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DECEMBER 2009

Sweet Equity

A fund-based destination club sees an upside to a down market.



NOT MANY REAL ESTATE companies can say that the slumped economy has helped their business, but for Equity Estates, the last year has been its strongest yet. The three-year-old destination club has grown 50 percent—its highest rate to date—since December 2008.

The company's equity-based model, in which members purchase interests of a real estate mutual fund rather than a fraction of one residence or vacation time in a destination club, has proved alluring to some buyers in a down market. Meanwhile, the slumping market has opened up opportunities for the club to expand its portfolio: In early 2009, the fund's managers purchased two residences in destinations where housing prices have dropped significantly. "We recently

bought properties in Telluride, Colorado, and Hilton Head, South Carolina," says Philip Mekelburg, a former management consultant, who cofounded Equity Estates with Adam Capes, previously a membership director of a luxury destination club. "The builders of the Hilton Head house planned to sell it at around \$6 million. We got it for just under \$4 million."

However, the Hilton Head property is hardly a bottom-of-the-barrel-discount find. The 4,400-square-foot, five-bedroom house has three fireplaces, a main-floor gourmet kitchen, a second-floor kitchenette, and expansive patios that overlook a private pool and three miles of beach.

Equity Estates aims to own some 50 residences in 35 locations. In 2021, the company plans to sell its entire portfolio, return members' capital contributions, and share with them 80 percent of the appreciation. Until then, members receive usage rights at the residences ranging from 15 nights per year (for a \$197,500 fee plus \$9,250 in annual dues) to 30 nights per year (\$375,000 plus \$16,500 in annual dues).

The club's portfolio currently consists of 11 homes, with a stated average value of \$3 million. In addition to Hilton Head and Telluride, existing destinations for Equity Estates members include Turks and Caicos; Naples, Fla.; Los Cabos, Mexico; and New York City. The club is looking for homes in Hawaii, Italy, and Jackson Hole, Wyo.

"Our goal with any home we include in our portfolio is not only to have it be a good investment, but for it to satisfy our members' expectations for a quality vacation," says Mekelburg. "All of our homes have high-end appliances and linens, toys and video-game systems for kids, and state-of-the-art electronics."

Still, Mekelburg believes the equity club's best feature will not be realized until 2021: His company forecasts that the fund will appreciate 7.5 percent on average, yielding large enough returns that members will essentially be paid for their travels. —JESSICA PUCCI

Equity Estates, 800.413.3340, www.equityestatesfund.com

Equity Estates' portfolio of 11 homes includes residences in Telluride, Colo. (top), and New York City (above).