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Don't Make A Bad Investment In A '401(v)'

Forbes Real Estate Council
FULL BIO

POST WRITTEN BY

Gordon Newton

Gordon Newton is the author of The Consumer's Guide to Timeshare Exit, and the President and Co-Founder of Newton Group Transfers.

Gordon Newton, Forbes Councils

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Many people purchase timeshares believing they are financial investments. Perhaps what is causing some of this confusion is the term “401(v).”

A 401(v) is an increasingly common term used by timeshare sales representatives to denote an “investment” in your vacation, but the similarities between a vacation investment and a financial investment begin and end with the clever euphemism.

Brass Tacks: 401(v) Vs. 401(k)

Most people are aware of what a 401(k) is, but for the sake of comparing a true financial investment with a 401(v), here's a brief description:

A 401(k) is an employer-sponsored retirement plan in which a designated portion of an employee’s paycheck is automatically deducted each pay period. This money is removed before the income is taxed and then invested in a series of diverse options at the employee’s discretion. In many instances, the employer will match the employee contribution by as much as 6% of the employee’s gross pay. All investment funds appreciate tax-free for the duration of the plan and can be converted to an Individual Retirement Account (IRA) once the employee is ready to withdraw their savings.

On the flip side, since most timeshare contracts are written in perpetuity, timeshares could actually be viewed as the direct opposite of a 401(k): They don’t *build* your financial portfolio over time; they are instead a lifelong financial obligation. In fact, American Resort Development Association (ARDA) president Howard Nusbaum noted that a timeshare's value comes solely from the consumer's use and potential vacation savings, not because it is a sound financial investment.

The Truth About Timeshares

As someone who has worked for nearly 15 years to help frustrated timeshare owners eliminate their ownership, I have met with many timeshare owners who are thrilled with their properties. Committing to your and your family’s vacation future can be a significant boost to your quality of life, especially if you get great annual use out of the timeshare.

Unfortunately, that’s the extent of the “investment” — owners (and potential owners) need to think of timeshares as a quality of life investment rather than a financial investment. Presenting them as the latter can be a dangerous proposition for consumers, as it might lead them into believing something that simply isn’t true.

The tangible financial value of timeshares decreases immediately following the purchase, and annual maintenance fees have been rising steadily for years. In 2005, the average annual maintenance fee was $471. By 2016, that number had more than doubled to $971, with major hikes every year in between. And when owners attempt to sell these properties, most discover there are very few takers on the overcrowded resale market — even though they're often being listed for pennies on the dollar of their original purchase price.

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Vacation Homes Are The Real Investment

As an alternative to timeshare properties, vacation homes represent a real financial investment. Timeshares are right-to-use products that instantly depreciate upon purchase and are then difficult to sell down the road. A vacation home is real property, which has historically proven to appreciate.

In addition, vacation homes offer the owner an opportunity to make money off the property year-round via weekly rentals through online holiday arrangements and by-owner rental sites. When an individual purchases a timeshare, they're usually only buying the right to one or two weeks of annual use, which means they're sharing the property with roughly 50 other owners. And in a points structure, because owners typically do not have fixed weeks, there could be multiple owners competing for the right to use their time. Therefore, it's nearly impossible for timeshare owners to leverage any rental money out of the timeshare since it is occupied by other tenants throughout the year. When you own a vacation home, though, you can rent it out as often as you like, which can help contribute toward your mortgage payments. If and when the house is completely paid off, that's just money in your pocket.

Exercise Caution When Considering A Timeshare

If you're really considering buying a timeshare, I recommend doing plenty of research into the opportunity and purchasing the property directly from the owner — but be wary of potential scams and try to find a trusted title company to perform the transfer of ownership. Buying a timeshare that someone else has already paid off is far more cost-effective, places you in a stronger position as a consumer and allows you to gain what I like to call instant vacation equity.

If nothing else, consumers need to be aware that 401(v) is just a buzzword with no inherent meaning. This terminology can be confusing for some, as it creates a faulty comparison between a financial investment and a vacation investment. I can only speculate, but terms like this might explain why so many timeshare owners believe they've made a financial investment by purchasing a timeshare.

If you want to purchase a timeshare, then by all means, you should do so (safely). But remember, while these properties may be an investment in your future vacations, they are also a liability for your future finances.
