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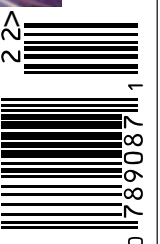
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THE SECOND HOME BOOM

Can It Last?

Sales—and prices—have surged. The long-term outlook is for more of the same, even though the market may temporarily cool when rates rise. Where the hottest spots are.



Paradise Found

Demand for second homes is lifting prices nationwide. Why the boom will last.

BY STEVE BERGSMAN

NANTUCKET IS AN ISLAND in transition—from one mogul to the next. Just ask Pepper Frazier, the proprietor of J Pepper Frazier Realty, whose own block in tony Monomoy recently welcomed two new part-time neighbors. On one side, a Wall Street honcho shelled out \$11 million for his vacation getaway. On the other, an old IBM hand named Lou Gerstner paid \$12 million for a home on 1.6 acres.

A famous whaling center in the 1800s, Nantucket long has attracted captains. But today's, mostly from Wall Street and industry, are paying more than ever before for second, third and even fourth homes on this speck of land off the Cape Cod coast. The local real-estate market "is the hottest I can remember," says Frazier, a 25-year veteran of the scene. Some homes along the harbor in Brant Point and Monomoy are appreciating by 10% to 12% a month, he says. Even in less ritzy mid-island locales, values jumped about 40% last year.

If Nantucket and other A-list vacation spots are sizzling, many second-home markets across the U.S. are merely warm these days, due to the

rocky economy of the past few years. But the temperature is rising from coast to coast, according to numerous brokers, as growing demand from affluent baby boomers overwhelms supply.

In the late 1990s, the baby-boom generation, 80 million strong, entered its peak earning years. "More and more, we see baby boomers 'buying up' for retirement

second and even third homes."

Historically low interest rates also have played a key role, rendering second homes affordable for greater numbers of buyers. Though mortgage rates are rising this year and are likely to head even higher in coming months, few real-estate experts expect the market to soften appreciably. For one

however, rising rates could dent sales or slow the rate of growth.

The NAR first surveyed the second-home market in 1989, counting 288,000 sales. Sales last year reached an estimated 445,000, up 24% from 2002.

Median second-home prices also are on the rise, and approached \$190,000 to \$200,000 in 2003. That represents a gain of nearly 53% from 1999's median price of \$127,800. Compare this with the stock market's losses in the past five years and it's easy to see the allure of property over equities. The Standard & Poor's 500 stock index has shed about 10% of its value since the start of '99.

"We've seen a big shift in how Americans and Canadians invest," says Camille Hemmingson, an associate broker with Re/Max Alpine Realty in Canmore, Alberta, a hot spot in the heart of the Canadian Rockies that recently has been discovered by Americans. "Investors are losing confidence in their stock portfolios and transferring wealth to more tangible things, like vacation homes where they can entertain the kids and grandkids."

Bear in mind that median prices encompass everything from tiny cottages in the woods to multimillion-dollar spreads in the Hamptons, where a mere seven digits might leave you with a serious case of second-home envy. According to Tina Fredericks of Tina Fredericks Realty in East Hampton, several homes on the eastern end of Long Island are on the market for \$50



JACKSON HOLE, WY

- 5 Bedroom
- 5.5 Baths
- 3 Acres
- \$7,995,000

and also purchasing second homes," says Jim Gillespie, president and chief executive of Coldwell Banker Real Estate, a subsidiary of Cendant. "Generally, boomers have more wealth than previous generations. They have built up tremendous equity in their homes and are using inheritances left by their parents to purchase

STEVE BERGSMAN, a Mesa, Ariz., real-estate writer, is a frequent contributor to *Barron's*.

million. One is Andy Warhol's former estate in Montauk, on more than five oceanfront acres. Bridgehampton boasts the most expensive home in the U.S., a \$75 million, 60-acre spread complete with its own golf course. It's owned by the widow of the late real-estate mogul Edward S. Gordon, and she's been looking for a buyer for several years.

The nation's most expensive markets, like the Hamptons, Palm Beach, Fla., and Aspen, Colo., are playgrounds for the famous, and certainly the rich. Folks of lesser means are snapping up getaways in less posh, but not necessarily less picturesque, spots, from Arizona to West Virginia to the Carolinas.

Indeed, in the past six months Wrightsville Beach, N.C., famed for its white-sand beaches along the Cape Fear coast, and Kiawah Island, S.C., a barrier island just south of Charleston, were two of the five most sought-after second-home destinations on EscapeHomes.com, a vacation Website. (The others were Aspen, Palm Beach and Park City, Utah, a ski resort.) The median home price in Wrightsville is \$480,600. On Kiawah it's \$796,100, according to the Orinda, Calif.-based EscapeHomes.

In addition to low interest rates and demographics, the second-home market has been helped by the Taxpayer Relief Act of 1997, which established new rules for the treatment of a capital gain on a principal residence. Under the old law, taxes on gains were deferred if the seller bought a new home of equal or greater value up to two years before or after the sale of the primary home. In addition, sellers over age 55 could claim a one-time exclusion of \$125,000.

But new, liberalized rules repealed the mandatory gain-deferral and raised

How To Buy a Piece of Paradise

FOR MANY PROSPECTIVE BUYERS, A SECOND HOME IS A daunting proposition. In addition to the cost of purchasing and maintaining another residence, there is the not-so-small matter of convenience. Who will care for the cottage or mansion, and how, when it's a thousand miles away? Will traveling to and fro devour all your weekends? Besides, Palm Beach is no fun at the height of a Florida summer; neither is Montauk in the dead of a New York winter.

But the real-estate industry has made it easier to buy a piece of paradise. Timeshares, fractional ownerships, club memberships and condo-hotels can offer the best of both worlds: a home of your own and a place to hang your hat (or ski helmet or sun visor) at a time and price of your choosing. A look at some inviting alternatives:

Timeshares

Once associated with silver-tongued salesmen and chrome giveaways—hear the spiel, take a toaster—the industry has come into its own. Better regulations and an influx of corporate players, including **Cendant** and **Starwood Hotels & Resorts**, have burnished the reputation of the business, which sells ownerships of time intervals at vacation destinations. In recent years annual timeshare sales have topped \$5.5 billion, according to the American Resort Development Association, or ARDA.

"People typically buy one or two weeks," says Ed Kinney, a vice president at Marriott Vacation Club International, whose parent, **Mariott International**, has been in the business for 20 years. "The time can be used at your home resort, or traded back to Marriott for reward points, or exchanged for time at any of 2,000 locations around the world with which Marriott has an exchange program." The average buy-in cost of a Marriott timeshare is \$23,000 a week. Industrywide, the average buy-in cost is \$14,500, according to an ARDA spokesman, with annual maintenance fees and taxes of \$385.

Fractionals

Flexibility was the watchword for hotel developer Timothy Bolinger, who opened Hidden Meadow Ranch, a lodge and private-ranch club in the White Mountains of Arizona, in September 2002. Guests can stay the night at one of Hidden Meadow's luxury log cabins, or buy land on which to build, or become fractional owners, buying only as much time as they expect to spend at the facility each year.

A one-sixth fractional, covering two months, costs \$225,000 to \$325,000, depending on the facility. Months need not be sequential and vary year to year, in order to prevent one family from staking a perpetual claim to a popular time like Christmas. Bolinger eventually plans to open 20-30 luxury log cabins, giving fractional owners a greater array of time slots.

Fractionals have been gaining in popularity, says Wallace Hobson, founder and president of Hobson Real Estate Advisors, a Portland, Ore., firm that provides development, marketing and sales services in the luxury fractional-residence market. "Prices are going up rapidly," he says. "Three years ago, the average cost per share was \$200,000 to \$250,000. Now prices are north of \$300,000, and we're working on projects with costs of \$400,000 and \$500,000."

There are only about 100 U.S. fractional-ownership devel-

opments, all in "jet set" markets. The **Four Seasons** and **Ritz-Carlton** hotel chains are entering the business, which should help it grow. Come to think of it, most fractionals are like hotels, only better. Housekeeping and maintenance services are provided, and the refrigerator usually is stocked when you arrive.

Condominium-Hotels

Canyon Ranch, the fabled health resort and luxury spa, today has outposts in Tucson, Ariz.; Las Vegas; Massachusetts' Berkshires and Kissimmee, Fla. But in Miami, it's building a partial condominium-hotel. Canyon Ranch Living, a six-acre oceanfront property in Miami Beach, is to open in early 2005. It will feature 151 condo-hotel suites and 467 condominium residences, plus the usual Canyon Ranch facilities and spa.

Unlike timeshare and fractional buyers, condo-hotel buyers acquire full ownership of a residence. But they rent it out during the year; in this case through Canyon Ranch's management. "If you aren't going to use your unit regularly, you can put it into a rental program and use your share of income to help to help [drive down] your purchase cost," says Kevin Kelly, chief strategy officer at Canyon Ranch. Condo prices are expected to start at \$657,000.

Big hospitality outfits such as Starwood, **Sonesta** and **Hilton Hotels** are contemplating building condo-hotels, says Hobson. No wonder. By preselling units, a company can finance a new hotel, piece-by-piece. Condo-hotels are usually more comfortable than hotels, they're maintained for you and they offer an equity stake—with a mortgage-interest deduction.

Luxury-Club Memberships

Luxury-club members typically pay a six-figure deposit and an annual fee of \$15,000 to \$20,000 to "rent" multimillion-dollar homes in the U.S. and, increasingly, abroad. A tiny market to date, the business is dominated by two companies, Exclusive Resorts, based in Denver, and Private Retreats, a division of luxury-travel experts **Abercrombie & Kent**. Membership in both is growing rapidly.

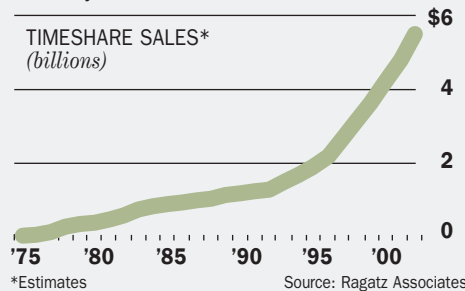
"We have 95 homes," says Brent Handler, co-founder of Exclusive Resorts. "We add more than 10 homes every month, and we're in 24 destinations." Members can use the service for up to 60 days a year but can stay in the same spot no longer than two consecutive weeks.

His portfolio includes beach properties in Kiawah Island, S.C., and Los Cabos, Mexico; city residences in New York and San Francisco; homes at ski centers (Beaver Creek, Colo., and Jackson Hole, Wyo.) and mansions in Scottsdale, Ariz., and Tuscon. The club, which has sold 600 memberships, owns all the homes. Says Handler: "There's no equity in our club. You pay a \$375,000 deposit, and it's 80% refundable when you resign." Most clients, he says, value the variety and efficiency he offers. And they'll always have Paris—if no one else books it first.

—Steve Bergsman

Timeshare, Anyone?

►Sales of timeshares have exploded upward in recent years, as big players such as Cendant and Starwood Hotels have entered the market. Partial-ownership arrangements generally cost less than houses, and many buyers value their flexibility and convenience.



Searching for second homes on the Web
ELECTRONIC INVESTOR
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the exclusion to \$500,000 for married couples filing jointly, provided a taxpayer owned and used the principal residence for two of the five years preceding the sale date of the home. Moreover, the exclusion now can be claimed every other year.

In addition to putting more money in potential buyers' pockets, the change has "liberated" sellers from the pressure to trade up to avoid a tax hit. Instead, says an NAR spokesman, it seems to have encouraged some sellers to trade down to more modest digs, while using the remaining proceeds to purchase second homes.

The second-home market can accommodate 100,000 to 150,000 new housing starts a year over the next 10 years, estimates David Hehman, co-chairman and CEO of EscapeHomes. But many desirable locations face growth limitations, either geographic or political in nature. While that's likely to keep prices aloft for now and mute any subsequent slowdown from rising interest rates, it poses "unique challenges" for sellers and buyers both, Hehman adds.

Jackson Hole, Wyo., is a frustrating case in point. In summer, the town is the gateway to the Grand Teton and Yellowstone National parks. In winter, skiers descend on this small spot of western Wyoming. All year-round, Jackson Hole displays a natural beauty that

has long lured hopeful second-home buyers, many from California, Texas and Chicago.

Yet, more than a few leave without a contract in hand. While there is room for the town to expand, Teton County has strict rules pertaining to development, says William Van Gelder, a sales associate with Sotheby's International Realty-Jackson Hole Brokerage. Consequently, prices are rich, and likely to remain so. At the high end, homes can be had for \$3 million to \$6 million. Then there's the ultra-high end, where proper-

ties fetch \$6 million-plus. Since the first of this year, four sales have closed in the Jackson Hole area at more than \$6 million apiece.

Condos offer a cheaper alternative, though a 1,500-square-foot unit could cost \$350,000 to \$1 million, depending on the location.

"Real estate here mirrors closely the national economy," says Van Gelder. "When the economy was booming we saw appreciation in some segments of the market of 100% in a year." During the past three years, when the economy often slumped, ap-

preciation slowed to 3% to 6%, he notes.

For winter-sports aficionados with lighter budgets, the growing vacation enclave of Canmore offers the Canadian Rockies at substantially lower prices, no matter the fluctuations in the value of the dollar. In recent months Re/Max has sold a few homes for more than \$1 million—a comparative steal for a 2,500-to-3,500-square-foot home with "massive" fireplaces, in a golf-course community with spa facilities and fantastic views. Buyers of high-end properties include Calgary oil-patch executives, young Canadian entrepreneurs and Ameri-

cans and Europeans who spend summers and holidays north of the U.S. border.

Canmore's first big developments coincided with the Calgary Winter Olympics of 1988. Originally, the area drew second-home buyers from Calgary and Edmonton, but by the mid-1990s others began to arrive. Today the local population stands at 11,000, but add in second-home buyers and it swells to 15,000.

While Canmore saw a few flat years during the latest recession, broker Camille Hemingson says prices now are appreciating 10% to 12% a year. "There is a growing market for top-end homes, but we expect increasing demand and shrinking supply to put upward pressure on this market through the next decade," she says.

Canmore sits about five minutes from the gates of a national park, home to the city of Banff. "We have a finite land base in a spectacular valley that stands right between Calgary and Banff," Hemingson explains. "We are surrounded by federally owned, provincially owned and wildlife-conservation land."

THANKS TO TECHNOLOGY, THE view from that valley, or Jackson Hole or Nantucket, need not be limited to vacationers and retirees. Nicholas Retsinas, director of the Joint Center for Housing Studies at Harvard University, notes the rise of telecommuting has done much to spur the growth of the second-home market. A day at the beach, or at least the beach house, no longer precludes a full day on the job.

For most Americans, traveling to Alberta, much less Palm Beach, eats up valuable time. That's one reason most second homes are not in glamorous places, but rather in convenient ones. According to the NAR, the median distance from first to second home is 185 miles, about a three-hour drive under normal road conditions.

Walter Molony, a spokesman for the NAR and a resident of the Washington, D.C., area, in 1995 paid \$75,000 to buy five acres in West Virginia for a second home—acreage that today would fetch about \$150,000, he says. "West Virginia has one of the fastest-growing second-home markets in the country," Molony notes. "It's convenient to Washington, Baltimore, Pittsburgh and most of the mid-Atlantic."

In the past 10 years, the number of second homes in West Virginia surged 71%, to more than 38,000, according to the Census Bureau. The state is No. 6 in second-home ownership, behind Florida, Wisconsin, California, Michigan and North Carolina.

Tom Clutter, who opened Clutter Realty in Terra Alta, W.Va., in 1985, has been enjoying a brisk business as of late. "There are close to 400 homes here, of which two-thirds are vacation homes," he says. "There are another 2,323 lots, so there is plenty of room for development."

While some homes in Terra Alta are just 764 square feet, the average size has risen to 1,700 square feet from 1,500. Larger properties are approaching \$400,000, though many smaller ones sell for less than \$100,000. Until two years ago, annual appreciation was never much above the inflation rate, but prices since have risen 10% to 15%.

The White Mountains of Arizona have always drawn on a local clientele. About 90% of the second homes in this high-mountain pine country are owned by people from



VAIL, CO \$1.7 MIL



HILTON HEAD, SC \$4.9 MIL



NAPLES, FL \$4.7 MIL



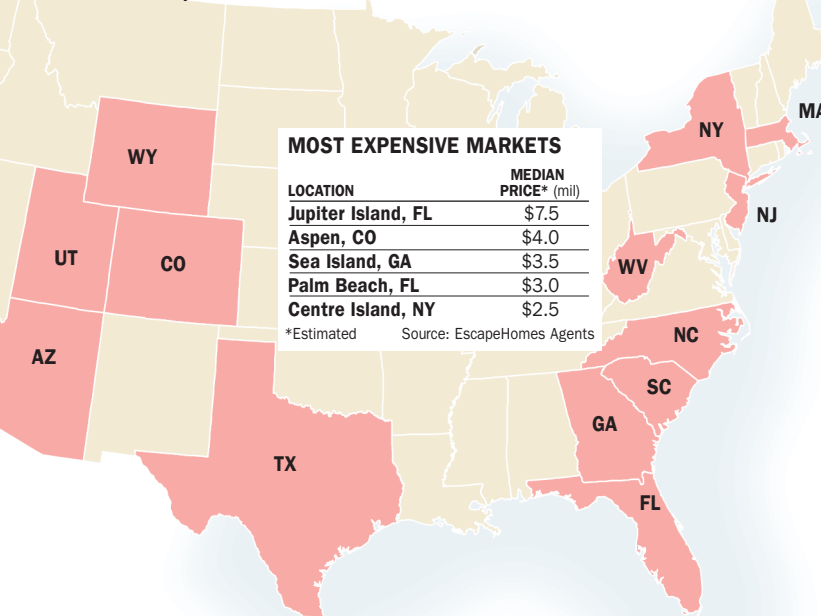
NANTUCKET, MA \$5.9 MIL



MONTAUK, NY \$3.5 MIL

Home Dear Home

▶ With interest rates near historic lows, owning a second home—or third or fourth—no longer is the hallmark exclusively of the wealthy. But you'll need more money than ever before to land your dream house in the nation's swankest locations.



TEMPERATURE'S RISING

▶ Inflation is alive and well at both the lower and upper ends of the second-home market, from the hottest destinations, like Nantucket, to up-and-comers like Galveston Island.

Location	Property Value 2000	Property Value 2004
Alpine Lake, WV	\$95,000 - \$105,000	\$115,000 - \$125,000
Hilton Head, SC	\$200,000 - \$700,000	\$350,000 - \$1.2 mil
Vail, CO	\$460,000 - \$1.2 mil	\$575,000 - \$1.2 mil
Naples, FL	\$338,000 - \$585,000	\$515,000 - \$865,000
Galveston Island, TX	\$90,000 - \$200,000	\$150,000 - \$300,000
White Mountains, AZ	\$155,000 - \$165,000	\$200,000 - \$225,000
Jackson Hole, WY	\$300,000 - \$600,000	\$350,000 - \$1.2 mil
Hamptons, NY	\$225,000 - \$325,000	\$450,000 - \$850,000
Nantucket, MA	\$300,000 - \$700,000	\$695,000 - \$11 mil
Long Beach Island, NJ	\$250,000 - \$500,000	\$750,000 - \$1.5 mil

Sources: EscapeHomes; Tina Fredericks Realty (the Hamptons); J Pepper Frazier Realty (Nantucket); Mancini Realty (Long Beach Island)

Phoenix and Tucson, while most of the rest hail from New Mexico. The attractions, particularly for desert dwellers, are cool summer weather at 7,200 feet, ample opportunities for winter skiing and the largest ponderosa-pine forest in the U.S.

For most of the year, the small towns of Pinetop, Show Low and Lakeside count only 14,000 residents. But, come summer, the population exceeds 50,000.

In recent years, horrendous forest fires in outlying areas have claimed some summer and year-round houses, but land and

home values have continued to rise.

"We've set records over the past four years as demand seems to outpace supply," says Steve Dolan of Frank M. Smith & Associates Realty.

Some homes have sold for more than \$1 million, but most high-end sales are closer to half a million. The average sale is about \$250,000, and prices are rising 7% a year.

Loel Weatherly, an agent for American Family Insurance in suburban Phoenix, bought a summer home in the Pinetop area in 1995, paying \$94,500 for the furnished residence. He sold it four years later for \$125,000 and bought a bigger home in the Pinetop Country Club subdivision for \$175,000. Today the 2,400-square-foot, modified A-frame on a half-acre lot would go for \$250,000 to \$275,000, he wagers. "The big thing driving prices is lack of land," he says.

On the East Coast, the Jersey shore has been a summer retreat for countless generations of northern New Jersey families and Philadelphians. Terry Soldati, vice president of sales and merchandising for Revman International, a New York home-textile company, lives in Rumson, N.J., but spends her summers 15 miles down the shore in Manasquan. The "break of the water" isn't as good in Rumson, she allows.

Soldati's summer retreat is a 100-year-old home owned by her family for the past 35 years. It sits about 100 yards from the shore. "It isn't very big, but probably would fetch \$400,000 to \$500,000," she says. And that's modest by the standards of Long Beach Island, just 45 minutes south.

Older homes on LBI, as the regulars call it, sell for \$1.3 million to \$4 million, says Joseph Mancini, owner of Mancini Realty in

Beachhaven Gardens. And those homes often are considered "tear-downs," to be replaced by structures that range as high as \$8 million in price. Off the beach, a lucky soul might find something for \$750,000, though prices have been rising by about 15% a year. Galveston Island, Tex., is yet another local playland, drawing 80% of its buyers from Houston. In the historic downtown neighborhood are structures that survived the hurricane of 1900. In the West End are second-homes along the beach and canal that cost \$450,000 to \$1,375,000. Beachfront homes usually turn over every five to 10 years but go fast when they hit the market. "We're low on inventory because of high demand," says Barbara Frink of Sand 'N Sea Pirates Beach in Galveston.

Demand never seems to ebb for beach homes on either coast, which helps explain the enduring appeal of places like Hilton Head, S.C. "This year demand is very high," says Larry Meyers, an agent with ERA Evergreen Real Estate. "Sales volumes for homes and villas/condos in the first four months of this year are double last year's pace."

According to Meyers, there are only about 255 oceanfront lots on the 12-mile beach, and homes generally turn over every four to five years. "Ocean and near-ocean villas have been appreciating 8% to 18% annually," Meyers adds. "Prices run from \$4.5 million to \$7 million and seem to be unaffected by a poor economy. People who have the money are going to pay for what they want."

Naples, Fla., on the state's Gulf Coast, similarly draws second-home buyers with the means to fulfill their dreams. The median home price is \$550,000, the maximum \$23 million—for 180 feet of beachfront and 18,000 square feet of living space. And that's a bargain compared with the original asking price of \$25.5 million.

Many second-home buyers in Naples are semiretired and planning for the day when work no longer calls. That seems to be wise; the average sale price rose by 27% last year, according to Mark Benson of Keller Williams Platinum Realty. Upper-end properties are starting to move again, he says, after a stretch in which more moderately priced homes did better.

Though traditional second-home markets are out of range for most Americans, even some relatively well-off ones, determined buyers shouldn't despair. Enterprising developers have turned seemingly ordinary towns into thriving second-home markets simply because of local amenities or lifestyles, and they are likely to continue to do so as long as the economy stays steady and interest rates remain relatively, though not preternaturally, low. According to EscapeHomes, such "emerging" markets include Burnside, Ky.; Ely, Minn.; Ketchikan, Alaska, and Caribou, Maine.

So hang tough, Asbury Park. Nantucket you're not, but some day your ship will come in. ■

House Proud

▶ Spurred by affluent baby boomers, U.S. sales of second homes reached an estimated 445,000 last year. Median home prices approached \$200,000, representing a five-year gain of almost 53%. Compare that with the stock market's slide in the past five years, and it's easy to see real estate's allure.

