2007 ANNUAL FRACTIONAL INTEREST REPORT

United States, Canada and the Caribbean

8th Edition

leisure real estate solutions

NORTHCOURSE[sm]

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He founded Hobson Real Estate Advisors, a Pacific Northwest real estate consulting and development advisory firm, and served as president until November 2006 when Hobson Advisors joined NorthCourse.

Mr. Hobson is a leading expert in the fractional resort industry, having assisted developers in the planning and implementation of more than 130 fractional projects throughout the world.

In addition to strategic business planning and development programming, his services have included ongoing involvement in the sales and marketing process, sales training, and assistance with entitlement processing, financing and investor relations. His philosophical approach to real estate development and problem solving is pragmatic, strategic, and creative.

As Managing Director of the Americas for NorthCourse, Mr. Hobson is responsible for overseeing all advisory services in North, Central and South America, the Caribbean and South Pacific.

Project Locations:

- The U.S. Mainland and Hawaii
- Canada
- Europe
- The South Pacific
- The Caribbean
- Mexico
- Central America
- South America
- New Zealand

Areas of Specialization:

- Resort & Recreation Development
- Strategic Planning
- Market & Financial Feasibility Analysis
- Land Sale/Lease Negotiation
- Program Development

Publications:

"Private Residence Clubs" *Estates West*, Fall 2002

"Private Residence Clubs: A New Concept for Second Home Ownership" *Journal of Leisure Property,* May 2002

"Luxury Fractionals are a Cutting Edge Opportunity" *ARDA Developments,* January 2001

"Research Report on Private Residence Clubs" *International Journal of Hospitality Management,* July 2002

DOUG O'REILLY *Vice President, Global Research Advisory Services*

Doug comes to NorthCourse Advisory Services from Cendant Corporation, where he previously served as Vice President of Consumer Research, leading consumer learning across all Cendant's travel related business. His role also included providing research services to internal clients and partners in real estate, car rental, hotels, vacation ownership and travel distribution.

Prior to joining Cendant in 2000, Doug led the research department of the American Society of Travel Agents. He has also managed his own research consultancy, and holds a Masters' degree in Urban Planning from New York University.

INTRODUCTION

In 2006, the fractional ownership industry in the United States, Canada and the Caribbean achieved record sales volumes. A total of $1.65 billion in sales was achieved, up 32% over sales in 2005. The continued explosive growth and success of sales of fractional interests in vacation and second homes can be attributed to several factors:

- the growth and acceptance of fractional ownership in a diversity of areas, such as cars, aircraft, boats, etc.
- the relative strength of the US economy;
- the increased interest among North Americans in taking vacations closer-to-home and to more familiar destinations;
- cash left in money markets languishing with the lowest interest rates in decades;
- consumer confidence in the stock market remaining low and consumers more frequently seeking alternative investment opportunities;
- consumers in the US and Canada seeing second home real estate as a safe haven for investment appreciation with the opportunity to also enjoy the use of their new asset;
- second homes also providing investment diversification, which has become a critical concern among consumers since the stock market crash in 2000 and 2001.

Longer term, the aging of the North American baby boom population will create high demand for the next 15 to 20 years, as this segment of the population continues to reach its peak earning years, places a higher importance on leisure time and travel, experience 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 have now reached age 61. 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.

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

Annual use of a second home averages only about three to four weeks per year, and even less, in many cases. Thus, second home ownership is impractical for about 80% of U.S. households who earn $150,000 per year or more.

One of the most recent innovations in the second home industry is the introduction and rapidly increasing popularity of luxury fractional real estate, also called shared ownership. Fractionals serve two purposes and are a benefit to both the consumer and the developer.

INTRODUCTION (continued)

First, they lower the price point so the buyer is purchasing much higher quality than what they could otherwise afford, or they are being more practical and only buying what they have time to use. Second, fractionals broaden and diversify the market for the developer by creating lower price points and usually result in higher profitability when properly conceived and executed.

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 at each end of the spectrum – but these are not and should not be lumped together as buyer motivation is significantly different for each of these products

IMPORTANT CHANGES FROM PREVIOUS EDITIONS

Previous issues of this report have included developments and products that fell into the timeshare and destination club categories. This has only served to blur the lines between what is a fractional and what is not. While there is room for hybrid style products in the market – these are niche considerations and only serve to add uncertainty to discussions of growth in the industry.

Therefore, this report abides by a strict definition of fractionals that includes:

- a minimum 1/13th ownership share
- a maximum 1/4 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

Any shares smaller than 1/13 are considered timeshare. Non-equity club structures are also not considered fractionals.

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.

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 five different types that respond to these two different purchase motivations to varying degrees.

PROJECT TYPE	BUYER MOTIVATION	TYPICAL FRACTION SIZE	PREDOMINANT PRODUCT TYPE
Timeshare	One or Two Week Annual Vacation	One or Two Weeks, or Points	1 and 2-Bedroom Condos
Fractional Condo Hotel	Rental/ Investment	1/4th	1 and 2-Bedroom Suites
Traditional Fractionals	Rental Income and Second Home	1/4th to 1/8th	Mid-Size 1, 2 and 3-Bedroom Condos
Private Residence Club (PRC)	Second Home	1/6th to 1/12th	Spacious 3 and 4-Bedroom Condos and Single Family Homes
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

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. Timeshare comes with extensive exchange privileges, usually through RCI or Interval International. Timeshare resales are often heavily discounted, so investment is not a purchase motive.

There are two different timeshare business models. The traditional model is the fixed week interval where a fixed week is purchased for a price that generally ranges from $10,000 to $30,000. The buyer receives a right to use the property one week per year.

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 exchange and access within the

FRACTIONALS AND RELATED SHARED OWNERSHIP FORMATS

developer's system of resorts or through an external exchange company such as RCI. The timeshare company owns and manages an inventory of homes 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.

Fractional Condo Hotels and Traditional Fractionals

The second type of fractional is condominiums, attached townhouses, or a hotel (condo hotel) designed and often also utilized for overnight rentals. These fractionals are usually sold in one-fourth shares where each buyer receives a total of 13 weeks of use per year. Weeks are typically assigned through a rotating calendar. The owner either uses or gifts their weeks or they can place them in a managed rental pool and split the rental income with the property manager. Although most condo hotels are sold as whole ownership, the introduction of 1/4th fractional shares is becoming popular in order to reduce the price point and to diversify the market. This trend is also emerging as only a very limited number of developments designated as condo hotels actually adhere to a pure form of that model due to stringent SEC oversight.

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 in double digits. As expected, the typical buyer is at least partially motivated by investment and rental income and may be younger and less affluent that the luxury whole ownership second home buyer.

There are legal complications with this type of product associated with the U.S. Securities and Exchange Commission. Rental income cannot be pooled for distribution back to the owners, rental pool participation cannot be mandatory, and the product cannot be sold as an investment without SEC registration which is onerous, expensive, and usually avoided.

The differences among these two types of fractional second home rental products are:

1. **Fractional Condo Hotels:** The first is a true condo hotel with all of the hotel amenities and services, including in some cases, restaurants, retail, spas, and meeting space. A hotel of this type is usually larger with 100 or more rooms. In Las Vegas these hotels are sometimes over 1,000 rooms. The rooms are designed like traditional hotels for short term overnight rentals.

   There are various incentive programs for owners to place their unused time in the rental pool six to twelve months in advance so the hotel management company is able to control the rental inventory. The purchase motivation is mostly annual return and value appreciation.

2. **Traditional Fractionals:** The second type is not a hotel, but rather a more typical condominium, attached townhouse or smaller stand alone home (such as a cottage or villa) designed primarily for owner use. The unit sizes are much larger than condo hotels. The most popular size is two bedrooms with a locked off area, 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.

   In addition to differences in unit design, size, mix, services, common area space, and amenities, an important difference between this product type and a condo hotel is that its owners tend to use their homes more, and rent them out less. Annual income from rentals is important, but is viewed as a way to reduce the cost of second home ownership. Value appreciation is also important to this owner.

   While some buyers of this product can also afford whole ownership of a luxury second home, many cannot. Thus, this product satisfies a 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.

DESTINATION CLUBS

The newest type of fractional is the non-equity membership club typified by *Exclusive Resorts* and *Quintess*. This business model has been very successful in the market due to heavy advertising 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 second home inventory 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 $225,000 to $425,000 with members allowed 15 to 45 days of use of homes averaging $3.0 million in more than 300 locations throughout the world. Annual fees vary depending upon membership level and range from $12,900 to $29,900.

The *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. *Given these significant differences we do not classify Destination Clubs as fractionals.*

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.

A residence club should not be confused with fractional condominium hotels, 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 price insensitive, and concerned more 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

PRIVATE RESIDENCE CLUB (Continued)

locations. To date, this has not been the case with all clubs for various reasons. However, most residence clubs in a good location, and in projects fully absorbed, are reselling at prices higher than the last developer price.

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 locations with strong 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.

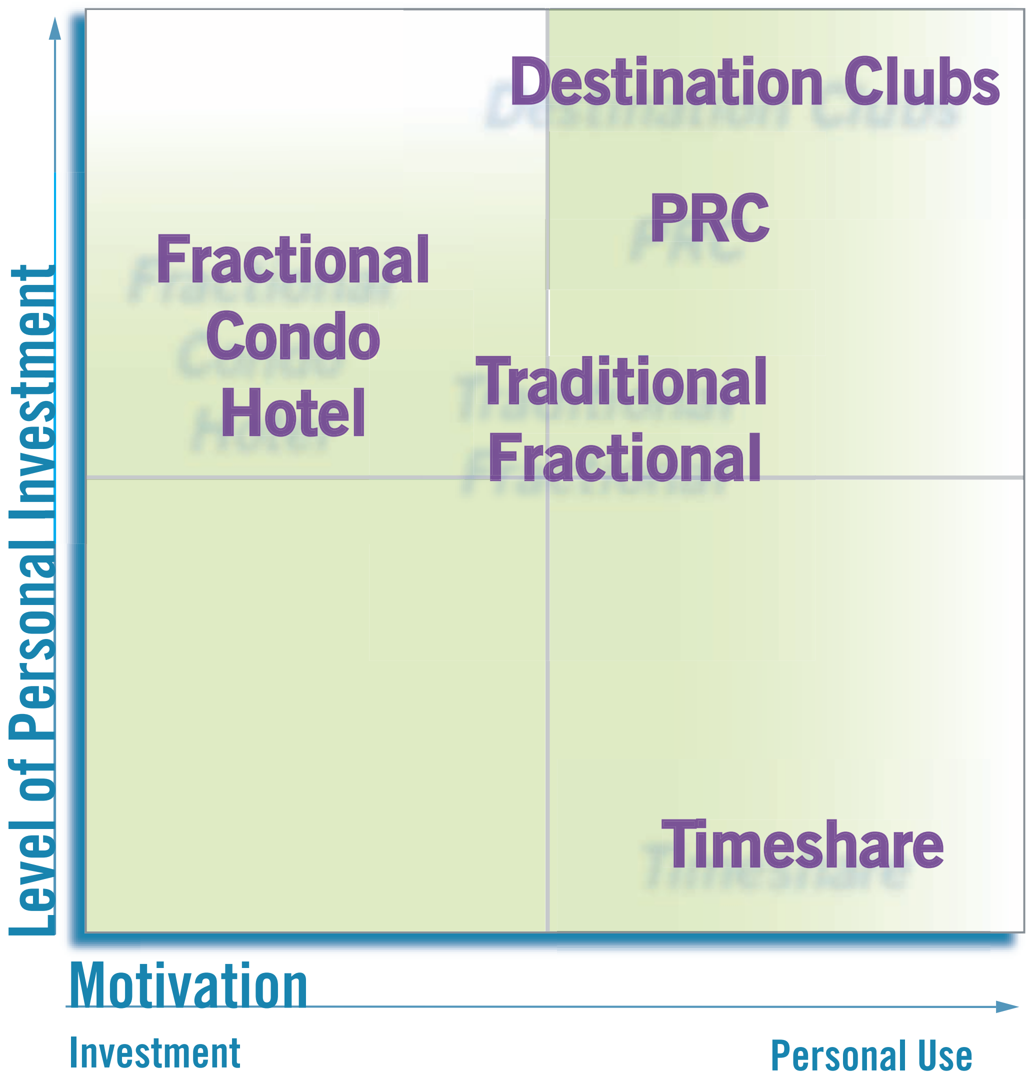
The residence club is marketed as a real estate investment. The emphasis is on relationship-selling rather than mass-merchandising. It is a soft sell approach and repeat visits prior to closing are the norm. The target market may have a negative impression of timeshare and will not respond to high-pressure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

PRIVATE RESIDENCE CLUBS (Continued)

market with share prices ranging from approximately $200,000 up to $3.0 million for a 1/8th share equivalent. Common areas are generally owned jointly by all residence club owners.

Members 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.



FRACTIONAL CONSUMERS:

Profiling Those Who Buy and Those Who Don't

CHAPTER INTRODUCTION

In February of 2007, NorthCourse fielded a study to better understand how consumers perceive the fractional vacation home product, as well as to uncover the primary drivers behind the buy/no buy decision process.

More specifically, the objective of the study was to perform a driver analysis that can describe the differences between Buyers and Non-buyers in terms of the following dimensions:

- Psychological considerations
- Attributes considered when purchasing
- Important issues within the fractional ownership purchasing process

METHODOLOGY

The online survey included four open-ended questions and one Thematic Appreciation Test (TAT) that was used to study the psychological differences between buyers and non-buyers. The survey also included 21 rating questions on "issues to consider before a purchase" and a list of demographic questions.

The open-ended questions and TAT were content-analyzed using software that employs validated coding techniques designed to gain insight into psychological dimensions.

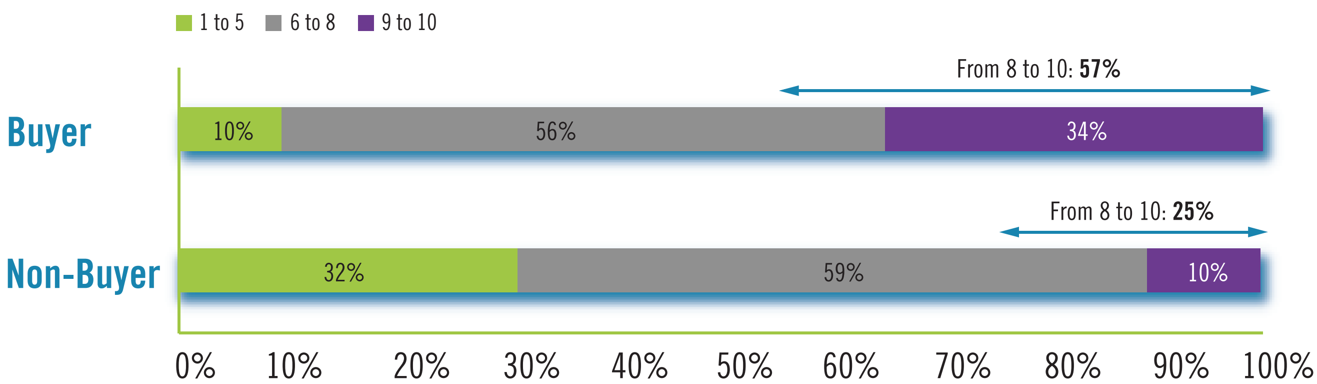
Respondents who were screened for the survey have an annual household income of 150K or more. Further screening limited respondents to those having purchased a fractional property within the past 5 years or those having seriously considered a purchase within the past 2 years.

The survey was fielded between 1/26/07-2/1/07 and 301 completes were collected representing an incidence rate of 4.5% within the $150K HH Income group. 134 respondents were classified as "buyers" and 167 respondents were classified as "non-buyers". NorthCourse was assisted in the fielding and analysis by Anderson Analytics, which utilized its proprietary AA-Projective and AA-Text analytic techniques in the design and analysis of the study.

PURCHASE APPEAL OF FRACTIONAL OWNERSHIP

Appeal of Fractional Property Ownership

On a 10 point scale, how much do you feel fractional property ownership makes sense for you personally?



It is no surprise that owners are overwhelmingly positive about their fractional purchases, but it is even more encouraging to note that one-quarter of non-buyers are still quite enthusiastic about fractionals and therefore a sizable percentage may convert to ownership in the future.

FRACTIONAL CONSUMERS: Why They Buy / Why They Don't Buy Summary Findings

- Buyer and non-buyer demographics are relatively similar. However, there are fundamental differences in terms of psychology and product attributes considered.
- Buyers are more "black-and-white thinkers" than non-buyers. They consider fewer factors when making a purchasing decision.
- Buyers are more optimistic and somewhat more detached from the realities in their reasoning, preferring to focus on overall benefits rather than details.
- Buyers are more social than non-buyers. The influence of, and consideration for, family members and friends are important reasons for their fractional property purchase.
- Cost and financial issues are important reasons for both the buyers and the non-buyers in their purchasing decisions. However, they are far more important to the non-buyers than buyers.
- Buyers and non-buyers showed strong differences when considering the flexibility and control issues regarding the purchase of a fractional property. Non-buyers prefer more control over the property they own, thus they prefer wholly owned properties over fractional properties. Also non-buyers are hesitant in committing their future vacations to one location.
- Some non-buyers may still be considering a future purchase. The primary reason that this sub-group give for not yet having purchased is "timing".

OVERVIEW OF THE THEMATIC APPRECIATION TEST

- To maximize the benefits of open ended question analysis, AA-Projective Analysis (TAT or PSE: Picture Story Exercise) was conducted in this study using two specially designed images.
- The exercise allows respondents to project their feelings about the fractional purchasing experience onto other people so that we may gain more candid/deeper insights into key emotions and motivation.
- The purpose was to measure respondent's psychological response to the **process associated with purchasing a fractional.**
- Respondents were asked to tell a story about what is happening in the picture, **what happened prior to the picture**, and **what will happen afterwards.**

BUYER'S PROFILE

- Respondents' stories were content analyzed for specific words and phrases associated with
  – **emotions** (e.g., positive or negative feelings)
  – **thought processes** (e.g., complex versus simple thinkers, impulsivity, insightfulness, and tentativeness) and
  – **personal concerns** (e.g., the importance placed on sociability, friends, family, leisure, money, and careers).
- Buyers interpret the picture with more positive emotions and more certainty.
- "Black-and-white thinkers," think of situations in terms of dichotomies (black or white, good or bad) or concrete terms (must, need, have to).

Example: *"It is so beautiful here and we love all the amenities and the reciprocity this company has to offer. Thank you so much for your help. We* ***need to*** *choose a home week* ***as soon as possible.****"*

- This simplicity is also related to their certainty in describing the situation and their tendency to attribute causes to events.

BUYERS	NON-BUYERS
Positive Emotions	Negative Emotions
Simplifiers	Anxious
Attribution of Causes for Events	Insightful
Certain	Inhibited
Social	Visually Oriented (See to Believe)
Reference to Others	Work
Friends & Family	Money
Leisure	

NON-BUYER'S PROFILE

- Buyers are more likely to engage in fanciful thinking. In other words, buyers are concerned with possibilities or what "could be", but not necessarily what "is."

  Example: "*Wow it is a nice house but too close to the street, I can't really tell from the pictures. Do you have virtual tours?" (Notice that the respondent is replying as if the picture were real advertisement, a distinct departure from reality)*

- Buyers place more of an emphasis on social situations, friends, and family. This is also demonstrated by their tendency to refer to other people in their responses. They feel that leisure activities are more important than do the non-buyers.

  Example: "*Three couples, **all old friends**, are in front of a beach community vacation home. Having just toured the home they are discussing the possibility of buying it **jointly**. They decide to form a **partnership** and the couple designated as lead is discussing the final terms with the broker.*"

- Non-buyers infused negative emotions into their stories.

- Responses were tinged with anger and sadness. Moreover, they displayed higher levels of anxiety when describing their stories.

  Example: *Office/desk picture: "They are sitting at a desk, working individually with a salesman. It makes **me feel claustrophobic**, like I would be held captive with **no place to escape**. I am just imagining the **hard sell**.*"

  Tour picture: "*7 hours later, the **guy will be crying because of the emotional drainage** from the hard sell made by the agent and his manager.*"

REASONS TO BUY: Psychological Differences

- Non-buyers can be categorized as insightful people who tend to see the world, not as black and white, but grey. As a result, they are more inhibited than buyers.

  Example: *"A group of **nervous** friends waits outside the sales office of a beautiful resort where they are considering buying into fractional ownership of a vacation property that they **could** not otherwise afford. Inside, the sales rep diligently works to convince them that fractional ownership is **different than a timeshare** but they remain skeptical **even though** the property is nice."*

- They place more weight on viewing a situation themselves and place a higher emphasis on work and money.

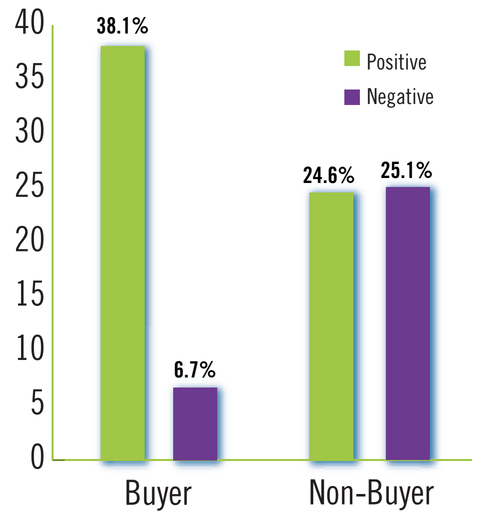
  Example: *"My thoughts are sure that is all a part of the pitch but how can I over come my feelings that the **ancillary costs may eat into any appreciation** that may occur. Sure the pitch about leaving it to my children is nice but I am more interested in my needs at this point and I want to see that it is a sound **long term financial deal**."*

- Buyers express positive emotions. Non-buyers express negative emotions when describing their decision-making process.
- Non-buyers were more *anxious* when recounting their reasons. Buyers were more *simplistic* in their reasoning.
- Non-buyers couched their reasoning in ambiguity and ambivalence. Non-buyers demonstrate more insight, but they were very tentative in describing their decision-making process. In contrast, buyers were much more impulsive and certain.
- Buyers were socially oriented and included references to community and family, while non-buyers were preoccupied with achievement, money, and careers.

Psychological Differences

BUYERS	NON-BUYERS
Positive Emotions	Negative Emotions
Simplifiers	Anxious
Discrepancy with Reality	Complex Thinkers
Impulsive	Insightful
Social	Tentative
Community Oriented	Achievement
Family	Job
Leisure	Money

Overall Positive & Negative Comments



REASONS TO BUY

	BUYERS	NON-BUYERS
Cost/Financial	• Price was reasonable • Can have property that would be out of budget if owning it fully • Will be less expensive in the long run	• Price was too high • Does not have the money now
Vacation	• A great way for vacationing • Like to come back to the same place for vacation	• Unsure about visiting the same place • Rather pay for a hotel stay
Family/Friends	• Family would enjoy it. • Family/Friends think it's a good idea • Purchased from/with family or friends	• Already have access to family/friends vacation property
Investment	• Good investment option Share risk and responsibilities	• Unsure about the resale value • Prefer better investment options elsewhere
Location	• Like the location	• Location is not right • The distance is not ideal
Flexibility	• Flexibility in terms of financial option • Flexibility in terms of time of use (better option than timeshare)	• Concerned about the available time

- Finance is the most cited reason for purchasing decisions
- Echoing the psychological analysis, buyers mentioned influence from and consideration for family and friends more frequently than non-buyers

REASONS TO BUY

	BUYERS	NON-BUYERS
Timing		• Not the right time (kids, financially, market)
Partners	• Found the right partners	• Do not have the right partners • Do not like unknown partners • Cannot trust other owners
Maintenance	• No maintenance/upkeep hassle	• Not sure if the maintenance will be up to their standards • Maintenance fees
Sales Process	• Low pressure and pleasant	• Did not care for the sales process, the sales person, or the sales pitch
Control/ Management	• Like to have more control (than a timeshare) • Like the aspect of shared responsibility	• Rather have total control of the property • Cannot trust the management
Facility/Activity	• Like the facility • Like the activities available around the property	

- Non-buyers voiced more concerns over property control, maintenance and future uncertainty.
- Non-buyers also analyzed the situation in a more complex manner, such as considering other investment options, amortized payments, the local or national economic outlook.

REASONS TO BUY

	BUYERS	NON-BUYERS
Cost/Financial	23.1%	34.1%
Vacation	20.1%	6.0%
Family/Friends	15.7%	9.6%
Investment	17.9%	7.2%
Location	13.4%	10.8%
Flexibility	14.9%	8.4%
Timing	0.7%	7.8%
Partners	3.7%	3.6%
Maintenance	5.2%	1.8%
Sales Process	1.5%	3.6%
Control/Management	1.5%	2.4%
Facility/Activity	3.0%	0.0%

- *Financial reasons are most important, particularly for the non-buyers. It appears that they factor in the joyful aspect of vacationing with family and friends less than the buyers.*

- *Most buyers think purchasing a fractional property is a good investment. They simply stated, "it's a good investment."*

  However, the non-buyers expressed their investment reason in more detail, factoring in economic conditions, personal financial situations, and evaluating ROI, resale value and appreciation.

- *Timing is mostly an issue of the non-buyers. These non-buyers might have purchased the property if the timing were better, i.e. kids were older, more money saved, or even better property location. 25% of the non-buyers think fractional property ownership make sense to them personally (8 or greater on a 10-point scale).*

- *Most non-buyers probably never look beyond other reasons to remember the facilities or activities that can be enjoyed around the property they toured.*

significant difference at 90% confidence (Cost/Financial, Facility/Activity) — significant difference at 95% confidence (Vacation, Investment, Timing)

REASONS TO BUY: Quotes

BUYERS

We vacation quite a bit and wanted to have a place that we would go back to again and again. it took us a while to find a place that we were interested in revisiting,… **(Vacation)**

(It's) In a location we like to vacation, but it did not make sense to purchase a vacation home as we are not there enough and don't need the headaches of upkeep. **(Location, Vacation, Cost, Maintenance)**

We invested in properties on the beach and golf course with several family members for an investment. **(Investment, Family, Facility)**

I don't have the time to use second homes as often as I'd like, so a fractional purchase gives me the flexibility of having a second home without the cost. **(Cost, Flexibility)**

We purchased ours online having never been to the property. We had vacationed in that area before so we knew we loved that aspect. We were also very familiar with the group which owns this property. We had no sales pitch! **(Location, Partner, Sales Process)**

NON-BUYERS

*I found the economics didn't make sense. I didn't want to be paying for future vacations with today's dollars, and I prefer to be more flexible and spontaneous in my vacation choices. (***Cost, Flexibility, Vacation**)

Undecided partner, weak real estate market in terms of appreciation. (Partners, Investment)

I can have more flexibility in choice of times to visit when I fully own the property also it's a better investment of my resources. None of the fractional properties appeal to me at this point. **(Control, Flexibility, Investment)**

The only reason is that the time was not right financially. It is definitely something I would consider going forward. **(Timing)**

*We would not have used it enough to make the purchase worthwhile. Additionally, we did not want to tie ourselves in to a place or places we would have to go we would rather have choices of everywhere instead of just those places offered by the ownership…***(Cost, Flexibility)**

IMPRESSIONS ABOUT THE SALES PROCESS: Quotes

BUYERS

It was fine; not too high pressure or misleading .

The salesman was not pushy at all, seemed informal and yet professional at the same time.

We thought we were well informed although there was a lot of pressure and incentives to buy on the spot.

Horrible! Pressure, Pressure, Pressure. I hated the experience.

It was a general overview of the property and the benefits of fractional ownership. They did not discuss rules and regulations (which they should have) prior to purchase. It was a bit high pressure, but tolerable.

NON-BUYERS

Actually very good. We have been to timeshare presentations in the past that were terrible and the fractional visit was very professional, low key, no pressure.

We did not ultimately purchase a fractional property. However, the sales process was not unpleasant and the sales people were not overly pushy. For that reason we will probably reconsider this particular company/property in the future.

It wasn't unpleasant, but it was not an enjoyable experience either. Salesman was pushy.

It was much like a sales pitch used for time share. Too much pressure/ have to buy right now until I pushed hard back. It didn't bother me, but it did make a difference to my wife.

Hard sell. It turned me off.

DESCRIPTION OF THE PROPERTY

- Buyers and Non-Buyers both describe the property positively to their family and friends.
- The buyers and non-buyers described the property in similar ways.
- The major difference is that the buyer descriptions focused in more detail on setting and atmosphere of the property perhaps since they were able to actually experience it.
- Most of the negative comments from the non-buyers are related to the cost issues, which reinforced that cost is the primary reason of the non-buyers.

HOW THE RESPONDENTS DESCRIBE THE PROPERTY THEY PURCHASED OR TOURED

How the respondents describe the property they purchased or toured

		BUYERS	NON-BUYERS
Property	Physical description of the property. i.e. near mountain, lake, hotel, resort, a condo, etc	36%	51%
Good Visually (Beautiful)	How beautiful/attractive it is	19%	22%
Location	Where it is geographically	18%	19%
Water (Ocean, Beach, Later)	Whether it's a beach front, lake house, or has a swimming pool	18%	13%
Facilities/Things to do	The types of facility of the property and the type of activities that can be enjoyed.	14%	16%
Rooms (Interiors)	Interior description, and how many rooms the property has	13%	8%
Good Atmosphere	Comfort, relaxing, peaceful, etc.	13%*	7%
Views	The views from the property	4%	5%
Community	Community aspect of the property	3%	2%
Weather		2%	1%

significant difference at 90% confidence

significant difference at 95% confidence

*Directionally different 80% level

IMPRESSIONS ABOUT THE SALES PROCESS: Quotes

BUYERS

It is a beautiful resort...all amenities in a secure area. The units are spacious and comfortable. We feel very comfortable in allowing the children to roam the property alone. There are activities available, but they are non-intrusive if you are not interested.

We purchased a deeded villa on the grounds of an adventure spa. The hotel is situated in red rock country and the architecture is true to the location. It is relaxing and fresh and has something for everyone.

We bought a summer home on Cape Cod, a modest ranch within walking distance to a private beach in a very quiet neighborhood.

It is a three bedroom, 3 1/2 bath condo on the fourth floor over looking the island of St John. It has great facilities and the units are very well built. The decorating is impressive and we really enjoy all of the available activities

NON-BUYERS

Maybe - probably too expensive compared with buying outright

Very upscale, very expensive

It wasn't unpleasant, but it was not an enjoyable experience either. Salesman was pushy.

One property was a beach front apartment in a high-rise with swimming pools and tennis courts. The other was a two bedroom single family home in a gated community on a country club (golf course, swimming pool, tennis courts, restaurant, bar).

A very comfortable, spacious condo that had multiple parking spaces. Maintenance was not an issue and it was in a beautiful setting. It is a bit of a drive, but it might be worth it.

The property was a beautiful coastal condominium that was complete with top-of-the-line custom features throughout and many amenities and property benefits.

FRACTIONAL OWNERSHIP ATTRIBUTES

TOP 7 Attributes *(based on % of the top box)*

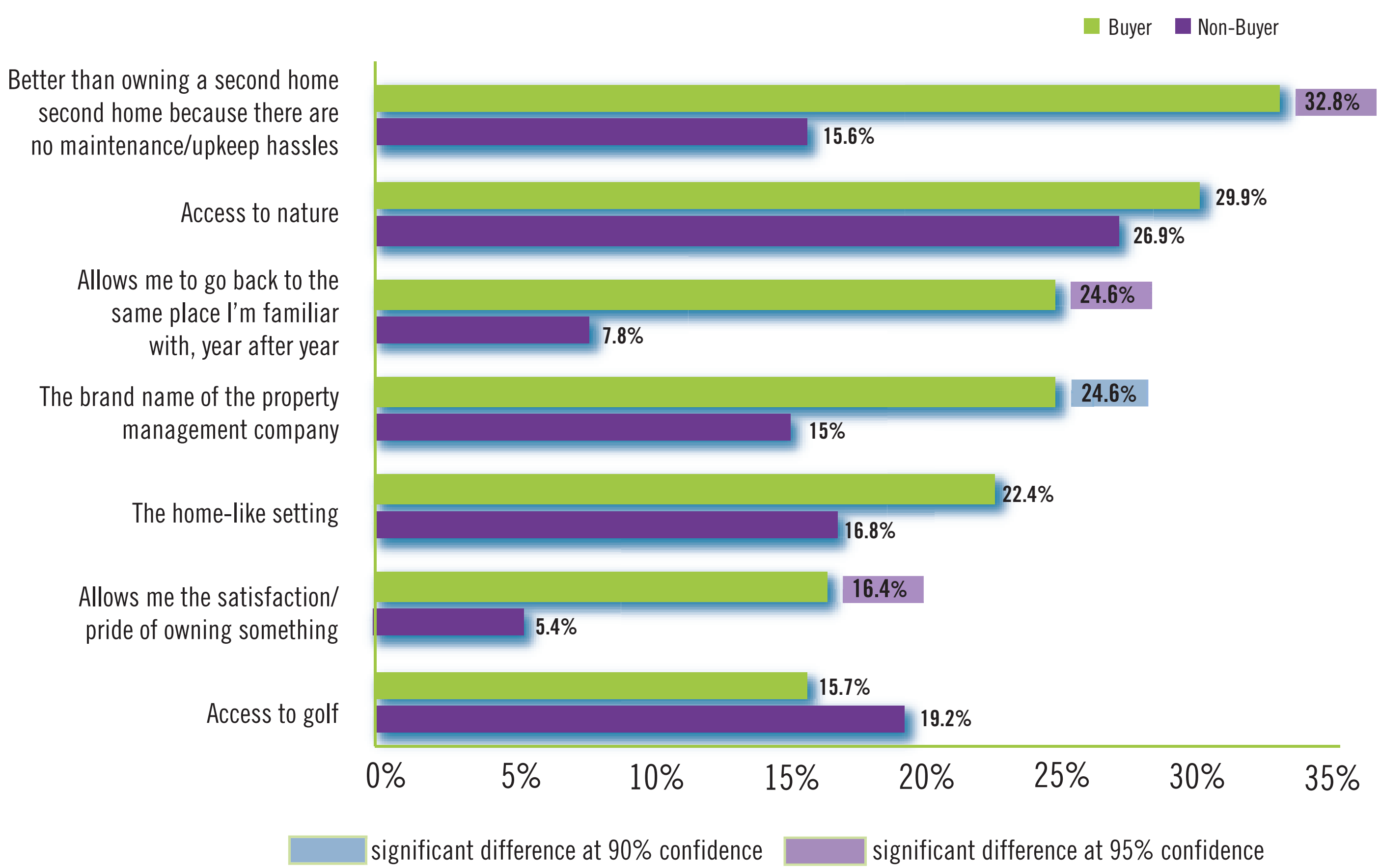
- Access to beach is the most important attribute for the buyers.
- Ability to take the whole family reiterates the social aspect of buyers and ability to access a high end property are attributes that are far more important for the buyers than the non-buyers.

FRACTIONAL OWNERSHIP ATTRIBUTES

MIDDLE 7 Attributes *(based on % of the top box)*

Similar to the text analysis results, buyers favor the "no upkeep" hassles aspect significantly more than the non-buyers

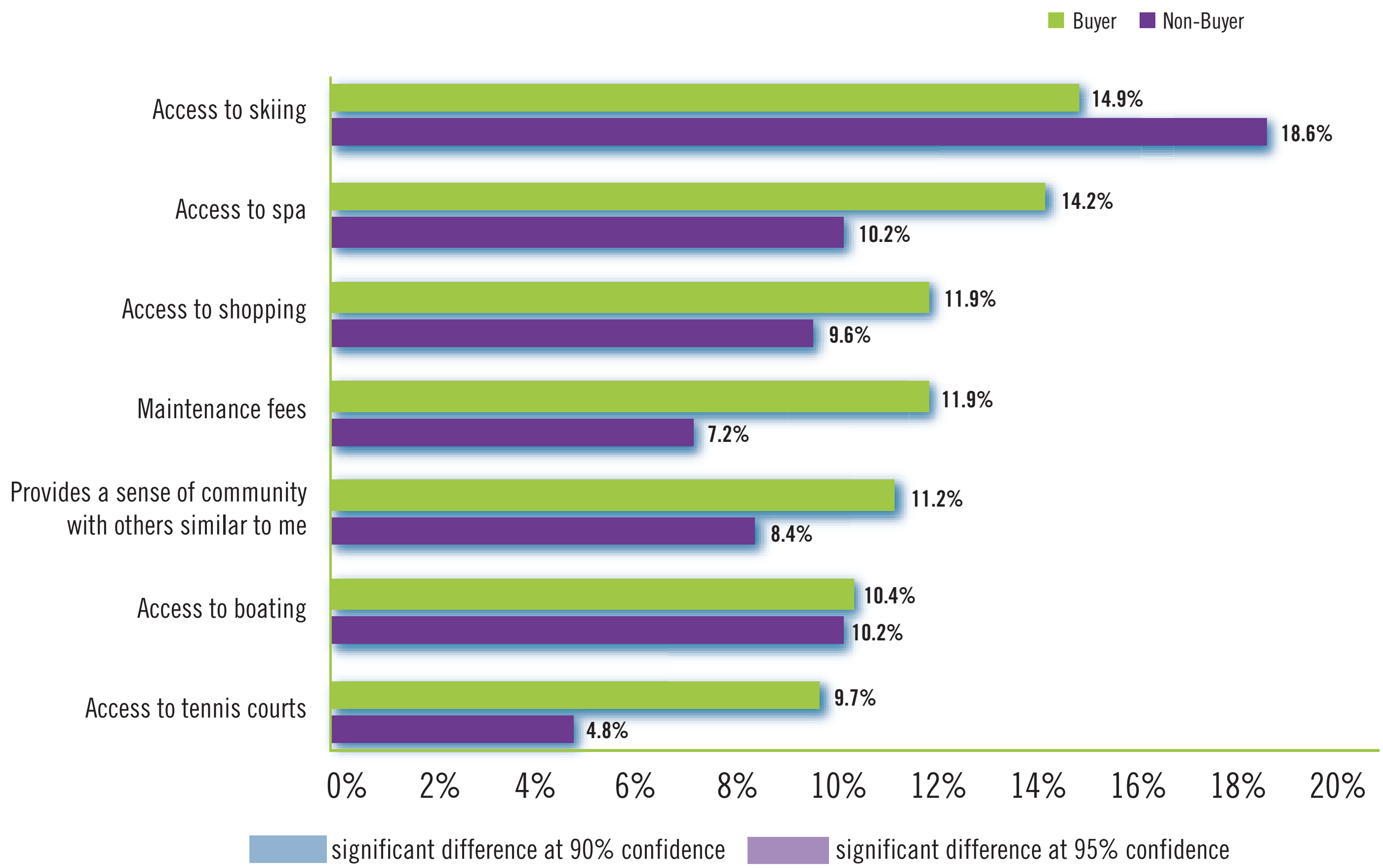
The idea of going back to the same place for vacation also appeals to the buyers more.



FRACTIONAL OWNERSHIP ATTRIBUTES (Continued)

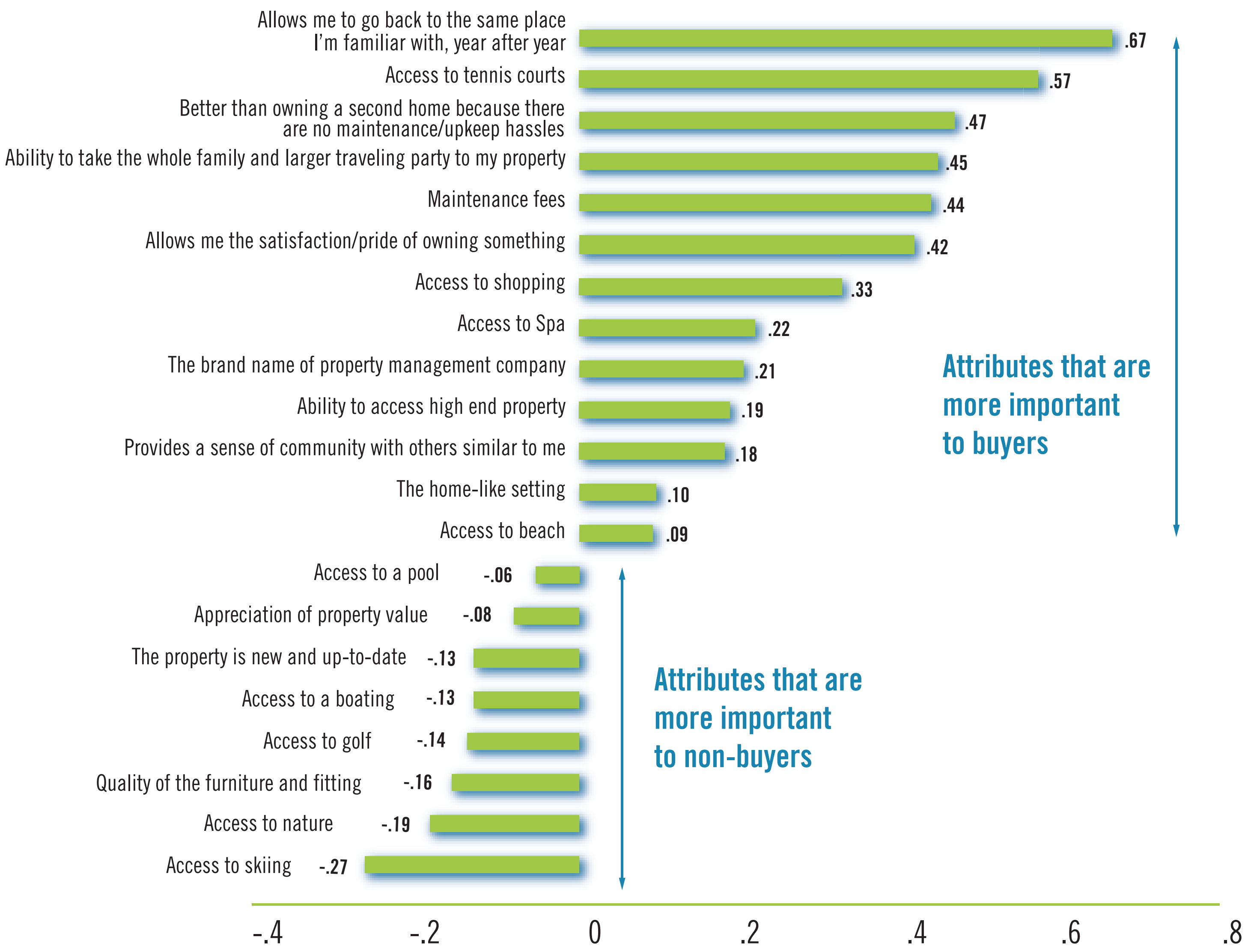
BOTTOM 7 Attributes *(based on % of the top box)*

- Tennis courts, access to boating and community aspect of a fractional property are all relatively less important attributed for both the buyers and the non-buyers.



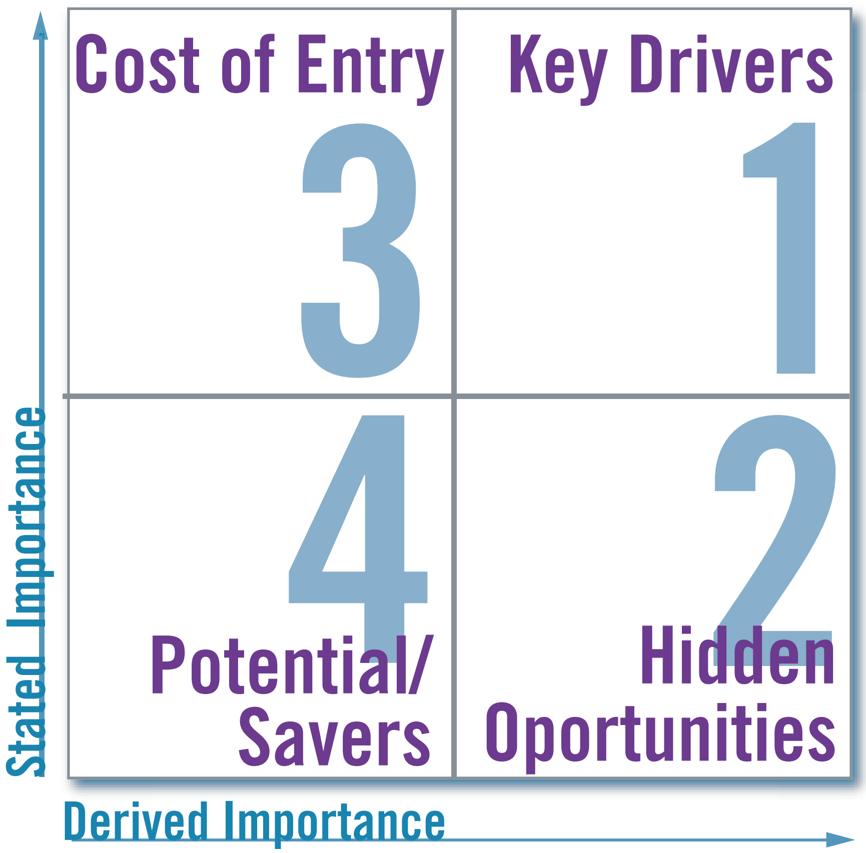
FRACTIONAL OWNERSHIP ATTRIBUTES (Continued)

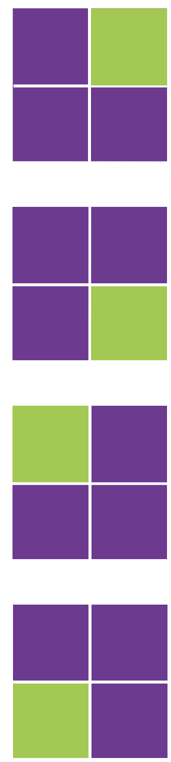
Difference between Buyers and Non-Buyers (based on mean scores)



STATED AND DERIVED IMPORTANCE

- A common analytical approach is to compare the customers' stated importance against a derived value that takes into consideration that the customers may sometimes say everything is important. Also, some customers may even purposely or accidentally overstate importance of certain attributes (safety, price…)
- The respondents' stated importance is compared against the attributes' correlation with their likelihood to purchase a fractional property.





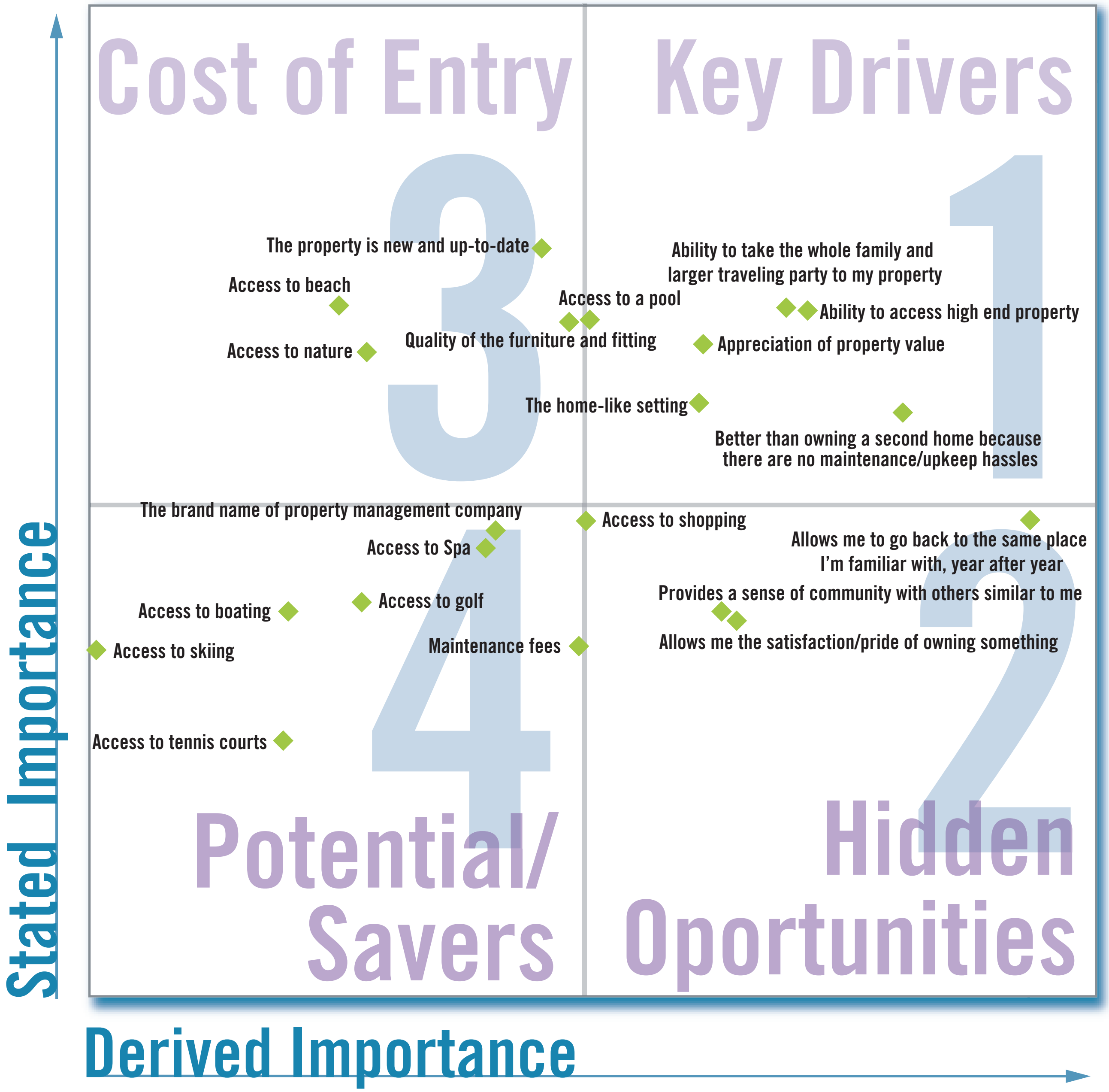
KEY DRIVERS: Improvements in these areas are noticed and directly improve the product appeal

HIDDEN OPPORTUNITIES: Importance overlooked by both customers and management, but actually important in driving sales

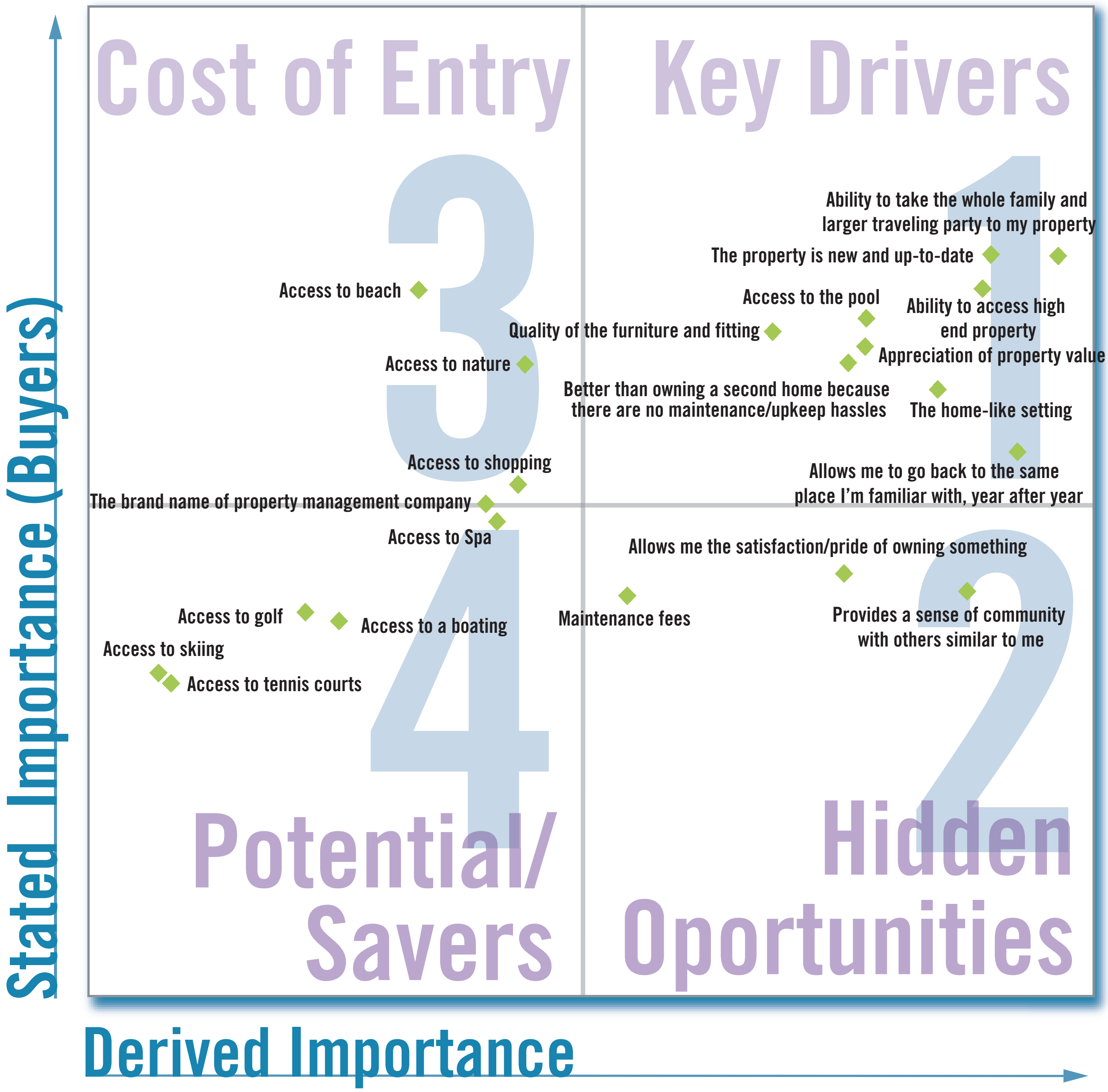
COST OF ENTRY: Basic standards and norms that must be met. These are expected.

POTENTIAL SAVERS: Decreased efforts in these areas may have little negative effect

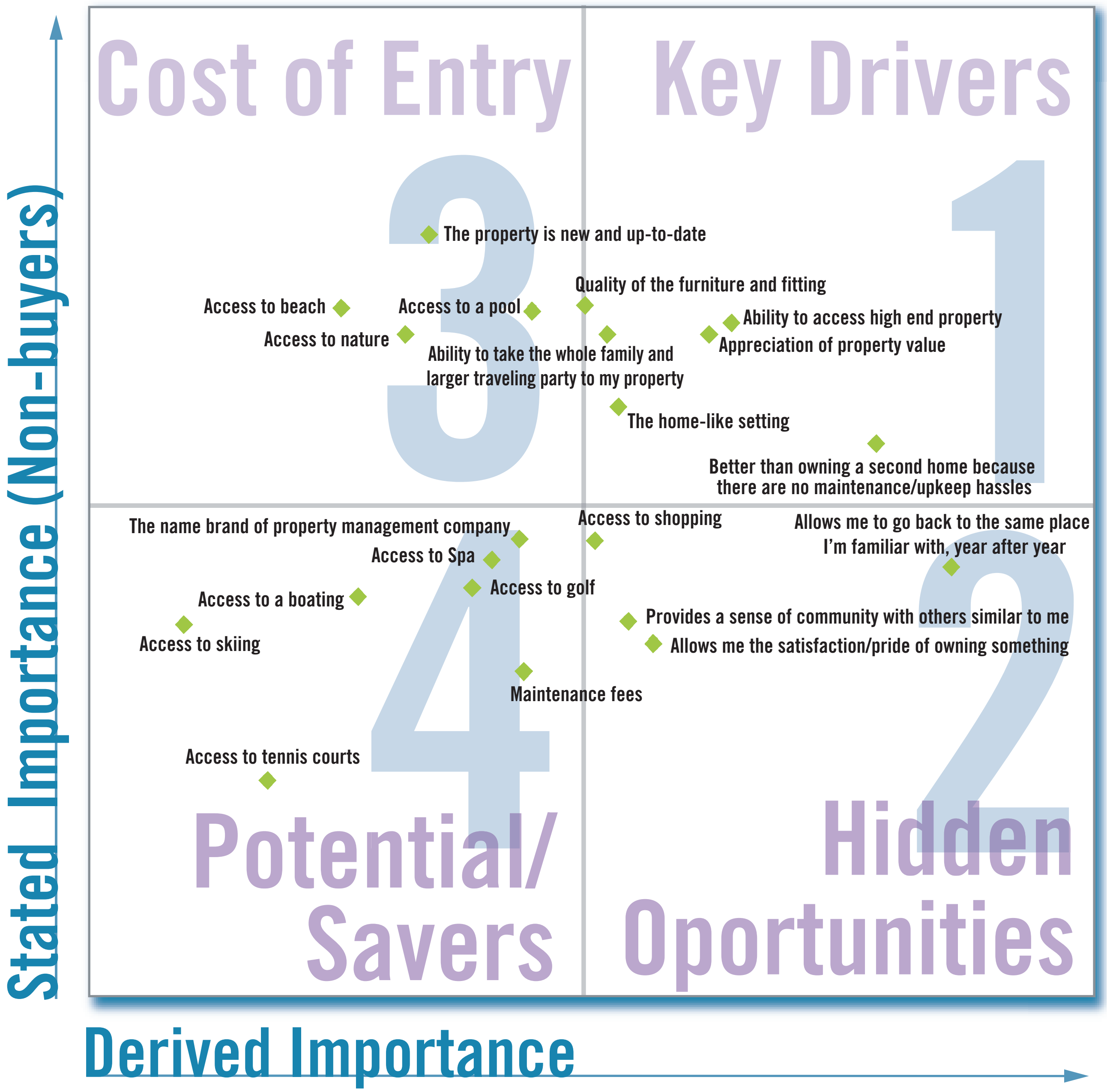
STATED IMPORTANCE VS. DERIVED IMPORTANCE (Overall)



STATED IMPORTANCE VS. DERIVED IMPORTANCE (For Buyers)



STATED IMPORTANCE VS. DERIVED IMPORTANCE
(For Non-buyers)



NUMBER OF OVERNIGHT STAYS

The difference between buyers and non-buyers in number of overnight stays within the past 12 months

	N	MEAN	STD. DEVIATION
Buyer	134	10.4	26.1
Non-Buyer	167	8.07	6.5

In terms of the total number of overnight stays, there is no significant difference between the buyers and the non-buyers.

	BUYER OR NON-BUYER	N	MEAN
Big, highly planned vacations, such as packages or a trips organized by a travel agent to a new destination	Buyer	95	2.4
	Non-Buyer	109	1.1
Moderate to long vacations that you typically plan yourself for sightseeing or visiting new places both near and far from home.	Buyer	106	3.0
	Non-Buyer	136	2.0
Mid-length vacations to familiar destinations that in corporate relaxation, comfort, and luxury.	Buyer	103	3.3
	Non-Buyer	143	2.1
Short trips or weekend getaways to familiar, relatively close-to-home destinations.	Buyer	112	3.1
	Non-Buyer	141	3.1
Mid-length trips back home or to another familiar destination to visit family/friends.	Buyer	93	1.8
	Non-Buyer	117	1.8

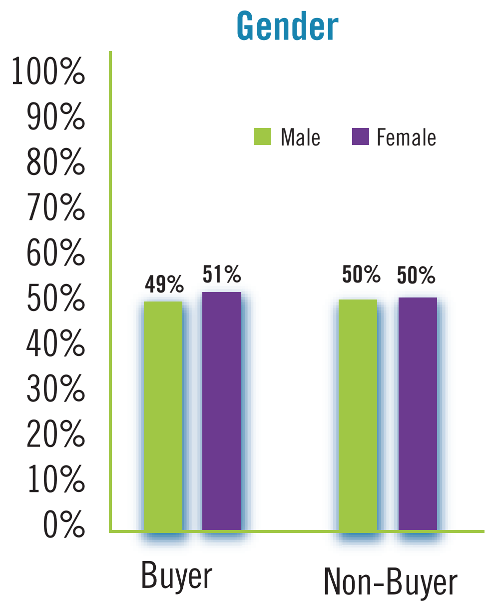
However, buyers are significantly more likely to go on mid-length vacations to familiar locations.

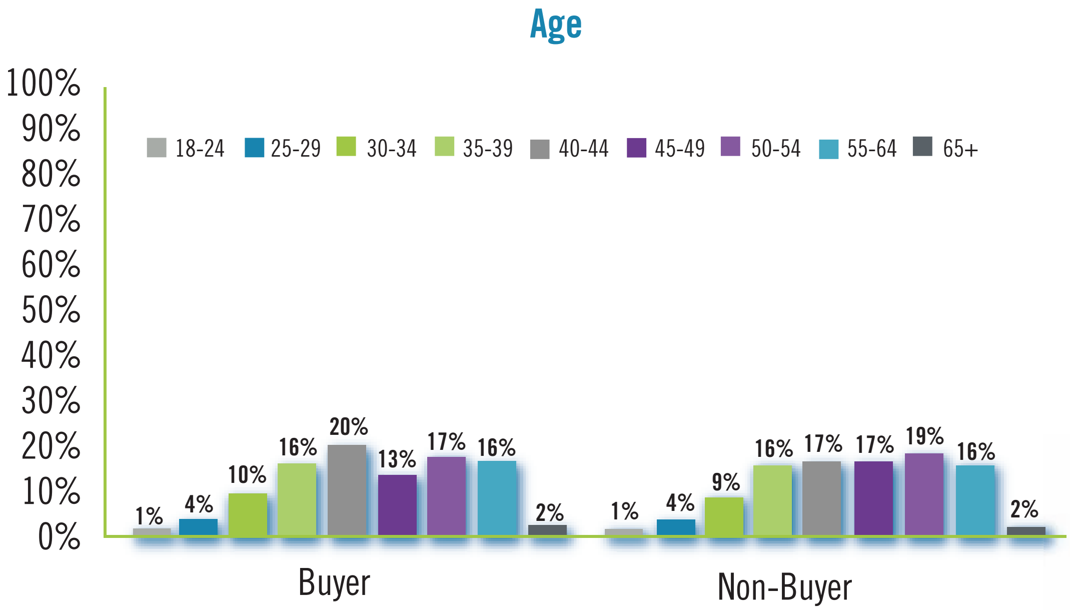
significant difference at 90% confidence

significant difference at 95% confidence

GENDER & AGE

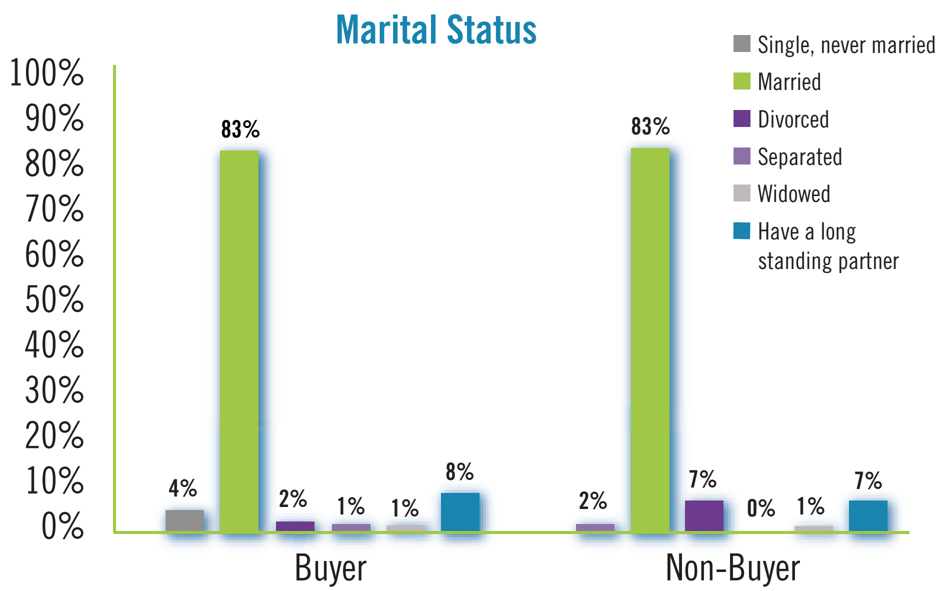
- There are no significant differences in terms of gender and age between buyers and non-buyers

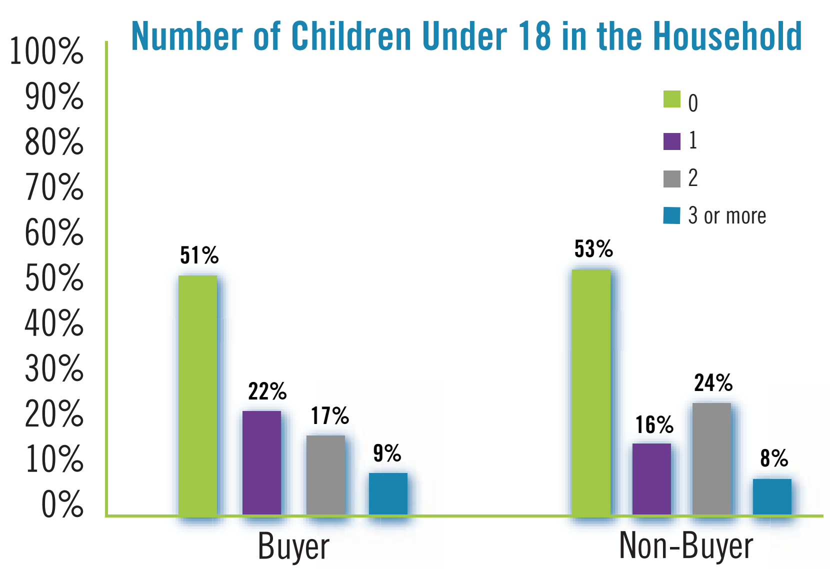




MARITAL STATUS & CHILDREN

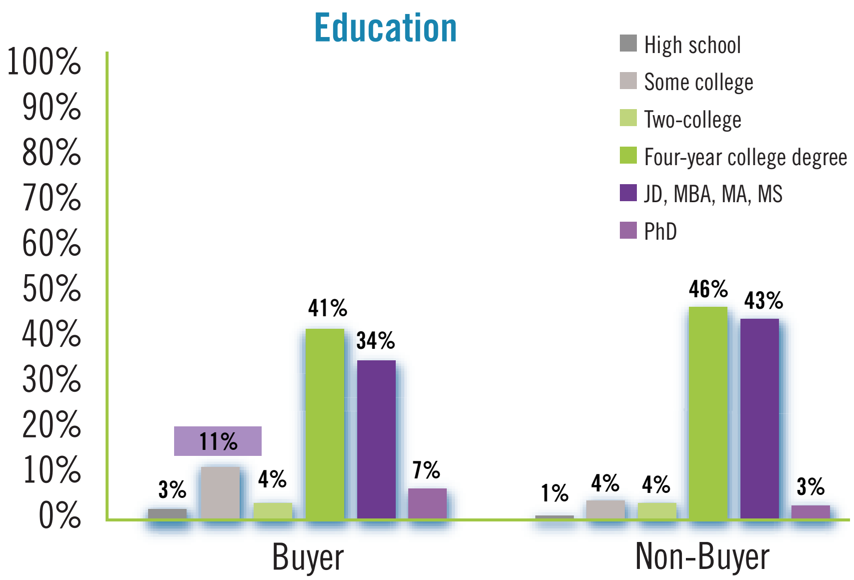
- There are also no significant differences in terms of marital status and the presence of young children.
- However, the non-buyer group appears to have a significantly higher percentage of divorce (at the 80% confidence level)

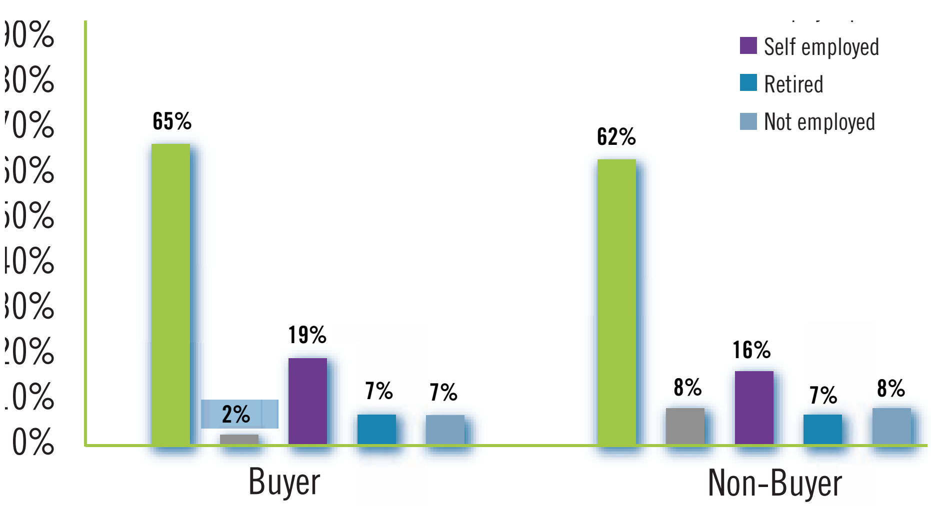




EDUCATION & EMPLOYMENT

- There is little significant difference in terms of the employment status between buyers and non-buyers, with the exception that the non-buyer group has slightly more people employed part time
- In terms of education, the non-buyer is likely to be have somewhat higher education.





significant difference at 90% confidence
significant difference at 95% confidence

Supply and Sales Trends

SUPPLY AND SALES

Industry Growth

Chapter Three focuses on the supply side growth and trends in the fractional industry for the United States, Canada and the Caribbean. This year's study identified 249 fractional developments in the United States, the Caribbean, and Canada - a 39% increase in the number of fractional developments identified last year (for a full list and their locations please visit www. Northcourse.com).

Fractional sales in North America increased 32% from 2005 to 2006, with total sales volume reaching a total of $1.65 billion. As noted previously, these numbers are specifically reported only for true fractional developments – which are defined as:

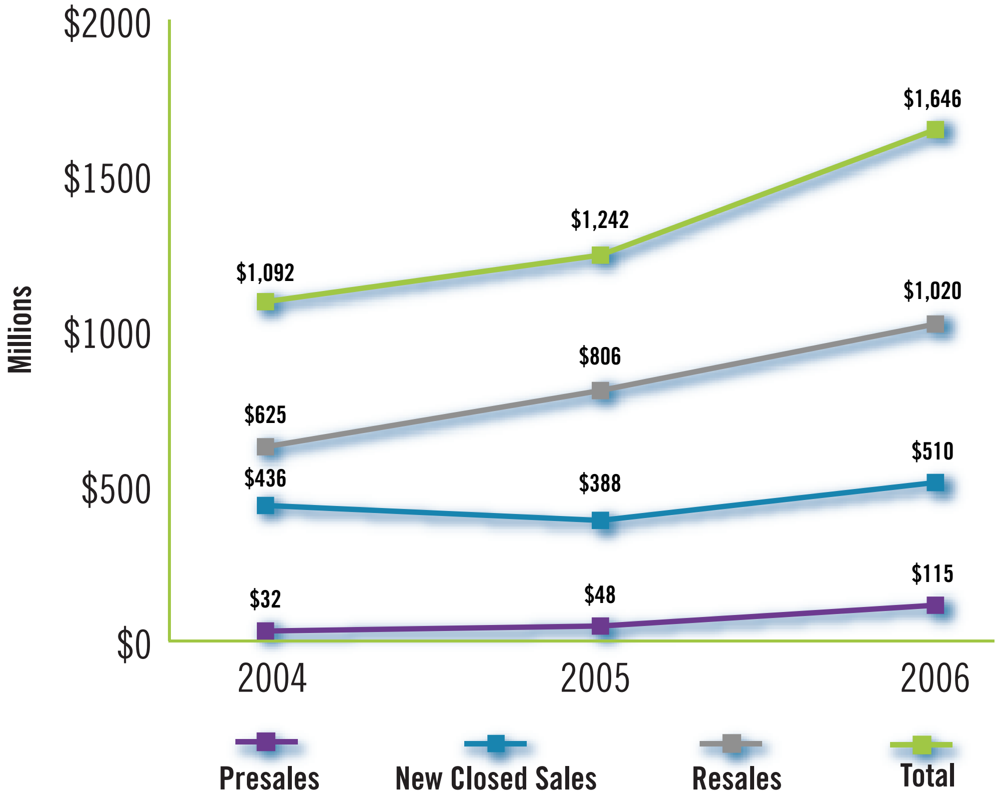
- A minimum 1/13th ownership share
- A maximum 1/4th ownership share
- Deeded ownership – fee simple or a deed to all of real estate at a single location in accordance with the total number of shares
- Any shares smaller than 1/13 are considered timeshare. Non-equity club structures are not considered 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

	2006	CHANGE FROM 2005
Number of Resorts	249	▲ 39%
Sales	$1.65 B	▲ 32%

2006 SALES GROWTH

Sales growth for fractionals was strong across the board in 2006. Our estimates show an especially strong growth in presales – which may be an indication that consumer knowledge and acceptance of the product is increasing.

New closed sales for fractionals toped the $1 billion mark for the first time in the industry and resales continues to grow rapidly as well – another assurance to consumers that investment in a fractional interest is very different than a non-equity club or a timeshare.



	2004	2005	2006	CHANGE FROM 2005-2006
Presales	31.5	48	115.2	▲ 141%
New Closed Sales	624.7	806.4	1,020.30	▲ 27%
Resales	436	388	510.2	▲ 31%
Total	1,092.20	1,242.3	1,645.7	▲ 32%

SUPPLY AND SALES TRENDS METHODOLOGY

Sample Frame

Fractional resorts sold as intervals of four-weeks or longer (minimum 1/13 ownership) in the United States, the Caribbean, and Canada and further defined as previously noted.

An initial list of fractional resorts was contacted based on several list sources – this list was revised and updated throughout data collection process to exclude resorts not meeting the proper fractional definition.

Data is reported on the entire universe of existing fractionals within the specified geography except where noted. This is a change over previous editions where only a subsection of fractionals (those in active sales) were reported on. This change provides a more holistic view of the market. Changes and trends of newer developments and how they differ from older developments are highlighted throughout this chapter as well.

Data Collection

Data collection was performed online, by phone, and by fax from January 4-18, 2007

Survey and interview data was supplemented with data collected through additional publicly available sources such as websites, news stories, press releases and public filings. Sales growth and industry supply characteristics were originally collected and analyzed on behalf of NorthCourse by Chadwick Martin Bailey. Additional information collected and analyzed by NorthCourse is also presented throughout this section of the report.

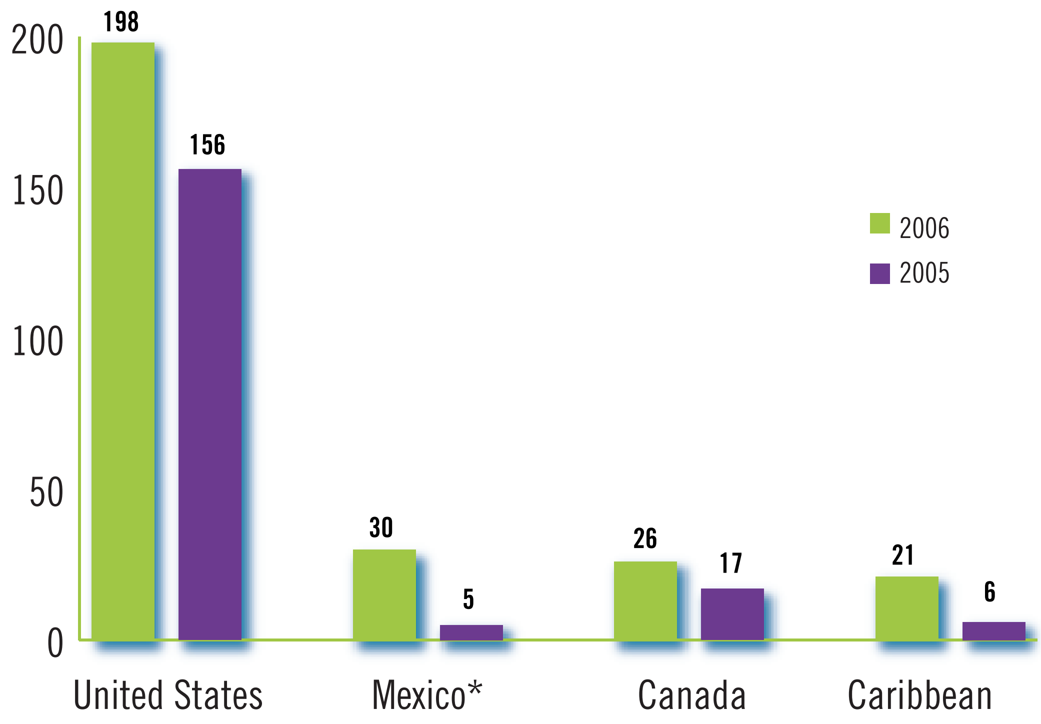
All data collection was then merged into a single database for analysis.

INDUSTRY SIZE

The number of new fractional developments identified in the United States grew by 27% over 2005 numbers. Canadian fractionals grew by 53% and the number identified in the Mexico* and the Caribbean were five times and two-and-a-half times larger than in 2005.

Growth in these last two areas is strong, but the growth numbers are tempered by the fact that many of the fractionals included in this year's report were previously in existence and simply missed in prior reports or are much smaller independent developments that meet the definition of a fractional but are limited in size and the number of owners.

Number of Fractional Developments by Region



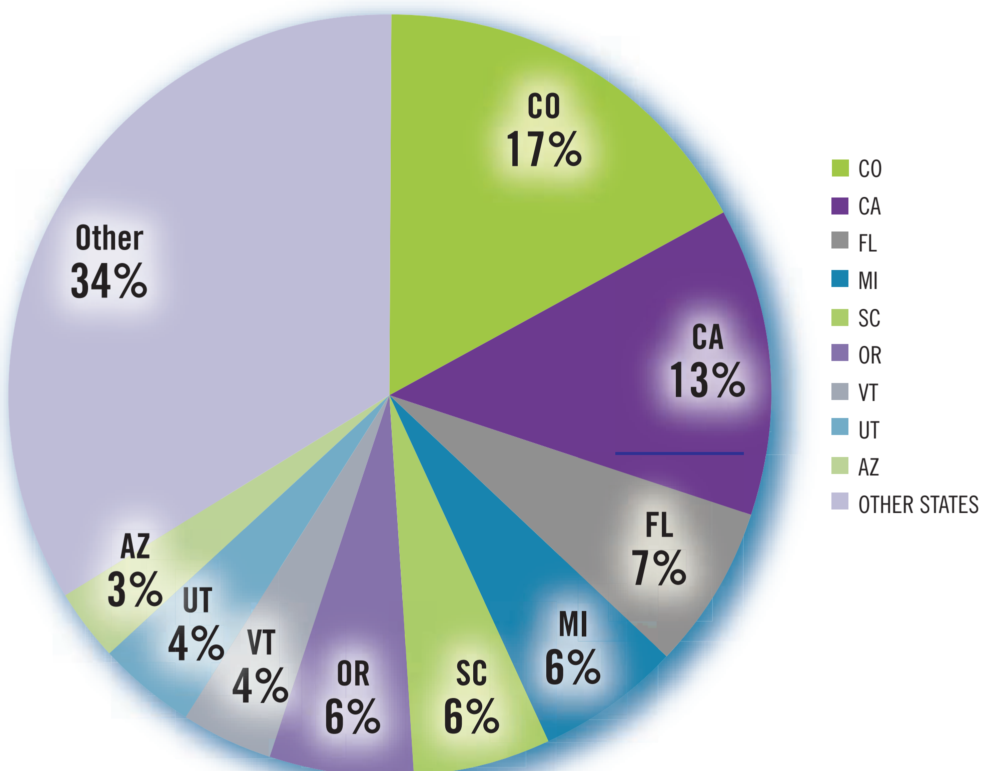
*Mexico is included here to highlight the tremendous growth of fractionals in the country – but Mexican sales and supply characteristics are not included in this report. A separate report devoted exclusively to the Mexican market will be published separately.

INDUSTRY SIZE

Between 2005 and 2006 there was not a sizeable shift in the overall geographic distribution of fractional developments. Colorado (17%) and California (13%) still lead the pack as the locales with the most fractional developments. However, Colorado is down from 21% in 2005 and California is up from 10%. Florida increased its share of developments from 3% to 7%. Overall, 38 states now have at least one fractional development compared to 26 in 2005.

This truly marks a watershed moment in the industry where consumer, developer and institutional acceptance of the fractional product has leapt out beyond the core geographic areas in which it started. This should be looked at as a a true game-changer in the industry as the combination of geographic dispersion, consumer acceptance and new developer models means the old definitions and rules are changing for the industry. Therefore, this report focuses in on the new factors to fractional success and abandons some of the old formats for looking at the industry.

Distribution of Fractionals by State



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.

KEY FACTORS TO FRACTIONAL RESORT SUCCESS

Seasonality

Fractional resorts with a longer (24-week or more) high season are more successful than those with a shorter high season.

Use plan

Successful resorts are more likely to offer a rotating calendar or customized use plan (examples are described as *rotating calendar in the high and shoulder seasons with space available use in the off-season* or *fixed high season with rotating priority reservations outside of the high season).*

External exchange program

Resorts affiliated with an external exchange program like RCI, The Registry Collection® program and Interval International are more successful than those without an affiliation.

Variety of units, including smaller options

Successful resorts have more types of units in the development and are more likely to have lock-offs included in the design.

KEY FACTORS TO FRACTIONAL RESORT SUCCESS

Base share size

The base share size sold at successful resorts tends to be larger *(median is 6 weeks compared to 5 weeks)*. This goes hand-in-hand with longer high-seasons.

Maintenance fees

Successful resorts tend to have lower maintenance fees. Median annual maintenance fees for resorts with the highest sales pace are often less than $5 per square foot on an annualized basis. [*For example, a 2,000 square foot unit sold in 1/8th fractions at $5/sq ft translates into ((5 x 2000)/8) = $1,250/year per owner.*]

This is an obviously low fee level and a difficult number to achieve – but the fact that it is included speaks to the fact that price sensitivity if often more on the side of maintenance fees than fraction price. The impact is especially strong among lower priced fractionals – which tend to have a slower sales pace to begin with anyway. The lesson becomes that maintenance fees that get out of control is one of the biggest mistakes a developer can make.

Based on the response of our consumer research with fractional buyers and the drivers of purchase decision-making – it becomes clear that the inclusion of too many amenities is problematic if it forces higher maintenance fees. The trade-off is generally not received well by consumers and balancing the proper amenity set against fees becomes a crucial component to a successful development.

TRENDS IN NEWER FRACTIONAL RESORT DEVELOPMENTS

Where are Fractionals Headed?

- Ocean beaches, private lounges, and day spas
- Rotating priority reservations
- More/higher product investments
- Whole ownership condos on-site
- Storage lockers and lock-off units
- Higher sales price along with higher maintenance fees
- Additional member services and amenities, such as pre-arrival concierge service, valet parking and bell service, shuttle service, and children's activity programs

Comparing newer resorts (defined as those with an initial occupancy date of 2006 or later for those still in presales) with older resorts (resorts with an initial occupancy date prior to 2006) reveals some development trends worth noting.

While ski areas (where fractionals began) are still experiencing growth, there is a noticeable shift to other types of locations – most noticeably ocean beachfront properties.

Private lounges and day spas are becoming more commonplace in new developments as well.

Another significant shift is that higher allocations of budgets are moving into product costs and out of General and Administrative costs (G&A), and marketing to a lesser extent. This may be an indication that as the industry begins to mature, developers are increasing their marketing and operational efficiency.

USE, RENTAL AND EXCHANGE

USE PLAN	(% YES)
Set calendar	19
Rotating calendar	41
Rotating priority reservations	22
Other	19
Split Week Usage	53
RENTAL AND EXCHANGE PROGRAMS	
Rental program	64
In-house resale program	63
Internal exchange program	71
External exchange program	78

- **Newer resorts are more likely to offer rotating priority reservations (35%)**
- **Older resorts are more likely to offer a rotating calendar use plan (45%) and are also more likely to offer split week usage (58%)**

PRICE AND MAINTENANCE FEES

PRICE PER SQUARE FOOT ($)	STUDIO	ONE-BEDROOM	TWO-BEDROOMS	THREE-BEDROOMS	FOUR-PLUS-BEDROOMS
Median	$797	473	740	501	633
Average	$1015	640	802	645	747
Range	$622-1847	251-1272	228-1854	146-2100	283-1804

- Units at newer resorts are selling at a higher price per square foot than older resorts

ANNUAL MAINTENANCE FEES PER SQUARE FOOT ($)	STUDIO	ONE-BEDROOM	TWO-BEDROOMS	THREE-BEDROOMS	FOUR-PLUS-BEDROOMS
Median	$16	$11	$16	$16	$26

- Units at newer resorts (i.e., those with an initial occupancy date of 2006 or later) garner higher annual maintenance fees per square foot

RESALES

- More than one-half of resorts with a first occupancy date prior to 2006 are sold out
- Two-thirds of resorts that are sold out are currently doing in-house resales
- On average, seven-in-ten presales convert to closed sales
- Survey results are inconclusive as to whether or not resales are appreciating significantly over original sale prices. This is primarily due to the diversity of products, fraction sizes, locations and ages of resorts. However, it is clear that resales do at a minimum maintain value – unlike timeshares – and that the market is substantial. This actually points to another reason why fractionals should be more strictly defined by those researching and tracking the industry. Clear definitions about what is and is not a fractional help both the developer and the consumer. Allowing hybrid formats that too closely resemble timeshare (i.e, less than 4 week fractions) to be positioned as fractionals will only serve to dilute the value of "fractionals" as a distinct and differentiated product type

CURRENT SALES STATUS		%
Actively selling existing inventory		45
Sold out, but doing in-house resales		26
Sold out, and no in-house resales		14
In presales		14
Not yet doing presales		1
Inactive, but stopped before sell out		0
Percent of presales converted to closed sales	(Median)	72
	(Average)	65

TYPES OF UNITS AND SIZES

- Studios and one-bedroom units at newer resorts tend to be larger than those at older resorts
- Two-bedrooms and above are not significantly different in size in newer resorts
- The trend toward developments having lock-off configurations accounts for the growth of reported studio and one-bedroom units. The fact is that fractional shares may not be available for sale in these sizes but design considerations have identified the need or opportunity to have studios and one bed-rooms configured into the resort as lock-offs
- Such flexibility is good for both the developer and the consumer in many cases, but makes standard-ized reporting more complex and difficult

	%OF FRACTIONALS WITH UNIT TYPE	MEDIAN SQUARE FOOTAGE	AVERAGE SQUARE FOOTAGE	RANGE
Studio	35	403	424	345-500
One-Bedroom	52	821	853	550-1300
Two-Bedroom	79	1325	1387	800-2600
Three-Bedroom	88	2000	1984	1350-3000
Four-Bedroom+	40	2640	2716	2000-4000

MEMBERSHIP PRIVILEGES

Newer resorts are more likely to have additional services and amenities available to members, including:

- **Pre-arrival concierge service (89%)**
- **Valet parking and bell service (67%)**
- **Shuttle service (72%), and**
- **Children's activity programs (59%)**

		(% YES)
Golf Onsite or In the Area		93
Concierge service		76
Pre-arrival concierge		71
Activity guides		64
Shuttle service		63
Discounted golf		61
Skiing Onsite or In the Area		60
Hunting/Fishing Onsite or In the Area		56
Airport transfers		49
Children's activity program		48
Valet parking/bell service		47
Priority tee times		47
Golf valet		36
Discounted ski		32
Hunting/fishing guides		24
Ski valet		16
Drive-time to Nearest Commercial Airport (in minutes)	(Median)	45
	(Average)	63

AMENITIES AND LOCAL ATTRACTIONS

	AMENITIES/LOCAL ATTRACTIONS	
	NEAR BY %	ONSITE %
Pool	90	88
Exercise Facilities	88	80
Children-specific Play Area/Facilities	83	66
Private Lounge	68	63
Tennis	81	61
Hiking Trails	95	59
Day Spa	83	48
Golf	93	40
Cross-Country	69	37
Lake Beach	64	24
Access to power boat(s)/fishing	78	24
National Park/Forest/Preserve	79	24
Ocean Beach	32	22
Skiing	60	21
Access to sail boat(s)	57	19
Hunting Land	56	9
Downtown/Urban Center	41	6
National Historic Site/District	54	4
Casino Gambling	21	2
Winery	19	2

Newer resorts are:

- **Less likely to have onsite skiing (11%) and are also less likely to have hiking trails (44%) and hunting land (0%) onsite**
- **More likely to have an ocean beach (28%), private lounge (83%), or day spa (56%) onsite**

SEASONALITY

SEASONALITY		
High	(Median number of weeks) (Average number of weeks)	22 22
Shoulder	(Median number of weeks) (Average number of weeks)	16 16
Low	(Median number of weeks) (Average number of weeks)	14 15

OCCUPANCY

ANNUAL PERCENT OCCUPANCY	
75-100	45%
50-74	33%
25-49	11%
0-24	11%
(Median)	70
(Average)	63

- **Overall, fractional resorts report an annual occupancy rate of 70%**
- **One-half of the newer resorts maintained a 50-100% occupancy rate in 2006**

BUDGETING AND FINANCING

BUDGET ALLOCATION		
Marketing and sales costs	(median %) (average %)	10 12
General & Administrative costs	(median %) (average %)	13 16
Product costs	(median %) (average %)	50 50
Consumer Financing Offered	(% yes)	39

Newer resorts are spending a higher share of their operating budget on product costs and a lower share on G&A

A Closer Look at PRC's

A CLOSER LOOK AT PRIVATE RESIDENCE CLUBS (PRCS)

Fractional residence clubs have evolved from their infancy in the early 1990's to a highly publicized and accepted resort product more than a decade later. 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.

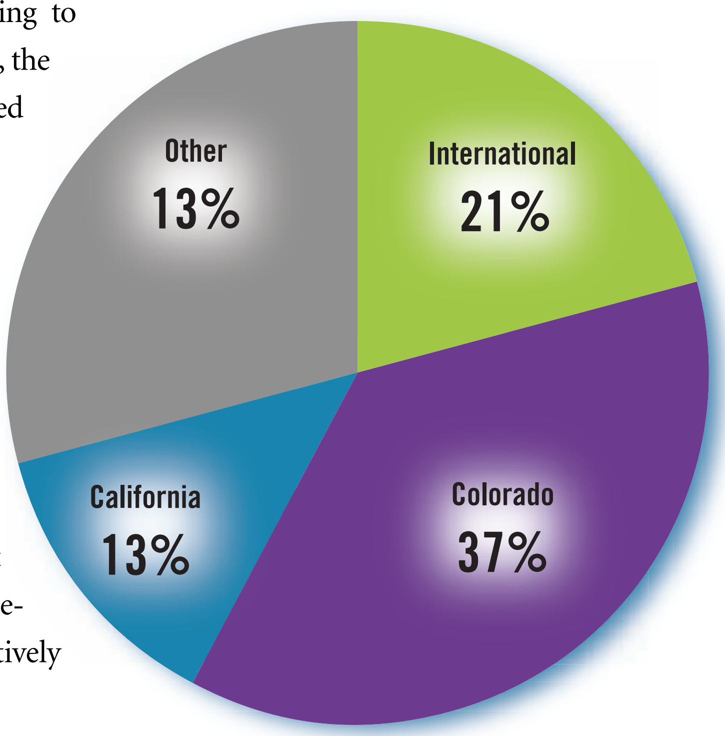
Since 2000 both the supply and demand for PRC's has accelerated and today there are approximately 23 PRC's in operation, four under construction, and approximately eight more projects in the presales stage of development, a total of 37 PRC's. There are probably at least an additional 30 or 40 PRC's in the planning stages.

The majority of occupied PRC's, about 60%, are located in ski resorts where they began. However, as with fractionals overall, the concept is rapidly spreading to warm weather beach and golf resorts throughout the world.

The fractional residence club industry is continuing to change and evolve as the industry matures. 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 to buy. 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.

PRC Distribution by Location



MARKET CONDITIONS

Market conditions for PRC's can be divided into three distinct periods.

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

In the late 1990's the supply was so limited that 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.

During this period the PRC market would 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, 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 2003, many more PRC's came on line. 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. However, the resort and hospitality industry might have recovered much sooner if 9/11 had not occurred.

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 PRC's were once again flourishing with strong sales, new project introductions, and a renewed excitement by practitioners in the industry. This trend continued to accelerate through 2004 and is even more pronounced today. In fact, the PRC industry has never been healthier or stronger.

Today, industry absorption is well above pre 2000 levels, due to both greater supply and demand. The industry is showing signs of pent up demand in many locations as consumer awareness increases. Sellouts prior to the completion of construction are occurring with well located and designed PRC'S.

INDUSTRY TRENDS

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

Product

The PRC product consists of the location, the physical design, and the usage plan and reservation policies and procedures that overlay the usage plan. The importance of the location cannot be over emphasized and is discussed in more detail in a subsequent subsection of this chapter.

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

- Low density detached single family homes.
- 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, the PRC can be either low or medium density. As noted in previous sections, the PRC designation 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 PRCs 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 PRCs 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.

Unit designs include two relatively equal twin master bedrooms with somewhat smaller third and fourth bedrooms. However, each bedroom has its own private bath. A half bath is usually located somewhere off the living area. Great rooms are common and create a feeling of luxury and openness.

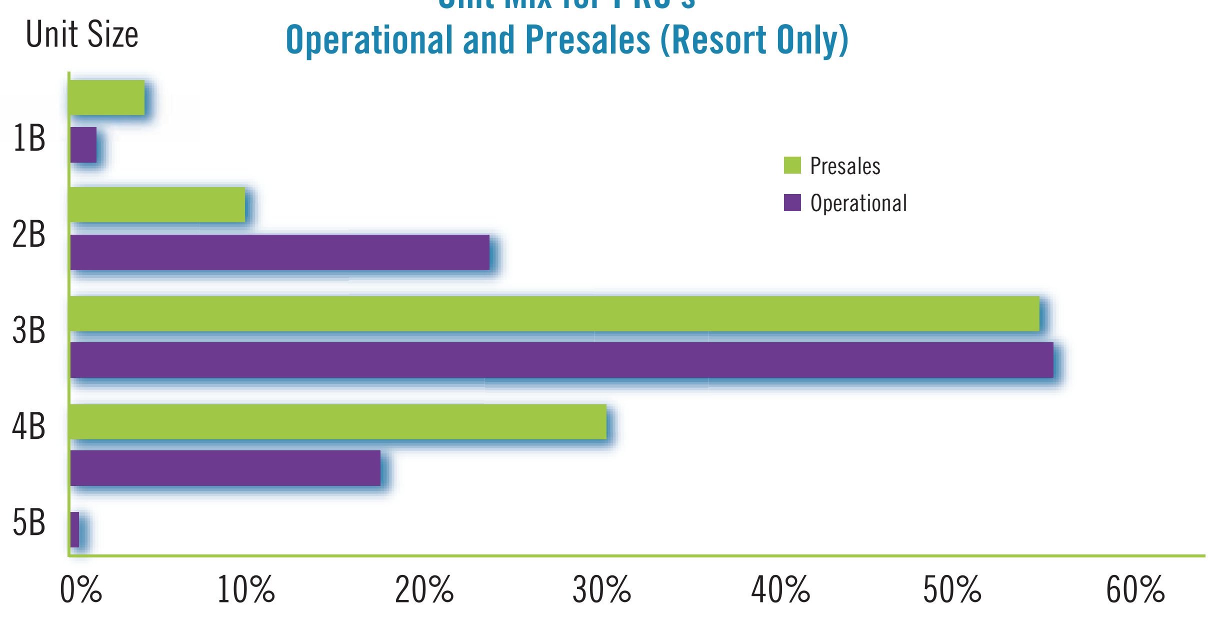
Each home should have a small study or den with a desk for a home office. This room can also function as an overflow sleeping area with a hide-a-bed. Large outdoor living spaces connecting to the living area and the twin master bedrooms is also critical, particularly in warm climates where outdoor living is an important part of the lifestyle.

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 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.

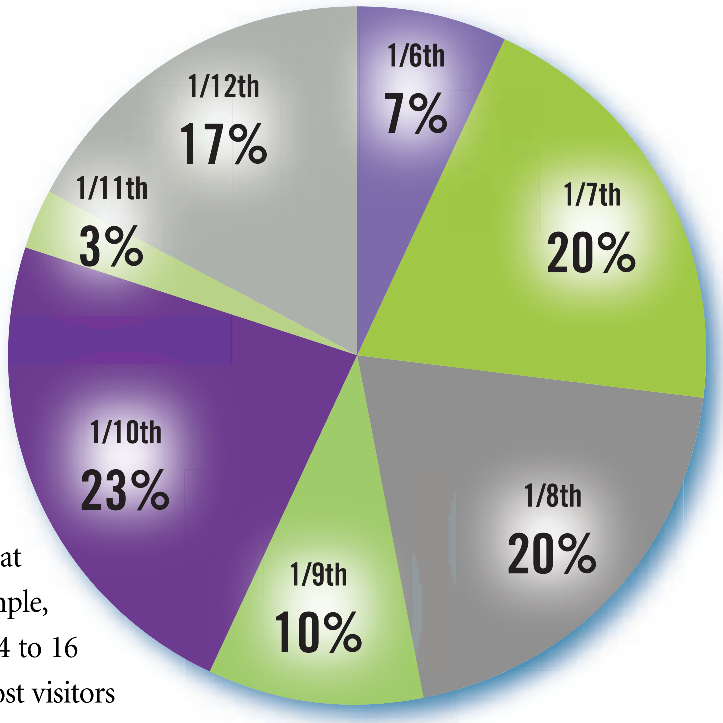
There is a trend to enhance the amenity offering with private golf club memberships (while in residence), private yachts, fractional jet service, beach clubs, and other similar types of offerings. These types of lifestyle additions further enhance the marketability and perceived value of the PRC as long as associated fees do not get out of hand relative to the price of the PRC share.

Unit Mix for PRC's Operational and Presales (Resort Only)



USAGE PLAN

Distribution of PRC's by Share Size



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.

One of the most important fundamentals of a PRC 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.

The industry trend is towards larger fractions of at least 1/8th to provide more time. A 1/8th share provides four guaranteed weeks of time per year, leaving 16 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 1/6th to 1/12th fractions. Smaller fractions than 1/12th begin to cross the line into timeshare, particularly when fixed weeks are sold and priced differently based on the season.

Occupancy in private residence clubs in ski areas averages 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 30% or less during the shoulder seasons.

Warm weather climates with long seasons usually experience higher average annual occupancy than ski areas. In spite of relatively high occupancy patterns, most owners are able to use their residence club, even in the prime season, as much as their vacation schedule allows using a combination of guaranteed time, open access time and space available from cancellations.

PRICING

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.

Pricing a fractional residence club has traditionally been based on determining the whole ownership value of the product, applying a multiplier varying between approximately 1.6 and 2.0, and dividing by the total number of fractional shares for each unit type.

This pricing strategy is utilized due to the still relative immaturity of the industry and the absence of other fractional comparables in the locations where they have been built. Thus, the market is inefficient 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 PRC's will often experience at least a 30% price increase between opening 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 sell out of no more than three years after completion, with two years being optimal.

After two to three years members begin to resell their memberships, the developer must compete with these resales, if the project has not been fully absorbed into the market. This condition can substantially slow new developer sales.

MIXED USE RESORTS

The concept of complete mixed use master planned communities has taken over 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.

PRC's are becoming an accepted component of the real estate product mix for destination resorts. Thus, fractional residence clubs are 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 and whole ownership and/or hotel rooms in the same structure.

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 residence club 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 creditability 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.

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.

	BRANDED	UNBRANDED
Avg. Monthly Absorption	10.3	6.5
New Closed Sales	624.7	806.4
	PREMIUMS REALIZED OVER UNBRANDED PRCS	
Avg. Price Per Sq.	15% to 35%	
Avg. Annual HOA Dues	10% to 20%	

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.

HOSPITALITY BRANDING (Continued)

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

- Auberge
- Fairmont Resorts
- Four Seasons
- Mandarin
- Marriott
- Raffles
- Regent
- Ritz-Carlton
- Rosewood
- St. Regis

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. *Storied Places*, a division of *Intrawest*, was formed to develop and brand properties. *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, CO, 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 PRCs within its portfolio of over 100 high-end and luxury properties. Interval International is expected to launch a new exchange service aimed at the luxury market as well that would assumedly include PRCs.

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 six properties.

Financing

While consumer financing through a mortgage on deeded interest in a PRC unit is readily available to qualified buyers, development financing for marketing and building a PRC is much more difficult to obtain. The historical absence of real estate or timeshare finance companies who are interested in providing development loans to PRC developers has been generally limited to two (*Textron* and *Capital Source*). This absence of financing sources has been a major deterrent to the entry of new PRC's into the market.

However, as the PRC industry continues to gain momentum, new financing sources are emerging and the product is beginning to get the attention of Wall Street. A major Wall Street investment banking company has financed a PRC project in Aspen and fractional specific lending companies are emerging, such as CapitolSource and Ward Financial.

Furthermore, as more large real estate developers become interested in fractionals, they bring their own lines of credit and financing sources for the development of PRC's. Thus the financial markets for PRC development loans are evolving rapidly.

Equity in PRC's has historically been raised mostly through private investors. However, new institutional equity sources are also beginning to emerge. The opportunity for unusually high returns is a major attraction to Wall Street.

Other Trends

Other market trends include:

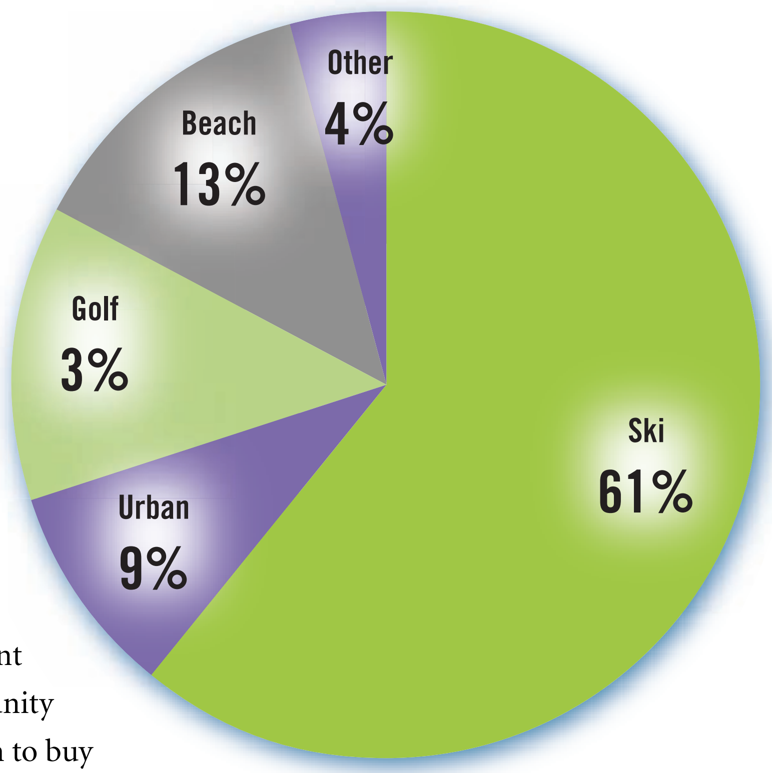
- A transition from individual entrepreneurs to major real estate development companies who may dominate the industry in the future;
- Residence clubs will spread overseas to Europe, Asia, and other countries; and
- Residence clubs will gain market share against whole ownership.

PRIVATE RESIDENCE CLUBS: SUCCESSES & FAILURES

While luxury PRC's have 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 private residence clubs 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
- Use structure
- Marketing plan and execution
- Pricing and HOA fees
- Competition from resales

PRC's by Type
PRC's in Operation and in Presales



Location

Regardless of the product, the success or failure of resort real estate is dependent upon the quality of the location. Luxury residence clubs work 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.

Location requirements include an established national or international resort or urban area, a significant volume of tourist traffic and affluent repeat visitors seeking a second home, and a location with natural amenities and high priced resort real estate.

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.

Access is another important factor contributing to or detracting from the success of a PRC. 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 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 units that are too small, has been a repetitive problem. Affluent second home buyers often travel with friends and family and want more space. Three and four bedroom second homes are the norm. Two bedrooms are in far less demand, except in urban areas or where the property is being positioned in the market for overnight rentals.

There is no "cookie-cutter" approach to fractional residence club 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.

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

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 more modest PRC becomes gray and perhaps irrelevant, except in location characterized by high prices, exclusivity and dominated by affluent households.

PRIVATE RESIDENCE CLUBS: SUCCESSES & FAILURES (Continued)

Marketing and Sales Plan

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 includes, but is not limited to the following:

- A presales program that mitigates risk and meets development loan requirements associated with PRC's.
- Setting up an attractive sales office.
- Design and production of high quality marketing collateral materials;
- Implementation of direct mail and intercept marketing programs and other methods for reaching the target market.
- An outside sales broker program.
- An owners' referral program.
- Hiring, training, and managing a professional sales staff; and
- An adequate marketing budget usually equal to 15% 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 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 45% 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 PRC shares must be carefully evaluated since whole ownership is the competition in markets where other PRC's are not present.

A prudent pricing strategy is using a conservative opening price multiplier of 1.6 for unbranded clubs to create sales momentum. Price increases of 5% to 10% can be implemented approximately every six months if 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 homeowner association fees than the purchase price. HOA fees must be competitive with other PRC's and budgets should be structured so the basics are covered and user fees are charged for additional services.

PRIVATE RESIDENCE CLUBS: SUCCESSES & FAILURES (Continued)

Competition from Resales

Because the PRC industry is 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 whole ownership when the fractional share is listed with an outside broker who has no experience selling fractionals. In this case the sale is often made by discounting the price below the developer sales price. This problem is also exacerbated with fractionals because the use usually rotates among similar types of units. Thus, the product is homogenous and can become a commodity in the resale market.

For all of these reasons it is important that the developer provide a resale program to the club 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.

Controlling resales is a critical factor in the PRC 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. The PRC should be sized based on absorption expectations so the project is fully absorbed within two to three years after occupancy.

The resort industry is entering a period of explosive growth. While sales will ebb and flow as economic cycles come and go, the long term trend will produce dramatic growth in the second home real estate industry. PRC real estate is a niche product within this industry that serves the needs of two markets.

1. There is an affluent market that can afford a whole ownership second home perhaps in the multi million dollar range. However, time constraints make second home ownership impractical. Many of these households have been sitting on the side lines, wanting the use of a second home for a few weeks per year, but not the responsibility and the corresponding investment in an underutilized asset. A variation of this market is the household that already owns a second home but feels guilty, due to infrequent use, and are tired of the responsibility.

2. Another market is the less affluent market that aspires to the status and luxury of a high priced second home, but cannot afford five-star quality.

Thus, as the second home market grows, the PRC market will grow at least proportionately. An argument can also be made that the PRC market will grow much faster than whole ownership.

First, the base is significantly smaller so the percentage of increase will be greater. More importantly, there are many more households that fall into the category of the two markets described above, than households who will only consider whole ownership.

However, PRC's will compete not only against whole ownership, but also against the other types of fractionals described in the first section of this report, with the exception of timeshare. The price point of timeshare is so far below other types of fractional real estate that the market is completely differentiated and noncompetitive.

THE FUTURE OF PRIVATE RESIDENCE CLUBS

The future market share of PRC's, in relation to whole ownership and other types of fractional real estate, will be governed by several factors:

- Price appreciation in the resale market.
- The degree to which development financing is available in the future, which has been a major constraint to the growth of the supply in the past.
- The rate at which consumer awareness of the product increases in the future.
- The financial success of future projects now in presales and the planning stages of development.

Due to the relative immaturity and lack of experience in the industry, it is difficult to forecast the degree to which the above factors will influence growth positively or negatively. However, the prospects of much higher returns will certainly drive developers to continue to test and penetrate the market.

As developers gain experience they will innovate and find solutions for overcoming buyer objections and better meeting consumer needs through product design, pricing, usage plans, and the application of effective sales and marketing strategies. Real estate developers are quick to learn from their mistakes, and the mistakes of others in the industry.

The market entry and rapid growth in participation of major five-star hospitality companies is certainly a testament to the viability and importance of the product. This branding also provides consumer confidence that the product is viable and here to stay.

The future and growing importance of PRC's as part of the resort product mix is assured. The concept appeals to the logic of the majority of working households for whom whole ownership of a second home is impractical. PRC's provide a type of ownership that is not only affordable, but fulfills a dream.

DISCLAIMER

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