

# VOIC Speaks of Optimism and Stability During Economic Crisis

📅 October 17, 2008 / 👤 By Daniel S Taccone

The beginning of October 2008 will long since be remembered as one of the worst periods of our nation's economic history. The stock market plummeted to historical lows substantially decreasing the net worth of millions of individuals across the world. The positive effects of the \$700-billion bailout plan were skeptical at best and it seemed that each day brought the bankruptcy of some well-known banking institution. Perhaps this was not the best period in which to hold an investment conference, or maybe, it was exactly the type of event needed to stimulate growth and optimism in developers and investors seeking to diversify their hospitality-driven projects.

HVS Shared Ownership Services, which specializes in consulting and valuation, and resort development services for vacation ownership, fractional developments, private residence clubs, and mixed-use developments, has been a patron sponsor of the Vacation Ownership Investment Conference since its inception 10 years ago. This article provides insights into the topics covered during the conference's 10th anniversary, including an explanation of what the conference entails, an overview of the timeshare and fractional ownership industry, and historical industry performance and future outlooks. Given the variety of vacation ownership developments that are anchored or affiliated with a traditional hotel product, we have also included highlights on the state of the US lodging industry as provided by Smith Travel Research.

## **Vacation Ownership Investment Conference**

As the credit crunch continues to eliminate many hospitality developments from their eventual execution, the necessity to diversify each development by utilizing a mixed-use model of varying products becomes a more viable option as compared to a singularly focused hotel development. The Vacation Ownership Investment Conference (referred to as VOIC), was designed to provide developers and potential investors with the necessary tools and networking opportunities to intelligently and effectively enter into the vacation ownership industry. The event brings together the essential entities for successful timeshare, fractional, and private residence club (PRC) developments including consulting, branding, designing, financing, marketing, sales, management, and an abundance of market research. VOIC also provides an opportunity to learn first-hand from some of the industry's most prominent executives from companies and firms such as Interval International, Marriott Vacation Club International, PriceWaterhouseCoopers, Baker Hostetler, Smith Travel Research, and HVS; all of which share an association with the American Resort Development Association, the industry's Washington D.C.-based professional association representing vacation ownership and resort development. Although recent economic news could have set the tone for a rather gloomy outlook on the future of the vacation ownership industry, the overall attitude of speakers and panelists was that of optimism and continued stability.

## **Timeshares**

Timeshares (also referred to as vacation ownership), as broadly defined by David Callaghan of Interval International, essentially entails the sale of a vacation accommodation in increments of one week (or a points based equivalent) for the minimum use right of three years. Public perception of the timeshare industry has changed significantly over the last decade due to marketing shifts that placed emphasis on a more genuine sales approach versus the stereotypical experience of being pushed by aggressive sales associates. Lani Kane-Hanan, Vice President of Marriott Vacation Club International, explained that public perception has changed largely because of timeshare developments' affiliations with internationally renowned hotel brands. These well-known and respected brands have helped gain consumer trust and have provided much needed credibility to the timeshare industry. In financial terms, total timeshare sales equated to \$10.6-billion in 2007, an increase of 6.0% over the previous year. According to Scott Berman of PriceWaterhouseCoopers, the weighted average interval price equated to \$19,692 in 2007, which represents an increase of 42.3% over the 2003 weighted average of

### Summary

Celebrating its 10th Anniversary, the Vacation Ownership Investment Conference held in Orlando, Florida, from October 6th-9th, presented a rather optimistic outlook of the future of the vacation ownership industry.

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\$13,840 and 6.4% over the previous year's average of \$17,347. Mr. Berman also stated that while total revenue has increased, so also have expenses. In 2007, product costs grew from 26.0% to 26.5%. Sales and marketing costs represent the most substantial expense in the sale of a timeshare interval and increased from 43.8% of total sales to 44.1% in 2007. Due to the vast inventory of timeshare intervals that each development must sell, a tremendous sales and marketing effort is required leading to these substantial, but necessary, costs. General and administrative expenses also increased to 7.4% of total sales revenue as compared to 7.1% in 2006.

#### **Fractionals, Private Residence Clubs (PRC), and Destination Clubs**

Fractionals and private residence clubs are sold in blocks of time in excess of two-week intervals and typically function as an alternative to a second home. According to The Shared-Ownership Resort Real Estate Industry in North America: 2008, Ragatz Associates assumes that product selling for less than \$1,000 per square foot falls into the fractional interest category, and product selling for more than \$1,000 per square foot falls into the private residence club category. The report also states that a destination club typically sells 30-year memberships on a non-equity basis in a wide network of vacation homes in multiple locations; however, some clubs are equity based. Fractional development tends to make sense in markets that experience a high volume of repeat guests and where whole-ownership condominiums are unaffordable. The benefit of purchasing a fractional versus a whole-ownership second home is that buyers only pay for the specific amount of time they intend to use. Furthermore, the maintenance and care of the unit may be executed by the development's management company and funded by the homeowners' association; thus, alleviating the stress and burden of ownership. In 2007, fractional sales worldwide totaled approximately \$2.1-billion, with fractional interests representing \$485.1-million or 21.1%, the greatest portion generated by private residence clubs at \$1,202.3-million or 52.3%, and destination clubs constituting the remaining 26.6% or \$610.0-million. Jeff Yamaguchi, Vice President and GM of the Roco Ki Club, noted a few trends in the fractional market including shorter length-of-stay periods; increased demand for beach, ski, and golf resorts that include a fractional component, and the expectation that the quality of the fractional unit will be equal to or greater than the quality of the purchaser's primary residence.

#### **Historical and Future Outlook**

The years 2006 and 2007 were viewed as great years in which tremendous revenue was gained and annual sales increased considerably over prior years. However, the general consensus from the conference is that for 2008 and 2009, the vacation ownership industry will experience just "good" years with sales revenue remaining flat, but not decreasing. Although the economic crisis has influenced many to cancel trips to traditional hotels and resorts, vacation ownership resorts continue to operate at high-demand levels given the prepaid nature of these developments. Marriott Vacation Club International reported an average occupancy of 88% to 90% for its timeshare resorts and stated that they continue to be very profitable even after the timeshare inventory is sold due to the ancillary services utilized by owners such as spa facilities, food and beverage outlets, and recreational amenities. A great deal of the conference focused on several hot markets outside the United States, including Mexico, Latin America, and the Caribbean. Since much of the demand to these destinations is sourced from the United States, many were curious as to how these markets have been affected given the current state of the US economy. Representatives from various Caribbean developments reported a decrease in sales revenue of approximately 20% for year-to-date 2008; however, they did not view this as a reason to panic. As stated previously, recent years have exhibited exceptional sales revenue and volume, but a decrease in sales is natural and expected during economic hardships. Latin American markets such as Mexico, Costa Rica, and Panama are experiencing tremendous development growth. Several developers in these markets reported the necessity of diversifying their projects based on changing market demands by offering products ranging from vacation ownership to whole ownership.

#### **State of the US Lodging Industry**

The United States lodging industry (not including vacation ownership resorts); as reported by Jan Freitag, Vice President of Smith Travel Research, experienced an increase in hotel rooms supply by 2.4% for year-to-date August 2008, while demand decreased by 0.3% as compared to the previous year. As a result, the national occupancy rate dropped by 2.6% to 63.2%. The average daily rate (ADR) increased by 3.8% to \$107, displaying continued growth in excess of the CPI. However, Mr. Freitag stated that looking forward to next year, demand may continue to be flat, but emphasized that this projection is highly optimistic. He also stated that ADR growth in 2009 will most likely be less than the growth experienced this year and has been projected at 3.5%.

#### **Thoughts from Industry Leaders**

Now to the question on everyone's mind, "What is the general outlook for the vacation ownership industry in the near future?" This question was presented to several industry leaders, including Craig Nash, CEO of Interval Leisure Group; Ken Chupinsky, CFO of Consolidated Resorts; and Steve Rushmore, President of HVS. Mr. Chupinsky explained, "We've been so used to being superb (referring to past sales volume in the vacation ownership industry), that we're not comfortable with just being good." But good is much better than many industries are currently operating in today's economy. Mr. Rushmore stated that he feels very positive about the hospitality industry's future and that economic crises have been experienced in the past and the industry has been able to overcome them, due to its ability to find a balance between supply and demand. He further stated that much of the new supply of hospitality-driven projects will be canceled or postponed and that the industry will eventually come back with a "vengeance." Mr. Nash provided a bit of optimistic counsel for those struggling to endure through recent economic changes, "Don't be overly aggressive; stay conservative and just keep going." Mr. Nash's Interval Leisure Group is a leisure and membership-based business with recurring revenues and has a successful track record of strong results through various economic cycles.

HVS Shared Ownership Services would like to invite all those interested in learning more about the vacation ownership industry to attend the 2009 ARDA Convention and Exposition in Orlando, Florida, from March 29th through April 2nd, and the 11th Annual Vacation Ownership Investment Conference, which will be held from the 14th-16th of September 2009 in Orlando, Florida. For a complete listing of the services available by HVS Shared Ownership Services, please visit our webpage at [www.hvs.com/services/sharedownershipservices](http://www.hvs.com/services/sharedownershipservices) or call us directly at (305) 378-0404.

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1ARDA International Foundation

2The Shared-Ownership Resort Real Estate Industry in North America: 2008 – Ragatz Associates