# Timeshare

A timeshares a property with a particular form of ownership or use rights. T
hee properties are typically resort condominium units, in which multiple Par
ties hold rights to use the property, and each sharer is allotted a period of ti
me (typically one week and almost always the same time every year) in whic
h they may use the property. Units may be on a partial ownership, lease, or
"right to use" basis, in which the sharer holds no claim to ownership of the p
roperty.

## History

The term "timeshare" was coined in the United Kingdom in the early 1960s;
expanding on a vacation system that became popular after World War II in E
urope. Vacation home sharing, also known as holiday home sharing, involve
d four European families that would purchase a vacation cottage jointly, eac
hhaving exclusive use of the property for one of the four seasons. They rotat
e seasons each year, so each family enjoyed the prime seasons equally. This
concept was mostly utilized by families related to each other because of the t
rust factor involved in joint ownership and no property manager was involve
d. However, few families vacation for an entire season at a time; so the vacat
ion home sharing properties were often vacant for long periods of time.

Enterprising minds in England decided to go one step further and divide a re
sort room into 1/50th ownership, have two weeks each year for repairs and
upgrades, and charge a maintenance fee to each owner. It took almost a dec
ade for timeshares in Europe to evolve to a smoothly run successful busines
s venture.

The first timeshare in the United States was started in 1974 by Caribbean In
ternational Corporation based in Fort Lauderdale, Florida. It offered what it
called a 25-year "vacation license" rather than ownership. The company own
ed two other resorts the "vacation license holder" could alternate their vacati

on weeks ith,  one in St. Croix and one in St. Thomas ; both in the U.S. Virgin Islands . The Virgin Islands properties began their timeshare sales in 1973 with owners Hillie Meyers, Don Saunders, and Arthur Zimand.

The contract was simple and straightforward. The company, C.I.C. (Caribbean International Corporation), promised to maintain and provide the specified accommodation type (a studio, one bedroom, or two bedroom unit) for use by the "license owner" for a period of 25 years (until 1999 from 1974, for example) in the specified season and number of weeks agreed upon, with only two extra charges: a $15.00 per diem (per night) rate, frozen at that cost for the life of the contract and a $25.00 switching fee, should the licensee decide to use his/her week/ weeks at one of the other resorts. The presentation's logic was based on the fact that the cost of the license and the small per diem, compared with the projected cost of hotel rates climbing in the next 25 years to over $100.00 per night, would save the license owner many vacation dollars over the span of the license agreement. The license owner was allowed to rent or give his week away as a gift in any particular year. The only stipulation was that the $15.00 per diem must be paid every year whether the unit was occupied or not. This "must be paid yearly fee" would become the roots of what is known today as "maintenance fees", once the Florida Department of Real Estate became involved in regulating timeshares.

The timeshare concept in the USA caught the eye of many entrepreneurs due to the enormous profits to be made by selling the sameroom52 times to 52 different owners at an average price in 1974-1976 of $3,500.00 per week. Shortly there after, the Florida Real Estate Commission step pedin, enacting legislation to regulate Florida timeshare sand make them fee simple ownership transactions. This meant that in addition to the price of the owner's vacation week, a maintenance fee and a homeowners' association(HOA) had to be initiated. This fee simple ownership also spawned timeshare location exchange companies like Interval International and RCI so owners in any given area could exchange their week with owners in other areas.

Cancellations, or rescission to the timeshare contract, remain the industry's biggest hurdle to date.

**Industry**

This concept has attracted many resort developers and prominent hoteliers, such as Starwood , Wyndham , Accor, Hyatt, Hilton, Marriott , and Disney . Vacation ownership has proven to be lucrative for stakeholders in these major resort families, due to its popularity with vacation-goers. This form of lodging has spawned a variety of products sold on similar occupancy schemes; cars, planes, boats, condo-hotel units, and luxury fractional properties(at which affluent guests may stay for as long as a quarter of a year, and which often command a six-figure price tag).

**Scope oftheindustry**

The scope of today's timeshare industry in the USA is well documented. The ARDA International Foundation(AIF), which is the research arm of the American Resort Development Association(ARDA), reports there are 1,604 timeshare resorts with 154,439 units in the USA as of January 1, 2006 (AIF 2006). Though reportedly fewer than six percent of U.S. household sown a timeshare, the prevalence of vacation ownership continues to expand. Approximately 4.4 million households own one or more U.S. weekly intervals or points equivalent as of January 1, 2007, an increase of sixteen percent from 2006 About half of the resorts in the USA are currently selling, generating sales of $8.6 billion in 2005 (AIF 2006).

The global scope of the industry is not as readily quantified. Interval International, one of the two major exchange companies, reports there are 1,800 resorts in nearly 80 countries, with 2004 worldwide sales estimated at nearly $ 11.8 billion (Interval International2006). RCI has more than 4,000 resorts in nearly 100 countries.

A 2001 report estimated there to be 5,425 timeshare resorts worldwide, of w hich around 31% are situated in North America, 25% in Europe, and 16% in Latin America (where Mexico leads with 40% in the region).[8] Emerging resorts in Asia have 14% penetration rates, led by Japan, but with Thailand and India becoming increasingly prominent.

## Legislation

The industry is regulated in all countries where resorts are located. In Europe, it is regulated by European and by national legislation. In 1994, the European Communities adopted "The European Directive 94/47/EC of the European Parliament and Council on the protection of purchasers in respect of certain aspects of contracts relating to the purchase of the right to use immovable properties on a timeshare basis", which was subject to recent review which resulted in the adoption on 14 January 2009 of the European Directive 2008/122/EC.

## Methods of use

**Owners can**: Use their usage time Rent out their owned usage Give it as a gift

Donate it to a charity(should the charity choose to accept the burden of the associated maintenance payments. See "Donate to Charity" section below)

Exchange internally within the same resort or resort group

Exchange externally into thousands of other resorts

Sell it either through traditional or online advertising or by using a licensed broker (timeshare contracts allow transfer through sale; however, it is rarely (if ever) accomplished. See "Criticism" section below)

**Recently, with most point systems, owners may elect to:**

Assign their usage time to the point system to be exchanged for airline tickets, hotels, travel packages, cruises, amusement park tickets;

Instead of renting all their actual usage time, rent part of their points without actually getting any usage time and use the rest of the points;

Rent more points from either the internal exchange entity or another owner to get a larger unit, more vacation time, or at a better location;

Save or move points from one year to another.

Some developers, however, may limit which of these options are available at their properties.

Owners can elect to stay at their resort during the prescribed period, which varies depending on the nature of their ownership. In many resorts, they can rent out their week or give it as a gift to friends and family.



**<u>Exchanging timeshares</u>**

Much lauded is the idea of owners exchanging their week, either independently or through several exchange agencies, to stay at one of the thousands of other resorts worldwide. There are many exchange agencies, the two largest of which are RCI and Interval International. Together they have over 7,000 resorts. They have resort affiliate programs and members can only exchange with affiliate resorts. It is most common for a resort to be affiliated with only one of the larger exchange agencies, although resorts with dual affiliations are not uncommon. The timeshare resort one purchases determines which of the major exchange companies can be used to makeexchanges.RCI and II charge a  yearly membership fee and fees for when they find an exchange; also bar members from renting weeks for which they already have exchanged.

Owners can also exchange their weeks or points through independent exchange companies. Owners can exchange without needing the resort to have a formal affiliationagreement with the companies.

Owners may sometimes also arrange a direct exchange. This requires locatin
g an owner with the location and weeks both mutually desire. This form of e
xchange saves money on exchange fees and is often sought after. Several bul
letin boards have been created to help timeshare owners meet other owners
to perform timeshare exchange as well as other discussion board uses.

This type of lodging may take different forms depending on the seller. The va
st majority consist of one week of ownership– i.e., 1/52 year – but some deve
lopers sell point-based systems that are a different form of vacation currency
 that allow hotel stays, car rentals, and stays at large networks of resorts.

Due to the promise of exchange, these units, called "vacation ownership" by
the industry, often sell regardless of their deeded resort (most are deeded int
o a certain resort site, though other forms of use do exist). What is not often
disclosed is that all differ in trading power. If a resort is in Hawaii or Southe
rn Calif ornia, it will exchange extremely well; however, those areas are some
 of the most expensive in the world, subject to demand typical of a heavily tr
afficked vacation area.



**<u>Varieties</u>**

**Deededversusrighttousecontracts**

A major difference in types of vacation ownership is between deeded and rig
ht to use contracts.

With deeded contracts the use of the resort is usually divided into week long
 increments and the seared sold as fractional ownership and are real propert
y. As with any other piece of real estate, the owner may do whatever he or sh
e desires: use his or her week, rent his or her week, give it away, leave it to h
is or her heirs, or sell the week to another prospective buyer. The owners als
o liable for his or her portion of real estate taxes, which usually are collected
 with condominium maintenance fees. The owner can potentially even deduc

t some property related expenses, such as real estate taxes, from his or her taxableincome .

While this form of ownership can offer additional security to the owner as a form of physical ownership, deeded ownership can be as complex as outright property ownership in that the structure of deeds varies according to local property laws. Lease hold deeds are common and offer ownership for a fixed period of time after which the ownership reverts to the freeholder. Occasionally, lease hold deeds are offered in perpetuity, however many deeds do not convey ownership of the land, but merely the apartment or 'unit' of accommodation.

With right to use contracts, a purchaser as the right to use the property in accordance with the contract, but at some point the contract ends and all rights revert to the property owner. In other words, a right to use contract grants the right to use the resort for a specific number of years. In many countries there are severe limits on foreign property ownership, so thesis a common method for developing resorts in countries such as Mexico . Care should be taken with this form of ownership as the right to use often takes the form of a 'club membership' or the right to use the reservation system. Where the reservation system is owned by a company not in the control of the owners, the right of use may be lost with the demise of the controlling company.

A variant form of real estate-based timeshare that combines features of deeded timeshare with right-to-use offerings was developed by Disney Vacation Club (DVC) in 1991. Purchasers of Disney Vacation Club timeshare interests, whom DVC calls "members," receive a deed conveying an undivided real property interest in a timeshare unit. Each DVC member's property interest is accompanied by an annual allotment of "vacation points" in proportion onto the size of the property interest. Like right-to-use products, DVC's vacation points are highly flexible and may be used in different increments for vacation stays at DVC resorts in a variety of accommodations from studios to three-b edroom villas. In addition, DVC's vacation points can be exchanged for vacations worldwide in non-Disney resorts or may be "banked" into or "borrowed" from future years.

DVC's deeded/vacation point structure, which has been used at all of its timeshare resorts, has been adopted by other large timeshare developers including Hilton and Hyatt.

**Fixed week ownership**

The most basic unit is a fixed week; the resort will have a calendar enumerating the weeks roughly starting with the first calendar week of the year. An owner may own a deed to use a unit for a single specified week. For example, week 26 normally includes the Fourth of July holiday , week 51, Christmas and so on. If an owner owned Week 26 at a resort he or she could use that week every year.

**Floating week ownership**

Sometimes units are sold as floating weeks. The ownership will be specific on how many weeks the owner owns and from which weeks the owner may selector the owner's stay. An example of this may be a floating summer week where the owner may request any week during the summer season, generally weeks 22 through 36. In this example there would be competition for prime holiday such as the weeks of Memorial Day, Fourth of July, and Labor Day. The weeks when schools may still be in session would not be so high in demand. Some floating contracts exclude major holidays so they may be sold as fixed weeks.

**Rotating/Flex week ownership**

Some are sold as rotating weeks, commonly referred to as flex weeks. In an attempt to give all owners a chance for the best weeks, the weeks are rotated forward or backward through the calendar, so in year 1 the owner may have use of week 25, then week 26 in year 2, and then week 27 in year 3. This me thod give each owner a fair opportunity for prime weeks, but it is not flexible.

**Vacation clubs**

Major international hotel chains such as Hilton, Accor, and Marriott have introduced their own Vacation Ownership Programs, which are based on point systems. The share of membership sold is either deeded or with right to use the club’s services for a certain number of years.

There are also Vacation Clubs that may own units in multiple resorts in different locations, offering services to a private customer base for a senseof "exclusivity". Some clubs consist only of individual weeks at other developer's resorts. Vacation clubs cater to a wide range of economic backgrounds and income levels.

**Points programs**

Resort based points programs are also sold as deeded and as right to use. Points programs annually give the owner an amount of points equal to the level of ownership. The owner in a points program can then use these points to make travel arrangements within the resort group. Many points programs are affiliated with large resort groups offering a large selection of options for destination.

Many resort point programs provide flexibility from the traditional week stay. Resort point program members, such as World Mark by Wyndham , may require from the entire available inventory of the resort group.

A points program member may often request fractional weeks as well as full or multiple weeks stays. The number of points required to stay at the resort will vary based on a points chart. The points chart will allow for factors such as:

- The popularity of the resort;

- The size of the accommodations;
- The number of nights;
- The popularity of the season; and the specific nights requested.
- Types and sizes of accommodations

These properties tend to be apartment -style units ranging in size from studi o units (with room for two) to three and four bedroom units. These larger uni ts can comfortably house large families. Units normally include fully equippe d Kitchens with a dining area, dishwasher, televisions, DVD players , and m ore. It is not uncommon to have washers and dryers either in the unit or eas ily accessible on the resort. Kitchenware equipped to the size of the unit, so t hat a unit that sleeps four should have at least four glasses, plates, forks, k nives, spoons, and bowls so that all four guests can sit and eat at once.

Units are usually listed by how many the unit will sleep and how many the unit will sleep privately.



Sleeps2/2 would normally be a one bedroom or studio Sleeps6/4 would nor mally be a two bedroom with a sleeper sofa Sleep privately refers to the num ber of guests who will not have to walk through another guest's sleeping are a to use a restroom . These resorts tend to be strict on the number of guests per unit.

Unit size can affect demand at a given resort where a two-bedroom unit may be in higher demand than a one-bedroom unit at the same resort. The same does not hold true comparing resorts in different locations. A one-bedroom unit in a desirable location may still be in higher demand than a resort with less demand. An example of this may be a one-bedroom at a desirable beach resort compared to a two-bedroom unit at a resort located inland from the s ame beach.

**Timeshare Industry Sales Practices**

Incentives for the prospective buyer to take the "Tour" include:

A three day, two night stay at a vacation resort. (more often than not, this re sort is also a timeshare and the prospective buyers will find themselves on another timeshare "tour");

Various gifts, that may range from luggage to a toaster;
Pre-paid tickets to a movie, play, or other forms of entertainment;
Gambling chips, usually at another timeshare resort that has legalized gambling, or Various pre-paid activities coupons, usually for use in or near the venue, that the prospective timeshare buyer is given.

**Secondary Market**

The secondary market for timeshares consists of rentals and resale initiated by the owner. Resale transactions involve the owner permanently transferring his or her deed or right to their timeshare to another party. Rental involves the owner temporarily transferring all or part of their week or interval to another party, without the transferor ownership. This typically takes the form of an owner renting one week to a traveler who uses it as one would use a hotel or other vacation rental. Either transaction can be accomplished entirely by the owner, with the assistance of a third party, or a broker.



**Timeshare resales**

Timeshares are generally treated as real property and can be resold to another party. However, most timeshares do not appreciate in value, and therefore should not be considered a money-making investment. Additionally, as much as 50 percentor more of the original purchase price of a timeshare from a developer or resort went towards marketing costs, sales commission, and other fees, which realistically can never be recouped by the owner. Most timeshares resell for the nominal price as low as $1, so the new owner only takes responsibility of maintenance and other recurring fees. Resale price can be considered a market price of the timeshare.

There are brokers and agents who specialize in reselling timeshare units on behalf of their owners. This arrangement typically involves listing fees, com missions, or both, being paid by the owner to the broker/agent. In return, th e broker/agent markets the resale to prospective buyers. This marketing can take the form of printed materials, Internet postings, radio and television ad vertisement, and direct telephone solicitations. Most of the fees associated w ith third-party resale's are up-front and non-refundable, regardless of wheth er the unit sell, or for how much.

**Timeshare rentals**

Depending on the terms of the timeshare contract, an owner may rent their week or interval to another party in exchange for payment to the owner.

There are many third parties that will rent timeshare son behalf of their own ers as an one time event or an annual occurrence. The broker/agent will fin d a suitable renter in exchange for fees and commissions. In addition to a ha nds-off experience for the owner, third parties typically handle the money tr ansfers well.



The obstacle of finding suitable renter remains the same, with the added lia bilities associated with renting any real property—namely, ensuring paymen t prior to transferring the use to the renter and coverage for any damage to t he unit by the renter.

**Charity donations**

Charities sometimes accept timeshare donations. They must be able to conv ert the timeshare into cash to benefit from the donation. Charities do not wa nt to become obligated as owners and assume the same annual fees that fac e the donators. Unless a charity can convert it to cash by resale or rent, the acquisition can become a liability instead of an asset. Some charities charge the Donor an acceptance fee, and have no intention of ever making any mai ntenance fee payments. They take on the obligation and ignore all bills and t hreats of collection until the original Finance Company that bought the pap er, decides to foreclose on the property. The charity that will legitimately acc

ept the donation, will have the donor continue to hold title while they have a
n experienced broker try to sell the timeshare and convert it to cash.

The IRS says if the timeshares sold by the charity within a 36 month time of
donation, the actual cash received determines the income deduction. If the t
imeshares not sold, a maximum of $5,000 can be deducted without an appr
aisal. To receive a higher appraisal, an licensed appraiser must appraise the
property. It must include actually sold timeshares as comps. It must supply
specific information only found on the sales contractor recorded deeds, must
use replacement costs of land and improvements(resort prices) in the comp
utation, and no distressed sales as comparables.