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VACATION RENTAL MARKET OVERVIEW

ORLANDO, FL

Prepared for Encore Capital Management
March 30, 2020

ABOUT RCLCO

Since 1967, RCLCO has been the "first call" for real estate developers, investors, the public sector, and non-real estate companies and organizations seeking strategic and tactical advice regarding property investment, planning, and development.

RCLCO leverages quantitative analytics and a strategic planning framework to provide end-to-end business planning and implementation solutions at an entity, portfolio, or project level. With the insights and experience gained over 50 years and thousands of projects–touching over $5B of real estate activity each year–RCLCO brings success to all product types across the United States and around the world.

Learn more about RCLCO at www.RCLCO.com.

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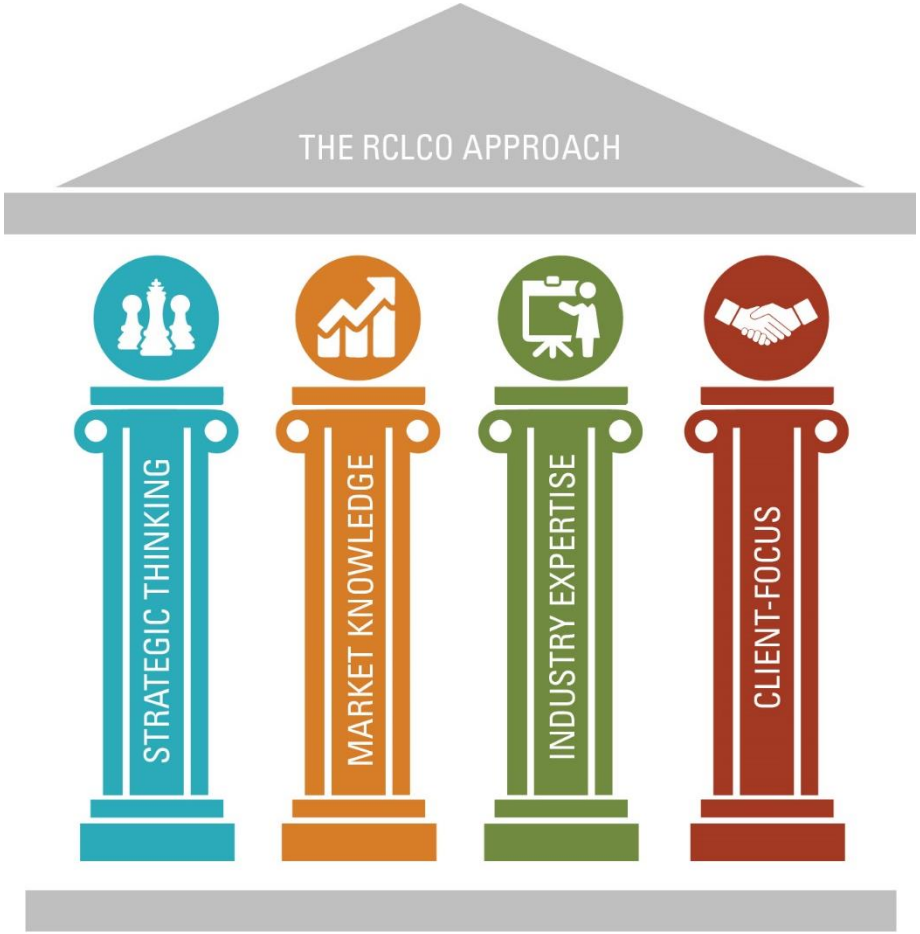

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BACKGROUND

Located in Orlando, Florida, RCLCO is an industry leader in providing independent, third-party market analyses and real estate advisory services. RCLCO has extensive experience in evaluating the performance of real estate markets across the country, and has specifically studied the growth within the market for vacation rental product in Orlando, Florida's "tourist corridor," or the region of Southwest Orlando which includes Disney, Universal, and other theme parks, in addition to extensive shopping, lodging, and recreational amenities.

RCLCO has been engaged by Encore Capital Management in order to provide a high-level overview of the trends affecting the vacation rental market nationally, as well as a comprehensive look at the drivers of demand for short-term rental product in Orlando, Florida, along with detailed market-level information on occupancy rates, average daily rates (ADR), and typical costs to own.

VACATION HOME MARKET OVERVIEW

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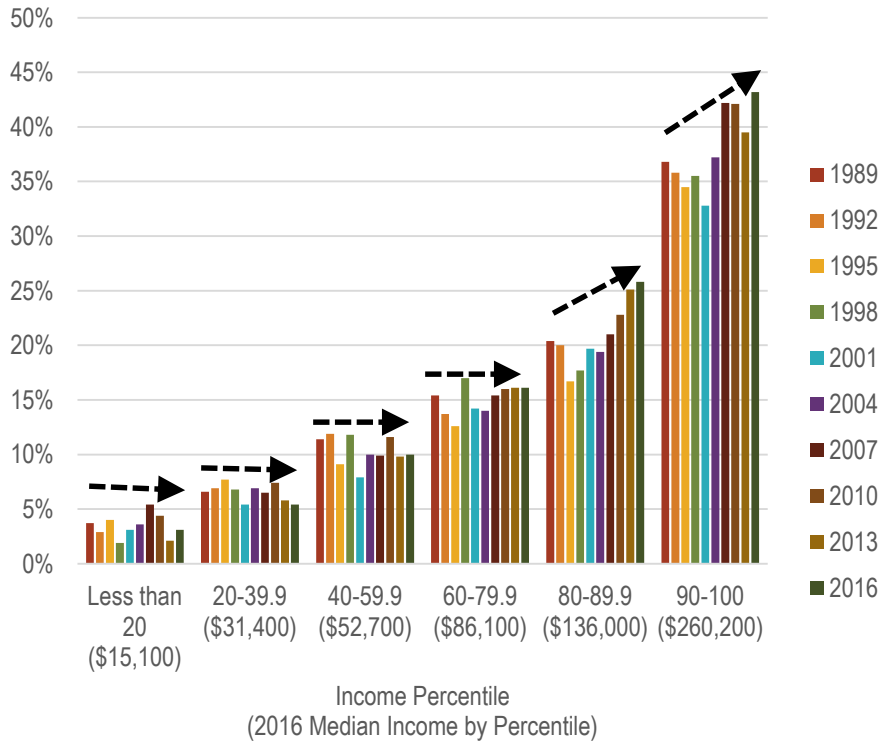
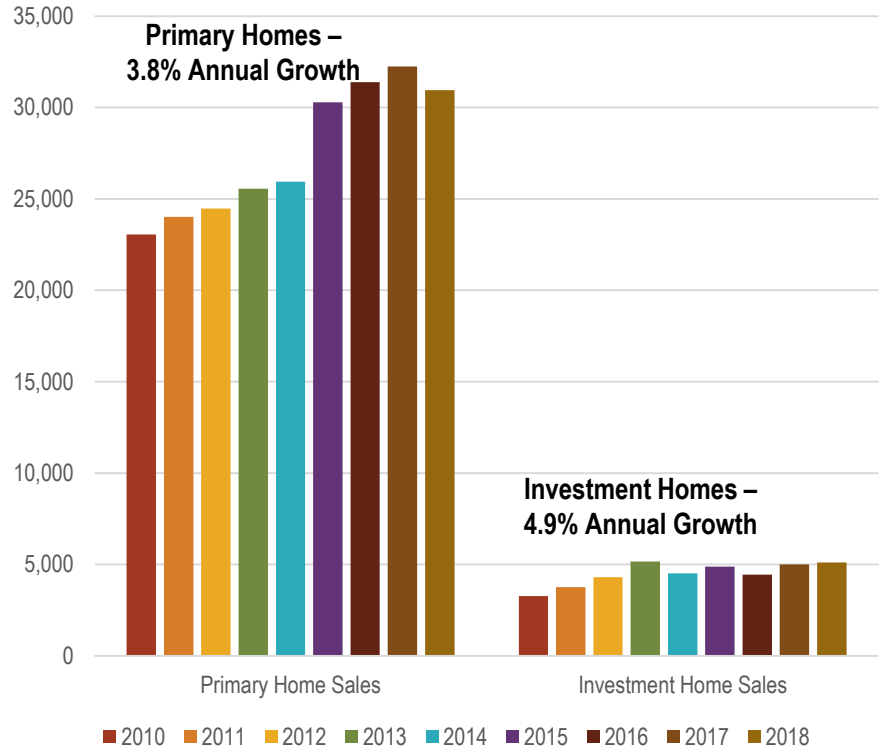
Ownership of investment and vacation has been increasing over the past several decades, led by households in the highest income brackets. Close to 45% of households in the highest income percentiles own a non-primary residence, a substantial increase over 37% in 1998, and the low of 33% in 2001. Secondary home ownership also increased for households in the next highest income bracket, and 26% of these households now own a vacation and/or investment property compared to 20% three decades ago. Households in the lowest income brackets do not typically have a high rate of ownership in general, and as such represent a lower share of the demand pool for secondary homes.

Percent of Households with Other Residential Real Estate by Income Percentile
United States; 1989-2016



The real estate market in the Orlando MSA rebounded strongly out of the Great Recession, and total residential sales have increased every year since 2009. While primary home sales have grown at a fast rate, investment home sales have grown even quicker over the past decade. The total number of investment homes in Orlando has increased by nearly 5% every year since 2010. Homes sold to investors, as a percentage of total residential sales, has also increased in this timeframe, as over 5,000 investment homes were sold in 2018 representing 14.2% of all residential sales. In 2010, less than 3,800 investment homes were sold which represented only 12.4% of total residential sales.

Total Sales Volume by Intended Use
Orlando, FL; 2010-2018



Source: Survey of Consumer Finances; CoreLogic; Orlando Regional Realtor Association; RCLCO

NATIONAL VACATION HOME TRENDS

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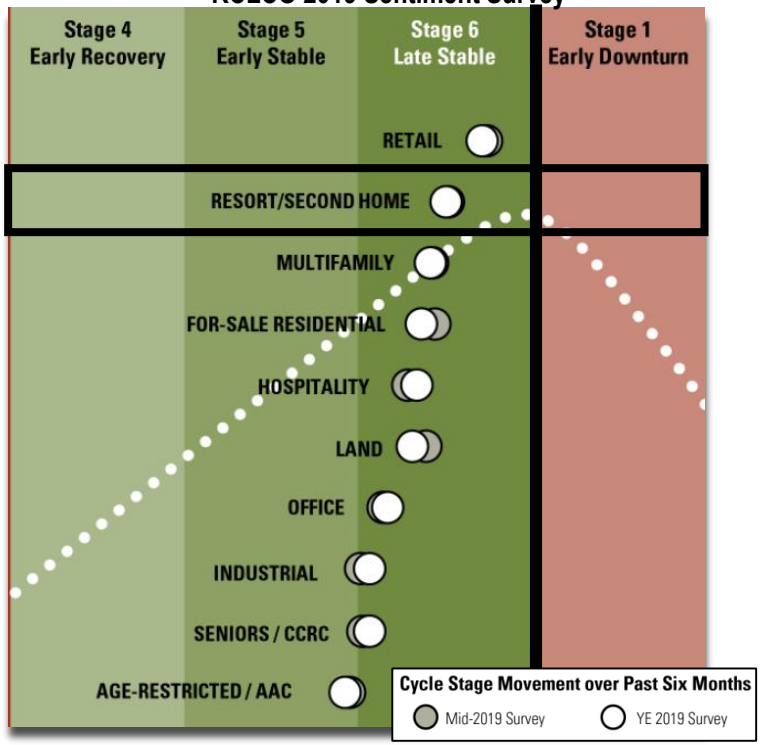
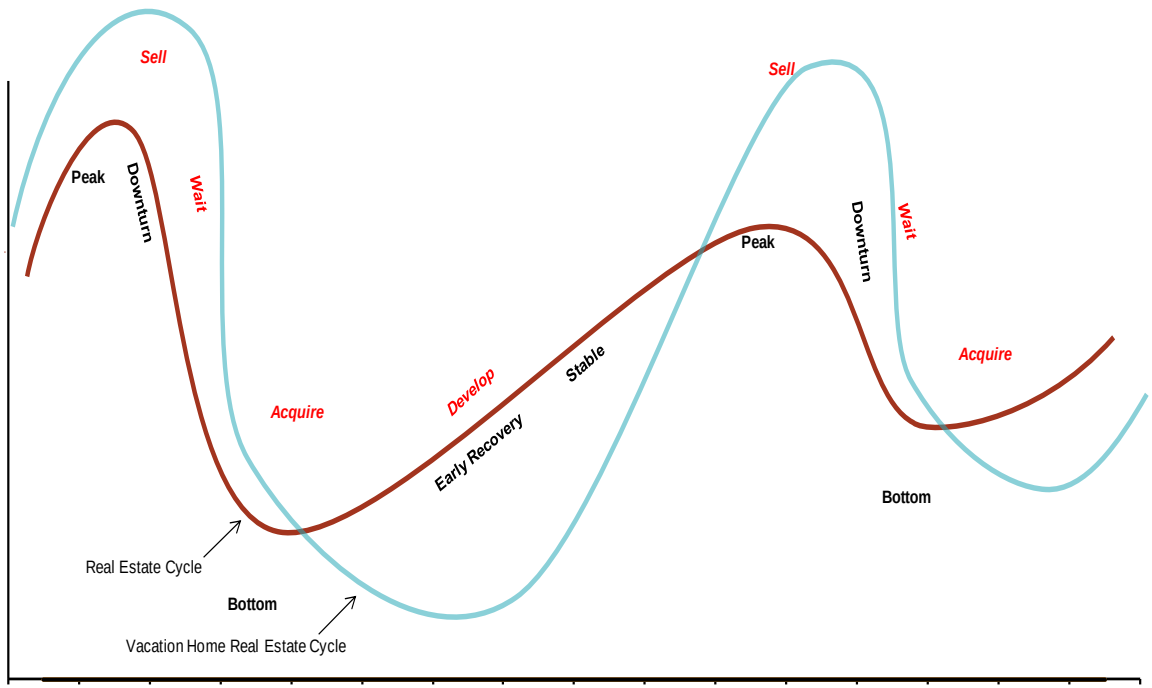
Typically, real estate cycles are closely related to economic cycles. Each cycle, whether an economic or a real estate cycle, is caused by different factors, but cycles nonetheless appear to be inevitable. While most of the long-term projections presented herein are expressed in terms of long-term averages, it is important to recognize that actual market activity is most likely to behave in a cyclical fashion, as illustrated below. Long-term demand and pricing fluctuate based upon cycle stage above or below the long-term averages. For example, the resort/second home market is currently in the Late Stable stage, as indicated by the below graphic which displays the results from RCLCO's 2019 Sentiment Survey. Sentiment regarding the resort/second home market changed little from the Mid-Year 2019 Sentiment Survey, along with for-sale residential, indicating these land uses have moved closer to early downturn conditions based on market sentiment.

This survey is conducted twice per year and tracks the sentiments of a highly experienced pool of real estate professionals from across the country and across the industry. Nearly three-fifths of respondents have worked in the real estate industry for 20 years or more. Based on the results from the most recent survey, we are confident that Peak conditions, followed by a slight Downturn before a return to normal growth will occur once again, although the exact timing for the market's movement from one stage of the cycle to the next is difficult to predict. Nearly 77% of respondents predicted that downturn conditions would not occur until at least 2021, if not later. Considering the second home market experiences even more significant cyclicality than the broader market, we recommend that investors in these products closely monitor the local and national cycle for vacation homes.

RCLCO 2019 Sentiment Survey



Real Estate Cycle



Source: RCLCO

IMPACTS OF NEXT RECESSION ON RESIDENTIAL REAL ESTATE EXPECTED TO BE MODERATE COMPARED TO 2009

While the Great Recession paralyzed housing markets and left many industry participants reeling, the housing market has historically been much more resilient in recessionary periods. Although the risk of a recession is moderate for the near term, RCLCO believes the next recession will have a moderate impact on for-sale residential real estate because of several mitigating factors, including the following:

- Current months of supply is just 5.4 months, compared with 12.2 months of supply in January 2009 and has slightly decreased over the past 12 months. Sales of new single-family houses rose in November 2019 to a seasonally adjusted annual rate of 719,000, 16.9% above the seasonally adjusted annual new home sales in November 2018.
- The economy is strong, unemployment is low, and though real incomes for most households have been flat for too long, we are currently seeing wage growth.
- The signs of slowing that we have seen in the housing market on and off over the last year appear to be more a function of high prices than of low demand.
- The homebuilding industry appears to be making adjustments, albeit late in the cycle, to address the demand for smaller and more attainably priced housing.

Past Recessions and Residential Real Estate Effects

Recession	Change in GDP	Change in New Home Median Sales Price	Change in New Home Sales Volume	Single-family Permit Issuance	Multi-family Permit Issuance	Change in Mortgage Interest Rates	Severity and Causes
1969-1970	-1.1%	-6.0%	-3.5%	-5.0%	-15.0%	NA	Mild; coincided with fiscal tightening and Federal Reserve raising interest rates
1973-1975	-2.5%	-7.5%	-10.6%	-24.9%	-40.0%	1.1%	Deep; Significant period of economic stagnation caused by oil crisis and fall of the Bretton Woods system
1980	-2.2%	4.4%	-5.9%	-4.2%	-8.6%	-0.7%	Mild; Federal Reserve raised interest rates, seeking to thwart high inflation which had increased to 7.7%
1981-1983	-2.6%	1.3%	-13.0%	-11.0%	-7.3%	-3.8%	Deep; Iranian revolution caused a spike in oil prices; Federal Reserve tight monetary policies
1990-1991	-1.4%	-0.7%	-11.6%	-7.3%	-17.3%	-0.7%	Mild; inflation began to grow, the Federal Reserve raised interest rates, weakening growth; high oil prices contributed
2001	-0.4%	3.0%	-13.2%	-3.5%	-5.4%	-0.8%	Brief and shallow recession following the collapse of the Dot.Com bubble and September 11 attack
2008-2009	-4.0%	-16.7%	-66.2%	-63.6%	-61.1%	-1.7%	Worst since the 1930s; Subprime lending and housing speculation

Source: Federal Reserve Bank of St. Louis; Census; HUD; RCLCO

ORLANDO TOURISM DRIVERS

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ORLANDO TOURISM OVERVIEW

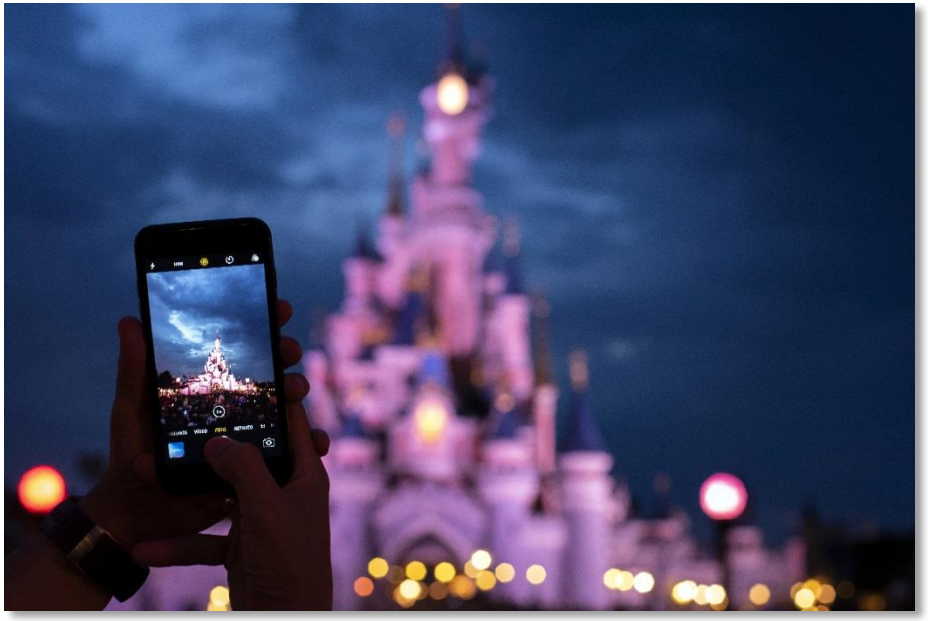
- 75 million visitors came to Orlando in 2018 surpassing the previous record of 72 million set in 2017 representing a 4.2% annual increase. The number of both international and domestic visitors increased in 2018 as 68.55 million U.S. visitors came to Orlando (4.1% annual growth), and 6.48 additional visitors came from abroad (5.4% annual growth).
- Due to family-oriented attractions, namely the Disney resorts and theme parks, Orlando is the number one destination for families in the world and is the second largest hotel market in the United States.
- Although short term vacation rentals are targeted at international buyers and renters, only 8% of total travelers in Orlando come from outside the United States. International tourists contribute 14% of visitor spending, however, due to longer stays and larger spending budgets. Orlando is a popular destination for international visitors from Latin America, specifically Brazil and Mexico, China, and the UK. A large share of domestic travelers come from New York City, Atlanta, Chicago, Philadelphia, Boston, Los Angeles, and other metro areas.
- The Orlando International Airport handled 47.7 million passengers during 2018 and surpassed Charlotte as the 10th busiest airport in the US.

NOTABLE OPENINGS AND ATTRACTION PIPELINE

- Star Wars: Galaxy's Edge – Aug. 2019: New themed land within Disney's Hollywood Studios that opened in August 2019. The affiliated hotel, Star Wars Galactic Starcruiser, is under construction set to open in 2021.
- Universal's Endless Summer Resort - Dockside Inn and Suites – Mar. 2020: A 2,050 room value-oriented hotel set to open in early 2020.
- Virgin Trains – 2022: Formerly known as Brightline, Virgin Trains plans to connect the Orlando International Airport to the West Palm Beach Station.
- Epic Universe – 2023: Official name of new Universal owned theme park set to open as early as 2023.

Orlando Theme Park Attendance Trends

Theme Park	2018 Attendance	2017 Attendance	Annual Growth %
Magic Kingdom	20,859,000	20,450,000	2.0%
Disney's Animal Kingdom	13,750,000	12,500,000	10.0%
Epcot	12,444,000	12,200,000	2.0%
Disney's Hollywood Studios	11,258,000	10,722,000	5.0%
Universal Studios Florida	10,708,000	10,198,000	5.0%
Universal's Islands of Adventure	9,788,000	9,549,000	2.5%
Waterparks[1]	7,555,000	7,042,000	7.3%
SeaWorld Orlando	4,594,000	3,962,000	16.0%
Total	**90,956,000**	**86,623,000**	**5.0%**



[1]Typhoon Lagoon, Blizzard Beach, Volcano Bay, and Aquatica

Source: RCLCO, VisitOrlando.com, Themed Entertainment Association, OrlandoAirports.net

ORLANDO OCCUPANCY RATES EXCEED NATIONAL AVERAGE

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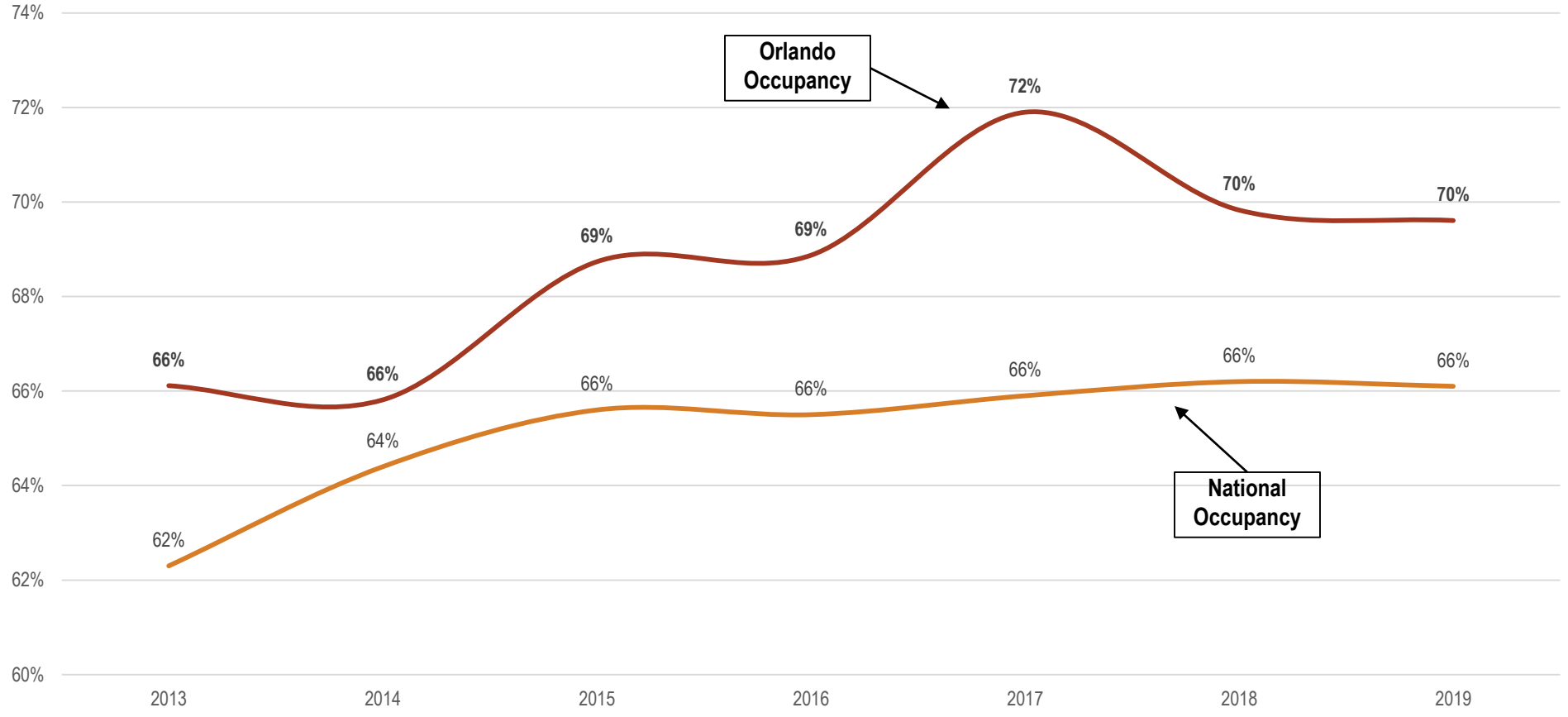
In order to better understand the health of the overall market for rental product in the Orlando tourist corridor, RCLCO analyzed data for upscale and above hotel properties located within 7.5 miles from Reunion based on information provided by Smith Travel Research. While vacation rental product typically garners a premium over upscale hotels in terms of pricing and average daily rates, it is difficult to estimate occupancy rates within the overall short-term rental market. Therefore, upscale hotel product has been used as a proxy to understand the overall performance of the rental market within the tourist corridor of Orlando. Occupancy rates among hotels in this tract averaged close to 70% in 2018 and 2019, and has steadily climbed from 66% in 2013. This places the Orlando tourist corridor far above the national average for hotel occupancy, which saw an average of just 66.2% in 2018.

Average Occupancy Rates of Upscale and Above Hotel Product Within Orlando Tourist Corridor 2013-2019



Source: Smith Travel Research; Statista.com; RCLCO

AVERAGE DAILY RATES (ADR) OF COMPETITIVE SET

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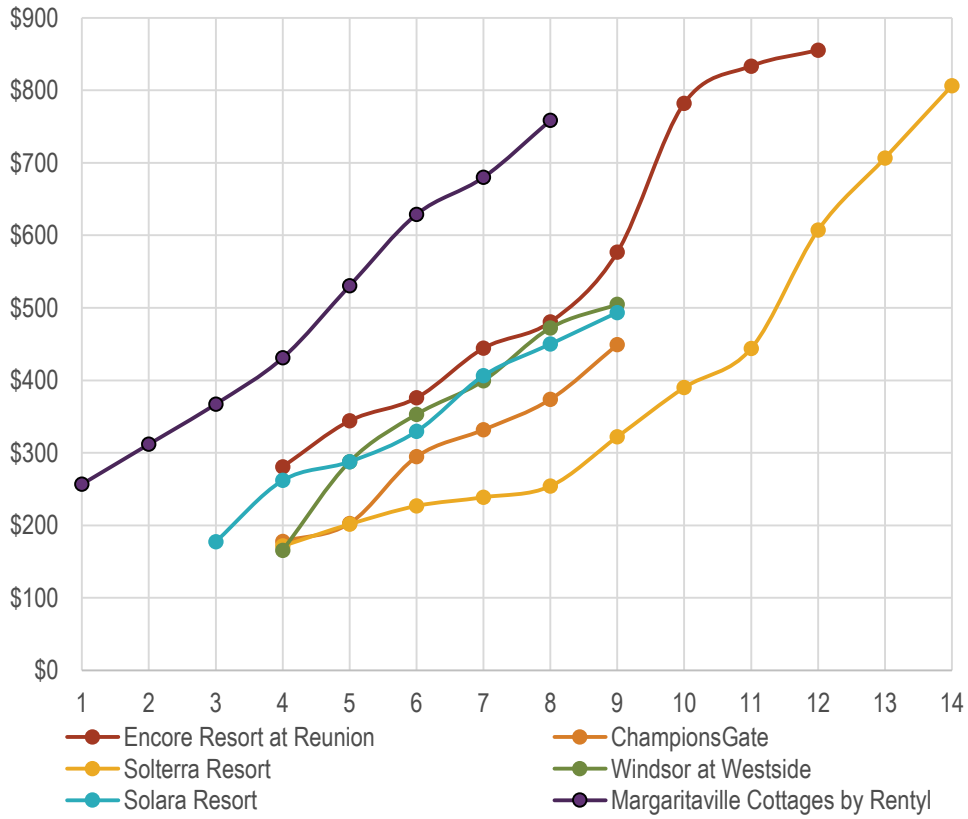
The Average Daily Rates ("ADR"), or the typical asking rent for each occupied night, for the competitive set have been derived from ADR samples taken at various points throughout the year in order to account for variances in rates due to seasonality and availability. The bulk of the competitive set is offering units with between four and nine bedrooms, with Margaritaville Cottages by Rentyl offering smaller homes for rent, while Encore Resort at Reunion and Solterra Resort offer large mansion-style homes up to 14 bedrooms. Margaritaville sits at the top of the local market, with higher ADRs than the rest of the competitive set starting at $257 for one-bedroom units and eight-bedroom homes renting for $758 per night on average. The branding and name recognition provided by the Margaritaville Resort and first phase of cottage homes allow the resort to achieve these higher ADRs, along with an extensive set of amenities and the branded hotel. Encore Resort at Reunion leads the rest of the competitive set, and is well above Solterra Resort and ChampionsGate. Windsor at Westside and the neighboring Solara Resort offer rooms at a closer rate to Encore Resort at Reunion, but still fall short due to Reunion's extensive amenity package with multiple golf courses, a private aquapark, outdoor sports courts, event programming for adults and children, multiple restaurants, concierge services, and other amenities within a gated community.

Average Daily Rates of Competitive Set by Number of Bedrooms



Beds	Encore Resort at Reunion	Champions Gate	Solterra Resort	Windsor at Westside	Solara Resort	Margarita-ville Cottages by Rentyl
1						$257
2						$312
3					$178	$367
4	$281	$178	$172	$166	$262	$431
5	$344	$203	$202	$288	$288	$530
6	$376	$295	$227	$353	$330	$629
7	$444	$332	$239	$399	$406	$680
8	$480	$374	$254	$472	$450	$758
9	$577	$449	$322	$505	$494	
10	$782		$390			
11	$833		$444			
12	$855		$607			
13			$707			
14			$806			

Source: RCLCO

TYPICAL VACATION RENTAL COSTS

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The potential to earn an attractive return on investment at vacation-rental communities in Orlando depends on a variety of factors, including the average daily rate (ADR), quality of management, in part a function of the management company used, the community in which the home is located, the quality of marketing of the home to potential guests, and upkeep and maintenance of the home itself.

According to rental managers familiar with the Orlando vacation-rental market, higher management fees are typically assessed to investors who rely more heavily on their managers to drive business to their asset. Management firms typically handle many of the charges associated with the renting of a house, and then send an invoice each month to the unit owners, making vacation-rental ownership with these managers a possibility for "absentee" owners.

While some costs are typically fixed or have little variation from month to month, other costs occur less frequently but should be considered when owners are looking to purchase a home for short-term rental purposes. Managers typically recommend that owners replace their furniture every 5-7 years, and managers frequently "deep clean" each home in their inventory 3-4 times per year.

For investors looking to market their units to foreign end-users, many sales agents noted that British and Brazilian vacationers prefer homes with south- or west-facing pools, so as to maximize exposure to the sun. These homes feature a higher lot premium, but can also generate higher ADRs, especially during Christmas and Easter. A common sentiment shared by rental managers, brokers, and sales agents, is that the larger homes with a greater number of bedrooms feature higher gross income and more attractive ROIs.

Average Market Monthly Expenses at Varying Occupancy Levels

Occupancy	50%	60%	70%
Purchase Price	$497,799	$497,799	$497,799
Closing Costs	$9,956	$9,956	$9,956
Estimated Furniture Cost	$49,441	$49,441	$49,441
Total Average Upfront Costs	$557,196	$557,196	$557,196
Management Commission ($)	$1,244	$1,492	$1,741
Management Fee	$188	$188	$188
Average Monthly Cleaning Fee	$404	$466	$523
Property Taxes	$622	$622	$622
Homeowner's Insurance	$120	$120	$120
Homeowners' Association (HOA) Fee	$349	$349	$349
Membership	$89	$89	$89
Community Development District (CDD) Fee	$179	$179	$179
Utilities	$618	$680	$729
Linen and Kitchen Renewal	$20	$20	$20
Repairs/Replacements	$67	$71	$74
Total Average Monthly Expenses	**$3,900**	**$4,277**	**$4,634**

Source: RCLCO

MARKET AVERAGE MONTHLY REVENUES

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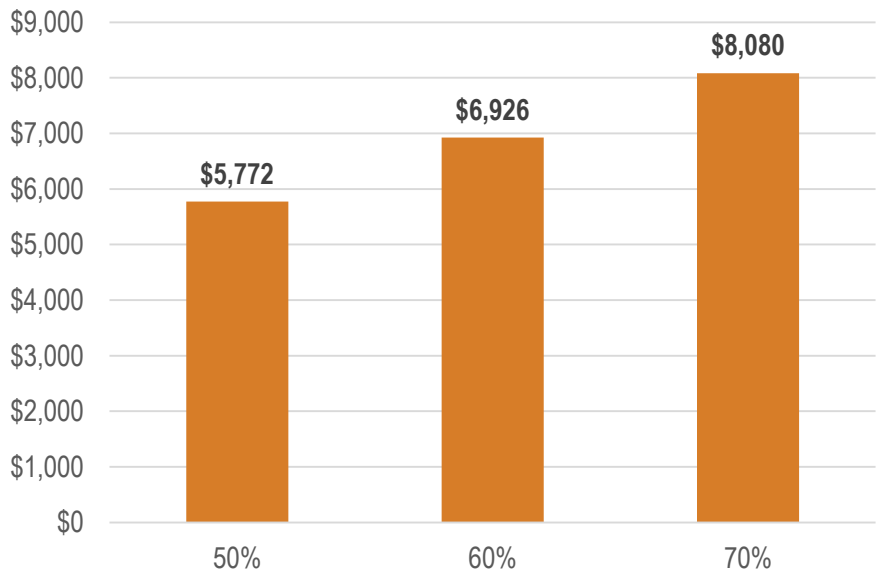
Monthly revenue from vacation rental product is driven by occupancy and average daily rates charged to visitors. Vacation rental units are in competition to capture visitors to the Orlando area, and each residence can have advantages or disadvantages depending upon the community, proximity to amenities, floorplan layout, number of bedrooms, furnishings, design, parking availability, and other critical factors. ADRs are a function of the overall supply of vacation rental properties and demand from vacationers, but individual properties achieve premiums and discounts based on the aforementioned critical factors as well as their overall appeal to vacationers. Investors must carefully consider how their individual property compares to competitive product in the marketplace. Additionally, maximizing revenue without factoring in cost considerations can have a significant impact on overall return. Shown in the chart below is the market average monthly revenues at 50%, 60%, and 70% occupancy.

Market average monthly revenue is calculated as follows:

- Number of Nights (Monthly) – Occupancy levels were multiplied by 365 days and divided by 12 months to arrive at the respective number of occupied nights per month. Some property management companies and communities define occupancy levels in terms of the number of expected occupied weeks per year or days per month.
- Average ADR – The market average ADR is an average of ADRs across all selected resort communities and their floorplans.
- Market Average Monthly Revenue – The average monthly revenue of the market is calculated by taking the average number of occupied nights and multiplying by the average ADR.

Market Average Monthly Revenues at Varying Occupancy Levels



Occupancy Rate	50%	60%	70%
Number of Nights (Monthly)	15.2	18.3	21.3
Average ADR	$380	$380	$380
Average Market Monthly Revenue	$5,772	$6,674	$8,080

Source: RCLCO

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DISCLAIMERS

CRITICAL ASSUMPTIONS

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Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

We assume that the economy and real estate markets will grow at a stable and moderate rate to 2020 and beyond. However, stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when an economic and real estate upturn will end.

With the above in mind, we assume that the long-term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said average rates.

Our analysis does not consider the potential impact of future economic shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, the project and investment economics should be “stress tested” to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause failure.

In addition, we assume that the following will occur in accordance with current expectations:

- Economic, employment, and household growth
- Other forecasts of trends and demographic and economic patterns, including consumer confidence levels
- The cost of development and construction
- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth)
- Availability and cost of capital and mortgage financing for real estate developers, owners and buyers
- Competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand
- Major public works projects occur and are completed as planned

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

GENERAL LIMITING CONDITIONS

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Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.

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