

The background of the entire page is a photograph of a family of four—a mother, a father, and two children—walking hand-in-hand on a sandy beach. The mother is on the left, wearing a light green long-sleeved shirt and white pants. The father is on the right, wearing a light blue long-sleeved shirt and white pants. Between them are two children, a girl in a green dress and a boy in a blue shirt and white pants. They are all smiling and looking towards the camera. The beach is wet, and their reflections are visible in the shallow water. In the background, the ocean waves are breaking, and a few other people can be seen in the distance. Overlaid on the top half of the image is a large, semi-transparent world map in a light orange or tan color. The map shows the continents and major oceans, with a slight gradient from left to right.

VACATION HOME INVESTMENT GUIDE:

**MAKING A SAFE & SMART CHOICE
2009 - 2010**

**AN
ELITE DESTINATION
HOMES
PERSPECTIVE**

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INTRODUCTION

A MYRIAD OF BUSINESS MODELS AND THE NEED FOR CLARITY

Over the last decade, the vacation home ownership industry has developed a wide variety of vacation ownership and access models in an effort to serve the needs of a broad range of vacation-seeking consumers. Much of the demand for vacation real estate is being driven by a baby-boom generation as they near retirement and seek wellbeing and unique quality of life experiences.

The appearance of so many new business models created a great deal of confusion among consumers who generally had a difficult time understanding the distinctions between the various offerings. A combination of rapid innovation, a variety of choices, and poorly defined labels have led to a great deal of confusion. Unfortunately, the differences between the various models are still not evident to many prospective vacation homebuyers. As they try to understand characteristics and benefits of the various models, consumers are often overwhelmed with sales pitches, websites, and brochures all promising big fun, happiness, and peace of mind.

For most of us, buying a vacation home is one of the most significant purchases we will ever make. Large financial commitments are required by most of the attractive offerings. This makes it particularly important for buyers to be able to clearly understand not only the features and benefits, but also the potential shortcomings of each vacation home concept. Only educated buyers can make informed decisions. We believe, if expectations are defined, and benefits and potential downsides are clearly identified at the outset, that consumers can make smart decisions and find the vacation home concept that is a perfect fit. So we spent a good deal of time educating ourselves about all of the various players and business models. In this edition of the Vacation Home Guide, we clearly explain the options in the context of recent developments in the vacation home industry and the economy as a whole.

OUR OPINION - A SHORT REPORT ON THE STATE OF THE INDUSTRY

When we sat down to research and write the first version of this guide in 2007, the demand for vacation homes was exploding as the aforementioned baby-boomers, who had worked hard to achieve success, developed an appetite for more travel and leisure time for themselves and family. Demand was high and new offerings were coming on the market almost weekly.

Right up until the current economic downturn, the high demand for leisure travel and vacation real estate meant there was plenty of room in the space for all of the leading-edge concepts to thrive. Recently we have seen one of the most serious economic crises in history, ironically, caused by innovation gone awry. The vacation home industry is being significantly affected. Some of the business models, in particular destination clubs, have proven to be dangerously risky. Understanding differences in various offerings that may have once seemed insignificant can mean the difference between making a good travel and investment choice, and being extremely disappointed or worse. As the destination club “crisis” is shaking out, many who bought in without fully understanding what they were getting incurred serious financial losses. When times are good, everyone is smart. Now, we’ve noticed, those who were smart last year, or even last month, are not so smart today.



Just a few years back many of the concepts and business models were untested, including Elite’s, so we remained objective, and did our best to be neutral in our presentation of the different models. We will once again try to faithfully present the state of the industry. While we know the Elite Fractional model may not work for everyone, we have always known that an equity model, one in which the consumer not only uses, but also **owns** the real estate, is the safest and most intelligent option. In today’s world, more than ever, we are convinced that equity-based models, especially single asset offerings, will emerge as the smartest and safest way to own a vacation home.

TIME OR EQUITY?

TIME BUSINESS MODELS

The following offerings are the most relevant categories available in today's marketplace and as such they are the focus of this report. TIME-based refers to the concept of purchasing access to, or simply put, use of, a vacation home or resort property. This can include nightly or weekly Vacation Rentals, Timeshare or Destination Club. The following are the three vacation ownership concepts that are based on TIME as the key parameter

VACATION HOME RENTALS

Vacation rentals involve renting a house, condo, villa, or apartment. Vacation rentals are usually booked on a weekly basis, though monthly, or whole season rentals are not uncommon in certain destinations. A big advantage of renting is the flexibility it offers in terms of the size of the home and the duration of the stay. There is also a large variation in terms of pricing; there are rentals to fit any budget. Disadvantages are the lack of consistency as many Internet rental brokers catalogs change from year to year and brokers are unfamiliar with the homes they represent. There are tremendous variations in the quality of the homes and furnishings, as well as the levels of maintenance.



This, however, is changing. For the last few years, more and more upscale properties have appeared on the rental market. Owners, particularly in the current economy, want to monetize unused time at properties. Luxury brokers have sprung up to fill the gap in the vacation rental industry, by providing top-class service and consistency. Luxury vacation rental brokers, such as Luxury Retreats, Time & Place, and Elite Destination Homes rent gorgeous properties that are impeccably maintained in the world's most desired destinations. They will meet clients at the airport, orient them to the home and its features, and provide a full suite of concierge services. Luxury rental is a safe way to vacation in style and offers better value than hotels for families and larger groups. Over the long term the benefits diminish. Costs of renting over several years add up, and at the end of the day the renter doesn't own.

DESTINATION CLUBS

Destination clubs, a model akin to country club membership, are in the midst of their own financial crisis at the time of this writing. There were over 23 destination clubs in 2006, now only 2 major clubs, Exclusive Resorts & Quintess, have not gone through a merger, major restructuring, or bankruptcy. The financial impact on members of the troubled clubs has been serious, ranging from special assessments and increased annual dues, to the loss of entry fees, which typically range from \$100K to \$600K. Poor management and a stumbling economy has caused part of the problem, but the recent troubles of one of the better managed destination clubs beg the question: Is there a fundamental flaw in the destination club business model?

A destination club requires a constant inflow of cash and new members to acquire new properties, service debt, support corporate overhead, and make good on promises to members. Bringing 5-star hotel level services to individual properties around the globe is an expensive logistical challenge. Until a club reaches scale, the constant need for new members means that existing members are supporting expensive corporate sales and marketing efforts.

Some destination clubs are now shifting to an equity model. Even with an equity-based club, a member buys into a company and that company's management. That's a completely different proposition from directly owning real estate. Destination clubs tend to leverage members' large initial entry fees to acquire the homes. Members also pay substantial monthly dues that finance debt service and ongoing club

operating costs. If properties are sold and new ones acquired, members in non-equity clubs do not typically share in the profits from the sale.

This is changing as savvy companies, like Abercrombie and Kent, develop more member-friendly equity models in which the real estate is debt-free and members share in the potential appreciation of the assets. It remains to be seen how these newer versions of the club model shake out.

HOTELS

Hotels have improved in terms of luxury and levels of service to meet the demands of today's vacation traveler. The bottom line, however, is that an upscale hotel room or suite, comparable in size and quality to a luxury vacation home, is the most expensive vacation option.

TIMESHARES

In a timeshare, an average apartment in a resort or condominium setting is divided among 26 to 52 owners, each having the right to use 1 or 2 weeks. Timeshares are typically priced anywhere from 3 to 10 times the actual value of the real estate. So while there is technically a small equity component, timeshares can hardly qualify as investments. Timeshare properties have gone more upscale as far as the facilities and services, yet we still see ads placed by timeshare owners offering to sell at 25 cents or less on the dollar. For those who are not concerned with the investment story, certain timeshares may be a good fit.

EQUITY BUSINESS MODELS

Sole Ownership, Elite Fractional, Fractional Ownership and Private Residence Clubs are EQUITY-based business model that provide for actual real estate ownership.

FRACTIONAL OWNERSHIP AND PRIVATE RESIDENCE CLUBS (PRC)

Sponsors of the newer 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 which are actively engaged in developing a variety of unique offerings, at various price points, in both resort and urban destinations. The prices of resort-based fractional ownership offerings range from \$50,000 to upwards of \$1,000,000 in locations like Aspen or Paris, for 4 weeks each year.

Fractional Ownership and Private Residence Clubs homes are, for the most part, units in a resort or a multi-unit building that has been developed exclusively for the purpose of a shared ownership model. While these models do typically allow for deeded ownership, much like destination clubs, developer profit, marketing budgets, and corporate overhead can make it difficult, if not impossible, to realize any investment upside. The long lead time in bringing these projects to market introduces an additional element of risk as the developer has to sell out the project regardless of the state of the market, which is not always in the best interest of owners. On a positive note, an owner in one of these high-end offerings can count on the consistent level of facility, service, and amenities associated with the premier luxury hotel brands.



CONDO – HOTEL

Condo-hotels are generally high-rise hotels in well-traveled destinations. The larger players such as Hilton and Inter-Continental, or smaller independent developers can operate them. The hotel is usually divided into two parts. A certain number of floors are normal hotel rooms and the remainder are allocated as the condo units. With a condo-hotel, one owns an entire unit, usually a room or a small apartment in the hotel. When the owner is not in residence, the hotel rents the unit, paying only a nominal share of the revenue to the owner of the unit.

SOLE OWNERSHIP

With sole ownership one individual or family owns the entire home and uses it when and how they wish. The sole owner is the beneficiary of any potential appreciation of the asset, any tax benefits, and any income produced from rental. The sole owner also bears all of the operating costs and the maintenance responsibilities and headaches. Often vacation homes are underused, and we are seeing more and more sole owners exploring shared ownership options and the commensurate cost and time-savings.

IS THERE A SMART AND SAFE WAY TO OWN A VACATION HOME IN AN ECONOMIC DOWNTURN?

ELITE FRACTIONAL

Elite Fractional offers a single asset equity-based solution. The homes are individually chosen homes carefully chosen for:

- Location
- “WOW!” factor
- Investment potential



By “single-asset,” we mean a single-family house or apartment that is individually owned and managed, and not tied to a resort or development. Each Elite Fractional home is a single property owned by a unique partnership. The partnership owns the entire home and that is its sole purpose. Because of this, even if the sponsor should fall on hard times, the asset remains intact and in the possession of the buyers. When buying into an equity-based fractional development or private residence club, a buyer is tied to the fortunes of the developer and the risk the developer has taken on. With the Elite Fractional single-asset model, we can negotiate the best deal for each home under prevailing current market conditions.

The Elite Fractional buyer’s fortunes are not tied to a bet a developer has made in the past. Elite single asset partnerships do not have to support a large ongoing corporate marketing budget or sales team. The flexibility of the single asset model enables us to buy in a savvy way, and create value for our owners

Because the ownership groups are small and private (2-6 partners) our owners feel at home. The calendar is a flexible, and the small size of the ownership groups assures that owners get the times they want.

TOOLS

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

1. **Time-Equity ContinuumSM** - This tool distinguishes TIME models i.e., the right to use time at a property, from EQUITY models, i.e. ownership of the real estate.
2. **Travel-Investment Decision DriversSM** - This tool outlines the key travel and investment goals that drive consumers' decisions.
3. **Travel-Investment Decision Drivers Report CardSM** - This tool analyzes each vacation home offering's unique ability to accomplish a given goal as outlined in Travel-Investment Decision DriversSM.

As new vacation home concepts continue to evolve and change, it is more important than ever for the prospective buyer to understand these distinctions in order to choose the option that best suits. Today consumers have more options than ever before, so choosing a model that perfectly fits their individual profiles can be a very daunting task. We hope that this Guide and the following Summary Table will help you do just that.

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** a property for a defined amount of time vs. having an actual **ownership** stake in the real estate.

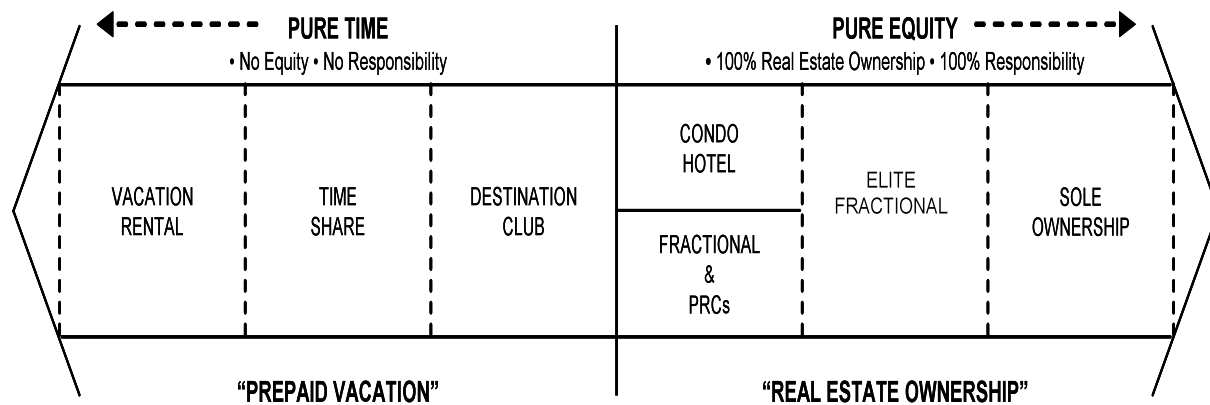
TIME (Non-Equity)	EQUITY (Ownership)
VACATION RENTAL Vacation Rental refers to renting out a furnished room, apartment or house for a short term or non-permanent stay.	SOLE OWNERSHIP A single owner who has 100% ownership of and full responsibility for maintaining and paying for a vacation property is what characterizes traditional deeded second home ownership or 'Sole Ownership.' In resort destinations, owners often hire a local management company to look after the home. Many owners forego capturing significant rental income due to work involved.
DESTINATION CLUB Destination Clubs provide consumer's access to a portfolio of luxury homes in multiple locations. Generally, clubs are characterized by the lack of any equity or ownership of the actual real estate. Presently this model's viability is being questioned. As the many bankruptcies and reorganizations shake out, equity-based variations will start to appear.	ELITE FRACTIONAL Elite Fractional is an alternative to the other forms of fractional and full ownership of vacation homes. Elite creates small private partnerships of 2-6 to share ownership of second homes. Elite then takes care of all aspects of property management to provide a trouble-free way of owning of vacation properties. This form of ownership is characterized by a small number of owners usually owning a single-family home. It is the closest model to Sole Ownership.
TIME SHARE Vacation timeshare involves the acquisition of a specific period of time in a unit located in a vacation resort setting. Typically, the intervals acquired are 1-2 weeks. Variations include: fixed week, floating week etc.	CONDO-HOTEL 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. Owners use the unit when they like. The hotel rents remaining time, paying a portion of rental revenue to the owner.
	FRACTIONAL OWNERSHIP & PRIVATE RESIDENCE CLUB (PRC) These are both forms of Fractional Ownership, which are generally a less private & personal form of shared ownership. A group (usually 10-15 owners) shares the costs and use of vacation property, usually in a resort-hotel setting. Fractional Ownership intervals are smaller, usually 2-4 weeks, as people generally buy only what they will use. A real estate developer or hotel company commonly offers this type of ownership. Typically, each co-owner owns a percentage of the property and is on the title and deed.

INDUSTRY OVERVIEW – THE TIME-EQUITY CONTINUUMSM

The TIME-EQUITY CONTINUUMSM shows how each of the vacation home offerings align in terms of a time-based option or an equity-based option. This is a tool designed 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 USE “TIME”.

TIME-EQUITY CONTINUUMSM



TRAVEL- INVESTMENT DECISION DRIVERSSM

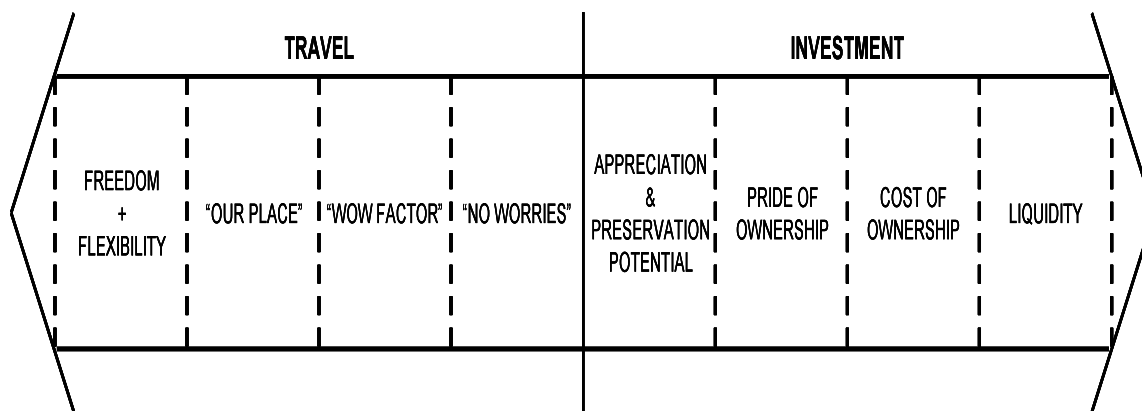
While there are many potential ways to analyze each of these segments, ultimately each of these offerings presents users/owners a basket of TRAVEL & INVESTMENT considerations.

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 drivers and the four investment drivers shown below.

Now that we have reviewed the various vacation home choices within the TIME-EQUITY CONTINUUMSM. We will take a closer look at each vacation alternative comparing each one's unique Travel and Investment drivers side by side

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

TRAVEL - INVESTMENT DECISION DRIVERSSM



Please see the following page for explanation and detail on each decision driver.

REPORT CARDSM – TRAVEL- INVESTMENT DECISION DRIVERSSM

TRAVEL DECISION DRIVERS

TRAVEL DRIVERS	DESCRIPTION	KEY DRIVERS
FREEDOM & FLEXIBILITY	Ability to use vacation home how, when and as you like	• Variety of destinations
		• Size of the home location?
		• Timing & length of Use
		• Spontaneity of travel
“OUR PLACE”	Qualities that make it feel like 'your home' (vs. a Hotel)	• Control
		• Privacy (e.g., personal effects)
		• Small number of other owners
		• Selection/screening of other owners
“WOW FACTOR”	Immediately impresses and captures the imagination. Makes your kids' faces light up. Evokes a positive emotional response.	• Asset (home) quality
		• Amenities & activities
		• Quality of design and fixtures
		• View and surroundings
“NO WORRIES”	Ability to instantly enjoy the home and vacation experience vs. need to care for the home	• No management headaches
		• Services (pre trip + onsite)
		• Reporting
		• Single point of contact problem resolution

INVESTMENT DECISION DRIVERS

INVESTMENT DRIVERS	DESCRIPTION	KEY DRIVERS
APPRECIATION & PRESERVATION POTENTIAL	Possibilities for growth in asset value	• Buy it right – don't overpay
		• Market trends
		• Sponsor fees
PRIDE OF OWNERSHIP	Feels like home	• Brand and/or quality of home
		• Destination/location
		• Bragging rights
		• Privacy - small number of co-owners
COST OF OWNERSHIP	Total cost of ownership: price, income, expenses and time	• Initial investment
		• Rental income
		• Carrying costs & debt service
		• My time required to manage It
LIQUIDITY	‘How can I get out’?	• Sell minority interest
		• Sell entire asset
		• Retain ownership if others want to sell
		• Estate Issues – leave it to heirs

REPORT CARD SUMMARY – TRAVEL-INVESTMENT DECISION DRIVERSSM

	VACATION HOME SEGMENT OFFERING	Freedom & Flexibility	Our Place	WOW Factor	No Worries	Appreciation & Preservation Potential	Pride of Ownership	Cost of Ownership	Liquidity
TIME	RENTAL	●	○	Varies	●	○	◐	N/A	N/A
	TIMESHARE	◐	◐	◐	◐	○	◐	◐	◐
	DESTINATION CLUB	◐	◐	●	●	◐	◐	◐	◐
EQUITY	FRACTIONAL/ PRC	◐	◐	●	●	◐	◐	◐	◐
	CONDO/ HOTEL	◐ Varies	◐	◐ Varies	●	◐	◐	◐	◐
	ELITE FRACTIONAL OWNERSHIP	◐	◐	●	●	◐	◐	◐	◐
	SOLE OWNERSHIP	●	●	Varies	○	●	◐ Varies	○	●

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

DUE DILIGENCE

Timeshares, rental homes, destination clubs, fractionals, PRCs, and Elite Fractional all fit different budgets, travel styles, and location types. Each one, under the right circumstances has its own unique feature and benefits, and unique limitations and risks. It's up to the prospective buyer to try them on and find out which one is the right fit.

When buying any form of vacation home offering, consumers enter into a long-term relationship with the sponsor and it's not just prudent, but crucial to do thorough due diligence. Even when buying from an established player in the industry, like Marriot or Ritz-Carlton, it's important for the buyer to thoroughly understand the business structure of the offering, and to feel comfortable that expectations are squarely aligned with the sponsor's track record and capabilities.

We encourage prospective buyers to take the time to go over any contract or offering documents with a trusted adviser. It is well worth the effort to speak with current owners in the property about their experiences. When we bring a new owner into an Elite Fractional property, we encourage them to go over the subscription documents with a professional adviser. During the mutual due diligence phase of the Elite invitation process, we offer prospective buyers a chance to speak with some current Elite owners.

All of this may sound like plain common sense, but it's surprising how many consumers, for whatever reason, do not thoroughly vet the offering and the sponsor before signing on the dotted line. If there is one message that should be taken from this discourse, especially in the wake of the rash of recent failures in the vacation home industry, it's to ask the tough questions and do the homework.

CONCLUSION

More than ever, the offerings which are equity-based, and have compelling investment stories are going to emerge. In the current world economy, people have lost significant amounts from stock portfolios and discretionary cash is less available. With economy, simplicity, and doing more with less becoming the trend, we foresee prospective vacation homebuyers becoming most concerned with making a smart decision. This is a trend that we don't believe will necessarily stop when the economy recovers. Opportunistic buying, and taking advantage of "bargains" is going to be quite popular for some time. Those who previously would only consider whole ownership will now consider a shared ownership offering. Those who were looking for opulence and luxury will be asking: Is it a good and safe investment?

However, even during an economic downturn, homes in the most coveted vacation locations such as beachfront property in the U.S. and the Caribbean, or European and U.S. urban centers, such as Paris, New York, and San Francisco, prices have decreased very little if at all. In the case of the most desired neighborhoods of Paris, prices are rising even in the midst of a prolonged recession. In 2009, as real estate in these types of highly desired vacation locations becomes scarcer and more expensive, for the Time buyer, the cost to use properties will rise; For the Equity buyer, there is safety and value, provided the property is carefully chosen and bought at the right price. The time-tested real estate adage of 'location, location, location' rings truer than ever.

For the consumer who can afford it, Equity-based offerings make the most sense, since the underlying vacation homes will continue to appreciate over the medium and long terms. In addition, equity-based fractional ownership provides a hedge against even short-term softness in markets by allowing a smaller investment than Sole Ownership requires.

For the informed consumer, this means the possibility has never been better to discover a unique solution that can perfectly fit their personal requirements. Many of the offerings can provide a unique way to access a multi-million dollar vacation experience for a fraction of the cost. An understanding of the Time-Equity ContinuumSM and the Travel-Investment Decision DriversSM will help prospective buyers to find the vacation home option will best meet their unique desires and needs.

AFTERWORD

Elite Destination Homes has developed this report as a decision making tool for today's affluent consumers considering a purchase of some type of vacation home. We do strongly believe that any of these models can work, as long as the prospective buyer has an understanding of the offering, and it fits for them. We believe that the informed buyer, who does due diligence on the specific offering and the developer, has the best chance of making a smart decision.

We know that Elite's model is not right for everyone. If you would like, we would be happy to help you determine which vacation home option is for you. **Send us an email info@elitedestinationhomes.com or call 1-866-650-4334.** We would be happy to have an informal conversation with you and answer any questions you may have.