

Southern California
LODGING FORECAST
2012

Coachella Valley | Coastal | Inland Empire
Los Angeles | Orange County | San Diego
San Luis Obispo | Santa Barbara | Ventura



November 10, 2011

It is our pleasure to present The 2012 Southern California Lodging Forecast. This forecast has been prepared using our database, as well as information and comments solicited from local hoteliers, hotel owners, hotel developers, representatives of Convention and Visitors Bureaus, and others. We hope that this document will be helpful for planning and budgeting purposes. To those who have assisted us with this analysis, we extend our sincere appreciation. Without your assistance, this forecast could not have been completed.

As with previous forecasts, this year's document has been divided into the major markets that comprise the Southern California region. These include Los Angeles, Orange County, San Diego, Inland Empire, Coachella Valley, Ventura, Santa Barbara, and San Luis Obispo. As we have done previously, we have included the Coastal Resort market in this forecast, comprised of hotels on the Southern California coast from San Luis Obispo to San Diego. In addition, it should be noted that certain properties are included in multiple submarkets, but are not reported twice in the overall sample for their respective county or area. Each of these markets and the various submarkets therein will be discussed in further detail in the pages to follow.

If we can be of further assistance in the interpretation of this data, please feel free to contact us.

Sincerely,

PKF Consulting USA



Bruce Baltin
Senior Vice President

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Introduction and Regional Overview

The 2008 Southern California Lodging Forecast estimates the growth in available and occupied rooms in major submarkets of Southern California and comments on trends in 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 levels or average daily room rates.

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

Southern California as a destination remains one of the most visible and vibrant regions in the United States. The region has been and continues to be a thriving economic powerhouse with technology and biotech, apparel manufacturing, shipping and freight, creative and financial services, aerospace engineering and manufacturing, and entertainment production providing the area with a large base of commercial demand generators. Favorable climate, hundreds of miles of pristine beaches, world-class theme parks, and unparalleled dining and shopping make Southern California a popular leisure destination for travelers from around the country and around the world. Cities like Los Angeles, Anaheim, San Diego, and Long Beach also boast state-of-the-art convention centers that draw large group meetings from both coasts to Southern California.

While construction costs and land values continue to limit new development, a number of Southern California lodging properties have completed or are undergoing renovations, expansions, and redevelopments in order to capitalize on the current and projected market dynamics. This influx of capital into existing facilities is revitalizing the Southern California lodging supply while simultaneously hedging the market's ability to over-penetrate the regional, national, and international demand sectors.

In 2007, the Southern California lodging market as a whole continued its shift from targeting occupancy growth to focusing on rate growth. Few additions to supply were created in 2006 and 2007 outside of the limited and focused service sector, bringing a majority of markets to capacity occupancies as a result of seasonality, demand patterns, and constrictions of supply. In line with the upward positioning of properties as significant capital programs are implemented and completed, ADR growth has continued to dominate the yield management strategies of area hoteliers.

With construction costs largely continuing to exceed potential value for full service and luxury properties, the supply side of the equation 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, and 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 performance of the greater Southern California lodging market. As the largest and most diverse of the major Southern California markets, individual hotel performance often greatly varies. However, when taken as a whole, the growing pains and opportunities of the Los Angeles County area often reflect those seen in other areas.

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

Los Angeles County job growth in 2006 was the strongest since 2000, which can be attributed to the strength of the Professional and Technical Services and the Leisure and Hospitality Services sectors. The county's output, or gross product, has been strengthening as well. According to the 2007 Los Angeles County Economic Forecast, it is anticipated 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 supported a civilian labor force of almost 4.9 million workers. This represented a 4.2 percent unemployment rate, the lowest level in recent years and below the state and national rates.

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

Year-to-date statistics through August 2007 for LAX domestic and international passenger counts reveal a total increase of 1.7 percent as compared to the same period last year. The following table shows the history of passenger travel at Los Angeles International Airport.

average daily rate is expected to grow by 3.0 percent to \$90.94 in 2007 as a result of the continued resilience in this market.

LONG BEACH

Few cities have seen as large a turn-around as has the City of Long Beach. Its downtown area has been revitalized with ample shopping and dining opportunities. The Grand Prix of Long Beach, the Aquarium of the Pacific, and the redevelopment of downtown with mixed-use developments have all provided Long Beach with a base of group and leisure business to complement its traditional commercial business.

Long Beach continues to position itself as a regional destination, offering numerous quality lodging facilities, leisure amenities, a 340,000 square foot convention center, and a vibrant downtown area. The following table summarizes the number of definite and tentative room nights booked for 2007 through 2012, as of September 2007.

Year	Definite	Tentative	Total
2007	217,430	7,607	225,037
2008	164,500	67,693	232,193
2009	103,494	93,802	197,296
2010	45,137	153,594	198,731
2011	19,996	97,251	117,247
2012	7,327	117,522	124,849

Source: Long Beach Area Convention and Visitors Bureau

In the age of the airport hassle, Long Beach Airport (LGB) is often seen as an excellent alternative to other regional airports. With what was once one of the best kept secrets in Los Angeles County, the addition of flights from JetBlue has boosted the visibility of this airport. Year to date through August 2007, LGB has posted a 5.2 percent increase in passenger counts, at 2,002,670 in 2007 versus 1,903,279 for the prior year.

Though several lodging developments are in the planning stages, most are still speculative and are in need of financing. The one addition, the 66-room Best Western Long Beach Convention Center opened in November of 2006, while there are number of proposed hotels in the pipeline, which are anticipated to open in 2009.

Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	RevPAR	Percent Change
2002	1,289,180	N/A	894,396	N/A	69.4%	\$108.77	N/A	\$ 75.46	N/A
2003	1,289,180	0.0%	925,458	3.5%	71.8	107.57	-1.1%	77.22	2.3%
2004	1,289,180	0.0	928,246	0.3	72.0	112.32	4.4	80.87	4.7
2005	1,289,180	0.0	941,594	1.4	73.0	118.14	5.2	86.29	6.7
2006	1,295,020	0.5	964,783	2.5	74.5	127.81	8.2	95.22	10.3
2007 E	1,315,095	1.6	968,697	0.4	73.7	135.70	6.2	99.95	5.0
2008 F	1,315,095	0.0	986,133	1.8	75.0	142.48	5.0	106.84	6.9
CAAG	0.3%		1.6%			4.6%		6.0%	

Source: PKF Consulting