



RESORTS RISING

LUXURY SECOND-HOME DEVELOPMENTS ARE BOOMING

By Tom Kelly



NEW DESTINATION RESORTS FOCUS ON BLENDING A FAMILY ENVIRONMENT WITH TOP-QUALITY AMENITIES, SUCH AS PRONGHORN'S CHAMPIONSHIP GOLF COURSES.

COURTESY: PRONGHORN

The traditional vision of a second home was a cabin close to the shore of Dad's favorite fishing lake or a condo on the fairway of Dad's beloved golf course in the desert.

That's no longer the case. Aging baby boomers, who have redefined every aspect and item of their life cycle, ranging from jeans to cars, to home design, also are redefining the second-home market. The healthiest, wealthiest and largest group ever to surface on the American landscape is borrowing more, traveling farther and purchasing additional real estate earlier in life. They are more adventurous than their parents who make up the pay-it-off, stay-close-to-home Greatest Generation. To the contrary, boomers never met a loan they didn't like and are proud to journey to buy and declare, "This is not your father's second home."

And developers are jockeying for prime land and attractive locations to meet this exploding need. Year-round, second-home destinations have become big business—and business is booming, especially in the western United States as well as in Canada and Mexico. The target is no longer just weary dreamers looking to get away to the sun or slopes, but it's also savvy investors seeking an alternative to skittish conventional financial markets. After the "tech wreck" that rocked portfolios six short years ago, consumers—and developers backed by corporate dollars—are more confident in the type of real estate that is luring the largest group of buyers with the greatest access to funds.

President George W. Bush bolstered the promotional efforts of one of the largest all-season destinations last August when he cruised his mountain bike along the trails of the \$1.5 billion Tamarack Resort. The Idaho project, opened in 2004 near the town of Donnelly approximately 90 miles north of Boise, encompasses 3,600 acres (5 1/2 square miles) and when completed will accommodate a total of 2,043 dwelling units, including single-family lots, town-homes and condominiums, and hotel and conference facilities. Private land totaling 1,500 acres includes the golf course,

housing and the village, and 2,100 acres of leased state land is dedicated to skiing and other recreation.

While boomers are definitely seeking year-round activities, they have not tossed golf totally out of the picture. The High Desert Development Company LLC, the developer of Pronghorn, a golf community located on 640 acres just outside of Bend, Oregon, is having success blending a family environment around the first community in the West to feature both a Jack Nicklaus Signature Golf Course and a Tom Fazio Championship Golf Course.

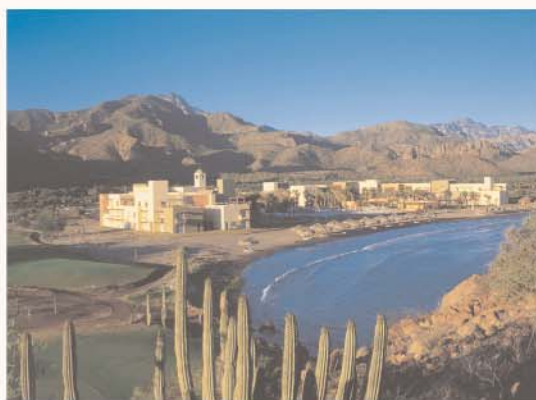
Pronghorn has sold 225 of its 289 home sites at an average price of \$560,000, while limited availability remains in the 12 units available for fractional ownership, sold in shares of one-twelfth, one-sixth and one-quarter. Marketing has been pushed along by some high-profile buyers: former NFL quarterback and Hall of Famer Joe Montana, along with Joey Harrington, quarterback for the Detroit Lions, and Mike Bellotti, Harrington's former head football coach at the University of Oregon.

Dozens of destination resorts—large and small—are in the planning or building phase, including remodels such as the \$220 million remake of La Posada Resort in Paradise Valley, Arizona, that will reopen in late 2007 as the Montelucia, the flagship resort of Solis Hotels and Resorts, a new luxury-hotel-and-resort brand launched by former Ritz-Carlton executives. The 28-acre project will feature 34 private villas for permanent- or vacation-home ownership, plus 249 hotel rooms, casitas and suites. It will also house restaurants; a 30,000-square-foot spa facility; boutique shopping; and ballroom, meeting and wedding facilities.

Smaller builders and developers are eager to get their doors open because of the proven success of other projects. Michael Burns, who grew up in the time-share industry, formed Private Residence Resorts



THE VILLAGES OF LORETO BAY OFFERS SPANISH COLONIAL CHARM IN A CASUAL RESORT SETTING ALONG THE SEA OF CORTÉS.



WERNER SEGARRA (2), COURTESY: LORETO BAY COMPANY

in 1999 and began marketing a \$314,000 fractional model in Sun Valley (Les Saisons) and a new \$116,500 model in McCall, Idaho (Hearthstone). Both projects provide a one-eighth deeded interest in the property. Although the events of 2001 curtailed business for approximately 18 months, all of the origi-

nal investors who helped with \$2.5 million of seed money enjoyed a nice return—as have fractional owners who have chosen to sell. Resale data on fractional units are difficult to locate because the fractional concept is so new. Some analysts had been

skeptical regarding the possibility of a positive return, given the poor resale record of the time-share industry.

"We had an average return to sellers of 25 percent over a three-year period," Burns says. "And many were extremely satisfied with the product. We received a 96 percent satisfactory rating from purchasers. We explain our product as a second home in a destination that you frequent. Time-sharing is more of a prepaid vacation-use product. We sell far fewer buyers into fractional ownership than we would a time-share. That pushes down the marketing costs so that we can divert more funds back into the product."

Burns was born in the Pacific Northwest and received a political science degree from the University of Washington in 1978. In 1995 he graduated from the University of Pennsylvania's Wharton executive business development program. He received his resort experience from the early days of time-sharing. His grandfather worked for the old Mount Baker Recreation Company near the Washington state-Canada border when the mountain's first chair lift was installed. His family purchased an old Forest Service cabin, made some needed repairs, and shared the place with five other families during the winter ski season. His father took the concept a huge step further, starting Vacation Internationale in 1974. Burns went to work for points-based Vacation Internationale in 1978 and five years later joined Marriott Hotels and Resorts as director of marketing for the company's new time-share properties in Orlando, Florida. In 1989 he was recruited by the Walt Disney Company to create its new time-share division, overseeing what would eventually become the Disney Vacation Club. He returned to Vacation Internationale as president and COO in 1996 before starting Private Residence Resorts three years later.

While the Sun Valley project proved profitable, the McCall experience could be classified as a home run. Burns' only partner provided the land for the 8-acre community, and the two men were able to scale the project according to the sales

pace—a huge benefit shortly after 9/11. More destinations are planned for Mexico and the San Juan Islands, targeting couples in their mid-50s, typically with children who are out of the home or off to college.

"These people have the discretionary funds for a true second home," Burns says. "But what is driving them is that the qualitative aspects are as compelling as the quantitative. While the economics have to make sense, we have provided everything they potentially would want and need in a turnkey operation. They don't have to worry about preparing it for winter or getting it ready for summer. Our management team does all of that."

WHILE SOME DESTINATION PROJECTS have been reinforced with a variety of bonuses and incentives, many developers south of the border have received a huge leg up from FONATUR—Mexico's National Trust Fund for Tourism Development (www.FONATUR.gob.mx). FONATUR was formed in 1974 to boost foreign revenue, spread the country's wealth more evenly and create jobs. Its goal was to raise the population's standard of living by establishing large-scale tourism developments in specific areas of the country.

One of the best examples of a government-community-investor destination business deal is how FONATUR attracted an environmentally friendly builder to a property just south of Loreto, a charming village, on the Sea of Cortés in the state of Baja California Sur, and the original capital of the Californias. First, FONATUR helped to obtain a master trust on the entire 8,000-acre property. It then guaranteed that Loreto's infrastructure—including streets, sidewalks, water and wastewater systems, and telephone lines—would be installed and maintained by FONATUR for at least 25 years. The agreement included 350 home sites already fully serviced by utilities and streets.

Part of the Loreto deal was that FONATUR did not want to duplicate the development it had fostered in communities such as Cancún and Los Cabos. Much of the heavy lifting for a potential

Loreto development had already been done—roads were in and water was on the way. The model here was a small Mexican village.

David Butterfield, president and founder of the Trust for Sustainable Development, brought many of the ideas that worked in Vancouver and Victoria to the Villages of Loreto Bay, now a \$2 billion planned community five miles south of Loreto that eventually will include 6,000 homes on three miles of coastline and in the foothills of the Sierra de la Giganta. TSD was the primary force behind Shoal Point, a former Chevron bulk-oil plant fronting Fisherman's Wharf in Victoria, British Columbia. The former "brown-field" site is now a \$110 million landmark residential and commercial development with 161 residential units and 50,000 square feet of commercial space dedicated primarily to marine-oriented and technology-based businesses. Shoal Point is an energy-efficient development that blends an older architectural style and state-of-the-art materials and technology.

The Villages of Loreto Bay project will harvest more potable water than it consumes, create more energy than it uses and enhance the habitat it occupies.

"What we've begun creating is a series of walkable seaside villages," says Butterfield, who is focusing on attracting second-home and retirement buyers in Canada and the United States. Neighborhoods are limited in size so that a majority of the population is within a five-minute walking distance of the planned village center.

Phase One is right on the beach. Housing options include beachfront homes that go as high as \$1.7 million; single-family courtyard homes starting at \$150,000; condominium units from \$236,000; and smaller "live-work" residential units in a town center.

The residences are not fractional ownership or time-share properties, but the company is managing and renting the properties for the owners when the homes are vacant.

According to Debra J. Stevens, who



COURTESY, TAMARACK RESORT

IDAHO'S TAMARACK RESORT OFFERS
TRUE FOUR-SEASON AMENITIES,
INCLUDING A NEW SKI AREA.

left a longtime public relations job with the NBA's Phoenix Suns to become vice president of marketing for the Villages of Loreto Bay, 553 homes had sold through 2005, representing a total of more than \$225 million in sales. The average home price was \$450,000 for the third quarter of 2005. Marketing efforts have concentrated on the western United States and Canada, producing many buyers hailing from San Diego; Los Angeles; the San Francisco Bay Area; Seattle; Vancouver-Victoria, B.C.; and Calgary-Edmonton, Alberta. The typical buyers are leading-edge baby boomers who are seeking a vacation home now while planning to use it down the road as a retirement home five or six months of the year.

Jim Grogan, an Arizona attorney and developer who is also chair of the Arizona Tourism and Sports Authority, said one of the keys to the development has been the ability of foreign citizens to hold title to Mexican property.

"Loreto Bay offers title insurance for every property it sells," Grogan says. "This ensures the marketability of your title and gives you no-fault recourse in the event

of problems. The carrier shoulders the potential risks and indemnifies the owner against losses or damages arising from title defects. That can't be said of all real estate in Mexico."

Title to all real estate in the "restricted zone" for foreign purchasers can only be legally vested and recorded in one of two ways: (1) in a Mexican bank trust (*fideicomiso*) for all residentially declared property, or (2) in a Mexican corporation for all nonresidential real estate. There is no in-between choice or gray area concerning foreign acquisition in the restricted zone (which consists of 50 kilometers along Mexico's entire coastline, 100 kilometers along all of Mexico's natural borders, and all of Baja California). Several U.S. title insurance companies now will issue policies on the *fideicomiso*.

Grogan's home-building experience includes serving as president of GW Holdings, a diversified real estate-investment company that included The Rocks, a private residence club with 40 fractional ownership homes in northeast Scottsdale. Grogan also was senior executive vice president and general counsel at UDC

Homes in the 1990s; before that, he was the managing attorney at the Phoenix law firm of Gallagher and Kennedy. In 1998, after UDC was sold to Shea Homes, Grogan became president and CEO of Samoth Capital Corporation, a Canadian company specializing in real estate lending, hotels, master-planned communities and multi-family projects.

Over the past 30 years, FONATUR has created and actively promoted five Integrally Planned Resorts that have become the backbone of Mexico's tourism industry. These resort destinations—which include Cancún, Ixtapa, Los Cabos, Loreto and Huatulco—have proved to be more successful than many of the country's other destinations, garnering average hotel occupancy rates of approximately 65 percent and capturing approximately 54 percent of the country's foreign revenue from tourism.

FONATUR now has plans for several new projects. The Costa Maya Integrally Planned Tourism Project is moving forward on the jungled coast south of Cancún; the Nayarit IPR is under way north of Puerto Vallarta; and the Mar de Cortés project is

under study on the upper west coast of the mainland and along the east side of the Baja Peninsula.

OF COURSE, NOT EVERY PROJECT has the benefit of years of FONATUR interest and dollars.

Bob Koens, a former Santa Maria, California, resident, is heading up a Minnesota group that is developing a new 530-acre, \$400 million project in Manzanillo. Las Cascadas de Manzanillo is a five-star gated community featuring winding cobblestone streets, waterfalls and lagoons, and a golf course with home sites averaging \$145,000.

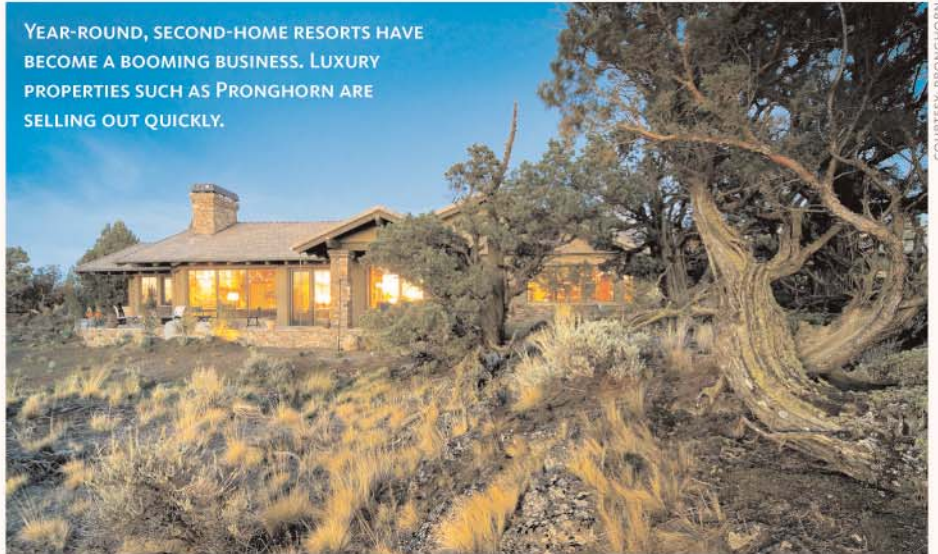
“Manzanillo is without a doubt a beautiful place,” Koens says. “The temperature is perfect, and the beaches are spectacular. Even though you are able to find beaches and beautiful places all over the world, it is the people who really make Manzanillo a marvelous and special place one would not want to leave. The people are friendly and very welcoming.”

It was the people and weather that lured Koens' in-laws to Manzanillo, about 145 miles south of Puerto Vallarta, more than three decades ago. The family would gather south of the border for special holiday vacations, and his mother-in-law, Ardis Peterson, became active in the community and in cultural events. Each time the family returned to the United States, more people would ask about the draw of the area and the possibility of buying property there. In 2001, Koens considered building a series of condominiums adjacent to Karmina Palace, a popular destination resort on the shores of the Pacific Ocean.

While he was doing research on the waterfront parcel, a larger hillside property—an abandoned subdivision that the Mexican government had ordered to be liquidated—became available by private offering to approved investors. Koens and his associates raised the capital from friends and other business associates to buy the 530 acres.

The development group envisions three to five hotels and hundreds of housing units, including condominiums

YEAR-ROUND, SECOND-HOME RESORTS HAVE BECOME A BOOMING BUSINESS. LUXURY PROPERTIES SUCH AS PRONGHORN ARE SELLING OUT QUICKLY.



and single-family houses. Some of the homes, hotels, restaurants and shops will circle a natural lagoon. The property's rising elevations feature ocean views from virtually every vantage point. Critics of the development plan contend that the natural environment may be harmed by all the building. The new owners counter the objection by saying they will be bringing in more fresh water for wildlife and vegetation, plus rejuvenating the lagoon, possibly opening it to the ocean's tides to replenish it daily with fresh seawater.

“The area means too much to too many people—including me,” Koens says. “There is no way we are going to take anything away from the beauty of the land or the environmental sensitivity of the property.”

Manzanillo, now larger than Puerto Vallarta, with a population of 130,000, is also growing more popular on the commercial front. View homes appreciated approximately 30 percent from 2003 to 2005, and port business has surpassed that of Veracruz, making Manzanillo the largest port in Mexico. Expansion is under way to make the port even larger and deeper, to accommodate bigger ships, heavier traffic and even more foreign and Mexican companies whose business interests center around cargo movement. Several cruise ship lines are now making Manzanillo one of their main stops.

“All of these snowbirds have been heading to Phoenix or Orlando, but some of these people can no longer afford Florida

or are looking to something different,” Koens explains.

“We are going to provide that in Manzanillo. For the same time it would take you to drive to a lake cabin, you can fly to Manzanillo and be on the beach. After seeing home prices skyrocket in Los Cabos, we are feeling very positive about our possibilities.” ▲

Tom Kelly is the author or co-author of several books, including How a Second Home Can Be Your Best Investment and Cashing In on a Second Home in Mexico. He is the former real estate editor of The Seattle Times and a resident of Bainbridge Island, near Seattle.

Reprinted with permission from the February 2006 of Alaska Airlines Magazine, published by Paradigm Communications Group, Seattle.