

# THE FRACTIONAL LIFE, HOW TO LIVE IT

THE DEMAND FOR LUXURY, THE NEED FOR SANCTUARY AND RETREAT, AND THE GROWING DESIRE FOR EXCLUSIVE EXPERIENCES HAVE ALL CONTRIBUTED TO A STEEP GROWTH IN FRACTIONAL OWNERSHIP. **EMILE FONDERSON** EXPLAINS THIS EMERGING CONCEPT



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Miami Mansion



Whistler Chalet



Yacht Riviera

If the cost were the same, would you rather own a home on the French Riviera for example, or properties in London, Miami, Gstaad and Cannes? If you prefer the latter, you're not alone. The fractional ownership industry has grown four fold in three years, growing from a €354 million industry in 2003 to a nearly €2.5 billion industry in 2007. Fractional ownership provides a solution for owning one or several properties, while paying for only a fraction of the costs, on-going expenses, and sharing the risks of unforeseen maintenance problem and value depreciation. Of course in exchange for spreading the costs and risks, you give up some of the usage rights and freedoms that you would otherwise have had if you owned the property alone. But business, job and school commitments prevent most people from using a vacation home more than a few weeks or months each year.

## FRACTIONAL OWNERSHIP

The fractional ownership trend was popularised by Net Jets when it began selling shares of planes in 1986. Then luxury resorts got in on the act. Fractional ownership of a property is an arrangement where a group (most often complete strangers, but sometimes family or friends) share the costs and use of a vacation property. These groups can be assembled by a real estate developer, a realtor or seller, or one or more of the prospective buyers/users. Typically each co-owner

owns a percentage of the property and is shown on the title and deed as an owner. In some cases, the deed actually specifies particular periods, while in others, the usage arrangements are described in a separate agreement. Operating expenses such as insurance, improvements, repairs, utilities and management are usually divided in proportion to ownership, so that a 20% owner will pay 20% of each of these expenses.

## NOT YOUR REGULAR TIMESHARE

How do fractionals compare with time-shares? They really don't. But two things separate the most modern fractional from the old fashioned timeshare: ownership and control. With a timeshare, you typically buy the use of the property for a number of weeks a year, there is no ownership in the property and you have little, if any, control over when or where you stay. With a fractional, you are actually a co-owner of the property and you have a deeded interest in it. Even in instances where direct ownership cannot be achieved, the users own and control the entirety of the company or association that is formed to hold the title. You also have control over management and maintenance. Another substantial difference comes from the fact that fractionals are far more exclusive and include many more luxury amenities and services than timeshares. They tend to be larger homes, usually three to five bedrooms. Also whereas timeshares are famous for depreciation, if you buy a

fractional in a nice home in a desirable resort area, it is more likely to hold or even increase in value.


## "FRACTIONAL-LIFERS", WHO ARE THEY?

The fractional-lifers feel that besides tying up capital, secondary homes and residences can be costly to care for and can depreciate. In other words, they have realized that full ownership (vacation homes, cars, boats, etc.) does not always come with privileges. It used to be that possessing status symbols was a measure of how successful you were. But with priorities shifting from showing off such material markers to showing off financial smarts, the fractional ownership bug is spreading fastest within the higher income brackets. And while they are enjoying their visits, their investment enjoys capital growth. Fractional-lifers are also driven by experiences and by discovery. They are interested in the "here and now" and have a burning desire to collect as many experiences and stories as possible. They increasingly live a transient lifestyle, freeing themselves from the hassles of permanent ownership and possessions. Fractional ownership and asset sharing lets them get the most out of their investment by purchasing only the shares they require, leaving financial resources free for purchasing as many experiences as possible.

The disadvantages of fractional ownership are few but could be

significant. Though their numbers are growing, there are still relatively few lenders willing to finance the purchase of a fractional. Also the legal terms of fractional ownership contracts have to be carefully considered and drafted by an attorney or a property specialist who is familiar with the nuances of this emerging field, as conflicts may arise and contracts need to provide a specific and clear solution to allow a final resolution.

## PROFESSIONAL ADVICE

FE Samuels has advised a number of Fractional-lifers and provides, just as with their other services, a one-stop shop to make the process as simple and painfree as possible for the buyer. In many cases, FE Samuels takes the lead consultant role, pulling together and managing all the resources and expertise needed to set up, purchase and achieve a successful fractional ownership. No matter if you want to own a 1/4 share in a exotic home abroad, need access to your favorite yacht ten weeks of the year, or want to spend a selection of days behind the wheels of the most desirable cars in the world. FE Samuels has also launched its own fractional ownership program to meet the needs of "fractional-lifer" clients. 

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