THE TIMES
Going for Growth

The sons of Bernard Madoff have taken their secrets to the grave
Andrew Clark: Business commentary

If you've got a luxury house standing empty, join the club

Giles Adams says that the 3rd Home website is a club and you can join only if your house, such as the Cape Cod cottage above, is of a high enough standard
Andrea Renault/Polaris Images

Kathryn Hopkins
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A website gives the world's wealthy the chance for a holiday house swap

Many people were treading water in 2009, doing what they could to prevent their businesses going bust in the worst financial downturn in living memory. Not Giles Adams. He decided that the crisis presented a great time to *start* a business — one, moreover, specifically tailored for the super-rich, many of whom were losing money fast.

"Back when the bottom dropped out of the world in 2008-09, three of us sat around a table and thought: 'There's blood on the street, everyone's panicking — there's got to be a decent opportunity here.'

“We thought there were enough affluent people who acquired these luxury assets during the boom times and didn’t want to sell them because they wouldn’t get the price they wanted or the price they paid for them, but now they needed to start adding a little bit more value to their lifestyles.”

He settled on the idea of an online club that “enables the owners of assets to trade the downturn between themselves”. After paying a joining fee, members could rent their holiday homes and earn points that they could cash in to stay at a property listed on the site. The more points they earned, the more luxurious the properties they could stay in.

Armed with a PDF mock-up of a website, he spent time “knocking on doors” so that members were already on board by the time that the company, then called Utopia Exchange, was launched in 2010. The site went live with a number of wealthy users willing to lend everything from their homes to yachts, chalets and cars.

“Nobody minds having a beautiful home sitting empty in the south of France for four fifths of the year when capital appreciation [and] income is all going one way. When things take a little bit of a turn, everyone starts to look at things through different glasses.” He had about 60 members at the outset.

The company was ticking along nicely until he stumbled on an American website called 3rd Home, run by Wade Shealy, an entrepreneur, which had a similar approach but concentrated on holiday homes. “My initial reaction was: ‘Damn. Somebody else has had the same idea as me.’ ”

However, Mr Adams decided that collaboration, not competition, might be a better approach for both businesses. “I reached out to Wade and said: ‘Look, on the surface we would seem to be competitors, but you’re based in the States . . . so there has got to be a way where your members can use our kit, our members can use your kit and we’d [share] the business.”

Mr Shealy, who is based in Nashville, agreed and 3rd Home effectively acquired Utopia Exchange. They folded all of their members into the 3rd Home brand and jettisoned non-property-related members.

At the time of the merger, they had about 120 members, with about 140 properties. Today they have 2,400 properties in 70 counties worth on average £2.3 million each. The total property portfolio value is about £5.7 billion, with a £22 million holiday home on Martha’s Vineyard — the wealthy, super-exclusive island off the coast of Massachusetts beloved of US presidents and Hollywood’s A-list — the most expensive property on their books.

The two men run the company together. Those with valuable homes share which weeks they are willing to give up to other members and then cherry-pick the properties they like the look of.

The business might rely on the spirit of sharing, but Mr Adams makes no bones about the elitism at the heart of the concept. "A lot of these people haven't made their money by giving it away. Everybody likes a good deal and you can only get into 3rd Home if you've got a house of the right level, right quality and right value. It is very much a club."

The minimum cost of a property listed on the site is $500,000, but price alone isn't enough to join the club. It has to have the right fixtures, fittings and amenities.

"There's a big difference between a property in Bali for $500,000 and a property here. You get a garage for $500,000 in central London and obviously we wouldn't want to take that in the club. We've had members join, start to upload their property and we've had to say: 'I'm sorry, we don't have demand for [that].' "

The company makes its money through an initiation fee of $2,500 and exchange fees from $395 to $995 per week. Sales this year are expected to reach $2.5 million (£1.5 million).

Additional funding for growth came a couple of years ago from an unusual source: the site's own members: 3rd Home raised $2.5 million by selling a stake in the company to 80 of its users.

"At the time we didn't have any particular vehicle to enable [members to invest], so we decided to carve out 20 per cent equity and set up what we've called our founding circle club. All [founding members] invested between $25,000 and $250,000 each.

"Not only do we get additional capital to fund the growth, but also they are our sounding board for any changes we want to make."

The company's main focus is to get more members in Europe, Asia and Australia. About 60 per cent of its members are based in the United States, but it wants to be a global club. It also wants to attract more members in Britain because people in America want to stay in London, Cornwall, the Cotswolds and Scotland.