

## December 2007 *MoneyMinute* – **Should You Invest in a Timeshare?**

By Rich Chambers, CFP®

A timeshare is likely not a good investment but may be a good use of vacation dollars. An in-depth analysis is required.

During a recent trip to Kauai, my wife and I had the privilege of attending not one, but two (don't ask) different timeshare presentations. Even though the sales pitches were for two different properties, they contained a lot in common.

### **Ownership details:**

- Purchase Price: \$49,900
- Unit: Two bedroom, two bath, ocean front, with one week per year occupancy.
- Trading privileges: Could be traded for other units within the company's inventory of all properties or within Interval International's much larger inventory.
- Annual owner's fees: \$2,200 with annual cost increases.
- The closing cost is \$500
- Ownership is by deed so it can be sold, gifted, or transferred by will.

The sales executive tells you that vacation costs increase faster than inflation and that you can benefit financially by locking in the cost through ownership. You will be asked what you spend for one night accommodations today (we said \$300) and you will be told that costs \$2100 per week now or \$8126 per week in 20 years for a total of \$92,117 for all 20 years. Without proper analysis it would seem that \$50,400 compares quite favorably to \$92,117. But wait, there's more to consider ...

### **Let's compute the total cost of 20 years of ownership in today's dollars:**

Purchase price and closing cost: \$50,400

20 years of ownership fees: \$38,651

Sales proceeds: \$10,706.

Total cost of ownership: \$80,030

To get a direct comparison, we need to figure out the total cost we would pay today for 20 years of vacation rental accommodations. That amount is \$41,198.

Therefore it costs 94.3% more to own. I guess it should have been obvious that if it costs \$2,100 per week for rental vacation accommodations, then paying \$2,200 for one week of ownership accommodation fees would cost more. If we increase the rental cost to \$4,200 per week (\$600 per night), then buying is 2.9% cheaper than renting.

### **That's not really fair – ownership has other advantages:**

- Much more space – about 1,400 square feet – room enough for 4 to 6 people vs. a hotel room.
- You can trade your week for a week or even more at another property
- You can rent your unit.

- You can sell or gift your unit.

### **Timeshare shopping tips:**

1. Never, ever let anyone pressure you into buying during the sales presentation. Take your time to think it over. The incentives to buy immediately are not worth it, and I bet you can still get the incentives even if you call back later. If you just can't bear to leave without signing the deal, plan to review your decision and perhaps exercise your right of rescission.
2. Don't be transfixed by vacation mentality. You are in a beautiful locale; you are spending lots of money. That doesn't mean you'll want to come back to this one place for the next 20 years. It doesn't mean you should be open to buying real estate as part of your vacation spending.
3. Obtain the historical rate of increase of the ownership fee for a similar property.
4. Compare buying a timeshare to 100% ownership in a comparative condo. I'll bet the condo will actually appreciate vs. the timeshare which won't.
5. Consider that you are locking yourself in to 20 years of similar vacations (resort condo). Maybe you want to go with a tour group or on a cruise someday or take a hiking or biking vacation instead? (Being locked in is my #1 objection to a time share.)
6. Ask the salesperson how many nights in a high-class Moscow hotel can you trade for? How about Paris?
7. Consider that the trading value for your unit is fixed, but the cost to trade for a premier hotel likely is not. Ask about this.
8. To get the best price, provide lots of resistance. We were offered a 25% price reduction at one of the presentations.
9. If you want to throw them off balance, tell them you love to visit the Galapagos Islands or Antarctica.

### **Summary:**

Owning a timeshare costs about twice as much as renting a similar unit. Buying a timeshare provides opportunities to trade for other vacation venues. Make sure the cost is worth it to you. Buying commits you to a certain style of vacation for a long time.

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