



FRACTIONAL OWNERSHIP

MAKING LUXURY LIFESTYLES AFFORDABLE

It's been making headlines of late but what is fractional ownership, where has it worked and what are its benefits? Michelle Groves of Colliers CRE explains.

What is fractional ownership? In essence, it is an investment whereby you purchase a fraction of a property's title deed, which becomes a true appreciating asset. It is quite different to timeshare and vacation clubs, where people buy memberships and pay dues for occupation time rather than ownership. For those who are thinking about purchasing a second home abroad, but don't want the initial financial outlay associated with outright ownership – to say nothing of the annual running costs – then fractional ownership can offer the perfect solution.

Fractional properties come in many forms around the world, ranging from condominiums and hotel suites to cottages or even single-family homes. They are often located in prime tourist locations, through The Americas, Europe and Greater Asia, forming part of a resort destination. With a diverse fractional ownership portfolio, investors can enjoy their leisure time in the sun and snow across the globe, capitalising on holdings through the seasons.

How does it work?

Fractional ownership really takes the hassle out of traditional ownership, with assets offered ready for use with a professional management company to take care of preparation and ongoing upkeep.

Many outright owners of a holiday home tend to use their property for four to 12 weeks a year, yet still bear the annual costs attached to ownership. Fractional ownership, on the other hand, is typically offered in quarter share (13 weeks) or a twelfth share (one month), so responsibility for management fees is apportioned on a pro-rata basis.

Ownership structures vary from scheme to scheme, offering purchasers the choice of owning their property for consecutive weeks/months or splitting up their investment over the year on a fixed or rotating basis.

An annual management fee covers the running costs, including rates, insurance, utilities, standing charges, administration, periodic external repainting and maintenance of communal areas, while a 'sinking fund' provides for the refurbishment of the interior. Maintenance and running costs are also lower than for outright owners as these are also shared between the fractional owners.

In investment terms, fractional ownership offers an alternative. The benefits of likely capital appreciation are also complemented by rental income for investors who decide to derive income. In addition, the low entry or affordability of ownership allows an investment portfolio to be created.



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Where is it flourishing?

Fractional ownership has enjoyed most success to date in the United States and the demand for such schemes is continuing to grow in that market. In early December 2006, PricewaterhouseCoopers released a study, 'Measuring Luxury Fractional Ownership Awareness', which revealed that almost half of all affluent US households (41%) have heard of fractional ownership, and one-sixth of affluent households say that they may consider purchasing a fractional ownership resort within the next five years.

Another interesting finding from this study (conducted on behalf of The Ritz-Carlton Club, Interval International and Starwood Vacation Ownership Inc.) was that potential fractional ownership buyers are more than twice as likely to purchase at a resort managed by a luxury hotel company (68%) than an independent or boutique resort (32%). So while the independents are making sure that the big hoteliers aren't getting it all their own way, they still have some way to go to convince American investors that they can offer the same levels of service, attention to detail and overall quality of experience.

The growth of fractional ownership is by no means restricted to the States, however. It is now among the fastest-growing property sectors world-wide, a trend increasingly evident in southern Africa, Mexico and Asia. During 2005, fractional ownership sales globally amounted to a total of US\$1.5 billion, up from US\$1.1 billion in 2004.

The fractional ownership model has also been applied to sales of luxury private jets and yachts and it is in these sectors that it has enjoyed most success in the UK and European markets to date. There are now signs, however, that fractional ownership of property is becoming established in these markets, especially in Spain. As mature markets take on the trend, it's likely we can expect emerging markets to follow.

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Why is it on the up?

Why is fractional ownership becoming an increasingly popular option for investors?

1. Consumers are seeking to maximise their leisure spend, in terms of both money and time.
2. Fractional ownership is a great way for investors to spread risk and diversify their portfolio across a number of locations, schemes and assets.
3. Perhaps most significantly, it provides more than just the pride of second home ownership – it offers a luxury leisure lifestyle.

While the right location is highly important and the property itself must be up to the standards of an affluent buyer; it is the lifestyle that fractional ownership provides that is emerging as its primary selling feature. Developers have begun to provide valet services, pre-arrange dinner reservations, unpack the car directly to the property and offer a full housekeeping service. Large hoteliers have entered the arena, raising standards across the board and combining the services and amenities of top-class hotels with the benefits of ownership. Traditional non-hotel lifestyle providers are now following the hoteliers' lead, entering into partnerships with developers with impressive results.

As the competition for customers has hotted up, expectation levels have risen. It is not enough purely to have a quality built home in a perfect location, how the customer is treated and the experiences that they have are what fractional ownership is all about. A welcome bottle of champagne and a stocked fridge are no longer enough.