

**Hotel Market Analysis  
Juneau, Alaska  
May 2008**

**Prepared for**

**AIDEA**

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## **INTRODUCTION**

This following report represents our initial baseline study of lodging market conditions in Juneau, Alaska. This study provides an overview of key economic factors and estimated lodging market performance data through year-end 2007 and culminating in our projections of future lodging market conditions. The purpose of this study is to provide AIDEA and local market participants with an independent, third-party perspective regarding the relative strength or weakness of the Juneau lodging market and those factors that would reasonably be expected to impact the market over the near term. The data and opinions set forth in this report are based on interviews with state and local officials, hotel owners, managers, and developers, and a variety of other direct and indirect participants in the tourism industry in the state and local markets. The data and opinions set forth in this report are based on our fieldwork and follow-up research conducted through May 2008.

## **ECONOMIC OVERVIEW**

### **Local Market Overview**

Juneau, Alaska's capitol city, is located in the rugged mountainous region of the state's southeastern panhandle. Juneau lies approximately 900 miles northwest of Seattle and 600 miles southeast of Anchorage. Juneau is the third largest city in Alaska with a 2007 population of roundly 30,300. The terrain of the area is predominantly mountainous, with Mount Roberts and Mount Juneau bordering the city to the northeast, and Gastineau Channel bordering the city to the southwest. This topography creates a naturally imposed shortage of developable land in Juneau that provides significant barriers to entry and impacts the pace of economic growth and the price of land. Another key feature is that Juneau is accessible only by air and water, and is home to a limited road system extending from a point approximately six miles southeast of downtown and terminating approximately 40 miles to the northwest at Echo Cove. Unlike other markets in the state, Juneau's more limited accessibility impacts all sectors of the economy, some favorably and others not. This limited accessibility is also at the heart of long-standing debates regarding 'the road' and 'the capital', both of which have significant economic ramifications to the market, now and potentially in the future.

Given the unique transportation constraints of the Juneau market, key transportation-related indicators provide an initial pulse on the local economy. These indicators show comparatively healthy growth in travel patterns in Juneau in recent years. Air access to Juneau is provided by Juneau International Airport (JNU), which hosted over 594,000 passengers in 2007, demonstrating average growth in passenger volumes of 2.8 percent annually in recent years. Terminal facilities at the airport were constructed in three phases between 1948 and 1980 and while air travel volumes to Juneau have more than doubled since 1984, there have been no corresponding expansions to the airport's terminal facilities. In recent years the airport has obtained funding from federal, state, and local sources to finance a planned \$20.7 million multi-phase renovation and expansion of airport passenger terminal facilities. Construction on this project is expected to start in spring 2009. The Alaska State Marine Highway System (ferry) provides year-round service to Juneau from a variety of maritime cities in Alaska and the

Northwest. Juneau is the highest volume destination within the ferry system, bringing nearly 73,000 passengers in 2007. Ferry passenger volumes have grown at an average of 2.5 percent annually in recent years. One of the strongest economic forces in Juneau is the cruise ships, which frequent this port from mid-May through early September each year. Cruise ships brought approximately 957,000 passengers to Juneau in 2007, an increase of 4.0 percent over 2006, and an average growth rate of 5.5 percent compounded annually since 2003.

### **Economic Indicators**

As shown in Table 1 on the following page, job growth in the Juneau Borough averaged a scant 0.7 percent annually during the 2003 to 2007 period, with several years of nominal growth bracketed by modest declines at the beginning and end of the period. Unemployment rates in the market have been gradually trending down in recent years, falling from a high of 5.8 percent in 2004 to a low of 4.4 percent in 2007. State economists forecast modest employment growth in Juneau for 2008.

The single largest employment sector in Juneau is clearly the Government sector, which accounts for 40 percent of all employment in the market in 2007, representing over 7,300 jobs. Federal government jobs represent 12 percent of the total Government sector, with 58 percent provided by state government, and the remainder by local government. However, the role of government in the Juneau market extends well beyond the direct creation of jobs in the market. Government employment in Juneau has shown modest declines in recent years, averaging -1.2% annually, shedding 370 jobs over the 2003 to 2007 period.

In contrast to declines in Juneau's largest employment sector, Juneau's smallest employment sector, Mining, has shown the strongest employment growth rate in the market (10.0%), albeit representing only 154 new jobs over the period. Growth in mining employment is largely attributed to pre-startup at the Kensington Mine, a \$238 million project, located north of Juneau. This project incurred a setback two years ago involving a dispute over how mine tailings were to be handled. Final resolution of the tailings dispute is nearing completion, with official opening of the mine projected for early 2009. Employment in this sector is expected to increase further upon opening of Kensington, with employment for the mine estimated at 200 initially and increasing to a peak of approximately 400. Additional stability in this sector has been provided by high minerals prices in recent years which have fueled increased exploration activity, resulting in the extended life of several mines in the state including the Greens Creek Mine near Juneau.

Respectable average annual employment growth rates were also achieved between 2003 and 2007 within the Financial Services sector (4.6%) and in the Trade, Transportation, & Utilities sector (4.1%). Employment growth was also achieved within the Manufacturing, Education & Health, and Leisure and Hospitality sectors, ranging from 1.7 percent to 2.7 percent annually. Collectively, these five employment sectors added over 850 new jobs to the market during the period.

**Table 1**  
**Juneau Borough Economic Indicator Summary**

	2003	2004	2005	2006	2007*	CAAGR
<b>Employment:</b>						
Total Industries	17,464	17,255	17,644	18,028	17,983	0.7%
% chg.		-1.2%	2.3%	2.2%	-0.2%	
<b>Goods Producing</b>						
Natl. Resource & Mining	332	332	348	457	486	10.0%
Construction	1,024	755	858	900	878	-3.8%
Manufacturing	255	263	276	292	284	2.7%
<b>Service Providing</b>						
Trade, Trans. & Utilities	2,871	3,027	3,153	3,266	3,370	4.1%
Information	307	286	302	301	285	-1.8%
Financial	537	553	577	627	643	4.6%
Prof. & Business	832	864	923	900	856	0.7%
Education & Health	1,531	1,629	1,653	1,727	1,641	1.7%
Leisure & Hospitality	1,523	1,493	1,545	1,504	1,638	1.8%
Government	7,692	7,492	7,408	7,470	7,322	-1.2%
<b>Unemployment Rate:</b>	5.7%	5.8%	5.3%	4.8%	4.4%	
<b>Population:</b>						
State of Alaska	647,773	647,314	664,060	670,958	676,987	1.1%
Anchorage	273,024	277,810	278,294	283,244	283,823	1.0%
Fairbanks	28,924	30,101	31,104	30,179	31,627	2.3%
Fairbanks North Star Borough	82,160	85,453	87,704	87,766	90,963	2.6%
Juneau City & Borough	31,294	31,122	31,225	30,811	30,305	-0.8%
Denali Borough	1,916	1,850	1,823	1,796	1,731	-2.5%
<b>Juneau International Airport</b>						
Total Air Passengers	532,616	548,551	564,549	575,637	594,101	2.8%
Incoming	266,044	274,306	282,679	286,955	297,267	2.8%
Outgoing	266,572	274,245	281,870	288,682	296,834	2.7%
Cargo (non-transit) 000#	11,627	12,495	18,023	20,181	16,604	9.3%
<b>Lodging Tax Receipts</b>						
Juneau City & Borough	\$897,011	\$906,280	\$886,240	\$1,061,798	\$1,184,151	7.2%
% chg.		1.0%	-2.2%	19.8%	11.5%	
<b>Alaska State Ferry System</b>						
Embarking Passenger Traffic	66,123	67,095	65,581	65,269	72,876	2.5%
% chg.		1.5%	-2.3%	-0.5%	11.7%	
<b>Cruise Passenger Trends</b>						
Alaska	777,000	884,400	953,400	958,900	1,029,800	7.3%
% chg.		13.8%	7.8%	0.6%	7.4%	
Juneau	771,857	850,703	915,000	919,893	957,000	5.5%
# Ship Calls	581	580	586	613	646	2.7%
<b>Inflation Trends - CPI-U</b>						
Anchorage	2.7%	2.6%	3.1%	3.2%	2.2%	
United States	1.6%	2.3%	2.7%	3.2%	2.8%	

\* ALMIS Feb-07 Benchmark Data

Sources:

Alaska Dept. of Labor; US Census, JIA, JCVB, NPS, Juneau Borough

Oil production related employment is a major driver of the state's resource-based economy, if not a dominant employer. Similarly, outside of its governmental oversight role, Juneau's role in the oil and gas industries in the state is quite limited. Nonetheless, the current record high oil prices have provided the state with massive royalties that filled state coffers in 2007, resulting in extensive state spending in the recently passed \$11B operating budget, \$2.9B capital budget, and \$5B deposited to state savings accounts. The stratospheric rise in oil prices have resulted in a dramatically renewed interest in exploration and development activities in the oil and gas sectors, as evidenced by Shell Oil Company's continuing efforts to gain approval for exploration of coastal waters in the Beaufort Sea, just offshore from ANWR and its recent involvement in securing \$2.1 billion in oil and gas leases in the Chukchi Sea off of Alaska's northwest coast in February 2008.

The biggest item on the horizon in the oil and gas industry in Alaska hinges on current legislative efforts to secure proposed construction of a proposed \$30B natural gas pipeline. Trans-Canada provided the only AGIA compliant proposal for development of the pipeline, which is currently under reviewed by the Governor's office and is expected to be presented to the state legislature in the upcoming special session in mid-2008. Meanwhile, Conoco-Phillips announced that it would pursue its own version of the gas pipeline without the \$500M in state subsidies offered under AGIA. In early April, BP announced it would join forces with Conoco to pursue development of the gas line, with this new venture expected to spend \$600M over the next three years on engineering and fieldwork related to the project. While the outcome is still far from certain, it appears that Alaska may soon be capitalizing on a project that it has pursued for over 30 years. Given the massive cost and scale of this \$30 billion project, its economic impact within the state would be substantial, although it is likely to be distributed over a protracted period of time. If this project moves forward, Anchorage would likely play a key role in the development and planning phases, whereas Fairbanks would likely benefit more heavily during the construction phase. Juneau will likely benefit only indirectly as home of many of the state's key agencies that will be involved in the planning, permitting, and monitoring of this massive project, and in determining where state proceeds will be spent. While this project now appears closer to fruition than at any time in its 30-year history, there is still no certainty that it will move forward. While our projections are not predicated on the gas line moving forward, the successful launch of this project would clearly signal the beginning of another major boom period for the economy of the state as a whole.

Between 2003 and 2007, the population in the Juneau Borough showed a -0.8 percent average annual decline, with nearly 1,000 fewer residents in 2007 than in 2003. Unlike the state as a whole and the other primary metropolitan markets in the state, Juneau has experienced a net out-migration in recent years, with more persons leaving the city than arriving. The Juneau Economic Development Corporation attributes this decline to a variety of factors including, capitol creep and concerns over potential relocation of the legislature, downward pressures on federal government jobs, and delays surrounding the Kensington Mine.

Other travel-related growth indicators in the Juneau area during the 2003 to 2007 period include growth in air passenger volumes (2.8%), growth in ferry passenger volumes (2.5%), and growth in lodging tax receipts (7.2%).

The tourism sector in the Juneau economy is predominantly linked to the cruise industry, which while it brought nearly one million visitors to Juneau in 2007, it creates only limited demand for overnight lodging. Like many other coastal towns and cities in Southeast Alaska, the cruise lines use Juneau as stopover point, offering passengers half-day to full-day shore excursions where they can stroll the downtown area and waterfront or choose from a variety of packaged day-tour alternatives before returning to the ship to disembark for the next stop. While downtown retailers and local tour operators benefit significantly from this demand, hotels in market generally see little benefit. The limited amount of overnight demand generated by the cruise lines is typically captured by the hotels in the downtown area and it results from the turning of ships by several of the smaller cruise operators and occasional crew changes by the larger operators. Juneau has embraced the cruise ship market and has seen visitor volumes grow rapidly to the point where future growth is limited by the existing capacity constraints within the market. According to the Juneau Convention and Visitors Bureau, existing cruise ship infrastructure is now operating at capacity with a maximum of five cruise ship dockings per day. While cruise passenger volumes in the market have grown at 5.5 percent annually over the 2003 to 2007 period, a more constrained level of growth is anticipated in the future.

A variety of macroeconomic factors are influencing lodging demand patterns in the current environment and are expected to continue to do so over the near term. The softening or near recessionary conditions in the larger U.S. economy, skyrocketing costs of fuel and groceries, tightening lending markets, and the recent collapse of the sub-prime mortgage markets, all translate to lower levels of discretionary income. These factors are expected to exert downward pressure on leisure travel patterns over the near to mid-term. Conversely, the low value of the dollar on the world currency markets tends to enhance domestic travel patterns while allowing the U.S. to capture a larger share of the foreign travel markets. Alaska is expected to remain a highly desirable travel destination for domestic and foreign visitors alike. Also on the positive side, unlike the rest of the nation, Alaska markets may see continued benefit from high oil, gas, and minerals pricing which enhances exploration and development activity in the state's resource-based economy, thereby resulting in upward pressure on commercial demand patterns. While the macroeconomic signals are somewhat negative, we are reasonably confident that Alaska will avoid a major downturn in its economy and that softening or declines in one sector may be offset by growth in other sectors.

Within the Juneau market, there are several large-scale issues that continue to exert pressure on the local economy and therefore warrant further discussion.

- ◆ First and foremost, Juneau has endured numerous attempts to relocate the state capitol, dating back as far as statehood, in 1959. Supporters of the capitol move say that it is important for the seat of government to be closer to the major population centers, with easier access between constituents and the legislators (read as road access), whereas opponents argue that Juneau's location is economically vital to Southeast Alaska and that access to decision-makers is improving all the time. Voters have both rejected and approved various ballot measures to move the capitol and/or the legislature, but thus far they have been largely unwilling to incur the mammoth costs for such a project. While

Juneau has managed to survive these earlier attempts, the issue clearly remains unresolved, as evidenced by the introduction of two similar bills during the 2008 legislative session.

- ◆ On a similar but related front, since 1992 Juneau has sought to mitigate its isolation and access issues and potentially improve its bid to retain the capitol by connecting its limited road system to the balance of the state. The Juneau Road Project is a \$374 million proposal to construct approximately 50 miles of new highway from Juneau extending north along Lynn Canal, culminating in a high-speed ferry that would connect the last 18 miles to Skagway. While this project had the support of the Murkowski administration and partial funding, since taking office in 2006, the current governor has cancelled \$31M in early spending for the project, characterizing it as premature.

While we cannot predict if, when, or how these key issues will be resolved, the magnitude of uncertainty that they bring is stifling to the local economy.

## **LODGING MARKET ANALYSIS**

### **Juneau Lodging Market Overview**

The Juneau lodging market includes a wide variety of accommodations including full-service hotels, mid-market to economy hotels, and Bed & Breakfast inns. The focus of our analysis is on the full-service and mid-market, limited-service hotels. Most hotels in Juneau are located either in the downtown area or in the Mendenhall Valley, near the airport, approximately eight miles north of downtown. While the larger, full-service hotels are located in the downtown area, due to their age and condition, these properties are not materially different than many of the mid-market, hotels located in the valley. Due to the location of the state capitol and the cruise ship docks in the downtown area, the downtown hotels retain a competitive advantage in attracting demand from these sources. Conversely, the properties in the Valley are better positioned to attract the more traditional commercial demand, non-legislative government demand, and independent leisure demand arriving by air or via the Alaska State ferry system. In the current environment, the downtown properties tend to compete most directly with the other downtown hotels and the valley properties typically compete most directly with their counterparts in the valley. Accordingly, given the nominal differences in quality and rate structure, we find that the most meaningful discussion of lodging market performance trends in Juneau should be defined along competitive lines (Downtown vs. Valley) rather than along qualitative lines (Upscale vs. Mid-scale). Additionally, the Juneau lodging market has a rather large concentration of hotels with an extended-stay orientation, which we attribute to the large influence of government demand in the market. While many of the hotels in the market offer some component of over-sized rooms, each of the last three hotels built in Juneau are of this product type, typically featuring over-sized guestrooms, kitchens, and even laundry facilities. Given the comparatively small size of the Juneau market, our analysis includes the more traditional transient oriented hotels and the extended-stay oriented hotels.

The Downtown submarket in Juneau consists of five hotels at the present time, including the Westmark Baranof Hotel, Goldbelt Hotel, Prospector Hotel, Driftwood Lodge, and the Juneau Hotel. With the exception of the regionally-branded Westmark, the remaining hotels are all independent. These hotels range in size from 62 to 195 rooms; and collectively represent a peak season inventory of 496 available guestrooms. Three of the hotels in the Downtown submarket are full-service facilities, offering a restaurant and lounge, and meeting and banquet space ranging from roundly 1,700 square feet to 5,100 square feet. The weighted average age of guestrooms in the Downtown submarket is 43 years. Many of the hotels in this submarket are negatively affected by their age and the modest levels of capital reinvestment in recent years. Due to the fully-developed nature of Juneau's downtown core and the resulting lack of available land, the available room supply in the Downtown submarket was essentially static for almost 30 years prior to the opening of the Juneau Hotel which was constructed in several phases between 2003 and 2008. The Juneau Hotel is located at the edge of the downtown core, adjacent to the Douglas Bridge. This hotel operates with a total of 72 rooms with approximately one-half being extended-stay oriented, apartment-style units and the balance being more traditional transient hotel rooms.

The Valley submarket consists of four hotels, including the Extended Stay Deluxe (formerly the Aspen Hotel), the Travelodge, Best Western, and Frontier Suites. Three of the competitive hotels in this submarket benefit from nationally recognized franchises or affiliations, and one operates as an independent hotel. These hotels range in size from 55 to 104 guestrooms representing a 2007 peak season inventory of 340 available rooms. Two of the hotels in this submarket are full-service properties with a restaurant, lounge, and limited meeting facilities. The Valley submarket includes the bulk of the newer lodging facilities in Juneau and the only hotels in the market that offer indoor pools. Hotels in the Valley submarket have a weighted average age of 15 years compared to the Downtown submarket with a weighted average age of 43 years.

The following table identifies those properties in each of the two primary submarkets, including key physical attributes and the current seasonal published pricing of guestrooms.

Downtown Submarket	Class	Date Opened	Rooms	AAA Rating	F&B	Meeting Space		2008		Amenities
						Total	Largest	Rack Single/Double		
						Area (SF)	Room (SF)	Summer	Winter	
Westmark Baranof Hotel	Upscale	1939/1960's	195	◆◆	2/1	5,100	2,068	\$149-\$279	\$149-\$279	CF
Goldbelt Hotel	Upscale	1972	105	◆◆	1/1	2,129	780	\$179-\$189	\$130-\$139	N/A
Prospector Hotel	Mid-scale	1972	62	N/R	1/1	1,745	1,173	\$169-\$189	\$129-\$149	D
Driftwood Lodge	Mid-scale	1977	62	N/R	0/0	0	0	\$94-\$125	\$68-\$98	N/A
Juneau Hotel	Mid-scale	2004/2008	72	N/R	0/0	900	900	\$169	\$109-\$129	E
Subtotal			496			9,874				
<b>Valley Submarket</b>										
Extended Stay Deluxe	Mid-scale	2000	95	◆◆	0/0	1,100	1,100	\$169 - \$189	\$109 - \$119	ABCE
Travelodge	Mid-scale	1985	86	N/R	1/1	2,372	1,400	\$169-\$189	\$99 - \$119	ABC
Best Western Country Lane	Mid-scale	1982	55	◆◆	0/0	0	0	\$169-\$179	\$129-\$139	DE
Frontier Suites	Mid-scale	1998/00	104	N/R	1/1	860	500	\$129-\$199	\$109 - \$159	CE
Subtotal			340			4,332				
<b>TOTAL COMPETITIVE MARKET</b>			<b>836</b>			<b>14,206</b>				
N/R - not rated						Amenities		A Pool	D	Bus. Ctr.
								B Spa/Steam	E	Gst Ldry.
								C Exercise	F	Retail

Source: K&M interviews, AAA-2008, individual websites, JCVB

### Historical Supply and Demand

Table 3, presented on the page 10, summarizes information regarding the historical operating performance of the competitive hotels in the Downtown and Valley submarkets in Juneau for the period 2005 through 2007. Key indications from this summary are as follows:

- ◆ The growth in the available room supply in the overall market shows a nominal net gain of 27 available rooms on an annualized basis over the 2005 to 2007 period, indicating a compound average annual growth in supply of 1.7 percent. The only property to enter the market during this period was the 72-room Juneau Hotel, which was developed in multiple phases, thereby diffusing its impact on the market. On an annualized basis, this property had 20 of its available rooms open in 2005, increasing to 47 available rooms in

2007. The remaining 25 rooms will effectively enter the market in 2008 (18 rooms) and 2009 (7 rooms).

- ◆ During the 2005 to 2007 period all of the new rooms supply growth was concentrated in the Downtown submarket, yielding average growth of 3.0 percent annually. This contrasts with prior development cycles in Juneau when the Valley submarket received all of the new supply growth, following the opening of the Aspen Hotel in 2000 and the Frontier Suites, between 1998 and 2000.
- ◆ Based on historical data and our recent interviews in the market, we estimate that growth in rooms demand in the overall market grew at 3.6 percent annually over the 2005 through 2007 period, outpacing the annual growth in supply of 1.7 percent. Within the Downtown submarket growth in demand averaged 5.5 percent annually during the period, compared to rooms supply growth of 3.0 percent annually. In the Valley submarket, demand increased at 1.6 percent annually with zero growth in rooms supply. Each of these indicators suggests a moderate strengthening of demand for lodging within the submarkets in recent years.
- ◆ The resulting occupancy rates in the overall market showed modest increases in recent years, increasing from 64 percent in 2005 to 67 percent in 2007. Occupancy rates in the Downtown submarket increased from 58 percent to 61 percent during the period compared to Valley submarket where occupancies increased from 73 percent to 75 percent.
- ◆ In terms of occupancy, the Valley submarket typically outperforms the Downtown submarket by a fairly wide margin. We attribute this to several factors including less seasonal volatility in demand in the valley combined with the generally newer facilities and smaller size of the properties in this submarket.
- ◆ Average room rates within the overall market increased from roundly \$96 to \$105 during the 2005 to 2007 period, posting a 4.6 percent average annual growth rate. Rate growth was fairly evenly distributed between the two submarkets, although not so between the various individual hotels within each submarket. The Downtown submarket saw average room rates increase from \$97 to \$106 over the period, indicating a 4.5 percent annualized growth. The Valley submarket saw average room rates grow from \$94 in 2005 to \$104 in 2007, a 5.2 percent annualized growth. While increases of this magnitude are a positive indicator, they were not evenly distributed throughout the market, with some properties achieving double-digit growth while others captured little more than inflationary growth.
- ◆ Significant growth in average room rates has been a fairly common theme in the hotel industry as a whole in recent years. With an expanding economy and strong travel patterns, hoteliers sought to recapture rate increases that had been foregone in earlier years. While this underlying trend also appears to be present in Juneau, we attribute

some portion of the strong rate growth in recent years to renovation and aggressive rate repositioning efforts by individual properties in the market.

- ◆ The overall market achieved growth in revenue per available room (RevPAR) during the 2005 to 2007 period of 6.3 percent annually, increasing from roundly \$62 to \$70. Stronger growth was posted by the Downtown submarket at 7.7 percent annually, with RevPAR increasing from \$56 to \$65, whereas the Valley submarket achieved RevPAR growth averaging 6.3 percent annually, increasing from \$69 to \$78. While a stronger RevPAR growth rate was achieved in the Downtown submarket, it still remains markedly below the RevPAR achieved by the Valley submarket, primarily due to the large differential in occupancies combined with little difference in average room rates between the submarkets.

	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><u>2007</u></b>											
Downtown Submarket	471	172,065	58.1%	61%	104,700	53.0%	91.2%	\$106.00	\$11,135,161	\$65.00	92.9%
Valley Submarket	340	124,100	41.9%	75%	93,000	47.0%	112.3%	\$104.00	\$9,687,967	\$78.00	111.4%
Total Market	811	296,165	100.0%	<b>67%</b>	197,700	100.0%	100.0%	\$105.00	\$20,823,128	\$70.00	100.0%
% chg.		1.9%			3.7%				9.3%	6.1%	
<b><u>2006</u></b>											
Downtown Submarket	456	166,460	57.3%	60%	99,100	52.0%	90.8%	\$100.00	\$9,869,553	\$59.00	89.4%
Valley Submarket	340	124,100	42.7%	74%	91,500	48.0%	112.4%	\$100.00	\$9,188,138	\$74.00	112.1%
Total Market	796	290,560	100.0%	<b>66%</b>	190,600	100.0%	100.0%	\$100.00	\$19,057,691	\$66.00	100.0%
% chg.		1.5%			3.3%				7.8%	6.5%	
<b><u>2005</u></b>											
Downtown Submarket	444	162,080	56.6%	58%	94,100	51.0%	90.1%	\$97.00	\$9,129,540	\$56.00	90.3%
Valley Submarket	340	124,100	43.4%	73%	90,400	49.0%	113.0%	\$94.00	\$8,542,510	\$69.00	111.3%
Total Market	784	286,180	100.0%	<b>64%</b>	184,500	100.0%	100.0%	\$96.00	\$17,672,050	\$62.00	100.0%
<b><u>Compound Average Annual Growth Rate 2005 - 2007</u></b>											
Downtown Submarket		3.0%			5.5%			4.5%		7.7%	
Valley Submarket		0.0%			1.4%			5.2%		6.3%	
Total Market		1.7%			3.5%			4.6%		6.3%	

Source: Kennedy & Mohn, P.S.

### **Cruise/Tour Market Factors**

As noted previously, the Juneau market is well entrenched with the cruise lines, but its location off of the primary road system in the state greatly limits its ability to participate significantly in the tour side of the cruise/tour market. Excepting several of the smaller cruise operators that turn their ships in Juneau, the bulk of the Juneau market is comprised of cruise-only activity. Typical cruise packages in the market are 7 to 10-day excursions, one-way itineraries (cruise one-way, fly home) originating in Seattle, Vancouver, or San Francisco and terminating in Seward or Whittier and then reversing the cycle southbound. Similar itineraries are available for

passengers wishing to cruise both ways. For most guests that select a land-tour component to add to their cruise, this begins in Whittier or Seward, working its way north through Anchorage, Denali, and then Fairbanks.

The dominant players in the state's cruise/tour market in Alaska are Princess, Holland America, and Royal Celebrity. Only Holland America has a presence in the Juneau lodging market through its ownership of the Westmark Baranof Hotel in downtown Juneau. For reasons noted previously, this hotel benefits only indirectly from its relationship to Holland America, and potentially to its detriment, capturing a limited amount incidental demand, likely at discounted rates.

As shown in Table 1, cruise ship passenger volumes in Alaska have been growing steadily in recent years, primarily through the addition of more and larger ships to Alaskan waters, rather than through expansion of the typical cruise season which runs from mid-May through mid-September. Juneau is a primary stopover point for nearly all cruise itineraries, consistently capturing over 90 percent of the total cruise passenger volumes coming to Alaska each year. According to the Juneau Convention & Visitors Bureau, growth trends in this sector are expected to flatten as the infrastructure that supports the cruise ships in Juneau is currently operating at capacity. These capacity constraints may have augmented the recent development of cruise ship oriented tourism facilities at Icy Strait Point in Hoonah, Alaska, adding yet another alternative to the varied offerings of the major cruise lines in southeast Alaska.

Our recent interviews with cruise/tour operators in the state have produced mixed reviews, with several indicating a moderate slowing of demand patterns for 2008, while others indicate that 2008 will be flat to slightly up from 2007 numbers. Macro economic factors including the softening economy in the lower-48 and perpetually increasing fuel costs could potentially begin to exert downward pressure on demand within the cruise/tour sector of the market. However, given that the typical 7-day cruise of southeast Alaska is one of the least costly of the Alaska cruise/tour alternatives, Juneau's position in this market likely has limited downside risks in the near term.

### **Seasonal Factors**

With the exception of legislative influences, lodging demand patterns in Juneau follow the typical seasonal patterns of most other markets in the state. Peak season is often identified by changes in rate structure at area hotels, which typically occurs during mid-May through mid-September, and coincides with the beginning and end of the cruise season in Alaska. With limited demand provided by cruise activity in the market, most peak season demand consists of independent leisure travelers and smaller packaged tours. Legislative activity in Juneau provides a much needed off-season boost to hotel demand patterns in the market during the spring of each year, typically January through April. Off-season periods occur during the balance of the year, when leisure travel is minimal and the market relies more heavily on demand from commercial, group, and non-legislative government activities.

Government related travel in Juneau is generated from two primary sectors: legislative activities and other government agencies including forest service, NOAA, Coast Guard, State DOT/PF, and a host of others. Demand generated by legislative activities is provided by state legislators, lobbyists, and anyone with a pet cause to support or defend. The bulk of this demand is typically captured in the downtown submarket and typically occurs during the January to April period each year. Conversely, most of the demand generated by government agency activities tends to be captured by hotels in the valley submarket and tends to occur fairly consistently throughout the year.

The legislative session begins each January and these sessions historically ran for 120-days. However, in 2006 voters passed an initiative that reduced the statutory length of legislative sessions from 120 days to 90 days, beginning in 2008. The trial-run for the 90-day session occurred earlier this spring and, while the session adjourned on time, some legislators felt it was rushed and that public involvement was limited. Similar commentary was received from hoteliers, who indicated that with fewer opportunities to meet with legislators, demand generated from lobbying activities was reduced significantly. A special 30-day session is scheduled to occur June 2008 to consider the natural gas pipeline project and potentially a second special session later in the year to address state energy issues. The timing of the special sessions is of particular concern to local hoteliers who fear that the market may be ill-equipped to accommodate the simultaneous needs of legislative and leisure travelers and that this could potentially be used against Juneau in the continuing efforts to gain support for a capitol move.

The combined effect of seasonal changes in room rates and demand patterns in recent years are visible in the historical trends in hotel room tax receipts reported by the City and Borough of Juneau as shown in Table 4.

<b>Table 4</b>							
<b>Juneau Hotel Motel Tax Receipts - 2003 - 2007</b>							
		<b>1st Qtr.(2)</b>	<b>2nd Qtr.</b>	<b>3rd Qtr.</b>	<b>4th Qtr.</b>	<b>Total (1)</b>	<b>% Chg.</b>
<b>2003</b>	Total	137,813	158,019	326,366	315,297	897,011	
<b>2004</b>	Total	96,765	155,143	286,399	306,359	906,280	1.0%
<b>2005</b>	Total	122,633	159,000	313,974	319,744	886,240	-2.2%
<b>2006</b>	Total	125,943	183,668	340,508	343,142	1,061,798	19.8%
<b>2007</b>	Total	153,281	220,862	376,942	393,646	1,184,151	11.5%
<b>Total Market</b>							
	<b>% of Annual (2007)</b>	13%	19%	32%	33%	100.0%	
	<b>CAAGR 2003-2007</b>					7.2%	
<i>Note 1: Annual total shown after year-end adjustments for accrual/reversal</i>							
<i>Note 2: Quarterly tax collections lag demand by one quarter, with Jan-Mar taxes due in April</i>							
Source: Juneau Convention & Visitors Bureau - Hotel Bed Tax Receipts							

## Segmentation

We classified market demand into four general categories: commercial, leisure, group, and contract. Segmentation data is routinely tracked by hotel operators, although the level of detail and accuracy of the data varies widely between properties. In recent years it has become more and more difficult for hotel operators to maintain accurate segmentation data due to the increased use of Internet booking engines and promotions. While these choices can be attractive to the guest, they hinder the hotel's ability to accurately track guest segmentation patterns.

- ◆ Commercial demand is composed of independent business travelers and state and federal government workers. Demand in the commercial segment is reasonably stable throughout the year, with modest declines during summer and holiday periods. The government component of this segment increases substantially each spring and during special session periods. Based on our recent interviews, we estimate this demand represents approximately 54 percent of total annual demand in the overall market in 2007.
- ◆ Leisure demand consists of independent and packaged leisure travelers and is concentrated primarily during the peak summer season, with more modest levels during the balance of the year. We estimate the leisure demand segment to represent approximately 36 percent of total annual demand in the market.
- ◆ Group demand consists of conventions and meeting related travel to Juneau, and demand generated by sports teams and school events. Demand in this segment is typically concentrated during shoulder periods in the spring and fall. Current interviews suggest that group demand represents approximately 7 percent of total demand in the market.
- ◆ Contract demand in Juneau is provided primarily by airline crews. This demand makes up approximately three percent of total demand in the market and is concentrated in the Downtown submarket.

## **SUPPLY AND DEMAND PROJECTIONS**

In evaluating the performance potential of the Juneau lodging market in future years we have considered historical and projected changes in the competitive rooms supply and anticipated changes in market demand volumes and patterns over the near to mid-term. Our analysis incorporates the addition of new hotels that are expected to open in the market over the next several years. Projections of future demand growth reflect contributions from three fundamental sources: unsatisfied demand, induced demand, and underlying growth in demand. A detailed discussion of our analysis is presented in the following paragraphs.

### **Supply Changes**

Based on our research and interviews in the local market, we are aware of no other new hotels planned for development in Juneau at the present time. Several definite, but only minimally significant, changes to the guestroom inventory are expected to occur in the market in the near term. The Juneau Hotel will continue to gradually open its remaining inventory, with the last

phase of construction scheduled to open in June 2008. This addition equates to an annualized allocation of 18-rooms entering the market in 2008 and 7-rooms in 2009. According to management at the Westmark Baranof Hotel, planned renovations will reduce the available room count at this hotel from 195 to 192 beginning in 2009.

To our knowledge, several hotel developers active in the state have expressed an interest in developing new hotels in Juneau, recognizing the dated quality of much of the inventory. However, thus far, these developers have not been successful in acquiring suitable sites for development. Based on recent and projected performance levels in the Juneau market, we have assumed that an additional hotel will be built in the Valley submarket during the later part of our projection period. Our projections reflect development of an approximately 75-room property opening in mid-2010.

### **Demand Changes**

Within our analysis, projections of growth in demand reflect the combination of three individual components including unsatisfied demand, underlying growth, and induced demand.

- ◆ Unsatisfied demand is that component of new demand that can be accommodated in the market as new hotel rooms open, thereby providing additional capacity during peak periods.
- ◆ Underlying growth is projected based on the strength of local and regional economic indicators such as growth in population, employment, growth in room tax collections, and growth in air travel.
- ◆ Induced demand reflects changes in the market that are induced by forces external to the market. Induced demand can be either positive or negative, with the opening of a new demand generator providing a positive inducement of demand, while the opening of competing hotels outside the competitive market, which draw off demand, would result in negative induced demand.

In arriving at our estimates of future demand growth, consideration was given to mix of demand by segment, seasonal patterns of demand, and the seasonal capacity constraints within the market. Key factors in our analysis are summarized in the following paragraphs.

- ◆ We estimate underlying growth in demand based on historical changes in key economic indicators, as presented previously in Table 1, tempered with anticipated changes over the near term. The economic data provides support for underlying growth rates generally in the range of one to three percent annually, based on growth in employment, population, air passenger volumes, and room taxes, while historical growth in rooms demand has averaged 3.5 percent annually in recent years. The following growth rates are applied uniformly to both the Downtown and Valley submarkets, yielding average underlying growth of 2.2 annually during our projection period.

- Our projections of underlying growth in demand include growth in the commercial/government segment of 2.0 percent annually throughout the projection period. Growth in this segment reflects modest underlying growth in employment, declining local construction activity, with the expectation that increased state spending will gradually bolster many of the state agencies based in Juneau.
  - Within the group demand segment, growth is projected at 1.0 percent annually throughout the projection period, recognizing the nominal contribution of demand derived from this segment.
  - Leisure demand is projected to grow at 1.0 percent annually during the early years of the projection period, increasing to 2.0 percent annually by the middle of our projection period. This estimate reflects anticipated flattening of demand patterns due to external economic forces that are expected to have somewhat greater impact on independent travel patterns.
  - Within the contract demand segment growth is projected at 0.0 percent annually throughout the projection period, reflecting no significant changes in the key support industries within this segment.
- ◆ Unsatisfied demand in the Downtown submarket is projected based on 50 fill nights annually at a 75 percent occupancy rate for the new guestrooms projected to enter the market during the projection period. No deduct is taken for the reconfigured inventory at the Baranof. This demand is allocated equally to the commercial and leisure demand segments. Given the stronger occupancies achieved in the Valley submarket, unsatisfied demand is projected based on an estimated 65 fill nights annually.
  - ◆ Our estimates of induced demand reflect a negative inducement of roundly 8,000 room nights of demand from the commercial/government segment in 2008, reflecting the shift from a 120-day to a 90-day legislative session. Our interviews in the market consistently indicated that this change had a material impact on demand patterns during the 2008 legislative session. We have allocated approximately 85 percent of this impact to the Downtown submarket, with the remainder allocated to Valley submarket.

Table 5, presented on the following page, sets forth our projections of growth in demand throughout the forecast period.

<b>Table 5</b>						
<b>Projected Demand Growth by Segment</b>						
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	
<b>Downtown Submarket</b>						<b>Mix</b>
Commercial Demand	47,800	49,000	50,000	51,000	52,000	48%
Underlying Growth	2.0%	2.0%	2.0%	2.0%	2.0%	
Unsatisfied Demand	400	200	0	0	0	
Induced Demand	(6,800)	0	0	0	0	
Group Demand	11,100	11,200	11,300	11,400	11,500	11%
Underlying Growth	1.0%	1.0%	1.0%	1.0%	1.0%	
Unsatisfied Demand	0	0	0	0	0	
Induced Demand	0	0	0	0	0	
Leisure Demand	36,100	36,700	37,400	38,100	38,900	36%
Underlying Growth	1.0%	1.0%	2.0%	2.0%	2.0%	
Unsatisfied Demand	400	200	0	0	0	
Induced Demand	0	0	0	0	0	
Contract Demand	5,300	5,300	5,300	5,300	5,300	5%
Underlying Growth	0.0%	0.0%	0.0%	0.0%	0.0%	
Unsatisfied Demand	0	0	0	0	0	
Induced Demand	0	0	0	0	0	
Total Demand	100,000	102,000	104,000	106,000	108,000	100%
<b>Valley Submarket</b>						<b>Mix</b>
Commercial Demand	53,300	54,400	56,800	58,800	60,000	58%
Underlying Growth	2.0%	2.0%	2.0%	2.0%	2.0%	
Unsatisfied Demand	0	0	1,300	900	0	
Induced Demand	(1,200)	0	0	0	0	
Group Demand	2,400	2,400	2,400	2,400	2,400	2%
Underlying Growth	1.0%	1.0%	1.0%	1.0%	1.0%	
Unsatisfied Demand	0	0	0	0	0	
Induced Demand	0	0	0	0	0	
Leisure Demand	37,500	37,900	39,600	41,000	41,800	40%
Underlying Growth	1.0%	1.0%	2.0%	2.0%	2.0%	
Unsatisfied Demand	0	0	900	600	0	
Induced Demand	0	0	0	0	0	
Contract Demand	0	0	0	0	0	0%
Underlying Growth	0.0%	0.0%	0.0%	0.0%	0.0%	
Unsatisfied Demand	0	0	0	0	0	
Induced Demand	0	0	0	0	0	
Total Demand	93,000	95,000	99,000	102,000	104,000	100%
<b>Overall Market</b>						
Commercial Demand	52%	52%	53%	53%	53%	
Group Demand	7%	7%	7%	7%	7%	
Leisure Demand	38%	38%	38%	38%	38%	
Contract Demand	3%	3%	3%	3%	3%	
Total Demand	100%	100%	100%	100%	100%	

Table 6, presented on the following page, incorporates our individual projections of demand growth by segment and submarket into a single presentation of historical and projected changes in supply and demand within the Juneau market. Collectively, our estimates of unsatisfied, induced, and underlying demand growth indicate a 2.4 percent average annual increase in demand for the overall market from 2008 through 2012. This rate of demand growth is less than the historical rate of demand growth achieved by the market in recent years due predominantly to legislative changes and softening economic factors. Our projections indicate occupancy rates for the overall market are expected to decline approximately three percentage points in 2008 to roundly 64 percent. Further decline would result following the potential opening of a new hotel in the Valley submarket although its impact would also be concentrated in this submarket.

Within the Downtown submarket our projections indicate that occupancy rates will decline in 2008 to approximately 56 percent as a result of the shorter legislative session and reduced lobbying activity, in conjunction with modest increases in supply. With no further supply changes expected later in the projection period, we forecast a slow but gradual rebuilding of occupancies in later years, reaching approximately 60 percent by the end of our projection period. Occupancies could grow slightly faster in future years, depending on the frequency and timing of special sessions, which are not factored into our analysis.

In contrast, the Valley submarket has historically enjoyed a notable premium in occupancy when compared to the Downtown submarket. This premium is expected to be sustained in future years, despite the decline forecast in the Downtown submarket. Changes to legislative sessions are expected to have negligible impact on demand in the Valley submarket and while similarly moderate growth is projected, this submarket appears to have little downside risk in the near to mid term, other than potential supply change. We project occupancies in the Valley submarket will remain in the mid to upper-70 percent range during the early years of our projection period but sustained performance at this level is expected to attract new development in subsequent years, causing occupancies in this submarket to decline. Given the relatively small size of the Valley submarket, the extent of this decline will depend heavily on the number of new rooms that are built. Our projections assume a 75-room hotel will be developed in approximately mid-2010 and that as a result, occupancies in this submarket will decline to a low of 67 percent in 2011, rebuilding slowly thereafter. In the event that a new hotel does not enter this submarket, occupancies would be expected to improve slightly and the Downtown submarket would likely benefit from increasing levels of compression in the Valley submarket.

**Table 6**  
**Historical and Projected Market Conditions**

Historical			Projected Market Conditions					
2005	2006	2007		2008	2009	2010	2011	2012
			<b>Downtown Submarket</b>					
444	456	471	Existing Product	471	468	468	468	468
			Juneau Hotel (exp)	18	25	25	25	25
444	456	471	Average Daily Rooms	489	493	493	493	493
162,080	166,460	172,065	Annual Room Nights	178,635	180,095	180,095	180,095	180,095
	2.7%	3.4%	Percentage Change	3.8%	0.8%	0.0%	0.0%	0.0%
94,100	99,051	104,747	Market Demand	100,000	102,000	104,000	106,000	108,000
CAAGR Supply chg.				CAAGR		Supply chg.	0.2%	
CAAGR Demand chg.				CAAGR		Demand chg.	1.9%	
	4,951	5,697	Change from prior year	(4,747)	2,000	2,000	2,000	2,000
	5.3%	5.8%	Percentage Change					
	500	700	Unsatisfied Demand	700	300	0	0	0
	0	0	Induced Demand	(6,800)	0	0	0	0
	4,451	4,997	Underlying Growth	1,353	1,700	2,000	2,000	2,000
	4.7%	5.0%	Underlying Growth Rate	1.3%	1.7%	2.0%	1.9%	1.9%
58%	60%	61%	Occupancy	56%	57%	58%	59%	60%
			<b>Valley Submarket</b>					
340	340	340	Existing Product	340	340	340	340	340
			Proposed hotels	0	0	44	75	75
340	340	340	Average Daily Rooms	340	340	384	415	415
124,100	124,100	124,100	Annual Room Nights	124,100	124,100	140,160	151,475	151,475
	0.0%	0.0%	Percentage Change	0.0%	0.0%	12.9%	8.1%	0.0%
90,400	91,462	93,018	Market Demand	93,000	95,000	99,000	102,000	104,000
CAAGR Supply chg.				CAAGR		Supply chg.	5.1%	
CAAGR Demand chg.				CAAGR		Demand chg.	2.8%	
	1,062	1,556	Change from prior year	(18)	2,000	4,000	3,000	2,000
	1.2%	1.7%	Percentage Change					
	0	0	Unsatisfied demand	0	0	2,145	1,511	0
	0	0	Induced Demand	(1,200)	0	0	0	0
	1,062	1,556	Underlying Growth	1,182	2,000	1,855	1,489	2,000
	1%	2%	Underlying Growth Rate	1.3%	2.2%	2.0%	1.5%	2.0%
73%	74%	75%	Occupancy	75%	77%	71%	67%	69%
			<b>Overall Market</b>					
784	796	811	Average Daily Rooms	829	833	877	908	908
286,180	290,560	296,165	Overall Market Supply	302,735	304,195	320,255	331,570	331,570
	2%	2%	Supply Growth	2%	0%	5%	4%	0%
184,500	190,513	197,765	Overall Market Demand	193,000	197,000	203,000	208,000	212,000
	3%	4%	Demand Growth	-2%	2%	3%	2%	2%
CAAGR Supply chg.				CAAGR		Supply chg.	2.3%	
CAAGR Demand chg.				CAAGR		Demand chg.	2.4%	
64%	66%	67%	Occupancy	64%	65%	63%	63%	64%

## **Average Room Rates**

In analyzing the Juneau lodging market, we find comparatively little differential in rate structure between the Downtown and Valley submarkets, despite the larger variance in occupancies. While seasonal variations in rate structure within the market are driven by changing demand patterns, the seasonal rate changes in Juneau are generally less than those found in other major markets in the state. The lower spread in seasonal rates is likely attributable to Juneau's relative lack of cruise/tour demand which impacts both the cost and availability of guestrooms. Similarly, the Juneau market presents a relatively level playing field, without the presence of hotels with significantly higher quality and larger size that enables them to manipulate demand by offering lower priced rooms. With somewhat more homogeneous rooms quality in the market, unfair competition is reduced, which creates an environment that is conducive to gradual rate growth.

Average room rates in Juneau are influenced by the comparatively large component of demand derived from the government sector with per diem rates of \$79 off-peak and \$129 during peak season. A potential, but unanticipated result of changes in legislative demand volumes may exert modest upward pressure on average room rates in the market as less discounted demand is captured during off-peak periods. However, if operators respond to declining demand by cutting room rates, the opposite could also be true. We assume that operators recognize that cutting rates does not increase demand patterns, but only serves to redistribute the available base of demand.

The only thing certain about average room rates is that they are constantly in a state of flux. The direction of change and the relative significance of that change depends on a myriad of forces operating within the market and the response to these forces by the individual operators. During the 2005 to 2007 period, average room rates in Juneau increased at nearly twice the underlying rate of inflation. Historical rate growth was fairly consistent between the two submarkets, which generally supports our earlier contention regarding comparable quality and a competitively neutral environment.

To derive a five-year projection of growth in average room rate, we considered the dual impacts of inflation and anticipated market conditions. We have incorporated an underlying inflation rate of 2.5 percent annually throughout the projection period. Market condition adjustments are based on our estimates of how the market will respond to a variety of factors including, the softening economy, flattening of growth in the cruise and tour industries, and new rooms that may enter the market in future years. We project growth in average room rates within the overall market at roundly 2.9 percent annually over the projection period, reflecting a modest slowing of growth from recent years. We project the Downtown submarket will achieve rate growth averaging 2.6 percent annually during the projection period, compared to 3.1 percent annually in the Valley submarket. Our projections of growth in average room rate for each submarket are shown in the following table. The resulting average room rate for the overall market is the weighted average reflecting demand patterns and rates within the two submarkets.

**Table 7**  
**Projected Average Room Rate And Revenue Per Available Room**

<u>Year/Market</u>	<u>Inflation</u>	<u>Market Response</u>	<u>Total Change</u>	<u>Projected ARR</u>	<u>Projected Occup. %</u>	<u>Projected REVPAR</u>
<b>2007</b>						
Downtown Submarket				\$106.00	61%	\$64.53
Valley Submarket				\$104.00	75%	\$77.95
Overall Market				\$105.00	67%	\$70.11
<b>2008</b>						
Downtown Submarket	2.50%	1.00%	3.50%	\$110.00	56%	\$61.58
Valley Submarket	2.50%	1.00%	3.50%	\$108.00	75%	\$80.93
Overall Market				\$109.00	64%	\$69.49
<b>2009</b>						
Downtown Submarket	2.50%	0.00%	2.50%	\$113.00	57%	\$64.00
Valley Submarket	2.50%	1.00%	3.50%	\$112.00	77%	\$85.74
Overall Market				\$113.00	65%	\$73.18
<b>2010</b>						
Downtown Submarket	2.50%	0.00%	2.50%	\$116.00	58%	\$66.99
Valley Submarket	2.50%	1.00%	3.50%	\$116.00	71%	\$81.93
Overall Market				\$116.00	63%	\$73.53
<b>2011</b>						
Downtown Submarket	2.50%	0.00%	2.50%	\$119.00	59%	\$70.04
Valley Submarket	2.50%	0.00%	2.50%	\$119.00	67%	\$80.13
Overall Market				\$119.00	63%	\$74.65
<b>2012</b>						
Downtown Submarket	2.50%	0.00%	2.50%	\$122.00	60%	\$73.16
Valley Submarket	2.50%	0.00%	2.50%	\$122.00	69%	\$83.76
Overall Market				\$122.00	64%	\$78.00

Source: Kennedy & Mohn, P.S.

## CONCLUSION

Based on our current analysis, the Juneau lodging market has performed reasonably well in recent years, achieving notable growth in occupancies and average room rates within an environment of comparatively little supply growth. Future years will be negatively impacted by the voter-mandated 90-day legislative sessions, although this could be mitigated somewhat by a greater need for special sessions, provided these continue to occur in Juneau, and preferably during off-peaks periods. Given the relative lack of developable land in Juneau, we do not anticipate this market will experience the significant supply changes that have occurred in other primary markets within the state, but some level of supply growth should be reasonably anticipated in future years. The likelihood of new hotel development in Juneau is enhanced by the relative lack of nationally-branded hotels, of which there are presently few; and none of these are considered primary brands. The overall outlook for the Juneau lodging market is generally

considered favorable, despite the moderate declines projected in future years due to demand changes and potential new development. The greatest risks to the Juneau market relate to the uncertainty of its position as the Capitol-city, which stifles economic development on many levels. In our opinion, if the capitol or the legislature were to move from Juneau, other state facilities would likely follow and the impact on lodging in the market would be significant.

We trust that AIDEA will find the updated analysis and commentary presented in this report to be beneficial for developing an improved level of understanding regarding the current factors influencing the lodging market in Juneau. Should you have any questions or require clarification on any of the issues discussed in this report, please do not hesitate to contact us.

Sincerely,



Kennedy & Mohn, P.S.

By: Michael J Mohn, MAI  
Certified General Real Estate Appraiser  
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MJM:tpk

## **GENERAL ASSUMPTIONS**

This market overview study has been prepared under the following general assumptions:

- ◆ No responsibility is assumed for matters of a legal nature.
- ◆ Responsible ownership and competent property management are assumed.
- ◆ The information provided by others is believed to be reliable. However, no warranty is given for its accuracy.
- ◆ All engineering is assumed to be correct. The plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
- ◆ It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less useful. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
- ◆ Full compliance with all applicable federal, state, and local environmental regulations and laws is assumed.
- ◆ Full compliance with all applicable zoning and use regulations and restrictions is assumed.
- ◆ It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained.
- ◆ It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass.

## **LIMITING CONDITIONS**

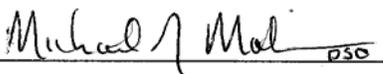
This market overview study has been prepared under the following general limiting conditions:

- ◆ Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of Kennedy & Mohn, P.S., and in any event only with proper written qualification and only in its entirety.
- ◆ Kennedy & Mohn, P.S., is not required to give further consultation, testimony, or be in attendance in court with reference to this report unless arrangements have been previously made.
- ◆ Projections of future revenue, expenses, net operating income, mortgage debt service, capital outlays, cash flow, or inflation represent our judgment of the assumptions likely to be used by informed persons in the marketplace. These estimates are intended solely for analytical purposes and are not intended to accurately predict future results or events. Actual performance will differ from these projections, and these differences may be significant.
- ◆ In accordance with our contract with the client, the accompanying analysis is not intended to be a complete market analysis or appraisal. The purpose of this market overview study is for AIDEA's internal use in evaluating future hotel financing requests within the state.
- ◆ Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the consultant become aware of such during the consultant's inspection. The consultant has no knowledge of the existence of such materials on or in the property unless otherwise stated. The consultant, however, is not qualified to test such substances or conditions. The presence of such substances, such as asbestos, urea formaldehyde foam insulation, or other hazardous substances or environmental conditions, may affect the feasibility of the project. Our analysis is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them.

## CERTIFICATION

I certify that, to the best of my knowledge and belief:

- ◆ The statements of fact contained in this report are true and correct.
- ◆ The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, conclusions, and recommendations.
- ◆ I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
- ◆ I have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
- ◆ My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- ◆ My compensation for completing this assignment is not contingent upon the development or reporting of a pre-determined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
- ◆ The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the *Uniform Standards of Professional Appraisal Practice*.
- ◆ The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- ◆ I have made a personal inspection of the property that is the subject of this report.
- ◆ No one provided significant real property appraisal or appraisal consulting assistance to the persons signing this certification.
- ◆ As of the date of this report, Michael J. Mohn, MAI has completed the continuing education program of the Appraisal Institute.

 Michael J. Mohn PSO

Michael J. Mohn, MAI

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