

Your Footprint in the City

“[From] the moment our taxi pulls curbside at the Phillips Club, the service is consistently excellent.” – Sheilah Fox, owner of a pied-à-terre at the Phillips Club in New York City.

While you snuggled down between the Frette linens or slathered on the Bulgari body lotion in your favorite hotel, hotel executives and miscellaneous developers were plotting something more radical than expanding luxury product choices in the rooms you occupy on a trip to the city.

The assumption that people only rented a hotel room or suite began eroding about 10 years ago. Now, if you wish, you can buy one of several options – a hotel condo unit that can return rent money to you when you are not in residence; a full-time residence; or a fraction of a suite that you use a few weeks a year.

Residences and condos work just like the ones in your neighborhood, although there are some new twists in hotel condos, discussed in a sidebar to this article. Fractionals, on the other hand, may be a bit mysterious. The concept first appeared about 15 years ago, and luxury hoteliers enthusiastically adopted the concept some five years ago. It can be difficult for investors to keep up with the many subtleties being woven into fractional ownership contracts.

It started in Vail, Colorado, and other ski areas of the western United States. Frequent visitors decided it made no sense to spend several million for a vacation home there, since they would only use it an average of five weeks a year. Moreover, these vacationers did not want to be limited to a small hotel room, and renting several hotel rooms lacked the family feeling.

Some savvy developers responded by building luxury developments and selling shares of very high-end housing units to four to 12 very pampered owners who would have certain times of the year to use the property. They added an array of perks like concierge services and sometimes extra benefits like country club memberships or the use of a luxury automobile, and in many cases the ability to swap for vacations in other similar properties in other locations. These properties were dubbed Private Residence Clubs (PRCs).

Fractionals come with a real property deed and the individual owner can sell at any time. Although Sherman Potvin, (luxuryfractionalguide.

com), uses the terms Private Residence Club and fractional interchangeably, some newer fractionals come without the perks of PRCs.

Legal structures vary, but the most common remains a Tenancy in Common (TIC) arrangement, which in the United States and some other countries allows owners to dispose of their shares however and whenever they wish. See www.andysirkin.com for a primer on TIC as it applies to fractional ownership.

Potential buyers need to consult local attorneys, particularly when buying outside their home country. Because the concept is new, in many countries even local attorneys disagree over what is permitted, forcing developers to adapt. The Palazzo Tornabuoni, a former Medici palace in Florence, Italy, created a variation on fractional ownership. Owners buy a membership in Tornabuoni rather than directly deeded real estate. The international entrepreneur behind Tornabuoni, Byrne Murphy, says, “They are buying a membership in the club, which equates to a 1/8 share interest in an apartment category [studio, one- or two-bedroom]. The owner [of the Palazzo] is the club, and you buy a membership in the club and by deed of that, you become an owner of the real estate.” The owners can sell that membership on the open market, or allow the developer to sell their membership.

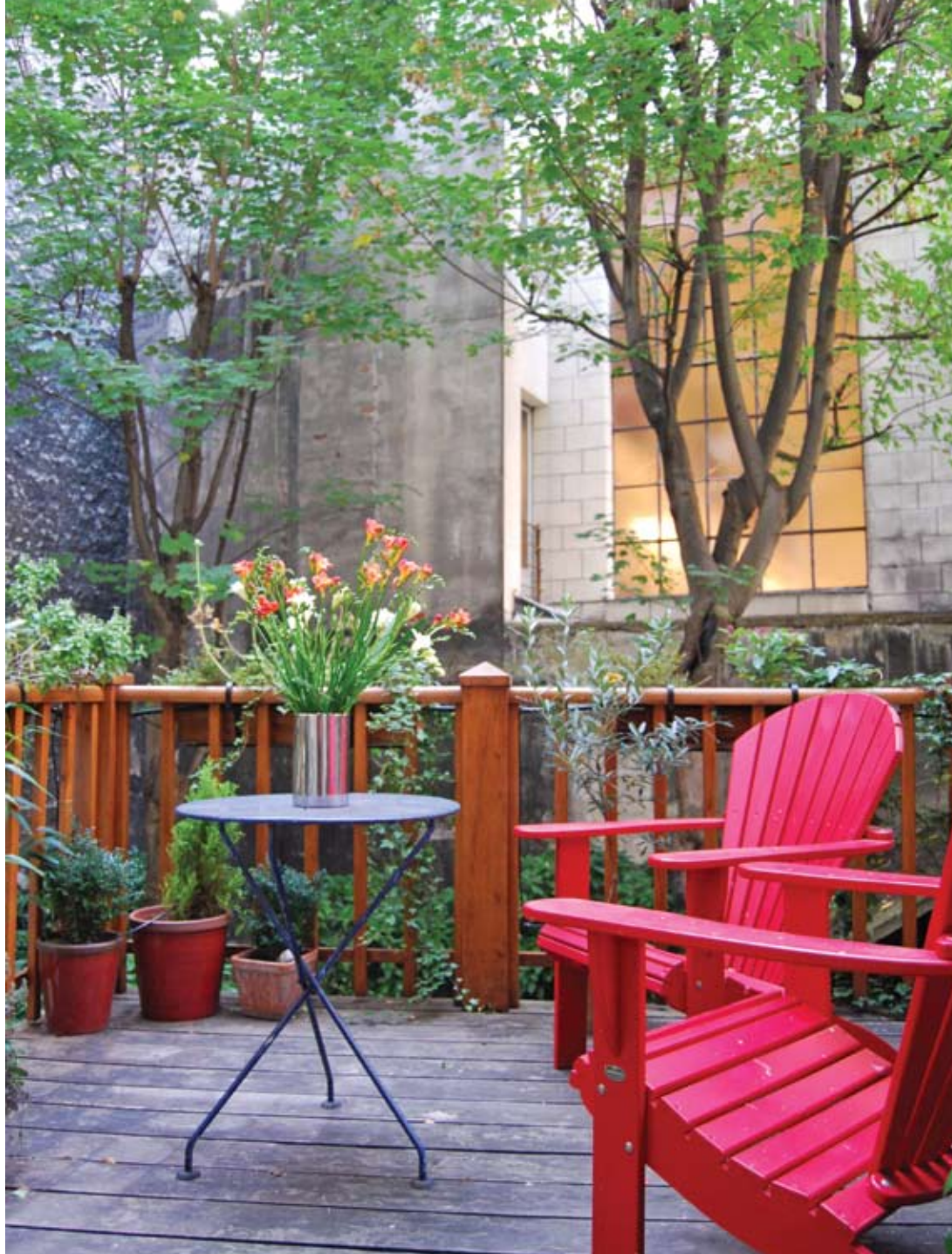
London’s 47 Park Street, operated by Marriott, met a different challenge. Christian Broby, director/regional project director, Northern Europe, Marriott Vacation Club International, says, “Members at 47 Park Street purchase a fraction of a lease. The land in Mayfair is owned by the Grosvenor Estate – as it has been for centuries – which is why most residential and commercial properties in the area are available on leasehold only.” The present lease lasts until 2050.

In Paris, three apartments offer three different legal structures, and despite numerous opinions sought by the original owners, creators of French fractionals need to improvise.

Clearly, fractionals and their spin-off concepts have spread beyond the United States and moved from ski resorts to the city, becoming the

Opposite: The living room at Palazzo Tornabuoni is outfitted in a style and manner befitting royalty.





Left: Immerse yourself in centuries of history and culture in this Paris property – centrally located in the Le Marais district. Above: The cornerstones of Tuscan living, style, and sophistication are plainly evident in the monumental stairway at Palazzo Tornabuoni.

hot new way to own a pied-à-terre, a temporary or second residence. Jamie Cheng of Helium Reports says that while traditionally fractionals are tied to resorts – ski, beach, or golf – “now empty nesters want an alternative to owning or renting a place in the city” that is more than just one bedroom. He sees the Baby Boomer demographic moving into urban areas both to live and to play.

Who buys them? According to consultant James Chung of Reach Professionals, “the product almost always focuses on those at the top 5 percent of household incomes [i.e. \$150,000-\$200,000 and above in the United States].”

A big benefit of owning a fraction of an apartment or suite in the city of your choice comes down to the lack of hassle. Because owners at the Phillips Club in New York can leave clothing and personal items in storage at the apartment, Sheila Fox says she comes in with “only the latest book, a laptop [computer], and purse. I leave with the same, along with new finds from shopping forays.”

In Florence, developer Murphy finds his buyers track with the established trend. Speaking of Palazzo Tornabuoni, he says, “It is somebody’s second, or more likely third or fourth piece of property.

Photo courtesy of The Ritz-Carlton Club



Photo courtesy of 47 Park Street



Above, left: Punctuating the grandeur of a classic building, 47 Park Street’s doorman stands to attention. Right, top: The arched window of a generously appointed top-floor apartment at the Ritz-Carlton Club in San Francisco accents the view of the city’s storied skyline. Right, above: The colorful décor of the Ritz-Carlton Club in Miami’s South Beach reflects the vibrancy and energy of its surroundings.

The first reason they are considering it is they love Florence. They love the concept. And they have absolutely no appetite for yet another piece of property to manage and worry about the plumbing and the caretakers and the this and the that. We take that all off their shoulders.”

So if you are looking for a pied-à-terre in your favorite city – whether New York, San Francisco, Paris, London, or elsewhere – where do you start? The increased cost of construction or conversion in most cities as opposed to building in resort areas, plus the complexities of laws in some countries, means people approach the creation of urban fractionals in a different way than traditional resort properties. Similarly, buyers need to consider some different factors. Tornabuoni’s developer, Murphy, addresses the comfort level that a fractional can provide in a foreign country. “[With] foreign nationals buying in a foreign land, we take the risk out of buying and we take the risk out of ownership.”

The buyers’ decisions boil down to location, amenities, original cost and ongoing expenses, structure of the deal, confidence in the developer/management team, and the time use plan.

Clearly, people must choose between the comfort level of dealing with a well-known company and casting their lot with a locally-run no-frills operation. But there is a trade-off in that the individual has little decision-making ability if they buy from a large outfit. Andy Sirkin, a San Francisco attorney who specializes in fractionals, promotes the concept of owners of one building or unit working together because they have more control.

On the other hand, each year more professional assistance becomes available. Lenders have become more attuned to fractionals, making it easier for individuals to get in the game. A cottage industry of advisors and management companies has sprung up. When an article on fractionals appeared in *The Rolls-Royce Owners’ Club Luxury Travel Guide* in June 2007, fractional experts predicted that real estate agents would soon become knowledgeable

and play a part in the sales and resales. Six months later, dozens of agents specializing in fractionals appear on the Internet.

Although surveys by expert Richard Ragatz show an extraordinary satisfaction rate of over 90 percent, a few concerns remain. The major complaint by buyers continues to be dissatisfaction with the way that management divides time among owners.

Chung says, “Fractionals only make sense when the use plans work for the buyer. Some are based on rotating weeks, some are driven by a lottery system, and there are a few other innovative use plans that will become more predominant as consumers and developers start to crack the code on use plan issues.”

He lists three major categories. “For the retiring Baby Boomer looking for a pied-à-terre, fractionals could make sense if their excursions [to the city] are purely discretionary and can match with the use plan. For the international buyers, fractionals could make sense if the use plans allows the selection of weeks that happen to fit with the predominant vacation patterns in their country. For the business traveler, fractionals could make sense if the use plan allows the selection of weeks that happen to fit with their big industry trade show, plus offers space-available usage for their unplanned travel to that city.”

Several usage schemes are in use, including charging more for prime time, rotating weeks from year to year, and lotteries to assign weeks. Some plans are rigid. Some are flexible. The shopper needs to look carefully at whether the time use plan they are considering will work for them.

Although all big operators of Private Residence Clubs include extensive swapping plans to allow owners to travel to other places, that may not be an important factor for everyone. Elizabeth Rosen, who owns a fraction at Phillips Club in New York, says that although swapping is a nice perk, she has not taken advantage of it in the three years she has lived there.

What is available in urban areas? Among those we found in larger cities: two large luxury fractionals in New York City – one operated by Starwood Hotels and one by an independent developer. Starwood offers one in Phoenix as well as the St. Regis in New York. So far, only Marriott operates a property in London. Both Ritz Carlton and Fairmont have renovations of historic buildings under way in San Francisco. Ritz-Carlton, the biggest player in fractionals among major hotel chains, has a property in Miami, as does a new face in North America, Shangri-La Hotels. The only Italian city we found with a fractional was Florence. In Paris, three separate small businesses are selling individual apartments. Ritz-Carlton, the Fairmont Hotels, Starwood Hotels, owners of St. Regis and Raffles among others, and other major hotel companies continue their search for appropriate locations. Expect to see more fractionals available in Paris, Rome, London, and other major cities in the next decade.

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URBAN ESCAPES

(Note: The inclusion of a property in this list does not imply endorsement by the author or this publication, nor does the exclusion of any property imply it is of lesser worth. Potential buyers need to seek out all the possible alternatives.)

FLORENCE, ITALY

Palazzo Tornabuoni

Although Florence does not rank as a major metropolitan area, it ruled a good chunk of territory in the Renaissance. And today lovers of the wine country and varied attractions of Tuscany flock to Florence. The historic residence will open in spring 2008, offering 36 residences with luxury services that live up to the surrounding luxury shops.

<http://palazzotornabuoni.com>

LONDON

47 Park Street, a Marriott Grand Residence Club

In London, Marriott has turned a grand small hotel into a Grand Residence Club.

47 Park Street is advertised both as a vacation getaway and as a nesting place for businessmen in London temporarily. They provide all hotel services for guests, and boast that the “conciierge has been there for 22 years and has a contacts book to die for.”

www.47parkstreet.com

MIAMI

Ritz-Carlton Club and Residences, South Beach

The Ritz-Carlton revamps an historical South Beach property to offer fractional ownership interests. Occupancy is scheduled for 2009. www.rcc-southbeach.com

Shangri-La

The Asian hotel chain is arriving in Europe and America in a big way and among their offerings will be this five-star hotel with about half the floors sold as fractional two- and three-bedroom units. Due to open in Miami in 2008. www.shangri-la.com (Note: Shangri-La plans hotels in London, Paris, Chicago, Los Angeles, and other cities in the next half decade and some of them will include residences, condos, and fractionals.)

NEW YORK CITY

The Phillips Club

Two owners of fractions at the Phillips Club, located near Lincoln Center, bought for very different reasons. Elizabeth Rosen, a law professor, is a widow with a home in Connecticut. She likes to stay in the city after teaching evening classes and to see friends and the theater. She previously owned an apartment but found she was using it less and less. Although she has less space in her one-bedroom apartment, she says, “The Phillips Club was one of my better decisions – it has made life much easier and more fun!”

Sheilah and David Fox maintain homes in Palm Beach and in Baltimore, but they traveled frequently to New York City, staying at the Waldorf Astoria while they visited with their daughters and grandchildren. Sheilah, a microbiologist turned fiction writer, and her husband, an auctioneer, are semi-retired and both can work from wherever they want.

www.phillipsclubnewyork.com

St. Regis

Because the iconic St. Regis Hotel in New York now belongs to the Starwood collection of hotels, owning a piece of one of the 21 fractional units at the St. Regis Residence Club comes with the privileges of membership in the elite platinum level of the Starwood Preferred Guest program. What do all those titles mean? It means that an owner of a fraction in New York can not only swap for Aspen, Punta Mita, Mexico, Phoenix, or future Starwood properties with fractionals, but will also have special status at all Starwood hotel properties around the world. The St. Regis New York also offers wholly-owned residences.

PARIS

Some major developers and hotel chains are looking at Paris for the future. In Paris, three owners currently offer buyers shares of individual apartments with a choice of modern or traditional décor, a chance to make money from rentals of units or to reserve use to owners, and three different time usage plans.

Paris Home Share: www.parishomeshares.net

Paris Pied a Terre: www.parispiedaterre.com

Paris Property Finders: www.parispropertyfinders.com

SAN FRANCISCO

Fairmont Ghiradelli

Fractional apartments for sale at Fairmont’s Ghiradelli Square, home of chocolate and shopping and dining, allow fans of the city to spend some quality time in their favorite place. The one- to three-bedroom units will be ready for occupancy by June 2008. The entire project, 53 units, will be sold in 1/10 shares with no accompanying hotel or private residences.

Fairmont Vice President Greg Donan says that in 2002, when the company developed their first fractional project in Acapulco, “We wanted to create a project that not only gave them [Fairmont VIP customers] a second home, but also gave them flexibility.” He adds, “Now about five years later, we have six or seven projects open, in sales, or being developed.”

The Ritz-Carlton Club, San Francisco

Opened in November 2007, the Ritz-Carlton Club is located in the former Chronicle building at 690 Market Street, the West Coast’s first skyscraper, built in 1890. Forty-nine fractional as well as 52 wholly-owned residences are on the market.

“The Ritz-Carlton Club, San Francisco is a unique opportunity to have a pied-à-terre in one of the country’s most cherished cities,” says Robert van Dijk, director of marketing and sales at the Ritz-Carlton Club and Residences, San Francisco. “Our unique offering is designed with a flexibility that is commensurate with the demands of an urban setting. The intimacy of the city allows its hundreds of live theaters, famous restaurants, opera, ballet, and extensive shopping district to become your personal amenities package. And it comes with the service that is truly The Ritz-Carlton.”

www.rcr-sanfrancisco.com

PHOENIX, ARIZONA

The Phoenician

The Starwood Hotel chain owns The Phoenician and they have created fractionals in casitas lining the golf course. This resort overlaps Phoenix and its tonier suburbs, giving Starwood leeway to claim the address of Scottsdale.

www.phoenicianresidences.com