

2013 EXECUTIVE SUMMARY



The MANAGEMENT *of* SOLD OUT RESORTS

State of the Vacation Timeshare Industry: United States Study

The MANAGEMENT of SOLD OUT RESORTS

State of the Vacation Timeshare Industry: United States Study

EXECUTIVE SUMMARY

In the timeshare industry, there is often a great deal of difference between the management of resorts that are still selling intervals (“in-sales” resorts) versus those that have sold all, or most, of their intervals (“sold out” resorts). Even resorts which 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 sales” if it sold more than 100 intervals in 2012, and “sold out” if it sold 100 or fewer.

This summary explores the characteristics and management structures of sold out resorts and discusses the unique challenges of operating them. It begins with a comparison of sold out resorts to resorts that are still in sales, and then moves to a discussion of reserve funds and special assessments.

Sold out resorts vs. resorts that are still in-sales

Figure 1 illustrates some of the differences between resorts that are in-sales versus sold out resorts. As shown, sold out resorts tend to be older and smaller resorts — sold out resorts average about half the number of units as resorts that are still in sales. Sold out resorts also have lower average maintenance fees and rental prices, but have higher occupancy rates.

Besides these characteristics, there are some structural differences between sold out resorts and resorts in active sales. For example, Figure 2 shows that points based products and biennials are less common at sold out resorts than at resorts still in active sales, while weeks products are more common. For sold out resorts where real estate interests are owned, 88% report that the deeded weeks structure is present, compared to only 64% at resorts that are still in sales.

Figure 3 shows that sold out resorts are more likely to be managed by a 3rd party company than resorts that are still in sales, while in-sales resorts are more likely to be managed by a company affiliated with the developer. Not surprisingly, sold out resorts have a higher percentage of intervals owned by individual owners (92%) than resorts that are still in sales (86%).

Figure 4 compares the sources of operating revenue for the two types of resorts, revealing few significant differences. For both groups, maintenance fees are the primary source of income, followed by rental revenues. Not surprisingly, resorts in active sales receive a higher percentage of their revenues from developer subsidies, but even this difference is not substantial.

Figure 1 Key characteristics of sold out vs. in-sales resorts

Metric	Sold out resorts	Resorts still in sales
Percentage of responding resorts*	51%	45%
Average year resort opened	1990	1999
Average number of units	84	165
Average maintenance fee billed (\$)	\$809	\$861
Average nightly rental price (\$)	\$150	\$173
Average occupancy (%)	79%	75%

*Note: These percentages are just of those resorts responding to the survey and not necessarily representative of the industry as a whole. Also, some of the responding resorts were under construction and did not fall into either of these two categories.

Figure 2 Types of intervals

Metric	Sold out resorts	Resorts still in sales
Weeks	82%	66%
Points	65%	70%
Biennials	29%	57%

Figure 3 Management structure of sold out vs. in-sales resorts

Metric	Sold out resorts	Resorts still in sales
Company affiliated with the resort developer	53%	66%
3rd party management company	27%	9%
Self-managed by HOA(s)	20%	18%

Figure 4 Sources of operating revenue at sold out resorts vs. in-sales resorts

Metric	Sold out resorts	Resorts still in sales
Maintenance fees	74%	73%
Rentals	20%	20%
Housekeeping	1%	1%
Special assessments and other revenue sources	1%	1%
Developer subsidy	<1%	2%
Food & beverage	<1%	<1%
Other	3%	2%

Reserves and Special Assessments

As noted in Figure 1, the average billed maintenance fee for sold out resorts was \$809 per timeshare interval. On average, resorts reported that 18% of the maintenance fee payments go to reserve funding. How do resorts determine whether or not their contributions to reserves are sufficient? One tool used by most resorts is a reserve study. A reserve fund study is a comprehensive plan that predicts when various capital items are expected to wear out and estimates the funds set aside for replacement. Figure 5 notes that 63% of resorts conducted a reserve study in 2012 — 92% of resorts had conducted one in the past three years. Note that almost all (94%) resorts reported using an independent third-party to conduct their reserve study.

More than 85% of respondents indicated that their contributions to reserves from maintenance fees meet or exceed the levels recommended in the most recent reserve study. Among those resorts whose contributions are below recommended amounts, maintenance fee delinquencies are the most common cause. All but one of these respondents reported that they did not take any action, such as a special assessment, to make up for the shortfall in reserve contributions.

However, about 15% of sold out resorts did levy a special assessment in 2012 and nearly all of these respondents (97%) reported that the special assessment was related to a planned refurbishment. Only a handful reported that the assessment was related to unanticipated concerns such as a natural disaster, a failure of capital assets or delinquent maintenance fees.

Figure 6 contains a distribution of reserve fund balances held by resorts, on a per unit basis. As shown, there is a great deal of variability in the reserve balances held by resorts. Reserve fund balances tend to vary significantly by state and region. For example, Hawaiian resorts tend to have relatively high reserve fund balances — half of these resorts have reserve balances of \$25,000 or more per unit. By contrast, resorts in South Carolina have relatively low reserve balances, with 86% having balances of less than \$10,000 per unit. Resorts in the Northeast also have relatively low reserve balances — 89% of respondents there reported reserve balances below \$10,000 per unit.

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 37% of estimated total reserve funding. Figure 7 shows a distribution of the total reserve funding kept on hand by resorts.

Figure 5 **Year of most recent reserve study**

Year	Percent of resorts responding
2012	63%
2011	8%
2010	21%
2009 or before	8%

Percent of 248 resorts – percentages may not add due to rounding

Figure 6 **Reserve funds per unit**

Reserve funds per unit	Percent of resorts responding
Less than \$5,000	22%
\$5,000 – \$9,999	19%
\$10,000 – \$14,999	10%
\$15,000 – \$19,999	25%
\$20,000 – \$24,999	3%
\$25,000 +	21%

Percent of 212 resorts – percentages may not add due to rounding

Figure 7 **Percent of total reserve funding on hand**

Reserve funding on hand	Percent of resorts responding
Less than 20% of total estimated reserve funding	27%
20 to 29%	15%
30 to 39%	9%
40 to 49%	28%
50 to 59%	4%
60 to 79%	9%
80%+	8%

Percent of 159 resorts – percentages may not add due to rounding

Methodology

Data for the results presented here come from responses to the *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 resorts¹ in the U.S. were sent a survey questionnaire. Of the 1,551 timeshare resorts identified, 709 responded — a 46% response rate. Of these 709 responding resorts, 621 belong to a family of ten or more resorts, while 88 belong to a family of less than ten resorts. Of these 88, 42 were single site developers.

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, 254 resorts provided data on the management of sold out resorts.

¹ List of timeshare resorts maintained and provided by the AIF.

Use of Information Provided by AIF:

The information provided by the ARDA International Foundation is intended to give the reader general information regarding the industry and it does not constitute legal or other professional advice. The information should not be relied upon in making any determinations about a specific matter or issue. If you require counsel on a specific matter or issue, please contact the appropriate professional.

©Copyright 2013, the ARDA International Foundation. All rights reserved.

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means electronic, mechanical or otherwise, including photocopying, distribution by facsimile, re-creation as an electronic document by computer scan, etc., without securing prior written permission from the ARDA International Foundation. Send inquiries or requests to reproduce to: ARDA International Foundation, 1201 15th Street NW, Suite 400, Washington, D.C., 20005.

MEMBER \$25 | NON-MEMBER \$50

*The Management of Sold Out Resorts
State of the Vacation Timeshare
Industry: United States Study*

*Special thanks to our
Presenting Sponsor*



ISLAND ONE
RESORTS



ARDA International Foundation

1201 15th Street NW, Suite 400
Washington, DC 20005
(202) 371-6700
(202) 289-8544 fax

www.arda.org