

What's the Latest Trend in Vacation Ownership?

As an FYI, American Resort Developers Association (ARDA) and ARDA International Foundation (AIF) are **not** the same entities. While they are collaboratively affiliated, they have their own data, one national, and one international.

This was the third study of its kind done by AIF, this one changed several parameters for measure, and probably is due to the technological resources providing info about who we are and what we prefer in whatever is of interest in the study. Also, AIF understood the change in the demographic shift ('cultural diversity') and adapted to identify specific trends within the demographic breakdown. For instance, they now know new owners (not before owning a timeshare product) are responsible for the majority of qualified new sales with the emerging market (African Americans and Hispanics) and 'Millennial' segments (under age 35) fueling the expansion. The values of these new purchases are at about \$20,000 average each and the study indicates these purchasers are making additional purchases soon after their original purchase. The report draws the conclusion that ***"Like more established owners, these new owners are showing their loyalty to a timeshare lifestyle through both their voice and their wallet as they make additional timeshare purchases!"***. The reason however, for the additional purchases by new owners soon after their initial purchase is to acquire more points than they initially purchased, allowing them to get into the better (higher valued) weeks at the higher valued resorts. In this sense, the "loyalty" is the result of a compelling factor only fully realized after their initial purchase, which is the desire to better utilize the value of their purchase by the acquisition of additional points for the enhanced opportunity vacation interval use. The new owners expectations were apparently less than satisfying with their initial purchase, driving them to the subsequent acquisition of additional points. For an improved perspective, only 27% of all new owners own only the 'weeks' product, and it is assumed in the study the reason is for annual use at the home resort rather than exchange travel. Other reasons could be related to severely discounted prices for weeks owned by 'Boomers' and listed long-term on re-sales lists nationwide. Some new owners (28%) own both 'weeks' and 'points', but **73% are 'points' owners**.

A deviation in this report from earlier annual studies regards its inclusion of 'product innovations', like the ability to convert timeshare to other types of vacations, such as cruises, hotel stays, tour vacations, etc., which was never before considered by AIF in their vacation ownership studies. These additional components of the leisure travel industry are also major components to the evolved WW product offerings. Today, WW is the world's largest hotel franchisor, timeshare exchange and 'rental' company, and timeshare resort developer. They also have the largest property management portfolio in the U.S., generating \$63 Million in 2012 for management fees alone. In the **twelve month period** from 1st Qtr 2012 to 1st Qtr 2013, WW grew their footprint by 30%, doubling the number of properties in that time. The phenomenal growth during such economically unstable times is only partially due to the \$100 million spent since 2011 in upgrading their technology and web design functionality so they could leverage the web to improve margins of vacation exchange. The factors driving their success is openly represented to investors in their prospectus. Primarily they represent to the world (prospective investors) they **"have fundamentally transformed Vacation Ownership, allowing them to grow their Vacation Rental**

business" (sound familiar?). In addition, WW states to prospective investors "their focused acquisition of hotel brands to strengthen their Hotel Group value by increasing the number of properties turning revenue" is one of their strengths today. WW's resources provides them awareness of what the consumer seems to want now and in the future, even though the consumer may not know themselves what they would want in the future, which serves to enhance their balance sheet and financial position. The simple description of that phenomenon is knowing what the consumer's response would be to marketing not yet done for a product not yet evolved into what would eventually be offered. Couple that with an understanding of the general global economic trends, and the anticipation of proper strategy adjustment in the advance of emerging markets, and it's a no-brainer to turn a depressed franchise into a profitable revenue source (if the property meets their criteria). WW's VP of Marketing says "*Everything we do is to make sure that consumers stay engaged to the shopping, searching and booking process*", meaning they have paid attention to the influence of the internet upon their business, and maximized their ability to utilize its value. Their web penetration went from 13% in 2008 to 46% in 2012. It also means they know if they call enough, and push enough, they can get a five year membership fee instead of just annual, or they can get the deposit of an owner's week for use in their demand system. By the way, if you've been asked to deposit your week with RCI, before you thought of it yourself, it means your week is on their high-demand list, and upon deposit it is placed FIRST into the rental pool before an exchanging member can get a shot at booking it.

The reason for so much info on RCI/Wyndham is because they appear to be in the driver's seat regarding the direction the industry is travelling. We get back to the study and see the industry is reaching new owners and in spite of the owners who left the industry during the 'Great Recession' (Boomers), the U.S. Households who owns a timeshare appears to be increasing. The numbers for 2013 rose to 7.9% from 7.2% in 2012. Before then, the timeshare value perception was based more on location. These new owners are younger, have higher incomes than current owners, and represent a "culturally diverse cross-section" of U.S. Households. Their value perception appears to be based upon flexibility and access to the system, rather than to resort location. Remember, the new owners are mostly made up of a culturally diverse population, but 30% of the new owners are 'Millennials' (under 35 years old), which focuses upon maximum flexibility, transparency and low cost while attempting to minimize risk and commitment (a perfect core of prospects for our RTU). New owners are conducting significant research prior to making a purchase decision by exploring a variety of sites on the internet (including developers, third party timeshare entities, as well as non-industry information sources). They also seem to have initiated the process as a result of experiencing a resort through rental or some form of non-owner travel, ultimately purchasing from one of the resorts with which they had become familiar. The result is, new owners feel well prepared for their purchase and according to the study, report very high levels of satisfaction with the purchase process as their expectations are met.

This study provided for the development of and labels for six identifiable segments of the timeshare population of owners with the intent of determining internal demographics for the purpose of product development, marketing and communications. While not entirely convinced of the parameters established for each, mostly due to questionable assumptions in the considerations for conclusions drawn from the study, each new segment as determined in the study is at least interesting, and summarized below:

- **Enthusiasts** – "(16% of all owners with 18% of discretionary spending averaging \$1,706, which is lower than average) Incredibly loyal owners who value the traditional timeshare due to their positive experiences. An older, heavily Caucasian segment which is more likely than all owners to be retired. Consistent with their age, fewer members have children under the age of 18 residing at home. Median Income is above average at \$92,200."
- **Explorers** – "(20% of all owners and 31% of all discretionary spending, which averages \$2,698) Another very loyal group who value a high level of flexibility. The youngest and most culturally diverse (33% Millennials, 35% African-American/Hispanic), they tend to be most critical of features surrounding their home resorts, and are most likely to desire conversion of their timeshare product to another type of vacation option, like hotel stays or cruises."
- **Rookies** – "(29% of all owners and 32% of all discretionary spending averaging \$2,039). Like the Explorers, this segment (100% all new purchasers) is a set of loyal, active users who emphasize flexibility and access to the travel opportunities within the system. Most are 'points' owners who frequently seek to convert to other types of vacations, and they tend to get frustrated and impatient in their attempts to create their optimal product portfolio."
- **Nostalgics** – "(11% of all owners and 5% of all discretionary spending averaging \$1,441) A well established segment which prefers "what it was" rather than "what it is", and is the smallest segment. Recent purchases are rare and only about half used their timeshare in some way in 2013. They are just as likely to take a non-timeshare vacation as they are to use their timeshare."
- **Conventionalists** – "(12% of all owners and 13% of all discretionary spending averaging \$1,510) This challenging segment is near the top for timeshare use, but are highly critical of the timeshare lifestyle. They take their vacation at their resort (or exchange) because not doing so would be considered a waste of their money. Most of this segment question their purchase decision and think more on selling rather than buying. Currently, More (59%) own points rather than weeks (40%), and they are not receptive to additional sales overtures."
- **Critics** – "(12% of all owners and 1% of all discretionary vacation spending averaging \$830) The segment most tenured, these folks are likely experiencing financial difficulties in their personal life. Their median household income has remained static with the average income level for purchasers from the early years when their intervals were purchased, and the increase in fees to the level most must now endure was not anticipated, causing a hardship. This circumstance inhibits their using their timeshare product, and taking vacations in general. With their financial commitment ever present, often in a delinquent status, they take a more critical view of timeshare and almost half (42%) intend to sell their product within the next two years."

Vacations:

There's all sorts of data regarding which segment does what, where, & when, but in summary, the average owner engages in 3.3 activities at their vacation destination with shopping the dominant activity (69%), and sightseeing (53%), aquatics (50%), gaming (26%), adult activities at the resort (25%), theme parks (24%), golf (22%) and theater (21%) following suit (in that order). Their conclusions to the data were vague, but a couple stands out. First, "...the industry may need to adjust its positioning to shorter durations geared for "couples"...", which, in my opinion, was not sufficiently validated. Second, "Given the exceptional experience and anticipated improving economic conditions, the future for timeshare vacations appears brighter than the present." The hanging question is; 'For WHOM?' Since it refers to "the exceptional experience", I can only assume the reference is in regards to existing owners. Beyond that, I tend to follow the money! Is the "future...brighter" for the resorts?...for the developers?...or for the powerful absolutists in control of the industry's global flow of value???

Other reinforcement statements jumped out at me as in "Continuing the trend first discovered in 2012, more owners own points products than weeks products in 2014, demonstrating the growing popularity of points products." Really?... It's a dictated trend! Seems I recall "they (WW) have fundamentally transformed Vacation Ownership, allowing them to grow their Vacation Rental business", which was in the context of creating the 'points' product, which paved the way for their new 'rental model' to better utilize (receive revenue from) the resort's and member's deposited inventory, which would yield larger returns to the stockholders/investors as part of a strategy. The result was a solid 'push' of the points product to replace the weeks product, which requires additional purchases of more points to enhance the value if the vacation exchange request to the points owners. Having to purchase additional points to get the resort and week you want is **not** what is popular. Once you own points, and want to travel to a better (higher demand) property than the one your points are based upon, the availability of the option to do so is what's popular, but it's required to make it work and meet the points owner's expectations, with a price.

Of all owners in the study, 64% vacation for less than a week, while 25% vacation for more than a week. Interval conversion to hotel stays was most common with cruises and external conversion. Today, 15% have owned 20 or more years, while in 2012 only 10% did. Two years ago the median income of all owners was \$74,000, while today the number is \$89,500. Compared to all owners, new owners are:

- More than ten years younger than the average of all existing owners, in general, capturing a share of Gen X'ers (39%) and Millennials (30%) far outpacing the current levels of all owners. As they are younger, they are also more likely to:
 - Be employed full-time, which is expected given a higher representation of younger owners. Nearly three-in-four new owners (72%) are employed full-time.
 - Be affluent, with a median Household income of \$94,800 (compared to \$89,500 among all owners).
 - Have children under the age of 18 residing at home (51%)
- More ethnically diverse, better reflecting the current mix of U.S. population. More new owners were likely to self identify as African American (23%) and/or Hispanic (19%) today.

According to the study, different owners stress different priorities in their decision to buy and continue owning a timeshare. Owners, overall, cite an average of 4.4 reasons to purchase a timeshare. These reasons range from saving money on future vacations (44%), resort location (43%), overall flexibility (35%), the certainty of vacations (29%), and certainty of quality accommodations (28%) to passing the timeshare onto heirs (27%).

- Millennials and Gen X'ers have similar motivations to make their initial purchase. Both cohorts place a premium on overall cost savings, flexibility and resort location, although given recent studies regarding the importance of a central location and the premium placed on choice, "resort location" may speak more to the **footprint** of resorts rather than the location of any single resort, especially among Millennials. Gen X'ers value a broader set of benefits including on-resort features and long-term benefits.
- New owners' purchase motivations lie somewhere in between all owners and Millennials. The average new owner cites 3.5 purchase reasons. Top reasons include: saving money on future vacations (36%), flexibility (overall flexibility, 31%; internal exchange, 24%; external exchange, 23%), resort location (25%) and passing onto heirs (23%).
- The reasons given by all owners as to why they continue to own their timeshare, affirms a pro-timeshare lifestyle, as nearly all (91%) owners cite positive benefits, while only 9% of all owners indicate they continue to own because they cannot sell their timeshare.

As for owner attitudes, the study states:

"Owners were asked to express their level of agreement regarding a series of timeshare statements that encompass a broad array of themes. Some of these statements promote the benefits of a timeshare lifestyle while others are more critical of it. Owners, whether new or more established had very similar opinions around timeshare. The overwhelming majority of statements garnering the strongest consensus speak to different benefits associated with timeshare living. The image most owners associate with timeshare is that it is their "home away from home". The other statements capturing the high levels of agreement address other timeshare benefits, such as offering a "great place to spend time with important people in my life", including "family and friends who may not be able to afford to vacation", giving me "more space for family and friends", the ability to "look forward to vacations" and "access to new destinations".

The only critical attitude expressed by a strong majority of owners was that maintenance fees are too high. Most of these statements were viewed at comparable levels among all owners, new owners and Millennials. New owners, however, are also more likely to praise timeshare for making vacation budgeting easier and providing a better value for the vacation dollar. Millennials are interesting as they are less likely to agree that maintenance fees are too high and that ownership gives them access to new destinations. Given the importance Millennials place on this benefit and the very high level of satisfaction and engagement the cohort has with timeshare, it is most likely that the lower level of agreement is associated more with the range of destinations accessed prior to ownership than a limited choice of vacation destinations."

The companion study "State of the industry 2013" deals with the reporting of 2012 activity and stats. In that study, "Year 2012 sales volume totaled \$6.9 billion, increasing by 6% from 2011. There were about 366,200 timeshare intervals sold at an average price of \$18,700, increases of 3% and 2%, respectively, from 2011. The weighted average maintenance fee charged per interval was \$822, up by about 5% from 2011. The average was \$542 for studios, \$656 for one bedroom units, and \$921 for units with two or more bedrooms. Average occupancy was 77% in 2012. By comparison, hotel occupancy was 61% in 2012, according to Smith Travel Research. Timeshare occupancy includes about 59% of occupants who were either owners or exchange guests and 18% who were renters and/or marketing guests. Rental revenues totaled approximately \$1.6 billion. (That's 23.4% of the total sales volume) Having a general picture of the overall industry's size and health, the next step is to segment the resorts by important characteristics. These include resort size, sales volume, resort type, geographic region, and sales price. For each of these segments, the report presents five important industry measures: average resort size, sales volume, interval price, occupancy, and maintenance fees. The following observations emerged:

- Sales volume, occupancy and maintenance fees tended to be highest at resorts with 100 or more units in 2012.
- The most common resort type in the U.S. timeshare industry is the beach resort. Theme park and golf resorts tend to be the largest; island resorts have the highest occupancy and maintenance fees.
- Florida continues to have the most resorts, and resorts there tend to be much larger than in most other regions. Hawaiian resorts have the highest average sales price and occupancy rates.
- Occupancy is much higher for resorts priced at \$20,000 and above compared to those priced lower than \$20,000. Almost half of total sales occurred among intervals priced between \$20,000 and \$29,999.
- Maintenance fees tend to increase with sales price."

Sold Out Resort:

Among 'Legacy' resorts (not in marketed sales), 254 resorts provided data on the management of sold out resorts for this study. This information focused on two main topics – special assessments and reserve funds. About 15% of sold out resorts reported having a special assessment in 2012. Nearly all respondents reported that the assessment was related to a planned refurbishment. Only a handful noted that the assessment was related to unanticipated concerns such as a natural disaster or some failure of capital assets. On average, resorts reported that 18% of billed maintenance fees are contributed to reserve funding. About 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. MPR's reserves are at 18% of the collected maintenance fees and continue to be utilized for qualified expenses annually. However, MPR is closer today than it has ever been to the luxury of accumulating reserves for future replacement of scheduled items.

Sales:

According to the studies, in spite of a continuing loss of the older 'traditional' owner population, the number of vacation owners is apparently increasing. New sales are occurring somewhere, in some manner, to some demographic! Other than the resale marketplace, new sales appear to be most active at 'destination resorts' which have significant developer involvement in construction (growth), marketing (tour generation), and financial support. These properties are possibly at an operational level which includes multiple associations and a high population of members (annual fees), which generates a sustained activity level conducive to a high volume of sales. Most of the new sales reported in this study were generated through appropriate professional marketing and sales contractors responsible for the sales/marketing process. HOWEVER, due to the ability of these new owners and potential owners to explore the internet for the availability of the 'better deal', more and more purchases are occurring between deeded owners and the interested consumer, either through direct internet contact or third party internet representation. This is especially true for those consumers who mostly intend to travel (exchange) rather than stay with their home resort each year. This also means 'points' are more important to the new owners than 'weeks', and the compatibility of those points with the dominant exchange entities is vital to their desirability.

Re-sales:

From the consumer's side, the resale market has changed dramatically since 2010. There is a huge increase in both supply AND demand, but an increasing imbalance is obvious. By 2012, the average resale prices dropped by about half as the supply began to outweigh the demand. By 2013, among 'resalers' (those who either buy or sell within the resale inventory available) the ratio of 'Sellers' over 'Buyers' was at 5:1. Motivation for purchase by the consumer is based upon a criteria of 25 factors typically considered. They range from the size of the unit to the number of power outlets in the unit. Among the 'New Buyer' consumers, the top ten factors motivating a purchase of a resale unit includes (in order):

1. <u>Unit Size</u>	44%
2. <u>Distance from Resort to outside attractions</u>	40%
3. <u>Maintenance Fees</u>	38%
4. <u>View from the unit</u>	30%
5. <u>Trading Power of the unit</u>	17%
6. <u>Wireless Internet service in the unit</u>	30%
7. <u>Washer/Dryer in the unit</u>	30%
8. <u>Bedroom/Bathroom Privacy</u>	29%
9. <u>Access to resort amenities from the unit</u>	27%
10. <u>Updated furnishing and amenities in the unit</u>	18%

Once a unit is settled upon by the buyer based upon preference of the above factors, the qualifying assessment regarding purchase breaks down further into the following specific sales features (in order of most important):

	<u>2013</u>	<u>2010</u>
• <u>Best Price</u>	77%	69%
• <u>Ability to negotiate Price & Terms</u>	70%	66%
• <u>Best Terms</u>	54%	57%
• <u>Easiest Transaction</u>	46%	58%
• <u>Fewest Problems during purchase process</u>	40%	51%
• <u>Best Selection of available units</u>	38%	51%

The balance of the 14 factors listed in the study included right of Rescission, available financing, purchase incentives, etc. ***“The internet plays the dominant role in resale purchases, as well as general sales activity among all users. The percentage of New Buyers, as well as Organic Buyers which use the internet for buying any timeshare unit is 99%.”*** Also, there appears to be a short window in which new owners make quick decisions. In fact, new owners report a higher incidence of sales than owners as a whole. About one-in-three new owners report having sold at least one of their timeshares.

As for the effect of the economy regarding consumer vacation planning, **50% state they have altered their future vacation plans**, and of those who have done so, a strong majority indicate they will spend less and/or look for cheaper alternatives as a way to contend with the current state of the economy. Vacationing closer to home and taking fewer trips or shorter vacations was noted as the most frequent consideration.