

FRACTIONAL OWNERSHIP

20 Questions and Answers

Fractional ownership has rapidly evolved into a mainstay of the resort holiday home market, to the point that some observers suggest that the advantages of fractional ownership may be fundamentally shifting people's entire attitudes toward owning a 2nd home. Today there are a wide range of projects and "Clubs" offering an array of locations, home types, prices, and usage and reservation systems.

The purpose of "Fractional Ownership: 20 Questions and Answers" is to give you a starting point for understanding fractional ownership and a basis for evaluating if it might be suitable for you.

What is the basic idea underlying fractional ownership?

The basic idea is that it makes sense to share the ownership of a holiday home because vacation homes are simultaneously expensive, but not used very much (typically less than 42 days per year). Fractional ownership provides a balance between the amount of time a vacation home is actually occupied and the costs and responsibilities of 2nd home ownership.

How long has fractional ownership been around?

People have long shared the costs of vacation homes among family, friends, and partners. Scattered shared ownership properties have existed in major resorts for 20 + years. "New Generation" projects specifically designed for fractional ownership began appearing in the mid- 90's.

Who does Fractional Ownership suit?

Fractional ownership is suitable for:

- those who want to purchase an overseas property but can't afford it
- Those who are interested in buying overseas but want to experience the resort or location before committing to whole ownership
- Those who would like to invest in a number of different countries or resorts to reduce their financial commitment in a single country
- Those who could afford whole ownership but do not feel it makes financial sense.
- Those who could afford a cheaper apartment but really want to own a large villa

Where have projects been built?

Extraordinarily high residential real estate prices are a common trait of locations where fractional ownership projects have been developed. The initial projects were in western ski

resorts, but the range of locations has expanded dramatically to include beach, golf, spa, and cultural locations. Also, urban projects are underway or planned in a number of world-class, international cities, including New York, Boston, San Francisco, Miami, London, Paris, Florence and Hong Kong.

Are there any major “brand” names in the industry?

Yes. A number of luxury hotel brands are active in the business, including Ritz-Carlton, Four Seasons, Fairmont, St. Regis, Marriott and Rosewood.

What are the properties like?

Most fractional ownership projects are upscale properties offering luxury condominiums (usually 2, 3, and 4 bedroom), with high-end finishes and designer furnishings. They include common amenities similar to a small boutique lodge such as cocktail lounges, wine tasting rooms, game rooms, and ski and golf bag storage. Brand name projects are typically larger and integrated into a luxury hotel, with additional amenities that can include restaurants and spas.

What is a “Private Residence Club”?

It’s another name for a fractional ownership project, although it’s often the preferred label for properties being positioned as more upscale and exclusive.

What is a “membership” or “destination” club?

These clubs are distinctly different from fractional ownership in that no ownership interest in property is transferred to the buyer. Rather, these “clubs” are structured much like a non-equity country club, but with the central amenity being a portfolio of residences instead of, say a golf course. The club retains ownership and/or control of the properties (which may, or may not be, owned by the club), with the members granted use of the properties according to the terms and conditions of membership. The members may have an indirect interest in the properties via a bond or other security instrument issued by the club.

How is fractional ownership different from timeshare?

There are three main differences. First, fractional ownership projects are significantly more upscale than the usual timeshare project. Second, fractional ownership provides multiple weeks of annual usage versus the typical single week for timeshare. Third, fractional ownership usage plans are flexible, allowing a variety ways of reserving vacation times, versus the fixed time, “same week each year” for timeshare. Fractional ownership is just that. You own your proportion of the property whereas with Timeshare you only have the right to use the property. Because Fractional owners actually own a proportion of the property, the re-selling their share is much easier than re-selling Timeshare.

Ownership - do I get a deed, or something else?

Fractional ownership is evidenced by a deed, the same as whole ownership. Membership clubs don’t transfer ownership, so there is no conveyance of ownership documents.

What are the sizes of the “fractions”?

The range anywhere from 1/4 to 1/12 shares. The most common are 1/6 to 1/8 shares.

What services are included?

Nearly all projects provide some level of personal services, including concierge, pre-arrival grocery shopping, airport pickup, personal storage, and housekeeping.

Generally, what is the range of prices?

Prices vary widely according to the type of property and size of fraction, but range from about €50,000 to €450,000. The average fraction price is \$110,000 and is moving upward as projects are becoming more upmarket.

Generally, what is the range of annual dues?

As with prices, annual dues vary according to the type of property and size of fraction. For most projects, dues range from €2,800 to €11,000, although some exceed €14,000. Annual dues per week of usage average €900. Annual dues cover the costs of property ownership and operations, including; taxes, insurance, maintenance, repairs, association fees, replacement reserves, etc.

What additional charges are there?

Annual dues cover the majority of costs, but some projects may also charge a daily fee for each day of usage. Other additional charges can be for special services such as pre-arrival groceries and liquor provisioning, long distance telephone, and extra housekeeping.

Is financing available?

Generally, yes for fractional ownership programs that convey deeded ownership.

How far in advance can I make reservations?

Usually, from 6 to 12 months in advance.

What is "space available" time and how does it work?

Space available time comes about in two ways. First, most projects do not sell every possible week of the year, leaving a certain amount of "cushion" in their usage plans. Second, many owners don't use all of the time they are entitled to. These excess times become "space available" and can be used by members any number of times, regardless of how many weeks they actually own.

Can I go on short notice?

Yes. Even after advance and space available reservations are committed, typically there still will be time leftover. Also, inevitably, some owners will have to cancel their plans at the last minute and those times become available on short notice. For most projects, any time that is uncommitted 30 days or less in advance of the arrival date becomes available for "moments notice" usage.

What are exchange programs and how do they work?

Programs for the voluntary exchange of time between projects give owners the opportunity to vacation at a variety of locations. Exchange programs can be either internal or external. Internal exchange programs are limited to the owners of projects sharing a common brand or some other form of affiliation, but exclude the general public. For example, Ritz-Carlton owners can exchange time with other Ritz-Carlton clubs. External exchange programs are managed by third party exchange companies and are open to any property owners who make time in their vacation home available for exchange with other like vacation homeowners. On the plus side, external exchange programs can offer access to a wide variety of homes and locations. Some programs also provide for the conversion of time in a vacation home to other vacation-related values like safaris, cruises, hotels, and private jet charters.

We hope we've provided you a useful beginning for learning about fractional ownership. Please feel free to contact us with any additional questions you may have.