



Vail's Snow Bear market, has it reached the bottom or will it continue to slide?

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# VAIL HOMEOWNERS ASSOCIATION

## February 2010

**Vail Economy – 2010, the Year of Disappointment?:** Expectations are high for an upturn in the local economy during this year. There are early indications that [real estate sales](#) are on the rise, stimulated by heavy discounting. The bankruptcy proceeding of the [Vail Plaza Hotel](#) has been resolved, with the new owners in the position to turn around the debt-burdened project. Eagle County [unemployment](#) claims are bumping along month-to-month, rather than spiking dramatically upward. The [ski resort industry](#), according to a New York Times report, is increasing business during the recession with a 2.3% gain in 2009 and a 6% gain predicted for 2010.

Thanks to sizable holiday season spending by Mexican visitors, the Town is projected to see only a [4.2% decrease](#) in December sales tax receipts, which was an improvement on the month to month [double digit decline](#) it had experienced for most of 2009. Day visitor traffic has been strong on Fridays and Saturdays, particularly if there is fresh snow on the ski slopes.

The refrain, “We need to do something to attract the “destination guest”, is working its way into the political discourse as Vail’s government revenues continue their decline. The prediction of a year ago that Vail would be caught in a “perfect storm” of cascading economic challenges is being confirmed, perhaps even more than the prognosticators anticipated.

Vail, in the long run will do fine because of the lure of Vail Mountain. In the short-term, for those caught up in the current economy, success will be determined by their agility in navigating the perils and opportunities of the new economy. The Association is focused on contributing constructive insights that may assist in motivating a continuation in value appreciation of those assets that benefit the community’s residential property owners.

The Town's total [revenues](#) for 2009 were down by 26.7%, subject to a potential 5% gain based upon outstanding 2009 revenues. Budget adjustments were made by the Council partially in response to the recommendations by a [citizen group initiative](#). The Town stayed within its budget and continued to preserve \$50.6 million in reserves. After nearly eighteen months of [revenue declines](#), the Town of Vail is preparing for even deeper budget cuts.

To keep some holdover projects from the billion-dollar boom in the "revenue pipeline" Town authorities are giving an 18 month [extension](#) to development projects that have Town approvals that are lapsing. Some of these projects have already been given a one-year administrative extension. These projects in total represent \$5.6 million in [revenues to the Town](#), excluding property taxes. Even with extensions, there are those who say, there are no guarantees that the market will return any time soon to the highflying exuberance that spawned these projects.



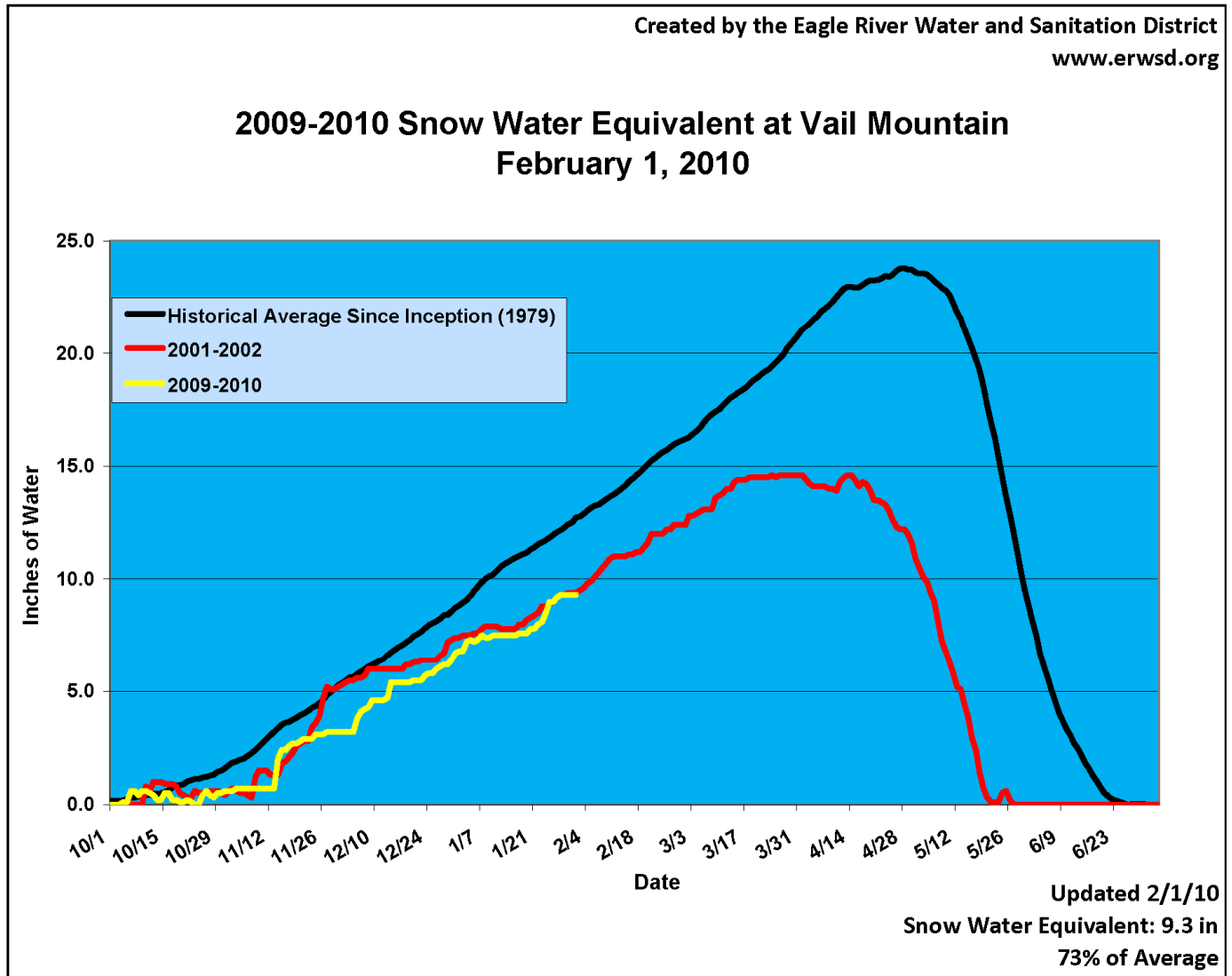
Post holiday season business, say some local retailers, fell into a decline after mid-January. Some merchants are predicting an increase in empty store fronts, not dissimilar to what has already occurred in [Aspen](#), setting off another round of calls for landlords to cut lease rates. Aspen historically has trended ahead of Vail. The Town of Vail has not publically discussed any strategies to combat empty stores. Sources say because of economic conditions the Town is turning a "blind eye" to the enforcement of regulated window signs in stores, even though some signs may convey a counterproductive message.

**The Wider View:** Forecasts by several Wall Street analysts continue to conclude that the pace of economic recovery could be slow and drawn out ([Pimco/Gross](#)). Nationally, economic growth will be subdued, between 2.7% - 5% of GDP with those who are more pessimistic predicting a dismal 1.5% ([Bloomberg/Roubini](#)). Credit availability has improved, but will continue to be restrained ([Blackstone/Wein](#)). There could be a modest improvement in jobs with the unemployment rate dropping between 8% and 9% ([US Economic Brief](#)). However, job growth will remain tepid even if industrial production increases in the short-term ([Barron's Roundtable](#)). Consumers' spending will continue to be sluggish as debt reduction (balance sheet recession/deleveraging) remains a priority for families and businesses ([Barron's/Koo](#)). Some are saying that a second Federal stimulus package will be required to jumpstart a moribund construction industry. Critics say that increasing the Federal debt, already 10% - 11% of GDP, would be politically untenable. And still others believe, if the Federal government retreats prematurely from their emergency financial measures it could cause another recession. Projections for a 10% - 20% increase in equity markets, is tempered with the

prospect of a similar sized downward correction, if the value of the dollar is deflated by Federal policy. Some believe that most markets, especially those with a lack of excessive indebtedness, will out perform the United States.

**Vail Forecast:** The 2010 forecast for Vail, say economic advisors to the Association, when viewed within this broader context, will be a year of up and down disappointment for the local tourism and development economy. By the time the year closes out the community will not be in a much different position than it is currently.

**Going Global:** There are those who see an opportunity for Vail to take advantage of developing its access to emerging global tourism markets for destination guests. In [Aspen](#), the ski company has already taken the initiative through a marketing firm experienced in global branding. Vail Resorts, may have similar intentions, but the Vail community has not yet defined such a mission or embraced a coordinated strategy to underwrite such an effort.



**Weather, Group Business, Lodging Discounts and Taxes:** The [winter season drought](#), caused by El Niño induced ocean warming in the central Pacific, has delivered abnormally sparse snowfall. According to records, the current winter rivals the previous El Niño year of 2002. If snow conditions don't improve, official projections report modest gains in occupancy over 2009 for the remainder of the season, however, this comes at the discounting of room rates. The hope is that if guests spend less on lodging they may spend more elsewhere in the resort. The [long-term effect](#) of discounting room rates is worrisome. According to market trends in other resorts, consumers get into the habit of expecting discounting, which puts a further drag on market recovery. The Town's [MTRIP 2009 year-end report](#) indicates that Vail held its own against other resorts, but there are [no clear signs](#) of a quick recovery. January [lodging projections](#) for the remainder of the winter season show modest improvement over the prior month's report. The trends for Vail are mirrored in the challenges of the industry worldwide. A local hotelier reports that in certain markets some top of the line hotels are closing down operations until the market improves.

**Refilling the Glass a Drop at a Time:** The Town, for its part in filling beds, continues its efforts to increase destination tourism through promotion of special events and group business. The traditional [group business](#) venues of corporate and association groups have been hard hit by the recession. Estimates are that group business accounts for 20% - 25% of the

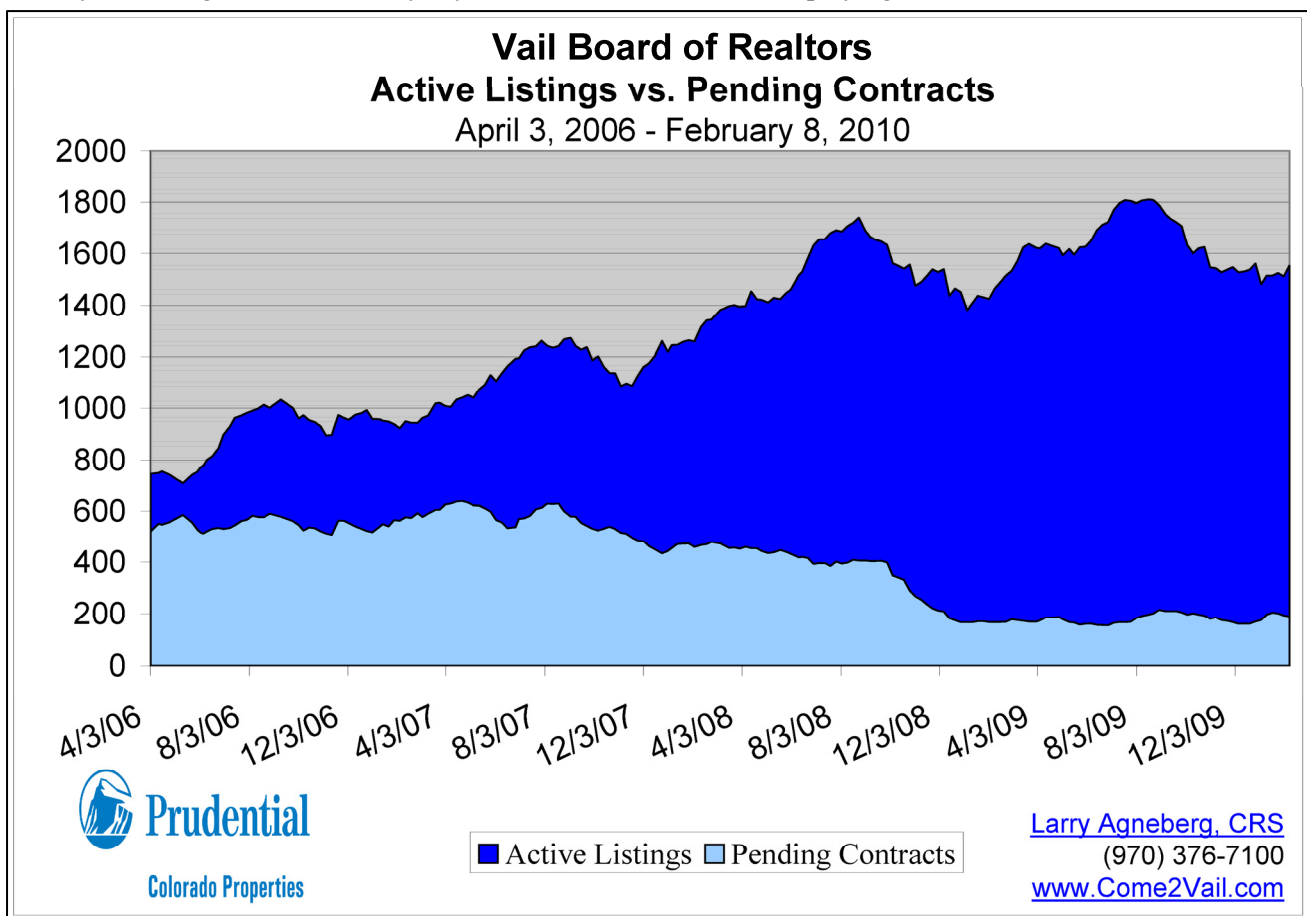


Town's revenues from its lodging tax. There are those who believe the varied breadth of special events venues diluted the potential of those events with the strongest pulling power. The Town is backing efforts to increase its sales tax revenues by supporting health & wellness tourism and sport groups. The Town has yet to show what percentage it hopes these niche markets will contribute to their bottom line.

**Developing New Domestic and Global Destination Guest Markets:** The Association observes that all other niche markets scenarios pale when compared to the winter ski season. It suggests that the quickest and most efficient way to boost Town revenue is to increase the winter destination guest business by developing new domestic and global markets. A majority of the Town Council has yet to embrace this strategy as their primary goal.

**Council Visioning Muddying the Water:** Critics of the Town Council's [visioning priorities](#) say they are too broad and miss the mark of putting a large enough emphasis on stimulating and expanding both the summer and winter destination guest markets. They say the Town is still too enamored with big development schemes, distracting annexations and beating the drum to solve problems with no realistic solutions, given the financial constraints of the "new normal". There are those who believe that the Town has to do a lot more homework and soul searching about the state of the community's long-term economic well-being before it makes any major policy moves or expenditures.

**After the Lodging Tax Cheats:** One of the Council's strongest destination guest initiatives suggested to date is to consider spreading their enforcement net over those rental units that do not pay their lodging tax. There has been no indication of how much ["under the radar" rentals](#) will add to their bottom line, some suggest it would be substantial. Other lodging operators, who do pay their lodging tax, say they are put at a 10% disadvantage by these bandit rentals because they can charge 10% less. They say the Town needs to level the playing field.



**Real Estate and Development:** The volume of real estate inventory waiting to be sold throughout Eagle County is unprecedented. [Current sales trends](#) in Vail and Eagle County are moving in a positive direction. However, foreclosures are also on the rise. As of mid-February, the Town of Vail has 456 active residential listings with 20% pending under contract (pending listings). [Sources](#) report that of those under contract, 70% are in large redevelopment projects in Vail Village or Lionshead. There are 17 active listings for land, with one under contract.

**Boom to Bust:** The local political climate, some say, is in flux, affected by an evolving public perception that Vail's billion dollar boom has gone bust. Even when confronted with the stark evidence, there are those in the community who are reluctant to let the construction boom times go. A Town press release bemoans with [bittersweet regrets](#) the last towering construction crane departing the skyline.

**Getting Back Down to Earth:** If there is no ongoing major construction, the recession has created for some a lack of confidence. Others see opportunities for redevelopment to resume, but first Vail has to use its refurbished image to rebuild and expand the resort customer base. There is less belief and enthusiasm that more large-scale development in the short-term is possible or even desirable. Some are saying no more highflying big spending development projects until the resort side of the economy is once again sustaining the community.

**Discounting Opens Wallets:** The vigor of the real estate market will depend on the effectiveness of sellers reducing their asking price to within the 20% to 40% discount standard from the 2007 market high, advised by some brokers. Nationwide, [mountain resort real estate](#) is seeing buyers moving back into the market. The community still faces considerable challenges in making headway to stimulate the construction industry and expand its base of destination guests.



**Solaris is emerging from its plastic wrapping. April condo owners may start moving in; retail set to open on July 4<sup>th</sup>.**

**Vail Renaissance Delivered:** Once the closings occur for those units currently under contract in the large projects, all eyes will be watching to see how successfully large development projects will fair in selling their remaining inventory in a highly discounted market. The rule of thumb that some large developers follow is that the predicable churning in the resale of sold units will cause accelerated appreciation of discounted units, bringing them more quickly into par with high value units. The hoped for result is that the inventory of unsold units will regain their value more rapidly and prime the pump for more development. Some say without heavy discounting, the value of all units will bump along at their lowest value prolonging the malaise and further constricting the construction industry.

**Historical Perspective – Planning for a Soft Landing:** There are those asking in hindsight, what was the community thinking? Didn't anyone anticipate the downside of a boom? The community has been in a comparable circumstance before. The late 1970's saw a very similar boom and bust cycle, which had lingering effects well into the 1990's.

In the early 1970's the Town cushioned the impact of a coming recession, which occurred later in that decade, when it adopted a growth policy rooted in the economics of scarcity. The Town then had the foresight to reduce development



density by one third through extensive land acquisitions and zoning density reductions across the entire community. Less development density lowered future available inventory, which in turn maintained higher values, sustained by the consumer's desire for exclusivity.

**Turning a Blind Eye:** Some believe that the hard landing that the Vail business community is now experiencing is a direct result of the Town not accurately calibrating or anticipating the ability of the community to absorb the amount of density, which was opened for development through the liberalization of the Town's zoning controls at the turn of the century. The move from quality to quantity has caused some to question whether real estate development should remain a fundamental tenet of the community's economic development strategy. Others ask, what other options are out there?

**Local Government Initiative Funded by Private Development:** In the view of some, too much emphasis was placed upon generating revenues to finance controversial government initiatives through private development thereby avoiding voter scrutiny. The initiatives addressed, among other things, labor force affordable housing and most recently, environmental sustainability. There are those who say these government initiatives are an impediment to breathing life back into the construction industry.

**"More is Better" Being Questioned:** Some business interests assumed that the more commercial space that was built, the cheaper lease rates would become and the more sales taxes would flow into the Town's coffers. Little, if any, consideration was given by officials to the downside implications of expanding inventories of commercial and residential properties beyond realistic levels of demand. This mindset remains operative.



**Need for a Third Portal:** There are some who are beginning to ask for remedies for today's challenges that are reminiscent of those used in the 1970's. Their voices can be heard calling for a slow down in development. In response, the Town Council has taken steps to slow down the Ever Vail development review process, which has been underway in one form or another since 2004. Located in West Lionshead, Ever Vail is a proposed commercial town center on 12 acres to be served by a new up-mountain gondola. The Council is having discussions about the wisdom of approving a [third portal](#) to Vail Mountain, at this time.

#### **Community's Business Model Changing:**

There is a perspective that questions the viability of the community's business model based on an average 1.6 million skiers annually; a model which has stood for the past two decades. The core consideration is whether the composition and economic productivity of the "new normal" skier population can sustain the numbers of businesses now in the community. Many Vail business owners say that the public and others just don't understand how difficult it is to stay in business nowadays under usual circumstances, let alone during a major downturn.

**Ever Vail Should Help Not Hurt:** The question from them is, how will Ever Vail help and not hurt them? They are concerned that some executives at VRI are not as concerned as they should be with the possibility of creating more competition for Lionshead and Vail Village. The local business community would prefer that Ever Vail reinforces their strengths rather than set in motion the "Walmart effect" (corporate discounting competing with local businesses). Because of the continuing economic storm, they want Vail Resorts to be lashed together with the local community on the same life raft.

Company consultants have produced an [Ever Vail economic report](#) for VRI that they say proves that a new portal will do no harm. Others are asking for more detailed documentation and proof. The Town of Vail is retaining their own consultants to study the economic and other impacts upon the community and its infrastructure, such as parking. Vail Resorts believes that the [Ever Vail parking plan](#) will resolve the community's endlessly increasing demand for public parking. The [Ever Vail parking study](#) will be considered after the Town adjusts for any potential shortcomings in its [public parking policies](#) and standards. The Council has requested an investigation into the implication of raising the "lift ticket tax" paid by Vail Resorts used for the operation of the Vail Shuttle Bus mass transit system.

**Vail NIMBY's of a Different Stripe:** Vail Resorts says it will solve the community's parking problem, yet there are those in the community that do not want the company to have independent control of public parking, for competitive reasons. The more extreme propose that the Town should use Ford Park to build parking rather than approve Ever Vail.

**Quality of the Vail Experience:** The potential for a long-term shift in the composition of the Vail skiing population has already taken place. The Town's winter parking demand model, prior to the advent of the Epic Pass, assumed a 75/25 percent split between destination and day visitors. Town officials report that since the Epic Pass, the split has been reversed. This reversal is reflected in the decline of the Town's sales tax revenues. The Epic Pass, while averting a free fall in consumer demand, has caused many in the Vail community to raise concerns about diminishing the quality of the Vail experience, on-mountain and otherwise.

**Keeping the Customer Experience and Marketing Image in Balance:** Some are beginning to take a closer look at the quality of the customer experience. They see factors such as increasing the density of skiers per acre as critical to maintaining a qualitative experience on Vail Mountain. A back of the envelope comparison of VRI Colorado resorts puts skiers per acre for Vail at 3.8, Beaver Creek at 4.3, and Breckenridge at 9.6. They question how much new commercial and residential development the mountain can support under conditions of the new normal. There are those who believe that the skier density on Vail Mountain could be raised with no adverse effects to 4.9. Others ask if Vail's existing resort centers can support such an increase.

Importantly both Vails, the mountain and the town, need to deliver on the [international image](#) of exclusivity that Vail Resorts' market branding professes. Currently there is a disconnect between the two, which needs to be remedied. A step in the right direction was taken by Winter Olympic gold medalist [Lindsey Vonn](#) when she showcased the assets of both Vail Mountain and the Town in a lengthy pre-Olympic interview on the NBC television network.

**Ever Vail in Perspective:**

Historical precedent says that there will be no resumption of the Town's desire to continue its community wide redevelopment initiatives without Vail Resorts first creating the catalyst by beginning their own projects. Once VRI begins, competitive developers have confidence to also jump into the market with their own projects.

Some say Vail is fortunate to have VRI, particularly when compared with the difficulties some other major resort companies are confronting. They believe the company's strategy

for Ever Vail is correct because of the nearly decade long lead time it takes to bring online a project of this magnitude.

It is now apparent that some Vail power players, before giving carte blanche approval to Ever Vail, are looking for an "affirmation" that the community's business model is still operative under "new normal" economic conditions. There are those who say, with no specific date to begin construction the Town has no assurance that the proposed plan will be appropriate to meet the community's changing needs. One perspective wants to revisit the Lionshead Master Plan with an eye to reducing density. Others are looking for unique amenities that will cause all boats to rise. It is difficult to know what the community wants, because it has consistently failed to come to a consensus driven agreement about its vision for the future.

**Other Ever Vail Outstanding Issues:** There remain several issues that have yet to be resolved. One of the most vexing is what to do with the existing sewer treatment plan that is situated in the heart of the project. According to water and sewer district authorities no acceptable options have been found. Others say the company should not be held hostage to unreasonable or opportunistic demands by the district.

Still other critics believe that the community needs more diversity, like unique amenities that the community doesn't already have, which will draw in destination guests. They say that the Town has allowed too many large hotel and condominium projects that are clones of each other. Critics complain that the phasing strategy of development does not deliver affordable housing in tandem with job generators like hotels and other commercial enterprises. People may not be listening; the company has a strategy to deliver affordable housing as the project is built. It will be the only urban center in Vail where locals' housing is integrated throughout the development.





**Timber Ridge Affordable Housing Redevelopment Pushed to the Max:** The commitment by VRI to have an integrated affordable housing plan stands in stark contrast to the employee warehousing approach taken by the Town in its redevelopment plan Timber Ridge employee housing project. According to some critics, the Town is looking to jamb as much housing as possible on the site. The amount of density, in the opinion of some, is extreme and aesthetically distasteful. Critics are saying that it will not be a “quality” living environment, nor will the rents be reasonable. Rents are set to be \$500 per bed, where they are currently \$300 in the existing Timber Ridge project. There are no assurances to date that the Town can control increases in rents. Controlling rent rates so that they remain reasonable is central to the purpose of the project. In addition, the economy may be changing the composition of the [local workforce](#), moving it away from foreign workers towards underemployed highly educated Americans.

Concerns are being raised that the Town has not done its homework as to the unintended consequences of dumping so many new rental units on the local market. These critics point to the Town’s failure to think through the downside consequences of unleashing a \$billion of new development over the past decade. The Town still has yet to make a meaningful commitment to their moral obligation to ensure that project tenants can safely cross Interstate 70. Some see the Town pushing their project through their own approval process at unheard of speed, as designed to avoid addressing the potential negative consequences of the project.



**Winter Bear Confronted by Trucks, Schlock and Potty Mouths in Vail Village:** Some merchants and residents are asking, where are the Town’s daytime police foot patrols and code enforcement officers? Why are courier trucks allowed to block entrances to businesses and owners to make frivolous trips into the Village? Who has the priority, trucks or pedestrian customers? The Town’s new high tech surveillance closed circuit TV cameras aren’t getting the job done. They worry that Vail Village is becoming the “schlocky” portal to Vail Mountain. The Town’s Public Works does a great job, but has to pay more attention to the small details. Who’s responsible for protecting Vail’s post card image? When was the last time the Town Council was seen inspecting the neighborhood? Why is it that the business associations and Town committees aren’t more effective? It’s not only about the lack of budget. Why is Beaver Creek outshining Vail?

**Shape Up or Lose Out:** There are those who say the Vail Village decline in quality should be expected and that it applies to Vail Mountain as well. The quality of the Vail experience is directly related to the price of a lift ticket. They



say all you have to do is hear the rumors about the increase in “hit and run” accidents on the mountain or be accosted by foul-mouthed abusive behavior, which is becoming all too common. Such behavior is a matter of public abuse, not free speech or will. Lost customers are the issue; especially those who are Vail stalwarts... families with children.



**Colorado Tourism Depends on the Beauty of its Mountain Scenery:** The recently announced \$30 million [federally funded program](#) to “clean up” thousands of acres of beetle-killed pine trees is not enough. So say those who advocate massive reforestation of Colorado mountain areas dependent upon tourism. The clean up should include the reforestation, not just removal. Critics say the Federal standards for the “clean up” should be driven not only by concerns for public safety, but the rapid restoration of the region’s scenic grandeur. Emphasis should be upon those areas that millions of destination visitors and transcontinental travelers visit or pass through annually. They place the responsibility for advocacy on Vail Resorts, Eagle County, and the Town of Vail as restoration of the area’s scenic landscape is at the core of a quality tourism experience. Authorities now estimate that nearly 90% of Colorado extensive “lodge pole” pine forest will die over the next few years. Visitors will not return if they are confronted at every turn with a dead and dying forest or a landscape stripped by insensitive logging. These advocates believe that reforestation is an investment in protecting tourism in Vail and throughout the surrounding region for generations to come.

#### **POINTS OF VIEW:**

**Bart Cuomo – Will They Close?** As the *Solaris*, *Vail Ritz Carlton Residences* and *Four Seasons* projects are all coming down the home stretch and all appear to be on track for completion in the 3<sup>rd</sup> or 4<sup>th</sup> quarter of 2010, it begs the question....will they close? Of course, “they” are the buyers who have been under-contract to purchase units in these projects. Typically, when projects get to this stage of completion, developers’ primary concern is getting unsold units under contract. However in these uncertain times developers have to be thinking about how to close the contracts they have on the books. Virtually all of them were contracted for prior to the economic meltdown. Each of these projects have to have financial concerns about the number of units sold thus far; the state of the economy; and the prospect of selling remaining inventory in this troubled real estate market. ([Read on...](#))

**Pamla H. Moore – Recommends Austrian Wellness Centers be Researched:** I am a second-homeowner in Vail, living there part-time for almost 30 years. I have found your reporting to be very valuable. I look forward to receiving the Association's take on the issues important to Vail. I want to comment on the report about a possible wellness center in Lionshead. My husband and I have just returned from living almost 3 years in Vienna, Austria. If the idea of a wellness center should move forward, I would recommend that the wellness centers of Austria be researched. It is a way of life there and has a strong health/medical focus. In fact, after knee surgery a friend of mine was sent by her doctor to several weeks of therapy at a wellness center. Of course, in Austria it was most likely paid for by Austrian government health insurance.





Town of Vail Snow Polar Bear – Excellent work by Vail Sculptor Karl Kruger

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**Web PDF Version:**

**Copy and Layout Editing & Distribution**

**Elizabeth Bailey, Books Plus - BooksPlus@q.com**

**Constant Contact Email Version:**

**Layout & Design**

**Jill Gordon, Gordon Group LLC - gordongrp@comcast.net**

**Post Office Box 238**

**Telephone: (970) 827-5680**

**E-mail: [yha@vail.net](mailto:yha@vail.net)**

**Vail, Colorado 81658**

**FAX: (970) 827-5856**

**Web Site: [www.vailhomeowners.com](http://www.vailhomeowners.com)**