Million-dollar homes ... for a fraction of the price

Fractional-ownership is a fast-growing segment of the vacation-home segment. Is it for you?

By Les Christie, CNNMoney.com staff writer
June 23, 2006: 11:57 AM EDT

NEW YORK (CNNMoney.com) - How would you like a big, luxurious vacation home in a beautiful resort for just a tenth of the going rate? Sounds good, right?

The catch is that you only get to use it a fraction of the time.

For a rapidly increasing number of Americans, "fractional-ownership" is a perfect trade-off.

Owners get a beautiful, high-quality house, in a fantastic location, with great services and amenities and a carefree vacation lifestyle for 10 percent or 15 percent of what they would have to pay to buy the house on their own. The costs of buying and running these often expensive properties is shared by a number of people and the homes, instead of sitting idle most of the time, are nearly always being used.

Fractionals, often called residence clubs, form one of the fastest-growing segments of the vacation-home market. New sales totaled $1.5 billion in 2005, up 42 percent for the year. Dozens of projects are in the works. (See 7 fractional offers available now.)

The industry began in Utah little more than 10 years ago when Steve Dering, of DCP International, started the first fractional-ownership community in Park City. Many of the very expensive lodge-type homes there were under-utilized and he figured owners were spending a lot of money for just three or four weeks of use.

"Do the math," he says. "Those are very expensive ski days."

The average Aspen ski-country house costs around $4 million. A one-eighth share of a three-bedroom lodge in the Timbers Company fractional ownership development runs about $430,000, plus yearly dues of about $10,000.

Of course, there's no confusing fractional ownership with full ownership. You can't redecorate or even hang photos of your grandmother on the wall. But fractional owners are guaranteed six weeks in residence including two prime weeks during ski season and two summer weeks - these are prioritized on a rotating basis among all owners - and additional off-season weeks. Owners can also call on short notice to see if there are additional openings.

Another plus: Owners don't have any responsibility for daily care. The operator mows the lawn, shovels sidewalks and paints the trim.

Appreciation?

These are not time shares, which are merely contracts specifying a right to use a property on certain weeks. Fractional ownership is an actual, deeded interest: You can sell it, leave it in your will, put it in a trust, practically anything you could do with any normal deeded property.

They can even be a good investment. Helping that has been the roaring real estate markets, which have been especially good in many of the locations where fractionals are sited. At the Deer Valley Club in Park City, shares that cost $130,000 about 10 years ago sell for about $655,000 today, according to Dering.

For John Nussbaum, a retired co-founder of am electronics firm, whose primary residence is in Appleton, Wisconsin, the big selling point is that fractionals facilitate his desire to keep connected with his far-flung family.

"You can ask the kids to come to Appleton, but there isn't a lot to do here," says Nussbaum.

Nussbaum has a total of three units at Snowmass, buying the last one just recently in the after-market. He also has a fractional in Cabo San Lucas and just bought a new lot at a project under development, Botany Bay in St. Thomas.

High-end properties

The price of entry to most residence clubs can be quite high; only the wealthy need apply. Ragatz Associates, a marketing firm that tracks the industry, reports median annual household income is $425,000.

The posh properties often provide luxury-hotel-type services and amenities: airport pick-ups, ski concierges, spas, grocery restocking, restaurant reservations and more. It's like having a beautiful, high-quality home within a fine hotel.

As a matter of fact, luxury hotel chains, such as Ritz Carlton, are involved in fractional ownership. Dering says he doubts that very many future high-end residence clubs will open in resort locations without some kind of boutique hotel component.

Last year, according to Tina Gienko-Necrason, director of sales and marketing for Ritz-Carlton Clubs, more than half of all real estate sales in Aspen involved fractional ownerships. Lately, they have also been started in cities such as New York and San Francisco and internationally, in places like the Tuscan countryside.

Buyers should shop carefully; owners depend much more on operators to protect their investment than they would buying their own house. Burden expects some fractionals could eventually fall by the wayside. Failure to keep offering high-quality, personal service could doom some projects.