

# Can fractional ownership work in the UK?



As Michelle Groves explains on pages 48 and 49, fractional ownership allows investors to purchase a stake in a property allowing use for a set number of weeks per year. Unlike timeshare, fractional ownership's widely derided cousin, buyers also receive a share of the leasehold or freehold, allowing them to benefit from capital gains. While there is no doubt that this innovative sales model provides an affordable way of buying a second home at low cost, what are the prospects of fractional ownership taking off in the UK?



There are two particular factors that seem to weigh against this possibility. The first is the range of other property investment options available: why share rent and capital uplift with other buyers when you could put down a deposit on a buy-to-let or a holiday cottage? You might also find it hard to find a mortgage on a fractional property because lenders are not sure that there is a robust resale market as yet.

The second apparently negative factor is the good old British weather. Unlike Florida, where the fractional ownership concept was born, the UK is only blessed with sunny weather for around three to four months of the year at most. All of the most successful fractional resorts to date have been developed in sunny climates: other than Florida, the concept has flourished in the Caribbean, southern Europe and South Africa. But just how significant is this?



Some resort industry commentators have argued that fractionals require a constant supply of sunshine in order for them to be able to offer a particular activity, such as golf, all year round. But why should a fractional development be dependent upon one particular activity? As Intrawest have proven at Les Arcs, albeit on a leaseback sales basis, it is quite possible to sell apartments to property investors in the French Alps, even though the skiing season only lasts for the winter months. The lesson here seems to be that if the location and the mix of facilities and activities are sufficiently attractive, any resort stands a chance, regardless of climate.



With this in mind, what chance does fractional ownership have in the UK? The early signs are mixed. While the big players such as Marriott have publicly stated that their UK activity will be restricted to top-end fractional schemes in London, independent developers have been more adventurous.

In the southwest, two examples illustrate how the concept can be applied to different types of property. Firstly, at Widecombe-in-the-Moor, Devon, six cottages on a 400-acre working farm have been divided into 24 'quarters', which are being sold for £130,000 to £165,000 per slice, plus a £2,800 annual service charge. Each 'quarter' of the cottages at Holwell Farm entitles the buyer to 12 weeks' use, divided into six blocks; to ensure fairness, the rota moves forward by a week per year, although owners are free to swap time with each other. The cottages are managed and owners enjoy fresh laundry plus a stocked fridge at the start of their stay. The owner of Holwell Farm, Philippa Hughes, was optimistic in a recent interview with the *Sunday Times* that her cottages have the right sort of appeal to domestic investors looking for an escape from the city: 'Dartmoor is an all-year location for walkers or explorers, and the cottages have the bonus of being on a working farm – that's a year-round experience.'

The second example is John Fowler Holiday Park at Ilfracombe. At the lower end of the investment market, it offers two-bedroom apartments from £78,300 excluding VAT and three-bedroom apartments from £93,600 excluding VAT. While it may not be Les Arcs or even be regarded as a 'resort' in the classic mould, this development has been fitted out to a high specification and the facilities on offer include outdoor and indoor swimming pools, giving it at least a partial claim to year-round appeal. As the development's website is quick to point out, property values in the Ilfracombe area have been rising steadily in recent years and should continue to do so, and investment in these properties can be tax-efficient in terms of VAT, capital gains, rollover and inheritance tax relief. The development also offers a guaranteed high annual rental yield underpinned by the strong performance of the John Fowler Holidays brand in the UK tourism market.

Returning to the original question, these examples show that there certainly is hope for fractional ownership in the UK. Even if there is little interest from the big resort brands traditionally associated with this sales mechanism, independent pioneers are starting to sell its multiple benefits to interested British investors. It will be interesting to see just how popular it becomes as factors such as climate change and increased tax on budget air travel continue to grow in importance, impacting on the tourism and lifestyle decisions of consumers.

Images courtesy of Holwell Farm, Devon