

**THE VIABILITY OF A PRIVATE FOUR-SEASON RESORT
IN NORTHERN NEW ENGLAND**

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Submitted to the Department of Urban Studies and Planning
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Master of Science in Real Estate Development

at the

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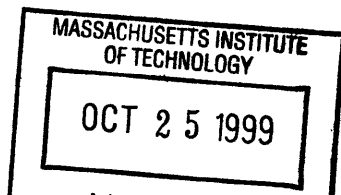
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ROTON

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ABSTRACT

The avid New England skier is having increasing difficulty enjoying their sport. In the age of consolidation and rising costs, the New England ski industry is becoming overcrowded and less fun for the consumer.

The ski industry throughout the country and particularly in New England has realized little growth over the past ten years. As a consequence small, marginal mountains have been forced to shut down with expectations of further closures in the near future. As a result, the major ski areas have expanded to accommodate as many skiers as possible, forcing thousands of New England skiers traveling north every weekend to the same overcrowded locations. Ticket lines, lift lines and cafeteria lines have grown to such uncontrollable lengths that it is unreasonable to expect more than a handful of full mountain runs on a holiday weekend at New England's larger resort areas.

This thesis will study the potential for a private four-season resort in Northern New England featuring alpine skiing. This model will also incorporate other amenities such as cross-country skiing, a championship golf course, a full spa, fishing, hiking and biking trails, swimming, and tennis. High-quality second homes on the development site would also be an integral element to the club. The study will include trends in today's resorts and country clubs and will detail the cost of the development and operating expenses of this type of project. Finally, the report will present a case study of a location that may fit the needs of this club and discuss the aspects of the development at this site.

Thesis Advisor: Blake Eagle
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CHAPTER ONE - INTRODUCTION

The New England ski industry is associated with cold, icy weather, high costs, and extremely overcrowded mountains. Despite the difficult conditions, millions of people visit the Northeast ski areas each winter and hit the slopes. While other sport enthusiasts benefit from the comforts of private clubs and exclusive resorts, avid wealthy skiers have little means available to increase their enjoyment of the sport. Private clubs feature golf, tennis and racquet sports, yachting, sailing and other sport and social activities. This thesis will analyze the potential and viability of creating a private four-season resort featuring alpine skiing.

Assuming that the demand exists for a private four-season resort in Northern New England, the first stage of this study is to explore the criteria and amenities most likely required for such a resort to succeed. The second stage will examine the financial aspects of the development and annual operations of a hypothetical resort and will incorporate this information into a model to establish a functional paradigm. The third and final phase of this paper will be to provide a case study of an existing location where this model may be developed.

Many people have questioned the viability of the private resort concept. A continual cry from critics is that skiing is a zero growth industry and that the operating costs for a New England ski area are too great for a private club to support with annual dues. Accordingly, the number of skier visits to New England Ski Areas over the last decade has remained relatively flat. The projected 1998-1999 season northeast skier visits declined approximately 1.9% from the previous

season.¹ Thus, the question becomes how can a private ski resort work in an industry that has limited growth prospects? The answer is simple; the four-season country club concept does not require growth to be viable and sustainable. The concept merely requires enough wealthy ski enthusiasts who would pay for the privilege to ski in privacy with out massive crowds diluting their space.

1.1 The Private Club

The private club concept offers wealthy people the opportunity to enjoy many sports in relative solitude and privacy. For the purposes of this study, wealthy is defined as having a net worth of \$3MM or an average annual income for three consecutive years in excess of \$500,000.² The proliferation of private clubs and health spas, most specifically private golf clubs, indicates that there is a market of wealthy sport and health enthusiasts that would purchase private memberships to insure privacy and access to a lifestyle they enjoy. The markets for expensive second homes in exclusive remote areas serve as an example of the public's willingness to spend money for such privileges. The ski industry in New England currently offers no private opportunities to the wealthy individuals who would enjoy recreational skiing without the crowds present at the larger ski resorts in New England. The private four-season resort featuring alpine skiing will meet this need.

Memberships to exclusive private Country Clubs now typically range from \$20,000 to \$300,000 for initiation. Additional annual dues range from \$3,500 to \$15,000. As an example, two golf

¹ www.nsaa.org, National Ski Areas Association.

clubs on the exclusive summer resort islands of Nantucket and Martha's Vineyard are planned with initiation fees of \$300,000 and \$225,000 respectively with annual dues of approximately \$6,500 and \$5,000 respectively.³ An additional cost to consider is that the golf memberships in these resort areas do not include a vacation home. Currently, the average sale price of houses on Nantucket is approximately \$350,000, with many homes selling in excess of \$1MM.⁴ Of the 174 homes sold in Nantucket in 1999, 55 were sold in excess of \$600,000 and 30 were sold in excess of \$1MM.⁵ Therefore, the members of these golf clubs must spend an exorbitant amount of money to purchase a second home in order to join the membership of one of these clubs. Some members, in some instances, may have in excess of a million dollars invested in their second home and club membership. The Nantucket Club offered only 300 memberships and sold out in several months.⁶ The Meeting House Club on the Vineyard is targeting 250 memberships and has sold over 160 memberships without the proper and necessary approvals to commence construction of the facility.

1.2 The Target Skier

Demographics of the ski industry reveal that recreational skiers have the highest per capita income of all recreational sporting activities. The American Sports Data organization shows that alpine skiers have an annual household income of nearly \$70,000.⁷ This household income ranks just

² Figures compiled from The Yellowstone Club and the Meeting House Club.

³ Bruce Mohl. "Pricey Island Course Lures the Jet-set Elite." *The Boston Globe*, August 16, 1998, p. B1. Peter Diana, personal interview, July 7, 1999.

⁴ www.thewarrengroup.com, 1999 Year-to-date Median Sales Price

⁵ www.thewarrengroup.com, 1999 Year-to-date Median Sales Price

⁶ Mohl, *op. cit.*

⁷ Rowan, David. "Alpine Skiing Numbers Decline," www.saminfo.com

above the average income for golfers and scuba diving enthusiasts.⁸ The demand component for this model is based on a club with approximately 500 members. Accordingly, the club will only need to attract a very small percentage of people from the Northeast area. Exhibit I – 1 details the percentages required from the Northeast area, the New England area, and the Boston and New York area combined.

Exhibit I – 1: 1990 Population Report⁹

	Total Population	Membership Requirement	Percentage (%) of Market Required
Northeast	50,809,229	500	0.000010
New England	13,206,943	500	0.000038
Boston--New York	18,819,382	500	0.000027
New York, NY	16,044,012	500	0.000031
Boston, MA	2,775,370	500	0.000180

This exhibit shows that the proposed club would need to sign less than one-hundredth of one percent of the population in the three target geographic areas. This thesis contends that a private four-season resort in Northern New England would attract a larger percentage of the population than the “percentage of market required” detailed in Exhibit I – 1 above. Furthermore, exclusive resort development traditionally defines the top five percent of a population as a target market.¹⁰ Using this guideline in the Boston/New York marketplace with population figures for people aged 30 years and over, there are 542,131 potential members (see Exhibit I – 2).

⁸ Ibid.

⁹ www.factfinder.census.gov, U.S. Census Bureau American FactFinder

Exhibit I – 2: Potential Target Market¹¹

	Total Population	Membership Requirement	Percentage (%) of Market Required
Boston			
30 to 34 years	262,252		
35 to 39 years	222,315		
40 to 44 years	196,753		
45 to 49 years	154,013		
50 to 54 years	124,918		
55 to 59 years	121,529		
60 to 64 years	123,395		
65 to 69 years	114,084		
70 to 74 years	91,822		
75 to 79 years	72,643		
80 to 84 years	50,225		
85 years and over	43,555		
Boston 30 years and over	1,577,504	500	0.000317
New York			
30 to 34 years	1,434,047		
35 to 39 years	1,281,863		
40 to 44 years	1,174,287		
45 to 49 years	954,101		
50 to 54 years	805,965		
55 to 59 years	745,622		
60 to 64 years	754,695		
65 to 69 years	684,744		
70 to 74 years	532,347		
75 to 79 years	413,808		
80 to 84 years	269,957		
85 years and over	213,676		
New York 30 years and over	9,265,112	500	0.000054
Boston—NY 30 years and over	10,842,616	500	0.000046
Target Market at 5%	542,131	500	0.000922

¹⁰ Dean Schwanke, *Resort Development Handbook* (Washington, D.C.: ULI-the Urban Land Institute, 1997), p. 382.

¹¹ www.factfinder.census.gov, *op. cit.*

The proposed club would need to sign 0.09% of the potential member base of 542,131 to reach the projected membership requirements of 500 people. Consequently, this exhibit shows additional data to support the assumption that there is significant supply present for this concept. Skiers enjoy the highest per capita income of all recreational activities and the target membership is less than one-tenth of one percent of the top five percent of the Boston and New York population over 30 years of age. The private four-season resort has a strong target market for membership.

While the ski industry growth figures have remained relatively flat, there is still a strong demand for skiing in the northeast. The National Ski Areas Association recorded approximately 12,471,000 visits to Northeast Ski Areas in the 1998-99 season.¹² A ski area visit is defined as “one person visiting a ski area for all or part of a day or night and includes full-day, half-day, night, complimentary, adult, child, season and any other ticket types that gives one the use of an area’s facility.”¹³ This result accounts for 23.9% of the total skier/snowboarder visits for the entire country (see Exhibit I - 3).

¹² www.nsaa.org, *op. cit.*

¹³ *Ibid.*

**Exhibit I – 3: Estimated U.S. Ski Industry Skier/Snowboarder Visits (MM) By Regions,
1979 – 1999 (Extrapolated Data)¹⁴**

Season	Northeast	Total	Northeast % of Total
1998-1999	12.471	52.104	23.9%
1997-1998	12.712	54.122	23.5%
1996-1997	12.407	52.520	23.6%
1995-1996	13.825	53.983	25.6%
1994-1995	11.265	52.677	21.4%
1993-1994	13.718	54.637	25.1%
1992-1993	13.217	54.032	24.5%
1991-1992	12.252	50.835	24.1%
1990-1991	11.157	46.722	23.9%
1989-1990	13.299	50.020	26.6%
1988-1989	12.741	53.335	23.9%
1987-1988	14.421	53.908	26.8%
1986-1987	14.745	53.749	27.4%
1985-1986	12.836	51.921	24.7%
1984-1985	11.083	51.354	21.6%
1983-1984	12.087	50.630	23.9%
1982-1983	9.523	46.861	20.3%
1981-1982	11.467	50.718	22.6%
1980-1981	8.953	39.700	22.6%
1979-1980	8.655	48.200	18.0%
1978-1979	11.294	50.197	22.5%

Northeast: CT, MA, ME, NH, NY, VT

NOTE: 1998-99 data is preliminary.

Users of the regional data in this table are cautioned that prior to 1982 no estimate of industry-wide skier visits was made for the “End of Season” studies. Therefore, for the 1978-79 to 1980-81 the estimates were derived by applying the NSAA Member’s Skier Visit Index. Since 1982, the estimates have been obtained by applying a statistical extrapolation procedure using regional mathematical equations derived from the NSAA survey respondent data.

¹⁴ Ibid.

Exhibit I - 3 shows that 12.5MM skiers battle the icy roads and overcrowded lodges and lift lines to reach the ski mountains. Interestingly, although skier visits have been stable, the actual number of ski areas has fallen from 1,500 in the 1960's to approximately 500 in the late 1990's.¹⁵ Ski area resorts may be classified in four distinct categories. Type I resorts are considered large international destination locations. Examples of this type of resort include Vail, Aspen, and Whistler-Blackcomb. Type II resorts are noted for reaching a regional market and are located within driving distance of its' clientele. The large New England ski areas such as Killington, Stratton and Sunday River are examples of Type II resorts. Type III and IV resorts are considered smaller mountains and generally are not regional destination locations. Over the past 10 to 15 years these smaller mountains have experienced difficulty competing with larger Type II ski area resorts. As a result, many of the Type III and IV marginal mountains have closed and some currently operate at a loss each year. Ski industry professionals and observers predict further closings of the smaller, less successful Type III and IV Mountains as they continue to lose market share to the Type II resorts. As a result, more and more skiers travel to the larger regional resorts.

The Northeast region as detailed by the National Ski Areas Association accounts for 28.1% of the ski areas in the country (see Exhibit I – 4). While the percentage of Northeast Ski Areas (28.1%) exceeds the percentage of Northeast skier visits (23.9%); the Northeast has a larger percentage of Type III and IV Ski Mountains than the Rocky Mountain and Pacific

¹⁵ Schwanke, *op. cit.*, p. 391.

West regions. Consequently, the Northeast ski industry is typically more crowded than other regions of the country. The same number of skiers are visiting fewer resorts, and with the potential closure of additional marginal mountains, the average total skier capacity per average skiable acres (density) at the larger resort communities in the Northeast will likely continue to grow. The density of Northeast skiing will be discussed in greater detail in Chapter Two.

Exhibit I – 4: Ski Areas per State¹⁶

State	Ski Areas	NE Share (%)	State	Ski Areas	NE Share (%)
Alabama	1		New Hampshire	21	4.0%
Alaska	12		New Jersey	5	
Arizona	4		New Mexico	10	
California	32		New York	68	12.9%
Colorado	27		North Carolina	8	
Connecticut	5	0.9%	North Dakota	5	
Georgia	1		Ohio	7	
Idaho	15		Oregon	12	
Iowa	7		Pennsylvania	34	
Illinois	6		Rhode Island	1	0.2%
Indiana	5		South Dakota	3	
Maine	17	3.2%	Tennessee	1	
Maryland	1		Utah	14	
Massachusetts	17	3.2%	Vermont	19	3.6%
Michigan	47		Virginia	4	
Minnesota	27		Washington	14	
Missouri	3		West Virginia	5	
Montana	13		Wisconsin	39	
Nebraska	2		Wyoming	11	
Nevada	4				
TOTAL Ski Areas				527	
NE Share (%) of Total					28.1%

¹⁶ www.nsaa.org, *op. cit.*

1.3 The Yellowstone Club

Located in the mountains of Big Sky, Montana, The Yellowstone Club is a 13,000-acre site offering “exclusive mountain living in a complete mountain recreation environment”.¹⁷ Owner and Developer Tom Blixseth is creating a private four-season resort with private mountain ownership. The club will feature a private alpine ski resort, cross-country skiing touring center, equestrian center, fishing village, championship 18-hole golf course, health spa and fitness center, hiking and biking trails, and extensive security led by a former Secret Service Agent.

The Yellowstone Club is the only private four-season resort in the country of which the authors are aware and will serve as a model for this study focused on the New England area. The initiation fees for the resort are currently \$250,000 with annual dues of \$16,000. Members must also purchase a home on the private estate which range in price from \$500,000 for a “Lodge Suite” to \$5MM for “Custom Homesites”. The “Lodge Suites” are located in the Yellowstone Club Lodge and feature elevator access, room service, housekeeping, ski-in and ski-out access as well as other amenities. The “Custom Homesites” range in size from 1 to 10 acres and the sales price is determined by the lot size, view orientation, location, and ski access. The Club also offers other real estate options including “Mountain Chalets”, luxury duplex townhomes, and “Log Cabins”, luxury single-family homes custom built and handcrafted right on the property.

¹⁷ www.theyellowstoneclub.com, The Yellowstone Club

Membership will be limited to 864, and they must have a net worth in excess of \$3MM to be considered.¹⁸ The Yellowstone Club celebrated its Opening Day on New Year's 1999 and already boasts 40 members including ski film producer Warren Miller, former congressman Jack Kemp, professional golfer Anika Sorenstam and Tour de France champion bicyclist Greg LeMond.

¹⁸ Tom Kenworthy. "The Rich Find a Home on the Range," *The Washington Post*, March 13, 1999, p. A01.

CHAPTER TWO – TRENDS IN THE RESORT INDUSTRY

2.1 Trends

In order for a private four-season resort to succeed in Northern New England, it must offer amenities and services required of the best resorts throughout the country and around the world. Current trends at winter resorts include the addition of other activities whereby downhill skiing, which is realizing zero growth, is not the only attraction. Snowboarding participation (viewed as at least once per year) increased 83% between 1987 and 1994, frequent cross-country skiing (15+ days per year) increased 78% between 1992 and 1994, and even snow-shoeing is quickly gaining popularity.¹⁹ Additionally, mountain biking and cross-country skiing rank 5th and 6th respectively in the top 20 activities with percentage growth in both sports growing approximately 80% from 1992 to 1994.²⁰ These trends can be positive features to the ski resort industry, provided that the industry makes an effort to include these high growth activities into the amenity package.

Additionally, the trend driving the second home market is of great importance to the ski industry. People want to create a lifestyle for their families at a second home rather than taking one to three long trips per year to a vacation spot. People desire many long weekends per year at a location where they can participate in activities that their family prefers.²¹ Therefore, it is imperative that any four-season resort, as The Yellowstone Club exemplifies, includes second homes at the resort.

¹⁹ Schwanke, *op. cit.*, p. 390.

²⁰ *Ibid.*, p. 391.

There is much discussion from MBA classrooms to Barron's Magazine to the daily newspapers about what effects the babyboom generation will have on the second home market. Optimistic reports look to past trends to garner information about the future. For example, a report in a Barron's article theorizes that "if the boomers follow the pattern of their parents and only 7% buy second homes, the number of second home owners would swell by more than 40% in the next decade."²² While the Urban Land Institute's (ULI) Resort Development Handbook, Barron's and other publications support the view (based on past trends projecting forward) of a significant surge in the second home market in the first 10-20 years of the new millennium, even econometric models predict growth in the second home market. This example is exemplified by a previous MIT thesis done by William Gause in 1993.

The model created by Gause does not forecast a 40% surge, but does forecast moderate growth with a continuing positive trend as the boomers reach peak ages of second home purchases.²³ Of importance to note here is that Gause's predictions were based on inputs of steady regional employment growth. The 1993 thesis did provide an optimistic scenario where the regional employment picture was stronger than anticipated, which is precisely the economic picture of the mid-to-late 1990's. Both optimistic models utilized by Gause predict strong price appreciation from the early 1990's through 2010 of the second home market at Northern New England Ski Resorts. One conclusion that can be drawn from all of the various literature is that the babyboom generation, which is currently spiked at age 46, will have a very positive impact on the second

²¹ *Ibid.*, p. 382.

²² Maggie Mahar. "Eden for Sale: By the Year 2000, demand for second homes should rise sharply," *Barron's*, July 3, 1995, p. 23.

²³ William Daniel Gause, *Econometric Model of Ski Resort Real Estate in New England* (Cambridge: Massachusetts Institute of Technology, 1993), p. 55 – 64.

home market at New England ski resorts. The expected surge is not in the 1990's, but rather between 2005 to 2020 when the mass of babyboomers reaches the age of 55-64.

2.2 Amenities

The amenities and services provided at a private four-season resort will be key determinants for babyboomers purchasing memberships and second homes. If a private resort is to succeed, it must offer the amenity package that second home buyer's desire. Although skiing is a zero growth activity, it remains popular to the 12,500,000 visitors to Northern New England each winter. Additionally, as Section 2.1 indicated there are several fast growing recreational sports that serve as an excellent compliment to alpine skiing. For example, snowboarding is fast replacing alpine skiing as the choice of preference among teenagers and must be planned for in any new ski resort. Since the majority of youth who frequent ski resorts are attracted to snowboarding, the alpine skier is growing older. In fact the aging population of skiers has increased the number of families making regular ski trips.

The evolution of the ski resort industry is well exemplified in the ULI Resort Development Handbook. "On the whole, compared with 15 years ago, the typical skier is now older and more affluent and therefore more demanding of a higher level of services, more interested in skiing as a family experience."²⁴ As skiers age and start families, the amenity package must provide services for all ages. Snowboarding, cross-country skiing, snowshoeing, golf, tennis, hiking and mountain biking offer recreational activities for all age groups. The growth in cross-country skiing is

attributed to two conditions. First, as the skiing population ages, alpine skiing becomes to difficult and cross-country offers an easier alternative to downhill skiing. Secondly, people have become far more health conscious, especially those entering or in middle age and cross-country skiing offers an excellent aerobic exercise. Thus, ski resorts must create environments for families with downhill and cross-country skiing for the parents and snowboarding for the children.

Skiing, snowboarding, snowshoeing, and skating do not offer the full array of amenities that affluent second homebuyers are looking for. However, when coupled with traditional and popular off-season recreations such as golf, tennis and swimming, the four-season resort offers a wider array of activities for all generations to enjoy. Another significant trend in the resort industry is the evolution of the spa as a desirable amenity. As stated by the Spa Manager at The Equinox Resort in Manchester, Vermont, “all luxury, up-scale resorts must offer spa services to their guest members or they will not attract their clientele”.²⁵ Current standards for spas require 25,000 square feet facilities that include services for facials, massages, weight and aerobic machines, saunas, steam baths and pools. In addition to these traditional spa services, spa visitors expect a multitude of health classes. State of the art facilities cost \$150 to \$300 per square foot, but the spas are more than a costly amenity to lure guests. The spas have become a very profitable enterprise in their own right at resorts such as The Equinox Resort and the Top Notch at Stowe, Vermont.

As the baby-boomers mature and commence to purchase second and in some cases third homes, many will be searching for locations that provide many activities during all seasons of the year.

²⁴ Schwanke, *op. cit.*, p. 391.

Thus, the picture becomes a resort that offers alpine and cross-country skiing, full spa services, snowboarding, skating, snowshoeing and sledding in the winter and golf, tennis, hiking and biking, and swimming in the summer with the spring and fall seasons crossing in between the two.

2.3 Criteria: Lifestyle & Ski Area Density

Recreational activities alone will not be enough to attract the most discerning consumers to a four-season resort. The style and character of the lodge, the clubhouse and the non-recreational amenities offered, such as a spa and food will be of equal importance to the success of the resort. The concept of the four-season private resort is to create an environment that achieves an outdoor lifestyle for a small, exclusive, and wealthy membership.

The ski area density of this proposed four-season country club would be a major selling point to prospective members. As previously discussed, the prospective members will require many amenities. The reason families will be interested in joining this private resort is the exclusivity and privacy provided to members to enjoy their favorite activities with complete lack of density. Whether it is on the slopes, on the golf course or mountain biking through the woods, the four-season resort member will feel like they are in their own backyard.

The ski areas located in the Northeast have a much higher skier capacity per skiable acre than ski mountains in the Rocky Mountain and Pacific West regions. Exhibit II-1 details the statistics from the 1997-98 ski year.

²⁵ Susan Wheeler, personal interview, June 30, 1999.

Exhibit II – 1: Ski Area Characteristics²⁶

	Overall	Northeast	Rocky Mountains	Pacific West
Average total skier capacity	6,740	8,092	7,764	7,722
Average skiable acres	981	373	1,516	1,546
Average total skier capacity/avg. skiable acres	6.9	21.7	5.1	5.0
Average skier visits	314,988	340,119	423,163	341,494
Average peak day crowd	6,345	8,088	6,638	7,106
Number of areas responding to survey	93	17	31	23

NOTE: The ski areas that participated in this National Ski Areas Association survey are detailed in Appendix A.

This exhibit shows that skiers in the northeast region share the skiable area of the mountain with four times as many people as in the Rocky Mountains and the Pacific West regions. The average total skier capacity per average skiable acres (density) of Northeast Ski Mountains is equal to 21.7. The density of Rocky Mountain and Pacific West Ski Mountains equals 5.1 and 5.0 respectively. While the mountains in these other regions are a great deal larger than that of the Northeast region, the amount of average peak day visits in Northeast Ski Mountains is greater than ski mountains located in the west. Northeast Ski Mountains record average peak day crowds of approximately 8,000 people compared to approximately 7,000 people in the Rocky Mountain and Pacific West Ski Mountains. Simply put, the Northeast skier faces a lot more competition for space from the parking lot to the ski slopes. This comparison of regions is necessary because the target market of Northeast skiers that this project would attempt to attract has extensive skiing

²⁶ National Ski Areas Association, *1997/98 Economic Analysis of United States Ski Areas* (National Ski Areas Association, 1999), p. 9.

experience in the Western United States. The private resort will replicate the less crowded conditions of western resorts. For the purposes of this study, the authors will assume that the lack of density at a private ski mountain would attract wealthy ski enthusiasts on that basis alone. These skiers presumably would treasure the absence of lift lines and the ability to have a quiet lunch with their family at a beautiful ski lodge.

As the industry trends detailed in Section 2.1 reveal, people would prefer a multitude of shorter three to four day trips to their own second home rather than one to two long trips per year. Wealthy ski enthusiasts would rather ski in solitude in the eastern United States on many occasions each winter rather than a few sporadic vacations out west. This trend is due in part to a lifestyle change and also in part to the aging babyboomer population. The boomers have started families and now must contemplate traveling with children for the first time. For parents with children, it is far easier to pack up the kids for a 3-5-hour car ride than travel out west. For a trip out west, the parents must pack up the kids, with the necessary luggage, to travel to the airport for a 3-4-hour plane flight to the west and travel an additional couple of hours to a resort. Clearly, some wealthy ski enthusiasts who ski out west extensively will be attracted to the lifestyle and privacy of the four-season club and the ability to utilize their second home more frequently.

CHAPTER THREE – DEVELOPMENT COSTS

The qualitative characteristics described in Chapter Two of the private four-season resort indicate that the amenities, services, buildings and related facilities at a high-end private club must be of the highest quality in design, use and construction. Therefore, not only must development costs of a ski-area, golf course, and ancillary recreational components such as tennis courts, swimming pools, cross-country ski trails, and biking and hiking trails be incorporated into the theoretical framework of a private four-season resort, but the costs of luxury clubhouses, lodges and spas must also be included in the model. The development costs detailed below have been garnered from research assuming the high side of the anticipated costs. The research provided different variables, but this paper assumes that a theoretical private resort requires higher capital costs than standard industry estimates.

3.1 Ski Area

Since the concept of this four-season club will feature alpine skiing, the development costs of ski areas will be addressed first. Exhibit III-1 breaks down the total development costs of a ski area in New England. The costs are significantly different in New England than a western ski resort for two reasons. First, snowmaking is not nearly as extensive in the west as in the northeast. Second, trail cutting is more expensive in the northeast than in the west because skiing in the west is above the tree line; hence no cutting and trail blazing is required. Exhibit III-1 provides capital costs in an average minimum to maximum range for finished installation. They are based on 1998

construction index which assumes complete contracting of the development of the ski facility to qualified contractors in, and suppliers to, the ski industry.²⁷ The first set is for average construction and development and the second set anticipates higher costs in labor, materials and quality.

Exhibit III – 1: Ski Area Development Costs²⁸

	Average Expense (\$)	High-end Expense (\$)
Maintenance Buildings	40.00 psf	50.00 psf
Parking Lots (140 cars per acre)		
Paved	99,400	123,900
Gravel	39,900	47,600
Snow Making		
Costs per acre including pumps, buried piping, guns and nozzles, controls, electrical systems, support facilities, compressors, buildings, water supply feed lines, and misc. equipment	35,000	50,000
Night Lighting		
Cost per acre	8,000.00	12,000
Base Lodges		
Off-mountain	100 psf	250 psf
On-mountain	150 psf	350 psf
Access Roads		
Paved	7.00 psf	8.00 psf
Gravel	6.00 psf	7.00 psf
Slopes and Trails (cost per acre)		
Glading	1,500	2,500
Cutting and chipping	2,000	3,500
Rough grading and shaping	2,500	4,000
Fine grading	1,800	2,500
Revegetation	1,800	2,500
Erosion control	1,000	2,000
Total per Acre for Trails	10,600	17,000

²⁷ Sno-Engineering report provided by Ford Hubbard.

²⁸ *Ibid.*

Lifts		
Handle tows/each (2 per lift line)	15,000	30,000
t,j & platter/linear foot	125	160
Double chair lifts/linear foot	190	600
Triple chair lifts/linear foot	205	520
Quad chair lifts/linear foot	200	570
Detachable quad lifts/linear foot	400	675
Gondolas/linear foot	650	1,200
Tramways/linear foot	1,200	2,000
Large Grooming Vehicles		
Price varies with options, type of Transmission, engine, etc.	160,000	280,000

Exhibit III-1 is a general breakdown of the Capital Expenditures required to develop a ski area from a piece of raw land. Given the regulatory and financial constraints placed on large-scale development in New England, it is highly unlikely that any new ski resorts will be developed in Northern New England in the foreseeable future. As mentioned in Chapter One, many smaller, marginal ski areas in New England are operating at a loss each year, an obvious unsustainable business practice. Expectations are for many of these marginal areas to close indefinitely. Therefore, development of additional small-scale ski areas is very unlikely due to financial constraints. Large-scale resort development may be economically feasible, but getting such a project approved through the necessary regulatory and environmental hurdles is a very difficult task. Thus, the benefit of the numbers outlined in Exhibit III-1 is that existing ski areas can be analyzed and necessary improvements and/or upgrades can be incorporated into a business plan for the potential redevelopment of the site.

The probability of developing a new ski resort from raw land is virtually zero. The focus of this

paper assumes marginal mountains that have closed due to financial constraints offer viable redevelopment opportunity to be repositioned as a private club. Complete redevelopment of existing ski areas is dependent on several factors. First, do any chair lifts exist and if so, do the lifts meet current standards? Second, are the lodges of sufficient size and quality to meet skier demand? Third, are the existing trails in good shape or do they require significant cutting, widening, and erosion control? Fourth, is the snow making capacity sufficient? Smaller ski areas operating on a marginal basis will likely require significant upgrades to meet current skier expectations. The current rule of thumb for total development costs of a ski area assumes approximately \$7,000 per skier capacity as the estimate to build/redevelop a ski area in Northern New England.²⁹ This figure is based on the redevelopment of a medium to large sized ski facility with a capacity in excess of 3,000 skiers per day. Using the proposed membership size of 500 and assuming that in peak season each member may have up to seven people on the mountain, the ski area must be able to accommodate 3,500 skiers per day. This skier capacity would require an investment of approximately \$25MM.

Fortunately, additional costs for ancillary winter recreational activities to skiing do not increase the cost dramatically. Snowboarding costs are already incorporated into the ski area development costs. Cross-country skiing and snowshoeing utilize the main lodge facilities, and the only additional cost is creating some narrow trails that cost approximately \$7,500 per mile.³⁰ A skating facility does however add substantially to the cost. Current costs to build a recreational facility are approximately \$1.8MM.³¹ Thus, we assume costs to be added to the development of any

²⁹ Ken Hammerly, telephone interview, June 15, 1999.

³⁰ Joseph H. Charbonneau, personal interview, July 1, 1999.

³¹ 1998 R.S. Means square foot costs book

four-season resort is \$1.8MM to include a skating rink and \$150,000 for approximately 20 miles of cross country skiing trails.

3.3 Golf Course

As discussed in Chapter Two, development of a golf course is the main component of warm weather amenities at a private four-season resort. Exhibit III - 2 provides an average cost estimate for the development of an 18-hole golf course.

Exhibit III – 2: Average Golf Course Development Costs³²

	Expense
Staking	25,000
Clearing	150,000
Rough/Fine Grading	612,500
Drainage & Lakes	195,000
Irrigation & Pump Station	850,000
Components (tees, greens, bunkers)	1,065,000
Finish Shaping	225,000
Cleanup and seeding, trees, bridges	160,000
Total for Golf Course	\$ 3,282,500
Maintenance building and equipment	650,000
Golf Shelters	50,000
Maintenance of Turf (until course	250,000
Clubhouse (20,000 SF)	3,000,000
Total for Structures	\$ 3,950,000
TOTAL Development Costs	\$ 7,232,500

³² Desmond Muirhead and Guy L. Rando, *Golf Course Development and Real Estate* (Washington D.C.: ULI-the

Today's regulatory environment has placed enormous hurdles to the development of golf courses. Golf courses must be designed to comply with erosion control, water usage and pesticide run-off into local water supply, streams, rivers, lakes and bays. The golf course industry has established, in conjunction with local regulatory bodies, a set of standards for erosion control, water issues and pesticide control issues that must be met for projected golf course developments to receive regulatory approval. The set of standards is referred to as the Integrated Pesticide Management (IPM) regulations. The key purpose of the IPM is to prohibit many of the pollutants found in pesticides and fertilizers from flowing into adjacent and nearby waters. Various locations will have certain established guidelines to meet on issues such as erosion control, irrigation and pesticide run-off. The IPM is becoming the minimum standard by which new golf courses are built today. The proposed development of a course that does not meet these standards will be unlikely to receive approvals. For example, the guidelines for golf course development on Cape Cod will have different variables and therefore different guidelines than golf course development in the mountain regions of Maine, New Hampshire and Vermont.

Golf course development costs have many variables dependent on location. Building a course in Northern New England will have variables such as soil erosion and water run-off from the mountains that must be accounted for. The average costs detailed in Exhibit III - 2 of the golf course are \$3.3MM. This figure compares to \$3.8MM that was spent on the Gleneagles Golf Course at The Equinox Resort.³³ Gleneagles Golf Course is rated as the 3rd "Best in the State" course in Vermont and serves The Equinox Resort and surrounding resort area of Manchester,

Urban Land Institute, 1994), p. 137.

Vermont.³⁴ The additional \$500,000 to build in Southern Vermont is attributed to two items. First, the course was designed and built to meet the IPM standards established by the National Golf Foundation and the State of Vermont. Secondly, all development in Vermont must comply with Act 250, a statewide legislative regulation that creates additional compliance issues. The Gleneagles Golf Course meets both IPM and Act 250 standards.

The proposed Meeting House Golf Club development on the resort island of Martha's Vineyard was also studied for this paper as that project has a similar target market and price point to the hypothetical four-season club in Northern New England. Martha's Vineyard, similar to Vermont, has very stringent regulations for proposed development of any sort. The estimated costs to build the golf course are approximately \$9MM (\$500,000 per hole).³⁵ This also amounts to more than the industry averages provided in Exhibit III - 2, but the higher costs here are also attributed to a tougher regulatory environment as well as a clubhouse that far exceeds current standards. Thus, for the purpose of a hypothetical development of a four-season private club in Northern New England, we will assume golf course development costs at \$9MM (\$500,000 per hole), that includes course development costs as well as clubhouse and maintenance facilities.

3.4 Spa and Fitness Center

The third major component to the private club is the spa and fitness center. A luxury resort can not survive today with out a spa, as it is a major attraction for the females in the target market.

³³ Charbonneau, *op. cit.*

³⁴ www.golfcourse.com Golf Magazine's 1996 "silver medal resorts", Gold Digest's 1996 "Best Public Course" in Vermont, 1995-98 3rd "Best in the State" in Vermont

The fitness center and spa can be combined with the tennis courts and pools provided the design of the facilities incorporates plenty of separation between the fitness facilities and the spa portion of the facility (i.e. facial, massage, yoga, etc.). The facial and massage rooms should not be located adjacent to weight training or swimming pools where there is generally a lot of noise. Modern design of spa structures frequently utilizes a building design with wings to fully separate the various uses. The current standards in spa design require a 25,000 square foot building that incorporates all fitness equipment, spa equipment, locker rooms and pools. A facility of this size accommodates approximately 500 to 700 people. Industry costs range from \$150 per square foot to \$300 per square foot. For example, the Equinox Resort is replacing their 7,500 square foot spa and fitness center with a 28,000 square foot facility at a cost of \$5MM.³⁶ This paper assumes construction of a 25,000 square foot facility that includes indoor and outdoor pools as well as 10 tennis courts and all necessary spa and fitness equipment for \$5MM.

3.5 Capital Improvement Costs and the Membership Initiation Fee

Exhibit III-3 summarizes all of the capital expenditures required to develop a four-season private club in Northern New England. Total costs to build this hypothetical club are approximately \$58MM.

³⁵ Peter Diana, *op. cit.*

³⁶ Susan Wheeler, *op. cit.*

Exhibit III – 3: Total Development Costs

	Expense
Ski Area	25,000,000
Golf Course	9,000,000
Spa & Fitness Center	5,000,000
Additional Access Roads	3,000,000
Soft Costs (20% of Hard Costs)	8,400,000
Contingencies (15% of Total Costs)	7,560,000
TOTAL Costs	\$ 57,960,000

The total costs to develop the four-season private club will be raised from the proceeds received in selling private memberships. Obviously, the developer, the investors and/or the Founding Members must make an initial capital outlay to option any land and commence the permitting/approval process. The permitting process may be greatly reduced if the developer is able to option an existing ski area that is in need of renovation. With approvals in hand the redevelopment can commence with the initiation fees supporting construction of the club. Initiation Fees of \$116,000 per family membership will provide the necessary \$58MM.

CHAPTER FOUR - OPERATING EXPENSES

The annual operating expenses of the four-season resort will be crucial to development of the model. The proposed exclusivity of the club will necessitate high annual operating expenses. This chapter will analyze the expenses to better understand the operations of the proposed club and the respective annual dues that the members will be required to pay to cover these costs.

4.1 Ski Area

The expenses of the ski area will largely be determined by the size of the mountain and its' location in the Northeast. As we discussed, the proposed ski area should be designed to accommodate 3,500 skiers per day. Exhibit IV-1 details the average total skier capacity and the average peak crowd day for four different sized ski mountains, measured in vertical transport feet per hour (VTFH). VTFH is measured by the vertical rise of a ski lift multiplied by the capacity of the chair lift as specified by the lift manufacturer.³⁷ A mountain's total VTFH is measured by adding the individual VTFH of each chair lift together.

Exhibit IV – 1: Ski Area Characteristics (1997/98)³⁸

	Overall	0 - 4,499 VTFH	4,500 – 10,000 VTFH	10,001 - 17,000 VTFH	17,000+ VTFH
Average total skier capacity	6,740	2,163	4,862	6,906	14,115
Average peak day crowd	6,345	2,889	4,663	5,944	12,449
Average skier visits	314,988	88,080	188,560	279,282	750,670
Average total acres	2,154	490	1,295	2,255	5,003
Average skiable acres	981	198	615	1,236	2,128
Number of areas	93	27	26	17	23

This exhibit shows that to achieve a skier capacity of approximately 3,500 skiers the study will rely on operating figures from the 4,500 – 10,000 VTFH sized mountains with an average total skier capacity of 4,862. Although the operating numbers will be based on a larger and more expensive ski area and the higher costs will result in higher dues for the club model, this study will serve the model well for two reasons. First, the mountain should be constructed to meet the capacity demands on the most heavily skied days in peak season, namely Christmas week and President’s Week. The larger than needed capacity ensures that the members and their guests will achieve the privacy and exclusivity that is the basis for this model. Second, the higher operating costs will more closely reflect the actual costs of running a Northeast ski area. The study utilizes operating expenses data from the National Ski Areas Association (NSAA) Economic Analysis of United States Ski Areas which is compiled from a national survey of ski areas. Typically, Northeast ski areas have higher costs than other regions due to the need for extensive

³⁷ National Ski Areas Association, *op. cit.*, Survey Form p. 12.

³⁸ *Ibid.*, p. 9.

snowmaking.

The NSAA survey details the average expenditures of ski areas by regions and by size. To properly estimate the annual operating costs this study has utilized two surveys to best represent the breakdown of expenses. Exhibit IV-2 uses the total dollar amount in the 4,500 to 10,000 VTFH sized ski area (see Appendix B) and applies the percentage breakdown of expenses from the Northeast region (see Appendix C) to detail the appropriate cost per category.

Exhibit IV – 2: Ski Area Expenditures³⁹

	1997/98 TOTAL	1996/97 TOTAL
Mountain Operations		
Lift Operators	\$ 295	\$ 408
Ski Patrol	\$ 71	\$ 78
Grooming	\$ 69	\$ 96
Lift Maintenance	\$ 101	\$ 113
Vehicle Maintenance	\$ 84	\$ 98
Snow Making	\$ 321	\$ 268
Snow Removal	\$ 22	\$ 18
Other	\$ 194	\$ 372
TOTAL Mountain Operations	\$ 1,157	\$ 1,452
Ski School	\$ 275	\$ 252
Misc. (Financial)	\$ 8	\$ 96
Other (Operating Departments)	\$ 314	\$ 390
Workers Comp.	\$ 51	\$ 54
TOTAL excluding Common Expenses	\$ 648	\$ 792
General & Admin. Dept.	\$ 602	\$ 590
Property Operations	\$ 373	\$ 250
TOTAL for Common Expenses	\$ 976	\$ 840
TOTAL	\$ 2,780	\$ 3,084

³⁹ *Ibid.*, p. 44 - 63

The average annual operating expenses for Northeast ski area with 4,500 to 10,000 VTFH is approximately \$2.8MM. Snowmaking is the highest mountain operating expense with lift operators following close behind. Cost of labor is the highest expense of the entire operation, constituting nearly 40% of the total ski area operation cost.

4.2 The Golf Course

The operating expenses of a golf course and the related facilities vary from course to course depending upon the project. For instance the expenses of a public course may vary from that of a private course. Golf industry professionals typically estimate operating expenses for a private club at \$1MM per year. Exhibit IV-3 shows total course and golf operations costs, and details additional costs involved with the maintenance of a golf course facility.

Exhibit IV – 3: Golf Course Operating Expenses⁴⁰

Course Operations	
Payroll and Benefits	\$ 300
Services and Supplies	\$ 150
Water and Utilities	\$ 50
Replacement Reserve (equipment and course)	\$ 85
SUBTOTAL	\$ 585
Golf Operations	
Payroll and Benefits	\$ 150
Golf Car Leasing/Replacement Reserve	\$ 50
Services and Supplies	\$ 50
Practice Range	\$ 10
Miscellaneous	\$ 40
SUBTOTAL	\$ 300
General and Administrative	
Payroll and Benefits	\$ 125
Insurance	\$ 50
Property Taxes	\$ 100
Services and Supplies	\$ 50
Management Fee	\$ 90
SUBTOTAL	\$ 415
TOTAL Operating Expenses	\$ 1,300

The total operating expenses for a golf course and the related facilities is \$1.3MM.

⁴⁰ Desmond Muirhead and Guy L. Rando, *op. cit.*, p. 17.

4.3 Spa and other Club facilities

The expenses at the Spa and Fitness facility have been projected from a very small sample of existing facilities in Northern New England. The projected income and expenses for this paper are pulled from The Top Notch Resort in Stowe, VT and The Equinox Resort in Manchester, VT. Respectively the resorts operate the spas at a 30% and 40% profit margin.⁴¹ Top Notch has recently built a state of the art 25,000 square foot facility that has realized gross revenue of \$1.4MM per year. The Equinox Resort produces \$650,000 in gross revenue in a 7,500 square foot facility. Gross Revenues at these two facilities range between \$60.00 per square foot and \$90.00 per square foot for an average gross revenue of \$75.00 per square foot. This study projects gross revenues of \$70.00 per square foot on a 25,000 square foot facility totaling \$1,750,000 with a profit margin of 30%. Therefore, operating expenses on the projected Spa and Fitness Facility would be \$1,225,000.⁴²

It is important to note that the expenses for the Spa and Fitness Facility do not increase the bottom line operating expenses of the Club. The revenues of the Spa and Fitness Center exceed the operating expenses and improve the bottom line by approximately \$500,000 per annum. The profits earned at the Spa will directly offset other operating expenses incurred at the private resort.

⁴¹ Susan Wheeler, *op. cit.*

⁴² *Ibid.*

4.4 Operating Expenses and the Membership Annual Dues

The estimated operating expense of the four-season resort will directly affect the membership annual dues. While the members will demand the best service and amenities available, they will pay for those luxuries in the end. Using the expenses detailed above and assuming an additional \$1MM in operating expense for the site, the roads and other common area expenses, the total operating expense totals \$4.6MM (see Exhibit IV – 3).

Exhibit IV – 4: Estimated Operating Expenses and Annual Dues

	Annual Operating Expenses (000's)	Members	Annual Dues
Ski Area	2,780		
Golf Course	1,300		
Spa & Fitness Center	(500)		
Common Area	1,000		
TOTAL Operating Expenses	\$ 4,580		
TOTAL Annual Dues		500	\$ 9,160

The ski area and golf course expense figures are projections of the necessary expenditures needed to operate the facilities. The projections do not include any potential revenue to those areas, which would lessen the total expenses to be incurred by the members. Chapter Five addresses the amenities that are included in the membership and those amenities and services that will be paid for. As no current model exists for the four-season private resort, this paper is unable to accurately project income that would offset the ski and golf operations. We foresee the operating

expenses lower than \$4.6MM through revenue generated in the ski and golf operations, but a precise figure is unattainable. Therefore, the four-season private club model described in Chapter Five assumes the annual operating expenses detailed above.

CHAPTER FIVE – PRIVATE FOUR-SEASON RESORT MODEL

The model of the four-season private club incorporates the findings of the previous chapters in order to establish the necessary services and amenities required at a luxury resort and the costs to build and operate those services and amenities. The model describes what must be created and offered for such a resort to succeed and what the related costs associated with such a development are. Additionally, the membership costs and obligations may now be presented in greater detail.

5.1 Membership

Membership to the private four-season club will be offered only to select individuals and on an invitation only basis. The developers of the club will be responsible for obtaining the Founding Members. The Founding Members will be the first 50 members to join the club in the early stages of planning the construction of this project. The Founding Members will have the opportunity to join the club at the original Initiation Fee before the demand for membership increases the fees for new members. As an example, the Founding Members of the proposed Meeting House Club joined at a \$185,000 Initiation Fee, which has since increased to \$225,000. However, Founding Members will be required to remit 20% of the fee in advance to fund the soft costs associated with obtaining the proper approvals for the club. Additionally, the Board of Directors of the Club will be comprised of several Founding Members and the developer.

Once the Founding Members have been selected and accepted their invitation, the Club will elect a Membership Committee that will be responsible for screening and inviting prospective members to join the club. At this time, prospective members will be generated from within the existing membership. Prospective members will need to be sponsored by an existing member and will need to produce other recommendations as well as meet certain financial requirements. The prospective members will need to have a net worth in excess of \$3.0MM to obtain membership at the four-season club.⁴³ The justification of the net worth requirement is that the club will desire a good faith belief that each member will meet all current and future financial obligations. The amount of net worth is also based on the requirements of The Yellowstone Club, which requires \$3MM in net worth for each member.

The Club will offer only two memberships to prospective members: Founding Member and Club Member. The Club will not offer memberships based on member's participation in any given sport. All of the club's facilities will be open to all of the members and their guests. A Founding or a Club Membership entitles the owner, his/her spouse and his/her immediate family to full club privileges.

5.2 Development Costs and Operating Expenses

The total construction of the private resort concept (see Exhibit III – 3) could cost as much as \$58MM. Additionally, the annual operating expenses of the club (see Exhibit IV - 4) could amount to nearly \$5MM per annum.

⁴³ Barbara Lloyd. "Exclusivity Piled High as Snow at Resort." *The New York Times*, January 28, 1999, pp. D5.

5.3 Amenities

The private four-season resort concept is designed to create an outdoor lifestyle for families and friends. This study has discovered that to achieve this environment successfully the model must have a plethora of recreational activities and services to provide its' members. The activities will ensure the happiness of the members and the success of the club. In summary, the following recreational amenities and services will be offered:

- Alpine skiing/Snow boarding
- Cross-country skiing
- Ice Skating
- Snow-shoeing
- Golf
- Tennis
- Swimming
- Hiking
- Fishing
- Mountain biking
- Spa & fitness

5.4 Management and Operations of the Club

To ensure the success of the club and the enjoyment of its' members each activity and facility must be staffed with qualified managers, staff and maintenance employees. While the Board of Directors of the Club will be responsible for the major decisions, day-to-day operations will be the responsibility of the various managers. To achieve the high-quality standard that the four-season club requires, the Board of Directors will fill the following positions:

- General Manager: responsible for the management and operations of the entire club, reports directly to the Club Board of Directors
- Membership Director: responsible for the management and operations of member services, reports to the General Manager
- Winter Sport Director: responsible for the management and operation of all winter sport activities, most specifically the ski mountain, reports to the General Manager
- Head Ski Instructor: responsible for the training and management of the ski school, reports to the Winter Sports Director
- Head Snowboard Instructor: responsible for the training and management of the snowboard school, reports to the Winter Sports Director
- Summer Sport Director: responsible for the management and operation of all summer sport activities, most specifically the golf course and driving range, reports to the General Manager
- Head Golf Pro: responsible for the training and management of the teaching instructors and caddies, reports to the Summer Sports Director

- Spa Director: responsible for the management and operations of the Spa & Fitness Center, reports to the General Manager
- Clubhouse Director: responsible for the management and operations of the ski lodge, the clubhouse and all food and beverage facilities, reports to the General Manager
- Maintenance Director: responsible for the maintenance of all club facilities, reports to the General Manager

The management team in place will ensure that the various amenities and services provided at the private resort meet the best standards currently established in the resort industry. The various managers will be required to maintain a thorough and comprehensive understanding of the current practices of the activity they are responsible for.

The private four-season resort will be a member-owned equity club. Ownership of the club will be in the form of a limited liability corporation (LLC) with each member owning shares in the corporation. The LLC structure will ensure the members that their liability is limited to the amount of their initiation fee while allowing them to fully participate in the management of the club. A limited partnership would require the member partners to refrain from participating in the management of the club. Active management participation by a limited partner creates liability as a general partner. Therefore, as a LLC, each member may hold a position on the Board of Directors of the Club.

As a member-owned equity club, the members will ultimately control the club through their right to vote. The members will vote to elect the Board of Directors that will be responsible for the

operation and management of the club. Members will have the right to sell their membership with proper approval from the Club. The member will be entitled to an amount equal to their original initial fee plus 80% of any profit realized from the new initiation fee rate.

5.5 Membership Costs

The Authors recognize that the condition of the economy plays a vital role to the success of a development of this magnitude and sort. In the Northeast, especially due to the asset wealth creation in the stock market, the economic impact of strong returns on Wall Street are paramount to the successful timing of a private four-season club in Northern New England. At the time of this paper, the Dow Jones Industrial has risen well above 10,000 and continues an upward climb through the summer of 1999. At the current state of the economy and stock market, there is little concern that exclusive private memberships can be sold to the top income percentage of the target market. However, when the economic condition turns downward, it is well known the value of the secondary home market is negatively impacted. Of utmost concern to the members of such a club is the ability for all members to meet annual obligations on membership dues. Shortfalls in collection of annual dues would have a very negative impact to the ongoing management of a private club when collection arrearages become significant. Thus, the authors' concern is the collection of these large membership dues during an economic downturn. In order to maintain the annual dues at a level deemed reasonable by private club industry professionals, the club will create an operating expense fund from a portion of the initiation fees that will provide annual income to offset some of the annual operating expenses of the club. The target of this paper is to reduce the annual operating dues below a \$7,000 per annum, which is perceived by industry

insiders as the threshold dues amount that is receivable during an economic downturn.⁴⁴ The model has been created with the stated objective to provide all of the aforementioned amenities and services while maintaining the annual membership dues at or below the acceptable threshold of \$7,000 for a four-season club.

Current examples of similarly exclusive private membership clubs incur initiation fees of \$225,000 to \$300,000. Capital Expenditures require \$115,000 from the initiation fees. This model will designate \$50,000 per membership into an operating expense fund, which will generate \$1.625MM per annum to be used to reduce the annual operating expenses. This paper assumes total initiation fees of \$225,000 per membership. Therefore, approximately \$30MM remains from the proceeds of membership sales for acquisition of a viable ski area, developer's profit, any necessary interest payments on construction loans, and a working capital reserve.

The Model in this paper assumes 500 memberships with annual operating costs of approximately \$5M per year. The annual operating dues would be nearly \$10,000 per annum. At present it is impossible to ascertain any profits from a hypothetical private resort as no previous model exists. With no model to detail revenue from guest fees, food and beverage, golf and ski instruction, and other additional services, this model will not attempt to predict actual revenue. Thus, only the income derived from the operating expense fund will be projected against the total operating expenses. Chapter Four projected total operating expenses of \$4.8MM. The income from the operating expense fund, calculated at the yield on thirty-year Treasury bond, is \$1.625MM.⁴⁵

⁴⁴ Peter Diana, *op. cit.*

⁴⁵ Note: currently 6.5%

Consequently, the annual income reduces the expenses to \$3.15MM per year and will set the initial annual dues at \$6,300 per member.

In order to further lower the annual dues, it is imperative that the services at the resort operate as a stand-alone entity and all profits derived from each entity will then help reduce membership dues. The following services will be available to all members at no charge: Alpine Skiing, Snow Boarding, Skating, Cross-Country Skiing, Golf, Tennis, Swimming, and any other typical recreational activity that is accomplished alone. Members will be charged for Ski lessons and rentals, golf lessons, guided hikes and mountain biking tours. The pro-shops for the ski, golf and fitness areas will be run each as a for profit entity with appropriate charges made with all profits, beyond any profit sharing plan with employees and/or managers/pros, defraying operating expenses for the amenity the specific pro-shop is associated with. The Spa & Fitness Center will offer weight training, swimming facilities, tennis, saunas at no cost to members but facials, massages, aerobics classes; personal training will have appropriate costs for those services. Additionally, guests to the resort of members will pay for all services and amenities offered by the resort. For instance, most if not all private golf clubs allow members to bring guests, but the members' accounts are charged for those rounds of golf. The Brea Burn Country Club in Newton, MA charges all non-members \$150.00 per round. The Andover County Club charges all non-members \$80.00 per round and The Salem Country Club charges \$125.00 per round of golf for each non-member. The private four-season resort will realize additional revenue from these services and will likely reduce the annual dues below \$6,300 per member.

CHAPTER SIX - CONCLUSION

A private four-season resort in Northern New England with an initiation fee of approximately \$225,000 and annual membership dues of \$6,300 will succeed provided four factors are present.

First, the economy must continue at a sustainable growth for a five to eight year period. This development project will require two to three years to obtain the proper approvals and permits and an additional three to four years to sell-out the remaining memberships. The entitlement phase may be reduced with the acquisition of an existing mountain; however, the planned construction of new lodge, clubhouse and spa facilities as well as the residential subdivision approvals will still require two to three years of permitting. With an intense marketing campaign that coincides with the permitting process, it is conceivable that the developer may sell a majority of the memberships and commence construction on the residential component of the project within four to five years. Consequently, even in the best case scenario the developer of a private four-season resort must have a strong indication that the economic outlook for the Northeast region will continue to grow or remain stable for the next four to five years.

Second, the resort must provide all of the amenities and services described in Chapter Two. The outdoor lifestyle “pitch” to potential members coupled with the high cost of membership requires that all resort activities be offered. If some of these amenities are not provided, the private resort will have far less likelihood of success. Additionally, many of the activities will cost the developer very little to incorporate into the club’s line-up of amenities. Activities such as mountain biking,

hiking, and to some extent cross-country skiing will require little capital allotment, as most of the facilities required for these sports will already be in place with the construction of the ski area and the golf course. The full array of amenities will attract potential members to the private club.

Third, the location of the private four-season resort must be located in an area that is a second home destination for the affluent metropolitan areas of New York and, to a lesser extent, Boston. Section 6.1 discusses the location requirements in greater detail.

Fourth, sufficient land must be available at the proposed site to incorporate a substantial residential development for the members of the club. This factor may ultimately determine if the land is suitable for the development of the private four-season resort. If the land cannot sustain a residential development of approximately 500 housing units, the resort will not succeed at that location.

6.1 Location and Geographic Layout

As Chapter Two detailed, the trends in the resort business show that a three to five hour drive to a second home resort community is of critical importance to the viability of this type of project. A high-end resort development that markets private memberships to ski enthusiasts will be greatly enhanced by locating in an area where a wealthy enclave of second homeowners and retirees already exist. The preexisting wealth demographics provide a captivated target market to which memberships can be sold. This marketing concept is best exemplified by the exclusive golf clubs

on Nantucket Island and Martha's Vineyard where the marketing is by word of mouth.⁴⁶

The skiable terrain at any potential location is important because the private four-season club features alpine skiing as its major attraction. The target members of this club and their families will most likely be good to excellent skiers. Therefore, any prospective mountain must provide good trails and excellent snow conditions. The ski terrain will benefit from elevations near or in excess of 3,000 feet above sea level and a vertical drop of 1,200 to 1,500 feet. The height above sea level provides a greater chance of snow accumulation and the vertical drop provides the opportunity to create more creative and exciting trails for the member. These factors will increase the prestige and excitement of the membership at the private four-season resort.

Geographically, there are only two areas that meet location requirements: The Southern Vermont area of Manchester, Dorset and Bennington and the Central Vermont area of Woodstock. Both regions can be reached within a five-hour drive from New York City and a three-hour drive from Boston. The Green Mountain region of Vermont offers enough elevation to provide the necessary terrain for a private ski resort to incorporate appropriate trails into the resort.

Evaluating other New England states, Maine and New Hampshire stretch beyond the five-hour time limit from New York City while New York State and Western Massachusetts do not offer proper elevation for excellent skiing. Southern Vermont is approximately one and one half hours closer to New York City by car than Central Vermont and therefore may be considered the better location; however, an appropriate site in either region would work well. Once the location has been identified, an analysis of potential development must be undertaken to determine if the

⁴⁶ Peter Diana, *op. cit.*

required capital costs will align with the estimates developed in Chapter Three.

6.2 Case Study

The capital costs detailed in Chapter Three assume a development project from raw land. As explored previously in this paper, it is very unlikely to develop a new resort, public or private, from a raw piece of land due to the regulatory environment in New England. Notwithstanding the entitlement process, developing an “over-the-top” private resort from raw land may cost far more than by buying an existing ski area. The development costs, detailed in Chapter Three, may reach approximately \$58MM to build a state of the art four-season resort from raw land. An existing ski operation may have trails cut and in good condition, snowmaking, grooming and chairlift equipment operating, and lodge and maintenance facilities in use. Conceivably, the acquisition of an existing mountain in the \$2 to \$5MM range may save the developer significant expenditure in capital improvements. This acquisition would also enable the developer to phase the construction of the project more appropriately. The replacement of an old chairlift could be held off until the membership of the club reached a level where a new lift was needed. At that time the club would have the capital necessary to replace the lift from the membership initiation fees.

Recent acquisitions of mid-sized mountains in New England that are similar in size, skier capacity, and type of skiable terrain to the private resort the authors envision include Ascutney Mountain in Vermont for \$1MM, Magic Mountain in Vermont for approximately \$1MM, and Crotched Mountain in New Hampshire for approximately \$1MM. Although these mountains were purchased in the mid-90’s, we assume that even with a substantial increase in value the acquisition

price will remain below \$5MM.

Exhibit VI - 1 is a case study of the necessary capital costs required to upgrade the amenities and services of an existing mountain to the level of quality described in Chapter Two. The case study is of an existing ski area that is located in one of the two regions previously mentioned and is currently operating, but has an uncertain future. The ski area requests anonymity and is therefore not named. We have projected the total development costs of redeveloping the ski area from interviews with the management team and our own research. The mountain offers a 1,600-foot vertical drop with beginner to expert terrain, and top-to-bottom runs measuring over 3,000 feet long with the longest trail incorporating approximately 7,500 feet. The mountain has 85% snow making coverage with no water issues. The lodges, chair lifts, maintenance facilities and parking areas are in poor, but working condition. The authors assume new facilities need to be constructed. Exhibit VI - 1 details the projected capital expenditures to upgrade this existing mountain to a four season private resort. The projected development costs provided in Chapter Three were utilized as the basis to analyze this particular mountain's necessary capital expenditure requirements.

Exhibit VI – 1: Total Capital Costs

Item	Expenditure
New Lodge (4,000 skier capacity - 40,000 SF)	10,000,000
Spa and Fitness Center	5,000,000
Two new Quad Chair Lifts (3,000 linear feet)	4,620,000
Grooming equipment (2 large and 2 small machines)	800,000
Maintenance Facility (25,000 SF @ \$30 PSF)	750,000
Skating Facility	1,800,000
Nordic Skiing Center	200,000
Parking Facilities - gravel	340,000
Ancillary equipment – trucks, plows, snowmobiles, etc.	2,000,000
Additional snow making equipment (70 skiable acres)	3,500,000
Additional road improvements	2,500,000
TOTAL Capital Improvement Costs	\$ 31,510,000

Total development costs includes all of the amenities and services except for the construction of the golf course and its' related facilities. Assuming an acquisition cost of \$3MM and capital improvements of \$31.5MM the above detailed case study of the four-season private at this specific location requires approximately \$35MM in capital expenditure as opposed to developing a resort from raw land for \$51MM exclusive of the golf facility. Nearly 45% of the total development costs are for the ski lodge and the spa facility and the construction estimates already include soft costs and contingencies. Therefore, soft costs need only be added to the remaining \$20MM of development of this project, and assuming 20% soft costs brings the total development costs in our case study to \$39MM. The case study incorporated in this chapter provides a \$12MM cost savings over building a private resort from raw land. The cost savings may be dedicated to a reduction in membership initiation fees, developer profit, and/or maintained for additional contingencies and the operating expense fund to further lower annual membership

dues which is recommended by this paper. The memberships will be sold by what the market will bear and developer profit is already included in the \$225,000 initiation fee. Furthermore, the projected initiation fees may climb far above \$225,000 which provides the developer with substantial upside potential for development profit. Equally as important to the cost savings associated with buying an existing mountain is the time savings for delivery of the private resort. With upgrades to the lodge and additions of the spa and fitness center, the resort could commence almost immediately, thereby greatly reducing the sell-out phase from six to eight years to two to four years.

The golf course development has been removed from the case study in Exhibit VI - 1 for two reasons. First, most existing ski areas do not have golf courses at present; permitting and construction will be a three to five year window whereas all of the other recreational components can be immediately offered. Second and more importantly, a first-rate golf course is located within two miles of the base lodge of the ski area. As in the analysis of redeveloping an existing ski area, it may be more cost efficient to purchase an existing golf course rather than build one from raw land. The initiation fees, established in Chapter Five, include capital costs for the development of a \$9MM golf course. An outright purchase of an existing golf course or a partial investment to create a quasi-private club will most likely be less expensive than building a new course as exemplified by the case study presented in this chapter.

The owners of the adjacent golf course were interviewed previously and will also remain anonymous. The current capital investment into this course is approximately \$3MM. A \$4 to \$5MM offer would receive considerable attention. The only upgrade necessary at this particular

course is at the clubhouse, which is decent but not first-rate. Assuming a construction cost of \$250 per square foot for a 4,000 square foot facility, the renovation of the clubhouse would cost \$1MM and the total investment in the golf component would be \$6MM. If arrangements can not be made for exclusive use, necessary only on weekends and holidays, the private resort has sufficient funds to build a private course. Once again, any cost savings can be utilized to increase the operating expense fund, thereby reducing annual membership dues.

This paper concludes that upgrading an existing mountain would realize capital expenditure savings and shorten the proposed construction and development period.

6.3 Further Research

The focus of this paper has been to build a theoretical model of a private four-season resort community in Northern New England. The model contains the prescribed level of services and amenities described in Chapter Two as well as the financial components to build and operate such a resort. The framework for the club is in tact with initiation fees of \$225,000 along with annual membership dues of \$6,000. However, a critical component is missing from the theoretical model. As Chapter Two described in the section under the heading “Trends”, the desire of the babyboomer generation to have a second home in an area where their favorite recreational activities is offered creates the demand for a private four-season resort. In order for the private four-season resort to succeed, appropriate residences must be offered to complete the model.

This paper assumes a combination of real estate options, similar to those offered by The Yellowstone Club, including townhouse condominiums, free standing single family houses, and

attached single family housing will offer the proper array of housing types desired by the members to this private resort.

The model of the aforementioned private resort anticipates 500 family memberships; therefore, the resort must sustain development of 500 units of housing. Just as the private resort will provide appropriate returns to the developer for undertaking the risk, the residential component to this project must also be analyzed on its own merits and provide the developer with the appropriate risk adjusted returns. Single family house prices at the larger resorts in Vermont presently are starting at \$300,000. Single-family house lots are selling at locations such as Stratton Mountain, Okemo Mountain and Manchester, Vermont for approximately \$150,000 to \$225,000.⁴⁷ The case study mountain researched for this paper has additional property around the ski area, which could be developed as a residential area.

Additionally, the redevelopment of a mid-sized existing mountain to an exclusive private resort raises several social issues that any developer must take into account. First, the marginal mountains usually have a portion of their clientele who are locals from the area. The private resort will indoubtably exclude the locals from using the mountain since the cost of membership will price the locals out of the club. Second, the local townspeople will be displeased with an affluent crowd from New York City and Boston overtaking their small communities during the busy season. This will lead to local opposition and permitting problems. Third, it has become very difficult to staff employees at the higher-end resorts. In fact many of the resorts in Manchester, VT, Nantucket, and Martha's Vineyard now hire seasonal help from places such as

Ireland and Jamaica in order to have enough help during the busy season. This imported staff must be provided housing as part of the employment contract. For example, the Nantucket Golf Club constructed a 42-bed employee lodge at the club to insure the club's ability to provide adequate housing for their employees. Possible solutions to the social issues include the obvious necessity to include employee housing and offering the facilities to local programs and schools.

6.4 Conclusion

The purpose and goal of this paper was to explore the potential of the private four-season resort concept. The authors conclude that the model detailed in this study may be successful and that the concept is viable given that the economic conditions, the level of amenities, the location demands, and the residential components are fulfilled.

⁴⁷ Note: Real Estate advertisements from Stratton Magazine, Summer Edition

APPENDIX

Appendix A

Region	State	
Northeast	Maine	Sunday River Ski Resort
	New Hampshire	Attitash Bear Peak
		Cranmore Resort
		Gunstock Area
		Loon Mountain Recreation Corp.
		Wildcat Mountain Ski Area
	Vermont	Bromley
		Killington/Pico Ski Area
		Mount Snow Resort
		Okemo Mountain Resort
		Stowe Mountain Resort
		Stratton Mountain
		Suicide Six Ski Area
	Massachusetts	Jiminy Peak - The Mtn. Resort
		Wachusett Mountain Ski Area
	New York	Holiday Valley Resort
Ski Windham		
Southeast	Pennsylvania	Big Boulder Ski Area
		Camelback Ski Corporation
		Elk Mountain Ski Resort, Inc.
		Jack Frost Mountain
		Seven Springs Mountain Resort
		Shawnee Mountain Ski Area
		Ski Liberty
		Ski Roundtop
	Virginia	Bryce Resort

Midwest

South Dakota	Terry Peak Ski Area
Minnesota	Buck Hill Powder Ridge Ski Area Spirit Mtn. Recreation Area Welch Village Ski Area, Inc.
Wisconsin	Cascade Mountain Ski & Snowboard Area Tyrol Basin Ski & Snowboard Area
Michigan	Crystal Mountain Resort Skyline Ski Area
Iowa	Sundown Mountain Ski Area
Illinois	Ski Snowstar
Indiana	Paoli Peaks, Inc.
Ohio	Boston Mills/Brandywine Ski Resort

Rocky Mountain

Montana	Big Mountain Ski & Summer Resort Bridger Bowl Ski Area Montana Snow Bowl Red Lodge Mountain
Wyoming	Grand Targhee Ski & Summer Resort Jackson Hole Ski Corporation
Colorado	Arapahoe Basin Beaver Creek Resort Breckenridge Ski Resort Copper Mountain Resort Crested Butte Mountain Resort Eldora Mountain Resort Keystone Resort Loveland Ski Area Monarch Ski & Snowboard Area Purgatory Resort Silver Creek Ski Resort Steamboat Ski & Resort Corp. Sunlight Mountain Resort Telluride Ski & Golf Company Vail Mountain Winter Park Resort Wolf Creek Ski Area
New Mexico	Sandia Peak Ski Area

		Ski Santa Fe Taos Ski Valley, Inc.
Idaho		Bogus Basin Ski Resort Silver Mountain Ski & Summer Resort
Utah		Brian Head Resort Deer Valley Resort Company Park City Mountain Resort
Pacific West		
Nevada		Diamond Peak Ski Resort Mt. Rose Ski Area
Arizona		Arizona Snowbowl
California		Alpine Meadows Ski Area Bear Valley Ski Area Boreal Ski Area Dodge Ridge Ski Area Heavenly Ski Resort Kirkwood Resort Company Mammoth Mountain Ski Area Mt. Shasta Ski Park Northstar-at-Tahoe Sierra-at-Tahoe Ski Resort Soda Springs Ski Area Squaw Valley Ski Corporation Sugar Bowl Ski Resort
Oregon		Hoodoo Ski Area Mt. Bachelor, Inc. Mt. Hood Meadows Ski Resort Mt. Hood SkiBowl Timberline Ski Area
Washington		Stevens Pas Inc. The Summit at Snoqualmie

Appendix B

	1997/98 TOTAL	1996/97 TOTAL
Mountain Operations		
Lift Operators	\$ 458	\$ 490
Ski Patrol	\$ 115	\$ 125
Grooming	\$ 115	\$ 113
Lift Maintenance	\$ 155	\$ 153
Vehicle Maintenance	\$ 115	\$ 106
Ticket Sales/Checking	\$ 99	\$ 91
Snow Making	\$ 207	\$ 163
Snow Removal	\$ 25	\$ 19
Other	\$ 183	\$ 259
TOTAL Mountain Operations	\$ 1,472	\$ 1,519
Ski School	\$ 252	\$ 262
Food & Beverage	\$ 940	\$ 970
Retail Stores	\$ 204	\$ 232
Rental Shop	\$ 209	\$ 187
Accommodations/Lodging	\$ 431	\$ 292
Real Estate	\$ 154	\$ 187
Misc. (Financial)	\$ 17	\$ 2
Other (Operating Departments)	\$ 220	\$ 197
Workers Comp.	\$ 34	\$ 21
TOTAL excluding Common Expenses	\$ 2,461	\$ 2,350
General & Admin. Dept.	\$ 708	\$ 812
Marketing	\$ 381	\$ 383
Property Operations	\$ 370	\$ 338
TOTAL for Common Expenses	\$ 1,459	\$ 1,533
TOTAL	\$ 5,392	\$ 5,402

Appendix C

	1997/98 TOTAL	1996/97 TOTAL
Mountain Operations		
Lift Operators	5.5%	7.6%
Ski Patrol	1.3%	1.4%
Grooming	1.3%	1.8%
Lift Maintenance	1.9%	2.1%
Vehicle Maintenance	1.6%	1.8%
Ticket Sales/Checking	1.0%	0.8%
Snow Making	6.0%	5.0%
Snow Removal	0.4%	0.3%
Other	3.6%	6.9%
TOTAL Mountain Operations	22.4%	27.7%
Ski School	5.1%	4.7%
Food & Beverage	11.3%	10.8%
Retail Stores	7.9%	7.2%
Rental Shop	1.6%	1.4%
Accommodations/Lodging	10.5%	9.4%
Real Estate	7.2%	4.5%
Misc. (Financial)	0.1%	1.8%
Other (Operating Departments)	5.8%	7.2%
Workers Comp.	0.9%	1.0%
TOTAL excluding Common Expenses	50.6%	47.9%
General & Admin. Dept.	11.2%	10.9%
Marketing	8.9%	8.8%
Property Operations	6.9%	4.6%
TOTAL for Common Expenses	27.0%	24.3%
TOTAL	100.0%	100.0%

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