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Does the South African timeshare market provide financial institutions with an opportunity to enter the industry to extend its product range thereby increasing its loan book?

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2009-02-26T11:31:20Z
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DOES THE SOUTH AFRICAN TIMESHARE MARKET PROVIDE FINANCIAL INSTITUTIONS WITH AN OPPORTUNITY TO ENTER THE INDUSTRY TO EXTEND ITS PRODUCT RANGE THEREBY INCREASING ITS LOAN BOOK?

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A research report submitted to the Faculty of Engineering and the Built Environment, University of the Witwatersrand, Johannesburg, in partial fulfilment for the degree of Master of Science in Building.

Johannesburg

2008

ABSTRACT

The research question enquires if the timeshare market provides financial institutions with opportunities to adapt the timeshare market offering as an extension of their product range thereby growing the loan portfolio which it can hold as an income producing annuity or securitise this debt to realise profits.

The timeshare market has grown substantially from modest beginnings in Europe in the early sixties to a world wide multi billion US dollar industry by the turn of the century. Despite a tarnished image and an industry associated with hard sell techniques, it continues to enjoy acceptance amongst consumers as a way of ensuring future holidays by fixing the cost, up front.

The research showed that timeshare which is an entrenched concept is viewed as a consumer product and not as an investment. International literature highlights various risks associated with timeshare as well as the high cost of sales, high maintenance costs [levies] and exit costs. The literature is unanimous that if these costs could be reduced there would be more investment in timeshare thereby attracting a wider audience.

The research also indicates that a business needs to conduct value chain analysis not only to look at its costs and performance in each value creating activity but also on ways to improve thereupon. Although the managing of core processes is vital to a company's survival it also needs to scan the market environment to identify competitors. A company should have a competitive intelligence system that allows it to recognise the threat of new technologies and / or emerging products. Integration (backward or forward) is a grand strategy available to a business enabling a company greater control of the value / supply chain.

The research report has tried to quantify the opportunities available to financial institutions to implement backward vertical integration in a market that they have steered clear from due to the "high risk" tag it carries.

Due to the lack of up to date information the research report is mainly qualitative. It should be treated as a pilot study, highlighting what is of importance and which areas are to be treated with care when entering the timeshare market.

DECLARATION

I declare that this research report is my own, unaided work except to the extent indicated in the text, the acknowledgements, references and comments. I further declare that the research report or any part thereof has not been submitted before for any other degree or examination at any other university.

DEDICATION

In loving memory of my father

Giordano Secondo Mania

who saw me start this journey

but did not see me finishing it.

ACKNOWLEDGEMENTS

I would like to express my sincere gratitude to the following people for making available their knowledge, wisdom and precious time for the completion of this research report. Without them and their belief in me this research report would have remained a figment of my imagination.

- Prof Viruly, of the Faculty of Engineering and the Built Environment, University of the Witwatersrand, for his guidance, patience and gentle prodding.

- My wife, Arlene Jessie, whose proof reading of the endless scripts and knowledge of the English language was a godsend.

- My daughters, Kirby and Amy, who have always believed in me.

- My mother, Ancilla, for her endless encouragement and support.

CONTENTS

1	**CHAPTER ONE: CONTEXTUALISATION**	8
1.1	BACKGROUND TO RESEARCH	8
1.2	THE CONTEXT OF THE STUDY	8
1.3	THE PURPOSE OF THE RESEARCH	9
1.4	THE PROBLEM DEFINITION	9
1.5	THE DELIMITATIONS	9
1.6	CONCLUSION	10
2	**CHAPTER TWO: LITERATURE REVIEW**	11
2.1	INTRODUCTION	11
2.2	RATIONALE FOR TIMESHARE	12
2.3	TIMESHARING WORLD WIDE	12
2.4	TIMESHARE IN EUROPE	14
2.5	TIMESHARING IN SOUTHERN AFRICA	18
2.6	SOUTH AFRICAN LEGISLATION AFFECTING TIMESHARING	22
2.7	CUSTOMER VALUE IN THE TIMESHARE INDUSTRY	24
2.8	IMPORTANT ISSUES FOR THE TIMESHARE INDUSTRY	32
2.9	TIMESHARE AS AN INVESTMENT	37
2.10	TIMESHARE FINANCING	47
2.11	FINANCIAL PERFORMANCE OF TIMESHARE IN THE UNITED STATES OF AMERICA	50
2.12	STATE OF THE ECONOMY	52

2.13 REVIEW OF GROWTH IN BANK CREDIT EXTENSION AND RETAIL SALES IN SOUTH AFRICA 53

2.14 TOURISM STATISTICS FOR SOUTH AFRICA 55

2.15 THE VALUE CHAIN 64

2.16 THE MARKETING ENVIRONMENT – SCANNING THE ENVIRONMENT, DEALING WITH THE COMPETITION AND DEVELOPING A NEW MARKET OFFERING 67

2.17 INTEGRATION AS A GRAND STRATEGY 68

2.18 FINDINGS OF LITERATURE REVIEW 69

3 CHAPTER THREE: METHODOLOGY 72

3.1 INTRODUCTION 72

3.2 QUALITATIVE RESEARCH 72

3.3 CONCLUSION 75

4 CHAPTER FOUR: EVALUATION AND DISCUSSION OF RESULTS 76

4.1 INTRODUCTION 76

4.2 DISCUSSION OF RESULTS 76

5 CHAPTER FIVE: CONCLUSION 88

5.1 INTRODUCTION 88

5.2 SUMMARY OF FINDINGS 88

BIBLIOGRAPHY 91

ANNEXURE 1 93

ANNEXURE 2 95

ANNEXURE 3 108

ANNEXURE 4 144

1 CHAPTER ONE: CONTEXTUALISATION

1.1 BACKGROUND TO RESEARCH

Timeshare started with humble beginnings in Europe in the early sixties and to date has grown into a global multi billion US dollar industry. The industry is associated with hard sell techniques but despite this tarnished image, it continues to enjoy acceptance amongst consumers as a way of ensuring future holidays with costs being fixed up front.

Timeshare is an entrenched concept which is viewed as a consumer product and not as an investment. There are various risks associated with timeshare with the major ones being the high cost of sales, annual levies [maintenance costs] and exit costs. If these costs could be reduced there should be a wider audience thereby attracting more investment.

Financial institutions continuously develop new products to enhance / extend their service offering in an effort to retain as well as attract new customers.

Timeshare could provide financial institutions with opportunities to adapt the timeshare market offering as an extension of their product range thereby growing their loan portfolio. This loan portfolio could be held to maturity which would produce an income annuity or securitise it (if the financial institution was hampered by capital constraints). By securitising the loan portfolio, profits would be realised immediately and the balance sheet released of assets thereby allowing the financial institution to create further loans.

1.2 THE CONTEXT OF THE STUDY

The development of a timeshare resort (inter alia the design, construction and financing of the project) as well as the sale of the timeshare intervals (usually weeks) and thereafter the management of the resort are all interrelated which brings together different role players. The role players involved usually have short term horizons (+/- 3 years) with the exception of the timeshare owners whose horizon is long term (10 years and +). Because of the different value propositions of the role players an integrated approach is not followed.

Financiers (traditionally banks) provide finance to enable consumers to purchase goods and services. The financing of timeshare weeks by financiers is considered as ***"high risk"*** as the underlying asset (the right to the exclusive use and occupation of accommodation - such as a hotel suite) is not considered to be good security ***vis-a-vis*** a mortgage bond over fixed property or a lien over moveable property. Because of these risks associated with timeshare, lending of this nature is not encouraged by financiers. The result is

that consumers find it difficult to source finance for this type of purchase and financiers (banks) lose a source of additional business (personal loans).

1.3 THE PURPOSE OF THE RESEARCH

The purpose of the research is to demonstrate the viability of the timeshare market and the financing opportunities it provides as well as the competitive edge a company enjoys when it is first to market.

The research will investigate if a financial institution can apply backward vertical integration thereby ensuring a source of business (personal loans) for itself. Financial institutions need to on-lend monies deposited with it to earn a return.

The research will investigate the legal basis of timesharing and which form of ownership is the most cost effective for the developer and timeshare purchaser. It will also investigate which form of ownership is the most easily realisable thereby allowing a financier to resell a timeshare interval should the original purchaser default.

The research will investigate the increase in foreign tourists to South Africa since 1994.

The purpose of the research is to demonstrate that the solutioning of clients' needs can lead to an increase in a financier's loan book thereby ensuring customer retention (i.e. one stop shop).
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1.4 THE PROBLEM DEFINITION

1.4.1 RESEARCH QUESTION

Does the South African timeshare market provide financial institutions with an opportunity to enter the industry to extend its product range thereby increasing its loan book?

1.4.2 HYPOTHESIS

The South African timeshare market offers broader opportunities for financial institutions.

1.5 THE DELIMITATIONS

The research proposal will not attempt to calculate Return on Investment or Return on Equity (ROI / ROE) for timeshare resorts / projects as hurdle rates

for investors would differ depending on the type of development (green fields vis-à-vis brown fields) and the target market it is aimed at. The state of the economy would also have an impact on return criteria.

Market research will not be done to determine projected sales prices for timeshare intervals (weeks) but information obtained from industry participants (eg RCI Global Vacation Network (RCI) and the Timeshare Institute of South Africa (TISA)) will indicate the state of the industry and if it can accommodate new entrants. The potential size of the timeshare industry (market offering) will not be measured.

The timing of the product offering may not be ideal (slowdown in consumer boom and the introduction of the National Credit Act ("NCA")) but the concept is the critical issue. The restrictions that the NCA imposes on financiers will not be investigated (as it will apply across the board to all consumers and affect all financiers).

The cost of introducing this new product offering will not be calculated as it is seen as an extension of existing lending products.

1.6 CONCLUSION

From its infancy in the 1960's to the new millennium the international timeshare industry has shown substantial growth and now plays a major role in the world tourism industry. The South African tourism market has also shown growth since the first democratic elections were held in 1994 and has benefited from improved economic conditions (locally and internationally).

Competition amongst financiers (commercial banks) remains fierce and they continuously seek new markets / product offerings to increase their stake in the lending industry and improve their profitability.

By adopting backward vertical integration a financier (commercial bank) can enter the time-share industry and enjoy first mover advantages. By entering the industry on such a basis, financiers (commercial banks) will be involved in all of the activities in the value chain thereby exercising control over it, with the result that the risks associated with the financing of timeshare can be reduced.

2 CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

The publication "Hospitality Directions Europe Edition" (Issue 12 of September 2005) provides the following definition of timeshare:

"Timeshare" has become a generic term covering a variety of models which provide partial usage or ownership rights to holiday properties. Professionals active in the sector stress that the investment made by individuals in a timeshare product should be seen as an investment in holiday facilities and not as a property investment (p.2).

The publication goes on further to point out that timeshare embraces a number of different concepts with the most prominent being:-

The classical timeshare scheme – a user purchases an interval (usually in intervals of one week) in a holiday property with the right to use the property every year for a fixed term (usually a set number of years – purchaser obtains no equity interest in the unit but in some cases the right is sold in perpetuity) and in addition to the purchase price pays an annual maintenance charge (usually referred to as the maintenance levy).

Fractional ownership – this concept is also associated with aircraft, boats as well as property whereby the purchaser obtains part ownership of the equity in the asset purchased. Usually the fractions purchased are divided into larger proportions (anything ranging from one month to a number of months in a year) compared to timeshare which is usually done in weekly intervals. The initial cost (purchase price / maintenance levy) is greater than that of timeshare but the target market is more affluent and a higher quality of property is purchased.

Private residence clubs – the concept is similar to fractional ownership but operates in an exclusive market with matching costs. The purchase is usually for 6 to 8 weeks of a year.

Points clubs – the purchaser obtains rights via a points system to the use of holiday properties that have been acquired by the points club.

Condo hotels – this is a variant of interval ownership. The owner purchases a hotel room / suite (equity based ownership) and is entitled to a certain amount of usage of the unit (ranges between 1 and 4 weeks) and then places the unit into a rental pool. The owner benefits from the rental income if the room is rented out to hotel guests.

The timeshare concept originated in Europe in the 1960's when a ski resort developer in the French Alps was innovative and marketed the resort by encouraging guests not to rent rooms but rather to buy intervals of time in the resort instead. Occupancies increased and the idea spread world wide.

2.2 RATIONALE FOR TIMESHARE

The potential profits to be gained from the sale of a resort that has been timeshared, relative to a whole ownership scheme differ substantially. The following example of a 50 unit project will illustrate the point.

Description	Outright Sale	Timeshare
50 units x R750,000 / unit	R37,500,000	-
50 units x 51 weeks x R20,000 / week	-	R51,000,000

The revenue received from the timeshare sales is 36% more than the conventional sales. Sight must not be lost that with the conventional scheme, 50 outright sales take place while with the timeshare development 2,550 sales are required and therein lies the core of what timeshare is all about. It is a service industry which is focussed on selling future holidays and not simply selling property.

Not all fifty two weeks of the year are sold as one week out of the fifty two, one is retained for maintenance (such as painting) or for upgrades (refurbishing). Each timeshare purchaser is liable for a maintenance levy. The maintenance levy that each timeshare week attracts is intended to cover all running expenses (inter alia rates & taxes, electricity, security, repairs & maintenance, cleaning, insurance, audit fees, salaries and wages of resort staff, etc) as well as the replacement of furniture, fittings and appliances on a regular basis.

2.3 TIME-SHARING WORLD WIDE

According to the 2003 Resort Timesharing Worldwide Report prepared by Resort Condominiums International the following facts and figures are pertinent:

- ownership of time-share increased by about 12% annually from 1990 to 2002. There are about 6,700 households that own or hold membership use rights to some 10,7 million weeks of time-sharing.

- The number of time-share resorts worldwide amounts to 5,425 with the majority of them being located in North America. The table below reflects the worldwide distribution.

Location	Number of Resorts	% Share
North America	1,682	31
Europe	1,357	25
Latin America	868	16
Asia	760	14
Africa	325	6
Caribbean	271	5
Pacific	162	3

- The 5,425 resorts provide about 325,000 accommodation units worldwide. Time-share resorts in the United States of America tend to be the largest with the average time-share resort consisting of 80 units while on a global basis the average timeshare resort consists of 60 units.

- Worldwide the time-share industry recorded sales of $9.4 billion in 2002. Typical time-share buyers are upper-middle income, middle-aged, married couples who own their own home. Time-share products are priced and packaged to attract ordinary working people as well as the affluent.

- Median household incomes of buyers range from about US$35,000 in some developing countries to more than US$90,000 for buyers in the Caribbean.

- Italy attracts the largest proportion of unmarried buyers (37%), while timeshares in Latin America attracts the most households with children (58%). Market penetration remains low in most countries (fewer than 3% of households in the United States of America own timeshare).

Hotel companies have found that by employing the basics of timesharing they have been able to fill hotel rooms. This has been accomplished by utilising existing facilities and services as well as building new hotels / resorts. In 1984 Marriott implemented this business strategy and has been very successful. Hilton has also been very successful in this regard while Disney Vacation Club is another hospitality company that has entered the timesharing business.

The report indicates that the potential for future growth exists. This bodes well for the tourism industry of which timeshare forms part. By adopting the timeshare concept and adapting it to suit their needs various branded hotel groups have recognised the benefits of timeshare and the immense value it can add to their business. In view of the aforementioned, the timeshare industry could be viewed by financial institutions as a source of additional business not only by utilising existing products to fund a resort but developing new products to fund the resulting timeshare intervals.

2.4 TIMESHARE IN EUROPE

The following has been extracted from "Hospitality Directions – Europe Edition" (Issue 12; September 2005)

- Market Trends in Europe – Growth in timeshare in Europe has lagged behind that of the USA. With +/- 7 million timeshare owners in the world, Europe accounts for 20% compared to 50% for the USA. Of the +/- 1,4 million owners in Europe the largest market is in the United Kingdom / Ireland which had 440 000 owners in 2001.

Between 1990 and 2001(last year for which details exist) timeshare owners in Europe grew by 10% a year on average. An analysis of the annual growth figures reflects a declining trend (30% in 1990 to a virtual standstill in 2000). The major reasons for this are:

- Implementation of the European Union (EU) Timeshare Directive in 1997 which banned the taking of deposits during the newly introduced cooling off period
- Growth in real wealth in the region which saw a revived interest in the outright purchase of second homes
- Adverse effects of dubious practices in the marketing and sales of timeshare which damaged the sector's credibility and standing

Timeshare Resort Development – The publication reports that +/- 25% of the world's timeshare resorts are located in Europe. Exhibit A below reflects the location of these resorts

Exhibit A

Country	Resorts	%	Units	Av Resort Size
Spain	512	35,3	29,244	57
Italy	186	12,8	12,375	67
France	142	9,8	9,850	69
United Kingdom	129	8,9	4,010	31
Portugal	124	8,5	7,654	62
Austria	55	3,8	3,230	59
Greece	45	3,1	2,225	49
Turkey	38	2,6	3,381	89
Germany	38	2,6	2,163	57
Switzerland	37	2,5	1,465	40
Finland	31	2,1	1,404	45
Scandinavia	40	2,8	1,595	40
Malta + Cyprus	35	2,4	2,319	66
Other Europe	40	2,8	2,111	53
Total	1452	100,0	83,026	57

Source: The European Timeshare Industry in 2001, Organisation for Timeshare in Europe

Major Destination - Many Eastern European countries have joined the EU with the Mediterranean remaining a popular holiday destination. The Mediterranean as a destination has seen a large influx of holidaymakers from these countries. Timeshare purchase trends, tend to mirror the patterns of mass market holiday-taking, but at this stage it is considered too early to say whether the beginnings of growth in these markets is representative of the traits of a small group of wealthy purchasers or represents a broader general trend.

Type of Resorts – The bulk of resorts in Europe are Beach resorts (60%) with the balance being evenly spread between Countryside / Lake and Ski / Mountain. Surveys conducted by Interval International (timeshare exchange company similar to RCI) and Marriot indicate that beach locations remain a firm favourite.

Branding – The entry of branded hotel groups in the timeshare industry which is a feature in the United States of America has not taken place in Europe. In part this is attributed to sector's lifecycle (regarded as lagging the USA by 5-10 years) where the pioneering developers evolved out of real estate and not from the hospitality fraternity. The growth of branded timeshare properties will have an impact on the sector as hotel companies

- make it easy to visit their sites without the use of high pressure sales techniques
- that have high brand recognition are able to create trust and a sense of confidence amongst consumers / potential consumers
- provide the consumer with the belief that their investment is secure (company has the know-how to look after the property, manage it and ensure that it is properly maintained and that it can be re-sold without incurring a capital loss
- reducing marketing and sales costs

Timeshare Regulation – The report identifies the legal and regulatory framework as key factors surrounding timeshare sales in Europe. Whilst many companies concur that regulation has improved consumer confidence others feel that the current legislation errs in favour of the consumer.

The European Union's Timeshare Directive was passed in 1994 for implementation in 1997 in response to various concerns. The directive encompassed four areas:

- A statutory minimum cooling off period of 10 days after signature of the purchase contract by the parties
- Banning the taking of deposits during the cooling off period
- Contracts being in the language of the purchaser's country of residence
- A full property description together with the purchaser's right to be provided to form a part of the contract.

Although the Directive was incorporated into national laws (a task completed in 1999) this has resulted in an uneven spread of measures in individual countries with cooling off periods ranging between 10 and 15 days as well as a lack of consistency with regard to the taking of deposits.

The effect of the directive has been twofold. It has aided growth by eradicating dubious practices of former years which has helped to improve the image of timeshare. On the other hand it has hampered growth because of its unbalanced regulations and lack of consistency throughout Europe.

- Sales and Marketing – Since the outset, sales and marketing practices has been the Achilles heel of the timeshare industry. The Timeshare Directive is the result of unscrupulous developers employing dubious methods. Although mainstream companies have worked hard to reverse the poor image of the industry the legacy continues to linger. The activities of "travel clubs" who are not subject to the Timeshare Directive sell travel packs (which are not supported by inventory) and their marketing and sales practices are not controlled. These travel clubs who are regarded as "timeshare" by consumers and the media, do not help the image of the timeshare industry.

  Sales and marketing costs range between 30% and 50% of costs and companies are employing more targeted and sophisticated sales and marketing methods to bring costs down. Developing links with credit card companies, car dealerships and other high profile businesses has changed the perception of the consumer towards the industry.

  European timeshare developers are copying their American counterparts by offering mini-vacations to trial products as well as holiday letting to introduce prospective customers without the high pressure sales hype. Exposure of the resort via the internet also assists with the sales drive.

- Changing Industry Shape – In the early days of the timeshare industry, developments were the consequence of distressed hotel stock being acquired and converted. Consumers tastes have moved on in that:

  - The market has become more affluent
  - Low cost airlines have brought in a new dimension
  - The market demands higher quality

The shape of the industry is changing due to branded operators entering the market, new models being introduced and an increased focus being placed on mixed-use developments.

Fractional sales as well as private residence clubs are attracting the largest interest and this is where growth is taking place. On a world wide basis, Marriott Vacation Club International ("MVCI") has predicted that the ratio of timeshare / fractional sales will move from 84:16 in 2004 to 74:26 in 2008.

These new models (fractional ownership / private residence clubs) fall into a niche market and represent a minority of sales.

Timeshare has become a lifestyle product providing a whole range of travel purchases for which flexibility is of paramount importance.

The challenge to the timeshare industry for 2005 and beyond is to

- Provide variety to cater for changing holiday patterns
- Produce / develop a product that increases profitability
- Ensure that the timeshare purchasers use their investment as an exchange tool for a lifestyle product

Financial and Economic Aspects – As noted in other publications this report highlights the problem that traditional timeshare companies, as opposed to hotel companies with timeshare interests, find it difficult to obtain development finance. Financiers are hesitant to finance timeshare developments due to the following reasons

- Poor image of sector
- Accounting procedures not being transparent
- Sales and marketing costs being high
- Lacking an in depth knowledge of the industry

The report also indicates that a higher rate of return is generated by timeshare developments compared to standard hotel developments. Because timeshare developments generate substantial revenues during the sale of time intervals the payback period is more attractive compared to hotels that rent out rooms on a daily / weekly basis and whose payback period is longer.

Timeshare can also add benefits to hotels in the following way

- Food and beverage sales in the hotel can be boosted because of the demand from timeshare owners. The provision of this service is already on site and the marginal cost to meet the increased demand would be low.
- On site installation of more extensive leisure, sports or health facilities demanded by timeshare owners that cannot be justified for a hotel.

The above demonstrates that scale economies can be can be generated by catering for additional demand at low marginal costs. Over time the established hotel model is changing in favour of mixed use developments.

- Future Prospects – The shape of the industry is evolving with segmentation playing a major role. The industry (analysts as well as practitioners) believe that the old style of timeshare has reached its “sell by date” and that the demand for the following is strong

- Products that are branded and of a high quality
- Fractional ownership

The downside of the above is that volume growth will be difficult because as the product moves upward, the target market becomes smaller.

The move by branded hotel groups to adapt their operating model by looking at timeshare as a way of increasing revenue and by generating economies of scale is positive.

It is expected that industry consolidation will take place with a few key players dominating the market.

The essence of the timeshare industry is flexibility of use but from a market demand perspective, consumers want to be able to extend the points or credits gained (from interval ownership) to other travel products and services.

The report concludes that timeshare in Europe did not turn out to be the blockbuster that had been forecasted some 10-15 years ago but with the changes that have taken place (improved regulation, better operators and a wiser public) it has a role to play in leisure development.

Although the timeshare concept originated in Europe, the product has found success in the United States of America and developers in South Africa need to take this into account and ensure that market research is undertaken to justify the substantial investment that would be made if the decision is taken to enter the timeshare market.

2.5 TIMESHARING IN SOUTHERN AFRICA

The Ragatz ***Resort Timeshare in Southern Africa*** (published in March 2004) has produced the following key findings:

2.5.1 INDUSTRY SIZE

At the time of the report there were 191 resorts in Southern Africa with the majority located in South Africa. The following breakdown reveals their location:

Country	Number
South Africa	180
Zimbabwe	6
Reunion	2
Mauritius	1
Namibia	1
Swaziland	1

These resorts include 8,128 timeshare units with about 250,000 households holding the rights to some 363,000 weeks or the equivalent in points.

During 2002, an estimated 32,000 weeks or the equivalent in points were sold for R566 million. In 2003 this increased to an estimated R705 million representing about 38,000 weeks or the equivalent in points.

2.5.2 TIMESHARE PURCHASES

The bulk of sales are made by developers with resales accounting for a little more than a quarter of all sales. A small portion is taken up by gifts and inheritances. The table below reflects the source of sales:

Source	%
Developers	61
Resales	26
Gifts, inheritances or other	13

The average price paid per week of annual use amounts to R17,600. This represents one of the lowest averages for new timeshares sales anywhere in the world, equivalent to +/- US DOLLARS 2,700 or EUROS 2,200. Relative to median buyer incomes, timeshare in Southern Africa is much more affordable than those in the United States or Europe.

Timeshare resales average R13,800 per week which is lower than the average price for timeshares sold by developers. Notwithstanding the aforementioned, the difference between new and resale prices is less than in almost any other region of the world.

Compared to the industry, in Southern Africa, larger unit sizes (2 & 3 bedrooms) are most common with three bedroom units representing a higher proportion of newly sold inventory than in any other major world timeshare region.

The bulk of sales by developers are “Right of Use”. (For a definition of this term please see discussion on page 11).

The reasons for buying are varied and the table below gives an idea which resort characteristics influence a buyer’s decision:

Resort area characteristics	%
Attractions & entertainment	42
Ocean beaches	39
Mountains	34
Golf	26
Gambling	19

The most important purchase motivators are the certainty of quality accommodation and the credibility of the timeshare company with the most cited purchase hesitation being the possibility of future maintenance fee increases.

The table below reflects that (in the main) the place of purchase from developers takes place at the resort:

Location	%
Resort	45
Home	27

The marketing of timeshare takes many forms but the marketing channels that generate sales are:

Channel	%
Word of mouth	26
Print advertisements in magazines and newspapers	17

2.5.3 CONSUMER BENEFITS

The report indicates that the level of satisfaction with timeshare purchases is high but room remains for improvement as 17% of purchasers are not satisfied. The table below reflects the various levels of satisfaction:

Satisfaction	%
Satisfied	83
Very satisfied	57

It was also reported that timeshare owners experienced an improvement in their holidays. The table below indicates the degree in improvement:

Degree in improvement	%
Look forward to holidays	74
Spend more time on holidays	64
Increase in health & happiness	62

2.5.4 COMMUNITY BENEFITS

The report indicates that timeshare resorts attract the type of owners that most resort areas seek as visitors. The median annual income of these visitors is R227, 000.

The table below provides interesting insights:

Characteristic	Finding
Mature	(median age 56 years)
Stable (married / homeowners)	79 % / 93 %
Retired	32 %
Non-retired	Either self employed entrepreneurs or upper / middle management or professional / technical

Timeshare ownership dramatically increases visitation to the area where the resort is located. The report reflects a 74% increase in number of nights spent in that resort area per five years, as compared with prior to ownership. This substantially benefits the resort area by increasing total visitation and stabilizing repeat visitation.

Timeshare owners report using 95% of the time available in their timeshares, either personally or for use by others. High occupancy rates result in strong year-round utilisation, reducing seasonal fluctuations in resort area employment.

Timeshare travel parties spend an average of R3,640 in the local community during their holiday, or R449 per day. Total expenditures by all timeshare guests while on Southern African vacations total about R1,22 billion per year thereby generating jobs and supporting businesses throughout the region.

The average timeshare owner pays R1,480 in maintenance fees each year, per week of annual use that they own. Much of the revenue goes to local resort communities, paying the salaries and wages of resort staff and for purchasing supplies both locally and abroad. Total maintenance fee expenditures by all Southern African timeshare owners total about R537 million annually thereby creating jobs, supporting local businesses and paying taxes.

As indicated by the report, the selling price of timeshare intervals is one of the lowest worldwide. Prospective timeshare owners are motivated by the certainty of quality accommodation as well as the credibility of the timeshare company. The majority of timeshare owners are satisfied with their purchase and have experienced an improvement in their holidays. The benefits to the

community are substantial with total visitation increasing as well as repeat visitation stabilizing. The result of the aforementioned has an impact on the economy for these areas as the increase in spending has a direct influence on the well being of the local community. All of these are positive factors that a new entrant into the timeshare industry could capitalise on.

2.6 SOUTH AFRICAN LEGISLATION AFFECTING TIMESHARING

The timeshare industry in South Africa is controlled by The Property Time-Sharing Control Act 75 of 1983 ("The Act"). The scope of the Act is as follows:

The Act was introduced to regulate the sale of time-sharing interests based on different time-sharing schemes which are described in more detail below. Not all aspects of time-sharing are regulated by the Act nor does it limit the operation of time-sharing schemes to the owners of properties. The following main issues are covered:-

- restrictions on the development of a time sharing scheme;
- the contents of advertisements regarding the sale of time-sharing interests;
- disclosures by a developer;
- contracts of sale of timesharing interests;
- restrictions on the receipt of consideration following the sale of a timeshare;
- the management of a timesharing scheme.

The Act is applicable to all alienations of time-sharing interests under a property timesharing scheme. In terms of section 1 of the Act a 'property time-sharing scheme' means:

> *(a) any scheme, arrangement or undertaking in terms of which time-sharing interests are offered for alienation or are alienated and the utilization of such interests is regulated and controlled, whether such scheme, arrangement or undertaking is operated pursuant to a share block scheme; any scheme under which time-sharing interests connected with rights to membership of or participation in any club are granted; any time-sharing development scheme based on the*

alienation of undivided shares in a unit as defined in section 1 of the Sectional Titles Act 95 of 1986, or otherwise; or

(b)any scheme, arrangement or undertaking declared a property timsharing scheme by the Minister by notice in the Gazette for the purpose of this Act, in terms of which interests in the use or occupation of immovable property, or any portion or part thereof, defined in the notice, are sold or leased.

The term alienate, in terms of the Act, means – *sell or let for utilisation over a prescribed period of at least three years*. The Act only applies to time-sharing interests in immovable property and not to time-sharing interests in movable property, such as an aircraft. In terms of the Act the concept of immovable property includes the land and any building or improvements thereon, whether of a permanent nature or not, erected or to be erected.

The legal basis of a timesharing scheme is now discussed. The way that a timeshare scheme can be operated will either be based on ownership or a right of use:

- Based on ownership – in such schemes the purchaser of a timesharing interest becomes a joint owner of the property by acquiring an undivided share in it. It follows that all purchasers become co-owners of the property and in terms of an exclusive use agreement among the parties, each being entitled to the exclusive use of the property during their time period. (Time-sharing is also possible in respect of a building that has been sectionalized under the Sectional Title Act 95 of 1986).

- Based on a right of use – such schemes will be based on one of the following:

  - by purchasing a share in a share block company under the Share Blocks Control Act 59 of 1980, thereby acquiring the right to occupy for a particular period of time. Shareholders then enter into a use agreement which regulates occupation and use of the building.

  - by joining a club where the trustees hold units on behalf of the club. Membership of the club allows the member the right to occupy a particular unit.

  - by leasing a unit from a lessor whereby the lessee acquires a right to occupy the unit for a particular period as determined by the lease. It follows that the lessee is only entitled to intermittent use of the property for the period of the lease.

From the above, it can be seen that depending on the method of operating a timesharing scheme, due notice needs to be taken of the following legislation:

- Property Time-sharing Control Act 75 of 1983,
- Sectional Titles Act 95 of 1986, and
- Share Blocks Control Act 59 of 1980

The Code of Conduct for the time-sharing industry:

The Business Practices Committee (acting in terms of the Harmful Business Practices Act 71 of 1988) in conjunction with TISA have prepared a code of conduct for the time-sharing industry. It is the intention of the code to govern business practices within the timesharing industry by protecting both the interests of the industry and consumers and to promote an equitable balance between these interests. The code is administered by TISA, reporting to the Business Practices Committee.

Although the code of conduct does not have the force of law it does seek to provide the orderly self regulation of the time-sharing industry.

Notwithstanding the code, the rights or remedies that parties may have because of any agreement, the common law or any legislation, remain intact.

A legal framework (in the form of the Property Time-sharing Control Act 75 of 1983 together with the Code of Conduct) is in place to govern the timeshare industry as well as to protect the interests of consumers and developers. A cooling off period of five days, which is less than that enjoyed by consumers in Europe, is in place. All participants in the timeshare industry need to comply with the applicable legislation. Developers need to be cognisant of the fact that the timeshare end product encompasses different types / forms of ownership and the choice they make in selecting the form of ownership can have a long term impact on their business.

2.7 CUSTOMER VALUE IN THE TIMESHARE INDUSTRY

In their paper “Understanding Customer-Derived Value in the Timeshare Industry” published in the Cornell Hotel & Restaurant Administration Quarterly in February 2007, Sparks, Butcher and Pan found that prior research into timeshare had addressed economic effects, customer-satisfaction surveys,

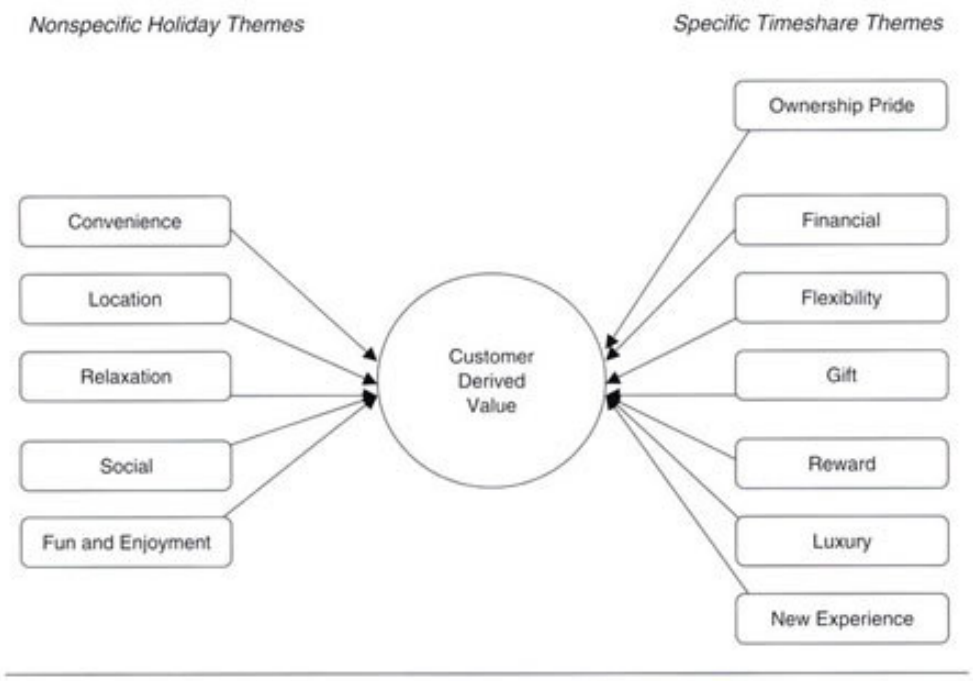
purchase motivations as well as demographic profiles but had remained silent on identifying the value that timeshare owners derived. Sparks *et al* (2007) are of the view that the purchase of timeshare is multi dimensional as it consists of both experiential and ownership aspects (i.e. over and above the holiday experience purchasers of timeshare also buy into some type of ownership which represents an investment of a long term nature). Other than descriptive studies such as Crotts and Ragatz (2002) and Lawton, Weaver, and Faulkner (1998), Sparks *et al* (2007) believe that no other research has investigated the experiential product as described above, where the customer pays an amount of money to own the right to a vacation interval.

Timeshare has an additional ownership aspect to it in the form of annual levies for the maintenance of the resort.

Sparks *et al* (2007) employed a qualitative-group interviewing process based on focus groups. A major reason for choosing focus groups enabled them to canvas a range of opinions at one time. The outcome of the research enabled them to determine what provides value to timeshare owners.

Sparks *et al* (2007) were able to determine twelve dimensions of customer value as shown in Exhibit 1, reflected hereunder;

Exhibit 1:
Map of Themes for Customer-Derived Value



Source: Sparks B, Butcher K & Pan G; 2007 Cornell University

Five Dimensions of Vacation Value

The non-specific holiday themes as reflected in Exhibit 1 are the five dimensions that all respondents found in all forms of resort accommodation. Although the dimensions translate into derived value for the owners of timeshare all holiday makers of a resort experience are likely to derive value from the five dimensions.

Sparks *et al* (2007) point out that although the dimensions might be relatively generic, the data collected provides insight as to how resort managers can optimize the value obtained by consumers by providing the following example

"while all holiday makers might seek relaxation, the fact of timeshare ownership forces many consumers to commit to taking a holiday with its implicit relaxation" (Sparks, Butcher and Pan: 2007, p. 33).

The exhibit below reflects the five dimensions and their meanings.

Exhibit 2 Non-specific Value Dimensions for Holidays

Dimension	***Meaning***
Convenience Value	Value derived through the convenient location and access of a timeshare property.
Location Value	The value gained from the resort's position and access to destination attractions.
Relaxation Value	Being able to relax and unwind. Value was derived from their ownership because by having the product they were "forced" to take a holiday and this seemed to be a positive outcome for many.
Social Value	The opportunity to holiday and spend quality time with family and friends, as well as the opportunity to meet and socialize with other timeshare members.
Fun and enjoyment Value	Value derived from the enjoyment of the timeshare experience, such as the "fun" or "play" from activities (such as children's activities, member social events, etc.), facilities or services.

Source: Adapted from Sparks B, Butcher K & Pan G; 2007 Cornell University

Seven Dimensions of Timeshare Value

These seven dimensions that relate directly to timeshare resorts may also surface in standard holiday resorts. Sparks *et al* (2007) however found that timeshare owners undertook a comparative evaluation to highlight aspects where timeshare did better or where owners felt that they could derive value which was not otherwise available.

These dimensions have been classified by Sparks *et al* (2007) as supplementary service dimensions as they enhance the resort product to create additional derived value. A key finding of their research is that ownership pride has two facets. On the one hand respondents reported a sense of pride from the ownership, making them feel special for achieving ownership of a holiday destination, while on the other hand they felt their self esteem was threatened by the negative attitude that was held by the general public towards timeshare.

The exhibit below reflects seven dimensions and their meanings.

Exhibit 3 Specific Value Dimensions for Timeshare

Dimension	***Meaning***
Ownership pride	A feeling of ownership pride from being able to treat the "unit" as their own holiday house/apartment.
Financial	Timeshare ownership tends to accrue financial benefits and costs across its lifetime. A feeling of deriving financial value from their timeshare purchase, such as the recognition of long-term financial savings, and monetary comparisons with other resorts (both timeshare and non timeshare) and holiday styles (cruises and overseas trips).
Flexibility	The value derived from the opportunity to use timeshare for varying reasons, such as for various needs (visiting relatives, graduations), accommodation styles (purpose-built, no timeshare, locations), overseas travel, and different holiday styles (cruises, flights, short breaks) is best conceptualized in flexibility terms.
Gift	Value derived from the opportunity and ability of being able to give a holiday or part of a holiday as a gift.

Reward	The derived value from being able to use timeshare purchases as a reward for others or themselves was evident.
Luxury	"Owning" something a little luxurious and deriving a sense of feeling that they could experience a level of pampering that they could not normally afford. The opportunity to stay in high quality properties and use high quality services and facilities.
New experience	Value from being able to experience things that they would not normally be able to experience.

Source: Adapted from Sparks B, Butcher K & Pan G; 2007 Cornell University

Relationships between Dimensions

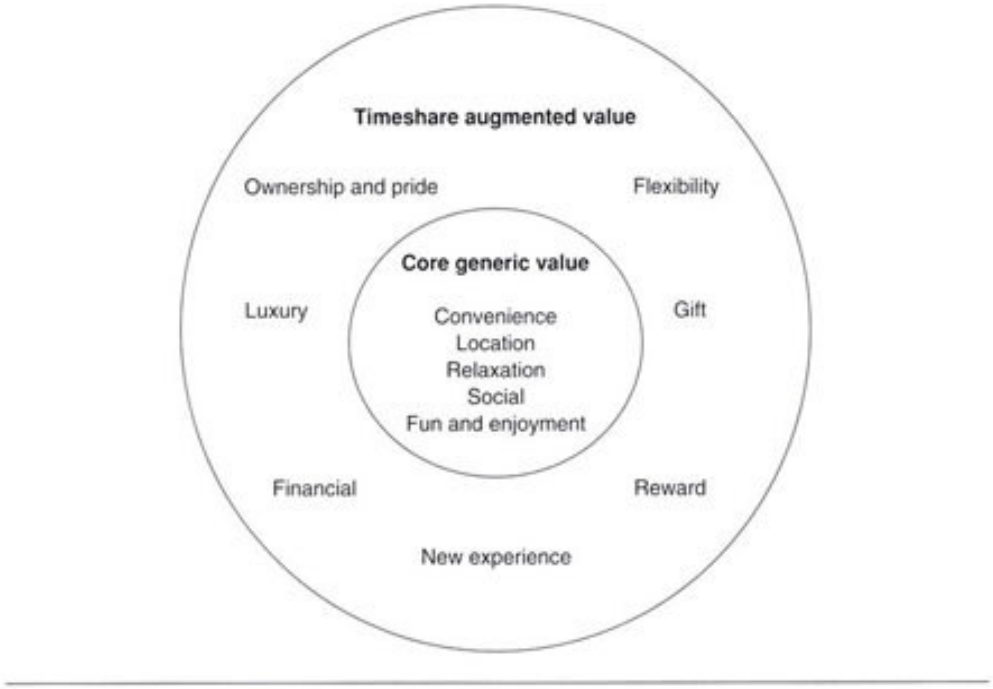
Sparks *et al* (2007*)* conducted further investigations into the relationships between derived value dimensions by utilising the approaches proposed by Mattsson (1992) and by Woodruff (1997) who independently suggested that value dimensions can be characterized at different levels (Sparks, Butcher and Pan: 2007).

By first treating the initial split between non-specific and specific value dimensions as a function of the degree of customization available to the resort guest, Sparks *et al* (2007*)* found that it became clear that timeshare resorts possessed greater opportunities to offer a more customized product.

Sparks *et al* (2007*)* concur with Mattsson (1992) and Woodruff (1997) who are of the opinion that value dimensions for the resort guest can be differentiated from each other based on core characteristics and on supplementary characteristics.

The distinction between these value dimensions has led Sparks *et al* (2007*)* to illustrate them in diagrammatic form as reflected below, in Exhibit 4.

Exhibit 4:
Augmenting Value through Timeshare Ownership



Source: Sparks B, Butcher K & Pan G; 2007 Cornell University

In the above model, the function of the supplementary services is to enhance or make the product offering different. This leads to the notion that while generic values are essential for all holiday resorts, supplementary values enhance a specific situation.

Detractors

While the major focus of the research was to explore factors that would increase the value that consumers received from owning timeshare, Sparks *et al* (2007*)* were also able to identify detractors to value. These detractors relate to factors that do not allow the consumer to obtain full value from owning the product.

Exhibit 5 *Detractors of Value*

Dimension	***Meaning***
Facilities	Value was diminished due to the quality of the facilities received at some resorts mainly through exchanges.

Availability of timeshare	Value was diminished due to where resorts were not available close to the purchaser's home.
Reservation issues	Value was diminished when there issues was a lack of opportunity to make specific requests when reserving a timeshare week.
Financial	This dimension was multifaceted. Value was diminished from two key sources: (1) when the timeshare product was perceived to have little or no resale value; and (2) the cost of maintaining the timeshare product.
Life cycle	Value was diminished when personal stage life cycle stages prevented optimal use.
Timeshare image	Value was diminished primarily through how the industry was perceived, especially with unethical practices.

Source: Adapted from Sparks B, Butcher K & Pan G; 2007 Cornell University

The Knowledge Factor

Where consumers were knowledgeable on how to use their timeshare investment, Sparks *et al* (2007*)* found that this helped them obtain value from their ownership.

Findings

Sparks *et al* (2007*)* believe that their research provides executives of the timeshare as well as the hospitality industries with new perspectives for them to review their positioning premised upon how consumers derive value not only from owning timeshare but also from their stay at a timeshare resort. The findings of Sparks *et al* (2007*)* can be summarised as follows:-

They confirm that derived value has distinct attributes and concur with Holbrook (1999) & Woodall (2003) that to determine value a comparative assessment against alternative products is required. (Sparks *et al* (2007*)*).

Customer value must be assessed in its appropriate context and the findings point out that industry executives have the chance to point out differences in their product offering.

Value dimensions can be reflected as having different levels.

Identifying certain aspects of timeshare ownership that detracts from value.

Management Implications

The study has a further aspect to it in that it suggests a few value dimensions that the timeshare industry should pay attention to, to satisfy timeshare owners and attract prospective owners. In this regard they highlight the following:-

- Cutting marketing costs and reducing the perception of high pressure sales tactics can address the dimension of value connected to timeshare by utilising an informed marketing approach.
- The giving of gifts (reward dimension) is an opportunity to allow existing timeshare owners to encourage friends and family to experience timeshare without enduring pressurised selling.
- The challenge facing the timeshare industry is how to enlist the aid of current timeshare owners to counteract the negative attitude towards timeshare to assist in timeshare sales?
- Sales personnel to be realistic regarding common areas as well as maintenance assessments.
- Informative educational sessions to be held for existing timeshare owners to enable them to gain optimum use from their timeshare.

Timeshare operators who want to create a competitive advantage that is sustainable need to focus on the themes that are most likely to produce the most competitive advantage for the industry compared to other holiday products. By delivering on the values that consumers believe to be important and by highlighting the aspects of value that are difficult for transient hospitality businesses to copy will result in a sustainable competitive advantage. By promoting themes such as esteem, pride and rewards, timeshare operators will be rewarded with positioning opportunities. It is incumbent on the industry to highlight these factors to distinguish timeshare from regular resorts.

Conclusion

The ownership of timeshare represents a distinct product form which the consumer has a strong association with. Value builds up over a period of time and in conjunction with a greater awareness of how to extract value from the product. Education regarding the product is essential. Understanding how owners derive value from timeshare can be put to good effect by the industry to attract new owners and to improve satisfaction levels as well as loyalty

among current owners. By creating such value, the competitive position of the industry should be improved. The industry must not lose sight that value resides in the experiences of consumers.

Branded hotel groups who saw the advantages of timeshare and adapted the concept to suit their needs have benefited from this industry. Leading financial institutions who value repeat business from loyal customers could follow the lead of hotel groups and adapt the timeshare concept to suit their lending products. By cutting marketing costs which will reduce the selling price of the timeshare interval and educating customers to the value of owning timeshare these institutions could create a competitive advantage for themselves.

2.8 IMPORTANT ISSUES FOR THE TIMESHARE INDUSTRY

In February 2000, Robert H. Woods, conducted a study to examine potential challenges facing the timeshare business. His study was confined to the United States of America. He developed a survey that contained 26 potential challenges to the timeshare industry and participants were asked to gauge the importance of each challenge on a Likert-type scale of 1 (very important to the future of the industry) to 5 (not very important). Before mailing the survey, it was sent to the board of trustees of ARDA (the American Resort Development Association which regulates the timeshare industry in the USA) for their comment and input. The survey was mailed to 425 timeshare executives and 127 were returned. The findings were published in February 2001 in the Cornell Hotel and Restaurant Administration Quarterly under the title "Important Issues for a Growing Timeshare Industry".

The responses to the survey in the order in which they were ranked (mean scores) by the participants are reflected hereunder:

Challenge	Mean
(1) Industry reputation with consumers	1.82
(2) Company reputation with consumers	1.85
(3) Employee training programs	2.01
(4) Human resources management	2.10
(5) Owner relations	2.17
(6) Shortage of employees	2.30
(7) Stronger guidelines on ethics	2.33
(8) Management development	2.52
(9) Obtaining leads	2.65
(10) Overall cost of sales	2.69
(11) Cost of marketing	2.74
(12) Complex state regulations	2.75
(13) Resales	2.79
(14) Marketing practices in industry	2.83
(15) New financing methods	2.98
(16) Capitalization costs	3.08
(17) Uniform accounting standards	3.09
(18) Loss of tax incentives	3.16
(19) Product flexibility	3.28
(20) Litigation expenses	3.34
(21) Internet marketing	3.40
(22) Wall Street	3.44
(23) Receivables financing	3.45
(24) Industry consolidation	3.59
(25) Independents vs brands	4.20
(26) International sales	4.49
(27) Other	4.79

Source: Woods R.H 2001 Cornell Hotel and Restaurant Quarterly

Discussion of the Challenges

Not all the challenges are addressed as they do not fall within the scope of this research report and only those deemed pertinent have been commented on.

- Industry reputation (1) – The entry into the industry by large reputable hotel companies (eg Marriott & Hilton) as well as other household names such as Disney together with ARDA addressing many of the problems faced by it, the reputation of the industry has been improved but the problem of a negative reputation lingers in part due to isolated instances of pressurised selling, which is seized upon and blown out of proportion by the media.
- Company reputation (2) – the study by Woods found that there are a few companies (big & small) that engage in unscrupulous practices which can tarnish the reputation of solid operators. The result of this is that even the best operators are viewed with unjustified suspicion by potential clients.

- Ethics (7) – This is closely tied up with the first and second challenges and relates to the topic of an industry policing itself. Any problem with a single company is seen by the public as symptomatic with the industry. Despite ARDA and its members adopting a strict ethical code not all timeshare operators abide by the code or belong to the association.
- Leads (9) – Finding buyers is not easy and in the USA if the selling company is not registered in a particular state it cannot sell timeshare to individuals of that state. To register in every state is costly and as such the pool of potential buyers is restricted to the state in which the timeshare company is registered. For this reason most timeshare companies have extensive programmes to reward existing owners who provide leads and possible purchasers.
- Cost of sales (10) – The cost of marketing as well as capitalization costs are components of the "Cost of Sales" and are dealt with under items 11 and 16 below.
- Cost of marketing (11) – as indicated in 9 above there is a limitation on mass marketing which drives up this cost. In the USA the cost of marketing a timeshare week averages between 40 to 55 percent of the total cost of the development. Reducing this cost will remain a very important issue for the industry throughout the next decade.
- Resales (13) – The initial sale of a timeshare interval covers the cost of marketing (which is substantial) and an owner wishing to sell will find it difficult to recover these costs in a second and subsequent resales. Very few companies have internal resale departments (such as Marriott) and leave the sale thereof to estate agents or the owner themselves.
- Marketing practices (14) – this varies from operator to operator but the use of high pressure tactics contributes to the negative perception of the industry that lingers in the mind of consumers.
- New financing (15) – The financing of a project that can take anything between seven and ten years to sell out will always require innovative forms of finance. Added to this purchasers also require funding to acquire the timeshare interval which in many instances the timeshare developer provides in-house funding.
- Capitalization costs (16) – the cost of developing timeshare resorts continually rise, the planning period can run into years and many projects are abandoned due to the lack of funds.
- Product flexibility (19) – Timeshare owners do not wish to holiday in the same resort year after year and the inflexibility problem has been resolved to some extent by RCI and Interval International who for a fee, conduct exchanges locally and internationally. The challenge still facing the industry include product design and product use arrangements.
- Internet marketing (21) – E commerce has taken off with the hospitality and travel industries taking full advantage of this new medium of information, developing sales / marketing tools to attract buyers of their services. In the USA timeshare companies are precluded from this powerful tool unless the timeshare company is registered in the state of the prospective purchaser.

- Wall Street (22) – the study competed by Woods reflects that hospitality operators continue to be puzzled by Wall Street's lack of enthusiasm to wholeheartedly embrace the hospitality industry, let alone timesharing.
- Receivables (23) – Although banks and financial institutions finance timeshares most owners finance the sale with the selling company. A deposit of 10 to 20 percent of the purchase price is paid with the balance funded over a period of six or seven years. Only 25% of timeshare sales are paid for in cash. Of the total timeshares sold in the USA, the default rate ranges between 2 and 5 percent. Depending on the state in which the timeshare company is registered, in, purchasers are given three to ten days to rescind from their purchase. In terms of a PricewaterhouseCoopers study conducted in 1999 the rescission rate in 1997 was 17.6 percent. A separate receivables industry has evolved around the timeshare industry with companies purchasing loans (receivables) from timeshare companies who then collect the loans and service them.
- Industry consolidation (24) – Woods believes that within the next decade the timeshare industry is likely to see a consolidation similar to the one experienced by the hotel industry in the 1990s. Timeshare companies will continue to consolidate to gain market share.
- Independents vs brands (25) – Despite the entrance of large name brands into the timeshare business the ratio of independents to brand operators in 1998 was 70 percent to 30 percent as reported by Richard Ragatz in his paper "State of the Industry" which was published in the Timeshare and Ownership Review Vol.2, No.1 p.13. An article published in the aforementioned publication by Edwin McMullen and Simon Crawford-Welch entitled "Looking into the Crystal Ball: Vacation Ownership 2000" reported that as of 1999 only about 5 percent of annual USA timeshare sales were accounted for by name brand companies.

Major Concerns

Woods then further summarized the industry's prospects by subjecting the list of concerns to factor analysis by using a varimax rotation (defined by the Oxford Dictionary of English as a "method of factor analysis in which uncorrelated factors are sought by a rotation that maximizes the variance of the factor loadings"), to group the challenges that made up the survey into eight reasonably distinct components thereby eliminating the need to consult a lengthy list of concerns.

The varimax rotation results are reflected below and are reported in eigenvalues. An eigenvalue, greater than one indicates a distinct grouping of factors.

Factor No	Name & Component variables	Eigenvalue
1	Marketing issues (marketing costs, cost of sales, leads)	5.981
2	Image (ethics, owner relations, reputation of companies, marketing practices, accounting)	3.561
3	Regulatory issues (state regulations, resales, internet)	3.226
4	Strategic issues (Wall Street, consolidation, product flexibility, international sales)	2.664
5	Financial issues (capitalization, tax incentives receivables, new financing)	2.076
6	Employee training (employee training, independents vs brands)	1.887
7	Human resources (management development, human resources issues, employee shortage)	1.334
8	Legal issues (litigation, industry reputation with consumers	1.147

Source: Woods R.H 2001 Cornell Hotel and Restaurant Quarterly

Although the industry has made significant progress, the two areas that are of the greatest concern are marketing and the image of timeshare companies.

The author feels that the study will not only be of interest to timeshare industry operators but also shows the need for more research to be done on timeshare.

The study shows an industry in transition and while the issues raised may be of relevance now, the view of industry leaders may change over time as conditions within the industry change.

In closing, Woods notes that many timeshare operators are keen to improve the industry and thereby polish its image.

The industry has suffered from a tarnished image and this could present an opportunity for a financial institution whose ethics and value system are above reproach to enter the industry thereby restoring credibility and faith therein. As indicted elsewhere in this report by entering the industry and having control over the entire value chain, financial institutions can exercise influence on marketing costs to make timeshare more affordable.

2.9 TIMESHARE AS AN INVESTMENT

2.9.1 Resort Timeshares as an Investment

The paper "Resort Timeshares as an Investment" by Alan J. Ziobrowski and Brigitte J. Ziobrowski published in the Appraisal Journal in October 1997, examines a model for pricing timeshare resort properties. The one model is from the perspective of the pure consumer who expects to use the property for personal use while the other model is provided for an investor whose goal is wealth creation. The models take into account normal cash flows, debt financing and taxes.

The Ziobrowski's were surprised to find that notwithstanding the size of the timeshare market and the future prospects that it holds, very little research had been undertaken in this area. They found only *"three papers that dealt with timesharing in a relatively rigorous way"*;-

(a) Thomas R. Kirby, "Appraisal of Timeshare Resort conversions," The Appraisal Journal (July 1982); 417 - 427 who wrote about the considerations involved in valuing a property that had been recently converted from condominium ownership to timeshare
(b) Kumar Tharmalingam, "Timeshare – Is it Here to Stay", The Appraisal Journal (October 1986); 571-581 who undertook a marketing study that concentrated on timeshare consumer characteristics, product preferences, purchasing patterns and satisfaction.
(c) Wade R. Ragas, "Inflation, Changing Buyer Expectations and Timeshare Valuation," The Appraisal Journal (April 1986); 246 -256 who deals with the valuation of timeshare by describing a general model for pricing a timeshare by utilising present values of after tax cash flows.

The Ziobrowski's question the model developed by Ragas as it is based on the assumption that a hotel room can be substituted for a timeshare with adjustments being made for the money saved by self catering instead of eating out. They believe that this assumption is flawed in that the model;-

- Suggests that all timeshares in a particular area have the same value (as determined by hotel rates in the vicinity).
- Assumes that consumers are indifferent about their place of stay (a hotel room with a bathroom versus an apartment consisting of several bedrooms / bathrooms, living rooms and a kitchen).

The purpose of their study was to provide a model to price timeshare properties based on variables that are available / easily obtained and not making assumptions about less than perfect substitutes for important cash

flows. To verify their model they collected data from an area that had a relatively high density of timeshare resorts. By employing the net present value model, both new and resold timeshare units were scrutinised to establish if timeshares were efficiently priced.

The Model

The model developed by Ragas is reflected below

NPV = PVH + PVF – PVA – E – PMV + PVS; where

NPV = net present value of the sum of different variables
PVH = present value of all future hotel savings
PVF = present value of food savings due to kitchen facilities
PVA = present value of maintenance fees
E = initial cash outlay to purchase the timeshare
PMV = present value of all future mortgage payments
PVS = present value of after tax sale proceeds

The Ziobrowski's state that Ragas did not empirically test his model with actual data but in place thereof he ran a total of 756 simulations of various combinations of timeshare sales prices, hotel costs, inflation and timeshare maintenance costs. They were not surprised with the outcomes that:

- NPV increased due to higher hotel prices and higher property resale value
- NPV decreased as maintenance fees and interest rates increased.

The Ziobrowski's made various amendments (which are described below) to the Ragas model:-

- PVH is substituted with PVR (present value of unit rental savings) as they are of the opinion that it is not necessary to bring hotel rooms into the picture. They found that at most timeshare resorts, individual timeshare units sit alongside identical rental units. It is obvious that identical apartments in nearly identical locations provide an accurate estimate of "rental savings" associated with ownership. They made the assumption that timeshare rents are competitive with comparable nearby accommodation that had not been timeshared.
- PVF = 0, no assumptions required to adjust for food savings as there is no difference to the kitchen in a rented or purchased unit.
- PVM = 0, the Ziobrowski's contend that financial institutions will not lend money for the purchase of timeshare in the traditional real estate sense as timeshared properties provide no collateral. (The authors back this up with reference to two sources:
    - Toddi Gunter, "Bid $2,375, Asked $18 500," Forbes (June 21, 1993):184 – 185 who reported that timeshares can be obtained

for less than half of the asking price and in many cases for much less than that.

- American Resort Development Association, which is a trade organisation representing the timeshare industry, who have reported that timeshare resales will only achieve 80% of the original price due to the lack of financing as well as new units steadily coming on to the market (as reported by Gunter on page 185 of the abovementioned article).

Taking the above into account the new resort timeshare valuation is reflected below:-

NPV = PVR – PVA – E + PVS

The Ziobrowski's determine PVR by using the current (weekly) rental rate for an identical unit and escalating this rate by the inflation rate to determine the savings in future. This figure (i.e. the future savings) is then discounted by utilising the required return on a very low risk investment. (The Ziobrowski's hold this view as they have made an assumption that most timeshare purchasers view the acquisition of timeshare as an essentially risk-free way of reducing future holiday costs and not as a venture to make money). The same process (escalation / discounting) is adopted to calculate PVA, however the Ziobrowski's are of the view that PVS is impossible to measure and the estimation thereof very difficult. In their model they have assumed that the owner of the timeshare will resell the timeshare for the original price paid for it minus transaction costs (real estate broker fees). They acknowledge that this approach is generous.

If the timeshare is purchased as an investment, the model essentially remains the same save for a few adjustments. The rental income, minus brokerage fees* paid to find renters replaces rental savings. The payment of maintenance fees is a cost incurred whether the timeshare is used by the purchaser or rented out. In the same way the purchase price and the selling price remain unchanged. The major differences in the model are as follows:-

- The cash flows associated with taxes on operating income
- An increase in the required rate of return

*The authors report that brokerage fees are substantial, being as high as 35% in some instances.

Data Collection

The Ziobrowski's were not able to obtain data from traditional sources to validate their model and as such they chose Hilton Head Island (a famous summer holiday destination in the United States of America that annually attracts nearly two million visitors) to develop a database, utilising actual selling prices, rentals and maintenance fees for 36 timeshare weeks comprising of 25 resale units and 11 new units. They assumed inflationary expectations to be 4% annually and an expected rate of return for a low risk investment to be 5%.

The same equation was used for investment purposes with changes being incorporated to cater for the brokerage charged on rentals. A 9% required rate of return was assumed as reasonable for a risky real estate investment and this was based on national returns in the United States of America over the past 20 years. The selling price (PVS) was also adjusted downwards, taking inflation into account by 15% as this mirrored reality.

The Findings

Vacation Purchaser - All the properties in the sample reflected positive cash flow and all of them barring two had positive NPV's. Resale units outperformed new units (higher IRR's) as a result of the immediate depreciation of new timeshares when they are first sold. The results indicate that for consumers intending vacationing in a single resort community for at least five to ten years and who would otherwise rent equal accommodation, timeshare as an economic alternative is not only viable but enhances wealth.

Pure Investor – The results in this study differ with those of the vacation purchaser as only 31 properties reflected positive cash flows but no property posted a positive NPV. The reasons for the turnaround in results are fourfold:-

- Vacation purchasers do not pay the renters tax (in this case 9,14%)
- Investors incur brokerage fees which are substantial (as high as 35%)
- Investors are liable for income tax on their operating income
- Investors would call for a higher rate of return as they obtain no other benefit from the property.

The result of the study showed that when purchased for private use the properties were found to be fairly priced but when purchased as an investment, obtaining a reasonable rate of return compared to the risk, was doubtful. This held true irrespective if the purchase was for cash or with borrowed funds.

In summary the Ziobrowski's coined a simple catch phrase:

NEVER "INVEST" IN TIMESHARE - USE IT OR LOSE IT

2.9.2 Is Timeshare Ownership an Investment Product?

The paper "Is Timeshare an Investment Product?" by Martin Hovey which was published in the Journal of Financial Services Marketing in November 2002, examines if the purchase of timeshare which involves the outlay of money for economic benefit fits into the definition of an investment product. The paper also identifies the risks associated with timeshare as well as the methodology applied to timeshare valuation.

Hovey also comments on the considerable growth that the timeshare market has seen and states that it is developing as a global industry. Despite its

growth and the potential for timeshare Hovey, like Ziobrowski and Ziobrowski, is surprised at the fact that little attention has been directed at the analysis of timesharing.

Hovey also raises the issue that there has been little discussion about timeshare as an investment product. Within the context of timeshare ownership as an investment product he raises two important issues:-

- Is timeshare a security? It appears that disclosing this information is withheld from the consumer.
- Is the consumer protected? What information is presented to the consumer?

Hovey acknowledges that the valuation of timeshare has been addressed by two prior studies:-

- Ragas, W. R. Hovey contests the notion upon which the study by Ragas is founded, namely, that a substitute for a timeshare condominium is a hotel room. Properties featuring identical condominiums that are available either for holiday rental or timeshare ownership are not uncommon and as such data is available which dispenses the need for many of the assumptions / calculations put forward by Ragas.
- Ziobrowski, A. J and Ziobrowski B. Hovey believes that the model developed by Ziobrowski and Ziobrowski is more plausible than the one developed by Ragas because it takes similar rental properties as substitutes but believes it has a major flaw as its authors contend that the investment is risk free. Hovey also questions the high resale values utilised by Ziobrowski and Ziobrowski as this is not the case. Hovey observes that the secondary market is not active.

The Timeshare Industry

Hovey also notes that the timeshare industry creates jobs, promotes jobs and helps economies to grow. Quoting from the article “A Glimpse at US Consumers’ Interest in Timesharing” that was written by Upchurch and appeared in the International Journal of Hospitality Management in 2000 the contribution by the timeshare industry to the USA economy in 1999 was significant:

- Employment of 50 000 people
- Indirect contributor to 220 000 jobs
- Input of US$ 18 billion into the economy

The same article reports that the timeshare industry has reflected a growth in the region of 1000% in the past 20 years. Despite the impressive growth during its development stage the perception of timeshare was negative due to aggressive marketing techniques as well as to claims regarding the value of the investment made by developers / marketing agents. This all contributed to many countries introducing codes of practice preventing timeshare from being

sold as an investment product. The outcome is that in most countries the timeshare industry is highly regulated. In regulated markets timeshare is sold as a consumer product and unlike an investment product no financial advice is given.

Is Timeshare Ownership an Investment Product?

The timeshare industry refers to timeshare ownership as a lifestyle product and in the United States of America some federal courts have ruled that where it is purchased for the purpose of lodging and is contracted in this way, timeshare is not a security. This approach is not followed by other countries who view timeshare as a security. Hovey points out that in Australia timeshare is categorised as a managed fund and because of all the rules and regulations that need to be complied with, he asks the question “is timeshare an investment product?” because he believes that it matters to consumers, regulators as well as the industry.

Hovey believes that it is reasonable to consider timeshare as an investment product because a purchaser outlays money with the expectation of an economic benefit being the fixing of the price of holiday accommodation for a future period. The funds flowing from the sale of individual timeshares are pooled and invested in an asset (the timeshare resort) which is then managed by a professional manager for the benefit of the timeshare owners (the investors). Hovey is of the opinion that in reality this is a managed investment product. As with any investment product two important aspects that need to be considered are the risks attached to the product and the expected returns.

The Risks Associated with a Timeshare Investment

Hovey discusses various managed investment products (eg. mutual funds, different types of trusts as well as real estate and equities) and the risks associated therewith but the table that follows is restricted to timeshare.

Risks associated with timeshare

Type of Risk	Impact	Reasons
Liquidity	High	The ease with which a security (or asset) can be reduced to cash. Time taken to sell, reduction in price below market value and lack of secondary market all contribute to high liquidity risk.
Marketability	High	The risk that a future market will not exist. Marketability closely interrelated with liquidity.

Market Volatility	Low	The risk that the market will be volatile and rise or fall sharply within a short space of time. Resale sale prices low but predictable
Business risk	Medium	The risk of a major unexpected deterioration in a firm's business. Unable to sell out the scheme timeously, negative perceptions relating to the industry, escalating levies and failure to recruit quality resort staff are all business risks faced.
Interest rate	Low	Interest rates are a function of the economy and are influenced by a country's balance of payments, exchange reserves and the level of inflation. All businesses are affected in a similar way to interest rates.
Political	Low	Political risk relates to insurrection, corruption, changes in government as well as changes in government policy (taxation, monetary & fiscal policy) including legislative and regulatory changes. Timeshare faces regulation either by law imposed on the industry by regulators or self imposed in the form of a code of conduct drawn up by the industry itself. The timeshare industry faces regulation in most countries thereby ensuring consumer protection with the result that this risk is low.
Counter party	Medium	This relates to defaulting members of a scheme which would entail a loss in revenue by the scheme. The scheme will endeavour to replace these members but the financial strain to maintain an acceptable level of service may result in the operator of the scheme becoming insolvent.

Source: Adapted from Hovey, M. Journal of Financial Services Marketing

By identifying the above risks Hovey is of the view that timeshare is not a risk free investment and as such the risk free rate cannot be utilised as the discount rate which was the approach followed in the analysis of timeshare by Ziobrowski and Ziobrowsk

Analysis of Timeshare as an Investment

Hovey developed a model, which follows similar lines to the Ragas and Ziobrowski models, to determine the NPV of a timeshare purchase;

NPV = Cash Benefit – ICO + PVRSP

Cash Benefit = rent saved minus the maintenance levy
ICO = initial cash outlay per timeshare unit
PVRSP = present value of after tax sale proceeds

Actual data regarding the purchase price of timeshare as well as the maintenance levy was used by Hovey. With regard to the sale proceeds he used information obtained from an article by Gutner that was published in Forbes in 1993 “Bid $2 375, Asked $18 500”, which is representative of resale values and factors in brokerage and transaction costs.

The notion, as proposed by Ziobrowski and Ziobrowski, that a timeshare purchase is risk free and utilises the returns obtained on a property trust index as a reasonable proxy for a timeshare investment was rejected by Hovey. Inflation data as reported by the Australian Bureau of Statistics has been used. To cater for returns and inflation the following formula is utilised.

$(1 + r) = (1 + k)(1 + \pi)$

By utilising the information collected, Hovey demonstrated that NPV is negative over a thirty year period and only becomes positive in year 33 (where the resale proceeds are depreciated by 75,4%). Where the resale proceeds are depreciated by 50,0%, NPV is negative until year 30.

Given a ten year time line (a holding period of ten years was assumed by Ziobrowski and Ziobrowski as they believed that after spending this amount of time at the same resort the timeshare owner may want a change of resorts) Hovey believes that this investment would be rejected as an investor would find better investments in the market place by making well judged investment choices.

Ramifications for the Timeshare Industry

Hovey notes that the timeshare industry strongly defends its position that the purchase of timeshare is an investment in lifestyle rather than the making of an investment for a return. One cannot fault the argument that consumers have choice and if the consumers’ choice does not make economic sense (i.e. meeting a standard of return) then this is reasonable. In many instances consumer spending is explained by models which are more in line with the disciplines of consumer behaviour and marketing rather than economic analysis. Hovey accepts the view that timeshare is marketed as a consumer product which is purchased for its utility and pleasure by consumers who can afford such a purchase. Various studies have shown that consumers are relatively happy with their purchase.

Notwithstanding the above the Hovey finds it difficult to support the view that timeshare locks in the future price of a holiday through the payment of an upfront fee today. Even if the notion that timeshare be treated as a security is put aside it should still be possible to prove that it is a viable acquisition.

Hovey asks what the timeshare industry can do to make timeshare, from a consumers' perspective, more viable as an investment. The following areas that were of concern to him are highlighted below:

- Initial costs are high as the costs involved in fractional ownership of any asset are expected to be higher as the economies of scale decrease and the unit costs increase.
- Development costs (which include feasibility studies, professional fees, construction, finance and marketing) are very high.
- Financiers assume substantial risk and look to a higher return as compensation.
- The returns on the investment must be enough to reward both the developer and the financier – hence a decrease in costs will go a long way in making timeshare more viable.
- Cost of sales which includes marketing costs appears to be higher in the time share industry.

Although Hovey suggests that a reduction in the cost of sales and other costs would make the purchasing of timeshare more viable, this would result in a reduction of funds available to market the resort resulting in fewer sales being made. This in turn would result in a longer time to sell out the resort which in turn would increase finance and marketing costs. Hovey is of the opinion that a "catch 22" situation results.

According to Hovey the annual levies are high and can be kept at such levels because exit costs are high due to low resale values. He also believes that the maintenance levy should be split between the maintenance of the building (a very necessary expense) and the fee that timeshare members pay for other services. He is of the view that only members wanting these services should be billed for them. This will also assist in reducing the cost of timeshare ownership.

A further consideration for the timeshare industry to consider is a reduction in the cost of selling a timeshare investment thereby reducing marketability and liquidity risk.

Conclusion

Hovey concludes that after analysing the information collected a timeshare investment does not provide reasonable returns to a consumer and as such cannot be viewed as an investment product. He also feels that he has dispelled the notion that by purchasing timeshare, a consumer can lock in a portion of vacation fees at today's prices by paying an upfront fee.

He highlights three aspects that contribute to the cost of timeshare and are considered as factors that could make timeshare more affordable:

- Cost of sales
- Maintenance costs
- Exit costs

The challenge to the industry is to reduce these costs thereby making timeshare more viable and attracting a wider market.

2.9.3 Timeshare – Is it an Asset?

Bryan Hirsch in his daily column for Business Day regarding personal investment matters wrote an article entitled "Timeshare – Conventional vs Point System" which was published on 30 July 2007.In this article he points out that he often consults with people who list their timeshare as an asset when compiling their statement of assets and liabilities. Notwithstanding the fact that many people have made substantial savings by swapping their timeshare for overseas accommodation, timeshare "should be seen more as a lifestyle asset than an investment where you make a return on your initial amount".

The article further points out the differences between conventional timeshare and the points system with conventional timeshare being backed by something tangible – a specific week, at a specific time, at a specific resort. Conventional timeshare has the added benefit of flexibility.

When buying on the points system there is never a guarantee of what you own – you are buying a form of currency that entitles you to time in various resorts and cautions readers that it is possible that more points are sold than weeks are owned.

He is of the opinion that conventional timeshare can be useful to families when budgeting for holidays as the initial outlay for the timeshare as well as the annual levy are known upfront.

The timeshare industry does not consider timeshare as an investment product but rather views it as a lifestyle product. Lifestyle products are in essence consumer products and consumers purchase them for the value / benefit that they believe will accrue to them from such purchase. By entering the industry and controlling the entire value chain, financial institutions can exercise influence on the above costs thereby making timeshare reasonably priced which could result in a product that would be more affordable to consumers.

2.10 TIMESHARE FINANCING

In their article “Timeshare Industry Consolidation, Negative Cash Flows, and Access to External Funding” by Radie G. Bunn, Walt A. Nelson, and Travis D. Walker, (published in the Journal of Taxation of Investments in the fall of 2006), industry trends, the relationship between sales, release fees and negative cash flows as well as financing arrangements that are commonly used were examined.

The construction and sale of a timeshare development reflect characteristics that in terms of income and cost structures are unique to the property field. The continued growth in the timeshare industry including the entrance of household names such as Marriott, Hilton and Disney indicate that timeshare can be very profitable but the developer needs to absorb negative cash flows in the early stages of the project before reaping the benefits of positive cash flow.

As reflected in this paper, an effective balance of income*, according to R Miller, President and General Manager of Marriott Leisure from the development of a timeshare resort is as follows:

Selling vacation ownership interests	60%
Financing sales	30%
Property management fees	10%

* The above information appeared in an article by Dianne R. Suchman entitled “Developing Timeshare and Vacation Ownership Properties” and published by the Urban Land Institute of Washington D.C. in 1999

The costs associated with the development of a timeshare project are summarised below:

- Acquisition of property and development
- Sales and marketing
- Administration costs including finance
- Subsidizing resort maintenance costs during sell out

It has been seen in previous sections that the costs attributed to sales and marketing are a major contributor to the overall cost in the development of a timeshare resort. Radie and his co authors quote from a survey by PricewaterhouseCoopers, “Financial Performance 2004 Edition: A Survey of Timeshare & Vacation Ownership Resort Developers” (2004), conducted for ARDA that the average spent by responding companies on sales and marketing amounted to 47,6% of sales. It is interesting to note that public companies reported a figure of 45,7% compared to private companies of 51,0% indicating that public companies enjoy economies of scale in this important cost component.

The above highlights the challenge facing timeshare companies to reduce this cost.

It is critical for the continued growth of the timeshare industry to obtain sufficient and reasonably priced sources of external funding. Timeshare companies need to obtain funding to support the following areas of their business:

- Acquisition of property and development thereof
- Financing of sales
- Resort operations

The acquisition of the property and the subsequent development of the timeshare resort is much like any development loan. A financier normally retains sufficient funds to complete the project and pays on a progress draw basis. The construction company is paid as work progresses and is certified by an architect or quantity surveyor.

Before addressing the financing of consumers the timeshare company will have to subsidize the running of the resort before the resort reaches a critical mass, i.e. sufficient timeshare intervals have been sold and the levies attached thereto have been collected to effectively run and maintain the resort. The company will normally access working capital loans / lines of credit for this purpose.

The financing of sales, i.e. the funding of receivables, is an area that has attracted a substantial amount of interest in the timeshare industry. The company raises loans on the receivables to repay the development loan. In essence a fresh loan is raised to retire an older loan.

The three forms of receivable funding are:

- Hypothecation
- Portfolio sales
- Securitization

Hypothecation – the hypothecation of receivables takes place when receivables are pledged / ceded as security (collateral) for the funding of debt. The paper quotes from the 2004 survey by PricewaterhouseCoopers (referred to above) that this is the most frequently type of funding used for receivables financing. The loan is usually done on a recourse basis which means that if a debtor (consumer) defaults the timeshare company must replace the defaulting loan with a performing loan. If the lender retains a portion of the loan as protection to ensure performance then this can lead to over collateralization. This type of funding is usually quick to arrange, the cost is is less than portfolio sales but higher than securitization because with securitization the loan size is usually not less than US$ 50 million. Another advantage is that over time a relationship of trust is built between the lender and borrower resulting in quick turnaround times when additional loans need to be arranged.

Portfolio sales – portfolio sales is the selling of the receivable book to a financier. The transaction can be with or without recourse. It would appear that this is the least used method of financing. The advantage of this type of loan is that a large amount of funding can be raised and costs reduced as staff normally required to administer a loans receivable book are no longer required. A disadvantage with this type of funding is that the company "loses touch" with its customer base who could be alienated by the lender depending on the level of service provided. Repeat sales to these "customers" would be very difficult in view of the fact that another company now interfaces with the debtor.

Securitization – the securitization of a portfolio of receivables is commonly referred to in the USA as "ABS" (asset backed securities). In terms of the 2004 survey by PricewaterhouseCoopers (referred to above) this form of funding is the largest used by the timeshare industry and in 2003 there were US$1,2 billion in receivables securitized. Twenty issues took place at an average of US$60 million per issue. In terms of the aforementioned survey the US$1,2 billion represents 30% of the financed sales reported.
The methods most commonly used to securitize timeshare receivables is by private placements with institutional investors or through the creation of special purpose entities. Securitization is attractive to lenders as it provides a ready made loan book with a diverse debtor base thereby reducing risk.

By securitizing their debtor book the timeshare company will free up capital tied up in an asset which can be used more effectively in retiring costly debt but at the same time loses the interaction with its clients. This type of funding which initially takes a long time to arrange (because of the complex legal and regulatory compliance issues), provides the cheapest form of finance.

Radie and his co authors have proposed six remedies to address the issue of negative cash flow;

Reduce Sales and Marketing Costs – with sales costs taking up 45% of total sales the marketing model needs to be turned onto its head. Instead of the promise of free gifts in exchange for a high pressure tour of the timeshare resort, developers should increase broadcast advertising and promote discounted holidays at their resorts to generate interest / leads.

Securitization – this is the most cost effective way of financing receivables but because of the minimum "deal size" this option is only available to the "large industry players". Radie and his co authors advocate that smaller timeshare companies pool their receivables in an effort to obtain this cheaper form of funding.

Revolving Credit – Radie and his co authors are of the opinion that once a development loan has been repaid (usually once the building is 70 – 75% sold out), the remaining units should be available as collateral to a lender for the provision of a revolving credit line. The access to a source of cash, secured

by way of future sales in a debt free building would ease the strain on cash flow during low season when the demand for units is traditionally slow.

Mezzanine Financing – this type of funding is common in commercial property finance where the developer can reduce the level of own capital tied up in a property for an increase in the rate of borrowing. The increased cost is justified if the project can deliver an increased rate of return.

Discount to Buyers – this normally applies to smaller operators who instead of obtaining forms of finance discussed above can offer a discount to the buyer to repay their loan in full. If this discount is less than the cost of other forms of finance then the developer scores and retains the goodwill of the timeshare purchaser.

Lease Options – by leasing units that are not in high demand allows the developer to generate income without incurring a release fee to the financier providing funding for the development.

A recurring theme in the literature review is the need to reduce marketing costs which account for a sizeable portion of the total cost of timeshare. Being able to do this would allow an entrant into the industry to enjoy a competitive advantage. A financial institution that enters the industry as a developer would not have to resort to the normal avenues of funding (hypothecation of receivables or portfolio sales) but could carry the funding on balance sheet (personal loans) or securitise the debt. By marketing the timeshare intervals to its client base the financial institution would not only benefit from reducing marketing costs (promote timeshare as an extension of its product range) but would be in a position to identify purchasers (i.e. pre-screen clients who would qualify for finance) by utilising scoring techniques.

2.11 FINANCIAL PERFORMANCE OF TIMESHARE IN THE UNITED STATES OF AMERICA

In 2.10 above substantial reference was made to the survey by PricewaterhouseCoopers, “Financial Performance 2004 Edition: A Survey of Timeshare & Vacation Ownership Resort Developers”: 2004, conducted for ARDA.

In another publication conducted for ARDA by PricewaterhouseCoopers and titled “Financial Performance of the US Timeshare Industry” 2006 Edition, the information as it relates to 2005 is summarised below.

PricewaterhouseCoopers distributed their survey to 112 timeshare and vacation ownership resort development companies with 46 companies (or

41% of those surveyed) responding. Of these 46 respondents, 8 are publicly traded companies while the balance, are privately held. The publicly traded companies account for 72% of the total net sales reported.

Summary of the Survey for 2005

- Net new sales* totalled US$6.1 billion which is an increase of 9,1% from 2004. Timeshare interval sales accounted for US$ 5.1 billion while point sales only amounted to US$1.0 billion.

  * "net sales" refers to total net sales including resales

- The weighted average price of a timeshare week was US$17,797 reflecting an increase of 3,8% over 2004. For the year under review 63% of the respondents reported higher than average prices.
- Rescissions as a percentage of gross sales amounted to 14,8% and remained virtually unchanged from the 14,7% as reported in 2004.
- Product costs (which includes land) as a percentage of net timeshare sales amounted to 26,3% compared to 26,9% for 2004.
- General and administrative costs excluding costs associated with financing operations, as a percentage of net timeshare sales amounted to 9,7% compared to 9,9% for 2004.
- Sales and marketing costs as a percentage of net timeshare sales amounted to 46,9% compared to 46,8% for 2004.
- Home Owners Association subsidies and maintenance fees for unsold units, net of rental revenues, amounted to 2,4% compared to 2,5% for 2004.
- Consumer receivables – portfolio sales with recourse amounted to US$103 million (2004 : US$61 million) while securitized portfolios amounted to US$1,9 billion (2004 : US$1,6 billion)
- Bad debts as a percentage of net timeshare sales amounted to 7,7% compared to 7,8% in 2004.

By conducting the survey annually ARDA makes the following available

- Up to date information that allows companies to compare their operations to industry benchmarks
- Tracking industry trends
- Useful information for potential entrants who may enter the industry

It would appear that surveys of this type, which provide valuable information not only to the timeshare industry but other role players, are not conducted in South Africa on an annual basis.

2.12 STATE OF THE ECONOMY

International Economy

After a projected real growth of 5,4% in 2006, the International Monetary Fund expects the world economy to expand by +/- 5% in the next two years.

Economic growth in the United States of America slowed from nearly 4% in 2004 to slightly over 3% in 2006 with the Federal Reserve attributing the slowdown in real growth to the housing market. On the other side of the Atlantic, economic growth in the euro zone is also expected to slow down.

Recent events (problems with the sub prime mortgage loan market in the United States of America (USA) and continued fears of China's economy overheating) have caused financial market jitters resulting in all major stock markets losing value. The Johannesburg Stock Exchange (JSE) has not been spared in this latest round of volatility.

South African Economy

Against the backdrop of an unparalleled boom in global commodity prices coupled with an increase in Gross Domestic Product, the economy has been affected by shortages of various raw materials and products due to shortages of skilled labour as well constraints in production capacity.

The latest boom which was consumer led together with the recent announcement by the South African government, of the spending of billions of rands for the improvement and expansion of infrastructure (water, electricity and transport) has seen a growing reliance on imported goods. This has resulted in a large current account deficit being maintained which poses a risk to the rand. Inflows to the capital account need to be maintained and sustained to keep the currency stable.

Over the past few years South Africa's strong economic performance has been attributed to a combination of strong global growth, favourable financial conditions and stellar asset growth. A key feature of the growth has been an increase in the appetite for spending in the main buoyed by credit led spending by consumers.

The growth in house prices has been forecast to average 13,1% (7,2% in real terms) in 2007 compared to the 2006 growth rate of 15,3% (10,2% in real terms).

Households have seen a marked deterioration in their financial position with the following two measures reflecting upward trends:

- Household debt as a percentage of income
- Debt servicing costs

In view of the above, households are becoming more susceptible to economic shocks (increase in international price of crude oil) with the result that debt and asset price movements need to be closely monitored.

The South African Reserve Bank has indicated that increasing interest rates is only one tool in its armoury and it is currently looking at other measures. One of these is increasing the reserve requirements of banks (this will result in additional money being taken out of the system) to help rein in inflation.

2.13 REVIEW OF GROWTH IN BANK CREDIT EXTENSION AND RETAIL SALES IN SOUTH AFRICA

Private sector credit extension (PSCE) has not slowed - as reflected in the summarised table below – which was expected as a result of the introduction of the NCA which came into effect on 1 June 2007.

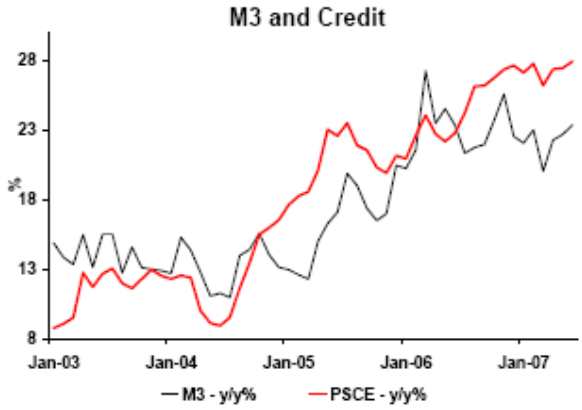
June 07 M3 & Credit	**Latest R million**	**Latest y/y %**	**Previous y/y %**	**Latest m/m %**
Notes & coins (M1A)	0 368 386	19,6	21,9	2,5
Money supply (M3)	1 522 723	23,4	22,7	1,4
PSCE excl bills & investments	1 497 782	27,9	27,4	2,1
Total domestic credit extended	1 563 835	24,8	25,9	-0,1
PSCE	1 581 061	24,9	24,8	1,7

Source Absa

The rise in both private credit extension (PSCE) and broad money supply (M3) was not expected. PSCE was marginally up from 24,8% y/y in May to 24,9% in June 2007. The consensus expectations as pooled by Inet Bridge was for PSCE growth, to slow to 23,9% and for M3, to decelerate to 22,4% compared to the 23,4% posted. Total domestic credit extension, when compared to the previous year, has not slowed and reflects a marginal increase.

The latest data reflects that the impact of the NCA has not been fully felt. Because of the time lag (usually in the region of +/- 3 months between a mortgage loan application and resultant pay out after the bond has been registered) the full effects of the NCA are only expected to be felt in 3 months.

The graph below reflects the upward trend of PSCE and M3



Source Absa

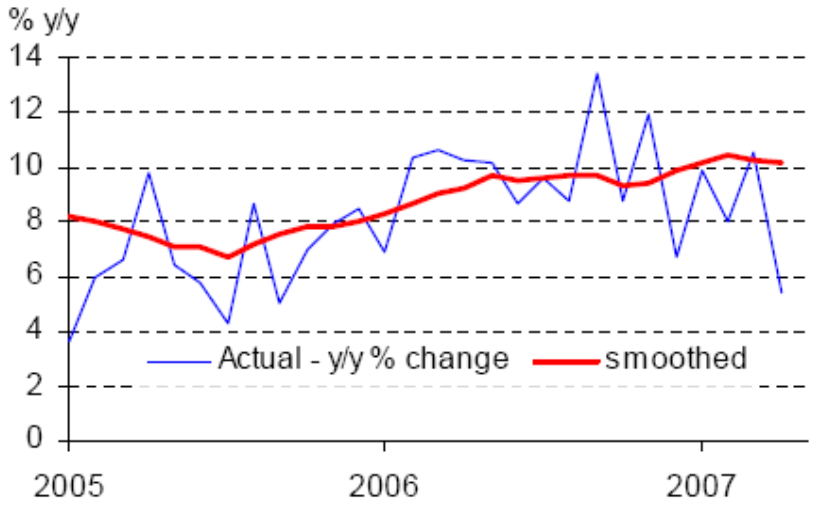
The data reflected above does not bode well for monetary policy purposes. This together with the weakening of the local currency and high international oil prices could result in the South African Reserve Bank (SARB) increasing interest rates when it meets in August 2007. The SARB has increased interest rates by 200 basis points since June 2006 in an effort to contain inflation.

Consumer spending has started to feel the effects of tighter borrowing as reported in April 2007 retail sales. The table below reflects this.

	April 2007 y/y %	**March 2007 y/y %**	**Y T D y/y %**	**2006 y/y %**
Retail sales – current prices	12,5	16,4	14,5	15,3
Retail sales – constant prices (2000)	5,4	10,5	8,4	9,6

Source Absa

The graph below reflects the fluctuations [y/y%] in retail sales.



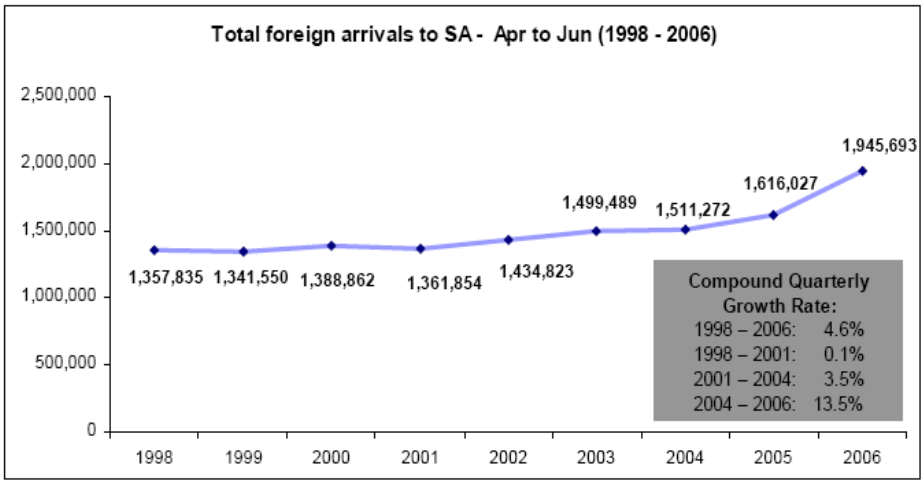
Source Absa

With debt servicing costs increasing as a result of a tighter borrowing environment and the likelihood of further increases to come, the consumer is under pressure not only to service an increased interest bill but also faces the prospect of lower disposable income due to continuous price increases in food and petrol.
Despite the increase in inflation and the cost of borrowing, South Africans have shown a propensity to spend and seem to have an appetite for debt.

2.14 TOURISM STATISTICS FOR SOUTH AFRICA

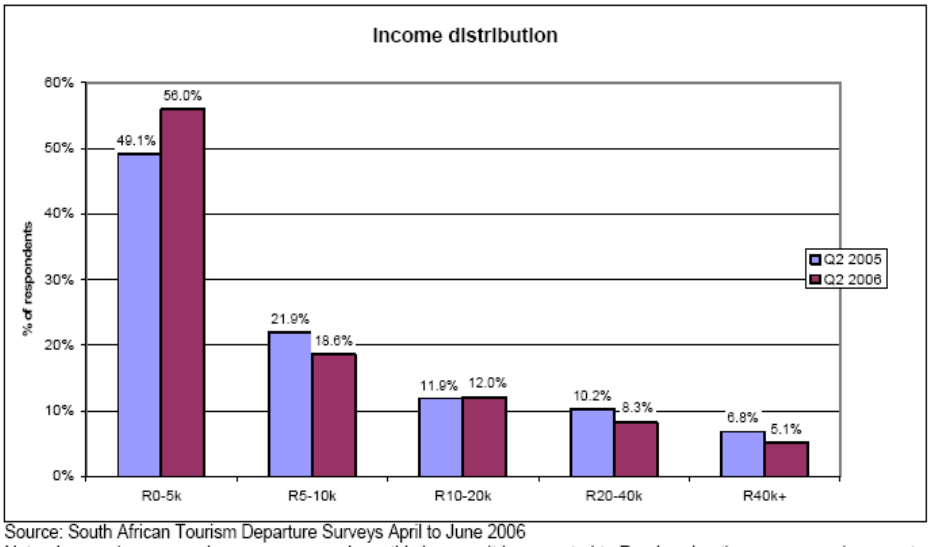
The South African Tourism Index Quarterly Report Q2 (April to June 2006) reveals the following:

Arrival of Tourists – The graph below reflects the number of tourists that have visited South Africa since 1998. It is evident that there has been an increase in the number of arrivals since 1998 with the period 2004 to 2006 reflecting the highest compound quarterly growth, with a rate of 13,5%.



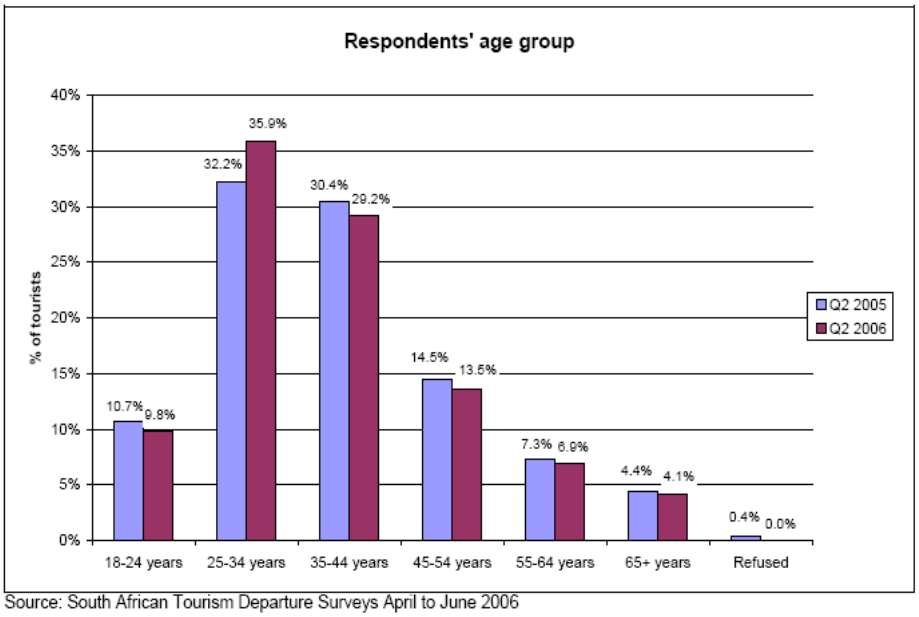
Source: Statssa, SATourism analysis

Income Profile – The majority (74,6%) of tourists visiting South Africa earn a personal monthly income of less than R10 000. The graph below depicts the distribution of monthly income. The income category that showed the most growth was made up of individuals earning less than R5000 per month. The increase in part is made up of arrivals of individuals from the SADC region.



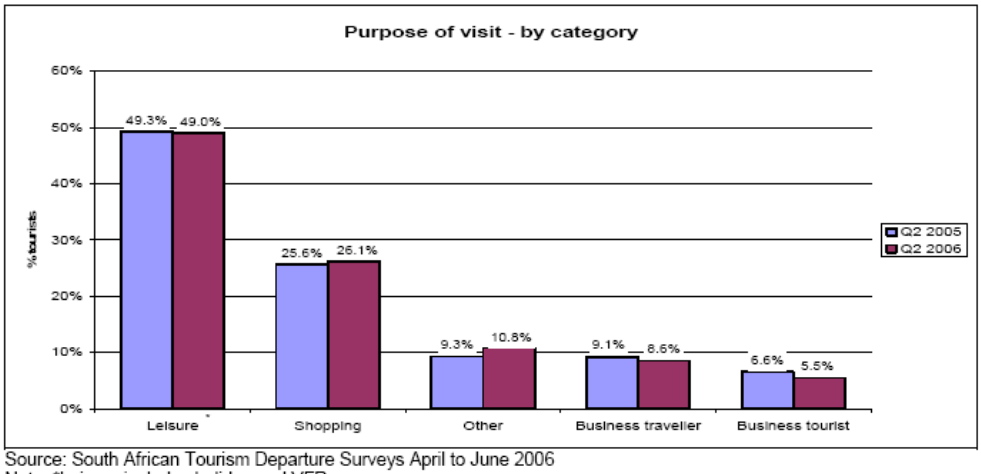
Source: South African Tourism Departure Surveys April to June 2006
Note: Income is measured as gross personal monthly income. It is converted to Rands using the average exchange rate of the month in which it was reported.

Age Profile – The bulk (65,1%) of tourists visiting South Africa were between the ages of 25 and 44 years. The graph below reflects the age distribution.



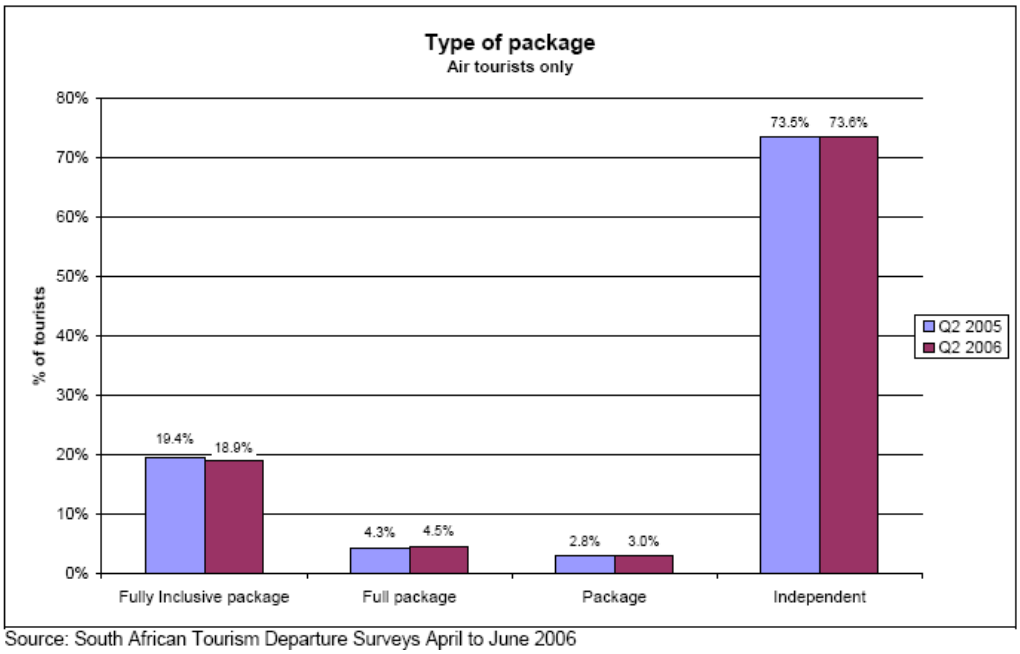
Source: South African Tourism Departure Surveys April to June 2006

Purpose of visit – Leisure (which includes holiday and visits to friends and relatives [VFR]) was responsible for half (49%) of all travel to South Africa. Shopping accounts for 26,1% of all travellers visiting South Africa. The graph below reflects the categories of visitors.



Source: South African Tourism Departure Surveys April to June 2006
Note: *Leisure includes holiday and VFR

Type of package – The bulk of tourists (73,6%) were independent travellers whereas 18,9% made use of fully inclusive packages. Travellers from the Americas (26,4%) and Asia (23,9%) made use of fully inclusive packages while few travellers out of Africa made use of this type of package which includes airfare, accommodation, coach tours and food. The graph below only relates to air tourists.

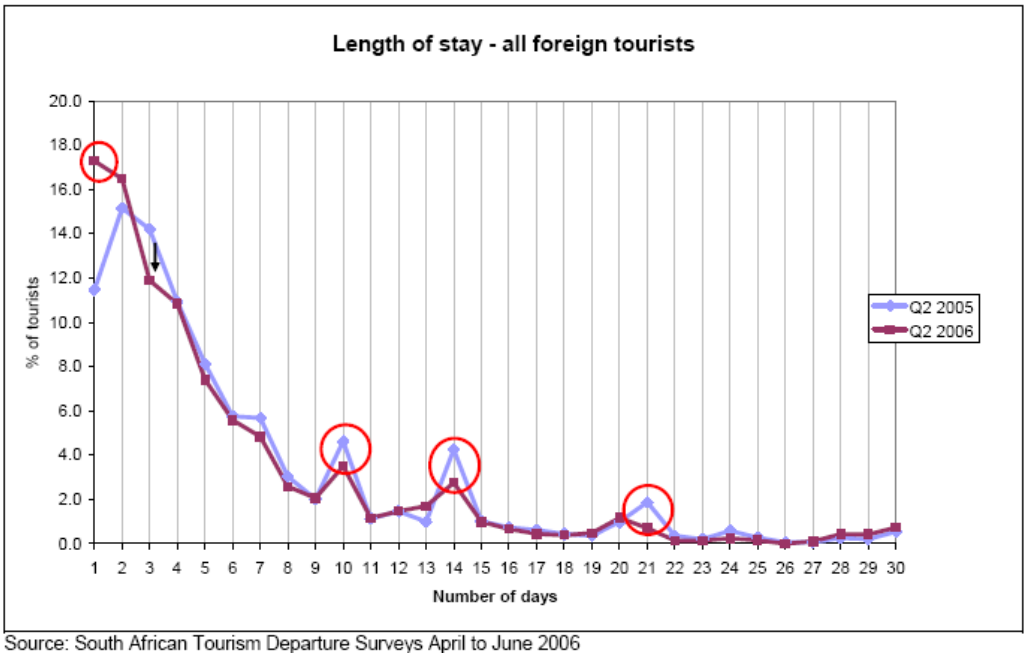


Source: South African Tourism Departure Surveys April to June 2006

*Notes:

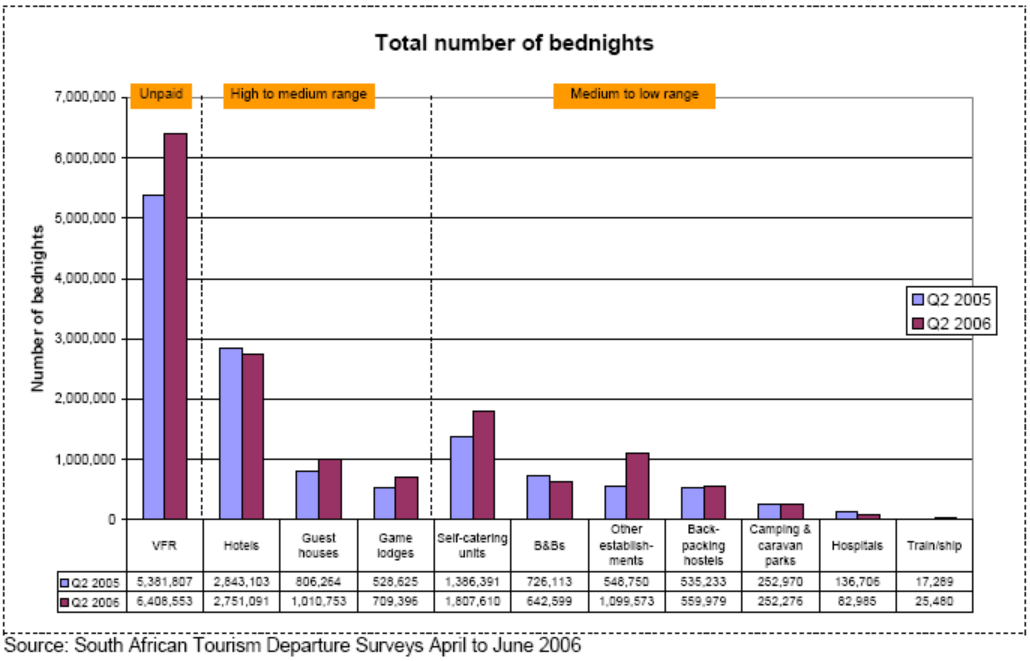
- Package type is measured for air tourists only
- Independent travellers book airfare, accommodation, coach tours and food each separately
- Package is where airfare and accommodation is included
- Full package is where airfare, accommodation and food is included
- Inclusive package is where airfare, accommodation, coach tours and food are all included

Length of stay – Foreign tourists, on average, spend 8 nights in South Africa while the most common length of stay is 1 night. The graph below reflects common peaks (1, 3, 10, 14 & 21 nights) of stay.



Source: South African Tourism Departure Surveys April to June 2006

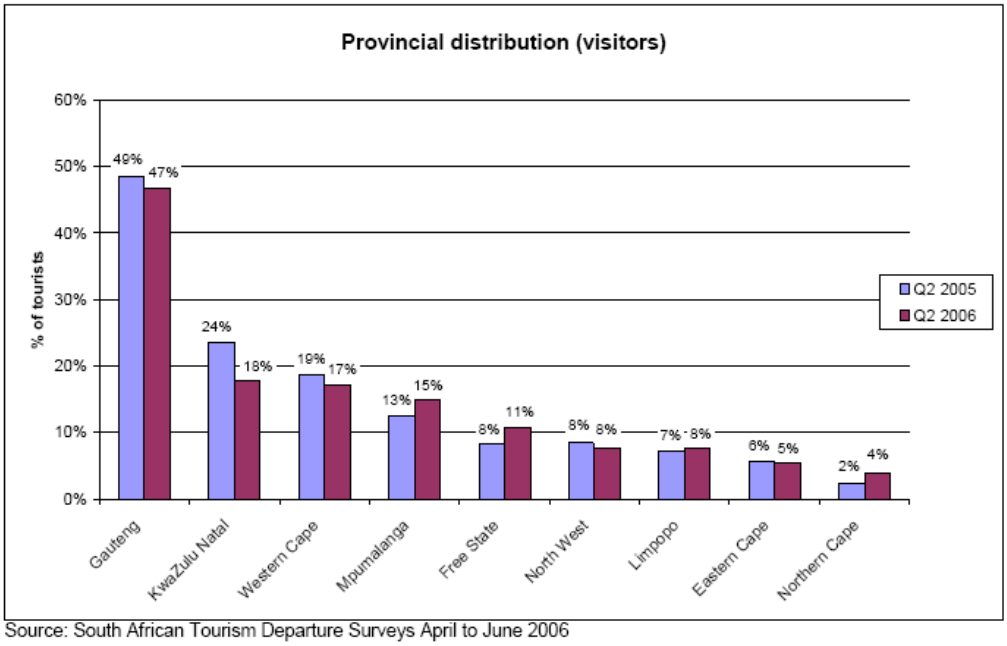
Accommodation usage (bednights) – The number of unpaid bednights (tourists visiting friends and relatives) is the biggest contributor in this category. The next major contributor is hotels, guest houses and game lodges as reflected in the graph below.



	VFR	Hotels	Guest houses	Game lodges	Self-catering units	B&Bs	Other establish-ments	Back-packing hostels	Camping & caravan parks	Hospitals	Train/ship
Q2 2005	5,381,807	2,843,103	806,264	528,625	1,386,391	726,113	548,750	535,233	252,970	136,706	17,289
Q2 2006	6,408,553	2,751,091	1,010,753	709,396	1,807,610	642,599	1,099,573	559,979	252,276	82,985	25,480

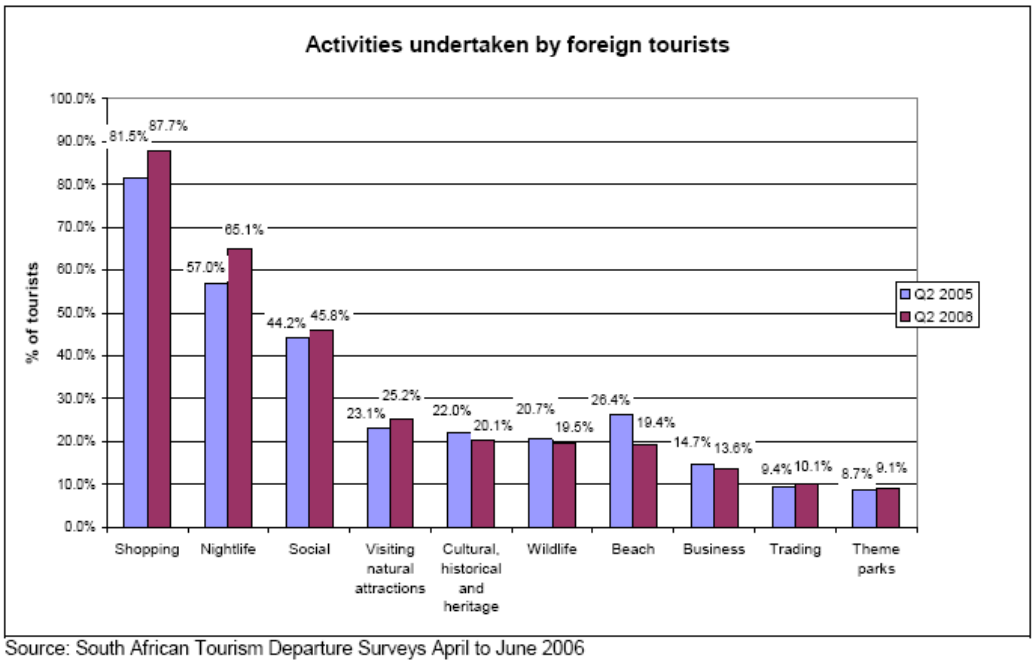
Source: South African Tourism Departure Surveys April to June 2006

Provincial distribution – The three most visited provinces in South Africa are Gauteng, KwaZulu Natal and Western Cape. The graph below reflects the percentage of tourists and which of the nine provinces they visited.



Source: South African Tourism Departure Surveys April to June 2006

Activities – The most popular activities of foreign tourists when visiting South are shopping (87,7%), nightlife (65,1%), social (45,8%) and natural attractions (25,2%). The graph below reflects the major activities as undertaken by tourists.



Source: South African Tourism Departure Surveys April to June 2006

Spend – Total Foreign Direct Spend (TFDS).

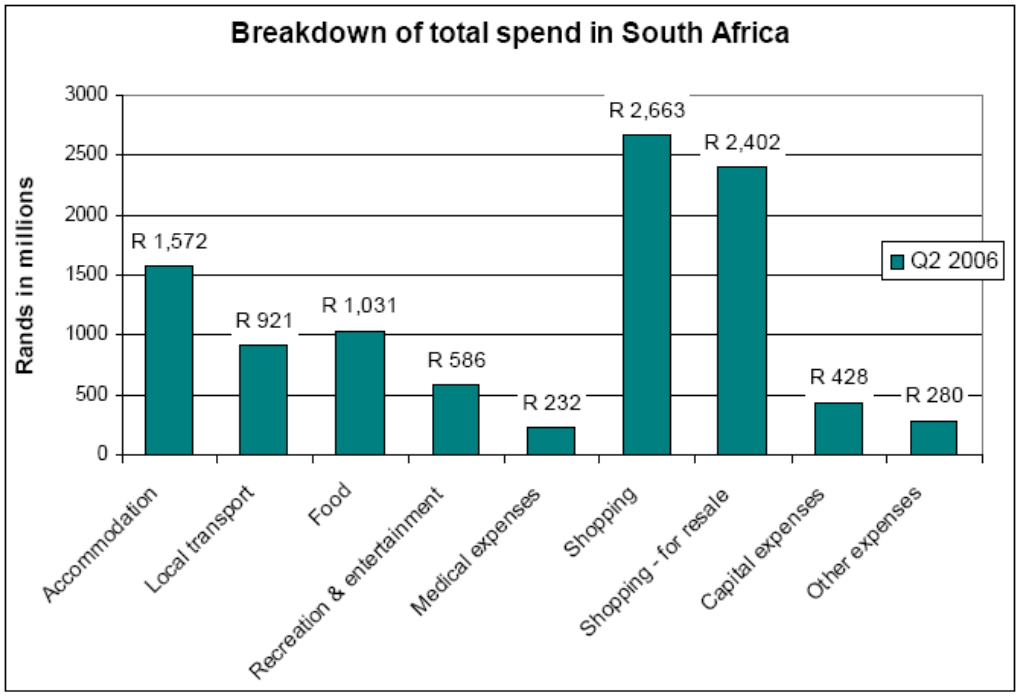
The total amount spent directly in South Africa by all foreign tourists including amounts spent on goods for resale and capital investments is referred to as Total Foreign Direct Spend (TFDS). In the period being reported on, it was estimated that TFDS was R10,1 billion with the average spend per tourist amounting to R5,530. The TFDS per visitor region is reflected in the graph below.



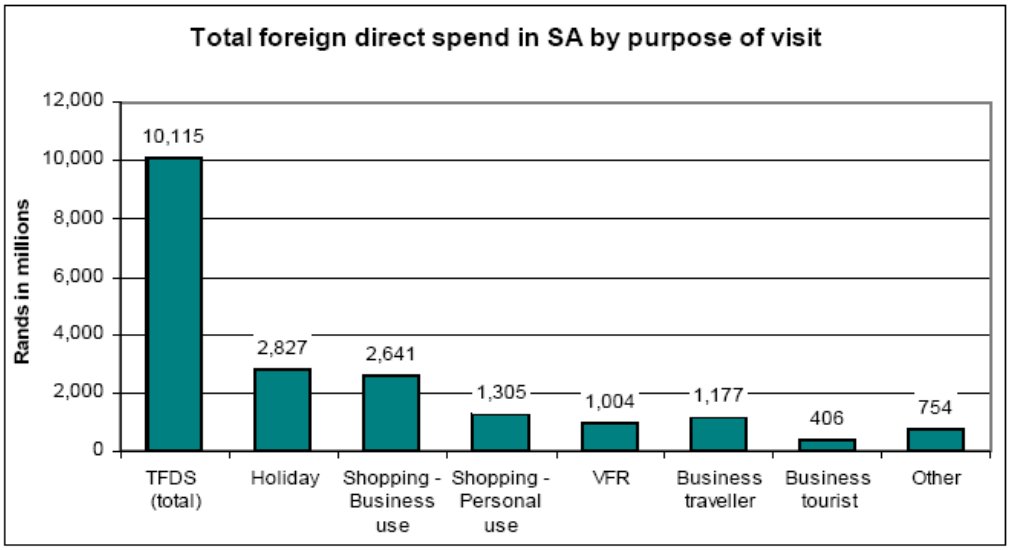
[5] NOTE:

- All spend data in this report is estimated using a revised methodology of identifying outliers. TFDS will only be reported on as final in the Annual Report of each year.
- All spend data reported in this document represents nominal values, unless otherwise stated.
- All spend data reported in this document represents the weighted average.
- The average spend reported per category would not add up to the total spend per trip, as reported by respondents. This is because not all respondents incur expenses in all categories. The average amounts spent per category do not reflect the average for all travellers but reflects the average level of expense incurred in that category by all travellers who reported incurring expenses in that category.
- The blank spaces in the table indicates that the sample size was too small to be significant

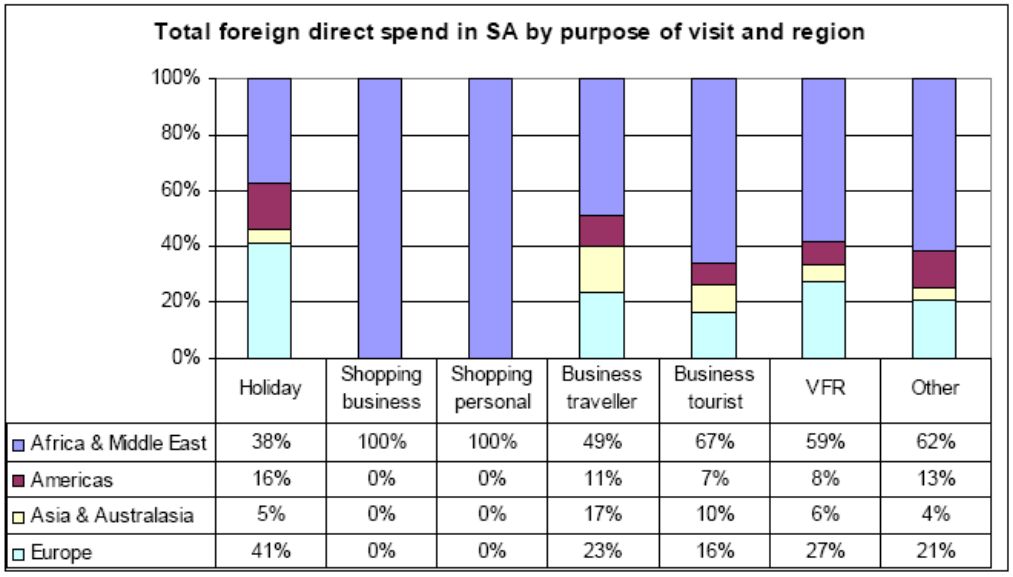
Breakdown of total spend – the bulk of spending by tourists to South Africa relates to shopping. Of the R5,1 billion spent, R2,7 billion is attributed to personal shopping while wholesale shopping, which is buying goods for resale, amounted to R2,4 billion. Accommodation at R1,6 billion is the next major spend. The graph below reflects the type of spending by tourists.



TFDS by purpose of visit – Of all the tourists who visited South Africa in this time period, 26% came for a holiday and they spent R2,8 billion. The graph below reflects spending by purpose of visit.



The graph below reflects total spending by purpose of visit and region. Tourists whose primary reason for visiting South Africa was for shopping spent R3,9 billion (business use R2,6 billion and personal shopping R1,3 billion) and all of these visitors came from Africa.



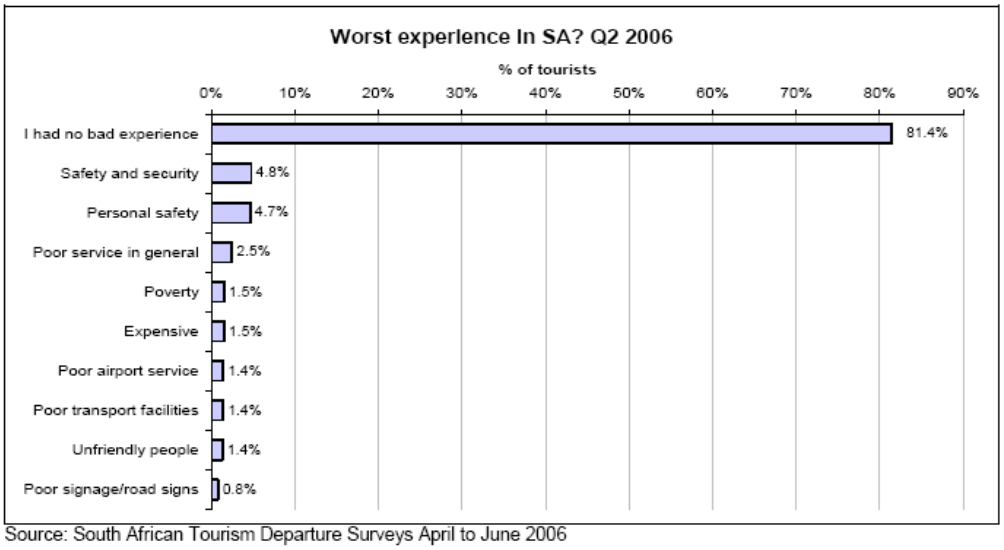
	Holiday	Shopping business	Shopping personal	Business traveller	Business tourist	VFR	Other
Africa & Middle East	38%	100%	100%	49%	67%	59%	62%
Americas	16%	0%	0%	11%	7%	8%	13%
Asia & Australasia	5%	0%	0%	17%	10%	6%	4%
Europe	41%	0%	0%	23%	16%	27%	21%

Perceptions – Best experience in South Africa. The scenic beauty of South Africa was rated by tourists as their best experience. The table below ranks the experiences in decreasing order of popularity.



Source: South African Tourism Departure Surveys April to June 2006

Perceptions – Worst experience in South Africa. The majority of tourists had no bad experiences in South Africa although issues surrounding safety and security as well as personal safety did feature as worst experiences.



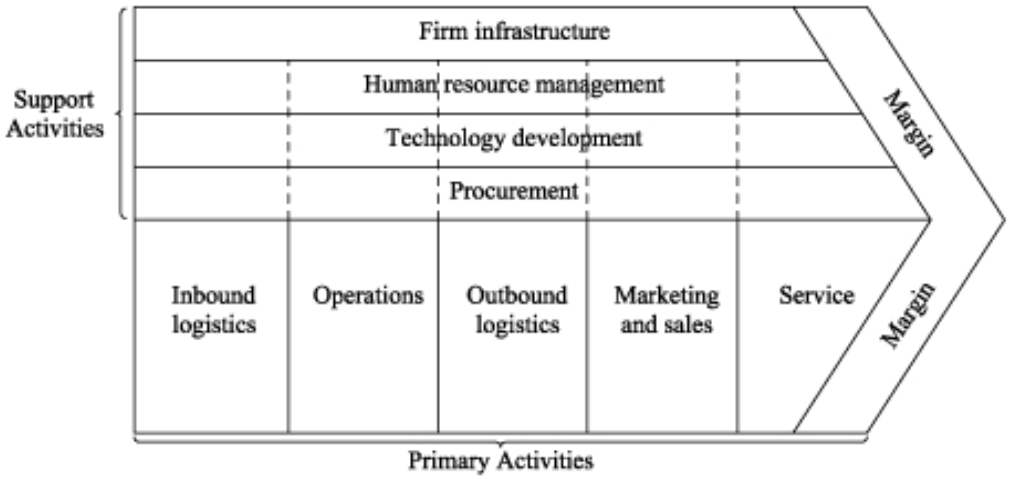
Source: South African Tourism Departure Surveys April to June 2006

The content of the above report appears to bode well for the tourism industry in South Africa of which the timeshare industry forms part. With a country so rich and varied in flora & fauna, access to world class beaches and golf resorts as well as thriving metropolitan areas, opportunities do exist to take advantage of the growing number of visitors to these shores.

2.15 THE VALUE CHAIN

The value chain was developed by Michael Porter as a tool, to identify ways to create more customer value and is depicted in Exhibit 6 below.

Exhibit 6



Source: Porter. M. E. 1985. Competitive Advantage: Creating and Sustaing Superior Performance

Value chain analysis is based on the premise that the basic purpose of a business is the creation of value for the consumer who buys its products or services. In conducting a value chain analysis the activities of the business that add value are divided into sets of different activities. In this way the business is seen as a chain of activities that creates value.

In a manufacturing enterprise this would normally start with purchasing raw materials, design of the product, component production, manufacturing and assembly, distribution, sales, delivery and typically end with after sales service and support for the product. In a service industry a physical product is not manufactured but the service that is sold follows a similar process.

Each of the activities described above may not only add value but also be a source of a competitive advantage. The identification and examination of these activities leads to an in-depth understanding of the capabilities of the business, its cost structure and how these activities either create a competitive advantage or disadvantage.

Value chain analysis separates the activities of the business into two categories, primary activities and support activities. Primary activities involve the creation of the product or service, marketing and sale to the buyer as well as the after sale support. Support activities, as the name implies, supports the primary activities by ensuring that an infrastructure exists so that the primary activities can take place on an ongoing basis.

The profit margin of the business is also included in the value chain. A major reason for being in business is to create value that exceeds cost so as to generate a return on the capital invested in the business.

Once the business has documented the value chain and costs have been established, the activities that are crucial to consumer satisfaction and market success need to be identified. The following are of major importance in conducting a "value chain analysis":-

- The basic mission of the business – if it is a low cost producer then attention to lowering costs will prevail
- The nature of the value chain and the relative importance of the activities within them normally vary by industry – hotels provide instantaneous service which is consumed immediately. If the first experience is not good, even after sales service cannot rectify the problem.
- The position of a business in a broader value system. No business acts in isolation and it will form part of the value chain of its upstream suppliers as well as its downstream customers who provide products or services to end buyers.

It is important to determine the level of vertical integration of a business when it compares its cost structure of the value chain to the value chain of its competitors.

A business must not only look at its costs and performance in each value creating activity but also ways to improve thereon. By estimating the costs and performances of its competitors, the firm benchmarks itself against them. The next step is to study "best of class" practices of the world's best companies.

Value chain analysis has allowed successful companies to develop superior capabilities in managing core (vital) business processes.

Financial institutions continuously examine their value chain to assess which areas can be improved upon. This usually results in specialisation with an improvement in efficiency, the benefits of which accrue to the organisation and its clients. Financial institutions in South Africa tend to limit their sights on providing financial services and are not very entrepreneurial in their approach in the assets that they finance. By extending their specialisation and taking ownership of the asset that is to be financed, a financial institution can become better at what it does by improving its core capabilities and thereby increasing its reach into a market that was open to competitors but basically becomes "ring-fenced".

2.16 THE MARKETING ENVIRONMENT - SCANNING THE ENVIRONMENT, DEALING WITH THE COMPETITION AND DEVELOPING A NEW MARKET OFFERING.

"Poor firms ignore their competitors; average firms copy their competitors; winning firms lead their competitors" - Philip Kotler.

The forces that determine the long term profit attractiveness of a market or market segment have been identified by Michael Porter as; industry competitors, potential entrants, substitutes, buyers and suppliers.

These forces pose the following threats:

- Segment rivalry – if a segment contains numerous, strong or aggressive competitors it would be unattractive. A stable segment or even if it is in decline would also be unattractive if fixed costs are high, it has high exit barriers or if competitors have high stakes by staying in it.
- New entrants – the most attractive segment is one where entry barriers are high and exit barriers are low.
- Substitute products – when there are genuine or potential substitutes for the product, the segment is unattractive.
- Buyer's bargaining power – if buyers possess strong buying power the segment is unattractive. If buyers are organised, the product represents a significant portion of the buyer's costs, the product is undifferentiated or buyers can integrate upstream then their bargaining power grows.
- Supplier's bargaining power – if the firm's suppliers can raise prices or reduce the quantities supplied then the segment is unattractive.

It is important for firms to identify its competitors. Philip Kotler is of the opinion that a company is more likely to be hurt by emerging products or new technologies than by current competitors.

Philip Kotler defines an industry as *"a group of firms that offer a product or a class of products that are close substitutes for one another."* The following criteria is used to classify an industry; number of sellers, homogeneous or highly differentiated product, entry, mobility and exit barriers, cost structure, degree of vertical integration and degree of globalisation.

Companies often find it advantageous to integrate backwards or forwards. Benefits of vertical integration are lower costs as well as gaining a larger share of the value added stream. Another benefit of vertical integration is that a firm can manipulate prices and costs in different parts of the value chain to suit its own needs. Vertical integration can also have disadvantages such as a lack of flexibility and high costs in certain parts of the value chain.

A company needs to design a competitive intelligence system to enable it to obtain timely information about its competitors.

By designing a competitive strategy a company can classify its competitors according to the role they play in the target market; leader, challenger, follower or nicher.

- Leader – this firm has the largest share of the market and leads with product changes, new products, price changes, distribution coverage and promotion intensity. Some of the leaders in their industry are - Kodak (photography), Microsoft (computer software), Caterpillar (earthmoving & construction equipment), Coca-Cola (carbonated soft drinks), McDonald's (fast foods) and Gillette (razor blades).
- Challenger – firms that occupy second, third and lower places are called the runner ups or trailing firms. These firms can follow one of two routes. They can make an aggressive bid for more market share (market challenger) by attacking the leader and other competitors or they can "play ball" and not "rock the boat" (market followers). Some market challengers have gained substantial ground and in some cases have overtaken the market leader. Toyota producers more cars than General Motors and British Airways flies more international passengers than the former market leader Pan Am.
- Follower – many firms are not interested in being a market leader and allow other firms to bear the cost of innovation. They imitate or improve the product and will follow the leader and not challenge them.
- Nicher – by not being a follower in a large market a firm can target a small market within the larger market (known as a niche market) and become a leader in that market. Because this niche market is small in relation to the total market, it holds little or no interest to the larger firms.

After a detailed study of the timeshare market and due consideration to meeting ROI / ROE hurdle rates a financial institution can take a decision regarding its entry into this industry. Its strategy could be that it wants to be the dominant player and become the Leader thereby enjoying the advantages attributed to "first to market ", or become a Niche player.

2.17 INTEGRATION AS A GRAND STRATEGY

Integration, whether vertical or horizontal is a grand strategy that is available to a business. If the strategy of a business is to acquire other businesses that supply it with inputs or are customers of its outputs then vertical integration takes place.

When a firm that has been acquired which operates at an earlier stage of the production / marketing process, then backward vertical integration takes place.

Forward vertical integration takes place when a firm acquires a firm closer to the ultimate customer.

Integration can also be horizontal whereby a firm acquires a firm similar to itself. By following this strategy, the acquiring firm is able to achieve a greater market share through its expanded operations thereby improving economies of scale.

One of the main reasons a firm will implement backward integration is the wish to increase the dependability of the supply or quality of the raw materials used as production inputs.

There are risks associated with integration. For horizontal integration the risk results from an increased commitment to one type of business. With vertical integration, the risk stems from the business expanding into areas that require strategic managers to broaden their competencies and to take on additional responsibilities.

In essence financial institutions take in deposits and on lend them to their customers who utilise such funds to acquire a myriad of assets and services. By following a backward vertical integration strategy a financial institution can create a renewable source of business thereby increasing its loan portfolio and earn annuity income thereon.

This strategy (backward vertical integration) has been implemented by African Bank Investments Limited ("Abil") in their offer to acquire retailer Ellerine (Reports by Tom Robbins published in The Star Business Report 22 August 2007 and 10 September 2007). Investment analysts have commented that the offer of R9,85 billion made a lot of strategic sense. It would allow for better priced loans thereby encouraging customers to spend more which would have the effect of driving up retail sales. The market has seen financiers (banks and mass market lenders) aggressively target the customers of furniture retailers to increase their loan book. By following such a strategy Abil has effectively stolen a march on its competitors as major synergies will follow.

2.18 FINDINGS OF THE LITERATURE REVIEW

Timeshare is a well entrenched vacation consumer product that originated in Europe but due to its universal appeal has spread throughout the world. North America has the largest number of resorts followed by Europe. The 2003 Resort Timesharing Worldwide Report stated that between 1990 and 2002,

ownership of timeshare increased by about 12 % on an annual basis with the potential for future growth.
The rationale for timeshare is that it generates a larger income from the sale of timeshare intervals compared to the outright sale of the same property. Timeshare is a service industry focussed on selling future holidays and not the sale of property. Sight must not be lost of the fact that timeshare is underpinned by property.

The 2004 Ragatz Resort Timeshare in Southern Africa publication reported that the selling price of timeshare intervals was one of the lowest worldwide. Prospective purchasers were motivated by the certainty of quality accommodation as well as the credibility of the timeshare company. These are important purchase considerations. The majority of timeshare owners expressed satisfaction with their purchase which is in contrast with the negative perception that the timeshare industry suffers worldwide. Timeshare has a positive spin-off for the community as visitations increase with the result that the total amount spent by visitors increases thereby creating jobs and supporting businesses in the area.

The legal framework which governs the timeshare industry has been in force since 1983. Industry players are also subject to a code of conduct which provides for orderly self regulation but does not have the force of law. Legislation currently affords consumers a five day cooling off period should they wish to withdraw from their purchase. Developers need to be cognisant that the timeshare interval can encompass different forms of ownership which has a bearing / impact on costs as well as the complexity regarding the transfer of such ownership.

The research by Sparks *et al* (2007) identified the value that timeshare owners derived. The ownership of timeshare represents a distinct product form which the consumer has a strong association. The industry needs to understand how owners derive value which can then be put to good use to attract new owners and improve satisfaction levels as well as loyalty among current owners. The competitive position of the industry should be improved by the creation of such value. The industry cannot become complacent and must remain vigilant as value resides in the experiences of consumers.

The literature is unanimous that timeshare is not an investment product but a lifestyle product. Lifestyle products, also known as consumer products are purchased by consumers for the value / benefit they believe will accrue to them from such purchase. Timeshare can only be sold as a consumer product in South Africa.

In identifying important issues for the timeshare industry the research of Woods (2001) highlighted that the two areas which were of the greatest concern was marketing (marketing costs, cost of sales) and the image (ethics, owner relations, reputation, marketing practices) of timeshare companies.

The literature indicates that timeshare can be very profitable but a developer must be in a position to absorb negative cash flows in the early stages before

the benefits of positive cash flow are reaped. The bulk of the income from the development of a timeshare resort flows from the sale of the timeshare intervals (60%), with the balance being made up between the financing of such sales (30%) and property management fees (10%). A recurring theme in the literature is the need to reduce sales and marketing costs which currently accounts for close on 48% of the sales price. A reduction in the aforementioned would make timeshare more affordable.

Annual surveys are conducted in the United States of America to track the financial performance of the timeshare industry. These surveys provide industry players with up to date information allowing them to benchmark their operation to industry norms, track industry trends and provide potential entrants with vital information. The surveys continue to reflect increases in new sales in this billion dollar industry. On the other hand timeshare in Europe has not turned out to be the major attraction that had been forecasted 10 – 15 years ago. The major reasons for this was the banning of the taking of deposits, a newly introduced cooling off period, dubious practices in the marketing and sales of timeshares coupled with a growth in real wealth which saw consumers involved in the outright purchase of holiday homes.

It is encouraging to note that since 1998 there has been a steady increase in the number of tourists visiting South Africa. The South African economy which enjoyed a consumer led boom has finally run out of steam. Continued rises in the price of oil and basic food prices has seen inflation rise to levels which are in excess of the target range set by the monetary authorities. This has resulted in an increase in the cost of money. Retail sales continued to grow for the period being reported on as the effects of the NCA and the increase in interest rates had not been fully felt. Despite the aforementioned, South Africans have a propensity to spend and an appetite for debt.

Every business has a value chain and each activity in the value chain may not only add value but also be the source of a competitive advantage. Assessing its costs and performance in each value creating activity is essential but ways to improve thereon is vital for a business. This leads to developing enhanced capabilities in managing core business processes.

Philip Kotler (2003) is of the view that successful companies take an outside view of their business. They are aware that the marketing environment is continuously changing thereby presenting them with new opportunities and threats with the result that they are fully aware of the importance of constantly monitoring and adjusting to that environment.

A grand strategy is an all-embracing approach guiding the major actions of a business in achieving long term objectives. There are various strategies available to a business and vertical integration is one of them.

3 CHAPTER THREE: METHODOLOGY

3.1 INTRODUCTION

According to Leedy (1989) research follows a cyclical process and starts with a question that needs answering. A process of collecting, organising and interpreting the facts to enable the researcher to resolve the problem follows. Resolving the problem appears to complete the circle but this is deceptive because the circle of research should be seen as a helix or spiral of research. He contends that in investigating one area, additional problems are exposed which require solving with the result that "research begets research."

There has been little research on the timeshare market in South Africa and the opportunities it presents.

The methodology that has been employed in this report follows five stages and is briefly outlined below:

- A literature review of subject matter that is pertinent to this discussion.
- A survey conducted by means of structured interviews involving senior managers of banks as well as time-share industry leaders / players.
- Analysing the results obtained via the survey.
- Validating the results.
- Conclusions and recommendations flowing from the above.

3.2 QUALITATIVE RESEARCH

The expression 'qualitative research' means any kind of research that results in findings not arrived at by means of statistical procedures or other methods of quantification. It does not only refer to research about people's lives or behaviour, but also encompasses organisational functioning, societal movements or relationships that are interactive.

This study is intended to examine whether the current timeshare market provides financial institutions with an opportunity to enter the industry as developers and then to market the timeshare intervals to their existing client base thereby increasing the advances portfolio which can be held on balance sheet or securitised. The proposed research paradigm is qualitative in nature.

Historically quantitative methods have been viewed as superior to qualitative techniques with the latter being criticised as deficient in scientific rigidity, reliability and validity. Despite the disregard for qualitative methods over the years, a growing recognition of their value in research in construction and property is starting to take hold.

According to Wisker (2001) qualitative research is undertaken when the researcher wishes to understand meanings, or look at, describe and understand experience, beliefs and values.

Rather than sample a large number of people with the intent of making generalizations, a few participants (who have the necessary expertise / experience) have been selected to shed light on the issues raised in this research report.

3.2.1 QUALITATIVE RESEARCH DESIGN

The design of the research is qualitative and can be described as interpretive.

Doing qualitative research as opposed to quantitative research is motivated by the fact that qualitative research methods are considered to help researchers understand people as well as the social and cultural framework within which they live.

Qualitative research may or may not be interpretive as this depends on the fundamental philosophical assumptions of the researcher and in this context the word “qualitative” is not a synonym for “interpretive”.

Only verbal data (interviews) will be collected and be obtained from structured interviews. Personal interviews have been decided upon as the following advantages accrue:

- The chance of successful data collection is increased
- It increases the accuracy and completeness of data
- Data enrichment is possible
- Representation can be controlled

3.2.2 POPULATION AND SAMPLE

The population in this research can be considered as expert professionals in their fields and have an interest in the outcome of a financial institution following a backward integration strategy to secure for itself a renewable source of business.

The attached list, marked Annexure 1 contains details of the people who were interviewed.

The population is small and the questionnaires to be used in the interviews are attached and marked Annexure 2.

3.2.3 DATA COLLECTION

Interview Product / Credit Executives of major Commercial Banks to determine appetite for the development and financing of timeshare resorts (either as owner thereof or in a joint venture with an established developer) as well as the financing of the resultant weeks.

Interview the CEO / CFO of Resort Condominium International of SA to establish answers to the following:

- can the timeshare market in Southern Africa accommodate another player?
- at which market these resorts are to be pitched (i.e. affluent, middle or low income market)
- average selling prices, level of levies and time normally taken to sell out a 60/80 unit development.

Interview the CEO of The Timeshare Institute of SA (TISA) to see what needs to be done to ensure compliance with the code of conduct.

Interview a Conveyancing Attorney to determine the following:

- type of legal entity that the resort should be held in
- most cost effective way ownership to end users can be transferred
- securing of such right when the asset (i.e. timeshare week) is financed by the Bank.

The nominated interviewees will be contacted via telephone to inform them of the purpose of the study, questions to be covered as well as the research process. Duration of the interview is open but in view of the number of questions to be answered, a period of 2 hours for each interview needs to be scheduled. The researcher will personally invite the interviewees to partake in the study and subsequent interviews will be arranged. Should an interviewee require sight of the questions before the interview these will be made available. The information provided by each interviewee will be treated as confidential and a copy of the finalised report will be made available if requested. Handwritten notes will be taken to provide backup and kept for record purposes.

3.2.4 DATA ANALYSIS

Interviews will be conducted in person and referenced for record purposes. Once all the interviews have taken place the information flowing from this will be analysed.

The data analysis activity will take place in a “closed loop” whereby the data is collected, analyzed and referred back to the literature. There is a clear distinction between data gathering and data analysis in quantitative research.

3.2.5 VALIDITY AND RELIABILITY

Qualitative research methods are suitable when the research is investigative, the area for examination is unknown to the researcher and the research is clinical as the methods used are more invasive and less structured than quantitative research techniques. In all the aforementioned instances the interviewer needs to gain insight into a specific topic area.

3.3 CONCLUSION

It is very important to choose the most appropriate effective research design as there is an inherent risk of data distortion through the introduction of bias as well as the practicality of data collection.

CHAPTER FOUR: EVALUATION AND DISCUSSION OF RESULTS

4.1 INTRODUCTION

Personal (face to face) interviews, representing a cross spectrum of organisations took place. Various financial institutions were interviewed (two of the large four commercial banks in South Africa (in terms of assets), being Standard Bank of South Africa Limited & Absa Bank Limited as well as the Industrial Development Corporation of South Africa Limited ("IDC") (a major investor in tourism projects) as well as industry role players being RCI Global Vacation Network (who form part of the world's largest holiday exchange network & holiday rentals group) and TISA (the controlling body that regulates the timeshare industry in South Africa). A firm of practising attorneys, Jay Mothibi Inc, were also interviewed who provided insight into various legal issues.

The interviews took place over a fairly lengthy period of time (from 23 August 2007 to 8 November 2007) as the interviews were arranged at the convenience of the people being interviewed.

4.2 DISCUSSION OF RESULTS

The results have been evaluated, are discussed below and have been segmented to reflect the differing views of the respondents:-

- 4.2.1 Financial Institutions – the overall view of the banks is similar and can be summarised as follows:

    - 4.2.1 (a) **Commercial banks**. Both banks have Commercial Property Finance Divisions who consider the provision of finance for timeshare developments to be high risk (the perception that the industry is high risk and the notion that the bank would not be able to secure itself in the traditional sense with a mortgage over the property remains) and would only entertain requests for finance from recognised developers (on an exceptional basis) whose financial statements reflect strong cash flows with low levels of gearing. The cash flow as well as the gearing of the development / resort play an important role but these factors coupled with the duration of the project, its sell out period and the source of repayment (cash flow to repay debt) are critical. Both banks see themselves in the traditional banking role as providers of finance and have not given thought to the idea of entering the timeshare market as proposed by the writer. In this regard their view is similar to that of them financing a residential development in that they would want other financiers to provide end user finance so as to spread the end buyer risk (concentration risk).

Another risk the banks identified if they entered this industry was that of image / reputational risk. Even if the development was sold out the bank would still be associated / linked to it and they could incur negative publicity should the resort fail (due to bad management by the resort management company).

Before considering development finance the banks would call for feasibility studies but were not “au fait” with the role played by TISA and were under the impression that RCI operated as a resort owner.

In some instances there was confusion regarding the various forms of ownership and often the word “timeshare” was used synonymously with “share block” as timeshare is viewed by the banks as a personal right – one of the reasons it is seen as high risk (banks feel more comfortable with Sectional Title as this confers a real right as opposed to Share Block which confers a personal right).

Interestingly the people interviewed could not recall instances where the bank had incurred losses in connection with loans granted to timeshare developers. This appears to negate the notion of high risk.

By carrying out regular valuations of the resort the bank would be able to ensure that the levies levied by the management company could sustain and maintain the resort.

The banks see the timeshare market as fragmented as there are various role players with different needs / time horizons.

With regard to the financing of end users, for the purchase of timeshare intervals, the banks do not keep records for this type of loan for the following reasons:-

- If the client has an acceptable credit history / track record and demonstrates repayment ability the bank will grant a loan and clients may utilise the proceeds of such loans as they deem fit.

- Loans of this nature / size are viewed as personal loans.

- These loans are normally granted on an unsecured basis.

- The banks will only utilise their Home Loan chassis, (substantial data bases have been built up by the banks in this regard) where they can take security (in the form of a mortgage bond) over the entire property which obviously does not apply in the case of timeshare.

- Both banks have been under market pressure to finance residential units in terms of “fractional ownership” but at this stage have declined to become involved in this market as they view this product similar to timeshare and cannot register their bond over the entire property but only over the undivided portion that will be owned by their client who is requesting the finance.

- .The banks view timeshare as a consumer product and not as an investment product.

- 4.2.1 (b) **Development Bank**

  - 1994 saw the IDC start its Tourism Division to assist the National Parks in improving their infrastructure. The next three years saw them move into eco-tourism and game lodges.

  - In 1997 the IDC ventured into financing accommodation establishments such as Bed & Breakfasts (“B&B”) and Hotels.

  - Some ten years ago the board of the IDC commissioned an internal study regarding Tourism. The report is not for external consumption but the following was conveyed to the writer:-

    - The IDC will finance the business of an hotel / B&B but not the development of such a property / building project

    - The IDC believes that the development finance for the erection of a hotel / B & B as well as the financing of vehicles is the preserve of the commercial banks.

    - Timeshare still has to prove its economic merits and its viability over time. The IDC is of the view that levies are a contentious issue; the “real” profit in timeshare is realised upfront and they question the sustainability of the property (i.e. the resort) over time.

  - 2007 has seen the IDC finance Sports Tourism and Events Management projects.

- 4.2.2 TISA / RCI – these two organisations reflect similar views but their aims and objectives differ.

- TISA is an industry regulator with a stringent Code of Conduct as well as an accreditation process (for developers of timeshare) to safeguard the interests and rights of timeshare owners.

    - TISA has not conducted its own research or commissioned auditing firms to undertake research on its behalf due to limited resources. TISA has 5 employees compared to ARDA who employs 350 people. ARDA maintains two offices in the USA with its main office in Orlando, Florida and another office in Washington to lobby Senators / Congressmen who are America's decision makers.

    - TISA understands the value of information / statistics and is in the process of obtaining information from members, industry players, marketing organisations and developers. Information comes at a cost and TISA believes that there has been a lack of education in the industry which they are trying to rectify.

    - TISA will be mounting an initiative towards the end of 2007 in which the following information (which is vital for the industry) will be gathered: inter alia, sales, cost of sales (including the cost of marketing) and benchmarking levies taking into account the size / quality of the resort

    - TISA was able to provide the following limited information regarding timeshare in South Africa

        - 2006 saw approximately 41 000 new members being introduced into the shared vacation industry (i.e. timeshare). TISA estimate total members at +/- 370 000

        - Timeshare products with a value of R1 billion were sold in 2006.

        - There are +/- 190 resorts that are affiliated to RCI.

    - It is the opinion of TISA that the timeshare industry in South Africa is in a growth phase (it mirrors that of the hospitality industry). This is based on

information made available to them by the Direct Marketers Association who have identified that timeshare products are affordable to 4, 5 million consumers in the middle to higher income bracket (which includes the so-called “Black Diamonds”). The last decade has seen no real development of timeshare resorts in South Africa (partly because of high development costs) and this together with the downturn of the hospitality industry in Zimbabwe (due to the political situation and economic meltdown) has seen supply lagging behind demand. The majority of recent sales are resales.

- Notwithstanding the aforementioned, TISA is of the opinion that growth has being stymied in part by the local banks as they do not understand the timeshare industry (compared to their counterparts in the USA) and a great financing opportunity is being lost by them as developers in general carry their own book. According to TISA local banks are risk averse, worried about Share Block (whereas they understand Sectional Title) and scared of the shared vacation ownership concept. Although the introduction of the NCA has had a negative impact on sales, this has had the effect of sales being of a better quality.

- Timeshare is an entrenched product in South Africa, which is accepted by the consumer and in view of its continued demand, it has not passed its “sell by date”.

- Timeshare in South Africa is seen as a “holiday lifestyle product” and in terms of the Code of Conduct it cannot be sold as an investment product.

- Timeshare is still associated with “hard sell’ techniques. TISA views this as unfortunate but recognizes it as a reality.

- Tisa does not have statistics regarding what constitutes a break-even scenario in terms of sales but estimates this to be between 55% and 60%.

- Fractional Ownership is not considered as a serious competitor to timeshare but TISA have monitored the fractional ownership market since 2005. They view this market as a threat because

of the way in which various role players (established estate agencies which are household names in South Africa) are conducting their business. In reality fractional ownership is nothing more than timeshare marketed under another guise.

- Timeshare started in the 1970's and as such timeshare ownership was restricted along racial lines – a situation inherited from the old dispensation but since 1994 this is changed to reflect economic realities.

- Timeshare ownership is not seen as the preserve of the rich as timeshare resorts are spread over a broad spectrum; from gold crown resorts to resorts without grading.

- The criteria that a developer must comply with is extensive and copies of the "Application for Membership" together with the Code of Conduct are attached hereto as Annexure 3.

- The cost to join TISA and have the membership renewed (on an annual basis) is realistic and the costs are reflected in the "2007 Annual Membership / Renewal Fees" attached hereto as Annexure 4

- Not all developers are TISA accredited but these account for a small proportion of developers and are estimated to be in the region of 3 to 4 %.

- TISA has no power to sanction developers who operate without TISA accreditation but will deal with complaints and give advice to timeshare owners.

- TISA does not have a fidelity fund like that administered by the Estate Agency Affairs Board but will give advice and assist timeshare owners in submitting claims.

- A developer will choose the form of ownership (i.e Sectional Title, Share Block, Club etc) a resort / development will have and TISA does not dictate in this regard.

- With regard to operational issues (i.e. site selection, type of resort, level of fittings and selling

prices) TISA will refer developers to RCI or other industry experts.

- There have been developers / resorts affiliated to TISA that have gone out of business / liquidated but due to the intervention of TISA:

    - All resorts have continued (some in terms of a Sect 311 compromise / others due to a change in management company)
    - Registered timeshare owners were unaffected (did not lose their timeshare)
    - The industry did go through a difficult time and this is one of the reasons for the 1983 Act to be promulgated.

- TISA believe that South Africa does not have sufficient "hotel beds" to accommodate the influx of tourists expected for the FIFA 2010 Soccer World Cup and new time-share resorts would certainly alleviate the problem. The aforementioned problem has also been identified by MATCH (an organisation to facilitate accommodation in South Africa for 2010 by FIFA) who have approached the hospitality industry in this regard.

- Timeshare resorts are not graded in the way the South African Tourism Grading Council grade hotels but timeshare resorts can request a grading from this body. RCI does grade resorts and a rough guide is as follows:-

    - Gold crown resort 3 / 4 star
    - Silver crown resort 2 / 3 star

- TISA would welcome a major commercial bank entering the timeshare industry as a developer.

- It is the opinion of TISA that the following three ingredients are necessary for a timeshare resort to be successful

    - Locality
    - Management of the resort
    - Type of facilities / amenities offered

- TISA admit that developers have not harnessed the benefits of the electronic age (large data bases available) to sell timeshare (thereby reducing the hard sell techniques) and reduce the high cost of sales. Marketing costs (making up 40% to 50% of the total sales amount), are exorbitant and should only account for 20% of the sales amount.
- Liquidity and marketability are risks associated with timeshare and to ensure that these risks are successfully mitigated the resorts must be of a good quality and well located. This ensures that demand remains strong. The vacation time (low, medium and high) is a consequence of demand but this is reflected in the price.

- RCI plays no role in the regulation of the timeshare industry but because it facilitates the exchange of time for timeshare owners in different resorts (locally and overseas) it has a vested interest not only in the well being of the timeshare industry but also the image the timeshare industry portrays.

    - RCI do not conduct their own surveys but rely on information as contained in the March 2004 Ragatz publication " Resort Timeshare in Southern Africa" and information provided by TISA

    - RCI view the timeshare industry in South Africa (with regard to the phase that it is in) as consisting of two tiers:
        - Traditional – no development - decline
        - Points – time being recycled - growth

    - It is the opinion of RCI that timeshare is an entrenched product in South Africa, accepted by consumers and that it has not passed its "sell by date" as evidenced by the current annual (new) enrolments (sales) of 20 000 / 25 000 which has increased their client base to +/- 240 000 timeshare owners.

    - Timeshare is sold in South Africa as an investment in holidays.

    - Timeshare is still associated with "hard-sell" techniques.

    - RCI are not "au fait" as to what constitutes a break-even scenario in terms of sales but

estimates this to be at 60%. They believe that developers make more money in carrying their own book (I.e. financing their own debtors).

- RCI view fractional ownership as complimentary to timeshare and do not view it as a competitor. RCI have been proactive in the fractional ownership market and have an entity called Registry which provides a similar service to fractional owners as RCI does to timeshare owners.

- RCI is of the opinion that the ownership of timeshare is along economic and not racial lines.

- The timeshare product range caters for all income levels and as such RCI do not see timeshare as the preserve of the rich.

- For a resort to be affiliated to RCI, the developer / resort needs to be accredited by TISA (legal requirements / financial structure / standing). The property needs to be bond free with the resort levies being sufficient to maintain the required level of service. Also of importance to RCI are the location, facilities offered and the standard of or condition of the property.

- Once a development is affiliated by RCI the once off sign on fee is R150 000 and if the resort is a fractional ownership one, the cost for Registry affiliation is USA $ 50 000. RCI review their association with all resorts on a regular basis (frequency dependant on feed back from RCI members but this can be as often as twice a month). The cost of site visitation is borne by RCI.

- The cost for a time share owner to join RCI is an enrolment fee of R800.00 which is paid annually for three years and thereafter it reduces to R495.00 per annum.

- As an owner of timeshare the benefits of joining RCI, besides being able to swop out locally and internationally, are holiday insurance, registered IATA and ASATA travel agents, flexible holidays as well as receiving extra / bonus holidays.

- RCI will not advocate the form of ownership a resort should have as long as the form of

ownership satisfies TISA. This is then acceptable to RCI.

- RCI will provide assistance and give advice to a developer regarding, inter alia, the following: site selection, type of resort, level of fittings, range of selling prices as well as the setting of the maintenance levy.

- There have been developers / resorts affiliated to RCI that have gone out of business / been liquidated and RCI have assisted in recycling the resort (to existing developers) with a bale out provided at the consumer level. Notwithstanding the aforementioned, the negative publicity from a few isolated incidents (in the early 1990's with the last ten years being trouble free) affects the industry as a whole.

- RCI do not believe that they are in a position to provide an opinion regarding the question of sufficient "hotel beds" to accommodate the increase in tourists expected for the FIFA 2010 Soccer World Cup as they believe that this question can only be answered by the hotel industry itself. They do not forsee any benefits in this area for themselves.

- The grading of RCI affiliated resorts differs to hotels in that the South African Tourism Grading Council will via their inspectors conduct an inspection of the hotel to be graded while timeshare owners provide feedback to RCI based on their own experience at a particular resort.

- RCI would welcome the news that a major commercial bank was considering entering the timeshare market as a developer as the industry requires development of more resorts. A move such as this would add credibility to the industry due to brand recognition and provide peace of mind to consumers.

- According to RCI the ingredients needed to make a timeshare resort successful are:-

    - Location
    - Resort management
    - Brand

With regard to the importance of a brand, RCI advised that the latest phase at Sun City (a Sun International resort) was sold out in 6 months vis-à-vis a forecast of 2 years.

- In South Africa there are no other Exchange Resorts that compete with RCI

- Despite popular belief RCI does not own any time share resorts but its association with a resort through its affiliation process leads to this confusion in the minds of the general public.

- RCI are aware of the impact marketing cost have had on the high cost of sales. A low conversion rate (in some cases as low as 3%) leads to very high marketing costs which could be reduced if a well recognised brand enters the market as this provides credibility as well as bolsters consumer confidence.

- It is the view of RCI that the risks of liquidity and marketability in the timeshare industry can be mitigated with the entrance of recognised brands as this restores credibility in a market that has had its fair share of bad publicity. If the brand provides value, liquidity should improve.

- 4.2.3 Attorneys – the view from Jay Mothebi Inc is the following:-

  - The advantages and disadvantages regarding the various forms of ownership are summarised and reflected in the table below:-

Type of ownership	Advantage	Disadvantage
Sectional Title Timesharing interest is based on ownership.	Interest in property is a real right and as such can be bonded for security purposes	Bond registration / transfer costs on purchase and sale of timeshare interest. Transfer of ownership can only be effected by Deeds Registry Office which is time consuming because of formalities

Share Block Timesharing interest is based on a right of use.	Ease of purchase and sale. Formalities are less than Sectional Title and as such costs are substantially lower.	Interest in property is a personal right and as such a bond cannot be passed over the right held. Personal rights are not as strong as real rights.
Club Membership Timesharing interest is based on a right of use.	Ease of purchase and sale. Formalities are less than Sectional Title and as such costs are substantially lower.	Interest in property is a personal right and as such a bond cannot be passed over the right held. Personal rights are not as strong as real rights.

Lease Timesharing interest is based on a right of use.	Ease of purchase and sale. Formalities are less than Sectional Title and as such costs are substantially lower.	Interest in property is a personal right and as such a bond cannot be passed over the right held. Personal rights are not as strong as real rights.

- The cost implication for a developer is most onerous under a sectional title scheme in that a sectional title register has to be opened. This is a legal process that has to be followed and the property also needs to be measured up by a land surveyor as all sections including the common property are taken into account to determine the participation quota. This is a lengthy process and has time implications.

  The set up costs / formalities for other forms of ownership (formation of a company / club) are substantially lower and less time consuming.

- Financiers secure themselves by registering a bond over the property purchased by the timeshare owner.

  If the purchase was transacted via a share block / club a financier can secure themselves by taking a cession and pledge of the shares / points.

- At this point in time financiers are only comfortable with sectional title schemes as they fail to understand the value and rights attached to something that is intangible.

- Timeshare in South Africa is sold as a consumer product.

CHAPTER FIVE: CONCLUSION

5.1 INTRODUCTION

The objective of this research report is to see if the current timeshare market provides financial institutions with an opportunity to enter the industry and thereby implement vertical backward integration as a means to increase their loan book.

5.2 SUMMARY OF FINDINGS

Timeshare as a consumer product has found acceptance across the globe and is a major contributor to the economy of the United States of America. Recent surveys have noted its continued growth world wide and the potential for future growth.

It was established that although the timeshare market in South Africa is in a mature phase, up to date statistics are not available thereby making it difficult to make sound / informed decisions.

Even though timeshare is sold as a consumer product, a substantial amount of consumer education still needs to take place and the market continues to be plagued by “hard sell” techniques due to low conversion rates with the result that marketing costs are the biggest contributor to the final cost of sales figure.

The biggest challenges facing the timeshare industry remains its tarnished image and the high cost of sales. This has not deterred well known hotel brands from entering the industry and adapting the timeshare product to improve occupancy levels. Notwithstanding the fact that timeshare suffers from a tarnished image surveys indicate that purchasers of timeshare are satisfied with their purchase, however the industry must not underestimate the importance of how owners derive value from their purchase.

Commercial banks view timeshare as “high risk” but this may be attributed in part to the fact that they do not understand the “shared vacation ownership” concept and feel more comfortable in obtaining security when financing fixed property. The timeshare market is fragmented which may be a reason why commercial banks treat such lending with caution. Sophisticated score card techniques have been developed by commercial banks to pre determine the level of debt a consumer can assume. This ensures that borrowers are not overextended thereby reducing the probability of default. The ability to pre screen clients from its data base would enable commercial banks to market the sale of time share intervals to its own clients thereby creating a competitive advantage for itself. In essence, commercial banks need to mine their client base to create additional loans.

The continued strong economic performance in South Africa has resulted in boom conditions last seen in the 1980s which has been consumer driven.

Consumers have a propensity to spend and utilise debt to finance such spending.

Notwithstanding the fact that ownership of timeshare intervals may take different forms, they all are subject to the Property Time-sharing Control Act 75 of 1983 and developers of timeshare are subject to a code of conduct which is monitored by TISA.

The ingredients for a successful timeshare resort are location, the management thereof and whether the developer is a recognised brand. These factors will enhance consumer confidence and credibility. Timeshare has proved to be a profitable business but a developer must have a sound financial position to absorb negative cash flows in the early stages of a project before enjoying the benefits of positive cash flow. Major financial institutions are recognized brands and would meet the criteria as proposed herein.

The turbulent years of the 1980s which saw many timeshare developments fail and also acted as a catalyst for the promulgation of the Property Time-sharing Control Act 75 of 1983, appears to be a thing of the past.

The number of foreign tourists visiting our shores continues to increase with a record number of visitors expected for the FIFA World Soccer Cup in 2010.

The research report indicates that from a qualitative approach, financial institutions have the opportunity to enter the timeshare industry as a means to increase their loan book but further study needs to be done on a quantitative basis in order to verify this.

By entering this market a financial institution, through its brand, would lend credibility to the product and create consumer confidence. Brand recognition is vital as it would assist in reducing the high marketing costs thereby making the product more affordable which should result in increased sales. Marketing costs should be reduced substantially as the financial institution would be in a position to pre screen customers to ensure that increased levels of debt can be serviced and only market the “new” product to clients who are of “a good financial standing”. By adding timeshare as a product offering, the financial institution would be offering its clients a “one stop shop”. Financial institutions could also assist in the education of consumers thereby eliminating the bad reputation that timeshare currently enjoys. The elimination of the risks of liquidity and marketability will benefit not only consumers but ultimately also the financial institution. Other benefits such as being first to market and becoming the market leader could not be easily replicated by current competitors.

Financial institutions need not limit their investigation to the timeshare market alone but can explore other similar product offerings such as fractional ownership which is viewed by the industry as a niche market. Currently this market remains untouched by the major financial institutions.

This research report has tried to quantify the opportunities available to financial institutions to implement backward vertical integration in a market that has been ignored by them and treated as the Cinderella of the hospitality industry. Due to the lack of up to date information the research report is mainly qualitative. It should be treated as a pilot study, highlighting what is of importance and which areas are to be treated with caution when entering the timeshare market.

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ANNEXURE 1

NAME	ORGANISATION	TITLE	DATE
Mr F Meisenholl	Absa Bank Ltd	Chief Internal Auditor	21/08/2007
Mr A W Bosch	Timeshare Institute of Southern Africa	Executive Director	23/08/2007
Mrs M Hatjigiannakis	Timeshare Institute of Southern Africa	PR Officer / Marketing	23/08/2007
Mr M Magagula	Industrial Development Corporation of SA Ltd	Head: Tourism SBU	24/08/2007
Mr M van der Spuy	Standard Bank of South Africa Ltd	Director: Business Support	31/08/2007
Mr J van Jaarsveldt	Absa Bank Ltd	Head: CVM * Retail Bank (Group Credit)	12/09/2007
Mr R Teeruth	Absa Bank Ltd	Head: CVM * Home Loans & Private Bank (Group Credit)	15/10/2008
Mr R Jayrajh	Absa Bank Ltd	General Manager: Credit Risk Commercial Property Finance	18/10/2007
Mr N Georgiades	Jay Mothibi Inc	Director	19/10/2007
Mr E Berg	Absa Bank Ltd	Team Leader: Credit Risk Commercial Property Finance	22/10/2007
Mr J Rivers-Moore	Standard Bank of South Africa Ltd	Director: Strategy and Sales Support	23/10/2007
Mr L Harty	Standard Bank of South Africa Ltd	Director: Commercial Property Finance	23/10/2007
Mr W Grieveson	RCI Global Vacation Network	Operations Director: Africa	25/10/2007
Ms L Grace	RCI Global Vacation Network	Senior Manager: Global Business	25/10/2007
Ms P Labuschagne	RCI Global Vacation Network	Senior Manager: Major Accounts	25/10/2007
Mr J Stroucken	Absa Bank Ltd	General Manager: Product Commercial Property Finance	31/10/2007
Mr S Mottiar	Standard Bank of South Africa Ltd	Director: Structured Debt Credit	8/11/2007
Mr A Freeman	Standard Bank of South Africa Ltd	Senior Credit Manager: Home Loans	8/11/2007

* CVM = Customer Value Management

ANNEXURE 2

Questions - Bank Interview

Q1 Does the Bank consider lending to time-share developers as high risk?

If so WHY

Q2 Does the Bank consider lending to purchasers of time-share weeks as high risk?

If so WHY

Q3 Does the Bank currently lend to time-share developers?

If so WHAT is the level of exposure

Q4 Does the Bank currently lend to purchasers of time-share weeks?

If so WHAT is the level of exposure

Q5 Has the Bank incurred losses / write offs to:

- time-share developers?
- individual purchasers of time-share weeks?

Q6 Does the Bank assess the financial position of a time-share developer and lend on the strength of the developers balance sheet

or

is the lending done on the above basis together with the provision of security?

Q7 With regard to Q6, how much reliance is placed on

- balance sheet (gearing)?
- Security?
- repaymentability (coverage)?

Q8 Does the Bank assess the financial position of an individual purchaser

or

is the lending done on the above basis together with the provision of security?

Q9 With regard to Q8, how much reliance is placed on

- net worth of the individual (gearing)?
- Security?
- repaymentability (coverage)?

Q10 Will the Bank call for a demographic / feasibility study regarding the resort and its location before it considers finance for a time-share developer?

Q11 Will the Bank insist on proof that the time-share developer is an accredited member of TISA (Time-share Institute of South Africa) and has provided TISA with the necessary auditors certificates as called for by them?

Q12 Will the Bank provide finance to the purchasers of time-share weeks even if the Bank did not finance the construction / development of the time-share resort?

Q13 Will the Bank consider providing finance to the purchasers of time-share weeks if the basis of ownership is by way of:

- Sectional title
- Share Block
- Points

Q14 What measures (if any) does the Bank take to ensure that levies can sustain the resort?

Q15 Does the Bank consider the financing of time-share developments and the resultant time-share weeks as fragmented?

Q16 Would the Bank consider entering the time-share industry as a developer thereby controlling the value proposition from inception, right through to the sale of time-share weeks to end users?

Q17 Do commercial banks in South Africa view timeshare as an investment product or a consumer product?

Q18 There are many risks associated with timeshare but the two risks that warrant special attention not only because they are considered to be higher than other risks but also because they are interrelated are liquidity and marketability. Published literature indicates that if an owner wished to sell timeshare, it would often be difficult to find a purchaser interested in buying it at a reasonable price. Can these risks be mitigated in any way?

Q19 A popular saying in the timeshare industry is ***timeshare is sold and not bought*** which leads to its high cost (research conducted in the United States of America indicates that sales and marketing costs can vary between 40% and 55% of the total sales amount). Can these costs be reduced in any way to make timeshare more affordable?

Questions – TISA Interview

Q1 Does TISA conduct its own research into the South African time-share industry such as "The Ragatz ***Resort Timeshare in Southern Africa*** published in March 2004"?

If so what are the findings?

Q2 In the United States of America, PricewaterhouseCoopers conduct an annual survey on behalf of ARDA (American Resort Development Association) whose findings are published in their report entitled " Financial Performance of the U.S. Timeshare Industry". Is a similar survey carried out in South Africa?

If so what are the findings?

Q3 In what phase does TISA consider the time-share industry in South Africa to be in (growth, maturity or decline)?

If so WHY

Q4 Is time-share an

entrenched product in South Africa

accepted by the SA consumer

or

has it passed its "sell by date"

Q5 Is time share sold in South Africa as an investment or consumer product?

Q6 Is time-share still associated with "hard-sell" techniques?

Q7 In the selling phase of a time-share development, what % of the sell out indicates a break-even scenario?

Q8 Is fractional ownership a serious competitor to the time-share industry in SA?

Q9 Is the distribution of time-share ownership in South Africa along racial or economic lines?

Q10 Is time-share ownership in South Africa seen as the preserve of the rich? (LSM)

Q11 What criteria must a developer / resort comply with to be accredited / affiliated to TISA

Q12 If the developer / resort meets the criteria laid down by TISA

(1) what is the cost to the developer / resort

(2) what basis (time as well as quality criteria) does TISA impose to review its association with the developer / resort

Q13 Does TISA represent all time-share developers or are there developers who operate without Tisa accreditation?

Q14 What power does TISA have to sanction developers who operate without TISA accreditation?

Q15 How does TISA protect time-share owners?

Q16 Does TISA advocate the form of ownership that a resort should have (i.e Sectional Title, Share Block, Club)?

Q17 Does TISA provide advice to time-share developers regarding:

- Site selection

- Type of resort to be developed

- Level of fittings

- Selling prices for the different periods (red, blue & white weeks)

Q18 Have there been developers / resorts that have been affiliated to TISA, and during this affiliation period, have gone out of business / liquidated.

If so WHAT was the outcome for the:

- Resort

- Time-share owners

- The industry as a whole

Q19 With South Africa attracting ever increasing foreign tourists as well as being firmly placed on the global sporting map (having successfully hosted both the Rugby & Cricket World Cups and now preparing for the FIFA 2010 World Cup) does TISA believe that there are sufficient "hotel beds" to accommodate tourists?

If not would new time-share resorts alleviate the problem?

Q20 Are time-share resorts graded in a similar way to hotels?

If so what are these requirements for 3, 4 & 5 star establishments

Q21 If there is a need for more time-share resorts how would TISA react to the news that a major commercial bank was considering entering the timeshare industry as a developer and selling the resultant time-share weeks to its existing client base?

Q22 What ingredients, in the opinion of TISA, are needed to make a time-share resort successful?

Q23 Research conducted in the United States of America indicates that sales and marketing costs can vary between 40% and 55% of the total sales amount. This is one factor attributed to the "high cost" of a new timeshare interval. Are there ways that this substantially high cost can be reduced to make timeshare more affordable?

Q24 There are many risks associated with timeshare but the two risks that warrant special attention not only because they are considered to be higher than other risks but also because they are interrelated are liquidity and marketability. Published literature indicates that if an owner wished to sell timeshare, it would often be difficult to find a

purchaser interested in buying it at a reasonable price. In your opinion do you believe that these risks can be mitigated in any way?

Q25 A popular saying in the timeshare industry is ***timeshare is sold and not bought*** which leads to its high cost (marketing and selling costs make up 40 to 55% of the cost of sales in the timeshare industry). Do you believe that these costs can be reduced in any way?

Questions – RCI Interview

Q1 Does RCI conduct its own research into the South African time-share industry such as "The Ragatz ***Resort Timeshare in Southern Africa*** published in March 2004"?

If so what are the findings?

Q2 In the United States of America, PricewaterhouseCoopers conduct an annual survey on behalf of ARDA (American Resort Development Association) whose findings are published in their report entitled " Financial Performance of the U.S. Timeshare Industry". Is a similar survey carried out in South Africa?

If so what are the findings?

Q2 In what phase does RCI consider the time-share industry in South Africa to be in (growth, maturity or decline)?

If so WHY

Q3 Is time-share an

entrenched product in South Africa

accepted by the SA consumer

or

has it passed its "sell by date"

Q4 Is time share sold in South Africa as an investment or consumer product?

Q5 Is time-share still associated with "hard-sell" techniques?

Q6 In the selling phase of a time-share development, what % of the sell out indicates a break-even scenario?

Q7 Is fractional ownership a serious competitor to the time-share industry in SA?

Q8 Is the distribution of time-share ownership in South Africa along racial or economic lines?

Q9 Is time-share ownership in South Africa seen as the preserve of the rich? (LSM)

Q10 What criteria must a developer / resort comply with to be accredited / affiliated to RCI

Q11 If the developer / resort meets the criteria laid down by RCI

- what is the cost to the developer / resort

- what basis (time as well as quality criteria) does RCI impose to review its association with the developer / resort

Q12 What is the annual cost to a time-share owner to join RCI?

Q13 What are the benefits for a time-share owner to join RCI?

Q14 Does RCI advocate the form of ownership that a resort should have (i.e Sectional Title, Share Block, Club)

Q15 Does RCI provide advice to time-share developers regarding:

- Site selection

- Type of resort to be developed

- Level of fittings

- Selling prices for the different periods (red, blue & white weeks)

- Setting of the maintenance levy

Q16 Have there been developers / resorts that have been affiliated to RCI, and during this affiliation have gone out of business / liquidated.

If so WHAT was the outcome for the:

- Resort

- Time-share owners

- The industry as a whole

Q17 With South Africa attracting ever increasing foreign tourists as well as being firmly placed on the global sporting map (having successfully hosted both the Rugby & Cricket World Cups and now preparing for the FIFA 2010 World Cup) does RCI believe that there are sufficient “hotel beds” to accommodate tourists?

If not would new time-share resorts alleviate the problem?

Q18 Are time-share resorts graded in a similar way to hotels?

If so what are these requirements for 3, 4 & 5 star establishments

Q19 If there is a need for more time-share resorts how would RCI react to the news that a major commercial bank was considering entering the timeshare industry as a developer and selling the resultant time-share weeks to its existing client base?

Q20 What ingredients, in the opinion of RCI, are needed to make a time-share resort successful?

Q21 In South Africa are there any other Exchange Resorts that compete with RCI?

Q22 Does RCI own any time-share resorts in South Africa?

Q23 Research conducted in the United States of America indicates that sales and marketing costs can vary between 40% and 55% of the total sales amount. This is one factor attributed to the “high cost” of a new timeshare interval. Are there ways that this substantially high cost can be reduced to make timeshare more affordable?

Q24 There are many risks associated with timeshare but the two risks that warrant special attention not only because they are considered to be higher than other risks but also because they are interrelated are

liquidity and marketability. Published literature indicates that if an owner wished to sell timeshare, it would often be difficult to find a purchaser interested in buying it at a reasonable price. In your opinion do you believe that these risks can be mitigated in any way?

Q25 A popular saying in the timeshare industry is ***timeshare is sold and not bought*** which leads to its high cost (marketing and selling costs make up 40 to 55% of the cost of sales in the timeshare industry). Do you believe that these costs can be reduced in any way?

Questions – Attorney Interview

Q1 The ownership of time-share can be in three forms, namely:

- Sectional Title
- Share Block
- Club,

What are the advantages / disadvantages of each form of ownership?

Q2 For each form of ownership what are the cost implications for the developer?

Q3 For each form of ownership what are the cost implications for the entity purchasing the time-share weeks?

Q4 For each form of ownership how would a financier secure themselves if they provided the finance to the end user?

Q5 In your opinion, which form of ownership taking the needs of the financier into account, would be the most cost effective (time & money) should a time-share owner default and this "time" needs to be resold?

Q6 In South Africa is timeshare sold as an investment product or as a consumer product?

Q7 There are many risks associated with timeshare but the two risks that warrant special attention not only because they are considered to be higher than other risks but also because they are interrelated are liquidity and marketability. Published literature indicates that if an owner wished to sell timeshare, it would often be difficult to find a purchaser interested in buying it at a reasonable price. In your opinion do you believe that these risks can be mitigated in any way?

Q8 A popular saying in the timeshare industry is ***timeshare is sold and not bought*** which leads to its high cost (marketing and selling costs make up 40 to 55% of the cost of sales in the timeshare industry). Do you believe that these costs can be reduced in any way?

ANNEXURE 3



TIMESHARE INSTITUTE OF SOUTHERN AFRICA

APPLICATION FOR MEMBERSHIP

DEVELOPER

P O BOX 2823, DURBANVILLE, 7551
TEL: +27 21 914 9693
FAX: +27 21 914 5202

TIMESHARE INSTITUTE OF SOUTHERN AFRICA
(TISA)
Application for Membership

Name of applicant: _____

Registered address: _____

If a company or Close Corporation, state name and address of each Director/Member:

	Individual Fidelity Certificate No with SA Estate Agents Board if applicable
Name: _____	_____
Address: _____	
Name: _____	_____
Address: _____	
Name: _____	_____
Address: _____	
Name: _____	_____
Address: _____	
Name: _____	_____
Address: _____	

Postal address: _____

_____

Tel: _____ Fax: _____

1. **AUDITORS:**

   Name: _____

   Address: _____

   Tel: _____ Fax: _____

   Contact Name: _____

2. **EXCHANGE ORGANISATION:**

   Name: _____

   Address: _____

   Tel: _____ Fax: _____

   Contact Name: _____

3. **ATTORNEYS:**

   Name: _____

   Address: _____

   Tel: _____ Fax: _____

   Contact Name: _____

4. **BROKERS**

Name: _____

Address: _____

Tel: _____ Fax: _____

Contact Name: _____

5. **MANAGEMENT COMPANY**

Name: _____

Address: _____

Tel: _____ Fax: _____

Contact Name: _____

Should you have any interest in such a management company please specify:

_____

6. **BANKERS**

Name: _____

Address: _____

Tel: _____ Fax: _____

Contact Name: _____

7. **INFORMATION REGARDING APPLICANT**

Date of incorporation: (i.e. creation) _____

Place of Incorporation _____

Company Register No: _____

Authorised Capital: _____

Issued Capital: _____

Paid up Capital: _____

Shareholders interest (A copy of the Balance Sheet may be called for)

Full Names of persons who (or associated persons who together) control more that 15 % of the voting power of the company:

_____

8. **HAS ANY DIRECTOR/MEMBER, CONTROLLER OF MANAGER OF THE APPLICANT WITHIN 5 YEARS PRIOR TO THE DATE OF THIS APPLICATION:**

(a) been convicted of an offence (excluding motor offences) the maximum penalty for which could involve imprisonment YES NO

(b) been interdicted by any Order of Court from undertaking the alienation of timeshare YES NO

(b) been declared insolvent or disqualified in terms of the Companies Act or Estate Agents Act from acting as a Director or Estate Agent, respectively YES NO

If the answer to any of these questions is YES, please give full details below:

_____

_____

ACKNOWLEDGEMENT:

THE APPLICANT HEREBY ACKNOWLEDGES THAT IT IS AWARE OF THE FOLLOWING:

- **Constitution of TISA**
- **The Code of Ethics**

And that upon acceptance as a member of TISA it undertakes to comply with all of the above. It also acknowledges that the above may be varied in terms of the particular constitution applying thereto.

Signed _____ Date _____

Name of Signatory _____

Capacity (a copy of the authorising resolution may be called for by TISA) _____

The documentation is divided in three sections:

SECTION 1 – DEVELOPERS

SECTION 2 – BROKERS

SECTION 3 – MANAGING ORGANISATION

It must be completed relative to the business of the applicant. If for example the applicant both acts as a broker, managing agent as well as a developer of projects, all sections must be completed.

TISA RESERVES THE RIGHT TO CALL FOR SUCH FURTHER INFORMATION OR DOCUMENTATION AS IT MAY REQUIRE FROM TIME TO TIME

SECTION 1

DEVELOPERS

Part 1 and Part 2 of this section must be completed in respect of all schemes (that is all projects developed or being developed)

If the legal basis of the Scheme is:

(a) Sectional Title then Part 3 of this form must be completed;
(b) Share Block then Part 4 of this form must be completed; or
(c) Other than Share Block or Sectional Title (e.g Lease, Voluntary) Association, Trust or other), then Part 5 of this form must be completed.

Part 1

Separate information must be given in respect of each scheme/project.

1.1 Name of Scheme/Project:

_____

1.2 Situation of Scheme/Project:

_____

1.2.1 Number of existing units _____

1.2.2 Number of proposed units _____

1.2.3 Number of modules _____

1.2.4 Modules sold to date _____

1.2.5 Percentage of units sold _____

1.2.6 Date project opened or to be opened for alienation _____

1.2.7 If timeshare interests have been alienated in a building which is not complete, an auditors certificate is required confirming the amounts held in trust or that guarantees have been issued in terms of Section 7(1) and 7(3) respectively, of the Property Timeshare Control Act.

1.3 Is the scheme/project situated on Urban or Agricultural land (as defined in Act 70 of 1970)

1.3.1 If Agricultural land is involved and the legal basis is otherwise that share block, has the requisite consent been obtained in terms of Section 3(e)(ii) of the Sub-Division of Agricultural Land Act, No 70 of 1970?

If yes, the consent should be annexed. YES NO

1.3.2 If Agricultural land is involved and the legal basis is share block, has the requisite consent been obtained in terms of Section 5(1)(a) of the Share Blocks Control Act?

If yes, a copy of the consent should be annexed. YES NO

1.4 Legal basis of each Scheme/Project: (e.g. Sectional Title, Share Block, Lease, Club, etc.)

_____

1.5 Is there a prohibition to the property timesharing scheme in the Title Conditions of the land?

_____

1.6 Is there a prohibition to the property timesharing scheme in the relevant Town Planning Scheme/By-laws/Zoning etc?

_____

_____

1.7 Date of intended occupation of accommodation is not completed.

_____

1.8 **What is the applicants title to the property? (e.g. Registered Ownership or Lease or Purchase on Deed of Sale)**

_____

NB **If the applicant is not the registered owner, sufficient evidence is required that the applicant is in a financial position to acquire the property.**

Copies of relevant documentation e.g. Copy of Title Deed or Lease must be attached

1.9 **Is the property bonded?** YES NO

1.10 **If bonded the registered amount of the bond and the name of the mortgagee.**

Amount R_____

Name and address of mortgagee: _____

_____

1.11 **Corporate Bodies: How constituted?**

_____

Copies of all documentation exhibited to a purchaser, or to be signed by him must be attached (e.g. Alienation Agreements, Use Agreements, applications for club membership, memorandum and Articles of Share Block Companies, body corporate rules and any other relevant documents including the title deeds of the relevant property.)

PART 2

2. REQUIREMENTS OF THE PROPERTY TIMESHARING CONTROL ACT NO 75 OF 1983

2.1 The undermentioned **must be completed with reference** to the Agreement of Sale, and with particular reference to the **page number** and **clause number** in the Agreement of Sale which complies with the various sections and regulations of the Property Timesharing Control Act. This is to enable us to check if the **Agreement of Alienation** complies with the Property Timesharing Control Act without **reading the whole Agreement.** It is extremely important that the relevant page number and clause number be inserted. If the document is different for various schemes/projects, then separate forms must be completed for each.

2.2 The first column indicates the section or regulation number in the Property Timesharing Control Act

2.3 If the legal basis of your scheme is **Sectional Title** then in the second column provided for Sectional Title, you must insert the clause number and page number of the Agreement of Sale which complies with the relevant section of regulation in the **first column** only.

2.4 If the legal basis of the Scheme is Share Block, then the relevant clause and page number of the Agreement of Sale is inserted in the **third column** only.

2.5 However, if the Legal basis of the scheme is any legal route other than Sectional Title or Share Block the relevant clause and page number is inserted in the **fourth column** only.

Section	Section Title Basis		Share Block Basis		Other Basis	
	Page No	Clause No	Page No	Clause No	Page No	Clause No
2						
3			not applicable			
4(1)			(Section 10 PTSCA)			
(a)						
(b)						
©						
(d)						
(e)						
(f)						
(g)						
(h)						
(I)						
(j)						
(k)						
(l)						
(m)						
(n)						
4(2)						
5(1)						
6(1)			not applicable			
(See reg 3)						
7(1)						
7(3)						

(a) Has an architect's certificate been issued and delivered to the purchaser concerned? YES NO

(If YES, a copy must be annexed)

(b) If not, are monies received deposited into a trust account as required by Section 7(3)(a) of the Property Timesharing Control Act? YES NO

If YES, supply: Clause number Page Number

(c) If not, has a guarantee in terms of Section 7(3)(b) been issued and furnished to the purchaser concerned? YES NO

If YES, a copy must be attached

Regulations

3 Is the applicant aware of the provisions of Regulations 3 to the Property Timesharing Control Act which deals with advertisement of timesharing Interests? YES NO

4 Regulation 4 provides that the developer must have certain written information or documents available for inspection at the location from which any timesharing interest is being sold. Is this so? YES NO

5(a) Page No Clause No

5(b) Page No Clause No

NB: Part 5 If the legal basis of the development scheme is anything older than sectional title or share block, then Regulations 6 to 14 of the Property Timesharing Control Act shall apply.

Compliance with these Regulations are dealt with under Part 5 hereunder

Part 3

SECTIONAL TITLE

This must be completed as far as possible by adding a general comment. For example under 3.1 you must state whether there has been compliance with the Sectional Titles Act. Furthermore, some of the answers may not be applicable. If this is so, this must be so indicated.

QUESTION	COMMENTS
3.1 The description of the sale object must be described as required by Section 2 of the Alienation of Land Act No 68 of 1981 and as decided by the Courts.	Sale object appears on PAGE NO at CLAUSE NO
3.2 If sale is on installments (i.e more than 2 payments over more that 1 year) Chapter II of ALA may apply and there are comprehensive disclosures.	(a) Does this apply YES NO (b) If YES, is there compliance? YES SEE CLAUSE NO (if necessary refer to an annexure)
3.3 Chapter III of ALA applies in all cases. In particular Section 26(3) which requires a guarantee for monies received by developer before the sectional title register is opened, which must be opened within 5 (five) years of date of sale in the deed of alienation.	(a) Has the Sectional Title Register been opened? YES NO (b) Will monies be retained in trust or not? YES NO (c) If NO who will give the guarantee? (d) Furnish copy of Guarantee as Annexure
3.4 The Common Law Incidents of co-ownership must be renounced (in particular that of partition).	PAGE NO CLAUSE NO
3.5 RULES 3.5.1 Do the Management Rules as envisaged in the regulations to the Sectional Titles Act apply:	 YES NO
3.5.2 If the Management Rules do not apply. What rules apply? A copy of Such rules must be furnished.	Attach Annexure
3.5.3 Any variation to the Management Rules must be furnished.	Attach Annexure
3.6 Is provision made for the costs of the Section 15 (9) Certificate by the purchaser as this is primarily a responsibility of the developer?	YES NO PAGE NO
3.7 Transfer duty, since it is based on an undivided share in immovable property - is calculated in terms of Section 2(5) of the Transfer Duty Act.	Is the Developer aware of this? YES NO
3.8 The 1986 Sectional Titles Act introduces new concepts, some of which are as follows:	
3.8.1 There must be specific disclosures in the Deed of Sale	PAGE NO CLAUSE NO
3.8.1.1 Section 25(14) - where a developer has reserved the right to extend the scheme, such right must be disclosed in the Deed of Alienation.	(a) Is this so? YES NO (b) If YES, state PAGE NO CLAUSE NO
3.8.1.2 Section 32(4) – any change to the area of the unit (i.e. participation quota) serving as a basis for the levy must be disclosed in the Deed of Alienation	(a) Is this so? YES NO (b) If YES, state PAGE NO CLAUSE NO

3.8.1.3	Section 32(2)(b) – where a developer alienates a unit before the Sectional title register is opened, and there is a residential and other use of the accommodation, there must be disclosure in the deed of alienation of the participation quota of those residential units.	(a) Is this so? YES NO (b) If YES state PAGE NO CLAUSE NO
3.8.1.4	Section 44(1)(g) – the sectional plan may indicate expressly or by implication the purpose for which a section is intended to be used for time-sharing.	What does the plan provide?

Part 4

SHARE BLOCK

This must be completed with reference to the Agreement of Sale and with particular reference to the page and clause number in the Agreement of Sale which complies with the various paragraphs of Schedule 2 to the Share Block Control Act

		Page No	Clause No
4.1(a)(i) The name, address of the registered office;			
	(ii) The transfer office;		
	(iii) Postal address and date of incorporation of the company which operates in the Share Block Scheme;		
	(iv) The address at which its financial records are kept		
(b)	If appropriate, the name and address of its holding company.		
4.2 DIRECTORS AND MANAGEMENT			
(a)	The names, occupations and addresses of the directors of the company (specifying who the chairman and managing director are, if any) and their nationality, if not South African.		
(b)	The term of office for which a director is or has been appointed, and particulars of any right held be any person in respect of the appointment of any director.		
(c)	Particulars of the remuneration of directors in their capacity as directors and in any other capacity.		
(d)	If the Share Block Scheme is managed by a third party under an agreement or arrangement;		
	(i) The name; and		
	(ii) The address of that third party; and		
	(iii) a statement as to whether or not any money relating to the Share Block Scheme is entrusted to him.		
(e)	The borrowing powers of the company exercisable by the directors, and the manner in which such borrowing powers may be varied.		
4.3 AUDITOR			
	(i) The name; and		
	(ii) address of the auditor of the company		
4.4 SECRETARY			
	(i) The name; and		
	(ii) address; and the		
	(iii) Professional qualifications, if any, of the secretary of the company.		
4.5 PROPERTY			
(a)	A description and the extent of the immovable property owned or leased by the company.		
(b)	A description of the part of the immovable property which will be the subject of the right to use by the purchaser.		
(c)	If the company does not own the immovable property;		
	(i) the name and address of the registered owner; and		

	(ii) the terms on which the company leases the immovable property.		
(d)	If the immovable property in respect of which the Share Block Scheme is or is to be operated is or is proposed to be mortgaged:		
	(i) the name and addresses of the person, or his representative, or in the case of a participation bond, the name and address of the nominee company, or its representative, in favour or whom the mortgage bond over that immovable property is or is to be registered;		
	(ii) the registered capital amount and duration of the mortgage bond, and the terms and conditions as to repayment of capital and payment of interest;		
	(iii) the annual rate of the interest payable in respect of the loan secured by the mortgage bond.		
(e)	The date upon which the purchaser becomes entitled to the use of the part of the immovable property referred to in 4.5 (b).		
(f)	If the seller is aware that a sectional title register cannot be opened under section 5 of the Sectional Titles Act in relation to the immovable property in respect of which the share block scheme is or is to be operated, a statement to that effect.		
4.6 PARTIES TO THE CONTRACT **The names of the parties to the contract and their respective ordinary residential or business addresses in the Republic.**			
4.7 SHARE WHICH IS SUBJECT TO THE CONTRACT:			
(a)	A description of the share which is the subject of the contract.		
(b)	If the share is not registered in the name of the seller when the contract is entered into, the name and address of the person in whose name it is registered.		
(c)	If the share is sold by a share block developer, the number of shares held and not held by the share block developer when the contract is entered into.		
4.8 PURCHASE PRICE UNDER THE CONTRACT			
(a)	The amounts included in or payable in addition to the amount of the purchase price to be paid under the contract, specifying the matter in respect of which each such amount is to be paid, but excluding any amount payable as a penalty or damages for breach of contract or by way or interest on arrear payments.		
(b)	The annual rate of which interest, if any, is to be paid.		
(c)	The amounts in which the purchase price is to be paid.		
(d)	The due date or the method of determining the due date of each payment.		
(e)	The place where payments are to be made.		
4.9 CONTRIBUTION TO THE LEVY FUND The amount of the contribution which, when the contract is entered into, is to be made in respect of the share which is the subject of the contract, for the benefit of the levy fund established by the company for the purposes of the share block scheme.			
4.10LOAN OBLIGATION OF THE COMPANY			

(a)	The total amount of the company's loan obligation, as reflected in it's financial statements at the end of the accounting period contemplated in Section 15(5)(b) and ended not more than nine months before the date of contract.		
(b)	The amount and terms of redemption of any loan comprised in the company's loan obligation which, at the date contemplated in 4.10(a), may be redeemed otherwise than in accordance with a resolution contemplated in Section 14(1) or upon the liquidation of the company.		
(c)	The annual rate of the interest payable in respect of any such loan.		
(d)	If the seller is a member of the company, the rights in relation to the loan obligation of the company ceded by him to the purchaser.		
(e)	The balance of the amount which the purchaser is obliged to pay to the company in relation to its loan obligation.		
(f)	In so far as the seller is aware a statement in relation to any resolution which may have been passed by the members of the company to increase its loan obligation.		
4.11 INSURANCE The name and address of the insurance company which insured the immovable property, the amount of the insurance cover and the nature of the risks covered and, if no such insurance has been effected, a statement to that effect.			
4.12 DOCUMENTS TO ACCOMPANY THE CONTRACT These shall be annexed to the contract.			
(a)	A copy of the relevant use agreement which is to apply between the company and the purchaser, and a statement by the seller as to any material difference between it and any other such agreement between the company and any member thereof having rights and obligations similar to those of the purchaser, of which the seller is aware;		
(b)	a statement setting out the number of shares allocated in respect of each part of the immovable property which is or may be the subject of a use agreement, and the amount each member is obliged to pay to the company in respect of each such part in respect of its loan obligation;		
(c)	a copy of the latest audited annual financial statements of the company and a statement by the seller as to any material changes in the state of affairs of the company since the date of those statement of which the seller is aware or, if such statements are not available, a statement to that effect;		
(d)	if any application in terms of the Sectional Titles Act has been or is to be made for the approval of a sectional plan in respect of any building on the immovable property, a statement as to where and when the relevant sectional plan may be inspected.		
4.13 Does Section 8A of the Share Blocks Control Act apply?		YES	NO
(a)	Does the contract state whether the company intends opening a sectional title register?	If yes, provide CLAUSE NO PAGE NO	

(b)	If the company does intend to open a sectional title register, has the guarantee in terms of Section 8A(2) of the Share Blocks Control Act been furnished to the purchaser?	YES If yes, a copy must be annexed.	NO
4.14	If the Scheme is situated on agricultural land, has the Requisite consent in respect of Section 5(1)(a) of the Share Blocks Control Act been obtained?	YES If yes, a copy must be annexed.	NO
4.15(a)	Is the basis upon which the levy is calculated disclosed	YES	NO
(b)	If yes, which document contains the information?	CLAUSE NO PAGE NO	
(c)	If not, is the applicant aware of the provisions of Section 13(2) of the Share Blocks Control Act	YES	NO
4.16(a)	If the company intends to increase its loan obligation or encumber any of its assets, has the necessary disclosure been made in terms of Section 14(6) of the Share Blocks Control Act? If yes, state	CLAUSE NO PAGE NO	
(b)	If not, is the applicant aware of the provisions of Section 14(1) of the Share Blocks Control Act?	YES	NO
4.17(a)	If provision made that a member shall be entitled to the use of specified part of the immovable property?	YES	NO
(b)	Which document contains the information?	CLAUSE NO PAGE NO	

Part 5

LEASE, VOLUNTARY ASSOCIATION, TRUST CLOSE CORPORATION OR OTHER

5.1	**LEASE**		
	This must be completed as far as possible by adding a general comment.	PAGE NO	CLAUSE NO
5.1.1	Landlord		
5.1.2	Tenant		
5.1.3	Description of Timesharing Interest		
5.1.4	Description of land		
5.1.5	Period of lease		
5.1.6	Rental		
5.1.7	Stamp duty is payable on the lease. Who pays?		
5.1.8	Has a Managing Agent been appointed as required by Regulation 6 of the Property Timesharing Control Act?	YES	NO
5.1.9	Is the applicant aware of the provisions of Regulations 7, 8, 9, 10, 11, 12 and 13 of the Property Timesharing Control Act?	YES	NO
5.1.10	Are levies uniformly as required by Regulation 14 to the Property Timesharing Control Act?	YES If yes, supply CLAUSE NO PAGE NO	NO
5.2	**VOLUNTARY ASSOCIATION**		
5.2.1	Is the voluntary association a body corporate under the common law knows as a universitas?		
5.2.2	Is the voluntary association and unincorporated body corporate?		
5.2.3	Who are the founder members – names and addresses (attach a list of names and addresses is more convenient)		
5.2.4	A copy of the constitution must be attached.		
5.2.5	Does the constitution comply with the common law?		
5.2.6	Is membership transferable	YES Does the constitution specifically provide for this	NO
5.2.7	How are voting rights regulated?		
5.2.8	Has a Managing Agent been appointed as required by Regulation 6 of the Property Timesharing Control Act?	YES	NO
5.2.9	Is the Applicant aware of the provisions of Regulations 7, 8, 9, 10, 11, 12 and 13 of the Property Timesharing Control Act?	YES	NO
5.2.10	Are levies levied uniformly as required by Regulation 14 to the Property Timesharing Control Act?	YES If yes, supply CLAUSE NO PAGE NO	
5.3	**If the legal basis is anything other than the aforegoing the full particulars thereof must be furnished and TISA reserves the right to ask further detailed questions in regard to such a scheme.**		

TIMESHARE

CODE OF CONDUCT

CONTENTS

1. Introduction
2. Underlying Principle
3. Terms & Definitions
4. National and Local Laws and Regulations
5. Statutory Information for Timeshare Advertisements
6. Conformity to the ASA Code
7. Information, Descriptions and Disclosures
8. Avoidance of False or Deceptive Statements
9. Correspondence
10. Resale and Rental Value
11. Off-site Personal Contact (OPC)
12. Benefits Involving Gifts and Certificates
13. Gift Incentive Programmes
14. Agreements
15. Revision Period
16. Auditors Certificate – Conventional Timeshare
17. Auditors Certificate – Points or Club Timeshare Schemes
18. Telephone Communications
19. Exchange Programs
20. Administration

Annexure A: Certificate of Purchase – Conventional Timeshare
Annexure B: Certificate of Purchase – Clubs and Points Schemes
Annexure C: Provisions specifically applicable to TISA members

1. INTRODUCTION

This Code is intended to govern business practices within the Timeshare Industry by protecting the interest of both consumers and the Industry and promoting an equitable, negotiated balance between these interests.

The Code is a codification of accepted principles in the Industry and it seeks to provide for the continued self-regulation of the Industry. As such, the Code does not replace whatever rights or remedies a consumer may have by virtue or any agreement, the common law or any Act of Parliament.

The objective of the Code is to maintain an equitable balance between the interests of consumers and those of the Industry, through fostering and maintaining enhanced levels of service, a high standard of business ethics and sound business practices, so as to enhance the positive image and viability of the Industry.

2. UNDERLYING PRINCIPLE

2.1 All activities subject to this Code, shall be designed to be honest and fair and to be conducted with integrity, dignity and propriety

2.2 This Code involves all forms of contracts, print, oral representations, advertising, sales, re-sales, exchanges, rentals, administration, solicitations and all other Industry related activities.

2.3 All activities, conducted by any member, its subsidiaries, servants or employees, shall conform to the provisions of this Code and shall not bring timesharing into disrepute or reduce the confidence of the public in the timesharing Industry as a reputable service to the community.

3. TERMS AND DEFINITIONS

3.1 The words and expressions used herein shall have the same meaning as those used in the Property Timesharing Control Act, No 75 of 1983 and or The Share Block Control Act No 59 of 1980 and or The Sectional Titles Act No 66 of 1971 ("The Acts"), unless the context otherwise indicates.

3.2 "Timeshare activity" includes feasibility analysis, planning, financing, site selection, acquisition, design, applications, approvals, site preparation, construction, marketing, sales, re-sales, management, operations advertising and promotional activities and any processes relating to timeshare,

3.3 "Advertising Activity" includes the solicitation for the purchase of timesharing interest through any print or electronic media advertising, direct mail activity, sales literature, telemarketing, direct marketing, placards, billboards, outdoor or indoor display media and sales literature whether

distributed by hand, by mail, by door-to-door delivery or with personal correspondence, direct or indirect oral representations.

3.4 "Promotional activity" shall mean direct person to person advertising or contact with a view to the promotion of timesharing, whether by telemarketing or direct marketing through personal solicitation on-site or off-site, through any on-site or off-site sales, presentation or any transaction including any personal or electronic communication, audio visual programs, telephone communication, site visit or tour, or other direct selling activity.

3.5 "Property Timesharing Scheme" includes the words: Timeshare, Timesharing Scheme, Vacation Investment, Vacation Portfolio, alternate form of Timeshare, Resort, Development, Club, Points System, Holiday Portfolio, Holiday Investment Scheme and Exchange System.

3.6 "Timesharing Interest" inter alia includes the words: Timeshare, Conventional Timeshare, Vacation Investment, Points, Units, Stars, Stamps, Bonus Breaks, Mini-vacs, Weeks, Mid-weeks, Sequences, Intervals, Trading Power, Holiday Credits, Holiday Portfolio. Holiday Pack.

3.7 "Levies" inter alia includes the words: Charges, fees, subs, management charges or fees, subscription charges or fees, owners dues, members contributions, membership, membership fees and/or charges, premiums, special levies

3.8 "Alienation of a Timesharing interest" includes any activity involving, exchange, on-site or off-site sales presentation, transaction including any personal communication, audio visual program, site visit or tour, transaction, solicitation, exploitation, sales or other transaction, document, description, disclosure, direct mail offer, internet e-mail or e-commerce offer or solicitation, closing or post-sale service.

3.9 "Purchaser" means anyone who has acquired a timesharing interest by means of alienation from another person, body or organisation. The seller shall have a corresponding meaning in respect of anyone who alienates a timeshare interest.

3.10 "Member" means any person, body or organisation who is active in the alienation of timeshare by means of sales, marketing, exchange, trading in, cession or otherwise, development or managing of timeshare resorts, exchange or dealing with timesharing interests or who is active in any aspect of timeshare.

4. NATIONAL AND LOCAL LAWS AND REGULATIONS

4.1 The provisions of this Code shall apply except where laws or regulations in the applicable jurisdiction provide otherwise.

4.2 All timeshare activities subject to this Code shall comply with local, Provincial and National (and where applicable international or other non-domestic) laws and regulations.

5. STATUTORY INFORMATION FOR TIMESHARE ADVERTISEMENTS

5.1 All advertisements shall comply with the relevant provisions of the Regulations and or the Acts.

5.2 The type and size of the statutory information to be disclosed in terms of any applicable Act or Regulations may not be materially smaller than that of the body copy of the advertisement.

6. CONFORMITY TO THE ASA CODE

6.1 All advertisements relating to timeshare must conform to the applicable clauses of the Code of Advertising Practice of the Advertising Standards Authority. However, approval by the ASA of any advertisement does not override anything contained herein.

7. INFORMATION, DESCRIPTIONS AND DISCLOSURES

7.1 Information, descriptions and disclosures used in any solicitation, alienation advertising or promotional activity must be accurate and clear.

7.2 If written, the information, descriptions, or disclosures must be easily located, conspicuous and readable.

7.3 All members employing personnel must satisfy themselves that such persons acting on their behalf, have access to all the relevant information or documents which must be made available for the benefit of, or inspection by, a prospective purchaser in terms of the applicable Acts / Regulations. All personnel employed by members must understand their obligations in respect of The Acts.

7.4 Members shall be responsible for the actions of their employees / agents.

7.5 Oral sales presentations and descriptions of the timesharing interest to be alienated may not differ in any detail from that described in the sales documentation. If the timesharing interest being offered is variable, limited, partial, or qualified in any way in the contract these aspects must be fully and accurately explained by the sales persons, and reflected in the documentation. If the timesharing interest relates to a Club, Points scheme, or any other scheme whereby the usage of the timesharing interest is subject to management rules, these aspects must be accurately explained by the sales person.

7.6 The timeshare interest must be accurately presented, without exaggeration. Sales persons may not discourage prospective purchasers from obtaining further information of the particular Property Timesharing Scheme.

7.7 If the timeshare resort is incomplete, a schedule, based on reasonable estimates of completion dates of the relevant facilities, shall be provided to the prospective purchasers.

7.8 Representations may not be made to the effect that there is a limited time for the prospective purchaser to accept the terms of an offer when, in fact, this is not the case.

7.9 The provisions of Clause 15 of this Code shall be fully explained to any prospective purchaser.

7.10 The arrangements made for the provision of a management service must be explained to the prospective purchaser and the current levy must be disclosed.

7.11 Prospective purchasers of timeshare must be afforded sufficient opportunity to read the Agreement of Alienation before signature.

7.12 Purchasers must immediately after signature of sales documentation be provided with a full copy of all such documentation and all other documents which are referred as part of the sales agreement. (See clause 14 below.)

8. AVOIDANCE OF FALSE OR DECEPTIVE STATEMENTS

Statements, presentations, descriptions, literature or documents used in any advertising, promotional or alienation activities:

8.1 May not convey false or misleading information about the product, the costs / charges or the exchangeability of the product.

8.2 May not omit material information without which it could have a deceptive or misleading effect on the consumer's decision to purchase.

8.3 Must be consistent.

8.4 Must be easily understandable by consumers.

9. CORRESPONDENCE

9.1 All members shall answer written requests from or on behalf the public in a reasonable and prompt manner, but in any event within no more than 4 (four) weeks from receipt thereof.

9.2 If it is not possible to provide a full answer to the written request within the 4 (four) week period, a response explaining the situation must nevertheless be made within that time and a final response must be made within a further 4 (four) weeks.

10. RESALE AND RENTAL VALUE

An organisation/agent engaged in timeshare resales activity shall:

10.1 Not knowingly convey false, untrue, deceptive or misleading information through oral or written statements, testimonials, photographs, audio visual programming, electronic media or any other means.

10.2 Not knowingly include or exclude information which would cause the statements to be deceptive or misleading, or which would materially and adversely affect the prospective buyers' or sellers' decision making.

10.3 Not knowingly convey false, untrue, deceptive or misleading information to a timeshare owner of the resale market value of a timeshare interest.

10.4 State, in writing, when requested by the seller, the steps that will be taken to promote the sale of the seller's timeshare interest.

10.5 Not collect any advance fee where prohibited by applicable law.

10.6 Maintain records of completed timeshare resale transactions, including, but not limited to, the actual sales price paid.

10.7 Neither state nor imply that the organisation/agent is approved, endorsed or, in any way, affiliated by a Resort, an Exchange Company a Resort Management Company or a Resort's Owners' Association or its Board of Directors, unless such approval, endorsement or affiliation is rendered in writing by the endorsing, approving or affiliating entity.

10.8 Not accept either the use or occupancy rights to a timeshare interest for any purpose without first providing the timeshare owner full written disclosure of all applicable terms and conditions relating to such acceptance of Use or Occupancy Rights from the timeshare owner.

10.9 Trust accounts shall be maintained by any organisation/agent engaged in timeshare resales activity in full accordance with all applicable laws and regulations.

10.10 The sales contracts used by a organisation/agent engaged in timeshare resales activity shall clearly state the first year in which the purchaser will receive the actual Use Rights and occupancy of the unit, as determined by the Resort or the Resort Management, as well as any Exchange Companies.

10.11 The resort and, if applicable, the Management Company shall cooperate with the organisation/agent engaged in timeshare resales activity in providing its use and occupancy criteria promptly to the organisation/agent requesting the information.

10.12 To facilitate and expedite the negotiation, contracting, closing and funding of timeshare resales, organisation/agents engaged in timeshare resales activity, Resorts, Management Companies, Owners' Associations, Exchange Companies and all other applicable TISA members, shall provide the timeshare purchaser with the relevant information as required by the applicable legislation inter alia but not limited to the current actual levy/maintenance fee and date of the purchaser's liability for the payment of same as well as the date of first occupation by the purchaser; For purposes of this paragraph, a organisation/agent engaged in timeshare resales activity may reasonably rely upon information about the resort provided in writing by

the Resort's Management Company, its Owners' Association or its Board of Directors.

10.13 An organisation/agent engaged in timeshare resales or rental activities shall comply with all applicable Estate Agency regulation laws as contained in the Estate Agents Act No 112 of 1976(as amended).

10.14 Timesharing may only be presented in advertising and promotional activities as an investment in affordable holidays and not as a financial investment in terms of rental yield, return on investment or capital gain on resale.

10.15 If claims are made in advertising or promotional activities regarding the potential resale or rental value of the timeshare interest such claims must be presented accurately and clearly and must be based on current factual data.

10.16 Members dealing with the resale of timeshare shall clearly disclose in writing to potential sellers any contractual relationships or personal interests they have relating to the Timeshare they are promoting. They should particularly disclose if they have any economic or ownership interest in the item offered for sale.

10.17 In the case of a resale or rental on behalf of another party, the member shall obtain from such party a mandate in writing, which shall inter alia contain the basis of calculating the commission on the transaction.

10.18 In the event of a member charging a listing or advertising fee in respect of a resale transaction, the member must disclose in writing to the seller the form of advertising and/or manner of promoting such resale.

10.19 All Resale Transactions are subject to the provisions of Clauses 14 and 15 below.

11. OFF-SITE PERSONAL CONTACT (OPC)

11.1 Any persons engaged in soliciting visits to a timeshare resort or attendance at a presentation of timesharing interests by direct contact in public places (OPC personnel), must be respectably dressed and identified by a badge indicating the name of the person, their employer and the timeshare scheme.

11.2 OPC personnel must be made aware of this Code of Conduct and may not make any statements or promises or behave in any way contrary to the Code.

11.3 No OPC activity, as described in 11.1, shall take place on public beaches, in swimming pool areas or in other areas which are used primarily for relaxation.

11.4 OPC personnel must act and/or operate in accordance with the requirements of local authorities.

11.5 OPC personnel shall not undertake any activity which constitutes harassment of the public.

12. BENEFITS INVOLVING GIFTS AND CERTIFICATES

12.1 Programmes that include the offer or distribution to consumers of gift incentives, which include certificates, coupons, vouchers, cheques, stamps or any other documents representing something of value, visits to a timeshare resort or attendance at any activity involving the alienation or promotion of timesharing interests, must, over and above the relevant statutory requirements, comply with the following requirements:

12.1.1. Any restrictions or conditions relating to the granting of the gift, its redemption or use of the certificates must be fully disclosed and precisely described at the time when such gift is offered to the public.

12.1.2. The document describing the gift incentive must clearly disclose any expiry date.

12.1.3. Lengthy delays, onerous procedures or any other restricting conditions that have the purpose or effect of delaying the granting of the gift incentive or of discouraging its redemption or use may not be imposed.

12.1.4. Should the public be required to pay any money in order to make effective use of the gift incentive, certificate or document thus distributed (including for example a 'reservation or administration fee'), such condition must be disclosed at the outset. No consideration or money may be made payable or accepted until the potential purchaser is made aware of all the terms, conditions and obligations upon which receipt of the benefit are contingent.

12.2 Whether or not any payments are involved, all terms, conditions and obligations upon which receipt of the benefits are contingent, must be clearly explained to the recipient and in particular must clearly disclose

12.2.1 The purpose and approximate duration of the promotional activity.
12.2.2 Whether participation in a sales presentation relating to a timesharing interest or tour of the timeshare resort is necessary in order to receive the benefit.
12.2.3 Whether any purchase is necessary in order to receive the benefit.
12.2.4 Whether any additional costs / payments are necessary in order to make a gift usable.

12.3 Additional or different restrictions or conditions may not be imposed subsequent to the original approach.

12.4 Electronic Media Advertisements

Advertising or promotional activity using electronic media advertisements (i.e. radio, television, internet etc.) need not provide all of the disclosures required by this Code but advertisements and promotional activity must be accurate and consistent.

13 GIFT INCENTIVE PROGRAMMES

13.1 Advertising or promotional activities may not state or imply that it is made by or originates from a government or public agency or part of any legal proceedings.

13.2 Advertising or promotional activity may further not lead persons to conclude that the material is issued by or on behalf of a recognised mail, delivery or communications service to which the member is not related.

13.3 References in advertising or promotional activity to professional persons may not mislead as to their functions. (For example, it is misleading to refer to a notary public for any function other than notarising a statement or signature, to an accountant for other than a statement of financial condition, to an attorney for other than a legal opinion, etc.)

13.4 Gifts offered in any such promotional activity must be on display at point of sale where the gift incentive programme is operated and must be readily available for distribution.

13.5 The value of a gift may not be inflated by a member. When presented along with price information, that information must reflect the true market value of the item at retail value or be based upon reasonable calculations if the item is not normally available for sale. (As a guideline, the price quoted as the retail market value should not exceed 4 (four) times the actual cost to the developer or marketing company).

13.6 The names of people who claim and receive gifts worth more than R500.00, together with a declaration of the total number of gifts claimed during the period, must be displayed by the member for the minimum period of one month at each point of sale at which the gift incentive programme (that is part of the promotional activity) is operated and must be made available to anyone on request during the same period to make manifest to the public what gifts of high value are being distributed.

13.7 If the premium or gifts are offered by a member subject to a right to substitute items of equal or greater value because the item offered is not available on the market, disclosure of this fact must be included in the advertising or promotional activity

13.8 If the gifts, or their substitutes, cannot be distributed at the time of offer, they must be delivered by the member within 30 days without requiring further cost, time or travel by the recipient of the gift.

13.9 The personnel of any member and its marketing company, sales organisation, promotional company or advertising company involved in conducting any gift incentive programme and their immediate relatives, are precluded from receiving any benefits from the programme.

13.10 Members of the public may not be referred to as 'winners' told that they have 'won' an item, or be informed that the item is a, 'prize', 'gift', or is 'free, unless this is factually and undisputedly the case.

13.11 Any terms, conditions and obligations upon which the gift is contingent, must be clearly and conspicuously set out by the member so as to leave no reasonable probability that the terms of the offer might be misunderstood.

13.12 All gift and incentive programmes must at all times comply with the provisions of The Lotteries Act

14. AGREEMENTS

14.1 Agreements for the alienation of timeshare must contain easily understandable terms and must precisely describe the timesharing interest being alienated.

14.2 The Agreement of alienation together with all required documentation must be made available to the purchaser(s) before signing to enable them to peruse the documentation. The prospective purchasers may not be discouraged from seeking professional advice.

14.3 In addition to the purchase price, the purchaser's responsibility for any other costs in connection with the transaction must be fully and clearly disclosed in the Agreement.

14.4 The payment obligations of the purchaser, in respect of payment date and terms, must be disclosed and fully detailed in the Agreement.

14.5 All alienation Agreements must be accompanied by the relevant Industry "check-list" entitled a "Certificate of Purchase", which explains the essential elements of the alienation agreement. A copy of the certificate of purchase must be handed to the purchaser at time of signature of the Agreement.

14.6 The Certificate of Purchase for sales relating to Conventional Timeshare and for sales relating to Points/Club systems are attached hereto marked Annexure "A" and "B" respectively.

14.7 The attached Certificates of Purchase contain the standard clauses and constitute the minimum requirements to be acknowledged by the purchaser. Members may add additional Clauses to the relevant Certificate but may only amend or alter the standard Clauses with the prior written approval of TISA

14.8 All Alienation Agreements must include all the relevant statutory and or contractual documents, eg The Use and Occupation Agreement, the house rules, disclosure schedules, the Constitution, Scheme Rules, Usage value guide, last financial statements, etc.

14.9 TISA may from time to time prescribe that additional documentation is handed to the purchasers at point of sale to ensure compliance with this Code eg Club or Points stock listings, Certificate of purchase.

15. REVISION PERIOD

15.1 Every Agreement which provides for the alienation of a timesharing interest, shall contain the following provisions, without alteration:

15.1.1 The Purchaser is entitled to terminate this agreement in writing within 5(five) days of signature of the Agreement by the Purchaser, (Saturday, Sunday public holidays and the day of signature are excluded)

15.1.2 The written notice of termination by the Purchaser must be received by the Seller at its stipulated address within the 5 (five) day period,

15.1.3 Only notice by way of facsimile, telegram, phonogram or receipted hand delivered letter, received by the Seller within the stipulated period at the sellers stipulated address, shall constitute compliance with Clause 15.1.1

15.1.4 Upon termination of the Agreement in terms hereof, the Seller shall immediately and in full refund any payments made by the Purchaser.

15.1.5 The seller shall within 14 days return any Share Certificates, Title Deeds or other documents handed over in terms of this Agreement.

15.2 The Agreement shall clearly disclose the notification address of the Seller, which address shall include the appropriate facsimile and telephone number where the notice of termination may be delivered or sent.

15.3 The revision and/or termination rights conferred in terms of this Clause may not be waived, cancelled or abandoned.

16. AUDITORS CERTIFICATE - Conventional Timeshare

16.1 A timeshare resort / company shall be obliged to furnish TISA with a certificate from an Auditor, in such form as the TISA may from time to time require, inter alia verifying that:

16.1.1 All monies arising from the alienation of timeshare in that timeshare resort have been dealt with in terms of all applicable statutory provisions and Agreement between the Developer, the Scheme, the Seller, the Bondholder and/or the Purchaser.

16.1.2 In the event that the timeshare resort is based on the Share Blocks Control Act No 59 of 1980, the certificate shall in particular verify that the Developer has complied with Sections 14 and 15 of that Act.

16.1.3 In respect of other timeshare schemes / company's , that any bond or loans over the timeshare resort have been dealt with in terms of Sections 14 and 15, as if they are loan obligations as referred to in the said sections and are being repaid as stipulated by these sections.

16.1.4 The levies due and payable by the developer and the levies payable by any entity liable for payment of 7.5% (seven point 5 percent) or more of the levy income, have been paid in full as at the date of certificate

16.1.5 The name of the registered owner or lessor of the property on which the Timesharing Scheme is operated

16.1.6 The cash reserves of the scheme as a percentage of the annual levy income.

16.1.7 A copy of the last audited financial statements or interim financial statement of the Resort

16.2 The Auditors Certificate shall be furnished within six months of timeshare first being offered for alienation in the timeshare resort and shall thereafter be furnished at six monthly intervals.

16.3 In the event that the bond over the property or Developers loans have been fully discharged and the developer holds less than 7.5% (seven point five percent) of the timesharing interests in the timeshare resort, the Developer shall, after the Auditors have filed a report to this effect, no longer be obliged to furnish such an Auditors Certificate, whilst these reported conditions remain.

16.4 An Auditor shall mean an Auditor as defined in the Regulations to the Sectional Titles Act No. 95 of 1986.

17. AUDITORS CERTIFICATE – Points or Club Timeshare Schemes

17.1 A Developer / Directors / Trustees or Management Association of a Points or Club based Timeshare Scheme shall be obliged to furnish TISA with a certificate from an Auditor, in such form as TISA may from time to time require, inter alia verifying:

17.1.1 That all monies arising from the alienation of timeshare in that timeshare scheme have been dealt with in terms of all applicable statutory provisions and any agreement between the Developer, the Scheme, the Seller, the Bondholder and/or the Purchaser.

17.1.2 That the levies due and payable by the developer to the scheme and the levies payable by the Scheme have been paid in full as at the date of certificate.

17.1.3 The Auditors Certificate shall be furnished within six months of timeshare first being offered for alienation in the Points/Club scheme and shall thereafter be furnished at six monthly intervals.

17.1.4 The name of the registered owner(s) or lessee of the various properties forming part of the Points/Club timesharing scheme.

17.1.5 The allocation and distribution of Points/Units/trading power to the stock registered or held by the scheme and the comparable value or allocation held by the participants to the scheme.

17.2 An Auditor shall mean an Auditor as defined in the regulations to the Sectional Titles Act No.95 of 1986.

18. TELEPHONE COMMUNICATIONS

18.1 **Prompt Disclosure**:

All telephonic communications with prospective purchasers, relating to the alienation of Timeshare, should disclose promptly the name of the company and that the purpose of the contact has to do with the selling of timeshare interests.

18.2 **Terms**:

All offers should be clear and complete so that the recipient of the call will know the exact nature of what is being offered, the commitment involved and any terms or conditions.

18.3 **Reasonable Hours**:

All such telephonic communications shall be made during reasonable hours but in any event no earlier than 08H00 and no later than 21H00.

18.4 **Removal**:

Members must remove the name and details of any person from their telephone lists when requested to do so.

18.5 **Restricted Contacts**:

Members must avoid calling telephone subscribers who have unlisted or unpublished telephone numbers unless a prior relationship exists.

18.6 **Automatic Dialling Equipment**:

No member may use automatic dialling equipment unless the equipment releases the line immediately when the called party disconnects.

19. EXCHANGE PROGRAMS

19.1 Exchange Programs, Reciprocal Use Programs and all other programs in which other location Use Rights or privileges of any kind are offered as a secondary benefit to the consumer in a solicitation or the sale of a timeshare interest, must be represented accurately and clearly.

19.2 The party representing the exchange company may not represent opportunities to the consumer as being greater than is probable for the Timesharing interest being offered.

19.3 The Seller must provide the consumer with information on the program prior to the execution of a contract for the sale of a timesharing interest, which information must include :

19.3.1 The name and address of the exchange company;

19.3.2 A statement that the consumer's contract with the exchange company or organisation is a contract separate and distinct from the consumer's contract with the Seller of the timesharing interest;

19.3.3 A statement as to whether the consumer's participation in the program is voluntary or mandatory;

19.3.4 An accurate description of the procedure to qualify for and to effect exchanges, reciprocal use, or similar rights or privileges;

19.3.5 A description of limitations, restrictions or priorities used in the operation of the exchange program, including limitations based upon season, unit size, or level of occupancy and, in the event that limitations, restrictions, or priorities are not uniformly applied by the program, a clear description of the manner in which they are applied;

19.3.6 Whether exchanges, reciprocal use or similar rights or privileges are arranged on a space-available basis and whether any guarantees of fulfilment of specific requests are made by the program;

19.3.7 The fees, range of fees or fees for various levels of participation and exchange by consumers in the exchange program and;

19.3.8 Whether and under what circumstances a consumer, in dealing with a timesharing exchange program, may lose the use and occupancy of a properly applied for timesharing exchange without being provided with substitute accommodation

19.4 The above provisions in this section shall apply only to initial offers or contracts and not to renewals offered by the exchange company.

20. ADMINISTRATION

The Code will be administered by TISA.

TISA will provide for dispute resolution between consumers and the Industry.

Any purchaser of timeshare who has a complaint may write to TISA directly.

TISA may resolve the dispute through conciliation, mediation or arbitration.

In the event of a TISA member contravening the provisions of the code then the disciplinary body of TISA may apply punitive or compensatory measures against the member.

TISA will refer information regarding non-compliance with statutory provisions to the appropriate authorities', and applicable unresolved consumer issues to the Consumer Affairs Committee

TISA's address is:

TISA
P O Box 2823
Durbanville
7551

Email: tisa@tisa.co.za
Tele No: +27(0)21 914 9693
Fax No: +27(0)21 914 5202

ANNEXURE A
CERTIFICATE OF PURCHASE - CONVENTIONAL TIMESHARE
(delete options which are not applicable)

This is to certify that I, _____, by signature hereof confirm that I understand the essential aspects of this timeshare purchase and that all critical aspects of this purchase have been adequately explained to me.

I hereby endorse my understanding and acceptance of the following :

1. I have purchased (sequence) _____in (unit) no. _____ and I may utilise my holiday accommodation subject to the Use and Occupation Agreement and resort rules. ☐
2. I acknowledge that levies are due and payable annually and currently are R _____ for the (sequence) _____we purchased. ☐
3. I understand that: ☐
   i) levies are designed to cover annual operating costs.
   ii) levies are subject to escalation.
   levies are determined by the Board of Directors in accordance with the provisions of the Use Agreement/Articles of Association and the Act. I understand that the developer may not make a profit out of levies.
4. I have seen and signed the Offer to Purchase and any verbal representations or undertakings made to me are contained therein. ☐
5. I understand that: ☐
   (I) My monthly installment of R_____ will be deducted from my account over a period of ____ months. ☐
   (ii) A once-off Club entrance fee of R_____ is charged on this account and will be deducted with the first installment, should I not already have paid this amount. ☐
   (ii) My annual Membership and Reservation fees are payable within 30 days of receipt of the account, where after the fees will be paid annually in advance. ☐
   (iv) An Exchange affiliation fee of R_____ is due and payable for exchange membership. ☐
6. I have seen and signed the Offer to Purchase and any verbal representations or undertakings made to me are contained therein. ☐
7.. I understand that, should I wish to withdraw from this Agreement, my notice of termination must be received by the seller within 5 (five) days (Saturdays, Sundays and Public Holidays and day of signature of the agreement excluded), , at the address reflected in this document. Only notice by way of facsimile, telegram, phonogram or receipted hand delivered letter and received by seller within the stipulated period, shall constitute compliance with Notice of Termination. ☐
8. I am aware that I may register as a member with an Exchange Organisation, to enable me to exchange, at my cost and on an equitable basis and subject to availability, into Units and seasons that are comparable or less than that which I offer for exchange and such exchanges are subject to the then current exchange fees. ☐
9. My membership of the Exchange Organisation is renewable annually at my cost and discretion. ☐
10. My timeshare purchase is an investment in future holidays and I understand and agree that I am not primarily purchasing it for rental yield, return on investment or capital gain on resale. ☐
11. I confirm that I have entered into this Agreement of my own free will and that I am able to meet the financial commitments as set out therein. ☐
12. I am responsible for all travelling costs and all other direct costs, including food entertainment etc., relating to the use of my timeshare. ☐

SIGNED AT _____ THIS DAY OF _____

PURCHASER_____ SPOUSE _____

CONSULTANT _____

AGENT'S/BROKER'S ADDRESS _____

AGENT'S/BROKER'S FAX NO. _____

SELLER'S ADDRESS _____FAX #_____TEL #_____

ANNEXURE B

CERTIFICATE OF PURCHASE - CLUBS AND POINTS SCHEMES

(delete options and/or insert correct descriptions where applicable)
(Points, Units and/or Stars are referred to as PTS in this document)

This is to certify that I, _____, by my signature hereof, confirm that I understand the essential aspects of this timeshare purchase and that all critical aspects of this purchase have been adequately explained to me.

I hereby endorse my understanding and acceptance of the following:-

1. I have entered into an Agreement to Purchase _____ (PTS) and I have applied for membership of _____ (Association/Club). ☐
2. The purchase price of the _____ (PTS) includes/excludes membership/exchange/admin. fees. ☐
3. The _____ (PTS) entitle me to an annual allocation of .....usage (PTS). ☐
4. These usage (PTS) can be exchanged in terms of the Scheme Rules for the right to use the accommodation which forms part of the scheme, as reflected in the Scheme Stock Tables which I have perused. ☐
5. The right to use the accommodation is subject to availability, payment of the relevant annual fees and subject to the number of usage (PTS) I have available. ☐
6. I accept that there is no guarantee that I will be able to holiday every year in peak season at the resort of my choice. ☐
7. I can save _____of my annual unused (PTS) each year **OR** I can carry forward my unused (PTS) for a period of _____ years . ☐
8. I can use my (PTS) for full weeks, mid-weeks and weekend reservations, subject to the condition that mid-weeks and weekends may only be taken in low demand periods, as reflected on the (PTS) guide which I have perused. ☐
9. I acknowledge that levies are due and payable annually and currently are R_____ per annum. ☐
10. I understand that: ☐
    (i) Levies are designed to cover annual operating costs.
    (ii) Levies are subject to escalation.
    (iii) Levies are determined by the Board of Directors/Trustees, in terms of the provisions of the Use Agreements/Scheme Rules and The Act.
    (iv) I understand that the developer may not make a profit out of levies.
11. I have seen and signed the Offer to Purchase and any verbal representation or undertakings made are contained therein. ☐
12. I understand that: ☐
    (i) My monthly installment of R_____ will be deducted from my account over a period of ____ months.
    (ii) A once-off Club entrance fee of R_____ is charged on this account and will be deducted with the first installment, should I not already have paid this amount.
    (iii) My annual Membership and Reservation fees are payable within 30 days of receipt of the account, where after the fees will be paid annually in advance.
    (iv) An Exchange affiliation fee of R_____ is due and payable, in lieu of exchange membership.
13. The Purchaser is entitled to terminate this agreement in writing within 5(five) days of signature of the Agreement by the Purchaser, (Saturday, Sunday public holidays and the day of signature are excluded) ☐
14. The written notice of termination by the Purchaser must be received by the Seller at its stipulated address within the 5 (five) day period, Only notice by way of facsimile, telegram, phonogram or receipted hand delivered letter, received by the Seller within the stipulated period at the sellers stipulated address, shall constitute compliance with Clause 12. ☐
15. My membership of the Exchange Organisation is renewable annually at my cost and discretion. ☐
16. My purchase of _____(PTS) is an investment in future holidays and I understand and agree that I am not primarily purchasing it for rental yield, return on investment or capital gain on resale. ☐
17. I confirm that I have entered into this Agreement of my own free will and that I am able to meet the financial commitments as set out therein. ☐
18. I am responsible for all traveling costs and all other direct costs including food, entertainment, etc. relating to the use of my timeshare. ☐

SIGNED AT _____ THIS DAY OF _____

PURCHASER_____ SPOUSE _____

CONSULTANT _____

AGENT'S/BROKER'S ADDRESS _____

AGENT'S/BROKER'S FAX NO. _____

SELLER'S ADDRESS _____FAX #_____TEL #_____

ANNEXURE "C"

MEMBERS' CODE OF CONDUCT

For the purposes of this clause:-

TISA shall mean the Timeshare Institute of Southern Africa.
TISA members shall mean members of TISA and their employees/agents and/or franchises.

1. TISA membership is conditional on the member complying with the provisions of the Associations Articles of Association, the conduct rules, their corporate legal obligations, payment of fees and/or fines and full compliance with the spirit of the Code of Conduct.

2. TISA members shall not disparage one another in their advertising, sales or promotional activities or, in any way, attempt to bring one another or the Industry into disrepute.

3. In the event that a dispute arises between TISA members regarding a matter (inter-alia the employment or termination of services of an agent) and such matter cannot be resolved amicably between the parties, as a result of TISA's mediation, and the dispute between the members is of a legal nature, TISA will withdraw from its mediation role relating to such matters.

4. TISA members agree not to take up their legal right to call for or to actively or passively attempt to procure the Share Register or Owners list of any other member or organisation. TISA members agree not to use a Share Register or Owners list of any other member for commercial purposes unless they have been granted the right to do so in writing by such person or persons authorised to grant such right.

5. A TISA member shall only be entitled to use the TISA logo and trademark in such a form as TISA from time to time determines and, on suspension or termination of membership, will immediately cease to use the logo and trademark and return all TISA literature to the Secretariat within 7 days of such termination.

6. TISA will furnish a limited validity Membership Certificate to members in good standing and reserves the right to reclaim such Certificate, should the member's membership rights be suspended or terminated.

7. An up-to-date copy of the abridged version of the Code of Conduct, in the format prescribed by TISA, from time to time, must be displayed in a prominent position at all sales and office premises of TISA members. The document will invite members of the public who have any complaint regarding an alleged breach of the Code, to write to TISA.

8. TISA members should conduct their business so as to avoid controversies and conflict with fellow TISA members and TISA members agree that they will not conduct business with non TISA affiliated members in the normal course and scope of their core business.

9. TISA may refer disciplinary issues relating to the provisions of the Code of Conduct to the Standards Council, who will deal with these issues as outlined in the Articles of Association.

10. The TISA Executive may, from time to time, prescribe cautionary, punitive and/or compensatory measures and guidelines in respect of transgressions of the Code.

11. Disciplinary procedures relating to the breach of the Code of Conduct:

In the event of a member being found guilty of a material breach of the Code, the Standards Council Committee may impose any one or more of these disciplinary measures:

11.1 Caution the member

11.2 Fine the member;

11.2.1 up to R250 if the contravention is perpetrated by an OPC
11.2.2 up to R5 000 if the contravention is perpetrated by an Agent
11.2.3 up to R10 000 if the member is a Broker
11.2.4 up to R20 000 if the member falls into any other membership category

11.3 Order the member to cancel the purchaser's Agreement with or without a compensatory award.

11.4 Order the member to pay the aggrieved party a compensatory amount or award benefits.

11.5 Other relief not of a monetary value, as the Council might find appropriate.

11.6 The Standards Council may furthermore propose to the Executive of TISA that the member's membership be terminated. Such a suggestion must be tabled before EXCO, at the first EXCO meeting thereafter.

ANNEXURE 4

TIMESHARE INSTITUTE OF SOUTHERN AFRICA
TYDDEELINSTITUUT VAN SUIDELIKE AFRIKA

2007 Annual Membership / Renewal

Member : _____ ***Category:*** _____

Member's nominated representative : _____ ***Resolution Date:*** _____

Member's contact person : _____ ***Direct line/Cell No:*** _____

Postal Address : _____

Member's contact details : ***Tel:*** _____ _____ ***Fax :*** _____ _____

: ***E-mail:*** _____

Membership category	*Annual Fee*	*Plus VAT*	*Total*	*Comments*
Associate (local)	R 1,850.00	R 259.00	R 2,109.00	
Associate (international)	R 1,850.00		R 1,850.00	
Broker	R 1,850.00	R 259.00	R 2,109.00	
Club / Management Association				*See Note 3*
Developer	R 4,625.00	R 647.50	R 5,272.50	*See Note 1*
Exchange	R 4,625.00	R 647.50	R 5,272.50	*See Note 2*
Managing Agent	R 1,850.00	R 259.00	R 2,109.00	
Owners Association/Share Block/Body Corporate				*See Note 4*
Professional / Finance	R 1,850.00	R 259.00	R 2,109.00	
Resale	R 1,850.00	R 259.00	R 2,109.00	*See Note 1*
Sales Consultant	R 195.00	R 27.30	R 222.30	

Notes:

1. *Over and above the annual membership fee stated above, a fee of R35.55 plus VAT is payable on each new or resale contract concluded.*
2. *Over and above the annual membership fee stated above, a negotiated fee based on enrolments is payable quarterly.*
3. *R1.70 plus VAT, per current member, is payable in respect of the annual membership fee.*
4. *Based on the number of current timeshare weeks in the scheme the annual membership fee is calculated as follows;*

Up to 1 000 weeks	1 001 - 1 500 weeks	1 501 plus weeks
R1,680.00 Plus VAT	R2,515.00 Plus VAT	@ R1.70 Plus VAT per week

5. ***New enrolments in respect of Developers/Clubs/Point Schemes:***
   An application fee of R13 700 plus VAT is payable, which fee covers TISA's administration costs and the initial scrutiny fee by TISA's attorney. In the event that more than one scrutiny is necessary, the additional costs so incurred will be for the applicant's account.

Declaration by the Company's nominated representative

- I agree that as a member of TISA, we will abide by the TISA Code of Conduct.
- I agree that we will encourage our industry partners to become TISA members.
- I agree to pay the annual membership fees in terms of TISA's ruling fee structure.
- I agree to abide by the ruling of the Standards Authority Committee and to ensure that any fines levied against our Company / agents / employees are paid timeously.
- I acknowledge and consent that, in the event that our Company and/or agents are found guilty of contravening the Code of Conduct, TISA may publish such information as it deems appropriate.

Representative's signature: _____ ***Date:*** _____

(Please fax/e-mail a copy of the duly completed TM001 to Zenith Financial Trust at fax number 086 516 5702 or e-mail address zenith@zenfintrust.co.za. Please do not submit to TISA.)