Chapter 2

Digging Deeper into Timeshare

In This Chapter

- Discovering the meaning of "timeshare"
- Discussing the types of timeshare ownerships and uses
- Exchanging your timeshare

In writing *Timeshare For Dummies,* 1st Edition, it's my utmost goal to present both the pros and the cons of buying timeshare. In this chapter, I lay out the basic principles of timeshare: What is timeshare? What types of properties are out there? How you can use and exchange yours?

What Is Timeshare?

Timeshare, in its simplest definition, is a joint ownership or lease of vacation property by several people who take turns occupying the premises for fixed periods. In other words, timeshare is nothing more than a group of people sharing the cost of a vacation place. Think of it as buying your future vacations at today's prices.

In the old days, timeshare product generally consisted of condominium units. These days, timeshare are that and more: a hotel room, a cabin, a house, a castle, a treehouse, a chalet, a boat, a yacht, and even a jet.

Timeshare is sold in many ways: by referral, by resale, over the Internet, even on eBay. But the main way timeshare is still sold and marketed is through on-site **sales presentations.**

In the interest of full disclosure, let me say this: I am a timeshare salesperson. I know what you'll hear from the staff at a timeshare sales presentation. In introducing the concept of timeshare to clients, timeshare salespeople typically present the following chart, asking, "Which makes more sense for you?"

You say it's vacation ownership, I say it's timeshare

Many timeshare resorts and operators feel that the word "timeshare" still conjures up a sleazy image to many consumers. I can't tell you how many timeshare operations don't even mention the word "timeshare" anymore — and I'm talking even the giant companies. The major brands try their mightiest to distance themselves from the term. Disney Vacation Club never uses the word timeshare in its printed materials or during its sales presentations. A spokesperson for Hyatt said, "When you're spending $130,000 [for one of its luxury fractional timeshare products], you don't want to call it timeshare." A salesperson at a Sheraton timeshare property even told me, "I own timeshare, and our product is *not* timeshare."

What you hear instead are so-called softer terms, such as "vacation ownership" and "vacation clubs."

Renting	***Owning***
Rent receipts	Deed and title
No equity	Equity
No tax advantages	Possible tax advantages
Basic 350-square-foot hotel room	Large space with kitchen facilities
Nothing to pass on in your will	Vacation legacy to pass on
Less control of vacation costs	More control of vacation costs

Looks like a no-brainer, right? Before you jump into buying on the spot, however, read on as I break down the many variables that may arise from that simple comparison chart. Obviously, not all hotel rooms are only 350 square feet, and not all timeshares are more spacious than all hotel rooms. Not all timeshares come with a deed. And yes, although your costs are largely fixed when you buy timeshare, maintenance costs and taxes can go up annually, and you may be hit with special assessment fees from time to time.

TIP

Pitting timeshares against hotel rooms or full ownership property is not the issue. It's really all about how you prefer to vacation. If you don't think you're going to use timeshare, don't buy it, no matter what the price, no matter how desirable the property is, and no matter what the salesperson says.

The art of the scam

Timeshare may have cleaned up its act considerably, but it is still a business, and in any business where big money is involved, creative crooks are on the scene with new twists on old scams. Fortunately, their mischief is usually short-lived, thanks to tighter regulations, watchdog groups, and increasingly savvier consumers. Check out Chapter 17 for examples of timeshare hustles and hucksterisms.

Suppose you want to vacation in the south of France next year for one week. What are your choices? Here are several vacation options:

- **Rent a hotel room for a week.** Simple. You've rented hotel rooms your whole life, and so have your parents. You pay money and room tax to rent the hotel room. Out of this money, the hotel pays for the room, the labor, and the maintenance and derives a profit.
- **Rent a condo or house for a week.** Pretty much the same premise as renting a hotel room: You pay to rent, and the owner of the condo or house recoups his cost, pays for the labor and the maintenance, and derives a profit.
- **Buy a house outright.** You pay the cost of the complete house and any taxes, as well as all the maintenance and labor on the house. Plus, if you intend to use it only sporadically, you have the added responsibility of finding someone to rent it the remaining weeks of the year. This may turn out to be a smart investment, but it requires a lot of money upfront — an option many vacationers simply can't afford.

Or . . .

- **Buy a week of timeshare at a vacation spot that allows you to go to the south of France this year, Gatlinburg, Tennessee, the next year, and somewhere else the year after that.** Yes, you're paying the cost of the room, as well as the labor to maintain it, and the owner of the resort is making a profit. But you don't have to pay exorbitant upfront costs, you have a deed rather than a rental receipt, and you're guaranteed a week of vacation at your home resort or exchange resort every year. And if you have a large family, buying timeshare with more than one bedroom is a smart way to offset the costs of shelling out for multiple hotel rooms.

Discovering the Types of Timeshare Ownerships

Timeshare is not *whole ownership,* like a vacation or second home. There are three basic types of timeshare ownership scenarios:

- **Fee-simple:** In *fee-simple,* or *deeded timeshare,* you purchase an actual deeded interest in real estate that is then recorded with the court or other authorities in the place where you purchased. You receive a title in perpetuity, which means you should have the rights to use, rent, lend, will, and sell your share of the property as you see fit. It's always a good idea to ask before signing whether you're getting the full bundle of rights.
- **Leasehold:** A *leasehold timeshare* (a type of *nondeeded* timeshare property) is very similar to a fee-simple timeshare; the major difference is that a leasehold is *not* in perpetuity. Rather, a leasehold has a specified expiration date that may be at the end of a given year or a given number of usages.
- **Right-to-use:** A *right-to-use timeshare* (another type of nondeeded timeshare property) gives you the right to use a particular unit or unit size each year, but you have no actual real estate interest. Most right-to-use timeshares are similar to leasehold timeshares in that the majority have a stated expiration date. Generally, these types of timeshares are held by a trust company; many timeshares outside the United States are typically right-to-use.

Confused? Fee-simple, or deeded timeshare property, is similar in many ways to deeded property in anything else. You own it; it's yours. The vast majority of deeded property is deeded in perpetuity — that is, forever. However, because of legal restrictions in some areas, some deeded timeshare is deeded for only 99 years.

Leasehold and right-to-use timeshare are examples of nondeeded timeshare property. This type of timeshare is owned not in perpetuity but for a specific number or years or a specific number of uses.

REMEMBER

One is not necessarily better than the other. For example, the Disney Vacation Club (DVC) is nondeeded. This is a specific-number-of-years, right-to-use product. You may, however, sell, rent, or will your DVC usage just as you would your deeded timeshare, but keep in mind that any usages expire at the designated time. On the other hand, the Manhattan Club in New York City is fully deeded. You own your share of the property (your unit) forever. Of course, timeshare is still relatively new. What will happen to that one-bedroom suite at the Manhattan Club in the year 2042 remains to be seen.

Using Your Timeshare

Within the three basic types of timeshare ownership, there are four ways to use your timeshare. For more using your timeshare, go to Chapter 16.

- **Fixed week:** This is the simplest type of timeshare. It gives you rights to a specific week of the year, for a specific room size, more likely than not at a specific resort that you return to year after year (defined as your *home resort*), or trade or exchange using whichever trading company your home resort is affiliated with, for a similar room in a similarly rated resort (generally for a fee). Sometimes you may be able to exchange for a different week of the year, for yet another fee.

The greatest advantage to the fixed week system is that if you know you will be going to use your home resort during a specific week of the year, your condo will be there for you at your home resort, no reservations necessary.

- **Floating week:** Also referred to as *flex week*. Buying a floating week gives you rights to one week during the year to be used at your home resort or an affiliated resort (generally for a fee). Note that floating or flex weeks are usually allocated by season at your home resort.

  Having floating week timeshare gives you more flexibility in terms of using it but places greater responsibilities on you, because you must always reserve your week ahead of time, sometimes months in advance.

- **Points:** In a points-based system, each week of timeshare owned is allocated a specific number of points, based on such criteria as size of condo, rating of resort, and the like. Although there are exceptions, the majority of points-based timeshares have their deeds held in trust by the developer, *not* the owner.

  The greatest advantage to points is that the owner is not locked into a full week; more often than not, two- and three-day stays are permissible. For example, if it requires 1,000 points to stay the full week, it may require only 350 points to stay on a Monday and Tuesday, leaving 650 points to be used at a later date. Some, but not all, points-based systems can be used to round out your vacation, meaning they can be used for airline tickets, car rentals, hotels, cruises, and even some theme-park tickets.

  The greatest disadvantage (and it's a big one) to a points-based system is that more often than not, the points are not inflation proof. What does that mean? Say your two-bedroom timeshare is worth 100,000 points. This year, it may take 100,000 points to trade or exchange for a two-bedroom condo in the south of France. Then next year comes around, and the trading company requires 150,000 points for the same condo. It's no wonder that some skeptics have posited that the points-based system was designed solely to consistently require consumers to spend more money to purchase more points.

  Always ask whether points are inflation-proof points before signing paperwork. For more on points, see Chapter 12.

- **Fractionals/private residence clubs (PRC):** Fractionals are the fastest-growing segment of the timeshare industry, and the most costly. In *fractionals,* the purchaser owns a large number of weeks (typically $\frac{1}{4}$, $\frac{1}{8}$, or $\frac{1}{13}$ of the year, which is how "fractionals" got their name). Timeshares that operate as fractionals are typically run by management companies and have sizeable annual maintenance fees as well as membership fees.

Private residence clubs (PRC) are usually ultraluxurious properties found in the most desired locations around the world. They may come complete with automobiles, private chefs, and full-time personal assistants and offer many of the same amenities as country clubs. People with cash to burn are gobbling up fractionals and PRCs rapidly. For more on fractionals, go to Chapter 16.

Exchanging Your Timeshare

Your home resort is the destination you return to year after year. Some people prefer to vacation only in their home resort with no variation. But for many other people, timeshare is especially attractive because of the exchange factor: You have the chance to stay in a different place in the world every year. Timeshare exchange companies allow timeshare owners to trade their week with a timeshare week in a different location.

Keep in mind that exchange companies prefer that trades are generally "like for like," and rank high demand/low demand destinations with devices like color codes and industry ratings. It may be hard to trade your week in a low-demand resort during the low season for a high-demand resort in high season, although it can happen — and it's all a matter of personal preference and flexibility anyway. Orlando, Florida, may be as high demand as a destination can be (and it doesn't get any hotter), but that doesn't necessarily mean you want to vacation there.

REMEMBER

Even though you may be purchasing your timeshare with the express purpose of trading or exchanging, the mantra in timeshare is this:

> *The power of your exchange is dependent solely on what you put into the system, not what you take out.*

In other words, the power of your exchange is dependent on how desirable your timeshare week is to other traders. For more on exchanging and the two major exchange companies, Resort Condominiums International (RCI) and Interval International (II), turn to Chapter 12.

Sizing Up Your Options

One big determination for potential timeshare buyers is making sure the timeshare unit is large enough to accommodate your needs — or, paradoxically, making sure you don't buy more space than you actually plan to use. Timeshare units range from efficiencies or studios that sleep two people to houses with four or more bedrooms that can comfortably sleep 12 or more people. The resort directories for both II and RCI exchange companies differentiate between *private sleeping capacity* and *total sleeping capacity.*

- **Total sleeping capacity** is the number of people than the timeshare unit can sleep in total, meaning that someone may be sleeping on a sleeper sofa in the living room, which is not private.
- **Private sleeping capacity** is just that: separate sleeping rooms. II uses icons to show that the unit in question is, for example, a two-bedroom that sleeps four privately and six in total. RCI simply uses a slash: 6/4.

Another feature about timeshare unit size is whether the unit can be split up. The common term for a timeshare unit that can be split into separate usages is a *lockout* or a *lock-off* unit. Lock-off units are units that can be split into two or more separate units or combined into one large unit. For example, a two-bedroom unit can be used for either one week every year in a two-bedroom unit or two weeks every year each in a one-bedroom unit.

Some units are actual physical lockouts. For example, a two-bedroom unit may consist of two separate one-bedrooms, connected by a door that can be locked out (hence the terms lock-off or lockout). Other units are one unit consisting of two bedrooms (and generally two baths) and one living/eating area. Those units may not be physical lock-offs, but the resort may still allow you to convert a two-bedroom into two separate one-bedroom units.

Always ask whether you'll need to pay a fee to split up your weeks, no matter what the physical unit looks like. Make sure to also ask whether a two-bedroom unit will split or convert into two full one-bedrooms. Often, resorts will allow a split, but what the owner ends up with is a one-bedroom one week and a studio the next, not two weeks of full one-bedroom units.

Most resorts offer timeshare purchases on an annual or biannual (every other year) basis. Some resorts even offer triannual ownership.

In most cases, the cost of a three-bedroom timeshare will be lower than the cost of buying three separate one-bedroom timeshare units, and the cost per week will be even lower if you have full lockout capabilities. For example, Sue and Doug vacation three weeks each year by themselves. If they purchase three separate one-bedroom timeshare units, their expenses might look like this:

Timeshare #1: $9,000 + Annual maintenance and taxes ($350)

Timeshare #2: $9,000 + Annual maintenance and taxes ($350)

Timeshare #3: $9,000 + Annual maintenance and taxes ($350)

Effective cost per week: $9,350

But if Sue and Doug purchase one three-bedroom timeshare unit with full lockout capability (meaning it could be used for three separate one-bedroom stays each year), their expenses might look like this:

Timeshare #1 $20,000 + Annual Maintenance and Taxes ($700)

Effective cost per week: $6,900

Never buy more than you think you're going to use, unless money is of no concern to you. The best value is often a three-bedroom lockout annual that can be used for three weeks each in a one-bedroom condo. But if you aren't going to need three weeks a year, don't buy it!

History 101: The main events

Of the two once-upon-a-time versions of the story of timeshare, Version One goes something like this: In September 1963, in Baar, Switzerland, Alexander Nette and his colleague Guido M. Fenggli came up with a way to give vacationers access to rent-free holidays every year. They set up a company called Hapimag (Hotel und Appartementhaus Immobilient Aniage AG), the members of which could spend time in their own vacation property without being tied down to a single destination or having to invest a large sum of money. Soon after, Mr. Nette began to acquire properties in various resorts throughout Europe, in countries like Italy, Spain, and Switzerland. These properties were made available to the public on a *right-to-use basis* — that is, no deeds were made available and no one had full ownership.

Forty years later, Hapimag (`www.hapimag.com/wps/portal`) continues to thrive as an independent company, with more than 60 holiday resorts in 18 European countries, the United States, and Egypt.

Version Two of the story is that sometime between 1964 and 1968, Paul Doumier of the Societe des Grandes Travaux de Marseille, a development company in France, created the concept for a ski resort located in the French Alps. Mr. Doumier was the person who came up with the timeshare selling pitch, still in widespread use today, that says that it is cheaper "to buy the hotel than rent the room."

Skip ahead to 1969 when the first timeshare was sold in the United States. It was sold as a *leasehold* (again, no full ownership) on Kauai in Hawaii. These units were sold as a 40-year lease, in one-week increments, a practice that has not varied considerably in more than 30 years.

In 1973, timeshare came of age and entered the *deeded* era — wherein buyers have legal ownership of the timeshare property, giving them the same rights of ownership as other deeded real estate (they are entitled to sell, rent, will, or give away the property). Brockway Springs in Lake Tahoe, California, claims that it sold the first fully deeded timeshare. More important, the gentlemen behind this deal — Carl Berry, Paul Gray, Greg Bright, Doug Murdock, and Dave Irmer — brought the concept of timesharing to the financial world and also labeled the product *timeshare.*