



## Cash-Flow Modeling And Market Feasibility

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**A** timeshare market-feasibility study and cash-flow projection serves as the cornerstone for timeshare valuations of proposed developments.

HVS Timeshare Consulting Services (a division of HVS International) built a new, state-of-the-art timeshare cash-flow financial model to help developers create realistic monthly cash-flow projections. Since timeshare revenues and expenses are incurred on a monthly basis, all calculations should be done on a monthly basis for a cash-flow projection to reflect a realistic scenario. The model also needs to be flexible to assess all real world variables and a wide variety of development scenarios.

Cash-flow modeling is an important part of a timeshare project's initial planning stages. On a front-end basis, projected cash-flow information serves a decision-making tool and will help a developer create an adequate business plan. If the developer is familiar with the timeshare market where a resort is proposed and has performed basic due diligence on a reasonable timeshare interval pricing and expense expectations, he can request a preliminary financial projection even before conducting a detailed market-feasibility study.

### Critical Information

Because of the number inter-related variables affecting a project's cash flows, professional cash-flow modeling will provide a timeshare developer with critical business decision making information. A sample list of information that a developer can obtain from the HVS timeshare cash-flow model follows:

- How much equity the developer will need to raise for his project and/or whether the equity now available is adequate to fulfill the project's goals.
- The total number of units the developer will be able to build with a specific limited amount of equity capital.
- The monthly cash-flow deficit periods expected to occur during the year (which would not be identified from an

annual cash-flow projection if the project has a positive annual cash-flow balance).

- Monthly construction loan proceeds and estimated repayments broken down between interest and principal.
- The difference in the project's overall average price and sales revenue if the developer includes biennials as part of the sales inventory.
- The monthly receivable-loan proceeds and repayment, based on a specified hypothecation-loan advance rate, interest rate, and fees. The receivable-loan proceeds also may be programmed to reflect any required seasoning of the consumer notes and split fundings on the advance rate.
- The construction-loan balance, receivable-loan balance, and resulting net portfolio balance at any time during the project's sales window.

### Component of Feasibility

Cash-flow modeling also is a major component of a timeshare financial feasibility study, often used as marketing tool to attract equity investment. A timeshare financial feasibility study requires a number of sequential steps, including fieldwork and analysis to complete a market feasibility analysis, prior to generating financial projections. Based on the market feasibility conclusions, a complex financial cash-flow projection can be prepared.

The scope of a market feasibility study typically includes:

- A physical inspection of the development site
- Analysis of the immediate neighborhood and overall area.
- Assessing timeshare supply and demand and the competitive product.
- Determining whether the proposed timeshare product will fit the existing timeshare market.

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- Reviewing the development's marketing and sales plan (if available).
- Suggesting a product mix of unit types and related seasonal time periods.
- Estimating the average price for each element in the product mix and the annual sales pace the development will achieve.

The cash-flow projections generate an overall cash inflow and cash outflow statement that serves as the basis from which each

of the three main components of the timeshare business - sale of the timeshare intervals, the treasury operation, and resort operations - can be analyzed and valued individually.

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### DEFINITIONS

Occupancy:	Rooms sold divided by rooms available.
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

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