Can't afford that luxury home? Just buy half of it

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Fractional ownership shouldn't be confused with an out-of-fashion timeshare

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It's pretty well known that demand for vacation homes has shot up in the past year as city folk become fixated on the idea of getting away and avoiding crowds. Whether the destination is a lake, a mountain range, the beach or just another city, almost everyone is looking for an escape.

But what if you can't afford — or don't want to pay the full cost — for a home in your dream destination?

Here's an option: Buy a share of a house instead of the whole thing. That's the concept behind fractional ownership properties, which are sometimes called private residence clubs.

Not to be confused with the out-of-fashion timeshare — where consumers buy weeks of time where they can use a vacation home or condo — fractional property is deeded real estate that is owned and can be sold, placed in a trust, gifted or inherited. Most fractional properties sold by developers are in the luxury category and tend to have far fewer owners than a timeshare. Maintenance, security and upkeep are often taken care of by a management company, essentially making your vacation home hassle free.

A recent Escape Home survey found that before COVID-19, only a quarter of second home owners used their home more than four weeks a year. Now, during COVID-19, nearly a third use it more than they used to, while half use it the same amount.

"Fractional real estate is about 'rightsizing' your vacation home ownership to the actual amount of time you plan to vacation…. with all maintenance and upkeep handled by… the management company.

Sales of fractional properties gained popularity during the real estate boom in the late 2000s, led by luxury hotel brands such as St. Regis, Ritz-Carlton and Four Seasons, which built developments dedicated to shared ownership in cities like New York and London as well as resort locations in Colorado, California and Hawaii.

Sales peaked at $1.7 billion in 2007, according to Richard Ragatz, who tracks the industry. But after the 2007-2008 financial crisis, the hotel chains stopped building new fractional developments. Sales totaled just $198 million in 2019.

With demand for vacation homes now accelerating, Mr. Ragatz believes 2021 and 2022 will be the years when fractional ownership rebounds.

"More and more people want to own a vacation home but they don't want to buy something that takes up too much of their income and they don't want to buy more than what they can use," he said. "Decades of research has shown that most owners of vacation homes use it only five to six weeks of the year, so buying whole ownership isn't really rational."

Mr. Ragatz expects some of the bigger real estate developers to increase construction this year. Meanwhile, newer companies have emerged recently with different models for shared ownership that are not necessarily part of a planned development.

Inevitable, there will be disputes. Who pays if furniture or furnishings are damaged? What if you don't like the furnishings and want to replace or upgrade them? Who determines what is the proper code of conduct? When you're working with several different owners, making decisions can be frustrating. Having the property professionally managed certainly helps smooth out the problems, but doesn't eliminate them completely.

But for most buyers, the advantages far outweigh the disadvantages. And if it doesn't work out, hey, you can always sell your share.