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Fractionals: A Warm Spot in a Cooling Market By Kristina Shevory

WHEN Robert and Jeannie Hidey went to Bachelor Gulch in Colorado three years ago, they figured they would ski five days and see their daughter who attended college nearby. The last thing they expected to do was to buy a second home. It was their first time at the ski resort, and they liked what they saw: slopes free of thousands of other skiers, plenty of things do off the mountain and close proximity to Vail and Aspen.

So when they walked by a sales office at the Ritz-Carlton hotel where they were staying, they decided to go in. Ritz-Carlton was selling fractional shares of its 54 residences next door. For $280,000, the Hideys bought a 12th share in a two-bedroom residence, which includes daily housekeeping service and lift tickets, for three weeks a year. If they cannot make it one year, they may exchange their time for stays at one of Ritz's three other fractional properties in places like Jupiter, Fla., or the Virgin Islands.

"We could not afford to buy a home there for all the time. It would be a waste of our investment money," said Ms. Hidey, 50, whose primary home is in San Juan Capistrano, Calif. "This is a long-term investment that we can pass on to our two daughters."

Fractional real estate, or shared ownership, is growing rapidly, increasing to $1.65 billion in sales last year for the United States, Canada and the Caribbean, up more than 30 percent from 2005. Such properties appeal to buyers who want exclusive getaways but who may be unwilling or unable to purchase a second home they will use for only a few weeks a year.

Unlike time shares, fractionals carry a title of ownership and are marketed as high-end vacation homes, typically costing an average of 10 times as much as a time share. "The younger generation of buyers is viewing it as an alternative to full ownership because of the ease. You're not paying for when the property is vacant," said John Melicharek, head of the tourism industry practice at the law firm of Baker Hostetler in Orlando, Fla. "It's become a convenient way to own a second home without all of the problems."

As of January, there were 249 fractional developments in the United States, Canada and the Caribbean, a 39 percent increase from 2005, according to NorthCourse Leisure Real Estate Solutions, a consulting group in Parsippany, N.J. According to Ragatz Associates, a consulting and market research firm in Eugene, Ore., that tracks the resort industry, 40,000 households, or about 1 percent of all households in the country that earn over $200,000 a year, have purchased fractionals.

Although sales of fractionals have declined in some areas, the overall housing slowdown doesn't seem to have had much impact on sales of fractionals in North America. (The market is still small compared with time-share sales, which were approximately $10 billion last year, up from $8.6 billion in 2005, according to the American Resort Development Association.)

When buyers purchase fractionals, which are typically marketed to people who make at least $200,000, they are buying a portion of a condominium, a town house or a house and receive a deed to the property. A time share, by contrast, is shared among as many as 50 buyers, who pay for specific blocks of time and typically do not own a share of the property. Time is bought by the week and often costs between $10,000 and $30,000.

Shares in fractionals typically range from a quarter to a 13th, and buyers get as much as three months in their units. Depending on the project, owners get multiple weeks that are either fixed or rotate among owners. The units come furnished and carry annual dues, which can be as high as $18,000, for maintenance, insurance, utilities and property taxes.

FRACTIONALS are now found from Midtown Manhattan to Colorado ski resorts to the Arizona desert. They often come with expensive appliances, finishes and furniture and have a staff who can stock refrigerators, tune skis and place owners' personal gear in their units before they arrive. When you're selling these things, you don't want it to look, smell or act like a time share," said Douglas O'Reilly, vice president for advisory services at NorthCourse.

Large hotel operators, like Starwood Hotels and Resorts, Marriott International, Wyndam Worldwide and Four Seasons Hotels and Resorts have taken note and rolled out dozens of new fractional projects the last four years under their own names or as Ritz-Carltons and St. Regises. In the process, they have added a greater sense of legitimacy to fractional ownership, said Bill Lerner, senior gambling and lodging analyst at Deutsche Bank in Las Vegas. In Manhattan, for instance, Starwood has turned two floors of the St. Regis Hotel on 55th Street at Fifth Avenue into fractionals that sell for $300,000 to $750,000. Owners can stay in the 22 units, which range in size from studios to two-bedrooms, for up to 28 days a year.

Banks have also started offering specialized loans for fractionals in the last year, so buyers do not have to rely on home-equity loans, sell stocks or bonds, or cash in their bank accounts. Such loans can be more difficult to get than ones for primary residences, however. First Fractional Funding of Greenwood Village, Colo., for example, requires a minimum credit score of 700, said Scott Christian, its president.

It is difficult, however, to determine long-term appreciation in the fractional market. Sales histories are spotty because fractionals have been widely sold only the last four years. In expensive ski towns, like Aspen and Vail, sales and prices have remained strong because there is little developable land and demand remains high. But in Florida, Las Vegas and Mammoth Lakes, Calif., prices appear to have stagnated and some projects have been canceled. “In many markets, fractionals have slowed down like full ownership, at the same rate,” said Wallace M. Hobson, managing director for the Americas at NorthCourse.

One of the most successful shared-ownership projects has been the Residences at the Little Nell, a private residence club across from the Silver Queen gondola in Aspen. The project’s developer has increased prices 13 times for its three- and four-bedroom units since sales began in July 2005. An eighth share in a three-bedroom unit now costs $1.5 million, and four bedrooms, which are sold out, are $3 million.

For the Timbers Resorts, a developer in Carbondale, Colo., fractional sales have been steady at its six projects in Mexico, Italy and the United States because it is selective about location and offers a mix of hotel rooms, fractionals and full-ownership units, said David Burden, the president. At its newest development, in Steamboat Springs, Colo., the company has sold all 38 of its full-ownership homes and 40 percent of the 336 fractional shares in 42 other residences since October.

But Joe DeSilva, a real estate agent at the Luxury Real Estate Group International in Palm Beach Gardens, Fla., said there are fewer fractional buyers in his area because prices for wholly owned houses have dropped. Three of his resale listings in Ritz-Carlton’s development in nearby Jupiter have been reduced by about $5,000 since they went on the market last year. One of them is a four-bedroom house with up to 35 days of use a year for $305,000 that has been for sale since September.

Last year, Storied Places, a division of Intrawest that builds private residence clubs, halted two projects because of construction costs and lackluster sales. At its Altis development in Mammoth Lakes, the developer was unable to get a guaranteed construction price, a spokeswoman said. And at La Scala in Henderson, Nev., it sold only 30 of the 120 fractional shares it was offering in presales.

Many buyers purchase fractionals not as an investment but as a vacation alternative.

Chris Roden, an investment manager in Miami Beach, bought a fractional in Colorado from Timbers because, he said, he was fed up with expensive rentals that were far from the ski lifts.

Five years ago, he bought a three-bedroom fractional at the Timbers Club at Snowmass for $280,000 so he could be right on the mountain. A year later, he bought another three-bedroom fractional for the same price at the company’s Rocks Luxury Residence Club in Scottsdale. He said the units are a way for his family to vacation in million-dollar homes without having to buy one.

“This is a way to have that lifestyle without the price,” Mr. Roden, 44, said.

THE Hideys seem to agree. Last year, they bought a wholly owned two-bedroom residence and a similar-size fractional for $1.8 million and $280,000, respectively, at a Ritz-Carlton in San Francisco. They plan to use the fully owned unit as a second home and let guests and clients of Mr. Hidey’s architecture firm use the fractional.

“With the Ritz, you just know you’re always going to have that same level of quality,” Ms. Hidey said. “We want that Ritz-Carlton type of service.”