An Update to the State of the Shared Vacation Ownership Industry

ARDA International Foundation

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When the last white paper on the state of the industry was submitted to the Marketing Outlook Forum in 2014, shared vacation ownership was experiencing the largest sales growth since 2006. At that time, the consolidation trend, continued emphasis on the asset-light business model, and a renewed focus on bringing in more first-time buyers were tagged as the key drivers of the continued growth of the industry.

Fast forward to 2015 and the core trends remain the same. The industry continues to grow—albeit at a slower pace. Several major acquisitions were completed or are in the process of rollout, and the remaining companies have become stronger financially with an emphasis on providing more quality product choices to their owners. The industry is also more aligned on its direction, priorities, and messaging to external audiences as a result of the consolidation. Development companies continue to roll out new deals to bring in just-in-time, turn-key solutions while maintaining modest capital expenditures related to new construction. And although existing owners still account for the majority of new sales, more focus has been placed on how to bring in the next generation of buyers.

State of the U.S. Timeshare Industry

The 2014 sales volume of traditional timeshare increased by more than 4 percent from $7.6 billion in 2013 to $7.9 billion in 2014. The chart below compares key timeshare industry metrics for 2014 to those of 2013. Approximately 397,120 timeshare intervals (including points equivalents) were sold in 2014, at an average price of $20,020. The weighted average maintenance fee charged per interval was $880—up 4 percent from 2013—while the maintenance fee delinquencies decreased 36 percent from 2013 to 2014. Occupancy rate increased 2 percent in 2014 compared to 2013, reversing a recent trend of steady decrease in occupancy in the last two years. Rental revenue increased 4 percent from 2013 to 2014 as the industry continues to improve its inventory management. Rental revenue, on average, accounted for 18 percent of timeshare resorts' operating revenue in 2014. It is not only an important revenue source for the industry but also a lead generator for several timeshare developing companies in active sales.

In addition, the fractional/private residence club segment of the industry, which typically sells shares ranging from 3 to 12 weeks in size, generated a total of $516 million in sales for 2014 in North America.[1]

[1] The *Shared-Ownership Resort Real Estate Industry in North America—2015 Edition*, produced by Ragatz Associates.

Key Timeshare Industry Metrics 2013 and 2014

Growth			
	2013	2014	% Change
Sales volume ($B)	$7.6	$7.9	4%
Average sales price	$20,460	$20,020	-2%
Number of intervals sold (000's)	370.6	397.1	7%
Rental revenue ($B)	$1.8	$1.9	4%
Performance			
	2013	2014	% Change
Occupancy	76.8%	78.3%	2%
Average maintenance fees	$845	$880	4%
Maintenance fee delinquencies	12.2%	7.7%	-36%

Numbers may not add due to rounding

Source: State of the Vacation Timeshare Industry: United States Study 2015 Edition, *prepared by Ernst & Young for the ARDA International Foundation*

Consistent with the macro economic environment, timeshare industry growth slowed further in 2015. Q2 2015 net originated sales were reported at $1.47 billion by major timeshare developing companies, a 1 percent increase over the same period in 2014[2].

Fee-for-service arrangements have become an established feature within the timeshare industry over the last several years. Under such arrangements, developing companies provide sales and marketing support to timeshare resorts they have not developed. Originally developed to leverage developers' existing sales infrastructure and brand to work through excess inventory and improve cash flow without the capital risks of developing their own property, this asset-light model has evolved over time to include several variations—ranging from the fee simple sales support to the more sophisticated turn-key solution. Sales under fee-for-service arrangements remain the highlight of growth. More recently, overall timeshare sales under these arrangements increased from $188.9 million in Q2 2014 to $214.4 million in Q2 2015 (or 13.5 percent).

When sales of timeshare under fee-for-service arrangements are combined with sales of developing companies' own timeshare inventory, there was an increase of 2.4 percent in total net originated timeshare sales when compared to Q2 2014.

Next Generation Buyers

While existing owners continue to be the main engine for sales growth year over year, the industry understands the importance of new buyers (especially next generation) to its sustainable growth. An AIF Next Generation study[3] was conducted in early 2015 to better understand these prospects.

2 *2015 Second Quarter Pulse Survey: A Survey of Timeshare and Vacation Ownership Resort Companies* prepared by Deloitte for AIF

3 *2015 Next Generation Study: Shared Vacation Ownership* conducted by Leger for AIF

The study shows that the next generation of timeshare owners represent the greatest advocates for the timeshare product. This may seem like a bold statement, but in 2015, it is evident among Millennials—the largest consumer group in the United States—who account for approximately 80 million people and spend more than $200 billion in goods and services annually[4]. With more than eight out of ten Millennial owners (23-33 years old) having a positive perception of the timeshare industry, they are stronger advocates for the product when compared to the next two older age groups: the younger Generation X segment (34-44 years old, 78%), and the older Generation X segment (45-54 years old, 64%).

The research shows that in terms of vacationing, while Millennials are much different from the Baby Boomers (55+), they share a lot of common characteristics with the younger side of the Generation X'ers. Millennials have less disposable income than their older counterparts, although this does not stop them wanting to vacation further away, with Europe as a key desired destination. As a matter of fact, the study found that Millennial non-owners are significantly more likely to consider buying a timeshare in Europe than Gen X'ers. Financial issues play heavily into the way Millennials already vacation—trips of shorter distances are definitely a better fit based around both their annual vacation allowance (via work) and their budget constraints, as they also seek vacations with value.

The research also shows that younger timeshare owners, specifically Millennials (62 percent), are definitely more open to buying another timeshare in the future.

Future Growth Opportunities and Challenges

Looking forward, AIF research shows another uptick in planned construction for the year. Respondents to the annual State of the Vacation Timeshare Industry survey earlier this year reported plans to add approximately 3,500 new units in 2015 and beyond. This number is up 63% from the number of planned units at the same time last year.

Respondents also reported plans for nine new resorts, which is consistent with the plans reported last year. These new resorts may be completed in 2015 or beyond. In addition to the planned construction, just-in-time and turn-key solutions (as well as the secondary market) are also important sources of inventory for some developing companies. Capital expenditures related to the purchase of completed inventories continued to grow significantly in the first half of 2015. Recycling inventories from the secondary market has helped to not only drive down development cost but also create an exit for owners who no longer want to own the products. Given its importance, ensuring a healthy secondary market remains a critical component of the industry's overall strategic plan.

While the presence of larger, branded companies as a result of recent consolidation may have improved the reputation of the industry, it inevitably raised the bar for new entrants to break into the industry. Legacy resorts pose another concern for the industry. How to best address the challenges of these older HOA-controlled single-site resorts and provide a solution as an industry ranks high on the industry priority list. While the majority of Millennial owners are open to purchasing more timeshare, among non-owners that percentage remains relatively low (17 percent). Research shows that even though the next generation of consumers is different in many ways from the older generations, their love for travel

4 Source: www.forbes.com/sites/danschawbel/2015/01/20/10-new-findings-about-the-millennial-consumer/ (Accessed August 27, 2015)

remain the same—they actually travel more often and farther away.

These special characteristics of the younger generation, coupled with their love for value, dovetail nicely with the shared vacation ownership product. How to evolve the timeshare product to meet the changing consumer needs, how to reach out to this group of consumers and introduce the timeshare lifestyle to them, and how to position the industry as a whole are among the main challenges facing the vacation ownership industry today. Successfully addressing these issues will be critical in the industry's continued growth.