Maybe You Can Afford to Buy a Cottage?

Fractional ownership allows those priced out of the red hot cottage market a chance to own a piece of the dream

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May 13, 2008

The east coast of Vancouver Island is a paradise of forests, beaches, water and serenity, the kind of place where most of us dream of having a cottage -- if we could afford it. Say, a roomy, two-bedroom waterfront retreat set among acres of cedars and gardens, with a hot tub and pool, perhaps a spa and restaurants nearby.

It just so happens one is on the market. Price: less than $150,000.

An accidental omission of a zero or two? No, but there is a catch: for that price, you have to share it. You become a part owner -- or a "fractional" owner -- of the Pacific Shores Resort & Spa on Craig Bay, free to use all the facilities, but only for a few weeks a year.

If this sounds like a time share, it's because fractional ownership has some similarities with that largely discredited model. In both cases, you're allotted time slots to exclusively use a common property. However, fractionals have as much with condos as with time shares. That's because of the following:

What you get: With fractionals, you become a part owner in a property, getting a deed and title, rather than just a lease to use it for a set period as you do with a time share. You own a portion not just of the house but the land, any common facilities, furnishings and recreational toys such as boats. And you can sell your share just as you would any other real estate through a Multiple Listing Service. At Pacific Shores, for example, you receive a deeded title which is "yours to use, rent, sell, trade or pass to heirs," the property's website assures.

How much time you get: Most fractional properties are split into 10 shares of five weeks each -- more time than time-share owners typically get. You can buy more than one share; in fact, buying half ownerships in properties is increasingly popular among those who can afford it. Some families arrange to have relatives snap up shares, providing the larger family more flexibility in time and use. There's usually a system for assigning weeks so that over time every owner gets the home during the most coveted slots, such as Christmas week or March break.

How the property is maintained: Like condos, most fractional developments charge annual fees for taxes, maintenance and insurance. According to Fractions.ca, a website that promotes fractional developments in Ontario, co-owners usually form non-profit associations to fund and handle maintenance, cleaning and repairs on the property, so they don't have to worry about fixing the dock during a holiday. Unlike condos, however, most fractional properties come furnished and outfitted with shared cottage paraphernalia, such as ping pong tables and kayaks.

According to Halogen Guides, a website about high-end real estate and travel, there are currently 237 fractional-ownership projects in North and Central America, with about 25 of those in Canada. British Columbia accounts for roughly half, with Ontario also a popular location. But the concept has spread beyond North America, with fractional properties available from Arizona to Marrakech, Alberta to Dubai. Hotel chains such as Marriott, Hyatt and Ritz-Carlton have also jumped in with developments of their own, with some allowing fractional owners to trade stays at their properties.

The majority of fractionals offer accommodations that would be out of reach for most Canadians. According to Jamie Cheng, chief analyst at Halogen Guides, this is in part to create a clear distinction from the relatively low-end time-share market. "Fractional developers are adamant about separating their product from time shares and one way they have done this is by making fractionals a more luxurious purchase." For example, developments such as the Little Nell project in Aspen offer fractional shares at million-dollar price tags. In fact, a great many fractional properties (which are sometimes also called residence clubs) are built as part of larger high-end resorts that offer additional perks and facilities for affluent owners.

Cheng points out, however, that there are affordable properties as well. In the Muskoka region, cottage central for affluent Ontarians and visitors, Chandler Point Corp. offers one-tenth pieces of luxurious lakefront cottages at mid-five-figure prices -- cheaper than a high-end car. The founders, John Puffer and Joe Giglio, claim to be pioneers of fractional cottage ownership, starting a decade ago with their Chadler Point development comprising six cottages on a seven-acre stretch of waterfront. They are now on their fourth project, and more than 600 families have bought into their properties.

While fractionals offer affordable entry into cottage ownership, as with everything, they're not for everyone. For starters, the time constraints will likely deter anyone who enjoys spending summer months on the lake. But there are other caveats:

Quality: If you're not buying luxury, make sure you check carefully how solid the developer and its product is. Chris Ballard, who runs a communications company in Aurora, Ont., became a supporter of fractionals after watching prices skyrocket around his cottage in Muskoka. "Owners treat the lake better than renters," he reasons. But he cautions those getting in to look for quality. "Don't buy if the buildings are cheaply built -- you'll pay for upkeep in the long run. Be prepared to pay in the neighbourhood of $2,000 per year in maintenance and refurbishment fees. Any less and you've got to question whether the development has properly costed long-term maintenance and replacement."

Resale: A major knock against time shares has been that when it came time to sell, the buyer market was scarce. While it should be easier to unload fractionals because you have a deeded title, Cheng cautions that "the resale market is still, for the most part, unproven." He and others, in fact, advise against buying fractionals as investments until the concept has demonstrated longevity. "There are a few [locations] like Aspen where the market is more mature," he notes. "In fact, if you look at the MLS in Aspen, there are a number of fractional units available for resale at various price points." Checking the local MSL listings is a good idea before putting down cash, Cheng say, not only to see how much units are fetching but to verify that you can sell without restrictions. "Some developers don't want to risk a resale unit going on the market for less than the current asking prices," he says.

Financing: Fractional ownership is still new, and mainstream financial institutions aren't big on novel real-estate concepts. Today, most such purchases are done in cash -- and by people who can afford to pay that way.