

# Club Cala de Palmas: A Complete Financial and Operational Renovation

BY PETER GUST

Imagine a timeshare property in the middle of the Caribbean in both physical and financial disrepair.

Due to high owner maintenance fee delinquencies and overall poor financial performance, the resort does not have a reserve fund. It has lost its external exchange company affiliation from poor resort inspection results and exchange guests' comment scores. The property also has multiple units that are out-of-service and dilapidated common areas. Upon check-in, guests are greeted with a small bag containing the kitchen and bathroom amenities they'll need for the week.

Welcome to paradise? Hardly.

This was the state of Club Cala de Palmas—a 104-villa resort in Humacao, Puerto Rico—before the property was sold to an existing vacation club company (“developer”) in July 2004. The developer quickly realized it needed help to plan and implement a complete turnaround strategy for Club Cala, so it hired Tapestry Resorts (then called ResortCom International) as its management partner.

Even for developers and owners whose resorts are in good condition, the Club Cala case study offers important tips for reviving vacation ownership resorts—including timeshare and fractional ownership, private residence club, vacation club, and mixed-use properties.

### Assessing the Situation

Tapestry Resorts conducted an initial evaluation of the property, followed by a comprehensive evaluation to determine what worked well and what needed to be corrected. Areas reviewed included

- Cash flow;
- Overall operating costs;
- Check-in facilities;
- Guest services best practices;
- Deferred maintenance issues (such as leakage and mold); and



- Technology infrastructure (internal network design, video, voice and data services).

Due to the resort's high delinquency rate and lack of a reserve fund, there initially was no money for much needed capital repairs and replacements. For example, the evaluation uncovered interior mold caused by poor insulation around the doors and windows, with noticeable leaks from the ceiling due to poor roofing. Additionally, interior condensation issues were apparent throughout the units as a result of deferred maintenance on the resort's air conditioning systems.

Lack of appropriate cleaning standards led to 17 out-of-service villas. In the common areas, the swimming pools were filled with algae and needed re-plastering. The resort did not even have Internet accessibility for guests.

After the preliminary due diligence, it was apparent to both the management company and the developer that the property would

need both a financial and operational overhaul.

### Owner Communications

Throughout the transformation process, Tapestry Resorts worked with the developer to ensure that the lines of communication were kept open with the existing timeshare owners—explaining everything from necessary fee increases to the many physical improvements and updates at the resort.

This included postings on the property Web site, e-mails, and personal phone calls. Tapestry Resorts also developed a regular, informative newsletter with updates from the developer, the management company, the general manager, and the board president. It offered a regular opportunity to answer the owner question, “What are you doing for me?”

### The Financial Plan

Due to its current financial state, Club Cala desperately needed to develop a fiscal model with both short- and long-term initiatives

that would allow the property to operate within its current cash flow streams, while building their reserve fund to help tackle outstanding maintenance issues. To accomplish this, Tapestry Resorts conducted a reserve study to outline the necessary contributions to develop such a fund to restore Club Cala's aged and deteriorated assets.

The team's first priority was to infuse operating and reserve capital in order to support property operations and start maintenance projects. These funds came from a special assessment to owners invoiced over two years. Tapestry Resorts also recommended a sensible annual maintenance fee increase that mirrored the rate of inflation and was comparable to norms in the region. It is important to note that the developer played a large part in promoting the changes to the existing timeshare owner base by setting the example and contributing their fair share to the plan.

New budgetary policies were also set to reduce controllable operating costs,

while adhering to required quality levels of service—including a new billing collections policy that encouraged timely payments and created a mechanism for dealing with excessively delinquent owners. Adherence to the policies helped Club Cala eliminate approximately \$400,000 in outstanding accounts payable, while decreasing the owner delinquency rate from 22 percent to 7 percent. The strategy turned out to be a huge success that helped the developer reduce its obligation to the resort by \$1 million within five years of implementation.

Once funding was available, Club Cala systematically began its infrastructure projects, starting with the upgrade of HVAC and power systems, roof repairs, updates of new unit doors and windows, addition of wheelchair accessible lifts, and upgrade of IT network/computer system. All these projects had a significant impact on the resort's operating performance and safety standards. After the infrastructure repair issues were well underway, additional

projects were slated using a phased approach, to improve guest amenities and upgrade unit quality. (The photos in this article are all post-renovation.)

Acting as prototypes/model rooms for future improvements, Tapestry Resorts directed the complete renovation of 18 units. This allowed the developer to fund the renovation without depleting the HOA's reserve fund; it also gave owners an idea of the interior design direction in the unit upgrades. The renovations included new furniture, cabinetry, plumbing, electrical fixtures, electronics, bedding, an art package and plants for a modern, seaside look. As reserve funds become available each year, the remaining 86 units are renovated.

#### The Operational Plan

To best evaluate the operation and owner experience at Club Cala, one of Tapestry Resorts' top executives stayed at the resort to assess the situation firsthand. The executive reviewed the current management

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# CASE STUDY

structure and assessed which processes and systems should remain, which needed to be removed and replaced, and which could be improved. As a result, the management company developed and implemented a plan to increase the level of service and quality at the resort.

This three-phase operational plan included (1) establishing on-site organizational policies; (2) instituting Standards of Performance (SOP) and employee training programs; and (3) creating employee monitoring and assessment programs. The development of this plan allowed the resort to significantly increase the level of service and create operational efficiencies that complement the resorts' financial objectives.

As part of the first phase, the management team modified the staff organizational structure to increase efficiency. It allowed the departments to have clear and concise direction and communication for all resort staff members. Employees were provided with additional training, including an orientation program with specific guidelines for each department.

Additionally, SOP manuals were issued and constantly updated based on feedback from owners, exchangers, and resort employees. For example, the Housekeeping SOP instructed that the department "create a sense of welcome, comfort, and outstanding hygiene...to ensure every guest is at home and has the required supplies."

Tapestry Resorts also established cost control measures by developing a comprehensive energy conservation plan (which yielded annual savings upward of \$250,000); applying and receiving sales tax exemption for all supplies; and expanding Club Cala's scope of vendors to obtain discounted supply rates.

Quality assurance surveys monitored the effectiveness of the resort's new training and organizational structure, and owners and guests expressed notable positive feedback, helping the resort earn back its exchange affiliation.

## Results

Due to this extensive makeover, Club Cala has transitioned from a dilapidated vacation ownership club to a thriving resort. The resort's financial stability plan will take at least another 10 years to complete, but there have been numerous short-, mid- and long-term accomplishments along the way. The management team and developer continue



to monitor, assess, and make corrections where necessary to further enhance the operations at the resort.

Overall, Club Cala can serve as a model for both financial and operational success. The quality of the property has dramatically increased, and the owner experience, along with guest scores, has significantly improved. As a true case study, this resort proves that even the most struggling properties can thrive once again! ■



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