

October 30, 2009

Ms. Becka Green
Director of Commercial Leasing
Vail Resort Development Company
137 Benchmark Road
Avon, CO 81620

Re: Ever Vail Retail Analysis

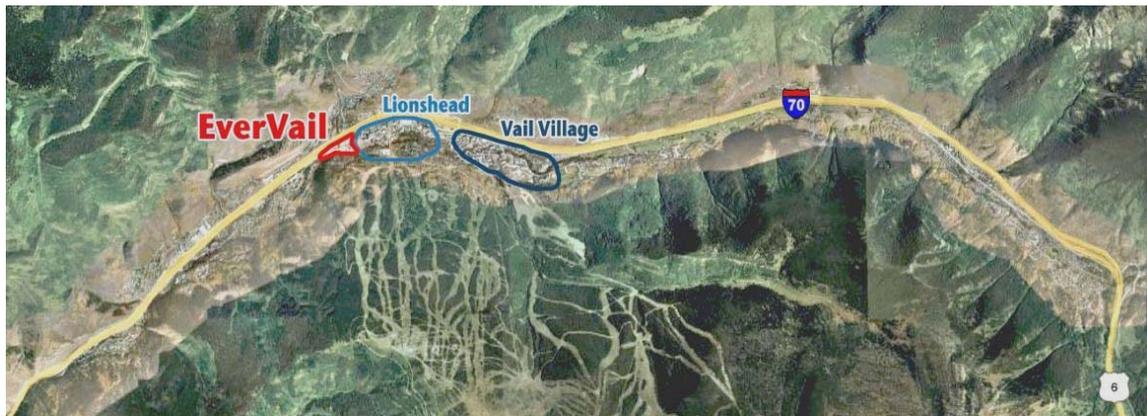
Dear Ms Green:

This letter report is in response to your request for an evaluation of retail development opportunities at the Ever Vail site in Vail, Colorado. Development recommendations are made based on market conditions, site considerations and the broader development objectives of the Ever Vail project.

Background

Ever Vail is a new base village/neighborhood on the west end of Vail Village that will offer a fifth ski lift portal to Vail Mountain. As currently proposed, Ever Vail will have 358 dwelling units, 120 accommodation units (hotel rooms) and 48 employee units. Ever Vail will also provide 77,000 square feet of needed ski area maintenance space (within the underground parking structure) and approximately 50,000 square feet of ski school, children's center and company offices. An underground parking facility will provide 1,551 spaces that service accommodations, day visitors and customers for Ever Vail commercial businesses.

Exhibit 1. Ever Vail, Lionshead and the Vail Village Core



According to Vail Resort Development Company (VRDC), Ever Vail will target a youthful, family-oriented market and will be the most environmentally-sensitive village project ever completed in the western mountain resorts. The Ever Vail concept is thoroughly presented in other VRDC documents.

Study Objectives

Over the past few months, VRDC and BBC representatives, along with affiliated planning consultants and town staff, have shared ongoing discussions about how commercial activity, visitor services, retailing and restaurants fit into the Ever Vail concept and what scale and mix of retail offerings make the most market, financial and conceptual sense for this proposed neighborhood.

BBC has been asked to recommend a market-based retailing concept with recommendations for development scale and tenant-orientation that can succeed at the Ever Vail site and will successfully support new Ever Vail guests and residents.

Ever Vail Retail Objectives

In considering a retail strategy for Ever Vail, there are three key project considerations. At a minimum, Ever Vail needs to provide:

- Convenient and diverse retail and restaurant services at an appropriate scale for the new 526 unit village residential development;
- Necessary skier services (i.e., rentals, ski shops, clothing, restaurants) for persons using Ever Vail for mountain access; and
- Successful community gathering and public spaces that help activate the village and support Ever Vail's broader market positioning.

Ever Vail's retailing component needs to be of sufficient size to offer choices and foster competition, but small enough to allow individual stores to be successful and to keep supply in-line with demand. The town's requirement that the ground floor of buildings house retail and related visitor services is also a consideration.

Resort Retail Trends

For many years, ski resort retail sales have tracked well with the growth of destination skier visits, which in turn correlated well with growth in the local bed base. Generally, as the resort bed base grew, skier and visitor activity responded and retail sales expanded in a fairly predictable pattern. In recent years, resort retail performance has become stable and less predictable. Continuing trends in visitor demographics (older and wealthier); expanding down valley competition; changes in national retailing practices; and an increasing presence of second homeowners—as opposed to transient guests—have all combined to alter demand and supply patterns.

The dramatic economic downturn of 2008-2009 has added another layer of uncertainty to resort commercial health, further obscuring functional relationships between visitor activity and retail demand.

Western mountain resorts. Generally, retailing is a responsive/reflective industry: good store operators and restaurateurs continually modify their offerings and services in response to subtle market changes. Retail centers evolve collectively, as each store owner repositions individual businesses. Over the past decade, across western destination resorts, a few broad retailing patterns are evident:

- Resident oriented retail and services have migrated down valley away from the core resorts seeking lower costs space, generous parking, convenience and proximity to resident population centers;
- Resort lease costs have risen dramatically and property owner tenancy strategies have become more sophisticated. As a result of these fixed cost pressures, there are fewer local start-up stores and less retail/restaurant experimentation. Within most resorts, store diversity has diminished;
- Restaurants have notably increased their share of most resort retail centers. Higher-end, “white table cloth” restaurants in particular have increased market share, in part, reflecting an aging visitor demographic;
- Sporting goods stores selling recreational hard goods, once an essential element of a ski resort retailing, have placed greater emphasis on soft goods and casual wear, effectively consolidating what were once multiple retail outlets and further limiting the diversity of offerings;
- Bars and entertainment, a 1970s and 1980s staple, have lost significant presence in most resorts;
- Household goods, kitchen home furnishings and related design services have expanded their presence in-line with increasing second home personal use. This growth will likely slow in response to diminished real estate activity;
- High-end jewelry, women’s clothing and designer goods have generally increased their share of the resort retail core, but not universally; and
- Restrictive community growth policies have dampened commercial development, limiting supply, and fostering higher rents.

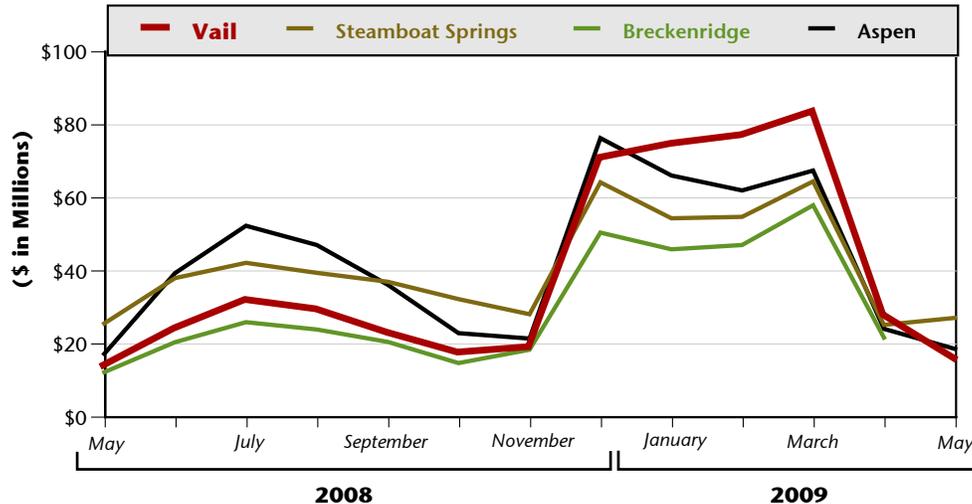
As a rule, after many years of rapid retail sales growth in the 1980s and early 1990s, the pace of resort community retail growth moderated dramatically in the mid-1990s. Even during the very expansive real estate markets of the past decade, annual retail sales in most resort communities experienced very low or stable growth rates.

Town of Vail. The national economic challenges of the last year have had dramatic repercussions for all aspects of the resort economy. In Vail, and in virtually all western mountain resorts, all measures of economic activity for 2009 declined significantly. During the winter of 2008-2009, Vail hotels and lodging sales were down over 22 percent from the prior seasons, retailing was down about 21 percent, while restaurants lost about 7 percent of sales. Vail's overall retail performance, as measured by retail sales tax collection, was nevertheless, stronger than majority of other western mountain resorts.¹

There is no consensus on the likelihood, timing or nature of national or regional economic recovery.

Exhibit 2 shows recent sales activity in the four largest Colorado resort communities and documents their comparative size and seasonality patterns over the past two years. Vail's reliance on winter trade, and its more pronounced seasonality are notable.

**Exhibit 2.
Taxable Sales**



Source: State of Colorado Department of Local Affairs; State Sales Tax Collections.

Even prior to 2008-2009, complaints were common that the retail/commercial core of most western ski resorts had lost vitality, store diversity and interest. Down valley competition, homogeneity and gentrification had taken a toll on core area vibrancy. Until last year, employee quality and employee retention were difficult operating challenges for most resort retailers. Even in the most prosperous resorts, retailers and restaurateurs addressed workforce issues by closing earlier and operating fewer hours, often lowering service standards. Very high lease costs discouraged new retailers and exacerbated the homogenization of resort offerings.

¹ Mountain Travel Research, *Market Update, July 2009*, prepared for the town Vail Office of Economic Development.

Vail retailing has weathered these pressures better than most resorts. The revitalization of Lionshead has been well received and despite the last year's early season economic pressures, the area's commercial core continues to function well. Summer business generally exceeded expectations. The town has reinvested in both Lionshead and Vail Village commercial areas with improved streetscapes, access and loading systems. West Vail's grocery and locally oriented retail is a valuable stabilizing influence that stems some of the down valley leakage.

Despite the challenges of the last year, Vail's commercial vacancy rate is low and the town has aggressively and effectively capitalized on its ability to draw upon both regional and destination markets. Vail remains the largest community retail market of all Colorado resorts. The town maintains approximately 630,000 square feet of retail space in three commercial clusters. Each of the town's retailing centers offer sufficient scale and market differentiation to present a cohesive and definable destination. Below, Exhibit 3 shows the distribution of retailers by area and category of use.

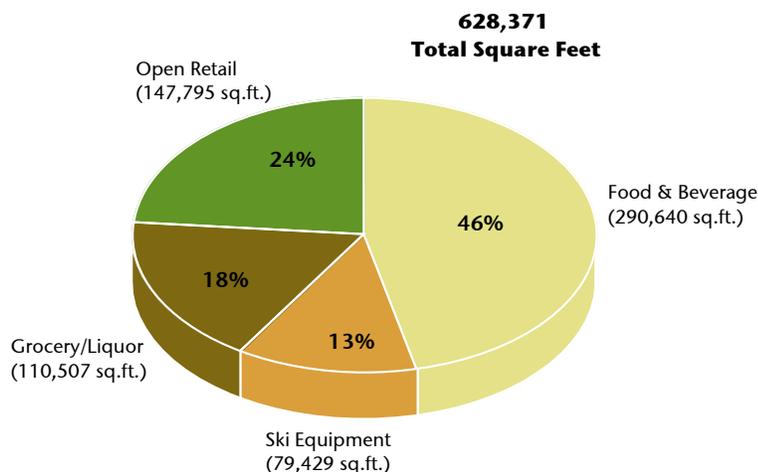
Exhibit 3.
Vail Retail Distribution by Category and Square Feet, 2008

Category	Golden Peak/Vail Village		Lionshead		West Vail	
	Number of Retailers	Square Feet	Number of Retailers	Square Feet	Number of Retailers	Square Feet
Food & Beverage	54	205,310	21	58,480	11	26,850
Gallery/Art/Books	14	20,735	0	0	0	0
Clothing/Fur	32	47,591	8	12,945	0	0
Jewelry	12	8,472	2	3,175	0	0
Ski Equipment	14	35,935	16	27,834	2	15,660
Grocery/Liquor	2	1,362	1	992	4	108,153
Gift Shop	6	6,038	3	2,363	0	0
Eyewear	2	1,098	1	325	0	0
Miscellaneous	14	10,210	6	10,227	11	24,616
Total	150	336,751	58	116,341	28	175,279

Source: Town of Vail, design Workshop; Vail Resorts.

Exhibit 4 on the following page shows Vail's retail structure by retail category. The dominance of food and beverage and ski shops is notable and typical of most western destination resorts. Conversely, the presence of two major grocery stores is both unusual, by resort standards, and advantageous.

**Exhibit 4.
Vail Retail Space, 2008**



After many years of construction, Lionshead is now revitalized and again fully functioning. As the Vail Renaissance is completed, the community's retailing environment will expand and continue to evolve. The new retail space at Solaris Plaza, scheduled to come on-line in 2010, will provide over 70,000 square feet of new attractions and services, as well as additional restaurants and retail goods—potentially altering many long-standing town consumer patterns.

Ever Vail will enter the market against this backdrop of a large and reasonably healthy retail environment, which continues to change and evolve in response to economic conditions.

Ever Vail Site Analysis

Ever Vail retail offering will enter a large market with significant competition and with many established retailers. As with all new sites, the Ever Vail location presents both constraints and opportunities.

Site advantages. Ever Vail has several positive locational attributes as a retail environment.

- **New construction.** As an entirely new project, Ever Vail can be “right-sized” and carefully designed to provide a market-driven retail environment with appropriate locations and scale for each store category. Most resort retail occurs in retrofitted areas or collections of small stores that often can't optimize space efficiency and character.
- **Captive bed base.** Regardless of competitive considerations, Ever Vail, with over 400 dwelling units, a large hotel and over 100 full-time resident employees, requires convenient retail, entertainment, and food and beverage services in order to provide customary and necessary services to residents, guests and homeowners. The hotel will require internal food and beverage offerings and convenience-retail for their guests. The Ritz-Carlton Residences, Vail Resorts, Inc. at Ore Creek Place are conveniently situated just east of Ever Vail and residents and guests of these two projects will be likely to accept Ever Vail as their most convenient retail and restaurant option. This effectively adds an additional 120 units into the immediate Ever Vail market area. Day skiers are expected to use this portal because of convenient parking and quick access to the mountain.

- **Mountain portal** Ever Vail parking will provide roughly 1500 accommodating residents, hotel and condominium guests, day skiers and visitors who will also require an array of clothing, convenience retail and morning food services. Parking pricing will be similar to other Vail facilities with pricing structures that relies on skiers but also accommodates short-term, inexpensive parking in support of retail are anticipated. The Ever Vail structure has the potential to be the most convenient parking in Vail in terms of close proximity to lifts.
- **Office space.** In addition to mountain support and equipment maintenance operations, Ever Vail will provide 33,000 square feet of office space, approximately 16,000 of which will be used by Vail Resorts, Inc. The maintenance and office worker presence, which will mean over 150 workers a day will be present in the Village, will and provide additional day time vitality and lessen seasonality.
- **Other attractions.** Ever Vail plans a major 20,000 square foot spa, housing for over 100 workers, a multi-season children's center and ski school center. Ever Vail will be an employment center, particularly given the underground mountain support and maintenance area. These functions will add to the liveliness and overall retail support for the area.

Site disadvantages. The Ever Vail project also presents challenges as a platform for retail development.

- **Isolation.** Ever Vail is isolated from the rest of town. It is unlikely that Ever Vail will draw a significant share of visitors from Village Core or Lionshead without unique offerings or other attractions.
- **Lack of skier egress.** Skiers will not return to Ever Vail by traditional ski terrain but will have full downloading access via the Ever Vail gondola. Two download collection points are currently anticipated ensuring appropriate flexibility for all levels of skiers. It will be important for Vail Resorts to provide good signage to these download locations in order to support retail trade stores and bars and restaurants that rely on high volume après ski trade.
- **Small captive bed base.** The 400 units proposed at Ever Vail is a small segment of the town's bed base and can't support all Ever Vail retail on its own.

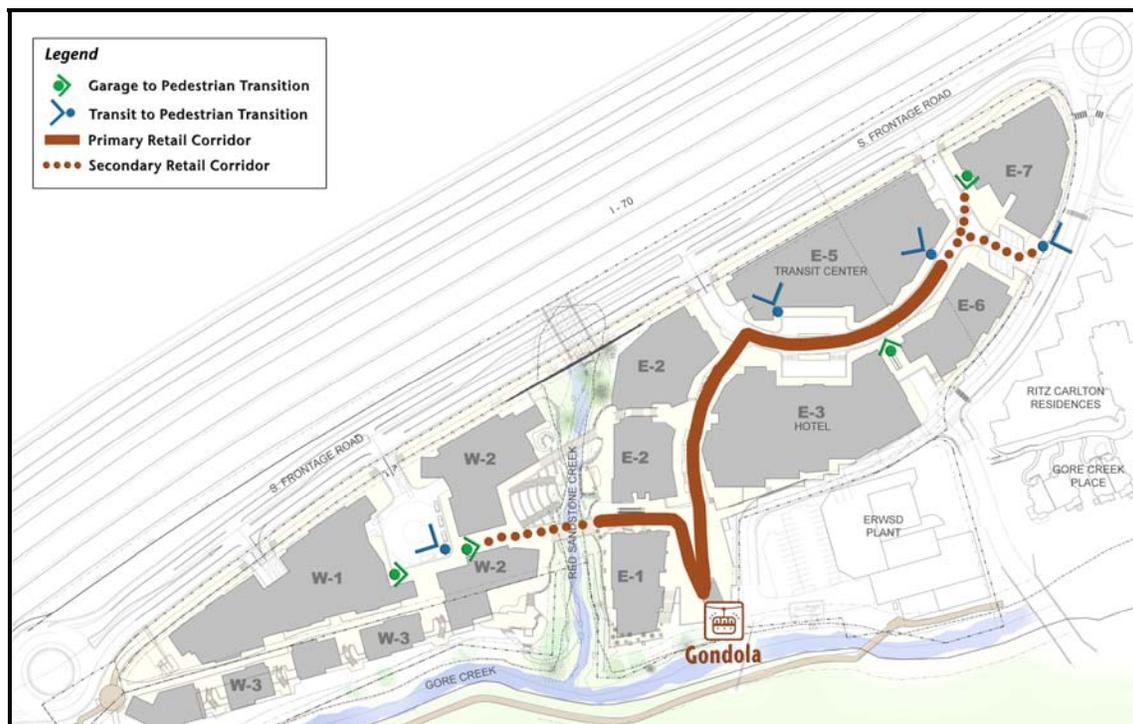
Site physicality/connectivity. The physical attributes of the development also define its commercial/retail development potential.

- **Configuration.** The Ever Vail site is narrow and tightly bounded by Gore Creek on the south and the Vail Frontage Road and I-70 on the north, effectively creating a linear, east to west project.
- **Contiguity.** The western edge of the property has no further urban development potential. Cascade Village, which is approximately one half mile west of the Ever Vail edge, has road and bikeway connections to the project, but offers no substantive retail or market influence. The east pedestrian access crosses Forest Road and requires a 500-yard walk and then entry to Lionshead through its backdoor—a less than ideal connection.

- **Visibility.** Although Ever Vail is visible to the highway, interstate access is a considerable distance away and access will not be entirely intuitive for travelers unfamiliar with the area.
- **Gondola.** In most mountain resorts the pedestrian connection between the mountain and parking creates the most promising retail corridor (e.g., Bridge Street in Vail Village). In this instance, the traditional retail corridor between the mountain and visitor parking is dispersed because there are two visitor-parking garages with multiple exits that will likely diffuse pedestrian traffic. At least in winter, the project's major organizing network will likely be the pedestrian connection between the gondola and the surface transit systems.

Below, Exhibit 5 offers a simple diagrammatic representation of these concepts. In the winter, the gondola access will be the pedestrian focus. Skiers and guests will enter the area by way of the garage exits or transitions from the transit center. These patterns reinforce a short but concentrated retail corridor along buildings E-1, E-2 and E-3.

**Exhibit 5.
Ever Vail and Gondola Connections**



In sum, resort-retailing environments are continually responding to broader market changes. Even before the recent economic downturn, western mountain resort retail centers faced difficult market conditions and have struggled to achieve substantive growth for many years. Simply adding new residential units, which the resorts have done consistently for nearly two decades, has not translated into similar levels of retail growth or more diverse, prosperous and active downtowns. A retail component is needed at Ever Vail in order to provide necessary guest and resident services but Ever Vail is in some ways a challenging retail site, and there are other commercial centers in Vail that are well established and will remain well positioned to provide the majority of Vail's retail services.

Current retail market conditions are difficult and simply replicating the standard resort mix of base area tenants, without regard to the limitations of this site or the challenges of the broader market, are unlikely to provide a successful strategy. Ever Vail will likely be the first major new ski village project to face these long standing retailing challenges in combination with the new challenges presented by the economic realities of 2009 and the foreseeable future.

Retail Development Strategies

BBC considered multiple strategies in evaluating Ever Vail retail prospects.

OPTION 1 — Minimalist. In our view, a minimalist retail strategy at Ever Vail would focus on the gondola oriented retail corridor, shown in Exhibit 5, with the intention of filling the basic retail needs of Ever Vail residents and guests. This would require only about 45,000 square feet of space and could satisfy—but perhaps not optimize—the basic requirements of Ever Vail guests and owners. The hotel would supplement some of these public offerings with internal restaurants and shops. In this scenario, Ever Vail would be more of a residential neighborhood and the pedestrian core would be smaller and less commercially ambitious. The downside of this strategy is that:

- Owners and guests would have very few restaurant and retailing options, potentially diminishing the attractiveness of the overall project and value of the residential neighborhood;
- The seasonality inherent in this strategy would limit retail success and with limited offerings peak period demands might be underserved; and
- The concept of youthful, vital public spaces inherent in the Ever Vail plan would be undermined.

In sum, a minimalist retailing effort would under serve the area and potentially undermine the overall project's success. A rough measure of the minimal retail requirements associated with residential development and mountain access needs at Ever Vail is set forth in Exhibit 6.

Exhibit 6.
Ever Vail Retail Demand –Food and Beverage, Sporting Goods, General Retail

Lodging Category	Units	Average Persons Per Unit	Annual Occupancy	Annual Person Days	Annual Retail Sales (\$ millions)
Hotel Rooms	120	2.0	60%	52,400	\$ 6.29
Condominiums	358	3.5	35%	159,600	19.12
Resident Housing	48	2.0	90%	N/A ⁽¹⁾	0.50
Ritz / GC Place / Vail Spa	120	3.5	35%	53,655	6.43
Total Units / Resident Sales	674				\$ 32.34
Day Skier Sales⁽²⁾					\$ 2.10
Total Annual EverVail					
Associated Retail Demand					\$ 34.44
EverVail Sales					
Capture Rate	40%				
Sales per Sq. Ft.	\$ 300				
Supportable Retail Space (Sq. Ft.)					45,900

Note: (1) Employees: \$5,000 per person per year.

(2) Average: 300 day skier parking spaces @ 2.6 pers./space X 140 days X \$15/person in retail spending.

See Appendix A for derivation of estimated daily visitor retail spending.

Source: BBC Research & Consulting, 2009.

Assuming reasonable unit occupancy rates and a conservative retail capture assumption, the development ultimately expected at Ever Vail could support an estimated 45,000 square feet of development, which would be composed largely of restaurants, convenience goods, skiing/recreation equipment and clothing. This represents a retailing model that relies primarily on Ever Vail guests. This strategy would also present difficult seasonality challenges for retail operators.

OPTION 2—Additional anchor tenant. In order to expand beyond basic resident/guest services, support a more engaging pedestrian environment and allow less seasonal retail operation. Ever Vail needs a second retail attraction and market anchor—one that expands the market, supports summer business and enhances street level vitality.

In our view, the Ever Vail site is too far from the majority of Vail Village accommodations to suggest promoting a large and diverse retailing core that could offer the scale and product diversity necessary to draw large numbers of visitors from elsewhere in Vail, and successfully compete with Lionshead and Vail Village. Instead, after internal discussions about the merits of various alternative attractions, we support the introduction of a “Fresh Market”—conceptually, a small Whole Foods—at site E-7.

The grocer/market would achieve multiple objectives:

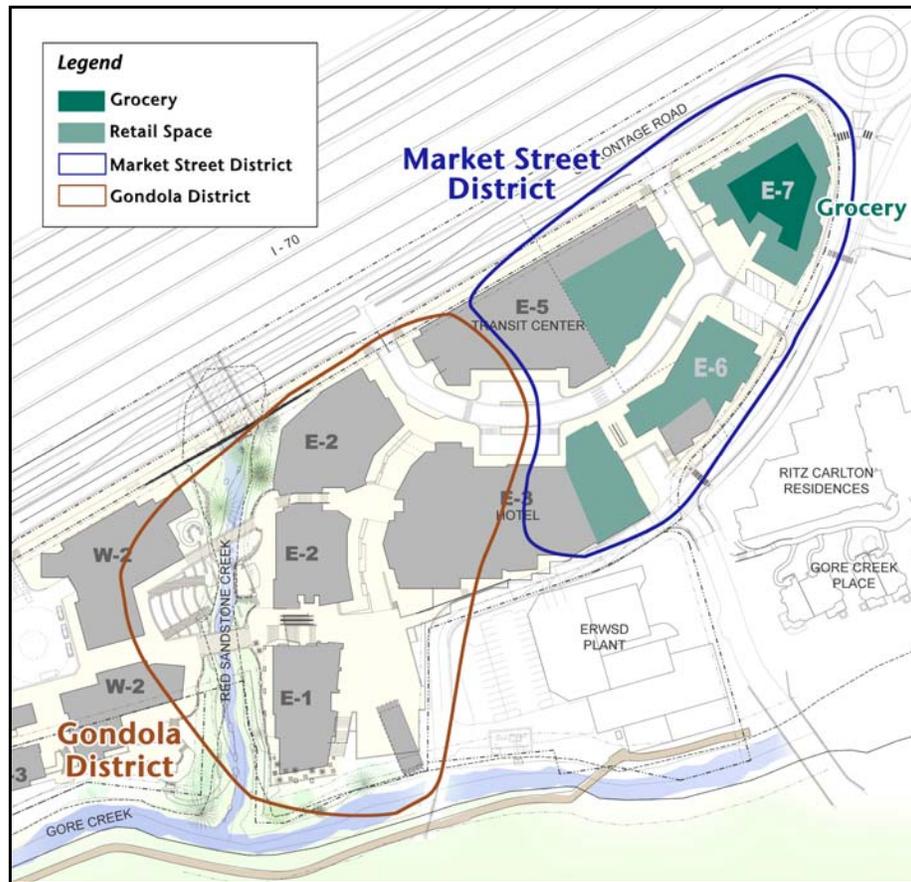
- Introduce a new retail element into the larger Vail marketplace, which is not entirely duplicative of other offerings;
- Introduce an anchor retailer into Ever Vail that will attract patrons from a wide area without cannibalizing other businesses;
- Expand the summer attraction for Ever Vail retailers;

- Add a year-round anchor tenant at a location that reinforces the natural pedestrian flows within the Ever Vail complex; and
- Significantly expand the Ever Vail market beyond ski-oriented conveniences for Ever Vail residents and guests.

The Lot E-7 site offers an excellent location for this store. It is close to the east end of the project and the remainder of Lionshead, and it balances the Ever Vail retail core with a small unique grocery at one end and mountain access on the other. A convenient specialty grocer with on-surface parking and market appropriate goods also allows other locally serving businesses to consider an Ever Vail location, effectively benefiting from the retail synergy typically associated with a grocery anchor.

Exhibit 7 on the following page shows Ever Vail and the two retail districts; Market Street District and the Gondola District.

**Exhibit 7.
Ever Vail and
the Two Retail
Districts**



It should also be noted that the success of the grocery and the concept for a diverse locally oriented retail center is in part dependent upon either surface parking and surface access incorporated into the Market Street design, or reliable, convenient structured parking dedicated to Market Street customers. Additional on-street parking would enhance convenience and visibility for the Market Street shops and encourage patrons to make quick stops and more regular visits.

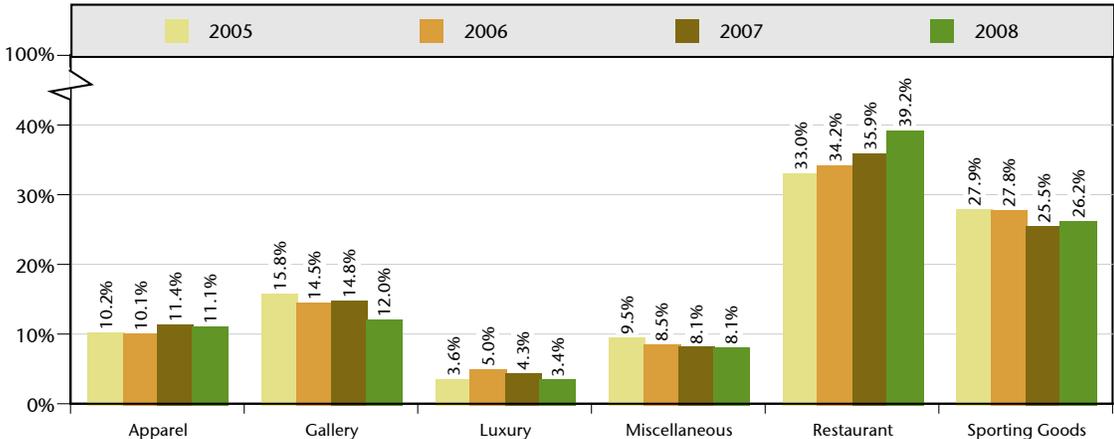
The Market Street shops can accommodate about 20,000 square feet in the storefronts along Market Street ending at the Fresh Market E-7 site. The Fresh Market is designed at 14,000 square feet, suggesting a total addition of 34,000 square feet of retail and restaurants anchored by the grocery. Potential tenants include: additional pizza, sandwiches or similar casual food; liquor store; drug store; as well as any variety of establishments that serve residents, guests and visitors, particularly stores that might otherwise locate down valley. In sum, with the strategies suggested here, we foresee a need for approximately 70-80,000 square feet of all forms of retail, including grocery, restaurant and general retail trade.

Tenant mix. Traditionally, the tenant mix of ski resort retail has been reasonably predictable and reflected the general trends discussed previously. Restaurants tend to dominate spatial requirements followed by ski shops and with recreational apparel.

Vail’s current tenant mix (see prior Exhibit 3) reflects a strong reliance on food and beverage and a substantial amount of grocery space—the result of having two large grocery stores in west Vail.

Beaver Creek, which is in some ways more of a pure resort retail market with only minor outside influences, portrays a more tourist-oriented mix of tenants with a notable absence of groceries, and considerably more apparel and gallery space.

Exhibit 8.
Retail Sales by Category, Beaver Creek, 2005-2008



Source: Vail Resorts Development Company.

The growth in restaurant trade, referenced previously, is also evidenced in Beaver Creek.

Ultimately, the market will determine the tenant mix at Ever Vail. Given the characteristics previously described, we would expect restaurants and sporting good stores to dominate the retail mix, accommodating 35 percent and 25 percent of the 75,000 square foot total, respectively. With a 14,000 square foot floor plate, the grocery store will absorb about 18 percent of total retail space, leaving about 17 percent for affiliated convenience retail and specialty goods.

Summary

- Ever Vail requires a core level of commercial activity, including a mix of restaurants, bars, skier services and general retail, in order to provide basic services for Ever Vail skiers, residents and guests. This basic function could probably be accomplished with 40-50,000 square feet of retail space, which would largely be ski shops and restaurants.
- The proposed hotel requires an internal restaurant and bar, or perhaps two restaurants, to ensure that guests have appropriate services and convenience associated with resort offerings. In this current market, these offerings are likely to include a pool, workout area, sundry shop and spa, which dictate a small amount of in-hotel retail businesses as well. This function could probably be accomplished with 5-8,000 square feet of hotel retail and restaurants.
- The overall Ever Vail experience would benefit from a more robust retail offering, additional attractions, and greater diversity of bars and restaurants than the minimal amount needed to service local guests. The concept of a Fresh Market (specialty grocery) is an attractive anchor prospect as it potentially broadens the market and lessens reliance on winter skiers/tourists.
- We believe that a small unique grocery could anchor a convenience oriented district that would provide services for guests and residents and take advantage of Ever Vail parking, which will be underutilized outside of peak ski season.
- In total, the gondola portal and Ever Vail residential, plus the small grocery market, will support an estimated 70-80,000 square feet of retail development at completion of the project.
- Vail Resorts will have to accept low financial returns on retail leasing in the project's initial development stages until the Ever Vail bed base reaches maturity.

We appreciate the opportunity to participate in this discussion and look forward to seeing a vital and successful Ever Vail project lead the way in the new-era, mountain resort market.

Sincerely,

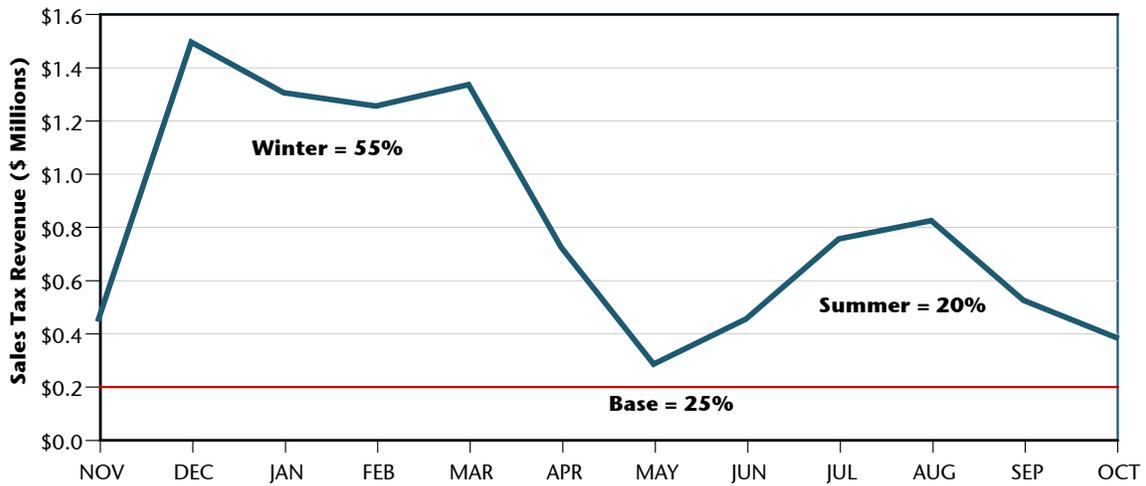
A handwritten signature in black ink that reads "Ford C. Frick". The signature is written in a cursive, flowing style with a large initial "F" and "C".

Ford C. Frick
Managing Director

APPENDIX A.

Derivation of Retail Spending Assumptions

Exhibit A-1.
Seasonality of Vail Tax Collections (restaurants, grocery and retail sales only)



Source: BBC Research & Consulting, 2009.

The above data suggests that there is a stable base of sales in restaurants, grocery stores and retail outlets that represent about 25 percent of annual town sales—this business occurs without immediate reliance on seasonal guest-driven activity.

Winter visitor sales (November through April) account for about 55 percent of the town's \$250 million dollars of annual retail, grocery and restaurant sales. Summer guest contribute about 20 percent of annual sales.

Exhibit A-2 shows a process for estimating daily visitor sales (in the food, grocery and retail sector) by employing the data from Exhibit A-1 with data on destination skier activity.

**Exhibit A-2
Derivation of Visitor Day Sales**

Category	Value
Winter Guest Sales	
Vail Annual Food, Beverage and Retail Trade Sales (exclusive of lodging and utilities)(1)	\$250M
% Attributable to Winter Visitors:	55%
% Attributable to Vail Lodge Winter Guests:	85%
Vail Lodged Winter Visitors Food, Beverage and Retail Trade Sales	\$117M
Guest Nights	
Vail Skier Visits	1.65M
% Attributable to Vail Lodged Destination Guests ⁽²⁾	55%
Vail Lodged Destination Skier-Visits (1.65M X 0.55)	907,000
Skier Visits per Destination Guest	4.5
Average Length of Stay	5.0 Days
Vail Destination Winter Visitor Days (907,000 / 4.5 X 5.0)	<u>1,007,000</u>
Retail Sales/Destination Guest-Day (\$117M / 1.0M)	\$117/Day

Note: (1) Town of Vail Sales Tax Reports.
 (2) Vail Resorts, 2009.
 Source: BBC Research & Consulting, 2009.

This exercise suggests that Vail lodged, destination guests will spend about \$117 per day on Vail grocery, retail trade and food and beverage services.