2018 WITHUM TIMESHARE BENCHMARKING REPORT

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ADVISORY TAX AUDIT

At Withum, our team provides advisory, tax and audit services to clients in the vacation ownership industry, including associations, management companies, developers, exchange companies and a myriad of companies which are service providers to the industry. Our clients range from small, local, legacy resorts to large, branded resorts and everything in between. Our firm is dedicated to providing exceptional service and value to the industry, as well as engagement in thought leadership and technical expertise.

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01. Executive Summary

Withum performed a research study by obtaining a sample of approximately 100 Florida timeshare associations' audits and budgets and summarized the financial results and budgetary information. The data was analyzed and specific financial factors were reviewed. The study spans data from 2003 through 2017 and metrics are presented for different periods based on their relevance. The averages presented are an aggregation of the historical financial data accumulated from the underlying financial records.

BASED ON THE STATE OF THE VACATION TIMESHARE INDUSTRY: UNITED STATES STUDY 2018 EDITION CONDUCTED FOR THE AMERICAN RESORT DEVELOPMENT ASSOCIATION INTERNATIONAL FOUNDATION ("ARDA STUDY"), THERE ARE 1,570 TIMESHARE RESORTS NATIONWIDE AND APPROXIMATELY 24% OF THESE RESORTS ARE LOCATED IN FLORIDA, REPRESENTING 32% OF THE UNITS NATIONWIDE.

RESORTS REPRESENTED BY SIZE (MEDIUM)

Sample Size	102 Resorts
Total Intervals Represented	713,087
Average Intervals per Resort (Total)	6,991
Average Intervals: Small Resorts	1,660
Average Intervals: Large Resorts	12,117

SUMMARY OF SAMPLE COMPOSITION

The approximately 100 resorts included in the study represent 713,087 intervals or interval equivalents, which is an average of approximately 6,991 intervals (or 134 units) per resort. The sample was stratified into "small" and "large" resorts using a midpoint of approximately 3,000 intervals. Small resorts represent 12% of the total intervals sampled and large resorts represent 88% of the total intervals sampled. The following table summarizes the salient information about the sample.

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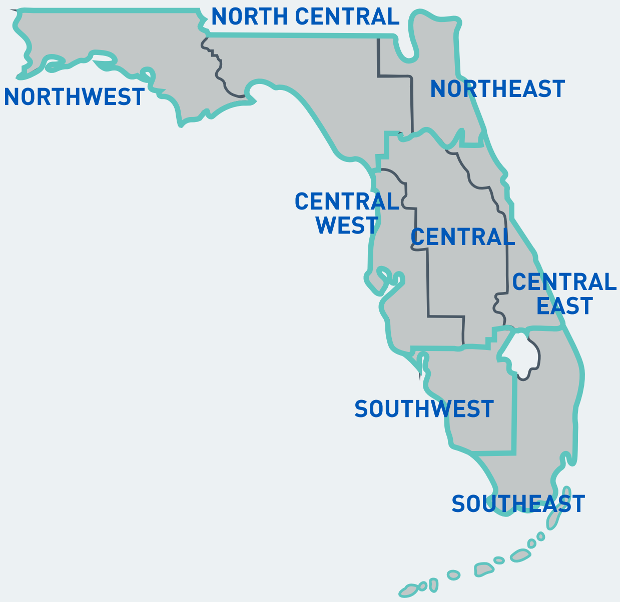


THE AVERAGE RESORTS SIZE OF EACH REGION IS AS FOLLOWS.

	REGION			
	NORTHERN	CENTRAL	SOUTHEASTERN	SOUTHWESTERN
Associations Sampled	7	65	17	13
Total Intervals	25,373	575,699	79,994	32,021
Average Number of Intervals per Resort	3,625	8,857	4,705	2,463
Average Number of Units per Resort	70	170	90	47

In addition to stratifying resorts by midpoint, data analytics for the resorts were performed based on location in the state of Florida. The associations were grouped into 4 separate geographical categories defined as central, northern, southeastern and southwestern regions. The location of each region in the state can be seen in the map graphic above.

The majority of resorts in the sample are managed by the resort developer or its affiliate with 69% of the associations falling into this category. Similarly, 66% of the resorts in the ARDA study were managed by the developer or affiliate, which is consistent with this study. The management structure by percentage for the associations in the sample can be found to the right.

MANAGEMENT STRUCTURE	PERCENTAGE OF RESORTS
Developer or Affiliate	69%
Third-Party Management Company	22%
Other (Self-Managed or Undisclosed)	9%

	NUMBER OF RESORTS
Brand	53
Non-Brand	49
Total	102

Also, for the resorts in the study, the table above summarizes the population of resorts between those that are nationally branded versus those that are non-branded.

	NUMBER OF RESORTS
Legacy (1990 and Prior)	45
Non-Legacy	57
Total	102

Further, for purposes of the study, "Legacy" resorts are defined as resorts incorporated before 1990. The table above represents the composition of the resorts in the study.

AGE OF RESORTS

< 1985	1986-1995	1996-2005	2006-2017
33%	27%	33%	7%

The average age of the associations in the study is 25 years old and is stratified in the graphic above.

THE AVERAGE FINANCIAL DATA PRESENTED IS OFFERED FOR COMPARISON PURPOSES FOR GAUGING ASSOCIATION FINANCIAL RESULTS AND PERFORMANCE IN CERTAIN AREAS. THIS INFORMATION IS USEFUL TO ASSOCIATIONS AND MANAGEMENT IN COMPARING THEIR SPECIFIC SITUATION WITH CURRENT INDUSTRY TRENDS.

02. Accounts Receivable and Bad Debts

Over the period of the study, there has been a significant increase in gross accounts receivable and allowance for uncollectible accounts for resorts, on average. The allowance for doubtful accounts has been increasing at a faster rate than gross receivables which has caused the average allowance for uncollectible accounts percentage to double since 2003.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Average gross accounts receivable as a percentage of total assets decreased slightly in 2017 over 2016 from 45% to 42%. The allowance for uncollectible accounts as a percentage of gross accounts receivable over the same period increased from 82% to 85%. The table below presents the average delinquent assessments receivable data for small and large associations.

AVERAGE DELINQUENT ASSESSMENTS RECEIVABLE	OVERALL		SMALL RESORTS		LARGE RESORTS	
	2017	2016	2017	2016	2017	2016
Allowance for Uncollectible Accounts	$1,960,529	$1,826,972	$544,107	$575,192	$3,322,474	$3,078,751
Accounts Receivable	$2,305,439	$2,222,321	$618,434	$654,061	$3,927,558	$3,790,581
Percentage	85.0%	82.2%	88.0%	87.9%	84.6%	81.2%

THE BREAKDOWN OF THE AVERAGE ALLOWANCE PERCENTAGE OF GROSS RECEIVABLES FOR 2017 AND 2016 BY REGION CAN ALSO BE SEEN IN THE TABLE TO THE RIGHT.

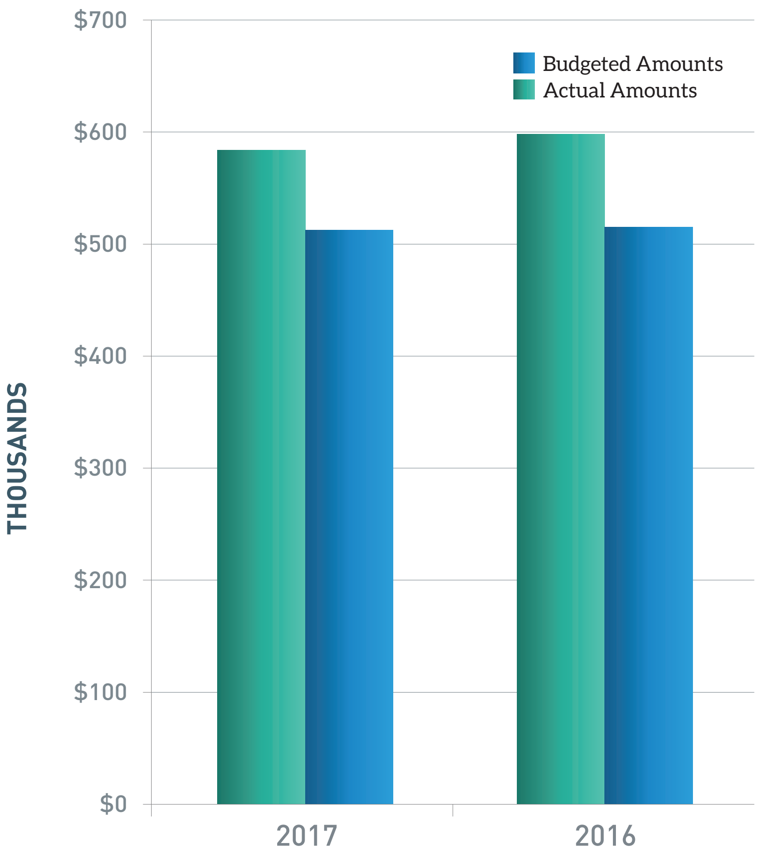
The northern and southeastern areas of Florida have the lowest allowance for uncollectible accounts as a percentage of gross accounts receivable and the central and southwestern areas have the highest.

AVERAGE ALLOWANCE PERCENTAGE OF GROSS RECEIVABLES	2017	2016
Northern	72.5%	73.3%
Central	86.4%	83.0%
Southeastern	68.9%	75.0%
Southwestern	92.6%	86.5%

BAD DEBT EXPENSE

The average budgeted and actual bad debt expense both saw a decrease in 2017 from 2016. Further, the gap between average actual bad debt expense and average budgeted bad debt expense decreased to 13.5% over budget in 2017 from 16.6% over budget in 2016. This metric shows that resorts are consistently under budgeting bad debt expenses in comparison to the actual experience. The changes can be seen in the graph below.

▼ BUDGET TO ACTUAL BAD DEBT EXPENSE



Actual bad debt as a percentage of operating assessment revenue decreased slightly to 11% in 2017 from 12% in 2016, and stayed constant as a percentage of total assessment revenue, inclusive of replacement reserves and real estate taxes, at 10% for both years. These metrics have remained relatively constant with only 1-2% changes since 2009.

03. Liquidity

In terms of percentage of associations sampled, the liquidity metrics showed some modest improvements in 2017 compared to 2016. Although budgeting appears to continue to improve, associations are not increasing maintenance fees sufficient enough to put an end to "spending next year's money".

The table below shows that for 2017 and 2016, 41% and 47%, respectively, of associations used some portion of prepaid assessments or next year's money, to pay this year's expenses. The averages presented in the table below are the average amounts for those resorts that used a portion of next year's collections prior to year-end.

LIQUIDITY	2017	2016
Number of Associations with Prepaid Assessments in Excess of Cash and Prepaid Expenses	42	47
Percentage of Total	41%	47%
Average Cash + Prepaid Expenses	$2,516,982	$1,917,255
Average Prepaid Assessments	$3,553,372	$3,103,510
Net (Next Year's Collections Used for This Year's Expenses)	$1,036,390	$1,186,255
Percentage of Associations with Net Losses in The Operating Fund	35%	30%
Percentage of Associations with Liabilities to The Replacement Fund	39%	33%

ONE THING TO NOTE IN THE PREVIOUS TABLE IS THAT THE PERCENTAGE OF ASSOCIATIONS WITH NET LOSSES IN THE OPERATING FUND AND THE PERCENTAGE OF ASSOCIATIONS WITH LIABILITIES TO THE REPLACEMENT FUND INCREASED BY SIMILAR AMOUNTS IN 2017 OVER 2016.

These percentages usually correlate with each other as the replacement fund often is used to fund deficits created from operations, even though it is against Florida Statutes and most organizational governing documents to do so.

When associations have operating deficits, this creates more of a need to finance current year operations with prepaid assessments, borrow from accumulated replacement funds or levy special assessments to owners. Continued losses and increased deficits and borrowings from replacements funds are potentially unhealthy indicators which could negatively affect an association's ability to continue as a viable entity.

04. Developer Involvement

The percentage of associations with developer guarantees increased to 13% in 2017, over 11% in 2016. For 2017, developer inventory as a percentage of total inventory was 18%, up from 16% in 2016.

For the resorts that had at least one association owned interval (43% of the resorts in the study), the percentage of association owned intervals increased to 6% in 2017 from 5% in 2016. Associations acquire intervals through various means as a result of owners defaulting on assessment payments.

Interestingly, the percentages of association and developer owned inventory vary greatly between brand and non-brand managed resorts. The table below is a summary of percentages of total intervals that are owned by the developer and the association by group for 2017 and 2016. This displays how management structure and size change the metrics.

2017 PERCENTAGE OF INTERVALS	Average	Brand	Non-Brand	Small Resorts	Large Resorts
Intervals Owned by Developers	20%	21%	15%	30%	19%
Intervals Owned by Associations	6%	<1%	7%	9%	5%

2016 PERCENTAGE OF INTERVALS	Average	Brand	Non-Brand	Small Resorts	Large Resorts
Intervals Owned by Developers	20%	21%	16%	32%	19%
Intervals Owned by Associations	5%	<1%	5%	7%	4%

These metrics highlight what some believe to be the biggest vulnerability faced by mature non-branded associations: the necessity to procure or develop a reliable resale program and monetize the inventory taken back.

05. Assessment and Expense Analysis

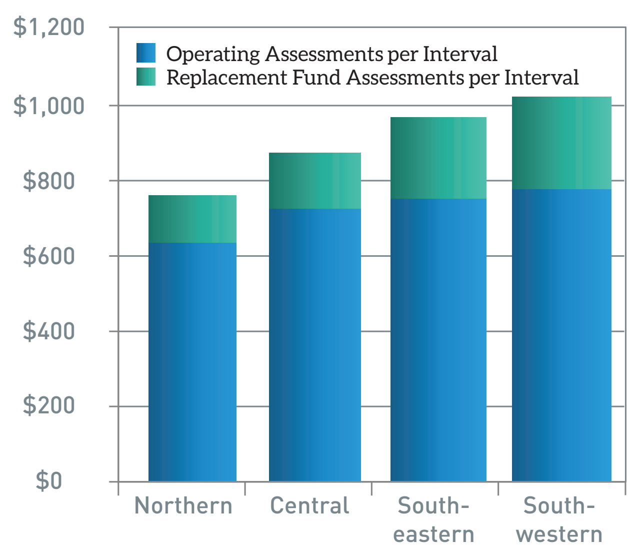
ASSESSMENT OVERVIEW

Assessments to owners rarely decrease, and the study shows consistent increases over 14 years of the study. Average total assessments for a weekly interval, including replacement reserves but excluding real estate taxes, were $896 in 2017 compared to $846 in 2016. This represents a 5.9% increase in total assessments per weekly interval.

When stratified by resort size, it is noted that the size of the resort does not necessarily affect the maintenance fee. The following table stratifies associations by the number of units and compares the average size and maintenance fee per interval (operating + replacement reserves).

	2017			2016
Number of Units	% of Resorts	Average Size of Resorts, in Units	Average Maintenance Fee per Interval	Average Maintenance Fee per Interval
Less Than 50	44%	30	$860	$802
51-100	20%	73	$955	$947
101-150	11%	119	$840	$827
151-200	7%	158	$823	$763
More Than 200	18%	447	$962	$924

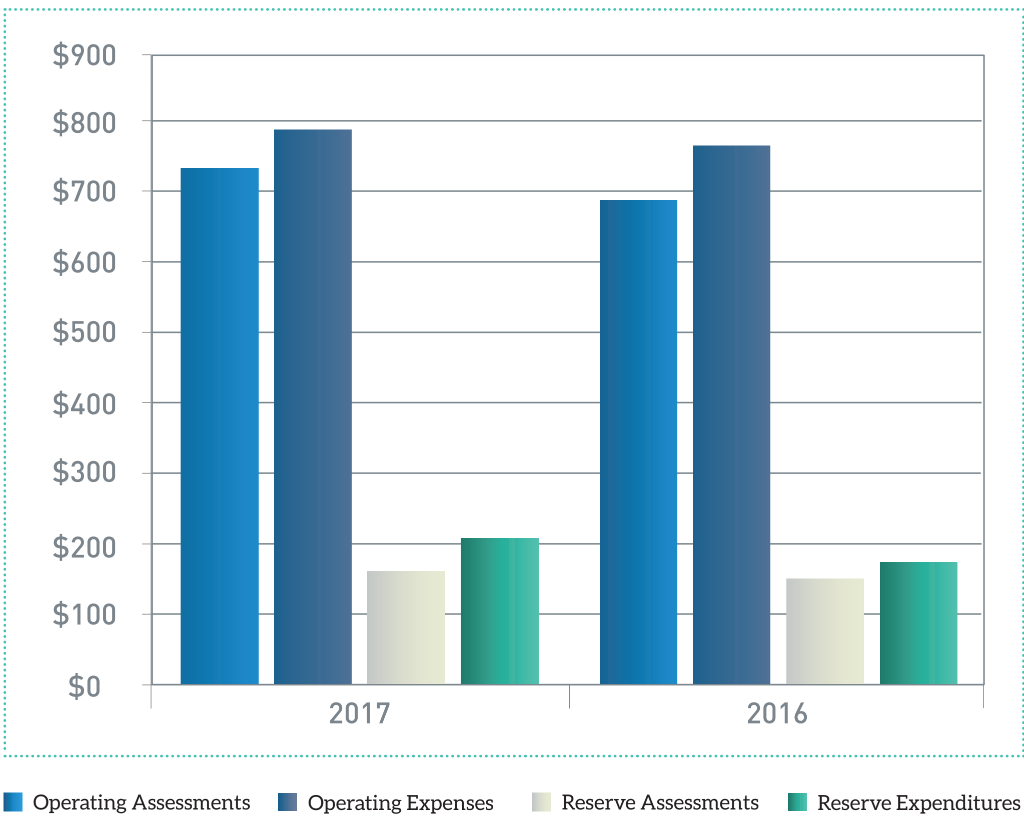
Assessments by geographical location can also be seen in the graph below. It can be noted that the southeastern and southwestern parts of Florida have the highest assessments per interval at $953 and $1,014, respectively.



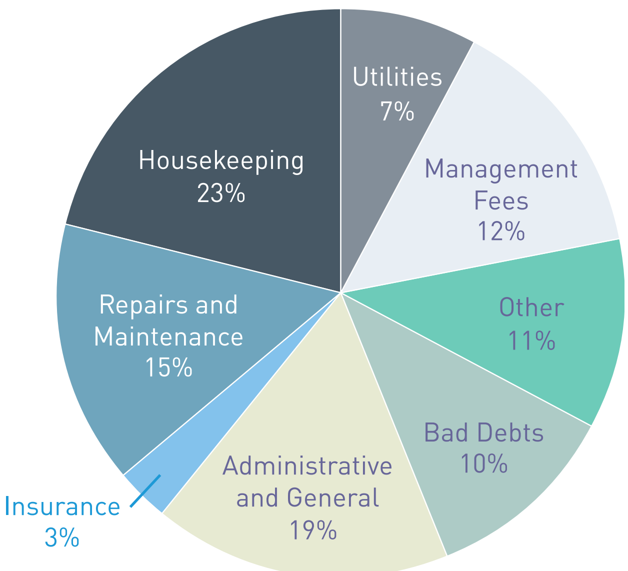
EXPENSE COMPARISON

Average total operating and reserve expenses per interval were $997 for 2017, up from $949 for 2016. The average total assessments (exclusive of real estate taxes), less operating and reserve expenses resulted in an average net loss of $101 and $103 per interval for 2017 and 2016, respectively, which is not a significant change. However, other types of income, such as rentals, ancillary operations and other sources help lessen the gap created by expenses in excess of assessments.

▼ THE CHART BELOW SHOWS THE BREAKDOWN OF ASSESSMENTS AND EXPENSES PER INTERVAL BETWEEN THE OPERATING AND RESERVE FUND.



EXPENSE BREAKDOWN



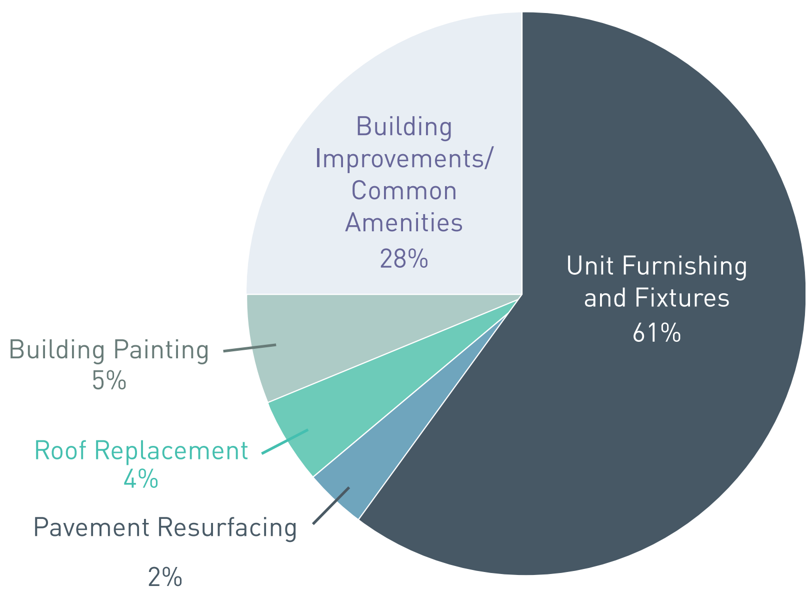
OPERATING FUND EXPENSES

For 2017, the resorts included in the study have reported operating expenses largely in seven main categories as depicted in the pie chart to the left showing the average results.

Most resorts include payroll in the functional expense category (i.e. repairs and maintenance, housekeeping, etc.) so payroll and the related benefits are not segregated as a functional expense category. These costs are by far the largest expense in most resorts, usually 25-40%.

REPLACEMENT FUND EXPENSES

The funding of replacement reserves is another important category. For 2017, this funding is on average 18% of the total assessments levied to owners, exclusive of the real estate tax portion of the assessment. The timing of the actual expenditures is, by its nature, different than the assessment revenue and any given year can bring large projects, both expected and unexpected. For the 2017, the average expenditures were more than average assessment revenue. The pie chart to the right depicts how those replacement reserve dollars were spent as a percent for each component:



06. Legacy Resorts

Legacy resorts (those started 1990 and prior for purposes of this report), have some significantly different metrics than their younger counterparts. The age of a resort appears to have a significant impact on average assessments levied as well as the size of the resort. The following tables show the difference between legacy and non-legacy resorts as compared to the overall population of the study.

	LEGACY RESORTS	NON-LEGACY RESORTS	ALL RESORTS
Number of Resorts	45	57	102
Average Number of Units	65	191	134
Average Number of Intervals	3,329	9,882	6,991
Brand	15	38	53
Non-Brand	30	19	49

AVERAGE ANNUAL ASSESSMENTS	LEGACY RESORTS	NON-LEGACY RESORTS	ALL RESORTS
Operating	$623	$819	$732
Replacement Fund	157	169	164
Real Estate Taxes	42	124	93
Total	$822	$1,112	$989

THE TABLE ABOVE REPORTS THE AVERAGE ANNUAL ASSESSMENTS FOR THE ASSOCIATIONS IN THE STUDY FOR LEGACY VERSUS NON-LEGACY RESORTS.

There are other areas as well where significant differences can be noted. These differences show that attention should be focused differently based on the age of the resort and what current issues may be arising. The following table displays select items with differences.

	LEGACY RESORTS	NON-LEGACY RESORTS	ALL RESORTS
Average Budgeted Bad Debt as a % of Actual	102%	88%	88%
Average Developer Owned Inventory to Total	13%	21%	20%
Average Percentage of Resorts with HOA Owned Inventory	58%	32%	43%
Average HOA Inventory to Total	8%	5%	6%
Number of Resorts with Special Assessments	7	3	10
Number of Resorts Under Developer Guarantee	1	12	13
Average Replacement Fund Expenses as a % of Assessments	122%	102%	124%
Number of Resorts with Operating Fund Losses	20	16	36
Average Management Fees to Budgeted Annual Operating Assessments	10%	14%	13%
Average Management Fees per Interval	$46	$105	$74

In a further breakdown of legacy resort statistics, it is important to also look at the metrics by those that are affiliated with a brand or are "independent". The metrics below display the metrics for legacy resorts for those that are branded vs. those that are non-branded.

	BRANDED LEGACY RESORTS	NON-BRANDED LEGACY RESORTS	ALL LEGACY RESORTS
Number of Resorts	15	30	45
Average Number of Units	87	53	65
Average Number of Intervals	4,532	2,728	3,329
Average Developer Owned Inventory to Total	16%	7%	13%
Average Percentage of Resorts with HOA Owned Inventory	27%	73%	58%
Average HOA Inventory to Total	1%	8%	8%
Number of Special Assessments Levied	1	6	7
Number of Resorts with Operating Fund Losses	6	14	20

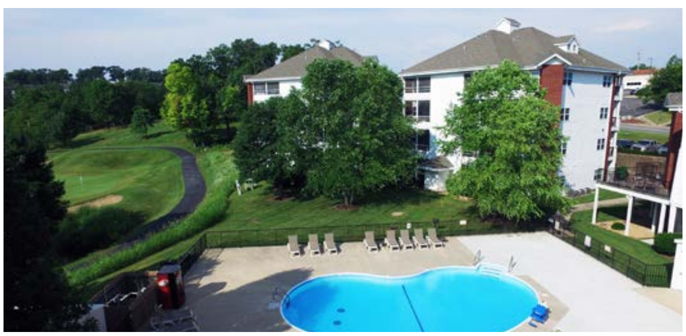
Average assessments for brand vs. non-brand legacy resorts can be seen in the following table.

AVERAGE ANNUAL ASSESSMENTS	BRANDED LEGACY RESORTS	NON-BRANDED LEGACY RESORTS	ALL LEGACY RESORTS
Operating	$761	$554	$623
Replacement Fund	270	101	157
Real Estate Taxes	81	31	42
Total	$1,112	$686	$822

07. Other Metrics

MANAGEMENT FEES

The average management fee as a percentage of budgeted annual operating assessments remained constant at 13% for the last two years, up from 12% for the seven years before that. Average management fees per interval were $74 for 2017. The chart below summarizes average maintenance fees per resort as stratified by number of units in the resort.



Number of Units	Average management fee per association	Average management fee per weekly interval	Average management fee as a percentage of operating revenue
Less Than 50	$99,100	$64	8%
51-100	$337,600	$89	10%
More Than 100	$1,533,700	$100	15%

GOING CONCERN MATTERS — OF THE SAMPLE AUDITS INCLUDED IN THE STUDY FOR 2017, 8% NOTED GOING CONCERN UNCERTAINTIES (WHICH IS CONSISTENT WITH 2016) COMPARED TO ONLY 5% IN 2015 AND ONLY 1% IN 2012.

REPLACEMENT FUND EXPENDITURES

The study shows that over the five year period from 2013 to 2017, replacement fund expenditures have been consistently increasing. This increase comes as no surprise as resorts are aging and thus are requiring more expenses for renovations which is depleting the amounts saved. Over the 5-year period studied, replacement fund expenditures have increased approximately 30%, whereas the related assessments only increased approximately 27%. In 2017, we saw a decline in budgeting for replacement fund savings as the assessments were approximately $164 per interval versus the replacement fund expenditures of approximately $203 per interval.

INCOME TAXES

Of the associations included in the study, only 33% paid income taxes in 2017. By and large, this taxable income is generated from investment earnings, rental income and other non-member sources.

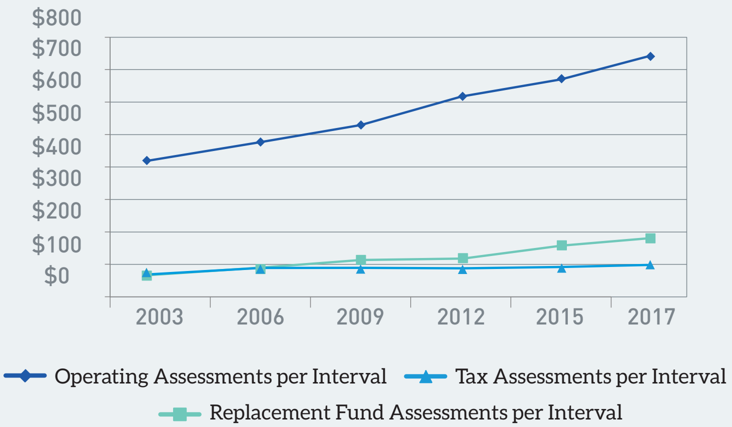
SPECIAL ASSESSMENTS

Approximately 10% of the resorts studied recorded special assessments during the year, mostly for capital projects in legacy resorts. This is a large increase over 2016 which reported only 4% of resorts with special assessments.

08. Historical Measurements

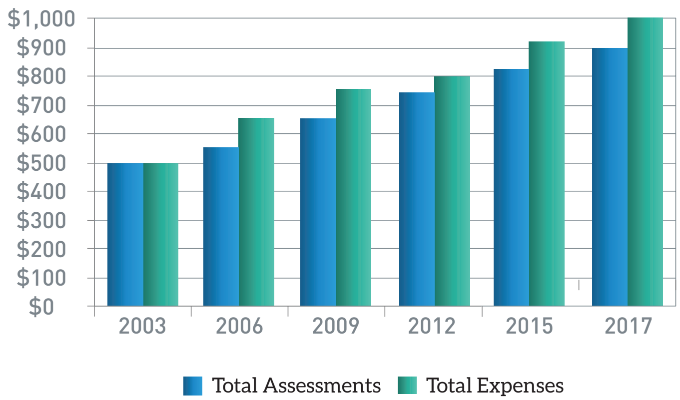
Data collected for the study goes back to 2003 and since that year, many of the metrics studied have changed significantly. The following charts and data depict just how much has changed.

▼ OPERATING, REPLACEMENT FUND, AND TAX ASSESSMENTS



Over the 15 year period studied, there has been an 80% increase in operating and reserve assessments per interval. Real estate tax assessments per interval have increased only 6% over the same period. Even though total assessments per interval have seen a large increase over the period in the study, there has been a steady increase in total assessments per interval of approximately 5% per year. This can be seen in the chart on the left.

▼ TOTAL ASSESSMENTS VS. TOTAL EXPENSES



As noted above, total assessments per interval have been steadily increasing since the inception of this study in 2003. This steady increase was necessary to make up for increased costs in operating the association. It can be observed in the chart below that both expenses and assessments per interval have increased since 2003. However, total assessments (operating + reserve) have not been increasing at a fast enough pace to keep up with related expenses.

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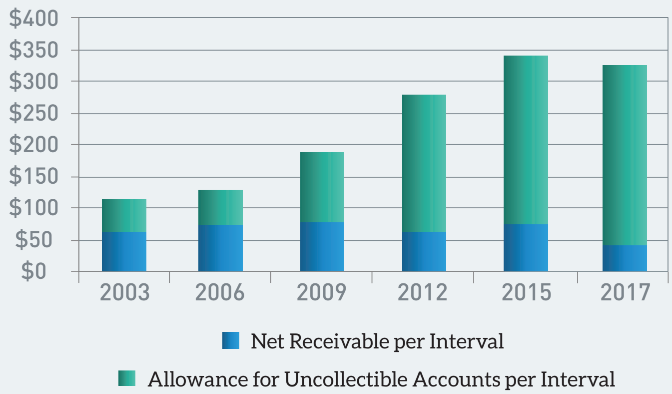
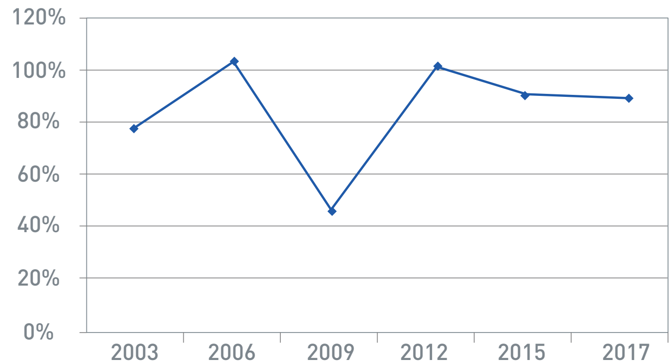
▼ AVERAGE ASSESSMENTS RECEIVABLE PER INTERVAL



As the associations have aged, so have gross receivables per interval. Since 2003, average gross receivables per interval have increased from $111 to $327, an increase of 195%. Net receivables per interval for the same time period have fluctuated between a low in 2017 of $47 and a high in 2009 of $79. Over this time period, associations have seen the average allowance for uncollectible accounts as a percentage of average gross receivables increase from 42% in 2003 to 86% in 2017.

▼ PERCENTAGE OF BUDGETED TO ACTUAL BAD DEBT EXPENSE



Over the last 15 years, the economy has experienced many changes. Naturally, this has had an effect on delinquencies. The graph on the left depicts the wide fluctuations in average budgeted bad debt as a percentage of actual bad debt experience recorded. The last few years have seen a stabilization around 88%; however, this indicates continued inadequate budgeting and contributes to the losses being experienced which was previously discussed.

09. Conclusion

There are many metrics presented in the data above that are intended to help resorts identify potential problem areas and to aid in evaluating resort health. As resorts are aging and operating costs continue to increase, resort operators and managers should maintain a careful watch to ensure that resorts can operate at a break-even point and continue to save for future major capital replacements. Bad debts and delinquencies, while fairly stable, need to be monitored constantly to identify whether projections are accurate and to address problems as they arise, not after it is too late.

Finally, budgeting should be realistic and not designed to keep assessments artificially low, which can cause operating deficits, special assessments, borrowing from replacement reserves and using increasing use of "next year's money" for current year expenses.

ABOUT WITHUM

Withum provides clients in timeshare, whole and fractional ownership associations and other industries with assurance, accounting, tax compliance and advisory services. For further information about Withum, this study, or the services they provide to the industry, contact Lena Combs (Lcombs@withum.com) or Tom Durkee (tdurkee@withum.com) at (407) 849-1569 or visit www.withum.com.

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