



MARKET STUDY

Proposed Hotel Santee

RIVERVIEW PARKWAY
SANTEE, CALIFORNIA



SUBMITTED TO:

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November 2, 2018

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Re: Hotel Market Analysis
Santee, California
HVS Reference: 2017021673

Dear Ms. White:

Pursuant to your request, please find attached our study of the Santee, California, hotel market. Our investigation reveals that the market has the potential to support new hotel development. This engagement addresses market demand for new hotel development; no analysis of financial feasibility has been undertaken.

We hereby certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Sincerely,
TS Worldwide, LLC



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Addenda

Qualifications

1. Executive Summary

Objective of the Market Study

HVS was retained by the City of Santee to investigate the demand for and supply of hotel accommodations within the city to assess if market conditions are supportive of new hotel development. We conducted market interviews with city officials, market participants, hotel owners, area businesses, brokers, and operators of major attractions within East County to understand current and future market conditions. Our market research was conducted from February 2018 through June 2018.

Santee Market Overview

Santee provides an attractive environment for visitors given its numerous retail and dining options, as well as sports and leisure facilities. The excellent highway access to East County and the trolley from Santee to Downtown San Diego provide an opportunity for this submarket to expand its capture of greater San Diego lodging demand. The East County market currently lacks quality branded hotel accommodations. Given the growth of this market resulting from the westward pressure from San Diego, opportunity exists for new hotel development.

The existing inventory of overnight lodging in the city of Santee is limited to a 47-room Best Western, a 54-room Rodeway Inn, and the 57-room lodge at Carlton Oaks Country Club, as well as 300 hookup campground sites and 10 waterfront cabin sites at Santee Lakes. Santee's limited inventory of lodging accommodations provides an opportunity for the development of one or more new, high-quality, limited- or select-service hotels.

Furthermore, the outlook is positive for the market given new commercial development that will likely generate corporate lodging demand, such as the 70-acre Gillespie Field development, the redevelopment of existing low-density industrial uses, and future commercial development slated for the 13-acre former school site and the 31-acre County-owned parcel along the Mission Gorge corridor.

The operating performance (average rate and occupancy) of existing hotels in a market typically provides a basis for assessing the potential for new hotel development. Santee has, until recently, offered no modern upscale or upper-midscale product to serve its growing population and employment base. The Courtyard by Marriott in El Cajon, which just recently opened in June 2018, is the first strongly branded, upscale hotel to serve the greater market. The performance of this hotel will provide a good indicator of Santee's ability to support new upper-midscale or upscale hotel development. Based on the numerous leisure and commercial demand generators in this submarket, as well as the ability to use

**Summary of Hotel
Market Trends**

Santee as a base for visiting San Diego's numerous attractions, the opportunity for new hotel development in the city is favorable.

The competitive market that was defined and analyzed for this study includes 22 hotels totaling 2,909 rooms in the city of Santee, as well as the cities of El Cajon to the south, Poway and Rancho Bernardo to the north, Miramar to the northwest, Kearny Mesa to the west, and Mission Valley to the southwest. Visitors to the greater Santee area, which is defined as East San Diego, need to travel west to Kearny Mesa or north toward Poway to find modern, strongly branded lodging products. The defined submarket forms the basis for our evaluation of market trends, as presented in the following STR Trend Report.

The following table provides a historical perspective on the supply and demand trends for a selected set of hotels, as provided by STR.

FIGURE 1-1 HISTORICAL SUPPLY AND DEMAND TRENDS (STR)

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change	
2008	1,913	698,258	—	457,021	—	65.5 %	\$120.18	—	\$78.66	—	
2009	2,240	817,600	17.1 %	486,403	6.4 %	59.5	105.14	(12.5) %	62.55	(20.5) %	
2010	2,240	817,600	0.0	541,279	11.3	66.2	103.09	(1.9)	68.25	9.1	
2011	2,189	798,934	(2.3)	542,394	0.2	67.9	105.23	2.1	71.44	4.7	
2012	2,178	795,029	(0.5)	577,073	6.4	72.6	110.08	4.6	79.90	11.8	
2013	2,214	808,024	1.6	580,320	0.6	71.8	112.06	1.8	80.48	0.7	
2014	2,332	851,029	5.3	640,562	10.4	75.3	117.34	4.7	88.32	9.7	
2015	2,493	909,875	6.9	700,939	9.4	77.0	126.59	7.9	97.52	10.4	
2016	2,735	998,137	9.7	777,193	10.9	77.9	133.05	5.1	103.60	6.2	
2017	2,789	1,017,924	2.0	813,924	4.7	80.0	137.52	3.4	109.96	6.1	
Year-to-Date Through August											
2017	2,789	677,727	—	557,751	—	82.3 %	\$143.06	—	\$117.74	—	
2018	2,893	702,924	3.7 %	574,902	3.1 %	81.8	143.82	0.5 %	117.62	(0.1) %	
Average Annual Compounded Change:											
2008 - 2011			4.6 %	2011 - 2017			5.9 %	2011 - 2017		4.6 %	(3.2) %
2011 - 2017			4.1	2011 - 2017			7.0	2011 - 2017		4.6	7.5

Hotels Included in Sample	Class	Competitive Status	Number of Rooms	Year Affiliated	Year Opened
Best Western Continental Inn	Midscale Class	Secondary	95	Jun 1963	Jun 1963
Courtyard San Diego Mission Valley Hotel Circle	Upscale Class	Secondary	317	Nov 2008	Jun 1971
Rodeway Inn Santee	Economy Class	Primary	54	Jun 2009	Jun 1985
Holiday Inn San Diego La Mesa	Upper Midscale Class	Secondary	141	Dec 2007	Jan 1986
Best Western Plus La Mesa San Diego	Upper Midscale Class	Secondary	78	Jun 2015	Jun 1986
La Quinta Inns & Suites San Diego Miramar	Midscale Class	Secondary	120	Apr 1987	Apr 1987
Best Western Santee Lodge	Midscale Class	Primary	47	Sep 1987	Sep 1987
Comfort Suites San Diego Miramar	Upper Midscale Class	Secondary	132	Dec 2010	Sep 1987
Hampton Inn San Diego Kearny Mesa	Upper Midscale Class	Secondary	146	Jul 1989	Jul 1989
Holiday Inn San Diego Miramar Mcas Area	Upper Midscale Class	Secondary	155	Jan 2009	Aug 1989
Hilton Garden Inn San Diego Mission Valley Stadium	Upscale Class	Secondary	178	Jul 2016	Aug 1991
Residence Inn San Diego Rancho Bernardo	Upscale Class	Secondary	124	Sep 1991	Sep 1991
Holiday Inn Express Mira Mesa San Diego	Upper Midscale Class	Secondary	75	May 2011	May 2000
Courtyard San Diego Central	Upscale Class	Secondary	245	Mar 2002	Mar 2002
Springhill Suites San Diego Rancho Bernardo Scripps Poway	Upscale Class	Secondary	138	May 2003	May 2003
Residence Inn San Diego Rancho Bernardo Scripps Poway	Upscale Class	Secondary	95	Aug 2003	Aug 2003
Hampton Inn Suites San Diego Poway	Upper Midscale Class	Primary	108	Nov 2008	Nov 2008
Hampton Inn San Diego Mission Valley	Upper Midscale Class	Secondary	184	Jul 2014	Jul 2014
Holiday Inn Express & Suites San Diego Mission Valley	Upper Midscale Class	Secondary	104	May 2015	May 2015
Springhill Suites San Diego Mission Valley	Upscale Class	Secondary	135	Mar 2016	Mar 2016
Homewood Suites San Diego Mission Valley Zoo	Upscale Class	Secondary	118	Apr 2016	Apr 2016
Courtyard San Diego El Cajon	Upscale Class	New Supply	120	Feb 2018	Feb 2018
Total			2,909		

Source: STR

During the illustrated historical period, occupancy increased year-over-year from a low of 60% during the Great Recession in 2009 to a high of 80% in 2017. Growth was driven largely by increasing levels of disposable income, individual tourism and

**Product
Recommendations and
Takeaways**

group travel, and commercial/corporate travel. Average rate for the market has increased at a CAGR (compound annual growth rate) of 4.6% since 2011, and growth has strengthened as occupancy levels have risen. Year-to-date 2018 data illustrate a slight decline in occupancy and relatively stable ADR given the entrance of new supply. The near-term outlook is best described as positive but cautionary owing to the entrance of new supply throughout the greater market.

The most appropriate hotel products for the Santee market would be either a high-quality upper-midscale, limited-service hotel (SpringHill Suites by Marriott, Fairfield Inn & Suites by Marriott, or Holiday Inn Express & Suites) or an upscale, select-service hotel (Hilton Garden Inn, EVEN Hotel, Aloft, AC Hotel by Marriott, Cambria Hotel & Suites, or Hyatt Place). Given the proximity and protective radiuses of the Courtyard by Marriott and Hampton by Hilton under development in El Cajon, these have been excluded from the potential brand list. An extended-stay option, such as TownePlace Suites by Marriott or Home2 Suites by Hilton, might also be appropriate given the popularity of suites with sports teams; however, the length of stay related to commercial demand in this market is primarily short term in nature according to our interviews.

A limited-service hotel offers no food and beverage outlet, but often provides a complimentary breakfast in either continental- or buffet-style within a small dining area. Select-service hotels typically offer an open lobby/bar/restaurant area that serve and charge for breakfast and dinner from a limited menu. Brand representatives indicated some of the limited-service product options could be enhanced with a bar and light menu. Given the profile of the traveler to Santee, the most feasible lodging product would likely be limited service in nature. Rising construction costs and labor costs were noted as challenges to development; therefore, the feasibility of either a limited- or select-service hotel would depend on the land and the construction cost of the specific developer.

One hotel in the 100- to 120-room range could be developed to start, with a portion of the chosen site retained to provide for additional hotel development in the future. Dual-branded concepts are popular with developers in markets that have the depth to support them. Typical dual-branded products may combine limited- and select-service brands, or a limited- or select-service brand with an extended-stay brand.

The Santee Town Center area/Santee commercial core is the most supportive location for hotel development within the city, though other options may also be available. As will be delineated in this report, the Santee Town Center area is densely developed with supportive restaurant and retail uses. The Sycuan Green Line of the San Diego Trolley system terminates within the Santee Town Center, offering light-rail access to attractions throughout the San Diego area. Future announced

development for this area includes a multiplex theater, a Karl Strauss Brewery, a corporate headquarters and event center, and commercial development.

2. Market Area Analysis

Market Area Definition

Incorporated in December 1980, the city of Santee is known for having a high-quality lifestyle, award-winning schools, high-profile demographics, and convenient commuter access, including three highways and a regional trolley station. Historically, city officials have focused on smart growth and creating a community where people want to live, work, and play, which is apparent in their planning initiatives and vision today. Retail and light-industrial manufacturing play the biggest roles in the local economy, with several new housing developments and several sites planned for commercial and industrial development. Tourism also plays a significant role, with Santee Lakes and Sportsplex USA drawing over a million visitors annually. Construction, healthcare, and professional services also play important roles in the economic make-up of the region.

Santee is located in the East Suburban region of San Diego, California. This region is located approximately 12 miles northeast of Downtown San Diego and generally includes the four cities east of San Diego: La Mesa, El Cajon, Santee, and Lemon Grove. Lemon Grove is located to the south of La Mesa and is generally not included in our study. The East Suburban region is primarily commercial and residential in nature, with an estimated population of approximately 506,170 as of 2016 according to SANDAG,

San Diego is a coastal Southern California city located in the southwestern corner of the continental United States. It is the second-largest city in California and the eighth largest in the U.S., and it is also the county seat of San Diego County. In addition to information and communications technologies, the economy of San Diego is influenced by its port, which includes the only major submarine and shipbuilding yards on the West Coast, as well as the largest naval fleet in the world. Due to San Diego's military influence, major national defense contractors are headquartered in San Diego. Tourism is also a major industry, owing to the city's favorable climate.

The subject property's market area can be defined by its Metropolitan Statistical Area (MSA): San Diego-Carlsbad, CA MSA. The MSA is the most standard definition used in comparative studies of metropolitan areas. The federal government defines an MSA as a large population nucleus, which, together with adjacent counties, has a higher degree of social integration. The following exhibit illustrates the market area.

MAP OF MARKET AREA



Access and Transportation

Access via roads, airports, and public transportation options is essential to the success of a hotel operation.

Vehicular Transportation

San Diego and the surrounding region are readily accessible to a variety of local and county roads, as well as state and interstate highways, as illustrated in the previous and following maps.

MAP OF LOCAL ACCESS ROUTES



Primary regional access through the area is provided by east/west Interstate 8, which extends to such cities as El Cajon to the east and ends at Mission Beach in San Diego to the west. Access to Santee from Interstate 8 is facilitated by State Highways 125, 52, and 67. North/south Interstate 5 is another major highway, providing access to such cities as Los Angeles to the north and Tijuana, Mexico, to the south. The subject market is served by a variety of additional local highways, which are illustrated on the map.

Airports

Santee is served by San Diego International Airport, which is located approximately 13 miles to the southwest of the city center. Furthermore, Gillespie Field is a county-owned, public-use airport located less than a mile south of Downtown Santee. This airport primarily serves private aircraft, business planes, and several flight schools. It is the largest of the county airports supporting the most fixed-based operators (FBOs). In addition to the airport itself, Gillespie Field includes two business parks that provide more than 3,000 jobs.

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

San Diego International Airport (SAN) is the busiest single-runway airport in the United States and occupies the smallest land footprint (661 acres) of any commercial airport in the country. August 2013 marked the completion of the \$900-million "Green Build" expansion project of Terminal 2. The project included ten new jet gates, additional shopping and dining options, a new security checkpoint, a new 25,000-square-foot check-in lobby, and a dual-level roadway to separate arriving and departing passengers. In April 2014, the airport became the first in the world to achieve LEED Platinum certification. The Terminal 2 Parking Plaza, featuring over 2,900 parking spaces, opened in the spring of 2018. The plaza is environmentally sustainable, with extensive natural lighting, energy-efficient fixtures, and a storm water re-use system. In June 2018, a new 130,000-square-foot International Arrivals facility opened at San Diego International Airport's Terminal 2 West, featuring six international gates, the latest technologies from U.S. Customs and Border Protection, and an expanded baggage claim and passenger wait area. This will allow the airport to accommodate the increase in international passengers resulting from recently added overseas flights, and process passengers with greater ease and efficiency. The next major phase of the Airport Development Plan is the replacement of the 51-year-old Terminal 1 with an attractive, modern, and more efficient terminal serving up to 30 gates with enhanced operations and amenities. It will also include parking infrastructure, roadway access, and airfield improvements, with the objective of meeting the region's air travel demand through 2035. The environmental approval process is slated to extend through 2019, with certification of a Final EIR, federal environmental review, and California Coastal Act Review.

The following table illustrates recent operating statistics for San Diego International Airport, which is the primary airport facility serving the proposed subject hotel's submarket.

FIGURE 2-1 AIRPORT STATISTICS - SAN DIEGO INTERNATIONAL AIRPORT

Year	Passenger Traffic	Percent Change*	Percent Change**
2008	18,125,633	—	—
2009	16,974,172	(6.4) %	(6.4) %
2010	16,889,622	(0.5)	(3.5)
2011	16,891,690	0.0	(2.3)
2012	17,250,265	2.1	(1.2)
2013	17,710,241	2.7	(0.5)
2014	18,758,751	5.9	0.6
2015	20,081,258	7.1	1.5
2016	20,725,801	3.2	1.7
2017	22,173,493	7.0	2.3

*Annual average compounded percentage change from the previous year
 **Annual average compounded percentage change from first year of data

Source: San Diego International Airport

This facility recorded 22,173,493 passengers in 2017. The change in passenger traffic between 2016 and 2017 was 7.0%. The average annual change during the period shown was 2.3%. The latest increase in passenger traffic can be attributed to the improving economy, coupled with a strong increase in domestic tourism. In April 2017, Frontier Airlines commenced nonstop service to/from multiple domestic destinations, such as Cleveland, San Antonio, Oklahoma City, and Tulsa. In May 2017, new seasonal service by Condor between San Diego and Frankfurt, Germany, commenced; additional year-round service by Lufthansa began in March 2018. According to City of San Diego officials, Germany is one of San Diego’s top partners for exports and foreign investments and is rapidly becoming one of the economy’s most important international markets. Edelweiss, an affiliate of Swiss International Airlines, initiated a seasonal nonstop route between Zurich and San Diego in June 2017. Currently, San Diego International Airport offers nonstop international flights to Canada, Germany, Japan, Mexico, Switzerland, and the United Kingdom.

Transit System

The San Diego Metropolitan Transit System (MTS) is a public transportation provider for Central, South, Northeast, and Southeast San Diego County. The MTS operates 95 bus routes and 3 light-rail lines (Orange, Blue, and Green), known as The Trolley, on 53 miles of double-tracked railway, as well as a supplementary heritage streetcar downtown circulator (known as the Silver Line) that operates on

select weekdays, weekends, and holidays. MTS is one of the oldest transit systems in Southern California, dating back to 1886. Each weekday, more than 300,000 passenger trips are taken on MTS bus and Trolley services. In fiscal 2017, over 88 million rides were completed within the MTS system. The closest MTS station, the Santee Station, is located within Santee Town Center and represents the northwestern end of the Sycuan Green Line. From the Santee Station, the Sycuan Green Line provides access to El Cajon, La Mesa, Mission Valley, Old Town, and the San Diego Convention Center, terminating in Downtown San Diego. The entire route is an approximately one-hour trip costing \$5.00 that departs every 15 minutes. A quick transition to the Orange Line can also be made, providing access to southern La Mesa, Lemon Grove, and other southeast San Diego locations.

Local access and visibility are expected to be good within Santee Town Center. The combined vehicular, airport, and public-transit access would be superior to most hotels throughout the area.

Economic and Demographic Review

The county and Santee are expanding areas with population growth and per-capita personal income outpacing the national growth. Local East County wealth indexes have remained stable in recent years, registering a relatively high 113.0 level for the county in 2017. Within five miles of the Santee commercial core, 38,920 households with a population of 107,095 and average income of \$82,084 were reported.

From 2010 through 2017, total employment grew at a CAGR of 2.3%. Total employment in San Diego is expected to expand by 1.9% in 2018, while office employment is forecast to expand by 2.2% in 2018. From 2018 through 2022, REIS anticipates that total employment will expand at an average annual compound rate of 0.5%, while office employment will expand by 0.7% on average annually during the same period.

The number of households is forecast to expand by 1.2% on average annually between 2018 and 2022. Population is forecast to expand during this same period, at an average annual compounded rate of 0.7%. Household average income is forecast to grow by 3.1% on average annually from 2018 through 2022. This information is detailed further in the addenda.

Unemployment Statistics

The following table presents historical unemployment rates for the Santee market area.

FIGURE 2-2 UNEMPLOYMENT STATISTICS

Year	City	MSA	State	Country
2008	5.0 %	6.0 %	7.3 %	5.8 %
2009	7.9	9.4	11.2	9.3
2010	10.5(r)	10.8(r)	12.2	9.6
2011	10.1(r)	10.3(r)	11.7	8.9
2012	8.9(r)	9.1(r)	10.4	8.1
2013	7.7(r)	7.8(r)	8.9(d)	7.4
2014	6.3(r)	6.4(r)	7.5(d)	6.2
2015	5.1(r)	5.2(r)	6.2(d)	5.3
2016	4.4(r)	4.7(r)	5.5(d)	4.9
2017	3.6(r)	4.0(r)	4.8(d)	4.4

Source: U.S. Bureau of Labor Statistics

* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.

Locally, the unemployment rate was 3.6% in 2017, down from 4.4% in 2016. Unemployment rose in 2009 as the region experienced an economic slowdown late last decade, and this trend continued through 2010 as the height of the national recession took hold. However, unemployment declined in 2011 as the economy rebounded, a trend that continued through 2017. Local economic development officials noted that the long-term employment forecast is positive given the diverse economic base.

San Diego - Major Business and Industry

The Santee submarket is dependent on the depth and health of the greater San Diego market area. As the second-largest city in the state of California, San Diego fosters a diverse ecosystem of business in both the public and private sectors. The federal government plays an important role, as San Diego County is home to 16 major military bases including the Marine Corps Air Station Miramar, Marine Corps Camp Pendleton, and the Naval Base San Diego; the U.S. military presence in San Diego is said to be the largest in the world. San Diego also boasts one of the top convention center markets in the country.

Encompassing over 2.6 million square feet, the San Diego Convention Center is expected to create an economic impact of over \$1.2 billion in 2018 within the regional market. San Diego County is also host to six universities including the University of California San Diego and San Diego State University, the former of which enrolls over 30,000 students. Furthermore, healthcare leads the way in the private sector, as Scripps Health and Sharp HealthCare operate a combined total of

eleven hospitals in the county. The Scripps Clinic & Research Foundation and the Salk Institute have helped make strides in the life sciences and biomedical engineering research and development arena. In 2016, Scripps Health was named in Fortune Magazine's "100 Best Companies to Work For." The breadth of economic anchors in San Diego, including its position as a leading convention and tourism market in the nation, should continue to bolster the area's economy in the near term.

Providing additional context for understanding the nature of the regional economy, the following tables present lists of the major employers in San Diego and El Cajon.

FIGURE 2-3 MAJOR EMPLOYERS – SAN DIEGO

Rank	Firm	Number of Employees
1	Naval Base San Diego	34,185
2	University of California, San Diego	30,130
3	County of San Diego	19,131
4	Sharp HealthCare	17,976
5	San Diego Unified School District	13,815
6	Qualcomm Inc.	11,830
7	Scripps Health	11,807
8	City of San Diego	11,454
9	Kaiser Permanente	9,066
10	San Diego Community College District	6,564

Source: San Diego Annual Comprehensive Financial Report, 2017

FIGURE 2-4 MAJOR EMPLOYERS – EL CAJON

Rank	Firm	Number of Employees
1	Cajon Valley Union School District	1,612
2	GKN Aerospace Chem-Tronics Inc	749
3	Grossmont-Cuyamaca Community College District	725
4	Grossmont Union High School District	482
5	Wal-Mart Stores	406
6	City of El Cajon	402
7	Taylor Guitars	382
8	Country Hills Health Care	380
9	Home Depot	357
10	University Mechancial & Engineering	334

Source: City of El Cajon, 2016/17 Financial Report

Santee - Major Business and Industry

Within East County and Santee, specifically, the lower cost of doing business attracts many companies to the area. The business parks and business clusters primarily accommodate established and growing companies that specialize in light manufacturing, office processing, and research-and-development activities. Tenants include Soncell North America, Evoqua Water Technologies, Scantibodies Laboratory, Vision Systems, and Quality Controlled Manufacturing. Additional commercial space is located in El Cajon, with major tenants including Taylor Guitars, Professional’s Choice Sports Medicine, and Cox. Together, over 1,000 employees work in the area in buildings ranging from 15,000 to 140,000 square feet. Other notable businesses in the area include GKN Aerospace Chem-Tronics Inc., Veridiam Inc., and Fox Racing Shox.

Although Santee and El Cajon are generally built-out, the potential exists for in-fill development, and several project-focused areas provide opportunity for commercial growth. As companies are priced out of the San Diego market, pressure will continue to increase to redevelop land currently improved with older, low-density industrial uses. Negative tax implications and other factors are currently slowing the redevelopment process, but the movement to push forward is considered inevitable over the mid-to-long term. Some mixed-use, retail, and office developments are already under development. Several key projects include the Karl Strauss Brewery and corporate headquarters, the Studio Movie Grill Theater project; the 13-acre Santee School District site, which is planned for commercial uses; the 70-acre Gillespie Field development; and numerous residential developments. A summary of these projects is outlined in the section to follow.

FIGURE 2-5 MAJOR EMPLOYERS – SANTEE

Rank	Firm	Number of Employees
1	Santee Elementary School District	768
2	HD Supply	473
2	Las Colinas Detention Facility	473
4	Costco Wholesale	320
5	Edgemoor Skilled Nursing Facility	308
6	Wal-Mart Stores	285
7	Vons Stores	275
8	TC Construction Co Inc	260
9	Grossmont Union High School District	246
10	Santibodies Laboratory	227

Source: City of Santee, 2016/17 Financial Report

Overall, the strength of the greater San Diego market and the East County economy continues to support growth within Santee. Numerous residential projects are underway, expanding the economic and population base of the city. Furthermore, retail, restaurant, and entertainment venues continue to expand. Overall, five out of the 12 retail shopping centers were fully leased in 2017, which equated to a 3% vacancy rate. Currently, approximately 170 national chain retailers and restaurants are in Santee, of which 33 have been added since 2014. With the addition of the movie theater and Karl Strauss Brewery, growth is anticipated to continue. The variety of smaller companies, contractors, light industrial, and other manufacturing companies should support the economy going forward. The name recognition of companies such as Taylor Guitars and GKN Aerospace Chem-Tronics Inc. also bodes well for the area. Tourism, retail, and manufacturing are expected to remain cornerstones of the local economy.

Santee Town Center

Santee Town Center is centrally located in Santee, generally located near the intersection of Mission George Road and Cuyamaca Street. This area is relatively simple to locate from State Highway 52/San Clemente Canyon Freeway, which is the nearest major highway. Overall, the area benefits from good accessibility supported by the trolley station and the heavily traveled Mission Gorge Road. Traffic counts on Mission Gorge Road are approximately 57,515 cars per day (Google Earth Pro 2010). Overall, Santee is readily accessible to a variety of local and county roads, as well as state and interstate highways.

MAP OF NEIGHBORHOOD



TOWN CENTER – MAJOR RETAILERS MAP



The Santee commercial core is generally defined by San Diego River to the north, Magnolia Avenue to the east, Mission Gorge Road to the south, and Carlton Hills Boulevard to the west. The majority of Santee's retail commercial development is focused along the Mission Gorge corridor extending from Magnolia Avenue to Carlton Hills Boulevard, and the power center along Town Center Parkway featuring major big-box retailers. The downtown area is characterized by retail shopping centers, restaurants, office buildings, and public-service uses. Some specific businesses and entities in the area include Santee Trolley Square shopping center, Town Center power center, San Diego Christian College, HD Supply, and the Las Colinas Detention & Re-entry Facility. Santee Trolley Square, a popular shopping center, was constructed in 2002 and has a gross leasable area of 438,085 square feet, with a food court, a 250-seat outdoor amphitheater, and a variety of restaurant and shopping opportunities. The Santee Transit Center is located within Santee Trolley Square and provides multi-modal transit services as the hub for all bus routes and the terminus station for the San Diego Trolley Sycuan Green Line. This station provides direct Trolley service to San Diego State University, Mission Valley, downtown San Diego, Petco Park, and the convention center. Most of the retail and commercial development is centralized within this commercial core, with over 2.1 million square feet of retail development located within a one-mile radius of the Santee Transit Center, indicating a high degree of walkability. Current retail activity remains strong, with approximately 170 national chain retailers and restaurants in Santee, of which 33 national chains have been added since 2014. No hotels are currently located within the Santee Town Center commercial core. Nearby restaurants include Olive Garden, Mimi's Café, Oggi's Pizza & Brewery, Panera Bread, and Einstein Bros. Bagels; the proximity of these restaurants is considered supportive of the operation of a lodging property.

Major Developments

Several new projects are proposed, under construction, or have been recently completed in Santee.

- Santee's city council has selected Studio Movie Grill to develop a state-of-the-art, dine-in theater complex on a 6.7-acre city-owned parcel on Town Center Parkway, directly north of the Trolley Square shopping center. This 40,000-square-foot movie complex will feature 12 screens, 1,100 seats, 3D technology, large-format auditoriums, a full bar & lounge in the lobby, and full theater guest amenities. A theater groundbreaking is set for late 2018, with construction starting in 2019.
- The 13-acre former school site along the Mission Gorge commercial corridor is another notable development site within the community. This large vacant commercial parcel is located at the southeast corner of Cottonwood Avenue and Mission Gorge Road and is situated within the Santee commercial core area. According to development officials, the site was

recently purchased by a developer and is slated to be developed for mixed commercial uses.

- A three-story, 86,000-square-foot Sharp-Rees Stealy Medical Center has been approved for development at the corner of Cuyamaca Street and State Highway 52. The facility will employ a staff of about 215, including 40 physicians, and provide for a broad range of outpatient medical care, including an urgent-care center, a rapid-response laboratory, and a pharmacy. This project is scheduled for construction in 2019 and is anticipated to generate more than 150,000 patient visits per year according to area officials.
- The Karl Strauss Brewing Company has announced plans to initiate development of its 10-acre brewery and corporate headquarters project by late 2018. Located at the northeast corner of Cuyamaca Street and Town Center Parkway, it will encompass a 112,500-square-foot Karl Strauss Brewery headquarters facility with full brewery operations, a restaurant, a tasting room, and an event center hosting corporate functions, weddings, and special events. Karl Strauss was ranked the nation's 41st-largest craft brewery in terms of barrel production. The city council approved the project in December 2015 and construction is slated to begin in 2019.
- The County of San Diego is developing a 25,000-square-foot office building to serve as the East County branch of the County's Assessor, Recorder, and County Clerk departments. It is located on a 3.2-acre county-owned parcel on Mission Gorge Road, directly east of the Trolley Square shopping center and HD Supply. It will employ about 55 staff, with construction to begin in early 2019.
- Several other developments include a Costco fueling-station expansion, retail stores, several restaurants, future plans for county-owned sites, and other commercial projects.

SANTEE TOWN CENTER PROJECTS



- Gillespie Field, a business-oriented, county-owned airport, encompasses 757 acres and features a control tower, a terminal, three asphalt runways, 16 FBOs (Fixed-Based Operators), a private museum, two business parks, and other business clusters. Roughly 200,000 take-offs and landings occur at the airport annually, according to airport officials, consisting primarily of local passengers, flights students, business owners, and occasional overnight traffic. Over 7.6 million square feet of industrial and general commercial space exists on airport land. According to a 2014 study by Caltrans, Gillespie Field and the area surrounding the airport support over 11,800 jobs and approximately 7.6 million square feet of industrial and general commercial space; by 2040, it has the capacity to add approximately 1.8 million square feet of office space and an additional 9,000 jobs. The airport area contains 123 acres of undeveloped land; work has begun to improve access and storm-water infrastructure on approximately 70 acres planned for development. According to airport officials, the bulk of the construction is expected to begin in three to five years. Additionally, several areas surrounding Gillespie Field contain key commercial business clusters, as illustrated below in the excerpt from the “2014 Caltrans Airport Forecasting Study.”

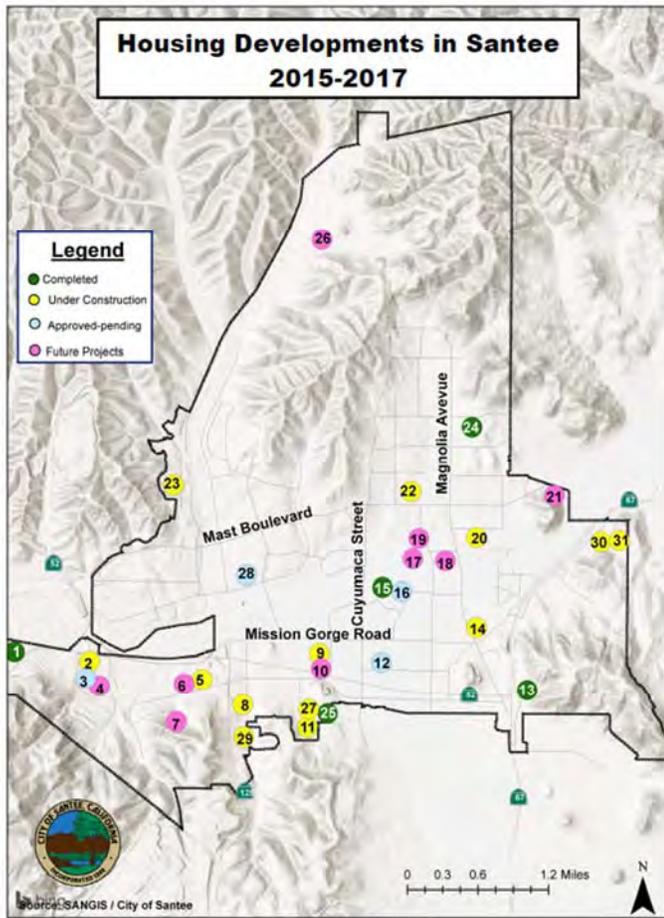
GILLESPIE FIELD

- **Area A** is in the City of Santee and generally follows Prospect Avenue. It contains Class B or Class C commercial space and strip malls.
- **Area B**, in El Cajon, includes two business parks. This area is the highest quality development found in the study area.
- **Area C**, also located in El Cajon, is fully built out with light industrial uses and a few shopping centers. The area includes a total of 400 acres bifurcated by roads. There are no vacant sites for infill or redevelopment in this area.
- **Area D** is a small section of land that is in both El Cajon and San Diego County. Currently, there are 70 acres of vacant land, once the home of the Cajon Motor Speedway and slated for development under a County-approved, phased Program EIR.



As the following map illustrates, numerous residential developments had been constructed, were underway, or were planned from 2015 to 2017.

SANTEE RESIDENTIAL PROJECTS



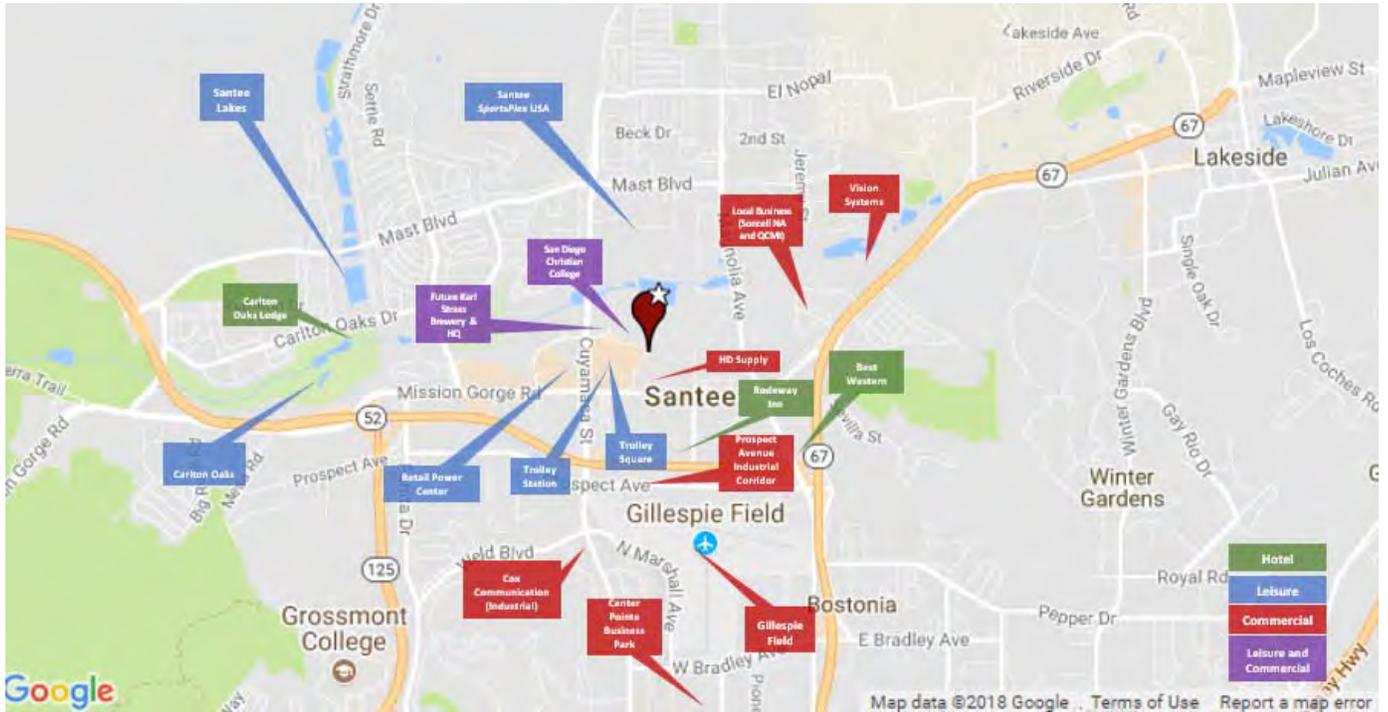
HOUSING DEVELOPMENTS IN SANTEE (2015-17)

#	Project Name	Type	Status		Units
1	Mission Trails Collection	Multi-Family	Completed 2017	Bushy Hill Drive	60
2	Mission Gorge Multi-Family	Multi-Family	Under Construction	Mission Gorge Rd.	113
3	Robinson Lane	Multi-Family	Approved - Pending	Robinson Ln.	10
4	Carribean Way	Multi-Family	Pending	Carribean Way	42
5	Prospect Fields	Multi-Family	Under Construction	Prospect Avenue	75
6	Prospect Estates II	Multi-Family	Pending	Prospect Avenue	46
7	Tyler Street	Single-Family	Pending	Tyler Street	14
8	Vidovich Subdivision	Single-Family	Under Construction	Fanita Drive	4
9	Montivo	Multi-Family	Under Construction	Olive Lane	18
10	Palazzo Villas	Multi-Family	Pending	Olive Lane	8
11	East County Estates	Single-Family	Under Construction	Atlas View Drive	14
12	Village Run	Multi-Family	Approved -Pending	Buena Vista Ave.	40
13	Lantern Crest Villas	Multi-Family	Completed 2017	Lantern Crest Way	12
14	Magnolia Townhomes	Multi-Family	Under Construction	Magnolia Avenue	10
15	ParoOne	Multi-Family	Completed 2016	Town Center Pkwy.	172
16	R-22 site (former County)	Multi-Family	Approved - Pending	Riverview Pkwy.	128
17	R-30 site (former County)	Multi-Family	Pending Submittal	Edgemoor Drive	TBD
18	Walker Trails	Single-Family	Pending	Magnolia Avenue	67
19	R-22 site (former County)	Multi-Family	Pending Submittal	Edgemoor Drive	TBD
20	River Village	Single-Family	Under Construction	Braverman Drive	82
21	Parkside	Multi-Family	Pending	Mast Blvd.	125
22	Conejo Road Subdivision	Single-Family	Under Construction	Conejo Road	3
23	Weston	Mixed-Use	Under Construction	Mast Blvd.	415
24	El Nopal Estates II	Single-Family	Completed 2016	Casa Court	10
25	Brown Development	Single-Family	Completed 2015	Pryor Drive	2
26	Fanita Ranch	Mixed-Use	Pending	Fanita Pkwy.	2,950
27	Pryor Glen	Single-Family	Under Construction	Pryor Drive	6
28	E. Heaney Circle	Multi-Family	Approved-Pending	Carlton Oaks	10
29	D'Lazio	Multi-Family	Under Construction	Fanita Drive	20
30	Aleto	Single-Family	Under Construction	Woodside Terrace	4
31	Woodside Terrace	Single-Family	Under Construction	Woodside Terrace	4
PROJECT PHASE				# OF UNITS	
Completed 2015-17				256	
Under Construction				768	
Approved/Pending Construct				188	
Pending Submittal/Approval				302	
TOTAL (w/o Fanita)					1,514

Proximity to Local Demand Generators and Attractions

The Santee Town Center is located near the area's primary generators of lodging demand. A sample of these demand generators is reflected on the following map, including primary or dual sources of demand (e.g., leisure and commercial). Although located on the outskirts of San Diego, Santee generates its own leisure demand and offers a more affordable location for business than some of the other suburbs.

ACCESS TO DEMAND GENERATORS AND ATTRACTIONS



Tourist Attractions

Tourism is an important factor for East County and Santee area hotels. Within the city itself, Santee offers recreational facilities, outdoor retreats, golf courses, retail shopping, and quick access to Downtown San Diego and other regional attractions with the trolley. The peak season for tourism in this area is from May to September. Leisure demand is typically strongest during key weekends and during the summer vacation season. Area leisure demand generators include the following:

- Santee Sportsplex USA, built in 2010, is located in the heart of Santee. This 15-acre premier sports complex includes three tournament-quality softball fields, two indoor soccer arenas, batting cages, and a sports restaurant. As the complex is one of the largest demand drivers in Santee, over 462,850 players and spectators visit the park each year for sports leagues, tournaments, and corporate events, generating hotel room nights throughout the region. Although this visitation does include local and regional guests, demand peaks in the summer months and weekends with sports tournaments.



- Santee Lakes RV & Recreation Preserve attracts roughly 650,000 visitors annually. Fishing, bird watching, and other recreational activities are the main draws. This 190-acre park includes seven fully stocked lakes, camping, cabin rentals, fishing, boating, playground, and walking trails. Furthermore, over 230 bird species can be seen throughout the area. The RV campground has drawn national recognition and has generated significant “snowbird” demand for the Santee area, with the potential for future lodging demand as well.



- Numerous festivals, weddings, and other events throughout the year generate demand. Key festivals are outlined in the following table. During other times of the year, leisure demand comprises travelers passing through en route to other destinations, people visiting friends or relatives, and other similar weekend demand generators.

FIGURE 2-6 SAMPLE OF LOCAL EVENTS

Event	Season
Lakeside Rodeo	Spring
River Park Festival	Spring
SanTree Fest	Spring
Spring Eggstravaganza	Spring
Santee Street Fair & Craft Beer Festival	Spring
Fido Fest	Summer
Santee Salutes	Summer
Concert at the Lakes	Summer
Santee Summer Concert Series	Summer
Santee Aloha 5K Fun Run & Walk	Summer
Movies & More by the Lake	Summer
Light Up the Lakes	Summer
Santee Bluegrass Festival	Fall
Campground Scarecrow Festival	Fall
Holiday Lighting Celebration	Winter
Santee Active Lifestyle Expo	Winter
Taste of Santee	Winter
U.S. Track & Field 50K Race Walk National Championship	Winter



- Additional demand generators throughout the region include numerous beaches, the Gaslamp Quarter, the San Diego Zoo, Old Town San Diego, Coronado Island, Little Italy, and several theme parks including SeaWorld San Diego and

LEGOLAND. Nearby Temecula Valley, considered the wine country of Southern California, also attracts many visitors.

Conclusion

Santee and the surrounding area have entered a period of economic strength and expansion. Increasing income levels, the booming housing market, and new developments planned and ongoing bode well for the market. Efforts to continue to improve the quality of life and local services are underway, with a long-term commitment and focus from government officials. The overall growth of key industries and sectors, such as tourism, manufacturing, and retail, as well as the strength of government and military entities in the region, further support an optimistic outlook for the area and are expected to generate additional hotel demand.

3. Hotel Supply and Demand Analysis

The purpose of this section is to investigate current supply and demand trends, as indicated by the current competitive market, and to set forth a basis for the projection of future supply and demand growth.

Definition of Hotel Market

The existing inventory of overnight lodging in the city of Santee is limited to a 47-room Best Western, a 54-room Rodeway Inn, and the 57-room lodge at Carlton Oaks Country Club, as well as 300 hookup campground sites and 10 waterfront cabin sites at Santee Lakes. Because the supply of existing hotels is limited, we also considered hotels in the greater area, including hotels in El Cajon, Miramar, Rancho Bernardo, Kearny Mesa, and Mission Valley. Additionally, the Hampton Inn Poway was also included given its proximity to another Sportsplex USA complex. We note that most of the hotels in the trend are located outside of Santee, as the reporting supply in Santee is limited.

Historical Supply and Demand Data

As previously noted, STR is an independent research firm that compiles and publishes data on the lodging industry, routinely used by typical hotel buyers. HVS has ordered and analyzed an STR Trend Report of historical supply and demand data for a group of hotels considered applicable to this analysis for the proposed subject hotel. This information is presented in the following table, along with the market-wide occupancy, average rate (ADR), and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by ADR and provides an indication of how well rooms revenue is being maximized.

FIGURE 3-1 HISTORICAL SUPPLY AND DEMAND TRENDS

Year	Average Daily	Available Room	Occupied Room		Average		RevPAR	Change		
	Room Count	Nights	Change	Nights	Change	Occupancy			Rate	
2008	1,913	698,258	—	457,021	—	65.5 %	\$120.18	—	\$78.66	—
2009	2,240	817,600	17.1 %	486,403	6.4 %	59.5	105.14	(12.5) %	62.55	(20.5) %
2010	2,240	817,600	0.0	541,279	11.3	66.2	103.09	(1.9)	68.25	9.1
2011	2,189	798,934	(2.3)	542,394	0.2	67.9	105.23	2.1	71.44	4.7
2012	2,178	795,029	(0.5)	577,073	6.4	72.6	110.08	4.6	79.90	11.8
2013	2,214	808,024	1.6	580,320	0.6	71.8	112.06	1.8	80.48	0.7
2014	2,332	851,029	5.3	640,562	10.4	75.3	117.34	4.7	88.32	9.7
2015	2,493	909,875	6.9	700,939	9.4	77.0	126.59	7.9	97.52	10.4
2016	2,735	998,137	9.7	777,193	10.9	77.9	133.05	5.1	103.60	6.2
2017	2,789	1,017,924	2.0	813,924	4.7	80.0	137.52	3.4	109.96	6.1
Year-to-Date Through August										
2017	2,789	677,727	—	557,751	—	82.3 %	\$143.06	—	\$117.74	—
2018	2,893	702,924	3.7 %	574,902	3.1 %	81.8	143.82	0.5 %	117.62	(0.1) %
Average Annual Compounded Change:										
2008 - 2011			4.6 %		5.9 %			(4.3) %		(3.2) %
2011 - 2017			4.1		7.0			4.6		7.5
Hotels Included in Sample		Class	Competitive Status	Number of Rooms	Year Affiliated	Year Opened				
Best Western Continental Inn		Midscale Class	Secondary	95	Jun 1963	Jun 1963				
Courtyard San Diego Mission Valley Hotel Circle		Upscale Class	Secondary	317	Nov 2008	Jun 1971				
Rodeway Inn Santee		Economy Class	Primary	54	Jun 2009	Jun 1985				
Holiday Inn San Diego La Mesa		Upper Midscale Class	Secondary	141	Dec 2007	Jan 1986				
Best Western Plus La Mesa San Diego		Upper Midscale Class	Secondary	78	Jun 2015	Jun 1986				
La Quinta Inns & Suites San Diego Miramar		Midscale Class	Secondary	120	Apr 1987	Apr 1987				
Best Western Santee Lodge		Midscale Class	Primary	47	Sep 1987	Sep 1987				
Comfort Suites San Diego Miramar		Upper Midscale Class	Secondary	132	Dec 2010	Sep 1987				
Hampton Inn San Diego Kearny Mesa		Upper Midscale Class	Secondary	146	Jul 1989	Jul 1989				
Holiday Inn San Diego Miramar Mcas Area		Upper Midscale Class	Secondary	155	Jan 2009	Aug 1989				
Hilton Garden Inn San Diego Mission Valley Stadium		Upscale Class	Secondary	178	Jul 2016	Aug 1991				
Residence Inn San Diego Rancho Bernardo		Upscale Class	Secondary	124	Sep 1991	Sep 1991				
Holiday Inn Express Mira Mesa San Diego		Upper Midscale Class	Secondary	75	May 2011	May 2000				
Courtyard San Diego Central		Upscale Class	Secondary	245	Mar 2002	Mar 2002				
Springhill Suites San Diego Rancho Bernardo Scripps Poway		Upscale Class	Secondary	138	May 2003	May 2003				
Residence Inn San Diego Rancho Bernardo Scripps Poway		Upscale Class	Secondary	95	Aug 2003	Aug 2003				
Hampton Inn Suites San Diego Poway		Upper Midscale Class	Primary	108	Nov 2008	Nov 2008				
Hampton Inn San Diego Mission Valley		Upper Midscale Class	Secondary	184	Jul 2014	Jul 2014				
Holiday Inn Express & Suites San Diego Mission Valley		Upper Midscale Class	Secondary	104	May 2015	May 2015				
Springhill Suites San Diego Mission Valley		Upscale Class	Secondary	135	Mar 2016	Mar 2016				
Homewood Suites San Diego Mission Valley Zoo		Upscale Class	Secondary	118	Apr 2016	Apr 2016				
Courtyard San Diego El Cajon		Upscale Class	New Supply	120	Feb 2018	Feb 2018				
				Total	2,909					

Source: STR

It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample; furthermore, not every property reports data in a consistent and timely manner. These factors can influence the overall quality of the information by skewing the results, and these inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate growth or decline in existing supply and demand; thus, these trends have been considered in our analysis. Opening dates, as available, are presented for each reporting hotel in the previous table.

During the illustrated historical period, occupancy increased year-over-year from a low of 60% during the Great Recession in 2009 to a high of 80% in 2017. Growth was driven largely by increasing levels of disposable income, individual tourism and group travel, and commercial/corporate travel. Average rate for the market has increased at a CAGR of 4.6% since 2011, and growth has strengthened as occupancy levels have risen. Year-to-date 2018 data illustrate a slight decline in occupancy and relatively stable ADR given the entrance of new supply. The near-term outlook is best described as positive but cautionary owing to the entrance of new supply throughout the greater market.

Seasonality

Monthly occupancy and ADR trends are presented in the following tables.

FIGURE 3-2 MONTHLY OCCUPANCY TRENDS

Month	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
January	61.3 %	48.1 %	52.3 %	58.1 %	61.5 %	65.6 %	61.3 %	65.3 %	67.5 %	67.2 %	69.7 %
February	67.6	62.3	63.6	64.6	69.8	73.1	74.5	79.8	77.3	78.4	78.3
March	68.3	56.1	69.8	68.7	78.0	71.3	77.8	81.7	78.3	85.8	83.8
April	72.1	55.1	62.5	61.1	72.0	70.0	79.7	78.8	77.0	84.4	79.3
May	69.0	52.3	64.1	62.4	72.5	71.0	77.6	73.7	74.2	78.6	79.2
June	77.3	67.4	80.0	76.8	82.7	78.6	83.8	82.6	84.2	88.2	89.1
July	80.0	78.8	83.8	87.1	87.9	87.8	86.0	86.5	87.3	90.1	89.9
August	81.9	70.6	79.5	79.5	83.8	82.3	84.5	83.9	84.3	85.7	84.4
September	62.0	58.9	61.2	69.0	70.9	67.3	73.0	76.4	81.1	80.5	—
October	63.9	61.9	62.9	63.9	70.1	68.8	75.6	80.2	80.7	78.4	—
November	46.5	53.6	60.7	63.7	64.4	66.7	66.4	69.8	73.3	73.3	—
December	45.2	48.8	53.9	59.9	57.2	59.0	63.2	65.8	68.3	69.1	—
Annual Occupancy	65.5 %	59.5 %	66.2 %	67.9 %	72.6 %	71.8 %	75.3 %	77.0 %	77.9 %	80.0 %	—
Year-to-Date	72.0 %	61.3 %	69.5 %	69.8 %	76.1 %	75.1 %	78.3 %	79.1 %	78.9 %	82.3 %	81.8 %

Source: STR

FIGURE 3-3 MONTHLY ADR TRENDS

Month	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
January	\$114.38	\$112.01	\$97.76	\$102.18	\$105.84	\$104.91	\$104.30	\$111.76	\$117.94	\$124.42	\$119.86
February	122.62	112.13	99.44	108.65	103.85	106.94	108.74	115.50	121.48	130.84	131.31
March	119.68	109.18	101.40	103.61	105.27	105.67	108.20	120.93	123.61	139.40	135.30
April	120.40	104.63	99.81	98.64	104.34	106.51	110.42	120.56	127.66	133.35	133.33
May	119.65	102.62	101.19	100.83	107.66	106.94	111.73	122.81	130.34	133.82	137.98
June	129.69	103.24	104.73	105.94	113.20	114.21	124.68	137.36	141.08	150.11	152.74
July	132.97	116.03	115.84	121.50	130.92	140.22	149.15	163.55	170.44	175.13	177.89
August	125.85	106.22	109.12	111.16	120.67	122.93	131.21	138.12	144.51	148.45	151.34
September	116.23	100.38	102.47	101.56	109.17	107.71	113.35	123.68	128.91	134.24	—
October	116.56	100.14	101.67	102.31	109.68	107.53	115.87	125.18	127.56	130.46	—
November	112.09	97.74	100.85	100.66	104.29	108.76	110.80	118.91	126.58	125.36	—
December	102.97	92.09	94.04	97.25	94.13	98.89	104.45	106.47	122.91	109.98	—
Annual Average Rate	\$120.18	\$105.14	\$103.09	\$105.23	\$110.08	\$112.06	\$117.34	\$126.59	\$133.05	\$137.52	—
Year-to-Date	\$123.43	\$108.47	\$104.46	\$107.39	\$112.36	\$114.80	\$120.15	\$130.16	\$136.25	\$143.06	\$143.82

Source: STR

FIGURE 3-4 SEASONALITY

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
High Season - June, July, August											
Occupancy	79.8 %	72.3 %	81.1 %	81.2 %	84.8 %	82.9 %	84.8 %	84.4 %	85.3 %	88.0 %	87.8 %
Average Rate	\$129.47	\$108.91	\$110.05	\$113.29	\$121.87	\$126.40	\$135.50	\$146.66	\$152.35	\$158.19	\$160.96
RevPAR	103.30	78.75	89.24	91.97	103.33	104.83	114.90	123.77	129.91	139.19	141.29
Shoulder Season - February, March, April, May, September, October											
Occupancy	67.2 %	57.7 %	64.0 %	64.9 %	72.3 %	70.2 %	76.4 %	78.4 %	78.1 %	81.0 %	
Average Rate	\$119.23	\$104.78	\$101.02	\$102.60	\$106.68	\$106.88	\$111.48	\$121.56	\$126.75	\$133.82	
RevPAR	80.08	60.48	64.69	66.63	77.11	75.05	85.12	95.27	98.99	108.43	
Low Season - January, November, December											
Occupancy	50.9 %	50.2 %	55.6 %	60.5 %	61.0 %	63.7 %	63.7 %	67.0 %	69.7 %	69.8 %	
Average Rate	\$110.22	\$100.50	\$97.64	\$100.03	\$101.61	\$104.34	\$106.62	\$112.45	\$122.69	\$119.93	
RevPAR	56.06	50.41	54.28	60.52	61.97	66.49	67.87	75.30	85.58	83.74	

Source: Smith Travel Research

The competitive market is characterized by a notable degree of seasonality, which is evident in the monthly occupancy statistics. The strongest occupancy levels are recorded in the summer months when leisure demand peaks due to the numerous attractions in the area. While occupancy in the summer exceeds 80%, demand notable declines during the winter months resulting in occupancy in the 50s and 60s. ADR levels reflect a similar pattern.

Patterns of Demand

A review of the trends in occupancy and ADR by day of the week provides some insight into the impact that the current economic conditions have had on the competitive lodging market. The data, as provided by STR, are illustrated in the following tables.

FIGURE 3-5 OCCUPANCY BY DAY OF WEEK (TRAILING 12 MONTHS)

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Sep - 17	72.4 %	74.2 %	83.2 %	83.8 %	79.6 %	80.9 %	87.4 %	80.5 %
Oct - 17	61.4	73.8	79.6	85.8	80.8	82.0	90.4	78.4
Nov - 17	52.2	69.8	73.5	75.2	78.1	81.9	81.0	73.3
Dec - 17	59.4	68.3	73.6	76.9	73.9	66.7	67.9	69.1
Jan - 18	58.2	67.4	74.5	77.0	71.7	66.8	69.9	69.7
Feb - 18	66.4	78.4	82.4	84.2	79.4	76.2	80.8	78.3
Mar - 18	67.7	85.6	90.2	90.1	84.9	82.8	84.9	83.8
Apr - 18	59.9	76.2	82.3	84.1	82.3	85.1	90.8	79.3
May - 18	70.2	74.0	79.6	78.5	73.9	86.3	93.0	79.2
Jun - 18	72.4	87.6	93.0	94.3	93.2	89.3	92.9	89.1
Jul - 18	78.8	86.5	87.9	92.2	94.6	96.3	97.0	89.9
Aug - 18	68.9	81.5	85.9	86.7	83.9	88.7	93.9	84.4
Average	65.7 %	77.0 %	82.1 %	83.8 %	81.3 %	82.0 %	85.8 %	79.7 %

Source: STR

FIGURE 3-6 AVERAGE RATE BY DAY OF WEEK (TRAILING 12 MONTHS)

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Sep - 17	\$127.70	\$136.07	\$136.17	\$136.01	\$126.88	\$134.04	\$140.04	\$134.24
Oct - 17	122.21	128.94	133.72	136.47	128.56	128.23	133.44	130.46
Nov - 17	115.22	127.24	130.75	127.11	124.40	125.34	124.52	125.36
Dec - 17	104.92	112.22	116.56	115.41	112.36	106.25	103.54	109.98
Jan - 18	114.60	123.29	129.40	127.54	116.59	109.93	109.67	119.86
Feb - 18	121.30	134.79	141.32	141.39	130.71	121.96	124.86	131.31
Mar - 18	123.69	141.02	147.20	146.33	137.00	127.12	124.90	135.30
Apr - 18	121.48	136.89	143.05	141.54	131.52	127.35	130.20	133.33
May - 18	134.44	138.67	142.01	138.97	129.28	135.37	145.79	137.98
Jun - 18	136.92	151.26	160.59	161.31	154.12	149.56	152.42	152.74
Jul - 18	156.74	164.49	170.17	185.77	187.68	190.40	193.56	177.89
Aug - 18	138.50	145.74	151.83	154.79	148.78	153.89	161.01	151.34
Average	\$127.94	\$138.07	\$143.14	\$143.56	\$137.20	\$136.25	\$138.78	\$138.16

Source: STR

Business travel, including individual commercial travelers and corporate groups, is the predominant source of demand on Monday through Thursday nights in the defined market area. Leisure travelers and non-business-related groups generate most demand on Friday and Saturday nights. The influence of the leisure segment, particularly demand generated by Santee Sportsplex USA, Santee Lakes, and attractions within the greater area, is evident in the occupancy and ADR levels recorded on Friday and Saturday nights of May through October. This source also generates supplemental demand during the week in the summer months.

SUPPLY

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives, we have identified several properties that would be primarily competitive with a new hotel in Santee. If applicable, additional lodging facilities may be judged only secondarily competitive; although the facilities, rate structures, or market orientations of these hotels prevent their inclusion among the primary competitive supply, they would be expected to compete with a new hotel to some extent.

Primary Competitors

The following table summarizes the important operating characteristics of the future primary competitors and the aggregate secondary competitors (if applicable). This information was compiled from personal interviews, inspections, online resources, and our in-house database of operating and hotel facility data. The secondary composite is also illustrated below.

FIGURE 3-7 PRIMARY COMPETITORS – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation			Estimated 2016				Estimated 2017					
		Leisure	Commercial/Government	Group	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Best Western Santee Lodge	47	55 %	20 %	25 %	47	75 - 80 %	\$90 - \$95	\$65 - \$70	47	75 - 80 %	\$90 - \$95	\$70 - \$75	95 - 100 %	60 - 65 %
Carlton Oaks Lodge	57	45	25	30	57	75 - 80	95 - 100	70 - 75	57	75 - 80	95 - 100	75 - 80	95 - 100	65 - 70
Rodeway Inn Santee	141	65	30	5	141	65 - 70	70 - 75	45 - 50	141	65 - 70	70 - 75	45 - 50	85 - 90	40 - 45
Hampton Inn & Suites San Diego Poway	108	15	70	15	108	75 - 80	130 - 140	100 - 105	108	70 - 75	140 - 150	105 - 110	90 - 95	95 - 100
Sub-Totals/Averages	353	45 %	40 %	15 %	353	73.2 %	\$97.94	\$71.69	353	73.6 %	\$100.49	\$73.95	92.1 %	67.6 %
Secondary Competitors	2,493	30 %	50 %	20 %	2,438	78.5 %	\$137.00	\$107.55	2,493	80.8 %	\$141.50	\$114.33	101.1 %	104.6 %
Totals/Averages	2,846	32 %	49 %	19 %	2,791	77.8 %	\$132.35	\$103.01	2,846	79.9 %	\$136.81	\$109.32	100.0 %	100.0 %

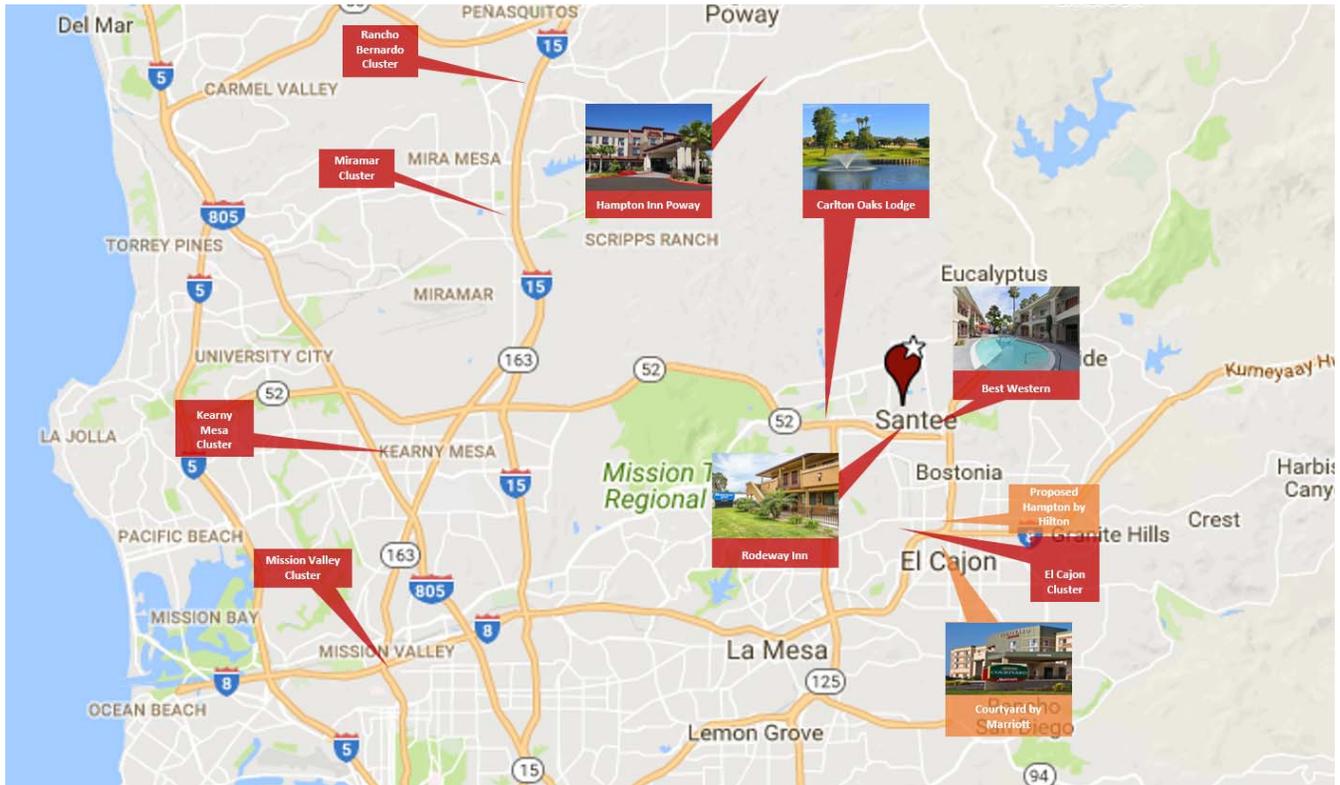
* Specific occupancy and average rate data were utilized in our analysis, but are presented in ranges in the above table for the purposes of confidentiality.

FIGURE 3-8 PRIMARY COMPETITORS – FACILITY PROFILES

Local Hotels					
Building	Best Western Santee	Carlton Oaks Lodge	Rodeway Inn Santee	Hampton Inn & Suites San Diego Poway	Courtyard by Marriott
Address	10726 Woodside Ave, Santee, California 92071	9200 Inwood Drive, Santee, California 92071	10135 Mission Gorge Road, Santee, California 92071	14068 Stowe Drive, Poway, California	141 North Magnolia Avenue, El Cajon, CA, 92020
Opening Date	1987	1960	1985	2008	June 2018
Year Renovated	—	2013	—	—	—
No. of Keys	47	51	54	108	120
Indoor Meeting Space (SF)		4,000		2,900	4,300
Meeting Space Per Key (SF)		78		27	36
Food and Beverage Outlet	Breakfast Dining Area	The Oaks Bar & Grill	Breakfast Dining Area	Breakfast Dining Area	Bistro
Facilities and Amenities	Outdoor Swimming and Whirlpool	Golf Course, Outdoor Swimming and Whirlpool	Outdoor Swimming and Whirlpool	Lobby Workstation, Guest Laundry Area, Outdoor Swimming and Whirlpool, Fitness Center, and Market Pantry	Lobby Workstation, Guest Laundry Area, Outdoor Swimming and Whirlpool, Fitness Center, and Market Pantry

The following map illustrates the location of the Santee commercial core, primarily competitive hotels in the greater Santee area, and the clusters of hotels previously identified.

MAP OF COMPETITION



Supply Changes

The strength of the East San Diego market is attracting new hotel development. A 120-room Courtyard by Marriott recently opened in Downtown El Cajon (141 North Magnolia Avenue), and a 98-room Hampton by Hilton has been proposed for the old police headquarters site (100 Flecker Parkway), also in El Cajon; both are located within three miles of the Santee commercial core. Given their proximity and respective asset classes, these hotels will be competitive with a hotel developed in Santee. The performance of the Courtyard by Marriott in Santee will provide an indication of the depth of the East County market and the price point of the consumer. Additionally, the Sycuan Casino Resort is undergoing a hotel expansion, which is expected to include 300 guestrooms and open in early 2019. Given the resort and casino nature of this project, this hotel would not be directly competitive. While additional hotels are proposed for development throughout the greater San Diego area, the competitive hotel clusters to the west will become less competitive with East County as it becomes established as a separate hotel submarket.

While we have taken reasonable steps to investigate proposed hotel projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future, or what their marketing strategies and effect in the market will be. Depending on the outcome of current and future projects, the future operating potential of the proposed subject hotel may be affected. Future improvement in market conditions will raise the risk of increased competition. Our forthcoming forecast of stabilized occupancy and average rate is intended to reflect such risk.

Supply Conclusion

We have identified various properties that are expected to be competitive to some degree with the proposed subject hotel. We have also investigated potential increases in competitive supply in this Santee submarket.

DEMAND

The following table presents the most recent trends for the subject hotel market as tracked by HVS. These data pertain to the competitors discussed previously in this section; performance results are estimated, rounded for the competition, and in some cases weighted if there are secondary competitors present. In this respect, the information in the table differs from the previously presented STR data and is consistent with the supply and demand analysis developed for this report.

FIGURE 3-9 HISTORICAL MARKET TRENDS

Year	Accommodated		Room Nights		Market			Market	
	Room Nights	% Change	Available	% Change	Occupancy	Market ADR	% Change	RevPAR	% Change
Est. 2015	716,235	—	930,385	—	77.0 %	\$125.90	—	\$96.92	—
Est. 2016	792,868	10.7 %	1,018,715	9.5 %	77.8	132.35	5.1 %	103.01	6.3 %
Est. 2017	830,055	4.7	1,038,790	2.0	79.9	136.81	3.4	109.32	6.1
Avg. Annual Compounded Chg., Est. 2015-Est. 2017:		7.7 %		5.7 %			4.2 %		6.2 %

Demand Segmentation

The overall market has been divided into individual segments based on the nature of travel. Per our market interviews and research, the 2017 in the defined competitive market is segmented as follows.

FIGURE 3-10 ACCOMMODATED-ROOM-NIGHT DEMAND

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Leisure	262,896	32 %
Commercial/Governn	405,768	49
Group	161,391	19
Total	830,055	100 %

The market’s demand mix comprises leisure demand, with this segment representing roughly 32% of the accommodated room nights in greater defined submarket. The commercial/government segment comprises 49% of the total, with the final portions group in nature, reflecting 19%.

Leisure Segment

Leisure demand consists of individuals and families spending time in an area or passing through en route to other destinations. Travel purposes include sightseeing, recreation, or visiting friends and relatives. Leisure demand also includes room nights booked through Internet sites such as Expedia, Hotels.com, and Priceline; however, leisure may not be the purpose of the stay. This demand may also include business travelers and group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. Leisure demand is strongest Friday and Saturday nights, and all week during holiday periods and the summer months. These peak periods represent the inverse of commercial visitation trends, underscoring the stabilizing effect of capturing

weekend and summer tourist travel. Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income correlate strongly with leisure travel levels.

A majority of the demand for the proposed subject hotel is expected to be generated by leisure guests frequenting the Santee Sportsplex USA, Santee Lakes RV & Recreation Preserve, retail venues, festivals, and concert events in the area. The trolley that connects Santee to Downtown San Diego, the construction of the Karl Strauss Brewery (including an event area), and the growth at San Diego Christian College are all anticipated to support future leisure demand. Santee will also serve as a lodging destination for visitors to the greater San Diego area. In particular, the direct trolley service to San Diego State University, San Diego Gaslamp, and the San Diego Convention Center will provide lodging opportunities for SDSU events, downtown festivals, and Comic-Con, which relies upon regional hotel supply and public transit access. As noted previously, leisure demand peaks during the summer and weekend periods.

Commercial/ Government Segment

Commercial/government demand consists mainly of individual businesspeople passing through the subject market or visiting commercial firms or government institutions in the area, in addition to high-volume accounts generated by local agencies. Brand loyalty (particularly frequent-traveler programs), as well as location and convenience with respect to businesses and amenities, influence lodging choices in this segment. Companies typically designate hotels as “preferred” accommodations in return for significantly discounted rates, including government per-diem rates; negotiated rates are discounted in proportion to the number of room nights produced by a corporate client. Government per-diem rates are established annually. Demand within this segment is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday night. It is relatively constant throughout the year, with marginal declines in late December and during other holiday periods.

Primary commercial demand generators for this market include major business parks in the area, area contractors, and light industrial and manufacturing facilities. Major business that generate demand include Taylor Guitars, Cox Communications, GKN Aerospace Chem-Tronics Inc., Fox Racing Shox, HD Design, Soncell North America, Evoqua Water Technologies, Scantibodies Laboratory, Vision Systems, and Quality Controlled Manufacturing. Additional demand is also generated by Gillespie Field.

Group Segment

In the limited-service sector, group demand is most commonly generated by groups that require ten or more room nights but need little to no meeting space within the hotel. Examples of these groups include family reunions, sports teams, and bus tours. In some markets, limited-service hotels may also accommodate demand from groups or individuals attending events at the local convention center or at one of the larger convention hotels in the area. The San Diego Convention Center generates compression demand throughout the county during large citywide conventions, though overflow demand to East County will lessen as new hotels are developed closer to Downtown San Diego.

Group demand is often generated by social events, including weddings and family gatherings, as well as sports teams competing in the area; this type of demand is prevalent from March through September. These groups are likely frequenting the same destinations as leisure and commercial travelers. With the opening of new hotels and the Karl Strauss Brewery, including its event room, group demand is anticipated to increase in the subject submarket.

Latent Demand

A table presented earlier in this section illustrated the accommodated-room-night demand in the subject property's competitive market. Because this estimate is based on historical occupancy levels, it includes only those hotel rooms that were used by guests. Latent demand reflects potential room-night demand that has not been realized by the existing competitive supply, further classified as either unaccommodated demand or induced demand.

The following table, which presents annual average occupancy levels by day of week, illustrates the presence of unaccommodated demand in the defined market. Average annual occupancy levels exceed 80% Tuesday through Saturday nights, reflecting both strong commercial and leisure demand. With such high sustained annual occupancy levels, new supply will help to capture demand that cannot currently be accommodated in the market.

FIGURE 3-11 OCCUPANCY BY NIGHT OF THE WEEK

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Sep - 17	72.4 %	74.2 %	83.2 %	83.8 %	79.6 %	80.9 %	87.4 %	80.5 %
Oct - 17	61.4	73.8	79.6	85.8	80.8	82.0	90.4	78.4
Nov - 17	52.2	69.8	73.5	75.2	78.1	81.9	81.0	73.3
Dec - 17	59.4	68.3	73.6	76.9	73.9	66.7	67.9	69.1
Jan - 18	58.2	67.4	74.5	77.0	71.7	66.8	69.9	69.7
Feb - 18	66.4	78.4	82.4	84.2	79.4	76.2	80.8	78.3
Mar - 18	67.7	85.6	90.2	90.1	84.9	82.8	84.9	83.8
Apr - 18	59.9	76.2	82.3	84.1	82.3	85.1	90.8	79.3
May - 18	70.2	74.0	79.6	78.5	73.9	86.3	93.0	79.2
Jun - 18	72.4	87.6	93.0	94.3	93.2	89.3	92.9	89.1
Jul - 18	78.8	86.5	87.9	92.2	94.6	96.3	97.0	89.9
Aug - 18	68.9	81.5	85.9	86.7	83.9	88.7	93.9	84.4
Average	65.7 %	77.0 %	82.1 %	83.8 %	81.3 %	82.0 %	85.8 %	79.7 %

Source: STR

Our interviews with market participants found that the market generally sells out on Tuesday through Saturday nights during the peak travel season, most weeks during the spring and summer months, and sporadically within other periods throughout the year. Special events, such as sporting tournaments, regularly sell out competitive hotels. Demand that is currently turned away can be expected to return to the market concurrent with the development of new hotel supply. In addition, the development of modern, strongly branded hotels in El Cajon and Santee will induce significant new lodging demand to the currently underserved East County market.

In conclusion, Santee presents an attractive opportunity for hotel development. A growing population, strong demographics, and an expanding base of commercial and leisure demand generators provide the basis for new lodging product in this currently underserved San Diego submarket.

4. Statement of Assumptions and Limiting Conditions

1. This report is set forth as a market study for a proposed hotel within Santee; this is not an appraisal report.
1. This report is to be used in whole and not in part.
2. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed marketable and free of any deed restrictions and easements. The property is evaluated as though free and clear unless otherwise stated.
3. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would affect the property's development potential. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
4. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have assumed the proposed hotel would be designed and constructed to be in full compliance with the ADA.
5. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property.
6. All information, financial operating statements, estimates, and opinions obtained from parties not employed by TS Worldwide, LLC are assumed true and correct. We can assume no liability resulting from misinformation.
7. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
8. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including the appropriate liquor license if applicable), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
9. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
10. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
11. We are not required to give testimony or attendance in court because of this analysis without previous arrangements and shall do so only when our

standard per-diem fees and travel costs have been paid prior to the appearance.

12. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
13. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
14. The quality of a lodging facility's onsite management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
15. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of value or the date of our field inspection, whichever occurs first.
16. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.
17. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client; the use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
18. This study was prepared by TS Worldwide, LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of TS Worldwide, LLC as employees, rather than as individuals.

5. Addenda: Economic Data

Economic and Demographic Review

A primary source of economic and demographic statistics used in this analysis is the *Complete Economic and Demographic Data Source* published by Woods & Poole Economics, Inc.—a well-regarded forecasting service based in Washington, D.C. Using a database containing more than 900 variables for each county in the nation, Woods & Poole employs a sophisticated regional model to forecast economic and demographic trends. Historical statistics are based on census data and information published by the Bureau of Economic Analysis. Projections are formulated by Woods & Poole, and all dollar amounts have been adjusted for inflation, thus reflecting real change.

These data are summarized in the following table.

FIGURE 5-7 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY

	2000	2010	2017	2020	Average Annual Compounded Change		
					2000-10	2010-17	2017-20
Resident Population (Thousands)							
San Diego County	2,827.4	3,104.5	3,373.3	3,489.2	0.9 %	1.2 %	1.1 %
San Diego-Carlsbad, CA MSA	2,827.4	3,104.5	3,373.3	3,489.2	0.9	1.2	1.1
State of California	33,988.0	37,336.0	39,932.7	41,124.7	0.9	1.0	1.0
United States	282,162.4	309,347.1	327,505.1	336,690.4	0.9	0.8	0.9
Per-Capita Personal Income*							
San Diego County	\$40,739	\$43,838	\$49,312	\$51,432	0.7	1.7	1.4
San Diego-Carlsbad, CA MSA	40,739	43,838	49,312	51,432	0.7	1.7	1.4
State of California	40,167	41,721	47,954	50,083	0.4	2.0	1.5
United States	36,812	39,622	44,290	46,375	0.7	1.6	1.5
W&P Wealth Index							
San Diego County	112.2	112.4	113.0	112.6	0.0	0.1	(0.1)
San Diego-Carlsbad, CA MSA	112.2	112.4	113.0	112.6	0.0	0.1	(0.1)
State of California	108.8	106.1	108.8	108.6	(0.3)	0.4	(0.1)
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
San Diego County	\$4,309	\$5,517	\$7,044	\$7,484	2.5	3.6	2.0
San Diego-Carlsbad, CA MSA	4,309	5,517	7,044	7,484	2.5	3.6	2.0
State of California	46,670	58,066	73,260	77,326	2.2	3.4	1.8
United States	368,829	447,728	571,731	602,635	2.0	3.6	1.8
Total Retail Sales (Millions)*							
San Diego County	\$39,005	\$40,847	\$48,737	\$51,533	0.5	2.6	1.9
San Diego-Carlsbad, CA MSA	39,005	40,847	48,737	51,533	0.5	2.6	1.9
State of California	446,480	480,529	574,200	604,151	0.7	2.6	1.7
United States	3,902,830	4,130,414	4,932,756	5,181,433	0.6	2.6	1.7

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

The U.S. population has grown at an average annual compounded rate of 0.8% from 2010 through 2017. The county's population has grown at a quicker pace than the nation's population; the average annual growth rate of 1.2% between 2010 and 2017 reflects a gradually expanding area. Following this population trend, per-capita personal income increased slowly, at 1.7% on average annually for the county between 2010 and 2017. Local wealth indexes have remained stable in recent years, registering a relatively high 113.0 level for the county in 2017.

Food and beverage sales totaled \$7,044 million in the county in 2017, versus \$5,517 million in 2010. This reflects a 3.6% average annual change, which is stronger than the 2.5% pace recorded in the prior decade, the latter years of which were adversely affected by the recession. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 2.0%, which is forecast through 2020. The retail sales sector demonstrated an annual increase of 0.5% registered in the decade 2000 to 2010, followed by an increase of 2.6% in the period 2010 to 2017. An increase of 1.9% average annual change is expected in county retail sales through 2020.

Workforce Characteristics

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE); wholesale trade; and services produce a considerable number of visitors who are not particularly rate-sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, transportation, communications, and public utilities (TCPU) employers can also be important, depending on the company type.

The following table sets forth the county workforce distribution by business sector in 2000, 2010, and 2017, as well as a forecast for 2020.

FIGURE 5-8 HISTORICAL AND PROJECTED EMPLOYMENT (000S)

Industry	2000	Percent of Total	2010	Percent of Total	2017	Percent of Total	2020	Percent of Total	Average Annual Compounded Change		
									2000-2010	2010-2017	2017-2020
Farm	16.3	1.0 %	12.2	0.7 %	12.5	0.6 %	12.7	0.6 %	(2.9) %	0.4 %	0.5 %
Forestry, Fishing, Related Activities And Other	3.7	0.2	2.8	0.2	2.8	0.1	3.0	0.1	(2.7)	0.1	1.8
Mining	1.5	0.1	3.8	0.2	5.1	0.2	5.3	0.2	9.7	4.0	1.4
Utilities	5.7	0.3	7.5	0.4	6.2	0.3	6.4	0.3	2.8	(2.8)	0.9
Construction	93.9	5.5	81.5	4.5	98.9	4.8	104.7	4.8	(1.4)	2.8	1.9
Manufacturing	132.0	7.8	101.1	5.6	111.5	5.4	113.7	5.2	(2.6)	1.4	0.7
Total Trade	216.8	12.7	214.8	11.8	252.8	12.2	265.6	12.2	(0.1)	2.4	1.6
Wholesale Trade	46.1	2.7	50.6	2.8	59.5	2.9	62.0	2.8	0.9	2.3	1.4
Retail Trade	170.7	10.0	164.1	9.0	193.4	9.3	203.5	9.3	(0.4)	2.4	1.7
Transportation And Warehousing	29.6	1.7	29.8	1.6	33.9	1.6	35.1	1.6	0.1	1.9	1.1
Information	44.5	2.6	31.8	1.7	32.1	1.5	32.9	1.5	(3.3)	0.1	0.9
Finance And Insurance	73.0	4.3	83.9	4.6	96.1	4.6	101.5	4.7	1.4	2.0	1.8
Real Estate And Rental And Lease	80.6	4.7	114.4	6.3	125.3	6.0	132.8	6.1	3.6	1.3	2.0
Total Services	687.6	40.4	798.7	43.9	963.7	46.3	1,016.8	46.6	1.5	2.7	1.8
Professional And Technical Services	153.0	9.0	188.7	10.4	211.2	10.1	220.1	10.1	2.1	1.6	1.4
Management Of Companies And Enterprises	21.4	1.3	18.1	1.0	23.8	1.1	24.6	1.1	(1.7)	4.0	1.1
Administrative And Waste Services	113.0	6.6	111.1	6.1	128.8	6.2	134.3	6.2	(0.2)	2.1	1.4
Educational Services	22.6	1.3	40.6	2.2	53.0	2.5	57.8	2.6	6.0	3.9	2.9
Health Care And Social Assistance	123.5	7.3	150.6	8.3	197.5	9.5	212.4	9.7	2.0	3.9	2.5
Arts, Entertainment, And Recreation	39.2	2.3	45.8	2.5	52.6	2.5	55.3	2.5	1.6	2.0	1.7
Accommodation And Food Services	118.0	6.9	139.9	7.7	169.4	8.1	178.5	8.2	1.7	2.8	1.7
Other Services, Except Public Administration	97.0	5.7	104.1	5.7	127.4	6.1	133.9	6.1	0.7	2.9	1.7
Total Government	316.1	18.6	338.5	18.6	339.7	16.3	350.0	16.1	0.7	0.0	1.0
Federal Civilian Government	41.7	2.5	47.3	2.6	46.8	2.3	47.4	2.2	1.2	(0.1)	0.4
Federal Military	107.8	6.3	111.0	6.1	100.0	4.8	100.1	4.6	0.3	(1.5)	0.1
State And Local Government	166.6	9.8	180.3	9.9	192.9	9.3	202.5	9.3	0.8	1.0	1.6
TOTAL	1,701.2	100.0 %	1,820.8	100.0 %	2,080.5	100.0 %	2,180.3	100.0 %	0.7 %	1.9 %	1.6 %
MSA	1,701.2	—	1,820.8	—	2,080.5	—	2,180.3	—	0.7 %	1.9 %	1.6 %
U.S.	165,370.9	—	173,034.7	—	194,801.7	—	203,418.4	—	1.0	1.7	1.5

Source: Woods & Poole Economics, Inc.

Woods & Poole Economics, Inc. reports that during the period from 2000 to 2010, total employment in the county grew at an average annual rate of 0.7%. This trend was on par with the growth rate recorded by the MSA and also lagged the national average. More recently, the pace of total employment growth in the county accelerated to 1.9% on an annual average from 2010 to 2017, reflecting the initial years of the recovery.

Of the primary employment sectors, Total Services recorded the highest increase in number of employees during the period from 2010 to 2017, increasing by 164,966 people, or 20.7%, and rising from 43.9% to 46.3% of total employment. Of the various service sub-sectors, Professional And Technical Services and Health Care And Social Assistance were the largest employers. Strong growth was also recorded in the Total Trade sector, as well as the Construction sector, which expanded by 17.7% and 21.3%, respectively, in the period 2010 to 2017. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 1.6% on average annually through 2020. The trend is above the forecast rate of change for the U.S. as a whole during the same period.

The following table illustrates historical and projected employment, households, population and average household income data as provided by REIS for the overall San Diego market.

FIGURE 5-9 HISTORICAL & PROJECTED EMPLOYMENT, HOUSEHOLDS, POPULATION, AND HOUSEHOLD INCOME STATISTICS

Year	Total		Office		Industrial		Households	% Chg	Population	% Chg	Household	
	Employment	% Chg	Employment	% Chg	Employment	% Chg					Avg. Income	% Chg
2005	1,300,600	—	425,421	—	166,955	—	1,047,540	—	2,941,640	—	\$120,471	—
2006	1,319,330	1.4 %	429,922	1.1 %	167,255	0.2 %	1,057,890	1.0 %	2,958,090	0.6 %	124,367	3.2 %
2007	1,321,570	0.2	431,835	0.4	167,021	(0.1)	1,074,570	1.6	2,998,720	1.4	125,591	1.0
2008	1,300,200	(1.6)	423,338	(2.0)	165,172	(1.1)	1,083,790	0.9	3,042,000	1.4	124,984	(0.5)
2009	1,235,370	(5.0)	405,710	(4.2)	152,505	(7.7)	1,089,650	0.5	3,082,700	1.3	120,988	(3.2)
2010	1,243,630	0.7	410,549	1.2	155,379	1.9	1,094,980	0.5	3,122,220	1.3	128,278	6.0
2011	1,255,970	1.0	411,051	0.1	157,804	1.6	1,113,120	1.7	3,161,140	1.2	131,204	2.3
2012	1,297,570	3.3	422,816	2.9	163,365	3.5	1,129,970	1.5	3,200,890	1.3	141,934	8.2
2013	1,330,470	2.5	432,438	2.3	164,138	0.5	1,145,640	1.4	3,240,080	1.2	141,399	(0.4)
2014	1,360,170	2.2	436,925	1.0	168,924	2.9	1,157,260	1.0	3,278,310	1.2	147,677	4.4
2015	1,403,800	3.2	450,003	3.0	173,722	2.8	1,164,920	0.7	3,307,270	0.9	154,728	4.8
2016	1,438,470	2.5	457,528	1.7	176,429	1.6	1,176,580	1.0	3,335,430	0.9	157,592	1.9
2017	1,463,100	1.7	465,988	1.8	178,119	1.0	1,187,210	0.9	3,357,880	0.7	162,819	3.3
Forecasts												
2018	1,490,770	1.9 %	476,195	2.2 %	180,270	1.2 %	1,201,090	1.2 %	3,375,820	0.5 %	\$169,196	3.9 %
2019	1,500,130	0.6	479,704	0.7	179,092	(0.7)	1,216,210	1.3	3,395,740	0.6	174,549	3.2
2020	1,497,800	(0.2)	478,967	(0.2)	176,510	(1.4)	1,230,340	1.2	3,415,600	0.6	179,135	2.6
2021	1,506,040	0.6	483,092	0.9	175,096	(0.8)	1,245,520	1.2	3,438,550	0.7	185,260	3.4
2022	1,521,950	1.1	490,081	1.4	174,217	(0.5)	1,261,610	1.3	3,464,550	0.8	191,410	3.3
Average Annual Compound Change												
2005 - 2017		1.0 %		0.8 %		0.5 %					1.1 %	2.5 %
2005 - 2007		0.8		0.8		0.0					1.0	2.1
2007 - 2010		(2.0)		(1.7)		(2.4)					1.4	0.7
2010 - 2017		2.3		1.8		2.0					1.0	6.1
Forecast 2018 - 2022		0.5 %		0.7 %		(0.9) %					0.7 %	3.1 %

Source: REIS Report, 1st Quarter, 2018

For the San Diego market, of the roughly 1,500,000 persons employed, 32% are categorized as office employees, while 12% are categorized as industrial employees. Total employment decreased by an average annual compound rate of -2.0% during the recession of 2007 to 2010, followed by an increase of 2.3% from 2010 to 2017. By comparison, office employment reflected compound change rates of -1.7% and 1.8%, during the same respective periods. Total employment is expected to expand by 1.9% in 2018, while office employment is forecast to expand by 2.2% in 2018. From 2018 through 2022, REIS anticipates that total employment will expand at an average annual compound rate of 0.5%, while office employment will expand by 0.7% on average annually during the same period.

The number of households is forecast to expand by 1.2% on average annually between 2018 and 2022. Population is forecast to expand during this same period, at an average annual compounded rate of 0.7%. Household average income is forecast to grow by 3.1% on average annually from 2018 through 2022.

Radial Demographic Snapshot

The following table reflects radial demographic trends for our market area measured by three points of distance from the Santee commercial core.

FIGURE 5-10 DEMOGRAPHICS BY RADIUS

	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
Population			
2022 Projection	15,714	112,448	281,511
2017 Estimate	14,788	107,095	269,132
2010 Census	13,511	100,429	254,210
2000 Census	13,880	99,032	247,637
Percent Change: 2017 to 2022	6.3%	5.0%	4.6%
Percent Change: 2010 to 2017	9.5%	6.6%	5.9%
Percent Change: 2000 to 2010	-2.7%	1.4%	2.7%
Households			
2022 Projection	5,761	40,876	101,937
2017 Estimate	5,401	38,920	97,334
2010 Census	4,922	36,585	91,889
2000 Census	4,792	35,533	90,531
Percent Change: 2017 to 2022	6.7%	5.0%	4.7%
Percent Change: 2010 to 2017	9.7%	6.4%	5.9%
Percent Change: 2000 to 2010	2.7%	3.0%	1.5%
Income			
2017 Est. Average Household Income	\$89,182	\$89,841	\$82,084
2017 Est. Median Household Income	72,746	70,385	62,419
2017 Est. Civ. Employed Pop 16+ by Occupation			
Architecture/Engineering	199	1,083	2,396
Arts/Design/Entertainment/Sports/Media	49	747	2,103
Building/Grounds Cleaning/Maintenance	122	1,729	4,655
Business/Financial Operations	355	2,868	5,898
Community/Social Services	119	1,055	2,309
Computer/Mathematical	184	1,252	2,754
Construction/Extraction	421	3,291	7,894
Education/Training/Library	373	2,881	6,667
Farming/Fishing/Forestry	1	51	182
Food Preparation/Serving Related	246	2,599	7,075
Healthcare Practitioner/Technician	312	2,173	4,879
Healthcare Support	169	1,202	2,765
Installation/Maintenance/Repair	219	1,995	4,518
Legal	91	501	1,303
Life/Physical/Social Science	46	376	923
Management	790	5,194	11,515
Office/Administrative Support	1,224	8,301	18,474
Production	330	1,952	4,655
Protective Services	137	1,267	2,893
Sales/Related	655	5,336	13,977
Personal Care/Service	321	2,290	5,940
Transportation/Material Moving	253	2,311	6,108

Source: Environics Analytics

This source reports a population of 107,095 within a five-mile radius of the Santee commercial core, and 38,920 households within this same radius. Average

household income within a five-mile radius of the Santee commercial core is currently reported at \$82,084, while the median is \$62,419.

Office Space Statistics

Trends in occupied office space are typically among the most reliable indicators of lodging demand, as firms that occupy office space often exhibit a strong propensity to attract commercial visitors. Thus, trends that cause changes in vacancy rates or occupied office space may have a proportional impact on commercial lodging demand and a less direct effect on meeting demand. The following table details office space statistics for the pertinent market area.

FIGURE 5-11 OFFICE SPACE STATISTICS – MARKET OVERVIEW

Submarket	Inventory		Occupied Office Space	Vacancy Rate	Average Asking Lease Rate
	Buildings	Square Feet			
1 Highway 78 Corridor	81	2,000,000	1,542,000	22.9 %	\$21.54
2 I-15 Corridor	147	7,010,000	6,000,600	14.4	28.59
3 Kearny Mesa	191	7,560,000	6,312,600	16.5	27.70
4 Central San Diego	94	2,459,000	2,301,600	6.4	27.35
5 La Jolla	162	9,127,000	7,885,700	13.6	38.19
6 East County	104	1,972,000	1,816,200	7.9	19.60
7 South Bay	40	1,169,000	967,900	17.2	28.12
8 Mission Valley	93	5,407,000	4,823,000	10.8	28.10
9 Downtown	125	10,203,000	8,958,200	12.2	35.13
10 Sorrento Valley	127	6,819,000	5,550,700	18.6	34.88
11 North County Coastal	231	9,922,000	7,927,700	20.1	35.70
Totals and Averages	1,395	63,648,000	54,086,200	15.0 %	\$32.09

Source: REIS Report, 1st Quarter, 2018

The greater San Diego market comprises a total of 63.6 million square feet of office space. For the 1st Quarter of 2018, the market reported a vacancy rate of 15.0% and an average asking rent of \$32.09. The subject property is located in the East County submarket, which houses 1,972,000 square feet of office space. The submarket's vacancy rate of 7.9% is below the overall market average. The average asking lease rate of \$19.60 is below the average for the broader market.

The following table illustrates a trend of office space statistics for the overall San Diego market and the East County submarket.

FIGURE 5-12 HISTORICAL AND PROJECTED OFFICE SPACE STATISTICS – GREATER MARKET VS. SUBMARKET

Year	San Diego Market							East County Submarket						
	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
2005	61,082,000	—	54,457,000	—	10.8 %	\$26.83	—	2,105,000	—	1,916,000	—	9.0 %	\$19.64	—
2006	61,437,000	0.6 %	54,158,000	(0.5) %	11.8	28.51	6.3 %	2,011,000	(4.5) %	1,828,000	(4.6) %	9.1	20.05	2.1 %
2007	62,601,000	1.9	54,521,000	0.7	12.9	29.72	4.2	1,992,000	(0.9)	1,845,000	0.9	7.4	20.47	2.1
2008	63,038,000	0.7	53,448,000	(2.0)	15.2	30.28	1.9	1,992,000	0.0	1,765,000	(4.3)	11.4	20.81	1.7
2009	62,896,000	(0.2)	51,559,000	(3.5)	18.0	28.66	(5.4)	1,972,000	(1.0)	1,700,000	(3.7)	13.8	19.84	(4.7)
2010	62,724,000	(0.3)	51,049,000	(1.0)	18.6	27.90	(2.7)	1,972,000	0.0	1,737,000	2.2	11.9	19.18	(3.3)
2011	62,763,000	0.1	51,467,000	0.8	18.0	28.02	0.4	1,972,000	0.0	1,761,000	1.4	10.7	19.60	2.2
2012	62,719,000	(0.1)	52,458,000	1.9	16.4	28.26	0.9	1,972,000	0.0	1,783,000	1.2	9.6	19.55	(0.3)
2013	62,938,000	0.3	52,971,000	1.0	15.8	28.85	2.1	1,972,000	0.0	1,759,000	(1.3)	10.8	19.96	2.1
2014	63,086,000	0.2	53,087,000	0.2	15.8	29.93	3.7	1,972,000	0.0	1,755,000	(0.2)	11.0	20.03	0.4
2015	63,467,000	0.6	54,414,000	2.5	14.3	30.75	2.7	1,972,000	0.0	1,765,000	0.6	10.5	19.82	(1.0)
2016	63,293,000	(0.3)	54,035,000	(0.7)	14.6	31.37	2.0	1,972,000	0.0	1,796,000	1.8	8.9	19.81	(0.1)
2017	63,599,000	0.5	54,239,000	0.4	14.7	31.91	1.7	1,972,000	0.0	1,812,000	0.9	8.1	19.71	(0.5)
Forecasts														
2018	63,914,000	0.5 %	54,328,000	0.2 %	15.0 %	\$32.53	1.9 %	2,013,000	2.1 %	1,833,000	1.2 %	8.9 %	\$19.83	0.6 %
2019	64,419,000	0.8	54,985,000	1.2	14.6	33.28	2.3	2,023,000	0.5	1,831,000	(0.1)	9.5	20.03	1.0
2020	64,862,000	0.7	55,590,000	1.1	14.3	34.06	2.3	2,045,000	1.1	1,843,000	0.7	9.9	20.24	1.0
2021	65,441,000	0.9	56,391,000	1.4	13.8	34.92	2.5	2,072,000	1.3	1,881,000	2.1	9.2	20.48	1.2
2022	66,035,000	0.9	57,250,000	1.5	13.3	35.77	2.4	2,101,000	1.4	1,920,000	2.1	8.6	20.72	1.2
Average Annual Compound Change														
2005 - 2017		0.3 %		(0.0) %			1.5 %		(0.5) %		(0.5) %			0.0 %
2005 - 2007		1.2		0.1			5.2		(2.7)		(1.9)			2.1
2007 - 2010		0.1		(2.2)			(2.1)		(0.3)		(2.0)			(2.1)
2010 - 2017		0.2		0.9			1.9		0.0		0.6			0.4
Forecast 2018 - 2022		0.8 %		1.1 %			2.4 %		1.1 %		1.2 %			1.1 %

Source: REIS Report, 1st Quarter, 2018

The inventory of office space in the San Diego market increased at an average annual compound rate of 0.3% from 2005 through 2017, while occupied office space remained relatively stable at an average annual rate of 0.0% over the same period. During the period of 2005 through 2009, occupied office space remained relatively stable at an average annual compound rate of 0.1%. From 2009 through 2012, occupied office space contracted at an average annual compound rate of -2.2%, reflecting the impact of the recession. The onset of the recovery is evident in the 0.9% average annual change in occupied office space from 2012 to 2017. From 2017 through 2022, the inventory of occupied office space is forecast to increase at an average annual compound rate of 1.1%, with available office space expected to increase 0.8%, thus resulting in an anticipated vacancy rate of 13.3% as of 2022.