What's the Deal By Daniel Lesser

Daniel Lesser, president and CEO, LW Hospitality Advisors, New York City

The evolution of urban timeshares

(The views and opinions expressed in this blog are strictly those of the author.)

While timeshare companies have historically focused on resort properties, over the past 20 years the demand for urban assets has increased considerably. During the last 30 days, there have been three significant timeshare transactions in New York City, namely:

- Westgate Resorts' US$50 million purchase of the 300-room former Hilton New York Grand Central (previously known as the Hotel Tudor)
- Hilton Grand Vacations Inc.'s (HGV) US$175 million purchase of the 213-room Quin Hotel (previously known as the Buckingham), HGV's fourth property in NYC. Interesting to note that the Quin is directly across the street from HGV's West 57th Street by Hilton Club, a 28-story building that is the first ground-up residential shared ownership property ever developed in NYC
- Timeshare firm Bluegreen Vacations recently announced entering into an agreement to acquire remaining fractional inventory, and the exclusive right to acquire the management contract for The Manhattan Club in 2021, a residence-style boutique hotel in Midtown

The term timeshare, simply put, is the sharing of time, typically vacation intervals, at a resort facility in a geographical location of choice. Timeshare, which first appeared in Europe in the 1960s, is a property with a divided form of ownership or use rights in which multiple parties hold rights to use the facility, and each owner of the same accommodation is allotted a respective period of time. Typically, a timeshare owner can exchange their week(s) with other fractional owners, either independently or through exchange agencies such as RCI and Interval International.

Timeshare ownership programs are varied and have evolved over the past 50 years. During the 1970s, when the timeshare concept migrated to the U.S., it was commonplace for timeshare resort developments to be conversions of financially distressed hotel projects and/or a strategy to dispose of unsold condominium units during an era of overdevelopment, high interest rates and mounting energy costs.

Due to elevated failure rates and resultant negative press relating to high pressure sales tactics, the concept of timesharing in the U.S. had a very difficult startup process. Furthermore, unscrupulous developers took advantage of unknowing consumers by selling a product that did not exist, resulting in state lawmakers regulating and licensing timeshare enterprises. It took years to counteract a bad image, until the 198's and 1990s, when the entry of major lodging companies into the timeshare industry exerted more favorable influence on increased consumer acceptance of fractional products.

According to the "State of the Vacation Timeshare Industry: United States Study 2018 Edition," conducted by Ernst & Young for the ARDA International Foundation, the U.S. timeshare industry experienced its eighth consecutive year of growth in 2017. Sales volume increased by nearly 4% to US$9.6 billion and the average occupancy rate was more than 81% in 2017. Owning a timeshare unit(s) in a 24/7 urban locale such as New York City offers certain benefits as well as disadvantages, including but not limited to:

Benefits

- Negates traveler challenges of obtaining hotel accommodations in high occupancy and/or room rate markets, particularly during peak periods
- Assessed maintenance fees relieve fractional unit owners of the burden of a property's upkeep requirements
- In contrast with standard NYC hotel rooms, timeshare units typically are larger and offer more amenities including: central living room, dining areas, complete kitchen with full-sized stove, oven, microwave and dishwasher, as well as dishes and utensils, washer and dryer

Disadvantages

- The increased availability of short-term vacation rentals from countless startups such as Airbnb, FlipKey, HomeAway and VRBO have had a negative impact on the timeshare industry worldwide
- Today's business and leisure travelers are sophisticated and demanding, and prefer the freedom of flexible travel arrangements and accommodations, which have never been easier to obtain and exerts adverse perception of timeshare ownership
- Timeshare's are generally sold in perpetuity and by and large can be very difficult for individual owners to resell/exit their unit(s)
- The sector continues to combat negative connotations including allegations of telemarketing scams and misleading consumers about the purchase, terms of contract, and long-term costs of timeshare ownership

Countless timeshare sales have not been not swindles, and for many individuals, possession represents an affordable co-ownership of a vacation property. Notwithstanding the potential attractiveness of urban timeshare to individuals, a substantial breakthrough for the sector would develop if significant numbers of corporations become buyers of timeshare weeks, a trend that would likely occur if and when the cost of acquiring and maintaining an urban timeshare compares more favorably when compared with the cost of negotiated corporate room rates. Only time will tell if urban timeshares become a phenomenon.