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Researcher Predicts Luxury Fractionals Will Be The First To Emerge From The Downturn

[Eugene, OR] The luxury fractional segment of the vacation home market will be the first to rebound from the current real estate morass, according to Dr. Richard Ragatz, well-known real estate researcher.

“The fundamentals of the vacation home market have changed,” Ragatz stated. “The days of buying a three-million-dollar house on the beach or at a ski resort with the expectation of 20% annual appreciation are gone for the foreseeable future.”

Ragatz noted that most luxury vacation homes sit empty for the majority of the year. “In the past, owners could justify the high cost and low utilization based on a significantly higher re-sale price,” he said. “Based on recent events, it’s difficult to imagine that scenario continuing in the next few years.”

The top-tier fractional products are known as residence clubs. These clubs typically are expensive resort developments in which six to ten households share ownership of each residence. A club staff cares for the property and provides hotel-like services. Club reservation policies dictate use -- which is unlimited, subject to use by other owners -- much like tee time privileges at golf country clubs.

Dr. Ragatz and his Eugene, Oregon-based company, Ragatz Associates, have tracked the resort real estate market for many years, especially the fractional ownership segment. He noted that fractional sales have increased dramatically during the past five years and grew in 2007 despite the real estate downturn. However, he expects these sales to be off in 2008.

“The financial crisis has affected every part of the real estate market,” Ragatz said. “But I believe, in the long term, recent events will enhance the attractiveness of the high-end fractional products as compared to whole ownership.”

Ragatz's statements are echoed by Steve Dering, a pioneer of the residence club industry.

Dering is a partner in Chicago-based DCP International, a firm that has assisted real estate developers in bringing more than 20 residence clubs to market in the U.S., Mexico, Bermuda, Italy and Scotland. Locations

include ski, beach and golf resorts as well U.S. and European urban locations. DCP's first project, the Deer Valley Club in Park City, Utah, opened in 1992 and has served as the prototype for the industry.

"There's no question that our sales have slowed during this downturn," Dering said. "However, we are now in conversations with developers, banks, and buyers of distressed properties who are positioning themselves for the turnaround."

Dering believes there are multiple reasons why his specialized product will be the first to rebound.

"Affluent households will always want a vacation home," Dering said. "Research shows it's second only to college educations for their children as the most desired, big-ticket discretionary expenditure."

"Our clubs, on average, have eight owners per residence and are designed to provide the amount of vacation time that is typical for a homeowner in the same location," he stated. "Therefore, the use is the same as whole ownership but the purchase price is far lower. Additionally, the shared annual ownership cost is significantly less than the cost of renting a comparable luxury home multiple times a year. When you factor in the abundant amenities and a private staff that takes care everything, it's more for less without the headaches."

"The game changer for us as compared to whole ownership is that our buyers do not have to sell other real estate to purchase at a residence club," Dering said. "And many do not have to finance, although financing is still available."

Dering said the increasingly influential "green" movement is also pushing buyers his way.

"Residence club owners buy only what they need," Dering noted. "We build one residence and satisfy eight families rather than building eight residences that would sit empty 70% of the year. We eliminate waste and have owners who feel they made the right financial and environmental decision."

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