HVS

MARKET REPORT

California

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The State of California represents a powerhouse within the U.S hospitality industry and we would like to take this opportunity to provide an overview of the state's key markets during the current challenging operating environment. HVS International will provide an overview of key markets in this and the next two issues of the HVS Global Report. California is the nation's most populous state, representing 12.2% of the U.S. population. In comparison, the state comprises 10.9% of the nations rooms supply. Given the economic strength of the state (representing 13.5% of national GDP) and its incomparable diversity of visitor destinations, one would expect the number of hotel rooms to exceed the national norm. The state's relatively low supply penetration reflects the high barriers to entry throughout the state. High land and construction costs, coupled with a challenging approval process, renders development of all product types extremely difficult. Many brands represented throughout the country have never made it to the west coast, resulting in a healthy constraint on new supply. According to Smith Travel Research, the state has a total of 437,181 hotel rooms in 4,583 hotels, yielding an average 95 rooms per hotel, somewhat below the national average of 101 rooms per hotel. Through April of 2002 the state has witnessed a 6% decline in lodging demand and a 2.4% increase in supply, resulting in an 8.3% decline in occupancy from 67.7% in 2001 to 62.1% in 2002. Through April the state lost 7.3% in average rate, resulting in a room revenue decline of 12.9 %. Only one state, Massachusetts, had a greater decline in average rate (10%) and RevPAR (17.9%) than California for this same period. These two states have been dramatically impacted from the downturn in the tech sector. The impact of the downturn in lodging demand driven by the technology sector in the San Francisco Bay area has been tempered by relatively solid lodging performance throughout the rest of the state. By comparison, the technology dependent Boston metropolitan area is not buttressed by any other significant lodging markets within the state of Massachusetts. In this issue we are please to present an overview of the overall Los Angeles market, together with discussions of the Downtown LA, Hollywood, West Hollywood, West LA, and South Bay/LA markets. Data according to Smith Travel Research.