

**Proposed Amendments to SDD No. 36, Series 2005**  
**Four Seasons Resort and Residences Vail**  
**July 2017**

The purpose of this report is to provide a comprehensive description of amendments proposed to the Four Seasons Resort and Residences Vail (Four Seasons) Special Development District No. 36, as amended by Ordinance #20, Series 2005. Information provided herein and under separate cover have been prepared in accordance with Section 12-9A-4: Development Review Procedures for Special Development Districts as outlined in the Town of Vail Zoning Regulations.

Amendments to SDD #36 are intended to allow for the renovation of the Four Seasons that will include, among other things, the upgrading of common areas and guest rooms and the reconfiguration of existing accommodation units, fractional fee units and dwelling units. Proposed amendments will not result in any new square footage to the building. Exterior changes to the building are limited to minor refinements such as new windows, deck improvements and sidewall flues for new fire places (none of these improvements would require amendments to the existing SDD).

This application is submitted on behalf of Ex Vail LLC (Ex Vail), an affiliate of Extell Development Company and Parkland. Ex Vail acquired the property in November of 2016. Property acquired by Ex Vail includes the hotel, all resort amenity areas (spa, conference facilities, restaurant/lounge, etc.) and thirteen unsold Fractional Fee Units (FFU's). Sixteen Dwelling Units (DU's) and six FFU's have previously been sold to other parties by the original developer of the project. (The six FFUs include one unit in which only 10 fractional shares have been sold. This application treats that FFU as a fully sold unit.) These sold units are not a part of this SDD amendment.

Information provided below includes:

1. Background on the Four Seasons Resort and Residences Vail
2. Ex Vail's Goals for Property
3. Proposed SDD amendments
4. SDD Review Criteria
5. Appendix

## **Background on Four Seasons Resort and Residences Vail**

A Holiday Inn hotel and gas station existed on the subject site prior to the Town granting approvals for the redevelopment of the property. The Holiday Inn included 120 hotel rooms (Accommodation Units, or AU's), along with a restaurant, a small amount of meeting space and other accessory uses. The property was previously zoned Public Accommodation (PA) and with the SDD approval the underlying zoning of the property remains PA.

Development approvals for the Four Seasons were originally established by Ordinance #14, Series 2001. Ordinance #14 established SDD No. 36 that allowed for the development of the following:

- 116 AU's
- 15 DU's
- 40 FFU's
- Retail, restaurant, conference and health club/spa space, and
- 4,971sf of employee housing.

Ordinance #9, Series 2003 amended SDD No. 36 and allowed for the development of the following:

- 118 AU's
- 18 DU's
- 22 FFU's
- Retail, restaurant, conference and health club/spa space, and
- 34 employee housing units

Ordinance #20, Series 2005 amended SDD No. 36 and allowed for the development of the following:

- 122 AU's
- 16 DU's
- 19 FFU's
- Retail, restaurant, conference facilities and health club/spa space, and
- 28 employee housing units

It is interesting to note that with each amendment the number of AU's and DU's remained fairly constant while the number of FFU's was significantly reduced from 40 to 22 and finally to 19.

Construction of the project began in 2006 and after resolution of many issues during the construction process the Four Seasons opened in December of 2010. Barclays Bank, lender on

the project, assumed ownership of the property from the original developers in 2009. Ex Vail acquired the property in November of 2016. Four Seasons Hotels has an 80-year agreement with Ex Vail to manage the hotel.

### **Ex Vail's Goals for the Property**

Ex Vail's goal for the Four Seasons is to renovate the property to better balance the mix of residential uses in order to improve its financial performance and in doing so create a viable resort property that is sustainable over the long term. Since originally approved, two factors have impacted the performance of the property:

- Nearly ten years passed from the time the project was originally approved until it opened. The luxury lodging industry changed significantly during that period, particularly the fractional industry and consumer's preference for interior design and unit size. In many respects, the project's design and the mix of hotel and related residential uses were obsolete the day the hotel opened.
- From 2011 to the day the property transferred to Ex Vail, the property was owned by a bank. Financial institutions are not particularly well-suited to operating luxury hotels and as such the property was managed with a lack of focus or long-term vision.

Ex Vail's personnel have extensive experience with luxury properties, coupled with Ex Vail's working relationship with Four Seasons Hotels, the project team has brought a new perspective and long-term vision that involves a more holistic approach relative to all aspects of the property – guest lodging, fractional fee units, dwelling units and other properties amenities (restaurants and lounges, conference facilities, health club, spa, etc.). Fundamental to this perspective is the importance of establishing the proper balance of all uses within the resort.

Ex Vail has identified three specific issues with the Four Seasons that need to be addressed to make the property viable for the long term:

### **FRACTIONAL FEE UNITS**

When the Four Seasons was approved in 2001 the fractional fee product, while in its infancy, was considered an innovative approach that would be a boon to the lodging and vacation/second home industries. At about this time the Town of Vail adopted regulations to allow for this type of land use. The 40 FFU units approved for the Four Seasons in 2001 are an indication of how bullish the real estate industry was on fractional units. At this same time, virtually all high-end lodging operators got involved in the development and/or management of fractional fee projects.

While there have been successful fractional projects, the fractional fee industry has significantly regressed in the past ten years. Fractional components at other Four Seasons have had experiences similar to Vail (i.e. thirteen fractional units remain unsold). In Jackson Hole, twenty fractional units were constructed in 2003 and fourteen years later they are still not sold out. In Costa Rica twenty fractional units were originally planned but only five were developed due to limited demand. In Punta Mita slow sales of fractional units resulting in their conversion to whole ownership. In Scottsdale only 33% of planned fractional units were constructed. Most luxury hotel operators have either abandoned or significantly curtailed fractional programs or are no longer involved in the development of new fractional projects.

Previous amendments to the Four Seasons SDD gradually reduced the number of FFU's, from 40 units in the original approval to the 19 units that were actually built. Only 6 of the 19 FFU's were sold and Ex Vail currently owns 13 unsold FFU units. Lack of sales is clear indication of the markets lack of interest in the fractional product. These unsold units, while currently in the hotel's rental pool, are generally over-sized and not viable short-term rental units. Other than during peak periods these fractional units do not perform well in terms of occupancy or revenue per square foot. A major aspect of the amendments proposed to SDD #36 is to re-purpose these unsold FFU units.

### UNIT MIX

The Four Seasons unit mix is currently not appropriate, both from the stand point of the market's interest and with respect to the number and type of rooms needed for a well-balanced resort hotel. The hotel currently has 37 suites (this number includes the 13 unsold FFU's) which constitute 28% of the total number of guest rooms. Based on industry standards this is a disproportionately high percentage of suites. For example, the percentage of large, traditional suites at the Park Hyatt in Beaver Creek, the Ritz-Carlton Bachelor Gulch and the Sonnenalp ranges between 4-9%. Many of the Four Seasons suites are also over-sized. A major aspect of the amendments proposed to the SDD is to reduce the number of suites and create a better balance of rooms that is more in keeping with industry standards.

### CONDITION AND DESIGN OF HOTEL

Consumer tastes and expectations for luxury lodging properties has changed significantly from the time the Four Seasons was designed and constructed. The interior design of the hotel is not in keeping with consumer interest. This consideration, coupled with the fact that the hotel has seen nearly seven years of use, has created the need to upgrade common areas (hallways) and all hotel rooms. While SDD amendments are not required to make these improvements, the

SDD amendments will allow for other changes that will among other things provide the “economic engine” necessary to implement renovation of common areas and hotel rooms.

### **Proposed SDD Amendments**

Amendments proposed to SDD No. 36 will change the approved mix of AU’s, DU’s and FFU’s that are currently permitted on the property. These changes and zoning considerations are addressed below. As no exterior expansions are proposed and no new square footage will be added to the building, relevant zoning considerations are limited to parking and employee housing.

The fundamental objective of these amendments is to improve the financial performance of the resort, be it from increasing the number of hotel rooms, improving the occupancy of hotel rooms, or increasing the number of “live beds” by including individually owned condominiums in the hotel’s rental pool. Ultimately, improving the financial performance of the resort in ways that benefit Ex Vail and Four Seasons will also result in improved financial performance for the Town of Vail, whether from improved hotel occupancy or increased sales or transfer tax revenues. An overview of how these amendments will benefit not just Ex Vail, but also the broader community is provided below.

### APPROACH TO PROJECT

The Four Seasons has been in operation for seven years and were Ex Vail to make no changes to the property the hotel would likely continue to operate for another seven years and beyond. However, to make no changes would do nothing to improve performance nor to establish the long-term sustainability of the resort. Among other things, this means that the hotel would not generate sufficient revenue to fund future capital investment in the facility. Based on seven years of Four Seasons Resort Vail operations and the collective experience of Four Seasons and Ex Vail’s management in the high end residential and resort markets, changes to the hotel necessary to correct this situation have been identified. In essence, the changes below reflect what would be done differently (working within the physical limitations of the existing building) if the hotel were being built for today’s market:

#### Increase the number of hotel rooms

The hotel’s standard, entry level (non-suites) rooms have historically been the best performing rooms and while there is some seasonal variation these rooms perform well throughout the year. A calculated increase to the number of hotel rooms is necessary to improve hotel performance.

#### Reduce the total number of suites

The property has too many suites, particularly large suites. This situation is exacerbated by the unsold fractional fee units. There is a critical need to reduce the number of large suites to be more in line with industry standards.

#### Re-purpose unsold fractional fee units

The 13 unsold FFU's are in the hotels rental pool and they perform relatively well during peak times but because of their large size are not productive rental units during much of the year. Revenue per square foot from these units is far less than that of standard hotel rooms, these unsold units are a drain on the overall performance of the property. These units need to be re-purposed to some other use.

#### Create additional for-sale real estate

There is strong demand for residential for-sale product and in the high-end resort residential market there is increasingly strong demand for hotel run rental programs for such units. The creation of additional for sale condominiums (DU's) can provide the economic engine to fund other improvements to the property and provide units that can participate in the Four Seasons' rental program.

#### Lock-off units

Lock-off units associated with condominiums have been embraced by the market place. Well run, incentivized rental programs have proven to be an effective way to increase the supply of rental units for the hotel while providing owners with revenue from the rental of their condominiums. Lock-off units are a particularly valuable tool in providing the hotel with flexibility in responding to periods of peak demand.

### PROJECT AND DESIGN PARAMETERS

Given the objectives above, Ex Vail and the Four Seasons spent many months studying the existing facility to define a plan that would most efficiently and effectively implement these changes. Considerations, or parameters listed below influenced final renovation plans that are reflected by this SDD Amendment. These included:

#### Carrying capacity of hotel amenities

Maintaining the appropriate balance between the number of hotel guests and hotel amenities is critical, particularly at a high-end resort hotel. The Four Seasons common areas and amenities (lobby space, restaurants and bars, spa and health club, conference facilities, pool, etc.) all have a finite capacity. These amenities were

originally sized for the current hotel and in most cases, it is not feasible to increase the size of these facilities. As such, existing common areas and amenities establish a limitation of sorts on the type and extent of changes to the overall unit mix.

#### Layout of the existing building/code requirements

As a renovation, the design of the existing building directly affects where changes can be made and the nature of changes that may be feasible. An example of this is the limitations created by existing hallways. In most cases hallways cannot be changed and they relate directly to each unit's building code egress requirements. In many cases options for unit conversions were directly impacted by such considerations.

#### Unit locations and views

History has shown the quality of views from hotel rooms does not directly impact guest revenue (while a mountain view room rents for more than a room with a highway view, a good mountain view room does not rent for more than a great mountain view room). The opposite is true of for-sale real estate. View considerations were a factor in determining the location of new for-sale units and new hotel rooms.

#### Parking

The existing parking structure cannot be expanded. The addition of hotel rooms and lock-off units requires increased parking. While increased parking is proposed via re-striping of standard spaces to compact spaces, there is a limit to additional parking that can be provided. As such, parking requirements are a significant consideration in the type of changes proposed to the properties overall unit mix.

#### Four Seasons standards

Four Seasons Hotels have explicit standards for the size, quality and features of their hotel rooms. These standards directly influenced decisions on where new or renovated hotel rooms could be created.

#### Cost and efficiency

The costs necessary to complete renovations along with projected returns were considered in making final decisions on future improvements.

## PROPOSED CHANGES TO UNIT MIX

Ordinance #20, Series 2005 amended SDD No. 36 to allow for the development of the following:

- 122 AU's
- 16 DU's
- 19 FFU's

Proposed amendments to SDD No. 36 would result in the following:

- 130 AU's
- 28 DU's (with 18 total lock-off units)
- 6 FFU's

A floor by floor comparison of existing units and proposed unit changes has been provided under separate cover. Below is a summary of how the proposed unit mix will be accomplished:

### Conversion of three large suites to three DU's

These hotel suites (which in total comprise ten "keys" or AU's) range in size from 2,400sf to 5,000sf. The suites do not perform well due to their size and lack of kitchen facilities. They are simply too large to be a rental product. These suites are proposed for conversion to three DU's. These three DU's will include a total of eight lock-off accommodation units. This change will address the problem of too many large hotel suites. The sale of these units will provide some of the capital necessary to support hotel improvement plans and the lock-off units will provide important assets for the hotel's rental program.

### Conversion of nine FFU's to nine DU's

The conversion of these nine units can be accomplished very efficiently and doing so will address two issues – the need to re-purpose these under-performing units and to reduce the number of large hotel suites. Prior to sale each of these units will be completely renovated with updated interiors and furnishings. An additional bedroom/bath will be added to seven of these units, increasing the resorts overall pillow count. These nine new DU's will include a total of ten lock-off accommodation units.

### Conversion of four FFU's to sixteen AU's

These specific units were identified for conversion to AU's primarily due to their location and access/hallway conditions that can meet building code egress and other





Based on the matrix above the proposed amendments will require nineteen additional parking spaces. Existing dimensions between columns will allow for these additional spaces to be provided by re-stripping standard sizes spaces to compact spaces. Existing and proposed parking plans are attached at the end of this report.

### Employee Housing

The Four Seasons was developed prior to the Town codifying employee housing requirements. Notwithstanding the fact that there was no formal employee housing requirement at that time, in accordance with SDD No. 36 the project includes 28 on-site employee housing units. These units are dormitory style and each provides housing for two people.

The town's housing ordinances for Inclusionary Zoning and Commercial Linkage address re-developments as follows:

#### Inclusionary Zoning

Employee housing need only be provided for the increase in the GRFA of a redevelopment; provided however, that if any existing EHUs are to be removed, an equal amount of EHUs shall be replaced in addition to other requirements of this chapter.

#### Commercial Linkage

Employee housing impacts need only be mitigated for a redevelopment that results in a greater number of employees generated from an increase in net floor area, or an increase in the number of accommodation units or in net floor area, or an increase in the number of accommodation units or limited service lodge units in the redevelopment; provided however, that if any existing EHUs are to be removed, an equal amount of EHUs shall be replaced in addition to the other requirements of this chapter.

Below are the four proposed unit conversions and how they affect employee generation:

Conversion of 3 hotel suites to 3 Condominiums – this change does not increase GRFA nor does it increase the number of AU's, as such the conversion generates no additional employees.

Conversion of 2 hotel suites to 4 AU's – this change will add 2 new AU's. At .7 employees per AU the conversion generates 1.4 employees.

Conversion of 9 FFU's to 9 Condominiums - this change does not increase GRFA nor does it increase the number of AU's, as such the conversion generates no additional employees.

Conversion of 4 FFU's to 16 AU's – The addition of 16 new AU's results in new employee generation of 11.2 employees and the requirement to house 20%, or 2.24 employees. However, this increased demand needs to be considered in context with the reduction of four FFU's. Employee generation from the four FFU's is determined based on the Inclusionary Zoning's 10% housing requirement. The four FFU's total 10,312 sf, which requires 1,031sf of employee housing. In order to equate the employee requirement (from Commercial Linkage) with the square foot requirement (from Inclusionary Zoning), it is assumed that the 1,031sf requirement could provide four 250sf dormitory style units, each of which based on town code houses 1 employee. This results in the four FFU's creating a housing requirement for 4 employees. As the housing requirement from the existing four FFU's is greater than the housing requirement of the proposed 16 AU's, there is no new housing requirement from this conversion.

Based on the above, proposed SDD amendments will result in new employee generation of 1.4 employees. Regulations require 20% of these employees to be housed, or housing for .28 employees.

To mitigate new employee generation Ex Vail proposes to acquire and then deed restrict a 2-bedroom dwelling unit in excess of 788 square feet. Based on town standards a unit of this type can accommodate 2.25 employees. Proposed mitigation will exceed requirements by nearly 2 full employees.

#### BENEFITS FROM PROPOSED AMENDMENTS

Ex Vail's fundamental goal is to renovate the Four Seasons to establish a more balanced mix of residential uses in a way that will improve its financial performance and in doing so create a viable resort property that is sustainable over the long-term. An underlying premise of this effort is that improvements which benefit Ex Vail and the Four Seasons will also benefit the Town of Vail through increased occupancy, increased sales tax revenue and increased RETT revenues. The proposed amendments will accomplish the following:

- The proposed mix of units will establish a proper balance of unit types that will enhance hotel operations and revenues. Over-sized, under-performing units are eliminated. Units to be created are optimally-sized to enhance occupancy and revenues.
- The total number and type of units proposed for the hotel have been designed to be in keeping with the carrying capacity of resort’s amenities, an important consideration that will ensure quality guest experiences.
- A net increase of eight new hotel rooms will be created, bringing the total number of hotel rooms to 130. More importantly, the new hotel rooms will be standard sized, entry level type rooms. Historically these types of units have been among the best performing unit types at the hotel and have the highest occupancy rates throughout the year.
- Eighteen lock-off units associated with new dwelling units will be created. These units provide the hotel with the flexibility necessary to address demand for rooms, particularly during peak periods. Incentive programs will be established to encourage condominium buyers to include their lock-off units in the hotel’s rental pool. Based on the success of similar programs in Vail, it is conservatively estimated that 50% of lock-off units will participate in the rental pool.
- The sale of the newly created dwelling units will provide the revenue to fund capital improvements to the hotel, specifically the renovation of all hotel rooms and other common areas. Improved hotel performance is expected to provide increased revenues to fund a long-term, on-going capital improvement program.
- Proposed unit conversions provide a solution to the thirteen unsold, under-performing fractional fee units. Conversion of the unsold units to DUs will remove them from the hotel’s rental pool and will increase the potential for dwelling unit owners to include their units in the rental pool (currently only four of sixteen condo owners participate in the rental pool).

#### STANDARDS FOR EVALUATION OF PROPOSED AMENDMENTS

Nine criteria prescribed by the SDD section of the zoning code will be used to review these proposed amendments. These criteria are geared primarily towards the design of a project and they focus on topics such as compatibility with the neighborhood, building scale and massing, architecture, landscape design, density, etc. Proposed amendments are exclusive to changing the existing mix of units and SDD criteria provide little guidance or direction with respect to how to determine the appropriate mix of units for a property such as this.

A clear indication of the Town’s development objectives regarding unit mix, particularly with respect to the redevelopment of hotel properties, can be found in the Lionshead Redevelopment Master Plan (LHRMP). This Plan addresses the Evergreen Hotel and the potential opportunities that could be realized from the redevelopment of this existing hotel property. This is particularly relevant in that the development of the Four Seasons involved the redevelopment of an existing hotel property (the 120-unit Holiday Inn).

While encouraging the redevelopment of the Evergreen property, the LHRMP states:

*The Evergreen Lodge presently contains 128 short term accommodation units. In addition, The Evergreen Lodge also contains a restaurant, lounge, spa, and meeting space facilities incidental to the operation of the Lodge. Given the importance and need for short term accommodations to the vitality and success of the community, any future redevelopment of the site shall ensure the preservation of short term accommodation units on the site. The preservation of short term accommodations should focus on maintaining the number of existing hotel beds and the amount of gross residential square footage on the site as well as requiring the preservation of 128 accommodation units.*

In essence, this element of the LHRMP defined an “equivalency standard” for the redevelopment of hotel properties and established the Town’s objectives, or expectations for the redevelopment of hotel properties. While this type of standard was not formally in place when originally approved, the Four Seasons complies with this standard (120 hotel rooms were existing, 122 were replaced along with increased square footage devoted to hotel rooms). Proposed amendments to the Four Seasons results in a net increase to hotel rooms from 122 to 130 and as such would exceed this equivalency standard. The unit mix proposed by these amendments to the Four Seasons is clearly in keeping with the Town’s objectives for the redevelopment of hotel properties.

### **SDD Review Criteria**

The SDD chapter of the Town Zoning Code prescribed nine criteria to be used to evaluate the merits of a proposed Special Development District. The SDD sections states: The following design criteria shall be used as the principal criteria in evaluating the merits of the proposed special development district. It shall be the burden of the applicant to demonstrate that submittal material and the proposed development plan comply with each of the following standards, or demonstrate that one or more of them is not applicable, or that a practical solution consistent with the public interest has been achieved.

These criteria and response to each are outlined below.

1. Compatibility: Design compatibility and sensitivity to the immediate environment, neighborhood and adjacent properties relative to architectural design, scale, bulk, building height, buffer zones, identity, character, visual integrity and orientation.

Response:

*There are no changes proposed to the property that would have any effect on the considerations outlined above.*

2. Relationship: Uses, activity and density which provide a compatible, efficient and workable relationship with surrounding uses and activity.

Response:

*There are no new uses proposed by these amendments. While changes are proposed to the mix of units, there is not a significant change to density or the intensity of development on the site. For example, increases proposed to the number of dwelling units are off-set by a reduction to the number of FFU's. Proposed amendments do not affect the compatible, workable relationship that has been established between the Four Seasons and surrounding uses and activities.*

3. Parking and Loading: Compliance with parking and loading requirements as outlined in [chapter 10](#) of this title.

Response:

*Proposed amendments are in compliance with parking requirements.*

4. Comprehensive Plan: Conformity with applicable elements of the Vail comprehensive plan, town policies and urban design plans.

Response:

*Ex Vail's fundamental goal is to renovate the Four Seasons to establish a more balanced mix of residential uses in a way that will improve its financial performance and in doing so create a viable resort property that is sustainable over the long-term. An underlying premise of this effort is improvements that will benefit Ex Vail and the Four Seasons will also benefit the Town of Vail, be it through increased occupancy or increased sales tax or RETT revenues. These goals are consistent with many aspects of the Town's Comprehensive Plan and town policies.*

5. Natural And/Or Geologic Hazard: Identification and mitigation of natural and/or geologic hazards that affect the property on which the special development district is proposed.

Response:

*This criterion is not applicable to the proposed amendments.*

6. Design Features: Site plan, building design and location and open space provisions designed to produce a functional development responsive and sensitive to natural features, vegetation and overall aesthetic quality of the community.

Response:

*This criterion is not applicable to the proposed amendments.*

7. Traffic: A circulation system designed for both vehicles and pedestrians addressing on and off site traffic circulation.

Response:

*The proposed amendments will have no appreciable effect on traffic considerations.*

8. Landscaping: Functional and aesthetic landscaping and open space in order to optimize and preserve natural features, recreation, views and function.

Response:

*This criterion is not applicable to the proposed amendments.*

9. Workable Plan: Phasing plan or subdivision plan that will maintain a workable, functional and efficient relationship throughout the development of the special development district.

Response:

*This criterion is not applicable to the proposed amendments.*