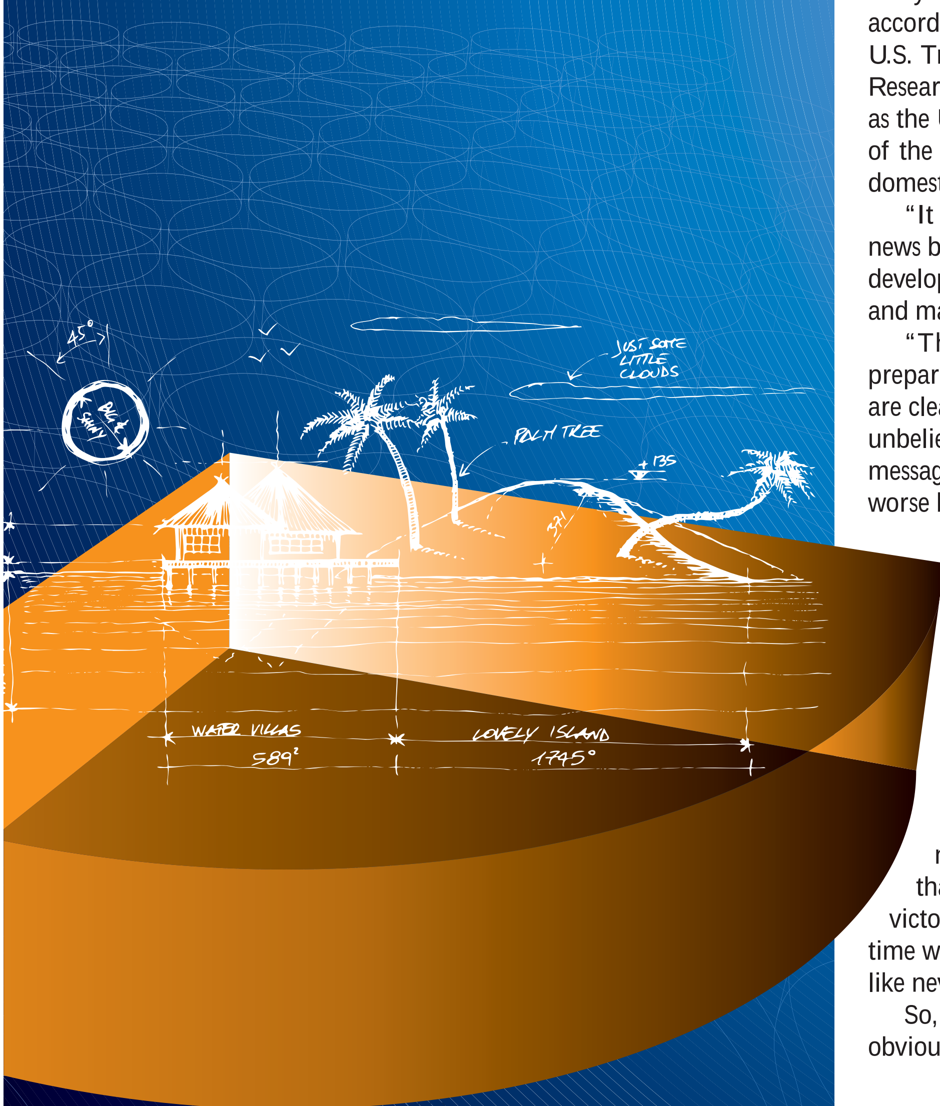
Timeshare ’09: Time for

by Scott Kauffman

The New Year offered little relief for the vacation ownership industry. Companies continue cutbacks; the credit markets are still frozen; and consumer confidence remains low. PricewaterhouseCoopers principal Scott Berman, who oversees the U.S. Hospitality and Leisure division, summed up the post-holiday period this way:

“I don’t think there’s any magic dust out there,” says Berman.



Certainly not in the hotel and lodging industry, where analysts continued to downgrade their ’09 forecasts, according to Suzanne Cook, senior vice president for the U.S. Travel Association. One report from PKF Hospitality Research called for a 7.8 percent drop in RevPAR this year, as the U.S. hotel industry enters the “initial stages of one of the deepest and longest recessions in the history of domestic lodging.”

“It is difficult to find a silver lining in any of the news because it continues to pile on,” Berman said. “For developers and operators, it’s really about preserving capital and managing costs (in ’09). That’s the theme.

“Those that have a stronger balance sheet are better prepared for this downturn. Those that are more at risk are clearly feeling the impact of what has just been an unbelievably rapid fall. It’s as simple as that. The second message is, as brokers of information, the news may get worse before it gets better in the first half of ’09. So much of this is psychological and it’s having a psychological effect on everybody.”

Yet, the timeshare industry is a resilient business—one that has overcome hurricanes, terrorist attacks, and past economic blows at a time when many hospitality industries struggled. And don’t forget the timeshare business was born out of a period in the early ‘70s when interest rates rose to double digits and the U.S. economy was in a state of stagflation. Thus, current economic challenges notwithstanding, the vacation ownership industry—thanks to its relative values—is poised to emerge victorious once again. To be sure, it won’t happen this time without sacrifices, patience, and entrepreneurial energy like never before.

So, what does the “new normal” mean? Well, besides the obvious changes in streamlined staffs, budget cutbacks, and

New Ideas, New Attitudes

stricter lending policies, the new normal in 2009 and beyond is going to be about new ideas and creative concepts, new attitudes, and open-minded thinking.

One way architect/designer Margit Whitlock , AIA, is hoping to change the way she does business is by offering a new "healthcare and hospitality studio," strategically aligning her company, San Diego-based Architectural Concepts Inc., with a contractor that specializes in healthcare and institutional work. Another solution is giving the market a "soup-to-nuts" architectural firm that encompasses everything from traditional architectural and interior design consulting to purchasing. With the Baby Boomer market seeking more resort-style communities with health and wellness components, Whitlock says her new "health and hospitality studio" is timed right for the timeshare market.

"Lifestyle communities are popping up, and for the aging lifestyle, I think it's about a sense of security," Whitlock says. " People need to know their loved ones are going to be taken care of, and it's not going to take a half hour to get to the hospital….I had a business coach once who said, 'You've got to find another river of cash. When one river starts to slow down, you've got to find another river.' So we're looking at other things we can do to leverage what we do best."

One new revenue stream Marriott Vacation Club International (MVCI) is tapping into is the Asia-Pacific markets. After introducing traditional timeshare in Phuket, Thailand, Marriott more recently converted its property to a points-based formula. The more flexible system has proven to be quite successful in that market, according to MVCI Vice President of Corporate Affairs Ed Kinney.

"Hawaii and Las Vegas were very attractive for them," says Kinney. "So we've taken some inventory out of these markets and dedicated them to Asia Pacific. Obviously, we had a lot of regulatory work (in changing to a points-based system) but it's become very popular. We've opened more offices in Singapore, Bangkok, and Hong Kong, and we're also going to expand there."

Perhaps the best example of leveraging one's assets in the changing timeshare industry is Holiday Inn Club Vacations, the newly formed partnership between Orange Lake Resorts and InterContinental™ Hotels Group (IHG). Orange Lake is a 2,412-villa property in Orlando with more than 120,000 owners; IHG, is the world's largest hotel group by number of rooms, featuring more than 4000 hotels in nearly 100 countries and a hotel database of more than 40 million Priority Club Rewards members. Collectively, the two companies have created a compelling story for their customers and employees.

"This 'shot in the arm' has come at the right time for us," says Holiday Inn Club Vacations President/CEO Don Harrill, RRP, whose company is coming off its third consecutive year of 20 percent sales growth. "Little did we know three years ago, when we recommitted ourselves as a team to the customer and started planning for this how much we would really need it now."

The partnership was announced in December 2008, but it's already paying off. For example, Orange Lake received numerous leads from the InterContinental Hotels' Holidex reservations system and several Priority Club Rewards members have redeemed points to vacation at Orange Lake and learn more about the growing number of Orange Lake timeshare resorts.

"It feels good and it works well," Harrill says. "HCV really embodies those very original principals of good value and taking care of the customer

that Kemmons Wilson (founder of both Holiday Inns and Orange Lake) established, so we're excited. And as we look around our industry and realize the struggles and difficulties others are having, we're so thankful we got after this a few years ago and it's come to be."

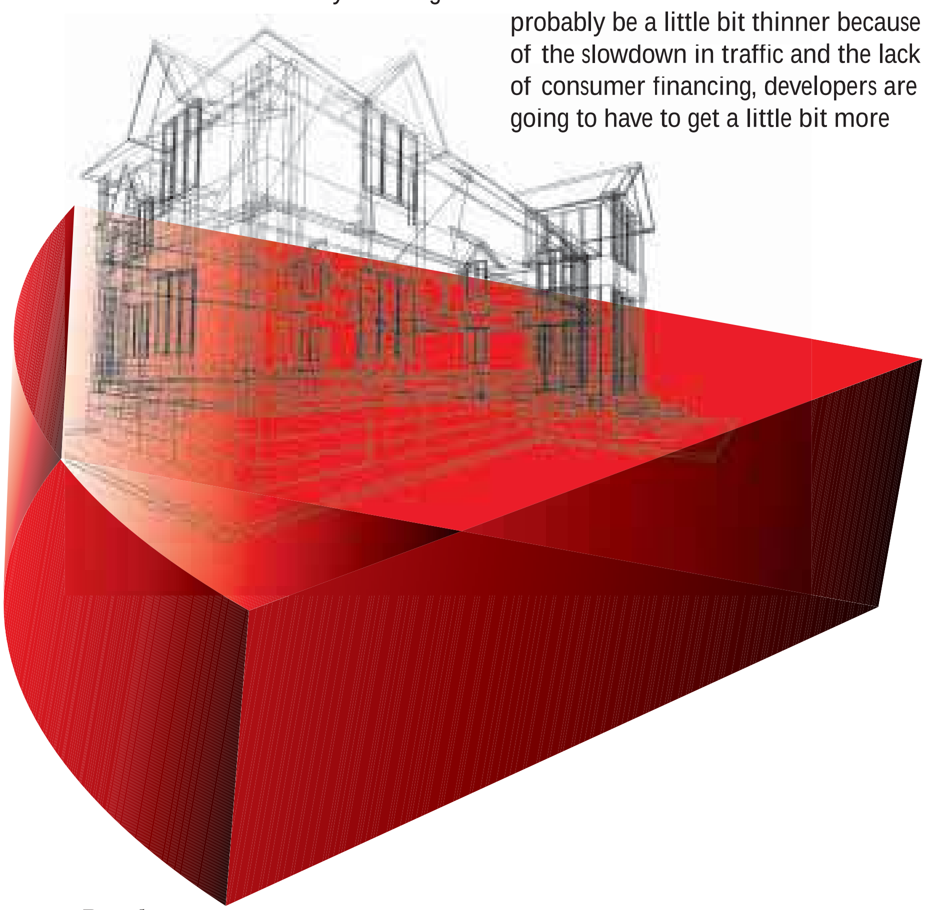
Besides leveraging one's assets through unique or new partnerships, another means to creating future timeshare value is by simply placing more attention on construction techniques and materials being used, according to Hardin Construction Co. LLC, Vice President Charles Dorr. Prior to building future properties, Dorr says it's important to fully understand the nuances of each geographic market. For example, a building in Orlando might use masonry, Dorr says, while contractors in Chicago commonly use pre-cast, and builders in Texas lean toward tilt-wall construction.

"It is virtually the same product, but the bones behind the systems are different," says Dorr, a member of ARDA's new Construction & Design Committee. "If you're remote from the site and you have an architect that's not familiar with that site, what you might end up with is, 'well, let's just design what we've always designed.'

"Then the contractor shows up and says, 'what you've drawn is great, but it's going to be incredibly expensive because there's no one here that does masonry.' So do your research, understand each market, and know what's available in terms of resources. That way, you can have the most deliverable product for the most competitive price."

To stay competitive in the coming years, Dorr says Hardin Construction will have to "challenge ourselves with new geographies."

"Let's say you're resistant to the Caribbean," Dorr notes. "But if you have the skill set and the background, you may have to stretch yourself. Deals are harder to pencil, so we need to look for more alternatives and maybe change our philosophy about the markets in which we think we can be successful."



The changes Susan Kelley, RRP, president of Shell Vacations Hospitality, is prepared to make from a property management company's perspective are adjustments to growing delinquencies in homeowners/maintenance fee dues. Depending on the region, Kelley is anticipating a five-percent average increase in delinquencies.

"So we're setting aside the money for major capital expenditures, even if the reserve calls for it," Kelley says. "We're going to be really scrutinizing those reserve studies in '09, and in general, looking to hold off on those cap-x projects unless absolutely necessary."

Kelley also says her company will be implementing more aggressive yield-management approaches to her rental inventories "to capture as much of those revenues as possible because it's going to become harder to get that money."

On the subject of the resale market, industry consultant Peter Giamalva says developers are probably going to have to take a "substantially different view" on the resale market over the next few years.

"Now that the sales decks will probably be a little bit thinner because of the slowdown in traffic and the lack of consumer financing, developers are going to have to get a little bit more involved," adds Giamalva, a former longtime Group RCI executive, who is now running his own firm called Dartmoor Hill, LLC. "Almost like the car manufacturers did, figuring out a way to create a 'used sales' market for those consumers that are moving through the marketplace and their different stages of life."

Sheri Thompson, national director of hospitality sales for Sherwin-Williams, says the use of paint might be the most creative means of adjusting to the tight market conditions. Thompson reminds people that paint is one of the "least expensive ways to revitalize a property." In an effort to entice new business, Sherwin-Williams now offers a free paint consulting/designer service. Basically, if a property owner or operator doesn't have the budget to hire its own designer or consultant, Sherwin-Williams will now provide access to its team of specialists.

Thompson, who will discuss color trends at the 2009 ARDA Convention, advises, "Someone can send us digital pictures of their property or individual units, and our staff of designers will select colors and do photo imaging for them to show them what the project will look like painted."

So whether the "new normal" means something as simple as a new paint job or a new outlook on a certain business practice, there are numerous ways to weather this current economic storm.

"There's no question about the viability of the industry, or the value proposition," Giamalva says. "The question is: When is the industry actually going to be ready to change its own dynamics to be more marketing-led (rather than sales-driven) and then start focusing on presenting the value proposition to customers in a way to help them make a more rational purchase decision. Perhaps this economic upheaval is what's going to lead people down that path." D

Scott Kauffman is a senior writer for the Real Estate Channel and numerous other national publications. The Orlando, Fla., resident specializes in golf and resort development. His e-mail is iwritegolf@gmail.com.