

Should a Destination Club Be Your Home Away From Home?

If you've thought about buying or building a vacation home, but have hesitated because you aren't sure that you want to limit yourself to a single location, there's an alternative you may want to consider: purchasing a membership in a destination club.

What are destination clubs?

Destination clubs are becoming increasingly popular. In return for a one-time membership fee and annual dues, destination club members are allowed to use a club's global network of luxurious properties for a certain amount of time each year, depending on their membership level. Club holdings are generally restricted to high-end properties—typically those with values of \$1.5 million to \$3 million. Accommodations are usually large, luxurious private homes, villas, and apartments that are located in travel hot spots such as cities and resort areas. They offer upscale amenities, and a host of personal services.

A destination club or a vacation home?

If you've ever fallen in love with a vacation spot, you know that there are some places worth going back to. You may be happy to own a home in a favorite locale and travel to it year after year. One of the main advantages of owning a vacation home is that you're in the driver's seat. You can use property as often as you like, invite friends or family members to use it, or even rent it out. You can also customize your home and decorate it as you wish. But no matter how much you enjoy owning a vacation home, there's no escaping the fact it's a big responsibility. You have to worry about maintaining it, and you must handle all expected—and unexpected—expenses.

The hallmark of a destination club, on the other hand, is flexible. Joining a destination club allows you to travel to many different places and stay in homes spacious enough to accommodate your family and friends, without the hassles of owning vacation property.

Comparing Costs

To compare a destination club financially with the purchase of a second home, you have to consider the upfront and ongoing costs of each. Some costs may be similar. For example, maybe you're considering a destination club with a one-time membership fee of \$300,000 and annual dues of \$25,000. Alternatively, you could buy a comparable property, let's say one that's worth \$1.5 million. If you opt to finance the home, your \$300,000 (20%) down payment would be equivalent to the destination club's membership fee, and the amount you'll spend annually on home maintenance and utility costs could be equivalent to the destination club's annual dues. (Of course, financing the remaining \$1.2

million of the home's purchase price will also mean making significant monthly payments.)

Costs can vary widely, however, initial membership fees for a destination club typically range from \$100,000 to \$1 million or more, and annual fees typically range from \$10,000 to \$75,000 or more. Home ownership costs may include mortgage expenses, taxes, insurance, utilities, and maintenance (which may be offset somewhat by any rental income you receive.)

Another variable to account for is what you'll get for your money. Destination club memberships entitle you to a certain number of days of use annually, whereas you can use a vacation home as much as you'd like. You'll also need to take into account home values. For example, joining a destination club may entitle you to stay in a home worth much more than you could afford to buy (and will also give you access to personal concierge services), but it depends on the specifics.

As a vacation home owner, you can decide when to sell your property, and you'll benefit from any appreciation in value. Destination clubs, on the other hand, are frank about the fact that becoming a member should be viewed mainly as a lifestyle decision, rather than as an investment decision, although some do allow you to benefit directly or indirectly from any appreciation in the clubs property values. Most destination clubs also have provisions that enable you to "cash out" your membership at your request. For example you may be allowed to cash out your membership for a specified percentage of the membership fee being charged at the time (generally 80% to 100%). If that's the case you might benefit if you cash out at a time when the clubs holdings have risen in value and membership fees are higher than when you joined.

Do your homework

When you join a destination club you're committing a substantial amount of money. So, make sure that the club is financially sound. Get information about the clubs finances, and carefully read materials and contracts before you sign on the dotted line.