

Kelsey & Norden Resort Real Estate Report

Fall 2012 - Sales Specialist Survey

November 27, 2012



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Introduction

Impetus for the research

As practitioners in the field of resort real estate development, we launched the Kelsey & Norden Resort Real Estate Survey series in 2009. In the wake of the economic crisis, we had identified a void in the resort residential real estate industry for meaningful analysis and data that would identify the evolving market dynamics and trends, and the likelihood of those trends to be long-lasting or not. Past surveys have queried industry specialists and consumers. With this Fall 2012 Survey we've aimed to get the most current read on the market and consumers by reaching out to the people on the front line of our industry – sales managers, sales consultants, and sales brokers. We believe their responses to the most pertinent questions of the post recession period are critical - an industry professional may be inclined to speak to perceived trends, those on the front lines are seeing what is actually being sold.

For this survey we sought to find answers to these questions:

“Are conditions improving?”

“Who is buying?”

“What products do consumers want?”

“What are the great impediments to sales?”

“What marketing strategies are working?”

The Authors

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Christopher Kelsey is President of Long Cove Development, for whom he manages the development of Long Cove, a new community on Cedar Creek Lake, outside of Dallas. Chris now lives and works in Dallas, Texas but has focused the majority of his career in mountain resort environments. He has management experience in entitlements, general development, sales & marketing, operational assets and green design. Among other leadership assignments, he served as a Senior Vice President for Lowe Enterprises' \$1B+ Suncadia and Project Manager for Hines Interests' \$90M River Valley Ranch.

David Norden

David Norden is Founder of Owls Head Partners, LLC, a development manager serving as owner's representative for resort real estate developers and landowners worldwide. David has served as Executive Advisor for La Estancia de Cafayate, a 1500-acre sporting estate community located in the emerging wine region of northwest Argentina; Vice President of Development for Stowe Mountain Resort's \$500M Spruce Peak at Stowe in Vermont; and Project Manager for Hines Interests' \$280M Aspen Highlands Village in Colorado. Having successfully delivered these large-scale mixed-use projects from inception to operations, his expertise encompasses all aspects of the development process, including concept development, financial feasibility, entitlements, sales and marketing, construction management, and asset conveyance. Prior to this, David was a Principal of SE Group, providing him with a keen understanding of the interface between real estate and resort operations.

Claire Humber

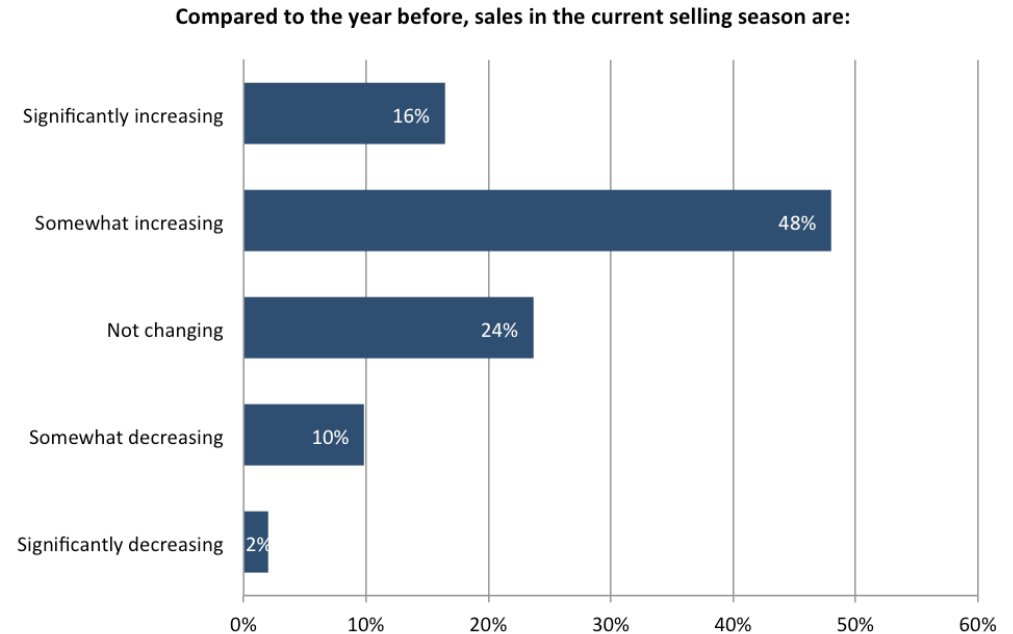
Claire Humber is the Director of Resort Planning with SE Group, a multidisciplinary consulting firm specializing in the planning, design and development of mountains, resorts, and communities. Claire has been a part of the SE Group team for over 20 years, and has led mountain resort development projects throughout Canada and the United States, Scandinavia, Iceland, Korea and Japan.

Lindsay Kennedy

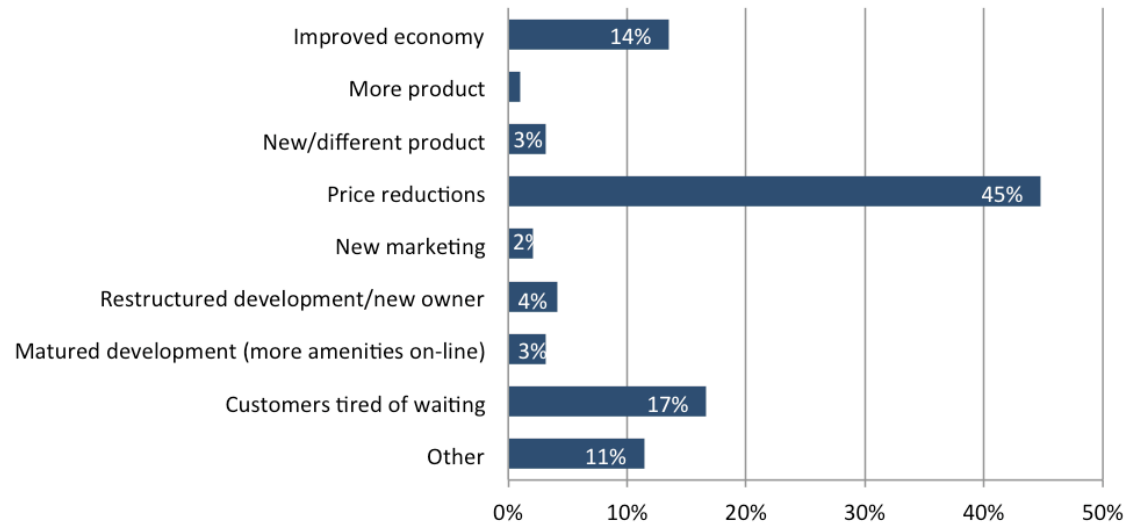
Lindsay Kennedy is a marketing consultant specializing in resort project branding and product launches. Lindsay branded and launched Stowe Mountain Resort's Spruce Peak at Stowe and La Estancia de Cafayate, a community in the northwest of Argentina in addition to working with developments in the U.S. Rockies and Central America. More recently, Lindsay managed a health and development project in rural Colombia.

Overall Outlook: Moderate but Pervasive New Optimism

Our most important overall finding is that our industry's front line reports increased sales activity and optimism. Though modest, sales specialists are clearly expressing improvement in outlook and sales velocity from the same time last year. 64% of survey respondents report that their sales activity has increased since last year while only 12% report a decrease. Hearteningly, this appears to be across the board, with all major geographic concentrations registering increased sales activity. Northeastern sales specialists, however, registered the smallest gains; but the Northeast, U.S. is the region that has remained the most stable through the recession (slowed the least) so less improvement is to be expected.



You say that sales are significantly or somewhat increasing, what is the primary factor driving this increase?



Curiously, when we examine reports of sales activity divided between sales associates and sales managers, 71% of sales associates indicate that their sales are increasing while only 54% of sales managers say the same. This difference in perception could be attributed to sales associates projecting future sales based on positive pipelines. It could also be attributed to managers looking at total sales revenue from newly reduced prices instead of quantity of sales.

Our respondents were consistent in their attribution of increased sales to:

1. Price reductions (45%)
2. Customers tired of waiting (17%)
3. Improved economy (14%)

Overall Outlook

As we look at pricing resets, it is apparent that the big discounts were realized in the two or three years after the 2008 crash. Prices have more or less stabilized since 2011, indicating that a pricing floor has been established.

In many cases, price reductions and a subsequent uptick in sales activity have come about as the result of a property's ownership change through sale or bank takeover.

"As we shrink inventory levels more prospects are becoming buyers. They don't want to 'miss the bottom'."

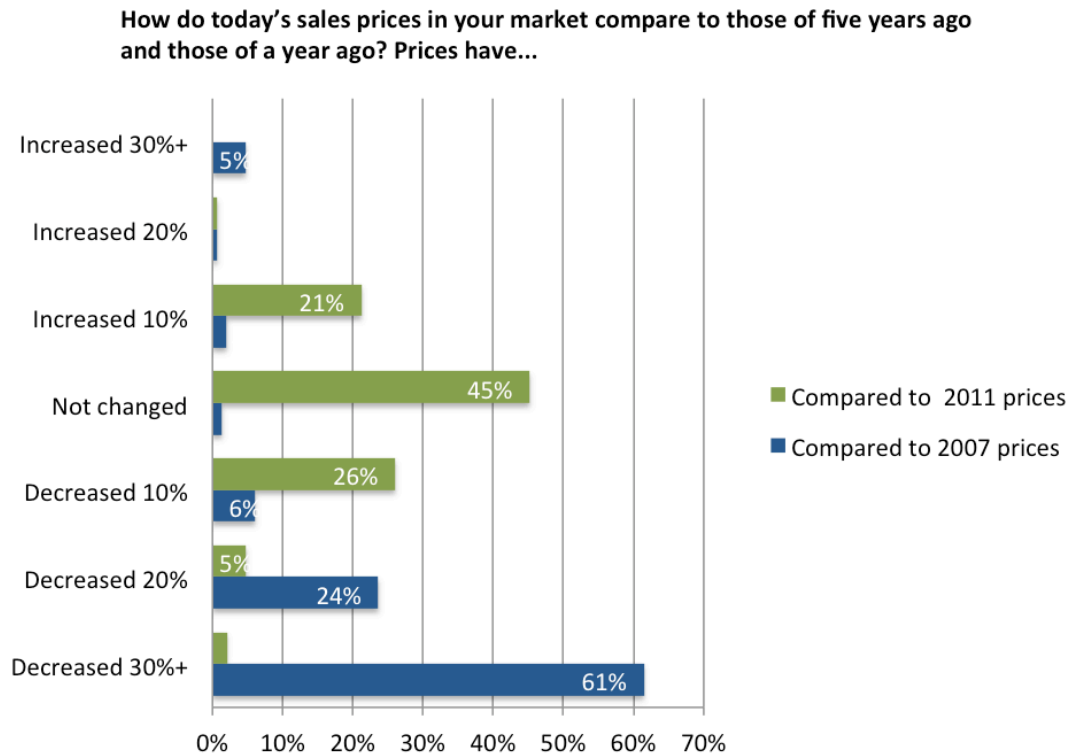
- Sales Manager, Developer's Sales Team, Hawaii

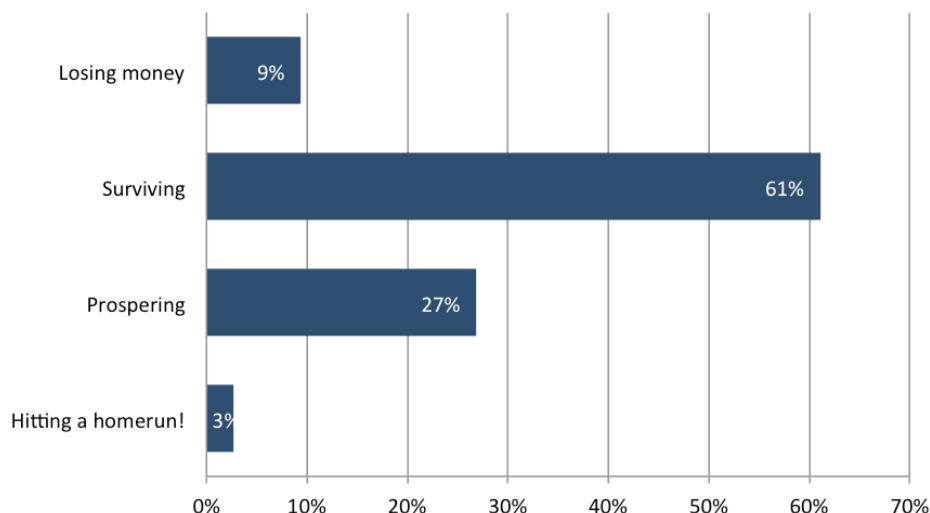
"Buyers finally perceive the values have reached an acceptable level from last 3 years of price reductions and recently (past 6 months) inventory (especially in the higher end and desirable properties or areas) that is finally decreasing or disappearing causing fear of losing out."

- Sales Manager, Traditional Brokerage with Exclusive Development Listing, Rocky Mountain West, U.S.

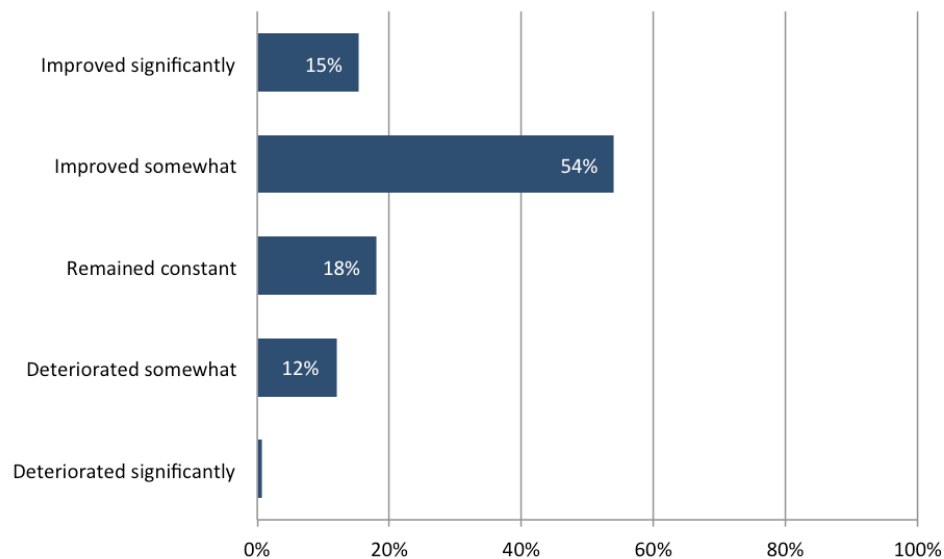
"1. Sold out developer inventory after reducing prices. 2. Buyers perceiving market 'bottom' in our area has already passed. 3. Increased confidence in our market due to new owner and significant investment in resort amenities."

- Multiple Sales Roles, Developer's Resale Team, Hawaii



What is your outlook on your current professional situation? I'm...

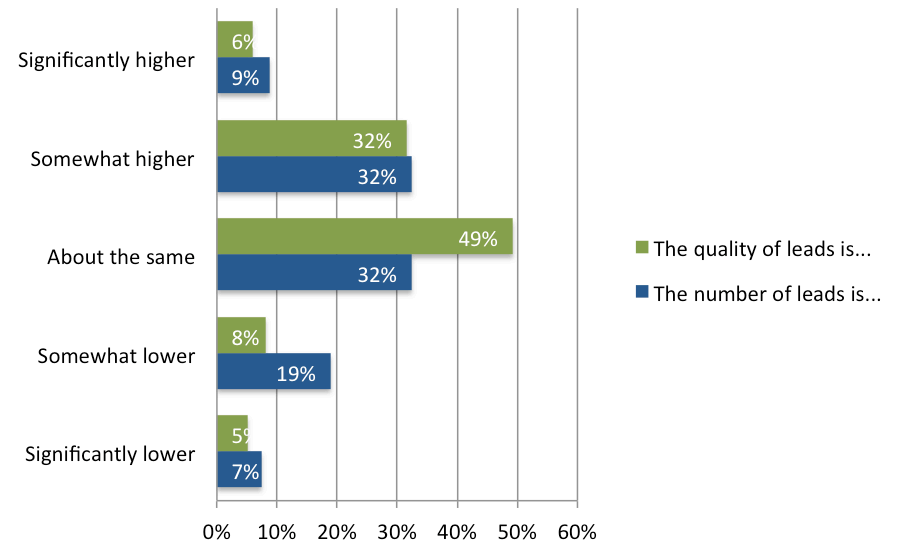
When queried about their relative professional success, 61% of respondents say they are “surviving”, 30% say they are “thriving” or “hitting a home run” and only 9% say that they are losing money. We find particular opportunity for optimism in this set of responses as these findings of moderate increases in sales activity and success support our recent experiences in our own projects around the Americas and anecdotes from resort real estate peers. Further, this positive trend validates the wave of new investment that we have seen come into the industry as prices appear to have reached their bottom; inventories are beginning to shrink; and buyer confidence (or impatience) increases.

In the past 12 months, your outlook for the resort real estate industry in your market has:

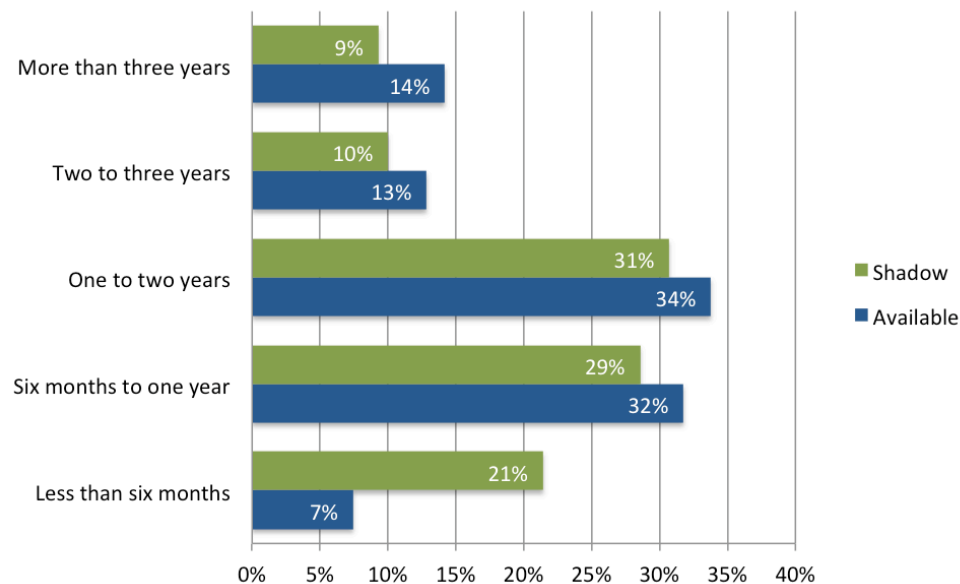
Overall Outlook

Furthermore, sales specialists indicate that on average both the volume and the quality of their pipelines of prospective customers are growing. They also report shrinking inventories relative to the results of our previous studies; the average reports from the sales specialists of 1.5 years of shadow inventory and 1 year of available inventory represent a significant reduction relative to our findings in years past.

How do you feel about your current lead pipeline relative to 12 months ago?

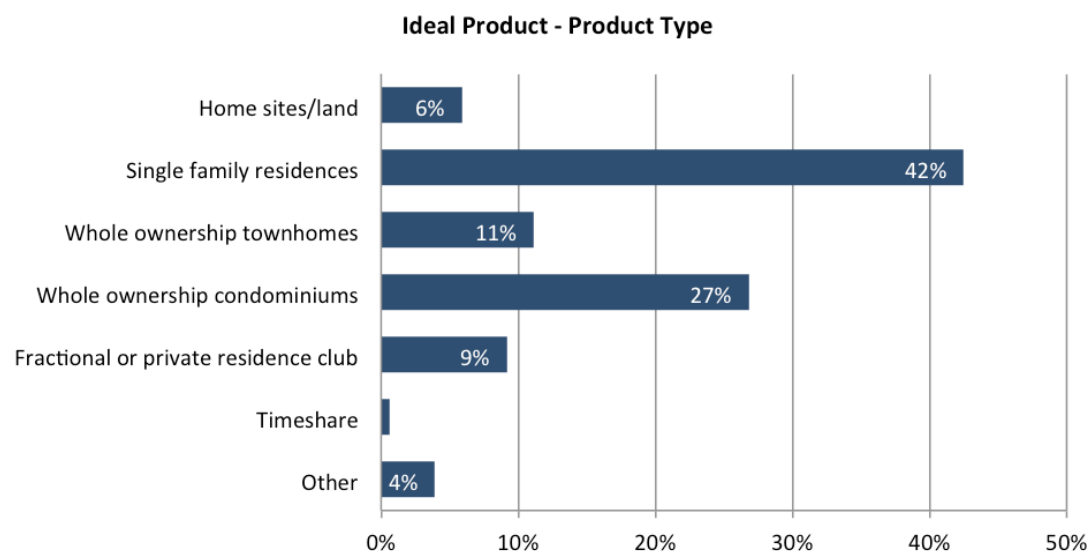


What is the supply of available and shadow (product that is likely to be listed soon) inventory in your market? The supply is...



The Ideal Product - Let's Get Practical

When asked “Regardless of what you actually have available to sell, please describe the ideal real estate product that you think would work best in your market” the great majority of our respondents affirmed the continuation of an important consumer trend – getting back to the practical. In the resort real estate industry this means whole ownership, predominantly single-family product with “practical luxury” finishes.



80% of the sales specialists surveyed indicated that the ideal product for their market was a completed, single-family residence in a whole ownership condominium or townhome format. Only 6% of respondents selected land or homesites as the ideal product and just 10% of respondents believe that a fractional or timeshare product would best fit their market's needs.

Why the dominance of whole ownership, built product? We believe that in part it's due to buyers getting banged around in the era of exotic financial instruments along with complicated ownership structures losing their luster during this period. Furthermore, buyer behavior is influenced by the current low price tags on most of today's for-sale whole

ownership products. This is the result of an oversupply of quality standing inventory. At the same time, consumers have become wise and want to avoid the headache of home design and construction, steering them away from land purchases.

In a significant turnaround from our industry's heyday, two thirds of all respondents indicate a \$1M ceiling on ideal product price point; and 80% of the townhome and condominium set is below the million-dollar mark.

Ideal Product

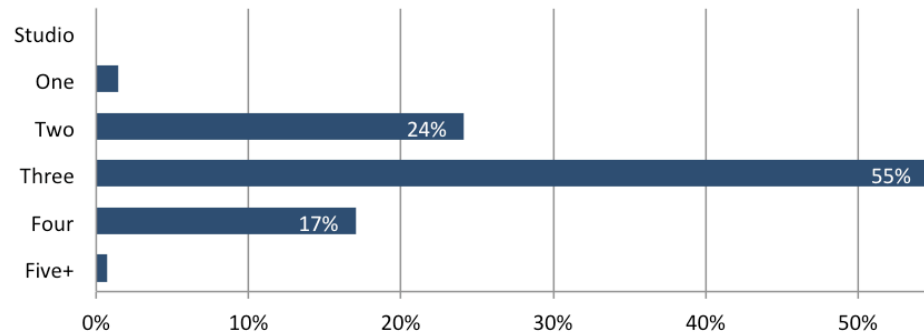
Regardless of ownership structure, the ideal home has two or three bedrooms. Our assumption: the average prospect is a family of four who is now willing to bunk kids in one bedroom and reserve the third for guests.

When we isolate respondents who favor townhomes and condominiums, reasonably sized homes are the norm: 1500-2000 square foot homes comprised 42% of responses while homes over 3000 square feet garner only 2%. This illustrates how “practical size” has become increasingly important to consumers – not necessarily a smaller home but certainly not the oversized home with bonus and media rooms that was predominant just a few years ago.

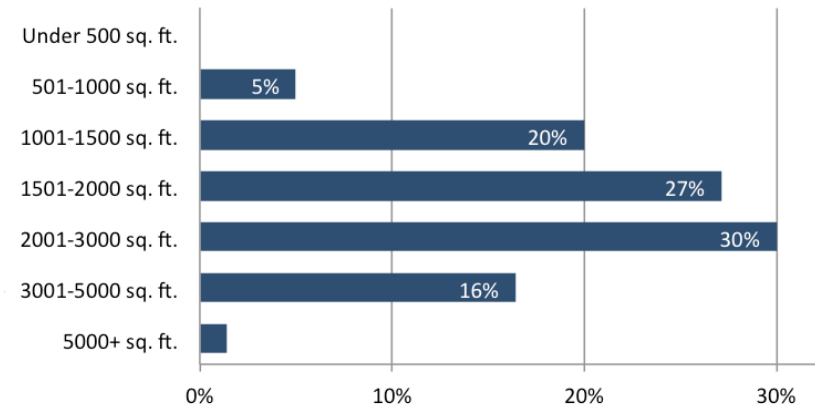
Consistent with the idea of practical product, a full 60% of respondents indicated that “practical luxury” is the ideal product finish level for their market (and 63% within the townhome and condominium sector). Not a single respondent selected “basic” finishes. “Practical luxury” can be interpreted in many ways, however, when viewed within the new consumer product paradigm of “good design for all” it includes quality materials and efficient design, but removes the excesses like 3” slab countertops or 8” baseboards, crown moldings, more than one fireplace and multiple wine coolers. Premium appliance brands such as Wolf and Sub-Zero are also likely to be cut from the finish package.

“Ideal product would be semi-detached town homes that have some form of association to manage snow removal and exterior maintenance. Storage for recreation toys such as canoe/kayak bikes, etc. Shared amenities such as hot tub and fitness room. People expect nice not funky these days. The middle class has almost disappeared from the ski industry leaving the upper middle and upper class. They want nice amenities and finishes. They also have limited rec. time and don’t want to spend it shoveling snow. Low HOA fees as possible.”
- Owner, Brokerage with Development Listings, California

Ideal Product - Number of bedrooms

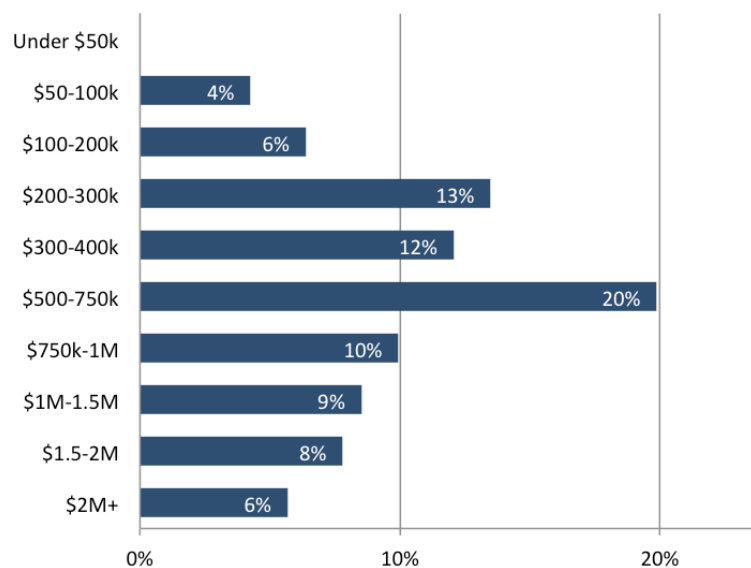


Ideal Product - Square Footage

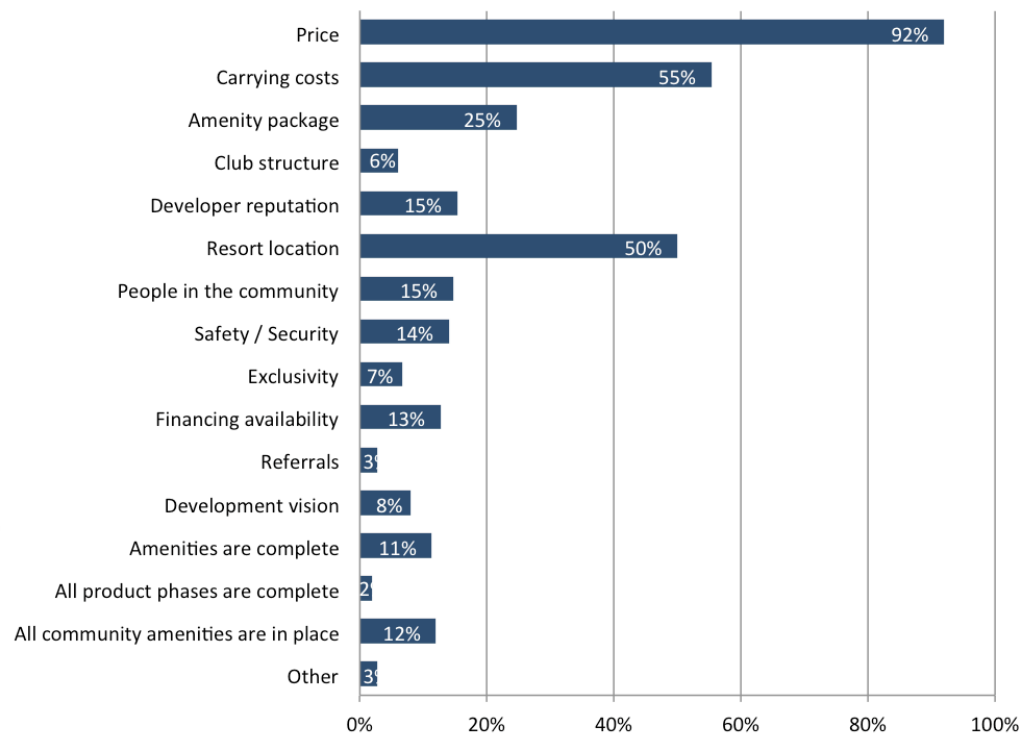


The Rocky Mountain region expressed the highest interest in luxury finishes while Western Canada expressed the lowest.

Ideal Product - Price Range



What matters most to today's consumer? (Select up to three.)



A Note on Golf Communities

Golf communities can often be affected by different trends or affected differently by the same trends than other resort real estate communities. Accordingly, we filtered our data to drill down on the ideal golf community product. Relative to the entire respondent set, sales specialists whose primary amenity is golf lean more toward single family residences (72%) and are even less interested in land/homesites and fractional/timeshare products than their peers. Golf-focused respondents are also more inclined to see a three-bedroom home as ideal (81%) and also prefer more square footage with 54% of respondents indicating 2000-3000 square feet and 38% at 3000-5000. This subset does show a slighter higher ideal product price-point; 15% of the golf-focused respondents detailed a product over \$1M. However, the expectation for quality finishes is not as high, which indicates that golf purchasers are willing to sacrifice a bit of quality to secure the square footage that fits their lifestyle.

What is Motivating Today's Buyer?

As we saw in the first section on new optimism and activity, our respondents cited the following as top three drivers of today's increased sales:

1. Price reductions (45%)
2. Customers tired of waiting (17%)
3. Improved economy (14%)

This is consistent with our own experiences and is a cause for optimism, especially the finding that consumers are acting in part because they are tired of waiting. It affirms our Fall 2011 report assertion that many qualified buyers were sitting on the sidelines, cash in hand but parked, waiting for the market to take a meaningful turn for the better. Although the economy isn't roaring back, moderate improvement appears to be sufficient for many of those waiting in the wings to take action.

Digging deeper, respondents identified the factors most important to their customers ranking price, carrying costs, and resort location as the most important considerations for purchasers.

Surprisingly, while the quality or content of the amenity package was a close fourth, other traditional categories for consumer consideration like developer reputation, safety and security and the people in the community were also-rans in the findings. Of note, completed amenities came in with only 12% of respondents including it in their top three factors; this was an eye-opener given significant industry discussion among developers that completed amenities and infrastructure are key to converting prospects to buyers through perception of development stability.

What is Motivating Today's Buyer?

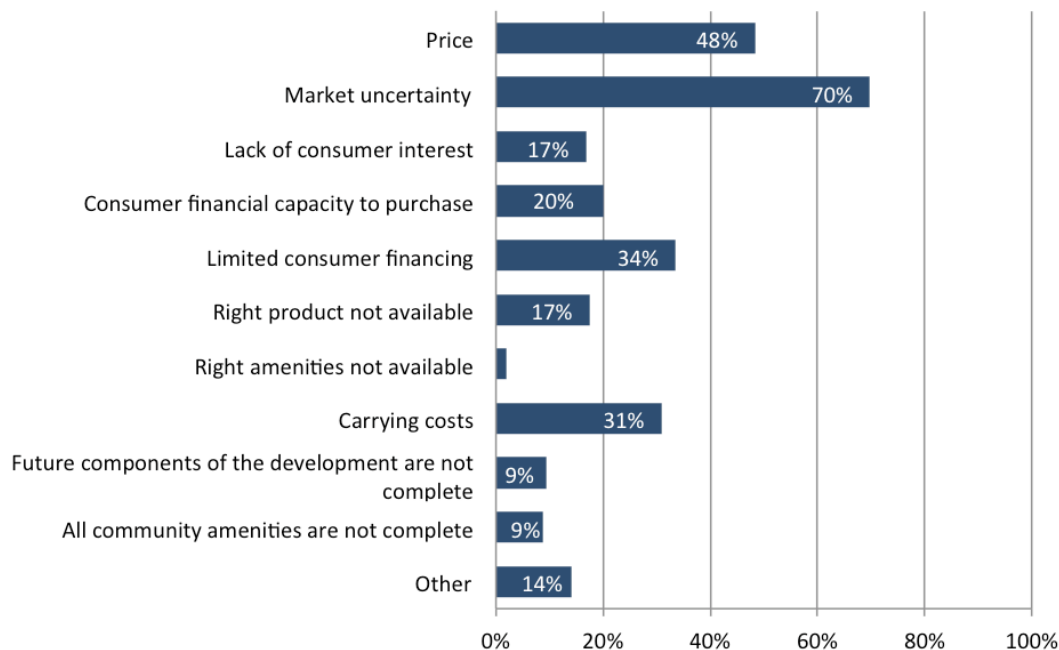
Further supporting evidence is delivered via responses to our question about the largest impediments to sales today. Again, price and carrying costs ranked high at #2 and #4, respectively. With market uncertainty topping the list and limited availability of consumer financing at #3.

Given all of this, buyers today, in general, must believe that:

- there is relative certainty and stability in the market they are considering;
- the product price is in line with current discounted pricing (relative to pre-recession prices); and
- the property is in the right location, which is likely familiar.

It's also clear that difficulties in access to consumer financing are creating a major impediment to sales, we discuss this in our Financing & Market Limitations section.

What are the biggest impediments to sales? (Select up to three.)



"Buyers are buying up what they believe are the good values. I do believe they feel by waiting they will have less to choose from."

- Sales Associate, Traditional Brokerage, Southeast, U.S.

"New developer (money), mostly developed property with most amenities completed, 50% discounts on developer property, 70% discounts on re-sales."

- Sales Associate, Developer's Sales Team, Southeast, U.S.

"The sales volume is increasing because Buyers see the current value of the product being offered and they are also tired of waiting to buy. They have been told not to buy since the end of 2008. They see this as a great time to buy because of interest rates, motivated sellers and reset values from the 2007 highs."

- Sales Associate, Traditional Brokerage, Rocky Mountain West, U.S.

How Has the Buyer Changed?

"The typical buyer now is a person who is extremely financially solid. They are typically in their late 40's to early 50's and starting to think about where they would like to retire, though I have many clients in their late 30's to 40's with families who want to vacation or live here as well."

- Sales Associate, Traditional Brokerage,
Rocky Mountain West, U.S.

"We are experiencing younger buyers with families. These are more outdoors/active people and golf is not the primary activity anymore."

- Sales Associate, Developer's Sales Team,
Rocky Mountain West, U.S.

"We are transitioning into a younger demo with younger kids (ages 2 – 10) who will need more programming."

- Sales Manager, Developer's Sales Team,
Northeast, U.S.

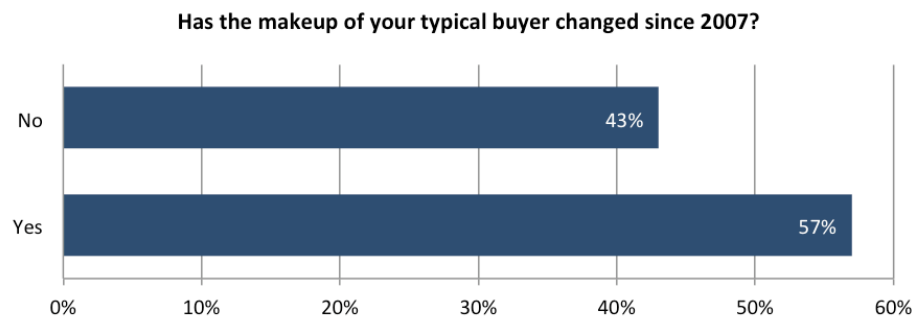
"Almost all buyers under 50 gone."

- Sales Manager, Developer's Sales Team,
Central America

At Kelsey & Norden we keep close tabs on resort real estate buyer profiles. This Fall, 57% of our respondents said that the make-up of their buyer has changed relative to buyers in the years leading up to 2007.

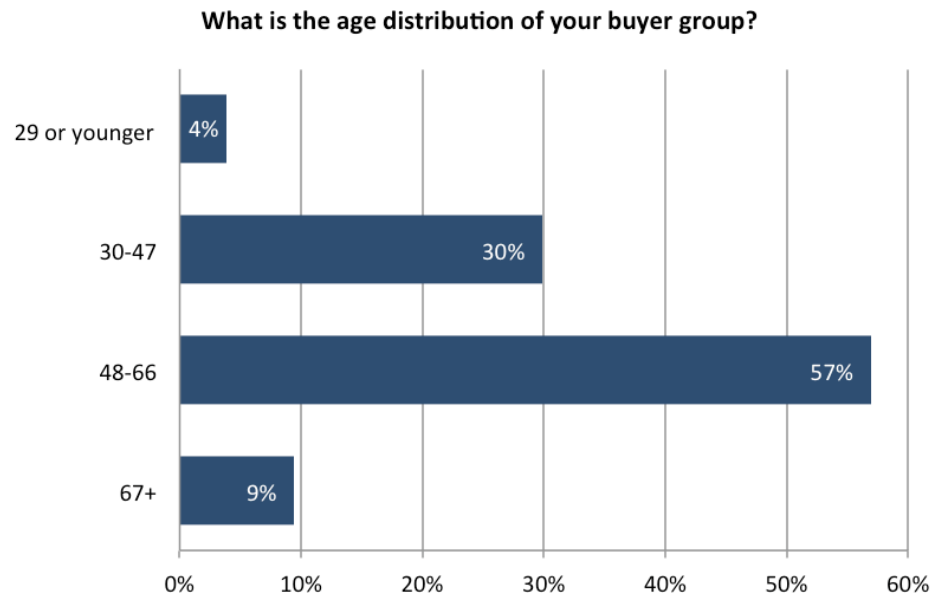
Although the change and new buyer makeup differs market to market and project to project, several overarching themes have emerged:

1. No matter their financial means or age, buyers are overwhelmingly end users rather than speculators. A very limited number of respondents indicated that a good portion of their purchasers intend to flip or exclusively rent out their property.



How Has the Buyer Changed?

- Gen X'ers are gaining ground on the Baby Boomers, with an increased presence in the marketplace (30% of our respondents' customer set). In the 2010 Kelsey & Norden Consumer Survey we reported on this generational shift and the rising presence of Gen X. Our 2012 respondents continue to validate these phenomena while they also note that Gen Y (29 or younger) and the Greatest Generation (67+) occupy only the margins of the market.



"Gone are the under 40 buyers who were using refi-equity from primary residences to buy second homes."

- Owner, Traditional Brokerage with Exclusive Developer Listing, California

"Ultra affluent to well-off financially"

- Sales Associate, Traditional Brokerage with Exclusive Development Listing, Northwest, U.S.

"The difference now is that the buyers come to me very well qualified and are buying far less than they could actually afford. No one wants it to "hurt" and no one wants to push the limits of what they can afford."

- Sales Associate, Traditional Brokerage, Rocky Mountain West, U.S.

"Much more sophisticated and not willing to take speculative risks in a destination market. More concerned about rental income and maintaining value versus being able to flip in the short term."

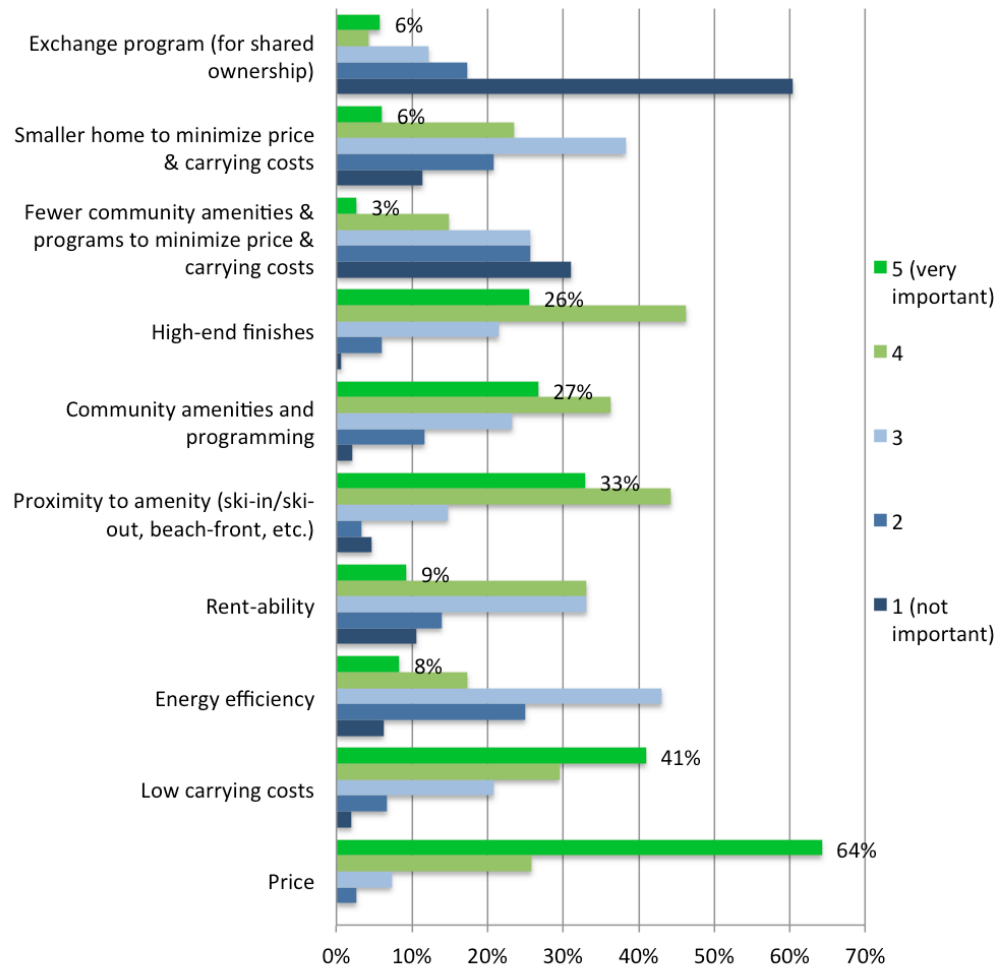
- Sales Associate, Developer's Sales Team, Caribbean

"Pre-2007 buyers were much more likely to buy on impulse. Prospects looking at real estate now are much more cautious and the gestation period for real estate transactions has dramatically lengthened."

- Sales Manager, Developer's Sales Team, Northeast, U.S.

- Write-in comments tell us that in some markets, sales specialists are seeing extremely qualified buyers who are purchasing relatively modest properties while in other markets lower net-worth individuals are taking advantage of historically low prices to purchase.

Please describe the relative importance of the following features for your buyers:



How Has the Buyer Changed?

4. The purchase process has continued to evolve as qualified buyers better understand the market and their desirability. Decisions are price and lifestyle-based, take longer and require much more research. Buyers are most often using cash and can be demanding; they don't hesitate to negotiate price.
5. In some cases, markets have been geographically reconfigured as buyer drive-to distances have increased and international buyers are lured by impressive values in the Americas.

It's interesting to note that some geographic regions report much greater shifts in their typical buyer makeup: 80% of Southeastern U.S. and 56% of Rocky Mountain U.S. respondents report a change in their buyer profile while only 38% of Northeastern U.S. and 17% of South American respondents note a change.

"Where they (buyers) are coming from. Used to be 60% Canadian W coast, 30% from Pacific NW US , 10% off shore. That has changed to 70% Canadian, 15% US, 15% offshore."

- Sales Director, Developer's Sales Team, Western Canada

"More families with young children. Drive-to-distance increasing."

- Sales Associate, Traditional Brokerage with Exclusive Development Listing, Midwest, U.S.

"US market has disappeared. Some of the slack has been taken up by Australian and Canadian buyers although at a much lower price point."

- Office Broker, Traditional Brokerage, Western Canada

"More international buyers from Mexico, Venezuela."

- Sales Manager, Third-Party Resort Specialist Sales Team, Rocky Mountain West, U.S.

Financing & Market Limitations

“Money is tight for everyone. Even those that have money don’t want to give it up & they are not able to secure financing for second homes even with 800 FICO scores.”
- Sales Associate & Consultant, Traditional Brokerage, Southeast, U.S.

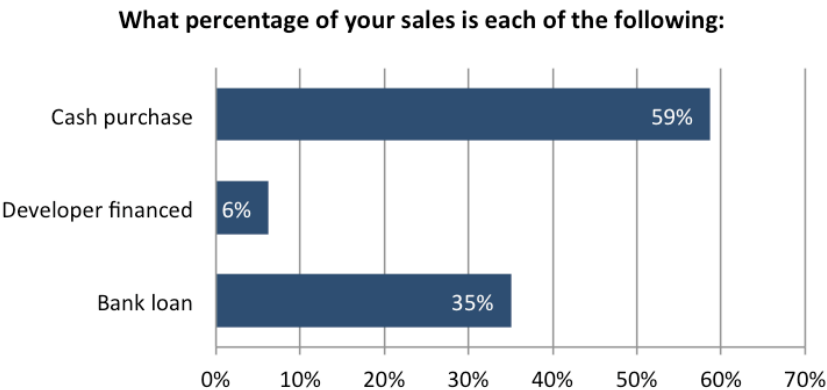
“Our market has become an all cash market with no primary lending options. We no longer have any speculators in the market.”
- Sales Manager, Developer’s Sales Team, Mexico

“Consumer financing in regards to the over burdensome document requirements and extensive disclosure never before required and new lending practices/laws requiring much more down for resort properties. It’s almost like going for a colonoscopy in bearing all to the lender.”
- Multiple Industry Roles, Rocky Mountain West, U.S.

“There are currently no seller paid incentives being offered in our market.”
- Broker, Brokerage with Exclusive Development Listing, Southeast, U.S.

Respondents cited lack of access to consumer financing as the 4th most significant impediment to sales and the concern was raised in many of the written comments.

When asked how buyers are financing their purchases, respondents indicated an overwhelming preponderance of cash buyers relative to those using debt with an approximate 80:20 ratio of cash to debt. Developer financing opportunities, which could attenuate this situation, appear to be almost non-existent.



On the other hand, many sales specialists commented that low interest rates are a current catalyst for purchasers. Interest rates at historic lows do appear to be generating some impetus for increased buying activity. It is, however, clear that new regulatory hurdles and lender requirements (particularly for jumbo, condo and land loans) are diminishing what should be a more significant positive impact on our industry. Anecdotal evidence from a myriad of sources describes a new environment even in the primary housing market: enhanced scrutiny of would-be borrowers makes it not only more difficult for many to gain financing but also significantly more cumbersome for those who qualify.

This shift in the lending environment presents a potentially long-term impediment for the second home industry and may unfortunately be one of the most pervasive and long-lasting negative impacts of the recession. However, in certain cases, this could create the opportunity for differentiation and increased sales at projects that are able to offer a form of developer financing.

Consumer Survey “I have not had any buyers have a difficult time getting financing. I think there is a perception that it is hard to borrow money but I haven’t seen that as a reality in my business.”

- Sales Associate, Traditional Brokerage,
Rocky Mountain West, U.S.

“Rates are super low and we feel that our market and values are at the bottom and in certain neighborhoods prices are starting to go up.”

- Office Broker, Title Company, Rocky
Mountain West, U.S.

Buyer Focus on Utility

“During the 2006/07 time frame, buyers were much more interested in speculation as a primary driver for purchase. Buyers today are looking almost exclusively for use whether that be second home or retirement use.”

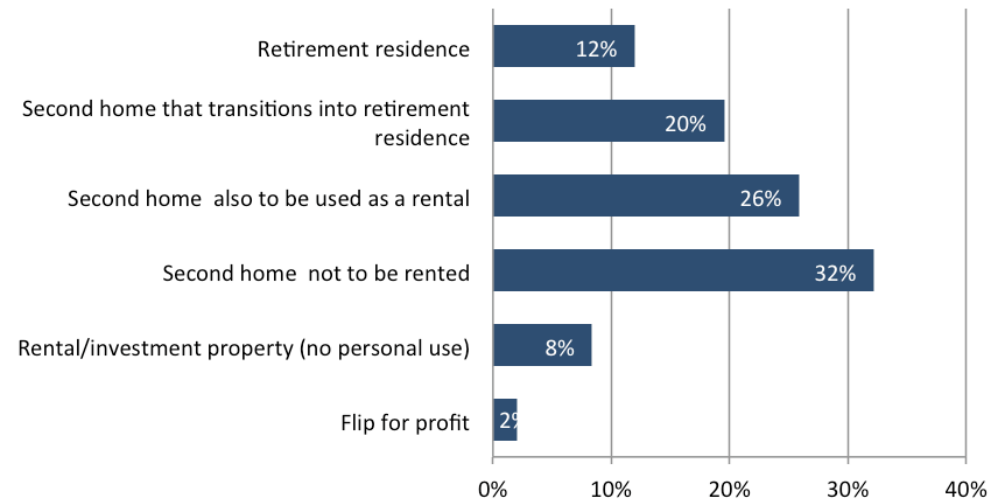
*- Sales Manager, Developer’s Sales Team,
Central Texas Coast*

“Change in total net worth. People renting units out more as opposed to leaving empty. More activity year round both in occupancy and rental terms.”

*-Owner, Developer’s Sales Team, Northeast,
U.S.*

As reported in our “How Has the Buyer Changed?” section, the lion’s share of today’s buyers are end-users (or at least want the property used) in contrast to the high numbers of speculators/investors that our industry has seen in the recent past.

Within your group of buyers, please indicate how they are divided based on how they use their properties.



We've documented the development of this buyer trend toward end-use as it's emerged from the economic crisis. In our first Kelsey & Norden survey findings (April 2009) we noted increased desire for quality time with family and friends and a focus on health and wellness were key drivers of household decisions. This finding was echoed in Fall 2009, "consumers are perceived to be focused on the quality of life benefits offered by owning a vacation property with the strongest focus on quality time with family and improved health and wellness."

In our Fall 2010 Consumer Survey we validated what industry professionals were seeing, "While prospective customers express uncertainty about what size second home they want, they are certain about their desire to have a home that they will truly use."

In this year's survey, when asked how the make-up of their typical buyer had changed since 2007, many of the sales specialists commented on this greater focus on the end use rather than investment.

"Not looking to flip it. Looking to use it for their families. Income property is not top priority."

- Office Broker, Brokerage with Exclusive Development Listing, Mexico

"I don't see that Buyer looking to make a quick profit on his real estate investment anymore. I think the buyers out there now are looking at long term holds and being end users for their particular property."

- Sales Associate, Traditional Brokerage, Rocky Mountain West, U.S.

What Works in Marketing

“Fiscal responsibility has dictated we pull back on marketing spend.”

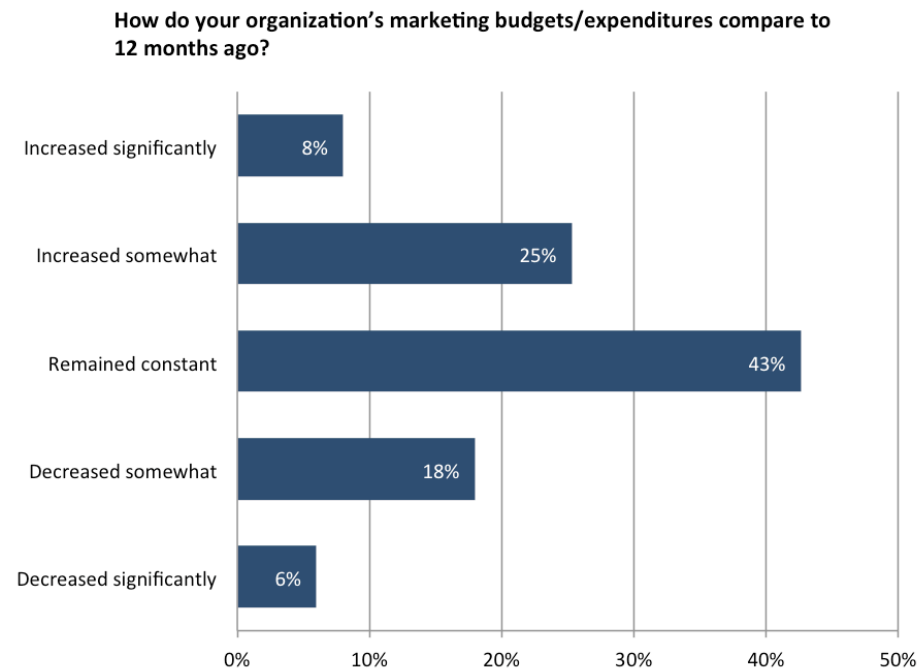
- Director of Sales & Marketing, Brokerage with Exclusive Development Listing, Western Canada

“New ownership has helped a lot as the new owners have made investments in our sales and marketing both in the hotel and brand exposure and in our brokerage operation.”

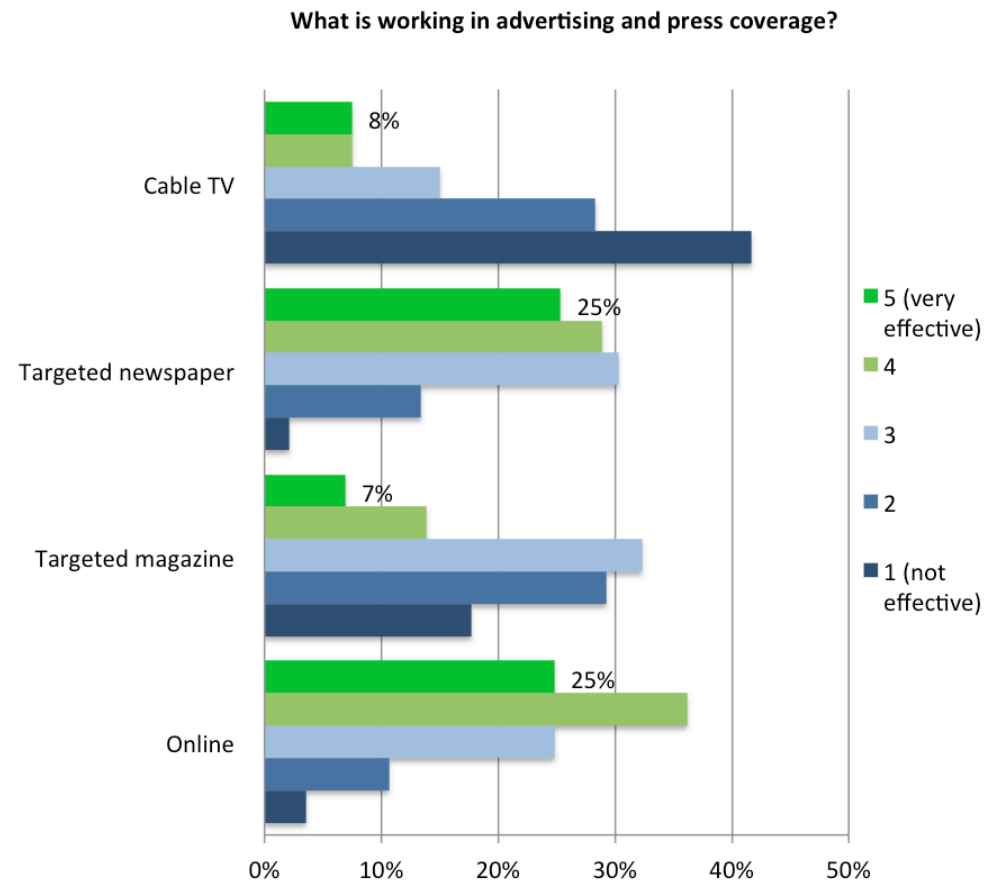
- Sales Associate, Brokerage with Exclusive Development Listing, Southeast, U.S.

Marketing initiatives were cut in the wake of the Great Recession as developers grappled with small budgets when buyers were scarce. This is starting to change – slowly.

Our respondents indicate that marketing budgets are up just slightly from 2011. This mostly stems from slow market recoveries and heavily wounded developments but could also reflect an uncertainty or shift in the discipline of resort real estate marketing.



Our initial set of questioning centered on the use of traditional marketing methods. Decreased marketing budgets, increased uncertainty, and the wide range of new marketing tools have contributed to these methods' significant failure to produce. Respondents indicated that the traditional go-to's such as billboards, TV, and print ads are not working. And the old industry classic - direct mail - is not effective.



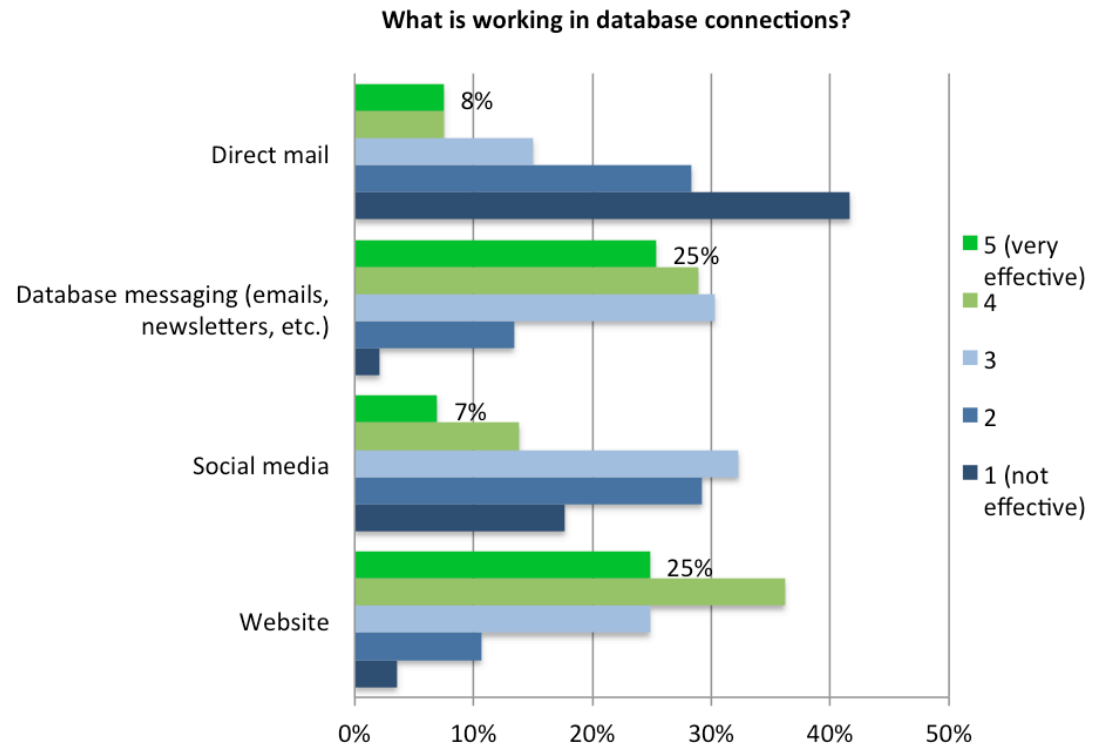
"More onsite contact than in the past, buyers need to be at the resort to be interested."

- Developer Responsible for Sales, Developer's Sales Team, Mid-Atlantic, U.S.

"Most qualified leads are coming from trusted sources such as referrals."

- Sales Associate, Developer's Sales Team, Caribbean

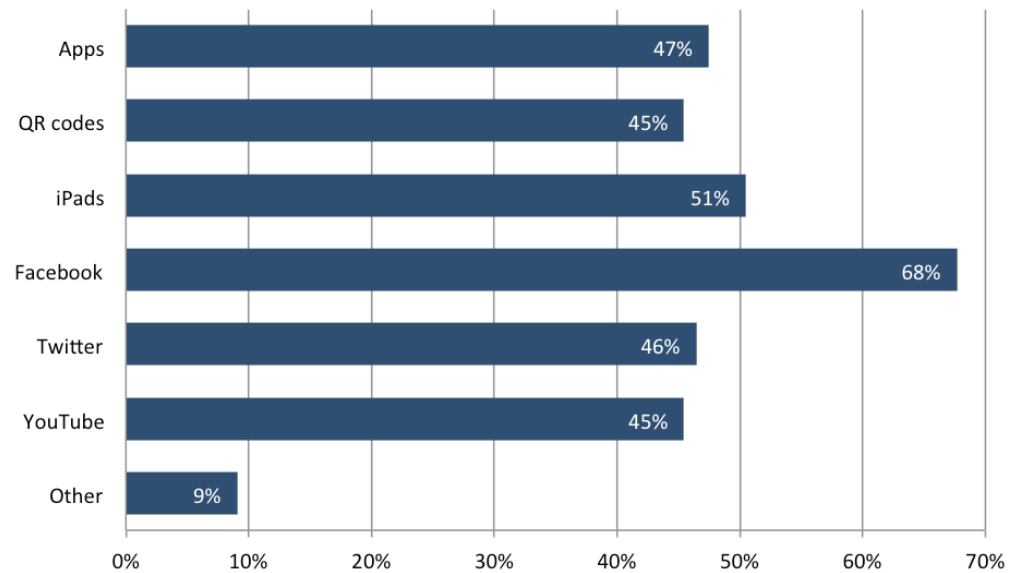
As the usage of traditional marketing tools wanes, the internet has become an ever-greater source of leads and online advertising seems to be a more effective direct lead source when compared with social media options such as Facebook (though this may be potent in fostering a community that engenders referrals) and Twitter.



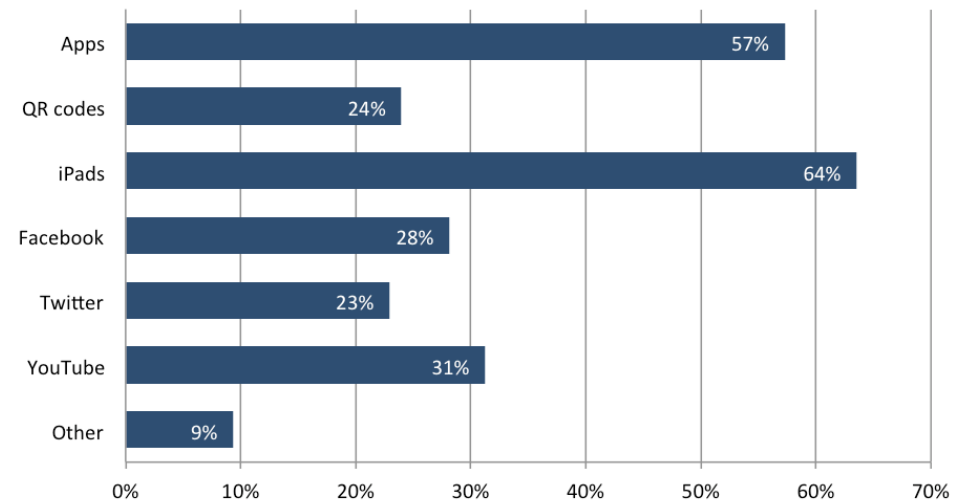
What Works in Marketing

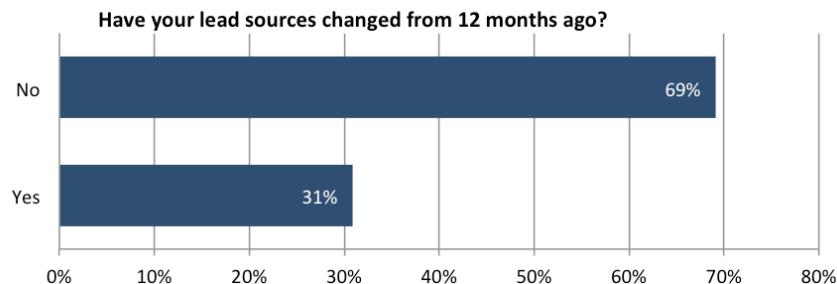
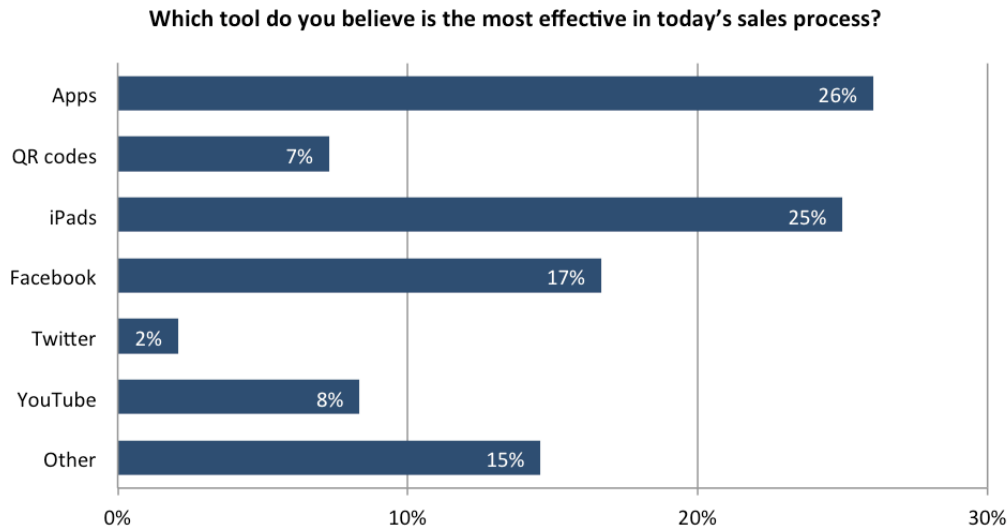
Sales specialists also say that the efficacy of today's newest tools or toys is questionable. Apps for smart phones and tablets are the clear frontrunner out of the technology grab bag that includes QR codes; iPads; Twitter; and YouTube.

Which tools does your organization use in the sales process?



Which tools do you believe will increase in use in the sales process?





"We sell experiences, not hardware and you cannot show an experience with an iPad or an app. Facebook and twitter are great for hotels and restaurants but they're not going to sell real estate, not developer inventory anyway."

- Sales Associate, Developer's Sales Team, Northeast, U.S.

"None of these tools have generated a lead so I don't consider them to be effective, just a necessary evil."

- Sales Associate, Developer's Sales Team, Rocky Mountain West, U.S.

"Personal contact and referral base is always best. Bells and whistles are great but you need the people skills to back them up!"

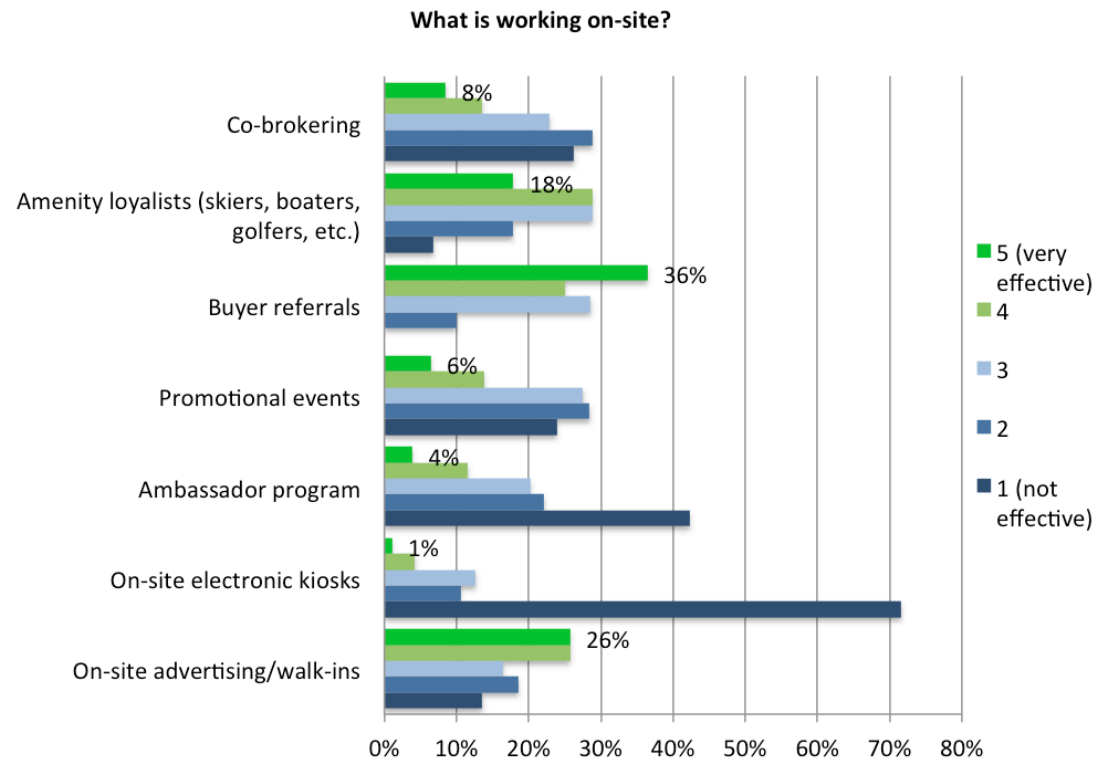
- Sales Associate, Traditional Brokerage, Rocky Mountain West, U.S.

"Back to the basics ...I believe social networking is going to become more and more annoying. Get off your butt and pick up the phone or go visit your clients."

- Office Broker, Title Company, Rocky Mountain West, U.S.

The silver lining to continued low marketing budgets is that marketing dollars don't directly influence the most effective lead sources, which have mostly stayed the same over the last twelve months. Establishing appropriate pricing is key and once that's in place, sales specialists say that it's the hard-to-influence third-party sources that are impacting leads: buyer referrals, media coverage (their print – not yours) and on-site (or regional) visitors. Efforts that smack of sales tactics such as electronic kiosks, ambassador programs and outreach to co-brokers aren't working for most in today's environment.

How should marketing teams best use their small budgets? Our survey indicates that today's buyers are end users, which means that internet advertising and collateral can disregard investment messaging and focus on lifestyle and affordability. Third party referrals are difficult to influence without a multi-disciplinary, long-term effort that incorporates a positive sales experience, great homeowner-developer relations, and opportunities for owners to introduce guests to their lifestyle – such as programs and events.



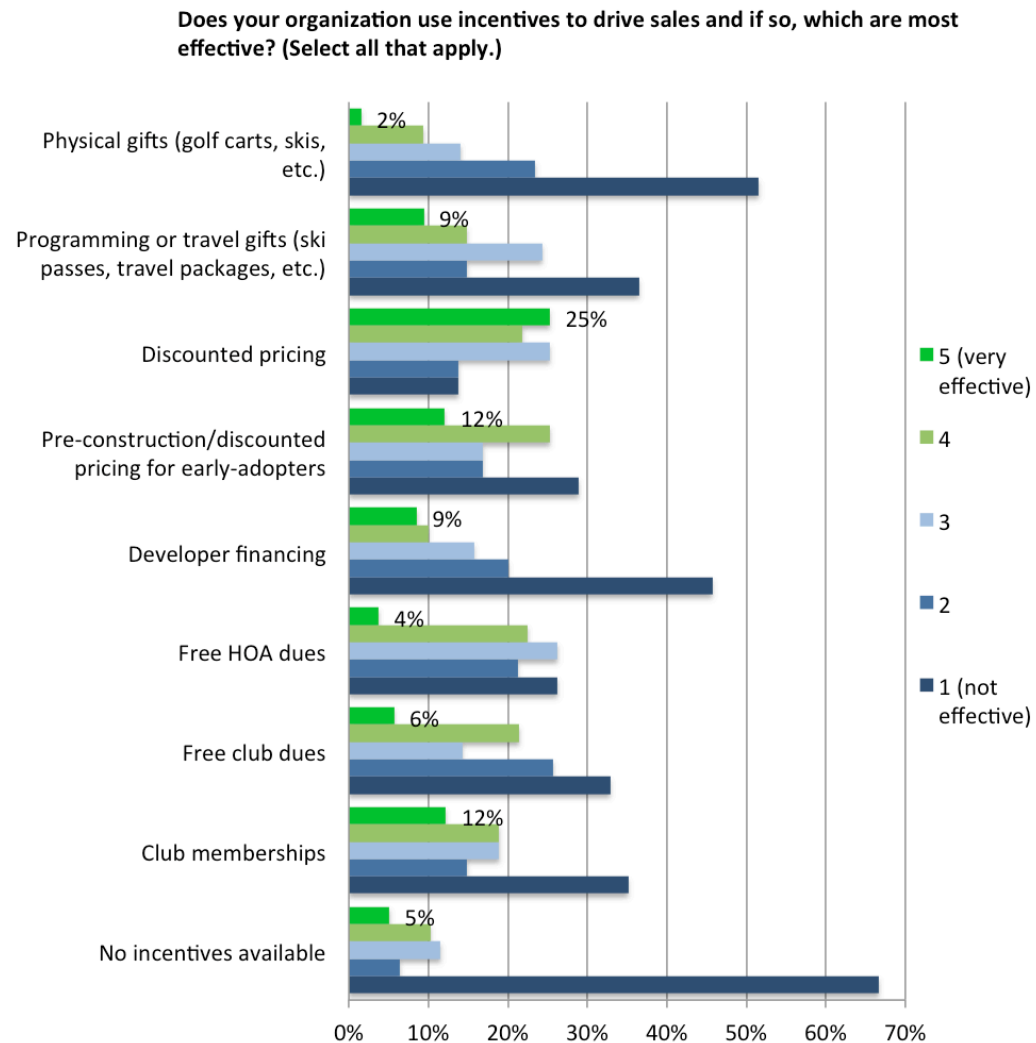
"Having parties in clubhouse and allowing members to invite friends to attend."

- Sales Manager, Developer's Sales Team, Southeast, U.S.

"Members referring friends and my networking members is most important here. Good for almost all of my sales."

- Sales Manager, Developer's Sales Team, Southeast, U.S.

Although much of our questioning on marketing focused on the tools of the trade, sales specialists came back with "price" as the most compelling marketing element. Respondents overwhelmingly indicated that more than any other factor, favorable pricing makes the sale in resort real estate today. Developments that have the option are using discounted pricing as an effective incentive.

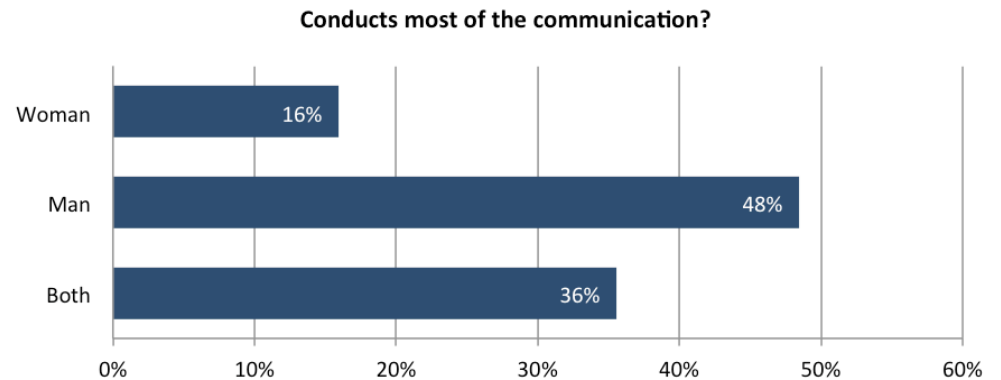
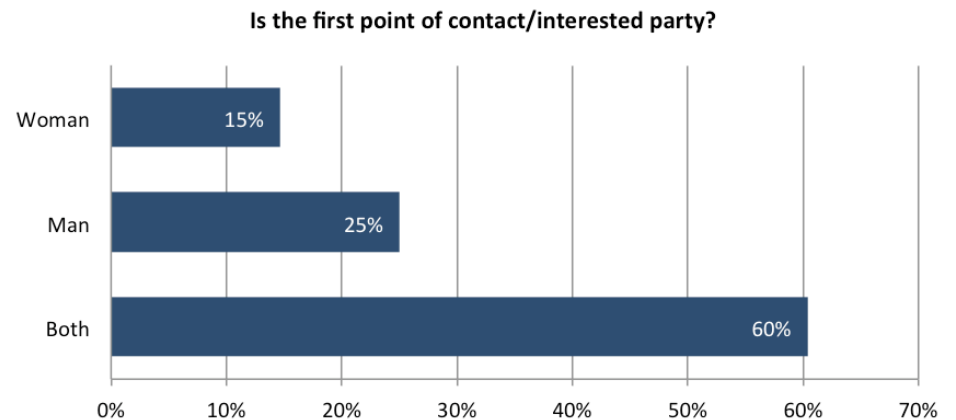


The Male-Female Buyer Dynamic

At the Fall 2011 Urban Land Institute conference, Marti Barletta of Trend Sight presented to the Recreation Development Council her findings on gender roles in the process of purchasing residential real estate.¹ In her presentation, she asserted that resort real estate developers should focus on marketing to women, particularly women over 50, whom she refers to as “PrimeTime Women.” She also described a typical dynamic between married couples in vacation planning in which the woman is responsible for the majority of the family’s initial research and diligence before creating a short list, at which time her husband joins the process. The implication of Ms. Barletta’s presentation was that there was likely a similar pattern in the process of purchasing a second home. We found her presentation compelling and were intrigued by the potential marketing, sales and development implications.

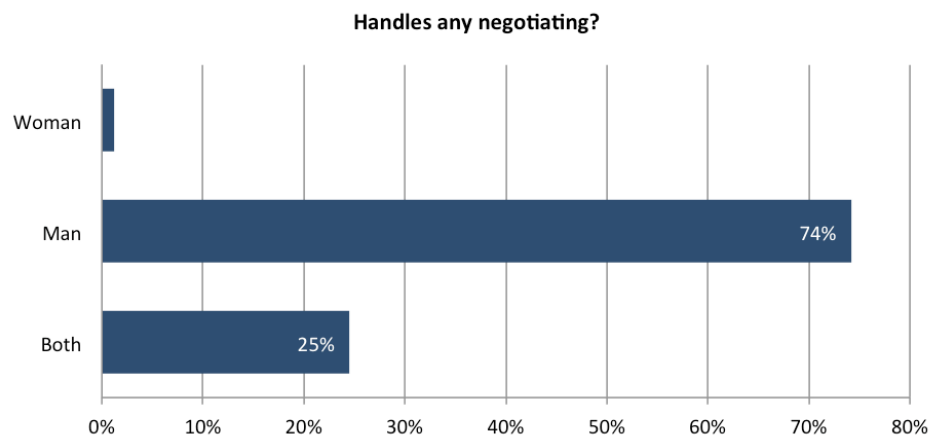
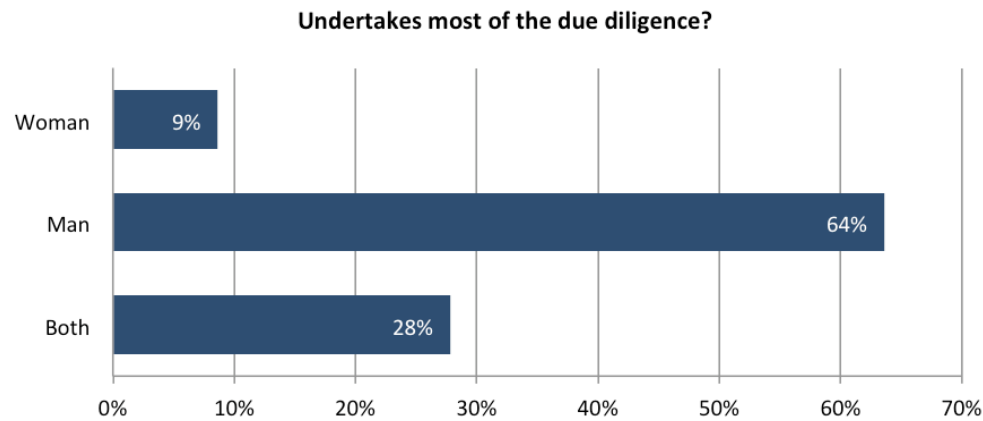
Spurred on by other research promoting similar conclusions and by requests from colleagues to open our own line of inquiry, we included a set of questions in this year’s research designed to determine if there is a similar gender dynamic in resort real estate.

For a male-female purchasing couple, what is the usual buying dynamic?



¹ Marti Barletta, Presentation to Urban Land Institute Recreation Development Council, 26 October 2011.

For a male-female purchasing couple, what is the usual buying dynamic?



Accordingly, we asked our sales specialist respondents to share their experience regarding the respective roles of men and women at each of the major steps of the buying process. Interestingly, their answers did not correlate with either Ms. Barletta's findings in the travel industry or the litany of supporting publications and anecdotal evidence that had been shared by various colleagues.

Gender Roles During the Buying Process

According to the set of sales specialists we surveyed, men are the predominant actors at many of the milestones in the buying process including:

- serving as the primary point of communication;
- researching alternatives; and
- negotiating price.

The Male-Female Buyer Dynamic

Respondents indicated that only when it comes time to decide whether to purchase or walk away are women the key players with 90% saying that it's the woman or the couple jointly making the decision to purchase or pass on the property.

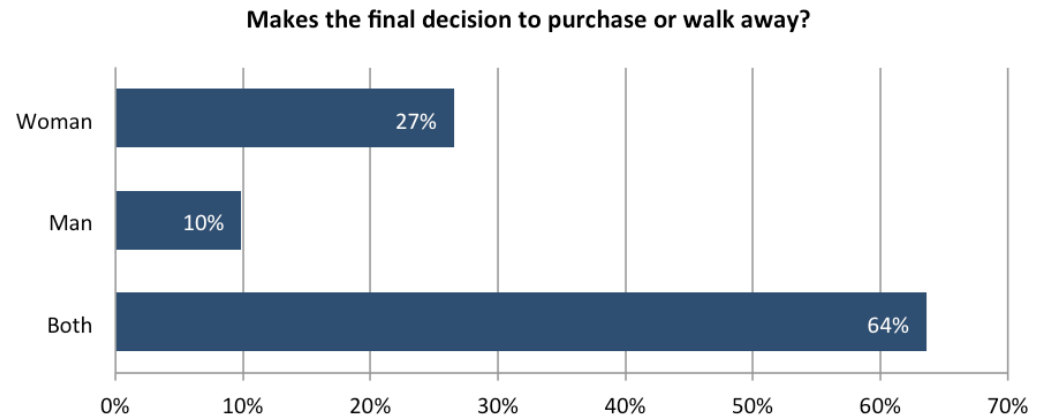
No Special Attention Marketing to Women

Most of our respondents (80%) indicate that their organizations do not make any special efforts to market to women.

No Conclusion

Given the amount of discussion in the industry about the importance of marketing to women, we were surprised by these results. For us, the jury is still out and we think the issue deserves more inquiry.

For a male-female purchasing couple, what is the usual buying dynamic?



Long-Term Industry Trends

When we launched the Kelsey & Norden survey initiative in Spring 2009, we did so to better understand potential changes in consumer behavior emerging from the current economic crisis and to determine if resulting changes would be long lasting. Trends that emerged early and have continued through today include:

Buyers are end users - not speculators.

Since we began in 2009 we have seen this to be a constant trend. Consumers who are seeking out resort real estate post economic crisis are doing so for personal use rather than as an investment vehicle.

Family values amplified.

In 2009, 90% of the industry professional respondents agreed that enhanced desire to connect with family and friends would be a long-term trend emerging from the economic crisis (92% recognized health and wellness). The 2010 Consumer Survey confirmed values had shifted such that more strongly than ever buyers desire the experience of owning a vacation home for the purpose of spending time with family and friends. When asked how the typical buyer had changed since 2007, many of our 2012 sales specialists cited a desire for “family use” and “lifestyle” as driving motivators.

Smaller, practical homes, or at least not bigger!

In 2009, 81% percent of our industry professional respondents indicated that in the initial years of market rebound the square footage of units would have to be smaller. In the 2010 Consumer Survey we noted the dilemma that while many prospects signaled they were willing to accept a smaller home, they were generally unwilling to give up anything but superfluous extras. We see this dilemma continuing with our 2012 sales specialist input: while price remains of paramount importance, the notion of a smaller home as the compromise was received with a neutral response. Consumers still prefer more bedrooms and significant square footage, while demanding lower price points. The initial notion that units would become smaller has evolved into a buyer preference for “practical” size: not necessarily a smaller home but certainly not a home featuring multiple extras like media and other bonus rooms.

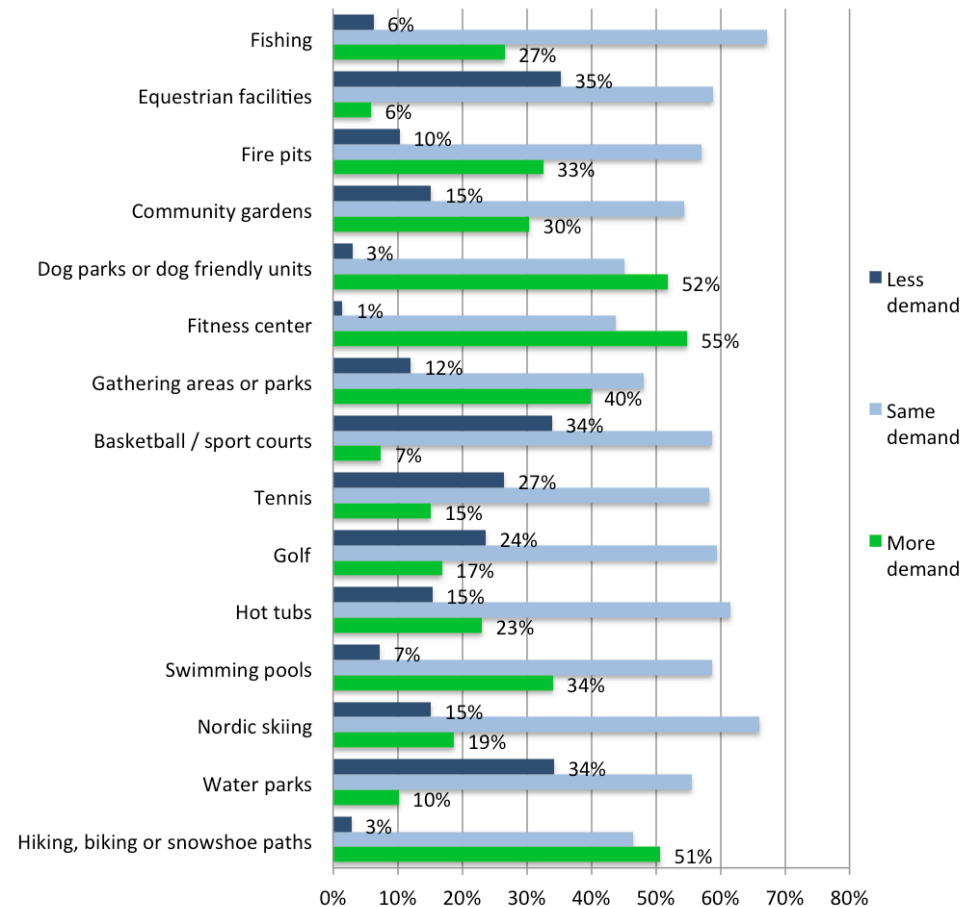
Second homes over vacation homes.

Our 2010 Consumer Survey identified the trend that many Gen X respondents don't see their resort property as a place for vacation but rather "an extension of their regular lives, a second home where they are connected to a community of like-minded friends and can provide their kids an alternative experience to their urban or suburban neighborhoods." Our 2012 sales specialists confirmed this trend of increased use in their responses to the question, "You say that the makeup of your typical buyer has changed since 2007, how has it changed?" The increasing demand for specific amenities supports this change in perspective and desire for more frequent use. Amenities that are associated with regular "day-to-day" use, such as trails, dog parks, fitness centers, gathering areas/parks and community gardens are in more demand.

Built product over vacant lots/land.

In 2009, 59% of the industry professionals noted an increased interest in built product over vacant lots. Subsequent survey results echoed this trend. In 2012, our sales specialists confirmed that lot sales still occupy a very small niche in the marketplace.

How has consumer desire for the following amenities changed in the last 12 months?



Cash is King!

Through our 2010 Consumer Survey we identified this characteristic as a defining trend. Our 2012 sales specialist respondents support this finding as respondents report that 80% of their sales are cash purchases.

What matters most?

In 2009 we asked industry professionals about changes in consumer interests as a result of the financial crisis. Respondents noted an increased interest in product pricing (interest in spending 15-30% less), location (drive-to locations and proximity to a large amenity preferred), sharing amenities to reduce carrying costs, and a focus on programming rather than amenities (especially family oriented / life-long learning amenities and programming). In 2011 and again in 2012 we asked what matters the most to today's consumer. Price, location, carrying costs and amenity package continue to top the responses.

Parting Words

Maybe it's because we are developers and accordingly must be optimists at heart. But we are encouraged that happier days are ahead by the fact that a large majority of sales specialists - excellent proxies for consumers - sampled throughout North America indicate improving market conditions. Their report that both sales velocities have increased and professional outlooks have improved is consistent with our personal experiences in our own projects as well as the anecdotal information we are hearing from our peers around the country. Good products in good projects in the right locations are selling.

Our industry's consumers, although returning with an adjusted perspective, are engaging based on the traditional belief that they are making an investment in their families. The primary element that is changing is that they are doing so in a more practical manner relative to how they approached second home ownership in the early 2000's. While we see this as a change, we are reminded by industry veterans that this is in many ways a return to normal, as their focus on quality time with family has always been a primary motivator. After all, the more things change, the more they stay the same.

That being said, we continue to believe that the arrival of Gen-X to the market (on average 30% of our respondents' customer set) is an important shift as the generation brings a different perspective to the resort experience. Although it is arguable that the difference in perspective is just that - a perspective as opposed to a fundamental difference in approach or values. But we noticed in our previous consumer research that the Gen

X'ers made a point of using the term "second home" in lieu of "vacation home"; the semantics reflect a perceived but important difference in how the generation tends to blur the traditional boundaries of work, play, family time and civic participation. Regardless of whether or not this is "real change," it seems clear to us that the Gen X'ers see themselves as different so it is important that the industry learns to embrace that desire in how we communicate with them.

No matter the generation, "practical" seems to be the new normal. The ideal products identified by our sales-focused respondents are characterized by being right-sized, equipped with "practical luxury" finishes, traditional in their focus on whole ownership and right-priced with an average "ideal product" under the \$1M mark. Perhaps most important, it's evident that today's buyers are highly focused on the utility of their purchase - identifying properties for which they have a clear plan for regular and sustained usage and the intention to own for an extended period.

On the question of what is working in contemporary marketing, as always, it was clear that each region and market has its peculiarities. But at the risk of over-generalization, it does appear that many traditional channels including print advertisements and direct mail have lost efficacy. In contrast, PR-driven editorial and old-fashioned low-pressure referral campaigns are among the most effective. There is also a glimmer of success from new school social media campaigns as well as positive adaptations of applications for mobile devices.

The news that the market is dominated by cash buyers is the most vexing of our findings. Given historically low interest rates, this 80:20 cash to debt ratio should literally be flipped. But a challenging lender environment, largely driven by new governmental regulation, is a significant problem and one that is likely to be long-lasting. While the pendulum has swung too far to consumer protectionism, change at the federal level to existing bureaucracies is historically slow to come.

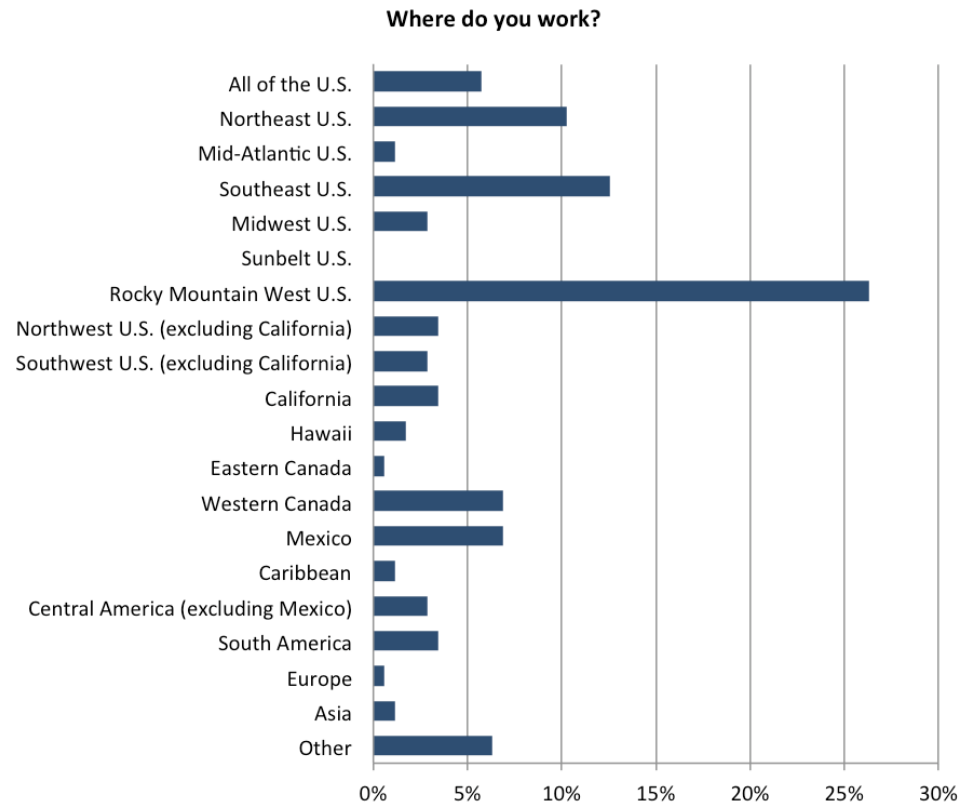
Despite this significant negative and the lack of major new discoveries, we find the key outcomes of this research to be broad new optimism from the front lines and validation of much of what we are hearing from our peers and what we have been reporting over the past few years. Coupled with current national reports that consumer confidence is returning, this all suggests to us that investors and developers who are moving now to prepare either new or newly repositioned communities will succeed provided that they are respectful of contemporary consumer desire.

Chris, David & Claire
Kelsey & Norden
November, 2012

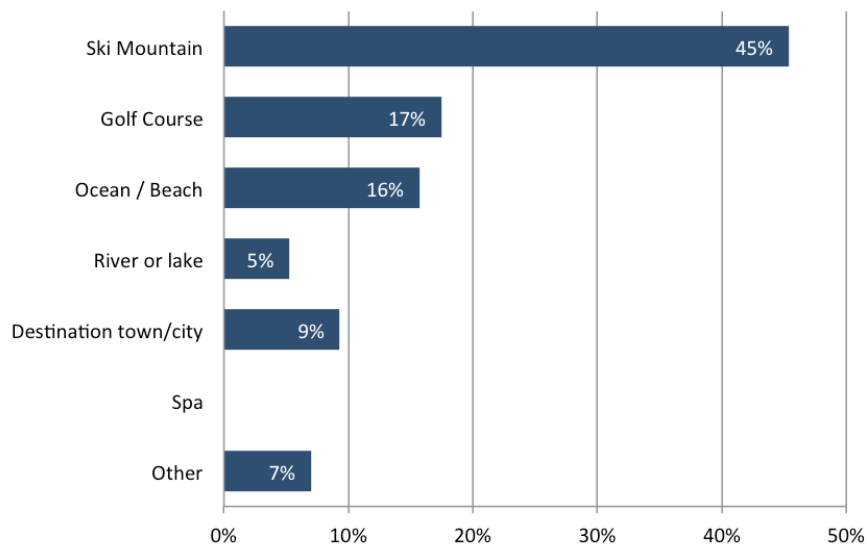
Methodology & Participants

We implemented the Fall 2012 - Resort Real Estate Sales Specialist Survey using the web-based survey service that we have used for the past five Kelsey & Norden surveys.

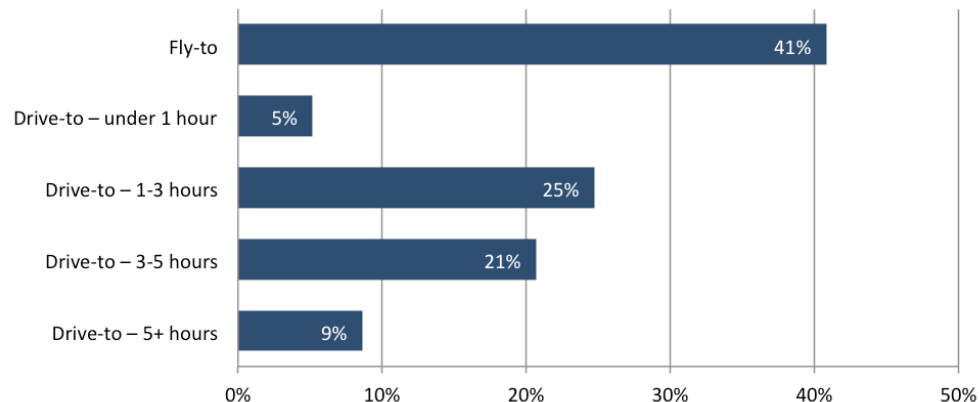
As a result of our industry tenure our invitation list totaled approximately 4000 names including thousands introduced by industry master sales trainer, Craig Lawn, principal of Craig Lawn & Associates. Reflective of our professional portfolios, the invitation list skews toward mountain resort developments in U.S. Northeast and Rockies.



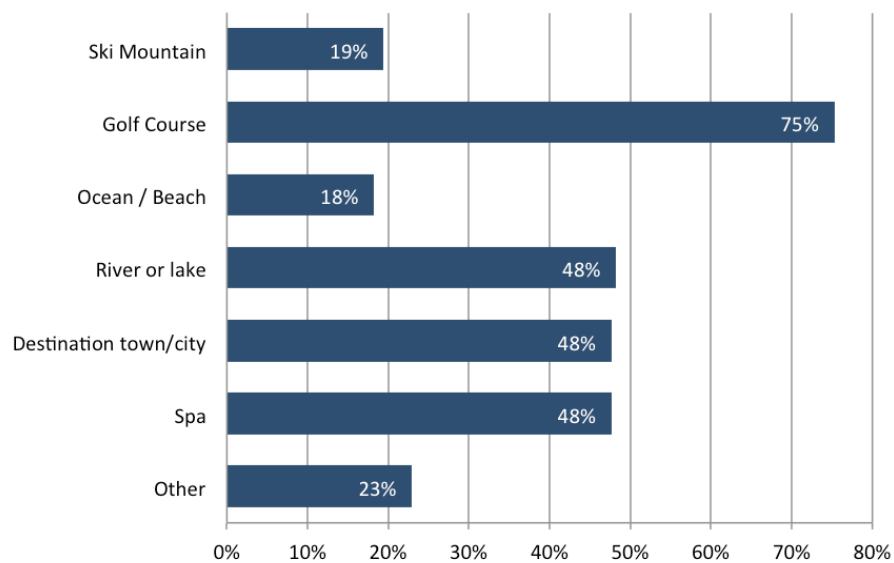
In the market where you work, what is the primary amenity?



For most visitors, is your location fly-to or drive-to?

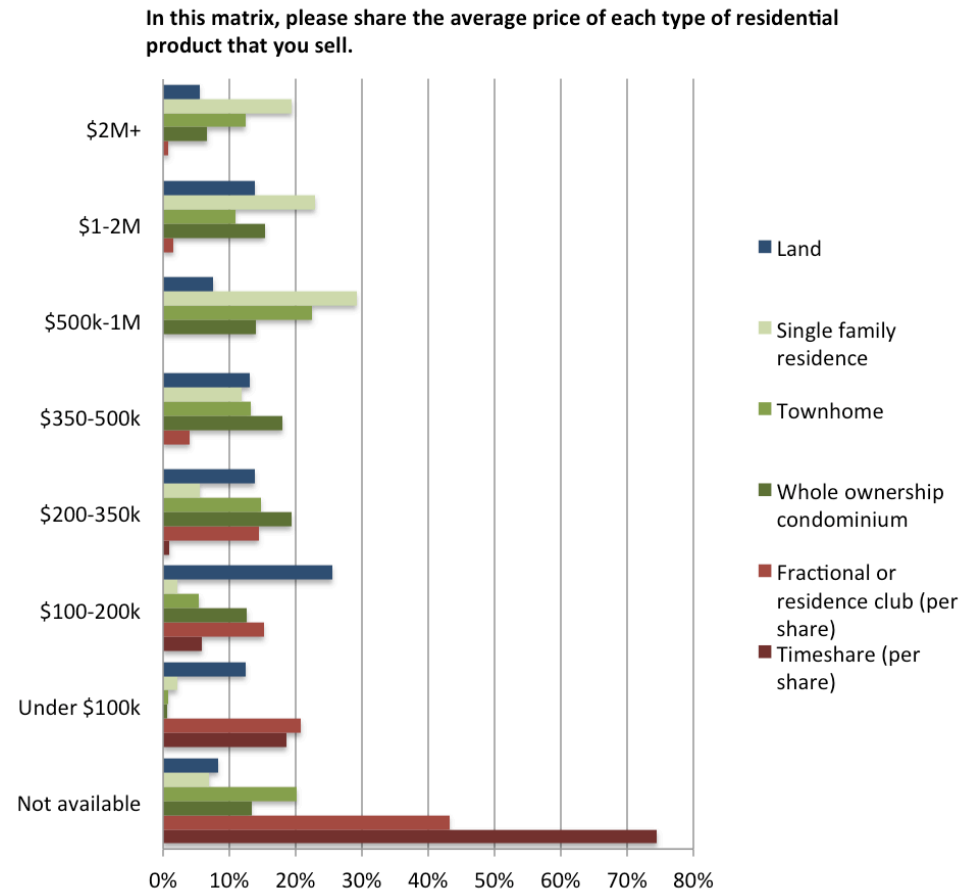


What other amenities are available in your market?

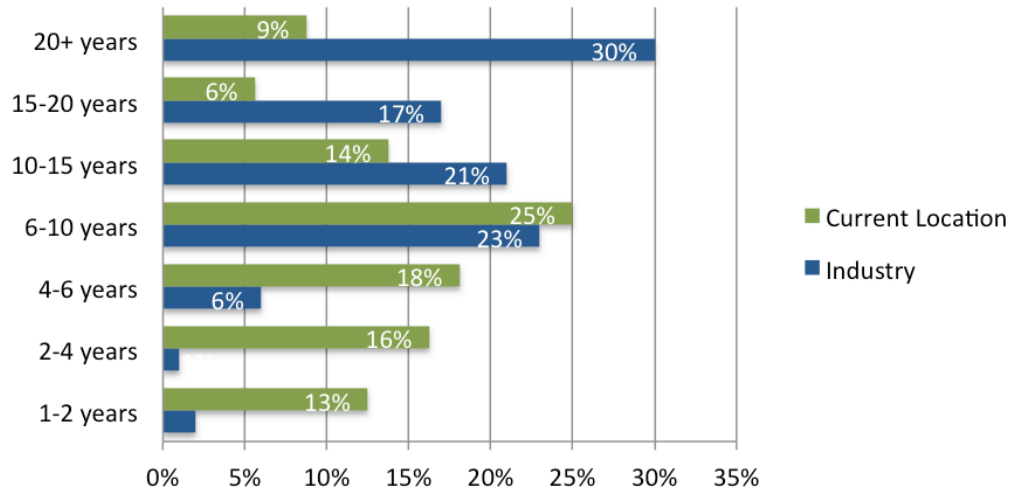


Methodology & Participants

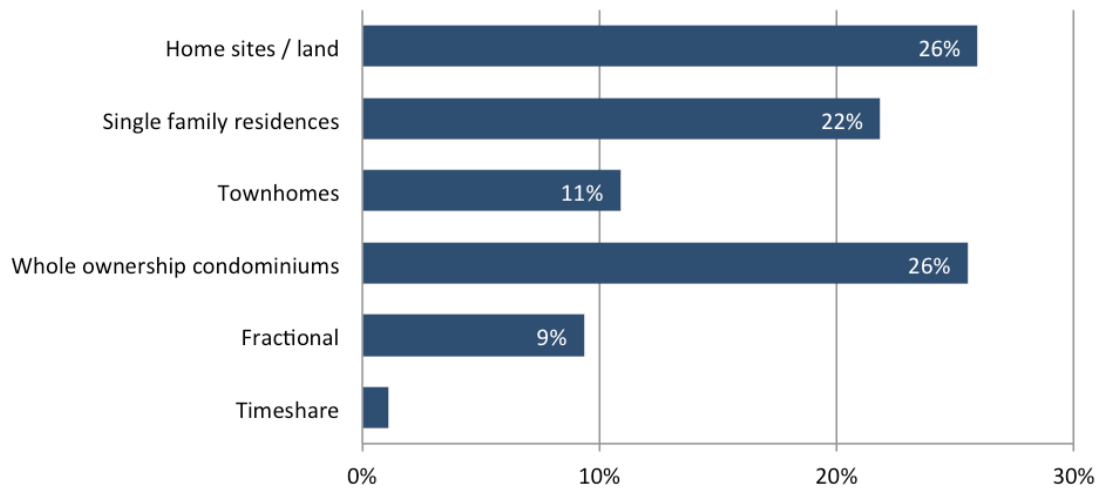
Nearly all respondents said that they have worked in the industry for a minimum of six years, with an impressive 30% indicating 20+ years of resort real estate industry tenure. Product makeups and inventory levels differed respondent to respondent, however, many indicated that the bulk of their inventory consists of whole ownership resale product.



How long have you been in the resort real estate industry and in your current location?



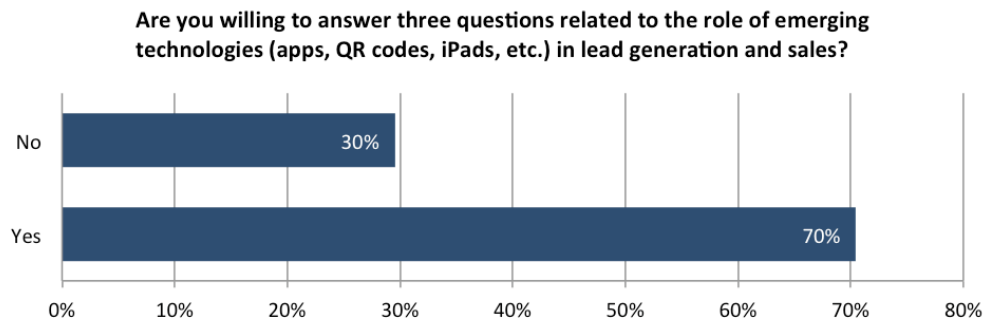
What is the product makeup of your market or development's current inventory?



Methodology & Participants

Invitees were contacted by email with hyperlinks to the survey site. The survey was open for 28 days, August 22 to September 19, 2012. 246 professionals initiated the survey and of that group, 200 qualified as a sales specialist and completed the survey.

The survey consisted of an initial set of qualifying and background questions followed by a core set of 21 multiple choice questions to all participants with potential follow-up questions multiple-choice and write-in questions triggered by certain answers to preceding questions. The survey also included a dedicated section for participants that wished to answer several questions regarding today's marketing strategies and the advancement of social media and other new tools.



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