

TIME FOR MANAGEMENT TO SHARE?

Big problems have developed in the timeshare segment over a long period of time. When lending was cheap and funding was plentiful, developers got into the finance business instead of the timeshare business. Now management companies are forced to come in and clean up the mess, but at what cost? Large companies such as **Wyndham Vacation Ownership (WVO)** and **Vacation Resorts International (VRI)** try to bolster their portfolios as the segment suffers, with third-party management contracts, fee-for-service programs and potential mergers with struggling resorts. **Bluegreen Resorts** and **Silverleaf Resorts** saw increases year-over-year in Q3 management fee profits of 42% and 19%, respectively, while Wyndham saw a 22% decrease in Q3 year-over-year. Look for VRI to tack on almost 10 new contracts before year's end, while WVO expects to increase its third-party deals with its new management program. **Defender Resorts** hopes to add several new contracts in the coming months, after no new growth in the last year. **Trident Business Management** and **Resort Management Advisors (RMA)**, led by top industry execs backed by decades of experience, use the recession as a kickoff point for their new companies.

Today's timeshare management companies typically charge 10% or more of the budgeted operating costs along with other fees, and some firms can go as high as 30%, billing out at astronomical rates with no guarantees of success. If things such as utilities go up, so does the management's take and that makes one wonder why the HOAs don't demand changes. Some smaller and newer management companies offer up their services for between 6.5% and 8%, hoping to get a competitive edge, while still making a tidy profit. Without the big corporate office overhead, it's easier to generate cash flow without taking a vacuum to the HOA's wallet. Other management companies charge per interval and break it down in a menu for the HOA, but there are often so many menu items, the board would have to be very adept at digging things out and adding it all up to find the true meaning in the charges. And if the management companies control the budget, what's their true motivation to keep costs down?

RMA isn't looking for 200 contracts and a handful will make owner **Steve Hicks** very happy. The newly formed company, which will soon boast a stable of pros on its staff, charges a base management fee but instead of doing everything in house, Hicks wants to outsource things like accounting, assessment billing and collections, letting experts in those fields handle the tasks so there is no conflict of interest, the cost to the HOA is less expensive and there is much stronger third-party accountability. The HOA will pay the fee directly to the third-party company, with oversight by RMA. Full disclosure to the HOA is Hicks preaching point. Hicks, who helped build Shell Vacations, believes a management company should be treated like any other vendor. His company will oversee operations, do property tours, inspection reports, train employees, hire and fire, attend board meetings and will work at the will of the HOA. Instead of a long-term contract, Hicks will require only a year and if the resort isn't happy; see you later. RMA looks to generate revenue for the associations using **Vibes Interactive**, a rental software that is specific to each resort, so there is no concern for owners as to whether they are getting their fair share of rentals.

VRI has identified several potential new contracts and looks to add nine more management deals before year's end or by Q1 2010. Look for potential mergers with two separate independent clubs as well. VRI, which focuses strictly on management, charges a percentage with some fee-based components, but every resort or HOA is unique. The company tends to follow individual state's management mandates, which is California, for example, is 10%. The debt-free company operates 140-plus resorts with about 6,000 units, many of which were acquired through mergers. It keeps its eyes on small companies that want to sell their contracts or HOAs without management. President **Loren Gallagher**'s recent homecoming from **Monarch Grand Vacations** to the company he helped start was a happy one. As Chairman and CEO **Roy Fraser** prepares for retirement, Gallagher returned to find a smoothly sailing ship. VRI, like everyone else, began downsizing and implementing wage freezes last year, and Gallagher notes there won't be a second round.

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WVO saw its incremental property management fees decrease in Q3 to \$7M from \$9M (22%), year-over-year within the company's VOI business. For nine months, the fees fell from \$25M to \$19M (32%) year-over-year. WVO's fee-for-service management arm accounts for about 15% of the segment's revenues and contributes about \$30M in EBITDA annually. Expect that number to increase going forward as the company focuses on its new *Wyndham Asset Affiliation Model (WAAM)*, which should lead to even more cash generation for the fee-for-service-based model. WVO recently signed agreements with resorts in Orlando, Fla., and Myrtle Beach, S.C., that should come online next year. WVO is the largest timeshare company, with more than 830,000 owners and over 19,750 units at 150 resorts.

Bluegreen enters into five agreements in Q3 to provide management, sales and marketing and title services to third parties on a cash fee-for-service basis. During the quarter, the company began providing resort management to three resorts under these agreements. Management operations gross profits increased 42% or \$1.8M — from about \$4.2M to \$6M — in Q3 compared to the same period in 2008. For the first nine months of 2009, management operation profits increased 72% from \$10.5M to \$18.M compared to the first nine months of 2008. The growth was mainly due to more fees earned from managing resorts on behalf of property owners' associations and generating more fees by providing services to Bluegreen Vacation Club members. The most recent contract addition was **Cibola Vista Resort and Spa** in Peoria, Ariz., for developer **Princeton Resorts Group**. Earlier in the quarter, Bluegreen snapped up the **Parkside Williamsburg Resort** in Williamsburg, Va., **The Soundings Seaside Resort** in Dennis Port, Mass., the **Blue Water Resort** in Nassau, Bahamas and **South Mountain Resort** in Lincoln, N.H. Bluegreen, which has more than 45 owned or managed resorts and directly or indirectly manages 37 properties, will also provide design and development services and mortgage services for some of the resorts.

Bluegreen chases growth in its resorts management and sales and marketing to generate fee income from third parties. Regardless of the state of the credit markets, Bluegreen believes that its resorts management and finance operations will continue to present recurring sources of income which do not require liquidity support from the credit markets. Bluegreen has approximately 215,400 VOI owners, including about 166,700 members in the Bluegreen Vacation Club, compared to approximately 194,800 VOI owners and 161,500 members in BVC in 2008. That's an increase of more than 10% and 3%, respectively.

Silverleaf's management agreements with **Silverleaf Club** and independent **Orlando Breeze Resort Club** authorize it to 15% of gross revenues, but its right to receive that fee is limited to the net income of the clubs. Silverleaf's management fee income is just 1.8% of the company's total revenues in Q3, up from 1.1% in Q3 2008. Management fee income increased about 19% (\$150K) to \$930K in Q3 versus \$780K for Q3 2008 thanks to increased profitability of the resorts' management clubs. For the first nine months, fee income increased about 22% (\$451K) to \$2.8M compared to \$2.3M for the same period of 2008. Silverleaf Club's approximately 109,000 owners paid average monthly dues of about \$65 at the end of 2008. The Silverleaf Club management agreement expires in 2020 and continues year to year after that unless cancelled by either party. The Orlando Breeze Resort Club management agreement expires January 2011 and continues in successive three-year terms unless cancelled by either party.

Defender Resorts is in talks to take over two self-managed resorts, but obviously it must be a situation that's profitable for the company. When a HOA called recently from the West wanting Defender to manage a four-unit property, it wasn't worth it financially. Defender charges an average of 7.5% to 8%, well below the big brands and the industry standard of 10%. The company bases its contracts on prior year performance and the resort's needs. Defender is very hands on, and likes to visit the resorts and meet with the HOAs on a regular basis, so properties with at least 30 units are more in its sweet spot. Defender manages 18 associations/resorts and has about 40,000 owners to date. The company handles everything, including all accounting, rentals and resales. All of its properties are sold out. EVP **Frank Baker** notes the company still had a good year considering the economy and he looks for things to pick up when the season begins again in Myrtle Beach in April. Average maintenance fees at the company's resorts run about \$550/year. The company also handles rentals, and depending on the contract will take an average of 25%.

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Trident has several potential deals making their way through the pipeline, with some that were financed by Textron and GMAC, and others that are non-branded properties either in distress or approaching trouble. The firm also is engaged in conversations about the potential acquisition of a small timeshare company that's gone dormant. Trident will scale its fees toward performance and execution, with the majority of compensation coming from performance-based success fees. Partners **Jimmy Danz** and **Bill Tsao** created the firm to provide management for properties in need of corporate, financial or operational improvement, including short-term crisis management, longer-term stabilization, repositioning and growth management. Trident will use a number of capital sources when funds are needed, including first-time players, public REITs and private equity funds. Banks and lenders that are taking back properties have zero operational expertise in the timeshare industry and many global rescue firms are spread thin across many different segments. They bring with them two items: cost containment and contract renegotiation, but little operations know how. Danz and Tsao feel their company can fill that gap.

Trident also formed **Trident Advisory Partners**, which will be a critical part of its business. In addition to advisors, the group will be active participants in the company's endeavors. Timeshare vet Steve Hicks of RMA has been in the business for more than 28 years, building, training and managing large resort management companies for some of the top resorts in the industry. **Sunil Aluvila** has extensive experience in market analysis; vacation club product development; e-business development and online marketing; development for customer acquisition, retention and value maximization hospitality. **Gordon Bloeser** brings a proven track record of optimizing profit contributions and is well known as an experienced resort development lender. With 26 years in the hospitality, lodging and timeshare industries, **Frank Morrisroe** is an accomplished senior exec with a strong grasp of technology and emerging products to add value and expand markets.

FINANCING GETS WHEELS ROLLING

It takes some mettle to try and get any development off the ground in this economy, but if financing is found, most developers believe now is a perfect time to get the dirt churning. **Group Metro** is one of the lucky few to find financing, and with a \$35M infusion of capital from **Portland Private Equity**, the company's **Las Olas** community in the Dominican Republic gets development back into gear. Developer **Jim Gale** gets his **Osa Mountain Village** project in Costa Rica underway, with no debt and money in the bank, thanks to a timely land purchase and 11 lot sales early on to help finance construction.

Numerous projects in the Caribbean and Central America have been delayed thanks to lack of financing. Grupo Inmobiliaria Génesis' **St. Regis Resort & Residences**, which was being financed by **Lehman Brothers** hit the skids. The **Paradis** project on St. Lucia is in a holding pattern with no financing. Developer **DCG Properties Ltd.** plans a **Westin** hotel with residences and a **Greg Norman**-designed golf course at the project. PB Impulsores' **Trump Ocean Resort Baja** on the outskirts of Tijuana, Mexico, is off the drawing boards and lawsuits abound. The huge **Dellis Cay** development in the Turks and Caicos went into receivership in October after developer Turks Ltd. stopped construction. The resort was to include 25-room hotel, 78 for-sale condominiums and 17 villas, all managed by **Mandarin Oriental Hotel Group**. **Cinnamon 88's Four Seasons Resort** may be underway again according to the company's website in Barbados after construction stalled, and rumors of a new French Canadian investor could be the fuel that got the tractors moving again.

Group Metro banks on the Dominican Republic as it boasts the largest Caribbean economy and is the second largest country in the region in terms of population and landmass. Approximately 100,000 U.S. citizens live in the DR and many are dual nationals and more than one million people of Dominican origin live in the U.S., mainly in the Northeast and some in Florida. The country saw a slight increase in tourism in 2008 despite the international economic slowdown, with more than 3.4 million people visiting the country, a 1.45% increase over 2007. More than one million visitors came from the U.S. for the fourth consecutive year and North American visitors exceeded Europeans by about 24%, another steady trend.

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For Gale, Costa Rica's large eco-tourism industry keeps him in high hopes for his project, not to mention the sales and interest he's already received after just starting sales in July. Costa Rica brought in \$2.2B in tourism last year and is the most visited nation in the Central American region, with more than 2.1 million visitors in 2008, a record. The U.S. accounts for almost half of Costa Rica's tourism and more than two-thirds of its foreign investment. More than 700,000 Americans visit the country each year. Costa Rica's economy has been constantly growing during the last 10 years.

Group Metro jumpstarts construction at its oceanfront Los Olas development in the \$1B **Metro Country Club** in Juan Dolio, Dominican Republic, thanks to \$35M in financing from Portland Private Equity. The 227-unit condo building stopped construction for some months after selling 140 units. Last year was the first bad year for Group Metro CEO **Luis Asilis**, but he notes construction is now going fast, with concrete for a new floor being poured every 20 days. Seven floors of the 16-story building are near completion and the project is scheduled to deliver in 20 months. The 450-acre Metro Country Club development includes numerous different housing options from condos to townhomes and villas.

Marbella, a five-tower, 12-story apartment complex, sold 301 of 500 units before the economic downturn. Some clients backed out, but Asilis sees new ones coming in and buying. The majority are second-home buyers, with 65% coming from DR and about 35% coming from the U.S. Many are ex-pats coming back and investing in their homeland. Residences in Metro CC run from about \$280K to \$800K, but expect those prices to go up once the global economy returns. Asilis is underway on plans for a new 18-hole **Greg Norman** golf course to complement the existing 18-hole **Los Marlins** course. The first nine holes of the new course have been drafted and will be next to the new **Costa Blanca** development in Santa Domingo. Metro CC features an **Embassy Suites** that residential investors are free to use and there are plans for a hotel in the Costa Blanca development as well, but not in the current marketplace.

Portland Private Equity, based in Barbados, provided financing for the Los Olas development after key due diligence. Partner **Doug Hewson** states his firm was impressed with Group Metro and its management team, as well as the company's track record in successfully executing business strategies. The fact that the development already has sales didn't hurt either. Las Olas is less tourism dependent than many projects and its proximity to Santo Domingo, an international airport, and Juan Dolio's emergence as a suburb of Santo Domingo all played into Portland's decision. Portland's financing comes from its \$230M *AIC Caribbean Fund*. About \$112M has been distributed through four investments. The AIC fund, which is not a real estate fund, looks for minimum returns of 20% and investors include pension plan sponsors, fund of funds and multilaterals. Fund partnership agreement is typically 10 years with a four-year horizon from the first close.

Developer Jim Gale sells six units and three fractionals in the last two months with hard money down and in escrow at his Osa Mountain Village in Costa Rica. More than 15 people are scheduled to come visit the property this month. So far, Colorado and Florida have produced the most buyers and interest. Gale, who owned a mortgage company in Minnesota with more than \$1.3B in volume, got tired of the biz and moved to Costa Rica. He bought about 750 acres for \$1.1M several years ago; now it's worth almost \$10M. Gale plans to use only 50 acres for development, leaving the remainder as natural forest. The project will include 60 to 70 casitas, 10 to 12 ocean view, privately owned estate homesites and 10 to 15 treehouses. A later phase of 100 higher-end condos to sell for about \$99K is also proposed. Fractional shares (four weeks) cost \$18K. Association fees of \$100 to \$125 per month will be assessed for maintenance.

Development costs for Osa Mountain are expected to come in at only \$8.3M for the 260, 720-s.f. units built from harvested teak with open kitchens and living rooms with decks overlooking the jungle. Villas will be raised up, to limit digging up ground. The first phase will get underway in January and include 35 buildings with 70 units. Total project completion is planned for 2014. Gale owns land about two miles away from Osa Mountain Village, called **Amelia's Estates**, where he sold 11 lots of between 2 and 10 acres starting at \$125K, which is financing construction of the village. Gale also offered 200 shares for investment in the village and has less than five left, with a minimum buy-in of \$22.5K.

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Numerous common elements including two restaurants, pools, spa, village store and an amphitheatre are also in the plans for Osa. The sustainable community will produce all of its own food with more than 2,000 fruit trees already planted, and tilapia flourishing in a river that runs through the community. Humane animal husbandry, gardens and fishponds are being integrated into the village. A new 88,000-s.f. hospital is 20 minutes away and an international airport is being developed 15 miles away. Gale is also building a school that will open in January. He works on getting a promotional video completed that will be distributed through e-mail and *youtube.com*.

BEHIND THE SCENES

Tick, tick, tick: **Distinctive Holiday Homes** will be forced to sell five of its homes due to its ever increasing resignation list and this could spell the demise of yet another destination club with more than 20% of memberships on the resignation list (about \$600K). Sources say CEO **Nick Wood** will close the company's home in Beaver Creek, Colo., Megève, France, Noosa, Australia and Queenstown, New Zealand, as well as its yacht charter Lady K. All reservations for these locations will be canceled for use by members after November 30, 2009, which is causing quite an uproar for members who have already made travel arrangements. Booking days will be credited back to members. Properties will be marketed for sale, with the first sale used to pay back resigning members deposits. Initial membership fees run from \$49K to \$499K. Des range from \$5.9K to \$49.9K. Members have been told that the refundable portion of deposits is 100% safe and that resignations will be refunded as stated. Distinctive opened in 2007.

Glass half full: While another destination club appears on the brink of a meltdown, **Ultimate Escapes**, the second largest club (not that there are many left to compete with) hopes its soon-to-be public status will help keep it chugging along. CEO **Jim Tousignant** offers up some preferred terms to the now defunct Everlands Club in hopes that as many as 50 new members will make their way over to his club. Everlands will also share its list of more than 500 qualified leads with UE as part of their strategic agreement. Look for UE to possibly pick up some of Everlands real estate as well. UE is also offering a *Redemption Conversion Program* to members so they can become shareholders in the club and also convert their redemption value or deposit into shares. There is a conversion cap of \$10M.

Could a deal finally be near?: Rumors have it that **JDM Partners**, founded by **Jerry Colangelo**, **David Eaton** and **Mel Schultz** is close to a deal to buy the bankrupt **Wigwam Golf Resort and Spa** and the **Biltmore Golf Club**, which includes two adjacent golf courses in Phoenix. The LLC is in negotiations with Citigroup Global Markets Realty Corp. to acquire the promissory note secured by the resort and the courses. **Kabuto Arizona Properties LLC** owns the Wigwam and the two courses. One source claims the deal has been in the works for several months. Last spring, **Douglas Wilson Cos. (DWC)** took the 331-room resort and golf courses into receivership. **Starwood** left the property as operator two weeks after Douglas Wilson was appointed. **Destination Hotels and Resorts** was then brought in to handle operations at the resort.

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Two down, one to go: **Benchmark Hospitality's** VP of Business Development and Strategy **Alex Cabañas** makes good on his promise to pick up a new contract for a resort in Orlando, Fla. After months of delays on a takeover date, Benchmark officially has **The Villas of Grand Cypress Resort** under its wing. The Four-Diamond, 146-suite property is in the Lake Buena Vista area and a member of **Preferred Hotels & Resorts**. Grand Cypress will be a perfect fit for Benchmark's portfolio, with its 7,200-s.f. conference center and 45 holes of golf at the **Jack Nicklaus-designed Cypress Golf Club**.

Cabañas also predicted one or two more signings before year's end and hits half that mark so far with the pickup of the newly renamed **Marenas Resort** in Sunny Isles Beach, Fla. The former Le Meridien condo hotels gives Benchmark its fourth resort in Florida, along with **Costa d'Este Beach Resort** and the **Naples Bay Resort**. The property includes 48 guestrooms and 142 one- and two-bedroom suites with full kitchens. Keep an eye on Benchmark snapping up new deals for properties in Hawaii, Houston, Chicago and Atlanta, as well. With its charges of a 3% base fee and 1% to 2% in shared service fees, Benchmark could be see a lot of new business, as it's a small price to pay compared to big flags that check in at between 8% and 12%.



Bad times equal good times: Joining Benchmark in the flurry of new management contract signings as troubled hotels seek out a savior, **Aqua Hotels and Resorts** takes over operations of the 596-room **Maile Sky Court Hotel** in Waikiki, Hawaii. It's the fifth new property Aqua has added to its portfolio this year. **Castle Resorts and Hotels** will relinquish management on Dec. 1. It is the 17th hotel in Hawaii for the company, which was founded by **Michael Paulin** in 2001. The hotel is owned by Japan-based **Maile Sky Court Co**. The hotel received more than \$2.5M in upgrades in the past two years and is being asset managed by **ISHC**.

SIGNS OF LIFE, OR NOT

Developer **Pat Joyce** and **Graystar Corp.** get fired up with sales and reservations coming online despite the current state of the economy. But cautious optimism might be a step in the right direction, just ask the **Averill** family/**Star Resort Group JV** at its **Lodge at Whitefish** in Montana. After boasting 10 fractional sales since May, reality set in at Whitefish with more than half of the sales falling out of escrow.

Stormy Point Village and Graystar Development may be heading in a different direction thanks to hugely successful marketing plans. Stormy Point developer Joyce refuses to cut marketing and spends almost \$9M this year at his timeshare resort in Branson, Mo., with more than 234 active campaigns running through his **Summer Winds Resort Services**. Graystar Development utilizes **Tandem Resort Group** for its marketing and brings in a staggering 200 leads from direct mail, with 90% of those including phone numbers. On the flip side, **MacEwan and Co.** did little marketing for Whitefish, with the majority of sales coming from guest conversions from the lodge and realtor referrals. EDMs to past guests, displays in the lobby and special offers were the main tools being used.

Stormy Point Village in Branson rakes in \$33M in sales this year and Joyce claims the resort will go over budget on lending and sales by \$5M. Joyce, who founded Summer Winds Resort Services, credits not cutting back marketing during the downturn to his constant flow of traffic and sales. Joyce believes hacking your marketing during tough times is cutting off your lifeblood. The company goes to all major shows in the Midwest, like boat shows, and doesn't use automatic dialers, believing in relationship selling. Most of Summer Winds employees have been with the company for more than six years. Stormy Point targets the drive-to markets of Wisconsin, Ohio, Iowa, Texas, North and South Dakota, Oklahoma and Kansas. And Joyce is even seeing some action from Colorado. Joyce carries all the paper and sees sales coming in with 50% in cash on units that start in the low \$20Ks. Annual dues run \$450/year. Joyce only sells fully constructed units and the project is at less than 20% LTV ratio. Management receives a 7% fee and that goes into reserves for the first five years.

Joyce acquired the 80-acre development that sits on the shores of Table Rock Lake in 2003. He partnered with **Festiva** for the first 140 units, which sold out. The partnership split as Joyce wanted to be more of a full-service resort than just a condo development. Festiva owns the original 80 units, while Joyce owns all the land, amenities and the remainder of the new development. He dedicates a large amount of money to reservations and amenities, which include things like pontoon boats that bring in \$5K a week in rentals.

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Graystar's first foray into fractionals with its **Riverside at Rio Grande Club** wrangles up four reservations at its South Fork, Colo., property after just a few weeks in sales. The company generated more than 200 leads through direct mail in just three weeks with more than 90% including phone numbers. Principals **John Graziano** and **Mark LoCascio** formed South Fork River Club LLC to build a neighborhood of 24 townhomes along the fairways of the Rio Grande Club overlooking the river. The original whole ownership units sold for \$600K. Now five of those existing buildings are being converted to fractionals to be sold in 1/10th shares (five weeks). There will be no rotating calendar. For summer or winter peak weeks buyers will pay \$59.5K, while buyers not set on certain peak dates can get in for \$50K. About 30 to 40 weeks will be deeded with the remainder available on a *Come on a Whim* basis. Maintenance fees will run about \$325/month (about \$111/night).

Tandem Resort Group is handling sales and marketing for the resort and its stay-and-play packages are booking up quickly. Tandem's **Randall Martinez** won't deliver a full-court sales press to visitors, instead he feels dinner, a ski or fishing trip and maybe a 20-minute tour will be all that's needed to seal the deal. Eventually plans call for a total of 290 shares, with the second phase of 14 units (140 shares) to be built once reservations fill up. Phase II will be more upscale with interior improvements and higher pricing.

Along with its award-winning 18-hole golf course, the resort is along 20 miles of one of the most under-fished rivers in the state. There are also more than 500 miles of tributaries and creeks, as well as mountain lakes. Wolf Creek ski area is 20 minutes away and boasts an average of 38 feet of snow, the most of any mountain in Colorado. The mountain is relatively unknown to its big name counterparts, as it is not a member of Ski Country USA. There are also more than 1,300 miles of off-road trails for summer and winter use and day trips to places like the geothermal pools near the Great Sand Dunes and Pagosa Springs. Tandem targets drive-to markets in Colorado and Texas. South Fork has had a longtime love affair with Texans with a large percentage of single-family summer homebuyers coming from the state.

What was once all hunky dory has turned a bit sour for the Averill family and JV partner Star Resort Group at their fractional project in Whitefish, Mont. The company was cautiously optimistic with its 10 shares at the Lodge at Whitefish sold since May. Seven of those shares sold to Americans and three to residents of the Great White North. It appears the Canadians feel a bit more secure in their economy, with all three of those deals closing, while all seven from the U.S. dropped out after having money in escrow. Star Resort Group's **Carl Berry** credits getting the sales to escrow due to its *Whitefish Stimulus Plan* and a few years of HOA dues. The 1/12th (21 nights) shares sell for \$82.5K for a 1,300-s.f. two-bedroom unit, and \$107.5K for a 2,300-s.f. three-bedroom residence, down from \$97.5K and \$112.5K, respectively. The seller group also provides consumer financing at 75% LTV, 30-year fixed at 6% with a five-year balloon.

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