

SHORT HISTORY OF THE TIMESHARE INDUSTRY

Timeshare has evolved at a rapid pace since its first appearance in Europe in the mid-1960s. By the end of that decade, the concept had spread to the USA where, by 1975, there were 45 resorts with over 10,000 members. Subsequently, timeshare became one of the fastest-growing sectors of the global travel and tourism industry. In addition to the rapid growth of the industry in many different parts of the world, the timeshare industry experienced other changes. The industry, which had its roots in real estate, matured into a holiday or leisure product. Originally offering mainly fixed weeks, the industry started to expand into floating time, split weeks, fractional ownership and subsequently points-based systems and multi-site vacation clubs.

THE ORIGIN OF TIMESHARE - A EUROPEAN CONCEPT

It is debatable as to precisely where and when the first timeshare project came into being. An idea which had a lot in common with timeshare as we know it was put into practice in 1963 when, at a hotel in Ticino, Switzerland, a German, Alexander Nette, developed an innovative concept. His idea was to sell shares in the business, each share giving its owner right-of-residence points. The timeshare owners were therefore called shareholders or partners. By 1968 Hapimag, the company which arose from this original idea, had 8,000 shareholders. At year-end 2017, Hapimag now has over 128,000 shareholders and 5,330 apartments at 57 locations in 15 countries.

By 1967, a similar concept was being introduced by one of the largest construction companies in France, Les Grands Travaux de Marseille. It was the first classic holiday timeshare program in the world. Fixed units were sold for holiday purposes at a ski resort called Superdevoluy in the French Alps. With its slogan 'Stop renting a room – buy the hotel, it's cheaper', it was an immediate success, as the purchase of the holiday weeks brought with it the guarantee of reservations for those who wanted to ski in the area.

TIMESHARE INTRODUCED IN USA

The first timeshare plan was introduced in the USA in 1968, with the conversion of a hotel in Hawaii, but not much was really heard of timeshare there until the short-term collapse of the whole-ownership condominium sector in 1974. During the oil crisis in the mid-1970s, coming after a building boom in Florida, the idea of timeshare was adopted as the answer to the fall in the property market. Lowering the prices of units by converting them into weekly intervals meant that more people could afford them.

Some faltering condominium projects in St. Thomas, Fort Lauderdale and Puerto Rico were converted into timeshare projects but, in their desperate haste to make a sale, many of the projects failed due to poor legal structuring, financing and marketing. Nevertheless, although at this point timeshare projects were on a small scale, fragmented and relatively unregulated, timeshare had started to take off and, by the end of the 1970's, annual sales had risen to US\$50 million.

THE ARRIVAL OF THE EXCHANGE COMPANIES

With the expansion of timeshare came the need for new marketing and sales techniques. Whereas, previously, it was only necessary to sell an apartment once, it now became necessary to sell it up to 50 times over. It was then that the problem of the perceived lack of flexibility in timeshare, as it then was, became obvious. In buying into timeshare, the purchaser was limited to spending holidays in the same place and at the same time each year.

The solution to this problem came with the establishment of Resort Condominiums International (later known as "RCI"), the first timeshare exchange company, in January 1974. With the arrival of timeshare in North America, the RCI's founders, Jon and Christel DeHaan were pioneers who recognised the possibilities of developing an exchange platform for the burgeoning international timeshare industry.

RCI was incorporated in 1974 and produced its first directory of resorts in 1975 and, in the same year, owner-members of RCI benefited from the first exchanges. In 1976, a second exchange company, Interval International, founded by the late Mario Rodriguez and Thomas Davis established itself in Miami. Like RCI, Interval began on a small scale, with only three employees and one affiliated resort. Nevertheless, by 1978, it had affiliated 130 resorts and counted 30,000 memberships.

From then on, the timeshare industry grew rapidly, not only in the USA, but also in Mexico (where RCI Mexico was opened in 1976) and later in Europe. RCI opened RCI (UK) Ltd in 1977, and offices followed in Japan, Australia and South Africa.

By 1976 timeshare as a new way to vacation, had taken root. Sales began to increase so that, in 1977, when the slump that had lowered sales of whole-ownership condominium sector had ended and the situation recovered in prime destination resort areas, timeshare did not lose its foothold. In fact it experienced a boom. Developers began to convert existing hotels into timeshare units and, at the same time, others began creating new resorts specifically for the timeshare market.

DEVELOPMENT OF INDUSTRY TRADE ASSOCIATIONS

Originally known as the American Land Development Association (ALDA), the American Resort Development Association (ARDA) was created in 1969 as a lobbying organisation to serve US land developers. In the mid-1970s, encouraged by RCI's co-founder Jon DeHaan and publisher Carl Burlingame, the association began to take an interest in the timeshare industry and, in 1974, it sponsored the first timeshare conference in the USA. Today ARDA has celebrated more than 40 years of industry leadership and is recognised internationally as the foremost organisation promoting the resort development industry. Its annual convention, held in April, now attracts over 4,000 delegates from around the world.

In response to the threat of legislation, national trade associations developed across Europe, leading to the formation in 1994 of the European Timeshare Association, a federation of national associations. In 1996 it became the European Timeshare Federation (ETF). In 1998, the Organisation for Timeshare in Europe (OTE) evolved from the ETF. OTE was a direct membership organisation for all timeshare companies. It represented the interests and concerns of the European timeshare industry and promoted best practice, lobbying on behalf of its members and the industry through national chapters. It has since been superseded by the Resort Development Organisation.

Among the US pioneers were companies such as Fairfield Resorts and Vistana. Fairfield Developments was incorporated in 1969 and originally based in Little Rock, Arkansas. It relocated its headquarters to Orlando in the 1990's before its acquisition by Cendant Corporation in April 2001, at which time it had over 325,000 owner families as well as being the largest vacation ownership company in the United States, marketing and managing resort properties at 33 locations in 12 States and in the Bahamas. It also operated 32 dedicated sales centres and managed more than 110 timeshare whole ownership resort associations.

Fairfield Resorts subsequently metamorphosed into Wyndham Vacation Ownership but is known today as Wyndham Destinations and is the industry's largest player with nearly 900,000 member families as well as more than 220 resorts spread across 7 countries.

Vistana was founded in 1980 the very first timeshare resort in Orlando. The flagship resort located next to Lake Buena Vista in Orlando comprises 1,568 timeshare apartments built on a 135-acre site. Vistana became a public company in 1997 prior to its acquisition by Starwood Hotels & Resorts in October 1999. At the time of its acquisition, it had twelve existing resorts with others in active development and more than 90,000 owners in over 100 countries.

ENTRY OF THE FIRST MAJOR HOSPITALITY BRAND

In 1984, the prestige of the Monarch project at Sea Pines on Hilton Head Island in South Carolina, USA, attracted the attention of Marriott. Monarch was developed by the American Resorts Corporation. Built in the late 1970s, this project was innovative for its time. Its development decisions were based on consumer research and it was a fully integrated, purpose-built product. The corporation financed all its own activity, including construction and financing for purchasers, and undertook long-term management of the resort.

In 1984, Marriott bought American Resorts Corporation, creating Marriott Ownership Resorts (MORI) which later became known as Marriott Vacation Club International (MVCI). Today MVCI is now known as Marriott Vacations Worldwide ["MVW"] Corporation following its spin-off as pure-play timeshare Company back in 2011. It has 57 vacation properties in the USA and 7 in other countries with over 6,000 timeshare resort villas around the globe and over 450,000 owner families.

More recently, in 2018 it acquired International Leisure Group ["ILG"] so as to create the world's largest upper-upscale and luxury branded vacation ownership company with over 100 properties around the globe, with more than 650,000 owners plus ILG's 3,200 resort affiliates, 80 global exchange locations and some 2 million member families and management of another 300 resorts.

It was several years before any hospitality competitors followed, giving Marriott a good head-start in the industry in which it has now become market leader.

During the early 1990's the timeshare industry increased its worldwide presence, with new markets opening up in Latin America, India, Asia Pacific and eastern Europe – to name but a few of the locations. In 1993, 2.8 million households around the world owned timeshare in 3,650 resorts. By 1995 this had increased to 3.4 million timeshare owners and 4,350 resorts worldwide. By 2016 the numbers had risen to 5,400 resorts containing 527,000 units and properties in 121 countries

EXCHANGE COMPANIES EXPAND

The success of the timeshare industry by the beginning of the 1990's was reflected by that of the exchange companies. By 1991, RCI was servicing over 1.3 million member families worldwide, and counted some 2,000 affiliated resorts in over 70 countries around the globe. RCI offices had been opened in Spain, the Canary Islands, Greece, Venezuela, Finland, Canada, India, Singapore, Brazil, Turkey, Israel and Egypt. In 1995 their two-millionth member family was enrolled.

By 1992, Interval had offices in Miami, Denver, Honolulu and Los Angeles, and corporate or representative offices in Argentina, Australia, Brazil, the Canary Islands, Denmark, France, Germany, Greece, Italy, Japan, Mexico, New Zealand, Portugal, Singapore, Spain, Thailand, the UK and Venezuela. Consumer membership had reached 400,000 and Interval counted over 1,090 affiliated resorts. In 1992, Interval was acquired by CUC International, a large consumer services company quoted on the New York Stock Exchange.

The industry was by this time attracting the attention of other publicly traded companies. The entry of major organisations and brands, such as Disney and Hilton, in the early 1990s added to timeshare's burgeoning credibility.

RCI was sold in 1996 to HFS Incorporated, a leading hotel and travel brand franchiser. Subsequently, HFS merged with CUC International in December 1997 to create Cendant Corporation. At the insistence of the US authorities, Interval, formerly a part of CUC, was sold in December 1997 to a consortium of corporate interests, including its controlling shareholder, Willis, Stein and Partners, a Chicago-based investment firm, as well as Marriott, Carlson and Hyatt, along with its senior management group. Interval was subsequently acquired by USA Interactive["IAC"] in May, 2002. In 2008, IAC spun off Interval International, which became a publicly traded company under the name Interval Leisure Group. Since then ILG expanded significantly prior to its acquisition in 2018 by Marriott Vacations World Corporation.

PROTECTING CONSUMER INTERESTS

In the 1980's ARDA began to acquire a stronger influence in the sphere of legislation of the US timeshare industry. In 1981 ARDA, with support from Interval, promoted the passage of the Florida Real Estate Timesharing Act, followed by a revision in 1983. This became the model for consumer protection legislation in many states and other countries. In 1984 ARDA helped to pass through the American Congress a series of federal amendments which serve to protect timeshare owners in the case of the developer having financial difficulties.

Meanwhile, also in Mexico, timeshare developers and marketers were taking steps to improve quality and promote a uniform code of ethics and, in 1980, the Asociacion Mexicana de Desarrolladores Turisticos (AMDETUR) was formed, both as a lobbying group and to promote the concept of timeshare among the public.

EU TIMESHARE DIRECTIVES

In 1994 the European Union Timeshare Directive was passed in order to protect the consumer. All European Union (EU) countries were required, before 29 April 1997, to adapt their laws in order to implement the Directive, which included such stipulations as a mandatory ten-day cooling-off period and the prohibition of advance payments. Only four countries had adapted their laws by the deadline and most countries' legislation differed in some aspects from the original directive. As an example, some countries increased the mandatory cooling-off period. Some introduced an absolute ban on advance payments, whereas others allowed some form of advance payments to third parties only. Subsequent EU Directives have added further regulation to significant curtail industry growth in Europe.

Regulation had also been enacted in other markets such as Australia, Malaysia, Mexico, the Philippines, Singapore, Thailand, and a number of Caribbean jurisdictions. Approaches to industry regulation have been varied with Australia, for example, categorising timeshare as a managed investment product so that within that jurisdiction, product structuring, governance and oversight are probably the strictest within the global industry

More recent developments - Consolidation continues, along with steady growth

There has been continuing trend towards consolidation throughout the US developer segment since 2016 as bigger companies gobbled up smaller ones (for example, in January of 2016, Diamond Resorts International ["DRI"] acquired Club Intrawest; in May, 2016, ILG acquired Starwood Vacation Ownership, then in July 2016, Private Equity firm Apollo Global Management acquired DRI for \$2.2bn).

The industry has also expanded, both economically and structurally, with several companies choosing "asset-light" strategies where, instead of building expensive new resorts, they partnered with existing clubs and resorts to expand their inventory to timeshare owners through the application of a "Fee-for-Service" model. These initiatives were designed to improve cash flow while reducing long-term debt that would otherwise fund multi-year resort buildouts. Some major timeshare companies also expanded their footprint in urban areas (typically by taking over and renovating existing hotels) to boost inventory beyond the traditional beach destination family vacations. Over the last 18 months, there have also been further timeshare spinoffs (by Hilton, and Wyndham specifically), where brand name hospitality companies spun out their timeshare businesses to become stand-alone entities.

USA Market shows continuing growth trend

Although growth was recorded in other maturing markets, including India and Thailand, the USA market is worth special attention by reason of the fact that it is able, through ARDA, to produce very detailed annual research studies which provide the deepest insights into any of the world's major markets. Sales volume in the US industry went from \$9.2 billion in 2016 to \$9.6 billion in 2017 representing a healthy 4% increase and a more than a 26 percent increase since 2013. Rental revenue within the industry also increased by 20 percent from \$1.9 billion in 2016 to \$2.3 billion in 2017.

Occupancy rates were also up with more than 81 percent in 2017, whereas the average hotel occupancy rates in that market were just 65.9 percent. Beyond the benefits of higher occupancy rates to the resort itself, the local surrounding markets see benefits with visitors dining at local restaurants, purchasing groceries for their timeshare kitchen and purchasing gas for rental cars.

In 2017 the USA now has 1,570 timeshare resorts with around 205,100 units. 72% of timeshare units are two-bedrooms or more, and the average unit size is over 1,000 square feet. Maintenance fees have remained about the same since 2016, with only a one percent increase.

Other points of note from the study include:

- Beach resorts were the most common type of timeshare resort (34 percent)
- Island resorts had the highest occupancy (90 percent)
- Florida has the most timeshare resorts (373)
- Nevada [specifically Las Vegas] has the largest timeshare resorts (249 units on average)