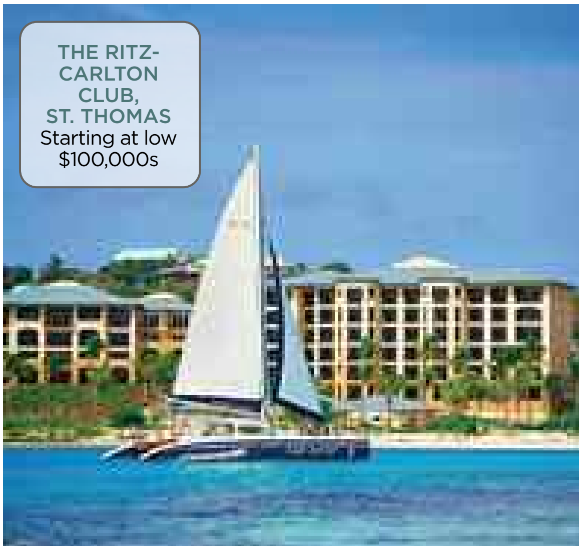
How Suite It Is

People who love luxury resorts are buying themselves a piece of the lifestyle. Chris Taylor explains what to ask before you check in for good.



vocab lesson

TIME-SHARE
With a time-share, you're buying a week or two per year at a vacation home—sometimes you actually buy real estate, sometimes just time.

FRACTIONAL
When you buy a fractional, you're purchasing part ownership of a property affiliated with a resort. It's usually more expensive than a time-share, but you get more time and access to amenities such as spas and golf courses.

At the end of a vacation in Cabo San Lucas, Mexico, four years ago, Tammy Perconti didn't want to leave. So the 36-year-old stay-at-home mom from Rumson, N.J., spent $285,000 to buy a fractional interest in a villa at the Residences at Esperanza. Now she lives at the property for about 30 days a year, taking advantage of all the amenities for less money than full ownership would have cost.

Fractional properties are growing in popularity, in part because they give people more than just the traditional stint at a time-share—the value is in the experience of having a vacation home at a high-end resort like the Ritz-Carlton, the Four Seasons, or the St. Regis. But whether these deals are right for you depends on how much you want to spend for a second property and what sort of flexibility you want in planning your vacations. As with so many decisions about whether to make a big purchase, you have to ask the right questions.

1. Am I actually buying real estate?

One of the biggest differences between fractionals and time-shares is what you get for the money. With fractionals, you're buying a portion of deeded real estate—ranging from a twelfth to a quarter of a property—and you can use the residence for a month or longer each year. Because you own the property, you may sell it at any time or pass it on to your heirs. While some time-shares are also partial real estate purchases (though you usually get just a week or two each year), others are "right-to-use" arrangements, which means you buy the right to use the property for a certain amount of time each year, but you don't actually own it. If you want out, you can choose to sell your share to another buyer or back to the developer, but the stake decreases in value as time goes on and there are fewer years remaining on the agreement.

2. How do I finance a fractional?

Most fractionals start at around $100,000, but the price depends on the resort, the location, the number of weeks per year that you buy, the size of the unit, and the amenities. And getting a loan to pay for a fractional can be difficult: Because of the subprime-mortgage meltdown, banks have become skittish about lending to people buying primary homes, let alone vacation properties. Some fractional buyers choose to finance their shares by taking out a home-equity loan on their primary residence. Another option is borrowing from a bank that specializes in fractional property lending, such as First Fractional Funding (firstfractionalfunding.com), NextStar Funding (nextstarfunding.com), or

From left, courtesy: The Ritz-Carlton Club; Jim Westphalen/Whiteface Lodge

Vacation Finance (vacation-finance.com). If you choose to go this route, you should have a very strong credit score (typically 700 or more) and you should expect to pay a slightly higher interest rate—about 1 percent more—than the rate on a primary-home loan.

3. What extra fees are involved?

"Maintenance fees, real estate taxes, usage fees, special assessments—it goes on and on. You need to know what you're getting into so there are no surprises," says Lisa Ann Schreier, a former time-share saleswoman and the author of *Surviving a Timeshare Presentation: Confessions From the Sales Table*. Maintenance fees for fractional properties are about double what they are for time-shares—about $1,200 per week versus $550, according to industry analysts and the American Resort Development Association. One thing to note: All those fees don't always give you a say over capital improvements to the property, or the right even to decorate to your liking, since you're sharing the unit with a number of different owners.

4. How can I shave costs?

"Preconstruction sales can help you lock down your fractional early," says Amy Gunderson, the editor of halogenguides.com, a website that analyzes the fractional industry. The risk is that if sales go slower than expected, the entire project could be scrapped. You won't lose your down payment with a well-known resort like the Ritz-Carlton, but tying up your capital can be a pain. Another way to reduce the cost is to buy a resale fractional from somebody who doesn't want his or her property anymore. Schreier says that because selling shared-ownership real estate is generally more difficult than selling wholly owned properties, buyers tend to get good deals.

5. What are the amenities like?

One of the major selling points in every fractional brochure is the amenities—people want the resort lifestyle with the benefits of owning a second home. But make sure you know exactly what's included and what's not. With spas, for example, ask if you merely get access to the facilities, with treatments costing extra, or if you'll be entitled to discounted services or other special benefits. Resorts have been known to offer different types of perks when it comes to golf courses, too. Fractional owners at the Residence Club at PGA West in La Quinta, Calif., pay less than the general public to play golf on five courses in the area; furthermore, they receive preferential tee times and access to a private clubhouse.

6. Can I rent out my property?

If you don't plan on using all of your weeks at your property, renting it out makes financial sense. You need to study the details of your real estate agreement, however. If you put your property in the resort's rental pool, you could lose the power to set the rental price and to decide who rents the place. You may also forfeit a portion of the profits. "I've heard of cases where as much as 35 to 40 percent of the rental fees goes to the management company," Schreier says.

8. Will I be allowed to swap for time at other fractional properties?

Part of the allure of time-shares is that you can trade time at your home resort for weeks at thousands of other places around the world using a network of properties like Interval International or RCI. If you own a fractional property, however, your swapping options may be limited to your resort's corporate family or to properties that have exchange agreements with your resort. For example, Tammy Perconti was able to trade one of her weeks at the Residences at Esperanza for a spot at the Timbers Club in Snowmass Village, Colo., but only because the resorts have an agreement. Some resorts also belong to networks like the Registry Collection (theregistrycollection.com) or Resort to Resort (resort2resort.com), which allow swapping between participating properties.

FOUR SEASONS, PUNTA MITA
Starting at $275,000

RESIDENCES AT ESPERANZA, CABO SAN LUCAS
Starting at $150,000

7. Will I get to determine which weeks I stay at the property?

Sharing a vacation home is all about compromise: Certain weeks are always popular, such as those around holidays, and you won't always get the time you want. "You can't get Christmas at your fractional every year," Gunderson says. "You might be assured a holiday or two a year, but it's likely by allotment." In some cases, you may be able to purchase additional time at the resort beyond your fractional agreement, but that depends on whether space is available in another unit. The best way to ensure that you get the weeks you want is to plan your vacations far in advance, sometimes as much as a full year.

9. Could I get stuck with a lemon?

Time-shares had a negative reputation in the 1970s and '80s, when lax regulations made it possible for shady developers to rip people off with substandard developments. Although the industry has been cleaned up since then, prospective time-share or fractional buyers may still worry that they'll end up the victim of a scam. If you're thinking of buying a property from a developer that's not a known brand like St. Regis or Four Seasons, do extensive research first. Check with the Better Business Bureau to see if any complaints have been lodged against the company and search the Internet for fraud claims. Anyone placing a down payment on a resort that's still being built should ask to see the plans. You'll want to know from the start if construction isn't going according to schedule.

10. Can I make money on a fractional?

The experts agree: Don't buy a fractional as a pure real estate investment. "There's no guarantee at all that it's going to appreciate," Gunderson says. While the value of fractionals hasn't decreased in the housing market's recent downturn, the high cost means that the number of potential buyers is limited, and selling could be difficult. The housing slump has also made it cheaper to buy a vacation home outright, further siphoning off fractional buyers. Tammy Perconti, the Cabo San Lucas buyer, says she didn't think about her property solely as an investment, but rather as a lifestyle change. "From the moment I arrive, I don't worry about a thing," she says.

From left, courtesy: Peter Vitale/Four Seasons; Esperanza