MEASURING TIMESHARE IN THE TOURISM SATELLITE ACCOUNT (TSA) AND RELATED MACROECONOMIC FRAMEWORKS (SNA93 AND BPM5)

POSITION PAPER
(FOR DISCUSSION)

UNWTO Statistics and the Economic Measurement of Tourism
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1. Summary of proposals

Timeshare has to do with the right for its “owner” to use a unit of accommodation (a unique one, or one of a family of such units) for a limited fraction of time (usually a week or multiples of it) repeatedly every year (or other established frequency) over an important (10, 20 or more) or infinite number of years. This right can result from a deed or from any other type of contract, in which case this contract most often does not represent an ownership over a physical asset.

The term “timeshare” covers a continuum of situations, from timeshare being considered as a prepayment of future holidays to situations in which the timeshare can be viewed as a real estate investment, situations that vary from country to country and are highly dependent on the existing legal and tax setting.

Nevertheless, it is also important to underline that in practice, in general statistical procedures, the statistician will not be able to investigate the details of each particular timeshare contract. As a consequence, for statistical purposes, it is necessary to propose a single treatment to be applied in all cases, even if these recommendations might not represent each specific situation as adequately as might be desired.

The UNWTO position paper identifies ten (10) basic issues:

1) The timeshare arrangement is a construct of society, evidenced by legal or accounting actions and thus can be viewed as an intangible non-produced asset;

2) The timeshare property is either owned by the developer, by a corporation, by a trust company, or by the owners of timeshare arrangements themselves. The system of representation that we propose will use the concept of “notional owner” which might represent any of these categories.

3) The “notional owner” will own the timeshare property (as gross fixed capital formation) and recognize the rights of timeshare owners through the issuance of an intangible non-produced asset. The initial value of this intangible non-produced asset is the initial payment made by the purchasers of the timeshare.

4) The physical unit offered under a timeshare arrangement is part of a non-residential building and provides short-term accommodation services (the unit of time, being usually a week) for vacation and recreation purpose, of the kind classified in CPC under Division 63 Accommodation/ Lodging services for visitors;

5) The property income generated by this intangible non-produced asset is recognized by the “notional owner” through the provision of the accommodation services previously mentioned, that represent an output of the activity of the notional owner. These services might be estimated using the rentals paid on the market for similar types of units.

6) The management services, exchange services and sales services attached to timeshare properties will usually be considered as final consumption expenditure of timeshare holders (visitors in TSA terminology).

7) The “special assessments” which represent additional payments made in order to meet specific expenses to enhance and extend the life of the physical property will be treated both as gross fixed capital formation of the notional owner and as an increase in the intangible non-produced asset of the timeshare holder.

8) In the case of a timeshare owner being resident of a different country, the basic rules of balance of payments apply. The treatment of the timeshare interest as an intangible non-produced asset is still possible, and will be registered following the principles of the equivalence between national accounts and balance of payments.
9) In the case of timeshare properties that are located outside the country, the general principles of Balance of Payments apply: the notional owner has to be a resident of the country in which the timeshare property lies. The accommodation services will be provided by a resident producer to a non-resident visitor. The intangible non-produced asset links the owner of the timeshare interest and a unit that is resident of the country in which the agreement was signed.

10) Applying the same type of reasoning to second homes for tourism purposes, it would seem logical to consider the stream of services they provide also within a similar type of category, as an accommodation service. This could possibly be implemented by countries in the future, once this particular type of second home is identified as such in basic statistics.

The problem of households that exchange their main home for short periods of time would however remain: in this case, the flow of imputed service attached to their main residence converts from a real estate service into an accommodation service, while nothing has really changed in terms of the process of production, but only the household consuming it and the conditions of this consumption.

2. What is a Timeshare?

The industry describes Timeshare as a “holiday or leisure product”, rather than as a specialized form of second or vacation home, insisting, in so doing, that it is not so much a form of real estate purchase as a form of flexible holiday or vacation ownership, that might or might not be underpinned by real estate.

One of the main complications in identifying the different types of timeshares is that legally speaking, timeshares differ from jurisdiction to jurisdiction. The juridical embodiment ranges from a right of use (personal right) to a fully deeded ownership model (interest in immovable property) or even a direct shareholding in a company.

The use of a specific legal system to market a right-of-use product depends on many factors such as tax legislation, accounting treatment, national legal jurisdiction or product development and marketing needs. It is the national (or in some cases regional) jurisdiction that decisively drives the use of one or other system.

Any identification of the different types of timeshare needs to encompass both ways of defining an interest, either as a personal right or as an interest in an immovable property.

For clarity, we will refer to just two types of contractual arrangements with subdivisions: the property law systems and the personal right systems.

a) Property law systems.

The main characteristic of property law systems is that a transfer of property right occurs through a public document that is subject to be registered at the official property registry. Normally, the period of ownership is in perpetuity. However, it is also possible to find in the market, property law systems existing for a limited number of years (10, 20, 30 or 50). There are different subdivisions within the property law systems:

- **Multi-ownership.** The ownership of the accommodation property is divided into weeks. Each week is considered a full property right and can be registered at the local property registry. The owner of the property right owns a fraction of the real property.

- **Multi-use.** The accommodation property is divided into shares (corresponding to one or more units). The client purchases use rights associated with these shares for a limited period of time.

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1 This description owes much to the industry that responded to a questionnaire that was sent out by the WTO’s Statistics Department to its Business Council network for comments.
• **Long-term rental periods.** The client has a right to lease for a number of years, paying full rent in advance (lump sum payment). This contract is registered through a deed in the public registry.

• **Periodic right to use system.** The issuance of periodic certificates of habitation certifies the rights of use. These are deeds that are registered by the property registry.

b) Personal right systems.

These are non-deeded right-of use systems based on contract law. There are three main types:

• **Club Membership.** The developer assigns the ownership of the property to a trust company. The purchaser receives a certificate of membership in the club that gives him rights to use a unit for a specific period of time in a year. This system can be in perpetuity or for a specific number of years (normally 20, 30 or 50). There is no real ownership over the property and these certificates cannot be registered in the public registry.

• **Holiday licenses.** The developer or sales company sells a license that entitles the buyer to use a unit for a designated period each year.

• **Leasehold interests.** A building operating as a leasehold condominium is divided into leasehold interests. In this system the property remains an asset of the developer (or of the corporation that purchases it).

This summary description underlines the fact that the term “timeshare” covers a continuum of situations, from timeshare being considered as a prepayment for future holidays to situations in which the timeshare can be viewed as a real estate investment. These situations vary from country to country and are highly dependent on the existing legal and tax setting.

Nevertheless, it is also important to remember that in practice, in general statistical procedures, the statistician will not be able to investigate the details of each particular timeshare contract. As a consequence, for statistical purposes, it is necessary to propose a single treatment to be applied in all cases ("one size fits all approach"), even if these recommendations might not represent each specific situation as well as might be desired.

3). Timeshare in the National Accounts framework

As we have seen, a great variety of situations exists regarding what is being produced and purchased in the acquisition of timeshares. In many, possibly most, cases, what is traded is not a physical asset. A property income is associated with this entity that is created when such an interest appears and is traded.

Our proposal is to consider, in all cases, that a timeshare is an **intangible non-produced asset,**

2 to which is attached a right to receive a flow of services. The full value of the initial payment would be considered as an (+) acquisition of an intangible non-produced asset of the household, and an (-) acquisition of an intangible non-produced asset for a notional owner, within the "other changes in volume of asset accounts". This asset could fall under the category of “Leases and other transferable contracts” (AN.222) or else a special category could be created within this category.

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2 Definition of intangible non-produced assets [SNA93 Annex Ch 13. (AN22: “non-produced assets that are constructs of society. They are evidenced by legal or accounting actions, such as the granting of a patent or the conveyance of some economic benefit to a third party, […] Intangible non-produced assets consist of patented entities, leases or other transferable contracts, purchased goodwill and other intangible non-produced assets”. It is non-produced because its appearance is not a production process, as the timeshare is a different entity from the accommodation units which are the object of the timeshare arrangement. It is a form of transferable contract that results from the decision of the transactors that are involved in it. It is not produced, in the same way that a loan, for instance, is not produced but results from an agreement among individuals or businesses.}
This notional owner is viewed as follows: When a timeshare is being set up, the ownership of the physical asset is transferred through a “sale” (actual or imputed) by the developer to a “notional entity” that represents the owners (and which in some cases might not be notional as when a trust is constituted to represent the rights of the timeshare owners…), the value of the sale being the value of the initial payments. This notional entity owns in its own right the physical asset, the timeshare property. The physical asset (the timeshare property) is the entity that generates the flow of accommodation services, not the timeshare rights that are considered as intangible non-produced assets. The gross fixed capital formation is attached to this notional owner, not to the timeshare holders: they hold an intangible non-produced asset that generates a property income, the value of which is strictly equal to the stream of accommodation services produced by the timeshare property.

The physical units that are the object of timeshare arrangements

This suggested treatment dissociates the timeshare itself from the physical units that are offered under this form of arrangement. Although there are usually units that are specially built for this specific purpose, the industry explained that their form of use could be easily changed, as in the case of timeshares developments that could be used in some cases as regular hotel accommodation when developed by hotel chains; or those that were part of resorts under the general form of regular condos.

The construction and acquisition of the units to be offered under a timeshare form of management could be considered either as residential property or as non-residential property, a decision that is linked to the nature of the stream of services provided: is it an accommodation service, like that provided by a hotel or similar, or a real estate service like that provided by one’s home? It has been argued that, in the case of the use of the unit by the owner of the contract, it provides an accommodation service, as it is specifically for a short period of time, for recreation or vacation purposes, that has to be classified under CPC 63114 Room or unit accommodation /lodging for visitors in timeshare property. As it is considered as an accommodation service, it seems consistent to consider these physical units as non-residential property.

The services provided are in all cases accommodation services

As the classification should not depend on who uses the unit of accommodation but only on the conditions of this use (holiday, short stay), then the classification should be the same in the event the unit is rented to a third party different from the owners of timeshare rights. Nevertheless, although this rule can be easily applied, and is logical, from the supply side, we have to recognize that it might not be possible to implement this rule from the demand side, as the physical characteristics of a unit of accommodation under a timeshare form of management are not sufficiently specific so as to facilitate this identification by the occasional user, a fact that has been recognized by the industry.

The effect of time on a timeshare arrangement

Over time, there are two reasons for the value of this intangible non-produced asset to be decreasing: one is linked to the decrease in the value of the physical assets providing the services, that are the object of the contract; additionally, in those contracts in which the timeshare arrangement is limited in time, the value of the contract decreases as the number of possible use periods decreases. This depletion should be taken into consideration in national accounts within the “Other changes in volume of assets account”, as an “economic disappearance of non-produced assets” both for the holder of the timeshare contract as well as for the notional owner of the physical units that are the object of the contract. This decrease could be estimated using the value of consumption of fixed capital associated with the physical asset (eventually adding another factor to take into consideration, when relevant, that is, the temporal limitation of the contract).

“The special assessments” could be viewed as the required payments to maintain (or increase) the value of this intangible non-produced asset, and as a consequence, would have the same economic nature as an intangible non-produced asset.
4). Measuring timeshare in the TSA

In the TSA, for the time being, as only transactions on goods and services are represented, we would only have:

- The acquisition by the notional owner of the physical unit to be managed under a timeshare type of arrangement: it would appear in his gross fixed capital formation;

- The provision of accommodation services by the notional owner of the physical unit to the visitors;

- All the other payments and purchases of services, (management, exchanges, etc) excluding the special assessments and the costs of the resales are to be considered as final consumption expenditure of the holders of the timeshares.

- In TSA table 9, Gross fixed capital formation, we could agree to add a memo item in order to take into consideration timeshares as intangible non produced assets of holders of timeshares.

Regarding the measurement of the accommodation services provided by the physical units under a timeshare form of management, they have to be estimated, because there is no specific payment to be viewed as the counterpart of the service received, a situation very similar to that of services provided by dwellings on own account.

Two perspectives are possible: the supply perspective and the demand perspective:

- The supply perspective is that of managers: managers of timeshare developments should have a fairly good knowledge of the rent that could be charged on the market for the different intervals corresponding to the timeshare units under their management; they know the actual use of these units over a period and it should be possible for them to estimate the value of the services provided by the units under their care;

- From the demand perspective, it is much more difficult to obtain an estimation. As there are flows of payments at different moments in time and for different purposes: the initial payment, the regular payments, special assessments, etc., corresponding to different periods of time, (the duration of the timeshare): a rough statistical proxy, supposing that the rate of increase in the net value of timeshare contracts is relatively steady, would be to say that the yearly flows of services provided by existing and new timeshares could be approximated by the total value of net new timeshare contracts corresponding to the same period.

5). Presenting the scheme of suggested flows

Within this scheme, the intangible non-produced asset generates a flow of property income equal to the accommodation services produced by the physical unit: the holder of the timeshare receives an imputed flow of income (as a property income (rent, SNA93 code D 4.5)) under the form of imputed accommodation services: we would not treat the production of these accommodation services as being a production on own account, but rather as an imputed flow, as we do not consider that the owner of the timeshare is the owner of the physical asset.

As a consequence, the values paid to the management for the current maintenance of the property would necessarily be treated as final consumption expenditures of households as we have argued in this proposal that the households do not produce accommodation services. This might be considered as inconsistent since the timeshare holders are not considered as the “owners” of the property (why do they need to purchase management services for an asset that they do not own?). If we want a greater conceptual consistency, we could have them acquired by this notional unit and sold back to the timeshare holders within the value of the accommodation services, but this might unnecessarily complicate the whole picture.
In the case in which property taxes on the assets are also assigned to holders of timeshares, these are usually paid as part of the management services. Conceptually, they should be excluded from the value of management services paid to remunerate this activity, and should be added to the value of rentals paid to the notional owner: the value of rental income received by timeshare owners and the value of rentals paid would then differ by the amount of property tax assigned by the system to the notional owner. The whole amount of tax would be assigned to him/her and the value of the imputed accommodation services increased accordingly.

Similarly, the payments for the exchange services should be considered as final consumption expenditure of holders of timeshare arrangements.

In the case of sales of existing timeshares, when it is a “second-hand” transaction, these transactions have nothing to do with the economic value of the physical property and with the “notional owner” and should only alter the net value of the contracts for the holders. (on a new transaction, and depending on who pays for the service of the intermediary, it is part of the difference between the value of the physical asset and that of the timeshare contract). A difficulty would remain regarding how to logically include it in the system as this service of intermediation is clearly produced.

The annexed table provides an illustration of the suggested treatments.
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<tr>
<td></td>
<td>Developers</td>
<td>Managers, exchange agencies, vendors</td>
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<td>633113 Room or unit lodging for visitors, in timeshare property</td>
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<tr>
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<td>K.3 Economic appearance of intangible non produced assets*</td>
<td>1500</td>
</tr>
<tr>
<td>-180</td>
<td>Other economic disappearance of intangible non produced assets</td>
<td>-180</td>
</tr>
</tbody>
</table>

1200: net value of construction or transformation of existing physical infrastructure into projects to be offered as timeshare
1500: net value of new timeshare contracts; for the timeshare owners, it includes also the fees paid. (thus 1500+5)
100: imputed value of accommodations services provided by existing timeshares
180: Depreciation of units under a timeshare contract/ Other economic disappearance of non-produced assets