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ARDA International Foundation

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An Update to the State of the Shared Vacation Ownership Industry

ARDA International Foundation

When the last white paper on the state of the shared vacation ownership industry was submitted to the Marketing Outlook Forum, the shared vacation ownership industry was experiencing a slow but steady growth after a 34% drop in sales volume during the peak of the economic downturn. All industry metrics indicated that the active measures the industry had taken in response to the financial crisis had started to take effect. At that time, we predicted that new creative products, renewed focus on rentals and the increasingly popular fee-for-service model would be among the key drivers behind the recovery of the industry. Two years later, how has the state of the shared vacation ownership industry changed?

We are glad to report that over the last two years, as the U.S. economy continued to improve, so did the state of the shared vacation ownership industry. The U.S. shared vacation ownership industry experienced double digit sales growth in 2013, the first year-over-year double digit increase since 2006. Emerging from the last economic downturn, the industry has continued its recent trend of consolidation and maintained its emphasis on the asset light business model. Switching gears from surviving to thriving, product innovation has become a key driver for future development. In addition, first time owners are buying into the lifestyle and entering the market, creating a new generation of owners and hope for a more sustainable future for the industry. In other words, timeshare is back.

State of the U.S. Timeshare Industry

The 2013 sales volume of traditional timeshare totaled \$7.6 billion, increasing 11% over 2012, the largest increase in sales since 2006 when year over year sales increased by over 16%. The chart below compares key timeshare industry metrics for 2013 to those of 2012. Approximately 370,610 timeshare intervals, including points equivalents, were sold in 2013, at an average price of \$20,460. The weighted average maintenance fee charged per interval was \$845, up 3% from 2012 while the maintenance fee delinquencies decreased 6% from 2012 to 2013. Rental revenue increased 14% from 2012 to 2013 as the industry continues to improve its inventory management. Rental revenue, on average, accounted for 18% of timeshare resorts' operating revenue in 2013. It is not only an important revenue source for the industry, but also a lead generator for many 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 \$517 million in sales for 2013 in North America.¹

¹ The Shared-Ownership Resort Real Estate Industry in North America – 2014 Edition, produced by Ragatz Associates.

Key Timeshare Industry Metrics 2012 and 2013

Growth			
	<u>2012</u>	<u>2013</u>	<u>% Change</u>
Sales volume (\$B)	\$6.9	\$7.6	11%
Average sales price	\$18,720	\$20,460	9%
Number of intervals sold (000's)	366.2	370.6	1%
Rental revenue (\$B)	\$1.6	\$1.8	14%
Performance			
	<u>2012</u>	<u>2013</u>	<u>% Change</u>
Occupancy	76.9%	76.8%	0%
Average maintenance fees	\$822	\$845	3%
Maintenance fee delinquencies	12%	11%	-6%

Numbers may not add due to rounding

Source: State of the Vacation Timeshare Industry: United States Study 2014 Edition prepared by Ernst & Young for the ARDA International Foundation

Strong timeshare industry performance continues in 2014. Q2 2014 net originated sales were reported at \$1.49 billion by major timeshare developing companies, a 12.7% increase over the same period in 2013².

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 constructing new inventory, 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 volume under fee-for-service has continued to grow over the past few years. More recently, overall timeshare sales under these arrangements increased from \$143.95 million in Q2 2013 to \$188.85 million in Q2 2014, a 31.2 percent increase. When sales of timeshare under fee-for-service arrangements are combined with sales of developing companies' own timeshare inventory, there was an increase of 14.5 percent in total net originated timeshare sales when compared to Q2 2013.

Economic Impact of the U.S. Timeshare Industry

The shared vacation ownership industry³ generated a total of \$68.7 billion output, over 473,200 full and part-time jobs and \$23.6 billion income to the U.S. economy in 2013. In addition to private sector benefits, the industry has also contributed an estimated total of \$8.5 billion taxes at federal, state and

² 2014 Second Quarter Pulse Survey: A Survey of Timeshare and Vacation Ownership Resort Companies prepared by Deloitte for AIF

³ Unless otherwise noted, the U.S. shared vacation ownership industry statistics referenced in this paper are results from the traditional timeshare segment (namely, weeks and points) of the shared vacation ownership industry. The term shared vacation ownership and timeshare are used interchangeably throughout this paper.

local levels.⁴ In 2013, timeshare owners took approximately 5.1 million vacations at timeshare resorts. The travel party size for such vacations averaged 3.45 people who spent on average 8.3 nights vacationing at timeshare resorts. Timeshare owners spent approximately \$1,967 per travel party while on vacation, which translates to a total of \$10 billion consumer spending in 2013. Of the \$10 billion spending, \$2.1 billion was spent at timeshare resorts. The remaining \$7.9 billion was spent in the area where the timeshare resorts were located.

Timeshare Owners

With the recent sales growth in the timeshare industry, the number of households in the U.S. owning timeshare has also increased from 7% to 8% translating to over 9.1 million owning households. While there are many types of products available, the majority of owners continue to own one type of product. Continuing the trend first discovered in 2012, more timeshare owners own points products than week products in 2014 (59% vs. 51%), demonstrating the growing popularity of points. On average, owners reported owning for an average of 11.4 years.

A recent AIF owner study⁵ shows that 19% of owners who have made a qualified purchase⁶ over the past three years are first time purchasers. The majority of these new owners, 54%, made their purchase within the past year. This group of new owners is different from the typical timeshare owners. Compared to all owners, the new owners are younger, more likely to have children at home, more highly educated, have higher household income and more ethnically diverse, looking more like the general U.S. population.

Comparison of Timeshare Owners

Owner demographics	<u>All owners</u>	<u>New owners</u>
Median age	51	39
Children at home	34%	51%
Married/partnership	78%	79%
College/graduate school	67%	72%
Median household income('000)	\$89.5	\$94.8
Ethnicity		
White/Caucasian	71%	49%
Black/African American	12%	23%
Hispanic	13%	19%
Asian/Asian American	6%	11%

⁴ Economic Impact of the Timeshare Industry on the U.S. Economy: 2014 Edition prepared by Ernst & Young for the ARDA International Foundation (AIF)

⁵ Shared Vacation Ownership Owners Report, 2014 Edition prepared by HSR Associates for AIF

⁶ Qualified purchase is defined as a transaction in which the purchase reflects an expansion of the number of unique interests owned, excluding a reload and an upgrade. A reload is a transaction whereby an existing points owner purchases additional points from a developer with whom they already own a points product. These points are added to those already owned. An upgrade is a transaction whereby a customer relinquishes the right to a currently held timeshare interval and obtains a higher-priced timeshare interval from the same seller.

The majority of owners are satisfied with their ownership experience as 82% of owners rated their overall ownership experience as excellent, very good or good. The satisfaction rate increases to 92% when their home resorts are evaluated. New owners are even more satisfied with their ownership experience. In hindsight, 79% of new owners would purchase timeshare again compared to 66% of all owners.

The change in the owner base is highly desired and welcomed by the industry. It is partly driven by the industry's continued effort to adapt the timeshare products to better meet the needs of today's consumers. Timeshare is no longer a fixed week, fixed unit product that many today still associate the industry with. As a matter of fact, today's timeshare products offer a great deal of flexibility and can even be converted for other types of accommodations, leisure travel related or non-travel products. In 2013, while 75% of owners vacationed at a timeshare resort, 16% of timeshare owners converted their timeshare to a different type of vacation or vacation-related purchase, including airline tickets, car rentals, hotel stays and/or cruises.⁷

The Future is Bright but Industry Remains Cautious

Looking forward, AIF research shows an uptick in planned construction for the year. Respondents to the annual State of the Vacation Timeshare Industry survey reported plans to add over 1,300 new units in 2014. This number is up 41% from the number of planned units at the same time last year. Respondents also reported plans for nine new resorts, compared to plans for seven at this time last year. These new resorts may be completed in 2014 or beyond. In addition to the planned construction, secondary market is also an important source of inventory for some developing companies. Recycling inventories from the secondary market has helped not only driving down the development cost while also creating an exit option for owners who no longer want to own the products. Given its importance, to ensure a healthy secondary market, has become a collective goal of the industry.

Despite all the good news, the industry recognizes that to sustain its recent growth, much still has to be accomplished. Unscrupulous operators in the secondary market still make headlines generating negative perceptions among the media and general public. Timeshare is a complex product. In the age of instant gratification, how to attract the younger generation to the product and educate them on making the full use of their purchase is seen as equal part challenge and opportunity.

There are both challenges and opportunities ahead for the shared ownership industry. It will be those opportunities that will allow the industry to learn from their past practices and make necessary adjustments to future product and service offerings, so as to better meet current and future consumer vacation needs.

⁷ Shared Vacation Ownership Owners Report, 2014 Edition prepared by HSR Associates for AIF