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Performance Trends: Renewed Focus on Operating Efficiencies

The vacation ownership industry had been growing at a significant rate in the years prior to the economic recession and credit crisis of the past two years. Developers' ability to access the credit markets was essential to this growth. During the second half of 2008 and into 2009, timeshare companies had to react to these broader economic constraints by immediately changing the manner in which they marketed, sold, and financed their timeshare properties.

Overview, Stats

Deloitte's recent quarterly pulse survey research for the ARDA International Foundation (AIF) shows that respondents eliminated more than 18,500 positions during the 12 months ending September 30, 2009. Most of these head-count reductions—17,500—occurred during the fourth quarter of 2008 (Q4 2008) and the first quarter of 2009 (Q1 2009), with a leveling off later in 2009. Furthermore, timeshare respondents reported that they added approximately 650 new positions during Q2 and Q3 2009.

Sales volume at respondent companies during the first three quarters of 2009 had decreased quarter over quarter as much as 41.3 percent. However, the sales volume rate of decrease slowed slightly after the first quarter of 2009. During Q3 2009, net originated sales were down 33.3 percent, compared to Q3 2008. The economic recession and diminished availability to raise capital appears to have spurred many timeshare companies to evaluate their current marketing channels, as well as to seek to retain their most successful and efficient sales personnel and sales sites, as sales efficiency metrics improved during 2009 through September 30. The improvement in sales efficiencies is evidenced by increases reported by respondent companies in close rates and average volume per guest from 12.1 percent and $1,969 during Q4 2008 to 14.6 percent and $2,125 in Q3 2009, respectively.

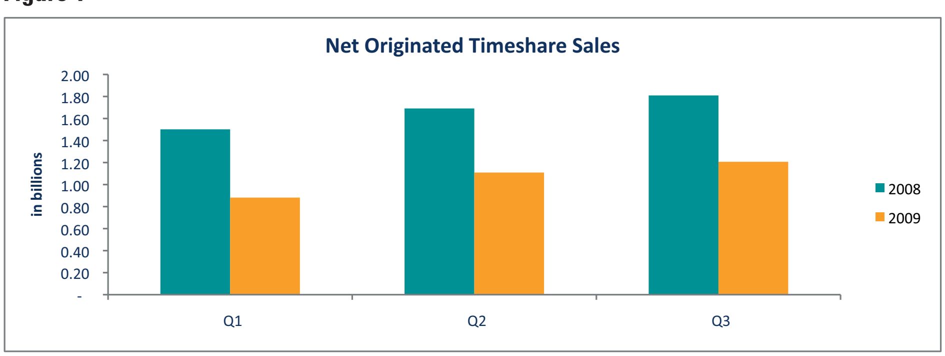
Responding timeshare companies realized higher default rates on financed vacation ownership interval sales in 2009 compared to prior years, as measured by the gross defaults that were charged against the allowance for uncollectible accounts as a percentage of the gross outstanding portfolio balance. The default rate for Q1 2009 was 3.8 percent, as compared to a default rate during Q1 2008 of 2.9 percent. However, the first quarter of 2009 default rate was the highest reported by the respondent companies during the first nine months of 2009. During Q3 2009, the reported default rate was back to 2.9 percent—an indicator perhaps of a peaking in the default rate. The survey results also showed other indicators of evidence of strength within the respondent companies' timeshare receivables portfolios. The currency rate of consumer loans, which were less than 31 days past due, rose from 88.5 percent as of December 31, 2008, to 88.9 percent as of September 30, 2009. In addition, average down payments on non-upgrade sales increased from 12.9 percent during Q4 2008 to 18.5 percent in Q3 2009.

Key Metrics to Know

It is in this context that we present the results of the Quarterly Pulse Surveys for the first three quarters of 2009. The results in these surveys are a measure of performance as of and through Q3 2009, reported by a range of 21 to 27 timeshare companies. The results below are a summary of selected key metrics that the AIF believes provide an overview of the vacation timeshare industry in the United States.

- Net originated sales at U.S. locations decreased substantially from 2008 (see Figure 1); however, we noted that the rate of decline quarter over quarter has been shrinking since Q1 2009. Net originated sales at U.S. locations decreased 41.3 percent from Q1 2008 to Q1 2009, 34.4 percent from Q2 2008 to Q2 2009, and 33.3 percent Q3 2008 to Q3 2009.
- Respondents reported hosting over 1.6 million sales presentation tours during 2009 through the third quarter. Respondents reported an average increase in their net closing rates and

Figure 1



average volume per guest each quarter in 2009. The closing rates and average volume per guest were as follows: 13.2 percent and $1,946 in Q1 2009, 13.8 percent and $2,043 in Q2 2009, and 14.6 percent and $2,125 in Q3 2009, respectively.

- Respondents reported that the average down payments on non-upgrade sales increased every quarter during 2009. Average down payments on non-upgrade sales were as follows: 14.7 percent in Q1 2009, 17.9 percent in Q2 2009, and 18.5 percent in Q3 2009. Further average down payments on upgrade sales remained relatively consistent and were as follows: 38.8 percent in Q1 2009, 39.8 percent in Q2 2009, and 38.7 percent in Q3 2009.
- Respondents reported average receivables portfolio interest rates to be consistent in 2009 with 2008 and were approximately 14 percent.
- Figure 2 (see below) illustrates the amount of gross defaults on timeshare portfolios during 2008 and the first nine months of 2009. The default rates were calculated as gross defaults that were charged against the allowance for uncollectible accounts, as a percentage of the gross outstanding portfolio balance at the end of the quarter. The default rates may have begun to level off.
- Figure 3 (see page 28) illustrates the level of portfolio currency (consumer loans

Figure 2

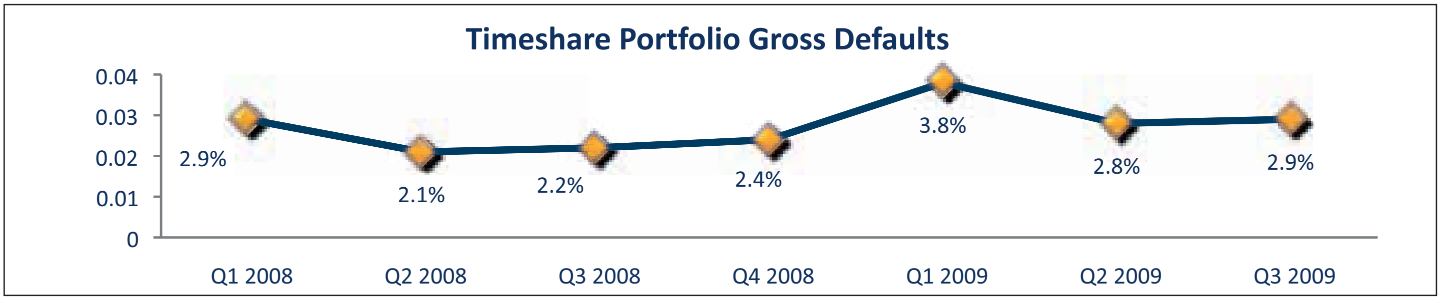
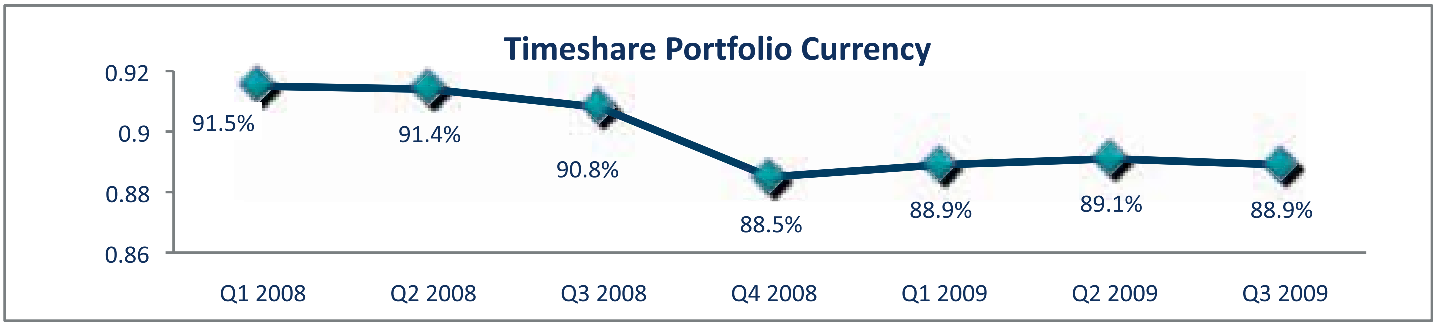


Figure 3



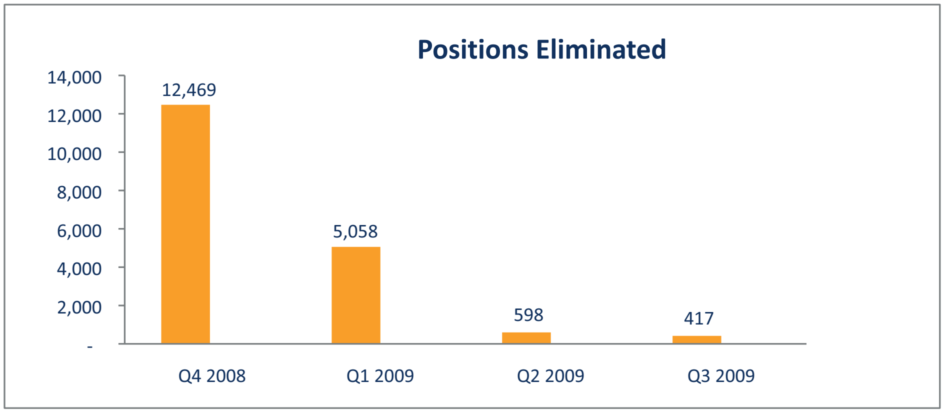
less than 31 days past due), as of the quarters ended during 2008 and for the first three quarters of 2009. Portfolio currency was at a lower level during 2009 through September 30 than during most of 2008 but now appears to have leveled off.

- Resort occupancy increased every quarter and remained relatively strong, despite the downturn in the economy during the first nine months of 2009.

Respondents reported occupancy of 71.6 percent in Q1 2009, 79.4 percent in Q2 2009, and 81.3 percent in Q3 2009. In contrast to the strong timeshare occupancy levels, U.S. hotels experienced a 9.9 percent decrease in occupancy resulting in an occupancy rate of 56.8 percent for the nine months ended September 30, 2009, according to Smith Travel Research.

- As a direct result of the current economic conditions, timeshare respondents reported full- and part-time position eliminations of over 18,500 during the twelve-month period ending on September 30, 2009. The vast majority (approximately 17,500) of these eliminations took place during Q4 2008 and Q1 2009.

Figure 4



- Despite the economic conditions present during the quarters shown above, some developers are still growing, as evidenced by timeshare respondents reporting that they added approximately 650 new positions during Q2 2009 and Q3 2009.

This article has presented certain key findings of the surveys. Readers interested in a more detailed understanding of how the surveys were conducted or in using the survey as a benchmarking tool may purchase a copy from the ARDA Research Library, which is online at ***www.arda.org.*** Vacation ownership development companies that are currently in active sales are encouraged to participate in future studies by contacting ARDA. **D**

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Sources:

2008 Fourth Quarter Pulse Survey: A Survey of Timeshare & Vacation Ownership Resort Companies, prepared by PricewaterhouseCoopers LLP for the AIF.

2009 First-Third Quarter Pulse Surveys: A Survey of Timeshare and Vacation Ownership Resort Companies, prepared by Deloitte & Touche LLP for the AIF.