



Cash-Flow Modeling And Market Feasibility

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A timeshare market-feasibility study and cash-flow projection serves as the cornerstone for timeshare valuations of proposed developments.

HVS Timeshare Consulting Services (a division of HVS International) built a new, state-of-the-art timeshare cash-flow financial model to help developers create realistic monthly cash-flow projections. Since timeshare revenues and expenses are incurred on a monthly basis, all calculations should be done on a monthly basis for a cash-flow projection to reflect a realistic scenario. The model also needs to be flexible to assess all real world variables and a wide variety of development scenarios.

Cash-flow modeling is an important part of a timeshare project's initial planning stages. On a front-end basis, projected cash-flow information serves a decision-making tool and will help a developer create an adequate business plan. If the developer is familiar with the timeshare market where a resort is proposed and has performed basic due diligence on a reasonable timeshare interval pricing and expense expectations, he can request a preliminary financial projection even before conducting a detailed market-feasibility study.

Critical Information

Because of the number inter-related variables affecting a project's cash flows, professional cash-flow modeling will provide a timeshare developer with critical business decision making information. A sample list of information that a developer can obtain from the HVS timeshare cash-flow model follows:

- How much equity the developer will need to raise for his project and/or whether the equity now available is adequate to fulfill the project's goals.
- The total number of units the developer will be able to build with a specific limited amount of equity capital.
- The monthly cash-flow deficit periods expected to occur during the year (which would not be identified from an

annual cash-flow projection if the project has a positive annual cash-flow balance).

- Monthly construction loan proceeds and estimated repayments broken down between interest and principal.
- The difference in the project's overall average price and sales revenue if the developer includes biennials as part of the sales inventory.
- The monthly receivable-loan proceeds and repayment, based on a specified hypothecation-loan advance rate, interest rate, and fees. The receivable-loan proceeds also may be programmed to reflect any required seasoning of the consumer notes and split fundings on the advance rate.
- The construction-loan balance, receivable-loan balance, and resulting net portfolio balance at any time during the project's sales window.

Component of Feasibility

Cash-flow modeling also is a major component of a timeshare financial feasibility study, often used as marketing tool to attract equity investment. A timeshare financial feasibility study requires a number of sequential steps, including fieldwork and analysis to complete a market feasibility analysis, prior to generating financial projections. Based on the market feasibility conclusions, a complex financial cash-flow projection can be prepared.

The scope of a market feasibility study typically includes:

- A physical inspection of the development site
- Analysis of the immediate neighborhood and overall area.
- Assessing timeshare supply and demand and the competitive product.
- Determining whether the proposed timeshare product will fit the existing timeshare market.

CANADIAN LODGING OUTLOOK HVS INTERNATIONAL - CANADA

March 2005	Number of Rooms	Occupancy Rate (%)		Average Room Rates (\$)		RevPAR (\$)		Room Supply % change	Room Demand % change
		2005	2004	2005	2004	2005	2004		
Nova Scotia Area	1,350	56.2%	52.8%	\$75.43	\$71.53	\$42.39	\$37.77	0.6%	7.0%
Halifax, NS	2,169	59.1%	67.4%	\$109.14	\$109.42	\$64.50	\$73.75	2.7%	-9.9%
Montreal, QC	14,717	55.5%	58.7%	\$112.97	\$111.17	\$62.70	\$65.26	0.8%	-4.6%
Quebec City, QC	3,871	48.9%	51.7%	\$103.67	\$106.03	\$50.69	\$54.82	0.0%	-5.4%
Quebec Area	3,260	51.9%	50.6%	\$89.25	\$85.35	\$46.32	\$43.19	0.6%	3.3%
Toronto Downtown	10,967	61.6%	63.4%	\$144.28	\$139.18	\$88.88	\$88.24	0.0%	-2.8%
Toronto North/East	6,764	52.1%	51.6%	\$111.43	\$105.49	\$58.06	\$54.43	-6.5%	-5.6%
Toronto Airport/West	7,324	62.0%	65.4%	\$109.50	\$108.44	\$67.89	\$70.92	4.4%	-1.0%
Ottawa, ON	7,024	54.9%	58.4%	\$119.77	\$120.49	\$65.75	\$70.37	0.5%	-5.6%
Ontario East	3,517	47.7%	47.9%	\$91.30	\$87.66	\$43.55	\$41.99	0.0%	-0.4%
Ontario Southwest	8,537	48.9%	54.7%	\$88.59	\$87.34	\$43.32	\$47.77	0.0%	-10.6%
Ontario North	5,401	51.8%	52.1%	\$76.85	\$72.08	\$39.81	\$37.55	-0.1%	-0.6%
Niagara Falls, ON	6,910	40.5%	39.6%	\$99.69	\$89.66	\$40.37	\$35.51	4.4%	6.8%
Ontario Central	7,902	50.7%	51.1%	\$100.99	\$97.81	\$51.20	\$49.98	-0.7%	-1.5%
Winnipeg, MB	3,995	62.3%	61.9%	\$88.88	\$86.70	\$55.37	\$53.67	0.0%	0.6%
Regina/Saskatoon, SK	3,855	61.4%	65.7%	\$92.29	\$92.44	\$56.67	\$60.73	1.0%	-5.7%
Calgary, AB	7,573	63.6%	66.6%	\$107.60	\$106.97	\$68.43	\$71.24	0.5%	-4.0%
Edmonton, AB	5,149	67.3%	66.3%	\$95.19	\$97.81	\$64.06	\$64.85	2.2%	3.8%
Alberta Area	6,654	66.1%	59.2%	\$89.24	\$82.59	\$58.99	\$48.89	2.3%	14.1%
Mountain Regions, AB	2,150	59.5%	54.7%	\$180.90	\$181.51	\$107.64	\$99.29	0.9%	9.9%
Vancouver, BC	12,428	62.2%	64.2%	\$112.23	\$114.02	\$69.81	\$73.20	-1.2%	-4.3%
British Columbia Area	9,355	49.0%	48.7%	\$106.80	\$104.32	\$52.33	\$50.80	0.3%	1.1%
Victoria, BC	2,740	54.1%	56.2%	\$83.83	\$78.04	\$45.35	\$43.86	2.5%	-1.3%
Provinces									
Alberta	21,526	64.8%	63.3%	\$105.55	\$103.38	\$68.40	\$65.44	1.7%	4.3%
British Columbia	26,031	58.7%	59.8%	\$119.57	\$117.70	\$70.19	\$70.38	0.3%	-1.6%
Manitoba	4,625	61.6%	61.2%	\$87.38	\$84.71	\$53.83	\$51.84	1.5%	2.1%
New Brunswick	2,829	58.2%	58.8%	\$91.41	\$88.40	\$53.20	\$51.98	0.6%	-0.5%
Newfoundland	1,622	57.8%	57.6%	\$106.49	\$101.48	\$61.55	\$58.45	0.0%	0.5%
Nova Scotia	3,519	58.0%	60.8%	\$96.60	\$94.65	\$56.03	\$57.55	1.2%	-3.5%
Northwest Territories	66	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	63,384	53.7%	55.2%	\$111.07	\$108.20	\$59.64	\$59.73	0.3%	-2.5%
Prince Edward Island	889	39.6%	39.1%	\$73.18	\$68.40	\$28.98	\$26.74	0.0%	1.3%
Quebec	22,810	54.5%	57.2%	\$119.34	\$118.33	\$65.04	\$67.68	0.6%	-4.0%
Saskatchewan	5,263	56.4%	60.2%	\$86.92	\$85.42	\$49.02	\$51.42	1.0%	-5.4%
Yukon Territory	181	INS	INS	INS	INS	INS	INS	INS	INS
Canada	152,745	53.2%	53.8%	\$95.20	\$93.20	\$50.65	\$50.14	0.6%	-0.5%

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- Reviewing the development's marketing and sales plan (if available).
- Suggesting a product mix of unit types and related seasonal time periods.
- Estimating the average price for each element in the product mix and the annual sales pace the development will achieve.

The cash-flow projections generate an overall cash inflow and cash outflow statement that serves as the basis from which each

of the three main components of the timeshare business - sale of the timeshare intervals, the treasury operation, and resort operations - can be analyzed and valued individually.

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DEFINITIONS

Occupancy:	Rooms sold divided by rooms available.
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

*If you have any questions regarding this publication please send a message to bmacdonald@hvsinternational.com
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