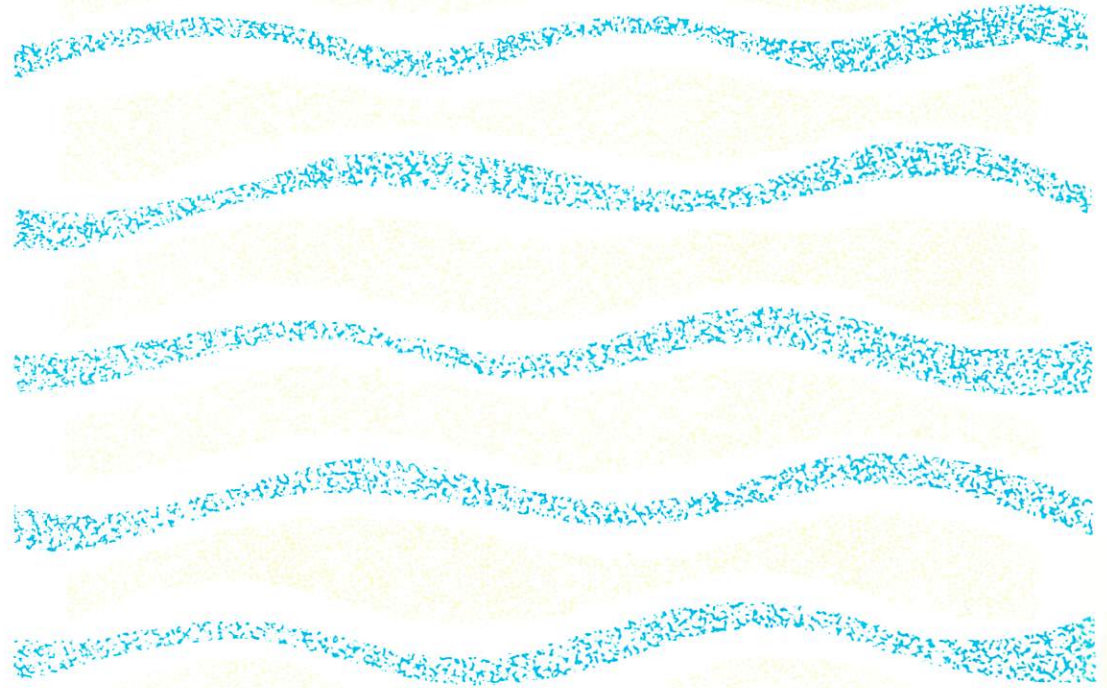


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**YOUR PLACE AT THE BEACH:  
A BUYER'S GUIDE TO VACATION REAL ESTATE**

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## **Your Place at the Beach: A Buyer's Guide to Vacation Real Estate**

Vacation real estate buyers can find a multitude of options in coastal North Carolina.

The state's coastal rivers and sounds offer tranquility and the recreational joys of boating and fishing. The oceanfront provides access to some of the nation's most beautiful beaches.

Within these environments are many types of real estate—vacant lots, single-family cottages, townhouses, condominiums and time shares.

Along with the pleasures, special

concerns come with owning coastal property. The land is especially vulnerable to flooding, erosion, wind, pollution and development pressures. In addition to choosing a location and type of ownership that suits specific tastes, buyers must be attentive to some of the specific problems associated with the coast.

This publication is designed to be a guide for buying vacation real estate at the coast. It is not intended to replace the work of professionals, but

to help buyers know what questions to ask sellers, real estate agents, government personnel, attorneys and themselves.

The first chapter raises general questions that all buyers should ask. Where do you want to buy? What special factors should be considered regarding coastal property? Is buying financially feasible?

The second chapter takes a look at the variety of ownership options.

## The Practical Points To Consider

### Where do you want to buy?

North Carolina has approximately 300 miles of ocean coastline and about 4,000 miles of shoreline along its coastal sounds, rivers and tidal creeks. The oceanfront boasts some of the



Photo by J. Foster Scott

most spectacular beaches in the nation. The state's sounds and coastal rivers contain fragile wetlands, rich fishing grounds and waters suitable for a wide variety of recreational uses.

When considering coastal real estate, first ask yourself where you want to buy. In what kind of environment do you want to live? Here are some other specific questions and considerations:

(1) Are your favorite activities beach-oriented? Do you enjoy sunbathing, surf fishing, swimming, beach jogging, etc.?

If the beach is important to you, look for a location with easy access. Beach access is becoming more difficult as the coast becomes crowded. This results in longer travel time. Also, once you arrive at your destination, it may not be easy to find a place to park. Some communities have limited public parking facilities.

In areas where parking is available, high demand can cause lots to fill quickly.

Getting from your car to the sand and water may not be easy either. Private property can create a barrier inhibiting access to the public beach.

In 1981, the N.C. General Assembly established a beach access program. The intent of the program was to provide greater public access to the state's beaches. The program, administered by the N.C. Coastal Resources Commission and the N.C. Division of Coastal Management, works with local governments to provide public access points along North Carolina's beaches. If you are not buying oceanfront property, determine your closest access point. For this information, contact the Division of Coastal Management, P.O. Box 27687, Raleigh, N.C. 27611-7687. Phone 919/733-2293.

**(2)** Are your favorite recreational activities water-oriented but not necessarily associated with the beach? For example, do you like boating, open-water fishing and skiing?

If being near protected inland waters is important to you, look for property along one of the state's sounds or coastal rivers. Property in these areas may offer easy access to navigable waters. In fact, property that is adjacent to the water carries special rights referred to as "riparian rights."

Riparian rights include the property owner's right of access to navigable waters. Access may be accomplished by building a pier, canal, boat basin, etc. But restrictions exist—restrictions designed to protect navigation, the environment and other riparian owners.

For more information on riparian rights in coastal North Carolina, write Sea Grant for "Your Riparian Rights:

What are they and what are their limits?" Ask for publication number UNC-SG-BP-84-06. UNC Sea Grant College Program, Box 8605, N.C. State University, Raleigh, N.C. 27695-8605.

Of course, property may offer the advantages of the beach and the sound. Because North Carolina's barrier islands are relatively narrow, it is not unusual to be able to walk to both areas. Also, many large coastal developments provide amenities to their residents. These may include the use of private beach access facilities and marinas. If you wish to buy in a planned development (including condominiums and time share developments), ask what amenities come with your purchase.

**(3)** Do you prefer an urbanized area with convenient shopping and entertainment? Or would you rather be in a quieter setting?

This is an important consideration. Also, determine if the character of the area will be maintained. Will the qualities that you find attractive today be there tomorrow? Check with the city or county manager's office, and ask to see the area's land use plan.



Photo by John R. Rottet



*Photo by Clay Nolan*

What is the zoning for adjacent property?

Streets and traffic are also significant concerns. Call the local traffic engineering department in the town or county where you plan to buy. Find out if there are plans for street improvements, traffic rerouting or sidewalk installation.

Each of these considerations require some reflection and research. Other aspects of building or buying property at the coast require investigation, also.

## The Coastal Environment

If you want to purchase oceanfront property, be aware of several important environmental characteristics.

For the most part, North Carolina's oceanfront consists of a series of barrier islands. These narrow strips of land between the sea and the sound are particularly vulnerable to the forces of the ocean. Knowing how property will withstand these forces is valuable information.

Most North Carolina beaches experience gradual shoreline and dune erosion. The average erosion rate is 2 feet per year, but it is significantly higher in many areas. One of the reasons for long-term erosion is a gradual rise in sea level brought on by a climatic warming trend. The warmth causes ice in the polar caps to melt, slowly raising sea level.

Before buying property near the ocean, find out the long-term erosion rate for the area. Usually the ocean-

front lot can expect some level of erosion. Occasionally even the second row can be affected.

Property near tidal inlets often changes very rapidly, sometimes losing, sometimes gaining sand. Inlet shorelines move about 10 to 100 times faster than nearby oceanfront property lines. The average rate of inlet movement in North Carolina is roughly 65 feet per year.

The erosion rate can determine if construction is possible on your lot. North Carolina requires that oceanfront development take place behind a setback line. This line is determined, in part, by multiplying the property's long-term erosion rate by 30 (the years usually required to pay off a mortgage). For example, if the erosion rate for your lot is 3 feet per year, the setback line will then be 90 feet. The setback is measured from the first line of stable natural vegetation. In some

situations, the setback can be so great that it eliminates the possibility of construction.

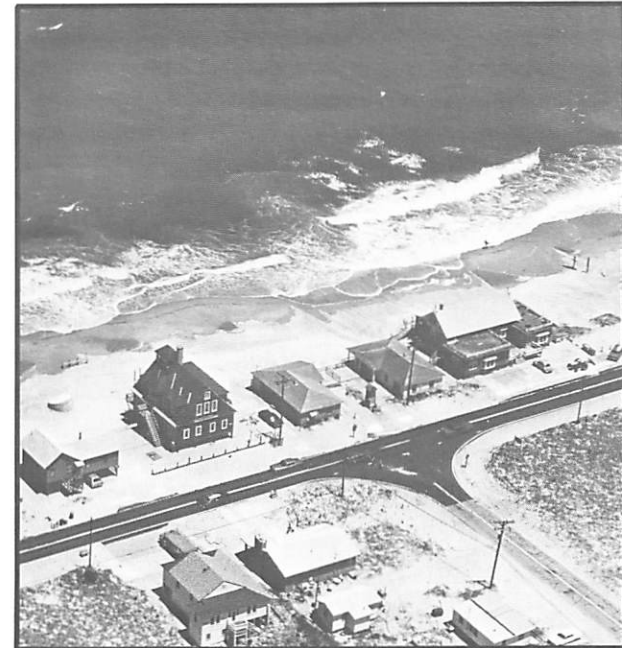
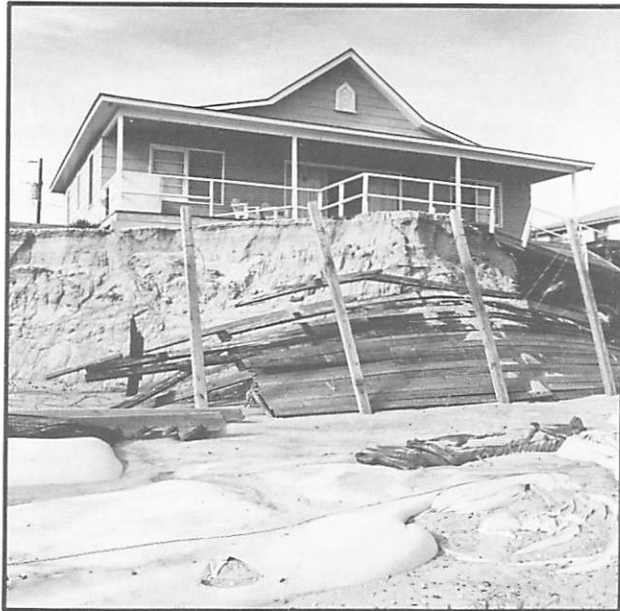


Photo by Gene Furr

Thirty years is a short lifetime for a house. The average house lasts about 70 years. So it is important to remember that ocean setbacks are



*Photo by Scott Taylor*

minimums. Building even farther back than the setback line is recommended when possible.

The long-term erosion rate is also an important consideration when buying an existing cottage or an interest in a condominium or time share project. North Carolina regulations no longer allow sea walls to be built along the oceanfront. Studies have shown that these hard structures sometimes protect the buildings, but they often rob sand from neighbor's property and eventually destroy the beach. Erosion-threatened houses can be salvaged by moving to a safer lot. But most of the value of the eroded lot is lost forever.

Consequently, the options available for protecting buildings from erosion are limited. Knowing the erosion rate for your prospective property will give you an idea of how long you will be able to enjoy the property before

erosion becomes a threat. Erosion rates can be obtained from the Division of Coastal Management, P.O. Box 27687, Raleigh, N.C. 27611-7687. Phone 919/733-2293. The rates are also available from local city and county managers' offices.

In addition to gradual long-term erosion, the coast is subject to rapid storm-related erosion. The sand will return to the beach, but usually not in the same configuration. Dunes flattened by waves may take five to 10 years to recover.

Storm-related erosion can be devastating, however. If your building is not properly designed and situated, it can be damaged or destroyed. Some helpful questions to think about when looking at property are: (1) How far from the ocean is the structure located? (2) Is the property protected by a stable dune system? (3) How deep are the foundation piles? (4) How



easily can it be undermined by erosion?

Property along the coast is also subject to damage from flood waters and high winds associated with hurricanes and other severe storms.

Some coastal property is only a few feet above sea level; minor fluctuations in water elevation can mean a significant change in flood-related damage. Therefore, when selecting a lot, condominium or time share, determine the property's elevation. Visually inspect the property and ask local residents about the area's history.

For more precise information, contact the local building inspector's office. Usually the inspector will have Flood Insurance Rate Maps that show area elevation and the extent of flooding possible from a 100-year storm.

The term "100-year storm" means

that the flooding indicated on the maps will likely occur, on average, once every 100 years. In other words, there is a 1 percent chance that a storm of that severity will occur in a given year. That sounds like a low rate, but buildings last an average of 70 years. Statistically, that means each has a 50 percent chance of being hit by a 100-year storm. During a 30-year mortgage period that chance is about 25 percent.

Flooding from a 100-year storm does not mean the property will experience substantial damage. Building codes generally require that structures be built to minimize storm destruction. For example, pilings should elevate the living area of a home above the expected flood level during a 100-year storm. In addition to knowing the property's elevation, it is important to know if the building is constructed to minimize damage in

case of a major flood.

High winds can also damage coastal property. If buildings are not properly



*Photo by Neil Caudle*



Photo by Steve Murray

designed, destruction can be substantial. N.C. building codes require wind-resistant construction standards. Find out if the property you plan to buy meets these standards. Contact the local building inspector for assistance.

North Carolina's coastal environment is dynamic. Whether your goal is to purchase a \$5,000 time share or a \$200,000 oceanfront cottage, you should know the environmental characteristics of the property. For more information on compatible development practices in North Carolina's coastal environment, send for *A Handbook for Development in North Carolina's Coastal Area*. It is available from the Division of Coastal Management.

## Cost Considerations

Buying a family home is the largest investment most people ever make. Buying vacation property may be the second. So whether you buy a vacant lot, a beach cottage, a condominium or a time share, be certain that the cost meets your budget. Here are some general suggestions for making your decision.

Completely survey your financial situation before committing to purchase. Your “place at the beach” should be a source of enjoyment, not a burden that haunts you the first of every month. Before deciding to buy, check with lenders to see what their loan requirements are for second homes. Special restrictions may apply. For example, many financial institutions are reluctant to lend money for the purchase of a time share.

Buying property can involve upfront expenses. The most significant of these are closing costs—the money re-

quired to cover the cost of borrowing. It is not unusual for closing costs on any house, including a vacation home, to total 4 or 5 percent of the total amount financed. Closing costs can vary depending on the type of property you buy, the amount of money you borrow and the method of financing.

They include:

- attorney’s fees
- document recording fees
- an origination fee—the lender’s fee for processing the loan (usually 1 percent of the amount borrowed)
- appraisal fee
- credit report fee
- property survey fee
- title insurance premium
- private mortgage insurance premium—usually required if the loan will exceed 80 percent of the property’s value

- loan discount points—each point usually equals about 1 percent of the value of the mortgage (may be required to obtain a lower interest rate)
- property insurance premiums—generally must be prepaid one year in advance
- an escrow account deposit—to be held by the lender to help cover future property taxes and property insurance premiums

The good news is that some of the costs are tax-deductible. For example, discount points can be deducted as interest on a real estate loan. Also, developers will occasionally pay closing costs. However, in these situations, you should expect the costs to be included in the purchase price.

Most of the above expenses can be eliminated if you pay cash for your property. But attorney’s fees and the

cost of recording your deed will remain applicable. In addition, a survey should still be done to protect your interest.

After purchasing vacation real estate, the owner will incur other continuing costs. These may include:

- hazard insurance
- property taxes
- general maintenance costs
- assessments (for any future improvements—water, sewer, streets, sidewalks, etc.)
- utility expenses
- owners' association fees (particularly in multi-ownership projects such as condominiums and time shares)

Since much of North Carolina's beach and sound-front property is located in flood hazard areas, property insurance normally would be expensive. But the National Flood Insurance program subsidizes in-

surance rates, enabling property owners to buy flood insurance at reasonable rates.

Prospective coastal property owners should be aware of recent changes in the flood insurance program. In 1982, Congress passed the Coastal Barrier Resources Act that withdrew several undeveloped areas from the Federal Flood Insurance Program. This measure attempted to shift the risk of loss from the federal treasury to the private sector.

Anyone buying coastal property should inquire whether federal flood insurance is available and, if so, at what cost. Inquiries may be directed to the Federal Flood Insurance Program at 1/800/638-6620; the office of the local building inspector in the city or county with jurisdiction over the property; or the N.C. Division of Community Assistance, P.O. Box 27687, Raleigh, N.C. 27611. The division's

phone number is 919/733-2850.

Another cost is property tax. Find out the current tax value of the property you plan to buy. From this value, you (or your attorney or accountant) can calculate your property tax liability using local tax rates. If the property lies within an incorporated town, you generally will be liable for both city and county taxes.

Maintenance expenses for coastal properties can be high, especially in areas immediately adjacent to the ocean. Materials subject to corrosion from the salty air and water are most vulnerable. According to Spencer Rogers, UNC Sea Grant's coastal engineer, steel rusts up to six times faster on structures 80 feet from the shoreline than at sites 800 feet inland. Salt air, wind and rain also wear on paint, shingles and wood. For more information, write Sea Grant for "Corrosion in Salt Air" by Rogers.

Ask for publication number UNC-SG-BP-85-03.

If you own a cottage, maintenance costs will be your responsibility. Condominium and time share owners usually share maintenance costs with others in the owners' association.

Finally, be sure to consider utility expenses—heat, air conditioning, water and sewer costs. Estimate these expenses by contacting the utility companies for rate information. Heating and air conditioning expenses are dictated largely by the quality of construction. You need rate and construction information (amount of insulation, etc.) to calculate these expenses successfully. If you can, contact the last owner for an estimate of expenses. And remember, you can control utility expenses.

Knowing what you can comfortably afford is important. This information can be helpful in deciding what kind

of vacation property to buy. A variety of choices are available. The next chapter looks at the options and focuses on condominiums and time shares.



*Photo by Steve Murray*

## The Ownership Options

As late as the 1960s, visitors to North Carolina's coast found communities characterized by single-family cottages and a few duplexes and hotels. Vacant lots were abundant



*Photo by Gene Furr*

even along the oceanfront.

That has changed. Today, North Carolina's beautiful coastline and moderate climate draw more vacationers. This influx of people has spurred coastal development. Consequently, available land is disappearing, and laws and regulations designed to protect the environment are becoming more numerous. This has resulted in higher real estate values.

More people found it difficult to buy their "place at the beach" as resort property prices escalated. The recession in the 1970s made the problem worse. The traditional single-family beach cottage became too expensive for most buyers. Consumers and developers were forced to search for marketable alternatives.

One solution was the concept of multiownership—jointly owned beach cottages, condominium complexes and time share projects. Sharing

ownership greatly reduces purchasing costs. In 1981, nearly one half of the 65 million families in America could afford to buy time share property. But only 1.3 million could afford a second home.

In the last 10 years, shared ownership of resort property has increased dramatically in North Carolina. Now, in addition to the traditional options, new ownership opportunities are available. Before buying property, understand the advantages and disadvantages of these options.

We will examine some questions consumers might ask as they compare the alternatives. This comparison is not intended to recommend one type of real estate over another. It is intended to provide buyers with information they can assess before entering a binding legal obligation. The buyer and the seller will benefit from an informed decision.

## Vacant Lots

Many people prefer buying lots and constructing their own dwellings. This gives the purchaser the option of building to his tastes. If this is your plan, here are some things to consider.

Calculate your costs. Will you be able to afford to build after you buy the land? Find out construction costs by contacting local building contractors. Make comparisons regarding construction costs and quality.

Remember to determine the ocean setback requirements if you are purchasing oceanfront property. These requirements can limit a lot's buildable area. In some cases they can cause a lot to be totally unbuildable.

Other types of lot restrictions may also exist. Counties and municipalities usually require a building setback from public streets. Also, there can be setbacks from adjacent property lines.

It is not unusual for several setback requirements to work together to limit the buildable area of a lot. Before buying, contact the local building inspector and ask about lot restrictions. Remember that regulations may change with time.

Investigate the area's water and sewer services. You may need to install a septic system if sewer service is not provided. Septic systems are only allowed in areas that meet "perk" (percolation) requirements. In other words, soil conditions on your lot have to allow the septic system to function properly. Make sure any purchase contract you sign contains a condition requiring the property to satisfy a perk test. If your lot does not perk, and if no other alternative for sewage disposal is available, you will not be allowed to build. Call the local health inspector and have a perk test done *before* you buy.

If water is not provided, you will need to find a source. The quality (brackishness, color, etc.) of coastal



water may vary, so do some investigating. Whatever means you choose to obtain water (well, buying from a public or private utility, etc.), ask questions about the quality and projected quantity before you buy.

Buying coastal property is usually a good investment. However, as with buying any property, use common sense.



## Cottages

With a few exceptions, buying a cottage at the coast requires the same forethought as buying a home anywhere else. You should determine if the structure is sound. Is it constructed of quality materials? What repairs or renovations are necessary?

Have the cottage inspected for building flaws and for damage (from termites, water, corrosion, etc.). Local real estate agents can usually provide you with the names of private inspectors. If you are financing the cottage, a termite inspection report generally is required by the lender.

Because the coast is subject to occasional harsh weather, a few extra concerns exist for buyers. There are special building code standards designed to provide for protection from wind and water. As of 1986, cottages along the coast must be built on pilings that extend 16 feet below the natural grade of the lot or 5 feet

below sea level, whichever is less. Be sure your prospective cottage meets these requirements. In high erosion areas, these requirements may not be enough. Be sure the pilings are deep enough to survive storms and erosion. If the private inspector is unfamiliar with the standards, obtain assistance from the local building inspector. Or contact Sea Grant's coastal engineer at the N.C. Aquarium/Ft. Fisher, P.O. Box 130, Kure Beach, N.C. 28449. Phone 919/458-5780.

As with buying a lot, find out erosion rates for the area where you plan to buy. This point cannot be overemphasized because shoreline erosion continues to threaten the coast. Beware of tidal inlets.

In addition, carefully consider the financial aspects of buying a home. If you are borrowing money for your cottage, remember that interest paid on a loan for a second home remains

tax deductible under the Tax Reform of 1986. If you plan on renting your cottage, you must report the income

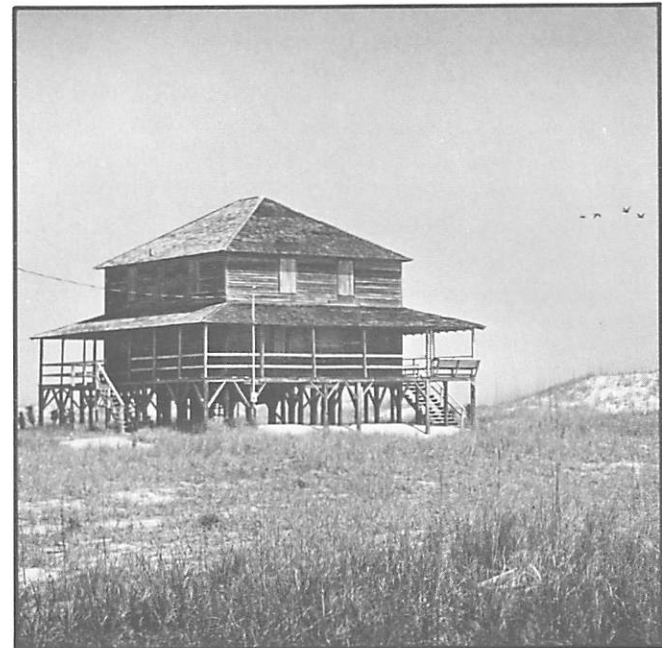


Photo by J. Foster Scott

to the Internal Revenue Service. If you occupy your home less than 14 days a year, you may be able to decrease your tax liability. Maintenance expenses, which can be substantial, may be deductible. You also may be able to depreciate the property. Check with your accountant or attorney regarding tax consequences if you plan to use your vacation property to generate income.

## Condominiums

“Condominium” is a form of real property ownership in which one owns a unit in a multiunit building or complex. Each owner also has an undivided share in certain “common areas” (or common elements) such as the hallways, parking areas and recreational facilities. A condominium is often more affordable than a single-family house since only part of a building is purchased. In addition, maintenance costs for common areas are shared.

Inherent in the condominium concept is the principle that to promote the health, happiness and peace of mind of the majority of unit owners, each unit owner must give up a certain degree of freedom of choice that he or she might otherwise enjoy in separate, privately owned property. Understand this before you buy. Realize, too, that as a unit owner you can have a voice in its operation. This

is usually accomplished through an owners’ association.

### What to look for in the condominium development

Check for the environmental hazards previously discussed—erosion, floods, winds, etc. If the condominium is a conversion of an older building, ask the local building inspector about its structural soundness. This can help you determine the building’s remaining useful life. If the condominium is new, be sure it meets local building codes.

A few other factors that should be considered are:

- a. Will the resort be crowded?
- b. How much open space is available?
- c. What is the general lay-out of the resort? Are the recreational facilities adequate and convenient?

- d. Is the landscaping acceptable?
- e. How many parking slots are available to each unit?
- f. Are the units soundproof? (This may be one of the most important considerations.)
- g. What restrictions appear in the declaration of condominium for the development? (A declaration is the legal instrument that creates the condominium. It must be recorded in the register of deeds office.)
- h. Are all the recreational facilities part of the common areas that are jointly owned by the unit owners? Or will the developer or owners’ association hold title to some of these facilities?
- i. If any recreational facilities or other amenities are promised for the future, is the developer legally obligated to provide such amenities?

**The New N.C.  
Condominium Act:  
Some general provisions**

In 1986, the N.C. General Assembly passed the N.C. Condominium Act.



The act applies to all condominiums formed or built after October 1, 1986. (North Carolina's old condominium statute continues to govern condominiums built before October 1, 1986. This old statute does not contain many of the consumer protection provisions that are included in the new law.) The new act requires the developer to prepare and deliver a public offering statement to any prospective condominium purchaser. The purpose of the statement is to provide purchasers with sufficient information to understand the nature of the product being offered.

The statement must include:

- a. A general description of the property including a schedule for the commencement and completion of all buildings and amenities.
- b. Copies of the recorded or proposed condominium declaration,

the bylaws of the owners' association and copies of any contracts and leases to be signed by purchasers at closing.

- c. A balance sheet and projected budget for the owners' association for the first year after the conveyance of the unit.
- d. A list of services provided by the developer or a list of expenses paid for such services that are not reflected in the budget but may become a common expense of the owners' association.
- e. A description of insurance coverage for the common areas.
- f. A list of fees or charges that unit owners may be required to pay for the use of common elements such as swimming pools, golf courses, clubhouses, etc.

The new act requires the delivery of the public offering statement to a prospective buyer before a contract of

purchase is executed. After the contract is signed, the purchaser has a right to cancel the contract, without penalty, within seven days.

### **What to look for in condominium management**

Generally when you buy a condominium you automatically become a member of the owners' association. The association, in conformity with any restrictions in the declaration of condominium, controls many facets of the development. Here are some things to look for regarding management.

- a. What are your voting rights in the association?
- b. How are the association's officers selected?
- c. What are the powers and duties of the association?

More specific things to think about regarding management are:

- a. What provisions exist regarding alteration of the exterior of the units? How are they enforced?
- b. Are there restrictions regarding children, pets, types of vehicles allowed on the premises, signs, trash, etc.?
- c. Are there noise restrictions?
- d. Are there lease restrictions? Is your ability to rent your condominium inhibited?
- e. Is there adequate insurance for the common areas?
- f. Is there a limit on the amount of money you can be assessed for maintenance?

This list is only a beginning. It is intended to cause you to think about the things that are important to you regarding living space. Are these things incorporated into the management of your condominium? If not, determine what powers you have to make changes.



*Photo by Sarah Friday*

## Townhouses, Patio Homes and Cluster Homes

Another form of real property ownership involves owning a connected unit that may be referred to as a townhouse, patio home or cluster home. Although similar in appearance and other aspects to condominium projects, these projects are legally different. The owner individually owns the land on which his unit is situated and the unit itself.

Shared ownership with others is usually limited to common (adjoining) walls that separate the units. Normally the common areas (e.g., pool, parking lots, clubhouse, etc.) are owned by the

owners' association. All owners have the right to use these facilities.

Developments of townhouses, patio homes and cluster homes are not governed by the condominium statutes or any other specific statutes. Thus, no special statutory consumer protection provisions are applicable to these projects. They are governed by deed restrictive covenants. These covenants establish the basic framework for development and operation of the project, including provision for an owners' association.

Beware that many people, including some real estate agents, mistakenly refer to these projects as "condominiums." When you consider the purchase of housing in a multiunit project, understand the legal status of the project and your ownership rights before you sign a contract.

After determining the legal factors discussed above, a prospective purchaser of a townhouse, patio home or cluster home should consider the same factors mentioned about condominiums.

## Time-Shared Property Ownership

Our discussion so far has focused on the traditional methods of owning vacation real estate. Under all of these, the owner is entitled to certain rights: to dispose of the property, to exclude others from using it, and the unlimited use (as long as the uses are legal) and enjoyment of the property.

An option in vacation real estate is now available that adds a new concept to ownership. This new concept is time, and the option is known as “time sharing” (sometimes referred to as “fractional ownership” or “interval ownership”). Time share ownership involves the same rights as traditional ownership. But the rights only apply during specific recurring periods of use. During these periods, owners have an exclusive right to use and enjoy the property. During the time you do not occupy your time share, your traditional rights are held in reserve. However, you can exercise the right to

dispose of (sell) your period of ownership any time.

Suppose you are interested in buying a time share. We'll look at a hypothetical 20-unit development called Paradise Acres.

The developer divides each unit into 52 weeks (1 year) and puts 50 weeks up for sale (two weeks are reserved for unit maintenance). If all the weeks are sold, each unit will have 50 owners. Therefore, if you purchase one week of Unit 11, you would own 1/50th of the unit and would be one of the 1,000 ( $50 \times 20 = 1,000$ ) owners of Paradise Acres. Your ownership is defined not only by the spatial boundaries of Unit 11 but also by the time boundaries of whatever week(s) you buy. During this time, your property rights are fully applicable.

### The Evolution of Time Sharing

The concept and practice of time

sharing originated in Europe. As European resorts became increasingly crowded and resort reservations more difficult to obtain, vacationers searched for alternatives. People looked for ways to guarantee the



Photo by Sarah Friday

availability of their favorite resort. At the same time, resort owners were looking for ways to equalize the demand on their resources. Vacation spots with peak periods (winter in the Swiss Alps, for example) could be more profitable with year-round occupancy.

A system evolved that allowed vacationers to buy a right of use in their favorite resort. This right usually involved a specified time period for a designated number of years.

Most of these agreements began as nothing more than rental contracts or club memberships. But the concept of buying an ownership interest quickly followed. From this, time sharing came to the United States.

By the early 1970s, the U.S. real estate market had accepted the idea of condominium-style housing, especially for second homes. Some states such as Florida and California

were tapping this new market when the recession of the 1970s began. A slump in sales resulted, and many condominiums were left vacant. Developers looked for new and creative ways to stimulate the market. Time sharing presented a possibility.

In one sense, time sharing was not a new idea. Families and friends often purchase second homes together and divide use time. Instead of acquaintances making arrangements, someone else would find and/or develop the property, divide it into time periods, sell it and then manage it. The idea caught on.

By 1984 there were approximately 600,000 time share units in the United States. The new market had developed into a \$1.5 billion-a-year industry. The scheme that grew from the recession and from ideas borrowed from Europe evolved into a new vacation real estate alternative. This

alternative began to develop in North Carolina around 1975.

The early years of time sharing in North Carolina were not without problems—high pressure sales techniques, unreliable developers, misleading advertising and promotional schemes, and project bankruptcies. In the next few pages, we will examine the steps taken to alleviate some of these problems, including the N.C. Time Share Act. We will also suggest questions that consumers should ask before choosing the time share alternative.

### **Some Questions**

Many different types of time shares are available. They range from a week in a “hotel type” room to a month in an elegant oceanfront cottage. There may be as many as 50 owners per unit or as few as five or 10.

Some time shares offer a full range



of amenities but others may be more limited. If you think you are interested in the concept of time sharing, investigate. Find an offering that best matches your needs. Be aware that many developers avoid use of the term “time share” in advertising and promotional literature. If you are uncertain about this point, don’t hesitate to ask. Here are a few things to consider.

*Will you use the time share?*

Think about your vacation habits. How much time do you actually vacation each year? Is it more or less than the time interval being offered? Do you (can you) always vacation at the same time?

Time share resorts offer a variety of time intervals. These intervals can vary in length. They can also be for fixed, rotational or floating periods. A fixed interval will occur at the same time each year. If you purchase the

first week of July, that will be the week available to you each year. Rotational and floating periods offer more flexibility, but your first choice of time may not be guaranteed.

Some years you may not be able to use your time period. Find out what arrangements the resort has for trading time periods with other owners. Also, for those years when a vacation may not be possible, find out what arrangements exist for leasing your unit. Are rental arrangements left up to you? If the resort handles the rental, how much commission does it charge?

In looking at your vacation habits, think about where you like to vacation. Is it always at the same resort? One of the criticisms of time sharing is that it removes vacation flexibility. It locks you into returning to the same resort year after year. Industry proponents are quick to counter this

claim. They see time share ownership as an opportunity for vacation diversity through exchange programs.

Exchange programs allow time share owners to exchange interests. In other words, I will trade my share in Atlantic Beach, N.C., for your share in



*Photo by Sarah Friday*

Boone, N.C. However, it is usually not that simple. Your resort must be affiliated with an exchange program.

Fees are involved in exchanges. There are membership fees (sometimes paid by the resort) and exchange fees (usually paid by you). And there are restrictions. It will be difficult to exchange an unpopular time and location. Be realistic. Do not expect to exchange your interest in Boone for one in Switzerland without additional payment. Find out the most you can about the programs.

*Is time sharing economical?*

Time sharing involves two basic costs—the purchase price that may be financed or paid in cash, and a yearly maintenance fee (similar to an owners' association fee). Occasionally the owner will also be charged a per diem user fee. Time sharing can reduce vacation costs in some situations.

Buying a time share is generally less expensive than purchasing a cottage or a condominium. However, there is disagreement concerning its advantages over renting. Many critics maintain that it takes years to recoup any vacation savings from a time share. They further claim that even after the unit is paid for, it still incurs maintenance costs that are subject to inflation. It is not unusual for maintenance fees to increase sharply within a few years, especially after the developer has sold most or all of the time shares and left the project.

In the past, many lenders were reluctant to lend money for time share purchases, and available money was usually offered at higher interest rates. Investigate all financing opportunities before committing to purchase.

The resale market for time shares developed slowly. Consequently, if you

are buying time shares for investment purposes, you may be disappointed. Some new companies specialize in time share resales, but most charge substantial commissions. Some resorts maintain their own "in-house" resale programs and enjoy a limited success. You should realize that the price you pay for a time share includes a substantial amount to cover the developer's marketing costs. Consequently, your time share's resale value will likely remain below the original purchase price for quite a while.

Interest on loans for time shares is usually tax deductible. But, income tax law changes frequently, so check with your accountant or attorney.

There are some tax-related peculiarities. In North Carolina, property owned under a time sharing arrangement but managed by a owners' association must be listed for property tax purposes in the name of

the managing entity. Therefore individual owners cannot claim an income tax deduction for these taxes even though they indirectly pay them through their maintenance fees.

*Does the project have a good management plan?*

Once all the time shares are sold, the original developer is generally finished with the project. From that point, most time share projects are managed by a private management agency. Your future satisfaction will greatly depend on the quality of management, so do some investigating.

A big difference between condominium and time share management is the ability to exercise effective self-government. With time shares, there are usually two significant obstacles to self-government. These

are: (1) the short period each owner uses the unit, and (2) the fact that most people are attracted to time shares because of their vacation features and are unwilling to assume the burdens of management. As a result, the individual time share owners usually have little involvement.

For this reason, it is important that the legal documents setting up and directing the management structure are clear and precise. In addition to the factors listed in the preceding condominium management section, look for the following items:

1. A clear definition of the use rights in each unit—time intervals, etc.
2. A clear statement of items comprising the budgeted maintenance fee—i.e., utility, telephone, insurance, reserves for furniture replacement, upkeep of interior, etc.

3. Provisions for liability for damage to the unit or its furnishings other than by normal wear.
4. Provisions controlling the amount of the total budget a management company can receive for its service, and how much it can raise its fee from year to year.

*Is the resort located in a high erosion area?*

*Is it well constructed?*

The damages of erosion and flooding also apply to time share projects. Even though your investment may be less in a time share, it is still important to find out the erosion rate before you buy. Since you will be charged maintenance costs, check the condition of the building. Remember, maintenance costs at the beach can be high.

## Consumer Protection

North Carolina is one of several states to enact special legislation protecting consumers against unfair time share sales practices. Here are some things you should know.

If you purchase a time share from its original developer you must be given a public offering statement. However, if you are not buying from the original developer an offering statement is not required. The statement includes: (1) a description of amenities offered; (2) a statement of your total financial obligation including purchase price and additional charges (maintenance fees, etc.); (3) the specific term of the time share (what specific time will be available to you); (4) a statement that a deed conveying a time share must be recorded in the Register of Deeds office; and (5) a statement of cancellation that allows the purchaser to withdraw from the contract within five days after

signing it without penalty. If you decide to cancel the contract you are entitled to have your money returned. If the offering statement is not provided or if any of the above requirements are not fulfilled, contact the N.C. Real Estate Commission at P.O. Box 17100, Raleigh, N.C. 27619. Phone 919/733-9580.

### Prizes

Time share resorts frequently offer prizes in connection with their sales. The prizes generally are intended as inducements that encourage you to visit the resort. In North Carolina, a prize offer must include certain information. The offer must clearly convey (1) the actual retail value of the prize; (2) the actual number of the prizes to be awarded, and (3) the odds of winning if obtaining the prize involves chance. Read the prize offer carefully. Be sure that it contains the above in-

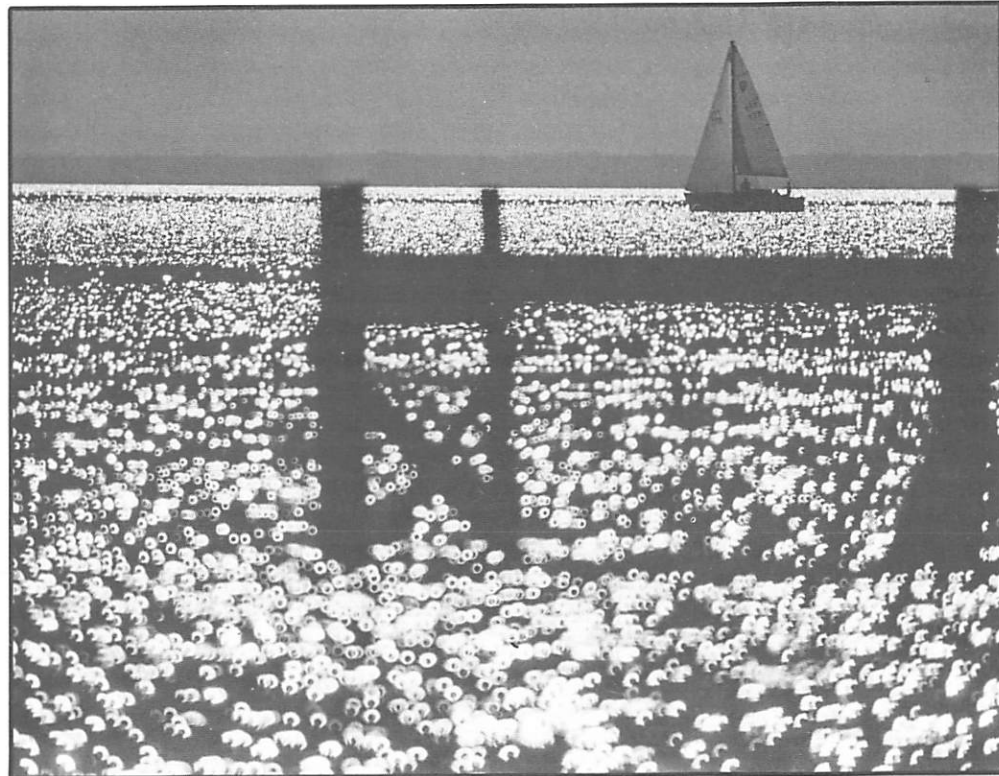
formation. And read the fine print. Look for exclusions and exceptions. Prize eligibility may be contingent on having a certain income level or other factors. Basically, you should use "common sense" in considering prize offers.

Sometimes an offer states that other prizes of comparable worth may be substituted for what is listed. In other words, you may not receive the prize you want. Be aware that paying taxes and delivery charges are often the recipient's responsibility. Also, look closely at trip offers. Occasionally offers include free air transportation, but require you to stay at a selected resort and pay the accommodation costs. Determine the part of the trip for which you are financially responsible.

If you do not receive your prize, or if you feel other terms of the prize offer have been violated, contact the

N.C. Real Estate Commission or the Consumer Protection Division of the Attorney General's office in Raleigh. Phone 919/733-7741.

Legislation has tempered many of the early abuses of time share sales. However, there are still complaints of high pressure sales techniques. And the financial stability of time share projects is an ongoing concern to regulators. A general rule to remember is that a quality product will speak for itself. The more pressure you feel from a salesperson, the more you should question what is being offered.



*Photo by Steve Murray*

## **Conclusion**

North Carolina offers a variety of vacation options. From the state's beautiful beaches to its rich coastal sounds and rivers, there are opportunities to purchase vacation property.

But in North Carolina, it is the buyer's responsibility to examine the property—to test, judge and be satisfied with it before entering a legal obligation. So investigate the options. Know what you want, and be sure you are getting it. Then you likely will be satisfied.