EXECUTIVE SUMMARY

THE SHARED-OWNERSHIP RESORT REAL ESTATE INDUSTRY IN NORTH AMERICA: 2011

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 2011. 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 1/15 share with three 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 represents our 11th annual edition. Once again, it is thought to be the most thorough and comprehensive survey conducted of the industry.

Size of the Industry

Some 292 fractional interest (FI) projects and private residence clubs (PRC) were identified in the survey, along with five destination clubs. Of the 292 developments, 104 actually made some sales in 2010, as did all five destination clubs. The 104 FI and PRC projects were the primary focus of the survey.

Included in the 292 developments are 69 percent in the United States, 17 percent in Canada, six percent in the Caribbean and eight percent in Mexico. The two states of Colorado and California contain 21 percent of all developments. Of the 104 active developments, 63 percent are fractional interest projects and 37 percent are private residence clubs. Most of the 188 inactive developments are older, sold-out fractional interest projects.

In the survey for 2009, there were 125 active projects that had made sales that year. Some nine new projects started sales in 2010, meaning that 30 of the active projects in 2009 dropped from the list. A few of these may have attained sell-out, but most simply ceased sales due to the country's economic condition. Also, some were actually in sales, but did not make any sales.

It is estimated that total sales volume in the shared-ownership industry in 2010 was $530 million. This amount includes new closed sales, presales, and resales. When looking at the three individual components, sales volumes were $107 million in fractional interest projects (20 percent), $242 million in private residence clubs (46 percent), and $181 million in destination clubs (34 percent).

In accord with many other goods and services in the United States, sales volume in the shared-ownership resort real estate industry declined in 2010. The total sales volume decreased from $860 million in 2009 to $530 million in 2010, or 38 percent. Decline occurred with all three components, including 29 percent for fractional interests, 53 percent for private residence clubs, and seven percent for destination clubs.

In 2010, the average annual sales volume in the 104 active projects was $1.2 million for fractional interest projects and $6.1 million for private residence clubs. However, if excluding the top six private residence clubs, the latter figure would decline to $3.2 million. Of the total 104 active projects, six percent had sales over $10 million, while 34 percent had sales of less than $1 million.

On a longer-term trend in sales volume for the entire shared-ownership resort industry, totals were $1.54 billion in 2004, $1.97 billion in 2005, $2.12 billion in 2006, $2.30 billion in 2007, $1.52 billion in 2008, $860 million in 2009, and $530 million in 2010.

Several critical factors combined in 2010 to create the perfect storm for the decline in the sales performance of the overall shared-ownership industry. These same factors also negatively impacted the market in 2009.

- the uncertainty of the country's long-term economic stability
- an almost complete lack of consumer financing
- decrease in primary home equity funds for purchasers who previously paid cash
- concern with making "conspicuous consumption" purchases
- lack of marketing funds
- a glut of whole-ownership vacation homes on the market, with significantly decreasing prices

Prices

Prices in the shared-ownership industry range widely. For fractional interest projects, selected average prices include $121,000 per share, $17,600 per week (when dis-aggregating shares to an individual weekly basis), and $550 per square foot. Among private residence clubs, these averages are $271,000 per share, $56,000 per week, and $1,650 per square foot. Per week and per square foot prices tend to decrease as the size of the unit and share increase. In comparison with 2009, average prices decreased by $30,000 per share (15 percent), by $2,900 per week (nine percent), and by $55 per square foot (six percent).

Per square foot prices also vary significantly by country, e.g., from $590 in Canada, to $750 in Mexico, to $835 in the Caribbean, to $1,100 in the U.S. They also are higher in ski communities and at developments offered by branded hotel companies.

Annual maintenance fees average $6,565 per share, ranging from $5,200 among fractional interest projects to $9,820 among private residence clubs. On a per week basis, such averages are $875 and $2,125, respectively.

Operating costs (including marketing, sales and general administration) remained fairly constant in 2010 compared to previous years, at about 19 percent of the overall sales volume. This includes 20 percent for fractional interest projects and 15 percent for private residence clubs. Product costs are about 55 percent, including 54 percent for fractional interest projects and 58 percent for private residence clubs.

Product Characteristics

Upon completion, the average development will contain 47 units. Some 68 percent of the units are either two-bedrooms (39 percent) or three-bedrooms (29 percent). Among all units, the average size is 1,525 square feet.

There are at least nine different sizes of shares being sold. Most frequent sizes for fractional interest projects are 1/8s (32 percent), 1/4s (27 percent), and 1/12s or less (26 percent). For private residence clubs they are 1/12s (33 percent) and 1/10s (25 percent). In efforts to have lower prices in accord with declining market conditions, there was a tendency in 2010 to have smaller shares, fewer bedrooms and lesser floor areas. 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. However, there was a trend in 2010 to have fewer on-site services in order to conserve on annual dues. At the same time, there was a trend to provide more owner benefits such as rental and resale programs, and external exchange.

Destination Clubs

The average price for membership in the five destination clubs is $315,000. The average residence in the clubs has a reported value of $3 million and contains 3,500 square feet. The average term is 30 years, and the average ratio of members per residence is 8.0. Approximately 4,250 members are in the five clubs.

Future Trends

It is widely felt in the resort real estate industry that shared-ownership resort real estate will rebound more rapidly and more strongly than whole-ownership resort real estate as the country's economy recovers. Reasons include being a concept that is based on: (1) personal use rather than speculation; (2) being able to purchase only the amount of time that have vacations to use and discretionary income to spend on; (3) lowering household spending habits and capabilities; (4) being hassle-free, i.e., "show up and enjoy;" and (5) the opportunity for flexibility and variety of use due to the external exchange process.

Based on over 37 years of experience in the resort real estate industry, we fully expect the shared-ownership industry to once again be on a significant growth track as the national economy further stabilizes. Our extensive consumer research strongly suggests that the decline in the industry's sales performance from the last quarter of 2008 through 2010 was much more due to external factors such as the economy and lack of financing and much less due to lack of consumer interest in the concept.

The complete report is available for purchase from Ragatz Associates at www.ragatzassociates.com.