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Fractional Ownership, An Idea Whose Time Has Come

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When you type “fractional ownership” into your search engine, you will, more likely than not, get a dozen or more websites dealing with shared ownership of airplanes. The idea of shared ownership of things, very expensive, is certainly not a new idea. On one of those website home pages, the following insightful observation is made.

Even as America struggles to cope with one of the deepest recessions in half a century, fractional ownership continues to hold its own, leading long-term analysts to conclude the various shared-ownership programs are filling a growing need for new travel options.

While the observation refers to the dramatic increase in shared ownership of jet aircraft for business travel, the sentiment also applies to another growing area of shared ownership, ***Fractional Ownership of Real Estate***. Whether it is a sluggish economy that motivates people to consider cost saving alternatives or the basic underlying desire to own a second or vacation home, the idea of sharing ownership is catching on.

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There has never been a better time in the history of America to fulfill the American Dream of vacation home ownership. Ragatz Associates, a Eugene Oregon company that researches the industry, cites, that as of April 2003 there were 138 Fractional Ownership resorts, nationwide, either in pre-sales, sales or sold out. Compared to the number of resorts in the nation offering some other form of ownership, namely timeshare or whole ownership, the number seems small, but Ragatz reports that 64% of them were developed in the last three years. The middle class and affluent, alike, are discovering that Fractional Ownership is a viable and, many times, more desirable alternative than whole ownership.

***Putting Timeshare and Fractional Ownership
in the same category is a mistake!***

Fractional Ownership of a vacation home or condominium, while sometimes being referred to as “vacation ownership”, is confused with another shared ownership plan called “timeshare”. This is a mistake. While the various Fractional Ownership plans may share some characteristics with its cousin, timeshare, the differences are significant enough to consider Fractional Ownership in a category of its own. The mistake is easily made because, currently, the laws and statutes, in most states, that govern timeshare, also regulate Fractional Ownership. As a result, the public offering statements and ownership documents use the term “timeshare” as the only legal description that applies, thus confusing the buying public. There is no doubt that Fractional Ownership of a home or condominium evolved from timeshare which, some thirty years ago, initiated the unique shared ownership concept that took a condominium and broke out ownership into weeks. But, Fractional Ownership is really quite different. Timeshare is a vacation product for the broadest segment of the population, and as such is a wonderful concept that gives millions of families the opportunity to vacation a week or two in locations and accommodations that may have been beyond possibility without that form of shared ownership. Fractional Ownership is a different product. Ownership of more than a couple or a few weeks, in its various configurations and usage patterns, is regarded as Fractional Ownership. That may be anything from a one twelfth ownership (4 weeks of usage) to a one quarter ownership (13 weeks of usage). 2002 figures provided by Ragatz Associates shows that 76% of fractional owners have five weeks of usage or more, with 43% having thirteen weeks of Quarter Ownership.

Fractional Ownership....more than a vacation...much more!

It is the length of time available to the owner that is significant. Fractional Ownership is more than a vacation...much more! For one thing, it is very much a home away from home. Timeshare salespeople have often referred to one or two weeks of ownership at a timeshare resort as a “home away from home”. I must confess that this writer, who owns three weeks of timeshare, has never shared that feeling. We have enjoyed our timeshare experiences for over twenty years and would not diminish the concept in any way, but my wife and I have never felt as if it were a home away from home. We seldom return to our home resorts, except The Manhattan Club in NYC and even there, we only stay a few days. The Fractional Ownership purchaser is a second home buyer, who, most often, is not interested in timeshare. The fractional owner returns to the resort on a regular and frequent basis. While vacation exchange opportunities are available to most fractional owners, it is regarded as an add-on benefit and not the primary reason for the purchase. That probably is not the case with a timeshare buyer. The allure of visiting varied and sundry vacation locations and partaking of a multitude of experiences is enticing and exciting. The vacations that my wife and I have taken using the timeshare exchange have been highlights in our life. There is something else going on with Fractional Ownership.

Ed and Sara live in Ocala Florida and own two quarter ownership interests (26 weeks – 2 weeks each month) in a two bedroom condo at Sunset Shores, a lakefront resort in

Cadillac, Michigan. Ed grew up in Michigan and has never forgotten the changing of the seasons, the crisp fresh air of early spring, and the simplicity and wholesome values of that part of the country. Ed and Sara both hold extremely responsible professional positions and escape to their “home away from home” as often as they can. It is not unlike them to drive from Ocala to Cadillac on a Thursday and return on Monday. They reported to me, recently, that some of their friends in Ocala questioned why they would drive that distance for a couple of days. Ed, sitting under a magnificent white birch tree, watching the sun as it sets over the mirrored waters of Lake Cadillac, smiled and said, “They’re not here are they. How could they understand?”.

For others, it is the activities at their second home which keeps them coming back. Ski resorts hold great attraction for fractional buyers, like Aspen, Telluride, Park City, and Tahoe in the West and Killington, Mount Snow and Okemo in the East. Skiers ski whenever the conditions allow and being able to have a slopeside condo or a home for a week or more every month during the ski season is irresistible . Ragatz Associates reports, again from their 2002 compilation, that 56% of existing and planned resorts are in ski locations.

Golf and oceanfront also hold great attraction for fractional buyers. Ragatz cites 42% of existing and planned resorts in these locations.

Holding a small percentage, but one which I predict will increase in the next few years, are urban settings. New York City and San Francisco, for example, both currently offer some Fractional Ownership.

All of the benefits of whole ownership ...at a fraction of the cost.

What we have established is that the fractional buyer is one who has always wanted a vacation home (who hasn't) and while they may have the means to secure one, the fractional product holds interest for them because it feels every bit like a second home with all of the benefits of whole ownership at a fraction of the cost. The idea of having access to literally as much time as one could possibly desire, short of living there full time, and only paying for that portion which they use, is compelling. Ragatz rates this form of second or vacation home ownership in three price driven categories, “Low-end”, “Moderate” and High-end”. Low-end fractionals are priced in the \$100,000 range while Moderate are plus or minus \$150,000 and High-end are \$200,000 and up. Price, of course depends on many things like location, exclusivity, amount of time, amenities and services.

At any price level, Fractional Ownership is a good deal.

At each of these levels, Fractional Ownership is a good deal. On the low end a comparable whole ownership home or condo might cost \$200,000 or more. Comparables in the moderate range might run \$400,000 and on the high end, one might expect to pay

over a million dollars for a ski-in/ski-out 2,500 square foot chalet at one of the most prestigious ski locations or a Southern Florida oceanfront villa. To own at the very same locations and have the same lifestyle at a fraction of the cost works for more and more savvy second home buyers every year. The value in the fractional purchase is obvious and in most cases is the only alternative to a timeshare, which doesn't work for this clientele and whole ownership, the cost of which is ever increasingly closing people off to fulfilling their dream of a vacation home.

It's About Lifestyle

Even those who can afford whole ownership see the added benefits of fractionals. With their ownership, they usually get onsite concierge services, priority tee times, valet service, clubhouse with indoor and/or outdoor pools, exercise facilities, steam rooms, saunas, onsite restaurants, and much more. These are things that most second home buyers don't get when they fulfill their lifelong dream of buying a second home. They get a house or a condo. That's it! The fractional buyer is getting more than part time accommodations. They are getting a *lifestyle*. It does not take the fractional owner very long to discover that, using the words of a currently popular television advertisement for a cruise line, "This is way more than a vacation!". The services that they receive, the activities that are provided, the experiences that are created, and the relationships that are developed amount to a leisure lifestyle that is, usually, not possible for merely a second home buyer.

Need we mention the benefit of piece of mind as the management company attends to all of the things it takes to run and maintain a vacation residence. My wife and I own a vacation home and even when we let friends or family use it, we always have to make the two hour drive, after they leave, just to make sure everything is O.K. When the weather kicks up on Florida's west coast, I am always anxious about what may be happening to our home. Fractional buyers are more than willing to pay the monthly or quarterly maintenance fees so that they can fully enjoy their vacation home, worry free, while the management company protects the value of their investment.

Usage Patterns Vary

Accompanying the ownership is usually a pre-determined usage pattern that may assign specific occupancy dates via a set calendar, a rotating calendar giving owners occupancy in every season or every week over a period of time, a rotating priority system which operates like a lottery, or a first come, first served reservation system. Two thirds of existing fractional programs provide for a "Space Available" opportunity. Within a certain time frame (48-72 hours) an owner may request accommodations other than their assigned time, and if the resort is less than a certain percentage occupied (80%-90%) the owner can stay at no cost except a nominal cleaning fee. In addition, about half of the resorts offer a voluntary rental program, primarily to make use of the owners' unused

time, and, in an ancillary fashion, to provide some modest income that may cover an owner's maintenance fees. Ragatz reports that 71% have a resale program.

Managing Your Leisure Lifestyle

What more and more Fractional owners are coming to realize is that the Fractional Ownership purchase is as much a *management system* as it is any of the things that have been described thus far. Yes, it is a home away from home. Yes, it is a retreat to which one goes for renewal. Yes, it is a vacation. But, it is more accurately the centerpiece around which one constructs their entire leisure lifestyle. That makes it different from timeshare, for example, which is only a week or two. Timeshare is fabulous but doesn't provide for enough time to accommodate every aspect of our leisure lifestyle. Whole ownership is great. The time is certainly there, but it falls short in the flexibility department. Fractional Ownership combines the best aspects of both programs. It is your second home with all of the pride of ownership. It is your special place where you go to escape the real world. It is, through an exchange program, exciting vacations to far away lands or nearby points of interest. It is a quick getaway or a long weekend. It is a honeymoon for a friend or relative. It is a gift for a graduating senior, mom and dad, the next door neighbors, or a reward for an employee or associate. It, in many cases can be turned into a cruise. It can be your travel agency and provide discounted hotel rooms, airline tickets and car rentals. It can be a base of operations from which to conduct business. How about a place for a family reunion? It could be all of these things in a single year and still have time left over for a rental or two.

A Country Club With Lodging Thrown In

Most Fractional programs provide 365 day use of the facilities. If it is nearby, you can, for example, drive up for the day, launch your boat at the private boat ramp, enjoy the boating, park it at the resort dock and have a picnic or barbecue, swim in the pool, take a steam and return home. Or, entertain friends or business associates in the clubhouse for part of a day and then play a round of golf. Your Fractional Ownership program can easily be described as a private country club with lodging thrown in. In many cases the cost of the deeded ownership is not much more than what one would expect to pay for membership in an upscale exclusive country club, and you have a valuable asset that is part of your estate.

I can't think of any part of one's leisure lifestyle that cannot be provided for, planned in conjunction with, accommodated or facilitated by ownership of your Fractional Interest.

Relationship Sales Approach

One can see that the fractional buyer is one who has made a commitment to maximizing their leisure lifestyle. They have already made the important and most difficult decision. They have placed leisure lifestyle as a priority and are ready and willing to consider a second or vacation home. They believe that they can, under the right circumstances, acquire the desired lifestyle that a second home will provide. Their background, motivation, and level of accomplishment has led them to this point and that has endowed them with a certain discernable level of sophistication and understanding of the forces in our society that contribute to or inhibit success. In a nutshell, traditional manipulative and self serving sales gimmicks and techniques do not work with this clientele. The sales process must be appropriate for their station in life as well as the high quality of the product. The training that my company provides in this arena is identified as “The Relationship Approach To Sales”. It is described as a non-manipulative, non self-serving, life enhancing approach to sales, based on universal principles of effective interpersonal relations and right living.

It does not rely on *persuasion* , or trying to talk the customer into buying, as the primary strategy. It, instead, relies on *influencing* the customer from a position of trust and a sound understanding of the customer’s unique situation and motivations. It relies on listening and then takes on a counseling or consultative role to make sure that the customer gets just what they need and want. The fractional sales process is not usually premium driven nor does it rely, necessarily on a ninety minute decision making process. The relationship between customer and salesperson often begins on the telephone before the customer visits the resort, is strengthened by the onsite inspection visit and is cemented on the phone following the meeting. The salesperson knows that what he/she is offering is an exceptional opportunity, a solid value and a true enhancement of the customer’s lifestyle. This gives the salesperson a confidence level that makes high pressure tactics or manipulative sales techniques unthinkable and inspires trust on the part of the customer. It is truly a win/win situation and a practice that should and can be expected in the Fractional Ownership arena.

Ragatz Associates estimates that \$357.9 million in “High-end” Fractionals were sold by developers in 2002. That represents a 45% increase in sales over the last four years. They estimate that there are 31,600 owners across all categories. The trend continues to grow.

“An idea whose time has come”?Perhaps.

Regardless, it is worth your attention if you are one of those who has placed maximizing your leisure lifestyle as a priority and have always wanted a second home. Seek out fractional projects at your favorite leisure or vacation location, that special place that draws you to it and to which you wish to return again and again. You can fulfill the dream of second or vacation home ownership. Are you ready?

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