

STEVEN R. LEE

ATTORNEY AT LAW

Practice Limited to Real Estate Matters

Watumull Plaza
4334 Rice Street, Suite 204C
Lihue, Kauai, Hawaii 96766
Telephone: (808) 246-1101
Facsimile: (808) 246-9481
Email: steve@homesharehawaii.com

OF COUNSEL

SANFORD K. OKURA

ATTORNEY AT LAW, A Law Corporation

155 Wailuku Drive, Hilo, Hawaii 96720
Tel: (808) 935-3344 Fax: (808) 935-3300
Email: s.okura@okuralaw.com

ETHAN R. OKURA

Interstate Building, Suite 760
1314 S. King Street, Honolulu, HI 96814
Tel: (808) 593-8885 Fax: (808) 593-8897
Email: ethan@okuralaw.com

FREQUENTLY ASKED QUESTIONS ABOUT FRACTIONAL OWNERSHIP

1. *WHAT IS A FRACTIONAL OWNERSHIP OR FRACTIONAL INTEREST? WHAT IS INTERVAL OWNERSHIP OR INTERVAL INTEREST?*

Fractional Ownership and Interval Ownership are the same thing, said two different ways. A fraction means a part of something, such as one-half, one-third or one-quarter. In our real property projects, we usually divide the ownership into six pieces, each being a one-sixth interest. An “interval” is a period of time, such as a day, a week, a month or a year. In our real estate projects we usually use intervals of sixty days or more, approximately one-sixth of a year. Each “fraction” of one-sixth gets the use of sixty or sixty-one days every year (allowing a few days for maintenance and repair) reflecting that 365 days does not divide exactly into six equal intervals of a number of days.

2. *HOW IS THIS TYPE OF OWNERSHIP DIFFERENT FROM NORMAL OR “WHOLE” OWNERSHIP?*

Normal or whole” ownership is what we call sole ownership in “fee simple.” That means you own all of the property by yourself. If it is a house and lot, you own the land and the building(s) on the lot, forever. If it is a typical condominium, you own the airspace inside the condominium, including all the furniture, fixtures and equipment inside, as well as the right to use all the shared amenities (pool, sidewalks, parking lot, beach access, tennis courts, etc.) of the particular project, the same as any other condominium owner. There are many variations on this, such as leasehold condominiums (where you get to use the property for a specific number of years) and some have assigned parking for each unit, some have cars or boats owned by several owners together, some allow businesses to operate, such as a restaurant or shop, some have specific amenities for part of the project and other amenities for other parts of the project. Fee simple owners pay all the taxes, insurance, maintenance, repairs, utilities and other expenses by

themselves. All expenses and all uses are by a single owner, even if it is a partnership, LLC, family trust, etc.

“Fractional” owners share all expenses and uses according to how big a fraction you own. A one-sixth owner usually gets to use one-sixth of the days of the year and pays one-sixth of the taxes, insurance, repairs and remodeling of the property. Fractional owners share the management and decision-making power for the property, so there is usually a committee of six that talk at least once a year to decide what to do with the property.

3. *WHAT ARE THE ANNUAL MAINTENANCE FEES PER 1/6TH INTERVAL? HOW OFTEN ARE THEY PAID? ARE THERE ANY OTHER FEES I DON'T KNOW ABOUT?*

The regular annual fees now range anywhere from \$1,000 to \$20,000 per interval each year, depending on the value of the property, the quality of furnishings, whether there is a car or a boat, etc. included in the project. The amount may change when there are changes in the actual costs of the property. As an owner, you will be part of the process of determining costs for future years or appointing someone to do this for you. The types of expenses and expenses for the first and estimated future years are all listed on the “Fees Schedule” for each Project. This will be part of the sales package you receive for any project you purchase.

The only additional charges you may see are for things that are not known now, including increases for increased taxes, insurance premiums, condominium maintenance fees, damages not covered by insurance and similar expenses. If an owner or his/her guest damages the property, there may be additional expenses to repair the damage. These are the same types of expenses you would incur in any type of property ownership.

4. *WHAT DO THE FEES PAY FOR?*

The estimated fee pays for: monthly condo maintenance fees (if it is a condo), and for all projects (whether or not a condo), shared costs for grounds maintenance, utilities, project management, real property taxes, group insurance, building maintenance, common utilities, internet, TV cable, reserve accounts created to pay for future furniture and building replacement.

5. *ARE THERE ANY OTHER MEMBER FEES?*

Not usually, but when units are occupied by members, owners or guests in a resort rental program, there may be a check-in fee, a one-time key fee and periodic or an end-of-occupancy cleaning service charges. Maid service is only for projects that already have maid service. Your unit may hire daily or other maid service. There may also be automobile and/or boat ownership expenses.

6. *WHAT ARE THE DIFFERENT INTERVAL PERIODS?*

See the schedule of interval use in the project materials. It varies from project to project, but is usually approximately two months in each block of time.

7. WHAT FINANCING IS AVAILABLE TO BUY AN INTERVAL IN THIS PROJECT? CAN I GET MY OWN FINANCING?

Each project is different. Some lenders allow the developer to sell intervals with promissory notes and mortgages. Usually you must put 20% or more down with approved credit, but as little as 10% down depending on underwriting guidelines. If you have strong credit and good banking relationships, you may be able to get a better rate than the Developer can offer, which you are welcome to do. Not many lenders are currently in the fractional lending market and we expect it may take a year or two for more lenders to provide loans, so the project lender may be the best option for you.

8. CAN I LOOK AT A PRICE SHEET FOR ALL OF THE UNITS AVAILABLE FOR SALE?

In most projects you are welcome to review all prices on available intervals. Not all units will be available at any particular time, and some intervals may already be sold and waiting for closing. *See the Interval Price Chart and Calendar.*

9. WHEN YOU BUY, DO YOU BECOME A MEMBER OF ONE OR MORE ASSOCIATIONS? WHY?

YES, there are two associations for condo projects, one for the Condominium project and one for the Fractional Ownership project. With a house, there is only one association—the association for the Fractional Ownership project. Each association takes care of the things that are of unique concern to either the entire condo project or just the group of fractional owners.

10. WHO IS THE MANAGER FOR THE PROJECT?

Each project has its own management. Ask the developer.

11. CAN I RENT MY OWN INTERVAL?

If it is otherwise allowed by law, you can. If not, you can't. Yes, you can rent out your time, or you can use a rental or property management company. However, you cannot usually do both at the same time. If too many people decide to do their own rentals, it may be hard to get a professional management arrangement.

12. CAN I TRADE MY WEEKS WITH OTHER OWNERS?

Yes, part of the ownership plan includes the right to trade time with other Homeshare HawaiiSM plans, or you can do it yourself.

13. AM I RESPONSIBLE FOR ANY KIND OF ROOM TAX?

Legally, yes. As a practical matter, the taxes are paid by the guest renting the unit, including the General Excise Tax of 4% and a Transient accommodation tax of 7.25%, which you or your manager will collect and must be paid to the State of Hawaii. It is your personal responsibility, so it is a lot safer if we always use qualified rental agents to collect and file the returns and make the payments for you.

14. *HOW ARE THE PROPERTY TAXES PAID ON THE UNITS?*

All taxes are collected annually from the interval owners and paid by the Plan Manager or through the Fractional Ownership Plan. Each owner will receive a copy of the tax bill showing the total and the calculation of the individual 1/6th tax portion each interval must pay.

15. *HOW IS MY SHARE DETERMINED AND PAID?*

Each interval pays one-sixth of all shared expenses of the Unit in which you are an owner. Depending on how many units participate in the Plan, there can be some savings from dividing management costs among as many as six intervals in a single condominium unit. Typically, all taxes are determined in September of each year and billed to the owners. Payments are made from the Fractional Interest Ownership Plan accounts. Since we pay all expenses in advance, there is little or no risk of penalties for late payment of any Plan expenses.

16. *DOES THE PROPERTY QUALIFY FOR A 1031 EXCHANGE? HOW ABOUT A SECOND HOME FOR TAX PURPOSES?*

Generally speaking, any investment property can be used in a 1031 exchange. You could view this property as either an investment or a second home. The rules are different, and depending on your plans and your actual use of the property, the answer might change. Each transaction is evaluated with a combination of factors, and you must consult with your tax professional on your personal situation. It is safe to say, in general, that buying an interest in a Hawaii house or condominium is an appropriate investment and could also be a second home. There are exceptions. Ask.