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The Appraisal of Timeshare Projects

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With $6.1-billion in worldwide sales in 1998, and over 5,000 projects, timeshare or vacation ownership is one of the fastest growing sectors of the hospitality industry. The growth has been further fuelled by the involvement of the major hotel company brands in the industry. In the Vacation Ownership 2000 study funded by Interval International, 40% of the respondents questioned said, "brand was very or extremely important when considering a timeshare purchase". Brand identity conveys to the consumer a well-defined expectation regarding the vacation experience and has greatly enabled hotel companies to quickly become dominant players in the timeshare sector. The addition of a vacation ownership program allows for more vertical integration of various hospitality products and better control or "ownership" of the customer by a hotel company.

The North American landscape (United States, Canada, and Mexico) dominates the world timeshare market, containing 51% of timeshare owners and 41% of the total projects. Since the U.S. represents the largest portion of the North American statistics, the highest concentration of detailed information on the profile of the timeshare buyer comes from the U.S. market. Based on this data, the typical timeshare buyer is married, in the 40 to 60 age group, and has a household income ranging from $50,000 to $100,000.

Since vacation ownership programs come in a variety of ownership formats and occupancy "use programs", the appraisal of timeshare developments is highly specialized. This article highlights some of the important considerations one needs to understand when appraising a timeshare project.

A timeshare development is actually three businesses combined within one overall operation. These include 1) the sale of the interval product, 2) the treasury operation, and 3) the ownership of other operating assets. The characteristics and value observations of these three components are as follows.

Interval Sales: This component relates to the income generated from the actual sale of the timeshare interval. The interval being sold is transferred via a fee or non-fee ownership format. The total number of timesare intervals to be sold is fixed and, therefore, will sell-out over a certain period of time. The value of this component is the "present value of the interval sellout". The framework of the valuation methodology is similar to that utilized in the valuation of a whole ownership condominium development. Important factors influencing this analysis include determining the average price of the interval, the length of the sell-out period, sales and operating expenses, and the weighted average cost of capital. The average interval price and sell-out period are usually determined through a market analysis that takes into account similar products in the market, the product mix, and an understanding of the buyer profile to whom the product is being targeted.

Treasury Operation: In most timeshare projects the majority of the intervals sold are financed, with the purchaser making small cash down payment. The developer finances the purchaser and pledges his consumer note portfolio as collateral against a line of credit that he obtains. The interest rate paid by the timeshare buyer on his finance contract is greater than the interest rate being paid by the developer on his line of credit. The treasury operation represents the income made by the developer being in both the finance and interest rate arbitrage business. Since the net portfolio value of the consumer finance contracts is a major portion of the treasury operation asset base, the value of the treasury operation component of a timeshare development varies with any given point in time. However, the overall value of this component would represent the present value of the net income from the operation plus the net portfolio value of the contracts, as of a specified value date. For developers who do not finance the buyer, or who immediately sell their consumer notes, the treasury operation component of the business is minimal to non-existent.

Other Operating Assets: This component of the timeshare development includes the ownership retained by the developer of the other businesses that are complimentary to the project. These include the management contract for the timeshare owners association, food and beverage operations, and income producing recreational activities. Whereas the income generated from both the interval sales and the treasury operation components of the timeshare development will eventually terminate, the other operating asset component is unique in that it has annuity characteristics; i.e. the income generated from these assets will exist in perpetuity.

From a valuation standpoint, each asset in this category has its own unique income stream and risk profile. The total value contribution from this component of the development consists of the sum of the individual market values of each of the other operating assets present at the project.

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DEFINITIONS

Occupancy:	The ratio of total occupied rooms to total available rooms.
Average Room Rate:	Defined as room sales divided by the total number of rooms occupied.
RevPAR:	The application of a hotel's average occupancy to its average room rate and a true indicator of the property's ability to generate revenue. It is calculated by multiplying the occupancy by the average room rate.
Number of Rooms:	The total number of rooms at participating hotels.

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