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Destination Clubs Introduce Budget Versions, Relatively Speaking

By PAUL SULLIVAN

THREE years ago, destination clubs seemed to be struggling for dear life as the economy collapsed. But a couple of the clubs — essentially collections of luxury homes available for short-term use in fancy resort areas — managed to survive. And now they have come up with new variations that cost less to join but retain the air of exclusivity.

Exclusive Resorts, one of the most established of the top-tier destination clubs, made a bid this week to stir people's imaginations of exotic vacations. It unveiled a less expensive version of itself, called Portico, to entice existing and new members — at a comparative bargain.

The Portico homes will be slightly smaller, often in second-tier vacation markets, but cost less per night than members pay to be part of the company's flagship brand. Instead of buying a set number of days, members in Portico will pay only for the days they want to travel.

The same pay-as-you-go model is used by Inspirato, started last year by a founder of Exclusive Resorts, and by the Quintess Collection, a smaller club, which has added Quintess Beyond for existing members. The new iteration of destination club keeps the companies' upfront costs low by renting instead of owning the properties their members use and sets a nightly rate according to the demand.

The timing of these spinoffs raises a couple of questions. With an economy that is still uncertain, why would affluent people want to commit money to a destination club, given that some industry players have ended up in bankruptcy court? And won't members still struggle to book vacations at peak times?

The rates for Portico and Inspirato are low by industry standards, but they are certainly not cheap. Portico charges a nonrefundable, upfront fee of $10,000 plus an annual fee of $2,500, while Inspirato charges $15,000 upfront and a $2,950 annual fee. Nightly rates range from $400 to more than $3,000 — the week between Christmas and New Year's Eve is the most expensive.

I struggled to get a straight answer as to why this is a good time to start a new destination club. While the operators of these companies sell an image of luxurious living, they are essentially fighting for the same people with the same homes in the same locations.

Brent Handler, a founder of Exclusive Resorts who left to start Inspirato, takes credit for this new variation of destination club. He said that he discussed similar ideas in 2009, but that Steven Case, the founder of AOL and chairman of Exclusive Resorts, did not listen to him. So he left.

“Obviously, if Steve had agreed with my vision we would not be having this conversation,” Mr. Handler said.

For its part, Exclusive Resorts pointed to changes in the marketplace. Philippe Bourguignon, who has been chief executive for less than a year, said, “I don’t know when and how Brent raised it, or if he did.” But, he added, “there is a time for things, and timing was everything.”

Indeed, Ben Addoms, founder and chief marketing officer of Quintess, said the weak real estate market made this new concept viable. Destination clubs are able to lease high-end homes because their owners cannot sell them and would rather someone commit to a multiyear lease than take the chance of renting them on their own.

“The destination club industry was created at a time when luxury home prices were going up very rapidly,” Mr. Addoms said. “Now, there is a massive oversupply of resort real estate. We’ve made the assumption that the overhang is going to last for the next three years.”

He said he feared that all clubs on a lease model would have to raise their rates when property values rose, and members would be upset at having to pay more. Mr. Handler and Mr. Bourguignon acknowledged that they would have to raise rates if lease prices increased.

But for now, there seem to be plenty of people who want to join a club without the large lump-sum commitments that traditional destination clubs require. (Quintess charges $165,000 on average, and Exclusive Resorts charges $170,000 for 20 nights, both nonrefundable.) Inspirato has signed up 1,400 members since its start in January 2011, and Portico attracted 420 in the first week.

Still, paying almost $18,000 the first year for the right to pay hundreds, if not thousands, of dollars a night more seems like a lot of money. I remained skeptical of the model until I spoke to some members who went into the new clubs with their eyes open.

Pamela and Robert Krupka, lawyers in Southern California, said they had been members of Inspirato for a year and had gone on six trips. They have no regrets. “If Inspirato went bust tomorrow, we’d feel we got our money’s worth,” Mr. Krupka said.

At one point, the Krupkas owned three homes, which they said were hard to maintain, and they did not want to go back to that. Mrs. Krupka has also sought out homes to rent in the United States and abroad, but her experiences have not always been great — like the house in Prague with the toilet in the living room.

And it is true that one of the selling points for all of these clubs is that members may be going someplace new but they know what they will get.

The other selling point is that members can leave when they want, though they will not get their money back. That has been a big knock against Exclusive Resorts' original model, which guaranteed a 75 percent refund of the upfront fee. Since the 2008 downturn, the waiting list to leave has stretched to four years or more. The reason is that three new members need to come in before one can leave.

Mitch Breen, a senior vice president at the EMC Corporation, a technology storage company, said he originally paid $400,000 for 45 days of use in 2004 and thoroughly enjoyed the club. But he started to worry about the club's financial situation in 2010 and began negotiating to get out. It took him nine months, and he said he lost more than 25 percent.

"I was happy to take the haircut and stop paying the yearly fee," he said. "It kept going up every year."

He has since joined Inspirato but with a more jaundiced eye. "I decided to take a shot at it because the initiation was $15,000," he said. "If it didn't work out, I wouldn't have been out that much."

But these clubs have plenty of downsides. The main one is availability. A lot of people want to go away the same weeks of the year.

Mr. Handler said that anyone signing up for Inspirato today could book one of the properties in Vail at Christmas, a coveted destination and time. When pressed, though, he said there were only 19 units there, so with 1,400 members it is quite possible you may have to go elsewhere.

Mr. Krupka already found this out, a year into his membership, when he was trying to book one of the company's top properties, called Costero in Los Cabos, Mexico.

"Being one of the first people in, we could go wherever we wanted, whenever," he said. "Now, it's tougher."

To be fair, this is the trade-off with all of these clubs. If you are affluent, want to travel the world and stay in nice places that you may not have thought about going to before, these clubs are for you. Anyone who wants to go to Vail every Christmas should probably buy a condo there.

And this is how Mr. Bourguignon framed Portico. “It is very simple,” he said. “You call, you book. First come, first served.”

For someone who plans ahead and has a lot of flexibility, either model works. Geoff Tracy, a chef and owner of six restaurants in Washington, said he used all 30 days of his regular Exclusive Resorts membership and just signed up for Portico to have more options.

“There are times when you say, ‘I really want to go to this spot, but it’s not currently available,’ ” he said. “You have to be a planner. I’m in an enviable spot that I can think two years out.”

At this stage in the economic recovery, that may be what some people are willing to do.

This article has been revised to reflect the following correction:

Correction: February 17, 2012

An earlier version of this column incorrectly stated the upfront fee for the Portico destination club. The fee is $10,000, not $15,000.