Recent trends in resort mixed use development in the US

29 FEB 2016
By: Lynn Cadwalader

Resort communities have evolved over the last several decades from communities comprised of an amalgamation of distinct projects and uses with no common plan and scheme of development, to forward-thinking “sustainable” communities with planned integration of uses and major amenities (referred to as “planned unit developments” or “master planned communities”). Most state laws now grant greater flexibility to mixed use master planned communities than with single use communities, including in establishing the covenants, conditions, easements and restrictions (CC&Rs) that govern the property within the community.

Historical perspective

A major boom in recreational real estate development occurred in the 1960s and early 1970s. Most local governments lacked zoning or other land-use regulations at this time and recreational lot sales and real estate development in resort areas went forward relatively unchecked. As complaints of fraud and misrepresentation in “dirt” sales began to surface, consumer and environmental groups began to take issue with irresponsible development practices.

Perhaps motivated by the abuses then occurring in the development of scenic resort areas, a movement began in the resort industry to establish higher standards for resort development in major destination resort and second-home communities.

The demand for recreational real estate in the 1970s began to move away from recreational lot sales toward second-home and resort condominium communities featuring significant recreational amenities. Timesharing made its appearance on a large scale basis in the United States at this time as well. State and local governments began to enact statutes that required comprehensive community-wide land-use planning prior to consideration of zoning and development in many areas, with the requirement that all zoning, subdivisions and development permits be consistent with the general plan for the area. However, many resort communities were located in unincorporated areas and lacked a general plan or the forces to implement and enforce such a plan.

The 1980s and 1990s were a period of major growth and change for resorts and resort communities. The master planned communities of this era were generally targeted to those in the top income levels, as baby-boomers with excess cash began to look toward retirement with the desire for continuing their active lifestyles.

Entering the new millennium, resort development experienced a consolidation in the industry, with resort industry giants being the only players with sufficient capital to initiate the development or re-development of large master planned resort communities. The limited availability of developable resort sites within the United States, and the high costs of such development, led to the trend of “revitalizing” existing resort communities. Many resorts around the United States and Canada began planning or building “base villages” at their resorts in order to accommodate
Diversifying interests of people visiting resorts. Resorts are no longer built to accommodate one main season or one major amenity, but include a wide array of year-round recreational amenities and services such as golf courses, water sports, skiing and ice-skating, fishing and gaming, horse-riding, hiking trails and bike paths and health spas, designed to appeal to a broad-base of users with varying interests. The re-created resort communities tend to embody European-influenced, pedestrian-oriented villages encompassing a mix of residential units and carefully planned high-end retail outlets and restaurants, designed for maximum year-round occupancy and cash flow.

Distinguishing characteristics of resort communities

Resort communities can generally be categorized by three primary criteria: (i) “destination” or “nondestination” resorts, which are defined by the proximity of the resort to its primary markets; (ii) setting and primary recreational mix (for example, ocean resorts, mountain/ski resorts, golf resorts); and (iii) type and mix of real estate products being offered.

Destination or nondestination resort

Destination resorts are located some distance from the markets which feed the resort, which means that the resort visitors reach the resort by journeying a fair distance (generally by air as opposed to car), and visit less frequently (often less than once per year or less, and sometimes only once). Stays are generally longer. Nondestination resorts are often located within a fairly short drive (between two and four hours) of their primary market(s) and generally do not market heavily to visitors from farther away than the primary market(s). Visitors come more frequently and stay for shorter periods of time, often for the weekend. Nondestination resorts located close to large urban areas can also be primary residence communities, providing resort living within commuting distance to work. Destination resorts tend to cater more to the second home market, and are generally more upscale and expensive. They generally have shorter seasons (for example, the ski season generally ends in April vs. late spring or early summer). They also generally have a higher ratio of hotels and condominiums than second homes.

Setting and primary recreational amenities

The setting of a resort and its primary amenity mix often shape the character of a resort. Skiers gravitate toward mountain resorts, while beach-goers and boaters may prefer ocean resorts. Having a master plan in place which reserves large amount of open space and ensures that the beauty of the region will be preserved is critical to the resort’s success.

Type and mix of real estate products

Real estate is often the primary revenue-generating source of the resort (as opposed to the recreational amenities, which often operate in the red for long periods of time during the start-up of the resort, and due to seasonal variances), thus obtaining the right mix of product is critical to success.

Recent trends in mixed use resort development

Industry consolidation

The consolidation trend in the resort industry that began in the 1990s has accelerated at a rapid pace over the past two decades. This trend has been driven by the substantial capital requirements of resort development and business operations, as well as volatility in the financial markets. Most large-scale resorts are now owned by private equity funds and REITs, which can efficiently integrate groups of income-producing properties into investment portfolios, offsetting regional and market-driven irregularities.

Brand expansion into mixed use development

One of the most significant trends in resort development in recent years has been the expansion of major hotel and hospitality brands into the mixed use resort market.

Hospitality brands can be strong contributors to resort communities: (a) strong hospitality brands can enhance the image of the resort, create a special address, or provide name recognition for the project through an established
name and proven effective marketing plan; (b) a well-known brand name has credibility in the minds of
guests/purchasers, and consumers feel more comfortable staying at a hotel they know by name, or purchasing
real estate under a known brand; (c) a hotel, as a mixed use resort component, brings 24-hour vitality to a resort,
attracting people and groups throughout the day and evening by providing dining, entertainment, recreation, and
other amenities that serve not only hotel guests, but also other resort visitors or resort property owners.

Mixed use resort villages

Most resort communities are now being developed as self-contained mixed use resort villages (branded and
non-branded) featuring: (a) multiple revenue-producing uses, (b) significant physical and functional integration of
project components, and (c) development in conformance with a coherent plan and scheme.

Multiple revenue-producing uses: mixed use developments generally have three or more significant uses, which
should each attract a market in their own right. In most mixed use projects, the primary uses are income-producing,
such as retail, major amenities, and hotel facilities. Other significant uses might include residential use, convention
facilities, performing arts facilities and museums.

Physical and functional integration: the second characteristic of mixed use developments is a significant physical
and functional integration of project components, including careful positioning of project components around central
public spaces, and interconnection of project components through pedestrian-friendly pathways and trails, and a
vertical mixing of project components in a single structure in the village areas.

“It takes a village”: the recent focus of resort master planned communities is the creation of pedestrian-oriented
“villages,” which marry the beauty of the surrounding area (for example, beach, mountain or desert) to the village.
These new resort operators are often very “formulaic” in their approach both as to location of the resort and in
master-planning the resort, with the goal being the creation of residential property as “revenue annuity” that will
provide year-round rental income for the developer.

The real money is in the real estate: although resort development (and redevelopment) invariably includes on-site
improvements, such as golf courses, marinas, ski-mountain improvements, a close look at the economics of
owning and operating resorts shows that the real money for master developers during the first 10 years the resort’s
development comes from real estate sales, not resort operations.

The challenge of mixed use resort communities

Mixed use resort communities have become increasingly popular in recent years. Where resorts once tended to be
developed as single-purpose sites with primarily one exclusive form of ownership or use, resorts now appeal to a
broad range of visitors and owners by developing multiple uses and types of vacation properties within a large
resort.

The following are important factors to consider in developing a mixed use resort community:

- **Initial planning and start-up costs:** due to the trend toward mixed use resort development, master planning the
  resort, or creating a comprehensive plan and scheme of development, has become more important. Multi-use
  resorts have the potential to be much more profitable than single-use resorts, but pose more challenges and
  complications than a smaller single-use project that can be easily constructed, managed and marketed. Multi-use
  resorts require much more initial planning, and more up-front capital is required for land acquisition, master
  planning the development and for putting in the initial resort infrastructure.
- **Each resort use must stand on its own:** It is often assumed that a use that will not succeed on its own will
  suddenly work in a multi-use resort. While the varied uses of the mixed use resort will support and enhance each
  other, they will not create a market for an otherwise non-viable use. Successful projects start with one or two
  products and one significant amenity, and as these projects mature and other products and additional amenities
  to meet the demands of the expanding community can be added.
- **Flexibility and vested development rights:** maintaining flexibility to build and sell what the market demands is
critical to the success of a mixed use master planned community. It is important to allow for the time necessary
to achieve build-out if market conditions change and the build-out takes longer than anticipated. Developers
should ensure that approvals allow for re-allocation of density within the resort.
- **Extended developer control period:** the master developer must be able to proceed with build-out of the resort
without being unduly hampered by the requirement of obtaining owner consent. Extended developer control periods set out in the master association documents is key. Establishing a developer control period that is based on density or acreage build-out is a way to remain flexible in this regard, as opposed to setting an artificial number of years that may end up not being long enough.

AUTHORS

Lynn Cadwalader
Partner
San Francisco | T: +1 415 836 2500
Silicon Valley | T: +1 650 833 2000
lynn.cadwalader@dlapiper.com