

Fractional Ownership Gives You A Piece Of The Action

The number of fractional boat companies around the country is growing rapidly. How does it work and could it be right for you?

We've all been there. You duck out of work a few hours early with visions of playing hooky on the water while everyone else is toiling away. But when you get to your boat, you spend your afternoon cleaning and maintaining, getting fuel, and doing holding-tank duty. Imagine showing up at the dock to find your boat sparkling clean, fueled up, and ready to go. Picture an attendant handing you your gear, and casting off your dock lines as you pull out of the slip. The fantasy life of a rich skipper? Hardly. This scene is a reality for the growing number of new American boaters who've discovered the benefits of fractional boat ownership.

What Is Fractional Ownership?

In a nutshell, fractional boat companies split a boat into equal shares, then lease the shares to members. Members have guaranteed access to the boat a set number of times per month on a scheduled basis, and an unlimited number of times per month on an as-available basis. The fractional boating base handles all the logistics, including slip fees, boat maintenance and repairs, and insurance, and the member pays a fixed monthly membership fee for the use of the boat. The member uses the Internet to schedule the desired time slot to use the boat, or to check the immediate availability of the boat if the member has time to use the boat that day. By limiting the number of members, the base is able to both guarantee availability and to complete any and all necessary maintenance on the boat. That way, the boat is always ready when the member is.

Fractional ownership is available for sailors and powerboaters, and the number of fractional bases around the United States is growing each year. Fractional ownership is quickly overtaking boat rental as the preferred means of boating without owning. George Bonelli, president and CEO of

SailTime, explains, "We have seen a definite shift in interest in this type of program as consumers move to the experience-based lifestyle from the ownership lifestyle. People want to gather experiences and not own stuff. The 'simplifier' is and will be a growing segment of the market."

How Popular Is Fractional Ownership Becoming?

The largest fractional boating company in the United States is the Freedom Boat Club. Specializing in powerboats, the club boasts a fleet of 400-plus boats, 5,000 members, and over 50 bases nationwide. Their fleet ranges in size from 16-foot skiffs to 40-foot motoryachts. Founded in 1989 in Sarasota, Florida, the FBC is also the oldest fractional yachting company in the U.S. SailTime, considered the gold standard in fractional ownership for sailors, has gone global. In addition to their 30 bases in the U.S., they have 15 bases in the U.K., three in Holland, and one in Australia. The company has more than 1,100 members and 160 boats in the water worldwide.

In addition to these market leaders, there are dozens of smaller fractional companies around the country. Signaling the permanence of this sector of the market, major boat manufacturers such as Hunter, Back Cove, Catalina, and Beneteau have signed agreements with fractional yachting companies to represent their models exclusively.

How Does It Work?

When a prospective member joins a fractional boating base, the first step is to pay the initiation fee. This varies from company to company, and from boat model to boat model, but is generally anywhere from \$2,500 to \$6,000. Next, new members are trained by the base. The base provides a thorough combination of classwork and practice on the water, over a period ranging from one day to two weeks. Members

are checked out on each boat model their membership entitles them to use, and are also trained how to use the company's Internet scheduling interface. The only commitment from that point forward is the monthly membership fee, which varies by company and boat model but averages \$300 to \$500 per month. All expenses except fuel are included in the monthly membership fee. While it's not unheard of for a fractional yachting base to require a long-term commitment, the industry norm is to keep things on a month-to-month basis. If a member is dissatisfied or has a change in plans, companies usually only require 30 days notice to terminate a membership. Some fractional boating companies offer a guaranteed minimum number of time slots per month per member; others offer a rolling minimum. Mike Reynolds, president of the franchising arm of the Freedom Boat Club, says rolling time slots work best for their members. "You get four revolving reservations that you can put on the books at any time. For example, you can have four reservations — Monday, Tuesday, Wednesday, Thursday — and as soon as you use Monday, you're free to put that reservation back in the system."

In addition to scheduled time, members are allowed to use the boats "on the fly," any time the boats are available and not reserved by another member. So, if that afternoon meeting gets canceled and a member suddenly has the rest of the day off, he can actually spend the time on the water. Most companies also offer reciprocal membership benefits at their other company bases. So a Freedom Boat Club member from Texas can use a Freedom Boat Club boat while on vacation in Florida, as long as the boat is available. In the case of SailTime, it opens a world of sailing opportunities and options when it comes to planning vacation or business travel; the company just opened bases in La Spezia, Italy, and Nice, France.



In Fort Myers, Florida, vessels stand ready for members at the Freedom Boat Club dock.

The current economy has been rough on boat manufacturers and dealers. U.S. powerboat sales for 2009 are projected to be more than 20 percent lower than 2008, which was already the worst year on record since the industry began tracking sales data in 1995. According to Brunswick CEO Dustan McCoy (the largest boat manufacturer in the U.S. and maker of Sea Ray, among others), boat sales will likely never return to the high point set in 2005.

Recent economic data suggests that the American consumer is shying away from big-ticket purchases, and the personal savings rate has risen to its highest level in 15 years. While these factors make things difficult for boat manufacturers and dealers, the downturn has been a boon to

fractional companies. Consumers who just three years ago might have pulled equity out of their home to finance the purchase of their first boat are now taking advantage of the lower cost of entry and the freedom from unplanned expenses that a fractional arrangement offers.

"Despite the significant drop in boat sales occurring across the industry, SailTime has seen steady increases in membership and boats being brought into the program as boating enthusiasts seek innovative and affordable ways to keep their boating dreams alive during uncertain economic times," said Wayne Diviney, CFO of SailTime. The tightening of the credit market is having a similar effect on fractional yachting. The days of no-money-

down boat financing are over, and the credit standards to qualify for financing a boat purchase today are much stricter than even 24 months ago. Some major marine lenders such as Key Bank have pulled out of the market entirely.

"We've seen a higher demand for memberships and a lot of it has to do with the collapse in the credit markets," explained Mike Reynolds. "We're a good option for people who may not have stellar credit and no longer have the option to buy a boat. Also, in times of economic uncertainty, people don't like to make long-term financial commitments. We offer a month-to-month alternative."

Fractional boating is particularly appealing to entry-level boaters. By sim-

Getting The Fractional Facts

Costs, limited free time, and lack of skills are the main reasons why consumers who dream about boating may hesitate to take the plunge. These obstacles can be reduced or eliminated, thanks to boat time-shares, rental clubs, and fractional ownership arrangements

Boat time-shares and rental clubs are similar to on-land arrangements for vacation homes. But for an experience that's as close to owning a boat as possible, nothing beats a fractional ownership. In a fractional ownership arrangement, a group of investors share in the cost of buying a boat. Owners may pay equal amounts for the purchase or they may divide up the shares in different amounts — which will be reflected in the amount of usage the individual owners can claim and their share of any profits if the boat is sold. Fractional ownerships are often managed by a brokerage company in the business of buying new boats outright or handling sales of used boats for owners.

At the time the fractional is organized, owners can make a down payment on their share and make monthly loan payments to the broker, or they can pay for their portion of the purchase amount in full. Brokers make their money on the sale of the boat and in the monthly fees charged for managing scheduling, maintenance, repairs, storage, and insurance, but the costs are still a fraction of what a single owner would pay. Unlike informal co-ownership arrangements, where a few friends pool their money together to buy a boat, formal written agreements spell out the financial and legal obligations of the fractional owners. The agreements establish clear schedules so that owners can count on using the boat at specific times and provide opportunities for spur-of-the-moment use.

Because fractionals involve direct ownership, each owner has greater control over how the boat is used and maintained and where it's located. For example, if only four or five people share the boat, this allows for lots of flexibility in scheduling. Owners are more likely to get their fair share of the "good days" each boating season. Fractional ownership plans are probably most user friendly and cost effective in places where it's possible to boat year-round. Having a brokerage company take care of maintenance and repairs means owners spend all their boating



time on the water, not at the dock or in the marina yard, cleaning and painting. Also, maintenance and cleaning are done on a regular basis and at a consistent standard, avoiding unpleasant surprises.

An added benefit of having a broker manage the boat is that the broker is responsible for collecting payments from co-owners, paying bills, and keeping records. This helps avoid disputes and cash shortfalls. Co-owner payments are based on a budget and regular assessment system rather than "as needed." At the end of each year, the manager estimates expenses for the coming year, including group mortgage (if any), insurance, maintenance, repairs, and improvements, and determines the amount needed from each co-owner to pay the bills. The anticipated expenses should include some reserves for long-term recurring expenses such as engine replacements or new sails.

Usually, the owners form a limited liability company (LLC) and all are listed on the boat's title. This reduces owners' liability exposure if the boat is in an accident or if a passenger is injured while aboard. An LLC may also protect the shared property from seizure by the creditors of co-owners and increases flexibility if ownership changes. Fractional owners may be able to deduct interest if they pay for their share of the boat with a qualified mortgage. Boats can qualify as second homes under the IRS Code if the loan is secured and the financed boat includes a head, sleeping, and cooking facilities. However, this benefit may not be available if the owners form an LLC.

When entering into a fractional ownership arrangement, review the terms of the agreement with a lawyer and the tax ramifications with a tax consultant. Laws vary from state to state regarding fractionals, especially if the boat is used as a rental during non-scheduled periods. When setting up a fractional ownership, ensure the arrangement provides for protection for co-owners if one partner defaults on monthly payments.

— *Caroline Ajoatian*

The BoatU.S. Consumer Protection Bureau is here to help members with questions or problems involving boats, engines or marine-related businesses. The Bureau also maintains the nation's only "Consumer Protection Database" containing 20 years of complaints and safety information reported by boat owners, the U.S. Coast Guard, manufacturers, marine surveyors and marine technicians. E-mail consumerprotection@BoatUS.com, call 703-461-2856 or visit www.BoatUS.com/consumer.

plying the process of getting out on the water, fractional companies are opening the world of boating to a whole generation of boaters who might not otherwise have the opportunity. And these are a tech-savvy, well-trained generation of boaters. Lowering the barriers to entry inherent in boating (substantial down payments, large monthly payments, maintenance and slip

fees) is good for the industry in the long run. Many members go on to become boat owners themselves, and the responsibility and courtesy toward fellow boaters that are a necessary component of fractional boating benefits all of us on the water. The fractional concept continues to grow in the U.S., and more boat manufacturers are bringing programs online. As a means for

introducing new boaters to the lifestyle, it's hard to argue with the math.

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