



ANNUAL TOURISM REPORT 2007





Sonoma County 2007 Tourism Report



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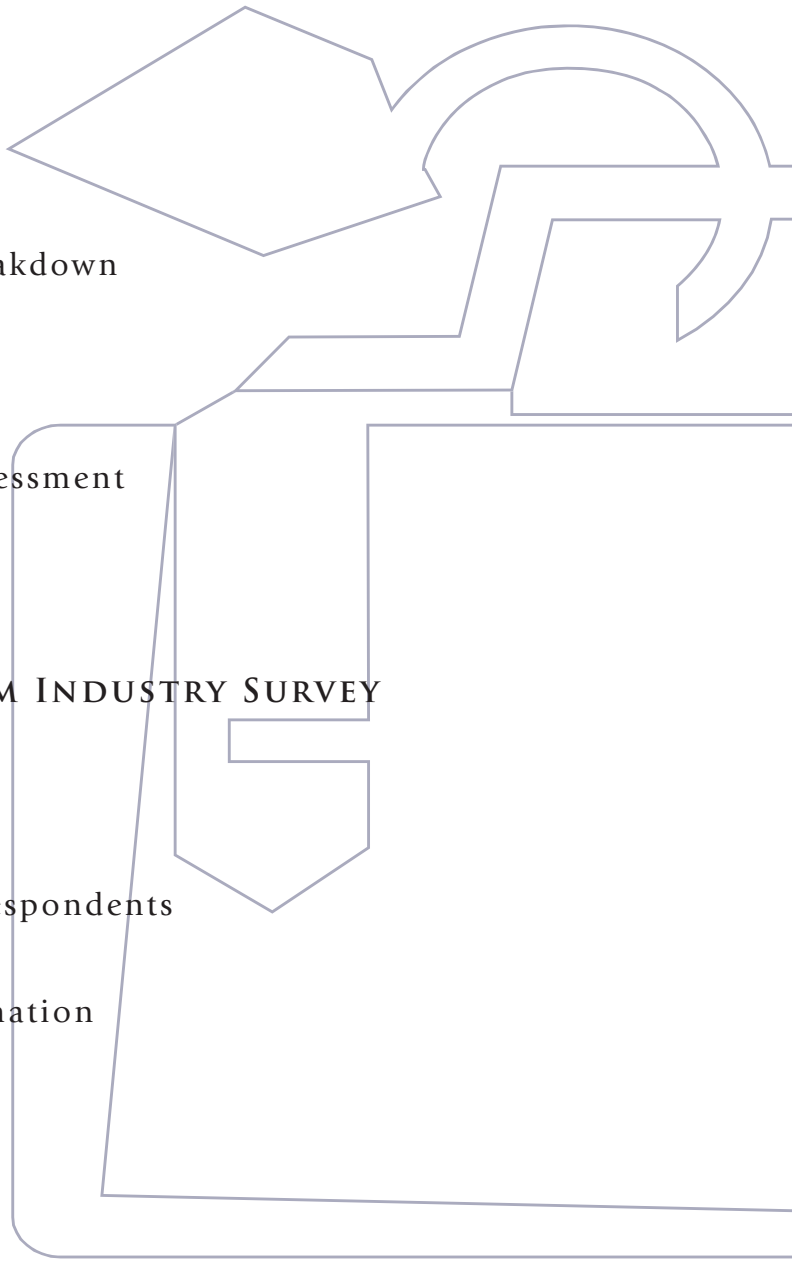
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2007

May 2007

The Sonoma County Economic Development Board (EDB), in partnership with the Sonoma County Tourism Bureau (SCTB), and in cooperation with the Sonoma County Workforce Investment Board (WIB), is pleased to bring you the *2007 Annual Tourism Report*. Our research partner, Moody's Economy.com, produced a portion of this report for the EDB.

Highlights from the *2007 Annual Tourism Report* include:

- Sonoma County's tourism industry has performed very well over the past year. Occupancy rates at area hotels averaged nearly 70% for the year, the highest since the local tourism industry weakened in 2001.
- Sonoma County's tourism-related employment has outpaced the nation and state since 2001.
- In the long run profitability in the county should remain strong, as demand for wine continues to grow, creating a firm base for winery-related visits. In addition, Sonoma County has successfully diversified attractions, which help to ensure a steady flow of profits from a variety of visitors with a wide array of interests.
- The expected further depreciation of the dollar against many major currencies will benefit the area. Since travel to the U.S. will be less expensive for foreigners, Sonoma County is likely to see increased travel by international visitors.

Thank you for your continued interest in the Economic Development Board's research. As always, if you have any questions, please feel free to contact us at 707-565-7170.

Sincerely,



Ben Stone
Executive Director

RECENT Trends. Sonoma County's tourism industry has performed very well over the past year. Occupancy rates at area hotels averaged nearly 70% for the year, the highest since the local tourism industry weakened in 2001. The strong performance was helped by broad-based strength in the national economy and increased presence of large hotel companies in the market. The outlook for 2007 is generally good, but the downside risks are increasing.

There is currently a brisk pace of development activity in Sonoma County's tourism industry. The projects currently underway are expected to increase the number of hotel rooms available by nearly 11%, according to the Sonoma County Economic Development Board. Half of the new rooms are slated to be finished by the end of this year. Included in the expansion are several larger hotel brands including the Hampton Inn and the Airport Hilton Garden Hotel, near Charles M. Schulz Airport.

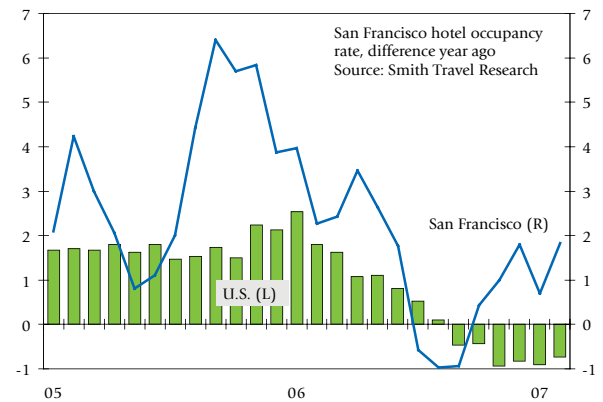
Sonoma County's airport is expected to see increased activity with the introduction of commercial air service to the area for the first time since 2001. Horizon Air, a subsidiary of Alaska Air Group, started service to Los Angeles and Seattle this spring. This is a very good indicator of the health of the local tourism industry and is sure to spur even more travel to the area, and the added ease of accessibility has the potential to promote Sonoma as a meeting destination for business, as well as leisure.

Hiring activity in Sonoma's leisure and hospitality industry has outpaced that of neighboring Napa throughout the past year with a strong upturn over the past few months. Retail trade employment has remained more robust in Sonoma overall, despite a modest dip at the end of the year.

The latest employment data show that job creation in leisure and hospitality was weaker last year than overall employment growth in Sonoma County, and it was also weaker than the national average for the industry. The county's industry employment grew by approximately 1.2% over the past year, while the growth rate in jobs for the industry was around 2.5% nationwide and 3% at the state level. However, job creation has picked up in the first couple of months this year, suggesting a good year ahead if the trend continues.

The fragile national housing market is largely responsible for slowing growth in the economy. As homeowners face weaker appreciation of their homes' values, their ability to borrow against their assets is waning. This may affect Sonoma disproportionately more just because of its location in northern California. House prices in and around San Francisco had appreciated at one of the most rapid rates in the nation over the past several years, and now they are, in turn, witnessing one of the sharpest corrections in the country. This could bode poorly for Sonoma, considering that a large share of its tourists come from the nearby San Francisco metro area. Many of these residents will be faced with less spending power as they see the value of their assets flatten out or even decline in some cases.

Regional Lodging Demand Benefits Sonoma's Tourism Industry



Stronger than average demand for lodging in nearby San Francisco is benefiting Sonoma tourism. Since Sonoma County is only a short drive from the city it stands to gain from tourism in the Bay Area as a whole. Hotel occupancy rates and hotel revenues in the San Francisco area are considerably higher than the national average. While occupancy has begun to decline in the U.S. as a whole, demand is proving to be steadier in northern California. Sustained corporate profitability is also helping to boost business travel, some of which is likely to end up in Sonoma County.

IN particular, the subprime segment of the mortgage market is unraveling, adding even more weight to the already overburdened housing market. The delinquency rate is close to 25% for subprime mortgage payments, according to data from Equifax. As more borrowers face rising mortgage payments as the interest rates on their adjustable rate mortgages rise, many are finding it much more difficult or impossible to finance their homes. This is leaving a larger share of the population with less cash left over to spend on leisure-related activities, including trips to Sonoma County.

Since so much of Sonoma's tourism industry is dependent on visitation from the surrounding area, the health of the regional economy is vital to the continued success of the tourism industry there. Aside from the slowdown in the housing market, the regional economy has improved over the past year. Job growth in the San Francisco metro area has accelerated and has been more robust than the national average through the latter half of 2006. This strong hiring activity has, in turn, helped to spur income growth in the area. Income growth outpaced the national average by more than a full percentage point in the fourth quarter, illustrating the continued strength of the local economy compared to the U.S. and boding well for spending on tourism in Sonoma County.

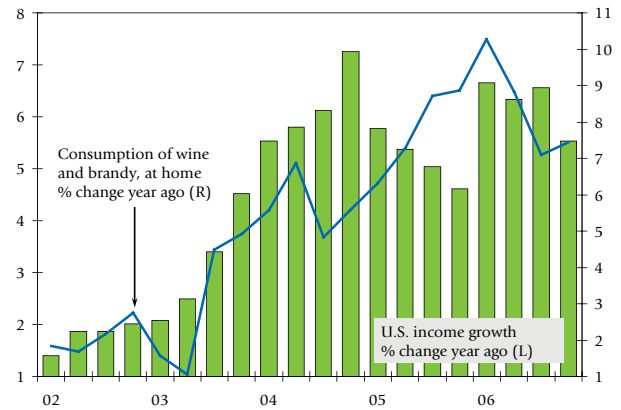
Industry Drivers. Since wine and the area's vineyards are such a large draw for tourism, the wine industry's strong performance over the past year is a good sign for the tourism industry. The wine consumer market has grown, indicated by a survey conducted by the Wine Market Council that shows over 17% of all adults in the country are considered core wine consumers. People in this category are classified as those that drink at least one glass of wine per week, and account for 90% of wine consumption.

Wineries in Sonoma County outperformed the rest of the state last year with an impressive grape harvest, after a record setting year in 2005. This is having an impact on the industry today, leading to the construction of new wine caves, hospitality centers and winery expansions.

A good indicator of the continued robustness of the local tourism industry is the nearly 12% increase in Transient Occupancy Taxes collected during the third quarter of 2006 on a year-ago basis, the most recent data available. Higher occupancy rates benefit the entire tourism industry as the taxes collected are reinvested in the local economy, including marketing efforts to promote the county as a tourist destination.

Air travel in the U.S. picked up in the fourth quarter, growing by 3% on a year-ago basis as measured by the number of revenue passenger miles traveled, according to the Air Transport Association. The fact that this occurred despite the increase in the national air travel price index, compiled by the Bureau of Transportation Statistics, bodes well for continued strong demand for tourism in Sonoma County.

Wine's Popularity and Income Growth Will Buoy Tourism



Wine sales continue to grow at a robust pace, albeit no longer at the record rate witnessed early in 2006. Nonetheless, the 7% increase in sales in the latter half of the year still bodes very well for Sonoma County tourism as it indicates that there is continued interest in vineyard visitation. Additionally, personal income growth has averaged a robust 6% over the past year implying that consumers have funding available to spend on leisure activities. Accordingly, with the popularity of wine increasing, strong demand for wine related tourism will be a key driver of Sonoma tourism revenues for the foreseeable future.

ALTHOUGH international travel to the U.S. is increasing, overseas visitation to the U.S. remains below 2001 levels by 17%, according to the Commerce Department. However, total international travel to the country is on the rise, increasing by 5% last year compared to 2005, with increased visitation from Canada largely responsible for the strong overall numbers.

Pricing. Pricing power among Sonoma's hotels is still elevated as demand for the area's tourism industry has remained strong over the past year. Hotel statistics for the nearby San Francisco market provide a good estimate of the industry's vitality. According to Smith Travel Research, occupancy rates at San Francisco's hotels are up nearly two percentage points for the fourth quarter 2006, while they were nearly flat for the state and declining at the national level. Since Sonoma is only about an hour north of San Francisco, these data provide a good guide regarding the condition of the local industry. Additionally, the average room rate in San Francisco was up more than 10% on a year-ago basis, exceeding both the state and national pricing. This strong demand has buoyed Sonoma's pricing ability.

The outlook for Sonoma's pricing appears sound, given the continued strong demand for leisure services, the growing popularity of wine and the continued depreciation of the dollar against major currencies. The weaker dollar will help to draw international travelers who will find visiting Sonoma County less expensive.

Sonoma has traditionally had the advantage of being considered a more affordable alternative to neighboring Napa Valley, but as its popularity grows Sonoma is finding itself able to sustain more aggressive pricing.

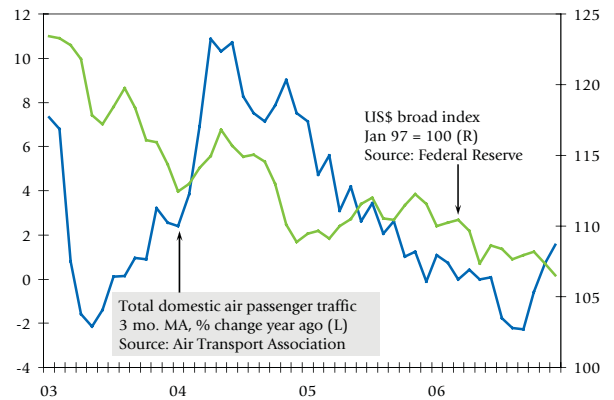
Operating Expenses. Increasing operating expenses will be one of the hotel industry's greatest concerns in 2007. The cost of running a hotel in the U.S. as a whole is expected to increase by nearly 5%, considerably outpacing the expected inflation rate, according to PKF Hospitality Research.

Since the hotel industry is more labor intensive than many other industries, it is very sensitive to wage pressures. Labor costs are estimated to account for 44% of total operating expenses. Labor costs increased by more than 6% nationwide last year, according to PKF Hospitality Research.

The leisure and hospitality industry in Sonoma County accelerated hiring toward the end of 2006 and this year. In January, payrolls expanded by 5% over a year earlier. However, wages in the industry are approximately half of the average for all industries combined. Also, wage growth has typically been weaker than average, limiting the cost increases that employers in the industry are likely to face in the near term.

Other fixed expenses include property taxes, utilities, management fees, franchise royalties and insurance. Many of these expenses have grown the most and are often more difficult to control than labor costs.

Stronger Domestic Travel and the Weakening Dollar Bode Well



The dollar's continued decline against most major currencies is helping to increase international travel to the U.S. and the Bay Area. While overseas travel to the U.S. has yet to rebound from the downturn that began in 2001, Canadian visitation is increasing at a robust rate and accounts for the majority of international visitation to the U.S. Looking ahead, continued dollar weakness will put upward pressure on other currencies, especially the heavily managed Asian currencies. Thus, stronger Asian currencies will help boost traffic, particularly from Japan. This augurs especially well for Sonoma County.

IMMIGRATION reform and the expansion of the H2-B visa program, which eases restrictions on temporary workers, will be important issues for Sonoma County's tourism industry in 2007. Reform could be a welcome development since it would allow for a larger pool of workers for many industry jobs.

Profitability. Nationwide, hotels are expected to experience their fourth consecutive year of profit growth in 2007. The average hotel is forecast to achieve an operating profit of almost \$16,000 per available room, according to PKF Hospitality Research. This is almost 10% above the estimate for 2006. This bodes well for Sonoma County's tourism industry, particularly as more hotels are owned by the large national companies.

Profitability is also expected to be positively influenced by revenue sources other than just room revenue. In fact, revenue growth from food and beverage, retail, recreation and other sources are expected to reach 6%, more than the 5% expected room revenue growth in 2007.

In the long run, however, profitability in the county should remain strong, as demand for wine continues to grow, creating a firm base for winery-related visits. In addition, Sonoma County has successfully diversified the attractions that it offers to include spas, restaurants, outdoor activities, golf courses, equestrian facilities and theatres, thereby helping to ensure a steady flow of profits from a variety of visitors with a wide array of interests. The weakening dollar may offset some of the anticipated slackening in domestic demand in the near term by attracting foreign visitors who tend to spend more per day than domestic visitors.

Long-Term Outlook. The long-term outlook for Sonoma County's tourism industry is positive. The region is growing in recognition and its proximity to Bay Area attractions will continue to support tourist traffic. Moreover, the continued strong popularity of wine and the wine-related culture underpin the positive fundamental outlook for the industry.

Demographic trends suggest healthy longer-term prospects as well. Baby boomers are nearing retirement age with well-developed tastes for travel and recreation, in addition to the discretionary income to fund these tastes. Wine consumption is growing among all generational segments, according to MKF Wine Business Advisors. Baby boomers are leading the way, but interest in wine is growing among not only women but also men and nearly all ethnic groups. Thus, as baby boomers retire in the years to come, they are expected to generate a great deal of travel to the area.

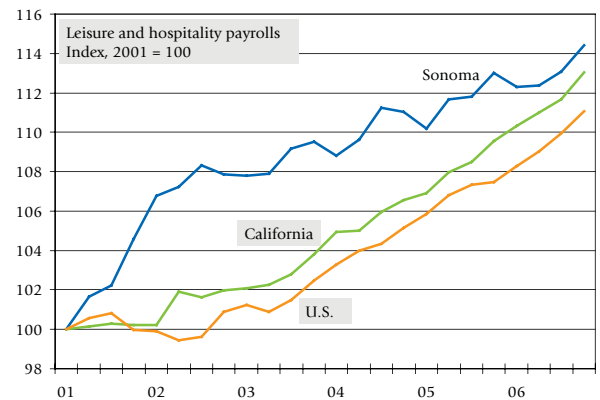
Upside Risks. A large portion of the visitors who come to Sonoma County have traditionally been from higher-income households and would therefore be less sensitive to the housing market downturn and the slowdown in the national economy. Demand for the high-end tourism that Sonoma County is able to provide through food, wine and golf could remain stronger than we expect, if the structure of the tourism market there remains heavily weighted toward the upper-income bracket.

Another potentially beneficial risk to Sonoma County would be the wine industry's success in broadening its demographic market and attracting a more diverse group of tourists. This would increase the number of visitors that are interested in visiting wineries and vineyards in Sonoma County and would bring residual revenues to all other tourism-related businesses in the area.

Downside Risks. Hotels have been planning to build more moderately priced properties, hoping to accommodate more visitors with moderate income levels. However, these visitors are generally more sensitive to risks associated with the housing market downturn that we are currently experiencing. Therefore, these new lower priced properties may not see the strong demand that they had hoped.

Another rise in oil prices would pinch consumer spending, particularly for nonessential items like travel, and put pressure on local operating costs. With the summer travel season approaching, we are expecting demand for gas to increase, driving up prices from their already elevated levels. Additionally, increased uncertainty in the geopolitical climate will increase the risks of another spike in crude oil prices, possibly weighing on travel to Sonoma County.

Sonoma's Tourism Industry Payrolls Are Pushing Ahead



Sonoma County's tourism-related employment has outpaced the nation and state since 2001. However, job creation has moderated somewhat in comparison to the faster rate of growth experienced elsewhere in the past several years. Sonoma County's leisure and hospitality payrolls initially rebounded much more quickly after the downturn in 2001, but their growth rate seems to have leveled off since. Nonetheless, the industry appears very healthy, considering the anticipated addition of more hotels this year, which is expected to increase the supply of rooms by about 10%.

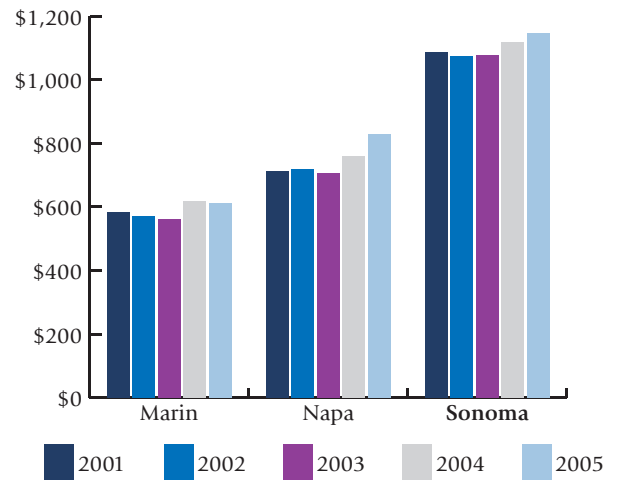
DESTINATION spending is the total amount spent by visitors in Sonoma County, including accommodations, wine tasting, retail spending and more. After falling in 2002, spending rose for three consecutive years, increasing 6.8% to \$1.14 billion in 2005. While data is not yet available, it is expected that destination spending hit a record high in 2006.

Annual real growth rates for Sonoma County tourism spending steadily increased since 2002. In 2005, real visitor spending in Sonoma County increased by 2.5%. Sonoma County's growth is roughly similar to spending growth statewide over the past five years. While statewide spending growth is somewhat stronger, Sonoma County experienced a milder decline in 2001. From 2001-2002, Sonoma County visitor spending declined by 1.2%, significantly less than the statewide decline of 2.5%.

Destination spending in Marin, Napa and Sonoma Counties totaled \$2.58 billion in 2005, an inflation-adjusted increase of 3.6%. Sonoma County continues to generate the highest amount of destination spending (\$1.14 billion), nearly 45% of all of the three North Bay counties combined. Marin and Napa generate 23% and 32%, respectively.

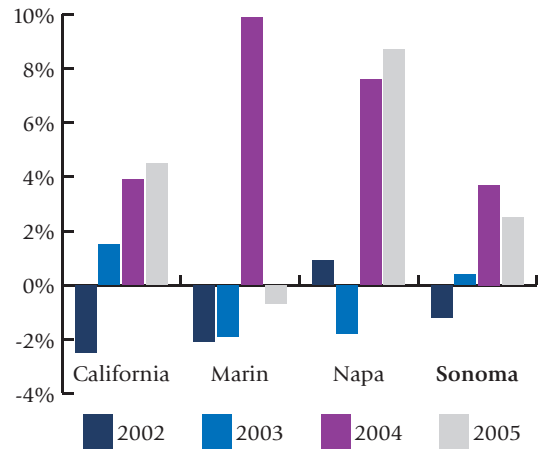
On a per-capita basis, however, Sonoma County generates \$2,461 of destination spending; a similar amount to Marin's \$2,481, but well below Napa's per-capita spending of \$6,234, yet slightly above the average for the entire state's \$2,449. Sonoma County also experienced moderate growth in comparison to its neighbors destination spending. In 2005, Marin and Napa had 4.9% and 16.1% more destination spending, respectively, than in 2001. Sonoma County experienced a 5.5% increase in the same period. This difference is partly due to Marin's decrease of destination spending and Napa's strong growth in 2005. While Sonoma County spending increased by a healthy 2.5%, Marin experienced a slight decline of -0.7% and Napa experienced growth rates of 8.7%.

DESTINATION SPENDING, 2001 - 2005
(MILLIONS OF 2005 \$)



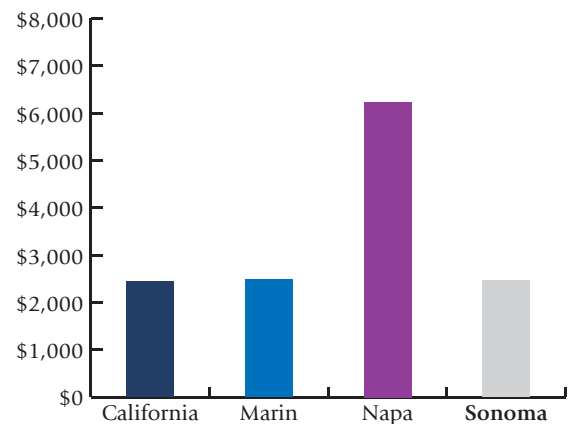
Source: California Travel Impacts by County, 2006 Preliminary State Estimates; Prepared for the California Travel & Tourism Commission by Dean Runyan and Associates, 2006; Adjusted for Inflation using the US Bureau of Labor Statistics Consumer Price Index

DESTINATION SPENDING ANNUAL REAL GROWTH RATES, 2001 - 2005



Source: California Travel Impacts by County 2006; US Bureau of Labor Statistics

DESTINATION SPENDING PER CAPITA, 2005



Source: California Travel Impacts by County 2006; 2005 US Census Estimates; US Bureau of Labor Statistics

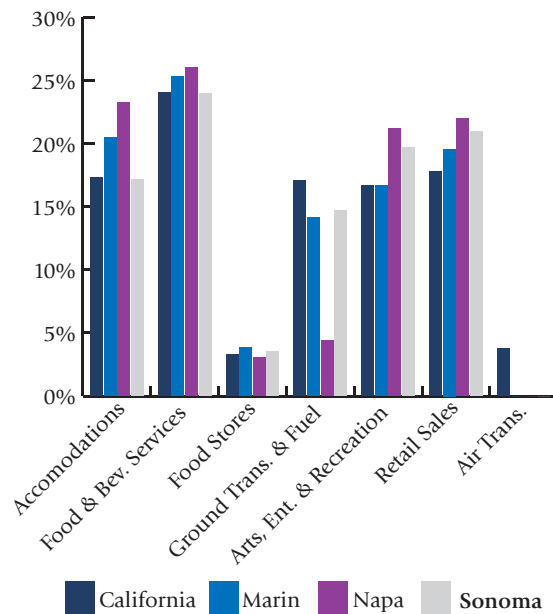
THE DISTRIBUTION of products and services on which visitors choose to spend tends to be similar across different regions in California, but there are several areas in which Sonoma County appears to be somewhat unique when compared to the State, Marin County, or Napa County. Visitors to Sonoma County devote a slightly smaller share of their spending to accommodations – 17.2% of all spending, compared to 20.5% in Marin, 23.3% in Napa, and 17.3% in California as a whole. This may imply that a disproportionate share of visitors to Sonoma County are day visitors - even when compared to Marin. There is no clear area of spending in which Sonoma County is “overrepresented.” Compared to California, Sonoma County visitors spend a larger share on Food Stores, Arts, Entertainment, and Recreation, and Retail Sales. But, compared to the Napa, visitors to Sonoma County spend a disproportionate share on Ground Transportation and Motor Vehicle Fuel.

As noted above, Sonoma County appears to be a disproportionately “day visitor” location. Compared to both the entire State and the North Bay counties, a sharply smaller share of visitor spending in Sonoma County comes from visitors who are staying in a Hotel or Motel (43.3% compared to 52.3%, 51.9% and 65.1% for the State, Marin and Napa, respectively). Instead, a large share of Sonoma County visitor spending comes from day travelers 31.8%, compared to 22.6% for Marin, 26.9% for Napa, and 24.9% for the entire State.

Although it represents a smaller share of spending, 9% of a Sonoma County visitor spending is from visitors staying in vacation homes, compared to 4.4%, 5%, and 2.4% for the State, Marin, and Napa, respectively.

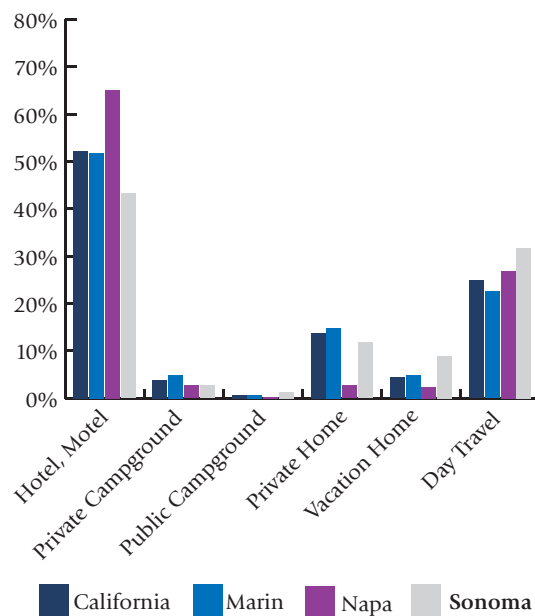


DISTRIBUTION OF VISITOR SPENDING BY COMMODITY, 2005



Source: California Travel Impacts by County 2006

DISTRIBUTION OF VISITOR SPENDING BY ACCOMMODATION, 2005



Source: California Travel Impacts by County 2006

TRAVEL spending in Sonoma County has a significant impact on the local economy, contributing more than five percent of local employment and \$356 million in 2005 annual wages.

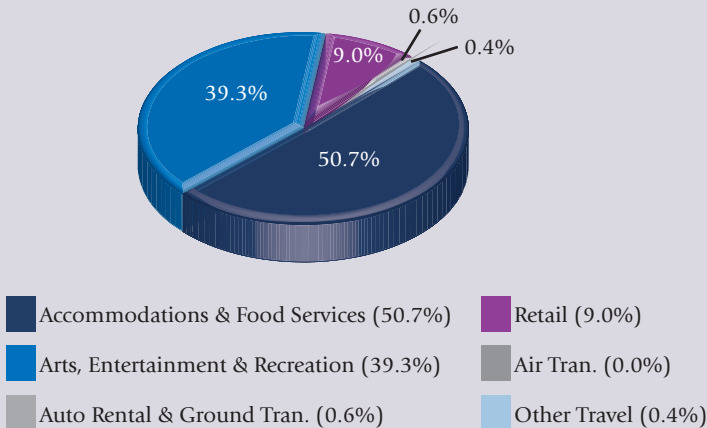
Tourism-related employment decreased 0.8% in 2005 to 15,460 jobs. Of those, 50.7% were in accommodations or food service, and 39.3% were in arts, entertainment and recreation.

Employment is nearly 1,000 jobs below its 1999 peak and earnings from travel-spending is at \$356 million, an inflation adjusted decrease of 1.0 % since 2003, however, earnings are still more than \$2,000,000 above 2000 figures. For comparison, travel spending in California generated \$27.4 billion in earnings in 2005, a 0.4% decrease from 2004, and directly supported 910,000 jobs, growth of 1.6% on the previous year.

As a result of its higher destination spending, employment levels in Sonoma County's tourism industry are greater than in Napa or Marin County. Recently, however, Napa experienced a large increase in tourism employment while Sonoma and Marin Counties' tourism workforce has declined. Accordingly, Sonoma County's per-employee earnings from travel spending have increased considerably in relation to Marin and Napa Counties. In the period between 2001 and 2005, Sonoma County's per-employee earnings increased 3.0%, after adjusting for inflation. In the same period, Marin saw a decrease of 3.6%, and Napa saw a substantial decline of 11.9%.

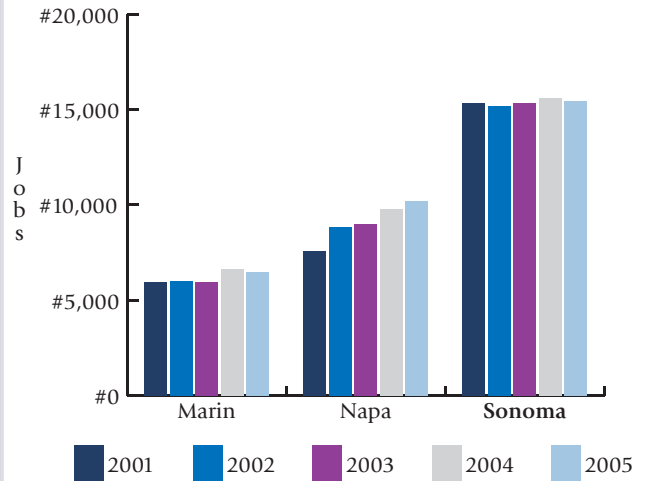
This growth helped Sonoma County reduce its historical gap in per-employee earnings. In 1998, Sonoma County's earnings per employee were less than 59% of Marin's, and less than 80% of Napa County's. In 2005, Sonoma County's earnings per employee were more than 89.2% of Napa County's, and 64.2% of Marin's.

SONOMA COUNTY TOURISM EMPLOYMENT BY INDUSTRY, 2005



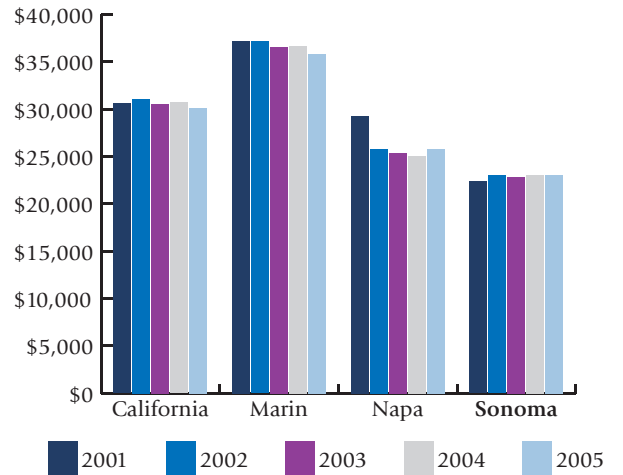
Source: California Travel Impacts by County 2006

EMPLOYMENT GENERATED BY DESTINATION SPENDING, 2001 - 2005 (# OF JOBS)



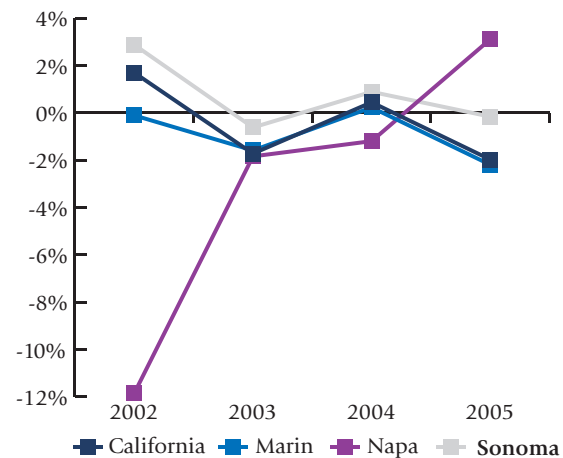
Source: California Travel Impacts by County 2006

TOURISM INDUSTRY EARNINGS PER EMPLOYEE, 2001 - 2005 (2005 \$)



Source: California Travel Impacts by County 2006; US Census 2005; US Bureau of Labor Statistics

TOURISM INDUSTRY EARNINGS PER EMPLOYEE REAL GROWTH RATES, 2002 - 2005



Source: California Travel Impacts by County 2006; US Census 2005; US Bureau of Labor Statistics

SONOMA County occupancy rates improved 4.2% to 64.8% in 2006. Occupancy rates in all of Northern California, for comparison, worsened 0.7% to 59.8%.

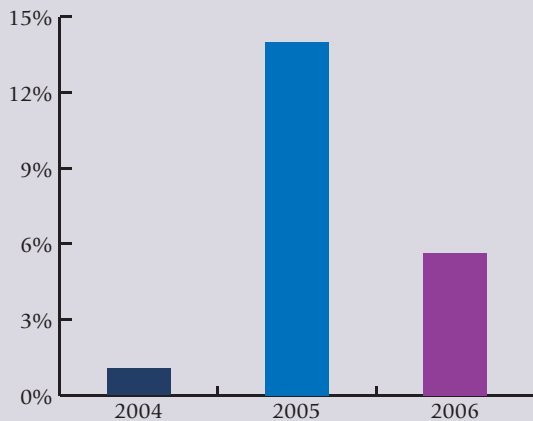
While Sonoma County's occupancy rates are still well below levels in the second half of the 1990's, they have improved for three consecutive years since reaching a low in 2003.

Recent revenue per available room (RevPAR) data suggests that room revenue in Sonoma County is growing at a rapid pace. Total room revenue in Sonoma County grew by 5.6% in 2006, after adjusting for inflation. Preliminary data suggests that room revenue will grow nearly as quickly in 2007. These two years of growth follow declines in 2001-2003, and moderate growth, 1.1% inflation-adjusted, in 2004.

Contributing to overall revenue growth are increases in average hotel room rates. While rates vary greatly over the course of a year, on an annual basis rates have grown from \$112.90 per night in 2005 to \$114.50 per night in 2006. This growth follows a decrease of 2.1% in 2003 - 2004.

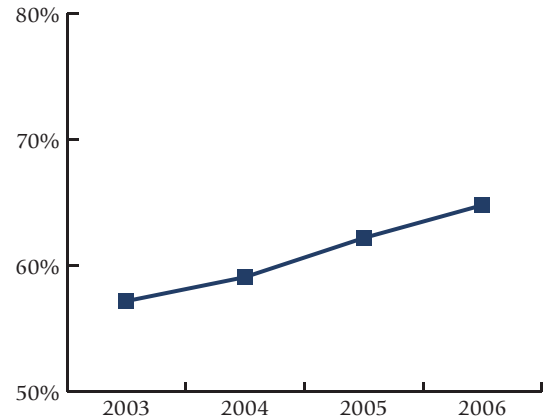
As page eight illustrates, visitors staying in hotels and motels are the single largest source of visitor spending in Sonoma County, with more than \$429 million in visitor spending in 2005. Day travelers, as well as those staying in private or vacation homes, contribute most of the rest of the county's visitor spending.

REVENUE PER AVAILABLE ROOM (REVPAR)
REAL GROWTH RATES, 2004 - 2006



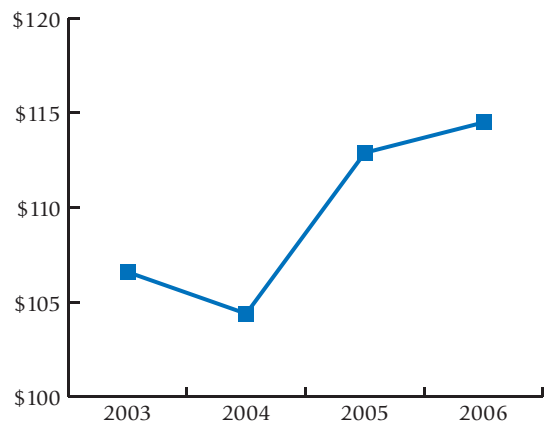
Source: Smith Travel Research, California Travel & Tourism Commission

HOTEL OCCUPANCY RATES IN SONOMA COUNTY



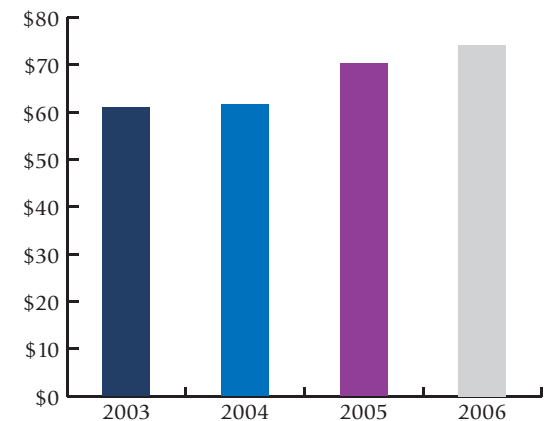
Source: Smith Travel Research, California Travel & Tourism Commission

AVERAGE HOTEL ROOM RATES IN SONOMA COUNTY (2006 \$)



Source: Smith Travel Research, California Travel & Tourism Commission

REVENUE PER AVAILABLE ROOM (REVPAR)
(2006 \$)



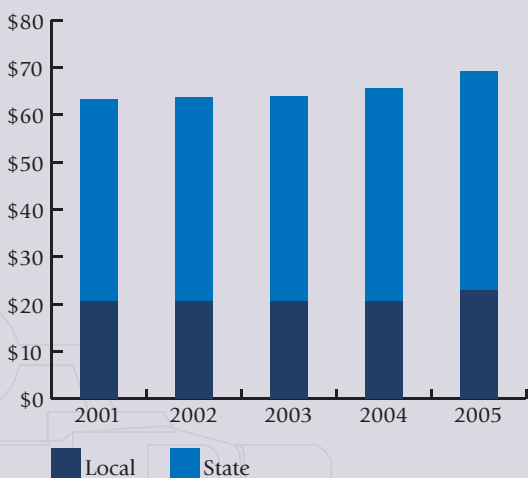
Source: Smith Travel Research, California Travel & Tourism Commission

TRANSIENT Occupancy Tax (TOT) is a local tax on room rental revenue in lodging establishments located in Sonoma County. TOT revenues in Sonoma County increased 9.4% to \$16.4 million in 2005, the highest rate of increase in the previous four years. Rising TOT revenues seem likely in 2006 - revenues in the 1st Quarter in 2006 were more than 7.8% higher than they were one year prior.

Revenues from TOT are divided between the County of Sonoma (which receives revenue from lodging properties in unincorporated regions) and the individual cities in the county. Collectively, the incorporated cities received 63% of all revenue in 2005, while the County received 37%. This distribution has shifted over time; in 1997, cities received 54% of all TOT revenue.

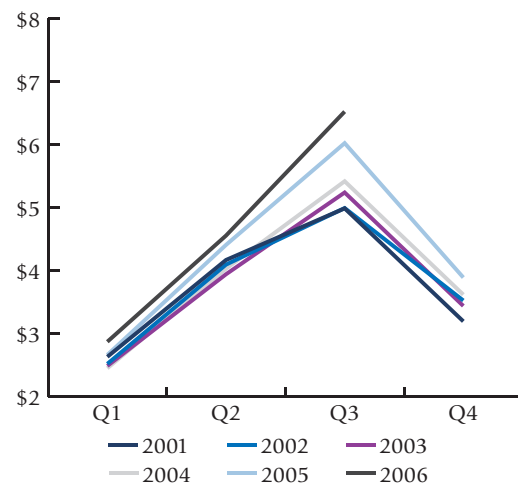
The spending by day travelers and overnight visitors to Sonoma County generate a significant amount of taxes paid to the state and local governments including sales tax and transient occupancy tax. Total local taxes collected, including TOT, from visitors to Sonoma County in 2005 were estimated at \$23 million, a 12.4% increase from 2004 (20.5 million). These tax receipts also create a source of revenue for the state government, contributing approximately \$46.2 million in 2005.

TAX RECEIPTS GENERATED BY TRAVEL SPENDING, 2001 - 2005 (MILLIONS OF 2005 \$)



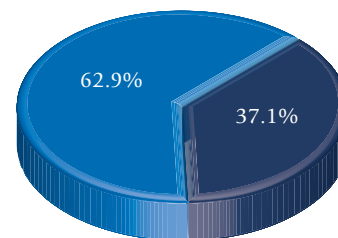
Source: California Travel Impacts by County 2006; US Census 2005; US Bureau of Labor Statistics

SONOMA COUNTY TOT BY QUARTER, 2001 - Q3 2006 (MILLIONS OF 2006 \$)



Source: Sonoma County Tourism Research Program and the Sonoma County Economic Development Board; US Bureau of Labor Statistics

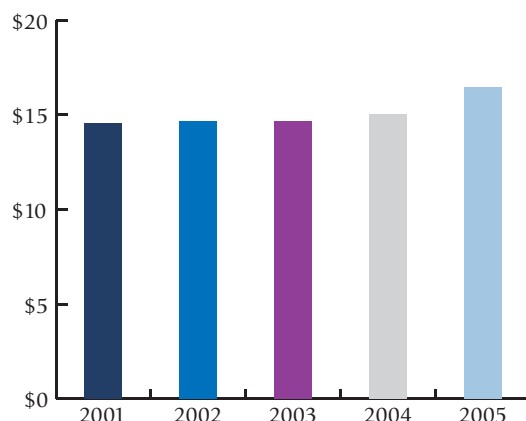
COUNTY & CITIES' TOT REVENUE BREAKDOWN, 2005



Cities (62.9%) County (37.1%)

Source: Sonoma County Tourism Research Program and the Sonoma County Economic Development Board; US Bureau of Labor Statistics

SONOMA COUNTY ANNUAL TOT, 2001 - 2005 (MILLIONS OF 2005 \$)



Source: Sonoma County Tourism Research Program and the Sonoma County Economic Development Board; US Bureau of Labor Statistics

THE Sonoma County Economic Development Board (EDB) recently updated its 2002 survey of Sonoma County lodging properties in relation to the tourism industry. Owners and executives of over 100 lodging properties rated their confidence in the industry and identified changes and needs they expect at their businesses in the near future.

Key Findings include:

- Lodging property respondents feel local government can make a positive difference in the tourism industry by focusing efforts and resources on strategic marketing outside Sonoma County and by assisting with licensing and permits.
- Most respondents believe Sonoma County's wine reputation and culture help attract visitors.
- Lodging properties find it somewhat difficult locating and hiring skilled labor. 69 percent of respondents intend to hire additional employees over the next 12 months.
- The Internet is the most widely used marketing channel, with 86 percent of lodging properties using the web to market.
- Considered very useful for Sonoma County to explore new programs for culinary/wine tourism and cultural heritage tourism.
- The demographic profile of responding lodging properties is well diversified, ranging from bed and breakfast operations with 1 employee to hotel and resorts with over 100 employees. 65% of responding lodging properties have 1 - 14 employees.



PRIMARY business focus. The following table indicates the percentage breakdown of the hospitality industry businesses responding to the survey. The “other” category represented 26.9 percent of responding hospitality industry businesses, followed by Full-Service Lodging (24.7%), Vacation Rentals (20.4%), Limited-Service Lodging (15.1%), Bed & Breakfast (B&B) (18.3%), and Campground (3.2%). The “Other” category includes miscellaneous businesses such as resorts, spas, restaurants, and wineries. The surveyed businesses reflect the diverse strength of Sonoma County’s tourism industry.

LODGING CLASSIFICATIONS:

FULL-SERVICE LODGING

Usually high-rise establishments, offering a full range of on-premises food and beverage service, cocktail lounge, entertainment, conference facilities, shops and recreational activities. Wide range of services provided by uniformed staff on duty 24 hours.

VACATION RENTALS

These properties are fully furnished condominiums, town homes or single-family-style homes - featuring amenities such as games, beach equipment, DVD libraries, and a stocked kitchen - rented out on a temporary basis to tourists as an alternative to a hotel.

BED & BREAKFAST

Smaller establishments emphasizing a more personal relationship between operators and guests. Guest units tend to be individually decorated. Rooms may not include some modern amenities and may have a shared bathroom. Usually owner-operated, with a common room, separate from the innkeeper's living quarters, where guests and operators can interact during evening and breakfast hours. A continental or full, hot breakfast is served and is included in the room rate.

LIMITED-SERVICE LODGING

Only the basic services and facilities are available. Self-service aspects are predominant. Commonly, a continental breakfast may be offered rather than having a restaurant on premises.

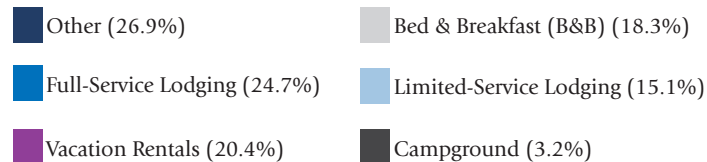
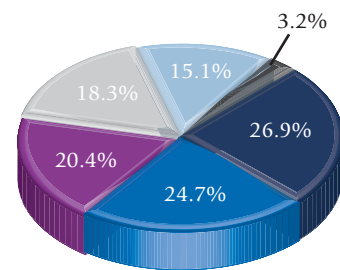
CAMPGROUND

A place used for overnight stay in the outdoors, where an individual, family, or group may camp. Consists of open pieces of ground where a camper can pitch a tent or park an RV. Some campsites have amenities including fire pits, picnic tables, utility hookups, shower facilities and more.

Source: AAA, www.aaa.com

Hospitality Classification Breakdown	Percent (%)
Other	26.9%
Full-Service Lodging	24.7%
Vacation Rentals	20.4%
Bed & Breakfast (B&B)	18.3%
Limited-Service Lodging	15.1%
Campground	3.2%

DEMOGRAPHIC PROFILE OF RESPONDING HOSPITALITY BUSINESSES, 2007



Source: Hospitality Survey 2007, Economic Development Board



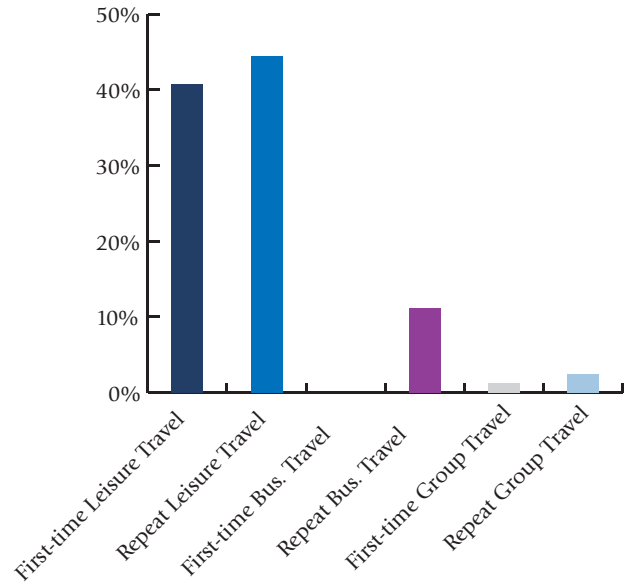
VISITOR & CUSTOMER BREAKDOWN

EACH year Sonoma County lodging properties host over seven million visitors. These visitors are the catalyst for local economic vitality, contributing over \$1 billion to the area's economy each year. Sonoma County's award-winning wineries, spa experiences, and miles of scenic Pacific Ocean coastline draw both domestic and international visitors.

When broken out into segments, the majority of Sonoma County travelers visit from the U.S. - outside of California - approximately 22.7% of all travel to Sonoma County. 19.2% of visitors make the trip from San Francisco, 11.2% from "other California," and 4.7% of visitors originate from international destinations.

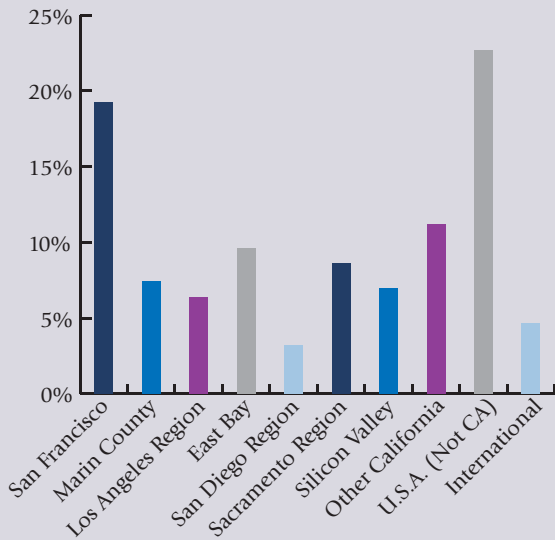
Visitors travel to Sonoma County for both leisurely getaways and business. According to the California Travel and Tourism Commission and D.K. Shifflet & Associates, however, the vast majority of the 7 million visitors to Sonoma County in 2005 were leisure travelers. Accordingly, local lodging properties also classify the majority of their clientele as repeat leisure (44.4%) and first-time leisure traveler (40.7%) - illustrating that Sonoma County's allure as a travel destination is attracting and retaining new leisure visitors. Opportunity exists to attract new business travel to Sonoma County.

VISITOR & CUSTOMER MIX, 2007



Source: Hospitality Survey 2007, Economic Development Board

SONOMA COUNTY VISITOR & CUSTOMERS' BREAKDOWN, 2007



Source: Hospitality Survey 2007, Economic Development Board

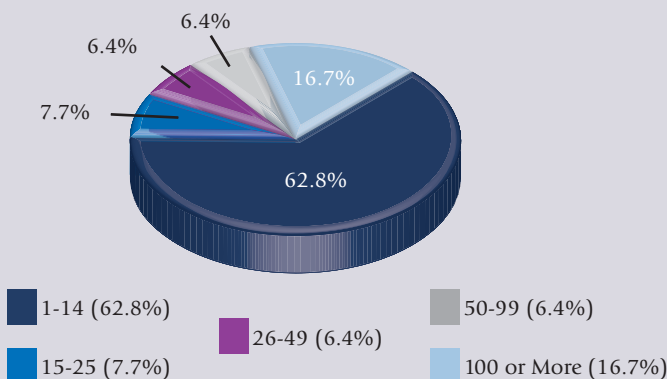


THE tourism industry encompasses accommodation establishments, food and beverage services, food stores, transportation providers, arts, entertainment, recreation, retailers, and many others. All of these industries benefit from tourism as visitor expenditures contribute revenue and sustain over 15,000 jobs in Sonoma County. 62.8% of lodging properties have 1 - 14 employees whereas 16.7% had 100 or more. Laborers and management led the list of types of employees that respondents have difficulty finding. Professional, skill trade, office support, sales/marketing, and technical workers followed. Types of employees grouped in the "Other" category include housekeepers, website maintenance, and accountants.

Respondents also identified the types of skills required for their businesses. Customer service and the ability to learn on the job are fundamental to employment in the tourism industry. Knowledge of the region also ranked high, followed by computer skills, clerical skills, sanitation, physical ability, sales and marketing, bookkeeping skills, management, cooking, and first aid/CPR. Skills grouped in the "Other" category included wine knowledge and housekeeping.

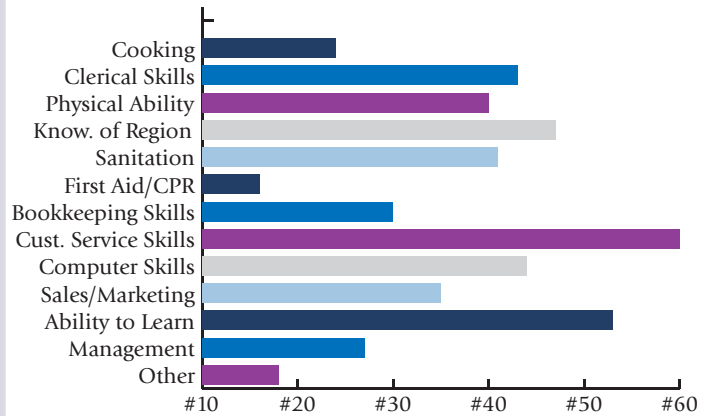
Numerous respondents indicated having difficulty finding skilled employees. 63% of lodging establishments find it somewhat difficult, difficult, or very difficult to hire skilled employees. Respondents gave a variety of reasons to explain the difficulty of finding skilled employees, including competition and low pay. Although not as dramatic as the difficulty of finding skilled employees in Sonoma County, 29% of respondents indicated having a somewhat difficult, difficult, or very difficult time finding unskilled employees. Reasons given for the difficulty of finding unskilled employees focused on transportation issues.

HOSPITALITY INDUSTRY RESPONDENTS
BREAKDOWN BY NUMBER OF EMPLOYEES



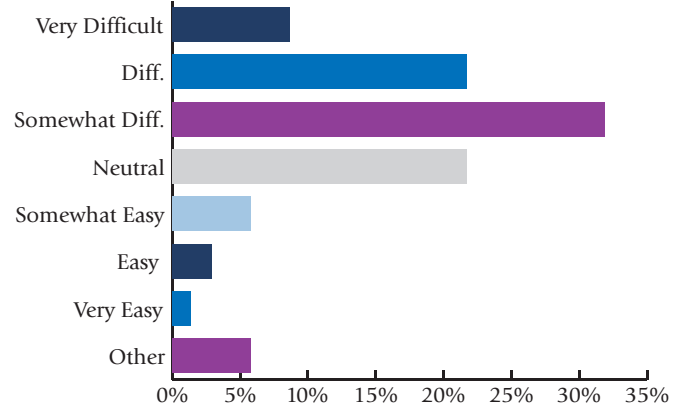
Source: Hospitality Survey 2007, Economic Development Board

LABOR SKILLS NEEDED (# OF RESPONDENTS)



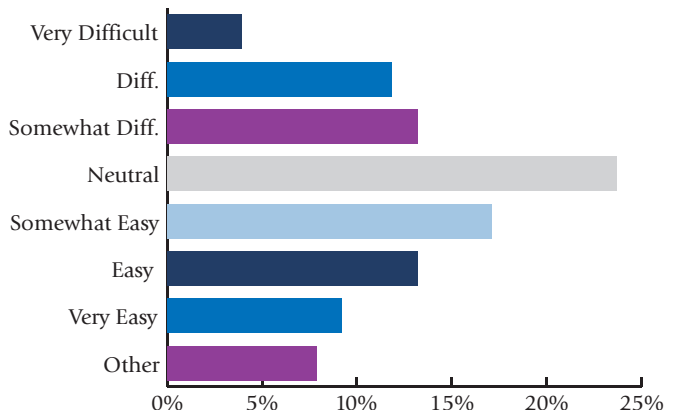
Source: Hospitality Survey 2007, Economic Development Board

DEGREE OF DIFFICULTY FINDING SKILLED EMPLOYEES



Source: Hospitality Survey 2007, Economic Development Board

DEGREE OF DIFFICULTY FINDING UNSKILLED EMPLOYEES



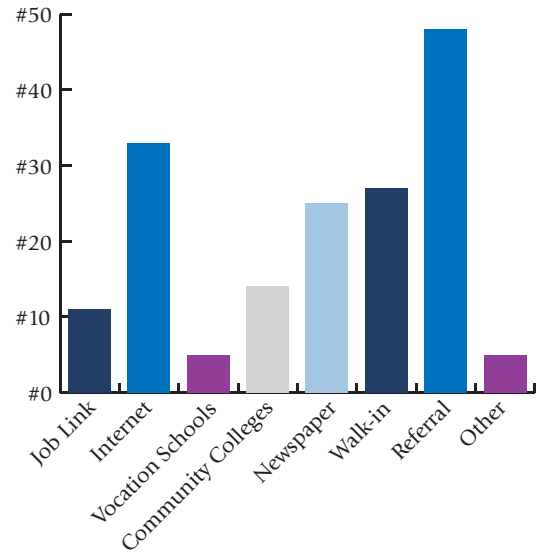
Source: Hospitality Survey 2007, Economic Development Board

RESPONDENTS indicated that 53 percent of employees in hospitality businesses have at least a high school education. Only 8.6 percent of tourism-related employees have a college degree or higher.

Sonoma County lodging establishments use an array of avenues to obtain employees. Referrals top the list of channels used to locate potential employees, with almost 50 respondents use this method. Then internet, walk-ins, newspapers, and advertising at the community college are the next four preferred options. "Other" avenues include Craigs list and word of mouth.

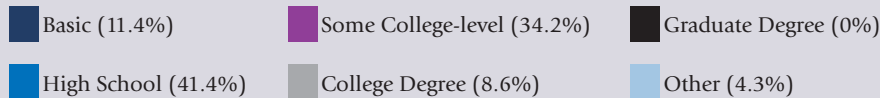
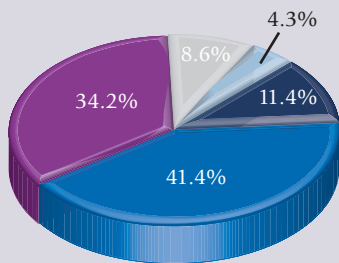
As page 15 illustrates, it is difficult to find both, skilled and unskilled employees. The cost of living in Sonoma County, relatively low wages in the tourism industry, and a general lack of skills and expertise in specific industry knowledge led the list of obstacles lodging properties face when hiring. Obstacles in the "Other" category include commuting, lack of interest, perceived low career growth, and the seasonality of the tourism industry.

HIRING CHANNELS (# OF RESPONDENTS)



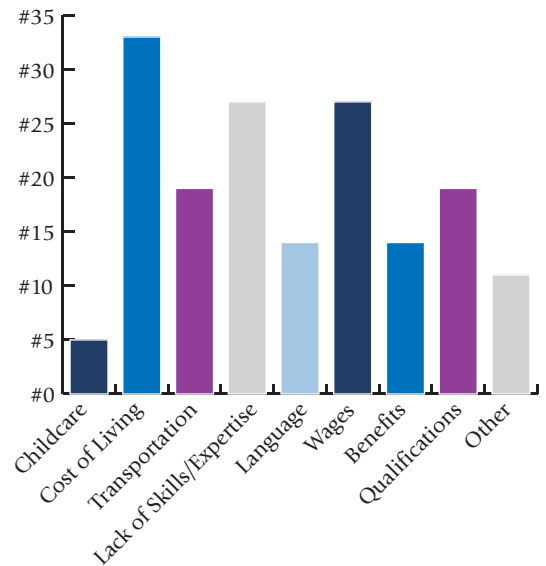
Source: Hospitality Survey 2007, Economic Development Board

AVERAGE LEVEL OF EDUCATION OF EMPLOYEES



Source: Hospitality Survey 2007, Economic Development Board

HIRING OBSTACLES (# OF RESPONDENTS)



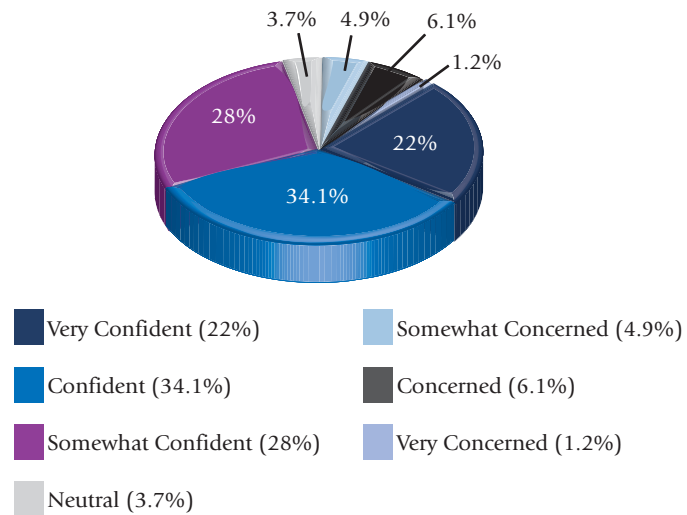
Source: Hospitality Survey 2007, Economic Development Board

HOSPITALITY properties are confident in the tourism portion of their business for the upcoming year. Over 80% of the responding lodging establishments had a somewhat confident, confident, or very confident outlook for their operations, with 22% feeling very confident. Only a small portion of the businesses felt somewhat concerned, concerned, or very concerned - 12.2%, with only 1.2% very concerned.

28% of respondents indicated that they expanded operations within the past 12 months. The primary reason for expansion was increased demand for products and services.

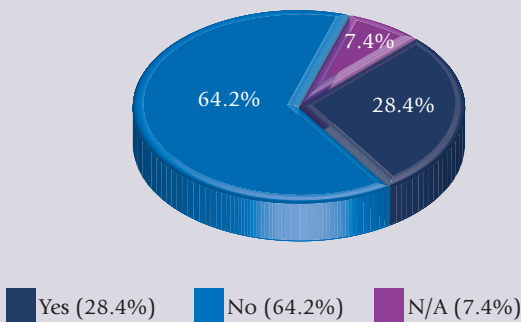
When expanding a business, access to capital is usually a challenge. Access to capital, however, is not a problem in the businesses for 78% of respondents. With 28% percent of Sonoma County lodging properties expanding in the past 12 months, it appears that most hospitality businesses financed expansions through their own capital or had no problem accessing capital outside their own resources.

HOSPITALITY INDUSTRY CONFIDENCE OVER THE NEXT 12 MONTHS



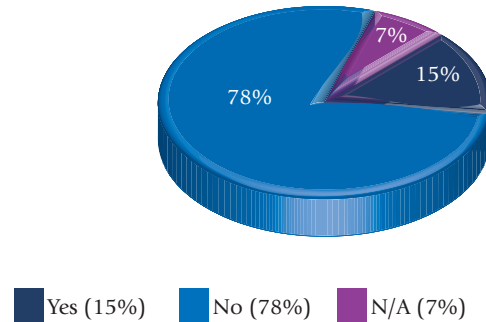
Source: Hospitality Survey 2007, Economic Development Board

PERCENTAGE OF LODGING PROPERTIES THAT EXPANDED OVER THE LAST 12 MONTHS



Source: Hospitality Survey 2007, Economic Development Board

IS ACCESS TO CAPITAL A PROBLEM FOR LODGING PROPERTIES?



Source: Hospitality Survey 2007, Economic Development Board



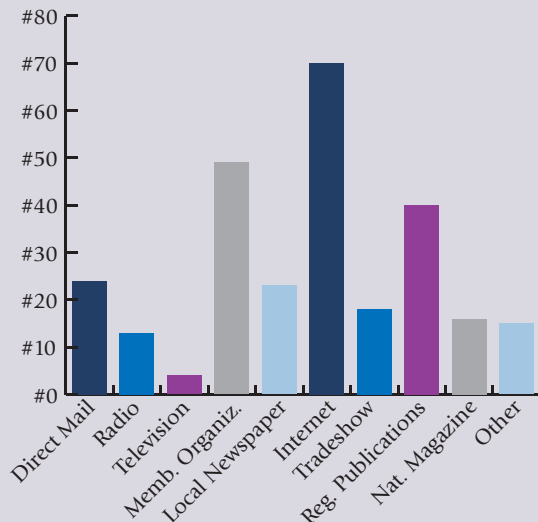
SONOMA County's tourism industry is a diversified market of service-oriented businesses and segmented customer markets. This diversification results in a wide range of marketing channels employed by businesses to reach out to customers.

It is clear, however, that responding hospitality establishments believe that the local government could focus tourism industry support through strong, focused marketing activities such as targeted campaigns outside Sonoma County. County government could also assist lodging properties by streamlining licensing and permit application as well as working with other local agencies to provide hospitality focused education and training. Over 70 respondents suggested local promotional agencies should also focus their efforts on marketing. Travel data, specifically tourist trends and industry trends, is also an area local promotion agencies can help the hospitality industry.

Reflecting the increase in the provision of travel-related information and services on the Internet, respondents identified the Internet as the most widely used marketing channel. Membership organizations, regional publications, direct mail, and local newspaper are also frequently used marketing avenues.

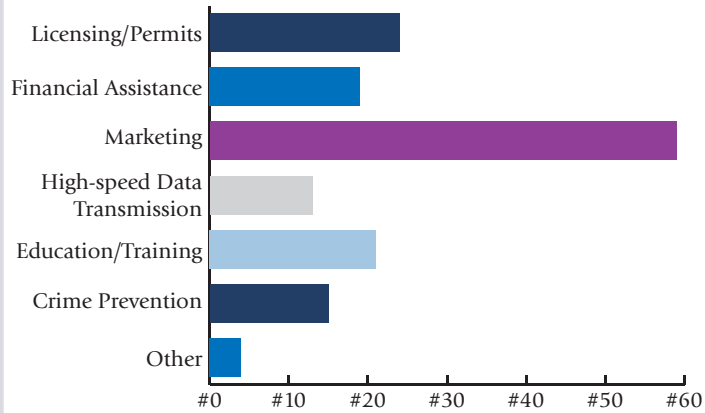
40.5% of the respondents spend 5 - 10% of their gross revenues on marketing. Marketing can be quite expensive, especially for small businesses. This low figure could also indicate that hospitality properties perceive many marketing channels as having a low return on investment.

MARKETING CHANNELS UTILIZED BY HOSPITALITY BUSINESSES (# OF RESPONDENTS)



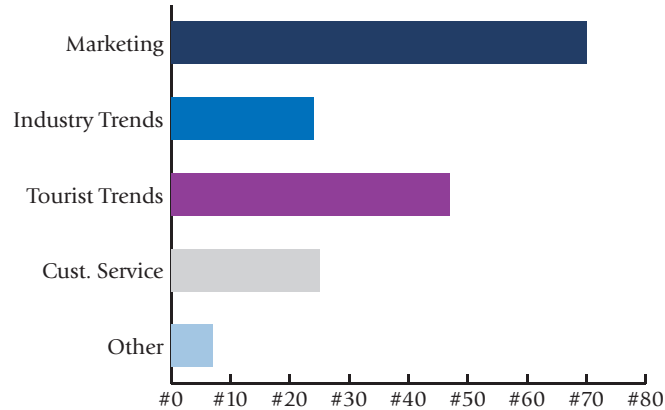
Source: Hospitality Survey 2007, Economic Development Board

FOCUS FOR LOCAL GOVERNMENT ASSISTANCE



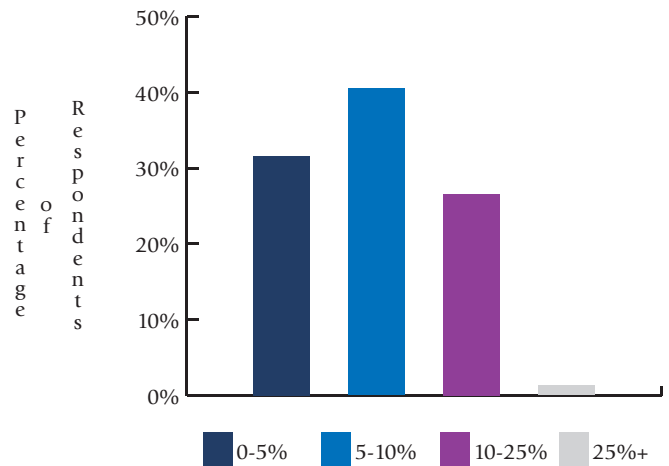
Source: Hospitality Survey 2007, Economic Development Board

FOCUS FOR LOCAL PROMOTION AGENCIES ASSISTANCE



Source: Hospitality Survey 2007, Economic Development Board

PERCENTAGE OF GROSS REVENUE SPENT ON MARKETING



Source: Hospitality Survey 2007, Economic Development Board

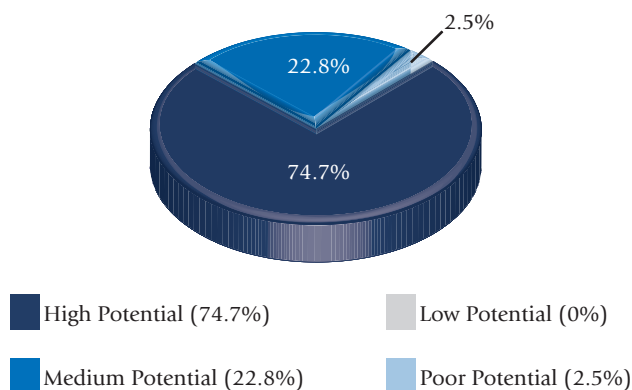
THE high confidence in future business performance is supported by survey results showing almost threefourths of responding hospitality properties believing that Sonoma County has high potential for attracting tourists and encouraging repeat visits. Only 1.2 percent of respondents feel Sonoma County has poor potential for promoting tourism.

An overwhelming percentage of respondents - over 70% - agree that Sonoma County's wine reputation and culture is a valuable tourism attraction.

Although the vast majority of lodging businesses agree wine is a vital attraction, many of Sonoma County's diverse assets were identified as key attractions. Such attractions include: landscape and scenery (Russian River, redwoods, coast), scenic drives, cycling, weddings and anniversaries, shopping, events, cultural and history, and gourmet food, restaurants, and products.

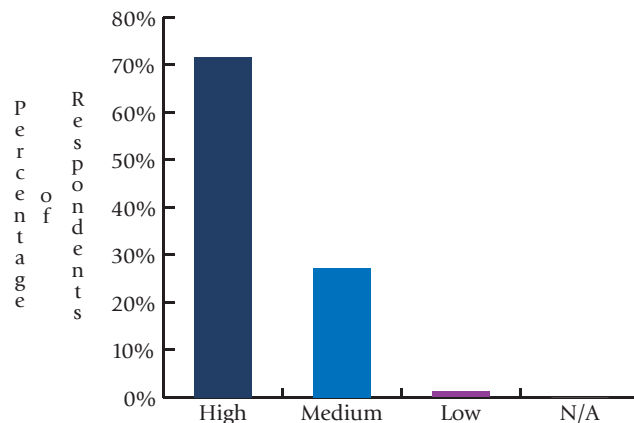


SONOMA COUNTY'S POTENTIAL FOR ATTRACTING VISITORS



Source: Hospitality Survey 2007, Economic Development Board

THE LEVEL AT WHICH SONOMA COUNTY'S WINE REPUTATION AND CULTURE HELPS ATTRACT VISITORS



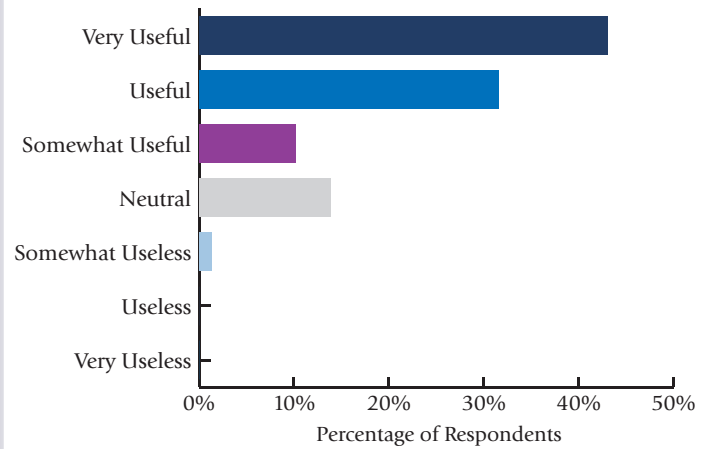
Source: Hospitality Survey 2007, Economic Development Board

SONOMA County is a dynamic destination with a variety of natural assets and modern luxuries. The tourism industry and the traveler, however, are always changing. Sonoma County must continue to strategically develop and promote the right mix of activities and experiences to maintain success in such a competitive industry.

The development of innovative culinary and wine programs can be an effective way of increasing visitors' length of stay, return visits, and satisfaction to regions of the County. Unique food and wine programs can also help differentiate Sonoma County in an increasingly accessible global tourism market. 74% of respondents felt new culinary and wine programs would be somewhat useful, useful, or very useful in Sonoma County, with 43% indicating very useful.

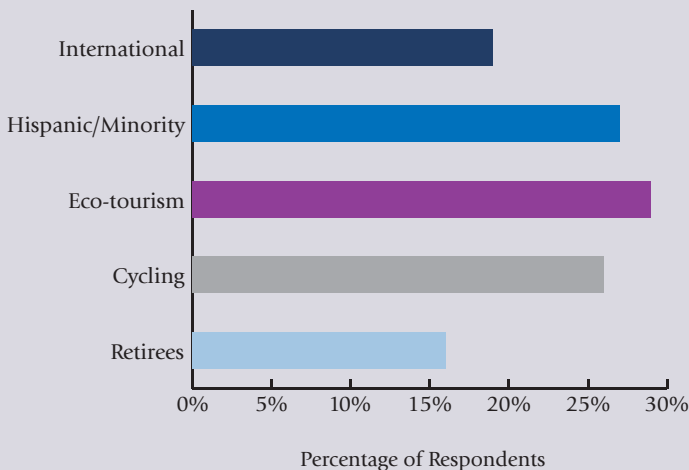
According to the Travel Industry of America (TIA), more than 80% of the 155 million US traveling adults take overnight trips of 50+ miles or longer. Four out of five include historical, arts, culture, or heritage activities in their traveling plans. A majority of the cultural heritage visitors report spending 38% more and staying 38% longer than other tourists. 68% of respondents indicated new cultural and heritage programs would be somewhat useful, useful, or very useful. Only 7.5% felt this would be somewhat

NEW CULINARY & WINE PROGRAM USEFULNESS



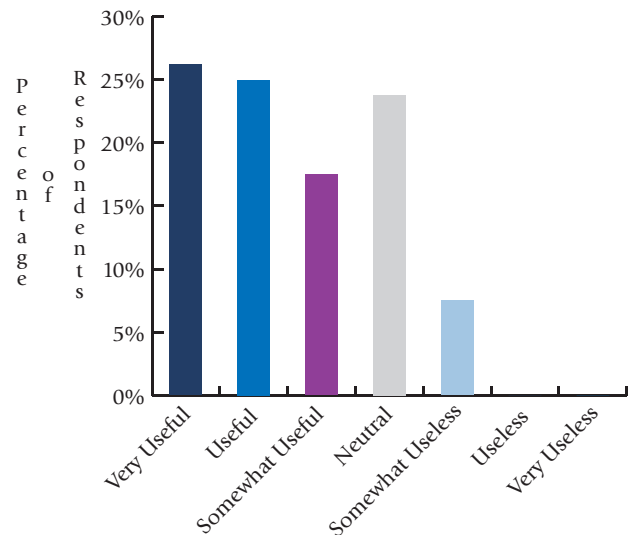
Source: Hospitality Survey 2007, Economic Development Board

EMERGING MARKET OPPORTUNITIES FOR SONOMA COUNTY



Source: Hospitality Survey 2007, Economic Development Board

NEW CULTURAL & HERITAGE PROGRAM USEFULNESS



Source: Hospitality Survey 2007, Economic Development Board

METHODOLOGY

The Sonoma County Economic Development Board (EDB) recently updated its 2002 survey of Sonoma County lodging properties in relation to the tourism industry. Owners and executives of over 100 lodging properties rated their confidence in the industry and identified changes and needs they expect at their businesses in the near future. The responses covered businesses in a broad range of lodging properties of all sizes. Individual survey results are confidential. The survey asked hospitality establishments to respond to a broad array of questions about their market and marketing efforts, their labor force needs, their hiring and expansion plans, the demographics of the industry, and their opinion on key County tourism policies. This report represents the findings from that survey as well as an analysis of those responses.

In addition to the survey responses, the Sonoma County *2007 Annual Tourism Report* also includes general background information for the tourism industry on a regional and national level. Statistics came from the Travel Industry Association (TIA), www.tia.org, and the California Travel and Tourism Commission's 2006 California Travel Impacts by County, prepared by Dean Runyan & Associates and Smith Travel Research, www.visitcalifornia.com. The EDB used the U.S. Bureau of Labor Statistics' Consumer Price Index to adjust some data for inflation, <http://www.bls.gov/>. Lodging classifications were defined by AAA, www.AAA.com. The EDB collected and compiled all TOT data from each Sonoma County jurisdiction.

Please note that all survey data contained in this report is based on the information self-reported by respondents, which was not factually verified by the EDB. The responses were then gathered into a database for analysis. Due to the fact that survey respondents may provide no responses to some questions, the category percentages indicated in the graphs for those questions may not sum up to 100%. Where replies are mutually exclusive, percentages may be slightly off due to rounding. Where replies are not mutually exclusive, percentages may total more than 100%. As mentioned above, it was our intention to obtain averages that provide a general "snapshot" of various issues for the hospitality/tourism industry in Sonoma County. Accordingly, the data averages are not weighted by any factor or interest.

Moody's Economy.com Section -

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ACKNOWLEDGEMENTS

The *2007 Annual Tourism Report* would not have been possible without the contributions of the following individuals: Most of the credit for this study belongs to the local businesses that participated in the survey. Their responses created the foundation upon which the tourism sector could be studied and analyzed. The staff at the Economic Development Board contributed a significant amount of work. Much gratitude goes to Colette Thomas and Sharon Taylor for their coordination of the survey work. Without their relentless work, survey response would not have been so high. Special acknowledgement is also due to Ken Fischang and Tim Zahner at the Sonoma County Tourism Bureau for their invaluable suggestions and generous provision of statistical data on the tourism sector in Sonoma County. Thanks to Al Redwine of the Workforce Investment Board (WIB) who reviewed and improved the survey. Finally, Chalin' Aswell, a project manager with the EDB, contributed a significant amount of time and effort to the report through design, compilation, and organization of the report, data, and survey findings. Chalin' updated and consolidated the myriad data sources and statistics from previous years to create this comprehensive analysis, and deserves special thanks.



Ben Stone
Executive Director





WITH ACKNOWLEDGMENT AND APPRECIATION TO LOCAL KEY BUSINESSES
SUPPORTING SONOMA COUNTY ECONOMIC DEVELOPMENT:

CHAIRMAN'S CIRCLE:



EXECUTIVE TIER:



ASSOCIATE TIER:



- Sonoma County Permit & Resources Management
- Community Development Commission
- Sonoma County Health Services
- Sonoma County Transportation & Public Works