

## THE GIST

- Growth will be slow but steady, especially as the industry matures. High single digits look achievable for 2004.
- Price gains will be nominal for the most part. Increases should mirror inflation.
- The biggest challenges ahead: “Do Not Call” legislation in the United States; enforcement issues regarding holiday clubs in Europe; and regulatory issues from Hawaii to the Caribbean.
- Although the stigma of timeshare hasn’t been completely erased, it is becoming a mainstream travel product—not only for consumers but lenders. Few resorts will move forward without a residential component.
- Opportunistic developers are looking beyond traditional resort markets to urban destinations, alternative timeshare products such as catamarans and conversions.



Timeshare continues to churn out good news and good numbers. In 2004, growth is expected to hit the high single digits, while occupancies trend toward the mid-80s.

# ENVIABLE POSITIONING

By **Mary Scoviak**, Features Editor

**M**ore than a few general managers would be willing to trade places with Craig Anderson this year. While colleagues at traditional hotels wrestle with short-term booking windows and demand swings, Anderson can count on the bulletproof performance of timeshare at the Westin Ka'anapali Ocean Resort Villas to cushion both occupancy and RevPAR at this hotel/vacation ownership resort on Maui. He estimates timeshare-related business delivers a 10% to 15% uplift in occupancy, more than enough to offset any yield drop from the timeshare sale side's mini-vacation packages. Add to that RevPAR gains from the on-property spend of both owners and prospective buyers, the cost efficiencies afforded by a predictable occupancy base and the ability to more aggressively yield manage rates for the hotel, and it is hardly surprising that the vacation ownership industry is bracing for another year averaging 7% to 10% growth and price hikes that at least track inflation.

"Vacation ownership used to be the enemy from the general manager's point of view," Anderson says. "Yes, there is still sensitivity. And, yes, the sales side has to understand some guests do not want to be 'sold.' But, at the end of the day, customers tell us they want both the hotel experience and timeshare. Having both concepts under one brand has expanded our markets and improved our competitive set rank by three places."

Timeshare's benefits are becoming as clear to its target Baby Boomer travel market as to the people who do the numbers. Neither lenders nor the public companies involved in the vacation ownership industry fail to recognize that while timeshare stumbles occasionally, as it did in the face of SARS and the outbreak of the second Gulf War in 2003, it quickly recovers. Not even the post 9/11 cycle of economic and political traumas interrupted sustained sales growth above 10% for the industry's leaders, points out Edwin McMullen, Sr., senior partner, Edwin H. McMullen Associates, Orlando.

There is no reason to think 2004 will halt their momentum. A study prepared by Yesawich, Pepperdine, Brown & Russell/Yankelovich Partners for Interval International predicts 15% of American pleasure travelers familiar with the timeshare concept are interested in purchasing this year or next. "Time-

share certainly has not hit the saturation point. The 5% to 6% of the qualifying market that owns timeshare could grow to 10% or more," says Kathleen Conroy, managing director, timeshare consulting services, HVS International, Miami. "As the timeshare product base gets bigger, the growth numbers are going to look more like 7% or 9% than the 12% to 15% of recent years, but we still will see good growth in sales volume."

Peter van der Mark, secretary-general, Organization for Timeshare Europe (OTE), forecasts a much slower growth pace for Europe, perhaps only 1% to 2%. The reason is not lack of interest but the protracted travel slowdown engendered by downturns in key travel markets such as Germany. Skyrocketing British property values also undercut one of timeshare's key markets as retirees look to buy second homes rather than ownership intervals. "In 2004, we should see some recovery, but the strong euro and the dramatic decrease in outbound German travel will be challenges," he says.

### Growth & Consolidation

While Europe's timeshare map currently is dominated by independents, much of this year's U.S. growth will be fueled by the major hotel brands. The U.S. timeshare industry now mirrors the hotel industry in the United States in the 1960s, and the brands "are coming on strong," says Howard Nusbaum, president, American Resort Development Association (ARDA), Washington, D.C. But that is not necessarily bad news for the independents. Because of timeshare's exchange possibilities, "when someone builds, it is good for everyone," Nusbaum adds.

Developers and operators in timeshare's heavily supplied heartlands, Orlando, Florida, and Spain's Costa del Sol, might take issue, but everyone agrees that ownership components are virtually essential in getting financing for new-build resorts. David Matheson, Starwood Hotels & Resorts' vice president, corporate affairs, predicts ownership concepts will become part of the standard business model for new hotels. Few projects will get financing without some ownership component that lessens the debt load upfront. For public companies, there is the added incentive of the EBITDA growth timeshare provides. Starwood easily can rationalize a US\$250 million annual commitment to vacation ownership development. Revenue from the company's vacation ownership business jumped 47.9% to US\$133 million (third quarter 2003 over third quarter 2002) ▶



A cool and colorful living space in one of the 869 suites found in four complexes at the Anfi del Mar resort (left) on the Canary Islands in Spain is a joint venture between German travel giant TUI and its Anfi Joint Venture Companies. Anfi is using its new Premier Vacation Club to broaden its reach across TUI businesses.

The growing popularity of Las Vegas prompted Hilton Grand Vacation Club to develop its third site in the city—this one on the Las Vegas Strip (opposite). The first tower of a planned three-phase development was completed in November 2003 by architects and interior designers MBH Architects, Alameda, California, and WAT&G, Honolulu.

**FOCUS: North America & The Caribbean**

**The Players:** The American Resort Development Association (ARDA) tracks 29 core companies that account for 78% of total net sales, including branded ownership concepts. Among the leaders are **Cendant, Disney Vacation Club, Hilton Grand Vacations Club, Hyatt Vacation Club, Four Seasons Residence Clubs, Marriott Vacation Club International** (including Ritz-Carlton ownership concepts), **Starwood Vacation Ownership** (including St. Regis ownership concepts), as well as **Sunterra Corp.**, which acquired Epic Resorts' assets last October and **Bluegreen Corp.**, which was on the acqui-

sition trail in Florida last fall. Twenty-eight percent of the industry's leaders are publicly traded and 21% post annual sales of US\$100 million or more. Include **Sol Meliá, Coral by Hilton** (Hilton International), **Royal Resorts** and a score of regional developers in Mexico and the Caribbean.

**The Targets:** The U.S. West is hot, especially ski destinations and some areas of California. Developers also like Florida, Hawaii, the Carolinas, Las Vegas, Mexico and key areas of the Caribbean. On the urban side, New York City dominates, but developers may follow buyer interest to San Francisco, San Diego, Los Angeles,

Miami, New Orleans and Phoenix/Scottsdale. Some question whether Orlando may be edging toward oversupply. In Mexico, think both coasts. Cancun can still absorb more product and the Los Cabos corridor remains the hot destination at the high end. In the Caribbean, watch Aruba, Puerto Rico, St. Maarten and the Dominican Republic.

**Average Prices:** Although 2003 figures were not available at press time, ARDA reports a US\$16,050 weighted average price for a timeshare week in 2002, a 9.1% increase over the previous year. Do not expect a huge uptick in 2004.

*Contributed by Kathleen Conroy, HVS International, Miami*

and the price per timeshare unit sold shot up 19.6% to an average US\$18,574 over that same period.

Growth is on the mind of all the major players. In 2002, Marriott Vacation Club International (MVCI) marked its seventh consecutive year of 25% growth. Ed Kinney, MVCI's senior brand public relations manager, sees growth reaching at least the high teens this year with plans to open two to three new projects annually as well as adding phases to existing properties. "Companies have to be flexible if they want to grow," Kinney says. "That means looking at mixed use, integration and conversion. They all work. You have to be flexible to keep serving different tiers of buyers."

Projects most likely to get done this year pair timeshare additions or expansions with existing hotels in resort destinations. Urban timeshare, while an interesting option for selected gateways, is still controversial. "In terms of sheer numbers, urban vacation ownership is not a focus for us," says John Burlingame, executive vice president, Hyatt Vacation Ownership. "There are certain markets we want, but urban timeshare has to be seen as an opportunistic play. New York City works; Chicago may be another story." Matheson also has concerns. "The urban market has not developed as people thought it would. There are broad opportunities. But, the project has to be done right."

Kinney has a different take, citing the success of projects such as London's 47 Park Street by Marriott Grand Residence Club. "Urban vacation ownership is very expensive when you

**Cendant Corp.'s Fairfield Las Vegas Grand Desert resort in Las Vegas is affiliated with the RCI timeshare exchange program.**

provide the level of service expected from our upscale/luxury brands," he says. "It is a great concept provided you find the right property at the right price. Admittedly, in city centers, that is not easy." Ownership brands that do find it will have little trouble with occupancy. Exchange companies such as Interval International and Cendant's RCI both report significant pent-up demand for urban timeshare. From Manhattan to London and Paris, requests continue to exceed availability—a message more hoteliers would like to hear.

Antoine Dagot, president and CEO, Hilton Grand Vacations Co. (HGVC), sees wider applications for urban timeshare, especially in larger owned assets. More companies with real estate commitments may be looking to leverage their investment by taking several hundred rooms out of a mega-hotel's inventory for timeshare conversion. "You can create a consumer experience with an average selling price of US\$28,000 or more. That is a value for money concept that can work as well in a large urban hotel as in a resort," Dagot says.

Although the synergies are obvious, the challenges of integrating timeshare into a hotel building make this a strategic solution rather than a trend. As Dagot points out, the plus side of full integration enhances the ownership offer with amenities from state-of-the-art spas to award-winning restaurants that timeshare volumes alone could not support and opens up new fee streams for the hotel.

Burlingame counters that integration, like conversion, "can get complicated." "The story would have to be very compelling to go through the required brain drain," he says. "You have to consider the problems of condo-mapping the building, looking at the easements, assessing the inventory and deciding whether integration or conversion would create value when you sell."

Scott Berman, partner, PricewaterhouseCoopers' hospitality and leisure practice, New York City, suggests markets with excess hotel inventory or very high barriers to entry may be the most logical test cases for the profitability of conversion. Until then, watch most brands continue down the easier path of locating distinct hotel and ownership components on the same "campus."

Powerhouse consolidation is on the back burner for 2004. Deals such as Sunterra Corp.'s buyup of Epic Resorts last autumn and its recent European deals signal a shift toward regional or niche plays in the near term. "With timeshare, there is nothing to swallow. The company is always out of invento- ▶



ry. The value is in the organization,” HVS’ Conroy says. What that means on the deal front is more companies looking to buy a marketing program or intellectual capital. A portfolio of management contracts, especially in markets with high barriers to entry, also could drive consolidation.

Expect more joint ventures as developers with prime sites get jealous about selling off land to branded timeshare. Joint ventures or alliances could give brands a cost-effective entry into countries such as Finland where timeshare is in demand, and local developers have a healthy head start. Italy’s homegrown timeshare leaders also may attract brand interest. What makes any wave of consolidation unlikely is the size of Europe’s ownership—40- to 90-unit properties—often too small to make the numbers work. In the future, consolidation could take a different twist if one or more major brands weigh into the resale sector, says Steve Miner, director, Ragatz Associates, Eugene, Oregon.

### The Marketing Challenge

Driving down sales and marketing costs without losing market reach continues to challenge the timeshare industry, particularly in this regulatory environment. The U.S. “Do Not Call” registry restricting telemarketing is forcing the industry to take a new look at sales initiatives. “The impact of Do Not Call depends on your market,” says Gary Grotke, co-president, Quintus Resorts, LLC, Wheaton, Illinois, which has properties in Hawaii and Nevada. “If you’re in the U.S. West, you might have lost 30% to 40% of your call list. In Florida, it may only have been 10%. But we are still in the early going. Yes, it gives the brands a leg up because of their larger existing client bases. More and more, though, the brands are doing big projects we independents could never get done. We are going after different markets.”

Donald Clayton, president, Festiva Resorts, Asheville, North Carolina, contends that Do Not Call “put a damper on all of us.” Any advantage devolves to the brands for now, but even they may be under some added pressure depending upon how the courts interpret and define what an existing customer relationship means. Questions still remain on sensitive issues such as owner referrals and protection of affinity marketing via cross-selling with industry partners.



The dining area of a home at the Ritz-Carlton Golf Club & Spa, a new fractional ownership property in Jupiter, Florida.

How much the registry will restrict business growth is yet to be seen. “We as an industry have to look for new alternatives to telemarketing,” Clayton says. “If we have a sector of the public saying please do not call us, we have to listen. We may be losing names, but we are not losing buyers. People registered in Do Not Call were not and are not interested in telemarketed sales.”

The question is now to find new sales approaches without driving sales and marketing costs even higher. “This will be a year of developers looking for new ways to get clients,” says Craig Nash, president and CEO, Interval International. The Internet is the obvious place to look, but its usefulness as anything more than a marketing tool is still open to debate.

Kinney calls the Internet “a phenomenal tool” for selling vacation ownership. MVCI currently sells nearly US\$800,000 per month worth of timeshare over the Internet, not counting incremental revenue delivered from rentals. Barred from ►

## FOCUS: EMEA

**The Players:** On the brand side, watch **Accor Première Vacation Club, Carlson Companies, Cendant, De Vere Group, Disney Vacation Club, Four Seasons Residence Clubs, Hilton International Grand Vacations Club, Hyatt Vacation Club, Le Méridien Hotels & Resorts, Macdonald Hotels** (in partnership with Barratt Homes), **Marriott Vacation Club International and Starwood Vacation Ownership.** **Sol Meliá’s** strategic alliance with Cendant Corp. should put a new spin on its timeshare activities. **Sunterra** continues to grow. **TUI’s Anfi Group** may be setting a precedent for travel companies.

**The Targets:** In Europe, Spain clearly dominates the timeshare market, with nearly three times as many timeshare

resorts as its nearest rival, Italy. Concerns of oversupply may be surfacing. Mature markets such as Italy, France and Portugal are seeing continued development. Strong development opportunities exist along the eastern coast of the Mediterranean in Greece and Turkey. Finland continues to make news, but mostly among local developers. In the medium term, watch for growth in the coastal countries of the Balkans, starting with Croatia.

In the Middle East and North Africa, Dubai, Morocco and Egypt are getting the warmest reception. Speaking at the launch of Dubai’s Cityscape conference, Sultan bin Sulayem, executive chairman of Dubai Ports, Customs and Free Zone Corp. and chairman of Nakheel, said the timeshare concept would give a definite boost to developing Dubai’s prospects as a tourism

destination. However, he cautions it will require a legal structure. A point to consider: There are currently no timeshare resorts in Dubai and only three in the Emirates. A US\$70 million mixed-use development comprising canal houses, a 150-room hotel, timeshare units and other amenities will open next year at Al Marsa Floating City in Bahrain.

**Average Selling Prices:** Internationally branded timeshare in southern Europe achieves a weighted average selling price of roughly €18,000, though prices range from €3,500 to €60,300. Watch for increases in line with improved economic conditions. Because of the sensitivity of timeshare owners in the Middle East, pricing information is difficult to obtain.

*By Russell Kett, managing director and Patrick Smith, associate, HVS International, London.*



**The Royal Club at The Palm, Jumeirah Beach, is under development on one of the palm islands in Dubai and will become a member of Interval International's system when it opens in 2005.**

national advertising, vacation ownership companies such as MSCI can take advantage of the Internet's reach to get its message out nationwide. The alternative remains registering in each state before placing print ads, a regulation few in the industry see changing in the near term.

Not everyone is as convinced. A large sector of the industry echoes the contention of Dave Pontius, president, RCI Global Business Group, North America, that a face-to-face encounter is "necessary" to sell vacation ownership. He says budget constraints and lack of technical expertise also will hamper the bottom-line delivery of the Internet. Although effective Web sites can pique curiosity and provide an effective marketing tool, their near-term use will be more informational than transactional. "Everyone thought the Internet would be a cheap way to get sales. It is not. Selling ownership requires a conversation," Dagot says.

But no company is willing to let go of the Internet. Brands such as Spain's Sol Meliá are using what they have learned about distribution channels and loyalty programs on the hotel side to capture feeder markets in Europe, Latin America and North America. André P. Gerondeau, Sol Meliá's executive vice president, Central-North America, and Alain J.A. Grangé, president and CEO, Cendant International Resort Group, plan a combined marketing initiative to existing customers using both internal initiatives and Web-based marketing. The ability to draw on all databases will continue to keep marketing costs well below the 40% or 50%-plus figures for organizations that need to do heavy off-premise selling.

### Points, Loyalty & More

While e-commerce cannot be ignored, companies such as Anfi Joint Venture Companies (a joint venture with German travel giant TUI) are looking to options such as new vacation clubs rather than the Internet to drive sales. Manfred Schönleben, president and chairman of the management, says Anfi is using its newly launched Premier Vacation Club to broaden its reach across

TUI's business activities. "We can create a lot of new opportunities by expanding the choices for consumers, whether that means enabling customers to use their vacation membership entitlement to pay for hotel bills or redeem them in the World of TUI products," he says.

Exchange companies are answering customer demand for more flexibility with options that enable owners to break up their weeks at different properties or exchange for hotel rooms, cruises or services offered by sister companies. Independents like Clayton are upping the ante by rolling out high-visibility alternatives, including the launch of the company's first catamaran. "Land-based sales are always going to be our major market. But this gives us something different to say. It lets us get in under the radar," says Clayton, who hopes to add at least 20 more vessels as complements to Festiva's Caribbean timeshare properties.

### Regulatory Hurdles

Whatever the internal challenges or the competitive landscape, industry insiders say the regulatory environment may be the single biggest challenge for the timeshare industry. "Everybody talks about the problems of containing sales and marketing costs and rising development costs. But the biggest threat to the timeshare industry may be the political will," Berman says. Developers have gotten used to working within increasingly strict environmental protection legislation. But they might not be prepared for moratoriums on timeshare development like the one under discussion for Maui. Sources say that islands such as Bermuda, with "great potential for timeshare," may require years of deliberation before they can put the necessary legal and regulatory infrastructure in place for timeshare.

Both ARDA and OTE are working to educate governments about timeshare. PricewaterhouseCoopers is preparing an economic impact study commissioned by ARDA and some of its state organizations to raise the visibility of the timeshare industry among state and national legislators. Van der Mark says

enforcement is a necessary part of education. Shaking off the last stigma clinging to timeshare in Europe means eliminating what van der Mark calls "rogue operators" who promote, market and manage holiday packages. In 2002, OTE filed suit against seven such companies in Spain. "The important thing is to convince each country to clamp down on rogue operators. The entire industry would benefit," he says.

Nash agrees. "The entire European timeshare market is considerably hindered by directives and how each nation enforces them," he says. "Will that change in the near term? I hope so. What is needed is legislation that protects the consumer but allows the business to operate. Then there is the issue of whether countries will enforce legislation against fringe operators. Enforcement is key to eliminating the unscrupulous packagers who sell breakage inventory or, worse yet, no inventory and tainting all the good people with negative publicity." ♦

### FOCUS: Asia Pacific

**The Players:** This is still an independents' market. **Accor Première Vacation Club**, working from a start in Australia, and **Marriott Vacation Club International** look to be the brand pioneers. **Cendant's TrendWest South Pacific** is another name to know.

**The Targets:** Australia is the clear leader, followed by Thailand and Indonesia. But the hot new markets look to be India and, in the longer term, China. Under the radar: city center development, either in overbuilt cities such as Bangkok where product may be ripe for conversion or in areas with demonstrated demand for (expensive) serviced apartments, such as Singapore.

**Average Pricing:** It is still too early to predict pricing in a region where timeshare is embryonic. Growth potential is strong.

*Sources: Ragatz Associates; Interval International/Yesawich, Pepperdine, Brown & Russell/Yankelovich Partners*