VICEROY
RESIDENCES
LOS CABOS

Fractional Ownership Cost Allocation Framework

1. Purpose of this Framework

This framework provides a practical explanation of how costs are categorized and allocated for the fractional ownership product at Viceroy Los Cabos.
It is intended to serve both as an internal alignment document and as the basis for a clear owner-facing explanation. Its goal is to help explain, in a consistent and transparent way, the difference between HOA costs, Property Management costs, utilities, property taxes, and reserves.
At its core, this framework is based on one main principle:

Fractional owners only pay for truly common areas and applicable fractional ownership costs that are properly categorized and disclosed.

This framework is intended to:

- Explain what costs belong to HOA and what costs do not
- Explain how Property Management is different from HOA
- Clarify how utilities are treated within the total Property Management charge
- Explain the reserve structure used for the fractional ownership product
- Confirm that hotel-only costs remain on the hotel side
- Support consistent communication with owners and internal teams

Quick Summary

For practical explanation purposes, the framework can be summarized as follows:

1. **HOA** Fees are used only and exclusively for the maintenance of the common areas and common assets of the Condominium Regimes
2. **Property Management** Fees are applicable for providing all services and personnel required to manage and operate the units and it's based in Unit Type.
3. **Utilities** are included in the total Property Management charge but are treated separately from the Property Management fee for reserve purposes.
4. **There are two reserves funds:** one for HOA common areas and one for the unit-related Property Management structure.
5. **Hotel- Private Areas costs and expenses** are fully absorbed by the Hotel. These costs and expenses are not included as part of the HOA Fees or Property Management Fees.

2. Property Structure

For purposes of this framework, the Property consists of the full project as a whole, including private areas (villas, apartments and hotel), some of whom are dedicated for fractional purposes and others of whole ownership, and common areas Within that structure, costs are divided into two primary categories:

A. Common Areas

Common Areas are the areas, systems, and services that are truly shared and that support the overall common areas. These are the only areas that may be allocated to owners through HOA Fees, subject to the applicable allocation methodology.

Examples may include, as applicable:

- Shared exterior and common circulation areas
- Common landscaping and irrigation
- Exterior lighting serving common areas
- Common access and circulation infrastructure
- Common security systems
- Fire and life safety systems serving common areas
- Common area maintenance and repair items
- The Tower A pool, which for this framework is treated as a common area for owners
- The motor lobby, which for this framework is treated as a shared common area

B. Hotel Areas

All non-common areas are treated as Hotel Areas for purposes of this framework unless expressly identified otherwise.
Hotel Areas include all areas, services, operations, and costs that are specific to hotel operations and are not truly common areas.

Examples include:

- Hotel rooms and hotel guest accommodations
- Hotel lobby
- Gym
- Hotel pools, except for Tower A pool
- Back-of-house areas
- Kitchens and food and beverage operations
- Spa operations
- Entertainment and event programming
- Hotel-specific operating areas and systems

Access by an owner to an area does not automatically make that area a common area or an allocable owner cost.

3. Core Allocation Principles

The following principles apply throughout this framework:

1. Fractional owners only pay for truly common areas and applicable fractional ownership costs that are properly categorized and disclosed.
2. Hotel-only costs remain the sole responsibility of the hotel.
3. Access does not automatically create cost responsibility.
4. If a cost is not clearly a common area cost or otherwise properly attributable to the fractional ownership structure, it should not be allocated to owners unless expressly justified and documented.
5. Costs should be categorized consistently and should not be duplicated across HOA, Property Management, utilities, property taxes, and reserves.
6. If a cost is directly charged elsewhere, it should not also be included in another category.

What Fractional Owners Pay

Fractional owners may pay for:

- HOA costs related to truly common areas
- Property Management costs associated with the fractional ownership product
- Utilities included within the total Property Management charge
- Applicable property taxes, where relevant
- HOA Reserve and Unit Reserve, as applicable

What Fractional Owners Do Not Pay Through HOA

Fractional owners do not pay through HOA for hotel-only costs such as:

- Hotel lobby
- Gym
- Hotel pools other than Tower A pool
- Hotel rooms and guest accommodations
- Restaurant and bar operations
- Kitchen operations
- Spa operations
- Hotel marketing and reservation systems
- Hotel payroll and hotel operating supplies
- Back-of-house and other hotel-only operating areas

4. Cost Categories

4.1 HOA Costs

HOA costs are those related to the operation, maintenance, repair, administration, and long-term preservation of truly common areas and common assets.
HOA costs may include, as applicable:

- Common area maintenance
- Common area cleaning and upkeep
- Landscaping and irrigation for common areas
- Common area lighting
- Common area security
- Fire and life safety systems serving common areas
- Maintenance, repair, and replacement of shared/common infrastructure
- Common area insurance
- HOA administrative costs directly related to common area operations
- HOA reserve contributions for common areas

HOA costs do not include hotel-only operations, hotel amenities that are not common areas, or unit-level Property Management services.

4.2 Property Management Costs

Property Management costs are separate from HOA costs.
HOA is calculated by the homeownership percentage that each private unit has in the condominium regimes
Property Management is tied to the fractional ownership product and the services, support, and operational structure associated with the applicable unit type.

In simple terms:

- **HOA** is based on the homeownership percentage participation that each private unit has in the sub condominium regime and master condominium regime, depending on where the private unit is located. Some of the private units are part of the master condominium regime and some others are in the master condominium regime.

- **Property Management** is based on unit type

Property Management costs may include, as applicable:

- Owner and reservation support related to the fractional product
- Check-in and check-out coordination
- In-unit service support
- Operational support related to the fractional ownership structure
- Utilities included within the total Property Management charge
- Other services and operating costs assigned to the fractional ownership product by unit type

For clarity, although utilities may be included within the total amount charged under Property Management, utilities are conceptually distinct from the core Property Management fee and should be identified as such whenever practical.

4. Cost Categories

4.1 HOA Costs

HOA costs are those related to the operation, maintenance, repair, administration, and long-term preservation of truly common areas and common assets.
HOA costs may include, as applicable:

- Common area maintenance
- Common area cleaning and upkeep
- Landscaping and irrigation for common areas
- Common area lighting
- Common area security
- Fire and life safety systems serving common areas
- Maintenance, repair, and replacement of shared/common infrastructure
- Common area insurance
- HOA administrative costs directly related to common area operations
- HOA reserve contributions for common areas

HOA costs do not include hotel-only operations, hotel amenities that are not common areas, or unit-level Property Management services.

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Property Management costs may include, as applicable:

- Owner and reservation support related to the fractional product
- Check-in and check-out coordination
- In-unit service support
- Operational support related to the fractional ownership structure
- Utilities included within the total Property Management charge
- Other services and operating costs assigned to the fractional ownership product by unit type

For clarity, although utilities may be included within the total amount charged under Property Management, utilities are conceptually distinct from the core Property Management fee and should be identified as such whenever practical.

4.3 Utilities

Utilities for the fractional ownership structure are included within the total Property Management charge.
However, for transparency and reserve calculation purposes, utilities should be identified separately from the core Property Management fee whenever practical.
This is one of the most important distinctions in this framework:

- **Total Property Management charge = Property Management fee + utilities**
- **Unit Reserve = 15% of the Property Management fee only**
- **Utilities are included in the total charge but excluded from the Unit Reserve calculation**

Hotel-only utility usage remains hotel-side and should not be allocated to owners through HOA.

4.4 Property Taxes

Property taxes should be treated separately from HOA and Property Management.
As a general framework:

- Taxes attributable directly to a specific unit or ownership interest should be assigned to that unit or ownership interest as applicable
- Taxes attributable to truly common/shared areas may be treated within the common area structure if applicable under the governing documents
- Hotel-specific taxes remain hotel-side

4.5 Reserves

There are two reserve concepts within this framework:

A. HOA Reserve

The HOA Reserve is intended to support the future repair, replacement, and long-term preservation of common areas and common area infrastructure.
This reserve is associated with HOA/common area responsibilities.
For clarity, the HOA Reserve amount shown in the cost table represents an annual reserve contribution equivalent to 25% of the applicable annual HOA Fee. This 25% contribution is intended to be collected annually until the HOA Reserve reaches an amount equivalent to 100% of one full year of HOA Fees.

In simple terms, the HOA Reserve will be built progressively over time. Each year, a 25% reserve contribution will be collected, and once the reserve reaches the equivalent of one full annual HOA Fee amount, the reserve structure may be reviewed based on the needs of the HOA, the approved budget, and the applicable governing documents.

For clarity:

- The HOA Reserve is calculated based on the HOA Fee.
- The amount shown in the HOA Reserve column represents 25% of the applicable HOA Fee.
- The goal is to build the HOA Reserve until it reaches the equivalent of one full year of HOA Fees.
- This reserve is separate from the Unit Reserve.
- The HOA Reserve is intended for common area needs, not unit-level replacements or Property Management expenses.

B. Unit Reserve

The Unit Reserve is associated with the fractional ownership product and is calculated as 15% of the Property Management fee, excluding utilities.

Although utilities are included in the total Property Management charge presented to owners, they are not considered part of the Property Management fee for purposes of calculating the Unit Reserve.

The purpose of the Unit Reserve is to support future unit-related needs, replacements, and improvements that help preserve the condition, functionality, and owner experience of the unit. This may include, as applicable and subject to available reserve funds, the purchase or replacement of unit items, furniture replacement, furniture rotation, mattress replacement, equipment replacement, and other unit-level items that may be required.

The use of the Unit Reserve should be based on the needs of the applicable unit type, the available balance in the reserve, the approved Property Management structure, and any applicable governing documents or approved policies. If the available reserve balance is not sufficient to fully cover the required replacement, improvement, or purchase, the remaining amount may need to be reviewed separately by the Property Management structure.

Stated differently:

- Total Property Management charge may include both the management/service component and utilities.
- The Unit Reserve is calculated only on the Property Management fee component.
- Utilities are excluded from the reserve base.
- The Unit Reserve may be used for unit-level items and replacements, subject to available funds and applicable approvals.

5. HOA Allocation Methodology for Fractional Owners

5.1 General Principle

For fractional owners, HOA allocation is based on the participating unit's indiviso structure, specifically through both the Master Indiviso and the Sub condo Indiviso applicable to that unit.
This means the HOA calculation is first understood at the unit level and then divided across the fractional interests associated with that unit.

5.2 Master Indiviso

Master Indiviso represents the unit's participation in the broader master condominium or overall shared property structure.
In practical terms, it reflects the unit's participation in the overall common ownership framework at the master level.

5.3 Sub condo Indiviso

Sub condo Indiviso represents the unit's participation within its specific sub condominium structure.
In practical terms, it reflects the unit's participation within the sub condominium to which that unit belongs.

5.4 How Both Indivisos Work Together

For purposes of HOA budgeting and participation explanation, both Master Indiviso and Subcondo Indiviso form part of the participation framework used to represent the unit's position within the overall property structure.
This means the unit's HOA participation is not explained only by a general building percentage, but by its participation within:

- The broader master structure, and
- The applicable sub condominium structure

This framework should be applied consistently with the legal structure and approved budget methodology.

5.5 How the HOA Amount Is Divided for Fractional Owners

Once the HOA participation is established at the unit level, the amount attributable to that unit is then divided among the corresponding fractional interests according to each owner's ownership share in that unit.
In simple terms, the process works as follows:

Stated differently:

1. The HOA budget for truly common areas is established.
2. The applicable participation of each unit is identified through the unit's Master Indiviso and Sub condo Indiviso.
3. A unit-level HOA amount is determined.
4. That amount is then divided among the fractional interests tied to that unit according to the ownership structure.

This allows the HOA explanation to remain grounded first in the unit's legal participation and then in the owner's fractional share.

6. Property Management Allocation Methodology

Property Management is not allocated by indiviso.
Instead, Property Management is allocated by unit type.
This reflects the fact that Property Management is associated with the fractional ownership product and the operational/service profile of the unit category, rather than the unit's participation in the common ownership structure.

Examples of unit types currently used in the fractional structure include:

- 1BRC (1 Bedroom Condo)
- 2BRC (2 Bedroom Condo)
- 1BRV (1 Bedroom Garden Villa)
- 2BRV (2 Bedroom Garden Villa)
- 2BRMV (2 Bedroom Mirror Villa)
- 3BRV (3 Bedroom Villa)
- 2BPH (2 Bedroom Penthouse)
- 3BPH (3 Bedroom Mirror PH)

Property Management charges should therefore be explained to owners based on the applicable unit type assigned to their fractional ownership product.

6.1 Property Management Cost by Unit Type

Property Management is allocated by unit type rather than by indiviso. Each fractional ownership product is assigned to the applicable unit category, and the corresponding Property Management cost is shown based on that unit type.

For purposes of this framework, the Property Management structure by unit type includes the applicable Property Management fee, utilities, and other related components assigned to the fractional ownership product. The total Property Management charge may include both the Property Management fee and utilities. Utilities, although included in the total charge, remain separate from the Property Management fee for Unit Reserve calculation purposes. The Unit Reserve is calculated as 15% of the Property Management fee only, excluding utilities.

Housekeeping Fee

The Housekeeping Fee included within the Property Management cost structure provides owners with one weekly cleaning during their stay, including the applicable taxes related to this cleaning service.
For a full monthly fractional use period, this structure includes one cleaning per week. This allows owners to maintain their unit during their stay while reducing the need to pay separately for the current minimum of two cleanings while on property.

Owners may request additional housekeeping services during their stay, subject to availability and the additional housekeeping charges applicable.

For clarity:

- The Housekeeping Fee includes one cleaning per week during the applicable fractional use period.
- Applicable taxes related to the included cleaning service are included in the Housekeeping Fee.
- Additional cleanings may be requested separately and will be charged in accordance with the applicable housekeeping rates.
- The purpose of this fee is to support the proper maintenance, cleanliness, and owner experience of the unit during each owner's stay.

The Property Management components applicable to each unit type are as follows:

Unit Type	Property Management	Triple Play	Maintenance Fee	Housekeeping Fee	Utilities	Property Tax	Unit Reserve	HOA Fees	HOA Reserve	Total 2026 Fees & Reserves
1 Bedroom Condo	$350	$65	$445	$422	$390	$25	$206	$571	$114	$2,588
2 Bedroom Condo	$400	$65	$540	$693	$560	$40	$271	$819	$164	$3,552
Garden Villa 1 BDR	$350	$65	$575	$506	$720	$85	$238	$485	$97	$3,121
Garden Villa 2 BDR	$400	$65	$775	$775	$916	$90	$320	$861	$172	$4,354
2 Bedroom Mirror Villa	$450	$65	$947	$753	$890	$150	$360	$886	$177	$4,678
3 Bedroom Villa	$715	$65	$1,173	$1,031	$886	$400	$460	$2,065	$413	$7,208
2 Bedroom PH	$400	$65	$634	$901	$820	$90	$306	$1,283	$257	$4,755
3 Bedroom Mirror PH	$715	$65	$1,170	$1,012	$880	$200	$464	$1,703	$341	$6,549

7. Hotel-Only Costs and Exclusions

The following categories are hotel-only and should not be allocated to fractional owners through HOA unless expressly reclassified under an approved legal and budget structure:

- Hotel rooms and hotel guest accommodations
- Hotel lobby
- Gym
- Hotel pools, except Tower A pool
- Back-of-house areas
- Hotel payroll and employee-related hotel operating costs
- Hotel marketing and promotional costs
- Hotel reservation systems and hotel distribution systems
- Brand or franchise-related hotel costs, if applicable
- Restaurant and bar operations

- Kitchen operations
- Spa operations
- Entertainment and event programming
- Hotel operating supplies
- Hotel-specific utilities and operating costs
- Other non-common hotel operational costs

The fact that an owner may access, visit, or purchase services from a hotel area does not by itself make the underlying cost allocable through HOA.

8. Transparency and Administrative Principles

To support alignment and transparency, management should maintain a clear and consistent framework showing:

- What belongs to HOA
- What belongs to Property Management
- What portion of the total charge relates to utilities
- What portion relates to property taxes, if separately identified
- What portion relates to reserves
- What costs are hotel-only and excluded from owner allocation

Management should also use reasonable efforts to ensure that:

- Cost categories are not duplicated
- Methodologies are applied consistently
- Owner explanations remain aligned with approved budgeting and legal structure
- Changes in methodology are documented before being communicated

8.1 Annual Increase Cap and Payment Currency

- To provide additional transparency and predictability to owners, the annual increase of applicable recurring ownership-related expenses shall be subject to a general annual cap.
- As a general framework, the applicable annual increase for these expenses shall not exceed 5% per year, unless the official Mexican inflation rate for the applicable period is higher than 5%. If official Mexican inflation exceeds 5%, the increase may be adjusted based on the official Mexican inflation rate for that period.
- This cap is intended to provide owners with greater certainty regarding the potential annual adjustment of recurring expenses, while also allowing the cost structure to respond to inflationary conditions that may affect operating costs, vendor pricing, utilities, insurance, labor, maintenance, and other applicable expenses.

For clarity:

- The annual increase cap applies to recurring ownership-related expenses within this framework, unless otherwise required by applicable law, governing documents, approved budgets, taxes, insurance premiums, utility costs, or extraordinary circumstances.
- If official Mexican inflation is equal to or below 5%, the maximum annual increase shall generally be 5%.
- If official Mexican inflation is above 5%, the maximum annual increase may follow the official Mexican inflation rate.
- Any adjustment should be documented and applied consistently with the approved budget methodology and applicable governing documents.
- Extraordinary, non-recurring, special, or legally required charges may be reviewed separately and may not be subject to the same annual cap if they fall outside the regular annual expense structure.

Payment Currency

- All payments shall be charged and invoiced in Mexican pesos, as Mexican pesos are the official currency in Mexico.
- For owner convenience, amounts may be converted or referenced in another currency, such as U.S. dollars, when applicable. Any such conversion shall be made using the applicable exchange rate on the invoice date or the date established in the corresponding invoice or payment notice.

For clarity:

- Mexican pesos shall be the official billing and payment currency.
- Any foreign currency amount shown to an owner is for reference or convenience unless otherwise expressly stated.
- Exchange rate differences may occur between the invoice date and the actual payment date.
- If an owner pays in a foreign currency, the final amount credited may depend on the exchange rate, bank fees, payment processor fees, or other charges applied by the financial institutions involved.
- Any underpayment caused by exchange rate variation, bank fees, or transfer deductions shall remain the responsibility of the owner, unless otherwise agreed in writing.

8.2 Late Payment Fee

To encourage timely payment and support the financial stability of the ownership structure, any payment owed by an owner that is not received by its applicable due date shall be considered late.

For clarity, this may include, but is not limited to, HOA assessments, Property Management fees, utilities, reserve contributions, reimbursable expenses, special charges, or any other amount properly billed to the owner under the applicable documents or approved policies.

- A monthly late payment fee of 3% shall apply to any overdue balance.
- The late payment fee shall be calculated on the unpaid overdue amount and may be applied for each month, or portion of a month, so that the balance remains unpaid.
- Any late payment fee should be reflected in the corresponding account statement, invoice, or payment notice.
- The application of late payment fees shall be subject to the applicable governing documents, approved policies, and applicable law.

9. Explanation Summary

1. **HOA** is based on the unit's participation in the common ownership structure, reflected through Master Indiviso and Sub condo Indiviso.
2. **Property Management** is separate from HOA and is based on unit type.
3. **Utilities** are included in the total Property Management charge but are treated separately from the Property Management fee for reserve purposes.
4. **There are two reserves:**
    - An HOA Reserve for common areas, and
    - a Unit Reserve calculated as 15% of the Property Management fee excluding utilities.
5. **Owners do not pay hotel-only costs through HOA.**
6. **Applicable recurring expenses** are subject to a general annual increase cap of 5%, unless official Mexican inflation for the applicable period is higher, in which case the adjustment may follow the official Mexican inflation rate. Payments are invoiced in Mexican pesos, with any foreign currency reference based on the applicable exchange rate on the invoice date.

Simple Flow of the Cost Structure

For easier explanation, the structure can also be described this way:

- **HOA** follows the unit's common area participation through Master Indiviso and Sub condo Indiviso and is then divided across the fractional interests.
- **Property Management** follows the unit type assigned to the fractional product.
- **Utilities** are included in the total PM amount but are separated from the PM fee for reserve calculation purposes.
- **Hotel-only costs** remain on the hotel side.

10. Practical Allocation Matrix

Viceroy Los Cabos - Practical Allocation Matrix					
Cost Category	**Classification**	**Responsibility**	**Allocation Basis**	**Why It Belongs Here**	**Notes / Examples**
Common Area Maintenance	HOA	Owners Via HOA Fees	Unit participation through Master Indiviso and Subcondo Indiviso	Supports Truly Common Areas	Only Truly Common Areas
Common Area Landscaping and Irrigation	HOA	Owners Via HOA Fees	Unit participation through Master Indiviso and Subcondo Indiviso	Supports Shared Exterior/Common Grounds	Common/shared Grounds Only
Common Area Security	HOA	Owners Via HOA Fees	Unit participation through Master Indiviso and Subcondo Indiviso	Protects Common / Shared Areas	Excludes hotel-only Security Costs Where Applicable
Common Area Lighting	HOA	Owners Via HOA Fees	Unit participation through Master Indiviso and Subcondo Indiviso	Protects Common / Shared Areas	Shared/common Areas Only
Tower A Pool	HOA Common Area	Owners Via HOA Fees	Unit participation through Master Indiviso and Subcondo Indiviso	Identified as Common Area for Owners	Treated as Common Area for Owners
Motor Lobby	HOA Common Area	Owners Via HOA Fees	Unit participation through Master Indiviso and Subcondo Indiviso	Identified as Shared / Common Area	Shared/common Area
Common Area Insurance	HOA	Owners Via HOA Fees	Unit participation through Master Indiviso and Subcondo Indiviso	Protects Common Area Interests	Common Area Coverage Only
HOA Reserve	HOA Reserve	Owners Via HOA Reserve Fees	Unit participation through Master Indiviso and Subcondo Indiviso	Supports Long-Term Common Area Preservation	Reserve for Common Areas
Property Management Services	Property Management	Owners Via Property Management Fees	Unit Type	Tied to the Ownership Product and Service Structure	Service/management Component Tied to Ownership Product
Utilities Included in PM Charge	Utilities within PM total	Owners Via Property Management Fees	Unit Type	Included in Owner PM Total but Tracked Separately for Clarity	Included in Total PM Charge but Conceptually Separate from PM Fee
Unit Reserve	Unit Reserve	Owners Via Unit Reserve	15% of PM Fee Excluding Utilities	Supports Unit-related Reserve Structure	Unit-related Reserve Concept
Property Taxes	Property Taxes	As applicable to Unit / Ownership Structure	Based on Applicable Tax Treatment	Separate Fiscal Category From HOA and PM	Separate from HOA and PM
Hotel Lobby	Hotel Only	Hotel	Not Allocable to Owners	Hotel-only Operating Area	Hotel-only Area
Gym	Hotel Only	Hotel	Not Allocable to Owners	Hotel-only Amenity	Hotel-only Amenity
Hotel Pools Other than Tower A Pool	Hotel Only	Hotel	Not Allocable to Owners	Hotel-only Amenity	Hotel-only Amenities
Restaurant and Bar Operations	Hotel Only	Hotel	Not Allocable to Owners	Hotel Operating Function	Hotel Operating Cost
Kitchen Operations	Hotel Only	Hotel	Not Allocable to Owners	Hotel Operating Function	Hotel Operating Cost
Spa Operations	Hotel Only	Hotel	Not Allocable to Owners	Hotel Operating Function	Hotel Operating Cost
Hotel Marketing and Reservations Systems	Hotel Only	Hotel	Not Allocable to Owners	Commercial Hotel Activity	Hotel Commercial/Operating Cost
Back-of-house and Hotel Operations	Hotel Only	Hotel	Not Allocable to Owners	Non-common Hotel Areas and Systems	Non-common Hotel Areas

11. Unit Type Reference

The following unit types may be used within the fractional ownership structure, subject to confirmation against current operational and legal records:

- 1BRC (1 Bedroom Condo)
- 2BRC (2 Bedroom Condo)
- 1BRV (1 Bedroom Garden Villa)
- 2BRV (2 Bedroom Garden Villa)
- 2BRMV (2 Bedroom Mirror Villa)
- 3BRV (3 Bedroom Villa)
- 2BPH (2 Bedroom Penthouse)
- 3BPH (3 Bedroom Mirror PH)

This framework is intended to create a clearer internal and owner-facing explanation of how costs are categorized and allocated for the fractional ownership product.