

# The New York Times

## A House Divided

- With the economy in turmoil and the real estate boom a distant memory, some people are now looking to sell part of their vacation homes
- They don't use the house as much as they thought, so why not get some cash back
- Teaming up with a friend trims the costs, while tapping into the equity in the house by selling off multiple stakes in their property

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Fractional ownership - a concept that gained popularity during the height of the real estate market as companies like Ritz-Carlton and Fairmont offered buyers an option that was a step up from timeshares - has trickled down to individual homeowners. Teaming up with a friend to buy a beach house or ski cabin is nothing new, of course, but these owners are trying to trim the cost of mortgage payments, insurance, taxes and maintenance, all while tapping into the equity in the house by selling off multiple stakes in their property.

Sellers can be motivated by several factors, said Paula Gold-Nocella, a broker and the founder of Global Quarters, which focuses on marketing and selling fractional properties. "They want to retain ownership and access the equity, but refinancing might not be an option," she said. "Some would like debt relief. Often they don't use the house as much as they thought, so why not get some cash back in their pocket?"

In adopting the fractional model, the owners are taking a page from the hospitality companies, which sold stakes in homes that come with higher-end amenities, multiple weeks of use and — unlike some timeshares — deeds.

### OWNER 1 – JASON FELTS

In Hernando Beach, Fla., Jason Felts has his four-bedroom gulf-front house, complete with a boat slip, on the market for whole ownership for \$849,000 and for sale in one-seventh shares for \$149,999 each. His preference is to sell it as a fractional, he said.

"In a perfect world we would close six fractions and keep one," said Mr. Felts, who has owned the home since 2005 and is marketing it on his Web site, [www.gulfowner.com](http://www.gulfowner.com). "We enjoy going to the house and would love to keep it, but in this economy it is tough to justify it. We would like to take some money off the table."

Even sellers who are not financially pinched are considering fractional sales as an option. "They are focused more on the cost of living," said Andy Sirkin, a lawyer who splits his time between San Francisco and Paris, and advises on structuring property for shared ownership through his firm, Sirkin Paul Associates. "They may be looking at the budget and think, 'We need to cut back somewhere.' This may be relatively painless."



Jason Felts is selling shares in his Hernando Beach, Fla., home.

### OWNER 2 – DALJIT S. HUNDAL

In the summer of 2007, Daljit S. Hundal bought a four-bedroom house complete with caretaker's quarters, nestled 1,200 feet above the Pacific Ocean in Dominical, Costa Rica. His intent was to visit his 17-acre property, adjacent to a wildlife-filled nature preserve, six or seven times a year from his home in northern

Virginia, offer it to family and friends for vacations, and eventually make a permanent move to the country. Now Mr. Hundal, finding that he is not using the house as much as he originally planned to, is considering selling a 49 percent stake in the property, divided into three shares, to split the usage and cost of ownership of the house among a small group of strangers.

“Obviously times have changed,” said Mr. Hundal, noting that his mortgage lender in Costa Rica doesn’t offer a home equity line of credit on the house. “If I had not lost so much money in the stock market, I would not be offering it for fractional ownership. I would just have friends and relatives fly down to use it.”

Preparing to sell a portion of a house isn’t as seamless as putting the entire house on the market for whole ownership. For one thing, insurance can prove difficult to obtain from an existing provider, so sellers may have to shop around for a new policy. There are also local, state and, in the case of foreign countries, national laws to contend with when breaking up a property for sale. Homeowner association rules may affect the sale, while state laws covering timeshares may require an owner to register with the state and even submit all advertising for the property for approval. As a result, an owner would very likely seek to avoid state timeshare rules by limiting the number of shares.

### **OWNER 3 – BRIAN CAMERON**

On Hawaii’s Big Island, Brian Cameron divided his vacation house in Kona into one-sixth shares that include a minimum 60 days of use to avoid falling under the state’s timeshare regulations. “You have to buy in two-month time frames, but in reality we will try to put a group together that can swap weeks amongst themselves,” said Mr. Cameron, who aims to retain one share of the home, which he has owned for the last 10 years.

In addition to wanting to pull some equity out of the house, which is being marketed on [www.newwestpropertiesllc.com](http://www.newwestpropertiesllc.com), there is an emotional factor behind opting for fractional ownership, he said. “As much as we have considered selling the entire property, it is hard to part with those great memories,” said Mr. Cameron, despite the fact that in recent years his family has made fewer and fewer trips to Hawaii from their home in Santa Rosa, Calif. “We love the house and we want to hang onto it.”

Using Mr. Sirkin’s consulting services, Mr. Cameron prepared the house to be sold in shares priced at \$325,000 to \$350,000. He now has a 55-page document that covers basics like cleaning services and when to replace the couch to bigger issues including the building of a reserve fund and rules on how owners can sell their shares. He has also opted to offer financing to buyers.

“Two years ago I wouldn’t have been interested in financing, but in the current credit market it is foolish not to talk about it,” he said. “I’m talking to one family now who is very interested, and we’d do seller financing with them. They would put down \$125,000, and we’ll finance \$200,000 for two years.”

In fact, getting around the financing issue can be a challenge for some sellers. Fractional sellers who have taken their properties off the market often cite mortgages as a major roadblock to completing sales.

### **OWNER 4 – BOB BODMAN**

Bob Bodman stopped marketing his four-bedroom fractional house in Truckee, Calif., near Lake Tahoe last November, after more than a year of showings but no sales. “We probably had a couple of dozen interested to somewhat interested parties, but we sold nothing,” Mr. Bodman said. “The barrier to selling is if there is any debt on the property you have to clear the mortgage before you can close. You have to line up a couple of sales before you can do that, and it threw everyone a bit of a curve.”

While Mr. Bodman didn’t sell any shares, he said he did learn enough about setting up a home as a fractional to start his own Web site, [FractionalDocuments.com](http://FractionalDocuments.com), which sells boilerplate agreements covering the purchase, management and use plan. “I got more calls on where I got my documents than calls interested in buying the house,” he said.

A mortgage on a house can pose a challenge to the owner who wants to get the residence sold as a fractional. However, there are ways around the financing issue. Mr. Sirkin, the fractional consultant, said that in addition to making deals in which the current mortgage is paid off, he has structured deals that allow the existing mortgage to be kept on the property. "We have done sales where the existing loan is assumable by buyers," Mr. Sirkin said. "Some lenders say because you are staying in the house we don't mind if you bring in other owners," he said, but he noted that the type of loan, the lender and other factors can affect whether this is possible. During the height of the real estate market, most buyers weren't interested in securing a loan, he said, but the ability to offer financing in a tight credit market may give buyers an edge. "Now more fractional buyers want financing," he said.

Like the larger real estate market, fractional homes have faced an increasingly tough sales environment in recent months. Now, fractional sellers may also find that they are competing with even less expensive local real estate. Robert Vicino, president of Fractional Villas, a consultant and management company based in Del Mar, Calif., that structures homes for fractional ownership and works with buyers interested in such deals, said that his firm had seen numerous requests from owners in Florida, but that he was cautious about entering that market. "We would be competing with foreclosures that are 10 to 20 cents on the dollar," he said. "We might also be dealing with problematic homeowners' associations where fees aren't being paid."

In some areas, fractional sellers are competing against larger shared-ownership developments. Bruce Chadbourne built a three-bedroom house, with a one-room guesthouse, in Calistoga, Calif., on the northern end of Napa Valley, that is on the market in quarter shares that secure three months of annual use. The home, which is also available for whole ownership, is being marketed on his real estate agent's Web site, [www.homesbyjacqueline.com](http://www.homesbyjacqueline.com).

The shares, at \$675,000, are more expensive than the one-tenth shares of fractional homes at the nearby Calistoga Ranch, a luxury resort, but Mr. Chadbourne's shares include more guaranteed use. Mr. Chadbourne admits that he can't match all of the amenities of the resort, of course, but that he can offer his buyers similar comforts. "I don't have a restaurant," he said, "but I can provide chef service and I can arrange wine tastings."

#### **OWNER 5 – ED & GINGER BOOKER**

Owners of fractional shares in individual homes insist that a shared stake can be ideal for long-term ownership. Ed and Ginger Booker of Greensboro, N.C., have owned part of a house in the Fisher area of Kure Beach, N.C., for two decades. "We built an oceanfront house and sold an equity share," Mr. Booker said. "We brought in family and friends to buy shares. I own one-thirteenth shares in the house, while his wife owns one share."

Over the years, use of the house has been governed by the rules that Mr. Booker compiled. "I wrote an operation manual that gives, in excruciating detail, all the rules and even details on the color of the carpet fibers," Mr. Booker said. "It is the bible, so to speak."

"It has worked beautifully for us over 20 years," he said, noting that the biggest gripe at the last annual owners meeting concerned sand not being brushed off beach chairs and toys before being stowed in the house.

Now the Bookers are trying to sell two of their shares, each priced at \$154,900, on their Web site [www.beachfractional.net](http://www.beachfractional.net). But they aren't ready to completely walk away from the house, said Mr. Booker. "We still hope to keep one share."



*Ed and Ginger Booker in their home in Kure Beach, N.C. They sold shares in the house when they built in 1988.*