

# Cash-Flow Modeling And Market Feasibility

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

In 1999, 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 as 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 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 of 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

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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 a marketing tool to attract equity investment. A timeshare financial-feasibility study requires a number of sequential steps, including field-work 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.
- 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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