THE WALL STREET JOURNAL.
WSJ.com
JULY 8, 2009

Hotels Sound the Alarm on Time Shares Pullback by Major Developers Amid a Slump Will Reshape the BusinessBy ANTON TROIANOVSKI and KRIS HUDSON

The hotel industry has been reeling for the past year amid a steep decline in business and leisure travel. Now it is moving away from one of its former profit centers: time shares.

Major time-share developers, led by Wyndham Worldwide Inc., Marriott International Inc., Starwood Hotels & Resorts Inc. and others, are scaling back their time-share business as investors in time-share loans demand higher interest rates, buyers become more scarce and resales of time shares put downward pressure on prices and demand for new units.

Wyndham Worldwide

Wyndham owns this WorldMark Indo time-share resort in Indio, Calif.

Many time-share companies have reacted to the industry's slump by curtailing spending on new resort construction, cutting staffs by up to half and imposing tougher standards for the few buyers qualifying for loans. A time share is a fractional interest in a property, often a condominium or vacation villa, allowing the owner access to the property for a period of time each year.

The pullback will reshape some large time-share players. Wyndham, which owns 150 resorts globally and counts 830,000 time-share owners, intends to whittle its time-share business by 40% this year to an annual sales rate of $1.2 billion. That is a big reduction for Wyndham as a whole; its time-share division provided 53% of Wyndham's revenue last year and 42% of earnings before interest, taxes, depreciation and amortization.

The cutbacks made by Wyndham and others are aimed at remaking their time-share divisions into "a much smaller business" to reflect the scarcity of financing and buyers, said Joe Greff, a gambling and lodging analyst for J.P. Morgan Securities. "They don't want these [businesses] to be drags on capital use, where they're investing a lot of money to build inventory that will take a long time to sell."

The problems came to a head late last month for a Las Vegas time-share developer when the company, Consolidated Resorts Inc., said it would file for bankruptcy protection. The "warehouse" lines of credit, which Consolidated used to make loans to customers, come due this fall, and lenders have refused to extend them, said a person familiar with the matter. Managers of a Goldman Sachs Group Inc. property fund decided

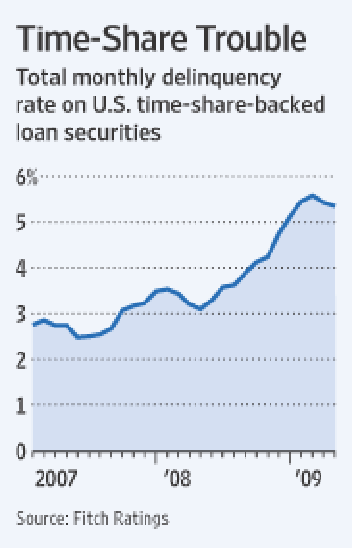
Print Powered By FormatDynamics™

THE WALL STREET JOURNAL.
WSJ.com

to walk away from a $372 million investment in the company, which is in the middle of building a 1,245-unit development near the Las Vegas Strip called Tahiti Village.

Analysts say the giant hotel companies aren't in danger, but the decline in the time-share business will be a drag on profits for years.

Time shares' problems stem from the twin forces also bringing down the rest of commercial real estate: slumping demand for space and disappearing financing. But for time shares, the problems may be even more acute. "Time share, if you think about it, is pretty much the most discretionary type of product out there," says John Bella, a Fitch Ratings analyst.



Meanwhile, sales of new time shares have been depressed by a rise in the pool of time shares listed for resale as the foundering economy forces some owners to try to unload their time-share debts and maintenance fees. Carrie Stinchcomb, a sales associate at A Time-share Broker in Orlando, said her office's listings have increased 30% from last year. However, sales have fallen roughly by half because there are fewer buyers, she said.

Delinquencies on securities backed by time-share loans topped 5% in the first quarter, up from 3% a year earlier, according to Fitch. Starwood, which operates 26 time-share resorts, reported an estimated average default rate of 7.9% at the end of last year on time-share loans it originated. Fitch's Mr. Bella expects delinquencies to continue to rise, likely tracking the unemployment rate. "You'll probably pay your credit card and your auto loan before you pay your time share," he says.

As a result, investors in packages of time-share loans are demanding higher interest rates -- squeezing the profits that big developers used to get out of financing purchases. In the past, "we actually incentivized people to take our financing because we could sell it, recycle it, make a profit," Marriott Chief Financial Officer Carl Berquist said at a conference in May, according to a transcript. Now, Marriott is trying to round up as many cash buyers as possible.

Steve Holmes, Wyndham's chairman and chief executive, says he anticipates the securitization market eventually will loosen a bit for time-share deals. Wyndham syndicated $225 million of its loans in May at a 9.8% interest rate that was roughly 2 percentage points higher than the rates such packages garnered two years ago. In addition, Wyndham now gets roughly 50% to 60% of the collateralized amount up front when it sells loans into securitization, as opposed to a more generous "advance rate" of 85% during the boom. "I'm not calling for a return to the kind of liquidity that existed 18 months or two years ago," Mr. Holmes said in an interview. "But I think, over time, there will be a middle ground that's found."

Some smaller time-share companies are in a tighter liquidity bind these days than the industry's largest players. The smaller competitors lack the bigger companies' diversified cash flows, meaning they must rely more on construction loans and credit lines to finance their construction and sales of time-share loans.

So far this year, Consolidated is the only time-share developer to have said it will file for bankruptcy protection. But other smaller developers have also had to wrestle with their financing. Bluegreen Corp., owner of 50 time-share resorts, on Monday said it had negotiated payment extensions of one to three years for debts and credit lines totaling $280 million. Last fall, as it found it couldn't securitize its loans, Bluegreen started scaling back its business by cutting half of its staff, reducing its development spending and negotiating with its lenders for payment-deadline extensions.

Write to Anton Troianovski at anton.troianovski@wsj.com and Kris Hudson at kris.hudson@wsj.com

Print Powered By FormatDynamics™