

Fractional Ownership Vs Timeshares

The difference between fractional ownerships and timeshares.

If you are anything like me, a big alarm is going off in your head and your thinking that fractional ownership is nothing more than a fancy way of saying timeshare. Well it is true that fractional ownership vacation homes do share some similarities with regard to management of the property and allocation of usage, but don't confuse the two as the same. Many aspects make a Fractional, or Tenant-In-Common, real estate investment a better choice when looking at some of the horrors of a timeshare buyer can face. Other than the way you share use of the property, these two concepts 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. Most offer blocks of weeks you would likely want, evenly distributing the weeks across all seasons. Some offer programs for buyers to trade their weeks with other owners, or rent unused weeks on the vacation rental market. Such use models provide all owners access to highly sought-after peak times, a variety of seasons to enjoy the property, flexibility to trade for more convenient schedules, and the ability to recoup investment when not putting the property to use.

Financing a timeshare with a bank or mortgage company loan is usually not possible. 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. Timeshares are typically financed by the offering company through various consumer lenders at exorbitant rates.

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 typically cost more than timeshares. They are usually in the \$100,000 - \$500,000 range. Their cost reflects the actual value of the real estate, their exclusivity, level of service, superior locations and ability to appreciate. Their value is further enhanced by their real estate investment status and potential for tax deductibility of the costs.

Timeshares, in which you purchase a specific block of time or points to be used each year, typically range from \$10,000 to \$50,000. Their cost is driven by marketing and commission expenses rather than by the cost of the real estate and fixtures, which are paid several times over by buyers who never actually own it.

Both timeshares and fractionals also have annual maintenance fees. Timeshares include hefty management fees, whereas fractionals primarily divvy up the actual expenses of operating the property with the property manager making their share by providing vacation rental services.

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Here's a quick summary of the salient differences between these two vacation options.

Luxury

Fractional ownership vacation homes are much bigger and usually a lot nicer. Timeshares tend to be small, cheap, cookie cutter housing. They are typically pawned off to unsuspecting tourists by pushy salespeople that don't take no for an answer. Fractional ownership properties are very classy and are actually worth the combined total of the investment from each investor. This may sound a little confusing so I will break it down for you:

Size

Fractional ownership vacation homes are usually larger and much nicer.

Real Estate Professional Sales Experience

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Investment Quality

Timeshare:

Usually 50 to 100 people pay from *\$30 thousand to \$60 thousand apiece*, up to *\$3 million* for a condominium apartment, sharing 3,4 or 7 days or more on predetermined same weeks. Even with such a high aggregate payment per unit, timeshare owners never actually own any real estate, just a limited right to occupancy!

These properties are usually valued *well below the amount invested*, much of which is paid in commissions to the high-pressure sales people, who are almost never real estate professionals.

Fractional Ownership:

4 to 12 investors *\$150,000 to \$300,000* property, sharing *4 to 12* weeks apiece, as determined by formula or rotation every year.

Fractional ownership houses are valued *at the amount invested* and are valued by Real Estate Appraisal professionals using comparable market sales comparisons.

Comparing timeshares to fractional ownerships, timeshares are normally more expensive for a lower class and smaller property with less (if any) appreciation, and no real property equity.

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Easier Financing

Banks and lenders consider fractional ownership homes to be similar to a second home, being easier to finance a fractional over a timeshare, therefore again proving its distinction from the dreaded timeshares.

Investment

Fractional ownership is an actual investment. Timeshares, on the other hand, are like buying a new automobile, but never owning the physical equipment. These investments tend to plummet in price as soon as you sign the paperwork, and you couldn't liquidate the asset for its residual value even if you had to. The Internet at any time will show hundreds of people trying to sell their timeshares. The price is usually a very small portion of what they paid for it just a few months prior, and almost never experiences appreciation over time. With fractional ownership the real estate property value increases and so does your investment. This is especially true if you invest in "Pre-Construction", or "Early Market" fractional ownerships. These investments are associated with a slightly higher level of risk but generally reap a higher return.

While the time usage (occupancy) characteristics of Fractional Properties are similar to timeshares, they are far better investments:

1. You actually get FEE SIMPLE TITLE to a portion of the property you buy - in contrast to typical timeshares where you only get ownership of the TIME you buy. When you are ready to move on in a few years down the road you actually HAVE SOMETHING to sell. You own a piece of the real estate and can sell it just like any other real estate.
2. Most shares that are sold around here are LARGER PIECES of the real estate and longer times that you can use the property. Typically owners are buying from 2 weeks to 5 weeks of usage along with their 1/20th to 1/10th ownership share.
3. It is a convenient and inexpensive way of getting into an exclusive, luxury real estate market and accessing a expensive property for a "fraction" of the cost of buying your own.

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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 based on priority rotation, or directly allocate the weeks in rotation. 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 reflects their exclusivity, great properties, 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 require annual maintenance fees. However, in fractionals the owners pay the maintenance on their property whereas in timeshares the purchasers of the time pay the maintenance for the owners.