

DESTINATION CLUBS TRAVEL IN NEW DIRECTIONS

The wacky world of destination clubs gets more topsy turvy as bankruptcies, restructuring and special assessments pop up on a regular basis. Clubs like **Abercrombie & Kent**, **Exclusive Resorts** and **Equity Estates** look to distance themselves from their troubled counterparts. And it's no wonder why. The second largest destination club, **Ultimate Escapes**, wants \$20M in special assessments from its members. **Quintess**, the third-largest club, sells some of its properties and gets approval from its members to more than double its annual fees. Fourth-ranked **High Country Club** files Chapter 7 and No. 5 on the list, **LUSSO**, files Chapter 11.

Troubled operators can blame numerous reasons for their problems. Many bought their real estate at the peak and now see substantial decreases in value, while accruing massive debt. Also, with the economic tsunami hitting the global community, members that want to get out can't thanks to three-in one-out resignation policies, leaving many defaulting on their annual dues. Since properties are over leveraged, operators will be forced to consolidate and sell off homes, which then leaves a lot of members and few homes to stay at. It takes approximately \$60K to \$70K to maintain a \$3M house each year, and clubs that tried to keep annual dues low for members, failed to keep up. Ultimate Escapes seeks at \$15K/member assessment to cover operational costs, something that should have been figured into the original model. And some who question UE's upper management, see this year's assessment as just a stopgap for a few more months. LUSSO plans to file a restructuring plan by early February. The execution time for the options the company considers range from 45 days to several months. Quintess increased dues and introduced a \$275/night occupancy fee. The company also looks to reduce the size of its home portfolio by around 15% from 80 to about 70 homes. HCC was in the midst of restructuring but filed Chapter 7 last week, listing hundreds of creditors, claiming \$25M in debt and \$20M in assets.

Despite all the chaos hitting the segment, some models are secure, so look for mergers as smaller clubs look to grow. It's likely some big hotel operators like **Starwood** and **Marriott** will join the fray by year's end as well, picking up some of the stronger clubs with profitable models that will quickly put them in the destination club market. Below, *Crittenden Resort Report* takes a look at some industry giants like Exclusive Resorts, as well as new up and comers with trendsetting models, like Equity Estates, **M Private Residences** and **Everlands**.

EQUITY ESTATES

The luxury vacation home fund grew by 20% in Q4, and President **Adam Capes** believes January will finish strong as well. Equity Estates, a Reg D private offering, is one of the most interesting models out there and one that is sure to be duplicated by others. You can bet on Equity Estates adding additional funds in the future with different price points and market segments targeted as well. Equity Estates will sell up to 300 full shares of Fund I at a cost of \$325K/share. Annual dues are \$16.5K or \$550/night, which covers taxes and maintenance on the homes that average \$3M. Only accredited investors can apply and a key component is that the fund's debt is capped at 23%. By keeping debt low, annual dues can remain low. The fund will close in 2021 and real estate will be sold at that time. At the close of the fund, owners will get back their initial investment as well as an 80% share of any real estate appreciation. So, if the fund's property values grow by just 7% over 12 years that will result in owner/members not only getting all their money back but having enough equity leftover to have paid for all their annual dues as well. Equity's fund will only buy new properties as it sells new memberships. The fund owns 7 properties around North America and is set to close on another on the East Coast in the next several weeks. The fund looks to have 35 destinations in three to four years. Properties will hold a 7:1 member/home ratio and are booked on a first-come first-serve basis. The fund has 61 members, with 47 full memberships. Full memberships are 30 nights per year and the fund offers a one-in one-out resignation policy.

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