

**Hotel Market Analysis
Fairbanks, Alaska
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AIDEA

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INTRODUCTION

This following report is an update of an earlier study prepared for AIDEA in June 2004 and intended to serve as a baseline document for the purpose of understanding the relative strength or weakness of the local lodging market in Fairbanks. The current document has been revised and updated to reflect current economic conditions and performance data for the Fairbanks lodging market, culminating in our projections of future lodging market conditions. The data and opinions set forth in this report are based on interviews with state and local officials, hotel owner's, manager's, and developers, and a variety of other direct and indirect participants in the Alaska's tourism industry. The data and opinions set forth in this report are based on our fieldwork and follow-up research conducted during the first three weeks of October 2005.

ECONOMIC OVERVIEW

Demographics

The Fairbanks North Star Borough is Alaska's second largest metropolitan area, with a 2004 population of approximately 85,000 persons, constituting roundly 13 percent of the state's total population of approximately 655,000. Population growth in the Fairbanks North Star Borough has measured a scant 0.4 percent annually between 1995 and 2004, while population within the city of Fairbanks has declined by over 2,400 persons or -0.9 percent annually during this period. Current data suggests that this decline has abated, with data for 2004 showing the first significant increase since 2000. By any measure, the level of population growth in the city of Fairbanks and in the Borough has remained well below the 1.0 percent average growth in population achieved statewide during the 1995-2004 period. Not included in the local population data are the active duty military personnel and their dependents at nearby Ft. Wainwright Army Base and Eielson Air Force Base, which collectively added an additional 16,710 persons to the Fairbanks market area in Q1-2005. During the last five years, the population of military personnel and dependents has grown, albeit slowly, averaging a modest 0.6 percent compounded annually. Fairbanks is located in the Tanana Valley, deep in Alaska's interior region, 358 miles northeast of Anchorage, 125 miles south of the Arctic Circle, and 498 miles south of Prudhoe Bay. This geographic location contributes heavily to the allure and the complexities of life and business in Fairbanks.

Weather conditions vary dramatically throughout the year in Fairbanks. Winter temperatures average 13 degrees below zero, but can fall to as much as 40 and 50 degrees below zero. During the height of winter, there may be as few as four hours of daylight each day. While temperatures this severe have a natural tendency to limit all but the most essential travel, they also coincide with optimal viewing times for the Northern Lights, which is clearly one of Fairbanks' greatest winter tourism assets. The area's intense winter cold also fuels the economy by providing a perfect environment for advanced cold-weather testing activities that occur in the surrounding area. Despite the often-intense cold, Fairbanks holds a number of winter festivals for residents and guests, including a 10-day Winter Carnival, world-class ice carvings, Arctic Man competitions, and the Yukon Quest, a 1,000-mile dog sled race from Fairbanks to Whitehorse. Fairbanks also hosted the re-start of the Iditarod Dog Sled Race in 2003, due to poor snow

conditions in the Anchorage area. In contrast, summer temperatures average 70 degrees and can reach into the 90's during July and early August, when daylight extends to 18 to 20 hours each day. A wide variety of summer celebrations are held in Fairbanks, including Golden Days, the World Eskimo-Indian Olympics, the Summer Arts Festival, and the oldest State Fair in Alaska.

During the third week of October 2005, Fairbanks hosted the Alaska Federation of Natives convention (AFN). As the state's largest conference, typically with \$3.3 million in economic impact and over 3,500 attendees during a week-long period in the off-season, this is clearly a highly sought after piece of in-state business. Anchorage had been the host city for this event for many years and it had been conspicuously absent from Fairbanks since 1988. In 2003, AFN elders voted to move the convention to Fairbanks in 2005, amid complaints that Anchorage had grown complacent and marginally accommodating for the large group. By all accounts, the city of Fairbanks pulled together extremely well to accommodate this group and make them feel welcome. Based on a unanimous, albeit non-binding, floor vote at the convention, delegates indicated their support for bringing AFN back to Fairbanks next year and in the future. While the final decision regarding location of the convention will be made by AFN's board in December, all indications are that Fairbanks will likely receive this sought after piece of business on a much more regular basis in future years. We consider it highly likely that AFN will elect to rotate their convention between Anchorage and Fairbanks in future years.

Fairbanks is clearly the hub of much of the economic activity occurring in Alaska's vast interior region due to its connection to each of the five major highway systems serving the region. Given the remoteness of much of Alaska, the extensive highway system surrounding Fairbanks is a significant asset to independent tourists and commercial travelers alike, with comparatively easy connections north to Prudhoe Bay; southwest to Denali, Anchorage, and the Kenai Peninsula; and southeast to Beaver Creek, Whitehorse, and Skagway. Fairbanks is also served by the Alaska Railroad, which recently opened a new \$22.5 million intermodal facility approximately one-mile west of downtown. Air service to Fairbanks is accommodated at the Fairbanks International Airport (FIA), five miles west of downtown. During FY-2005, FIA recorded over 973,000 passengers, posting average growth of 2.3 percent annually over the last decade and 2.6 percent annually since 2000. FIA is planning a major expansion of airport facilities including terminal expansions and runway improvements. Improvements are in final planning stages at the present time and construction is expected to occur in 2006, with the new facilities operational in 2007. Planned expansions will greatly enhance the guest experience at the airport and will improve international arrivals and customs processing. Alaska Airlines provides year round service to Fairbanks, while several other airlines provide peak season connections to the lower-48 and to Europe. Fairbanks infamous "Northern Lights" helped attract winter tourism from Japan in 2004, with three private charters of nearly full 747's. These guests typically stay in the area for four days, alternating between Fairbanks and Chena Hot Springs. For winter 2005, seven 747-charter flights are scheduled to arrive between late December and February.

As shown in Table 1 on the following page, job growth in Fairbanks averaged 1.9 percent annually during the 1997 to 2004 period. While direct comparisons are somewhat limited due to recent changes to the data classification systems, the more significant contributors to growth in recent years (2002-2004) have been led by the construction industry with 11.6 percent annual

growth in employment, followed by professional and business services with 9.0 percent annual growth in employment, education and healthcare services (3.9 percent), and leisure and hospitality (3.2 percent). Room tax receipts in the Fairbanks market have posted a 5.4 percent average annual increase between 2000 and 2004, reflective of growth in tourist volumes in recent years and increases in the quality and quantity of the available rooms inventory in the market during this period. Despite a difficult wildfire season in 2004, which negatively impacted tourism in July and August, room tax revenues in 2004 were up nearly 15 percent over 2003 levels, while Denali Park visitor volumes were up over 12 percent prior year. According to Alaska Department of Labor, in 2004 Fairbanks was the fastest growing economic area in the state, adding over 900 new jobs.

Table 1
Fairbanks Borough Economic Indicator Summary

SICS Classification System		NAICS Classification System				
Employment:	1997	2001	2002	2004	CAAGR	
Total Non-agricultural	31,279	34,174	Total Non-Farm	35,450	35,800	1.9%
Manufacturing:	541	608	Goods Producing	3650	4300	
Mining	725	975	Natl. Resource & Mining	900	900	
Construction	1,617	2,016	Construction	2,250	2,800	
Trans./Communications/Utilities	2,507	3,197	Manufacturing	500	600	
Wholesale & Retail Trade	7,036	6,678	Service Providing	31,750	32,600	
F.I.R.E.	926	1,057	Trade, Trans. & Utilities	7,250	7,300	
Services	7,621	8,731	Information	600	600	
Government	10,287	10,911	Financial	1,300	1,400	
			Prof. & Business	1,850	2,200	
			Education & Health	3,800	4,100	
			Leisure & Hospitality	3,850	4,100	
			Government	11,350	11,500	
Unemployment Rate:	7.6%	5.8%		6.3%	6.6%	
Population:	1995	2000	2002	2004	CAAGR	
State of Alaska	601,646	626,931	641,841	655,435	1.0%	
Anchorage	252,876	260,283	268,347	277,498	1.0%	
Fairbanks	32,386	30,224	29,670	29,954	-0.9%	
Fairbanks North Star Borough	81,797	82,840	84,791	84,979	0.4%	
Fairbanks International Airport	FY-1995	FY-2000	FY-2002	FY-2005	CAAGR	
Total Air Passengers	772,615	855,635	857,413	973,094	2.3%	
Total Freight (000's)	276,603	317,791	333,386	244,299	-1.2%	
Lodging Tax Receipts	1995	2000	2002	2004	CAAGR	
Fairbanks & FNSB	\$2,237,069	\$2,993,667	\$3,111,252	\$3,696,160	5.7%	
Denali National Park	1997	2000	2002	2004	CAAGR	
Total Visitors	354,090	364,056	353,332	401,882	1.8%	
Building Permit Valuations	N/A	\$78,345	\$124,089	\$200,516	26.5%	
Inflation Trends - CPI-U	1995	2000	2002	2004	CAAGR	
Anchorage	138.9	150.9	158.2	166.7	2.0%	
United States	152.4	172.2	179.9	188.9	2.4%	
CAAGR: Compound average annual growth rate						
Sources:						
Alaska Dept. of Labor; US Census, Fairbanks Borough, FCVB, FIA						

The construction sector in Fairbanks has been a very dynamic sector of the economy in recent years. Recent construction growth is being fueled by numerous retail expansions which will bring to Fairbanks national names such as Old Navy, Barnes & Noble, Pets Mart, Sportsmen's Warehouse, and Chili's Restaurant, which come on the heels of Home Depot, Lowes, WalMart, Fred Meyer, and others in recent years. Fairbanks is clearly developing a substantial base of major retailers, which will reinforce its growing role as a provisioning center for rural villages within the interior of the state. This retail expansion is unprecedented in recent Fairbanks' history and mirrors a trend that unfolded in the Anchorage market during the late 1990's. Other major projects that have buoyed this sector in recent years include the new \$215 million Bassett Hospital on nearby Fort Wainwright, which is nearing completion, and early stages of the missile defense project unfolding at Fort Greely, which could cost up to \$250 million when completed. Other recent projects include a major expansion of the Westmark Hotel and the addition of new cabins and other amenities at Pike's Waterfront Lodge, all of which opened in mid-2004.

Oil production related employment is still a major driver of the state's resource-based economy, if not a dominant employer. While record oil prices in 2004 peaked at roundly \$39 per barrel, in March 2005 the market saw \$50 per barrel oil prices, followed by \$60 per barrel in early August. Oil prices peaked at roundly \$67 per barrel in late August 2005 and as of this writing are hovering slightly over \$60 per barrel. Employment in the oil and gas sector statewide is expected to increase modestly in the next several years, barring any major announcements regarding ANWR or the natural gas pipeline. While the state has not seen substantial employment growth in the oil and gas sector in recent years, its short-term fiscal position has benefited dramatically from increased tax revenue generated on higher priced oil. The big items on the horizon in the oil and gas industry in Alaska continue to be the proposed construction of a natural gas pipeline and potentially opening exploration activities in the Arctic National Wildlife Refuge (ANWR).

- ◆ The prospects for the natural gas pipeline appear more promising today than they did during our prior study. After many months of closed-door negotiations between the state and the major oil and gas companies, a draft contract was presented by the state to producers in early October. If approved by the oil companies, it would be subject to legislative review and a public comment period. Given the current high price of natural gas and diminishing reserves, the viability of this project is quite favorable, while its timing remains highly speculative. While FERC estimates conservatively anticipate that gas will not flow through a new pipeline until 2016, more optimistic estimates suggest construction by 2009, with gas flowing by 2010 or 2011.
- ◆ Similarly, the current outlook for opening ANWR has improved considerably in the last year and as of this writing; ANWR drilling language has been approved and inserted in the budget reconciliation bill, which is expected to be presented on the senate floor within the next two weeks. If approved as drafted, the ANWR language would streamline environmental study requirements and would require legal challenges to be filed within 90-days, all in an effort to expedite this controversial and long awaited project. The federal budget calls for approximately \$2.5 billion in ANWR revenue by

2010. While still far from a certainty, we consider the potential opening of ANWR to be much more likely now than at any time in recent memory.

While we are generally optimistic regarding both of these projects, given their long history and currently indeterminate status, we have not attempted to quantify their potential impact within our analysis. Our interviews suggest that there is a certain level of optimism operating in the market at this time (more so in Anchorage than in Fairbanks), due in part to the anticipation that one or both of these projects may be moving forward in the near term. While our projections reflect a slightly jaded, but cautious optimism, they are not predicated on either project occurring during our projection period, although the successful launch of either would clearly signal the beginning of another major boom period for the economy of Fairbanks and the state as a whole.

Fairbanks is also home to extensive mining activities which, while economically significant, do not contribute substantially to the overall employment base (less than three percent of total employment in the Borough during 2003). In 1995, the Pogo gold deposit was discovered about 90 miles southeast of Fairbanks, with subsequent studies indicating that it contains over 5 million ounces of identified gold reserves. The Pogo Mine received final regulatory approvals in spring 2004 and began construction of initial infrastructure. Continued exploration occurred in 2005 and commercial production is expected in early 2006. This \$280 million project is expected to employ 360 people for operations over the 12-year estimated life of the mine. By comparison, the Fort Knox Gold Mine opened in 1997, reportedly with over 4 million ounces of identified gold reserves and similar employment levels which have gradually expanded over the years to approximately 380 jobs at the present time.

The U.S. military has a substantial impact on the economy of the Fairbanks area, with two nearby military bases including Fort Wainwright Army Base and Eielson Air Force Base. Collectively, these two bases reported over 7,800 active military personnel in Q1-2005 (16,710 including family members and dependents). Fairbanks dodged a bullet in May 2005 with the announcement that Eielson Air Force Base had been included on the Department of Defense's (DOD) 'Base Realignment and Closure' list (BRAC's) as one of 29 military bases slated for major realignment. During its four prior rounds (1988, 1991, 1993, and 1995), BRAC's has resulted in 97 major closures, 55 major realignments, and a host of more minor changes. Fairbanks and the State mounted a vigorous campaign in support of Eielson seeking to protect its roundly \$374 million economic contribution in Fairbanks and over 1,400 related jobs. Ultimately, City, Borough, and State officials were successful in removing Eielson from the final BRAC's list, which was later signed by the president and was recently approved by congress. While this does not necessarily insure the long-term position of Eielson, the threat of near to mid-term impact has been removed.

The Army recently announced that it plans to add 880 soldiers and 44 helicopters to Fort Wainwright over the next four years. These soldiers will join other soldiers currently stationed there to create a 1,500 person Aviation Task Force. Initial estimates indicate that 65 percent of these new soldiers will be married and that 400 dependents will move to Fairbanks with them. This change will be a material benefit to Fairbanks in the near to mid term.

Current military efforts in the middle-east moved approximately 3,700 active-duty soldiers from Fort Wainwright Army Base, including members of the 172nd Striker Brigade. This is a substantial portion of Fort Wainwright's roster of roundly 4,800 active-duty personnel. These soldiers are on a one-year deployment in Iraq and are expected to return to Fairbanks in late summer 2006. The ripple effect of such a massive troop deployment is expected to impact a variety of businesses in Fairbanks over the next year.

Ninety miles to the south, Fort Greely was the casualty of a 1995 base-closure action, but was recently reconfigured as home to the Missile Defense Space Battalion, which is now home to seven of the potentially 10 ground-based missile interceptors. Current reports are that the future of this facility and the program is uncertain due to poor results from early rounds of testing. This facility is a comparatively small employer and is reportedly staffed with 110 National Guard personnel.

The tourism sector has a dramatic influence on the economy of Fairbanks and that of the state as a whole, with the primary drivers being the cruise industry and the lodging industry. Summer visitor studies completed in recent years indicated summer visitors to the state have increased by over 5.2 percent annually between 2001 and 2004, with approximately 39 percent arriving by cruise ship and 53 percent by air. We suspect that the ratio of cruise ship arrivals will continue to increase as departures from the Seattle market increase. Cruise passenger volumes have grown substantially in recent years as new and larger cruise ships have been regularly added to Alaska waters, including a new ship for Holland America for 2006. The Alaska cruise industry reported roundly 920,000 cruise passengers in 2005, a 5.7 percent increase from 2004 levels. With growth in cruise capacity stabilizing, cruise prices have begun to rebound from the bargain pricing of several years ago, and while the prime demographic remains the retired couple traveling together, lower cost itineraries continue to expose younger travelers and families to the benefits of cruising. Recent operational changes in the market include Princess Tours decision to begin turning their ships in Whittier in 2004, which has successfully enabled them to more efficiently transfer passengers between ship, rail, and plane, and to more efficiently move passengers through Anchorage and on to their wilderness destinations. This improved efficiency has exerted downward pressure on demand for upscale hotels in Anchorage by diverting an increasing share of cruise related demand from the Anchorage market and concentrating it at Princess Tour's recently expanded wilderness lodges.

Denali National Park remains the emotional heart of Alaska's tourism industry and is a dominant component of most land tour packages. Princess expanded both of their hotels in Denali in recent years and they are moving forward with a 166-room and 126-room expansion to these properties for 2006. Similarly, Holland America is embarking on a 135-room first phase of a potentially 540-room hotel near the entrance to the park and CIRI has announced their intention to build approximately 250 new rooms in Denali. Several years ago each of the major tour operators began offering a multiple-night stay in Denali in response to their guest requests for more time in the natural setting of the park and less time in the city. While much of the increased inventory is intended to meet this increased demand, the bottleneck is in park visitation, which is near capacity and access restrictions within the park will continue to limit the quantity and quality of the Denali experience for many visitors to the state.

Thus far, the 2003 merger of Princess within Carnival Cruise Lines, parent company of Holland America and Cunard Line, has had no significant effect on the market. Both companies continue to operate in largely autonomous fashion and to position themselves as direct competitors. Princess continues to uphold its commitment to developing land-based assets to augment its cruise products, while Holland America, via Westmark Hotels, has seen a renewed commitment to new development and enhancement of its existing lodging portfolio in the state.

The State of Alaska recently proposed implementing a head-tax on cruise passengers and while this proposal did not receive congressional approval in 2005, it has received enough signatures to appear on a statewide ballot initiative in 2006. As proposed, the state would assess a \$50 head tax on cruise passengers along with an array of corporate and gambling taxes, and stiffer environmental controls. While the cruise companies have been very vocal in their opposition, the lines are drawn and the voters will ultimately decide this issue next year. Because much of the travel to Alaska and cruise travel in particular, is fueled by discretionary income, which rises and falls based on economic and other factors, the implications on the state's cruise-tour businesses is potentially significant. While in the past, Alaska cruises were high-cost, often once-in-a-lifetime experiences, the product and the pricing has changed considerably as the baby-boomers have moved into the prime demographic for this industry. In the event that a state mandated head-tax was implemented, it would likely result in downward pressure on the number of cruise passengers visiting the state. For Fairbanks, this means that the higher-cost land tour components that drive tourism in the area could be pushed further out of reach for certain segments of the market, which could push more visitors to select a cruise-only alternative rather than a cruise-tour alternative. For the purpose of our analysis, we assume that no such head-tax would be implemented during the projection period, or if implemented, would be of nominal cost and insufficient to trigger a shift in current demand patterns.

LODGING MARKET ANALYSIS

Fairbanks Lodging Market Overview

The Fairbanks hotel market is unique in several ways, firstly, it does not have a distinct core or central concentration of hotel properties. Instead, the lodging product is more widely diffused throughout the market. Locationally, several properties are found in or near the downtown core, several more are located along the Chena River, near the airport, and the remainder are distributed between these two areas. Because the distance between these areas is relatively short, most travelers seeking accommodations in Fairbanks typically base their decision on factors other than geographic location within the city. The lodging market in Fairbanks also has no distinct quality center. In many markets, the larger first-class facilities tend to be concentrated together, often in a downtown core. In Fairbanks, the upscale properties are equally represented in both the downtown and airport areas.

Lodging demand patterns in the Fairbanks market are influenced very heavily by cruise patterns, independent leisure, and packaged tour products that have Denali National Park at their core. This demand is very heavily concentrated during peak summer season from mid-May through mid-September. During this period, a substantially larger inventory of guestrooms can be

sustained in Fairbanks than at most other times during the year. As a result, there are a comparatively large number of guestrooms in the market that are operated seasonally, or change from extended-stay or apartment-type use during the shoulder and off-peak periods, to more traditional transient use during peak season periods. Some properties, such as Wedgewood Resort, Bridgewater Hotel, Best Value Inn, and Bear Lodge, routinely maintain a peak season only operating structure, with the rare exception of their recent opening for an unusual event during the off-season such as AFN. However, in the last two years, the market has seen the Best Western Fairbanks Inn, that was previously operated during peak season only, convert to a year-round operation. The Rivers Edge Resort, once a year round property, has converted to a seasonal-only operation. The Captain Bartlett Inn, previously a year round property, has elected to close a sizeable portion of its comparatively large inventory during off-season periods, maintaining only a 60-room inventory during shoulder and off-peak periods. The newer cabins at Pike's lodge are used as hotel units during the summer and rented as apartments during the balance of the year. In addition, many hotels with larger rooms inventories, place a portion of their inventory on 'hold-warm' status, in an attempt to minimize operating costs on surplus inventory during off-season periods. Changes in the seasonal availability of guestroom inventory in the market in any given year may be prompted by such factors as changing economic conditions, changes in ownership, or a property's changing competitive position in the market. The ebb and flow patterns of guestroom inventory in the market, are beneficial in that they serve as a pressure-relief valve for volatile swings in demand; they also make market-wide performance comparisons between years more difficult and inherently imprecise.

For the purpose of our analysis, we defined the competitive lodging market in Fairbanks into two primary tiers of quality, categorized as upscale and mid-scale. Properties have been classified based on physical attributes, service quality, room pricing, and performance. The following table identifies those properties in each of the two primary tiers, including key physical attributes and the current seasonal pricing of guestrooms. We have also included summary data on a third group of properties that are operated on a seasonal basis within the market. Within our analysis we discuss the relative position and importance of these properties. However, because they represent a fluctuating inventory of rooms and a seasonally skewed rate structure, they have not been included within our compilation of overall market performance data. Consistent with our prior analysis, we have retained Rivers Edge Resort within the mid-scale submarket, despite its recent shift to a seasonal operating structure, as it could just as easily reverse its current position if market conditions warrant. Our analysis also excludes many of the smaller, older, or independent hotels in the market.

We defined the upscale lodging market in Fairbanks to consist of four hotels at the present time, including the Westmark and the Springhill Suites downtown, and the Princess Riverside Lodge and Pike's Waterfront Lodge, both located along the Chena River, near the airport. These hotels range in size from 140 to 400 rooms; collectively, they represent a peak season inventory of 1,073 available guestrooms. The upscale hotels are each full-service facilities, offering a restaurant and lounge, and meeting and banquet space ranging from less than 900 square feet to nearly 17,000 square feet. The available room supply in the upscale lodging market has vacillated considerably in recent years, much more than the net supply change would imply. Recent supply changes include the opening of the 140-room Springhill Suites and the 125-room

expansion of the Princess Lodge, both occurring in mid-2001, followed by Westmark's permanent closure and demolition of their old 109 guestroom wing in September 2002, to make way for construction of their new \$35 million tower which opened in May 2004, adding 264 new rooms and bringing their total inventory up to 400 available rooms. Pike's Waterfront Lodge opened 28 new cabins in June 2004, clustered along a section of riverfront adjacent to the existing hotel.

Mid-Scale Submarket	Submarket	Date Opened	Rooms	F&B	Meeting Space		2005 Room Rates		Amenities
					Total	Largest	Rack Single/Double		
					Area (SF)	Room	Summer	Winter	
Aspen Hotel	Airport	2001	97	0/0	1,200	1,200	\$179-\$209	\$99-\$129	ABCDE
Best Western Fairbanks Inn	Downtown	1970	102	1/1	2,400	1,400	\$139-\$179	\$59-\$110	EF
Comfort Inn	Downtown	1996	74	0/0	500	500	\$159-\$169	\$79-\$89	ABCE
Captain Barlett Inn	Airport	1972-75	195	1/1	2,200	1,850	\$135	\$75	DF
Regency Fairbanks	Downtown	1985	128	1/1	2,200	1,175	\$149-\$169	\$89-\$109	CDE
Rivers Edge Resort	Airport	1997/99	94	1/1	3,200	2,000	\$181-\$200	\$95-\$115	DEF
Sophie's Station	Airport	1986	148	1/1	1,925	1,225	\$179-\$245	\$89-\$175	EF
Subtotal			838		13,625				
Upscale Submarket									
Westmark Fairbanks Hotel	Downtown	1984-2004	400	2/1	16,700	5,400	\$200	\$159	CDEF
Princess Riverside Lodge	Airport	1993-2001	325	2/1	9,450	4,800	\$199-\$219	\$99	BCDEF
Pike's Waterfront Lodge	Airport	2000-2004	208	1/1	6,330	2,800	\$210-\$235	\$99-\$119	BCDEF
Springhill Suites	Downtown	2001	140	1/1	860	500	\$189	\$94	ABCDEF
Subtotal			1,073		33,340				
TOTAL COMPETITIVE MARKET			1,911		46,965				
Other Seasonally Operated Properties									
Best Value Inn	Downtown	1970	68	0/0	0	0	\$140	N/A	EF
Bridgewater Hotel	Downtown	1976	94	0/0	0	0	\$134-\$150	N/A	CDE
Wedgewood Resort	Airport	1979	460	1/1	6,700	2,700	\$157-\$245	\$75-\$175	DEF
Bear Lodge	Airport	1996	157	1/1	0	0	\$174-\$225	N/A	EF
								Amenities A Pool	D Bus. Ctr.
								B Spa/Steam	E Gst Ldry.
								C Exercise	F Retail
Source: K&M interviews, AAA-2005, individual websites									

As defined, the mid-scale market currently consists of 7 hotels, including four independents, one regionally branded hotel, and two with national franchises. These hotels range in size from 74 rooms to 195 rooms and represent a current peak season inventory of 838 available rooms. The size, type, and quality of facilities offered in the mid-scale market are considerably more diverse than in the upscale market. The largest hotels in this submarket are full-service properties, offering food and beverage facilities and 1,900 to 2,400 square feet of meeting and conference space. These hotels generally represent the older inventory in the mid-scale submarket, generally in the range of 20 to 30 years old and one of these hotels, the Captain Bartlett Inn, started operating a portion of its inventory on a seasonal basis in 2004 due to competitive pressures. Similarly, the Rivers Edge Resort also began operating its entire inventory on a seasonal basis in 2004. The two limited-service properties in the mid-scale submarket are newer vintage properties that are considerably smaller than many of their older counterparts in this

submarket. These properties do not have on-site food and beverage facilities and have more limited meeting facilities, but provide a wider range of recreational amenities including swimming pools and spas, which enhances their appeal to certain segments of demand during the shoulder and off-season periods. In addition to the seasonal shifts in inventory noted previously, other supply changes in the mid-scale submarket in recent years include the May 2004 opening of the Best Western Fairbanks Inn on a year round basis, as this hotel was previously operated seasonally as the Westmark Inn. The prior round of supply changes included the opening of the 97-room Aspen Hotel in April 2001 and the opening and subsequent expansion of the River's Edge Resort in 1997 and 1999.

The last notable group of properties in the Fairbanks market includes four hotels with a total of 779 available guestrooms that have historically operated on a seasonal basis, or altered their usage to apartment or extended-stay facilities for much of the shoulder and off-peak periods. Three of the four properties in this group are owned by Fountainhead Hotels, which also operates the Sophie's Station hotel on a year-round basis. Historically, Princess Hotels has been a large user of these facilities, and their long-term commitment reportedly helped to underwrite development of Bear Lodge in 1996, a facility that is open during summers only and is primarily used for Princess demand. The Wedgewood Resort is a large 1970's apartment complex that is used primarily for transient rentals during peak summer periods and primarily for apartments during shoulder and off-peak periods. The Bridgewater Hotel is a downtown property that is used for transient lodging during peak summer months and is closed during shoulder and off-peak periods. The Best Value Inn is the seasonally operated remnant of the former Westmark Inn, which now operates as the Best Western. As noted earlier, the seasonally operated hotels in Fairbanks continue to serve as a pressure relief valve for the market, allowing it to accommodate large increases in demand during peak periods, while not overly diluting the available room supply during the softer shoulder and off-peak periods. These facilities prospered during times when the larger cruise/tour operators generated more demand than they could accommodate, although with recent expansions by Princess, Westmark, and others, we believe the seasonally operated facilities have taken on a heightened degree of risk and with a larger number of rooms migrating to seasonal use in recent years, competition for alternative users during off-season periods is also increasing.

Historical Supply and Demand

Table 3, presented on the page 12, summarizes information regarding the historical operating performance of the competitive hotels in the mid-scale and upscale markets in Fairbanks for the period 2001 through estimated year-end 2005. Key indications from this summary are as follows:

- ◆ The growth in the available room supply in the overall market shows a net gain of 255 available rooms over the 2001 to 2005 period, indicating a compound average annual growth of 4.0 percent. The mid-scale submarket recorded a net decrease in available rooms on an annual basis due to changes in the off-season operation of several properties as noted earlier, offset partially by the addition of one year-round property. In contrast, the upscale submarket now reflects the full burden of the 400-room Westmark hotel as well as the smaller contribution of seasonal cabins at Pikes Lodge.

As a result of these changes, the upscale submarket shows average growth in supply of 7.6 percent annually over the 2001 to 2005 period.

- ◆ Based on historical data and our recent interviews in the market, we estimate that rooms demand in the overall market grew at 7.7 percent annually over the 2001 through 2005 period. Within the mid-scale submarket demand growth was approximately 4.3 percent annually, compared to 10.5 percent annually in the upscale submarket. The higher growth achieved in the upscale submarket is attributed to the increased availability during peak summer periods caused by expansions at the Westmark and Pikes, while growth in the mid-scale submarket was augmented by the inclusion of the Best Western, which had not previously been included in the market due to its seasonal operations.
- ◆ The resulting occupancy rates in the overall market showed significant increases in recent years, climbing from a low of 50 percent in 2001 to a peak of 59 percent in 2004, followed by a nominal decline to 57 percent in 2005. In comparison, Smith Travel Research reported that the national average occupancy rate in 2004 was 61.3 percent.
- ◆ During the 2001 to 2005 period, occupancies in the mid-scale submarket improved from 51 percent to 61 percent, with growth concentrated somewhat more heavily amongst the newer, better-quality properties, while others elected to close during off-peak periods, thereby forcing a nominal portion of their off-season demand to the remaining hotels. The declining inventory of rooms in the off-season period in recent years also exerts upward pressure on occupancies even if demand patterns were static, therefore, when combined with moderate growth in demand, the resulting change in the occupancy rate is magnified.
- ◆ Occupancies in the upscale submarket during this period grew from 49 percent to 54 percent, excepting the years of 2003 and 2004 when occupancies were higher due in large part to the Westmark's atypical levels of inventory. Occupancies were inflated in 2003 as Westmark was under construction and demand was pushed elsewhere in the market, whereas in 2004, occupancies were again inflated as the Westmark's new rooms didn't open until summer, and as a result, fewer rooms were carried in the market during the soft off-season periods.
- ◆ In our opinion, there has been an increasing 'flight to quality' in the Fairbanks market in recent years as demand becomes increasingly concentrated in the better-quality lodging alternatives. As a result, there has been a gradual reduction in spillover demand to the more marginal properties. The larger demand generators in the market tend to benefit first and most from the expansion of better-quality rooms in the market. While several of the more moderate quality facilities in the market benefited during Westmark's transition period, the flight to quality has created somewhat of a vacuum in the more modest quality properties in the market. While this trend will gradually stabilize, a reversal is not expected.

Table 3 Competitive Lodging Market Overview - 2001 through 2005 Fairbanks, Alaska											
	Available Rooms		Fair Share	Occ. Rate	Occupied Rm. Nights	Market Share	Penetr'n Rate	Average Rm. Rate	Room Revenue		REVPAR Index
	Daily	Annually							Total	Per Rm.	
2005											
Mid-Scale Submarket	697	254,502	39.9%	61%	155,053	42.7%	107.2%	\$87.00	\$13,494,102	\$53.00	86.9%
Upscale Submarket	1,052	384,001	60.1%	54%	207,946	57.3%	95.3%	\$121.00	\$25,186,409	\$66.00	108.2%
Total Market	1,749	638,503	100.0%	57%	362,999	100.0%	100.0%	\$107.00	\$38,680,511	\$61.00	100.0%
% chg.		9.3%			5.7%				6.4%	-1.6%	
2004											
Mid-Scale Submarket	664	242,262	41.5%	59%	143,073	41.6%	100.4%	\$84.00	\$12,039,130	\$50.00	80.6%
Upscale Submarket	937	341,897	58.5%	59%	200,484	58.4%	99.7%	\$121.00	\$24,307,817	\$71.00	114.5%
Total Market	1,600	584,159	100.0%	59%	343,556	100.0%	100.0%	\$106.00	\$36,346,947	\$62.00	100.0%
% chg.		5.5%			19.1%				26.5%	19.2%	
2003											
Mid-Scale Submarket	736	268,640	48.5%	47%	127,354	44.1%	91.0%	\$84.00	\$10,685,980	\$40.00	76.9%
Upscale Submarket	781	285,065	51.5%	57%	161,126	55.9%	108.5%	\$112.00	\$18,045,845	\$63.00	121.2%
Total Market	1,517	553,705	100.0%	52%	288,480	100.0%	100.0%	\$100.00	\$28,731,825	\$52.00	100.0%
% chg.		-4.8%			-1.7%				2.4%	8.3%	
2002											
Mid-Scale Submarket	736	268,640	46.2%	48%	127,855	43.6%	94.3%	\$79.00	\$10,113,000	\$38.00	79.2%
Upscale Submarket	857	312,969	53.8%	53%	165,552	56.4%	104.9%	\$108.00	\$17,959,000	\$57.00	118.8%
Total Market	1,593	581,609	100.0%	50%	293,407	100.0%	100.0%	\$96.00	\$28,072,000	\$48.00	100.0%
% chg.		6.7%			8.6%				2.2%	-4.0%	
2001											
Mid-Scale Submarket	708	258,455	47.4%	51%	130,773	48.4%	102.1%	\$83.00	\$10,910,000	\$42.00	84.0%
Upscale Submarket	786	286,835	52.6%	49%	139,459	51.6%	98.1%	\$119.00	\$16,551,000	\$58.00	116.0%
Total Market	1,494	545,290	100.0%	50%	270,232	100.0%	100.0%	\$102.00	\$27,461,000	\$50.00	100.0%
% chg.											
Compound Average Annual Growth Rate 2001 - 2005											
Mid-Scale Submarket	-0.4%	-0.4%			4.3%			1.2%		6.0%	
Upscale Submarket	7.6%	7.6%			10.5%			0.4%		3.3%	
Total Market	4.0%	4.0%			7.7%			1.2%		5.1%	

Source: Kennedy & Mohn, P.S.

- ◆ The average room rate of a hotel is calculated by dividing total room revenue by total occupied room nights and it reflects the net impact of all forms of discounting. Average room rates can also be influenced by changes in seasonal operations of properties within the market or skewed seasonal patterns during opening or transition years. Clearly, the data in Fairbanks is affected by all of these factors in recent years. Based on our research, we estimate that growth in average room rates has been only moderate in recent years, declining following 2001 and then gradually rising in subsequent years.
- ◆ For the overall market, the average room rate increased from roundly \$102 to \$107 between 2001 and 2005, posting a 1.2 percent annual growth. Within the mid-scale submarket, average room rates increased from \$83 to \$87 during the period, while the upscale submarket experienced growth from \$119 to \$121. Exclusive of the decline in rates between 2001 and 2002, recent years tend to support growth in average room rates of three to four percent annually within the overall market and both submarkets. The atypically large growth in average room rates in the upscale submarket in 2004 and the subsequent flattening in rate in 2005 are attributed in large part to Westmark expansion,

where the new rooms opened to peak season revenues, without carrying the softer winter and spring months at the beginning of 2004.

- ◆ Revenue per available room (RevPAR) reflects the relationship between occupancy and average room rate, and is generally considered a reliable basis for comparing the revenue generating ability of hotels. Between 2001 and 2005, the combined effects of changes in occupancy and average room rate yielded RevPAR for the overall market of \$61 in 2005, demonstrating growth of 5.1 percent annually during the period.

Cruise/Tour Market Factors

The Fairbanks market is heavily reliant on cruise/tour demand generated by the large cruise lines that offer land/tour alternatives including, Princess, Holland America, and Royal Celebrity. Of these companies, Princess is the dominant player, followed by Holland America, both of which are owned by the same parent company. Denali National Park remains the emotional heart of Alaska's tourism industry and is a dominant component of most land tour packages. Princess expanded both of their hotels in Denali in recent years and they are moving forward with 166-room and 126-room expansions to these properties for 2006, fairly quickly after the 88-room and 96-room expansions that were completed in 2004. Similarly, Holland America is embarking on a 135-room first phase of a potentially 540-room hotel near the entrance to the park and CIRI has announced their intention to build approximately 250 new rooms in Denali. In addition, they are also rumored to be reconsidering their earlier plan to add 100 rooms to their Talkeetna Lodge property. While Fairbanks has not experienced a decline in cruise/tour volumes as a result of the buildup of demand in Denali, the Anchorage market has been more heavily impacted.

In our opinion, the cruise/tour demand component in the Fairbanks market continues to be more stable than that found in the Anchorage market. We attribute this to several factors including Fairbanks geographic position as a turn-around point in most itineraries, a position that is not likely to change and one that is augmented by continued growth in Denali. Future stability will also be influenced by the ownership stake that the larger operators have taken in the hotel inventory in Fairbanks, with Princess and Westmark now controlling almost 70 percent of the upscale hotel rooms in the market. Our interviews suggest that the tour operators are generally optimistic in their outlook for continued growth in visitor volumes over the next several years, as evidenced by their growing capital investment in Denali. While Fairbanks is not expected to experience declining demand patterns, similar to Anchorage, it is also not expected to see substantial growth via extended lengths of stay, as are the Denali properties.

Seasonal Factors

The Fairbanks lodging market is highly seasonal, with peak season occurring from mid-May through mid-September, when cruise/tour related demand is at its peak. While there has been a modest contraction in the length of the peak season in recent years in Anchorage, no such contraction has been noted in the Fairbanks market. Peak season demand is predominantly leisure related and is heavily influenced by the major cruise lines and smaller tour operators, with much of their demand concentrated in the larger, upscale hotels in the market, and to a lesser extent, the seasonally operated properties. Many of the properties in the mid-scale submarket cater more heavily to the smaller tour operators and independent leisure travelers, and

they receive little direct contribution from the major cruise/tour companies. Off-season periods occur during the balance of the year, when leisure travel is minimal and the market relies more heavily on demand from the commercial and group segments. A modest amount of off-peak leisure demand is also attracted to Fairbanks during the height of the winter when the Northern Lights are readily visible in the surrounding area. Much of this demand is drawn from international markets in Asia and reportedly this component of demand has expanded rapidly in recent years, from three chartered 747 flights in 2004 to seven chartered 747 flights in 2005. However, this demand is not widely dispersed in the market.

		1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total	% Chg.
2000	City	183,098	658,708	1,070,359	188,672	2,100,838	-6.0%
	Borough	76,396	292,614	319,609	204,210	892,829	14.7%
	Total	259,494	951,322	1,389,968	392,882	2,993,667	-0.6%
2001	City	184,844	590,668	982,698	216,454	1,974,664	-6.0%
	Borough	112,543	485,287	400,976	374,528	1,373,334	53.8%
	Total	297,387	1,075,955	1,383,674	590,982	3,347,998	11.8%
2002	City	178,771	562,237	857,306	239,330	1,837,644	-6.9%
	Borough	93,413	444,878	385,082	350,235	1,273,608	-7.3%
	Total	272,184	1,007,115	1,242,388	589,565	3,111,252	-7.1%
2003	City	203,470	468,777	937,433	196,002	1,805,682	-1.7%
	Borough	135,649	482,181	502,425	293,620	1,413,875	11.0%
	Total	339,119	950,958	1,439,858	489,622	3,219,557	3.5%
2004	City	202,259	658,129	1,046,797	235,573	2,142,759	18.7%
	Borough	138,415	558,093	596,293	260,600	1,553,401	9.9%
	Total	340,674	1,216,222	1,643,090	496,173	3,696,160	14.8%
2005	City	216,742	695,601	1,214,552	TTM-9/2005	2,362,468	10.3%
	Borough	128,040	541,317	591,122	TTM-9/2005	1,521,079	-2.1%
	Total	344,782	1,236,918	1,805,674	TTM-9/2005	3,883,547	5.1%
Total Market							
% of Annual (2004)		9%	33%	44%	13%	100%	
CAAGR 2000-2004		7.0%	6.3%	4.3%	6.0%	5.4%	

Source: Fairbanks Convention & Visitors Bureau - Hotel Bed Tax Receipts

Given the significant seasonal swings in demand, hotels in the market have historically used a two-tiered seasonal rate structure, with off-peak advertised rates typically 30 to 50 percent below the peak season rates. 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 of Fairbanks and the Fairbanks North Star Borough, as shown in Table 4.

Segmentation

We classified market demand into four general categories: commercial, leisure, group, and contracts. 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. Based on our recent interviews, we estimate this demand represents approximately 26 percent of total annual demand in the overall market, with the government component contributing approximately one-half of the demand in this segment. Demand in the commercial segment is reasonably stable throughout the year, with modest declines during summer and holiday periods.

Leisure demand in Fairbanks is the single largest segment of demand in the market, representing approximately 56 percent of total annual demand in the market. Demand in this segment consists of independent and packaged leisure travelers, who often come to Fairbanks while en-route to Denali. The packaged leisure component of this demand segment is heavily cruise oriented and is concentrated almost exclusively within the peak summer season. Cruise related demand is generated by Princess Cruises, Holland America Lines, and Royal Caribbean Cruises, among others. Due to ocean conditions in the Gulf of Alaska in the spring and fall, further expansion of the peak season window is not expected. However, growth in cruise related demand in recent years has resulted from the addition of newer and larger ships to the Alaska market.

Group demand consists of conventions and meeting related travel to Fairbanks, and demand generated by sports teams and school events. Currently, group demand represents approximately 11 percent of total demand in the market. Demand in this segment is typically concentrated during shoulder periods in the spring and fall.

Contract demand is provided primarily by airlines and railroads serving Fairbanks. This demand makes up approximately seven percent of total demand in the market and has become more heavily concentrated in the upscale submarket in recent years.

SUPPLY AND DEMAND PROJECTIONS

In evaluating the performance potential of the Fairbanks lodging market 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, if any, 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 new hotels currently being proposed for development in the Fairbanks market at the present time. While we heard a variety of rumors regarding individuals considering building near the Parks Highway or

in the rapidly developing retail area to the north, none of these projects have enough credibility to be considered within our projections at this time. In our opinion, as demand patterns gradually strengthen in future years, we may see either new development or potentially a return to year round operations of one or more of the seasonally operated facilities in the market.

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.

- ◆ Given that no new hotel rooms are expected to enter the market during our projection period, our projections do not include a component of unsatisfied demand.
- ◆ While our prior projections included an estimate of new demand that was expected to be induced into the market by the AFN conference, no such estimate is required in our current projections as this demand has been included in the estimated year-end performance of the competitive market. While we project that the AFN convention will rotate to other markets in future years, we assume that Fairbanks will successfully replace this demand with other group functions during off years.
- ◆ Our projections also include approximately 5,000 room nights of negative induced demand, allocated equally between 2009 and 2010 that is expected to be drawn away from the Fairbanks market by the projected opening of a new or expanded convention center in Anchorage. In our opinion, the opening of a new convention center in Anchorage will greatly increase competition for in-state groups and Anchorage will have an increasingly superior competitive advantage in attracting and accommodating these groups.

- ◆ We estimate underlying growth in demand based on historical results in the market and additional indicators of underlying economic growth yielded by growth in employment, air passenger and cargo volumes, and growth in room taxes.
 - ◆ Our projections of underlying growth in demand include growth in the commercial segment of 4.0 percent annually during the early years of the projection period, declining to 3.0 percent in later years. Growth in the commercial segment is based on continued strength in employment and construction activity over the near term, and modest contribution from anticipation and optimism surrounding a possible change in ANWR or the gas pipeline in future years.
 - ◆ Within the group demand segment, growth is projected at 4.0 in 2006 and 2007, gradually decreasing to 3.0 percent during the later years of the projection period. This level of growth in the group demand segment reflects the community's improved self-perception following its highly successful performance during AFN, together with an enhanced ability to sell Fairbanks due to the newly expanded Westmark Hotel, which is expected to aggressively pursue group sales opportunities during the shoulder and off-peak periods.
 - ◆ Leisure demand growth is projected at 2.0 percent annually throughout the projection period, reflecting continued strength in the cruise/tour market in future years, but also recognizing the capacity constraints present in the competitive market that would likely drive any additional growth to properties outside of the competitive market.
 - ◆ Underlying growth in the contract demand segment is projected at a nominal 1.0 percent annually throughout the projection period, reflecting no significant changes in the key support industries within this segment. These growth rates are applied uniformly to both the mid-scale and upscale submarkets.

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

Table 5						
Projected Demand Growth by Segment						
	2006	2007	2008	2009	2010	
Mid-Scale Market						Mix
Commercial Demand	59,700	62,100	64,000	65,900	67,900	38%
Underlying Growth	4.0%	4.0%	3.0%	3.0%	3.0%	
Unsatisfied Demand	0	0	0	0	0	
Induced Demand	0	0	0	0	0	
Group Demand	14,500	15,100	15,600	16,100	16,600	9%
Underlying Growth	4.0%	4.0%	3.0%	3.0%	3.0%	
Unsatisfied Demand	0	0	0	0	0	
Induced Demand	0	0	0	0	0	
Leisure Demand	78,700	80,300	81,900	83,500	85,200	48%
Underlying Growth	2.0%	2.0%	2.0%	2.0%	2.0%	
Unsatisfied Demand	0	0	0	0	0	
Induced Demand	0	0	0	0	0	
Contract Demand	6,600	6,700	6,800	6,900	7,000	4%
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	
Total Demand	160,000	164,000	168,000	172,000	177,000	100%
Upscale Market						Mix
Commercial Demand	38,000	39,500	40,700	41,900	43,200	19%
Underlying Growth	4.0%	4.0%	3.0%	3.0%	3.0%	
Unsatisfied Demand	0	0	0	0	0	
Induced Demand	0	0	0	0	0	
Group Demand	27,400	28,500	29,400	27,800	26,100	11%
Underlying Growth	4.0%	4.0%	3.0%	3.0%	3.0%	
Unsatisfied Demand	0	0	0	0	0	
Induced Demand	0	0	0	(2,500)	(2,500)	
Leisure Demand	128,900	131,500	134,100	136,800	139,500	61%
Underlying Growth	2.0%	2.0%	2.0%	2.0%	2.0%	
Unsatisfied Demand	0	0	0	0	0	
Induced Demand	0	0	0	0	0	
Contract Demand	18,900	19,100	19,300	19,500	19,700	9%
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	
Total Demand	213,000	219,000	224,000	226,000	229,000	100%
Overall Market						
Commercial Demand	26%	27%	27%	27%	27%	
Group Demand	11%	11%	11%	11%	11%	
Leisure Demand	56%	55%	55%	55%	55%	
Contract Demand	7%	7%	7%	7%	7%	
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 Fairbanks market. Collectively, our estimates of unsatisfied, induced, and underlying demand growth indicate a 2.1 percent average annual increase in demand for the overall market from 2006 through 2010. This rate of demand growth is

substantially below the historical rates of demand growth achieved by the market in recent years, although this was a period marked by considerable changes in supply and seasonal utilization, whereas our projection period anticipates no such events occurring. Overall, we consider our projection of 2.1 percent annual growth in underlying demand to be reasonable, given the highly unique dynamics of the Fairbanks market.

Historical Market Conditions				Projected Market Conditions					
2002	2003	2004	2005						
				2006	2007	2008	2009	2010	
				Mid-Scale Market					
736	736	664	697	Existing Product	697	697	697	697	697
				Proposed hotels	0	0	0	0	0
736	736	664	697	Average Daily Rooms	697	697	697	697	697
268,640	268,640	242,262	254,502	Annual Room Nights	254,502	254,502	254,502	254,502	254,502
				Percentage Change	0.0%	0.0%	0.0%	0.0%	0.0%
127,855	127,354	143,073	155,053	Market Demand	160,000	164,000	168,000	172,000	177,000
CAAGR				Supply chg.	CAAGR		Supply chg.	0.0%	
CAAGR				Demand chg.	CAAGR		Demand chg.	2.6%	
(2,919)	(500)	15,718	11,980	Change from prior year	4,947	4,000	4,000	4,000	5,000
				Percentage Change					
0	0	(4,600)	0	Unsatisfied demand	0	0	0	0	0
0	0	0	0	Induced Demand	0	0	0	0	0
(2,919)	(500)	11,118	11,980	Underlying Growth	4,947	4,000	4,000	4,000	5,000
				Underlying Growth Rate	3.5%	2.5%	2.4%	2.4%	2.9%
0%	9%	8%							
48%	47%	59%	61%	Occupancy	63%	64%	66%	68%	70%
				Upscale Market					
857	781	937	1,052	Existing Product	1,052	1,052	1,052	1,052	1,052
				Proposed hotels	0	0	0	0	0
857	781	937	1,052	Average Daily Rooms	1,052	1,052	1,052	1,052	1,052
312,969	285,065	341,897	384,001	Annual Room Nights	384,001	384,001	384,001	384,001	384,001
				Percentage Change	0.0%	0.0%	0.0%	0.0%	0.0%
165,552	161,126	200,484	207,946	Market Demand	213,000	219,000	224,000	226,000	229,000
CAAGR				Supply chg.	CAAGR		Supply chg.	0.0%	
CAAGR				Demand chg.	CAAGR		Demand chg.	1.8%	
26,094	(4,427)	39,358	7,462	Change from prior year	5,054	6,000	5,000	2,000	3,000
				Percentage Change					
(23,850)	0	(29,300)	0	Unsatisfied demand	0	0	0	0	0
0	0	0	0	Induced Demand	0	0	(2,500)	(2,500)	(2,500)
2,244	(4,427)	10,058	7,462	Underlying Growth	5,054	6,000	5,000	4,500	5,500
				Underlying Growth Rate	2.4%	2.8%	2.3%	2.0%	2.4%
2%	-3%	6%	4%						
53%	57%	59%	54%	Occupancy	55%	57%	58%	59%	60%
				Overall Market					
1,593	1,517	1,600	1,749	Average Daily Rooms	1,749	1,749	1,749	1,749	1,749
581,609	553,705	584,159	638,503	Overall Market Supply	638,503	638,503	638,503	638,503	638,503
				Supply Growth	0%	0%	0%	0%	0%
293,407	288,480	343,556	362,999	Overall Market Demand	373,000	383,000	392,000	398,000	406,000
				Demand Growth	3%	3%	2%	2%	2%
CAAGR				Supply chg.	CAAGR		Supply chg.	0.0%	
CAAGR				Demand chg.	CAAGR		Demand chg.	2.1%	
50%	52%	59%	57%	Occupancy	58%	60%	61%	62%	64%

Based on this analysis, our projections of future market conditions in the mid-scale submarket indicate that occupancy rates will continue to build gradually from current levels, without major spikes in performance. Barring any currently unforeseen supply changes in this submarket, occupancies are projected to reach 70 percent by the end of our projection period. As noted previously, with performance at these levels, it would not be unreasonable to anticipate either new development or potentially a return to year round operations of one or more of the seasonally operated facilities in the market. Similarly, our projection of future market conditions in the upscale submarket indicates occupancy rates will also continue to gradually improve, reaching a level of 60 percent by the end of our projection period.

Average Room Rates

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 depend on a myriad of forces operating within the market and the response to these forces by the individual operators. Looking strictly at the data, we see that during the period 2001 through 2005, average room rates in the Fairbanks showed modest growth of 1.2 percent annually for the overall market. Because this period was also affected by significant rate adjustments in the aftermath of September 11th, more reasonable comparisons can be drawn from the 2002 through 2005 period data, which indicates growth in average room rates of 3.7 percent annually in the overall market. This level of rate growth is comprised of 3.2 percent annual growth in the mid-scale submarket, which benefited from the off-season closure of a portion of the lower quality rooms in this submarket in recent years. In comparison, the upscale submarket indicates growth in average room rates of 3.7 percent annually during this period, which was bolstered by opening of the Westmark's new rooms. For 2006, the operators we spoke with were fairly evenly split, with some anticipating moderate increases in room rates for 2006, while others expected no change in rate structure, but a selective reduction in discounting policies that was expected to yield improvement in the average room rate.

In analyzing the Fairbanks lodging market, we acknowledge the qualitative and competitive differences between properties in the upscale and mid-scale markets. However, we also acknowledge that seasonal variations in demand patterns create major changes in rooms pricing within the market, which tends to blur the traditional lines of competition among properties during off-season periods. As a result, while the upscale properties command a moderate premium in room rates during the peak season, there is little difference in room rates between the upscale and mid-scale properties during shoulder or off-peak periods. In an attempt to build demand at the large, new Westmark, they are reportedly conducting a statewide advertising campaign offering an off-season special rate of \$59 per night, including free breakfast and double airline miles. While these rooms are expected to be limited in availability and housed in the hotel's older, but recently renovated tower, this level of discounting will make it very difficult for many other properties to compete for the limited base of off-season demand. As long as the better quality hotels in the market continue to aggressively discount during off-peak periods, rate growth in the market will remain stifled and the more modest quality properties will be largely ineffective competitors during these periods.

To derive a five-year projection of 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 strengthening of the economy, continued growth in the cruise and tour industries and the resulting room expansions in Denali, the lack of new rooms entering the Fairbanks market in future years, the impact of recent changes in off-peak rooms availability, and the presumed gradual increases in group demand, with its often lower room rate structure. We project that rate growth will soften in future years, especially within the mid-scale submarket, as competition for the limited base of off-season demand continues to escalate. While rate growth in the upscale submarket is expected to build somewhat faster due to the improved product quality being offered, this growth will continue to be offset by increased group activity and discounting during shoulder and off-peak periods and by limited growth in room rates for in-house tour demand.

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.

<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>
2005						
Midscale Submarket				\$87.00	61%	\$53.00
Upscale Submarket				\$121.00	54%	\$65.52
Overall Market				\$107.00	57%	\$60.83
2006						
Midscale Submarket	2.50%	-1.00%	1.50%	\$88.00	63%	\$55.32
Upscale Submarket	2.50%	1.00%	3.50%	\$125.00	55%	\$69.34
Overall Market				\$109.00	58%	\$63.68
2007						
Midscale Submarket	2.50%	-1.00%	1.50%	\$89.00	64%	\$57.35
Upscale Submarket	2.50%	0.00%	2.50%	\$128.00	57%	\$73.00
Overall Market				\$111.00	60%	\$66.58
2008						
Midscale Submarket	2.50%	0.00%	2.50%	\$91.00	66%	\$60.07
Upscale Submarket	2.50%	-1.00%	1.50%	\$130.00	58%	\$75.83
Overall Market				\$113.00	61%	\$69.37
2009						
Midscale Submarket	2.50%	0.00%	2.50%	\$93.00	68%	\$62.85
Upscale Submarket	2.50%	-1.00%	1.50%	\$132.00	59%	\$77.69
Overall Market				\$115.00	62%	\$71.68
2010						
Midscale Submarket	2.50%	0.00%	2.50%	\$95.00	70%	\$66.07
Upscale Submarket	2.50%	-1.00%	1.50%	\$134.00	60%	\$79.91
Overall Market				\$117.00	64%	\$74.40
Source: Kennedy & Mohn, P.S.						

CONCLUSION

Based on our analysis, the Fairbanks lodging market appears to have weathered the last several years of dynamic change remarkably well. We attribute this to continued growth in tourism and in the local economy, which have augmented demand patterns in recent years, together with the strategic (albeit market driven) reductions in the off-season rooms supply. While the gradual stabilization of the large new Westmark Hotel will likely continue to be felt in the market in 2006 and possibly 2007, it appears that the worst of its impact is now past. With continued growth expected in core industries and no anticipated changes in rooms supply on the horizon in the near term, the outlook for the Fairbanks lodging market appears fairly solid at this time. Overall, the Fairbanks lodging market is more dynamic and somewhat more optimistic than we found it during our prior analysis. Growth in future years will be supported by recent successes with AFN, continued growth in the cruise and tour industries, continued development of northern lights viewing demand during off-season periods. In the near term, the market will benefit to some degree from the economic lift provided by \$60/barrel oil, and the jaded optimism that something big could break loose in the form of ANWR or a natural gas pipeline.

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 Fairbanks. 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.

Kennedy & Mohn, P.S.

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This preliminary market feasibility study report has been prepared under the following general assumptions:

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- ◆ 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 feasibility study is to assist in the initial development planning of the client. The results of this market overview analysis are subject to change based on completion of a full market study or appraisal.
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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.
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- ◆ 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

Michael J. Mohn, MAI

CCERT Ver.5/2005