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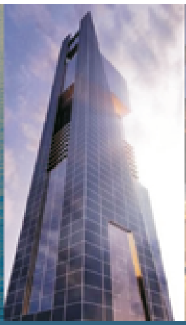
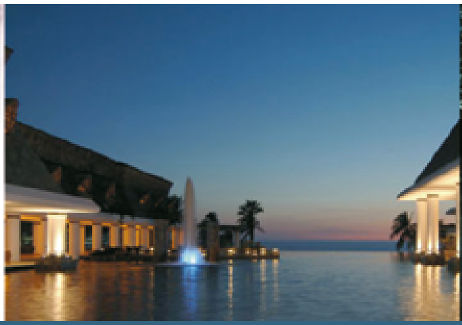
10th Edition


2009 ANNUAL FRACTIONAL INTEREST REPORT

United States and the Caribbean

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INTRODUCTION

In 2008, the fractional ownership industry in the Americas and the Caribbean slowed dramatically. Total estimated fractional sales volume for the Americas and the Caribbean last year was $1.34 billion, a stark contrast to the record estimated sales volume of $1.98 billion achieved during the previous year. However, fractionals have persevered despite adverse market conditions in the U.S. caused by foreclosures of sub prime loans, overbuilding, declining home values in most markets, and the negative psychology created by the erosion of consumer confidence in the U.S. economy. In fact, a survey conducted by NorthCourse in fall 2008 indicated that fractional sales had been impacted less than whole ownership second homes and timeshare.

This finding is not surprising considering the practicality of owning a fraction of a luxury vacation home that provides the benefits and luxury of a wholly owned second home at a fraction of the cost. However, today's fractional buyer is more sophisticated and is unwilling to pay the higher square foot price premiums associated with some fractionals in the past. Thus, a 1.3 to 1.5 opening multiplier is likely to be a more effective pricing strategy than previous opening multipliers between 1.6 and 2.0.

Markets solely dependent on American buyers, like Los Cabos and Aspen are down significantly. More demographically diverse urban markets like San Francisco, New York and Miami, have the potential to perform better by attracting foreign buyers who are less impacted by the current negative consumer psychology in the U.S.

In the future, fractional developers expect fractional sales to continue gaining market share over whole ownership. Due to high land and construction costs, fractionals are the only economically feasible residential use on many prime development sites. These costs drive the price of whole ownership beyond what the market is willing to pay. The demand for high priced second homes is diminishing currently and into the foreseeable future.

Changing Tactics

In the new economy, developers are employing new sales and marketing strategies to generate sales. Some of these tactics include:

- Appealing to emotions rather than material goods. Many of today's buyers are focused more on the quality of the vacation experience and less on the brand of kitchen appliances. Therefore, marketing messages are centered more around rest, relaxation and memories with friends and family.
- Being flexible with respect to new sales and keeping existing owners happy. Owner referrals remain the key source of new buyers, so ensuring that current fractional owners' needs are met is critical.
- Creating new ways to lower HOA dues, which is a hot button for many buyers.
- Creating ways to generate more traffic beyond the traditional PR events and open houses. An example is a mountain resort which has included its membership club within the same building as the residences, thereby enticing members and their guests to take tours.
- Obtaining a well-known hospitality brand. Given the current decline in consumer confidence, five star branding of fractional real estate has become even more important in establishing credibility.
- Procuring consumer financing. While this is likely the most difficult task for most developers to achieve, it is also the most crucial to closing sales. This requires establishing and nurturing relationships with local banks from the inception of a project, thereby educating them on the value of fractional real estate and the credibility of the affluent consumer.

Fractional Real Estate

In response to growing demand the resort industry has undergone substantial change in the last ten years. In order to broaden the market, new products have been invented to better respond to people's needs and pocketbooks.

One of the most creative innovations has been the introduction of fractional real estate in its various forms, a growth segment in shared ownership. Fractionals serve two purposes and are a benefit to both the consumer and the developer.

First, affordability which allows the buyer an opportunity to purchase much higher quality than what they might otherwise. Second, fractionals broaden and diversify the market for the developer by creating new demand through better market price points which usually result in increased profitability when properly conceived and executed.

Optimistic Industry Outlook

While the leisure real estate industry is suffering at the present time, in the longer term, the aging of the North American Baby Boom population will create high demand for fractional real estate for the next 15 to 20 years. This will occur as the population continues to reach its peak earning years, places a higher importance on leisure time and travel, experiences the freedom of being empty nesters, and in total inherits trillions of dollars.

Baby Boomers are the 76 million Americans born in an 18 year time span between 1946 and 1964, who now represent approximately one third of the population of the U.S. The leading edge of the baby boomers has now reached age 63. This generation has dominated consumer demand for all products at every stage of its life cycle, and is now dramatically affecting demand for second home real estate.

However, annual use of a second home averages only about three to four weeks per year, and even less, in many cases. Perhaps this is the reason why only 70% to 75% of the income qualified households in the U.S. have yet to purchase any type of second home. Fractional real estate will meet the needs of this market better than whole ownership due to busy schedules and the vacation habits of the vast majority of Americans. Thus, the long term opportunity for much deeper market penetration with a fractional product is clearly present.

The current recession has created a shift in mindset among prospective buyers from one of "I want" to "I need", thus placing a greater emphasis on the quality of the vacation experience. This increasingly pragmatic approach to second home ownership will make fractionals an even more attractive option in the future.

The purpose of this report is to provide the reader with a clear understanding of the concept, market dynamics and emerging trends of fractional resort products. There are several types of fractional products that serve different markets and meet different needs. There are also related products such as timeshare and destination clubs that may act as competitive product considerations within the spectrum of leisure real estate – but these are not and should not be lumped together as buyer motivation and demographics are significantly different for each of these products.

FRACTIONALS AND RELATED SHARED OWNERSHIP FORMATS

FRACTIONALS AND RELATED SHARED OWNERSHIP FORMATS

There is industry confusion and semantic problems with the term "fractional" because there are several different types of fractionals that serve different markets. To better understand these differences, it is important to note that there are two principal motivations for owning a second home: investment and enjoyment from use of the home.

Fractionals fall under the broader heading of "shared ownership". Shared ownership can be categorized into four different types that respond to these two different purchase motivations to varying degrees:

PROJECT TYPE	BUYER MOTIVATION	TYPICAL FRACTION SIZE	PREDOMINANT PRODUCT TYPE	OWNERSHIP
Timeshare	One or Two Week Annual Vacation	One or Two Weeks, or Points	1 and 2-Bedroom Condos	Typically a deeded interest in the U.S., or Right to Use
Traditional Fractionals	Rental Income and Second Home	1/4th to 1/8th	Mid-Size 1, 2 and 3-Bedroom Condos	Deeded Interest
Private Residence Club (PRC)	Second Home	1/6th to 1/12th	Spacious 3 and 4-Bedroom Condos and Single Family Homes	Deeded Interest
Non-Equity Destination Clubs	Luxury Vacation Time in Multiple Locations	30 to 60 Days per Year	Large, luxurious 3- and 4-Bedroom Condos and Single Family Homes	Right to Use

Timeshare

A timeshare provides the owner with an annual vacation in the location of their choice in lieu of renting a hotel room or other type of rental property. Many timeshares come with extensive exchange privileges, usually through RCI or other exchange providers.

There are two different timeshare usage models. The traditional model is the week interval where a fixed, floating or rotating week at a given resort or group of resorts is purchased for a price that generally ranges from $10,000 to $30,000. The buyer receives use of the property one week per year. Some timeshare models provide a real estate deed in perpetuity, while others represent a right to use, typically for a limited amount of time, like 25 years.

The second model, which is rapidly gaining in popularity, is a point system where the buyer's purchase of a timeshare is converted into a designated number of points used for internal exchange and access within the developer's system of resorts or through an external exchange company such as RCI. The timeshare company owns and manages accommodation in numerous resort locations and each year the buyer is able to select a week or more, depending on the number of points purchased, at the location of his choice. This system has both deeded and right-to-use models.

Traditional Fractionals

Another type of fractional is second home real estate, often condominiums or attached townhouses, designed and often utilized for overnight rentals. A Traditional Fraction[al?] should not be confused with a condominium hotel. A condominium hotel is quite simply a method of raising equity to finance a typical hotel structure whereby each room is sold to individual investors. The purchase motivation in a condo hotel is investment, not the use of second home real estate, although the owner has the right to use their hotel room without paying rent.

A Traditional Fractional is sold to buyers whose primary purchase motivation is to own and use a second home. However, the home is often rented by professional managers when the home is not in use. There are many whole ownership examples of this rental model, and a somewhat more recent innovation is to sell these rental homes in fractional shares with a managed rental pool. The product is typically a condominium, attached townhouse or smaller stand alone homes (such as a cottage or villa) designed primarily for owner use. The unit sizes are larger than condo hotels, but 30% to 40% smaller than a Private Residence Club. The most popular size is two bedrooms with a locked off studio, which then breaks into a one bedroom studio and a one bedroom suite with a living area. This type of product has been offered in numerous resort areas for many years as both whole ownership and in fractional shares.

The most common share size is a 1/4th share which gives owners about 12 weeks of use per year. They either use, gift, rent, or exchange these weeks with other owners. Owners typically receive 50% to 70% of the rental income and sometimes an annual contract is offered by the property management company to specify which weeks will be in the rental pool one year in advance. Owners usually receive some sort of financial incentive for signing a contract. The contract provides certainty for the management company of the rental inventory they can control.

One of the main distinguishing features of a Traditional Fractional, in comparison to a Private Residence Club, is the usage plan. In Traditional Fractionals, weeks are typically assigned through a fixed week calendar so the owner has certainty as to which weeks they will own five to ten years in advance. For example, with a 1/4th share fractional each owner receives every fourth week in the specific unit in which they hold a fee simple deeded interest. Thus, buyer number one for unit number 1 receives the first week in January and every fourth week thereafter. The calendar works in such a way that the second year, this owner will receive the second week of each month. Thus, they only receive the same months of each year every fifth year.

Other differentiators from Private Residence Clubs are the size, price point, and quality of the home itself. A Traditional Fraction[al?] is designed to rent and often contains a studio lock off to create three rental price points. The furnishings are typically three or four star hotel quality and are designed to be more durable to accommodate overnight rentals. The unit sizes are 30% to 40% smaller than a PRC to create rental price points consistent with competitive rental product inventory in the marketplace, and a larger percentage of the accommodations are two bedrooms.

Statistics show that the market for homes with rental income potential is nearly twice the size of the market for vacation homes that are seldom rented. However, both markets are growing rapidly] As expected, the typical buyer is at least partially motivated by investment and rental income and may be younger and less affluent than the luxury whole ownership second home buyer. Thus, this product satisfies a second home market niche, at a lower price point, than whole ownership or Private Residence Clubs within the real estate market in which the project is located.

The sale of any real estate product (including fractional products) offered in connection with a rental program poses potential U.S. securities law issues. Based on no-action letters issued by the U.S. Securities and Exchange Commission, general guidelines have developed, which include: i) Rental income cannot be pooled for distribution back to the owners; ii) rental program participation cannot be mandatory; iii) developer may not enter into a rental management agreement with a prospective purchaser before such purchaser enters into a purchase and sale agreement for one or more units; iv) owners must be free to choose non-sponsored/managed rental programs; v) the rental agreement can only include reasonable restrictions on an owner's ability to occupy his own property; and vi) the product cannot be sold as an investment without SEC registration which is onerous, expensive, and usually avoided. Appropriate counsel should be contacted in connection with any plan to market a real estate product in connection with a rental program.

Private Residence Clubs

A PRC is designed to target and penetrate the same affluent market that would normally purchase, or aspire to purchase, an expensive luxury wholly owned second home. The buyer perceives they are making a real estate purchase and buying a vacation home, not an annual vacation. By sharing the ownership the buyer is purchasing only what he needs and can use, at a fraction of the price of whole ownership.

The typical buyer is 45 to 65, married, often with grown children, income of at least $300,000 per year, and more importantly a net worth typically starting at $3,000,000.

Private Residence Clubs should not be confused with Traditional Fractionals, or any other type of resort rental product sold in fractional shares with a managed rental pool where rental income is a strong purchase inducement. PRC's are seldom rented except for unsold developer inventory. Management does not facilitate or encourage rentals. If the owner rents any of his guaranteed weeks, the renter is treated as the owner's unaccompanied guest. The PRC designation cannot be simplistically equated with only the selling price per square foot and is more accurately identified by the high quality of finish and amenities as well as a use plan designed to encourage and accommodate owner occupancy over rental. This is an important distinction in the positioning of PRCs that is critical to successful development and sales with an affluent consumer and is an area of importance easily (and often) overlooked.

Making such a mistake can have a significant impact on the success of a development as it directly affects the core of the product in the eyes of the consumer. Constructing and selling a development positioned and targeted for a PRC consumer that does not have an adequate use plan can quickly diminish sales pace and marketing efficiency to the point of creating an unprofitable venture.

The PRC is designed to sell to an affluent market as an alternative to whole ownership of a second home. It is an emotional purchase and it should fit the image of the buyer's "dream home." When fractionalized, the incremental cost of additional space and an extra bedroom is relatively modest compared to whole ownership. Buyers are less price sensitive and more concerned about how they will use the home. Although purchase decisions are not driven by investment objectives, the buyer perceives and expects they will receive approximately the same rate of value appreciation as whole ownership in comparable locations.

The fractional residence is usually large and luxurious and appointed with finishes and furnishings comparable to or better than, luxury whole ownership residences that sell for at least $1,000,000 and sometimes $5,000,000 or more. PRC's are location sensitive and are most successful in the high-end five-star resorts with strong natural amenities most often associated with a world class resort area.

PRC's typically include a private clubhouse and five-star hotel services that are not available with wholly-owned resort real estate or many Traditional Fractionals. The coupling of a private club with shared ownership in a vacation home is a trend that adds sophistication and a higher level of exclusivity to the product and a sense of belonging. The club functions like a private equity golf club where the members have the opportunity to interact and form social relationships with other members while in residence.

Property management and hotel services are provided so people can relax while vacationing. The experience is like staying in a five-star hotel, except the member is an owner and pays annual homeowner association dues instead of renting by the night. In addition to the physical product, the developer of a PRC is selling a lifestyle experience.

The Private Residence Club is marketed as a real estate investment. The emphasis is on relationship-selling rather than mass-merchandising. It is a soft sell approach and repeat visits prior to closing are the norm. The target market may have a negative impression of timeshare and will not respond to high-pressure sales tactics often associated with the timeshare market.

Fraction sizes generally range from 1/6th to 1/12th and the buyer receives a fee simple deed to a residence in accordance with the fractional size of the PRC. A second form of ownership is a deed to all of the real estate in accordance with the total number of shares (e.g. a 1/160th fee simple interest for 20 units sold in 1/8th shares). Within the fractional industry, PRC's represent the highest end of the market with share prices ranging from approximately $200,000 up to $3.0 million for a 1/8th share equivalent. The current median is in a range of $350,000 to $500,000. Common areas are generally owned jointly by all residence club owners.

One of the main distinguishing differences between a PRC and a Traditional Fractional is the usage plan. Members of a PRC receive an annual or semi-annual open reservation system and usually receive three to five weeks per year of guaranteed time, plus space available time. For example, a 1/8th share usually is sold with four guaranteed weeks which occupies the home for 32 weeks per year (four weeks x eight shares per unit), usually in prime seasons. This leaves an additional 20 weeks per year (52 weeks minus 32 weeks) of space available time when any owner can request additional time on a space available basis at no extra charge.

A second distinguishing characteristic is that PRC owners do not always stay in the unit in which they have a deeded interest. Rather there are membership classes, like three and four bedroom memberships at two different price points. Thus, a three bedroom member is always guaranteed they will stay in three bedroom home of approximately the same size and quality, but cannot stay in a four bedroom home. The reason for this usage plan is to maximize the flexibility of the use of the members where it is more important to get the weeks they want to vacation than to stay in a specific home every time they visit. There are far fewer conflicts with this system. When conflicts do occur they are resolved with a rotating priority chart which becomes part of the owner's club by-laws.

Non – Equity Destination Clubs

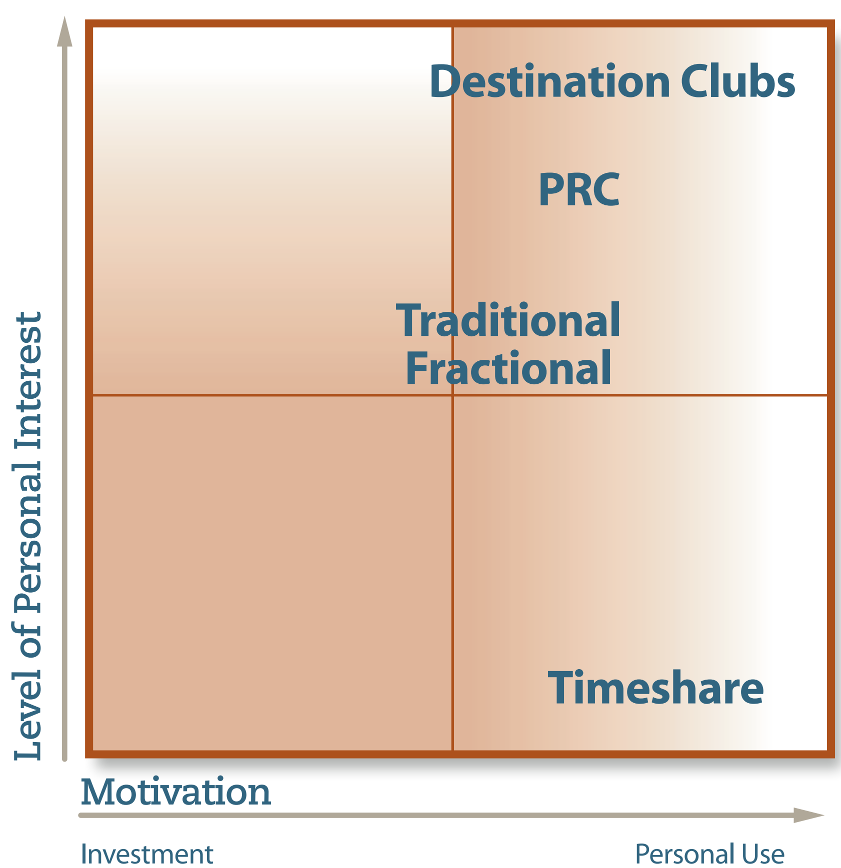
The newest product in leisure real estate is the non-equity membership club typified by *Exclusive Resorts*, *Ultimate Resorts* and *Quintess*. This business model has been very successful in the market due to strong marketing and the appeal of multiple locations.

Technically and legally this product is not a fractional, because there is no deeded ownership, but rather a right to use the club's inventory. Thus, members are sharing the portfolio of accommodations of the club. The corporation that manages the club owns the inventory. The ratio of members to homes is typically six to one. Thus, from the standpoint of usage it could be considered a 1/6th fraction.

Membership in Exclusive Resorts, for example, currently sells for $160,000 (10 days) to $500,000 (60 days) for the use of homes averaging $3.0 million in more than 30 locations throughout the world. Annual fees vary depending upon membership level and range from $13,900 to $59,900.

Exclusive Resorts and similar destination club business models appeal to a different buyer than a site specific PRC where a deeded interest in the real estate is an important buyer motivation. The membership fee refund obligation is also a significant differentiator. However, this fee is usually not refunded until the membership is resold. Given these significant differences non-equity destination clubs are not classified as fractionals. While there have been recent attempts to create an equity destination club, this business model has yet to be proven in the market place. The bankruptcy of the Tanner and Hailey destination club, coupled with current economic conditions, has caused newcomers to proceed cautiously. The barriers to entry are high, reportedly requiring start up capital of as much as $50 million. This front end capital infusion is needed to purchase inventory, set up a management and sales structure, and to pay for heavy front end marketing costs.

While destination clubs are considered by some to be competitive with deeded Private Residence Clubs, there is also a symbiotic relationship in that destination clubs often purchase inventory at PRC's for their members (which in turn become potential fractional leads for the PRC developer). PRC inventory solves the problem of off-site management of the destination club inventory which is a major benefit to the club and its members. Conversely, the purchasing of inventory by the club provides the developer of a PRC with an immediate equity infusion and accelerates absorption, thus reducing the carrying cost of unsold inventory.



SUPPLY AND SALES

SUPPLY AND SALES

Industry Growth

This chapter focuses on the supply side growth and trends in the fractional industry for countries in North and South America and the Caribbean. This year's study identified 210 Traditional Fractional and Private Residence Club developments in the United States, Canada, Mexico, Latin America (Panama, Belize and Costa Rica) and the Caribbean.

Fractional sales in North America decreased 32% from 2007 to 2008 with total sales reaching $1.34 billion. As noted previously, these numbers are specifically reported only for true fractional developments – which are defined as:

- A minimum 1/13th ownership share
- A maximum 1/4th ownership share
- Deeded ownership – fee simple or a deed to all of real estate at a single location in accordance with the total number of shares. In the case of Mexico and Latin America, some properties do not have deeded ownership but are instead qualified as fractionals by meeting other criteria.
- Any shares smaller than 1/13th are considered timeshare. Non-equity club structures are not considered fractionals either.
- In accordance with these changes this report summarizes and adjusts all historical data to reflect the above definitions and all previously reported data is considered obsolete

2008 SALES PERFORMANCE

Although sales growth for fractionals declined across the board in 2008, the area most directly impacted was resales, which were down by 67%. New closed sales were impacted the least, declining 26% from 2007 figures.

Our estimates show that presales were down 35% in 2008, which may indicate that consumers are hesitating to purchase fractionals which are not already built or under construction.

	2007 ($000,000)	2008 ($000,000)	CHANGE (%)
Presales	743	486	-35%
New Closed Sales	1,090	808	-26%
Resales	149	49	-67%
Total	1,982	1,342	-32%

General Industry Shifts

- Occupancy levels remained static for PRCs but decreased for Traditional Fractionals
- Traditional Fractional units continue to get larger in size, while PRCs have stagnated
- Services covered by annual HOA fees for PRCs and Traditional Fractionals are converging despite the fact that PRC HOA fees are much higher
- PRCs are offering a greater mix of unit types in 2008
- Fractional projects are increasingly located in mixed use developments

SUPPLY AND SALES TRENDS METHODOLOGY

Chadwick Martin Bailey

Chadwick Martin Bailey (CMB) is a market research and consulting firm that identifies specific actions to take in order to profitably get, keep, and grow their client's customer base. CMB's industry-focused practices bring research expertise to all areas, with a particular focus on travel and hospitality, financial services, insurance, technology and telecommunications, and retail / consumer verticals. Using progressive qualitative and quantitative techniques, combined with a team-based approach, CMB ensures that the correct combination of people and experience is applied to each business challenge or opportunity presented.

The team is comprised of intellectual and dedicated professionals, each of whom brings a special skill set complete with knowledge and passion to their work. CMB partners with its clients to identify specific business decisions they need to make, more effectively, through applying best-in-class market segmentation, product and service development, brand development and tracking, customer experience research, effective event sponsorship, loyalty programs, custom panel development, ROI analysis, and employee value delivery.

Population

Fractional projects sold as deeded interests in the United States, Canada, Mexico, Latin America and the Caribbean built after 1995

Sample Frame

The list of fractional projects identified in 2008 was expanded to include known fractional projects in Mexico and Latin America. As with last year's survey, the list excluded projects built prior to 1995.

Furthermore, fractional projects were identified as either PRC projects or Traditional Fractionals. Data is presented in a way that allows comparisons of these two types of projects.

Furthermore, fractional projects were identified as either PRC projects or Traditional Fractionals. Data is presented in a way that allows comparisons of these two types of projects.

Data Collection

Data collection was conducted via telephone interviews from January 19, 2009 to February 12, 2009 on behalf of NorthCourse by Chadwick Martin Bailey and the Business Intelligence Unit from Group RCI. All data was merged into a single database for analysis.

Business Intelligence Unit from Group RCI

With a proven experience of more than 30 years in the Latin American leisure real estate market, the Business Intelligence Unit from Group RCI is a one stop shop for developers seeking to identify, design and develop the best leisure real estate and vacation ownership products in a specific destination aimed at producing the highest possible return on investment.

Fully oriented to provide the best value for its customers, RCI's Business Intelligence Unit concentrates leading-edge market knowledge in a team of expert consultants in its Tourism Oriented Real Estate Division (TORE) and offers a suite of advisory services that covers all aspects of leisure real estate development from Strategic Planning and Product Design to Implementation, Training and Marketing & Sales consultancy.

In Latin America, Group RCI has oriented local and foreign developers and investors to create, launch and successfully market some of the biggest and most important high value leisure real estate projects in selected tourist destinations in the region.

During the last decade, Group RCI Business Intelligence Unit coordinates full fledged market information gathering efforts to produce general and specific reports for the industry and its customers.

Sample Frame

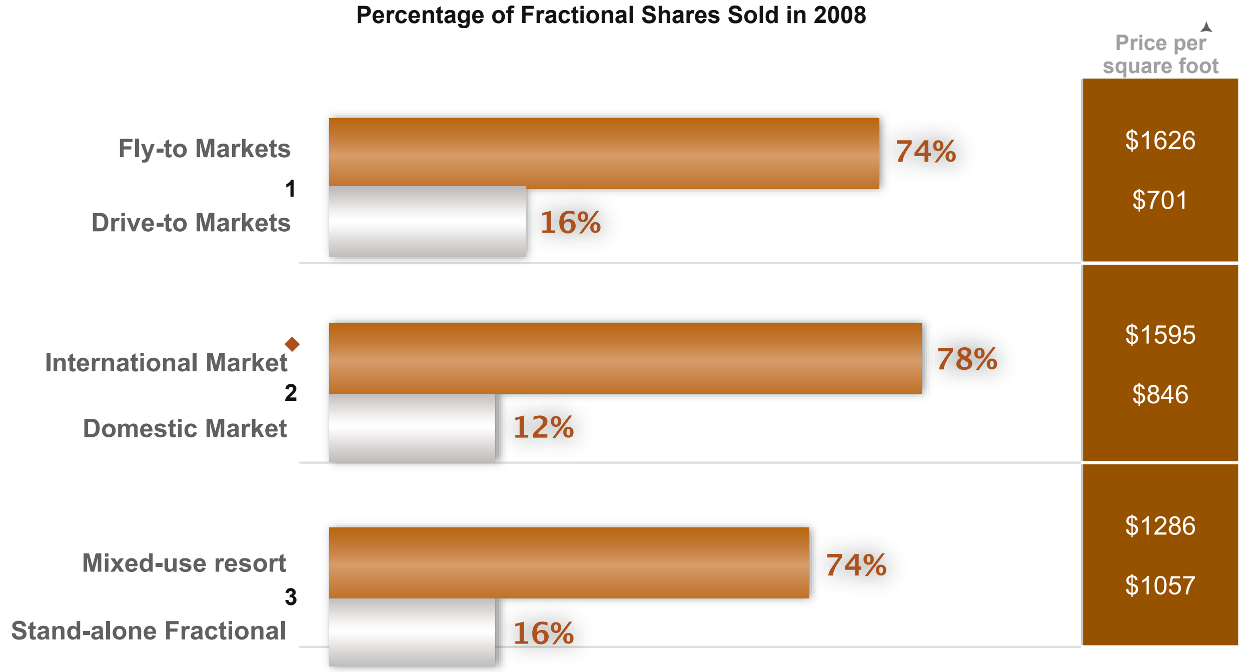
The information on the fractional business in Latin America presented in this report is an abridged version of a broader study contained in Group RCI's Latin American and the Caribbean Vacation Ownership Fact Book, which provides developers with updated information and statistics on the vacation ownership, shared ownership and timeshare markets in the region to enhance its better understanding and support decision making process.

Data Collection

Data collection was conducted by RCI's Business Development units in Latin America on behalf of NorthCourse. All data was organized and integrated following NorthCourse methodologies on business interpretation.

KEY FACTORS TO FRACTIONAL RESORT SUCCESS

In order to create a model that helps developers maximize their returns, we need to have a bottom-line measure of success. This measure of success then becomes the end variable we examine to identify what factors influence it the most. Given the myriad prices, locations and product types in the market we chose *sales pace* as a measure common across all developments. This is operationally defined as the annual number of new owners added during the active sales period. Highly successful resorts close new sales at a higher pace and are associated with a higher share of presale closings. Based on this definition, several factors came to the forefront that distinguished resorts with stronger sales pace than those with a slower sales pace.



◆At least 5% of the guests are international
▲ Only two and three-bedroom units were included in this analysis

Consumer Financing

Those projects which are able to provide consumer financing are most likely to be successful in the current economy. With little to no consumer financing available to most buyers through traditional lenders, those projects which can offering financing have a competitive advantage. Some developers are carrying paper themselves and others are negotiating loan terms with local banks in order to provide their buyers with options.

Proper Positioning

Carefully planned projects which take into account the current market climate and consider local and regional competition are most likely to be successful. The characteristics that make one project successful may not be true for another project in a different location with a different target market.

Emphasis on Core Values

Buyers are demonstrating a shift to family values over the past year. Large vacation homes with opulent finishes and luxurious amenities are not the primary drivers to purchase. Rather, buyers are seeking a comfortable place they can conveniently get to and where they can spend quality time with their families.

Unique Offering

Fractional projects located on a prime amenity, such as the base of the ski mountain or ocean front, are the rarest and most desirable projects, and are therefore typically more successful. However, projects on other less prime sites may be as equally successful if they offer something that their competitors do not. Uncommon product features, creative and flexible usage plans, upgrade and resale incentives are some of the many ways developers are striving to make their offerings unique and appealing.

Mixed Use Resorts

Fractionals which are part of a larger mixed use resort with a hotel component are generally more successful than stand-alone projects. The hotel generates traffic for the resort, which in turn increases exposure to the fractional offering. Many buyers are drawn to the mixed use resort initially because of the variety of real estate offerings – whole ownership, timeshare, and/or fractional.

Reputation

Branded projects and developers with previous successful ventures are more likely to be successful in today's market. The days of speculation buying are passed and increased emphasis is being placed on value and personal use. Therefore, well-known names in the industry are attracting a greater percentage of buyers.

TRENDS IN NEWER TRADITIONAL FRACTIONALS

Where are Traditional Fractionals Headed?

- Part of a mixed use development
  - With more hotels
- Located near a water attraction with an onsite beach club
- Attracts more international guests
- Larger units
- Inclusion of housekeeping fees in HOA dues
- Offers:
  - Managed rental programs
  - External exchange programs
  - Consumer financing (more likely to be sourced in-house/via developer)

Comparing newer Traditional Fractionals (defined as those with an initial occupancy date of 2007 or later for those still in presales) with older resorts (resorts with an initial occupancy date prior to 2007) reveals some development trends worth noting.

Consistent with last year's findings, increasing numbers of buyers are traveling with friends and family, thus larger two- and three-bedroom units are becoming more popular and have greater square footage. Studio units are on the way out.

Increasing numbers of fractionals are affiliating with external exchange programs, whereby owners can trade in their guaranteed usage weeks for a stay at another location.

Traditional fractionals are still becoming a popular component of mixed use resorts. When added to the residential mix of a larger development, fractionals help create product diversity, thereby broadening the market and facilitating absorption.

TRENDS IN NEWER PRIVATE RESIDENCE CLUBS

Where are PRC's Headed?

- Part of a mixed use development
  - With more wholesale ownership condos
- Located in:
  - Downtown settings
  - Fly-to destinations
- Larger and more types of units available
- Higher average fractional/interval sales prices
- Higher HOA fees
  - Inclusion of housekeeping fees in HOA dues
- Managed rental programs
- Rotating calendar property use plan
- Increased advertising efforts as well as an increase in walk-ins
- Increased advertising efforts as well as an increase in walk-ins

Looking at the more prominent shifts in PRC characteristics, we see some parallels with trends in Traditional Fractionals as well as some distinct diversions from that product type.

More PRC's are being built in fly-to destinations, while Traditional Fractionals remain concentrated in drive-to locations.

There is an increasing interest in urban PRC's, primarily branded projects with a hotel component. Major cities like San Francisco, New York and Miami are popular locations for urban fractionals.

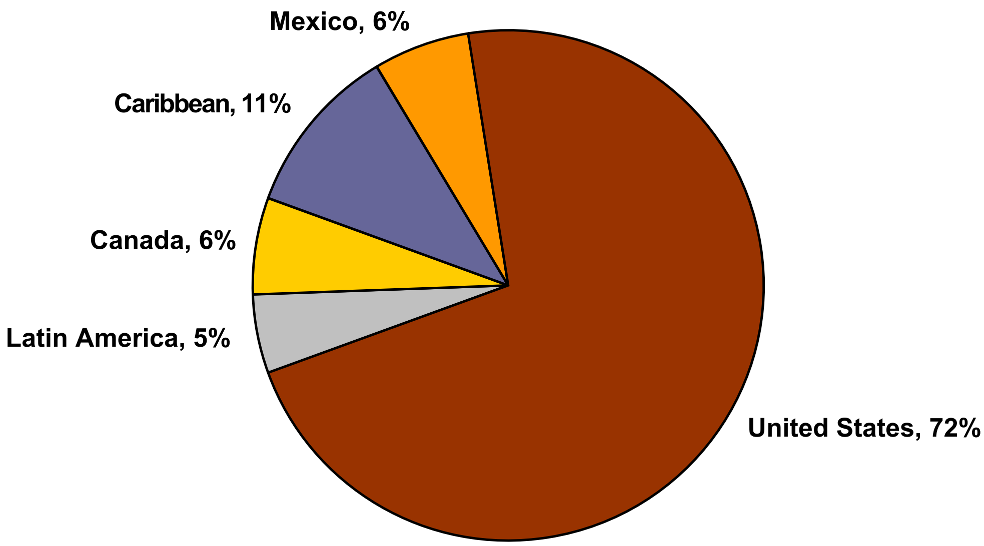
Private Residence Clubs are experiencing a greater number of international buyers, mostly Europeans. This is likely a result of the increasing familiarity with fractionals worldwide. As the fractional industry continues to grow, so will the number of international fractional locations as well as international buyers in the Americas.

PROJECT CONFIGURATION

	PRC	Traditional Fractional
Part of Mixed-Use Development		
% Yes	70%	60%
Other Land Uses*		
Whole Ownership Condos	74%	62%
Whole Ownership Townhouses, Villas, or Detached Homes	37%	57%
Timeshare	5%	29%
Hotel	58%	57%
Homesites	21%	19%

- A mixed-use development is defined as a project with multiple land uses. These may include whole and fractional ownership, hotel/condo hotel, single family home sites and timeshare, to name a few.
- A greater percentage of fractional projects in 2008 were part of a mixed-use development than in 2007.
- Private Residence Clubs are typically not part of a mixed use resort which includes timeshare. However, almost one-third of Traditional Fractionals in mixed-use resorts have timeshare at the resort as well.

FRACTIONAL LOCATIONS



- The majority of fractional projects are still in the United States. However, an increasing number of PRC's and Traditional Fractionals are being developed in Mexico and Latin America. This trend can be attributed to the lower cost of land, lower construction costs, fewer developmental constraints and a relatively healthier economy. It should be noted, however, that financing in Mexico and Latin American countries is also becoming increasingly difficult to obtain.
- Within the United States, more fractionals are located in Colorado than any other state, followed by California and Florida. Prime development sites such as the base of the ski mountain or directly on the ocean are popular fractional sites, hence the preponderance of fractionals in those states.

State	#
Colorado	10
California	6
Florida	4
Utah	3
Vermont	3
Idaho	2
Michigan	2
Minnesota	2
New York	2
Oregon	2

1 resort was included from Arizona, Georgia, Hawaii, Missouri, Montana, New Mexico, North Carolina, South Carolina and Virginia.

AMENITIES AND ATTRACTIONS

- Of those resorts which include golf as an amenity, 58% include golf membership fees as a part of their annual maintenance fees.
- Three quarters of the fractionals located on water attractions have a beach club.

	Local Attractions		Resort Attractions	
	PRC	Traditional Fractional	PRC	Traditional Fractional
Top Amenities Offered				
Golf	54%	49%	21%	26%
Skiing	61%	31%	36%	14%
Water Attractions	43%	86%	18%	54%
Downtown / Urban Center	39%	11%	21%	11%

TYPES OF UNITS

- PRC projects and Traditional Fractionals vary in the types of units they offer. Generally, PRC projects offer more multi-bedroom units while Traditional Fractionals continue to offer smaller units. However, Traditional Fractionals are beginning to offer a greater percentage of larger units, particularly three-bedroom units.
- PRC's continue to offer more four- and five-bedroom units than Traditional Fractionals.
- As indicated by the average number of units per project for the various unit types in the table below, Traditional Fractionals tend to be larger with more units per project than PRC's.
- The trend toward Traditional Fractionals having lock-off configurations has grown in popularity. A lock-off option increases the attractiveness of a unit as a rental. For example, an owner may rent out his full three-bedroom unit, or when traveling with only one other person, he may elect to stay in the one-bedroom lock-off, thus creating a two-bedroom suite for a rental. The flexibility offered by lock-off configurations provides benefits to the developer and the consumer.

	PRC	Traditional Fractional
One-Bedroom		
Units Offered *(% Yes)*	29%	23%
Number of Units/Project *(Average)*	15	24
Two-Bedroom		
Units Offered *(% Yes)*	71%	60%
Number of Units/Project *(Average)*	17	26
Three-Bedroom		
Units Offered *(% Yes)*	82%	80%
Number of Units/Project *(Average)*	18	26
Four-Bedroom		
Units Offered *(% Yes)*	50%	31%
Number of Units/Project *(Average)*	10	16
Five-Bedroom +		
Units Offered *(% Yes)*	11%	3%
Number of Units/Project *(Average)*	4	–

UNIT SIZES

- PRC units are typically have more square footage and are designed with more spacious, open floor plans than Traditional Fractionals.
- In 2008, the average square footage for new units with two or more bedrooms were larger than in 2007, particularly for two-bedroom PRC units which increased by 22%.

SQUARE FOOTAGE BY UNIT TYPE

	PRC	Traditional Fractional
Studio (SF)		
Average	563	503
Range	500 – 625	360 – 650
One-Bedroom (SF)		
Average	1,080	836
Range	825 – 1,640	600 – 1,200
Two-Bedroom (SF)		
Average	1,638	1,563
Range	1,000 – 2,100	692 – 2,500
Three-Bedroom (SF)		
Average	2,136	2,119
Range	1,500 – 2,943	1,000 – 3,200
Four-Bedroom + (SF)		
Average	3,009	3,338
Range	2,000 – 4,500	1,660 – 4,104

PURCHASE PRICE

PRICE PER SQUARE FOOT BY UNIT TYPE

	Current Price		Launch Price	
	PRC	Traditional Fractional	PRC	Traditional Fractional
Two-Bedroom ($/SF)				
Average	$1,602	$1,194	$1,549	$1,162
Three-Bedroom ($/SF)				
Average	$1,111	$754	$1,067	$576
Four-Bedroom + ($/SF)				
Average	$1,295	$739	$1,013	$515

- The higher price per square foot of PRCs is attributable to the higher real estate costs and higher quality FF&E. Beyond a certain unit size, the purchase price per square foot begins to get lower. This is due, in part, to the fact that the bulk of the cost is in the kitchen and bathrooms. Therefore, increasing the size of the living areas and adding more bedrooms proportionately lowers the total unit price on a per square foot basis.
- PRC's and Traditional Fractionals are experiencing price increases compared to their launch prices ranging anywhere from 3% to 43%. The greatest price increases have been in the larger units, four or more bedrooms, which is likely due to the higher demand and scarcity.

HOMEOWNERS ASSOCIATION (HOA) FEES

ANNUAL MAINTENANCE FEES

	PRC	Traditional Fractional
One-Bedroom ($/Base Share)		
Average	$7,402	$3,533
Range	$1,664-$14,800	$1,200-$7,200
Two-Bedroom ($/Base Share)		
Average	$9,097	$5,954
Range	$1,824-$18,400	$1,200-$17,200
Three-Bedroom ($/Base Share)		
Average	$10,473	$6,960
Range	$2,219-$22,000	$1,075-$17,200
Four-Bedroom ($/Base Share)		
Average	$11,937	$4,941
Range	$4,453-$24,400	$1,700-$10,000

- PRC's are providing the purchaser with a one stop solution to property management by building more of the operating costs into the HOA fees.

SERVICES INCLUDED IN ANNUAL MAINTENANCE FEES

	PRC	Traditional Fractional
HOA Fees Include … (% Yes)		
Property Taxes	88%	76%
Housekeeping	73%	70%
Annual Golf Membership Dues	30%	24%

- HOA fees at PRC's typically include more services and amenities than Traditional Fractionals.

CONSUMER FINANCING

	PRC	Traditional Fractional
Offers Consumer Financing		
% Yes	54%	51%
Consumer Financing Provider		
In-House Developer	23%	29%
Third-party Financial Institution	77%	71%
Percentage of 2008 Cash Purchases		
Average	67%	31%
Remaining % Financed In-House		
% Yes	38%	20%

- Approximately half of all fractional projects surveyed offer some form of consumer financing to its buyers.
- The majority have secured financing with third-party financial institutions, while some are offering financing in-house.
- More PRC buyers purchase with cash than Traditional Fractionals.

KEY PROJECT DATES

- The majority of PRC's were built between 2000 and 2005. However, traditional fractionals have been developed in greater numbers over the past two years.

	PRC	Traditional Fractional
First Occupancy Date		
Before 2000	8	13
2000 – 2005	52	16
2006 +	40	72

- Of those projects with plans for future phases, more Traditional Fractionals will come online in 2009 than PRC's.

	PRC	Traditional Fractional
Plans for Additional Projects		
	36%	49%
Expected Sales Opening (%)*		
2009	50%	80%
2010	50%	20%

***Base: Currently have plans to develop additional projects.**

SALES STATUS

- Currently, significantly more Traditional Fractionals are in the presales stage than PRCs, which may be attributable to economic shifts in 2008.
- PRC's have a greater percentage of inventory sold to date, which may be attributable to the greater number of units at Traditional Fractionals. Project size may also be a contributing factor to the higher percentage of PRC's which are completed and sold out.
- PRC's have a lower rescission rate than Traditional Fractionals

CURRENT SALES STATUS	PRC	Traditional Fractional
In presales and not yet under construction	---	9%
In presales and under construction	4%	20%
Under construction with residences and occupancy permits	12%	15%
Completed, with occupancy permits, and selling "Developer Sales"	40%	35%
Completed and sold out	32%	18%
Sold out – resales only	12%	3%
Average percentage of refundable reservations converted to non-refundable deposits	80%	50%
Percent of inventory sold for all phases marketed to date	62%	49%

- On average, PRC's sold 34 shares last year, which equates to a monthly absorption of 2.8 shares.
- Sales of Traditional Fractionals were approximately half of PRC sales, about 15 per project. The average absorption rate was just over one share per month.
  - The figures shown in the table below for studio and one-bedroom PRC shares sold require further explanation. Among all the PRC's surveyed which have units of these types (24%), the majority (71%) are urban PRC's, not resort PRC's. Urban fractionals often have a different unit mix which includes a greater proportion of small units because of the difference

in usage patterns. Urban fractionals are often used for overnight or short term stays and primarily for business use, while resort fractionals are designed to accommodate families and owners who travel with guests. Therefore, the survey results for studio and one-bedroom PRC share sales below are skewed.

	PRC	Traditional Fractional
Fractional Shares Sold in 2008		
Average	34	15
Fractional Shares of Each Unit Type Sold in 2008 (Average)		
Studio	15	3
One Bedroom	24	31
Two Bedroom	21	6
Three Bedroom	14	9
Four Bedroom	4	5
Five Bedroom +	5	1

MARKET PERFORMANCE

	PRC	Traditional Fractional
Resales Management		
In-House	31%	50%
Outside Broker	69%	50%
Resales Prices Trend		
Decline	21%	22%
Stay the Same	42%	17%
Increase	37%	61%
Total Change		
Average	28%	11%

- Survey results indicate the majority of resales over the past year for PRCs is being handled by outside brokers instead of an in-house sales team.
- A small percentage of fractional resales in 2008 were sold at prices lower than developer inventory. However, a greater number of Traditional Fractionals reported increases in resales prices than PRC's.

- Of those projects which did appreciate, PRCs tended to appreciate more than twice as much as Traditional Fractionals, averaging 28% price appreciation for the year.

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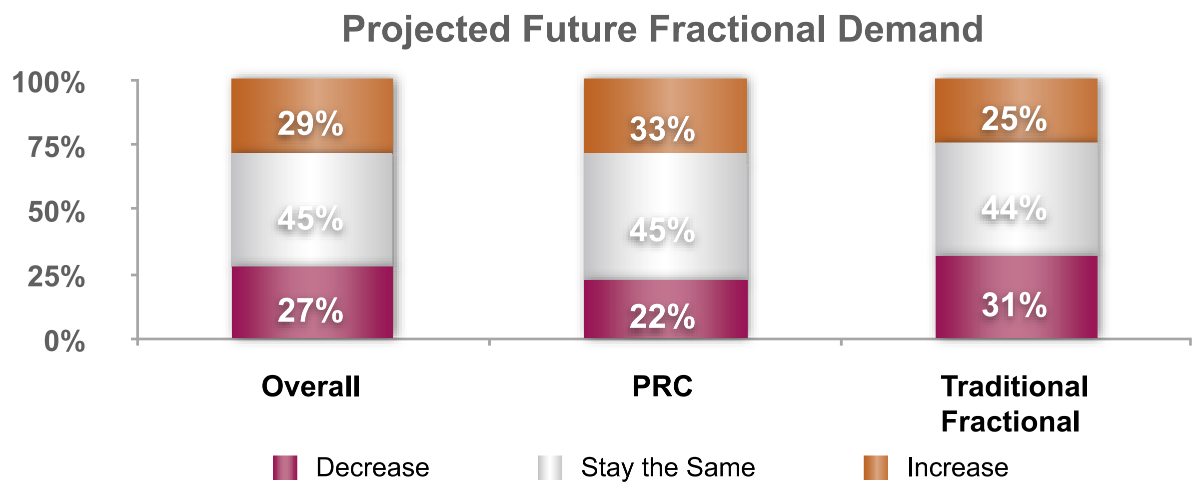
MARKETING AND BRANDING

	PRC	Traditional Fractional
Most Effective Ways To Generate Sales Traffic		
Advertising	25%	49%
Direct Mail	25%	40%
Walk-ins	54%	31%
Referrals	64%	74%
Other	75%	55%
Resort Branding		
% Yes	41%	23%

- Traditional Fractionals are morel likely to utilize advertising, direct mail and referrals to generate sales traffic, whereas PRC's are more likely to leverage walk-ins and other means of marketing.
- Other marketing tools cited by the projects surveyed include:
  - PR Activities
  - Exhibits
  - Trade shows
- Almost twice as many PRC's are branded by hospitality companies than Traditional Fractionals. Ritz-Carlton and Fairmont currently lead the industry in branded fractional projects.

INDUSTRY OUTLOOK

- The majority of industry professionals representing both PRC's and Traditional Fractionals are less positive than last year about sales in 2009. Most believe that the demand for fractionals will remain the same during the coming year.



	PRC	Traditional Fractional
Sector Demand 2009		
Whole Ownership	7%	9%
Fractional	57%	64%
Neither - Same Performance	36%	27%

- However, it is important to note that most industry professionals believe that fractionals will remain more popular than whole ownership offerings in 2009, and that fractionals will be increasingly more popular than other vacation ownership types once the economy begins to improve.

CURRENT AND FUTURE CONSTRUCTION

- Phasing of fractional project became more prevalent over the last year than it was in 2007. A greater number of Traditional Fractionals are developing in phases than PRC's.
- Many developers, particularly of Traditional Fractionals, are optimistic about future projects.

	PRC	Traditional Fractional
Constructing in Phases		
% Yes	40%	60%
Plans for Additional Projects		
% Yes	36%	49%

North American Projects Planned in: Bell Harbor Florida, Chicago, Hawaii, Lake Tahoe, Vail, Minnesota, Jeffersonville Vermont, Steamboat Springs

Other projects planned in: Bermuda, Dominican Republic, Grand Cayman, Italy, Dubai, Baja California, Europe, Italy, Virgin Islands

BUYER ORIGINS

	PRC	Traditional Fractional
Drive–To Market	41%	58%
Fly–To Market	59%	42%

- As expected, PRC's attract a greater number of fly-to buyers, while Traditional Fractionals are most appealing to those buyers within driving distance.
- PRC's are typically associated with a more affluent buyer who is less concerned about airfare costs and more interested in minimizing travel time.

	PRC	Traditional Fractional
Domestic Buyers	87%	74%
International Buyers	13%	26%
INTERNATIONAL MARKET REGIONS		
Other North American Countries	47%	76%
Europe	35%	21%
Other	18%	3%

- PRC's and Traditional Fractionals are seeing an increasing number of international buyers, due in part to the increasing acceptance of fractional ownership worldwide.
  - While the majority of international buyers come from other locations within North America, European buyers are emerging at an increasing rate.

PROGRAM OFFERINGS AND USAGE PLANS

	PRC	Traditional Fractional
Fractional Program Offerings		
Managed Rental Program	43%	74%
In-House Resale Program	71%	74%
Internal Exchange Program	68%	49%
External Exchange Program	54%	74%
Use Plan		
Fixed week set calendar	21%	29%
Rotating calendar	36%	40%
Annual reservation system	43%	26%
All of the above	4%	9%

The Registry Collection® program and the RCI® exchange programs were the top external exchange programs cited.

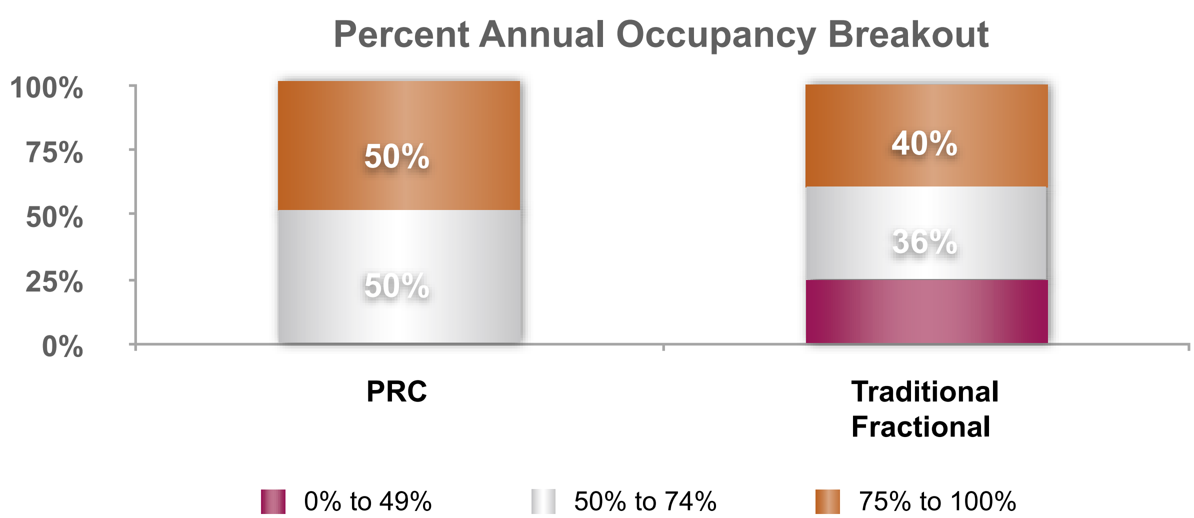
- PRC's are more likely than Traditional Fractionals to offer an open annual reservation system, whereby once a year owners reserve an allotted number of guaranteed weeks use for the following calendar year. Open annual reservation systems offer greater flexibility of usage.
- Traditional Fractionals most commonly offer a rotating usage calendar in which owners receive a week's stay every "x" number of weeks, based on the fraction size. Rotating usage calendars allow owners to know exactly which weeks are theirs far in advance, which makes participation in a rental program easier.
- PRC purchasers prefer the privacy and exclusivity to renting their home for transient client usage.
- Traditional Fractional purchasers typically appreciate the option to recover a portion of their property ownership cost through an organized rental pool.
- The most commonly cited external exchange programs were The Registry Collection® program and the RCI® exchange programs..

OCCUPANCY

	PRC	Traditional Fractional
Percent Annual Occupancy	76%	57%
Occupancy Rate in Prime Season(s)	94%	75%

- Occupancy rates are higher at PRC's than Traditional Fractionals in terms of annual occupancy and prime season occupancy. This statistic seems unlikely given that the majority of Tradtional Fractionals offer managed rental programs. However, historically PRC owners use their fractional home on a more frequent basis than Traditional Fractional owners. Thus, if the Traditional Fractional unit is not rented, it may often sit empty.
- PRC's seldom fall below 50% annual occupancy, as shown in the graph below.

	PRC	Traditional Fractional
Percent Annual Occupancy		
Average	76	57
Occupancy Rate in Prime Seasons		
Average	94	75



A CLOSER LOOK AT FRACTIONAL REAL ESTATE

A Closer Look at Fractional Real Estate

Fractional real estate has evolved over many years from friends and families buying second home real estate together to more sophisticated models whereby 1/4th shares or smaller are sold by a realtor or developer to unrelated parties with a usage plan in place. One of the original formalized fractional programs was created by Intrawest at the Whistler ski area, north of Vancouver, BC sometime in the 1980's. The offering was condominiums sold in 1/4th shares with a fixed week usage calendar.

The first PRC was the Deer Valley Club in Deer Valley, Utah constructed in 1992. Phase One of the Franz Klammer Lodge in Telluride, Colorado was the second PRC. Development of the Franz Klammer Lodge began in 1995. Between approximately 1998 and 2000, development started on five more residence clubs including the Austria Haus in Vail, Colorado, Northstar in Lake Tahoe, California, phase one of the Christie Club in Steamboat Springs, Colorado, the Phillips Club in New York City, and the Roaring Fork Club in Basalt, Colorado near Aspen. Since 2000, the supply and demand for both traditional fractionals and PRC's has accelerated rapidly.

The majority of completed, occupied PRC's are still located in ski resorts where they began. However, the supply of both traditional and PRC fractionals is rapidly spreading to warm weather beach and golf resorts throughout the world, particularly Mexico and Latin America.

The fractional industry is continuing to change and evolve. However, the industry is still in its infancy and has not been exposed to the majority of the market. Considering that 80% of the income qualified households in the U.S. do not own a second home, the market is deep. Even 5% market penetration would produce over $4 billion in sales.

Today, PRC sales agents report that many consumers are aware of the concept and their purchase decision often focuses on where and what to buy. However, in most resort locations, choices are limited. The time from first contact to an earnest money deposit has shortened considerably. The market is being penetrated at a deeper level, but still remains relatively untapped.

Market Conditions

Market conditions for fractional real estate can be divided into five distinct periods.

- 1995 through 2000
- 2001 through 2002
- 2003 through 2007
- 2008 to present

In the late 1990's the supply of both PRC and Traditional Fractional inventory was limited in most resort locations so there was practically no market and essentially no competition, except from whole ownership. The economic environment boasted the strongest economy in history, the stock market was creating extraordinary wealth, and consumers were buying resort real estate of all types, including PRC's and other types of fractional real estate.

During this period, the market could have been even stronger if consumers had been more aware of the product. However, because there were so few projects in the market, supply was limited, industry advertising dollars were a small percentage of what is being spent today, and it took more time to educate the consumer about the product and turn a prospect into a buyer.

In the second period, between the end of 2000 and 2002, many more PRC's came online. However, the stock market weakened beginning in the first quarter of 2000. By 2001, it was clear to everyone that the economy was in trouble and that a deep national recession had begun. Many fortunes made in the stock market in the late nineties were just as quickly lost.

By the spring of 2001, real estate sales in many resort areas had slowed dramatically and for the first time in several years, supply exceeded demand. The effect of 9/11 on vacation travel, particularly air travel, was quick and severe. Overnight real estate sales in many resort areas all but stopped. Low hotel occupancy and slow real estate sales were characteristic of most of 2002.

However, markets have a short memory and by the fourth quarter of 2002, signs of recovery in both the national economy and the resort and hospitality industry were evident.

By the end of the first quarter of 2003, the market had recovered and second home real estate of all kinds was once again flourishing with strong sales, new project introductions, and a renewed excitement by practitioners in the industry. This trend continued to accelerate through 2005 which may go down as the strongest real estate market in history. Industry absorption was far above pre-2000 levels, there were strong signs of pent up demand, and sellouts prior to the completion of construction were a common occurrence.

During the latter half of 2008 and the first quarter of 2009, as the economy slipped into a full-blown recession, real estate activity across all sectors came to a virtual halt. The majority of projects which were positioned to come online have been shelved until market conditions improve.

The demographics of the Baby Boom generation haven't changed and consumers still aspire to own a second home. However, psychographics have made a 180 degree turn. Most consumers who were previously feeling affluent have lost 30-50% of their net worth due to declines in real estate values and the stock market. Going forward, consumers will be very cautious and will be protecting their assets rather than spending them. However, the dream to own a second home is not dead and fractional real estate will lead the market recovery in the resort industry for several reasons:

- Unlike whole ownership, fractionals are not overbuilt and while sales are slow prices are not declining.
- Fractionals are a smarter way to own a second home in the new economy.
- The consumer is able to buy only what they have time to use at a fraction of the price, but still enjoy the luxury and lifestyle of a home that could otherwise cost several million dollars.

Industry Trends

There are a number of important trends that will continue to shape the fractional real estate industry in the future.

Product

The fractional product offering includes the location, the physical design, the usage plan and reservation policies and procedures that overlay the usage plan, and most importantly the vacation experience and lifestyle that a potential buyer envisions for himself and his family. The importance of the location cannot be overemphasized and is discussed in more detail below.

With respect to the physical product there is a wide variation in building types that includes

- Low and medium density detached single family homes, duplexes, and triplexes of varying sizes and quality levels.
- Low to medium density attached townhouses on separate townhouse lots.
- Medium density stacked condominiums in mid-rise buildings.
- High density urban high rise mixed use buildings.

The type of construction in medium density projects includes both wood frame and concrete and steel, depending on the height of the building. Density is driven mostly by land price, but should be consistent with the degree of the rural or urban character of the surrounding environment. In large mixed use destination resorts, with a wide range of densities, fractional real estate can be either low or medium density. As noted in previous sections, the fractional designation (traditional or PRC) cannot and should not be determined on a square footage selling price alone. Relegating the designation to a single over-simplified factor (such as price per square foot) dilutes the meaning of the designation and serves to only confuse consumers and developers alike. This may help in ease of reporting, but it more often demonstrates a fundamental lack of understanding about consumer choice and motivation to purchase different types of fractional products.

Irrespective of the density, among PRC's there is a developing trend towards larger homes with higher quality finishes and higher price points. Unit size and mix is trending towards three and four bedroom homes and away from two bedrooms, except in urban areas. Among PRC's in the planning stage, a three bedroom home typically ranges from approximately 2,400 to 3,000 square feet. A four bedroom home is often over 3,000 square feet, but seldom less than 2,700 square feet. Traditional fractional real estate is usually 30% to 40% smaller on the average.

Unit designs for all fractional real estate should include two relatively equal twin master bedrooms with somewhat smaller third and fourth bedrooms. However, each bedroom needs to have a bathroom. Deluxe kitchens are necessary, particularly in a PRC and great rooms are common and create a feeling of luxury and openness.

Ideally, each home will include a small study or workspace with desk for a home office. The size and type of this work space will be dictated by the overall size of the home with a study or a den most often found in a PRC. If the room is enclosed it can also function as an overflow sleeping area with a hide-a-bed. Large outdoor living spaces connecting to the living area and the twin master bedrooms are also critical, particularly in warm climates where outdoor living is an important part of the lifestyle. Again, the size of the outdoor patio areas and decks should be consistent with the size and cost of the home.

Naturally, the land plan should orient as many units as possible towards the view amenity. Units should be designed with large floor to ceiling windows to provide unobstructed views.

The amenity package is very important, particularly in a PRC since the product is really a lifestyle product. A PRC should include a private members' lounge with a check in area, management office space, a small outdoor swimming pool, and a small fitness room. Storage space is also needed with a storage locker for each member. Amenities are more variable in traditional fractionals depending on the price point.

There is a trend to enhance the amenity offerings in PRC's with private golf club memberships (while in residence), private yachts, fractional jet service, beach clubs, and other similar types of offerings. These types of lifestyle additions further enhance the marketability and perceived value of the PRC as long as associated fees do not get out of hand relative to the price of the PRC share. Beach clubs are particularly important and are usually appropriate, if not essential, for any type of fractional real estate in a warm weather beach location.

Usage Plan

The structure of the usage plan is unique to fractionals, and in order to design a suitable plan one must first identify and thoroughly understand the needs of the market being targeted. Usage plans for drive-in markets with shorter more frequent stays must be distinguished from fly-in markets.

One of the mistakes made in the industry is attempting to sell on the basis of price alone. Generally, the price of a PRC is relatively inelastic and consumers are much more concerned with use and annual homeowner association fees. Fraction sizes, in some cases, have been too small and the market perceives the project is more aligned with timeshare. Price sensitivity is greater with a traditional fractional since it is usually being sold to a less affluent market than a PRC.

One of the most important fundamentals any type of fractional real estate is that the prime season or seasons are not oversold. For example, most Rocky Mountain ski seasons are approximately 14 to 16 weeks. Although the mountain may be open longer, most visitors want to take two weeks of winter vacation sometime between the last two weeks of December through March. Thus, a fraction size of 1/7th or 1/8th allows two weeks of prime time use in the winter and two weeks in the summer. A Traditional Fractional using a fixed week calendar must also observe this rule and the fraction size should allow at least two to three weeks of use in prime seasons.

The industry trend is towards larger fractions of at least 1/8th to provide owners with more time. The quarter share model for Traditional Fractionals still works well because it allows a sufficient number of rental weeks for the owner to receive income to offset their annual ownership costs, and enough rental weeks for a professional operator to make rental pool management worthwhile financially. However, Traditional Fractionals are increasingly in 1/8th shares, providing approximately six weeks per year, with a discount for multiple share purchases.

In a PRC, a 1/8th share provides four guaranteed weeks of time per year, leaving 20 weeks of open access time when any member can use the club at no additional charge for up to seven days. There has been a proliferation of usage plans with a wide variety of fraction sizes and guaranteed weeks. However, this range is usually within 1/4th to 1/12th fractions. Smaller fractions than 1/12th begin to cross the line into a timeshare-like business model, particularly when fixed weeks are sold and priced differently based on the season.

Occupancy rates at fractionals in ski areas typically average over 80% in the winter, with full occupancy during prime weeks like Christmas, President's Week and spring vacation. Occupancy averages about 60% to 70% in the summer and 40% or less during the shoulder seasons. Rental occupancy in Traditional Fractionals is also often low in the off-season.

Warm weather climates with long seasons usually experience higher average annual occupancy rates than ski areas. In spite of relatively high occupancy patterns, most fractional owners are able to use their home, even in the prime season, as much as their vacation schedule allows.

Pricing

PRC share prices are trending much higher together with larger sizes and more exclusive locations. In the 1990's, share prices were seldom over $300,000 and often began well under $200,000. Today, average prices for new PRC's are in the mid $300,000's and now range up to $3 million. It is not unusual to find three and four bedroom residence clubs priced at over $500,000 per fractional share. Prices per square foot are also increasing and there are many projects selling for well over $1,500 per square foot in exclusive five-star national and international resort destinations. The highest price in the market is $8,500 per square foot. A select number of projects in the planning stages will sell for over $2,500 per square foot.

Prices for a Traditional Fractional product are generally much lower depending on the size and location of the home. It is not unusual for a traditional fraction to be priced in the low $100,000's or even below $100,000 for a 1/4th share, with a typical range of $100,000 to $250,000. There is one project in the Caribbean that has come onto the market at $750,000 for a 1/4th share for a spacious single family home.

It is important to note that there are no hard and fast rules in the fractional industry related to the product, usage plans, and pricing. Rather, each project must be structured based on the affluence and vacation habits of the predetermined market that is being targeted.

Pricing fractional real estate has traditionally been based on determining the whole ownership value of the product, applying a multiplier varying between approximately 1.4 and 2.0, and dividing by the total number of fractional shares for each unit type. This pricing strategy is utilized due to the absence of other fractional comparables in the locations where they have been built. The market appears inefficient in its infancy and since the principal competition is whole ownership, the relationship between the two should not be too far out of balance on the basis of price per square foot. Generally, the opening multiplier is relatively low to allow for price appreciation. On the average, most fractional projects will often experience at least a 30% price increase in a normal market between opening presales and the last developer price. It is a better strategy to begin with a lower price to help establish momentum and send a positive message to the market. Rapid absorption initially also creates more urgency to buy through excitement over the initial success of the offering.

The number of units built should be structured around a realistic absorption target that will result in a sellout of no more than three years after completion, with two years being optimal. After two to three years, members begin to resell their ownerships. The developer must compete with these resales if the project has not been fully absorbed into the market, which may substantially slow new developer sales.

A common innovation for Traditional Fractional projects, which often have many more units to sell than a PRC, is to offer both whole ownership and a fractional product. Thus, the marketplace determines the final ratio between homes sold to one owner versus homes sold to multiple owners. The fractional inventory is carefully controlled with new fractional units added as sales are made.

Mixed Use Resorts

The concept of complete mixed use master planned communities has blossomed in the resort industry. While these destination resorts used to be hotel driven, they are now real estate driven. Hotels and golf courses are built to create a destination for the purpose of selling real estate.

Both Traditional Fractionals and PRC's are becoming an accepted component of the real estate product mix for destination resorts, thus diversifying and broadening the market and increasing the pace of absorption by creating a high value product at an affordable price. Thus, fractional real estate is being sold side-by-side with whole ownership vacation homes and condominium hotel rooms. This relationship is symbiotic rather than competitive. Cross marketing can occur and buyers who resist whole ownership because of price can be directed to fractionals, and vice versa. It is not uncommon to mix PRC's, fractionals and whole ownership in the same structure.

Five-Star Hotels and PRC'S

One of the most evident trends in the PRC market today is the increasing involvement of five-star hospitality companies. The PRC is often coupled with a hotel because there is a synergistic relationship between a PRC and a five-star hotel.

Management and the quality of service are extremely important to the PRC owner. The experience of using the home can be enhanced by a five-star hotel operator.

The PRC can be within the same building or a location near or adjacent to the hotel. The hotel company brands and operates the residence club. The residence club provides the hotel with additional operating revenue and greater efficiency. The residence club members, on the other hand, receive the benefit of the hotel amenities and services.

The hotel can also play a critical role in the sales and marketing of the PRC through traffic generation. Often the hotel guest list is used for direct mailing to prospective buyers. This is a valuable resource and the best direct mail list that can be obtained. Joint advertising and promotion is often utilized with the hotel inserting a flyer describing and promoting the PRC in the literature and promotional offers they send to previous guests.

The hotel also generates traffic and can refer hotel guests to the sales office of the residence club. Sometimes a kiosk or sales office for the PRC is set up inside the lobby of the hotel and brochure materials are placed in the rooms. A referral from a hotel establishes credibility for the PRC in the mind of the buyers.

There are new projects in the planning stages in urban markets where a hotel or condominium hotel, a PRC, and whole ownership condos are all combined together into a single high rise tower.

To date, there has not been much mixing of Traditional Fractionals with hotels, at least in the same structure. However, this mix could occur in the future, particularly in condominium hotels. A four star hospitality brand would be a better fit with a Traditional Fractional than a five star brand.

Hospitality Branding

Perhaps the most important trend in the PRC industry is branding by five-star hospitality companies. It is possible that branded PRC's may dominate the industry. Ritz-Carlton is the leader and was the first hospitality company to brand a PRC.

A brand generally provides a price premium in the market of approximately 15% to 35%, sometimes higher. The buyer has comfort in the brand and feels he is getting more for his money, even though a brand adds to the cost of the fraction. The market feels more secure in the investment and the pace of sales is usually accelerated.

The hospitality brands with five-star level properties currently involved in or planning to enter the PRC market is extensive and includes:

- Auberge
- Banyan Tree
- Capella
- Conrad Hilton
- Fairmont Resorts
- Four Seasons
- Raffles
- Regency
- Ritz-Carlton
- Rosewood
- St. Regis
- Viceroy

In addition to the national brands shown above, there are two local five-star brands that are operating fractional residence clubs in Vail, Colorado (Austria Haus and One Willow Bridge Road, operated and branded by the Sonnenalp Hotel) and Aspen, Colorado (The Residences at Little Nell).

Other brands are also emerging. Ferragamo is branding a PRC in Tuscany, Italy and may brand other hotels and PRC's. The Timbers Company, whose first project was in Snowmass, Colorado, is establishing its own brand with multiple locations and a loyal following. The strong interest in PRC's by the five-star hospitality industry is further evidence of the increasing importance and viability of the PRC product.

Exchanges

Exchange opportunities in the PRC industry are developing rapidly as well. The Registry Collection® program counts many PRC's within its portfolio of over 100 high-end and luxury properties.

A second type of exchange is also evolving through developers who are building multiple PRC projects. This is an internal exchange among an inventory managed by a PRC development company. The best example is the Ritz-Carlton Club. Another example is The Timbers Company which has an internal exchange among its seven properties.

Financing

Financing, or lack thereof, is at the root of the industry's current woes, particularly in the United States. Developers cannot find sources of debt or equity funding. The only developments moving forward at this time are those which secured financing prior to the era of financial bailouts and those with private funding. In rare cases where developers are able to secure financing through previous relationships, presales requirements are usually exceptionally high ranging for 30% to 70%. Consumer end loans for fractional real estate have also all but disappeared, except possibly from local banks when the developer has an established banking relationship.

According to industry professionals, financial institutions are more likely to work with higher end fractional projects which are located on a prime amenity, like the base of a ski mountain, and which offer a variety of ownership options to its buyers. It is the general impression among local lenders that buyers in such exclusive locations are less likely to default. Regardless of this confidence, they are still loaning at higher rates, much like whole ownership, and are offering predominantly adjustable rate mortgages. Part of the logic behind banks providing consumer financing for exclusive projects is that it looks good on their balance sheets.

Other Trends

Other market trends include:

- A transition from traditional outsourced marketing efforts to in-house production and increased focus on owner referrals.
- Fractional projects are considering purchase offers that they would not have considered a year ago. Buyers are steering the industry because there is a surplus of fractional properties and a shortage of qualified buyers.
- Fractional real estate will continue to gain market share against whole ownership, particularly in the changing economic climate, because it is a more practical choice in terms of cost and usage.

Successes & Failures

While shared ownership has become an accepted product in the market place, financial results have been mixed. Aside from the external effect of the economy, there are numerous reasons why some fractional real estate programs have been successful while others have struggled or failed. The factors that have contributed or detracted from success are summarized as follows:

- Location
- Product design
- Usage structure
- Marketing plan and execution
- Pricing and HOA fees

- Competition from resales

Location

Regardless of the product, the success or failure of resort real estate is dependent upon the quality of the location. All second home real estate, but especially fractional real estate works best in locations where vacation homes are expensive and out of reach to all but the most affluent households. A fractional offers an opportunity for someone with less income and net worth to buy a luxury home in an area where they would otherwise be excluded. Thus, shared ownership is both a lifestyle and value proposition.

Location requirements include an established national or international resort or urban areas where a significant volume of tourist traffic and repeat visitors seeking a second home, and a location with natural amenities and high priced resort real estate. Traditional Fractional real estate works much better than a PRC in resort locations where the real estate prices are lower and where price is the primary determinant of the sale.

Major amenities such as a ski-in/ski-out site, frontage on an ocean or other large body of water, a high end exclusive golf course in an established destination golf resort or a highly desirable urban location is critical. These types of amenities are needed to create the type of view orientation the affluent market is seeking. Five-star locations are usually characterized by land scarcity and high land prices, coupled with a difficult and lengthy entitlement process that limits competition. Five star locations and land prices go with a PRC and three or four star land prices and locations should be coupled with a traditional fraction if shared ownership is going to be part of the offering.

Access is another important factor contributing to or detracting from the success of fractional real estate. Projects accessible to large markets by both air and automobile have a significant competitive advantage. Consumers typically will tolerate three to four hours of travel time to reach a favorite destination by automobile, perhaps more by air. A highly unique location can sometimes attract a market in spite of poor access.

Product Design

Mistakes in product design include the wrong unit mix and sizes, poor floor plans, inadequate back room and storage space, and many other flaws, some apparent and others more subtle. The inclusion of too many two bedroom units, or any at all in a PRC, units that are too small, and units that are stereotyped in the market as another "me to" residential development have been a repetitive problem. Second home buyers often travel with friends and family and want more space and more bedrooms. Three and four bedroom second homes are the norm for PRC's. Two bedrooms are in far less demand, except in urban areas or where the property is being positioned in the market for overnight rentals. However, two bedroom homes in a traditional fractional offering are the most popular floor plan because they are priced lower and because they make the best rentals.

There is no "cookie-cutter" approach to fractional development. Each location is unique and the product should be designed specifically to penetrate the target markets that the location attracts. Competitive positioning and market differentiation are critical components of the development program and product design.

Other mistakes revolve around the usage plan and fraction size. In some cases, developers have increased the fraction size to lower the price point. For example, a developer selling 1/8th shares adds a 1/16th share to the program.

Reducing the fraction size in order to lower the price point is often a case of trying to solve the wrong problem and cheapens the offering in the eyes of the buyer. However, the industry is changing rapidly and it is likely that smaller fractions, in locations where the market is less affluent and more price sensitive, will be successful. At some point the distinction between a luxurious timeshare and a modest traditional fractional may become gray and perhaps irrelevant, except in location characterized by high prices, exclusivity and dominance by affluent households.

Marketing Plan and Execution

The market plan and its execution are also critical and difficult to overcome when mistakes are made. Both the quality of the plan and the execution of the plan will have an effect on absorption. The market plan can include, but is not limited to the following:

- A presales program that mitigates risk and meets development loan presale requirements usually associated with fractional development and construction loans
- Setting up an attractive and functional sales office in the right location
- Design and production of high quality marketing collateral materials
- Implementation of advertising, direct mail and intercept marketing programs and other methods for reaching the target market
- A high quality website with viewer registration can provide an excellent source of leads
- An outside sales co-broker program
- An owners' referral program
- Road shows in major metropolitan areas
- Hiring, training, and managing a professional sales staff
- An adequate marketing budget usually equal to 12% to 20% of revenue, which fluctuates by project depending on total revenue and the method selected for reaching the market.

The presales program ideally begins three to six months before ground breaking and continues through the construction period. Initially, reservations with fully refundable deposits are taken and then converted into non-refundable earnest monies and placed in an escrow account when the proper legal documents are in place.

When the period from reservations to non-refundable earnest money deposits is greatly extended due to construction delays or beginning presales too soon, many reservations disappear and the conversion rate of reservations to non-refundable deposits is low. Sales and marketing costs increase significantly. A conversion rate of 70% or more is excellent, while 50% or lower is disappointing.

The developer is sometimes in a quandary because reservations are usually required before a development loan is funded. However, the due diligence process for obtaining a development loan can be lengthy and significantly delay construction, thus extending the presales period.

This conversion rate is also greatly affected by the buyer relationships formed during the presales and construction. Continuous communication with reservation holders through email, group meetings, direct mail, and a web site is essential.

Pricing and HOA Fees

Pricing and homeowner association fees are a critical component to the success of any real estate project. Consumers are sophisticated and perceptive with respect to recognizing value.

Some developers have created a price umbrella by setting prices to achieve unrealistic margins, sometimes as high as 40% to 50% of gross revenue. With this pricing strategy, competitors can easily enter the market and create a better product at a lower price and still achieve a satisfactory return. It is important that a consumer views their purchase as an excellent value.

> The pricing relationship between comparable wholly owned real estate in the market area and fractional shares must be carefully evaluated since whole ownership is the competition in markets where other fractional real estate is not present.
>
> A prudent pricing strategy is to utilize a conservative opening price multiplier of 1.4 for a quarter share and 1.6 for a smaller

fraction, to create initial sales momentum. Price increases of 5% to 10% can be implemented approximately with each new release as long as sales targets are met. With this approach, it is possible to average a 1.7 to 1.8 multiplier over the life of the project. Projects with five-star brands can charge more and use higher multipliers than unbranded clubs.

In most cases, buyers are more resistant to annual homeowners' association (HOA) fees than the purchase price. HOA fees must be competitive with other fractional real estate and budgets should be structured so the basics are covered and user fees are charged for additional services. There is greater price sensitivity and therefore, fewer services are offered in traditional fractional real estate than in a PRC, It is very important, however, to include adequate maintenance reserves and FF&E replacement reserves in the HOA budget.

Competition from Resales

Because the PRC industry in particular is relatively new, there is only a limited amount of information on resales. Thus, for most residence clubs, competition from resales has not emerged as a strong obstacle to new developer sales, except in a limited number of cases.

Resales usually begin two to three years after opening when consumers, for various reasons, decide to sell. In some cases buyers are speculators who purchase during an introductory offering at a discounted price with the idea of selling later at a profit once prices increases.

Resales are a greater concern for PRC's than Traditional Fractionals or whole ownership when the fractional share is listed with an outside broker who has no experience selling fractionals. The sale is often made by discounting the price below the developer sales price. This problem is exacerbated with PRC's because a membership class (e.g. a three bedroom membership) is being sold rather than a specific unit. Thus, the product is homogenous and can become somewhat of a commodity in the resale market. For all of these reasons, it is important that the developer provide a resale program to the owners that will induce them to retain the developer as the resale agent instead of going to an outside broker. A developer resale program begins with maintaining a relationship with the owners that fosters loyalty.

Generally, the buyer must be guaranteed that the resale will receive exposure to prospective buyers. A strategy that has been employed in the industry is to market a resale for every four or five new sales. The owner then has an expectation that the resale will occur in a reasonable amount of time for the same price as new developer sales.

Managing resales is a critical factor in real estate business. Because of the number of sales that have to be made, if the developer still has inventory when resales begin it is more difficult to make new developer sales and absorption can slow. A fractional offering should be sized based on absorption expectations so the project is fully absorbed within three years after occupancy.

NORTHCOURSE PRODUCTS AND SERVICES

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Feasibility Studies

What is it?

Why a developer would engage NorthCourse?

- To properly manage and mitigate development risk, the developer needs to fully understand market dynamics and competitive forces that ultimately determine the success of a leisure oriented real estate, fractional, or hotel development offering.

What is needed?

What NorthCourse does to perform:

- Primary research of the competition in the region in which the subject property is located.
- Identification of the competitive strengths and weaknesses of the site in relation to the competition.
- Development of a strategic plan to capitalize on strengths, mitigate weaknesses, and differentiate and position the project to capture more than its fair share of the market.

What NorthCourse collects as data:

- Data related to regional market trends, access, level of tourism, and other macro and micro economic data relevant to the subject property.
- Information on the competitive product offering, pricing, absorption, amenities, and reasons for success or failure in the market.

What a developer needs to provide:

- Detailed information on the characteristics of the site, a site master plan if available and the preliminary development concept and program for the property.

What is the deliverable?

- A detailed market driven development program designed to maximize profitability and identify and capture the highest and best use of the site.
- Product recommendations including residential and hotel unit mix and sizes, pricing strategy, and in the case of fractionals, a detailed usage plan and reservation system.
- We work closely with the development team including the developer, land planners, architects, marketing and sales, and others to provide direction and agreement with respect to the physical master plan and the product program.

Operator Search

What is it?

Why would a developer engage NorthCourse?

- Identifying and selecting the most appropriate hotel brand and operator for a development site is a complex analysis and negotiation that is critical to the success of the hotel.

What is needed?

What NorthCourse does to perform:

- Following a detailed feasibility study, identification of hotel companies and brands that will be most suitable for the property.
- Meetings with hospitality companies to introduce the property, overcome objections, and solicit a LOI (letter of interest).
- Brand selection and across the table negotiations to assist the developer's lawyers in finalizing the terms of a contract.

What NorthCourse collects as data:

- Data collection occurs in the feasibility stage.

What a developer needs to provide:

- Facilitation of communication, interaction, and strategy sessions between the developer, the developer's attorneys and NorthCourse.

What is the deliverable?

- A signed contract with a hotel brand with favorable terms that are consistent with industry standards with respect to branding fees, technical advisory fees, and an operating agreement.

Workout Strategy

What is it?

Why would a developer engage NorthCourse?

- When a real estate project is failing due to soft market conditions, management deficiencies, or a poorly conceived or executed marketing plan, decisive and immediate action must be taken to correct the problem.

What is needed?

What NorthCourse does to perform:

- NorthCourse analyzes and identifies the problem.
- NorthCourse formulates solutions to solve or mitigate the problem.

What NorthCourse collects as data:

- Regional market information and trends
- Competitive project intelligence.

What a developer needs to provide:

- Detailed site, product, and pricing information and historical performance.

What is the deliverable?

- A strategic business plan that provides the developer with a road map for corrective action.
- Exit strategies such as alternative uses for the product like the introduction of a fractional program that will create more value and broaden and diversify the market.
- A refocus of the marketing message and competitive positioning of the project.

Fractional Sales and Marketing Advisory Services

What is it?

Why would a developer engage NorthCourse?

- Fractional real estate can add significant value, but inexperience and mishandling of the sales and marketing process has led to numerous failures. Advice from an experienced expert is critical.

What is needed?

What NorthCourse does to perform:

- NorthCourse provides the product knowledge necessary to sell fractional real estate.
- NorthCourse teaches the developer and his sales and marketing team the nuances of the fractional business.

What the developer needs to provide:

- All legal documents, CC&R's, and access to all members of the development team.

What is the deliverable?

- On-going meetings and work sessions to properly train the sales and marketing team including a Powerpoint presentation that is used as a training aid.
- Assistance in the preparation of a marketing plan and collateral materials.
- Consult with the client's attorneys in the preparation of club documents, state timeshare registrations, the owners' package with detailed reservations and usage policies, and homeowner association budgets.

Critique and Validation

What is it?

Why would a developer engage NorthCourse?

- Sometimes a developer may only need an objective third party critique of a business plan or development program and validation of the plan or recommendation on changes to the plan.

What is needed?

What NorthCourse does to perform.

- If the subject of the critique is site specific NorthCourse conducts a site visit to assess the highest and best use for the property and renders a preliminary opinion of feasibility.
- All developer product and pricing assumptions are checked for reasonableness and their fit with the wants and needs of the target market coupled with competitive forces.

What NorthCourse collects as data.

- Competitive intelligence collected from a project specific field survey and website research.

What the developer needs to provide.

- Complete development program, site master plan, architectural renderings and floor plans, and development pro forma.

What is the deliverable?

- A brief letter report summarizing our findings.
- Recommendations on programmatic changes that will enhance the marketability and profitability of the offering.
- On occasion recommendations for an exit strategy.

leisure real estate solutions

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