thestar.com

FRACTIONAL OWNERSHIP

Time-share Transformation

Perception is changing of vacation home ownership, which is now within reach for many

ROBERTA AVERY

January 26, 2008

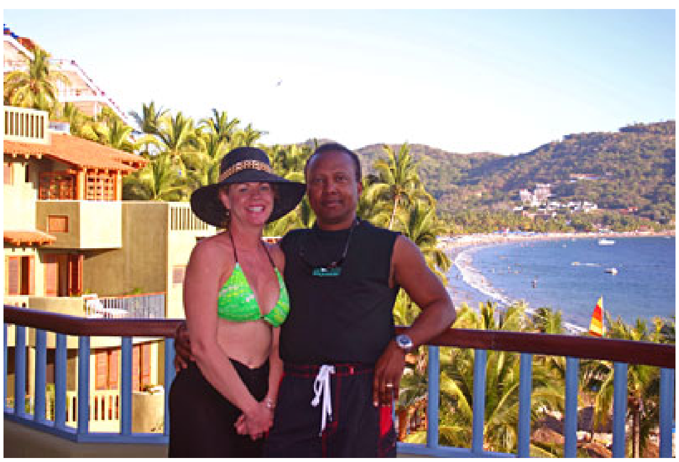
Fractionals, assembled fractions, vacation clubs, interval ownership and private residence membership: These are some of the concepts that evolved from the time-share model, which originated in the French Alps in the 1960s and reached North America in the early 1970s.

But proponents these days are careful not to use the "t" word.

"Time-share" has negative connotations related to high-pressure sales tactics. It's a reputation that in many cases was once well-deserved. Lured by the promise of a free or cheap vacation, prospects were told they were under no obligation to buy – all they had to do was attend a short presentation.

When they got there, sales reps tried wearing potential clients down by promising them close to anything as long as they agreed to "sign on the dotted line."

But the vacation home ownership industry has worked hard and is now earning a good reputation, says Gloria Collinson president of the Toronto-based Canadian Resort Development Association.



Denise and Garth Annisette of Windsor enjoy a stay at Club Intrawest in Zihuatanejo, Mexico. They say that persistence and flexibility paid off in getting the exact vacation they wanted.

Collinson, who heads up sales at a fractional ownership project at the Muskokan Resort Club on Lake Joseph near Port Carling, says the industry is now putting vacation home ownership in world-class locations within reach of average Canadians, and that has resulted in a total about-face in the public's perception.

"The acceptance is quite amazing; there's a huge difference," says Collinson, who is retiring as association president after 25 years.

The industry supports the Ontario government's Consumer Protection Act, which came into effect in 2005, Collinson says. The act aims to protect consumers from overzealous sales pitches by calling for a 10-day "cooling off" period after a purchase agreement for a time-share or vacation club has been signed.

That doesn't mean the industry is now squeaky clean – yet.

In October, St Catharines-based Fun for Life Club International was charged under the act after the provincial government received written complaints from people alleging that they could not cancel contracts during the 10-day "cooling-off." These consumers also complained that false and misleading statements were made to them during sales presentations, and that certain services and facilities promised as part of their agreements were not delivered.

Even though the allegations have not been proved, Collinson, says such cases taint the reputation of companies that offer good value for money. She urges consumers to do a lot of research before buying.

Collinson, who has been marketing fractional ownership since it was first introduced to Ontario in 1999, says that many purchasers prefer the format because they get a deeded share in a property and not just a right to use it for a week, as in many time-share properties.

Fractional ownership also offers some real opportunities for capital appreciation, says Collinson, who estimates that one-tenth shares in Chandler Point, near the village of Haliburton, have more than doubled in value since the project was launched in 1999.

But unlike time-shares and vacation clubs, fractional ownership doesn't come under the Consumer Protection Act, says Alan Cairns, a spokesperson for the Ministry of Government and Consumer Affairs.

"Fractional ownership is true ownership that is registered on title ... In essence, fractional ownership is property ownership," Cairns says.

That's exactly how Bob and Cora McDonald of Brantford see it. Two years ago they paid $120,000 for a one-tenth share in a three-bedroom, three-bath luxury home at the Muskokan that gives them five weeks of use a year – one week fixed at the end of August and the other four weeks selected on a rotating basis.

"We just love it, especially knowing that there are 10 owners or less, as some people own multiple fractions, which means that there are not hundreds of people using your unit, like in time-share," Bob McDonald says.

As a one-week time-share owner in St. Petersburg, Fla., for about a decade, he should know. "That unit gets a lot of use, literally hundreds of people use it," he says.

With one-tenth shares at Muskokan now being sold for around $150,000, the McDonalds have already seen a significant capital appreciation, but the same hasn't been true about their Florida time-share, which is still changing hands for about the $3,000 they paid in the late 1990s.

The majority of vacation home ownership schemes, including fractionals, offer consumers the opportunity to trade their time in one unit for a stay in other locations around the world. In the McDonalds' case, they say they love Muskoka winters and have never tried to trade their winter weeks. "Although there may be more interest in a stay in Muskoka in the summer months, quite a few of the owners have successfully traded their winter weeks at the Muskokan for somewhere down south," Bob McDonald says.

However, the ministry's website cautions it can be difficult or impossible to arrange a swap for a popular area for a particular time.

Club Intrawest members Denise and Garth Annisette of Windsor admit that it can be challenging to get the exact vacation they want, but say that through persistence, dedication and some flexibility, they usually succeed.

At 9 o'clock promptly on the morning of April 10, the Annisette household hits the phones in hopes of snagging a stay for the next March break at their favourite Club Intrawest resort, which is an 89-villa development in Zihuatanejo, Mexico, near Ixtapa.

"We get everyone dialling to get through, because by 9:05, they are fully booked; but by being quick off the mark we get the dates we want," says Denise Annisette, who notes Club Intrawest takes bookings from members 11 months ahead.

"For March break, Easter or Christmas you have to be the first to call, but for the rest of year there is plenty of availability," she says.

The Annisettes have been club members for about seven years and have spent about $60,000 on enough club points to give them and the last two of their seven children who live at home, ages 10 and 12, about four weeks of club vacations a year. Their goal is to accumulate enough points by the time Garth cuts back on his work in about 10 years, to spend two or three months a year travelling on Club Intrawest points.

The Annisettes decided to join Club Intrawest because it was a division of Vancouver-based Intrawest.

"We wanted the assurance of quality that came with a brand name," says Garth Annisette, 54, an orthopedic surgeon.

Club Intrawest, which has 560 vacation homes in eight resorts across North America, guarantees to buy back club points for whatever any of the 38,000 members paid when they joined, but doesn't pay current market value, says Club Intrawest's Chad Garrod, vice-president of marketing strategy and planning. Since Club Intrawest was founded in Whistler, B.C., in 1995, Intrawest points have increased in cost to about $185 each from around $110. It takes about 150 points to get a week's stay in a prime location.

Members who want to cash out may get more by selling on the open market, but they may not acquire the full selling price because they aren't able to offer the incentives that Club Intrawest gives to purchasers, Garrod says.

Garrod agrees with Annisette that it's important for consumers to consider a company's reputation before buying into vacation club ownership.

"It's important to be anchored to a strong brand well-known for service and a reputation for standing by their customers such as a major hotel chain," he says.

One well-known hotel chain that's offering an unusual opportunity for fractional ownership is Fairmont Hotels at its newly launched Fairmont Heritage Place, Kingdom of Sheba in Dubai. There, a one-tenth share in one of 50 homes that offer "uncompromising luxury" starts at around $164,000 (U.S.)

Fractional ownership purchasers at Toronto-based Resort Owners Group (ROG) have the flexibility to trade their weeks of use for multiple units should they want a vacation for the whole family, says company president Gary Carter. That means, for example, that if purchasers want two extra units for a family vacation at the Florida condo they purchased through ROG, they can trade two of their weeks during the rest of the year for extra space during the family vacation.

Another new concept being offered by ROG is "assembled ownership," which is designed for multiple friends, families and business associates who want to own together and have the option to vacation together, Carter says.

Bringing a group of purchasers together results in 5 to 10 per cent lower costs for each fraction and each purchaser gets the assurance of knowing who is using the home, Carter says. Mortgage companies, which don't finance fractional ownership, will advance funds on assembled ownership for up to four families.

ROG is already selling one-eighth fractions in two-bedroom villas at the PGA Village at Castle Pines Port St. Lucie, Fla., for $37,500 and is lining up seven other locations across North America including Las Vegas, Canmore, Alta., and Mont Tremblant, Que., with prices yet to be determined.

ROG owners will be able to trade their weeks between the different locations and participate in exchange programs.

As most vacation homes stand empty for up to 312 days a year, Carter has come up with a solution, which he says is revolutionary in the industry. Owners keep 100 per cent of their fractional equity in the property but allow ROG to put their home in a rental pool for 20 per cent of the time. In return, ROG oversees the year-round management of the property and offers a selling price for each fraction that, when added together, comes to only slightly more than the real estate value of the home.