Open House: Sharing ownership of vacation homes gains popularity

by Jim_Woodard

Fractional ownership of vacation homes is one of the most rapidly growing segments of the current real estate market. It accounted for about $1.5 billion in sales during 2005 in the United States alone. Sales have continued to grow.

Having a fractional ownership of a vacation home simply means you are sharing total ownership with other owners. Typically, there are four to 12 owners of a single property, allowing individual owners or their guests to occupy the residence for a total of one to three months each year.

The key advantage is, of course, financial. Each owner shares the acquisition and maintenance costs, along with taxes and mortgage payments, with fellow owners.

Unlike traditional timeshare units, buyers actually own a portion of their fractional property. And while timeshare units usually decrease in value over the years, fractional ownerships tend to appreciate like wholly owned homes. Therefore, they are considered to be more viable investments.

Another advantage of this type of purchase is the "buying power" it provides. A single buyer can own a portion of a much nicer and better located property via a fractional purchase than they could afford for a totally owned residence. Also, each owner has an active role in controlling the property.

In some cases, a corporation or other business will acquire a fractional ownership of one or several properties, making their use available as awards to particularly productive employees or valued clients. By using their units in this way, the companies can often write off a portion of their costs as business expenses.

As always, there's a downside to this type of property ownership. There can be disputes among owners about the management of the property. And finding needed mortgage financing with favorable terms can be a challenge.

The most popular destination states for fractional ownership vacation homes are Colorado, Florida, Hawaii and California, in that order.

Q: What is a "short sale" real estate transaction?

A: Many readers seem to be confused by the term "short sale" in real estate lingo. The term usually applies to a home that has a current outstanding mortgage balance that is more than the market value of the property.

When an owner can't continue to pay the mortgage payments, the property must be sold or foreclosed. In some cases, the bank or other lender will accept the sale price of the property even though it doesn't fully cover the mortgage balance due. The price falls short of what is owed. That's a "short sale."

Even though the lender does not receive the full amount due, such an agreement usually nets him more than would be received through an expensive foreclosure procedure.

Such a transaction obviously benefits the homeowner; however, there are drawbacks like tax liability. The amount forgiven by the lender can be regarded as income by the IRS. That may result in a significant increase in the amount owed in income taxes.

Another option for owners is to renegotiate the terms of the mortgage with their lender. By so doing, they might be able to make their payments, keep their home and retain a credible credit record.

Q: When are home sales expected to rise again?

A: Home sales will remain at the current sluggish levels for at least the next few months, it was predicted by economists at the National Association of Realtors.

"I'm not looking for any notable changes in sales activity," said association economist Lawrence Yun. "Existing home sales should be relatively stable over coming months, holding in a modest range with some pent-up demand growing from buyers who have been on the sidelines."

The current National Association of Realtors forecast calls for existing home sales of 6.04 million units this year, down 6.8 percent from last year. The new forecast was about one percent lower, or 70,000 fewer homes, than July's prediction of 6.11 million units. If that prediction materializes, this year's sales would be the lowest since 2002 when sales hit 5.63 million.

Last year's sales were 6.48 million. Next year, the association expects sales to climb to 6.38 million - up slightly from the forecast in July of 6.37 million. New home sales are expected to total about 852,000 this year and 848,000 next year. That's down from 1.05 million last year.

Housing construction starts, including multifamily units, are likely to total 1.43 million this year, and 1.40 million next year, according to the association.

As for home prices, the National Association of Realtors predicts a decline of about 1.2 percent this year before rising 2.0 percent next year.

Q: Is there much support for a federal bailout of financial markets?

A: No bailout by the federal government for the nation's financial markets sparked by the subprime mortgage crisis. That's the opinion of most Americans, as tallied by a survey conducted by Housing Predictor.

The online survey showed respondents do not want the government to get involved in the hedge fund debacle that could cause billions of dollars in losses for investors and homeowners facing foreclosure proceedings.

About 81 percent of those surveyed said they didn't want the government to bail out investment houses or get directly involved in the crisis, it was reported. Only 19 percent said they wanted Congress to bail out the troubled funds. The survey was conducted over a period of one month.

Send inquiries to Jim Woodard, P.O. Box 120190, San Diego, CA 92112-0190. Questions may be used in future columns; personal responses should not be expected.

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