

PRODUCT DEFINITIONS

Resort development has substantially expanded its product lines in recent years. What was once a simple field of transient overnight lodging hotels, condominiums and timesharing now includes a diverse and varied product mix. Like most printed dictionaries and encyclopaedias, some of these definitions may be further evolving. It may therefore be helpful to define or describe the range of recreational real estate and resort ownership products available to the consumer—and thus to developers—in today's marketplace.

TIMESHARE

In its simplest form, timesharing involves selling either a deeded real estate interest [as is typically found in the USA] or a non-deeded interest, which entitles its owner to use one week in a resort accommodation project together with its amenities while in residence. Non-deeded products often take the form of a contractual right-to-use, as is found in Europe, the Middle East and in south east Asia, with certain additional protections being given to the buyer through the intervention of an independent trustee or administrator who can keep the unencumbered ownership of the accommodations secure, on the timeshare buyers' behalf.

In deeded projects, purchasers usually acquire a 1/52nd undivided interest in a condominium unit. Buyers pay an initial purchase price (sometimes financed by the developer or a third-party Lender) and thereafter, annual maintenance fees. Annual Maintenance fees cover the cost of providing management services plus utilities, property maintenance, insurance, landscaping, security and so forth. Some timeshares are fixed time (e.g., the owner has the 34th week of the year in perpetuity), but many are "floating time" programs, conferring an entitlement to a week which floats within a defined seasonal banding and which requires the owner to make an annual reservation.

Some have priority rights based on purchase price or a rotating high-to-low demand selection process. The larger programs often feature an internal trading program. Virtually all timeshares are affiliated with a major exchange company such as Interval International or Resort Condominiums International, thus allowing more flexibility as to time and location for a yearly vacation.

A timeshare is essentially a leisure product. Its value, rather like buying a motor car, lies in using it over time. A buyer can typically expect to achieve a "break-even" after around ten years of ownership, so that thereafter, buyers can achieve savings on their future holiday costs, depending upon the duration of their use rights. In some jurisdictions, these rights take the form of a membership within a Club where the membership may confer annual usage entitlements for a time span of say 20,25 or 30 years. Use rights of 80 years' duration were the norm in Europe in the 1980's and 1990's but shorter terms now appear to have greater consumer appeal, especially in the absence of a mature secondary market.

VACATION CLUBS

Vacation Clubs are typically multi-site timeshare plans which adopt a points-based system, often underpinned by contractual rights of usage rather than the ownership of a real estate interest; this structure typically allows the point owners, or program beneficiaries, to use the property for a certain amount of time each year for a specific number of years. Members of a points-based system use points to pay for vacations, with the price of the stay expressed in points. Values are based on unit size, resort location, season/demand, quality of the resort and amenities.

Points can also be used for the purchase of other goods and services, such as airline tickets, car rentals, hotel and cruise stays, and even restaurant meals. Today, most timeshare companies offer some points-related product, as they extend the flexibility of property usage options for the owner. The use of points has also increased the competition among developers to provide more and more redemption opportunities.

FRACTIONAL OWNERSHIP INTERESTS

Fractional developers sell an "alternative second home" product, which provides expanded use rights along with extensive amenities and services. Fractions are typically between 1/8 and 1/4 ownership, giving the fractional owner between 6 and 13 weeks of use per year. As contrasted with timeshare, this product has a real estate "feel" and is not simply a bundle of timeshare weeks. Fractional owners anticipate appreciation in value, like other second home owners. The fractional product appeals to those who can vacation more frequently and intend to return to a single location season after season. Many of these projects use a rotating calendar or rotating priority system in order to allocate use rights. Acquisition costs and annual fees are significantly higher than timeshare. The exchange component of the fractional product is now very important with high-end exchange companies like RCI's Registry Collection and Interval International providing an attractive exchange service for this product.

PRIVATE RESIDENCE CLUBS

Private residence clubs (PRC's) are the high-end fractional products that cater to persons accustomed to a level of service not common except in the extreme end of the economic spectrum of resort users. Fraction sizes are usually smaller for private residence clubs as compared to mainstream fractional interests, ranging between 1/7th and 1/17th. Subject to space available limitations, owners usually have unlimited use of facilities and lodging, a privilege they usually pay for through high-dollar annual maintenance fees or "dues," and in some cases a daily use fee. These products sell for well over \$1,000 per square foot and represent the pinnacle of quality in both accommodations and amenities—truly "five-star" in every respect and often developed and operated by Global Luxury hotel brands, such as Fairmont, Four Seasons, Ritz-Carlton and St.Regis

DESTINATION CLUBS

Destination clubs are membership-based clubs structured like golf & country clubs that feature a deposit refund mechanism. The destination club developer typically owns or has use rights in a collection of high-end (five-star PRC level accommodations) single-family homes, condominiums, and other luxury accommodations in beach, mountain, urban, or foreign locations. Members have the right to vacation in various accommodations, subject to the reservation procedures that are established by the club. The member typically does not own any real estate and can resign his membership at any time and receive a refund, which typically equals 80 percent of his initial joining fee or membership deposit. Annual fees are higher than timeshare or high-end fractional interests.

Initial acquisition costs are often in high six figures, and annual dues run in the thousands of dollars. Most of these products are non-equity -you are really buying a contractual right to occupy and buyers trust the developer to run the facilities at a break-even level to assure continued use. A small number of destination clubs have an equity structure that varies from club to club but which gives membership an ownership interest in the real estate held by the club. Memberships typically cannot be resold, with the club controlling re-sales. Destination clubs retain the flexibility at the developer's discretion to add

or subtract residences in the club inventory based on member demand and available opportunities to acquire "top of the line" residences.

CONDO HOTELS & HOTEL CONDOS

These products have received renewed emphasis as an attractive real estate product for consumers and a favourable financing alternative for condominium developers. Condo hotels involve the sale of luxury condominiums as real estate coupled with the right to participate in a voluntary, optional rental management program with the developer or its affiliated management company. These projects look more like high-end condominium projects than hotels and give owners the opportunity to acquire the whole unit or residence and reduce carrying costs by participating in a rental management program. Owners have personal use rights but are often encouraged to limit personal use of their condominiums to allow the rental program manager to book overnight rentals and group meetings. This product may be differentiated from hotel condominiums, which look and operate more like a traditional hotel with all the regular hotel guest services and amenities. Here, the unit sold is not a spacious condominium unit but a typically-sized hotel room. Hotel condominiums are often a financing tool for developer-operators who cannot obtain conventional financing and want to develop and operate a more traditional hotel-type product.

RECREATIONAL VEHICLE CLUB MEMBERSHIP PLANS

The recreational vehicle (RV) membership club has become an increasingly important component of resort development in the USA. Although the concept has been around almost as long as second home lot sales, the industry went through a period of decline which seems to have ended now. Like its timeshare cousins, it often features flexible use but with guaranteed annual space (with total time limitations) for a mobile home or large luxury Camper vehicle and common amenities for members' enjoyment while in residence. There are organizations offering trading of RV spaces much like the timeshare exchange companies. Acquisition costs are relatively low, depending on amenities and time purchased and annual dues for maintenance are usually much lower than timeshare.

BUY-TO-USE-AND-LET ["BTUL"]

The BTUL concept is also sometimes referred to as a "Sale and Leaseback" where a Buyer acquires ownership of an Apartment or Villa within a hotel or resort environment, with the intention of renting out the Unit so as to generate an investment return, in addition to having a set number of weeks reserved for the Owner's personal use. Key elements of this type of offering are set out below:

- Buyer purchases a Villa or Apartment ["the Unit"] located within a resort
- Buyer hands over the Unit under the terms of a rental management contract, to the resort operator; buyer subsequently makes reservations in respect of his own annual usage entitlement, through the operator by reference to a set of pre-agreed and defined reservation rules;
- When not in use by owner, as well as for 182 days which equally straddle each of the defined seasons, the Unit is offered for rental as part of the resort's room inventory.
- The Operator collects rent, does housekeeping, marketing and undertakes periodic maintenance of the Unit
- The rental income generated is distributed to the owner as per agreed terms and conditions within the rental management contract