

**A MARKET ANALYSIS EVALUATING  
POTENTIAL FOR REAL ESTATE SALES  
WITHIN A NEW DESTINATION RESORT IN  
GIRDWOOD, ALASKA**

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**PREPARED FOR NATIONAL DEVELOPMENT COUNCIL**

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# SECTION I

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## INTRODUCTION

Peterson Economics was retained by the National Development Council in November 2005 to complete a market analysis evaluating potential for residential real estate sales within a proposed new destination golf/ski resort community in Girdwood, Alaska. The proposed new resort community is currently named Glacier-Winner Creek; it could potentially become the premier ski and golf resort community in Alaska, featuring a dramatic, scenic mountain setting, a large ski mountain featuring an attractive mix of terrain, a championship-quality 18-hole golf course, and a variety of other amenities.

Girdwood is located at the base of the Chugach Mountains, about 40 miles east of Anchorage. It is home to the Alyeska Resort, which includes Alaska's nicest resort hotel and largest alpine ski area. Access to Girdwood and the subject site from Anchorage is relatively good. The Seward Highway (Interstate One) connects Anchorage to Girdwood, and when the roads are dry, travel time is roughly one hour.

Currently, Girdwood is a small community comprised of a mix of primary- and second-home owners. The town's resident population reportedly totals about 2,000 persons. Girdwood's real estate market represents a very diverse mix of homes; it does not currently offer any master-planned communities. Its most notable amenity is the Alyeska Resort, which consists of a ski area and the 307-room Alyeska Prince Hotel. Outside of the resort, Girdwood provides very basic services such as a small grocery store and several restaurants. However, the area lacks a variety of high-end shopping and dining options. The town is home to one kindergarten through eighth grade school, but no high school. As a result, high-school-age children who live in Girdwood must commute daily to Anchorage to attend high school.

The proposed new Glacier-Winner Creek development would be developed along Winner Creek, adjacent to the existing Alyeska Resort. Alyeska Resort is the largest lift-assisted ski area in Alaska. It boasts about 1,000 skiable acres, with a total vertical drop of about 2,500 feet (and a peak lift elevation of about 2,750 feet). It is a relatively small ski area when compared to major destination ski resorts in the Lower 48, which typically boast over 2,000 skiable acres. Alyeska ranges in elevation from about 250 feet at the base to about 3,939 feet at the summit, but lifts do not serve the top 1,200 feet of this reported elevation. Average annual snowfall (at the summit) is reportedly about 631 inches, though actual snowfall is much less on the lower half of the resort. In terms of elevation, it is the lowest ski resort in the U.S., and the lowest outdoor ski resort in the world. This characteristic is a notable benefit to destination skiers who live in metropolitan areas near sea level; some of whom find it difficult to aerobically adjust to the high elevations of many resorts in the western U.S. Much of Alyeska's ski terrain is very steep, and suitable for intermediate and advanced skiers. Due to its relatively small size, terrain limitations, remoteness from the Lower 48, and significant seasonality issues, the Alyeska Resort primarily serves the local Anchorage market; it has not historically attracted a large number of destination skiers. Local experts estimate that about 90 percent of Alyeska's skiers derive from the local Anchorage market, and only ten percent derive from elsewhere (or roughly 5,000 persons per year).

As currently envisioned, the proposed new Glacier-Winner Creek ski area could offer much more appeal to destination skiers than any existing ski resorts in Alaska. This would be due to its varied terrain, expansive intermediate terrain, northern exposure, better snow conditions, and larger size. It would be developed adjacent to the Alyeska Resort, and could share some resort services, but would not share any ski terrain. Upon completion, Glacier-Winner Creek could potentially offer up to about 3,750 skiable acres and up to a 4,300-foot vertical drop, though the initial phase would likely be limited to roughly half this size and half this vertical drop. Reportedly, the base of the proposed new ski area would be about 450 feet in elevation, with many of the runs offering desirable northern exposure. According to local experts, the subject site receives more consistent snowfall than Alyeska Resort because it is higher in elevation. Importantly, Glacier-Winner Creek could also offer the first true ski-in/ski-out real estate in Girdwood.

In an effort to establish the Girdwood area as a four-season resort destination, current plans also call for the development of a new 18-hole championship golf course. Currently, Girdwood does not offer a golf course of any kind. The most proximate golf courses are located in Anchorage. Previous efforts to develop a golf course in Girdwood have reportedly been stalled due to environmental issues. The proposed new 18-hole golf course at Glacier-Winner Creek is planned for development in a narrow valley, along the base of the proposed new ski area. As currently envisioned, it would span from Alyeska Resort north to the center of the proposed new community. Therefore, the golf course would serve as an amenity to both developments, and likely receive substantial play from guests of the Alyeska Prince Hotel. Reportedly, the course would be semiprivate, and potentially be designed by Bob Cupp. The course would likely be open for cross-country skiing in the winter months. However, due to its valley location and exposure, it would reportedly have a fairly short operating season.

As currently envisioned, the proposed new development would also provide the upscale real estate products and associated services that Girdwood lacks, with the hopes of transforming the area into a national second-home destination, attracting affluent buyers from Anchorage as well as the Lower 48. It could also potentially appeal to full-time residents relocating from Anchorage and elsewhere. New development would likely include a mix of single-family, multifamily, and lodging units; these units would be developed at the proposed new ski area and along the proposed new 18-hole golf course.

Currently, no development has taken place on the subject site, however a heli-ski/cat-ski operation utilizes the area for powder skiing tours. Phase I of development would reportedly consist of three lifts, which would serve roughly half of the potential ski terrain. Real estate in Phase I would reportedly consist of approximately 133 units of multifamily residential product and approximately 205 single-family homesites.

The subject site is heavily forested, but features low-lying valley areas and mountain areas with spectacular views of the Chugach Mountains. In addition, Winner Creek provides both an amenity and a challenge to development. It runs past the base of the proposed new ski area, and is relatively scenic. However, setbacks and bridges provide constraints to the land plan and would likely increase the cost of development.

Thus, the primary benefits of the subject site include:

1. A location with good access to Anchorage via the Seward Highway, a direct, scenic route to the subject site;
2. Direct flights from numerous metropolitan areas to the Anchorage International Airport (though fly-times from the Lower 48 are significant);
3. Basic services currently offered in Girdwood, including a small grocery store, several restaurants, and a small clinic;
4. A location close to Alyeska Resort, providing future residents and guests of the proposed new resort with an additional ski opportunity;
5. A scenic parcel with views of the Chugach Mountains from a multitude of vantage points;
6. The potential to develop intermediate terrain at the proposed new ski area, which may potentially attract destination skiers;
7. Desirable northern exposure on many of the proposed runs;
8. An elevation that is reportedly high enough to receive good-quality snow, yet low enough to be safe and comfortable for guests deriving from sea level; and
9. A heli-ski/cat-ski operation currently utilizing the future ski area, which could prove to be a valuable resource when designing ski runs and identifying sales prospects.

On the other hand, the primary drawbacks of the site include:

1. Significant climate challenges, with limited daylight and cold conditions in the traditional winter ski season, and cool, moist summers;
2. The travel time and perceived distance to Alaska, which may discourage second-home ownership from outside Alaska;
3. A time-zone differing from the entire the Lower 48;
4. The necessity to build structures to support heavy snow loads, increasing building costs and presenting a challenge to build functional and attractive four-season residences;
5. Heavy snowfall and late snowmelt at the subject site, which limits the longevity of the golfing season;
6. The current lack of a high school in Girdwood, discouraging families with children to move to the area from Anchorage and establish a primary residence;
7. The existing residential product in Girdwood, which varies significantly in size and quality and is primarily of modest quality; and
8. High infrastructure costs for ski and golf development (e.g. ski lifts and bridges over creeks), which may present a challenge in meeting necessary absorption levels.

Overall, Girdwood is a well-established resort area in Alaska, yet virtually unknown as a second-home destination to the affluent in the Lower 48. Although Anchorage reportedly experiences approximately 900,000 visitors each year, visitors have historically not converted to second-home buyers. This is likely due to distance, weather, and a current lack of attractive product. Moreover, typical visitors from the Lower 48 view Alaska as a fantastic destination for an adventure vacation, but not necessarily a place to return to year-after-year as second-home owners. As currently envisioned, the proposed new ski area would likely solve some of the issues that have challenged Alyeska Resort. It would offer a greater number of skiable acres,

more intermediate terrain, better snow, and ski-in/ski-out real estate. However, some of Girdwood's characteristics that have limited the appeal of second-home ownership are unchangeable. Such obstacles include inclement weather and long distances from major metropolitan areas in the Lower 48.

## **KEY OBJECTIVES OF THIS STUDY**

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The primary objective of this analysis is to determine the highest and best use of the subject parcel for our client, the Municipality of Anchorage. Peterson Economics was instructed to focus on the proposed development program, and to evaluate the potential future demand for the project. In order to evaluate market conditions and the potential demand for the proposed new development, Peterson Economics completed the following tasks, among others:

1. Reviewed internal files on mountain resort real estate market conditions and lodging market conditions in the U.S. and Canada;
2. Met with city officials, local resort managers, and others to discuss development alternatives, preliminary concepts, possible constraints, and other issues;
3. Inspected the subject site from a marketing perspective, reviewing access, setting, general attractiveness, views, configuration, topography, major natural features, surrounding land uses, and other issues;
4. Examined key characteristics of the Girdwood area, including air and driving access, climate, recreation options, shopping, dining, medical services, culture, etc.;
5. Examined historic and existing second-home real estate market conditions in the Girdwood area;
6. Conducted detailed interviews with top brokers and other industry experts in the Girdwood and Anchorage areas; and
7. Investigated proposals to develop new or expand existing mountain resort communities in the Girdwood area.

Based on this analysis and our industry experience, we then evaluated potential ongoing annual demand from key source markets (primarily the Anchorage area), factoring in current sales in the region, likely future sales, and likely future capture rates for the proposed new development given anticipated competition from other new and existing resorts in the region.

Remaining sections of this report are organized as follows:

- **Section II:** Executive Summary
- **Section III:** Overview of Regional Characteristics and Regional Real Estate Market Conditions in Girdwood
- **Section IV:** Quantitative Demand Analysis

This report was prepared by Jon Peterson, President, and Chris Dorociak, Associate, with assistance from Jean Anderson, Associate, and Karen Peterson, Chief Operating Officer.



## GENERAL LIMITING CONDITIONS

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Every reasonable effort has been made to ensure that the data contained in this study reflect the most accurate and timely information possible. The data are believed to be generally reliable. This study is based on estimates, assumptions, and other information developed by Peterson Economics from its independent research effort, general knowledge of the industry, and consultations with the Client. Peterson Economics shall not be responsible for any inaccuracies in reporting by the Client, its agents and representatives, or any other data source used in preparing or presenting this study.

The data presented in this study were primarily collected in March of 2006. Peterson Economics has not undertaken any effort to update this information since this time.

This study primarily evaluates demand for a new master-planned resort community on the subject parcel. However, some significant factors that are unquantifiable and unpredictable have not been considered by Peterson Economics in the preparation of this study. Among others, these include: future economic and wealth-formation conditions in key source markets; market acceptance; management approach; quality and effectiveness of design; and deviations from or interruptions in the assumed construction schedule. This study also assumes that climate/snow conditions in Girdwood will remain attractive for skiing, without a significant change in seasonality or other changes (though most ski operators now believe global warming is continuing to shorten prime ski seasons and push the snowline higher in elevation).

Peterson Economics' conclusions and recommendations should be viewed in light of these assumptions.

No warranty or representation is made by Peterson Economics that any of the projected values or results contained in this study will actually be achieved. Peterson Economics shall not be responsible for any deviations in the project's actual performance from any predictions, estimates, or conclusions contained in this study.

Possession of this study does not carry with it the right of publication thereof, or the right to use the name of Peterson Economics in any manner without first obtaining the prior written consent of Peterson Economics. No abstracting, excerpting, or summarizing of this study may be made without first obtaining the prior written consent of Peterson Economics. This study may not be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the Client, without first obtaining the prior written consent of Peterson Economics. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from Peterson Economics.

This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions, and considerations.



# SECTION II

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## EXECUTIVE SUMMARY

Peterson Economics was retained by the National Development Council in November 2005 to complete a market analysis evaluating potential for residential real estate sales within the proposed new Glacier-Winner Creek community in Girdwood, Alaska. This proposed new resort community could potentially become the premier ski and golf resort community in Alaska, featuring a dramatic, scenic mountain setting, a large ski mountain featuring an attractive mix of terrain, a championship-quality 18-hole golf course, and a variety of other amenities.

The primary purpose of this analysis is to project potential future ongoing demand for residential units within Glacier-Winner Creek. This is critical, as future real estate sales would almost certainly represent the primary profit center for the new development, and profits from these sales would be necessary to justify the high costs of completing infrastructure, developing a major new ski area, developing a golf course, subsidizing resort operations, and making other improvements. Peterson Economics is uniquely qualified to assess this potential. The firm completes about 50 detailed market and financial analyses each year for proposed new destination resorts throughout North America. Over the past 12 months, these studies have included the market and financial analyses for five of the ten most significant new ski resort communities currently proposed in North America.

Key conclusions from Peterson Economics' research effort are summarized below, beginning with a summary of existing conditions in Girdwood and concluding with a summary of Peterson Economics' demand projections for the new community.

### SUMMARY OF KEY MARKET FINDINGS

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The new Glacier-Winner Creek community would be developed on a highly attractive site situated in a remote valley immediately north of the existing Alyeska Resort and the small resort town of Girdwood. Girdwood is located at the base of the Chugach Mountains, about 40 miles east of Anchorage. It is home to the Alyeska Resort, which includes:

1. Alaska's nicest resort hotel – a 307-room high-rise hotel situated at the base of the gondola and the resort's expert slopes; and
2. Alaska's largest alpine ski area – with 2,500-feet of vertical drop, but fairly limited beginner and intermediate terrain.

Access to Girdwood and the subject site from Anchorage is relatively good. The Seward Highway (Interstate One) connects Anchorage to Girdwood; when the roads are dry, travel time is roughly one hour. Thus, given Anchorage's excellent air service, access from many major metro areas in the Lower 48 is reasonable, though flight times are rather long.

## GIRDWOOD'S EXISTING VISITATION AND REAL ESTATE SALES

Historically, due to its location, seasonality, and amenities, Girdwood has primarily served as a resort area for residents of the greater Anchorage area. Roughly 90 percent of second-home and primary-home sales typically derive from Anchorage-area residents. Likewise, roughly 90 percent of Alyeska's 160,000 annual skier-days derive from the Anchorage area. However, during the summer months, the Alyeska Prince Hotel hosts a large number of visitors from the Lower 48 who stay in Girdwood as part of larger tours around Alaska. Still, the total number of out-of-state overnight guests coming to Girdwood has likely remained below 50,000 per year. In comparison, many larger second-home destinations in the Lower 48 attract between 500,000 and 2.5 million overnight guests each year – providing much larger pools of prospective future second-home buyers.

According to local brokers, roughly \$15 million in real estate transactions occur annually in Girdwood. Reportedly, about 50 homes in Girdwood sell per year, which are typically priced between \$200,000 and \$400,000. This equates to an annual sales volume for homes of about \$10.5 million. Additionally, about 25 to 30 lots sell per year in the area. Lots are typically about 1/3 to 1/4 acres, and average about \$150,000. Larger lots are typically about 1.25 acres, and reportedly sell for about \$200,000. This equates to an annual sales volume for homesites of about \$4.5 million. According to the MLS (which reportedly captures about 75 percent of transactions), 49 properties were sold in 2005. Reportedly, very few have sold for over \$1 million in Girdwood, and only three to five homes have recently sold for over \$500,000. [Note: in order to support the high costs of infrastructure and ski-area development, most finished products at Glacier-Winner Creek (homes, townhomes, or condos) would need to be valued over \$500,000.] According to local brokers, most individuals who have the means to purchase real estate in the \$500,000 to \$1 million range choose to build a custom home.

According to a local broker, Girdwood is evenly mixed between full-time residents and second-home owners. The two groups of homeowners are described below:

- **Full-Time Residents:** of the primary-home owners, 65 to 70 percent are still working and most commute to Anchorage, and about 30 to 35 percent are retired. Primary-home owners are reportedly either in their 30s or in their 50s to 60s. Those in their 40s tend to move back to Anchorage to be closer to their children's high school.
- **Second-Home Owners:** of the second-home owners, 80 to 90 percent are reportedly from Anchorage, and 10 to 20 percent are from elsewhere. Second-home owners from Anchorage tend to be avid skiers, and use their unit in the winter. They typically place it in a rental program for the summer. Most second-home owners from Anchorage reportedly value access to skiing above high-end finishes. Second-home owners from elsewhere tend to be occasional skiers who use their units in the summer more than the winter. Most second-home owners are reportedly in their mid-30s to mid-40s, and have children still living at home. Most reportedly have

annual household income in the \$100,000 to \$200,000 range. According to local brokers, many second-home owners from Anchorage are in the oil industry and recently experienced significant increases in annual compensation. Other buyer professions include real estate brokers, doctors, business owners, and contractors.

## **GIRDWOOD'S FUTURE OPPORTUNITIES AND CONSTRAINTS**

While Girdwood's mountain wilderness scenery is truly exceptional, other aspects of the community have limited second-home and primary-home demand. Among others, these include:

1. The town of Girdwood lacks an attractive base village or dining/shopping district, and it lacks an attractive array of shops, restaurants, and other service providers;
2. Most existing homes and condos in Girdwood are of modest quality, and the town lacks any true upscale communities;
3. The Alyeska ski area is well respected in Alaska, but it includes fairly limited intermediate and beginner terrain, lacks a "big mountain" experience, and experiences variable snow quality (due primarily to its southwestern exposure and low elevation);
4. The Alyeska Prince Hotel is the nicest resort hotel in Alaska, but its Japanese-influenced high-rise design lacks the intimacy and rugged Alaskan feel most visitors from the Lower 48 would prefer; and
5. The region's seasonality seriously limits the appeal of skiing during the traditional winter ski season and limits the appeal of visiting during the prime summer months.

Girdwood has become somewhat popular as a full-time residence for households from the Anchorage area, but the size of this influx has also been seriously limited by: (1) the commute time to Anchorage and dangerous driving conditions on the Seward Highway; (2) the lack of high-paying jobs and services in Girdwood (no large grocery stores, no hospital, etc.); and (3) the lack of a high school in Girdwood (which forces high school students to commute to South Anchorage).

Notably, the development of the Glacier-Winner Creek community could improve Girdwood's appeal by: (1) adding a sizeable new ski area offering better snow and more expansive intermediate terrain; (2) adding a championship golf course (currently the only golf courses are in Anchorage); and (3) for the first time offering an upscale, master-planned resort community in Girdwood, set in a wilderness-type setting. However, many of Girdwood's current challenges would likely remain intact, such as: (1) seasonality; (2) travel time (though highway improvements are proposed, which should eliminate much of the danger); and (3) lack of services (i.e., no large grocery store, no hospital, and no high school).

## PROJECTED FUTURE DEMAND FOR REAL ESTATE IN THE GLACIER-WINNER CREEK COMMUNITY

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The primary purpose of Peterson Economics' analysis is to evaluate the potential depth of future demand for residential real estate sales within the proposed new Glacier-Winner Creek development. This demand would likely come almost exclusively from a mixture of three distinct markets:

1. Drive-to second-home buyers from the greater Anchorage area;
2. Permanent residents relocating to the area (primarily from Anchorage), including a mixture of working families, pre-retirees, and retirees; and
3. Fly-to second-home buyers from the Lower 48.

Based on current buyer origins in Girdwood, an analysis of Anchorage's population, demographics, economy, and residential real estate market, a review of buyer origins and preferences at other ski resort communities throughout North America, and our industry experience, Peterson Economics came to the following conclusions:

- **Potential Second-Home Demand from the Anchorage Market:** it appears likely that the most promising and most certain opportunity for real estate sales at Glacier-Winner Creek would come from Anchorage-based second-home buyers. Glacier-Winner Creek could clearly become the most appealing second-home destination for affluent residents of the Anchorage area seeking an attractive, master-planned resort community within driving distance of home offering both skiing and golf. However, due to the relatively small size of the Anchorage area, even if Glacier-Winner Creek captured a huge share of this market niche, the total depth of demand would be relatively limited. Based on the number of affluent residents in Anchorage, the proportion likely seeking second homes, drive-to versus fly-to demand, and the likely proportion captured by Girdwood and Glacier-Winner Creek in particular, Peterson Economics concluded that total ongoing Anchorage-resident demand for new second-home units at Glacier-Winner Creek would be unlikely to total more than about ten units per year. However, initial sales could be somewhat greater due to pent-up demand.
- **Potential Permanent Resident Demand:** as discussed above, Peterson Economics' market research and industry experience suggests that notable additional demand for new real estate within the Glacier-Winner Creek community could emerge from permanent residents. Most such permanent residents would consist of families relocating from the Anchorage area for lifestyle reasons (i.e., coming to live in a beautiful wooded setting, surrounded by mountains and adjacent to alpine skiing). However, the potential future depth of demand from permanent residents is limited by the small size of the Anchorage market and the limitations of Girdwood. For instance, according to a local expert, only 675 residential building permits were issued in Anchorage in 2005. Notably, only 67 of the permits issued were for new construction valued at more than \$400,000 – illustrating the small size of the region's high-end housing market. Thus, even if Glacier-Winner Creek was able to capture ten percent of Anchorage's new, higher-end single-family homes occupied by

permanent residents, this demand would likely equate to fewer than ten new homes per year. Moreover, while Girdwood is undeniably beautiful and offers a very attractive location for recreation activities, it faces significant shortcomings for potential full-time residents. Notable among these include: (1) the lack of a high school; (2) the lack of full-size grocery stores and other major shops and restaurants; (3) the limited employment base; and (4) the lack of extensive medical facilities. As a result, most new full-time residents would face the prospect of commuting to Anchorage – one hour away on a highway known for dangerous driving conditions -- on nearly a daily basis to get to work, school, or shopping, or to find medical care. These factors significantly limit potential future sales to permanent residents. Thus, based on these factors, Peterson Economics believes potential ongoing demand from permanent residents moving into the Glacier-Winner Creek community may total no more than about five to ten units per year. However, this figure could be increased substantially with the addition of: (1) a high school; (2) more extensive shopping, dining, and medical facilities; and (3) additional well-paid jobs in Girdwood. However, even with these improvements, Peterson Economics questions whether permanent resident demand within Glacier-Winner Creek would grow to more than 10 to 20 net new units per year.

- **Potential Second-Home Demand from the Lower 48:** assessing potential future second-home demand from the Lower 48 is much more challenging, particularly given the very limited number of second-home sales currently occurring in Alaska to buyers from the Lower 48 or anywhere else outside of Alaska. However, based on information currently available, Peterson Economics concludes that -- even if Glacier-Winner Creek is developed as proposed, and even if the community is actively and effectively marketed to prospective second-home buyers from the Lower 48 -- second-home demand from the Lower 48 will likely remain fairly modest. However, it could enjoy a notable increase from its current level of several sales per year in the Girdwood area. Primary factors limiting future second-home demand from the Lower 48 include: (1) Alaska's perception of being remote, harsh, and unforgiving (suitable for an adventure vacation, but not a luxurious second home); (2) the region's notable seasonality, which creates significant problems for both winter and summer use; (3) Girdwood's limited services; and (4) significant competition from attractive ski resort and other mountain resort communities closer to home (in British Columbia, Alberta, Montana, Idaho, etc.). Despite these limitations, Glacier-Winner Creek likely offers some potential to attract second-home buyers from the Lower 48, if effectively marketed. Moreover, with a population of about 300 million in the Lower 48, it is virtually impossible to predict whether ongoing demand for new second homes at Glacier-Winner Creek from the Lower 48 would stabilize at five units per year, ten units per year, or even 30 units per year. Any figure in this range would represent a very, very small percentage of the U.S. second-home market. However, based on our experience with existing destination resorts throughout North America, and based on the likely advantages (superb scenery, endless wilderness, attractive skiing, reasonable access from the airport, etc.) and disadvantages (seasonality, long fly time, bugs, etc.), Peterson Economics believes second-home demand from the Lower 48 would be far more likely to stabilize in the range of five to 20 units per year than in the range of 20 or more units per year.

Thus, based on this analysis and Peterson Economics' extensive industry experience, and assuming most new products would be valued at over \$500,000 (including lot plus home), it appears likely that, if attractively developed and effectively marketed, the new Glacier-Winner Creek resort community could potentially achieve average ongoing absorption of about:

- Ten units per year to second-home buyers from Anchorage;
- Five to ten units per year from permanent residents moving into the community; and
- Perhaps ten units per year to second-home buyers from the Lower 48 (though this source of demand is very uncertain, and could potentially be much smaller or significantly greater).

Thus, total ongoing demand for the new community from all sources combined could potentially equate to an average of about 25 to 30 units per year. However, it could potentially be somewhat greater if unexpectedly well received by the Lower 48 market, and it could potentially be somewhat greater in the initial years of sales due to initial market excitement and pent-up demand. Thus, initial sales might total 40 to 50 units per year for several years, before dropping back down to more sustainable levels of 20 to 30 units per year. However, if this new community fails to attract significant interest from the Lower 48, ongoing absorption would likely be limited to no more than about 15 to 20 units per year (a much more certain base-level figure).

While this would represent a major surge in demand from current sales levels of comparable product in Girdwood, it would not represent sufficient absorption to justify development of a major new ski resort, unless the project is heavily subsidized by outside sources. Typically, in order to be economically viable as a traditional, profit-oriented development, most new ski resorts would require annual absorption of 150 to 200 (or more) units per year (to offset the high costs of infrastructure and ski area development), and such absorption appears extremely unlikely if not impossible at Glacier-Winner Creek.



# SECTION III

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## OVERVIEW OF REGIONAL CHARACTERISTICS AND REAL ESTATE MARKET CONDITIONS IN GIRDWOOD

The proposed new Glacier-Winner Creek resort community would be situated in a remote valley on the north side of Girdwood. As a new community with extensive amenities set in a dramatically beautiful and sheltered valley, it would likely support significantly higher real estate values than existing communities in Girdwood and it would likely attract new second-home and primary buyers to the area. However, it is still critical to understand Girdwood's existing characteristics (setting, access, amenities, services, population, etc.) and existing real estate market conditions, as these directly impact the potential future attractiveness and appeal of the subject community. It is also valuable to summarize key characteristics of the greater Anchorage area. Consequently, this section provides:

- A discussion of Girdwood's location, general characteristics, and basic services;
- A general overview of the greater region (Anchorage and Girdwood) including its visitation data, travel times, climate, golf operations, ski operations, and lodging; and
- An overview of current real estate market conditions within the Town of Girdwood.

### REGIONAL OVERVIEW

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Prior to examining existing real estate market conditions in Girdwood and other critical market factors, it is useful to briefly review the key characteristics of the region. The primary purpose of this "regional overview" is to determine how attractive the subject site location truly is for a new resort community.

Girdwood is situated in south-central Alaska, about 40 miles east of Anchorage (see **Figure III-1** for a representation of Girdwood's geographic location). From Anchorage, access to the site is relatively direct via the Seward Highway (Interstate One). Under dry road conditions, the drive is about one hour. Between Anchorage and Girdwood, the Seward Highway follows a tidal flat known as Turnagain Arm, which is juxtaposed by steep, rugged mountain peaks. Although the drive is appealing to visitors, it is also a major byway connecting Anchorage to Seward, Homer, and the Kenai Peninsula. Local traffic tends to be faster than visitor traffic, and reportedly leads to hazardous road conditions. Additionally, the highway is undivided and can become icy in the winter months.

Girdwood is located north of Turnagain Arm, at the base of the Chugach Mountains. It is set in a valley, which is heavily forested, but boasts very dramatic mountain views in open areas. Additionally, several small creeks meander through the community. Despite its proximity to Anchorage, Girdwood's setting is far more charming. Unlike Anchorage, which is relatively flat, arid, and sprawling, Girdwood is a small community, set among steep mountain peaks and boasting lush vegetation. It is far snowier than Anchorage in the winter and significantly greener

**FIGURE III-1: GIRDWOOD'S LOCATION**



than Anchorage in the summer. The town is bordered on three sides by the Chugach State Park and the Chugach National Forest. It is home to Alyeska Resort (discussed later in this section). Visitors from metropolitan areas in the Lower 48 are likely to view Girdwood as an intimate community with attractive “Alaskan” qualities such as rugged mountains and expansive views.

Although it offers spectacular natural features, which are far more dramatic than most mountain communities in the Lower 48, Girdwood lacks the high-end amenities and services common in upscale mountain resort destinations. Visitors are able to access necessities such as basic food and recreational gear in town, yet the modest community does not offer a shopping district or true downtown corridor. It also lacks an attractive array of upscale restaurants. Visitors who travel to Girdwood for longer stays may find it necessary to shop and dine in Anchorage on occasion. The following is a brief overview of the services and amenities available in the Town of Girdwood:

- **Restaurants:** the Girdwood area offers several unique dining options, which serve a diverse array of cuisine. Turnagain House, Double Musky, and Jack Sprat are independent eateries with local charm; Seven Glaciers Restaurant and Teppanyaki Katsura are fine-dining establishments associated with the Alyeska Prince Hotel. Turnagain House is located in Indian, about halfway between Girdwood and Anchorage. From its location on the Seward Highway, Turnagain House boasts exceptional views of Turnagain Arm and the Chugach Mountains, along with moderately upscale food. Double Musky is located in the Town of Girdwood. It is known for its laid-back atmosphere, full bar, and sizable portions. It also features several popular Cajun dishes. Jack Sprat is located near the base of Mt. Alyeska. It is a casual restaurant with a health-conscious menu, and reasonable portions. Seven Glaciers Restaurant and Lounge is Girdwood’s most notable fine dining establishment. Located on Mount Alyeska, the restaurant is accessed via a 2,300-foot tram ride. It offers gourmet cuisine and stunning views. Unfortunately, however, not all of the restaurant’s tables reportedly enjoy mountain views. The restaurant also operates on a very limited schedule during winter months. Girdwood’s other fine dining option is Teppanyaki Katsura, located on the Alyeska Prince Hotel’s third floor. Teppanyaki Katsura is a Japanese steakhouse in which chefs grill steak, seafood, and vegetables. Although Seven Glaciers provides a very unique dining experience and Teppanyaki Katsura is an interesting alternative, restaurants in Girdwood are underdeveloped compared to those available at resort towns such as Jackson Hole and Ketchum. Dining in Girdwood is currently an obstacle for high-end second-home development in the community. Although Anchorage offers many more dining options, Girdwood’s future second-homeowners will likely feel that the drive to Anchorage is too far for dinner engagements.
- **Grocery:** Crow Creek Mercantile is the only grocery store in Girdwood. It is rather small, and primarily stocks basic foods and beverages. It is only slightly larger than a common convenience store. A service station at the intersection of Alyeska and Seward Highways also stocks some basic necessities. Girdwood’s future guests and second-homeowners will likely find it necessary to shop for groceries in Anchorage before arriving in Girdwood.

- **Retail:** upscale shopping in Girdwood is nonexistent. Shopping consists of a few souvenir shops and a sports shop in the Alyeska Prince Hotel as well as several souvenir shops and a ski/cycling shop in downtown. Girdwood offers no true shopping district. Its downtown is not a destination for shoppers, but one primary street containing basic services.
- **Culture:** the Girdwood area offers unique activities throughout the year which draw large numbers of visitors. One of Girdwood’s most famous events is the Spring Carnival at Alyeska. It is held at the end of April each year and includes wine tasting, barbeques, events for children, and spring skiing competitions. The signature event at the Spring Carnival is the Slush Cup, where costumed competitors ski off of a jump and land in a pool of ice-cold water. The Girdwood Forest Fair is another popular event which attracts many residents from Girdwood, Anchorage, and beyond. The Girdwood Forest Fair is held the first weekend in July, and features folk music and authentic Alaskan crafts.
- **Medical:** the Girdwood Clinic is the only medical facility in town. Reportedly, it is staffed by a nurse, and not a doctor. It offers family care and healthcare management services as well as limited urgent care services. Reportedly, most patients with major injuries or medical conditions requiring immediate assistance are transported by helicopter and treated in Anchorage, which boasts several full-service hospitals.
- **Schools:** Girdwood contains one school building, which houses the Girdwood School, the Four Valleys Community School, and a public library. Girdwood School is an elementary and junior high school, offering instruction for Kindergarten through eighth grade. It has about 165 students and seven classroom teachers. The Four Valleys Community School offers classes from preschool to adult continuing education. Currently, Girdwood lacks a high school, which reportedly motivates many Girdwood families with teenage children to move to Anchorage (or prevents them from moving to Girdwood in the first place). High school students who live in Girdwood must commute daily to Anchorage for school and for after school activities.

As mentioned above, Anchorage provides most of the services and amenities that are not found in Girdwood. However, guests and second-homeowners may find multiple one-hour trips to Anchorage to be inconvenient. Given the current level of services and amenities, the area is better suited for short stays. In order to attract a destination visitor or affluent second-home buyers from the Lower 48, Girdwood will likely need to develop a larger variety of shopping and dining options. Notably, Alyeska Resort does not offer a central “base village” area. Although the Alyeska Prince Hotel has developed several appealing shopping and dining options, it is located on the perimeter of the ski operation, and is isolated from the bulk of the activity in Girdwood.

Although Girdwood is well regarded in Anchorage as an attractive second-home area, it has not yet gained notable recognition by residents in the Lower 48 as a major mountain resort community. The area attracts a large number of visitors who stop in Girdwood during the summer as part of their “Alaska experience,” but these visitors do not tend to return year after year, and they do not often buy second homes in Alaska.

## REVIEW OF VISITATION

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According to a recent study commissioned by the Anchorage Convention and Visitors Bureau and carried out by the McDowell Group (a demographics research firm based in Alaska), Anchorage receives approximately 900,000 visitors per year (though Peterson Economics believes actual visitation could be somewhat greater if visitors who stay with friends and family are included, as the region's commercial lodging units appear to host nearly this number on their own). Visitation reportedly peaked in 2000, and the tourism industry suffered substantially from the 2001 terrorist attacks. Since that time, visitation has rebounded. Although current visitation quantity is notably large, local experts believe that Anchorage is an important service hub, but not often a tourist destination. The Ted Stevens Anchorage International Airport is the largest airport in Alaska. Many visitors who fly into Anchorage reportedly purchase necessities for their trip, and immediately depart to other destinations in the state.

Currently, Anchorage experiences more visitation in the summer than in the winter. Approximately 70 percent of visitors each year (about 630,000 individuals) travel to Anchorage in the summer, and approximately 30 percent of visitors (about 270,000 individuals) travel to Anchorage in the winter. Moreover, the majority of winter visitation derives from business travelers and people coming to visit friends and family, not vacationers. However, others traveling to Anchorage in the winter come to ski or to watch the Iditarod (but the total number of out-of-state visitors coming to ski each year is likely well under 10,000).

Commercial lodging establishments in the Anchorage region report average annual occupancy of about 67 percent. On average, they achieve peak occupancy in August (about 93 percent), and the lowest occupancy in January (about 47 percent). According to information provided by the McDowell Group, Anchorage offers approximately 8,100 commercial lodging units, with an average daily rate (ADR) of about \$109. Lodging units tend to host an average of about 1.8 to 1.9 guests per room, indicating that most visitors to Anchorage are couples. According to surveys, guests reportedly stay in Anchorage for about four nights, and stay in Alaska for about 12 days. Based on these figures, it appears that commercial lodging units in Anchorage host nearly 900,000 overnight visitors per year.

The majority of individuals traveling to Anchorage tend to be semi-affluent baby boomers. According to surveys conducted by the McDowell Group, groups accounted for about 55 percent of recent visitors, and free independent travelers (FIT) accounted for about 45 percent of recent visitors. Recent surveys indicate that visitors are typically about 50 years old, and earn about \$90,000 per year in household income. Cruise visitors tend to be slightly older and more affluent than non-cruise visitors. They are typically about 57 or 58 years old and reportedly earn an average of about \$97,000 in annual household income. Cruise and non-cruise visitors also differ slightly in their states of origin. According to the McDowell Group, cruise visitors represent a very uniform distribution across the U.S., whereas non-cruise visitors tend to overwhelmingly derive from the western U.S.

The following is a distribution of cruise visitor origins:

- About 26 percent from the southern U.S.;
- About 22 percent from the western U.S.;
- About 21 percent from the mid-western U.S.;
- About 20 percent from the eastern U.S.; and
- About 4 percent from international locations.

The following is a distribution of non-cruise visitor origins:

- About 48 percent from the western U.S.;
- About 16 percent from the mid-western U.S.; and
- About 36 percent from a variety of U.S. states.

Visitation to Girdwood is much more limited than visitation to Anchorage. Based on information reported by Alyeska and Chugach Powder Guides, it appears that Girdwood attracts fewer than 10,000 out-of-state visitors each winter. However, during the summer months, when the Alyeska Prince Hotel runs at high occupancy and the guest mix is much more heavily slanted toward out-of-state visitors, Girdwood likely attracts about 25,000 to 30,000 out-of-state visitors (including some who stay in rental properties or other accommodations). On a year-round basis, Girdwood likely attracts 40,000 to 50,000 out-of-state visitors each year – plus a much larger number from nearby Anchorage. However, very few of these visitors are repeat guests, and few likely represent strong prospects for second-home sales.

## **REVIEW OF TRAVEL TIMES TO AND FROM MAJOR POPULATION CENTERS**

The closest major airport to the Town of Girdwood is the Ted Stevens Anchorage International Airport. Nearly all out-of-state guests of Girdwood fly into the Anchorage International Airport and drive to Girdwood. Located in western Anchorage, the airport is about 41 miles from Girdwood, and the drive-time from Anchorage to Girdwood is slightly more than one hour. Peterson Economics believes that fly-to guests prefer to drive no more than 30 minutes from the airport to their final destination, but the drive from Anchorage is both direct and scenic, and is therefore not perceived as too much of a hindrance. In fact, the drive provides an attractive entry statement for the resort. Guests leave Anchorage, which is dry and flat, and drive on the Seward Highway, along Turnagain Arm, with dramatic mountain views the entire way to Girdwood. Although the drive and surrounding scenery is an amenity in clear weather, it can be potentially hazardous in snowy conditions, with a combination of local traffic, ice, and limited visibility.

Currently, no shuttle service is available from the Ted Stevens Anchorage International Airport to the Town of Girdwood, and guests are encouraged to rent a car or take a taxi. Taxi service in Anchorage, however, is an industry that reportedly operates under a price fixing scheme. Therefore, rates tend to be excessive. A taxi ride from Anchorage to Girdwood is reportedly about \$100.

Although travel from the Lower 48 to Alaska involves a long flight, the Ted Steven Anchorage International Airport offers service from a large number of other major U.S. carriers including: Alaska Airlines, America West, American, Continental, Delta, Frontier, Northwest, and United. As such, Anchorage International Airport enjoys direct air service from numerous major metropolitan areas in the U.S. Direct flights are available from each of the following metropolitan areas:

- **Chicago, Illinois:** 7 hours
- **Dallas, Texas:** 6.8 hours
- **Denver, Colorado:** 5.4 hours
- **Houston, Texas:** 7.2 hours
- **Las Vegas, Nevada:** 5 hours
- **Los Angeles, California:** 5.5 hours
- **Minneapolis, Minnesota:** 5.8 hours
- **Phoenix, Arizona:** 5.5 hours
- **Portland, Oregon:** 3.8 hours
- **Salt Lake City, Utah:** 5 hours
- **Seattle, Washington:** 3.5 hours

Thus, direct air travel to Anchorage is available from a wide range of potential second-home source markets. However, flight times are long and ski destinations in Colorado and Utah are typically much shorter journeys. Furthermore, Alaska does not share a time zone with any areas in the Lower 48. Travel to and from Anchorage therefore requires an hour of adjustment from Pacific Time, and up to four hours of adjustment from Eastern Time.

## **REVIEW OF LOCAL CLIMATE CHARACTERISTICS**

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It is important to examine Girdwood's climate and seasonality, as climate and seasonality have a large impact on potential second-home demand, particularly from out-of-state visitors. As noted above, however, Girdwood's climate and seasonality present major challenges to future second-home sales to buyers from the Lower 48, due to the dark, cold winters, and fairly moist, cool, cloudy summers.

Girdwood's climate is very seasonal. In the winter, the region is typically cold and snowy, with limited daylight. Springs and falls tend to be somewhat brisk but generally appealing. Summers enjoy long hours of daylight, but compared to most second-home destinations in the Lower 48, they are cool and moist, with a large number of cloudy days.

The prime ski season at most major ski areas in the Lower 48 lasts from mid-December through early April; however, Alyeska's conditions (Girdwood's alpine ski area) tend to be better in late February through late April. During this time, days become longer, and the sun begins to soften the snow. Without fresh snow, snow reportedly begins to soften at about 1:00 pm. Weather patterns reportedly vary significantly by elevation. For example, the Town of Girdwood is at an elevation of about 250 feet, and reportedly receives about 200 inches of average annual snowfall, whereas the summit of Mount Alyeska is at an elevation of about 3,939 feet, and reportedly receives about 600 inches of average annual snowfall.

It is also important to stress that Girdwood's climate is very different from surrounding areas. Anchorage, for instance, only receives about 80 inches of average annual snowfall, approximately 40 percent of the snow volume in the Town of Girdwood and approximately seven percent of the snow volume at the summit of Mt. Alyeska. Anchorage also enjoys far more sunny days and much less rain than Girdwood.

In general, Girdwood is known as a desirable spring skiing destination. During March and April, average high temperatures are in the mid 30's Fahrenheit to mid 40's Fahrenheit, and average low temperatures are in the high teens to high 20's. Average snowfall in these months is 32.5 inches and 12.3 inches, respectively. March and April also experience about 13 and 16 hours of daylight each day. Unlike ski areas in the Lower 48, December, January, and February tend to be substantially less appealing in Girdwood. Average high temperatures are in the high 20's, and average low temperatures are in the mid teens. Average monthly snowfall is 48.3 inches, 29.6 inches, and 32.3 inches, respectively. During this time of year, Girdwood experiences the least amount of daylight. Girdwood experiences only about seven, eight, and ten hours of daylight per day in December, January, and February. In fact, during the weeks surrounding the winter solstice, the sun reportedly never climbs over the region's ridges to shine on the Alyeska ski area.

For those interested in experiencing mild temperatures, May and June are reportedly some of the most attractive months to visit Girdwood. The climate tends to be relatively dry during these months, with only 2.3 to 3.7 inches of average monthly precipitation. Average high temperatures are in the low 50's and 60's, and average low temperatures are in the mid 30's and 40's. Girdwood experiences about 20 and 24 hours of daylight each day in May and June.

Although temperatures are warmer, July, August, and September are considered the area's rainy season. Average monthly precipitation ranges from 2.6 to 8.1 inches per month (compared to less than one inch per month in many popular mountain destination resort areas in the Lower 48 during these months). During July, August, and September, average high temperatures are 66, 63, and 55 degrees, and average low temperatures are 48, 46, and 40 degrees. Girdwood experiences about 21, 17, and 14 hours of daylight in July, August, and September. However, during the summer months, bugs are reportedly a nuisance.

The climate cools rapidly during the fall months of October and November. In fact, Alyeska Resort begins snowmaking in mid-October. In October and November, Girdwood receives an average of 7.8 and 6.5 inches of precipitation, some of which is in the form of snow. Average snowfall during October and November is about 13.1 and 27.2 inches, respectively. Average high temperatures are in the low 40's and 30's, and average low temperatures are in the high 20's and low 20's. In October and November, days begin to shorten rapidly, when the area experiences about 11 and 9 hours of daylight each day.

**Table III-1** displays Girdwood's average monthly temperatures, precipitation, snowfall, and hours of daylight.



Table III-1. Girdwood Monthly Temperatures, Precipitation, Snowfall, and Daylight Hours\*

<b>Month</b>	<b>Mean High Temperature</b>	<b>Mean Low Temperature</b>	<b>Mean Temperature</b>	<b>Mean Precipitation</b>	<b>Mean Snowfall</b>	<b>Mean Daylight</b>
<b>January</b>	27 °F	14 °F	20°F	7.82 in.	29.6 in.	8 hours
<b>February</b>	29°F	15 °F	22 °F	5.44 in.	32.3 in.	10 hours
<b>March</b>	36 °F	19 °F	28°F	4.82 in.	32.5 in.	13 hours
<b>April</b>	44 °F	27 °F	36 °F	5.23 in.	12.3 in.	16 hours
<b>May</b>	53 °F	36 °F	44 °F	3.68 in.	0.1 in.	20 hours
<b>June</b>	62 °F	43 °F	52 °F	2.30 in.	0 in.	24 hours
<b>July</b>	66 °F	48 °F	57 °F	2.58 in.	0 in.	21 hours
<b>August</b>	63 °F	46 °F	55 °F	4.58 in.	0 in.	17 hours
<b>September</b>	55 °F	40 °F	47 °F	8.07 in.	0 in.	14 hours
<b>October</b>	42 °F	29 °F	36 °F	7.82 in.	13.1 in.	11 hours
<b>November</b>	32 °F	20 °F	26 °F	6.51 in.	27.2 in.	9 hours
<b>December</b>	29°F	16 °F	23 °F	8.94 in.	48.3 in.	7 hours

source: [www.weather.com](http://www.weather.com) and [www.alaska.com](http://www.alaska.com)

\*Daylight hours recorded in Anchorage.

## REGIONAL GOLF OPERATIONS

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At present, no golf courses have been developed in Girdwood. According to local sources, an 18-hole golf course was proposed for the valley near Alyeska Resort in 1999. However, the development of the golf course was reportedly blocked by environmental groups. The Glacier-Winner Creek development is also planning a golf course, which would extend from the Alyeska Prince Hotel north to the center of the subject site. Currently, the most proximate golf courses to Girdwood are located in the City of Anchorage. Moose Run and Eagle Glen are located on military bases, and the Anchorage Golf Course is a municipal course located in a residential area. The military courses are open to civilian play. Currently, all of the courses in Anchorage charge fairly low greens fees. Despite these low fees, the military courses have a reputation for being very well-maintained because they pay no taxes, no insurance, and have few unsubsidized expenses. The courses in Anchorage are briefly summarized below.

### ANCHORAGE GOLF COURSE

The Anchorage Golf Course – an older, basic, mid-market facility – is owned by the City of Anchorage. The 18-hole, par-72 course measures approximately 6,616 yards from its back tees. It is situated in south Anchorage, about 32 miles from Girdwood. The course was built in 1987, and features a core layout with returning nines and narrow fairways. It offers views of Cook Inlet and Denali. The Anchorage Golf Course contains no residential development along the fairways. The course features a driving range and a 15,000 square foot clubhouse. The clubhouse is home to a restaurant, a pro shop, and banquet facilities. The restaurant and banquet facilities are reportedly very popular with groups.

The golf season at Anchorage Golf Course typically begins on May 10 and ends in mid-October. According to the manager of operations, the course generates approximately 35,000 rounds per year, a fairly high level of play for a course in this climate. Before the Creek Course was built (profiled later in this sub-section), the Anchorage Golf Course reportedly achieved about 38,000 rounds per season. This very high level of play on a mid-market course seems to indicate a high level of demand for golf in the region. The course's peak season is typically in June and July, when the course generates about 10,000 rounds per month. During June and July, Anchorage experiences its longest days, and tee times at the Anchorage Golf Course are available from 5:00 am to 10:00 pm.

Although the Anchorage Golf Course is a public facility, it offers annual passes for early morning tee times. **Table III-2** provides an overview of the rates at the Anchorage Golf Course.

**Table III-2. Anchorage Golf Course 2006 Rates**

	<b>Price for 2006 Season</b>
<b>Resident Greens Fee (per round)</b>	\$38
<b>Non-Resident Greens Fee (per round)</b>	\$53
<b>Effective Average Greens Fee (per round)</b>	\$27
<b>Cart Rate Per Person</b>	\$14
<b>Early Morning Annual Pass</b>	\$450

[Note: carts are required on weekends, but not on weekdays. Early Morning Annual Passes are valid for weekday tee times prior to 9:00 am. Passes are valid for green fees only and do not include cart fees or range balls. Additionally, annual pass holders must pay a course improvement fee of \$3 per 18-hole round and \$1.50 per 9-hole round.]

The director of operations at the Anchorage Golf Course believes that the local golf market is very price-sensitive. Most golfers reportedly walk the course on weekdays. In his opinion, greens fees of more than \$50 may be too high for the local market. Visitors to Alaska, such as those who stay at the Alyeska Prince Hotel, are likely less price-sensitive.

## MOOSE RUN

Moose Run is a 36-hole golf facility located on Fort Richardson, a U.S. Army base in Anchorage. It is in north Anchorage, approximately 38.5 miles northwest of Girdwood. The facility includes a pro shop. Fort Richardson features two courses; both are briefly profiled below:

- **Hill Course:** this 18-hole, par 72 course measures approximately 6,499 yards from its back tees. The front nine was completed in 1952, and is hilly and lined with spruce and birch trees. The back nine was completed in 1955, and is somewhat flat. The greens are reportedly small, and water features come into play on a few holes. Full-price greens fees for civilians are \$38 per round for the 2006 season. Golf carts are \$28 per round. The course is reportedly open from June 1 through mid-October.
- **Creek Course:** this 18-hole, par 72 course measures approximately 7,324 yards from its back tees. The Creek Course was designed by Robin Nelson. It is the longest course in Alaska, and also one of the best-respected. The course originally opened for play in 2000. Full-price greens fees for civilians are \$42 per round for the 2006 season. Golf carts are \$28 per round. The course is reportedly open from June 1 through mid-October.

## EAGLEGLLEN

The Eagleglen is located on the Elmendorf Air Force Base. It is in eastern Anchorage, approximately 40 miles northwest of Girdwood. It features an 18-hole, par 72 course, which measures approximately 6,689 yards from its back tees. It is an early Robert Trent Jones II design, which opened in 1970. It was recently voted the best golf course in Alaska by *Golf Digest*. The course is meticulously maintained, and reportedly boasts water features, well-manicured greens, and lush forests. Full-price greens fees for civilians are \$42 per round for the 2006 season. Golf carts are \$28 per round. The course is typically open from May through mid-October. Eagleglen additionally features a pro shop, restaurant, and driving range.

## GIRDWOOD'S SKI OPERATIONS

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### ALYESKA RESORT

The Alyeska Resort ski area is located on the eastern edge of development in Girdwood, at the base of the Chugach Mountains. From the Seward Highway, access to the ski area is very direct. The Alyeska Highway is the primary turnoff for Girdwood, and Alyeska Resort is located at the end of the road, no more than two miles from the Seward Highway. The ski area offers no large “base village” common to major ski resorts in the Lower 48. In fact, the base of Alyeska is rather intimate and understated, entirely lacking an upscale, master-planned appearance. It consists of a day lodge, several small restaurants, and a small lodging operation. The Alyeska Prince Hotel is located away from the central base area, and is profiled later in this section.

Although Alyeska boasts only about 1,000 skiable acres and lacks extensive variety in its terrain, it occupies a scenic setting with superb views. The views from both the base of the ski area and the top of the ski terrain are some of the most spectacular mountain views anywhere. From the base, the snow-covered peaks of the Chugach Mountains are rugged and dramatic. From the ski area, the views are equally superb. On clear days, one can see the Town of Girdwood, the Seward Highway, and Turnagain Arm, as well as surrounding mountains. Additionally, much of the top of the ski area is above the tree line, so guests are easily able to locate runs. Conversely, Alyeska’s expansive, open areas become more challenging in cloudy and/or low-light conditions. Without trees as points of reference, variations in the snow and the terrain are often more difficult to identify. See **Figure III-2** for photos from the base and ski area at Alyeska.

Alyeska’s vertical drop is reportedly about 2,500 feet, and the base of the ski area is only about 250 feet in elevation. The peak of Mt. Alyeska, which banks the ski area, is approximately 3,939 feet in elevation. However, lifts do not serve above 2,750 feet in elevation. Therefore, it is the lowest outdoor ski resort in the world. Peterson Economics believes that this fact is a major amenity for older skiers who come from areas close to sea level and find it difficult (even dangerous) to ski at resorts in high elevations such as those in Colorado and Utah.

Alyeska receives a reported 631 inches of average annual snowfall, giving it some of the most snow volume of any resort in North America. The quality of the snow, however, is not totally consistent. The resort reportedly enjoys about 40 powder days per year, but given the limited ski terrain, powder tends to be skied and packed very quickly. According to locals, it is possible for the resort to receive rain at any time during the ski season. Therefore, massive accumulations of snow can quickly be spoiled by wet conditions. As a result of Alyeska’s open terrain, the powder is skied fairly evenly, and is reportedly difficult to find a few days after a storm. Advanced and expert skiers reportedly find Alyeska’s terrain more suitable to their abilities, whereas beginners and intermediate skiers reportedly feel very limited by the mountain.

**FIGURE III-2: VIEWS FROM THE ALYESKA RESORT SKI AREA**



The terrain is officially classified as follows:

- **Beginner:** 11 percent;
- **Intermediate:** 52 percent; and
- **Advanced:** 27 percent.

Reportedly, the intermediate terrain at Alyeska is perceived as advanced/intermediate terrain, and is difficult for occasional skiers. The terrain is served by nine lifts: one high-speed detachable quad, two fixed quads, three double chairs, two surface lifts, and one 60-passenger aerial tram.

**Table III-3** provides an overview of lift ticket and season pass prices for the 2005/2006 ski season at Alyeska.

**Table III-3. 2005/2006 Alyeska Lift Ticket and Season Pass Prices**

	<b>Full Day<sup>1</sup></b>	<b>Half Day<sup>2</sup></b>	<b>Half Day and Night<sup>3</sup></b>	<b>Night<sup>4</sup></b>	<b>Season Pass</b>
<b>Adult</b>	\$52	\$37	\$45	\$22	\$1,049
<b>Alaska Resident</b>	\$45	\$37	\$45	\$22	\$1,049
<b>Prince Guest</b>	\$41	\$37	\$45	\$22	\$1,049
<b>High School (14-17)</b>	\$34	\$28	\$34	\$21	\$849
<b>College/Military</b>	\$34/\$33	\$27	\$34/33	\$22	\$889
<b>Senior (60-69)</b>	\$34	\$28	\$34	\$16	\$549
<b>Senior (70+)</b>	\$10	\$10	\$10	\$10	\$49
<b>Child (8-13)</b>	\$26	\$21	\$26	\$16	\$549
<b>Child (1-7)</b>	\$10	\$10	\$10	\$10	\$250

<sup>1</sup> Valid from 10:30am to 5:30pm.

<sup>2</sup> Valid from 1:00pm to 5:30pm.

<sup>3</sup> Valid from 1:00pm to 9:30pm.

<sup>4</sup> Valid from 4:30pm to 9:30pm.

[Note: night skiing is only available during limited portions of the season. According to the manager of ski operations, about 60 percent of the ski area is lighted. Reportedly, Alyeska Resort's effective yield for all ski passes is about \$23.]

Alyeska Resort reportedly hosts between 155,000 and 160,000 skier days per year. March is typically the busiest month for the resort, when days are long, but temperatures are still low. Over the past few years, skier days have reportedly been steady. About 90 percent of skiers reportedly derive from Anchorage, and only about ten percent of skiers are destination visitors from other areas. According to the manager of ski operations, the local market has decreased somewhat, and to a small degree, destination skier visits have increased. The vast majority (perhaps 80 to 90 percent) of destination skiers stay at the Alyeska Prince Hotel. They reportedly stay in Girdwood for about one week and ski for about three to four days. Thus, Alyeska attracts about 16,000 skier-days per year from non-local sources, representing a total of about 4,000 to 5,000 non-local skiers per year. Most reportedly derive from the Northwest and

California. They are usually over 40 years of age, and rarely come with children. Most of these visitors are members of ski clubs, which travel to a select group of ski resorts per year. Thus, most destination skiers have acquired discounted tickets. Nearly all local skiers derive from Anchorage, but unlike destination skiers, local skiers represent a very wide demographic profile. The resort typically sells between 1,000 and 1,400 season passes per year to locals. In the Anchorage ski community, Alyeska is reportedly very well-regarded.

## **CHUGACH POWDER GUIDES**

Chugach Powder Guides is a heli-skiing and cat-skiing operation that currently uses much of the terrain of the proposed new Glacier-Winner Creek project. Chugach Powder Guides works in partnership with the Alyeska Resort. As part of a package, lodging is arranged through the Alyeska Prince Hotel, where guests are picked up each morning for either cat-skiing or heli-skiing. Chugach Powder Guides is predominantly a heli-skiing operation, which uses snowcats as an attractive alternative if inclement weather prohibits helicopter flights. Five- to seven-day heli-ski packages are available and range from about \$3,500 to \$5,500. The heli-ski packages include: 60,000 to 100,000 vertical feet of skiing (about 16,000 to 20,000 vertical feet per day), lodging at Alyeska Prince Hotel, round-trip transportation to and from the Ted Stevens Anchorage International Airport, an option to purchase a cat-ski pass for no-fly days, and an avalanche transceiver.

Chugach Powder Guides reportedly hosted about 1,000 skier days during the 2005/2006 ski season. Clients of Chugach Powder Guides are reportedly ultra-affluent; many of which reportedly earn more than \$1 million per year in household income. Reportedly, about 60 percent of business derives from the Lower 48, and 40 percent derives from Europe. Clients range in age from about 40 to 60 years. Reportedly, about 80 percent of clients are men and 20 percent are women. According to a partner at Chugach Powder Guides, about 50 percent of the company's business derives from repeat guests. These repeat guests may represent a small but important source for demand for units at the Glacier-Winner Creek project. They are familiar with the area, and may be interested in high-end units. Reportedly, clients are usually very happy with their ski experience, but are lukewarm regarding their accommodation at the Alyeska Prince Hotel. Some feel that it does not provide the intimate experience they seek.

## **GIRDWOOD'S LODGING OPERATIONS**

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### **ALYESKA PRINCE HOTEL**

Alyeska Prince Hotel is Girdwood's largest and most upscale lodging establishment. The 307-room hotel is located north of the primary base development at Alyeska Resort. The hotel is at the base of the tram station, and is therefore in a ski-in/ski-out setting. The 60-passenger tram transports guests to the middle of the ski area as well as to the Seven Glaciers restaurant. Construction began on the hotel in 1989. The tram reportedly began operating in 1993, and the hotel reportedly opened in 1994. Alyeska Prince Hotel was originally developed by Seibu, a

Japanese railway, tourism, and real estate company. Thus, the hotel boasts some Japanese influences in its design, such as its color scheme, contemporary architecture, and its relatively small rooms. See **Figure III-3** for photos of the interior and exterior of the Alyeska Prince Hotel.

Alyeska Prince Hotel features numerous amenities and services on the premises. In addition to the 307 guest rooms, the hotel offers the following:

- **Fitness and Recreation Area:** the Alyeska Prince’s fitness and recreation area is home to an indoor heated 25 by 45-foot lap pool, a 16-person hot tub, a sauna, and an exercise room. The hot tub is located at the end of the lap pool, and enjoys expansive views of Mt. Alyeska’s North Face through large floor-to-ceiling windows. The exercise room is adjacent to the pool and hot tub area. Its equipment includes stair climbers, treadmills, aerobic equipment, weights, and mats.
- **Business Center:** the hotel’s business center offers desktop publishing services, a fax machine, photocopying, and internet access. It is located on the hotel’s second floor, and is available 24 hours per day.
- **Dining Venues:** Alyeska Prince offers three primary dining venues: Seven Glaciers, Teppanyaki Katsura, and the Pond Café. Seven Glaciers is Alyeska Prince Hotel’s signature fine dining establishment. It is located at the top of the tram station and enjoys expansive views of the Chugach Mountains, Girdwood, and Turnagain Arm. Seven Glaciers is one of two AAA Four-Diamond restaurants in Alaska. Teppanyaki Katsura is a Japanese steakhouse located on the third floor of the hotel. In the restaurant, chefs prepare steaks, seafood, and vegetables in front of dinner guests. The Pond Café is a casual dining establishment which serves breakfast, lunch, and dinner.
- **Shopping:** the hotel houses several retail shops, which are some of the most upscale in Girdwood. These shops sell items such as clothing, Alaskan art and gifts, and winter sporting goods.
- **Event Space:** Alyeska Prince Hotel is well-suited for group business. It features several ballrooms, which total approximately 30,000 square feet.

Alyeska Prince Hotel’s most publicized amenity is likely its location at the base of the tram station. This allows for guests to be transported up to the middle of the ski area, to ski at Alyeska Resort, to dine at Seven Glaciers, or to simply enjoy breathtaking views. Notably, Alyeska Prince Hotel is at the base of Alyeska’s North Face, the most challenging terrain at the resort. The North Face is comprised of open chutes and bowls. Although it is very attractive to expert skiers due to its consistent powder and steep terrain, it demands the control and agility that many occasional destination skiers are unlikely to possess.

To a large extent, Alyeska Prince Hotel functions as an island of services and amenities, and is far different from the local culture and services of Girdwood. Girdwood’s surrounding residential development represents a range of size and age, but most follows the traditional (i.e., very basic) architecture of a mountain town. Such styles include A-frame homes, log homes, and



**FIGURE III-3: PHOTOS OF THE ALYESKA PRINCE HOTEL**



cedar-sided cabins. Few if any compare to the contemporary architecture of Alyeska Prince Hotel. As mentioned previously, Alyeska Prince Hotel offers a host of amenities within the premises, including restaurants and shops, which differ greatly from the modest and unique shopping and dining options spread through Girdwood.

Alyeska Prince Hotel's average annual occupancy is reportedly about 51 or 52 percent. The hotel's primary seasons are summer and winter, which are quite different in terms of occupancy, average daily rate (ADR), average length of stay, and guest profile. The following is an overview of Alyeska Prince Hotel's operations during summer and winter months:

- **Summer Business:** most hotel guests arrive by cruise ship (about 60 percent), and most other guests are with corporate groups from the Lower 48. Less than five percent of the resort's summer business reportedly derives from repeat guests. Summer guests reportedly stay three or four nights. During this time, the resort enjoys 85 to 90 percent occupancy. The average daily rate in the summer is reportedly about \$190. Summer guests are typically 50 to 60 years old, and earn approximately \$100,000 to \$150,000 in annual household income. Reportedly, many summer visitors play golf during their stay, and actively seek it out in Anchorage.
- **Winter Business:** hotel guests are predominantly those who stay and ski at Alyeska. They represent a fairly even mix of Alaskans and those from the Lower 48. Typically, group business comprises about 80 percent of occupancy, and free independent travelers (FIT) comprise about 20 percent of occupancy. Groups are typically ski clubs, and FIT guests are typically heli-skiers. Guests in the winter reportedly stay for about one week. During the winter, the resort operates at 50 to 60 percent occupancy. The average daily rate in the winter is reportedly about \$115. Winter guests tend to be younger than summer guests, and are typically 30 to 50 years old. Guests from the Lower 48 reportedly earn about \$150,000 to \$250,000 in household income.

Alyeska Prince Hotel is Girdwood's premier lodging establishment. It functions relatively well as a large group-oriented hotel, but is somewhat hindered by its lack of golf course, and its isolation from Girdwood. The hotel's meeting areas and dining options are clearly strong amenities. Independent travelers, however, may be intimidated by the hotel's size, its long hallways, and its separation from the community. Alyeska Prince Hotel's location is scenic, and its access to skiing is superb. However, the hotel lacks easy access to intermediate terrain, requiring some of its guests to take a long, flat cat track back to the resort's entrance. It also lacks the rugged mountain architecture and intimate feel many guests from the Lower 48 look for and expect in an Alaskan resort.

## REVIEW OF GIRDWOOD'S REAL ESTATE MARKET

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Girdwood's real estate market is small and modest. It is Anchorage's premier ski-oriented second-home community, and is a small retirement/primary home community. Nearly all residents and second-home owners reportedly have close ties to Anchorage, and some primary homeowners commute to Anchorage on a daily basis. Girdwood provides a quiet, peaceful, and scenic refuge for Anchorage residents, who enjoy its proximity and recreation opportunities. In this sub-section, Peterson Economics provides overviews of Girdwood's real estate sales volume, buyer profiles, existing real estate products, and proposed real estate products.

### ESTIMATED SALES VOLUME

According to local brokers, roughly \$15 million in real estate transactions occur annually in Girdwood. Reportedly, about 50 homes in Girdwood sell per year, which are typically priced between \$200,000 and \$400,000. This equates to an annual sales volume for homes of about \$10.5 million. Additionally, about 25 to 30 lots sell per year. Lots are typically about 0.25 to 0.3 acres, and average about \$150,000. Larger lots are typically about 1.25 acres, and reportedly sell for about \$200,000. This equates to an annual sales volume for homesites of about \$4.5 million. According to the MLS (which reportedly captures about 75 percent of transactions), 49 properties were sold in 2005. Reportedly, very few have sold for over \$1 million in Girdwood, and only three to five have recently sold for over \$500,000. According to local brokers, most individuals who have the means to purchase real estate in the \$500,000 to \$1 million range choose to build a custom home. Construction costs for custom homes are typically about \$180 per square foot.

### BUYER PROFILES

According to a local broker, Girdwood is evenly mixed between full-time residents and second-home owners. The two groups of homeowners are described below:

- **Full-Time Residents:** of the primary-home owners, 65 to 70 percent are still working and commute to Anchorage, and about 30 to 35 percent are retired. Primary-home owners are reportedly either in their 30s or in their 50s to 60s. Those in their 40s tend to move back to Anchorage to be closer to their children's high school.
- **Second-Home Owners:** of the second-home owners, 80 to 90 percent are reportedly from Anchorage, and 10 to 20 percent are from elsewhere. Second-home owners from Anchorage tend to be avid skiers, and use their units in the winter. They typically place them in a rental program for the summer. Most second-home owners from Anchorage reportedly value access to skiing above high-end finishes. Second-home owners from elsewhere tend to be occasional skiers who use their units in the summer more than the winter. Most second-homeowners are reportedly in their mid-30s to mid-40s, and have children still living at home. Most reportedly have annual

household income in the \$100,000 to \$200,000 range. According to local brokers, many second-home owners from Anchorage are in the oil industry and recently experienced significant increases in annual compensation. Other buyer professions include real estate brokers, doctors, business owners, and contractors. Reportedly, few buyers pay cash for their second home.

## EXISTING REAL ESTATE

Most existing real estate products in Girdwood are modestly constructed and offer typical mountain architectural themes. A-frame homes, log homes, and cedar-sided homes are all very common. See **Figure III-4** for photos of homes in Girdwood. As of early 2006, Girdwood contained approximately 1,800 dwelling units. Newer, moderately upscale homes in Girdwood currently range in price from about \$200 to \$300 per square foot. Such properties reportedly rent for about \$350 to \$450 per night. According to local brokers, first-time buyers in Girdwood typically demand stick-built homes with mountain views. Exteriors with log and stone accents, and features such as garages and heated decks are also reportedly popular. They value access very highly, and homes within walking distance of Alyeska Resort typically enjoy premiums. Currently, Girdwood offers no ski-in/ski-out real estate and no waterfront (riverfront) real estate. The following is a list of relevant existing development in Girdwood:

- **Newer Resale Homes:** most homes less than five years old can sell for as much as \$500,000. Most are about 2,500 square feet, and feature a two-car garage.
- **Alpine View Estates:** this is a 33-lot development located between downtown Girdwood and Alyeska Resort. Units are sold as home/lot packages. Homes are reportedly about 2,500 square feet. A few years ago, homes were reportedly selling for about \$470,000, but prices are now reported to be about \$550,000 (a 17 percent appreciation). This equates to current prices of about \$220 per square foot. Alpine View Estates has reportedly sold at a rate of about five units per year.
- **Cedar Creek:** this townhome development is located near the base of Alyeska Resort. Three units are currently built at Cedar Creek, and five are proposed. The existing units are reportedly about 2,000 square feet, with four levels. They were reportedly built in 2000, and sold for about \$300,000, or \$150 per square foot. Reportedly, none of the three units have been resold.
- **Snow Raven:** this new 70-unit condominium project is located on Girdwood's downtown main street, and is being developed by Paul Palmer of Anchorage. Upon completion, Snow Raven will reportedly consist of five, 14-unit buildings. The units are reportedly about 1,000 square feet, and offer parking on the ground level. In late 2004, the developer began the initial sales launch, when he released 28 total units in two buildings. Reportedly, 19 have sold in the last 12 months. Units reportedly range in price from about \$200,000 to \$280,000, or about \$200 to \$280 per square foot. Those who purchased units are reportedly a mix of second-home buyers and investors.

**FIGURE III-4: PHOTOS OF HOMES IN GIRDWOOD**



- **South Face Condos:** these condos offer about 2,000 square feet of conditioned space, and two-car garages. Interiors are reportedly upscale, and feature wood floors, granite counters, and high-end appliances. According to a local broker, about three or four triplexes were built in the summer of 2005, and were sold for just under \$400,000.
- **Norway Estates:** this is a 12-unit condominium development currently under construction across the street from the central base area at Alyeska. Six units will reportedly be built in 2006, and six will be built in 2007. Developed by Per Bjorn-Roli, Norway Estates will be Girdwood's most upscale attached residential development. Units will reportedly range from about 1,200 to 2,000 square feet. A local broker speculated that construction costs are likely around \$250 per square foot, and that unit interiors will be high-end. Prices reportedly range from about \$550,000 to \$850,000, or about \$425 to \$458 per square foot. Most of the units have reportedly sold, and thus far, all of the buyers derive from Anchorage.

## PROPOSED REAL ESTATE

Numerous real estate projects are currently proposed in the Town of Girdwood. Although Peterson Economics cannot accurately comment on the likelihood of these projects moving forward, the volume of proposed real estate product is colossal relative to the current size of the town. In the event that all or most of the proposed projects move forward, the supply of real estate in Girdwood would double. The following provides an overview of proposed new real estate projects in Girdwood:

- **Cedar Creek (New Phase):** An additional phase of Cedar Creek Condos is planned to be located near the base of Alyeska Resort. As of May 2006, five units are proposed. A local broker indicated that units would likely range from 2,200 to 2,900 square feet of conditioned space, and include a two- or three-car garage with each unit. Reportedly, the developer plans to build three units that would be about 2,200 square feet, and two units that would be about 2,900. They would range from about \$600,000 to \$900,000, or about \$270 to \$310 per square foot. HOA fees for the new units would likely range from about \$200 to \$250 per month. Plans call for construction on the new townhomes to move forward in the summer of 2006.
- **Crow Creek:** this development would reportedly consist of 500 to 700 single-family homesites. Crow Creek is one of the largest proposed master-planned communities in the region, but the sales launch is likely more than two years away.
- **Alyeska Prince Hotel:** a new commercial and residential project is planned on an undeveloped 55-acre site located between Alyeska Prince Hotel and the base of the ski area. Reportedly, the project's master plan calls for approximately 150 second-home units in a mix of condominium and single-family home development, as well as 100 units of timeshare product. Reportedly, the resort could potentially develop as many as 450 to 600 units. The new development would follow a "base village" concept, with significant retail space developed in combination with residential product.

# SECTION IV

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## QUANTITATIVE DEMAND ANALYSIS

This section evaluates the potential depth of future demand for residential real estate sales within the proposed new Glacier-Winner Creek development in Girdwood, Alaska. This demand would likely come almost exclusively from a mixture of three distinct markets:

1. Drive-to second-home buyers from the greater Anchorage area;
2. Permanent residents relocating to the area (primarily from Anchorage), including a mixture of working families, pre-retirees, and retirees; and
3. Fly-to second-home buyers from the Lower 48.

Based on current buyer origins in Girdwood and our industry experience, it appears likely that the most promising and most certain opportunity would come from Anchorage-based second-home buyers, followed closely by permanent residents relocating to the area. For the reasons outlined at the conclusion of this section, Peterson Economics sees more limited and less certain potential coming from second-home buyers in the Lower 48, though this market also offers more upside potential, due to its vast size.

Consequently, this section focuses primarily on potential ongoing second-home demand from Girdwood's largest source market – the Anchorage area – which has historically comprised (and presently continues to comprise) by far the largest market for Girdwood's second-home properties, mainly due to the following factors:

1. The market's close proximity to Girdwood, which is typically about a one-hour drive;
2. Alyeska Resort—Alaska's only major alpine ski resort; and
3. Girdwood's relative appeal as a summer and winter destination, offering hiking and other outdoor activities in the summer, and skiing in the winter.

These reasons and others suggest that Anchorage will be a key market for the proposed new Glacier-Winner Creek project.

Remaining portions of this section are organized as follows: (1) a brief overview of household wealth and income in the United States; (2) a brief overview of the Anchorage source market, including population, demographics, economic health, median home sales prices, and other indicators; (3) a summary of Peterson Economics' quantitative analysis of potential ongoing second-home demand for new whole-ownership and fractional units at the subject site from Anchorage; (4) a summary of conclusions regarding potential demand from permanent residents relocating to Glacier-Winner Creek; and (5) a summary of conclusions regarding potential second-home demand at Glacier-Winner Creek from the Lower 48.

## OVERVIEW OF WEALTH AND INCOME IN THE UNITED STATES

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Prior to discussing population sizes, wealth, and income in Anchorage specifically, it is useful to review wealth and income in the U.S. overall, as the Lower 48 could represent the most notable source market for the new community, due primarily to its vast size and deep appetite for new second-home products. It is also useful to discuss nationwide trends before discussing Anchorage specifically in order to place Anchorage statistics in perspective.

Demand for upscale real estate in most major resort areas in the United States comes primarily from affluent Americans. Affluence is typically measured in two ways: income and net worth. Only a fraction of the American population is sufficiently affluent to seriously consider purchasing property in an upscale second-home resort area. Upscale second-home property buyers in top-tier second-home resort markets like Hawaii, Los Cabos, Vail, and Aspen typically have net worths of \$5 million or more (often now \$10 to \$50 million); most also have total annual realized incomes of \$300,000 or more.

As discussed below, net worth is the primary determinant of whether a household is capable of purchasing real estate within an upscale second-home resort community (as very few households are qualified purely based on income). The size and characteristics of both the income- and wealth-qualified markets are briefly discussed below.

### NET WORTH

Despite a decade of rapid economic growth, massive stock appreciation, rapid salary increases, and other positive trends, even at the peak of the stock market in early 2000, only a small fraction of the domestic market was sufficiently affluent to consider purchasing real estate within upscale, second-home resort communities in locations such as Los Cabos, the Big Island of Hawaii, Aspen, or Vail. However, the number of ultra-affluent households in the U.S. has expanded at unprecedented rates over the past decade. In the mid- to late-1990s, the U.S. included only about 100,000 households worth \$10 million or more (capable and sometimes willing to buy \$1 million+ second homes). According to a recent analysis by the Surveys of Consumer Finances, the U.S. now includes about 430,000 households worth \$10 million or more. This population still accounts for less than one household in 200, but the rapid growth in this segment of households has fueled a major boom in resort real estate in most markets across North America.

Based on data from Surveys of Consumer Finances, a 2001 study estimated that the number of households in the United States with net worth of \$5 million or more (expressed in 2001 dollars) has increased as follows:

- Just over 300,000 households in 1983;
- To nearly 500,000 households by 1989;
- To more than 700,000 households by 1998;
- To roughly 1.3 million households by 2001.



A separate study also found that world-wide wealth held by millionaires rose to about \$28.8 trillion by late 2003, up 11 percent from about \$26 trillion in 2001. Moreover, the fastest growth was in the top end: wealth held by households worth more than \$30 million increased about 45 percent over this two-year period. Thus, while resorts marketing \$1 million+ homes or condos are catering to only a small fraction of the U.S. market – generally people worth over \$5 million who want a second home – this represents a very fast-growing segment of the market.

The number of households worth \$1 million to \$5 million in the United States is considerably larger, but few of these households purchase \$1 million+ second homes. See **Figure IV-1** for an overview of the previously estimated number of households in the U.S. worth more than \$1 million, more than \$2 million, more than \$5 million, and more than \$10 million. As depicted, even by the late 1990s, the U.S. appeared to include about:

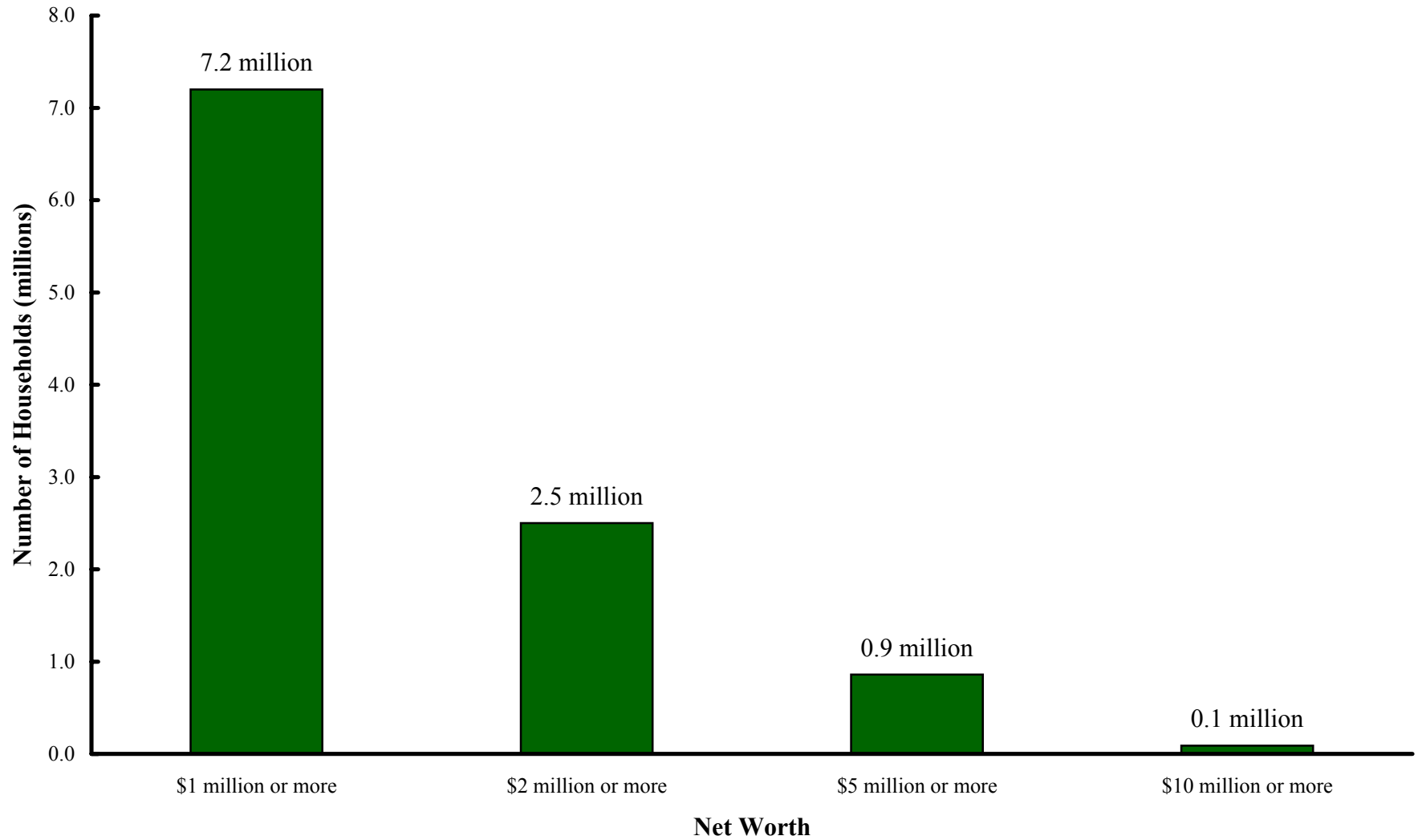
- 7.2 million households worth \$1 million or more; and
- 2.5 million households worth \$2 million or more.

By now, the number of millionaire households living in the United States has almost certainly exceeded ten million, particularly if home equity is included. Thus, for every household worth \$10 million or more, there are likely at least 20 to 25 worth \$1 million or more. Thus, ongoing demand for new second homes priced at \$250,000 to \$1 million is far deeper than demand for \$1 million+ second homes. This national trend also holds true for Alaska.

See **Table IV-1** for a summary of state-by-state projections of millionaires for the year 2005 (compiled in 1997 by the Affluent Market Institute, which has historically utilized significantly lower estimates than Spectrum Group and many other groups that estimate the number of millionaires in the United States). [Note: while the data in Table VI-1 were compiled in 1997, they are currently the most recent data available that Peterson Economics views as reliable.]

Baby-boomers represent the fastest growing segment of millionaires. A significant portion of the projected growth in the baby boomer millionaire population results from the fact that baby boomers are projected to inherit about \$20 trillion over the 1996-to-2016 period. Between 1996 and 2005, it is projected that about 690,000 decedents in the U.S. will leave estates worth \$1 million or more. As seen on **Table IV-2**, the number of millionaire estates in the United States is projected to increase from about 41,000 estates in 1996 to over 64,000 estates in the year 2000 and over 100,000 estates in the year 2005. Expressed in 2004 dollars, the mean value of each millionaire estate is projected to gradually increase (in “real” terms) from about \$4.1 million in 1996 to about \$4.6 million in 2005. Importantly, people who receive wealth from estates of affluent parents have a significantly higher propensity to spend money on consumptive items such as resort real estate than others in their age/income/wealth cohorts. This is especially true of the period soon after receiving an inheritance, before the assets have been re-invested or earmarked for other purposes. This is the concept of “money in transition,” identified on numerous occasions as a key sales factor in detailed focus group studies conducted with prospective second-home resort real estate property buyers.

**FIGURE IV-1: HIGH NET WORTH HOUSEHOLDS IN THE U.S.**



Source: Affluent Market Institute, SRI Consulting, Spectrem Group, 1997

**TABLE IV-1  
PROJECTED MILLIONAIRE HOUSEHOLDS BY STATE IN 2005**

	<b>Total</b>	<b>Per 100,000 Households</b>	<b>Relative Concentration</b>
Alabama	66,315	3,844	73
<b>Alaska</b>	19,216	7,148	136
Arizona	76,805	4,501	86
Arkansas	32,008	3,228	62
California	773,213	5,762	110
Colorado	92,677	5,936	113
Connecticut	109,481	8,702	166
Delaware	18,237	6,247	119
District of Columbia	14,076	6,815	130
Florida	289,231	4,911	94
Georgia	146,064	4,973	95
Hawaii	30,857	6,046	115
Idaho	19,264	3,883	74
Illinois	283,329	6,054	116
Indiana	108,679	4,674	89
Iowa	46,202	4,100	78
Kansas	49,784	4,755	91
Kentucky	56,271	3,668	70
Louisiana	62,193	3,611	69
Maine	18,537	3,887	74
Maryland	149,085	7,283	139
Massachusetts	154,390	6,746	129
Michigan	202,929	5,406	103
Minnesota	102,662	5,533	106
Mississippi	30,045	2,841	54
Missouri	92,665	4,431	85
Montana	12,954	3,661	70
Nebraska	28,026	4,276	82
Nevada	36,272	5,577	106
New Hampshire	26,941	6,013	115
New Jersey	258,917	8,275	158
New Mexico	26,352	3,758	72
New York	431,607	6,153	117
North Carolina	130,362	4,450	85
North Dakota	9,559	3,865	74
Ohio	197,554	4,485	86
Oklahoma	46,734	3,593	69
Oregon	62,776	4,795	92
Pennsylvania	238,010	5,033	96
Rhode Island	19,672	5,125	98
South Carolina	58,479	3,867	74
South Dakota	10,613	3,584	68
Tennessee	91,263	4,285	82
Texas	365,034	4,736	90
Utah	33,850	4,097	78
Vermont	10,035	4,407	84
Virginia	171,516	6,327	121
Washington	134,570	5,764	110
West Virginia	21,774	3,077	59
Wisconsin	100,421	4,852	93
Wyoming	9,021	4,493	86
Other Areas	41,239	3,640	69
<b>Total United States:</b>	<b>5,625,408</b>	<b>5,239</b>	<b>100</b>

Source: The Affluent Market Institute, 1997

**TABLE IV-2**  
**PROJECTED NUMBER AND VALUE OF ESTATES OF \$1 MILLION OR MORE IN THE UNITED STATES**  
**EXPRESSED IN 2004 DOLLARS**

	Number of Estates			Mean Estate Value (in millions of 2004 dollars)		
	1996	2000	2005	1996	2000	2005
Alabama	359	563	883	\$3.87	4.07	4.28
<b>Alaska</b>	45	70	110	3.41	3.60	3.79
Arizona	508	796	1,249	3.46	3.64	3.83
Arkansas	240	376	590	3.63	3.82	4.01
California	7,621	11,925	18,744	3.98	4.19	4.39
Colorado	412	646	1,012	3.68	3.87	4.07
Connecticut	1,052	1,650	2,588	3.98	4.19	4.40
Delaware	151	237	371	3.37	3.54	3.73
District of Columbia	129	203	318	6.59	6.90	7.27
Florida	3,720	5,835	9,151	5.20	5.47	5.75
Georgia	731	1,147	1,799	4.10	4.31	4.53
Hawaii	259	406	637	4.31	4.53	4.76
Idaho	110	172	270	2.82	2.97	3.12
Illinois	2,002	3,140	4,925	4.14	4.35	4.58
Indiana	479	751	1,179	5.92	6.22	6.50
Iowa	502	787	1,235	2.71	2.85	2.99
Kansas	430	675	1,059	3.37	3.53	3.71
Kentucky	408	640	1,004	3.76	3.95	4.16
Louisiana	356	495	777	3.88	4.60	4.83
Maine	263	397	623	3.10	3.38	3.55
Maryland	766	1,201	1,884	3.68	3.87	4.07
Massachusetts	1,200	1,882	2,951	3.89	4.09	4.30
Michigan	1,085	1,544	2,422	3.34	3.87	4.07
Minnesota	577	904	1,418	3.54	3.73	3.92
Mississippi	231	362	568	3.37	3.54	3.73
Missouri	789	1,237	1,940	4.43	4.65	4.89
Montana	93	146	229	3.01	3.15	3.32
Nebraska	312	489	767	2.68	2.82	2.96
Nevada	173	271	426	3.47	3.65	3.83
New Hampshire	237	371	582	2.93	3.09	3.25
New Jersey	1,582	2,482	3,892	4.00	4.21	4.42
New Mexico	121	190	298	3.99	4.18	4.40
New York	3,636	5,702	8,942	5.12	5.38	5.66
North Carolina	827	1,297	2,034	3.70	3.89	4.09
North Dakota	126	198	310	2.23	2.34	2.46
Ohio	1,398	2,192	3,438	3.71	3.90	4.10
Oklahoma	350	549	862	4.24	4.45	4.68
Oregon	321	503	789	3.28	3.45	3.63
Pennsylvania	1,760	2,761	4,330	4.22	4.44	4.67
Rhode Island	214	335	525	2.73	2.88	3.03
South Carolina	482	757	1,187	2.88	3.03	3.18
South Dakota	81	128	200	4.84	5.04	5.33
Tennessee	472	740	1,160	4.81	5.05	5.32
Texas	1,922	3,014	4,727	4.44	4.66	4.90
Utah	83	131	205	6.63	6.92	7.30
Vermont	84	132	207	3.17	3.31	3.49
Virginia	924	1,448	2,272	4.68	4.92	5.17
Washington	697	1,093	1,714	4.22	4.43	4.66
West Virginia	126	198	310	3.57	3.74	3.95
Wyoming	81	128	200	3.51	3.66	3.86
Other Areas	64	101	158	6.28	6.55	6.92
<b>Total U.S.</b>	<b>40,921</b>	<b>64,177</b>	<b>100,650</b>	<b>\$4.13</b>	<b>\$4.34</b>	<b>\$4.57</b>

N.B.: Monetary amounts were originally listed in 1990 dollars. Figures were adjusted using the national inflation rates from 1990 to 2004.

Source: The Affluent Market Institute, 1997.

Although inheritances represent an important source of future wealth for baby boomers, it is important to note that many of these estates will be divided between multiple heirs and/or placed in trusts, and much will be given to charity. Moreover, historically, most of the nation's millionaire households have become wealthy independently. Surveys suggest that fewer than 20 percent of domestic millionaire households inherited ten percent or more of their wealth, only 19 percent receive any income or wealth from a trust fund or estate, and fewer than ten percent believe they will receive an inheritance in the future. Moreover, Peterson Economics consistently finds that most high-end second-home buyers are small business owners, upper-level executives, or other well-paid professionals who have saved diligently for years and years; very few are purchasing high-end second homes with money received through inheritances.

Based on extensive surveys, Thomas Stanley and William Danko (authors of *The Millionaire Next Door*) have concluded that the typical millionaire is:

- A small business owner who has lived in the same town throughout his adult life. Only about 20 percent are retired. Almost 70 percent are self-employed, including entrepreneurs and professionals. About two-thirds work 45 to 55 hours per week; as a result, time and the efficient use of time are very important to this market segment (making fractional ownership a more attractive option than whole-ownership to many prospective buyers, making whole-ownership homes or condos with offices and high-speed internet access attractive, and making built units generally more attractive than custom homesites).
- A compulsive saver and investor who has made his own fortune. About 80 percent of America's millionaires are first-generation rich, and few have received regular cash gifts or sizable inheritances from relatives.
- Frugal, living well below the household's means, and avoiding expensive suits, cars, and other status items. The average millionaire household invests nearly 20 percent of the household's realized income each year, and few millionaire households invest less than 15 percent of realized income. Most value financial independence above displaying high social status.
- Efficient in allocating time and money to build wealth, and skilled at finding market opportunities.
- Well-educated. About 18 percent have master's degrees, eight percent have law degrees, six percent have medical degrees, and six percent have PhDs.
- A homeowner (97 percent own their own homes) who is much wealthier than neighboring households (typically about 6.5 times as wealthy as surrounding households).

The massive appreciation of U.S. stock market equities in the late 1990s greatly increased the number of millionaire households in the United States and the amount of wealth available for discretionary purchases like second homes. While the major fall-off in stock values in 2000 and 2001 substantially eroded these gains, second-home demand remained reasonably strong in most U.S.-driven markets as buyers sought to diversify out of stocks and have elected to make major second-home purchases for personal-fulfillment reasons—a trend which was accelerated in most

areas by the September 11<sup>th</sup> attacks. Moreover, most second-home markets in the U.S. gained considerable strength in 2003 and 2004, hitting all-time peaks, as demographics and rising primary home prices have outweighed weak equity markets and jitters over hostilities in the Middle East. These markets then soared sharply higher in 2005, though much of this spike can be attributed to speculation.

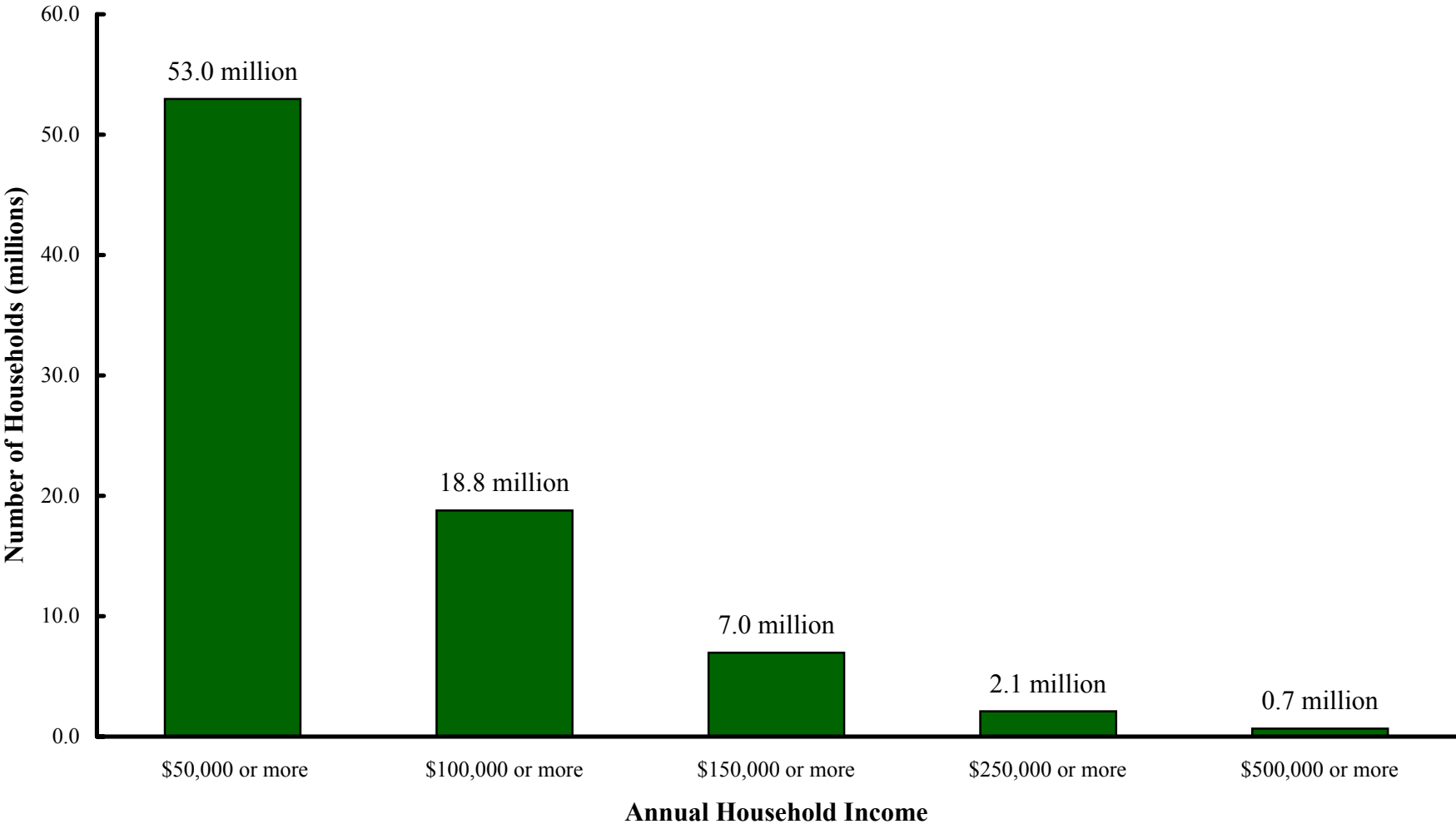
In most second-home markets around the U.S., strong second-home demand (especially in the mid- and upper-mid markets) was maintained over the past five years by low interest rates and other factors. The U.S. economy enjoyed a somewhat robust recovery, the stock market enjoyed a dramatic rebound, inflation remained low, and interest rates remained low. As a result of these factors and favorable demographic trends, most U.S.-driven second-home markets experienced a major surge in demand. Many second-home markets, including high-end markets like Aspen and Hawaii, which suffered as the economy slowed in the early 2000s, saw a major rebound begin in late 2003 and gained significant momentum in early 2004, with most hitting all-time record prices and sales volumes in 2004, which they subsequently surpassed in 2005. However, many of these markets now appear to have “topped out;” conditions are still strong, but price gains have slowed or stopped, and sales volumes are slowing down. Many markets have also seen a retreat from record prices.

## INCOME

Prospective property buyers with high net worth do not necessarily require high household incomes to afford second-home resort real estate property. For instance, a 1996 survey found the median taxable income for millionaire households living in the United States was only about \$130,000, while the mean was about \$250,000 (skewed upward by the 13 percent of millionaire households – or about 450,000 total households – who reported taxable income of \$500,000 or more each year). In fact, most millionaire households successfully minimize their realized incomes in order to limit their tax burdens. Therefore, the average millionaire household realizes well under ten percent of the household’s net worth each year.

On the other hand, most prospective buyers with moderate or low net worths must enjoy high annual household incomes (typically \$150,000 or higher) in order to afford to purchase second-home properties in major resort communities. Claritas, a demographic data firm which utilizes Census base data, indicates that about 18.8 million households in the United States enjoy annual realized incomes of \$100,000 or greater, but a high proportion of these households are worth well under \$1 million and are not viewed as qualified to purchase upscale second-home resort real estate (at least not on a whole-ownership basis). Claritas also indicates that there are only about 2.1 million households in the United States that enjoy annual household incomes of \$250,000 or more, and about 665,000 that enjoy annual household incomes of \$500,000 or more. See **Figure IV-2**.

**FIGURE IV-2: ESTIMATED DISTRIBUTION OF HIGHER-INCOME HOUSEHOLDS IN THE U.S.: 2005**



Source: Claritas.

Based on data provided by Claritas, it appears that the United States includes about 111 million households in 2005, with the following distribution by household income:

- **\$50,000 or Greater:** 53.0 million households (47.7 percent of total);
- **\$75,000 or Greater:** 31.5 million households (28.4 percent of total);
- **\$100,000 or Greater:** 18.8 million households (16.9 percent of total);
- **\$150,000 or Greater:** 7.0 million households (6.3 percent of total);
- **\$250,000 or Greater:** 2.1 million households (1.9 percent of total); and
- **\$500,000 or Greater:** 665,000 households (0.6 percent of total).

It is also interesting to note the increased rate at which Americans are submitting individual income tax returns to the Internal Revenue Service reporting incomes of \$200,000 or more (thus qualifying as “high-income returns” by the IRS). The IRS conducted a study in which it indicated that it received 2.8 million high-income tax returns in 2000, and that these specific returns comprise a larger share of all returns each year. The average yearly change in the number of high-income returns from 1990 to 2000 was an increase of 12.6 percent, although year-to-year changes fluctuated. For graphical information regarding the number of high-income tax returns from 1990 to 2000, see **Figure IV-3**.

### **Key Conclusions for Second-Home Demand**

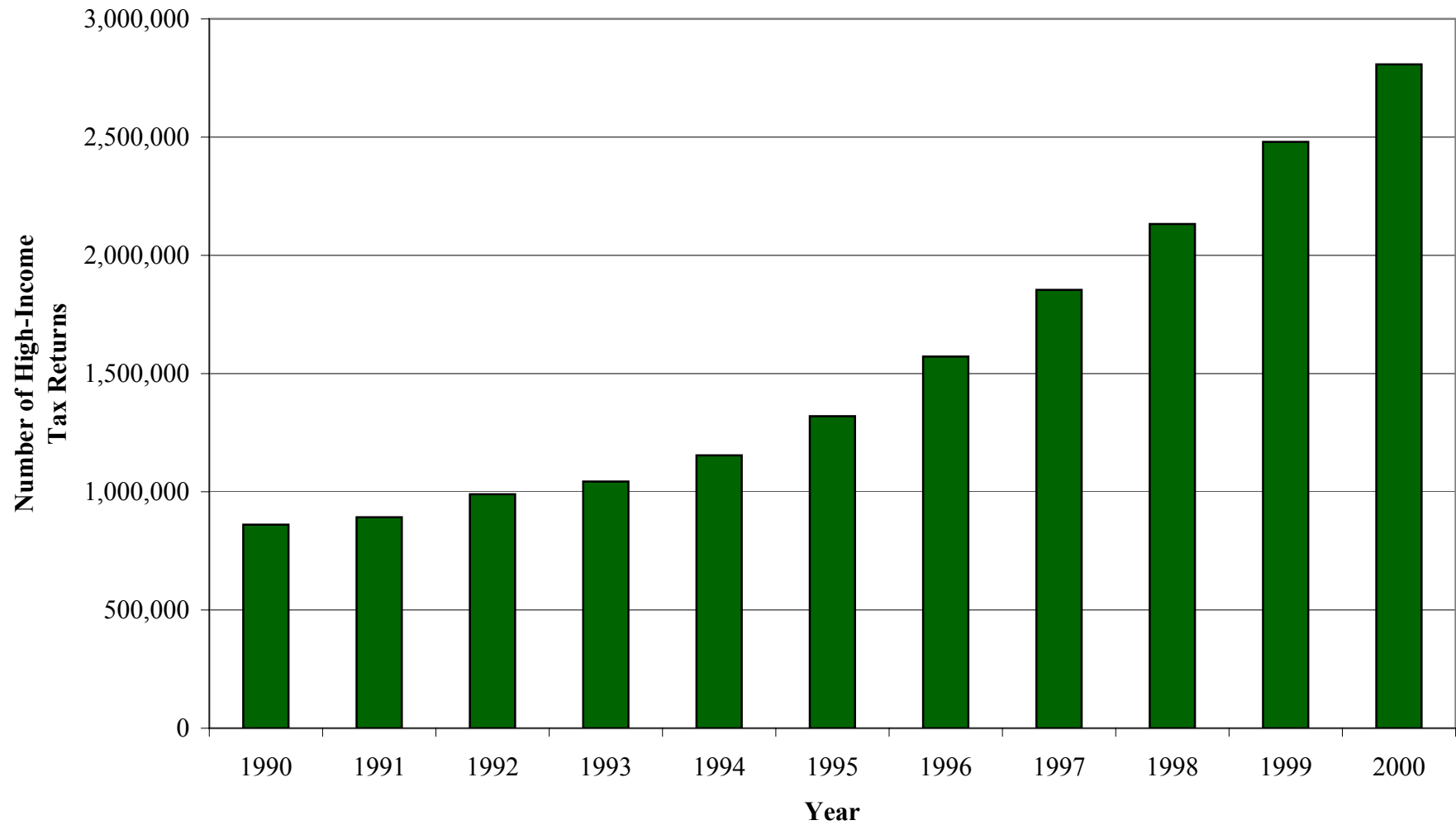
While second-home/resort real estate demand was depressed by a weak national economy and falling stock market values during the 2000-to-2003 period, it was supported by rising primary housing values and the fairly solid recovery of the U.S. economy in 2004 and 2005. The rebound in equity values in late 2003 and 2004 also helped second-home markets to stay strong.

The current softening of primary housing markets is somewhat concerning to the second-home market, which often trails the primary market by about six months. However, the combination of very favorable demographics (the aging of the “baby boomer” population), low interest rates, strong economic growth, and continued growth in productivity should help to sustain relatively strong demand for second homes and pre-retirement properties in major U.S.-driven second-home markets over the next several years, and demographics suggest demand will remain robust for at least one more decade (as the baby boomer population ages and passes through prime buying years for second-home properties).

It is also very insightful to compare second-home markets nationwide in the early 2000s with second-home markets nationwide in the early 1990s. In virtually every market nationwide, second-home/resort real estate demand peaked in the late 1980s and into 1990, and then fell sharply in 1991 when the U.S. fell into a recession and war broke out in Iraq. In contrast, while second-home/resort real estate demand peaked again in many market areas in 2000, it remained remarkably strong in most markets in 2001 through 2003, and then soared again in 2004 and 2005. In fact, the vast majority of second-home/resort markets Peterson Economics has worked in over the past 12 months have just experienced by far their best year ever (record prices, record absorption, record sales volumes, strong launches of new communities, etc.).



**FIGURE IV-3: HIGH-INCOME TAX RETURNS (REPORTING INCOME OF \$200,000+): 1990 TO 2000**



Source: IRS

Thus, second-home markets stayed strong, despite the bursting of the internet bubble, the crash of tech stocks, the attacks of September 11<sup>th</sup>, a significant recession, a sharp broad-based decline in equity values, and the recent war and ongoing hostilities in Iraq. This suggests that demographic and social trends, combined with exceptionally low interest rates and a new focus on family activities, have been able to outweigh these other significant factors. Going forward with these demographic trends still in place for at least ten more years, second-home/resort real estate demand should remain quite strong if the U.S. economy remains healthy, interest rates remain reasonable, equity values continue to recover, and the country avoids major wars.

However, prices have increased so much in so short a time that there is certainly a risk that many markets have already seen whatever appreciation they will see for several years or more. There is also a risk that overheated markets could soften notably, though this may simply take the form of prices deflating to levels seen in late 2004 or early 2005 (which represented all-time peaks at that time). Numerous second-home markets across North America are already showing significant signs of a major cooling off, though most are still fairly robust by historic standards, and prices are still at or near all-time highs.

## **REVIEW OF THE ANCHORAGE METRO AREA**

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As discussed above, the Anchorage metro area has historically represented the primary source market for both second-home and permanent-resident real estate sales in Girdwood. In fact, it typically accounts for up to about 90 percent of all real estate sales in Girdwood. Consequently, before projecting potential future second-home or primary-home demand within the subject community, it is important to examine the Anchorage metro area, focusing on the size and characteristics of its affluent population.

Anchorage is currently the only metropolitan area within driving distance of Girdwood. The Anchorage Metro Area is home to about 356,000 people and includes about 31,240 households earning over \$100,000 per year in household income. To put this population in perspective, it is roughly 1/10<sup>th</sup> the size of the greater Seattle area (in terms of both total population and number of affluent households). Thus, although Anchorage's economy is presently strong, its population is relatively small, and it enjoys access to numerous outdoor recreation amenities within reasonable driving distance.

Uniquely, Girdwood is home to Alyeska Resort, Alaska's largest alpine ski area, and the only mountain resort of its kind. Girdwood therefore offers a unique opportunity for second-home buyers from Anchorage because virtually no competition exists for ski resort destinations from outside of the town. However, Anchorage's economy is influenced by oil prices; if oil prices fall significantly in the future, Anchorage's economic vitality could be shaken, and demand for second-home properties from Anchorage would consequentially fall. On the other hand, if oil prices continue to rise, Anchorage will likely enjoy even stronger prosperity, leading to even stronger second-home demand in the future.

The Anchorage CBSA, situated about one hour drive-time west of Girdwood, is the largest metropolitan area in Alaska, and the economic hub of the state. Anchorage is currently experiencing an economic boom, driven by rising oil prices, leading to increased profits in the oil sector. Thus, more Anchorage residents are able to afford second homes than ever before. The following subsections further describe Anchorage's characteristics as they relate to second-home demand.

## DEMOGRAPHIC OVERVIEW

The Anchorage census based statistical area is the largest metropolitan area in Alaska. This 356,000-person region contains half of the state's population. The Anchorage CBSA is more than ten times larger than Juneau, Alaska's second-largest metropolitan area and capitol, home to about 31,000 residents. Anchorage's 356,000 people reside in about 129,000 households. By 2011, the region's population is projected to increase by more than 32,000 persons. This equates to a five-year population increase of slightly more than nine percent.

According to 2006 estimates provided by Claritas, approximately 129,000 households reside in the Anchorage core based statistical area (CBSA). Approximately 40,160 are non-family households and 88,540 are family households. Of non-family households, approximately 29,530 are one-person households (about 73 percent), 8,490 are two-person households (about 21 percent), and 2,410 are households of three or more (about six percent). Of family households, approximately 32,160 are two-person households (about 36 percent), approximately 21,570 are three-person households (about 24 percent), approximately 19,760 are four-person households (about 22 percent), and about 15,060 are households of five or more (about 17 percent).

According to Claritas, the population of Anchorage is predominantly white, comprised of more males than females, and expected to increase in age. In 2006, about 75 percent of the metropolitan area is white, with small populations of Alaska Natives, Asians, and African Americans each comprising between four and seven percent of the population. According to Claritas, males make up about 51 percent of the population. This is expected to remain constant through 2011. Similar to the national figures, Anchorage's population is expected to age. In the next five years, the median age is projected to increase from about 34 years in 2006 to 35 years in 2011. In comparison, Claritas estimates the median age of the entire U.S. to be about 36 years in 2006, and predicts that it will increase to about 37.5 years by 2011.

Anchorage is relatively affluent; in 2006, median annual household income in the Anchorage CBSA is approximately \$63,020; mean annual household income is approximately \$77,610, and annual per capita income is approximately \$28,500. The estimated 2006 median household income of about \$63,020 is about 29 percent higher than the national figure of about \$48,780. Overall, the entire State of Alaska is relatively affluent. The 2006 median household income in Alaska was about \$59,550. Anchorage's median household income is about six percent higher than that of the state. Please refer to **Table IV-3** for a demographic overview of Anchorage.

Table IV-3

## DEMOGRAPHIC OVERVIEW OF ANCHORAGE, ALASKA CBSA

	<u>2006 Estimate</u>		<u>2011 Projection</u>	
<b><u>Total Population</u></b>	355,824		387,974	
<b><u>Total Number of Housing Units</u></b>	140,384		153,577	
<b><u>Total Number of Households</u></b>	128,706		140,543	
Average Household Size	2.70		2.69	
Non-family Households	40,164	100.0%	43,729	100.0%
1-Person Household	29,533	73.5%	32,450	74.2%
2-Person Household	8,488	21.1%	8,911	20.4%
3-Person Household or more	2,413	6.0%	2,368	5.4%
Family Households	88,542	100.0%	96,814	100.0%
2-Person Household	32,157	36.3%	35,271	36.4%
3-Person Household	21,567	24.4%	23,707	24.5%
4-Person Household	19,756	22.3%	21,416	22.1%
5-Person Household or more	15,062	17.0%	16,420	17.0%
<b><u>Resident Population by Race</u></b>	<b><u>Number</u></b>	<b><u>Percent</u></b>	<b><u>Number</u></b>	<b><u>Percent</u></b>
White (Non-Hispanic)	250,050	70.3%	263,868	68.0%
Black or African American	16,573	4.7%	18,058	4.7%
American Indian and Alaska Native	26,121	7.3%	30,421	7.8%
Asian	18,655	5.2%	22,539	5.8%
All Other	44,425	12.5%	53,088	13.7%
Hispanic or Latino (of any race)	22,432	6.3%	28,327	7.3%
<b><u>Resident Population by Age</u></b>				
20 and under	116,841	32.8%	119,754	30.9%
21 to 34	67,154	18.9%	74,500	19.2%
35 to 54	112,195	31.5%	111,006	28.6%
55 to 64	35,746	10.0%	49,054	12.6%
65 and over	23,888	6.7%	33,660	8.7%
<b>Median Age:</b>	33.67		34.95	
<b><u>Resident Income</u></b>				
Average Household Income	\$77,607		\$85,793	
Median Household Income	\$63,018		\$68,561	
Per Capita Income	\$28,496		\$31,474	
<b><u>Household Income Distribution</u></b>				
Under \$25,000	19,877	15.4%	19,392	13.8%
\$25,000 to \$34,999	12,244	9.5%	11,840	8.4%
\$35,000 to \$49,999	18,120	14.1%	18,214	13.0%
\$50,000 to \$74,999	27,101	21.1%	28,050	20.0%
\$75,000 to \$99,999	19,512	15.2%	21,422	15.2%
\$100,000 to \$149,999	20,877	16.2%	25,545	18.2%
\$150,000 to \$249,999	8,573	6.7%	12,361	8.8%
\$250,000 to \$499,999	1,792	1.4%	2,745	2.0%
\$500,000 and above	610	0.5%	974	0.7%

Source: Claritas.

The following is an overview of estimated 2006 annual household income distribution in the Anchorage CBSA, combining all household types:

- Under \$25,000: approximately 19,880 households;
- \$25,000 to \$34,999: approximately 12,240 households;
- \$35,000 to \$49,999: approximately 18,120 households;
- \$50,000 to \$74,999: approximately 27,100 households;
- \$75,000 to \$99,999: approximately 19,500 households;
- \$100,000 to \$149,999: approximately 20,880 households;
- \$150,000 to \$249,999: approximately 8,570 households;
- \$250,000 to \$499,999: approximately 1,300 households; and
- \$500,000 and above: approximately 610 households.

Thus, while Anchorage is home to a reasonable number of households earning over \$50,000 per year, relatively few earn over \$150,000 per year, placing significant limitations on potential ongoing demand for new second-home units, particularly higher-end units.

#### **PRIMARY HOUSING MARKET OVERVIEW**

Anchorage, like most metropolitan areas, consists of a diverse array of housing development, yet most of its real estate is mid-market product. In 2005, the Anchorage Multiple Listing Service (MLS) recorded approximately 8,383 residential sales, equating to about \$1.6 billion in total sales volume. According to a local expert, about 675 residential building permits were reportedly issued in Anchorage in 2005. However, notably, only 67 of the permits issued were for new construction valued at more than \$400,000 – illustrating the small size of the region’s high-end housing market. Thus, remarkably few building permits were issued for high-end homes. Similarly, in 2005, the MLS reported only ten home sales over \$1 million throughout the greater Anchorage region. However, if oil prices continue to rise and if Anchorage’s population grows at projected levels, building activity will likely increase notably in coming years.

According to local brokers, the majority of Anchorage residents who purchase a second home in the surrounding area spend more money on their primary home than their second home. It is therefore unlikely that potential demand exists from Anchorage for a large quantity of high-end second home product valued between \$500,000 and \$1 million given most single-family homes in Anchorage reportedly range from about \$140,000 to \$500,000.

Anchorage boasts several pockets of high-end development, including the following:

- **South Anchorage:** reportedly, South Anchorage is one of the most upscale neighborhoods in the area. One of the newest, most upscale developments in South Anchorage is Prominence Point, a new 27-lot development. Resale homes reportedly range from about \$850,000 to \$3.5 million. Undeveloped 0.5-acre lots are reportedly valued at \$225,000 to \$400,000, but most sell for about \$300,000. The homesites have access to city water and sewer. Reportedly, all of the homes at Prominence Point are primary homes. According to local brokers, most owners are between 40 and 55 years of age, and enjoy a net worth of between \$1 and \$2 million.
- **The Hillside:** homesites in the Hillside area reportedly sell for about \$200,000 to \$250,000. Resale homes reportedly start at about \$400,000, with most valued over \$500,000.
- **Turnagain Area (near airport):** lots on the bluff overlooking Turnagain Arm and the main channel to the north and south of the Ted Steven Anchorage International Airport reportedly sell for about \$325,000. Lots are typically 80 feet wide and 120 feet deep.
- **Bootleggers' Cove:** this neighborhood close to downtown Anchorage boasts high-end historic homes, many with fine water views. Most of the homes have reportedly been remodeled, and include upscale finishes. Homes at Bootleggers' Cove reportedly start at about \$500,000, and most newly remodeled homes sell for at least \$750,000.

[Note: property owners' fees for high-end neighborhoods are reportedly between \$100 and \$200 per month, and typically cover snow removal.]

## ECONOMIC PROFILE

Anchorage is Alaska's largest city and the economic hub of the state. It has greatly benefited by Alaska's oil industry, but is also an important center for commerce and tourism. In fact, the Ted Stevens Anchorage International Airport is the third-busiest cargo airport in the world. It is reportedly nine hours from 95 percent of the industrialized world.

Currently, Anchorage's economy and affluence continue to grow. As oil prices rise, so too does the area's affluence. High demand for oil in developed and developing countries, continued unrest in certain oil producing countries, and a limited refining capacity for the level of demand may continue to sustain high oil prices. The continued flow of federal dollars, an increased number of military troops, and the tourism industry also contribute to Anchorage's economic prosperity.

According to the Alaska Department of Labor and Workforce Development, Anchorage added about 2,700 jobs in 2005. This equates to a growth rate of about two percent, and is on par with Anchorage's ten-year average. Anchorage added approximately 700 jobs in the good-producing sector, and approximately 2,000 jobs in the service-producing sector. Healthcare, construction, professional and business services, and leisure and hospitality led in job creation. The result of this economic expansion was a 5.4 percent unemployment rate in 2005, down from a 5.9 percent unemployment rate in 2004.

Although Alaska's economy is heavily dependent on oil extraction, the Alaska Permanent fund is designed to help the state and its residents weather the ups and downs of the oil market. The Alaska Permanent Fund was established in 1976 to invest proceeds from the sale of minerals from Alaska to benefit current and future Alaskans. Currently, the fund is invested as follows: 55 percent stocks, 32 percent bonds, 10 percent real estate, 2 percent private equity, and 1 percent absolute return. The Alaska Permanent Fund is among the 100 largest investment funds in the world. In the U.S., it is larger than any endowment fund, private foundation, or union pension trust. By the end of the year 2005, the Alaska Permanent Fund was valued at over \$35 billion. Each Alaska resident receives an average dividend of about \$1,000 annually from the fund's returns. **Table IV-4** provides an overview of 11 years of dividends from the Alaska Permanent Fund.

**Table IV-4. Dividends from the Alaska Permanent Fund**

<b>Year</b>	<b>Dividend</b>
<b>2005</b>	\$845.76
<b>2004</b>	\$919.84
<b>2003</b>	\$1107.56
<b>2002</b>	\$1540.76
<b>2001</b>	\$1850.28
<b>2000</b>	\$1963.86
<b>1999</b>	\$1769.84
<b>1998</b>	\$1540.88
<b>1997</b>	\$1296.54
<b>1996</b>	\$1130.68
<b>1995</b>	\$990.30

#### ALTERNATIVE DRIVE-TO SECOND-HOME DESTINATIONS

While Girdwood is perhaps the most popular drive-to second-home area for residents of the Anchorage area, numerous other areas exist within a four-hour radius of Anchorage, and many of these areas offer significant appeal. These include coastal areas on the Kenai Peninsula, lakefront cabins on major lakes (primarily north of Anchorage), river destinations, and other types of second-home areas, often consisting of simple cabins in remote wooded areas. As a result, while Girdwood enjoys little direct competition in Alaska within its specific niche, it faces considerable competition from other product types (particularly lakefront cabins on attractive

lakes within a one to two hour drive of Anchorage, which are reportedly very popular with Anchorage's affluent residents). Moreover, if Hatcher Pass – a proposed new ski area near Wasilla -- is ever developed as proposed, Girdwood could begin to face direct competition within the Anchorage market for ski-oriented second-home buyers.

## **QUANTITATIVE ANALYSIS OF POTENTIAL ONGOING DEMAND FOR SECOND-HOME REAL ESTATE AT GLACIER-WINNER CREEK FROM ANCHORAGE**

In order to attempt to quantify the depth of ongoing *potential* whole-ownership and fractional demand for new resort real estate at the new Glacier-Winner Creek development (if developed as currently envisioned) from residents of the Anchorage area, Peterson Economics completed a quantitative analysis that applies a series of assumptions regarding:

- Propensity to own a second home by income cohort;
- Average number of second homes owned per high-income household that owns a second home;
- Average annual growth in demand for new second-home properties;
- Demand for whole-ownership versus fractional properties;
- Potential demand captured by drive-to resorts;
- Potential drive-to demand captured by Girdwood; and
- Potential portion of this demand captured by the proposed new Glacier-Winner Creek development.

It is also important to reiterate that this analysis seeks to estimate what the total annual ongoing demand for the subject site could be in a situation where:

1. The subject site is developed as a highly attractive community with appropriate amenities and a mix of residential products;
2. The community is actively and effectively marketed (with a major, proactive, targeted marketing campaign effectively bringing prospective affluent buyers from Anchorage to the site for marketing visits); and
3. The community is properly operated (quality service, reasonable dues and fees, privacy and security, etc.).

Actual second-home/vacation-property sales could be considerably more limited if any of these conditions are not fully satisfied.

It is also important to note that this analysis focuses on anticipated “average” demand over the projected period, rather than focusing on the ups and downs created by oil shocks, stock market bubbles, and short-term recessions. Actual demand could be much greater in strong years (following a major run-up in stock values, etc.), and much lower if oil prices decrease, stock prices fall, etc.



As seen on **Table IV-5**, Peterson Economics estimates total potential annual ongoing demand for new whole-ownership and fractional second-home properties deriving from the Anchorage market by applying the following assumptions:

- Under a non-supply-constrained scenario, the percent of households in Anchorage electing to purchase a second home (whole ownership or fractional, but excluding timeshare) would range from eight percent of households earning \$50,000 to \$75,000 per year, to 16 percent of households earning \$100,000 to \$150,000 per year, to 50 percent of households earning \$250,000 per year to \$500,000 per year, to 75 percent of households earning more than \$500,000 per year (or an average of about 15 percent of all affluent households).
- Of those electing to own a vacation property (either a lot, a home, a condo, a fractional interest, or other property type, excluding timeshare), the average number owned per household would range from 1.05 vacation properties for households earning \$50,000 to \$75,000, up to 2.5 vacation properties for households earning \$500,000 or more.
- Annual growth in demand (i.e., net new demand for second-home properties each year), based on projected underlying population and income growth rates, would equate to about one percent for households earning \$50,000 to \$100,000 per year, three percent for households earning \$100,000 to \$150,000 per year, six percent for households earning \$150,000 to \$250,000, seven percent for households earning \$250,000 to \$500,000 per year, and nine percent for households earning more than \$500,000 per year. Thus, our analysis assumes an average four percent growth in demand for second-home properties -- a strong and steady economic expansion in the Anchorage area. Peterson Economics assumes faster growth in the number of ultra-affluent households.
- Demand from moderate-income households for second-home properties would be slightly greater for whole-ownership than fractional (60 percent), while the vast majority of demand from high-income households would be for whole-ownership (such as 85 percent of the demand among \$250,000+ households).

This calculation and the assumptions utilized suggest that Anchorage residents could represent total potential ongoing annual demand for about 406 net new whole-ownership second-home units and about 99 net new fractional interests (or about 10 units assuming 10 fractional interests per unit). However, this includes demand from these households for second-home/vacation properties in all locations worldwide (i.e., other drive-to destinations, such as lakefront homes and cabins, as well as fly-to destinations such as Hawaii, Arizona, overseas destinations, etc.). It also includes demand across all market segments, including demand for fractional interests priced below \$50,000 and second-homes priced below \$200,000.

**TABLE IV-5  
POTENTIAL ANCHORAGE DEMAND FOR SECOND-HOME PROPERTIES IN GLACIER-WINNER CREEK  
BY HOUSEHOLD INCOME SEGMENT  
WHOLE OWNERSHIP AND FRACTIONAL INTEREST DEMAND CALCULATION**

	Households by Annual Household Income						Total
	<u>\$50K to \$75K</u>	<u>\$75K to \$100K</u>	<u>\$100K to \$150K</u>	<u>\$150K to \$250K</u>	<u>\$250K to \$500K</u>	<u>\$500K+</u>	
Total High-Income Households in 2006	27,101	19,512	20,877	8,573	1,792	610	78,465
Assumed % Electing to Buy or Own Vacation Properties	<u>8%</u>	<u>12%</u>	<u>16%</u>	<u>28%</u>	<u>50%</u>	<u>75%</u>	<u>15%</u>
Assumed # of Vac. Prop. HHs	2,168	2,341	3,340	2,400	896	458	11,604
Assumed # of Vac. Prop. / Household	1.05	1.07	1.10	1.20	1.50	2.50	
Assumed Growth/Demand for New Vacation Properties / Year	<u>0%</u>	<u>1%</u>	<u>3%</u>	<u>6%</u>	<u>7%</u>	<u>9%</u>	<u>4%</u>
Total Demand for New Vacation Properties/Year by Income	0	25	110	173	94	103	505
<u>Anticipated Distribution</u>							
Whole Ownership Units	<u>60%</u>	<u>70%</u>	<u>75%</u>	<u>80%</u>	<u>85%</u>	<u>85%</u>	<u>80%</u>
Fractional Interests	<u>40%</u>	<u>30%</u>	<u>25%</u>	<u>20%</u>	<u>15%</u>	<u>15%</u>	<u>20%</u>
Total:	100%	100%	100%	100%	100%	100%	100%
Whole Ownership Units / Year	0	18	83	138	80	87	406
Fractional Interests / Year	<u>0</u>	<u>8</u>	<u>28</u>	<u>35</u>	<u>14</u>	<u>15</u>	<u>99</u>
Total:	0	25	110	173	94	103	505
<u>Potential Demand Captured by Drive-to Second-Home Areas</u>							
Whole Ownership Units	60%	55%	50%	45%	40%	40%	44%
Fractional Interests	<u>60%</u>	<u>55%</u>	<u>50%</u>	<u>45%</u>	<u>40%</u>	<u>40%</u>	<u>46%</u>
Whole Ownership Units / Year	0	10	41	62	32	35	180
Fractional Interests / Year	<u>0</u>	<u>4</u>	<u>14</u>	<u>16</u>	<u>6</u>	<u>6</u>	<u>45</u>
Total:	0	14	55	78	38	41	225
<u>Potential Demand for Drive-to Second-Home Areas Expressed in Units</u>							
Whole Ownership Units / Year	0	10	41	62	32	35	180
Fractional Units (@ 1/10 interests) / Year	<u>0</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>5</u>
Total Units:	0	10	43	64	33	36	185
<u>Potential Drive-to Demand Captured by Girdwood</u>							
Whole Ownership Units	25%	25%	25%	25%	25%	25%	25%
Fractional Units (@ 1/10 interests) / Year	25%	25%	25%	25%	25%	25%	<u>25%</u>
Whole Ownership Units / Year	0	2	10	16	8	9	45
Fractional Interest Units / Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Total:	0	3	11	16	8	9	46
<u>Potential Girdwood Demand Captured by the Subject Community</u>							
Whole Ownership Units	15%	20%	25%	30%	35%	40%	31%
Fractional Interests	15%	20%	25%	30%	35%	40%	<u>30%</u>
Whole Ownership Units / Year	0	0	3	5	3	3	14
Fractional Interest Units / Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total:	0	1	3	5	3	4	14

Source: Claritas and Peterson Economics.

While second-home buyers look at a number of different destinations with varying qualities/amenities (beach, mountain, lake, river, proximity to entertainment, etc.), a large proportion of the demand for second homes is captured by drive-to destinations. Based on our industry experience, survey results about second-home preferences and buying patterns, and existing sales trends in the region, Peterson Economics estimates/assumes the potential capture rate for drive-to resort areas from residents of Anchorage as follows:

- Middle-Income Households (income between \$50,000 to \$75,000): 60 percent;
- Upper Middle-Income Households (income \$75,000 to \$100,000): 55 percent;
- Moderately Affluent Households (income \$100,000 to \$150,000): 50 percent;
- Affluent Households (income \$150,000 to \$250,000): 45 percent; and
- Highly Affluent and Ultra-Affluent Households (incomes of \$250,000 or more): 40 percent.

[Note: the decreasing level of demand for drive-to resort destinations among higher-income households is due to the fact that higher-income households are more capable and willing to fly to their second homes than many of their moderately high-income counterparts. Higher-income households in Anchorage are also more likely to fly to warmer areas in the Lower 48 during Alaska's cold winter months.] Thus, based on these assumptions, Peterson Economics estimates that about 44 percent of total whole-ownership second-home/vacation property demand and 46 percent of fractional second-home/vacation property demand from households living in Anchorage could be captured by drive-to resort areas. After converting fractional interests to units, Peterson Economics' calculations equate to projected total ongoing annual demand from Anchorage residents for all drive-to second-home properties of:

- About 180 new whole-ownership units per year; and
- About 5 new fractional units per year.

Based on buyer preferences and other factors (including our industry experience and reported current buyer origins in Girdwood), Peterson Economics estimates/assumes that, if other attractive new second-home communities and resorts are developed as currently proposed, 25 percent of Anchorage's drive-to destination demand for *whole-ownership* and 25 percent of *fractional* second-home units could be captured by Girdwood. [Note: this is an exceptionally high assumed capture rate for a single drive-to destination, likely making it the top drive-to destination in the region given all other options.]

Based on travel times, buyer preferences, sales volumes in other nearby destinations, and other factors (including our industry experience, reported current buyer origins in Girdwood and the unique location and characteristics of Girdwood), Peterson Economics estimates/assumes that, if the subject community at Glacier-Winner Creek were developed, about:

- 31 percent of Girdwood demand for *whole-ownership* second-home units could potentially be captured by the proposed new Glacier-Winner Creek project; and
- 30 percent of Girdwood demand for *fractional* units could potentially be captured by the proposed new Glacier-Winner Creek project.

As depicted on Table IV-4, this would equate to ongoing sales in the subject community of:

- About 14 net new whole-ownership units per year; and
- Less than one net new fractional interest unit per year.

A portion of this second-home demand is for ultra-high-end units (second homes valued over \$1.0 million, or fractional interests priced over \$300,000). Likewise, a significant portion is for lower-end properties (whole-ownership below \$200,000 and fractional below \$50,000). Furthermore, new development on the subject site will need to compete for market share with numerous other developments which may come to fruition in Girdwood. Therefore, to a large extent, the future capture rate of a new development on the subject site will be determined by: (1) how well the project is marketed; (2) what types of amenities are ultimately developed; (3) what types of residential units are offered and how they are positioned in the market; and (4) how much additional supply is developed in other markets within driving distance of Anchorage. Consequently, there is no way to project future capture rates with certainty, as a great deal of uncertainty exists regarding each potential variable. Still, by utilizing “reasonable assumptions,” a reasonable approximation of market depth by segment can be produced. It is also important to note that the subject community may be able to capture a portion of pent-up demand for new property in Girdwood. This analysis only estimates future ongoing demand for units at Glacier-Winner Creek; some demand has likely developed that current real estate projects have not effectively captured.

**Table IV-6** presents a calculation of the projected distribution of this estimated potential net new annual demand for whole-ownership second-home properties by price point. Specifically, Peterson Economics’ analysis suggests the following average ongoing potential demand for new whole-ownership second-home properties within the subject community from Anchorage residents:

- About 2 units per year valued at less than \$200,000;
- About 3 units per year valued between \$200,000 and \$300,000;
- About 3 units per year valued between \$300,000 and \$500,000;
- About 3 units per year valued between \$500,000 and \$750,000;
- About 2 units per year valued between \$750,000 and \$1 million; and
- About 2 units per year valued at \$1 million or more.

This analysis indicates that demand appears very evenly spread among units at nearly every price point, with a very slight concentration among units priced from \$200,000 to \$750,000.

**However, as most finished units (lot and home combined) will likely be priced at more than \$300,000, total ongoing second-home sales to Anchorage residents would not likely exceed more than about ten units per year, due to: (1) the relatively small size of the Anchorage source market; (2) a propensity of affluent residents to own homes in fly-to destinations; and (3) the variety of other drive-to second-home areas in the region. Thus, even if the Glacier-Winner Creek community was able to capture a large share of Anchorage second-home demand within its specific market niche, total annual real estate sales from this source would likely remain quite limited.**

**TABLE IV-6**

**POTENTIAL AVERAGE ANNUAL NET NEW DEMAND FROM ANCHORAGE FOR NEW WHOLE-OWNERSHIP SECOND-HOME PROPERTIES IN THE SUBJECT COMMUNITY BY HOUSEHOLD INCOME SEGMENT**

	Annual Household Income Range						<u>Total</u>
	<u>\$50K to \$75K</u>	<u>\$75K to \$100K</u>	<u>\$100K to \$150K</u>	<u>\$150K to \$250K</u>	<u>\$250K to \$500K</u>	<u>\$500K+</u>	
Potential Average Annual Net New Demand for Whole Ownership Units	0	0	3	5	3	3	14
<u>Annual Demand by Unit Value</u>							
<u>Distribution of Demand by Unit Value</u>							
Less than \$200,000	55%	48%	20%	13%	5%	1%	
\$200,000 to \$300,000	35%	39%	45%	23%	14%	4%	
\$300,000 to \$499,999	7%	8%	23%	28%	26%	13%	
\$500,000 to \$749,999	3%	4%	7%	20%	26%	23%	
\$750,000 to \$1,000,000	0%	1%	4%	12%	15%	29%	
\$1,000,000+	<u>0%</u>	<u>0%</u>	<u>1%</u>	<u>4%</u>	<u>14%</u>	<u>30%</u>	
	100%	100%	100%	100%	100%	100%	
<u>Demand for new Units/Year by Value</u>							
Less than \$200,000	0.0	0.2	0.5	0.6	0.1	0.0	<b>2</b>
\$200,000 to \$300,000	0.0	0.2	1.2	1.1	0.4	0.1	<b>3</b>
\$300,000 to \$499,999	0.0	0.0	0.6	1.3	0.7	0.5	<b>3</b>
\$500,000 to \$749,999	0.0	0.0	0.2	0.9	0.7	0.8	<b>3</b>
\$750,000 to \$1,000,000	0.0	0.0	0.1	0.6	0.4	1.0	<b>2</b>
\$1,000,000+	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.2</u>	<u>0.4</u>	<u>1.0</u>	<u>2</u>
	0	0	3	5	3	3	14

Source: Peterson Economics and Claritas.

## POTENTIAL FUTURE DEMAND FROM PERMANENT RESIDENTS

As discussed above, Peterson Economics' market research and industry experience suggests that notable additional demand for new real estate within the Glacier-Winner Creek community could emerge from permanent residents. Most such permanent residents would consist of families relocating from the Anchorage area for lifestyle reasons (i.e., coming to live in a beautiful wooded setting, surrounded by mountains and adjacent to alpine skiing).

However, the potential future depth of demand from permanent residents is limited by the small size of the Anchorage market and the limitations of Girdwood. These critical factors are summarized as follows:

- **Small Size of the Anchorage Market:** as discussed above, the Anchorage metro area is roughly 1/10<sup>th</sup> the size of the Seattle area. Moreover, according to a local expert, only 675 residential building permits were reportedly issued in Anchorage in 2005. Notably, only 67 of the permits issued were for new construction valued at more than \$400,000 – illustrating the small size of the region's high-end housing market. Thus, even if Glacier-Winner Creek was able to capture ten percent of Anchorage's new, higher-end single-family homes occupied by permanent residents, this demand would likely equate to fewer than ten new homes per year.
- **Limitations of Girdwood:** while Girdwood is undeniably beautiful and offers a very attractive location for recreation activities, it faces significant shortcomings for potential full-time residents. Notable among these include: (1) the lack of a high school; (2) the lack of full-size grocery stores and other major shops and restaurants; (3) the limited employment base; and (4) the lack of extensive medical facilities. As a result, most new full-time residents would face the prospect of commuting to Anchorage – one hour away on a highway known for dangerous driving conditions -- on nearly a daily basis to get to work, school, or shopping, or to find medical care. These factors significantly limit potential future sales to permanent residents.

Thus, based on these factors, Peterson Economics believes potential ongoing demand from permanent residents moving into the Glacier-Winner Creek community may total no more than about five to ten units per year. However, this figure could be increased substantially with the addition of: (1) a high school; (2) more extensive shopping, dining, and medical facilities; and (3) additional well-paid jobs in Girdwood. However, even with these improvements, Peterson Economics questions whether permanent resident demand within Glacier-Winner Creek would grow to more than 10 to 20 units per year.

## POTENTIAL FUTURE SECOND-HOME DEMAND FROM THE LOWER 48

Assessing potential future second-home demand from the Lower 48 is much more challenging, particularly given the very limited number of second-home sales currently occurring in Alaska to buyers from the Lower 48 or anywhere else outside of Alaska. Alaska has remained a very popular repeat destination for avid fishermen, hunters, and wilderness enthusiasts from the Lower 48. However, these visitors are primarily small groups of men traveling together, not couples who might buy a second home. Alaska is also a popular "once in a lifetime" destination

for affluent couples wishing to take coastal cruises or see Denali or other major attractions. However, due to a variety of factors – including its remoteness, seasonality, limited services, summer rains and bugs, and others – Alaska has yet to emerge as a notable second-home option for buyers from the Lower 48 or elsewhere.

As part of this analysis, Peterson Economics was asked to assess whether the addition of an attractive new ski resort community on the Glacier-Winner Creek site could significantly alter existing second-home buying trends and generate or ignite a major surge in second-home demand from the Lower 48 or other markets, such as Canada or Europe. Due to the remote nature of the subject site – thousands of miles north of these prospective buyers – and the almost complete lack of an existing Lower 48 second-home market in Alaska at this time, this exercise must be based at this time primarily on Peterson Economics’ opinion (as any exercise based on sales to date would simply suggest no such market exists). However, Peterson Economics is uniquely qualified to assess such potential. Each year, the firm completes approximately 50 market and financial analyses for proposed new destination resort communities in Canada, the United States, and Mexico. Roughly half of these analyses are mountain- and/or wilderness-oriented destination resort communities, very often including golf and often including skiing. In fact, over the past six months, Peterson Economics has completed (or will soon complete) market and financial analyses for five of the ten most notable new ski resort communities currently proposed in North America. The firm recently examined all of the top destination ski areas in western Canada, along with top ski areas in Montana, Idaho, California, and elsewhere. We are also regularly asked to assemble summaries of pricing and absorption at top ski areas throughout the western United States and in the Northeast. Thus, based on our experience, we feel comfortable drawing preliminary conclusions about potential demand from the Lower 48 (though we may revise these conclusions after reviewing upcoming survey results of repeat guests to Alyeska and Chugach Powder Guides).

Based on information currently available, Peterson Economics concludes that -- even if Glacier-Winner Creek is developed as proposed, and even if the community is actively and effectively marketed to prospective second-home buyers from the Lower 48 -- second-home demand from the Lower 48 will likely remain fairly modest. However, it could enjoy a notable increase from its current level of several sales per year in the Girdwood area. Primary factors limiting future second-home demand from the Lower 48 include:

1. **Perception of Remoteness:** although Anchorage enjoys excellent air service from numerous metro areas in the Lower 48, most in the Lower 48 perceive Alaska as remote and intimidating, thereby limiting potential interest in second-home properties. Most second-home buyers prefer to buy properties within a three- or four-hour flight of home, and within a short drive of the destination airport (as illustrated by the popularity of Los Cabos over Hawaii, or Colorado over British Columbia).
2. **Winter Conditions:** Alaska’s seasonality is certainly its most daunting challenge to future second-home sales. Most second-home buyers looking for ski-oriented products want to ski around Christmas and New Years, perhaps in January, extensively in February, and then perhaps some in March (but none in April). However, due to Girdwood’s northerly location, the sun does not even hit the slopes in the period around the winter solstice and the ski day is short, cold and dark until

late February. Then, in March and April, Alyeska enjoys its peak season, when mornings are typically icy but afternoons offer good spring skiing conditions. However, by mid-March, despite ample snow at most ski areas in the western U.S. and despite a wide array of marketing attempts tried and failed by various ski areas seeking to extend the season, most skiers put their skis away for the winter and move on to other sports. Girdwood's coastal location also means snow conditions are inconsistent; they can be excellent during and immediately after a winter storm, but temperatures can quickly rise and fall due to the low elevation, turning powder into slush, "cement," or crust.

3. **Summer Conditions:** summer presents its own set of challenges for second-home sales to Lower 48 buyers. Most second-home buyers from the Lower 48 seeking a summer destination prefer to travel in July, August or September. However, virtually all seek dry, warm, sunny locations – such as Idaho, Montana, and Colorado -- where they can enjoy long hours of outdoor activities in relative comfort. This period coincides with Girdwood's rainy season; it is often gray and cool, and rain is quite common. Although the area is very beautiful during the summer, summer bugs can also present a major nuisance (a much larger issue for visitors from the Lower 48 unaccustomed to dealing with bugs than it is for Alaskans).
4. **Limited Services:** Girdwood's current lack of upscale restaurants, shops, and medical facilities also presents a challenge, albeit one that is easier to address and potentially overcome.
5. **Intervening Opportunities:** perhaps the biggest challenge to future second-home sales at Glacier-Winner Creek comes from intervening opportunities – particularly existing and proposed resorts in southeastern British Columbia. Resorts such as Fernie, Panorama, and Kicking Horse have extensive future development plans and offer products at attractive price points, but even they have failed to attract numerous second-home buyers from the U.S. due to their perceived remoteness and other challenges. Southeastern British Columbia offers very similar quality scenery to Girdwood along with: (1) easier access and a much lesser sense of remoteness; (2) far more attractive seasonality, with cool snowy winters with ample daylight and better snow, along with warm, sunny summers with fewer bugs; (3) in some cases, better access to services; and (4) a variety of other benefits (easier access to mountain lakes for recreation, access to dozens of quality golf courses, etc.). As a result, given the limited number of U.S. second-home buyers currently venturing over the Canadian border to partake in these attractive resorts so close to home, Peterson Economics questions how many would fly all the way across Canada to buy a new second-home in Girdwood, while dealing with issues of seasonality, bugs, and lack of services (though Girdwood would offer the significant benefit of a location within the U.S. without the need to deal with customs or owning property in a foreign country).

Despite these limitations, Glacier-Winner Creek certainly offers some potential to attract second-home buyers from the Lower 48, if effectively marketed. Moreover, with a population of about 300 million in the Lower 48, it is virtually impossible to predict whether ongoing demand for new second homes at Glacier-Winner Creek from the Lower 48 would stabilize at five units per year, ten units per year, or even 30 units per year. Any figure in this range would represent a very, very small percentage of the U.S. second-home market. However, based on our experience



with existing destination resorts throughout North America, and based on the likely advantages (superb scenery, endless wilderness, attractive skiing, reasonable access from the airport, etc.) and disadvantages (seasonality, long fly time, bugs, etc.), Peterson Economics believes second-home demand from the Lower 48 would be far more likely to stabilize in the range of five to 20 units per year than in the range of 20 or more units per year.

## **COMBINED POTENTIAL ABSORPTION**

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Thus, based on this analysis and Peterson Economics' extensive industry experience, it appears likely that, if attractively developed and effectively marketed, the new Glacier-Winner Creek resort community could potentially achieve average ongoing absorption of about:

- Ten units per year to second-home buyers from Anchorage;
- Five to ten units per year from permanent residents moving into the community; and
- Perhaps ten units per year to second-home buyers from the Lower 48 (though this source of demand is very uncertain, and could potentially be much smaller or significantly greater).

Thus, total ongoing demand for the new community from all sources combined could potentially equate to an average of about 25 to 30 units per year. However, it could potentially be somewhat greater if unexpectedly well received by the Lower 48 market, and it could potentially be somewhat greater in the initial years of sales due to initial market excitement and pent-up demand. Thus, initial sales might total 40 to 50 units per year for several years, before dropping back down to more sustainable levels of 20 to 30 units per year. However, if this new community fails to attract significant interest from the Lower 48, ongoing absorption would likely be limited to no more than about 15 to 20 units per year (a much more certain base-level figure).

While this would represent a major surge in demand from current sales levels of comparable product in Girdwood, it would not represent sufficient absorption to justify development of a major new ski resort, unless the project is heavily subsidized by outside sources. Typically, in order to be economically viable as a traditional, profit-oriented development, most new ski resorts would require annual absorption of 150 to 200 (or more) units per year (to offset the high costs of infrastructure and ski area development), and such absorption appears extremely unlikely if not impossible at Glacier-Winner Creek.

