

# **EXIT ROUTES - WORKING TOGETHER TO FIND SOLUTIONS**

A series of recommendations by the 'Panel  
of Experts', an RDO TATOC working group

July 2012

Private and Confidential

## Introduction and Background

Timeshare has come a long way since the idea was first conceived of in the 1960s and is now a robust and regulated industry that sends millions of people away a year on quality holidays. With over <sup>1</sup>1.5 million timeshare owners in Europe, it generates €3.2 billion in tourism expenditure and its 1,300 resorts supply 67 million bed nights annually. Occupancy levels average at 72% year round, significantly better than traditional hotels. These are all figures that the industry should be very proud of!

In the 1970s and 80s when timeshare was sold to the first generation of buyers, the idea of owning a long-term holiday product was extremely attractive, something that would provide the buyer, and then their children, with holidays for years to come. This was a major selling point and, combined with the idea of being able to “own” a luxurious holiday home at an affordable price, resulted in high volumes of sales.

These buyers have now enjoyed many years of holidays, as reflected by the high satisfaction levels of 87% amongst owners. They are exceptionally enthusiastic about their timeshare and many regard it as a home away from home, but with a wealth of luxurious facilities such as swimming pools, saunas, tennis courts and golf courses. Timeshare owners also have accommodation that is far more spacious than a simple hotel room as each unit typically includes kitchen, dining and living areas and one or two bedrooms.

Thirty to forty years on and times have changed. Europe is in the grips of its worst recession since the 1930s, those 30 to 40 year olds are now either nearing retirement or are retired. Although the intention may have been to pass their timeshare on to their children, today's generation have a very different attitude to that of their parents and whilst they are still looking for their own piece of exotic holiday accommodation, there appears to be less of an appetite for committing to long-term products.

The 2012 Bournemouth University research on the younger generation showed us that the disposable income of the current “30 somethings” is not as high as it was; it is more difficult to get onto the housing ladder and couples are not getting married, and/or having children until later. The demographic, economic and social landscape of Europe has changed and the timeshare industry, like others, has had to recognize this.

The issues surrounding exit routes and reported increases in management fees have been the subject of intense media scrutiny and the perception that there are no options available to timeshare owners is widely reported.

The Panel noted that negative press reporting causes huge damage not only to the industry but also to owners themselves. It is, therefore, more important than ever for the industry to take a proactive stance and to take steps to address the situation to avoid timeshare being report as ‘a holiday choice with a catch’.

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<sup>1</sup> RDO 2009 survey conducted by the University of Nottingham

## The Panel of Experts

It is against this background that exit routes for timeshare owners came to the fore and in 2011, agreement was reached between RDO and TATOC that an industry panel, made up of timeshare professionals, should be created to look into the issues of exit routes and to examine realistic ways in which owners could sell or relinquish their ownership within a reasonable period of time.

The Panel's objectives were as follows:

- First, to produce industry wide analysis of and recommendations on exit routes for timeshare owners and to indicate to such owners the realistic means available to them of selling or relinquishing their ownership within a reasonable period of time, commensurate with a positive outcome for the long-term future of the industry.
- Secondly to look at what the industry should be doing to help bring in a new, younger ownership demographic and to educate existing owners as to the opportunities available to them for continued enjoyment and creative use of their ownership.

The Panel has met on a regular basis over the last 18 months and, after analyzing the results of an industry-wide audit, produced a report that was reviewed by the RDO Board in May of this year.

The Board supported the Panel's proposal to release a series of recommendations to the membership, highlighting the issues surrounding exit routes and providing examples of solutions that could be applied by companies that have no appropriate systems in place.

## The Panel's Recommendations

***Primary Recommendation: Members that have not established a programme that includes some form of exit route for owners should address this as a priority and, where appropriate, follow examples outlined in this report.***

***It was recognised that in making this recommendation, further consideration would need to be given to escritura resorts, where specific legal considerations apply and also to sold-out resorts being run by owners, whereby in creating exit routes for eligible owners, the very existence of the resort could possibly be threatened***

***Secondary recommendations: Other issues that affect the industry were also covered by the Panel and are part of a general review by RDO:***

- Education, how to make the best use of your timeshare
- Transfer fees and resale pricing
- <sup>2</sup>Sales training and licensing
- The importance of transparent resort management
- Naming and shaming rogue operators

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<sup>2</sup> A joint RDO/TATOC sales licensing pilot scheme is under consideration

## Industry Audit & Examples of Solutions Developed by Members

45% of members that develop or manage resort, representing 170 European resorts, responded to the Panel's 2011 survey including the majority of significant industry developers, and it is abundantly clear that all are working hard to retain their customers. Many have found, however, that redirecting owners to reputable resale companies is no longer sufficient and have come up with innovative solutions that benefit both the owner and the developer.

A number of examples are outlined below:

- **Upgrade or switch the owner to a short term 'relinquish' product with no management fee**

A number of RDO developers offer such a scheme and these take a varying forms and varying lengths, for example three, five or ten years. Many involve both points and fixed weeks. For some schemes, a joining fee may be charged.

The developer retains the actual ownership of the week and, consequently, the liability for the maintenance fee, whilst the client will have a usage certificate. In the majority of cases there is no management fee, which is highly attractive to the customer, particularly those who have resisted timeshare because of the maintenance fee.

**The Panel noted that what starts as a wish to surrender can in fact turn into a trade up or a trade down to a different product.**

- **Allow members to switch (for a fee) into a shorter term product or one that better suits their current needs or suits their changing circumstances.**

In other words adapt products to suit the changing profile of members.

- **Create a Club that owners can join for a small fee and exit free of charge**

The Panel noted that a number of members have set up a Club that timeshare owners can join by ceding their membership certificate. A joining fee applies, as well as an annual membership/management fee. Through their 'right to use' certificate, they may either use their home week (or points) or another week, through the exchange company.

Clubs have varying approaches to the minimum term of membership and of the two that the Panel looked into, one had a 2-year term and the other no minimum term at all.

- **Allow owners to surrender their timeshare**

Those who offer such a scheme do, in the vast majority of cases, attach conditions to it to ensure that it is financially viable and that only those whose needs are great are able to exit. These conditions might relate to age, financial situation, health or death of the partner. The example we followed required that management fees are up to date and there is no outstanding loan.

- **Change the resort constitution**

In some cases, it might be possible to change the club constitution to allow owners on long-term or perpetuity contracts to surrender their timeshare. Generally this would have to be achieved by working hand in hand with the owners' association and/or the Trustee where applicable.

- **Buy back the week**

This is an unusual scenario and handled on a case-by-case basis.

- **Work closely with RDO/TATOC resale members. Developers active in sales should also give consideration to establishing a resale service themselves**

Over recent years developers have come to recognize the need for a healthy resale market if new sales are also to be successful. The industry needs good quality resellers able to sell used weeks at reasonable prices.

Developers that have active sales and marketing departments should consider setting up a resale service at their resort(s). Those that do not have this facility should direct owners to resale companies that make genuine efforts to market and sell their timeshare rather than leaving them to fall prey to fraudsters.

- **Consider adopting a policy of avoiding suing owners for arrears, save in the most extreme cases**

It is considered that the adverse publicity surrounding such actions far out-weigh the possibly advantage of success. Members should, in such cases, consider alternative solutions where possible, such as those proposed in this report.

## Entry Strategies

Members that completed the questionnaire stressed that developers will need to offset the costs of changing a member's status into a different product with a clear and effective marketing strategy to bring in new owners, families in their 30s and 40s.

The 2012 Bournemouth University research conducted on RDO's behalf on what the younger demographic is looking for in their timeshare holidays reveals that generations X and Y, who have been brought up with modern technology, are less brand loyal and are looking for flexible products that have a shorter life span. High-end accommodation, combined with modern technology such as Wi-Fi and mp3 docking stations, is also highly desirable.

As this generation has no negative perceptions of timeshare, knowing little or nothing of the product, the industry has an ideal opportunity to target this market with new, more flexible products.

Examples of the type of products that the industry has developed are outlined below. These may, of course, be offered both to new buyers and existing owners.

- ***Short term products***

Short-term 'try before you buy' entry programme are proving popular. The conversion rate is generally good and these schemes are an excellent introduction to the timeshare product and are of a duration that is more appealing to a generation that tends to be averse to making long term commitments. These schemes are of differing lengths.

- ***Club Membership***

As outlined in the section on exit routes, some members have set up a Club that both existing and new customers can join. Clubs have varying approaches to the minimum term of membership and of the two that the Panel looked into, one had a 2-year term and the other no minimum term at all.

- ***Zero Management fees***

One member offers a short-term 'right to occupy' timeshare, with no management fees and flexibility on occupation, paying transaction fees on usage only. This particular developer commented that traditional full term or perpetuity timeshare is rarely sold to new buyers.

## Conclusion

It is extremely encouraging to learn of the steps that some sectors of the industry have taken towards addressing exit routes, providing guidance and assistance to those who need to dispose of their timeshare and, at the same time, developing products that appeal to the new generation of buyers.

Whilst there is an understandable concern that offering an exit could result in a high number of owners applying to leave, developers who have launched programmes have not found that this is the case. Some indicate that what starts as a wish to surrender can in fact turn into a trade up or a trade down to a different product. Key is to find the right commercial balance between the exit strategy and new member programmes.

It will, however, take the entire industry working together to bring about a change for good and the Panel of Experts, as well as the RDO Board of Management, recommends that this report is embraced by the entire RDO membership and that its recommendations are applied where appropriate.

The industry has proved on many occasions that it can adapt to challenging situations and has prospered through difficult times in the past and will no doubt continue to thrive in the decades to come.