2010
EXECUTIVE SUMMARY

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FINANCIAL PERFORMANCE 2010:
A Survey of Timeshare & Vacation Ownership Companies

Prepared by: Deloitte.

2010 EDITION

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A Survey of Timeshare & Vacation Ownership Companies

This study is an estimate of key metrics that provide an overview of the vacation timeshare industry in the United States. It is not a comment on any individual company, whose performance may vary from the information included in this study.

EXECUTIVE SUMMARY

The following summarizes key results of the study:

Sales activity

- **Net originated sales for all geographic regions declined 27.8 percent, with U.S. locations reporting a 28.3 percent decline from 2008 to 2009.** In total, the 26 respondents that provided sales information reported $5.09 billion in net originated timeshare sales for all geographic regions combined in 2009. Of the $5.09 billion of net originated timeshare sales in 2009, $4.64 billion — or 91.1 percent of such sales — occurred at U.S. locations and 8.9 percent occurred at non-U.S. locations.
- **Interval sales represented 55.0 percent of the $4.64 billion of net originated sales reported by U.S. locations.**
- **The significant decrease in U.S. net originated sales from 2008 to 2009 can be attributed to the economic recession and credit crisis over the past two years.**
- **For the *core company set*[1] in aggregate, net originated sales were considerably less than the same quarter of 2008.** However, throughout the year, there was a reduction in the percentage of decline from 37.0 percent in the first quarter to 14.5 percent in the fourth quarter.
- **Net originated sales at U.S. locations averaged $31.9 million per resort in active sales.**
- **Unsold weeks held in inventory increased 0.8 years to an equivalent of 2.2 years in 2009 for the *core company set*.**
- **The average yield per week increased in 2009, with a weighted average yield of $25,589.**[2] The *core company set* reported an average increase in the weighted average yield of a timeshare week of 8.6 percent from 2008 to 2009.
- **Sales tours and average transaction value decreased, while net close rates improved.** In 2009, respondents reported hosting 2 million sales tours, compared to 3 million sales tours in the previous year. Respondents achieved an average net closing rate of 15.8 percent, which was 1.0 percentage point higher than the 14.8 percent reported for 2008. During the year, average volume per guest increased from $2,448 in 2008 to $2,501 in 2009, while average transaction value decreased from $17,756 to $16,431, respectively. The *core company set* reported an increase in net close rates from 14.6 percent in 2008 to 15.5 percent in 2009.[3]
- **A greater share of net originated sales, by dollar value, was attributable to upgrade sales than in 2008.** Upgrade sales accounted for 30.8 percent of sales volume at U.S. locations in 2009, compared to 27.0 percent in 2008. Respondents reported that average transaction value for non-upgrade sales was $17,091 and for upgrade sales was $16,391 in 2009 .
- **Rescissions, as a portion of gross sales, increased 1.6 percentage points in 2009**. Respondents reported a greater reduction of revenue for rescissions, which averaged 11.8 percent in 2008 compared to 13.4 percent in 2009.

Sales tours metrics by company category, 2009, U.S.

		Company size			Average yield per week		
	All Respondents	$250 million or more	$25 million to $249 million	Less than $25 million	$25,000 or more	$15,000 to $24,999	Less than $15,000
Number of tours	2,020,768	1,412,086	563,000	45,682	414,745	1,261,749	86,034
Number of sales transactions	301,519	206,545	87,611	7,363	60,036	177,820	13,295
Net close rate	15.8%	15.6%	16.1%	16.9%	17.0%	14.2%	15.9%
Net originated sales excluding telesales (millions)	$4,369	$3,374	$915	$80	$1,337	$2,424	$144
Volume per guest (VPG)	$2,501	$2,706	$1,764	$2,255	$3,701	$2,000	$1,904
Average transaction value	$16,431	$17,965	$11,041	$13,239	$22,791	$14,538	$11,778

Source: Deloitte & Touche LLP based on a minimum of 21 company survey responses.

1 A core group of companies reported detailed information for both 2008 and 2009, providing year-in and year-out results that yield a stable perspective on industry trends. Wherever appropriate, information reported by this "core company set" has been presented to benchmark year-to-year trends from 2008 to 2009, based on a consistent set of respondents.

2 The average yield per week measure is calculated as net originated sales revenue divided by the number of weeks sold.

3 Note: The average transaction values for upgrade and non-upgrade sales are based on figures provided by respondents who provided detailed information on upgrade and non-upgrade sales and may not correspond to weighted average figures provided in other sections.

Key ratios

- **Estimated uncollectible sales, as a portion of net originated sales, averaged 17.3 percent in 2009.**
- **Product costs, as a portion of net originated sales, averaged 23.8 percent in 2009.**
- **Costs related to sales and marketing decreased, averaging 41.8 percent of net originated sales.** Total sales and marketing costs, as a portion of net originated sales, averaged 41.8 percent in 2009. Total sales and marketing costs reported by the *core company set* decreased from 44.0 percent in 2008 to 41.8 percent in 2009.
- **General and administrative costs, as a portion of net originated sales, averaged 7.4 percent in 2009.**
- **Home owner association (HOA) subsidies and maintenance fees for unsold units net of rental revenues, as a portion of net originated sales, averaged 1.2 percent in 2009.**
- **Operating profit margin on timeshare sales operations decreased, averaging 8.5 percent.** This margin represents only timeshare sales operations, and excludes profit generated by the consumer financing and resort management components of many timeshare development companies. Twenty-five percent of respondents reported negative pre-tax margins, which may reflect short term timing impacts, the impact of slowing sales pace, or other factors that do not represent the long-term stabilized profit margin of the business.
- **Respondents reported that 43.3 percent of timeshare sales, by dollar value, in 2009 were to buyers who already owned at least one timeshare interest at the company.**

Key ratios as a percentage of net originated sales value, 2009, U.S.

	All respondents	Interval companies	Points companies	Public companies	Private companies
Estimated uncollectible sales	17.3%	13.7%	21.8%	18.2%	15.7%
Cost of sales, also referred to as product cost	23.8%	27.7%	19.0%	22.5%	26.2%
Sales commissions	14.1%	12.1%	16.5%	15.1%	12.3%
Other sales and marketing costs to sell timeshare intervals or points	27.7%	32.9%	21.2%	25.0%	32.6%
Sub-total: Sales commissions and other sales and marketing costs	41.8%	45.0%	37.7%	40.1%	44.9%
General and administrative costs related to timeshare sales operations	7.4%	6.5%	8.5%	7.3%	7.5%
HOA subsidies and/or maintenance fees	1.2%	1.3%	1.2%	0.5%	2.4%
Pre-tax margin of timeshare sales operations	8.5%	5.8%	11.8%	11.4%	3.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Deloitte & Touche LLP based on 24 company survey responses.

Hypothecation of receivables

- **The average interest rate and the average advance rate decreased when compared to 2008.** Sixteen respondents provided information on hypothecations of receivables that occurred during 2009, totaling $1.06 billion. Respondents that provided information on the interest rate paid reported paying a weighted average interest rate of 5.2 percent in 2009 for funds borrowed against the receivables.

Portfolio sales and securitizations

- **The average transaction size of securitizations increased, while advance rates and average interest rates declined.** The 17 separate securitization transactions reported by survey respondents in 2009, represented a total value of $2.3 billion, measured as the gross value of the sales contracts securitized.

Consumer financing and receivables portfolio performance

- **Of the net originated timeshare sales at U.S. locations in which respondents provided financing information on $3.9 billion of net originated sales, $2.1 billion was financed by respondents.** Approximately 53.8 percent of the dollar value of net originated timeshare sales at U.S. locations was financed in 2009. Respondents reported that, in 2009, the average interest rate on new loans to consumers was 13.8 percent, the average down payment associated with non-upgrade sales was 16.3 percent of the contract price, and the average down payment associated with upgrade sales, including the equity in their existing vacation ownership interest, was 49.0 percent of the contract price.
- **Higher average down payments countered the slight increase in the interest rate on new consumer loans.** For the *core company set*, the interest rate on new consumer loans in 2009 was 13.7 percent, slightly above the interest rate of 13.4 percent reported in 2008, on a weighted average basis. As a percentage of contract prices, average down payments on non-upgrade sales in the *core company set* increased from 14.6 percent in 2008 to 16.5 percent in 2009 and average down payments on upgrade sales in the *core company set* increased from 45.8 percent in 2008 to 51.1 percent in 2009.
- **Current receivables decreased 1.5 percentage points, while those more than 60 days delinquent increased by 1.8 percentage points.**
- **Gross defaults, as a portion of the gross outstanding portfolio balance at year-end, averaged 8.9 percent in 2009.**
- **The weighted average allowance for uncollectible accounts, as a portion of gross outstanding portfolio balance at year-end, was 13.5 percent in 2009.**
- **The average interest rate on loans held in portfolios increased by 0.1 percentage points, while the average term decreased by 2 months.** The weighted average interest rate on timeshare consumer loans held in portfolios at year-end was 13.9 percent in 2009; and the weighted average term to maturity for loans held was 99.0 months.
- **The weighted average general and administrative costs of financing operations, as a portion of outstanding portfolio balance, was 1.1 percent in 2009.**
- **The weighted average static pool default rate, as reported by 19 respondents, was 19.3 percent in 2009.**
- **The static pool default rate distribution by FICO score (the static pool default percentages sorted by FICO score range at the time the loan was made to purchasers) shifted from lower FICO scores to higher FICO scores in 2009.** In 2009 and 2008 31.5 percent and 40.0 percent, respectively, of the static pool default rate was for purchasers that had FICO scores below 600 at the time of their purchase.

Performance of consumer receivables portfolios at year-end, 2008 and 2009, all geographies

	2008	2009
Current	89.4%	87.9%
31 to 60 days	2.7%	2.4%
61 to 90 days	1.6%	1.4%
91 to 120 days	1.3%	1.3%
More than 120 days	5.0%	7.0%

Source: Deloitte & Touche LLP based on 26 company survey responses.

FICO scores

- **A majority of the respondents, 76.9 percent, reported that they utilize FICO scoring in their underwriting criteria, which increased from 69.2 percent in 2008.**
- **The weighted average FICO score on loans held in receivables portfolios at year-end, as reported by respondents, was 683.** For the *core company set*, the weighted average FICO score for loans held in the 15 respondents' receivables portfolios at calendar year end 2009 was 683, representing a slight increase from the score of 678 at calendar year end 2008, as reported by the same respondents.

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