

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, APRIL 25, 2006**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, April 25, 2006, commencing at 7:01 a.m.

A. ROLL CALL

Present: Council Members – Beckman, Johnson, Mounce, and Mayor Hitchcock

Absent: Council Members – Hansen*

Also Present: City Manager King, Deputy City Attorney Magdich, and City Clerk Blackston

**NOTE: Council Member Hansen was absent due to his attendance at the Northern California Power Agency Western Federal Policy Conference in Washington, D.C.*

B. TOPIC(S)

B-1 "Receive presentation on Downtown Lodi Hotel Feasibility Study as prepared by PKF Consulting"

City Manager King commented that the idea of having a hotel located in downtown Lodi first originated as part of the revitalization strategy done in 1998 by Gruen, Gruen and Associates. He reported that the 2005-06 Transient Occupancy Tax (TOT) estimate is \$350,000. Recently, the San Joaquin Partnership released an economic development strategy for the county, which referenced tourism development associated with the wine industry and downtown development as a component of an economic development strategy. Mr. King stated that hotels are a proven economic development catalyst for downtowns. With the aid of an overhead presentation, photos were shown of downtown hotels in Healdsburg, Atascadero, Paso Robles, and Chico. He noted that downtown hotels generate TOT, property tax, sales tax, and jobs. Two City-owned properties were considered by PKF Consulting in its analysis (filed) of the potential market demand for a hotel in downtown Lodi: 1) the former public safety building property at 210 West Elm Street and 2) the parking lot at 11 West Elm Street. It was determined that demand exists for mid- to high-end property with an average daily rate of \$125 with a range of 60 to 80 rooms. The target market would be winery visitors. Mr. King mentioned that there were now close to 60 wineries in and around Lodi.

Mayor Pro Tempore Johnson recalled that the former public safety building had been considered to eventually house City departments that were in rented facilities or had become overcrowded. He also asked if there was adequate space for hotel parking.

Mr. King acknowledged that if 210 West Elm Street was selected, it would necessitate the relocation of Fire Station 1. In reference to parking, the hotel could be constructed over the parking lot or there could be municipal/shared parking for the facility. Land could be reserved for future expansion of the Civic Center or a development interest might consider developing space for City purposes.

Ken Kuchman, Vice President of PKF Consulting, stated that, of the two sites considered, 210 West Elm Street is preferable because it is larger and could accommodate the required 1¼ parking spaces per guest room.

In reply to Council Member Beckman, Mr. King explained that if City-owned property is used, the land value could be negotiated as an incentive to potential developers.

Mr. Kuchman reported that the development cost of the hotel on a per room basis without land would be \$130,000 a room or more. The City contributing the land would be a positive step in making the project economically feasible.

Council Member Mounce asked if there were any communities in California that had an upscale hotel across the street from a police station. She was opposed to demolishing a viable building that had a planned use for the relocation and growth of City departments and giving away the land for a hotel to be built. She felt that the former public safety building should be renovated and filled with City departments currently located in rented facilities. She commented that, too often, municipalities defer maintenance on buildings until they are beyond repair, demolish them, and build larger facilities that are even more expensive to maintain. Ms. Mounce stated that she would be in favor of giving away property at 11 West Elm for a hotel if it were deemed feasible. She asked staff to consider where Fire Station 1, Fire Administration, the Finance Department, and the Police firing range would be located if the former public safety building site was used for this project.

Mr. King responded that City services costs are increasing faster than the tax base is.

Mayor Hitchcock asked how the hotel would affect the Civic Center, and how the Civic Center would affect the hotel.

Mr. King replied that there is little interaction now between City Hall and the former public safety building. Delta College is the identified solution for the police firing range. If a new Fire Station 1 were built, Fire Administration could be located in it.

Mayor Pro Tempore Johnson suggested that Hutchins Street Square be considered as a possible site for the hotel.

Mr. King commented that it was originally thought that Hutchins Street Square was too far away; however, staff would take it into consideration.

PUBLIC COMMENTS:

- Nancy Beckman stated that it would be necessary to create a market for the hotel. She reported that during weekends when large events are taking place there is not adequate lodging in Lodi; however, hotels struggle during weekdays to fill rooms. The tour, convention, and meeting markets want full service hotels within walking distance of meeting spaces and restaurants.

Mr. King reported that it is expected the Holiday Inn Express will lose its franchise in 2007, due to its exterior hallways that do not meet standards. There are two hotels in Flag City that are cutting into Lodi's market. The Hampton Inn will be building a facility in Lodi with 90 rooms.

- Pat Patrick, President of the Lodi Chamber of Commerce, believed that the former public safety building would be too costly to renovate. In reference to a hotel being across the street from the police station, he saw it as a benefit, as customers might feel safer. He noted that Wine & Roses Hotel is filled every weekend from spring through fall and felt there was room for expansion in the market.

Mayor Pro Tempore Johnson recalled that the estimated renovation cost of the former public safety building was discussed previously and he asked that the information be given to Council.

Mayor Hitchcock stated that she supported the Civic Center concept; however, she felt that retaining it should be weighed against the benefit of a long-term investment in the downtown.

Continued April 25, 2006

- Pete Iturraran, Fire Captain, felt that more than two sites should be considered. He supported the suggestion to look at Hutchins Street Square as a possible location, noting that the facility is currently a burden to the City's budget.
- Nancy Geweke, representing the Lodi Conference and Visitors Bureau and GREM Properties, commented that the Hampton Inn would be adjacent to the highway. She stated that many people do not use Hutchins Street Square because there is no lodging within walking distance.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:01 a.m.

ATTEST:

Susan J. Blackston
City Clerk



**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: Receive Presentation on Downtown Lodi Hotel Feasibility Study as Prepared by PKF Consulting
MEETING DATE: April 25, 2006
PREPARED BY: Deputy City Manager

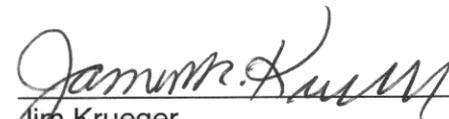
RECOMMENDED ACTION: That the City Council receive a presentation on the Downtown Lodi Hotel Feasibility Study as prepared by PKF Consulting.

BACKGROUND INFORMATION: In 1998, after the completion of the first phase of the downtown revitalization, Gruen, Gruen, and Associates was commissioned to recommend strategies for enhancing the long-term viability of downtown. Included in the report is the recommendation to secure three anchors that would ensure a consistent flow of visitors. The first of three recommended anchors, the state of the art multiplex movie theater, opened for business in 2002. As the second anchor, the firm suggested bringing "wine related programs, food service establishments, and a hotel to the Downtown" as the third anchor. Council's recent approval of agreements with three local wineries sets the stage for the launching of the first wine tasting rooms. The attached study, completed by PKF Consulting (Exhibit A), serves as the preliminary groundwork for the establishment of the hotel component.

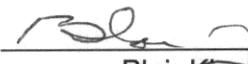
The consultant considered two city-owned properties, the former Public Safety building at 210 W. Elm Street and the parking lot at 11 W. Elm, for evaluation. The report by PKF concludes that there is adequate demand to support a downtown hotel project. Assessments, analyses, and projections provided in the study substantiate this conclusion.

With the study complete and findings supportive of a downtown hotel, staff will be asking the Council at a subsequent meeting to authorize the City Manager to solicit development interest in the project. The methodology to be used will be via direct contact.

FISCAL IMPACT: Approximately \$150,000 - \$200,000 annually in TOT revenues; \$19,700 in property tax revenues. Benefits would also be realized in the increased sales tax generated by the improved restaurant trade and the creation of new jobs.


Jim Krueger
Deputy City Manager

Attachments
Prepared by J. Hamilton, Management Analyst
JK/jlh

APPROVED: 
Blair King, City Manager

**REPORT ON THE POTENTIAL MARKET
DEMAND FOR A
PROPOSED HOTEL
TO BE LOCATED IN
DOWNTOWN LODI
SAN JOAQUIN COUNTY, CALIFORNIA**

PREPARED FOR:
MR. BLAIR KING
CITY MANAGER
CITY OF LODI
221 WEST PINE STREET
LODI, CALIFORNIA 95240

PREPARED BY:
PKF CONSULTING
SAN FRANCISCO, CALIFORNIA

DATE OF THE REPORT:
APRIL 21, 2006

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ADDENDA

- A. CERTIFICATION OF THE CONSULTANTS
 - B. STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS
-

A. INTRODUCTION**1. Scope and Methodology**

PKF Consulting has been retained by the City of Lodi to perform a study of the potential market demand for a proposed upscale hotel to be located on a site in Downtown Lodi, California. The proposed hotel (“the subject property”) is a conceptual development that the City of Lodi desires to be built as part of the overall revitalization efforts in the downtown area. As a result, the City of Lodi is desirous to have developed an upscale lodging property similar in quality and services as the Wine & Roses Hotel, a boutique, destination lodging property located in Lodi which offers luxurious rooms, a restaurant, meeting space, and other amenities associated with an upscale lodging facility.

In order to develop an estimate of the future market viability of the subject property, we have performed the following work program.

- Reviewed the desired development program as stated by the City of Lodi for the proposed hotel to determine its appropriateness to serve the lodging needs of the local market area;
- Reviewed two potential sites for the location of the new hotel and determined which of these sites is the optimal choice for the location of a new hotel development;
- Researched and analyzed current and expected future economic and demographic trends in the local market to determine their impact on future lodging demand;
- Identified, inspected, and interviewed management of potentially competitive hotels located in Lodi and surrounding wine country areas;
- Estimated the anticipated growth in demand for, and supply of, lodging accommodations in the competitive market area;
- Based on market factors, developed a recommendation for the appropriate size, quality, and amenities for the subject property; and,
- Prepared a forecast of the potential annual occupancy and average daily rate (“ADR”) for the first five years of operation for the subject property.

Several sources were used in compiling the background information and preparing the analyses contained in this report. These resources included *Trends in the Hotel Industry*, published by PKF Consulting; data on the local lodging market gathered through direct interviews with managers of the comparable properties; data provided by sources in the lodging chains or operating entities with which the competitive hotels are affiliated; and, economic data on the region from various local governmental and planning agencies.

2. Summary of Conclusions

A summary of our findings and conclusions are presented in the following text.

- Of the two sites evaluated, we recommend development of the subject property on the site of the former Public Safety building at 210 Elm Street, adjacent to the City Hall, on the south side of Elm Street, between Church Street and Lee Avenue. It should be noted that the location of a new hotel on this site will require the relocation of the existing firehouse operations to another site, and the demolition of the existing building.
- The neighborhood surrounding the site of the subject property in Downtown Lodi has emerged as an attractive, revitalized area;
- The recommended site location is attractive for hotel development due to its proximity to wineries, new restaurants, and other proposed new developments in the Downtown area;
- This recommended site, while without visibility from Highway 99 or Interstate 5, is appropriate for the location of a more destination oriented hotel;
- Compared to other emerging wine country destinations, the Lodi winery market is underserved by a shortage of high quality hotel rooms;
- We have assumed that, allowing for planning, demolition of existing improvements, necessary site work, and construction, that a new hotel on the recommended site, could be available for occupancy as early as January 1, 2009;
- The subject property, if built at a size of 75 rooms and if offering the range of amenities and services indicated as desirable by the City of Lodi in their conceptual development plan, would cater to upscale commercial and leisure travelers to the Lodi area;
- The proposed hotel will be the newest addition to the Lodi lodging market and will be positioned at the high end of the market; and,

- The proposed hotel will differentiate itself from competitive hotel properties by a significantly higher quality product.

Based on our analysis of the local hotel market, coupled with our knowledge of the operating characteristics of upscale, boutique style hotels. We project that a 75-room property could achieve a stabilized occupancy level of approximately 67.0 percent by 2011, its third year of operation. We further project that the subject property could attain an average daily room rate (“ADR”) of approximately \$125.00, stated in current value 2006 dollars, which we project will increase to \$137.00 upon opening of the subject property in 2009.

Presented in the following table is our forecast of the occupancy and ADR for the subject property over its first five years of operation, assuming an opening date of January 1, 2009.

Proposed Hotel, Downtown Lodi			
Estimated Average Daily Rate, Occupancy, and Rooms Revenue Projections			
Years 2009 to 2013			
Year	Annual Occupancy	Average Daily Room Rate	Rooms Revenue
2009 ¹	52.0%	\$137.00	\$1,950,000
2010	66.0%	\$141.00	2,548,000
2011	67.0%	\$145.00	2,659,000
2012	67.0%	\$149.00	2,733,000
2013	67.0%	\$154.00	\$2,824,000

¹ First year of operation, beginning January 1, 2009.

B. EVALUATION OF THE POTENTIAL DEVELOPMENT SITES

As part of our field research, we inspected two sites which are currently owned by the City of Lodi and would be available for lodging development. Each site area was analyzed in terms of access and visibility, location relative to existing hotel supply, location to generators of demand for hotel facilities, ambiance of the surrounding area, and size and topography relative to required facilities, among other variables.

Accordingly, the following section provides an overview of these potential development. The map on the following page indicates the locations of the two sites.

1. 210 West Elm Street

This site is situated at 210 West Elm Street between North Church and North Lee Streets, directly to the north of the Lodi City Hall, which faces the opposite direction onto West Pine Street. The 2.47 acre overall parcel is comprised of the old Public Safety Building, a 1.5 acre site, and a 0.97 acre parking lot at 310 West Elm Street. The parcel is level and at grade with surrounding streets. West Elm Street leads to

the 12-screen Lodi Cinema and shops to the east and residential homes to the west.

North Church Street leads to restaurants and shops to the south, and industrial and residential areas to the north. The surrounding streets have many tall, mature trees, particularly to the west. Also located four blocks to the west is the Hutchins Street Square complex, an attractive theatre and conference center venue operated by the City of Lodi. School Street, one block east of Church Street, has a number of popular restaurants, such as Rosewood, School Street Bistro, and the Lodi Beer Company. We have ranked the characteristics of the site in the following table.

Site 1 Analysis – 210 West Elm Street					
	Excellent	Very Good	Good	Fair	Poor
Visibility				X	
Accessibility to Highways			X		
Proximity to Demand for Hotel Accommodations			X		
Restaurants or Amenities located Nearby		X			
Attractiveness of Surrounding Area		X			
Long-Term Strategic Potential			X		

2. 11 West Elm Street

This site is located at 11 West Elm Street, between School Street and Sacramento Street. This comparably small parcel is presently utilized as a surface parking lot. The site is level and at grade with West Elm Street. The multi-story City of Lodi Parking Garage is located on the opposite side of Sacramento Street, proximate to the nearby AMTRAK multi-modal station, and the Lodi Cinema is one block west along West Elm Street. The surrounding uses are generally retail in nature, and a number of vacant storefronts were observed during our inspection. We have ranked the characteristics of the site in the following table.

Site 2 Analysis – 11 West Elm Street					
	Excellent	Very Good	Good	Fair	Poor
Visibility			X		
Accessibility to Highways			X		
Proximity to Demand for Hotel Accommodations			X		
Restaurants or Amenities located Nearby				X	
Attractiveness of Surrounding Area			X		
Long-Term Strategic Potential			X		

3. Ranking of the Selected Sites

Of the two sites evaluated, we recommend development of the subject property on Site 1, the site of the former Public Safety building at 210 Elm Street, adjacent to City Hall. Not only is the neighborhood more attractive in appearance, but the site is more proximate to upscale restaurants in the area, while well removed from the railroad

tracks running east of Sacramento Street. In addition, the larger size of this parcel will allow for more flexibility in the design and construction of a hotel on the site.

It should be noted, however, that the location of a new hotel on this site will require the relocation of the existing firehouse operations to another site, and the demolition of the existing structure.

C. CONCEPTUAL DESIGN ELEMENTS FOR THE PROPOSED HOTEL

1. Introduction

In the following section, we provide a conceptual overview of the site and the planned improvements for the proposed hotel (“the subject property”). In the following text and analysis, we have assumed that development of the subject property would proceed on the recommended Site 1.

As indicated in the introduction to this report, according to the City of Lodi, the purpose for the development of the new lodging facility will be to not only add to the attractiveness of Downtown Lodi, but also to provide travelers to Lodi, particularly upscale commercial travelers and visitors to local wineries, with a high-end lodging facility located in the Downtown area.

2. Location, Access, and Visibility

The area immediately surrounding the subject site is a transition area leading from commercial to the east to residential to the west. Lodi City Hall is located immediately south, adjoining the parcel. Other immediately surrounding uses are summarized in the following table.

Surrounding Area of the Subject Site	
North	West Elm Street, municipal buildings,
South	City Hall, West Pine Street, Farmers & Merchants Bank
East	Church Street, School Street, retail shops, restaurants
West	Hutchins Street Square, residential homes

3. General Design Concepts

The City of Lodi has developed a vision for the proposed hotel which we have analyzed with regard to market viability. Facilities at the subject property are envisioned to include luxurious guestrooms; a leased, upscale restaurant serving lunch and dinner; an outdoor swimming pool; outdoor whirlpool; indoor exercise facility; and dedicated meeting space. The subject property is envisioned to also contain additional space off the lobby that will be used for a daily continental breakfast service which would be provided on a complimentary basis to all guests staying at the subject property. When completed, the new hotel is anticipated to be one of the highest quality hotels within the City of Lodi, and will be the newest hotel in the Lodi lodging market.

Based on our discussions with the City of Lodi, it is anticipated that the exterior subject property will conform to the design requirements of the City of Lodi, which have been moving “upscale” in required appearance in recent years. The face of the stucco building will be designed to provide interest with deep roof overhangs,

balconies with wooden railings and trellises, and a variety of window shapes. The primary exterior surfaces will likely be earth-tone stucco or painted wood, and the building colors are to provide a rich and appealing facade. The surrounding parking lot will be paved and landscaped with an array of plants as required by the City of Lodi design requirements.

4. Conclusion

The subject property is envisioned to offer quality-lodging services in a newly constructed facility. Features and amenities at the property will include a restaurant, outdoor swimming pool and whirlpool, a fitness facility, standard guest rooms and suites, meeting space, surface parking surrounding the building, and attractive building design and landscaping.

The subject property will be well suited to cater to the two largest segments of demand visiting the Lodi area during the week, commercial travelers, and during the weekends and summers, leisure travelers. While the subject property will not be situated at a highly visible site at a major interchange in Lodi, which will limit walk-in demand the Downtown Lodi location will offer other advantages such as proximity to downtown commercial buildings, government offices, and shops and restaurants. We are of the opinion that the new hotel will be well received by upscale leisure guests in the lodging market, as will be detailed later in this report.

As will be discussed in more detail later in this report, based on our evaluation of the market and the type of property desired to be developed by the City of Lodi, we would recommend that the subject property be approximately 60 to 80 rooms in size, and for the purpose of this report, we have evaluated the potential operating results for a property of 75 rooms.

D. AREA REVIEW

1. The Central Valley Area

California's Central Valley ("the Valley") stretches from Kern County to the south to Shasta County to the north, thus being some 450 miles long and approximately 40 to 60 miles wide. The Valley is strategically located between California's two major markets: the San Francisco Bay Area and the Greater Los Angeles Area. The Valley encompasses 18 counties with a total population of over five million people and covers approximately 42,000 square miles. The Valley consists of approximately one sixth of the population of the state and comprises more than two fifths of the land area of the state.

The Valley offers easy access to commerce centers worldwide, including the Pacific Rim. Historically, the Valley's prominence was as a leader in agriculture, which continues to dominate the economy in the in the Valley region. The Valley

produces over 350 different crops and commodities, making it one of the most diverse agricultures in the world. The Valley produces approximately \$16 billion worth of agricultural goods annually, making it the most productive agricultural area in California, and regarded by many as the most productive agricultural area in the world. Historically, economic activity that was not agriculturally based was associated with agriculture production, including the businesses of packing, shipping, and processing. Other specialties needed to support agricultural enterprises, from irrigation systems to pesticide research, dominated the employment sectors. Today, direct farm employment in the region constitutes approximately nine percent of total employment, with an additional 28 percent in farm-related industries. In order to ensure future economic success, many of the counties within the Valley have nurtured non-agriculture business in order to diversify their economies. Among these industries are service related businesses, manufacturing, and technology companies.

2. San Joaquin County

a. Overview

Lodi is one of seven cities located in San Joaquin County. It is ideally situated midway between the San Francisco Bay Area, and the Sierra Nevada Mountains. As of year-end 2005, San Joaquin County is estimated to have a population of approximately 650,000. The county seat is Stockton, approximately 15 miles south of Lodi.

As the northern most county in the Central Valley, San Joaquin bridges northern and central California. Its geographical position places the county within a dynamic growth corridor ideally situated for business and industry, and is fast becoming a popular destination for companies looking for increased economic opportunities. The county has areas for boating, fishing, camping, and history gathering. San Joaquin's growth has been attributed primarily to major highway accessibility, reasonable commute distances to job markets and education centers, as well as the affordable housing compared to other parts of the Bay Area.

b. Population

San Joaquin County has been rapidly transformed by the growth in employment in the San Francisco Bay area. The limited supply of housing in the Bay Area, coupled with the County's location close to major job centers such as Silicon Valley, has led to increased residential development in San Joaquin County. As a result of this influx of new residents, there has been a greater demand on the County's transportation system. San Joaquin County offers a temperate, climate, affordable housing, nearby educational opportunities, and a wide variety of recreational activities.

Average residential sales prices in the Central Valley are comparably low within the State of California and the nearby Sacramento area and San Francisco Bay Area. According to the California Association of Realtors, the median home price for the Central Valley is \$347,070, as compared to overall California at \$551,300, Sacramento as \$373,390, and \$707,390 for the San Francisco Bay Area.

The California Department of Finance estimates records the population of San Joaquin County at roundly 650,000 persons, representing an increase in compound annual growth rate ("CAGR") of 3.0 percent between 2000 and 2005. The city of Stockton, with a population of 280,000, the largest in the county, had a CAGR of 2.8 percent in the same period. Tracy, the second largest city, had a CAGR of 6.6 percent during the same period. By 2020, San Joaquin County's total population is projected by the State of California Employment Development Department to be 990,000, a 52.0 percent increase over current population. The following table provides a summary of the total population of the seven cities that comprise San Joaquin County between 2000 and 2005.

San Joaquin County - Total Population by City							
City	2000	2001	2002	2003	2004	2005	CAGR ⁽¹⁾
Escalon	5,963	6,150	6,400	6,675	6,705	6,912	4.0%
Lathrop	10,445	10,850	11,650	12,100	12,547	12,565	3.9%
Lodi	56,512	57,800	59,200	60,300	61,870	62,467	2.1%
Manteca	49,255	51,600	55,200	57,500	60,279	61,927	4.7%
Ripon	10,158	10,650	11,200	11,650	12,393	13,241	5.4%
Stockton	243,771	249,000	255,100	262,600	271,712	279,513	2.8%
Tracy	56,929	61,100	66,000	70,000	74,784	78,307	6.6%
Other	130,565	132,700	134,100	135,700	136,176	138,401	1.2%
Total	563,598	580,000	598,900	616,500	636,466	653,333	3.0%

⁽¹⁾ Compound annual growth rate from 2000 to 2005.

⁽²⁾ Includes unincorporated areas of the county.

Source: **State of California Department of Finance**

c. Employment

According to California Employment Development Department (“EDD”), manufacturing will grow in the area during the next seven years because of the central location of San Joaquin County. Additionally, with railroads, the airport and the port, a group of transportation industries will support local manufacturing and distribution, and EDD expects major growth in family-wage jobs in those fields.

San Joaquin County is home to a number of major industries and service organizations. According to EDD, the county’s dominant industries are: trade, transportation, utilities, government, education, and health care. Wholesale and retail trade has grown consistently since 1998, with the majority of the jobs added in retail trade. The unemployment rate during 2005 was 7.7 percent.

d. Freeway Network

An excellent highway transportation system links San Joaquin County to the major California urban markets. San Joaquin County is a major Northern California distribution point where two primary north-south highways, Interstate 5 and Highway 99, meet and are joined by Highway 4 in Stockton and Highway 120 through Manteca. Interstate 205 is a short, well-traveled freeway connecting the Central Valley of California with the San Francisco Bay Area.

e. Air Transportation

San Joaquin County residents are within a two-hour drive of Sacramento International Airport and Oakland International Airport. The San Francisco International Airport is also within convenient driving distance. The accessibility of these major airports gives San Joaquin County excellent air service to all major national and international centers.

The Stockton Metropolitan Airport is located on the Southern boundary of the city of Stockton in the heart of California's central valley. The airport is conveniently located between two major north-south highways; Interstate 5, 1.5 miles to the west, and State Highway 99, which borders the airport to the east.

f. Commercial Real Estate

According to the 2005 market forecast by CB Richard Ellis, rental rates have increased throughout the valley as demand continued to outweigh supply. In the southern parts of San Joaquin County, office rents went up 25 percent in 2004. Modesto and Stockton rents, by contrast, rose about 10 percent. To meet demand for office space, office condominiums are gaining popularity. Office condominiums are ranging from \$135 per square foot for shell space, moving upward as high as \$300 per square foot, depending on location.

Companies are coming to San Joaquin County due to its comparatively lower cost. Rents average 20 percent to 35 percent lower than in the Bay Area for large distribution facilities and 30 percent to 50 percent lower for smaller buildings. CB Richard Ellis reports small industrial projects are selling fast. In 2004, San Joaquin and Stanislaus counties counted 16 new small building developments. In 2005, its projected there should be about 23 small building projects in the two counties, with 185 individual buildings either planned, existing or under construction. About 90 of those small buildings are less than 4,000 square feet, which is the emerging trend throughout the region. Vacancy rates are expected to decline in industrial space.

3. City of Lodi

a. Overview

The City of Lodi was incorporated in 1906. Lodi is located in the San Joaquin County between Stockton, 15 miles to the south, and Sacramento, 35 miles to the north, and adjacent to U.S. Highway 99. Lodi is located on the main line of the Southern Pacific Railroad and is within five miles of Interstate 5. The population of Lodi is approximately 62,647 and is contained in an area of approximately 12 square miles. The City has grown steadily since incorporation in 1906 and is projected to grow to over 69,000 people by the year 2020. Lodi is economically integrated into the San Francisco Bay Area/ Greater Sacramento/ Stockton/ Modesto economic region.

b. Population

Lodi offers residents a unique blend of life style opportunities. With a comfortable, affordable life style, abundant recreational facilities, excellent educational opportunities, and diverse cultural resources, Lodi offers the amenities of metropolitan living without the congestion, overcrowding and expense. Over the

past five years, the population of Lodi increased at an annual rate of 2.6 percent, from a population of 56,512 in 2000 to 62,647 in 2005.

c. Employment

Over the past several years, there has been an increase in industrial, commercial, and residential development that has been unprecedented since the early 1980s. This new development combined with growing strength of the wine industry which produces more the \$350 million annually and is a positive indicator for Lodi.

Largest Public & Private Employers – Lodi	
Employer	Type of Business
Blue Shield of California	Insurance Claims Processing
City of Lodi	Government
Cottage Bakery	Baked Goods
General Mills	Cereals and Food Mixes
Lodi Fab Industries, Inc.	Industrial Storage Racks
Lodi Memorial Hospital	Health Care
Lodi Unified School District	Education
Pacific Coast Producers	Can Manufacture and Cannery
Target	General Merchant
Valley Industries	Trailer Hitches
Wal-Mart	General Merchant

Source: www.lo di.gov

d. Commercial Development

Lodi promotes economic development and expanding the tax base to fund city services rather than increase taxes to pay for these services.

According to CB Richard Ellis, the outlook for 2006 for the Central Valley is very strong. The commercial real estate market will continue to strengthen as demand for increases along with improvements in the economy. Absorption of available space is projected to be consistent with 2005 levels, as are new construction start estimates. With regard to commercial office space, demand continues to outweigh supply and the activity continues to put upward pressure on rents. Asking rental rates have risen substantially throughout the market place due to pent-up demand in all cities. Rents have risen approximately 10.0 percent since 2004.

e. Transportation

Lodi has excellent transportation accessibility. It sits between two primary north-south highways, Highway 99 and Interstate 5, which connect major cities in San Joaquin County and provide access to major markets from Canada to Mexico. It is well connected for east-west transportation with Interstate 580 running to Oakland and the San Francisco Bay Area. Interstate 80 links Lodi to Reno, Nevada and

points further east. Lodi's ground transportation includes 24 carriers and other local trucking firms serving the Lodi area.

Lodi is served by two national rail lines, Union Pacific Railroad and the Burlington Northern Santa Fe. It is also served by a local railroad, Central California Traction that runs contiguous to its industrial park areas. Daily passenger service via Amtrak is available from Lodi to San Francisco, Los Angeles, Sacramento, and points in between.

Lodi is within 45 minutes of the Sacramento International Airport and one and 1¼ hours of Oakland International. The San Francisco International Airport is also within convenient driving distance. Corporate and general aviation aircraft are served at the Stockton Metropolitan Airport and at the adjacent A.G. Spanos Jet Center just an easy 20-minute drive from Lodi.

f. Tourism and Leisure

The rural and rustic Sacramento-San Joaquin Delta waterways west of Lodi make for an ideal outing or vacation. The Delta has more than 1,000 miles of waterways connecting Stockton and Sacramento to the San Francisco Bay and is home to some of the best water-skiing, windsurfing and fishing in the country.

Lodi has capitalized on its location, weather, and wine grape industry. Lodi is the home of multiple wineries where visitors can leisurely enjoy a glass of wine with local winemakers. In recent years, the Lodi Appellation has been increasing in fame, particularly with regard to the cultivation and pressing of Zinfandel grapes. Many leisure travelers are discovering that the Lodi Appellation offers a fresh and insightful approach to winemaking and wine tourism, similar to the Napa and Sonoma valleys from 30 to 40 years ago, prior to their heavy commercialization. Noted wineries in Lodi include the Berghold, the Jewel Collection, Michael David, and Woodbridge by Mondavi, among others.

Lodi sponsors a growing number of annual events and festivals, such as: the Lodi Grape Festival, Sandhill Crane Festival, Sacramento Street Car Festival, Spring Wine Show, Wine & Chocolate Weekend, Winter Wine Wander, Zin Fest, and others, with attendance at some of these events approaching 10,000 persons.

g. Conclusion

After review of the general economic and demographic information for the Lodi area, it can be concluded that the local and regional economy has experienced significant growth in the past several years. The trend is expected to continue in the future with the increased attractiveness of the Central Valley for families and businesses. Furthermore, due to the location of the subject site in a growth area of Lodi, we are of the opinion that the subject site is well suited for a new lodging facility.

The Lodi lodging market and the nearby Lathrop and Manteca lodging markets, which accommodate some amount of Lodi’s commercial and group demand, are indirectly impacted by the supply and demand dynamics of the overall Central Valley hotel market. Accordingly, the following section first provides a brief overview of the Central Valley lodging market, including a discussion of the transient occupancy tax (“TOT”) for Lodi, followed by an analysis of the direct competitive market of the subject property.

E. HOTEL MARKET ANALYSIS

1. Overview

The California Central Valley Region includes those lodging properties located as far north as Elk Grove and as far south as Bakersfield within the central agricultural region of California. Occupancy and average daily room rate (“ADR”) in the Central Valley is generally reported as lower than the remainder of California, although growth in both of these measures of lodging operations in the region has been experienced in recent years. The occupancy and ADR performance for the Central Valley lodging market for the past five years is presented in the following table.

California Central Valley Region Summary of Occupancy and Average Daily Room Rate 2001 to 2005			
Year	Occupancy	Average Daily Room Rate¹	Percent Change
2001	66.8%	\$64.65	-
2002	67.6%	\$64.89	0.4%
2003	70.0%	\$62.98	(2.9%)
2004	70.8%	\$62.62	(0.5%)
2005	71.7%	\$64.96	3.7%
CAGR	-	0.1%	-

Source: **PKF Consulting’s Trends of the Lodging Industry**

According to *PKF Consulting’s Trends in the Hotel Industry*, over the 2001 through 2005 period, the occupancy rate has increased from 66.8 percent in 2001 to 71.7 percent as of year-end 2005. ADR decreased from \$64.55 in 2001 to \$62.62 in 2004, but has increased 3.7 percent to \$64.96 as of year-end 2005.

2. Transient Occupancy Tax in the City of Lodi

A means of analyzing demand for lodging facilities in the Lodi area is to review transient occupancy tax (“TOT”) collected by the city. TOT is a fixed-rate tax collected on gross rooms revenue generated by hotel properties in a city. Lodi currently has a six percent TOT rate, although there have been some variations in some past years. The following table outlines the revenue collected from TOT taxes in Lodi for fiscal years 2000/2001 to 2004/2005.

Transient Occupancy Tax – Lodi Fiscal Year 2000/2001 to 2004/2005			
Fiscal Years	Lodi TOT	TOT Rate	Rooms Revenue
2000/2001	\$390,185	9.0%	\$4,335,389
2001/2002	\$438,694	7.3%	\$6,009,507
2002/2003	\$399,759	6.0%	\$6,662,650
2003/2004	\$316,797	6.0%	\$5,279,950
2004/2005	\$352,453	6.0%	\$5,874,217
CAGR	(2.5%)	-	7.9%

Source: City of Lodi Finance Department

The table outlines a rise and then decline in TOT collected, however, we note that the 9.0 percent TOT rate effective through August 2001 then dropped to 6.0 percent in September 2001, and remains at that level today. Total rooms revenue for Lodi rose at a CAGR of 7.9 percent, stronger than the overall Central Valley region as detailed by PKF Consulting’s *Trends in the Lodging Industry*. We are of the opinion that the increasing rooms revenue statistics is generally indicative of a healthy and growing lodging market.

3. Competitive Hotel Market Analysis

Based on our research, we have identified six existing hotels in the Lodi area with a total of 357 available rooms, as representing the competitive hotel market for a new property in Lodi. Included in this total are two new facilities, the Best Western Flag City with 57 units which opened in May 2005, and a 17-room addition to the Wine & Roses Inn that was completed in September 2005. A summary table providing basic information on each of these hotels is presented on the following page, followed by a map highlighting the location of the competitive properties.

The selection of the competitive supply was based on the room rate structure, overall quality, and market positioning of each hotel. In general, the hotels represent facilities catering to the commercial, leisure, and group markets in Lodi, and along the Highway 99 corridor. It should be noted that the Best Western and Comfort Inn properties in Lodi are generally not considered attractive properties due to age and exterior corridor access. The Holiday Inn Express in Lodi, while superior to these two properties, is also an exterior corridor property and is negatively affected by freeway noise from nearby Highway 99 which adjoins the east side of the hotel. The Microtel in Flag City is a compact property, with small rooms and few amenities.

As a result, in addition to the six properties in Lodi, we have also included one Hampton Inn & Suites and three Holiday Inn Express Hotels & Suites properties located north, up the Highway 99 corridor in Galt, and south down the Highway 99 corridor in Manteca and Salida, and to the west in Lathrop. Due to the lack of quality hotels in Lodi, except for the very high-end Wine & Roses Inn property, our research indicates that many travelers to Lodi opt not to stay in Lodi, instead staying at the

more desirable facilities located nearby in the Highway 99 corridor. By including these properties along with the Lodi properties, a more balanced picture of the total demand for hotel accommodation for the Lodi area along Highway 99 emerges. These properties represent an additional 255 rooms, leading to an overall current competitive supply analyzed for this report of 612 rooms.

	Best Western Flag City Lodi	Holiday Inn Express Lodi	Best Western Royal Host Inn Lodi	Microtel Inn & Suites Lodi	Wine & Rose Hotel Lodi	Comfort Inn Lodi
City						
Picture						
Distance from Subject	5.0 miles	0.25 miles	0.75 miles	5.0 mile	3.0 miles	1.0 mile
Year Opened	2005	1989	1962	2001	1989	1992
Number of Rooms	57	95	48	51	53	53
Amenities/Services						
Restaurant	No	No	No	No	Yes	No
Bar	No	No	No	No	Yes	No
Business Center	No	No	No	No	No	No
Gift Shop	No	No	No	No	No	No
Exercise Room	Yes	Yes	No	No	No	No
Swimming Pool	Yes	Yes	Yes	Yes	No	Yes
High-Speed Internet	Yes	Yes	Yes	Yes	No	Yes
Complimentary Brkfst.	Yes	Yes	Yes	Yes	Yes	Yes
Meeting Space						
Number of Rooms	1	1	1	N/A	1	N/A
Total Meeting Space	Not Available	Holds 40 ppl.	Holds 25 ppl.	N/A	4900 sq. ft.	N/A
Largest Meeting Room	Not Available	Holds 40 ppl.	Holds 25 ppl.	N/A	4900 sq. ft.	N/A
Room Rates						
Single	Not Available	\$85-\$110	\$70-\$90	\$69-\$99	\$170-\$190	\$65-\$89
Double	Not Available	\$85-\$110	\$80-\$100	\$69-\$99	\$170-\$190	\$65-\$89
AAA Rating	N/A	◆◆	◆◆◆	◆◆	◆◆◆	◆◆
N/A - Not Available						
Source: PKF Consulting, Management of Individual Properties, and American Automobile Association (AAA) Tour Book Northern California 2005 Edition						

Competitive Hotel Map



Based on the number of weekend events now held in the Lodi area and the demand for hotel accommodations during those periods, a need for additional lodging accommodations exists within Lodi. Further, in comparison with more established wine growing areas such as the Napa and Sonoma Valleys, and other emerging wine growing destinations such as Paso Robles and Atascadero, Lodi has comparably fewer hotels and also fewer upscale hotel properties that would appeal to wine aficionados.

4. Non-Competitive Hotels

There are additional lodging facilities in the regional Highway 99 corridor area and due to the small size and generally inferior nature of these properties, we have not included these facilities in our analysis of the competitive market. As noted, the subject property is projected to be one of the superior lodging facilities in Lodi.

5. Additions to Supply

In addition to the subject property, according to the relevant planning authorities in the area and conversations with operators and developers in the area, we have identified one additional proposed hotel project that will be competitive with the subject property. This property is the proposed new Hampton Inn & Suites to be constructed at the intersection of Highway 99 & Kettleman Lane. This 91-unit property is to start construction in mid-2006 and open in mid-2007.

We have included these properties as changes to supply, and presented in the following table is a summary of the forecast change in the number of available rooms within the overall competitive supply over the period 2006 to 2010.

Projected Change in the Competitive Supply 2006 – 2010					
	2006	2007	2008	2009	2010
Beginning Supply	612	612	658	703	778
<i>Changes in Supply:</i>					
Hampton Inn & Suites ¹		46	45		-
Subject Property ²				75	
Additions	0	46	45	75	0
Ending Supply⁵	612	658	703	778	778
Percent Change from Prior Year	0.0%	7.5%	6.8%	10.7%	0.0%

¹ Property opens mid-2007
² Property opens January 1, 2008

Source: **PKF Consulting, Various Project Developers, and the Lodi Planning Department.**

Of note is the recent change in the Holiday Inn Express in Galt, now known as the Galt Inn. The Holiday Inn Express franchise agreement was terminated as of year-end 2005. We understand that Intercontinental Hotels Group, the parent company for the Holiday Inn chain, cancelled the franchise agreement due to continuing low guest satisfaction scores. At the present time, this property has applied to become affiliated with Best Western International as the Best Western Galt Inn.

It should also be noted that the Holiday Inn Express in Lodi is expected to lose its franchise affiliation as well upon the expiration of its existing franchise agreement in June 2007. We understand that Intercontinental Hotels Group, the parent company for the Holiday Inn chain, will not renew the franchise agreement at the property primarily due to functional obsolescence relating to the exterior corridors at the hotel. The owners of the property intend to continue to operate the hotel under another name, and we have maintained the hotel in the competitive set.

Relatedly, our analysis indicates that the Holiday Inn Express in Lodi is likely to lose a significant portion of its accommodated demand to the nearby, new Hampton Inn & Suites upon its opening, due to product quality differences. Further, as the Holiday Inn Express presently receives approximately 29.0 percent of accommodated room nights from the Holiday Inn reservations system, a significant portion of demand is also expected to be lost upon the termination of the franchise name at the property. These room nights, however, are expected to be absorbed by other hotels in the Highway 99 corridor area, most particularly the Holiday Inn Express & Suites hotels in Salida, Lathrop and Manteca.

As noted from the previous table, the supply of the competitive market is projected to increase by approximately 27.0 percent between 2006 and 2009. This increase in supply is anticipated to have a short-term negative affect on occupancy levels in the competitive marketplace as the new supply is absorbed into the marketplace.

As a result of the various additions to supply, in combination with the timing of demand in the market area, as will be discussed in the following text, we have placed an occupancy "cap" of 70.0 percent on the competitive market in future years. This cap is also reflective of the future potential impact on occupancy by the addition of additional new hotels to the competitive market.

6. Historical Market Performance

Presented in the following table is a summary of supply and demand in room nights and resultant occupancy percentages for the overall competitive supply for the five-year period 2001 through year-end 2005. Also included is the market ADR and revenue per available room ("RevPAR"), a standardized measure of annual hotel performance.

Proposed Downtown Lodi Hotel

Historical Market Performance of the Competitive Supply

Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	RevPAR	Percent Change
2001	133,955	N/A	93,567	N/A	69.8%	\$69.28	N/A	\$48.39	N/A
2002	143,445	7.1%	97,672	4.4%	68.1%	73.97	6.8%	50.37	4.1%
2003	174,470	21.6%	115,012	17.8%	65.9%	76.94	4.0%	50.72	0.7%
2004	196,370	12.6%	131,542	14.4%	67.0%	79.64	3.5%	53.35	5.2%
2005	210,970	7.4%	146,244	11.2%	69.3%	\$82.80	4.0%	\$57.40	7.6%
CAGR	12.0%		11.8%			4.6%		4.4%	

Source: **PKF Consulting**

As can be noted in the table, the number of available rooms increased from 2001 to 2005 at a compound average growth rate of 12.0 percent annually, from approximately 134,000 rooms in 2001 to approximately 211,000 rooms in 2005.

Available rooms increased in 2002 with a 26-room addition to the Wine & Roses Hotel. Supply increased in 2003 and 2004 with the opening of the 73-room Hampton Inn & Suites in Salida and the 72-room Holiday Inn Express & Suites in Manteca. Available rooms increased again in 2005 and 2006 with a second, 17-room expansion to the Wine & Roses Hotel and the opening of the new, 57-room Best Western in Flag City.

Demand for accommodations increased slower than the additions to supply at a rate of 11.8 percent annually. Therefore, as a result of supply just outpacing demand, occupancy decreased from 69.8 percent in 2001 to 69.3 percent in 2005. However, as can be noted in the table, total demand has increased each year, indicative of the ability of new hotel products to both absorb demand in this growing market area as well as the ability of new hotel products to induce demand into the market due to new product quality and availability of rooms.

Competitive market ADRs have also increased, in particular as a result of the overall high quality of new hotels introduced, which, as noted have included the Microtel in Flag City in 2001, an addition to the Wine & Roses Inn and the new Hampton Inn in Stockton in 2002, the Holiday Inn Express in Manteca in 2003, and the Best Western Flag City in 2005. Overall, ADR has increased at a CAGR of 4.6 percent between 2001 and 2005. As a result, combining occupancy and ADR, RevPAR has increased at a compound average growth rate of 4.4 percent annually since 2005.

As a point of comparison, the following table summarizes the occupancy and ADR of the competitive hotels for year-end 2005. Due to the confidential nature of this information, we have provided approximate ranges for their operating performance.

Summary of Competitive Hotels Occupancy, ADR, RevPAR Year-End 2005		
Hotel	Occupancy	ADR
Holiday Inn Express - Lodi	70% to 74%	\$80 to \$85
Comfort Inn - Lodi	65% to 69%	\$55 to \$59
Best Western - Lodi	50% to 54%	\$70 to \$74
Wine & Roses Inn – Lodi	65% to 69%	\$155 to \$159
Microtel – Flag City	65% to 69%	\$50 to \$54
Holiday Inn Express - Galt	64% to 69%	\$75 to \$79
Hampton Inn & Suites - Salida	75% to 79%	\$85 to \$89
Holiday Inn Express - Lathrop	85% to 89%	\$75 to \$79
Holiday Inn Express - Manteca	65% to 69%	\$90 to \$94
Best Western – Flag City	54% to 59%	\$75 to \$79
	70.6%	\$81.68

As indicated in the previous chart for year-end 2005, the occupancy levels at the competitive properties ranged from approximately 54 percent to 89 percent, with average daily rates ranging from approximately \$55 to \$159. The Wine & Roses Inn operates at a significant ADR premium to every other hotel in the competitive set due to the positioning of the property as a luxury destination property. Due to product quality and location, the Microtel in Flag City has the lowest performance level, with the Holiday Inn Express properties in Manteca and Lathrop and the Hampton Inn & Suites in Salida generally setting the upper end of the range in property performance for the balance of the hotels, excluding the Wine & Roses Inn.

7. Rooms Demand for the Competitive Market

a. Segmentation of Demand

The demand captured by the competitive supply is oriented predominately towards the commercial and leisure market segments, with the remaining room nights falling into the group segment. We do not anticipate any significant change in this mix in future years. A summary of the market segmentation for the competitive properties for year-end 2005 is illustrated in the following table.

Competitive Market 2005 Mix of Demand		
Market Segment	Room Nights	Ratio
Commercial	65,773	44%
Group	13,749	9%
Leisure	66,723	46%
Total	146,244	100%

Source: PKF Consulting

- **Commercial Market Segment Demand**

The commercial market segment is the largest demand generator in the competitive market. The commercial market segment is comprised primarily of visitors to local companies, independent sales people, employees in training, and other business people associated with companies and business activity in the area. A large number of business people who visit the area travel between the three major business centers in Northern California: the San Francisco Bay Area, the Sacramento Area, and the Fresno Area. The business travelers visiting the Lodi area are generally price-conscious and limited service products with quality brand recognition, like the existing Holiday Inn Express & Suites and Hampton Inn & Suites properties generally perform well above the competitive market in attracting commercial demand as a percentage of total demand. In 2005, the commercial market segment accounted for approximately 66,000 room nights, or 44.0 percent of the market total.

- **Group Market Segment Demand**

The group segment is comprised primarily of groups holding conferences in Lodi such as social, military, educational, religious, or fraternal (“SMERF”) type organizations. In addition, in the summer, various soccer, baseball, and softball teams, and other youth sports groups, convene in the area. In 2005, the group segment accounted for approximately 14,000 room nights, or 9.0 percent of total market demand.

- **Leisure Market Segment Demand**

The leisure segment accounted for approximately 67,000 room nights in 2005, or 46.0 percent of the total. Leisure demand is a stronger market segment in the Lodi market than group demand. Leisure is comprised primarily of travelers driving along State Highway 99, visitors to the Lodi wine region, and individuals who are looking to move to the Lodi vicinity and need accommodations until they find permanent residence. This segment also generates demand from visiting friends and relatives to residents in the Lodi area. As indicated in the Area Review section of this report, the emerging Zinfandel wine appellation for which Lodi is becoming increasingly well-noted is projected to lead to increased winery-related tourism and visitation to the area in future years.

8. Estimated Growth in Supply and Demand

Based on our analysis of the historical growth rates in the three demand segments in the competitive market, coupled with our study of the economic variables currently impacting the Central Valley in general and Lodi in particular, we are of the opinion that occupied rooms in the marketplace will increase by a CAGR of 3.2 percent annually between 2006 and 2013. In deriving this growth rate, we have specifically analyzed the overall growth in employment, the agricultural industry,

commercial development trends in the area, and tourism relating to the Lodi wine industry. Additionally, the opening of new hotels is expected to induce an additional amount commercial, group, and leisure demand into the market, which might have otherwise stayed at other hotel markets outside of the Lodi area along the Highway 99 corridor.

In the table on the following page, we present our projections of changes in hotel supply and demand between 2006 and 2013. We have also provided the actual performance of the complete market for 2005 as a point of reference. As can be noted, in reviewing this table, we project that total supply in the competitive market will increase from 612 rooms or 223,380 available room nights in 2006 to 778 rooms or approximately 284,000 room nights in 2009, representing a 27.0 percent increase in supply.

We are of the opinion that the growth in demand will come both from expected growth in demand, but also from induced commercial, group, and leisure travelers, who traditionally have stayed outside the competitive set due to the lack of quality products, and who will now choose to stay in Lodi because of the new, quality hotel rooms represented by the addition of the new rooms at the Wine & Roses Inn, the new Best Western Flag City, and new Hampton Inn & Suites in Lodi, and the subject property. In addition to this induced demand, demand should shift from the lower-tier products currently in Lodi toward the new quality lodging facilities as well, from the Best Western Royal Host, the Comfort Inn, and the Microtel to the newly developed properties. Further, some demand that may have paid the rate premium to stay at the Wine & Roses Inn may “trade down” to the new and attractive hotel properties, in particular, the subject hotel, particularly since rooms will be available during desirable weekend periods.

We forecast that growth in demand will exceed additions to supply in 2006, allowing occupancy to grow to 71.0 percent for year-end 2006. Going forward, despite inducement of demand, our forecast of market occupancy indicates a decline in market occupancy from 71.0 percent in 2006 to 68.0 percent in 2007, and 69.0 percent in 2008 and 2009 due to increases in supply, which, as indicated, are forecast to be roundly 27.0 percent. With growth in demand, however, and with no further new supply projected after 2009, occupancy levels are projected to increase and are expected to stabilize at in the low 70.0 percent range by 2010. In consideration of the historical occupancy level of the competitive market, and the increase in both supply and demand, we are of the opinion that a stabilized occupancy level of roundly 70.0 percent is most appropriate for the competitive market over the long term.



Proposed Downtown Hotel Competitive Market Estimated Future Growth in Lodging Supply and Demand 2009 - 2013									
	2005	2006	2007	2008	2009	2010	2011	2012	2013
ROOMS SUPPLY	538								
Additions/(Deletions) to Supply									
Proposed Downtown Hotel					75				
Wine & Roses	4	13							
Best Western - Flag City	36	21							
Hampton Inn & Suites - Lodi			46	45					
Cumulative Rooms Supply	578	612	658	703	778	778	778	778	778
Total Annual Rooms Supply	210,970	223,380	240,170	256,595	283,970	283,970	283,970	283,970	283,970
Growth Over the Prior Year	7.4%	5.9%	7.5%	6.8%	10.7%	0.0%	0.0%	0.0%	0.0%
DEMONSTRATED DEMAND IN BASE YR									
Commercial	65,773	45%							
Group	13,749	9%							
Leisure	66,723	46%							
TOTAL DEMONSTRATED DEMAND	146,244	100%							
INDUCED/(UNSATISFIED) DEMAND									
Commercial		4,000	0	5,000	5,000	0	0	0	0
Group		1,000	0	2,500	2,500	0	0	0	0
Leisure		2,000	0	0	5,000	0	0	0	0
TOTAL INDUCED/(UNSATISFIED) DEMAND		7,000	0	7,500	12,500	0	0	0	0
GROWTH RATES									
Commercial		5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Group		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Leisure		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
PROJECTED DEMAND									
Commercial									
Demonstrated	65,773	69,061	75,984	79,023	87,384	96,079	99,922	103,919	108,076
Induced/(Unsatisfied)	0	4,000	0	5,000	5,000	(2,044)	(5,391)	(8,891)	(12,550)
Total	65,800	73,100	76,000	84,000	92,400	94,000	94,500	95,000	95,500
Growth Over Prior Year	N/A	11.1%	4.0%	10.5%	10.0%	1.7%	0.5%	0.5%	0.5%
Group									
Demonstrated	13,749	14,161	15,616	16,084	19,142	22,291	22,960	23,649	24,358
Induced/(Unsatisfied)	0	1,000	0	2,500	2,500	(479)	(1,251)	(2,043)	(2,856)
Total	13,700	15,200	15,600	18,600	21,600	21,800	21,700	21,600	21,500
Growth Over Prior Year	N/A	10.9%	2.6%	19.2%	16.1%	0.9%	-0.5%	-0.5%	-0.5%
Leisure									
Demonstrated	66,723	68,725	72,846	75,032	77,283	84,751	87,294	89,913	92,610
Induced/(Unsatisfied)	0	2,000	0	0	5,000	(1,820)	(4,755)	(7,767)	(10,859)
Total	66,700	70,700	72,800	75,000	82,300	82,900	82,500	82,100	81,800
Growth Over Prior Year	N/A	6.0%	3.0%	3.0%	9.7%	0.7%	-0.5%	-0.5%	-0.4%
Total Market Demand	146,200	159,000	164,400	177,600	196,300	198,700	198,700	198,700	198,800
Growth Over Prior Year	N/A	8.8%	3.4%	8.0%	10.5%	1.2%	0.0%	0.0%	0.1%
Market Occupancy	69%	71%	68%	69%	69%	70%	70%	70%	70%
Source: PKF Consulting									

F. ESTIMATED MARKET PERFORMANCE OF THE SUBJECT PROPERTY

1. Occupancy

In order to project the future occupancy level of the subject property, we have accounted for the expected levels of patronage by market segment that should reasonably be captured by the new hotel. The achievable level of patronage was estimated by performing a fair share penetration analysis. As indicated, we have assumed that the subject property will open on January 1, 2009.

A hotel's fair share of its competitive market is defined as the number of available rooms at the subject property divided by the total supply of available rooms in the competitive market, including the subject property. Factors indicating a hotel would possess competitive advantages suggest a market penetration in excess of 100.0 percent of fair market share, while competitive weaknesses are reflected in penetration less than 100.0 percent.

Based on the expected attributes of the subject property, we anticipate that it will have strengths and weaknesses as compared to competitors in the market. Overall, we are of the opinion that the subject property will stabilize below the market average in occupancy, primarily due to the downtown location and high ADR projected for the hotel. Our summary of the strengths and weaknesses for the subject property are presented as follows.

- *Downtown location proximate to area attractions, but removed from highway access and visibility;*
- *Location in an improving neighborhood region of Lodi, but not developed in an area where other new hotels are proposed;*
- *Newly built, high-quality hotel product as compared to generally older, less-desirable existing properties in Lodi;*
- *Upscale accommodations and services, with an emphasis on attaining a high ADR; and,*
- *Probably independent affiliation, but concurrent lack of national hotel chain name and affiliation and strong frequent guest recognition program.*

Due to the advantages and disadvantages outlined above and our analysis of the existing competitive market, the subject property is expected to perform below its fair share, penetrating the market during its first year of operation at 75.0 percent and stabilizing in its third year of operation at approximately 96.0 percent. This penetration rate places the subject property on par with the performance of other

smaller, high-end destination properties in Northern California. A penetration rate of 96.0 percent results in a stabilized occupancy of 67.0 percent achieved in 2011, the third full year of operation for the subject property.

Furthermore, we estimate that the subject property will capture the majority of its demand from the leisure segment due to the high level of destination leisure travel to Lodi for the wines, wine tasting, and winery tours. As discussed previously, the area currently experiences a substantial amount of leisure travel due to the many sporting events held in Lodi and the Lodi wine industry. As a result, leisure travel to Lodi is anticipated to grow in future years. On a stabilized basis, the subject property is projected to have a stabilized market mix of approximately 65.0 percent leisure demand, 10.0 percent group demand, and 25.0 percent commercial demand.

The table on the following page summarizes the projected occupancy and penetration levels for the subject property for the period 2009 to 2013, the first five years of operation for the subject property.

Proposed Downtown Hotel Market Penetration and Projected Occupancy					
	2009	2010	2011	2012	2013
TOTAL ROOMS AVAILABLE					
Proposed Downtown Hotel	27,375	27,375	27,375	27,375	27,375
Competitive Market	283,970	283,970	283,970	283,970	283,970
	=====	=====	=====	=====	=====
Fair Share of Supply	9.6%	9.6%	9.6%	9.6%	9.6%
	=====	=====	=====	=====	=====
ESTIMATED TOTAL MARKET DEMAND					
Commercial	92,400	94,000	94,500	95,000	95,500
Group	21,600	21,800	21,700	21,600	21,500
Leisure	82,300	82,900	82,500	82,100	81,800
	-----	-----	-----	-----	-----
TOTAL	196,300	198,700	198,700	198,700	198,800
	-----	-----	-----	-----	-----
FAIR SHARE OF DEMAND					
Commercial	8,900	9,100	9,100	9,200	9,200
Group	2,100	2,100	2,100	2,100	2,100
Leisure	7,900	8,000	8,000	7,900	7,900
	-----	-----	-----	-----	-----
TOTAL	18,900	19,200	19,200	19,200	19,200
	-----	-----	-----	-----	-----
SUBJECT PENETRATION					
Commercial	50%	55%	50%	50%	51%
Group	80%	90%	85%	85%	86%
Leisure	100%	140%	150%	150%	151%
	-----	-----	-----	-----	-----
ROOM NIGHTS CAPTURED					
Commercial	4,500	5,000	4,600	4,600	4,700
Group	1,700	1,900	1,800	1,800	1,800
Leisure	7,900	11,200	11,900	11,900	11,900
	-----	-----	-----	-----	-----
TOTAL CAPTURED DEMAND	14,100	18,100	18,300	18,300	18,400
	=====	=====	=====	=====	=====
MARKET SHARE CAPTURED	7.2%	9.1%	9.2%	9.2%	9.3%
OVERALL MARKET PENETRATION	75%	94%	96%	96%	96%
	-----	-----	-----	-----	-----
SUBJECT OCCUPANCY	52%	66%	67%	67%	67%
	-----	-----	-----	-----	-----
MARKET MIX					
Commercial	32%	28%	25%	25%	26%
Group	12%	10%	10%	10%	10%
Leisure	56%	62%	65%	65%	65%
	-----	-----	-----	-----	-----
TOTAL	100%	100%	100%	100%	100%
	=====	=====	=====	=====	=====

Source: PKF Consulting

2. Average Daily Room Rate (“ADR”)

Based on the anticipated quality level of the subject property, and the rates achieved at other hotel properties in the Lodi area, we estimate that the subject property could achieve an ADR of approximately \$120.00 to \$130.00 in 2006 value dollars, or roundly \$125.00 if open today. This ADR would place the subject property just below the projected 2006 year-end ADR the high-end Wine & Roses Inn, but above the other properties in the competitive market.

An ADR of \$125 would also place the subject property in alignment from an ADR standpoint with the following unique destination hotels:

- Tiburon Lodge – Marin
- River Terrace Inn – Napa
- Hyatt Vineyard Creek – Santa Rosa
- Sonoma Creek Inn – Sonoma
- Hotel Serrano – San Francisco
- Hotel Villa Florence – San Francisco
- Warwick-Regis Hotel – San Francisco

We forecast a 3.0 percent growth in ADR for 2006 forward, in line with anticipated inflation, but below the historical growth rates achieved between 2001 and 2005. We are of the opinion that this rate is appropriate given the amount of new supply coming into the competitive market, which will distribute demand among a larger number of available rooms and likely spark some competitive pricing, which would dampen room rate growth. We have provided our projections of ADR for the subject property for its first five years of operation in the following table.

Proposed Downtown Hotel Projected Occupancy and ADR 2009 to 2013		
Year	Average Daily Rate	Percent Change
2006 ¹	\$125.00	-
2007	\$129.00	3.0%
2008	\$133.00	3.0%
2009 ²	\$137.00	3.0%
2010	\$141.00	3.0%
2011	\$145.00	3.0%
2012	\$149.00	3.0%
2013	\$154.00	3.0%

¹ Average daily rate if the subject were open in 2006.

² Subject projected to open on January 1, 2009

Source: **PKF Consulting**

3. Summary of Conclusions

In the following table, we provide a summary of the occupancy, ADR, and occupancy penetration rate for the subject property for the period 2009 to 2013.

Proposed Downtown Hotel Projected Occupancy and ADR 2009 to 2013			
Year	Occupancy	ADR	Occupancy Penetration Rate
2009 ¹	52.0%	\$137.00	75.0%
2010	66.0%	\$141.00	94.0%
2011	67.0%	\$145.00	96.0%
2012	67.0%	\$149.00	96.0%
2013	67.0%	\$154.00	96.0%

¹ Subject projected to open on January 1, 2009
Source: **PKF Consulting**

Although it is possible that the subject property will experience growth in occupancy and ADRs above those estimated in this report, it is also possible that sudden economic downturns, unexpected additions to the room supply, or other external factors will force the property below the selected point of stability. Consequently, the estimated occupancy and ADR levels are representative of the most likely potential operations of the subject property over the projected holding period based on our analysis of the market as of the date of this report.

ADDENDA

ADDENDA

- A. CERTIFICATION OF THE CONSULTANTS
- B. STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

ADDENDUM A
CERTIFICATION OF THE CONSULTANTS

CERTIFICATION OF THE CONSULTANTS

We, Thomas E. Callahan, CPA, CRE, MAI, ISHC and Kenneth Kuchman certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, conclusions, and recommendations.
- We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
- We have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
- Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- Kenneth Kuchman has made a personal inspection of the property that is the subject of this report.
- No one has provided significant professional assistance to the persons signing this report.
- We certify that, to the best of our knowledge and belief, the reported analysis, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

- As of the date of this report, Thomas E. Callahan has completed the requirements of the continuing education program of the Appraisal Institute.
- We are Certified General Real Estate Appraisers in the State of California.

Respectfully submitted,

A handwritten signature in blue ink that reads "Thomas E. Callahan". The signature is written in a cursive style with a light blue highlight behind it.

Thomas E. Callahan, CPA, CRE, MAI, ISHC
Chief Executive Officer - West

A handwritten signature in blue ink that reads "Kenneth Kuchman". The signature is written in a cursive style.

Kenneth Kuchman,
Vice President

ADDENDUM B

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

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

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

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

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

Zoning and Land Use - Unless otherwise stated, the subject property is assumed to be in full compliance with all applicable zoning and land use regulations and restrictions.

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

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

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

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS (Continued)

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

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

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

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

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

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

Utilization of the Land and/or Improvements - It is assumed that the utilization of the land and/or improvements is within the boundaries or property described herein and that there is no encroachment or trespass.

Dissemination of Material - Neither all or any part of the contents of this report shall be disseminated to the general public through advertising or sales media, public relations media, new media or other public means of communication without the prior written consent and approval of the consultant(s).

Use in Offering Materials - This report, including all cash flow forecasts, market surveys and related data, conclusions, exhibits and supporting documentation may not be reproduced or references made to the report or to PKF Consulting in any sale offering, prospectus, public or private placement memorandum, proxy statement or other document ("Offering Material") in connection with a merger, liquidation or other corporate transaction unless PKF Consulting has approved in writing the text of any such reference or reproduction prior to the distribution and filing thereof.

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

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

filed 4-25-06



Downtown Hotel Feasibility Study

April 25, 2006



A Downtown Hotel

...is an essential component of a
downtown revitalization strategy.

1998 Gruen study for the City of Lodi
recommended 3 anchors

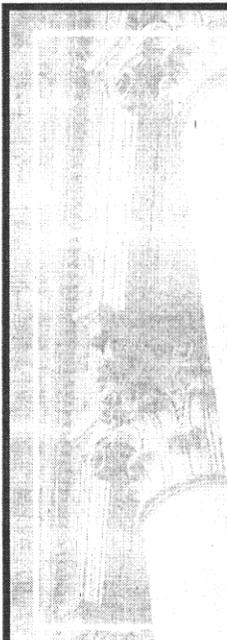
- Movie theater established
- Stage set for wine tasting rooms
- Next step - hotel



TOT revenues in Lodi are relatively low

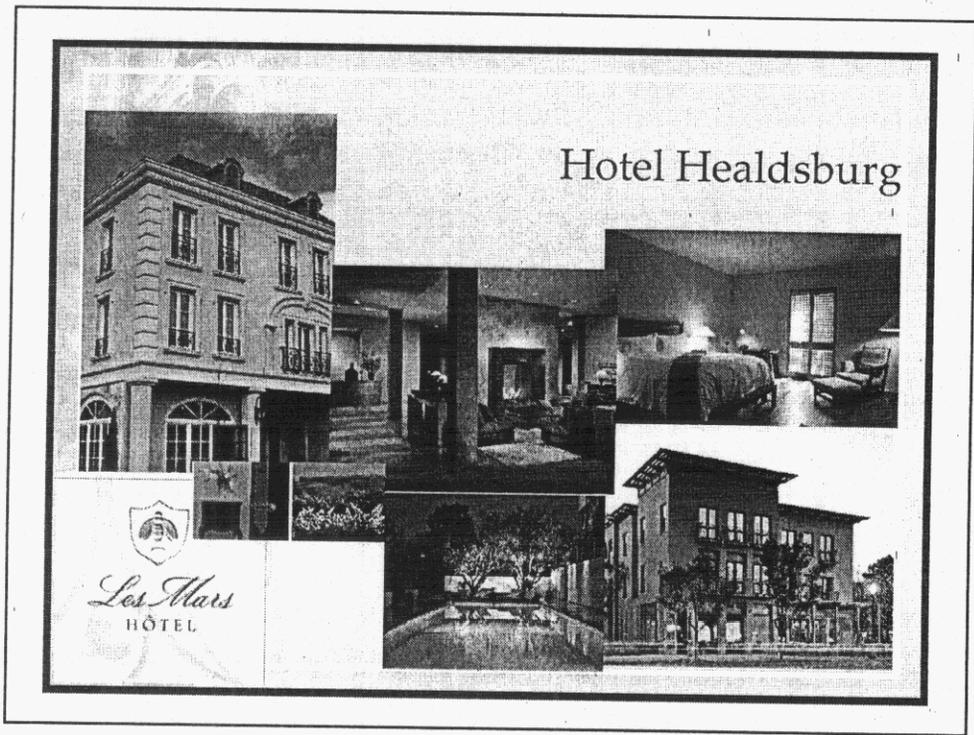
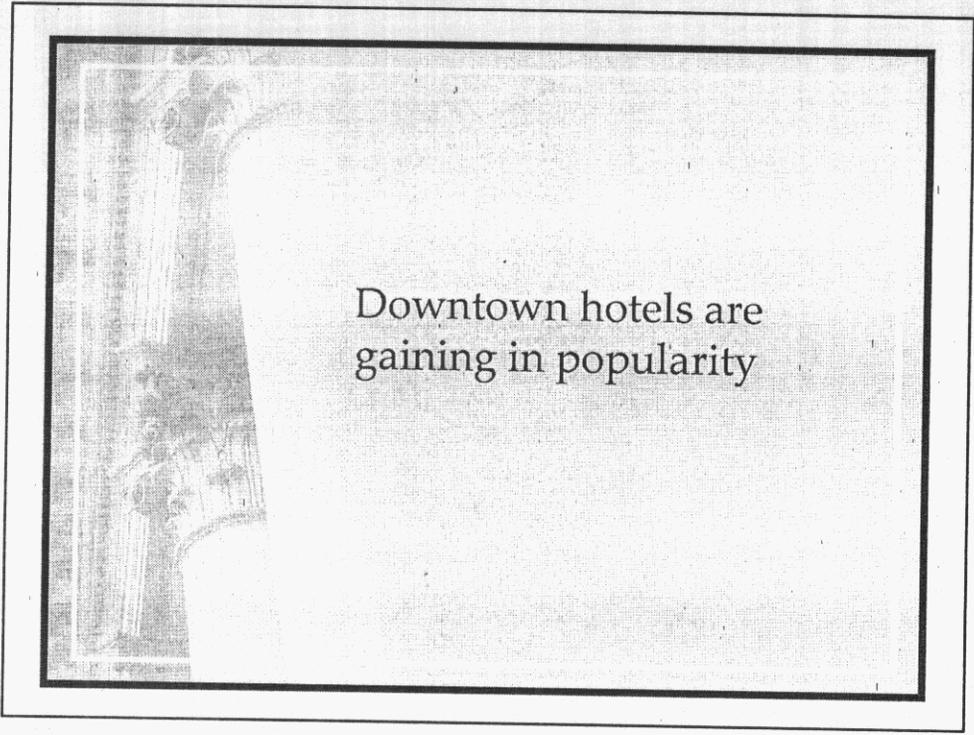
Fiscal year 2005-06 estimates
\$350,000

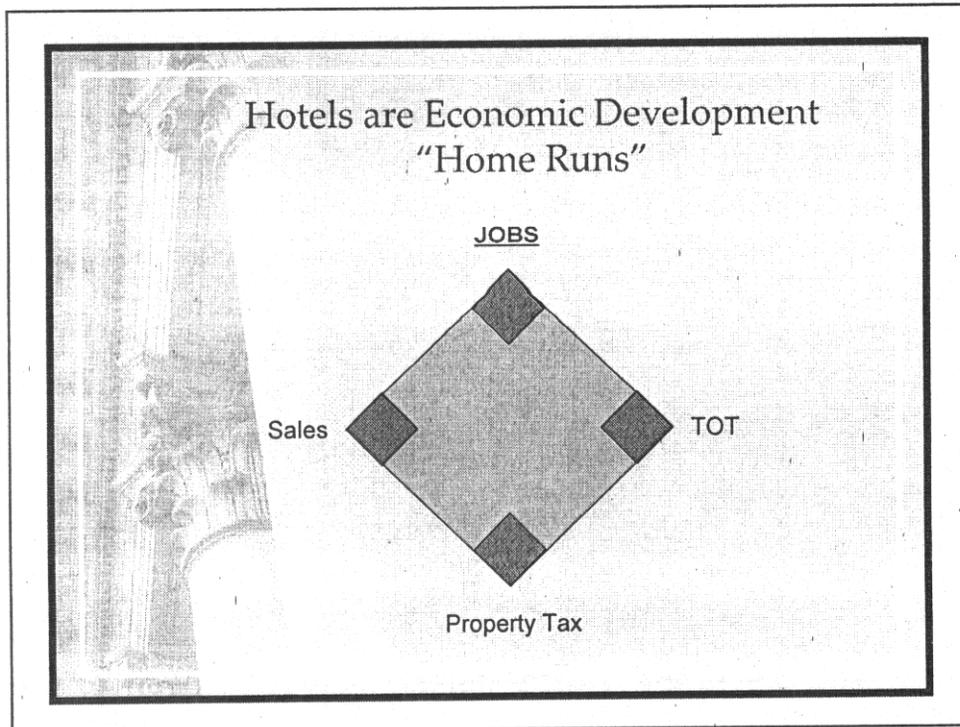
...due not only to a low tax rate,
but also a consequence of
unmet demand.



Emphasis on Tourism and
Wine Industry for Economic
Development

SJ Partnership ED Strategic Plan
for the first time identifies
tourism and the wine industry
as target industry for Lodi







2 Downtown Lodi City-owned sites evaluated

- 210 W. Elm
- 11 W. Elm



Findings:

- Demand exists for mid to high end property with ADR of \$125



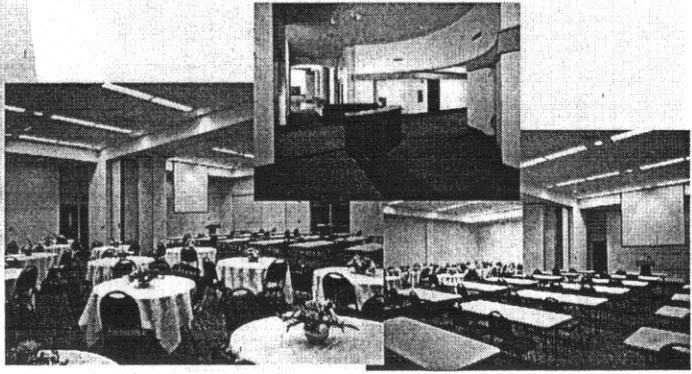
Target Market

- Winery visitors
- Business travelers
- Highway travel respite
- Tourists



Synergy with.....

Hutchins Street Square

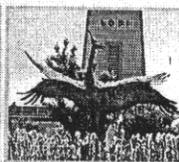




Synergy with....

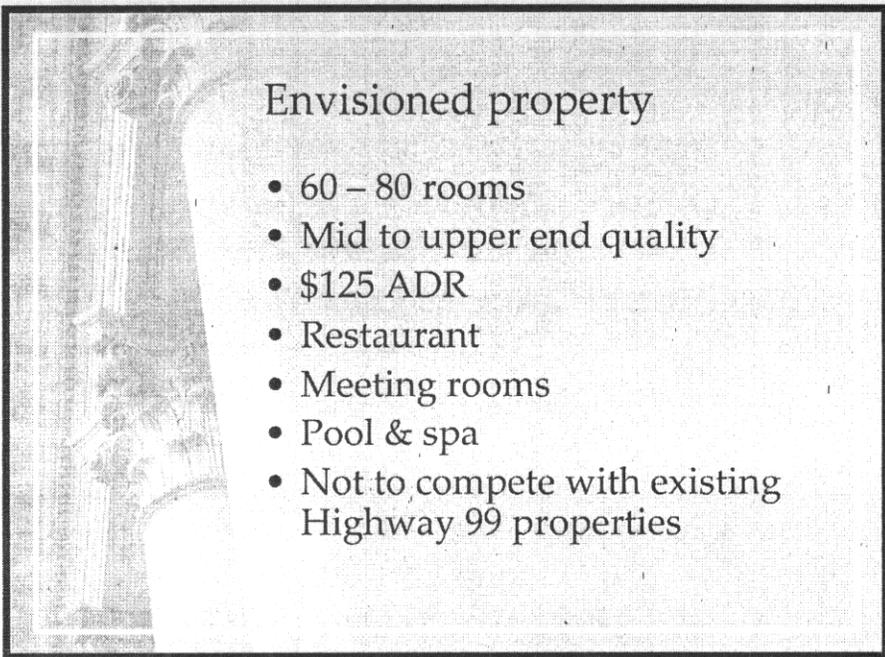


- Wine tasting rooms
- School Street
- Zinfest, Street Fair, Wine Strolls, Winter Wine Wander, Light Parade, Grape Festival, Sandhill Crane Festival



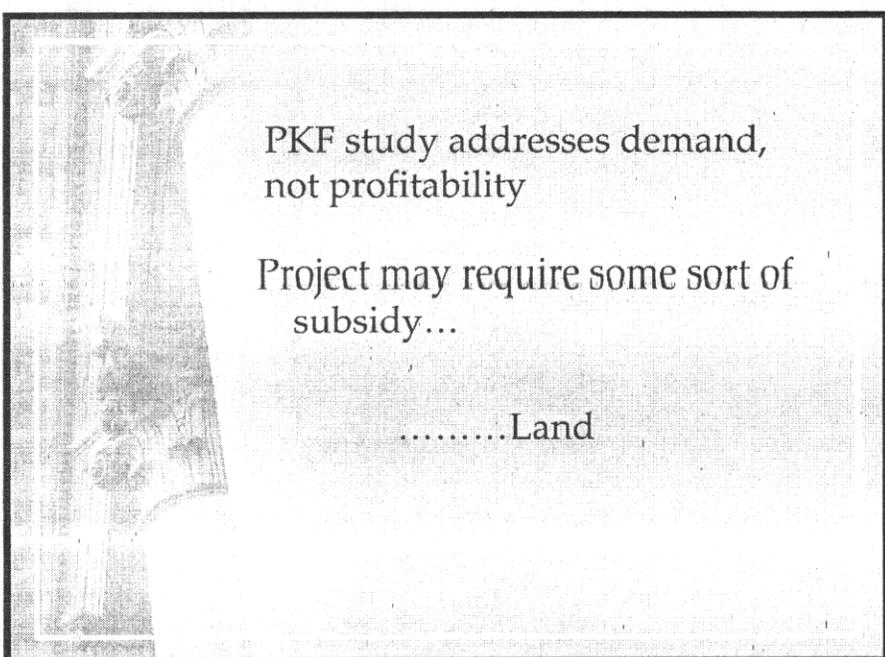
Developing tourism trade

- 60 wineries
- 30 tasting rooms
- \$350 million wine industry
- Events & attractions
- FOOD



Envisioned property

- 60 – 80 rooms
- Mid to upper end quality
- \$125 ADR
- Restaurant
- Meeting rooms
- Pool & spa
- Not to compete with existing Highway 99 properties



PKF study addresses demand,
not profitability

Project may require some sort of
subsidy...

.....Land



Questions...

- Return at future Council meeting for authorization to solicit development interest