Fundamentals of Timeshare – Finance

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Objectives

- Overview of Timeshare Development Financing
- Importance of Consumer Financing to the Timeshare Model
- Summary of Sources of Income
- Explain Fee-for-Service / Fee-Based-Service Model

BRIEF EXAMPLE PROJECT

- Phase I of Multi-Phase Project
- 120 Units – Phase I
- Total Cost = $40,000,000 ($333K/Unit)
- 6,240 intervals (52/unit)
- $32,000 average sales price/week
- $200,000,000 sellout ($32K x 6,240)

Step 1 - Financing the Real Estate

The Project will be financed by a combination of Owners Equity and Bank Debt (the Capital Stack).

The debt available for the real estate component of the project typically falls into the following categories…

- Construction Loans
- Acquisition Loans / Inventory Financing
- Renovation / Conversion Loans

CAPITAL STACK

The Construction Loan in this example is 75% of the Project Cost for Phase…Equity goes in FIRST.

Developer Equity	-	$10,000,000	25%
Construction Loan Amount	-	$30,000,000	75%
TOTAL COST – PHASE 1		$40,000,000	100%

General Loan Requirements:

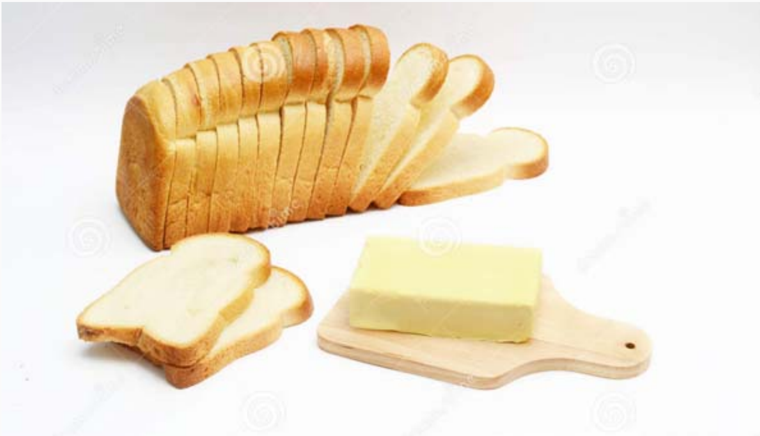
- Revolving during construction / repaid from release fee from each sale.
- Appraisals, Engineering and Environmental Reports will be required
- Review of plans and budgets will be performed by a Bank retained firm.
- Construction monitoring during the build by a Bank retained firm.

LOAN REPAYMENT: The loan amount and sales volume will determine the necessary Release Payment. The loan will be repaid with the sale of no more than 80% of the overall intervals within a certain period of time. In this case, we ended up with a final loan balance of $30,000,000.

Total Sellout ($32K x 120 units x 52)	$200,000,000
Sellout Percentage to Repay Loan	x 80%
Sales Volume to Repay Loan	$160,000,000
Percentage paid from each sale (*)	x 18.8%
Repays Loan Amount	$30,000,000

(*) Loan amount divided by sales volume to repay Loan = "Release Payment"

Step 2 – Financing Receivables (Hypothecation)



Did You Know?

- In general, 50% - 90% of U.S. timeshare sales are financed by the timeshare operator, because consumers can't/won't pay cash at the time of purchase. Factors affecting % include location, lead generation, price point, and consumer.

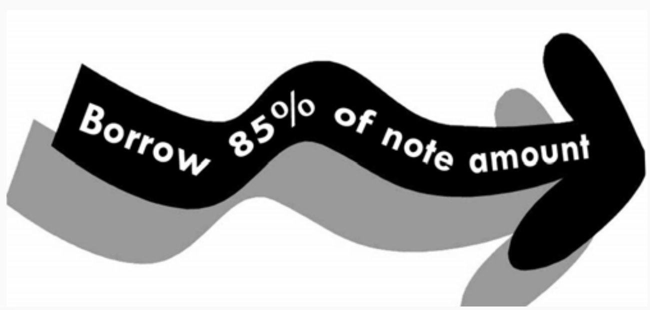
- Some will cash-out within 30 days of purchase, but most do not. Instead, they'll pay 12%-18% interest on their loan for 3 - 10 years.

HYPOTHECATION OF NOTES RECEIVABLE: Timeshare by its nature is a cash intensive business.

Intervals sold on installment terms to consumers (i.e. “long term receivables”) must be converted into cash for liquidity. A loan against the note’s receivable collateral accomplishes this.

Consumer Notes Receivable

Borrow 85% of note amount



… for liquidity and expenses

HYPOTHECATION OF RECEIVABLES

Based on $1MM of Sales		w/o Hypo	With Hypo
Cash Sales	20%	$200,000	
Down Payment Financed Sales	15%	$120,000	
Financed Sales ($580K of Notes) paying P&I monthly		---------	
TOTAL CASH RECEIVED		$320,000	
Sales & Marketing Expense	55%	($550,000)	
G&A and Overhead	10%	($100,000)	
Loan Interest (Construction Loan)	2%	($20,000)	
Release Payments (Construction Loan)	18.8%	($188,000)	
Portfolio Costs	2%	($20,000)	
Developer Subsidy (HOA)	2%	($20,000)	
TOTAL CASH EXPENSE	90%	($898,000)	
NET CASH FLOW FROM $1MM OF SALES		($578,000)	

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Cash Sales	20%	$200,000	$200,000
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Financed Sales-$680K of Notes @ 85% Advance Rate		n/a	$578,000
TOTAL CASH RECEIVED		$320,000	$898,000
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Cash Flow from Sales

CASH FLOW FROM SALES with LOAN REPAYMENT

	YEAR 1	YEAR 2	YEAR 3		TOTALS
Annual Sales (in 000's)	$60,000	$65,000	$75,000		$200,000
Cash Sales (20%)	$12,000	$13,000	$15,000		$40,000
Down Payments (15%)	$7,200	$7,800	$9,000		$24,000
Receivable Advances (85% of notes)	$34,680	$37,570	$43,350		$115,600
TOTAL CASH RECEIVED	$53,880	$58,370	$67,350		$179,600
Sales & Marketing (55%)	$33,000	$35,750	$41,250		$110,000
General & Administrative (10%)	$6,000	$6,500	$7,500		$20,000
Construction Loan Interest	$1,490	$787	$107		$2,384
Loan Repayment (18.8%)	$11,280	$12,220	$6,500		$30,000
Portfolio Costs	$317	$679	$1,058		$2,054
Developer Subsidy (HOA)	$2,995	$1,498	$499		$4,992
TOTAL CASH EXPENSE	($55,082)	($57,434)	($56,914)		($169,430)
NET CASH FLOW	($1,202)	$936	$10,436		$10,170

Cash Flow from Management Fees

CASH FLOW FROM MANAGEMENT FEES

Timeshare Companies often manage the Home Owners Association that is responsible for operating the Resort. The Management Company earns management fees of 10% - 15% of total dues received by the association.

Total number of 1 week intervals	6,240
Estimated HOA dues per 1 week interval	x $800
Estimated Gross HOA Annual Receipts	$4,992,000
Management Fees (10% - 15%)	x 12.5%
Annual Management Fee Income	$624,000

Cash Flow from Note Portfolio

#ARDAWorld

CASH FLOW FROM NOTES PORTFOLIO: Notes receivable portfolio generates substantial profit after the Hypothecation Loan is repaid.

Principal amount of notes receivable (aka. consumer loans)	$136,000,000
Interest from notes at 14.9% / 120 mos.	$ 85,665,000
Total Principal & Interest on notes	$221,665,000
Less: Repayment of Receivable Loan advances (@ 85% Advance Rate)	($115,600,000)
Less: Interest on Note Receivable Loan (+/- 6.0%)	($18,368,000)
Less: Principal on 27% of notes that default (*)	($37,371,000)
Less: Portfolio costs (servicing / custodian, etc.)	($4,800,000)
Net Cash Flow from Notes Receivable	**$45,526,000**

(*) To simplify the calculation defaults are assumed to be 6.5% annually or 27% over the life of the portfolio and prepayments are assumed to be 5% annually or 22% over the life of the portfolio.

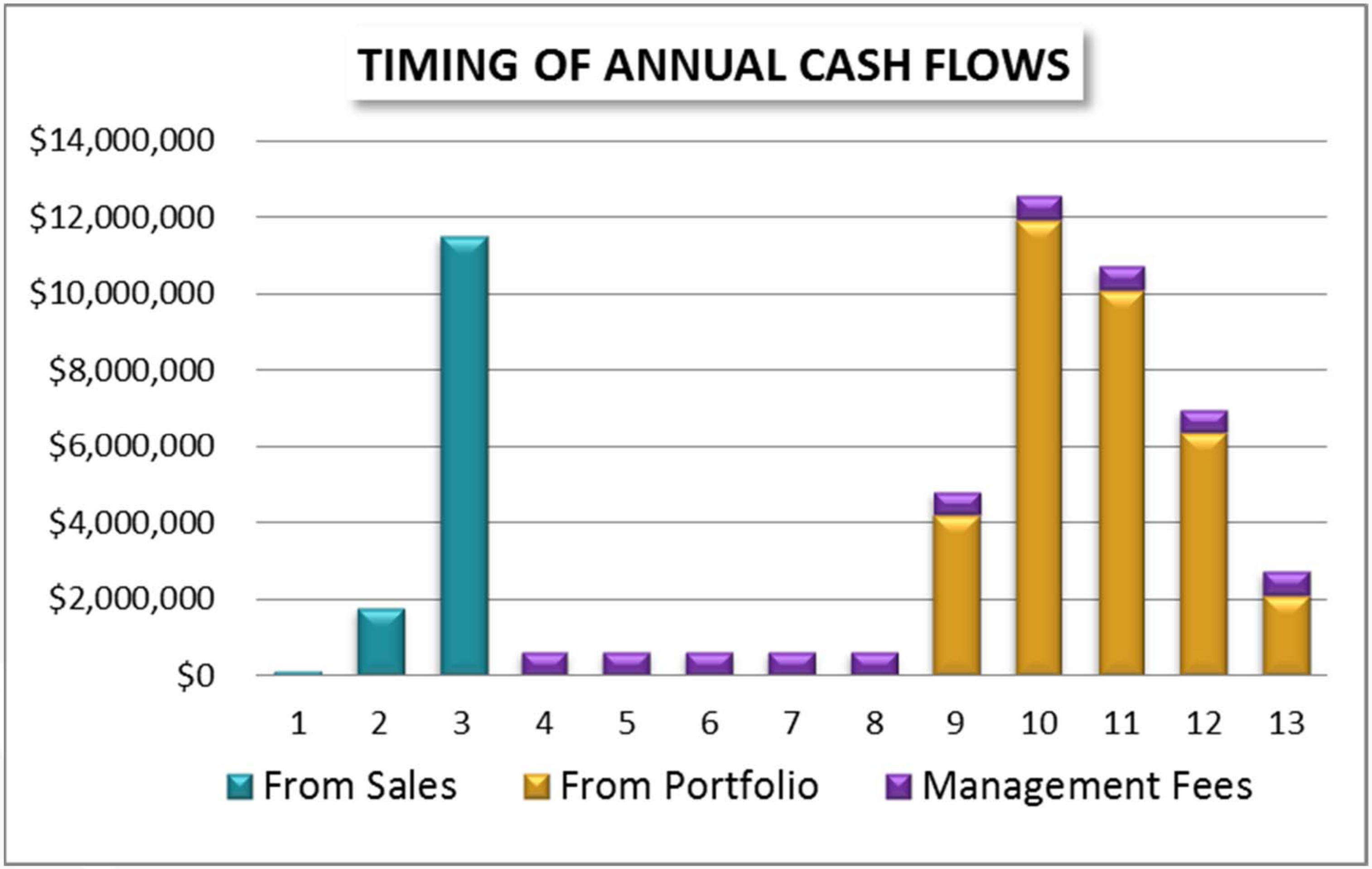
Combine Major Sources of Cash Flow

MAJOR SOURCES OF CASH FLOW COMBINED

From Sales	$10,170	16.4%
Management Fees (*)	$6,240	10.1%
From Portfolio (Loans)	$45,526	73.5%
TOTAL PHASE I	$61,936	100.0%
Less: Equity Investment	($10,000)	
Gain on Investment	$51,936	5.2x multiple

(*) Assumed to be 10 years of Management Fees following sellout (i.e. stabilization of the HOA). Management Fees are ongoing and not limited to 10 years included above.

Looking at the chart, are you in the development business, sales business, management business, or lending business?



- Cash from Sales is greatest after Construction Loan is repaid.
- Years 4 – 8 is the period where the Note Receivable Loan is being repaid.
- After Receivable Loan is repaid remaining payments on notes are fee-and-clear to Developer.

FEE-FOR-SERVICE OPTION FOR DEVELOPERS

- ✓ *Overview of Fee-for-Service*
  - *Brings Brand identity to project*
  - *Delivers predictable and faster sales volume*
  - *Obtains higher interval prices*
  - *Not reliant on local market for sales*
  - *Includes property and HOA management*
  - *May include portfolio servicing and collections*
  - *Product design and construction services available*
- ✓ *Higher commissions offset by minimal G&A expense*
- ✓ *Release payment may need to be lower to allow room for commissions*
- ✓ *Lenders view Fee-for-Service favorably*