

RESORT MANAGEMENT

Resale Strategies in Today's Consolidating Market

BY DEBBIE ELY, RRP

As I prepare my next loan document for the latest resale purchase I'm financing, a big smile blooms on my face. The smile is caused by two weeks at Marriott's Aruba Surf Club being sold for \$66,000 on the resale market. This is fantastic - it's a trend I have been seeing for a few years now and makes me wonder how many other resale companies are feeling positive (or negative) impacts within the industry as more consolidations are occurring.

According to the ARDA International Foundation's 2018 State of the Industry, 56 percent of all timeshare resorts are still in active sales. However, each resort, without exception, must keep at least a small sales mechanism in play even if they categorize themselves as "sold out". Reason being is no resort will ever be completely sold out for long. As the weeks tick by, some owners will come into a life situation that will push them into exiting their timeshare for a magnitude of reasons and most of them have nothing to do with the product. One major key to success for any homeowners association is to replace an exiting owner quickly. As in all businesses, sales are a constant and 100 percent of resorts will need to replace a sale from time to time to keep maintenance fee payments realistically even with budgets.

Four Pillars of the Resale Market

The four pillars of the resale market are as follows: deed backs (commonly referred to as developer exit programs), traditional private sales handled by a licensed resale broker, on-site resales, and bulk sales. I spoke with a few experts regarding the four pillars of the resale market to get a real feel of how things are going. Many improvements and services have been

introduced as developers and HOAs embrace resales for better resort performance. Furthermore, working within the industry's supportive resales efforts keeps our owners out of the hands of destructive exit companies promising falsehoods and cancelled legal contracts.

Developer Exit Programs

Sam Pontius, president of Fidelity Real Estate Agency, has been a creative and helpful source to many large brands since joining the Fidelity team. According to Pontius, "Developers need to provide a legitimate exit solution for their owners. Every developer and resort should participate in taking back their inventory. If they do, there is no reason for their owners to ever pay an exit company thousands of dollars. The emergence and growth of the exit and mortgage cancellation companies are hitting our developers hard."

Pontius further explains, "Even with the best in-house developer exit programs there are still owners who fall through the cracks. The developer is never going to be able to help or capture 100 percent of the owners who are seeking help. It can be for a variety of reasons, some don't qualify, and some want to test the open resale market. Fidelity is there to act as the safety net or backstop for the developers and those specific owners."

Traditional Resales

Pontius adds, "We have numerous developer relationships with custom-designed resale programs tailored to each brand and their respective owner bases, including the top referral program in the industry. By having a direct referral relationship with a trusted reseller, a developer is ensuring that their owners are in good hands and, most

importantly, they're keeping them out of the hands of the bad actors. The developer is also providing a great customer service by offering much-needed guidance and direction for their vulnerable owners who can't tell the difference between the good guys and the bad guys. The best way to combat the exit companies is to create liquidity in the secondary market. Increasing sales is our primary focus and concentration. It has been incredible to see the hard work pay off. We have already matched our total sales closed from all of last year through the first six months of this year. We are on pace to more than double the number of sales and sales volume from the prior year. "

As one of the newer entities in the resale space, I can attest to Pontius' claim. Since launching Vacation Club Loans, a resale finance company, in 2016 we've seen the number of deals double year over year. Not only has the volume increased, but so has the contract dollar amounts, and this is where we get really excited, as it is indicative that the resale market is improving its pricing. Our average contract prices on the resale market across more than two dozen licensed resale brokers were \$11,842 in 2016, \$12,413 in 2017, and \$13,392 so far in 2018. The resale market is not surprisingly getting better at presenting the value of the product and benefits of vacation ownership despite some of those benefits being stripped from resale buyers. Adding a finance mechanism into the resale offer will surely continue to positively impact the whole industry. When resale prices get higher it will add more value to the original developer's sale price too.

On-Site Resales

Joseph Takacs, PhD, RRP, president of TheMVPService, has helped numerous

homeowners associations with creative internet solutions and on-site resales. When asked what current challenges face the HOAs he states, "Arguably one of the main issues is the pervasive negative publicity that surrounds the industry. There are many timeshare owners that are quite happy with their purchase and owning timeshare continues to be one excellent way to plan family vacations. But all the public seems to hear is how they should not own and what a bad decision they made.

The second major issue is the companies that now exist feeding on the negative publicity. Clearly the secondary market is not as well established and coordinated as the general real estate residential market. But taking money from an owner that cannot sell, and hurting numerous other owners in the name of 'helping one' is not the answer and further causes potentially greater damage to the other owners in the association.

Each association must acknowledge and deal with where they are. Some are arguably better suited to terminate some portion of the timeshare in favor of whole ownership for example – where the property is partially or totally changed to its 'highest and better use.' Together we must deal with the situation and outline the best options for that HOA."

To solve this issue in today's consolidating market Takacs explains, "We, TheMVPServices, look at all options and methods of selling at a property. Many of these HOAs are smaller and do not support a full-scale, developer-style, sales program. It becomes imperative to then work on smaller but effective tools to grind away at sales little by little. Facebook, email blasts, Twitter, website, aggressive rental program, on-site licensee, off-site sales, bulk sales - just to name some.

For example, MVP has been on the Outer Banks, North Carolina for several years now; enough that we have sold what we are supposed to sell. Now, for those owners that do own peak times at well-maintained resorts, the owners can expect aggressive pricing and decent checks when they do need to sell. Only when a program is in place, when the resort is well managed, when



there is a presence on-site, when owners know who they can trust; only then can a resale program begin to take hold and work. We are seeing it work and work right!"

Bulk Sales

Another resale solution to help various resorts is our third pillar: bulk sales.

Mr. Pontius describes this pillar best "For independent HOAs and resorts who need help offsetting their increasing bad debt, selling and/or leasing HOA-owned and delinquent inventory in bulk is many times the best solution. It provides the resort with an immediate shot in the arm and significant capital infusion. The key is to find the right buyer or lessee. An HOA's primary concern has always been increasing their number of dues-paying owners. What it should be is increase cash, reduce bad debt, monetize stale inventory, and maintain healthy reserves.

A bulk sale can accomplish all of those things at once. In a bulk sale, one purchaser, typically a timeshare development company or travel club with sufficient capital, will take ownership of a large bundle of intervals at a resort and that entity will be responsible for paying the maintenance fees of every interval each year. That provides the HOA with years of guaranteed cash on inventory that was otherwise non-performing."

Importantly, Takacs adds, "Online has seen the most improvement. RedWeek.com for example has 2.5 million subscribers and is averaging north of 30 sales per week on the resale market – and that is growing every day. Many of those are the "brands" but not all. Legacy resort inventory is being sold and sold right; with escrow, title options, and licensed agents handling communication."

As millennials become timeshare's biggest purchasers, online improvements will continue to add to resale efforts since the internet is the main area of research our younger consumers consult and trust. As this continues, another big smile will bloom on my face as I assist in closing those resales and improving this market even more to benefit developers, HOAs, and our much-needed (although by some under-appreciated) resale brokers. ■



Debbie Ely is the president of Vacation Club Loans. She began her career in the timeshare industry in 2007 and is a Registered Resort

Professional earning the industry's highest certification given by ARDA. As a seasoned accountant, she gained valuable experience in timeshares through frontline retail-priced sales, lender financing, and resort rentals.