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## **In northern New England fall is quickly turning to winter**

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Up here in northern New England fall is quickly turning to winter. Many of us are eagerly watching the weather and waiting for the first snowfall that will ultimately lead to the first ski run of a new season and the legions of seasonal visitors that follow. However, the effect of the seasonal economy on real property value in Vermont requires careful study and analysis. The impact of seasonal tourism is very pronounced over its +/- ten week ski season. But on an annual basis only 12% of the total retail receipts in the Rutland Economic Area, home to the well-known Killington, Okemo, and Pico resorts, is directly related to tourism.

Most businesses that cater specifically to skiers, such as restaurants and specialty retail, make 95% of their annual income over only ten weeks each year; from Christmas to early March. Almost without exception they close at the end of March to reopen again at Thanksgiving. However, most commercial tenants sign annual leases at a fixed rate for a two- to five-year initial term even though they typically move their restaurant or retail outlet to Cape Cod or Lake George for the summer. A savvy commercial tenant might try to structure a lease the way the seasonal residential market works, with tenants paying a fixed rate over a four month winter-season rental, vacating and paying nothing over the eight month "off season" when almost all seasonal residential properties go vacant. In most cases the same residential tenant leases the same property each winter season, but in no case do they pay rent over the vacant summer months.

This is clearly an indication that commercial tenants value location above all else. They appreciate coming back each season to the same building where their loyal, but seasonal, patrons can find them. This draw is so strong that commercial tenants are willing to pay two thirds of their annual rent over periods when their business is closed due to a lack of commercial demand just to be guaranteed they will be back in the same location each season. I suppose the reverse also happens on Cape Cod with commercial tenants vacating in the winter while paying rent, but this is well outside of my area of geographic competency.

However, new investment in "weather proof" vacation amenities at several ski resorts in Vermont; including an indoor water park at Jay, an adventure zone at Okemo with an all-weather roller coaster, and this week's approval of a western-style residential and retail village at Killington; may change how both the commercial and residential rental markets operate. Will residential owner's demand year-round rentals as local resorts invest in year-round amenities? Will commercial owner's demand higher rental rates as the "season" becomes larger. Will commercial tenants continue to operate their seasonal business in both a summer and a winter location? How will these changes affect the expectations of investors and buyers, and the value of real estate in these locations? We have already seen increased buying activity by speculative real property investors in these markets and there are rumors of additional private development.

Appraisers active in these seasonal areas need to properly communicate these changes to their

clients through a well-researched market analysis that feeds both the analysis of highest and best use as well as well-supported opinions of value.

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