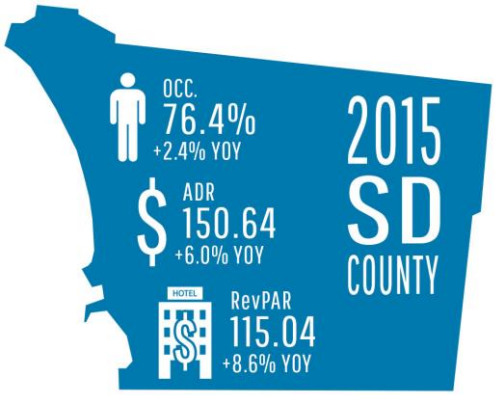
RAR HOSPITALITY

Presents

San Diego Regional
Hotel Lodging Forecast

March 2016

In 2016, San Diego will achieve the highest occupancy levels and the highest average rates in the last 30 years. The resultant revenues will provide for the highest net income ever recorded. Following is a review of 2015 and a forecast for 2016. While 2017 will add new hotel supply beyond that of 2016, San Diego will remain a strong market for the foreseeable future.

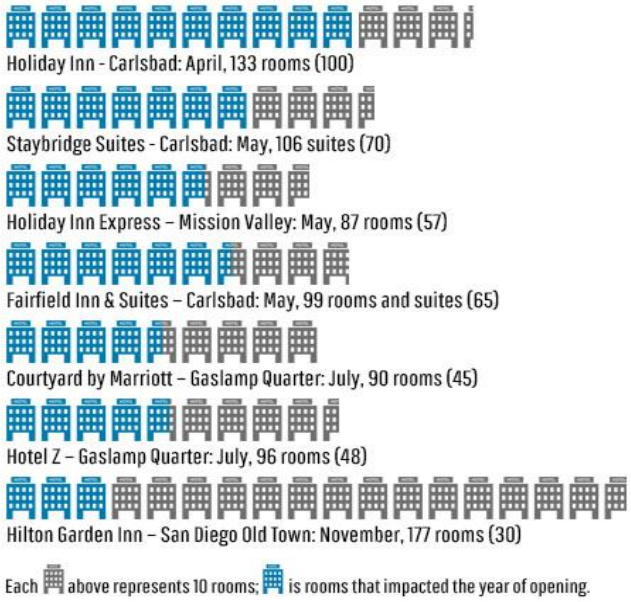


San Diego County

In 2015, occupancy in San Diego County increased 2.4 percent to 76.4 percent and average rate grew 6.0 percent to $150.64. Revenue per available room (RevPAR) moved up 8.6 percent to $115.04. New hotels that were added in 2015 included 805 rooms but based on their opening dates, the 2015 impact is less as indicated below in parentheses.

2015 Total**:** 805 rooms open with an impact of 427 rooms or less than 1 percent new supply based on each hotel's opening date. As a result, the balance of the impact from these hotels will be in 2016.

In 2016, we expect occupancy levels to remain at 76 percent with average rate growth of 5 percent to $158 and RevPAR of $120. New supply will increase by 2 percent and will be absorbed by demand increases at the same level. Rates will grow based on the number of sellout nights in the market, the negotiated rates during the request for proposal season, the rates on the books according to TravelClick and other sources and election year economics.

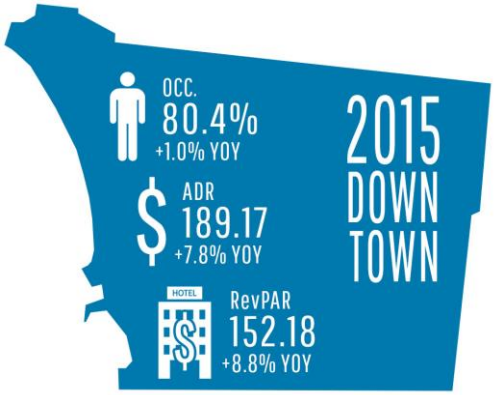


2016 Total: 1,375 rooms open with an impact of 843 rooms based on each hotel's opening. Including the balance of the 378 rooms from the hotels that opened in mid-2015 and onwards, the total rooms added to the supply are 1,221 or approximately 2 percent of the 60,000 hotel rooms in the County.

While there are a number of hotels opening in 2017, this supply increase is rather muted compared to New York and many other U.S. cities.

In 2016, San Diego County will be adding the following hotels:

Downtown San Diego



Downtown San Diego eclipsed the 80 percent occupancy mark in 2015 hitting 80.4 percent, up one percentage point from 2014 at an average rate of $189.17, up 7.8 percent from 2014. This RevPAR growth of 8.8 percent brought 2015's RevPAR to $152.18.

Downtown is driven largely by group business, convention center demand, some corporate, and fairly strong leisure due to the always improving downtown lifestyle and environment. The convention center alone is expected to contribute at least 856,000 room nights in the Downtown market (and to other submarkets through compression) from over 100 events and at least 900,000 attendees. Little Italy, the Gaslamp Quarter and the waterfront provide very strong demand year around.

Downtown hotels opened in 2015:

- Courtyard by Marriott – Gaslamp Quarter: July, 90 rooms (45)
- Hotel Z: July, 96 rooms (48)

2016 will bring additional hotels as well as strong convention center demand due to strong cyclical bookings by the San Diego Tourism Authority. New supply will be up 6.5 percent but demand will increase by nearly 6 percent, holding occupancy levels at 80 percent. Average rates will continue to grow due to the number of sellout nights and some compression from a few notable citywide conventions from $189.17 to $198.62, up 5 percent. RevPAR will increase 4.5 percent to $157.

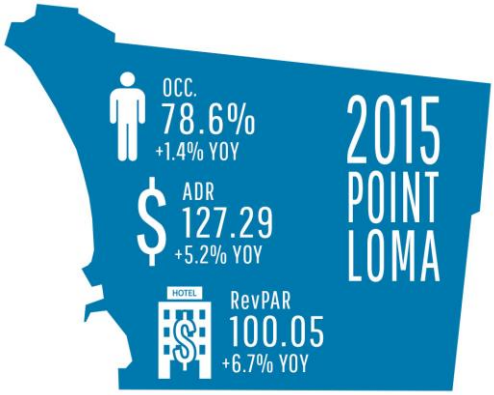
Downtown hotels opening in 2016:

- Springhill Suites – San Diego Bayfront: February, 253 (226)
- Residence Inn – San Diego Bayfront: February, 147 (133)
- Hilton Garden Inn – San Diego Bayside: June, 204 (119)
- Homewood Suites – San Diego Bayside: June, 160 (93)
- Pendry Hotel – San Diego, November, 317 (50)

2016 Total: 1,081 total rooms but rooms that will impact 2016 are 621 or just over 6 percent of supply.

Note: We anticipate that Airbnb will have a significant impact on average rates during peak periods, however, the overall annualized impact will be minimal in 2016.

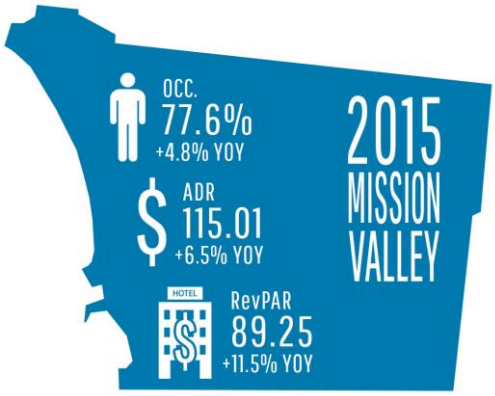
Point Loma Peninsula



This submarket finished 2015 with occupancy rates of 78.6 percent, up 1.4 percent from 2014. Average rates grew to $127.29, up 5.2 percent and RevPAR was $100.05, up 6.7 percent. Hotels here are generally close to the airport and of all product types from full-service to limited-service, waterfront to near downtown transient accommodations. Occupancy levels will stay flat as supply and demand are in balance and rates should grow at 4 percent to hit $132.

Point Loma rooms added in 2016:

- Kona Kai Resort: July, 41 (20)



Mission Valley

The Mission Valley submarket saw occupancy levels of 77.6 percent in 2015, up 4.8 percent from 2014. Average rates were $115.01, up 6.5 percent from 2014 and RevPAR was $89.25, up double digits by 11.5 percent! The Mission Valley submarket has seen a fundamental shift away from the older Hotel Circle hotels of the 1970s and 1980s to branded, strong limited-service products and renovated full-service hotels. Demand is driven largely by groups and leisure but has been increasingly gathering corporate business.

Mission Valley hotels opened in 2015:

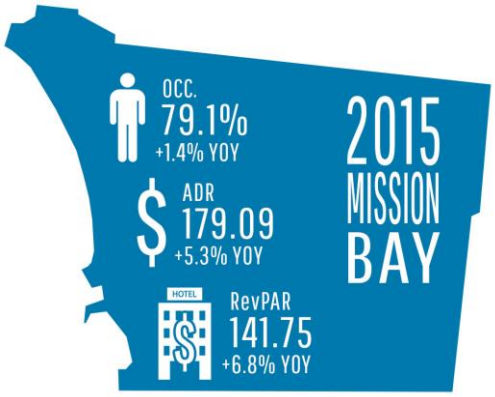
- Holiday Inn Express – Mission Valley: May, 104 rooms (69)
- Hilton Garden Inn – San Diego Old Town: November, 177 rooms (30)

2016 will see additional supply in Mission Valley but occupancy will remain flat as demand matches the increased supply of 3 percent. ADR and RevPAR will increase 5 percent to $120.76 and $93.71, respectively.

Mission Valley hotels opening in 2016:

- Springhill Suites – Mission Valley: March, 135 suites (112)
- Homewood Suites – Mission Valley: April, 118 suites (90)

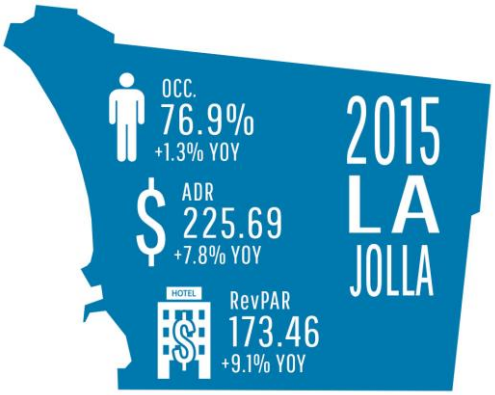
Mission Bay



Mission Bay hit occupancy levels of 79.1 percent, up 1.4 percent over 2014. Average rates were $179.09, up 5.3 percent and RevPAR was $141.75, up 6.8 percent year over year. Mission Bay is a group market with mostly older, waterfront hotels that have been substantially renovated. In most cases, these are independent hotels that benefit from a strong amenity package and waterfront locations.

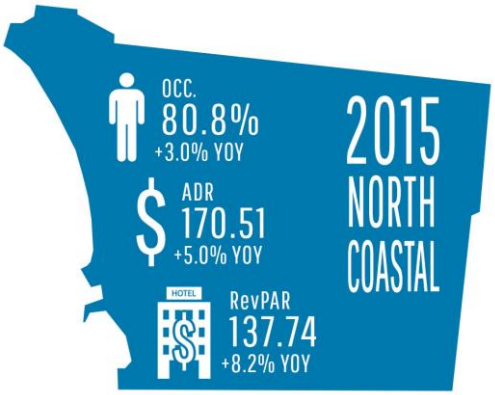
Mission Bay has not added new hotels and will continue to perform well, increasing occupancy levels to 80 percent and average rates to $185, up 1 and 4 percent respectively. RevPAR will climb to $148.

La Jolla



The La Jolla market had occupancy levels of 76.9 percent, an increase of 1.3 percent over 2014. Average rates grew 7.8 percent to $225.69 with RevPAR up 9.1 percent to $173.46. This submarket has very strong leisure business, some group business and light corporate business. It includes all of the hotel product in or around the Village of La Jolla. La Jolla is a favorite of higher end leisure travelers. With no new supply, this pattern of growth will continue albeit in a somewhat muted way with occupancy up one percentage point to 77.5 percent and average rates up four percent to $234. RevPAR will climb five percent to $182.

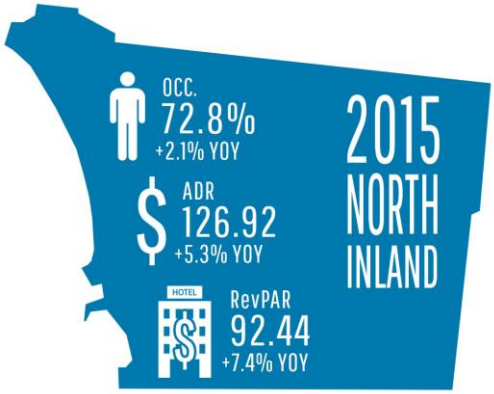
North Coastal



This group of hotels finished 2015 at 80.8 percent, up 3 percent from 2014 and had an average rate of $170.51, up 5 percent year over year. RevPAR was up 8.2 percent to $137.74. In 2016, this group will have stable occupancy levels and will grow average rate by 5 percent to $179 and RevPAR to $145.

This submarket includes Sorrento Valley, Carmel Valley and UTC. Half the hotels are full-service and the other half are limited-service and they range from the Fairmont Grand Del Mar on the high end to economy properties in Sorrento Mesa. The market has strong group, leisure and corporate

demand from multiple industrial parks, biotechnology, life science and medical equipment companies as well as the communication technology sector.

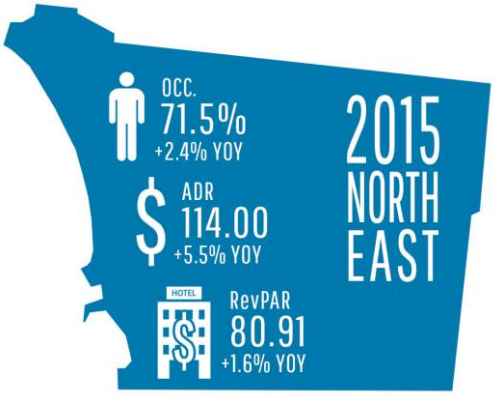


North Inland

This sub-market hit occupancies of 72.8 percent, up 2.1 percent from 2014. Average rates were $126.92, up 5.3 percent year over year. RevPAR was $92.44, up 7.4 percent from 2014. In 2016, this market will see continued rate growth of 5 percent landing at $133 while occupancies will climb one point to 74 percent.

This area includes Kearny Mesa, Rancho Bernardo and Miramar and has recently become better equipped to handle leisure business with the combination of the San Diego Zoo Safari Park, golf courses, wineries, breweries and other attractions. Corporate business is solid with numerous industrial parks.

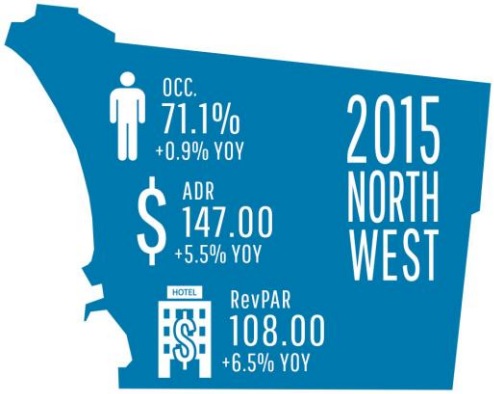
Northeast



In 2015, San Diego County Northeast (Escondido, San Marcos, and Vista) saw occupancy levels increase to 71.5 percent, up 2.4 percent with rates up to $114, an increase of 5.5 percent, and RevPAR up 8 percent to $80.91. Demand was up 4 percent and supply up 1.6 percent.

Escondido has finally created a cross-section of demand generators in the corporate and leisure markets, San Marcos has benefitted from very strong growth in the health care and education sector, and Vista is located proximate to both Carlsbad and San Marcos with its own industrial park demand.

In 2016, this area will see occupancy levels increase one point to 72 percent, average rates grow 5 percent to $120, and RevPAR up 6 percent to $86. The SR-78 corridor, coupled with the growth of California State University San Marcos, health care facilities and population growth make this an area that is both desirable and will see more new supply over the next two years.



Northwest

In 2015, San Diego County Northwest (Carlsbad/Oceanside) saw an increase in occupancy to 71.1 percent, up 0.9 percent from 2014 with average rates up 5.5 percent to $147. The room count increased by 235 rooms, up 3.6 percent, with demand increasing 4.6 percent. RevPAR saw growth of 6.5 percent, moving up to $108.

In 2016, this coastal area will see occupancy levels remaining flat at 71 percent with average rates growing by five percent to $154 and RevPAR up to $113.

This area has seen massive increases in supply over the past few years and has absorbed this supply with very strong occupancy levels and rate growth. Carlsbad's deep industrial parks coupled with its proximity to leisure demand generators such as beaches, Legoland, San Diego Zoo Safari Park and the Village of Carlsbad have provided steady demand growth.

Oceanside has seen a slow but steady growth of leisure travel, military demand and some corporate growth to accommodate the new supply that has entered the market. In both Carlsbad and Oceanside we see continued strong growth with occupancy levels remaining flat for the Northwest area at 71 percent as it absorbed the new hotels opened in 2015 and average rates growing 5 percent to $159.

Northwest hotels opened in 2015:

- Holiday Inn – Carlsbad: April, 133 rooms (100)
- StayBridge Suites – Carlsbad: May, 106 suites (70)
- Fairfield Inn & Suites – Carlsbad: May, 99 rooms and suites (65)

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