Key Timeshare Concepts

What a timeshare is (a.k.a., Vacation Ownership or Fractional Ownership)

A timeshare is a program in which a group of people shares use of a property by dividing among themselves the rights to use the property for specific time periods. Although the property is usually a residential project such as a condominium, developers have applied the timesharing concept to other types of properties, such as houseboats, campgrounds, and recreational vehicle parks. Virtually all timeshares are resort or vacation properties.

To set up the timeshare, the developer "divides" occupancy of each of the units into time-based intervals. The developer then sells these intervals to buyers, so each owner of an interval receives the right to use a specific unit for a specific time period corresponding to the interval they purchased. Each timeshare owner thus "shares" the usage of the property along with all of the other owners. Through this shared usage, the owners have guaranteed accommodations in the property, without carrying the financial and property management burdens associated with a conventional ownership of such a property.

Timeshare intervals are normally one week long; a few timeshare projects, however, use other ownership fractions, such as one-tenth or one-quarter ownerships. Since almost all timeshare projects are based on one-week intervals, the words "week" or "timeshare week" are generally used in the timesharing community to mean a one-week timeshare interval. In keeping with this convention, through the rest of this course I usually refer to timeshare intervals as "timeshare weeks" or "weeks".

In addition to the purchase price, timeshare owners also pay an annual fee for property upkeep and management. Most timeshare projects also reserve one or two one week's usage of each unit for maintenance and repairs.

Historically, many timeshare developers have used high-pressure and deceptive sales tactics, with misleading and inaccurate portrayals of what buyers could expect from their timeshare ownership. The timeshare industry has also had its share of unethical and dishonest resort developers and operators. Consequently, timesharing has a bad reputation with many people. Although the timeshare industry has improved its sales presentations, consumer awareness and education is still essential for owners to avoid being misled and to obtain the most value from their timeshare purchases. This article is one effort in that process.

Despite these perceptions, timesharing is a good product for many people. Timesharing makes resort ownership possible for many people who otherwise would not be able to enjoy such facilities, and there are many satisfied timeshare owners (including the author). After buying one unit and enjoying it, many timeshare owners have purchased additional timeshares. In addition, many well-known hotel and resort operators (such as Marriott, Disney and Hilton) have developed timeshare projects that have been successful and have greatly improved the image of timesharing.

Because of the bad impression many people have of timesharing, timeshare developers have developed other names for timeshare projects, such as "Vacation Ownership" or "Fractional Ownership". These programs are still timeshare projects, and many of the same principles apply.

Different types of timeshare programs

While all timeshare programs provide you, as the owner, a right to occupy a facility for a given period (usually one week every year or every other year), there are many differences in how this is done. This section discusses some of the major variations among timeshare programs.

1. Fixed, Floating and Rotating weeks

In a fixed week system, your occupancy right is for the same week, and usually the same unit, every year. For example, if your timeshare ownership were for week 34 in Unit 253, you would have a guaranteed right to occupy Unit 253 for the 34th week of the year. (Note that most timesharing calendars count weeks from the check-in day. So, if the check-in day for Unit 253 is Saturday, then week 34 starts on the 34th Saturday of the year, with check-out on the 35th Saturday of the year.) As can be expected, some weeks are more popular than others; this is usually reflected in the purchase price for the timeshare unit.

In a floating week system, you have the right to use a unit during a specified period (the "float" season or "flex" time), but you must contact the resort to reserve a specific week during the float period. A floating right is useful if you don't want your usage restricted to a given week every year. Since all other owners that share your float period can reserve any time during that period, if you delay making a reservation you might find that all of the units have already been reserved for the times that you wish to reserve. Then you may have to accept a week you may not want, or you may have to forego your usage for that year.

Resorts set their own policies as to how far in advance their owners can reserve their floating week usages. This lead-time can be as little as nine months or as much as two years in advance of the check-in date. Many resorts will require advance payment of maintenance fees to reserve a float week, especially if you plan to use the week in a timeshare exchange.

When you reserve a week for exchange purposes, some floating week resorts will select the week to be deposited for exchange purposes or will restrict you to picking only certain weeks for deposit, whereas other resorts allow you to select and deposit any available week. Since the particular week deposited with an exchange company directly affects the exchange value of the deposit, the procedures your resort uses to assign floating weeks for exchanging will influence the types of exchanges you can complete with your timeshare.

A few timeshare projects use a rotating week system. In this type of program, your usage week changes from year to year on a fixed schedule. For example, with a three-year rotating schedule, in Year 1 your usage might be for week 9, in Year 2 your usage would be for week 26, and in Year 3 your usage would be for week 43. In Year 4, the cycle would start over again with week 9. Rotating weeks allow all owners an opportunity to use the resort during the most popular periods.

2. Deeded and right to use

Another major difference is whether the timeshare is a deeded interest or a "right-to-use" arrangement. Most deeded programs divide ownership of each unit into specific week increments, and as a buyer, you actually purchase a fractional ownership of the unit. For example, if you were to purchase the fraction of ownership associated with week 34 in Unit 253, you would receive a deed conveying to you ownership of that specific timeshare fraction; this deed is also recorded with the local governmental agency (such as a County Recorder or Assessor) that records deeds and maintains property ownership records. In some cases, the deed may simply convey a specific fractional ownership interest corresponding to the ownership period without tying the ownership to a specific week, for example, an undivided 1/52nd interest in Unit 253. Since your ownership in a deeded property is ownership of real estate, you can sell the timeshare unit, give it away, or bequeath it to heirs, just as with other real property.

In a "right-to-use" program, you receive the right to use the unit for a specified number of years. At the end of that period, the usage rights revert to the property owner. Usually you can sell, donate, or bequeath a "right-to-use" contract, but the expiration date will remain the same. Because many countries either prohibit or severely limit foreign ownership of real estate, a right-to-use program may be the only way to successfully develop a timeshare project in those countries.

As part of the process of establishing a timeshare project, the developer also creates a set of legal documents describing the operation of the resort and the timeshare program. These documents are generally referred to as the "program documents". For a deeded property, the program documents are usually in the form of Codes, Covenants and Restrictions (CCR) that attach to the ownership of each timeshare interval and are binding on all owners at the property (including subsequent purchasers). For a right-to-use property, the right-to-use contract will either contain the program documents or will incorporate them by reference.

Both deeded and "right-to-use" properties can operate with either fixed or floating week programs. In a deeded floating program, the CCR or program documents will specify that the owner's usage is a floating right that must be reserved, and that the owner does not receive any special preferences to reserve the unit and week that appears on their deed.

A critical difference between deeded and right-to-use properties involves ownership of the resort. With a deeded property the owners of the intervals collectively own the resort. When the resort is first opened, the developer owns the weeks and, hence, controls the project. As the developer sells timeshare units, the developer's ownership level declines, and control of the property usually transfers to the owners. If the property manager defaults or goes bankrupt, you and your fellow owners will still own the property as reflected in your deeds.

In contrast, with a right-to-use property, the developer typically continues to own the property even after all of the intervals are sold. The developer usually retains the right to sell or transfer the property, including the timeshare program, to a third party. The developer may also be able to unilaterally change aspects of the timeshare program, increase annual fees, or impose special assessments. Owners of right-to-use intervals may have little or no ability to prevent or influence such actions by the developer or operator. Similarly, if owners are dissatisfied with the management of the property they may have little or no ability to force changes in property management and operations. In addition, if the resort closes or the operator becomes defunct, you might lose your right-to-use without receiving any compensation.

In a deeded property, a Homeowners Association (or similar organization) usually has overall responsibility for managing the property in accordance with the program documents, including setting annual fees and levying special assessments. When you own a week in the resort, you are automatically and mandatorily a member of the Homeowners Association. You have the right to cast a vote in all matters requiring a vote of owners, including electing a Board of Directors to govern the Association. The Board of Directors will usually hire a resort management company to operate the resort.

Some unscrupulous developers of undeeded resorts have "oversold" the project; i.e., they have sold more intervals to owners than the resort can provide. (This is most likely to occur at an undeeded resort because the absence of deeds linking units sold to specific ownership interests makes it easier to oversell the resort.) When this happens, owners will find it very difficult to reserve a usage period. Accordingly, if you are purchasing a week at an undeeded floating time resort, you should determine whether you are adequately protected against overselling of the resort's inventory.

3. Vacation clubs

Vacation clubs are another timesharing variation. A vacation club is an organization that owns multiple timeshare properties in different locations. If you are a club member, you can reserve space at the various resorts that are part of the club in accordance with club rules. You pay annual fees, and there is an initial cost to join the vacation club. As with a right-to-use property, the vacation club contract will either contain the timeshare program documents or will incorporate them by reference.

Club memberships can usually be bought, sold, or passed to heirs. There can be different levels of membership, with some membership levels receiving higher priority in reserving certain units or having access to larger units. Sometimes memberships may be associated with a "home" resort, with club members receiving priority in reserving space in their "home" resort.

Some vacation clubs operate through a Board of Directors elected by the membership. Conversely, other vacation clubs are simply companies that pre-sell vacations, and membership in such clubs does not include any right in the governing of the club.

Ownership of properties included in a club is usually structured in one of two ways:

- The developer (or its successors) owns the properties, with the club having access to the properties via a contractual relationship with the owner.
- The developer transfers ownership of the properties to the club after they are built. In this case, the properties would be owned by the club collectively and not by members individually. If your club membership also gives you a fractional ownership in the club, then you will own the properties indirectly through the club.

In either case, if the club ceases operations, you can easily lose your right to use the properties without compensation. In some clubs, the properties are placed into a trust that owns the properties on behalf of the club members. This arrangement provides some added security to the club members if the club ceases operations.

Some vacation clubs sell "deeded" memberships. If you own or are considering purchasing a "deeded" vacation club membership, you should read your documents to verify what your deed represents. With some "deeded" vacation clubs, each membership includes a deed for ownership of a specific unit and week at a resort. Then, if the vacation club ceases operations, the deeded owner will still own that interval. In other cases, the "deed" may represent a fractional ownership of the vacation club. In yet other clubs, the "deed" is only a certificate for membership in the vacation club, without representing ownership of any real property.

Vacation clubs and right-to-use resort properties have many common features, and most of the cautions previously described for right-to-use projects also apply to vacation clubs. Overselling the program has been a problem with some vacation clubs, just as it has been with some undeeded resorts.

4. Points programs

In a typical points program, you join the program by purchasing a membership. You then receive a specified number of points every year, with the number of points you receive established by the terms of the membership you purchase. You can then exchange these points for accommodations at the resorts that participate in the points program. You also must pay an annual fee for upkeep and maintenance; the amount of the fee will usually depend on the number of points you own.

As with vacation clubs, most points programs offer multiple resorts in which you can reserve weeks. The number of points required to obtain accommodations will usually vary with the accommodations selected. Factors influencing the number of points required for your requested accommodations include:

- The popularity of the resort;
- The size of the accommodations;
- The number of nights of occupancy;
- The specific nights requested (weekend and holiday nights usually require more points per night than do mid-week nights); and
- The season of the year.

Some points programs also sell different types of points, with the more valuable points having higher priority in reserving accommodations during peak demand periods. Most points programs will allow you to accumulate points over two or more years, so that you can trade to a larger unit or more popular resort if you are willing to travel less often. Some points programs will also allow you to occupy a resort for less than a full week at a reduced number of required points.

Recently, some points programs have started allowing members to redeem their points for other travel related services, such as airline tickets and automobile rentals. I expect that other points programs will add similar features in the future. I also expect that frequent traveler programs operated by travel companies such as airlines and hotel chains will establish tie-ins with timeshare points programs to further extend point generation and redemption opportunities.

Points programs can be linked to a deeded ownership or can be a direct "buy-in" not linked to ownership of a specific week. If the program is linked to a specific week, the number of associated points will depend on the desirability of the underlying week (size of unit, season, resort popularity, and supply/demand balance).

Points programs can be run by a program operator, or can be part of a vacation club timesharing program. Recently, some exchange companies (see Lesson 3 for a discussion of exchange companies) have started developing points programs.

An important concern with points programs is the long-term "value" of your points in reserving accommodations. If the program operator is able to increase the number of points required to reserve units at participating resorts or to obtain other services, the value of your points will erode, and you may be forced to purchase more points to be able to continue to reserve the units you desire. If you own or are considering purchasing into a points system, you should check the program documents carefully to determine what protections you might have against such losses in exchange power.

Points programs and right-to-use resort properties have many common features, and most of the cautions previously described for right-to-use projects also apply to points programs.

What exchanging is (swapping your week for someone else's)

One of the most attractive features of timesharing is the ability to exchange your timeshare week for someone else's week. Through such exchanges, you can obtain timeshare accommodations in desirable vacation locations throughout the world. Exchanging also allows you to vacation at different times of the year, even using a fixed week.

This section briefly discusses the primary methods for exchanging timeshare weeks. Lesson 3 discusses exchanging in more detail.

1. Direct exchange

The simplest exchange approach is to find a timeshare owner who is interested in exchanging his or her week for your week. Each of you then notifies your respective resort that the other owner will be using the week at that resort.

2. Through a resort management group or vacation club

Another exchange option occurs when your timeshare ownership is part of an exchange program that includes multiple resorts in different locations. In these arrangements, you can exchange your week for a week at another resort within the group. Many timeshare management companies that operate resorts in different locations offer this type of exchange service as part of their management services. In some vacation clubs, this is the only way that you can have a week assigned to you.

3. Through a timeshare exchange company

The most common exchange method is through a timeshare exchange company. To do this, you "deposit" your week with the exchange company. As other owners deposit their weeks (and as resorts deposit unsold weeks with the exchange company), the exchange company builds up an inventory of weeks that are available for exchanges. The exchange company then makes available to you weeks from its inventory that the exchange company considers comparable to your deposited week. The exchange company thus serves as a clearinghouse for people making exchanges. Note that the owner of the week you exchange for will almost never be the person who receives the week you deposit.

Resort Seasons (aka, the "Color" of a week)

The demand for many resorts varies seasonally. For example, for people living in the northern hemisphere, beach locations are popular in the summer, whereas ski resorts are most popular during ski seasons. Accordingly, a timeshare week during a high demand season will have more value than would a week for the same accommodations during an off-season. This value affects both the price of the unit and the quality and types of exchanges you can make with the timeshare unit.

Resort Condominiums International (RCI) and Interval International (II), the two largest exchange companies, both divide weeks into three seasons, designated by color. For RCI, the designations are:

- Ø Red: high demand season
- Ø White: intermediate demand season
- Ø Blue: low demand season

For II, the designations are:

- Ø Red: high demand season
- Ø Yellow: intermediate season
- Ø Green: low demand season

The designations of seasons vary with each resort. Also some resorts in highly popular locations might not have any low demand period, and in some locales (such as Hawaii and southern California) the entire year is considered a high demand period. You should also be aware that even within these seasons, some weeks are in higher demand than others. For example, July and August weeks in southern California are normally in higher demand than are October weeks, even though all of the weeks are considered high demand weeks. This means some red weeks are "redder" than other red weeks.

Resorts that have float weeks or internal exchange programs may have their own seasonal designations; these are often identified by such terms as "prime", "peak", "high", "holiday" or "swing". These internal season or date designations often differ from RCI's and II's seasonal designations for the same resort.

Buying Your Timeshare

Timeshare purchases can be divided into purchases of "new" units (bought from the resort developer) and "resale" units (bought from any party other than the developer, such as an owner, a timeshare reselling agent, or a homeowners association). Each of these will be discussed below, followed by some general advice on purchasing timeshares.

Developer sales

Developers are the entities that create timeshare projects by building the resort (or by converting an existing resort) and selling the units to buyers. Developers run the gamut from poorly financed, marginal operations to well-known travel and leisure corporations such as Marriott, Hilton and Disney. Many of the early developers of timeshare projects were marginal operations, and contributed to the bad image of timesharing.

After completing a timeshare project, the developer conducts a sales and marketing program to sell the units. Sometimes the developer handles both project development and sales. Other times, the developer will arrange for a company that specializes in timeshare sales to market and sell the intervals to buyers. To interest people in attending a sales presentation, the sales program usually includes financial incentives to people who attend sales presentations. The incentives typically include items such as gift certificates, discounts on accommodations, or other amenities.

Timeshare sales and marketing costs can easily be 50 percent or more of the developer's sales price. You may be surprised that sales and marketing costs could be so high, but a good timeshare project can easily support these costs. For example, consider that a developer can probably build and furnish a two-bedroom condominium unit in most parts of the United States for about $150,000 per unit. By dividing the unit into 50 one-week intervals and selling each interval for an average price of $10,000, the developer will have gross sales $500,000 per unit. If the developer spends half this amount marketing the units ($250,000 per unit), the construction cost and sales and marketing cost together will total $400,000, leaving $100,000 net income per unit.

The resale market

As mentioned previously, a resale occurs when a non-developer owner of a timeshare week sells that week to another party. Sellers include private individuals, brokers that carry timeshares in an inventory, and resorts or homeowner associations that have acquired timeshare units at their resort. Some resorts have on-site resale agents who accept listings from owners who want to sell their timeshare units.

There are a variety of reasons why people sell timeshares they own, including deaths, divorces, financial emergencies, changes in personal vacation habits, and, unfortunately, people finding out that timesharing does not work for their lifestyle.

1. Prices for resale units

When most people initially try to sell a timeshare they bought from a developer, they don't realize that the resale value of their timeshare is only a fraction of the price they paid to the developer. As was indicated in the above discussion of developer sales, 50 percent or more of a developer's sales price represents the cost of the developer's sales and marketing program. A private individual can't do the same things a developer does to stimulate demand for their week. Generally all a private individual can do is try to let possible buyers know that they have a week they would like to sell, and see what price the market will bear. Because there are many more people trying to resell their timeshares than there are people looking to buy them, the resale market is generally a buyer's market. As a rough guide, resale prices more closely reflect the cost of the unit absent the sales and marketing program, or roughly 50 percent of the new sales price. Resale prices for a few timeshare units have held above this level; these are usually top quality resorts in locations with high demand and limited supply. In many cases, these resorts also operate repurchase programs to maintain higher resale values. Conversely, some timeshare units are essentially worthless.

Because there is no central clearinghouse for resale prices, you often cannot estimate a resale price based on past sales. Lacking historic sales data, you should simply recognize that the value of a resale unit is whatever price a buyer and a seller agree on. In some cases, a broker who is active in sales at a given resort may have some information on resale prices. Although sales price information for deeded properties will usually be collected by a local agency as part of the deed recording process, unless you live near the deed recording office you will not easily be able to review these records. You may be able to get some guidance from listings of similar units that owners are trying to sell. In looking at these listings, you should consider that if a unit has been adequately publicized but has not sold after five or six months, the unit is probably overpriced. The implication of this is that most advertised prices you will see for resale units are too high.

2. How to find timeshare resales

One of the difficulties in purchasing timeshare resales is locating and contacting owners of timeshare weeks that you might be interested in purchasing. Some of the principal ways of locating timeshare resales are summarized below:

- Ø **Contact resorts at which you are interested in owning**. The resort management may know of owners who are willing to sell, or they may be willing to post a notice indicating your interest in buying at the resort or in their newsletter to owners. Some resorts also have repossessed units that they are willing to sell.

- Ø **Contact a resale broker.** There are resale brokers who specialize in the timeshare industry. Resort areas with many timeshare projects will often have local brokers who specialize in handling timeshare resales in that area.

- Ø **Search the Internet.** Many Internet sites (including TUG) have advertising sections that list timeshare units available for resale. Many timeshare brokers also post their listings on the Internet.

- Ø **Check newspaper classified ads.** People interested in selling a timeshare may place a classified ad in a principal newspaper close to the resort. Many newspapers now post their classified ads on the Internet, enabling buyers to search those ads on-line.

- Ø **Check on-line auctions.** Some of the on-line auctions have listings from owners interested in selling timeshares. The eBay and Yahoo auction sites are the most popular timeshare auction sites.

- Ø **Check broker auctions.** Some brokers periodically conduct live auctions of timeshare weeks. TRI-West out of Los Angeles conducts one of the most popular broker auctions; the TRI-West auction usually occurs in September of each year.

3. Completing a resale purchase

The process to complete a resale purchase will vary with the type of timeshare unit you are purchasing (deeded, right-to-use, points) and the legal requirements of the jurisdiction in which the timeshare is located. As a minimum, you will need to record your purchase with the resort or, in the case of a points program or vacation club, with the program operator. The resort or program operator will identify the procedures to follow to transfer ownership in their records, including the documents that need to be completed and the fees they charge to change the ownership records.

If the timeshare is a deeded property, transferring title will normally **also** require that you record a deed transferring title with the governmental agency that records property ownership.

The agency will usually charge a document-recording fee. If the sale includes purchasing title insurance, the title insurance company will conduct a title search and issue a title insurance policy.

Generally, if you purchase through a broker, the broker will arrange for an escrow company to manage the property transfer. If you purchase directly from a seller, you and the seller will need to manage the title transfer process. One option is to establish an escrow account with an escrow company. If you are purchasing title insurance, the title insurance company will usually also be able to provide escrow services. There are also some companies that assist in transferring title in timeshares. These companies will typically prepare deeds and other legal documents, record the deeds and documents with appropriate agencies and the resort, provide copies of documents to the buyer and seller, and notify parties when the transfer is completed. Some of these companies will also hold the buyer's check (made out by the buyer to the seller, not to the transfer company) until title transfer is completed; then they will send the seller the check along with the seller's copies of the final documents.

Many sellers will simply provide you with an executed grant deed or quitclaim deed in exchange for your check. This leaves you responsible for completing the title transfer. If a problem occurs in the title transfer, you will be in a weak position since the seller will already have your money.

Purchasing through an on-line auction is the same as any other purchase directly from a seller. The escrow services that are associated with the on-line auction services will probably not be familiar with the procedures involved in transferring title to timeshares, however. Accordingly, if you want to use an escrow service with an on-line auction, you should work out the escrow details with the seller prior to placing your bid.

It is possible for an individual to transfer title to a deeded timeshare himself or herself. However, as this Timesharing 101 course assumes you are relatively new to timesharing, I do not recommend that you attempt this unless you are familiar with the procedures to transfer title to real estate.

Buyers also often wonder if they should obtain title insurance for a deeded timeshare purchase. In the United States title insurance can easily add several hundred dollars to the price of a timeshare, and when added to other closing costs, title insurance can increase the total closing costs to $700 or more. Many brokers will not sell a deeded timeshare without requiring that the buyer obtain title insurance. If not required as part of the sale, the buyer will have to decide whether it is worthwhile. This Timesharing 101 course assumes that you are relatively new to timesharing; hence it follows that you are not in a good position to assess the types of sales where title is more or less likely to be clouded. Accordingly, my recommendation is that you obtain title insurance unless you are prepared to lose your entire purchase price if the title is defective.

Deciding what timeshare to buy

In deciding to purchase a timeshare, you should evaluate the different types of ownership options to select the type of timeshare that will work best for you. This section discusses some items to help you start your evaluation.

1. Fixed weeks, floating weeks or membership in a vacation club or points program

A key decision you face is whether to purchase a fixed week, a floating week, or a membership in a vacation club or points program. As you make this decision, you should consider the following items:

- The ability to make long-range vacation plans.

  Because you know the week the unit will be available to you and what unit you will occupy, fixed weeks work best if you usually vacation at the same time every year and are interested in returning to the same location frequently. Conversely, if you want to vacation in the same location frequently but your vacation times change from year to year, a floating week or membership program would probably work well.

- Exchange value.

  Exchange value is the ability of a timeshare week to exchange for another timeshare week. Some weeks are more valuable and desirable than others. If you want to regularly use your week for exchanging, you need to be aware of the exchange value of the weeks you want to obtain and be sure that you buy a week that will have the needed value to complete these exchanges. Generally, exchanges are completed using weeks of comparable value. If the week you own is a lower value week than the areas you want to exchange into, you need to understand this and plan your exchanges accordingly. (Lesson 3 discusses exchange value more completely.) Being able to predict the exchange value of your timeshare aids in making long-range vacation plans.

  To be able to plan your exchanges, you need to able to predict reasonably well the exchange value of your week. The highest exchange value predictability occurs with a points program. In a points program you know exactly what your exchange value is in points, and how many points are required to complete exchanges to other resorts in which you are interested. Most vacation clubs also have a high degree of predictability, at least for exchanges completed within the club.

  With fixed weeks, the use period is the same every year. Thus, the portion of exchange value that is associated with the season will generally be the same from year to year; some variations in this can occur, though, if the week periodically includes a major holiday. The actual exchange value will also vary with how far in advance of the use date you deposit the unit with an exchange company.

With floating weeks, the exchange value will depend on the demand for the week that you receive to deposit into your account. As explained in Lesson 3, in many floating week resorts owners may have little or no ability to select the week that assigned to them for exchanging.

- How far in advance of use you can deposit a week.

  With fixed weeks, the use dates are fixed and known. Therefore, you can usually deposit fixed weeks with exchange companies as far in advance as an exchange company will allow (usually two years). In contrast, with floating weeks, you often can't deposit weeks earlier than the resort will allow reservations to be made. In some cases, this can be as little as nine months ahead of usage. Thus, fixed weeks allow you to conduct longer range vacation planning.

- Ability to split a week.

  Most points systems will allow you to reserve units for less than one week. Some floating week resorts and vacation clubs will also allow you to split your usage right into separate weekend and weekday periods. Fixed week resorts usually have no provisions for splitting a week.

- Frequency of timeshare usage

  Most timeshare programs are based on annual usage of the timeshare. If your vacation schedule or preferences are such that you would not use a timeshare every year, you should purchase a unit in a program that accommodates this situation. One option is to purchase an every-other-year (EOY) week. As the name indicates, with an EOY ownership your usage right occurs every other year. Purchase costs for such a unit are correspondingly less. Annual fees for an EOY are usually handled in one of two ways: 1) you pay a full annual fee, but only for the year for which you have a usage right; or 2) you pay half of a full fee every year. Points programs also work well if you don't vacation annually, since the points will usually carry over to the next year if you don't use them. Some vacation clubs will also allow you to carry over a vacation usage into the next year.

2. Deeded units versus right-to-use units

As discussed previously, the principal issues associated with deeded and right-to-use units involve the ownership security offered by a deed. With a deeded property, you are a part owner of the property; if the property manager becomes defunct, you will still own your share of the property. In contrast, when the operator of a right-to-use property becomes defunct, your only claim on the property is as one of many other creditors. Also, in a deeded property, the homeowners association can usually replace the resort manager if they choose. In a right-to-use property, the owner and operator are normally the same entity or are closely related entities.

You should also consider the years of usage remaining on a right-to-use contract, particularly as it compares with your long-range vacation plans. Since the price of a right-to-use unit declines sharply as the expiration dates approaches, some right-to-use units can be purchased very inexpensively. If you only plan to vacation for about ten years, purchase of a right-to-use with about ten years of remaining life might be quite practical and economical.

3. Lockout units

In a lockout unit, the floor plan of the unit allows the unit to be divided into two subunits, each of which can be occupied separately. Typically, a two-bedroom lockout unit usually splits into a hotel unit and a one-bedroom unit.

The lockout feature greatly increases your flexibility in using the unit. For example, one year you could occupy the unit as a full two-bedroom unit. Another year, if there were fewer people in your party, you could decide to occupy just the one-bedroom portion and deposit the hotel unit with an exchange company. Another year you might decide to deposit the unit with an exchange company as two units, a one-bedroom unit and a hotel unit, thus allowing you to make two trades with the exchange company. (The exchange value and characteristics the exchange company assigns to these units will be those of a one-bedroom unit and a hotel unit, not a two-bedroom unit.) If you own a lockout that is a prime property located in a peak demand period, both portions of the lockout may have high exchange value.

4. Resort management groups

Many resorts are part of larger group of resorts under common management. Owners within these resort groups may receive benefits not available to other timeshare owners. These benefits can include preferences in completing exchanges to other resorts within the resort group and the ability to reserve unused time at other resorts in the group at favorable rates. If a particular management group has resorts in many areas in which you would like to vacation and offers exchanging preferences to owners within the group, you should consider trying to buy a unit at a resort operated by that management company.

Deciding where to own

A good general rule is to buy a timeshare you would like to use regularly. By doing so, you are guaranteeing that you will be able to take vacations that you will enjoy, and you will avoid paying exchange fees to obtain accommodations in the area. Furthermore, if you have little flexibility in vacation arrangements (such as specific vacation periods or a need for units that accommodate physical disabilities), owning a suitable week in your desired vacation area may be the only way to reliably secure timeshare accommodations.

If you are purchasing to trade regularly, you should focus on areas and seasons that will provide the exchange value you need for the best price (considering purchase price and annual fees.)

Estimating the cost of owning a timeshare

When evaluating a timeshare purchase (or considering whether to sell a timeshare you own), estimating the annual cost of owning a timeshare will make it easier to decide whether or not you should buy a timeshare and if so, how much you should be willing to pay for a timeshare. You can compare this estimate with the cost of renting similar accommodations to see if you are better off buying (or continuing to own) versus renting. By adjusting the purchase price in the estimate, you can identify an upper price above which you are better off renting than buying.

To estimate the annual cost of owning a timeshare, you should add together the investment income you would lose by having your money tied up in a timeshare (the "opportunity cost" of the money) and the annual maintenance fees and taxes for the unit. Then, if you are planning to use the unit for trading, add to your estimate the annual exchange fee and your annual exchange company membership, if any. (If you think you will make more than one trade per year through that company, then divide the annual fee by the number of trades you expect to make per year.)

Let's consider "opportunity cost" more closely since many people leave this out of their analysis. As indicated, the money you use to purchase a timeshare is money that you could invest elsewhere to generate income. In buying the timeshare, you are giving up that income, so you need to include that lost income in the cost of owning your timeshare. That lost income is the "opportunity cost", and it equals the after tax return that you expect to receive on your savings and investments. Thus, if you assume that the money you use to purchase a timeshare would yield 8 percent after tax, your opportunity cost would be 8 percent of the purchase price. (If you already own a timeshare, you should compute your opportunity cost on the price at which you believe you could sell your unit, not what you paid for it.)

To demonstrate this timeshare valuation approach, consider the following timeshare purchase:

- Purchase price of $10,000
- Annual fees of $400
- Exchange company membership at $100 per year
- Unit exchanged every other year with an exchange fee of $120 per exchange
- After tax return on investment income of 8%

Item	**Amount**
Opportunity cost associated with purchase price, 8% of $10,000	$800
Annual fees	$400
Exchange company membership	$100
Exchange fees, $120 every other year	$60
Estimated Total Annual Cost:	**$1360**

Using this approach, you would compare the $1360 estimated total annual cost with the cost of renting similar accommodations in the area of the resort, as well as accommodations in other areas in which you would like to vacation. Then, having made this numerical calculation, you should factor in non-monetary elements, such as:

- Greater flexibility associated with renting;
- Consideration that owning a timeshare forces you to take vacations that you might otherwise defer;
- The certainty of knowing that you will be able to stay at a resort that you like if you own at that resort.

Finally, in making your comparison to rental costs at locations into which you might like to exchange, you need to be sure that you have a realistic possibility of making that exchange with the unit you are considering. If you expect to consistently trade into internationally renowned and highly demanded resort locations, you should own a resort in a similar area. See the sections below on the exchange value of a timeshare and realistic timeshare exchange expectations for more information on these topics.

Recommendations for people purchasing timeshares

Good advice to people just being exposed to timesharing is to control the urge to buy a timeshare now and take time to get educated. If you're like most people, you've sat through a timeshare presentation that has excited you about timesharing, and you are anxious to start making all of those good things happen for you and your family. Restrain the urge, and instead invest time in learning what timesharing is about, what the characteristics are of different resorts and different areas, and the different types of timeshare programs available.

Remember that if you wait, you still have your money in your investment accounts. If you have to wait a year, you can take the interest from the money you haven't spent, plus the annual fee you haven't paid, and get yourself a nice rental (especially if you are able to make use of TUG's last minute rental board). As you look, learn, and listen, you will begin to recognize the areas and seasons that will fit your needs, the resorts you should consider, the prices you ought to pay, and the methods you should use to find a resale that meets your criteria.

Also, by waiting and learning, you might find better ways of using timesharing to meet your needs. In the first year we were involved in timesharing, we evolved from saying:

"Wouldn't it be great to own a timeshare in Hawaii so we can get to Hawaii for a week every year"; to,

"Wouldn't it be nice to have a week 7 or 52 timeshare in Whistler so we can ski there every year, and still be able to get back to Hawaii every other year"; to,

"For the price of Week 7 or Week 52 two bedroom in Whistler, we can put that money in the bank and do two shorter ski trips to Whistler rather than one week, and we still want to get to Hawaii every other year, but now we think Hawaii would be a nice place to have family reunions so we need to figure out a way that we can occasionally have two 2-bedroom units at the same time, and it should be in Poipu if possible (so maybe we should look for an EOY unit to combine with the unit we already own), but maybe we should wait until we have also had more of a chance to explore Maui. But you know if we get one of those once in a decade deals on Kauai we should go ahead and do it because we can always sell and get our money back if we change our minds."

You probably initially learned of timesharing through a developer sales presentation (as did we). If you invest the time and effort to learn more about timesharing, you will probably begin to realize that there are many more options for using timesharing than were explained to you in the sales presentation. As you become aware of these features, you will begin thinking about how you can use those other features as well, much as I described our experience above. Most of these changes in your thinking will also involve increasing your timeshare ownership and usage. When you see that happening to you, you will know that you've caught the "timeshare bug"!!

As you learn more about timesharing, you should begin focusing on those opportunities that will work best for you. You might also visit some of the areas or resorts in which you are interested to help you decide which specific resorts would best suit your needs. Perhaps you can rent a week of accommodations in the area from an on-line auction or using the TUG rental boards. Then, after you complete your investigation, set your price and start looking. Be patient; if you've set your price appropriately, you will get it if you diligently seek sellers and bide your time. Remember, it's a buyer's market, and in many cases your offer will be the first one those owners have received. If they don't accept your offer, they probably do not have another one to fall back on. If you keep at it, you will probably find someone who is willing to sell the unit to you so they will be relieved of the financial obligations associated with continuing to own the unit.

Obviously doing all of the analyses described above takes time and sleuthing. But if you want to invest the time and energy, you can work out a good deal and take some pride in your savviness. On the other hand, if all of this seems like too much work, just go ahead and buy your week, enjoy it, and don't look back. We all know that when there is an active timeshare bug infection, it's hard to resist the urge to buy that unit that you want so badly. (The timeshare sales people know how to play off that emotion very well, don't they?) But, if you learn how to do timesharing effectively, in one or two years (maybe less) you'll probably be back for more weeks!

Finally, before making any purchase you should obtain and review a copy of the program documents for the timeshare you are considering purchasing. You should carefully compare what you were told about the week with what the program documents describe. Sellers (including developer sales staff) and brokers sometimes do make mistakes about aspects of the program. If you are purchasing from a developer and a feature presented in the sales presentation is important to you but is not included in the sales agreement or program documents, you need to have it added to the sales documents before you complete the transaction.

When to purchase from a developer

After reading the previous portions of this lesson you may wonder if there is ever a good reason to purchase from a developer. Some situations in which I think a person may want to purchase from a developer are outlined below.

- When you want to own a timeshare at a new resort

It usually takes several years for resales to become available from a new resort. If you have decided that you want to own at such a resort and you don't want to wait until a resale market develops, your only option might be to purchase from the developer.

· When you want to purchase specific weeks at a specific resort

If you are restricted in the specific weeks you can use for vacations, a developer purchase may be the only way to assure that you can purchase the particular weeks you need for a specific resort.

· When you want to purchase a timeshare that has low availability

Some timeshare projects are so small that there are few units available. Even in some larger projects, certain weeks might be in such high demand that few owners consider selling them. In these circumstances, purchasing from the developer may be the only realistic way of acquiring these weeks.

· When you want to purchase a timeshare that has valuable amenities available only through the developer

Sometimes, developers include incentives with their sales that you won't get in a resale. Bonus weeks (extra exchange weeks) are provided for a set number of years by some developers. Marriott sometimes credits purchasers with Marriott points that are good for hotel stays. Fairfield has paid for lifetime RCI membership for purchasers.

In addition, some developers try to "penalize" buyers of resale units by not allowing them full access to timeshare program features. For example, Marriott does not allow purchasers of resale units to participate in their program in which timeshare owners can trade their weeks for Marriott Rewards points (except for purchases from "approved" resellers).

· When you don't feel comfortable purchasing a resale unit

If you are sufficiently worried about whether you can trust the people who have resale units, you might decide to pay the extra price for a developer unit for the sake of your peace of mind.

Even if you do decide to purchase from a developer, you may find that the sales price is "negotiable". You have nothing to lose by offering a lower price.

What to do if you've already purchased from a developer and you think you made a mistake

Most timeshare purchase contracts contain a rescission (or "cooling off") period, during which a buyer may unilaterally cancel the contract and receive all proceeds back. Typical rescission periods are seven to fifteen days. If there is a rescission period, your purchase documents will indicate the length of the period and should describe the procedures you need to follow to rescind the sale.

If it's too late to rescind, accept that it's too late and enjoy your week without regrets. Most TUGgers purchased their first timeshares from developers, at prices far exceeding resale value, so we know what it's like. You should remember, though, that you bought that week from a developer because the sales person showed you how buying that week, even at developer prices, would still yield you and your family more benefits than the cost of buying and using the week. Learning about the resale market does not change that conclusion at all. So, if it's too late to rescind, switch your focus towards getting the most out of your timeshare so that you will receive the maximum possible benefits. Then, if you also join TUG and get involved, you will probably learn how to do things with timesharing that the sales person didn't mention, and you and your family will be even more satisfied.

Exchanging Your Timeshare Week

One of the most attractive aspects of timesharing is the ability to exchange your timeshare week for a week at a different timeshare. In this way, you can use your timeshare week to obtain vacation accommodations at different times and locations throughout the world. Unfortunately, unsuccessful attempts at exchanging have soured many owners on timesharing and timeshare exchanging. This usually happens when the owner either doesn't understand how the exchanging system works, or the owner has unrealistic expectations about the types of timeshare exchanges they can make with the week they own. When the buyer then unsuccessfully tries to make these exchanges, they become disillusioned and upset about timesharing. Thus, to get the most benefit from timesharing, you should learn the basic rules for successful timeshare exchanging.

The mechanics of making a timeshare exchange

The principal ways to exchange a timeshare week include: direct exchanges with other timeshare owners; exchanges within a resort group that provides exchanges as part of the membership; and exchanges completed through companies that specialize in arranging timeshare exchanges. This section discusses each of these options.

1. Direct (owner to owner) exchanges

A direct exchange occurs when two timeshare owners simply agree to swap the usage rights to their weeks with each other. For example, if Owner A has a winter week at a timeshare located near a ski resort and Owner B has a timeshare in Hawaii, in a direct exchange the owners simply agree to exchange weeks, so that Owner A goes to Hawaii and Owner B goes skiing.

The principal drawback of direct exchanging is the difficulty in finding and contacting other owners to make exchanges. There are several ways of locating people interested in direct exchanges. TUG's direct exchange ads and list of people who are willing to consider direct exchanges are important resources. A second approach is to contact the management at resorts into which you would like to exchange to see if there is a way for you to contact owners about making a direct exchange. In the future I expect that resorts will add to their web sites a place for owners at other resorts to express their interest in arranging an exchange into the resort.

Once you and another owner decide to make a direct exchange, you should each notify your respective resorts that you are reassigning your use right to the other owner. TUG has a sample direct exchange letter that owners can use to notify their resorts that they are reassigning a week to another party. Note that although most resorts allow owners to reassign use weeks, the resort will still hold the owner ultimately liable for damages that might be caused by the person to whom the owner has reassigned the week. Thus, if you do a direct exchange, you should consider whether the parties should provide some security or damage deposit.

Direct exchanging usually requires long-range vacation planning to be successful. Generally, owners are interested in direct exchanging because they are not planning to use their timeshare week at their resort that particular year. If they have not completed an exchange within about one year of the exchange date, they will likely deposit the timeshare week with an exchange company rather than risk having to deposit the week with an exchange company too near the use date (when the week will have less exchange value).

2. Exchanges within ownership clubs or resort groups

As indicated previously, many timeshare programs include multiple resorts in different locations. Often, these programs have been structured specifically to make it easier for owners to obtain units at different resorts in the group.

In a typical vacation club, the club pools together all of the weeks from all of the resorts, and you then select your use weeks from the pool in accordance with club rules. In some vacation clubs (those in which ownership is an interest in the vacation club and not a specific week at a specific resort), this is the only way you can obtain a week to use.

Some resort groups operate internal exchange programs that allow you to make exchanges within the resort group. In some cases, these exchanges are free; in other cases the resort may charge an exchange fee. The resort group will have rules governing how exchanges are made.

Some internal exchange programs operate through an exchange company. In such situations, you complete an internal exchange by first depositing your week with the exchange company, as described in the next section. You may then receive certain preferences from the exchange company for exchanging into other resorts within your resort group. For example, the VRI resort group operates its internal exchange program through the RCI exchange company. For the first 30 days after a week is deposited in RCI from a VRI resort, exchanges for that week can only be completed with another week from a VRI resort. Another preference approach involves not allowing exchanges from outside the resort group until a certain period before check-in date. The Embassy Vacation Resorts use this approach; exchanges into Embassy resorts cannot be completed with a non-Embassy week until there is less than six months remaining before the check-in date for the week. The exchange fee charged by the exchange company is also often less for exchanges within the resort group.

Inevitably some weeks at some resorts in the group will be higher demand than other weeks. In addition, the unit sizes and amenities will vary. (This topic is addressed more completely in the Exchange Value section below.) For the exchange program to operate successfully, the owner of a high value unit will expect to have that value recognized in some way in the exchange program. Many internal exchange programs use a points program, as described in Lesson 1. Exchange programs that do not use points often limit the ability of owners of less desirable units to "trade up" by limiting exchanges to units of "like value". Because the details of internal exchange vary greatly among resort groups, you should contact the resort management to find out the details for a given group.

If the internal exchange program operates using points, you will know exactly how many points you are entitled to receive based on your ownership, and the program operator can indicate how many points are needed to complete certain types of exchanges. The number of points required will typically vary with the particular resort, the time of year and the size of the unit.

3. Exchanges through an exchange company

As described in Lesson 1, timeshare exchange companies maintain inventories of weeks that are available for exchange. You exchange a timeshare through these companies by depositing your week with them, and, in exchange, receiving a comparable week from their inventory.

The inventory of weeks available at an exchange is often called a "***spacebank***"; this is an important piece of timesharing lingo**.** (Although "Spacebank" is probably only formally used by the RCI exchange company, the term is often used by TUGgers to refer to any exchange company's inventory.) The exchange company builds its spacebank by accepting deposits of weeks from owners seeking to make exchanges through the exchange company. In addition, developers also sometimes deposit unsold weeks with an exchange company so that there will be more people visiting the resort during its sales stage. When you deposit a week with an exchange company, you receive the right to obtain another week from the exchange company's inventory of available weeks, subject to the rules and restrictions of the exchange company. As with internal exchange programs, these rules and restrictions govern the exchange process and try to maintain equitable exchanges (see the Exchange Value discussion below).

The two largest exchange companies are Resort Condominiums International (RCI) and Interval International (II). Most timeshare resorts have formal affiliation arrangements with either RCI or II (or both) to enable owners to exchange weeks. Many smaller independent exchange companies also provide timeshare exchange services.

Most exchange companies charge a fee for each exchange completed. Many, including RCI and II, also charge an additional annual membership fee to participate in their exchange programs. There may be some exchange companies that charge a fee to join or to list timeshares, but do not impose a fee for exchanges. As might be expected, exchange companies regularly increase their fees.

a. Depositing a week with an exchange company

The procedure you use to deposit a week will vary with the type of ownership (fixed versus floating) and the affiliation status of the exchange company. Therefore, you should verify depositing requirements with both your resort and the exchange company you wish to use.

- Fixed weeks

  If you own a fixed week, you can usually deposit your week directly with the exchange company. If you deposit with an affiliated exchange company, the exchange company records will show that you own that particular week at that resort, so depositing may be as simple as a phone call or an on-line Internet transaction. If you deposit with an independent exchange company, you may need to provide some documentation that you do have the usage right for the week. The exchange company will probably contact the resort to verify that you do have the right to use the week.

- Floating weeks

  If you own a floating week, you need to contact your resort to have a week assigned to you that you can deposit. If you are depositing with an independent exchange company, you contact the resort to reserve a week just as you would if you were planning to use the week. You then deposit that week with the exchange company.

If you are depositing with an affiliated exchange company it can be more complicated. In the simplest situation, you reserve a week, then deposit that week with the exchange company. The exchange company will then contact your resort to verify that you do have the usage right for that week. The process is more complicated if your resort does "bulk spacebanking". Bulk spacebanking is a practice in which a resort periodically deposits a large number of unassigned units with the exchange company in advance of when the owners actually decide to deposit their weeks. If your resort bulk spacebanks, you contact your resort to let them know that you intend to use your week for an exchange through the affiliated exchange company. The resort then contacts the exchange company and arranges for one of their bulk spacebanked weeks to be transferred to your account. There is a more detailed bulk spacebanking discussion elsewhere on the TUG advice pages. There are some resorts that allow the owner either to reserve a week and deposit that week or to receive a week from the resorts bulk spacebank deposits.

If you have deposited a week, but then change your mind and want your week back, you may be able to retrieve it from the exchange company's spacebank if: a) it is still available in the spacebank (meaning no one else has used it to complete an exchange); and b) you have not completed an exchange using the week. If you have an on-going search underway using the week, you would also have to cancel that search.

a. Making an exchange with an exchange company

You make an exchange with an exchange company when you agree to give up your timeshare usage right in exchange for the right to use one of the weeks from their Spacebank inventory. Some exchanges companies will allow you to search their inventory before you deposit your week; other exchange companies will not allow you to search for an exchange unless you first deposit your week. You should verify search requirements with the particular exchange company you wish to use. As of the time this is written (August 2000), RCI requires a deposit before searching, whereas II will allow you to search first.

Once you have the right to conduct a search with an exchange company, you start the search by specifying criteria for your exchange, including such parameters as: check-in dates; geographic location; minimum unit size; required amenities; and/or specific resorts that you will consider. The exchange company will immediately search to see if there is anything in their spacebank that meets these criteria and that is of comparable value to the week you are using as the basis for the search. If there is, you will be offered this as an immediate exchange; if not you will probably be offered the opportunity to enter an "on-going search" using those criteria. Requesting an on-going search is like being placed on a waiting list for future deposits of units that meet your search criteria.

After you accept an immediate exchange or you are offered an exchange as a result of an on-going search, some exchange companies will allow a period of time (usually 24 hours or until the end of the next business day at the exchange company) in which you can cancel the exchange without penalty. Other companies will complete the transaction instantly as soon as they find a resort that meets the search criteria. In this case you may have to pay a cancellation penalty if you decline the exchange.

There are usually time limits associated with a deposit and usage of a timeshare week. RCI, for example, will not allow you to deposit a week earlier than two years in advance of the check-in date, and you must complete the exchange by accepting a unit with a check-in date no later than one year after the check-in date for your deposited unit. Some exchange companies will extend the expiration date for an additional fee.

If the exchange company operates using points, you will know exactly how many points you are entitled to receive based on the week you deposit with the exchange company, and the exchange company will indicate how many points are needed to complete different types of exchanges. The factors that influence the point value of a timeshare are the same as those that generally determine the exchange value of a timeshare, as discussed below. The number of points required will typically vary with the particular resort, the time of year and the size of the unit.

The exchange value of a timeshare

Exchange value is an important concept to understand for successful timeshare exchanging. Both internal exchange programs and exchange companies generally operate on the basis of exchanging timeshares of like value. This practice is what prevents the owner of an off-season studio apartment at the Mugwump Towers from exchanging that unit for an 3-bedroom oceanfront suite unit in Hawaii during New Years Week.

Note that when you unsuccessfully search for an exchange, that does not necessarily mean the exchange company (or the internal exchange program) does not have a unit that meets your criteria; it means that they do not have a unit that meets your criteria and which "matches up" with your week in exchange value. So, if you have an on-going search for a highly valued week and you are using a week with relatively low value, units that meet your criteria may be received and added to the spacebank, but will not be offered to you (at least, not right away).

Exchange value for a unit is established by the combination of supply and demand. When there are relatively few deposits being made for a given resort and use week in relation to the demand for that resort and week, those weeks will have high value. Conversely, high supply and low demand will create low value.

Some of the factors that affect supply and demand are discussed below. As the discussion indicates, the primary factors are **location, season,** and **how far you deposit your unit in advance of check-in**. Resort rating and size of unit are less important than many people realize.

- **Location**

  Location is one of the most important factors that influences exchange value, as this is the key factor in both supply and demand. Obviously, a popular vacation destination is going to have high visitor demand. If, however, the area is overbuilt with timeshare projects, the supply will also be high, driving down the exchange value of timeshares in that area. Many TUGgers consider Orlando, Florida be a good example of this situation.

  Locations that have high demand and limited supply will have high value. Areas that appear to meet these criteria (as of August 2000) include Hawaii, coastal California, most major world cities (such as San Francisco, New York, Paris, and London), many areas in France and Great Britain, and many ski resorts during ski seasons. Experienced timesharers can probably add some other areas to this list.

  Even within a general locale (such as southern California coastal) the specific location of the resort greatly affects exchange value. For example, a timeshare week from a resort located directly on the beach will have higher value than a week from a resort as little as five or six blocks inland.

- **Season**

  Season also influences exchange value. If you have attended a timeshare sales presentation you probably learned about different "colors" of weeks corresponding to different seasons. These designations indicate that different seasons have different value. Even within the same color designation, certain weeks will have higher value than other weeks. For example in coastal California all weeks are "red" (high demand) weeks. However, summer weeks appear to have higher value than winter weeks (except for Christmas and New Years Weeks).

  You cannot compare directly compare the color designations for different resorts in looking at exchange value. The point values released by RCI for resorts involved in its GPN points program revealed that there are some resorts where "white" weeks (mid-demand season) have higher point values than red weeks from other resorts.

- **How far in advance of check-in you deposit your week**

  When you deposit a week with an exchange company, you trigger a series of timeshare exchanges. In addition to the exchange made when you exchange into a week, additional exchanges occur when someone else claims your newly deposited week, a third party claims the week deposited by the person who claims your week, and so forth. Since the exchange company makes money from exchange fees, the company wants to maximize these transactions. Because these cascading transactions require time to complete, an early deposit is more valuable to the exchange company than a late deposit. In addition, since many people make their timesharing vacation plans one to two years in advance, a deposit made shortly in advance of check-in may be difficult for the exchange company to use. Consequently, as the check-in date for an unexchanged week becomes closer, the value of that timeshare week decreases. According to RCI, the value begins decreasing when the time before check-in is less than one year. At 45 days before check-in, all Trading Power (RCI's term for exchange value) limitations are removed.

Some points that you should recognize from this:

- It is not impossible for a low value timeshare to trade into the most desirable resort if a week at that resort becomes available on short notice. It is very risky to plan that this will happen.

- The exchange system rewards those who plan ahead. If you have a week that does not have high intrinsic exchange value, to maximize your trading power you should plan ahead, particularly depositing your week early. If you do this, your week could have as much exchange value as a more desirable week deposited by its owner shortly before check-in. Quite a few TUGgers routinely make very nice exchanges with some marginal weeks by depositing early and by starting on-going searches early. Often they do not complete the exchanges until less than six months before check-in (sometimes weeks before check-in).

- The exchange value is not supposed to change after you deposit the unit, even if the unit is not claimed and its time to check-in decreases. The exception to this is if you cancel an exchange. If you cancel an exchange, the exchange value of your deposited week may be reduced significantly after it is recredited to your account. For example, if you cancel an exchange with RCI 60 days before check-in, the exchange value of the week you used to initially make the exchange will be reset so that it would be as if you had deposited that week 60 days before check-in (even if you originally deposited that week more than a year before check-in.). That reflects the circumstance that the exchange company now has a week in its inventory with a close use date.

- **Unit size**

Although unit size appears to greatly affect demand at a given resort, it is far less important than location, however. While a two-bedroom unit at a beachfront location will have significantly more exchange value than a one-bedroom unit at the same resort, the one-bedroom unit will generally have more exchange value than a two-bedroom unit located at a resort a short distance inland.

- **Resort rating and resort amenities**

  Many owners **mistakenly** think having a high amenity rating (such as a Gold Crown resort in RCI's rating system or a 5* resort in II's parlance) will significantly increase the exchange value of a resort. These ratings, however, are based on the amenities provided at the resort, not the demand for the resort. **High exchange value is based on high demand and low supply, which is primarily driven by location and season, not amenities.** Continuing with the beachfront example cited above, a beachfront resort without amenity awards will often have higher exchange value than a top-rated resort located a short distance inland, because exchangers want to be on the beach rather than some distance inland, and will forego amenities in favor of location. (An exception to this might occur if the inland resort were located adjacent to some other major attraction.) Only if two resorts are located in similar settings will resort rating and amenities significantly affect the relatives exchange values of the two resorts.

- **Ownership or sponsorship by a recognized operator**

  Corporations as Disney, Marriott and Hilton have developed or sponsored timeshare projects that prominently feature their names. Although many of these units are among the resorts with the highest exchange value, resorts that operated by these companies in less optimum locations have correspondingly lesser exchange power. While there is undoubtedly some higher demand associated with these name brands, location and season are still more important than the "name brand".

In summary, the highest exchange values are associated with weeks that are from resorts in prime locations (high demand and limited supply), that are for usages during peak demand periods, and that are deposited with exchange companies well in advance of the use period. After meeting these basic criteria, additional value can be created by resort size, resort rating and amenities, and affiliation with a name brand. If the week does not meet the first three basic criteria, however, it will probably have reduced exchange value even if the other factors are present.

In a points program, the exchange value is expressed directly as a certain number of points; thus a participant in a points program knows exactly what exchange value their week has. The factors the exchange company uses to assign point values for a week are the same as those used generally to establish exchange value.

Realistic timeshare exchange expectations

The general principles are: 1) you should expect to exchange like value for like value; and 2) do not be too restrictive in your search criteria. Once you understand this and the relative value of your exchange week, you can conduct exchange searches that are more likely to be successful. If you set your standards too high, you will probably become frustrated because of having too many unsuccessful searches. This is particularly apt to occur when a timeshare salesperson has "oversold" your weeks exchange value.

Like value for like value means that your best chances of making an exchange are for a resort of similar quality, located in an area and season of similar demand. If your exchange week is not high value and you want to trade into a popular resort in a highly demanded area with limited supply, you will probably have to hope for a short notice cancellation or deposit. If you have a high season week in an area that has a large supply of resorts, you may only be able to get into some other areas during lesser demand periods. Conversely, a high season week in a popular resort located in an area of high demand and low timeshare inventory will generally be able to exchange into almost any area at any time.

You should also not be too restrictive about your search criteria. Remember that a trade can only be completed if someone deposits a week that meets your criteria and there is not someone "in line" ahead of you for that week. You can increase your chances of being able to successfully make an exchange by increasing the number of resorts (or areas) into which you are willing to make an exchange and/or by specifying a wider range of check-in dates. If you are limited to traveling only during a very short period (as with a school vacation), then you should be sure that there are many resorts that will fit your criteria. Similarly, if you insist on going to a specific location or a specific small set of resorts, you should have a wider range of possible check-in dates. If you can't meet either of these criteria, you should consider that exchanging might not be a good use of your timeshare, and you should plan on owning a timeshare primarily for direct usage.

The internal exchange programs offered by some resorts can also influence your possibilities of successfully completing exchanges. As discussed above, some internal exchange programs do not make deposited weeks available to outside exchangers for a certain period. During this time, other owners participating in the internal exchange program have the first opportunity to complete an exchange for those weeks. Some of these internal programs are structured so that any owner in the internal program has the opportunity to complete an exchange for any available week in the internal exchange program before the week is made available to exchangers from resorts outside the program. Under this type of program, owners of inexpensive off-season units in the internal exchange program may have a good opportunity to complete exchanges for highly popular resorts in the same resort group.

Another important point to consider in completing exchanges with RCI is that sometimes RCI will not make certain exchanges if they perceive that you are "trading down" too far in resort quality. In other words, if your deposited week is from a Gold Crown resort, RCI might not offer you an exchange that meets your exchange criteria if the offered resort is not rated Gold Crown or Resort of International Distinction. RCI apparently does this to avoid complaints that the resort offered by RCI was inferior to the resort deposited by the exchanger. Reportedly, this feature can be overridden, but doing so will require that you speak with RCI and specifically request that you be offered all exchanges.

Exchange companies

As noted previously, exchange companies are companies that act as a clearinghouse for timeshare owners to exchange their weeks for weeks at other timeshare resorts. The industry consists of two large exchange companies, Resort Condominiums International (RCI) and Interval International (II), and a number of smaller, independent exchange companies. Generally, the independent exchange companies operate without affiliation agreements; hence their designation as "independent" exchange companies. Some of these independent companies (such as Trading Places) do have affiliation agreements with some resorts and can operate in both modes.

1. RCI and II - the "affiliated" exchange companies

"Affiliated" exchange companies are exchange companies that establish formal relationships with resorts to manage exchanges involving that resort. When a resort affiliates with an exchange company, the exchange company will include the resort as a member resort in its materials (such as a resort catalog). The developer usually establishes this affiliation when the resort is constructed, since the developer will use the exchange benefits to help sell the timeshare units at the resort. Often, to generate more visitors to a resort to help with sales, a developer will deposit timeshare weeks with the exchange company representing weeks that the developer owns. The exchange company will make these weeks available to exchangers (for an exchange fee).

As noted previously, RCI and II are the two principal timeshare exchange companies that operate primarily as affiliated companies. Since their affiliation arrangements provide much greater access to timeshares, these two companies are by far the largest exchange companies. At the time of this writing RCI is the larger of the two.

Larger corporations own both RCI and II. RCI is a subsidiary of Cendant, which is the same company that franchises the Days Inn, Howard Johnson, Knights Inn, Ramada, Super 8, Travelodge, Village Lodge and Wingate Inn hotels and motels. Several companies own II, one of which is Marriott.

From the owner's point of view, using an affiliated exchange company exchanges offers the following benefits:

- Guaranteed ability to deposit a week

  An affiliated exchange company will accept any week deposited by an owner in accordance with exchange company rules. In contrast, an independent exchange company is not obligated to accept your week into its spacebank.

- Number and variety of available resorts for exchange

  Because RCI and II are much larger, they offer a wider variety of exchange options

- Protection against damages caused by occupants of exchanging unit

  If you make an exchange using an affiliated company, you will not be held liable for damages caused by people exchanging into your unit.

2. <u>Independent exchange companies</u>

An independent exchange company is an exchange company that does not have an affiliation agreement with your resort. As with affiliated exchange companies, an independent exchange company will accept timeshare deposits from owners and developers and complete exchanges. The biggest differences are that an independent exchange company has no obligation to accept your week into its exchange system and the available exchanging inventory is likely to be much smaller.

A few independent companies (such as Trading Places) have affiliation agreements with some resorts. In these cases, the exchange company operates as an affiliated company for exchanges involving affiliated resorts, but as an independent company with respect to other resorts.

Independent exchange companies are all much smaller than RCI and II, the two large affiliated exchange companies. Accordingly, they do not offer the variety of exchange opportunities that RCI and II do. Also, because their inventory and overall exchange volume is lower, you may have to wait longer before they can complete an exchange. Some independent exchange companies will actively contact owners and resorts to try to obtain weeks that meet your search criteria. Because of their smaller size, many independent exchange companies will specialize in certain niche markets, such as certain geographic areas or certain types of resorts.

From an owner's point of view, independent exchange companies offer the following benefits:

- Lower exchange cost

  Overall costs are often lower with independent exchange companies. Many of them do not charge annual membership fees, and charge less for completed exchanges.

- Better ability (sometimes) to complete an exchange

  If the exchange you are trying to complete matches the specialty niche for an independent exchange company, your chances of completing the exchange may be better with the independent company.

- More personalized service

  Because of the smaller size, you may get more personalized and direct attention at an independent exchange company.

When using an independent exchange company you should consider liability for damages that might be caused by the people occupying your unit during an exchange brokered through an independent company. When you make an exchange through an affiliated company, by terms of the affiliation agreement, you do not have liability for damages. With you make an exchange through an independent exchange company, your resort may consider this to be the same as any other reassignment of your right to use the unit. While timeshare programs generally recognize and grant you the right to reassign usage of your week, they usually also make clear that you are ultimately responsible for damages caused by people to whom you have reassigned your usage. If a problem does occur, the exchange company should take responsibility for the situation, and this should be included in the terms of the agreement under which the exchange company accepted your week into their spacebank. You should be aware, though, that if there were a problem between your resort and the exchange company, your resort would look to you if they were not satisfied with the response of the independent exchange company. If the resort believes that they are due more money, they may block you from using your unit until amounts in dispute are paid.

Exchanging Tips

This section summarizes some tips for successfully exchanging timeshares based on discussions from the TUG message boards. Many of these have been mentioned previously.

1. <u>Deposit early to maximize exchange power</u>

As has been discussed previously, exchange value decreases as the check-in date approaches. Early depositing (up to one year before check-in) maximizes value.

2. Plan your vacations in advance.

To increase your chances of completing an exchange you should start your search as soon as possible, after depositing your week as early as possible. Many TUGgers conduct their vacation scheduling two years in advance of the actual vacation days.

3. Be ready to travel on short notice

If you can travel on short notice you can take advantage of exchanges that become available shortly before check-in. As discussed previously, these weeks have little value to the exchange companies, so they make these available to any exchanger, or they offer to sell them to members for several hundred dollars. If you can travel on short notice, you can get nice exchanges using relatively weak (and inexpensive) deposits or for very little money.

4. Be alert for bonus week opportunities

Many exchange companies will offer a bonus week to owners of highly demanded weeks as a reward for depositing those high value weeks. Bonus weeks can be a way to get additional vacation opportunities from your timeshare week. You should always check with the exchange company concerning restrictions on bonus week usage and the expiration dates for the bonus week. With some exchange companies, the bonus week are only usable for the lowest exchange value weeks, whereas other exchange companies give them the same value as any other week in their inventory.

5. Look for direct exchanges

Conducting a direct exchange gives you the benefit of knowing immediately that you can complete the exchange. Direct exchanges work particularly well with floating weeks, because then, with planning, it can be arranged that each owner can receive the exchange week that will be the most valuable to them.

6. Consider whether exchanging is right for you

While exchanging can greatly increase the value and enjoyment of your timeshare, you should consider whether it really works well for you. If your circumstances are such that you can't do the things that are needed for successful exchanging, you should probably not make exchanging a big part of your timesharing plans.