

ASPEN HIGHLANDS CONDOMINIUM ASSOCIATION, INC.

Tourist Accommodation Directors representing The Ritz-Carlton Club, Aspen Highlands Members

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PRESIDENT: *Randy Mercer*

VICE PRESIDENT: *Tyler Oliver*

TREASURER: *Robert Harris*

DIRECTOR: *Joel Alper*

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COMMERCIAL DIRECTOR: *To be named shortly*

\* Aspen Highlands Condominium Association Director who is a Ritz-Carlton Club Member

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President's Annual Communique

October 21, 2014

Dear Members,

The Annual Meeting of the Aspen Highlands Condominium Association, Inc. was held on October 11, 2014. A minimal number of our 876 Members attended in person or by teleconference, but it certainly was good to see familiar friendly faces and great to have an open forum discussion with those in attendance. There were great questions and comments with everyone "seeking to understand" the issues and actions in a meaningful way. Thanks to all of you who took the time.

First, we wanted to let all 876 Members know we are looking for better, more effective ways of keeping everyone informed about routine happenings. Since 2002, the method has been the same, either expensive paper letters or email blasts, but with improved technology, we can and will strive to do better. The Board will be tossing ideas around, so if any Member has productive thoughts or better yet belongs to a local Club with better communication options, please let us know.

Also, we would ask you to please communicate with the email address above and below. High volume, multi-Member chain letters are problematic with our personal company servers, so until we make some improvements, please use [ahcaboard@gmail.com](mailto:ahcaboard@gmail.com) to communicate. Also, if you change your primary email address or mailing address please let Member Services know. If we don't have updated information, we can't communicate with you. We are volunteers with real jobs and lives other than The Ritz-Carlton Club, Aspen Highlands work, but promise to return email as soon as we can.

A fact you may not know: The Aspen Highlands Condominium Association is not just comprised of the 876 Ritz-Carlton Club Members. Our Board Membership includes 4 Members from the Tourist Accommodation category (The Ritz-Carlton Club, Aspen Highlands Members), 2 representatives from the Community Housing category, and 3 Members from the Commercial category (1 from our Commercial Activities (Willow Creek Bistro, Caffé Siena, and Elkhorn Lodge Spa), 1 from Aspen Ski Company who runs the mountain, and 1 from the commercial office / retail Ownership entity). Add to that the PLDA Board (Parking & Loading Dock Association) and the Master Association: Metro District Board, which addresses the roads and infrastructure in the adjoining neighborhoods on both sides of The Ritz-Carlton Club, Aspen Highlands. There are a lot of moving parts, serious consensus building, and people to consider. We participate in managing the entire Aspen Highlands Village not just our piece of it. Just in case you didn't know.

Next, we would like to thank Mr. Phil Schneider for his service on the Board. Phil's term has ended and we thank him for his guidance and wisdom. Without his help, our many accomplishments the last 3 years would have not been possible. He is an advocate of the Members and The Ritz-Carlton Club, Aspen Highlands and we appreciate his service.

We would now like to welcome Mr. Joel Alper to the Tourist Accommodation Board. Joel has served as our Commercial Board Member and in a leadership role at Willow Creek Bistro, Elkhorn Lodge Spa, and Caffé Siena for the past year. Joel, thanks for stepping up and we look forward to your continued assistance.

The News: So many great things have happened this year which are difficult to put in just a few words, so this message may be lengthier than usual. So in no particular order.....

Stability: Your Board has always believed that stability in every area produces significant results, not only in Member satisfaction, but also in employee satisfaction, leadership and staff turnover, fiscal responsibility, and one of the hottest topics – real estate values. Every conversation and decision has a basis grounded in the concept of creating stability. Stabilize the Brand, stabilize the Team, stabilize the budgets, stabilize the values; the list is endless. 2014 will be known as a year of unwavering focus in the stabilization efforts and results every Member should experience in the trickle down of benefits.

Completed Real Estate Agent Training: At your Board's suggestion, selected local Pitkin County real estate brokers, whose combined activity totaled more than 90% of fractional sales in the market area were invited and attended a comprehensive symposium and educational seminar at the Club, sponsored by The Ritz-Carlton Management Company (RCMC). Over the years it has become apparent that misinformation and lack of product knowledge may have contributed to reduced sales and lower prices. Updating of valuable information was shared, illogical or irrational rumors were dispelled, and product and operational knowledge was disseminated to everyone. Continued efforts will be made to fulfill the brokers' quest for knowledge and hopefully contribute to stabilized values and ultimately - increased values. You can't sell something if you don't understand the product and how it works.

Resale Office In-House: With much pride, we have encouraged Ivan Skoric to return to the Club to assist Members in the resale and additional purchasing of their fractional homes. As most of you know, Ivan worked for many years for the Developer in the "new-product" area, but was unable to assist Members in their ongoing resale needs. No one in the market area has as much knowledge of our product as Ivan. He will not only be listing and selling inventory for our Members, but also assisting in limited fashion any developer product sales, performing general real estate activities in the Valley, and most importantly, continue to create value by his relationship with local brokers. His office, affiliated with Coldwell Banker Mason Morse, is in the former business center right between the lobby and Willow Creek Bistro in Elkhorn Lodge. He is set up and ready to assist in any way. His direct-dial number is (970) 618-7865 and his email address is [AspenIvan@gmail.com](mailto:AspenIvan@gmail.com). Please contact Ivan with all of your real estate questions.

Resale Values: There are many diverse reasons for selling – bad knees (no more skiing), changing demographics, family and lifestyle changes, aging Members (health issues), financial, cost, time and the airline travel to Aspen, and reduction in additional Club experiences. The reasons are as diverse as our Members are. Some are patient Sellers and some are not. At meeting time, the resale market had generated 17 sale transactions YTD at the Club, with a mixture of sizes, weeks (fixed, summer and winter). The bottom was a 2-bedroom trading at \$25,500 (we foreclosed on a Unit for non-payment of dues and resold it on a closed-sealed bid) and the top was \$75,000 for a 3-bedroom winter. Most sales were in Elkhorn Lodge.

Current multiple listing reports show that 41 The Ritz-Carlton Club, Aspen Highlands units are on the market ranging \$23,500 on the low to \$349,000 on the top, with everything else in between. There is no rhyme or reason for the pricing spreads, however it proves the assumption there is no specific reason for selling. Typically there is a 4<sup>th</sup> quarter drive to the bottom if Members want to sell before year-end. We will follow Q4 and update with a 2014 total. Ivan will be a big help here. Please give him a call if you would like real time data. He is here to serve our Members.

#### Around Aspen:

1. The Hyatt has 80+ listings from \$23K - \$530K with 35 trades from \$43K - \$317K.
2. The St. Regis has 18 listings ranging from \$140K - \$585K with 12 YTD trades from \$160K - \$437K. \* An interesting data point - the St. Regis has only 25 fractional units so having 18 on the market is a very high percentage.
3. The Dancing Bear has 14 sales with prices from \$695K - \$795K. More allocated time per unit seems to be a factor as well as a growing exchange platform which seems to be the main driver.

\*Of course, downtown Aspen is different than Aspen Highlands. Different product, different place, and a different submarket.

The Selling of Remaining Developer Owned Fractional Units: Our largest Member by every metric is still The Ritz-Carlton Development Company, Inc. (RCDC / Marriott Vacation Worldwide (MVW)). They pay full annual dues to the Association of approximately \$1,400,000.00 on their remaining 120 +/- owned units. They pay on time and without hesitation. They pay almost double in Association fees compared to what they receive in Management fees. Without their contribution, we would be in a very tenuous financial position. They are Members like the rest of us and have been ever respectful of the Association economics. They have given thousands of nights to the Members over the years to insure space available at no cost to us. As much as we don't like the last five years, they have been good Members on the payment and contribution side.

It is also probably good to remember that RCDC would have preferred to have sold their inventory many years ago. The recession, value adjustments, and market conditions (both external and self-imposed) have pushed the reset button for many of us and RCDC

was not excluded in that reset. But now that the bottom has reached Aspen, things should hopefully trend upward in all product types.

One should also be mindful that The Ritz-Carlton Hotel Company LLC (RCHC) and Marriott International are typically managers of properties owned by third parties and not typically real estate owners. Management is their specialty and for the most part, they do it well. MVW owns and manages many clubs throughout the world. Ownership can be painful and slow in a down market. We all understand that one.

So, RCDC has finally started to market their remaining fractional units in a rational way. The first effort was to come to Aspen Members who love the property and wanted an opportunity to purchase more. Families grow, Grandkids start to ski, and many other personal reasons arise for another unit. A market study was conducted; prices were “marked to market,” and a Member offering started in August. The very best units were sold long ago so this inventory is a mixed bag of time and size, fixed and floating with more 2 bedrooms than 3 bedrooms. There were additional discounts available to Aspen Members which will not be offered to outsiders.

The reported result is 30 offers to purchase as of last week, with 23 of them being current Aspen Members who want to own additional units. That is a significant percentage and proof that not every Aspen Member is dissatisfied. The other offerees were friends and family of Members. The closings have not occurred, but when they do, we will report the prices. The next step is to reach out to the California market which is deep with fractional buyers who want value, a gold standard brand name, and a short, inexpensive distance to travel.

We are all interested in this effort and curious if the momentum will be sustainable within 2015. If so, we will have new Members to meet and greet at Willow Creek Bistro and Member functions. In order to stabilize values, the low hanging fruit must be harvested. This could be the first step in that value stabilization evolution.

Financial Success of Willow Creek Bistro and Caffé Siena: Our ownership of Willow Creek Bistro, Caffé Siena, and Elkhorn Spa is trending very well. All revenues are up and the total of all profit centers are in the black year to date. Gross revenues have increased over last year to date and bottom line profits have also increased during the same period. Willow Creek Bistro has had a minimal year to date loss of \$23K, which is \$52K better than budget and \$66K better than last year. We still have one remaining quarter with very little revenue in October / November and some fixed costs which will adjust the year-end total, but all in all it has been a great year for Willow Creek Bistro. Willow Creek Bistro will continue to be closed in the off season and Monday and Tuesday in season in order to fiscally manage the asset. Nick DiMeglio, the Chef, and all of the team should be as proud as we are of them. We are managing these times with a prudent eye on cost containment at Willow Creek Bistro and the other profit centers. Many of our Members have expressed satisfaction in not only the trends, but also the enhanced menus which change seasonally and the staff which gets better every year. The credits for these changes belong solely with our on-site stabilized management team and talented professionals on and behind the line. They are talented, responsive, and can compete with the best in town. Many of our Members belong to local clubs at home and understand the challenges with club food service operations. All of these positives and lots of snow make the difference. Thanks to all for supporting these amenities – they belong to you. If every Member would have one more meal each week, we could hit \$0. One more time – pray for snow. We have a short window for great weather and great business. The first snowfall flight cancellations came last Sunday, so it could be a good year.

The Club is in Great Financial Shape: Our Club is not only in the best financial shape ever, but is the envy of all the other Clubs – not just this year but through all of the years. Our delinquency rate is less than 1%, efforts which were put in place by our prior Boards are more strictly enforced, and our Members have pride in paying their dues. Some Clubs have experienced huge delinquencies, but not Aspen. This is a historical fact and the financial expertise came early with John Sternfield, Sal Cutrona, and Jay Neveloff, all of the original Board leadership with whom I served and learned a lot. We owe these guys a lot of gratitude.

The 2015 Operating Budget has a 1.5% increase and the 2015 Reserve Budget is adjusting up by 6.4%. The combined budget is adjusted upward by 2.3%, keeping with inflation. \* Our reserve studies (available on the website) show that by keeping our reserve balances in conservative, risk-averse funds, the interest received is next to nothing. The lack of compounding has restricted monetary fund growth while fixtures, furniture, and equipment continue to wear out needing replacement. The choices are difficult, but yet simple in nature. We either continue to reserve at 100% so the Club will remain an outstanding, well-maintained home, keeping the asset stabilized and refreshed when needed, or let it deteriorate as when there were no reserve funds over a decade ago. A little each year is better than a lot at one time.

Member Usage – Higher Occupancy for the Year: Aspen Members who love Aspen use it a lot. Reserved Allocation nights through Q3 were 7,418 nights up from 6,992 in the same period 2013. Space Available Member usage by Aspen Highlands Members (everyone wants the same time period, it seems) was 792 up from 730 while outside Club Members usage dropped to 233 from 350. It is just not true that outside guests from other Clubs and other venues are eating up all of our space available. The numbers just don't show

that. On the outbound, Aspen Highlands Members confirmed space available into Sister Clubs for 1,080 nights up from 1,011 nights.

The take-away is there are only a finite number of days, units, and weeks that are mathematically possible to share. The days and weeks most Members want are in a very compressed time period – Winter and Summer, Spring Break (a month +), Food & Wine, Labor Day, Fourth of July, and more. If you don't plan your vacations far in advance – you will be challenged with timing. As shown above, Aspen Members are coming more and outside Club Members are coming less. Reserve early and be flexible, if possible. There is only so much time available and only 73 units.

3<sup>RD</sup> Home, Exclusive Resorts, and Lion & Crown optional programs are trending well with the first few years being learning experiences. They are relieving some pressure on home club occupancy, but not enough - yet. Member weeks deposited into 3<sup>RD</sup> Home in 2014 was 52 weeks and 28 for 2015 already. More time is being added to these programs as demand is recognized. Mathematically, we now have as almost as many units to trade into as we would have had if the development of The Ritz-Carlton Club system had continued on pace with the original plans.

Please remember, our Aspen Club is still a 100% fractional project, as it always has been. We are not a points based Club. We can use our allocated fractional time to trade out into an outside points based environment if we choose, but it is optional. If someone tells you differently, they are misinformed.

We are continuing our dialogue with RCMC / MVW leadership about future branded Clubs. It is a safe assumption that we won't be seeing new developments soon, if ever, that mirror what we had in the past. However, our conversations indicate a possible expansion of the Brand into more current models. An example would be a multi-use Ritz-Carlton Hotel with whole ownership condominiums and fractional units all under one roof. This concept and others have a lot of moving parts remembering that the Developer (RCDC / MVW) would be a third party and not RCHC. It's just conversation at this point, but our stabilization may help these plans come to fruition.

Additional optional places to visit stabilize the platform, give us options, and don't cost us Aspen time if we don't use the optional programs.

Management Contract: Your Board has proudly and successfully negotiated a revised Management Agreement with RCMC / MVW last week, giving the Association and its Members a significant amount of flexibility going forward. Since its inception, the Management Agreement has been impenetrable and every attempt by past Boards to create a fairer and evenhanded contractual relationship has always been denied – until now. This is a meaningful and pivotal moment in our Clubs' history.

This Board has been focused on improving the position of the Members through relationship building and unending discussions with RCDC / MVW. RCHC operates the on-site Club experience through an agreement with RCDC / MVW. Our message emphatically emphasizes fairness, equality, and the desires of our Members, which include additional vacation options, limited access to our Club by non-members of The Ritz-Carlton Destination Club, cost containment of the budget, and most of all, that every decision is made with the stabilization of real estate values and reversing the declining trend of prices.

The anxiety we all have experienced brought about by the most significant recession since the 1920's, popular Club sites changing hands due to developer / lender actions unrelated to RCDC / MVW management, and the outbound transition of two Ritz-Carlton Destination Clubs by Member choice (Bachelor Gulch and Jupiter) have been heard loud and clear by your Board and that message was transmitted continually to RCDC / MVW. This effort was not in vain and our results on your behalf are monumental.

We strongly believe that the jury is still out on the transitions of Bachelor Gulch (mid-2013) and Jupiter (September 2014). BG has had a slight increase in resale activity, but no significant, enhanced value added proposition that we know of has been seen to date. Reports are that rental prices have not increased either. It is also noted that the allocated / reservation time is not as flexible as our Club. There are a lot of attractive options to travel outside of the home club and that is a plus. Time will tell the true story and the prudent wisdom would be to closely observe the ongoing results and not pull the "grenade pin" in a hasty fashion. Bad deals are usually knee jerk reactions and done quickly.

Jupiter transitioned on September 12, 2014, primarily a result of the golf course, clubhouse, and amenities being sold to the Trump Organization. It would not have been sold had it been an economically viable enterprise and The Ritz-Carlton Club transition shouldn't have come as a surprise to anyone. The Members were upset and that was not repairable. As a side note, while Jupiter was loved by golfers, Aspen Members only spent approximately 300 nights per year there, the least visited of the Clubs. I will personally miss Jupiter. It was our hurricane shelter when storms came into the Gulf of Mexico. We met our kids and Grandkids there many times and loved it.

On a personal note, I have met with David Burden, the Founder of Timbers Resorts in my Florida office. He is a gentleman and runs a good organization. There is common ground of course, but the benefits of all the 876 Aspen Members must be realized, just

not some. There is now a measured, contained plan of watchful and hopeful optimism. See what you think as you read on. Your comments will be welcomed.

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The aggregate benefits of the Management Agreement revisions are numerous and are illustrated by the table below. The documents will be posted on the web site shortly.

|   |  |   |   |
|---|--|---|---|
| <p><u>The Issue:</u></p> <p>The Management Agreement with RCMC / MVW would have expired on February 8, 2016. It would have taken at least 1 year to explore options with other brands, request proposals, score proposals, make recommendations to Members, vote on Management change with Members (at least 60% of the Members must approve), and establish an orderly transition and execute.</p> | <p><u>The Challenges:</u></p> <p>The lack of a secure pathway to the future destabilizes the values, the on-site management leadership and staff are unsure of their future and move on to other opportunities, the Members are agitated, and the resale market hits the bottom. It is fair to say, this is where we were until last week.</p> | <p><u>The Logic, Basis, and Rationale for Revising the Management Agreement:</u></p> <p>Waiting for 2016 would only destabilize the Club more.</p> <p>An equitable, fair Agreement for our Members was needed.</p> <p>RCMC / MVW would benefit knowing we would remain within the system while retooling the program and selling remaining inventory.</p> |   |
|   |  |   |   |
| <p><u>Agreement Item</u></p>  | <p><u>Before</u></p>   | <p><u>Going Forward</u></p>   | <p><u>Result</u></p>  |
| <p>Terms of Management Agreement</p>  | <p>The prior agreement(s) were for 5 years with automatic 5-year renewal options.</p>  | <p>The new agreement is for 5 years with 1 - 5 year renewal option. It is effective now so we technically can be a Ritz-Carlton Club for 11+ years from today (February 8, 2026), <u>if we choose</u>.</p>  | <p>We have a long-term brand, <u>if we choose</u>. This is a stabilizing factor for values, leadership and employee morale.</p>   |
| <p>Termination</p>  | <p>RCMC / MVW could terminate us for any reason with 60 days' notice, leaving us without a Brand or Manager.</p>   | <p>Both RCMC / MVW and the Association may terminate the Agreement with each other with 12 months' notice for any reason.</p>   | <p>We have stabilized the platform and created a level playing field, removing the possibility of a quick and bad decision, and have given RCMC / MVW a reason to do a much better job on the program side.</p> |

| <u>Agreement Item</u>  | <u>Before</u>   | <u>Going Forward</u>   | <u>Result</u>   |
|--|---|--|---|
| Management Fee   | A rate tied to a formula and the size of the budget. 2015 fees would have been \$781,093. | The Management Fee will be reduced immediately in 2015 by \$150,000 (19.2%). The 2015 Fee of \$631,093 cannot be increased by more than 3% annually and less if the Board continues to use the power of the pen in the budget preparation. | Our fees will stabilize more, creating value for the Members and future Buyers. If we retain the Brand for the 11-year term, we will have saved a minimum of \$1,600,000.                                       |
| Corporate Allocation (Additional Expenses – Accounting and Administration) | A number that came from RCDC / MVW in Orlando over which we had no control.               | The negotiated 2015 budget amount is \$108,718. These fees cannot be increased by more than 3% annually from 2015 going forward and less if the Board continues to use the power of the pen in the budget preparation.                     | These non-controllables will now be controllable by us; the budget will stabilize more quickly, creating value for the Members and future Buyers. The Board has the power of the pen in the budget preparation. |
| Member Services Fees   | A number that came from RCDC / MVW over which we had no control.                          | The negotiated 2015 budget amount is \$255,078. These fees cannot be increased by more than 3% annually from 2015 going forward and less if the Board continues to use the power of the pen in the budget preparation.                     | These non-controllables will now be controllable by us; the budget will stabilize more quickly, creating value for the Members and future Buyers. The Board has the power of the pen in the budget preparation. |
| Additional Benefits- JP Morgan Ritz-Carlton Black Card                     | NA  | Every fractional Member will receive an application for a JP Morgan Ritz-Carlton Black Card. If qualified, the use of this card will accrue benefits to the Cardholder and enhance the Member's loyalty and experience.                    | Increased Brand loyalty, increased benefits to users and Reward points when used at any Ritz-Carlton or selected affiliated properties.   |

| <u>Agreement Item</u>                | <u>Before</u> | <u>Going Forward</u>  | <u>Result</u>  |
|--------------------------------------|---------------|---|--|
| Platinum Ritz-Carlton Rewards Status | NA            | Although RCMC does not offer the reward status, continued effort is being implemented to make this benefit a reality to Club Members. | Increased Brand loyalty, increased benefits to users, easy access to all Ritz-Carlton, Marriott International and Marriott Vacation Club properties. Automatic upgrades on rooms, amenities, etc. Reward points when used at any Ritz-Carlton or selected affiliated properties. |

To wrap up this point of the conversation, this renegotiated Management Agreement illustrates several valuable points;

1. RCMC / MVW and RCHC value our relationship more going forward. It is a great opportunity for them to accept the challenges we have illustrated. They can do better and we hope they do.
2. We, the Members, now have parity with RCMC / MVW in every way: term, termination, and the budget. It is a milestone.
3. We, the Members, will never be forced to make a quick or bad decision about Management. If the program and the relationship improve, we are long-term stakeholders. If not, there could be an orderly, educated, and informed decision to transition elsewhere. It is a milestone.

We hope you like our efforts. In an imperfect situation, things just got better. We have been very busy. How much it will benefit us – only time will tell.

The Ritz-Carlton Brand still remains one of the most recognizable brands in the world, considered by most to be the gold standard of the hospitality industry and the benchmark to which most aspire. This Board continues to move forward with relationship building, prudent and thoughtful moves into the future, and listening to the Members thoughts and desires.

Our Club is your Club.

*Randy Mercer*

President

Aspen Highlands Condominium Association, Inc.