New Type of Investment Fund: Homes, Not Stocks

By Ann Hynek

Published May 17, 2010

Call it a REIT with benefits.

The concept of the destination club – where members can use luxury accommodations at private vacation homes -- has been around for about a decade. But there's been a flaw for some users. It is essentially a rental model, where members pay to use the destination, but don't benefit from any upside of the properties' value itself. So a company called Equity Estates took the concept a step further, creating an investment fund where members actually own a fraction of the resorts they are investing in.

"I thought it would be better to have something to show for your annual membership fees, like the real estate itself," said Equity Estates President and Managing Member Adam Capes, who got the idea after joining a destination club. “Equity Estates is a real asset class.”

Here’s how the fund works: There are 300 full memberships with 43 to 50 homes, each with an average value of $3 million each. Unlike timeshares, there are no fixed dates to use the properties, though there is a limit of nights of total usage per year, depending on the level of ownership, and a member can’t spend more than 18 consecutive nights at a single location. Members make money off the properties in 2021, when the fund will begin selling the underlying properties. Those proceeds are then distributed to the members, like any fund distribution.

Ideally, Equity Estates hopes it is buying now in a down market, particularly for luxury residences. In theory, that value should rise over the next 11 years.

“The next five years will bring a great buying opportunity,” said Greg Rand, managing partner of Better Homes and Gardens Rand Realty. “The first half of that is when you’ll see a number of foreclosures, which makes this a solid business plan.”

There are currently 100 member families. The fund currently owns property in Florence, Italy; Hilton Head, South Carolina; La Jolla, California; Naples, Florida; Turks and Caicos, and Wailea, Hawaii, to name a few. Equity Estates is also allied with the Hideaways Club, another luxury residence fund which is based in the UK and holds properties throughout Europe, the Mediterranean, and Africa. Members can also vacation at these residences as well.

“Fractional ownership to give people access is a great concept,” Rand said. “It’s much better than a timeshare because you’re actually holding the deed. You’re an owner and not a shareholder.”

Membership includes two points of special concierge service: Personal Travel Concierge and Local Host. The PTC knows everything about member-family’s hobbies, birthdays, and anniversaries, and plans the overall vacation. The Local Host is the go-to should a member need anything during their stay.

“It’s a fun investment because you get to travel, plus you get a well performing investment,” said Philip Mekelburg, CEO of Equity Estates.

For accredited investors, the membership interests range from Executive to Elite to Advantage, with an initial investment of $197,500, $375,000, and $545,000, respectively. Executive memberships have average annual dues of $9,250 with a 15-night usage allotment. Elite membership annual dues average $16,500 with a 30-night allotment. Advantage members pay $24,750 in annual dues and can use the properties for up to 45 nights.

“Staying at a luxury rental with full concierge service costs about $2,000 or more per night,” said Mekelburg. “The membership/investment equates to about $500 per night.”

Annual dues go to insurance payments, concierge services, and upkeep. Dividends, according to the Equity Estates fund, are defined as usage per customer, plus return on the property investment.