



Vail's developments reaching the pinnacle of completion - steeplejacks at Ritz Carlton

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VAIL HOMEOWNERS ASSOCIATION

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Vail Economy: The deep discounting of residential real estate is having a positive affect on the pace of property sales. Realtors are reporting the highest number of properties [under contract](#) in the last six months. The Town of Vail is [estimating](#) final collections will yield a 0.95% decline year-over-year in [sales tax revenues](#) for February, a much less precipitous decline than the 15.72% for the same reporting period in 2009. Other [Town revenue](#) streams are showing signs of a pulse, as real estate and construction are no longer at a near standstill as they were a year ago.

Vail Resorts ([VRI stock price](#)) has doubled over its 52-week low of a year ago. Analysts are split over the justification for optimism. Even though the company's [second quarter report](#) indicated [earnings](#) were down 22.7%, due in part to the [timing](#) of real estate closings, some see VRI's performance during this season's snow drought as an indication of strong positioning. If perception of favorable [snow conditions](#) remains positive, [hotel bookings](#) for spring skiing indicate a strong finish to the season, thanks in part to VRI's concert series catering to the Mexican and South American visitors over the Easter holiday. VRI officials have an eye on opportunities to begin raising [lift ticket prices](#) as economic conditions improve. Others are encouraging the move, saying the sooner the better.

Eagle County's 2009 end-of-the-year [real estate report](#) detailed that it was the first year since 1996 that Eagle County did not surpass \$1 billion in sales. Other sources indicate that 2009 [residential unit sales](#) were lower than 1992, when record keeping began. Vail Village single family homes had the highest price-per-square-foot average at \$2,088; a 31% increase over 2008 and the highest average price at \$7,600,000. Vail Village also had the highest averages for multifamily homes.

Since the first of the year, the Eagle County [unemployment rate](#) is on the rise standing at 7.28% (2,289) at the beginning of March. It is still well below the [Federal \(10.44%\) and State \(8.29%\)](#) rates for the same period. Many [national market analysts](#) continue to maintain cautious optimism, but prediction for the long-term remains dour for job creation. Some forecasters say that until the public's confidence is restored in the efficacy of government, economic advancement will

continued to be constrained.



Town of Vail Economic Recovery Strategies: The Vail Town Council is setting its [“priorities agenda”](#) for the next year and a half. The central driver for their economic development strategy, with a nod to other possible marketing initiatives, is a demographically induced reinvention of the community’s long-standing health and wellness (H&W) trade. Also included on their agenda is more spending on parking, mass transit and affordable housing. There is to be an emphasis on more environmental regulation aimed at energy conservation and waste management.

Millions of dollars in capital projects are being attached to a proposal by TOV [Vail 360](#) proponents, including another run (the 7th or 8th) at a 1,000 seat “conference center.” Incorporated under the H&W umbrella is the discussion of potential public subsidies and incentives to reinforce the value added importance of Vail Valley Medical Center. Also in the mix are expenditures for Vail Recreation District (VRD) recreational programs and facilities, some aimed at team sports and the feminine side of the “ECHO” generation.

[Balancing the budget](#) is the Council’s lead priority. Operational costs are outstripping available revenues. Shrinking the size of government, reducing benefits and staff, though voiced by some, has not gained traction. Realigning “capital project expenditures” is underway and ongoing.

The TOV traditional revenue sources of sales and real estate taxes will not rebound to pre-recession levels any time soon, according to informed sources. What then can be used to fund an aggressive stimulus package to sustain operations and capital investment?

TOV Has Cash to Spend: The Town has reserves and special funds accumulated during the boom years. Town administrators say that the TOV should not be hoarding cash. It is there, they say, to be spent on the public’s needs and wants. Therein lies their desire to spend down the Town cash reserves of roughly \$50 million to less than \$20 million. Proposals include spending \$9.3 million that is sitting in the Conference Center Fund and exercising a \$4.3 million letter of credit from VRI to be used to create more parking. The Town could spend, without voter approval, another \$22 million in Lionshead, if it chose to bond against existing Tax Increment Financing (TIF) revenues.

Tax Increases Being Considered: The Town’s property tax bond indebtedness is fully paid off in 2012. The bonds were approved by the voters primarily to build the Vail Village and Lionshead parking structures. There are those in the TOV looking to go to the Vail voters for new projects so that they can retain that portion of the property tax mill levy that is expiring. Other jurisdictions are considering similar tax increases. Eagle County is discussing property tax increase elections to fund its transportation system.

TOV Debt Free With Unfulfilled Needs: If no new debt is incurred, after 2012 the Town is virtually debt free, with the exception of bank financing for the \$10-\$11 million that remains of the Timber Ridge Affordable Housing indebtedness – if Phase One of the redevelopment proceeds. Some see the need for the Town to make major new investments in improving the landscape aesthetics of the Timber Ridge redevelopment and provisions for the safety of its tenants. They also see a need for the Town to recognize that it cannot realistically meet its goal of housing 30% of its employees in-town, they must also invest in affordable housing elsewhere in the Vail Valley. That train, they say, has long ago left the station. There are others also seeking public funding, for example: those wanting the Town to purchase the former Colorado Mountain College Learning Center in Cascade Village or others who want the Simba Run Underpass built.

Spending Down the Reserves, Then What?: With the rate of the Town’s traditional sources of income in doubt, as some see it, the temptation to spend down reserves without financial projections for a solid return on investment (ROI) from any of the proposals becomes a recipe for risky business. As a standard guideline in evaluating any proposal, good governance requires proof of performance before, not after, throwing government support behind a particular proposal. There are those with heavy economic lifting power that remain to be convinced that even with a demographic “make over” the Town’s H&W Initiative is worth a sizable investment in major new facilities. They say H&W will continue to be a steady producer, but not a silver bullet.

Self-Induced Circular Chasing: Critics are disgruntled with what they characterize as the Town’s seemingly self-induced circular chasing of parking and conference centers. They say parking is for the private sector to build on private property. As an incentive to the private sector, build no more public parking, keep raising the public parking rates, remove parking from the Frontage Roads, and give favorable parking rates to Vail residents, shoppers, full time employees and property owners. If the Town Council wants to invest public funds, then provide what people are asking for...a grocery store, which would allow Vail Village and Lionshead to return to their roots of being true pedestrian villages.

There are environmental preservation topics on the Association’s radar, which do not appear in the Council’s environmental sustainability agenda.

First Take Care of the Basics – Environmental Devastation: Some residential owners are asking, as the TOV delves into the nuances of the “new” regulations for energy conservation and waste management, could they also move to put a stop to the excessive denuding, bulldozing and excavation of residential building lots? Many owners along Beaver Dam Road and elsewhere throughout the Forest Road neighborhood and the community at large are appalled at the environmental devastation that has occurred in conjunction with some of the newly constructed homes. The Association has made requests for reform of the Town’s Design Review public notice procedure and environmental conservation standards. There are those who see the Town government as turning a tin ear toward the concerns of non-resident property owners. In their view, this is a negative factor in restoring economic vitality and sustaining confidence in the Town’s leadership on behalf of the community at large.



Vail Golf Club proposed to be redeveloped under the TOV’s Health & Wellness Initiative.

Reinventing Vail’s Health & Wellness Agenda: Since the last major recession in the early 1980’s the Town has chased the Holy Grail of expanding to a year-round economy. Over the years tremendous amounts of money and time have been spent trying to find the perfect economic panacea. Community pools and convention centers have had the most venting, but today the newest incantation seems to be the Health and Wellness Initiative.

VVMC Vital to Vail: The Vail Valley Medical Center (VVMC) has sustained a vitally important community hospital through the notoriety of its surgeons and reputation for excellence in sports medicine. The VVMC and the associated Steadman Hawkins Clinic have added value to a specialization born of necessity, treating ski-related injuries. Over the years it has built a widely respected sports medicine program. For years the lodging community has also hosted medical training seminars where doctors improve their professional skills in the morning and ski in the afternoon.

Health & Wellness - Back to the Future: After nearly two and a half decades of chasing the elusive elixir of a year around economy, the economic productivity as tracked by sales tax receipts for the non-winter season has remained more or less constant. Proponents, in their latest attempt, now wish to reinvent their agenda, and hope to move Vail center stage as the outdoor sports, youth-oriented, [health & wellness mecca](#).

Vail has since its earliest days been a place for elite athletes to host [training camps and clinics](#) for their adherents. The community has a successful history with these camps, the most notable being competitors groomed to international championship stature by Ski Club Vail. Lindsey Vonn comes to mind.

Many of these camps depend upon in-kind support and subsidies from Vail businesses and government. In the 80’s when competitive tennis was the rage, the Town invested considerable resources in facilities for professionally run training camps and hosted large spectator tournaments to draw in visitors. The tennis courts in Vail where the spectator tournaments were held are now occupied by a row of trophy homes. Spectator golf, marathon running, road bike racing, have all seen their zenith eclipsed and have become normalized in the culture. Summer extreme sports as exemplified by the TEVA Games are now in the public eye.

H&W Spending Package – Christmas Tree Effect: Fair-minded critics ask, will the trajectory of this latest menu of health & wellness initiatives be any different for the Echo generation than for the Boomers? Some ask what relationship does a requested 1,000 seat conference center auditorium have to do with health and wellness? Is its inclusion in the Vail 360 program a thinly disguised strategic political alliance to bring back a concept rejected by the voters multiple times and again just a few years back? Some worry that because of this and other alliances that the eclectic [Vail 360 package](#) suffers from the “Christmas tree effect” where too many ornaments are hung on the tree, causing it to fall of its own weight, taking the good down with the bad. Gaining synergy among existing programs makes good sense; massive spending on new facilities is to be seriously questioned. Times are tough. It is being said by some hard-headed pragmatists, the TOV has huge amounts of money in its reserves, but should they spend it just because the money is there? What has changed to justify spending it? Where are their successes and why should we believe them this time around?

H&W...Wrong Message: There are some highly skilled local marketing and public relations professionals who say “health & wellness” sends a message that is in conflict with Vail’s image as the leading “outdoor lifestyle and mountain sports” resort. It conjures up, in their observation, less than appealing imagery of pending atrophy and political gridlock. They cringe at the very mention of the subject because it leads to the perception of wearisome exchanges of carpers barbing harpers.

Some see it as pumping up the importance of a “niche” market, which in the end will continue to have limited importance to the economy. They believe there is greater opportunity in growing Vail’s cultural, arts, educational and entertainment venues which could, with improved coordination, be better integrated with athletic and health oriented programming. There are those proposing mergers and reorganization of the multiplicity of government supported groups charged with economic development. Highlighting seasonal distinctions is the problem, not the solution. Vail should not be transformed from a world renown “Grand Tour” resort into a suburban “edge city” of Denver.

Economic Development Private Sector Responsibility: Others believe the community’s economic development efforts are better left to the private sector than the Town of Vail, because as they see it, after millions of dollars in expenditures on studies, facilities and programs the Town has little to show for it. In fact, the most successful programs operating today to expand the economy all were initiated, nurtured and funded by the private sector. Bravo Colorado, the Jazz Festival, Vail Valley Foundation, the July Lacrosse Tournament, Teva Mountain Games, Vail Dance Festival, Taste of Vail and the Vail Film Festival all were funded privately. A very good case can be made that the public is in no mood to vote for more government spending in this area... period. Maybe the town should try a refreshing approach in funding more directly those programs that the private sector has been so successful in establishing.



Carlton Hotel, St. Moritz, Switzerland – one of many of the aristocratic hotels in this legendary grand tour winter resort.

St. Moritz Has Woes as Well: A delegation from the pinnacle of European ski resorts [St. Moritz](#), Switzerland recently toured Vail. According to reports, Vail’s sister city is confronting many of the same current market issues. St. Moritz has a benefit which Vail doesn’t as yet have, its longevity and an appreciation for its past.

Vail’s Grand Hotels a Big Benefit: Vail has modeled its redevelopment renaissance on the grand hotels, like the Carlton Hotel, that are a hallmark of St. Moritz. There are benefits from grand hotels, one hotel development analyst says. Vail

hotels can more readily recover from the recessionary effects of “discounting” room rates because these rates are tied to consumer demand, and both increase with desirable snow conditions. Once higher room rates go into effect in a ski resort, there is less consumer resistance to retaining the increase. Skiers are typically affluent and dedicated consumers; their withdrawal from the marketplace because of adverse economic conditions is usually short-lived. The analyst observes that Vail expanded the number of grand hotels because they have an internationally based business model which will improve the destination guest market, moving the local economy to a higher level of sophistication and productivity.



Fashionable pinstripe wrapping for Vail’s newest Grand Tour Hotel – The Four Seasons

Vail on the Grand Tour: There are marketing professionals who say Vail’s current community marketing efforts are more about politics and personalities, than passion. They say success is all about attitude – not politics. Businesses can change their image just in how they behave. Also, there are those saying Vail’s branding should not be about mass marketing, but rather targeted to those who are seeking personally engaging and shared unique experiences. Vail, to them is a highly valued cosmopolitan destination on the Grand Tour of world-renowned mountain resorts, to which every skier, world trekker, outdoor sports and cultural enthusiast aspires to experience in their life.

No Central Focus to Vail’s Marketing: Those who evaluate Vail’s marketing efforts from this perspective believe that season to season there is [no central focus](#) to Vail’s current marketing program. A productive program can’t begin and end with the summer or winter season. The community’s marketing program has to be unified into a consistent year round message.

The recipe for mediocrity, according to a local experienced marketing professional with a global perspective, is “undifferentiated demand,” where a brand leader becomes indistinguishable from its competitors. Vail, in these highly competitive times, must protect its position as “the industry leader” not only among its sister mega-mountain resorts in North America, but its global competitors as well.

The goal being the “lighthouse effect” whereby the brand leader is a beacon that induces premium expenditures because it is an object of desire, prestige and attainment. It has to convey an image that stands for excellence of service, a

spirit of youthful adventure, leading-edge lifestyle innovations and deliver a diverse texture of unique one-of-a-kind experiences.

Maintaining these high standards requires nimble maneuvering in the strong, swirling currents of changing market forces. The ski industry has been sustained by the “Boomer” generation since the 1960’s, but no longer as their participation begins declining at age 47. Industry leaders are aggressively wooing the [next generations](#) into winter and summer sports.

Too Far Ahead of Change: Those in their younger years are demanding more adrenalized thrills, which snowboarding and terrain parks are delivering. They are more world-wise, ethically diverse and less affluent than the Boomers, creating, what some view as a sea change in how they will reshape winter and summer mountain sports to their values. Resort businesses and developers have to anticipate changing demand, but not make the mistake of getting too far ahead of their established client base.

The characteristics of generational shifts are easily identified by demographers, but the reality of the foreseen trends don’t appear over night, they often take years to run their course. They should take care to avoid alienating the Boomers, who will continue to represent a strong, though incrementally waning, asset class on their balance sheet for the better part of the next two decades.



New first-of-its-kind eight-person heated chair lift in Lech, Austria.

Lech PR Photo

The snow sports market is evolving in a different direction every 5 to 10 years, according to some industry experts. Advances in ski lift technology, now making an appearance at leading European resorts, open the opportunity for mountain operators to invest in distributing more people faster and farther over a broader area.

Vail, along with other mega-mountain resorts, if the 5-10 year change cycle holds true, within the next few years will need to maneuver away from “discounting” and onto another more profitable plateau. What that plateau becomes depends upon understanding the future as well as the past.

POINTS OF VIEW:

Andy Norris: Why is This One Different? – Implications From the Great Recession on Vail’s Future.

[Mr. Norris](#), is a former executive with Vail Resorts, the developer of Cascade Village and is actively involved in Vail development issues.

During my business career, I have experienced five recessions. Except for the bursting dot-com bubble of 2001, each has been triggered by either a severe rise in interest rates or a major disruption in the supply and cost of oil. This recession is unique for many reasons – it has been global in extent, it has caused significant devaluations in all markets: housing, commodities, gold, bonds et al. and it has produced an extraordinary level of contraction in the financial services industry. Recovery is likely to be lengthy and bumpy:

- America’s household wealth declined by over \$11 trillion (20%) between year-end 2007 and mid 2009. Much of this loss was by Baby Boomers who are now entering retirement. It is this generation that has been the demand driver for resort activities and real estate.
- There remains a scarcity of “jumbo” loans for financing second home real estate. Jumbos are loans in amounts greater than that provided and/or guaranteed by a federal housing agency. Depending upon location, the federal programs top out at \$417,000 to \$625,500. Consequently, most real estate purchasing is limited to the cash

buyers who represent less than 25% of the potential market.

- The commercial mortgage markets are on the edge of collapse – in the next 3 years, \$1.4 trillion of these mortgages must be rolled over. The recession has driven down property values by 30% or more so that little if any equity will be available to support refinancing. Most of these loans are held by regional and community banks many of which are insufficiently capitalized to absorb the losses.
- It is estimated that 20% of all homeowners with mortgages are underwater, owing more than the value of their homes. This year an additional 3 million foreclosures are expected.

Since the 1980's Vail has been heavily dependent upon the Boomer cohort who is now ageing, worried about liquidity and increasingly risk averse. Coincidentally, the commercial lending boom years have produced a surge of high quality competition for Vail – notably Park City/Deer Valley, Whistler, Mammoth, North Lake Tahoe and nearby Avon/Beaver Creek. Although temporarily shut down by credit scarcity, the ambitious expansion of Snowmass Village will become a formidable competitor.

How should Vail respond to this extremely challenging environment? First, prepare for a very difficult economy over the next several years. It is encouraging that the Town Council has placed the “economy” as its highest priority and area of concern. Because local government revenues are a laggard, the Town should anticipate several years of flat or declining revenues. Property tax valuations will substantially decline, commercial vacancies may increase and real estate re-sale activity will remain soft. Downward pressure will continue on the real estate services industry. In 2007, Eagle County real estate sales produced about \$190 million of commissions; in 2009 it is estimated to have totaled about \$55 million. This reduction in commission income will be felt in all segments of the local economy – wages, rents, food and beverage, etc. Full service hotel room revenues have dropped as much as 30%, much of it attributable to the decline in corporate group business. It will be a slow process to rebuild the business, with many failed properties along the way. Finally, it is expected to take years for the commercial lenders to become interested in new project financing.

On the other hand, Vail is well positioned to elevate its position as a global destination – many experts believe that attracting the international markets will be exceptionally rewarding. Its core assets include accessibility to international locations through DIA and to national markets through the ever improving Eagle airport; it has a growing complement of full-service hotels; its customer infrastructure of dining and shopping choices is exceptional; and its mountain operations partner has the expertise and financial resources to keep the most valuable asset, Vail Mountain, at the forefront.

Vail's “sore spot” is I-70: it bisects the community; it is noisy, polluting and visually offensive; it complicates vehicular circulation. Placing it underground would solve these issues and provide additional lands for open space and limited development. Over the past five years, there have been several studies for feasibility examining “cut and cover” as well as by-pass tunnels. Although projected construction costs were staggeringly high, given today's circumstances a fresh review could result in alternatives and additional funding sources.

Although completing such an ambitious project will require many years to study, permit, design and construct, the fact that it is being seriously considered will be a signal to world markets that Vail intends to elevate to the highest level of environmental, esthetics and community standards. Its completion will clearly put Vail in the league of great mountain destinations including St. Moritz, Zermatt and Cortina.

Membership Correspondence:

Enough About Parking – Pay to Play: About the destination guest business versus the day trippers, we're tired of hearing about parking. If you don't want to pay \$25 to park, there is no way you are going to even want a burger and a beer at the Red Lion, not to mention a slice of pizza at Vendetta's; let's put our efforts elsewhere. That leads to the Code Enforcement people. Having a \$38 parking ticket when it costs \$35 to valet at Gold Peak is insane; no wonder they park on Roger Staub Park lawn. Maybe our police know it costs more to issue a ticket than they collect, let's incentivize them. Finally, we agree with you on the quality of the Vail experience, but maybe just a few increases in the cost of getting to the mountain would help.



Spring storm cloaks the valley's cliffs

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