

October 24, 2013

Re: Tolovana Inn Owner Usage

Dear Tolovana Inn Owner:

Most owners are sensitive to the financial impact of their unit's personal usage. Unfortunately, a small number of unit owners account for a sizable, and growing, negative impact on revenues. A direct result of this growing impact was the board's request in February at the annual meeting to increase funding of our operating account from 15% to 20% over the next two years specifically to complete the much needed renovations. As you may recall, the increase from 15% to 20% equates to an annual average decrease in each owner's distribution of approximately \$1,948.

While guest occupancy and guest rental revenues continue to improve steadily year-over-year it is clear they cannot keep pace with growing owner usage. Therefore, it is the board's intent to provide the following information in an effort to, (1) inform all owners with more detail, (2) encourage all owners to analyze their personal use, especially during the peak summer season, weekends and holidays, and (3) solicit thoughts and comments from the ownership, specific to owner usage. With full respect for each unit's ownership and the rights of each unit's ownership to use their unit(s), the board offers the following:

- In 2012 owner usage reduced potential revenue by a minimum of \$325,000
- To date, in 2013, owner usage has increased 7.4% which translates to an excess of \$350,000 in lost revenue
- Lost revenue through owner usage, especially during peak times, impacts the Inn's ability to continue with improvements and projects, AND decreases owner distributions
- Lack of improvements will affect the Inn's competitiveness
- The chart below demonstrates how one unit used 15 nights during peak summer directly removes anywhere from \$2093 to \$3626 from revenues; then multiply those results by many units and the impact increases exponentially

Examples of the Impact of Owner Use – The amount your distribution is reduced			
Room Type	Quiet Season	Shoulder Season	Peak Season
	Nov – Mid March	April/May/October	Memorial Day – Labor Day
Studio OF	\$13.71/night	\$93.26/night	\$139.54/night
1 Bedroom OV	\$14.33/night	\$98.97/night	\$148.09/night
1 Bedroom OF	\$17.69/night	\$122.17/night	\$182.80/night
2 Bedroom OF	\$23.40/night	\$161.57/night	\$241.75/night

For clarification, "OF" represents Ocean Front and "OV" represents Ocean View units. These amounts reflect the actual nightly loss an Owner experiences while occupying their unit.

The board seeks your input, via the attached questionnaire, as we review our paradigm and determine a path that is financially secure for the Inn, as well as continuing to provide the joys of coastal rental property ownership.

Respectfully,

Bob Dedrick, Chairman

Tolovana Inn Owner Use Questionnaire
October 2013

Approximately, how many total nights is/are your unit/units used by you or your guests in a year:	Less than 5 nights ____ 10 nights ____ 15 nights ____ More than 15 nights ____
After reviewing the attached memo will your usage change ~ if yes, to what degree:	Yes ____ No ____ 25% less ____ 25%-50% less ____ over 50% less ____
Approximately what percentage reflects your time using your unit vs friends and family:	____%
The average annual net distribution to each owner is approximately \$10,000. On a scale of 1 to 5, with 1 being of little importance & 5 being very important, what is the importance to you in maximizing your individual distribution:	1 ____ 2 ____ 3 ____ 4 ____ 5 ____
Would you favor an amendment to the General Partnership Agreement to include a maximum number of nights allowed each year for owner usage, as a way to protect rental income:	Yes ____ No ____
If you favor a maximum number of nights allowed each year for owner usage, how many nights would seem reasonable to you:	____ nights per year
Would you support an amendment to the General Partnership Agreement to restrict owner usage on Memorial Day weekend, July 4 th , Labor Day weekend and July & August:	Yes ____ No ____ Some combination ____ If yes, how many nights during these periods ____
In lieu of restricting owner usage would you support implementing a nightly user fee for owners during peak season and holidays:	Yes ____ No ____ If yes, what percentage of the Daily Posted Rental Rate would seem reasonable ____%

Thank you for taking the time to share this valuable information.

Owner Name

Unit(s) #