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# 2020 SOUTHERN CALIFORNIA LODGING FORECAST

## COACHELLA VALLEY | COASTAL RESORT | INLAND EMPIRE | LOS ANGELES ORANGE COUNTY | SAN DIEGO | SAN LUIS OBISPO | SANTA BARBARA | VENTURA

CBRE Hotels Advisory is a national firm of advisors, industry specialists, and appraisers who provide a full range of services to the hospitality and tourism industry.

CBRE

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October 16, 2019

It is our pleasure to present *The 2020 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 Destination Marketing Organizations, 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. Also included is the Coastal Resort market, 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,

*CBRE Hotels Advisory*

Bruce Baltin
Managing Director

Brandon Feighner
Senior Director

# ABOUT US

## CBRE HOTELS

As a point of background, we would like to provide you with a brief overview of our Firm. CBRE Hotels is a division of the CBRE Group, Inc. (NYSE:CBG), the largest full service, real estate and investment organization in the World with more than 80,000 employees located in more than 450 offices worldwide. CBRE Hotels operates as a specialized group within CBRE and provides hospitality and real estate industry professionals with a global practice with our one-stop shop of unparalleled, global and fully integrated real estate services and products. CBRE Hotels is comprised of over 375 dedicated hospitality professionals located in more than 60 offices across the globe. Our Americas Platform services all regions in the U.S., including Canada, Mexico & the Caribbean.

CBRE Hotels consists of three integrated hospitality-focused divisions including Advisory, Capital Markets Investment Sales, and Research, as discussed next in this letter of engagement.

### Advisory

Our CBRE Hotels Advisory group provides an array of advisory services and industry expertise to help our clients in planning, developing, managing, financing, debt solutions, problem-solving, improving operations, and valuing hotels and other hospitality assets. Our engagements range from hotel market and financial feasibility studies to investment structuring, and from hotel appraisals to asset management.

Our advisory group is constantly providing clients both large and small with the most constructive and valuable advice in the industry, performing feasibility and market studies, acquisition due diligence and valuations involving various hotels, resorts, restaurants, golf courses, and a variety of mixed-use developments and other hospitality products. We have the distinct advantage of being the only hospitality advisory and valuations firm with its own, proprietary database of U.S. hotel financial statistics.

#### Advisory Services

- Asset Management and Management Company Selection
- Real Estate Appraisals and Business Valuation
- Market and Financial Feasibility Studies
- Litigation Support and Expert Testimony
- Acquisition Due Diligence
- Debt Advisory
- Operational Studies
- Tourism and Recreational Studies
- Resort and Recreation Services
- Conference, Convention, and Public Assembly Facilities
- Financial Benchmarking
- Econometric Forecasting
- Custom Research
- Transaction Buy-Side Advisory Services
- Development Financing
- Property Tax Appeals

## Capital Markets Investment Sales

CBRE Hotels Capital Markets Investment Sales group serves the investment market primarily as exclusive brokerage agents for owners/sellers managing the sale and disposition process. The team members of CBRE have extensive backgrounds in hotel and resort transactions as well backgrounds in hotel advisory and operations. CBRE's presentation of prospective hotel investments reflects a thorough understanding of hotels, their branding/affiliations, management issues, operating margins, market dynamics, and capitalization.

Our hotel brokerage team has been retained for other services that include specific buyer-representation assignments, RFPs (Request for Proposals) for management organizations, executing ground leases, development financing, joint venture partnerships, and land sales. The scope of our business includes all tiers of the lodging industry including hotels and resorts, vacation-ownership, residential/hotel mixed-use, conference centers, and recreational facilities.

Our CBRE Hotels Debt and Structured Finance group provides comprehensive financial solutions for the world's leading hotel owners, investors, and developers capitalizing on CBRE's long-established relationships with more than 200 of the industry's premier international lenders and REITS, including banks, pension funds, life insurance and credit companies, conduits/CMBS entities, government sponsored entities, and offshore investors to name a few.

Because of their close working relationship with the advisory group, our dedicated capital markets platform offers clients an unparalleled level of market knowledge with a proven track record of sales, marketing, structured debt and equity successes.

## Research

CBRE Hotels' Americas Research ("CBRE Research") owns the database for *Trends® in the Hotel Industry*, the statistical review of U.S. hotel operations which first appeared in 1935 and has been published every year since. CBRE Research professionals use the *Trends®* database to assist their clients in making informed decisions. In addition, the *Trends®* data is used to produce custom financial reports for clients that enable them to benchmark hotel revenues, expenses, and profits.

Beginning in 2007, CBRE Research unveiled its powerful *Hotel Horizons®*, an economics-based hotel forecasting model that projects five years of supply, demand, occupancy, ADR, and RevPAR for the U.S. lodging industry. *Hotel Horizons®* reports are published on a quarterly basis for 60 markets and six national chain-scales.

With a long-standing tradition of tracking and forecasting the lodging industry, our Research Group has the technical capacity to conduct custom research, the analytical skills to interpret the data, and the access necessary to gather confidential performance information from the industry.

## INTRODUCTION AND REGIONAL OVERVIEW

The *2020 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 based on market orientation and maturity. Therefore, the 2020 Southern California Lodging Forecast is not directly comparable with previous years' Forecasts, but historical data for each submarket within this forecast is consistent.

The Southern California lodging market is supported by sound fundamentals, which while tested during the worldwide recession and following economic uncertainty, have rebounded strongly and today Southern California as a destination remains well positioned as one of the most visible and popular regions in the United States. The region has been 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, and San Diego also boast state-of-the-art convention centers that draw large group meetings from both coasts to Southern California.

The Southern California lodging market experienced a period of great expansion coming out of the recession, reaching record levels in all available metrics recently, but an influx of supply on the horizon in a number of markets heightens uncertainty for the near term. Additionally, mounting evidence points to an economic slowdown on a national and regional level. Further, experts are divided on the impact of shared accommodations on traditional hotels, although the data suggests that at the very least the ability for hoteliers to raise rates during peak demand periods has been negatively impacted.

Thus, in looking forward we are cautiously optimistic about the continued demand for hotel rooms as lodging fundamentals are projected to remain positive entering the eleventh year of the current economic expansion, the longest expansion in U.S History. However, with most markets operating at or near peak performance in recent years, we anticipate decelerating growth as new hotel supply is projected to exceed demand in the short term with projects that have long been in development (some since before the recession) finally come to fruition. We do, however, expect the projects in the pipeline to be absorbed into the market. In markets with supply and demand imbalances, we are anticipating that average daily rate growth will be somewhat muted in the short term. Nonetheless, Southern California remains one of the most dynamic and attractive regions in the United States, with world class facilities, excellent airlift, near perfect weather and internationally recognized attractions, all attributes that position the region solidly amid uncertainty in the coming years. The following sections present our estimates for the Southern California lodging market and its various sub-markets.

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# Los Angeles County

2020 SOUTHERN CALIFORNIA LODGING FORECAST

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# LOS ANGELES COUNTY

## EXECUTIVE SUMMARY

Los Angeles County typically acts 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.

Los Angeles County, otherwise referred to as the Los Angeles-Long Beach Metropolitan Statistical Area (MSA), includes 88 incorporated cities, covers an area of 4,752 square miles, and as of January 2019, had an estimated population of approximately 10.25 million people. In the past 80 years, the county has evolved into a large commercial/industrial urban community and has become the business and financial center of California and the Western United States. The regional economy has become more diversified with a larger number of people employed in services, home-based businesses, motion picture production, computer software development, and other professional services. Recent growth in regional employment has been driven chiefly by gains in education and health services, construction, and government segments of the economy. Overall regional economic activity had increased significantly over the last year. By measure of GDP alone, L.A. County would be larger than Indonesia, Turkey, the Netherlands, Saudi Arabia, or Switzerland.

Ten years from the Great Recession, the national economy remains on a steady growth path over the next few years. With job growth and confidence in their financial situation slowing, consumer spending will stay on a modest upward trajectory. Likely to increase, government spending is again a positive contributor to GDP growth in the U.S. California continues to outpace the nation in economic growth, now accounting for 14.5 percent of U.S. GDP. Job growth continues across most industry sectors but is now likely to slow as the labor market tightens and more people continue to leave the work force. Southern California continues to create new jobs, and several counties will outpace the nation in the near term. Unemployment rates across Southern California counties have plateaued as the area and state have reached what many believe is nearly full employment. Los Angeles County finished 2018 with a 4.7 percent unemployment rate, down from 4.8 percent in 2017, and nearly a third the peak rate of 12.5 percent reached in 2010. It is expected to decrease slowly over the next two years, falling to 4.4 percent in 2019 before reaching an estimated 4.3 percent in 2020, as the county reaches full employment. As of July 2019, the unemployment rate in Los Angeles County was 5.0 percent, compared to 4.5 percent in July 2018.

According to a report by the State of California Employment Development Department (EDD), between July 2018 and July 2019, total employment in Los Angeles County increased by 63,400 to reach 4.9 million jobs, a 1.4 percent increase. Job growth has been positive for 113 straight months, averaging 29,200 new jobs each month since 2010. This is expected to slow through 2020 as there are fewer jobs needed to be added and as the labor market tightens.

Almost all industry sectors added jobs in 2018. The largest private sector gains were in leisure & hospitality (added 22,000 jobs), Education & Health (added 18,400 jobs), and Professional & Business Services (added 15,000 jobs). Government payrolls shrunk by 2,200 jobs. Two other sectors shed jobs over the year: Transportation, Trade & Utilities contracted by 2,200 jobs and Other Services lost 1,300 jobs. Manufacturing ended its ongoing decline with a no net change in jobs for 2018.

LAEDC forecasts Los Angeles County to continue the steady improvement it has been experiencing for the past nine years. Most of these gains have been supported by a handful of industries and it's expected for this pattern to continue for the next few years, although at a slower pace. While short-term forecasts for the international trade industry remain uncertain with the current tariffs imposed on major US trade partners, the long-term prospects for international trade are promising. Heavy investment in trade-related infrastructure is being made and important new trade agreements are in place or currently being negotiated. The "new economy" of Los Angeles County is largely technology driven, which includes bio-medical, digital information technology, and environmental technology. This new economy is built upon the advanced technical research capabilities present in the county. Another key economic driver is the creative industry, with firms combining technology and creativity into their products such as video games and film production. Silicon Beach in the Westside region of Los Angeles, home to hundreds of tech startups, video game, and video production companies, is an example of Los Angeles' booming creativity.

## TOURISM INDUSTRY

According to the Los Angeles Tourism & Convention Board, Los Angeles reached a historic milestone in 2018, welcoming 50 million visitors for the first time ever and accomplishing the destination's ambitious tourism goal two years early. The new record is 1.5 million visitors higher than 2017's total – a 3.1 percent increase – marking the eighth-consecutive year of tourism growth for Los Angeles. In surpassing 50 million total visitors, Los Angeles set new tourism records for domestic and international visitation, hosting an estimated 42.5 million domestic visitors (3.0 percent increase) and 7.5 million international visitors (3.6 percent increase). After a slight decrease in 2017, visitation from Mexico in 2018 scored its highest total ever with 1.8 million visitors, a 4.0 percent increase. China recorded an all-time high 1.2 million visitors, making Los Angeles the number one ranked U.S. city for Chinese travelers (6.9 percent increase, the largest net gain among all international markets). Other international markets recording their highest visitation totals ever in 2018 include: Canada with 780,000 (4.5 percent increase); United Kingdom with 382,000 (3.0 percent increase); Japan with 349,000 (2.5 percent increase); Scandinavia with 180,000 (3.9 percent increase); and India with 130,000 (5.1 percent increase).

According to the most current data available, in 2018, direct tourism spending is estimated to have risen to $23.9 billion, a 5.0 percent increase over 2017. The tourism board notes that nearly one-third of the total was spent by foreign visitors since they tend to stay longer and spend more per person. These numbers represent an all-time high for both visitors and spending in the history of the county, which was anticipated following the announcement of a record setting 50 million visitors to Los Angeles in 2018.

The overall increase in visitation stems from Los Angeles Tourism & Convention Board's successful digital, television, and online advertising campaigns launched in multiple domestic feeder cities such as San Francisco, San Diego, Phoenix, New York City coupled with improvements made to the city's tourism website, discoverLosAngeles.com. Furthermore, to spread awareness abroad, the tourism board operates four tourism offices in the cities of Shanghai, Beijing, Guangzhou, and Chengdu in China – the latter two having opened in 2017.

The following table summarizes the number of overnight visitors to Los Angeles County and their direct spending between 2004 and 2018. According to the Los Angeles Tourism & Convention Board, the total overnight visitor count in 2018 was at 32.8 million visitors. Visitors to Los Angeles County spent $23.9 billion in 2018 and international visitors accounted for 33 percent of all overnight visitor spending. These travelers contributed to Los Angeles' 2018 average daily rate as it rose by 2.2 percent over 2017.

| Overnight Visitor Volumes and Expenditures<br>Los Angeles County | | | | |
|---|---|---|---|---|
| Year | Overnight Visitation (Millions) | Percent Change | Direct Spending (Billions) | Percent Change |
| 2004 | 24.3 | - | $12.3 | - |
| 2005 | 25.0 | 2.9% | 13.4 | 8.9% |
| 2006 | 25.4 | 1.6 | 14.0 | 5.4 |
| 2007 | 25.9 | 2.0 | 15.8 | 4.4 |
| 2008 | 25.7 | (0.8) | 15.3 | (2.8) |
| 2009 | 23.8 | (7.4) | 13.1 | (14.5) |
| 2010 | 26.1 | 9.7 | 14.5 | 19.5 |
| 2011 | 27.0 | 3.4 | 15.5 | 7.8 |
| 2012 | 27.9 | 3.3 | 16.6 | 7.1 |
| 2013 | 28.5 | 2.2 | 17.5 | 6.1 |
| 2014 | 29.5 | 3.5 | 18.7 | 4.4 |
| 2015 | 30.3 | 2.7 | 19.6 | 10.8 |
| 2016 | 31.1 | 2.6 | 20.8 | 6.1 |
| 2017 | 31.9 | 2.9 | 22.7 | 9.1 |
| 2018 | 32.8 | 2.8 | 23.9 | 5.0 |
| Source: CIC Research and Los Angeles Tourism & Convention Board | | | | |

**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. The following table shows the history of passenger travel at Los Angeles International Airport.

| Los Angeles International Airport<br>Passenger Counts | | | |
|---|---|---|---|
| Year | Domestic | International | Total |
| 2008 | 43,100,000 | 16,700,000 | 58,800,000 |
| 2009 | 41,400,000 | 15,100,000 | 56,500,000 |
| 2010 | 43,100,000 | 15,900,000 | 59,100,000 |
| 2011 | 45,100,000 | 16,700,000 | 61,800,000 |
| 2012 | 46,500,000 | 17,200,000 | 63,700,000 |
| 2013 | 48,800,000 | 17,900,000 | 66,700,000 |
| 2014 | 51,600,000 | 19,100,000 | 70,700,000 |
| 2015 | 54,200,000 | 20,700,000 | 74,900,000 |
| 2016 | 58,100,000 | 22,900,000 | 81,000,000 |
| 2017 | 59,700,000 | 24,800,000 | 84,500,000 |
| 2018 | 61,500,000 | 26,100,000 | 87,500,000 |
| CAAG | 3.3% | 4.1% | 3.7% |
| 07/18 | 35,838,104 | 15,269,333 | 51,107,437 |
| 07/19 | 36,445,414 | 15,073,699 | 51,519,113 |
| Source: Los Angeles World Airports and CBRE Hotels | | | |

Emerging from the recession passenger travel at LAX is showing continued signs of recovery and recording all-time highs year after year. Overall, from 2008 to 2018, total passenger counts increased by an annual average of 3.7 percent, and recently reached a record level of more than 87.5 million passengers. Additionally, through the first seven months of 2019, total passenger arrivals increased by 0.8 percent as compared to the prior period last year.

### LAX Modernization

Los Angeles World Airports (LAWA) is in the midst of a multi-billion-dollar development program for Los Angeles International Airport (LAX). The centerpiece of the program is the completed Tom Bradley International Terminal Modernization (TBIT) Project, which includes new gate and concourse areas and a great hall for luxury dining and retail. LAWA also completed a $737 million renovation in 2010 of the existing TBIT that upgraded the facility with a new in-line baggage screening system and interior improvements to enhance service and convenience to the passengers and tenants who use LAX's premier international terminal. Additionally, there are several major airfield and facility projects underway that are in support of the development program. These include new taxiways and taxi lanes, and renovations to other terminals.

The renovation to Tom Bradley International Terminal included nine new gates big enough to accommodate the Airbus A380, the world's largest passenger airliner. Furthermore, the waiting areas have been upgraded with new furniture, massive art displays, and more than 60 local and luxury restaurants and shops. With the latest expansion, the terminal nearly doubled in size from 1.2 million square feet to 2.2 million. Phase II of the renovation, which was completed in 2015, added nine more gates and included updates to the security and customs areas.

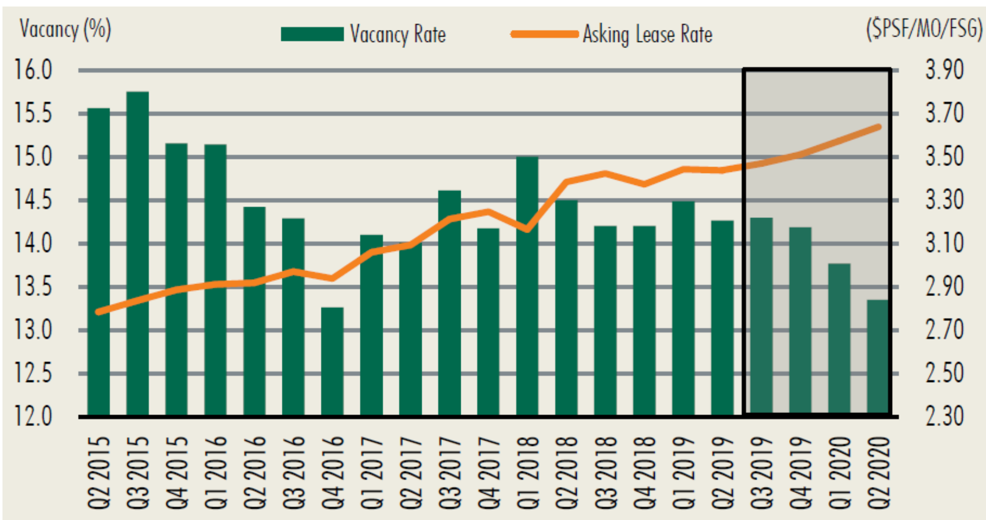
In addition, other recently completed renovations include the $270 million Elevator, Escalator, and Moving Walkway project that replaced 212 outdated systems with new, modern units throughout the airport; a $517 million renovation of Terminal 1 completed in December 2018 in collaboration with Southwest Airlines which modernized the terminal's outdated equipment and infrastructure, doubled the amount of available concessions, created a brighter more open lobby, and introduced an automated system to handle checked bags; and a $573 million renovation of Terminals 7 and 8 by United Airlines that was completed in 2018. Other planned terminal renovations and updates include a $1.6 billion of investment into Terminals 4 and 5 by American Airlines over the next 15 years, and a new $1.6 billion 12-gate satellite terminal behind Tom Bradley International Terminal that is expected to be completed in the second quarter of 2020.

In addition, LAWA is developing a multi-billion-dollar, revolutionary update to the ground transportation system at LAX. The Landside Access Modernization Program (LAMP) includes several major elements, including a landside Automated People Mover (APM), a Consolidated Rent-A-Car (CONRAC) facility, multiple Intermodal Transportation Facilities (ITFs), and a comprehensive network of roadway improvements. At the centerpiece of the Project is the APM system, which would connect passengers to the airline terminals via six stations, the state-of-the-art CONRAC, new passenger pick-up and drop-off locations (Intermodal Transportation Facilities) with airport parking facilities, roadway improvements, and Metro's regional transit system. The APM, which broke ground in March 2019, will allow for a seamless connection to Metro's regional rail and bus system, including the proposed Airport Metro Connector transit station located at 96th Street/Aviation Boulevard. LAWA will also construct new roadways and improve freeway access to LAX. Metro also has plans to extend the Green Line into the new Torrance transit center. The 4.6-mile extension of the light rail line, which currently ends at the northern border of Redondo Beach, would allow riders to connect to LAX via the future automated 96$^{th}$ Street Station.

***Office market*** activity is an excellent indicator of the county's economy. According to CBRE, the Los Angeles County office market consists of the Tri-Cities/Glendale, Los Angeles Downtown, Hollywood/Wilshire Corridor, San Fernando Valley, San Gabriel Valley, Mid-Counties, South Bay, and West Los Angeles submarkets. Year-to-date through the second quarter of 2019 net absorption was approximately 477,000 square feet-- which is nearly 1 million square feet lower than the same period last year-- and more than 3.8 million square feet of new office product was under construction. The combination of these events pushed overall vacancy down from 14.5 percent to 14.3 percent.

Rents resumed an overall upward trajectory in Q2 2019. The Los Angeles County office market overall asking lease rate remained equal from the previous quarter at $3.56 per square foot per month.

Going forward, increases in demand are expected to continue dropping vacancy levels and pushing up rental rates. According to CBRE Econometric Advisors, by Q3 2019 vacancy rates are expected to increase 5 basis points while rents will decrease $0.02 per square foot. The following table summarizes the Greater Los Angeles office market performance from the second quarter of 2015 to the second quarter of 2019, along with CBRE's 12-month forecast.



Source: CBRE Econometric Advisors, Q2 2019.

## Los Angeles Convention Center

The main demand generator for large convention and meeting activity in Los Angeles is the Los Angeles Convention Center (LACC), which contributes a large number of annual group room nights to the Los Angeles hotel market. The center offers approximately 720,000 square feet of exhibit hall space and 150,000 square feet of meeting space split between its two halls. Its enclosed space makes it one of the largest meeting and convention facilities in the country. The Los Angeles Convention Center is owned and historically has been operated by the City of Los Angeles. However, its operation has been privatized and AEG assumed management of the Center as of December 8, 2013. The following table presents the actual and projected room nights generated by the Los Angeles Convention Center through 2022, based on definite convention bookings as of May 2019.

| Los Angeles Convention Center Current and Projected Activity | | | | |
|---|---|---|---|---|
| Year | Definite[1] | Tentative[2] | Prospect[3] | Total Room Nights |
| 2010 | 207,320 | | | 207,320 |
| 2011 | 256,529 | | | 256,529 |
| 2012 | 290,528 | | | 290,528 |
| 2013 | 187,623 | | | 191,823 |
| 2014 | 212,586 | | | 212,586 |
| 2015 | 202,431 | | | 202,431 |
| 2016 | 244,303 | | | 244,303 |
| 2017 | 286,402 | | | 286,402 |
| 2018 | 286,019 | | | 286,019 |
| 2019 | 244,843 | | | 244,843 |
| 2020 | 218,812 | 64,691 | 55,263 | 338,766 |
| 2021 | 106,292 | 99,457 | 194,941 | 400,690 |
| 2022 | 98,085 | 101,452 | 181,981 | 381,518 |

[1]Contracted peak and total rooms for executed LACC License Agreement.
[2]An executed Letter of Agreement.
[3]A group considering Los Angeles as a meeting destination for which a Sales Lead has been issued.
Source: Los Angeles Tourism & Convention Board and CBRE Hotels

### Los Angeles Convention Center Renovation

The City of Los Angeles is committed to expanding and modernizing the LACC while improving the hotel room supply within walking distance. The realization of these two major goals, combined with capital improvements and enhancements the City has already invested in previous years, will result in the facility's performance and offerings exceeding its own recent record-breaking years. Currently, the Chief Legislative Analyst of the City of Los Angeles is nearing the end of an exploration effort to determine the best financing and development solutions appropriate for the project.

In May of 2018, Anschutz Entertainment Group sent city officials a letter outlining the proposal, which would require city tax incentives and has already received preliminary support from Mayor Eric Garcetti and City Councilman Curren Price, whose district includes the convention center. The plan calls for adding as much as 350,000 square feet to the South Figueroa Street center, giving it more than 1.2 million square feet of space, including 250,000 square feet of meeting rooms. The $500-million addition would result in about 800,000 square feet of contiguous exhibition space, a key measure that would make it more competitive with other big convention venues in the country.

The proposal also calls for a $700-million addition to the JW Marriott Los Angeles L.A. Live hotel on Olympic Boulevard. A 40-story hotel tower with 850 rooms would be built just south of L.A. Live's Regal Cinemas complex and would be connected by pedestrian bridges to the existing JW Marriott and the West Hall of the convention center. The hotel project would add significantly more meeting space, including a 51,000-square-foot ballroom that AEG says would be the largest in Los Angeles.

The following table displays our *Los Angeles County* lodging sample set in terms of average daily and total annual rooms supply, annual occupied rooms, market occupancy percentage, and average daily room rate. These statistics illustrate the total lodging supply and demand for the county, including all types of lodging properties. Overall occupancy levels and average daily room rates reflect the composite forecast for the submarkets presented herein, extrapolated to the overall Los Angeles County hotel supply. The table presented below includes the sum of our aggregated sub markets, extrapolated to the overall supply.

**Los Angeles County**
**Historical Market Performance of the Competitive Supply**

| Year | Daily Supply | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|---|
| 2014 | 97,611 | 35,628,015 | N/A | 28,895,913 | N/A | 81.1% | $175.30 | N/A | $142.18 | N/A |
| 2015 | 98,267 | 35,867,455 | 0.7% | 29,282,675 | 1.3% | 81.6 | 188.50 | 7.5% | 153.89 | 8.2% |
| 2016 | 98,320 | 35,886,800 | 0.1 | 29,884,556 | 2.1 | 83.3 | 204.89 | 8.7 | 170.62 | 10.9 |
| 2017 | 100,686 | 36,750,390 | 2.4 | 30,121,530 | 0.8 | 82.0 | 207.48 | 1.3 | 170.06 | -0.3 |
| 2018 | 103,784 | 37,881,160 | 3.1 | 31,247,450 | 3.7 | 82.5 | 209.12 | 0.8 | 172.50 | 1.4 |
| 2019E | 105,084 | 38,355,660 | 1.3 | 31,853,116 | 1.9 | 83.0 | 209.76 | 0.3 | 174.20 | 1.0 |
| 2020F | 107,860 | 39,368,718 | 2.6 | 32,427,957 | 1.8 | 82.4 | 212.21 | 1.2 | 174.80 | 0.3 |
| CAAG | 1.7% | 1.7% | | 1.9% | | | 3.2% | | 3.5% | |

Source: CBRE Hotels

Los Angeles County finished 2018 at an occupancy rate of 82.5 percent. This signifies an increase in occupied room nights of 3.7 percent last year amidst a 3.1 percent increase in annual supply. With supply increasing in 2019 at 1.3 percent, we estimate that the county's occupancy will increase to 83.0 percent as occupied room nights also grow by 1.9 percent. In 2019, we estimate ADR (Average Daily Room Rate) to increase to $209.76, which represents a 0.3 percent increase from 2018. With supply increasing in 2020 at 2.6 percent, we forecast that the county's occupancy will decrease to 82.4 percent as occupied room nights are forecast to increase by 1.8 percent. In 2020, we forecast an ADR of $212.21, an increase of 1.2 percent.

It should be noted that in 2016 many submarkets and the County as a whole were experiencing occupancy levels above their long-term averages and, in some cases, previous highs. Several of the submarkets detailed further herein were positively impacted by the Porter Ranch gas leak and achieved above average occupancy and ADR for the months of October 2015 through May 2016. Santa Clarita and San Fernando Valley saw the biggest impact due to customers being placed into hotel properties throughout the County because of the gas leak. Because of this, occupancy levels took an artificial decline in 2017 when rates returned to more normalized levels as the prior year's numbers rolled over. While we anticipate continued demand growth county wide, in certain submarkets the addition of new hotel rooms may slightly outpace the gain in occupied room nights, as many markets are currently exceeding their long-term stabilized level of occupancy.

## Additions to Supply

Based on our research and findings the table below details the new hotels that have been included in this year's edition of our Southern California Lodging Forecast located within the Los Angeles County market.

| Lodging Forecast - Additions to Supply | | | | |
|---|---|---|---|---|
| Hotel Name | City | Submarket | Room Count | Opening Date |
| Best Western Premier | North Hollywood | ESFV | 70 | July 2019 |
| AC Hotel | El Segundo | South Bay | 180 | July 2019 |
| Proper Hotel | Santa Monica | Santa Monica | 271 | July 2019 |
| Hoxton Hotel | Los Angeles | Downtown 1 | 174 | October 2019 |
| Edition Hotel | West Hollywood | West Hollywood | 190 | November 2019 |
| Wayfarer | Los Angeles | Downtown 1 | 156 | December 2019 |
| Courtyard | Monterey Park | SGV | 288 | December 2019 |
| Hotel Mariposa | Valley Village | ESFV | 94 | January 2020 |
| Hotel Clark | Los Angeles | Downtown 1 | 347 | January 2020 |
| Proper Hotel | Los Angeles | Downtown 1 | 148 | January 2020 |
| TownePlace Suites | Agoura Hills | Thousand Oaks | 96 | January 2020 |
| Courtyard | Agoura Hills | Thousand Oaks | 129 | January 2020 |
| Staybridge Suites | Long Beach | Long Beach | 125 | April 2020 |
| Thompson Hotel | Hollywood | Hollywood | 200 | May 2020 |
| Fairmont Century Plaza | Century City | WLA Deluxe | 400 | May 2020 |
| Ivy Station Hotel | Culver City | WLA 1st Class | 148 | June 2020 |
| Hilton Garden Inn | Pomona | SGV | 148 | July 2020 |
| Tribute Portfolio the Glenmark | Glendale | ESFV | 85 | July 2020 |
| Hampton Inn | North Hollywood | ESFV | 80 | July 2020 |
| Residence Inn | Glendale | ESFV | 147 | July 2020 |
| Hyatt House | Los Angeles | LAX | 129 | July 2020 |
| Hyatt Place | Los Angeles | LAX | 272 | July 2020 |
| Courtyard | Marina del Rey | Marina del Rey | 159 | July 2020 |
| Residence Inn | Marina del Rey | Marina del Rey | 129 | July 2020 |
| Pendry | West Hollywood | West Hollywood | 149 | July 2020 |
| Hollywood Unbound | Hollywood | Hollywood | 64 | August 2020 |
| Hampton Inn & Suites | Valencia | Santa Clarita Valley | 78 | September 2020 |
| Homewood Suites | Valencia | Santa Clarita Valley | 107 | September 2020 |
| Tommie Hotel | Hollywood | Hollywood | 212 | October 2020 |
| Luxen Hotel | Newhall | Santa Clarita Valley | 42 | October 2020 |
| Hampton Inn & Suites | Rosemead | SGV | 123 | November 2020 |
| Source: CBRE Hotels | | | | |

## DOWNTOWN LOS ANGELES

Downtown Los Angeles, following a model set forth in other city centers where redevelopment has been successful, has been working to improve its image and attract more residents and consumers. Some of the initial catalysts were the openings of the $375 million Staples Center in 1999 and the $274 million Walt Disney Concert Hall in 2003, which spurred new restaurants, as well as other residential and commercial developments in Downtown Los Angeles. This momentum continued at a strong pace and even to some degree through the Great Recession, due in large part to the continued success of L.A. LIVE, South Park's $3.5 billion entertainment, lodging and residential complex.

Over the past 15 years, Downtown Los Angeles has experienced an extraordinary commercial and residential renaissance. With more than 65,000 residents, 500,000+ weekday employees and more than 19 million annual non-local visitors, Downtown Los Angeles has become Southern California's economic engine. According to the Downtown Center Business Improvement District, approximately $29.1 billion has been invested in Downtown Los Angeles since 1999. As a whole, given these and other exciting developments, Downtown Los Angeles is quickly becoming a world-class destination.

### Residential Developments

Downtown Los Angeles continues to build towards a residential core, and to create a 24-hour activity zone in the central city. Throughout the downtown area, empty buildings have been, and continue to be redeveloped into residential units. A combination of new residential, market-rate units and redevelopment of existing historic buildings into loft-style units created a very attractive place to live for many people who had previously commuted to downtown from the Westside, San Fernando Valley, and Orange County. The renovation of existing historic buildings in downtown's South Park, Bank, and Historic Districts has become increasingly popular with developers who are taking advantage of the 1999 Adaptive Re-Use Ordinance for the downtown Business District of Los Angeles.

Over a period of many years, several historic office buildings became vacant upward of the first story. Storefronts were maintained on the street level and continued to be successful while the upper floors fell into disrepair. With vacant office space in abundance, combined with a shortage of residential units and a lack of activity in Los Angeles' downtown District, the Adaptive Re-Use Ordinance was born in 1999. The ordinance provided for several pockets of commercial-zoned land to be rezoned as commercial/residential or mixed-use areas, allowing the redevelopment of office buildings into rental apartments and live-work lofts. According to the Downtown Los Angeles Business Improvement District, Downtown's resident population has increased from 18,700 people in 1999 to approximately 65,000 residents in 2018.

According to the Downtown Center Business Improvement District, as of the second quarter of 2019, there are approximately 46,666 residential units that exist in Downtown Los Angeles. Market-rate units comprise approximately 59 percent of the total units. There are currently 9,420 units under construction, of which almost 60 percent are market rate. As of the most recent estimate another more than 33,192 units are proposed, 75 percent of which would be market rate units. The downtown lodging market is expected to benefit from this increase in residential development as visitors to these apartments and condominiums will seek lodging in the immediate area. The influx of residential developments will increase the hotels' abilities to capture higher food and beverage revenues from local residents and clientele.

With the Sports and Entertainment district developed and other cultural icons being constructed, Downtown Los Angeles is able to draw visitors from all across Southern California and the world. Coupled with the creation of a viable residential base, Downtown Los Angeles has become a place that can sustain its own tourism segment and continues to be a driving submarket in the region.

### The Grand

This Frank Gehry-designed development is located across the street from Downtown's Walt Disney Concert Hall. The development is expected to include shops, a movie theater, a 309-room Equinox hotel, and a 39-story tower with 113 condos as well as 323 apartments. Originally, the Grand project was planned as a multi-parcel project that would be constructed in phases with the pieces already completed, such as the Emerson apartments and Grand Park. The only pending plan for The Grand development is a parking lot located at 120 South Olive Street, which has yet to be finalized. The entire development is anticipated to be completed by 2022.

### City Market

Situated proximate to the subject site, City Market is a proposed mixed-use development in the Fashion District. City Market would spread across a multi-block roughly bordered by Ninth, San Pedro, 12th, and San Julian streets, with two additional sections off San Julian. The adaptive re-use project, City Market South, opened in Spring 2017 and features destination restaurants, creative-office businesses, fashion showrooms, and first-in-class event/banquet space. The next phases of the build-out of the 10-acre site are anticipated to take place over the course of 25 years. When complete, the HansonLAdesigned City Market would include 945 residential units, 312,112 square feet of educational/ corporate campus, 272,283 square feet of office space, 224,862 square feet of retail space, and a 210-room hotel.

### Oceanwide Plaza

China-based Oceanwide Real Estate Group has acquired a 4.6-acre site at the southeast corner 11th and Figueroa Streets stretching all the way to Flower Street, and has plans to develop it into a high-end, mixed-use complex called Fig Central. The most recent plans call for three towers atop a five-story parking and retail podium, with the two southern towers being 40 stories high, and the third northern tower being 49 stories. Plans for the northern tower include a luxury hotel branded as a Park Hyatt with 154 rooms, with 164 residential units on the floors above. The two south towers show plans for 170 residential units each. Along with the residential and hotel portions, the development is expected to have approximately 200,000 square feet of retail space fronting both Figueroa and Flower Streets, and 1,444 parking spaces with two levels below grade. The $1 billion project began demolition on the site in December of 2014, broke ground on the project in early 2015, and completed its base concrete pour in early 2016. Construction was halted in January 2019 due to a lawsuit over breach of contract and unpaid funds cited against the ownership group. As of the writing of this report, construction remains on hold, as the lawsuit is still pending. Prior to the lawsuit, the project was expected to be completed in 2020.

### Circa

On the parking lot just south of Fig Central at 1200 S. Figueroa Street, a 648-unit luxury rental building was developed by a partnership between Hankey Investment Company, Jamison Services Inc., Falcon California Investments, and Highlands Capital Inc. The $500 million project began construction in mid-2015 and includes 1.6 million square feet of usable space on a 2.7-acre site. In addition to the 648 luxury rental units within two 35-story towers, the development also includes a 10-story podium with 48,000 square feet of retail space, 1,770 parking spaces, 15,000 square feet of digital signage, and 12,500 square feet of static signage. The two-acre residential amenity deck within the podium provides residents with a pool, private cabanas, spas, a sun deck, BBQ stations with open-air dining areas, two dog parks and a dog owners lounge, fire pits and fireplaces, a fitness building with a dedicated lap pool, and a club house with multiple bars, recreation and event rooms, and skyline viewing areas. The project was completed in late 2018.

The following tables represent the historical and projected performance of the Downtown Los Angeles lodging market, which is segmented into two markets based on average rate. The first segment, Downtown 1, is made of the downtown hotels that typically have average daily rates exceeding $175.00.

**Downtown 1**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 2,117,365 | N/A | 1,601,156 | N/A | 75.6% | $192.19 | N/A | $145.33 | N/A |
| 2015 | 2,218,105 | 4.8% | 1,684,139 | 5.2% | 75.9 | 204.32 | 6.3% | 155.13 | 6.7% |
| 2016 | 2,229,055 | 0.5 | 1,761,239 | 4.6 | 79.0 | 225.25 | 10.2 | 177.97 | 14.7 |
| 2017 | 2,533,648 | 13.7 | 1,957,024 | 11.1 | 77.2 | 228.48 | 1.4 | 176.48 | -0.8 |
| 2018 | 2,904,396 | 14.6 | 2,277,914 | 16.4 | 78.4 | 229.80 | 0.6 | 180.23 | 2.1 |
| 2019E | 2,945,824 | 1.4 | 2,363,715 | 3.8 | 80.2 | 233.13 | 1.5 | 187.06 | 3.8 |
| 2020F | 3,235,725 | 9.8 | 2,564,631 | 8.5 | 79.3 | 235.46 | 1.0 | 186.63 | -0.2 |
| CAAG | 7.3% | | 8.2% | | | 3.4% | | 4.3% | |

Source: CBRE Hotels

We estimate that the Downtown 1 market will see an increase in occupied room nights of 3.8 percent in 2019 amid a 1.4 percent increase in supply, due to the openings of the 174-room Hoxton Hotel and 156-room Wayfarer Hotel. Annualized rooms from the 2018 openings of the 350-room Hotel Indigo, 167-room Freehand, and the 889-room InterContinental will also add to market supply. Average daily rate is estimated to increase 1.5 percent in 2019 to $233.13. In 2020, we forecast occupied rooms to increase by 8.5 percent amid an average daily rate increase of 1.0 percent. Supply in 2020 is forecast to experience a 9.8 percent increase, as the combined market absorbs the remaining rooms of the aforementioned additions to supply, and the opening of the 148-room Proper Hotel and the 347-room Hotel Clark.

The Downtown 2 Los Angeles hotel market is made of the smaller downtown hotels and those that have average daily rates typically not exceeding $175.00 or are located outside of the downtown core.

**Downtown 2**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 495,670 | N/A | 370,908 | N/A | 74.8% | $118.55 | N/A | $88.71 | N/A |
| 2015 | 495,670 | 0.0% | 388,139 | 4.6% | 78.3 | 136.39 | 15.0% | 106.80 | 20.4% |
| 2016 | 495,670 | 0.0 | 391,135 | 0.8 | 78.9 | 157.75 | 15.7 | 124.48 | 16.6 |
| 2017 | 495,670 | 0.0 | 403,674 | 3.2 | 81.4 | 162.77 | 3.2 | 132.56 | 6.5 |
| 2018 | 495,670 | 0.0 | 391,941 | -2.9 | 79.1 | 166.39 | 2.2 | 131.57 | -0.7 |
| 2019E | 495,670 | 0.0 | 389,028 | -0.7 | 78.5 | 166.73 | 0.2 | 130.86 | -0.5 |
| 2020F | 495,670 | 0.0 | 389,028 | 0.0 | 78.5 | 168.40 | 1.0 | 132.17 | 1.0 |
| CAAG | 0.0% | | 0.8% | | | 6.0% | | 6.9% | |

Source: CBRE Hotels

For the year ending 2019, we estimate that occupied room nights will decrease by 0.7 percent in the Downtown 2 market with supply remaining consistent and no new hotels are anticipated to open in the near future. This would create a year-end 2019 occupancy for this market of 78.5 percent. In addition, we estimate that average daily rate in the market will increase by 0.2 percent, finishing 2019 with an ADR of $166.73. Occupancy level is forecast to remain at 78.5 percent and average daily rate is expected to grow 1.0 percent to $168.40 in 2020.

## LONG BEACH

In the last decade few cities have seen as large a turnaround as 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 growing base of 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 Convention Center Arena completed a $40 million renovation in November 2013, redesigning the meeting spaces and customizing the 45,000-square foot Ballroom to accommodate all types of groups or events. The Ballroom features a floating tension grid and moveable, floor to ceiling curtain walls, and state of the art lighting, sound and video system that is controlled by an iPad.

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 and the terminal renovation that completed in December 2012 has also increased airport popularity. The Long Beach Airport Modernization project was approved in 2010 and was completed in 2012. The $45 million renovation project has completely modernized the airport, while maintaining its art-deco, vintage appeal. Offering a variety of new shopping destinations, the concourse is comprised of 74,000 square feet of new construction with a peaceful garden core with a variety of vibrant, native plant life. This project brings the overall terminal area to 77,850 square feet. Plans included a new 1,989 space parking structure which opened in July 2011, ramp improvements, a concourse with a central garden, and 11 gates to replace temporary passenger waiting trailers. The new modernized terminal was completed and opened to the public on December 12, 2012. Approximately $2 million was spent in refurbishing the terminal. The airport maintains its open feel with passengers boarding planes directly from the tarmac. Long Beach officials acted to allow nine more daily flights from the airport in 2017, bringing the total to 50. As a result, passenger traffic has increased sizably over the years, however year to date through July 2019, LGB posted a 15 percent decrease in passenger counts, at 2,034,250 in 2019 versus 2,387,915 for the prior year, as Jet Blue has reduced its number of flights.

**Long Beach**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,484,090 | N/A | 1,133,772 | N/A | 76.4% | $138.13 | N/A | $105.53 | N/A |
| 2015 | 1,484,090 | 0.0% | 1,137,247 | 0.3% | 76.6 | 152.32 | 10.3% | 116.72 | 10.6% |
| 2016 | 1,484,090 | 0.0 | 1,159,596 | 2.0 | 78.1 | 161.97 | 6.3 | 126.55 | 8.4 |
| 2017 | 1,491,420 | 0.5 | 1,186,238 | 2.3 | 79.5 | 168.40 | 4.0 | 133.94 | 5.8 |
| 2018 | 1,553,805 | 4.2 | 1,239,057 | 4.5 | 79.7 | 167.40 | -0.6 | 133.49 | -0.3 |
| 2019E | 1,553,805 | 0.0 | 1,215,319 | -1.9 | 78.2 | 176.23 | 5.3 | 137.84 | 3.3 |
| 2020F | 1,588,024 | 2.2 | 1,233,548 | 1.5 | 77.7 | 180.64 | 2.5 | 140.32 | 1.8 |
| CAAG | 1.1% | | 1.4% | | | 4.6% | | 4.9% | |

Source: CBRE Hotels

We estimate that occupied rooms will decrease in the Long Beach market by 1.9 percent in 2019, as some of the largest hotels in the market underwent comprehensive renovations. This results in estimated market occupancy of 78.2 percent. We estimate a 5.3 percent increase in ADR to $176.23 in 2019, as the market occupancy levels dropped for the first time in the observed period. 2020 is forecast to have a 2.2 percent increase in supply with the opening of the 125-room Staybridge Suites. and occupied rooms demand is forecast to increase by 1.5 percent. We forecast an increase in average daily rate of 2.5 percent to $180.64 in 2020.

## SOUTH BAY

Comprised of a large number of beach and industrial communities south of Los Angeles International Airport, the South Bay is typically known to be industrial due to its location near the Ports of Los Angeles and Long Beach. The Port of Los Angeles, located in San Pedro, represents one of the busiest ports in the United States and generates a significant amount of commercial demand, as well some transient demand from the daily departures and arrivals of cruise lines.

In addition to a large industrial base, the South Bay is home to the Dignity Health Sports Park. Located in Carson, the former StubHub Center continues to draw major events and concerts, including sports teams, X-Games, and headliners. The center contains a 27,000-seat stadium that is home to the Los Angeles Galaxy Major League Soccer team. This state-of-the-art stadium also features an 8,000-seat tennis stadium and a number of other training facilities for track and field, baseball, softball, crossfit, and cycling. In addition, the owners of this center also host a significant number of concerts at this venue when it is not in use for athletic events. More recently the Dignity Health Sports Park is also now the temporary home of the NFL's Los Angeles Chargers, through the end of the 2019 season. To accommodate the Chargers' use of the stadium, more than $10 million in upgrades were made to improve the visitor experience at Dignity Health Sports Park.

South Bay
Historical Market Performance of the Competitive Supply

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 2,149,850 | N/A | 1,791,878 | N/A | 83.3% | $150.87 | N/A | $125.75 | N/A |
| 2015 | 2,233,070 | 3.9% | 1,877,864 | 4.8% | 84.1 | 162.07 | 7.4% | 136.29 | 8.4% |
| 2016 | 2,236,355 | 0.1 | 1,902,932 | 1.3 | 85.1 | 172.80 | 6.6 | 147.04 | 7.9 |
| 2017 | 2,297,553 | 2.7 | 1,900,431 | -0.1 | 82.7 | 176.14 | 1.9 | 145.70 | -0.9 |
| 2018 | 2,354,980 | 2.5 | 1,923,414 | 1.2 | 81.7 | 176.43 | 0.2 | 144.10 | -1.1 |
| 2019E | 2,483,825 | 5.5 | 2,078,527 | 8.1 | 83.7 | 175.19 | -0.7 | 146.61 | 1.7 |
| 2020F | 2,516,675 | 1.3 | 2,099,312 | 1.0 | 83.4 | 176.95 | 1.0 | 147.60 | 0.7 |
| CAAG | 2.7% | | 2.7% | | | 2.7% | | 2.7% | |

Source: CBRE Hotels

In 2019, we estimate that occupied rooms will increase 8.1 percent to an occupancy of 83.7 percent, with a 5.5 percent change in supply due to the opening of the 180-room AC Hotel El Segundo and annualized rooms from the 221-room Courtyard Hawthorne and the 133-room TownePlace Suites Hawthorne that opened in 2018. Average daily rate is estimated to decrease 0.7 percent to $175.19 for 2019, as hotels compete with new supply. In 2020, we expect total occupied rooms to grow by 1.0 percent, resulting in 83.4 percent occupancy, and 1.0 percent growth in average daily rate to $176.95. The supply increase in 2020 accounts for the remaining rooms of the AC Hotel El Segundo that have been annualized into the market.

## LOS ANGELES INTERNATIONAL AIRPORT

The Los Angeles International Airport market has typically been one of the best performing markets in Los Angeles County from an occupancy standpoint. This market has historically been resilient in maintaining occupancy in the face of a recession and slowdown in travel. This is partially attributed to this being an airport market with captive streams of demand such as airline crews and distressed passengers. The airport market also serves SMERF, corporate and association group demand. However more recently commercial and leisure travel within the market is increasing as the level of room product increases.

| Los Angeles International Airport<br>Historical Market Performance of the Competitive Supply | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 3,996,568 | N/A | 3,443,530 | N/A | 86.2% | $117.38 | N/A | $101.14 | N/A |
| 2015 | 3,830,310 | -4.2% | 3,341,595 | -3.0% | 87.2 | 134.73 | 14.8% | 117.54 | 16.2% |
| 2016 | 3,943,643 | 3.0 | 3,464,543 | 3.7 | 87.9 | 147.54 | 9.5 | 129.61 | 10.3 |
| 2017 | 4,178,277 | 5.9 | 3,593,894 | 3.7 | 86.0 | 150.97 | 2.3 | 129.86 | 0.2 |
| 2018 | 4,292,765 | 2.7 | 3,798,412 | 5.7 | 88.5 | 149.51 | -1.0 | 132.29 | 1.9 |
| 2019E | 4,292,765 | 0.0 | 3,839,537 | 1.1 | 89.4 | 147.90 | -1.1 | 132.29 | 0.0 |
| 2020F | 4,365,948 | 1.7 | 3,839,537 | 0.0 | 87.9 | 149.38 | 1.0 | 131.37 | -0.7 |
| CAAG | 1.5% | | 1.8% | | | 4.1% | | 4.5% | |
| Source: CBRE Hotels | | | | | | | | | |

In 2019, we estimate that demand, as measured by occupied rooms will increase by 1.1 percent with no change to supply. This results in estimated market occupancy of 89.4 percent. Average daily rate is estimated to decrease by 1.1 percent, reflecting an ADR of $147.90 for 2019. We forecast that occupied rooms will remain flat in 2020, resulting in estimated market occupancy of 87.9 percent. For 2020, we forecast that average daily rates will increase by 1.0 percent. Supply will increase 1.7 percent in 2020 due to the 129-room Hyatt House LAX and the 272-room Hyatt Place LAX.

## SANTA MONICA

Santa Monica presents a number of luxury and mid-level, full-service ocean front properties. Its waterfront location and vibrant atmosphere assisted in making this market one of the strongest in the county. The stability of the market can be attributed to the presence of a stable commercial segment combined with high end group and leisure business. Local businesses consist of entertainment, financial services, and creative arts businesses that are based in Santa Monica, as well as new incoming tech companies settling into Silicon Beach. Many of the hotels in this market are located within walking distance of the Pacific Ocean, one of the most important demand generators in Southern California. The hotels and resorts that line the beaches provide accommodations for travelers from virtually every price point.

In recent years "Silicon Beach," a burgeoning high-technology hub comprising the coastal areas stretching from Santa Monica through the South Bay, including Playa Vista, Santa Monica, Venice and Marina del Rey, has begun to emerge. These coastal communities have attracted some of the most innovative companies in the country, including Facebook (Playa Vista), Yahoo! (Santa Monica), YouTube (Playa Vista), Microsoft (Playa Vista), Electronic Arts (Playa Vista), high-tech manufacturer Equipois (Playa Vista) and search engine giant Google (Venice and Playa Vista). In addition, YouTube recently converted a 41,000 square-foot aircraft hangar into a production facility in Playa Vista for its Los Angeles Next Lab outpost. Snapchat recently signed a ten-year lease for a 47,000-square-foot expansion of their Venice-based headquarters and signed a multi-million-dollar lease for two buildings and eight hangars at the Santa Monica Airport.

These technology- and entertainment-based companies are expected to fuel the current expansion phase as growth in both sectors is accelerating. Companies, such as Core Digital Media, Riot Games, IMAX, and Twitter are expanding their presence in Silicon Beach, which is already home to more than 500 tech startups. Tech companies are staffing up, and the outlook for job growth is strong in Silicon Beach. Continued growth of technology clusters is expected to attract other Internet companies and related enterprises, such as entertainment, advertising and digital media firms.

The LA Metro Expo Line extension to Santa Monica opened on May 20, 2016. Ridership has outpaced expectations. Passenger numbers have climbed steadily since the second phase opened. So far this year, Expo has averaged more than 1.5 million passengers per month. Only the Red Line, which opened in 1993, carries more people. Metro Rail passengers are able to travel between Downtown Los Angeles and Santa Monica directly and it is serving to boost visitation between the two submarkets.

**Santa Monica**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,035,870 | N/A | 888,620 | N/A | 85.8% | $335.65 | N/A | $287.94 | N/A |
| 2015 | 1,036,600 | 0.1% | 870,215 | -2.1% | 83.9 | 354.61 | 5.6% | 297.69 | 3.4% |
| 2016 | 1,036,600 | 0.0 | 883,963 | 1.6 | 85.3 | 372.39 | 5.0 | 317.55 | 6.7 |
| 2017 | 1,117,113 | 7.8 | 950,332 | 7.5 | 85.1 | 369.57 | -0.8 | 314.40 | -1.0 |
| 2018 | 1,134,603 | 1.6 | 978,718 | 3.0 | 86.3 | 379.76 | 2.8 | 327.58 | 4.2 |
| 2019E | 1,184,060 | 4.4 | 1,003,181 | 2.5 | 84.7 | 378.42 | -0.4 | 320.61 | -2.1 |
| 2020F | 1,237,168 | 4.5 | 1,038,292 | 3.5 | 83.9 | 385.99 | 2.0 | 323.94 | 1.0 |
| CAAG | 4.5% | | 4.0% | | | 3.6% | | 3.0% | |

Source: CBRE Hotels

We estimate that the Santa Monica hotel market will see an increase in occupied rooms of 2.5 percent and an increase in supply of 4.4 percent in 2019 reflecting the opening of the 271-room Proper Hotel, as well as the renovation of the Hotel Oceana. This will result in market occupancy of 84.7 percent. We estimate that average daily rate will decrease by 0.4 percent to $378.42. We forecast that growth in occupied rooms will increase by 3.5 percent and supply will increase by 4.5 percent in 2020 with the annualized rooms of the Proper Hotel, amid a 2.0 percent increase in ADR.

## MARINA DEL REY

South of Santa Monica lies the Marina del Rey area. While this market lies proximate to the ocean, most of the hotels in the competitive market are not the ocean front hotels that can be found in the Santa Monica market. This market serves as a lower-priced alternative for Santa Monica and other West Los Angeles hotel markets. However, properties such as the Ritz Carlton, Marriott, and independent Marina del Rey hotels have completed extensive capital programs in order to compete with the full-service and luxury properties in the surrounding markets.

Located to the south of Marina del Rey is the Playa Vista area. This area was once used by Howard Hughes to test aircraft. Now with additions like the Runway Playa Vista, a mixed-use development built in 2015, it is the new and upcoming residential neighborhood and technology hub. In addition to numerous parks and recreational amenities, this residential development also includes Concert Park and the Shops at Concert Park, the Playa Vista Branch of the Los Angeles Public Library, the Center Pointe, Los Angeles Fire Department station number 67, and the Los Angeles Clippers practice facility. Playa Vista is home to tech giants like Facebook, Snapchat, YouTube, and Microsoft.

**Marina del Rey**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 485,085 | N/A | 383,068 | N/A | 79.0% | $223.15 | N/A | $176.22 | N/A |
| 2015 | 547,135 | 12.8% | 439,246 | 14.7% | 80.3 | 236.04 | 5.8% | 189.50 | 7.5% |
| 2016 | 547,135 | 0.0 | 457,040 | 4.1 | 83.5 | 256.65 | 8.7 | 214.39 | 13.1 |
| 2017 | 547,135 | 0.0 | 466,630 | 2.1 | 85.3 | 256.20 | -0.2 | 218.51 | 1.9 |
| 2018 | 547,135 | 0.0 | 467,757 | 0.2 | 85.5 | 257.72 | 0.6 | 220.33 | 0.8 |
| 2019E | 547,135 | 0.0 | 462,973 | -1.0 | 84.6 | 257.96 | 0.1 | 218.28 | -0.9 |
| 2020F | 599,695 | 9.6 | 497,696 | 7.5 | 83.0 | 261.83 | 1.5 | 217.30 | -0.5 |
| CAAG | 3.6% | | 4.5% | | | 2.7% | | 3.6% | |

Source: CBRE Hotels

In 2019, there are no changes to supply. For the current year we are forecasting a 1.0 percent decline in occupied rooms amid a 0.1 percent increase in average daily rate. We estimate market occupancy will drop to 84.6 percent. The 288-room, dual-branded Residence Inn/Courtyard Marriott is forecast to add to supply in July 2020, increasing the available supply of hotel rooms in the local market by 9.6 percent. As such, in 2020, we forecast occupied rooms to increase 7.5 percent and ADR to increase 1.5 percent.

## BEVERLY HILLS/WEST LOS ANGELES

The Beverly Hills and West Los Angeles hotel markets have historically been positioned among the highest rated markets in the United States. The Beverly Hills and West Los Angeles hotel markets include hotels in and around the City of Beverly Hills, as well as areas such as: Century City, Hollywood, Westwood, West Hollywood, and other neighborhoods; it does not include Santa Monica and Marina del Rey. The following table presents the historical and projected market performance for hotels within the city limits of Beverly Hills only.

**Beverly Hills**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 757,740 | N/A | 598,957 | N/A | 79.0% | $471.86 | N/A | $372.98 | N/A |
| 2015 | 757,740 | 0.0% | 575,791 | -3.9% | 76.0 | 499.92 | 5.9% | 379.88 | 1.8% |
| 2016 | 757,740 | 0.0 | 600,247 | 4.2 | 79.2 | 531.03 | 6.2 | 420.66 | 10.7 |
| 2017 | 793,936 | 4.8 | 637,988 | 6.3 | 80.4 | 539.68 | 1.6 | 433.67 | 3.1 |
| 2018 | 819,790 | 3.3 | 661,867 | 3.7 | 80.7 | 554.49 | 2.7 | 447.68 | 3.2 |
| 2019E | 819,790 | 0.0 | 643,168 | -2.8 | 78.5 | 561.34 | 1.2 | 440.40 | -1.6 |
| 2020F | 819,790 | 0.0 | 646,384 | 0.5 | 78.8 | 566.95 | 1.0 | 447.03 | 1.5 |
| CAAG | 1.3% | | 1.3% | | | 3.1% | | 3.1% | |

Source: CBRE Hotels

In Beverly Hills, we estimate that occupied rooms will decrease 2.8 percent in 2019, and thereby resulting in market occupancy decreasing to 78.5 percent. ADR is forecast to increase 1.2 percent. We forecast a 1.0 percent growth in average daily rate in 2020. Occupied rooms are forecast to increase by an additional 0.5 percent in 2020, resulting in market occupancy of 78.8 percent amidst no change in the annual supply.

The following table shows the performance of the combined Beverly Hills and West Los Angeles hotel markets. This discussion is then followed by an analysis of the three primary segments that make up the West Los Angeles hotel market: Luxury, Deluxe, and First Class. The Luxury segment is defined as those hotels that have average daily rates in excess of $450 on a stabilized basis. The Deluxe market contains West Los Angeles hotels that have average daily rates generally between $275 and $450 on a stabilized basis. The First-Class market is comprised of hotels that have average daily rates below $275 on a stabilized basis.

**Beverly Hills/West Los Angeles**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 2,825,465 | N/A | 2,300,804 | N/A | 81.4% | $329.10 | N/A | $267.99 | N/A |
| 2015 | 2,879,120 | 1.9% | 2,306,971 | 0.3% | 80.1 | 347.22 | 5.5% | 278.22 | 3.8% |
| 2016 | 2,662,553 | -7.5 | 2,210,150 | -4.2 | 83.0 | 377.98 | 8.9 | 313.76 | 12.8 |
| 2017 | 2,701,852 | 1.5 | 2,224,889 | 0.7 | 82.3 | 382.18 | 1.1 | 314.71 | 0.3 |
| 2018 | 2,826,925 | 4.6 | 2,317,842 | 4.2 | 82.0 | 389.91 | 2.0 | 319.69 | 1.6 |
| 2019E | 2,895,910 | 2.4 | 2,353,927 | 1.6 | 81.3 | 384.25 | -1.5 | 312.34 | -2.3 |
| 2020F | 3,025,059 | 4.5 | 2,446,153 | 3.9 | 80.9 | 387.59 | 0.9 | 313.41 | 0.3 |
| CAAG | 1.1% | | 1.0% | | | 2.8% | | 2.6% | |

Source: CBRE Hotels

The combined Beverly Hills/West Los Angeles hotel market is estimated to experience an increase in occupied rooms of 1.6 percent in 2019 amidst an increased change in supply of 2.4 percent, due to the opening of the Pali Hotel Culver City and the AC Hotel Beverly Hills in January. Market occupancy in 2019 is estimated to decrease to 81.3 percent with average daily rate forecast to decrease by 1.5 percent to $384.25. We forecast a growth in occupied room nights of 3.9 percent to mirror an amidst an increase in supply of 4.5 percent, resulting in market occupancy declining to 80.9 percent. Average daily rate in 2020 is forecast to grow 0.9 percent, which results in a RevPAR increase of 0.3 percent.

**West Los Angeles Luxury**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 573,050 | N/A | 445,863 | N/A | 77.8% | $646.30 | N/A | $502.86 | N/A |
| 2015 | 573,050 | 0.0% | 429,362 | -3.7% | 74.9 | 688.39 | 6.5% | 515.78 | 2.6% |
| 2016 | 573,050 | 0.0 | 453,074 | 5.5 | 79.1 | 719.82 | 4.6 | 569.12 | 10.3 |
| 2017 | 609,246 | 6.3 | 474,060 | 4.6 | 77.8 | 734.49 | 2.0 | 571.51 | 0.4 |
| 2018 | 635,100 | 4.2 | 508,063 | 7.2 | 80.0 | 751.51 | 2.3 | 601.19 | 5.2 |
| 2019E | 635,100 | 0.0 | 491,108 | -3.3 | 77.3 | 761.39 | 1.3 | 588.77 | -2.1 |
| 2020F | 635,100 | 0.0 | 493,563 | 0.5 | 77.7 | 776.62 | 2.0 | 603.54 | 2.5 |
| CAAG | 1.7% | | 1.7% | | | 3.1% | | 3.1% | |

Source: CBRE Hotels

The West Los Angeles Luxury Segment is projected to have a decrease in occupied rooms of 3.3 percent, with no change in supply thereby resulting in a decline in occupancy to 77.3 percent for year-end 2019. This may be due to some of the higher end properties in this market pressing for higher rate at the expense of occupancy. Average daily rate is expected to grow 1.3 percent, finishing the year at $761.39. In 2020, we forecast demand to increase by 0.5 percent from the year prior, equating to a market occupancy of 77.7 percent, with 2.0 percent growth in average daily rate.

| West Los Angeles Deluxe<br>Historical Market Performance of the Competitive Supply | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 1,451,240 | N/A | 1,185,988 | N/A | 81.7% | $280.17 | N/A | $228.96 | N/A |
| 2015 | 1,504,895 | 3.7% | 1,224,898 | 3.3% | 81.4 | 294.69 | 5.2% | 239.86 | 4.8% |
| 2016 | 1,287,598 | -14.4 | 1,080,572 | -11.8 | 83.9 | 321.17 | 9.0 | 269.53 | 12.4 |
| 2017 | 1,290,701 | 0.2 | 1,074,177 | -0.6 | 83.2 | 320.44 | -0.2 | 266.68 | -1.1 |
| 2018 | 1,389,920 | 7.7 | 1,130,617 | 5.3 | 81.3 | 321.86 | 0.4 | 261.82 | -1.8 |
| 2019E | 1,389,920 | 0.0 | 1,129,538 | -0.1 | 81.3 | 318.94 | -0.9 | 259.19 | -1.0 |
| 2020F | 1,487,253 | 7.0 | 1,197,310 | 6.0 | 80.5 | 323.73 | 1.5 | 260.62 | 0.5 |
| CAAG | 0.4% | | 0.2% | | | 2.4% | | 2.2% | |
| Source: CBRE Hotel | | | | | | | | | |

In the past ten years, several West Los Angeles Deluxe properties have undergone major renovations and repositioning efforts, such as the renovation of the Mondrian, Wyndham Bel Age into the London West Hollywood, and Hyatt West Hollywood into the Andaz, as well as the closing of Le Meridien and subsequent re-opening as the first SLS-branded hotel by Starwood. Additionally, The Jeremy West Hollywood (what was originally going to be the James Hotel, before it was purchased shortly prior to opening by Starwood Capital for $283 million in July 2017) opened in August of 2017 and was recently transformed into the 1 West Hollywood, joining sister hotels in Manhattan, Brooklyn, and Miami Beach.

With the closing of the Hyatt Century Plaza and a reduction in supply of 14.4 percent in March 2016 the market reached an all-time high occupancy of 83.9 percent. Occupied rooms are estimated to decrease by 0.1 percent amidst no change in supply, as the Jeremy and Kimpton La Peer hotels continue to ramp up. Average daily rate is expected to decrease 0.9 percent in 2019 to $318.94 resulting in a RevPAR decrease of 1.0 percent. There is 7.0 percent increase forecast in 2020 with the May reopening of the 400-room Fairmont Century Plaza. Demand is forecast to increase by 6.0 percent, resulting in market occupancy of 80.5 percent. In 2020, we forecast ADR to grow by 1.5 percent ending the year at $323.73.

| West Los Angeles First Class<br>Historical Market Performance of the Competitive Supply | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 801,175 | N/A | 668,953 | N/A | 83.5% | $204.42 | N/A | $170.69 | N/A |
| 2015 | 801,175 | 0.0% | 652,711 | -2.4% | 81.5 | 221.39 | 8.3% | 180.37 | 5.7% |
| 2016 | 801,905 | 0.1 | 676,504 | 3.6 | 84.4 | 239.80 | 8.3 | 202.30 | 12.2 |
| 2017 | 801,905 | 0.0 | 676,653 | 0.0 | 84.4 | 233.37 | -2.7 | 196.92 | -2.7 |
| 2018 | 801,905 | 0.0 | 679,162 | 0.4 | 84.7 | 232.68 | -0.3 | 197.07 | 0.1 |
| 2019E | 870,890 | 8.6 | 733,281 | 8.0 | 84.2 | 232.27 | -0.2 | 195.57 | -0.8 |
| 2020F | 902,706 | 3.7 | 755,280 | 3.0 | 83.7 | 234.60 | 1.0 | 196.28 | 0.4 |
| CAAG | 2.0% | | 2.0% | | | 2.3% | | 2.4% | |
| Source: CBRE Hotels | | | | | | | | | |

The West Los Angeles First Class hotel market has maintained occupancy percentages in the low- to mid-80's during the five-year period and is projected to close 2019 with market occupancy of 84.2 percent. Average daily rate is estimated to decrease 0.2 percent in 2019, with a rate of $232.27. In 2020, we forecast that occupied rooms will increase 3.0 percent, amidst a 3.7 percent increase in supply with the opening of the 148-room Ivy Station Hotel. Average daily rate is forecast to grow 1.0 percent to $234.60 in 2020.

## HOLLYWOOD

Hollywood has been one of the most visible hotel and retail markets in the recent years. The opening of the Renaissance Hollywood Hotel (now Loews Hollywood Hotel) in late 2001, the repositioning and renovation of the Hollywood Roosevelt, and the openings of the W Hollywood Hotel and Residences and Dream Hotel have redefined the quality level of this market. Many other area attractions continue to assist in making Hollywood the place to stay for visitors to the area as Hollywood is most famous for its movie stars and movie theaters. Recent and future additions to this vibrant community have included, and will continue to include cutting edge restaurants, supper clubs and nightclubs, which are anticipated to cement Hollywood's place among the top entertainment destinations in the country. Considering the number of changes being made to restore the glitter of Hollywood, the overall long-term outlook for the neighborhood is good. The commitments of the Hollywood Business Improvement District and the Hollywood Chamber of Commerce are to create a safer and more attractive neighborhood and a number of significant renovations and new projects will allow Hollywood to continue to evolve as a tourism destination.

Hollywood is in a situation where ongoing gentrification presents a great opportunity. The neighborhood is very accessible and is still underdeveloped. As such, it is one of a handful of U.S. markets prime for development. Part of Hollywood's attraction to developers is the lower construction costs compared to that of other cities such as Santa Monica, as well as the value offered by land in the neighborhood. The combination of governmental and community support for promoting mixed-use, high-density development has created the impetus for nearly $3 billion in investments in development projects currently proposed and under construction, approximately $2 billion of which is located within a four-block radius of Sunset and Hollywood Boulevard.

The Hollywood submarket is experiencing revitalization in the office sector. A variety of creative businesses have either chosen to relocate to Hollywood or are expanding there, like Viacom, Netflix, Buzzfeed. Hollywood remained one of the most active districts in the Los Angeles Basin, with more than 836,000 square feet under construction as of Q2 2019.

**Hollywood**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 622,690 | N/A | 509,750 | N/A | 81.9% | $232.89 | N/A | $190.65 | N/A |
| 2015 | 635,465 | 2.1% | 513,293 | 0.7% | 80.8 | 240.47 | 3.3% | 194.24 | 1.9% |
| 2016 | 648,240 | 2.0 | 531,343 | 3.5 | 82.0 | 255.03 | 6.1 | 209.04 | 7.6 |
| 2017 | 718,320 | 10.8 | 568,809 | 7.1 | 79.2 | 253.86 | -0.5 | 201.02 | -3.8 |
| 2018 | 812,125 | 13.1 | 662,918 | 16.5 | 81.6 | 252.74 | -0.4 | 206.30 | 2.6 |
| 2019E | 812,125 | 0.0 | 664,420 | 0.2 | 81.8 | 250.24 | -1.0 | 204.73 | -0.8 |
| 2020F | 883,787 | 8.8 | 707,608 | 6.5 | 80.1 | 252.74 | 1.0 | 202.36 | -1.2 |
| CAAG | 6.0% | | 5.6% | 6.5 | | 1.4% | | 1.0% | |

Source: CBRE Hotels

We estimate that the market will see an increase in occupied room nights in 2019 of 0.2 percent, outpacing supply, with market occupancy increasing to 81.8 percent. Supply in the Hollywood submarket is expected to remain flat for the remainder of the year. Average daily rate is expected to fall to $250.24 in 2019, a decrease of 1.0 percent. Amidst an increase in supply of 8.8 percent with the openings of the 117-room Thompson Hotel, the 212-room Tommie Hotel, and the 64-room Hollywood Unbound Collection by Hyatt hotel, we forecast occupied room nights to increase 6.5 percent and average daily rate to increase 1.0 percent in 2020.

## WEST HOLLYWOOD

West Hollywood and the Sunset Strip have always been associated with the creative industries and tourism and an exciting night life. From its beginnings as a decadent night club scene to the present where the hippest come to play, West Hollywood features unique properties such as the Sunset Marquis, Mondrian, London, and Andaz which continue to reinvent themselves.

| West Hollywood<br>Historical Market Performance of the Competitive Supply | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 678,900 | N/A | 571,015 | N/A | 84.1% | $263.52 | N/A | $221.65 | N/A |
| 2015 | 686,200 | 1.1% | 570,728 | -0.1% | 83.2 | 282.68 | 7.3% | 235.11 | 6.1% |
| 2016 | 686,200 | 0.0 | 592,319 | 3.8 | 86.3 | 295.00 | 4.4 | 254.64 | 8.3 |
| 2017 | 729,696 | 6.3 | 610,595 | 3.1 | 83.7 | 294.44 | -0.2 | 246.38 | -3.2 |
| 2018 | 828,915 | 13.6 | 672,273 | 10.1 | 81.1 | 299.48 | 1.7 | 242.89 | -1.4 |
| 2019E | 840,473 | 1.4 | 707,787 | 5.3 | 84.2 | 301.88 | 0.8 | 254.22 | 4.7 |
| 2020F | 925,458 | 10.1 | 767,949 | 8.5 | 83.0 | 309.42 | 2.5 | 256.76 | 1.0 |
| CAAG | 5.3% | | 5.1% | | | 2.7% | | 2.5% | |
| Source: CBRE Hotel | | | | | | | | | |

We estimate that the West Hollywood market will experience an increase in average daily rate of 0.8 percent in 2019, with increased competition from the Jeremy Hotel and Kimpton La Peer, as well as the November opening of the 190-room Edition Hotel. Therefore, we estimate that supply will increase 1.4 percent in 2019, while demand will increase at a rate of 5.3 percent. We forecast an 8.5 percent increase in occupied rooms in 2020. Average daily rate is forecasted to grow 2.5 percent in 2020 to $309.42. Annual supply is forecasted to increase by 10.1 percent in 2020 as the 149-room Pendry West Hollywood is anticipated to enter the market in July.

## PASADENA/ARCADIA/MONROVIA

Best known for the annual Rose Bowl and Tournament of Roses Parade, the City of Pasadena was incorporated in 1886, making it one of the oldest suburbs of Los Angeles. Located ten miles northeast of downtown Los Angeles, the City of Pasadena is bordered by neighboring cities including La Canada Flintridge, South Pasadena, Arcadia, and Sierra Madre located to the east and south, Glendale and Los Angeles located to the west, and unincorporated Altadena located to the north.

The City of Pasadena encompasses more than 23 square miles. As an independent city, and part of the San Gabriel Valley, Pasadena is known for its historic architecture and many restored craftsman-style homes. Since 1980, the City of Pasadena has undergone an aggressive development program in an effort to attract major corporations. These efforts have been successful as industry leaders such as Jacobs Engineering, The Parsons Company, Avery Dennison, and the J.G. Boswell Company have made Pasadena their home. The $162 million renovation and expansion of the convention center, which was completed in February 2009, and continued investment of $1.9 million on maintenance, has sparked the interest of developers to add more hotels to the area. Chinese e-commerce giant Alibaba Group has chosen Pasadena for the first U.S. branch of its movie licensing and distribution arm, Alibaba Pictures. Alibaba Group, one of the most valuable tech companies in the world, signed a top floor 22,000-square foot, 10-year lease in the newly constructed 155,000-square foot Playhouse Plaza.

**Pasadena**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 612,470 | N/A | 513,489 | N/A | 83.8% | $179.76 | N/A | $150.71 | N/A |
| 2015 | 650,430 | 6.2% | 551,024 | 7.3% | 84.7 | 183.65 | 2.2% | 155.58 | 3.2% |
| 2016 | 676,710 | 4.0 | 563,879 | 2.3 | 83.3 | 199.80 | 8.8 | 166.49 | 7.0 |
| 2017 | 702,990 | 3.9 | 529,369 | -6.1 | 75.3 | 210.13 | 5.2 | 158.23 | -5.0 |
| 2018 | 708,739 | 0.8 | 575,602 | 8.7 | 81.2 | 204.08 | -2.9 | 165.74 | 4.7 |
| 2019E | 771,975 | 8.9 | 609,966 | 6.0 | 79.0 | 196.99 | -3.5 | 155.65 | -6.1 |
| 2020F | 771,975 | 0.0 | 619,116 | 1.5 | 80.2 | 198.96 | 1.0 | 159.57 | 2.5 |
| CAAG | 3.9% | | 3.2% | | | 1.7% | | 1.0% | |

Source: CBRE Hotels

Annual supply is projected to increase 8.9 percent in 2019 with the annualized rooms from the Hyatt Place Pasadena entering the market. We estimate that occupied room nights will increase in this market by 6.0 percent in 2019, with market occupancy estimated at 79.0 percent. It should be noted that the aggregate market occupancy temporarily dipped below historical levels in 2017 primarily due to significant renovations being completed at the Hilton and Sheraton, rather than actual decreases in the level of group and transient business. Average daily rate is estimated to decrease by 3.5 percent to $196.99 in 2019, which will lead to a 6.1 percent decrease in RevPAR as hotels compete for new business. ADR is forecast to grow 1.0 percent in 2020, while occupied room nights are forecast to grow by 1.5 percent.

The Cities of Arcadia and Monrovia are located just east of Pasadena and are proximate to Interstate 210 (Foothill Freeway). Commercial enterprises, as well as the expanded Santa Anita Mall and Santa Anita Race Track, are the main demand generators for the City of Arcadia. With the completion of the Gold Line, people can travel directly from Los Angeles to Pasadena, Arcadia, Monrovia, Duarte, Irwindale, and Azusa which have been able to increase their sphere of influence, attracting a broader range of travelers from surrounding areas.

**Arcadia/Monrovia**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 355,875 | N/A | 301,466 | N/A | 84.7% | $137.44 | N/A | $116.43 | N/A |
| 2015 | 355,875 | 0.0% | 298,881 | -0.9% | 84.0 | 143.59 | 4.5% | 120.59 | 3.6% |
| 2016 | 355,875 | 0.0 | 300,845 | 0.7 | 84.5 | 154.06 | 7.3 | 130.24 | 8.0 |
| 2017 | 355,875 | 0.0 | 282,060 | -6.2 | 79.3 | 158.30 | 2.8 | 125.47 | -3.7 |
| 2018 | 355,875 | 0.0 | 286,556 | 1.6 | 80.5 | 153.01 | -3.3 | 123.21 | -1.8 |
| 2019E | 355,875 | 0.0 | 288,014 | 0.5 | 80.9 | 153.86 | 0.6 | 124.52 | 1.1 |
| 2020F | 355,875 | 0.0 | 288,014 | 0.0 | 80.9 | 156.17 | 1.5 | 126.39 | 1.5 |
| CAAG | 0.0% | | -0.8% | | | 2.2% | | 1.4% | |

Source: CBRE Hotels

We estimate an increase of 0.5 percent in occupied rooms for 2019, concurrent with a 0.6 percent increase in average daily rate to $153.86. It should be noted that the decrease in 2018 was largely due to the repositioning of some hotels in the market, as well as the addition of new hotels in the surrounding markets. RevPAR will increase 1.1 percent for the Arcadia/Monrovia market in 2019. For 2020, occupied rooms are forecast to stay flat with occupancy of 80.9 percent. Additionally, we forecast average daily rate to increase by 1.5 percent in 2020, as the market achieves a stabilized level of occupancy. We are not aware of any additions to market supply for 2019 or 2020.

## SAN FERNANDO VALLEY

The San Fernando Valley, located to the north and east of downtown Los Angeles, contains the production centers for a large number of television, film, and music firms. The eastern portion of the Valley is a mix of traditional office space commingled with entertainment giants like Walt Disney and DreamWorks. The western portion of the Valley is more heavily dependent on traditional sources of commercial and leisure demand. While it may lack some of the glamour of its eastern counterpart, this market is still a powerful force in the Los Angeles economy.

The Wizarding World of Harry Potter opened in April 2016 and features a hyper realistic 3D ride "Harry Potter and the Forbidden Journey", outdoor ride "Flight of the Hippogriff", and various dining and retail operations. The first Wizarding World of Harry Potter opened in Orlando in 2010 and was successful in boosting park attendance. In July 2019, the original *Jurassic Park: The Ride* was refurbished and reopened as *Jurassic World: The Ride* based on the eponymous movies from 2015 and 2018 of the popular *Jurassic Park* film franchise. The Universal City amusement park experienced an estimated 1.0 percent increase in attendance in 2018 to more than 9.1 million visitors.

San Fernando Valley
Historical Market Performance of the Competitive Supply

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 2,065,535 | N/A | 1,654,906 | N/A | 80.1% | $149.30 | N/A | $119.62 | N/A |
| 2015 | 2,093,975 | 1.4% | 1,718,390 | 3.8% | 82.1 | 160.69 | 7.6% | 131.86 | 10.2% |
| 2016 | 2,157,880 | 3.1 | 1,781,865 | 3.7 | 82.6 | 189.91 | 18.2 | 156.82 | 18.9 |
| 2017 | 2,238,180 | 3.7 | 1,865,616 | 4.7 | 83.4 | 179.97 | -5.2 | 150.01 | -4.3 |
| 2018 | 2,265,403 | 1.2 | 1,893,995 | 1.5 | 83.6 | 180.68 | 0.4 | 151.06 | 0.7 |
| 2019E | 2,316,290 | 2.2 | 1,954,027 | 3.2 | 84.4 | 182.13 | 0.8 | 153.64 | 1.7 |
| 2020F | 2,438,930 | 5.3 | 2,037,810 | 4.3 | 83.6 | 183.60 | 0.8 | 153.40 | -0.2 |
| CAAG | 2.8% | | 3.5% | | | 3.5% | | 4.2% | |

Source: CBRE Hotels

This year we estimate that the San Fernando Valley hotel market should experience an increase in occupied rooms of 3.2 percent, amidst an increase of 2.2 percent in supply with the opening of the 70-room Best Western Premier North Hollywood and annualized rooms from the 179-room Hyatt Place Glendale. The market ADR is estimated to end 2019 with a 0.8 percent increase to $182.13 The 2017 decline was largely due to unfavorable comparisons to 2016 figures which included the Porter Ranch gas leak as displaced residents were reimbursed for hotel stays at the rate of $250 or more per night. We forecast occupied rooms to increase 4.3 percent and the average daily rate to increase 0.8 percent in 2020, with an increase in supply of 5.3 percent. This increase in supply in 2020 can be attributed to the anticipated openings of the 80-room Hampton Inn North Hollywood, the 94-room Hotel Mariposa, the 85-room Tribute Portfolio the Glenmark Glendale, the 147-room Residence Inn Glendale, a 51-room expansion of the Hilton Garden Inn Calabasas, and the annualized rooms from the aforementioned 70-room Best Western Premier North Hollywood.

The Eastern San Fernando Valley consists of cities such as Burbank, Universal City, and Glendale. Burbank has been called the "Media Capital of the World" as it plays host to a number of media and entertainment companies, including The Walt Disney Company, and Warner Brothers. Glendale is the third largest city in Los Angeles County. An ethnically diverse city, Glendale is known for its rich history, natural beauty, and commercial accomplishments. In the past, it has been rated the safest city in California with a population over 200,000 people. Its neighborhoods are clean, business districts are intelligently designed, and social amenities are abundant. It has also been estimated that Glendale is the third largest financial center in the state, where its economy is dominated primarily by retail and service industry, including the recently developed Caruso's Americana at Brand Shopping Center. Nestled beneath the Verdugo Mountains, Glendale is approximately eight miles north of Los Angeles and is bordered by the City of Pasadena to the east, the City of Los Angeles to the south, to the north by the Verdugo Mountains and the Cities of La Crescenta and La Canada/Flintridge, to the west by Los Angeles and Burbank.

**East San Fernando Valley**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,406,345 | N/A | 1,118,908 | N/A | 79.6% | $156.73 | N/A | $124.70 | N/A |
| 2015 | 1,434,785 | 2.0% | 1,170,192 | 4.6% | 81.6 | 168.53 | 7.5% | 137.45 | 10.2% |
| 2016 | 1,498,690 | 4.5 | 1,257,444 | 7.5 | 83.9 | 196.17 | 16.4 | 164.59 | 19.7 |
| 2017 | 1,578,990 | 5.4 | 1,321,942 | 5.1 | 83.7 | 187.18 | -4.6 | 156.71 | -4.8 |
| 2018 | 1,606,213 | 1.7 | 1,335,653 | 1.0 | 83.2 | 187.07 | -0.1 | 155.56 | -0.7 |
| 2019E | 1,657,100 | 3.2 | 1,397,309 | 4.6 | 84.3 | 186.58 | -0.3 | 157.33 | 1.1 |
| 2020F | 1,761,125 | 6.3 | 1,467,174 | 5.0 | 83.3 | 187.52 | 0.5 | 156.22 | -0.7 |
| CAAG | 3.8% | | 4.6% | | | 3.0% | | 3.8% | |

Source: CBRE Hotels

The East San Fernando Valley is estimated to see an increase in occupied room nights of 4.6 percent in 2019. The market occupancy is estimated to increase to 84.3 percent, with a 3.2 percent increase in supply with the opening of the 70-room Best Western Premier North Hollywood and annualized rooms from the 179-room Hyatt Place Glendale. Average daily rate is estimated to decrease 0.3 percent in 2019, as the market continues to experience deflation from Porter Ranch related activity from 2016. The East San Fernando Valley market will see a 6.3 percent increase in annual supply for 2020 with the anticipated openings of the 80-room Hampton Inn North Hollywood, the 94-room Hotel Mariposa, the 85-room Tribute Portfolio the Glenmark Glendale, the 147-room Residence Inn Glendale, and the annualized rooms from the aforementioned 70-room Best Western Premier North Hollywood. ADR is forecast to increase 0.5 percent in 2020, resulting in a RevPAR decrease of 0.7 percent.

The West San Fernando Valley is composed of cities such as Calabasas, Sherman Oaks, Van Nuys, and Woodland Hills.

**West San Fernando Valley**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 659,190 | N/A | 535,997 | N/A | 81.3% | $133.78 | N/A | $108.78 | N/A |
| 2015 | 659,190 | 0.0% | 548,198 | 2.3% | 83.2 | 143.94 | 7.6% | 119.70 | 10.0% |
| 2016 | 659,190 | 0.0 | 524,421 | -4.3 | 79.6 | 174.91 | 21.5 | 139.15 | 16.2 |
| 2017 | 659,190 | 0.0 | 543,674 | 3.7 | 82.5 | 162.43 | -7.1 | 133.96 | -3.7 |
| 2018 | 659,190 | 0.0 | 558,342 | 2.7 | 84.7 | 165.41 | 1.8 | 140.10 | 4.6 |
| 2019E | 659,190 | 0.0 | 556,718 | -0.3 | 84.5 | 170.95 | 3.4 | 144.38 | 3.1 |
| 2020F | 677,805 | 2.8 | 570,636 | 2.5 | 84.2 | 173.52 | 1.5 | 146.08 | 1.2 |
| CAAG | 0.5% | | 1.0% | | | 4.4% | | 5.0% | |

Source: CBRE Hotels

We estimate that this half of the Valley will see a decrease in occupied rooms of 0.3 percent in 2019 with no change in market supply, resulting in market occupancy of 84.5 percent. Average daily rate is estimated to increase 3.4 percent in 2019, ending the year at $170.95. We forecast demand to increase 2.5 percent and supply to increase 2.8 percent in 2020, with a 51-room expansion at the Hilton Garden Inn Calabasas, and ADR to increase by 1.5 percent to $173.52.

## THOUSAND OAKS/AGOURA HILLS

Agoura Hills is a small community contained in 7.9 square miles. Agoura Hills also offers a number of neighborhood amenities including restaurants, shopping, and entertainment. Overall, Agoura Hills and the surrounding areas of Westlake Village and Thousand Oaks are continuing to grow and develop.

Agoura Hills attracts primarily business travelers, as well as leisure demand mostly from travelers along the 101 Freeway, and from visitors to families in the area. Additional leisure demand is captured in the summer months from the beaches of Malibu, located approximately 12 miles away. Other leisure attractions in the area include the Camarillo Premiere Outlet Malls, Thousand Oaks Civic Arts Plaza, Ronald Reagan Presidential Library, and the areas proximate to Los Angeles, Universal Studios & Hollywood. The Sports Academy, a 90,000-square foot sports training facility opened in 2016, offers comprehensive athletic training and support for athletes of all ages and skill levels, but primarily targets grade school-level athletes. Group business in this market is derived mainly from the residents and smaller businesses in the surrounding area. Group demand consists of weddings, restaurant marketing, social venues, and mitzvahs.

Thousand Oaks is located in the Conejo Valley. The city was incorporated in 1964 and has been developed under a master-plan community concept. The city's location tucked away in a quiet valley and proximity to Los Angeles allows it to offer a unique blend of rural and urban lifestyles. Thousand Oaks has gained nationwide recognition as one of the safest cities of its size, as noted by the Federal Bureau of Investigation.

Over the last ten years, Thousand Oaks has become an attractive locale for high- and bio- technology companies and has evolved as part of the Technology Corridor which houses aerospace, electronics and defense system manufacturing, computer-related business and research and development firms along a 26-mile expanse.

**Thousand Oaks - Agoura Hills**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 664,665 | N/A | 516,652 | N/A | 77.7% | $142.87 | N/A | $111.06 | N/A |
| 2015 | 664,665 | 0.0% | 528,868 | 2.4% | 79.6 | 153.24 | 7.3% | 121.93 | 9.8% |
| 2016 | 664,665 | 0.0 | 555,372 | 5.0 | 83.6 | 170.98 | 11.6 | 142.86 | 17.2 |
| 2017 | 664,665 | 0.0 | 537,830 | -3.2 | 80.9 | 170.41 | -0.3 | 137.89 | -3.5 |
| 2018 | 664,665 | 0.0 | 538,626 | 0.1 | 81.0 | 175.58 | 3.0 | 142.28 | 3.2 |
| 2019E | 664,665 | 0.0 | 538,579 | 0.0 | 81.0 | 185.29 | 5.5 | 150.14 | 5.5 |
| 2020F | 746,790 | 12.4 | 587,052 | 9.0 | 78.6 | 190.85 | 3.0 | 150.03 | -0.1 |
| CAAG | 2.0% | | 2.2% | | | 4.9% | | 5.1% | |

Source: CBRE Hotels

We estimate that the market will remain flat in occupied rooms in 2019 with no change in supply, ending the year at an expected occupancy of 81.0 percent. Furthermore, we estimate a 5.5 percent increase in ADR for 2019. The declines in RevPAR in 2017 can be attributed to one-time Porter Ranch impact that occurred in 2016. In 2020, we forecast a 9.0 percent increase in occupied rooms and a 3.0 percent increase in ADR. Market supply in 2020 is forecast to increase 12.4 percent in anticipation of both the 96-room TownePlace Suites Agoura Hills and the 129-room Courtyard Marriott Agoura Hills entering the market in January.

## SAN GABRIEL VALLEY

The San Gabriel Valley is bordered by the San Gabriel Mountains to the north, Los Angeles and Orange County to the south, San Bernardino County line to the east and Interstate 5 to the west. The San Gabriel Valley is comprised of approximately 30 incorporated cities including Alhambra, Arcadia, Azusa, Baldwin Park, Bradbury, Claremont, Covina, Diamond Bar, Duarte, El Monte, Glendora, Industry, Irwindale, La Cañada Flintridge, La Puente, La Verne, Monrovia, Monterey Park, Pasadena, Pomona, Rosemead, San Dimas, San Gabriel, San Marino, Sierra Madre, South El Monte, South Pasadena, Temple City, Walnut, and West Covina, as well as unincorporated parts of Los Angeles County.

The San Gabriel Valley was settled in 1771 and was known for its abundant harvest of wheat, corn, barley, citrus fruits and herds of cattle and sheep. Today, the San Gabriel Valley is home to many corporations such as Edison International, Avery Dennison Corporation, Trader Joe's Company, Ameron International Incorporated, and International Aluminum. Additionally, the Valley has become a very important center of the Asian community within the United States.

San Gabriel Valley
Historical Market Performance of the Competitive Supply

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 905,565 | N/A | 645,410 | N/A | 71.3% | $116.09 | N/A | $82.74 | N/A |
| 2015 | 924,910 | 2.1% | 687,451 | 6.5% | 74.3 | 122.63 | 5.6% | 91.15 | 10.2% |
| 2016 | 912,865 | -1.3 | 701,512 | 2.0 | 76.8 | 128.41 | 4.7 | 98.68 | 8.3 |
| 2017 | 949,122 | 4.0 | 723,801 | 3.2 | 76.3 | 130.44 | 1.6 | 99.47 | 0.8 |
| 2018 | 1,162,768 | 22.5 | 866,797 | 19.8 | 74.5 | 132.70 | 1.7 | 98.92 | -0.6 |
| 2019E | 1,237,715 | 6.4 | 946,284 | 9.2 | 76.5 | 134.97 | 1.7 | 103.19 | 4.3 |
| 2020F | 1,368,568 | 10.6 | 1,026,718 | 8.5 | 75.0 | 137.67 | 2.0 | 103.28 | 0.1 |
| CAAG | 7.1% | | 8.0% | | | 2.9% | | 3.8% | |

Source: CBRE Hotels

The San Gabriel Valley market is estimated to realize an increase of 9.2 percent in occupied rooms in 2019. This will increase market occupancy to 76.5 percent, as market supply is estimated to increase by 6.4 percent. The average daily rate in the San Gabriel Valley is estimated to experience an increase of 1.7 percent in 2019, ending the year at $134.97. We forecast occupied rooms to increase by 8.5 percent in 2020, which equates to the market occupancy decreasing to 75.0 percent, given supply growth of 10.6 percent. Average daily rate is forecasted to realize an increase of 2.0 percent in 2020. Given continued large increases in International and particularly Chinese travel, as well as strong developer interest, it is not surprising that there are a number of planned hotels in the San Gabriel Valley. In 2019, additions to supply included in our estimates include the annualized rooms of the 288-room Sheraton San Gabriel and the 203-room Home2 Suites Montebello and the opening of the 288-room Courtyard Monterey Park in December. In 2020, additions to supply are forecast to include the openings of the 123-room Hampton Inn & Suites in Rosemead and the 148-room Hilton Garden Inn Pomona.

## WHITTIER/I-5 CORRIDOR

The Whittier/I-5 Corridor is composed of hotels in the cities of Whittier, Norwalk, Downey, La Mirada, Cerritos, and Commerce. This area has a large base of commercial business that is related to the extensive manufacturing, distribution, technology services that have come to characterize these cities.

While this market does not typically get a large amount of leisure business, it has a strong commercial base and captures SMERF group demand during the weekends and summer months.

**Whittier/I-5 Corridor**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 605,170 | N/A | 507,555 | N/A | 83.9% | $120.10 | N/A | $100.73 | N/A |
| 2015 | 605,170 | 0.0% | 507,778 | 0.0% | 83.9 | 132.19 | 10.1% | 110.92 | 10.1% |
| 2016 | 641,305 | 6.0 | 542,191 | 6.8 | 84.5 | 140.59 | 6.4 | 118.86 | 7.2 |
| 2017 | 641,305 | 0.0 | 518,056 | -4.5 | 80.8 | 146.20 | 4.0 | 118.10 | -0.6 |
| 2018 | 641,305 | 0.0 | 503,049 | -2.9 | 78.4 | 150.11 | 2.7 | 117.75 | -0.3 |
| 2019E | 641,305 | 0.0 | 508,854 | 1.2 | 79.3 | 151.29 | 0.8 | 120.04 | 2.0 |
| 2020F | 641,305 | 0.0 | 508,854 | 0.0 | 79.3 | 152.80 | 1.0 | 121.24 | 1.0 |
| CAAG | 1.0% | | 0.0% | | | 4.1% | | 3.1% | |

Source: CBRE Hotels

We estimate that the Whittier/I-5 Corridor market will see an increase in occupied room nights of 1.2 percent in 2019. This corresponds with occupancy of 79.3 percent. Average daily rate is estimated to increase in 2019 by 0.8 percent, equating to a 2.0 percent increase in RevPAR for the year. We forecast that the number of occupied rooms will remain flat and average daily rate will increase 1.0 percent in 2020. There are no known additions to supply in this market.

## SANTA CLARITA

The City of Santa Clarita and its surrounding communities of Valencia, Stevenson Ranch, and Newhall are located just to the north of Los Angeles. This area, due to its proximity to Los Angeles and the San Fernando Valley, has seen an explosion in growth over the past 20 years. Housing, commercial, and retail development have thrived in recent years as people have moved out of the City of Los Angeles and into this community for safety, education, and lifestyle reasons. The Santa Clarita community not only benefitted from its expanding business and residential base, but from its proximity to Magic Mountain as well. Major employment sectors include professional business services, leisure and hospitality, government, manufacturing, and some entertainment due to several rental sound stages in the area.

**Santa Clarita Valley**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 521,585 | N/A | 408,433 | N/A | 78.3% | $118.57 | N/A | $92.84 | N/A |
| 2015 | 521,585 | 0.0% | 427,546 | 4.7% | 82.0 | 127.33 | 7.4% | 104.37 | 12.4% |
| 2016 | 521,585 | 0.0 | 452,506 | 5.8 | 86.8 | 145.57 | 14.3 | 126.29 | 21.0 |
| 2017 | 521,585 | 0.0 | 441,115 | -2.5 | 84.6 | 143.07 | -1.7 | 120.99 | -4.2 |
| 2018 | 491,898 | -5.7 | 419,536 | -4.9 | 85.3 | 145.99 | 2.0 | 124.51 | 2.9 |
| 2019E | 477,055 | -3.0 | 412,560 | -1.7 | 86.5 | 153.69 | 5.3 | 132.91 | 6.7 |
| 2020F | 503,396 | 5.5 | 429,062 | 4.0 | 85.2 | 157.53 | 2.5 | 134.27 | 1.0 |
| CAAG | -0.6% | | 0.8% | | | 4.8% | | 6.3% | |

Source: CBRE Hotels

We estimate that occupied rooms in the Santa Clarita Valley hotel market will decrease 1.7 percent in 2019, amidst a sizable decline of 3.0 percent in rooms supply due to the closing of the Best Western Valencia Inn. The market is estimated to end the year with a market occupancy of 86.5 percent. Average daily rate is estimated to increase 5.3 percent, resulting in a 6.7 percent increase in RevPAR for this submarket. We forecast that there will be a 4.0 percent increase in occupied rooms in 2020, amidst a 5.5 percent increase in rooms supply, due to the openings of the 42-room Luxen Hotel Newhall, the 78-room Hampton Inn & Suites Valencia, and the 107-room Homewood Suites Valencia. We expect this submarket to end the year with a market occupancy of 85.2 percent. The market's average daily rate is expected to increase 2.5 percent to end 2020 at $157.53.

CBRE HOTELS

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# San Diego County

2020 SOUTHERN CALIFORNIA LODGING FORECAST

CBRE

# SAN DIEGO COUNTY

## EXECUTIVE SUMMARY

The San Diego Metropolitan Statistical Area (MSA), which consists of San Diego County, is located approximately 125 miles south of Los Angeles and is immediately north of the Mexican border. The San Diego community, once dominated by the presence of nearby Naval, Air Force, and Marine bases, as well as the defense-related aerospace industry, has diversified. San Diego continues to be one of America's foremost centers of technology, particularly in the emerging biomedical field. Manufacturing has shifted towards electronics, computers, instrumentation and other high technology products, and development of such sectors as services, research and development, and health services has been strong. According to the United States Census Bureau, the population of the San Diego area stands at 3.4 million as of July 1, 2018 (the most recent data available).

San Diego is home to LEGOLAND, SeaWorld, and the San Diego Zoo and Safari Park. Additional activities in the region include beaches, casinos, racetracks, numerous shopping venues, dozens of golf facilities, and the San Diego Convention Center. These attractions provide for a popular destination amongst international and domestic tourists and business travelers. Throughout the periods of economic growth and decline, these sources continue to be major drivers of tourism activity. Tourism continues to be one of San Diego's primary economic drivers as tourism funding returned in 2014. In March 2014, the Tourism Marketing District allocated $25.5 million to ten groups and organizations. Nearly $23.8 million went to the San Diego Tourism Authority for national advertising, promotional outreach at industry conventions and personnel and overhead expenses. Of that, approximately $3.0 million was set aside for sub regional promotions in Mission Bay, Mission Valley and La Jolla.

## SAN DIEGO CONVENTION CENTER

The Convention Center has demonstrated a high level of success in capturing convention demand, though the 2008-2009 downturn impacted this market along with every other convention market. According to the San Diego Convention and Visitors Bureau, the events of 2017 generated a record, 844,382 room nights, followed by a decline in 2018 with just 694,074 hotel room nights. A study completed by CIC Research indicated that 30 to 40 percent of hotel room nights that attendees booked were not part of the official block. The following table presents historical bookings through 2018.

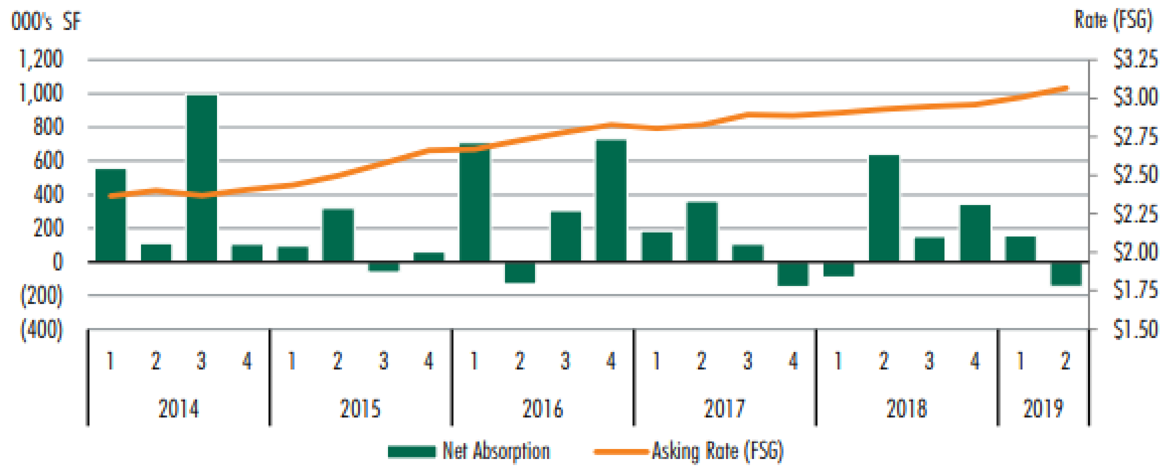
**San Diego Convention Center**
**Actual Bookings**

| Calendar Year | Room Nights |
|---|---|
| 2006 | 714,253 |
| 2007 | 744,782 |
| 2008 | 696,471 |
| 2009 | 750,382 |
| 2010 | 703,686 |
| 2011 | 728,228 |
| 2012 | 766,810 |
| 2013 | 704,029 |
| 2014 | 679,262 |
| 2015 | 693,772 |
| 2016 | 737,155 |
| 2017 | 844,382 |
| 2018 | 694,074 |

Source: San Diego Convention Center Corporation

## OFFICE MARKET

San Diego is the 16th largest office market tracked by CBRE EA. Tech and life science users expanded their presence in San Diego; accreditation and financial issues at two higher-education occupiers, however, impacted an otherwise strong quarter of leasing activity. The 178,660 square foot former Thomas Jefferson School of Law building Downtown was brought back to the market vacant after undergoing a sale and renovation. Additionally, The Art Institute vacated 75,000 square feet at Mission Valley Heights as part of the plan to close19 schools nationwide, and Qualcomm vacated 77,000 square foot Mira Oberlin Plaza. These three events significantly contributed to negative 147,262 square feet of net absorption in Q2, despite a 25.5% increase quarter over quarter in leasing activity that reached more than 2.1 million square feet. The overall monthly asking rate increased for the seventh consecutive quarter to an all-time high of $3.07 per square foot FSG.  The Q2 asking rate is 1.9% higher quarter over quarter and 4.7% higher year over year.




## SAN DIEGO INTERNATIONAL AIRPORT

The San Diego International Airport (Lindbergh Field) provides primary air transportation to and from the subject's market area. The following table displays the history of passenger travel at San Diego International Airport.

| San Diego International Airport at Lindbergh Field Passenger Counts | | | |
| --- | --- | --- | --- |
| Year | Enplaned | Deplaned | Total |
| 2007 | 9,340,850 | 9,332,591 | 18,673,441 |
| 2008 | 9,212,624 | 9,206,997 | 18,419,621 |
| 2009 | 8,656,599 | 8,660,236 | 17,316,835 |
| 2010 | 8,608,797 | 8,596,303 | 17,205,100 |
| 2011 | 8,653,719 | 8,654,197 | 17,307,916 |
| 2012 | 8,845,721 | 8,836,554 | 17,682,275 |
| 2013 | 9,052,263 | 9,048,050 | 18,100,313 |
| 2014 | 9,516,809 | 9,502,845 | 19,019,654 |
| 2015 | 10,172,043 | 10,150,317 | 20,322,360 |
| 2016 | 10,498,300 | 10,470,722 | 20,969,022 |
| 2017 | 11,210,435 | 11,159,154 | 22,369,589 |
| 2018 | 12,157,401 | 12,116,500 | 24,273,901 |
| YTD 4/18 | 3,673,895 | 3,664,974 | 7,338,869 |
| YTD 4/19 | 3,853,136 | 3,831,160 | 7,684,296 |
| CAAG | 2.42% | 2.40% | 2.41% |

Source: San Diego County Regional Airport Authority

San Diego International Airport has posted five consecutive years of record-breaking passenger totals, with more than 24 million passengers last year. Year-to-date through April, passenger counts are up approximately 4.7 percent over the same period last year.

In August 2013, San Diego International Airport completed its $900 million "Green Build" expansion of Terminal 2. The project included ten new jet gates, additional shopping and dining options, check-in enhancements, better security, new baggage handling system, and a dual-level roadway for arrivals and departures. In January 2016, a new $316 million Rental Car Center opened. The garage offers 5,400 spaces and provides a central location for all rental car services at the airport. In November 2015, the San Diego County Regional Airport Authority approved a $2.2 billion replacement plan for Terminal 1. The airport board plans to replace the terminal's 19 gates within ten years and add more capacity in future phases. Additionally, the plan is expected to rebuild the airport's single runway, centralize customs, add space for more international flights, build additional parking garages, and connect Terminal 1 and 2. On May 17, 2017, San Diego International Airport broke ground on a new Federal Inspection Station at the west end of Terminal 2. The new larger Customs facility allows the airport to process these passengers easier and with more efficiency. The new FIS facility replaces the current facility in Terminal 2 East. It is an estimated 130,000 square feet, compared to the 26,000 square feet in the current facility. The new facility has also increased the number of international gates from three to six. The $229.4 million facility opened in June of 2018.

## Visitor Activity

The San Diego visitor industry is the third largest industry in San Diego County, employing approximately 196,000 people, accounting for 13.0 percent of the jobs in the county. Visitors spend nearly $11 billion annually at thousands of businesses in the County. This equates to $18.2 billion in economic impact for the region, and thus a very important piece of the economic health of the region.

San Diego's temperate climate, ocean-side location, and numerous tourist attractions have made the city a popular destination. Today, San Diego is one of the top five leisure vacation destinations in the U.S. as measured by visitor-days. Over the last several decades, San Diego has been able to increase visitor traffic in the off-season (September to May) to complement the peak summer months. Downtown San Diego has emerged as an important tourist destination with the development of Seaport Village, Horton Plaza, the Convention Center, and the evolution of the Gaslamp Quarter. The Del Mar Fairgrounds and Racetrack also attract visitors to the northern part of the county. LEGOLAND, which opened in March 1999 in Carlsbad, was the first paid admission attraction introduced in several decades.

The following table presents a summary of the most recent data available for visitor activity between 2008 and 2018. As shown in the table below, visitor spending has seen a 3.8 percent compound average annual increase over the historical period. San Diego County finished 2018 with increases of 2.0 percent and 6.1 percent in overnight visitor counts and visitor spending, respectively, over the previous year.

| Year | Overnight Visitors | Visitor Spending (millions) | Attraction Attendance |
|---|---|---|---|
| 2008 | 15,160,000 | $7,908 | 12,835,746 |
| 2009 | 14,435,000 | 6,958 | 12,406,951 |
| 2010 | 15,080,000 | 7,080 | 12,637,391 |
| 2011 | 15,760,000 | 7,485 | 13,796,344 |
| 2012 | 16,136,000 | 7,979 | 14,322,658 |
| 2013 | 16,420,000 | 8,394 | 14,763,787 |
| 2014 | 16,892,000 | 9,209 | 14,372,244 |
| 2015 | 17,202,000 | 9,921 | 14,623,535 |
| 2016 | 17,427,000 | 10,402 | 14,830,000 |
| 2017 | 17,640,000 | 10,828 | 14,529,000 |
| 2018 | 17,998,000 | 11,490 | 15,523,639 |
| CAAG | 1.7% | 3.8% | 1.9% |
| Source: San Diego Tourism Authority; CIC Research | | | |

The following table sets forth our estimate of historical and projected supply, demand, occupancy, and average room rate for the overall San Diego market. We have estimated the overall San Diego hotel market occupancy to slightly decrease to 79.2 percent by year-end 2019, compared to 79.9 percent in 2018, correlating to a 1.7 percent increase in occupied room nights amidst a 2.6 percent increase in supply. Average daily rate is estimated to increase by 2.0 percent to $196.30, as the San Diego market continues to hold significant growth year-over-year. In 2020, we forecast growth of 1.3 percent in occupied rooms amidst a 1.6 percent increase in supply. We forecast 2.0 percent growth in ADR to result in RevPAR growth of 1.7 percent. We are aware that the previously defined market area as a whole contains approximately 22.5 million annual hotel rooms. However, the table presented below includes the sum of our aggregated sub markets, representing more than 64 percent of the total existing lodging supply.

**San Diego County**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 13,796,433 | N/A | 10,531,669 | N/A | 76.3% | $169.75 | N/A | $129.58 | N/A |
| 2015 | 13,831,432 | 0.3% | 10,879,918 | 3.3% | 78.7 | 178.49 | 5.1% | 140.40 | 8.4% |
| 2016 | 14,046,417 | 1.6 | 11,180,684 | 2.8 | 79.6 | 181.88 | 1.9 | 144.77 | 3.1 |
| 2017 | 14,463,506 | 3.0 | 11,450,339 | 2.4 | 79.2 | 187.00 | 2.8 | 148.04 | 2.3 |
| 2018 | 14,742,411 | 1.9 | 11,777,512 | 2.9 | 79.9 | 192.40 | 2.9 | 153.71 | 3.8 |
| 2019E | 15,119,425 | 2.6 | 11,981,952 | 1.7 | 79.2 | 196.30 | 2.0 | 155.57 | 1.2 |
| 2020F | 15,366,683 | 1.6 | 12,138,063 | 1.3 | 79.0 | 200.29 | 2.0 | 158.21 | 1.7 |
| CAAG | 1.8% | | 2.4% | | | 2.8% | | 3.4% | |
| Source: CBRE Hotels | | | | | | | | | |

## Additions to Supply

Based on our research and findings the table below details the new hotels going forward that have been included in this year's edition of our Southern California Lodging Forecast located within the San Diego County market.

| Lodging Forecast - Additions to Supply Following October 2019 | | | | |
|---|---|---|---|---|
| Hotel Name | City | Submarket | Room Count | Opening Date |
| Homewood Suites by Hilton | Chula Vista | South Bay | 90 | December 2019 |
| Hampton Inn Eastlake | Chula Vista | South Bay | 106 | December 2019 |
| Element San Diego | San Diego | I-15 Kearny Mesa | 135 | December 2020 |
| Fairfield Inn & Suites | San Diego | Mission Bay | 111 | August 2020 |
| SpringHill Suites | Carlsbad | North Coastal | 104 | March 2020 |
| Source: CBRE Hotels | | | | |

## DOWNTOWN SAN DIEGO/EMBARCADERO

Downtown San Diego has undergone a significant expansion in recent years, including hotel, residential, entertainment, and supporting amenities and facilities. For the lodging industry, this was realized in the form of approximately 65 percent of all additions to San Diego County over the last decade. While this market has historically absorbed new supply at a healthy rate, 2008 and 2009 brought the culmination of economic woes, including an impacted convention calendar with reduced pickup, contraction of corporate and leisure demand, and a reduction in airline travel as well as travel in general. After several years of slow recovery, the impacts from tourism defunding further dinged the market in 2013 and 2014, with sub-markets such as Downtown leading the way. The leisure and corporate business in Downtown remain a strong driver of business to the area when group business is slow.

To add to the city's continued positioning as a national and regionally competitive Convention destination, the proposed expansion of the convention center would include an additional 200,000 square feet of exhibit space, a third ballroom, and 100,000 square feet of meeting rooms. The project may also include additional hotel rooms proximate to the Center. This would give the center a total of 815,000 square feet of exhibition space, similar to the size of Anaheim's convention center and sufficient to keep conventions such as Comic-Con. However, there is not available approvals or funding for this plan as of the current date.

In 2019, Downtown San Diego experienced the September opening of the 246-room Carte Hotel, a Curio collection by Hilton. The area also experienced the opening of 162-room The Guild Hotel, a Tribute Portfolio by Marriott in August 2019.

San Diego has historically had challenges in pushing rates, which was further magnified by the limitations in tourism marketing efforts. However, with the return of marketing efforts, downtown San Diego was able to significantly push rates in 2014 and 2015. San Diego suffered a soft first half of 2016 but was able to push rate through the end of 2016. In 2017 and 2018, growth in occupied rooms was at 2.7 and 2.5 percent respectively. Supply grew slightly by 1.7 percent in 2018, resulting to an occupancy rate of 83.1 percent. Average daily rate continues to outperform previous rates and has increased tremendously since 2016 as demand increases. In 2019, we expect growth in occupied rooms at 4.5 percent, below the growth in supply of 5.8 percent, correlating to an occupancy rate of 82.1 percent as the market begins to absorb the increase in available hotel rooms. Average daily rate is expected to increase 2.5 percent from 2018 levels, correlating to a $223.20 market average daily rate as older hotels in the market complete renovations and the new hotels stabilize within the market. In 2020, we estimate ADR will grow above inflationary levels at 2.5 percent as high-quality new hotel rooms stabilize in the market. Supply is anticipated to continue to outpace demand next year as we forecast a 2.2 percent increase in supply and a 1.5 percent increase in the number of occupied rooms, resulting in an aggregate market occupancy of 81.6 percent.

San Diego Downtown
Historical Market Performance of the Competitive Supply

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 4,216,845 | N/A | 3,445,994 | N/A | 81.7% | $188.91 | N/A | $154.38 | N/A |
| 2015 | 4,242,578 | 0.6% | 3,492,371 | 1.3% | 82.3 | 202.28 | 7.1% | 166.51 | 7.9% |
| 2016 | 4,416,622 | 4.1 | 3,650,135 | 4.5 | 82.6 | 204.95 | 1.3 | 169.38 | 1.7 |
| 2017 | 4,544,098 | 2.9 | 3,748,213 | 2.7 | 82.5 | 212.95 | 3.9 | 175.65 | 3.7 |
| 2018 | 4,623,151 | 1.7 | 3,841,609 | 2.5 | 83.1 | 217.84 | 2.3 | 181.02 | 3.1 |
| 2019E | 4,891,122 | 5.8 | 4,015,542 | 4.5 | 82.1 | 223.20 | 2.5 | 183.24 | 1.2 |
| 2020F | 4,996,485 | 2.2 | 4,075,775 | 1.5 | 81.6 | 228.78 | 2.5 | 186.62 | 1.8 |
| CAAG | 2.9% | | 2.8% | | | 3.2% | | 3.2% | |

Source: CBRE Hotels

## SAN DIEGO BAY MARKET

The San Diego Bay submarket includes hotels on Harbor Island, Shelter Island, and Coronado Island. Catering primarily to group and leisure business with an emphasis on boating, beach and other recreational activities, these resorts and waterfront properties have earned some of the highest occupancies and rates in San Diego County. There have been no additions to supply in the San Diego Bay hotel market through the historical period, nor are there any expected in 2019 or 2020.

The Bay Areas' market is driven primarily by leisure and group demand. The existing inventory consists largely of full-service hotels with significant food and beverage facilities and meeting space. We anticipate occupied room nights to slightly decrease amid an unchanged supply growth, resulting in a 80 percent occupancy in 2019. Average daily rate is anticipated to end the year with a 0.7 percent increase at $245.10. In 2020, we forecast the number of occupied rooms to remain at 2019 levels, resulting in an 80.0 percent occupancy. We forecast rate to increase by 2.0 percent to $250.00.

Bay Areas
Historical Market Performance of the Competitive Supply

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,341,740 | N/A | 1,000,656 | N/A | 74.6% | $206.11 | N/A | $153.72 | N/A |
| 2015 | 1,341,740 | 0.0% | 1,038,799 | 3.8% | 77.4 | 217.95 | 5.7% | 168.74 | 9.8% |
| 2016 | 1,341,740 | 0.0 | 1,045,730 | 0.7 | 77.9 | 225.63 | 3.5 | 175.85 | 4.2 |
| 2017 | 1,345,481 | 0.3 | 1,045,088 | -0.1 | 77.7 | 230.71 | 2.3 | 179.20 | 1.9 |
| 2018 | 1,356,705 | 0.8 | 1,087,794 | 4.1 | 80.2 | 243.40 | 5.5 | 195.16 | 8.9 |
| 2019E | 1,356,705 | 0.0 | 1,086,032 | -0.2 | 80.0 | 245.10 | 0.7 | 196.20 | 0.5 |
| 2020F | 1,356,705 | 0.0 | 1,086,032 | 0.0 | 80.0 | 250.00 | 2.0 | 200.12 | 2.0 |
| CAAG | 0.2% | | 1.4% | | | 3.3% | | 4.5% | |

Source: CBRE Hotels

## La Jolla

The community of La Jolla lies within the boundaries and jurisdiction of the City of San Diego, in the County of San Diego. Its location, approximately 12 miles north of downtown, has helped it establish its own identity as a refuge from "big city" life and La Jolla continues to be a popular destination for the high-end leisure market. La Jolla is the jewel of the City of San Diego featuring secluded coves and beaches, numerous small parks, the renowned Coast Walk cliff-top promenade, cafes, boutiques, fine restaurants, and thriving commercial business centers. La Jolla is also home to several renowned academic and scientific institutions, including the University of California at San Diego, the Salk Institute for Biological Studies, and the Scripps Institution of Oceanography.

We are not aware of any hotel openings in the La Jolla area for either 2019 or 2020. CBRE Hotels estimated that the La Jolla submarket will end 2019 with a 76.7 percent occupancy rate and an average daily rate of $257.36, representing a slight decrease of 1.1 percent in occupied rooms and a 1.4 percent increase in average daily rate, respectively. In 2020, we forecast occupied rooms to decline 0.5 percent and the market to attain at an occupancy of 76.3 percent, while ADR is forecast to increase by 1.5 percent to $261.22

**La Jolla**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 630,355 | N/A | 474,774 | N/A | 75.3% | $213.72 | N/A | $160.97 | N/A |
| 2015 | 630,355 | 0.0% | 484,234 | 2.0% | 76.8 | 228.36 | 6.9% | 175.43 | 9.0% |
| 2016 | 630,355 | 0.0 | 479,219 | -1.0 | 76.0 | 231.60 | 1.4 | 176.07 | 0.4 |
| 2017 | 630,355 | 0.0 | 480,827 | 0.3 | 76.3 | 243.23 | 5.0 | 185.53 | 5.4 |
| 2018 | 630,355 | 0.0 | 488,932 | 1.7 | 77.6 | 253.89 | 4.4 | 196.93 | 6.1 |
| 2019E | 630,355 | 0.0 | 483,501 | -1.1 | 76.7 | 257.36 | 1.4 | 197.40 | 0.2 |
| 2020F | 630,355 | 0.0 | 481,083 | -0.5 | 76.3 | 261.22 | 1.5 | 199.36 | 1.0 |
| CAAG | 0.0% | | 0.2% | | | 3.4% | | 3.6% | |

Source: CBRE Hotels

## Mission Bay

The hotels in this market orient themselves around Mission Bay, a protected bay environment with sandy beaches used by families, and a premier site for many water sports such as jet skiing, windsurfing, sailing, and more. Occupancies are heavily influenced by visitation to SeaWorld, a major demand generator. SeaWorld San Diego has made continued efforts to expand and enhance the park experience for guests over the last few years following a battle over the orca experiences that has resulted in an announcement to end orca breeding at all SeaWorld Parks. Shortly after this announcement, SeaWorld San Diego began work on an enhanced orca viewing experience that opened in May 2017 that is focused on educating the public on their native habitat by combining real life viewing of the orcas with a high definition infinity screen that plays clips of orcas in the wild and presents orca facts to crowds. In addition to enhancements with the orca encounter, SeaWorld San Diego also recently upgraded their arrival process and added new attractions such as Ocean Explorer, which includes five children's rides and three animal exhibits, and Electronic Ocean which features parkwide light shows. The recently added Electric Eel roller coaster features multiple launch elements, twists, and loops that imitate the movements of eels. The roller coaster is attached to the recently opened Ocean Explorer area and will be the tallest and fastest roller coaster in SeaWorld San Diego history. Other attractions in the Mission Bay area include Belmont Park and a boardwalk stretching miles for biking, jogging, and rollerblading.

According to CBRE Hotels most recent pipeline, the Mission Bay area is expected to open a 111-room Fairfield Inn & Suites in 2020.

The Mission Bay submarket is anticipated to end 2019 with an occupancy rate of 76.5 percent and an average daily rate of $203.58, reflecting negative growth of 4.4 percent in occupied rooms and an increase of 2.0 percent in ADR. In 2020, we expect the market to increase slightly, with the market achieving a 2.0 percent growth in ADR to $207.65. Occupancy is expected to increase to 77.7 percent.

| Mission Bay<br>Historical Market Performance of the Competitive Supply | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 896,805 | N/A | 690,572 | N/A | 77.0% | $184.74 | N/A | $142.26 | N/A |
| 2015 | 896,805 | 0.0% | 686,008 | -0.7% | 76.5 | 194.62 | 5.4% | 148.88 | 4.7% |
| 2016 | 896,805 | 0.0 | 706,340 | 3.0 | 78.8 | 191.61 | -1.5 | 150.92 | 1.4 |
| 2017 | 896,805 | 0.0 | 708,600 | 0.3 | 79.0 | 194.14 | 1.3 | 153.40 | 1.6 |
| 2018 | 896,805 | 0.0 | 717,625 | 1.3 | 80.0 | 199.54 | 2.8 | 159.67 | 4.1 |
| 2019E | 896,805 | 0.0 | 686,401 | -4.4 | 76.5 | 203.58 | 2.0 | 155.82 | -2.4 |
| 2020F | 910,310 | 1.5 | 706,993 | 3.0 | 77.7 | 207.65 | 2.0 | 161.27 | 3.5 |
| CAAG | 0.2% | | 0.4% | | | 2.0% | | 2.1% | |
| Source: CBRE Hotels | | | | | | | | | |

## Mission Valley/Old Town

Mission Valley is located just north of the downtown area between the San Diego Sports Arena area and Qualcomm Stadium (formerly Jack Murphy Stadium), former home of the San Diego Chargers. The area is known as the region's retail hub, with nearly 4.4 million square feet of retail space in ten major centers including Fashion Valley and the Fenton Marketplace, which is located just west of Qualcomm Stadium. The majority of hotels in the Mission Valley submarket are located along Interstate 8 from Interstate 5 to Interstate 15. The uncertainty surrounding the future of Qualcomm Stadium, following the relocation of the San Diego Chargers has the possibility to add a moderate level of risk to hotels within the Mission Valley submarket.

Old Town is located just southwest of the heart of Mission Valley and was the original center of San Diego. Now, Old Town is a designated historic area and includes the popular Bazaar del Mundo, Heritage Square, and a number of historic buildings that give the flavor of San Diego under Spanish and Mexican rule.

In addition to self-contained group business and military related demand, the hotels in Old Town and Mission Valley accommodate the overflow demand from the downtown convention market. Lack of overflow from downtown, combined with a challenging group segment, has resulted in significant impact to this submarket. This compression has dropped significantly in recent years, largely as a result of new supply in Downtown and an increase in rooms dedicated to convention room blocks. However, year-to-date results suggest continued strength of leisure travel to the area and a regain of all occupied room nights and rates lost during the marketing challenges.

There are no supply additions expected in 2019 and 2020. Following a strong performance in 2018, compared to previous years, the Mission Valley and Old Town submarket is expected to end 2019 at a 78.6 percent occupancy rate and $145.50 in average daily rate. This reflects 0.8 percent decrease in occupied rooms amidst a 2.2 percent increase in ADR as existing hotels complete extensive renovations. In 2020, we forecast that the market will remain unchanged to 78.6 percent occupancy, and obtain an average daily rate of $148.41, as a result occupied rooms remains flat and ADR is expected to grow at 2.0 percent.

| Mission Valley - Old Town<br>Historical Market Performance of the Competitive Supply | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 1,719,880 | N/A | 1,214,451 | N/A | 70.6% | $126.44 | N/A | $89.28 | N/A |
| 2015 | 1,777,124 | 3.3% | 1,324,593 | 9.1% | 74.5 | 129.43 | 2.4% | 96.47 | 8.1% |
| 2016 | 1,818,065 | 2.3 | 1,366,878 | 3.2 | 75.2 | 136.03 | 5.1 | 102.27 | 6.0 |
| 2017 | 1,884,085 | 3.6 | 1,448,014 | 5.9 | 76.9 | 137.14 | 0.8 | 105.40 | 3.1 |
| 2018 | 1,926,470 | 2.2 | 1,525,459 | 5.3 | 79.2 | 142.41 | 3.8 | 112.77 | 7.0 |
| 2019E | 1,926,470 | 0.0 | 1,513,401 | -0.8 | 78.6 | 145.50 | 2.2 | 114.30 | 1.4 |
| 2020F | 1,926,470 | 0.0 | 1,513,401 | 0.0 | 78.6 | 148.41 | 2.0 | 116.59 | 2.0 |
| CAAG | 1.9% | | 3.7% | | | 2.7% | | 4.5% | |

Source: CBRE Hotels

## North City/University Towne Center (UTC)/Sorrento Mesa

The North City/University Towne Center (UTC) areas are two distinct communities. Neighborhoods of condominiums, apartments, and commercial development make up the north, and the south is a collection of older homes situated inside the semi-circular Marian Bear Memorial Park. It is a closely-knit community devoted to school, local organizations, churches, and sports leagues.

University City is generally known as the "Golden Triangle," named by developers of the University Towne Centre Mall for the triangle formed by Highways 5, 805, and 52 and the collection of hotels, office buildings, and restaurants that fill the triangle's northern point. The southern portion of the triangle includes family-oriented neighborhoods and a plethora of open space. A mixture of residents including singles, young married couples, and business and academic professionals live in University City mostly because of its central location to San Diego and other northerly communities.

This sub-market also includes Sorrento Mesa, which lies just north of the UTC area and east of the 805 Freeway. Known as "Wireless Valley," Sorrento Mesa/Sorrento Valley is the second largest office market in San Diego County, after Downtown. Located just east of the 805 Freeway and just outside of the UTC/Golden Triangle border, the area is home to many telecommunication companies including Qualcomm.

The UTC/North City/Sorrento Mesa market is estimated to achieve an occupancy and average daily rate in 2019 of 83.8 percent or $188.24, with no additions to supply. This represents a 0.6 percent increase in occupied room nights, and an increase of 4.0 percent in average daily rate over 2018 levels. Looking towards 2020, we forecast occupied room nights to remain at 2019 levels at an 83.8 percent market occupancy and forecast a 3.0 percent increase in ADR to $193.89.

| North City - UTC<br>Historical Market Performance of the Competitive Supply | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 922,355 | N/A | 729,222 | N/A | 79.1% | $154.19 | N/A | $121.90 | N/A |
| 2015 | 922,355 | 0.0% | 756,069 | 3.7% | 82.0 | 162.49 | 5.4% | 133.20 | 9.3% |
| 2016 | 922,355 | 0.0 | 762,751 | 0.9 | 82.7 | 166.21 | 2.3 | 137.45 | 3.2 |
| 2017 | 922,355 | 0.0 | 774,015 | 1.5 | 83.9 | 173.19 | 4.2 | 145.34 | 5.7 |
| 2018 | 922,355 | 0.0 | 767,832 | -0.8 | 83.2 | 180.97 | 4.5 | 150.65 | 3.7 |
| 2019E | 922,355 | 0.0 | 772,802 | 0.6 | 83.8 | 188.24 | 4.0 | 157.72 | 4.7 |
| 2020F | 922,355 | 0.0 | 772,802 | 0.0 | 83.8 | 193.89 | 3.0 | 162.45 | 3.0 |
| CAAG | 0.0% | | 1.0% | | | 3.9% | | 4.9% | |

Source: CBRE Hotels

## NORTH COASTAL MARKET

The North Coastal market includes the beach communities in northern San Diego including the cities of Del Mar, Carlsbad, and Oceanside. The area stretches as far inland as Rancho Santa Fe with a northern boundary formed by the Camp Pendleton Marine Corps Base. The location of the communities within this market along the beach and surrounding concentrations of commercial office parks has enabled the resort properties and hotels to capture demand from the commercial, leisure, and group segments.

Although a majority of the North County caters to commercial demand, area attractions such as the Del Mar racetrack, fairgrounds, beaches, shopping outlets and LEGOLAND in Carlsbad, and San Diego Safari Park have contributed to the growth of the leisure segment. The hotels surrounding the Del Mar racetrack were able to capture additional demand with the introduction of an additional 24-day racing season which began November 2014 following the closing of the Hollywood Park Race Track.

The North Coastal market opened the 146-room Home2 Suites by Hilton in Carlsbad in September 2019 and is expected to open a 104-room Springhill Suites by Marriott in 2020.

We estimate that year-end 2019 occupancy will increase to 77.3 percent. This represents a 3.0 percent increase in occupied rooms from 2018. We estimate average daily rate to finish 2019 at $191.99, an increase of 0.1 percent. In 2020, we forecast occupied rooms to increase by 1.5 percent, resulting in market occupancy of 77.0 percent amidst a 1.8 percent increase in supply. We forecast ADR to grow 1.5 percent to $194.87.

North Coastal
Historical Market Performance of the Competitive Supply

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 2,046,718 | N/A | 1,512,875 | N/A | 73.9% | $175.72 | N/A | $129.89 | N/A |
| 2015 | 1,998,740 | -2.3% | 1,600,554 | 5.8% | 80.1 | 181.17 | 3.1% | 145.08 | 11.7% |
| 2016 | 1,998,740 | 0.0 | 1,645,400 | 2.8 | 82.3 | 182.43 | 0.7 | 150.18 | 3.5 |
| 2017 | 2,176,860 | 8.9 | 1,684,239 | 2.4 | 77.4 | 187.32 | 2.7 | 144.93 | -3.5 |
| 2018 | 2,268,475 | 4.2 | 1,736,011 | 3.1 | 76.5 | 191.75 | 2.4 | 146.74 | 1.2 |
| 2019E | 2,314,465 | 2.0 | 1,788,206 | 3.0 | 77.3 | 191.99 | 0.1 | 148.34 | 1.1 |
| 2020F | 2,356,258 | 1.8 | 1,815,029 | 1.5 | 77.0 | 194.87 | 1.5 | 150.11 | 1.2 |
| CAAG | 2.4% | | 3.1% | | | 1.7% | | 2.4% | |

Source: CBRE Hotels

## I-15/Kearny Mesa

This market encompasses hotels located along Interstate 15 in the inland, northern and central portions of San Diego County. This area is part of a growing market, which includes the cities and communities of Escondido, Fallbrook, Vista, and San Marcos. Also included in this submarket are the communities of Rancho Penasquitos, Rancho Bernardo, Kearny Mesa, Miramar, and Poway. The Miramar Naval Air Station is located in this area as are concentrations of commercial and industrial office markets.

The I-15/Kearny Mesa market is expected to open the 135-room Element hotel by Marriott at the end of 2020.

We estimate the market to end 2019 with an occupancy rate of 76.0 percent, an increase of 1.8 percent in occupied rooms over 2018, amid an increase of 3.8 percent in supply. We estimate a 2.9 percent increase in ADR to $140.51 for the I-15/Kearney Mesa submarket in 2019. In 2020, we forecast occupied rooms to grow by 1.0 percent amidst supply growth of 1.2 percent, resulting in a year end market occupancy of 75.8 percent. We forecast ADR to increase 2.0 percent to $143.32.

**I-15 Kearny Mesa**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,518,035 | N/A | 1,099,038 | N/A | 72.4% | $122.90 | N/A | $88.97 | N/A |
| 2015 | 1,518,035 | 0.0% | 1,122,578 | 2.1% | 73.9 | 128.04 | 4.2% | 94.69 | 6.4% |
| 2016 | 1,518,035 | 0.0 | 1,159,248 | 3.3 | 76.4 | 131.48 | 2.7 | 100.40 | 6.0 |
| 2017 | 1,546,262 | 1.9 | 1,187,823 | 2.5 | 76.8 | 135.11 | 2.8 | 103.79 | 3.4 |
| 2018 | 1,560,375 | 0.9 | 1,208,100 | 1.7 | 77.4 | 136.52 | 1.0 | 105.70 | 1.8 |
| 2019E | 1,618,958 | 3.8 | 1,229,957 | 1.8 | 76.0 | 140.51 | 2.9 | 106.75 | 1.0 |
| 2020F | 1,638,485 | 1.2 | 1,242,256 | 1.0 | 75.8 | 143.32 | 2.0 | 108.66 | 1.8 |
| CAAG | 1.3% | | 2.1% | | | 2.6% | | 3.4% | |

Source: CBRE Hotels

## South Bay

Situated between downtown San Diego and the Mexican border is the South Bay submarket, which includes the cities of Chula Vista, Imperial Beach, National City, and San Ysidro. The South Bay area is particularly known for its huge naval presence, with the 32nd Street Naval Base, or Naval Station San Diego, as the center of activity and as the gateway to Mexico. The Navy SEALs have proposed a new $1 billion campus south of their current Silver Strand South Training Campus. The 60-acre complex would add 1.5 million square feet of additional facilities for the Naval Base Coronado. The new complex is expected to bring in 3,500 additional personnel. Hotels in this submarket serve largely a commercial market and some leisure business from area attractions and from border traffic.

The South Bay has been affected by San Diego's flux in tourism efforts, though it has still achieved significant growth. The South County Economic Development Council found that South County is outpacing the rest of San Diego County and the rest of the nation in terms of economic growth. We credit this to the lower starting point, as South Bay experienced more significant declines during the downturn.

The South Bay market is expected to open dual branded properties Homewood Suites and Hampton Inn in Chula Vista by Hilton November 2019. We anticipate the market to experience an increase of 11.9 percent in 2020 due to the end of 2019 opening of the 196-room Hampton Inn and Homewood Suites. The South Bay submarket is anticipated to end 2019 with an occupancy rate of 72.2 percent and an average daily rate of $107.47, an increase of 0.9 percent. In 2020, demand is forecast to increase 9.5 percent amidst a supply increase of 11.9 percent, resulting in an occupancy of 70.7 percent. ADR is forecast to increase by 1.5 percent, ending the year at $109.08 as additional higher quality supply enters this more affordable market.

**South Bay**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 503,700 | N/A | 364,086 | N/A | 72.3% | $94.88 | N/A | $68.58 | N/A |
| 2015 | 503,700 | 0.0% | 374,712 | 2.9% | 74.4 | 98.70 | 4.0% | 73.43 | 7.1% |
| 2016 | 503,700 | 0.0 | 364,982 | -2.6 | 72.5 | 103.58 | 4.9 | 75.05 | 2.2 |
| 2017 | 517,205 | 2.7 | 373,521 | 2.3 | 72.2 | 103.84 | 0.2 | 74.99 | -0.1 |
| 2018 | 557,720 | 7.8 | 404,150 | 8.2 | 72.5 | 106.53 | 2.6 | 77.20 | 2.9 |
| 2019E | 562,191 | 0.8 | 406,110 | 0.5 | 72.2 | 107.47 | 0.9 | 77.63 | 0.6 |
| 2020F | 629,260 | 11.9 | 444,691 | 9.5 | 70.7 | 109.08 | 1.5 | 77.09 | -0.7 |
| CAAG | 3.8% | | 3.4% | | | 2.4% | | 2.0% | |

Source: CBRE Hotels

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# Orange County

2020 SOUTHERN CALIFORNIA LODGING FORECAST

CBRE

# ORANGE COUNTY

## EXECUTIVE SUMMARY

Orange County includes 34 incorporated cities and a number of unincorporated communities, and according to the State of California Department of Finance, has a population estimate of approximately 3.2 million people as of January 2019, third only to Los Angeles and San Diego in population for counties in California. Orange County has evolved from an agricultural economy into a large commercial, industrial, and urban community. As a result of this growth, Orange County (the "County") has developed into a well-respected business, financial, and recreational center of California as well as the Western United States. The County has attracted a number of the nation's most successful electronics, computer, wholesale, and retail firms.

Orange County continues to attract a large number of visitors to the area. In 2018, the estimated number of visitors totaled approximately 50.2 million, an increase of 1.7 percent over the prior year. These visitors to the county were estimated to have spent over $13.0 billion. Of the all the visitors to Orange County, more than nine percent were international travelers. The peak months of visitation for the county are typically from July through September.

Orange County is also home to the Disneyland Resort and Knott's Berry Farm theme parks, two of the nation's most popular recreational attractions. Additional activities in the County include beautiful beaches, numerous shopping venues, and the Anaheim Convention Center. The County is a popular destination amongst international, domestic, and business travelers. Two professional sports teams, the Anaheim Ducks of the NHL and the Los Angeles Angels of Anaheim of MLB, also have their home venues located in Orange County.

Throughout the recent years, Orange County has undergone, and is continuing to undergo, changes that enhance its offerings to both visitors and residents. The Anaheim Regional Transportation Intermodal Center (ARTIC) transportation facility was completed in 2014 and acts as a transportation hub for visitors as well as residents to and from Orange County. Disneyland celebrated its 60-year anniversary in May of 2015, which offered brand new attractions and decorations, attracting a record number of visitors to the park. By the same token, Knott's Berry Farm has also expanded with numerous rides and completed renovations of its Boardwalk area. The Anaheim Convention Center completed a 200,000-square foot expansion in September 2017 to increase the total meeting space to one million square feet, surpassing some of the other premiere convention centers along the west coast. Further south within the County and along the coast, developments such as Huntington Beach's Pacific City and Irvine's Great Park are creating more and more reasons for travelers to visit Orange County.

Fueling the efforts to increase awareness of Orange County as a premier destination, the Orange County Visitors Association (OCVA) has embarked on a marketing initiative to differentiate the county from other Southern California leisure markets and improve branding of the county abroad. In order to promote Orange County to international markets, the OCVA opened sales offices in Beijing and Shanghai in 2013 with the goal of increasing exposure of the County as a destination to the rapidly expanding Asian market. More recently, OCVA has also showed strong representation in other regions such as the Middle East, India, and Japan. Visit Anaheim, previously Anaheim/Orange County Visitor & Convention Bureau (AOCVCB), is another Orange County destination marketing organization. The organization works with area hotels, attractions, transportation entities, restaurants, shops, and entertainment companies to promote Anaheim and maintain its status as a leading destination for conventions, meetings, and vacations.

John Wayne Airport has, in recent years, become one of the busiest regional airports. The airport has undergone numerous updates including the most recently completed Riley Terminals A and B Improvements Project, which included upgrades to vaulted ceilings, new carpet and paint, lighting renovations, updated signage, and seismic retrofitting. Since 2009, annual passenger traffic has increased at a compound annual rate of 2.1 percent as displayed in the following table. Passenger counts experienced five consecutive years of increases from 2012 through 2016 due to additional services to international destinations as well as more options in the general domestic market. According to the 2014 Settlement Agreement Amendment with the County of Orange, the City of Newport Beach, the Airport Working Group (AWG), and Stop Polluting Our Newport (SPON), the airport is permitted a maximum annual passenger limitation (MAP) of 10.8 million passengers. In 2018, John Wayne Airport nearly reached its MAP at 10.7 million passengers. Growth is anticipated to remain flat until 2021 when the MAP is increased to 11.8 passengers.

The following table details the historical passenger traffic at John Wayne Airport from 2009 to 2018, as well as year-to-date through July of 2018 and 2019.

**John Wayne Airport**
**Passengers Counts**
**2009 – 2018 & YTD 2019**

| Year | Total Passengers | Percent Change |
|---|---|---|
| 2009 | 8,705,199 | N/A |
| 2010 | 8,663,452 | -0.5% |
| 2011 | 8,609,008 | -0.6 |
| 2012 | 8,857,944 | 2.9 |
| 2013 | 9,232,789 | 4.2 |
| 2014 | 9,386,033 | 1.7 |
| 2015 | 10,038,466 | 7.0 |
| 2016 | 10,496,511 | 4.6 |
| 2017 | 10,423,578 | -0.7 |
| 2018 | 10,664,038 | 2.3 |
| CAAG | 2.1% | |
| YTD 7/19 | 6,230,519 | N/A |
| YTD 7/19 | 6,239,590 | 0.1% |

Source: John Wayne Airport

The Orange County area has a diverse employment structure with major employers in industries including tourism, recreation businesses, theme parks, government, healthcare, education, high-tech, manufacturing, service, and finance. Improvements in employment have been showing both in the county as well as statewide since 2012. The following table illustrates the unemployment rates for Orange County from 2008 through 2018 as well as year-to-date July 2019, as compared to the same period in the previous year.

| Unemployment Rates<br>Orange County | |
|---|---|
| Year | Orange County |
| 2008 | 5.3% |
| 2009 | 8.7 |
| 2010 | 9.7 |
| 2011 | 9.1 |
| 2012 | 7.9 |
| 2013 | 6.6 |
| 2014 | 5.5 |
| 2015 | 4.5 |
| 2016 | 4.0 |
| 2017 | 3.5 |
| 2018 | 3.1 |
| 7/18 YTD | 3.2% |
| 7/19 YTD | 3.2 |

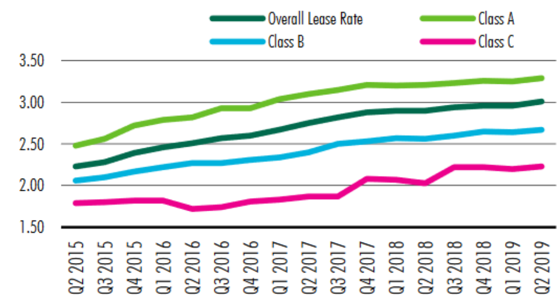
Source: CA Employment Development Department

As of July 2019, the unemployment rate in Orange County was 3.2 percent, the same rate from the prior year in July 2018. As a point of comparison, California's unemployment rate as of July 2019 was 4.4 percent, and the nation's unemployment rate was 3.9 percent. Year-over-year, 11,000 jobs were added in Orange County. The largest gains were in education and health services, up 9,300 jobs led by ambulatory health care services and social assistance. Professional and business services grew by 5,300 jobs while leisure and hospitality increased by 4,400 jobs.

The average asking lease rate in Orange County increased 1.7 percent in the second quarter of 2019, the highest growth since Q4 2017, to $3.01 per square foot driven by new construction and strong demand. Despite almost 1.0 million square feet of office product added to the base, total and direct vacancy increased only 50 basis points (bps) in the county. Landlords focused on adding high-quality amenities such as gyms, outdoor space, and restaurants. Despite a tightening office market, new product, and a rising average asking lease rate, leasing activity slowed as companies re-evaluated their space needs.

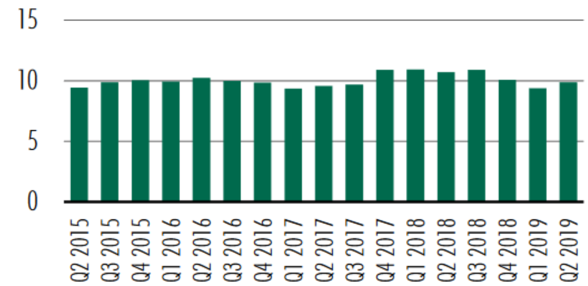
The vacancy rate in Orange County remained below 10.0 percent though almost 1.0 million square feet of new office product delivered, signaling a strong and healthy market. A robust and highly trained labor pool is expected to help the new office buildings lease quickly and further strengthen market fundamentals. Positive net absorption is expected throughout 2019 as tenants seek new and renovated spaces with strong amenities. The average asking lease rate is expected to increase further as investors put capital into their buildings. CBRE EA projects rents to increase through 2019 year-end. The following tables summarizes the Orange County office market performance from Q2 2015 to Q2 2019 from the CBRE's Q2 2019 MarketView report.

Figure 4: Average Asking Lease Rate ($PSF/MO/FSG)




Source: CBRE Research, Q2 2019.

Figure 6: Overall Vacancy Rate (%)




Source: CBRE Research, Q2 2019.

Our sample set of hotels includes the sum of our aggregated sub markets, which we estimate to be approximately 80 percent of the total existing lodging supply in Orange County. Based on the sample set of hotels used in our analysis, the overall Orange County lodging market supply is estimated to increase by 0.7 percent in 2019. This increase in annual supply is due to the actual and anticipated openings of the following hotels: 178-room Hampton Inn & Suites Anaheim Resort Convention Center, 352-room Cambria Hotel & Suites Anaheim, and the 102-room Hampton Inn & Suites Buena Park.

Additionally, the rooms supply in the Orange County market is estimated to further increase by 3.5 percent in 2020 with the annualized rooms of the previously mentioned hotels entering the market, in addition to the opening of 10 more hotel projects. These include the 466-room JW Marriott Anaheim, 174-room Element Anaheim, 223-room dual-branded Hilton Garden/Home2 Suites Anaheim, 326-room Radisson Blu Anaheim, 99-room SpringHill Suites Irvine Lake Forest, 112-room TownePlace Suites Irvine Lake Forest, 204-room dual-branded Hampton Inn/Homewood Suites Lake Forest Irvine Spectrum, 124-room Inn at the Mission Autograph Collection, 178-room Hilton Buena Park, and the 208-room Staybridge Suites Irvine.

Our 2019 estimate for the overall Orange County market is positive across all econometric indicators. We anticipate a 1.6 percent increase in occupied rooms, more than absorbing all of the additions to supply entering into the market in 2019 and resulting in a market occupancy of 80.0 percent. During this year, the market is projected to experience a 1.9 percent increase in ADR. These increases in occupancy and ADR are projected to produce a year-over-year 2.8 percent increase in revenue per available room.

In the following year, the market supply is forecast to increase by 3.5 percent, and demand, as measured by occupied rooms, is projected to increase by 3.1 percent. Overall, the market occupancy is projected to decrease slightly, ending 2020 with an occupancy of 79.6 percent. In 2020, we forecast moderate ADR growth at 2.2 percent, resulting in an ADR of $187.16.

| Orange County<br>Historical Market Performance of the Competitive Supply | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 15,268,193 | N/A | 11,673,921 | N/A | 76.5% | $153.08 | N/A | $117.04 | N/A |
| 2015 | 15,425,430 | 1.0% | 12,145,701 | 4.0% | 78.7 | 161.30 | 5.4% | 127.01 | 8.5% |
| 2016 | 15,973,082 | 3.6 | 12,577,155 | 3.6 | 78.7 | 167.62 | 3.9 | 131.98 | 3.9 |
| 2017 | 16,268,978 | 1.9 | 12,895,735 | 2.5 | 79.3 | 173.61 | 3.6 | 137.61 | 4.3 |
| 2018 | 16,591,896 | 2.0 | 13,145,933 | 1.9 | 79.2 | 179.72 | 3.5 | 142.40 | 3.5 |
| 2019E | 16,700,486 | 0.7 | 13,355,773 | 1.6 | 80.0 | 183.11 | 1.9 | 146.44 | 2.8 |
| 2020F | 17,290,050 | 3.5 | 13,766,530 | 3.1 | 79.6 | 187.16 | 2.2 | 149.02 | 1.8 |
| CAAG | 2.1% | | 2.8% | | | 3.4% | | 4.1% | |
| Source: CBRE Hotels | | | | | | | | | |

## ADDITIONS TO SUPPLY

Based on our research and findings, the following table details the new hotels going forward that have been included in this year's edition of our Southern California Lodging Forecast located within the Orange County market.

| Lodging Forecast - Additions to Supply as of October 2019 | | | | |
|---|---|---|---|---|
| Hotel Name | City | Submarket | Room Count | Opening Date |
| Cambria Hotel Anaheim | Anaheim | Anaheim | 352 | November 2019 |
| Element Hotel Anaheim | Anaheim | Anaheim | 174 | January 2020 |
| TownePlace Suites Lake Forest | Lake Forest | Central OC | 112 | January 2020 |
| Staybridge Suites Irvine | Irvine | OC Airport | 208 | January 2020 |
| Hilton Buena Park | Buena Park | North OC | 178 | April 2020 |
| JW Marriott Anaheim | Anaheim | Anaheim | 466 | July 2020 |
| Hilton Garden Inn/Home2 Suites Anaheim | Anaheim | Anaheim | 223 | July 2020 |
| SpringHill Suites Lake Forest | Lake Forest | Central OC | 99 | July 2020 |
| Hampton Inn/Homewood Suites Lake Forest | Lake Forest | Central OC | 204 | July 2020 |
| Inn at the Mission, Autograph Collection | San Juan Capistrano | Coastal OC | 124 | July 2020 |
| Radisson Blu Anaheim | Anaheim | Anaheim | 326 | October 2020 |
| Source: CBRE Hotels | | | | |

### Central Orange County

The Central Orange County market includes: Laguna Hills, Lake Forest, Foothill Ranch, Irvine Spectrum, Aliso Viejo, Laguna Woods, Mission Viejo, and Rancho Margarita. The Central Orange County market caters primarily to the business and leisure market segments, as well as some group travel business. While the Central Orange County submarket is home to a variety of businesses based in the cities of Aliso Viejo and Mission Viejo that create the base of the commercial demand, this market, particularly the lodging properties to the north, also receives compression from the neighboring Orange County/John Wayne Airport market.

We expect the Central Orange County lodging market to end 2019 with a 1.5 percent increase in occupied rooms amidst an unchanged supply, equating to a market occupancy of 79.5 percent. The average daily rate is expected to increase 1.4 percent, a slower rate of growth than the previous year of 5.3 percent. Revenue per available room is forecast to increase by 2.9 percent to $125.56.

In 2020, rooms supply is anticipated to increase by 9.4 percent with the projected openings of the 99-room SpringHill Suites Irvine Lake Forest, 112-room TownePlace Suites Irvine Lake Forest, and the 204-room dual-branded Hampton Inn/Homewood Suites Lake Forest Irvine Spectrum. We forecast a 7.5

percent increase in occupied rooms, resulting in an occupancy of 78.1 percent. We project a modest ADR growth of 1.5 percent. Revenue per available room is expected to decrease slightly by 0.3 percent given the large increase in supply and the market operating near long-term stabilization levels in occupancy.

**Central Orange County**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 800,445 | N/A | 619,890 | N/A | 77.4% | $130.95 | N/A | $101.41 | N/A |
| 2015 | 838,770 | 4.8% | 663,936 | 7.1% | 79.2 | 139.64 | 6.6% | 110.53 | 9.0% |
| 2016 | 878,008 | 4.7 | 691,706 | 4.2 | 78.8 | 144.72 | 3.6 | 114.01 | 3.1 |
| 2017 | 904,850 | 3.1 | 722,968 | 4.5 | 79.9 | 147.93 | 2.2 | 118.20 | 3.7 |
| 2018 | 1,021,635 | 12.9 | 800,015 | 10.7 | 78.3 | 155.76 | 5.3 | 121.97 | 3.2 |
| 2019E | 1,021,635 | 0.0 | 812,067 | 1.5 | 79.5 | 157.96 | 1.4 | 125.56 | 2.9 |
| 2020F | 1,117,813 | 9.4 | 872,972 | 7.5 | 78.1 | 160.33 | 1.5 | 125.21 | -0.3 |
| CAAG | 5.7% | | 5.9% | | | 3.4% | | 3.6% | |

Source: CBRE Hotels

## Anaheim and Greater Anaheim

Tourism in Anaheim is the principal economic force and the center of Orange County's lodging industry. The Greater Anaheim submarket, the largest in Orange County in terms of rooms revenue, is situated in north-central Orange County, and also includes those properties in the cities of Garden Grove and Orange that compete directly with Anaheim Resort hotels. For presentation purposes, we have separated the Anaheim and Greater Anaheim (Garden Grove, Orange) properties.

Located in the heart of Southern California, Anaheim is one of the most dynamic communities for residents, businesses, and visitors alike. Between 1880 and 1960, Anaheim was host to several orange growers and processors who used their orange crate labels to identify their brand and advertise a golden California lifestyle. Anaheim has since been transformed from a small farming community to a major sports, entertainment, recreational, and industrial community. The city offers the "best of both worlds" with its strong and diverse economy coupled with its position as an internationally recognized leisure and convention destination.

Located in the heart of Anaheim is the Disneyland Resort, which includes the original Disneyland Park, Disney's California Adventure theme park, Downtown Disney, Disneyland Hotel, Paradise Pier Hotel, and the Grand Californian Hotel. These facilities, along with the Anaheim Convention Center, represent the primary demand generators for hotels in Anaheim and nearby areas. These components, along with the supporting hotels and motels immediately surrounding the Disneyland Resort and the Anaheim Convention Center, comprise what is known as the "Anaheim Resort District" (or the "Resort").

The Anaheim Convention Center is a critical draw for the group and convention business in Anaheim, which has spurred further expansion. Located immediately across from Disneyland, the Anaheim Convention Center is one of the major sources of hotel room demand in the Orange County area, with almost 20 percent of total visitors to Anaheim attending a convention. The Anaheim Convention Center completed a $180 million expansion and refurbishment project on December 28, 2000, propelling it into the position of largest and one of the most modern exhibit facilities on the West Coast. Meeting space totaled more than 1.4 million square feet after the renovation and allowed it to simultaneously accommodate larger groups and multiple medium sized groups. Renovations and expansions continued at a regular interval through January of 2013, when the Convention Center completed its sixth expansion and welcomed the Grand Plaza, a 100,000-square foot multi-use space located outside the Center's front entrance off Convention Way. The pedestrian plaza features a 48-foot illuminated entry monument and fountain followed by a pathway of LED lights which ultimately leads to an ocean fountain that can shoot water up to 40 feet. The Grand Plaza provides lush landscaping and flexible outdoor space that can be used for dining, exhibit space, outdoor concerts, and other uses. An additional $190 million expansion was completed in September 2017. The expansion included an additional 200,000 square feet of space for exhibits and meetings, with approximately 3,200 parking spaces. The expansion increased meeting space at the Convention Center to over 1.9 million square feet including the open-air Grand Plaza.

The following table summarizes the historical data on overall convention attendance as provided by Visit Anaheim, as well as the number of bookings based on actual bookings through 2018. Prior to the start of the expansion and refurbishment of the Anaheim Convention Center in 1998, the group meeting market in the Anaheim area averaged approximately 950,000 attendees per year. In the most recent year, the number of delegates totaled approximately 1.6 million or a 3.0 percent decrease from the prior year. Looking towards the remainder of 2019 and beyond, meeting activity is expected to be strong, as convention activity is often negotiated several years in advance.

**Anaheim/Orange County Convention and Meeting Activity 2009 – 2018**

| Year | Number of Delegates | Percent Change | Number of Bookings |
|---|---|---|---|
| 2009 | 1,292,179 | 3.2% | 583 |
| 2010 | 1,128,285 | -12.7 | 465 |
| 2011 | 1,066,450 | -5.5 | 507 |
| 2012 | 1,001,846 | -6.1 | 499 |
| 2013 | 1,187,890 | 18.6 | 557 |
| 2014 | 1,253,363 | 5.5 | 502 |
| 2015 | 1,597,884 | 27.5 | 541 |
| 2016 | 1,589,445 | -0.5 | 566 |
| 2017 | 1,694,776 | 6.2 | 582 |
| 2018 | 1,643,144 | -3.0 | 507 |

Source: Visit Anaheim

The following table presents historical and future room nights associated with events booked by Visit Anaheim. The historical and projected room night information is based on actual room nights consumed and/or booked as of July 2019. Citywide events are categorized with peak nights above 1,000. Projected room nights are those booked as definite as of the date of our fieldwork. Based on the uncertainty of the economy and convention trends, it should be noted that more or less groups may be booked from that date through 2019 and beyond.

| Citywide Event Room Nights & Groups Anaheim/Orange County | | |
|---|---|---|
| Year | Room Nights | Groups |
| **Historical** | | |
| 2011 | 473,431 | 43 |
| 2012 | 455,106 | 48 |
| 2013 | 466,044 | 49 |
| 2014 | 481,026 | 47 |
| 2015 | 509,258 | 53 |
| 2016 | 505,921 | 46 |
| 2017 | 674,753 | 55 |
| 2018 | 533,414 | 44 |
| **Future Bookings** | | |
| 2019 | 560,041 | 56 |
| 2020 | 509,927 | 42 |
| 2021 | 514,806 | 33 |
| 2022 | 308,841 | 23 |

Source: Visit Anaheim

The Disneyland Resort in Anaheim consists of the original Disneyland theme park, Disney's California Adventure, Downtown Disney, and three Disney-themed hotels. It is the largest single demand generator in Orange County, and the second most visited amusement park in North America, continually attracting visitors to the greater Anaheim area. Each park features differently themed lands with their own unique rides, food and beverage offerings, and live entertainment and cast members. The parks are specially decorated during certain seasons.

Disney's highly anticipated *Star Wars: Galaxy's Edge* officially opened May 31, 2019, which covers 14 acres of land and features currently features the Millennium Falcon ride as well as numerous themed shops. The new land is part of a $2 billion investment Disney has made into its theme parks. The second phase of Disneyland's Star Wars land is scheduled to open in early 2020. An additional ride, titled *Star Wars: Rise of the Resistance*, will give park guests the opportunity to ride in an eight-seat vehicle that will journey through various battle scenes based on the popular film series.

Disney has also unveiled updated plans for a new Marvel superhero-themed "Avengers Campus" at Disney's California Adventure to open in phases beginning in 2020. The Avengers Campus will occupy what is the site of the former "A Bug's Land", and the first phase in 2020 will feature a new interactive Spider-Man themed ride. The centerpiece of the new campus will be the Avengers Headquarters, which will be unveiled in the second phase of development of the Avengers Campus and will offer a second ride to park attendees.

Other notable destinations within the greater Anaheim area include Knott's Berry Farm, one of the top 20 tourist attractions in the United States. Most recently, Knott's Berry Farm opened California's first and only dive coaster, entitled Hang Time in May of 2018. The ride takes riders up a vertical lift hill, pauses for several seconds and then shoots them down a 15-story, 96-degree drop. Near both the Convention Center and the Disneyland theme parks, Anaheim Garden Walk is a 440,000 square-foot mall featuring retail, dining, and entertainment space in a unique outdoor setting.

Opened in December of 2014, ARTIC is Anaheim's regional transportation gateway that connects multiple types of transportation in one location. The City of Anaheim entered into a management agreement with Anaheim Arena Management for ARTIC, who currently operates the Honda Center and plans to develop an entertainment and retail center destination as part of the overall area.

The Greater Anaheim lodging market, inclusive of Garden Grove and Orange, is anticipated to experience an increase of 0.2 percent in annual supply, which is attributed to the difference between the opening of the 178-room Hampton Inn & Suites Anaheim Resort and Convention Center and the closing of the 152-room Quality Inn and Suites Anaheim for the construction of a dual-branded Hilton Garden Inn/Home 2 Suites. Demand, or occupied room nights, is forecast to increase by 0.4 percent, resulting in an occupancy of 81.9 percent. Average daily rate is projected to increase above inflationary levels at 3.2 percent, while RevPAR is expected to increase by 3.3 percent to $146.49 for the market.

In 2020, we anticipate a 3.9 percent increase in annual supply due to the projected openings of the 466-room JW Marriott Anaheim, 174-room Element Anaheim, 223-room dual-branded Hilton Garden Inn/Home2 Suites Anaheim, and the 326-room Radisson Blu Anaheim. Occupied room nights in the market are forecast to increase by 3.3 percent, a slower rate of growth than annual supply. This results in an occupancy of 81.4 percent. Our estimate for this year also factors the opening of the second attraction ride at *Star Wars: Galaxy's Edge*. We expect average daily rate to increase by 4.2 percent to $179.05 as several higher-rated properties enter the market. When combined, we expect revenue per available room will reach $151.91, representing a year-over-year increase of 3.6 percent.

The following table presents the market results for Greater Anaheim during the period of 2014 through 2018, as well as our 2019 estimate and 2020 forecast. It must be noted that our historical figures have been revised from previous years to reflect updated data that we have received from the City of Anaheim.

**Greater Anaheim Hotels**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 8,069,663 | N/A | 6,195,163 | N/A | 76.8% | $142.27 | N/A | $109.22 | N/A |
| 2015 | 8,162,295 | 1.1% | 6,472,327 | 4.5% | 79.3 | 152.41 | 7.1% | 120.85 | 10.6% |
| 2016 | 8,581,710 | 5.1 | 6,867,539 | 6.1 | 80.0 | 159.53 | 4.7 | 127.66 | 5.6 |
| 2017 | 8,670,012 | 1.0 | 7,042,101 | 2.5 | 81.2 | 166.66 | 4.5 | 135.37 | 6.0 |
| 2018 | 8,599,400 | -0.8 | 7,029,869 | -0.2 | 81.7 | 173.52 | 4.1 | 141.85 | 4.8 |
| 2019E | 8,619,568 | 0.2 | 7,057,005 | 0.4 | 81.9 | 179.05 | 3.2 | 146.59 | 3.3 |
| 2020F | 8,956,370 | 3.9 | 7,292,996 | 3.3 | 81.4 | 186.56 | 4.2 | 151.91 | 3.6 |
| CAAG | 1.8% | | 2.8% | | | 4.6% | | 5.7% | |

Source: CBRE Hotels

In the Anaheim lodging submarket, annual supply is expected to increase by 0.3 percent for year-end 2019. Occupied rooms are anticipated to increase by 0.3 percent, the same rate of growth as annual supply, equating to a market occupancy of 82.0 percent. We forecast average daily rate to increase by 3.3 percent to $182.77. Revenue per available room will grow by 3.4 percent in 2019. With the anticipated opening of the aforementioned hotels in Anaheim, we project annual supply to increase by 4.8 percent in 2020. Occupied rooms are expected to grow by 4.0 percent, resulting in a lower occupancy of 81.4 percent as compared to 82.0 percent in 2019. Average daily rate and RevPAR are forecast to increase by 4.5 percent and 3.6 percent, respectively.

| Total Anaheim<br>Historical Market Performance of the Competitive Supply | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 6,688,868 | N/A | 5,119,255 | N/A | 76.5% | $145.50 | N/A | $111.36 | N/A |
| 2015 | 6,751,935 | 0.9% | 5,345,464 | 4.4% | 79.2 | 156.50 | 7.6% | 123.90 | 11.3% |
| 2016 | 6,981,405 | 3.4 | 5,619,685 | 5.1 | 80.5 | 162.01 | 3.5 | 130.41 | 5.3 |
| 2017 | 7,039,557 | 0.8 | 5,753,843 | 2.4 | 81.7 | 168.64 | 4.1 | 137.84 | 5.7 |
| 2018 | 6,968,945 | -1.0 | 5,714,375 | -0.7 | 82.0 | 176.86 | 4.9 | 145.02 | 5.2 |
| 2019E | 6,989,113 | 0.3 | 5,732,639 | 0.3 | 82.0 | 182.77 | 3.3 | 149.91 | 3.4 |
| 2020F | 7,325,915 | 4.8 | 5,962,008 | 4.0 | 81.4 | 190.92 | 4.5 | 155.37 | 3.6 |
| CAAG | 1.5% | | 2.6% | | | 4.6% | | 5.7% | |
| Source: CBRE Hotels | | | | | | | | | |

The following table presents the market summary for those hotels, in this submarket, located outside the City of Anaheim, but within the greater Disneyland Resort area. As can be seen from the following table, the non-Anaheim/Garden Grove annual hotel supply is projected to remain flat in 2019. Occupied rooms are forecast to increase by 0.7 percent. We estimate that the market's average daily rate will increase by 2.5 percent to $162.96. For 2020, we forecast a 0.5 percent increase in occupied rooms, equating to market occupancy of 81.6 percent. Additionally, average daily rate is projected to increase to $167.03, a 2.5 percent increase over the previous year. Combined, revenue per available room is forecast to increase by 3.0 percent to $136.35.

| Non-Anaheim/Garden Grove Hotels<br>Historical Market Performance of the Competitive Supply | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 1,380,795 | N/A | 1,075,907 | N/A | 77.9% | $126.93 | N/A | $98.90 | N/A |
| 2015 | 1,410,360 | 2.1% | 1,126,863 | 4.7% | 79.9 | 132.99 | 4.8% | 106.25 | 7.4% |
| 2016 | 1,600,305 | 13.5 | 1,247,853 | 10.7 | 78.0 | 148.36 | 11.6 | 115.69 | 8.9 |
| 2017 | 1,630,455 | 1.9 | 1,288,258 | 3.2 | 79.0 | 157.83 | 6.4 | 124.70 | 7.8 |
| 2018 | 1,630,455 | 0.0 | 1,315,494 | 2.1 | 80.7 | 159.01 | 0.7 | 128.30 | 2.9 |
| 2019E | 1,630,455 | 0.0 | 1,324,366 | 0.7 | 81.2 | 162.96 | 2.5 | 132.37 | 3.2 |
| 2020F | 1,630,455 | 0.0 | 1,330,988 | 0.5 | 81.6 | 167.03 | 2.5 | 136.35 | 3.0 |
| CAAG | 2.8% | | 3.6% | | | 4.7% | | 5.5% | |
| Source: CBRE Hotels | | | | | | | | | |

## Orange County Airport

The Orange County Airport market includes cities proximate to John Wayne Airport including Irvine, Santa Ana, Tustin, parts of Newport Beach, and Fountain Valley. This area is a dynamic business center and home to dozens of Fortune 500 companies. The area primarily caters to business travelers and secondarily to the leisure and group market segments. The Orange County Airport market is heavily dependent on commercial travel generated by the John Wayne Airport and businesses in the area. The market's attributes, including proximity to freeway access, surrounding amenity base, and high-quality office product, make the area attractive to businesses looking to move into this location.

Annual supply in this market is projected to increase by 1.7 percent in 2019 with the annualized rooms of the 164-room Hampton Inn & Suites Irvine / Orange County and the 161-room Holiday Inn Express Santa Ana / Orange County. Occupied room nights are expected to increase by 5.7 percent as a result of several hotels in the market completing a renovation or being rebranded. As a result, this reflects a market occupancy of 77.9 percent in 2019. Average daily rate is anticipated to increase by 0.4 percent over the previous year to $143.96. Due to increases in both occupied rooms and average daily rate, revenue per available room is expected to increase by 4.4 percent to $112.09.

In 2020, the 208-room Staybridge Suites Irvine is projected to open, resulting in an annual supply increase of 2.8 percent. Demand, or occupied room nights, is anticipated to increase by 3.0 percent, greater than the rate of growth for annual supply. This equates to a market occupancy of 78.0 percent. Average daily rate is projected to grow by 1.5 percent to $146.12. As such, revenue per available room is expected to grow by 1.7 percent, primarily driven by increases in ADR.

**Orange County Airport**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 2,309,355 | N/A | 1,718,245 | N/A | 74.4% | $128.73 | N/A | $95.78 | N/A |
| 2015 | 2,335,635 | 1.1% | 1,835,867 | 6.8% | 78.6 | 134.90 | 4.8% | 106.03 | 10.7% |
| 2016 | 2,371,405 | 1.5 | 1,826,596 | -0.5 | 77.0 | 140.06 | 3.8 | 107.88 | 1.7 |
| 2017 | 2,475,460 | 4.4 | 1,881,408 | 3.0 | 76.0 | 142.05 | 1.4 | 107.96 | 0.1 |
| 2018 | 2,623,164 | 6.0 | 1,964,101 | 4.4 | 74.9 | 143.39 | 0.9 | 107.36 | -0.6 |
| 2019E | 2,667,420 | 1.7 | 2,076,824 | 5.7 | 77.9 | 143.96 | 0.4 | 112.09 | 4.4 |
| 2020F | 2,743,340 | 2.8 | 2,139,129 | 3.0 | 78.0 | 146.12 | 1.5 | 113.94 | 1.7 |
| CAAG | 2.4% | | 3.2% | | | 1.9% | | 2.7% | |

Source: CBRE Hotels

## South Coast Metro Market

The City of Costa Mesa is a discernible entity, characterized physically by its strategic crossroads location, proximity to the Pacific Ocean, richness in culture, shopping and dining, and comfortable year-round climate. Costa Mesa encompasses a total of 16 square miles with its southernmost border only one mile from the Pacific Ocean. The City was incorporated in 1953 and since that time, it has evolved from a semi-rural farming community to a city with its local economy primarily based upon retail, commercial business, and manufacturing of electronics and pharmaceuticals. As of January 2019, the California Department of Finance estimated a population for Costa Mesa of 115,800, a 1.1 percent increase over the prior year.

Over the past several years, Costa Mesa has experienced an expansion of tourism, mixed-use developments, and dramatic infrastructure improvements, enabling the area to become a more prominent resort destination. Furthermore, with the South Coast Plaza shopping center, Costa Mesa has proven its strength and capabilities as a destination for both locals and international travelers. The Costa Mesa hotel market primarily caters to business travelers; however, it also caters to the leisure and group segments. Commercial demand is based primarily upon a hotel's location near the commercial business districts of Costa Mesa and Santa Ana, as well as their location proximate to John Wayne Airport. Group demand is a combination of incentive meetings for sales and marketing staffs, executive level conferences, educational sessions for professionals such as doctors and attorneys, and social and fraternal retreats. The leisure demand segment consists of pleasure travelers to and around Southern California. South Coast Plaza and the Segerstrom Center for the Arts also contribute to the strength of the local lodging market.

Annual supply is expected to remain constant at 781,465 rooms, with no hotels slated to open in the near future. Historically, the market occupancy has hovered near 80 percent. We expect occupied rooms to decrease slightly in 2019 by 0.2 percent, resulting in an occupancy of 79.5 percent. This is a result of newer and renovated hotel products opening in the surrounding markets. The market's average daily rate is expected to decrease slightly by 0.1 percent. As a combination of the decreases in ADR and occupancy, revenue per available room is estimated to decrease by 0.3 percent.

For 2020, we project occupancy to remain flat as the market has operated at long-term stabilization levels in recent years. Average daily rate is forecast to increase by 1.5 percent and revenue per available room is expected to increase by 1.5 percent to $119.51.

Costa Mesa
Historical Market Performance of the Competitive Supply

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 781,465 | N/A | 632,249 | N/A | 80.9% | $129.66 | N/A | $104.90 | N/A |
| 2015 | 781,465 | 0.0% | 630,798 | -0.2% | 80.7 | 135.85 | 4.8% | 109.66 | 4.5% |
| 2016 | 781,465 | 0.0 | 622,822 | -1.3 | 79.7 | 143.26 | 5.5 | 114.18 | 4.1 |
| 2017 | 781,465 | 0.0 | 629,613 | 1.1 | 80.6 | 147.87 | 3.2 | 119.14 | 4.3 |
| 2018 | 781,465 | 0.0 | 622,328 | -1.2 | 79.6 | 148.23 | 0.2 | 118.05 | -0.9 |
| 2019E | 781,465 | 0.0 | 621,237 | -0.2 | 79.5 | 148.12 | -0.1 | 117.75 | -0.3 |
| 2020F | 781,465 | 0.0 | 621,237 | 0.0 | 79.5 | 150.34 | 1.5 | 119.51 | 1.5 |
| CAAG | 0.0% | | -0.3% | | | 2.5% | | 2.2% | |

Source: CBRE Hotels

## North Orange County

The North Orange County submarket follows the northern border of the county and includes the cities of Yorba Linda, Placentia, Brea, Fullerton, Buena Park, Cypress, Los Alamitos, Seal Beach, and the northern parts of Huntington Beach. Lodging demand is largely driven by the strong commercial sector in Yorba Linda, Brea, Cypress, Los Alamitos, and Seal Beach, while Fullerton generates demand through its numerous higher education campuses and Buena Park relies heavily on leisure business generated by Knott's Berry Farm.

Knott's Berry Farm revealed a multimillion-dollar expansion in summer 2013 which included a renovation of the west-side Boardwalk area and the addition of three new family style rides. The attractions included the Coast Rider, a 52-foot ascent roller coaster with a fast drop along 1,339 feet of track filled with hairpin turns, twists, and spins; Surfside Glider, a two-man aircraft that climbs to a height of 28 feet and provides a bird's eye view of the Boardwalk area; and Pacific Scrambler, a spin ride. The 1969 Timber Mountain log ride, still the theme park's most popular ride, reopened on June 2, 2013 after an extensive renovation that lasted five months. Knott's Berry Farm also completed a renovation of the famous and historical Calico Mine Ride in June 2014 after a six-month rehabilitation. The ride now features new audio, lighting, electrical and structural upgrades as well as about 50 new animatronic figures. Camp Snoopy also received an improved transformation, which included new rides within the camp. Most recently, Knott's Berry Farm opened California's first and only dive coaster, entitled HangTime in May of 2018. The ride takes riders up a vertical lift hill, pauses for several seconds and then shoots them down a 15-story, 96-degree drop.

The North Orange County market is anticipated to experience an increase in annual supply of 1.9 percent by year-end 2019 due to the opening of the 102-room Hampton Inn & Suites Buena Park in April 2019. Growth in occupied rooms is anticipated to increase by 2.5 percent, thus resulting in a market occupancy of 78.3 percent, a period high. Average daily rate is expected to increase to $123.07, up 1.6 percent from 2018. Combined, revenue per available room is expected to grow by 2.2 percent by to $96.42.

In 2020, we forecast continued supply growth of 3.8 percent with the opening of the 174-room Hilton Buena Park and the annualized rooms of the Hampton Inn & Suites Buena Park. During the same period, occupied room nights are estimated to increase by 3.0 percent, resulting in a slightly lower market occupancy of 77.7 percent. Average daily rate and revenue per available room is forecast to increase by 1.5 percent and 0.7 percent, respectively.

North Orange County
Historical Market Performance of the Competitive Supply

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,399,775 | N/A | 1,063,520 | N/A | 76.0% | $102.61 | N/A | $77.96 | N/A |
| 2015 | 1,399,775 | 0.0% | 1,093,471 | 2.8% | 78.1 | 108.80 | 6.0% | 84.99 | 9.0% |
| 2016 | 1,399,775 | 0.0 | 1,092,302 | -0.1 | 78.0 | 113.53 | 4.3 | 88.59 | 4.2 |
| 2017 | 1,438,450 | 2.8 | 1,115,416 | 2.1 | 77.5 | 117.59 | 3.6 | 91.18 | 2.9 |
| 2018 | 1,482,630 | 3.1 | 1,154,375 | 3.5 | 77.9 | 121.14 | 3.0 | 94.32 | 3.4 |
| 2019E | 1,510,553 | 1.9 | 1,183,443 | 2.5 | 78.3 | 123.07 | 1.6 | 96.42 | 2.2 |
| 2020F | 1,568,588 | 3.8 | 1,218,946 | 3.0 | 77.7 | 124.91 | 1.5 | 97.07 | 0.7 |
| CAAG | 1.3% | | 1.8% | | | 3.1% | | 3.6% | |

Source: CBRE Hotels

## Newport Beach

Newport Beach is situated in southern Orange County between Huntington Beach to the north and Laguna Beach to the south. The city is approximately 50 miles southeasterly of Los Angeles and 85 miles northerly of San Diego. Newport Beach is approximately 40 square miles, of which 22 square miles is water. The city is acclaimed for its beaches, mild year-round weather, boating/yachting community, sophisticated atmosphere, international film festival, annual epicurean festivals, and the oldest holiday boat parade in the nation.

Ten district neighborhoods make up Newport Beach, each lending a unique culture, charm, natural beauty and history to the city. They are: Balboa Island and surrounding islands, Balboa Peninsula, Balboa Village, Corona Del Mar, Mariner's Mile, Cannery Village, Back Bay, Airport/Business District, Fashion Island and Newport Coast/Crystal Cove.

Newport Beach is a leisure destination area and relies heavily upon retail and leisure expenditures along with its strong commercial base. The community is home to numerous full-service resorts, hotels, boutique hotels and inns, and meeting space under a variety of branded and independent hotel flags. Development consists primarily of restaurant, and commercial uses including a concentration of marine oriented businesses. In addition, Newport Beach is a well-known shopping destination featuring Fashion Island, an outdoor mecca filled with over 200 specialty shops and chic boutiques, as well as quaint retail storefronts along Pacific Coast Highway.

The annual supply for the Newport Beach lodging market is projected to increase by 1.1 in 2019 due to the annualized rooms of the Lido House, Autograph Collection. In the same year, the market is expected to experience an 8.7 percent increase in occupied room nights. The increase in demand is primarily attributed to the completion of the revamp of the Hyatt Regency John Wayne Airport and the Renaissance Newport Beach. Average daily rate is expected to decrease by 2.6 percent as the aforementioned hotels are absorbed into the market. Primarily attributed to the increase in demand, revenue per available room is expected to increase by 4.6 percent by year-end.

Annual supply is anticipated to remain flat in 2020, while occupied rooms increase by 1.0 percent. We forecast the market occupancy to increase slightly to 77.9 percent; as the repositioned hotels are fully absorbed. Average daily rate is estimated to grow by 2.0 percent, and revenue per available room is estimated to increase by 3.0 percent to $217.09 by year-end 2020.

**Newport Beach**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,046,090 | N/A | 792,094 | N/A | 75.7% | $240.50 | N/A | $182.10 | N/A |
| 2015 | 1,046,090 | 0.0% | 819,260 | 3.4% | 78.3 | 248.83 | 3.5% | 194.87 | 7.0% |
| 2016 | 1,046,090 | 0.0 | 809,269 | -1.2 | 77.4 | 256.37 | 3.0 | 198.33 | 1.8 |
| 2017 | 1,046,090 | 0.0 | 793,290 | -2.0 | 75.8 | 263.18 | 2.7 | 199.58 | 0.6 |
| 2018 | 1,081,678 | 3.4 | 775,941 | -2.2 | 71.7 | 280.72 | 6.7 | 201.37 | 0.9 |
| 2019E | 1,093,540 | 1.1 | 843,073 | 8.7 | 77.1 | 273.33 | -2.6 | 210.72 | 4.6 |
| 2020F | 1,093,540 | 0.0 | 851,504 | 1.0 | 77.9 | 278.79 | 2.0 | 217.09 | 3.0 |
| CAAG | 0.7% | | 1.2% | | | 2.5% | | 3.0% | |

Source: CBRE Hotels

## Coastal Orange County

The coastal area of Orange County includes: Huntington Beach and communities located south along the coast, including Newport Beach, Laguna Beach, Dana Point, Corona Del Mar, San Clemente and San Juan Capistrano. This area primarily caters to group and leisure travelers, but also captures a significant level of business travel. Coastal Orange County is home to several hotels with some of the highest average daily rates in Southern California, including the Ritz-Carlton Laguna Niguel, the Montage Laguna Beach, and Pelican Hill Resort. In addition to the inflow of travelers visiting the area, investors have also taken interest in the high-quality hotels in the area.

The Coastal Orange County lodging market is projected to experience a 0.8 percent increase in annual rooms supply from the annualized rooms of the Waterfront Beach Resort Hilton Huntington Beach expansion and the opening of the Lido House, Autograph Collection. Occupied rooms are forecast to increase by 1.9 percent, resulting in a market occupancy rate of 76.4 percent. Average daily rate is estimated to grow by 0.6 percent to $322.11. Overall, revenue per available room is forecast to grow by 1.7 percent to reach $246.23 by year-end 2019.

In 2020, annual supply is anticipated to increase by 1.1 percent with the projected opening of the Inn at the Mission, Autograph Collection in San Juan Capistrano. The market's occupied room nights are expected to increase by 1.0 percent, relatively the same rate as annual supply growth. Average daily rate is estimated to grow by 1.5 percent, and revenue per available room is estimated to increase by 1.4 percent to $249.73.

**Coastal Orange County**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,907,490 | N/A | 1,444,854 | N/A | 75.7% | $285.27 | N/A | $216.08 | N/A |
| 2015 | 1,907,490 | 0.0% | 1,449,301 | 0.3% | 76.0 | 295.10 | 3.4% | 224.22 | 3.8% |
| 2016 | 1,960,719 | 2.8 | 1,476,190 | 1.9 | 75.3 | 300.36 | 1.8 | 226.14 | 0.9 |
| 2017 | 1,998,740 | 1.9 | 1,504,229 | 1.9 | 75.3 | 310.26 | 3.3 | 233.50 | 3.3 |
| 2018 | 2,083,603 | 4.2 | 1,575,246 | 4.7 | 75.6 | 320.24 | 3.2 | 242.10 | 3.7 |
| 2019E | 2,099,845 | 0.8 | 1,605,197 | 1.9 | 76.4 | 322.11 | 0.6 | 246.23 | 1.7 |
| 2020F | 2,122,475 | 1.1 | 1,621,249 | 1.0 | 76.4 | 326.94 | 1.5 | 249.73 | 1.4 |
| CAAG | 1.8% | | 1.9% | | | 2.3% | | 2.4% | |

Source: CBRE Hotels

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# Coachella Valley

2020 SOUTHERN CALIFORNIA LODGING FORECAST

CBRE

# COACHELLA VALLEY

## EXECUTIVE SUMMARY

Situated in Riverside County, the Coachella Valley is a collection of resort communities including Palm Springs, Cathedral City, Rancho Mirage, Palm Desert, Desert Hot Springs, Indian Wells, La Quinta, Indio, and Coachella. Given the abundance of sunshine and its proximity to the Greater Los Angeles area, the Coachella Valley is a popular winter and weekend retreat for Southern California residents. With its large inventory of recreational facilities in the area, including 125 golf courses and over 600 tennis courts, the valley is also an established group destination. The Palm Springs valley, as it has been termed, has also become a known location for casinos, as supported by the 2004 openings of the Spa Resort Casino, the 310-room Casino Morongo in Cabazon, the 250-room Fantasy Springs Casino Hotel in Indio, and the 340-room Agua Caliente Hotel in Rancho Mirage, which opened in the spring of 2008 and added a state of the art entertainment venue in 2009.

The Coachella Valley occupies an area of approximately 600 square miles. The year-round climate averages 74 degrees, with average daytime temperatures of 89 degrees and nighttime temperatures dropping to an average of 60 degrees. A low average rainfall of approximately 5.5 inches per year ensures that the skies are sunny almost 350 days per year. While the climate attracts a large number of visitors during the winter months, the extreme hot weather conditions in the summer generally cause a significant decrease in economic activity and visitors during this period.

The Coachella Valley appeals to an essential base of business, the baby boomers, given their desire to retire in a place with good weather, a high quality of life, and many recreational opportunities. Yet over the past few years, millennials have increasingly looked to the Coachella Valley as a weekend getaway for its vibrant music festival scene, its summer pool parties, and its desert characteristics. At the beginning of the decade, the Coachella Valley's economy continued experiencing difficult short-term economic challenges mostly due to the lengthy recession impacting the U.S. and the hangover from the mortgage crisis that affected Southern California's residential markets. However, the Valley's economy has recovered well in the post-recession environment, and occupancy levels are forecasted to approach pre-recession peaks in the near future. In 2018, the Coachella Valley's economy displayed positive indicators coming from the tourism, health care, agriculture, retail trade and housing industries, along with a large growth in hotel demand compared to the previous year. With improving economic conditions forecast for the remainder of 2019 combined with new attractions and events in the Coachella Valley, as well as hundreds of millions of dollars of hotel improvements in recent years, prospects for the tourism industry appear bright.

### Economic Indicators

As urban sprawl has continued beyond the Inland Empire, residential development has flourished in the Coachella Valley. This is especially true thanks to its role as a destination for national tourism, conventions, and off-season living, as well as its potential as a home to aging baby boomers looking to retire in a recreational mecca. Additionally, the Coachella Valley's agricultural production and medical care add to the economic diversity of the area. These trends have carried over to the local hotel market in recent years and particularly the high-end hotel market, which began to rebound as pent-up leisure demand returned to the marketplace. The past few years have seen favorable economic conditions and with similar conditions forecast for the next year, new attractions and events in the Coachella Valley, including the wildly popular Coachella Valley Music and Arts and Stagecoach festivals, and hundreds of millions of dollars of hotel improvements as well as new hotels opening downtown, all signs point to continued growth in the Coachella Valley.

## Employment

Due to the extreme seasonality, the Coachella Valley region experiences lower unemployment during the fall, winter, and spring months as there is an influx of seasonal and special event visitors. The highest unemployment rates are historically found during the summer months and then improve come September, when job gains occur in the education and government sectors.

The national unemployment rate has declined for the past three years to reach 3.9 percent in 2018, which is the lowest unemployment has been since 2008, at the beginning of the recession. In 2018, California's statewide unemployment rate decreased to 4.2 percent down 0.6 percentage points from the previous year. The unemployment rate in Riverside County was at 4.4 percent last year, slightly higher than the statewide average. The following table details the historical annual unemployment rate over the past three years.

**Unemployment Rate Comparison**

| | Annual Averages | | |
|---|---|---|---|
| Location | 2016 | 2017 | 2018 |
| Riverside County | 6.1% | 5.2% | 4.4% |
| California | 5.5 | 4.8 | 4.2 |
| U.S. | 4.9 | 4.4 | 3.9 |

Source: U.S. Bureau of Labor Statistics

Presented in the following table are unemployment statistics for each of the Coachella Valley's named communities, including year-end 2016, 2017, and 2018 unemployment rates.

**Unemployment Rate Comparison**

| | December | | |
|---|---|---|---|
| City | 2016 | 2017 | 2018 |
| Cathedral City | 4.6% | 4.5% | 4.0% |
| Coachella | 8.8 | 8.2 | 10.7 |
| Desert Hot Springs | 6.8 | 5.4 | 5.6 |
| Indian Wells | 4.1 | 4.0 | 2.5 |
| Indio | 6.2 | 5.5 | 5.5 |
| La Quinta | 3.6 | 4.3 | 4.4 |
| Palm Desert | 4.0 | 3.4 | 4.3 |
| Palm Springs | 4.6 | 5.0 | 4.0 |
| Rancho Mirage | 4.8 | 3.3 | 3.5 |

Source: California Economic Development Department

The Coachella Valley was hit harder by the negative effects of the recession, with an estimated GDP decline that is significant by historical standards, when compared to most other regions in the Inland Empire. The sectors of employment that suffered the most were the industries with some of the highest salaries in the area, such as construction and financial services. This, coupled with the decline in government employment, created a near-perfect economic storm. The composition of the Coachella Valley economy, with its reliance on high paying manufacturing and construction jobs, which seemed to work in the Coachella Valley's favor prior to the recession, made the economic meltdown a tough situation to recover from. Yet the region has recovered, and growth is predicted to continue for the next few years. The region has recovered jobs by making gains in healthcare and education, although it has been unable to recover the construction jobs lost during the recession. The recent job growth has been significant, but as an article in the *Desert Sun* notes, the post-recession trade-off has been lower-paying healthcare jobs to account for the losses in the construction and manufacturing sectors. Nonetheless, local economists predict that the recovery in employment will help drive the real estate market subsequently incentivizing new construction and therefore construction jobs. The outlook for economic growth in the region is, therefore, quite positive.

### Seasonality

The Coachella Valley exhibits a high degree of seasonality in demand. The length of each season is a function of weather and the timing of holidays. The high season occurs between January and April, when the weather is most desirable, and the hotels exhibit the highest occupancies and rates. There is more travel by individuals rather than groups during this period. During the high season the number of special events and festivals that occur in the Coachella Valley typically result in occupancy levels in the 80 percent range and hotels often sell out during weekends given the large influx of weekend visitors from Southern California. Events such as the Coachella and Stagecoach Music Festivals and BNP Paribas Open tennis tournament attract hundreds of thousands of visitors to the Coachella Valley.

The shoulder seasons occur from May through June and from October through December. Since there are fewer individual travelers during this period, the hotels focus on attracting a higher proportion of group business. The low season occurs in the summer months of July, August, and September due to the increase in temperature. Individual travel during the low season outnumbers groups, which are reluctant to commit to room blocks during potentially intense heat periods, whereas individual travelers can opportunistically capitalize on low seasonal summer rates when fluctuations in the normally high season temperatures permit. The following table illustrates an estimate of the monthly occupancy and average room rates experienced by hotels in the Coachella Valley for the trailing twelve-month period ended July 2019, and the monthly and the year-over-year RevPAR (revenue per available room) change from the prior year.

**Coachella Valley Monthly Hotel Trends***
**Trailing 12 Month as of July 2019**

| | Occupancy | Average Daily Rate | RevPAR | RevPAR YOY Change |
|---|---|---|---|---|
| August 2018 | 47.3% | $119.27 | $56.42 | 1.8% |
| September 2018 | 58.9 | 141.43 | 83.32 | -9.2 |
| October 2018 | 61.0 | 166.33 | 101.40 | 3.5 |
| November 2018 | 69.6 | 187.46 | 130.39 | 7.9 |
| December 2018 | 59.2 | 170.39 | 100.83 | -2.1 |
| January 2019 | 65.2 | 189.46 | 123.57 | 1.3 |
| February 2019 | 74.6 | 207.15 | 154.58 | -7.3 |
| March 2019 | 86.1 | 259.56 | 223.41 | -1.1 |
| April 2019 | 77.4 | 281.87 | 218.18 | 0.7 |
| May 2019 | 86.1 | 259.56 | 223.41 | -1.1 |
| June 2019 | 55.3 | 141.51 | 78.18 | 4.7 |
| July 2019 | 57.1 | 125.35 | 71.51 | 5.4 |
| Annual | 66.5 | 187.45 | 130.43 | |

*Based on sampling of Coachella Valley hotels totaling approximately 10,800 rooms
Source: CBRE Hotels

### Palm Springs International Airport

Palm Springs International Airport (PSP) is the only commercial airport in the Coachella Valley. It is considered to be a potential positive growth factor as it works to meet the challenge of an expanding convention market and tourism-based economy. However, the airport inhibits growth in the Valley as frequency is reduced during the summer to match demand, which poses a challenge for a destination that would like to reach beyond Southern California as a feeder market. The airport also lacks direct service to many major markets. While the airport offers direct flights to the Mid-West, West Coast, and Canada, direct service to the East Coast is limited, though United has introduced a nonstop flight to New York/Newark and JetBlue has recently added nonstop flights to New York City and Boston. Furthermore, airfares are relatively expensive, putting Palm Springs at a disadvantage in terms of attracting national groups relative to competing destinations, such as Phoenix, Scottsdale, and Tucson.

Presented in the following table are air passenger counts for the years 2009 through 2018, and year-to-date through July 2019. Air travel has been on the upswing again, with year-over-year growth experienced in each of the last seven years, with the exception of 2015, which is primarily due to 2014 being a historic year in terms of total passengers.

**Palm Springs International Airport**
**Annual Passenger Traffic**

| Year | Total Passengers | Percent Change |
|---|---|---|
| 2009 | 1,465,751 | N/A |
| 2010 | 1,495,167 | 2.0% |
| 2011 | 1,511,150 | 1.1 |
| 2012 | 1,727,122 | 14.3 |
| 2013 | 1,752,180 | 1.5 |
| 2014 | 1,914,402 | 9.3 |
| 2015 | 1,888,657 | -1.3 |
| 2016 | 1,998,206 | 5.8 |
| 2017 | 2,100,072 | 5.1 |
| 2018 | 2,327,018 | 10.8 |
| CAGR | 5.3% | - |
| YTD 7/18 | 1,470,544 | N/A |
| YTD 7/19 | 1,699,040 | 15.5% |

Source: Palm Springs International Airport

Year-to-date figures through July 2019 show an increase of 15.5 percent in enplaned and deplaned passengers over the same period last year, and 2019 is on pace to outperform relative to 2018 figures.

## Convention Activity

As previously mentioned, the Coachella Valley is primarily a tourism-based economy, which generates most of its group demand from self-contained resorts with meeting space and the Palm Springs Convention Center located in Downtown Palm Springs. In 2000, it was determined that the Palm Springs Convention Center was too small to remain competitive with other regional convention centers. To address this issue, the Palm Springs City Council approved the increase of transient occupancy tax for local hotels in order to subsidize the 100,000 square feet expansion of the existing center. In September 2005 the center's expansion was completed allowing it to accommodate approximately 60 percent more groups, although demand did not materialize as projected, in the immediate term.

Booking numbers in 2009 and 2010 were historically low for the Convention Center but as business began to return to more normalized levels in 2011, the Convention Center, Palm Springs, and neighboring cities within the Coachella Valley began to benefit. Group business rebounded in 2014 with approximately 66,000 room nights, compared with approximately 52,000 room nights actualized in 2013, which represents a 22.8 percent increase. The years 2015 and 2016 saw a decline in occupied room nights of 14.1 and 7.9 percent, respectively, in part attributable to the aging condition of the adjacent Renaissance Palm Springs. More recently, the Renaissance completed a $14 million renovation, and group hotel room night bookings are on the rise, with 2019 set to become a record year in terms of room nights consumed.

| Palm Springs Convention Center<br>Historical Convention Center Bookings | | | | | |
|---|---|---|---|---|---|
| Year | Number of Events | Room Nights Consumed | Percent Change | Average Room Nights per Booking | Total Attendance |
| 2009 | 112 | 46,701 | -3.9% | 417 | 91,988 |
| 2010 | 82 | 39,281 | -15.9 | 479 | 102,270 |
| 2011 | 101 | 56,920 | 44.9 | 564 | 129,350 |
| 2012 | 91 | 53,743 | -0.1 | 591 | 146,264 |
| 2013 | 100 | 52,129 | -8.4 | 521 | 120,578 |
| 2014 | 102 | 65,994 | 22.8 | 647 | 130,460 |
| 2015 | 89 | 56,704 | -14.1 | 637 | 112,775 |
| 2016 | 105 | 52,241 | -7.9 | 498 | 141,824 |
| 2017 | 110 | 75,396 | 44.3 | 685 | 130,592 |
| 2018 | 102 | 68,820 | -8.7 | 675 | 120,437 |
| 2019 | 108 | 86,122 | 25.1 | 797 | 143,273 |

Source: Palm Springs Convention Center

The following table shows the total future room nights booked in the Coachella Valley by the Greater Palm Springs CVB for years 2020, 2021, and 2022 and beyond. It should be noted that this includes convention groups, as well as self-contained meetings booked by CBS sales staff to be held at member hotels.

| Palm Springs Convention & Visitors Bureau<br>Future Bookings | | | |
|---|---|---|---|
| Year | Number of Events | Definite Room Nights Booked | Average Room Nights per Booking |
| 2020 | 26 | 55,588 | 2,138 |
| 2021 | 21 | 56,215 | 2,677 |
| 2022 Onwards | 13 | 35,532 | 2,733 |

Source: Greater Palm Springs Convention & Visitors Bureau

## Transient Occupancy Tax Trends

Below is a snapshot of the transient occupancy tax collected from each city in the Coachella Valley from 2008 through 2018; the most recent comprehensive data available. According to the most recent data available, transient occupancy collections increased in all eight cities in the Coachella Valley communities in 2018. The following table shows that although Indio has shown the most growth during this ten-year period on a CAAG basis, Palm Springs contributes approximately 36.8 percent of the TOT for the entire valley. According to the City of Palm Springs (the largest municipal generator of TOT in the Coachella Valley) Finance Department, significant growth has been experienced in each fiscal year since 2011. City officials attribute the success to the addition of new hotel supply and a successful international and domestic marketing strategy.

**Coachella Valley Transient Occupancy Tax**
**(Amounts in $000)**

| City | Rate | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | CAAG |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cathedral City | 12.00% | $1,150 | $1,023 | $999 | $1,136 | $1,114 | $1,350 | $1,447 | $1,771 | $2,503 | $3,147 | 11.8% |
| Desert Hot Springs | 10.00 | 934 | 892 | 1,090 | 1,089 | 1,221 | 1,314 | 1,352 | 1,505 | 1,768 | 2,169 | 9.8 |
| Indian Wells | 12.25[1] | 4,805 | 4,294 | 4,802 | 5,690 | 6,342 | 6,329 | 6,407 | 6,742 | 7,590 | 7,943 | 5.7 |
| Indio | 10.00 | 1,941 | 1,845 | 1,945 | 2,547 | 2,820 | 3,078 | 3,860 | 4,520 | 6,298 | 6,760 | 14.9 |
| La Quinta | 11.00 | 4,481 | 4,265 | 4,738 | 5,447 | 5,981 | 6,286 | 6,615 | 7,835 | 9,434 | 10,753 | 10.2 |
| Palm Desert | 11.00[2] | 7,030 | 6,848 | 7,422 | 8,085 | 9,189 | 10,049 | 10,752 | 11,225 | 15,018 | 17,300 | 10.5 |
| Palm Springs | 12.50 | 12,753 | 13,371 | 15,731 | 17,874 | 19,396 | 22,344 | 24,487 | 25,766 | 30,951 | 34,200 | 11.6 |
| Rancho Mirage | 10.00 | 4,634 | 3,893 | 4,302 | 4,925 | 5,607 | 6,083 | 7,836 | 8,533 | 9,737 | 10,633 | 9.7 |
| Total | | $37,728 | $36,431 | $41,029 | $46,159 | $51,670 | $58,005 | $62,703 | $68,329 | $79,614 | $92,905 | 10.5% |

[1]The TOT rate increased from 9.25% to 11.25% in FY 2011/12, and increased to 12.25% in 2018.
[2]The TOT rate increased from 9% to 11% in 2017.
Source: Dean Runyan Associates Inc., City Annual Financial Reports

The desert has historically focused on capturing its transient base and maintaining its group market. As challenges presented themselves during a slowing economy, incentive groups and other corporate business significantly decreased with groups shortening their length of stay and traveling alone without their family. However, these trends began to reverse themselves in recent years and all indications are that the worst is behind the Valley. As such, tourism leaders in the valley are optimistic regarding future trends, as they believe travel is inherently tied to the economy and housing market. It is worth noting that the historical TOT data in the previous table presents an accurate picture of increasing room revenues throughout the Coachella Valley's primary cities.

## Tourism Activity

With regards to tourism, the number of visitors to the Coachella Valley has risen as tourism in California, in general, increases as well. It is expected that the number of both foreign and domestic tourists will increase steadily in the coming years. The housing market will have to continue to grow in order to accommodate population growth both in Riverside County and the Coachella Valley. This should generate increased activity in the construction and finance industries, specifically. It is believed that government employment has stabilized, albeit at a lower level than during the boom years, as tax receipts recover. The positive from the depressed levels of economic activity over the recession years is that there has been more diversity in job creation as healthcare and professional business services in the Coachella Valley area have grown, which should make the region less susceptible to the extreme swings experienced over the last decade. The tourism sector represents the largest sector of the local economy. A report by Dean Runyan estimated that tourism in Riverside County carried an approximately $7.9 billion direct and indirect economic impact in 2018, which was a 6.5 percent increase over 2017.

## HOTEL MARKET ANALYSIS

While the economic crisis of the last decade undoubtedly took its toll on the Coachella Valley, as it did on much of the United States, by all accounts the industry has turned the corner. With a steady, overall recovery, the Valley's main industries of tourism, retail sales, and agriculture are helping to maintain steady growth. Increased visitation from Canadian tourists and more recently, an increase in visitors from the greater New York area due to new direct air service has only furthered these positive trends. Further, the Coachella Valley still appeals to its essential base of business, the baby boomers, given their desire to retire in a place with good weather, a high quality of life, and many recreational opportunities. This coupled with the growing base of millennial travelers that see the valley as a desert getaway with a unique history and an artistic vibe, has helped to raise area demand levels. Furthermore, demand from the leisure and group segments has continued to exhibit growth. It is our opinion that Coachella Valley's reputation as an established resort location will allow the destination to continue to grow as the economy continues its upward path, albeit at a much slower rate as general economic trends suggest. Though, given the attractiveness of the Coachella Valley to leisure travelers and the Valley's proximity to the Los Angeles Basin and more than 20 million residents, it's well positioned to continue to be a preferred leisure destination.

While there are over five million annual room nights available in the overall Coachella Valley, the following analysis represents the sum of the selected hotels in our submarkets that we believe best represent the overall lodging market. Our representative sample set comprises approximately 64 percent of the total room nights in this market. The historical and estimated performance of our sampling of the overall Coachella Valley lodging market is presented in the following table.

**Coachella Valley**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 3,726,713 | N/A | 2,216,533 | N/A | 59.5% | $162.13 | N/A | $96.43 | N/A |
| 2015 | 3,731,760 | 0.1% | 2,212,994 | -0.2% | 59.3 | 165.02 | 1.8% | 97.86 | 1.5% |
| 2016 | 3,731,760 | 0.0 | 2,351,053 | 6.2 | 63.0 | 176.13 | 6.7 | 110.96 | 13.4 |
| 2017 | 3,766,255 | 0.9 | 2,393,896 | 1.8 | 63.6 | 176.55 | 0.2 | 112.22 | 1.1 |
| 2018 | 3,947,901 | 4.8 | 2,522,390 | 5.4 | 63.9 | 184.03 | 4.2 | 117.58 | 4.8 |
| 2019E | 3,997,896 | 1.3 | 2,584,736 | 2.5 | 64.7 | 188.47 | 2.4 | 121.85 | 3.6 |
| 2020F | 4,068,746 | 1.8 | 2,627,232 | 1.6 | 64.6 | 192.56 | 2.2 | 124.34 | 2.0 |
| CAAG | 1.5% | | 2.9% | | | 2.9% | | 4.3% | |

Source: CBRE Hotels

For our representative sample in 2019, we estimate an increase in rooms supply of 1.3 percent due to the anticipated opening of the SpringHill Suites Palm Desert, and an increase in occupied rooms of 2.5 percent for a resulting occupancy of 64.7 percent. Average daily rate (ADR) is estimated to increase by 2.4 percent to $188.47 for 2019, and as a result, RevPAR is expected to increase by 3.6 percent to $121.85. In 2020, we anticipate that leisure and group travel will continue to show improvement. Annual supply within the market is anticipated to increase by 1.8 percent in 2020 with the anticipated opening of the Andaz Palm Springs, and Hampton Inn and Suites Indio, as well as the annualized addition to supply of the SpringHill Suites Palm Desert. As such, we have projected growth in demand of 1.6 percent, and a 2.2 percent increase in ADR, resulting in year-end occupancy of 64.6 percent at an ADR of $192.56. As a result, RevPAR is projected to increase to $124.34 in 2020, an increase of 2.0 percent.

## Additions to Supply

Based on our research and findings the table below details the new hotels going forward that have been included in this year's edition of our Southern California Lodging Forecast located within the Coachella Valley market.

**Lodging Forecast - Additions to Supply as of October 2019**

| Hotel Name | City | Submarket | Room Count | Opening Date |
|---|---|---|---|---|
| SpringHill Suites Palm Desert | Palm Desert | Down Valley Select-Service Hotels | 107 | November 2019 |
| Andaz Hotel | Palm Springs | Palm Springs/Cathedral City | 150 | July 2020 |
| Hampton Inn and Suites Indio | Indio | Down Valley Select-Service Hotels | 93 | October 2020 |

Source: CBRE Hotels

## INDIVIDUAL MARKET ANALYSIS

Similar to our forecast last year, we have considered all properties located in Palm Springs, Cathedral City, Palm Desert, Rancho Mirage, La Quinta, Indian Wells, Desert Hot Springs, Indio, and Coachella and then categorized them into three defining submarkets, in an effort to make the data more meaningful. Due to extreme seasonality and some of the large events such as the Coachella Music Festival and the BNP Paribas Open, most hotels, across the three markets, will compete with each other at some point during the year. However, based on our analysis of market trends, the Coachella Valley hotel market has been divided into three main areas: Palm Springs/Cathedral City, Down Valley Resorts, and Down Valley Limited and Select-Service Hotels.

## PALM SPRINGS/CATHEDRAL CITY

### Palm Springs

According to the California Department of Finance, the 2019 population of Palm Springs is estimated to be over 48,700 people. Permanent resident population in Palm Springs has grown 21.4 percent since 1990. In addition to the permanent population, another approximately 32,000 people live in the city on a part-time basis, bringing the total population to more than 80,000 residents at various times of the year. Approximately two and a half to three million tourists that stay in hotels visit the Coachella Valley annually and it is estimated that a third of these tourists stay in hotels in the City of Palm Springs.

Palm Springs has many attributes that enhance the reputation of the valley, including the international airport, the village center, the convention center, upscale hotels and resorts, the Desert Museum, and a picturesque setting and climate. But in order to maintain this reputation and sell the Valley as a resort destination, the city has taken steps to revitalize downtown. In the past couple years; Palm Springs has seen growth, given the number of retail developments in planning and ongoing expansion of the tourism industry. In addition, Palm Springs remains the most popular city within the Coachella Valley. With extensive hotel construction underway and the development of mixed-use projects, it is apparent the city is taking steps to transform itself into an entertainment, cultural, and lifestyle destination. The city is also realizing that the expanded convention center has potential to attract larger, more upscale groups; the convention center has seen significant expansion in booking numbers. Therefore, there is a continuing need for more sophisticated guestrooms and facilities.

Additionally, since the 1920's Palm Springs has been Hollywood's desert playground for celebrities looking to relax and escape the hustle of showbiz. The legendary "Two-Hour Rule" of Hollywood studios, which mandated that actors be within two-hours from the studio in case of last-minute film shoots, helped put Palm Springs on the map as a Hollywood getaway. The connection with Hollywood has remained and continues to add to the lure and glamor of Palm Springs as a luxury destination. As a result, a new generation of Hollywood A-listers has succumbed to the lure of the desert and the relaxing privacy it offers. Palm Springs is being rediscovered by today's Hollywood stars, especially during the Palm Springs International Film Festival held annually in January.

Palm Springs is beginning to see the results of city-wide improvement from Measure J funding, which is a voter-approved local revenue measure that maintains local community services and continues to economically revitalize downtown Palm Springs. The voters approved a 1.0 percent sales and use tax increase for the next 25 years, which is anticipated to generate $200 million to be spent to enhance neighborhood services and safety, reinvesting in streets and parks. Approximately $47 million of these funds were allocated to the mixed-use project that included the Kimpton, Palm Springs. With extensive hotel renovations and the development of mixed-use projects, the city has taken steps to transform itself into an entertainment, cultural, and lifestyle destination, making it well positioned to attract larger, more upscale groups in upcoming years.

### Cathedral City

Cathedral City is Coachella Valley's second largest city by population and is the estimated home to more than 54,900 residents. It ranks in the top three cities in the Coachella Valley in terms of retail sales and total taxable sales, and serves as a destination of pleasant neighborhoods, championship golf courses, country clubs, diverse shopping, and business potential. In addition, the city boasts a diverse and affordable real estate market.

Incorporated in 1981, Cathedral City is dedicated to providing a quality lifestyle and business climate for the current and future residents and visitors. Strategically located, with borders on both sides of Interstate 10, Cathedral City provides opportunity for expanding and relocating businesses. In recent years, Cathedral City has undergone major changes that have also affected other cities in the region. Population has grown, once-rural roads have become busy commercial corridors, and business activity has shifted from older centers to shopping plazas and malls in scattered locations. Through a public workshop process, the community resolved to revitalize the city's social and physical center. Cathedral City has committed itself to creating a unique, high quality downtown that is the heart of the city's community pride and identity, bringing with it expanded opportunities for employment, housing, business and entertainment.

The revitalization strategy of Cathedral City's city center will continue to focus on the site of the historic downtown area in an effort to bring value and cache to this disinvested commercial strip. The master plan includes both public and private investment to reorganize East Palm Canyon Drive into a "Grand Boulevard" with frontage to include a broad promenade for outdoor cafes, storefronts, and a protected, slow-traffic lane with angled parking. Downtown Cathedral City will ultimately consist of a centrally located Downtown Core flanked by mixed-use commercial districts to the south, east, and west. The Downtown Core will consist of a tight cluster of commercial, entertainment and mixed-use buildings. Design guidelines for the area will ensure the addition of lush landscaping including flowers, arbors, colonnades, and window boxes. The new Downtown Core began to emerge as the focal destination of the Boulevard with the development of the Desert IMAX Theater and the Mary Pickford Theater, both of which are linked together by the new Civic Center. Furthermore, the ultra-modern Cathedral City Public Library provides a host of exhibits, historical collections, art, computer services and books from around the world. Cathedral City is home to four parks, which offer a variety of fun-filled activities for the whole family. Other attractions in Cathedral City include the 28-acre Big League Dreams Sports Park, the public Cimarrón Golf Resort, and antique and consignment shops along Perez Road.

### Hotel Renovations, Changes in Ownership, and Proposed Development

According to the Convention and Visitors Bureau, more than $2 billion has been invested in the hospitality industry since 2007, as several hotels renovated or expanding their properties, complimenting the area's repositioning. Last year, the Renaissance Palm Springs underwent a $14 million renovation, including a reimagined design for guest rooms and an update to the hotel's meeting space.

In 2012, the Hilton Palm Springs began an $11 million renovation that was completed in January 2013. The renovation included improvements to the guestrooms and suites, lobby, meeting space, and the Terrace Restaurant in January 2013. As part of its renovation, standard guestrooms at the Hilton Palm Springs were converted to presidential suites, bringing the room count from 261 down to 257.

The Hard Rock Hotel Palm Springs rebranded to the Hotel Zoso in April of 2018. This marks a return to normalcy for the hotel, as it was under the Zoso flag until it switched to the Hard Rock in 2013. The hotel features The Kitchen, which offers food crafted from local ingredients, and offers 11 meeting spaces.

The Triada Palm Springs, a Marriott Autograph Collection hotel, opened November 1, 2014. Located in the Movie Colony area, this 56-room property is the completion of a renovation that began prior to the economic downturn. This Spanish-style hotel features the Illuminara Restaurant & Lounge, a spa with four treatment rooms, and an outdoor heated pool.

Other notable hotel updates in the area included the conversion of the Holiday Inn Palm Springs to the Saguaro Palm Springs. In September 2011, Sydell Group acquired the 229-room Holiday Inn Palm Springs for approximately $10.2 million. The hotel was closed upon acquisition and an approximately $10.0 million renovation was completed to reposition the hotel as the 245-room Saguaro Palm Springs. Saguaro was one of Joie de Vivre Hospitality's (JDV) boutique brands that began making its way to the United States in 2011, with the first opening happening in Scottsdale, Arizona. The hotel left the JDV brand to be managed by Sydell group in 2016. The 285-room Doral Desert Princess Resort completed a renovation and was rebranded as the Doubletree Cathedral City in December 2015. The 229-room Spa Casino Hotel was closed and demolished in 2015.

Upon its opening in November of 2017, The Rowan Palm Springs was the first new-build, full-service hotel in Palm Springs in decades. The 153-room lifestyle Hotel features a lively rooftop bar and pool, a chef-driven, destination restaurant and more than 24,000 square feet of total event and meeting space.

## Hotel Market Analysis

In 2019, occupied rooms are estimated to increase by 1.6 percent, and ADR is estimated to increase by 2.1 percent, which would bring the occupancy at year-end to 65.5 percent and the ADR to $168.23. In 2020, available rooms are projected to increase by 2.1 percent due to the anticipated opening of the Andaz Palm Springs, and occupied rooms are projected to increase by 1.5 percent, for a resulting occupancy of 65.1 percent. Average daily rate is projected to increase by 2.5 percent in 2020, and RevPAR is expected to rise by 1.9 percent to $112.27.

**Palm Springs & Cathedral City**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,201,945 | N/A | 700,190 | N/A | 58.3% | $141.56 | N/A | $82.46 | N/A |
| 2015 | 1,176,395 | -2.1% | 663,108 | -5.3% | 56.4 | 145.95 | 3.1% | 82.27 | -0.2% |
| 2016 | 1,176,395 | 0.0 | 715,945 | 8.0 | 60.9 | 156.25 | 7.1 | 95.09 | 15.6 |
| 2017 | 1,187,895 | 1.0 | 747,631 | 4.4 | 62.9 | 159.28 | 1.9 | 100.25 | 5.4 |
| 2018 | 1,304,145 | 9.8 | 840,496 | 12.4 | 64.4 | 164.78 | 3.5 | 106.20 | 5.9 |
| 2019E | 1,304,145 | 0.0 | 854,149 | 1.6 | 65.5 | 168.23 | 2.1 | 110.18 | 3.8 |
| 2020F | 1,331,520 | 2.1 | 866,962 | 1.5 | 65.1 | 172.44 | 2.5 | 112.27 | 1.9 |
| CAAG | 1.7% | | 3.6% | | | 3.3% | | 5.3% | |

Source: CBRE Hotels

## DOWN VALLEY: RESORTS

The Down Valley resorts in the Coachella Valley are located in the upscale cities of Rancho Mirage, Palm Desert, Indian Wells and La Quinta. The Two Bunch Palms Resort & Spa is considered part of this submarket; however, it is located outside of the designated resort area in the city of Desert Hot Springs.

With the exception of Desert Hot Springs, the above-mentioned cities represent the more exclusive communities within the Coachella Valley. Palm Desert is the retail center of the valley, featuring over 1,000 retail establishments in more than 14 shopping districts including the Palm Desert Town Center and El Paseo, an upscale boulevard of fine clothing shops. Rancho Mirage is home to The River, a $50 million retail, dining, and entertainment development located on Highway 111 in the heart of Rancho Mirage. Significant leisure demand is generated from these retail facilities, as well as from the numerous recreational amenities in the area, such as golf, tennis, and spa facilities.

The cities of Indian Wells and La Quinta consist largely of residential neighborhoods. Hotels in these communities are primarily self-contained resorts catering to groups, and to a lesser extent, transient leisure business. Development in the Coachella Valley continues moving eastward as further commercial, residential, and mixed-use projects proceed. As this trend continues, the economy will further strengthen in the cities of Indian Wells and La Quinta. La Quinta's crown jewels continue to be La Quinta Resort and the SilverRock golf course.

The down valley resorts benefited from the record number of fans (an upwards attendance of 457,000) who attended the BNP Paribas Open tennis tournament in 2015, and while the attendance numbers for 2018 were slightly below these record levels at 450,500, the Open continues to be a significant draw. A major expansion of the Indian Wells Tennis Garden (IWTG) in 2013/2014 included the addition of 8,000 permanent seats, three fine-dining restaurants and new concession, exhibition and parking spaces. The IWTG is home to the world's second-largest tennis stadium. In July 2014, the United States Tennis Association announced that the facility received the featured facility of the year award. In 2017, the most recent year for which data is available, approximately 750,000 people attended the Coachella Valley Music and Arts Festival. The increasingly popular Stagecoach Country Music Festival is estimated to have drawn 80,000 people for each day of the three-day festival, for a total of approximately 240,000.

In May 2016, Goldenvoice announced plans for a megafest to take place over two weekends in October at the Empire Polo Grounds, entitled Desert Trip. The festival was intended to attract an older demographic by featuring six of the most famous rock n' roll performers as headliners including The Rolling Stones, Bob Dylan, and Paul McCartney and occurred in October of 2016. Desert Trip was held over two weekends, and was the most lucrative music festival of all time, generating $160 million dollars in revenue. Goldenvoice has announced that they will not be holding a Desert Trip festival in 2019, but have not ruled out the possibility of future events.

### Hotel Renovations, Changes in Ownership, and Proposed Development

The Ritz-Carlton Rancho Mirage opened its doors in May of 2014. The former Lodge at Rancho Mirage closed its 240 rooms in 2006 before commencing a major renovation. However, when the project's primary lender and equity partner, Lehman Brothers, filed for bankruptcy in September 2008 the project was put on hold indefinitely. In 2010, Rancho California Investments purchased the property, but was unable to move forward with the planned development. The conversion was finally completed, and the resort reopened in early May 2014.

The JW Marriott Desert Springs Resort & Spa completed a $36 million renovation of its 884 guestrooms and suites, guestroom corridors, and meeting space, in 2013. The renovation also included both the Palm and Valley golf courses and included the addition of three new restaurants. Under new recent ownership, Kam Sang Co. is conducting a comprehensive approximately $50 million-plus top-to-bottom renovation.

In 2008, the Hyatt Grand Champions Resort and Spa added the Lantana restaurant and 24 luxury villas, which increased the hotel's room count to 530. In 2011, the Hyatt Grand Champions began a $3 million renovation project which included its penthouse suites, the Agave Sunset Lounge, the hotel lobby and front desk area. The second phase of the lobby renovation and the guestroom corridors was completed in 2012, and the restaurant and bar patios were completed in 2013. In order to complete these renovations, without negatively impacting the guest experience, the hotel closed for three to four weeks each summer. In August of 2012, the hotel was renamed the Hyatt Regency Indian Wells Resort & Spa. The La Quinta Resort and Club completed a renovation of its guest rooms in 2014.

## Hotel Market Analysis

For 2019, available rooms are estimated to remain flat with no additions to the market, resulting in occupancy of 61.6 percent for the year. ADR is estimated to increase 3.0 percent to $243.44, which will result in RevPAR of $150.03, an increase of 2.9 percent. For 2020, we forecast occupied rooms to increase by 0.5 percent resulting in an occupancy of 61.9 percent as well as a 2.5 percent growth in ADR, resulting in a year-end average daily rate of $249.53, and a RevPAR gain of 3.0 percent.

**Down Valley Resorts**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,637,909 | N/A | 955,102 | N/A | 58.3% | $206.91 | N/A | $120.65 | N/A |
| 2015 | 1,670,605 | 2.0% | 982,708 | 2.9% | 58.8 | 208.62 | 0.8% | 122.72 | 1.7% |
| 2016 | 1,670,605 | 0.0 | 1,038,689 | 5.7 | 62.2 | 222.68 | 6.7 | 138.45 | 12.8 |
| 2017 | 1,670,605 | 0.0 | 1,038,286 | 0.0 | 62.2 | 223.12 | 0.2 | 138.67 | 0.2 |
| 2018 | 1,670,605 | 0.0 | 1,029,957 | -0.8 | 61.7 | 236.43 | 6.0 | 145.76 | 5.1 |
| 2019E | 1,670,605 | 0.0 | 1,029,556 | 0.0 | 61.6 | 243.44 | 3.0 | 150.03 | 2.9 |
| 2020F | 1,670,605 | 0.0 | 1,034,703 | 0.5 | 61.9 | 249.53 | 2.5 | 154.55 | 3.0 |
| CAAG | 0.3% | | 1.3% | | | 3.2% | | 4.2% | |

Source: CBRE Hotels

## DOWN VALLEY: LIMITED-SERVICE, SELECT-SERVICE, AND FOCUSED-SERVICE HOTELS

Down Valley features an array of limited and select-service hotels, ranging in product from Motel 6 to Courtyard by Marriott. In addition, the market now hosts the newly-opened Hotel Paseo, a member of Marriott's Autograph collection. This submarket also includes smaller independently operated budget hotels. The hotels included in this submarket are located within all down valley cities, specifically in Indio, Coachella and Desert Hot Springs, Palm Desert, Rancho Mirage, La Quinta, and Indian Wells.

The cities of Indio and Coachella are located both to the north and south of Highway 111 in Coachella Valley, and hotels in this sub-market are largely smaller motels catering to transient leisure demand traveling to the Coachella Valley or to the Joshua Tree National Park. Desert Hot Springs is a unique city of spas and resorts located 110 miles east of Los Angeles nestled in the foothills of the San Bernardino Mountains and Joshua Tree National Park, overlooking Palm Springs and the down valley cities. Desert Hot Springs is built over one of the world's finest natural hot mineral water aquifers.

## Hotel Renovations, Changes in Ownership, and Proposed Development

The Fairfield Inn in Palm Desert caught fire and closed its doors in April 2014, and is slated to re-open as a Springhill Suites in November of this year. An 89-room Holiday Inn Express opened in March 2014 and is located at 84054 Indio Springs Drive in Indio near the Fantasy Springs Resort Casino. Additionally, the aforementioned Hotel Paseo opened in March of 2018 as part of Marriott's Autograph collection. The hotel includes 150 rooms and is well-positioned to take advantage of area demand generators including the high-priced El Paseo shopping district. In June of 2017, a 108-room Fairfield Inn and Suites opened in Palm Desert. Another Fairfield Inn and Suites opened in December 2018 in Indio, with 110 rooms.

## Hotel Market Analysis

For 2019, we estimate that occupied room nights and ADR will increase by 7.5 percent and 5.0 percent, respectively, resulting in an occupancy of 68.5 percent and a $132.41 average rate. As a result, RevPAR is estimated to increase by 7.4 percent to $90.72 in 2019. In 2020, we forecast annual supply to increase by 4.2 percent with the opening of the Hampton Inn and Suites Indio, as well as the annualized addition to supply of the SpringHill Suites Palm Desert, while occupied rooms are forecast to increase by 3.5 percent resulting in an occupancy of 68.0 percent. We project ADR to grow by 3.0 percent resulting in an ADR of $136.38 and RevPAR to reach $92.77, a gain of 2.3 percent.

**Down Valley Limited-Service, Select-Service, and Focused-Service Hotels**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 886,859 | N/A | 561,242 | N/A | 63.3% | $111.60 | N/A | $70.62 | N/A |
| 2015 | 884,760 | -0.2% | 567,178 | 1.1% | 64.1 | 111.77 | 0.1% | 71.65 | 1.4% |
| 2016 | 884,760 | 0.0 | 596,418 | 5.2 | 67.4 | 118.93 | 6.4 | 80.17 | 11.9 |
| 2017 | 907,755 | 2.6 | 607,978 | 1.9 | 67.0 | 118.27 | -0.6 | 79.21 | -1.2 |
| 2018 | 973,151 | 7.2 | 651,937 | 7.2 | 67.0 | 126.05 | 6.6 | 84.45 | 6.6 |
| 2019E | 1,023,146 | 5.1 | 701,031 | 7.5 | 68.5 | 132.41 | 5.0 | 90.72 | 7.4 |
| 2020F | 1,066,621 | 4.2 | 725,567 | 3.5 | 68.0 | 136.38 | 3.0 | 92.77 | 2.3 |
| CAAG | 3.1% | | 4.4% | | | 3.4% | | 4.7% | |

Source: CBRE Hotels

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# Santa Barbara County

2020 SOUTHERN CALIFORNIA LODGING FORECAST

CBRE

# SANTA BARBARA COUNTY

## EXECUTIVE SUMMARY

Santa Barbara is considered one of the most prestigious California destination markets due to more than 50 miles of beautiful coastline, great beaches, world-class wineries, mild climate, its artists' colony, and exclusive shopping all in a picturesque setting. Located 95 miles north of Los Angeles on the Pacific Ocean, Santa Barbara has been a well-known vacation spot since before the 1920s. The county is made up of eight cities and four of the Channel Islands and features beautiful Spanish-style architecture, reflecting Old California and the Santa Barbara Mission. The city's relaxed beachfront ambiance, reminiscent of the French Riviera, continues appealing to visitors in the regional areas and internationally. Santa Barbara has earned the label "American Riviera," because of its architecture and Spanish culture.

In addition, Santa Barbara County hosts world-class wineries that stretch along 50 miles from downtown Santa Barbara in the south to Santa Maria in the north. The county is home to over 200 wineries that spread across 21,000 acres. Santa Ynez Valley is located approximately 35 miles north of Santa Barbara and consists of six distinctive communities, including Ballard, Buellton, Los Alamos, Los Olivos, Santa Ynez, and Solvang, that feature well-known wineries, upscale lodging, and fine dining amenities. Attractions and activities in the area include Chumash Casino, Cachuma Lake, the Danish village of Solvang, vineyard tours and wine tasting, annual special events, horseback riding, ATV tours, performing arts, golf, fishing, and wildlife viewing.

According to the University of California at Santa Barbara (UCSB) 2019 Economic Forecast, Santa Barbara County's local domestic product should grow well into 2020. Nonfarm payroll jobs in Santa Barbara County are expected to grow at a better rate than the past couple of years—adding 2,340 positions in 2019 for a 1.3 percent growth rate. Additionally, the UCSB forecast anticipates total employment for all industries in the county to continue improving in 2020 and 2021 (absent a recession in the state or national economy). Nevertheless, job growth has been slowing down in Santa Barbara County over the past couple of years as the unemployment rate (3.7 percent as of July 2019) falls to a very low level. The county's total nonfarm job gains (private and public combined) over the past several years is 12 percent—much lower than California's 20 percent growth and the United States' 15 percent growth. While Santa Barbara County's largest five industries in 2017 were government, finance, trade, real estate and professional/business services, the fastest-growing industries were different: mining, information, wholesale trade, arts, and durable goods manufacturing.

Santa Barbara County has seen an average increase in population of 0.8 percent annually since 2009. As of 2018, the population of Santa Barbara County was estimated at approximately 453,000 people. The unemployment rate across the county through July 2019 was 3.7 percent, which is down from the prior year-to-date rate of 3.8 percent. The following table outlines the historical population and unemployment rate in Santa Barbara County.

**Population and Employment**
**Santa Barbara County**
**2009 – 2018 and YTD July 2019**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | CAAG | 2019* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Population | 421,197 | 423,895 | 424,400 | 428,194 | 433,073 | 438,512 | 442,987 | 447,073 | 450,025 | 452,747 | 0.8% | - |
| Unemployment | 8.2% | 9.7% | 9.4% | 8.4% | 7.2% | 6.1% | 5.3% | 5.1% | 4.5% | 3.9% | - | 3.7% |

*Unemployment rate estimate as of July 2019
Source: California Department of Finance, State of California Employment Development Department

It is important to note that as a tourist destination, the Santa Barbara County's lodging market is heavily driven by the drive-in markets in the Greater Southern California area, which includes the counties of Los Angeles, Ventura, San Bernardino, Riverside and Orange. With the economies of these counties displaying low unemployment levels and healthy consumer spending, the Santa Barbara County lodging market should continue to benefit from economic growth in these Southern California counties.

The Santa Barbara Municipal Airport (SBA) serves the immediate Santa Barbara area with airlines: American, Alaskan, U.S. Airways, Countour Airlines, Delta Connection, Horizon Air, United Express, Express Jet and Allegiant Air providing flights at the airport. Santa Barbara Airport offers nonstop service to major Western States including Dallas, Denver, Las Vegas, Los Angeles, Minneapolis, Oakland, Phoenix, Portland, San Francisco and Seattle.

Opened in August 2011, the Spanish Colonial Revival-style airline terminal, which defines the city of Santa Barbara's culture, consists of a 72,000-square foot building with runways capable of accommodating aircraft up to the size of a Boeing 737. The relocation and refurbishment of the 7,000-square foot historic terminal building was completed in November 2012. The Project incorporates sustainable design and is registered with the U.S. Green Building Council Leadership in Energy and Environmental Design (LEED).

Presented in the following table is a summary of airport activity at Santa Barbara Municipal Airport from 2009 to 2018, as well as through the Trailing 12 Months ending July 2019 as compared to the same period last year.

**Santa Barbara Municipal Airport**
**Passenger Volume**
**2009 – 2018 & TTM 2019**

| Year | Number of Passengers |
|---|---|
| 2009 | 747,000 |
| 2010 | 756,000 |
| 2011 | 722,000 |
| 2012 | 728,000 |
| 2013 | 714,000 |
| 2014 | 661,000 |
| 2015 | 626,000 |
| 2016 | 651,000 |
| 2017 | 706,000 |
| 2018 | 795,000 |
| CAAG | 0.62% |
| TTM 7/18 | 748,000 |
| TTM 7/19 | 896,000 |
| % Change | 19.8% |

TTM = Trailing 12 Months
Source: Bureau of Transportation Statistics

The decline in passenger volume from 2009 through 2015 reflected a similar trend at small to medium size airports across the country. Airline industry consolidation as well as a focus on removing redundant flights and increasing efficiency drove the decline in the number of flights and passenger volume at small and medium size airports in the last decade. The long-term decline reversed in 2016 as Santa Barbara added the Dallas/Fort Worth (DFW) Airport to the list of airports that can be reached on nonstop flights. In addition, in early 2017 both United Airlines and American Airlines announced large increases in available seats arriving and departing from Santa Barbara. Most flights are now served with larger 150-seat Airbus 320 aircraft which represent the first “mainline” aircraft to serve Santa Barbara since 2001. In 2018, the airport added flights to Oakland and Las Vegas.

For the trailing 12-month period through July 2019, the total passenger count at the Santa Barbara Airport was approximately 896,000 which represents a 19.8 percent increase from the same period in 2018. In August of this year, the airport added a daily flight to Salt Lake City. In addition, the airport increased its existing service to Dallas by adding larger aircraft to existing routes. Finally, a third daily flight to Denver is expected to be added in October 2019. While still primarily a drive-in destination, the increased airlift should bode well for the lodging industry in Santa Barbara County.

Santa Barbara County endured two natural disasters that impacted its lodging market performance between December 2017 and July 2018. The Thomas Fire was a massive wildfire which started in December 2017 in Ventura County but spread to Santa Barbara County. The fire burned through portions of the Santa Ynez Mountains and caused mandatory evacuation orders for residents in eastern Santa Barbara, Montecito and Carpinteria. Subsequent to the fire, substantial rainfall in the region in early January 2018 led to catastrophic mudslides in charred portions of Santa Barbara County.

The Thomas Fire drove displaced residents and first responders to local hotels in December 2017; however, local hoteliers offered rooms at deeply discounted average daily rates (ADR). In addition, the air quality from the fires eventually caused many displaced area residents to seek lodging in outlying areas of the county or to leave the county altogether. The mudslides also drove displaced residents and first responders to local hotels in January and February at deeply discounted ADR’s. The combination of the fire, mudslides and highway closures, created negative publicity for the region which led to a slower than usual Spring season for local hoteliers particularly in Santa Barbara proper. It was not until August 2018 that most local hoteliers reported the market was finally returning to normal conditions.

The following table sets forth the historical and projected supply, demand, occupancy, and average room rate for the overall Santa Barbara County hotel market. The supply for the overall Santa Barbara market is forecast to increase by 5.3 percent in 2019. We have estimated the overall Santa Barbara market to experience a 6.0 percent increase in occupied room nights in 2019, correlating to an occupancy rate of 74.4 percent by year-end 2019. Average daily rate is estimated to increase by 11.7 percent to $232.98. The combined changes in occupancy and average daily rate result in a 12.5 percent increase in revenue per available room (RevPAR). In 2020, we forecast an increase of 2.3 percent in occupied rooms amidst a 3.1 percent increase in supply. This results in a market occupancy of 73.8 by year-end 2020. We forecast a 2.5 percent growth in average daily rate in 2020 to result in RevPAR growth of 1.7 percent. The forecasted strong performance in 2019, particularly the robust ADR growth, must be viewed in the context of the challenging year which hoteliers were confronted with in the first half of 2018 due to the Thomas Fire and subsequent mudslides. It should be noted that while Santa Barbara County as a whole includes approximately 2.3 million rooms on an annual basis, the figures presented in the table below depict only the sum of our aggregated submarkets, which represent approximately 63 percent of the countywide total.

| Santa Barbara County Historical Market Performance of the Competitive Supply | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 2,015,165 | N/A | 1,517,573 | N/A | 75.3% | $196.45 | N/A | $147.94 | N/A |
| 2015 | 1,986,573 | -1.4% | 1,533,045 | 1.0% | 77.2 | 207.13 | 5.4% | 159.84 | 8.0% |
| 2016 | 1,986,391 | 0.0 | 1,527,834 | -0.3 | 76.9 | 214.33 | 3.5 | 164.85 | 3.1 |
| 2017 | 2,067,449 | 4.1 | 1,543,669 | 1.0 | 74.7 | 220.68 | 3.0 | 164.77 | 0.0 |
| 2018 | 2,190,487 | 6.0 | 1,617,335 | 4.8 | 73.8 | 208.56 | -5.5 | 154.99 | -6.5 |
| 2019E | 2,305,751 | 5.3 | 1,714,755 | 6.0 | 74.4 | 232.98 | 11.7 | 173.27 | 12.5 |
| 2020F | 2,376,880 | 3.1 | 1,753,554 | 2.3 | 73.8 | 238.84 | 2.5 | 176.21 | 1.7 |
| CAAG | 2.8% | | 2.4% | | | 3.3% | | 3.0% | |
| Source: CBRE Hotels | | | | | | | | | |

## ADDITIONS TO SUPPLY

Based on our research and findings the table below details the new hotels that have been included in this year's edition of our Southern California Lodging Forecast located within the Santa Barbara County market.

| Lodging Forecast - Additions to Supply | | | | |
|---|---|---|---|---|
| Hotel Name | City | Submarket | Room Count | Opening Date |
| Hyatt Place | Santa Barbara | Town | 88 | August 2019 |
| Hampton Inn | Santa Maria | All Other Santa Barbara | 110 | December 2019 |
| Source: CBRE Hotels | | | | |

### Beach Resort Areas

The hotels comprising the Beach/Resort Areas submarket generally line the beachfront of the City of Santa Barbara, usually with ocean views, and many times are mixed in among residential areas and parks. This market also includes Montecito, a separate upscale residential and retail area in the hills just south of Santa Barbara representing the luxury segment of the Santa Barbara area, as well as the Ritz-Carlton Bacara Resort located in the City of Goleta. The beach resort market caters primarily to the leisure and group travelers who enjoy shopping, relaxing, and beach activities.

The majority of visitors to the beach resort areas in Santa Barbara are from within California. The area's accessibility via Highway 101 has enhanced the popularity of the city as a drive-in destination. Weekend leisure business, generated largely from Southern California, is expected to remain strong in Santa Barbara over the long term, due to the uniqueness of the area's attractions, culture, and comfortable climate. Santa Barbara's beach resorts should continue to appeal to a niche market deriving visitation from regional Californians and international tourists.

In recent years hotels in this market have undergone repositioning and/or rebranding, such as the Santa Barbara Inn or Hilton Beachfront Resort. In addition, new luxury hotels have recently opened which are anticipated to achieve a higher rated positioning for this market going forward.

In 2019 supply in the Beach Resort submarket is projected to increase 12.0 percent given the net impact of new hotel openings as well as the reopening of the Four Seasons Biltmore and the San Ysidro Ranch which were closed partially or the entire year in 2018 due to flooding and mudslides. The new hotel openings in 2019 include the 161-room luxury Rosewood Miramar in Montecito in March as well as the balance of the rooms from the 34-room expansion at the Harbor View Inn in September 2018. The temporary hotel closures included the 208-room Four Seasons Biltmore which was closed from January

2018 through May 2018 and the 41-room San Ysidro Ranch which closed at the end of December 2017 and reopened in March 2019. Both of these luxury iconic properties suffered damage from the heavy rains and subsequent mudslides in early 2018. We estimate occupied rooms will increase by 13.0 percent in 2019, resulting in a market occupancy rate of 73.1 percent. Average daily rate is expected to increase by 18.4 percent to $339.20. The large increase in demand and ADR reflects the Beach Resort market regaining its footing after a challenging 2018 and the reopening of key luxury properties in the area. The significant increase in both occupancy and average daily rate will result in a revenue per available room increase for 2019 of 19.5 percent, equating to $247.96.

In 2020, annual room supply is expected to grow by 1.4 percent due to the annualized rooms of the reopened San Ysidro Ranch and the Rosewood Miramar being available for sale. Occupied room nights are forecast to grow by 1.0 percent, resulting in a market occupancy rate of 72.8 percent, as additions to supply slightly outpace growth in demand. We anticipate a 4.0 percent growth in average daily rate. Together, occupancy and average daily rate should result in revenue per available room growth rate of 3.6 percent in 2020, up to $256.96.

**Beach Resort**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 817,235 | N/A | 622,471 | N/A | 76.2% | $275.89 | N/A | $210.14 | N/A |
| 2015 | 817,965 | 0.1% | 618,573 | -0.6% | 75.6 | 291.16 | 5.5% | 220.18 | 4.8% |
| 2016 | 829,706 | 1.4 | 623,098 | 0.7 | 75.1 | 301.25 | 3.5 | 226.24 | 2.7 |
| 2017 | 857,385 | 3.3 | 630,321 | 1.2 | 73.5 | 307.19 | 2.0 | 225.84 | -0.2 |
| 2018 | 845,827 | -1.3 | 612,441 | -2.8 | 72.4 | 286.52 | -6.7 | 207.46 | -8.1 |
| 2019E | 947,038 | 12.0 | 692,308 | 13.0 | 73.1 | 339.20 | 18.4 | 247.96 | 19.5 |
| 2020F | 959,950 | 1.4 | 699,231 | 1.0 | 72.8 | 352.77 | 4.0 | 256.96 | 3.6 |
| CAAG | 2.7% | | 2.0% | | | 4.2% | | 3.4% | |

Source: CBRE Hotels

## Town

Hotels in the Santa Barbara Town submarket are generally located on, or within a few blocks of, State Street in the downtown area of Santa Barbara and are proximate to the numerous retail establishments. Accordingly, these hotels serve the commercial traveler visiting downtown businesses and leisure visitors who want to be within walking distance of the downtown retail area and other shopping and dining areas in downtown Santa Barbara.

Historically, this submarket has been able to hold onto an above average occupancy rate due to its proximity to the popular shops, restaurants and beaches, combined with relatively lower rates for the area. One challenge facing Santa Barbara in recent years is the number of vacant retail storefronts along State Street.

According to a report for the city prepared by Kosmont & Associates, as of mid-2019 the downtown retail vacancy rate at 9.0 percent was significantly higher than the rest of the city's retail vacancy of 3.2 percent. The report also notes that State Street has lost its cache for high-end retail customers while property owners are keeping their asking lease rates too high because of past rent expectations. To address the challenges, the City adopted a streamlined permitting process for new businesses along state street in 2017 but progress has been slow.

As was discussed previously, the Town market was one of the markets most impacted by the Thomas Fire and the subsequent mudslides which impacted the market between December 2017 and July 2018. Supply is forecast to increase 4.6 percent in 2019 due to the opening of the 88-room Hyatt Place on upper Sate Street. The occupied room nights are estimated to increase by 4.4 percent in 2019 resulting in a market occupancy of 77.4 percent. The average daily rate is anticipated to increase by 0.5 percent to $202.60 in 2019. Overall, the RevPAR is projected to increase by 0.3 percent to $156.72.

The supply is projected to increase by 8.8 percent in 2020 due to the balance of the rooms at the 88-room Hyatt Place being available for sale. We estimate that occupied rooms will increase by 7.0 percent in 2020 resulting in a market occupancy of 76.1 percent. Average daily rate is expected to increase by 1.5 percent over the previous year to $205.64. Combined, revenue per available room should decrease by 0.2 percent to $156.39.

**Santa Barbara Town**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 272,655 | N/A | 215,071 | N/A | 78.9% | $177.47 | N/A | $139.99 | N/A |
| 2015 | 243,698 | -10.6% | 199,444 | -7.3% | 81.8 | 193.25 | 8.9% | 158.16 | 13.0% |
| 2016 | 231,775 | -4.9 | 190,623 | -4.4 | 82.2 | 202.61 | 4.8 | 166.64 | 5.4 |
| 2017 | 231,775 | 0.0 | 181,480 | -4.8 | 78.3 | 207.73 | 2.5 | 162.65 | -2.4 |
| 2018 | 231,775 | 0.0 | 179,708 | -1.0 | 77.5 | 201.50 | -3.0 | 156.23 | -3.9 |
| 2019E | 242,482 | 4.6 | 187,572 | 4.4 | 77.4 | 202.60 | 0.5 | 156.72 | 0.3 |
| 2020F | 263,895 | 8.8 | 200,702 | 7.0 | 76.1 | 205.64 | 1.5 | 156.39 | -0.2 |
| CAAG | -0.5% | | -1.1% | | | 2.5% | | 1.9% | |

Source: CBRE Hotels

## Goleta

The City of Goleta is located west of the City of Santa Barbara and is internationally known for the University of Santa Barbara at California (UCSB), the pleasant climate, and beaches. Also, the Goleta Valley is the location of the principal industrial sector of Santa Barbara County and is often referred to as "Silicon Beach." While the city was not incorporated until February of 2002 the city features historic landmarks dating back to the early 1900's. High technology, including diversified electronics, telecommunications, medical device, and remote sensing manufacturing industries are the primary wealth producing sectors of the local economy. Known as a research and development center, Goleta Valley is home to approximately 80 research and development firms, individually employing staffs from two to more than 1,000 persons.

The Goleta office market is the location of choice for many of the South Coast's medium to large sized companies. Its proximity to UCSB, the Santa Barbara Airport, and a highly educated workforce makes Goleta a very desirable location for business. High-tech businesses that help drive the local economy include Raytheon, Citrix Online, Yardi Systems, and FLIR Commercial Vision Systems. According to Radius Commercial, the office vacancy rate in Goleta as of Second Quarter 2019 was 5.2 percent which was below the overall Santa Barbara office vacancy rate of 6.6 percent.

The Goleta hotel submarket is an exceptionally strong and stable market with occupancy rates historically hovering in the upper 70's. The success of this lodging submarket is due to the proximity of UCSB, business parks, and the Santa Barbara Municipal Airport, as well as its proximity to area attractions and ability to capture overflow from Santa Barbara hotels.

The annual room supply is projected remain steady in 2019. Occupied rooms are estimated to increase by 0.4 percent resulting in market occupancy of 78.5 percent in 2019. Average daily rate is expected to grow by 0.3 percent in 2019, with RevPAR growing by 0.7 percent to $140.79. The supply in the Goleta market will remain steady in 2020. Occupied rooms are forecast to increase by 0.2 percent in 2020 resulting in a market occupancy of 78.6 percent. The average daily rate is expected to grow by 1.0 percent. The projected increases in demand and average daily rate will result in an increase in revenue per available room of 1.2 percent to $142.48 by year-end 2020.

**Goleta**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 309,885 | N/A | 232,451 | N/A | 75.0% | $147.97 | N/A | $110.99 | N/A |
| 2015 | 309,520 | -0.1% | 248,236 | 6.8% | 80.2 | 163.78 | 10.7% | 131.36 | 18.3% |
| 2016 | 309,520 | 0.0 | 247,221 | -0.4 | 79.9 | 168.23 | 2.7 | 134.37 | 2.3 |
| 2017 | 329,656 | 6.5 | 251,170 | 1.6 | 76.2 | 175.90 | 4.6 | 134.02 | -0.3 |
| 2018 | 404,420 | 22.7 | 316,176 | 25.9 | 78.2 | 178.82 | 1.7 | 139.81 | 4.3 |
| 2019E | 404,420 | 0.0 | 317,438 | 0.4 | 78.5 | 179.36 | 0.3 | 140.79 | 0.7 |
| 2020F | 404,420 | 0.0 | 318,072 | 0.2 | 78.6 | 181.16 | 1.0 | 142.48 | 1.2 |
| CAAG | 4.5% | | 5.4% | | | 3.4% | | 4.2% | |

Source: CBRE Hotels

## Northern Santa Barbara

Hotels in the Northern Santa Barbara sub-market are generally located in or near the Santa Barbara wineries in the overall Santa Ynez Valley and in the cities of Santa Maria, Buellton, Lompoc, and Solvang. This submarket was largely impacted initially by the popularity of the film, “Sideways” and the growing trend in winery tourism, which has sustained much of the market’s occupancy and rate growth in recent years.

The abundance of activities and tourist attractions in the Santa Ynez Valley provides for a popular drive destination. As such, aggressive marketing to showcase the valley as a whole is currently taking place by the Santa Ynez Valley Visitors Association. Visitors can tour and taste acclaimed Pinot Noir, Chardonnay, Syrah and other varietals at over 120 wineries and tasting rooms. Outdoor activities can allow a guest to golf, hike, bike, fish, see wildlife, tour a horse ranch, or take a horseback ride. A variety of lodging options from luxury wine inspired bed and breakfasts to affordable limited-service properties are readily available for overnight guests.

For 2019, supply in the Northern Santa Barbara market is forecast to increase by 0.5 percent due to opening of the 110-room Hampton Inn Santa Maria in December 2019. Occupied rooms are estimated to experience an increase of 1.7 percent, resulting in a market occupancy rate of 72.7 percent. Average daily rate is estimated to decrease by 0.7 percent, to an estimated $134.77. RevPAR is expected to finish 2019 with a 0.5 percent increase to $97.97.

In 2020, the submarket’s supply will increase by 5.2 percent due to the annualized rooms of the Hampton Inn Santa Maria being available for sale. Occupied rooms are expected to increase by 3.5 percent in 2020 resulting in a market occupancy of 71.5 percent as supply outpaces demand. Furthermore, we forecast average daily rate to increase by 1.5 percent to $136.79. Revenue per available room is estimated to decrease slightly by 0.1 percent to $97.86.

**Northern Santa Barbara**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 615,390 | N/A | 447,579 | N/A | 72.7% | $120.28 | N/A | $87.48 | N/A |
| 2015 | 615,390 | 0.0% | 466,793 | 4.3% | 75.9 | 124.76 | 3.7% | 94.63 | 8.2% |
| 2016 | 615,390 | 0.0 | 466,892 | 0.0 | 75.9 | 127.51 | 2.2 | 96.74 | 2.2 |
| 2017 | 648,633 | 5.4 | 480,697 | 3.0 | 74.1 | 135.52 | 6.3 | 100.43 | 3.8 |
| 2018 | 708,465 | 9.2 | 509,009 | 5.9 | 71.8 | 135.74 | 0.2 | 97.52 | -2.9 |
| 2019E | 711,811 | 0.5 | 517,438 | 1.7 | 72.7 | 134.77 | -0.7 | 97.97 | 0.5 |
| 2020F | 748,615 | 5.2 | 535,548 | 3.5 | 71.5 | 136.79 | 1.5 | 97.86 | -0.1 |
| CAAG | 3.3% | | 3.0% | | | 2.2% | | 1.9% | |

Source: CBRE Hotels

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The World's Leading Hotel Experts.

# Ventura County

2020 SOUTHERN CALIFORNIA
LODGING FORECAST

CBRE

# VENTURA COUNTY

## EXECUTIVE SUMMARY

Located along the Pacific Coast between Los Angeles and Santa Barbara, Ventura County has experienced moderate growth within the last few years. Ventura County has shifted from being an agriculture center to a more diversified, semi-metropolitan region. As of 2018, the Hospitality/Leisure and retail sectors of the economy have accounted for more than half of the non-farm jobs in the area. Growth in Los Angeles and other Southern California cities has spurred development in the County, which includes the cities of Ventura, Camarillo, Oxnard and Simi Valley.

Tourism is one of Ventura County's economic drivers followed by retail. The leisure dominated market's many small communities with quaint downtowns are popular among those traveling from Los Angeles looking for a quick getaway. Ventura County's greatest strength in terms of attracting visitors is its proximity to Los Angeles and the Greater Five County area, as well as its beaches, shopping, mountains and overall atmosphere. Ventura County also benefits from price sensitive business and leisure travelers who prefer lodging in more affordable sub-markets than the City of Santa Barbara to the north.

Ventura County's visitors can enjoy abundant outdoor activities that range from whale watching near the Channel Islands, to kayaking in Ventura harbor, to sailing off the coast, to surfing at some of the best surfing beaches in the State and also biking or hiking the Topatopa Mountains near the charming town of Ojai. The Channel Islands National Park encompasses nearly 250,000 acres of wilderness preserve/marine sanctuary, of which about half is underwater. Of the eight islands dubbed the Channel Islands that lie off the Ventura County coast, five of the islands, San Miguel, Santa Rosa, Santa Cruz, Anacapa, and Santa Barbara, became the Channel Islands National Park in 1980. Ventura County also offers approximately 40 miles of beaches including Hollywood Beach in Oxnard and Ventura Beach in Ventura. Furthermore, the picturesque Topatopa Mountains can be conveniently explored via access through the destination town of Ojai, ideally nestled in the mountain range and only 18 miles inland from the Pacific Ocean.

Aside from outdoor activities, Ventura County is known for its shopping and dining destination. Ventura has transformed its downtown area into a shopping district for those seeking rare and antique items. In line with the small town feel of most of the cities in Ventura County, many people visit the area to peruse antique shops in both Ventura and Oxnard. Camarillo, known for the Camarillo Premium Outlets Mall offers popular high-end brands and attracts visitors from around the world and other parts of Southern California. Newly developed upscale restaurants complement the various distilleries, craft breweries, wine tasting and harvest activities in the area. For example, Oxnard is the home to the California Strawberry Festival which is one of the top 50 festivals in the nation held every May. Other popular events in Oxnard are Whale watching and Concerts by the sea. Moreover, the charming town of Ojai is known for its farm and food tours, boutique hotels, fine art, hand-crafted jewelry and home furnishings at close to fifty specialty stores and art galleries, in addition to numerous annual festival, events and activities.

## EMPLOYMENT

Located between Los Angeles County to the south and Santa Barbara County to the north, Ventura County supports a population of more than 859,000 people as of January 2019 and is the 13th most populous county in the State of California. The area encompasses 1,845 square miles, including 40 miles of coastline, in which nearly eight miles of shoreline are public beaches, 411 acres of State beach parks, 36 square miles of county parks, and islands offshore. Over the last five years, Ventura's total employment has grown at an average annual rate of 1.2% while across the U.S., employment has grown at an average annual rate of 1.8%. Total employment stands at 312,500 workers according to CBRE Research. In the last four quarters, Ventura's employment has grown at an average annual rate of 1.1%. Our forecast predicts growth of 0.5% per year in the Ventura area in the next five years. Ventura's construction employment sector will post the best job performance over the next five years according to CBRE Econometric Advisors.

The table below presents the current employment levels for major industry groups as well as historical growth rates over the last five years, last 12 months, and the next five years.

**Employment Levels & Growth Rates: Ventura vs. Nation**

| NAICS Category | Level (x 1000) | Location Quotient | Avg Annual Growth Rates (%) Last 5 Years Metro | Last 5 Years U.S. | Last 12 Mos. Metro | Last 12 Mos. U.S. | Next 5 Years Metro | Next 5 Years U.S. |
|---|---|---|---|---|---|---|---|---|
| Agriculture & Mining | 1 | 0.57 | -7.1 | -3.1 | 0.0 | 4.0 | 0.0 | 0.0 |
| Construction | 18 | 1.14 | 5.3 | 4.2 | 5.4 | 3.2 | 1.3 | 1.8 |
| Manufacturing | 27 | 1.01 | 1.4 | 1.1 | 2.3 | 1.4 | -1.5 | -1.5 |
| Wholesale Trade | 13 | 1.08 | 0.8 | 0.7 | 0.8 | 1.8 | 0.1 | 0.2 |
| Retail Trade | 39 | 1.20 | -0.1 | 0.6 | -2.0 | -0.4 | 0.4 | 0.1 |
| Transportation & Warehousing | 6 | 0.49 | 2.7 | 3.7 | 3.7 | 3.0 | 0.4 | 0.4 |
| Information | 5 | 0.83 | -2.3 | 0.6 | -4.0 | -0.8 | 0.0 | -0.1 |
| Financial Activities | 17 | 0.92 | -2.7 | 1.7 | -1.2 | 1.1 | 0.7 | 0.5 |
| Prof. & Business Svcs. | 43 | 0.97 | 0.6 | 2.4 | 0.2 | 2.3 | 0.9 | 1.1 |
| Education & Health | 49 | 0.98 | 3.1 | 2.5 | 3.4 | 2.5 | 1.1 | 0.8 |
| Hospitality & Leisure | 39 | 1.12 | 2.1 | 2.6 | 1.8 | 2.5 | 1.0 | 0.9 |
| Other Services | 9 | 0.77 | -1.0 | 1.3 | 0.0 | 1.5 | 0.0 | 0.1 |
| Government | 47 | 1.01 | 1.5 | 0.6 | 0.6 | 0.5 | 0.4 | 0.6 |
| **Total** | **313** | **n/a** | **1.2** | **1.8** | **1.1** | **1.6** | **0.5** | **0.5** |

Source: Moody's Economy.com, CBRE Econometric Advisors

Ventura County average per capita personal income (according to recent data from Economy.com) is estimated to be $63,404, approximately 14.8% above the national average. The higher cost of living in the county compared to other parts of the state is an obstacle to more robust labor force growth. The Institute for Global Economic Research at California State University Channel Islands estimates that home prices in the county are approximately thirty percent higher than the statewide average. In addition to low unemployment and a growing labor force, employment growth is also improving.

The 101 Technology Corridor, which stretches from Woodland Hills in Los Angeles County to Camarillo in Ventura County, refers to the cluster of high technology firms along the 101 Freeway. The corridor is home to a variety of firms engaged in technology manufacturing, biomedical and pharmaceutical product manufacturing, multi-media products and specialty database firms. As high technology firms move into the area, technology jobs in the area are expected to climb in the next few years. With lower business costs, rising wages, fiscal stimulus and educational attainment, demand for technology goods will strengthen within the next few years.

The Naval Air Station at Point Mugu is home to research, development and test evaluation for weapons systems. California's smallest and only deep-water port between Los Angeles and San Francisco is Port Hueneme, which plays a sizeable role in the local economy, serving as the western U.S. distribution network for many imported vehicles. It is also the shipping point for agriculture with the largest refrigerated fruit terminal on the West Coast.

Naval Base Ventura County (NBVC) is a United States Navy base located near Oxnard. The base supports an estimated 19,000-armed forces and civilian jobs and is the largest employer in Ventura County. Recently, Congress agreed to a two-year budget deal that raises the defense spending cap by approximately $80 billion in 2018 and $85 billion in 2019.

Agriculture has proven to be a powerful economic driver for Ventura County with an estimated $3 billion in revenue in 2018. Ventura County produces a number of crops such as citrus, avocados, spinach, tomatoes etc. Although seasonal, the agriculture industry provides an average annual job of about 35,000.

A summary of the major employers within Ventura County as of December 2018 is presented in the following table.

**Top Employers**
**Ventura County**

| Company | Employees |
|---|---|
| Ventura Naval Base | 19,000 |
| Amgen Inc | 5,125 |
| Bank of America | 3,800 |
| WellPoint Health Networks Inc | 3,056 |
| Ventura County Health Care Agency | 2,675 |
| Anthem Blue Cross & Shield | 2,500 |
| The Oaks | 2,345 |
| Community Memorial Hospital | 2,015 |
| California Lutheran University | 1,772 |
| Los Robles Regional Medical Center | 1,670 |
| Ventura County Community College | 1,567 |
| Kavlico | 1,550 |
| St. John's Regional Medical Center | 1,286 |
| Montana Air National Guard | 1,255 |
| Hass Automation Inc. | 1,200 |
| Baxter | 1,150 |
| PennyMac Loan Services | 1,000 |
| Adventist Health | 1,000 |
| California State University Channel Islands | 946 |
| Farmers Insurance | 890 |

Source: Moody's Analytics

## TOURISM

Officially formed in 2011, the Ventura County Lodging Association (VCLA) is comprised of about 70 lodging facilities and destination marketing organizations in the Cities of Camarillo, Oxnard, Port Hueneme and Ventura. Collectively branded as "Ventura County West," the VCLA's goals are to increase marketing and awareness of the four cities as a destination in Southern California. The organization works closely with the tourism associations in Ventura, Camarillo and Oxnard to help drive leisure demand to the area. The first marketing campaign was launched in April of 2012 to highlight the area's assets, which include the beaches, recreational activities, 200,000 square feet of conference and meeting room space, and 4,000 guest rooms available in the region. Generating revenue from a 2.0 percent self-assessment on all room revenues, the group has an annual budget of approximately $2.0 million to market Ventura County as a destination. The countywide collection of transient occupancy taxes (TOT) has increased from $16.3 million in 2012 to $24.7 million in 2016 which translates into a 10.9 percent compound annual average growth rate.

The Ventura County forecast includes four sub-markets: the cities of Ventura, Oxnard, Camarillo, and Simi Valley. There were no additions to hotel supply in the Ventura County during the first three quarters of 2019. However, the Fairfield Inn & Suites Moorpark by Marriott is expected to open December 2019. There are several other projects either approved or in planning stages; however, since none of these projects are expected to open in 2020, they have not been included in our market projections. Although the County has not experienced any new additions to supply since the opening of the Homewood Suites Oxnard in April 2010, development interest continues to be strong due to the improving metrics exhibited by the existing hotels. Much of the lodging supply in Ventura County is dated, and the continued renovation of properties will be key to improve the tourist experience and to further fortify the image the Ventura County destination as a whole.

According to CBRE Hotels, the county will experience a decrease in occupied room nights of 0.2 percent and finish the year with an occupancy of 75.6 percent. Average daily rate is estimated to increase 2.4 percent in 2019 which equates to $133.00. Demand is forecast to experience a modest 1.3 percent increase in 2020, resulting in an occupancy of 76.6 percent. Average daily rate is forecasted to grow by 1.5 percent to $134.98. Combined, these result in a revenue per available room increase of 2.8 percent to $103.42 in 2020.

The following table estimates Ventura County's historical and projected supply, demand, occupancy and average room rate. We are aware that Ventura County as a whole has a total of more than 2.9 million annual hotel rooms. However, the table presented below includes the sum of our aggregated sub-markets, representing roughly 55 percent of the total existing lodging supply.

**Ventura County**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,673,525 | N/A | 1,207,169 | N/A | 72.1% | $108.45 | N/A | $78.23 | N/A |
| 2015 | 1,652,720 | -1.2% | 1,233,496 | 2.2% | 74.6 | 116.80 | 7.7% | 87.17 | 11.4% |
| 2016 | 1,652,720 | 0.0 | 1,279,653 | 3.7 | 77.4 | 125.26 | 7.2 | 96.99 | 11.3 |
| 2017 | 1,652,720 | 0.0 | 1,277,190 | -0.2 | 77.3 | 126.60 | 1.1 | 97.84 | 0.9 |
| 2018 | 1,652,720 | 0.0 | 1,252,581 | -1.9 | 75.8 | 129.83 | 2.6 | 98.40 | 0.6 |
| 2019E | 1,652,720 | 0.0 | 1,250,020 | -0.2 | 75.6 | 133.00 | 2.4 | 100.59 | 2.2 |
| 2020F | 1,652,720 | 0.0 | 1,266,321 | 1.3 | 76.6 | 134.98 | 1.5 | 103.42 | 2.8 |
| CAAG | -0.2% | | 0.8% | | | 3.7% | | 4.8% | |

Source: CBRE Hotels

## City of Ventura

Ventura, known for its vibrant tourist harbor and uncrowded beaches, serves as a focal point for beachgoers. With its lively tourist harbor and vast stretches of un-crowded beaches, the City of Ventura's hotel market is primarily leisure oriented. The 33-acre Ventura Harbor district consists of a small boat marina with retail, restaurant, and residential components. The Harbor is located off Harbor Boulevard on Spinnaker Drive. Ventura Harbor Village features over 35 retail and restaurant facilities with additional office space. The Channel Islands National Park Visitor Center is also located at the Ventura Harbor. The Ventura Harbor is a gateway to the Channel Islands National Park, a popular tourist destination that offers camping, whale watching, kayaking, deep-sea fishing, hiking, and scuba diving.

According to the National Park Service, the Channel Islands National Park had roughly 340,000 visitors in 2019.

The Ventura Beach area is characterized by the San Buenaventura State Beach located west of the 101 Freeway, accessed off of San Pedro Road. The State Beach extends north to the Ventura Pier and features a 13-mile bikeway. Shops and restaurants are offered along the coast. Ventura's Historic Downtown has become an entertainment and shopping destination with unique activities and things to see such as, art galleries, book stores, coffee houses, art walks and a wide variety of shops and restaurants within walking distance. The city is also known for its vibrant art district. Theatre performances, historical structures, and several notable museums, are popular tourist destinations. Ventura's classic Main Street is a bustling, yet quaint shopping attraction with restaurants, distinctive inns, boutiques, and antique shops.

Throughout the year, the City of Ventura hosts a range of special events from the Ventura County Fair in August at the Ventura Fairgrounds, Monarch Butterfly Walking Tour and Dog Shows in January; Point Mugu Air Show in October; Chamber Music Festival in May; to Wine Tastings in July. In any given month, there are more than 12 events scheduled to attract tourists. Furthermore, Ventura continues to undergo a renaissance with recent revitalization efforts taking place in the Downtown area. The Main Street area celebrates the art deco, craftsman, neoclassical, and Victorian architectural design and is home to a number of antique shops. New additions to the downtown corridor, such as a new information kiosk, colorful banners, and festive lights, have helped to turn the area into more of an evening destination. Additionally, Ventura was recently named the host city for the Amgen Tour of California and hosted its first event in May 2018. The Amgen Tour of California is a premier cycling race where the world's best cyclists compete for 600 miles along roadways, highways and coastlines from Long Beach to Sacramento.

With the recent transaction activity of hotels in Ventura, much of the hotel inventory in the City updated or planned to renovate their property. Ventura Beach Marriott recently completed a $35 million renovation to their rooms, meeting space and lobby. As the hotel inventory in the market is updated, the Visit Ventura Visitors & Convention Bureau (VVCB) should have continued success in marketing Ventura as a destination.

Ventura's occupied room nights are estimated to increase by 3.1 percent in 2019, equal to a market occupancy of 73.2 percent. Average daily rate is expected to increase by 5.8 percent resulting in a year-end figure of $124.41. Annual supply is expected to remain flat in 2020 as there are no additions to supply according to CBRE Hotels. However, occupied rooms are expected to increase 2.5 percent resulting in a market occupancy of 75.0 percent, as the renovated Marriott is reintroduced into the market. Average daily rate is projected to grow by 3.0 percent in 2020 to $128.15. RevPAR is expected to grow 9.1 percent in 2019 and 5.6 percent in 2020.

| City of Ventura<br>Historical Market Performance of the Competitive Supply | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 599,330 | N/A | 430,500 | N/A | 71.8% | $100.86 | N/A | $72.45 | N/A |
| 2015 | 599,330 | 0.0% | 450,945 | 4.7% | 75.2 | 107.27 | 6.4% | 80.71 | 11.4% |
| 2016 | 599,330 | 0.0 | 457,144 | 1.4 | 76.3 | 114.03 | 6.3 | 86.98 | 7.8 |
| 2017 | 599,330 | 0.0 | 462,131 | 1.1 | 77.1 | 117.91 | 3.4 | 90.92 | 4.5 |
| 2018 | 599,330 | 0.0 | 425,383 | -8.0 | 71.0 | 117.58 | -0.3 | 83.45 | -8.2 |
| 2019E | 599,330 | 0.0 | 438,749 | 3.1 | 73.2 | 124.41 | 5.8 | 91.08 | 9.1 |
| 2020F | 599,330 | 0.0 | 449,718 | 2.5 | 75.0 | 128.15 | 3.0 | 96.16 | 5.6 |
| CAAG | 0.0 | | 0.7 | | | 4.1 | | 4.8 | |
| Source: CBRE Hotels | | | | | | | | | |

## Camarillo

Camarillo is home to a number of high tech and specialty product companies as well as media and post-production companies, due to its location along the Ventura (101) Freeway Tech Corridor, which stretches from Woodland Hills to Camarillo. Companies previously located in Los Angeles County have chosen to expand to the Camarillo area due to its relatively low land costs, and the city's business-friendly approach to attracting employers. Camarillo houses many museums, the Studio Channel Islands Art Center, and has a wide variety of outdoor options for the hikers and bikers.

One of the major attractions in Camarillo is the Camarillo Premium Outlets. The Camarillo Outlets has over 160 outlet stores and is the largest Outlet Center in Southern California. The outlet attracts people from all over the world and offers some of the most popular brands such as Kate Spade, Theory, Salvatore Ferragamo, Ted Baker London, Armani, Guess, Gap etc. These stores at the outlets generate an additional sales tax revenue for the city and have made Camarillo a shopping destination for not only local and regional residents, but also international visitors. Through strategic partnerships with travel and tour companies that provide charter buses and tour guides, the Camarillo Outlets enjoys a steady inflow of shoppers daily.

The city of Camarillo is also known for California State University Channel Islands (CSUCI) which was introduced in 2002 and joined the CSU system as the 23rd campus. CSU Channel Islands is the first four-year university in Ventura County and includes a 2018 student enrollment of over 6,600. In its first decade, the university has doubled in size to more than 1,200 acres and developed more than $230 million in building and renovation projects. According to an economic impact study completed in 2010, annual spending related to CSU Channel Islands in the Central Coast region generates a total impact of more than $114.4 million on the regional economy and nearly $240.5 million statewide.

As the newest university in the CSU system, the university has commenced on a $600 million long range plan titled, "CSUCI 2025," which aims to more than double its full-time enrollment to 15,000 students in a ten-year time frame. The expansion is planned to include new academic buildings, in addition to on-campus housing for faculty and students, an event center, new science building, and a second entrance to campus. Future phases of the development will also include a conference and recreation center, more parking facilities, and additional student housing. Ultimately, the university strives to move away from being a commuter-based school and sustain itself as a self-contained community, and growth at the campus should continue to generate room nights for the existing supply of hotels in Camarillo.

In 2014, the City of Camarillo established its own Camarillo Tourism Marketing District (CTMD) which allows the City to levy a two percent assessment on lodging facilities in the City. With an annual budget of approximately $450,000 per year, the CTMD aims to execute direct marketing and sale campaigns to increase exposure of the City as a tourist and meeting and events destination.

Based on our most recent trends, we estimate that the Camarillo market will experience a 0.6 percent decrease in occupied rooms in 2019 resulting in a year-end occupancy rate of 76.2 percent. Average daily rate is projected to increase 3.1 percent equating to a year-end figure of $121.82. Going forward annual supply in the market is anticipated to remain flat in 2020. We forecast occupied rooms to also remain unchanged in 2020, resulting in a market occupancy of 76.2 percent. Average daily rate is projected to increase 2.0 percent to $124.25; equaling to a 2020 revenue per available room of $94.64. RevPAR is expected to increase 2.5 percent in 2019 and 2.0 percent in 2020.

**Camarillo**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 317,550 | N/A | 228,529 | N/A | 72.0% | $101.80 | N/A | $73.26 | N/A |
| 2015 | 317,550 | 0.0% | 233,425 | 2.1% | 73.5 | 106.93 | 5.0% | 78.60 | 7.3% |
| 2016 | 317,550 | 0.0 | 242,002 | 3.7 | 76.2 | 115.42 | 7.9 | 87.96 | 11.9 |
| 2017 | 317,550 | 0.0 | 235,971 | -2.5 | 74.3 | 113.99 | -1.2 | 84.70 | -3.7 |
| 2018 | 317,550 | 0.0 | 243,240 | 3.1 | 76.6 | 118.20 | 3.7 | 90.54 | 6.9 |
| 2019E | 317,550 | 0.0 | 241,860 | -0.6 | 76.2 | 121.82 | 3.1 | 92.78 | 2.5 |
| 2020F | 317,550 | 0.0 | 241,860 | 0.0 | 76.2 | 124.25 | 2.0 | 94.64 | 2.0 |
| CAAG | 0.0 | | 0.9 | | | 3.4 | | 4.4 | |

Source: CBRE Hotels

## Oxnard

Located just 60 miles northwest of Los Angeles, the City of Oxnard has grown from just being an agricultural town to a thriving city. Known for its white sandy beaches and fun activities, Oxnard is Ventura County's most populous city with over 200,000 residents. Primary sectors of Oxnard's economy include agriculture, technology, manufacturing, and tourism. Oxnard Port Hueneme is the busiest and only deep-harbor commercial port between Los Angeles and San Francisco and represents a vital link in trade with the Pacific Rim economies. Companies utilizing the Port include Del Monte Foods, Chiquita, BMW, Land Rover, and Jaguar.

Oxnard's large military presence includes Port Hueneme, Point Mugu, and San Nicolas Island, which supports more than 100 tenant commands and has a base population of more than 19,000 personnel, making it Ventura County's largest employer and a key element in the Department of Defense infrastructure. Agriculture has remained a major industry for the city, however, there has been a steady increase in other industries such as technology. Oxnard's lower business costs continue to drive high-technology companies to the area. It's also important to note that the City of Oxnard now has Ventura County's largest industrial sector as well. Aside from federal, state and local government, the largest employers are in biotechnology, health insurance, telephone services and equipment, mortgage lending, and education. As Military and consumer industries continues to expand, Oxnard's economy will strengthen and should see a rise in job growth over the next two years.

With its proximity to the Channel Islands, the Channel Islands Harbor is one of the top attractions in the area with visitors from Southern California. Activities in the Channel Islands Harbor include shopping at harbor boutiques, wine tours, sport fishing, diving, whale watching, and renting boats and kayaks. The harbor offers nine full-service marinas, as well as a scenic bike path and Maritime Museum. The Channel Islands Harbor offers departures to the Channel Islands National Park & Channel Islands

National Marine Sanctuary, a five-island park and underwater sanctuary home to more than 2,000 plants and animals. As of 2018, business activity at the Chanel Islands Harbor had a direct economic impact of approximately $75 million and a total economic impact of $160 Million. The continued redevelopment of the Channel Islands Harbor area continues to be a priority for City and County officials. As part of the overall redevelopment, developer Brighton Management has proposed a hotel to replace the shuttered Casa Sirena Hotel. Given the favorable economic conditions, it is the County's hope that private developers will undertake and complete proposed projects in the harbor area to revitalize and amenitize the Fisherman's Wharf and Channel Islands Harbor. With so much to offer, including beautiful beaches, shopping and temperature climate year around, it's easy to understand how Oxnard drives demand.

Downtown Oxnard has transformed into a vibrant and energetic city with over 40 different restaurants, museums and theatre performances. The Carnegie Art Museum displays contemporary and traditional art, while the Gull Wings museum is designed especially for children. There are several cultural events throughout the year designed to attract tourists, including the Strawberry and Salsa Festivals.

The Collection at RiverPark is an outdoor lifestyle center with approximately 750,000 square feet of retail located east of the 101 Freeway in Oxnard. Opened in 2012, The collection at RiverParkk quickly became a favorite shopping and dining outdoor center for locals. Notable retailers and restaurants include H&M, Gap and Yard house. The complex is currently anchored by national retailers REI, Target, and Whole Foods Market. Developer Shea Properties has proposed a hotel at the Collection, however construction has not commenced as of September 2019 and there is no precise timeline for the development of a hotel. The Collection is located within RiverPark, a 700-acre master planned, mixed-use community located in the northeast portion of the intersection of the Ventura Freeway and Santa Clara River. At full build out, the community will include 15 distinct neighborhoods with up to 3,050 single-family and multi-family units and over 2.1 million square feet of retail, hotel, office, and parking uses to support and serve the community.

Based on the year-to-date performance, the Oxnard market is estimated to finish 2019 with an occupancy of 77.4 percent, reflecting a 3.3 percent decrease in occupied room nights. The average daily rate is projected to finish 2019 at $154.16, an increase of 0.5 percent from the prior year. We forecast that occupied rooms will increase by 1.5 percent in 2020 resulting in an occupancy rate of 78.5 percent. The average daily rate is projected to increase by 1.0 percent in 2020 resulting in a figure of $155.71. This will result in a RevPAR increase of 2.5 percent to $122.29.

**Oxnard**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 549,325 | N/A | 394,783 | N/A | 71.9% | $125.67 | N/A | $90.31 | N/A |
| 2015 | 528,520 | -3.8% | 391,713 | -0.8% | 74.1 | 138.22 | 10.0% | 102.44 | 13.4% |
| 2016 | 528,520 | 0.0 | 414,863 | 5.9 | 78.5 | 146.80 | 6.2 | 115.23 | 12.5 |
| 2017 | 528,520 | 0.0 | 419,213 | 1.0 | 79.3 | 147.14 | 0.2 | 116.71 | 1.3 |
| 2018 | 528,520 | 0.0 | 423,125 | 0.9 | 80.1 | 153.44 | 4.3 | 122.84 | 5.3 |
| 2019E | 528,520 | 0.0 | 408,960 | -3.3 | 77.4 | 154.16 | 0.5 | 119.29 | -2.9 |
| 2020F | 528,520 | 0.0 | 415,095 | 1.5 | 78.5 | 155.71 | 1.0 | 122.29 | 2.5 |
| CAAG | -0.6 | | 0.8 | | | 3.6 | | 5.2 | |

Source: CBRE Hotels

## Simi Valley

Simi Valley encompasses 42 square miles and is located 45 minutes northwest of Los Angeles in eastern Ventura County. According to the California Department of Finance, Simi Valley had an estimated population of nearly 127,000 and is the third largest city in Ventura County. The city's proximity to Los Angeles allows it to offer a unique blend of rural and urban lifestyles. Simi Valley is home to more than 30 parks, four golf courses, a performing art center, and theaters. Simi Valley is consistently rated by the FBI as one of the safest cities in the United States. It is the only Ventura County city included in the Los Angeles film 'Zone' and within the last few years, has attracted feature film and television series crews.

The Ronald Reagan Presidential Library and Museum is Simi Valley's main tourist attraction, hosting an average of over 500,000 visitors annually and consistently ranking as the second most visited Presidential Library. President Reagan's grave has recently been incorporated to the site. Additionally, the back section of the lawn has been expanded to resemble the South Lawn of the White House. The Library has been host to several events, including political seminars in addition to Republican presidential debates.

Simi Valley features over 7,500 businesses including Hitachi Koki Corporation, Seagate Technology, Standard Abrasives, Alcoa Fastening Systems, Ensign-Bickford Aerospace, among others. Additionally, smaller companies in related fields and many different suppliers to major companies are located in the Simi Valley area, providing a mix of large and small operations for the community and its residents.

Simi Valley has not experienced an increase in rooms supply over the last five years. Based on year-to-date trends, the market is anticipated to experience a slight decrease of 0.2 percent in occupied room nights which equates to a market occupancy of 77.4. The average daily rate is estimated to increase by 1.4 percent in 2019 to $119.39. As a result of these increases in occupancy and average daily rate, the revenue per available room in 2019 is expected to increase by 1.2 percent to $92.40. We anticipate that there will be a slight decrease of 0.5 percent in Simi Valley's occupied room nights in 2020. The average daily rate is forecast to increase by 1.0 percent to $120.59, equaling a revenue per available room of $92.86.

**Simi Valley**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 207,320 | N/A | 153,357 | N/A | 74.0% | $95.29 | N/A | $70.49 | N/A |
| 2015 | 207,320 | 0.0% | 157,413 | 2.6% | 75.9 | 105.40 | 10.6% | 80.03 | 13.5% |
| 2016 | 207,320 | 0.0 | 165,644 | 5.2 | 79.9 | 116.67 | 10.7 | 93.22 | 16.5 |
| 2017 | 207,320 | 0.0 | 159,875 | -3.5 | 77.1 | 116.50 | -0.1 | 89.84 | -3.6 |
| 2018 | 207,320 | 0.0 | 160,834 | 0.6 | 77.6 | 117.74 | 1.1 | 91.34 | 1.7 |
| 2019E | 207,320 | 0.0 | 160,450 | -0.2 | 77.4 | 119.39 | 1.4 | 92.40 | 1.2 |
| 2020F | 207,320 | 0.0 | 159,648 | -0.5 | 77.0 | 120.59 | 1.0 | 92.86 | 0.5 |
| CAAG | 0.0 | | 0.7 | | | 4.0 | | 4.7 | |

Source: CBRE Hotels

CBRE HOTELS

The World's Leading Hotel Experts.

# San Luis Obispo County

2020 SOUTHERN CALIFORNIA
LODGING FORECAST

CBRE

# SAN LUIS OBISPO COUNTY

## EXECUTIVE SUMMARY

San Luis Obispo (SLO) County is a popular drive destination that covers an area of 3,316 square miles and is located at the approximate midpoint between San Francisco and Los Angeles. Farms and small towns characterize the county, as a large portion of the land is utilized for agricultural purposes. With a fairly diverse workforce and relatively isolated location, San Luis Obispo is better positioned to weather the fluctuations in the economic cycle as evidenced by the hotel market's performance during the last recession. In addition to these sectors of the economy, the excellent coastal location attracts visitors from throughout the inland region and also serves as a rest stop for tourists traveling along the coast. Hearst Castle and the numerous local wineries have also served to make the area a destination for domestic and international travelers. The area's natural amenities such as the weather and attractive coastal characteristics continue to attract overnight visitors to the area.

Throughout the economic recovery, San Luis Obispo County's growth profile has been different from the state in that it has been relatively insulated from most fluctuations in the economy. The county is not seen as a rapidly growing economy, but rather a stable one that is characterized by lower than average unemployment rates and a diverse workforce. The annual average unemployment rate in San Luis Obispo County was 2.9 percent in 2018, down from 3.6 percent in 2017. This compares favorably with an unemployment rate of 4.2 percent for California in 2018.

The county's economy is largely based on tourism and education; as a result, services, government, and retail trade are the dominant industries. Local hotel average daily room rates as well as demand for rooms have increased over the past year, indicating that more visitors are looking to travel to the county as well as pay more to do so. Jobs have also been increasing steadily in the county since exiting the recession. Many of the jobs that have been created during this growth have also generated more taxable sales for the county, mainly in the booming wine industry. The following is a list of the county's top ten employers.

**San Luis Obispo County Major Employers**

| | # of Employees |
|---|---|
| Cal Poly State University | 3,000 |
| County of San Luis Obispo | 2,920 |
| Atascadero State Hospital | 2,000 |
| Pacific Gas and Electric Company | 1,866 |
| California Men's Colony | 1,517 |
| Cal Poly Corporation | 1,400 |
| Tenet Healthcare | 1,305 |
| Compass Health Inc. | 1,200 |
| Lucia Mar Unified School District | 1,000 |
| Paso Robles Public Schools | 935 |

Source: San Luis Obispo County Comprehensive Annual Financial Report (CAFR) June 30, 2018

Between 2010 and 2019 San Luis Obispo County's population grew at approximately 0.3 percent on an annual basis, slightly below the 0.8 percent growth demonstrated by the State of California. The seven incorporated cities included within the MSA are Arroyo Grande, Atascadero, Grover Beach, Morro Bay, Paso Robles, Pismo Beach, and San Luis Obispo. The following table presents the historical population estimates for the cities, as of January 1, 2019.

| San Luis Obispo County<br>2019 Population Estimate<br>Breakdown by City | |
|---|---|
| Arroyo Grande | 17,876 |
| Atascadero | 30,405 |
| El Paso de Robles | 31,244 |
| Grover Beach | 13,533 |
| Morro Bay | 10,439 |
| Pismo Beach | 8,239 |
| San Luis Obispo | 46,802 |
| Balance of County | 121,855 |
| Total: | 280,393 |
| Source: California Department of Finance | |

Commercial air service to San Luis Obispo County Regional Airport is provided by Alaska Airlines, American Airlines, Contour Airlines, and United Airlines. Although direct flights from Los Angeles, San Francisco, Denver, Dallas, Phoenix and Seattle are available, direct service from the East Coast is not. The airport has been successful in adding direct flights to new markets in recent years. American Airlines started offering service to Dallas in April of this year, and Contour Airlines will begin offering service to Las Vegas this month, while Alaska Airlines recently announced that they will provide direct service to Portland and San Diego starting next year. The following table presents the historical passenger counts through the San Luis Obispo County Airport from 2009 through 2018, as well as through July 2019 as compared to the same period in 2018.

**San Luis Obispo Airport Activity**
**2009–2019 & YTD 2019**

| Year | Enplanements | Deplanements | Total Passengers | Percent Change |
|---|---|---|---|---|
| 2009 | 121,326 | 119,735 | 241,061 | N/A |
| 2010 | 133,740 | 130,992 | 264,732 | 9.8% |
| 2011 | 137,604 | 134,816 | 272,420 | 2.9 |
| 2012 | 131,427 | 128,078 | 259,505 | -4.7 |
| 2013 | 131,985 | 134,283 | 272,268 | 4.9 |
| 2014 | 152,829 | 149,823 | 302,652 | 11.1 |
| 2015 | 146,769 | 145,693 | 292,462 | -3.4 |
| 2016 | 165,747 | 164,494 | 330,241 | 12.9 |
| 2017 | 205,552 | 202,124 | 407,676 | 23.4 |
| 2018 | 244,913 | 240,998 | 485,911 | 19.2 |
| CAAG | 8.1% | 8.1% | 8.1% | |
| YTD 7/18 | 138,146 | 135,717 | 273,863 | N/A |
| YTD 7/19 | 153,964 | 150,680 | 304,644 | 11.2% |
| Source: San Luis Obispo County Regional Airport | | | | |

Total passenger counts have increased at an average rate of 8.1 percent annually from 2009 through 2018. Total passenger volume increased by double digits for the past three years and ended 2018 at a new record of 485,911 passengers. Much of this increase can be attributed to the opening of a new $39.5 million terminal in November 2017. The 56,000-square-foot terminal is nearly 45,000 square feet larger than the previous terminal and offers a larger checkpoint area and a new food and beverage concession past the security checkpoint. Other improvements include updated bag systems, flight information displays, security access equipment, passenger boarding bridges, improved rental access, and enhanced runway conditions. Through the first seven months of 2019, passenger counts have increased by a rate of 11.2 percent over the prior period last year.

Tourism is a significant part of the SLO economy. The origin of the visitors is primarily Southern California, Bakersfield, and Fresno, via Highways 101 and 46. Other major markets that visitors come from include Northern California, Phoenix, Las Vegas, and Seattle. Many leisure travelers to San Luis Obispo visit the area via the iconic California State Route 1, a major north-south state highway that stretches over 600 miles. Several sections of California State Route 1 north of San Luis Obispo County were rendered impassible by landslides in 2016 and 2017 and were subsequently closed for repairs. These closures dampened demand to the central California coastal area, including San Luis Obispo County. By and large the damage to the highway has been repaired, and a crucial 30-mile stretch of the highway approximately 7.0 miles north of the San Luis Obispo County border reopened in July 2018. As accessibility to the area has been restored, we anticipate demand to the area to rise in 2019 and 2020.

Owing to increased marketing and publicity efforts by the SLO County VCB and the relative affordability of the area compared to competitive destinations such as Monterey, the number of visitors from Northern California is also on the rise. Approximately 55 percent of visitors to SLO County travel with children and visitation is highest between June through August.

Tourism in San Luis Obispo County holds strong and will continue to see growth in 2019 and 2020. The county continues to build awareness among key drive markets as well as nationally through the collective marketing and public relations outreach efforts by the county and community tourism partners. International travel will be an area of growth for San Luis Obispo County, especially with visitors looking for an active environment to play and seek out adventure.

According to the April 2019 California Travel Impacts by County report conducted by Dean Runyan Associates, total visitor direct spending in San Luis Obispo County in 2018 has increased as compared to 2017 to approximately $1.9 billion, representing an 8.0 percent year-over-year increase. The following table summarizes the total direct spending and spending on accommodations (hotel/motel) between 2009 and 2019. Please note that Dean Runyan Associates has revised the methodology for calculating visitor spending to more thoroughly factor in lodging tax receipt data. As a result, data for the years 2014 to 2018 in the following table reflect this revised source data. Data for the years 2009 to 2013 is sourced from the report California Travel Impacts by County 1992-2016, and data for the years 2014 to 2018 has been sourced from the most recent Dean Runyan report, published in April 2019.

| Visitor Expenditures - San Luis Obispo County | | | | |
|---|---|---|---|---|
| Year | Total Direct Spending ($ millions) | Percent Change | Visitor Spending on Hotel/Motel ($ millions) | Percent Change |
| 2009 | 1,265 | -0.6% | 652 | 1.2% |
| 2010 | 1,258 | -0.6 | 661 | 1.4 |
| 2011 | 1,335 | 6.1 | 705 | 6.2 |
| 2012 | 1,422 | 6.5 | 770 | 8.4 |
| 2013 | 1,467 | 3.2 | 806 | 4.5 |
| 2014 | 1,629 | 11.0* | 967 | 18.0* |
| 2015 | 1,664 | 2.1 | 1,002 | 3.7 |
| 2016 | 1,675 | 0.7 | 1,015 | 1.3 |
| 2017 | 1,781 | 6.3 | 1,077 | 6.1 |
| 2018 | 1,888 | 8.0 | 1,126 | 4.6 |
| CAAG | 4.6% | | 6.3% | |

*Dean Runyan adjusted the methodology to incorporate additional source data for the years 2014-2018. The year-over-year percent increases in spending for 2014 is largely a result of this adjustment in methodology.

Source: Dean Runyan Associates California Travel Impacts by County 2000-2018

Overall, between 2007 and 2018 total direct spending has increased on a compounded annual level at 4.6 percent, and visitor spending on accommodations, hotels and motels specifically, has increased 6.3 percent annually over the same period.

San Luis Obispo County is currently divided into four separate sub-markets: Pismo Beach, San Luis Obispo City, Paso Robles, and North Coastal. The Overall San Luis Obispo County lodging sample set is estimated to increase by 0.8 percent in 2019 due to the completion of the 23-room expansion of the Paso Robles Inn, as well as the anticipated addition of the Vespara on Ocean Autograph Collection by Marriott this month, the Hotel Cerro in late November, and the Hotel San Luis Obispo which had a soft opening this month, and is anticipated to have a full opening in early December. Overall market occupancy for the area is estimated to finish 2019 at 71.0 percent, and average daily rate is estimated to increase by 2.5 percent to post a 2019 average daily rate of $168.51. As a result, RevPAR is estimated to increase by 2.6 percent over 2018.

In 2020, we are forecasting annual rooms supply to increase by 6.8 percent which includes the annualized additions to supply from the aforementioned hotels anticipated to open in late 2019, and the anticipated opening of the 100-room Home2Suites Atascadero in the spring of 2020. Occupied rooms in 2020 are forecast to realize a 6.1 percent increase over 2019 levels. This equates to a market occupancy of 70.5 percent. Average daily rate is forecast to increase by 2.8 percent over 2019. We are aware that the previously defined market area as a whole has a total of approximately 3.5 million annual hotel rooms. However, the table presented below includes the sum of our aggregated sub markets, representing approximately 57 percent of the total existing lodging supply.

| San Luis Obispo Combined Historical Market Performance of the Competitive Supply | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 1,689,585 | N/A | 1,235,713 | N/A | 73.1% | $144.63 | N/A | $105.78 | N/A |
| 2015 | 1,734,663 | 2.7% | 1,270,473 | 2.8% | 73.2 | 151.11 | 4.5% | 110.68 | 4.6% |
| 2016 | 1,812,955 | 4.5 | 1,303,848 | 2.6 | 71.9 | 156.32 | 3.4 | 112.43 | 1.6 |
| 2017 | 1,819,282 | 0.3 | 1,294,953 | -0.7 | 71.2 | 158.87 | 1.6 | 113.09 | 0.6 |
| 2018 | 1,850,915 | 1.7 | 1,312,286 | 1.3 | 70.9 | 164.39 | 3.5 | 116.55 | 3.1 |
| 2019E | 1,865,933 | 0.8 | 1,324,605 | 0.9 | 71.0 | 168.51 | 2.5 | 119.62 | 2.6 |
| 2020F | 1,992,900 | 6.8 | 1,405,211 | 6.1 | 70.5 | 173.14 | 2.8 | 122.08 | 2.1 |
| CAAG | 2.8% | | 2.2% | | | 3.0% | | 2.4% | |

Source: CBRE Hotels

## Additions to Supply

Based on our research and findings the table below details the new hotels going forward that have been included in this year's edition of our Southern California Lodging Forecast located within the San Luis Obispo market.

| Lodging Forecast - Additions to Supply as of October 2019 | | | | |
|---|---|---|---|---|
| Hotel Name | City | Submarket | Room Count | Opening Date |
| Paso Robles Inn | Paso Robles | Paso Robles | 23[1] | October 2019 |
| Vespara on Ocean | Pismo Beach | Pismo Beach | 124 | October 2019 |
| Hotel San Luis Obispo | San Luis Obispo City | San Luis Obispo City | 78 | December 2019[2] |
| Hotel Cerro | San Luis Obispo City | San Luis Obispo City | 64 | December 2019 |
| Home2Suites | Atascadero | Paso Robles | 120 | March 2020 |

[1]This is a 23-room expansion of the existing hotel.
[2]The hotel had a soft opening in October and is anticipated to have a full opening in early December.
Source: CBRE Hotels

### Pismo Beach

The Pismo Beach sub-market consists of properties located along the scenic coast spanning from Pismo Beach to Avila Beach, as well as the adjacent communities of Grover Beach and Arroyo Grande. Pismo Beach is the only oceanfront community on U.S. Highway 101 between Santa Barbara and San Francisco, and because it faces directly west, the sunsets are spectacular. Popular activities on its expansive beaches north of Grand Avenue include beach-combing, jogging, sunbathing, surfing, scuba diving, kayaking, and surf fishing. Wildlife sightings in the area are also common. Sea otters and sea lions are often spotted in the protected coves and kelp beds, and whales can also be seen during their migration south between December and March. For those desiring to shop, Downtown Pismo Beach offers a variety of surf and gift shops, art galleries, antique stores restaurants, and local wine tasting rooms. The combination of diverse landscapes, pleasant weather and a plethora of activities creates an oceanfront destination that appeals to the leisure crowd.

Tourism is a major component of the Pismo Beach area economy. Demand in Pismo Beach is almost entirely leisure driven, although several hotels derive some group meetings demand from their respective meeting facilities. Leisure visitors enjoy a myriad of activities including wine tasting, golfing, bicycling, walking through the Monarch Butterfly Grove, tennis, horseback riding, scuba diving, bowling, hiking, miles of beautiful and clean beaches, exploring tide pools, coves, and caves, as well as relaxing on the 1,200-foot Pismo Pier. In addition, the city is also accessible to various other attractions located in San Luis Obispo County such as Hearst Castle and Morro Bay via Highway 101 as well as California State Route 1 (also referred to as Pacific Coast Highway).

Pismo Beach, like other coastal leisure destinations located along the central coast of California, exhibits a high degree of seasonality in demand. The length of each season is a function of weather, as well as the timing of events and holidays. The high season occurs in the summer season from July through August, when the weather is most desirable, and the hotels exhibit the highest occupancies and rates. Hotels also run extremely high occupancies during special events and holidays, such as Presidents' Day weekend, Easter weekend, homecoming week, and the annual Clam Festival. Demand is traditionally softest following Thanksgiving week to Christmas season, as temperatures fall and visitors redirect travel plans towards family-related purposes. Regardless of the season, it should be noted that owing to the fact that the majority of visitors to the area are leisure travelers who drive from nearby destinations such as Southern California, Bakersfield, and Fresno, weekend visitation is consistently higher than weekday visitation throughout the year.

The majority of visitors to Pismo Beach are from within California. The major feeder cities are: Fresno, Modesto, Sacramento, Bakersfield, Visalia and greater Los Angeles. The Pismo Beach Conference and Visitor's Bureau (CVB) has been successful and is continuing to attract group tours and individual travelers from within California and within the International market. Consistent marketing to regional magazines such as: Sunset, Travel 50 and Beyond, Westways, Meetings West as well as newspaper travel sections, enhances the visibility of Pismo Beach to the surrounding regional areas. The area's accessibility via U.S. Highways 46 and 101 has enhanced the popularity of the city as a drive-in destination.

In 2019, it is estimated that the supply of hotel rooms will increase by 1.5 percent due to the anticipated opening of the Vespara on Ocean hotel this month, while the number of occupied rooms is forecast to increase by 2.5 percent, for a resulting year-end occupancy of 72.5 percent. It is estimated that average daily rate will increase by 0.8 percent this year. In 2020, we forecast a 5.0 percent growth in occupied rooms amid a 6.1 percent growth in supply due to the annualized addition to supply of the Vespara on Ocean, resulting in a market occupancy of 71.7 percent. Average daily rate is forecast to increase by 2.5 percent in 2020 to reach $200.79, and RevPAR is forecast to increase by 1.4 percent for a year-end figure of $144.02.

**Pismo Beach**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 549,690 | N/A | 402,071 | N/A | 73.1% | $163.18 | N/A | $119.36 | N/A |
| 2015 | 549,690 | 0.0% | 399,853 | -0.6% | 72.7 | 173.94 | 6.6% | 126.53 | 6.0% |
| 2016 | 549,690 | 0.0 | 396,112 | -0.9 | 72.1 | 181.21 | 4.2 | 130.58 | 3.2 |
| 2017 | 556,017 | 1.2 | 401,700 | 1.4 | 72.2 | 184.48 | 1.8 | 133.28 | 2.1 |
| 2018 | 587,650 | 5.7 | 421,644 | 5.0 | 71.8 | 194.28 | 5.3 | 139.40 | 4.6 |
| 2019E | 596,578 | 1.5 | 432,354 | 2.5 | 72.5 | 195.89 | 0.8 | 141.97 | 1.8 |
| 2020F | 632,910 | 6.1 | 453,972 | 5.0 | 71.7 | 200.79 | 2.5 | 144.02 | 1.4 |
| CAAG | 2.4% | | 2.0% | | | 3.5% | | 3.2% | |

Source: CBRE Hotels

## San Luis Obispo City

The City of San Luis Obispo serves as the commercial, governmental and cultural hub of California's Central Coast. One of California's oldest communities, it began with the founding of Mission San Luis Obispo de Tolosa in 1772 by Father Junípero Serra as the fifth mission in the California chain of 21 missions. The mission was named after Saint Louis, a 13th Century Bishop of Toulouse, France. While San Luis Obispo grew relatively slowly during most of the 19th century, the coming of Southern Pacific

Railroad in 1894 opened up the area to the rest of California. The city's distance from major metropolitan areas to the north (San Francisco Bay Area) and south (Los Angeles) have allowed the area to retain its historic and scenic qualities. These qualities continue today contributing to the superb quality of life the residents enjoy and attracting visitors from many other areas.

Hotels in the San Luis Obispo City sub-market are generally located on, or within a few blocks of Monterey Street proximate to the downtown area. Accordingly, these hotels serve the commercial traveler visiting downtown businesses, leisure visitors who want to visit various sites and partake in recreational activities in the surrounding area and visitors to Cal Poly, San Luis Obispo. Developments in the neighborhood are attractive, maintained in good condition, and both finished and landscaped to be consistent with the resort feel of the area.

Another key feature contributing to the city's great quality of life is the downtown district. The heart of downtown is Mission Plaza. With its wonderful creek side setting and beautifully restored mission (that continues to serve as a parish church to this day), Mission Plaza is the community's cultural and social center. This historic plaza is complemented by the downtown district which offers great shopping, outdoor and indoor dining, night life, and the famous Thursday Night Farmers' Market, where one can buy locally grown fresh produce and enjoy an outdoor BBQ. This unique blend of history, culture, commerce and entertainment make San Luis Obispo's downtown one of the most attractive, interesting and economically vibrant downtowns in America.

In the short term, it is estimated that the San Luis Obispo City submarket will end 2019 with a 74.8 percent occupancy rate and an average daily rate of $164.73, representing a 0.5 percent increase in occupied rooms and a 5.2 percent increase in rate. Room supply is estimated to increase by 1.0 percent due to the anticipated openings of the Hotel Cerro, and Hotel San Luis Obispo later this year.

For 2020, occupied room nights are forecast to increase 9.5 percent amid an 11.3 percent increase in supply due to the annualized additions to supply of the Hotel Cerro and Hotel San Luis Obsipo, resulting in a market occupancy of 73.6 percent. Average daily rate is forecast to increase an additional 4.0 percent in 2020 for a year-end figure of $171.32, and RevPAR is projected to increase by 2.3 percent to reach $126.12.

**San Luis Obispo City**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 415,005 | N/A | 320,363 | N/A | 77.2% | $135.43 | N/A | $104.55 | N/A |
| 2015 | 415,005 | 0.0% | 329,265 | 2.8% | 79.3 | 141.46 | 4.5% | 112.23 | 7.4% |
| 2016 | 415,005 | 0.0 | 313,788 | -4.7 | 75.6 | 150.32 | 6.3 | 113.66 | 1.3 |
| 2017 | 415,005 | 0.0 | 319,167 | 1.7 | 76.9 | 152.97 | 1.8 | 117.64 | 3.5 |
| 2018 | 415,005 | 0.0 | 312,423 | -2.1 | 75.3 | 156.66 | 2.4 | 117.94 | 0.2 |
| 2019E | 419,324 | 1.0 | 313,840 | 0.5 | 74.8 | 164.73 | 5.2 | 123.29 | 4.5 |
| 2020F | 466,835 | 11.3 | 343,655 | 9.5 | 73.6 | 171.32 | 4.0 | 126.12 | 2.3 |
| CAAG | 2.0% | | 1.2% | | | 4.0% | | 3.2% | |

Source: CBRE Hotels

## Paso Robles

The Paso Robles sub-market includes properties in the cities of Paso Robles and Atascadero. Paso Robles is a small inland community in San Luis Obispo County surrounded by the rolling hills of the Central Coast. Paso Robles is located approximately 28 miles north of San Luis Obispo along Interstate 101.

For years, Paso Robles was known as the half-way stop for motorists traveling between Northern and Southern California. However, the increased popularity of this award-winning wine region has caused the city to become a destination unto itself. The city was originally the Paso Robles Rancho, a 25,993-acre plot of land granted to Pedro Narvaez. The land passed through several owners who realized the potential of the area's hot springs, reputed to relieve various ailments. The area continued to develop and was eventually incorporated in 1889. For a brief time, the town was known as the "Almond City" for its local almond growers. Presently, much of the surrounding land is occupied by thriving vineyards, which have become popular among tourists.

With over 200 wineries, the City of Paso Robles thrives on its wine production and the tourism related to this booming industry. The Paso Robles wine industry has become a well-respected wine-destination, much more so than many of its regional counterparts within California. In 1797, Father Junipero Serra planted 1,000-grapevines to make sacramental wines. Later, French and Italian immigrants brought European vine cuttings. Today, the area contains nearly 40,000 vineyard acres. Tourists throughout the region visit Paso Robles for wine tasting tours amidst the beauty of the Central Coast, with most wineries being located immediately off Route 46. The eastern half of the Paso Robles American Viticulture Area (AVA) tends to be warmer and drier. Wineries in this section of the AVA typically produce full bodied wines with rich fruit character. These wines often have softer tannins and lower acidity compared to the west, making them more approachable in their youth.

The Chamber of Commerce works with local wine growers in planning events throughout the year to promote tourism. The Paso Robles Wine Country Alliance is a non-profit organization dedicated to the marketing and promotion of this world-class wine region. This cooperative marketing alliance consisting of wineries, vineyards, and related businesses is committed to attracting tourists and generating traffic through the Paso Robles wine region. The booming wine industry has led to the beginnings of a viable destination, in particular the downtown area. Currently, a myriad of restaurants, wine-tasting rooms, and cheese shops line the sidewalks in downtown.

Additionally, there are four major wine-related events hosted by the Paso Robles Wine Country Alliance which attract both enthusiasts and newcomers alike. BlendFest on the Coast, which started in 2015, provides guests with beautiful coastal views while they taste wines from 30 of Paso Robles' wineries. Vintage Paso: Zinfandel Weekend is held during the third week of March and is the second largest Zinfandel tasting in the state. This weekend event also includes special events happening at area wineries, such as winemaker dinners, special tastings, seminars, and open house events. Held in May, the Paso Robles Wine Festival is one of the largest outdoor wine festivals in California. The weekend event at the Paso Robles City Park features winemaker dinners, live music, newly released wines, and open house festivities at area wineries. The Harvest Wine Weekend, which is held in the third week of October, allows guests to enjoy activities such as winemaker dinners, barrel samples, seminars, barbeques, live music, and winery tours.

According to the economic impact study commissioned in 2015 and prepared by the University of California Agricultural Issues Center at UC Davis, the county attracts approximately 1.5 million wine related visits by tourists, who spend approximately $194 million dollars when visiting the area. The Paso Robles AVA accounts for 87 percent of SLO County wine industry output and economic impact. Demographically, wine-related tourists are well educated and tend to have a relatively high income (over $100,000 per year). Wine-related tourists are likely to patronize quality restaurants and lodgings and also have a high rate of return.

The historical trends in economic and demographic data suggest that the future prospect for Paso Robles is favorable. Paso Robles has been the economic engine that continues to drive the county with it's healthier than average job market and viable tourism sector. Paso Robles has become a sophisticated wine-based tourist destination, which has contributed to much of its growth in the local economy. Unlike many other cities that are change-averse, Paso Robles has been proactive in promoting change that has had a positive impact on the community as a whole.

For 2019, we estimate that occupied rooms in the Paso Robles lodging market will decrease by 1.0 percent to reach an occupancy of 70.0 percent and experience an average daily rate increase of 1.5 percent to an ADR of $146.76. The market is projected to experience an increase in occupied room nights of 6.0 percent in 2020, amid an increase in supply of 7.7 percent due to the annualized addition to supply of the 23-room expansion of the Paso Robles Inn and the anticipated opening of the 120-roomHome2Suites Atascadero, resulting in a market occupancy of 68.9 percent. In terms of average daily rate, we estimate a 2.0 percent increase for the market as a whole, ending 2020 at $149.70.

**Paso Robles**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 438,000 | N/A | 306,372 | N/A | 69.9% | $130.32 | N/A | $91.16 | N/A |
| 2015 | 483,078 | 10.3% | 338,693 | 10.5% | 70.1 | 133.51 | 2.4% | 93.61 | 2.7% |
| 2016 | 561,370 | 16.2 | 391,805 | 15.7 | 69.8 | 138.09 | 3.4 | 96.38 | 3.0 |
| 2017 | 561,370 | 0.0 | 396,435 | 1.2 | 70.6 | 142.50 | 3.2 | 100.63 | 4.4 |
| 2018 | 561,370 | 0.0 | 398,214 | 0.4 | 70.9 | 144.55 | 1.4 | 102.54 | 1.9 |
| 2019E | 563,141 | 0.3 | 394,035 | -1.0 | 70.0 | 146.76 | 1.5 | 102.69 | 0.1 |
| 2020F | 606,265 | 7.7 | 417,677 | 6.0 | 68.9 | 149.70 | 2.0 | 103.13 | 0.4 |
| CAAG | 5.6% | | 5.3% | | | 2.3% | | 2.1% | |

Source: CBRE Hotels

## North Coastal

The North Coastal sub-market is comprised primarily of lodging facilities in Morro Bay and Cambria. The City of Morro Bay was incorporated in 1964 and is located on the Pacific Coast of California about half way between San Francisco and Los Angeles near Hearst Castle and the Big Sur Coast. The city's name came from its famous landmark, Morro Rock, named by Juan Rodriguez Cabrillo when he first charted this coast during his 16th Century voyage of discovery. South of the City of Morro Bay is the expansive Morro Bay State Park, spread over 1,905 acres of winding landscape and lush vegetation. The park is laid out around an 18-hole golf course. The vast grounds cover a portion of the Morro Bay Estuary and tree-shaded camping and picnic grounds. Morro Rock, the landmark 581 square feet-high rock formation that covers 50 feet at its base, sits at the center of the park and is the westernmost volcano in a chain of seven volcanic peaks reaching to the City of San Luis Obispo. Other park attractions include a natural history museum dedicated to local wildlife and the environment, as well as a small boat harbor that provides launching facilities, boat rentals, a fishing tackle and supplies shop, and a café.

Cambria, a small unincorporated coastal community, was founded in 1862 and is located approximately 34 miles north of San Luis Obispo and six miles south of the famous Hearst Castle along popular Highway 1. Cambria covers an area of approximately three-square miles at an elevation approximately 200 feet above sea level. The small coastal town attracts a large degree of retirees and vacationers who appreciate the area's undisturbed atmosphere. The area depends primarily on tourism and agricultural businesses. Commercially, the town of Cambria can be divided into three distinct areas: East and West Village and Moonstone Beach Drive. Much of Cambria's commercial buildings and older converted homes can be found in the East and West Village area. Also of note in the East Village, are several areas designated for historic preservation. The East Village is also home to a large number of the community's upscale restaurants. In the last twenty years commercial development has spilled over to the West Village due to the availability of space and its proximity to State Highway 1. The third distinct area of Cambria is Moonstone Beach Drive, which is located one mile north of the East and West Village Districts. The Moonstone Beach area is home to several lodging and restaurant facilities. Cambria offers an ideal setting for a range of outdoor activities including hiking, jogging, and biking along the dramatic coastline. Many visitors enjoy swimming, surfing, kayaking, and other ocean activities. Local fruit farms offer 'pick your own' activities and many visitors choose to taste wines at nearby vineyards and wineries.

One of the most popular destinations for visitors is the famous Hearst Castle, which is located in San Simeon. One of the largest of approximately 5,000 historic house museums in the U.S., Hearst Castle features 56 bedrooms, 61 bathrooms, 19 sitting rooms, and provides one of the most sophisticated guided tour programs in the country. The estate's magnificent main house, "Casa Grande," and three guest houses are of the Mediterranean Revival style, while the imposing towers of Casa Grande were inspired by a Spanish cathedral. Art treasures can be found in every room of Hearst Castle and include antique ceilings, ancient Greek vases, rare oriental rugs, and a variety of work originating primarily from Spain and Italy. The grounds and formal gardens of the 127-acre estate are ornamented with tiled pools, fountains and statuary.

The North Coastal sub-market lodging demand is comprised primarily from drive-in travelers from the San Francisco Bay Area, and the Greater Los Angeles Area. A portion of demand is also generated from inter-state travelers as well as international travelers looking to travel up and down the California coast. California State Route 1 (Pacific Coast Highway) is a major north-south highway that runs along most of the Pacific coastline, drawing many visitors to make the scenic drive between visiting San Francisco and Los Angeles. In 2016 and 2017, the California coastline experienced several events that negatively affected demand. From July to October 2016, a large 132,000-acre fire burned near Big Sur. In February 2017, after powerful winter storms with heavy rainfall, the Pfeiffer Canyon Bridge buckled and failed. The bridge was demolished in March 2017, closing off a section of Highway 1, and reopened in October 2017. In May 2017, a massive landslide occurred at Mud Creek and closed off a section of Highway 1. The Mud Creek landslide added approximately 2,400 feet of new coastline and extended 550 feet out into the ocean according to Caltrans. A roughly thirty-mile stretch of the highway that was closed due to the land displacement was reopened in July of 2018 after a $54 million Caltrans construction project. Although these events did not occur in the North Coastal sub-market, it created negative press for California Coastline tourism and negatively affected demand for the sub-market.

In 2019, we estimate that demand as measured by occupied rooms will increase by 2.4 percent resulting in market occupancy of 64.3 percent, while average daily rate will increase by 3.6 percent to $157.20. In regard to 2020, we forecast occupied rooms to increase by 3.0 percent resulting in an occupancy of 66.2 percent. Average daily rate in the North Coastal sub-market is forecast to grow by 3.0 percent, which equates to a year-end 2020 average daily rate of $161.91. In turn, RevPAR is projected to increase by 6.1 percent in 2020 to arrive at $107.18.

**North Coastal**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 286,890 | N/A | 206,906 | N/A | 72.1% | $144.03 | N/A | $103.88 | N/A |
| 2015 | 286,890 | 0.0% | 202,662 | -2.1% | 70.6 | 151.19 | 5.0% | 106.80 | 2.8% |
| 2016 | 286,890 | 0.0 | 202,144 | -0.3 | 70.5 | 152.23 | 0.7 | 107.26 | 0.4 |
| 2017 | 286,890 | 0.0 | 177,651 | -12.1 | 61.9 | 148.12 | -2.7 | 91.72 | -14.5 |
| 2018 | 286,890 | 0.0 | 180,004 | 1.3 | 62.7 | 151.67 | 2.4 | 95.16 | 3.8 |
| 2019E | 286,890 | 0.0 | 184,376 | 2.4 | 64.3 | 157.20 | 3.6 | 101.03 | 6.2 |
| 2020F | 286,890 | 0.0 | 189,907 | 3.0 | 66.2 | 161.91 | 3.0 | 107.18 | 6.1 |
| CAAG | 0.0% | | -1.4% | | | 2.0% | | 0.5% | |

Source: CBRE Hotels

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# *Coastal Resort*

2020 SOUTHERN CALIFORNIA
LODGING FORECAST

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# COASTAL RESORT MARKET

## EXECUTIVE SUMMARY

The Coastal Resort market includes destination resort hotels located in coastal locations in the counties of Santa Barbara, Los Angeles, Orange, and San Diego. For the most part, the sample set of resorts are characterized as four to five-star level properties that cater primarily to groups and high-end leisure travelers. These properties play an important role in the California lodging market due to their ability to attract regional business and garner nationwide attention. California's temperate climate, stretches of ocean and beaches, and tourist attractions contribute to the appeal of these resorts.

Over the last five years, the Coastal Resort market has seen several additions to supply, such as the 78-room Pier South Resort which opened in Imperial Beach in 2014 as part of Marriott's Autograph Collection of hotels. No Coastal Resort hotels opened since that time until the June 2016 opening of the 250-room Paséa Hotel & Spa, which was developed by a partnership between R.D. Olson and Pacific Hospitality Group. The following year saw the opening of The Californian, a 121-room urban resort located in Santa Barbara. In 2018 the city of Newport Beach saw the opening of the 121-room Lido House, Autograph Collection in April, which was followed by the expansion of The Waterfront Resort, a Hilton Hotel in Huntington Beach to 447 guestrooms. More recently, the Coastal Resort market welcomed the opening of the 161-room Rosewood Miramar Beach Resort in Montecito, which opened in February of this year.

The properties in this market typically target the high-end group and local and regional leisure travelers to help boost occupancy and rate. Coming out of the recession, the coastal properties recaptured significant growth in occupied rooms, helped along by relatively low increases in supply. Between 2015 and 2017 occupancy levels remained relatively consistent at approximately 73 percent and increased to a historical period high of 73.9 percent in 2018. Further, during the historical period average daily rates showed uninterrupted growth, increasing on an average annual basis of 2.5 percent. In 2018, we estimate a 4.1 percent growth in occupied rooms amidst a 3.7 percent growth in supply, resulting in an occupancy of 74.1 percent. Average daily rate is estimated to increase by 3.1 percent to $388.30 in 2019. In 2020, supply is expected to increase by 0.3 percent with the addition of the annualized rooms at Rosewood Miramar Beach. Demand as measured by occupied rooms is forecast to increase by 0.2 percent along with a 1.7 percent increase in ADR.

Coastal Market
Historical Market Performance of the Competitive Supply

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 3,245,945 | N/A | 2,366,762 | N/A | 72.9% | $341.56 | N/A | $249.05 | N/A |
| 2015 | 3,248,135 | 0.1% | 2,388,272 | 0.9% | 73.5 | 352.84 | 3.3% | 259.43 | 4.2% |
| 2016 | 3,301,364 | 1.6 | 2,399,475 | 0.5 | 72.7 | 363.08 | 2.9 | 263.89 | 1.7 |
| 2017 | 3,356,905 | 1.7 | 2,438,283 | 1.6 | 72.6 | 373.15 | 2.8 | 271.04 | 2.7 |
| 2018 | 3,453,022 | 2.9 | 2,551,230 | 4.6 | 73.9 | 376.74 | 1.0 | 278.35 | 2.7 |
| 2019E | 3,581,076 | 3.7 | 2,655,155 | 4.1 | 74.1 | 388.30 | 3.1 | 287.90 | 3.4 |
| 2020F | 3,593,425 | 0.3 | 2,660,955 | 0.2 | 74.1 | 394.98 | 1.7 | 292.49 | 1.6 |
| CAAG | 1.7% | | 2.0% | | | 2.5% | | 2.7% | |

Source: CBRE Hotels

We have divided the market into three tiers in order to analyze the coastal market in further detail. The first tier includes properties with stabilized average daily rates projected to be above $450.00. For year-end 2019, we estimate a market occupancy rate of 72.7 percent and an average daily rate of $632.92.

This equates to a 14.8 percent increase in occupied rooms and a 2.1 percent increase in average daily rate. It is important to note that this projected level of growth includes not only the opening of Rosewood Miramar Beach, but also the reopening of luxury hotels such as the Four Seasons Santa Barbara and San Ysidro Ranch, which were either partially or fully closed due to weather related events in 2018. Looking forward, in 2020 we have forecast occupied rooms to grow by 1.0 percent. We project that average daily rate will grow by 2.0 percent. This equates to a forecasted occupancy of 72.3 percent and a rate of $645.58 in 2020.

**First Tier (ADR Above $450)**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 682,915 | N/A | 492,399 | N/A | 72.1% | $562.50 | N/A | $405.58 | N/A |
| 2015 | 682,915 | 0.0% | 493,277 | 0.2% | 72.2 | 586.33 | 4.2% | 423.51 | 4.4% |
| 2016 | 682,915 | 0.0 | 494,329 | 0.2 | 72.4 | 607.16 | 3.6 | 439.50 | 3.8 |
| 2017 | 695,690 | 1.9 | 497,866 | 0.7 | 71.6 | 621.03 | 2.3 | 444.44 | 1.1 |
| 2018 | 680,482 | -2.2 | 490,296 | -1.5 | 72.1 | 619.78 | -0.2 | 446.56 | 0.5 |
| 2019E | 773,496 | 13.7 | 562,644 | 14.8 | 72.7 | 632.92 | 2.1 | 460.39 | 3.1 |
| 2020F | 785,845 | 1.6 | 568,270 | 1.0 | 72.3 | 645.58 | 2.0 | 466.84 | 1.4 |
| CAAG | 2.4% | | 2.4% | | | 2.3% | | 2.4% | |

Source: CBRE Hotels

The market's second tier includes properties with stabilized average daily rates that are projected to be below $450.00 but above $275.00. For this market, we estimate an occupancy rate and average daily rate for year-end 2019 of 72.8 percent and $382.84, which translates to a decrease in occupied rooms of 0.8 percent and 1.0 percent increase in average daily rate. Supply is projected to increase by 2.5 percent in 2019 as the remainder of the rooms at Lido House are annualized into the market. For 2020, we forecast the demand for occupied rooms will remain flat amidst no increase in supply. This equates to a market occupancy rate of 72.8 percent. Average daily rate is forecast to increase by 1.5 percent for an average daily rate of $388.58.

**Second Tier (ADR below $450 above $275)**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,322,760 | N/A | 936,811 | N/A | 70.8% | $340.71 | N/A | $241.30 | N/A |
| 2015 | 1,323,490 | 0.1% | 937,583 | 0.1% | 70.8 | 354.37 | 4.0% | 251.04 | 4.0% |
| 2016 | 1,376,719 | 4.0 | 957,984 | 2.2 | 69.6 | 359.45 | 1.4 | 250.12 | -0.4 |
| 2017 | 1,414,740 | 2.8 | 1,023,349 | 6.8 | 72.3 | 368.72 | 2.6 | 266.71 | 6.6 |
| 2018 | 1,450,328 | 2.5 | 1,073,879 | 4.9 | 74.0 | 378.88 | 2.8 | 280.54 | 5.2 |
| 2019E | 1,462,190 | 0.8 | 1,064,955 | -0.8 | 72.8 | 382.84 | 1.0 | 278.83 | -0.6 |
| 2020F | 1,462,190 | 0.0 | 1,064,955 | 0.0 | 72.8 | 388.58 | 1.5 | 283.02 | 1.5 |
| CAAG | 1.7% | | 2.2% | | | 2.2% | | 2.7% | |

Source: CBRE Hotels

Lastly, the third tier includes properties with stabilized average daily rates projected to be under $275.00. In 2019, supply is anticipated to increase by 1.8 percent with the annualized room addition at the Westin Carlsbad. Occupied rooms are estimated to increase by 4.1 percent resulting in a market occupancy of 76.4 percent. Average daily rate is estimated to increase by 1.7 percent, equating to $257.89. In 2020, with no planned additions to supply, we forecast occupied rooms will remain flat. We forecast average daily rate to increase by 2.0 percent in 2020, ending the year at $263.05.

**Third Tier (ADR Below $275)**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,240,270 | N/A | 937,552 | N/A | 75.6% | $226.37 | N/A | $171.12 | N/A |
| 2015 | 1,241,730 | 0.1% | 957,412 | 2.1% | 77.1 | 231.04 | 2.1% | 178.14 | 4.1% |
| 2016 | 1,241,730 | 0.0 | 947,161 | -1.1 | 76.3 | 239.36 | 3.6 | 182.58 | 2.5 |
| 2017 | 1,246,475 | 0.4 | 917,068 | -3.2 | 73.6 | 243.52 | 1.7 | 179.17 | -1.9 |
| 2018 | 1,322,213 | 6.1 | 987,055 | 7.6 | 74.7 | 253.69 | 4.2 | 189.39 | 5.7 |
| 2019E | 1,345,390 | 1.8 | 1,027,729 | 4.1 | 76.4 | 257.89 | 1.7 | 197.00 | 4.0 |
| 2020F | 1,345,390 | 0.0 | 1,027,729 | 0.0 | 76.4 | 263.05 | 2.0 | 200.94 | 2.0 |
| CAAG | 1.4% | | 1.5% | | | 2.5% | | 2.7% | |

Source: CBRE Hotels

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# *Inland Empire*

2020 SOUTHERN CALIFORNIA
LODGING FORECAST

CBRE

# INLAND EMPIRE

## EXECUTIVE SUMMARY

The Inland Empire refers to a collection of Southern California cities located in Riverside and San Bernardino Counties. The Inland Empire is comprised of some of the oldest cities in the region: Ontario, San Bernardino, Redlands, and Riverside. These cities were established near the end of the 19th century and were major centers of agriculture including citrus, dairy, and wine-making. The name "Inland Empire" was first used in the 1950s to distinguish the region from the communities of the Los Angeles area. This metropolitan area is bordered by Los Angeles and Orange Counties on the west, and on the east by the states of Nevada and Arizona.

The "Inland" part of the name is derived from the region's location about 37 miles inland from the Pacific Ocean and east of Downtown Los Angeles. Between the Los Angeles area and the Inland Empire, there was limited development until the 1970s, and this relatively open, rural space between two developed regions served as a natural boundary. However, since then, a rapidly growing population and, therefore, commercial, and industrial development, has led to cities being established in this rural, intermediate area. Interconnectivity provided by a vast automobile-oriented transportation network, including perhaps one of the most comprehensive freeway systems in the United States, further eroded any real or perceived boundary between the Inland Empire and its surrounding counties. The January 2019 population of the area totals approximately 4.6 million people. The majority of the county's acreage is a mixture of mountainous terrain and arid deserts. The center of the Inland Empire is located approximately 60 miles east of the center of Los Angeles, 110 miles northeast of San Diego, and 200 miles southwest of Las Vegas.

The Inland Empire and specifically Ontario, is considered the hub of the Southern California Global Gateway. It is a major transportation hub for both rail and truck services with strategic freeway access. It is also home to the Ontario International Airport (a UPS hub, both small packages and air freight, and for service from Asia), and a major distribution center for firms moving goods through Southern California's ports to the rest of the U.S.

This area also has an impressive array of higher educational institutions, including the University of California Riverside (UCR), Cal State San Bernardino, University of Redlands, Loma Linda School of Medicine, and the University of La Verne College of Law, the Inland Empire's only ABA accredited law school. In 2013, UCR welcomed its charter class of medical students to the University of California, Riverside School of Medicine. Just to the west of the county line in Los Angeles are the Claremont Colleges and Cal Poly Pomona. There are also numerous community colleges serving the area.

The two-county area also has a diverse portfolio of quality of life elements. These include desert resorts with championship golf courses, mountain resorts that offer skiing in the winter and biking and hiking trails in the summer, one of Southern California's leading wine regions, a natural hot springs spa destination, and relative proximity to internationally recognized destinations in Los Angeles and Orange Counties.

Affordable home ownership had historically been the primary motivating factor behind job growth in the Inland Empire as homes in these communities are generally less expensive than comparable homes in Orange and Los Angeles Counties, and employees are willing to work for less to avoid long commutes. In 2018, the Inland Empire, which was about 11.7 percent of California's population, was the home of 14.4 percent of the state's new jobs. The logistics industry, which fueled much of the region's economic recovery, is expected to add 9,000 jobs in 2019, after 12,917 were created last year. In the July 2019 Inland Empire Quarterly Economic Report, John Husing indicated that the Inland Empire is on track to reach approximately 1.5 million jobs by year-end. This would be 230,000 jobs above the 2007 peak of 1.3 million. The Inland Empire unemployment rate dropped from a peak of 14.4 percent in 2010 to an historic low of 4.2 percent in June 2019. Diversity of hiring across pay scales and industries has ensured that wages and salaries are currently rising much faster than in the rest of California and the rest of the U.S. Job growth and expansion is driven primarily by the traditional advantages that the Inland Empire provides for the blue-collar/technical sector, including undeveloped land, moderately priced labor, and a growing population. As expansion continues in the healthcare industry coupled with moderate growth in the higher paying sectors, the forecasted growth bodes well for the overall prosperity of the region.

Additionally, the continued availability of land has ensured that homebuilding has increased, positively affecting the housing market. The Inland Empire is considered a desirable place to live because of the space and amenities the region offers. It is also one of the last bastions of affordable real estate in Southern California, which has helped to drive continued gains in home prices in the region. The median price of an existing single-family home increased to $357,000 at the end of 2018. Affordability remains a strong selling point for real estate in the Inland Empire and should continue to lure would-be buyers to the area. Additional housing stock will be critical in attracting new residents and helping strengthen the Inland Empire's growing employment base. According to the first quarter 2019 Inland Empire Regional Intelligence Report, Beacon Economics indicated an uptick in construction spending and sustained gains in job counts, which have spurred local spending. Taxable sales in the Inland Empire increased 7.3 percent in 2018 over 2017. Every spending category in the Inland Empire grew in 2018. The uptick in construction activity throughout the Inland Empire and other parts of Southern California boosted sales tax receipts 6.6 percent in the Building and Construction category from the fourth quarter of 2017 to the fourth quarter of 2018. The increase indicates that developers are using local suppliers for projects and, more important, are building desperately needed housing stock, which will be critical for continued economic vitality in the region. Business-to-business spending also grew over the last year in the Inland Empire, with Business and Industry sales tax receipts increasing 3.5 percent from the fourth quarter of 2017 to the fourth quarter of 2018.

As the e-commerce industry continues to grow nationwide, traditional retailers have been forced to embrace the idea of creating regional fulfillment centers, and as they do, they come to the Inland Empire for its available land for these large types of facilities. The majority of these fulfillment centers are located in the Inland Empire, making it the "big box capital" of the US. The Inland Empire continues to be a prime location for the construction of warehouse complexes as well as sorting and logistics facilities. Much of the large volume of imports that make their way through the San Pedro ports make their way to distribution centers in the Inland Empire where they are sorted and distributed. According to industry experts, the Inland Empire leads the nation in both leasing activity and net absorption for "big-box" industrial development. As of second-quarter 2019, the Inland Empire had 28.1 million square feet under construction as developers ramped up activity to keep pace with expected demand levels. New completions during Q2 2019 reached 3.7 million square feet, pushing year-to-date figures to over 8.9 million square feet. New construction starts were tempered with only 3.3 million square feet breaking ground; however, year-to-date starts totaled a shocking 11.9 million square feet. The Inland Empire is one of most active industrial markets in the nation, benefiting from logistics advantages, extraordinary demand, and solid rental growth. Steady construction activity over the last five years resulted in significant growth in the industrial base, which positively impacted the local economy. The strong occupancy gains in recent years bodes well for the rest of 2019 and is expected to boost the overall asking lease rate.

Overall, the long-term outlook for the Inland Empire continues to be favorable. Both San Bernardino and Riverside Counties are anticipated to continue to benefit from an increase in residents, businesses, and amenities over the next five to ten years as development has naturally progressed inland from the nearly fully developed Counties of Los Angeles and Orange. The Inland Empire has benefited from the strength of the national economy, but concerns remain with regards to the tariffs impacting international trade as the Inland Empire is heavily dependent on logistics and the handling of foreign goods. Though, as the e-commerce industry continues to expand, the Inland Empire's role as the big-box capital of the nation will continue to be important and will likely see a spill over into other aspects of the area economy.

Ontario International Airport (ONT) is a medium-hub, full-service airport with direct service to major US cities and several international destinations. It is located approximately 38 miles east of downtown Los Angeles. Ontario International Airport's service area includes San Bernardino and Riverside Counties and portions of north Orange County as well as East Los Angeles County. The following table provides year-end data on Ontario International Airport passenger and cargo statistics from 2008 through 2018, as well as year to date figures through July 2019 as compared to the prior period last year.

**Volume of Air Traffic**
**Ontario International Airport**

| Year | Passengers | Cargo (Tons) |
|---|---|---|
| 2009 | 4,886,695 | 391,060 |
| 2010 | 4,808,241 | 392,427 |
| 2011 | 4,551,875 | 417,686 |
| 2012 | 4,305,426 | 454,880 |
| 2013 | 3,969,974 | 460,535 |
| 2014 | 4,127,280 | 474,502 |
| 2015 | 4,209,311 | 509,809 |
| 2016 | 4,251,903 | 567,295 |
| 2017 | 4,552,225 | 654,378 |
| 2018 | 5,115,894 | 751,529 |
| CAAG | -4.5% | 2.1% |
| YTD 07/18 | 2,883,342 | 414,844 |
| YTD 07/19 | 3,089,323 | 428,994 |

Source: Ontario International Airport

The City of Ontario relinquished control of the Airport in 1985 but had been fighting to regain control of the airport since alleged mismanagement and apathy by the City of Los Angeles led to sharp passenger declines from 2007 to 2012. The City of Ontario had filed a lawsuit in order to regain control of operations with an impending court date in August 2015, but prior to this date, the City of Los Angeles agreed to return the airport to local control provided that roughly $250 million in reimbursement costs and debt be paid and assumed. This local ownership which officially transferred on November 1, 2016, has allowed the Ontario airport to reduce its cost structure and increase marketing, advertising, and promotion of the airport. The change has allowed Ontario to better compete with other Southern California destinations and ultimately benefit the local and regional communities. Due to strong customer demand, China Airlines now offers service between Taiwan Taoyuan International Airport (TPE) and Ontario International Airport (ONT), which began in March 2018. Changes such as these have helped modernize Ontario airport to effectively align themselves with other major international airports around the globe. As a result, it is anticipated that the Ontario International airport will continue to add international flights and expand its global presence.

The Inland Empire is home to, and proximate to an increasing number of leisure demand generators that have brought a small measure of prominence to the area. The Ontario Mills Mall is Southern California's largest outlet/entertainment mall, and the largest one-level shopping mall in Western North America. The Ontario Mills Mall is located just north of Interstate 10, west of its junction with Interstate 15. The mall features 1.5 million square feet of space and over 200 retail stores with more than 20 food and beverage outlets. Additionally, the Ontario Mills Mall includes a 30-screen AMC Theatre and sponsors other entertainment events throughout the year. According to Ontario Mills officials, visitation routinely exceeds 20 million shoppers annually. The outlet recently announced new retailers to be added in 2019 including Sephora, Reebok, Cole Haan, Charlotte Russe, and Somi Somi. Located just three miles north of Ontario in Rancho Cucamonga is Victoria Gardens, a 147-acre urban shopping town center, which includes hundreds of retailers and dozens of restaurants and specialty food retailers. The center has undergone numerous expansions including a 20,000-square-foot store to be added by year-end. Riverside boasts its own shopping mall with the Galleria at Tyler, a significantly smaller development. The Auto Club Speedway, located in Fontana, is home to world-class motor sports events, and has additional configurations and facilities to accommodate road races, motorcycle races, vehicle testing, and drag races. Every year, in March, NASCAR hosts the Auto Club 400 at the race track, which generates significant tourist demand. The Glen Helen Amphitheater (formerly San Manuel Amphitheater), is a 65,000-seat amphitheater located in the hills of Glen Helen Regional Park in Devore, California. Given that it is one of the largest amphitheaters in North America, it has become a concert venue of choice for promoters looking for large venues in Southern California.

Our forecast for the Inland Empire includes three distinct submarkets: the greater Ontario market, including adjacent Rancho Cucamonga, the Riverside/San Bernardino metropolitan market, including the cities of Colton, Corona, Loma Linda, Highland, Norco, Redlands, Riverside, and San Bernardino and the Murrieta/Temecula Valley market. With regards to the lodging supply, we note that after a number of years of rapid expansion, very few hotels have opened between 2015 and 2017. However, in 2018, a total of six hotels opened across the Inland Empire. Furthermore, we anticipate another seven hotels to open between 2019 and 2020.

The annual supply of the Inland Empire’s lodging market is estimated to increase by 6.0 percent in 2019. This increase in annual supply is due to the actual and anticipated openings of the following hotels: 112-room Hampton Inn Riverside Downtown, 106-room Fairfield Inn & Suites Riverside/Moreno Valley, 120-room Home2 Suites Temecula, and the 105-room Holiday Inn Express & Suites Murrieta. Additionally, the increase in supply is attributed to the annualized rooms of the hotels that opened in 2018. Occupied rooms are anticipated to increase by 6.6 percent, greater than the rate of growth for supply. Thus, resulting in a market occupancy of 77.1 percent. Average daily rate and revenue per available room are forecast to increase by 2.8 percent and 3.4 percent, respectively.

In 2020, annual supply is expected to increase further by 6.2 percent with the annualized rooms of the aforementioned hotels entering the market, in addition to the opening of four more hotels. These include the 112-room Residence Inn Riverside/Moreno Valley, 122-room WoodSpring Suites Riverside/Norco, 123-room WoodSpring Suites Redland/San Bernardino, and the 131-room Element Ontario. We project a 5.4 percent increase in occupied rooms, equating to a slight decrease in occupancy of 76.5 percent. During this period, the market is projected to experience a 1.8 percent increase in ADR.

The following table estimates the Inland Empire's historical and projected supply, demand, occupancy and average room rate. We are aware that the previously defined market area as a whole has a total of approximately 5.5 million annual hotel rooms. However, the table presented below includes the sum of our aggregated sub markets, representing approximately 75 percent of the total existing lodging supply.

| Inland Empire<br>Historical Market Performance of the Competitive Supply | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2014 | 3,866,080 | N/A | 2,754,607 | N/A | 71.3% | $93.01 | N/A | $66.27 | N/A |
| 2015 | 3,928,495 | 1.6% | 2,937,545 | 6.6% | 74.8 | 99.96 | 7.5% | 74.74 | 12.8% |
| 2016 | 3,977,648 | 1.3 | 3,018,742 | 2.8 | 75.9 | 106.83 | 6.9 | 81.07 | 8.5 |
| 2017 | 4,040,580 | 1.6 | 3,088,892 | 2.3 | 76.4 | 112.14 | 5.0 | 85.73 | 5.7 |
| 2018 | 4,152,629 | 2.8 | 3,182,739 | 3.0 | 76.6 | 115.81 | 3.3 | 88.76 | 3.5 |
| 2019E | 4,400,838 | 6.0 | 3,393,981 | 6.6 | 77.1 | 119.00 | 2.8 | 91.78 | 3.4 |
| 2020F | 4,675,011 | 6.2 | 3,578,518 | 5.4 | 76.5 | 121.12 | 1.8 | 92.71 | 1.0 |
| CAAG | 3.2% | | 4.5% | | | 4.5% | | 5.8% | |
| Source: CBRE Hotels | | | | | | | | | |

## ADDITIONS TO SUPPLY

Based on our research and findings the table below details the new hotels going forward that have been included in this year's edition of our Southern California Lodging Forecast located within the Inland Empire market.

| Lodging Forecast - Additions to Supply as of October 2019 | | | | |
|---|---|---|---|---|
| Hotel Name | City | Submarket | Room Count | Opening Date |
| Hampton Inn Riverside | Riverside | Corona/Riverside/SB | 112 | December 2019 |
| Fairfield Inn & Suites Moreno Valley | Moreno Valley | Corona/Riverside/SB | 106 | September 2019 |
| Holiday Inn Express & Suites Murrieta | Murrieta | Temecula/Murrieta | 105 | December 2019 |
| Residence Inn Moreno Valley | Moreno Valley | Corona/Riverside/SB | 112 | January 2020 |
| WoodSpring Suites Norco | Norco | Corona/Riverside/SB | 122 | January 2020 |
| Element Hotel Ontario | Ontario | Ontario/Rancho Cucamonga | 131 | January 2020 |
| WoodSpring Suites Redlands | Redlands | Corona/Riverside/SB | 123 | April 2020 |
| Source: CBRE Hotels | | | | |

### Ontario/Rancho Cucamonga

The City of Ontario is located along the Interstate 10 and Route 60 corridors, proximate to where they meet the Interstate 15. Ontario is one of Southern California's oldest municipalities, dating back to its date of incorporation in 1891, and has been an economic and logistics hub for more than a century. The city is well located relative to some of the busiest transportation corridors in Southern California, and benefits from its proximity to the County of Los Angeles. It is home to more than 140 million square feet of industrial space, and nearly seven million square feet of commercial office space. In particular, tenants involved in third party logistics as well as the distribution of consumer goods have been major players in the industrial markets of Rancho Cucamonga and Ontario. On the office side, Rancho Cucamonga and Ontario have become more attractive options as office rents continue to rise in markets such as Riverside and the Eastern Inland Empire. Furthermore, Ontario is home to the Ontario International Airport, Ontario Convention Center, Citizens Business Bank Arena while Rancho Cucamonga houses Victoria Gardens. Additionally, the region boasts a number of significant development projects intended to position the city as Southern California's next urban center, and a regional destination for commerce, entertainment and lifestyle.

In 1998, the City of Ontario prepared and adopted the Sphere of Influence General Plan Amendment, an amendment to the general plan of the City of Ontario. This ultimately paved the way for new development and to a more urban setting. The General Plan for Ontario Ranch (formerly New Model Colony) intends to provide the long-term vision to create a high-quality environment where residents can live, work, and play with a sense of individual neighborhoods. Ontario Ranch, formerly part of the San Bernardino County Agricultural Preserve, encompasses approximately 8,200 acres and is bounded by Riverside Drive to the north, Milliken Avenue and Hamner Avenue to the east, the Riverside County line and Merrill Avenue to the south, and Euclid Avenue to the west. Upon full build-out the Ontario Ranch would feature as many as 30,000 new homes. Some neighborhoods that have been completed or are currently under-construction include Edenglen, New Haven, Park Place, Grand Park, and Avenida. The very high cost of housing in California's coastal communities is anticipated to continue to drive thousands of technicians, professionals and executives inland to acquire upscale homes at prices they can afford. Additionally, Frontier Real Estate Investments, a privately held commercial real estate firm broke ground on New Haven Marketplace, which will be a new lifestyle center in Ontario Ranch. The 95,000 square foot development already has confirmed tenants including Chase Bank and Stater Brothers market and is anticipated to open in 2020.

The Ontario/Rancho Cucamonga lodging market is expected to experience a 5.9 percent increase of annual supply in 2019 due to the annualized rooms of the 108-room Fairfield Inn Rancho Cucamonga, 126-room Residence Inn Rancho Cucamonga, and the 126-room SpringHill Suites Ontario Airport/Rancho Cucamonga, all of which opened in the prior year. During the same period, demand is anticipated to increase 5.7 percent and we estimate that market occupancy will decrease slightly to 74.9 percent. Average daily rate is projected to increase 2.5 percent to $116.35, while revenue per available room is forecast to increase by 2.3 percent to $87.15

Given projected market conditions and the anticipated opening of the 131-room Element Ontario, we are forecasting the greater Ontario market will see a further decrease in occupancy in 2020. We project an increase in annual supply of 2.4 percent coupled with a growth in occupied rooms of 2.0 percent resulting in a slight drop in occupancy to 74.6 percent in 2020. Additionally, we are projecting a continued increase in rate, with average daily rate estimated to increase by 2.0 percent to $118.68 at year's end. This results in a RevPAR growth of 1.6 percent to finish at $88.51 in 2020.

**Ontario/Rancho Cucamonga**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,830,110 | N/A | 1,306,237 | N/A | 71.4% | $89.04 | N/A | $63.55 | N/A |
| 2015 | 1,830,110 | 0.0% | 1,352,064 | 3.5% | 73.9 | 95.71 | 7.5% | 70.71 | 11.3% |
| 2016 | 1,830,110 | 0.0 | 1,357,870 | 0.4 | 74.2 | 102.88 | 7.5 | 76.34 | 8.0 |
| 2017 | 1,830,110 | 0.0 | 1,359,692 | 0.1 | 74.3 | 108.63 | 5.6 | 80.71 | 5.7 |
| 2018 | 1,852,740 | 1.2 | 1,390,470 | 2.3 | 75.0 | 113.49 | 4.5 | 85.17 | 5.5 |
| 2019E | 1,961,510 | 5.9 | 1,469,255 | 5.7 | 74.9 | 116.35 | 2.5 | 87.15 | 2.3 |
| 2020F | 2,009,325 | 2.4 | 1,498,640 | 2.0 | 74.6 | 118.68 | 2.0 | 88.51 | 1.6 |
| CAAG | 1.6% | | 2.3% | | | 4.9% | | 5.7% | |

Source: CBRE Hotels

## Riverside Metropolitan Area

The City of Riverside has the sixth largest population in Southern California and the 11th largest in the state and has a large and diverse economy with the Inland Empire's largest number of businesses and total jobs. Riverside's vibrant downtown, anchored by the historic Mission Inn, has earned a reputation as the "Downtown of the Inland Empire." It is home to many state government offices, the Riverside County Administrative Center, and a Justice Center Complex consisting of County, State and Federal courts. Riverside is an important financial and professional center with numerous legal, accounting, brokerage, architectural, engineering, software firms, and banking institutions. Riverside's diverse manufacturing base includes such sectors as electrical instruments, plastics, wood and metal fabrication, food processing, commercial printing and recreational vehicles. Technological and manufacturing companies are supported by the University of California campus, and other educational institutions offering specialized training and research partnerships.

Businesses benefit from excellent freeway and rail access, high speed fiber optic telecommunications, reasonable land and building costs, city-owned electrical and water systems, and a general aviation airport facility. The heart of the Inland Empire is within 30 minutes of numerous private and public colleges and universities with a total enrollment of over 165,000 students. Riverside is home to four internationally recognized colleges and universities including the prestigious University of California, Riverside (UCR). The University of California, Riverside (UCR) is part of the University of California system located on 1,900 acres in Riverside, California. Current enrollment at UCR totals more than 23,000 students with approximately 850 ladder rank faculty members. Contingent on additional funding from the state, a master plan for the University calls for expansion to 30,000 students by 2025. The campus continues to expand with a number of buildings under construction or being remodeled. UCR is embarking on project to add approximately 5,000-7,000 additional on-campus beds to accommodate recent and potential growth. The master facilities plan includes additional academic settings such as laboratories, libraries, and performing arts studios, as well as housing and recreational facilities. Prominent features of the UCR campus include the 161-foot Carillon tower, the Botanic Gardens, and acres of citrus groves. The University of California-Riverside is one of the fastest growing campus in the UC system.

Located at 5$^{th}$ Street and Main Street, the Riverside Convention Center offers 65,000 square feet of indoor meeting space, with 22 meeting rooms, and state-of-the-art audiovisual technology. The convention center also has 20,000 square feet of outdoor and pre-function space. The convention center underwent a ground-up $43 million renovation and rebuild in 2014 which added a 30,000-square foot exhibit hall, 4,000-square foot banquet room, breakout rooms, new foyer, and landscaped outdoor space. Since renovation the convention center has done very well according to Convention and Visitor's Bureau officials. Originally the convention center primarily hosted SMERF events (Social, Military, Education, Religious, and Fraternal groups), but now attracts a greater level of national, regional, corporate, and association business.

The Riverside Fox Theater, also known as the Fox Performing Arts Center, was built in 1929 in the design of the Spanish Colonial Revival style. The theater is best known as hosting the first showing of the 1939 film Gone with the Wind. The theater is the centerpiece of the City's Arts & Culture initiative. It underwent a major renovation in 2007 and was reopened in 2010. The theater was expanded to 1,600 seats and can accommodate Broadway-style productions. In December 2013, Live Nation, a leading concert promotion company, assumed operations of the Riverside Fox Theater. According to management, 120,000 visitors came to the Riverside Fox Theater and the Municipal Auditorium in 2018, and about 25 percent of the audience was from Los Angeles and Orange counties.

Riverside Food Lab opened in 2018 in Downtown Riverside and is a communal food hall featuring 14 artisanal eateries and bars. The space showcase Riverside's agricultural roots with the latest trends in foodie culture. Established restaurateurs and food entrepreneurs share this state-of-the-art communal space that celebrates the impressive range of Riverside's diverse cuisines. Additionally, the same developer is in talks with the city to develop Chow Alley, a dining space on a lot near City Hall.

The California Air Resources Board (CARB) broke ground on its new state-of-the-art Southern California headquarters in late 2017. The 380,000-square-foot building located in eastern Riverside, near the campus of UCR, will be home to one of the largest and most advanced vehicle emissions testing and research facilities in the world. The headquarters will be LEED Platinum, the highest level awarded by the U.S. Green Building Council for the overall sustainability and energy efficiency of a building. The headquarters also will be the single largest net-zero energy structure in the nation, in terms of square footage and load. The new headquarters will include light-, medium- and heavy-duty test cells, with additional space for creating new testing methods for future generations of vehicles. There also will be space for enhanced onboard diagnostics and portable emissions measurement system development, and a separate chemistry laboratory.

### San Bernardino Metropolitan Area

The City of San Bernardino represents one of Southern California's oldest and fastest changing communities. Incorporated in 1854, the City's approximately 215,000 residents make it the second largest municipality east of Los Angeles, according to recent estimates made by the State of California, Department of Finance. As the county seat of San Bernardino County, it lies in the heart of the Inland Empire region.

San Bernardino's ground transportation system is an asset for current as well as future growth. The I-215 and I-10 freeway intersection in the city provides access routes connecting Southern California to the rest of the United States. Meanwhile, the San Bernardino-L.A. Union Station MetroLink route is Southern California's most used commuter rail line with its current terminus at the city's Santa Fe Depot. Additionally, a nine-mile commuter rail line (Arrow Line) from San Bernardino to Redlands broke ground in July 2019 and service is scheduled to launch in early 2022.

As a city that is both well-located and a county seat, San Bernardino is home to one of the Inland Empire's largest office markets. The State of California operates from a 15-story office tower in the city. The San Bernardino County Court House and the county's administrative centers are nearby along with City Hall and the offices of the San Bernardino Associated Governments. The federal government is a major presence with the regional Internal Revenue and Immigration and Nationalization offices. San Bernardino's centralized location coupled with this base of governmental operations has led legal, accounting, financial and insurance operations to maintain offices in the city's downtown region. Also, Dignity Health – St. Bernardine Medical Center and the Community Hospital of San Bernardino, two of the county's largest health facilities are located in the city. Additional facilities include the Patton State Hospital, Arrowhead Regional Medical Center and the world-famous Loma Linda University Hospital and Medical Center as well as Children's Hospital are located nearby.

The San Bernardino/Riverside lodging market is anticipated to continue to experience growth in 2019. Annual supply is expected to increase by 4.7 percent with the annualized rooms of the 95-room TownePlace Suites Loma Linda and the 116-room TownePlace Suites Chino Hills. Additionally, we anticipate two hotel openings: 112-room Hampton Inn Riverside Downtown and 106-room Fairfield Inn & Suites Riverside/Moreno Valley. It is estimated that the market will experience an increase in occupied rooms of 5.9 percent by the end of 2019, resulting in a market occupancy of 79.6 percent. Average daily rate is estimated to increase at a rate slightly above inflationary levels or 3.2 percent to $119.68.

Annual supply is forecast to increase by 9.7 percent in 2020. This is due to the annualized rooms of the aforementioned hotel openings in 2019 and the addition of the following hotels: 112-room Residence Inn Riverside/Moreno Valley, 122-room WoodSpring Suites Riverside/Norco, and the 92-room WoodSpring Suites Redland/San Bernardino. Growth in occupied rooms is anticipated to increase at a slower rate than supply growth at 7.5 percent, resulting in a market occupancy of 78.0 percent. The market's average daily rate is forecast to continue to grow at 2.5 percent. Combined, revenue per available room is forecast to increase by 0.5 percent to $95.72.

**Corona, Riverside, San Bernardino**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 1,686,300 | N/A | 1,185,801 | N/A | 70.3% | $93.01 | N/A | $65.41 | N/A |
| 2015 | 1,742,510 | 3.3% | 1,304,225 | 10.0% | 74.8 | 100.56 | 8.1% | 75.27 | 15.1% |
| 2016 | 1,761,003 | 1.1 | 1,355,403 | 3.9 | 77.0 | 107.38 | 6.8 | 82.64 | 9.8 |
| 2017 | 1,795,800 | 2.0 | 1,398,938 | 3.2 | 77.9 | 112.27 | 4.6 | 87.46 | 5.8 |
| 2018 | 1,802,394 | 0.4 | 1,417,851 | 1.4 | 78.7 | 115.97 | 3.3 | 91.23 | 4.3 |
| 2019E | 1,887,293 | 4.7 | 1,502,204 | 5.9 | 79.6 | 119.68 | 3.2 | 95.26 | 4.4 |
| 2020F | 2,069,641 | 9.7 | 1,614,869 | 7.5 | 78.0 | 122.68 | 2.5 | 95.72 | 0.5 |
| CAAG | 3.5% | | 5.3% | | | 4.7% | | 6.6% | |

Source: CBRE Hotels

## Temecula Murrieta Area

The cities of Temecula and Murrieta are situated along Interstate 15 approximately 80 miles southeast of Los Angeles and 60 miles north of San Diego. The City of Temecula comprises 30.2 square miles, located south of the city of Riverside and east of the Cleveland National Forest in western Riverside County. Local housing in Temecula has experienced astounding growth and is within a relatively easy commute of the major employment centers near the Ontario Airport, in San Bernardino and Riverside, as well as eastern Orange County and northern San Diego County. Lake Elsinore and Murrieta are also experiencing rapid growth in both commercial and retail.

The name Temecula comes from the Luiseno Indian word, which translated means "where the sun breaks through the mist." The Luiseno Indians inhabited Temecula in the 1700's when the first Spanish padres visited. In 1858, Temecula became a stop on the Butterfield Overland Stage Route. Temecula's post office was established in 1859, making it the first in inland Southern California and second in the state. Locomotive service began in 1882 between Temecula and National City, which was extended the following year to San Bernardino. The Temecula Valley is bordered on the west by Camp Pendleton Marine Corps Base and the Cleveland National Forest, with elevations of up to 2,600 feet. A mountain gap that allows ocean breezes to flow into the city provides a moderate climate by inland standards.

The Temecula Valley is characterized by numerous leisure amenities, from adventure sports to wineries and casinos. Coupled with a growing labor force that is becoming increasingly diversified, continued growth in the region is expected. As the popularity of the Temecula Valley as a tourist destination grows, the effects are being felt across the region. Recreational amenities in the region include Lake Elsinore, the largest natural lake in Southern California, numerous golf courses, including Bear Creek Golf Club, three Las Vegas style casinos, including Pechanga Resort and Casino, and the largest wine producing area south of Santa Barbara County, comprised of more than 40 wineries. Leisure tourism in the area has grown significantly in the post-recession environment, with demand levels in 2018 exceeding the pre-recession peak. Visit Temecula Valley announced reaching the one-billion-dollar level tourism economic impact in June 2019. In addition, Temecula Valley received 3.1 million visitors in 2018 with a 26 percent year-over-year increase in visitor spending. In 2018, all commodities, across all sectors experienced milestone sales with healthy increases of at least 20 percent over the prior year. Visitors spent $409 million on arts, entertainment, and recreation; $198 million on food and beverage services; $127 million on off-premise food and beverage including wine sales; $117 million on accommodations; $107 million on retail; and $106 million on local transportation. A portion of this growth can be attributed to the $300 million expansion of the Pechanga Resort, which has doubled the size of the resort and added a 568-room tower in December of 2017. The expansion also added two restaurants, a two-level spa, and a 4.5-acre pool complex.

The Temecula/Murrieta Valley submarket has emerged as a healthcare hub for the Inland Empire with the 2011 opening of the Loma Linda University Medical Center. The Loma Linda hospital is comprised of 109 beds, with Phase II expansion discussions already underway for additional towers on the remainder of the campus. In 2017, the City of Murrieta approved the development of Phase I of an 825,000 square foot Kaiser facility with the medical office building (MOB) already completed and the full hospital campus to be completed in 2023 within the North Murrieta's Technology Corridor. Additionally, Rady Children's Hospital (based in San Diego) has acquired land in Murrieta with the intention to develop the first phase of a 62,000 square foot pediatrics healthcare facility.

In addition to healthcare, the region has seen growth in industrial spaces. In the second quarter of 2019, the industrial vacancy rate in Southwest Riverside County increased to 5.6 percent, according to Westmar Commercial Real Estate. Net absorption was a positive 864,000 square feet with approximately 3.8 million square feet of industrial space under construction in Southwest Riverside County. As a whole, the high number of commercial and retail developments which have entered the local market reflects the existing confidence businesses have in the region. In light of these trends, the Murrieta and Temecula Valley is positioned to attract additional residential and commercial growth and will likely present significant opportunities for future developers and business owners in the area. Overall, the Temecula market has exhibited steady growth as improving economic conditions have boosted leisure visitor numbers in the region. A popular weekend getaway highlighted by local wineries and vineyards, the strength of the Temecula market in recent times bodes well for the greater Inland Empire in the near future.

Annual supply in the market is estimated to increase by 11.0 percent in 2019 with the annualized rooms of the 60-room Best Western Plus Temecula, the recent opening of the 120-room Home2 Suites Temecula, and the projected opening of the 105-room Holiday Inn Express & Suites Murrieta. Given the location and positioning of the additions to supply as well as the historically strong performance of the market, we estimate a 12.8 percent increase in occupied rooms during this year. This results in an increase of market occupancy to 76.5 percent. Average daily rate is also expected to increase by 1.6 percent to $125.81.

In 2020, we forecast an 8.0 percent increase in annual supply as the Home2 Suites Temecula and Holiday Inn Express & Suites Murrieta are absorbed into the market. We forecast a 6.5 percent increase in occupied rooms in 2020, which results in a decline in market occupancy to 75.5 percent. The market's average daily rate is projected to increase by 1.5 percent, while revenue per available room is expected to increase minimally by 0.1 percent to $96.40.

**Temecula/Murrieta Valley**
**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2014 | 349,670 | N/A | 262,569 | N/A | 75.1% | $112.73 | N/A | $84.65 | N/A |
| 2015 | 355,875 | 1.8% | 281,256 | 7.1% | 79.0 | 117.60 | 4.3% | 92.94 | 9.8% |
| 2016 | 386,535 | 8.6 | 305,468 | 8.6% | 79.0 | 121.93 | 3.7 | 96.36 | 3.7 |
| 2017 | 414,670 | 7.3 | 330,262 | 8.1% | 79.6 | 126.04 | 3.4 | 100.38 | 4.2 |
| 2018 | 497,495 | 20.0 | 374,417 | 13.4% | 75.3 | 123.83 | -1.8 | 93.20 | -7.2 |
| 2019E | 552,035 | 11.0 | 422,523 | 12.8% | 76.5 | 125.81 | 1.6 | 96.29 | 3.3 |
| 2020F | 596,045 | 8.0 | 449,987 | 6.5% | 75.5 | 127.69 | 1.5 | 96.40 | 0.1 |
| CAAG | 9.3% | | 9.4% | | | 2.1% | | 2.2% | |

Source: CBRE Hotels

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