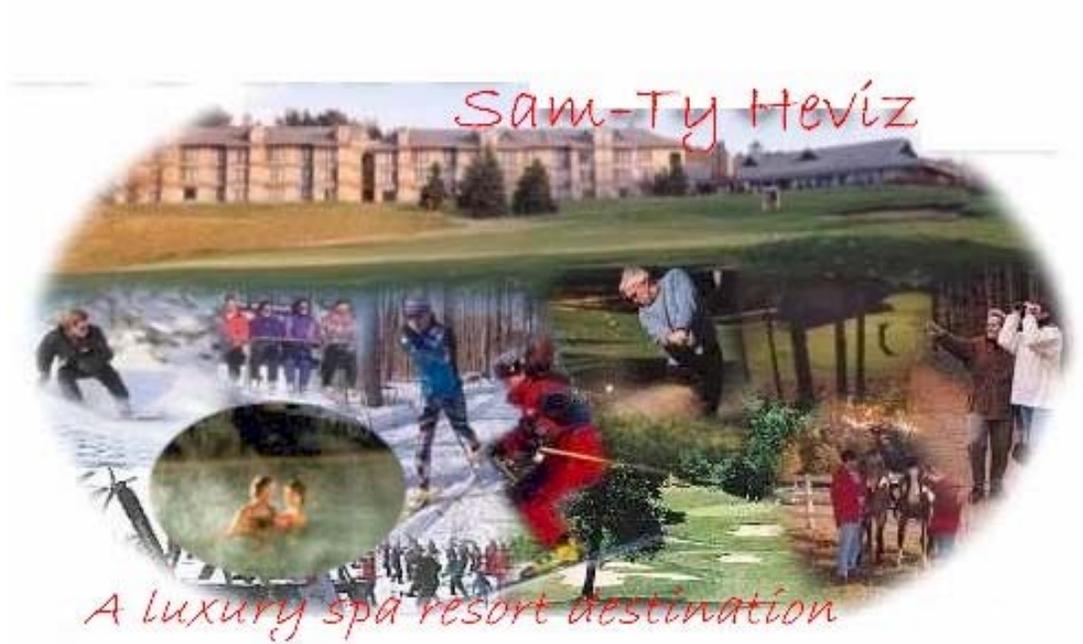


Sam-Ty Timeshare-Hotel

Lake Hévíz, Hungary



A 150-unit Timeshare and Hotel Development

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I. EXECUTIVE SUMMARY

The Sam-Ty Timeshare and Hotel Resort is a five-star luxury development set in the highly accessible Eastern European spa town of Hévíz in Western Hungary. 50 hotel and 100 timeshare units sized from studios to 2-bedrooms are planned for this development. Units are generously sized exceeding existing Hungarian standards. Planned amenities include a spa, sauna, and whirlpool fed by the medicinal and healing waters of Lake Hévíz. Coveted worldwide and a major draw for more than 200 years, Lake Hévíz is the largest hot-water lake in Europe and the largest thermal lake of its kind, set in a year-round Mediterranean climate. It is one of only two known bodies of water in the world with a combination of sulfur, minerals, therapeutic mud and other elements with curative powers. Additional on-site amenities will include a steam room, swimming pool, onsite dentist, putting green, fine dining restaurant and bar. Hotel visitors and timeshare owners will also enjoy an eclectic assortment of on-site spa treatments cultivated from around the world for a world-class spa experience. Off-site amenities include shopping and cultural events in the quaint town of Hévíz, horseback riding and strolling in the surrounding countryside and visits to the nearby wine-country or Lake Balaton where one can enjoy water-sport activities. Hévíz is a short distance from the capital cities of Vienna, Austria (45 minutes) and Budapest, Hungary (2.5 hours).



Culturally rich with a history that spans more than 1100 years, Hungary is emerging from its Eastern Bloc years with an educated labor force, privatization of state-owned industries, and economic reforms aimed at joining the European Union (EU). It recently joined NATO, which aligns it politically with the west. Its labor force and the economic incentives for foreign investment have made it an attractive location for many US firms.

Hungary ranked 9th highest in the world for number of tourists in 1997, fourth highest in Europe. The spas in Hévíz have historically drawn a high volume of tourists. Hévíz is Hungary's top European standard spa according to international rankings. A growing number of guests seek luxury services – spa-hotels run by the Danubius Hotel Rt have an average occupancy rate of 80 per cent, with most guests coming from Austria, Germany and, increasingly, from the Netherlands.¹

The Hungarian hotel and restaurant industry is undergoing a major transformation. Well-kept, Hungary is one of the most modernized and affordable Central European countries. Still, years of economic and political uncertainty and limited resources have left much of the hotel stock in need of repair and upgrading. Key industry collaboratives have formed and are working to set new standards for the industry. RCI

¹ MTI Daily Bulletin, January 8, 1999.

has aggressively targeted Hungarian hoteliers seeking to leverage existing hotel stock through timeshare exchanges.²

Less than 30 years old, the timeshare industry as a whole is moving from a growth to a mature stage of its life cycle. Since 1980, timeshare resorts have grown at an annual rate of near 20 percent worldwide with sales volumes approaching \$6 billion annually. Europe is the second largest market following the US with 30 percent of all timeshare resorts, 22 percent of owners owning in the area, and 24 percent of all worldwide owners. Hungary, a relative newcomer to the timeshare industry, is in its growth stage. There are ten established timeshare developments plus a new development proposed by Marriott in Budapest. As of April 1998, 12,500 timeshare intervals had been sold compared to only 4,118 in December 1994³ and 113 in December 1992⁴. That represents a 200% increase in just over three years.

Competing timeshare developments in Hévíz are the Aparthotel Hévíz, which is a converted hotel and an RCI Gold Crown award winner and Club Hotel Dobogomajor, a bungalow style new development one kilometer outside town. Club Dobogomajor began as a 100-unit development and has expanded to roughly 180 units, as the marketing team has demanded more timeshare intervals to sell. They have been very effective at selling the weeks of the peak season at a premium price. They have had less success in selling the weeks of the low demand season. The third competitor, Club Abbazia, is six kilometers away in Keszthely on Lake Balaton. Club Abbazia is a converted hotel with 114 rooms. The rooms are sold as hotel rooms when not already sold as timeshare intervals, which minimizes the overhead cost for this development.

The trends indicate continued growth in this industry and Hévíz is an ideal location for a timeshare resort with the local amenities and long history as a European spa resort. The cost structure in Hungary is also beneficial for this type of development, especially now, before EU membership raises the initial investment required. This study indicates a positive investment and recommends that further analysis be undertaken to determine expected absorption rates and appropriate room mix.

² Hans Gunter Korts, RCI Europe, February 1999.

³ Ragatz Associates, The 1995 Worldwide Resort Timeshare Industry, Alliance for Timeshare Excellence, American Resort Development Association.

⁴ Country Commercial Guides FY 1999: Hungary, Report prepared by the US Embassy, Budapest, Hungary, released July 1998.

II. FINANCIAL ANALYSIS

A pro forma financial analysis was prepared for the 100-unit timeshare component of the Sam-Ty Timeshare-Hotel development. Timeshare prices were obtained from Hans Gunter Korts, Manager of Market Development for the Eastern Europe Region of RCI Europe. Construction costs were obtained from Alba Regia, one of top four Hungarian owned general contracting companies and included generously sized units, ranging from studios to 2-bedrooms and construction of the spa facility. The resulting ratio of revenues to costs was 1.32, well above the required 1.25.

Pro forma Assumptions

Construction Data

The construction data was obtained from Alba Regia, one of the top four Hungarian owned general contracting companies. Their website is: www.arev.hu/. A copy of the letters they sent is included in the supplementary materials. There is also a packet on the company including color photos of previous projects.

- The average price to build a 2-story, 100-unit, two-bedroom, one-bath apartment building in a resort community such as Hévíz was quoted to be 150,000 HUF/ m2.
- The average price to build a 2-story, 100 room, four star hotel: 210,000 HUF/ m2.
- The average price to build a spa facility: 14,000 HUF/ square foot.
- These costs include planning and execution. Not included are cost of land, financing, permissions, marketing, and furnishings.
- These costs do not include VAT, which is 25% in Hungary.

These figures were relayed to Hans Gunter Korts, Manager of Market Development for the Eastern Europe Region of RCI Europe to determine if they were consistent with his knowledge. His response was that in Hungary, your personal relationship to a construction company is the driving factor in receiving good prices. He felt these prices were quite good and that there would be room for further negotiations. More details would be necessary to get a more accurate estimate. He also recommends considering Austrian construction companies as well. He says they are very good at constructing hotels and resorts in a sophisticated and efficient manner.

Timeshare Interval Price Data

Pricing data was obtained from Hans Gunter Korts, Manager of Market Development for the Eastern Europe Region of RCI Europe and an unpublished report of a case study of timesharing in Hungary.⁵

⁵ Unpublished study by RCI Consulting in Eugene, Oregon concerning the Timeshare Industry in Hungary, April 1998.

Sam-Ty Hévíz

Timeshare Unit Size and Seasons Data

Timeshare unit size and dates and duration of sales periods data were obtained from Hans Gunter Korts. "Red" indicates the high demand weeks that are sold at a premium price. "White" indicates a moderate demand season. "Blue" indicates a lower demand season.

Timeshare Seasons in Heviz			
			# weeks
Red	20-Apr	22-Oct	27
	7-Dec	31-Dec	3
White	1-Feb	19-Apr	11
	23-Oct	14-Nov	3
Blue	1-Jan	31-Jan	4
	15-Nov	6-Dec	3
Total			51

Land Price in Hévíz

The land price in Hévíz was obtained from an appraisal done in May 1998 on a nearby parcel.

Timetable Assumptions

Sales are expected to occur over two years, construction over one year.

III. REGIONAL CONTEXT

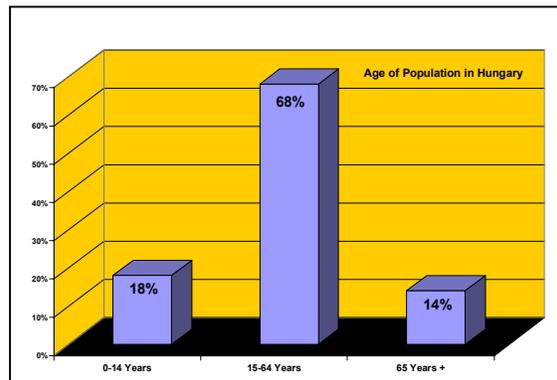
Geographic/Demographic Background

The Republic of Hungary is a land-lock country 93,030 sq. km (approximately 32,000 square miles) in size with a population of more than 10 million. It is bordered by Slovakia to the north, Austria to the northwest, Croatia and Serbia to the south and

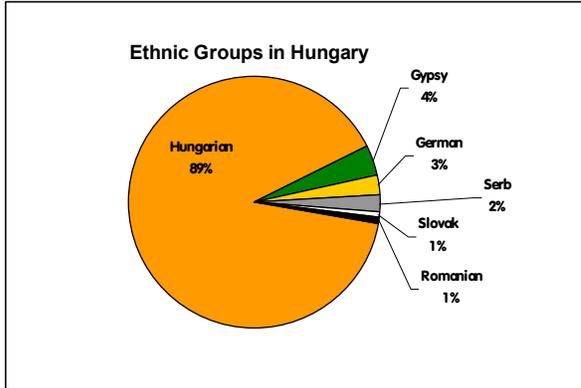


Romania and the Ukraine to the east. The capital of Hungary is Budapest. The country is strategically located astride main land routes between Western Europe and the Balkan Peninsula as well as between Ukraine and Mediterranean basin. Western Hungary is considered more affluent, and enjoys an educated population. Austrian in nature this region has historically and culturally been influenced by its Austrian neighbors. The climate ranges from temperate to cold, cloudy and humid winters, and warm summers with a terrain that is mostly flat to rolling plains with hills and low mountains along its Slovakian boarder. At its highest point (1,014 m) is Kekecs, and lowest (78 m) the Tisza River. Major land uses include arable land (51%), permanent crops (2%), permanent pastures (13%), forests and woodlands (19%) and other uses (15%).

99% of the population over 15 years of age can read and write. 68% of the population are between 15-64 years, 18% between 0-14, and 14% are 65 years or older. The average life expectancy is 70.8 years. The population is decreasing at the rate of -0.23% (1998 estimate). The fertility rate is 1.45 children born per woman (1998 estimate). 98% of the population speak Hungarian and a large segment also speak German. English is spreading quickly among the population especially as a new



entrepreneurial class emerges and foreign investment in the country rises. Ethnic groups include Hungarians (89.9%), Gypsy (4%), Germans (2.6%), Serb (2%), Slovak (.8%), and



Romanian (.7%). Major religions include Roman Catholic (67.5%), Calvinist (20%), Lutheran (5%), atheist and other (7.5%). Hungary's GDP is comprised of 61% services, 31.8% industry and 7.2% agriculture (1995 estimate). Per capita GDP was \$7,500 USD and total GDP \$74.6 billion in 1996.⁶ Monthly salaries range between \$300 and \$400 USD. Workers are generally educated, skilled and adaptable. Natural resources include

bauxite, coal, natural gas and fertile soil. In 1997 the country had 15 paved and 10 unpaved airports.⁷

Legislative/Political Environment

Bilateral relations between the United States and Hungary are excellent.⁸ The US-Hungarian Legal Assistance Treaty (MLAT) went into effect in August 1996.



Hungary's political stability is one of the factors that have attracted foreign investment. Challenges facing the new government are the pervasive gray economy and containing inflation and unemployment. In addition, Hungary doesn't have the same transparency in government decision-making that we are used to in the US. This should be addressed with legal counsel.

The political landscape in Hungary is dominated by two governing coalitions, the Federation of Young Democrats-Hungarian Civic Party (Fidesz-HCP) and the Smallholder's Party. Leadership under President Arapad Goncz and the new government, has so far, been stable. Political watchers however, predict that tensions between the two parties may increase as economic change and the need for budget tightening increases. Also, Jozsef Torgyan, the unpredictable leader of the Smallholder's Party is thought to have ambitions of succeeding the president in the year 2000, and there is uncertainty

⁶ 1999 World Almanac; World Almanac Books, New Jersey, USA.

⁷ ODCI Factbook, 1998.

⁸ Country Commercial Guides FY 1999: Hungary, Report prepared by the US Embassy, Budapest, Hungary, released July 1998.

regarding Fidesz-HCP's support for Mr. Torgyan's bid for office.⁹ To date, the new government has been proactive in supporting tourism activities for the country and has worked closely with business and with the hotel industry to establish new standards for the industry and to promote new domestic and foreign investment. The country continues to move toward rule of law based on Western models. Hungary, along with Czechoslovakia and Poland, are the newest members of NATO joining the international strategic body in January of 1999.

Nascent Threat to Regional Peace

There are many ethnic Hungarians living in the neighboring countries of Romania and Slovakia. On October 29, 1998 the Foreign Minister Janos Martonyi stated that the "national policy" of Hungary towards its ethnic minorities in neighboring countries is to take a long-term approach. Relations are primarily governed by developments in neighboring countries. He was pleased that Hungarian parties are in the government in Romania and Slovakia where the largest numbers of ethnic Hungarians live.



Hungary's membership in NATO meant that they supported the humanitarian aims of the bombing in Slovakia, however, they indicated that they would expect the same support if the ethnic Hungarians are ever under attack in a neighboring country. This can be seen as a useful deterrent to such activity, however it also indicates a possible threat to the political stability of the region.

European Union Membership

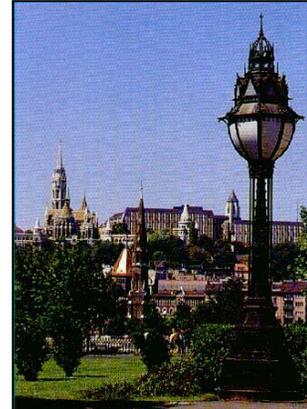
Last November, expansion talks were held with five aspiring members of the European Union from Central and Eastern Europe, which included Hungary. The target date for membership of 2003 looks unrealistic but remains a goal. Last spring, the EU began screening the applicants to see how they measured up to the Union's 80,000 pages of rules and regulations, the so-called "acquis communautaire." Section B Criteria for Membership, subsection 3 Ability to Assume the Obligations of Membership, subsection 6 Quality of Life and Environment addresses the environment and consumer protection elements of the Commission opinion on Hungary's application for membership in the European Union.

There are two areas that Hungary will be addressing in its bid for EU membership that could impact this development. The first is the stipulation that Hungarian development policies be guided by the principle of sustainable development and should fully incorporate environmental considerations. The plans for this development would

⁹ The Economist Intelligence Unit (EIU) Ltd., 1998.

therefore be advised to perform up to EU environmental standards to support Hungary's bid for EU membership. This would help to avoid future fines that may be assessed a deep-pocketed foreign firm under the assumption that they could afford to pay. If waste treatment in Hévíz is inadequate to handle the effluent and garbage generated by this development a solution should be reached that reflects the environmental standards of the future EU member status.

The second issue is in the area of consumer protection. In Stage I, reform measures address misleading advertising, consumer credit, unfair contract terms, and indication of prices. Stage II measures address package travel, sales away from business premises and time-share property. There had been no legislative measures for timeshare property as of 1998, nor was any expected in the near term. In the sales process, adopting the ethical standards of the American Resort Developers Association (ARDA) as well as understanding the rules governing the sales of timeshares in the EU is advised. A law firm with partners versed in EU rules and regulations can help negotiate these legal pitfalls.



”The Hungarian government continues to push for European Union membership in 2002-03, despite a growing consensus abroad that Hungary, as well as other east central European applicants, will have to wait until around the middle of the next decade. The EU summit in December (1997) failed to produce any breakthrough on internal EU reforms, which are a precondition for setting an accession timetable.”¹⁰ Hungary however, continues with round two of membership negotiations with EU on the more difficult aspects of EU law (*acquis communautaire*). The conversion process is suppose to be completed by January 1, 2002 at which time the first wave of participating countries will begin a 6 month transition process and national currencies will be withdrawn from circulation. Once in place, the Euro will have a positive affect on the vacation and travel industry throughout Europe. A decrease in pricing volatility will make travel costs lower and increase demand for travel, as Europe becomes a single market.¹¹

Economic Environment

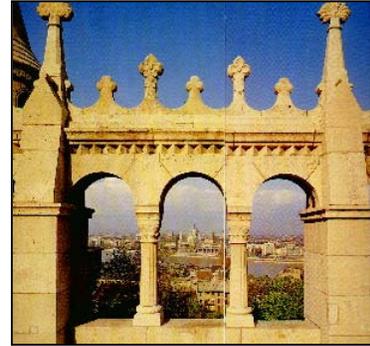
A small country with a gloomy history, with hardly any natural resource, and with a limited domestic market, Hungary was the first country in the former Soviet bloc to embark on the road to transformation into a market economy. In 1988, it enacted a law to protect foreign investments. In the mid-1990s it launched a stabilization program to streamline government spending, reform taxation, improve the efficiency of the public

¹⁰ The Economist Intelligence Unit (EIU) Ltd., 1998.

¹¹ The Euro and the Hospitality Industry - A Common Currency Offers Strategic Opportunities, Arthur Andersen; Summer 1998.

sector, and reduce the national debt. Hungary has the highest per capita foreign investment in Central-Eastern Europe.¹²

"According to preliminary estimates, real GDP grew by 5% in 1998 compared with the previous year, despite a slowdown in the fourth quarter of the year. Investment growth is estimated at 10.2%, private consumption growth at 3-4%, export growth at 20% and import growth at 23%. The volume of industrial output is estimated to have grown in real terms by 12.6% compared with 1997. The fourth quarter slowdown is expected to continue into 1999."¹³ The Economic Intelligence Unit (EIU) expects that growth in the European Union will slow to 1.7% in 1999 – the EU currently accounts for 70% of Hungary's exports. After rising by an estimated 4.6% in 1998, world trade is expected to slow again in 1999 to just 4.3%. Germany, which takes almost 40% of Hungary's exports and accounts for 20% of its GDP, is thought to look considerably weaker than EIU previously expected.



"The budget for 1999 was passed at the end of 1998, and reflects the government's priorities on increased spending on families, agriculture, education and culture and cutting taxes for middle earners. The budget's underlying assumptions about GDP growth and other key indicators are thought to be overly optimistic. The decision not to make use of contingency funds FT50bn, which effectively amounts to a spending cut, may prove insufficient in maintaining stability in the internal and external balances, and may result in further expenditure cuts or a supplementary budget later this year."¹⁴

Uncertainties aside, high inflation triggered by illegal and gray market activities has been significantly eliminated bringing inflation down. Additionally, domestic spending continues to rise and new foreign investment continues, signaling a strong belief that the country will successfully continue its march towards economic sustainability and a market economy. It is estimated that some 500 American businesses are now doing business in Hungary. Founded in November of 1989 by 32 American companies, the American Chamber of Commerce in Hungary (AmCham Hungary), the first American Chamber in Eastern Europe, has expanded and now has over 480 members representing 21 different countries. The goal of AmCham-Hungary is to further mutual cooperation and friendship between Hungary and the United States by encouraging trade, investment and economic development between the two countries. Other organization working to promote economic relations, investments and joint ventures include the Hungarian government's Investment and Trade Development Agency (ITD Hungary), established by the Ministry of Industry, Trade and Tourism in 1993. ITD targeted investment programs include greenfield investments with special regard to the electronics, software, automotive parts, and tourism sectors.

¹² Hungarian Investment and Trade Development Agency, 1999.

¹³ The Economist Intelligence Unit (EIU) Ltd., Summary--Hungary 1st Quarter 1999.

¹⁴ The Economist Intelligence Unit (EIU) Ltd., 1998.

American and other top companies with interests and investments in Hungary include: Ameritech (USA) and Deutsche Bundespost Telecom (Germany, telecommunications; USD \$875 million), VW/Audi (Germany, automotive maker; USD \$420 million), US West International (USA, cellular phones; USD \$330 million), General Motors (USA, automotive maker; USD \$500 million invested), Suzuki Motor Co. (Japan, automotive maker; USD \$250 million), Allianz (Germany, insurance company; USD \$220 million), Ansaldo (Italy, electrical engineering; USD \$130 million), Elf Sanofi (French, pharmaceuticals; USD \$120 million), PepsiCo Inc. (USA, beverage producer; USD \$115 million), Ford (USA, automotive maker; USD \$100 million), Siemens (Germany, telecommunication products; USD \$94 million), Nestlé SA (Switzerland, food production; USD \$94 million), South African Breweries (Germany, beer production; USD \$90 million), Skanska (Sweden, office building operations; USD \$56 million), Total (France, petroleum retailing; USD \$65 million), Amylum (Belgium, distilling; USD \$60 million), among others.

The Financial and Banking System in Hungary

Act CXII of 1996 on Credit Institutes and Financial Enterprises went into effect on January 1, 1997 and is intended to provide regulation of financial services to EU standards. One of the main goals is to protect investors' interests.



The banking system has been largely privatized and there are many foreign-owned institutions, including three US-owned banks: Citibank, Bankers Trust, and Budapest Bank (partially owned by GE Capital).

Land Purchase by Foreigners in Hungary

The current restrictions on purchase of land by foreigners are to arable or agricultural production land or land in a nature conservation area. None of the parcels under consideration for this project are in such zones. The Hungarian government has asked the EU for a ten-year extension of this restriction after membership in order to protect the small farmers from foreign land speculators. Land prices in Hungary are one-tenth the cost of the rest of the European Union.

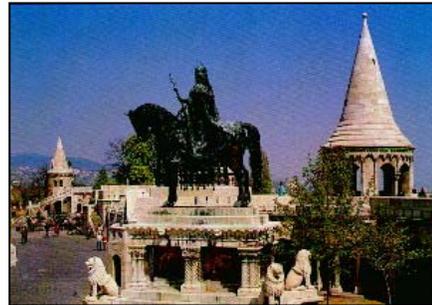
In a news story published January 25, 1999 in "Hungary Around the Clock", the number of western foreigners purchasing land in the western counties of Hungary was noted. In Zala, the county containing Hévíz, 1,546 foreigners applied to buy property, 120 more than in 1997. The report stated that the majority of applications are accepted. The main reason cited for applications that were denied is the restriction on arable land sales to foreigners. The story goes on to say that although the majority of buyers are German or Austrian, Italian, Dutch, Swiss, and American buyers are well represented, as are French, Canadians, British, and Croatians.

Technology

One of the largest investments to date came from Ameritech (USA) and Deutsche Bundespost Telecom (Germany) which together purchased 67% of Matáv Rt. – Hungary's national telecommunications company – at a cost of USD \$875 million. Desktop computers and use of the Internet are spreading throughout Hungary's homes and business' as the populous long isolated, reach out across the globe. The use of computerized registration, bookkeeping and operations systems are a major initiative supported by the tourism and hotel industry. While checks are not widely used, the installation of ATM machines has increased dramatically and are readily available throughout the country and especially in major cities and towns. The use of credit card is also rapidly increasing.

Tourism in Hungary: Overview

Tourism is Hungary's second largest industry and 1997 was a banner year. Hungary actually ranked 9th in the world! (4th in Europe).¹⁵ Hotel occupancy rates are rising. Infrastructure improvements are underway to accommodate anticipated longer-term growth including the expansion of the Budapest International Airport, the construction of Motorways M3 and M5, and the modernization of M7. In 1997 tourism accounted for 4 to 6% of Hungary's GNP, and employed 10 to 13% of the workforce. HUF 4 billion (USD 230 million) was committed by the government in 1997 to promote the continued development of the tourism industry, especially in the areas of business, therapeutic-thermal tourism (spa), horseback riding, and cultural and active holiday tourism opportunities. Hotel construction or investments in underdeveloped regions qualify for five-year tax exemption programs.¹⁶ Domestic tourism and the attraction of foreign visitors to Hungary are strongly supported by the Hungarian government (Magyar Turizmus Rt. – Hungarian Tourism Corporation).



In 1996-97, foreigners utilized 70% of tourism accommodations and Hungarians utilized 30%. This proportion is reversed in most major "tourism great powers".¹⁷ The National Tourism Committee thus plans to introduce a system in which workers could receive holiday vouchers from their employers, pensioners from the local authorities, to be used at camping sites, guest-houses and hotels.

Tourism is fast becoming a major economic driver in Hungary. Business and government throughout the country including the Destination Budapest Marketing Committee (DBMC), have come together during the past five years to promote the

¹⁵ World Tourism Organization

¹⁶ Hungary - Travel and Tourism - ISA981001, USDOC, International Trade Administration.

¹⁷ Ministry of Foreign Affairs of the Republic of Hungary, Press and International Information Department, April 23, 1997

Country's capital and largest city Budapest, and its many country provinces as primary tourist destinations. Key DBMC consortium members include American Express Hungary, Atrium Hyatt, Hotel Gellert, Gundel Restaurant, Budapest Hilton, Horwath Consulting, Budapest Marriott Hotel, Hungarian Convention Bureau, the tourism division of the Ministry of Industry, Trade and Tourism, and IBUSZ.

Major initiatives by DBMC members include improvement of maintenance and the upgrade of existing hotels and restaurants; promotion of new facilities (the industry currently surveys and monitors one through five-star establishments); adoption of higher industry standards for operations, maintenance and facilities and implementation of a Uniform System of Accounts for Hotels and Restaurants. DBMC has been active in establishing tourism offices outside the country and promoting tourism activities through aggressive marketing concepts including "Budapest: A City for All Seasons," (1995-96) a package tour. Planned conferences and cultural events, and a travelling photographic exhibition about Budapest that traveled to various cities in the United States and was supported by press conferences are also examples.¹⁸ Hungarian tourism offices now exist in Austria, Germany, The Netherlands, France Great Britain, USA, Russia, Switzerland, the Ukraine, Czech Republic, Poland, Korea, Japan, and Sweden. 1999 is the "Year of Gastronomy and Wine."¹⁹

40 million foreigners visited Hungary in 1996 – up 2 per cent over the previous year. In 1996 foreign tourists spent USD 2.25 billion in Hungary – up 30 percent over 1995. 1996 was a record year for Hungarian tourism. The five million tourists who stayed in Hungary spent 5% more time, a total 16 million nights, in the country. Most of tourists were from Germany and Austria, but the largest rise was noted for Polish, American and Japanese tourists. Five-star hotels located in Budapest that offered high-standard services benefited the greatest with occupancy increases of 6 to 10 per cent over 1995. The majority of Hungarians traveled to neighboring Austria, and to Spanish and Italian seaside resorts.²⁰

Hungarians Traveling at Home and Abroad

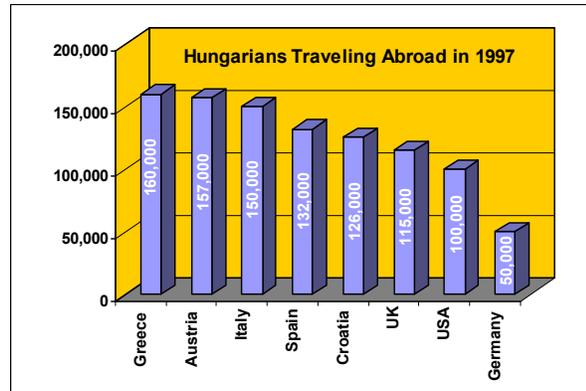
45 years of isolationism and powerlessness under Soviet rule have left Hungarians with a new sense of adventure and a desire to explore. Hungarians like to travel. In 1997 Hungarians crossed the border 12,173,000 times. With a population of 10.3 million, this means that every citizen takes more than one trip. According to a survey conducted by Mareco Marketing, one of every four Hungarians takes a travel break during summer. The most popular domestic destination is Lake Balaton (23 km or 8 miles from Hévíz). In 1977, 46% of the population visited Lake Balaton. In 1997 Hungarians spent USD 353 Billion on domestic travel. Favored foreign destinations include Greece, Spain, Croatia,

¹⁸ Excerpts from the fifth annual Horwath International Worldwide Hotel Industry survey conducted in 1996; Horwath Consulting International.

¹⁹ Hungary - Travel and Tourism - ISA981001, USDOC, International Trade Administration.

²⁰ Ministry of Foreign Affairs of the Republic of Hungary, Press and International Information Department, April 23, 1997

Austria, Great Britain and the United States (US). In 1997 100,000 Hungarians visited the US. According to estimates by IATA (the largest travel agency) this number may jump to 150,000 annually. MALEV flights from Budapest to New York are sold out throughout the year. KLM, Lufthansa, Swissair and Sabena flight are also fully booked to the US. Favored states in order of preference include Florida, California, New York, Hawaii and Texas. In 1997 Hungarians spent foreign currency equaling USD 800 million abroad.²¹ Hungarians can now apply for 10-year multiple entry visas. Hungarian ownership of timeshare "shares" that can leverage foreign travel through destination exchanges, support long-term Hungarian travel trends.



²¹ Hungary - Travel and Tourism - ISA981001, USDOC, International Trade Administration.

IV. INDUSTRY OVERVIEW

Hungarian Hotel Industry

The Hungarian hotel and restaurant industry is undergoing a major transformation. Well-kept, Hungary is one of the most modernized and affordable Central European countries. Still, years of economic and political uncertainty and limited resources have left much of the hotel stock in need of repair and upgrading. Key industry collaboratives have formed and are working to set new standards for the industry. The industry currently surveys and monitors one through five-star establishments throughout the country. Major initiatives include improved maintenance and upgrading of existing hotels and restaurants, promotion of new facilities, the establishment of higher industry standards for operations, maintenance and facilities including the implementation of a new Uniform System of Accounts for Hotels and Restaurants. Hotel stock ranges from one- through five-star properties and with four and five-star properties located primarily in Budapest. One-to three-star provincial spas and budget accommodations can be found throughout the countryside. The increase in foreign and domestic business activity and emergence of a new entrepreneurial class, has given rise to demand for more four and five-star and conference facilities. Historically, much of Hungary's one to three-star lodging stock has been provided in private homes, and home conversions. RCI has aggressively targeted Hungarian hoteliers seeking to leverage existing hotel stock through timeshare exchanges.²²

Hotel rooms in Hungary are no longer as ridiculously cheap as they once were, but measured by Western standards they are still at times modest, except in the luxury class. According to international usage, they are divided into three classes. In the top two classes (luxury and first class hotels), all rooms come with attached baths; for the three star ("good quality") hotels, about 75 percent of all the rooms have attached baths. Among two-star ("plain") hotels, there are many that classify below standard but offer historical or traditional and faded "charms" that in some cases, compensate for the lack of modern efficiencies. Prices range from \$113-\$159 USD per person in 4-star, \$45-\$113 USD in 3-star, and \$22-\$68 USD in 2-star accommodations. Prices are generally per person and include breakfast. Single occupancies are charged a 40 percent surcharge. Prices listed here are for the main season (April - October). Early season and out of season pricing tends to be considerably less while peak season is 20 percent higher.



²² Hans Gunter Korts, RCI Europe, February 1999.

Timeshare Industry Overview

Less than 30 years old, the timeshare industry as a whole is moving from a growth to a mature stage of its life cycle. Since 1980, timeshare resorts have grown at an annual rate of near 20% worldwide with sales volumes approaching \$6 billion annually. New regulatory frameworks in mature markets and the entry of global hotel brands including Marriott, Disney and Hilton, have done much to dispel earlier abuses that once tarnished the industry's reputation.²³ Today, with an estimated 5,000 resorts located in more than 80 countries world-wide, and 3.5 million households in 170 countries owning intervals, timeshare is now the fastest growing segment of the travel and tourism industry.

Branded hoteliers continue to seize the timeshare concept as an opportunity to leverage their existing customer bases, occupancy rates, and operational skills in a new industry. The acquisition of Resort Condominiums International, Inc. (RCI) – the global organization that pioneered timeshare exchange in 1974 – by HFS, Inc. – the worlds' largest hotel franchiser – has set the pace for a rapid metamorphosis of the timeshare product and the continued market entry of key hospitality industry players. The timeshare product is quickly evolving from traditional "fee-simple" and "right-to-use" ownership types to "vacation-club" and "point" systems that enable branded hoteliers to create important synergies that leverage operations and sales. Branded hoteliers are now offering a "menu of products and services." Owners/consumers purchasing points and buying into vacation club systems, can now enjoy the flexibility of custom timeshare usage in a variety of locations, and can mix and match hotel lodging, car rentals, air and other types of transport and a host of other products and services, according to preference. See Appendix C for a complete list of timeshare ownership types and terms.

Hungarian Timeshare Market

Europe is the second largest market following the U.S, with 30% of all timeshare resorts, 22% of owners owning in the area, and 24% of all worldwide owners. Hungary, a relative newcomer to the timeshare industry, is in its growth stage. There are ten established timeshare developments plus a new development proposed by Marriott in Budapest. As of April 1998, 12,500 timeshare intervals had been sold compared to only 4,118 in December 1994²⁴ and 113 in December 1992.²⁵ That represents a 200% increase in just over three years. This is a rapidly expanding market. Up until 1998, Hungarians couldn't own real estate outside of Hungary. As a result, 99% of timeshare sales in Hungary have been to Hungarians. Timeshares are offered as "shares" of company ownership and under Hungarian law, one third of the expense is tax deductible. Another 2,400 Hungarians own timeshares outside Hungary. The Hungarians have a high rate of

²³ Timesharing - Envious Growth Lures Major Hospitality Companies into Industry, Arthur Andersen, fall 1996.

²⁴ Ragatz Associates, The 1995 Worldwide Resort Timeshare Industry, Alliance for Timeshare Excellence, American Resort Development Association.

²⁵ Country Commercial Guides FY 1999: Hungary, Report prepared by the US Embassy, Budapest, Hungary, released July 1998.

exchange, using their timeshare to visit other countries. In 1997, the most popular exchange locations were the Canary Islands, Spain, Italy, Austria, and to another resort within Hungary.

Tourism is Hungary's second largest industry and 1997 was a banner year. Hungary ranked 9th in the world, and 4th in Europe. Hotel occupancy rates are rising and timeshare owners residing in 28 other countries exchanged into Hungary. The

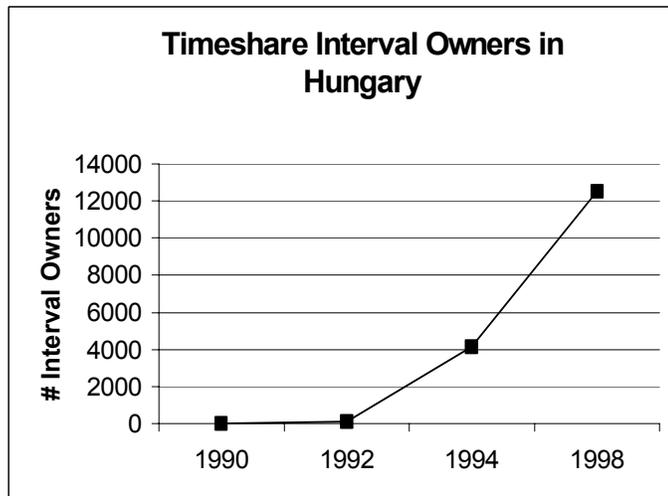
balance of revenues and expenditure deriving from tourism in 1997 was 1,428 million USD. 37,315,000 foreigners arrived in Hungary in 1997; 31,215,000 visited during the first ten months of 1998, down 10%. In the same period, they spent 3,180,000 nights in hotels outside of Budapest, up 8.2%.

In 1995, Hévíz boasted 20 hotels sleeping 3,090 and 98 other overnight establishments sleeping 1,530. The hotels had 77,437 officially registered tourist arrivals and the other establishments had 5,446. This translates into an estimated 70% year-round occupancy rate for the hotels in 1995. Local tourism agencies currently estimate that more than 1,000,000 guest-nights are sold annually. The supply of local accommodations has not kept pace with demand, and room shortages are common. There are not enough facilities to handle tourism and medicinal demand. The quality of existing accommodations is generally second-rate and in need of major maintenance and upgrading, and amenities are limited. Three of the Hungarian timeshares are located in or near Hévíz.

There had been no legislative measures for timeshare property in Hungary as of 1998, nor was any expected in the near term. In the sales process, adopting the ethical standards of the American Resort Developers Association (ARDA) as well as understanding the rules governing the sales of timeshares in the EU is advised. A law firm with partners versed in the EU rules and regulations can help negotiate these legal pitfalls.

Spa Tourism in Hungary

Last year, Hungarian health spas were visited by two million foreign tourists and almost a half million Hungarian patients, who benefited from their curative powers. The first spas in Hungary date back as early as the Roman period (1st century BC). Ottoman invaders resurrected bath culture during the 16th and 17th century – two existing baths in Budapest and a few other baths in the provinces date back to that period. Currently, there



are 150 hot spas in Hungary, including 36 springs with unique curative properties – radioactive, sulphurous-acidic, salt-bromide-carbonate, iodized, etc. Medicinal waters in Hungary contain 30 trace elements altogether. Seven of the springs are registered trademarks and over a dozen are used as mineral water. Thermal water is fast becoming one of Hungary's main tourist attractions with more precious water springs concentrated in a small area than anywhere else in Europe.

Medicinal treatment is offered in 150 of the country's 450 public baths. The Ministry of Health registered 36 of these as health spas, after laboratory testing including the well-known Gellért, Lukács, Széchenyi and Rudas in Budapest, Bükfürdő, Hévíz and Sárvár in western Hungary, and Tapolca in the northeast, which is also Europe's only cave bath. Thanks to contracts between the National Health Fund and 105 spas, patients are offered free of charge services such as the tub bath, mud bath, weight bath and effervescent bath, medicinal massage, subaquean physiotherapy and therapeutic swimming for the young. Those registered under health insurance may use four kinds of treatment on a total of 15 occasions a year free of charge. In 1988, some quarter of a million patients were provided free treatment in spas. These numbers are not expected to rise however, as the Health Fund lacks the funds to finance the cures that are becoming more expensive every year.

Observers consider it an evidence of a rising middle-class that now there are some 200,000-300,000 people who can pay the full cost of treatment, including services never paid for by the Health Fund. The profitability of the spa sector largely depends on foreign patients, who number some two million annually, or 10 percent of all tourists arriving in Hungary. Most guests come from Germany, Austria and Holland, but there is also a rising number of visitors from Slovakia, Croatia and Poland. Foreign bath-goers prefer spas in the west and south of Hungary – Sopron-Balf, Bükfürdő, Sárvár, Hévíz, Zalakaros, Harkány are the most popular resorts – but spas in eastern Hungary (Karcag-Berefürdő, Hajdúszoboszló, Debrecen) are also becoming popular.

A growing number of guests seek luxury services: spa-hotels run by the Danubius Hotel Rt. have an average occupancy rate of 80 percent, with most guests coming from Austria, Germany, and increasingly, from the Netherlands. The desire to meet the needs of foreign guests is driving Hungary's bath culture to higher standards. A growing number of spas offer services to each member of the family, supplementing medicinal services with fitness and wellness centers, playrooms for children, facilities for golf, bowling, horse riding, shopping and cultural entertainment. Health tourism is becoming a profitable niche of the tourism industry with significant spill-over employment effect – professionals calculated that every two new jobs in health tourism create five other jobs.

Hévíz is Hungary's top European-standard spa according to international rankings. The price of apartments in this spa resort town has risen fourfold over the past six years, and shopkeepers can now ask triple the price if they want to sell their business, as compared to six years ago. Land prices have also surged, mainly because Hévíz has the largest share of foreign real estate owners in Hungary, measured to the number of homes: foreigners in the town, which has a total of 4,500 residents, own 500 homes.

The local governments that own resorts and water rights mainly finance modernization of spas, but private capital is becoming more and more interested in footing part of the bill. The eastern city of Debrecen plans to build another tourist compound on yet untapped health springs by 2002, possibly involving external capital as well as drawing on the city budget. The government of the largest city on Lake Balaton, Siófok, also hopes to attract some private capital for a project to construct a 12-kilometre long pipeline to pump thermal water to a bath in the city. The central government invited tenders for the second time last autumn, offering some HUF 100 million for winning spa operators to modernize equipment, expand the range of services, and scientifically examine whether the thermal water they use can be registered as having special curative powers. The government also promised to allocate more funds under a long-term modernization program after the year 2000, and has plans to draft a long-term plan this year to boost spa-tourism. As a first step, the Institute of Balneological Research will be set up in Hévíz before the end of 1999.

Company Structure/Taxation

Accounting and legal advice should be sought in Hungary to determine the structure of the entity owning and selling the timeshare intervals in Hungary. The Ministry of Economic Affairs has prepared an Investors' Handbook, which can be viewed online at www.gm.hu/investor/e/index.html. It provides an overview of the issues and opportunities to be addressed:

- Companies with Foreign Participation
- Taxation
- Financial Environment
- Economic Incentives
 - Targeted Allocation for Tourism
- Important Laws for Entrepreneurs
- Emerging Sectors
 - Tourism

The tax changes that went into effect in 1998 were more limited than previous years suggesting some stabilization of the tax legislation. Expert advice is necessary in this area to provide the best tax advantage.

Overseas Investment Insurance

The Overseas Private Investment Corporation (OPIC), a self-sustaining US government agency, provides political risk insurance products and project financing to American businesses investing in developing nations and emerging markets worldwide. Political risk insurance provides protection against the risks of currency inconvertibility, expropriation, and damage resulting from political violence. OPIC should be contacted at an early stage to review investor eligibility, project eligibility, environmental impacts and

type of coverage available in Hungary. Ten Tips for the Investor Seeking OPIC Insurance, a Program Handbook and a Request for Registration for Political Risk Insurance are located in the supplemental materials.

Financing Timeshare Interval Purchases

How timeshare intervals are financed in Hungary, Germany or Austria wasn't explored. It should be an area of research for the professional market analyst. Hans Gunter Korts would be a good resource to start with for information on this subject and should be able to suggest marketing companies to interview for information on financing structures already in use.

One company that provides funding for timeshare interval purchases is International Funding S.A (IFSA). As of January 1999, they were operating in 20 countries. Unfortunately they had not yet included Hungary in their operations. They do however, operate in Germany, Austria, Switzerland, Holland, Turkey, Greece and Poland. They may be interested in this development and it may be beneficial to approach them, especially once the professional market analysis is complete. IFSA's website is: www.traders.co.uk/intfunding/english/welcome.html.

International Funding S.A. also provides developer services such as:

- Business Plan preparation
- Sales and Marketing analysis
- Credit checking, personal and corporate
- Inventory sourcing, sale, and purchase
- Sales training service
- Lead generation program
- Resort video, audio, CD production

V. MARKET ANALYSIS: TIMESHARE IN HEVIZ

Hévíz is a spa town located in western Hungary. Highly accessible, Hévíz is 83 kilometers (51.5 miles) from the Austrian boarder, 207 kilometers (127 miles/ 2.5 hours) from Budapest, and 23 kilometers (8 miles/20 minutes) from Lake Balaton, the largest (598sqkm) and most popular domestic vacation destination place in Hungary. It is easily accessible from the Vienna International Airport, by car and charter plane from the Balaton Airport, and by car and plane from Budapest. Known for more than 200 years for its medicinal value, Hévíz is home to Lake Hévíz, the largest hot-water lake in Europe. Lake Hévíz is 33-35°C during summer and 26°C during winter months, set in a year-round Mediterranean climate, and is the largest thermal lake of its kind. The lake is only one of two known bodies of water in the world with a combination of sulfur, minerals, therapeutic mud and other elements with curative powers; and represents the main draw of this spa town. The countryside surrounding Hévíz is pastoral and quaint in nature with nearby wine country and beautiful scenery throughout the area.



The water from Lake Hévíz is channeled into the spas of medical facilities and into some of the larger hotel developments in the area. The town has long served as medical treatment vacation destination for the "over 50" retired crowd. The predominant group of visitors is from Germany and Austria. Prices in this region are higher due to the value of the mineral water treatments, relatively inexpensive dental treatment rates, and the income level of the tourists from Germany and Austria. German retirees have a very high standard of living based on their pensions. As the health and "wellness" movement continues to spread throughout Europe, marketing professionals are seeing a significant increase in demand for the high-end luxury "spa experience" among the 20 to 30's crowd.²⁶ Historically, Lake Balaton has served younger single and family consumers with water sport activities a primary draw.

On the timeshare trading market, Hévíz has a natural tie-in with the growing interest in healthcare and wellness. Historically, resorts were visited for a cure for ailments. Hévíz has always been such a destination for the local countries. Promotion of this market as an exchange destination will be easy due to the nearby wine country, beautiful scenery, and the available activities that



²⁶ Hans Gunter Korts, RCI Europe, February 1999.

appeal to a broad market. Proximity of high quality hospitals may be necessary to attract some American retirees. Hévíz would appeal to segments of the American market that are adventurous enough to want to travel but that demand a high level of comfort and quality.

Competitive Analysis: Major Players in the Marketplace

The following table lists timeshare developments in Hungary and indicates the dominance of RCI as the Exchange Company most active in recruiting members. In more mature markets, developments will most often have associations with all of the major exchange companies.

TIMESHARE	AFFILIATIONS	PHONE	CITY
Club Serenia	RCI	(36-84) 315-500	H-8600, Siofak
Easy Life Club	RCI		Mosonmagyaróvár
Epona Riding Village & Country Club	RCI	(36-52) 369-092	Hortobágy-Mata
Mediterran Park Resort	II		Balatonföldvár
Siesta Club Hotel	RCI	(36-72) 480-611	Harkány
Solar Club Hotel	RCI	(36-99) 311-675	Sopron
Szechenyi Castle	RCI	(36-96) 287-127	Rabacs

Competition in and around Hévíz:

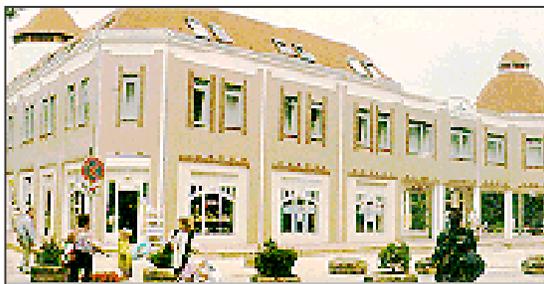
TIMESHARE	AFFILIATIONS	PHONE	CITY
Aparthotel Hévíz	RCI - Gold Crown	(36-83) 340-071	Hévíz
Club Abbazia	RCI	(36-83) 312-596	H-8360, Keszthely
Club Hotel Dobogómajor	RCI	(36-83) 531-991	Cserszegtomaj

There are estimated to be 550 timeshare units in Hungary. The average timeshare development contains 55 units; only three contain more than 75 units. Roughly 62% of the 28,050 weeks available had been sold as of 1997.

Competing timeshare developments in Hévíz are the Aparthotel Hévíz, which is a converted hotel and an RCI Gold Crown award winner and Club Hotel Dobogómajor, a bungalow style new development one kilometer outside town. Club Dobogómajor began as a 100-unit development and has



Club Abbazia



Aparthotel Hévíz

expanded to roughly 180 units, as the marketing team has demanded more timeshare intervals to sell. They have been very effective at selling the weeks of the peak season at a premium price. They have had less success in selling the weeks of the low demand season. The third competitor,

Club Abbazia, is six kilometers away in Keszthely on Lake Balaton. Club Abbazia is a converted hotel with 114 rooms. The rooms are sold as hotel rooms when not already sold as timeshare intervals, which minimizes the overhead cost for this development.

The other competitive element is the hotel industry, particularly the higher quality hotels. The following table lists the three and four-star hotels in Hévíz and Keszthely.

Hotels in Hévíz	
Four-star Hotels	# Rooms
Danubius Thermal Hotel Hévíz	203
Danubius Thermal Hotel Aqua	229
Rogner Lotus-Therm Hévíz	235
Three-star Hotels	
Hotel Helios	182
Hotel Carbona	170
Hotels in Keszthely	
Four star Hotels	
Abbázia Club Hotel	114
Danubius Hotel Helikon	232

Market Shares

- RCI controls 90% of the exchange market in Hungary. Interval International controls the other 10%.
- Club Dobogomajor has roughly 58% of the timeshare units in the regional market.
- Aparthotel Hévíz has roughly 25% of the timeshare units. They are all studios or 1 bedroom units.
- Club Abbazia has roughly 17% of the timeshare units.

Customer Analysis: Needs/Perceptions

The customer need being fulfilled by the timeshare industry is for a quality resort vacation that is a good value for the money and provides ownership benefits without the maintenance responsibilities of a second home. A recent survey of timeshare owners in Hungary elicited the following responses to a list of perceived benefits of timeshare ownership. (See "Perceived Benefit" table on the following page.)²⁷ The top three responses were to have an exchange opportunity with other resorts, to receive a good value for the money, and to provide certainty of quality accommodations.

²⁷ Unpublished study by RCI Consulting in Eugene, Oregon concerning the Timeshare Industry in Hungary, April 1998.

PERCEIVED BENEFIT	% CHECKING "IMPORTANT" OR "VERY IMPORTANT"
Exchange opportunity with other resorts	96.3
Good value for the money	95.8
Certainty of quality accommodation	95.7
Opportunity to own resort property at affordable price	92.4
Property to pass on to heirs	91.3
Save money on future holiday costs	87.8
Affordable terms	85.7
Treatment during sales presentation	85.6
Liked the resort, amenities, or unit	83.4
Location of resort	82.0
Credibility of timeshare sales company	74.3
Investment or resale opportunity	72.1

The same survey of timeshare owners in Hungary elicited the following responses to a list of reasons for possibly causing them to hesitate before purchasing.²⁸

Reason For Hesitating to Purchase	% Checking "Very Important"
Did not want to holiday in same country every year	45.3
Wondered if "too good to be true," if promised services would be delivered	40.8
Did not want to be tied to one resort location	40.7
Did not want to be tied to fixed annual use period	36.7
Timeshare concept new or unfamiliar	33.0
Sales presentation too high pressure	29.6
Was not sure would make enough use of it	28.2
Disliked idea of annual maintenance fee	25.2
Cost too much	24.0
Travel to unit too expensive or inconvenient	18.7
Timeshare concept complicated to understand	18.1
Heard or read something negative about timeshare	14.2
Having to share with others	8.5

Market Segments

- Timeshares belong to the travel and tourism industry as a segment targeting vacation ownership.
- RCI is one of the two major exchange companies in the timeshare industry. They segment the timeshare developments within their exchange network into three niches, the regular product, and two award levels above with higher standards of product quality and service delivery. The RCI Resorts of International Distinction have achieved excellence in providing outstanding resort holiday experiences for RCI exchange members. The RCI Gold Crown Resorts, a more select group, are judged by the most stringent standards in the industry. Not only must they meet

²⁸ Unpublished study by RCI Consulting in Eugene, Oregon concerning the Timeshare Industry in Hungary, April 1998.

quality and service requirements based on both RCI Member Comment Card ratings, but also an independent evaluation of resort facilities, amenities, and services.²⁹

- The timeshare industry segments the market across several demographic characteristics: gender, age, educational attainment, and household income. The target population is married couples with an income, specific to that country, which provides sufficient discretionary income to support the purchase of a timeshare interval. This generally goes hand-in-hand with a higher educational attainment and an average age over 40.³⁰
- Timeshare owners segment the market according to resort amenities and location. Some of the general segments are beach, mountains, skiing - both water and snow, spa, and the newest segment, urban.

Market Trends

- There is a growing interest in health and wellness among timeshare customers. Related services such as spa facilities are considered valuable amenities.
- The average age of tourists in Hévíz is lower today than it was ten years ago. As a result there are more activities for this younger crowd.

Marketing Mix Situation

Customer Satisfaction

- A survey of timeshare owners in Hungary found 68.9% of the owners were satisfied or very satisfied with their purchase. Only 10.5% were dissatisfied or very dissatisfied. In addition, the following degree of satisfaction was indicated on the following list of issues:³¹

Issue	% "Satisfied" or "Very Satisfied"
Cleanliness of unit at check-in	97.8
"Hospitality" during your stay	95.4
Quality of construction	95.1
Responsiveness of management to your needs	88.2
Functioning, decisions and management of Home Owners Association	73.4
Amount of annual maintenance fee	72.5

- The Hungarian customer originally bought timeshare intervals because they were not allowed to own real estate outside Hungary. They most often trade their

²⁹ RCI Resort Recognition Brochure, RCI Europe, Middle East, Africa and India.

³⁰ The Public Image of the Timesharing Concept: Major Issues and Trends 1995, The American Resort Development Association.

³¹ Unpublished study by RCI Consulting in Eugene, Oregon concerning the Timeshare Industry in Hungary, April 1998.

Hungarian interval through their RCI exchange membership.³² With the legal restriction lifted that incentive is no longer a driver in the timeshare market.

Product Line

- Nine of the ten existing timeshare developments are converted hotels offering small units at a lower cost than new development can afford.
- Roughly half of the units available are studios with another 40-45% one-bedroom units and the remaining 5% two-bedroom units.³³
- Most of the timeshares are located either in the northwest corner near Austria, like the ones in Hévíz, or in the southeast corner near Croatia.

Pricing

Sales Prices		Studio	One Bdrm	Two Bdrm	Conversion Factor
Average Hungarian Price in HUF ³⁴		475,000	675,000	1,500,000	220
Average Hungarian Price in USD		\$2,159	\$3,068	\$6,818	1
Season ³⁵		Tot Wks	Blue	White	Red
Number of weeks		51	7	14	30
Dr. Koltai Hungarian Price in HUF		372,881		2,237,288	220
Dr. Koltai Hungarian Price in USD		1,695		10,169	1
Average German Price in HUF		621,469		2,237,288	220
Average German Price in USD		\$2,825		\$10,169	1
Average German Price in DM		5,000		18,000	1.77
Average 1995 German Price in USD ³⁶		\$5,200	\$7,100	\$10,100	1

- 1995 Germany/Austria/Switzerland: \$10,100 2-bedroom.³⁷

Distribution and Promotion

- Marketing companies handle all distribution in the form of sales and promotion in the timeshare industry. The average cost of marketing in Hungary is 40% of sales.

³² Hans Gunter Korts, RCI Europe, February 1999.

³³ Unpublished study by RCI Consulting in Eugene, Oregon concerning the Timeshare Industry in Hungary, April 1998.

³⁴ Ibid.

³⁵ Hans Gunter Korts, RCI Europe, February 1999.

³⁶ Ragatz Associates, The 1995 Worldwide Resort Timeshare Industry, Alliance for Timeshare Excellence, American Resort Development Association.

³⁷ Ibid.

Positioning

- The travel and tourism industry can be differentiated by product: timeshares and service: amenities. The timeshare industry would be mapped as a nontraditional product and on the mid-to-high luxury end of the amenity scale.

SWOT Analysis

Strengths of Sam-Ty Development

- Ability to raise capital.
- Personal and professional links of Sam-Ty's primary principals.
- Distinct vision of Sam-Ty's primary principals.
- Commitment to quality and excellence.
- Access to experts.

Weaknesses of Sam-Ty Development

- No previous experience in timeshare development.
- No one on the ground in Hévíz.

Opportunities

- There is no high-end American quality timeshare in Hévíz.
- Potential new market of Austrians, Germans and Swiss.
- Potential to pave way for future 5-star timeshare development in Hungary.

Threats

- Economic downturn.
- Size of project may be too small to attract a desired high profile timeshare/resort management company.
- Further conversion of high-quality hotels in Hévíz to timeshare.

VI. OBJECTIVES

This section is included to demonstrate the kinds of questions to consider in creating a marketing plan for this project. The objectives are the desired accomplishments for the next one-year period stated in quantitative, realistic terms. The financial objectives address profitability and profit margin and any other relevant measures. The marketing objectives set the targets for unit and dollar sales, including growth over the coming year; market share; customer satisfaction; product line; pricing; distribution; promotion; and marketing. These are the same elements discussed in the market analysis.

The marketing strategy is the outline or "game plan" of how the objectives will be achieved. This includes defining target markets, describing the desired positioning in each market, and developing the marketing program. Appendix E contains a sample set of objectives and marketing strategy that was prepared as an example. It assumed the financing would be in place by August 31, 1999 and that construction couldn't begin until spring of 2000.

Financial Objectives

- The profitability target for the timeshare development is measured in a ratio of revenue to costs of 1.25 to be achieved at sell-out in __ years on _____.
- The construction loan will be paid off from revenues by _____.

Marketing Objectives

- Sales of the timeshare intervals to begin in _____ with an opening date of _____. (Note: units would sold before they are fully built.)
- Revenue staging and projection _____ (Hungarian Forint, 1=220 USD).
- Timeshare component to gain _____% of market share in the Hévíz market by _____.
- Customer satisfaction to qualify this timeshare development as an RCI Gold Crown Resort by _____.
- Timeshare product line to consist of:

	Studio sleeps 2	One-bdrm sleeps 4	Two-bdrm sleeps 6
Size	45 sq. meters	60 sq. meters	80 sq. meters
Quantity	TBD	TBD	TBD

Sam-Ty Hévíz

- Units to be furnished with _____ (specific amenities).
- Amenities to be included in the resort are _____.
- Interval/share pricing to be varied by season and by unit size as follows:

HUF	Red	White	Blue
Studio	TBD	TBD	TBD
One Bedroom	TBD	TBD	TBD
Two Bedroom	TBD	TBD	TBD

- Distribution will be accomplished through a marketing company for a commission of ___ of sales plus operating expenses not to exceed an overall total cost of ___ of sales during the periods _____.
- The marketing company will handle all aspects of promotion such that sales goals are reached or exceeded by _____.

Marketing Strategy

Target Markets

- The primary target market is _____ (age, gender, marital status, income, education, nationality).
- The secondary target market is _____.

Positioning

- The Sam-Ty Timeshare will be positioned as _____.

Positioning Statement

- For the _____ (target market) _____, the Sam-Ty Timeshare provides _____ (most important benefit) _____ because _____ (most important supporting benefit) _____.

Marketing Program

Customer satisfaction

- (Plan to achieve the stated customer satisfaction objectives.)

Product Line

- Product mix will be finalized by _____.
- Investors for the project will be in place by _____.
- Construction loan will be secured by _____.
- The local approvals will be in place by _____.
- Ground will be broken on _____.

Pricing

- Pricing by season and unit size will be as follows: _____.

Distribution and Promotion

- The marketing company will be selected via competitive bid by _____ (date) _____.
- Sales will begin _____ (date) _____.
- Preliminary promotion materials will be prepared by Sam-Ty Development by _____ (date) _____.
- Site drawings and elevations will be prepared for use by the marketing company by _____ (date) _____.
- Sales offices will be located in _____ (cities) _____.
- The marketing company will handle all aspects of promotion as follows:
 - Advertising will be placed in travel publications targeting _____.
 - Sales promotions will include _____ incentives.
 - A sales staff engaged in one-on-one sales _____.
 - Sales offices will be located _____.
 - Public relations will be handled by _____.

Suggested Controls/Contingency Plans

Controls

- Monitor sales targets, if not on target _____.
- Identify the critical path tasks by _____ (date) _____.
- Monitor the critical path activities closely by _____.
- Put together a management team of experts by _____ (date) _____.
- Meet with appropriate officials about the project by _____ (date) _____.

Contingency Plans

- If sales goals aren't being met _____.

VII. APPENDICES

Appendix A

Pro Forma Financial Analysis and Development Program

Appendix B

Hotel Information for Hévíz and Keszthely

Appendix C

Timeshare Ownership Types and Terms

Timesharing or vacation ownership is a term that describes a method of use and ownership. It denotes exclusive use of accommodations for a particular number of days each year. Usually sold by the week, it is also called interval or vacation ownership.

The purchase of a timeshare interval can take various legal forms. Under a **fixed-unit, fixed-week deeded agreement**; the purchaser receives a deed allowing the use of a specific condominium at a particular time every year forever just like buying a house. Benefits may include the tax advantages of ownership, plus a voice in the management of the resort. Under this agreement, the owner may rent, sell, exchange, or bequeath the vacation interval.

Under a **right-to-use plan**, ownership of the resort remains with the developer. The purchaser reserves the right to use one or more resort accommodations for a specified number of years, ranging generally from 10 to 50 years, after which all use rights return to the developer. These plans come in a variety of forms, most commonly as club membership.

Vacation intervals are sold as either fixed or floating time. With **fixed time**, the unit, or unit type, is purchased for a specific week during the year. That week is reserved for the owner every year, subject to cancellation if the vacation owner does not plan to use it in a given year. **Floating time** refers to the use of vacation accommodations usually within a certain season of the year, often within a three- to four-month period such as spring or summer. The owner must reserve his or her desired vacation time in advance, with reservation confirmation typically provided on a first-come, first-served basis. The purchaser may also receive a deed under a floating time arrangement. According to a recent national study, approximately 70 percent of timeshare condominiums in the United States are sold as floating time. Some price differences are based on demand within each season.

Vacation clubs or point-based programs provide the flexible use of accommodations in multiple resort locations. With these products, club members purchase points that represent either travel and use membership or a deeded real estate product. These points are then used like currency to access the various size accommodations, season and number of days at the participating resort. The number of points needed to access the resort accommodations will vary by the members' demand for unit size, season, resort location, and amenities. A vacation club may have a specific term of ownership or be deeded in perpetuity.

Fractional ownership enables consumers to purchase a larger share of a vacation ownership unit usually from five to 26 weeks. This type of ownership is popular in ski, beach and island resort areas.

"Lockoff" or "lockout" units allow vacation owners to occupy a portion of the unit and offer the remaining space for rental or exchange. These units typically consist of two bedrooms and two baths, or three bedrooms and three baths.

Split weeks are popular with consumers who prefer shorter vacations, as the owner may split use of the interval into two separate visits to the resort, such as one three-night and one four-night stay at two different times of the year. Reservations are usually granted on a first-come, first-served basis and are based on availability.

Biennial ownership, or alternate year ownership, allows use of a resort ownership product every other year and costs less than annual ownership at comparable resorts.

Appendix D

Initial Feasibility Assessment

Economic Factors

Doing Business in Hungary

One of the leading sectors for investment by US companies is travel/tourism services.

Legal counsel should be retained as well as an experienced attorney. An attorney accredited to work, as a lawyer in Hungary must conduct all legal work. In addition, notarization is often needed on contracts. The US Embassy's commercial and consular sections can provide lists of accounting and law firms.

Telephone service is very reliable in Hungary, including long-distance.

The Financial and Banking System in Hungary

Act CXII of 1996 on Credit Institutes and Financial Enterprises went into effect on January 1, 1997 and is intended to provide regulation of financial services to EU standards. One of the main goals is to protect investors' interests.

The banking system has been largely privatized and there are many foreign-owned institutions, including three US-owned banks: Citibank, Bankers Trust, and Budapest Bank (partially owned by GE Capital).

Market Factors

Hévíz is a medical treatment vacation destination for the "over 50" retired crowd. The predominant group of visitors is from Germany and Austria. Prices in this region are higher due to the value of the mineral water treatments, the cheaper dental rates, and the income level of the tourists from Germany and Austria. German retirees have a very high standard of living based on their pensions.

On the timeshare trading market, Hévíz has a natural tie-in with the growing interest in healthcare and wellness. Historically, resorts were visited for a cure for ailments. Hévíz has always been such a destination for the local countries. The market can be expanded through promotion as an exchange destination. The nearby wine country, beautiful scenery, and available activities could appeal to a trading market. Research into the proximity of high quality hospitals may be necessary to attract some American retirees. It would appeal to segments of the market that are more adventurous in a high comfort kind of way.

Tourism is Hungary's second largest industry and 1997 was a banner year. Hungary actually ranked 9th in the world! Hotel occupancy rates are rising. Infrastructure improvements are underway to accommodate anticipated longer-term growth including the expansion of the Budapest International Airport and the construction of Motorways M3 and M5.

The timeshare industry was introduced in Hungary a few years ago. Some of the initial operators did things that have poisoned the general market for timeshares. In addition, for those who can afford a timeshare, the cost of a week abroad to Greece including airfare is comparable and preferred. However, the market analysis should confirm that the target market is German and Austrian so this should not be a factor that hinders the development.

Germany with 80,024 timeshare owners had the 6th largest number of owners in 1994. Developers generally prefer what they call "on-shore" owners, meaning they live in the same country. In Hévíz, this will probably not be the case. Given that the Germans and Austrians dominate in the hotels developing a marketing plan targeting that market would be understood. In addition, timeshare market analysts are expecting that growth in the industry will occur in "off-shore" ownership.

Design Factors

Construction in Hungary

The construction industry is doing very well in this region. Tourist dollars are funding a lot of new development. Prices are highest here as well. Once market prices are determined in the market analysis we can determine the feasibility of a timeshare as a new construction project.

Political Factors

Bilateral relations between the United States and Hungary are excellent.³⁸ The US-Hungarian Legal Assistance Treaty (MLAT) went into effect in August 1996.

Hungary's political stability is one of the factors that have attracted foreign investment. Challenges facing the new government that we need to be aware of are the pervasive gray economy and containing inflation and unemployment. In addition, Hungary doesn't have the same transparency in government decision-making that we are used to in the US. This should be addressed with legal counsel.

³⁸ Country Commercial Guides FY 1999: Hungary, Report prepared by the US Embassy, Budapest, Hungary, released July 1998.

Appendix E

Sample Objectives

Financial Objectives

- The profitability target for the timeshare development is measured in a ratio of revenues to costs of 1.25 to be achieved at sell-out in 2 years on September 30, 2001.
- The construction loan will be paid off from revenues by March 30, 2001.

Marketing Objectives

- Sales of the timeshare intervals will begin in September 1999 with an open date of September 2000.
 - In the last four months of 1999, 11.8% of the project revenue will be generated from sales of 600 intervals for 943,170,600 HUF (Hungarian Forint, 1 = 220 USD). This is a sales average of 150 units/month.
 - In 2000, the next 59% of the project revenue will be generated from sales of 3,000 intervals for 4,715,853,000 HUF. This is a sales average of 250 units/month.
 - The final 29% of the project revenue will be generated from sales of the last 1,500 intervals for 2,357,926,500 HUF. This is an average of 187.5 units/month.
- This timeshare development will gain 30% of the market share in the Hévíz market by September 2000.
- Customer satisfaction will qualify this timeshare development as an RCI Gold Crown Resort by September 2002.
- The product line will consist of:

	Studio - sleeps 2	One Bedroom - sleeps 4	Two Bedroom - sleeps 6
Size	45 sq. meters	60 sq. meters	80 sq. meters
Quantity	30	50	20

- Each unit will be fully furnished including dishes and cookware. Maid service will be provided and the unit will be equipped with two telephones, television, movies upon demand, oversized tub or shower, stereo and a washer/dryer unit.
- The amenities to be included in the resort are a spa with a sauna, whirlpool, steamroom, swimming pool, and health club with waters from the Hévíz Lake; dentist; putting green; and fine dining restaurant.
- The pricing of the intervals varies by season and by unit size as follows:

HUF	Red	White	Blue
Studio	1,799,000	749,000	499,000
One Bedroom	2,245,000	935,000	625,000
Two Bedroom	2,915,000	1,215,000	815,000

- Distribution will be accomplished through a marketing company for a commission of 30% of sales plus operating expenses not to exceed a total cost of 40% of sales in 1999, 2000, and 2001.

- The marketing company will handle all aspects of promotion such that sales goals are reached or exceeded by September 2001.

Marketing Strategy

Target Markets

- The primary target market is the discerning Austrian/German tourist market that is the mainstay of the Hévíz tourist industry. Specifically, the target market is married couples aged 40 and older, with a minimum income of 50,000 DM.
- The secondary target market is upper income Hungarian married couples aged 40 and older, with a minimum income of 4,000,000 HUF.

Positioning

- The Sam-Ty Timeshare will be positioned as a luxury timeshare offering American spa treatments in the beautiful and relaxing town of Hévíz.

Positioning Statement

- For the discerning Austrian/German tourist, the Sam-Ty Timeshare provides the highest quality resort experience because its management team and its amenities are five-star quality.
- For the upper income Hungarian tourist, the Sam-Ty Timeshare provides the highest quality resort experience because its management team and its amenities are five-star quality and also provides access to the best resorts in the world.

Marketing Program

Customer satisfaction

- A customer satisfaction survey will be provided to each potential customer who visits the marketing office to assess and maintain quality interactions and levels of satisfaction. A rating of no more than 5% dissatisfaction will be achieved by December 1999. A rating of 75% satisfied or very satisfied will be achieved by December 1999.
- A customer satisfaction survey will be provided to each visitor once the timeshare opens in September 2000. A satisfaction rating of 95% satisfied or very satisfied will be achieved in every category by December 2000.

Product Line

- The loan for construction will be secured by August 10, 1999.
- The investors for the project will be in place by August 10, 1999.
- The product mix will be finalized by October 31, 1999.
- The local approvals will be in place by February 15, 2000.
- Ground will be broken on March 15, 2000.

Pricing

- Pricing will be as outlined in the objectives with adjustments for inflation and demand.

Distribution and Promotion

- The marketing company will be selected via competitive bid by September 1, 1999.
- Sales will begin immediately after selection.
- Preliminary promotion materials will be prepared by August 15, 1999 by Sam-Ty Development.
- Site drawings and elevations will be prepared for use by the marketing company by September 1, 1999.
- Sales offices will be located in Hévíz, Budapest, Vienna, and Munich.
- The marketing company will handle all aspects of promotion as follows:
 - Advertising will be placed in travel publications targeting Hévíz, Budapest, Vienna, and Munich.
 - Sales promotions will include free dinners at an elegant restaurant.
 - A sales associate will engage in one-on-one sales interactions with visitors that drop into the marketing office. These offices will be located in high-pedestrian locations near other travel offices.
 - Public relations will be handled by sponsoring local festivals centered on travel and dining.

Projected Profit-and-Loss Statement - (See Appendix A)

Controls/Contingency Plans

Controls

- Monitor sales targets, if not on target whether up or down, check in with marketing company to find out what is or isn't working.
- Sales are contingent upon opening date of project, begin negotiations with the mayor of Hévíz over the water use and approvals this summer to finalize costs before sales begin.
- Have someone on-the-ground in Hungary performing due diligence investigations of the marketing companies before selecting one.
- Put together a management team of experts by June 30, 1999.
- Meet with the American Embassy commercial staff about the project by July 31, 1999.
- Monitor the mix of product being sold on a monthly basis to catch any problems with selling certain types of intervals.
- Hire local attorneys and accountants in Hungary to monitor the business on that end.

Contingencies

- If sales goals aren't being met, evaluate the problem and either implement plan A or plan B or plan C.
- Plan A - Intervene with marketing and promotion to get sales up.
- Plan B - Rent out some units as hotel rooms until demand picks up.
- Plan C - Lower prices to reflect demand.