Review of HVS' 2013 "Feasibility Study and Sensitivity Analysis, Proposed Belleayre Resort at Catskill Park"

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Summary

This review of HVS' updated feasibility analysis shows it to contain virtually all of the problems found in its earlier analysis, together with yet additional problems identified herein. Accordingly, HVS's new analysis remains unreliable for decision-making purposes. Briefly,

- HVS' analysis assumes the Applicant can charge champagne prices for a resort that is to be built on a beer budget. HVS' revenue per available room (RevPar) reflects 5-star, top-of-market resorts in Aspen, Vail, Telluride, CO, Deer Valley, UT, and Jackson Hole, WY while its inaccurate and incomplete construction estimate is commensurate with a mid- or lower-tier resort hotel. The difference is not trivial. As positioned by HVS, the construction estimate upon which it evaluates feasibility is off by between about one-hundred to three-hundred million dollars.

- HVS's analysis exhibits confusion and contradiction, opining the proposed resorts' hotel element ***is not*** economically practical without the detached units (HVS 2013, p. 9) while also concluding the hotel element ***is*** economically practical without them (HVS 2013, p. 77). These two conclusions are mutually exclusive. They are illustrative of other conflicts and contradictions in HVS' analysis.

- HVS' failure to account for lucrative real estate product cash flows from more limited – but not zero – sales of shared-ownership units is most consequential for the Wildacres-only scenario. The deterioration of this market enables a Wildacres-only scenario to capture about the same level of real estate sales and cash flows as the Wildacres+Highmount scenario over a typical investment horizon. Had these cash flows been recognized they would have greatly enhanced the feasibility of a Wildacres-only scenario.

- The proposed resort will not be developed as analyzed by HVS. Nor does there appear to be any obligation for the Applicant to do so. This is not conjecture. Confirming earlier comments, HVS' new analysis indefinitely defers all of the proposed resort's 206 detached units amounting to one-third of the 629 units proposed (HVS 2013, p. 8). The balance of the proposed Highmount element is also likely to be indefinitely deferred or abandoned.

- A smaller and less capital-intensive resort of perhaps 250 (+/-) units in the Wildacres area may be feasible. At this scale it would increase the number of lodging units in the Route 28 Corridor by about 80 percent. It would rank among the largest base area resorts in the Northeastern U.S. and exceed the size of all but one of HVS' Rocky Mountain resort set.

- A Wildacres-only scenario would save the State potentially tens of millions of dollars in public outlays to purchase and make improvements to the defunct Highmount ski area, and would save BMSC $1.2 million in annual operating costs (Alpentech 2013, p. 15). A Wildacres-only scenario would be more supportive of the regions' existing communities and lodging sector. It would reduce or eliminate adverse environmental impacts and allow the State to focus its resources on improvements to the existing Belleayre Mountain Ski Center (BMSC).

More specifically, HVS' analysis:

- Relies upon construction costs well below that of other similar base area resorts,
- Does not include the construction cost of any similar resort,
- Does not determine the Applicant's construction cost estimate to be within reason or supported by similar projects,
- Applies RevPar from top-tier world-class base area ski resorts that is not commensurate with the relatively modest construction cost applied,
- Under-estimates departmental expenses,
- Contains internal contradictions and flawed logic,
- Fails to account for realized sales and related cash flows from more limited – but not zero – sales of the shared-ownership units,
- Shows RevPar for the Northeastern set of resorts to have deteriorated since 2008,
- Confirms the proposed resort will not have a significant international or national clientele.

HVS' analysis: a) applies sub-par and incomplete construction costs with, b) top-of-market RevPar from truly world-class 5-star Rocky Mountain resorts c) for which unit construction costs are about two to three times that applied by HVS to determine the feasibility of the proposed Highmount element. Additional error is introduced by, d) potentially under-estimating departmental expenses for rooms, operations and maintenance, marketing, general and administration, and property tax.

With respect to construction costs, it is significant that HVS omits its earlier statement that the estimate it applies to determine feasibility is "within reason" and supported by other "similar projects". The estimate applied (both then and now) is not within reason, and HVS proffers no similar projects consistent with its applied construction cost.

The Applicant's construction estimate was previously shown to be low by between about 20 to 30 percent (Siegel 2013).[1] Industry trade reports, reports for some of the newly proffered Rocky

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[1] For example, HVS' 2008 Hotel Construction Cost Survey reported the average unit construction cost of luxury and resort hotels to be substantially greater than that applied in its analyses. Later Surveys showed lower costs but explain this to be due to fewer higher-end luxury and resort projects rather than lower costs thereof. Recent industry sources report average luxury hotel developments to cost "$1.0 million a key". See: Turner, S., "Despite Interest, Luxury

Mountain resort set, and Ragatz (2008) show the construction estimate applied for the Highmount element is low by as much as 50 to 70 percent. Yet, HVS applies a unit construction cost for identical elements of the proposed resort that is ***lower*** than that of its original analysis after accounting for inflation.

With respect to comparables, HVS fails to include a Northeastern base area resort hotel as a reference or among its RevPar comparables. Rather, it relies upon RevPar of non-comparable top-of-market Rocky Mountain resorts evidencing substantially greater unit construction costs.[2]

As to the shared-ownership market, HVS's new analysis acknowledges its post-2008 deterioration only by omission of all real-estate product sales and sales-related cash flows, and the indefinite deferral of the proposed detached real estate products.

All of the foregoing is of particular concern as inclusion of the resorts' Highmount element will require the State to purchase and make improvements to the defunct Highmount ski area and for BMSC to bear the cost of operating it. State funds would be at risk should the proposed resorts' Highmount element be unable to secure financing, deferred indefinitely or abandoned, or fail after construction. Abandonment or failure of the Highmount resort element could cause BMSC to abandon or close the Highmount ski terrain, causing BMSC's operating costs to be unnecessarily increased. All indications are that the proposed Highmount resort element is infeasible. Were it to be built as described, estimated, and/or positioned by HVS the Highmount resorts' subsequent failure would threaten the viability of the Wildacres element by placing downward pressure on its RevPar and would also impair BMSC's operations.

Accordingly, approval of the proposed resort and expenditure of State and/or BMSC/ORDA funds to facilitate the Highmount element is not supported by HVS' new analysis and does not appear to be in the public interest.

Development Difficult, hotelnewsnow.com, June 10, 2013, viewed June 18, 2014.

[2] The Rocky Mountain set consists of truly world-class resorts. They are located in areas that command some of the highest real estate values in North America; some are at ski areas that attract the greatest number of skier visits in North America – well above even that of the UMP's optimistic forecast for BMSC. All offer superior snow, area, terrain, vertical, facilities, and typically longer ski seasons. None depend upon snow-making. None depend upon a legislature for ski area capital improvements. All are proximate to an airport with private and commercial jet service. One is adjacent to a heavily visited National Park complex. Others are near or adjacent to an Interstate highway. The proposed resort shares none of these features.

Background

As part of its original application for State permits to construct a 629-unit resort and real estate development at the base of the publicly-owned BMSC, the Applicant submitted two related feasibility analyses: one by HVS (2008) for the resort hotel operations and its related components; and, another by Ragatz (2008) for the fractional/time-share ("shared-ownership") real estate sales component.

A review (Siegel 2013)[3] of these two analyses found substantial problems with them.

Subsequently, a new feasibility analysis for the resort element (HVS 2013) has been submitted to the New York State Department of Environmental Conservation (DEC). A copy was made available for review through a FOIL request by the Catskill Heritage Alliance (CHA).

Aside from adding a flawed and unreliable analysis of a Wildacres-only scenario, the new analysis contains virtually the same problems as the earlier version, while raising yet additional concerns.

Shared-Ownership Market and Cash Flows

HVS' new analysis omits all cash flows from 209 detached shared-ownership[4] units due to market uncertainty, indefinitely deferring their construction. Confirming earlier comments, and contrary to its earlier dismissal of such concerns, HVS now allows that the detached units...

> *"...will not be constructed until the market for the units has been established"* (HVS 2013, p. 8, italics added).

HVS also omits all real-estate sales and related cash flows (including membership fees for the golf, spa, and other fee-supported hotel elements) derived from the remaining shared-ownership units within or attached to the two hotel building envelopes. Yet, sales of these units will not be zero as affirmed by the Applicants' intent to "market and sell" them (HVS 2013, p. 4). Financing covenants and set-aside reserves would further assure separately-deeded units are actively marketed.

A Wildacres-only scenario would concentrate these more limited but higher yield (Ragatz 2008) and particularly desirable (HVS 2013) real estate product cash flows at Wildacres. A Wildacres-only scenario could be expected to capture most or nearly the same real estate product sales as the

[3] Siegel, M., "Review of the SDEIS for Proposed Belleayre Resort and Unit Management Plan DEIS of the Belleayre Mountain Ski Center; and their Cumulative Impacts", July, 2013. This review is incorporated by reference.

[4] "Shared-ownership" refers to all separately-deeded real-estate products. Some are stand alone ("detached"). Others are within or "attached" to the two hotel building envelopes.

Wildacres+Highmount scenario. Had HVS accounted for a moderate level of shared-ownership sales, the Wildacres-only scenario could well approach or exceed HVS' feasibility threshold.[5]

Development and Construction Cost

HVS has applied the Applicant's estimated construction cost as the basis against which returns ("yields" or "capitalization rate") and feasibility are assessed. For its analysis to be credible, however, returns must be assessed against all reasonably estimated construction- and development-related costs. HVS makes no attempt to validate the Applicant's construction estimate, nor does it provide any such cost data for similar resorts. Rather, HVS applies the Applicant's cost estimate without regard to previously documented problems therewith or for the Applicant's interest for an unrealistically low and/or incomplete construction cost estimate to be utilized.

In its earlier analysis, HVS claimed the Applicant's construction cost estimate to be...

> *"...within reason based on our experience with similar projects"* (HVS 2008, p. 7-1, italics added).

Neither of HVS analyses identify any similar projects that would cause it to conclude the cost estimate to be within reason. In any event, this language is omitted from HVS' new analysis that allows only that it...

> *"...relies upon the construction cost estimates for the proposed resort under the two scenarios, as provided by the project developer"* (HVS 2013, p. 75, see also p. 8).

HVS' original statement was at odds with its own Hotel Construction Cost Survey (2008, et. al.), with its co-consultants' analysis (Ragatz 2008), and that of two similar recently-constructed Northeastern base area resorts (Siegel 2013). The estimate applied in the new analysis is also at odds with recent industry trade reports[6] and the reported construction costs of many of the Rocky Mountain resorts HVS now includes.

HVS' omission of the "within reason" and "similar projects" statement cited above is highly significant. Omission of this language indicates HVS to have no basis to consider the construction estimate it applies to be within reason, and to be unaware of "similar projects" consistent therewith.

Holding RevPar constant, yields and feasibility are enhanced by a lower construction cost estimate. Consistent with earlier comments, the estimate applied by HVS is not commensurate with its

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[5] Relatedly, as sales occur, hotel cash flows are reduced by the difference between sold units' RevPar and any fees paid by their new owners placing them in the hotel rental pool.

[6] Turner, S., "Despite Interest, Luxury Development Difficult, hotelnewsnow.com, June 10, 2013, viewed June 18, 2014.

characterization and positioning of the proposed resort. Yet, HVS now applies a unit construction cost that is ***less*** than its earlier analysis when adjusted for inflation.

In its earlier analysis HVS applied a construction cost estimate of $190 million for 250 "Wildacres Hotel" units (208 hotel-style rooms and 42 fractionals in the same building envelope) and 120 Highmount hotel units for a total of 370 units, including an 18-hole golf course (HVS 2008, p. 7-1, excludes land acquisition).

HVS' new analysis applies a construction figure of $227.8 million ($240.3 less land acquisition of $12.5, HVS 2013, p. 75, 76). This figure, however, includes $22.45 million to construct 53 "attached" Highmount hotel fractionals (HVS 2013, p. 75) not included in the $190 million figure in HVS's earlier analysis.

Omitting these 53 attached Highmount hotel fractionals yields a construction cost of $205.37 million ($2013) for the identical elements in HVS' new analysis, including the 18-hole golf course.[7] This equates to $182.8 million in 2008 dollars (BLS, CPI), or about 4 percent ***less*** than applied by HVS in its 2008 analysis (HVS 2013, p. 75; HVS 2008, p. 7-1) for the identical elements.

As previously documented (Siegel 2013) and as Ragatz (2008) confirms, the construction cost estimate applied in HVS' original analysis is incomplete, having excluded FFE, capitalized interest, financing (construction and permanent), construction contingency, management, start-up and initial marketing costs, and possibly engineering and landscaping.[8] AKRF, (another of HVS' co-Consultants') confirms that the total cost of construction and development:

> *"...would be substantially more"* than the estimate applied by HVS.[9]

Ragatz' analysis enables a figure to be place on how much more for the shared-ownership units within or attached to the two hotel building envelopes. HVS applies a construction cost for the Highmount fractionals of about $508,000 per unit (HVS 2013, p. 75). Ragatz, having included most costs omitted by HVS, shows the cost of the 1/8 and 1/4 Highmount fractionals to be $759,500 and

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[7] HVS 2013, p. 75. Highmount fractionals site development costs are included to assure that should these be fixed but pro-rated, these costs are fully attributed to the hotel structure.

[8] The exclusion of FFE omits all costs related to such items as: mechanicals, HVAC, boilers, furnishings, lighting, elevators, restaurant equipment, case goods, plumbing fixtures (tubs, toilets, showers, faucets, sinks), kitchen, bar and restaurant equipment, spa equipment, soft goods, security and key systems, laundry equipment, signage, gas fireplaces, etc.

[9] AKRF, "Socioeconomic and Fiscal Conditions and Effect", SDEIS, Appendix 3, March 8, 2011, p. 36.

$860,540 per unit, respectively, in 2008 dollars.[10] Adjusted for inflation, Ragatz' more complete estimates amount to the equivalent of $850,600 and $963,800 in 2013 dollars, or 67 to 90 percent more than HVS' new analysis recognizes.

Ragatz' more accurate estimates are closer to (although still lower than) other cost indicators cited herein. Nevertheless, Ragatz confirms the construction cost estimate HVS applies to the Highmount element to be indefensible having excluded between about $40 to $90 million (or more as demonstrated below) in construction and development costs for the Highmount element (hotel and fractionals).

HVS' continued lack of attention to this issue is highlighted by its reliance upon the Rocky Mountain set. Among these are 5-star base area resorts that evidence unit construction costs two to three times that applied by HVS for the 5-star Highmount element. For example:[11]

- The Vail Four Seasons, like the proposed Highmount element, has 120 hotel rooms in addition to larger whole-ownership private residences and timeshares. The Four Seasons includes a full service spa, restaurant, conference and banquet facilities, business center, pool, and retail space. The Four Seasons is reported to have been built at a cost of $240 million in 2007 for an average of $1.55 million per unit.[12] This figure is 2.9 times the $529,600 unit cost applied by HVS for the entire Highmount element (hotel and shared-ownership units, excluding land, HVS 2013, p. 75).

- The St. Regis Deer Valley resort is reported to have 181 hotel-style rooms (HVS p. 60) and to have been developed at a reported cost of $320 million in 2009.[13] Although it does not include larger private residences or timeshares, its unit cost of $1.77 million is 3.3 times that applied by HVS for the Highmount hotel element.

- Like the proposed resort, the Montage resort in Deer Valley, UT (not included in HVS'

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[10] Excluding land, developer and licensing fees, and start-up costs. Ragatz, 2008, "Preliminary Pro-Forma Cash Flow for 16 1/8 Share Unit at Highmount", and "Preliminary Pro-Forma Cash Flow for 24 1/4 Share Unit at Highmount", following p. 352.

[11] Reported costs of the Rocky Mountain set are not stated to include land. Nor have they been adjusted for inflation. Even were reported costs to include land, at 20 percent (HVS, Hotel Development Cost Survey, 2008) their average unit cost would be well in excess of that applied by HVS in its analyses, more so after considering inflation.

[12] JHG Group, Hospitality Management, jhgi.com/about/news/121, viewed June 12, 2013.

[13] Gorrell, M., "St. Regis Hotel Adds Deer Valley to its Name", Salt Lake Tribune, December 10, 2010.

Rocky Mountain set, but nevertheless comparable) has a mix of hotel-style and private suites and residence units. With a reported 220 lodging units (154 hotel-style, and 66 private suites and residences) and a construction cost of $400 million, it reflects an average unit cost of $1.82 million,[14] or 3.4 times as much as HVS applies for the Highmount hotel element.

- The Hotel Madeline (formerly the Capella) in Telluride, CO is another of the Rocky Mountain set. It was developed at a cost of $200 million and is reported to have 100 hotel-style units (HVS) and 60 condominium units for an average unit cost of $1.25 million, or 2.36 times that of the Highmount element.[15]

No support can be found among these 5-star resorts for the construction costs applied by HVS to evaluate feasibility. Rather than reflecting a realistic assessment of the proposed resort's prospects, HVS' analysis reflects yield optimization and goal-seeking.

Were it to be built as estimated by the Applicant, the proposed resort's relatively meager construction budget and its resultant poorer build-quality would likely cause it to fail to realize the RevPar applied by HVS ($261, Figure 1). Alternately, were excluded costs included and reasonable costs for similar resorts applied, it would likely fail HVS' feasibility analysis. In the first instance, lower realized RevPar approaching that of the Northeastern set ($144, see Figure 1) would likely cause it to fail. In the second instance, its higher capital intensity would do so.

Analytical Bias and Flawed Logic

Two paragraphs in HVS' new analysis warrant closer examination. These paragraphs contain a confused, conflicting, and contradictory rationale for seeking approval of all proposed elements and lodging units despite HVS acknowledging the indefinite deferral of 206 detached lodging units.

> *"As for the detached lodging units, which total 163 at Wildacres and 43 at Highmount, these have been **excluded from our economic analysis**. The development of the detached lodging unit communities is not expected to proceed in earnest until the hotel components are open and operational. These communities **will not be constructed until the market for the units has been established**. Because the ownership profile and risk factors associated with the detached lodging units are distinct from those associated with the hotel components, the rates of return required by the investment market for the two components vary significantly.*
>
> *Notwithstanding this approach to the economic evaluation, our findings indicate that the detached lodging units could not economically be developed separately from the hotel and country club components. Because of infrastructure costs, the economic need for marketing synergies and*

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[14] Ibid, Gorrell.

[15] Warren, K., "Capella Telluride is Now Hotel Madeline", Telluride Daily Planet, February 1, 2011.

operational efficiencies, and the necessary provision of access to the numerous hotel and country club facilities for detached lodging unit owners, it is not reasonable to explore the possibility of the detached lodging unit communities standing alone. For similar reasons, the notion of constructing the hotels without the detached lodging unit communities is economically impractical. It is our experience that the potentiality of superior yields associated with the detached lodging units elevate the project's investment market appeal into a particularly desirable realm."

The first paragraph avoids mention of the collapse of the shared-ownership market while acknowledging the indefinite deferral of the detached shared-ownership units due to lack of an established market.

The first two sentences of the second paragraph present a strawman argument, that being: the detached units cannot be developed "separately" or "standing alone" from the hotel and/or country club components. No such proposition has been made to the knowledge of this author. Rather, the issue at hand is whether **any or all** elements can be feasibly developed with respect to market, revenue, and cost.

Referencing the strawman argument, the third sentence posits a false syllogism that contradicts and conflicts with HVS' primary conclusion. The false syllogism being that: "similar" to the strawman argument, the hotels ***cannot*** be economically developed without the detached units. The contradiction and conflict being that: HVS concludes the hotels ***can*** be economically developed absent the detached units.

In the fourth sentence, HVS reveals the most lucrative yields are from the detached units which elevate the entire project's investment appeal – yet it excludes these yields from its analysis.

Here we see a tortured chain of argument: a) there is no established market for the detached units; yet, b) detached unit returns make the project particularly desirable; however, c) these particularly desirable returns are omitted, but; d) the proposed resort cannot be economically developed without the detached units; nevertheless, e) HVS concludes the proposed resort can be economically developed without the detached units.

These two paragraphs also elide the potential for a Wildacres-only scenario to capture a large share of more limited shared-ownership sales such that, had they been considered, could well have resulted in a favorable determination of feasibility for this scenario. Had this been the case, a Wildacres-only scenario could approach or exceed returns of the Wildacres+Highmount scenario, particularly were excluded construction costs to be included.

Positioning and Comparables at Odds with Estimated Construction Costs

In a nutshell, the RevPar selected by HVS is not commensurate, consistent, or reconcilable with the estimated construction cost it applies to determine feasibility. Either the RevPar applied by HVS is too high, or the construction cost applied to determine feasibility is too low.

HVS positions the proposed resorts' RevPar equivalent to international destination resorts in the Rocky Mountains based upon HVS portraying the resort as an "extraordinary asset" with "world-class facilities and amenities" with "no regional parallel", that will not only become "the top-quality facility of this sort in the Northeastern United States" (HVS 2013, p.12), but "...one of the premier destinations and vacation ownership communities in the world..." (HVS 2013, p. 27).

HVS' characterization and positioning of the proposed resort as "world-class" has a very specific and particular meaning. HVS defines this term to be a destination resort with a national and international clientele:

> *"As a word-class resort, the market for the proposed subject property's demand is, by definition, the world"* (HVS 2008, p. 3-1, italics added).

This definition underlies HVS' decision to "position" (i.e. select) RevPar for the proposed resort commensurate with top-of-market 5-star base area resorts in the Rocky Mountains. The positioning of the proposed resort, and particularly the Highmount element, is not supported by the relatively modest construction estimate applied by HVS. Rather, such resorts have the highest average unit construction costs in the lodging sector (HVS 2008 Cost Survey, et. al.). The unit construction cost applied for the Highmount element, however, is far below that reported for truly "world-class" 5-star resorts such as those in HVS' Rocky Mountain set.

Further hindering the proposed resort's ability to attain world-class status is its lack of proximity to a jet-capable airport. Virtually every "world class" base area resort in North America is proximate to an airport serving private and commercial passenger jets.[16] Neither the proposed resort or BMSC share this characteristic.

HVS identifies Stewart International (Newburgh, NY) as the nearest such airport to BMSC. Goggle maps puts the travel time from Stewart to BMSC at approximately 1.5 hours which is likely longer during much of the peak Winter season and weekends when most change-over will occur.[17]

Together with other limiting factors (e.g., BMSC having a fraction of the skier visits associated with the Rocky Mountain set; Siegel 2013) the excessive travel time and logistics to/from Stewart/BMSC causes the location to have a competitive disadvantage with other truly world-class international destinations served by more proximate airports. Consider that there is no evident advantage for

[16] As to the Rocky Mountain set, Eagle-Vail airport is within 40 miles on I-70 of Vail and Beaver Creek, CO ski areas. Aspen airport is minutes from its four ski mountains and nearly adjacent to Buttermilk Mountain. Deer Valley, UT is a 43 minute drive from Salt Lake International, mostly on Interstate highways. The Jackson Hole, WY airport is 32 minutes from the Four Seasons Teton. Telluride's resorts are about 10 to 20 minutes from its airport.

[17] Stewart Airport's passenger traffic has plunged from 913,927 in 2007 to 152,322 in 2013 (HVS 2013, p. 19).

someone outside the New York metropolitan area to select the proposed resort as their destination among dozens of other truly world class, 4- and 5-star, North American base area resorts with greater ease-of-access, better terrain, more reliable snowfall, similar amenities, and likely superior fit-out and quality.

Recognizing this, HVS now confirms the market is the New York metropolitan area which:

> *"...is expected to be the key economic determinant in this analysis, as this population center is likely to act as the single largest feeder market for the proposed resort"* (HVS 2013, p. 32).

Nevertheless, it applies RevPar of world-class resorts with substantial national and international clienteles.

As to the New York market area, there are numerous 4- and 5-star resorts serving this market that offer equivalent or similar amenities as the proposed resort. As evidenced by HVS' Northeastern set, rates and RevPar of other competitive resorts within the New York market area are well below that of the proposed resort.[18] Dependent as it will be upon the New York market area, having little external market, and needing to remain competitive within its largest feeder market, the proposed resorts' rates and RevPar will fall below that of the Rocky Mountain set and converge towards that of the Northeastern resort competitive set.[19] Significantly lower RevPar and/or recognition of costs excluded in HVS' construction estimate would likely cause the proposed resort to fail HVS' feasibility analysis.

Rocky Mountain Set RevPar

Lacking validation for its selected RevPar among the original Northeastern resort set (which has since deteriorated), and having used an inapplicable set of Northeastern region boutique resorts as a reference for the Highmount element (HVS 2008, p. 4-21), HVS introduces two new resort sets: a Rocky Mountain and a Northern-climate set (two resorts appear in both of the latter sets).

HVS applies the Rocky Mountain set RevPar to the proposed resort and appears to use the Northern-climate set as background reference.[20] Accordingly, this report focuses on the Rocky Mountain set.

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[18] HVS' Northeastern set does not include a single New York or other Northeastern state base-area resort serving the New York market area.

[19] The average daily rate (ADR) for the Northeastern set was $243 in 2007, while it was $436 in the same year for the Rocky Mountain set, HVS 2008, p. 4-5, and HVS 2013, p. 58.

[20] Seven 5-star resorts not in the Rocky Mountain set are offered to represent "Northern climates" but it is unclear how they are used by HVS. Yet, the Rocky Mountain set is a northern climate set. Neither the Broadmoor or the American Club are located at or proximate to a major

Neither set, however, can be considered as comparables for the proposed resorts' RevPar without factoring for superior construction quality as evidenced by unit cost, size, market, annual skier visits, proximity to a jet-capable airport, and on- and off-site amenities – which HVS does not accomplish.

Unlike the proposed resort, all of the Rocky Mountain set are indeed world-class resorts. All show superior construction quality consistent with top-of-market construction costs and fit-out. All have similar hotel-based amenities as the proposed resort. All are located at the base of major destination ski areas attracting far greater skier visits than BMSC. Some attract among the greatest number of annual skier visits in North America. All are located proximate to an airport with private and commercial jet service. With the exception of those in Aspen, most appear to be located proximate to a semi-private golf course (such courses are located down-valley from Aspen).

Figure 1 compares RevPar of the Rocky Mountain set, the Northeastern set, and the proposed resort. Referencing Figure 1:[21]

- With respect to the Wildacres+Highmount scenario that is to have a 60/40 percent mix of 4- and 5-star units: a) its RevPar of $261 is virtually identical to the $259 of the Rocky Mountain set; however, b) the Rocky Mountain set is dominated by 5-star resorts and unit construction costs that are as much as three times that HVS applies to the proposed resort.

- With respect to the 5-star Highmount element: a) its RevPar of $309 is higher than all Rocky Mountain set 5-star resorts but for $330 for the Jackson Hole Four Seasons; and, b) its RevPar is 12 percent more than the 2013 YTD average of $275 for the 5-star resorts of the Rocky Mountain set (excluding the Viceroy which is in receivership).

- With respect to the 4-star Wildacres-only scenario: a) its RevPar is 44 percent greater than the 4-star Rocky Mountain set average; and, b) its RevPar is 58 percent greater than the Northeastern set average.

Among the 5-star Rocky Mountain set, the Viceroy at the base of Aspens' Snowmass mountain has the lowest RevPar. HVS reports the Viceroy to be in receivership, as was the Hotel Madeline in Telluride, CO. Their failure is not unique among such properties. The Viceroy's failure and below-grade RevPar reflect an over-built market for destination luxury resort properties – the same market for which HVS has positioned the Highmount element – and for which few new projects have reportedly been built of late and financing remains scarce.

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ski area, while the balance of the Northern climate set are composed of exclusive boutique hotels of between 15 to 92 rooms, averaging 40 rooms causing them to have little relevance.

[21] Northeastern and Rocky Mountain sets average occupancy are virtually identical (HVS, pps. 48, 60) so this does not explain their divergence. Ritz-Carlton and St. Regis are suggested by the Applicant as potential Highmount operators.

According to HVS, both elements of the proposed resort are required (e.g., HVS 2013, p. 12) . Yet, the Highmount element appears to be infeasible were realistic costs applied and other factors noted herein considered. Rather than being required, Highmount's inclusion could lead to failure of both elements by placing downward pressure on Wildacres RevPar.

Figure 1,
RevPar as Surveyed and Applied by HVS.

	Class[22]	RevPar (estimated$2012)	RevPar ($2013, YTD)
Rocky Mountain Set[23]			
Four Seasons, Jackson Hole, WY	5-star	330	
Vail Four Seasons Resort, CO	5-star	288	
St. Regis Deer Valley, UT	5-star	263	
St. Regis Aspen, CO	5-star	275	
Ritz-Carlton Bachelor Gulch, CO	5-star	220	
Viceroy Resort Snowmass, CO	5-star	158	
Park Hyatt Beaver Creek, CO	4-star	210	
Westin Riverfront Resort, CO	4-star	113	
Vail Marriott Resort and Spa, CO	4-star	150	
Average, Rocky Mountain 5-star	5-star	256	
Average, Rocky Mountain 4-star	4-star	158	
Average, Rocky Mountain set	mix	223	259
Average, Northeastern set[24]	4-star	132	144
Wildacres+Highmount	60/40 mix		261
Highmount	5-star		309
Wildacres	4-star		228

Source: HVS 2013, pp. 43, 58, 60, 62. Average estimated 2012 RevPar figure of $217 for Rocky Mountain set (HVS 2013, p. 60) appears in error; calculated amount is shown in Figure 1.

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[22] Four Seasons, St. Regis, Ritz-Carlton and Viceroy are consistent with 5-star brands. Hyatt, Westin and Marriott are consistent with 4-star brands. HVS 2013, p. 26.

[23] Excludes resorts for which no RevPar is provided. HVS 2013, p. 60.

[24] Highest is $175, lowest is $70 as estimated for 2012, HVS 2013, p. 48.

Low Estimates for Some Departmental Expenses

Unlike its earlier analysis, HVS does not identify the comparable resorts it utilizes as the basis for expenses. Rather, they are described vaguely as...

> *"...other destination resorts with similar locations, product scope, and product quality"* (HVS 2013, p. 64).

The lack of identification of these other resorts is of concern in itself. The reference to "similar locations" might suggest base area ski resorts, or it might mean mountain areas, other Northeastern region, or perhaps Northern climate resorts. The reference to "product quality" does not distinguish between 4- and 5-star resorts or what their mix may be. HVS applies operating expenses that do not coincide with the set from which its RevPar is obtained. Nor do the new expense sets appear to be consistent with that of its earlier analysis (perhaps as many as five are common to both analyses).

Independent of these concerns, a review of this section shows some departmental expense estimates to be unreasonably low, as further detailed below. To the extent expenses are unreasonably low, feasibility is over-stated.

- Rooms expense is forecast by HVS at 18.0 and 20.0 percent of departmental revenue for the "full resort" and "Wildacres only" scenarios, respectively. One comparable is at 18.0 percent. The next lowest is at 18.4 percent. All others are well in excess of this amount (HVS 2013, p. 64). HVS provides no basis for estimating rooms expense at the low end of the ten comparables, particularly given its description of the proposed resort as "world class", with "no regional parallel". Skimping on rooms expense is not a recipe for achieving this status.

- Administrative and general expense is forecast at 7.0 and 7.5 percent of total revenue for the full resort and Wildacres-only scenarios, respectively. Only two of ten comparables exhibit a lower expense ratio than the figure applied to the full resort scenario (HVS 2013, p. 68). There is no basis to expect the proposed resort's administration and general expense be at the lower-end of the ten comparables, particularly as they evidence little or no economy of scale.

- Marketing expense is forecast at 4.5 and 5.0 percent of total revenue, respectively. Only one other comparable has a lower ratio of marketing expense (HVS 2013, p. 68). As a new resort in an unproven market there is every reason to expect the proposed resort's marketing expense to be at, or to exceed, the higher end of the ten comparables.

- Property operations and maintenance expense is forecast at 4.5 and 5.0 percent of total revenue, respectively. This appears about the mid-point of the ten comparable resorts (HVS 2013, p. 69). The proposed resort is to be spread out across 740 (+/-) acres of mountainous terrain subject to weather extremes. It will have its own on-site wells for domestic water, fire flows, and irrigation. It will have extensive on-site stormwater retention facilities. It will bear the expense of operating and maintaining several thousand feet of on-site water distribution and wastewater pipes and associated pumping stations and storage. It will also bear the expense of maintaining several thousand feet of on-site mountainous roads subject to dozens, if not hundreds, of annual freeze-thaw events. One hotel is to have an earthen roof and both are to recessed into the side of a mountain – either feature of which could cause higher than average maintenance expense. Accordingly, it would be more reasonable to expect operations and maintenance expense to be at the high end, or to exceed the comparable resorts.

- Golf course expense. HVS's earlier analysis (HVS 2008, Chapter 5) shows the golf course element could face significant hurdles. HVS' new analysis does not update Chapter 5. HVS' new analysis provides a cursory treatment of this element (HVS 2013, p. 66) that fails to provide critical information such as: identity of comparables, the State or the climate zone in which they are located, or the number of rounds. Accordingly, one cannot determine if the six golf "comparables" are indeed comparable. A full analysis of this element is beyond the scope of this report. Nevertheless, HVS' new analysis is in conflict with its earlier analysis. Earlier, largely fixed resort golf operations and management expense was $90,780 per hole, or $1.63 million annually, based upon 7,874 rounds (HVS 2008, pp. 5-82, 5-99). Inflation would place the $90,780 figure above the six comparables in HVS' new analysis. The new analysis shows "full resort" golf expense of $0.97 million, which is 40 percent less than earlier before adjusting for inflation.[25] Inclusive of greens fee and related revenue indicates revenue of about $100 per round[26] for approximately 10,000 rounds. Accordingly, it would appear HVS assigns 40 percent lower golf department expenses to a likely greater level of usage and associated wear and tear. HVS provides no basis for assigning expenses 40 percent lower than its earlier analysis.

- Property tax expense is forecast at 1.5 percent of total revenue for a "full resort" (i.e., 423 rooms, exclusive of 206 shared-ownership units) for a total expense of $1.171 million (HVS 2013, p. 71). Notably, HVS' original analysis showed an average property tax expense for eleven comparables of 3.7 percent of total revenue (HVS 2008, p. 4-35) which is more than double that applied in its new analysis. The methodology used in HVS' new analyses do not reflect the actual property tax levies the proposed resort would be subject to. Since valuation and local tax levies are known, knowable, or can be reasonably estimated, actual local tax rates can and should be applied, as was accomplished in the SDEIS. The SDEIS estimates total local real property tax revenue in 2022 of $3.34 million against a total estimated construction cost of $364.74 million (SDEIS, pp. 37, and 50 to 55, 2022 reflects full build-

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[25] $60,000 per hole * .9 expense ratio * 18 holes = $972,000 expenses; HVS 2013, p. 66.

[26] e.g., cart rental, pro shop, range fees, but excluding food and beverage, plus "weighted" greens fee of $77 in $2008; see: HVS 2008, p. 5-74.

out consistent with HVS' new analysis). This indicates an effective real property tax rate of .00915 against a base value of $364.74 million ($3.339 / $364.74). Applying the effective rate to HVS' estimate of construction costs for the "full resort" of $240.325 million (423 rooms, HVS 2013, p. 75) yields an annual real property tax expense of $2.2 million, which is double that applied in HVS' new analysis. The $2.2 million figure corresponds reasonably well (if not too low) with the Doral Arrowwood in Rye Brook, NY. The Doral Arrowwood is the only New York resort HVS includes as a property tax comparable in its original feasibility analysis (374 rooms, HVS 2008, p. 4-35). The Doral Arrowwood is shown to have a real property tax expense of $2.615 million, amounting to 6.4 percent of total revenue – the highest of any of the eleven property tax comparables HVS originally surveyed, and more than 4 times that applied in HVS' new analysis.[27] Were realistic construction costs to be applied, the proposed resorts' real property tax expense could be a multiple of the $2.2 million per the SDEIS' method (although a larger amount is hypothetical as higher construction costs would likely cause the resort to fail feasibility). In any event, there is no basis for the unreasonably low real property tax expense figure applied in HVS' new analysis.

[27] HVS' now shows the highest real property tax among as 8.4 percent for a 373 room-hotel. This appears to be the Doral Arrowwood property in Rye, NY in HVS' original set of property tax comparables, the only New York comparable therein. The Arrowwood demonstrates New York property taxes are substantially more than comparables elsewhere..

Conclusion

As before, HVS has utilized improper, unrealistic, incomplete, and inconsistent assumptions for its new feasibility analysis. The new version evidences conflicting and contradictory statements, false logic and bias. It relies upon an even lower unit construction cost than previously applied, an amount that was already unrealistically low. And, it may significantly under-estimate many departmental expenses.

Notably, HVS omits an assurance that the construction costs applied are "within reason" and supported by "similar" projects. When compared to reported construction costs of some of the Rocky Mountain set, the unit cost applied by HVS is one-half to two-thirds lower. Consistent with earlier comments, HVS' co-Consultant (Ragatz 2008) shows HVS to have omitted hundreds of millions of dollars from the estimated construction cost of the hotel elements.

As before, HVS' new analysis is critically flawed and unreliable for decision-making purposes. Rather than reflecting a realistic assessment of the proposed resort's prospects, HVS' analysis reflects confusion, contradiction, error, yield optimization and/or goal-seeking.

On balance, HVS' flawed analysis appears to favor the proposed resort, retaining its more problematic Highmount element, and all detached units. As documented in earlier comments, the market for the detached units has collapsed, while this report shows the Highmount element would likely fail HVS' feasibility analysis were realistic construction costs, RevPar, departmental expense, and other factors herein considered. Rather than being necessary as HVS and the Applicant contend, were it to be built the Highmount resort elements' failure could well-trigger that of the Wildacres element.

Subject to further analysis, it appears that a less capital-intensive and smaller-scale resort of about 250 (+/-) overnight lodging units in the Wildacres area might be feasible when realistic factors are applied and taking into account its ability to capture nearly as much cash flows from more limited real estate product sales as the Wildacres+Highmount scenario.

At about 250 units, a more appropriately-scaled resort would rank among the largest base area developments in the Northeastern region. It would increase the Route 28 corridors' room count by about 80 percent. And, it would maintain the viability of the existing lodging sector in the Route 28 corridor along with the character of its existing communities, hamlets, and villages that are dependent thereon.

Finally, a more appropriately-sized resort would enable the State to forego taxpayer-supported outlays to acquire the adjoining defunct Highmount ski area and avoid imposing additional operating costs on BMSC.