

Articles of interest about Fractional Ownership, 2nd Homes, and Vacation Clubs

What is Fractional Ownership?

Fractional ownership is essentially partial ownership of a property. With fractional ownership, a property is owned and shared by at least two, and often several, individuals. This type of ownership is popular with vacation properties and resorts.

To understand fractional ownership, consider a large, and expensive, property that may be difficult to purchase and care for on your own. Instead of becoming the sole owner of the property, you purchase a share of it, as do 15 other people. Now, you own 1/15 of the property and have others to share in the burden of maintenance and taxes. Though this option is popular with larger properties, it may be used with smaller, lower cost properties as well.

Often, people confuse fractional ownership with timeshares. Both fractional ownership and timeshare situations are common with vacation and resort-type properties. With a timeshare, however, you would purchase a specific amount of time to spend at the property, such as 3 weeks out of every year. You would not actually own any portion of the property. With fractional ownership, you would actually own the portion of the property you purchase.

When you opt for fractional ownership in a property, there will be sharing involved. For example, if you purchase a share in a property with three other fractional owners, you may have use of the property for one week out of every month. The other owners would have their weeks as well and you would not have use of the property at that time. Keep in mind, however, that each fractional ownership property is different and some allow owners to use the properties more or less than one week per month.

Some individuals choose to use fractional ownership to earn money. For example, if an owner doesn't plan to use some or all of his allotted weeks, he may choose to rent them out to others. Depending on how much he charges, he may be able to earn a profit. He might even be able to rent his weeks to other owners, allowing them to spend more time at the property. Rules concerning renting the property to others are usually covered in a fractional ownership contract.

Fractional ownership is attractive to many because it offers an easy way to own vacation property. With this type of ownership, you have a place to go to vacation, yet are freed from being solely responsible for the property and related expenses. In most cases, a third party or management company takes care of everything from upkeep and utilities to taxes and insurance. Though you have little responsibility with a fractional ownership, you do get the deed to the property, specifying the number of shares you own. You can gift it or sell it as you wish.

The Benefits of Fractional Ownership in Private Residence Clubs

A New Way to Own a Vacation Home - For the Select Few: Fractional ownership of vacation homes, also called private residence clubs, is a relatively new concept that

allows you to enjoy four to 12 weeks of home ownership privileges per year at an upscale, luxury resort but at a fraction of the cost of whole ownership.

If you want to own an impressive second home complete with personalized services and located in an expensive resort area but can't quite justify the expense because you'll only be using it a few weeks or months of the year, this type of real estate arrangement may appeal to you.

Amenities Galore

Most private residence clubs offer extensive amenities. These may include an extravagant clubhouse and spa, plus five-star hotel services, the kind you couldn't expect to have in a wholly-owned vacation home, high-end condo or timeshare.

Imagine this: You are going on vacation and you call ahead to the staff at your private residence club home. At your request, the staff shops for your groceries, dry-cleans your clothing, makes your restaurant reservations, heats your private splash pool, and places knick-knacks and favorite pictures of family members around your residence. You are met at the airport by a staff person who shuttles you to your home where a just-detailed Jaguar is sitting in your parking space for use at your disposal.

Get the picture? Private residence clubs are NOT your ordinary second home.

Outstanding Locations

Fractionals or residence clubs have sprung up in exclusive, world-class resort destinations worldwide. St. Thomas, Virgin Islands, Puerto Vallarta and Mexico are popular locations. In the U.S., the first fractionals were in major ski areas out west, particularly Colorado where real estate was so costly that wholly-owned second homes were out of the question for most people. Eventually they spread to northeastern ski areas. Since then fractionals have begun appearing in golf-oriented communities like Hilton Head Island, South Carolina and popular beach states like Florida.

Hassle-free Ownership

Part of the appeal of fractionals is that they are completely hassle free. In addition to having a staff for personalized service at your disposal, at a private residence club you never have to worry about repairs, maintenance or housekeeping. Everything is included in the price and annual fees and taken care of by the professional management company.

Appreciation Potential

To date there have been very few fractional resort developments. The demand is high. As a result, it is likely there will be substantial appreciation, rather than the depreciation that usually occurs with timeshares.

Real estate experts say that the outlook for investment appreciation appears excellent. You can expect at the very least an appreciation parity against other real estate in the resort area in which the fractional is located.

Prices

To buy a fractional, you pay a one-time purchase price and then a yearly upkeep fee that covers all of the expenses associated with property ownership and its use and services. What do fractionals cost? Prices vary based on the size, amenities and location of the individual property. But most are in the \$100,000-\$500,000 range. Keep in mind that these are truly top-of-the-line homes that would cost you two to five times as much if purchased outright as wholly-owned vacation homes.

Comparison of Fractionals to Timeshares

How do fractionals compare with timeshares? They really don't. Fractionals are far more exclusive and include many more luxury amenities and services than timeshares. They tend to be larger homes, usually three to five bedrooms. Timeshares usually allow you use for just one to two weeks per year. Fractionals offer from two to 13 weeks, and those don't necessarily have to be consecutive weeks. Pick the weeks you want. With regard to financing, obtaining a bank or mortgage company loan on a timeshare is difficult. Rates are high, regardless of how good your credit. That's because it's a well-known fact that most timeshares depreciate over time. Conversely, banks and mortgage firms consider fractionals to be appreciating assets and will often treat them like any other second-home purchase.

Why do fractionals tend to appreciate while timeshares usually depreciate? There are a couple of reasons. With fractionals, more of the buyer's dollar goes to high quality finishes and "bricks and mortar" vs. sales commissions which can be as high as 40%-50% with timeshares. Furthermore, timeshare values have historically been poor because of the large number of resales on the market, not to mention a continuous stream of new developments. The fact is the secondary market for timeshares has never really developed.

Conversely, there are a limited number of fractionals on the market. Most likely, that number will stay small because fractionals are built in only the very best, most highly desirable locations. Therefore, demand outpaces supply and results in property appreciation. Comparison of Fractionals to Condo Hotels

Fractionals (private residence clubs) differ from condo hotels in that you have a set amount of time when you can use your vacation home. Condo hotels are in fact, condos located within hotels. You can use your unit whenever you want, and place it in the rental program when not using it. Fractionals do not offer rental program participation.

Fractionals tend to be larger than most condo hotel units. Most fractionals offer three to five bedrooms, while most condo hotel units are studios, one bedrooms or two bedrooms. Currently, most condo hotels are located in Miami and other surrounding cities in South Florida. Fractionals are most prevalent on the West Coast, particularly in ski areas.

However, both types of real estate are rapidly gaining popularity and soon there will likely be more of a supply across the country to meet the growing demand.

Comparison of Fractionals to Timeshares

Many people confuse fractionals and private residence clubs with timeshares. In reality they have vast differences.

Fractionals are far more exclusive and include many more luxury amenities and services than timeshares. They tend to be larger homes, usually three to five bedrooms so there is plenty of room for family, friends or clients.

Timeshares are typically for one to two weeks per year. Fractionals offer from two to 13 weeks, and those don't necessarily have to be consecutive weeks. Cherry pick the weeks you want and choose all different ones the following year.

Financing a timeshare with a bank or mortgage company loan is difficult. Rates can be high, regardless of how good your credit. That's because most timeshares depreciate over

time. Conversely, banks and mortgage firms consider fractionals to be appreciating assets and will often treat them like any other second-home purchase.

Fractionals tend to appreciate because more of the buyer's dollar goes to high-quality finishes and "bricks and mortar" vs. sales commissions which on timeshares can be as high as 40%-50% of the purchase price.

Furthermore, timeshare resale values have historically been poor because of the large number of timeshare resales on the market and a continuous stream of new developments. At the same time, the secondary market for timeshares has never taken off.

Conversely, there are a limited number of fractionals on the market. Most likely, that number will stay small because of the emphasis placed on building in only the very best, most highly desirable locations. The result is that demand outpaces supply and results in property appreciation. Owners are likely to be able to resell their fractional or private residence club membership at a higher price than they paid.

Fractionals and private residence clubs typically cost far more than timeshares. They are usually in the \$100,000 - \$500,000 range. Their cost reflect their exclusivity, incredible services, superior locations and ability to appreciate.

Timeshares, in which you purchase a specific week of time to be used each year, typically range from \$5,000 to \$50,000. Both timeshares and fractionals also require annual maintenance fees.

Comparison of Whole Ownership to Fractional Ownership

People interested in purchasing a vacation home no longer have to go the traditional route. Now many options exist, including shared or fractional ownership that costs less, includes numerous amenities and doesn't involve the hassles of home maintenance.

Here's a comparison of whole ownership versus fractional ownership:

Whole Ownership

- * The appeal: Whole ownership is what people are most familiar with. After all, it's how they bought their primary home and probably how their parents did as well.

- * Value: Since real estate has traditionally appreciated over time, purchasing a vacation home can be justified as not only recreational expense but also as an investment.

- * Who's buying: Lots of middle-income baby boomers who want to spend frequent weekends or all summer with their families in a particular spot. The average buyer is 47 years old with annual income of about \$80,000.

- * Current market: Demand for second homes is booming after an economy-induced slowdown during recent years. Buyers last year snapped up an estimated 445,000 second homes, far eclipsing the previous high of 377,000 in 1999, according to the National Association of Realtors.

- * What you get: Full ownership of a home, and all the inherent perks and hassles: You don't have to share your property and you can go anytime you want, but you do have to deal with all the leaks and tax bills.

- * Locations: On average, a second home used for vacation tends to be about 185 miles from an owner's primary residence. Locations typically relate to some sort of recreational preference - beach, golf, ski slope or theme park.

* Price: Average prices for a second home are estimated at between \$190,000 and \$200,000, according to the National Association of Realtors. The hottest markets are pricier, of course. Median prices in Aspen and Palm Beach, Fla., are north of \$1 million according to EscapeHomes.com. In Kiawah Island, S.C., prices are nearly \$800,000.

* Resale: Because demand is strong and supply constrained, second-home prices have been moving up faster than prices for primary residences, particularly in traditional vacation markets.

Fractional Ownership

* The appeal: Fractional ownership essentially lowers the cost of access: Why buy a mountainside villa in Aspen for \$3 million that you use just a few weeks a year, when for about \$500,000 you can own a piece of similar property? Fractionals allow your costs to more closely correspond to your actual usage of the home.

* Value: Fractionals are not timeshares, which have a fairly sordid reputation since buyers have sometimes faced big losses when selling or been unable to resell at all. By contrast, fractional resale prices so far have tracked local real-estate prices more closely. That's because they are located in sought-after communities where demand remains high, and it can cost millions of dollars to buy a similar property via whole ownership.

* Who's buying: People who want the cachet of a second home with luxury amenities and services, and who don't want the expense and hassle of full ownership.

* What you get: Essentially, you own a slice of a particular piece of real estate, giving access to a home for anywhere from one month to 13 weeks annually. The weeks you use the home can vary from year to year. The properties tend to be two- and three-bedroom condos, though the Ritz-Carlton Club in Jupiter, Fla., includes four-bedroom homes. A few select properties offer studios.

* Bonus: Like timeshares of old, fractionals often let owners exchange time at their resort for time at another property located in a different destination. These properties are always of comparable quality to the one owned.

* Locations: Most fractionals are found in exclusive U.S. markets where whole ownership is so costly as to be prohibitive for most buyers. Examples are Aspen, Colorado; St. Thomas, Virgin Islands; and Jackson Hole, Wyoming.

* Price: Prices range from \$58,500 for a studio at the Marriott Grand Residence in Lake Tahoe, Nevada, to more than \$1.5 million at a new development Starwood Hotels & Resorts Worldwide, Inc. is building in Aspen. The average price is in the \$300,000 to \$500,000 range. Owners pay annual fees ranging from \$450 to nearly \$14,000 that include all maintenance, taxes, housekeeping and services.

* Resale: The resale market is nascent. Because these fractionals are more like upscale real estate than timeshares, their value tends to move with local real estate. A survey by Ragatz Associates, a resort-industry consulting firm, suggests that resales are getting 10% to 30% more than the original price.

What is a Destination Club

A destination club offers its members access to a portfolio of luxurious private homes in resort and city destinations. Club membership is more than a better way to vacation—it enhances your lifestyle with one unique and unforgettable vacation experience after another.

As a club member, you enjoy the spaciousness and privacy of elegant residences, plus the services and amenities of an exclusive resort. It just makes sense to own a destination club membership, not a second home.

Who joins a destination club?

Designed for the discerning traveler, destination club membership is perfect for people with these preferences:

- Like to vacation with family and friends and require spacious homes that accommodate everyone comfortably
- Prefer the amenities of luxury residences, such as private swimming pools, chef's kitchens, wine cellars and up-to-the-minute entertainment and computer technology
- Appreciate a club's personal services (making travel arrangements, for example) that create a carefree vacation experience
- Want a choice of different vacation destinations without the limitations of a single second-home location or the hassles of vacation home exchanges
- Don't like the unreliable quality of rental homes or the lack of home-like comfort in hotels

What is the destination club concept?

The destination club owns a portfolio of residences, which are used by members for a pre-determined number of days per year, based on their membership level.

Members pay an initiation fee to join the club. These fees enable the club to add residences to its portfolio. (For Ultimate Resort members, this fee is typically less than the down payment on a second home and is redeemed at 80% of the then current membership fee should a member leave the club.)

Members pay annual dues, which the club uses to pay for member services and upkeep of its residences. (For Ultimate Resort members, these dues are significantly less on a per-night basis than renting a comparable home or staying in a luxury hotel.)

Annual dues cover a range of member services. (Ultimate Resort members enjoy Five-star Concierge Services for trip planning, stocking your kitchen and wine cellar and making spa, dinner and activity reservations.)

What makes a destination club a good choice for me?

A destination club has many advantages over owning a second home renting a villa or staying in luxury hotels for your vacation.

Hassle-free Vacation Home Ownership

Part of the beauty of fractionals and private residence clubs is that they are completely hassle free. In addition to having a staff for personalized service at your disposal, you never have to worry about repairs, maintenance or housekeeping. Everything is handled for you. Best of all, it's included in the price and annual fees.

Appreciation Potential

There are a limited number of fractional resort developments and private residence clubs. As a relatively new concept and because of the emphasis on placement in only the most highly-desirable locations, demand currently exceeds supply. As a result, it is likely there

will be substantial appreciation, rather than the depreciation that usually occurs with timeshares which are far more common.

Real estate experts say that the outlook for investment appreciation appears excellent. You can expect at the very least an appreciation parity against other real estate in the resort area in which their fractional is located.

The resale value of shares at the oldest private residence club in the country, the Deer Valley Club in Park City, Utah, has increased 16% a year since 2001, according to Hobson Advisors, a consulting firm specializing in fractionals. Prices for a share in the Colorado Timbers Club, meanwhile, are 50% higher than they were when it opened in 2000, and there is a waiting list of potential buyers.

Fractional Pricing

What do fractionals cost? Obviously they vary based on the size, amenities and location of the individual property. But most are in the \$100,000-\$500,000 range. Keep in mind that these are truly top-of-the-line homes that would cost you two to five times as much if purchased outright as wholly-owned vacation homes.

Typically, you pay a one-time purchase price and then a yearly upkeep that covers all of the expenses associated with property ownership and its use and services.

Want to know more about fractionals and private residence clubs?

The Second Home Ownership Market

Second home ownership is one of the fastest growing sectors in the real estate industry and one set to rise dramatically over the next decade due to the confluence of very powerful demographic, socio-economic, and cultural trends in American society.

Many different types of people buy second homes, but the target market is dominated by higher-income young retirees and Baby Boomer households.

Baby Boomers, who total 79 million Americans, have reached or soon will reach the stage in their life when they have the time, financial means, and lifestyle orientation to buy second homes. Additionally, technology, greater work flexibility, investment potential, and a desire to have gathering places to bring extended families together combine to make second-home ownership increasingly attractive.

Increasing work flexibility may be the most important trend behind the rising appeal and demand of second home ownership. Technological advancement (cellular phones, Blackberries, laptops, other electronic gadgets, nearly ubiquitous internet access), combined with workplace culture and employment structure are creating interesting alternatives to the traditional workplace. It is becoming increasingly easy and common for mid-level and senior staff to telecommute for short-term periods.

Conducting office paperwork in the morning with breathtaking views of the mountains, taking a break in the afternoon for a swim in the lake, returning e-mails in the late afternoon from the veranda overlooking the forest - all of these functions are possible in a luxury vacation home.

Most people buy and own second homes for their own use and enjoyment. But demand is also shaped by the current and expected value of the property for investment. For a significant number of buyers and owners, investment potential - for oneself or one's children and grandchildren - is the principal motivation to own or buy.

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. Also, sellers over age 55 could claim a one-time exclusion of \$125,000.

But new, liberalized rules repealed the mandatory gain-deferral and raised 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, it seems to have encouraged some sellers to trade down to more modest digs, while using the remaining proceeds to purchase second homes

Buying a summer home used to be as simple as paying a few thousand dollars and getting a cabin near a lily pond.

Now, however, as more Americans own vacation homes -- the number of recreational second homes has risen roughly 25% since 1989, to 5.1 million, according to the National Association of Realtors -- an array of new options is gaining popularity. Developers are increasingly targeting buyers who want the convenience of a full-featured second home, without the hassle of actually owning it.