

Ski-Resort Deals Hit Brisk Pace, And High Prices

Private-Equity Firms Scoop Up Mountains, Add Luxury Items;
Aging Skiers Alter the Terrain

By CONOR DOUGHERTY
December 2, 2006; Page B1

What's the must-have item this ski season? A resort.

Some of North America's best-known ski areas have changed hands in the past year, in some cases fetching record prices, as private-equity firms and wealthy individuals are pouring money into mountains. Buyers have snapped up everything from destination resorts like Whistler Blackcomb in British Columbia to smaller ski hills in New York and Pennsylvania's Pocono Mountains.



Bill Becker/ZUMA Press

New owners are betting that with the number of ski resorts declining, the remaining players will get a bigger slice of the market. Private-equity firms think they can better compete because they have what many former owners lacked: access -- via generous debt markets -- to truckloads of money to add new lifts, restaurants and boutique shops. They plan to squeeze out further profits building hotels and selling houses and condominiums to second-home buyers.

Analysts expect more ski-resort deals in the months ahead. "I think the pace of deals will remain brisk," says Chris Woronka, an analyst with Deutsche Bank in New York. "We are only in the early to middle innings of activity in the ski industry."

Mammoth's Superpipe in California

was the first halfpipe to open this season in North America. Reflecting the intense interest in ski resorts, shares of Vail Resorts Inc., a large operator of ski properties, hit a record high of \$44.39 during Thursday's trading on the New York Stock Exchange.

Inc., a large operator of ski properties, hit a record high of \$44.39 during Thursday's trading on the New York Stock Exchange.

In October, New York investment firm Fortress Investment Group LLC completed the purchase of Intrawest Corp. for \$2.8 billion in cash and assumed debt, a buyout deal that included the Stratton ski resort in Vermont, Copper Mountain resort in Colorado and Whistler Blackcomb. That followed deals for Mountain High Resort, in Southern California's San Gabriel Mountains, which was purchased last year by private-equity firm Valor Equity Partners, of Chicago, and Mammoth Mountain Ski Area, also in

California, which was bought late last year by a group of investors led by Greenwich, Conn.-based Starwood Capital Group Global LLC, which is led by Barry Sternlicht, former chief executive of Starwood Hotels & Resorts Worldwide Inc.

That deal valued Mammoth at \$365 million, or about 10 times annual cash flow, according to the company, which ski-industry analysts and executives say was one of the highest premiums ever paid for a resort. In a separate transaction Starwood Capital and its investors, which include Mammoth Chief Executive Rusty Gregory, paid about \$100 million for mountainside real estate that they plan to develop into homes, condominiums and hotels.

Industry analysts say rising investor interest may have played a role in American Skiing Co.'s decision in July to explore "strategic options" for its Steamboat resort in the Colorado Rockies. The Park City, Utah, company declined to comment.

In the past two years, New York's Windham Mountain and Camelback in Pennsylvania have changed hands, and last year two partners at venture-capital firm Kleiner Perkins Caufield & Byers bought a stake in Bear Valley Mountain Resort in California and have poured \$6 million into the area. CNL Income Properties, an unlisted real-estate investment trust based in Orlando, Fla., has purchased two resorts this year: Bretton Woods in New Hampshire and Cypress Mountain in British Columbia.

Ski resorts are in some ways a perfect target for private-equity firms, which buy businesses in hopes of selling them for a profit after improving them. The resorts generally have low debt, and their upscale clientele is less affected by economic fluctuations. But for investors, ski resorts come with plenty of risk. Despite efforts to become year-round venues, resorts remain a seasonal business largely dependent on Mother Nature to provide good snowfall. Resorts have spent millions updating their snowmaking equipment over the past decade, but the resort business still has generally better years when there is more natural snowfall, according to the National Ski Areas Association. Warmer weather in some areas is creating a market for snowmaking equipment that functions more efficiently at higher temperatures.

The new players in the ski-resort business are also buying into a softening real-estate market that could hurt demand for second homes and condos.

And there's the issue of the aging skiers and snowboarders: The average resort visitor last season was 35.1 years old, up from 33.2 in the 1997-98 season, according to the NSAA. About 30% were 45 or over. While the industry has recorded a string of record seasons -- 59 million skier visits last year, compared with an average of about 55 million over the past decade, according to the Lakewood, Colo., industry group -- a good chunk of the ski population could be ready to hang up their equipment. (Skier visits include daily mountain visits, from season-pass holders to night skiers and walk-up lift-ticket buyers.)

Investors say all of this is precisely what makes ski areas attractive. Over the past two decades, competition has pushed hundreds of smaller resorts out of business because the areas couldn't afford upgrades or snowmaking equipment to weather lean snow years. There were 478 ski areas in the U.S. last year, compared with 735 in 1984, according to the NSAA.

A look at the blueprints for California's Mammoth Mountain shows what some of the private-equity folks have in mind with their new acquisitions. Most of the skiers at Mammoth, near Yosemite National Park,

drive five or more hours from their homes in Southern California, and three-quarters come just for the weekend, according to the resort. Mammoth's investors think planned air service and a dash of the resort treatment will have the area buzzing all week long.

The mountain is already tipping toward a higher-end resort, and its new investors plan to accelerate that. Next year Mammoth plans to open its first luxury hotel, a 230-room Westin next to a gondola that connects the nearby town of Mammoth Lakes to the ski area, a six-minute ride. The town could also use a nightclub and more-upscale restaurants and more high-end hotels, says Marc Perrin, managing director with Starwood Capital. "We feel there's a need for a five-star brand in Mammoth," he says.

On the real-estate front, Mammoth's new owners estimate there is room for about 3,000 new units, including hotel rooms, timeshares, and single-family homes.

Other newly purchased resorts also are getting a makeover. Mountain High has added Italian and Mexican food to its cafeteria, tripled the size of its outdoor seating area, and bought the neighboring Ski Sunrise and renamed it "Mountain High North." The new owners of Bretton Woods plan to spend \$20 million sprucing up the resort, including renovations to the 200-room Mount Washington Hotel, which was built in 1902 and was upgraded with central heating just six years ago, as well as a convention center and spa.

Randy Frankel, a former managing director at Goldman Sachs Group Inc., last year purchased Windham Mountain in Windham, N.Y., where he has owned a home for a decade. In the off-season, he spent \$5 million on three new lifts, an ice-skating rink and a restaurant with an open-hearth fireplace and a menu of "creative comfort food." Mr. Frankel says he plans to develop dozens of single-family and condominium residences over the next five to 10 years.

This isn't the ski industry's first ownership shake-up. In the 1990s, companies including Intrawest, Vail Resorts, of Broomfield, Colo., and American Skiing began buying ski areas and consolidating them. Both Vail and American Skiing went public in 1997. While Vail's stock is soaring today, American Skiing stumbled from the beginning. Lugging a large debt load, it has since sold assets, had a merger plan fall through, and its shares now trade over the counter for less than \$1.

Write to Conor Dougherty at conor.dougherty@wsj.com¹

URL for this article:

<http://online.wsj.com/article/SB116502075004338616.html>

<http://online.wsj.com/article/SB116502075004338616.html>