Vacation Home Concepts Clarifier
An Elite Destination Homes Perspective
2015

EliteDestinationHomes.com
866.650.4334
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Please read this report if you want to better understand the key differences between the confusing array of vacation home options.

(e.g. Timeshare, Fractional, Destination Club, etc.)

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FOREWORD

Our "New Vacation Home Concepts" Clarifier is a response to the rich but confusing array of new vacation ownership and access options being offered today. As these new models continue to gain traction among a wider base of affluent vacation home customers worldwide, this is especially timely.

This report is intended to provide an overview and better understanding of the exciting new opportunities that exist in the rapidly emerging new vacation home space with particular emphasis on the North American vacation ownership market comprising the U.S, Canada, Mexico and the Caribbean Islands.

After careful analysis, we have determined the following offerings (segments) to be the most relevant options available in the marketplace and as such they are the focus of this industry report.

- VACATION RENTAL
- TIMESHARE
- DESTINATION CLUB
- FRACTIONAL OWNERSHIP & PRIVATE RESIDENCE CLUB (PRC)
- CONDO-HOTEL
- PRIVATE CO-OWNERSHIP
- SOLE OWNERSHIP

To help consumers make sense of the many new options, we have developed the following proprietary tools to analyze the various options available:

1. **Time-Equity Continuum**<sup>SM</sup> - This tool distinguishes the right to use time at a property vs. having an ownership stake in the underlying real estate.
2. **Travel-Investment Decision Drivers**<sup>SM</sup> - This tool outlines some of the key travel and investment goals that drive consumer decisions
3. **Travel-Investment Decision Drivers Report Card**<sup>SM</sup> - This tool analyzes each vacation home offering’s ability to serve a given goal as outlined in Travel-Investment Decision Drivers<sup>SM</sup>.

As these new vacation home concepts continue to grow and change, it is important for consumers to understand these distinctions in order to make better choices. The new options are exciting and the opportunity for choosing something that perfectly fits your individual profile has never been as available as it is today. We hope that these pages and the following Summary Table will help you do just that.

**Unless you have received a TRAVEL- INVESTMENT CLARIFIER CUSTOM FIT REPORT along with this document, you may want to have these findings interpreted for your unique needs by linking to [http://www.elitedestinationhomes.com](http://www.elitedestinationhomes.com) or calling 1-866-650-4334 for fitting conversation and a FREE “TRAVEL- INVESTMENT CLARIFIER” CUSTOM FIT REPORT.**
INTRODUCTION

- EXPLOSIVE GROWTH IN DEMAND FOR VACATION HOME OFFERINGS

The Vacation Home Ownership Concept has undergone a great degree of transformation in recent times compared with its origins a few decades ago. Increased demand for leisure travel, real estate ownership and unique lifestyle experiences has fueled the innovation of a variety of new vacation home offerings. Established models like hotels and timeshares have improved to meet some of these demands. Newer models like Destination Clubs have been invented in response to this demand. The wealth and lifestyle preferences’ of the baby boomers is a significant factor in this increased demand.

Sponsors of these new offerings include highly respected hospitality companies (e.g. Marriott, Ritz-Carlton, St. Regis, Four Seasons, Hilton and Starwood) as well as a multitude of newcomers (e.g. Exclusive Resorts), which are actively engaged in developing a variety of unique offerings, at different price points, in line with market demand and competition, in both resort and urban destinations.

Reflecting on the latest trends in the North American market, The American Resort Development Association (ARDA), the Washington D.C.-based professional association that represents the resort development and vacation ownership industry, notes, “With today’s evolving vacation home market, consumers are faced with an increasingly diverse marketplace and options in leisure travel.”

- A MYRIAD OF BUSINESS OWNERSHIP MODELS AIMING TO SERVE THIS DEMAND

Over the last five years, the vacation ownership industry has responded by developing a variety of vacation ownership and access models designed to serve the needs of a broad range of vacation-seeking consumers.

However, the distinctions between the various models are not clear to most consumers. The combination of rapid innovation, a variety of choices, and poorly defined labels has led to tremendous confusion among consumers as they try to understand the salient characteristics and benefits of the various models.

- THE NEED FOR CLARITY IN THE FACE OF SEEMINGLY SIMILAR CHOICES

Because of the large financial commitments of some of these models, it is particularly important for buyers to clearly distinguish the key features and benefits of each new vacation home concept. Informed buyers will lead to satisfied customers, which are good for both sides; i.e. consumers and sponsors of the various models.
### DEFINITIONS

The various offerings in the vacation ownership industry can generally be classified into two distinct categories based on the criteria of **TIME** and **EQUITY**, i.e. the right to use time at a property vs. having an ownership stake in the underlying real estate.

<table>
<thead>
<tr>
<th>TIME (Non-Equity)</th>
<th>EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VACATION RENTAL</strong></td>
<td><strong>SOLE OWNERSHIP</strong></td>
</tr>
<tr>
<td>Vacation Rental refers to renting out furnished hotel, room, apartment or house for a short term or non permanent stay.</td>
<td>Traditional deeded second home ownership or ‘Sole Ownership’ is characterized by a single family having 100% ownership of and full responsibility for maintaining and paying for a vacation property. In resort destinations, owners often hire a management company to avail such services. Many owners forego capturing significant rental income due to work involved.</td>
</tr>
<tr>
<td><strong>TIME SHARE</strong></td>
<td><strong>PRIVATE CO-OWNERSHIP</strong></td>
</tr>
<tr>
<td>Vacation timeshare involves the acquisition of a specific period of time or percentage of interest in a unit located in a vacation resort. Typically, the intervals acquired are 1-2 weeks. Some variations include: fixed week, floating week etc.</td>
<td>Private Co-Ownership is an alternative to full ownership of vacation homes. It involves vacation home buyers forming partnerships to share ownership of second homes in order to defray costs and work (personal, management) of vacation properties that are often used infrequently. This form of ownership is characterized by “small number of owners,” often times owning a single family home and it is the closest alternative to Sole Ownership. This has been going on long time among friends and affinity groups and is now being offered professionally.</td>
</tr>
<tr>
<td><strong>DESTINATION CLUB</strong></td>
<td><strong>CONDO-HOTEL</strong></td>
</tr>
<tr>
<td>A relative newcomer, this model provides consumers access to a portfolio of luxury homes in multiple locations. Generally, it is characterized by the absence of any equity or ownership of the underlying real estate (though there are some exceptions).</td>
<td>Condo-Hotels offer a portion of their hotel room inventory for sale to individual buyers. Each investor owns the condo deed to a specific hotel room or suite and pays property taxes, insurance, maintenance fees and other costs as they would on a traditional single family condo. Typically, owners may use the unit for vacation needs, or they may place it in a rental program typically managed by the hotel.</td>
</tr>
</tbody>
</table>

*We will distinguish Fractional Ownership from PRC later in the report.*

| **FRACTIONAL OWNERSHIP & PRIVATE RESIDENCE CLUB (PRC)** |
| These are both forms of Fractional Ownership, which are generally a less personal & exclusive form of co-ownership where a group (usually 10-15 owners) shares the costs and use of vacation property usually offered in a resort-hotel. Fractional Ownership intervals are smaller as people generally buy only what they will use. This type of ownership is commonly offered by a real estate developer or hotel company. Typically, each co-owner owns a percentage of the property and is shown on the title and deed as an owner. |
INDUSTRY OVERVIEW – THE TIME-EQUITY CONTINUUM\textsuperscript{SM}

The TIME-EQUITY CONTINUUM\textsuperscript{SM} clarifies how each of the various vacation home offerings align as being primarily a time-based option or an equity-based option. It is intended to help consumers make informed decisions about how to spend their vacation and leisure resources.

* EVERY “TIME” CHOICE EXCEPT “VACATION RENTAL” INCLUDES SOME ELEMENT OF EQUITY AND EVERY “EQUITY” OPTION INCLUDES THE RIGHT TO “TIME”.

TIME-BASED OFFERINGS

This refers to the concept of purchasing access to, or simply put, ‘time’ in a resort property. This can include nightly or weekly Vacation Rentals, Timeshare or Destination Club.

From a timeshare buyers’ perspective, occupancy is generally subdivided into 52 separate units of time (corresponding to 52 weeks in a year). These units are subsequently sold to a maximum of 52 owners, with each owner entitled to occupy the premises and enjoy other privileges for 1/52\textsuperscript{nd} of the year or seven days a year. However, there is no real equity in this form of ownership, instead, the timeshare acts much like prepaid vacation lodging.

In most Destination Clubs, buyers enjoy the benefits of Club membership, namely access to a portfolio of extremely beautiful, luxury vacation homes, but members are not entitled to participate in any of the real estate appreciation or tax benefits of the portfolio of homes. The up-front payment is a membership deposit, which is typically 80-100\% refundable when they resign from the Club.

The following are the three vacation ownership concepts that are based on TIME as the key parameter:

- VACATION RENTAL
- TIMESHARE
- DESTINATION CLUB
EQUITY-BASED OFFERINGS

Certain offerings in the vacation home space (e.g. Sole Ownership, Private Co-ownership, Fractional Ownership and PRC) provide consumers with true real estate ownership.

Each model has different ownership characteristics that will be examined in this report.

Vacation ownership concepts that are based on EQUITY as the main criterion are as follows:

- **SOLE OWNERSHIP**
- **PRIVATE CO-OWNERSHIP**
- **CONDO-HOTEL**
- **FRACTIONAL OWNERSHIP & PRIVATE RESIDENCE CLUB (PRC)**

In general, the Equity Based Offerings believe that, since the underlying vacation real estate is appreciating, consumers should be “Equity owners” to participate in that growth. By contrast, if the asset were an automobile or an airplane, they should simply rent Time.
INDUSTRY OVERVIEW – TRAVEL- INVESTMENT DECISION DRIVERS\textsuperscript{SM}

While there are many potential ways to analyze each of these segments, ultimately each of these offering presents users/owners a basket of TRAVEL & INVESTMENT considerations.

These Travel and Investment Considerations, which are relevant for most consumers seriously considering a purchase in the new vacation home space, have been distilled into the four Travel-related drivers and the four Investment-related drivers shown below.

We have viewed each vacation home alternative within the TIME-EQUITY CONTINUUM\textsuperscript{SM}. Now, we will further analyze each vacation alternative using a somewhat parallel view of their unique Travel and Investment drivers.

This report uses the following structure as a framework to evaluate each segment.

TRAVEL - INVESTMENT DECISION DRIVERS\textsuperscript{SM}

Please see the following page for explanation and detail on each decision driver.
<table>
<thead>
<tr>
<th>TRAVEL DRIVERS</th>
<th>DESCRIPTION</th>
<th>KEY DRIVERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREEDOM &amp; FLEXIBILITY</td>
<td>Ability to use vacation home how, when and as you like</td>
<td>• Variety of Destinations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Size of the Asset (home)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Timing &amp; Length of Use</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Spontaneity of Travel</td>
</tr>
<tr>
<td>“OUR PLACE”</td>
<td>Qualities that make it feel like ‘your home’ (vs. a Hotel)</td>
<td>• Control</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Privacy (e.g., personal effects)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Small Number of Other Owners</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Selection/Screening of Other Owners</td>
</tr>
<tr>
<td>“WOW FACTOR”</td>
<td>Immediately impresses and captures the imagination</td>
<td>• Asset (home) Quality</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Amenities &amp; Activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Design</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Proximity to Natural Attractions (e.g., view)</td>
</tr>
<tr>
<td>“NO WORRIES”</td>
<td>Ability to instantly enjoy the home and vacation experience vs. need to care for the home</td>
<td>• No Management Headaches</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Service (pre trip + onsite)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Reporting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Single Point-of-Contact</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INVESTMENT DRIVERS</th>
<th>DESCRIPTION</th>
<th>KEY DRIVERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>APPRECIATION &amp; PRESERVATION POTENTIAL</td>
<td>Possibilities for growth in asset value</td>
<td>• Buy it Right (Make most of your money when you buy)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Market Factors (Supply &amp; Demand)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Sponsor Fees</td>
</tr>
<tr>
<td>PRIDE OF OWNERSHIP</td>
<td>Just thinking about owning this place makes me feel good</td>
<td>• Brand and/or Beauty of Home/Destination</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Charitable Donation of Excess Time</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Bragging Rights</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Small Number of Other Owners</td>
</tr>
<tr>
<td>COST OF OWNERSHIP</td>
<td>Total cost of ownership: income, expenses and time</td>
<td>• Initial Investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Rental Income (less expense and debt service)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Carrying Costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• My Time required to Manage It</td>
</tr>
<tr>
<td>LIQUIDITY</td>
<td>‘How can I get out’?</td>
<td>• Sell Minority Interest</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Sell Entire Asset</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Retain Ownership if Others Want to Sell</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Estate Issues (Heirs want to sell)</td>
</tr>
</tbody>
</table>
### REPORT CARD SUMMARY – TRAVEL-INVESTMENT DECISION DRIVERS™

Please see individual report cards for further explanation and analysis for each segment. ------

<table>
<thead>
<tr>
<th>VACATION HOME SEGMENT OFFERING</th>
<th>TRAVEL DRIVERS</th>
<th>INVESTMENT DRIVERS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freedom &amp; Flexibility</td>
<td>Our Place</td>
</tr>
<tr>
<td>RENTAL</td>
<td>●</td>
<td>○</td>
</tr>
<tr>
<td>TIMESHARE</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>DESTINATION CLUB</td>
<td>○</td>
<td>●</td>
</tr>
<tr>
<td>SOLE OWNERSHIP</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>PRIVATE CO-OWNERSHIP</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>CONDO - HOTEL</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>FRACTIONAL/PRC</td>
<td>○</td>
<td>●</td>
</tr>
</tbody>
</table>

**Keys**
- ● Most Desirable
- ○ Partly Desirable
- ○ Least Desirable
- ○ More Desirable
- ○ Less Desirable
- N/A Not Applicable

*Please note that the following ratings reflect our opinion after careful analysis. Ratings and comments are intended to be general to a segment and may not fit perfectly for a specific business within a given segment.*
CONCLUSION

This previous collection of information and analysis leads us to the following observations:

1) The Vacation Home market is strong and getting stronger both in terms of the quantity and the variety of product offerings. This growth is due not only to the world wide baby boomer population (the richest generation ever) now shopping for vacation homes. The demand is also being fueled by the addition of a younger generation; the average age of buyers has recently dropped from age 52 to 44. The supply and variety will grow to meet this growing demand.

2) However, this strong demand also means that the most coveted vacation locations are becoming scarcer and more expensive. For the "Time" buyer, the cost to use properties will rise. For the Equity buyer, in those strong locations, their investments should be rewarded. This growing demand, coupled with the evidence that this wealthy demographic segment tends to ignore market trends, is responsible for keeping prices high even during otherwise softer market conditions.

3) For the informed consumer, this means the possibilities have never been better to discover a customized solution that can perfectly fit their unique requirements...a unique way for them to access a multi million dollar vacation experience for a fraction of the cost. A better understanding of the Time-Equity Continuum℠ and the Travel-Investment Decision Drivers℠ should help make that possible.

4) For the consumer who can afford it, Equity Based Offerings make the most sense since the underlying vacation homes will continue to appreciate (if the asset were an automobile or airplane, renting time as a protection against depreciation makes more sense). In addition, Equity Based Offerings provide a hedge against even short term soft markets by allowing a smaller partial investment than Sole Ownership would require.

This new market for Vacation Home alternatives is very exciting.

We trust that this analysis has reduced some of the confusion that comes with this variety and helped you make some better choices that take advantage of the rich possibilities this market presents.
AFTERWORD

Elite Destination Homes has developed this report as a decision making tool for today’s affluent consumers considering a purchase in the vacation home space. Because we believe so strongly in mutual fit, our Private Co-ownership model is invitation based. We are only too happy to recommend other models for consumers for whom our approach is not a good fit.

Unless you have received a “TRAVEL AND INVESTMENT CLARIFIER” CUSTOM FIT REPORT, you may want to have these findings interpreted for your individual needs by contacting info@elitedestinationhomes.com or calling 1-866-650-4334.

This concludes the Executive Summary portion of this report.

The additional pages in the complete report are as follows:

- DETAILED ANALYSIS OF EACH OFFERING
- MOTIVATIONS FOR VACATION OWNERSHIP
- LOCATION PREFERENCES
- NEW VACCATION HOME MARKET SALES ACTIVITY
- FUTURE GROWTH OPPORTUNITIES
- BUYER HABITS AND PREFERENCES
- TAX BENEFITS FOR VACATION HOMES

Please call 1-866-650-4334 or contact info@elitedestinationhomes.com if you would like to discuss your vacation home plans.
The ‘New Vacation Homes Concepts’ Clarifier provides a comprehensive yet easy-to-understand analysis of the numerous new vacation home concepts’ industry segments based on time and equity parameters in the following order in this report:

<table>
<thead>
<tr>
<th>TIME</th>
<th>EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>VACATION RENTAL</td>
</tr>
<tr>
<td>2</td>
<td>TIMESHARE</td>
</tr>
<tr>
<td>3</td>
<td>DESTINATION CLUB</td>
</tr>
<tr>
<td>4</td>
<td>SOLE OWNERSHIP</td>
</tr>
<tr>
<td>5</td>
<td>PRIVATE CO-OWNERSHIP</td>
</tr>
<tr>
<td>6</td>
<td>CONDO-HOTEL</td>
</tr>
<tr>
<td>7</td>
<td>FRACTIONAL OWNERSHIP &amp; PRIVATE RESIDENCE CLUB</td>
</tr>
</tbody>
</table>
1. VACATION RENTAL

Options Unlimited! (Maximum flexibility but the landlord keeps your $)

Hotel and home rentals, or Vacation Rentals as they are collectively called, present vacationers with an option to pay rent in order to stay at a traditional hotel, condominium, villa, cabin or chalet, many of which provide the comforts of home, and the amenities of a resort.

Vacation Rentals can be found in nearly every vacation destination worldwide.

**TIME-EQUITY CONTINUUM\(^{SM}\)**

<table>
<thead>
<tr>
<th>PURE TIME</th>
<th>PURE EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>VACATION RENTAL</td>
<td>CONDO HOTEL</td>
</tr>
<tr>
<td>TIME SHARE</td>
<td>FRACTIONAL &amp; PRCs</td>
</tr>
<tr>
<td>DESTINATION CLUB</td>
<td>PRIVATE CO-OWNERSHIP</td>
</tr>
<tr>
<td>“PREPAID VACATION”</td>
<td>SOLE OWNERSHIP</td>
</tr>
<tr>
<td>“REAL ESTATE OWNERSHIP”</td>
<td></td>
</tr>
</tbody>
</table>

The following are some of the key advantages that can be invariably associated with Vacation Rentals.

A VACATION RENTAL refers to a hotel, home, town home, condominium, or other asset type, which is available for rent for vacationers looking for short-term accommodations.

**KEY CHARACTERISTICS**

- **Flexibility**
  Vacation Rentals allow vacationers to access accommodations for any length of time, for almost any budget, in any part of the world with minimal notice and maximum flexibility.

- **Amenities & Services**
  Many home rentals offer amenities such as fully-equipped kitchens, fireplaces, private hot tubs and pools, as well as the ability for the entire family to stay together. Renting vacation homes has become more viable over the past 10 years due to the Internet and advances in technology, which enable an efficient marketing and evaluation process. Hotels offer extensive services such as concierge, in-room dining, laundry, spa, business center, valet etc.

- **Broad range of budgets & luxury**
  Both hotel and home rentals come in a range of budgets that can cater to the diverse requirements and expectations of prospective vacationers. This in turn, gives vacation goers the option to select and pay for the desired level of luxury and service.

**Vacation Rental – “A matter of personal choice”**

It is worthwhile noting that vacation home rentals and hotels offer two different kinds of vacation experiences. Choosing between them is more a matter personal preference for prospective vacationers. Those preferring privacy and the comforts of home will find greater satisfaction in a vacation home rental. In contrast, those seeking the highest levels of personal service and amenities will generally be better served by a hotel rental.
The following report card gives a snapshot of the key ‘Travel’ and ‘Investment’ considerations that can be associated with the Vacation Rental segment.

### VACATION RENTAL REPORT CARD<sup>SM</sup> - TRAVEL DECISION DRIVERS

<table>
<thead>
<tr>
<th>TRAVEL CONSIDERATIONS</th>
<th>KEY DRIVERS</th>
<th>COMMENTS</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREEDOM AND FLEXIBILITY</td>
<td>• Variety of Destinations</td>
<td>Rental options are abundant and offer maximum freedom &amp; flexibility for travelers of all styles, budget needs and destinations.</td>
<td>⬤</td>
</tr>
<tr>
<td></td>
<td>• Size of the Asset (home)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Timing &amp; Length of Use</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Spontaneity of Travel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;OUR PLACE&quot;</td>
<td>• Control</td>
<td>A traveller has little to no control or ability to personalize the vacation experience with the vast majority of Vacation Rentals.</td>
<td>⬤</td>
</tr>
<tr>
<td></td>
<td>• Privacy (e.g., personal effects)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Small Number of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Selection/Screening of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;WOW FACTOR&quot;</td>
<td>• Asset (home) Quality</td>
<td>As this segment offers maximum flexibility, it also has an extremely broad range of quality, luxury and service, thus providing for a varied ‘Wow’.</td>
<td>Varies</td>
</tr>
<tr>
<td></td>
<td>• Amenities &amp; Activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Design</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Proximity to Natural Attractions (e.g., view)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;NO WORRIES&quot;</td>
<td>• No Management Headaches</td>
<td>Ideally, the rental experience should be completely worry free but we’ve all had at least one (if not many) nightmarish vacation rental experiences. House rentals tend to have less consistency in general.</td>
<td>⬤</td>
</tr>
<tr>
<td></td>
<td>• Service (pre trip + onsite)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Reporting</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Single Point-of-Contact</td>
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<td></td>
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</tbody>
</table>

### INVESTMENT DECISION DRIVERS

<table>
<thead>
<tr>
<th>INVESTMENT CONSIDERATIONS</th>
<th>KEY DRIVERS</th>
<th>COMMENTS</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>APPRECIATION &amp; PRESERVATION POTENTIAL</td>
<td>• Buy it Right (Make most of your money when you buy)</td>
<td>Your rental dollars are increasing the hotel owner’s equity, not yours.</td>
<td>⬤</td>
</tr>
<tr>
<td></td>
<td>• Market Factors (Supply &amp; Demand)</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Sponsor Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRIDE OF OWNERSHIP</td>
<td>• Brand and/or Beauty of Home/Destination</td>
<td>While there is no ownership, travelers may have pride/affinity for a given hotel/house rental where they chose to stay.</td>
<td>⬤</td>
</tr>
<tr>
<td></td>
<td>• Charitable Donation of Excess Time</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Bragging Rights</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Small Number of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COST OF OWNERSHIP</td>
<td>• Initial Investment</td>
<td>Again, there is no ownership so all costs incurred benefit someone else. Sole utility for money spent is for the accommodation value.</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>• Rental Income (less expense and debt service)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Carrying Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• My Time required to Manage It</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIQUIDITY</td>
<td>• Sell Minority Interest</td>
<td>Not applicable because you do not own anything.</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>• Sell Entire Asset</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Retain Ownership if Others Want to Sell</td>
<td></td>
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</tbody>
</table>
2. TIMESHARE

The Prepaid Vacation

Timeshares have overcome some of their historical bad reputation among vacation buyers of late. But, in general, the term still suffers some prejudice as a low cost/low value option. Industry experts attribute this trend of reputation improvement to more credible sponsors entering the segment as well as to aging baby boomers and empty nesters who have sought to access a set amount of vacation time.

**KEY CHARACTERISTICS**

- **Option for exchanging**
  
  Analysts believe that part of the appeal of timeshares is the burgeoning market for exchanging vacations. This concept allows customers to buy one week of timeshare at a particular resort, they can travel there annually, or trade their days for a week in some other location around the world.

- **Size factor**
  
  While a majority of timeshares have two bedrooms and two baths, floor plans range from studios to three or more bedrooms. Therefore, it serves a wide variety of buyer requirements and serves families seeking to travel together.

- **Pricing**
  
  Timeshares are generally sold in 1-2 week increments so the affordability of timeshares is perhaps the biggest selling point. Recent studies have revealed that the average price of a timeshare interval, or week, sold during 2005 was approximately $16,000 per week.

- **Leading Players** – RCI, Starwood, Marriott, Hilton and Hyatt are some of the leading players.

**Types of Timeshare** – The following are some of the key models of timeshare.

- **Fixed Unit or Fixed Week, Deeded Time-Share**
  
  In this type, buyers receive a form of deed that entitles them to own a specific time interval (week/s) of each year in a single vacation property.

  Examples:

  - **Fixed Unit**: This occurs when buyers purchase a Christmas week in say #1A. As a result, every year they automatically have that week in that unit assigned specifically to them.
  - **Fixed Week**: In this case, buyers are entitled to get the size of unit they purchased (e.g. a 2 or 3-bedroom ocean view), during the week they purchased (e.g. Thanksgiving) but not necessarily #1A during Thanksgiving week every year.

- **Floating Time Agreement**
  
  In this version, the dates which buyers utilize their timeshares are flexible. Reservations are usually done on a first-come basis, since all owners are likely to have the same option. Bookings are usually done during certain seasons within a year.
New Vacation Home Concepts Clarifier

- **Right-To-Use Time-Share**
  This variation constitutes more of a leasing arrangement. However, in this case the ownership of the resort remains with the developer. Buyers typically reserve the right to use one or more resort accommodations for a specified number of years that can range from 10 to 50 years. At the end of the tenure, all use rights return to the developer.

- **Points-Based Programs**
  In this type of offering, time-share owners choose from a variety of vacation destinations. Each stay uses points, and point values vary by desirability; e.g. size of unit and season purchased. From a buyers’ perspective, the number of points needed to access the resort accommodations will vary according to the members’ demand for unit size, season, resort location, and amenities.

Some timeshares have characteristics of a long-term lease that decreases in value each year.
The following report card gives a snapshot of the key 'Travel' and 'Investment' considerations that can be associated with the Timeshare segment.

### TIMESHARE REPORT CARD<sup>SM</sup>

#### TRAVEL DECISION DRIVERS

<table>
<thead>
<tr>
<th>TRAVEL CONSIDERATIONS</th>
<th>KEY DRIVERS</th>
<th>COMMENTS</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREEDOM AND FLEXIBILITY</td>
<td>• Variety of Destinations</td>
<td>While there has been improvement and innovation in recent years, a majority of timeshare are single property – fixed week. Timeshares are generally inflexible in this area.</td>
<td>😞</td>
</tr>
<tr>
<td></td>
<td>• Size of the Asset (home)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Timing &amp; Length of Use</td>
<td></td>
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<tr>
<td></td>
<td>• Spontaneity of Travel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“OUR PLACE”</td>
<td>• Control</td>
<td>Because a single unit, typically in a hotel or resort is owned by up to 52 owners, there is little to no sense of ‘home’.</td>
<td>😞</td>
</tr>
<tr>
<td></td>
<td>• Privacy (e.g., personal effects)</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>• Small Number of Other Owners</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>• Selection/Screening of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“WOW FACTOR”</td>
<td>• Asset (home) Quality</td>
<td>This is also improving for the timeshare segment but many timeshares are in older resorts with dated facilities.</td>
<td>😞</td>
</tr>
<tr>
<td></td>
<td>• Amenities &amp; Activities</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Design</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Proximity to Natural Attractions (e.g., view)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“NO WORRIES”</td>
<td>• No Management Headaches</td>
<td>Timeshare ownership is generally trouble-free, the exception being capital improvement projects.</td>
<td>😞</td>
</tr>
<tr>
<td></td>
<td>• Service (pre trip + onsite)</td>
<td></td>
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<td></td>
<td>• Reporting</td>
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<td></td>
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</thead>
<tbody>
<tr>
<td>APPRECIATION &amp; PRESERVATION POTENTIAL</td>
<td>• Buy it Right (Make most of your money when you buy)</td>
<td>This is one of timeshares’ weakest qualities. Large mark-ups &amp; developers’ fees, sometimes in excess of 300% of the value of the real estate leave almost no potential for a buyer to even recover their initial investment.</td>
<td>😞</td>
</tr>
<tr>
<td></td>
<td>• Market Factors (Supply &amp; Demand)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Sponsor Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRIDE OF OWNERSHIP</td>
<td>• Brand and/or Beauty of Home/Destination</td>
<td>Because of tasteless marketing techniques, horrible resale value, and lower asset quality of many timeshares, this category suffers from a poor public image.</td>
<td>😞</td>
</tr>
<tr>
<td></td>
<td>• Charitable Donation of Excess Time</td>
<td></td>
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<tr>
<td></td>
<td>• Bragging Rights</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Small Number of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COST OF OWNERSHIP</td>
<td>• Initial Investment</td>
<td>While the upfront investment is small compared to other models, the intrinsic value is very weak. Ongoing costs of ownership are relatively low.</td>
<td>😞</td>
</tr>
<tr>
<td></td>
<td>• Rental Income (less expense and debt service)</td>
<td></td>
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<tr>
<td></td>
<td>• Carrying Costs</td>
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<td></td>
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<tr>
<td></td>
<td>• My Time required to Manage It</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIQUIDITY</td>
<td>• Sell Minority Interest</td>
<td>There is a secondary market for timeshare resales but an owner can only expect to receive 20-35% of their initial purchase price.</td>
<td>😞</td>
</tr>
<tr>
<td></td>
<td>• Sell Entire Asset</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Retain Ownership if Others Want to Sell</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Estate issues (Heirs want to sell)</td>
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</tr>
</tbody>
</table>
3. DESTINATION CLUB

Your country club of luxury homes around the world (But you do not own them)

With Destination Clubs, buyers get access to a portfolio of luxury vacation homes, which can be reserved and used based on availability and priorities in exchange for a one-time upfront membership fee, and annual membership dues. According to Ragatz Associates, Destination Clubs meet three broad criteria: shared access, multi-bedroom residences in multiple destinations, and membership-based, non-equity programs.

**TIME-EQUITY CONTINUUM\textsuperscript{SM}**

DESTINATION CLUBS provide members with access to fully furnished, single family residences and condo suites in popular resort and urban destinations. They provide members with a flexible alternative to luxury hotels, second homes, and vacation home rentals.

**KEY CHARACTERISTICS**

- **Larger Homes**
  
  In terms of surface area, Destination Club residences can range anywhere from 1,000 – 5000 sq ft depending on the caliber of the club and the location of the asset. For most leading Destination Clubs, the homes average 3000-3500 sq ft.

- **Membership Deposits**
  
  According to data compiled by leading research firms, Destination Club costs commonly include a one-time fee that can range from $20,000 to $1.5 million. However, the average membership deposit for upper bracket Destination Clubs is $300,000-$400,000. The deposit is typically between 80 and 100 percent refundable should buyers choose to exit the program.

- **Annual dues**
  
  As for the annual dues, they commonly range from $25,000 to $35,000 for upper bracket Destination Clubs. Some Clubs may also charge a nightly fee while guests are in residence.
New Vacation Home Concepts Clarifier

- **Refundability factor**
  Destination Clubs typically sell 30-year memberships on a “non-equity” basis. Members generally receive 80-100% of membership deposit back when they leave the Club. Most Clubs follow an “in & out” method of refunding deposits. To cite an example, for each 3 new members brought ‘in’ to the Club, the Club will refund 1 member (i.e. the ‘out’). This model of refundability is vulnerable if a Club becomes unattractive due to business or member satisfaction reasons.

- **Leading Destination Clubs**
  Chaired by America Online co-founder Steve Case, the largest Destination Club is Exclusive Resorts. Exclusive Resorts dominates this segment with nearly 2,500 members and more than 300 properties, and a 65 percent share of the Destination Club market. The membership levels and fees to join Exclusive Resorts vary and run as high as $425,000, and annual dues range from approximately $15,000 - $35,000.

  Other leading names include Yellowstone Club World, Crescendo, Quintess, The Lusso Collection, and Solstice.

  Apart from the names mentioned above, industry analysts point out that there are now more than 20 Destination Clubs managing 600 homes with an average value of $3 million each across North America.

**Destination Club Concept – Is there a risk element?**

Since you don’t own an interest in a specific home, but are a member of the Club, your membership deposit and vacation use privileges are only sound as long as the Club is successful. It is this ‘business continuity’ risk that clients need to carefully consider when opting for the Destination Club model and when choosing a specific Destination Club to join.

**Case Study: “TANER & HALEY”**

**Great Start**
Tanner & Haley, set up in 1998 under the name Abercrombie & Kent Private Retreats, was considered one of the pioneers of the Destination Club concept. Members made redeemable initial deposits (from $100,000 to $1.5 million), and paid relatively modest annual dues (starting at $7,000) plus a $150 per night rate. The Club had an excellent portfolio of homes in numerous desirable locations.

**Files for bankruptcy**
Tanner & Haley filed for Chapter 11 Bankruptcy Protection in July 2006. The company acknowledged that its costs were far outpacing revenues that eventually resulted in a 2005 net operating loss of nearly $64 million! The news was a shock not only to Tanner & Haley’s 874 members, who were in danger of losing their huge deposits, but also concerned the thousands of people, who had joined other Destination Clubs.

Just as timeshares have largely overcome their earlier reputation issues, many Clubs have also done so by implementing business practices to protect member deposits.
The following report card gives a snapshot of the key ‘Travel’ and ‘Investment’ considerations that can be associated with the Destination Club segment.

### DESTINATION CLUB REPORT CARD®

#### TRAVEL DECISION DRIVERS

<table>
<thead>
<tr>
<th>TRAVEL CONSIDERATIONS</th>
<th>KEY DRIVERS</th>
<th>COMMENTS</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREEDOM AND FLEXIBILITY</td>
<td>• Variety of Destinations</td>
<td>Excellent benefits in terms of access to high quality residences in multiple locations. This may be the strongest benefit of the clubs. Some Clubs’ members have experienced challenges with reservation policies and access to homes during peak periods.</td>
<td>⬤</td>
</tr>
<tr>
<td></td>
<td>• Size of the Asset (home)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Timing &amp; Length of Use</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Spontaneity of Travel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“OUR PLACE”</td>
<td>• Control</td>
<td>Members tend to feel a bond with the club but because members travel to many locations, they may not have a bond with the home(s).</td>
<td>⬤</td>
</tr>
<tr>
<td></td>
<td>• Privacy (e.g., personal effects)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Small Number of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Selection/Screening of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“WOW FACTOR”</td>
<td>• Asset (home) Quality</td>
<td>Destination Club homes are generally located in desirable locations, have excellent design &amp; furnishings and are very luxurious.</td>
<td>⬤</td>
</tr>
<tr>
<td></td>
<td>• Amenities &amp; Activities</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Design</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Proximity to Natural Attractions (e.g., view)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“NO WORRIES”</td>
<td>• No Management Headaches</td>
<td>Club membership is pretty worry-free; the only headache can be gaining access during peak times.</td>
<td>⬤</td>
</tr>
<tr>
<td></td>
<td>• Service (pre trip + onsite)</td>
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<tr>
<td></td>
<td>• Reporting</td>
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</thead>
<tbody>
<tr>
<td>APPRECIATION &amp; PRESERVATION POTENTIAL</td>
<td>• Buy it Right (Make most of your money when you buy)</td>
<td>Most Clubs offer to return 80% of the deposit upon departure. Some offer 100%. There are few proven equity club models.</td>
<td>⬤</td>
</tr>
<tr>
<td></td>
<td>• Market Factors (Supply &amp; Demand)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Sponsor Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRIDE OF OWNERSHIP</td>
<td>• Brand and/or Beauty of Home/Destination</td>
<td>Members are generally proud to be part of the Destination Club as it indicates a level of achievement.</td>
<td>⬤</td>
</tr>
<tr>
<td></td>
<td>• Charitable Donation of Excess Time</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Bragging Rights</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Small Number of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COST OF OWNERSHIP</td>
<td>• Initial Investment</td>
<td>In addition to $300,000-$400,000+ membership deposit, Clubs’ annual dues are $25,000-$35,000 per year (for e.g. 30 nights’ usage). There is no rental income to offset those costs.</td>
<td>⬤</td>
</tr>
<tr>
<td></td>
<td>• Rental Income (less expense and debt service)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Carrying Costs</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>• My Time required to Manage It</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIQUIDITY</td>
<td>• Sell Minority Interest</td>
<td>With a well-run and respected Club, the odds of selling your membership in a reasonable time frame are good. If a Club loses its way, and member satisfaction is low, then getting out will be very difficult.</td>
<td>⬤</td>
</tr>
<tr>
<td></td>
<td>• Sell Entire Asset</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Retain Ownership if Others Want to Sell</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Estate Issues (Heirs want to sell)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. SOLE OWNERSHIP

Maximum Equity; Maximum Freedom; Maximum Responsibility

The most established and understood of the various models is Sole-Ownership or traditional second home vacation ownership. This model appeals to those seeking a vacation home often to be shared with family and friends, and for whom privacy, flexibility are paramount and management and financial responsibilities are non-issues.

**TIME-EQUITY CONTINUUM™**

SOLE OWNERSHIP entails owners holding 100% equity and 100% responsibility for expenses, management and maintenance of the property.

This model provides full real estate ownership & equity as there is no fee paid to a sponsor. However, since there is no fee paid to a sponsor, some buyers may be at a disadvantage to ‘buy right’ if they are not experts in real estate and local markets.

**KEY CHARACTERISTICS**

- **Pricing**
  As real estate professionals point out, the cost of owning a vacation is dependent on a variety of factors such as nationwide market trends, mortgage rates, popularity of destinations; and most notably local real estate market trends.

- **Recent market trends**
  Vacation-home sales volume increased 4.7% to a record 1.07 million homes in 2006 from 1.02 million in 2005. 3 Vacation home industry experts believe that the sales of vacation homes benefited largely from the country's demographics, because large numbers of consumers are in prime buying ages. In 2006, the share of vacation homes to total home purchases was 14% of all home sales.

- **Buyer Profile**
  The profile of a typical vacation-home buyer in 2006 was found to be approximately 44 years of age, with a median household income of $102,200. The following facts summarize demographic characteristics of traditional Sole-Ownership vacation home buyers in 2006 and 2005.

  - Median age in 2006: 44
  - Median age in 2005: 52
  - Median household income 2006: $102,200
  - Median household income 2005: $82,800
  - Marital status: 78 percent married

The following report card gives a snapshot of the key ‘Travel’ and ‘Investment’ considerations that can be associated with the Sole Ownership segment.
# New Vacation Home Concepts Clarifier

## SOLE OWNERSHIP REPORT CARD™

### TRAVEL DECISION DRIVERs

<table>
<thead>
<tr>
<th>TRAVEL CONSIDERATIONS</th>
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<th>COMMENTS</th>
<th>RATING</th>
</tr>
</thead>
</table>
| FREEDOM AND FLEXIBILITY | • Variety of Destinations  
• Size of the Asset (home)  
• Timing & Length of Use  
• Spontaneity of Travel | Sole ownership offers unparalleled freedom and flexibility in travel. Access to multiple locations is the only downside. | ![Rating](https://chartlist.com/Icons/Rating_5.png) |
| “OUR PLACE” | • Control  
• Privacy (e.g., personal effects)  
• Small Number of Other Owners  
• Selection/Screening of Other Owners | Sole ownership offers the highest levels of control and privacy. | ![Rating](https://chartlist.com/Icons/Rating_5.png) |
| “WOW FACTOR” | • Asset (home) Quality  
• Amenities & Activities  
• Design  
• Proximity to Natural Attractions (e.g., view) | Varies by each individual’s home | Varies |
| “NO WORRIES” | • No Management Headaches  
• Service (pre trip + onsite)  
• Reporting  
• Single Point-of-Contact | One of the weakest aspects of sole ownership. In today’s busy world, caring for a second home, which is often far away, can detract from the enjoyment of the vacation experience. | ![Rating](https://chartlist.com/Icons/Rating_2.png) |

### INVESTMENT DECISION DRIVERs

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<th>COMMENTS</th>
<th>RATING</th>
</tr>
</thead>
</table>
| APPRECIATION & PRESERVATION POTENTIAL | • Buy it Right (Make most of your money when you buy)  
• Market Factors (Supply & Demand)  
• Sponsor Fees | If an owner buys smartly, then appreciation potential is maximized. However, many buyers are not real estate savvy. | ![Rating](https://chartlist.com/Icons/Rating_2.png) |
| PRIDE OF OWNERSHIP | • Brand and/or Beauty of Home/Destination  
• Charitable Donation of Excess Time  
• Bragging Rights  
• Small Number of Other Owners | For exclusive homes, pride of ownership is unmatched. For lower-end homes, it may vary. | Varies |
| COST OF OWNERSHIP | • Initial Investment  
• Rental Income (less expense and debt service)  
• Carrying Costs  
• My Time required to Manage It | Owners bear 100% of the financial burden, both initially and ongoing. Owners are also usually too busy or unable to produce meaningful rental income. | ![Rating](https://chartlist.com/Icons/Rating_2.png) |
| LIQUIDITY | • Sell Minority Interest  
• Sell Entire Asset  
• Retain Ownership if Others Want to Sell  
• Estate Issues (Heirs want to sell) | The best of any model as an owner simply has to decide to sell. Their ability to sell will be a function of how well they bought, the quality of the home & local market conditions. | ![Rating](https://chartlist.com/Icons/Rating_5.png) |
5. PRIVATE CO-OWNERSHIP

Equity, Privacy & No Worries
Private Co-Ownership provides small groups of individuals with significant equity ownership of a property. The Private Co-Ownership investment has most of the real estate ownership characteristics of Sole-

PRIVATE CO-OWNERSHIP provides a small group of investor-owners a significant equity position in a single luxury asset. Ideally, the ownership should be management free and in many cases, have full access to extensive services.

Private Co-ownership is the most exclusive form of shared ownership due to lowest number of owners and highest purchase prices.

KEY CHARACTERISTICS

- Types of Private Co-Ownership investment models

A variety of Private Co-Ownership models exist:

1. Friends and Family – Friends and families have been owning like this for ages. But such arrangements typically do not provide the ease of ownership services, and rental income that many new, professionally run Private Co-ownership models provide.

2. Buyers join an ownership group at a new or an existing location at a new or an existing (vacation home) location that a professional sponsor has selected and/or acquired.

3. Buyers select a desired destination and the owner group is assembled by the sponsor.

4. Sole owners attempt to bring new co-owners into their existing house. This can be done independently (which is usually unsuccessful) or with the services of a professional sponsor.
Buyer Profile
Buyer profile is typically between 45 to 65 years of age, often with grown children.

Private Co-ownership buyers typically earn upwards of $250,000 of annual household income and have a net worth of more than $2.5 million. Even though nearly 50% of such co-owners would financially be able to afford a $2 million luxury home, they still chose to co-own mainly due to management diversification and lifestyle issues.

Rental Income & Use by Others
Some models provide for homes to be lent to family, friends, or placed in a professionally managed rental pool to generate additional revenue which assists with ownership expenses.

Leading Players – Elite Destination Homes, Best Group, Alpine Quarters.
Professional sponsors of Private Co-ownership are few. Because of the boutique nature of this business model, large name brand sponsors are not interested in it.

_Elite Destination Homes (EDH)_
One of the leading players in the New Private Co-ownership space is _Elite Destination Homes (also the author of this report)_). Elite is actually the creation of a 35-year organization with over $200,000,000 real estate partnership experience. Their low fee, small (5 or less), invitation-only model serves both time and equity goals.

With homes from Cabo to Paris, Elite offers the upper-end buyer a unique way to get both a great travel experience with a unique vacation home investment. Because they believe "fit", and mutual confidence is key, invitations to partners in a particular new home are made only after a short but thoughtful "fitting" process with one of the owners. Furthermore, Elite also takes on a few select homes each year where the then owner retrieves 80% of their equity by having Elite screen four new partners (the owner retaining 20%) and also transferring any management and concierge responsibilities to Elite.

Popular destinations
Private Co-Ownership has gained traction in the Rocky Mountain ski areas, resort destinations in the USA, the Caribbean, and Mexico. Private Co-Ownership works best where the real estate prices and barriers to entry are very high. Private Co-ownership typically provides owners strong access to a geographic amenity: e.g. ski-slope, beach, golf, or city center.

Pricing
As in the case of Sole Ownerships, pricing considerations vary in line with national & local real estate market trends. But in most cases, buyers should be prepared to make a $250,000 – $600,000 investment.

Developer Fees
Compared to other models, some Private Co-Ownership offerings offer extremely reasonable fee structures (e.g. 20% vs. much higher charges for other alternatives)
The following report card gives a snapshot of the key ‘Travel’ and ‘Investment’ considerations that can be associated with the Private Co-ownership segment.

**PRIVATE CO-OWNERSHIP REPORT CARD**

### TRAVEL DECISION DRIVERS

<table>
<thead>
<tr>
<th>TRAVEL CONSIDERATIONS</th>
<th>KEY DRIVERS</th>
<th>COMMENTS</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREEDOM AND FLEXIBILITY</td>
<td>• Variety of Destinations</td>
<td>Due to the small number of co-owners in a given home, access is excellent. Some models provide ability to access other homes in the portfolio or in some cases, in another portfolio of homes.</td>
<td>🌟</td>
</tr>
<tr>
<td></td>
<td>• Size of the Asset (home)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Timing &amp; Length of Use</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Spontaneity of Travel</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>“OUR PLACE”</strong></td>
<td>• Control</td>
<td>Very small owner groups owning single family homes, preserves the ‘our place’ feel for owners.</td>
<td>🌟</td>
</tr>
<tr>
<td></td>
<td>• Privacy (e.g., personal effects)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Small Number of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Selection/Screening of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>“WOW FACTOR”</strong></td>
<td>• Asset (home) Quality</td>
<td>Homes offered by professional sponsors are generally extremely well located and have excellent design, finishes and quality.</td>
<td>🌟</td>
</tr>
<tr>
<td></td>
<td>• Amenities &amp; Activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Design</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Proximity to Natural Attractions (e.g., view)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>“NO WORRIES”</strong></td>
<td>• No Management Headaches</td>
<td>Good Private Co-ownership models provide top levels of concierge services similar to clubs or hotels.</td>
<td>🌟</td>
</tr>
<tr>
<td></td>
<td>• Service (pre trip + onsite)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Reporting</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Single Point-of-Contact</td>
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</tr>
</tbody>
</table>

Unlike other forms of equity-based fractional ownership, co-ownership models can be done privately and in one-off in properties without other fractional units (e.g., a single family home in a prestigious location vs. several buildings in a resort dedicated to fractional ownership).

### INVESTMENT DECISION DRIVERS

<table>
<thead>
<tr>
<th>INVESTMENT CONSIDERATIONS</th>
<th>KEY DRIVERS</th>
<th>COMMENTS</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>APPRECIATION &amp; PRESERVATION POTENTIAL</td>
<td>• Buy it Right (Make most of your money when you buy)</td>
<td>Because of low sponsor fees, and intelligent acquisition, owners have strong upside.</td>
<td>🌟</td>
</tr>
<tr>
<td></td>
<td>• Market Factors (Supply &amp; Demand)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Sponsor Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRIDE OF OWNERSHIP</td>
<td>• Brand and/or Beauty of Home/Destination</td>
<td>A small group owning an exquisite single family residence creates an extremely high pride of ownership.</td>
<td>🌟</td>
</tr>
<tr>
<td></td>
<td>• Charitable Donation of Excess Time</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Bragging Rights</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Small Number of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COST OF OWNERSHIP</td>
<td>• Initial Investment</td>
<td>Distribution of the upfront investment across the small co-ownership group and strong rental income potential support excellent value in cost of ownership.</td>
<td>🌟</td>
</tr>
<tr>
<td></td>
<td>• Rental Income (less expense and debt service)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Carrying Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• My Time required to Manage It</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIQUIDITY</td>
<td>• Sell Minority Interest</td>
<td>The ability to sell the single family asset generates the strongest exit strategy - close to sole ownership - and much stronger than Fractional, PRC or Destination Club.</td>
<td>🌟</td>
</tr>
<tr>
<td></td>
<td>• Sell Entire Asset</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Retain Ownership if Others Want to Sell</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Estate Issues (Heirs want to sell)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Big distinction: Not only do 5 or fewer owners add to a feel of this being “our place” and “pride”, but also means you own more than you expect to use… a key to rental income (one of the special investment benefits of select Private Co-ownership offerings).
6. CONDO-HOTEL

Condo-Hotels are condominium units operated in a hotel setting that are sold to individual investors so they can be utilized as vacation homes and/or rental units operated by the hotel. An owners’ rental revenue is almost always shared with the hotel operator. A 50% split is not uncommon. Rental income assists in defraying owners’ expenses and reduces cost of ownership.

**KEY CHARACTERISTICS**

- **Opportunity for revenue generation**
  One of the key benefits of owning a Condo-Hotel unit versus a traditional condo or single-family house as a vacation home is that owners have an opportunity to place it in the hotel's rental program whenever they’re not in residence, and therefore they get to share in the revenue it generates. However, as stated above, the Condo-Hotel operators’ share of the revenue is usually very aggressive and can be a detriment to owners seeking strong net rental income.

- **Pricing complexities**
  As with all variations of ownership, Condo-Hotel pricing is a function of local real estate markets. However, industry watchers state that analyzing the economics of a Condo-Hotel unit represents a complex and uphill task because of the challenge of getting accurate information about the potential income stream as well as purchase prices of comparable products.

  In general, as per past trends, the price per square feet is 20-100% higher than the same condo, not in a hotel setting. However, the amenity package available while in residence, and the income potential when absent, often justify a portion of this pricing.

- **Leading Players**
  Condo-Hotels are developed and sponsored by well-respected, top-quality organizations like Hilton, Starwood, Trump, Four Seasons, St. Regis, and Ritz-Carlton. There are also ‘B’ players operating in this space.

**TIME-EQUITY CONTINUUMSM**

**CONDO-HOTELS allow buyers to enjoy the benefits of owning real estate in a desirable location in addition to availing of hotel amenities and services.**

**Condo-Hotels typically provide rental income although it may be shared up to 50% with the hotel operator.**
The following are some basic economic drivers for a typical Condo-Hotel:

<table>
<thead>
<tr>
<th>ECONOMIC DRIVERS</th>
<th>MARKET RANGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Prices</td>
<td>Varies Broadly: from approximately $200,000 - $5,000,000</td>
</tr>
<tr>
<td>Occupancy</td>
<td>50-90%</td>
</tr>
<tr>
<td>Franchise fee (% of gross rent)</td>
<td>10-12%</td>
</tr>
<tr>
<td>Management fee split (% of gross rent)</td>
<td>40-55%</td>
</tr>
<tr>
<td>Monthly maintenance (per sq ft)</td>
<td>$1.00-1.50</td>
</tr>
<tr>
<td>Down payment required</td>
<td>20-30%</td>
</tr>
</tbody>
</table>
The following report card gives a snapshot of the key ‘Travel’ and ‘Investment’ considerations that can be associated with the Condo-Hotel segment.

**CONDO-HOTEL REPORT CARDSM - TRAVEL DECISION DRIVERS**

<table>
<thead>
<tr>
<th>INVESTMENT CONSIDERATIONS</th>
<th>KEY DRIVERS</th>
<th>COMMENTS</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FREEDOM AND FLEXIBILITY</strong></td>
<td>• Variety of Destinations</td>
<td>An owner is typically tied to one asset with limited flexibility to exchange time. Some Condo-Hotel rental booking and owner use policies may significantly impair flexibility.</td>
<td>☀️</td>
</tr>
<tr>
<td></td>
<td>• Size of the Asset (home)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Timing &amp; Length of Use</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Spontaneity of Travel</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>“OUR PLACE”</strong></td>
<td>• Control</td>
<td>Some Condo-Hotels provide a more personalized residence but some provide very cookie-cutter hotel-like accommodations.</td>
<td>☀️</td>
</tr>
<tr>
<td></td>
<td>• Privacy (e.g., personal effects)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Small Number of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Selection/Screening of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>“WOW FACTOR”</strong></td>
<td>• Asset (home) Quality</td>
<td>Varies widely across the Condo-Hotel industry.</td>
<td>☀️</td>
</tr>
<tr>
<td></td>
<td>• Amenities &amp; Activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Design</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Proximity to Natural Attractions (e.g., view)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>“NO WORRIES”</strong></td>
<td>• No Management Headaches</td>
<td>A strong point of Condo-Hotel is the hotel management handles all aspects of asset care, reporting and rental.</td>
<td>🌟</td>
</tr>
<tr>
<td></td>
<td>• Service (pre trip + onsite)</td>
<td></td>
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<tr>
<td></td>
<td>• Reporting</td>
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**INVESTMENT DECISION DRIVERS**

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<th>COMMENTS</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>APPRECIATION &amp; PRESERVATION POTENTIAL</strong></td>
<td>• Buy it Right (Make most of your money when you buy)</td>
<td>Typically, Condo-Hotel sponsor fees are very high and impair inherent real estate value and growth potential for owners.</td>
<td>☀️</td>
</tr>
<tr>
<td></td>
<td>• Market Factors (Supply &amp; Demand)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Sponsor Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PRIDE OF OWNERSHIP</strong></td>
<td>• Brand and/or Beauty of Home/Destination</td>
<td>This also varies widely as do the brands and qualities of various Condo-Hotel projects.</td>
<td>☀️</td>
</tr>
<tr>
<td></td>
<td>• Charitable Donation of Excess Time</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>• Bragging Rights</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Small Number of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>COST OF OWNERSHIP</strong></td>
<td>• Initial Investment</td>
<td>Rental income can be very high but Condo-Hotel operators may keep up to 50% of the rents.</td>
<td>☀️</td>
</tr>
<tr>
<td></td>
<td>• Rental Income (less expense and debt service)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Carrying Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• My Time required to Manage It</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LIQUIDITY</strong></td>
<td>• Sell Minority Interest</td>
<td>Easy to sell because each condominium owner can decide to sell but high sponsor fees may jeopardize ability to return initial investment.</td>
<td>☀️</td>
</tr>
<tr>
<td></td>
<td>• Sell Entire Asset</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Retain Ownership if Others Want to Sell</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Estate Issues (Heirs want to sell)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
7. FRACTIONAL OWNERSHIP & PRIVATE RESIDENCE CLUB (PRC)

Lack of clarity
Both Fractional Ownership & Private Residence Clubs (PRC’s) offer shared real estate ownership in a luxury vacation asset which is typically located in a resort. The distinctions between Fractional Ownership & Private Residence Clubs are unclear to most people. Furthermore, PRC’s are commonly confused with Destination Clubs. Generally speaking, PRCs are of a more exclusive nature than Fractional Ownership with fewer owners and brand name sponsors.

TIME-EQUITY CONTINUUM$^\text{SM}$

FRACTIONAL OWNERSHIP & PRCs offer individuals the opportunity to buy partial ownership of a luxury property in a resort area.

Ownerships are divided into fourths, eights, or 13ths, with each owner having an equal number of days a year to use the unit. Owners generally only purchase the amount of time they plan to use on a yearly basis.

KEY CHARACTERISTICS

Fractional Ownership
Fractional Ownership offers equity for a fraction of the cost and no maintenance responsibilities. Considering the average vacation home buyer uses the property just three to four weeks a year, Fractional Ownership tends to reflect an owner’s actual use of a vacation home. Buyers enjoy ownership privileges at high-end luxury resorts for a fraction of Sole (home) Ownership. Fractional Ownership (except Private Co-Ownership) buyers tend to purchase only what they plan to use vs. viewing the property as both a vacation home and an investment asset. Fractional Ownership buyers typically have a recorded deed and title.

Private Residence Clubs
A few of the key features of PRCs can be summarized as follows:
- Private Residence Clubs almost always are based in one location
- They typically offer members 20-60 days of usage, depending on the membership plan
- Private Residence Clubs often seek assets located in resort and hotel settings
- They allow members to rent multiple units if they bring more guests than one unit can manage
New Vacation Home Concepts Clarifier

While these two sub-categories share far more similarities than differences, the following table summarizes some salient distinctions:

<table>
<thead>
<tr>
<th></th>
<th>$/Square Feet</th>
<th>No. of Owners</th>
<th>Ability to Trade</th>
<th>Sponsor Fee</th>
<th>Brand Name Sponsor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fractional</td>
<td>&lt;$1000/SF</td>
<td>8 – 13</td>
<td>Yes-Varies</td>
<td>100%-200%</td>
<td>Less so</td>
</tr>
<tr>
<td>PRC</td>
<td>&gt;$1000/SF</td>
<td>6 – 10</td>
<td>Yes-Varies</td>
<td>100%+</td>
<td>Yes</td>
</tr>
</tbody>
</table>

➢ **Pricing**

According to studies conducted by real estate firms in 2006, Fractional Ownership & PRC pricing ranges from approximately $60,750 to $649,564 per interest based on floor plan, location and size of fraction.

➢ **Affordability factor**

According to the 2007 Annual Fractional Interest Report compiled by NorthCourse, while most Fractional Ownership buyers have been found to be able to afford whole ownership of a luxury second home as well, there are many who cannot. Therefore, industry experts opine that Fractional Ownership "satisfies a market niche at a lower price point, than whole ownership or PRCs within the real estate market.”

➢ **Annual Fees**

In addition to the purchase price, annual maintenance fees averaged $5,575 through 2005, although these also vary widely based on size of fraction & asset type. This figure is probably based on a small fraction size.

➢ **Size**

When compared with Destination Clubs residences, PRC residences are typically smaller. They can range from 750 sq ft city apartments to 3000 sq ft resort villas.

➢ **Fractional Ownership industry trends**

According to the 2007 Annual Fractional Interest Report, a leading global consultancy and market research firm, “the Fractional Ownership industry in the United States, Canada and the Caribbean achieved record sales volumes worth $1.65 billion in 2006, up 32% compared with 2005.”

➢ **Fractional Ownership & PRC buyers’ characteristics**

After conducting extensive studies on Fractional Ownership buyers, PriceWaterhouseCoopers cites the following key factors that impact purchase decisions for Fractional Ownership:

- Access to a highly desirable location
- Residential features, such as fully furnished accommodations; and
- Overall ease of the fractional ownership experience.

The consulting firm also highlights three resort features that commonly stand out as being critical to a majority of potential fractional buyers. These include

- A Pool;
- Premium bedding; and
- High-speed Internet access.
Recent surveys conducted by PricewaterhouseCoopers (PWC) have revealed that "almost half of all U.S. households have heard of Fractional Ownership as a shared leisure real estate option." The consulting firm also reports that "Forty-one per cent of high-income households have heard of Fractional Ownership or PRCs as a real estate ownership option while 17 percent indicated they were very familiar with the concept." However, despite the up tick in buyer awareness levels, the timeshare concept remains the most widely recognized shared ownership model.

According to various industry sources, the following companies mentioned below are major industry players that in one way or another have contributed to the evolution, awareness and popularity of the world's most successful PRCs and Fractional Ownership offerings:

- The Timbers
- St. Regis
- Raffles
- Fairmont Resorts
- Regent
- Marriott Grand Residence Clubs
- Ritz-Carlton Clubs

The option is growing in part due to buyers' uncertainty and the desire for the confidence that comes from having a brand name sponsor. This branding benefit comes at a premium price of about 15% over an unbranded alternative property.
The following report card gives a snapshot of the key ‘Travel’ and ‘Investment’ considerations that can be associated with the Fractional Ownership/PRC segment.

### FRACTIONAL OWNERSHIP/PRC REPORT CARD℠

#### TRAVEL DECISION DRIVERS

<table>
<thead>
<tr>
<th>TRAVEL CONSIDERATIONS</th>
<th>KEY DRIVERS</th>
<th>COMMENTS</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREEDOM AND FLEXIBILITY</td>
<td>• Variety of Destinations</td>
<td>Stronger models provide the ability to access sister properties. Use schedules are highly structured.</td>
<td>○</td>
</tr>
<tr>
<td></td>
<td>• Size of the Asset (home)</td>
<td></td>
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<tr>
<td></td>
<td>• Timing &amp; Length of Use</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Spontaneity of Travel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“OUR PLACE”</td>
<td>• Control</td>
<td>The sponsor will generally have a one-size-fits-all approach. Size of owner group can be as large as 13.</td>
<td>○</td>
</tr>
<tr>
<td></td>
<td>• Privacy (e.g., personal effects)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Small Number of Other Owners</td>
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<tr>
<td></td>
<td>• Selection/Screening of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“WOW FACTOR”</td>
<td>• Asset (home) Quality</td>
<td>This is generally a strong point with this model, especially with premier brands.</td>
<td>●</td>
</tr>
<tr>
<td></td>
<td>• Amenities &amp; Activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Design</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Proximity to Natural Attractions (e.g., view)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“NO WORRIES”</td>
<td>• No Management Headaches</td>
<td>Also a strong feature of this model with established and successful operators.</td>
<td>●</td>
</tr>
<tr>
<td></td>
<td>• Service (pre trip + onsite)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Reporting</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Single Point-of-Contact</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### INVESTMENT DECISION DRIVERS

<table>
<thead>
<tr>
<th>INVESTMENT CONSIDERATIONS</th>
<th>KEY DRIVERS</th>
<th>COMMENTS</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>APPRECIATION &amp; PRESERVATION POTENTIAL</td>
<td>• Buy it Right (Make most of your money when you buy)</td>
<td>Developer mark-ups are rich, but not as onerous as timeshare.</td>
<td>○</td>
</tr>
<tr>
<td></td>
<td>• Market Factors (Supply &amp; Demand)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Sponsor Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRIDE OF OWNERSHIP</td>
<td>• Brand and/or Beauty of Home/Destination</td>
<td>Can be quite high with premier brand properties.</td>
<td>●</td>
</tr>
<tr>
<td></td>
<td>• Charitable Donation of Excess Time</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Bragging Rights</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Small Number of Other Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COST OF OWNERSHIP</td>
<td>• Initial Investment</td>
<td>Initial cost can be lower. But value is weak as sponsor fees increases as size of fraction decreases. Rental income varies but is shared with sponsor.</td>
<td>○</td>
</tr>
<tr>
<td></td>
<td>• Rental Income (less expense and debt service)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Carrying Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• My Time required to Manage It</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIQUIDITY</td>
<td>• Sell Minority Interest</td>
<td>There is no established secondary market. Brand name offerings will fare better. Always subject to selling minority interest.</td>
<td>○</td>
</tr>
<tr>
<td></td>
<td>• Sell Entire Asset</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Retain Ownership if Others Want to Sell</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Estate Issues (Heirs want to sell)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
New Vacation Home Concepts Clarifier

VACATION OWNERSHIP INDUSTRY TRENDS

The following are some broad themes and trends associated with the New Vacation Homes Concepts industry across all segments.

- **Awareness of and Confusion Regarding New Vacation Home Concepts**

  Commenting on trends observed in the Private Residence Club and Destination Club segments, The American Affluence Research Center reports that "less than half of the target market for PRCs and Destination Clubs said they are familiar with these concepts." 

  The American Affluence Research Center conducts surveys twice every year that mainly focus on the wealthiest 10% of all U.S. households. According to statistics released by latest Federal Reserve Board studies, these 11.2 million households, which account for nearly 36% of total personal income and two-thirds of the personal wealth of all Americans, average $256,000 in annual income and $3.1 million in net worth.

  The percentage of respondents indicating familiarity with Private Residence Clubs was 33% and 26% for Destination Clubs. About 6 in 10 of the respondents indicated no familiarity with either concept. These results are generally consistent with a fall 2006 survey by PricewaterhouseCoopers in which 41% of their affluent respondents said they had "heard of" Fractional Ownership.

  Among those indicating familiarity with the Private Residence Club concept, half did not name a brand or company with which they are familiar. The other half named an average of 1.37 Private Residence Club brands, with the hotel-affiliated brands being the most frequently mentioned.

  Among those indicating familiarity with the Destination Club concept, only one-third named a brand with which they are familiar. Some brands/companies were incorrectly named as either a Private Residence Club or Destination Club, thus indicating some confusion about the two concepts.

  Projections of potential buyer interest among the wealthiest 10% of Americans over the next 12 months can be estimated at 1.1 million for full ownership of a second home, 78,000 for Destination Club memberships, and 56,000 for Fractional (home) Ownership units through Private Residence Clubs.

- **High Net Worth Individuals (HNWIs) want to own vacation home real estate**

  Data released in the latest edition of the World Wealth Report (1997-2006) confirms the sustained increase in real estate investment levels among the world’s most affluent households. 

  The World Wealth Report (1997-2006), compiled by Merrill Lynch and Cap Gemini focuses on the investment patterns and wealth management priorities of High Net Worth Individuals (HNWI) and Ultra-HNWIs. While HNWI refers to those with individual financial assets less than $30 million, Ultra-HNWI represents individuals possessing financial assets in excess of $30 million. Both these buyer segments, which are spread across all major continents, exert a tremendous influence in driving demand for high-end luxury vacation homes and resorts.

  Interestingly, the World Wealth Report cites that “HNWI allocations to real estate remained constant in 2005, at 16%.” Among North American HNWIs in particular, “allocation to real estate increased by one percentage point, to 12%.” Furthermore, “despite rising interest rates and fears of a downturn in the sector, real estate continued to provide strong returns throughout the year. Double-digit returns on securitized real estate holdings helped reinforce HNWIs’ decisions to stay the course in this asset class.”

- **Ultra-HNWIs allocating more of their wealth to real estate, than the average HNWI**

  The World Wealth Report observes that, “Ultra-HNWIs hold a significantly lower share of their assets in fixed income and cash, while allocating more of their wealth to real estate, than the average HNWI.”
With an eye on the emerging markets in the Asia-Pacific region, the World Wealth Report predicts, “Given their proven power to move markets, we anticipate that Ultra-HNWIs’ already significant allocation to alternative investments including real estate and their growing exposure to Asia-Pacific will prompt HNWIs to embrace more sophisticated investment vehicles and to allocate a greater percentage of their assets in the same way.”

• **North America maintains highest percentage of HNWIs in the world**

Another key highlight of the report is the continued dominance of North America in terms of being home to the highest number of HNWIs. The report states, “North America’s HNWI ranks expanded by 6.9% in 2005, compared to 9.8% in 2004. Despite this deceleration, the region maintained its first-place ranking in having the highest amount of accumulated HNWI wealth in the world”.

• **Investments in real estate remain steady despite market fluctuations**

In search of higher returns, HNWIs have consistently reallocated and rebalanced investments over the past four years across most asset classes. Real estate is the one exception with a steady allocation of 15-16%.

The following table illustrates the lack of any large-scale variations recorded in real estate investments among HNWI in recent times. It also represents an indication of the profitability of real estate investments, and the support they enjoy among the affluent population. It is significant and somewhat surprising given the softening of many US real estate markets in the past 18 months.
More than one million people buy vacation homes in 2006

Recent data released by The National Association of Realtors reveals that “more than one million people bought vacation homes in 2006.” Industry experts believe the NAR data is a positive development for those considering purchasing a vacation home in the near future.

The demographics favor vacation-home sales because large numbers of consumers are in the prime buying ages of 44 to 52. Buyers want leisure property for both personal use and investment.

Prior to interest rate hikes and the real estate slowdown in some parts of the US, the proportion of speculators to total buyers was very high. Speculators are not nearly as active today suggesting current sales volume is driven by buyers, with a primary objective of enjoyment.
According to The National Association of Realtors (NAR), the following are the top reasons why buyers continue to exhibit a strong desire for vacation ownership. In listing the reasons for purchasing a vacation home, 79 percent of buyers wanted to use the home for vacation or as a family retreat; 34 percent to diversify investments; 28 percent to use as a primary residence in the future; 25 percent for the tax benefits; 22 percent for use by a family member, friend or relative; 21 percent because they had extra money to spend and 18 percent to rent to others.

The following chart illustrates the above mentioned facts.

Demand is also being fuelled by the previously mentioned growth of HNWI plus the baby boomer demographics. Beginning in 2006, the US boomers began reaching age 60 at the rate of nearly 4.4 million per year. The increasing boomer population around the world also adds to the pool of potential vacation investors.
LOCATION PREFERENCES

Resort industry experts believe that vacation owners are attracted to different geographical locations based on their personal preferences, and this in turn influences their buying decisions.

The following table shows how tourist attractions & entertainment options followed by ocean beaches are among the most preferred criteria among vacationers when selecting resort areas.  

<table>
<thead>
<tr>
<th>Location</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attractions, Entertainment</td>
<td>70%</td>
</tr>
<tr>
<td>City, Urban</td>
<td>40%</td>
</tr>
<tr>
<td>Gaming, Gambling</td>
<td>30%</td>
</tr>
<tr>
<td>Snow Skiing</td>
<td>20%</td>
</tr>
<tr>
<td>Golf</td>
<td>10%</td>
</tr>
<tr>
<td>Mountains</td>
<td>10%</td>
</tr>
<tr>
<td>Ocean Beach</td>
<td>10%</td>
</tr>
<tr>
<td>Others</td>
<td>5%</td>
</tr>
</tbody>
</table>

(Source: Most Attractive Characteristics of Resort Area, ARDA)

Based on surveys undertaken by the National Association of Realtors on what current owners most desired in a vacation home, the following conclusions emerged:

Two-thirds want to be close to an ocean, river or lake; 39 percent close to recreational or sporting activities; 38 percent close to vacation or resort areas; and 31 percent close to mountains or other natural attractions.

Studies carried out by The National Association of Realtors also show that in terms of location, 29 percent of vacation homes were purchased in rural areas, 24 percent in resorts, 22 percent in a suburb and 10 percent in an urban area or central city. Sixty-seven percent were detached single-family homes, 21 percent condos, 8 percent townhouses or row houses, and 4 percent other. From a regional perspective, one-quarter of vacation homes were purchased in the Northeast, 13 percent in the Midwest, 38 percent in the South and 25 percent in the West. These statistics may be skewed toward traditional second home ownership, e.g., cabin at the lake.
NEW VACATION HOME MARKET SALES ACTIVITY

According to extensive studies undertaken by Ragatz Associates on sales trends observed through 2006, "total sales volume for the shared-ownership is estimated at slightly over $2.1 billion in 2006. This includes $1.8 billion from closed sales, $262 million from pre-sales, $60 from resales, $476 million from 78 Fractional interest projects, $1.1 billion from 57 PRCs and $576 million from 21 Destination Clubs." ¹¹

As shown in the chart below, Ragatz Associates reports that in relative terms, 84.9 per cent of the total $2.1 billion was generated by closed sales, 12.3 percent by pre-sales, and 2.8 percent by resales.

- Additionally, 22.4 percent was generated by Fractional interest projects, 50.5 percent by PRCs, and 27.1 percent by Destination Clubs.
Ragatz Associates clarifies that the sales volume estimates include pre-sales and resales only from Fractional Interest projects and Private Residence Clubs and not Destination Clubs. Additionally, they include resales only made on-site at Fractional Interest projects and PRCs as handled through the development companies themselves, and not resales made by owners on their own through other methods.

They also do not include sales made at individual Fractionalized homes or at developments with less than five units.

Therefore, after taking into account these factors, total sales volume in 2006 in the shared-ownership industry is projected to be over $2.25 billion in comparison with the more conservative figure of $2.1 billion, as mentioned earlier.

Looking back at 2006, Ragatz Associates concludes that it was an outstanding year for the PRC component of the shared ownership industry, increasing by nearly 92 percent, even as the Fractional Interest component witnessed moderate growth. In contrast, the Destination Club component decreased by 20.6 percent. However, Ragatz Associates anticipates this component to return to its growth performance of previous years through 2007.
FUTURE GROWTH OPPORTUNITIES

Buyers in the 40+ Age Group to Drive Vacation Home Sales in Future

Most vacation industry and real estate market experts agree that while many of the vacation-home buyers are still older than 50, those in their 40s may be driving the market in the coming decade.

Currently, there are nearly 36.0 million people aged 50 to 59. However, there are 45.2 million people aged 40 to 49. This is one reason why experts are optimistic about the latter age group being in a strong position to drive future growth opportunities more so during the next decade in the vacation ownership industry segment.

Baby Boomers Will Continue to Remain in the Spotlight

Another critical factor at work that will pave the way for strong vacation-home sales for the foreseeable future is the fact that baby boomers are favorably positioned in terms of affordability, and being at the stage in life when they are most likely to be interested in making a lifestyle purchase.

The demographics also strongly favor vacation-home sales because large numbers of consumers are in the prime buying ages. As a result, buyers want recreational property for personal use as opposed to investment, which gets relegated more as a secondary consideration.

Recent surveys also showed that nearly eighty percent of second home buyers considered 2006 a good time to invest in real estate, compared with 57 percent of primary residence buyers. Furthermore, fifty five percent of vacation home buyers said they were likely to purchase another property within two years.
New Vacation Homes Concepts

BUYER HABITS & PREFERENCES

The National Association of Realtors reports that “Twenty-five percent of vacation-home buyers paid cash for their property, as did 32 percent of investment buyers (in 2006). An unusually high number of respondents in this survey report purchasing new homes: 44 percent of vacation-home buyers and 36 percent of investment-home buyers.”

Going forward, NAR mentions that “sixty percent of vacation-home buyers and 54 percent of investment buyers purchased through a real estate agent or broker, but 20 percent of vacation buyers and 17 percent of investment buyers purchased directly from an owner they knew.”

The following facts summarize the key findings in terms of what vacation home buyers bought most recently. This data is skewed toward the sole ownership segment.

<table>
<thead>
<tr>
<th>TYPE OF VACATION HOME</th>
<th>PERCENTAGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detached Single-Family House</td>
<td>67%</td>
</tr>
<tr>
<td>Condos</td>
<td>21%</td>
</tr>
<tr>
<td>Town Houses/Row Houses</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
<tr>
<td>New Construction</td>
<td>44%</td>
</tr>
</tbody>
</table>

The following facts reveal the number of homes vacation buyers possessed of late and how many of them intend to purchase one in the immediate future:

<table>
<thead>
<tr>
<th>NUMBER OF VACATION HOMES</th>
<th>PERCENTAGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Vacation Home</td>
<td>86%</td>
</tr>
<tr>
<td>Two Homes</td>
<td>12%</td>
</tr>
<tr>
<td>Three or More</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>55%</td>
</tr>
</tbody>
</table>

Given the source of this data, i.e. NAR, the rapid innovation of the many new alternatives to sole ownership (discussed in this report) do not appear to be reflected in these figures. Despite the exclusion of the new models, these facts do provide insight into vacation ownership preferences and appetite, which is applicable to the New Vacation Home Concepts market. When the public better understands those carefree, lower-cost, fractional alternatives, we anticipate significantly larger demand for this new breed of vacation home ownership concepts.

Leisure Activities

Commenting on the key preferences of vacation buyers in terms of leisure activities, The National Association of Realtors observes, “Leisure activities of interest to vacation-home owners included beach, lake or water sports, 57 percent; boating, 38 percent; hunting or fishing, 32 percent; golf, 21 percent; biking, hiking or horseback riding, 20 percent; ski or winter recreation, 17 percent; and tennis, 9 percent.”
The following table highlights the key points mentioned above.

<table>
<thead>
<tr>
<th>LEISURE ACTIVITIES</th>
<th>PERCENTAGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beach, Lake or Water Sports</td>
<td>57%</td>
</tr>
<tr>
<td>Boating</td>
<td>38%</td>
</tr>
<tr>
<td>Hunting or Fishing</td>
<td>32%</td>
</tr>
<tr>
<td>Golf</td>
<td>21%</td>
</tr>
<tr>
<td>Biking, Hiking or Horseback Riding</td>
<td>20%</td>
</tr>
<tr>
<td>Ski or Winter Recreation</td>
<td>17%</td>
</tr>
<tr>
<td>Tennis</td>
<td>9%</td>
</tr>
</tbody>
</table>

**Demographic Snapshot**

According to research conducted by Interval International that sought to determine demographic patterns of vacation buyers, whites constituted the leading population segment driving vacation ownership sales. Some of the other key findings are as follows:

<table>
<thead>
<tr>
<th>POPULATION SEGMENT</th>
<th>PERCENTAGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>71%</td>
</tr>
<tr>
<td>African-American</td>
<td>16%</td>
</tr>
<tr>
<td>Single</td>
<td>20%</td>
</tr>
<tr>
<td>Married</td>
<td>64%</td>
</tr>
<tr>
<td>Generation Xers (aged 28 - 41 years old) and Echo-boomers (younger than 27 years of age)</td>
<td>40%</td>
</tr>
<tr>
<td>Boomers (aged 42-60)</td>
<td>43%</td>
</tr>
<tr>
<td>Annual household income of $50,000 or more</td>
<td>64%</td>
</tr>
</tbody>
</table>
TAX BENEFITS for VACATION HOMES

Tax breaks can go a long way in helping prospective buyers own vacation homes by making them more affordable on an after-tax basis. According to financial consultants, if buyers are looking to claim maximum tax breaks possible, they are required to track the amount of time they and their families spend at their vacation homes.

Depending on usage patterns and rental performance, tax scenarios for new vacation home buyers generally fall into one of three different tax treatments. It is important to understand that these guidelines were developed for sole-ownership and it is unclear if and how they will be applied to the various models of shared ownership outlined in this report.

I. Use often; Rent often

This applies to vacation homes that are rented (at fair market value) for more than 14 days a year and have personal use of more than 14 days or 10% of the total rental days, whichever is greater. As a result, they are considered to be personal residences.

While owners must report all rental income on their tax returns, they may be able to deduct their rental expenses, but only up to the total amount of rental income. However, they cannot use the excess rental expenses to offset income from other sources, but they can carry forward the excess expenses to the next year and treat them as rental expenses for the same property up to the amount of rental income for the same year.

Furthermore, owners can deduct interest on up to $1 million of mortgage debt on two personal residences (and up to an additional $100,000 for home equity loans). According to real estate industry experts, property taxes are generally deductible, regardless of the number of homes that owners possess. Those owning more than two homes may select the two with the most mortgage interest each year; in most cases that turns out to be the main residence and the vacation home with the biggest loan.

II. Rent often; Use rarely

In this case, if owners rent more than 14 days in a year and if their personal use does not exceed 14 days or 10% of the rental days, whichever is greater, then the home will fall under the tax rules for rental properties rather than for personal residences.

As owners of their rental properties, they must report the entire rental income they receive. However, they may qualify to deduct expenses related to renting, such as depreciation, utilities, repairs and property management fees. This also means that if they end the year with a net profit from the rental income, they can deduct all their rental expenses.

Under circumstances where owners incur a net loss, their deductions will be limited by the ‘passive activity’ rules. A passive activity involves the conduct, trade or business in which they are not materially participating. However, an exception applies if they are actively involved in managing rental activities. In such cases, they are eligible to deduct up to $25,000 in rental losses against other non-passive income, such as wages.

Additionally, owners must also note that this deduction begins to phase out when their adjusted gross income (AGI) exceeds $100,000 and disappears completely when their AGI reaches $150,000. The passive activity loss not utilized qualifies to be carried forward to future years.
III. **Use often; Rent rarely**

Considered to be a rarity in tax laws, this scenario applies to homes that are rented for fewer than 15 days a year and used by the owner for more than 14 days. While all rental income collected is treated as tax-free, owners do not have to report the income on their tax returns. Furthermore, they can still deduct property taxes and mortgage interest whether or not the property is used to produce income. However, they cannot deduct any rental-related expenses.

The following table summarizes the key characteristics of each of the three tax categories.

<table>
<thead>
<tr>
<th>TAX CATEGORY</th>
<th>Status</th>
<th>Tenure</th>
<th>Key Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category 1:</strong> USE OFTEN&lt;&gt; RENT OFTEN</td>
<td>Considered as personal residences'</td>
<td>Personal use for more than 14 days in a year; Rent for more than 14 days in a year</td>
<td>Deduction of interest possible for up to $1 million of mortgage debt on two personal residences (and up to an additional $100,000 for home equity loans)</td>
</tr>
<tr>
<td><strong>Category 2:</strong> RENT OFTEN&lt;&gt; USE RARELY</td>
<td>Vacation homes in this category fall under the tax rules for rental properties and not personal residences</td>
<td>Rent for more than 14 days; Personal use less than 14 days</td>
<td>In case earnings from renting the vacation home fail to cover the cost of renting it, owners can post a taxable loss on Schedule E (Supplemental Income and Loss). The IRS allows deductions of up to $25,000 of passive-rental real estate losses if buyers &quot;actively participate&quot; and have adjusted gross income under $100,000.</td>
</tr>
<tr>
<td><strong>Category 3:</strong> USE OFTEN&lt;&gt; RENT RARELY</td>
<td>Considered as personal residences'</td>
<td>Rented for less than 15 days; personal use for more than 14 days in a year</td>
<td>Owners can deduct the mortgage interest and property taxes on Schedule A. Owners are not required to declare any income.</td>
</tr>
</tbody>
</table>
CONCLUSION

This previous collection of information and analysis leads us to the following observations:

1) The Vacation Home market is strong and getting stronger both in terms of the quantity and the variety of product offerings. This growth is due not only to the world wide baby boomer population (the richest generation ever) now shopping for vacation homes. The demand is also being fueled by the addition of a younger generation; the average age of vacation home buyers has recently dropped from age 52 to 44. The supply and variety of offerings will grow to meet this growing demand.

2) However, this strong demand also means that the most coveted vacation locations are becoming scarcer and more expensive. For the "Time" buyer, the cost to use properties will rise. For the Equity buyer, in those strong locations, their investments should be rewarded. This growing demand, coupled with the evidence that this wealthy demographic segment tends to ignore market trends, is responsible for keeping prices high even during otherwise softer market conditions.

3) For the informed consumer, this means the possibilities have never been better to discover a customized solution that can perfectly fit their unique requirements...a unique way for them to access a multi million dollar vacation experience for a fraction of the cost. A better understanding of the Time-Equity ContinuumSM and the Travel-Investment Decision DriversSM should help make that possible.

4) For the consumer who can afford it, Equity Based Offerings make the most sense since the underlying vacation homes will continue to appreciate (if the asset were an automobile or airplane, renting time as a protection against depreciation makes more sense). In addition, Equity Based Offerings provide a hedge against even short term soft markets by allowing a smaller partial investment than Sole Ownership would require.

This new market for Vacation Home alternatives is very exciting.

We trust that this analysis has reduced some of the confusion that comes with this variety and helped you make some better choices that take advantage of the rich possibilities this market presents.
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