



Kennedy & Mohn, P.S.  
*Hotel Brokerage, Consulting, & Appraisals*  
[www.HotelRealtyNW.com](http://www.HotelRealtyNW.com)

April 30, 2010

Ms. Chris Anderson  
AIDEA  
813 West Northern Lights Blvd.  
Anchorage, AK 99503-2495

***RE: Anchorage Lodging Market***

Dear Ms. Anderson:

At your request we have prepared this summary update of current conditions in the Anchorage lodging market. This report is based on market data and research compiled by our firm during the 1st quarter of 2010 and it presents an overview of key factors underlying and influencing current lodging market performance trends in Anchorage and our outlook for the market near term.

**Economic Influences**

During 2009, Anchorage posted its first year of employment decline in over 20 years, posting a modest loss of 900 jobs from prior year. Nonetheless, job growth in the Anchorage Borough averaged 1.1 percent annually during the 2005 to 2009 period, adding an average of over 1,300 jobs annually during this period. Unemployment rates in the market were trending down during the early years of the period, falling from 5.5% in 2005 to 5.0% in 2007, before increasing to 8.8% in 2009, following the recession-induced national trend. Preliminary forecasts for 2010 suggest another 1,400 job losses for the state and 1,100 fewer jobs in the Anchorage market.

When contrasted against the nation and many of the larger markets in the lower-48, the economy of Alaska and that of Anchorage sustained little more than a glancing blow from the economic storm that has battered the nation in recent years. However, certain segments of the local economy have suffered greatly, including air cargo and tourism in particular. The strategic position of Anchorage within the global distribution market will ensure a return to growth in the air cargo sector as the U.S. and global economies gradually regain stability. The downward pressure on the tourism market appeared only recently, beginning in the 2<sup>nd</sup> quarter of 2009, as seasonal demand patterns in the leisure sector failed to materialize as in prior years. Prior to this, demand growth patterns in this industry had remained remarkably strong. The fundamentals of this industry in Anchorage remain strong and growth will return, although delayed somewhat by extraneous factors in the near term. Growth in the oil and gas industries within the state continue

**Thomas P. Kennedy, CHA**  
14108 SE 182<sup>nd</sup> • Renton, WA 98058  
Tel: (425) 277-5755 • Fax: (425) 277-5759  
[tkennedy@HotelRealtyNW.com](mailto:tkennedy@HotelRealtyNW.com)

**Michael J. Mohn, MAI**  
19709 51<sup>st</sup> Ave. SE • Bothell, WA 98012  
Tel: (425) 485-7925 • Fax: (425) 485-9114  
[mmohn@HotelRealtyNW.com](mailto:mmohn@HotelRealtyNW.com)

to buoy up Anchorage and the outlook for continued and sustainable growth in this sector under the current administration appears favorable. Opportunities within the Beaufort and Chuckchi Seas, Point Thompson, and the impending open-seasons by Trans-Canada and Denali each contribute to economic stability and growth within the market. Changes in key economic indicators influencing the Anchorage lodging market are presented in Schedule A below.

Schedule A						
Anchorage Borough Economic Indicator Summary						
	2005	2006	2007	2008	2009	CAAGR
<b>Employment:</b>						
Total Industries	144,382	147,055	149,700	151,900	151,000	1.1%
% chg.	2.0%	1.9%	1.8%	1.5%	-0.6%	
<b>Goods Producing</b>						
Natl. Resource & Mining	2,147	2,330	2,600	2,900	2,800	6.9%
Construction	9,600	9,669	9,300	9,200	8,500	-3.0%
Manufacturing	1,848	1,907	2,000	1,900	1,800	-0.7%
<b>Service Providing</b>						
Trade, Trans. & Utilities	32,838	33,336	33,600	33,800	33,000	0.1%
Information	4,386	4,390	4,400	4,400	4,100	-1.7%
Financial	8,409	9,222	9,200	9,000	8,800	1.1%
Prof. & Business	16,172	16,500	17,500	18,500	18,600	3.6%
Education & Health	19,050	19,451	19,600	20,200	21,000	2.5%
Leisure & Hospitality	15,184	15,318	15,600	15,800	15,600	0.7%
Government	29,248	29,231	30,100	30,500	31,100	1.5%
<b>Unemployment Rate:</b>	5.5%	5.2%	5.0%	5.5%	8.8%	
<b>Population:</b>						
State of Alaska	664,060	670,958	676,987	679,720	692,314	1.0%
Anchorage	278,294	283,244	283,823	284,994	290,588	1.1%
<b>Anchorage International Airport (FY)</b>						
Total Air Passengers	5,123,701	5,043,047	5,139,159	5,380,811	5,068,277	-0.3%
Cargo (000's)	26,732	27,968	29,131	27,376	20,533	-6.4%
<b>Lodging Tax Receipts</b>						
Anchorage Borough	\$11,805,843	\$19,196,639	\$20,424,208	\$22,252,319	\$18,322,725	0.9% (1)
% chg.	1.8%	62.6%	6.4%	9.0%	-17.7%	
<b>Cruise Passenger Trends</b>						
Total Cruise Passengers	953,400	958,900	1,029,800	1,033,100	1,008,344	1.4%
% chg.	7.8%	0.6%	7.4%	0.3%	-2.4%	
<b>Alaska Visitor Statistics Program</b>						
Summer Visitor Volume	1,632,000	1,631,500	1,714,100	1,707,400	n/a	1.5%
% chg.	12.8%	0.0%	5.1%	-0.4%	n/a	
<b>Denali National Park</b>						
Total Visitors	403,520	415,935	458,307	432,830	358,040	-2.9%
% chg.	-0.2%	3.1%	10.2%	-5.6%	-17.3%	
<b>Inflation Trends - CPI-U</b>						
Anchorage	2.9%	3.0%	2.1%	4.4%	0.5%	
United States	3.5%	3.2%	2.9%	4.1%	-0.7%	

Note 1: CAAGR reflects tax-adjusted growth rate  
 Sources:  
 Alaska Dept. of Labor; US Census, AIA, ACVB, NPS, AVSP-V, Anchorage Borough

While markets across the globe enter their third year of the global economic dislocation stemming from the credit crisis, there are signs of returning stabilization within many of these markets. The ability of Anchorage to avoid the bulk of the early years of this crisis can be attributed largely to internal factors including its more controlled finance and lending environment and its more limited residential expansion with a corresponding lack of rapid, unsustainable appreciation. With its finance markets and residential base in relatively sound condition, the road to recovery should be more rapid than in other markets which lack this advantage. Similarly, Anchorage will also benefit in the near term from the significant and continued influx of federal and state stimulus dollars being committed to construction and infrastructure projects throughout the state, as evidenced by the recent state budget. Conversely, for those sectors of the local economy that were more reliant on outside influence, recovery may lag somewhat, occurring on a more protracted basis, in sync with a broad-based recovery in these industries.

#### **Historical and Projected Lodging Market Performance**

Historically, lodging performance levels in Anchorage have compared very favorably to U.S. national averages. According to Smith Travel Research, the average occupancy in the U.S. during 2009 declined to 55% compared to Anchorage where occupancies slipped to 64%. Similarly, the average room rate in the U.S. declined to roundly \$98 compared to \$119 in Anchorage, yielding RevPAR of roundly \$54 for the U.S. market versus \$76 in Anchorage. While 2009 has clearly been a difficult year for everyone in the lodging industry, Anchorage remains a comparatively favorable market overall.

As shown in Schedule B on the following page, the market occupancy in Anchorage declined eight percentage points on average during 2009 and this decline was fairly evenly distributed between the upscale and mid-scale submarkets, which saw occupancies fall by eight percentage points and seven percentage points, respectively. Average room rates in the market declined from \$127 in 2008 to \$119 in 2009, dropping \$8 at an extremely rapid pace. Despite the fact that all properties quickly shed rate in the shallow hope of retaining demand, rate loss at the end of the year was concentrated slightly more heavily in the upscale submarket as these typically higher-rated properties experienced greater rate erosion in their wild pursuit of diminishing demand. The net result is most clear in the RevPAR metric which is a blend of occupancy and average room rate. During 2009 RevPAR in the Anchorage market declined more than 16%, falling from roundly \$91 to \$76, effectively giving back all of the hard-fought RevPAR gains that had been achieved since 2004.

The vast majority of the decline during 2009 was logged during the 2<sup>nd</sup> and 3<sup>rd</sup> quarter of the year, which are traditionally the strongest seasonal periods for both demand (occupancy) and rate. The markets' rapid loss of average room rate during this cycle was not unlike that experienced locally during the prior recession, following the tech-crash and the events of 9/11, when the market also shed \$8 in rate, although not quite as rapidly. The velocity of rate erosion was influenced by seasonal timing factors wherein soft demand caused a delay (or a reduction) in peak-season rates, which then spiraled into a largely rate-based competitive environment which

did nothing to improve demand patterns in the market. For a market such as Anchorage, where roundly 70% of the annual revenue and the vast majority of annual profit is derived during the seasonal peak, the timing and severity of this recession-induced slide proved to be extremely challenging for the market as a whole and potentially devastating to some.

Schedule B											
Competitive Lodging Market Overview - 2005 through 2009											
Anchorage, Alaska											
	Available Rooms		Fair	Occ.	Occupied	Market	Penetr'n	Average	Room Revenue		RevPAR
	Daily	Annually	Share	Rate	Rm. Nights	Share	Rate	Rm. Rate	Total	Per Rm.	Index
<b>2009</b>											
Mid-Scale Submarket	3,038	1,108,693	56%	66%	726,229	57.0%	102%	\$109.00	\$78,911,798	\$71.00	93.4%
Upscale Submarket	2,407	878,570	44%	62%	546,930	43.0%	97%	\$134.00	\$73,110,882	\$83.00	109.2%
Total Market	5,445	1,987,263	100%	64%	1,273,159	100.0%	100%	\$119.00	\$152,022,680	\$76.00	100.0%
% chg.		5.3%			-6.2%				-11.5%	-16.5%	
<b>2008</b>											
Mid-Scale Submarket	2,915	1,063,975	56%	74%	792,037	58.4%	104%	\$115.00	\$90,843,413	\$85.00	93.4%
Upscale Submarket	2,253	822,450	44%	69%	564,666	41.6%	95%	\$143.00	\$80,989,586	\$98.00	107.7%
Total Market	5,168	1,886,425	100%	72%	1,356,702	100.0%	100%	\$127.00	\$171,832,999	\$91.00	100.0%
% chg.		1.7%			2.2%				7.5%	5.8%	
<b>2007</b>											
Mid-Scale Submarket	2,915	1,063,819	57%	73%	776,704	58.5%	102%	\$108.00	\$83,909,634	\$79.00	91.9%
Upscale Submarket	2,168	791,320	43%	70%	551,435	41.5%	97%	\$138.00	\$75,978,165	\$96.00	111.6%
Total Market	5,083	1,855,139	100%	72%	1,328,139	100.0%	100%	\$120.00	\$159,887,799	\$86.00	100.0%
% chg.		-0.1%			-1.7%				4.4%	4.9%	
<b>2006</b>											
Mid-Scale Submarket	2,921	1,066,165	57%	75%	795,363	58.8%	103%	\$100.00	\$79,496,414	\$75.00	91.5%
Upscale Submarket	2,168	791,320	43%	70%	556,222	41.2%	97%	\$132.00	\$73,583,304	\$93.00	113.4%
Total Market	5,089	1,857,485	100%	73%	1,351,585	100.0%	100%	\$113.00	\$153,079,718	\$82.00	100.0%
% chg.		0.0%			1.7%				7.6%	6.5%	
<b>2005</b>											
Mid-Scale Submarket	2,921	1,066,165	57%	75%	795,913	59.9%	104%	\$94.00	\$75,092,647	\$70.00	90.9%
Upscale Submarket	2,168	791,320	43%	67%	533,058	40.1%	94%	\$126.00	\$67,130,318	\$85.00	110.4%
Total Market	5,089	1,857,485	100%	72%	1,328,971	100.0%	100%	\$107.00	\$142,222,965	\$77.00	100.0%
% chg.		5.6%			7.2%				6.3%	1.3%	
<b>Historical Growth Trends (CAAGR)</b>											
<b>5-Years 2005-2009</b>											
Mid-Scale Submarket		1.0%		72%	-2.3%			3.8%		0.4%	
Upscale Submarket		2.6%		68%	0.6%			1.6%		-0.6%	
Total Market		1.7%		70%	-1.1%			2.7%		-0.3%	
<b>10-Years 2000-2009</b>											
Mid-Scale Submarket		4.8%		73%	3.6%			1.2%		0.0%	
Upscale Submarket		1.7%		66%	1.0%			0.1%		-0.6%	
Total Market		3.3%		70%	2.4%			0.4%		-0.6%	
Source: Kennedy & Mohn, P.S.											

The economic-induced pressures on the market in 2009 were further compounded by the latent influence of three new hotels which opened in Anchorage during 2009. These included two hotels opening in the mid-scale submarket, the 78-room Comfort Suites near the airport in March, and the 159-room SpringHill Suites at University Lake in August, and one new hotel opening in the upscale sub-market, the 165-room Crowne Plaza in Midtown in July.

Future performance in the Anchorage lodging market in the near term will be influenced by several factors, the most significant of which we consider to be 1) the strength and velocity of the economic recovery in the U.S. and abroad, 2) the impact of retaliatory re-deployments and reconfigurations by the cruise lines over the next several years, and 3) the extent and timing of future supply growth in the market.

- The impact of the recessionary economy contributed to a loss of roundly 84,000 room nights of demand in 2009 compared to 2008. Given the market's reliance on the leisure demand segment and the fact that, unlike prior recessions, this one appears to be largely consumer-led, we do not expect an immediate rebound from this loss, but rather, we project that the summer leisure demand volumes likely carry a heightened degree of risk for the next several years. Our projections reflect that just over 70 percent of the 2009 demand loss or roundly 61,000 room nights of demand will be gradually recaptured in the market during 2010 and 2011. This projection acknowledges signs of economic recovery appearing in many markets with consumers showing improved confidence and increasing intent to fund travel and vacation activities in 2010 and beyond. Because certain source markets will lead this trend and others will lag, we project a u-shaped recovery in demand patterns over the next several years.
- The direct impact of cruise ship re-deployments together with the impact of reconfiguring one-way itineraries to round-trip itineraries will clearly limit the speed of recovery in the market. Due to significant proposed changes in cruise ship patterns within the state in 2010, we estimate that approximately 160,000 fewer cruise passengers will be available to: 1) overnight in Anchorage pre-or post cruise, 2) select a land tour alternative to the interior, or 3) pursue other independent travel within the state. As a result, we estimate the potential impact on Anchorage area hotels from these shifts in cruise patterns will be approximately 30,000 fewer room nights of demand in 2010, assuming typical levels of capture. The impact of these changes is expected to be slightly higher within the upscale sub-market than in the mid-scale sub-market. The impact of these changes could potentially push back cruise passenger volumes to 2004 levels. The entry of Disney Cruises and Oceania Cruises to Alaska markets in 2011 is expected to partially offset the negative impact of the changes in deployment noted above. Despite recent passage of the bill to reduce the cruise passenger head-tax, we remain unconvinced that this will cause a material change in ship deployments in Alaska in the near to mid-term. Cruise line representatives have referred to it as a good first step, but they remain concerned about other facets of the 2006 voter initiative. The fight is likely not over. Our projections do not anticipate that this loss in demand will be recaptured by the market in the near term. Under a best-case scenario, if the cruise lines entirely reversed their positions today, the benefits would not be realized in the state until 2012 at the earliest, so to presume no material shift through 2014, the end of our projection period, would not seem unreasonable at the present time.

- Of the three dominant factors noted previously that will influence the market in the coming years, potential supply change appears to be of minimal concern at the present time. While numerous new hotel projects have been proposed in Anchorage in recent years, those properties that were actually able to open this past year are likely to be the only new openings for quite a number of years due to the combination of receding demand patterns and the highly constricted financial markets which have made it all but impossible to source debt capital necessary for new construction. To our knowledge, nearly all previously proposed hotel projects in the pipeline in Anchorage have been cancelled or severely delayed. While the 127-room Hyatt Place previously proposed for development in Midtown continues to seek financial backers, it appears to be the only project still trying and the outcome of these efforts are highly questionable.

Schedule C on the following page presents our projection of future performance levels in the Anchorage lodging market during the 2010 through 2014 period. Our projections indicate overall market occupancies in Anchorage remaining stable at 64% in 2010, and increasing gradually in the following years to the low to mid-70% level by the end of our projection. With continued strengthening of the market, new development could be expected to resume near the end of the projection period provided that credit markets have stabilized. While the next several years are expected to be considerably softer than recent years, we do not anticipate a long-term reduction in performance within this traditionally strong market. The larger challenge will likely be experienced by the market as it attempts to recapture some portion of the sizeable rate loss that occurred in 2009, although we do not anticipate any significant market-wide rate growth until market occupancies approach or exceed the 70% mark.

### **Conclusion**

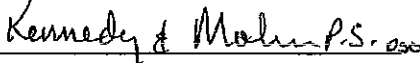
Based on our ongoing research and analysis, the Anchorage lodging market has performed remarkably well in recent years, despite the battering that occurred in 2009. The unfortunate timing and combination of significant recessionary influences, changes in cruise patterns, and continued expansions in the rooms supply have collectively caused a short-term interruption in the market's generally stable occupancy patterns. While it is apparent that the Anchorage market is not immune to the economic woes of the nation and the world, we do believe it is in a substantially better position to weather the current storm than many other markets. Assuming that there are no long-term negative influences from the current recession and that economic stability returns to our national and international markets relatively quickly, we expect the Anchorage lodging market will also rebound relatively quickly to at, or near, its previous levels. Overall, the fundamental factors that have sustained the Anchorage lodging market over the last decade have not changed materially in recent years and the future continues to hold the promise of several significant opportunities that could further enhance performance within the market.

Schedule C										
Historical and Projected Market Conditions										
Historical					Projected					
2005	2006	2007	2008	2009		2010	2011	2012	2013	2014
<b>Mid-Scale Market</b>										
2,921	2,921	2,915	2,915	2,915	Existing Product	2,915	2,915	2,915	2,915	2,915
				60	Springhill Suites	159	159	159	159	159
				62	Comfort Suites	78	78	78	78	78
					Other	0	0	0	0	0
2,921	2,921	2,915	2,915	3,038	Average Daily Rooms	3,152	3,152	3,152	3,152	3,152
1,066,165	1,066,165	1,063,819	1,063,975	1,108,693	Annual Room Nights	1,150,480	1,150,480	1,150,480	1,150,480	1,150,480
	0.0%	-0.2%	0.0%	4.2%	Percentage Change	3.8%	0.0%	0.0%	0.0%	0.0%
795,913	795,363	776,704	792,037	726,229	Market Demand	757,000	808,000	831,000	856,000	881,000
CAAGR		Supply chg.		1.0%	CAAGR		Supply chg.		0.0%	
CAAGR		Demand chg.		-2.3%	CAAGR		Demand chg.		3.9%	
	(550)	(18,659)	15,333	(65,808)	Change from prior year	30,771	51,000	23,000	25,000	25,000
	-0.1%	-2.3%	2.0%	-8.3%	Percentage Change	4.2%	6.7%	2.8%	3.0%	2.9%
					Unsatisfied Demand	5,400	5,400	0	0	0
					Induced Demand	14,900	24,400	1,000	1,000	1,000
					Underlying Growth	10,471	21,200	22,000	24,000	24,000
					Underlying Growth Rate	1.3%	2.8%	2.7%	2.9%	2.8%
75%	75%	73%	74%	66%	Occupancy	66%	70%	72%	74%	77%
<b>Upscale Market</b>										
2,168	2,168	2,168	2,253	2,332	Existing Product	2,332	2,332	2,332	2,332	2,332
				75	Crowne Plaza	165	165	165	165	165
					Other	0	0	0	0	0
2,168	2,168	2,168	2,253	2,407	Average Daily Rooms	2,497	2,497	2,497	2,497	2,497
791,320	791,320	791,320	822,450	878,570	Annual Room Nights	911,405	911,405	911,405	911,405	911,405
	0.0%	0.0%	3.9%	6.8%	Percentage Change	3.7%	0.0%	0.0%	0.0%	0.0%
533,058	556,222	551,435	564,666	546,930	Market Demand	557,000	594,000	614,000	634,000	655,000
CAAGR		Supply chg.		2.6%	CAAGR		Supply chg.		0.0%	
CAAGR		Demand chg.		0.6%	CAAGR		Demand chg.		4.1%	
	23,165	(4,787)	13,230	(17,736)	Change from prior year	10,070	37,000	20,000	20,000	21,000
	4.3%	-0.9%	2.4%	-3.1%	Percentage Change	1.8%	6.6%	3.4%	3.3%	3.3%
					Unsatisfied Demand	10,000	3,800	0	0	0
					Induced Demand	(7,400)	21,100	6,000	6,000	6,000
					Underlying Growth	7,470	12,100	14,000	14,000	15,000
					Underlying Growth Rate	1.4%	2.2%	2.4%	2.3%	2.4%
67%	70%	70%	69%	62%	Occupancy	61%	65%	67%	70%	72%
<b>Overall Market</b>										
5,089	5,089	5,083	5,168	5,445	Average Daily Rooms	5,649	5,649	5,649	5,649	5,649
1,857,485	1,857,485	1,855,139	1,886,425	1,987,263	Overall Market Supply	2,061,885	2,061,885	2,061,885	2,061,885	2,061,885
	0%	0%	2%	5%	Supply Growth	4%	0%	0%	0%	0%
1,328,971	1,351,585	1,328,139	1,356,702	1,273,159	Overall Market Demand	1,314,000	1,402,000	1,445,000	1,490,000	1,536,000
	2%	-2%	2%	-6%	Demand Growth	3%	7%	3%	3%	3%
CAAGR		Supply chg.		1.7%	CAAGR		Supply chg.		0.0%	
CAAGR		Demand chg.		-1.1%	CAAGR		Demand chg.		4.0%	
72%	73%	72%	72%	64%	Occupancy	64%	68%	70%	72%	74%

Ms. Chris Anderson  
April 30, 2010  
Page 8

We appreciate the opportunity to provide you with our observations and insights on the market. Should you have any questions or require clarification of any of the items discussed in this letter, please do not hesitate to contact me. Please know that we value our past and future relationships with AIDEA. We remain committed to your continued success and we look forward to assisting you further in the future.

Respectfully submitted,

  
Kennedy & Mohn P.S.

Kennedy & Mohn, P.S.

By: Michael J. Mohn, MAI

MJM/tpk