COVER Much-maligned recreational sector may offer the best lifestyle buy for high-end vacation property

In favour of fractionals

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Two years ago, when Toronto resident **Marion Goertz** inquired about buying a quarter-share fractional ownership in a Radium Springs resort where her son and daughter-in-law already had a unit, the share price for a one-bedroom-and-loft condominium was $187,000.

On May 30 at a **Ritchie Bros**. auction in Burnaby, Goertz bought the same fractional ownership for $95,000 in the Big Horn Meadow Resort, which fronts a golf course and the famous hot springs, with views of the Purcell Mountains.

"We are so excited about hiking through the mountains and spending time with our family there," said Goertz, who had bid by proxy with a limit of $100,000. "We feel we got a very good deal."

Local realtors in the Radium area have fractional resale listings just slightly above what Goertz paid at auction.

Goertz's experience underlines the growing popularity of fractional ownership, but also reflects the reality that fractionals are a lifestyle decision, not a traditional B.C. real estate investment that holds the potential of high appreciation or postive cash flow.

In Whistler, where fractional ownership was introduced more than a decade ago, some shared-ownership units are selling for about the same price today as in 1999.

Prices have fallen for most fractional B.C. properties in the last year, and across the province, few, in any, fractional buyers recover enough in rent to allow a positive cash flow, according to those close to the scene.

More than money

But that is not the point of fractional ownerships, said **George Hare**, president of **Higher Ground Project Marketing Ltd**., who personally owns four quarter-share fractional ownerships in B.C., including at Bear Mountain golf resort, on the beach in Parksville, in downtown Victoria and at a ski resort.

"There is more to fractionals than money," Hare said. He notes that he uses his fractional units as a perk for business clients, as a getaway with his family and, through agreements with other resorts, he can trade his shares for time in exotic locations nearly anywhere in the world.

> "If you have to get your calculator to figure out the cost, you probably can't afford a fractional."

When you compare the cost of buying a share in a B.C. vacation property compared to full ownership, fractionals start to make sense, he said.

With a fractional share, he noted, everything is in place when you arrive, often including a concierge and first-class amenities such as swimming pools and spas, and you never have to worry about cleaning or repairs.

Plus, he said, most busy people can't use a vacation home for more than a few weeks a year, which makes outright ownership prohibitively expensive.

Still, Hare notes that fractional ownership should only be considered by those who can truly afford it. It is difficult to acquire financing for fractionals, he said, and the chance of capital returns or positive cash flow are largely illusionary, due to necessarily high management and maintenance costs.

"If you have to get your calculator to figure out the cost, you probably can't afford a fractional," Hare said.

Yet most fractional buyers have factored in the costs of shared versus full ownership and opted for the former.

Bargain prices

According to a recent survey of recreational property values in the Gulf Islands, for example, **Re/Max** found that the average price of an oceanfront cottage is now close to $1 million, and the lowest-priced waterfront condo this spring was priced at $725,000.

However, noted **Elton Ash**, executive vice- president of Re/Max Western Canada, vacation properties are only being used by owners an average of three to four weeks a year.

Yet, at Mayne Island Resort & Beach Homes on Mayne Island, buyers can purchase a fractional share of a fully furnished waterfront cottage for $59,900, and this includes free use of scooters and kayaks.

"We've found that in today's market, offering one-eighth ownership rights for all of our beach homes just makes good financial sense, plus it guarantees each owner six weeks a year of personal use," said Mayne Island Resort development manager **Murray Rosengren**.

Fractional owners can place their units in a rental pool when its not being used, he added.

Photo: Laura Leyshon

Murray Rosengren, development manager at Mayne Island Resort& Beach Homes: "fractionals make sense" in B.C.'s high-priced recreational market.

Tough to finance

According to Hare, most fractional buyers either come in with cash or, as in the case of the Goertz family, arrange a line of credit against their existing real estate. This tends to restrict the market for fractionals to higher-income individuals.

"It is nearly impossible to get financing today on fractional real estate," said **Kyle Green** of **Meridien Mortgage** in Vancouver, a mortgage broker.

Green was involved recently with a client whose bank refused to renew his mortgage on a fractional, and then found that no other lenders would back the loan. The only option was to go with private lenders, who are charging

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up to 12 per cent interest, plus a handling fee. The client eventually took out a personal line of credit against other real estate he owned to pay off the fractional.

"Banks don't like fractionals because they don't see the equity," Green explained. If the borrower defaults, lenders are afraid they will have trouble selling a quarter-share, especially if the market turns down and the other shared owners are also trying to get out. Today's cautious lenders are also wary of loans in small markets, such as resort towns, which makes fractional loans even less popular, he said.

At the very least, he said, fractional buyers would have to come in with a large down payment, perhaps 40 per cent to 50 per cent of value, plus a superb credit rating, before most banks would even consider the loan, Green said. Hare, however, notes that fractionals are often owned by members of the same family who will purchase a large unit – three bedrooms for example – and split the costs and times they use it.

How fractionals work

Fractional real estate ownership refers to the legal sharing of a property with multiple owners. The property title is divided in a manner that each owner has an individual freehold title. This title can then be mortgaged or sold without affecting or needing approval from other owners.

Fractional real estate allows the shared owner to use the property a set number of weeks per year on a rotating basis.

In a quarter-share fractional, the most common type, the owner will have 12 weeks of access, usually in blocks of one or two weeks in a month. The rotation allows each owner to eventually secure prime season access, such as during the Christmas holidays at a ski resort, or the summer high season at a beach or golf resort.

Maintenance costs can be high and may rise dramatically, especially if units suffer damage. As well, rental management fees often take from 50 per cent to 60 per cent of the rental income, leaving the owners with slim rental returns. In some situations, where the majority of units in a complex are rented out rather than used by the owners, B.C. Assessments may deem units to be commercial property, rather than residential, which can increase the property taxes.

For some, however, fractionals make a lot of sense. Goertz, who plans to use her Big Horn condominium for winter ski vacations and summer golf trips, said it was not the potential of making money that convinced her to buy a fractional.

"It is an opportunity for us to get a toehold in the West, where we plan to return to live in 10 years," she said. In the meantime, their quarter-share condo will be there for vacations and, she believes, bring in enough rental income to cover payments on the low-interest line of credit she used to buy it.◆