

# TIME-SHARE PERFORMANCE: A SURVEY OF FINANCIAL DATA FROM DEVELOPERS

*The time-sharing industry is healthy today but needs an efficient means of reselling units to prosper in the future.*

by **Marvin L. Bouillon and Jennifer Wang**

**T**ime-sharing, a means of sharing a vacation home with other people, gained wide appeal during the 1960s in Europe where families traditionally vacation in the same location year after year. Since its introduction in the United States in the early 1970s, time-sharing has become widely used. Time-share sales, which totaled \$10 million in the United States in 1975, increased to over \$1.3 billion in 1981.<sup>1</sup> By 1987, the U.S. time-share industry had sales of \$1.75 billion.<sup>2</sup> Over 1.3 million Americans have purchased time-shares,<sup>3</sup> and California, Colorado, Florida, Georgia, Hawaii, South Carolina and Texas have been the most popular locations.<sup>4</sup>

But while the development of time-share units has become increasingly popular in recent years, research in this area has been limited. The purpose of the study reported in this article is to present some descriptive statistics on time-share resorts.

The study characterizes the time-sharing industry as indicated by the results of a questionnaire sent to the developers of the resorts in the United States that are members of the National Time-Sharing Council (NTC) and provides current statistics pertaining to this growing area of the economy.

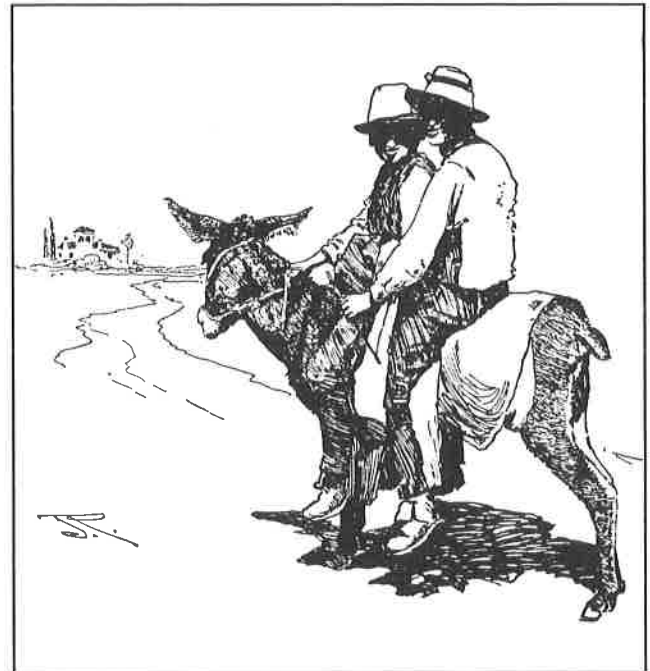
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## Time-Share Operations And Practices

Time-sharing essentially involves prepayment of vacation accommodations for many years into the future. There are two basic categories of time-share ownership: (1) fee simple and (2) right-to-use. Fee simple ownership provides the buyer with all the rights inherent in real estate ownership, such as the right to sell, lease or bequest the interest. Purchase of a fee simple time-share is evidenced by the transfer of certificate of title. The right-to-use plan, which is basically a lease, provides the owner with the right to occupy the resort and to utilize its facilities for a particular time period. Legal title to the property is not given to the purchaser of the right-to-use form of time-share ownership.

Generally, time-share units are divided into week-long segments with one or two weeks a year set aside for maintenance. The owner of a time-share unit is responsible for paying an annual maintenance fee for paying taxes, property repairs and housekeeping. This fee, like the price of a time-share, varies depending on the demand for the unit. In general, high demand periods are classified as "red" weeks and have the highest maintenance fees and time-share prices. Periods of medium demand ("white" weeks) or low demand ("blue" weeks) have correspondingly moderate or low fees and prices.

Time-shares also are sold as fixed time or as floating time. Fixed time provides continuity because the consumer buys an interval of time in a particular time-share unit for a specific week. Floating time provides flexibility because the purchaser buys a week in a time-share unit to be used within some extended time period. If a developer is selling both types of time plans, fixed time is more likely to be used during periods of high demand.

International exchange companies allow a time-share owner an opportunity to trade his week at Resort A for another comparable week at Resort B. Strict rules must be observed in the exchange process, and the system's ability to satisfy exchange requests depends on the available vacancies at a chosen location. RCI, Interval International and The Exchange Network are three of the major international exchange firms.

Many interesting questions arise in the area of time-share financing: What organizations are more likely to finance time-share units? When the time-share developer provides financing, how much is collected as a downpayment? What interest rate is charged? What is the length of the financing? Who services the paper? Finally, do developers provide a resale program? This article answers these questions with information collected via a questionnaire, and it discusses how important the resale market is to the future of the time-share industry.

### Methodology And Data Collection Procedures

This study pursued the performance of time-shares by asking developers to provide financial data. A questionnaire consisting of 18 questions was mailed in November, 1988, to all 129 United States resorts listed in the 1985 NTC directory. The questions are shown in Exhibit I. The respondents were asked to complete the questionnaire and return it in a stamped, self-addressed envelope. A follow-up letter was mailed about one month later. Four questionnaires were returned as undeliverable. Forty-five (34.9%) completed questionnaires were received.

Table 1 reveals the location of the 129 resorts that were questioned as well as the location of the 45 resorts that returned completed questionnaires. As the table indicates, the developers who completed the questionnaire appear to represent the entire population of NTC firms.

**TABLE 1**

Location of the National Time-Sharing Council Firms and the Respondents to the Survey Questionnaire

State	No. of NTC Firms	No. of Completed Questionnaires
Arizona	3	1
Arkansas	5	3
California	28	9
Colorado	4	2
Florida	31	13
Georgia	2	1
Hawaii	2	2
Idaho	1	0
Louisiana	1	0
Maine	1	1
Maryland	1	1
Michigan	1	0
Minnesota	1	0
Missouri	4	1
Nevada	1	0
New Hampshire	6	1
New York	3	1
North Carolina	9	2
Oregon	1	0
Pennsylvania	7	0
South Carolina	8	2
Tennessee	2	1
Utah	2	1
Vermont	1	1
Virginia	2	0
Wisconsin	2	2
Total	129	45

### Results

According to the results of the survey, 79% of the respondent developers consider their resorts to be national. Furthermore, the firms that responded are on the average 7.4 years old with a mode of seven years. Only 20% of the firms are 10 years or older, and the oldest resort is 14 years old. These responses illustrate that the time-sharing industry is extremely new in the United States and that most time-sharing developers are interested in selling to a national clientele.

Nineteen (42.3%) of the time-sharing projects report that less than 50 building units have been constructed. Eighty percent of the projects are less than 200 building units in size, which means that many of the projects are small. Forty-one (91.1%) of the reported projects sell time-shares for 50 or more weeks a year in each building unit, while only three of these 41 developers sell all 52 weeks. This indicates that the projects sell as many of the available weeks in each unit as possible. Many of the units have two bedrooms, two bathrooms and sleep six people comfortably. Only five resorts sell one-bedroom units, while only four developers have one-bathroom units.

Eighty-seven-and-a-half percent of the resorts sell "fee simple" time-shares. Thirty developers sell only "fixed time" time-shares; 11 resorts sell only "flexible time"; the remaining four firms sell both types of time plans. This finding indicates that most of the developers sell ownership rather than a lease to the time-share property for a particular week in a specific building unit.

Twenty-six (66.7%) of 39 developers report that 10% or less of their sales are cash sales, which means some form of financing is provided for most time-share sales. In 60.5% of the resorts, financing is made available through their own offices, and banks and savings and loans are major sources for outside financing. When financing is provided by the developer, a 10% to 20% down payment usually is received. The mean down payment in our sample is 16.2%. The average interest rate charged is 13.9%, and it varies from 0% for a Florida developer who requires a 40% down payment with 12 monthly payments to 18% for a Florida firm that requires a \$1 down payment for a five-year mortgage. Fifty-six percent of the financial paper is serviced inhouse, and 27% is serviced by the lender.

Sixty-four percent of the firms in the sample belong to the RCI exchange company, and 26% are members of Interval International. Finally, 36% of the firms report that a resale program is available through their company.

**TABLE 2**

Prices and Maintenance Fees Reported by Time-Sharing Resort Developers

Season	Price	Prices	
		Mean	Standard Deviation
Red Week	High	\$12,858	\$5,909
Red Week	Medium	10,980	2,971
Red Week	Low	8,821	4,251
White Week	High	\$ 8,151	\$3,532
White Week	Medium	7,588	3,003
White Week	Low	6,420	2,615
Blue Week	High	\$ 6,246	\$3,251
Blue Week	Medium	5,838	2,663
Blue Week	Low	4,726	2,399

Season	Maintenance Fees	
	Mean	Standard Deviation
Red Week	\$270.78	\$115.89
White Week	249.03	98.49
Blue Week	243.53	100.89

**Notes:**

Most time-share weeks are divided into three categories based on demand for the particular resort in a specific season. A "red" week occurs when the resort is in high demand. A "white" week and a "blue" week occur when the resort is in medium and low demand, respectively.

The developer was asked to report the high, medium and low prices for each time-share season.

**TABLE 3**

Medium Prices and Maintenance Fees Reported by Time-Sharing Resort Developers by Area of the Country

Season	Prices					
	California	Florida	Hawaii	West <sup>a</sup>	South-east <sup>b</sup>	North-east <sup>c</sup>
Red Week	\$9,533	\$11,535	***	\$9,906	\$9,483	\$13,020
White Week	6,375	8,640	***	7,178	6,350	7,360
Blue Week	4,800	6,223	***	5,428	5,050	5,330

Season	Maintenance Fees					
	California	Florida	Hawaii	West	South-east	North-east
Red Week	\$348.00	\$258.00	\$405.00	\$246.80	\$226.50	\$212.40
White Week	300.20	258.00	405.00	212.10	226.50	193.50
Blue Week	291.83	258.00	405.00	199.56	217.83	186.60

**Notes:**

\*\*\*No prices were reported.

<sup>a</sup> Includes the following states: Arizona, Arkansas, Colorado, Missouri, Utah and Wisconsin.

<sup>b</sup> Includes the following states: Georgia, North Carolina, South Carolina and Tennessee.

<sup>c</sup> Includes the following states: Maine, Maryland, New Hampshire, New York, and Vermont.

Tables 2 and 3 provide data on pricing and maintenance fees. Prices charged for a week range from \$500 for a low demand ("blue") week in Maryland to \$32,000 for a high demand ("red") week in Florida. Medium priced, high demand ("red") weeks sell for \$10,980 on the average, while the medium demand ("white") and low demand ("blue") weeks go for a medium price of \$7,588 and \$5,838, respectively. On the average, the Northeast (\$13,020) and Florida (\$11,535) charge a higher price for their high demand units than California (\$9,533), the West (\$9,906) and the Southeast (\$9,483).

Maintenance fees are more expensive for a high demand ("red") week (\$270.78) than for a medium demand (\$249.03) or a low demand (\$243.53) week. Hawaii has the highest maintenance fees on average at \$405.00 for all three levels of demand. Florida and California also are relatively expensive when compared with the other regions. These three states are very popular resort areas, and their popularity may be driving prices upward during high demand seasons.

**Summary**

The results of this study indicate that most developers of time-share projects consider their units to be national resorts and generally sell two-bedroom, two-bathroom units, which sleep six people comfortably. In addition, most resorts are involved with "fee simple" and "fixed time" time-share units. Over half of the resorts (60.5%) provide their own financing of time-share units. Meanwhile, banks and savings and loans are considered popular sources of outside financing. The down payments, interest rates and terms of the financing through the

developer appear to be competitive to those provided by outside sources. Prices charged for time-share units tend to be higher in Florida and the Northeast region of the United States, while maintenance fees are higher in Hawaii and California.

### Conclusion

The time-share industry is changing dramatically. Firms such as Marriott Corporation and Walt Disney Company recently have entered the industry, and it is expected they will improve the industry's image.

The future of the time-share industry from the developer's viewpoint is dependent upon the resale market. We found in our survey that only 36% of the firms provide a resale market. Since the easy sales already have been made, the time-share industry needs a mechanism to

efficiently resell time-share units. Currently, computerized national clearinghouses devoted to selling time-share units are available, but it remains unclear whether they are reselling time-share units efficiently. Future research needs to focus on the effectiveness of the resale market.

### NOTES

1. Tharmalingam, Kumar "Time-Sharing: Is It Here to Stay?" *Appraisal Journal* (Oct, 1986): 571-81.
2. Taylor, John H. "We Thought We Were Invincible," *Forbes* (Sept 19, 1988): 72.
3. Fins, Antonio N. "Condo Time-Sharing Tries to Live Down Its Past," *Business Week* (Jun 19, 1989): 80.
4. Elliot, E. and Susco W., "Vacation Options," *Working Women* (Sept, 1982): 72.

## EXHIBIT I

### Questions Presented to Time-Share Developers

- | <ol style="list-style-type: none"> <li>1. Which of the following best describes your time-sharing resort?               <ol style="list-style-type: none"> <li>a. It is one that is nationally recognized and attracts people from all areas of the country.</li> <li>b. It is a property that is located in a single or multi-state area and appeals to buyers in that limited area.</li> </ol> </li> <li>2. What is the age of your time-sharing resort?</li> <li>3. How many building units do you have in the time-sharing program?</li> <li>4. How many weeks do you sell in each unit (e.g., 50 or 51 weeks)?</li> <li>5. How many bedrooms are there in each building unit?</li> <li>6. How many bathrooms are there in each building unit?</li> <li>7. How many people are able to sleep in each building unit comfortably?</li> <li>8. What type of ownership is sold to the buyer?               <ol style="list-style-type: none"> <li>a. Fee simple</li> <li>b. Right-to-use</li> <li>c. Other (Specify) _____</li> </ol> </li> <li>9. What type of usage is provided to each buyer?               <ol style="list-style-type: none"> <li>a. Flex time</li> <li>b. Fixed time</li> <li>c. Other (Specify) _____</li> </ol> </li> <li>10. What percentage of time-sharing sales are cash sales with no financing?               <ol style="list-style-type: none"> <li>a. 5%</li> <li>b. 10%</li> <li>c. 15%</li> <li>d. 20%</li> <li>e. Other (Specify) _____</li> </ol> </li> <li>11. Do you finance the purchase of time-shares through your office?</li> <li>12. If your answer to 11 is "no," then who provides the financing? (Circle all appropriate responses.)               <ol style="list-style-type: none"> <li>a. Banks</li> <li>b. Savings and loans institutions</li> <li>c. Credit unions</li> <li>d. Private individuals</li> <li>e. Other (Specify) _____</li> </ol> </li> </ol> | <ol style="list-style-type: none"> <li>13. If your answer to 11 is "yes," then provide the down payment that is needed to receive a certain interest rate and terms (e.g., a 20% down payment may allow a buyer the option to receive a loan at 8% for 10 years.)               <table border="0" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th style="text-align: left; width: 33%;">Downpayment</th> <th style="text-align: left; width: 33%;">Interest Rate</th> <th style="text-align: left; width: 33%;">Term</th> </tr> </thead> <tbody> <tr> <td>_____</td> <td>_____</td> <td>_____</td> </tr> <tr> <td>_____</td> <td>_____</td> <td>_____</td> </tr> <tr> <td>_____</td> <td>_____</td> <td>_____</td> </tr> </tbody> </table> </li> <li>14. Who is servicing your financial paper?               <ol style="list-style-type: none"> <li>a. Inhouse</li> <li>b. Lender</li> <li>c. Third party</li> <li>d. Other (Specify) _____</li> </ol> </li> <li>15. Your time-sharing resort belongs to which of the following exchange companies? (More than one response is allowed.)               <ol style="list-style-type: none"> <li>a. Interval International</li> <li>b. RCI</li> <li>c. Exchange Network</li> <li>d. Other (Specify) _____</li> <li>e. We do not belong to any exchange company.</li> </ol> </li> <li>16. Does your time-sharing resort have a resale program?</li> <li>17. Given that a red week is the most desirable, a white week is somewhat desirable and a blue week is least desirable, what are the high, medium and low sale prices charged by your resort for the different colored weeks?               <table border="0" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th style="width: 30%;"></th> <th style="text-align: center; width: 15%;">Red Week</th> <th style="text-align: center; width: 15%;">White Week</th> <th style="text-align: center; width: 15%;">Blue Week</th> </tr> </thead> <tbody> <tr> <td>High</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> </tr> <tr> <td>Medium</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> </tr> <tr> <td>Low</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> </tr> </tbody> </table> </li> <li>18. What are the average annual maintenance fees charged to each buyer?               <table border="0" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th style="width: 30%;"></th> <th style="text-align: center; width: 15%;">Red Week</th> <th style="text-align: center; width: 15%;">White Week</th> <th style="text-align: center; width: 15%;">Blue Week</th> </tr> </thead> <tbody> <tr> <td></td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> </tr> </tbody> </table> </li> </ol> | Downpayment | Interest Rate | Term | _____ | _____ | _____ | _____ | _____ | _____ | _____ | _____ | _____ |  | Red Week | White Week | Blue Week | High | _____ | _____ | _____ | Medium | _____ | _____ | _____ | Low | _____ | _____ | _____ |  | Red Week | White Week | Blue Week |  | _____ | _____ | _____ |
|--|--|-------------|---------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--|----------|------------|-----------|------|-------|-------|-------|--------|-------|-------|-------|-----|-------|-------|-------|--|----------|------------|-----------|--|-------|-------|-------|
| Downpayment  | Interest Rate  | Term        |               |      |       |       |       |       |       |       |       |       |       |  |          |            |           |      |       |       |       |        |       |       |       |     |       |       |       |  |          |            |           |  |       |       |       |
| _____  | _____  | _____       |               |      |       |       |       |       |       |       |       |       |       |  |          |            |           |      |       |       |       |        |       |       |       |     |       |       |       |  |          |            |           |  |       |       |       |
| _____  | _____  | _____       |               |      |       |       |       |       |       |       |       |       |       |  |          |            |           |      |       |       |       |        |       |       |       |     |       |       |       |  |          |            |           |  |       |       |       |
| _____  | _____  | _____       |               |      |       |       |       |       |       |       |       |       |       |  |          |            |           |      |       |       |       |        |       |       |       |     |       |       |       |  |          |            |           |  |       |       |       |
|  | Red Week   | White Week  | Blue Week     |      |       |       |       |       |       |       |       |       |       |  |          |            |           |      |       |       |       |        |       |       |       |     |       |       |       |  |          |            |           |  |       |       |       |
| High   | _____  | _____       | _____         |      |       |       |       |       |       |       |       |       |       |  |          |            |           |      |       |       |       |        |       |       |       |     |       |       |       |  |          |            |           |  |       |       |       |
| Medium   | _____  | _____       | _____         |      |       |       |       |       |       |       |       |       |       |  |          |            |           |      |       |       |       |        |       |       |       |     |       |       |       |  |          |            |           |  |       |       |       |
| Low  | _____  | _____       | _____         |      |       |       |       |       |       |       |       |       |       |  |          |            |           |      |       |       |       |        |       |       |       |     |       |       |       |  |          |            |           |  |       |       |       |
|  | Red Week   | White Week  | Blue Week     |      |       |       |       |       |       |       |       |       |       |  |          |            |           |      |       |       |       |        |       |       |       |     |       |       |       |  |          |            |           |  |       |       |       |
|  | _____  | _____       | _____         |      |       |       |       |       |       |       |       |       |       |  |          |            |           |      |       |       |       |        |       |       |       |     |       |       |       |  |          |            |           |  |       |       |       |