Crittenden Resort Report™

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FRACTIONAL POPULARITY BOOMS

A string of new developments leave no doubt that fractional ownership is here to stay. Zihuatanejo's **Playa Viva** markets its oceanfront second homes to those who'd rather do without pesky modern trappings like air conditioning or refrigeration. The owners of **Gilbert's Resort** in Key Largo, Fla., see no future in the hotel biz and take the plunge into fracs instead. And **Ritz-Carlton Hotels & Resorts**, riding high on the success of the Aloha State's first fractional offering in Maui, develops more of the same on Kauai.

At a time when the housing market searches desperately for a bottom, many consumers appreciate fractionals' ability to offer equity without over-commitment of capital — and, in the case of PRCs, a choice of reliable accommodations in an array of destinations. A number of smaller developers see fracs as a way of developing communities. Touchy-feely though it seems, the concept of communal involvement, rather than a mere place to stay for a night or a week, motivates both Playa Viva and the soon-to-be-renovated Gilbert's Resort. But even larger companies like **Marriott Vacation Club International** (MVCI), which put profit margins at the top of the list, enthuse about fracs for the money alone. MVCI's timeshare and fractional contract sales in Q4 2007 came in at $366M, and that was with a 26% drop from the year before.

Playa Viva Founder **David Leventhal**'s latest $45M project introduces a new kind of fractional development in Zihuatanejo: one without the usual amenities. Leventhal eschews things like TVs and mini-bars to create a resort that addresses what he sees as a lack of authentic experiences in Mexico. In fact, he goes so far as to refer to it as "co-housing," not fractionals — a reference to the Green concept of co-ownership. A phased buildout alleviates the strain of development costs, and Leventhal relies on a small equity fund and on presales to pay for it all. Expect it to hit completion in 2010. The resort consists of 52 casitas, 120 hotel suites and 13 home lots, along with a beach club and a pool. Phase I, under construction now, includes only 10 casitas, the beach club and the pool, with the hotel and other components coming later. The residences sell in 1/10th fractions for $139K — less for early adopters — with a $10K to $20K deposit. Leventhal breaks up the usual four-week bundles for flexible scheduling.

Leventhal began taking reservations earlier this year. He concedes that while he faces a tough market in today's economic climate, Playa Viva differs greatly from the average Mexican fractional. The target demographic — arguably a niche within a niche — may be small, but Leventhal counts on its enthusiasm to move units. Leventhal leaves 80% of the resort's 200 acres untouched, and builds the casitas and other buildings in clusters to minimize environmental impact and foster community. The resort grounds contain a surprise amenity in the form of a newly discovered archeological site. Leventhal also faces a quandary common to many resort developers: whether or not to buy the pyramid next door.