

Investing In REAL ESTATE

WITH JEFF KOLITCH



Wyndham Worldwide

Wyndham Worldwide has a leading market share position in three businesses. It is the world's largest franchisor of recognized brand hotels including Days Inn, Ramada Worldwide and Howard Johnson. It is a leading vacation rental and exchange operator. And it's the world's largest vacation time-share owner. At 5.2%, Wyndham is the largest position in Baron Real Estate Fund as of 9/30/2011.

Wyndham's hotel business currently operates 7,220 hotels with 612,900 rooms. Its franchise brands account for nearly 10% of all hotel rooms in the U.S., and its loyalty program, with more than 23 million members, is one of the industry's largest. While Wyndham's properties cover the entire spectrum of the hotel industry, from economy motels to luxury hotels, its portfolio is concentrated in economy and mid-scale chains, which historically have lower volatility during economic downturns.

The company's exchange and rental business operates more than 150 offices in over 100 countries worldwide. Its portfolio consists of more than 4,000 properties. Wyndham's vacation ownership business comprises nearly 815,000 owners in more than 160 resorts. Combined, these two

businesses generated almost 60% of the Wyndham's total revenue in 2010.

We believe Wyndham is a "trifecta opportunity:" with growth potential, a discounted valuation and a balance sheet that will improve over time. We estimate earnings will grow 17% to 20% annually. We think the stock is attractively valued for three reasons: the stock currently trades at 11 times 2011 estimated earnings, the company's 15% free cash flow yield is compelling and the stock trades at only 6.3 times cash flow versus most hotel companies, which trade at 9 to 11 times cash flow. As for its balance sheet, we think the company could use its free cash flow to buy back shares, make acquisitions or retire debt.

Given these attributes, we think Wyndham's stock could generate attractive annual returns over the next few years.

(Baron Real Estate Fund invests primarily in real estate and real-estate related companies that we believe have significant growth potential over the next five years. In this column, Portfolio Manager Jeff Kolitch presents his views on the companies and developments that he believes will be important in the months to come.)

Current and future portfolio holdings are subject to risk. 🏠