The Management of Sold Out Resorts

2017

STATE OF THE VACATION TIMESHARE INDUSTRY:
UNITED STATES STUDY

EXECUTIVE SUMMARY

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PREPARED BY EY

AIF
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Comparison of sold out and active sales resorts

CHAPTER ONE

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. It begins in Chapter 1 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 lower average occupancy and maintenance fees and
- have higher average rental prices.

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

FIGURE 1.1

Key characteristics of sold out vs. active sales resorts

	Sold out resorts	Active sales resorts
Percentage of responding resorts*	43%	57%
Average year resort opened	1988	2002
Average number of units	92	164
Average occupancy (%)	76%	80%
Average maintenance fee billed ($)	$900	$1,020
Average nightly rental price ($)	$254	$175

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

Structure of units and intervals

As noted in Figure 1.1, in sales resorts opened on average 14 years later than sold out resorts. As shown in Figure 1.2, more than half of sold out resorts opened in 1985 or earlier — however, nearly 80% of active sales resorts have opened since 1996.

Figure 1.1 also shows that, on average, active sales resorts have twice as many timeshare units as sold out resorts (164 units per active sales resort vs. 92 units per sold out resort). As noted in the recently released State of the Vacation Timeshare Industry: United States Study 2017, 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 one bedroom units and fewer two or three bedroom units.

FIGURE 1.2

Year resorts opened

	Percent of sold out resorts	Percent of active sales resorts
1985 or before	52%	4%
1986-1995	21%	18%
1996-2005	20%	41%
2006+	6%	37%

Percentages of 242 active sales resorts and 128 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	7%	7%
1 bedroom	25%	22%
2 bedrooms	60%	62%
3 bedrooms or more	8%	10%
Total	**100%**	**100%**

Percentages of 363 active sales resorts and 287 sold out resorts — percentages may not add due to rounding

1 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" in this study if it sold more than 100 intervals in 2016, and "sold out" if it sold 100 or fewer.

FIGURE 1.4
Types of intervals

	Percent of sold out resorts	Percent of active sales resorts
Weeks	80%	67%
Points	46%	80%
Biennials	33%	59%

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

FIGURE 1.5
Intervals owned by type of owner

	Percent of sold out resorts	Percent of active sales resorts
Intervals owned by owners	92%	83%
Intervals owned by developers	4%	11%
Intervals owned by HOA	3%	6%
Total	**100%**	**100%**

Percentages of 242 active sales resorts and 214 sold out resorts — percentages may not add due to rounding

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 1.5 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.

Operating performance

The previous section described key structural differences between sold out resorts and active sales resorts; in this section, we will explore differences in operating performance.

In Figure 1.1, we saw that occupancy at sold out resorts averages four points lower than at active sales resorts. Figure 1.6 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. Occupancy attributable to owners and/or exchange guests is approximately seven points lower at sold out resorts — exchange guests account for a higher portion of occupancy in sold out resorts. On the other hand, active sales resorts derive a higher percentage of their occupancy from renters and marketing guests (21% at active sales resorts vs. 18% at sold out resorts). 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.

Maintenance fees also differ between the two types of resorts. As shown in Figure 1.7, the average annual maintenance fee[2] billed was $1,020 per interval for active sales resorts and $900 for sold out resorts. As noted previously, active sales resorts have a lower percentage of 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 overall average maintenance fees since the two bedroom unit is the most common type.

FIGURE 1.6
Occupancy breakouts

	Sold out resorts	Active sales resorts
Owner/Owner's guest	39%	46%
Exchange guest	20%	13%
Renter	14%	15%
Marketing guest	4%	6%
Vacant	24%	20%

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

FIGURE 1.7
Maintenance fee breakouts

	Sold out resorts	Active sales resorts
Studio	$540	$610
1BR	$750	$760
2BR	$940	$1,030
3BR+	$1,260	$1,280
Overall	**$900**	**$1,020**

Averages based on 284 active sales resorts and 206 sold out resorts

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

FIGURE 1.8

Maintenance fee delinquencies

	Sold out resorts	Active sales resorts
Current (<31 days delinquent)	89.0%	90.8%
31-60 days delinquent	0.5%	0.4%
61-90 days delinquent	0.4%	0.3%
91-120 days delinquent	2.2%	1.0%
More than 120 days delinquent	7.9%	7.6%

Percentages of 166 active sales resorts and 127 sold out resorts — percentages may not add due to rounding

FIGURE 1.9

Types of rental program offered

	Percent of sold out resorts	Percent of active sales resorts
Daily rentals	89%	99%
Weekly rentals	67%	67%
Monthly rentals	31%	26%
Rental rates that vary based on season	92%	99%
Rental programs for marketing guests	20%	58%

Percentages of 303 active sales resorts and 203 sold out resorts — multiple responses allowed

FIGURE 1.10

Publicizing rentals

	Percent of sold out resorts	Percent of active sales resorts
Resort website	71%	81%
OTAs	61%	80%
Social media (Facebook, Twitter, etc.)	34%	64%
External rental websites (e.g., Redweek.com or SellMyTimeshareNOW.com)	18%	29%
Television	13%	8%
Radio	8%	11%
Physical bulletin boards at resort	8%	5%
Blogs	6%	7%
Timeshare broker and/or broker website	2%	1%
Newspaper	1%	1%
Other	3%	13%

Percentages of 369 active sales resorts and 249 sold out resorts — multiple responses allowed

Figure 1.8 compares maintenance fee account related delinquencies, showing that delinquencies average nearly two percentage points higher at sold out resorts than at active sales resorts.

The use of timeshare rentals varies significantly between the two types of resorts. As noted previously, the average rental price is higher for sold out resorts (Figure 1.1), while the occupancy attributable to renters and marketing guests is higher for active sales resorts (Figure 1.6). Figure 1.9 lists the types of rental programs offered. Sold out resorts are more likely to offer monthly rentals, while active sales resorts are much more likely to offer rental programs for marketing guests.

Figure 1.10 lists methods used by resorts for publicizing the availability of rentals at the property. The most commonly reported are the resort's website, OTAs and social media. Active sales resorts are more likely to use resort website, OTAs, social media and external rental websites.

Rental revenue is one type of operating revenue collected by timeshare resorts. Figure 1.11 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. Sold out resorts tend to rely more on rentals than resorts in active sales.

FIGURE 1.11

Operating revenue

	Percent of sold out resorts	Percent of active sales resorts
Maintenance fees	77%	84%
Rentals	12%	6%
Housekeeping	1%	4%
Developer subsidy	0%	2%
Special assessments and other revenue sources	1%	<1%
Food & beverage	<1%	<1%
Other	5%	3%

Percentages of 368 active sales resorts and 273 sold out resorts — percentages may not add due to rounding

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 97% of sold out resorts did not have a special assessment in 2016 — no respondents reported multiple special assessments. The 3% reporting special assessments is down from 4% two years ago (when this question was last asked). Among the resorts that had a special assessment in 2016, the most common cause was a planned refurbishment. Only 3% of sold out resorts are planning a special assessment for 2017.

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 2.2 notes that 47% of resorts conducted a reserve study in 2016 — 71% of resorts had conducted one in the past three years. Eighty-six percent of resorts reported using an independent third party to conduct their reserve study.

FIGURE 2.1

Frequency of special assessments in 2016

	Percent of resorts responding
None	97%
One	3%
Two or more times	0%

Percent of 229 resorts — percentages may not add due to rounding

FIGURE 2.2

Year of most recent reserve study

	Percent of resorts responding
2016	47%
2015	11%
2014	13%
2013 or before	29%

Percent of 168 resorts — percentages may not add due to rounding

Figure 2.3 shows the frequency with which resorts conduct reserve studies. The most frequent response (30% of respondents) was every three years — 71% of respondents report conducting a reserve study at every three to five years.

On average, resorts reported contributing 20% of billed maintenance fees to reserve funding. Figure 2.4 shows that 72% 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 13% of resorts say they are more than ten percent below the recommended amount.

FIGURE 2.3

Frequency of reserve studies

	Percent of resorts responding
Have not conducted a reserve study	0%
Every year	16%
Every 2 years	3%
Every 3 years	30%
Every 4 years	21%
Every 5 years	20%
Other	10%

Percent of 80 resorts — percentages may not add due to rounding

FIGURE 2.4

Sufficiency of reserve funding from maintenance fees

	Percent of resorts responding
At or above the level recommended in the study	72%
10% or less below	14%
More than 10% below	13%

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

Figure 2.5 shows causes for contributions that are below recommended amounts. Thirty-two percent cited that reserve expenditures were higher than expected; 32% cited a higher level of maintenance fees delinquencies and 27% that the percent of maintenance fees dedicated to reserves was not sufficient. No respondents reported taking 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. Figure 2.6 shows a distribution of the total reserve funding kept on hand by resorts.

FIGURE 2.5

Causes for insufficient contributions to reserves

	Percent of resorts responding
Reserve fund expenditures were higher than expected	32%
Resorts experienced a higher level of maintenance fee delinquencies than expected	32%
The percentage of maintenance fees dedicated to reserves was not sufficient	27%
Other	9%

Percent of 22 resorts — percentages may not add due to rounding.
Please guard against drawing strong conclusions given low respondent count.

FIGURE 2.6

Percent of total reserve funding on hand

	Percent of resorts responding
Less than 20%	26%
20 to 29%	12%
30 to 39%	11%
40 to 49%	8%
50 to 59%	17%
60 to 79%	15%
80%+	11%

Percent of 115 resorts — percentages may not add due to rounding

Appendix Methodology

Data for the results presented here come from responses to the 2017 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[3] in the US were sent a survey questionnaire. Of the 1,558 identified timeshare resorts, 710 responded — a 46% response rate. Of these 710 responding resorts, 601 belong to a family of ten or more resorts, while 109 belong to a family of less than ten resorts. Of these 109, 68 were single site resorts. 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, 281 resorts provided data on the management of sold out resorts.

3 List of timeshare resorts maintained and provided by AIF. Please see State of the Vacation Timeshare Industry: United States Study 2017 for more information about the methodology for identifying timeshare resorts.

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The ARDA International Foundation gratefully acknowledges the sponsors whose financial contributions made this study possible.

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