The "Termination" Question, RCI & Hard Questions

The membership is required to follow the Association's By-Laws, Covenants and Restrictions, as well as its "Declaration of Horizontal Property Regime, Master Deed". Article XXIII of the Declaration is titled "Termination". In just five more years (2021), a provision of the governing documents ***requires*** a referendum to be held to identify the membership's wishes regarding whether to continue the Timeshare regime as such, or not. If the majority desire to continue as a timeshare entity, the resort can continue operating in the same manner for an additional ten-year cycle, but every ten-years thereafter, another referendum is required. The principle behind the covenant is related to the possibility that things change and members should have options for ending their membership agreement under certain circumstances. The provision dictates the members automatically become a Tenant-in-Common owner of the association's property at the termination date. In the case of MPR owners, we became Tenant-in-Common owners of association property (the resort) in 1993, when abandoned by the developer. The remaining provision of the covenant relates to the desire of the membership whether to continue as a timeshare regime, or liquidate the association's assets.

Discussion throughout the industry has increased each year regarding this issue because so many mature resorts are approaching the Sunset Provision in their association's structure sooner rather than later. If we assume the date for taking this step is in 2016 instead of 2021, exactly what does that mean to us as owners? This is a simple proposition to answer. The unit owners would be polled to determine if the majority of the membership is willing to continue to pay the expense of operating the association, providing protection and services for the resort campus owned by the membership, and utilizing the benefits provided each owner as a result of providing the financial support required. If the majority says 'Yes!' to the question, then the association continues as it has in the manner determined by the board, and the expense is supported by the membership. If the answer is 'No!', the board begins the process of determining the most advantageous steps toward liquidating the assets of the association. The members determine the outcome by having the opportunity to voice their preference for continuing.

The board constantly considers viable options regarding the steps necessary to sustain operations while avoiding the imposition of ever-increasing fees upon the membership. If operations are to be sustained at a level meeting the demands and expectations of the membership, the cost to do so is the responsibility of those who desire it. This fact is the motivation to discover other revenue sources to enhance our opportunity to thrive, hence the last attempt at initiating a building program for the local Senior market.

While on the subject of Maintenance Fees, what is average for others may not be reasonable for another. For example, I met this week with representatives from RCI regarding issues and circumstances dictating the evolution of our industry, and what can be done to meet the resulting challenges. In preparation for the meeting, RCI gathered various data regarding both the 1-in-4 rule issue and the impact of their various rental programs (as discussed with our membership in prior newsletters and meetings). A portion of the data indicated 75 'weeks' inbounds (not including intervals utilizing 'Points' or 'Rentals') stayed more than once in the past 4 years. With a view for 'Lost Opportunity' for sales, the field of study was broken down statistically among three property categories (size and scope). The point I'm attempting to make relates to the Maintenance Fee, which was calculated at the current industry average of $845 annually across the board for each property category. The three categories were premier properties, average properties, and legacy properties like us (less than 100 units and HOA owned/managed). ***IF*** we had been a premier property, of the 75 'lost opportunities' they propose we would have been lost the opportunity for 15 tours for sales and could have closed 8 with an average sale of $2,000 (assuming re-sales), for a total of $16,000 plus another $6,760 in additional maintenance fees. For a medium property we would have lost 10 tours with 2 sales for $4,000 ($2,000 average re-sale) and an additional $1,690 in annual fees. BUT, for legacy properties, it was assumed we would lose only 5 tours, closing only 0.25%, but the assumption was we would sell at least 1 out of the tours (which is 20%), and that would bring us an assumed $2,000 for the resale, and an additional $845 for one maintenance fee. This was interpreted and represented by RCI as insignificant, therefore the loss impact was insignificant. The reality, however, is quite different. For the 75 units occupied, one occupant comes to mind that was an RCI member who made an exchange, then ***purchased rentals*** from RCI for a large number of units for their family reunion (not included in the 75). The added expense to host the additional units (varied based upon availability, but between 6 and 12 units each year), far exceeded any possible benefit derived from their 'Impact' study for lost opportunity, and RCI made all the revenue for the rentals. ***You*** received no revenue, and had ***ALL*** the expense of supporting the non-owner crowd, which dominated the entire amenity offering at the resort for the week, to the disadvantage of the members who pay the tab!

While apparent our Maintenance Fee will be higher for 2016, it is premature to determine how much higher (A study is underway). You should know, however, your association (and most other legacy resort associations) is at a critical juncture where the core components of existence [member population, expense level, services expected, sustainability] are hyper-sensitive. A minor change in one area means a major impact upon another, as there has been no 'cushion' in operations at our population level. For many owners and prospective owners alike, the IMPA program popularity relates to this issue.

Considering the volatility of our position regarding potential cost increases (increased fees) and a continuing trend of reduced population (which also means increased fees), it is necessary to consider the resolve of our membership concerning the unavoidable escalation of fees in our future. Therefore, we must ask ourselves a few questions:

1. Are we going to continue losing members each year due to aging related issues?
2. Has the marketability of the original timeshare product changed from what it once was to a totally different product?

Since the answers to these questions are both ‘YES!’, we must now ask the following questions:

1. Is it likely we can replace our departing older population with the new demographic of market purchasers?
2. If Gen-Ex’ers and Millennials are the driving force for the products purchased, and the focus of this demographic is upon the high profile, high-activity leisure travel destinations, can we continue to be relevant in the current market?
3. Since our population demographic is almost exclusively made up of ‘Boomers’, will they have the resolve to continue supporting operations financially in view of escalating fee requirements?

Since the answers to these last three questions are uncertain, we must ask each owner to respond to our request for input. A sustainability study will be undertaken before the end of this year. Part of that process will be to determine your position regarding the ‘Sunset Provision’, and whether a referendum should be held now, or wait five more years to determine the outcome. With this study, we will determine if we are included in the list of those legacy resort properties with the potential for long-term sustainability. The study is not expected to be complete until mid 4th Qtr, 2015. Direction regarding whether the association can justify continued owner benefit vs. the continued escalation of expense will be the result.