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Developers Reconsider Partial Ownership Model

- There has been a flurry of fractional activity in recent months as the global real estate downturn has forced developers to look for new ways to sell vacation homes
- Curiosity about fractionals among real estate professionals around the world is at an all-time high
- Developers hope that buyers will view fractionals as a low-cost method to finance a second home

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There is no mystery why the Spanish development company Taylor Woodrow de España is offering partial ownership, what the real estate industry calls "fractionals," after years of avoiding such split-ownership plans. More than a million new houses sit empty and unsold in Spain, according to industry estimates.

"Everybody has to look at alternatives," said Richard Jackson, regional sales manager for the developer, the Spanish arm of the British-based Taylor Wimpey.

Although common in North America, fractional programs — which typically allow a buyer to purchase anything from 1/4th to 1/12th of a home — are a rarity in the rest of world. But there has been a flurry of fractional activity in recent months as the global real estate downturn has forced developers to look for new ways to sell vacation homes.

The Oceânico Group of Ireland, David Lloyd Resorts of Britain, Grupo Pinar in Spain, the Zorgvliet Group in South Africa and Vertuz Development in Thailand are a few of the developers preparing fractional programs. Taylor Woodrow de España will begin offering fractionals in 16 resorts in Spain in the next few months, Jackson said.

"If you have an apartment at €250,000, it's more likely in this climate to find four buyers with a quarter of that than one with €250,000," Mr. Jackson said, referring to the price, equivalent to $335,000.

Some industry executives thought consumers were ready to embrace fractionals as a low-cost alternative to full ownership of a second home. "Within 10 years the fractional market will be bigger in Europe than the United States," said Peter Kempf, president of European operations at DCP International, a consultancy based in Illinois that markets private residence clubs.

Companies that specialize in marketing fractionals say they are receiving an unprecedented number of inquiries from developers. Leisure Solutions, a Bangkok-based company that works with developers, has expanded to eight clients from four in the past year, said Brendan McClean, the company's managing director.

And the Fractional Ownership Consultancy, based on Guernsey in the Channel Islands, expects to add projects in Egypt, Morocco, Cape Verde and Brazil in the next year, according Les Milton, its chairman.

"The reality is that the property market in Europe is awful, and developers have got to look for a selling option rather than just selling a property outright," Mr. Milton said.

At the very least, curiosity about fractionals among real estate professionals around the world is at an all-time high. Fractional Life, a promotional group, expects attendance at its second Fractional Summit, an industry event scheduled for April in London, to grow to more than 250 developers and industry executives, compared with 125 in 2008, according to its founder, Piers Brown.

The interest in Europe and Asia is a sharp contrast to the declining activity in North America, the concept's birthplace.

After years of flashy growth, sales of such plans there dropped to $1.6 billion in 2008 from $2.3 billion in 2007, according to Ragatz and Associates, a research agency based in Oregon.

In recent months several destination clubs offering different forms of shared ownership have filed for bankruptcy or asked members for increased fees to stay afloat.

Outside North America, fractionals have been slow to catch on in recent years, partly because booming markets made such projects unnecessary and partly because complaints about rip-offs and false advertising at time-share projects made consumers and builders wary of shared ownership, industry executives say.

Last year the European Commission moved to strengthen regulations protecting consumers against aggressive sales pitches from time-share operators, including programs known as “holiday clubs.”

Plans vary, but time-share buyers typically are purchasing only the use of a unit for a period of time while fractionals offer a share of ownership, including profit or loss if the unit is ever sold. Fractional owners also typically share in maintenance costs.

“Time share had such a tarnished image; basically it was a nonstarter,” said Roger Still, development manager of Palheiro Estate, a 130-hectare, or 320-acre, project on the Portuguese island of Madeira.

But Palheiro recently began offering fractional deals — a quarter-share ownership in a two-bedroom apartment in the hillside development is €150,000; a quarter of a three-bedroom is €240,000.

“People have become more sophisticated,” Mr. Still said. “People understand this is not time-share.”

Developers hope that buyers will view fractionals as a low-cost method to finance a second home. “With the economy the way it is, people are smarter with their expenditures,” said Bill Schroeder, head of sales for the Oceânico's residence club program.

Fractionals offer several advantages to developers, including the ability to increase revenue because the value of shares usually adds up to more than the sale price.

For example, a developer may charge $100,000 for each quarter share of an apartment that might sell for $300,000 as a unit.

Critics say the markup is one reason fractionals are not a great deal for consumers.

“The price you pay for a 1/8th share; will that be achievable when you go to sell it? I doubt it,” said Sandy Grey, chairman of the Timeshare Consumers Association, a British-based advocacy group for buyers.

And some industry analysts think the market downturn might eventually work against the fractional industry. “Once prices have fallen significantly, the reason for them starts to fall away,” said Liam Bailey, research director at Knight Frank, the property company, in London.

For now, however, many developers simply see fractionals as a way to jump-start sales.

“It’s very much driven by need,” said David Walton, vice president of sales and marketing for Waterfront, a tower development on Pattaya Bay, a resort city in Thailand. “What was an accepted formula six months ago is no longer the case.”