

Fractional Ownership Vacation Homes A Smart Investment

What is fractional ownership?

Fractional ownership vacation homes are something that has been around for years but has just now hit the investment real estate market (i.e. vacation homes, townhouses, condos, etc). For years business men and women have been using the fractional ownership technique to purchase everything from private jets to expensive jewelry as Tennants In Common (TIC). Fractional ownership broken down basically means that you and a group of people (often times friends and family) pool your resources together to purchase an otherwise expensive product. This tactic makes investments have a lower risk and to most of us this is a better aspect in investing.

Fractional ownership works very well for the family that wants a nice vacation home to call their own. Although, is geared toward the individual that does not want to spend \$400,000 on a place they will only use a few weeks out of the year. If you are only planning on using the vacation home one month out of the year, do you really want to pay the mortgage and upkeep costs the other 11 months of the year? This investment strategy is a wonderful choice for those cash conscientious investors.

Equal Fractions

This product is then split up evenly among the investors where each investor owns an equal fraction of the investment. With vacation homes this means that each investor has either one or two months to use the vacation home (the number of months depend on the number of the investors). In this method of investment the common policy is the more the merrier. Although, you have to be careful; remember each investor owns just as much as you do.

Easier financing

Banks and lenders consider fractional ownership homes to be similar to a second home, so it is usually easier to finance a fractional over a timeshare. Also, the rates are often lower on a fractional ownership. With this said not just anyone can get fractional ownership, this proves its distinction from the dreaded timeshares.

An actual investment

Fractional ownership is an actual investment. Timeshares, on the other hand, are like Cadillac's. These investments tend to plummet in price as soon as you sign the paper. If you go on EBay right now you will see hundreds of people trying to sell their timeshares. The price is a tiny fraction of what they paid for it just a few months prior. With fractional ownership the property value increases and so does your investment. This is especially seen if you invest in preconstruction fractional ownerships. These investments are associated with a higher level of risk but this is how you get the large payoff. Normal fractional ownerships have little to no risk associated with them. This is just an idea to make more money off this opportunity.

On average a family uses its vacation or second home less than 21 days a year. This is why fractional ownership has started, it was created because their truly is a market for it. Fractional ownership opens a door for the thousands of investors that want a luxury vacation homes but do not want to pay hundreds of thousands for it. These properties are in greater demand than typical real estate investments. With this said, if you are interested in any fractional ownership opportunities you should start looking now.

What is a TIC ?

The acronym "TIC", which stands for tenancy in common, along with the terms "cotenancy" and "fractional ownership", refer to a form of real estate asset ownership in which two or more persons have an undivided, fractional interest in the asset, where ownership shares are not required to be equal, and where ownership interests can be sold, rented or inherited. This type of co-ownership allows each co-owner to choose who will inherit his/her ownership interest upon death. By contrast, the type of co-ownership called "joint tenancy" requires that each co-owner's interest pass to the other co-owners upon death, also referred to as a "right of survivorship".

TICs as Investments

The TIC has become a popular style of ownership in many different real estate contexts. For example, income property investors and real estate syndicators are increasingly using tenancy in common as a vehicle to facilitate income tax-deferred exchanges, a trend that has been propelled by recent IRS rulings recognizing certain tenancy in common structures as legitimate vehicles for these exchanges. At the same time, vacation home buyers and resort developers are increasingly using tenancy in common (often called "fractional ownership" in this application) to share ownership and usage of vacation properties so that owners need not buy more than they can use and afford, but still get legal title to real estate (unlike in a traditional "time share" arrangement).

Are you one of the many investment property owners who are planning an early retirement who are equity rich with low cash return on your equity? Would you like to eliminate the daily responsibilities of property management and utilize your dormant equity, but are faced with the consequence of paying capital-gains taxes and recaptured depreciation? Are you concerned about identifying an alternate investment property that can provide you with retirement income?

TICs as 1031 Exchanges

Many property owners who are willing to accept the inherent expenses and risks associated with real estate investments, and planning for their Early-Retirement have found a solution to their real estate investment problems. To defer paying the capital gains tax on the sale of their property, qualified investors can conduct a 1031 exchange. To eliminate their property management responsibilities, qualified, accredited investors can re-invest their equity from the sale of their relinquished property, into a passive Tenant in Common investment property. Owning a Tenant in Common, a fractional interest of a high grade property allows qualified investors to enjoy the benefits of property ownership without the daily hassles of tenants, toilets, trash, and turnover. Most importantly, it may simplify your estate, potentially allowing more alternatives to your heirs. For example: A daughter may want to keep a fractional interest while a son might want to liquidate his fractional share, or vice versa. Complete details of investment requirements, including risks and expenses, are disclosed in the individual property's Offering Memorandum. Please read it carefully before considering investing. It is always recommended that you review the tax and estate consequences with your professional adviser when considering an investment which is speculative in nature, such as this.

Would a 1031-Tenants in Common investment be financially beneficial for me?

No management hassles Professional real estate companies like Century 21 Coastland that structure these programs can acquire (identify and locate, evaluate, arrange financing, etc.), manage (maintain, lease, collect rent, pay expenses), and sell the properties. They have a vested interest in the performance of the property and thus, the performance of your investment.

Speed and Simplicity The negotiation process is simple and complete. Surveys, insurance, expenses, deed, title, etc. are already prepared and available for your review. After your review of all the due diligence used to acquire your property, and upon your approval, you are ready to close. The closing can be completed in days, not months.

Access to Higher Grade Properties The typical entrance in a first-class single-family luxury oceanfront vacation homes begins over \$2 million, but through tenants in common property ownership, the average person is able to enjoy ownership in an institutional-type property with a minimum purchase. Besides reliable income and growth potential, TIC properties are able to attract tenants with greater financial strength and stability than possible for the individual landlord.