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Development Financing & Designing Your Project

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Developing a timeshare resort is a complex endeavor, requiring knowledge of construction, design, finance, sales, marketing, management, operations, and hospitality. Similarly, financing a timeshare project is multifaceted and nuanced, requiring industry expertise, experience, and a commitment to the product line. Full-service industry lenders offer timeshare finance options including receivables hypothecation loans, receivables purchase facilities, HOA amenity and refurbishment loans, and multiple forms of development financing—including land acquisition, infrastructure, vertical construction, and inventory acquisition.

All timeshare projects need inventory to sell, and few developers are in a position to build out of cash, so development loans play a prominent role in any timeshare plan. Financing the development of timeshare inventory (construction or acquisition) shares many facets with standard commercial real estate practices, which streamlines the underwriting process. After all, the construction of 24 two-bedroom units with a clubhouse and a pool for a timeshare resort is substantially similar to an apartment complex or condo development. However, even though there are many similarities with commercial real estate, the bulk of timeshare development loans are made by industry lenders because repayment of the loan is dependent on timeshare sales and related release fees.

Before you break ground, here's what you need to know about project design and what your lender will need from you to approve a development loan.

Availability of Development Financing

Many timeshare industry lenders offer construction, acquisition, and renovation loans. Occasionally, local banking relationships can also be leveraged for project financing.

Development Plan

Engineering studies, architectural plans, contractor price estimates, and any rezoning or entitlements should be underway before a lender can seriously review your development plan. In addition to timeshare units, the developer must consider amenities, a check-in facility, and a sales center. Prior to construction loan approval, a Phase I Environmental report with follow-up studies will be required, along with an appraisal (ordered by the lender, paid for by the borrower). Given the uniqueness of the timeshare product, an appraiser with timeshare experience is highly recommended.

Sales Plan

You may be familiar with this great old timeshare adage: "You can sell your way out of any problem." Selling your timeshare intervals is the primary way the development loan will get paid back, so your lender will be very focused on your sales plan, experience, and process. Since loan repayment is so strongly linked to timeshare sales, the vast majority of timeshare development loans are provided by timeshare industry lenders. Most local commercial lenders would look at a developer sideways upon learning that 50% or more of each sale goes to sales and marketing costs.

Financial Statements/Projections

Balance sheets will vary greatly depending on the developer, but in general, lenders want to see a disciplined company with minimal debt and a commitment from ownership to the reinvestment of profits. Cash flow projections should be realistic and show that the company's operations can support the development of the project and repayment of the loan.

Personal Guarantee

Unless you're a well-established developer with a sizeable balance sheet, lenders are going to expect a personal guarantee of the development loan by the borrower's principal owner(s). This not only supplements a young development company's balance sheet but also provides extra incentive for the owner(s) to keep focused on the repayment of the development loan.

Equity

As a general rule of thumb, lenders want to see at least 20-25% of the total project cost contributed by the borrower. This could be in the form of land, cash, or both, but it will always need to be contributed to the project before the lender begins development loan advances.

Repayment

Each project and lender is different, but there are a few general rules of thumb in the industry. Lenders typically want their development loan fully repaid when the project reaches 80% sell-out. A development loan gets repaid with a small fee from each sale, called a release fee. The release fee is typically a percentage of each sale, often subject to a minimum dollar amount. The release fee will differ from project to project; however, to ensure the project can support the inventory cost, the release fee should not exceed 25%. Also common is a quarterly cumulative repayment covenant designed to track sales pace versus projections to ensure loan repayment is on schedule.

Customizing Your Project

Know your audience. Successful timeshare projects aren't automatically successful because they have the nicest pool, the best location, or the fanciest fit and finish. Successful projects are those resorts that know their customer base and can deliver a product that satisfies their owners at a reasonable purchase price. I've seen beautiful projects fail because their product was too luxurious for their location and their price point was too high, and I've seen average resorts thrive because they provide a quality customer experience and deliver a solid product at an affordable price.

Just like a log cabin in the mountains and a studio unit in an urban city require different design schemes and furnishings, your resort should reflect your location and owner base. Many resorts now use local products and vendors for artwork, furniture, and accessories whenever affordable. Even if it's for a just a few impact pieces, the product quality is usually better and the goodwill generated within the local community often pays great dividends. Also, those local pieces double as a talking point during the sales tour. Overall, the resort design elements and color scheme should have a consistent theme that gently evokes the atmosphere you wish to establish.

Design Trends

Lenders don't opine on design features, color schemes, or countertop materials, which is probably a good thing since we're not known for our creative flair. However, my job description includes visiting projects to which we loan money, so I can share some trends I'm seeing.

Overall, resorts are shifting toward providing guests more options onsite, usually including a restaurant, bar, and sundry store. Continuing with the trend of keeping guests on property and entertained, I see more premium amenities being offered like zip lines, family theaters, splash grounds, and miniature golf, in addition to the standard pool and arcade. Access to these premium amenities is often tiered so it's free to owners, but requires a resort fee or purchase of a premium package for renters and exchangers. These amenities can serve not just as profit centers but also as enhancements to the guest experience, providing additional value for owners.

Some timeshare resorts are also building a small number of ultra-high-end units. These units look like they come straight out of a magazine spread and feature extensive square footage, premium views, and unique in-unit amenities like pool tables, movie theaters, or outdoor kitchens. Although perhaps not the most cost-effective way to build inventory, showcasing a premium unit generates significant excitement during the sales tour, provides upgrade opportunities, and often leads to a lot of positive social media posts about the amazing unit that a family stayed in at your resort.

Finishing Touches

As the new build trend-wave returns for vacation ownership, these financing tips and design insights can help build a solid plan for your project in today's environment of growth. ■

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