2020

Withum Timeshare Benchmarking Report

withum

ADVISORY TAX AUDIT

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01. Executive Summary

Withum's Hospitality Team performed a research study on Florida timeshare associations' audits and budgets and summarized the financial results and budgetary information to enable resort owners and finance executives to benchmark their resorts against industry averages. Representing nearly a third of all timeshare units nationwide, a sample of 101 Florida-based timeshare associations served as the backbone of data for the study. The benchmarking study spans Florida resort data from 2003 through 2019.

This report presents financial and operational metrics for different periods based on relevance; however, a majority of the information represents a two-year comparative period of 2019 versus 2018. The averages shown throughout the report are an aggregation of the historical financial data accumulated from the underlying financial records.

During 2019, many associations implemented **ASC 606, *Revenue from Contracts with Customers*** (the ASC), which changed some long-standing industry-wide financial reporting methodologies and financial statement presentations, primarily for replacement reserves and bad debts. In accumulating the data for 2019, it is noted that in the sample, over 20 different CPA firms performed these audits and at least five different methods of presentation were noted related to the new revenue recognition standards.

Based on the *State of the Vacation Timeshare Industry: United States Study 2020 Edition* conducted for the American Resort Development Association International Foundation ("ARDA Study"), there are 1,582 timeshare resorts nationwide. Approximately 24% of these resorts are in Florida, representing 32% of the units nationwide.

SUMMARY OF SAMPLE COMPOSITION

The 101 resorts included in the study represent 736,758 intervals or interval equivalents, which is an average of approximately 7,295 intervals (or 140 units) per resort. The sample was stratified into “small” and “large” resorts using a midpoint of approximately 3,700 intervals. Small resorts represent 12% of the total intervals sampled, whereas large resorts represent 88% of the total intervals sampled. Table 1.1 summarizes the salient information about the sample.

TABLE 1.1 - SAMPLE COMPOSITION

Sample Size	101 Resorts
Total Intervals Represented	736,758
Average Intervals per Resort - Total	7,295
Average Intervals (Small Resorts)	1,740
Average Intervals (Large Resorts)	12,740

MANAGEMENT STRUCTURE AND BRANDING

Most resorts in the sample are managed by the resort developer or its affiliate, with 72% 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 is shown in Table 1.2.

TABLE 1.2 - PERCENTAGE OF RESORTS

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Table 1.3 summarizes the population of resorts that are nationally branded versus those that are non-branded.

TABLE 1.3 - POPULATION OF RESORTS NATIONALLY BRANDED VS. NON-BRANDED

AFFLIATION	NUMBER OF RESORTS
BRAND	56
NON-BRAND	45
TOTAL	**101**

AGE OF RESORTS

The average age of the associations in the study is 26 years old, seen in the classification breakdown in Table 1.4.

TABLE 1.4

YEAR RESORTS INCORPORATED	PERCENTAGE OF RESORTS
1985 and Prior	31%
1986 - 1995	25%
1996 - 2005	32%
2006 - 2019	12%

TABLE 1.5

LEGACY VS. NON-LEGACY	NUMBER OF RESORTS
Legacy (1990 and prior)	41
Non-Legacy	60
Total	**101**

Further, for purposes of the study, "Legacy" resorts are defined as resorts incorporated in 1990 or before. Table 1.5 represents the composition of legacy versus non-legacy resorts.

FINANCIAL DATA

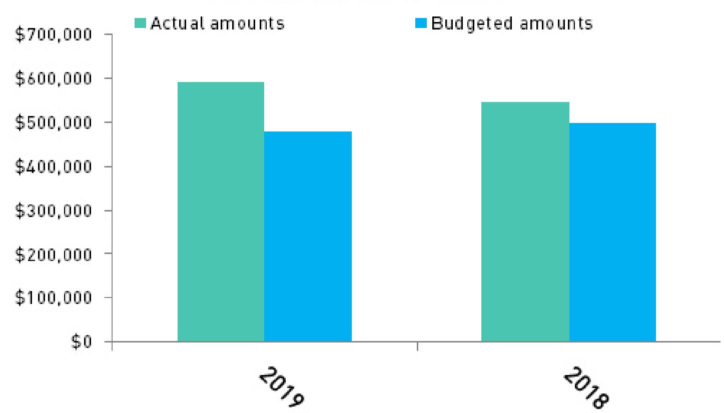
The average financial data presented offers a comparison for gauging association financial results and performance in certain areas, which can be useful to associations and management in comparing their specific situation with industry trends.

02. Delinquent Assessments

For 2019, the application of the ASC, as discussed in the executive summary, created a change in nomenclature around bad debts as well as some inconsistencies in presentation. Prior to the ASC, most uncollectible accounts were characterized and presented as credit losses in the operating fund.

This was the case, regardless of whether the uncollectibility related to losses or to billings which were not expected to be collected, which are considered to be variable consideration under the new guidance. Unlike bad debt expense, variable consideration is accounted for as a reduction of revenue rather than an expense. In late Spring of 2020, because of COVID-19, the mandatory implementation of the ASC was deferred until 2020. Consequently, some associations chose to defer implementation until 2020. Regardless of the method of presentation, for 2019 the amounts for either method of presentation were combined to arrive at a total. These amounts in total are referenced as the "delinquent assessment offset."

TABLE 2.1 - BUDGET TO ACTUAL DELINQUENT ASSESSMENT OFFSET



The average budgeted delinquent assessment offset saw a decrease in 2019 from 2018 of 3.7%, while the actual results saw an increase of 8.5%. Further, the gap between the average actual and average budgeted amounts increased to 23.8% over budget in 2019 from 9.8% over budget in 2018. This metric shows that resorts are consistently under budgeting in comparison to the actual experience for delinquencies.The changes can be seen in Table 2.1.

The actual delinquent assessment offset as a percentage of operating assessment revenue billed in 2019 was 10.2%%, a slight increase from 10.1% in 2018. These metrics have remained relatively constant with changes at or below 2% since 2009.

03. Liquidity

In terms of percentage of associations sampled, the liquidity metrics showed some modest improvements in 2019 compared to 2018. Although budgeting appears to continue to improve, associations are not increasing maintenance fees in sufficient amounts to cover operations. Therefore, many associations still find themselves "spending next year's money", which is best seen by comparing prepaid assessments to cash and prepaid expenses on the balance sheet.

Table 3.1 shows that for 2019 and 2018, 38% and 40%, respectively, of associations used a portion of prepaid assessments or "next year's money," to pay the current year expenses. Table 3.1 presents the average amounts for those resorts that used a portion of next year's collections prior to year-end.

TABLE 3.1	2019	2018
NUMBER OF ASSOCIATIONS WITH PREPAID ASSESSMENTS IN EXCESS OF CASH AND PREPAID EXPENSES	38	42
PERCENTAGE OF TOTAL	38%	40%
AVERAGE CASH + PREPAID EXPENSES	$3,152,210	$2,745,398
AVERAGE PREPAID ASSESSMENTS	$4,462,031	$3,904,839
NET (NEXT YEAR'S COLLECTIONS USED FOR CURRENT YEAR EXPENSES)	$1,309,821	$1,159,441
PERCENTAGE OF ASSOCIATIONS WITH NET LOSSES IN THE OPERATING FUND	34%	38%
PERCENTAGE OF ASSOCIATIONS WITH LIABILITIES OWED TO THE REPLACEMENT FUND	33%	35%

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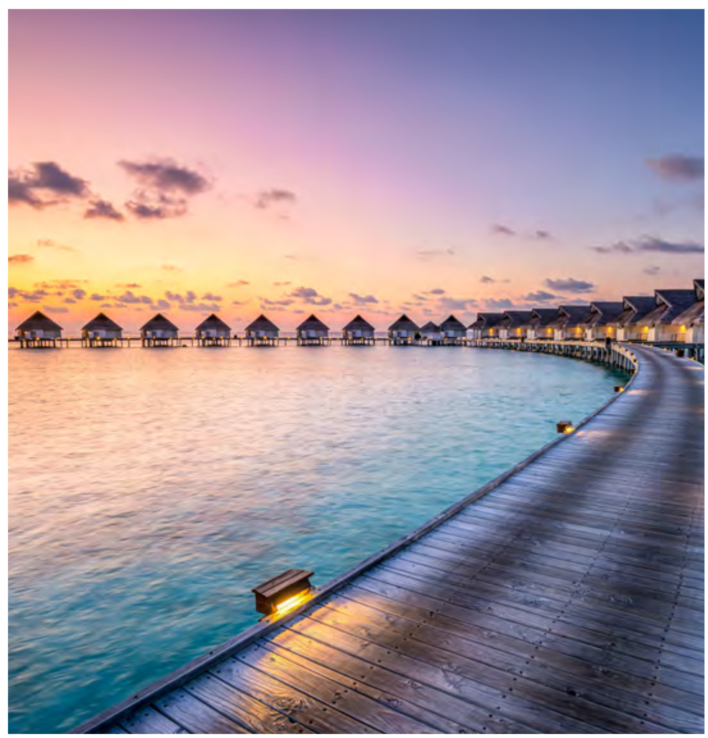
It's worth noting that the percentage of associations with net losses in the operating fund and the percentage of associations with liabilities owed to the replacement fund both decreased by similar amounts in 2019 over 2018. These percentages usually correlate with each other as the replacement fund is often used to fund deficits created from operations, even though it violates Florida Statutes and most organizational governing documents to do so.

When associations have operating deficits, this creates a greater 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 replacement funds are indicators of a potentially unhealthy financial position that could negatively affect an association's ability to continue as a viable entity.



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04. Developer Involvement

The percentage of associations with developer guarantees increased to 18% in 2019, from 16% in 2018. For 2019, developer inventory as a percentage of total inventory was 14.5%, up from 13.1% in 2018.

For the resorts with at least one association-owned interval (39% of the resorts in the study), the percentage of association-owned intervals remained constant at 5.8% in 2019 and 2018. Associations acquire intervals through various means due to owners defaulting on assessment payments.

Interestingly, the percentages of association and developer-owned inventory vary greatly between brand and non-brand managed resorts. Table 4.1 summarizes the percentage of total intervals owned by the developer and the association for 2019. The results show how management structure and size change the metrics.

TABLE 4.1 - 2019 PERCENTAGE OF INTERVALS

	Average	Brand	Non-Brand	Small Resorts	Large Resorts
Intervals Owned by Developers	11%	12%	8%	12%	15%
Intervals Owned by Associations	1%	<1%	4%	7%	<1%

These metrics highlight what some believe to be the most significant 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

The application of the ASC in 2019 also changed the presentation of replacement reserve assessments.

The different treatments of the financials include:

- Some associations treated the assessment as having a future performance obligation, and revenue is only recognized in the period when the performance obligation has been satisfied (i.e., expenses incurred), recording a contract liability for the remaining balance.
- Some associations identified these as "below the line" capital contributions instead of revenue.
- Some associations made no change to the presentations recording the entire amount assessed to owners as revenue in the current period.

For purposes of this study in accumulating data, the amounts included are related to total amounts assessed for replacement reserves, regardless of the revenue recognition methodology applied.

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ASSESSMENT OVERVIEW

Assessments to owners rarely decrease, and the study shows consistent increases over 16 years of data, with 2019 being no exception. Average total assessments for a weekly interval, including replacement reserves but excluding real estate taxes, were $971 in 2019 compared to $916 in 2018. The total average increase of 6% is comprised of a 6.3% increase in operating assessments coupled with a 4.6% increase in replacement fund assessments per weekly interval.

When stratified by resort size, the size of the resort does not necessarily affect the maintenance fee amount. Table 5.1 stratifies associations by the number of units and compares the average size and maintenance fee per interval (operating + replacement reserves).

TABLE 5.1

	2019			2018
NUMBER OF UNITS	% OF RESORTS	AVERAGE SIZE OF RESORT IN UNITS	AVERAGE MAINTENANCE FEE PER INTERVAL	AVERAGE MAINTENANCE FEE PER INTERVAL
Less than 50	42%	30	$942	$915
51 – 100	19%	75	$869	$939
101 – 150	11%	118	$826	$846
151 – 200	8%	162	$997	$915
More than 200	20%	444	$930	$991

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EXPENSE COMPARISON

Average total operating and reserve expenses per interval were $1,030 for 2019, up from $1,010 in 2018. The average total assessments (exclusive of real estate taxes), less operating and reserve expenses, resulted in an average net loss of $59 and $94 per interval for 2019 and 2018. However, other types of income, such as rentals, ancillary operations and other sources help lessen the gap created by expenses in excess of assessments.

TABLE 5.2 - ASSESSMENTS VS. EXPENSE BY FUND

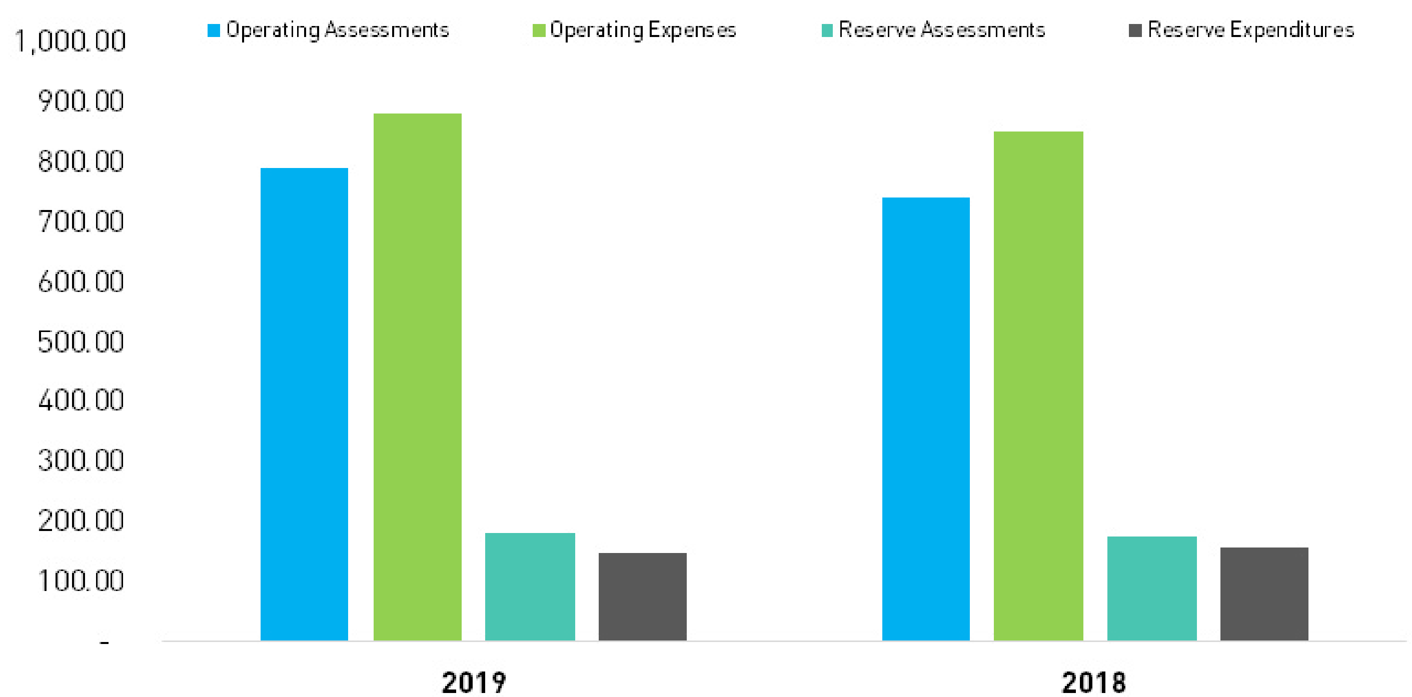

Table 5.2 shows the breakdown of assessments and expenses per interval between the operating and reserve fund.

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EXPENSE BREAKDOWN

OPERATING FUND EXPENSES►

For 2019, the resorts included in the study have reported operating expenses in eight main categories showing the average results, as depicted in Table 5.3.

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%.

TABLE 5.3 - EXPENSES

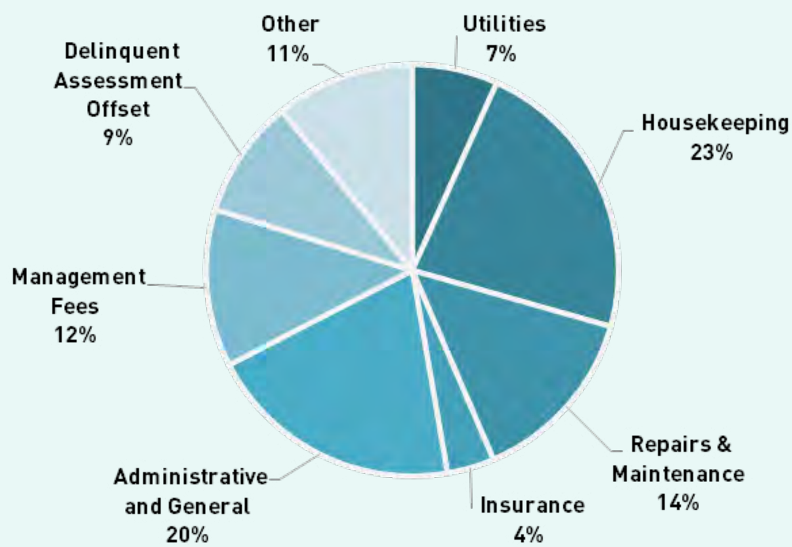
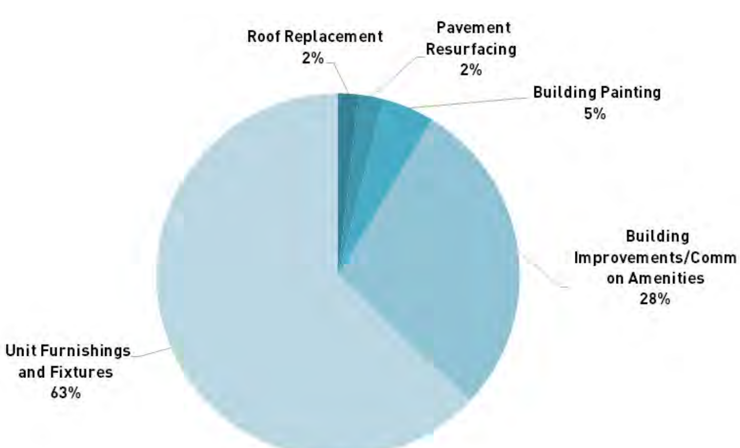


TABLE 5.4 - EXPENSES



◄REPLACEMENT FUND EXPENSES

The funding of replacement reserves is another important category. For 2019, this funding is on average 18.8% 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 timing of the assessment levied, and any given year can bring large projects, both expected and unexpected. Table 5.4 depicts how those replacement reserve dollars were spent as a percent for each component.

06. Legacy Resorts

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 compared to the overall population of the study.

TABLE 6.1	LEGACY RESORTS	NON-LEGACY RESORTS	ALL RESORTS
NUMBER OF RESORTS	41	60	101
AVERAGE NUMBER OF UNITS	68	192	140
AVERAGE NUMBER OF INTERVALS	3,443	9,927	7,295
BRAND	15	41	56
NON-BRAND	26	19	45

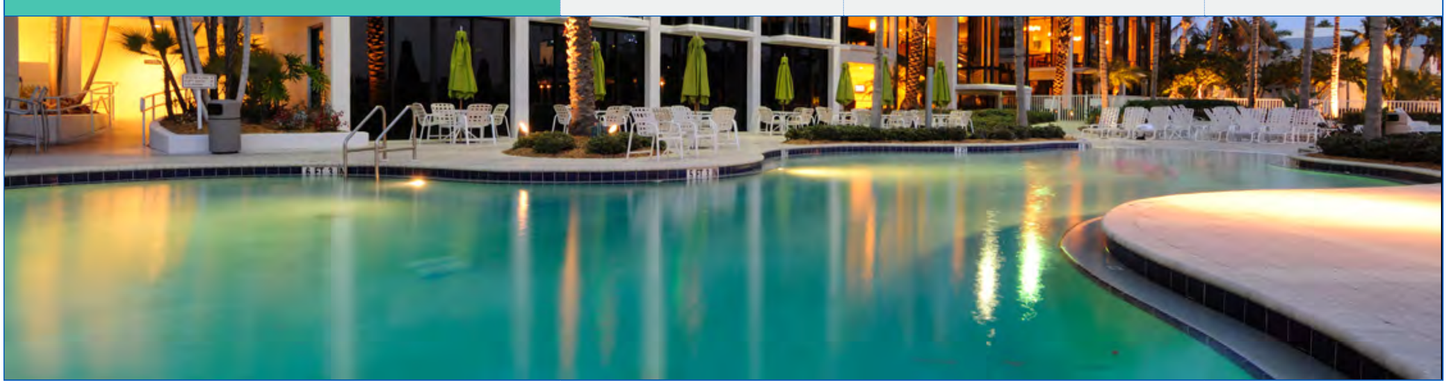
TABLE 6.2 AVERAGE ANNUAL ASSESSMENTS

Table below reports the average annual assessments for the associations in the study for legacy versus non-legacy resorts.

	LEGACY RESORTS	NON-LEGACY RESORTS	ALL RESORTS
OPERATING	$632	$895	$788
REPLACEMENT FUND	178	187	183
REAL ESTATE TAXES	52	134	107
TOTAL	**$862**	**$1,216**	**$1,078**

Significant differences can be noted in other areas as well. Table 6.3 displays select items with differences.

TABLE 6.3	LEGACY RESORTS	NON-LEGACY RESORTS	ALL RESORTS
AVERAGE BUDGETED DELINQUENT ASSESSMENT OFFSET AS A % OF ACTUAL	94%	79%	81%
AVERAGE DEVELOPER-OWNED OR RELATED TRUST INVENTORY TO TOTAL	12%	27%	24%
AVERAGE PERCENTAGE OF RESORTS WITH HOA-OWNED INVENTORY	61%	23%	39%
AVERAGE HOA INVENTORY TO TOTAL	7%	5%	6%
NUMBER OF RESORTS WITH SPECIAL ASSESSMENTS	1	1	2
NUMBER OF RESORTS UNDER DEVELOPER GUARANTEE	1	17	18
AVERAGE REPLACEMENT FUND EXPENSES AS A % OF ASSESSMENTS	110%	107%	107%
NUMBER OF RESORTS WITH OPERATING FUND LOSSES	16	18	34
AVERAGE MANAGEMENT FEES TO BUDGETED ANNUAL OPERATING ASSESSMENTS	11%	15%	14%
AVERAGE MANAGEMENT FEES PER INTERVAL	$59	$114	$88



In a further breakdown of legacy resort statistics, it is important to look at the metrics for those affiliated with a brand compared to those that are "independent." Table 6.4 shows the metrics for legacy resorts that are branded vs. non-branded.

TABLE 6.4	BRANDED LEGACY RESORTS	NON-BRANDED LEGACY RESORTS	ALL LEGACY RESORTS
NUMBER OF RESORTS	15	26	41
AVERAGE NUMBER OF UNITS	89	55	68
AVERAGE NUMBER OF INTERVALS	4,534	2,814	3,443
AVERAGE DEVELOPER-OWNED OR RELATED TRUST INVENTORY TO TOTAL	21%	8%	12%
AVERAGE PERCENTAGE OF RESORTS WITH HOA-OWNED INVENTORY	47%	58%	61%
AVERAGE HOA INVENTORY TO TOTAL	1%	8%	7%
NUMBER OF SPECIAL ASSESSMENTS LEVIED	0	1	1
NUMBER OF RESORTS WITH OPERATING FUND LOSSES	10	6	16

Average assessments for brand vs. non-branded legacy resorts are depicted in Table 6.5.

TABLE 6.5 - AVERAGE ANNUAL ASSESSMENTS

	BRANDED LEGACY RESORTS	NON-BRANDED LEGACY RESORTS	ALL LEGACY RESORTS
OPERATING	$802	$533	$632
REPLACEMENT FUND	311	101	178
REAL ESTATE TAXES	84	39	52
TOTAL	$1,197	$673	$862

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07. Management Fees

As a percentage of budgeted annual operating assessments, the average management fee remained relatively constant at 14% for 2019 and 13% for 2018. Average management fees per interval were $88 for 2019.

Table 7.1 summarizes average maintenance fees per resort as stratified by the number of units in the resort.

TABLE 7.1

NUMBER OF UNITS	AVERAGE MANAGEMENT FEE PER ASSOCIATION	AVERAGE MANAGEMENT FEE PER WEEKLY INTERVAL	AVERAGE MANAGEMENT FEE AS A PERCENTAGE OF ACTUAL OPERATING ASSESSMENTS
LESS THAN 50	$118,900	$77	10%
50 – 100	$353,900	$91	12%
MORE THAN 100	$1,742,000	$114	18%

Management fee calculations vary by resort or group of resorts. There are many different methods noted for calculating fees in the respective contracts, and there is no one way that is more common than another.

Some of the methods used are as follows, but this is far from a comprehensive list:

- A percentage of budgeted expenses (less management fees).
- A percentage of budgeted revenues, either in total or net of either replacement fund assessments, real estate tax assessments or both.
- A percentage of actual expenses incurred.
- A percentage of collections, often with a bonus if certain levels are exceeded.
- A flat amount per unit.

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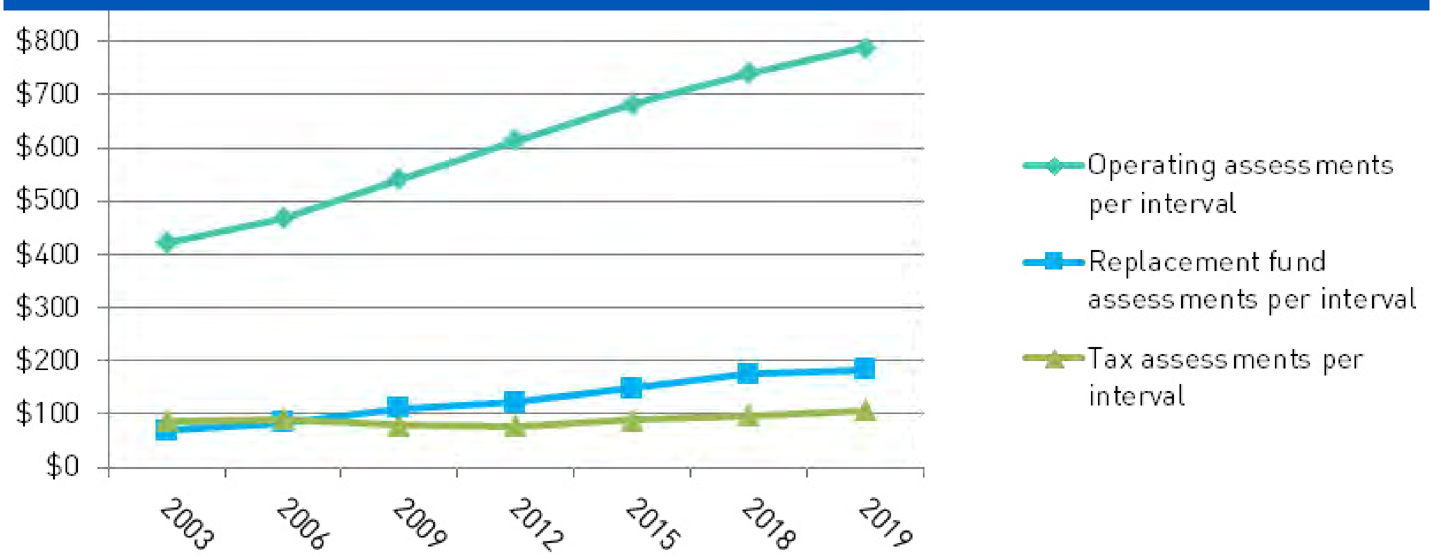
08. Historical Measurements

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 in this section depict the extent of change.

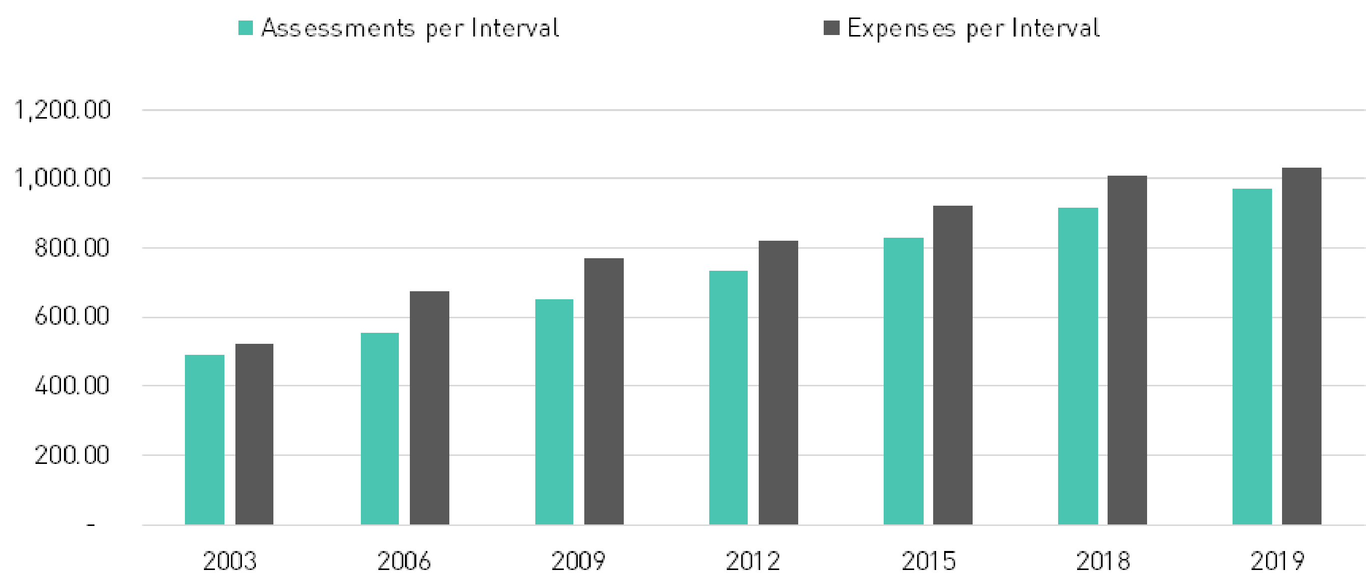
Over the 17-year period studied, there has been a 97% increase in operating and reserve assessments per interval. Real estate tax assessments per interval have increased only 22% over the same period. Over the period in the study, Table 8.1 shows there has been a steady increase in total assessments per interval, usually between 3%-6% per year.

TABLE 8.1 - OPERATING, REPLACEMENT FUND AND TAX ASSESSMENTS



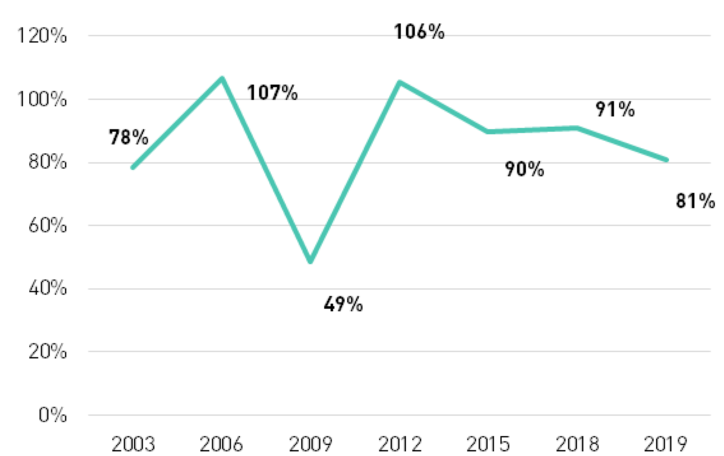
This steady increase is necessary to make up for increased costs in maintaining the association. It can be observed in Table 8.2 that expenses and assessments per interval have also increased since 2003. However, total assessments (operating + reserve) have not increased in appropriate amounts to keep up with related expenses.

TABLE 8.2 - TOTAL ASSESSMENTS VS. TOTAL EXPENSES



Over the last 17 years, the economy has experienced many changes which has affected delinquencies. Table 8.3 depicts the wide fluctuations in average budgeted delinquent assessment offset as a percentage of the actual recorded in the annual financial statements. The last few years have seen a stabilization between 80% and 90%; however, this indicates continued inadequate budgeting and contributes to the losses associations are experiencing.

TABLE 8.3 - PERCENTAGE OF BUDGETED TO ACTUAL DELINQUENT ASSESSMENT OFFSET



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09. Conclusion

The metrics in Withum's Timeshare Benchmarking Report are intended to help resorts identify potential problem areas within their business and aid in evaluating resort health. Resorts should also give consideration to any lasting impacts that may have resulted from the pandemic.

As resorts age and operating costs continue to increase, resort operators and managers should maintain a careful watch to ensure that they can operate at a break-even point and continue to save for inevitable, major capital replacements. While fairly stable, delinquencies need constant monitoring to identify whether projections are accurate and 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.

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