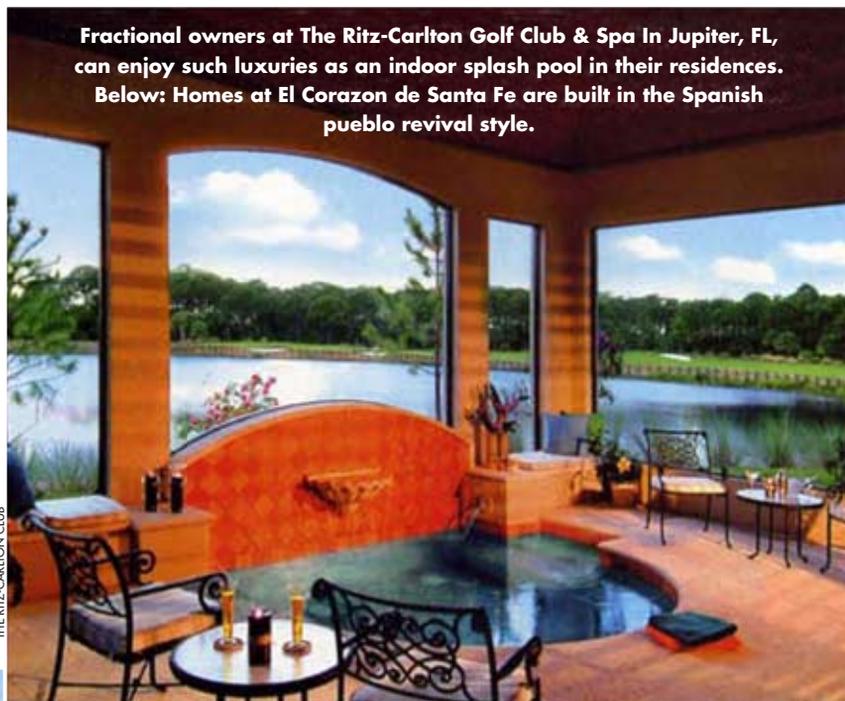


By Alan Macher

Fractional Properties: Own a Piece of Paradise

Many retirees and baby boomers approaching retirement age are questioning the idea of purchasing a second home that they may use for only a month or so during the year. An increasingly popular option is fractional ownership: purchasing a share of a property in a highly desirable location at a fraction of the cost of buying the property outright.

Fractional ownership and its more upscale cousin, the private residence club, provide partial deeded interest in a deluxe property without the hassle of maintenance. Many of these properties feature lavish furnishings, including granite countertops high-definition televisions and whirlpool baths, and the refrigera-



Fractional owners at The Ritz-Carlton Golf Club & Spa In Jupiter, FL, can enjoy such luxuries as an indoor splash pool in their residences. Below: Homes at El Corazon de Santa Fe are built in the Spanish pueblo revival style.

THE RITZ-CARLTON CLUB



EL CORAZON DE SANTA FE

tor is often stocked upon arrival.

Many people confuse fractional ownership with time-share. In fractional ownership, buyers actually own a portion of the property and the deed can be transferred. In most cases, time-share is a nondeeded interest entitling the owner to use

the property for a specific period of time, such as two weeks per year.

A major appeal of fractional ownership is location. Bob Waun of Birmingham, MI, who has written extensively on fractional ownership, calls it 'rare air.' Fractional properties, he says, tend to be in places that

are highly coveted but have limited space for large-scale developments, such as Aspen, the Florida Keys and beach-front communities.

"Because of limited supply and high demand, the cost of purchasing a home in one of these locations is out of reach for most retirees," he

Coming to Terms With Fractional Ownership

Many people confuse fractional ownership with time-shares, but in reality there are important differences.

The term fractional ownership refers to properties that tend to be more exclusive and include more luxury amenities and services. Fractionals normally range from one-twelfth to one-quarter share of a residence, giving owners one month to 13 weeks of use per year. Time-shares are usually for one or two weeks per year.

Fractionals, along with private residence clubs, cost more than time-shares. They are usually in the

\$100,000-to-\$500,000 range, reflecting the emphasis on the quality of finishes and furnishings, superior locations and the level of service. Time-shares typically range from \$5,000 to \$50,000. Both require an annual maintenance fee.

With a limited number of fractional resort developments located in the most highly desirable locations, there is potential for appreciation in value over time. Like any form of real estate, the fractional owner's deed can be sold, willed or transferred at any time.

Fractional-ownership residences have sprung up in destinations worldwide. In the U.S., the first fractionals were in major ski areas, particularly in Colorado and later began spreading to golf-oriented communities such as Hilton Head Island, SC, and popular beach communities in Florida and the Caribbean.

Most fractions and private residence clubs participate in exchange programs that give owners the ability to reserve time with other properties that have a similar level of service.

Source: Condo Hotel Center of North Miami, FL, specialists in fractional properties.

says. "Buying a fraction makes it more affordable and even more desirable when you factor in the use."

Indeed, fractionals are a way to have a million-dollar residence on the beach or at a ski resort and amenities to go along with it.

Using the property, but not necessarily owning it, is what the baby boomer generation is all about, according to Howard Nusbaum,

president of the American Resort Development Association in Washington, DC.

"For previous generations, including those whose families came out of the Great Depression and the post-World War II boom, it was all about owning a piece of the American dream," Nusbaum says. "Today's active boomers are more interested in seeking new experiences and

enjoying activities such as golf and tennis, skiing, scuba diving or mountain hiking, among others.

"This is the generation that gave us Viagra and Botox. They are not interested in spending their retirement years sitting in a rocking chair," he says.

Nusbaum contends that fractional ownership is an excellent option to satisfy the wants and needs of baby boomers. "Why buy the whole pie when you just want a slice?" he asks.

At the Rosemary Beach development in Florida's Panhandle, a one-bedroom, two-bath single-ownership luxury condominium recently was listed for \$695,000. A one-sixth fractional ownership was offered at the upscale, 16-unit separate Private Residence Club at Rosemary Beach for \$189,000. Other fractional residences were available up to \$359,000. Prices can change.

As fractional owners, buyers at the club are guaranteed seven weeks per year (two weeks each in spring, summer and fall seasons, and one in winter) and additional weeks on a space-available basis. A monthly homeowners association fee of \$710 includes taxes, insurance, utilities and professional management, plus use of the 105-acre resort's amenities, according to Jay Sien, club manager. The deeded interest can be mortgaged, willed, placed in a trust or resold.

The Private Residence Club features two-bedroom residences with open floor plans, stylish furniture,

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private porches, high-end appliances, plasma TVs and indoor-outdoor fire places. Not all fractional properties are near the beach or in the mountains. Judith and Gordon Chapin, retires living on their ranch in Lampasas, TX, in 2007 purchased a one-eighth share at The Residence Club at El Corazon de Santa Fe in downtown Santa Fe, NM.

"We have vacationed in Santa Fe during the summer months for the passed 20 years," says Judith, 68. "We love to be downtown scene — the arts, culture and dining. With our residence, we can walk to all the major attractions."

Gordon, 75, is retired from the US Army, and Judith taught school and waked as a real estate broker. "We thought about purchasing a condominium, but this works better for us. We never have to worry about maintenance and other issues involving total ownership," Judith says.

The purchase price for the two-bedroom, two-bath residence was \$150,000, and the monthly management fee is an affordable \$350, she

says, which includes utilities, insurance and taxes.

Their ranch land is leased out now, so the Chapins have plenty of leisure time. El Corazon provides three weeks of planned vacation time in advance, plus additional time on short-term notice. The Chapins expect to use their Sante Fe residence about six to seven weeks this year.

How are the weeks reserved? Its sort of like the National Football League draft," Judith says. "For the three early-reservation weeks each owner is assigned a priority number and selects in that order. So far, it has worked wry well."

Before making the purchase, the Chapins had their attorney review the documents to consider the benefits and potential risks. "It's sort of like the TV ad: Ask your doctor if this prescription is right for you." Judith says. "We decided to ask our attorney if this purchase was right for us."

What the Chapins did was absolutely correct, says Gary L. Winter an attorney based in Fresno, CA, who specializes in real estate law and is

a founding member of Lloyd Lanson Fractional Ownership, a company specializing in fractional-ownership homes in California.

"An attorney can help you evaluate a fractional property by reviewing its legal, accounting and management structure," Winter says. "For buyers the two most important questions are: What is the real monthly cost of using the property? When can you use the property; how are the weeks of use scheduled?"

An attorney can also determine what protections are in place in the even of death, divorce or insolvency of a co-owner." Winter says. Likewise, an attorney can evaluate the owner's rights any restrictions.

Another important consideration, not often on the buyer's mind when making the purchase, is an exit strategy, according to Winter. There may come a time when an owner wants to sell his or her interest, for some personal or business reason. An attorney can help ensure that any rules on resale do not hinder the seller, Winter says.

While Interest in factional ownership remains strong, a slowdown in second-home sales mirrors the general decline in the real estate market, according to an annual survey by the National Association of Realtors NAR's 2007 survey, completed in March of this year, showed sales of vacation homes dropped 30.6 percent to 740,000 for the year, compared to a record 1.07 million in 2006.

The NAR report did not cover fractional purchases, but according to marks researcher Ragatz Associates, sales in this category totalled \$2.3 billion in 2007, up 8.3 percent over 2006.

In a statement concentering the over-all decline in second-home sales. NAR's chief economist, Lawrence Yun, also cited "the disruption in the mortgage market, with a significant tightening of credit."

Some buyers have opted for developer financing. Others have taken a home-equity loan on their main residence. Like any resort destination property, there are both small local developers and some big names, such as The Ritz-Carlton, Hyatt and

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Marriott, in the business developing fractional properties. The Ritz-Carlton, for example, lists its fractional-ownership properties not only by destination but also by activity: beach, city, golf, ski and spa. Locations are Aspen Highlands, CO; Jupiter, FL; St. Thomas, US. Virgin Islands; and San Francisco others.

In its newest property, The Ritz Carlton Club, Lake Tahoe, is offering 78 fractional club residences where owners get 21 days annually, with additional time as space allows. Floor plans include two to four bedrooms and at least two baths each, top-of-the-line appliances, Italian marble bathroom floor and gourmet kitchens. The club is expected to open in late 2009.

Prices for a deeded interest in a Ritz-Carlton Club range from the low \$100,000s to the high \$800,000s, depending on location, floor plan, view and the season. Also, owners are responsible for annual dues to cover their portion of yearly operating costs. Donny Askin, 58 of Brookline, MA, who is semiretired, and his wife, Sandy, now retired, were among the first owners at the four-story, 73 residence Ritz-Carlton Club in Aspen Highlands when it opened in 2001.

"What attracted us was the Ritz-Carlton brand, our love of skiing and a lifestyle where we didn't have to be concerned about maintenance and other problems," Donny says. "I was so convinced of the Ritz-Carlton fractional-ownership concept that we purchased our one-twelfth share sight unseen, before they even broke ground."

One of the perks of the club membership, he says, is personal attention. About two weeks before their arrival, a concierge calls and asks if they have any requests, such as airport pickup and shopping for groceries and beverages. She also reminds them that personal belongings such as clothes and ski equipment will be moved from their private storage area to their residence.

Another benefit is the ability to trade their weeks with other Ritz-Carlton Clubs. The Askins recently spent two weeks at the club's St. Thomas property." It remains to be

Fractional Market At a Glance

Three hundred fractional-ownership projects, including themore upscale private residenceclubs, were identified in the 2008 Ragatz Associates survey, considered the most thorough and comprehensive in the industry.

Of the 300 developments, 153 are currently in active sales, while 147 others are older, sold-out projects. Nearly threequarters of all projects are in the U.S., with the balance in Canada, the Caribbean and Mexico. Colorado, California and Florida contain more than a quarter of all developments, according to the survey.

Prices in the deeded, shared-ownership market range widely the Ragatz study shows. Obviously, the cost depends on the size of the fraction -- the number of weeks purchased. To balance this, the Ragatz study determined an average price per week.

For fractional-interest projects, the average price was \$23,280 per week. For the more exclusive private residence clubs, the average was \$71,990 per week. However, per-week prices tend to decrease as the size of the fraction increases.

Prices per square foot vary significantly by country. Ragatz says, In Canada, for example, the average is \$590 per square foot; in Mexico, \$660; in the Caribbean, \$1,465; and in the U.S., \$1,485. Prices generally are higher in ski communities and those offered by luxury hotel companies, the study says.

The Ragatz survey assumes that properties selling for less than \$1,000 a square foot fall into the fractional-interest category, and properties selling for more than \$1,000 per square foot are private residence club.

Annual maintenance fees average \$7,835 per share, ranging from \$5,135 among fractional interest projects to \$10,290 among private residence clubs. It is estimated that 50,000 households have purchased shared-ownership properties.

seen how good an investment this will be," Donny says "But for us, its the lifestyle and the idea of having our own residence where the staff recognizes us by name, and not just a hotel room."

Cape Cod's first fractional-ownership property is appealing to those reaching retirement age who fondly recall memories of the "Old Cape Cod" of their youth (the song was recorded in the 1950s by Patti Page), according to Debbie Rutland, director of sales for the Cape Codder Residence Club.

The club welcomed its first residents this fall and has drawn inquiries from the Midwest, Florida, Europe and those in the nearby Boston area, among others, Rutland says. She expects a mix of retirees, baby boomers nearing retirement age and families will settle into the 15 spacious, luxuriously appointed two- and three-bedroom residences.

Its located on the site of the Cape Codder Resort and Spa in Hyannis. Prices start at \$150,000, and owners have access to the resort's amenities, including an indoor water park, adults-only indoor pool, fitness center and on-site restaurants. Each member owns a one-tenth fraction, guaranteeing a minimum of 35 days of usage, plus additional time on a space-available basis, Rutland says.

The next wave in development is expected in Central America, including Costa Rica and Panama, along with Mexico, according to Sheldon Greene, chief executive officer of Condo Hotel Center in Miami, specialists in fractional and private residence club properties. "Retirees want access to good medical facilities and these are starting to come online," he says. Greene gave as an example Hospital Puma Pacific in Panama City, the only hospital in Central America in affiliation with Johns Hopkins Medicine International.

John Dixon, director of El Corazon residence club in Santa Fe, envisions a time when retirees will purchase fractions in a variety of properties at various locations. "They will be five-star heaven." he exclaims. **WR**

Alan Macher is a writer in Ocala, FL