

'Fractional ownership' and purchasing a slice of luxury

Don't have the money it takes to invest in a whole pie? Then buy just a slice.

That's the idea behind "fractional ownership," where owners buy just a bit of an entire chunk of real property. The practice started as a way for executives to share ownership in jet planes or yachts they individually used at different times.

Now, the concept has moved into the Florida real estate market, where developers are selling pieces of high-end properties as shared purchases, or so-called "fractionals."

In the United States, Canada and Caribbean, the fractional ownership industry in 2006 recorded sales of \$1.65 billion, up 32 percent over the previous year, according to NorthCourse Leisure Real Estate Solutions, a market research and asset management firm. The properties are prevalent in the high-

demand ski areas of Utah and Colorado.

But fractionals are popping up throughout the Sunshine State. For instance:

- Emerald Grande, a 281-unit condominium located on Destin Harbor, has set a fractional record. Legendary Inc. says that to date the company has already sold more fractional real estate in a condensed time frame than any other company in the world. The average price of a one-eighth share was \$226,000 with prices

ranging from \$95,000 for one-bedroom units to \$300,000 for the most extravagant, corner three- and four-bedroom units.

- On the Intracoastal Waterway of Clearwater Beach, there's a buzz about a project called Island Town Homes. Developers hope to divvy up luxury units eight ways — at about \$200,000 for each ownership share.



Charles Kovaleski
President, The Fund



Special to The Log
GRANDE LIVING: The Emerald Grande in Destin is one of the trailblazers in the 'fractional ownership' market. Here the Grande is all decked out for the holidays.

- In Key Largo, the largest of the Florida Keys, there's The Residence at Fisherman's Cove, which features six furnished three-bedroom residences. Depending on availability, owners can use the places as much as

they want. Sold in one-eighth shares of \$295,000, the units feature access to fishing boats, private docks, Wi-Fi and a

Please see **SLICE** on **D2**

SLICE

Continued from page D1

swimming pool.

•In Panama City, the Infinity Blu resort offers a beachfront condominium project. Each unit is sold with seven separate deeds, allowing access for seven separate weeks. Cost for each fractional suite starts at \$90,000 with one-twelfth packages starting at \$30,000.

•In South Beach, a new development by Ritz-Carlton Club will feature 45 fractional residences, all located in the restored Seville Beach Hotel building. They will be sold as one-twelfth deeded interests, aimed at those seeking maintenance-free, second-home ownership complemented by the amenities of The Ritz-Carlton Hotel Company.

A cousin of the much-maligned timeshare — products where users merely buy time at a condo or vacation property — fractionals are equity purchases in real estate; as the name implies, a buyer's purchase includes a fraction of a deed.

The value of a fractional fluctuates up or down, as happens with any equity-based purchase. Since fractionals are real property, owners can sell them, put them in their wills or place them in a trust. Owners tend to rely more on operators to protect their investment than they would when buying their own house, so extra

scrutiny is warranted. The exact details of the transaction will vary by development, so buyers need to read the contract carefully or have it reviewed by their real estate attorney.

While timeshares can be bought for \$20,000 or less, prices for fractionals start around \$90,000 to \$100,000. That kind of price tag eliminates the high-pressure “buy today” tactics that pervade the timeshare market.

Owners may find that big banks don't readily offer loans for fractional purchases, leaving it to boutique banks or developers themselves to offer financing. Interest rates for fractionals can exceed the rate for a traditional 30-year fixed loan on a single-family residence.

But that may be offset by the motivation to own a second home, which is how most fractional buyers see their purchases. Developers target second-home buyers, who often have limited time during the year to enjoy them. Timeshare owners, in contrast, view their expenditures as investments in annual one- or two-week vacations.

While their property can appreciate and be resold, fractional owners should realize that their purchase is more of a lifestyle investment, not necessarily a capital one.

The shared costs of units or residences drive down price points while providing more amenities and overall quality for the buyer. For the developer, a shared ownership structure diversifies

the market with lower prices in return for typically higher profitability — if the transactions are properly constructed and executed.

Fractional properties can come in several varieties and may even blend more customary timeshare principles, so buyers need to carefully evaluate their choices. Two typical fractional ownership arrangements include condo hotels and traditional. Other products include destination clubs and private residence clubs, which boast even more service and amenities for much higher costs.

A condo hotel arrangement often comes with hotel amenities — meeting space, restaurants, spas and pools. Some properties can feature more than 1,000 rooms.

A traditional setting is a smaller townhouse or villa, with individual units that are much larger than those found in condo hotels. Services vary by development.

The fractional landscape can become a difficult terrain to navigate, especially as developers offer more options. Buyers should examine what they want, research whether their goal is feasible and consult with a real estate attorney to ensure they understand the contract's implications.

Charles J. Kovalski is president of Attorneys' Title Insurance Fund Inc. (The Fund). The Fund has been in business for more than 50 years and supports a network of more than 6,000 attorney agents statewide who practice real estate law. For more information, visit www.FundHomeInfo.com.

