

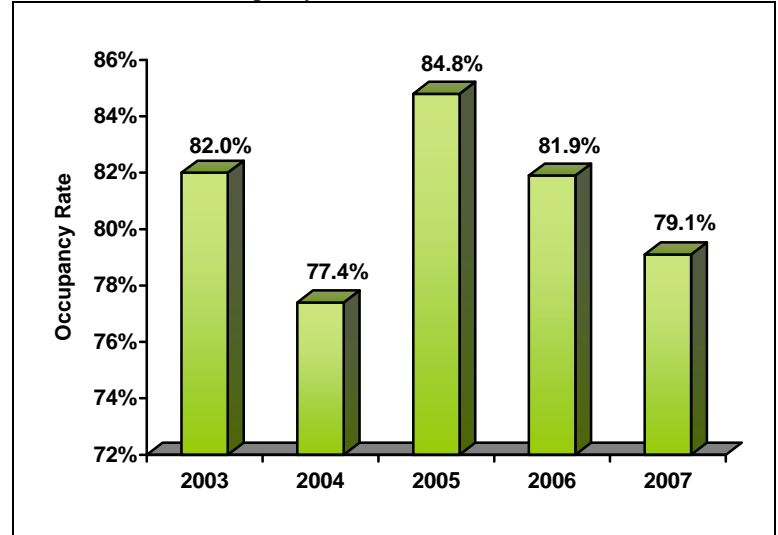
The Baltimore Tourism Barometer provides a pulse of the regional industry's health. Data are compiled from standard industry sources and/or supplied voluntarily by relevant local entities.

Industry's Rebound Stalls in Second Quarter

In the previous edition of this quarterly report, Sage reported that data characterizing activity within the local leisure and hospitality sector were decidedly upbeat. The question emerging from that report focused upon whether or not the sector could sustain its new-found momentum through the second quarter of the year.

It did not. For the most part, second quarter 2007 data have been disappointing. Convention Center attendance is down 27 percent from second quarter 2006 and hotel occupancy rates in the Inner Harbor continue to decline. In June 2007, hotel occupancy in the Baltimore's Inner Harbor was 79.1 percent, down from June 2006's 81.9 percent reading and June 2005's 84.8 percent reading. Similar patterns are apparent in citywide and regional data.

Exhibit 1: Hotel Occupancy Rates, Inner Harbor, June 2003-June 2007

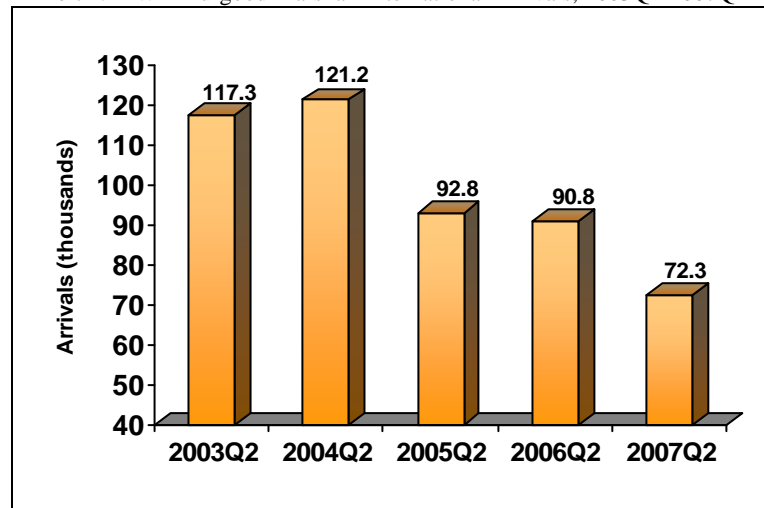


Source: Smith Travel Research

Pricing power among area hotels remains weak. Though average daily room rates have continued to edge higher over time, room rate increases have failed to maintain pace with the

general rate of inflation. With occupancy rates now slipping, it is unlikely that room rates will rise significantly going forward on a seasonally adjusted basis.

Exhibit 2: BWI-Thurgood Marshall International Arrivals, 2003Q2-2007Q2



Source: BWI-Thurgood Marshall Airport

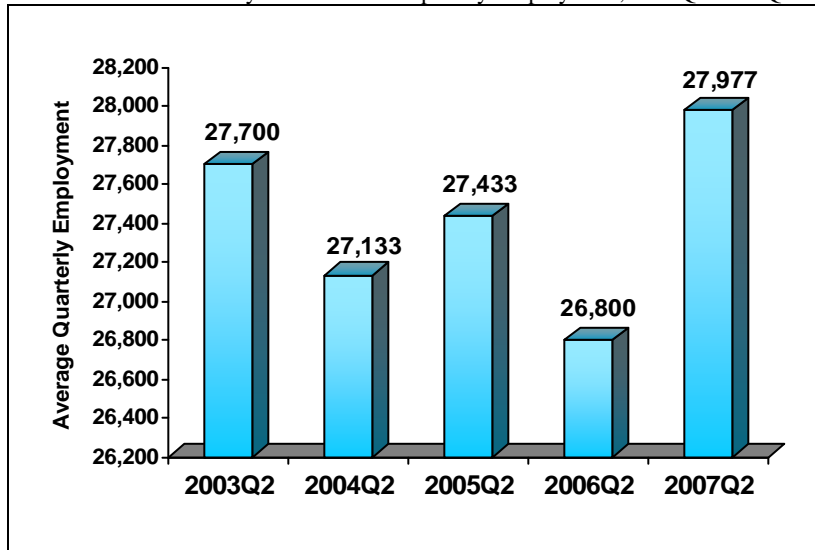
There are other reasons to be somewhat disappointed in industry performance. The value of the U.S. dollar has declined roughly 19 percent against a basket of major currencies since 2002. While this makes it more difficult and expensive for Americans to travel abroad, it makes it more likely that foreigners will choose to vacation

in the U.S. Given the positive global press that Baltimore has received in Frommer's and elsewhere, one might have thought that Baltimore would be well positioned to experience an uptick in international visitation.

Perhaps that has occurred, but if foreigners are arriving in Baltimore more frequently, it isn't through BWI. A glimpse at second quarter data indicate that BWI-Thurgood Marshall Airport international arrivals have fallen sharply over the past four years. The issue seems centered around the ongoing difficulty in attracting global carriers, which have proximate alternatives to BWI in more established international destinations.

Despite all of this somewhat disquieting news, Baltimore City leisure and hospitality employment continues to rise sharply. Over the past four quarters for which data are available, industry employment is up 4.3 percent city-wide. Though the government does not provide highly disaggregated employment data at the regional level, Sage believes that the growth in employment is primarily a reflection of activity and expansion within the local restaurant/bar sector. The sector is massive enough to drive industry employment higher and national data indicate that employment within that industry is climbing rapidly.

Exhibit 3: Baltimore City Leisure and Hospitality Employment, 2003Q2-2007Q2



Source: Bureau of Labor Statistics

That restaurants are driving job growth is probably not as satisfying a situation as one in which other industrial components lead the way. First, restaurants do not create particularly high-paying jobs on average, though there are noteworthy exceptions. Second, existing restaurants would probably prefer fewer restaurants in their environment as opposed to more of them, though there may also be exceptions to this. Finally, restaurants often serve local demand, and therefore expansion within this sector does not necessary reflect increasing visitation.

Our attention now turns to the third quarter. There are reasons to believe that economic relief is not coming anytime soon. National data regarding employment and consumer spending reflect continuing deterioration. Consumers finally appear to be succumbing to a combination of impeding factors, including stubbornly high gas prices, mortgage rate resets, slower job creation, higher electricity costs, a slumping housing market, lack of credit availability, rising healthcare expenses and grocery bills. Several prominent economists now believe that the chance of recession in 2008 is as high as 50 percent, and many have made recession next year their most likely scenario. That said, Maryland is likely to be more insulated than most states from a national economic downturn given the structure of its economy and lofty median income.