California Leads Nation’s Hospitality Markets, According to New Report From Ernst & Young LLP

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Buoyant consumer demand and limited supply of new hotel rooms throughout California led the state’s major hospitality markets to outperform the rest of the nation in the first six months of this year, according to The California Mid-Year Lodging Report released today by Ernst & Young LLP.

In the report, Ernst & Young points to data supplied by Smith Travel Research indicating average hotel occupancy in California hit 69.3 percent through June 30, 2006. This is a 1.2 percent increase over the same period last year in the state and almost 6 percent better than the national average for the first six months of the year.

Of the state’s major hospitality markets, San Francisco experienced the greatest growth in occupancy with a three percent increase over the first six months of 2005. Los Angeles, Anaheim and San Diego also enjoyed increased occupancy, thanks largely to a pick up in tourism and convention business.

According to the report, high gas prices have helped the California economy, in that there has been a slight increase in intrastate travel this year as more Californians chose to vacation closer to home, a trend that is expected to be confirmed when this summer’s final numbers come in.

Troy Jones, a Senior Manager in the Los Angeles office of Ernst & Young’s Hospitality Services Group, added that supply constraints, especially in San Francisco, also contributed to the strong performance in existing hotels. ’Last year when we issued our report, we said that the conversion of hotels to residential uses and the relative lack of new hotel products coming online in California in the last 12 months would contribute to the strong performance of the overall hotel sector.’ But Jones cautioned that there has been a significant increase in the hotel construction pipeline in Southern California, including San Diego, and that occupancy levels could be under pressure in the next 18 months if demand slackens. ’In Southern California, we expect to see more than a 10 percent increase in the supply of hotel rooms in the market over the next couple of years and, while lodging fundamentals are sound, demand levels will need to continue to absorb these new projects as they come online,’ Jones said.

Among the reports highlights:

œ **Los Angeles** achieved the highest growth in average daily room rate (ADR) of any of the California markets in the first half of the year with a 10.1 percent increase over 2005.

œ **San Francisco** posted the highest increase in occupancy of any of the California markets with a three percent increase over 2005. It also had the highest increase in revenue per available room (RevPAR) at 12.4 percent.

œ **San Diego** experienced a modest growth in occupancy levels over 2005 due to the increased supply of rooms from new projects coming online. Like many resort locations in California - including Lake Tahoe, Mammoth Lakes and Palm Springs - significant supply growth is expected in San Diego’s hospitality markets in the next two to three years.

œ **Anaheim/Orange County**’s occupancy growth, after strong year-over-year comparisons, resulting from of Disneyland’s 50th anniversary celebrations in 2005, was challenged during the first half of 2006. However, ADR growth rates were robust. Leisure travel and convention business remains strong and is expected to provide occupancy and ADR gains this year, albeit at a slower pace than last year.

To obtain a copy of the full report, The California Mid-Year Lodging Report, contact Troy Jones at 213.977.3338 or troy.jones@ey.com or visit: http://www.gallen.com/ey/CAL-Lodging-report_FINAL.pdf