The Management of Sold Out Resorts

2015

STATE OF THE VACATION TIMESHARE INDUSTRY: UNITED STATES STUDY

EXECUTIVE SUMMARY

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Comparison of sold out and active sales resorts

In the timeshare industry, there is often a great deal of difference between the management of resorts that are still actively selling intervals ("active sales" resorts) versus those that have sold all, or nearly all, of their intervals ("sold out" resorts).[1] **This report explores the characteristics and management structures of sold out resorts and discusses the unique challenges of operating them.** Chapter 1 begins with a comparison of sold out resorts to active sales resorts, and then moves to a discussion of reserve funds and special assessments at sold out resorts in Chapter 2.

Figure 1.1 summarizes key characteristics of sold out resorts, and compares them to active sales resorts. Relative to active sales resorts, sold out resorts tend to:

- Be older and smaller
- Have higher average occupancy
- Have lower average maintenance fees
- Have similar average rental prices

The remainder of this chapter will explore these differences in greater detail.

Structure of units and intervals

As noted in Figure 1.1, active sales resorts opened an average 12 years later than sold out resorts. As shown in Figure 1.2, nearly half of sold out resorts opened in 1985 or earlier; nearly half of active sales resorts opened between 1996 and 2005.

Figure 1.1 also shows that sold out resorts are half the average resort size of active sales resorts (84 units per sold out resort vs. 161 units per active sales resort). As noted in the recently released "State of the Vacation Timeshare Industry: United States Study 2015," timeshare developers have built increasingly larger resorts as the industry has matured. Since sold out resorts tend to be older resorts, it is not surprising that they are also much smaller resorts on average.

Figure 1.3 compares the mix of units by number of bedrooms for sold out resorts and active sales resorts. It shows that sold out resorts have a higher percentage of studio and one-bedroom units (37% vs. 26%), but fewer two-bedroom or more units.

In addition to the differences in the number and mix of units at sold out resorts, there are also differences in the ways intervals are sold and owned between sold out resorts and resorts that are still in active sales. For example, Figure 1.4 compares the distribution of interval types between the two resort types. It shows that active sales resorts are more likely to have points-based products than sold out resorts — in fact points-based is the most common product type at active sales resorts. The percentage with biennials is also higher among active sales resorts — the majority of these resorts have biennials. Sold out resorts are more likely to have weeks products and less likely to have points or biennials.

FIGURE 1.1

Key characteristics of sold out vs. active sales resorts

	Sold out resorts	Active sales resorts
Percentage of responding resorts*	44%	56%
Average year resort opened	1989	2001
Average number of units	84	161
Average occupancy (%)	80%	77%
Average maintenance fee billed ($)	$866	$895
Average nightly rental price ($)	$170	$173

**Note: These percentages are just of those resorts responding to the survey and not necessarily representative of the industry as a whole.*

FIGURE 1.2

Year resorts opened

	Percent of sold out resorts	Percent of active sales resorts
1985 or before	49%	11%
1986-1995	21%	12%
1996-2005	23%	48%
2006+	8%	30%

Percentages of 228 active sales resorts and 179 sold out resorts - percentages may not add due to rounding

FIGURE 1.3

Mix of units by number of bedrooms

	Percent of units at sold out resorts	Percent of units at active sales resorts
Studio	9%	5%
1 bedroom	28%	21%
2 bedrooms	56%	64%
3 bedrooms or more	8%	10%
Total	**100%**	**100%**

Percentages of 341 active sales resorts and 354 sold out resorts - percentages may not add due to rounding

FIGURE 1.4

Types of intervals

	Percent of sold out resorts	Percent of active sales resorts
Weeks	83%	70%
Points	50%	75%
Biennials	35%	57%

Percentages of 326 active sales resorts and 339 sold out resorts - multiple responses allowed

1 Even resorts that sold their intervals years ago may receive some intervals back from owners and sell them to new owners. This means that relatively old resorts may still have some level of sales activity, even though they are not marketing intervals. For this reason, a resort is considered to be in "active sales" in this study if it sold more than 100 intervals in 2014, and "sold out" if it sold 100 or fewer.

FIGURE 1.5

Intervals owned by type of owner

	Percent of sold out resorts	Percent of active sales resorts
Intervals owned by owners	93%	87%
Intervals owned by developers	5%	12%
Intervals owned by HOA	2%	1%
Total	**100%**	**100%**

Percentages of 250 active sales resorts and 310 sold out resorts - percentages may not add due to rounding

FIGURE 1.6

Ownership structures – owned real estate interest

	Percent of sold out resorts	Percent of active sales resorts
Deeded weeks	84%	65%
Condominium	30%	58%
Direct or indirect interest in a timeshare trust[2]	26%	30%
Undivided interest (UDI)	15%	41%
Both deeded and right-to-use	5%	12%
Interest in a cooperative corporation	2%	0%
Other	<1%	0%

Percentages of 237 active sales resorts and 261 respondents - multiple responses allowed

Figure 1.5 displays the percentage of intervals owned by different types of owners. Not surprisingly, most intervals are owned by timeshare consumers, referred to as resort owners in the industry. There is a higher percentage of intervals owned by developers at active sales resorts than at sold out resorts. This is not surprising since those resorts are more likely to have a number of intervals that are still to be sold.

Respondents also reported the interval ownership structures in place at their resorts. Resorts can be classified in one of two primary ways — those where resort owners own a real estate interest and those where they do not. Figure 1.6 lists the ownership structures typically available with a real estate interest, and Figure 1.7 shows the typical ownership structures for non-real estate interests. Deeded weeks are the dominant structure for owned real estate interests, and are more common at sold out resorts than at active sales resorts. The next most frequent selection is condominiums, which are much more prevalent at active sales resorts.

The most common structure when a real estate interest is not owned is a "right to use" contract — this is almost exclusively the structure in place for active sales resorts. Sold out resorts are more likely to report both deeded and right to use structures, and memberships.

Operating performance

In the previous section, we illustrated some of the key structural differences between sold out resorts and active sales resorts; in this section we will explore differences in performance.

In Figure 1.1, we saw that occupancy at sold out resorts averages three points higher than at active sales resorts. Figure 1.8 shows a more detailed view of occupancy. Resorts reported their average *physical* occupancy in each of these categories, meaning that actual guest check-in occurred. Not only is total occupancy three points higher for sold out resorts, but occupancy attributable to owners and/or exchange guests is approximately eight points higher. Active sales resorts derive a higher percentage of their occupancy from renters and marketing guests. This makes sense given that active sales resorts still have more unsold intervals at their resorts and are more likely seeking buyers through rental and marketing programs.

FIGURE 1.7

Ownership structures – no owned real estate interest

	Percent of sold out resorts	Percent of active sales resorts
Right to use (contract)	49%	96%
Both deeded and right to use	26%	3%
Membership	19%	0%
Leasehold	2%	1%
Other	5%	0%

Percentages of 112 active sales resorts and 43 respondents - multiple responses allowed

FIGURE 1.8

Occupancy breakouts

	Sold out resorts	Active sales resorts
Owner/owner's guest	44%	39%
Exchange guest	19%	16%
Renter	14%	15%
Marketing guest	3%	6%
Vacant	20%	23%

Percent of 285 active sales resort and 315 sold out resorts - percentages may not add due to rounding

2 Direct interests include beneficial interests, while indirect interests include equity interest in sole trust beneficiary.

FIGURE 1.9

Maintenance fee breakouts

	Sold out resorts	Active sales resorts
Studio	$542	NA
1BR	$698	$694
2BR	$884	$914
3BR+	$1,309	$1,131
Overall	**$866**	**$895**

Averages based on 273 active sales resorts and 283 sold out resorts

FIGURE 1.10

Maintenance fee delinquencies

	Sold out resorts	Active sales resorts
Current (<31 days delinquent)	90.2%	93.2%
31-60 days delinquent	0.6%	0.0%
61-90 days delinquent	0.3%	0.0%
91-120 days delinquent	1.1%	0.8%
More than 120 days delinquent	7.8%	5.9%

Percentages of 118 active sales resorts and 205 sold out resorts - percentages may not add due to rounding

FIGURE 1.11

Types of rental program offered

	Percent of sold out resorts	Percent of active sales resorts
Daily rentals	76%	79%
Weekly rentals	94%	99%
Monthly rentals	31%	22%
Rental rates that vary based on season	94%	99%
Rental programs for marketing guests	38%	52%

Percentages of 230 active sales resorts and 229 sold out resorts – multiple responses allowed

FIGURE 1.12

Publicizing rentals

	Percent of sold out resorts	Percent of active sales resorts
Resort website	83%	78%
Social media (Facebook, Twitter, etc.)	38%	58%
External rental websites (e.g., Redweek.com or SellMyTimeshareNOW.com)	16%	24%
Physical bulletin boards at resort	7%	12%
Radio	10%	16%
Newspaper	10%	13%
Television	8%	10%
Timeshare broker and/or broker website	4%	1%
Other, specify	2%	0%

Percentages of 256 active sales resorts and 263 sold out resorts - multiple responses allowed

Maintenance fees also differ between the two types of resorts. As shown in Figure 1.9, the average annual maintenance fee[3] billed was $895 per interval for active sales resorts and $866 for sold out resorts. As noted previously, active sales resorts have a lower percentage of studio and one-bedroom units, which helps drive the overall average billed maintenance fee higher. The average maintenance fee for two-bedroom units is higher at active sales resorts, which also drives higher average maintenance fees since the two bedroom unit is the most common type.

Figure 1.10 compares maintenance fee account related delinquencies, showing that delinquencies average three percentage points higher at sold out resorts than at active sales resorts.

While the average rental price is similar between the two types (Figure 1.1), the occupancy attributable to renters and marketing guests is higher for active sales resorts (Figure 1.8). As shown in Figure 1.11 this difference appears to also be reflected in the types of rental programs offered. Sold out resorts are more likely to offer monthly rentals, while active sales resorts are more likely to offer rental programs to marketing guests.

Figure 1.12 lists methods used by resorts for publicizing the availability of rentals at the property. The most commonly reported are the resort's website and social media. Active sales resorts are more likely to use social media and external rental websites.

Rental revenue is one type of operating revenue collected by timeshare resorts. Figure 1.13 compares the percentage of operating revenues collected by resorts across a number of categories. The predominant source of operating revenues for resorts is maintenance fees, followed by rentals. There is little difference in these percentages between active sales and sold out resorts.

FIGURE 1.13

Operating revenue

	Percent of sold out resorts	Percent of active sales resorts
Maintenance fees	76%	76%
Rentals	17%	18%
Housekeeping	1%	2%
Developer subsidy	0%	1%
Special assessments and other revenue sources	2%	0%
Food & beverage	1%	1%
Other	2%	2%

Percentages of 343 active sales resorts and 318 sold out resorts – percentages may not add due to rounding

3 This is the average maintenance fee billed to owners annually including contributions to reserves but excluding taxes and special assessments.

Special assessments and reserves

CHAPTER TWO

Respondents representing sold out resorts also answered a set of questions that specifically address some of their concerns. This chapter outlines the answers to those questions.

As seen in Figure 2.1, about 96% of sold out resorts did not have a special assessment in 2014 — no respondents reported multiple special assessments. The 4% reporting special assessments is down from 15% two years ago (when this question was last asked). Only 3% of sold out resorts are planning a special assessment for 2015, and only 4% reported receiving financial support from a developer.

Among the resorts that had a special assessment in 2014, Figure 2.2 shows the primary reasons for this. The most common cause was a planned refurbishment. Thirty-one percent of resorts reported a planned resort product or amenities expansion — none reported that as the cause for a special assessment two years ago. Only a handful noted that the assessment was related to unanticipated concerns such as a natural disaster or some failure of capital assets, and no resorts reported assessments due to higher than expected delinquency rates.

FIGURE 2.1

Frequency of special assessments in 2014

	Percent of resorts responding
None	96%
One	4%
Two or more times	0%

Percentages of 324 sold out resorts - percentages may not add due to rounding

FIGURE 2.2

Reasons for special assessment

	Percent of resorts responding
Planned refurbishment (NOT related to natural disaster)	48%
Planned expansion of resort product or amenities	31%
Unanticipated refurbishment (NOT related to natural disaster)	10%
Unanticipated or premature failure of capital assets (NOT related to natural disaster)	7%
Natural disaster (such as a hurricane, a flood, etc.)	3%
Unanticipated expansion of resort product or amenities	0%
Higher delinquency rate than expected	0%
Other	0%

Percentages of 29 sold out resorts - multiple responses allowed

A reserve fund study is a comprehensive plan that predicts when various capital items are expected to wear out and estimates the funds needed to be set aside for replacement. Figure 2.3 notes that 55% of sold out resorts conducted a reserve study in 2014 — 85% of resorts had conducted one in the past three years. Seventy-eight percent of resorts reported using an independent third-party to conduct their reserve study.

Figure 2.4 shows the frequency with which resorts conduct reserve studies. The most frequent response (40% of respondents) was every year — up from 25% two years ago. A total of 67% reported conducting a reserve study at least every three years. The most common "other" response given was every 3 to 5 years.

FIGURE 2.3

Year of most recent reserve study

	Percent of resorts responding
2014	55%
2013	17%
2012	13%
2011 or before	14%

Percentages of 255 sold out resorts - percentages may not add due to rounding

FIGURE 2.4

Frequency of reserve studies

	Percent of resorts responding
Have not conducted a reserve study	2%
Every year	40%
Every 2 years	2%
Every 3 years	25%
Every 4 years	7%
Every 5 years	5%
Other	19%

Percentages of 256 sold out resorts - percentages may not add due to rounding

On average, sold out resorts reported contributing 11% of billed maintenance fees to reserve funding. Figure 2.5 shows that almost three-quarters of respondents reported reserve contributions that meet or exceed the levels recommended in the most recent reserve study. Another 14% indicate that they are at least within ten percent of the recommended amount. About 12% of resorts say they are more than ten percent below the recommended amount.

Figure 2.6 shows that when contributions are below recommended amounts, the most common cause is an insufficient percentage of maintenance fees being dedicated to reserves. The percent reporting that the cause was a higher level of maintenance fees delinquencies was 26% — down from 64% two years ago. All but two of these respondents reported that they did not take any action, such as a special assessment, to make up for the shortfall in reserves.

Estimated total reserve funding is defined as the amount that would be necessary to completely replace all items contained in the reserve study to the extent an amount or portion thereof should have been set aside for the item as of a certain date. For example — if the reserve study stated the roof would cost $50,000 to replace and it was at half its estimated useful life, your reserve should contain 50% of the costs of roof replacement, or $25,000 on average. The average reserve balance held by resorts was 43% of estimated total reserve funding, up from 37% on average two years ago. Figure 2.7 shows a distribution of the total reserve funding kept on hand by resorts. The percent reporting 80%+ was 23% — up from 8% two years ago.

FIGURE 2.5

Sufficiency of reserve funding from maintenance fees

	Percent of resorts responding
At or above the level recommended in the study	74%
10% or less below	14%
More than 10% below	12%

Percentages of 246 sold out resorts - percentages may not add due to rounding

FIGURE 2.6

Causes for insufficient contributions to reserves

	Percent of resorts responding
The percentage of maintenance fees dedicated to reserves was not sufficient	35%
Resorts experienced a higher level of maintenance fee delinquencies than expected	26%
Reserve fund expenditures were higher than expected	24%
Other	15%

Percentages of 97 sold out resorts - percentages may not add due to rounding

FIGURE 2.7

Percent of total reserve funding on hand

	Percent of resorts responding
Less than 20%	26%
20 to 29%	19%
30 to 39%	14%
40 to 49%	7%
50 to 59%	5%
60 to 79%	5%
80%+	23%

Percentages of 255 sold out resorts - percentages may not add due to rounding

Appendix Methodology

Data for the results presented here come from responses to the 2015 State of the Vacation Timeshare Industry United States Survey, sponsored by the ARDA International Foundation (AIF). This survey was conducted on behalf of the AIF by Ernst & Young (EY).

EY designed, built and distributed a password-secured, web-based survey questionnaire for data collection at the resort level. Data providers with multiple resorts received a corresponding version in Microsoft Excel. Individual responses to all questions were kept completely confidential. Only EY professionals responsible for the survey had access to individual survey responses. EY used the survey responses to produce most of the estimates detailed in this study – other sources are cited as appropriate.

All identified timeshare resorts[4] in the US were sent a survey questionnaire. Of the 1,555 identified timeshare resorts, 765 responded – a 49% response rate. Of these 765 responding resorts, 644 belong to a family of ten or more resorts, while 121 belong to a family of less than ten resorts. Of these 121, 70 were single site developers. In general, the information in this report includes estimates of industry-wide metrics. The lone exception is the estimate of construction activity, which is reported only for those responding to the survey and not extrapolated to the universe of timeshare resorts.

As part of the questionnaire, respondents answered a set of questions that specifically address some of the concerns of sold out resorts. This information focused mainly on reserve funding and special assessments. Among resorts that indicated that they were not in sales, 395 resorts provided data on the management of sold out resorts.

4 List of timeshare resorts maintained and provided by AIF. Please see *State of the Vacation Timeshare Industry: United States Study 2015* for more information about the methodology for identifying timeshare resorts.

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