

Fractional & Shared Ownership Based Tourism: An Opportunity for Ireland?

BRIEFING PAPER

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Key Terms Explained

- **Shared Ownership:** This refers to a range of holiday accommodation products which include traditional timeshares, fractional and so on. Generally, these products allow individuals to acquire a long-term interest in a specific property or range of properties. This interest is normally for a set interval of time in a particular type of accommodation. This interest will either be a right to use the accommodation in perpetuity or it will be limited to a fixed number of years.
- **Resorts:** Throughout this paper the term 'resort' means holiday accommodation in:
 - i. A cluster of self-catering apartments or cottages.
 - ii. A hotel with a given number of rooms dedicated to share ownership use.
 - iii. Self-catering units attached to a hotel.In all cases the resort is taken to have a good range of amenities on site.
- **Self-Catering Accommodation:** All references to self-catering accommodation or stock should be taken to mean group self-catering schemes, i.e. holiday apartments or cottages with more than seven units on one site. Group scheme most resemble the type of self-catering accommodation clusters that typify shared-ownership resorts.

1. Executive Summary

Introduction

The aim of this briefing paper is to highlight the opportunity presented by shared ownership based tourism and to illustrate the potential role that shared ownership could play in productively utilising some of the hotel sector's excess capacity. It may also be an attractive way to use other forms of accommodation, particularly self-catering accommodation. It is within this context that shared ownership is being investigated by Fáilte Ireland.

The Accommodation Utilisation Challenge

By 2015 there will be 7.9mn international visits to Ireland and domestic trips are projected to increase to 8.4mn. Unfortunately, given current trip patterns, this level of demand will not be enough to put all of the existing hotel and self-catering stock to productive use. Closures will be unavoidable unless some innovative ways are found use this accommodation stock.

The Shared Ownership Sector

The scale of the shared ownership sector in the global tourism industry is not widely appreciated in Ireland. Some 7mn people own some sort of timeshare product, 1.5mn of whom reside in Europe. In terms of resorts, there are an estimated 5,500 globally with approximately resorts 1,400 in Europe. The shared ownership industry has attracted some of the biggest names in tourism and hospitality such as Starwood, Wyndham, Hilton and Marriott. Annual sales revenues are estimated to be €7bn.

The Attractiveness of Shared Ownership Based Visitors to Ireland

From the perspective of Irish tourism, the profile of those who hold shared ownerships is very attractive as it fits well with the profile of our existing international visitors. For example, these people are older, more likely to be classed as ABC1 and have above average earnings. Plus, the medium-term outlook for this market segment is positive as the ageing of baby boomer generation is expected to result in greater demand for timeshares. As this cohort approaches its peak earning years many will find it attractive to buy a timeshare type product now in order to secure future holidays after the post retirement income drop.

The Attractiveness of Ireland to Shared Ownership Based Visitors

There are strong reasons to believe that Ireland is an attractive shared ownership destination as:

- a) We already attract the type of visitors who purchase such holiday accommodation.
- b) Our existing product offering is well suited to the kinds of things that timeshare buyers/users want such as: areas of historical or cultural interest; good quality

attractions and entertainment; excellent scenery; accessible landscapes; easy access to golf courses.

Presently most of the accommodation inventory serving shared ownership visitors to Ireland is in non-resort based self-catering units which lacks the range of services and ancillary activities available in typical timeshare resorts. Informed experts within the sector believe that Ireland could generate a significant volume of international trips from this market if:

- The stock of Irish shared ownership inventory increased, particularly well located and well serviced stock.
- And this stock was actively sold and marketed in our main source markets.

At the moment Ireland is not actively sold in the market segment as the limited amount of stock is achieving 90% utilization – a very high utilization level for something that is presently selling itself.

Illustrating the Gain

An example helps in framing the potential gain. If ten 100 room hotels were to successfully target the shared ownership market, our conservative estimates are that this would result in (a) 117,000 additional international visits p.a. and (b) €55mn extra tourism earnings p.a.. Clearly, if more inventory was put into timeshare based use then greater gains would arise.

2. The Challenge & The Complementary Opportunity

Introduction

This brief section sets out the capacity challenges facing the industry, especially the hotel sector, and the opportunity presented by shared ownership/timeshare based tourism.

The Challenge – Excess Hotel Stock

The hotel sector is a key component of Irish tourism. Over the past decade, the quality of Irish hotels has improved greatly and Ireland is now considered a leader in this area. However, all indications are that the market is over supplied. For more on this see the Fáilte Ireland briefing paper *Recent Developments in the Hotel Sector and the Medium-Term Outlook* (<http://www.failteireland.ie/Information-Centre/Publications>).

The hotel sector’s capacity is presented in Table 1.1.

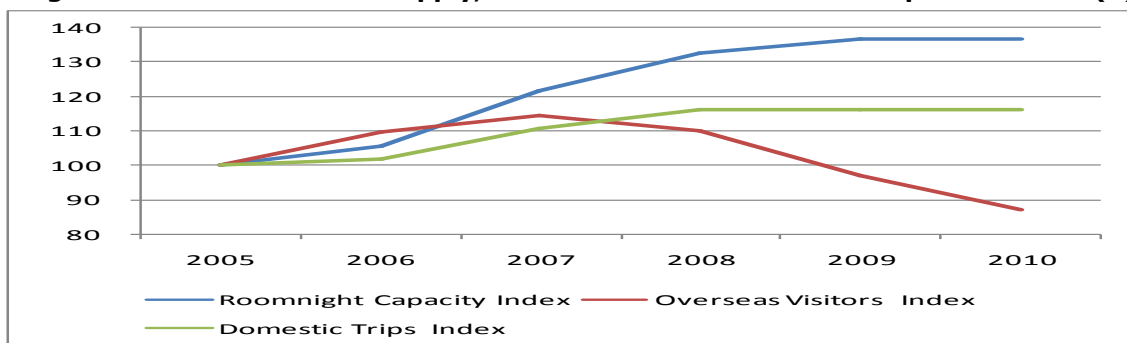
Table 1.1: 2011 Hotel Capacity

Grade	No. of Premises	No. of Rooms
Five Star	34	3,861
Four Star	267	24,970
Three Star	391	26,772
Two Star	152	3,228
One Star	34	481
Other	5	65
Total	883	59,377

Source: Fáilte Ireland

Figure 1.1 helps to put the capacity into context. It shows that the sector’s capacity increased at a much faster rate than (a) international visits to Ireland and (b) domestic trips. The supply of hotels now exceeds demand for hotels and is likely to do so for some time to come.

Figure 1.1: Trend in Room Supply, Overseas Visits & Domestic Trips 2005-2010(P)



Source: Fáilte Ireland

Some 7.9mn tourist arrivals to Ireland are projected by 2015. Over the same period, domestic trips are projected to increase slightly to 8.4mn. Yet, this growth performance will not be enough to fully absorb the hotel sector's excess capacity. At the projected level of demand it is estimated that there would still be an enduring excess capacity of 7,000 rooms. Even increasing the hotel sector's share of international visitor bednights would not be enough to fully eliminate the need for closures unless some innovative ways are found to put the excess stock to productive use.

The Challenge – Plentiful Supply of Self-Catering Stock

When we talk about self-catering stock the focus is on what is known as group self-catering schemes, i.e. holiday apartments or cottages with more than seven units on one site. We focus on the group scheme as they most resemble the type of self-catering accommodation clusters that typify shared-ownership resorts.

Much like the hotel sector, the supply of self-catering accommodation has increased since 2005. Table 1.2 shows that presently there are 204 self-catering schemes in Ireland, up 13% since 2005. Self-catering stock numbers 3,819 units, representing an increase of 21% over the same period.

Table 1.2: 2005-2011 Trend in Self Catering Schemes/Resorts

	2005	2006	2007	2008	2009	2010	2011	% Change
No. of Schemes/Resorts	177	193	227	243	232	220	204	13%
No. of Units	3,000	3,234	3,673	4,153	4,617	4,241	3,819	21%

Source: Fáilte Ireland

The reported occupancy rates for self-catering units is below 40% annually, but this figure may be dragged down by the fact that not all units are available for occupancy all year round.

Again, the anticipated growth in international tourist arrivals is unlikely to be enough to fully utilize the existing self-catering stock.

The Opportunity – Not Enough Shared Ownership Accommodation in Ireland

Given that shared ownership is not particularly well known in Ireland, the extent of shared ownership in the global tourism industry is not fully appreciated here. There are some 7mn participants in shared ownership schemes in the world, 1.5 mn of whom reside in Europe. In terms of resorts, there are an estimated 5,500 globally with approx 1,400 resorts in Europe. The shared ownership industry has attracted some of the biggest names in tourism and hospitality such as Starwood, Wyndham, Hilton and Marriott. Annual sales revenues are estimated to be €7bn.

Shared ownership, or timeshare, gives you the right to use a specific unit of accommodation, often in a resort, for an agreed number of weeks at a specified time each year. The popularity of shared ownership has led to the development of points based exchange systems which enable owners to deposit their unused time in return for points which are then used to buy weeks at the same resort at alternative times of the year or to buy weeks elsewhere.

Information from the main Points Exchange Operators indicates that Ireland is among a select group of countries sitting towards top of the points pyramid. This is because there is a strong underlying demand for trips to Ireland on the part of those who own timeshares. Unfortunately, this particular market is not well stocked with Irish capacity. By way of example, Ireland currently has six shared ownership type resorts. This compares with 145 in the UK, of which 22 are in Scotland. Finland has 43 resorts.

Most of the Irish accommodation currently in the shared ownership market is non-resort based self-catering stock which lacks the range of services and ancillary activities that come with hotel accommodation.

The Exchange Operators are of the view that Ireland could generate a significant volume of international trips from this market if:

- The stock of Irish shared ownership inventory increased, particularly serviced stock.
- And this stock was actively sold and marketed in our main source markets.

Box 1: An Illustration of Shared Ownerships Potential Trips & Tourism Earnings

If ten four-star hotels, of say 100 rooms, with a good range of in-house amenities were to target the share ownership market it could result in:

- a) 117,000 additional international trips to Ireland per annum.
- b) €55mn extra tourism earnings, all of which counts as invisible exports as this is new money coming into the State. This additional €55mn of tourism spending would accrue for each year of operation.

The data above is based on the following conservative assumptions:

- Each of the ten 100 room hotels achieves 75% occupancy. Currently occupancy rates for Irish timeshare inventory exceed 90%.
- The average party size is three persons, well below the reported average timeshare party size of six observed across the EU.
- Each party stays for 7 days.
- The spending per person equals the average spending per international visitor.

The above illustration ignores the spending arising from the purchase of the ownership share and its annual upkeep. Box 2 looks at these items.

3. Shared Ownership Explained

Introduction

This section is designed to help readers understand the nature of shared ownership and the range of products that come under the general term 'shared ownership'. It starts by outlining the traditional shared ownership offering – timeshare – before discussing the wider product range. A brief description of the various parties to a typical timeshare transaction and their assorted motivations is also provided. The section ends with an overview of the consumer protection legislation governing the sector.

What is Shared Ownership?

The shared ownership model is best explained by first looking at the main product on offer – timeshare. Timeshare allows individuals to acquire a long-term interest in a specific property or range of properties. This interest is normally for an interval of time that covers seven nights' accommodation (or multiple thereof) in a particular type of accommodation. This interest will either be a right to use the accommodation in perpetuity or it will be limited to a set number of years. A timeshare is a holiday or leisure product rather than a property purchase. This is because the product is bought for use and/or exchange and therein lies its value.

The accommodation is priced according to a variety of factors, including size of the unit, resort amenities, location, and season of use. There are other types of shared ownership (explained later in this section).

The basic concept of shared ownership is that the purchase of a week's use rights in a given unit allows the purchaser to use the same holiday unit, at the same time of the year for the duration of his or her agreement with the resort's developer. On the face of it this seems inflexible, but this is easily addressed. The exchange concept allows the purchaser of a shared ownership interest at one resort to exchange it for another time and/or place. Most shared ownership properties participate in an exchange scheme as a value added feature of the purchase. In such a system unit owners can deposit their time in the exchange in return for a given number of points which can then be redeemed against time in the same resort or elsewhere.

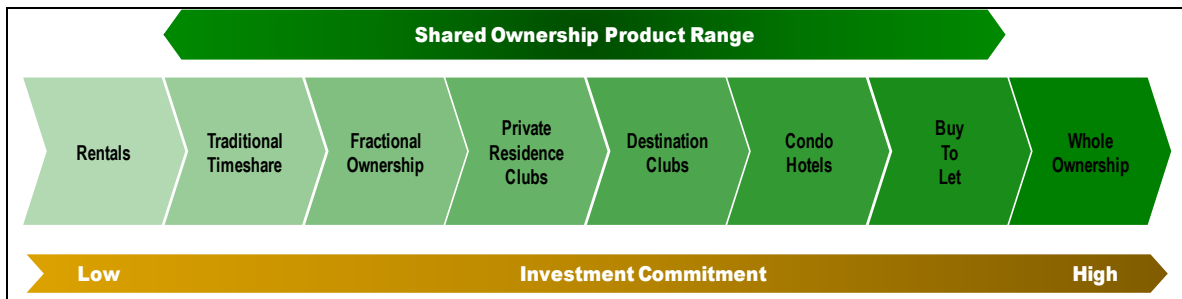
Access to an exchange system is widely recognised as one of the principal motivations for the purchaser of shared ownership unit. In most cases, the purchaser of a shared ownership interest usually becomes a member of an exchange company automatically after the purchase.

The Shared Ownership Product Range

Shared ownership is a generic term covering a variety of holiday home options which provide partial usage or ownership rights to holiday properties. It is important to be very clear that most shared ownership products are not financial investments for the purchaser and they are not sold as such by bona fide operators. It is an investment in leisure facilities. That said, some newer shared ownership products do have a property investment element.

Figure 3.1 illustrates the range of accommodation types in the holiday accommodation property spectrum. Either end of the range is bookended by non-shared ownership type accommodation – straightforward rentals and outright ownership. In between both end points lies the shared ownership product spectrum.

Figure 3.1: Holiday Accommodation Property Spectrum



Based on material provided by the industry trade body, Resort Development Organisation (RDO), the following products are considered part of the shared ownership/timeshare offering:

- a) Traditional timeshare: As explained above, with the period of ownership/use measured in weeks. In addition to the upfront purchase fee, annual maintenance fees cover the unit's and the resort's upkeep.

In a fixed week timeshare, the owners will always have the same week(s) each year; for example, week 35. Alternatively, under a floating week model the time period is defined by a season and the week is not fixed. Instead, owners reserve their week(s) within the appropriate season annually.

- b) Fractional Ownership: Allows multiple buyers to acquire an interest, whether equity or otherwise, normally in a luxury property and to collectively share the annual management costs. Fractions range from a quarter to a twelfth of a year, generally on a rotational basis. Fractional owners usually have a direct interest in the value of the asset and benefit from any appreciation in the property value.

- c) Private Residence Clubs (PRCs): Although similar in concept to traditional fractional ownership, PRCs are often associated with a five star or luxury hotel brand. A PRC is usually either a stand-alone development or can be part of a mixed use resort. The interest sold in the properties generally represent an interval of time of circa 12 weeks and the nature of the assets is consistently at the upper end of the price/quality scale, with services to match.

Compared with traditional timeshare, the motivation to buy is generally similar to a property purchase. Upfront payments and management fees apply.

- d) Destination Clubs: Akin to PRCS, they are generally positioned very high up the quality scale and the properties tend to be fully serviced individual homes rather than properties that form part of a larger resort environment.

Rather than buying the use-rights or title to a specific a property, owners buy membership of a club. In turn, the club acquires a number of exclusive apartments and villas in several destinations on behalf of its members for their use. Members may or may not share in the real estate appreciation. Again, upfront payments and management fees apply

- e) Condo hotels: The basic model involves the sale of property. The property is actively managed by a separate company that contracts the services of a hotel company to market the accommodation and provide services to guests. In all cases, rental revenue is split between the hotel operator and the individual property owner, either on a pooled or a separate asset basis.

Two types arise:

- Soft leaseback whereby the principal motivation of the buyer is the acquisition of a property ownership interest but the resort operator accepts limited occupancy by the owner.
- Hard leaseback whereby the investor is solely motivated by the yield on the investment. This is also called buy-to-let, only the property bought is part of a fully serviced hotel.

[Adapted from Resort Development Organisation, Q&A (March 2009), www.rdo.org/media_press_releases]

Parties To Shared Ownership Transactions

In order to understand how shared ownership works it is important to understand the role of each party to a typical timeshare transaction and their motivations.

The Main Parties & Their Motivation

- **The Developer:** The individual/company who develops and owns the resort. The sales contract is with the developer selling the shared ownership units. The developer is responsible for constructing the accommodation and selling the product (generally via an agent). The main attractions of shared ownership/timeshare to the developer are as follows:
 - Selling units as shared ownerships brings forward cash flows compared with standard rentals. It is deemed more financially attractive to get the money today rather than try to generate the income over the asset's working life.
 - Shared ownership properties are said to achieve higher occupancy rates (c.75%) than similar properties on the open rental market, particularly in the shoulder season. Higher occupancy rates allow the developer to generate more revenue from on-site sales such as food and beverage; and other supporting commercial activities like health and beauty, golf, etc.
 - Additional revenues arise from annual maintenance and upkeep fees.

The developer is the prime driver behind any shared ownership project.

- **The Purchaser:** The individual who buys time based use rights to the unit of accommodation from the developer. The rationale for buying a timeshare comprises the following:
 - It is considered to be a cheaper way of holidaying. Owners say that it is more financially attractive to make a 'down payment' today on future holiday accommodation costs rather than incur the costs annually over the duration of ownership.
 - It delivers a better match between available holiday time and the annual period of usage. It also sidesteps the responsibility that comes with outright ownership.
 - Some people value the exclusivity of club membership that comes with shared ownership/timeshare ownership. Exchange systems make ownership more attractive as they add much greater flexibility.
- **The Exchange System:** This allows shared ownership owners to trade the accommodation they own for comparable accommodation or travel-related services. Most resorts are affiliated with an exchange company. The bigger resort companies offer an internal exchange mechanism that allows owners to exchange to other resorts within their portfolio.

Exchange schemes are built upon points, whereby the individual owned use rights are converted into points representing the size, quality and demand for the resort's destination. Points allow for a more flexible and transparent exchange valuation. Some more sophisticated models also allow for exchange into non-

shared ownership holiday products such as flights, car rental and cruise holidays. The exchange operator generates income from membership fees and transaction fees.

The Support Services

- The Trust Company: Owing to the long term nature of the shared ownership business model, the assets are normally subject to some form of protected legal ownership, typically a trust. The principal aim of the trustee system is to give legal protection to the purchaser regarding their right to use the shared ownership property even if the developer or management company goes bankrupt. The main functions of a trust company can include, inter alia:
 - Receiving the purchase monies paid by buyers and holding property ownership rights to the underlying accommodation in trust for members.
 - Monitoring the management of the resort
 - Ensuring that the register of members is properly maintained and the allocation of the unit weeks is properly managed.

Trust companies exist to increase confidence in the overall process, particularly for the purchaser. The appendix outlines the trust system in more detail.

- The Property Manager: All reputable shared ownership resorts are managed by a professional management company. It is common practice that a resort's shared ownership owners would be involved in the governing of the resort via owners' committees, but day-to-day management is left to the management company. Annual maintenance fees cover the upkeep of the resort and the management company's costs.
- The Sales & Marketing Agent: The developer will engage the services of at least one agent to find buyers for the shared ownership on offer. Sales agents are incentivised by performance based rewards.
- The Finance Provider: Developers will often partner with one or more finance providers to facilitate the sales process.

All parties to shared ownership transactions are willing participants and get involved as the transaction makes good sense to them.

EU Directives & Higher Standards of Consumer Protection

The European Union's first shared ownership directive was passed in 1994 in response to a variety of concerns regarding consumer protection. The aim of the directive was to improve the level of consumer protection and to restore consumer confidence in shared ownership products.

The 1994 directive (94/47/EC) encompassed four key provisions:

- The introduction of a statutory minimum cooling off period of 10 days after the signature of the contract to purchase.
- A ban on deposit taking until the end of the cooling off period.
- A requirement that contracts should be in the language of the purchaser's country of residence.
- A requirement that a full description of the property and the purchaser's right be provided as part of the contract.

However, the industry has moved on since 1994 and today's product range is much greater than it was when the directive was framed. There was also a legislative blind-spot with regard to the resale and exchange of shared ownership/timeshare schemes. Recognising these issues, the Commission replaced the original directive.

The new Directive (2008/122/EC) extends the scope of the old one to cover:

- More cooling off time and a right of withdrawal: It applies a universal 14 day cooling-off period with a right of withdrawal during this period without cost to the consumer. It also applies a ban on the taking of any money during this period, including a ban on deposits taken via third parties.
- Exchange of timeshare products: Companies providing holiday exchange services to shared ownership/timeshare owners are now covered. They are required to provide comprehensive information on the benefits available to members and the charges associated with their services. The 14 day cooling-off period and the right of withdrawal also apply to exchange contracts.
- Resale of timeshare products: Resale companies are obliged to provide comprehensive information about the service being offered and will not be able to charge advance payments until the actual sale has taken place or the contract has been otherwise terminated.
- Shorter durations: The new directive extends consumer protection to holiday products with a duration of more than 1 year, down from three years.
- Long-term holiday products, including holiday discount clubs: These products are now subject to the directive.

The new directive was warmly welcomed by the sector as it has increased the level of consumer protection and goes a long way towards addressing consumers' concerns.

Box 2: How Timeshare Project Works - An Illustrative Example

This illustrative example explains how the shared ownership model works for each of the main parties involved. Again, the example used is based on traditional timeshare ownership.

The Developer

Developer Co has just completed a 75 room five-star hotel based resort, *The Exemplar*, to a high standard with a good range of amenities on site such as a leisure club, a spa and a wellness centre. The resort has also tied up with a local golf club.

Developer Co plans to sell 50 of the 75 rooms as weekly timeshare units as follows:

- Unit price per week's usage €6,000.
- Annual maintenance fee €300 per unit per week.
- Buyer will have use of the unit for 20 years.
- 48 weeks use sold per room, with the rest allowed for maintenance.
- 40% of the sales price will be given over to marketing costs, sales commission, legal fees etc.
- The company's cost of capital is 6% for this project.

Based on the above the net present value (NPV) of the cash inflows to Developer Co will be €16.9mn. If this amount exceeds the cash inflow from alternative use options then *The Exemplar* will proceed as a mixed used hotel with most rooms given to timeshare.

The Buyer

The Punters (a couple in their mid-50s with adult children) like to take a week every spring for a luxury holiday. They are looking at buying a week's timeshare in *The Exemplar*. Their options are as follows:

- Use their saving, which can earn 8% p.a., to pay for the timeshare purchase. The NPV of the cash outlays over 20 years is €8,945, OR
- Continue to pay €1,000 annually for their holiday. The NPV of €1,000 over 20 years at 8% is €9,818.

Based on this example, it would be cheaper for the Punters to make the purchase rather than incur holiday accommodation costs annually.

The Other Parties

- Exchange Co, a preexisting entity, is willing to take *The Exemplar* into its portfolio of resorts for a fee to be paid by Developer Co. All of the timeshare owners in *The Exemplar* can sign-up to Exchange Co and avail of its points based swapping mechanism for a charge. One year's fee membership of Exchange Co is included with the each shared ownership/timeshare sale.
- Honest Co. will hold the property in trust and is to be funded from Developer Co's cost of sales.
- Exemplar Mgmt Co will run the resort on behalf of Developer Co and is to be funded out of the annual management fees.
- Sales Agents Ltd is charged with disposing of the units and earns a commission of 30% per timeshare unit sold.
- Loan to finance the purchase of timeshare units can be arranged through Bank plc.

4. Unmet Demand for Irish Shared Ownership Stock

Introduction

Many shared ownership holders want more from their holiday than sand, sun and a tan. When allowance is made for the profile of timeshare owners it is clear that Ireland has a lot to offer, particularly regarding experiential holidays. This section looks at the demographic profile of owners and evidence from the main exchange operators which shows that Ireland generates a substantial level of interest.

Profile of Shared Ownership Holders & Locations of Interest

From the perspective of Irish tourism, the profile of shared ownership users is very attractive as it fits well with the profile of existing international visitors. Table 4.1, and other information, shows that:

- Shared ownership holders are more established in their lives, with owners in the mid-50s on average.
- The vast majority of owners are either married or in a stable long-term relationship.
- Owners are older and more likely to be classed as ABC1. With respect to the occupation of European shared ownership purchasers, over a quarter are retired (26%) with another quarter holding professional or technical occupations (25%). The next tier of occupations includes upper/middle management (17%) and self employed/business owners (15%).
- Earnings before tax are well above average, as is the typical amount that this cohort spends while on holidays.

Table 4.1: Profile of American & European Shared Ownership Holders

	USA	Europe
Average Age	53	55
Marital Civil Partnership	84%	88%
Own Their Home	95%	n/a
Average Income	€62,000	€65,500

Source: American Resort Development Association, 2008 & RDO, 2008

One important demographic trend is going to shape the shared ownership sector – the aging of baby boomers. This is expected to support shared ownership demand for the next 15 to 20 years given that this cohort: is reaching its peak earning years; places a higher importance on leisure time and travel; and will experience the freedom of being empty nesters. This group will be increasingly focused on the pursuit of well-being as opposed to the pursuit of affluence. This change presents growth opportunities for Ireland in light of the product we offer.

Ireland's main tourism markets are among those countries where shared ownership is an accepted form of holidaying. A study¹ into the European timeshare market by RDO provides information on timeshare owners by country. The UK and Ireland and Germany account for 52% of European timeshare owners.

Table 4.2: Distribution of European Timeshare Ownership

Country of Residence	No of Owners	Share of total
UK & Ireland *	589,600	39%
Germany	197,400	13%
Italy	135,600	9%
Spain	92,000	6%
France	78,125	5%
Finland	64,800	4%
Hungary	49,800	3%
Belgium & Netherlands	46,100	3%
Rest of Europe	247,575	16%
Total	1,501,000	100%

* Unfortunately, the source report does not disaggregate the data on Irish ownership from UK ownership.

Source: RDO, 2008

Globally, data suggest that the US is the global leader in seasonal ownership making up 31% of all owners. In the USA, approximately 4.7 million households own one or more shared ownership product.

When queried about the types of locations owners are considering for future purchases, beach locations are the most popular with 66% saying this is a key consideration. However, Ireland performs well on all of the other important decision factors, including:

- Areas of historical or cultural interest, with 36% saying this is an important concern.
- Proximity to attractions and entertainment, 34%.
- Access to mountains, 25%.
- Access to a leisure club, 25%.
- Proximity to lakes, 22%.
- Urban setting, 17%.
- Easy access to golf courses, 15%.

There are strong reasons to believe that Ireland could be an attractive shared ownership/timeshare destination.

¹ For more details see www.rciaffiliates.com/europe/industry/facts-figures.

Exchange Operators Information

The two main exchange operators are RCI and Interval International. RCI is part of the Wyndham Worldwide Group and is by far the largest holiday exchange operator with some 4mn members and circa 4,000 resorts. In terms of the European market, RCI has a portfolio of more than 65,000 properties. Interval International is about half the size of RCI, with some 2,500 resorts and 2mn members. Both operators were consulted in researching this paper.

Based on information provided by the principal exchange companies, the following points emerge about the timeshare market in Ireland:

1. Low Stock Levels: There are approximately six shared ownership resorts in Ireland. In comparative terms, the UK has 145 such resorts, with 22 in Scotland. This suggests that the inventory of shared ownership style accommodation is low in Ireland relative to some of our competitor destinations.
2. High Levels of Underlying Interest: Each week Irish inventory within the RCI system has on average between five and ten searches against it which illustrates a strong underlying level of interest. The noted range is an average across the year, but interest in peak season stays often results in far more than ten searches per unit of accommodation. This underlying level of interest arises without any demand stimulation effort on the part of the exchange companies.
3. High Levels of Demand: In terms of comparative supply and demand data for Europe, aside from the specific capital cities of London, Barcelona, etc., Ireland is the next highest sought after destination. See Table 4.3 for an illustration of this point.

Table 4.3A: Points Per One Week's Peak Season Accommodation in a Typical Resort for Selected Locations

Location	Hotel Suits	Two Bed Unit
England (South)	38,500	48,000
Ireland	36,000	45,000
Scotland	36,000	45,000
Spain (Med Coast)	28,500	35,500
Italy (Med Coast)	35,000	43,500
South Africa	20,500	39,500
Florida	17,000	38,000

Source: RCI Points Grid

Table 4.3B: Valuation in Percentile for Selected Popular Locations

Location	Hotel Suites	Two Bed Unit
London	99	99
Barcelona	92	89
Prague	97	95
Ireland	96	92
Scotland (Loch Regions)	75	56
Spain (Costa Blanca)	24	11
Spain (Marbella)	41	32
France (Cote D'Azur)	75	59
France (Aquitaine)	76	71
Italy (Umbria)	78	87
Italy (Napoli)	90	94
South Africa (North)	58	51
Florida (Orlando)	77	82

Please note that these are average yearly valuations and do not reflect seasonality.

Source: RCI Points Data

This shows Ireland as being a desirable and much sought after location and consequently has a higher exchange valuation than many other destinations.

4. Very High Utilisation Levels: Utilisation rates for Irish timeshare type inventory is said to be above 95%. To put this in context, typically timeshare inventory achieves occupancy rates of \pm 75% and last year the average occupancy rate for Irish hotels was 58%. Table 4.4 shows how Ireland again performs extremely strongly in terms of utilisation across a selection of popular destinations.

Table 4.4: Utilisation for Selected Popular Locations

Location	Hotel Suites	Two Bed Unit
London	-	98%
Barcelona	98%	-
Ireland	-	96%
Scotland (Loch Regions)	81%	93%
Spain (Costa Blanca)	90%	77%
Italy (Umbria)	95%	91%
Italy (Napoli)	88%	90%
Florida (Orlando)	66%	94%

Source: RCI Points Data

The principal exchange companies share the view that Ireland is an attractive shared ownership destination and that we could generate much more timeshare based visits. They point out that the noted level of demand of Irish accommodation is suppressed as Ireland is not actively promoted as a timeshare destination – with such high utilisation levels there is no need to sell Ireland to this market. Plus, given the limited amount of inventory available, exchange operators are careful not to generate demand that cannot be satisfied.

RCI, in particular, is confident that much greater levels of demand could be achieved if (a) the stock of Irish shared ownership inventory increased and (b) the stock

increase was accompanied by more active selling of Ireland as a timeshare destination.

5. The International Experience

Introduction

This section will report on the results of consultations with other national tourism development agencies and their experience in growing the shared ownership market.

The Scottish Experience

Following a study on the self-catering sector, and in conjunction with a destination development study, a gap was identified in the high end of the tourism market in Scotland. Scotland's main tourism elements of golf, culture and heritage had an appeal that sat well with the major exchange operators' client mix.

The focus was, and still is, on the upper end of the market where Scotland offers a very high quality product to high spending visitors. It is seen as critical that resort developments have a high end appeal. The product is all about luxury, it has to be special. Consumers expect very high standards and added benefits.

The indications are that the Scottish are happy with how this market has developed. A number of positive are cited, including:

- There are over 22 resorts offering high-quality vacation ownership in Scotland.
- Up to 92% occupancy rates are claimed for such resorts.
- A reported 200,000 holiday makers stay annually at vacation ownership resorts within Scotland

The following lessons from Scottish Development International (a state development agency) learnt may be of use to Fáilte Ireland:

- Decide what kind of visitor you want to attract and what kind of products can be offered.
- It is important to have resorts within areas where there is: a good choice of quality restaurants; plenty of things to see and do; and already in the tourism 'game'.
- Endeavour to attract the big international companies to come to Ireland and, in particular, target the big brands.
- Meet people already in the market. Visit people in Scotland, see the product and meet the people to gain a deeper understanding

The appendix section goes into more detail on the Scottish experience.

The Maltese Experience

Timeshare accounts for 3% of Malta's visitor market with the majority of that cohort coming from the UK. In comparison with all visitors, shared ownership visitors stay longer; average length of stay is 7.9 nights and for shared ownership its 9.2 nights.

The average age of timesharer is 60 years, of whom 46% are retired. The type of accommodation used is mostly four and five star hotels.

A representative of VisitMalta said that shared ownership is seen as a product that guarantees a substantial element of repeat business, particular with regard to the older age groups. VisitMalta targets the older age cohorts very successfully when selling the country. The principal downsides are twofold:

- Accommodation which is put to this use eventually disappears from the destination's mainstream accommodation stock and it becomes very difficult to differentiate between tourism and real estate development.
- Sales agents are paid on commission and their hard sell tactics can diminish a visitor's experience.

6. Next Steps

Introduction

A number of tasks arise in validating the potential of shared ownership based tourism to generate a significant volume of international trips to Ireland by high earning visitors.

Consultations/Research

- Talk to the Trade: The potential supply side of this market is represented, to a greater or lesser degree, by the Irish Hotels Federation and by Self-Catering Ireland. The level of interest in putting surplus stock into alternative use can be explored with the representative groups and others, such as the providers of finance.
- Consumer Research: Such research is required in order to establish what specific products and product attributes potential timeshare buyers/users want from Irish based resorts.

Checking for Legal Barriers

- The Legal Definition of a Hotel: Under the Tourist Traffic Acts 1939-2003 Fáilte Ireland has specific powers and functions in relation to the registration and grading of tourist accommodation. A hotel can only call itself a hotel if it is approved and registered as such by Fáilte Ireland. This is an important point as almost all of the hotels built in recent years qualified for capital allowances. Capital allowance claw-back may arise when a hotel ceases to trade as a hotel. It must be established whether or not putting all, or part, of a hotel's room stock into shared ownership use still allows the property to meet the definition of a hotel.
- Establish Trust Companies: Trust companies play an important role in protecting buyers and sellers; the shared ownership market may not function in their absence. The ability of developers to establish credible trust companies in Ireland must be validated.

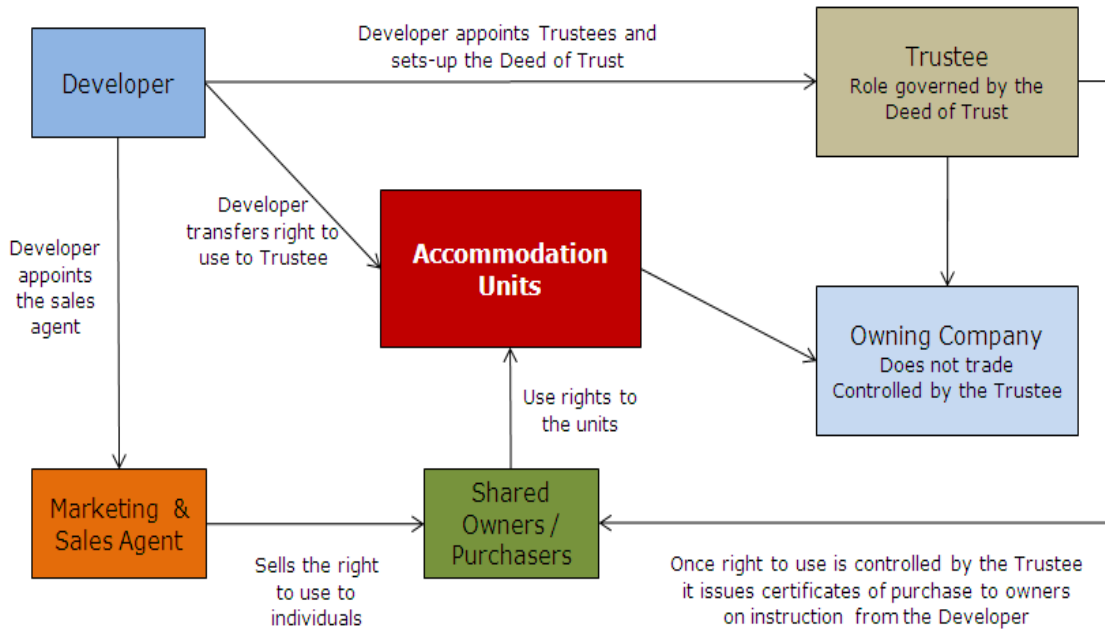
Strategic Focus

The steps above will inform Ireland's strategic focus with regard to shared ownership. The issues to clarify include the following:

- The Product Offering: What part of the product range should Ireland target? Presumably, this will be determined by a mix of consumer interest and available stock with immediate timeshare potential.
- The Target Consumers: What type of visitors do we want to target and in what markets?

Appendix of Supporting Material

A. The Trustee System Illustrated



B. The Scottish Experience

Background

The middle market was saturated for the timeshare companies and Scotland was seen as a top-end product with an appeal for high-spending individuals. This, linked with Scotland's tourism destination policy, and led to the decision to get involved with shared ownership tourism at the upper end. The product is all about luxury, it has to be special. Consumers expect very high standards and added benefits. Scottish Development International (SDI is a state funded development agency with a remit akin to Enterprise Ireland's and the IDA's) reported that while overall visitor numbers to Scotland have declined in recent years, actual spend has increased and they believe this is in some measure due to the introduction of a high quality resort product.

Experience to Date

The experience has been positive. SDI report that the experience has put Scotland on the map in terms of offering a high quality tourism product that is attractive to high-spending visitors. It has provided knowledge on shared ownership to the sector's stakeholders and has dispelled many of the misperceptions about shared ownership. They believe they have attracted visitors who may not have come to Scotland otherwise. In addition, they say seasonality does not affect timeshare. The experience from both operators and consumers' perspective has been positive. The occupancy rate from the resorts is high (92%) and this has helped keep the hotels going, for example by increasing food and board spending.

Due to economic circumstances and the number of distressed assets available on the market there is less need at the moment for SDI to be actively involved in seeking developments in this market. However, this is likely to change. Hapimag (the original Swiss timeshare company) has purchased Edinburgh Residence which is a timeshare product. SDI believes there is a gap in the urban shared ownership market and specifically in the serviced apartment market which they intend addressing. They believe there may be merit in looking at the models which allows certain floors of a hotel be converted to timeshare products as a way of releasing capital.

Lessons Learned

SDI were asked what guidance they would give to Fáilte Ireland in relation to shared ownership and made the following observations;

- Decide what kind of visitor you want to attract and what kind of products can be offered.
- It is important to have resorts within areas where there are a choice of good quality restaurants, good shops and activities. SDI found that while a visitor may

be happy with the resort, if it is not in an area with plenty of quality things to do the visitor can be dissatisfied.

- Meet people already in the market. Visit people in Scotland, see the product and meet the people to gain a deeper understanding
- If interested in timeshare, engage all stakeholder as soon as possible.
- Endeavour to attract the big international companies to come to Ireland. In particular, target the big brands such as Marriott, Wyndham, etc.. They have found through trial and error the best way to do this is to go to the ARDA Annual Event (a trade show). By taking a sponsorship at that event they gain entry to the VIP areas where they can meet the main players. They work at maintaining those relationships. They endeavor to keep Scotland in the minds of these people. If they see anything of interest in Scotland, they contact this network.
- Timeshare is a slow burner. They are about to announce a new resort opening but it has taken five years.

Key Performance Indicators- Scotland's Vacation Ownership Industry

- Recent economic impact research suggests that Scotland's resorts do not suffer from peaks and troughs in resort occupancy rates, which has led to incremental revenue, enhanced recruitment, increased staff retention and sustainable developments
- Scotland has demonstrable success as a year-round destination with up to 92% occupancy rates in existing vacation resorts
- There are over 22 resorts offering high-quality Vacation Ownership in Scotland
- Scotland has the highest percentage (81%) in the UK of vacation weeks' already purchased, demonstrating the demand for further resort development in Scotland
- Total sales volume of vacation ownership in Scotland is valued at £380 million plus Management fees annual revenue is estimated at £16 million per annum
- Revenue incurred from incremental food and beverage and leisure spend has been valued at £22.5 million per annum
- A reported 200,000 holiday makers stay annually at vacation ownership resorts within Scotland
- Scotland's main population centres enjoy easy access to countryside with strong service and guest appeal².

² Secure Your Tourism Investment, Scottish Development International, www.sdi.co.uk