

PKF CONSULTING'S

Lodging

Forecast

Southern California

sample

- * LOS ANGELES *
- * ORANGE COUNTY *
- * SAN DIEGO *
- * COACHELLA VALLEY *
- * SANTA BARBARA *
- * KERN COUNTY *
- * CENTRAL COAST *
- * INLAND EMPIRE *
- * VENTURA *



CONSULTING

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Introduction and Regional Overview

The 2008 Southern California Lodging Forecast estimates the available and occupied rooms in major submarkets of Southern California and compares each of these areas. While we have made every effort to portray an accurate picture of each submarket, we cannot guarantee the accuracy of the historical or future occupancy or average daily room rates.

Once again, this year we have redefined some of our submarkets within Los Angeles County, Orange County, and the Inland Empire based on market maturity. Therefore, the 2008 Southern California Lodging Forecast is not comparable to our previous years' Forecasts, but historical data for each submarket within this forecast consists of:

Southern California as a destination remains one of the most diverse and vibrant regions in the United States. The region has been and continues to be an economic powerhouse with technology and biotech, apparel manufacturing, and creative and financial services, aerospace engineering and manufacturing production providing the area with a large base of commercial demand. In addition, the region's climate, hundreds of miles of pristine beaches, world-class theme parks, shopping, and dining make Southern California a popular leisure destination for tourists from all over the country and around the world. Cities like Los Angeles, Anaheim, and San Diego also boast state-of-the-art convention centers that draw large groups of business and leisure travelers to Southern California.

While construction costs and land availability limit new development, a number of Southern California lodging properties have been built, or are undergoing renovations, expansions, and redevelopments. This influx of capital investment is revitalizing the Southern California lodging supply while simultaneously hedging against the industry's ability to over-penetrate the regional, national, and international demand.

In 2007, the Southern California lodging industry as a whole continued its shift from targeting occupancy growth to focus on revenue. Significant additions to supply were created in 2006 and 2007 outside of the limited service segment, bringing a majority of markets to capacity occupancies as a result of seasonal demand patterns, and constrictions of supply. In line with the upward position of property values, significant capital programs are implemented and completed, and the industry has continued to eliminate the yield management strategies of area hoteliers.

With construction costs continuing to exceed potential value for full service and luxury properties, the supply of new properties bodes well for the industry in terms of guarding against saturation and over-supply. Additionally, the current "credit crunch" has changed the environment for hotel financing. As a result construction financing has become more difficult to attain. As a result, the focus in the near term is the understanding and quantification of demand.

Los Angeles County

EXECUTIVE SUMMARY

Los Angeles County has acted as an excellent barometer for the greater Southern California lodging market. As the largest and most diverse of Southern California markets, individual hotel performance varies. When taken as a whole, the growing pains and opportunities of the Los Angeles County market often reflect those seen in other areas.

California's Department of Finance tracks the performance of the state and the individual markets that make up the state. According to the source, the population of Los Angeles County increased by 0.7 percent last year and is now approximately 10,330,000 persons making it the largest county in the state. The population of the county continues to grow every year, fueling the county with the intellectual and physical manpower needed to maintain an expanding regional economy.

Los Angeles County job growth in 2006 was the highest since 2000, which can be attributed to the strength of the Professional and Technical, Information, and Hospitality Services sectors. The county's output, or gross product, has been strengthening as well. According to the 2007 Los Angeles County Economic Outlook, it is expected that the county's economic expansion will continue, but at a more moderate pace due to the current slowdown in the nation's economic growth. In 2006, Los Angeles County had a civilian labor force of almost 4.9 million workers. This represented a 3.5 percent unemployment rate, the lowest level in recent years and below the state and national averages.

Los Angeles International Airport (LAX), the largest airport on the West Coast, is a bustling domestic stop and an important international gateway. The airport has an enormous impact on tourism and travel in the greater Los Angeles area. Many international tourists use LAX as a gateway to the United States.

Year-to-date statistics through August 2007 show LAX domestic and international passenger counts reveal a 1.1 percent increase compared to the same period last year. The following table shows the history of passenger volume at Los Angeles International Airport.