

## **Fractional Vacation Home Ownership Makes Sense (cents)**

With the skyrocketing prices of coastal real-estate after the last boom in value, many average families are now far more challenged than ever to afford the common Americans dream of having a vacation home on the beach for their summer family vacations. Furthermore, a notable 1.1 million wealthy (top 10%) Americans will be in the market for a second home this year, the American Affluence Research Center reported. Yet "about 6 in 10 of the affluent interviewed indicate no familiarity with either the fractional ownership or private residence club concepts," according to the Center's study.

In both cases, fractional ownership offers an appealing alternative to owning a vacation home outright. As in any home ownership, Second or Vacation Homes, require both financial and physical maintenance commitments year round. Even while unoccupied, the property incurs tax, insurance, utility and maintenance expenses year round. All of the expense and aggravation of caring for the house is shouldered by a single owner, while studies show that the typical vacation home owner uses their property an average of only 4 weeks. Many people who wish to own vacation property cannot afford or justify bearing the full cost, maintenance and management burden when they expect to use the home only occasionally. Vacation home sharing through fractional ownership creates a situation where the cost and management burdens of the vacation home are more closely related to actual usage. It is an excellent alternative to vacation rentals.

Fractional Ownership meets the needs of today's potential buyers—those who would love to buy their dream home but find their budget won't stretch to fit; others who may have the funds but recognize that it makes no economic sense to own a property but only visit 8 weeks or so each year; and those who are cautious, preferring to test the idea of ownership at home or overseas before further commitment.

By owning a fraction of the equity a buyer receives an undivided fractional share of real property and the associated rights, 1031 and tax benefits, yet is only committed to paying a proportion of the annual costs.

For example, the owners of a quarter share in a property, can each enjoy up to 3 months a year occupancy and only pay 25% of the total annual management, maintenance and administration costs. Financially this makes great sense for mobile or remote investors.

For those desiring the perfect vacation home to call their own, yet not wishing to spend hundreds of thousands of dollars for somewhere they will only use for a few weeks out of the year, fractional ownership is ideal. If planning only on using the vacation home one month out of the year, who would really want to pay the mortgage and upkeep costs the other 11 months of the year? This financial strategy is a wonderful choice for those cash conscientious investors.

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## 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.

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- **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.