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PERSPECTIVE ON TIMESHARE OWNERSHIP: OPERATION AND MARKET ANALYSIS

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ABSTRACT: *The rapid growth of timeshare in the United States and other countries has encouraged some hotel and resort developers in the Philippines to venture into timeshare business. The purpose of this study is to explore the operation of different timeshare resorts in the Philippines and how venturing into this industry has helped their businesses and the Philippine tourism grow. This study also aims to identify the Filipino consumers' opinion and attitude towards timeshare via survey among groups with different social and demographic backgrounds, and the potential market for this growing industry*.

KEYWORDS: timeshare, vacation ownership, operation, market analysis

INTRODUCTION

Timeshare, also known as vacation ownership, is the fastest growing segment of the tourism industry. Since its inception, the timeshare has gradually gained in worldwide expansion, number of resorts, number of owners, and sales volume, which is a trend that indicates market acceptance. It has recorded a $19.7 billion in sales globally in 2015 with 5,400 shared vacation ownership resorts with properties in 121 countries ("ARDA : News and Information : ARDA Insights : 2017 Year In Review: A Strong Year for Timeshare," n.d.). In the Philippines, the tourism industry has grown along with the growth of economy and changing lifestyle of the people. The result in the 2015 report "Mapping the Future of Global Travel and Tourism in Asia Pacific" prepared by Visa Inc., indicated that 'Filipinos have joined an emerging global travelling class" and according to Kinan Suchaovanich, Visa's corporate communications director for Southeast Asia region, that " The rising number of Filipinos travelling abroad reflects the growing affluence of the population" ("Filipinos among Asia's top travelers, says Visa | Inquirer Business," 2016.). Because of the growing number of Filipino travelers and the success of timeshare industry in other countries, a number of companies along with its subsidiaries and hotel chains in the Philippines have ventured into timesharing. This study aims to explore the operation, market and potential of the timeshare industry in the Philippines.

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RESULTS

Brief History of Timeshare

Timeshare also called shared vacation ownership is a property with a divided form of ownership or use rights. These properties are resort type condominiums, villas or apartments, in which multiple parties hold rights to use the property, and each owner of the same accommodation is allotted their period time. With its inception in Europe 1964, Hapimag, a company in Switzerland sold memberships to vacationers giving them the right to use multiple vacation properties owned by the company throughout Europe (Thomas, 2010). Also in that same year, a ski resort in France called Superdevoluy also adopted the timeshare concept which guaranteed the owners an opportunity to ski in the Alps (Upchurch & Upchurch, 2002). Timeshare in Europe evolved into a successful business venture and in 1969; U.S. developers adapted the concept and created the first U.S. timeshare in Kauai, Hawaii (Thomas, 2010). The timeshare had a difficult start in United States due to inflation and the economic downturn of U.S. economy and the unscrupulous developers who took advantage of consumer by selling a timeshare product that did not exist. By 1983, the first timeshare law was passed to put an end to such unethical selling practice by imposing strict restrictions that put bad developers out of business (Upchurch & Lashley, 2006). The entry of reputable hospitality establishment such as Marriott (1984), Disney and Hilton (1992) into timeshare industry has brought extraordinary growth and widespread consumer acceptance through strict operating procedures, organizational performance, organizational views toward civic responsibility and adherence to strong business ethics (Upchurch & Lashley, 2006). In 2015, timeshare industry has recorded global sales of $19.7 billion with 5,400 shared vacation ownership resorts with properties in 121 countries ("ARDA : News and Information : ARDA Insights : 2017 Year In Review: A Strong Year for Timeshare," n.d.)

The Timeshare Product

Ownership

The product comes either in deeded ownership or right to use contract, giving its owner exclusive occupancy for a specified period of time. Deeded ownership is sold as real property via fractional ownership and owner is liable for an equal portion of real estate taxes. On the other hand, right to use contracts grants the purchaser the right to use the property for a specific number of years then all rights revert to the property owner.

Variations

Timeshare is generally sold in one-week shares called interval week. At the start of 1970, a fixed type of arrangement called a fixed week was sold to timeshare consumers (Upchurch & Upchurch, 2002). In fixed week system, the owner is assigned a specific unit during a specific week every

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year or every other year for the life of the contract or deed. The increase in demand for product use and access led to the creation of float week system (Upchurch & Upchurch, 2002). In float week, the owner's usage is determined by season and the week usage is not fixed meaning, the owner can choose when he'd like to use his timeshare within their designated season. The downside of owning a fixed week is that if the owner can't get away during the week assigned to him at any given year he forfeits his usage unless he joins an exchange club or find someone at the resort willing to trade with him, while in owning a floating week the accommodations are reserved on a first come, first serve basis and more often than not good times go quick so the owner will have to plan far ahead in advance to get the week he wants or risk losing out. By 1990s, potential timeshare buyers were looking for more travel flexibility thus came about the point type of interval schedule, sometimes referred to as vacation club which offers the buyer highest degree of vacation options. Timeshare vacation clubs affords the buyers the maximum flexibility via a point allocation system that equates to a certain size of unit, time of year and length of stay or some other combination of leisure and vacation services (Colvin, 2010). Companies such as Marriott, Starwood, RCI, Hilton, Disney, Interval International, Diamond, Wyndham, Worldmark, and Royal Holiday Club actively use a points-based system today that allows their members to exchange or convert their points for other accommodation or leisure products.

Units and amenities

Since 1970s, the product has evolved from conversion of hotel properties, condominiums, and apartments, with the smaller percentage being purpose-built timeshare resorts. The current trend is to build each timeshare a purpose-built facility that offers the consumer the ultimate in space and luxury like a two-bedroom unit with approximately 1,350 square feet of space. Another change that came about in the late 1990s was the construction of mixed-use resorts, fractional timeshare resorts, and private residence club. The mixed-use resort is a combination of the characteristics of a traditional resort with those of timeshare resort. Part of the facility is operated as traditional resort along with its full amenities and services, while a separate portion is operated under the timeshare mode. Fractional timeshare resort came into existence to satisfy the consumer's demand for upscale products that offer the owner more than one week of time. Fractional ownership can be a three-week, four-week, ten-week or twelve-week segments that appeal to an upscale consumer who can afford a whole ownership of condominium but prefers a fractional interest for a portion of the cost. The most recent entrant into the product line is the concept known as private residence clubs. Private residence came about in late 2000s to meet the higher-end fractional ownership product that rivaled the services and amenities offered by private equity country clubs. These units are typically large in square footage, with golf courses and pro shop services, dining facilities, spas, and other recreational services (Upchurch & Lashley, 2006).

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Industry Standard

The entrance of branded hotels such as Marriott, Hilton, Hyatt and Disney and two major exchange companies RCI and Interval International brought about changes in timeshare units to meet the design and service standards set upon by these companies. RCI and Interval International implemented the resort rating systems that placed all timeshare resort on an equivalent measure. These systems classify the resorts based on ease of guest flow, presence of private sleeping areas, baths, kitchen amenities based on the size of unit, and other amenities considered mandatory like coffee maker, small refrigerator, microwave, oven, and four-burner stove. The higher the level of amenities and services offered, the higher the resort's quality rating will be (Upchurch & Lashley, 2006).

The Operation

The Developer

The timeshare developer plans, designs, and constructs a condominium-style accommodation at an exclusive resort that offers a deeded ownership or right-to-use agreement. To offer lavish accommodation and to provide a lifetime vacation memories for the consumer when using their timeshare interval, the developer must be able to satisfy the following areas of specialization: 1) sufficient knowledge of real estate law, timeshare product registration statutes, and other regulatory state and federal requirements, 2) sufficient organizational structure to support the unique functional aspects of timesharing, 3) sufficient knowledge of financial management, 4) sufficient knowledge of consumer accounting, 5) sufficient knowledge of home owners association management, and 6) sufficient knowledge of resort property management. These skills need to be incorporated into the organization's strategic plan. Each functional department or division plays an important role for the integration and coordination of these skills in the development process so that the product can be brought to market effectively and efficiently (Upchurch & Lashley, 2006).

Timeshare Location

One strategy that has worked well for various timeshare developers is the site location. Key determinants of a resort location encompass access to a sufficient number of consumers that fit the intended purchaser profile, proximity to points of interest, resort accessibility, environmental impact concerns, price per parcel, feasibility considerations, competitor characteristics, demand factors, pricing metrics, economic considerations, and regulatory issues. Timeshare resort must be located in tourist destinations noted for their leisure, recreation, cultural, historical, educational, gaming, or some other form of drawing power. A necessary part of constructing a timeshare resort is the access to electricity, gas, sewer, telephone, and water supplies. The physical location must accommodate a variety of on-campus, off-campus access issues like retail establishments, entertainment sources, restaurants and other areas of interests. Also, developers must consider that the timeshare resort does not cause negative on surrounding businesses and residential areas; does not disturb the natural habitat of protected animals or rare flora or fauna that are indigenous to the area, and does not disrupt the local residents' daily routines or enjoyment of the natural environment. The developer must also consider return investment relative to the asking price of the land. The developer must generate an accurate assessment of project yield based on current and projected market conditions. The main part of the resort's development feasibility analysis hinges on benchmarking the state of the industry and efficiencies of rival competitors. To determine the attraction factor for the projected resort's destination, the developer must engage in the review of tourist demand information that is available from local tourist bureaus, conventional and visitor bureaus, and chamber of commerce offices. The developer has to determine the pricing point of the targeted consumer so that sales and marketing efforts will prove to be fruitful. Timeshare developers must also look at the influence of the national economy on the local economies' real estate markets. And the timeshare industry as with other industries must abide by the registration issues surrounding product registration, sales activities, and marketing activities such as promotional offering and telemarketing. The developer needs to assess the problems that can affect the construction and preopening operations of the timeshare resort. And also the developer must acquire information on existing and planned resorts for that area in order to determine if the location has a strong capacity to absorb timeshare developments. Another important thing to consider is the security in the area. Developers must evaluate the security systems of other timeshare resorts to determine the type of precautions to implement at the planned resort. Is it of prime importance that the developer has sufficient capital at-hand so that the land acquisition, land preparation, and resort construction can occur per schedule (Upchurch & Lashley, 2006).

Financing

Timeshare operations receive funding from three sources: 1) the sale of timeshare weeks, 2) the financing of timeshare weeks and 3) the collection of funds through maintenance fees and resort operations. The sales and marketing of the timeshare product consumes a large percent of the money generated from the timeshare sale (Kaufmann, Lashley & Schreier, 2009).

Developer Financing

There are five different kinds of financing used for acquiring and developing land and constructing a timeshare resort. A developer may require no financing or all of the types of financing to complete their project. The first type of financing is the *Equity financing*, wherein funds are used to start the project. These include office space, salaries of administrative help, hiring of consultants, and other necessities required to start-up the project. This is the hardest type of financing to acquire because banks are not likely to get any return on their investment at this point if the project fails. Most developers use their own money and/or capital investment for the start-up money needed for the project. The second type of financing is the *Acquistion financing*, wherein the funds are used to buy the undeveloped land. The amount lent will be based on the land's appraised value or the current market value of the property and the extent of clearing, grading, utilities and infrastructure that has been developed on and around the property. This type of financing is no more than three years and has high rate of interest charged. The third type of financing is *the Development financing*. It is often packaged with the Acquisition loan. It is used to develop a piece of land and prepare it for construction. The development loans pays up to 75% of the money required to develop the land and it usually a period of three years or less. The fourth type of financing is the Construction financing. The funds are used to underwrite the actual building of the timeshare property. Loan repayments have a pre-determined cut-off due dates regardless of how many units have been sold and the more units are sold the higher the interest rate is. The last type of financing is the *End Loan financing*. The developer uses the loans that are financed by the consumer for their timeshare purchase as collateral to obtain the money for construction. This concept begins when the consumer chooses to finance their loan through the timeshare resort developer by making a 10 to 20 percent down payment and signing a contract to pay the remainder of the money plus interest during an agreed-upon time period that last about 12 to 18 months. The developer will then have end loan agreement with the bank at a much lower interest rate than what was offered by the developer to the consumer. The difference between the amount charged by the developer to the consumer and the amount charged by the bank to the developer is called the spread. Timeshare resort developer may not need the end loan financing of they can afford to build without external funding, that way they receive the full amount of interest that is paid on the timeshare finance loan agreement. A positive working relationship with banks before, during, and after development projects is essential for maximizing profits (Kaufmann, Lashley & Schreier, 2009).

Consumer Financing

Consumer financing is a key money maker in the timeshare resort development business. Not all people that go on timeshare tours will qualify for financing, so it is essential to make certain that the tours are marketed to consumers that will have the ability to make a purchase (Kaufmann, Lashley & Schreier, 2009).

Development

The resort developer handles the early stages of resort development, whilst it is still being developed and the selling process is in initial phase. After the initial contact with sales and marketing team, the owner's main contacts are with the resort's property management company. There are three basic format with regards to resort management 1) the resort developer can manage the resort property with a contractual agreement with resort timeshare owners' association, 2) the timeshare owners association may contact an outside to manage the resort and maintain the property or 3) the timeshare owners may decide to manage the property internally. The key is ensure that individual properties are kept to their original standard and that wider resort facilities are both maintained and developed in line with the resort owner's expectation and needs. The management company includes 1) the *operation of the resort*, this include employing personnel responsible for hospitality services, housekeeping, recreation and leisure activities, food and beverage facilities, and shops to ensure that the property function as a resort; 2) *maintenance and upkeep of the property*, a program of planned maintenance of individual units as well as of the resort to ensure that individual units are in full working order before each interval. The association is also responsible for all the budgeting and financial management necessary to ensure that the resort continues to be maintained and developed along the lines agreed upon with the timeshare owners (Kaufmann, Lashley & Schreier, 2009).

Marketing & Sales

Timeshare ownership is an advance purchase of a vacation rather than an investment which you get from a traditional real estate ownership. Because potential buyers are not looking into investing in timeshare, aggressive advertising and promotion campaigns are used to persuade them. Potential customers are overtly accosted in the street, hotels, shopping malls or through direct mailing or on the internet and offered gifts ranging from free dinners and vacation packages to free hotel stays in exchange for attending timeshare sales presentation lasting up to 3 hours. These presentations are carried out on the development sites featuring models of the units being sold, accompanied by beautiful picture of the resort locations. Buyers are pressured into signing the contracts right there and then. In addition to being aggressive, advertising and promotion is expensive. Marketing costs are responsible for a significant portion of the final timeshare price accounting for at least 43 percent and in most cases in excess of 50 percent to the timeshare price (Powanga & Powanga, 2008).

The Market

Demographic

Based on 1998 survey of *US Timeshare Purchaser: Who are they and Why Do They Buy*?, the average U.S. timeshare owner was around 52 years of age, of the U.S. timeshare owners 87% are married, 34% have children, 57% have a college degree and 76% have an income over $50,000 (Crotts & Ragatz, 2002).The changing demographics and continuous development of timeshare product like exchange options have provided opportunities to market to new potential customers.

In a recent study by ARDA, the average timeshare owner is now around 47 years of age; of the U.S. timeshare owners, 68% are married, 44% have children, 63% have at least a four-year college degree, 61% are employed and have an average income of $81,311 (ARDA, 2017). The older timeshare owner is more drawn to utilizing the products and services provided by the home resort while the younger timeshare owner is more likely to use timeshare exchange options and more inclined to purchase additional timeshare interval at another company's (Kaufman, Upchurch, & Severt, 2006). The demand for multigenerational and family group travel has increased as the populations become more diverse. The larger unit provided in most vacation ownership properties more readily accommodates this increase in the number of persons travelling together (Stringam, 2010).

Reason for Buying the Timeshare Product

According to Thomas (2010), the major themes in buying timeshare at the point of sales are: 1) the timeshare sales presentation and staff, 2) the timeshare resort facilities and accommodations, 3) travel vacation motivations and 4) money, price, and value. The timeshare person emerged as the central timeshare sales purchase motivator. Studies also revealed that the existing timeshare owners are satisfied with 1) overall ownership, 2) product flexibility, 3) financial services affiliated with the timeshare product, 4) club resort and amenities, 5) owner communication, 6) the vacation experience, and 7) the sales experience. Frequent assessment of these elements must be given attention in order to ensure continued market penetration (Upchurch, Dipietro, & McLeod, 2010).

SUMMARY

Timeshare has evolved over the years, taking into consideration the consumer preferences, state laws, markets and product quality standards (Upchurch & Upchurch, 2002). Along with this are the research done to better understand its product, operation and market. But these studies were focused mainly in the United States which has the highest number of timeshare owners, and only limited research is done for the international markets (Zacharatos & Stavrinoudis, 2006). This study proposes to help close that gap in academic research by exploring the timeshare business in the Philippines and providing survey results from a study of groups with different social and demographic backgrounds. This will also help any prospective timeshare resort developer to ascertain the viability and sustained growth of this industry.

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