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HOSPITALITY SERVICES GROUP
OCTOBER 2004



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The California Mid-Year Lodging Report

“Southern California experiences strong top line growth while Northern California is poised for growth”

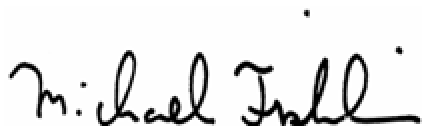
Dear Colleague,

We are pleased to present our 2004 California Mid-Year Lodging Report, prepared by Ernst & Young's Hospitality Services Group.


The California Mid-Year Lodging Report offers our assessment of the lodging industry in California. It includes our thoughts on key lodging industry trends, as well as our detailed outlook for major metropolitan markets in the state. This report is available through on our Web site <http://www.ey.com/us/reas>

Ernst & Young's Hospitality Services Group provides developers, lenders, owners, and operators with an array of advisory services each year. Please feel free to contact me or any of the Hospitality Services Group professionals mentioned at the end of this report if we may be of service.

Sincerely,



Michael Fishbin
National Director,
Ernst & Young
Hospitality Services Group



Troy Jones
Manager,
Ernst & Young
Hospitality Services Group

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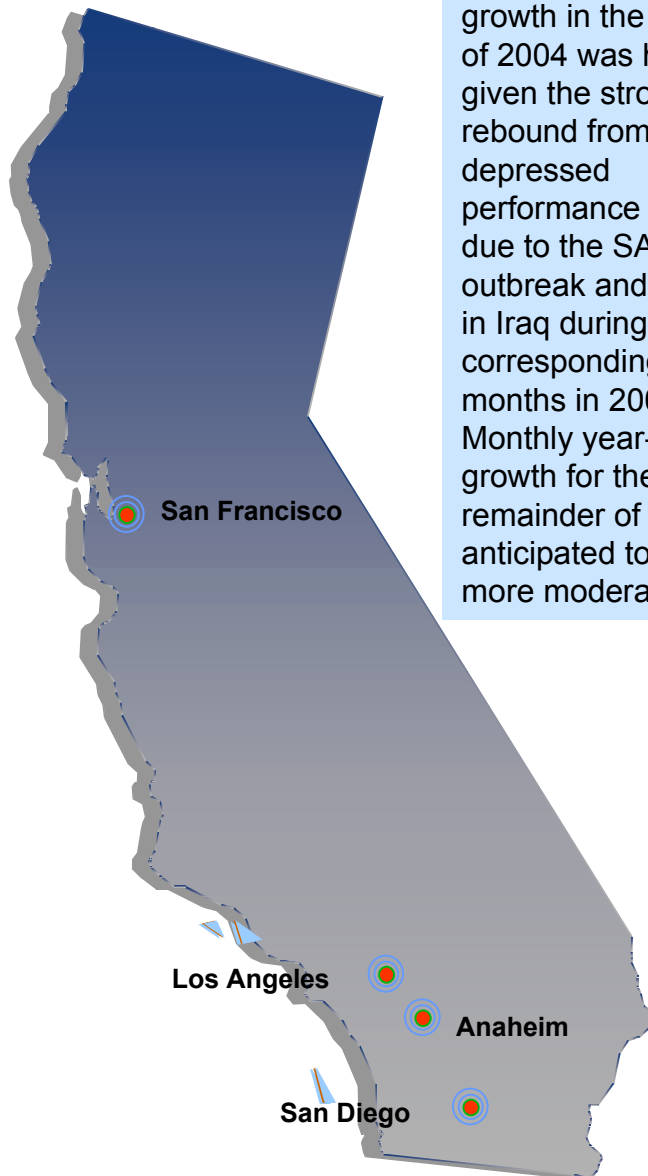
ADR and Occupancy Percentage Change vs 2003

San Francisco ADR and Occupancy		
January	-4.2%	2.6%
February	-5.8%	8.2%
March	5.3%	19.3%
April	-2.4%	15.0%
May	2.2%	15.8%
June	4.0%	13.0%
YTD	0.1%	12.7%
2004 E	-1.5%	6.0%

Los Angeles ADR and Occupancy		
January	-0.2%	9.6%
February	9.4%	10.3%
March	4.0%	11.1%
April	3.8%	11.6%
May	3.7%	5.5%
June	5.6%	7.9%
YTD	4.4%	9.1%
2004 E	3.5%	5.0%

Anaheim ADR and Occupancy		
January	0.7%	7.8%
February	5.2%	10.8%
March	4.1%	11.0%
April	4.0%	6.9%
May	4.8%	6.2%
June	4.7%	5.0%
YTD	3.7%	7.9%
2004 E	2.0%	3.9%

San Diego ADR and Occupancy		
January	-16.3%	2.2%
February	1.1%	2.6%
March	-0.1%	6.4%
April	4.5%	12.6%
May	3.5%	5.5%
June	6.9%	4.1%
YTD	-0.3%	5.6%
2004 E	2.0%	2.5%



Occupancy and ADR growth in the first half of 2004 was high given the strong rebound from depressed performance levels due to the SARS outbreak and the war in Iraq during corresponding months in 2003. Monthly year-on-year growth for the remainder of 2004 is anticipated to be more moderate.

California ADR and Occupancy		
January	-3.5%	4.6%
February	2.3%	4.5%
March	2.9%	8.8%
April	2.0%	8.9%
May	3.0%	5.9%
Jun-04	3.7%	5.0%
YTD	1.8%	6.3%
2004 E	2.0%	3.0%

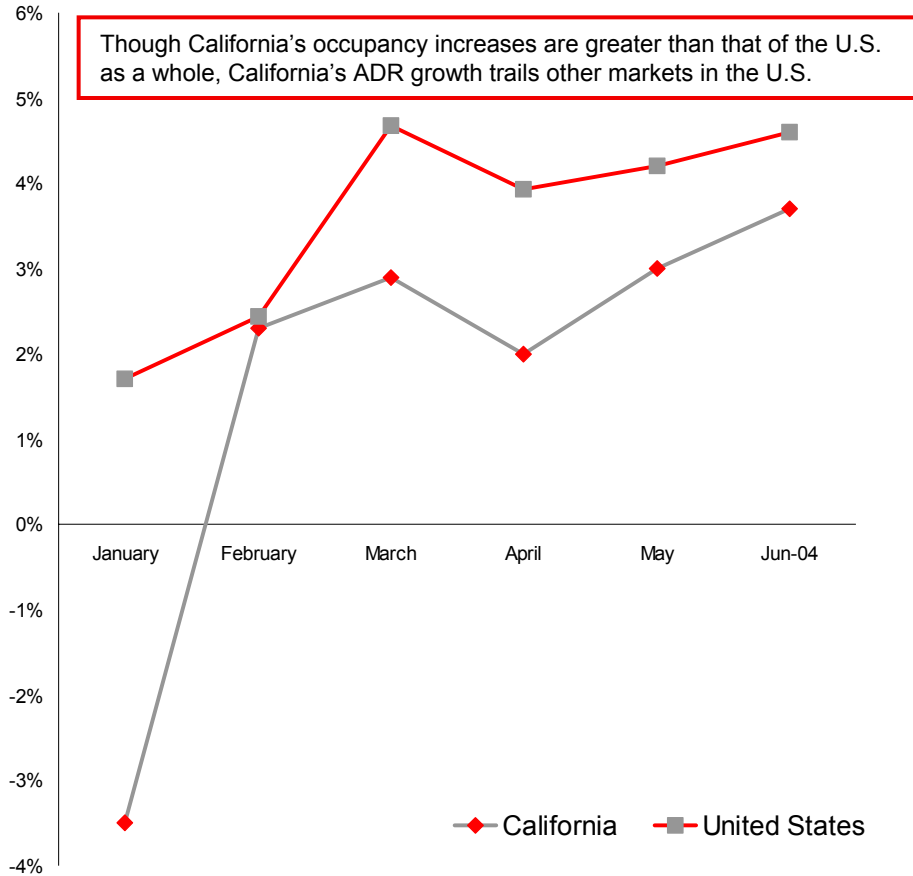
U.S. ADR and Occupancy		
January	1.7%	4.0%
February	2.4%	2.8%
March	4.7%	6.5%
April	3.9%	6.7%
May	4.2%	2.8%
Jun-04	4.6%	3.3%
YTD	3.7%	4.3%
2004 E	1.5%	3.0%

As the economy improves and consumer confidence rises, lodging demand continues to show signs of recovery. Occupancy improvements in California have outpaced the U.S. in the first half of 2004 due to the recovery of the technology sector, the popularity of coastal travel, and the return of international travel.

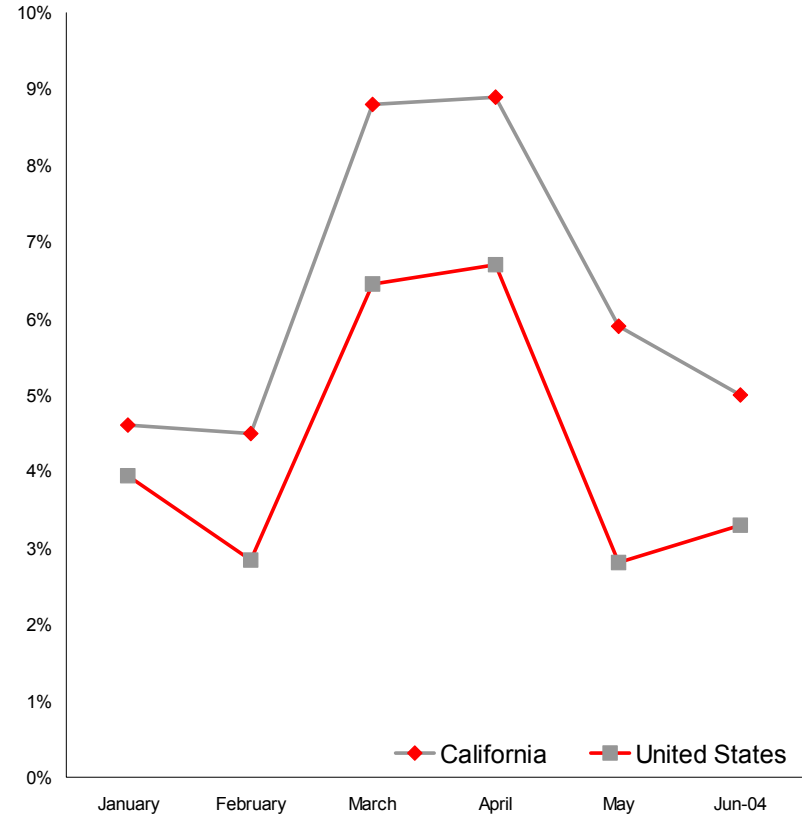
Source: Smith Travel Research, Ernst & Young LLP

ADR and Occupancy Percentage Change vs 2003

ADR

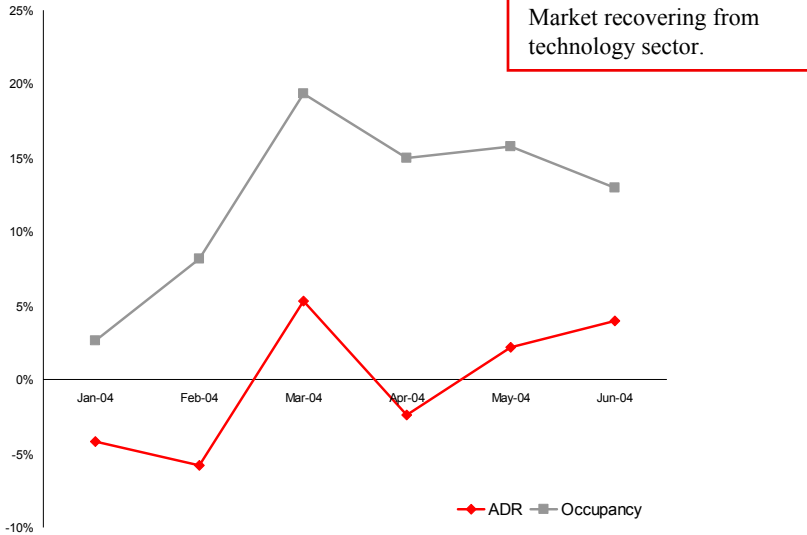


Occupancy

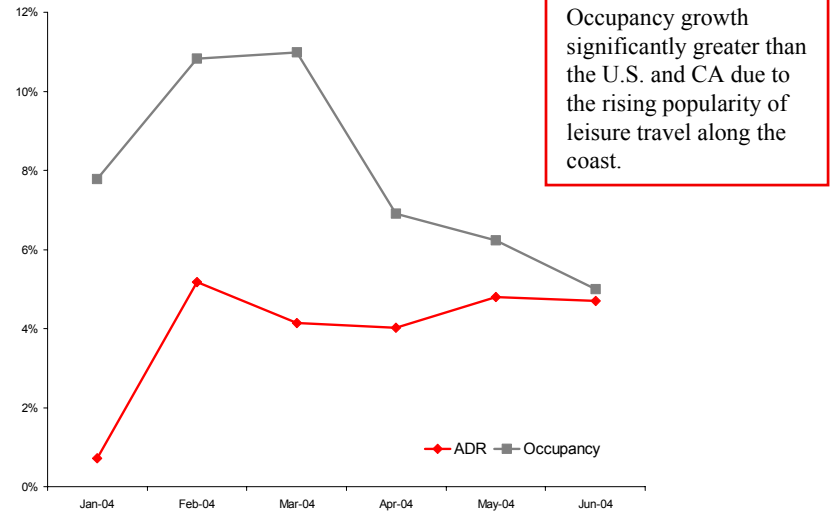


ADR and Occupancy Percentage Change vs 2003

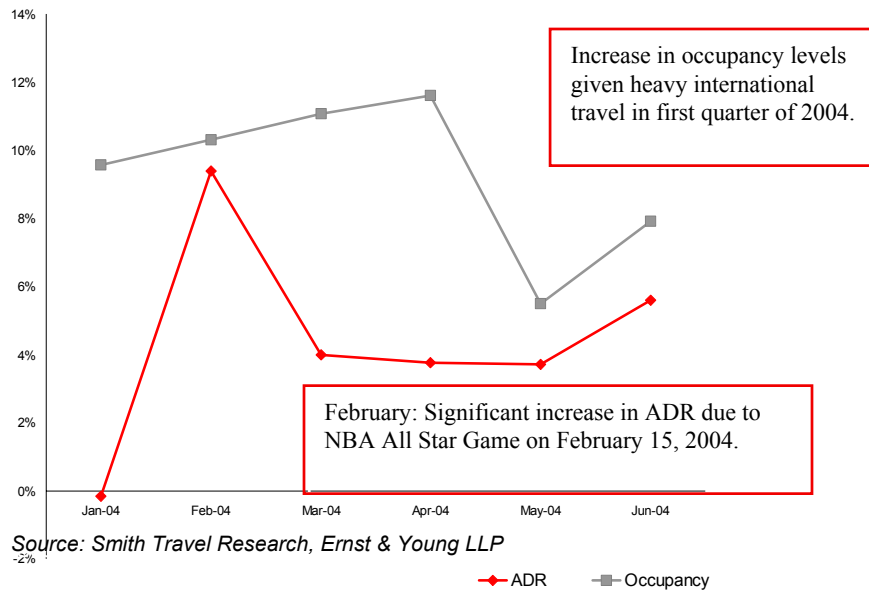
San Francisco



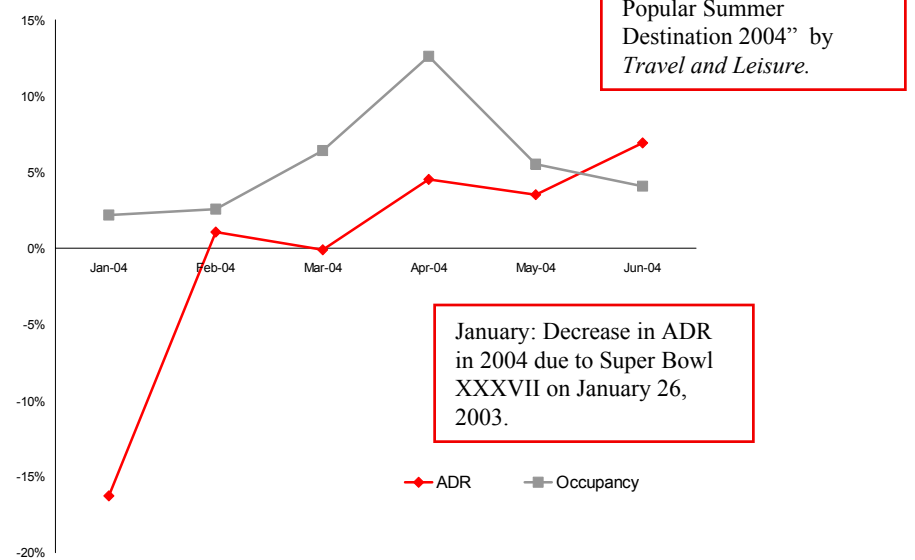
Anaheim



Los Angeles



San Diego



Source: Smith Travel Research, Ernst & Young LLP

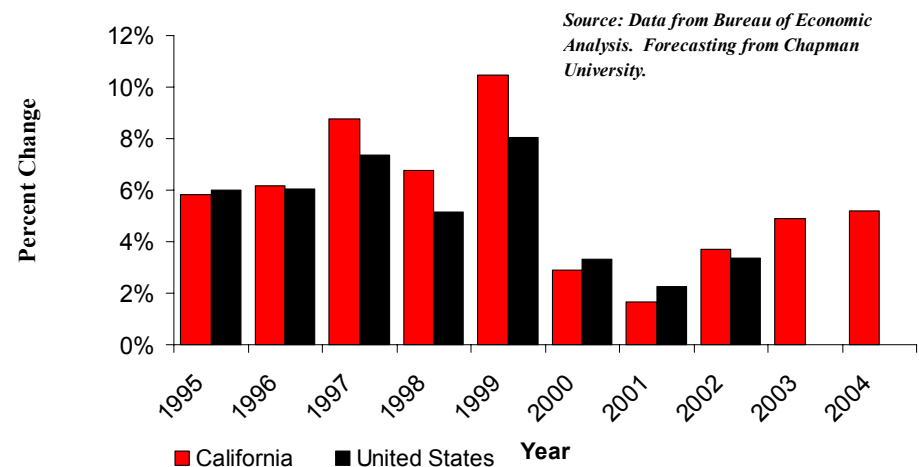
Macroeconomic Observations

During the first and second quarters of 2004, the U.S. economy began to rebound with economic fundamentals exhibiting positive trends. For the first time in five years, the Fed began tightening monetary policies by raising the federal fund rate to 1.25 percent in June and 1.50 percent in August. It is anticipated that the rate will reach between 3.50 and 4.50 percent by the end of 2005.

- Preliminary analysis indicates a 3 percent real GDP growth rate in second quarter 2004, and economists predict 4.1 percent growth by year-end 2004. As GDP is anticipated to sustain moderate growth, the national unemployment rate will likely continue to decrease in the upcoming quarters. In contrast to the unemployment rate of 5.9 percent in the fourth quarter of 2003, the rate decreased to 5.6 percent in the first half of 2004. It is anticipated that the unemployment rate will further decline to 5.5 percent and then 5.1 percent by year end 2004 and 2005, respectively.
- Personal consumption increased 1.0 percent in the second quarter and 4.1 percent in the first quarter 2004. Consumer Price Index (CPI) inflation surged during the first half of 2004 and is anticipated to remain high for the next two years. CPI is estimated to increase by 2.8 percent by year end 2004 and 3.2 percent by 2005.

In July 2004, consumer confidence reached June 2002 levels, as Americans have a more positive outlook on the job market and the economy. In July, the consumer confidence index reached 106.1 points, marking the fourth straight month of gains. With the increase in confidence, consumer spending also rose by one percent in May 2004. This boost in spending is the fastest growth rate the United States has experienced since October 2001.

Percent Change in Personal Income



U.S. Lodging Industry Analysis

- The U.S. lodging industry is experiencing positive fundamentals trends for the first time since 2001. During the first half of 2004, occupancy levels and ADRs increased 4.3 percent and 3.7 percent, respectively, compared to the same period last year. Occupancy and ADR growth in the first half of 2004 was high given the strong rebound from depressed performance levels due to the SARS outbreak and the war in Iraq during corresponding months in 2003. Monthly year-on-year growth for the remainder of 2004 is anticipated to be more moderate. By year end, occupancy and ADR are projected to reach 61% and \$84.53, respectively, 3 percent and 1.5 percent increases over 2003.
- According to the U.S. Office of Travel and Tourism Industries, international inbound travel to the U.S. started to increase in the fourth quarter of 2003. With the strengthening of the Euro and Yen versus the U.S. dollar and with the desire to escape the extreme warmth of the Middle East, international inbound travel experienced an upsurge of 19 percent during the first five months of 2004, compared to the same period last year. The International Air Transport Association states inbound travel was up 108 percent from Asia (a significant increase from the low period last year due to SARS), 44 percent from the Middle-East (an increase related to post Iraq War 2003), 19 percent from Europe, 11.5 percent from Latin America, and 8 percent from Africa.
- With the decrease in unemployment rates and the increase in corporate budgets, business travel is predicted to increase significantly during the second half of 2004 and into 2005. According to the Travel Industry Association of America (TIA), business travel has rebounded with a 5.7 percent increase in trips this summer. Furthermore, this increase in business travel is anticipated to continue through 2004 and 2005 with growths of 4.2 percent and 3.5 percent, respectively. According to the National Business Travel Association, business travelers account for 20 percent to 60 percent of all travel expenses.

U.S. Lodging Industry Analysis

- Increases in job security and consumer confidence have helped sustain leisure travel. Preferences for close-to-home, highway, and domestic leisure travel continued throughout summer 2004. TIA estimates that Americans accounted for 334.5 million trips that are 50 or more miles away from home during June, July, and August. If the anticipated increase of 3.2 percent more trips is achieved this year, it will be the strongest growth since 2000. Furthermore, the American Express Leisure Travel Index revealed that 11 percent of U.S. travelers plan to spend more than \$5,000 on vacations this year while the average traveler will spend \$3,000 this year, a 37 percent increase over 2003.
- As the lodging market recovers, owners and developers are moving forward with their plans to break ground on new hotel projects. According to Lodging Econometrics (LE), in the second quarter of 2004, 282 new project announcements with 35,604 guest rooms entered the construction pipeline but are not anticipated to affect the net hotel supply until 2006 and beyond. LE estimates net supply growth for 2004 and 2005 to be 1.2 percent and 1.3 percent, respectively. Furthermore, improving economic conditions and availability of capital are motivating more active transaction markets. In 2002, 76 hotel transactions that were \$10 million or more were completed, while in 2003, 133 transactions occurred, which represents a 75 percent growth in volume. During the second week of July, InterContinental Hotels Group, the world's largest hotel owner, placed 20 hotel properties on the market.
- The largest occupancy gain is projected to occur in the luxury chain segments in 2004. During the first half of the year, room occupancy and RevPAR rose 7.3 percent and 12.1 percent, respectively, which represent the highest percentage increases across all segments, according to Smith Travel Research (STR). Furthermore, surveys conducted by Carlson Wagonlit Travel Associates note that sales of luxury tours were up nearly 70 percent through May 2004 compared to the same period last year, which is twice the gain of middle market tours. Experts attribute the increased spending in luxury travel to baby boomers reaching their peak earnings and pent-up travel demand after the events of 9/11.

California Lodging Industry Observations

- California's lodging market continues to outperform the United States in terms of RevPAR (revenue per available room). For the first half of the year, California's RevPAR was \$63.19 while the U.S.'s RevPAR was \$52.35. Hotel companies in California note that the lead in RevPAR can be largely attributed to the increase in occupancy. During the first six months of 2004, California's occupancy increased 6.3 percent compared to the same period last year while the U.S.'s occupancy increased 4.3 percent.
- The California lodging market is positioned for a positive year. The California Travel and Tourism Commission anticipates an increase of 2.3 percent for leisure travel and 1.2 percent for business travel in 2004. While California residents continue to travel in-state, travel from out-of-state is increasing as well. In comparison to summer 2003, travel by in-state residents is projected to increase by 1.2 percent, while travel by non-residents is projected to increase by 7.3 percent.
- With the reduced fear of terrorism, the rebounding Yen, the containment of SARS post 2003, and the expanding economy, the number of Japanese tourists visiting southern California is beginning to recover. During the first quarter of 2004, Japanese tourists visiting Los Angeles increased by 23 percent according to L.A. Inc. Japanese interest in the Golden State is predicted to strengthen throughout 2004 with visits to local tourist attractions such as Disneyland and Dodgers Stadium (Los Angeles Dodgers' roster includes Japanese-born athletes Kazuhisa Ishii and Hideo Nomo). According to the Los Angeles Times, Japanese visitors to Los Angeles spent an estimated \$300 million in 2003 and \$590 million during the peak year 2000. It is anticipated that with the strong Yen, the purchasing power of the Japanese will increase in the upcoming years. The Japanese government nearly doubled its forecast for the nation's economic growth for March 2005 to 3.5 percent; if this positive outlook is achieved, it will mark the fastest growth in Japan since 1997.

California Lodging Industry Observations

- Indian gaming and tourism continue to increase in California. Currently, over 30 casinos operate in Southern California and more than half have expanded or are planning to expand within the coming year. The Morongo Band of Mission Indians is reportedly completing the largest economic development project by an Indian tribe in history with its opening of the Morongo Casino, Resort and Spa in fall 2004. Located 90 minutes east of Los Angeles and 20 minutes west of Palm Springs, the \$250 million development will include 310 guestrooms, a 148,000 square-foot casino floor, numerous meeting facilities, multiple restaurant outlets, a nightclub, pool and spa, and retail space. As tribal casinos become increasingly popular in Southern California, neighboring areas should benefit from the inflow of visitor traffic.
- The Chumash Casino Resort in Santa Barbara County celebrated the grand opening of its latest expansion in July. The \$150-million renovation includes 106 guestrooms designed to meet the four-diamond rating of AAA, a 190,000 square-foot casino, three restaurants, and 5,000 square-foot spa.

California Mid-Year Top 10 Thoughts

- 1. North vs. South** — Developers and hotel owners have indicated that Southern California, particularly downtown San Diego, is a hot spot for development. Currently, San Diego County has 2,151 rooms under construction, representing 45 percent of all guestrooms being built in Southern California in 2004. Construction in Northern California has reached a halt as lenders remain cautious about hotel markets there. In 2003, San Francisco County completed 616 guestrooms and Santa Clara County opened 859 rooms. Some current owners consider the slow construction in Northern California to be good news as they are faced with less new competition. Developers believe Southern California was not as heavily impacted by the events of 9/11 as Northern California due to the stronger drive-in market in Southern California and, first and foremost, the larger presence of the defense industry. Nevertheless, large developments along Southern California's coast may be deterred by increased construction costs, restrictive permitting costs, environmental group protests, and building limitations (i.e., hotel building heights are not to exceed 35 feet along the North County coast of San Diego). **Primary Impact: Profitability and hotel valuations**
- 2. Weakening Dollar** — During the end of 2003 and the first half of 2004, the U.S. dollar had reached an all-time low against the Euro, an 11 year low against the £ (pound), and a four-year low against the ¥en. As the dollar continued to weaken compared to other major currencies, there was a positive effect on international travel to our major metropolitan destinations. The U.S. Office of Travel and Tourism Industries reported a 19 percent increase in international inbound travel during the first five months of the year. Major markets included the United Kingdom, Germany, Hungary, Poland, China, and Japan. According to TIA, international travel is expected to further increase during the second half of the year, reaching a total of 42.2 million visitors by year-end. However, positive effects of international travel could potentially be deterred by additional visitation and immigration acts to the United States passed by Congress. U.S. visitors are facing longer waits for visas, increases in visa application fees, and enhanced border security. **Primary Impact: Average daily room rate, room demand, and profitability**

California Mid-Year Top 10 Thoughts

- 3. Hotel Transactions** — Buoyed by the recovering economy and the overall confidence in the lodging market, experts believe 2005 will be a banner year for hotel transactions. Within the last two years, lower interest rates have encouraged buyers to bid based on higher multiplies, thus narrowing the bid/ask pricing spread. Experts note a pattern in buyers looking for either upscale individual properties or portfolios, where there is an opportunity to change brand affiliation. According to Carlton Hospitality Group, total sales of large hotel properties in the United States increased to \$4 billion in 2004 from the depressed \$2.1 billion level in 2002. It is anticipated that the transaction volume will continue to increase throughout 2004 and 2005, especially in hot lodging markets such as San Diego and Los Angeles. Last year, Los Angeles reeled in a total of \$541.9 million in transaction sales while San Diego completed \$533.7 million in sales. **Primary Impact: Sales transactions and hotel valuations**
- 4. Cost Controls** — Labor related costs, which increased 3.1 percent in 2003, account for the largest percentage of all operating costs (at 45.3 percent) across the lodging industry. Furthermore, in 2003, workers compensation had a dramatic negative impact on bottom line profits. Workers compensation expenses for California business owners have almost tripled in the past five years. According to the California Chamber of Commerce, workers compensation expenses totaled \$21.3 billion for the state in 2003. In addition, despite deregulation of utility companies and increased conservation programs, hotel energy costs continued to rise by 5.9 percent in 2003. Hotel insurance costs have also more than doubled since 2000 due to the spike in insurance premiums after September 11, 2001. Nevertheless, as the economy improves, it is anticipated that ADR and occupancy growth will help hotels increase their profits by 14.3 percent in 2004. **Primary Impact: Profitability**

California Mid-Year Top 10 Thoughts

- 5. E-Distribution** — Coupled with the advancements in technology and the “lowest-rate” selling approach (now offered by many of the major national hotel brands), the Internet has become a growing medium for hotel bookings. It is reported that in 2003, hotel branded Websites accounted for 53 percent of total online bookings while intermediaries accounted for the remaining 47 percent. The transaction fee for booking a guestroom through company Websites is on average \$1.50 while the transaction fee for booking through intermediary’s Websites is about \$10.50. STR refers to the revenue loss from the hotel industry to the third party Websites as “revenue leakage.” It is predicted that in 2004, the hotel industry will have total sales of \$4.9 billion and total revenue leakage of \$1.3 billion. In an attempt to minimize revenue leakage, hotel companies have begun emphasizing internal marketing strategies, such as packaging room nights with property amenities and offering the lowest rate guarantee on its company Website. **Primary Impact: Average daily room rate, occupancy, and profitability**
- 6. Labor Issues** — At the end of June 2004, Los Angeles hotel workers unions announced that they are moving forward with contract negotiations despite resistance from national chains. Talks between Los Angeles area hotels, such as the Hyatt Regency, Westin Bonaventure, and Millennium Biltmore, and Hotel Employees and Restaurant Employees International Union (HERE) began in the first quarter of 2004, but discussions have hit an impasse as unions are hoping to improve their negotiating position. In order to gain a greater national force, the union is in favor of a new contract that will expire in 2006, which is currently the expiration year for its contracts in 10 other U.S. cities. The National Labor Relations Board has the final say on whether an official impasse exists between the hotel chains and the workers union. If an impasse is declared, the hotels will be allowed to impose the terms of their last contract proposal. The result of the new contract in place will affect 17 local hotel properties and 4,000 plus hotel workers. **Primary Impact: Profitability**

California Mid-Year Top 10 Thoughts

- 7. Indian Gaming** — After Proposition 1A took effect in March 2000, the Indian gaming industry experienced tremendous growth. According to *Los Angeles Daily News*, it is estimated that 56 of California's 107 federally recognized tribes earn a total of approximately \$8 billion per year from gaming, which is the largest source of revenue for the tribes. Throughout 2004, the government and the tribes have discussed potential agreements, which would allow the tribes to expand their gaming operations as long as they provide a percentage of their revenues to the state. On June 15, 2004, Governor Arnold Schwarzenegger vowed his opposition to two gaming initiatives on the November ballot which would provoke Nevada-scale casinos throughout California if either initiative was passed, and announced a new gaming agreement with four Indian tribes. Under this arrangement, the four tribes will make annual payments of about \$275 million, or roughly 15 percent of casino revenues. In addition, the tribes will provide the state with an immediate infusion of \$1 billion to help close California's budget deficit. **Primary Impact: Lodging demand and local economies**
- 8. Mixed-Use** — Mixed-use hotel projects have become increasingly popular as developers view such developments as a way to minimize risk and maximize returns. Experts believe that by integrating resources such as golf courses, restaurants, and swimming facilities between a hotel and a timeshare component, initial and ongoing costs become more manageable. Strong vacation ownership is also anticipated to soften low occupancies in a hotel during the off-season. Today, popular destinations for hotels with a timeshare component include areas surrounding golf courses, theme parks, resorts, and luxurious spas. Nevertheless, city planners and demographers are also noting the influx of older, working adults in urban areas. As more baby boomers become empty nesters, they are more likely than the previous generation to move to downtown locations from their suburban homes, thereby creating the downtown hotel/condominium trend such as the Omni in Downtown San Diego and the St. Regis in San Francisco. **Primary Impact: Profitability and hotel valuations**

California Mid-Year Top 10 Thoughts

- 9. Challenges for Economy Hotels** — Recovery for the economy hotel segment is anticipated to lag behind other segments in the hotel industry. Experts believe the lower end of the economic spectrum was hit comparatively harder with job losses, which created a problem for economy travelers. While it is forecast that in 2004 industry-wide lodging demand and supply will increase by 4.5 percent and 1.4 percent, respectively, the economy segment will only experience growth of 2.6 percent and 1.1 percent. The bulk of travel in the economy segment is derived from extended vacations via automobiles, and as gasoline prices tend to have a greater impact on the disposable income of economy hotel patrons, demand for room nights will likely decrease as gasoline prices increase. However, the effects of a languid economy segment may be softened by a decrease in supply, as some economy properties are downgraded to budget properties. **Primary Impact: Lodging demand and profitability**
- 10. Baby Boomers** — With low interest rates, weekend homes and partial ownership units have become the latest status symbol for middle-class America. According to the National Association of Realtors, 2003 set a record for the most second home sales ever at 445,000 homes or five percent to six percent of all home sales. As the median age in the United States becomes older, the pool of second-home buyers is getting larger. The California Department of Aging estimates that by 2010, baby boomers will represent 25 percent of the total population. A large majority of these baby boomers are in the market to purchase a second home before retirement as they see a limited supply of desirable vacation homes. Experts note trends of baby boomers purchasing real estate on the beachfront, in resort areas, and adjacent to golf courses. **Primary Impact: Lodging demand**

San Francisco Lodging Market Analysis

Ernst & Young's Digital Dashboard

San Francisco ADR and Occupancy		
	ADR	Occupancy
Jan-04	-4.2%	2.6%
Feb-04	-5.8%	8.2%
Mar-04	5.3%	19.3%
Apr-04	-2.4%	15.0%
May-04	2.2%	15.8%
Jun-04	4.0%	13.0%
YTD	0.1%	12.7%
2004 E	-1.5%	6.0%

Source: Smith Travel Research, Ernst & Young LLP

Year-to-date planned additions to lodging supply:

Property	Location	# of Units	Project Phase
Four Seasons Hotel	East Palo Alto	200	Underway
Hotel Vitale	San Francisco	200	Underway
Intercontinental Hotel	San Francisco	554	Final Planning
St. Regis Museum Towers	San Francisco	269	Underway

Year-to-date transactions:

Property	Location	Sales Price (: Buyer
Continental Lodge	San Francisco	\$12.1 M Heritage Marina LLC
Holiday Inn San Francisco	San Francisco	NAV Lotus Hospitality, Incorporated
Shannon Court Hotel	San Francisco	\$23.9 M Hardin Capital LLC
St. Moritz Hotel	San Francisco	\$4.0 M 180-190 O'Farell St LLC
The Pan Pacific	San Francisco	\$45.0 M Oxford Investment Group LLC

Source: McGraw Hill Construction, HVS, Ernst & Young LLP

- After years of experiencing economic downturn, the economic conditions in San Francisco are beginning to recover. During the first half of 2004, the city's unemployment rate steadily decreased and reached its year-low of 5.5 percent in May. According to the California Employment Development Department, San Francisco's unemployment rate is declining at a greater rate than the State's overall unemployment rate, which was 5.8 percent in May. In addition, GDP in San Francisco grew a strong 4.4 percent in the first quarter of 2004, which brings the average growth to 5 percent for the last four quarters.
- Enthusiastic entrepreneurs are optimistic that Silicon Valley is in the process of a major comeback while more tempered views believe the region remains in a delicate state. Many anticipate the area may experience a technological rebound within the next 18 months, which they are calling "Web 2.0." The success of Google, the modest increase in computer sales, and the investments in risky technology start-ups provide a modest basis for optimism. However, at the same time, the area's high office vacancy rate (17.6 percent) still provides reason for caution.
- The San Francisco International Airport noted a 12.5 percent increase in passengers for March, compared to the corresponding period the previous year. Oakland International Airport and Mineta San Jose International Airport experienced a 7.9 percent and 7.4 percent increase in travel for March, respectively. The lodging market is reporting growth from domestic markets, such as New York and Chicago, and international markets, specifically Japan and Western Europe.

San Francisco Lodging Market Analysis

- San Francisco's commercial real estate market weakened alongside the national recession and the dot-com bust of the past few years. Class A buildings throughout the city are experiencing vacancy rates near 20-year highs. During the height of the dot-com boom four years ago, vacancy rates were below 1 percent; currently, vacancy rates are close to 20 percent, with approximately 16 million square feet of vacant office space. Furthermore, many technology corporations are relocating jobs to Asia; the relocation of jobs overseas may potentially prolong the weak demand for office space throughout the Bay Area.
- According to the San Francisco Convention and Visitors Bureau (SFCVB), the completion of the Moscone Convention Center West in June 2003 has increased the number of visitors and scheduled events in the Bay Area. The convention center in the Bay area includes over two million square feet of building space and 106 meeting rooms. The Bureau reports that, as of April 2004, approximately 860,000 hotel room nights were booked for 2004, a 4 percent increase over last year. Experts believe that while city hotels have begun to see a rise in the number of rooms booked, it takes several years for a large convention center expansion to make a significant difference on a market's average occupancy level.
- At the end of the second quarter in 2004, SFCVB launched its new marketing and branding campaign titled, "Only in San Francisco" in an effort to enhance the city's tourism industry. Businesses such as local magazines, television and radio stations, outdoor media companies, and San Francisco International Airport have committed more than \$1.2 million in local advertising space and time to the new campaign. "Only in San Francisco" extends beyond traditional advertising to include unique tour packages, "Only in San Francisco, Only with Visa" offers, exclusive deals with See's Candies, and "Wish You Were Here" sweepstakes.
- During the second half of 2004, Governor Arnold Schwarzenegger and the Lytton Indian tribe are anticipated to announce a deal that could potentially bring Indian gaming to the heart of the Bay Area. Lytton is in the process of converting a card club to an urban casino in San Pablo. Currently, there are no urban casinos in California.
- Construction for the St. Regis Museum Tower is scheduled to be completed by fall 2004. This mixed-use project will include the St. Regis Hotel with 269 guestrooms, 102 luxury condominiums, the three-story Museum of African Diaspora, and four levels of garage parking.
- The Port of San Francisco announced that construction has begun on the International Cruise and Bryant Street Pier Project. This \$400 million mixed-use project will feature a state of the art international cruise terminal facility, luxury residential condominiums, office and retail commercial developments, and a waterfront park known as Brannan Street Wharf Park. Construction is slated for completion in late 2006.

Los Angeles Lodging Market Analysis

Ernst & Young's Digital Dashboard

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Source: Smith Travel Research, Ernst & Young LLP

Year-to-date planned additions to lodging supply:

Property	Location	# of Units	Project Phase
Montage Hotel and Public Gardens	Beverly Hills	258	Underway
Embassy Suites Hotel	Glendale	277	Underway
W Hotel	Hollywood	300	Planning
Embassy Suites at the D'Orsay Promer	Long Beach	230	Planning
Long Beach Airport Marriott Hotel	Long Beach	105	Planning
Downtown L.A. Convention Hotel	Los Angeles	1,200	Pre-Planning
Long Point Resort	Rancho Palos Verdes	400	Planning
Hilton Hotel	San Gabriel	222	Underway
W Hotel	West Hollywood	165	Planning
Marriott Hotel	West Hollywood	135	Planning

Year-to-date transactions:

Property	Location	Sales Price (\$ Buyer)	Buyer
Beverly Hills Hilton	Beverly Hills	\$130.0 M	Oasis West Realty LLC
Beverly Hills Reeves Hotel	Beverly Hills	\$3.8 M	8706 Parthenia Place LLC
Renaissance Hollywood Hotel	Hollywood	NAV	CIM Group
Hilton Long Beach	Long Beach	\$40.5 M	AEW Capital Management LP
Econo Lodge Wilshire/los Angeles	Los Angeles	\$5.9 M	Wilshire Econolodge
Los Angeles Airport Marriott	Los Angeles	\$100.0 M	NAV
Hilton Pasadena	Pasadena	\$43.0 M	Interstate Hotels and Resorts
Sheraton Universal Hotel	Universal City	\$49.0 M	Walton Street Capital
The Argyle Hotel	West Hollywood	\$18.5 M	Jeffrey Klein

Source: McGraw Hill Construction, HVS, Ernst & Young LLP

- According to Los Angeles County Economic Development Corporation (LAEDC), Southern California's economy will continue to gain momentum through 2005. Despite increasing gas prices, tourism in Southern California is also anticipated to improve through 2005. During the first half of 2004, occupancy and ADR reached 71.9 percent and \$95.91, respectively, which is a 9.1 and 4.4 percent increase over the same period last year. Furthermore, local theme parks added a total of six new rides, which is likely to attract additional family travelers.
- According to LAEDC, the international trade industry is poised to experience a 14.9 percent increase in two-way international trade through California's three customer districts—San Francisco, Los Angeles, and San Diego. It is estimated that the industry will reach a record high of \$402.4 billion in 2004. Furthermore, Los Angeles Customer District is anticipated to reach a record high of \$270.1 billion in 2004.
- Los Angeles, however, is vulnerable to a growing emigration of movie and television productions to other states or overseas, attracted by tax breaks, financing, and other incentives. Experts predict Los Angeles County will lose 1,500 jobs in the entertainment industry by year-end.
- The Los Angeles Visitors Bureau states that there has been major growth in the leisure segment of travel. There was a 3.2 percent increase in leisure travel this summer with an emphasis on short, close-to-home trips. San Diego, San Francisco, and Arizona are primary markets for domestic travel. According to the American Automobile Association, about 80 percent of the Los Angeles area residents drove more than 50 miles away for Memorial Day weekend, which is a 3 percent increase from last year.

Los Angeles Lodging Market Analysis

- Los Angeles World Airports (“LAWA”) anticipates significant increases in domestic and international passenger volume throughout the remainder of 2004. LAX is on its way to achieve its goal of handling 60.4 million passengers this year – a goal that would represent an approximately 10 percent increase over 2003. As of the end of July, traffic at the airport had increased approximately 11.5 percent year-to-date over the same period last year. Additionally, the Los Angeles Visitors Bureau and LAWA report that over 5.9 million passengers traveled to and from LAX for the month of July, representing an increase of approximately 11 percent over the same period last year, and representing the highest monthly volume for LAX since August 2001. Hotel executives state that European travelers are slowly returning and that there is a new emergence of Australian and African travelers in 2004. The boost in travel this summer is accredited to improved airline service and economic conditions.
- At the end of the second quarter in 2004, Anschutz Entertainment Group (AEG) announced its purchase of Fox Entertainment Group’s 40 percent share in the Staples Center complex. After being financially hindered for years, AEG may be poised to begin the \$1 billion construction project, called L.A. Live, on 28 acres surrounding Staples Center. The four million square foot center is anticipated to house a 1,200-room convention hotel, a W hotel, 500 luxury condominiums, a 7,000-seat theater, anchoring shops and restaurants, and business offices. The proposed convention hotel located six blocks away from Staples Center will be the third-largest hotel in the county and will help to generate business at the Los Angeles Convention Center, as experts state that the proposed complex could attract up to 13.5 million visitors annually. It has been reported that financial plans have not been finalized as developers are asking Los Angeles City for financial assistance of roughly \$120 million to help launch the mixed-use project.
- At the end of 2003, Oasis West Reality LLC purchased the Beverly Hilton with plans to revive the hotel by undergoing an extensive restoration plan. This plan, which is estimated to cost between \$40 million and \$60 million, includes renovating guestrooms, lobby, pool area, meeting facilities, food and beverage outlets, and technology in both guestrooms and public space.
- In April, the Beverly Hills Planning Commission approved plans for the city’s first luxury hotel project since 1991. This \$200 million project, Montage Hotel Beverly Hills and Public Gardens, was proposed by the Athens Group and will be managed by Montage Hotels and Resorts. The project will include a 228-room hotel, a 25,000 square-foot retail floor, a 20,000 square-foot health spa, 25 condominiums, and three gardens which will be open to the general public. A group of residents and merchants recently formed the Campaign to Save Beverly Hills, an initiative to put the approval of the hotel project on the city’s March 8, 2005 ballot.

Anaheim/Orange County Lodging Market Analysis

Ernst & Young's Digital Dashboard

Anaheim ADR and Occupancy		
	ADR	Occupancy
Jan-04	0.7%	7.8%
Feb-04	5.2%	10.8%
Mar-04	4.1%	11.0%
Apr-04	4.0%	6.9%
May-04	4.8%	6.2%
Jun-04	4.7%	5.0%
YTD	3.7%	7.9%
2004 E	2.0%	3.9%

Source: Smith Travel Research, Ernst & Young LLP

Year-to-date planned additions to lodging supply:

Property	Location	# of Units	Project Phase
Summit at Aliso Viejo	Aliso Viejo	NAV	Planning
Anaheim Garden Walk	Anaheim	1,050	Final Planning
Doubletree Hotel	Anaheim	NAV	Planning
Mandarin Oriental	Costa Mesa	NAV	Pre-Planning
Ritz-Carlton at Park Place	Irvine	308	Planning
Pelican Inn	Newport Coast	NAV	Planning

Year-to-date transactions:

Property	Location	Sales Price (\$M)	Buyer
Anaheim Vagabond Executive Inn	Anaheim	\$3.8 M	RLK Hospitality Inc.
Days Inn Anaheim, Disneyland Park	Anaheim	\$5.9 M	MM Sang Do & Mikyung

Source: McGraw Hill Construction, HVS, Ernst & Young LLP

- In 2004, John Wayne Airport demonstrated a strong increase in the number of passengers. With the overall passenger capacity increasing from 8.4 million to 10.3 million, the airport's passenger count was up 14 percent in the first quarter. During the last quarter of 2003, John Wayne added airlines, such as Frontier Airlines Inc. and Aloha Air Group Inc. In fall of 2004, a \$567,000 expansion for commuter gates is slated for completion.
- Hotels and the Orange County Visitors Bureau have seen a more defined demand for drive-to travel after September 11, 2001. Major markets visiting Orange County include Los Angeles, San Diego, Arizona, Nevada, and Utah. Nevertheless, international travel to Orange County is still lagging. The Orange County Visitors Bureau estimates international travel to be about 6 percent for 2004, trailing behind its 15 percent peak in the late 1980s.
- In order to reduce costs to offset the state's budget deficit, Orange County is looking to reduce the overall budget for the 2004 fiscal year. While the Tourism Council received \$575,000 in 2003-2004, 23 percent less than the previous year, the current proposal under consideration would eliminate all funding for the agency. This change may potentially set back tourism levels as surrounding areas, such as Las Vegas and Arizona, are actively increasing their tourism and marketing budgets. In 2003, 42 million people visited Orange County and spent approximately \$6.8 billion.

Anaheim/Orange County Lodging Market Analysis

- The amusement park industry in Orange County is poised to bring additional leisure travel beginning in the summer of 2004 and throughout 2005. As Disneyland prepares for its 50th anniversary in 2005, it is introducing a Disney Magic cruise ship to travel the West Coast on a 12-week run of cruises to Mexico between May and August. Having three theme parks (including California Adventure and Knott's Berry Farm) within a 10-mile radius boosts Orange County's efforts to lengthen the stay of leisure travelers. With Disneyland's anniversary celebration, it is anticipated that leisure travel will increase by 3.2 percent and spending will increase by 4.4 percent in 2004, according to TIA.
- The Disneyland Resort Hotels are undergoing renovations in order to prepare for the upswing in both business and leisure travel. The Paradise Pier Hotel is concentrating on theme guestrooms, interior corridors, and its lobby in order to generate a sense of excitement among visitors. The remodeling of the guest rooms allows for five people to be accommodated in each room. Renovations for the grand ballroom and the exhibit hall at the Disneyland Hotel are scheduled to begin this summer. High-speed Internet access in guestrooms and WiFi in public areas is scheduled to be ready for all Disney Hotels by the end of 2004.
- Competition among luxury resorts along the coastline is anticipated to increase as new hotel developments surface throughout Orange County. Pelican Hill Inn in Newport Coast and Summit at Aliso Viejo are planned to break ground in 2004. Recently, a 400-room boutique hotel in Huntington Beach received approval for development from the City Council while Montage Resort and Spa in Laguna Beach purchased the nearby Aliso Creek Inn. C.J. Segerstrom and Son are planning a mixed-use development, including a Mandarin Oriental Hotel, to be located across from the South Coast Plaza. The Ritz-Carlton Laguna Niguel and Hyatt Newporter are undergoing major renovations of \$30 million and \$10 million, respectively, in order to effectively compete with the growing supply of first class hotels in Orange County.
- In an effort to evolve with the changing taste of consumers, J.H. Snyder Co. and Ezralow Co. are redeveloping a 40-year old enclosed mall in Huntington Beach as an open-air shopping center to be completed in 2005. The Tuscan theme shopping center, renamed Bella Terra, is located 15 miles southwest of Disneyland and is estimated to cost \$170 million. In early 2003, the mall was mostly vacant; however, nearly 90% of the 780,000 square-foot center has been leased by 71 retailers and a 20-screen movie theater.

San Diego Lodging Market Analysis

Ernst & Young's Digital Dashboard

San Diego ADR and Occupancy		
	ADR	Occupancy
Jan-04	-16.3%	2.2%
Feb-04	1.1%	2.6%
Mar-04	-0.1%	6.4%
Apr-04	4.5%	12.6%
May-04	3.5%	5.5%
Jun-04	6.9%	4.1%
YTD	-0.3%	5.6%
2004 E	2.0%	2.5%

Source: Smith Travel Research, Ernst & Young LLP

Year-to-date planned additions to lodging supply:

Property	Location	# of Units	Project Phase
Golden Acorn Casino Hotel	Campo	NAV	Planning
Boardwalk Hotel/Condominium	Oceanside	91	Planning
Hard Rock Hotel	San Diego	250	Planning
Hilton San Diego Convention Hotel	San Diego	1,200	Pre-Planning
Hotel Solamar	San Diego	235	Underway
Marriott Renaissance	San Diego	344	Planning
Spinnaker Hotel	San Diego	250	Planning
Intercontinental Hotel	San Diego	450	Pre-Planning
Solana Gateway Hotel/Condominium	Solana Beach	80	Planning

Year-to-date transactions:

Property	Location	Sales Price (\$M)	Buyer
Ocean Palms Beach Resort	Carlsbad	\$6.0 M	Carlsbad Beach Partners
Best Western Marty's Valley Inn	Oceanside	\$5.8 M	Hansa and Mike Lad, San Diego
Cole Block Building	San Diego	\$4.7 M	M/M Bruce & Fatemeh Sahba
Howard Johnson Inn, Sea World	San Diego	\$7.5 M	Pinnacle Hotels USA
Surf & Sand Motel	San Diego	\$3.7 M	Michael E. Turk

Source: McGraw Hill Construction, HVS, Ernst & Young LLP

- San Diego continues to rank as the top performing lodging market in California and one of the top markets in the United States. San Diego's significant growth in room demand has led to the increase in room supply. In 2003, San Diego County added 2,402 guestrooms, far outpacing the rest of California's hotel room construction. The Grand Hyatt San Diego contributed 750 rooms after its expansion was completed in 2003. Also, with the growth of Indian gaming and the opening of Pala Resort and Barona Casino Hotel in 2003, another 900 guestrooms were added to San Diego's room supply. According to Atlas Hospitality Group, 55 more projects are in the pipeline and would add another 11,797 guest rooms in the near future.
- With Biogen Idec Inc.'s pharmaceutical factory slated to open in Oceanside in 2005, it is anticipated that a new supply of manufacturing jobs in San Diego County will emerge. The \$380 million factory will be the sixth-largest in the world and will house approximately 800 employees. The number of biotech jobs has increased with pharmaceutical companies in line to gain FDA approval on new products. However, California's biotech industry may be threatened by foreign competition, especially from Asia. Manufacturing costs are 30 percent to 40 percent lower in Singapore and 80 percent lower in Korea than in the United States. Since 2000, San Diego has lost 14 percent of manufacturing jobs due to the trend of outsourcing to foreign markets.

San Diego Lodging Market Analysis

- San Diego Convention and Visitors Bureau (ConVis) and its surrounding hotels have seen a significant increase in the number of leisure travelers. Hotels are seeing both drive-in travel from locations such as Los Angeles, San Francisco, and Arizona as well as travel from the midwest and the east coast. Hotel executives say residents from Florida, Texas, and the New England areas are making their way to San Diego for extended periods of time to participate in summer events such as the Del Mar Races. While domestic travel is on the rise, ConVis estimates that international visitors will account for only 4 percent of San Diego's total visitation in 2004. After British Airways discontinued its direct flights to San Diego in Spring 2003, Mexico is the only international market that serves San Diego International Airport. International travel in San Diego County is hindered due to the county's lack of an international hub.
- ConVis unveiled its latest advertising campaign, "Good Vibes," in 2004. The campaign is designed to target a new audience of visitors, which mainly includes couples without children, Gen-Xers, and Gen-Yers. The campaign's creative elements include collages that capture parts of San Diego's iconic beach culture and outdoor activities. Good Vibes is set to attract the urban enthusiasts to the downtown area, which is undergoing massive construction. ConVis reports that the downtown area is undergoing \$3 billion in construction, including the renovation and expansion of the Gaslamp District, while the Convention Center is set to expand its convention space to 1.9 million square feet.
- Downtown San Diego continues to thrive with attractions such as PETCO Park, the new home of the San Diego Padres, which opened in April 2004. The 42,000-seat baseball stadium is adjacent to the historic Gaslamp Quarter and is directly across from the San Diego Convention Center. PETCO Park is anticipated to stimulate office and retail space development as well as residential housing units.
- La Costa Resort and Spa in Carlsbad is nearing completion of its \$140 million renovation, which will include a new \$12 million spa and two restored PGA Championship 18-hole golf courses designed by Dick Wilson. The property will also be constructing 197 villas, slated to begin in August. KSL-CNL, the owners of the resort, also have a 126-unit boutique property in development, which is only one mile away in the city of Encinitas. Preliminary construction has begun, but it is estimated that the hotel will not be completed until 2006 or 2007.
- American Property Management Corporate is planning to break ground on a \$100 million five star hotel in September 2004. The 250-suite Spinnaker Hotel, shaped like a sailboat, is located on a parcel of land adjacent to the San Diego Convention Center and west of the San Diego Promenade. Each guestroom is designed to have unobstructed views of the water as well as five-star guestroom fixtures. Currently, American Property Management is working with Carlson Hotels Worldwide to brand the property as a Regent Hotel.

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