

Marriott's Aruba Ocean Club Frequently Asked Questions

In recent weeks, there have been a number of questions posed to the Board of Directors by Owners. Below, you'll find answers to the most frequently asked questions.

Question: Is Allan Cohen, the previous President of the Association, still serving on the Association Board?

Answer: Allan Cohen continues to serve on the Association Board. Owners elect the Board of Directors, and each person serves a three-year term for a maximum of two terms. The Board elects its officers at the annual meeting each year. Mr. Cohen is in the final year of his second term.

During the January 2008 Board of Directors Meeting, the Board developed a succession plan to ensure a seamless transition from Mr. Cohen's long and distinguished service to a new administration. The plan called for a new president to be elected in 2008 so that Mr. Cohen would have the opportunity in his last few months on the Board to mentor the new President. Mr. Frank Knox, Senior Vice President of BB&T Bank in Charlotte, N.C., was elected by the Board at its annual meeting to succeed Mr. Cohen per the agreed-upon succession plan.

Question: Why are roof and other repairs needed at Marriott's Aruba Ocean Club? Was the building defective?

Answer: The building and the roof are not structurally defective. A partially completed building was acquired by Marriott in 1995, reconfigured as a Marriott Vacation Club® property and subsequently opened as Marriott's Aruba Ocean Club in 1999. The original roof is now 14 years old and needs repairs beyond normal maintenance because of the extreme Aruban sun and wind.

Rather than simply repair the existing roof, the Board decided to replace the entire roof using state-of-the-art technology. The Board independently hired structural and environmental experts to ensure that the new roof was properly designed and installed and to confirm that there was no structural or other long-term damage. Our consultants have confirmed to the Board's satisfaction that there is no structural damage and that the roof's structure is sound.

Marriott Vacation Club is paying 48% of the cost to replace the roof, which is their share of the cost from the time they acquired the property. Original caulking around windows and doors has also deteriorated over time due to the Aruban sun and wind. As a result, the entire building will be resealed next year, a process that will include re-caulking all windows and doors and repainting the exterior with a waterproof paint and sealer. A Reserve Plan forecast estimated that the exterior building refurbishment was to be completed in 2010 but has been moved up, to late 2009 in order to maintain the integrity of the building's waterproofing.

Question: Does the Board represent Owners or does it represent Marriott Vacation Club?

Answer: The current make up of the Board includes four multiple-week Owner members and one Marriott representative. The decisions the Board makes affects these multiple-week Owner Board members the same as other Owners. The Board has and continues to perform its due diligence representing Owners.

Last year, the Board retained a corporate attorney to review all of the Aruba Ocean Club documents, including the management agreement with Marriott, and to advise the Board on its legal options to protect the interests of the Owners. The documents that govern the Association and its relationship with Marriott are legally binding.

As a result, the Board agreed that it is in the long-term best interests of the Owners and the Association to build a positive relationship with Marriott rather than continue the adversarial relationship that had developed over the past several years. During the past six months, Marriott has been working collaboratively with the Board to address a number of important issues and as a result, has made financial concessions approaching \$2 million that otherwise would be the responsibility of the Owners. Having the Marriott name associated with the Aruba Ocean Club adds immeasurable value to our property and is what distinguishes Marriott's Aruba Ocean Club from other timeshares in Aruba selling for 1/3rd the value for comparable villas.

Question: Why are we getting such a big increase in annual maintenance fees, approved by the Board?

Answer: There are a number of specific reasons necessitating the increase in annual maintenance fees. The specifics have been detailed in a letter to Owners with the Annual Maintenance Fee invoices. Please see the abbreviated list of reasons below.

- Because of its age, Marriott's Aruba Ocean Club is becoming more expensive to maintain. The new roof and resealing of the building next year will help to keep future increases to a minimum.
- The costs of utilities, taxes and other fees in Aruba have dramatically increased during the past year and were not anticipated. Through our conservation initiatives, the Ocean Club reduced overall electricity consumption by 5% this past year, but the cost of electricity increased 42%.
- The cost of labor on the island has increased more than 10%.
- To provide better service to our Owners and more independence from Marriott's Aruba Surf Club, the Board approved the addition of several new staff positions this past year, including the new General Manager and Finance Director, which has further increased labor costs.
- The recent hurricane caused significant damage to the property and the cost of repairs is not covered by insurance.
- We have increased the amount of funds retained in the Reserve Account that will pay for future capital improvements and repairs, in order to avoid the need for future assessments.

Question: What are our assurances that maintenance fees won't continue to escalate each year?

Answer: The Board establishes an annual maintenance fee based on forecast expenses for the coming year. With the rising cost of labor and utilities along with several unplanned emergency expenses in 2008, the Board had no choice but to increase the maintenance fees for 2009 to cover anticipated costs. The Board will go through the same process to set the maintenance fees for 2010. If in the coming months, utilities become less expensive and the cost of labor, shipping, taxes, etc. are less than expected, then the maintenance fee will be reduced. Hopefully, we will

not see the extreme swings in expenses that we saw this past year and will be able to reduce next year's maintenance fee below 2009 levels.

Question: Why is an assessment needed at this time, what will it accomplish and why are we paying for it?

Answer: The upcoming assessment has nothing to do with the cost of day-to-day operations or repair and maintenance of the property. The assessment will fund a complete renovation of the property. This is needed because the Ocean Club is approaching its 10-year anniversary, and with one of the highest occupancy rates of all the Marriott Vacation Club resorts, it is showing signs of age.

Unfortunately, over the past few years, the replacement costs for goods (i.e., furniture, televisions, appliances) has escalated from a 35% premium over domestic product cost to now over 69% premium. Our maintenance fee reserve contribution has not escalated as quickly as these costs have increased. The cost escalation along with the reduced useful life of some assets resulted in a shortfall of reserve funds needed to fully pay for the planned 10-year renovation cost.

If in prior years the Board had better anticipated the cost of the renovation we all would have been paying higher maintenance fees and there would not have been the need for an assessment.

The assessment, along with the current reserve fund, will completely cover the costs to renovate the Lobby, hallways and all villas and will pay to have the exterior of the building resealed, including new caulking on the inside and outside of all windows and doors. In addition to new furniture, all bathrooms in the villas will be updated with new shower enclosures and new double sink vanities with granite countertops. The kitchens will have all new appliances that are more durable than existing appliances, and all kitchen cabinets will be refaced with new wood fronts. Each villa will also include a desk, wireless Internet and new flat-screen, high-definition televisions.

Question: Why do we even need a renovation or at a minimum, why can't it be put off for 2-3 years?

Answer: The Ocean Club is approaching its 10 year anniversary and it has one of the highest occupancy rates of all Marriott Vacation Clubs and as a result, is showing its age. Furniture is scratched and tattered and appliances are failing and being replaced on a piecemeal basis which is not cost effective. Owner feedback tells us that while our owners love coming to Aruba, the condition of the rooms detracts from their overall experience. The condition of the rooms and furniture continues to receive the lowest ratings in our owner satisfaction surveys and ratings continue to drop even lower. A sample of owner feedback from the first two weeks of December 2008 makes it clear that our resort is in desperate need of a top to bottom renovation. Here are a few excerpts from our Owners survey:

1. "My family and I were extremely disappointed in our room. The microwave did not work properly; the bathrooms were old and the shower stalls need to be replaced."
2. "I thought everything outside my room was great, lots of activities for the kids, well maintained pool and beach area, friendly service at the pool bar, but the room experience was extremely disappointing."

3. "This property is TIRED. The appliances need to be upgraded. The furnishings need to be upgraded. The linens need to be upgraded. The cookware needs to be upgraded. We're paying a lot of money to be in a less than ideal surrounding. Are we Marriott or Motel Six?"
4. "The Ocean Club is overdue for a makeover. It is starting to look shabby and we are concerned."

Due to the current economic conditions, vendors and contractors have lowered their prices and we need to take advantage of this before the market rebounds. We estimate that if we delay the renovation for one year, it could add at least \$750,000 to the cost of the project.

We need new furniture to replace broken or damaged furniture and our appliances are rapidly failing. While the staff has done a great job trying to repair appliances, we are spending more and more money each year from our annual maintenance budget to purchase new appliances. This is not cost effective. In addition, as part of the 2009 renovation, the building façade, all exterior windows and doors must be completely resealed to prevent water damage to the villas and common areas. The resealing will also include the windows inside the villas. If we proceed with this ad hoc approach crews will be in the villas stripping and replacing old caulking for the better part of a day making a mess and disrupting our guests. Resealing the building and interior windows as part of the 10 year refurbishment will be more efficient and will not in anyway disrupt our Owners.

Question: Wasn't Marriott's Aruba Ocean Club renovated just 5 years ago? Why do we need another renovation now?

Answer: In 2004, curtains and carpets were replaced, couches and chairs were recovered and granite countertops were added to the kitchens. In 2006, all bedding was replaced with new mattresses and the same sheets and pillows that are used in all Marriott resorts and hotels. There has been no other renovation to the resort. The villas were not repainted, furniture and appliances were not replaced and nothing was done to the lobby or hallways. Now after 10 years of very hard use, the lobby, hallways and villas need to be repainted, 10 year old furniture and appliances need to be replaced and cramped bathrooms and leaky shower enclosures must be updated. The upcoming renovation will not replace the mattresses or bedding which were recently added in 2006.

The hospitality industry standard for hotels and resorts such as Marriott's Aruba Ocean Club is to replace "soft goods" (carpet, curtains and fabric) every five years and to do a total replacement (appliances, cabinets & furniture) and upgrade after ten years. A 94% occupancy rate coupled with the extreme Caribbean climate makes the renovation necessary.

Question: Why is the renovation costing so much?

Answer: A standard 10 year renovation that Marriott recommends for a property of this size can average between \$9m and \$10m. When the Board reviewed Marriott's recommended scope of work, nothing was planned for the master bathrooms. Owner feedback continues to tell us that our bathrooms are small, have little storage space and are outdated. In addition, the shower enclosures leak and create a growing maintenance problem for our staff. As a result, the Board directed that the master bathrooms be completely renovated to include new shower tile and enclosures. We also added a granite-top vanity with a double sink and additional storage space to the master bathroom. All of which contributes to the higher than planned costs.

Question: How do we know that there will not be another assessment in a few years?

Answer: As previously mentioned, in prior years, insufficient annual maintenance fees were placed in the reserve account to fully fund planned renovations and unprogrammed maintenance and repair issues such as replacing all pool pumps and filters. The Board recently created a Finance Committee headed by one of our Board members along with several owner volunteers experienced in finance to help carefully plan and manage our reserve account now and into the future. This committee will be setting formal, written guidelines to prevent the need for future assessments.

Question: Owners used to be able to contact the former President about issues and concerns and he would respond directly back to them with an answer. Owners are now being asked to send their questions to a general email address for the Board instead of directly to the President of the Association. Why the change?

Answer: Until 6 months ago, there was a single General Manager responsible for both the Ocean Club and the Surf Club. Because the Surf Club was new and because of its size, Ocean Club issues took a back seat to Surf Club issues. As a result, the AOC President stepped into to fill the void by not having our own General Manager. Now that we have our own dedicated General Manager, we have an opportunity to improve the way we respond to owners' questions.

The vast majority of issues raised by owners are operational in nature and are clearly within the purview of the General Manager to correct, often on the spot. To improve communications and to speed up the response time, our new General Manager has asked that all owner communications come to him directly. Funneling routine, operational issues through the Board only slowed the response to the owners in the past.

One of the Board's goals is to ensure open and responsive communications with owners. In the past, owners have communicated directly to an individual's personal email. To ensure consistency and continuity, we have created a single email address for the Board... aocbod@vacationclub.com which will remain the same regardless of who is on the Board. By creating this permanent address, the General Manager will now see owner's emails at the same time the Board does and can take immediate action without waiting for the Board to forward the email to him for action. This new procedure will get questions answered and problems resolved much more quickly than in the past.

Board of Directors
Marriott's Aruba Ocean Club