

"How Come So Cheap?"

By David Skinner, President, Holiday Group

We hear this question more often than most. Certainly as smart shoppers you should be suspicious when the price between new and nearly-new timeshares is as wide as it is. Logic would tell you, "It's too good to be true". Yet, if you browse our inventory, you'll find the average resale price is \$3,500 while the American Resort Developer's Association reports the average price of a new timeshare in 2003 was \$14,500. That's 75% off the resort price. "How come so cheap?"

"Because they're so inconvenient to buy", responded one of our Vacationeers to that question. And you know, I could not have said it better. Permit me to explain:

Let's follow along with Bill and Mary on their recent vacation:

They have finally reached a place in life where vacationing is affordable. They relished basking in the sun, the swaying palm trees, the warm sea breezes, while back in Minnesota they're freezing their pipes off. Not since their honeymoon have they felt so much in love. Bill says, "So let's go to a timeshare presentation?"

It all sounds so wonderful: the first day incentives, the easy financing, oh my, so much information to absorb. *"Yes, we'll do it"*, comes their answer. This is called **Asymmetric Information***, when one side of a transaction has all or an unfair amount of information regarding market pricing and alternative choices. Bill and Mary on their one week vacation didn't have 90 minutes per day to devote to shopping timeshares. They innocently accepted the price and terms stated. Did they pay too much? You decide.

The 15% down fit easily on their credit card. They were even offered additional discounts for cash. This is called **Liquidity**, the ease of transfer between goods and money. It is an essential part of an efficient market. In Bill and Mary's case, it was their ability to

receive on the spot credit for goods: no fuss, no bother, just sign here.

While choosing their presentation gifts, they received their owner's packet, prospectus, club rules and a copy of the deed. Done! Finito!

The resort developer's sales program, known as the **Primary Offering** is a well oiled and honed machine. Each word rehearsed. Each move choreographed. The cost to attract, promote and sell the product represents 30 to 50% of the price. It ain't cheap and to the developer, resales are an unwanted, annoying and counterproductive fact of life.

Forward to Sam and Janice buying a resale.

Both are savvy computer users. They knew the first thing to do was an Internet search for *timeshare resales*. Their friends Bill and Mary spoke highly of their timeshare vacations, so why not the Net? The Internet has created **Transparency**, where all available information is visible or easily obtainable. Millions can now search for timeshare resorts, resales and even compare prices.

Fortunately they came upon Holiday Resales with over 500 different properties in stock and lots of in-depth information. Even with Holiday's hundreds of happy testimonials, buying online was fraught with fear, especially a property site unseen. This would require some trust. Holiday's Better Business Bureau membership helped, but it really came down to the professional advice of a Holiday Vacationeer. She seemed to really care. The purchase was easy, the price, a fraction of what Bill and Mary paid and title was transferred in less than ninety days. So what more could you ask? Well of course, "*How come so cheap?*"

Recently I asked this question to an eminent professor of economics. In his own words:

"The market is characterized by high information costs, a heterogeneous product, high transactions costs, low liquidity and a wide variety of legal structures and transfer requirements from

state, municipal and foreign entities. Ownership rights and obligations vary, and carry a degree of uncertainty as to the quality and perhaps availability of accommodations."

"In other words, Professor," I asked, "*It's because they're so inconvenient to buy?*" "Exactly", he said.

Every timeshare purchase and sale, following the original, is considered made in the **Secondary Market**, where all the rules change. There are no federal laws specific to timeshare sales. Each state, and often individual cities, impose their own timeshare regulations, as well as real estate transfer laws.

East Coast States are based in English law, the South and West on Spanish law, New Orleans on Napoleonic law and Hawaii on lease hold. Some states require tax impound accounts, and one city requires buyers to individually sign smoke alarm inspection permits. Canada and the Bahamas require local attorneys to handle the transfer, and Venezuela requires both buyer and seller to be present in Venezuela when signing.

Now if that is not enough, many resort memberships have 'first right of refusal', allowing the Club to match the best offer. One Mexico resort goes a step further and totally refuses to transfer. And some smaller clubs are poorly equipped to handle the business. The person entering your name in the Club roster may be the same one changing the sheets on your bed.

Here at Holiday we understand all this. We don't control it, but we do manage it. Membership transfers delivered promptly, with a commitment to customer service and satisfaction, is the hardest part of our business. Improving it against all odds is our challenge. Alternatively the national title and escrow companies don't seem to get it. They are rooted in the real estate business, and fail to see timeshares as vacation dreams, not vacant lots.

To sum this up and answer the question, why timeshares are so cheap, it's because the market is so **Inefficient****. When all of the elements that make a free market are present, as on Wall Street, where information and money flow, where there is a critical mass of buyers and sellers, and where there is

an ease of transfer and low transaction costs, the price of goods is determined by supply and demand. The resale market possesses little of these, and for that, resale prices will never be equal to new, even though the goods are the same.

FOR PROSPECTIVE BUYERS ONLY:

While resale prices reflect current over supply due to years of developer denial and market deficiencies, don't wait too long. As thousands and thousands of buyers turn to the Internet for their timeshare information, the excess supply is disappearing. Today's 'too cheap' will be tomorrow's 'too much'. Information, like water, seeks its own level and more people will discover what you already know. Timeshare resales are so cheap, not because of the product, but because of the process.

FOR DEVELOPERS AND INDUSTRY PUNDITS ONLY:

As a five billion dollar industry swooning under the 'Do Not Call Registry', the new resort versus resale price differential is looming large. A collapse of resort pricing with massive industry disruptions is not impossible. People are already shopping your sales rooms and returning home to buy on the Internet. The husband, stepping out for a smoke, is in your hotel lobby kiosk on the Internet. The advantage that asymmetric information afforded you is fading in the light of Internet transparency. A recent Ragatz & Assoc. survey showed 24% of all timeshares were purchased in the secondary market. You cannot afford to ignore these facts. Much of the market inefficiency is yours, as are many of the solutions. RCI and II, you cannot evade your part of the blame. If you don't change the process, the process will change the price.

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PS: I welcome your comments. Email me at president@holidaygroup.com

*Many markets are characterized by the fact that either the buyer or the seller has considerably more information about the product than does the person or firm on the other side of the transaction. Akerlof, Spence, and Stiglitz won the 2001 Nobel Prize for illustrating the importance of asymmetric information in various kinds of markets and situations.

**"An 'efficient' market is defined as a market where there are large numbers of rational, profit-maximizers actively competing, with each trying to predict future market values of

individual securities [timeshares-ed.], and where important current information is almost freely available to all participants. In an efficient market, competition among the many intelligent participants leads to a situation where, at any point in time, actual prices of individual securities already reflect the effects of information based both on events that have already occurred, and on events which, as of now, the market expects to take place in the future. In other words, in an efficient market at any point in time the actual price of a security will be a good estimate of its intrinsic value." [Eugene F. Fama](#), "Random Walks in Stock Market Prices," *Financial Analysts Journal*, September/October 1965 (reprinted January-February 1995).