



TO:	Jason Spadero, SDS Lumber Company
FROM:	Mike Usen
CC:	
DATE:	December 13, 2007
RE:	ECONorthwest Study Review
PROJECT #:	

As part of its ongoing opposition to the Gorge Commission's proposed recreation resort Plan Amendment, the Friends of the Gorge commissioned an economic feasibility study of redevelopment of the Broughton Lumber Mill site under the Management Plan's existing allowable uses. This study, entitled "Feasibility Analysis of Redevelopment of the Broughton Mill Site Under Present Allowable Use," analyzed development of an RV campground on the site where Broughton Lumber Company has proposed development of a recreation resort. As explained below, Broughton's representatives have carefully reviewed this study, finding a number of critical flaws that undermine the validity of the study's findings while helping to confirm Broughton's long-held assertion that development under the Management Plan's existing Commercial Recreation zoning is not economically viable.

Economic Issues

Broughton reviewed the ECONorthwest study with the assistance of several resort specialists including two economists, two utility systems engineers and a planning consultant who are experts in the region's resort industry and who are intimately familiar with the Broughton site.¹ These resort specialists found that ECONorthwest underestimated development costs while also overestimating revenue projections. In this case, both the under-estimates of costs and overestimates of revenue were significant, undermining the validity of the report's findings. For example, as part of Broughton's own alternatives analysis, these same specialists had previously estimated a bare-bones

¹ Reviewers included: Economists Jon Peterson of Peterson Economics and David Chudzik Cascadia Real Estate Services, Mike Usen AICP of SE GROUP, Jerry Minor PE and Mark Rieser PE of Tetrattech Infrastructure Group.

175 space RV campground with 35 clustered cottages would cost about \$23 million to build. By contrast, ECONorthwest estimated a similarly sized campground could be built for only \$9.4 million. The difference between these two estimates appears to result from the fact that ECONorthwest did not include the costs of required infrastructure, site preparation, amenities, land value and other real costs required to build such a facility.

Similar discrepancies were found in the revenue side of the equation. This is because ECONorthwest predicted far higher average occupancy rates coupled with far higher average prices than those being experienced by similar RV campsites in the region. The study also ignored the impacts that a 37% increase in the supply of RV sites in the Gorge would likely have on price and occupancy. While demand for RV parking may be increasing, it is highly unlikely that this market could absorb such a supply expansion within the timeframe assumed by ECONorthwest.

More detailed review comments by the resort expert team are attached.

Policy Issues

Neither the Friends of the Gorge nor their consultant, ECONorthwest, addressed any of the policy issues raised by an RV campground at the Broughton site. The key policy issue is that the Gorge Commission's proposed Plan Amendment would hold developers of a recreation resort to a much higher standard than the current plan would hold developers of an RV campsite. This is because the proposed Plan Amendment would require that the scenic, natural, cultural, and recreation resources be enhanced by future development—not just protected. In anticipation of this requirement, Broughton's proposed resort development includes nearly \$10 million for such resource enhancements as parking for local windsurfers, public hiking trails and conservation easements, State Park expansion, cultural interpretation, etc.

Not only would a large-scale RV campground developed under the existing Management Plan lack resource enhancements, such an RV development would have far greater impacts on the Gorge than a resort. According to ECONorthwest's data, such a campground would be nearly 4.5 times the average-sized RV campground in the Gorge, capable of generating a significant increase in RV traffic on the region's roads. Unlike the site itself which would be subject to the Management Plan's scenic standards, these RVs would be a mobile sources of unregulated visual intrusion. The fact that RVs are also sources of additional air pollution in an area concerned with air quality goes without saying.

The constituency most affected by development of an RV campsite on the Broughton site would be local windsurfers. Unlike a resort catering to a variety of Gorge visitors as the Broughton Landing proposal has envisioned, an RV campground located adjacent to the Hatch, especially a low-budget one with no amenities like the one addressed in the ECONorthwest report, would likely cater primarily to windsurfers. During the summer, particularly during weekends and the numerous Canadian holidays, the Hatch would be overwhelmed by additional windsurfers and kiteboarders taking advantage of super convenient, low-cost mobile accommodations. Without required additional public parking, separate launching facilities at Broughton Beach, expansion of the State Park, and other required recreation enhancements, this RV campground would result in exactly the type of overcrowding most feared by Columbia Gorge Windsurfing Association members without any compensatory enhancements most desired by these windsurfers.

Comments by Mike Usen, AICP, Senior Planner, SE GROUP incorporating review by Jerry Minor, P.E. and Mark Riser, P.E. of Tetratch Infrastructure Group and David Chudzik, Ph.D

1. Reasons why RV campground was not considered for Broughton site

The planning for the Broughton Landing project began with a series of focus groups and advisory committee meetings to ensure that the interests of a broad range of stakeholders were represented. Early on, the idea of an RV campground was rejected by the Advisory Committee, due to concerns over scenic impacts. The idea of cluttering a site and surrounding roads in the center of the scenic area with nearly two-hundred large, reflective and vibrant-colored vehicles was especially offensive to then CRGC Director Martha Bennett. Other members of the Advisory Committee did not consider a large RV campground to embody the image of sustainability envisioned by the project's vision statement.

2. Current Management Plan allows no viable redevelopment of the Broughton Mill site

The ECONorthwest report states that a 175-unit RV campground plus 35 cottages and 5,000 ft² of retail are currently allowed. However, this may not be the case due to a technicality in the parking limits per recreation site. Specifically, the Recreation Intensity classifications limit the number of parking stalls within individual recreation sites to 175. Since the Broughton site is within ¼-mile of existing recreation sites (The Hatch and Swell City,) there is limited capacity for additional parking stalls, thus far fewer than 175 campsites could be developed without amending the Management Plan to change this provision. Therefore, even the use allowed by the Commercial Recreation zone would require a Plan Amendment.

3. Methodological inconsistency and inaccuracy

The ECONorthwest report purports to analyze the economic performance of maximum build-out, yet assumes 600-square foot cabins rather than the 1,000-square foot average unit size allowed by the Commercial Recreation zone. The larger unit size would obviously have higher development costs and gross earnings than those analyzed in the report.

4. Development costs not included in ECONorthwest report

The ECONorthwest analysis underestimated capital costs required for development of a RV campground. The following table lists additional categories of capital cost that need to be included in any analysis of site redevelopment of the Broughton Lumber Mill for commercial recreation use. By comparison, Broughton’s consultant estimated the costs for development under the existing allowable uses would exceed \$23 million. It needs to be emphasized that the following additional costs are the basic required development costs for creation of a no frills RV site with no contingencies for unexpected development costs such as site remediation or cost overruns. Even so, they nearly double the \$9,427,000 estimated by ECONorthwest.

Category	Estimated Cost (\$)	Notes
Land ²	2,000,000	
Cabin construction ³	1,743,000	Difference between 2003 and 2007 costs
Water storage and distribution ⁴	530,000	
Wastewater treatment and collection ⁵	858,000	Difference between septic and required
Highway turning lanes ⁶	927,000	
Laundry and restrooms ⁷	300,000	
Railroad sound walls ⁸	1,004,250	
Pedestrian overpasses	324,050	2 overpasses across railroad tracks
Total	7,686,300	

² ECONorthwest excluded land value which is always a consideration in proposed development projects.

³ ECONorthwest used \$107 per ft² based on 2003 construction cost data. Obviously costs have increased significantly in the last four years. Current Marshall & Swift cost estimating data assumes \$190 per ft². Of course the developer would most likely develop the allowable 1,000 ft² per cabin rather than the 600 ft² assumed by ECONorthwest, thereby adding an additional \$500,000 to this cost.

⁴ Tetrtech Infrastructure Group estimated approximately \$80,000 to re-line the existing water storage reservoir plus about \$450,000 for a water distribution system.

⁵ Washington Department of Ecology previously determined that septic systems would not be permissible on this site. Tetrtech Infrastructure Group estimated that costs for sewage treatment would cost approximately \$1.1 million for conventional Activated Sludge treatment to \$2.36 million for Membrane Bio-Reactor technology, plus \$650,000 for a piped sewer collection system. The \$858,000 shown here is in addition to the \$892,000 for septic treatment listed by ECONorthwest.

⁶ Ongoing communication with WSDOT has determined that existing conditions on SR-14, a Class II state highway will require vehicular turning lanes to access the site.

⁷ Commercial RV campgrounds typically have restroom/shower/laundry facilities. The Broughton site is a long, narrow site split by SR-14, thus at least two such facilities will be required at approximately \$150,000 each.

⁸ According to BNSF Railroad, approximately 45 trains speed through the site daily and this is expected to increase in the future. Thus sound walls along the railroad tracks will be required to limit noise and provide safety from railroad accidents.

5. Lack of infrastructure, enhancements and amenities

As discussed below, the ECONorthwest report did not appear to include several critical categories of costs that were included in Broughton's alternatives analysis, including infrastructure, enhancements and amenities.

Infrastructure: In the case of the Broughton mill site, critical infrastructure includes highway turning lanes required to comply with state highway standards to provide safe egress and access to the site, internal roads and trails, and sound walls along the railroad tracks to limit noise and provide safety from railroad accidents.

Amenities: Likewise, the report did not include amenities to make the 175-unit RV campground desirable such as a lodge, recreation pavilion, skate park, swimming pool and changing building or even basic facilities such as a laundry, restrooms and landscaping. Without these amenities, it is hard to imagine how a former industrial site re-used as an RV campground could expect to be competitive with other commercial campgrounds and state parks.

Enhancements: Although not required by the Management Plan, the ECONorthwest report also did not include enhancements such as public parking for the Hatch, recreation trails, Broughton Beach, state park expansion and other improvements to scenic, cultural and natural recreation resources. Thus, unlike a resort allowed under an amended management plan, the RV campground analyzed by the ECONorthwest report would offer no public benefit.

6. Utilities

Wastewater: The ECONorthwest report incorrectly assumed that a 175-unit RV campground plus 35 cottages and 5,000 ft² of retail could utilize a septic system. Broughton's engineer, Tetrattech Infrastructure Group (formerly KCM/Tetrattech), previously analyzed numerous wastewater treatment options and found that large-scale septic systems would not be viable. This is because: the site lacks adequate soil depth; the limited soil is too rocky; there is insufficient space for drainfields; the site is too close to the river; and topography prevents expanding the system outside the redevelopment area. In addition, Tetrattech Infrastructure Group contacted the permitting agent, Rick Frye of the State Department of Ecology on May 2, 2007, who stated that onsite septic drainfields or composting toilets would not be practical for this site and that the Department of Ecology would not allow them, regardless of these technical constraints. Even if septic treatment was permissible, it would hardly be consistent with the project's vision statement which states:

“The Broughton Landing project is envisioned to be a highly successful, world-class outdoor oriented resort that demonstrates the best of sustainable development practices while achieving financial and operational success, raising the standards of development within the Columbia Gorge National Scenic Area.”

Tetrattech Infrastructure Group determined that several possible wastewater treatment alternatives exist. For the proposed Broughton Landing project, these systems would need treatment capacity of approximately 40,000 gallons per day (GPD) with a cost range of between \$1.4 million for conventional Activated Sludge treatment with direct discharge to \$2.97 million for Membrane Bio-Reactor technology with water reclamation/reuse capabilities. To treat the 25,000 GPD generated under the development scenario analyzed by ECONorthwest, these systems could be scaled back slightly and would cost approximately \$1.1 million for conventional Activated Sludge treatment to \$2.36 million for Membrane Bio-Reactor technology, plus \$650,000 for a piped sewer collection system, in either case significantly more than the \$892,000 estimated by ECONorthwest.

Water: The ECONorthwest report incorrectly assumed that there would be no capital costs for water storage or distribution. As part of its previous analysis of the Broughton Landing proposal, Tetrattech Infrastructure Group estimated approximately \$80,000 to re-line the existing water storage reservoir plus about \$450,000 for a water distribution system. In addition, Tetrattech Infrastructure Group estimated approximately \$400,000 for on-site irrigation. All three of these basic infrastructure costs would likely apply to an RV campground just as they would to a resort development covering the same site.

Comments by Jon Peterson, Peterson Economics

1. This analysis digs fairly deeply into potential development costs and operating costs, but it glosses over the bigger issue of revenue potential. It states that the average nightly rate in the region now is \$23 (and this is posted, not achieved) and the average monthly rate is \$302, with a 70/30 split between nightly and monthly rentals. This would suggest an average posted nightly equivalent (blending nightly and monthly rentals) of \$19.07. However, all operations like this have discounts, which we typically budget at about ten percent on average. Thus, if the blended average of posted rates is \$19, the effective average achieved may be only about \$17. However, ECONorthwest goes on to state, right after sharing these base facts, that “they estimate the region’s average blended nightly rate at \$23.” That appears to overstate the actual, based on their own survey, by about 35%.
2. Rather than simply asking these RV operators what their average annual occupancy is, ECONorthwest broke it into seasons and general ranges. We almost always find when we ask this way that operators overstate each season, and we have to go back and say, “but if your average annual occupancy rate is 60%, it must be lower than 50% in the winter if 80% in the summer, right??” I suspect if they had gathered actual annual occupancy rates from all existing RV campgrounds, the average would be lower. Maybe below 50%, as is common for RV campgrounds in the NW.
3. ECONorthwest then proceeds to project some extraordinarily high revenues for this RV campground. If we were asked to project revenues for a new RV campground in this setting of this size, we might assume 175 sites x \$22/night x 45% average annual occupancy. That’s \$632,000 per year. Maybe an upside would be 175 sites x \$23 x 55% occupancy. That’s \$808,000 per year. A well-run campground might make a nice profit margin off this, maybe even \$400k-\$500k/year before debt service, but certainly not much more.
4. The RV campground could also make some profits off cabin rentals. However, ECONorthwest only budgets \$80k/cabin to develop these, so we’re talking about some very basic little cabins. If these rented for \$70/night on average throughout the year, they’d probably be doing very well. At 55% occupancy, 35 cabins at \$70/night yields about \$490k/year (and this could represent a very optimistic projection, as cabins in RV campgrounds often rent for \$35-\$40 per night). However, the profit margin on these cabin rentals would be lower than on the RV sites, perhaps averaging 30% -- or about \$150k/year under the optimistic scenario.

5. The RV campground would be unlikely to generate notable profits off other components, such as sales in the convenience store or laundry. Maybe it would make \$25k-\$50k/year off these, but maybe these would be break even, too. Thus, I would see the upside potential for ongoing NOI from this type of RV campground at about \$700,000 per year. If asked to project what we actually thought it could actually do, we'd probably project NOI at \$450,000 per year. Even at \$450,000 per year, this would likely place this facility in the top 5% of Pacific Northwest RV campgrounds for profitability – maybe even the top 2%. In stark contrast, ECONorthwest is projecting net cash flow at well over \$1 million per year, which I view as irresponsible and unachievable in this location. Typical RV campgrounds in the NW in this type of setting earn maybe \$75k-\$100k per year, and that is typically by operating on a “shoestring budget.”
6. Another issue that ECONorthwest ignores is the potential supply shock and over-saturation of the region's RV campground market if a new 175-site RV campground (plus 35 cabins) is added to a market this small. If the area now has 468 sites, and we add another 175, this is a 37% increase. Where is that much new demand going to come from, especially during the winter? What if demand only grows at 2% per year over the next 20 years? If this happens, average occupancy rates in the region could drop from 50% in 2007 to 36% once the new campground opens, and take decades to recover. This is probably a “worst case” scenario, but an occupancy drop from 50% into the low 40%'s on average is a very real possibility. Given the fixed-cost nature of these operations, most can make a reasonable profit at 50% occupancy, but many may fall to break-even operations around 35-40% occupancy, meaning the entire profitability of RV campgrounds throughout the Gorge could be wiped out by this new, large-scale facility. Ouch.
7. Finally, ECONorthwest does not seem to have a good grip on how land values are determined for new development sites versus existing operations. If we were examining the value of existing RV campgrounds in the region, we would look at historic and current income, and probably cap current income at between 10 and 12 percent to determine an appropriate value for an existing facility. However, when looking at new resort-type development, site values are typically determined (or estimated) by projecting net cash flow and measuring the NPV of that cash flow at 20 to 25 percent (or up to 30% or more in certain risky markets). When we valued Suncadia when Trendwest sold to Cendant (a \$72 million land value), we valued the projected future cash flow using a 22% NPV. When we value proposed new resorts in Central Oregon or elsewhere in the NW, we're typically in that same range. When our clients evaluate whether to purchase a new site to develop a new resort community,

they almost always lose interest if the projected IRR is below 20%. It is therefore inappropriate and inaccurate to suggest a developer would move forward with this project based on an anticipated 10% IRR (or even 14% to 16%, as indicated in several of their scenarios).

8. Also, if I am reading this analysis correctly, are they not saying, “since you already own the land, there is no land cost”? So you’re supposed to throw the land in for free, and then hope for a 10-16% IRR if you hit their very unsupportable revenue projections. Realistically, NOI would likely be a fraction of what they’re suggesting, development costs would likely be higher, you should be including a land value, and potential IRR is likely below 5%.

PETERSON ECONOMICS' QUALIFICATIONS

Peterson Economics is a real estate economics consulting firm that specializes in examining the market and financial feasibility of a variety of land use types, including proposed new:

- Large-scale destination resorts
- Master-planned residential communities
- Lodges and conference centers
- Golf courses and country clubs
- Fractional resorts

Among others, current and recent clients (with references from each provided upon request) include:

- Morgan Stanley
- Starwood Capital
- Goodfellow Brothers
- Lowe Enterprises
- Jeld-Wen
- Fairmont Hotels
- Beazer Homes
- Centex Destination Properties
- Olympus Real Estate
- Plum Creek Timber
- Sealaska Corporation
- Gilbane Properties
- Citigroup
- Dowling Company
- Washington Holdings
- MSD Capital (Dell)

Peterson Economics' professionals combine more than three decades of industry experience with detailed field research and careful analysis to provide clients with the most thorough, well-prepared, and creative analyses in the industry.

Peterson Economics was formed in 2002 by Jon Peterson, a former Principal at Economics Research Associates, who served as a project manager on more than 200 major consulting assignments between 1993 and 2002, before leaving ERA to form Peterson Economics. During this time, he developed a broad practice based on high quality work and responsiveness to client needs. His assignments included more than 50 major resort and golf community consulting assignments, more than 100 stand-alone golf consulting assignments, and a variety of analyses for new retail, lodging, attraction, RV campground, and other project types.

Since its inception in 2002, Peterson Economics has been retained to complete more than 250 consulting assignments, including market and financial analyses for more than 140 major new destination resort and second-home community projects as well as a variety of stand-alone golf courses, lodging facilities, residential communities, and retail centers. These assignments include market and financial analyses for:

1. The premier new resort community on Maui (for which we evaluated the potential value of the Four Seasons brand);
2. The premier new resort community in the Pacific Northwest (the 6,300-acre Suncadia Resort, which sold roughly \$150 million in homesites in 2004 alone);
3. The premier new ski resort base village in the Northeast (Stowe Base Village);
4. The premier new resort community proposed at Lake Tahoe; and
5. More than 40 proposed new oceanfront resort communities on the west coast of Mexico.

Peterson Economics' recent assignments include market and financial analyses for: five of the ten most significant new ski resorts proposed in North America; the first two resorts proposing to bring the fractional concept to Australia; about 20 private golf club communities proposed in the Rocky Mountains; 10 proposed new large-scale second-home communities in Central Oregon; a major new lakefront resort community near Dallas; and a variety of other proposed new resort, second-home, and primary-home communities.

Over the past several years, about ten of the wealthiest individuals in the United States have also turned to Peterson Economics for development advisory services regarding new real estate developments. Our current and recent list of clients includes numerous billionaires (Dennis Washington, Michael Dell, Tom Siebel, Patrick Callahan, and others).

Mr. Peterson is joined at Peterson Economics by Karen Peterson, Chief Operating Officer, Jean Anderson, Senior Associate, Chris Klare, Senior Associate, and Chris Dorociak, Senior Associate.

Peterson Economics specializes in examining proposed new real estate projects with complex development options. Our private-sector development clients range from first-time developers to some of the most experienced, sophisticated golf, residential, and resort developers in North America. Oftentimes, developers retain us to help evaluate new projects in markets where they have been active for decades because our broad-based experience in numerous markets throughout North America enables us to find opportunities they might otherwise overlook.

While the primary purpose of retaining Peterson Economics is typically to assist in internal decision-making regarding land planning and market positioning issues, our reports are highly regarded in the development industry and are also useful to developers seeking to identify investment partners, to locate financing, or to sell a project. For instance, one of our reports was used in late 2002 as a primary research document concerning Lowe Enterprises' decision to become a joint-venture partner in Suncadia, a new \$1 billion resort community now being developed in the mountains east of Seattle. Notably, Lowe has since become one of our largest clients.