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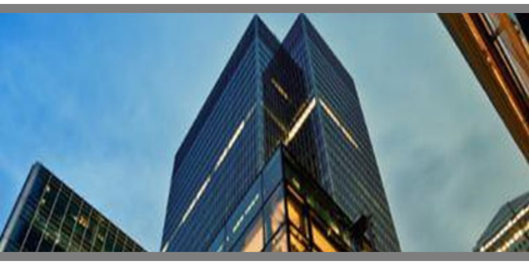
Securitized Products Special Topics

Timeshare ABS: Program-specific Attributes to Drive Performance



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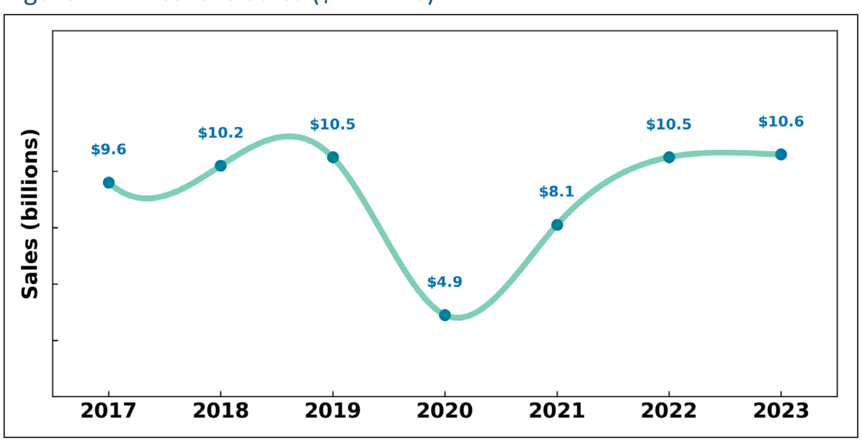
Focus on Chain Scale Positioning and Maintenance Fee Structures

Timeshare program specific attributes, such as chain scale positioning and maintenance fee levels, will become more influential in determining timeshare ABS collateral performance. This is happening as the travel and tourism industry fully recovers post pandemic. Both travelers and investors scrutinize timeshare value proposition versus hotels and vacation rentals. Timeshare ABS offer investors exposure to hospitality sub-segments that proved especially resilient during the pandemic – leisure travel, drive-to locations, and resort destinations.[1] As pent-up demand subsides a bit, traveler preferences and cost pressures will have a greater impact on the sector dynamics (Figure 1).

Figure 1. Timeshare Sales ($ Billions)

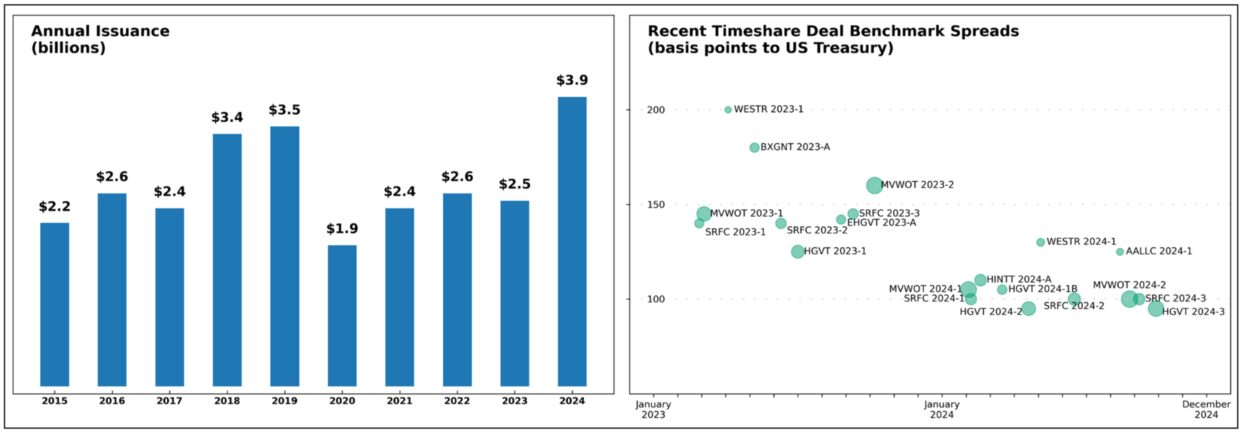


Source: ARDA and Academy Securities

Timeshare ABS issuance is picking up. Last year 12 deals priced, totaling $3.9 billion (Figure 2). Amid consolidation in the industry, increasing programmatic issuance of established sponsors dominates the primary market rather than new issuers. Still, investors saw in 2024 a diverse range of shelves, including from large public operators such as Hilton Grand Vacation and Marriott Vacations Worldwide, as well as from smaller private operators such as Westgate Resorts.

1 "Timeshare ABS: Exposure to Favorable Hospitality Segments," Securitized Products Special Topics, Academy Securities, February 14, 2023

Figure 2. Timeshare ABS Issuance and Spreads



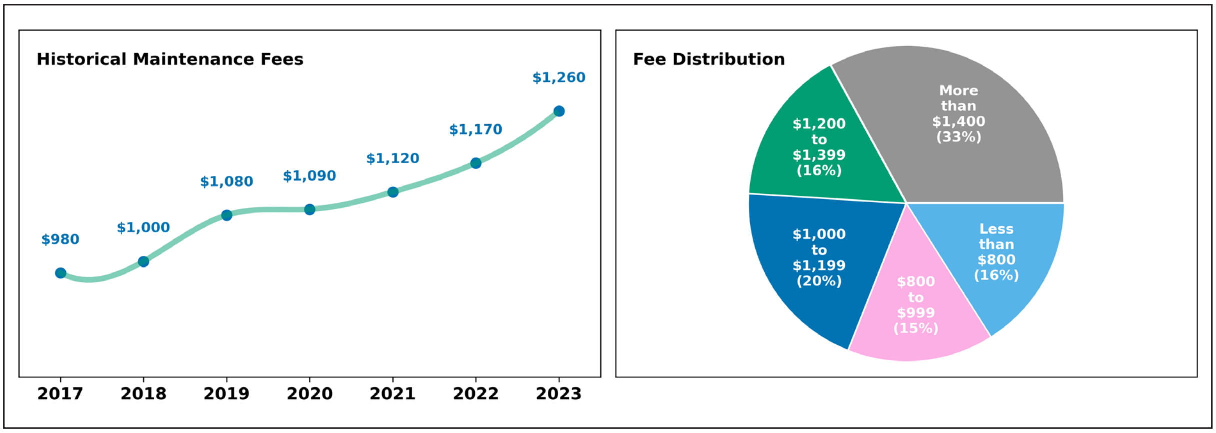
Source: Bloomberg and Academy Securities

Traveler Preferences and Operating Costs Drive Behavior

We identify a few aspects currently affecting timeshare collateral dynamics:

- **Rising maintenance fees.** Timeshare borrowers typically fund maintenance capital expenditures and resort operating costs each year. In fact, timeshare operators highlight this feature as credit positive for their business models, insulating operators from inflationary pressures. But rising operating costs could impact borrower behavior. To be sure, timeshare loan payments, which flow to the ABS deals, typically are billed separately from maintenance fees. But if borrowers cannot pay their maintenance fees, they are not permitted to book vacations, and may end up defaulting on their loans. Rising labor costs, insurance premiums, and other HOA-related costs should accentuate the pressure on borrowers. As such, timeshare programs with lower maintenance fee structures stand to be more resilient, all else being equal. Interestingly, we do not immediately see details/disclosures on maintenance fee structures in deal documents or presales we review. Intuitively we would expect programs positioned lower on the hotel chain scale, such as Travel + Leisure and Hilton Vacation Club, to feature lower fee structures. Across the timeshare industry maintenance fees reached $1,260 in 2023, on average, rising over 15% compared to 2020 (Figure 3). The maintenance fee distribution shows a third of timeshare properties charging >$1,400.

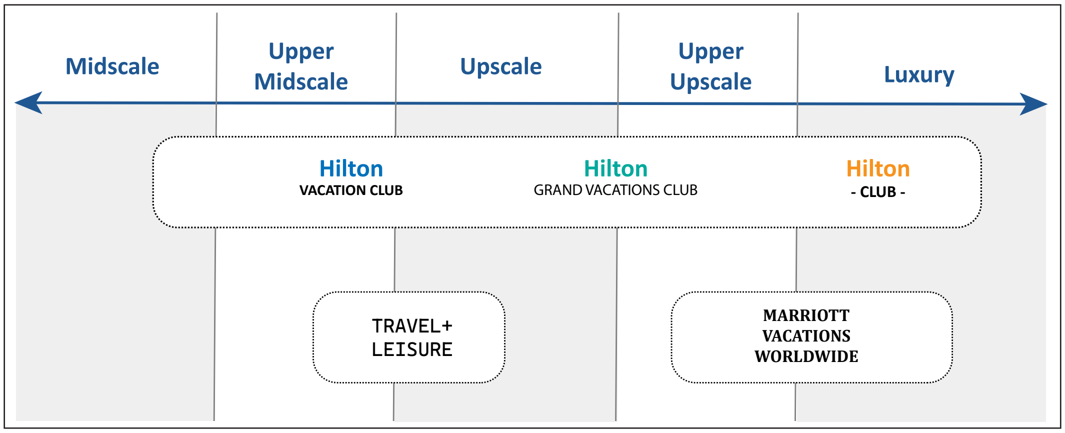
Figure 3. Timeshare Maintenance Fees



Source: ARDA and Academy Securities

- **Chain scale positioning.** The travel industry recovery sharpens the focus on the timeshare value proposition. Timeshare stays feature similarities with both hotel and rental vacation stays such as Airbnb/VRBO. Rising lodging rates and tighter supply of rental properties support the advantages of timeshare stays. Overall, the U.S. hotel industry reported record-high average daily rate (ADR), at $157.7, and revenue per available room (RevPAR), at $99.9, as of YE 2024, according to STR data. But the dynamics can vary across the hospitality chain scale. Timeshare programs stretch a wide spectrum of hospitality scale segments (Figure 4). Luxury and upper upscale hotel segments have shown particularly robust ADR and RevPAR growth. This could make the corresponding timeshare segments more competitive, as travelers get priced out of hotel stays.

Figure 4. Timeshare Programs Across Hospitality Chain-scale



Source: Investor Presentations and Academy Securities

- **Diversifying timeshare locations.** The introduction of unique or international destinations to timeshare programs could bolster their value versus competing traditional, US-based hospitality offerings. Borrower interest and performance could improve as a result. Two examples from recent months are the HGV/Great Wolf Lodge affiliation program, and TNL's acquisition of Accor Vacation Club. The five-year HGV/Great Wolf partnership program allows HGV owners to stay in Great Wolf Lodge indoor water park resorts. In turn, the Accor acquisition adds international locations to the TNL portfolio.

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