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## SHORT-TERM SOLUTIONS FOR SOBERING TIMES

Cost-cutting measures prove a tempting short-term solution for a recession-stricken timeshare industry. **Wyndham Worldwide** lays off hundreds in a massive restructuring that could cost the company about \$32M over the next six months, but **Group RCI** might just have an answer with a whole ownership rental program. **Marriott Vacation Club International** (MVCI) rethinks its financing model to help offset a \$70M drop in sales revenue for 2008. **Diamond Resorts International** still has its LOI for a \$500M takeover of **Bluegreen** in place, despite some uncertainty over financing. **Shell Vacations Club** weathers the storm better than most, thanks to a reliance on independent contractors.

The economy leaves many companies with no choice but layoffs. Used to be that timeshare companies could bundle and securitize notes from financed sales for a steady stream of cash, but the global financial crisis makes that tactic a thing of the past. And without securitization, developers are more reliant than ever on prompt payment to see a profit. But these cutbacks don't necessarily mean that sales are grinding to a halt. Look for timeshare in the Western and Southern U.S. to remain strong — about 80% of buyers are likely to buy in either region within the next two years — while interest in the Caribbean (22%) and Mexico (15%) seems to lag behind the development booms there. Nearly 50% of all prospective timeshare buyers expect to vacation in the next 12 months.

Wyndham tightens its belt, trimming off more than 700 employees. That includes about 200 between its timeshare subsidiaries **WVO** and Group RCI. WVO refocuses on prospects with higher credit ratings and puts the brakes on developing, with the exception of the 281-unit **Desert Blue** in Las Vegas, still set to open in 2010. Restructuring costs for Wyndham could total as much as \$32M through Q1 2009. WVO sees the closures of a number of offsite sales offices, including Englewood, Colo., and Las Vegas — the latter of which has only been in operation for a little over a year.

RCI helps out Wyndham by pushing its new Rental & Exchange (R&E) program to encourage development of shared ownership properties. The program offers a value-add for whole ownership developers by letting owners put unused weeks into RCI's global rental pool, effectively turning whole ownership properties into timeshares and greatly increasing RCI's inventory. The company operates on a sale/return policy: If the units don't move, RCI returns them to the developer. SVP **Don Schmal** seeks out full resort communities for R&E, such as the **Ginn Laurelmor** under development in Boone, N.C. So far, R&E has fewer than 10 affiliates, but Schmal expects the program to attract developers of mixed-use resort communities. In the meantime, it gives RCI an in with whole ownership developers and a chance to educate them about timeshare.

The swiftly tilting global economy wreaks radical change on MVCI's business model. Where once the company encouraged buyers to finance through them, using a Marriott Rewards package as a carrot, and offered automatic credit card payments as an option, now owners must pay via either a coupon book or automatic withdrawals from a checking account. Chalk that change up to credit-poor owners and timeshare's increasingly dim prospects for profitable resale. The resale market may be alive and well, but that's largely due to sellers willing to take a loss. As property values drop, deeded owners are likely to be left with no equity whatsoever and simply walk away. But with a third party financing, MVCI's in the clear.

Expect MVCI's timeshare sales revenue for 2008 to come in as low as \$158M — down significantly from a previously predicted \$230M. The company sees no new residential sales for Q3 2008, and contract sales slump 12% across the U.S. and European markets. If President and CFO **Arne Sorenson**'s estimate of flat contract sales in Q4 2008 is correct, it'll be good news, especially in light of some \$45M in deferred gains from timeshare note sales and residential sales expected in Q4. But there's definitely light in that tunnel: Costs for timeshare development are down 20% (partly due to canceled projects), and plans for the redevelopment of the **Aston Maui Lu** hotel in Maui into a 338-unit timeshare are still in place.

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## SHORT TERM SOLUTIONS FOR SOBERING TIMES...

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DRI still has eyes for Bluegreen, and negotiates to leave the previously established exclusivity agreement in place while it scrambles to come up with the \$500M it pledged back in July 2008. No surprise that financing's a problem, but DRI's own recent cutbacks make the prospect of securing funds seem even less likely. Several sales centers shut their doors, including offices in Daytona Beach, Fla., Santa Fe, N.M., and Gatlinburg, Tenn. Rumor has it each had been losing about \$1M/year. Bluegreen has its hands full with both the economy — layoffs numbering more than 900 — and an extensive lawsuit in Pennsylvania alleging questionable marketing practices. The company leans heavily on its 185,000 members for sales revenue (around 45% so far in 2008): Sales to that demographic shot up 16% in Q2 2008 over Q2 2007.

Shell Vacations Club is a bit more recession-proof than its brethren. The company doesn't really have a sales staff to lay off. Instead, it has independent contractors. President **Tracy Sherles** secured \$100M before the credit meltdown specifically for development and acquisitions in 2008; bet on her to make use of it before the end of the year as she keeps the company in expansion mode. Sherles is in the midst of due diligence on Shell's purchase of the **Coco Palms Resort** in Kauai.

Elsewhere in the industry: **Westgate Resorts**, which posted \$1.1B in sales in 2007, lays off some 3,000 staff and enacts both a seven-month freeze on compensations and some serious pay cuts — as much as 50% for some. Look for CEO **David Siegel** to emphasize the company's rental program, but don't believe those whispers of bankruptcy ... **Pacific Monarch Resorts** closes down three sales offices with more to come, cutting close to 800 positions company wide ... **Island One Resorts** downsizes by 100 employees and enacts 20% reductions in pay for managers, in addition to cutting back on hours, to stay afloat.

## SALES SWING UPWARD WITH DOLLAR

A suddenly stronger U.S. dollar means that American developers who can scrape a few million together are likely to get more bang for their buck in Mexico and Canada. **Villa Group Resorts'** development on Banderas Bay generates \$12.4M in sales revenue for Q1 to Q3 2008, due in part to some generous consumer financing terms and a flexible usage plan. In British Columbia, **Mission Ventures** and **Signature Properties** each sell six condo units, but for different reasons.

As recently as July 2008, the peso was down to around \$9.9 MXN/\$1 USD. Since then, it's climbed to more than \$13 MXN/\$1 USD, easily the highest it's been in the last 20 years. Still, the exchange rate makes land acquisition and development a deal for American developers, and relatively favorable banking conditions in Mexico make it easier on buyers to find financing. However, the Canadian dollar trends the opposite direction. After hitting a high of \$1.06 CAD/\$1 USD in recent weeks, the loonie drops like a puck to nearly \$.80 CAD/\$1 USD, making an already attractive location for developers that much more enticing.

Sales at Villa Group's **Villa La Estancia Beach Resort & Spa** north of Nuevo Vallarta split fairly evenly between whole-ownership and fracs and generate \$12.4M in revenue so far in 2008. Expect nearly \$30M by year's end. Three whole-ownership residences and six 1/4 fractionals sell in the past three months. Director of Sales **John Vering** lets the market decide the unit mix and price points, just as Villa Group did at the 154-unit **Villa del Arco Beach Resort & Spa** in Cabo San Lucas. The Villa del Arco is 98% sold out and already in resales on its 1/4-share fracs. Also like the Villa del Arco, The Villa La Estancia sells its planned 132 units in 1/4 and 1/8 fracs and on a whole-ownership basis. The 1/8<sup>ths</sup> go for \$140K and the 1/4<sup>ths</sup> for between \$240K and \$500K, while whole-ownership units fetch as much as \$5.1M. Vering shoots for a multiple of 1.3 on the fracs. The units, which range in size from 2,500 s.f. to 3,500 s.f., are priced higher than 90% of the Vallarta market, but that's not stopping the buyers. About 50% of them are American, 30% Mexican and 20% Canadian; user-buyers greatly outnumber investors. Phase I's nearly sold out, with only one of 50 units still on the market, and Phase II's 50 are 65% sold.

Villa Group allows frac owners to convert to whole ownership at full value. This makes it easy for an owner to bring in a friend or family member to buy out a unit — and it's not uncommon for them to turn around and resell the unit as fracs themselves. The company also offers its own financing to buyers: 25% down and 75% financed, with AR not to exceed 10% and no qualifications required. That would be a good deal anywhere, but it's even better in Mexico, where loans often mean an 11+% interest rate, 3.5 points and origination fees. Don't be surprised if 60% of the resort's fractional owners trade up to whole-ownership within the next two years. Villa Group finances the development entirely through private equity and sales.

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## Sales Swing Upward With Dollar...

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Mission Ventures won't break ground on **Riverstone** in the Comox Valley in B.C., until 20 of its 71 condos are sold. Since June 2008, the development's seen six sales. Financing for the project is conditional, based on achieving 60% sell-out. President **Scott Butler** scores 80% financing from a conventional lender. Prices range from \$137K USD to \$216K USD on units that scale in size from 627 s.f. to 1,000 s.f. All units sell on a whole-ownership basis, and popularity depends on price points over any other consideration, with twos priced around \$200K USD emerging as an early leader. About half the buyers are investors looking for rental properties, while the other 50% are singles and couples looking for a second home (or, in some instances, a primary home). Development costs hover around \$162 USD/s.f. Between Riverstone and his other projects, such as the nearby Tides, Butler has some 700 prospects at his disposal, and eagerly awaits an expansion at the Comox Airport that can carry 787s full of buyers.

Signature records six unit sales since August 2008 at its 38-condo unit **Mandira By The Sea** on the waterfront in Comox. The condos, between 1,000 s.f. and 2,000 s.f., start at about \$240K USD for whole ownership. Units with good views of the water or the mountains sell fastest. Like Riverstone, Mandira has an even mix of second-home user-buyers and investors. President **Tom Novocosky** has more than 300 registrants eager to buy, but many are waiting on sales of other property they own to generate capital to buy in to Mandira. In today's housing market, don't hold your breath on that one.

## SKI RESORT DEVELOPERS GET CREATIVE

Snow or no, ski resorts face some tough times. Development of new ski areas slows to a trickle, making available land at existing ski resorts increasingly rare and valuable. In response, some enterprising developers such as **20|20 Group** and **Leavell-McCombs Joint Venture (LMJV)**, turn relatively little-known ski areas into international destinations or high-end private resorts. **The Atria Group** sinks some \$900M into Steamboat Springs, Colo., with plans for two separate resorts. And an investor with **California Mortgage and Realty Inc. (CMR)** picks up **Dyer Mountain Associates'** property in California for a scant \$200K, but whether they'll stick with the plan and develop a ski resort remains to be seen.

The recent spate of bailouts and bankruptcies in the financial sector takes a serious toll on the ski industry. Ailing credit-swap enthusiast AIG looks likely to sell **Mount Mansfield Ski Co.**, which operates Vermont's **Stowe Mountain Resort**, despite a \$123B bailout from the Fed. Odds are good the sale would put a hitch in the \$85M resort's residential development, currently under construction. Bankrupt **Lehman Brothers** was the primary financier for **Moonlight Basin** ski resort, which now faces layoffs and probable building delays in its own residential development. Despite this doom and gloom slicing through the segment, however, some developers still seek ways to get new product built.

Look for 20/20 Group to start selling its lots in Smithers, B.C., next month. The company has a \$75M vision for the small community of 5,200 people, with plans for hundreds of residences in a resort village. Financing for Smithers comes completely from conventional lenders — Canada's Big Five banks — and 20/20 put up the land itself as equity, for which it paid \$3.7M USD. Phase I includes 148 single-family home lots priced from \$113,300 USD to \$2.5M USD. VP of Sales & Marketing **James Schindel** expects the low-priced lots to drive sales early on, with price points steadily rising as inventory grows scarce. Schindel has about 300 local prospects, but hasn't even begun marketing to Vancouver, let alone Europe or the U.S. Count on strong interest from Albertans, major overseas markets (UK, Germany, Australia) and American buyers eager to take advantage of the suddenly weak Canadian dollar. If the currency markets hold, American resort developers are sure to make inroads in the Great White North as well. Up to seven phases are planned for the Smithers project, including a huge upgrade to Ski Smithers with a 5-mile ski run from the peak to the village and a runway expansion at a nearby airport. 20|20 leaves construction duties to a trio of preferred builders, but may build as well in later phases.

LMJV's \$1B plan for Wolf Creek moves one step closer to reality. The company settles its lawsuit with Wolf Creek ski area owner **Wolf Creek Ski Corp.** in Pagosa Springs, Colo., and enters an 18-month scoping process. Despite groundbreaking delays of more than five years, the presence of Principal **B.J. "Red" McCombs** virtually guarantees the equity needed to get the project off the ground. Plans call for 2,172 townhomes, condos and single-family residences on 300 acres, though the unit mix won't be available until year's end. At issue is the fact that the land is a National Forest Service inholding lacking highway access, which raises traffic and environmental concerns.

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## Ski Resort Developers Get Creative...

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Atira invests more than \$900M in a Steamboat Springs facelift split into two separate projects: **Edgemont** and **Thunderhead/Ski Times Square**. Anticipating future credit market difficulties, the company secured all its financing back in September 2007 from conventional lending sources.

PM **Garrett Simon**'s plan for Edgemont involves 124 total units, starting with 41 single-family residences in Phase I. Since hitting the market in June 2008, buyers have snapped up 20 units for sales revenue of \$45M. The 21 left on the market range in size from 910 s.f. to 4,100 s.f.; prices start at \$869K and top out at nearly \$5M. From high to low, sales remain fairly even across the board. Marketing focuses on direct contact during the ski season and a heavy reliance on one-on-one conversations, surveys and personal engagements to accurately gauge buyer interest. Buyers come from all over the country, but most are Steamboat loyalists and all are affluent. About 40% already own property in the area. Atira tries to make purchases as secure as possible for its buyers, paying interest on earnest money while holding it and offering price guarantees. User-buyers predominate, and about 75% make use of a rental program managed by a third-party company. Phase II brings another 66 units. Look for Edgemont to hit buildout in 2010.

Conservative estimates put Atira's redevelopment of Thunderhead/Ski Times Square at \$700M and rising. The mixed-use project, now in the entitlement process, includes dining, a spa, retail and a total of about 390 residences. PM **Mark Mathews** has an LOI to brand Thunderhead's 115 whole ownership residences, and plans on a more amenitized offering than Edgemont, with meeting space, a ski valet and other high-end appointments. Mathews expects 250 to 275 units at Ski Times Square, divided between whole ownership and 1/8<sup>th</sup> and 1/12<sup>th</sup> fracs. Demolition at this site ups the price tag. Look for these units to hit the market in summer 2009 and break ground in spring 2010. Though Steamboat's only four hours from Denver, Simon and Mathews don't consider it a drive-to-destination: Instead, the two are counting on a new terminal at Hayden Airport to mean a big boost in visits and buyers.

Dyer Mountain's new owner CMR picks up the 6,700-acre proposed ski area for a mere \$200K at auction in Lassen County, Calif. That's significantly less than the \$51M DMA CEO **Grant Sedgwick** hoped to sell the place for earlier this year to avoid bankruptcy. CMR holds all four deeds of trust on the property. Sedgwick's \$35M plans for 4,100 luxury residences, three golf courses and 600 acres of skiing could still go forward under the site's new owner, since Lassen County's development agreement with DMA is for the land itself, not a particular company. Look for word from CMR by Q1 2009.

## DEVELOPERS LURE BUYERS SOUTH WITH EASIER FINANCING

South-of-the-border developers welcome retirement and second-home buyers with open arms and easier financing. Presales power development of **Central De Arquitectura**'s \$200M resort in Baja California. **Canyon Equity LLC** has the right place in Costa Rica — now it's just a matter of finding the right time to break ground on a \$204M second-home development. **Fonatur**'s new Cancun-like resort community south of Texas stands to draw more than \$4B in investments from North American developers. On the Pacific Coast, **The Flagship Group** plans a \$100M partnership with Tiger Woods.

As American retirees and second-home seekers make a break for the border, financial institutions and title and insurance companies are bound to follow. But with American retirement accounts dropping an aggregated \$2 trillion since summer 2007, retirement and second-home purchases are becoming harder than ever. The average loss is 20%, but private retirement plans heavily dependent on the stock markets could see still greater declines. As of early October, 20% of workers 45 and older have stopped putting money in a retirement account. Almost 25% now work more hours, and more than 30% are considering delaying retirement altogether. The net result: a shrinking supply of potential second-home buyers and retirees. Fortunately, Mexican and Spanish banks make it easier for buyers to finance purchases in Mexico, likely with lower mortgage payments than they'd have with a second home in the U.S.

Central De Arquitectura plans 394 luxury residences at **Naos** in Rosarito Beach, with development costs of \$200M. At only a 27-minute drive from downtown San Diego, Arroyuelo expects Naos to pull in American second-home buyers with its blend of easier financing and lower HOA fees (around \$400/year), as well as its seaside location. Financing comes from **IXE Bank**, with a 30% / 70% split and an interest rate of about 9%. Look for Naos to score some more serious financing in December 2008. Loans are transacted in USD. Credit's still hard to come by in Mexico, but it's easier than in the U.S., and Partner **Juan Pablo Arroyuelo Estrada** is just happy to have found any at all.

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## Developers Lure Buyers South With Easier Financing...

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IXE's money comes with mandated sales goals, and presales form a significant portion of the financing. Friends and family presales began three months ago, and 46 units have sold. Arroyuelo's confident about hitting the 50-sale groundbreaking prerequisite by year's end. Of course, those presales were literally to friends and family — buyers paid anything from \$50K USD to 50,000 pesos for reservations — so they're not representative of the actual market. Most of Naos' residences — about 315 — are two beds, with the rest split between ones and 20<sup>th</sup>-story penthouse threes. At 1,100 s.f. to 3,000 s.f., the units are on the big side. Prices start at \$300K and top out at \$800K, with an average of \$430K. Naos' rental program, will be managed by a third-party company from Los Angeles that is well-positioned to take advantage of the coming tide of business travel.

Canyon Equity has 42 acres on the 2,300-acre Papagayo Peninsula in Costa Rica set aside for the \$204M **Peninsula Papagayo Resort**. Expect buyer demographics similar to the Four Seasons in Papagayo: high-net-worth American retirees, second-home buyers and corporate business. Plans call for a 62-room hotel, as many as 34 villas and a 14,000-s.f. spa. The villas should come in at around 5,000 s.f. and cost as much as \$6.5M. Managing Director and CEO **Homi Vazfidar** has yet to pick an operator for the hotel and residences, but he's shortlisted a few candidates. Vazfidar's given up on conventional financing for the time being. He is content to sit on the land until banks warm to ground-up developments again, which he guesses will be in 2009 — or until a financing partner comes along. Vazfidar targets a mid-2011 opening.

Fonatur bets \$420M on a new Cancun in the state of Tamaulipas. Director **Miguel Gomez Mont** anticipates the new resort community around the little fishing village of **La Pesca**, 185 miles south of the Texas border, will attract more than \$4B in new developments — and that means a potential gold mine of opportunity for second-home developers sick of overcrowded Cancun and Puerto Vallarta. Look for Gomez Mont to buy land and work with investors to open more than 7,400 acres for development. Further word is expected by year's end. Mexican President **Felipe Calderon** also lines up properties in Sinaloa and Sonora for future resorts. The Sinaloa site should see some \$6B in development. For the Sonora site, south of Puerto Penasco, Fonatur will handle management and promotion, while a yet-to-be-named U.S. developer contributes as much as 24,700 acres and financing. Don't expect any progress there until the credit markets right themselves. Clearly, Fonatur's plans for La Pesca, Sinaloa and Sonora are likely to mean big bucks for American developers with the financing and infrastructure to make it happen.

The Flagship Group teams up with Tiger Woods to create Punta Brava at a cost of \$100M. Chairman **Brady Oman**'s broad marketing campaign relies heavily retirees and second-home buyers drawn to the Tiger Woods name. With price points for the properties starting at \$3.5M and running all the way up to \$12M, Punta Brava's prospects are likely to be affluent self-selectors. Bet on the units to hit the market by Q1 2009. The resort, 65 miles south of San Diego, breaks ground in Q1 2009 with a 2011 buildout. Residential components include 40 estate lots measuring 0.75 acres to 3 acres and 80 villas ranging from 4,500 s.f. to 7,000 s.f. Oman's group includes developer **Hal Jones LLC** and entrepreneur **Red McCombs**, who will foot the bill.

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