

Orlando Sentinel

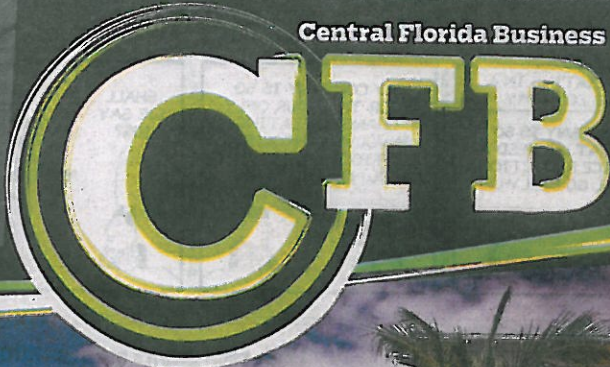
Can Disney, GM get deal on track? Kassab, CFB



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Central Florida Business



"Everybody seems to be working twice as hard to get half the results they did a couple of years ago."

Chris Hurn, CEO of Mercantile Capital Corp.



RITZ-CARLTON DESTINATION CLUB

Ritz-Carlton's Abaco resort in the Bahamas is on 534 acres beside a cove and includes an 18-hole golf course.

Destination clubs raise their profile

By Sara K. Clarke | SENTINEL STAFF WRITER

Secure America Acquisition Corp. was looking for a homeland-security company to acquire. Instead, it settled on a vacation-ownership company in Kissimmee called **Ultimate Escapes**.

The recently announced, \$186 million deal is a big one for the Kissimmee business, also known as Ultimate Resort LLC, which is the second-biggest "destination club" in the U.S. The takeover will allow it to become a publicly traded corporation, with at least \$20 million in new capital to help it expand.

The deal may also attract added attention to destination clubs, a niche market in the lodging business. Destination

PLEASE SEE **CLUBS, 4**

Disney, GM still mum on Test Track

The question of whether **General Motors** will continue to sponsor one of **Walt Disney World's** most popular attractions has the attention of the automaker's chief, but there's no sign a deal is imminent.

The future of GM's name on Test Track at Epcot was clearly on the radar of Fritz Henderson, who stopped into town last week on a post-bankruptcy, post-bail-out tour to schmooze with dealers.

"Nothing to report today," he told me when I asked about the latest negotiations between the two companies. He declined to say anything further other than, "We've had a great relationship at Epcot for many years."

A Disney spokeswoman was also vague on the topic. "We continue to have a relationship with General Motors and are having ongoing discussions about continuing this relationship in the future," said Kim Prumty.

It's believed that GM's 10-year sponsorship — for a reported cost of \$100 million — expired earlier this year, and both sides are working on coming to terms on a new agreement.

My bet is that neither side wants to lose the deal, espe-



Beth Kassab
Sentinel
columnist

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Cover story

CLUBS

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clubs operate on the premise that at least some of the world's richest people do not want the hassle of owning a second home and are willing to pay for now-and-then access to a collection of luxury houses in exotic locales around the world.

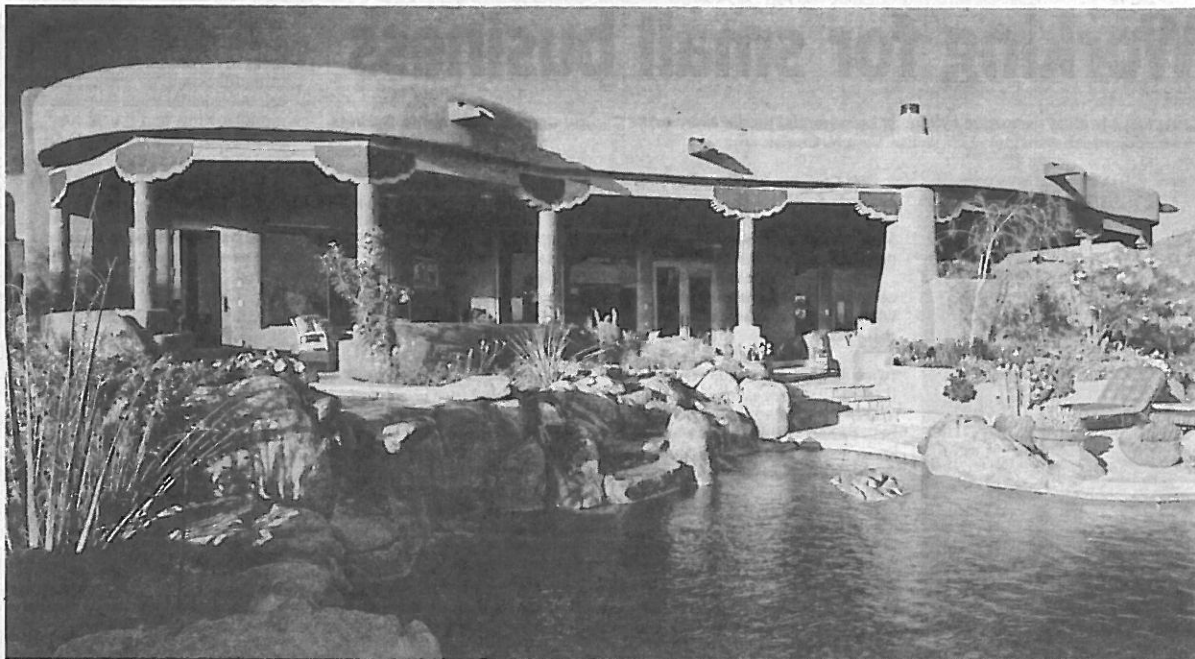
So far, the industry has produced mixed results. Some established destination clubs have filed for bankruptcy in recent years as real estate values have plummeted. But other clubs, including Ultimate Escapes, have been able to pick up assets from the bankrupt clubs. And earlier this year, the first major hospitality brand — **Ritz-Carlton Hotel Co.** — entered the destination-club business with an Orlando-based unit, Ritz-Carlton Destination Club, lending the market some credibility and cementing Central Florida's role in it.

After a decade of selling consumers fractional interests in particular luxury resort homes, Ritz-Carlton Destination Club now also offers customers the option of buying into a portfolio of properties instead of just a single location. "What we really were doing was listening to our members," Bob Phillips, the company's senior vice president and chief customer officer, said recently. "They wanted a variety of membership options that met their individual and very personal needs."

While demand for fractional units remains weak because of the economy, Ritz-Carlton's parent, **Marriott International Inc.**, said last week that response to the new portfolio membership has been favorable.

And even though Ultimate Escapes hasn't generated an annual profit in its five-year history, Secure America saw enough potential in the business to urge its shareholders to approve the deal.

"The destination-club market is a unique segment of the hospitality sector, with significant long-term growth potential," said Thomas McMillen, Secure America's chairman and co-chief executive officer. The publicly held company is a special-purpose acquisition company — also known as a "blank check company" — that is allowed to form without an actual business, just an intent to acquire an up-and-running business within a designated



ULTIMATE ESCAPES

One of 2 Ultimate Escapes' elite haciendas in Scottsdale, Ariz., this property features a heated pool, hot tub, an observation deck and covered patio.

period of time.

The destination-club market consists of a handful of major players and a larger number of smaller clubs. Consolidation has been a factor in keeping the field of competitors small; earlier this month, for example, Ultimate Escapes announced that it had gobbled up the industry's No. 3 company, **Private Escapes Holdings LLC** of Fort Collins, Colo.

The biggest operator in the business is **Exclusive Resorts** of Denver, which says it has more than 3,400 members and about 400 residences.

Membership in most destination clubs doesn't come cheap: Ultimate Escapes' initial fees, for example, range from \$70,000 to \$450,000, while a portfolio membership in the Ritz-Carlton Destination Club starts at \$130,000. And members generally pay an annual fee as well.

"It's clearly hitting an affluent demographic," said Nick Copley, editor of *SherpaReport*, an online publication that advises people considering club memberships. "It's successful professionals... [who are] wealthy, affluent, with a

reasonable net worth."

People like Brett Grossman, a father of two from Boerne, Texas, who bought one of Ritz-Carlton's first portfolio memberships. He likes the idea of variety: Thanksgiving in San Francisco, spring break in St. Thomas, a family ski trip next Christmas.

"Not actually having to worry about whether the pipes are bursting or who's taking care of the maintenance," he said. "It's enough to maintain my house, let alone one that's thousands of miles away."

While Ritz-Carlton offers its members a deeded, beneficial interest in its real estate portfolio, many destination clubs are "non-equity" clubs — which means members don't own anything tangible in exchange for the thousands of dollars in membership fees. Clubs often agree to return a large portion of the initial investment, under certain conditions, should the member want out.

That has earned non-equity clubs the nickname of "promise-me" clubs — and drawn the ire of the **American Resort Development Association**, the national trade group for the time-

share industry.

"If you're promising people that you're going to give them their money back, you better assure that you can do that," said Howard Nusbaum, ARDA's president. "It doesn't have the regulatory muster of any authority behind it. That concerns me."

Time-share executives fear that non-equity destination clubs may appear so similar to the time-share business that the time-share industry — which has had its own share of image problems in years past — could wind up bearing the brunt of a public-relations disaster should many clubs fail and leave their members empty-handed.

Time shares are now heavily regulated in many states, and bankruptcy law has evolved to include protections for time-share owners should a developer go bust. But government regulation hasn't caught up yet with destination clubs, said Dan Bachrach, a lawyer with **Foley & Lardner** in Orlando.

"Those protections — and a lot of the protections that the time-share law afford purchasers — may not apply to non-equity clubs," Bachrach said. "In a non-equity club, they [members] could

very well be left holding the bag, unless the club complies with the time-share laws."

Some established clubs have already gone under — and the resulting bankruptcy filings were "quite frightening," said Copley, the online publisher.

"What came out of those bankruptcy filings was the poor way that a lot of those companies had been run and managed," he said. His company advises prospective members to investigate the companies they are considering.

"Part of that due diligence includes looking at financial statements from the club," he said.

That is one thing that will become easier for Ultimate Escapes' members once the company goes public. Founder Jim Tousignant said regular financial disclosures will play a big role in reassuring potential members of what they're getting into.

"We've always been big believers of transparency," Tousignant said. "Now both members and prospects can really get comfortable with the business."

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