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Santa Barbara Market Overview

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The outlook for the lodging market in Santa Barbara is fairly sunny. As a whole, the Santa Barbara–Santa Maria area finished 2001 at 68.2% occupancy, only 2.2 percentage points down from its 70.4% occupancy finish in 2000. At the same time, average rate grew by 6.2%, earning the third largest increase in average rate of 22 lodging markets in California. Overall, rooms revenue increased by 4.8% between 2000 and 2001, well above the rate of inflation. The economic downturn and the waning proclivity for travel after September 11, 2001, has affected the Santa Barbara lodging market only minimally. Year-to-date data through May 2002 indicate a marketwide occupancy of 64.5%, compared to 65.2% at the same time last year. Data from the same time periods show a 1.4% increase in average rate, from $107.51 to $109.06. This resulted in a room revenue increase of 1.6%. Only four other market areas in California experienced increased room revenue in the first five months of 2002 compared to the first five months of 2001. Santa Barbara is a high-end beach community of approximately 400,000 residents located roughly 100 miles northwest of Los Angeles. Owing to immaculate beaches, a mild climate, and the city's quiet and manicured atmosphere, it has long served as a peaceful and well-needed year-round escape for residents of southern California and the state as a whole. Over the years, Santa Barbara's lodging industry has blossomed, due in part to the range of room product available. While the newest additions to the market are of four- and five-star caliber, a plethora of two- and three- star motels and hotels have allowed access to Santa Barbara for a range of clientele. Greater Santa Barbara, which includes Santa Barbara, Carpinteria, Goleta, and Summerland, currently supports 62 properties totaling nearly 5,000 rooms. Of these properties, only 14 contain more than 100 rooms. Among developers, Santa Barbara is renowned for its stringent development policies. There remains little developable land that is not protected by the city, particularly along the coast. When one does obtain rights to a parcel of land, the approval process can be long and onerous. In the past decade, greater Santa Barbara has welcomed 650 new rooms. Due to the high cost of land and the difficulty that accompanies development, the most recently completed and proposed lodging development falls into the four-and five-star categories. The 360-room, four-star Bacara Resort & Spa opened in August 2000 after reportedly spending more than ten years in the development process. Two new additions will total approximately 365 rooms when they are able to obtain approvals and financing. These are the renovation of the former Miramar Resort, a project currently being spearheaded by boutique-hotelier Ian Schrager, and the development of a 150-room property by Fess Parker, who presently owns Fess Parker's Doubletree Resort located in downtown Santa Barbara. High barriers to development indicate a limited lodging supply in the future, which bodes well for the lodging market. The mild climate has engendered year-round popularity and has allowed Santa Barbara's hoteliers to maintain strong occupancies and strong average rate growth. The city's average rate has increased at above-inflationary rates in the past few years due to the higher-rated supply that entered the market combined with a strong national and regional economy. Santa Barbara is host to some of the country's premier lodging facilities and its location, within 90 minutes of Los Angeles International Airport, has helped to make it an easy destination for travelers from all reaches of the nation. However, with the fear of flying and related decline in air traffic, hoteliers now need to attract more demand from markets within reasonable driving distances of the area. A few of Santa Barbara's landmark hotels have been ideal destinations for high-end meeting and group business. Though decline has been apparent in all market segments in the past 12 months, a decline in group demand may be the most significant, as its recovery is most reliant upon the overall recovery of the economy as well as the erosion of the fear of flying. Hoteliers who once filled up to 60% of their hotels with meeting and group business are facing the challenge of filling these rooms from other demand sources, likely at the expense of room and food and beverage revenue compared to what was earned historically. As with many of California's markets, the short-term prognosis for Santa Barbara is uncertain. The changing market segmentation is likely to lead to lower average rates, and almost certainly to lower net operating incomes. The competition to

Summary

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attract lucrative meeting and group business is even more fierce as demand sources have eroded and discounts are being offered as bait everywhere. Over the long term, Santa Barbara is expected to thrive as it continues to benefit from its proximity to the Los Angeles area, mild climate, and popularity. Limited new supply will enable hoteliers to make healthy increases in average rate while maintaining strong occupancies.