# ANALYSIS OF THE LODGING MARKET WITHIN THE CITY OF ONTARIO, CALIFORNIA

**Prepared for:**
The City of Ontario
303 East "B" Street, Civic Center
Ontario, California
91764-4196

**Prepared by:**
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## February 2009

*File No. 51505*

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February 6, 2009

Ms. Mary Jane Olhasso
City of Ontario
303 East "B" Street
Ontario, California 91764-4196

Dear Ms. Olhasso:

Pursuant to your request, we have completed an overview of the historical and expected future performance of the lodging market in Ontario, California, and have provided an analysis of the potential market demand for additional hotel development within the city. This market study and its conclusions are based on our knowledge of the greater Ontario lodging market as of the completion of our fieldwork in February 2009.

In preparing this report, our intent is to convey our best estimate of the performance of the Ontario lodging market over the next nine years. Further, our market occupancy and rate projections are based in part upon several key assumptions regarding the amount, type, and timing of additions to the current lodging market. In most cases, these assumptions were based upon the best information we were able to obtain from knowledgeable parties. We note that it is extremely unlikely that each of the future events upon which our analysis is based will come to pass precisely as expected. Further, our analysis can be no more certain than are the assumptions upon which it is based. Therefore, our conclusions should be viewed as they were intended: as one of many possible scenarios for the future dynamics of the greater Ontario lodging market.

The terms of our engagement are such that we have no obligation to revise this report to reflect events or conditions that occur subsequent to the date of the completion of our fieldwork. However, we are available to discuss the necessity for revision in light of changes in the economic or market factors affecting the Ontario lodging market. This report is subject to the attached statement of Assumptions and Limiting Conditions.

Finally, we understand that this report has been prepared for your use in facilitating and/or reviewing hotel development proposals. As is customary in assignments of this type, neither our name nor the material submitted may be included in any prospectus or as part of any printed material, or used in offerings or representations in connection with the sale of securities or participation interests to the public, without our prior written consent.

We thank you for the opportunity to continue providing services on your behalf, and would be pleased to hear from you if we could be of further assistance in the interpretation of our findings.

Sincerely,

***PKF Consulting***

Bruce Baltin
Senior Vice President

# *Section I*

# *INTRODUCTION*

# INTRODUCTION

PKF Consulting has been retained by the City of Ontario, California to update a previous study of the greater Ontario lodging market. This report sets forth information relative to the market that we gathered during the course of our research as well as our conclusions concerning the appropriate market positioning of, and potential demand for, future hotel development within the city, as of February 2009.

## SCOPE AND METHODOLOGY

Our analysis involved primary and secondary research. The primary research included interviews with managers of area hotels, persons familiar with area development, representatives of local demand generators, and officials in city planning and redevelopment departments. The secondary research involved collecting and evaluating data contained in our database as well as selected sources of economic and demographic information. Based on this analysis, we developed conclusions and recommendations regarding:

- The extent and nature of the Ontario lodging market;
- Historical changes in Ontario's hotel room supply and currently proposed additions and deletions to this supply; and,
- Historical trends in occupancy and average daily rate and estimates of future hotel occupancy and average daily rate.

## AREA REVIEW

Relevant economic data was gathered and analyzed to determine whether the overall economic environment in the area appears suitable for the development of additional lodging facilities. Further, we have examined the correlation between key economic factors and the demand for lodging and utilized forecasts of these indicators to evaluate future demand.

## PRIMARY RESEARCH

Our primary research involved interviewing representatives of key lodging demand generators, including LA/Ontario International Airport, Ontario Convention Center, the Ontario Mills Mall, Victoria Gardens, and the Auto Club Speedway. We inspected and evaluated lodging properties within the Ontario market and interviewed their respective management personnel. We discussed development patterns in the area with individuals involved with the local real estate market, including officials in the planning departments of Ontario and its neighboring communities. Our fieldwork consisted of direct, on-site inspections of various properties in order to gain firsthand knowledge of the overall lodging climate within the City of Ontario.

## PREPARATION OF LODGING SUPPLY AND DEMAND ESTIMATES

We analyzed the historical growth in supply and demand in the market area. Through the combination of this data, we have estimated the future supply of and demand for lodging accommodations in order to reach our conclusions of overall market potential. Our estimates of the market potential are based, in part, upon our recommendations concerning the optimal product type and market positioning for future hotel development within the city.

## SUMMARY OF CONCLUSIONS

The Inland Empire hotel market has been built on the strength of commercial travelers to the area. And thus despite a relatively large amount of new supply, the market had been able to operate at a relatively stable occupancy until mid-2008 as area hotels reduced rates or offered package deals to maintain healthy levels of patronage. However, by September of last year the demand for hotel rooms in the market place began to decline significantly and there was little that local hoteliers could do to stem the tide as employment in the region and disposable income levels in the nation shrank considerably. Further compounding the problem was a decline in air traffic at LA/Ontario International Airport, container traffic at the Ports of Los Angeles and Long Beach, all of which caused commercial office and industrial space vacancies to climb to the highest levels in recent memory.

As we forecast for 2009 and beyond, it does not appear that any positive economic indicators will emerge in the short term. Unfortunately the hotel supply that increased by 10.6 percent in 2008, is anticipated to increase by a similar margin of 10.8 percent this year, which will lead to immense pressure and increased competition among local hotels. The following year, the hotel market is likely reach its trough and from that point forward return to healthy levels of occupancy similar to those experienced earlier this decade. Notwithstanding the next two years, the long term outlook for the Inland Empire and the City of Ontario is favorable. Both the county and the city have benefited from an increase in residents, businesses, and amenities this decade as development has naturally progressed inland from the nearly fully developed Counties of Los Angeles and Orange. While this trend has reversed sharply in the last year due to the credit crisis, mortgage meltdown and resulting foreclosures, and rising unemployment rates, the Inland Empire remains California's region for future expansion.

Therefore, we believe that the Ontario lodging market is in a strong position to continue its steady growth course, albeit after a period of approximately two years during which time the economy is anticipated to recover and the large influx of recent supply additions should be absorbed. We predict that the 2009 year-end market occupancy will decrease slightly to 60 percent as the seven hotels that have opened in the immediate area over the last two years slowly gain market share in a difficult economy. Similar fears amid a questionable economy in 2010, as well as the addition of an additional hotel is anticipated to decrease the market occupancy to 59 percent. With no supply additions and economic recovery predicted for 2011, the occupancy of the competitive market is estimated to begin

to increase, moving to 62 percent. In 2012, the final three supply additions, including the two Guasti hotels, will be incorporated into the market. Given the anticipated attractiveness of these projects, as well an anticipated return of strong economic growth in the region, we estimate that the growth in the number of occupied rooms will closely mirror that of supply growth, and that as a result, the aggregate market occupancy will remain at 62 percent.

Strong continued growth primarily in the commercial sector, and secondarily in the group and leisure sectors is expected to keep demand growth strong in the region. Thus, following the introduction and absorption of the Embassy Suites and Guasti Hotels, we forecast that the occupancy of the competitive market will steadily increase each year from 2013 through 2017, at which time, the market is anticipated to stabilize. Overall, we anticipate that the market will reach a stabilized occupancy level of 75 percent in 2017. Future demand growth is estimated to be generated by continued growth within the commercial sector in Ontario, an increase in leisure travelers to the area, as well as improved performance of the Ontario Convention Center, the LA/Ontario International Airport, and the attractiveness of future planned developments mentioned herein.

It should be noted that our analysis and projections of average daily rate and occupancy are based upon the assumption that only those hotels identified as additions to supply will be added to the market. If supply actually introduced in the years to come exceeds the amounts assumed herein, we would expect lower future market occupancy, and vice versa. It should be noted, however, that capacity market occupancy, based on the known additions to supply, is not reached until 2017 when the market stabilizes following the addition of the new hotels mentioned herein. Thus, based on our projections, the market could support additional hotel rooms as the market becomes fully stabilized in 2017. We recommend the future development of one or more full service hotels, in addition to limited service hotels, as that would provide a greater opportunity to both capture existing demand and induce additional demand to the market.

The following conclusions are based upon specific assumptions regarding additions to supply, cooperative marketing, and the efficient and effective management and marketing of the Ontario Convention Center and the LA/Ontario International Airport. We note that it is extremely unlikely that each of the future events upon which our analysis is based will come to pass precisely as they are currently expected. Furthermore, our analysis can be no more certain than the assumptions upon which it is based. To reiterate, the following conclusions should be viewed as they were intended: as one of many possible scenarios for the future of the Ontario lodging market.

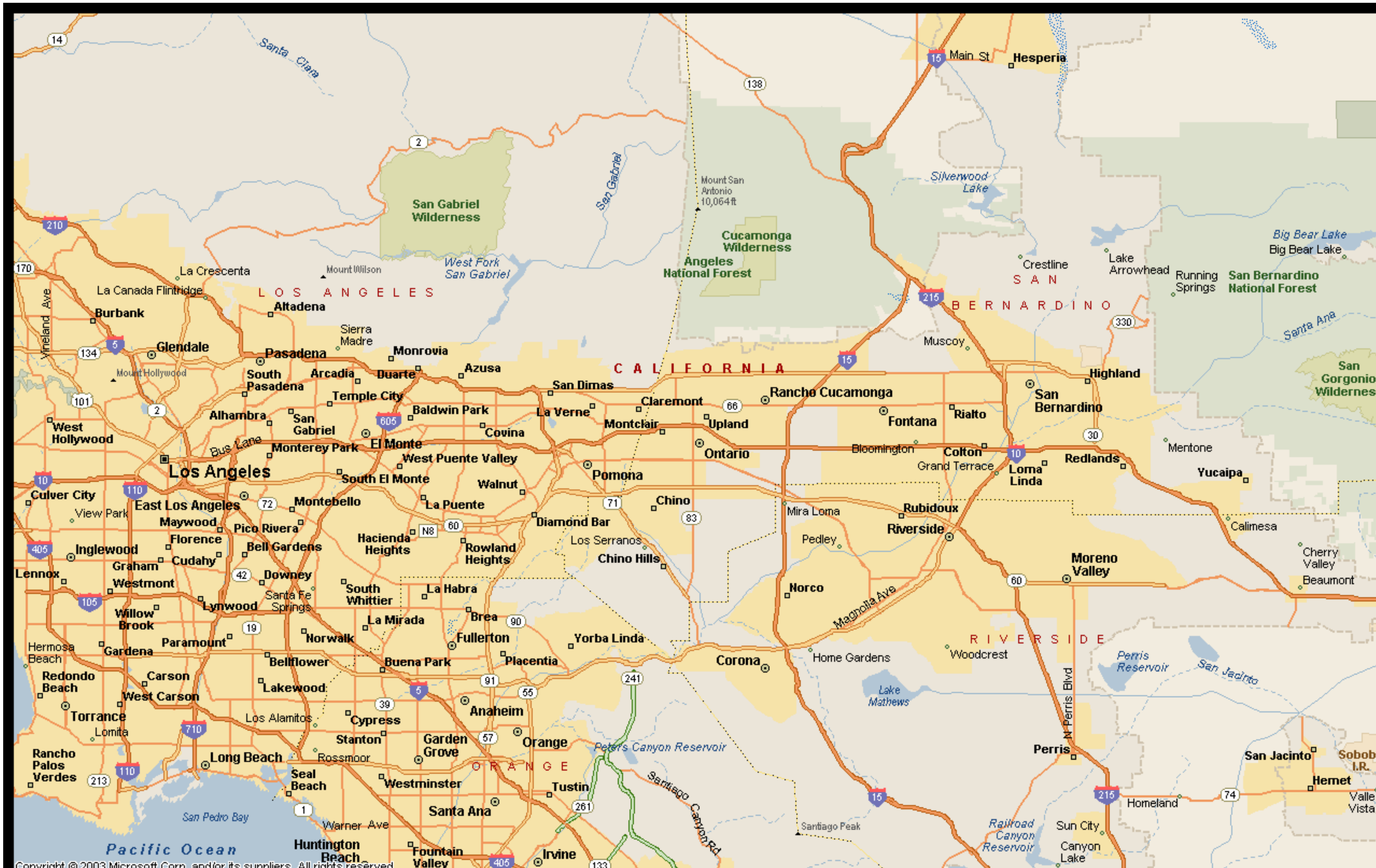
The following table summarizes the historical performance of the Ontario hotel market and the estimated future average daily rate and occupancy levels that would result from the specific supply and demand assumptions described herein.

| Historical and Projected Market Performance | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| **Historical** | | | | | | | | | |
| 2004 | 961,045 | N/A | 747,278 | N/A | 77.8% | $92.21 | N/A | $71.70 | N/A |
| 2005 | 1,000,100 | 4.1% | 782,069 | 4.7% | 78.2 | 97.69 | 5.9% | 76.40 | 6.5% |
| 2006 | 1,174,935 | 17.5 | 879,094 | 12.4 | 74.8 | 102.28 | 4.7 | 76.53 | 0.2 |
| 2007 | 1,192,090 | 1.5 | 909,061 | 3.4 | 76.3 | 105.39 | 3.0 | 80.37 | 5.0 |
| 2008 | 1,318,380 | 10.6 | 883,434 | -2.8 | 67.0 | 102.88 | -2.4 | 68.94 | -14.2 |
| CAAG | 8.2% | | 4.3% | | | 2.8% | | -1.0% | |
| **Projected** | | | | | | | | | |
| 2009 | 1,487,740 | 12.8% | 896,800 | 1.5% | 60.0% | $102.00 | -0.9% | $61.48 | -10.8% |
| 2010 | 1,563,660 | 5.1 | 927,300 | 3.4 | 59.0 | 102.00 | 0.0 | 60.49 | -1.6 |
| 2011 | 1,563,660 | 0.0 | 963,100 | 3.9 | 62.0 | 104.00 | 2.0 | 64.06 | 5.9 |
| 2012 | 1,737,035 | 11.1 | 1,075,300 | 11.6 | 62.0 | 108.00 | 3.8 | 66.86 | 4.4 |
| 2013 | 1,737,035 | 0.0 | 1,151,600 | 7.1 | 66.0 | 113.00 | 4.6 | 74.92 | 12.1 |
| 2014 | 1,737,035 | 0.0 | 1,205,000 | 4.6 | 69.0 | 116.00 | 2.7 | 80.47 | 7.4 |
| 2015 | 1,737,035 | 0.0 | 1,251,000 | 3.8 | 72.0 | 119.00 | 2.6 | 85.70 | 6.5 |
| 2016 | 1,737,035 | 0.0 | 1,288,500 | 3.0 | 74.0 | 123.00 | 3.4 | 91.24 | 6.5 |
| 2017 | 1,737,035 | 0.0 | 1,302,800 | 1.1 | 75.0 | 127.00 | 3.3 | 95.25 | 4.4 |
| CAAG | 2.0% | | 4.8% | | | 2.8% | | 5.6% | |

Source: PKF Consulting

# *Section II*

# *AREA REVIEW*




PKF Consulting

# Area Map

# AREA REVIEW

## INTRODUCTION

The economic climate of the market area is an important consideration in forecasting hotel demand and growth potential. Economic and demographic trends that highlight the amount of visitation provide a basis for hotel demand projections. The purpose of this section is to review available economic and demographic data to determine whether the local market area will experience future economic growth. Accordingly, presented in the following section is an overview of the Riverside/San Bernardino Area, followed by an analysis of the City of Ontario, and the City of Rancho Cucamonga.

## RIVERSIDE-SAN BERNARDINO COUNTY OVERVIEW

The metropolitan area is comprised of Riverside and San Bernardino counties, and is often called the "Inland Empire." It is bordered by Los Angeles and Orange County on the west, and on the east by the states of Nevada and Arizona. Riverside County covers 7,304 square miles while San Bernardino covers 20,106. The July 2008 population of the area totals 4,060,600 people, an increase of 1,555,000 persons since 1990. The area's population count makes it larger than the Phoenix-Mesa-Scottsdale MSA. The majority of the county's acreage is a mixture of mountainous terrain and arid deserts. The center of the Inland Empire is located approximately 60 miles east of the center of Los Angeles, 110 miles northeast of San Diego, and 200 miles southwest of Las Vegas.

The Inland Empire and specifically Ontario, is the hub of the Southern California Global Gateway. It is a major transportation hub for both rail and truck service, is home to the LA/Ontario International Airport (a UPS hub, both small packages and air freight, and for Asian service), and is a major distribution center for firms moving goods through Southern California's ports to the rest of the U.S. There is the LA/Ontario International Airport, strategic freeway access, two rail lines, and service by Amtrak and MetroLink. There are also three ex-military air fields that are being redeveloped for commercial use: George Air Force Base as the Southern California Logistics Airport, Norton AFB as the San Bernardino International Airport, and March AFB as the March Inland Port. Additionally, the Pacific Gateway Cargo Center, a one million-square-foot air cargo center to be located at LA/Ontario International Airport, will further facilitate the flow of cargo in the region as well as generate economic activity and substantial job creation for the Inland Empire.

This area also has an impressive array of higher educational institutions, including the University of California Riverside, Cal State San Bernardino, University of Redlands, Loma Linda School of Medicine, and the University of La Verne College of Law, the Inland Empire's only ABA accredited law school. Just to the west of the county line with Los Angeles are the Claremont College group and Cal Poly Pomona. There are also numerous community colleges serving the area.

Ontario is quickly becoming a regional destination for commerce, entertainment and lifestyle. In October 2008 the City of Ontario welcomed the opening of the Inland Empire's

first Sports & Entertainment Arena. Built and owned by the City of Ontario and managed by AEG, the state-of-the-art Citizens Business Bank Arena hosts the Ontario Reign, an affiliate of the Los Angeles Kings, and a variety of other sporting competitions, concerts, family shows, special events, and community activities as well as private events. Built on a 37-acre footprint, the arena includes 9,500 fixed seats with additional portable seating risers to accommodate capacities of 11,089 for concerts, 9,736 for ice hockey and 10,832 for basketball. The 225,000 square foot venue also features 36 suites located on two levels and a continuous concourse hosting a variety of refreshment stands and merchandise kiosks, a VIP club and other fan amenities.

The two-county area also has a diverse portfolio of quality of life elements. These include desert resorts with championship golf courses, mountain resorts that offer skiing in the winter, and relative proximity to internationally recognize destinations in Los Angeles and Orange Counties. There are also fine and performing arts. The Auto Club Speedway in Fontana is the largest auto racetrack in Southern California.

Historically, affordable home ownership had been one of the primary motivating factors behind the growth in the Inland Empire as homes in these communities are generally less expensive than comparable homes in Orange and Los Angeles Counties, and employees are willing to work for less to avoid long commutes. This began to change somewhat in the latter half of 2004, as prices shot up sharply with speculators and first time buyers taking advantage of extremely attractive financing options, including sub prime and Alt-A mortgages. Such a trend continued unabated through the end of 2006, and equated to a total increase in home prices of more than 28 percent over the two year period. This new wealth in turn helped to fuel the region's booming growth and prosperity. Recently however, the economy has begun to unravel, with rising unemployment levels, increased office and industrial vacancy rates, reduced customer spending, and a wave of foreclosures.

As for the Inland Empire, there is little doubt that the current situation is challenging. The region's economy swept through the 2001 downturn with hardly a pause—driven by the strength of the housing markets and continued consumer spending. Now those same strengths have become the area's greatest weakness. The pace of foreclosures in the Inland Empire is one of the highest in the nation, and the region is leading the state's economy into the current downturn. The Inland Empire entered the recession earlier than other areas, with financial activity employment dropping first, followed by a loss of jobs in the construction sector. Now that the effects of the recession have infected financial markets and consumer spending, losses are more pervasive, with accelerating declines in manufacturing and retail trade. By any realistic measure, full recovery will take some time.

## Economic and Demographic Overview

### Employment

There is a diverse economic base in the Inland Empire. Using December 2008 employment as a measure, the leading industries were: retail trade with 170,600 jobs; leisure and

hospitality with 130,300; and health care and social assistance with 116,800. The Inland Empire is also a growing center for professional, scientific, and technical services. Conversely, as given the continued recession, the construction sector (once one of the Inland Empire's fastest growing) has seen the sharpest decline in employment. The table below depicts the historical trend in employment, segmented by sector, from 2003 through 2008, in San Bernardino and Riverside Counties.

**San Bernardino and Riverside Counties Employment History**

| Title | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | CAAG |
|---|---|---|---|---|---|---|---|
| Total Nonfarm Employment | 1,099,200 | 1,160,000 | 1,222,000 | 1,267,700 | 1,272,800 | 1,234,300 | 2.3% |
| Construction | 99,000 | 111,800 | 123,300 | 127,500 | 106,500 | 87,800 | -2.4 |
| Manufacturing | 116,100 | 120,100 | 121,000 | 123,400 | 115,500 | 106,800 | -1.7 |
| Trade, Transportation, & Utilities | 236,300 | 254,900 | 275,800 | 291,200 | 305,400 | 294,800 | 4.5 |
| Information | 13,900 | 14,000 | 14,500 | 15,300 | 14,800 | 14,700 | 1.1 |
| Finance and Insurance | 25,700 | 28,000 | 30,100 | 31,700 | 30,000 | 27,900 | 1.7 |
| Real Estate and Rental and Leasing | 16,900 | 17,700 | 18,900 | 19,900 | 18,800 | 18,300 | 1.6 |
| Professional, Sci. & Tech. Services | 28,700 | 31,000 | 35,000 | 39,900 | 40,300 | 41,200 | 7.5 |
| Administrative and Support Services | 75,700 | 82,900 | 86,200 | 91,700 | 95,200 | 93,600 | 4.3 |
| Health Care and Social Assistance | 102,700 | 104,900 | 106,300 | 108,000 | 113,600 | 116,800 | 2.6 |
| Leisure and Hospitality | 109,000 | 116,700 | 122,600 | 128,100 | 131,300 | 130,300 | 3.6 |
| Other Services | 38,400 | 39,300 | 40,800 | 42,500 | 42,100 | 41,900 | 1.8 |
| Government | 211,600 | 212,500 | 220,400 | 222,500 | 232,500 | 232,800 | 1.9 |

Source: California Employment Development Department, Labor Market Information Division

In 2008, total nonfarm employment within the San Bernardino and Riverside County area reached 1,234,300 people. While this reflects a net gain of 135,100 jobs over 2003 levels, it is down from a peak of 1,272,800 jobs last year. Government jobs remain the area's largest employment sector with 232,800 jobs, while construction reported the greater year over year decline, down more than 18,700 jobs.

### Unemployment

The following table presents a history of unemployment rates for the Riverside-San Bernardino County MSA and the State of California. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 10.1 percent in December 2008, up from a revised 9.5 percent in November 2008, and above the year-ago figure of 6.5 percent. This compares with an unadjusted unemployment rate of 9.1 percent for California and 7.1 percent for the nation during the same period. The unemployment rate was 10.4 percent in Riverside County, and 9.7 percent in San Bernardino County. It should be noted that the county sub-area labor force data are calculated using ratios from the most recent decennial census and therefore are not meant to be a historical time series, and thus pre-2000 data has been purposely omitted.

| Unemployment Rate Comparison<br>Riverside County/San Bernardino MSA/State of California<br>2001 – 2008 | | |
|---|---|---|
| Year | Riverside/San Bernardino MSA | State of California |
| 2001 | 5.5% | 5.3% |
| 2002 | 6.6 | 6.7 |
| 2003 | 6.7 | 6.3 |
| 2004 | 6.1 | 6.2 |
| 2005 | 5.3 | 5.4 |
| 2006 | 4.6 | 4.8 |
| 2007 | 6.5 | 6.1 |
| 2008 | 10.1 | 9.7 |
| Source: State of California Employment Development Dept. | | |

### Industrial Office Market

A desire to streamline transportation and operating costs were the prevailing trends for 2008. This came at a time when imports at the nation's busiest port, Long Beach, were down 12.7 percent from January to July and oil prices per barrel often topped the $100 mark. Since transportation costs account for one-half of a distributor's total logistics costs, the focus in the inland industrial market has remained on the cost-savings bottom line. For tenants already active in the marketplace, consolidations provided an answer, allowing companies to vacate numerous buildings in favor of conducting regional operations under one roof. This, in turn, led to healthy leasing activity in cities along the I-215 corridor. However, it also injected available sublease space into the market as tenants vacated older buildings in cities west of I-15 to relocate east. The east, offering first generation warehouses at competitive rents, was saturated by new speculative construction in 2008 when the national economy took a turn for the worse and consumer spending plummeted to record lows. With 22.1 million square of new speculative construction added during 2008, and only 22.6 percent absorbed, the Inland Empire is now contending with longer building shelf lives as landlords vie for tenant activity. The market wide vacancy rate, under 5.0 percent for 14 consecutive quarters, rose in 2008, ending the year at 9.1 percent.

A distributor's business model will ultimately determine future absorption activity. In the past, the Inland Empire has been a growth market, leading the nation in industrial construction activity, while being a viable option for Los Angeles-based tenants and Fortune 500 companies looking to expand their footprints in Southern California. With the changing economy, however, cost savings is now the driving factor behind many business decisions. In the case of industrial users, this translates to reducing transportation costs. As a result, expect the region’s western submarkets to be the destination point for firms serving the western United States, given their proximity to Los Angeles' ports, as well as containing a pool of available inventory and sublease space that will present newer generation space at discounted asking rental rates. Cities such as Ontario, will also catch the eye of Orange County and Los Angeles-based firms that may seek expansions/consolidations in the year ahead. Landlords on both sides of the market will become increasingly competitive with their asking rents, and effective rents will be dramatically lower than asking values. During the year, asking rents will decrease 7.0 percent and 12.0 percent in submarkets west and

east of I-15, respectively. Proximity to Los Angeles' port system will give cities such as Ontario an advantage over, say, San Bernardino as distributors focus on fuel costs.

The industrial market's tenant composition will be at the forefront of analysts' attention in 2009; given that imports at Los Angeles County's ports experienced a year-to-year decrease of 7.6 percent in 2008. Although this decline can be attributed to devaluation of the dollar and reduced consumer spending, some of the biggest declines can be found in materials used in home remodeling and new construction: stone, plaster, cement, wood, furniture, bedding, toys and sports equipment. As commercial real estate generally lags the economy by six months, it is not surprising that many of these reductions can be linked to the region's ailing housing market. The effects will be felt in the local industrial market: in Chino, for instance, Wickes Furniture vacated an 886,000-squarefoot distribution facility and closed store locations after the company filed for bankruptcy in early 2008. Mervyns – faltering under competition from Wal-Mart and declining overall sales – will shut stores nationally. Since retail and industrial distribution go hand-in-hand, downsizes and expansion in the retail sector should be closely monitored in 2009.

In 2009, the vacancy rate is predicted to increase to 10.3 percent, as reduced sale and leasing activity constrains future absorption activity, tenants consolidate space and new speculative developments finish construction. Developers, many of whom will not commit to future groundbreakings for the next two years, will adopt a wait and see approach in the year ahead. This will push construction activity down, as landlords become more aggressive with rental concessions and effective rents in order to compete for tenants and fill already built spaces. Monthly asking rental rates for warehouse/distribution space will decrease by 10.0 percent, with sharper declines anticipated in cities east of I-15. Though 2009 will pose numerous challenges to the local industrial market, the region's long-term outlook is brighter: the Inland Empire is Southern California's last stop for companies looking to establish massive distribution centers within reasonable proximity to one of the world's busiest port systems, where more than 40 percent of all containerized cargo enters the U.S. With local port traffic potentially exceeding 42 million containers by 2030, and Los Angeles County's built-out industrial market, West Coast distributors will be hard pressed to find an alternative to the Inland Empire in the long-term.

**Commercial Office Market**

On the heels of a declining housing market, the Inland Empire office sector took its first negative absorption hit since the mid-90s, the vacancy rate surpassed the 20 percent mark, sublease space rose, and new construction completions were met with slack tenant demand. With noticeable job losses recorded in finance and real estate-related industries, 2008 was a bleak year. A paradox exists: while new construction completions have saturated the market, there is a gap between the region's 4.2 million population and the number of office tenants available to serve this base. Although 2008 was a year for contraction, landlords will become more readily flexible with their rents, eventually luring tenants. A surge in Class A sublease space as a result of the problems affecting mortgage companies and banks is competing directly with new construction. This space can be had

at a discount, which will exert downward pressure on rents at newer buildings. Ontario and Riverside are expected to see the quickest recoveries compared to other inland cities – a function of being the region's central business districts having amenities, surrounding demographics and array of newer construction that will present opportunities for tenants.

Insurers, credit unions, for-profit educators, medical and law-related firms will constitute the next wave of office tenants when a recovery does occur. To minimize losses, many builders will put larger developments on hold, while current developments will be phased-in once 40 to 50 percent preleasing is recorded for planned buildings. As a whole, construction will dramatically decrease in 2009. Despite job losses in companies linked to the subprime industry, mortgage firms, title agencies and home builders, the Inland Empire has established a diversified tenant mix in recent years. This will help drive the office market once the local housing sector begins to show signs of recovery and consumer confidence improves. Class A asking rates are anticipated to decrease 12 percent as landlords vie for tenants.

**Retail**

Nationwide layoffs, plunging home prices and tumbling investments, pushed consumer pessimism to record levels in 2008 when the consumer confidence index fell to 38 in October; the lowest level since the Conference Board began tracking consumer sentiment in 1967. With household expenses outpacing income growth, particularly in Southern California, consumer spending has dramatically changed. Though many national retailers expected reduced earnings, they continued to target the Inland Empire to expand their market share. For instance, Target opened three Super Target stores; Tesco is moving forward with 48 Fresh & Easy store openings; Kohl's opened its 17th inland location; and Wal-Mart continues to expand in the region. The dollar's devaluation in 2008, high gasoline prices and rising cost of living expenses, will fare well for discount retailers and grocers, as shoppers focus more on staple necessities rather than luxury purchases. However, these tenants will expand their local footprints at a more conservative rate of growth than witnessed in prior years.

Luxury lifestyle centers are bracing for flat sales in 2009. However, the steepness of sales declines will vary by location and surrounding demographics. In Chino Hills, where the median household income is among the highest in the region, The Shoppes at Chino Hills is expected to receive more sales than Corona's Dos Lagos– located at ground zero for home foreclosures in the region. With an ailing housing market, select discount retailers, pharmacies and grocers will enjoy moderate sales growth. A recent increase of sublease space will also present opportunities for aspiring franchise operators to lease at discounted rental. The majority of developers will put future ground breakings on hold as tenant downsizes put vacant space back onto the market, consumer confidence remains lackluster and attaining construction financing remains difficult to secure.

**Port Activity**

As mentioned previously, Southern California's ports are key Inland Empire economic drivers as much of their cargo is processed through inland warehouses, creating jobs in the

region. In 2008, container volume, as measured by twenty-foot equivalent units (TEUs), decreased by 7.6 percent to reach 14.7 million. The 2025 forecast is for 42.5 million TEUs, showing the job potential but also the environmental and traffic challenges facing the region.

## Transportation

### Air

LA/Ontario International Airport (ONT) is a medium-hub, full-service airport with direct service to major US cities and several international destinations. It is located approximately 38 miles east of downtown Los Angeles in one of the fastest-growing transportation regions in the United States. LA/Ontario International Airport's service area includes San Bernardino and Riverside Counties and portions of north Orange County and East Los Angeles County. The following table provides year-end data on LA/Ontario International Airport passenger and cargo statistics from 1997 through 2008.

**Volume of Air Traffic**
**LA/Ontario International Airport**

| Year | Passengers | Cargo (Tons) |
|---|---|---|
| 1997 | 6,300,862 | 461,747 |
| 1998 | 6,434,858 | 454,238 |
| 1999 | 6,578,005 | 488,773 |
| 2000 | 6,757,398 | 511,758 |
| 2001 | 6,702,400 | 462,006 |
| 2002 | 6,517,050 | 547,461 |
| 2003 | 6,547,877 | 571,892 |
| 2004 | 6,937,337 | 605,132 |
| 2005 | 7,213,528 | 575,369 |
| 2006 | 7,049,904 | 544,600 |
| 2007 | 7,207,150 | 532,865 |
| 2008 | 6,232,761 | 481,284 |
| CAAC* 1997-2008 | -0.1% | 0.3% |

*CAAC = Compound Annual Average Change
Source: Los Angeles World Airports

Growth in passenger traffic grew steadily along with the expanding economy of the Inland Empire from 2003 through 2007. A combined increase in both business and leisure travel to the region, as well as an increase in departures from a rapidly growing population led to record passenger counts in 2005. However, as employment growth in the area's industries slowed or contracted in 2008 and discretionary leisure travel all but evaporated, the LA/Ontario International Airport experienced its worst year in more than a decade. Further compounding the airport's problems was the loss of carriers Jet Blue and ExpressJet earlier in the year. However, recent downward trends are not expected to remain permanent.

Home to two of the nation's fastest growing counties, San Bernardino and Riverside, regional planners predict that the number of Southern California air passengers will triple in the next twenty years. With expansion efforts facing opposition at Los Angeles International Airport (LAX) and Orange County, expansion in Ontario is seen as the relief valve for growing demand. Furthermore, the decision to postpone expansion plans at LAX

in favor of heightened security, coupled with cost increases, and a decrease in the number of flights scheduled by many air carriers, may potentially lead to increased demand for LA/Ontario International Airport's services. Notwithstanding the recent economic turmoil that has crippled the LA/Ontario International Airport, the outlook for its future health and expansion as an important step in heading off gridlock at the four airports operated by the Los Angeles World Airports is positive.

Additionally, cargo in the Southern California region is expected to triple over the next 25 years, and with limited capacity at LAX, Long Beach and the John Wayne/Orange County Airports, Ontario is well suited to accommodate growth. As such, in late 2007, the Los Angeles Board of Airport Commissioners approved a lease agreement with Aero Ontario RFP, LLP (Aeroterm) to develop and manage an international air cargo center at LA/Ontario International Airport (ONT). The 94-acre Pacific Gateway Cargo Center is intended to provide a consolidated location for interlining, line-haul, forwarding, ground handling and many other cargo-related business models. The new cargo facility will put Ontario at the forefront of cargo operations and invites cargo traffic from LAX, and the new cargo center is anticipated to only further cement Ontario's position as the hub of the Southern California global gateway for worldwide commerce. Under the terms of the 40-year lease agreement, Aeroterm will construct approximately one million square feet of cargo facilities, the first phase is anticipated to be complete and operational by year's end. This is expected to generate economic activity and substantial job creation for the Inland Empire region.

Because the LA/Ontario International Airport is located in the fastest growing region in Southern California, it is likely that the anticipated expansion of the airport will receive the attention it deserves as it continues to develop its own identity as a major airport. Also, as population inevitably increases in the city and the region over the long term, it will experience a greater frequency of flights and use by Southern California travelers.

**Rail/Bus Service**

Major railroad linkages run through the area as well. The Burlington Northern Santa Fe and Union Pacific Railroads provide regularly scheduled service with 24-hour switching service to most of the industrial areas within the region. The commuter rail system serving the Los Angeles area, MetroLink Commuter Rail, provides transit service between Los Angeles County, Orange County, and the Riverside/San Bernardino area. Additionally, after the completion of a ten month strategic planning study, two potential routes were identified that would extend the Metro Gold Line from Montclair to the LA/Ontario International Airport. While the extension would cost $300 million to $400 million and potentially take as long as two decades, the completion of this initial study is an important first step for the region.

Amtrak provides passenger rail service to a wider range of destinations. Regional transportation districts supply bus service within the Riverside/San Bernardino area as well as connecting service to the neighboring urban districts throughout Southern California. Greyhound Bus lines also provides service in and out of San Bernardino and Riverside

counties. The bus carrier has terminals in the cities of Riverside, San Bernardino, Corona, Fontana, Moreno Valley, and Temecula.

### Highways

Because the primary mode of transportation in Southern California is the automobile, San Bernardino and Riverside Counties both benefit from an extensive transportation network, with major roadways traveling both north/south and east/west. Interstate 10 and State Routes 60 and 91 are the major east/west thoroughfares connecting the San Bernardino and Riverside County area with the Los Angeles basin to the west, and the Coachella Valley to the east. Interstates 15 and 215 and State Route 71 are the primary north/south thoroughfares in the area. While State Route 71 and Interstate 215 are used primarily as intraregional transportation, Interstate 15 connects the area with San Diego to the south and Las Vegas to the north.

# CITY OF ONTARIO OVERVIEW

The City of Ontario is located along the Interstate 10 and Route 60 corridors, proximate to where they meet Interstate 15. Ontario is one of Southern California's oldest municipalities, dating back to its date of incorporation in 1891, and has been an economic and logistics hub for more than a century. The city is well located relative to some of the busiest transportation corridors in Southern California, and benefits from its proximity to the County of Los Angeles. It is home to nearly 90 million square feet of industrial space, and nearly six million square feet of current, or under construction commercial office space. Additionally, the city has approximately 8,000 businesses. Furthermore, Ontario is home to the LA/Ontario International Airport, Ontario Convention Center, Citizens Business Bank Arena, and a number of significant development projects intended to position the city as Southern California's next urban center, and a regional destination for commerce, entertainment and lifestyle.

## Population

The City of Ontario lies within San Bernardino County, the fifth most populated county in the State of California, and the largest in the state in terms of land mass. The City of Ontario is the fourth largest city in San Bernardino County, trailing only the Cities of San Bernardino, Fontana, and Rancho Cucamonga in total population. The following table details the population for the City of Ontario, San Bernardino and Riverside Counties, and the State of California.

**Population**
**Ontario, San Bernardino/Riverside Counties, and California**
**1998-2008**

| Year | Ontario | San Bernardino/ Riverside Counties | State of California |
|---|---|---|---|
| 1998 | 150,100 | 3,089,300 | 32,657,000 |
| 1999 | 152,500 | 3,157,100 | 33,140,000 |
| 2000 | 157,600 | 3,235,500 | 33,753,000 |
| 2001 | 159,000 | 3,324,700 | 34,385,000 |
| 2002 | 163,100 | 3,433,800 | 35,000,000 |
| 2003 | 165,700 | 3,538,500 | 35,591,000 |
| 2004 | 167,900 | 3,663,200 | 36,114,000 |
| 2005 | 170,400 | 3,823,200 | 36,728,000 |
| 2006 | 171,100 | 3,945,200 | 37,172,000 |
| 2007 | 172,700 | 4,059,600 | 37,663,000 |
| 2008 | 173,690 | 4,167,100 | 38,143,000 |
| CAAG | 1.2% | 2.5% | 1.3% |

Source: California Department of Finance

Population growth in the City of Ontario has trailed behind the rate experienced in the State of California, and the combined San Bernardino/Riverside County area. The lack of available housing within city limits has limited growth in recent years, thereby leading to growth in regions located near Ontario, including Rancho Cucamonga to the north and Fontana to the east. However, the future long-term growth for Ontario looks promising. With the annexation of 8,200 acres of San Bernardino County land, the city is expected to

grow to more than 360,000 residents over the next 20 years with the full build-out of the New Model Colony, and other residential developments.

### Employment

Throughout much of the last two decades Ontario had been the Inland Empire's principal job growth center due to its location advantages. From 1991-2007, the number of jobs in Ontario more than doubled going from 41,501 to 108,920, or 6.6 percent annually. However, with the national recession, which according to the National Bureau of Economic Research officially began in December 2007, employment activity began its decline in the Inland Empire. More recent estimates of the Inland Empire's employment indicate that total jobs decreased by 38,500 jobs in the 12 month period ending December 2008, nearly negating last year's gain of approximately 39,600 jobs. This 3.0 percent decrease in employment was lower than that of Los Angeles County (3.9 percent), but higher than that of Orange County (2.7 percent). Job growth has slowed dramatically over the last five quarters, due to contractions in the housing and mortgage markets, the economic recessions. Slower job growth is expected through at least year-end 2009, although the long term outlook for the region remains positive. The following table details the top employers in the City of Ontario, as of 2009.

**City of Ontario**
**Largest Employers**

| Company | Number of Employees |
|---|---|
| LA/Ontario International Airport | 7,690 |
| United Parcel Service (UPS) | 3,500 |
| Pro & Sons Incorporated | 1,575 |
| Cardenas Markets | 1,275 |
| City of Ontario | 1,170 |
| Ontario-Montclair and Mountain View School District | 1,078 |
| Mag Instrument, Inc | 900 |
| CVB Financial Corporation | 719 |
| ICEE Company | 700 |
| Marriott International | 624 |
| DPI West | 576 |
| Toyota North America | 530 |
| Sketchers | 500 |
| Ventura Foods | 450 |
| Staples | 450 |
| Cardinal Health | 400 |
| Uline | 400 |

Source: City of Ontario & **PKF Consulting**

## Commercial Office Space

According to Colliers International, after a year of seeing the vacancy rate jump by 500 basis points, the vacancy rate has begun to moderate for the Inland Empire office market, increasing only 20 basis points in the fourth quarter to end at 18.6 percent. This marks the 8th consecutive quarter of rising rates, although it appears that the commercial office market is beginning to show signs of stability.

Over the past year, vacancy rates have increased by 4.1 percent. Almost half of this rise was attributable to firms giving back space. The most obvious reason for this decline in

office demand stems from the implosion of the mortgage finance, insurance and real estate markets. These and other highly leveraged and debt financed institutions reached the end of their rope in mid-2007. In 2008, bankruptcies, forced mergers and layoffs dominated the nation's attention. Compared to other office markets within the Greater Los Angeles Basin, the Inland Empire office market has been one of the hardest hit. The final quarter of 2008 finally started to breathe some life back into the Inland Empire office market, although many are still waiting for clear signs of a bottom.

While leasing activity was up from 219,600 square feet in third quarter to 304,100 square feet in the fourth quarter, this activity still remained well below the 387,000 square feet in average quarterly leasing activity market-wide seen from 2003 through 2006. The Ontario submarket remained the most active submarket with leasing activity totaling 86,000 square feet highlighted by California and Nevada Credit Union Leagues taking 49,200 square feet at the recently completed Building 1 of the Ontario Airport Towers. Upon completion the City of Ontario, with its collection of prominent new and highly amenitized office developments, will have the Inland Empire's second largest office base, trailing only Riverside. Specific figures for the City of Ontario showed that at year end the city had a direct vacancy rate of 21.7 percent and an average asking lease rate of $2.26 per square foot, the third highest in the region, trailing only that of the Chino/Chino Hills, and Corona submarkets.

### Forecast

Based on a 2006 econometric demand study, Ontario is expected to realize between 15 and 25 million square feet of office space over the next 20 years to accommodate expected business and population growth. In comparison, this growth is greater than the current size of Phoenix's central business district, which today accounts for approximately 14 million square feet of space.

With an estimated 177,000 Inland Empire employees currently out of work, demand for commercial space is at an all time low with no prospect of a quick recovery. Most economists predict that the local economy will suffer a deepening recession and remain weak throughout 2009 with most predicting recovery in 2010. As a result, the office market is projected to remain weak as most businesses restrain costs and hold off on any type of expansion due to the uncertainty in the overall economy. It should be noted that while much of the nation has taken a hit from the recent housing and mortgage fall-out, and the Inland Empire is no exception, the continued influx of new residents has softened the economic crunch. Furthermore, as businesses remain relatively inexpensive to operate in the Ontario area, and as businesses continue to relocate to Ontario given the quality of buildings available and its rapidly growing amenity base, the commercial office market can expect to once again increase at a steady rate.

## Industrial Space

The majority of the industrial space in the West Inland Empire (Ontario, Rancho Cucamonga, Chino, Fontana, and Mira Loma) consists of the big box segment which serves

the needs of large international distribution and supply chain companies, those most affected by the current economic slowdown. The smaller, population servicing/ manufacturing space has accounted for nearly half of the sales and leasing activity for the past year even though this smaller space only accounts for around 25 percent of the base. So far, these smaller spaces have been able to weather the economic storm better than their larger international counterparts.

Vacancy rates in the West Inland Empire went from 3.3 percent at the beginning of the year and now stand at 9.6 percent, almost tripling in the last 12 months. Asking rents however, have remained mostly flat over this time period, with this reluctance to lower asking rents leading to diminished sales and leasing activity. For the current quarter, sales and leasing activity totaled only 1.9 million square feet, the lowest level ever recorded. This quarter, net absorption was negative 3.5 million square feet, marking the fifth straight quarter of losses. Year-to-date, net absorption was negative 7.9 million square feet, meaning that the net absorption losses incurred for 2008 erased all the positive absorption gains of the last year and a half in the West Inland Empire. New construction completions totaled only 312,500 square feet during the fourth quarter of 2008, the smallest quarterly addition on record. Construction activity has dwindled over the past year as the industrial vacancy rate of the West Inland Empire has increased. Construction activity at year-end 2008 totaled only 254,700 square feet. In contrast, at this time last year, 5.25 million square feet was under construction in the West Inland Empire. Planned projects have increased this quarter to 15.8 million square feet, up from 15.2 million square feet last quarter. Developers are responding to a pull-back in demand by keeping projects in the planned stages until economic conditions improve and the vacancy rate recedes to a reasonable level.

Specific year to date 2009 figures for the City of Ontario show that at the end of first quarter the city had a direct industrial vacancy rate of 5.5 percent, the third lowest in the Inland Empire, only trailing that of the Rancho Cucamonga and Corona submarkets. Further, according to CB Richard Ellis, nine industrial buildings are under construction, approximately totaling a combined 196,000 square feet.

Looking at the chain of events that has led to the current situation, the root cause is a reduction in consumer spending leading to a decrease in the demand for supply chain services, which is the industrial economic base for the West Inland Empire. The Inland Empire is the supply line of goods to the rest of the country; and for the past year has withered on the vine as the supply of goods produced in Asia has decreased and the demand for such goods consumed here at home has also decreased. It is unlikely that in the near future economic conditions in the West Inland Empire will return to the prosperity seen between 2004 and 2007. A new equilibrium will be reached that favors the tenant as the supply of industrial space is greater than industrial demand. Landlords and developers will need to adjust to lower expectations as the market corrects.

**Area Attractions**

Demand for lodging in the Ontario area has historically been and continues to be dominated primarily by business travelers. The development and improvement of certain area attractions of late, however, has the potential to increase visitor traffic as well as generate additional group and leisure room nights in the market.

Ontario is approximately 30 minutes from Disneyland, which is the largest single demand generator for hotel rooms in Southern California. Palm Springs is a 60 mile drive, as are the mountains and the Pacific Ocean. Further, Ontario is located less than an hour drive from the Temecula Valley wine region and the ski resorts of Big Bear and Lake Arrowhead, positioning it as a gateway to Southern California's top attractions.

The following is a discussion of a number of attractions located in the City of Ontario and its surrounds.

**Citizens Business Bank Arena**

On October 18, 2008 the City of Ontario opened its world-class sports and entertainment arena on 36 acres along Concourse Avenue, between Haven and Milliken Avenues. Built and owned by the City of Ontario, the venue is the biggest and most modern arena within the Inland Empire. The $150 million, 225,000 square foot arena is anticipated to attract approximately 140 events annually including the Ontario Reign, a minor league hockey team affiliated with the Los Angeles Kings, concerts and family shows-more than any other arena of its size currently in the nation, according to the operator, Anschutz Entertainment Group (AEG), one of the leading sports and entertainment presenters in the world. Citizens Business Bank Arena includes 9,500 fixed seats with additional portable seating risers to accommodate capacities of 11,089 for concerts, 9,736 for ice hockey and 10,832 for basketball. Additionally, the venue features 36 suites located on two levels and a continuous concourse hosting a variety of refreshment stands and merchandise kiosks, a VIP club and other fan amenities. As the only major enclosed entertainment center in the Inland Empire, the arena is anticipated to be the largest and highest quality entertainment destination for the region, meeting the needs of an underserved community. To date since its opening the Citizens Business Bank Arena has played host to Neil Diamond, Carrie Underwood, Metallica, and the Los Angeles Lakers.

**Ontario Mills Mall**

The Ontario Mills Mall is Southern California's largest outlet/entertainment mall, and the largest one-level shopping mall in Western North America. The Ontario Mills Mall is located just north of Interstate 10, west of its junction with Interstate 15. The mall features 1.5 million square feet of space and over 200 retail stores and more than 20 food and beverage outlets ranging from quick service to full service restaurants. Additionally, the Ontario Mills Mall boasts a 30-screen AMC Theatre and sponsors other entertainment events throughout the year. Tourism accounts for approximately 10 percent of its business and the average household income is $70,000 with most shoppers originating within a 25-mile radius. This information is based on research compiled by the Ontario Mills Mall management in May 2008. According to Ontario Mills officials, visitation routinely exceeds

20 million shoppers annually. Through marketing and word of mouth, Ontario is becoming known regionally as well as nationally as a shopping destination. The Mills Mall is considered by the majority of hotel managers as an amenity to Ontario visitors, while the most proximate hotels benefit from some demand generated directly by the Mills Mall as a destination attraction.

**Auto Club Speedway**

The opening of the Auto Club Speedway in Fontana in 1997 (formerly the site of the Kaiser Steel mill) marked the long-awaited return of professional oval-track Indy and stock car racing to Southern California. The Auto Club Speedway succeeds Riverside Raceway as Southern California's most prestigious track. Annually, the Speedway hosts two NASCAR Sprint Cup races, two NASCAR Nationwide Series (formerly the Busch Series), one NASCAR Craftsman Truck Series and other races. Total sold out dates that impact the nearby hotel inventory range from 12 to 15 days per year.

With seating capacity at 92,000, these races generate significant hotel demand in the surrounding area during the respective race weekends with demand also felt in the week prior to each of the events. In addition to the abovementioned NASCAR events, the Auto Club Speedway also hosts the Suzuki Superbike Challenge for three days during the third week of March this year. This event, like the Speedway's other major events, is anticipated to generate hotel demand for Ontario area hotels during these race days. According to the American Motorcycle Association recent attendance figures have topped 30,000 attendees annually for the extended weekend period.

The Speedway generates demand for the Ontario hotels primarily during big race weekends, two weekends in past years. These races bring in roughly 175,000 attendees. The majority of hotels rooms in the Ontario market are filled with teams and fans for a three- to four-day period at premium rates. In 2009, these weekends will be February 20th through the 22nd and October 9th through the 11th.

**Los Angeles County Fairgrounds**

The Los Angeles County Fairground, located in the City of Pomona, is approximately eight miles from the City of Ontario. The Fairgrounds are home to the Los Angeles County Fair, a large outdoor event featuring entertainment and education surrounding agricultural themes. This event is usually held in mid-September. Also held at the fairgrounds are numerous expositions including computer fairs, automobile and boating shows, and drag racing. In all, the Fairgrounds host approximately 300 events every year, attracting more than two million attendees every year. Additionally, the Los Angeles County Fairgrounds is home to one of the largest wine judging competitions in the United States, held annually each May in which international judges' select outstanding wines from the tens of thousands of entrants.

**Convention Center**

The Ontario Convention Center opened in December 1997 and is located on a 17.5-acre site north of the LA/Ontario International Airport at the intersection of East Holt Boulevard

and "D" Street, one block east of Vineyard Avenue. The facility features a 70,000 square-foot column-free exhibit hall, 20,000 square feet of meeting space, and a 20,000 square-foot multi-purpose room. The following table shows the total number of room nights, rental revenues, events, attendees, and economic impact for fiscal years 2001/2002 through 2007/2008. It should be noted that the Ontario Convention Center fiscal year runs from July 1 to June 30.

**Convention Center Confirmed Events and Impact**

| Year | Room Nights Confirmed | OCC Rental Revenues Confirmed | Number of Attendees | Number of Events | Projected Economic Impact |
|---|---|---|---|---|---|
| 2001/2002 | 22,947 | $1,257,000 | 277,657 | 357 | $14,907,423 |
| 2002/2003 | 37,597 | 1,497,844 | 310,617 | 391 | 19,581,451 |
| 2003/2004 | 44,925 | 1,731,861 | 374,607 | 456 | 24,390,880 |
| 2004/2005 | 46,169 | 1,840,294 | 349,048 | 556 | 25,729,315 |
| 2005/2006 | 46,701 | 2,173,006 | 359,058 | 540 | 32,504,958 |
| 2006/2007 | 18,131 | 1,768,588 | 367,203 | 600 | 23,034,978 |
| 2007/2008 | 26,967 | 2,109,405 | 308,514 | 415 | 28,647,423 |

Source: Ontario Convention Center

As can be seen, although the total number of events and attendees declined compared to last fiscal year, the overall bottom line revenue to the Center increased by maximizing revenue opportunities and space utilization via return on investment analysis. Much of the overall success of the year can be attributed to Bureau lead generation increasing 58 percent over the previous year. As such rental revenues and projected economic impact to the city neared peak 2005/06 levels. Further, according to OCVB officials while business is down across the board, Ontario as a whole is doing better than most, because the city and Center are a value-enhanced meetings market rather than a leisure market. Therefore the Center is not seeing the same amount of business lost as other cities and convention centers.

As the Ontario Convention Center sales staff generate leads, the challenge will be to continue to work with area hoteliers to increase usage of the Center and generate more room nights for the surrounding hotels. Although many of the hotels currently operate at peak capacity during the week, recent and future hotel developments should help to increase the number of convention related room nights booked. The following table is a current chart of booking pace activity for the Ontario Convention Center.

**Convention Center Room Nights Pace Report**
**2008/2009 - 2010/2011**
**(Current Room Nights Pace)**

| | Contracted | Pending | Total |
|---|---|---|---|
| 2008/09 | 25,316 | 2,835 | 28,151 |
| 2009/10 | 14,086 | 1,425 | 15,511 |
| 2010/11 | 7,877 | 1,778 | 9,655 |

Source: Ontario Convention Center

As in years past the marketing campaign will also continue to include key market segments as represented by prior customers, competitor accounts and telemarketing databases as well as citywide businesses. In addition, public relations efforts will continue to manage

the political and hotel relationships vital to the convention center and city, while generating increased editorial in strategic industry and local media. The main marketing goals for the OCVB continue to be to increase awareness for Ontario as the preferred venue with meeting planners state-wide, increase lead generation over the prior year and, as a result, support the sales team in increasing convention center revenues for upcoming fiscal years. To this regard, one possible strategy would be to increase bookings of events by the convention center in a way that will bring more business to the hotels for a two to three night stay, which in turn would positively impact multiple industries, and therefore the city as a whole.

**Transient Occupancy Tax Collections**

The transient occupancy tax (TOT) rate in the City of Ontario is 11.8 percent, and the total revenues from this tax collected in Ontario increased from $4.5 million in the 1995/1996 fiscal year to $11.03 million in fiscal year 2007/2008. This represents a 7.8 percent compound average annual growth rate. The fiscal year runs from July 1 to June 30 for any given year. The following table summarizes the growth in transient occupancy tax revenues for the City of Ontario.

**Historical Transient Occupancy Tax Collections**
**Ontario, CA**

| Year | Revenues |
|---|---|
| 1995/1996 | $4,500,000 |
| 1996/1997 | 5,300,000 |
| 1997/1998 | 5,800,000 |
| 1998/1999 | 6,700,000 |
| 1999/2000 | 7,400,000 |
| 2000/2001 | 8,200,000 |
| 2001/2002 | 8,100,000 |
| 2002/2003 | 8,700,000 |
| 2003/2004 | 9,400,000 |
| 2004/2005 | 10,500,000 |
| 2005/2006 | 11,100,000 |
| 2006/2007 | 11,013,000 |
| 2007/2008 | 11,025,000 |
| CAAC | 7.8% |

Source: City of Ontario

As can be noted the city's TOT has declined slightly in the last two years. In the 2006/07 fiscal year this was primarily due to a significant increase within the City of Rancho Cucamonga, rather than a decrease in operating results, while the following year's performance was representative of the initial stages of a citywide hotel slowdown. It should be further noted that the city's TOT of approximately $11 million puts it on par with major California cities such as Oakland, Pasadena, and Garden Grove.

## NEW AND PROPOSED DEVELOPMENTS

### Downtown Civic Center Redevelopment Project

A public-private partnership between the J.H. Synder Company and the City of Ontario, Ontario Town Square is a 10.6 acre redevelopment project occupying six city blocks in the downtown area. The mixed-use project consists of three phases. Phase 1 includes 140 for-sale town home units, while Phase 2 includes 160 affordable housing apartment units The third and final phase, consisting of 153 flats and approximately 30,000 square feet of retail, is scheduled for a late 2009 completion. Additionally, the residents of Ontario Town Square will have access to a 2.5-acre community park. The project is interwoven with the existing City Hall, a recently completed senior center and a state-of-the-art public library. By creating a true civic core for the community, Ontario Town Square aims to be the cornerstone of redevelopment in downtown Ontario.

### Piemonte at Ontario Center

Panattoni Development Company, LLC, broke ground on Piemonte at The Ontario Center in November of 2006. The one million square-foot lifestyle center in Ontario, is located along Interstate 10 and bordered by Fourth Street to the north, Milliken Avenue to the east and Haven Avenue to the west. The 120-acre project is situated in the heart of Ontario's fastest growing business and retail district, with existing and proposed high-end housing surrounding the site. A fully integrated mixed-use urban center, Piemonte at The Ontario Center is proposed to include approximately 268,000 square feet of Class A corporate office space; approximately 500,000 square feet of retail; approximately 800 for-sale condominiums built adjacent to and above distinctive restaurants and lifestyle-oriented retail; Citizens Business Bank Sports Arena, and a full-service hotel. While portions of the original development plan have, or may be scaled down or delayed, such as the Hotel component, we anticipate the full build-out of the integral mixed-use project over the next two to three years. When complete, the $900 million development will be a vibrant Main Street-style, central hub serving the interests and needs of millions of residents, employees and visitors.

### Oliver McMillan Historic Guasti District

In mid-2006 San Diego-based Oliver McMillan purchased the nearly 50-acre site, which had once been its own community that included a bakery, fire station, hotel, post office and a 5,000-acre vineyard in the early 1900s. The Guasti project will include upscale retail, restaurant, and office components, as well as at least two hotels, including a Kimpton boutique hotel that is planned to incorporate the Guasti mansion as one of the focal points of the project. Initial plans call for approximately 175,000 square feet of existing historical buildings to be incorporated into 415,000 square feet of retail and restaurants, and 500,000 square feet of office space. In redeveloping the parcel, Oliver McMillan seeks to offer an intimate, urban experience featuring a unique retail tenant mix, and an emphasis on entertainment and dining that is upscale at all levels. A residential component will be brought in during a later phase of construction. Given the current economic climate the Guasti project now has an estimated construction start of later this year and targeted opening in 2012.

**New Model Colony**

In 1998 the City of Ontario prepared and adopted the Sphere of Influence General Plan Amendment, an amendment to the general plan of the City of Ontario. The General Plan for the New Model Colony intends to provide the long term vision to create a high quality environment where residents can live, work, and play with a sense of individual neighborhoods. The New Model Colony, formerly part of the San Bernardino County Agricultural Preserve, encompasses approximately 8,200 acres and is bounded by Riverside Drive to the north, Milliken Avenue and Hamner Avenue to the east, the Riverside County line and Merrill Avenue to the south, and Euclid Avenue to the west.

The New Model Colony is zoned for upscale housing in demand with the influx of home buyers from Los Angeles and Orange Counties. The first neighborhood, Eden Glen consisting of 542 residences opened in April 2007, and although the sales pace was slower than anticipated in 2008 in response to rising mortgage defaults, foreclosures, and the impact of subprime loan woes, the fact remains that the very high cost of housing in California's coastal communities will continue to drive thousands of technicians, professionals and executives inland to acquire upscale homes at prices they can afford. As a result of this surge, as many as 30,000 homes, Ontario's population is anticipated to grow to as many more than 360,000 people over the next 30 years, making it one of Southern California's largest cities.

## CITY OF RANCHO CUCAMONGA

### Area Overview

Rancho Cucamonga is Ontario's neighboring city to the north. As the city continues to grow, the City of Ontario should not only be well aware of this growth and expansion, but also understand the nature of this growth, and how it affects and impacts economically significant industries within the Ontario area. In reference to the lodging industry in particular, the City of Rancho Cucamonga is well-positioned to use its remaining parcels of undeveloped real estate for hotels and restaurants that could potentially take a percentage of hotel demand away from the Ontario hotels.

Rancho Cucamonga is a 38 square mile city located in the southwest corner of San Bernardino County. The community is located 37 miles east of downtown Los Angeles and 15 miles west of downtown San Bernardino. It is surrounded by Upland to the west, Ontario to the south, and Fontana to the east. For decades, Southern California has grown outward along its transportation corridors. As each successive ring of development has become saturated, costs and congestion have increased, pushing people and firms still farther out. At different times, this "spill over" process has made the San Fernando Valley and Orange County metaphors for Southern California's energy and growth. More recently, and until the recent economic collapse, the Inland Empire was the center of the region's economic energy, particularly along its western edge bounded by the I-15 freeway.

As the third largest city in San Bernardino County, the population of Rancho Cucamonga is roughly 174,000 residents according to 2008 estimates. With nearly a 33 percent growth rate since 2000, what began as a distribution and manufacturing community has been steadily transformed into a haven for a skilled technical, professional, and executive labor force. That said, Rancho Cucamonga has one of the highest household median incomes in the Riverside-San Bernardino Metropolitan Statistical Area at $78,452, and is second only to Riverside in terms of buying power index. In terms of real estate, Rancho Cucamonga currently has 37.3 million square feet of industrial real estate, with a vacancy rate of 7.2 percent, with 64,400 square feet under construction as of year-end 2008. In the commercial real estate sector, Rancho Cucamonga has 3.1 million square feet of office space in existence or under construction.

Similar to Ontario, Rancho Cucamonga's emergence as a center of job growth was primarily the result of the migration of firms to the Inland Empire from Los Angeles and Orange Counties. This has occurred because the density of land development in coastal counties has driven up their cost of manufacturing, office and distribution space, while at the same time, professional, technical and production workers have shown a willingness to work for less to offset the time and energy lost in long commutes. Some of this growth can be accounted for by Rancho Cucamonga's proximity to Ontario's border, as well as the major demand generators that are located in the Ontario central district. The City of Rancho Cucamonga, like local municipalities throughout the state and the country, is adjusting to the effects of the housing slump, subprime mortgage default crisis, and economic downturn. Economic statistics, however indicate that Rancho Cucamonga is well

positioned on a number of levels to prosper once again when economic activity strengthens in the region.

**Victoria Gardens Lifestyle Center**

Located at the northwest quadrant of Interstate Highway 15 and Foothill Boulevard/Route 66, Victoria Gardens currently consists of 1.3 million square feet of retail space along with entertainment attractions, including the Victoria Gardens Cultural Center and Lewis Family Playhouse, Library and Celebration Hall. Anchor tenants include Macy's, JCPenney and AMC Theatres, as well as hundreds of other fine retailers and dozens of restaurants previously unknown to the inland region. The project covers 147 acres with an initial development cost of roughly $200 million. The Victoria Gardens Regional Mall is a partnership between Forest City Development California, Inc. and Lewis Investment Company of Upland, California.

Now, the lifestyle center may be following with a second act, though a specific delivery is far off. Rancho Cucamonga city officials are considering a second phase for the $200 million lifestyle center, which is proposed to take the project vertical with medium-rise buildings consisting of office and residential space. Planning commissioners held a scoping meeting in September 2008 to discuss the possibility of the additional construction, which would occur on existing, outlying parking lots at Victoria Gardens. Specific dates for the construction start and completion of Phase II however, are contingent on a market turnaround.

**RECENT AND FUTURE DEVELOPMENTS**

A number of new high-end professional office projects have helped to increase Rancho Cucamonga's identity as a location for professional and corporate office space in the Inland Empire. In total, more than one million square feet of office space is being added to the city's inventory in the latest wave of projects, much of which is being constructed along Haven Avenue. New York's Rockefeller Group Development Corporation's 238,000 square feet of office projects in Rancho Cucamonga consist of three campuses. The Haven Avenue Professional Center features eight freestanding buildings wrapped around landscaped courtyards. The nearby Pittsburgh Avenue Professional Center has four free standing, one-story office buildings, and four two-story buildings set on a three-acre parcel. The Jersey Boulevard Professional Center provides a combined 101,658 square feet of contemporary office space just off of Haven Avenue along Jersey Boulevard.

Also on the Haven Avenue office corridor, Hillwood Development and Rancho Cucamonga-based Lewis Operating Corporation are building Vintner's Grove, a 138,000-square-foot, master-planned office and medical campus. The project includes a 100,000-square-foot, Class A office building, as well as eight smaller buildings ranging from 4,276 to 4,690 square feet. In addition, the nearby Haven Park development features two recently completed 75,000-square-foot, three-story office towers with dramatic modern architecture. The 12-acre development also features 21,200 square feet of retail space and the newly constructed 136-room Aloft hotel, a member of Starwood Hotels and Resorts. On the east

side of Haven Avenue, is the Stone Haven Executive Park, nine buildings within a state-of-the-art professional office campus. The development features condominium offices in seven newly constructed one- and two-story buildings.

While the growth of Rancho Cucamonga's office market marks another phase in the overall development of the business landscape, unfortunately a significant amount of this new office space remains vacant as the city, similar to other communities in the region, is unable to attract new businesses in these difficult economic times.

**New Hotel Developments**

Between late 2004 and the middle of 2008 six major hotel developments (Holiday Inn Express, Homewood Suites, Hilton Garden Inn, TownePlace Suites, Courtyard, and Aloft Hotels) opened in the City of Rancho Cucamonga, with the under construction Four Points Hotel slated to open in May of this year. These hotels, (which are discussed in further detail in the next section) that have recently opened are primarily situated on the Ontario/Rancho Cucamonga border, near the Ontario Mills Mall. These hotels are being incorporated into the current hotel market and as such are receiving some of the area demand that the Ontario hotels would normally receive. This dynamic has been heightened by the current recession as hotels aggressively compete for a reduced amount of business.

**Transient Occupancy Tax Collections**

The transient occupancy tax (TOT) rate in the City of Rancho Cucamonga is 10.0 percent, and the total revenues from this tax collected increased from roughly $153,900 in the 1998/1999 fiscal year to more than $2.2 million in fiscal year 2007/2008. As shown in the table below, large increases in recent years, which correspond to the addition of five new hotels, have more than quadrupled historical annual figures. The fiscal year runs from July 1 to June 30 for any given year. The following table summarizes the growth in transient occupancy tax revenues for the City of Rancho Cucamonga.

**Historical Transient Occupancy Tax Collections**
**Rancho Cucamonga, CA**

| Year | Revenues |
|---|---|
| 1998/1999 | $153,900 |
| 1999/2000 | 212,000 |
| 2000/2001 | 217,700 |
| 2001/2002 | 229,400 |
| 2002/2003 | 347,100 |
| 2003/2004 | 254,500 |
| 2004/2005 | 191,200 |
| 2005/2006 | 629,200 |
| 2006/2007 | 1,745,000 |
| 2007/2008 | 2,249,000 |
| CAAC | 25.0% |

Source: City of Ontario

## CONCLUSION

Overall, the long term outlook for the City of Ontario remains favorable. Throughout the decade both San Bernardino County and Ontario have benefited from the availability of large, relatively inexpensive commercial and industrial sites, which have led to the relocation of companies in the area and a significant number of recently constructed office and industrial projects. Additionally, there are a number of exciting newly opened, and planned developments for the greater Ontario area including the New Model Colony, Downtown Redevelopment Project, Piemonte at Ontario Center, Citizens Business Bank Arena, and the Oliver McMillan Guasti Project. Together these landmark projects are anticipated to bring a plethora of unparalleled retail, restaurant, sports and entertainment, and residential developments to the city. Collectively these projects are anticipated to grow Ontario's population to more than 360,000 residents over the next 20 years with the full build-out of the New Model Colony, and other residential developments. Thus, even though development within the city has slowed markedly, we anticipate that as the economy begins to rebound in 2010 and beyond, Ontario will be well positioned to once again be a model of growth for the Inland Empire.

## *Section III*

## *HOTEL MARKET ANALYSIS*

# HOTEL MARKET ANALYSIS

## SUPPLY AND DEMAND ANALYSIS

In identifying the overall hotel market, we have included all hotels within the Ontario area concentrated primarily on Vineyard Avenue, near the LA/Ontario International Airport, hotels located across Interstate 10 between Haven Avenue and Ontario Mills, as well as the adjacent properties in Rancho Cucamonga. These hotels include a variety of accommodations, ranging from budget hotels with fewer than 100 rooms and limited service/ extended-stay hotels with between 100 and 200 rooms, to full-service properties of generally 300 rooms or more.

We have chosen to divide the Ontario competitive market into three groups: full-service, limited-service/extended stay and budget. The selection of these markets was based on each hotel's location, number of guestrooms, support facilities and amenities, rate structures, and market positioning.

### Full-Service

Although there are a few proposed hotels in this segment, the full-service market currently consists of only six hotels at this time: the Marriott, Doubletree, Hilton, Sheraton, Best Western InnSuites, and the Holiday Inn Convention Center, which opened in February 2008. These hotels compete primarily for commercial and self-contained group demand, although they do receive a substantial amount of business from the leisure and convention demand segments (as they are the only properties with sufficient services and facilities to accommodate additional convention visitors).

### Limited-Service/Extended-Stay

The limited-service and extended-stay properties represent the majority of the greater Ontario hotel market. These properties receive demand generated primarily by the Ontario commercial market. Generally, these hotels do not compete for convention business as their marketing efforts, facilities and amenities are focused on the individual traveler. The limited service/extended stay properties, however, do occasionally experience compression at certain times of the year from convention visitors. As we will present later in the report, this particular segment of hotels has undergone the largest expansion to supply.

### Budget

For the purpose of our analysis, we have limited the budget segment of the market to those properties with fewer than 100 rooms, and at the lower end of the room rate spectrum. The primary source of demand for these hotels is the leisure market; however there is also some degree of room night consumption generated from the commercial segment.

The following tables show the historical and current supply in the Ontario lodging market.

**Greater Ontario Lodging Market**
**Historical and Current Competitive Supply**

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|
| *FULL SERVICE HOTELS* | | | | | | | | |
| Doubletree Hotel | 484 | 484 | 484 | 484 | 484 | 484 | 484 | 484 |
| Ontario Hilton | 309 | 309 | 309 | 309 | 309 | 309 | 309 | 309 |
| Ontario Marriott | 299 | 299 | 299 | 299 | 299 | 299 | 299 | 299 |
| Sheraton Hotel | 164 | 164 | 164 | 164 | 164 | 164 | 164 | 164 |
| Best Western InnSuites | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 |
| Holiday Inn Convention Center* | | | | | | | 135 | 180 |
| *Sub-total* | *1,406* | *1,406* | *1,406* | *1,406* | *1,406* | *1,406* | *1,541* | *1,586* |
| Change Over Previous Year | N/A | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 9.6% | 2.9% |
| *LIMITED SERVICE/EXTENDED STAY HOTELS* | | | | | | | | |
| Residence Inn | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 |
| Good Night Inn | 186 | 186 | 186 | 186 | 186 | 186 | 186 | 186 |
| La Quinta | 144 | 144 | 144 | 144 | 144 | 144 | 144 | 144 |
| Country Suites at the Mills (Ayres) | 138 | 138 | 138 | 138 | 138 | 138 | 138 | 138 |
| Hyatt Place (formerly AmeriSuites) | 128 | 128 | 128 | 128 | 128 | 128 | 127 | 127 |
| Country Side Suites (Ayres) | 107 | 107 | 107 | 107 | 107 | 107 | 107 | 107 |
| Fairfield | 117 | 117 | 117 | 117 | 117 | 117 | 117 | 117 |
| Best Western Country Inn | 72 | 72 | 72 | 72 | 72 | 72 | 72 | 72 |
| Best Western Ontario Airport | 154 | 154 | 154 | 154 | 154 | 154 | 154 | 154 |
| Country Suites by Carlson | 120 | 120 | 120 | 120 | 120 | 120 | 120 | 120 |
| Extended Stay America | 127 | 127 | 127 | 127 | 127 | 127 | 127 | 127 |
| Ayres Suites Hotel | 167 | 167 | 167 | 167 | 167 | 167 | 167 | 167 |
| Red Roof Inn | 111 | 111 | 111 | 111 | 111 | 111 | 111 | 111 |
| Landmark Inn | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Ayres Inn and Suites* | | 22 | 105 | 105 | 105 | 105 | 105 | 105 |
| Hampton Inn and Suites* | | | | 88 | 91 | 91 | 91 | 91 |
| Homewood Suites Rancho Cucamonga* | | | | 17 | 103 | 103 | 103 | 103 |
| Towneplace Suites Rancho Cucamonga* | | | | 9 | 112 | 112 | 112 | 112 |
| Holiday Inn Express Rancho Cucamonga* | | | | | 85 | 93 | 93 | 93 |
| Hilton Garden Inn Rancho Cucamonga* | | | | | 116 | 126 | 126 | 126 |
| Courtyard by Marriott Rancho Cucamonga* | | | | | 59 | 117 | 117 | 117 |
| Holiday Inn Express Ontario* | | | | | | | 70 | 120 |
| Indigo Hotel & Suites* | | | | | | | 46 | 92 |
| aloft Hotel Rancho Cucamonga* | | | | | | | 79 | 136 |
| Country Inn & Suites Ontario Mills* | | | | | | | 9 | 117 |
| Comfort Suites Ontario* | | | | | | | 7 | 100 |
| Sheraton Four Points Rancho Cucamonga | | | | | | | | 65 |
| *Sub-total* | *1,871* | *1,893* | *1,976* | *2,090* | *2,542* | *2,618* | *2,828* | *3,247* |
| Change Over Previous Year | N/A | 1.2% | 4.4% | 5.8% | 21.6% | 3.0% | 8.0% | 14.8% |
| *BUDGET HOTELS* | | | | | | | | |
| Motel 6 | 71 | 71 | 71 | 71 | 71 | 71 | 71 | 71 |
| Archibald Inn | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 |
| Best Value Inn | 61 | 61 | 61 | 61 | 61 | 61 | 61 | 61 |
| Country Inn | 52 | 52 | 52 | 52 | 52 | 52 | 52 | 52 |
| Days Inn | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 |
| Quality Inn | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 |
| Comfort Inn | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 |
| Super 8 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 |
| Econo Inn | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 |
| Econo Lodge Ontario Airport | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 |
| Econo Lodge Ontario South | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 |
| Knights Inn | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 |
| Rodeway Inn | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| American Inn | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 |
| Western Inn | 43 | 43 | 43 | 43 | 43 | 43 | 43 | 43 |
| Best Ontario Inn | 43 | 43 | 43 | 43 | 43 | 43 | 43 | 43 |
| West Coast Inn | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 |
| Pepper Tree | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 |
| Capri Motel | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| Mountain Inn | 42 | 42 | 42 | 42 | 42 | 42 | 42 | 42 |
| Ontario Motor Inn | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 |
| California Inn | 61 | 61 | 61 | 61 | 61 | 61 | 61 | 61 |
| Ramada Inn | 65 | 65 | 65 | 65 | 65 | 65 | 65 | 65 |
| *Sub-total* | *1244* | *1244* | *1244* | *1244* | *1244* | *1244* | *1244* | *1244* |
| Change Over Previous Year | N/A | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Total** | **4,521** | **4,543** | **4,626** | **4,740** | **5,192** | **5,268** | **5,613** | **6,077** |
| **Change Over Previous Year** | **N/A** | **0.5%** | **1.8%** | **2.5%** | **9.5%** | **1.5%** | **6.5%** | **8.3%** |

*Room additions are annualized
Source: ***PKF Consulting, City of Ontario***

**Additions to Supply**

As the development of new hotels tends to be a lagging economic indicator, there were a number of hotel developments that opened in 2008 as the recession began to take hold in the Inland Empire. It should also be noted that many of these projects had been in the development stage for some time and were designed and financed during the hotel boom years. With this said, we have specifically introduced a total of five hotels, comprising 748 rooms between 2009 and 2012, which we believe is representative of the projects in the development pipeline. In years past this number has been significantly higher as developers eagerly planned to capitalize on strong market dynamics and were able to obtain financing at very attractive terms. However, more recently the national lending market has all but dried up as institutions are unable, and perhaps unwilling to price risk in today's economic climate given the turmoil on Wall Street, declining gross domestic product, and lack of indicators that portend a recovery.

The first of these projects we have included in our analysis is the under construction, Four Points Hotel by Sheraton in the City of Rancho Cucamonga slated to open in May of this year. This 112-room room property is located near the northeast corner of Foothill Boulevard and Rochester Avenue. Located proximate to Interstate 15 and the Epicenter, home to the Rancho Cucamonga Quakes, a minor league baseball team affiliated with the Angels, the hotel will feature a three-meal restaurant, 1,400 square feet of meeting space, fitness center, and outdoor heated swimming pool. In January 2010, we anticipate that Whiteco Industries, Inc. based out of Merrillville, Indiana, will open their 161-room SpringHill Suites by Marriott Hotel along the southeast corner of Haven Avenue and Interstate 10. Per Marriott brand standards, these all-suite hotels include a complimentary hot breakfast, complimentary internet access in the lobby and guestrooms, kitchenettes, fitness center, and swimming pool or whirlpool.

In 2012 we anticipate that Oliver McMillan will deliver two hotels as part of its larger mixed-use project. The first of these hotels is anticipated to be a 150-room full-service, upscale boutique hotel managed by Kimpton Hotels of San Francisco. The hotel is intended to lead the Ontario lodging market in terms of quality of service, décor, and amenities. The second hotel, also approximately 150 rooms, is slated to be an upscale business hotel. The final hotel we have included in our analysis is also projected to open in 2012. The proposed seven-story, 175-room Embassy Suites by Hilton Hotel will be located near the SpringHill Suites site described above, which is slated to also include medical office space, and a Mercedes Benz auto dealership.

Additionally, there have been plans on the table for sometime to develop a number of additional hotels in the Ontario area. However, given the current economic climate and the great difficulty in bringing these hotels to fruition at this time, they have not been included as specific additions to supply. Hotels that fits this criteria include a proposed full-service Westin Hotel that may be developed by Ryan Companies as part of the Piemonte project in conjunction with the Citizens Business Bank Arena. There are also tentative plans to develop two limited-service hotels across Haven Avenue from site of the recently opened Holiday Inn Express Hotel just north of Interstate 60. Current plans call for a

TownePlace Suites and a Hampton Inn & Suites. Additionally, we note a Cambria Suites hotel proposed to be developed near Archibald Avenue and Inland Empire Boulevard. Since these hotel projects are still in their early planning stages, have undergone multiple variations in the past few years, and face extremely challenging financing, they have not been included as specific additions to supply.

It should also be noted that a four story, 115-room Hilton Garden Inn and Conference Center is slated to open in the second quarter of 2009 in Fontana. This project is located on the southeast corner of Sierra and Slover Avenues, within the Empire Center Business Park, and is being developed by the Sierra Hotel Group, LLC. The facility plans to capitalize on the development occurring within the Empire Center Business Park, the expansion of the Kaiser Permanente medical campus, along with vehicular traffic along Sierra Avenue and Interstate 10. The hotel will stand on four acres which includes one 6,000 square foot free-standing restaurant pad. Featured physical amenities for the hotel include 5,000 square feet of meeting space, a swimming pool and spa, a fitness center, laundry facilities, gift shop, and a business center. This property is not included in the competitive supply due to its location approximately eight miles east of the City of Ontario. We also note that the developers of a parcel located immediately to the west across Sierra Avenue from the proposed Hilton Garden Inn are preliminarily planning to construct an 80-room Holiday Inn Express Hotel. Again due to its location relative to Ontario as well as its speculative nature, and lack of development timeline, this project has not been included as an addition to supply.

## SUMMARY OF ADDITIONS TO AND DELETIONS FROM SUPPLY

The table on the preceding page summarizes the historical and projected additions to supply for the competitive market.

| 2009 Ontario Hotel Market | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| ***Historical and Current Competitive Supply*** | | | | | | | | | | |
| La Quinta Inn Ontario | 144 | 144 | 144 | 144 | 144 | 144 | 144 | 144 | 144 | 144 |
| Doubletree Hotel Ontario | 484 | 484 | 484 | 484 | 484 | 484 | 484 | 484 | 484 | 484 |
| Hilton Ontario Airport | 309 | 309 | 309 | 309 | 309 | 309 | 309 | 309 | 309 | 309 |
| Country Suites by Carlson | 120 | 120 | 120 | 120 | 120 | 120 | 120 | 120 | 120 | 120 |
| Fairfield Inn Ontario | 117 | 117 | 117 | 117 | 117 | 117 | 117 | 117 | 117 | 117 |
| Ayres Country Side Suites Ontario Airport | 106 | 106 | 106 | 106 | 106 | 106 | 106 | 106 | 106 | 106 |
| Residence Inn Ontario | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 | 200 |
| Hyatt Place Ontario (frmr AmeriSuites) | 128 | 128 | 128 | 128 | 128 | 128 | 128 | 128 | 128 | 128 |
| Ayres Suites Ontario Mills Mall | 138 | 138 | 138 | 138 | 138 | 138 | 138 | 138 | 138 | 138 |
| Best Western Inn Suites Ontario | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 |
| Marriott Ontario Airport | 299 | 299 | 299 | 299 | 299 | 299 | 299 | 299 | 299 | 299 |
| Sheraton Ontario Airport | 164 | 164 | 164 | 164 | 164 | 164 | 164 | 164 | 164 | 164 |
| Ayres Hotel & Suites Convention Center | 166 | 166 | 166 | 166 | 166 | 166 | 166 | 166 | 166 | 166 |
| Ayres Suites Ontario Mills | 108 | 108 | 108 | 108 | 108 | 108 | 108 | 108 | 108 | 108 |
| Hampton Inn & Suites Ontario | 0 | 83 | 91 | 91 | 91 | 91 | 91 | 91 | 91 | 91 |
| Courtyard Rancho Cucamonga | 0 | 0 | 88 | 117 | 117 | 117 | 117 | 117 | 117 | 117 |
| Hilton Garden Inn Rancho Cucamonga | 0 | 0 | 112 | 122 | 122 | 122 | 122 | 122 | 122 | 122 |
| Homewood Suites Rancho Cucamonga | 0 | 5 | 98 | 98 | 98 | 98 | 98 | 98 | 98 | 98 |
| Holiday Inn Express Rancho Cucamonga | 0 | 0 | 85 | 93 | 93 | 93 | 93 | 93 | 93 | 93 |
| TownePlace Suites Rancho Cucamonga | 0 | 19 | 112 | 112 | 112 | 112 | 112 | 112 | 112 | 112 |
| Holiday Inn Convention Center | 0 | 0 | 0 | 0 | 135 | 180 | 180 | 180 | 180 | 180 |
| Aloft Rancho Cucamonga | 0 | 0 | 0 | 0 | 79 | 136 | 136 | 136 | 136 | 136 |
| Holiday Inn Express | 0 | 0 | 0 | 0 | 70 | 120 | 120 | 120 | 120 | 120 |
| Hotel Indigo Ontario | 0 | 0 | 0 | 0 | 46 | 92 | 92 | 92 | 92 | 92 |
| Country Inn & Suites by Carlson Ontario | 0 | 0 | 0 | 0 | 9 | 117 | 117 | 117 | 117 | 117 |
| Comfort Suites Ontario | 0 | 0 | 0 | 0 | 7 | 100 | 100 | 100 | 100 | 100 |
| Four Points Rancho Cucamonga | 0 | 0 | 0 | 0 | 0 | 65 | 112 | 112 | 112 | 112 |
| Competitive Market Total | 2,633 | 2,740 | 3,219 | 3,266 | 3,612 | 4,076 | 4,123 | 4,123 | 4,123 | 4,123 |
| % Change | N/A | 4.1% | 17.5% | 1.5% | 10.6% | 12.8% | 1.2% | 0.0% | 0.0% | 0.0% |
| ***Proposed Additions to the Competitive Supply*** | | | | | | | | | | |
| ADDITION TO SUPPLY | | | | | | | | | | |
| SpringHill Suites Ontario | | | | | | | 161 | | | |
| Embassy Suites Ontario | | | | | | | | | 175 | |
| Kimpton Guasti Hotel | | | | | | | | | 150 | |
| Extended-Stay Guasti Hotel | | | | | | | | | 150 | |
| Total Additions | 0 | 0 | 0 | 0 | 0 | 0 | 161 | 161 | 636 | 636 |
| ***Historical and Projected Rooms Supply*** | | | | | | | | | | |
| Cumulative Rooms Supply | 2,633 | 2,740 | 3,219 | 3,266 | 3,612 | 4,076 | 4,284 | 4,284 | 4,759 | 4,759 |
| Annual Rooms Supply | 961,045 | 1,000,100 | 1,174,935 | 1,192,090 | 1,318,380 | 1,487,740 | 1,563,660 | 1,563,660 | 1,737,035 | 1,737,035 |
| % Change | N/A | 4.1% | 17.5% | 1.5% | 10.6% | 12.8% | 5.1% | 0.0% | 11.1% | 0.0% |
| Source: PKF Consulting | | | | | | | | | | |

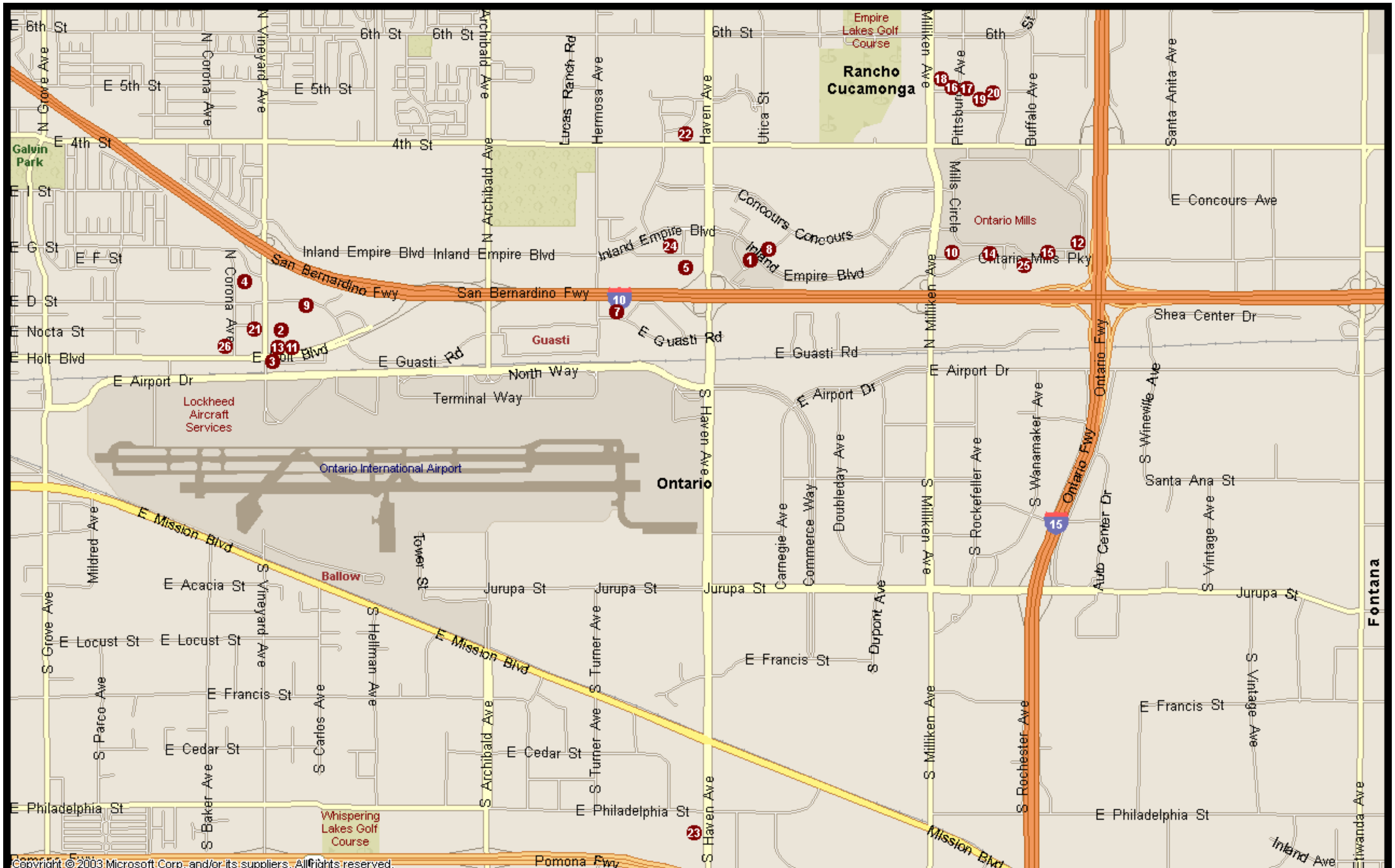
## COMPETITIVE SUPPLY

For the purposes of the analysis submitted in this report, we have identified 26 properties that we feel would serve as the best gauge of market performance in Ontario, providing an accurate portrayal of future market demand, and to determine the potential for new hotel development. These hotels have been selected based upon their location, number of guestrooms, support facilities, rate structure, market demand, and market positioning. Furthermore, it should be noted that these 26 hotels represent more than two thirds of the Ontario region's total hotel supply. Therefore, we feel that historical and future market demand of these hotels is representative of the overall hotel demand for the City of Ontario.

The table below displays the hotels included in our sample, as of February 2009.

| | Property Name | Room Count |
|---|---|---|
| ***Full-Service Hotels*** | | |
| 1 | Ontario Airport Hilton | 309 |
| 2 | Doubletree Hotel Ontario | 484 |
| 3 | Ontario Airport Marriott | 299 |
| 4 | Sheraton Ontario Airport | 164 |
| 5 | Best Western InnSuites | 150 |
| 6 | Holiday Inn Convention Center | 180 |
| ***Limited-Service/Extended Stay Hotels*** | | |
| 7 | Fairfield Inn by Marriott | 117 |
| 8 | La Quinta Inn & Suites | 144 |
| 9 | Residence Inn by Marriott | 200 |
| 10 | Ayres Suites at the Mills | 138 |
| 11 | Ayres Suites Ontario Airport | 167 |
| 12 | Hyatt Place (fmr AmeriSuites) | 127 |
| 13 | Country Side Suites Ontario | 107 |
| 14 | Ayres Inn and Suites Mills | 105 |
| 15 | Hampton Inn & Suites | 91 |
| 16 | TownePlace Suites | 112 |
| 17 | Homewood Suites | 103 |
| 18 | Holiday Inn Express | 93 |
| 19 | Hilton Garden Inn | 126 |
| 20 | Courtyard | 117 |
| 21 | Country Suites by Carlson | 120 |
| 22 | aloft Rancho Cucamonga | 136 |
| 23 | Holiday Inn Express Ontario Airport | 120 |
| 24 | Hotel Indigo | 92 |
| 25 | Country Inn & Suites by Carlson | 117 |
| 26 | Comfort Suites Ontario | 100 |
| | Total | 4,018 |

A map displaying the locations of the hotels that we have determined to be representative of the greater Ontario hotel market can be found on the following page.




PKF Consulting

# Competitive Supply Map

## HOTEL ROOMS DEMAND

Demand for hotel rooms is categorized in three ways:

**Demonstrated Demand**: the demand already captured at competitive hotels;

**Induced Demand**: the demand that does not presently seek accommodations in the competitive market, but could be persuaded to do so through marketing efforts, room rates, facilities, services and amenities.

**Unsatisfied Demand**: the demand that seeks accommodations in the market but is not satisfied due to one of a number of factors: sell-outs during peak season; lack of a particular type of accommodation; lack of meeting space; or high room rates.

## HISTORICAL MARKET PERFORMANCE

The aggregate average annual available and occupied rooms, resulting occupancy levels, average daily rate, and revenue per available room (RevPAR) for this sample set between 2004 and 2008 are presented in the following table.

**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2004 | 961,045 | N/A | 747,278 | N/A | 77.8% | $ 92.21 | N/A | $71.70 | N/A |
| 2005 | 1,100,100 | 4.1% | 782,069 | 4.7% | 78.2 | 97.69 | 5.9% | 76.40 | 6.5% |
| 2006 | 1,174,935 | 17.5 | 879,094 | 12.4 | 74.8 | 102.28 | 4.7 | 76.53 | 0.2 |
| 2007 | 1,192,090 | 1.5 | 909,061 | 3.4 | 76.3 | 105.39 | 3.0 | 80.37 | 5.0 |
| 2008 | 1,318,380 | 10.6 | 883,434 | -2.8 | 67.0 | 102.88 | -2.4 | 68.94 | -14.2 |
| CAAG | 8.2% | | 4.3% | | | 2.8% | | -1.0% | |

Source: PKF Consulting

Rooms supply in the competitive market has increased by a compound average annual rate of 8.2 percent since 2004. This can be attributed to the opening of the Hampton Inn and Suites Ontario in 2005, and the openings of the five Rancho Cucamonga properties located immediately north of the Ontario Mills Mall between late 2005 and mid-2006, the aloft Hotel in 2008 as well as the opening of five properties in Ontario last year. From the February opening of the Holiday Inn Convention Center through the late December opening of the Comfort Inn and Suites in 2008, this group also included the Hotel Indigo, Holiday Inn Express Hotel & Suites, and the Country Inn & Suites by Carlson. Demand for rooms as demonstrated by occupied room nights has not met the increase in supply with growth averaging 4.3 percent annually between 2004 and 2008, including nearly a 3.0 percent decline in a particularly difficult 2008. The market had been operating at levels that we considered to be unsustainable over the long term as demand for hotel rooms in the region far outpaced new construction at least through early 2006. A supply and demand equilibrium was achieved the following year, albeit only temporarily, as recessionary fears were realized in 2008 amid an ever increasing supply of new hotel rooms.

Average daily rate in the competitive supply has averaged a 2.8 percent annual increase since 2004, similar to the generally accepted level of economic growth. The market was buoyed by strong gains in 2005 and 2006, as the new hotel supply was well received and older hotels renovated to remain competitive in the marketplace. In 2008, average daily rate decline for the first time amid the belt tightening of guests and hoteliers struggling to maintain occupancies.

## MIX OF DEMAND

The demand captured by the market is derived primarily from the commercial demand segment, followed by group, leisure and airline demand. The table below summarizes the 2008 mix of demand for the sample set of the lodging supply.

**Competitive Market**
**2008 Mix of Demand**

| Market Segment | Room Nights | Ratio |
|---|---|---|
| Commercial | 567,400 | 64% |
| Group | 160,200 | 18 |
| Leisure | 111,000 | 13 |
| Airline | 44,800 | 5 |
| Total | 883,000 | 100% |

Source: PKF Consulting

Each market segment is discussed in the following paragraphs, followed by a summary table setting forth our estimated growth in demand for each segment.

### Commercial Segment

As outlined in the previous table, commercial demand represents the single largest demand source for the competitive supply, equal to 64 percent of the total occupied rooms in 2008. The commercial demand in the competitive market generally is derived from conventional commercial demand generated from the large number of office parks and regional distribution centers located in the Ontario area. After anticipated limited growth in 2009 and 2010, we have estimated that due to the projected long term strength of the commercial market in the region, demand in the commercial segment will increase above the level of general economic growth from 2011 through 2015, and then stabilize at 3.0 percent beginning in 2016 and each year thereafter. We estimate that approximately 5,000 commercial room nights of otherwise unsatisfied demand will be absorbed into the market in 2008, an additional 45,000 nights in 2010, and another 15,000 commercial room nights in 2012, coinciding with the supply additions to the market. This is attributable to peak days during the week where commercial travelers are unable to find accommodations, as well as the anticipated appeal of the proposed properties, many of which are not currently found in the current competitive market. These factors are expected to add additional room nights to the market as Ontario keeps growing in the commercial segment.

### Group Segment

Within the competitive market, the group segment comprises various types of demand including corporate meetings and leisure groups, many of which are affiliated with sports

teams that utilize the area's baseball and soccer fields. A large source of the group room demand that is captured in this market is SMERF (Social, Military, Educational, Religious, Fraternal) business. As the commercial base grows in the area, commercial group demand is expected to grow. Based on trends in group-meeting activity in the competitive market in the near future we have estimated a slow to average level of growth over the next three years. Between 2012 and 2014 we have projected the level of growth in the group segment to be 5.0 percent, declining slightly to 4.0 percent the following year before stabilizing at 3.0 percent in 2016 and throughout our projection period. We have projected these growth rates due to the effects of the commercial, retail and food and beverage related developments that are anticipated to increase the attractiveness of the area to self-contained groups and convention attendees. We have also induced approximately 15,000 room nights between 2012 and 2013, which we anticipate will generated by the supply additions and new developments.

**Leisure Segment**

The leisure segment consists of pleasure travelers to and within Southern California for mostly recreational reasons. This segment is comprised of both domestic weekend travelers as well as international travelers. In 2008, the leisure tourist market segment is estimated to have accounted for only 13 percent of total demand. The hotels in the competitive supply can be used by leisure travelers as a base destination for visiting the entire Southern California area as the competitive supply is located within a reasonable proximity to attractions in Los Angeles and Orange County. One of the few relatively positive aspects of the local hotel market, the leisure segment has experienced modest growth with the opening of the Citizens Business Bank Arena. Between 2009 and 2012 we have projected the level of growth in the leisure segment to be 5.0 percent, declining slightly to 4.0 percent the following year before stabilizing at 3.0 percent in 2014 and throughout our projection period. We have also induced 20,000 room nights between 2010 and 2012, which is reflective of not only leisure demand emanating from the Arena, but also NASCAR race weekends.

**Airline Crew**

This market segment is comprised primarily of pilots, flight attendants and airline crew business from those airlines utilizing the LA/Ontario International Airport. Despite usual lower rates in comparison to other segments, this market is primarily attractive for its consistency. Recently, as air traffic has declined severely, the number of airline personnel as declined at a commensurate rate. As such we are projecting no growth in this over the next two years. However, over the long term, the Ontario hotels are expected to gain more room nights in this segment as LA/Ontario is one of the few airports in Southern California with the ability to handle a significant increase is passengers. We have estimated annual growth of 3.0 percent beginning in 2012 and throughout our projection period.

The table on the following page summarizes Ontario's projected hotel supply and demand.

**2009 Ontario Hotel Market**
**Competitive Market**
**Estimated Future Growth in Lodging Supply and Demand**
**2009 - 2017**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| **ROOMS SUPPLY** | 3,266 | | | | | | | | | |
| **Additions/(Deletions) to Supply** | | | | | | | | | | |
| Holiday Inn Convention Center | 135 | 45 | | | | | | | | |
| Aloft Rancho Cucamonga | 79 | 57 | | | | | | | | |
| Holiday Inn Express | 70 | 50 | | | | | | | | |
| Hotel Indigo Ontario | 46 | 46 | | | | | | | | |
| Country Inn & Suites by Carlson | 9 | 108 | | | | | | | | |
| Comfort Suites Ontario | 7 | 93 | | | | | | | | |
| Four Points Rancho Cucamonga | | 65 | 47 | | | | | | | |
| SpringHill Suites Ontario | | | 161 | | | | | | | |
| Embassy Suites | | | | | 175 | | | | | |
| Kimpton Guasti Hotel | | | | | 150 | | | | | |
| Extended-Stay Guasti Hotel | | | | | 150 | | | | | |
| Cumulative Rooms Supply | 3,612 | 4,076 | 4,284 | 4,284 | 4,759 | 4,759 | 4,759 | 4,759 | 4,759 | 4,759 |
| Total Annual Rooms Supply | 1,318,380 | 1,487,740 | 1,563,660 | 1,563,660 | 1,737,035 | 1,737,035 | 1,737,035 | 1,737,035 | 1,737,035 | 1,737,035 |
| Growth Over the Prior Year | 10.6% | 12.8% | 5.1% | 0.0% | 11.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| DEMONSTRATED DEMAND IN BASE YR | | | | | | | | | | |
| Commercial | 567,398 | 64% | | | | | | | | |
| Group | 160,218 | 18% | | | | | | | | |
| Leisure | 111,049 | 13% | | | | | | | | |
| Airline | 44,769 | 5% | | | | | | | | |
| TOTAL DEMONSTRATED DEMAND | 883,434 | 100% | | | | | | | | |
| INDUCED/(UNSATISFIED) DEMAND | | | | | | | | | | |
| Commercial | | 0 | 5,000 | 0 | 45,000 | 15,000 | 0 | 0 | 0 | 0 |
| Group | | 0 | 0 | 0 | 10,000 | 5,000 | 0 | 0 | 0 | 0 |
| Leisure | | 0 | 5,000 | 0 | 10,000 | 5,000 | 0 | 0 | 0 | 0 |
| Airline | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL INDUCED/(UNSATISFIED) DEMAND | | 0 | 10,000 | 0 | 65,000 | 25,000 | 0 | 0 | 0 | 0 |
| GROWTH RATES | | | | | | | | | | |
| Commercial | | 1.0% | 2.0% | 4.0% | 5.0% | 5.0% | 5.0% | 4.0% | 3.0% | 3.0% |
| Group | | 2.0% | 2.0% | 3.0% | 5.0% | 5.0% | 5.0% | 4.0% | 3.0% | 3.0% |
| Leisure | | 4.0% | 5.0% | 5.0% | 5.0% | 4.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Airline | | 0.0% | 0.0% | 2.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| **PROJECTED DEMAND** | | | | | | | | | | |
| Commercial | | | | | | | | | | |
| Demonstrated | 567,398 | 573,072 | 584,533 | 613,114 | 643,770 | 723,209 | 775,119 | 806,124 | 830,307 | 855,217 |
| Induced/(Unsatisfied) | 0 | 0 | 5,000 | 0 | 45,000 | 15,000 | 0 | 0 | 0 | (15,784) |
| Total | 567,400 | 573,100 | 589,500 | 613,100 | 688,800 | 738,200 | 775,100 | 806,100 | 830,300 | 839,400 |
| Growth Over Prior Year | N/A | 1.0% | 2.9% | 4.0% | 12.3% | 7.2% | 5.0% | 4.0% | 3.0% | 1.1% |
| Group | | | | | | | | | | |
| Demonstrated | 160,218 | 163,423 | 166,691 | 171,692 | 180,277 | 199,790 | 215,030 | 223,631 | 230,340 | 237,250 |
| Induced/(Unsatisfied) | 0 | 0 | 0 | 0 | 10,000 | 5,000 | 0 | 0 | 0 | (4,379) |
| Total | 160,200 | 163,400 | 166,700 | 171,700 | 190,300 | 204,800 | 215,000 | 223,600 | 230,300 | 232,900 |
| Growth Over Prior Year | N/A | 2.0% | 2.0% | 3.0% | 10.8% | 7.6% | 5.0% | 4.0% | 3.0% | 1.1% |
| Leisure | | | | | | | | | | |
| Demonstrated | 111,049 | 115,490 | 121,265 | 132,578 | 139,207 | 155,175 | 164,981 | 169,930 | 175,028 | 180,279 |
| Induced/(Unsatisfied) | 0 | 0 | 5,000 | 0 | 10,000 | 5,000 | 0 | 0 | 0 | (3,327) |
| Total | 111,000 | 115,500 | 126,300 | 132,600 | 149,200 | 160,200 | 165,000 | 169,900 | 175,000 | 177,000 |
| Growth Over Prior Year | N/A | 4.1% | 9.4% | 5.0% | 12.5% | 7.4% | 3.0% | 3.0% | 3.0% | 1.1% |
| Airline | | | | | | | | | | |
| Demonstrated | 44,769 | 44,769 | 44,769 | 45,665 | 47,035 | 48,446 | 49,899 | 51,396 | 52,938 | 54,526 |
| Induced/(Unsatisfied) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (1,006) |
| Total | 44,800 | 44,800 | 44,800 | 45,700 | 47,000 | 48,400 | 49,900 | 51,400 | 52,900 | 53,500 |
| Growth Over Prior Year | N/A | 0.0% | 0.0% | 2.0% | 2.8% | 3.0% | 3.1% | 3.0% | 2.9% | 1.1% |
| Total Market Demand | 883,400 | 896,800 | 927,300 | 963,100 | 1,075,300 | 1,151,600 | 1,205,000 | 1,251,000 | 1,288,500 | 1,302,800 |
| Growth Over Prior Year | N/A | 1.5% | 3.4% | 3.9% | 11.6% | 7.1% | 4.6% | 3.8% | 3.0% | 1.1% |
| **Market Occupancy** | **67%** | **60%** | **59%** | **62%** | **62%** | **66%** | **69%** | **72%** | **74%** | **75%** |

Source: PKF Consulting

Future demand growth is expected to be driven primarily by increases in commercial demand, and secondarily by group and leisure demand above that of the local level of economic growth beginning in 2011. With levels of demand anticipated to be on the decline in 2009, we estimate that the competitive market will decrease to an occupancy of 60 percent as the market absorbs the large influx in supply. Although demand is anticipated to strengthen moderately in 2010, with the addition of the SpringHill Suites Hotel, we estimate that the competitive market will decrease further to 59 percent. The region's economy should begin to recover by 2011, and as such experience positive trends conducive to demand growth in the market. Thus, following the introduction and absorption of the Embassy Suites and Guasti Hotels, we forecast that the occupancy of the competitive market will steadily increase each year from 2013 through 2017, at which time, the market is anticipated to stabilize at an occupancy of 75 percent. Several factors support the conclusion of growth in occupancy and its respective timing. The overall growth in demand for hotel accommodations, the increase in the number of visitors to Ontario, the attractiveness of the proposed projects under development, and the long term growth forecasted for the area's economy are all expected to lead to increased occupancies within the market.

## AVERAGE DAILY RATE

Presented in the following table is the historical growth in the market's average daily room rates for the period from 2004 through 2008. During this period, the collective average daily rate for the sample set grew at a compound average annual rate of 2.8 percent.

**Historical Change in Average Daily Rate**

| Year | ADR | Change |
|---|---|---|
| 2004 | $ 92.21 | N/A |
| 2005 | 97.69 | 5.9% |
| 2006 | 102.28 | 4.7% |
| 2007 | 105.39 | 3.0% |
| 2008 | 102.88 | -2.4% |
| CAAG | 2.8% | |

Source: PKF Consulting

More recently, average daily rate in the competitive market has been negatively affected by price-conscious consumers seeking perceived bargains and package deals. Based on the average rates achieved recently, our interviews with hoteliers in the Ontario area hotel market, and our understanding of the proposed additions, we have estimated future growth in the average daily rate. The average daily rate of the competitive market is expected to decrease 0.9 percent in 2009 and exhibit no growth the following year. Average daily rate is anticipated to show signs of growth beginning in 2011 and continue at a near inflationary rate for the remainder of our projection period. We find these rates reasonable in light of the recent trends and the anticipated ramp-up in market occupancy over the period. The following table illustrates the projected average daily rate of the competitive market. It should be noted that all figures are rounded to the nearest dollar.

**Projected Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2009 | 1,487,740 | 12.8% | 896,800 | 1.5% | 60% | $102.00 | -0.9% | $61.48 | -10.8% |
| 2010 | 1,563,660 | 5.1 | 927,300 | 3.4 | 59 | 102.00 | 0.0 | 60.49 | -1.6 |
| 2011 | 1,563,660 | 0.0 | 963,100 | 3.9 | 62 | 104.00 | 2.0 | 64.06 | 5.9 |
| 2012 | 1,737,035 | 11.1 | 1,075,300 | 11.6 | 62 | 108.00 | 3.8 | 66.86 | 4.4 |
| 2013 | 1,737,035 | 0.0 | 1,151,600 | 7.1 | 66 | 113.00 | 4.6 | 74.92 | 12.1 |
| 2014 | 1,737,035 | 0.0 | 1,205,000 | 4.6 | 69 | 116.00 | 2.7 | 80.47 | 7.4 |
| 2015 | 1,737,035 | 0.0 | 1,251,000 | 3.8 | 72 | 119.00 | 2.6 | 85.70 | 6.5 |
| 2016 | 1,737,035 | 0.0 | 1,288,500 | 3.0 | 74 | 123.00 | 3.4 | 91.24 | 6.5 |
| 2017 | 1,737,035 | 0.0 | 1,302,800 | 1.1 | 75 | 127.00 | 3.3 | 95.25 | 4.4 |
| CAAG | 2.0% | | 4.8% | | | 2.8% | | 5.6% | |

Source: PKF Consulting

# *Addenda*

## *Addendum A*

## *STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS*

# STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

***This report is made with the following assumptions and limiting conditions:***

**Economic and Social Trends** - The consultant assumes no responsibility for economic, physical or demographic factors which may affect or alter the opinions in this report if said economic, physical or demographic factors were not present as of the date of the letter of transmittal accompanying this report. The consultant is not obligated to predict future political, economic or social trends.

**Information Furnished by Others** - In preparing this report, the consultant was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either express or implied, is given by the consultant for the accuracy of such information and the consultant assumes no responsibility for information relied upon later found to have been inaccurate. The consultant reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

**Hidden Conditions** - The consultant assumes no responsibility for hidden or unapparent conditions of the property, subsoil, ground water or structures that render the subject property more or less valuable. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

**Hazardous Materials** - The consultant has not been provided any information regarding the presence of any material or substance on or in any portion of the subject property or improvements thereon, which material or substance possesses or may possess toxic, hazardous and/or other harmful and/or dangerous characteristics. Unless otherwise stated in the report, the consultant did not become aware of the presence of any such material or substance during the consultant's inspection of the subject property. However, the consultant is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substances may adversely affect the value of the subject property. The value estimated in this report is predicated on the assumption that no such material or substance is present on or in the subject property or in such proximity thereto that it would cause a loss in value. The consultant assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material. Unless otherwise stated, this report assumes the subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

**Zoning and Land Use** - Unless otherwise stated, the projections were formulated assuming the hotel to be in full compliance with all applicable zoning and land use regulations and restrictions.

**Licenses and Permits** - Unless otherwise stated, the property is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

**Engineering Survey** - No engineering survey has been made by the consultant. Except as specifically stated, data relative to size and area of the subject property was taken from sources considered reliable and no encroachment of the subject property is considered to exist.

**Subsurface Rights** - No opinion is expressed as to the value of subsurface oil, gas or mineral rights or whether the property is subject to surface entry for the exploration or removal of such materials, except as is expressly stated.

## STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

(continued)

**Maps, Plats and Exhibits** - Maps, plats and exhibits included in this report are for illustration only to serve as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced or used apart from the report.

**Legal Matters** - No opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate consultants.

**Right of Publication** - Possession of this report, or a copy of it, does not carry with it the right of publication. Without the written consent of the consultant, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with proper written qualification and only in its entirety for its stated purpose.

**Testimony in Court** - Testimony or attendance in court or at any other hearing is not required by reason of rendering this appraisal, unless such arrangements are made a reasonable time in advance of said hearing. Further, unless otherwise indicated, separate arrangements shall be made concerning compensation for the consultant's time to prepare for and attend any such hearing.

**Archeological Significance** - No investigation has been made by the consultant and no information has been provided to the consultant regarding potential archeological significance of the subject property or any portion thereof. This report assumes no portion of the subject property has archeological significance.

**Compliance with the American Disabilities Act** - The Americans with Disabilities Act ("ADA") became effective January 26, 1992. We assumed that the property will be in direct compliance with the various detailed requirements of the ADA.

**Definitions and Assumptions** - The definitions and assumptions upon which our analyses, opinions and conclusions are based are set forth in appropriate sections of this report and are to be part of these general assumptions as if included here in their entirety.

**Dissemination of Material** - Neither all nor any part of the contents of this report shall be disseminated to the general public through advertising or sales media, public relations media, news media or other public means of communication without the prior written consent and approval of the consultant(s).

**Distribution and Liability to Third Parties** - The party for whom this report was prepared may distribute copies of this appraisal report only in its entirety to such third parties as may be selected by the party for whom this report was prepared; however, portions of this report shall not be given to third parties without our written consent. Liability to third parties will not be accepted.

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**Limits to Liability** - PKF Consulting cannot be held liable in any cause of action resulting in litigation for any dollar amount which exceeds the total fees collected from this individual engagement.

**Legal Expenses** - Any legal expenses incurred in defending or representing ourselves concerning this assignment will be the responsibility of the client.