Florence-based RDM Fingen Group are converting a 15th-century palace once owned by the Medici family to 36 fractional apartments. And the Owners Club of [Europe](#), a collection of properties that began with a resort in Tuscany a few years ago, now has fractional offerings in [Edinburgh](#) and Inverclyde, a seaside town on the west coast of [Scotland](#).

With fractional residences, buyers pay a hefty one-time fee of a few hundred thousand dollars for a deeded stake in the home, usually situated in high-end resorts; there are also annual maintenance fees. Nearly 200 of these resorts exist in North America, with dozens more planned to open this year, according to Ragatz Associates, a resort consulting firm.

Mr. Alter, who also has a stake in a Timbers resort in Cabo San Lucas, [Mexico](#), is guaranteed four weeks a year at the house in Tuscany, which he shares with nine other buyers. He can also reserve time, first come first served, at other villas when available. In July, he and eight family members and friends spent a week at the house. "We'll come back in August for a second week," he said.

For those not interested in fractional ownership, a rival approach exists: destination clubs, which don't offer deeded ownership but do provide members with a network of high-end homes in a variety of places. These clubs, which charge a one-time deposit in the \$200,000-to-\$500,000 range and annual dues of \$10,000 to \$20,000, are also expanding their reach.

Exclusive Resorts, founded in 2002, currently offers members access to some 300 residences, with nearly 40 in seven destinations in Europe, including [London](#), Florence and St.-Tropez. The company recently announced a \$72 million investment that will allow it to expand to more exotic destinations. In Tuscany, the company has six homes available at Castello di Casole, the Timbers development, with four more planned.

"We invested in the core stuff first," said Donn Davis, chief executive of Exclusive Resorts, who cites destinations like Cabo San Lucas and [Maui](#) as some of the vacation hot spots the company focused on in its initial phase. "Now we're in a position to go and give them the icing on the cake because the cake is done."

By focusing on more far-flung destinations, the clubs partly want to attract affluent Europeans willing to pay to guarantee an amenity-filled, relatively stress-free vacation. But mostly, fractional-residence and destination clubs are reaching out to American buyers — perhaps those seduced by "A Year in Provence" or "Under the Tuscan Sun" — who envision an idyllic life abroad but aren't quite prepared for the potential difficulties of owning (or even finding) a home in another country.

"It's often going to be very hard to learn what's available out there, and what is purported to be available will definitely not be the whole story," said David M. Michonski, the chief executive of Coldwell Banker Hunt Kennedy, a real estate firm in New York, who is a specialist in international real estate. "Americans think we should be able to log onto a Realtor.com and see what's what."

Brokerage practices in parts of Europe, he added, are still evolving. And everything from doing business in a foreign language to navigating local building codes can complicate the process.

"The No. 1 reason for Americans' not buying a house abroad is fear of foreign ownership," said J. Byrne Murphy, chief executive of Kitebrook Partners in Washington and co-developer of Palazzo Tornabuoni, the Medici property in Florence. "How do I do it? What are my risks and what happens when I'm not looking? We take all that away and simplify the ownership process by having simple paperwork that lets you into a club."

Of course, many well-traveled Americans have tackled the foreign real estate market without the help of a club. And having a second home abroad has, in fact, become slightly easier in recent years, with companies sprouting up in places like France, [England](#) and Italy to assist buyers with everything from securing a mortgage to renting out the place.

Since most Americans, though, won't use a far-flung second home for more than a few weeks a year, an obvious question is, why spend \$2 million for a Tuscan villa when for \$600,000 you can own a piece of a similar property? One answer is flexibility. Sharing — whether one home or many — means a member can't always visit when the mood strikes or for every major holiday. Buyers must also take a close look at the potential financial risks and rewards of joining a club.

Tanner & Haley Destination Clubs, which has more than 200 residences in its portfolio and is widely credited with coming up with the concept with its first club, Private Retreats, filed for Chapter 11 bankruptcy last Sunday. The company remains in operation and according to a news release "intends to continue to meet substantially all travel commitments previously made to members." Members who want their money back will be treated as general unsecured creditors in the Chapter 11 case, and their recovery, if any, will be determined at a later date. Tanner & Haley's financial difficulties have largely come because of its "member-first" availability model, which proved to be unsustainable. Unlike most destination clubs, which offer a first-come first-served approach to booking, Tanner & Haley said it had rarely refused a member's travel request and would even pay to lease a different home if the member's choice was not available.

FRACTIONAL residence clubs are sold as true real estate. While there are currently no financing options for destination clubs, a handful of companies, like First Fractional Funding and NextStar Funding, offer adjustable-rate mortgages with a 20 percent down payment to fractional buyers in the United States. Though the lenders say they are looking into financing fractionals abroad, they currently do not offer financing for foreign properties.

Fractional residences can also be rented out or resold at a profit. So far, values have been keeping pace with local real estate prices. However, while sellers have done well in a rising market, it may become harder to unload shares of older units as the market cools.

For the best gains, experts recommend holding on to fractionals over the long term. "If you own for three or four years and decide to get out, it would probably be less expensive to rent," said Dick Ragatz, president of Ragatz Associates. "If you keep them for a number of years, like 10 or more, it will be less expensive to buy into a fractional than to rent. Over time, you'll be paying 10 years of rental rates, and you'd have nothing in return. Say, if you rented a condo for \$500 a night over a period of 20 years for two weeks a year — that's a huge amount of money and nothing to sell at the end of it."

On the other hand, destination clubs are structured more like country clubs. Their advantage over fractionals is typically a wider portfolio of homes to choose from.

When members want out, most destination clubs offer to refund 80 to 100 percent of the original deposit. And a few even offer equity-style memberships in which members can potentially earn money on their investment. But annual dues are nonrefundable.

The bottom line: Renting luxurious homes or staying at posh hotels could end up being cheaper than joining a club. But in a hotel, you don't get the space and seclusion afforded by a private home. And there is an inherent risk in booking a rental you have never seen. Even if it turns out to be what you were hoping for, it will often lack the amenities clubs provide, like daily housekeeping and access to a concierge.

The amenities are what Clarence Finleyson, a retired banker from Carrollton, Ga., likes about Dream Catchers Retreats, a destination club he joined last August after selling his beach home to the company. Since then he's traveled to, among other places, [Turks and Caicos](#), Cabo San Lucas and London, where he and his wife, Helen, watched the changing of the guard at St. James's Palace from the terrace of the club's two-bedroom flat.

"If it wasn't for the destination club, I probably would not have gone," said Mr. Finleyson, who paid \$270,000 for the membership, plus annual dues. "It takes the tension out of trying to arrange all this stuff. You know where you're going. They will stock your fridge for you, they'll meet you at the airport. You've got a nice place and somebody to look after you."

Some companies offer destination club memberships, fractional ownership and whole ownership options in the same development. At Borgo di Colleoli, an Owners Club of Europe property in Tuscany, for example, members can sign up to visit 7 to 14 nights a year for £13,000 (about \$24,600 with £1 valued at \$1.89), buy a fractional interest of 35 nights a year for £60,000 or buy an apartment outright for £160,000.

"The idea is to provide a stepped-up approach," said Alasdair Hood, marketing manager for the Owners Club. "You get to know the place and how often you visit. You get to know if friends and family are coming. When you know what it's about over there, you can purchase your Tuscany apartment."