

## Is Fractional Ownership for You?

# A SLICE OF THE GOOD LIFE



Trapper's Landing,  
north central  
Minnesota.

by Sally A. Kane

**I**magine a magical blend of rustic simplicity, spacious living, resort-like benefits and bucolic countryside. Even better, imagine enjoying that retreat without an enormous price tag.

Fractional ownership, a new trend in cabin ownership, can allow you to enjoy the get-away-from-it-all lifestyle with few maintenance worries – at a lower cost than owning 100 percent of a place. And no, we're not talking timeshare.

### LEARNING YOUR FRACTIONS

Fractional ownership, also known as co-ownership, divides the deed to a cabin among many owners, from four to as many as 12. An owner is entitled to use the property for a certain num-

ber of weeks per year and a management company handles all of the maintenance and administrative details. And some properties in fractional programs offer five-star amenities and are located in coveted locations on the lakeshore, overlooking the golf course, beside the beach or on the mountainside.

Sherman Potvin, internationally renowned fractional expert and author of "Fractionalize to Maximize," reports that fractional ownerships are the fastest growing segment of real estate in the world today, with fractional sales doubling each year since 2003 and quadrupling in 2007.

### NOT A TIMESHARE

The trend in cabin living is toward frequent, year-round use, but

some cabin owners only get to their places infrequently. So why purchase 100 percent of a property that you can only use 20 percent of the time? That's the premise of both timeshare and fractional ownership.

However, while fractionals are a by-product of the timeshare, the two industries are quite different.

Fractionals provide owners a fee-simple deed in real property. So, the fractional owner can rent it, sell it or leave it to his/her kids like any other interest in real property.

Moreover, fractionals offer more time at your cabin, anywhere from four to 13 weeks – and those weeks do not have to be consecutive. Timeshares generally are purchased in one week increments.

Size is another difference. Timeshares typically contain one

or two bedrooms, but fractionals accommodate two to four-plus bedrooms and are not always located in a resort. Many are stand-alone homes.

## COST EFFECTIVE

The biggest advantage of fractional ownership is cost. Because you divide the cost of the cabin with other co-owners, you enjoy tremendous savings – anywhere from 50 to 90 percent of the total property cost. Co-owners also share other costs like utilities, maintenance, taxes and upgrades.

“We wanted a nice place on the water and a change from the normal routine,” Wayne Franzen says of his fractional cottage ownership in Ship’s Watch, a beach community in Duck, N.C. He and his wife purchased their one-tenth ownership in a cottage blocks from the Atlantic Ocean for only \$50,000 in a neighborhood where full ownership would approach seven figures.

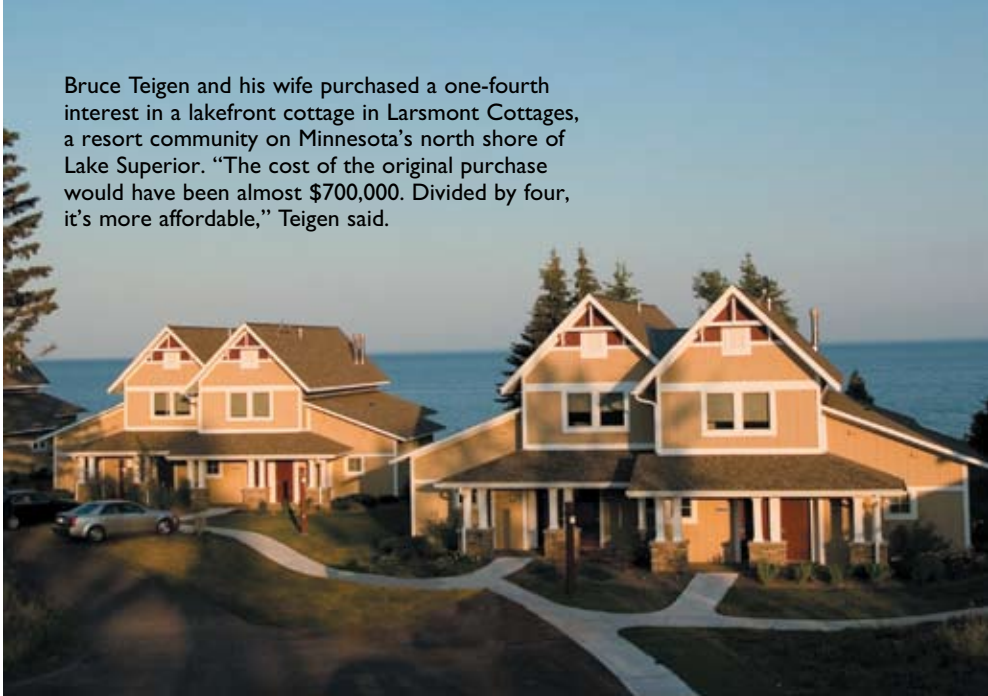
Bruce Teigen and his wife purchased their one-fourth interest in a lakefront cottage in a resort community on Minnesota’s north shore of Lake Superior for similar reasons. “With no maintenance, it’s truly a relaxing vacation,” Teigen notes. “The cost of the original purchase would have been almost \$700,000. Divided by four, it’s more affordable.” Teigen enjoyed his property at Larsmont Cottages so much that he purchased a one-fourth interest in a second lakefront cabin at Trapper’s Landing in north central Minnesota less than a year ago.

## RECREATION WITH BENEFITS

Some fractional programs provide amenities that might not be readily available to the traditional cabin owner. Imagine arriving at your cabin to find your kitchen stocked with your favorite groceries, the table laid out with a delicious meal and the hot tub heated and ready to go. Your tee time? All set.

Each time the Franzens arrive at their cabin, they enjoy a fully catered meal compliments of the Ship’s Watch management company. All owners staying at the Ship’s Watch resort are invited to the meal, allowing owners to get to know each other and the management staff.

Bruce Teigen and his wife purchased a one-fourth interest in a lakefront cottage in Larsmont Cottages, a resort community on Minnesota’s north shore of Lake Superior. “The cost of the original purchase would have been almost \$700,000. Divided by four, it’s more affordable,” Teigen said.



Amenities at Teigen’s Larsmont property include a swimming pool, sauna, massage services and fine dining as well as outdoor activities such as canoeing and hiking beside gorgeous scenery. Trapper’s Landing offers hunting, fishing, snowmobiling, boating, water-skiing and more.

## FOR RENT OR WILL SWAP

Another potential perk of co-ownership is rental income. If you choose not to use certain weeks at your cabin, the management company will often rent out your week(s) at your request. All of the work involved in renting, such as advertising, screening and showing the cabin, is done for you.

Fractionals are generally placed in desirable locations and include a lot of amenities, making renting an

attractive option.

Teigen purchased his fractional properties, in part, as an investment. He rents the properties out during peak season for \$500 to \$600 per night while he and his family enjoy the cabins during the off-season. When the property’s management company rents his cabin on his behalf, he receives 50 percent of the rental income. He also has the option to rent the cabins himself, yielding a higher profit margin.

Cabin swapping is fairly commonplace in the fractional industry. Better than half of all fractionals offer an exchange program, allowing owners to vacation in like-kind properties across the world. According to Potvin, the two main fractional exchange programs are [TheRegistryCollection.com](http://TheRegistryCollection.com) and [Resort2Resort.com](http://Resort2Resort.com). ➡





Wayne Franzen and his wife bought into fractional cabin ownership in Ship's Watch, a beach community in Duck, N.C. The Franzens purchased their one-tenth ownership in a cabin blocks from the Atlantic Ocean for only \$50,000 – in a neighborhood where full ownership would approach seven figures.

## DISADVANTAGES OF FRACTIONALS

Perhaps the most significant disadvantage of co-ownership is that your time on the property is limited to a few weeks or months per year. Often those times are dictated by a management company or rotating schedule and not your needs. Thus, for buyers seeking to spend significant time at a vacation property or whose vacation time is relegated to a few select, non-negotiable weeks a year, fractional ownership is not the ideal solution.

“The five weeks we occupy the cabin are specified on a rotating basis and we have no input to that schedule,” states Franzen, who has a one-tenth share. “However, exchanging weeks with other owners is an option if the scheduled times are not satisfactory.”

Teigen, who has quarter shares, has 13 weeks at each of his cabins. “I get one week per month, two holidays per year,” he says. The schedule is calculated in 15-year increments so he knows his vacation schedule years in advance.

Maintenance fees for fractionals can also be quite pricey. The Franzens pay \$4,200 per year for maintenance fees while Teigen pays \$6,000 per year (\$500 per month) for each of his cabins. These fees cover expenses such as taxes, insurance, maintenance and repair reserves, utilities, supplies, house-keeping and property management. Other fees may also be assessed such

as dock slip rentals, storage rental, home inspection services, hot tub maintenance and restaurant fees (to support the resort's restaurant).

Since fractional ownership is fairly new in the real estate industry, some mortgage lenders may be hesitant to provide financing. Potvin states that, while two years ago it was nearly impossible to secure financing, conventional mortgage rates are now readily available.

The Franzens found it easier to purchase their fractional interest in cash. Tiegen had difficulty securing financing from local banks which were unfamiliar with fractional ownership. He ultimately financed his property through the bank that was financing the construction of the properties in his resort.

Other drawbacks to fractional ownership include no-pet and no-smoking rules, an inability to store personal items between visits and a lack of freedom to modify or decorate the cabin to suit personal tastes.

But, still, fractionals do offer an affordable, hassle-free way to enjoy cabin living at some top destinations.

## FACTORS TO CONSIDER

Have you set your sights on a beach bungalow or chalet on the slopes? On-line resources such as the Luxury Fractional Guide ([luxuryfractionalguide.com](http://luxuryfractionalguide.com)) offer a good starting point to exploring fractionals. As you search, here are a few key questions to consider:

- What's the reputation of the management company? Ask for referrals.
- What size fraction do you need?
- Is the location ideal for you? If you're not sure, rent before you buy.
- What lifestyle are you seeking?
- Is the developer minimizing the environmental impact on the land and surrounding waters as he/she builds the fractional community?
- What are the annual fees?
- If you're planning to rent your place to others, what type of occupancy rate can you expect? (Check with your future neighbors.)

*Sally Kane is a Pittsburgh-based freelance writer who dreams of fractional ownership at nearby Deep Creek Lake.*