



An Introduction to Shared Ownership

September 2010

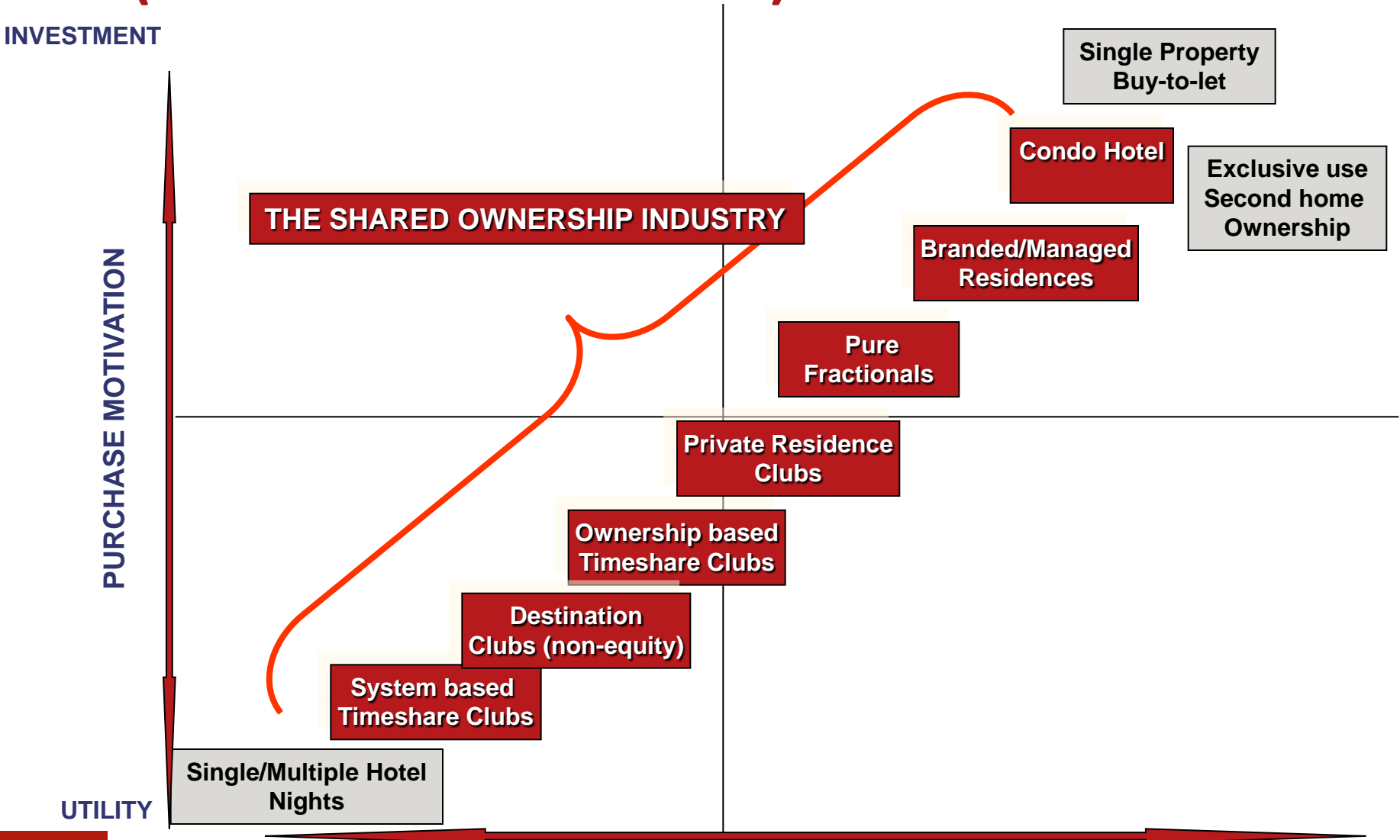
Overview

The Shared Ownership industry comprises a number of business models, each having at its core the ownership of an interest in leisure real estate assets by several private individuals within a resort-based environment

Overview

Shared Ownership products are frequently combined with traditional hospitality and other leisure-based services & facilities in a mixed-use resort environment

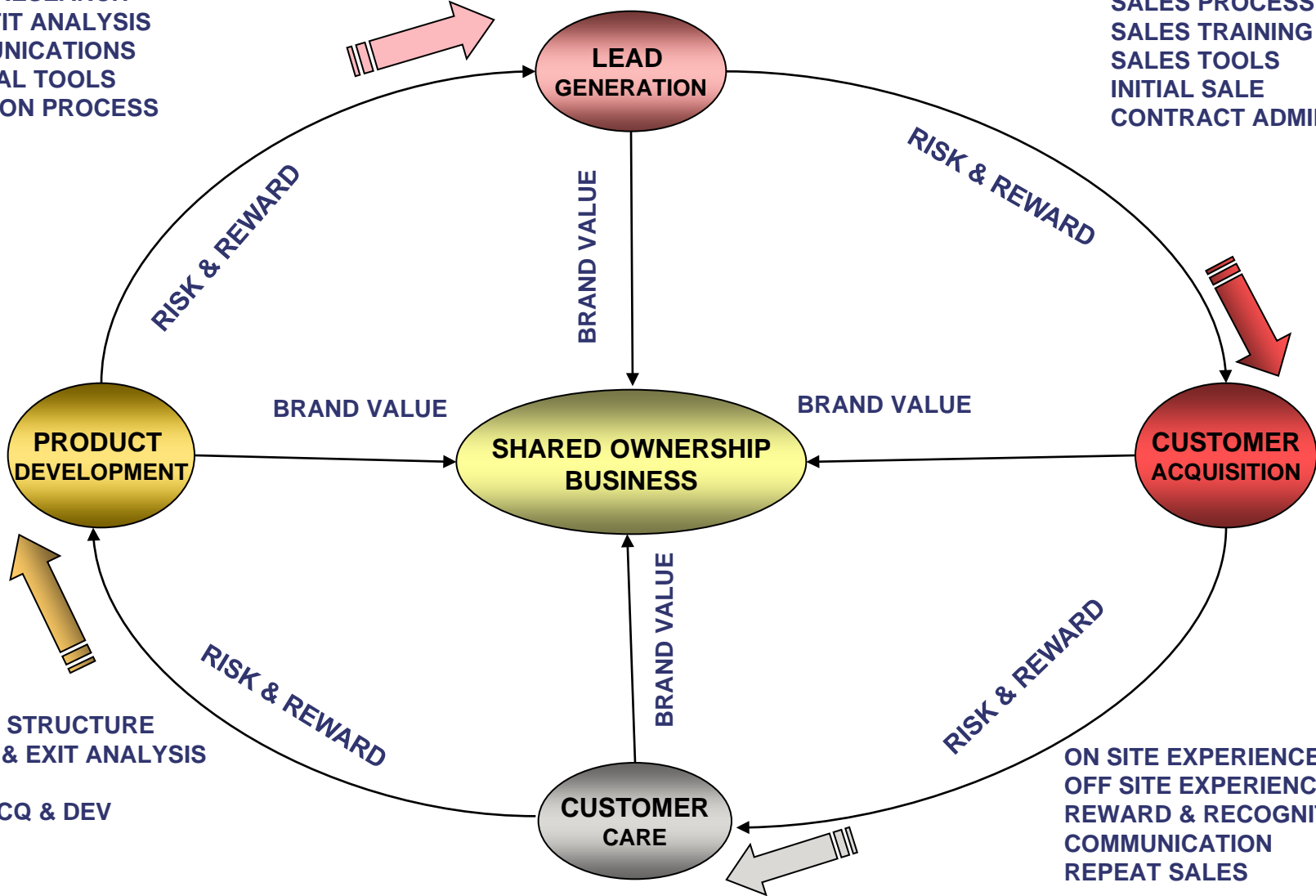
Leisure Real Estate Product Matrix (accommodation-based)



Business Flow

CONSUMER RESEARCH
 COST/BENEFIT ANALYSIS
 PR & COMMUNICATIONS
 PROMOTIONAL TOOLS
 QUALIFICATION PROCESS

SALES PROCESS
 SALES TRAINING
 SALES TOOLS
 INITIAL SALE
 CONTRACT ADMIN



LEGAL & TAX STRUCTURE
 INVESTMENT & EXIT ANALYSIS
 FINANCING
 PROPERTY ACQ & DEV
 OPERATIONS

ON SITE EXPERIENCES
 OFF SITE EXPERIENCES
 REWARD & RECOGNITION
 COMMUNICATION
 REPEAT SALES



Scope of Introduction

- Timeshare Clubs
- Fractional Ownership (incl Private Residence Clubs)
- Branded/Managed Residences

System-based Timeshare Clubs

- The purchase by club members of an entitlement to use certain resort or similar assets during a pre-determined period of time
- No interest acquired in any of the individual properties or any entity that owns the properties
- Typically club members will pay an initial membership fee to cover the first period of membership and an annual membership fee thereafter

System-based Timeshare Clubs

- The facility to exchange between several properties of the same or similar nature is a key feature of this business model
- There may be a separate charge for individual transactions such as exchanges between properties.
- Not usually related to the hotel sector

System-based Timeshare Clubs

- Key areas of risk:
- pricing (no measurable demand);
- marketing cost (can be more than 50% of gross sales revenue)
- capital cost of inventory (purchase or lease)

Ownership-base Timeshare Clubs

- Generally regarded as Timeshare or Vacation Ownership around the world
- The most common variation on the timeshare concept
- Definitions vary, mainly because of the need of legislators and related regulatory bodies
- In most cases involves acquisition of a long-term interest (usually more than 20 years) in a specific property or range of properties

Ownership-based Timeshare Clubs

- Typically seven nights accommodation in a particular accommodation type
- Either a right to use the accommodation or a right *in rem* that can be registered publicly
- Assets are normally subject to some form of protected legal ownership (e.g. a trust)

Ownership-based Timeshare Clubs

- Membership services, exchange facilities and fee structures, same as system-based timeshare clubs
- The leading US players in this field are Wyndham, Marriott, Hilton, Starwood, Disney & Hyatt.
- In Europe, Hapimag, Petchey Leisure, Club La Costa, Anfi Group and Holiday Club Finland
- Well-established operators with large memberships (30,000+).

Ownership-based Timeshare clubs

- Business model depends on successful marketing to relatively large numbers of potential purchasers
- For every 100 week-based sales up to 2,500 qualified leads needed
- For a 200 unit development = 250,000 leads over the life of the project
- Marketing costs typically range from 35% to 55% of sales revenue
- Sales prices represent 4 or 5 times development cost
- Sales price is not a direct function of real estate value

Fractional Ownership

- A variation of the ownership-based timeshare club model
- The key differences are:
 - The nature of the assets and the members is typically but not necessarily at the upper end of the price/quality scale;
 - The interest sold in the properties generally represents an interval of time of more than two and less than 12 weeks;

Fractional Ownership

- Usage system equitable, rotational
- Offers the best possible solution to the maximum number of owners
- Physical product features
- Nature of the real estate interest
- Flexibility of the usage plan
- Quality of the services on offer
- = value added above and beyond a simple interest in real estate
- Pricing = multiple of “equivalent” real estate, from 1.2 to 1.7 times
- Number of owners per unit usually ranges from 4 to 12

Fractional Ownership

- Fractional buyers are repeat visitors to the area, more than once a year
- Although mass marketing is the method used for traditional timeshare, fractional sales are more relationship based
- Fractional purchases include extensive amenities and services, more typical of a luxury hotel, with addition of annual community costs
- Fractional buyers are often capable of affording a wholly owned holiday home, but cannot justify the investment owing to their infrequent use

Private Residence Clubs

- A variation on fractional ownership
- Similar to ownership-based timeshare, but positioning different
- Aimed at the very top of the market
- Relates to products and locations where prime real estate is already in short supply and relatively expensive.
- Marketing costs are lower than timeshare but higher than traditional real estate (e.g. 15% - 30%)
- Offered by large branded hospitality companies such as Ritz-Carlton, Four Seasons, Fairmont, St Regis

Branded/Managed Residences

- Branded or managed residence products can be distinguished from pure real estate, second home products by reference to two main areas
- The level of services offered to owners and guests, both fixed, community-based charges, and variable, a la carte services
- The extent to which owners are motivated to purchase by the opportunity to derive some sort of yield on their investment, typically through some sort of rental service.

Branded/Managed Residences

- Property is owned as investment and given back to the Operator on a permanent basis to use as rental inventory, i.e. 100% rental pool, income being distributed on an equitable basis either for specific units or as a proportional share from all units;
- Property is owned as investment; use by owner is subject to pre-determined number of nights requiring some advance notice. Remainder of nights placed into rental pool, income being distributed as above;

Branded/Managed Residences

- Property is owned for use by owner with no limit on number of nights; unused nights may be placed into rental pool, income being distributed as for first model;
- Property is owned for exclusive use by owner (including guests of owner) and no centralized rental service is offered, although owners may of course be free to offer their own properties for rental, subject to any specific community-based rules.

Branded/Managed Residences

- Key issue is real estate premium
- The real estate revenue will often be needed to finance whole resort
- Branded operators will expect to increase value of real estate by up to 100%
- Branding fees are charged (2%-5% of gross sales value) to developers
- Marketing cost is higher too (approx. 15%)
- Access to hotel services is key success factor, irrespective of rental pool

The Three Way Win

Hotel Services
Own Unit Services



Sales Contract
Owners Association
Rental Programme
Administration Services

Management Contract
Licence Agreement
Rental Services
Community Services






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