



Horwath HTL

Hotel, Tourism and Leisure

INDUSTRY REPORT

**Brazil:
Fractional
Market**

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Fortaleza

Brazil - 'Fractional' Nation

Brazil is a country of continental dimensions, with tourism destinations distributed all along its impressive geography.

The 210 million population supports all kinds of leisure activities around the country, primarily beach, mountain, country-side and tourist cities. At least half of its 7.500 kilometres of shores enjoy sunshine almost all year.

For almost five decades, construction of holiday hotels was restricted to big local investors and a small group of pension funds. This historical lack of adequate financing for the hotel industry was mirrored by even lower investment in vacation properties.

As a result, hotels, resorts and similar products were crowded, expensive and not very good. Up until 7 years ago, demand was much higher than supply, causing repressed demand for several million families trying to spend holidays during the school break in key tourism spots.

Fractional Arrives!

Fractional launched in 2013 on the back of the failure of time-share. Timeshare was dogged by overly aggressive selling techniques and a Brazilian market still very tied to ownership.

The fractional system was adopted very quickly and begun to grow inland, away from traditional coastal destinations, towards thermal destinations. Cities like Caldas Novas and Olimpia arose as the kings of the fractional ownership with a spectacular growth of hotel capacity, theme parks and leisure infrastructure. This growth of new tourism destinations for the huge Brazilian low and medium-middle class started a revolution in tourism in Brazil.

Brazilians embraced a system that allowed them very long finance periods for fractional ownership, causing record sales and inventory sell-outs in record times.

In 2018 a Fractional Ownership Properties Law was issued, giving the system legal security and transparent rules for all sides of the business. Fractional development exploded and diversified into other market segments, including luxury and lifestyle.

In 2020, almost 11,000 new rooms will form part of the fractional ownership system, equating to nearly 6 billion dollars. The fractional industry is now in 17 of the 27 states of Brazil, as shown in the "2019 Multi-Ownership Properties Scenario in Brazil" issued by the prestigious Brazilian firm, Caio Calfat Real Estate Consulting.



Fasano Cidade Jardim, Fasano Club, São Paulo



Gramado, Rio Grande do Sul

What is a Fractional Ownership?

Multi-ownership, fractional or fractional ownership is the structure in which different buyers, the “multi-owners”, acquire fractions of a single real estate asset. This mechanism has the following features:

- The building can be divided into a “condominium” with autonomous units subject to the multi-ownership rules.
- Every multi-owner has the right to use his unit during a certain period, specified in the co-property regulations.
- Every multi-owner receives a title of his property, correspondent to the percentage he bought.
- The ownership has no limitation of time, is permanent as any real estate asset, and can be transacted at any time as a regular asset.
- There are several ways to structure the use of the weeks for every multi-owner during the year, and they are usually flexible.
- Typically, these kinds of developments are affiliated to one of the international interchange systems like RCI or Interval, which allow the multi-owners to use another similar property around the world.
- They also can give their holiday weeks back to be managed (rented to guests) by the operator, receiving a reduction of expenses or even a small income (depending on the country’s rules).

In Brazil, this system has been in place for the last five years, almost entirely replacing the traditional timeshare concept.

During 2016, it generated around 3,6 Billion USD in projects concentrated in large tourism destinations such as Caldas Novas (Goais Estate), Gramado (Rio Grande do Sul Estate), Florianopolis (Santa Catarina Estate) and in some consolidated destinations in the Northeast’s beaches of Joao Pessoa, Natal and Fortaleza.

Options for the acquisition of the multi-ownership assets such as long-term financing, flexible payments means, and the possibility of interchanging with existing properties, have quickly consolidated this system as the most successful mechanism to develop tourism properties in Brazil.

Today it is ruled by the Federal Law number 4.591/64, the Real Estate Development Business. There are several initiatives under discussion at the National Congress to regulate the multi-ownership assets system, some of them sponsored by the leading corporate chambers of the sector.

Timeshare and Condo Hotel comparison

Fractional, timeshare and condo-hotels have several similar features but are also different in fundamental areas. The three mechanisms have promoted the development of different types of properties in various stages and locations during the last 30 years.

Product and Buyers' Perspective			
Item	Fractional	Timeshare	Condo Hotel
What the buyer purchases	<ul style="list-style-type: none"> • A fraction of a unit (hotel room or residence) that allows the right to use a certain number of weeks during the year. • There is a regime to use the asset during the different weeks of the year. • It is very similar that acquiring a regular real estate asset for holidays. • No limit of validity. 	<ul style="list-style-type: none"> • The right to use during certain number of weeks for a limited period (20, 25, 50, years). • There is a regime to use the asset during different weeks of the year. 	<ul style="list-style-type: none"> • A unit (hotel room) in a (normally urban) hotel. • He owns it without limitation of time. • He acquires the unit as a source of rent and has the obligation of putting it into the hotel pool. • Normally has no right (or a very limited one) to use for himself for free.
What can buyer do with purchase?	<ul style="list-style-type: none"> • Use it during his weeks in the same property he bought • Interchange it and use those weeks in other property integrating the interchange network (RCI, Interval or a private one). • Put it into the hotel pool to get reduction of the condominium expenditures and eventually (rarely) to get some profit. • Sell it as a regular asset. 	<ul style="list-style-type: none"> • Use it during his weeks in the same property he bought • Interchange it and use those weeks in other property integrating the interchange network (RCI, Interval or a private one). • Cannot be sold openly, but transferred in private way. 	<ul style="list-style-type: none"> • Receive the proportional profit of the hotel operation • He has no right to use • Sell it as a regular asset
Buyer receives profit from operation?	<ul style="list-style-type: none"> • Normally not 	<ul style="list-style-type: none"> • Never 	<ul style="list-style-type: none"> • Always
Buyer Document	<ul style="list-style-type: none"> • A regular deed of a multi-ownership property. 	<ul style="list-style-type: none"> • A certificate with the right to use during a limited time. 	<ul style="list-style-type: none"> • A regular deed of a condo hotel unit.
Property Type	<ul style="list-style-type: none"> • The fractional was born sharing the ownership of high-end luxury assets in premium locations. • Nowadays it has expanded to lower categories, keeping the luxury appeal. 	<ul style="list-style-type: none"> • Normally are mid-range properties in consolidated tourism destinations. • There are some exceptions as budget and luxury developments, but the mainstream are standard properties. 	<ul style="list-style-type: none"> • Normally urban budget and mid-scale hotels (in Brazil).

Operators' Perspective			
Item	Fractional	Timeshare	Condo Hotel
Source of fees	<ul style="list-style-type: none"> • % of the sales • Management, Brand and Success fee applied to the free inventory (units retained by the developer, not yet sold units and units put at the hotel pool). 	<ul style="list-style-type: none"> • Dedicated operations 	<ul style="list-style-type: none"> • % of the sales. • Management, Brand and Success fee considering the entire inventory of rooms.
Volume of sales fees	<ul style="list-style-type: none"> • Total sales are normally between 2 and 3 times compared with the condo hotel, therefore the fee applied to the sales is considerably higher. 	<ul style="list-style-type: none"> • Normally there is not an operator 	<ul style="list-style-type: none"> • Medium-low
Contract conditions	<ul style="list-style-type: none"> • The multi-owners normally do not have any right related to change the operator. 	<ul style="list-style-type: none"> • Does not apply 	<ul style="list-style-type: none"> • In Brazil, with 2/3 of the votes, the condominium can begin the process of change the operator without penalties.

Current and Expected Future Situation			
Item	Fractional	Timeshare	Condo Hotel
Current share in Brazil	<ul style="list-style-type: none"> • Still concentrated in high-traffic tourism destinations such as Caldas Novas, Gramado and Northeast's beaches. 	<ul style="list-style-type: none"> • Moderate expansion in Brazilian properties, a big higher in Mexican and Florida timeshares. 	<ul style="list-style-type: none"> • Very high in the budget and mid-scale urban hotel in almost all gateway Brazilian cities.
Expected future participation	<ul style="list-style-type: none"> • Very high due to its acceptance, fashion and attractive conditions to acquire the multi-owner assets. 	<ul style="list-style-type: none"> • Will Probably be replaced by fractional system for Brazilian properties. 	<ul style="list-style-type: none"> • Almost impossible to launch new hotels due to new legal regulations and the few profit ratios shown till now (impacted by the high prices the owners paid originally than for the current market conditions).



Residence Club at The Hard Rock Hotel Fortaleza



Residence Club at The Hard Rock Hotel Ilha So Sol

Products of Reference

In Caldas Novas, Olimpia and Gramado, all enterprises focus on the working and middle class, offering apartments for families with integrated leisure facilities, both of medium-quality in term of sizes, equipment and concept.

The great transformation of the market was driven by two lifestyle projects developed by VCI Holding and branded by Hard Rock.

The two Hard Rock projects, one on the North-West shore of Fortaleza and the other on an island in the Parana State in the South, opened the market for lifestyle projects and were the first ones with a leading international brand.

With both projects seeing a success in sales, this has encouraged developers to launch new projects inside of huge themed parks, with higher quality and more luxury concepts.

Recently, the luxury developer from São Paulo, JHSF launched the first high-end urban project branded by their Fasano flag.

The Future is Fractional

Many kinds of new projects are being launched and several international brands are interested in entering into this new segment of the tourism business.

It is forecast to achieve the 20,000 rooms within a couple of years with at least four leading international brands active in the segment.

Brazilians love a mechanism that allows them to buy simply with long-term financing, provides properties deeds and allow interchanging with other destinations.

The future of Brazilian (and surely South American) vacations is fractional!

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Osvaldo is Managing Partner of Horwath HTL Brazil. He has a long trajectory in the firm, having being Director of Barcelona, Kiev and Porto offices, and partner of Buenos Aires offices. Osvaldo specializes in mixed-use projects and multi-ownership residential properties.

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