

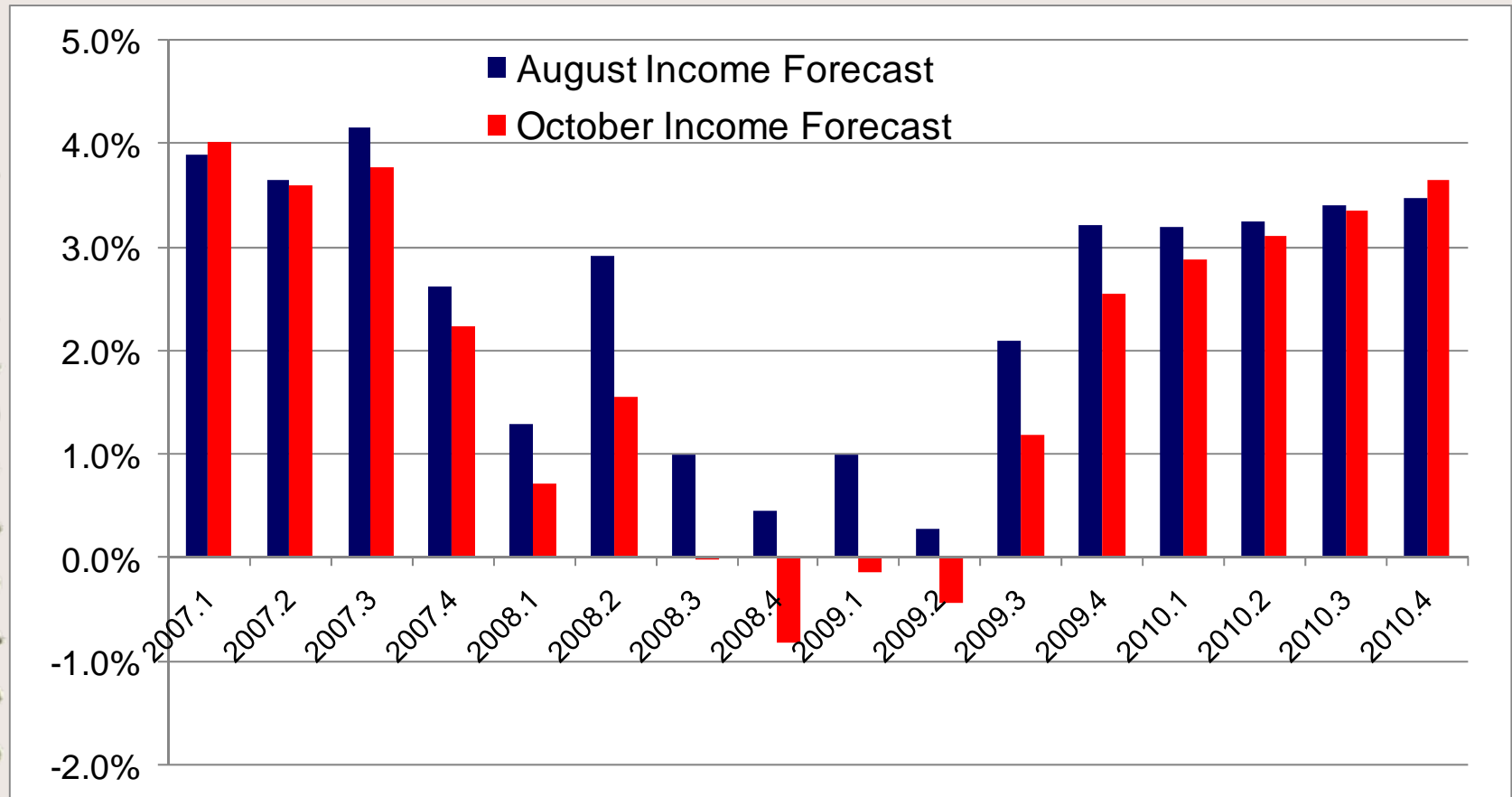
# U.S. & Santa Barbara Lodging December 2008



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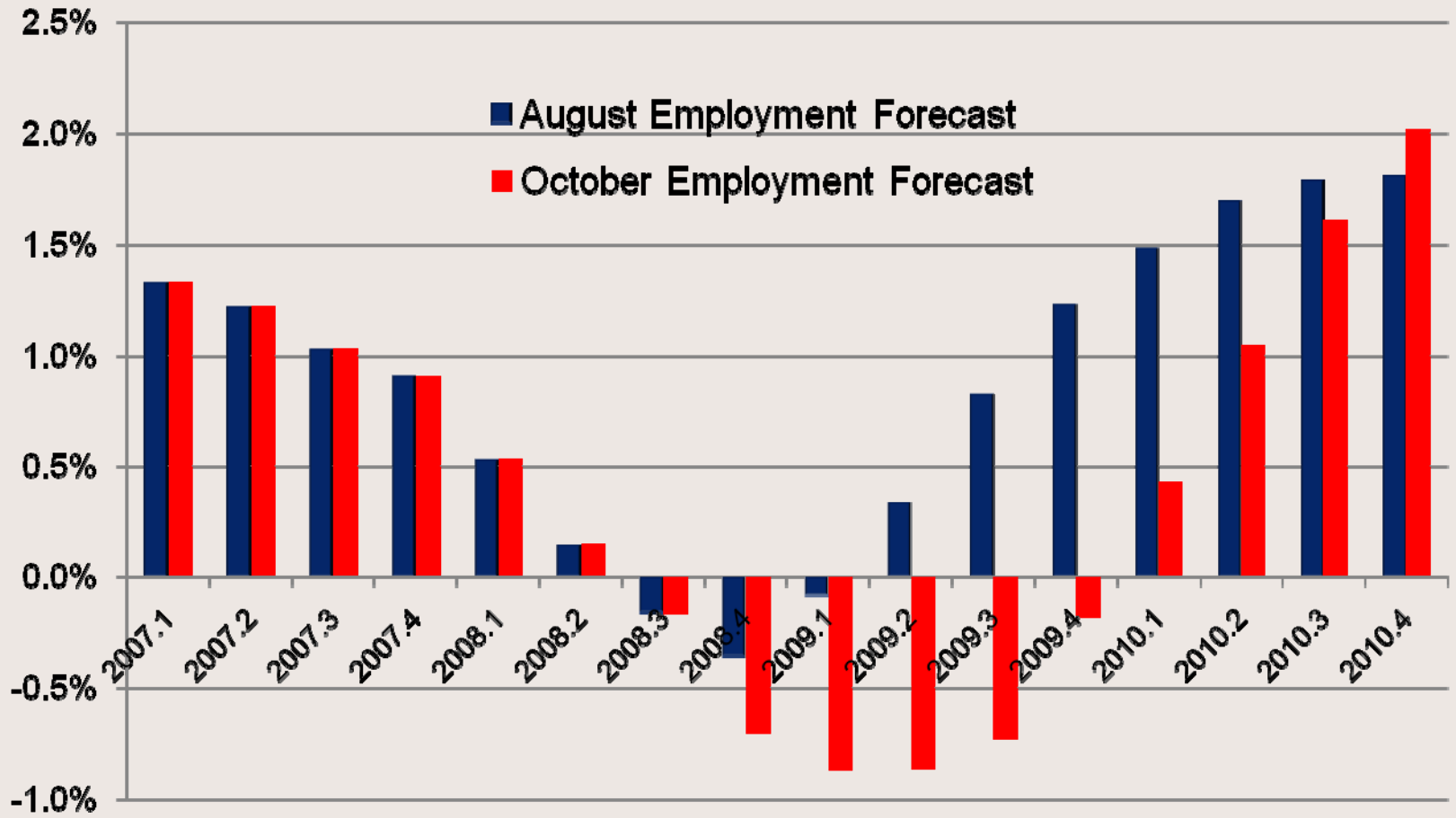
12-03-08

# Four Quarters of Income Declines Recovery Surfaces in Q3 2009



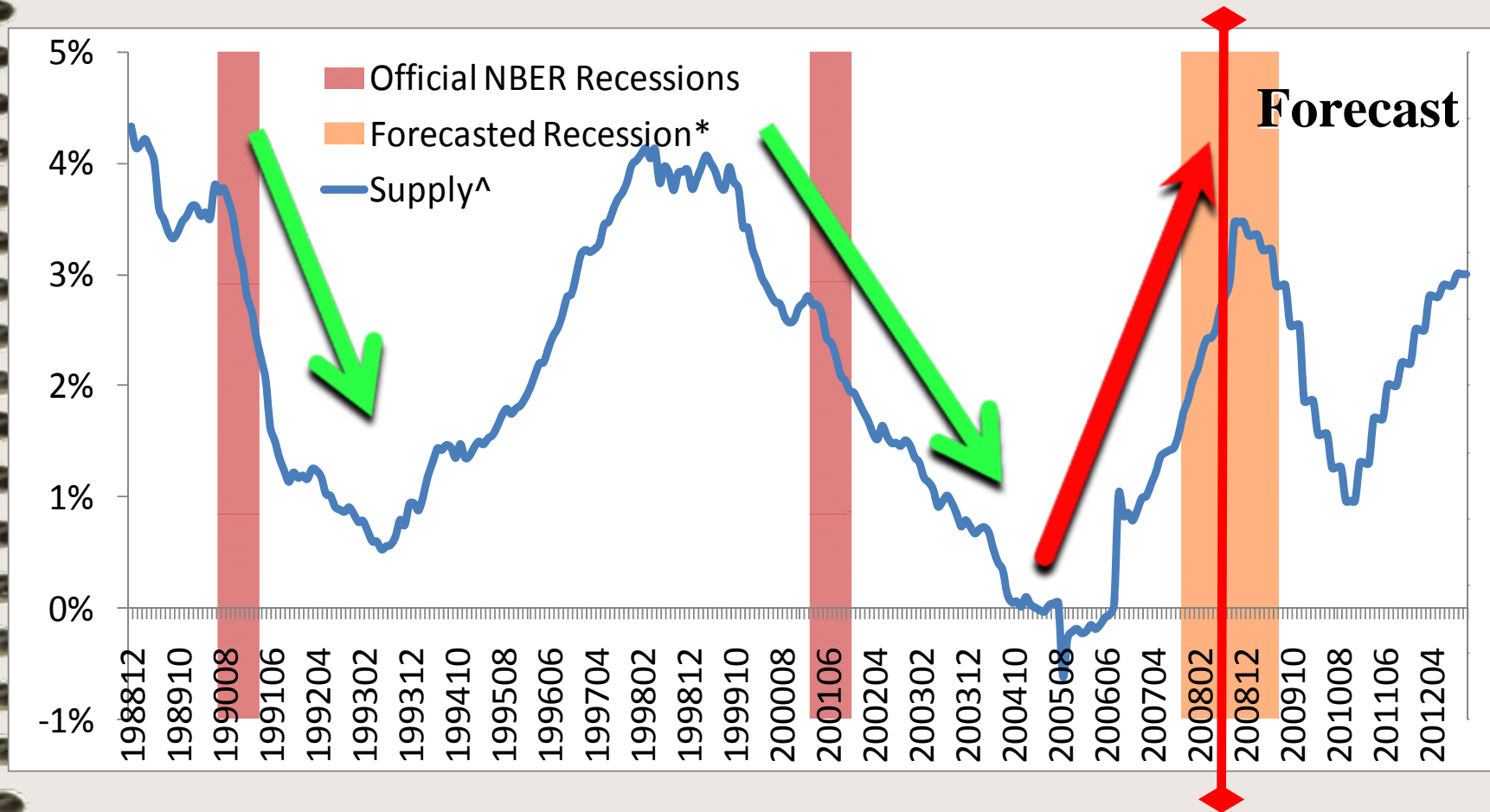
Source: Moody's Economy.com

# Six Quarters of Net Job Losses Lead a More Modest Recovery in 2010



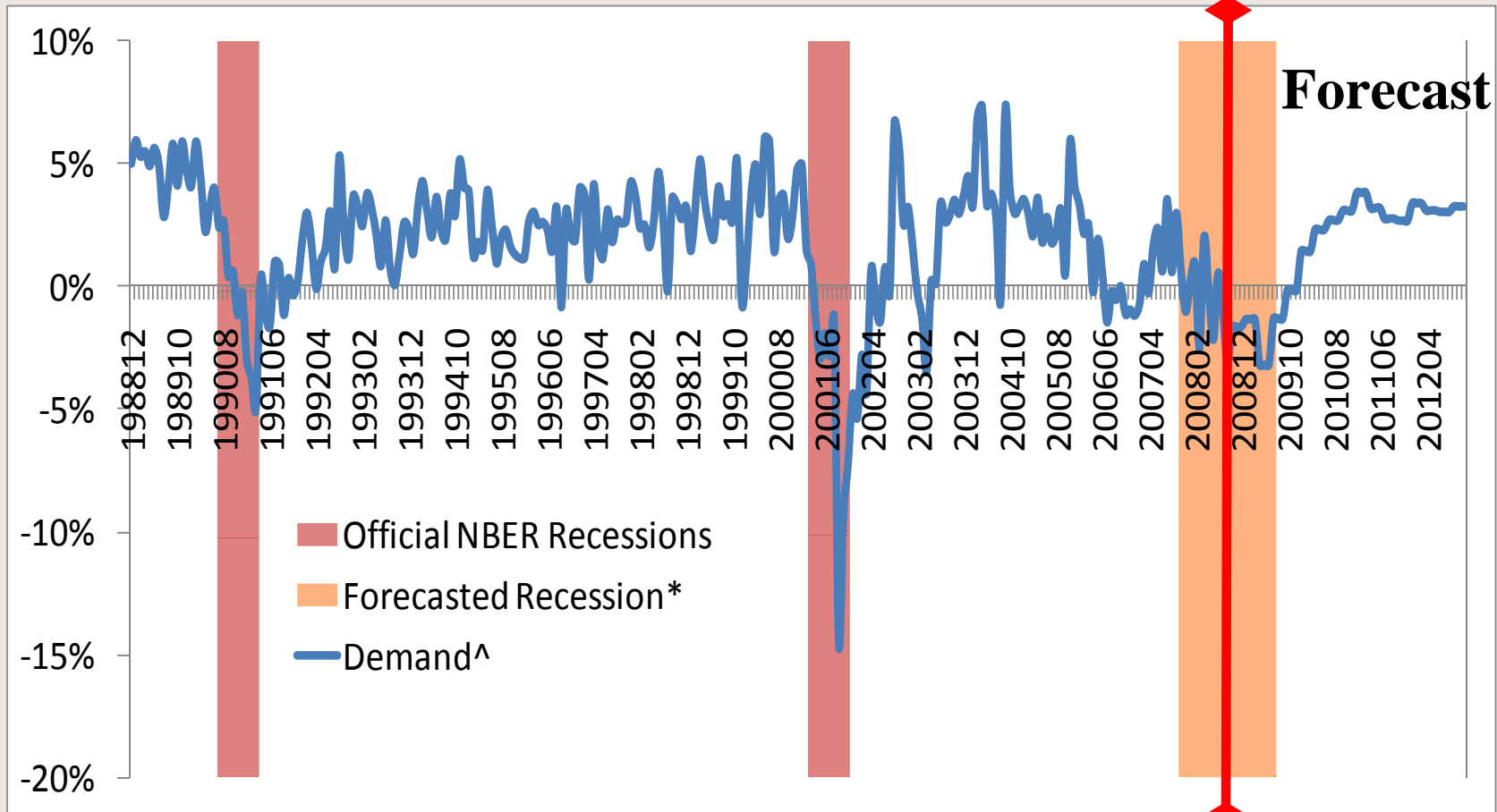
Source: Moody's Economy.com

# Hotel Supply Leads Recession, Lags Recovery



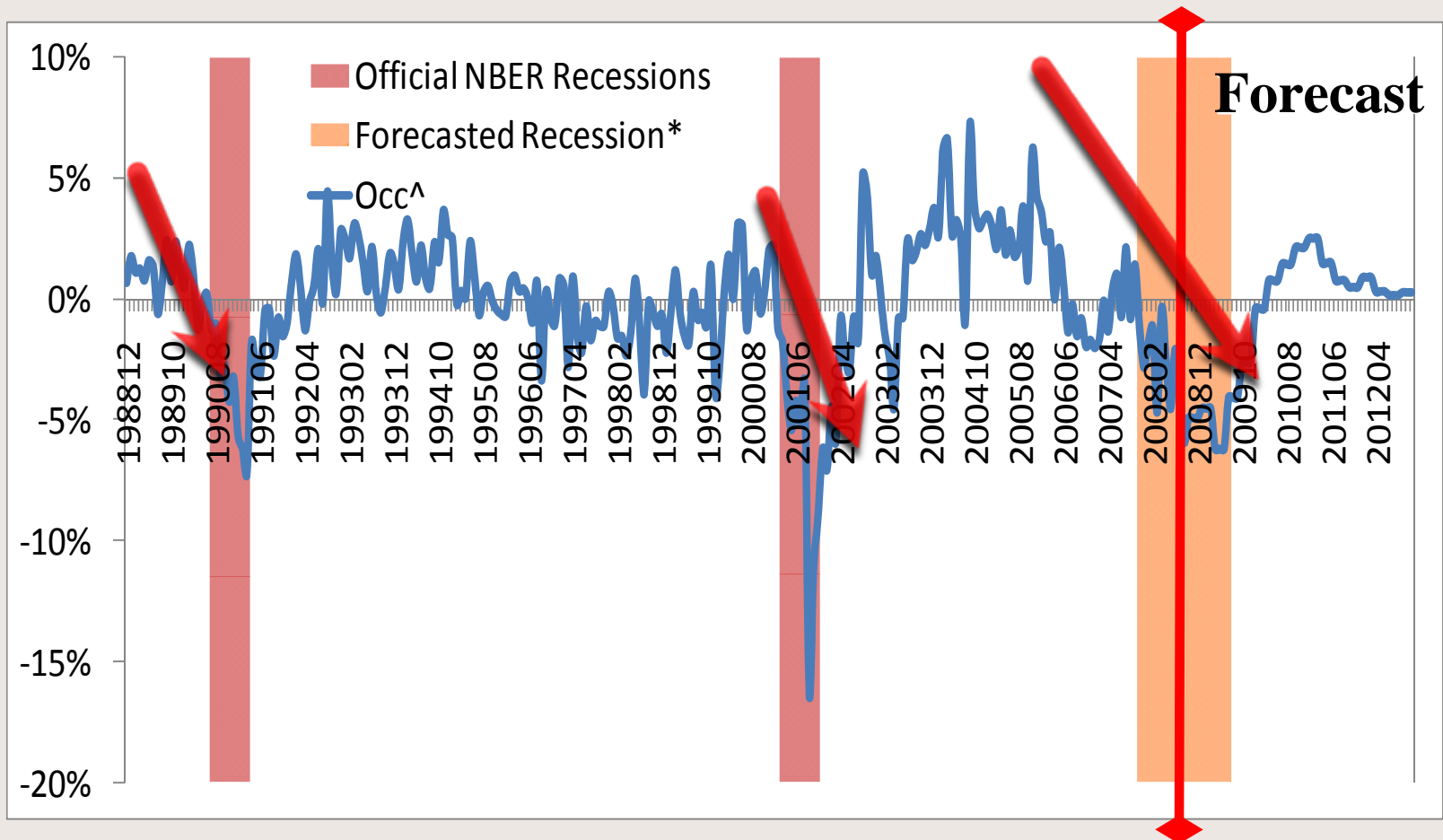
Sources: PKF-HR; STR;\* Forecast by Economy.com, recession dating algorithm by David Leamer, UCLA, July 28, 2008

# Hotel Demand Leads Recession, Lags Recovery



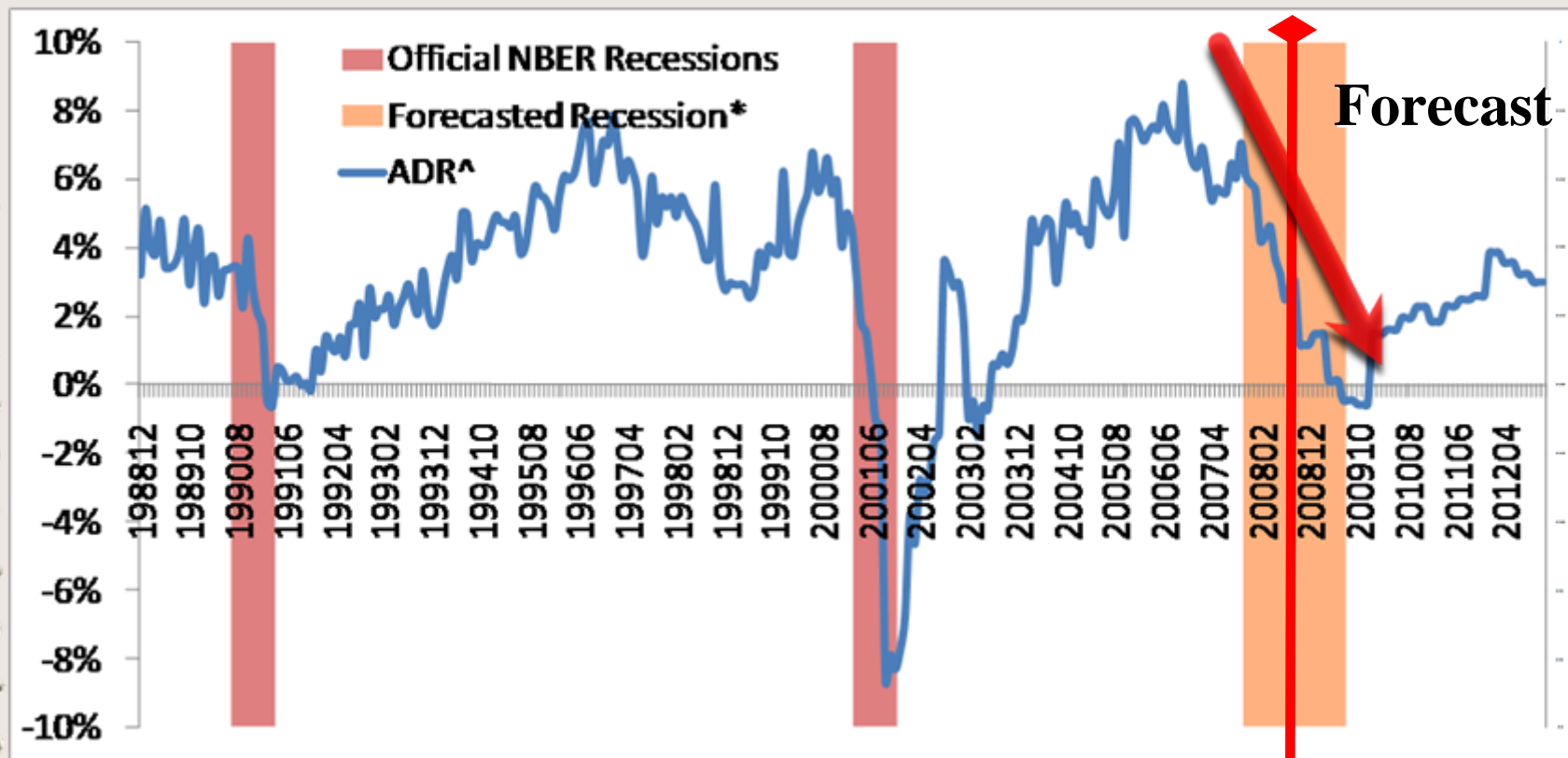
Sources: PKF-HR; STR;\* Forecast by Economy.com, recession dating algorithm by David Leamer, UCLA, July 28, 2008

# Occupancy ↓ Leads Recession, ↑ Lags this Recovery



Sources: PKF-HR; STR;\* Forecast by Economy.com, recession dating algorithm by David Leamer, UCLA, July 28, 2008

# ADR will Lag this Recovery



Sources: PKF-HR; STR;\* Forecast by Economy.com, recession dating algorithm by David Leamer, UCLA, July 28, 2008

# ADR Growth Slows

Supply Up – Demand Down: RevPAR Declines in '09

2009 = the Low Point Going Forward

○ = Above Long Run Average

|           | Long Term Average | 2004  | 2005  | 2006  | 2007  | 2008F | 2009F | 2010F |
|-----------|-------------------|-------|-------|-------|-------|-------|-------|-------|
| Supply    | 1.9%              | 0.4%  | -0.1% | 0.2%  | 1.3%  | 2.6%  | 3.0   | 1.4%  |
| Demand    | 1.9%              | 4.0%  | 2.8%  | 0.5%  | 1.0%  | -0.8% | -1.5% | 2.5%  |
| Occupancy | 62.8%             | 61.3% | 63.1% | 63.3% | 63.1% | 61.0% | 58.3% | 58.9% |
| ADR       | 3.5%              | 4.2%  | 5.5%  | 7.5%  | 6.0%  | 3.2%  | 0.1%  | 1.8%  |
| RevPAR    | 3.5%              | 7.9%  | 8.5%  | 7.8%  | 5.7%  | -0.2% | -4.3% | 2.8%  |

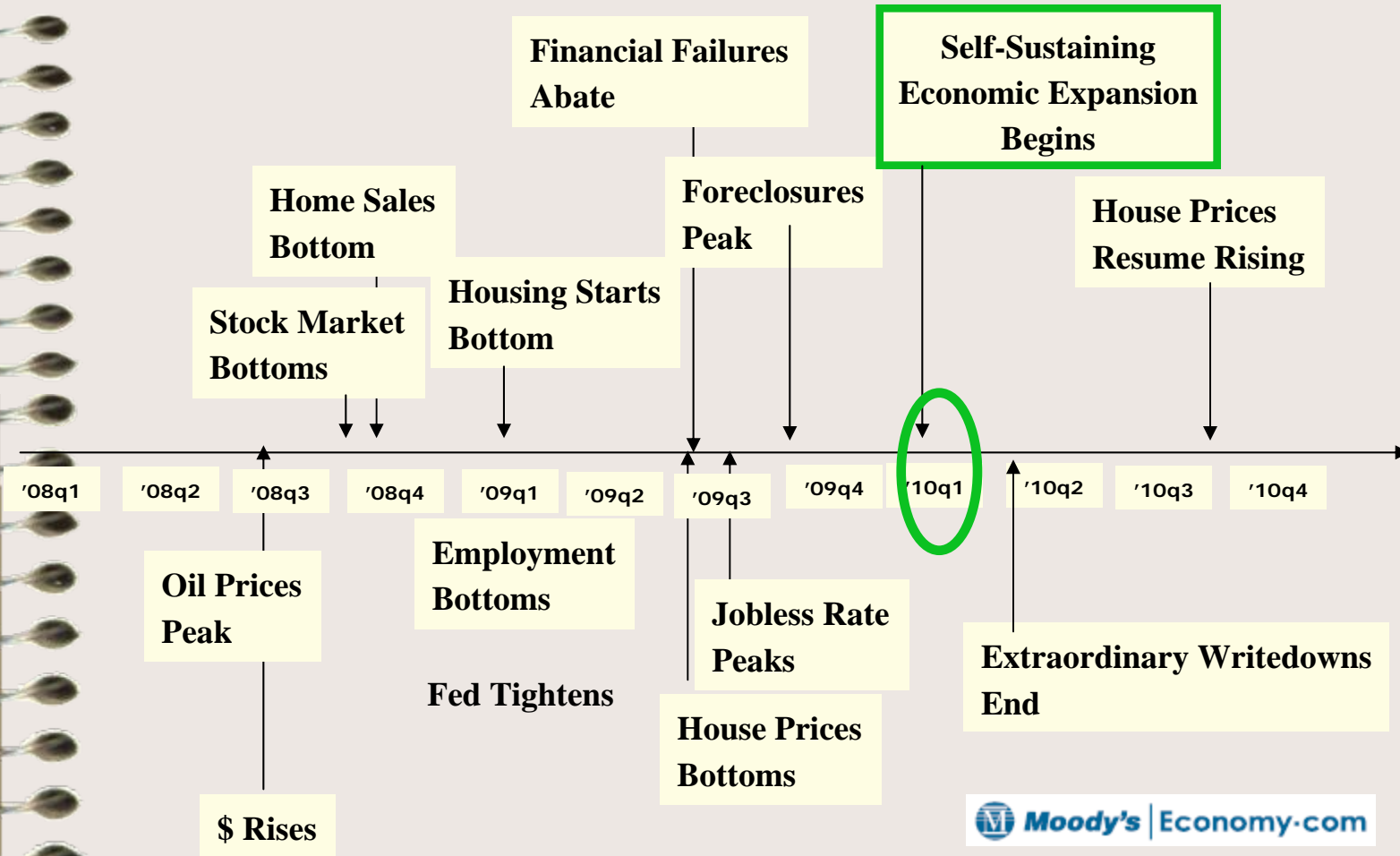
Source: PKF Hospitality Research - Third Quarter 2008 Hotel Horizons<sup>SM</sup> Report, Smith Travel Research

# Something to Take Away

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- ✓ U.S. Economy in a Recession
  - ✓ Hotels were holding up well until the 4<sup>th</sup> quarter of this year
- ✓ Double Demand Dip This Cycle is Unique:
  - (1) High ADR's (2) Weak Economy
- ✓ Trough of Current Downturn is Q3 2009
- ✓ Supply/Demand Imbalance Will Drag Rate Growth
  - ✓ Slow Recovery Starts in 2010
- ✓ Profits to Decline this Year and Next

# A Timeline to Recovery



Moody's | Economy.com

# Southern California Executive Summary

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- Most markets flat or down slightly through August 2008
- September, October, and November 2008 are significantly down
- Continued limit in supply growth due to high construction costs, barriers to entry, and economic uncertainty
- Year-end 2008 Decrease in occupancy of 2 to 4 percent in many markets. ADR growth of 1 to 3 percent.
- RevPAR growth in 2008 is in the -4 to +1% range
- Expect weakening occupancy levels and flat or minimal ADR growth in 2009 of 0 to 2%, with the possibility of rate declines
- RevPAR growth in 2009 is in the -5 to 0% range
- Prepare for continued decline through year end 2009

# Santa Barbara County

| Santa Barbara County                                    |         |         |           |            |         |        |         |
|---------------------------------------------------------|---------|---------|-----------|------------|---------|--------|---------|
| Historical Market Performance of the Competitive Supply |         |         |           |            |         |        |         |
|                                                         | Percent | Percent | Market    | Average    | Percent |        | Percent |
| Year                                                    | Change  | Change  | Occupancy | Daily Rate | Change  | REVPAR | Change  |
| 2007                                                    | -0.1%   | -0.5%   | 71.4%     | 184.24     | 8.1%    | 131.46 | 7.6%    |
| 2008 Est.                                               | 2.7%    | 0.5%    | 69.8%     | 188.82     | 2.5%    | 131.76 | 0.2%    |
| 2009 F                                                  | 2.0%    | -0.4%   | 68.1%     | 190.16     | 0.7%    | 129.55 | -1.7%   |

- Primarily a leisure destination, some group & corporate
- Drive destination from most points in California (especially L.A. region)
- Higher gas prices affect regional drive travel
- Significant renovations completed at higher-end properties and new supply ramping well
- High barriers to new hotel development, various projects still in the pipeline
- Nominal decrease in occupancy with minimal ADR increases

# Santa Barbara Sub-Markets

| <b>Beach Resort</b>                                            |                |                |                  |                    |                |        |                |
|----------------------------------------------------------------|----------------|----------------|------------------|--------------------|----------------|--------|----------------|
| <b>Historical Market Performance of the Competitive Supply</b> |                |                |                  |                    |                |        |                |
| Year                                                           | Percent Change | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2007                                                           | 2.7%           | 3.2%           | 70.3%            | 261.01             | 7.5%           | 183.45 | 8.0%           |
| 2008 Est.                                                      | 0.0%           | -0.7%          | 69.8%            | 268.31             | 2.8%           | 187.25 | 2.1%           |
| 2009 F                                                         | 0.0%           | -1.0%          | 69.1%            | 272.33             | 1.5%           | 188.16 | 0.5%           |

| <b>Santa Barbara Town</b>                                      |                |                |                  |                    |                |        |                |
|----------------------------------------------------------------|----------------|----------------|------------------|--------------------|----------------|--------|----------------|
| <b>Historical Market Performance of the Competitive Supply</b> |                |                |                  |                    |                |        |                |
| Year                                                           | Percent Change | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2007                                                           | -9.3%          | -7.3%          | 78.3%            | 152.46             | 3.1%           | 119.33 | 5.4%           |
| 2008 Est.                                                      | 2.5%           | -3.0%          | 74.1%            | 160.75             | 5.4%           | 119.17 | -0.1%          |
| 2009 F                                                         | 0.0%           | -2.0%          | 72.6%            | 161.56             | 0.5%           | 117.37 | -1.5%          |

# Santa Barbara Sub-Markets

| <b>Goleta</b>                                                  |                |                |                  |                    |                |        |                |
|----------------------------------------------------------------|----------------|----------------|------------------|--------------------|----------------|--------|----------------|
| <b>Historical Market Performance of the Competitive Supply</b> |                |                |                  |                    |                |        |                |
| Year                                                           | Percent Change | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2007                                                           | 1.4%           | -2.3%          | 76.0%            | 123.03             | 6.6%           | 93.45  | 2.7%           |
| 2008 Est.                                                      | 13.6%          | 8.6%           | 72.6%            | 127.38             | 3.5%           | 92.48  | -1.0%          |
| 2009 F                                                         | 0.0%           | 0.0%           | 72.6%            | 128.65             | 1.0%           | 93.40  | 1.0%           |

| <b>All Other Santa Barbara</b>                                 |                |                |                  |                    |                |        |                |
|----------------------------------------------------------------|----------------|----------------|------------------|--------------------|----------------|--------|----------------|
| <b>Historical Market Performance of the Competitive Supply</b> |                |                |                  |                    |                |        |                |
| Year                                                           | Percent Change | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2007                                                           | 0.0%           | -1.2%          | 67.8%            | 116.24             | 3.4%           | 78.85  | 2.2%           |
| 2008 Est.                                                      | 2.1%           | 0.1%           | 66.5%            | 117.98             | 1.5%           | 78.46  | -0.5%          |
| 2009 F                                                         | 6.7%           | 1.1%           | 63.0%            | 117.39             | -0.5%          | 73.96  | -5.7%          |