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DESTINATION CLUB DEBACLE LEADS TO NEW STRATEGIES

It's been an earthshaking year for the destination club segment, but now that the dust appears to be settling, the survivors are standing tall, some stronger than others, but all optimistic about the future. **Exclusive Resorts**, **Ultimate Escapes** and **Quintess** may be the only non-equity clubs to survive the crash. Although, many feel the silence coming from Quintess and its members may not be a good sign for the company. Exclusive Resorts leads the way in the industry and still sees significant member growth, albeit much lower than previous years. Ultimate Escapes crawls from the rubble, hoping that by finally closing its merger (Ultimate Resorts and Private Escapes) the club will be on solid footing heading into 2010. Newcomer **Emperum Club** tries a different twist on the non-equity model, similar to **One Key**, but partners with five-star hotels instead of real estate owners. Equity models **Equity Estates** and **Abercrombie and & Kent** likely have the models of the future. Equity rolls along with 50% growth this year, while A&K looks to build on its member base, which came mainly from mergers with other clubs.

In the last decade, destination clubs have been the fastest growing segment in the luxury travel industry with sales of $610M in 2007 up from $140M in 2003, according to **Ragatz Associates**. But sales fell 43% in 2008 to $349M, leaving only 12 of the 24 clubs still standing by the end of 2008 with well-publicized bankruptcies by clubs like **High Country Club**, **Lusso Collection**, **Yellowstone Club**, **Solstice** and **One Key**. The bankruptcies are frustrating for clubs like Exclusive that think they are doing it the right way and that destination club travel is the wave of the future, with second-home buying a thing of the past. Destination club members as a whole love the experience, and most clubs boast satisfaction scores of higher than 90%. Penetration for the segment is at about 1%, obviously leaving a lot of room for growth. Estimates indicate 50,000 households in the U.S. have some type of shared ownership with almost 5.5 million households (3.8%) having incomes over $200K. Even if the penetration rate reaches 5% (202,000 buyers) another 80.2% still remains.

All the bad press and the dismal economy have led to a lot of soul searching for the segment. **Scott Jordan** of **S Jordan Associates** feels that scale is one of the most important aspects to keep a club sustainable and profitable. Jordan, who is writing a soon-to-be-released white paper on the destination club industry, believes with scale clubs can amortize capital expenditures over numerous residences and can lower their cost-per-home with bulk purchases, like Exclusive is able to do. Clubs must also become more opportunistic during this period, snapping up distressed properties in high barrier to entry markets. The good news is that clubs with questionable models, like Ultimate Escapes, have been forced to restructure their business plans in an effort to succeed in this new environment. The times of too much leasing and too much debt should be behind us. And with big brands like **Ritz-Carlton** coming into the space and the success of equity models, most surviving clubs think the future is bright.

Exclusive Resorts

The destination club leader adds 150 to 170 members this year, and while that seems like something to scream and shout about, compared to the 800 members added last year, it tells you where the segment sits. Exclusive, the only remaining club that didn't grow through merger or acquisitions, reduced overall costs by 20% when the company saw the signs of the weakening economy last summer. Exclusive was very conservative over the last four or five years and is extremely well capitalized. However, Co-founder and President **Brent Handler** actually increased service costs in the company's focus on members. Exclusive averages 70% occupancy at its 400 residences. The club added more than 50 homes in five destinations so far this year for its more than 3,400 members. Unlike other clubs, Exclusive is able to capitalize on economies of scale with its ability to purchase several properties in one destination at a greater discount than other clubs might get with a one-property purchase. With no discounts offered, membership plans range from $160K (10 nights) to $500K (60 nights). Annual dues are $13.9K ($1.4K/night) and $59.9K ($998/night), respectively. Exclusive takes a page from A&K with its *Once in a Lifetime Program*. In its second year, the program even partners with some A&K competitors to offer members exchanges for once-in-a-lifetime experiences like luxury African safaris, Antarctica explorations or an intimate hideaway in Fiji.

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Ultimate Escapes

The merger should finally be official and likely before this newsletter hits your desk. Chairman **Rich Keith**'s optimism overflows looking ahead, thanks to **Cap Source**'s commitment level in getting the agreements done and picking up more than $100M in real estate debt, something pretty much unheard in today's choked financial markets. Along with improved capital structure and liquidity, the deal brings closure to a merger that's been in the balance since the LOI was signed between Ultimate Resorts and Private Escapes back in 2007. The closure will be a launching pad for the company, helping seal the deal with prospects that have been hanging in wait, as well as relieving fears current members might have about the long-term viability of the club. Existing members were hit with $15M in assessments earlier this year, which caused a bit of an uproar, to say the least, but when all was said and done approximately 80% of the members anteed up. Most importantly, it caused UE to reinvent its model.

Not often do you hear high-level executives admit they were wrong, but Keith claimed they were "dead wrong," with their model relying on new members to produce revenue. The club built an infrastructure for a high-growth model and it imploded, along with the economy. Since the special assessments, the company has shed more than $18M in operating costs on an annualized basis. In its pro forma for 2010, the club has a small gap, but can function principally on its dues on an 85% burn rate. That doesn't include divesture of assets, which should bring in around $15M. A divesture plan is in effect for year-end 2009, with five to 10 of its 150 properties likely to sell by year's end. The club also actively works toward a way to restore suspended members that will keep everyone happy. Look for an announcement on this following the merger. UE sees its 1,200 members traveling in big numbers with 66% annualized occupancy. Keith likes a sweet spot of about 70% to 73% occupancy overall. Five membership levels are available, ranging in price from $200K (14 days) to $450K (60 days). Annual dues run from $16K ($1.1K/night) to $49K ($816/night). For the first time in five years, there is some negotiation room in pricing.

Equity Estates

Sales are up 50% for Equity Estates since December 2008, after growing 20% in Q4 last year. The fund has 85 families and 61.5 full memberships. Equity recently added two new residences in La Jolla, Calif., and New York City, through lease options. Both units became available to owners in July and Equity spent between $30K and $250K on the new properties to get them up to its standards. Keep an eye out for new ventures, as CEO **Philip Mekelburg** entertains conversations for JV relationships for sister funds that will have more of a regional footprint in areas like the West Coast or New England. Interested partners include companies with an existing brand awareness and consumer base, and successful entrepreneurs who like the Equity model but don't want to copy it. Anticipate a move in the next 12 to 24 months. The number of homes in new funds would be less, but the value of homes would remain around $3M.

Equity's new NY residence is the fund's second property in the Big Apple, as it is the most popular destination for owners thus far. Equity has 10 homes in the portfolio and plans on having 43 to 50 residences in 35 destinations when all is said and done. Look for an international contract in the very near future. Mekelburg also eyes Napa, Calif., Hawaii, Jackson Hole, Wyo., and Aspen, Colo., for homes. Equity targets seven full memberships (30 nights) per home and even if every full member takes advantage of all 30 nights, Equity still has more than 40% unused nights available. Typically, Equity sees owners booking just two weeks on average per year, leaving 75% open availability. Some members, however, have asked for extra time, so Equity rolled out a short-term, per-night reservation process as well. Since its inception, the fund is averaging a 5.5:1 to 6:1 member/home ratio. Equity Estates is a Reg D private offering. The fund will sell up to 300 shares of Fund I at a cost of $375K/share, up from $325K. Expect pricing to go up again, as the company continues to see success. Annual dues for a full membership are $16.5K ($550/night); $9.25K ($616/night) for a half share. Only accredited investors can apply and the fund will begin selling homes in November 2021 and distribute proceeds. Owners will get their initial investment back, as well as an 80% share of any real estate appreciation. In the end, owners might actually get paid for their vacations, or in the very least travel for free. Memberships can also be sold after a 24-month hold. Equity carries 21% debt on overall assets and won't go over 23% on net asset value.

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Abercrombie and Kent

There has been little growth for A&K this year, but the club has no debt and boasts no people on its resignation list, which operates on a three-in, one-out basis. The club introduces a trial program, hoping to push sales by giving prospective buyers a feel for the club's experience. The cost is $1.4K/night for three- to seven-night stays. SVP of Sales and Business Development **Darin Gilson** sees good success so far with 50 trial memberships, but the conversion rate isn't known yet since the program just began earlier this year and many people have yet to take advantage of their vacation. The trial expires in September but A&K might try another push early next year. In hopes of providing more visibility and transparency A&K had its first member meeting in April, where two members were elected to the board of directors. The current 150 members generally have annual incomes of about $250K plus a net worth of $5M.

A&K homes hold a 6.75:1 ratio and when occupancy reaches the 70% mark, the club starts looking for new residences, as the company never wants to go higher than 80%. Historically, homes average 50% to 55% occupancy. Memberships run $225K (15 nights), $390K (30 nights) and $495K (45 nights). Annual dues are $17K ($1.1K/night), $29K ($967/night) and $42K ($933/night), respectively. Additional nights can be purchased for $1.4K/night. Members can also take advantage of A&K Tour Nights, where owners can do a straight exchange of club nights for A&K travel nights. The company looks at rolling out an enhancement to the program to open even more flexibility. The club's European villa program is also in full swing and has seen huge demand from members. A&K rented 12 villas with 36 weeks of time for members' use during June, July and August. Gilson expects it to grow next year.

Emperum Club

Emperum Club steps away from the real estate model and partners with exclusive five-star hotels around the world for its new club. Whether the club is truly a destination club is questioned by some, since there is no real estate involved, but it is another competitor in the field to keep an eye on. Emperum launched this February, so Co-founder **Aren Sarikyan** isn't comfortable releasing membership numbers, which probably aren't bursting through the roof. He has seen an increase in inquiries in the last few months, which is promising. A 40-day membership costs $62K and includes 12 private chauffeured transfers, six private tours, which range from helicopter tours over the Swiss Alps to tango lessons in Buenos Aires, and three $1K gift cards for dining and gifts. The lowest level membership is 15 days for $22K (four transfers, two tours, one gift card). Everything is all-inclusive with no extra charges, and members can resign with a full immediate refund at any time. All partner hotels are five-star and offer the best service in the best location. More than 90% of the current 35 destinations offer suites.

Sarikyan feels that Emperum's model allows for major growth as the company is totally risk free for owners with no real estate purchases required. The participating hotels are guaranteed they will be the only property in the program in the region for members, which will be high-net-worth individuals traveling for business or leisure. The membership includes travel for two adults and two children and is targeting buyers in their 30s and 40s. Members are encouraged to use their travel in a 12-month period, but an extra three months will be given if needed. All planning for trips can be done online through a special members page. A *Special Occasions* program is also offered, allowing non-members to take a test run of the club for three to seven days from $3.5K to $7.8K.

TROUBLED PROPERTY REPORT

On the Brink

➢ Another missed rent check spells trouble for **Flagstone Property Group**'s **Island Gardens** project planned for Watson Island in Miami. The project hasn't made more than $100K in rent payments for the city-owned site and may face a claim for $236K for a broken lease, a small pittance compared to the $50M **Mehmet Bayraktar** has already invested of his own money for the development. When *Crittenden Resort Report* wrote about this $640M project in March (*See RR 3/30/09*), the developer reported 12 fractional sales since the New Year and claimed that equity for the project was in place. Now, calls to the company aren't being returned, another bad sign. The uber-luxury property plans to have two hotels, a marina that could moor mega yachts and 784 residential units. The city set a February 2010 deadline for the project to secure financing.

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Bankruptcies

➢ In an last ditch effort to reorganize and get its long-stalled resort community built, developer **Mount Holly Partners LLC** filed Chapter 11 in July after not being able to come up with the capital to convert its **Elk Meadows** ski resort into a $3.5B exclusive gated ski and golf resort in Beaver County, Utah. But partner **MHU Holdings LLC** wants the U.S. Bankruptcy Court to dismiss the case on grounds that Mount Holly wasn't authorized to file without its consent. MHU claims 50% ownership of Mount Holly after investing $25M in the company. Mount Holly was formed in 2006 by MHU, Ares Funding LLC and CPB Development LLC to develop Elk Meadows. Ares was designated as the managing member. Disputes between MHU and Ares began almost immediately and MHU has charged Ares with misappropriating and wasting company assets. An arbitration hearing between the two parties is scheduled for September 14-25. The bankruptcy filing lists more than 106 creditors with assets of $100M to $500M and liabilities of $10M to $50M. The 20 unsecured creditors are owed more than $67M. A hearing on MHU's bankruptcy protest is set for Aug. 11.

➢ Another casino loses its bet, as **Station Casino** files Chapter 11 to restructure its more than $5.7B in debt. An interesting side note about this filing is the excitement it caused for the **Culinary Union** that now believes the company won't have the wherewithal to do battle. The two have been bitter rivals, and now the union has the upper hand as every move Station makes will need court approval and it won't be able to respond to a union attack fast enough. The filing includes almost $900M in bank debt, $2.3MB in bonds and $2.475B in CMBS debt at the property level. Station was taken private in a $5.4B by the **Fertitta** family and private equity firm **Colony Capital** in 2007. Colony owns 75% of the company with the Fertittas owning 25%. The 18 operating resorts and casinos are not included in the filing. The agreement with senior secured lenders allows Station to borrow up to $150M from a non-operating subsidiary.

Foreclosures

➢ **Thumper Pond Resort** drowns in debt and goes into foreclosure and lead lender **Spire Federal** is expected to sell the property at a huge discount later this summer. The residential community with a hotel, indoor waterpark and golf resort in Otter Tail, Minn., was in big trouble in 2006 and after being turned down by numerous banks, developers **Verle Blaha** and **Jim Ahlfs** were able to get a $13.8M loan from a group of credit unions. Now after huge losses over four years and only 10 of 100 lots sold for $150K, time is up. Just a sign of the times, when credit unions were willing to jump into a deal that seven other investors had said no to because of accounting worries.

➢ **Wells Fargo Bank** is forcing the hand of **Tatanka Hotel Development Partners** by starting the first stages of foreclosure proceedings on a $13.5M loan for a lot in Teton Village in Jackson Hole, Wyo. The loan is accruing interest of about $6.7K a day. A sale is scheduled for Aug. 27, but the developers are hoping to work it out with the bank. If the sale goes through, it could have repercussions for **Jackson Hole Mountain Resort**, which is owed between $5M and $6M from Tatanka. The starting bid is listed at $14M for the 3.26-acre property that is just east of the **Tram Tower Townhouses**. The property was planned for a residential ski-in-ski-out complex.

For Sale

➢ **Canyon Capital** gets a lot of ink this week in the *Troubled Property Report*. Along with its other struggling properties, Canyon puts the historic **Cal Neva Resort** in Lake Tahoe, Nev., up for sale. The casino resort is valued around $35M. Canyon took control of the property in a foreclosure auction after owner **Ezri Namvar** defaulted on a $27M loan. **CB Richard Ellis** is handling the sale and interest has been high with more than 150 unsolicited calls since April for the 219-room hotel once owned by Frank Sinatra. **NHH Hotels and Resorts** took over management of the property and Canyon is reporting increased occupancy and event activity throughout the rest of the year.

➢ **Superstition Mountain Golf and Country Club** in Gold Canyon, Ariz., is set for the auction block on Aug. 11. John Deer Credit is the senior lender and is owed more than $26M for financing it provided over the last decade. **MCA Financial Group** is the trustee of the property. The 890-acre golf community includes two award-winning **Jack Nicklaus**-designed 18-hole golf courses, hiking trails, village-style neighborhoods and a 50,000-s.f clubhouse. Only the two golf courses, clubhouse and property used for course operations are included in the sale.

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➢ **Canpartners Realty Holding Co. IV LLC** gets approval from the U.S. Bankruptcy Court to sell the 202-room **Greek Isles Hotel and Casino** in Las Vegas. Canpartners, an affiliate of **Canyon Capital Realty Advisors**, had a receiver, former **Caesars Palace** President **John Groom**, take over the property in March after the borrower defaulted on a $56M loan from Canyon in 2007 when owners **GIH-SPE II** purchased the property for $48.9M. Appraisals have the property, which is located on Convention Center Drive, valued at $44M, a huge decline from its 2007 value of $120M. GIH-SPE II hasn't made interest payments since Dec. 17 and owes more than $67M. Sources also say the property is losing more than $85K a month.

Sold

➢ **Bank of America** puts up the winning, or some might say losing, $8M bid for the **Sheraton Keauhou Bay Resort and Spa** on the Big Island. BofA was the only bidder for the resort. The 521-room property went up for auction after **Koa Hotel LLC**, a JV of California investment firm **Arlen Capital LLC** and New York private equity firm **Brickman Associates,** defaulted on the nearly $60M remaining mortgage held by BofA.

Updates

➢ The **Eagle Creek Resort and Golf Course** in Findlay, Ill., seeks a manager to reopen the golf resort, which was forced to close in July amidst a pending foreclosure and mold issues (*See RR 07/27/09*). The Illinois' Department of Natural Resources submitted an RFP hoping to find a manager. Sen. **Kyle McCarter** and Rep. **Bob Flider** have even gotten on board, hoping to find a qualified investor to get the property up and running again.

➢ **Tom Celani** offers up an alternative reorganization for the bankrupt **Greektown Casino** in Detroit, which holds more than $755M in debt. The **Sault Ste. Marie Tribe of Chippewa** is the current owner. Celani and hedge fund **Plainfield Asset Management LLC** of Greenwich, Conn., have a $450M plan to develop new residential and retail space at the 400-room property. Celani has acquired about $10M of the property's debt over the past few months. The proposal will give $450M to creditors and lenders will hold 70% of the casino for the short-term. Many feel the casino's reorganization plan won't work, as lenders, controlled by Merrill Lynch, would own the casino outright and it's highly unlikely they would be approved for a gaming license. Celani isn't licensed in Detroit, but does hold licenses in Nevada and Colorado. It's likely that U.S. Bankruptcy Judge **Walter Shapero** will grant a 30-day delay requested by Celani to decide the better outcome for the casino.

Clarification

➢ **HSN Nordbank AG** commenced foreclosure proceedings against the **W Scottsdale Hotel and Residences** in January and did not actually foreclose on the property as reported in the July 27, 2009 issue of the *Resort Report*. Owner **Triyar Hospitality's** original loan on the property was $73M. The foreclosure auction is still set for August 19.

DEVELOPERS BANK ON NORTH AMERICAN MIGRATION

Amble Resorts, **Atom the Creators, North Shore Development Company** and **Grupo Pinero** seek residential sales success with new development in Central and Latin America. With second-home and shared ownership sales stagnant in North America as baby boomers continue to see their retirement funds dwindle down to nothing, developers believe south-of-the-border countries and exclusive private islands will be the choice for vacation and retirement home buyers in the future. Some think Amble's Resort at **Isla Palenque** may be a bit of a pipe dream, but for buyers looking for a boutique experience on a virtually uninhabited tropical island, it's hard to argue with Founder **Ben Loomis**' plans for his first resort. The Toriello family should have no problem selling its **Pristine Bay Resort**, thanks in large part to its z **Pete Dye Black Pearl Golf Course** that is sure to be a stunner. **E3Solutions** already sees some sales success at Grupo Pinero's **Bahia Prinicpe Residences and Golf Resort** with Riviera Maya becoming one of the hottest destinations in Mexico.

Panama has become a popular destination for developers thanks to its strong economic growth and stable politics. The economy is bustling, increasing 10% in 2007 and about 7% in 2008. Panama boasts one of the lowest costs of living in Central America, even lower than Costa Rica. Construction costs run about $700/s.m. for a good quality product and labor costs are low. Mexico has hit a rough patch of late with the overabundance of media exposure due to the swine flu, drug cartels and earthquakes. But tourism in Mexico has increased 42% in the last three years and it's expected to be the fastest growing destination by 2013. More than 22 million tourists visited Mexico in 2008. The island of Roatan, 35 miles off the coast of Honduras, is an ideal location for foreigners thanks to its favorable property and tax laws. Foreigners can own up to a 3/4 acre. Property taxes are approximately $1.30 for every $1K of assessed value and there is no income tax, sales tax or import duty. The island is accessible via non-stop flights from several North American cities.

Amble Resorts gets ready to kick off its first resort property on a secluded 400-acre island in Panama. The island is a one-hour boat ride from David, Panama. The eco-friendly Resort at Isla Palenque will include a boutique hotel consisting of 50 to 90 semi-detached cabanas and 200 residential units from condos to ¾-acre estate lots. Loomis started Amble Resorts in 2007 with a handful of high-net-worth investors, looking to serve a niche in the resort market for unique experiences based on the surrounding cultures. The company purchased most of the island for about $5M last year. The remainder is expected to close later. Amble is in the process of picking a hotel management company and should have an announcement of a well-known boutique company in the next two to three months.

The 10-year Amble project will have homesites for sale starting at about $700K for a small 2,000-s.f. home. Condos will start in the high $200Ks. Amble is currently all cash and will look for financing once construction is ready to start. Loomis will also start looking for more short-term investors in three to six months once he has a package ready that can get them paid off in four to five years. The first phase, which will be spread over three acres and include infrastructure, 30 hotel rooms and 40 homes, will run upward of $25M. Wells can be dug for water and a diesel plant supplemented by wind and solar energy will provide electricity. **RCLCO** is the advisor; **Design Workshop** handles land planning and landscape architecture; **4240 Architecture** tackles site-specific work, while **East Bay Group** takes on the coastal, civil and utility engineering. Local architect **Mallol I Mallol** will also assist on the project.

Atom the Creators and North Shore Development nab more than 20 sales this year at its Pristine Bay Resort on the island of Roatan in the Caribbean. Home of the Black Pearl Golf Course, the 400-acre Pristine Bay Resort has 30 casitas under construction in its first phase and should be ready for occupancy between December 2009 and March 2010. The Toriello family is behind the development companies and markets to Americans, Canadians and Latin Americans seeking retirement and second-home options. The 120-room, five-star **Resort and Spa at Pristine Bay** will break ground in the fall and **Lancaster Hotel Group** will operate the hotel. Residential lots range from $230K to $700K. Two-, three- and four-bedroom villas run from $600K to $1M, while condos go from $348K to $700K. The Black Pearl is the island's only golf course and the resort also offers a 155-slip marina that can accommodate yachts up to 200 feet. Golf course routing is complete and several holes are shaped and grassed. Nine holes should be ready for play in the fall, with all 18 finished by Q1 2010. The beach club will open in March 2010.

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The Toriellos most recently opened La Reunion, a luxury resort in Antigua, Guatemala and have been real estate developers in Central America for many years.

E3Solutions sells three founder club packages, three homesites and has one pending fractional contract pending for Bahia Prinicpe Residences and Golf Resort in the Riviera Maya on Mexico's Caribbean coastline. The 770-acre, $1B resort community proposes homesites, single-family residences, a condo hotel and fractionals. There are also areas for whole ownership condos and townhomes, but plans are very fluid at this time. More than $40M has been put into digging dirt and infrastructure, and the golf course and clubhouse are underway. A few inventory and client homes have been built as well, with several more under construction. The golf course, which should open later this year, will feature 27 holes designed by **Robert Trent Jones II**. A nine-hole executive course also will be included. Founders' club packages are in a separate gated-community subdivision called **Las Olas**. Bulk buying starts at $1.1M.

E3 has sold three platinum plus packages, which include a 7,000-s.f. luxury villa on the golf course and two $330K golf course homesites. The platinum plus price is $2.1M, but if full payment is made within 12 months, buyers receive a 40% discount ($1.26M), and if paid for in six months it's $1.15M, and full payment at closing gives a 50% discount ($1.05M). A lifetime founder membership, which includes free golf for the founder and family, is valued at $30K. There are three other levels of founders' packages, with two silver packages selling as well. **Todd Page** expects sales to jumpstart in October when the North American tourism season begins. Fractionals will be 1/12th shares of an approximately 7,000-s.f. house (650 s.m.). Pricing is $115K with annual dues of $4.5K, which include a golf membership for four people. The developer pays dues for the first two to three years.

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