

Ragatz Associates

EXECUTIVE SUMMARY THE SHARED-OWNERSHIP RESORT REAL ESTATE INDUSTRY IN NORTH AMERICA: 2007

FRACTIONAL INTERESTS PRIVATE RESIDENCE CLUBS DESTINATION CLUBS

Introduction

This document is an Executive Summary of a larger survey conducted by Ragatz Associates of the shared-ownership resort real estate industry in North America as of March 2007. Included in this overall sector of the resort real estate industry are three components: fractional interest projects, private residence clubs and destination clubs.

The first two components are similar, in that both typically sell deeded ownership in shares of vacation homes, ranging from a 1/20 share with two weeks of annual use to a 1/4 share with three months of annual use. However, the two components vary in terms of price, quality of product and degree of services and amenities. Ragatz Associates simply assumes that product selling for less than \$1,000 per square foot falls into the fractional interest category, and product selling for more than \$1,000 per square foot falls into the private residence club category.

A destination club typically sells 30-year memberships on a non-equity basis into a wide network of vacation homes in multiple locations. Some clubs are equity-based, however. The concept is further characterized by a refundability policy when members leave the club.

The survey is thought to be the most thorough and comprehensive ever conducted of the industry. Complete results are available from Ragatz Associates.

Size of the Industry

Some 254 fractional interest projects and private residence clubs were identified in the survey, along with 21 destination clubs. Of the 254 developments, 135 are currently in active sales, as are all 21 destination clubs.

Included in the 254 developments are 75 percent in the United States, 15 percent in Canada, six percent in the Caribbean and four percent in Mexico. The three states of Colorado, California and Florida contain 27 percent of all developments. Of the 135 active developments, 58 percent are fractional interest projects and 42 percent are private residence clubs. Most of the 119 inactive developments are older, sold-out fractional interest projects.

It is estimated that total sales volume in the shared-ownership resort industry in 2006 was \$2.1 billion. This amount includes new closed sales (85 percent), presales (12 percent), and resales (three percent). When looking at the three individual components, sales volumes were \$476 million in fractional interest projects (22 percent), \$1.1 billion in private residence clubs (51 percent), and \$576 million in destination clubs (27 percent). Most significant growth in 2006 among the three components was for new closed sales in private residence clubs at plus 92 percent.

Product Characteristics

Unless noted, the remainder of this Executive Summary concentrates on the fractional interest and private residence club components. Upon completion, the average development will contain 40 units. Some 74 percent of the units are either two-bedrooms (36 percent) or three-bedrooms (38 percent). Among all units, the average size is 1,710 square feet.

There are at least eight different sizes of shares being sold. Most frequent sizes for fractional interest projects are 1/4s (29 percent), 1/10s (24 percent) and 1/8s (19 percent). For private residence clubs they are 1/8s (35 percent), 1/12s (21 percent) and 1/10s (21 percent). On-site amenities and services are extensive in the industry, especially at the private residence club level. The majority have a private concierge, pre-arrival food and beverage stocking service, valet parking, transportation service, etc.

Prices

Prices in the shared-ownership industry range widely. For fractional interest projects, selected average prices include \$163,775 per share, \$24,730 per week (when dis-aggregating shares to an individual weekly basis), and \$631 per square foot. Among private residence clubs, these averages are \$347,850 per share, \$70,435 per week, and \$1,803 per square foot. Per week and per square foot prices tend to decrease as the size of the unit and share increase.

Per square foot prices also vary significantly by country, e.g., from \$654 in Canada, to \$1,047 in Mexico, to \$1,444 in the U.S., to \$1,457 in the Caribbean. They also are higher in ski communities and at developments offered by branded hotel companies.

Annual maintenance fees average \$6,910 per share, ranging from \$5,410 among fractional interest projects to \$8,700 among private residence clubs. On a per week basis, such averages are \$670 and \$1,820, respectively.

Destination Clubs

The average price for a membership in the 21 destination clubs is \$405,000. The range is wide, however, from \$35,000 to \$3 million. The average residence in the clubs has a reported value of \$2.7 million and contains 3,700 square feet. The average term is 30 years, and the average ratio of members per residence is six. Approximately 4,650 members are in the 21 clubs.

Remaining Market Depth

It is estimated that 40,000 households have purchased shared-ownership. This represents about one percent of all households in the U.S. with incomes over \$200,000 (the assumed income-eligibility at this time). If the penetration rate reaches 10 percent, about 90 percent of the market at this level remains untapped.

Various feasibility analyses, consumer surveys and focus groups recently conducted by Ragatz Associates strongly indicate a growing public awareness, acceptance and interest in purchasing all three components, including fractional interests, private residence clubs and destination clubs.