



## IN FOCUS

STORY : Pattamaporn Kittipapanachol  
PHOTOGRAPHY : Chavaltit

# Fractional Ownership

Second or third homes, planes and yachts are luxuries that have long symbolised financial success of the privileged few. However, fractional ownership has opened up this rarified world. To find out more about property fractionals, we talk to Leisure Solutions, the sole fractional ownership consultancy in Thailand, about the industry and its future in Thailand.

Unlike conventional property purchases of second homes which are usually left uninhabited more than half the time and consume a lot of effort in upkeep and paperwork, fractional property ownership relieves owners of such burdens and hefty price tags with its “buy what you want to use” arrangement, says Leisure Solutions’ business development manager Brendan McClean.

### Origins

This innovative property ownership arrangement which allows people to collectively own property emerged in the US around the turn of the 21st century and has since spread to Europe, the Middle East and Africa with great success. The high-end segment alone was a USD 2.3 billion industry by 2007. Though it is still early days yet for Asia and Thailand, Darron Guy Leisure Solutions’ general manager believes that the future is bright because fractional ownership enables buyers to fund a high-end lifestyle affordably despite current global financial conditions.

Though second homes lend a certain cachet to owners, paying taxes, insurance, utilities and maintenance of this luxury is invariably costly and troublesome. While friends and relatives can and do pool resources to reduce expenses and increase usage, intractable disagreements may ensue if some parties prove irresponsible.

Fractional ownership addresses these problems by setting up a registered company with equal shares owned by all the owners. All the paperwork and responsibility for handling all taxes, utilities and insurance payments and upkeep of the property, as well as organising owners’ visits, is entrusted to a specialist third party management company, for an annual fee paid equally by each owner. A third party custodian or trustee is also set up to manage the registered company and to look after the interests of all the fractional owners. So a fractional with six owners will have six individual title deeds, each worth one-sixth share of the property that can be bequeathed in a will or to a trust. If the property (or planes and yachts which are assets



that have similar arrangement) is sold, all profits are equally distributed to the owners. (It should be noted that planes or yachts do not typically appreciate in value).

Since each share is self-contained, individual owners can change without affecting the group, which allows the management company greater flexibility in mixing and matching owners within a unit to optimise schedules based on divergent usage patterns. For owners, fractionals are “arrangements with all the advantages of second home ownership, but without administrative hassles,” Brendan says. “Overlaid on this structure is the hotel-like lifestyle,” alluding to amenities associated with this form of property.

### Fractional Types

Most branded fractionals are in five-star hotel or resorts like Fairmont, Ritz-Carlton, St. Regis and Four Seasons. But even for properties without attached hotels, fractional arrangements invariably include cleaning and food and beverage services managed by the management company. Darron explains:

▫ **Destination Clubs** - These clubs resemble exclusive, upscale country club type memberships and property exchanges are fairly common. Both equity and non-equity clubs exist, though the latter typically precludes rental income and profit sharing. To exit, membership is resold to the club for 80-100% of the initial entry price, or owners can sell directly to the market. Members pay yearly maintenance fees that range from a few thousand to upwards of USD 100,000.

▫ **Private Residence Clubs** - “Are essentially high-end exclusive fractionals. Shares are typically larger, usually a one-quarter or one-sixth for high net worth people who want to meet people at the same level. Buyers are usually not looking for rental return; they buy more time so they can use it at their preferred time,” Darron says. Amenities and service are generally superior to and more personalized than destination clubs.

## Fractionals in Thailand

"Of the 15 million visitors in 2008, approximately 60% of them were repeats," says Brendan, which is a positive sign since Thailand's affordable price points and living costs are attractive to foreign visitors seeking second homes.

Hua Hin, Cha-Am and Khao Yai are target vacation home locations for Thais and expatriates alike, given their proximity to Bangkok by car, "but when owners use it for three months a year and rental opportunities are low, it's hard to justify buying a THB 5 or 10 million property," he explains. However, for just a quarter of that price, high-end fractionals targeting expatriates offer luxuriously fully-furnished clean condominiums fitted out with the owner's personal accessories every time they visit, combined with the ease of re-selling the property whenever they have to relocate.

## Financing

"Fractionals can be structured as a long-term lease of 30 + 30 + 30 years to an entity that will typically be an offshore company which will then take out the lease." Financing is difficult so most purchases are cash transactions. "Thai banks won't lend unless presales targets are achieved so Thai developers usually use initial sales deposits to fund construction," Brendan says. Fortunately, "the Escrow Law legislated in May 2008 can protect buyers and lock in off-plan prices" for projects under construction, adds Darron.

## Opportunities

### Developers

- Condominiums sharing premises with hotels are ideal for fractionals. Traffic from fractionals helps stabilise hotel yearly revenue. "Fractional owners spend on food and beverages, and operational costs of a hotel can also be apportioned to them," says Brendan enthusiastically of the complementary relationship.
- Single-owner luxury houses and condominiums can also be transformed into a fractional if its location and quality meets quality criteria, and the original owners can determine the fraction they want to retain.

### Investors

- Instead of buying a single property outright, investors can create a fractional property portfolio tailored to their needs ranging from cities to resorts, with the additional benefit of spreading investment risks.



Darron Guy

### Before making the purchase, consider:

- Usage – How much time do you use? Average units have six to eight owners. More than twelve owners verges on a timeshare.
- Trustee – Integrity and experience is crucial. Detailed reports should be regularly sent for transparent governance and escrow services available for projects being construction in Thailand.
- A preview – Stay at the premises or nearby to determine if it is a good fit. Most places will deduct the cost of the stay from the purchase price.

What is the future of fractionals? Darron responds: "It just depends on how quickly we can educate the market. It's like asking 'what's the size of the mobile phone market?' 10 years ago."

## Similar Multiple-Owner Arrangements

**Asset Shares** - Smaller trends-based assets that depreciate rapidly like supercars and designer handbags fall into this category, which is a cross between club memberships and rentals, whereby asset usage depends on (e.g. Silver, Gold, Platinum levels) privileges paid for.

**Timeshares** - Have no equity holdings. Buyers use the facilities in exchange for membership entrance fees plus additional annual fees. Frequently, too many members sharing a unit causes schedule clashes. "That's why 95% of timeshares are aligned to an exchange programme like Interval International or RCI with access to 4,500 resorts worldwide," Darron explains.

Previously, timeshares had no consumer protection. "Today, particularly in the US and Europe governments regulate this industry and considerable requirements have to be met before a project is approved," says Brendan, making timeshares a viable multiple-owner alternative.

### Background Reading:

- Sherpa Report or Halogen Guide is a good primer about the different levels of property, aircrafts and boats fractional ownership
- The Timeshare Blog compiles trade details and articles about the industry
- The Perspective Magazine is the most widely read B2B publication in the shared ownership industry with daily web updates and free newsletters.
- Fractional Life is the world's largest fractional "supermarket" offering an unusual choice of assets such as art, race horses and vineyards. A good list to refer to is their "Fractional Life: Questions to Ask about Fractional Property Ownership"
- Elite Destination Homes focuses on prime global properties which are not always resort based and provides informative cross-industry comparisons

### Sources:

- "Researcher Predicts Luxury Fractionals Will Be The First To Emerge From The Downturn" November 19, 2008 Timeshare News
- "A Guide to Fractional Ownership" an independent report from Special Report Publishing exclusively for The Daily Telegraph, 9th October 2008
- Leisure Solutions: [www.leisure-solutions.net](http://www.leisure-solutions.net)