SOUTH FLORIDA
BUSINESS JOURNAL

COVER STORY – COMMERCIAL REAL ESTATE

TIMESHARES ON SHAKY GROUND
Exit companies and home sharing disrupt the industry

By Brian Bandell – Senior Reporter, South Florida Business Journal, July 26, 2019

Karen Henderson and her husband, Mike, enjoyed vacationing at timeshare resorts in Florida. But after accumulating more than $75,000 in debt in 10 years and paying monthly maintenance fees of $510, they're seeking relief.

The Clermont couple recently contracted Timeshare Exit Team for $27,000 to get out of their timeshare contract with Wyndham Destinations. They still own the timeshare and make the required payments.

“It got to where we can’t even afford to go on vacation because we are spending too much of our money paying for the timeshares,” Karen Henderson said.

Wyndham Destinations spokeswoman Vanessa Picariello said its last contact with the Hendersons was a year ago.

“We requested some additional details and never heard back,” Picariello said. “It’s distressing to hear that she’s now laid out an additional sum to an attorney, and that also limits our ability to work with her.”

Karen Henderson is among 18,000 people Timeshare Exit Team is working with to break timeshare agreements. Her situation illustrates a growing challenge for timeshare companies as more customers seek exits, consumers accuse timeshare businesses of high-pressure sales tactics, and the industry competes with platforms like Airbnb for younger clients.

South Florida has a big stake in this game. The region is home to 53 timeshare resorts, mostly near beaches, according to the American Resort Development Association, which represents the timeshare industry. When owners stop paying maintenance fees at the direction of timeshare exit companies, it places a financial burden on other owners and the resorts’ associations, said Robert Clements, VP of regulatory affairs and general counsel with ARDA. That could mean less spending on capital projects and maintenance at resorts, he added.

Nine timeshare companies are headquartered in Florida, including Boca Raton-based Bluegreen Vacations Corp. (NYSE: BXG) and Fort Lauderdale-based Vacation Village Resorts. Most of the others are based in Orlando.

“The timeshare industry really pioneered the sharing economy,” Bluegreen CEO Shawn Pearson said. “Airbnb is doing us a favor by getting people out of a traditional hotel.”

Decades ago, buying a timeshare was one of the few ways to vacation in a home-like setting. Now, home-sharing companies offer a wide range of properties for short-term stays, which appeals to the younger generation known for its aversion to long-term ownership commitments.

“There are many more options today with Airbnb and rentals by owner,” said Lewis M. Goodkin,

head of Miami-based real estate advisory firm Goodkin Consulting. “As more homes become available [on their platforms], Airbnb and rentals will eat into timeshares even further.”

How the timeshare industry adapts to these challenges may well determine the future of their South Florida resorts.

Exit firms a way out?

Search online for timeshares in South Florida, and many of the first hits will come from firms offering to cancel vacations, not book them. Timeshare developers say this has cost them tens of millions of dollars and hurts their clients. Yet, exit firms claim the timeshare industry makes it too difficult for their clients to relinquish their investments.

Brandon Reed, CEO of Seattle-based Timeshare Exit Team, said his firm provides an important service. He wouldn't describe a specific method, saying it varies by customer, but it usually involves retaining a law firm.

Reed said he started his company seven years ago when he was unable to find a way out of his timeshare. He established the Coalition to Reform Timeshare to advocate for his industry and seek a timeshare owners' bill of rights.

"Nobody should be stuck in a timeshare forever, but people do feel stuck," Reed said. "There is an exit industry because the timeshare industry hasn't done their job and taken care of customers."

Jorge de la Osa, executive VP and chief legal and compliance officer at Bluegreen, said most timeshare exit firms request an upfront fee – usually in the thousands of dollars – with the promise of getting clients out of their timeshares in two to three years. The clients are usually told not to contact the timeshare company or pay their mortgage or maintenance fees. Subsequently, many timeshare exit clients wind up in default on their loans and in foreclosure, he added.

Bluegreen's financial results have been impacted. The average annual default rate for its vacation ownership loan portfolio increased to 8.2% in March from 6.9% in 2015, according to its SEC filings, which cited timeshare exit firms as a contributing factor.

"The majority of these exit firms are making false promises to consumers and taking upfront fees and are not regulated," de la Osa said. "They are taking advantage of consumers. I have yet to see one that's providing a good service."

Both Bluegreen and Wyndham Destinations filed a federal lawsuit against timeshare exit firm American Resource Management Group and its law firm, Totten Franqui Davis & Burk, both based in Fort Lauderdale, alleging they advised customers to not contact the timeshare businesses and encouraged nonpayment.

American Resource Management Group, which generated over $40 million in revenue in 2018, filed Chapter 11 in April. It listed $578,921 in assets.

Totten Franqui Davis & Burk filed Chapter 11 in May. It named over 2,000 timeshare owners as debtors, and listed $37,634 in assets.

Hal Lewis, a partner at Miami law firm Pathman Lewis, said he would advise a client not to use a timeshare exit firm, as it won't accomplish more than a client negotiating directly with the timeshare developer. The bottom line for timeshare owners: Sell the timeshare for less than you bought it for or halt payments and accept you'll probably face foreclosure and a deficiency judgment, he said.

"There is no magic formula here," Lewis said.

Changing views

Timeshare developers say they aim to counter the negative perception caused by exit companies. ARDA's Clements said the organization established ResponsibleExit.com so timeshare owners know how to move on while avoiding "scams." It encourages them to contact their timeshare developer about an exit strategy, including selling the deed through a licensed broker.

"The industry didn't do enough early on to make it known these programs existed," he said.

De la Osa said Bluegreen allows some owners to pledge their timeshares to charity and take a tax deduction. It also uses brokered sales, negotiated settlements and "give backs" (relinquishments) to help customers exit, he said.

Tony Walker, executive VP of global sales and marketing with Las Vegas-based Diamond Resorts, which has 15 timeshare resorts in Florida, said exit firms have caused a "customer service crisis." It has been more proactive about reaching out to members about exit firm "scams" and making sure customers call the company first if they are thinking about an exit.

Diamond Resorts has filed 13 lawsuits against timeshare exit firms and their law firms, and obtained seven permanent injunctions.

"When people purchase from us or come in for an update while on vacation, we try to make sure they are aware of these predatory activities," Walker said.

Marketing pitfalls

Timeshare companies offer people free or greatly discounted stays at their resorts, granted they attend sales seminars.

Still, the highly regulated process of timeshare marketing has run into litigation. Bass Pro Shops filed a lawsuit against Bluegreen in April, accusing it of violating its marketing agreement in its stores by using "high-pressure or offensive salesmanship." The retailer ultimately settled that lawsuit and agreed to expand Bluegreen's marketing kiosks to additional stores after Bluegreen agreed to pay over $20 million.

Bluegreen is facing two class action lawsuits over allegedly unfair practices in selling timeshares – one in Palm Beach County Circuit Court and another in U.S. District Court for the Eastern District of Wisconsin. The Palm Beach lawsuit said Bluegreen falsely promised that buyers could cancel their purchases, have maintenance fee caps, and roll over unused points at no charge.

The company has moved to dismiss both lawsuits.

But one of the biggest challenges for the timeshare sector is fighting the negative perception spread by dissatisfied customers, said Chris Woronka, a senior research analyst for Deutsche Bank who follows several timeshare stocks. A few unhappy customers can make a lot of noise and turn off potential buyers.

Pearson said Bluegreen recently tweaked its marketing to make sure it reaches financially viable and younger consumers, since timeshare contracts are often decades-long commitments that don't make sense for older buyers. While this led to fewer sales in the first quarter, it will produce a stronger customer base, he added.

"We want to have the right people who can afford the product and enjoy our product for a long period of time," Pearson said.

Timeshares vs. Airbnb

Millennials are less likely to buy a home or own a car. So, will they invest tens of thousands of dollars for a lifetime commitment to vacation?

Many timeshare developers say yes. In fact, they support a surprising number of millennial buyers.

Bluegreen said 27% of its member are millennials. According to ARDA, the median age of new timeshare owners was 39, and 30% of new owners were millennials.

Pearson said the modern points-based timeshare program offers great flexibility, as compared to the old model that locked owners into a specific week in a particular suite. Bluegreen has 69 resorts on its platform, and members can book for any time, granted they schedule in advance, he said.

Still, Airbnb is aggressively adding homes in high-traffic areas, including South Florida, creating more competition for timeshare companies, Goodkin said. Home sharing is more affordable for most people, especially since the high costs of timeshare marketing – about 40% of the price of a unit – drives up their prices, he said.

Home-sharing platforms might eat away a few percentage points of business from timeshares, but they aren't a significant threat, Woronka said. The timeshare industry is poised for growth by adding new inventory, mostly by converting hotels into timeshare resorts, he added.

"Airbnb has a home. But not the amenities, like a gym or a spa," Woronka said. "The service level is different. With Airbnb, what happens if the toilet breaks?"

Pearson said Bluegreen has created short-term versions of its timeshare product catering to younger members. The "sampler" product offers one- or two-year terms for resort stays, with the option of buying a timeshare.

Diamond Resorts introduced a 10-year term product geared toward younger customers, and the consistent quality of timeshare resorts will prove more attractive than Airbnb, Walker said.

"You don't know what you will get sometimes with Airbnb," he said. "With us, you know what you are getting and you don't have to worry about whether it's safe for your family."

U.S. timeshare industry

$10.2 billion: 2018 sales

$2.4 billion: Rental revenue

9: Consecutive years of sales growth

1,580: Resorts

371: Resorts in Florida

$21,455: Average sales price

$1,000: Average annual maintenance fee

81%: Average timeshare occupancy

54,474: Direct jobs in Florida

Source: American Resort Development Association