Palm Springs Market Overview

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Prior to the events of September 11th, the market was performing at levels on par with 2000; however, since September 11th the market occupancy declined somewhat. While the market displayed weakness in comparison to other markets in California, it remained relatively healthy. Specifically, occupancy in the area in 2001 finished at 59%, which is approximately three percentage points below the 2000 levels. The Palm Springs area has seen occupancy in the low-to mid-60% range in each year since 1996. In the six years preceding 1996, the market occupancy was in the mid 50% range. In terms of average room rate, the market has seen room rates increase in line with inflation since 1990, albeit the rate of growth was much higher in the later half of the decade. It should be noted that supply increase in the market has been relatively moderate since 1990. In the near future, new supply throughout the area is also expected to remain moderate due to a dearth of available financing and the difficult development environment. In terms of average rate, the marketwide ADR for 2001 was roundly $123, slightly higher than the market's $121 average rate achieved in 2000. In the year-to-date period through May 2002, the marketwide occupancy experienced further erosion by ending at 68.3%, compared to 71.4% occupancy achieved in the same period last year. Furthermore, during the same period, marketwide average room rate was down 5.1%, or $139.71, as compared to 2001. Although the year-to-date data reflects a strong decline in occupancy, the weekend demand has remained strong. Since meeting and group demand is showing some signs of recovery, it is likely that occupancy has bottomed out. However, some of this recovery in demand is anticipated to occur at lower room rates and, as such, the near- to mid-term average rates are expected to be depressed. It is conceivable that given the market's high seasonality, any measurable growth in average rate would indicate a real recovery in market conditions. Palm Springs is a popular destination and known as the “golf and tennis capital of the world.” Coachella Valley, which includes the communities of Cathedral City, Desert Hot Springs, Indian Wells, Indio, La Quinta, Palm Desert, Palm Springs, and Rancho Mirage, are commonly referred to as the Palm Springs area. The Coachella Valley is made up of over 120 hotels containing approximately 14,000 rooms, of which 15 properties are considered to be resort hotels. The market draws most of its demand from leisure and group meeting sources. The Coachella Valley has a reputation as one of the premier resort destinations in the United States, with over 100 golf courses and 600 tennis courts. The economy of the Coachella Valley depends heavily on vacationers and resort visitors. The health of the service industries is vital to the area's economy, which has witnessed relatively limited development in other economic sectors. Affluent leisure and transient residents, and the conducive atmosphere for corporate group meetings and conventions, have contributed to the growth of the resort- and tourism-related service industries in the area. A majority of these visitors come from Southern California, with approximately 16% of the area visitors originating in Los Angeles County. In the past, Palm Springs Regional Airport has historically been an issue of concern for the area's tourism-related businesses. The airport was unable to handle large jets, given the short length of its runway. Thus, few flights were available to markets other than Los Angeles, requiring visitors from outside Southern California to take a connecting flight either into Palm Springs or Ontario. Limited airline access to the market was a competitive disadvantage relative to markets such as Phoenix/Scottsdale, San Diego, and Las Vegas, particularly in attracting group meeting demand. Recent expansions have addressed some of these concerns, however, the high seasonality of the market is a deterrent for some airlines, which greatly decrease the number of scheduled flights in the off season. Following the events of September 11th, there were further reductions in scheduled flights into Palm Springs. Because of the challenges posed by the airport, the area’s hotels have had to rely more on markets within driving distance of Palm Springs. This phenomenon has paid off in the past few months as travelers, wary of flying, have chosen "drive-to" markets such as Palm Springs. With overall travel demand expected to increase in the next couple of years, along with relatively minimal increase in room supply, market occupancy is expected to remain in the low-to mid-60% range.

Summary

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