

## The effects of weather on local industries in Northern New England

October 11, 2012 - Spotlights

Up here in Northern New England the leaves are turning. The "leaf-peepers" are back, en masse, after a 2011 foliage season lost to the damage done by flooding after Tropical Storm Irene. We cannot but help anticipate a tremendous ski season, with lots of natural snow, after the 2011-2012 winter produced almost no natural snowfall, temperatures too warm to blow snow in December and March, bare snowmobile trails, and sheets of blue ice on the ski slopes. It is not possible to overestimate the affect these seasonal activities have on the economy of rural Vermont, which we typically define as any part of Vermont outside Chittenden County and away from the commercial activity around Burlington.

Over the past 12 months the weather, and our dependence on it to behave rationally, has put several local industries under economic pressure; these include transient lodging, recreation, retail, and professional services that cater specifically to the tourists that visit our region. Tropical storm Irene literally shut down the center of the state, along the Green Mountain Range, for September and October 2011. With a massive effort by the state Agency of Transportation, local municipalities and countless contractors who worked around the clock for months these areas were back open for business in November 2011 and ready for the ski season. However, in what may be both a blessing and curse, the 2011-2012 winter snowfall was well below the 20-year average and included significant periods in December and March where it was not possible for the resorts to blow snow and there were a significant number of reservation cancellations at the many ski areas. On the other hand, the lack of snow produced a much lower than normal snowmelt that literally gave road crews another full year to remove Irene debris from the rivers and armor their banks to protect from a second round of Irene-related damage.

Most business who cater specifically to tourists have seen historically low revenue over the past 12 months. Typical "bed and breakfast" occupancies dropped from 30%, where most operators could pay their bills and generate a return on equity, to only 20% where it is not possible for many owner-operators to service their debt. Small resort hotel occupancies (15-40 rooms) dropped from 40% to 30%, which put several properties carrying debt loads from 2005-2007 into loan workouts and foreclosure proceedings. Several seasonal restaurants ceased operation and there were no openings of new retail outlets that cater to skiers over the past 12 months.

Everyone asks: "How's the market?" Well, in light of the downward pressure on commercial real estate over the past 12 months, if you are speculating on a recovery in our seasonal-based economy, its great! If you are trying to extract yourself from underperforming real estate burdened with a high debt load, its horrible! The anticipation of a rebound in both the economy and the weather has settled in with real estate investors along the Green Mountain chain. There is an upturn in both sales volume and average sale price for commercial and residential real estate with a good

linkage to a downhill ski area. Tenants are purchasing commercial property at prices and mortgage terms that allow them to become owner-occupants at nearly the cost of their rent. Investors and groups of speculators are purchasing underperforming commercial properties and developing plans for renovation, repurposing and reopening along with the ski areas in 2012. This behavior mimics the five cycles of growth, decline and recovery experienced in this area over the past 30 years and bodes well for a sustained recovery in the overall real estate market in rural Vermont in 2013.

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