

Dear Custom House Owner:

It is my pleasure to introduce you to Custom House Leasehold Condominium Association, LLC Board of Directors Newsletter. In this issue, you'll learn about the latest developments taking place at your home away from home in Boston, Massachusetts.

Best regards,

Art Surabian

Board President

Custom House Leasehold Condominium Association, LLC

Custom House Leasehold Condominium Association, LLC
October – 2018 Board of Directors Special Newsletter

Dear Custom House Owner:

Last year at the Annual Meeting, many of the owners who were present expressed many concerns that needed a diligent and informative analysis. The concerns were the main focus of that meeting and, as a result, the Board felt that it was imperative to research and address those concerns.

Matters of this nature as defined in the bylaws are not part of the Board's responsibilities. However, we recognize that it is our duty to act in the best interests of all owners. Therefore, undertaking this project and addressing matters that are of grave concern for many owners required this in-depth study. We hope that the following report provides you with answers as well as background that you may find informative.

The Decrease in the Resale of Owners Weeks

When Custom House became a timeshare property in 1996, the initial purchase price for THE FIRST 500 OWNERS was at a special introductory offering. After the initial offering was sold out, the weeks were broken into two categories, Gold and Platinum. The sales team at Marriott Vacation Club (MVC) began marketing weeks, and the prices were fluctuating based on demand and supply. At one point at the beginning of the millennium, only 2 gold weeks were available and there was a waiting list for platinum weeks. Near the end of the sales program in 2010, the sales team was selling platinum weeks for as high as \$26,000-\$27,000; gold was selling for around \$3,000 less. During that period up to 2010, Boston had begun its transformation that is spiraling today, and owners were optimistic that with the many exciting new plans that the city had on its agenda, prices would continue to move upwards.

As the resale program evolved in 2003-04, buyers were told that if they sold, they would receive 60% of the sale price. With a rising market, folks saw the values of their initial purchase price soar and one cannot question why some looked at it as an investment. Many were optimistic that maybe some day, their 60% return would be close to their original purchase price. Obviously, with the current market, we know that is not the case.

When we reviewed this scenario with the MVC Resale Department, they reiterated the ownership statement within the Custom House Leasehold Condominium Association, LLC Public Offering Statements (page 22), which was given to every buyer at time of purchase. That page clearly states, "The purchase of a Time-Share Estate should be based upon its value for personal use by the Owner, and not considered for purposes of acquiring an appreciating investment or with an expectation that the Time-Share Estate may be resold".

In 2010, MVC ended the original sales program and introduced a new one. The MVC Destinations Program became the new way of conducting business. It also impacted the way owners would conduct their personal business in selling their week(s). Today, MVC is not selling week(s) at Custom House as they were prior to 2010. Instead, the selling of Vacation Club Points has become the business platform.

In preparing this report, we asked why the new program was created. MVC stated that "the Vacation Club Points product form was created to add flexible customized usage options for our owners, broader appeal to customers, and it provided the Explorer Collection." For this report, we interviewed owners and found that the majority of them do not know how to use the MVC Destinations Program that is currently in place. When the program was being introduced, owners were given an opportunity to join the MVC Destinations Program for an initial fee of \$600. Later the fee increased to over \$2,000. Seminars were held and are still being conducted to explain how the plan works, but it was a complex topic and many owners didn't have a firm grasp on its impact.

To that point, in 2015, the Board collaborated with MVC to establish a one-year special incentive for owners to enroll in the MVC Destinations Program for \$595. To date, only 28% of Custom House owners have enrolled.

A better understanding of both the MVC Destinations Program and Marriott Rewards® points is deemed to be crucial. Owners at last year's Annual Meeting recognized that and asked for more concise and accurate information from the Marriott sales team. The Board has invited Tim Hamilton from the MVC Sales Office to conduct a purely instructional presentation at the conclusion of this year's Annual Meeting on November 7th. Tim will be using a 30-minute step-by-step visual slide presentation to give all owners a thorough understanding on how to navigate the resources that are readily available to them as well as showing how an owner can use their points to the optimum. For those who cannot attend, a printed overview is being planned and will be addressed in the first Newsletter of 2019.

Current Resale Program Status

As we all know, the resale of time-shares has plunged. Over the years, MVC has had a couple of resale programs that have been turned "on and off" for various business reasons. MVC does not guarantee that any past or prospective resale programs will continue or go unchanged.

Many owners expressed concerns at last year's Annual Meeting about the lack of information that was being provided regarding the sale of their week(s). In the April and July Newsletters of this year, the Board published updates based on extensive discussion with the Resale team.

Re-establishing a Resale Listing Program

In the April Newsletter it was reported that MVC's Resale Operations Department had temporarily suspended sales. There was a waiting list and you were told that you could contact them in order for your week(s) to be listed. As things have progressed, you need to REGISTER as SOON as POSSIBLE since MVC anticipates the resale listing program will commence during the 4th quarter of 2018. Prices are being finalized as of this writing, and the Director of Resale told us that the prices will be fair with the focus of the program being a quick sale within 4-6 months of listing. Based on prior resale results, they stated that the sales price that they have offered has been better than those being offered by third-party companies.

Thinking outside of the box, on September 1st we explored the website, Redweek.com, a third-party resale site that is recognized as a reputable source. Please note, however, that the Board does not endorse any third-party firms. There were 5 weeks listed on Redweek.com. One Gold season week was listed for \$400, and the following listings were for Platinum weeks: \$799, \$1,500, \$2,500 and \$7,000.

There are a few third-party companies that solicit listing with them for a "fee to list". MVC's Resale Operations Department strongly urges that you do not pay any money to third-party companies prior to listing or selling a week. Recently there have been television commercials promoting this concept.

You can contact MVC's Resale Operations Department directly for answers on selling your week(s). You may contact them with your resale or deed-back questions at: Phone: 866-682- 4547 Monday thru Thursday 9:00 a.m.-5:00 p.m.; Friday 10:00 a.m.-5:00 p.m.

If you prefer to email, their email address is: Resale.operations@vacationclub.com.

Please note that All Resale Operations programs remain subject to change at any time, so please contact the Marriott Vacation Club Resale Department for more information at your convenience.

Update on the Deed-Back program

The Deed-Back program has been a very effective tool for Custom House owners over the past few years. Prior to its inception, owners who wanted to simply give back their week(s) had to go through a cumbersome and costly procedure. Liens were imposed in the past which came with charges and interest before an owner could give back their week(s).

The Custom House Board of Directors challenged this policy and collaborated with the Resale Department to change the program. The way it works today is quite simple. There are no longer liens, nor the costs related to them being imposed. If an owner wants to relinquish ownership of their Custom House timeshare week(s), they simply need to be current with their 2019 maintenance fee(s), use the week(s) as they choose during 2019, and notify Resale Operations prior to September 1, 2019 if they want to do a Deed-Back to Marriott Vacation Club. In doing so, owners will relinquish usage and maintenance fee obligations beginning in 2020.

The Devaluation in the Distribution of Marriott Rewards Points in Exchange for a Custom House Owners Week(s).

The argument posed by our Board on this matter has not resulted in any changes in the program. Three years ago, the Board vigorously sought an adjustment in the Marriott Rewards points that were being issued to an owner in exchange for their week(s). When the program originated in 1996, a Gold week exchanged for 110,000 Marriott Rewards points and Platinum had a 125,000 points exchange rate. The argument that was made back then is still active today. Maintenance Fees are increasing each year, the number of Marriott Rewards points needed to stay at another resort has more than doubled and yet the Marriott Rewards points remain stuck at the 1996 levels.

Three years ago, when the Board asked for an increase in the Marriott Rewards points being awarded in exchange for week(s), it was noted that changes in the Marriott Rewards exchange program were not being considered at that time. Custom House could not be singled out as the recipient of an adjustment. The question was posed again this year and things remain status quo.

During the process of investigating this matter, a board member researched their deed and upon reading the following, you will learn that this matter, as well as black-out dates, have been clearly defined and that there is no window for any negotiations.

RULES & REGULATIONS FOR MARRIOTT'S CUSTOM HOUSE LEASEHOLD CONDOMINIUM TIME-SHARE – MARRIOTT REWARDS PROGRAM

BLACK OUT DATES

Neither MORI nor Marriott guarantees that an Eligible Owner participating in the Program will be able to stay at a particular participating Marriott hotel or resort during any specific time. Over-demand at various participating Marriott hotels and resorts may result in "black-out" dates during certain seasons of the year resulting in Eligible Owners desiring to stay at a particular Marriott hotel or resort during a particular season not being able to do so.

REWARDS PROGRAM

d. ALTHOUGH MORI CURRENTLY INTENDS TO CONTINUE THE PROGRAM INDEFINITELY, THE PROGRAM MAY BE TERMINATED AT ANY TIME BY MORI PROVIDING WRITTEN NOTICE TO ELIGIBLE OWNERS. IN THAT EVENT, THE RIGHT TO TRADE A USE WEEK FOR MARRIOTT REWARDS POINTS WILL END. MARRIOTT MAY TERMINATE THE MARRIOTT REWARDS PROGRAM, UPON WHICH THE PROGRAM IS BASED, AT ANY TIME AS DESCRIBED IN THE THEN CURRENT MARRIOTT REWARDS MEMBERSHIP GUIDE.

e. MORI RESERVES THE RIGHT TO CHANGE, LIMIT, MODIFY OR CANCEL ANY OF THE RULES, REGULATIONS, CONDITIONS, AWARDS OR AWARD LEVELS PERTAINING TO THE PROGRAM, WITH OR WITHOUT NOTICE, IN ITS SOLE DISCRETION, AT ANY TIME. THAT INCLUDES, WITHOUT LIMITATION, DECREASING THE NUMBER OF MARRIOTT REWARDS POINTS AN ELIGIBLE OWNER WILL RECEIVE FOR THE TRADE OF A USE WEEK. MARRIOTT AND ITS TRAVEL PARTNERS ALSO HAVE THE RIGHT TO CHANGE, LIMIT, MODIFY OR CANCEL THE MARRIOTT REWARDS PROGRAM RULES, REGULATIONS, AWARDS, AND AWARD LEVELS, WITH OR WITHOUT NOTICE, IN ITS SOLE DISCRETION, AT ANY TIME. THAT INCLUDES INCREASING LEVELS OR NUMBER OF POINTS REQUIRED FOR AN AWARD, CHANGING AWARDS, ADDING BLACKOUT DATES, LIMITING ROOMS AVAILABLE AT ANY MARRIOTT HOTEL, RESORT OR SUITES FOR AN AWARD, CHANGING LOCATIONS SERVED BY MARRIOTT OR BY ITS TRAVEL PARTNERS, OR CHANGING OR CANCELLING ITS TRAVEL PARTNER AWARDS. IN THE EVENT THAT ANY OF THESE CONDITIONS OCCUR, MEMBERS MAY NOT BE ABLE TO OBTAIN CERTAIN AWARDS.

The Increase in Maintenance Fees and the Concerns of Future Affordability for Custom House Owners

The concerns expressed concerning the increases year after year in the maintenance fee are valid. In 2014 the budgeted maintenance fee was \$1378 plus a \$300 special Reserve Fee; in 2015 it was \$1550; in 2016 -\$1,658; in 2017- \$1765 and in 2018- \$1845. Yes, the economic boom that Boston is enjoying has resulted in it becoming a very expensive city to live in and visit. Hotel rates are double what they were five years ago.

Parking fees, restaurants and entertainment costs have skyrocketed. In recent studies, Boston is ranked #11, ahead of Los Angeles in the “most expensive cities in North America survey”. There is no silver bullet that will reduce costs; however, the management team is extremely diligent in its efforts to bring a reasonable budget before the Board each year. Throughout the year, extraordinary expenses do make meeting the budget challenging.

The reserve fee is an important part of the annual budget. Custom House is an old, historic building. Every year the Reserve Fund is challenged with unexpected expenses and items associated with wear and tear. Furthermore, the maintenance of the façade has become a priority. Inspection reports and the repairs recommended are given diligent attention.

Old buildings are irreplaceable and beautiful, but unfortunately expensive to maintain. In addition to current systems that need to be upgraded in order to comply with changing ordinances, the normal wear and tear of pumps, generators, and motors require costly repairs or replacements. The costs to maintain the clock tower, façade, and observation deck have exceeded 2 million dollars over the past five years and the maintenance of those areas is ongoing each year. In addition, the age of our building requires extra steps and considerations when work is to be performed. For example, in 2017, the Boston Fire Department required upgrades. Originally the project was budgeted for \$500,000; the final cost to upgrade the alarm system exceeded \$900,000. That, extra-step factor and changes to the scope of a project presents a major challenge to the management team.

Other programs that are ongoing are the renovation programs. Every five years there is a renovation plan that is executed and every 10 years a major renovation. Keeping Custom House a beautiful, comfortable, safe haven for guests and owners is costly and with each passing year, it becomes more challenging.

The following section of this report was independently prepared by a Board member to provide you with a financial analysis for the period of 2014-17. We hope that it helps you better understand the financial picture. You will find the footnotes at the bottom of each page very helpful.

The first three charts presented will provide you the ACTUAL Income and Expenses over the past 4 years, a graph to illustrate the trends, and an ACTUAL Maintenance Fee schedule for the past 4 years. The difference between the Budgeted Maintenance Fee and the Actual is reflected in the Reserve Balance. The Board feels that a Cash Reserve Balance in the operating fund in the \$300,000-\$400,000 range is a conservative goal. You will notice that the escalation of costs in Guest Services is indicative of the growth that the city of Boston is experiencing. The labor market rates are climbing and to insure the high standards and performance that our associates provide, it is imperative to maintain a competitive salary and benefits program for them.

MARRIOTT VACATION CLUB PULSE at CUSTOM HOUSE

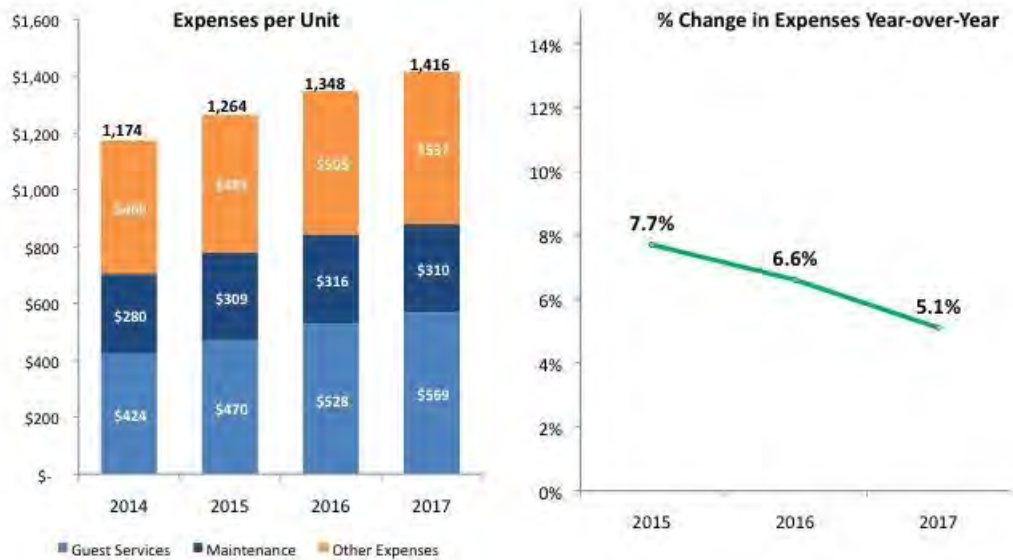
Income Expense Fund Balance – 2014-2017

	Actual 2014 Full Dollars	Actual 2014 Per Unit 4284	Actual 2015 Full Dollars	Actual 2015 Per Unit 4284	Actual 2016 Full Dollars	Actual 2016 Per Unit 4284	Actual 2017 Full Dollars	Actual 2017 Per Unit 4284
Operating Fund								
Total Revenue	5,111,066	1,193.06	5,429,266	1,267.34	5,781,871	1,349.64	6,253,638	1,459.77
Expenses								
GUEST SERVICES	1,817,750	424.31	2,014,989	470.35	2,261,281	527.84	2,439,362	569.41
MAINTENANCE	1,200,187	280.16	1,322,724	308.76	1,353,208	315.87	1,329,751	310.40
OTHER OPERATING EXPENSES	2,011,046	469.43	2,078,875	485.26	2,161,465	504.54	2,299,133	536.68
Total Expenses	5,028,983	1,173.90	5,416,588	1,264.37	5,775,954	1,348.25	6,068,246	1,416.49
% INCREASE			7.7%		6.6%		5.1%	
Operating Fund Excess (Deficit)	82,083		12,678		5,917		185,392	
Fund Balance Begin of Year	204,908		286,991		299,669		305,586	
Fund Balance Txf to Reserve Fund							(200,000)	
Fund Balance End of Year	286,991		299,669		305,586		290,978	

- **Guest Services:** increases are driven by Housekeeping and Front desk, which are labor intensive. Salaries have increased to maintain parity in the Boston market.
- **Maintenance:** increases are driven by maintenance & repair. The Custom House is an old building and needs constant upkeep. Electricity and steam are also drivers.
- **Other Operating Costs:** increases are driven by Marriott Fees, by contract 10% of Maintenance Fees, and Pilot Fee (Payment in lieu of Real Estate Taxes paid to BPDA).
- Overall Management has performed well as the percent of year-to-year increase has trended lower.

MARRIOTT VACATION CLUB PULSE at CUSTOM HOUSE

Income Expense per Unit and Percent Change – 2014-2017



MARRIOTT VACATION CLUB PULSE at CUSTOM HOUSE

Maintenance Fees – 2014-2017

	Actual	Actual	Actual	Actual	Actual	Actual	Actual
	2014	2014	2015	2015	2016	2016	2017
	Full Dollars	Per Unit	Full Dollars	Per Unit	Full Dollars	Per Unit	Full Dollars
Maintenance Fee	5,028,983	1,173.90	5,416,588	1,264.38	5,775,954	1,348.26	6,068,246
Reserve Fee	995,418	232.36	1,367,324	319.17	1,490,383	347.90	1,549,988
Special Assessment	1,285,200	300.00	-	-	-	-	-
Total Fee to Unit Holders	7,309,601	1,706.26	6,783,912	1,583.55	7,266,337	1,696.16	7,618,234
	% Inc. Over		% Inc. Over		% Inc. Over		% Inc. Over
	Prior Year		Prior Year		Prior Year		Prior Year
Maintenance Fee	2.1%		7.7%		6.6%		5.1%
Reserve Fee	23.9%		37.4%		9.0%		4.0%
Special Assessment	N/A		NM		N/A		N/A
Total Increase in Fee to Unit Holders	27.6%		12.6%		7.1%		4.8%
Summary Maintenance & Reserve Fees	7,309,601		6,783,912		7,266,337		7,618,234

- In year 2014 we had a Special Assessment to conduct necessary repairs to the Custom Façade due to water leaks and corrosion.
- In year 2015 the Maintenance fee decreased 7.1% if you include the Special Assessment.

The following table will provide you an overview of the Reserve projects for the period from 2013-17.

MARRIOTT VACATION CLUB PULSE at CUSTOM HOUSE

Reserve Fund Expenditures by Year – 2013-2017

Reserve Fund Expenditures	2013	2014	2015	2016	2017	Total
Refurbishment			911,931	3,000,000	8,000	3,919,931
Façade Repairs	80,568	186,919	1,122,963			1,390,450
Furnishing & Equipment	6,382				496,670	503,052
Common Areas Rehab				281,152	7,251	288,403
Internet Upgrade			235,842			235,842
Cooling Tower Expense	21,683	107,414				129,097
Heat Pumps	60,131	15,841	12,808		11,205	99,985
Window Sound Proofing		53,162			24,987	78,149
Surveillance Camera System					60,507	60,507
Heat Exchanger	36,850	21,201				58,051
Pump Condensate		41,675	13,630			55,305
Lock Set Assemblies Door	50,251					50,251
Door Replacement/Refurbishment	3,840	12,278	16,899		11,672	44,689
Fire Alarm System Upgrade					37,195	37,195
Generator Fuel Tank Repair		28,826				28,826
Housekeeping Equipment					16,573	16,573
Miscellaneous	2,597	4,907		5,352		12,856
Steam Coil				12,161		12,161
External Building Maintenance	11,250					11,250
All other expenses < 10K	40,530	3,130	20,733		52,497	116,890
Sub-total	\$ 314,082	\$ 475,353	\$ 2,334,806	\$ 3,298,665	\$ 726,557	\$ 7,149,463
Federal Tax Provision	2,975	10,114	11,609	4,309	4,755	33,762
Total Expenditures	\$ 317,057	\$ 485,467	\$ 2,346,415	\$ 3,302,974	\$ 731,312	\$ 7,183,225

The Concern that the Maintenance Fee Increases are in Excess of Published Inflation Rates

Yes, maintenance fees are higher than the Consumer Price Index (CPI). The CPI for Boston in 2017 was 2.5% and thru July of 2018 it was approximately 3.4%. However, the CPI does not reflect the unique expenses necessary to manage a historic landmark located in the heart of a booming city.

Indeed, managing a timeshare in Boston has become more challenging than ever. Regretfully, we cannot forecast that maintenance fees are going to decline. Maintaining the property is complex and the management team oversees it with the highest degree of due diligence.

Where do we go from here? We forecast that you will see modest increases in the maintenance fees each year. For 2019, the management team has proposed a 4.4 % increase for the Board to review prior to this year's Annual Meeting, which will be held on Wednesday, November 7th. To provide you some comparisons, we researched the fees for a few time-shares. In New York City, the Manhattan Club maintenance fee is listed as high as \$3,475. The maintenance fee for three South Carolina resorts that we researched averaged \$1,400. With the exception of New York City, none of those resorts are located in a city that has a cost of living comparable to Boston.

When examining Boston's nightly hotel rates in late September, it was noted that hotels like Long Wharf were charging \$805 a night. The nightly rate listed for Custom House was \$532. The average cost per night for Custom House owners when you divide the annual maintenance fee by 7 is \$264 a night, a savings of \$268 per night, or \$1876 per week. To that point, ownership does have its value, but unfortunately, last year only 6% of our owners chose to stay at Custom House. Those that do stay enjoy the splendor of a property that was ranked #1 worldwide of all MVC resorts in 2017 for a fraction of market prices.

Interval International[®] is still an option for owners, as are Vacation Club Points and Marriott Rewards points, and whether the points have value to Custom House owners depends on how informed they are on how to exchange their week(s). That is why the workshop on November 7th that we outlined earlier is extremely important.

Summary

We hope that this report has provided you a better understanding of the events of the past as well as providing you direct answers and some options for you to consider as you move forward with your lives. If we have achieved that, it will be most gratifying to each member of your Custom House Board of Directors. Lifestyle changes do affect the value of timeshare ownership, and events that have occurred over the past 8 years have changed ownership of a timeshare at Custom House dramatically. For those who stay at the property, the value remains very high. However, owning a timeshare in Boston has become expensive.

Current News

Facade Inspection

In August 2018, the façade inspection was completed by Simpson, Gumpertz & Heger, Inc. The Board has received a copy of the report and has asked Susan Knack-Brown, a Principal of SGH, to review the report on November 7th at the scheduled Board meeting. The Board is diligent in scheduling required and periodic inspections and addresses recommended repairs to the façade in a timely manner. The building's age requires a vigilant approach in addressing the repairs that are recommended, and in doing so, major expenses are more likely to be avoided. The management team has taken the initiative to include an allocation for repairs in the Reserve Budget. Phase 2 of the initial façade repair plan is already included in the 2018-19 budget. Those repairs budgeted for 2018-19 include: repairs to the Observation Deck, Eagle Suite balconies and the lower roof repairs.

Fire Alarm System Upgrade

Phase 1 of the upgrade is due for completion by year-end. The installation of new wiring and panels is being done in preparation for the final phase, which is scheduled to begin in January 2019. At that time, the new system will be connected to every villa room and will include testing and the installation of new panels and new smoke detectors. Completion of the final phase is anticipated to conclude by the end of March 2019. Beginning in January, eight rooms will be taken out of service each week for approximately 5 days, so this important upgrade can be completed.

Again, please note that the Annual Meeting will be held on Wednesday, November 7, 2018.

In closing, we send our wishes for a wonderful autumn and extend our best wishes to you and your families for a Happy Holiday Season. May 2019 bring you much happiness and good health.

Sincerely,

Arthur Surabian

President

Board of Directors

Custom House Leasehold Condominium Association, LLC

Board Members:

Hugh Drummond, Vice-President

James Young, Treasurer

Phillip Lynch, Secretary

Stephanie Sobeck, Director