

## ARDA 2010 Convention & Exposition

### Fractional Session

#### **Short Term Fractional Price Drops – Long Term Consequences? What Can Lowering the Price Mean to Marketing, Sales and Operations?**

Moderator:

**Jim Beckham, Jr.**, Chairman, Global Resorts, Inc.

**Speakers**

**Tom Goetschius**, President, Tom Goetschius Assoc.

**Dale Goodman**, President, GoodManagement

**Christopher Payne**, Partner, Ballard Spahr LLP



## Short Term Fractional Price Drops... Long Term Consequences?

Some think this what our world is coming to.



## Short Term Fractional Price Drops... Long Term Consequences?

Today we are going to talk  
about the real world!



## Short Term Fractional Price Drops... Long Term Consequences?

What Can Lowering the Price Mean to  
Marketing, Sales and Operations?

**-2009-**  
**“This year was the year  
that was.”**

*Tom Goetschius, RRP*  
*Tom Goetschius Associates*  
*Orlando*



## 2009 Fractional Sales Fall Off A Cliff

While Fractional sales continued to be made in 2009, sales velocity decreased dramatically and in some cases ceased altogether.

Where average number of sales had been 4 per month, in many cases, turned to 4 per year



## Industry Moves To Stimulate Sales Through Incentives

- Golf or Country Club Membership
  - Dinners, Vacations, Cruises
- Maintenance Fees (1,2 or 3 years)
  - Other Incentives



## Incentives Dubious

“Nothing we have tried to stimulate sales  
other than lowering price has worked”  
(Cindy Shaklee – Fairmont)

“Sales concessions do not help much.  
It is all about price”  
([stockettr@yahoo.com](mailto:stockettr@yahoo.com) North Carolina)

“It appears that without a significant price reduction,  
other incentives/strategies will likely fail”  
(R. Harris, Island Fractional Homes....Hawaii)



## Fractional Values Parallel National Real Estate Devaluation

Whole ownership prices re-adjusted to  
30-50% of previous value

**Our average of four major indexes predicts a total fall in  
prices of 34% from peak to stable trend.**  
[Michael David White, CEO, The New Mortgage Company \(Chicago\)](#)

**“As in the market for primary residences, it appears that many  
sales of deeply discounted distressed homes are pulling down  
the median price in the second-home market as well,”**  
[Lawrence Yun, Chief Economist NAR](#)



## Example: Myrtle Beach

- Original second home condos...\$1.3 Million
- Bank owned inventory re-adjusted price to \$600K
- Offer ¼ fractional priced at \$159,000
- 1.3 to 2.0 multiple abandoned for developer “bail out” pricing

Contributor: Norm Scott



## Many Forced To Reduce Prices

### Price Reductions Yield Insignificant Increases In Sales.....WHY?

- Fractional Clientele Feels Loss of Wealth
  - Consumer Confidence Low
  - Are We At The Bottom Yet?



## Alternatives To Price Reductions Sought

- Reduce Share Size
- Every Other Year Ownership
- Put Inventory Into Rentals

Lighthouse Key (ICI Homes) converts to solely hotel operation



*con-se-quence –noun*

*the effect, result, or outcome  
of something occurring  
earlier:*



## Short Term Fractional Price Drops... Long Term Consequences?

What Can Lowering the Price Mean to  
Operations?

Dale Goodman  
President  
GOODMANagement®



## My Audience

Your Projects are:

- Purpose Built and Open
- Planned and/or Under Construction
- Pre-Existing Conversion



## Key Management Focus Areas

- Reservations – for Owners and Renters
- Reception – check in / check out
- Housekeeping
- Maintenance
- Facilities / Common Areas
- Service and Training
- Activities and Owner Programs



## What is There?

- What were - and now are Developer's objectives?
- What is relationship to building/community?
- What facilities are owned by Developer?  
(What facilities are owned by Project?)
- Are there arrangements for amenity use?
- Is construction/renovation complete?



## Objectives of Management

In this case, where Sales is challenged:

- Making Good on the Promise™
- Support for Sales Processes
- Design for efficient support
- Deliver other revenues



## What Have You Promised?

- Coordinate with economic plan, with sales and with project materials
  - ✓ what services?
  - ✓ what other deliverables?
  - ✓ what usage and access?
  - ✓ at what cost to fractional interest purchaser?



## Support for Sales Processes

- Adjust to status of Sales
- Product positioning
- Communication with existing purchasers
- Support for tours



## Design Efficient Support

- Set to service levels - program for quality and meet service objectives
- What outside support is available?
- Employ learning labor
- Website as information source
- After hours check-in/access/support



## Deliver Revenues

- What is available to sell?
- Objective for Transient Rentals:
  - market value versus the cost of Sales success
- Exposure benefits Sales



## Short Term Fractional Price Drops... Long Term Consequences?

What Can Lowering the Price Mean to  
Marketing, Sales and Operations?  
A Legal Perspective!

Christopher Payne, Esq.  
Ballard Spahr LLP



## Impacted Parties (aka “Potential Plaintiffs”)

- Lenders
  - Mezzanine Lenders
  - Construction Trade Creditors
  - Brokers
  - Unsecured Creditors
- Investors
  - Institutional Investors
  - “Founders”
  - Buyers with Multiple Contracts



## Impacted Parties (aka “Potential Plaintiffs”) cont’

- Bona Fide Buyers under Contract
- Future Buyers
- Existing Owners / HOA
  - HOA Board
- Real Estate and Timeshare Regulators



## Impacted Parties – Bona Fide Buyers

### Modification or Amendment to Purchase Contract

- New Price
- Mutual Release
- Clawback on Subsequent Price Drops
- Conditioned on Lender Approval
- Confidentiality
- New Rescission Rights?



## Impacted Parties – Future Buyers

### Key Purchase Contract Terms

- Resale Restriction
- Quick Settlement
- Acknowledge Developer Flexibility

Lender Pre-Approval for Range of Closings

New Class of Owners?

New Service Levels?



## Impacted Parties – Existing Owners

### Resale Concerns

- Interference with Contract
- Impaired Marketability
- Misrepresentation

### Positive Impact of Dues Paying Owners



## Impacted Parties – Association / Board

### New Class of Owners?

- Changes in Allocations
- Budget Adjustments

### New Services?

### Separate Board or New Board Members



## Real Estate and Timeshare Regulators

- Price reduction alone does not trigger new timeshare disclosures.
- Changes in service levels probably do not require registration amendments.
- Changes in share size or use plan probably do require registration amendments.
- Increased Complaints from Buyer Plaintiffs.



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