Positioning for the Economic Turnaround

What are you doing to position your timeshare properties for the recovery? Although there are clearly many challenges at this time, there is good reason to prepare now to be ready for the economic upturn.

While timeshares remain the occupancy leaders in the resort world according to Smith Travel Research (hotels dropped five percent from 2007 to 2008, whereas timeshares experienced a two percent increase over the same time period), the construction of new timeshare properties has slowed drastically. So why should this be the time to build and renovate? Truly, there is no better time, as construction and labor costs are lower than they’ve been in years, and labor is more readily available.

The Question of Funding

In terms of timeshare, “the credit crunch is the issue, not consumer demand,” said David Pontius, RRP, president of Bluegreen Management Services.

Raising funding for ground-up construction in the current economic climate is extremely difficult, so many properties are logically turning to renovation and becoming more diligent about maintenance, as they realize the importance of sustainability, reduced running costs, and capital preservation.

For properties that have already begun renovation, the prospects are brighter. For those that have not yet obtained financing, however, the question is: “Where do we get the funds?”

Ken Simonson, chief economist of the Associated General Contractors in Washington, D.C., said banks are getting “hammered” from both sides. The government is providing money to restore lending, but it has to be prudent. Examiners are looking at all the bad debt from real estate and construction loans. There is hope, however—according to Simonson, the federal stimulus package is saving some contractors from going out of business and saving construction jobs.

“We’re not holding our breath for stimulus funding,” Pontius said. “The basic problem with timeshare construction is that it’s too capital-intensive. If we can reduce our dependency on capital, that’s the key.”

One of the ways Bluegreen is coping in a “capital light” way is through fee-for-service relationships, which consist of both resort management and sales and marketing services.

“We’re moving through developers’ standing inventories,” said Pontius, “which will lead to another round of construction.”

Assembling the Right Team

With “wariness” and “caution” as bywords, managers/operators looking to do resort construction must be more “choosy” than ever when assembling the right team for the job.

According to Brian McDonough, senior vice president of the hospitality, arts, and leisure sector for Faithful+Gould, to do the best job possible, here are some tips: (1) select experienced vendors, (2) perform thorough background and reference checks, and (3) make sure maintenance programs are included in vendor bids. Maintenance cannot be overemphasized, says McDonough. “Proper maintenance saves money in the long term and enhances corporate reputation.”

Supplier-vendor relationships in the resort industry are, for the most part, long-lasting, “and long-term relationships engender quality,” concluded McDonough.

The Importance of Sustainability

Sustainability has been touched on, but let’s get to the crux of the matter. Guests expect it. A recent survey by Deloitte indicated that 34 percent of respondents seek environmentally-friendly resorts, 38 percent have researched green lodging options, and 28 percent say they would be willing to pay 10 percent more to stay in a green lodging facility.

The latest forecast for the U.S. economy from the Federal Reserve suggests that it will stabilize by the end of this year and start to grow slowly in 2010.
build, while a new construction project can take 12-36 months (start to finish). Although it may seem to be counterintuitive, resort managers and operators need to be thinking now what projects could be right for their properties. The latest forecast for the U.S. economy from the Federal Reserve suggests that it will stabilize by the end of this year and start to grow slowly in 2010. If you want to be positioned with a new product in 2010 that can justify an increased ADR, then that planning should be happening this year.

The Trend to Timeshares

What could be more sustainably relevant than a timeshare? With consumer dollars prohibiting the purchase of vacation homes and the national trend toward closer-to-home vacationing, many people are turning to timeshares to experience a piece of ownership in a crunched economy. And hoteliers and condominium hotels are converting to timeshare in answer to this consumer trend.

“Our product is primarily based on drive-to destinations, and people haven’t stopped taking those kinds of vacations,” said Pontius. “Consequently, our sales are going extremely well.”

The flexibility of “lockout” units is another plus for timeshares, affording owners the chance to rent part of their property per their need. For hoteliers, the conversion to timeshare can be an easy renovation and provides the perfect opportunity to employ renewable materials and recycle construction site waste.

In summary, those owners and operators who have the fortitude to invest now in projects will be best positioned to gain the most from the coming economic turnaround. 

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