FEATURE Fractional ownership is the "new face" of resort development as property prices hit new highs

A slice of the action

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ince they were introduced to a skeptical market six years ago, fractional ownership has taken off in British Columbia's resort market. The reason is simple: most people can't afford a \$1-million townhouse at a top resort, but they could swing \$100,000 or \$250,000 for a share of the property. And developers know it.

The concept has spurred a more respectable name – Intrawest calls them Private Residences Clubs or iQ residences - and attracted mainstream developers.

Fractional ownership is "the new face to the vacation real estate market," said Steve Laver, president of Storied Places, an Intrawest subsidary that specializes in fractionals. "The concept seems to resonate with people looking for the advantages of owning a second home without the hassle and high costs associated with whole home ownership. Bottom line, it's a smart investment that is priced proportionate to actual use."

Recreational real estate is seeing explosive growth and the trend is partially responsible for the fractional industry's trajectory - 2004's sales volume nearly doubled 2003's performance, rising to nearly \$1.1 billion in fractional sales across North America.

Intrawest, for instance, has three Storied Places in operation: "At Nature's Door" at Whistler, "Tonopalo," at North Lake Tahoe, Calif., and "Sanctuary" at Aspen, Col., but it has four more under development. It also has Village in the Kootenays.

With Storied Places, each owner receives a fee simple deed entitling them to a guaranteed number of weeks per year plus unlimited access on a space available basis, plus the type of service and amenities that have made Intrawest famous.

Fractional buys

This is different than most fractional properties, where owners get a share of the property but no other access unless they work out something with the other owners.

Fractional real estate provides both a legal and use structure. For example, in a quarter ownership - the most common - there are four owners. Each owner gets title just for his or her legal quarter interest. They can put a mortgage on it, pay their mortgage off or sell, without having to deal with other owners.

A legal structure is put in place that defines when each of the owners can use the property. Then an outside third party manages the property on behalf of all of the owners. All of the owners contribute equally to the cost of maintenance, management, a fund for future replacement of furnishings and normal repairs.

In terms of use, there are a variety of different programs. In most cases the time is either fixed or rotates on an agreed basis with other owners. Some programs allow for flex time or some fixed time and flex time.

The property often comes in a resort project that offers additional amenities and staffing. In addition, there might be an exchange program so owners can exchange for use of resort prop-

a similar concept at its Panorama Mountain erty nearly anywhere in the world, like a timeshare. Rather than owning just one property, some people buy fractions in different locations, say a ski condo and a beach cottage.

Common fractions in resort property would be: one half, one third, one quarter, one sixth, one seventh, one eighth, one tenth and even one twelfth.

Financing a fractional ownership can be a challenge as many lenders don't like them. If the project is big enough or if it is in a major resort area, the lenders may have already put a financing package together. Otherwise it often means using a mortgage broker to find a lender who will make the loan. Many buyers pay cash and others will re-mortgage their home or another property in order to buy their fractional property.

Fractional costs are higher than if the home was sold for full ownership. The reason is that the developer ends up with higher legal, marketing and financing costs. Typical premiums across North America range from 10 per cent to 60 per cent depending on the size of the fraction.

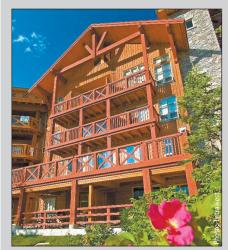
If you are planning on a fractional share, the best advice is to buy for enjoyment, not for profit.

The downside

Fractional ownership can be risky.

Judging from action over the past five years, they can be difficult to resell for a profit. As well, while the cost going in is lower than buying an entire property, there are ongoing management expenses and reserves and, since you are sharing the property with strangers, there

A fractional example



Intrawest is offering a quarter-share ownership in its iQ property at Panorama Mountain Village in the East Kootenays. Buyers own one quarter of the mountain home and can use it one week every month. The first phase has two- and three-bedroom townhomes at prices from \$89,900 per each quarter-share of the townhome. This compares with buying full ownership in a similar size, three-bedroom luxury townhome at Panorama Mountain Village, which has an average resale price of around \$485,000. However, there are "comfortable" two-bedroom resale condos listed in the village from \$199,900.

may be much higher maintenance costs than expected.

A better shared investment, according to Ozzie Jurock, a Vancouver-based real estate consultant, is to simply get three trusted friends or family members to purchase a resort property with you.