

U.S. Housing Slump Has Property Investors Looking South for Options

Fractional Villas Founder Cautions: Buyers Beware of Unfinished Projects

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Are “fractionals” becoming the plastics of the 21st century?

Sellers of properties that have been “fractionalized” into several pieces of ownership say they offer middle-income Americans the benefits of a second or third vacation home without the full cost of ownership or headaches of maintenance.

But often it's a case of buyer beware.

“Everybody is jumping on the fractional bandwagon thinking it's the magic bullet to troubled projects,” said Robert Vicino, president of Fractional Villas Inc. “Not everything can be fractionalized.”

Vicino's company, Fractional Villas, offers a turnkey service to owners who want to fractionalize their property. He founded the Del Mar company in 2004. He says it employs 25 people and projects revenues for 2008 at \$100 million.

By dividing a single property into several deeds, a seller can theoretically make more money. Sellers typically think they'll earn 30 percent to 50 percent more money by fractionalizing, says Vicino, whose boutique-sized firm manages a dozen fractional properties and is selling fractional shares of about two dozen more.

“It has to be the perfect location, the perfect architecture, the perfect amenities,” he said. “It has to be perfectly situated and have that ‘wow’ factor.”

Looking Abroad

The worst U.S. housing slump in 25 years and a possible economic recession in the coming months is renewing interest abroad for some developers looking for value.

Federal Reserve Board Chairman Ben Bernanke last week was asking banks to forgive more late loans while the U.S. dollar ebbed to its lowest point ever against the European currency, the Euro, and the price of a barrel of oil and ounce of gold reached all-time highs.

In Latin America, Costa Rica is poised to become the next hot spot for real estate investors weary of U.S. mortgage problems, says Rick Valentine, owner of Windsor Pacific Development Group, which is partnering on a fractionalized project in Punta Leona called Tranquilo.

However, Vicino warns that businesspeople looking to profit in Latin America might be running from their own problems in the United States.

In that case, he cautions, buyer beware. Putting a deposit down on property before it is built can be risky, especially in Latin America, he says.

“Most developers in Latin America will put it out there and start taking deposits before the project is built, and use that money as working capital,” Vicino said. “If it should go bust, that money is gone. There's no insurance on it. The project might have title insurance, but that doesn't secure the investors for making a deposit on a project that doesn't exist.”

“As a buyer, be leery of buying anything in Latin America that doesn't exist,” he added.

A brief housing boom in Rosarito Beach in Baja California, Mexico, left a number of homes standing unfinished, he says. “Too many of these developments have gone bust in the past and will go bust in the future.”

Fractional Versus Time Share

Advocates of fractional ownership say it's an improvement over time shares, which often depreciate and come with hidden maintenance fees.

Google the phrase “time share” online and one is deluged with offers to sell — not buy — time shares.

A consumer section of the U.S. Department of Homeland Security Web site features a warning about time-share units.

“Many promoters paint glowing pictures of the investment potential and ease of resale of the units in their development,” according to the Web site. “Responsible people in the industry, however, do not promote or sell time sharing as an investment because time-share units are usually difficult to rent or resell.”

The Web site continues, “Because of the building boom in new time-sharing developments, markets have not been established for renting or reselling time-share units.”



Robert Vicino is president of Fractional Villas, a firm that sells fractional shares of properties and manages fractional properties.

There are two types of time shares: "deed and title ownership," which is a tangible asset to a property during a period of years; and "right to use," which is a contractual promise by a manager to allow use of a location for a period of time, according to the Web site.

"Typically, time shares have not appreciated over time," Vicino said. "Few people I've talked to have ever resold a time share for more than they paid."

Fractionalized property deeds can be transferred and willed to their heirs. Each share is independent and taxed separately — based on the use of the property.

"In our case, you have equity ownership in a property. Five to 10 years later, that property will presumably go up in value like the rest of the market," Vicino said. "Most of the time-share guys switched over to fractional. It's a better model and what the market wants."

Flexibility

However, some of the attributes of time shares have spilled over to the fractional industry.

Tranquilo will be affiliated with a time-share company that allows shareholders to exchange their vacation days at Tranquilo for the use of some other asset — time in another property, yacht, private plane or luxury automobile.

The first two years in the program will be free with a purchase in Tranquilo. Afterward, the program will cost a subscription of \$800 to \$1,000 a year, Valentine says.

Vicino's Fractional Villas also offers exchanges among the properties in its management purview, but at no cost other than the typical \$300 to \$350 monthly homeowner association dues of owning a fractional share in the home, he says.