Crittenden Resort Report™
Crittenden Research, Inc. P.O. Box 1150 Novato, California 94948 Customer Service (800) 421-3483

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EXCHANGES DELIVER PROFITS

Exchange companies become increasingly important to resort developers, as the value-add component may be just the thing to get a sale signed, sealed and delivered in these tough times. Developers' need for an exchange program becomes obvious in recent months, whether it be timeshare or fractional exchanges, as developers now reach out to the exchange companies instead of vice versa. **Wyndham Worldwide Corp**. subsidiary, **Group RCI** and **Interval International** an operating segment of **Interval Leisure Group**, dominate market share and look to keep it that way, by getting resort affiliates to sign exclusive agreements to work only with them. But be on the lookout for antitrust lawsuits in the future, as smaller players such as **Resort to Resort** (R2R), **SFX** and **Luxury Fractional Exchanges** look to get their piece of the pie, but might step on some big toes in the process.

Resort developers affiliated with Interval and RCI represent approximately 99% of the vacation ownership resorts in the U.S. At the end of 2007, Interval held approximately 38% of the resorts and 35% of the members participating in exchange networks operated by these companies and RCI held the remainder. Many believe — with the exception of possibly the big boys — that regardless of a resort's exchange affiliation, individual owners own the rights to their time and can use whatever exchange company they wish, unless of course it's in each individual contract. There is also a debate going on as to whether it is legal for companies to tie up relationships, which could lead to territory division and price fixing. This one is bound to get settled in the courts.

Developers reap big rewards by teaming up with an exchange company because of the benefits they can then offer prospective buyers. The more amenities a developer puts on the table, especially during this economic cycle, the better. Exchange companies can help reel in the trailing spouse, who isn't convinced of buying at a particular resort; an exchange partnership can open up doors for travel worldwide. Having exchanges can cut down on resales and allows developers to finish a project without being undercut by low resale prices. Exchanges offer effective lead generators from inbound exchanges and with affluent exchange memberships especially, developers know the leads that are coming in are already income qualified.

The *Resort Report* takes a look at the top players in the fractional and timeshare exchange business, as well as some of the smaller players and the newcomers. All of the companies feature different models, demographic targets and goals and here's a look at the pros and cons of each.

FRACTIONAL EXCHANGES

The Registry Collection did 7,500 exchanges in 2008, and **Gregg Anderson**, VP global project manager, is very pleased with Q1 results, which parent company RCI will release soon. Registry requires a $30K flat fee for developers to join, of which about $20K is spent on elaborate videos and photographs that the developer can use for websites, sales and promotions. Along with that fee, the developer gets all the resources of RCI behind it. Developers also pay $800 for owners' first two years of membership. Another option is the developer can offer up a unit for lead generation. Owners renew in year three for $250. Exchange fees are also $250. The typical Registry Collection member has household income of around $200K and net worth of around $2.5M. Registry boasts more than 30,000 members and more than 130 affiliates on five continents. More than 160 properties are available through the program and are either accessible for exchange or under development. The Registry Collection also offers the extra-added value to developers that might have both timeshares and fractionals in their project and can offer services to each, thanks to RCI.

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Preferred Residences, Interval's fledgling competitor to The Registry Collection, charges an affiliation fee and royalty on sales, which some insiders say is 2% to 3% of sales, enough to scare some developers away. But with the support and lead generation of a **Preferred Hotel Group** (PHG) behind it, many developers will find the expense worth it. Preferred Residences launched just over a year ago after Interval execs saw growth again in the fractional segment thanks to the high cost of vacation real estate. While Interval has fractional exchange under its program, including some **Hyatt Residences** and some **Marriott Grand Residences**, Preferred will be the company's vehicle for high-end fractional, PRC and condo hotel exchanges. The company partnered with PHG to bring a host of benefits to developers, including database access to PHG's frequent users and the ability for owners to have access and preferred rates at 125 PHG hotels that opted into the exchange program. Preferred Residences will also be advertised in PHG's more than 680 hotels. Can you say lead generation?

Resort to Resort sees half-pregnant developers with about 50% of their sales remaining, coming to the exchange company to get sales moving again and Director **Dean Kneider** expects the R2R to hit its 15% growth goal this year. A new travel partner with Abercrombie & Kent brings another level of travel options. R2R has more than 11,000 members and 174 properties, 47 of which came when parent-company **Intrawest** launched the exchange program in 2001. About 48 of the current properties are third-party developers. A one-time affiliation/membership fee for developers of $699 for a two-year membership is charged to developers. Owners get two-year membership into R2R, which the developer massages into fractional purchase price. Owners then have a $199/year renewal fee and a $275 exchange fee. R2R may not have all the bells and whistles of The Registry Collection and Preferred Residences but it targets a bit lower demographic.

Luxury Fractional Exchanges is new to the game and looks to supplement the other companies, not compete with them. LFE focuses on one-off homes that have been fractionalized and private homeowners that can't afford RCI or Interval or their subsidiaries. LFE partnered with Exclusive Exchanges, which gives owners immediate access to more than 1,000 private homes around the world. LFE caters specifically to developers and owners that don't want to deal with numerous charges, long waits and sometimes confusing point systems of the large exchange programs. It can also fit nicely as a second program for owners that wish to expand their location options beyond that of their current exchange network. **Lisa Rohner**, director of sales and exchange, sees things coming back this year. LFE has a portfolio ranging from a $20M house in Scottsdale, Ariz., to an average home in Hawaii. Properties must meet certain standards. Owners get unlimited exchanges for a $150 fee. Rohner expects to see drive-to locations become a hit in exchange this year, with less people flying. In the last three months, the hottest listing on LFE's site was for a log cabin in Nebo, N.D. Rohner also saw the company's biggest spurt in web traffic on Thanksgiving.

TIMESHARE EXCHANGES

Group RCI delivers despite the tough operating environment. The group's vacation exchange and rentals full year revenue grew by $25M or 2%, with adjusted EBITDA up $10M or 3% compared to 2007. For Q4, revenue was $250M, down 11%, and adjusted EBITDA was $63M, up 13% compared to 2007, reflecting cost controls and favorable impacts in hedging activities. RCI continues to add upscale affiliations, including the recent addition Disney Vacation Club and its more than 135,000 member families and nine resorts. While member growth held up in 2008, CEO **Steve Holmes** expects a slowdown in organic member growth in 2009 as timeshare developers reduce sales and marketing programs, so RCI enhances its marketing messages and launches renewal campaigns and promotions to drive transactions. This year is the firm's 35th anniversary, and RCI rolls out a series of sales and marketing events, including a deposit and exchange campaign and RCI WebTV programming. To drive more transactions online, RCI rolled out a price increase for call center exchange transactions, while holding prices constant on the web. The new search technology and pricing initiatives have already resulted in increased web transactions, with the North American region reaching 25% in January, up from 17% last year.

Interval International's revenue grew 9% or $28.5M in 2008. Total member revenue increased $26.4M, or 8.8%. Active members remained relatively stable at approximately two million members, a 1.9% increase over 2007. Average revenue per member increased 5.2% and transaction revenue increased $15.6M, or 9.2%, primarily due to a 5% increase in volume for exchange and getaway transactions coupled with an increase in price of 0.5%. An increase in reservation servicing fees represented 3.6% of the 9.2%. Membership fee revenue increased $10.2M, or 8.3%, due to an increase of 4.7% in average membership fees.

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Once credit issues are resolved, Interval expects growth to be driven by increased consumer awareness and acceptance of shared ownership; adoption of legislation and regulations internationally that improve consumer protection and allow businesses to operate profitably; the entry of additional independent developers and brand-name hospitality companies into the vacation ownership industry; and demand for vacation ownership products in the U.S. and elsewhere.

Dial an Exchange (DAE) sees about 30% growth in exchanges over each of the last three years, with more than 250,000 members. Ninety percent of those are individuals, with developers making up 10%. The company has 250,000 members and doesn't use resort affiliation and instead has marketing agreements. Revenue sharing is used instead of depending on resorts for acquisitions. If a resort comes to DAE, there is no charge. DAE gets marketing access to the resort's member base, and if members come to DAE, they get a percentage of the revenue back. DAE has been around for 12 years, but just came to the U.S. about five years ago from Australia. There is no membership fee and the cost is $125 for a domestic exchange and $150 for international. A premium membership is offered for $89/year, which gives owners a 10% discount on exchanges, waiting list priority and other incentives. VP of North American Operations **Fermin Cruz** knows DAE makes less money and has fewer revenue streams than RCI or II, but that allows it to create an efficient business model. DAE also partners with rental company Redweek.com and its 1 million online members of which 300,000 are timeshare owners. If a timeshare doesn't rent, Redweek opens it up to DAE exchange. The company is also the operating entity behind **Fairmont Hotels'** exchange program. DAE markets directly to consumers, by being active in timeshare forums and other places its competitors don't frequent.

SFX picks up six new developers from the recent ARDA conference and sees strong numbers since the New Year. The five-star and gold crown exchange company overall saw record numbers in January, up 15% from its previous record month. February and March didn't break records, but were still stable. April takes a bit of a hit but President and CEO **Mel Grant** attributes that to Easter break and income and property taxes being due. SFX began in 1992 and now has more than 100,000 members, with no plans to ever grow to the size of RCI or II. The company expands by adding a cruise component with Ice Gallery. There are no developer fees and owners don't pay until an exchange is made, and then there is a $159 cost. SFX's platinum membership does have an annual fee of $299 for five years and a $129 exchange fee. Also, owners in SFX can access resorts that are in multiple exchange companies and not limited to just one company.

FOCUS TURNS TO THIRD-PARTY MANAGEMENT

The "AIG Effect" takes it toll on luxury and experiential resort companies that must now switch up strategies and slow their development roll, while waiting to see how things shake out. **Lowe Hospitality Group** and **Salamander Hospitality** focus on picking up third-party management contracts, while cautiously watching the acquisition market trying to determine when the real estate market hits bottom.

Hotel and resort execs hold trembling fingers on the trigger, trying to decide when they can release the safety. Properties that are selling for $100K/key right now, were double that a few years ago. But do hoteliers wait and hope it drops to $70K/key so it can be turned around for say $160K/key, or do they pull the trigger now? It's all about timing the bottom and depending on who you listen to, that could be now, three months from now, or sometime early 2010. In the meantime, third-party management contracts are an ideal way for companies to grow, as the number of struggling properties is expected to escalate over the last half of the year and RevPAR won't turn around until at least Q3 of next year. Global bookings for high-end hotels fell almost 30% in January and about 25% in February and March, making it key to have strong operations in place to ride out this storm. Lowe Hospitality's SVP **Mike Everett** sees a lot of interest from lenders looking for a short-term management deal for properties they have to hold for two to three years.

Lowe focuses on increasing **Destination Hotels & Resorts** (DHR) third-party management portfolio. The company has been somewhat under the radar with third-party deals, with only 14 of its 33 properties being third-party contracts, but look for that to change. Lowe's goal is to pick up a few new contracts this year and the next.

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Lowe also tests the waters on a few acquisition opportunities after not making a buy since 2007. For funding, Lowe seeks investors without an operating arm. Insurance companies have piqued Lowe's interest recently, as they are in a better position from a liquidity standpoint, but nothing has panned out so far. Lowe has worked with pension funds in the past, but they are obviously very quiet right now. It's not easy to find the caliber property that DHR wants in its portfolio, but Lowe has a good handful of relationships on the debt side and sees some intriguing urban deals in last few months in the $20M to $30M range where they could find a 50% loan on properties with cash flow. A long list of resorts throughout North America and Mexico and a shorter list of hotels in the top 25 urban markets that need a strategic shift, or value add are eyed for both management and acquisition. Lowe targets a five- to seven-year hold for acquisitions, even though in the past it moved its assets a little faster than that. Lowe likes to buy assets that are unencumbered by brand and management, so DHR can take over the operations.

Salamander Hospitality sees increased interest in management deals with a number of owners coming to the company for help with struggling properties. President **Prem Devadas** believes the company's first-hand knowledge of being a developer, owner and manager gives Salamander flexibility to work out management contracts depending on the owner's situation. Lower fixed-fee structures are possible, as the company likes to deliver incentive-driven results for owners. The company's Q1 EBITDA is up about 10% from last year at its **Innisbrook Golf Resort and Club** and **Woodlands Inn**, proving the management team has what it takes. Salamander's VP of Business Development **Chuck Pomerantz** left **Wyndham** to open the **Gaylord Texan** and has owned several restaurants as well. Sales and marketing guru **Patricia Tang** joins the staff after more than 10 years working in the luxury market. Devadas has more than 20 years in hospitality, including directing the development and opening of **The Sanctuary at Kiawah Island.**

Like Lowe, Salamander seeks special properties for acquisitions but Devadas thinks the best values are still a ways off. Backed by the equity of Founder **Sheila Johnson**, the company pulls in the reins on the construction of the 168-room **Salamander Resort & Spa** in Middleburg, Va., delaying the opening for a year to March 2011. Construction will cost well over $100M and is about 55% complete but Salamander decided recently to slow construction, not wanting to try to ramp up in this dismal economy. With no five-star properties in the area, the 340-acre property is sure to be a hit, located in the middle of horse and wine country. The resort, which will cost well over $100M, is master planned to include 61 homesites, 48 high-level apartments and 35,000 s.f. of commercial space. Twenty-two equestrian stalls will also be included to lure in the huge international equine tourism market in the Northeast from March through November. ADRs are expected to vary from $300/night to $600/night depending on season for a room averaging 540 s.f.

DEVELOPMENT PLANS MOVE AHEAD

Plans for new resort developments slug along, with developers hoping to get shovels in the ground in time for the much-awaited economic rebound. **Dunavant Enterprises** isn't in a huge rush to dig dirt but keeps the approval process moving ahead on its $500M hotel and condo project in Crystal Beach, Fla. **West Coast Investors LLC** snaps up the bankrupt **Tesoro** development in Port St. Lucie, Fla., for $10.99M with plans to turn the golf community into a golf and equestrian community. **Grupo Grand Coral** sees sales moving at its $2.5B resort community in Playa del Carmen, Mexico, and prepares to break ground by year's end on its next phase.

Dunavant Enterprises gets tentative preliminary approval for its **Henderson Beach Resort** hotel and condo project. The project could help the declining Crystal Beach area boost property values with **Sandestin** to its east and the redevelopment of **Destin Harbor** planned to the west. The Destin City Council gave approval pending four conditions, which Dunavant's **Bill Hagerman** needs time to work out and may cause the development to stall. Dunavant must buy more land so the floor area ratio isn't too high, the state must approve the tower, Dunavant must secure ownership of a piece of land it plans to give to the city and it must provide a five-foot beach access to the public.

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CONTACTS

Baymark Construction Corp.: 1100 Eaglewood Drive Suite C, Virginia Beach, VA 23454, Richard Foster, President, (757) 491-1240.

Briar's Creek: 4000 Briar's Creek Lane, St. Johns Island, SC 29455. ·Chuck Dennis, Director of Real Estate, (843) 768-3050, fax (843) 768-3026.

Brunswick Forest: 1007 Evangeline Drive, Leland, NC 28451. Jeff Earp, President; Brandy Marshall, Marketing Coordinator, (910) 371-2434. bmarshall@brunswickforest.com

Dial an Exchange: 7250 N. 16th St., Suite 402, Phoenix, AZ 85020. Fermin Cruz, VP of North American Operations, (602) 516-7681, fax (602) 674 2645. fermin.c@daelive.com

Dunavant Enterprises: 3797 New Getwell Road, Memphis TN 38118. Bill Hagerman, SVP Real Estate Operations, (901) 369-1500.

Group RCI: 7 Sylvan Way, Parsippany, NJ 07054. Geoff Ballotti, President/CEO, (973) 753-6300. geoff.ballotti@rci.com

Grupo Grand Coral: Bv. Kukulcan Km 12.5, Centro Empresarial Cancun, 77500 Cancun, Quintana Roo, Mexico. Jordi Mercade, CEO, +52 (998) 883-1582. info@grupograndcoral.com.mx

Hearthside Builders: 104 Potomac Court, Winnabow, NC 28479. 910-371-9094.

IF Development: 807 Rock St., Suite 103, Georgetown, TX 78626. Robert Cowes, VP of Real Estate, (512) 930-5558. rcowes@yourifteam.com

Interval International: 6262 Sunset Drive, Miami, FL 33143. Craig Nash, CEO, (305) 666-1861, Ext. 7267. craig.nash@intervalintl.com

KemperSports: 500 Skokie Blvd., Suite 444, Northbrook, IL 60062. Josh Lesnick, President, (847) 850-1818, fax (847) 291-0271. www.kempersports.com

Koenig Construction: 3690 Bohicket Road, Suite 4B, Johns Island, SC 29455. Steve Koenig, Owner, (843) 768-0842. www.koenigconstruction.com

Lindal Cedar Homes Inc.: P.O. Box 24426, Seattle, WA 98124. Sir Walter Lindal, (800) 426-0536, fax (206) 725-1615. info@lindal.com

Lord Baltimore Capital Management: 6225 Smith Ave., Suite B-100, Baltimore, MD 21209. Matt Long, Chief Investment Officer, (410) 415-7600, fax (410) 580-9250. info@lordbalt.com

Lowe Hospitality Group (Destination Hotels & Resorts): 11777 San Vicente Blvd., Suite 900, Los Angeles, CA 90049. Mike Everett, SVP, (310) 820-6661. meverett@destinationhotels.com

Luxury Fractional Exchanges (A Division of Luxury Fractional Guide): 34 Killarney Drive, Burlington, VT 05408. Lisa Rohner, Director of Sales and Exchanges, (203) 284-0216.

McClure Custom Builders: 2501 Ina Ave., Cody, WY 82414. John McClure, Owner, (307) 527-9985. jrmcclure@mcclurecustombuilders.com

Preferred Residences: 6262 Sunset Drive, Miami, FL 33143. David Gilbert, EVP Resort Sales & Marketing, (305) 925-6813, fax (305) 668-3499.

PrecisionCraft Log Homes & Timber Homes: 711 E. Broadway, Meridian, ID 83642. Jim Young, Owner/President, (800) 729-1320. jyoung@precisioncraft.com

Premier Homes of Wilmington: 201 Estuary Court, Winnabow, NC 28479. Bob Weinbach, Principal, (910) 371-2866.

CONTACTS

Registry Collection, The: 4901 Vineland Road, Suite 250, Orlando, FL 32811. Gregg Anderson, VP, Global Project Manager, (407) 248-0240. gregg.anderson@rci.com

Resort to Resort: 326-375 Water St., Vancouver, BC V6B 5C6. T. Dean Kneider, Director, (604) 692-2999. dkneider@intrawest.com

Reverie on the Ashley: 4250 Faber Place Drive, Charleston, SC 29405. Ben Gramling, President, (843) 377-0194.

Robert Morgan Fine Homes: 672 Marina Drive, Building E, Suite 201, Charleston, SC 29492. Bob Lee, Owner, (843) 284-0316. www.robertmorganfinehomes.com

Rocky Mountain Log Homes: 1883 Highway 93 S., Hamilton, MO 59840. Mark Moreland, Jim Schueler, Owners, (406) 363-5680, fax (406) 363-2109. sales@rmlh.com

Salamander Hospitality: 100 W. Washington St., Middleburg, VA 20118. Prem Devadas, President, (540) 687-3710. pdevadas@salamaderhospitality.com

SFX: 1900 N. Loop Road, Alameda, CA 94502. Mel Grant, President/CEO, (510) 749-3737. mel@sfx-resorts.com

Urban Design Associates: Gulf Tower, 31st Floor, 707 Grant St., Pittsburgh, PA 15219. Don Carter, President; Lori Sipes, Marketing Coordinator, (412) 263-5200, fax (412) 263-5202. lori.sipes@urbandesignassociates.com

West Coast Investors LLC: 11198 Polo Club Road, Wellington, FL 33414. Glenn Straub, Principal.

Worthington Group (Copperleaf): 93 Copperleaf Drive, Cody, WY 82414. France Kudelski, Director of Sales, (307) 272-5531. france@discovercopperleaf.com

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Memphis-based Dunavant, which has been sitting on the land for more than three years and isn't in a huge hurry to start development, proposes its public benefits to include parking, an observation tower, a 30-foot view corridor to the Gulf and putting utilities underground. The project will contain a 150- to 220-room luxury hotel, more than 300 condos and a mile of adjoining beachfront with views across the park to the Gulf. Dunavant also has the **The World Golf Village** near Jacksonville, Fla., to its credit and it owns a bed-and-breakfast in the area. Pittsburgh-based **Urban Design Associates**, created the master plan and Destin-based **JGM Development** is the project development manager.

Polo magnate **Glenn Straub** leads West Coast Investors LLC in the purchase of the Tesoro development, capitalizing on struggling properties, the same thing he did during the economic slump 20 years ago. Straub, who also owns **Palm Beach Polo Golf & Country Club** in Wellington, Fla., plans on buying more property just east of Tesoro and looks to build an extensive equestrian complex including stables, show and training rings and everything else equestrian to the community. Straub envisions it being a satellite to the Palm Beach club. This deal should get done, as the company is debt free. Equestrian fanatics will be the target demographic for the 353 lots. Ginn Co., Tesoro's developer, filed for Chapter 7 in December after defaulting on its loans. About 140 homes have already been built. The purchase also includes a golf course, 11 acres of commercial property and an 115,000-s.f. clubhouse. A second golf course lease is also included.

Grupo Grand Coral lays out its plans for a 6,900-unit resort condominium community on 561 acres in Playa del Carmen. The $2.5B project will include hotels, an 18-hole **Nick Price** golf course, entertainment venues and retail components. More than $700M has already been invested and a 300-unit luxury beachfront condo community, **Mareazul**. Residences start at $600K, and about 130 have sold so far. American's interest in the property came to a complete stop in October, but some buyers from the U.S. are starting to pop up again. Only 7% of the condos have sold to Americans with 40% going to Mexican nationals and the rest to Canadians and Europeans. Grupo Grand Coral CEO **Jordi Mercade** will be flexible in pricing depending on the economy. The company provides 70% financing at 6% interest rate through Spanish financial house **Bancaja**, which is also an owner in the development along with **Banco de Valencia**. A rental management program is also offered to buyers. Another 250 units will begin construction at the end of the year. The remainder of the development will be based strictly on demand.

RESORT COMMUNITIES STRUGGLE FOR SALES

Real estate developers **Lord Baltimore Capital Management** (LBCM), the **Worthington Group**, **Baymark Construction Corp.**, **Koenig Construction** and **Ben Gramling III** see mixed results in their second-home and retirement communities, as the recession continues its drain on vacation home sales. Companies find different ways to battle the economy, and there are many key factors in a development's sales success.

Offering a wide variety of homes and homesites, an array of amenities and a strong and stable developer spurs strong sales. Of course, a strong sales and marketing team is also key, as vacation homes dropped more than 30% to 512,000 last year from 740,000 in 2007 and prices fell to $150K in 2008, down 23% from 2007's $204K. Unfortunately, many companies feel now is a good time to cut marketing costs, which could be their first mistake. The median price of vacation homes was down about 23% from 2007, to $150K last year, making it a good time for buyers with the qualifications to start seeking properties. So getting prospects to a property now may make for a more prosperous future once the cycle turns. No one can argue that buying a property for 30% to 50% less than its asking price from 2007 is a strong investment and shutting down marketing programs can put a resort property behind when buyers start to emerge.

Things have changed for sales' teams. **IF Development** tasks its squad with making 125 calls a week, as **Robert Cowes**, SVP of real estate and interactive marketing, states that it takes seven phone calls and a total of 25 interactions to get a prospective qualified buyer to come out. Over the last few years, salespersons were basically order takers, now it's time to get back to work. The industry benchmark is 20% to convert leads to tours, and out of that, 10% of those should go to contract.

IF, which is led by CEO **Jeff Novak**, President **Will Furrer** and Managing Partner **Tony Boselli**, all former NFL players, is at 5% right now, and while that may be below the industry benchmark, in these times it's not bad. In the past, a sales team only had to bring back a prospective buyer one or two times, now it takes three to four visits before a decision is made and it's taking six to nine months for that to happen instead of 30 to 60 days.

LBCM 's **Brunswick Forest** closes about 10 of the more than 20 new-home contracts signed this year and the developer expects to meet last year's mark of almost 142 sales. Home lots move slowly, however, with no sales this year so far in the Wilmington, N.C., community. The welcome center averages more than 85 visits a week and marketing efforts generated over 6,000 new prospects in 2008. **Matt Long**, president and chief investment officer of LBCM, is a North Carolina native and **Jeff Earp**, president of Brunswick Forest LLC, is a NC State alum along with Long, building confidence in buyers from the area. Since its opening two years ago, the 4,500-acre development set an area sales pace in excess of $200M. Marketing Coordinator **Brandy Marshall** takes new contracts daily, marketing locally and up the Northeast corridor using e-commerce, print media and real estate and trade shows. **BB&T Bank** also helps lure buyers as Brunswick's No. 1 mortgage lender.

The health-oriented community includes an 18,000-s.f. wellness and fitness center, an 18-hole **Tim Cate**-designed course, a clubhouse and more than 100 miles trails. It will also include a 40,000-s.f. medical office building that will house the New Hanover Regional Medical Center, a huge lure for second-home buyers hoping to eventually retire in the community. The golf course and medical facilities will open in the fall. **KemperSports** will operate the golf course, which will be open for daily fee, but will go private once supply and demand is met. An additional nine holes are planned as well. The MPC, which could one day house up to 8,000 homes, recently released three new neighborhoods. The *Shelmore Cottage* homes come in nine designs ranging from 2,100 s.f. to 2,750 s.f., three bedrooms, two to three baths, an optional flex room and a two-car, rear-load garage starting at $379K. **Shelmore Homes LLC** and **Hearthside Builders** are building the cottages. *Belshaw* at Brunswick Forest is being developed by **Premier Homes of Wilmington**. The English Tudor-style homes come in five models ranging from 1,800 s.f. to 2,300 s.f. for $359.5K. The low-maintenance, single-level homes in the *Ashwood* neighborhood are being developed by Hearthside Builders. The homes range from 1,500 s.f. to 1,800 s.f. and start at $239K.

The Worthington Group sells a riverfront lot at **Copperleaf** in the last few weeks, but things have definitely been slow in the Cody, Wyo. Sales are expected to pick up once the summer season rolls around, as the state doesn't see the foreclosures and short sells of other regions. The 550-acre development began taking reservations for its 141 homesites about four years ago and closed 35 homesite sales in late 2007 and 2008.

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Homesites range from $180K to $240K for inland sites, while riverfront lots go from high $300K to $500K. Preferred builders for the community include **McClure Custom Builders**, log home manufacturer **Rocky Mountain Log Homes**, **PrecisionCraft Log and Timber Homes** and **Lindal Cedar Homes**. Worthington finishes up its first of 12 villa buildings — the only thing Worthington is building itself — that will include 24 individual 2,100-s.f. three-bedroom, one-story units for $569K to $589K. The first building sold quickly, but thanks to the economy many buyers dropped out. The community is located at the east entrance of Yellowstone Park in the town with about 9,000 people. There is a golf course and country club, as well as a recreation center in town. Most purchasers are second-home buyers, in their 40s to 60s coming mainly from California, Arizona and Nevada. Marketing includes everything imaginable but mostly communicating with Worthington's database via a newsletter. Print media ads are being cut back after showing weak results.

Baymark Construction Corp. sees 3 sales at its **Bay Creek Resort and Club** on the Chesapeake Bay in Virginia. The 1,780-acre community features waterfront and golf view homesites, wooded estates and custom townhomes. Homesites range from $100K to $420K, while condos and townhomes start in the mid-$200Ks. Two signature **Arnold Palmer** and **Jack Nicklaus** golf courses run along the front. **Richard Foster** heads Baymark Construction. Two of Foster's Baymark communities — Bay Creek and **West Neck** — were chosen as "America's 100 Best Master-Planned Communities" by **Where to Retire** magazine. **The Bluewater Group-**managed marina offers access to the bay and the Atlantic Ocean and walking trails and a historic railway provide access to shopping and dining.

Briar's Creek on John's Island in South Carolina sells one homesite so far this year, with 16 sold in 2008. Developer **Steve Koenig** of Koenig Construction starts the lots in the $500Ks, the homesites in Phase 6 will be some of the last released in this exclusive private community. The previous section of estate homesites, released in November 2007 is nearly sold out. The 902-acre **Rees Jones**-designed golf community offers 80% LTV homesite financing with a five-year balloon or fixed rate up to 180 months from BB&T Bank. Koenig Construction and **Robert Morgan Fine Homes** are the preferred builders. A 13,000-s.f. clubhouse opened last year and the club's 300 members ($150K membership) must own a piece of dirt in community to join.

Reverie on The Ashley in Charleston, S.C. brought on IF to boost market presence and sales numbers, after seeing the group's success at nearby Briar's Creek. The luxury private marina condos are 10 minutes from downtown, set on 32 acres on waterfront of the Ashley River. The two- and three-bedroom condos about 1,700 s.f. and range from about $560K to $960K built by local developer Ben Gramling III.

The Crittenden Resort Report Team
Email: editor@crittendenresortreport.com

Customer Service
Tel: **(800) 421-3483** Fax: (415) 475-1516
E-mail: market@crittendenonline.com

Newsroom Tel: (949) 900-3717
Newsroom Fax: (949) 900-3760

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