

Hospitality Directions US

Hospitality and Leisure

June 2012

Q1

At a glance

Lodging demand continues to expand, boosting occupancy.

Moderate economic growth is expected for 2012, firming in 2013.

We expect RevPAR growth of 6.5 percent in 2012, followed by 5.6 percent in 2013.

Hotels in higher-priced segments are expected to post the strongest gains.

The lodging sector is growing into expectations for 2012. PwC's lodging outlook anticipates continued growth in occupancy and average daily rate (ADR) will result in a 6.5 percent increase in revenue per available room (RevPAR) in 2012, followed by a 5.6 percent gain in 2013. Supply growth remains suppressed and the focus has turned to improved pricing as a source of revenue growth.

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Growing into expectations

Even as the economy inches forward, travel activity in the US has continued to recover. Business and leisure travel posted solid gains in the first quarter, and even the group segment—one of the hardest hit areas of the lodging sector—experienced an uptick in demand and bookings. Yet again, gains were strongest at luxury hotels, but improvements in occupancy and ADR were experienced across the spectrum of chain-scale segments, reflecting the breadth of the recovery.

Six months ago, we published what was at the time an above-consensus outlook that anticipated a 6.5 percent RevPAR gain in 2012.¹ Since then, results have largely confirmed this view. Occupancy gains in 2011 slightly exceeded our expectations,

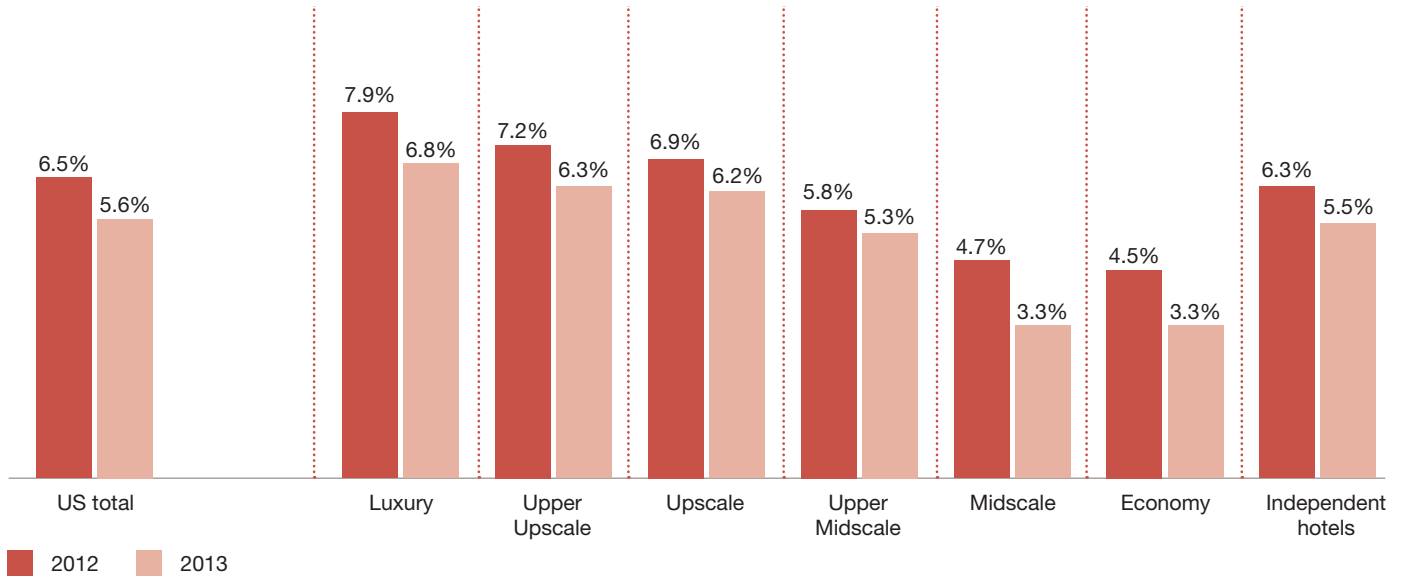
driving an 8.2 percent RevPAR increase. Building on this higher base, our outlook for 2012 growth has held stable for six months, calling for a 6.5 percent RevPAR gain in 2012.

A key factor in this favorable outlook has been the evidence of strength in demand. Occupancy in the first four months of 2012 exceeded prior year levels by 3.1 percent. While much of this improvement is still attributable to increased levels of transient travel, an uptick in group activity—which represents approximately 34 percent of total demand at upper-tier hotels—is also evident.² The contribution of meetings and other group business in the first four months ran ahead of prior year levels by 2.4 percent at upper-tier hotels,

¹ PricewaterhouseCoopers LLP. (Q3 November 2011) Hospitality Directions US. Retrieved from: <http://www.pwc.com/us/hospitality>.

² Upper-tier refers to luxury, upper upscale, and upper-tier independent properties, as tracked by Smith Travel Research.

Figure 1: RevPAR growth, 2012 and 2013



Source: Smith Travel Research; PwC

with operators crediting some of the gains to corporate events that were booked and held within the same quarter. Perhaps more importantly, operators also reported improvements in the pace of bookings that have been received for the balance of 2012 and into 2013.

In the face of competitive pressures, hotels have been slow to raise room rates during the recovery. As a result, a pricing gap has developed. Before adjusting for inflation, ADR in the first quarter averaged 3.4 percent

below peak levels in 2008, on a seasonally adjusted basis. After adjusting for inflation, the price gap was 8.9 percent. The setting is favorable for many hotels to make a dent in this gap during the second half of 2012 and in 2013. Occupancy has improved, there is a near standstill in supply growth, and more favorable negotiated corporate rates are in place. Together with a stronger foundation of group commitments on the books, these factors are expected to allow yield management tactics to have greater effects, helping to reset

ADR levels property-by-property. While the effects will be stronger in some markets than others, we anticipate industry-wide ADR will increase 4.3 percent in 2012, and 4.8 percent in 2013.

As year-over-year occupancy gains slow, overall RevPAR growth is expected to decelerate from 6.5 percent in 2012 to 5.6 percent in 2013 (Figure 1). Hotel construction activity remains quite muted, and average room supply is expected to increase only 0.4 percent in 2012 and 0.8 percent in 2013.

Moderate economic recovery intact, euro zone risks linger

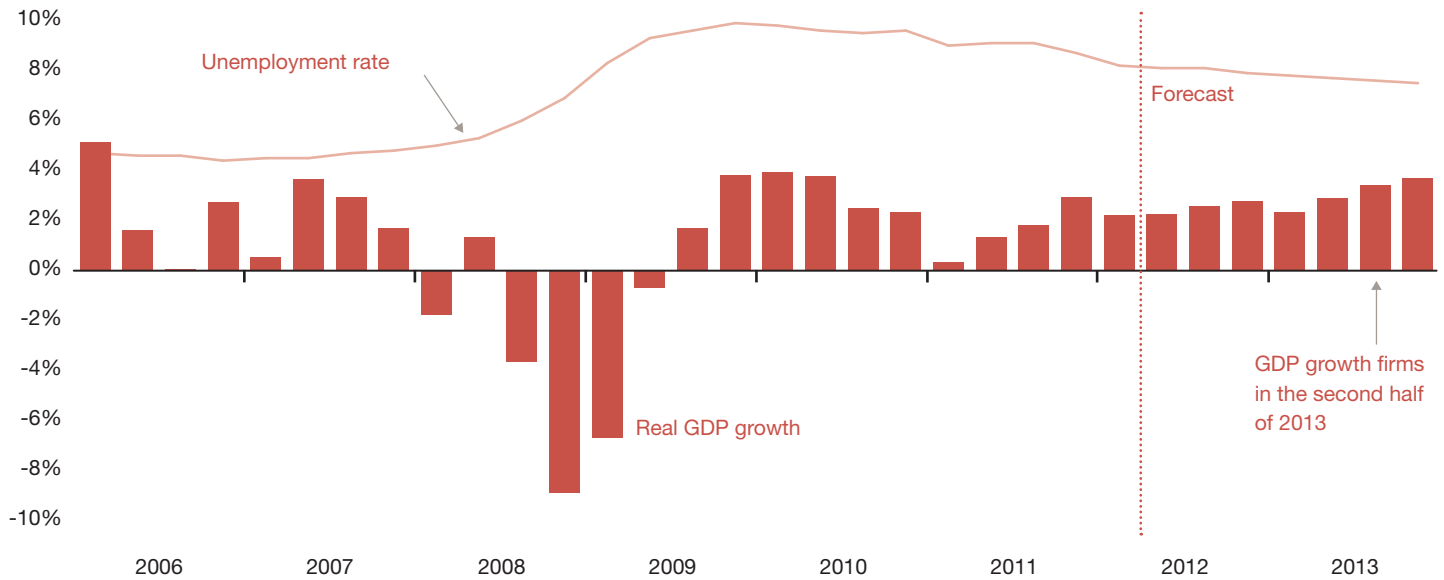
The outlook for moderate economic growth in 2012, followed by acceleration in the second half of 2013, remains largely intact. Incoming data has confirmed that the US economy continues to expand, but that the pace of recovery is barely sufficient to match the trend rate of growth required by an expanding labor force and improved productivity. As a result, the economy continues to operate below its potential, and substantial unemployment, and underemployment, persists.³

Nevertheless, there are factors that tilt the economy toward a faster pace of growth going forward. The view held by Macroeconomic Advisers, the

firm that provides the underlying macroeconomic drivers to our lodging outlook, is that as we proceed through the remainder of this year and the start of next year, the economy will demonstrate sufficient momentum to overcome headwinds (Figure 2). These headwinds include somewhat tighter fiscal conditions, as the payroll tax holiday and federal emergency unemployment benefits expire, and a moderate level of overhang from the sovereign debt crisis and recession in Europe. In this baseline outlook, US GDP growth picks up from 2.5 percent in 2012, to 3.1 percent in 2013 (on a fourth-quarter-over-fourth-quarter basis) (Table 1).

³ The unemployment rate edged down to 8.1 percent in April, which is still above the 5.2 to 6.0 percent level that would be consistent with a normally functioning economy. Meanwhile, the underemployment rate stood at 14.5 percent, down from 15.9 percent a year ago.

Figure 2: Annualized rate of growth in real GDP and unemployment rate, 2006Q1 to 2013Q4



Source: Bureau of Economic Analysis; Bureau of Labor Statistics; Macroeconomic Advisers, LLC (forecast released May 2012)

Before addressing the baseline scenario in greater detail, it is important to acknowledge the downside risks that could upset this outlook.

- **The probability of a euro-area induced contagion in global financial markets remains uncomfortably high.** The risk to the US economy

is that a market panic and financial contagion could result in a flight to safety, causing a combination of an equity market sell-off, rising risk spreads, a rally in the dollar, and declining exports that would likely tip the US economy back into recession. Macroeconomic Advisers estimates the probability of

such re-intensification of the euro zone crisis at one-in-four to one-in-three.

- **US fiscal policy action is required to avoid a worst case fiscal contraction.** Current laws dictate spending cuts and tax increases that approach five percent of GDP. This situation is being

Table 1: GDP outlook summary

Outlook	2012 Second half	2012 Full year	2013 Full year
Current	2.7%	2.5%	3.1%
Prior	2.7%	2.3%	3.6%

Note: Figures reflect real GDP growth at an annualized rate. Full year figures are reported on a fourth quarter over fourth quarter basis. The current outlook corresponds to the Macroeconomic Advisers forecast released May 2012, and the prior outlook refers to the Macroeconomic Advisers forecast released January 2012, which was used as a base in PwC Hospitality Directions US January 2012.

Source: Macroeconomic Advisers, LLC

referred to as the “fiscal cliff”, representing the significant risk to the economy of a failure by lawmakers to reach an agreement modifying current laws, such as extending the Bush era tax cuts, continuing the Alternative Minimum Tax patch and “doc fix” (referring to fees paid to doctors by Medicare), and avoiding a sequester (referring to across-the-board spending cuts in accordance with the debt limit law passed last summer). The baseline assumption is that recognition that the economic recovery remains too tentative to risk such a large fiscal contraction will result in an agreement between Republicans and Democrats to temporarily address the situation, delaying such tax increases and spending cuts at least until after the new Congress convenes in 2013. The risk of going over the “fiscal cliff” is unlikely, but the impact would be severe.

- **Other risks are also evident, including potential for further declines in home prices, or a sharp rise in oil prices.**

Stabilization of home prices is a critical element of the recovery, supporting expectations of consumer spending growth and the start of a rebound in housing starts. Should home prices begin to decline again, it would undermine the recovery. Likewise, while oil prices are assumed to gradually decline, a steep increase, such as related to military action in Iran, would also put growth at risk.

The baseline expectation holds that in the absence of such events, several factors will support a slow, and potentially uneven, firming in growth over the next two years.

- **Gradual improvement in financial conditions:** Risk appetite is returning to financial markets, albeit in fits and starts. As indication of improved willingness to take greater investment risks,

equities have recovered a significant portion of the value lost after the summer of 2007, and risk spreads on corporate debt have narrowed. This process is expected to continue, resulting in higher equity values on household balance sheets, and partly offsetting what would otherwise be a rise in corporate borrowing costs as Treasury yields rise over the next two years. Also, credit terms are easing as banks are becoming more willing to lend to businesses and consumers.

- **Slower pace of household deleveraging:** Households have “deleveraged,” reducing their debt burden through a combination of higher personal savings and debt forgiveness by lenders, and rising equity values have helped boost household net worth. Going forward, a greater portion of disposable income is available to support resumed consumer spending growth.

- **Stabilization in home prices:** Confidence that home prices are no longer steadily declining is anticipated to help support stronger growth in the economy. For example, prospective home buyers are more likely to step off the sidelines to purchase a home, boosting related spending and helping to rekindle home building activity. Also, existing home owners are expected to perceive greater stability in net worth, which is expected to support greater spending growth.
- **Recovering business investment:** Businesses are in a position to make greater capital investments, supported by ample cash flow, low borrowing costs, and record levels of liquid assets. Companies are expected to increase spending on equipment and software by 8.5 percent over the next three quarters.

Lastly, though fiscal policy is contractionary, the Federal Reserve maintains an accommodative monetary policy, and is expected to keep the federal funds rate at its current exceptionally low range until at least late-2014.

Our key macroeconomic assumptions

The following describes the key assumptions supporting the current macroeconomic outlook.^{4,5}

Factor	Assumption
Consumer spending	Consumer spending is expected to pick up moderately in 2012 to 2.7 percent growth (on a real dollar, fourth quarter-over-fourth quarter basis), supported by recent and prospective gains in household net worth, as well as moderately faster job growth. Further relaxation of credit terms on consumer loans is also expected to help support growth. Consumer spending is expected to expand 2.5 percent in 2013.
Labor markets	Businesses are slowly hiring and the economy has recovered 43 percent of the 8.8 million jobs lost during the downturn. Nonfarm payrolls have expanded an average of 201,000 jobs per month during the first four months of 2012, and monthly gains during the balance of the year are expected to average 159,000. The unemployment rate has been lower in the first part of 2012 than previously anticipated and the baseline outlook now anticipates it will average 8.1 percent in 2012, declining to a still-high 7.5 percent by the fourth quarter of 2013.
Oil prices	After adjusting for inflation, the average per barrel cost of oil in the first quarter of 2012 (\$109.33, refiner average imported crude oil acquisition cost) was more than two times greater than the average over the last 20 years (\$46.18). Based on increases so far this year, the outlook assumes a 6.2 percent nominal increase this year, and a 4.4 percent decline in 2013.
US dollar	The value of the US dollar weakened on average in 2011. Overall, the value of the dollar is expected to average 2.0 percent higher in 2012 than in 2011, and then hold stable in 2013.
Equity and housing markets	Based on solid gains in the first quarter (up 12.7 percent), the baseline outlook assumed equity market gains would boost household equity holdings 20.1 percent in 2012, and another 13.1 percent in 2013. With recent declines, equity values have increased only 5.3 percent year-to-date (as of May 22). Home prices have firmed in recent months, though foreclosures, real estate owned properties held by lenders, and the elevated inventory of existing homes remain overhangs. After declining nearly 4.0 percent last year, home prices are expected to be flat this year before rising 1.5 percent in 2013.
Inflation	The consumer price index (CPI) is expected to increase 2.3 percent in 2012 and 2.1 percent in 2013. Long-term inflation forecasts among economists average 2.5 percent on a CPI basis.
Fiscal policy	The baseline assumes the recently extended payroll tax holiday and federal unemployment benefits expire at the end of 2012 as scheduled, slowing GDP growth by approximately 0.5 percentage points in 2013. However, it also assumes that lawmakers reach an agreement to extend the Bush era tax cuts beyond the end of this year, continue the Alternative Minimum Tax patch and "doc fix" payments by Medicare, and avoid a full sequester dictated by the debt limit law passed last August, avoiding the "fiscal cliff."
Monetary policy	The Federal Reserve is expected to maintain the exceptionally low federal funds rate through at least late-2014. The outlook is not perceived to warrant a third round of quantitative easing (also referred to as QE3), although that could change if the economy were to underperform expectations.
Terrorist threats and natural disasters	The outlook assumes no significant terrorist acts in the United States or against US interests abroad that could negatively affect consumer travel. Also, the outlook does not incorporate an expectation of any major natural disasters.

⁴ Macroeconomic Advisers, LLC. (May 15, 2012) *Outlook Commentary*. Retrieved from <http://macroadvisers.com>.

⁵ Macroeconomic Advisers, LLC. (May 14, 2012) *Forecast Details*. Retrieved from <http://macroadvisers.com>.

Our outlook for the US lodging industry

We entered 2012 with robust expectations in place for the year, and thus far performance appears on track. The pace of transient travel has continued, despite frequent headlines highlighting tumultuous political and economic conditions in Europe and, to a lesser degree, in the US. While group demand has not fully recovered by any means, hotel operators report group bookings for 2012 are ahead of prior year levels. Unemployment remains quite high, but is expected to gradually decline, and US corporations continue to make capital investments. Leisure demand continues to increase, as indicated by transient stays at resorts, and weekend occupancy that exceed prior year levels.

Demand

A sense of momentum is evident within the travel sector. We note that, adjusted for seasonality, lodging demand has steadily increased on a quarter-to-quarter basis since the end of the recession in the middle of 2009, and that the most recent gains in the first quarter of 2012 were consistent with this upward trajectory. Even as business and consumer confidence remains shaky, the important role of travel in numerous aspects of commercial and leisure activities persists. The resultant recovery in occupancy has gone lengths rebuilding confidence among hoteliers and the lodging sector is on a more solid footing to take important

steps, such as reinvesting in property furnishings, fixtures and equipment, and taking the competitive risks necessary to boost pricing.

Such momentum and confidence is welcome, but continued improvement in top-line performance also depends on stronger travel activity, supported by growth in the broader economy. Our outlook anticipates 26 million more occupied room nights in 2012, followed by 16 million more in 2013. What will drive these gains?

- **Business travel** – Increased commercial transient travel, and a resumption of greater volumes of group travel, are expected to be supported

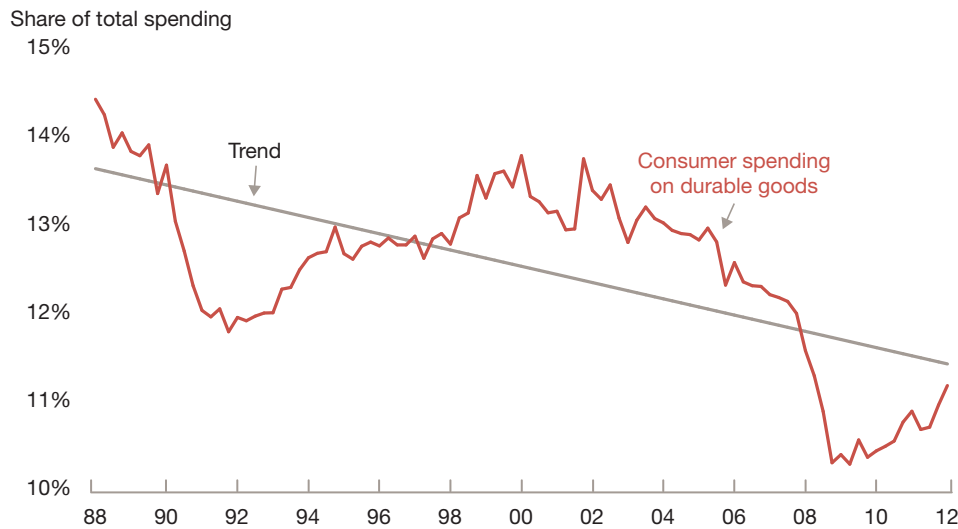
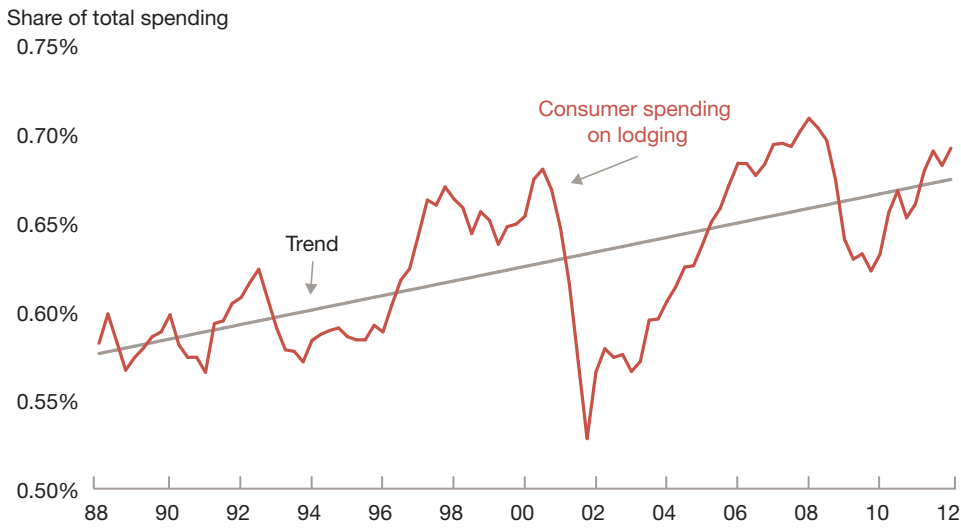
by corporate investment initiatives in equipment, software and human capital, greater focus on efforts to retain and grow market share, and gradual job growth. Sectors that are important to the lodging industry, including business and professional services, and finance, have added jobs in the first four months of 2012, and the technology sector is active. Changes continue in the pharmaceutical sector, but several key drug launches are anticipated in 2012, and sector leaders are confident in the outlook.^{6,7,8} Developments in the government sector, including a recent order by the White House Office of

⁶ In PwC interviews, 45 percent of global pharmaceutical and life science CEOs are very confident of being able to generate higher revenues over the next 12 months, compared to 40 percent of CEOs across industry sectors.

⁷ PricewaterhouseCoopers LLP. (2012, January 24). *Delivering Results, Growth and Value in a Volatile World, 15th Annual Global CEO Survey 2012*. Retrieved from <http://www.pwc.com/gx/en/ceo-survey>

⁸ PricewaterhouseCoopers LLP. (2012, January 24). *Delivering Results, Key Findings in the Pharmaceuticals and Life Sciences Industry, 15th Annual Global CEO Survey 2012*. Retrieved from <http://www.pwc.com/gx/en/ceo-survey/industry/pharmaceuticals-and-life-sciences.jhtml>

Figure 3: Estimated consumer spending on lodging and durable goods as a share of total consumer spending, 1988Q1 to 2012Q1



Note: Last data point is the first quarter of 2012.

Source: Bureau of Economic Analysis; PwC

Management and Budget for further reductions in travel budgets, as well as bills being considered in Congress aimed at identifying and limiting unnecessary travel spending, come in the wake of a recent report on a 2010 General Services Administration (“GSA”) event in Las Vegas and cloud an already tight context for government-related business travel.^{9, 10}

- **Leisure travel** – Looking forward, the outlook for leisure travel spending is moderately positive. Consumer spending on lodging fell quickly during the recession, but since then, such spending has strengthened. Indeed, while consumer spending on durable goods, such as cars, furniture and household appliances, is still recovering as a share of total spending, lodging has recovered to slightly above its trend share of spending (Figure 3). For example, Las Vegas recently recovered to its 2007 peak visitation level, joining other major markets such as New York City, Washington DC, and Orlando

⁹ The May 11, 2012 Office of Management and Budget order instructs agencies to reduce travel budgets 10 percent by fiscal year 2013, on top of progress made toward a previously announced 20 percent reduction target.

¹⁰ Boehmer, J. and Davis, C. (2012, May 14). White House Orders Deeper Federal Travel Cuts, New Meetings Policies. Business Travel News. <http://www.businesstravelnews.com/Travel-Management/White-House-Orders-Deeper-Federal-Travel-Cuts,-New-Meetings-Policies/?ida=Government&a=mgmt>

that were already solidly ahead of 2007 levels. Job markets remain weak, but prospects have improved marginally, and employed workers have greater confidence in being able to retain their jobs. Meanwhile, household net worth has benefited from equity market gains and a stabilization in housing values. As consumer spending improves moderately in 2012 and 2013, leisure travel is expected to benefit.

- **International travel** – Overseas arrivals picked up in the first two months of 2012, increasing 9.3 percent over the prior year.¹¹ This represents a strong start to the year, and a more rapid rate than the 5.7 percent annual growth that is anticipated in the current Department of Commerce forecast for the period from 2011 to 2013.¹² Based on PwC's analysis, these additional arrivals could generate the equivalent of 13 million room nights by 2013, which is almost one third of the additional room nights anticipated in our current lodging outlook. These gains are expected to

impact many lodging markets, though the largest effects are anticipated in leisure and gateway destinations such as New York, Los Angeles, Las Vegas, Miami, and Orlando.

Supply

Construction starts reached a trough in the first quarter of 2010 on a seasonally adjusted basis, and since then new construction activity has increased only marginally. The current pace of construction starts is equivalent to 1.2 percent annual supply growth, before removals of closed hotels, and approximately 0.6 percent after removals. Net supply growth, which lags construction starts, is estimated to have reached a trough in the fourth quarter of 2011 on a seasonally adjusted basis, and is expected to accelerate gradually through 2013. Overall room supply is expected to increase 0.4 percent in 2012 and 0.8 percent in 2013.

The availability of financing remains a factor limiting construction, though surveys of lending officers indicate that the environment for

commercial real estate loans is improving. At this point, the more important limiting factor may be the presence of opportunities to acquire hotels below perceived replacement cost. Until the value of existing hotels increases further, capital in many situations will continue to be allocated toward acquisitions and repositioning, rather than ground-up construction.

Occupancy

Travelers are back on the road, and lodging demand has surpassed its pre-recession peak, but in the meantime, supply has expanded, and occupancy still has some room to recover. Overall, on a seasonally adjusted basis, the average daily room nights occupied during the first quarter was 5.4 percent ahead of the average during 2007, the industry's pre-recession peak. However, supply is 7.8 percent greater than in 2007, and as a result, industry occupancy remains below its 2007 level. With growing demand and decelerating supply growth, we expect occupancy will increase to 61.3 percent during 2012.

¹¹ Overseas arrivals exclude arrivals from Canada and Mexico.

¹² Office of Travel & Tourism Industries, International Trade Administration, US Commerce Department. (2012, April 23). U.S. Commerce Department Forecasts Growth in International Travel to the United States through 2016 [Press release] Retrieved from <http://www.tinet.ita.doc.gov/view/f-2000-99-001/forecast/Forecast-Summary.pdf>

There are differences among the chain-scale segment that underlie the trend in overall industry occupancy. For example, in the luxury, upper upscale, and upscale segments, 2012 occupancy is on track to meet or exceed each segment's 2007 average, as hotels in these segments have generally been more successful rebuilding occupancy than the industry overall (Figure 4).

ADR and RevPAR

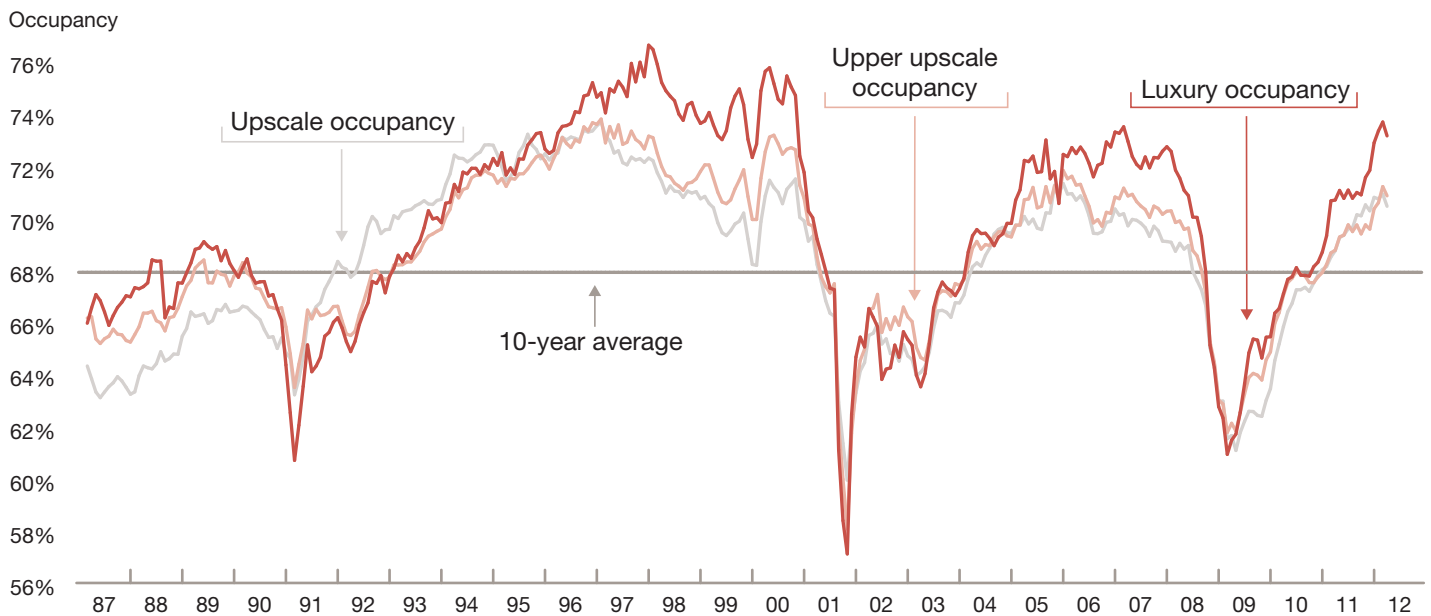
Hotels across the spectrum of price segments experienced ADR gains in the first quarter, reflecting the breadth of the

industry recovery. Stronger occupancy levels in the top 25 markets, including increased incidence of nights on which demand in certain sub-markets reaches compression levels, resulting in displacement of excess demand to other sub-markets, are expected to be supportive of stronger ADR growth this year. ADR in the top 25 markets rose 4.7 percent over the prior year during the first four months of 2012, as compared to a 3.8 percent gain for all other markets. Urban and resort hotels experienced the largest price gains, while hotels in small metro areas and towns,

as well as interstate and airport hotels, experienced slightly less robust growth. Even with recent gains, ADR levels at upper-tier hotels through April 2012 were still 3.1 percent below 2007 levels, primarily due to weekday and weekend transient rates that were 5.0 percent and 4.6 percent below 2007 levels, respectively (Figure 5).

Operators are expected to be carefully monitoring the pace of incoming reservations, and looking for opportunities to use more solid occupancy levels to support active yield management. Tactics, including stronger pricing

Figure 4: Luxury, upper upscale, and upscale occupancy, 1987 to 2012

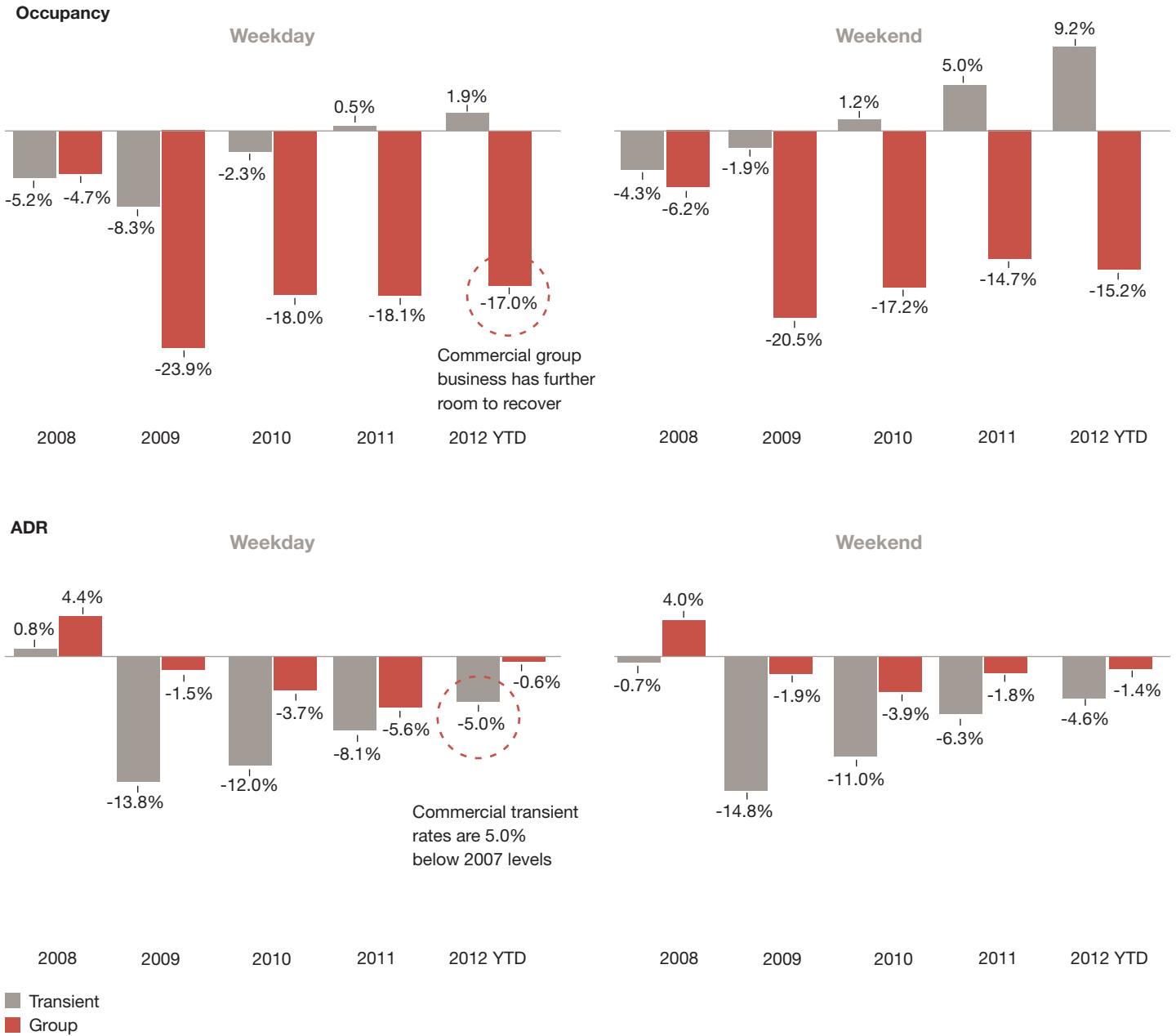


Note: Figure shows a three-month moving average of the seasonally adjusted occupancy rate through April 2012 relative to its 10-year average of 68.1 percent (2002 to 2011).

Source: Smith Travel Research; PwC

Figure 5: Transient and group comparison

Performance of the transient and group segments at upper-tier hotels, shown as percentage difference from 2007 levels

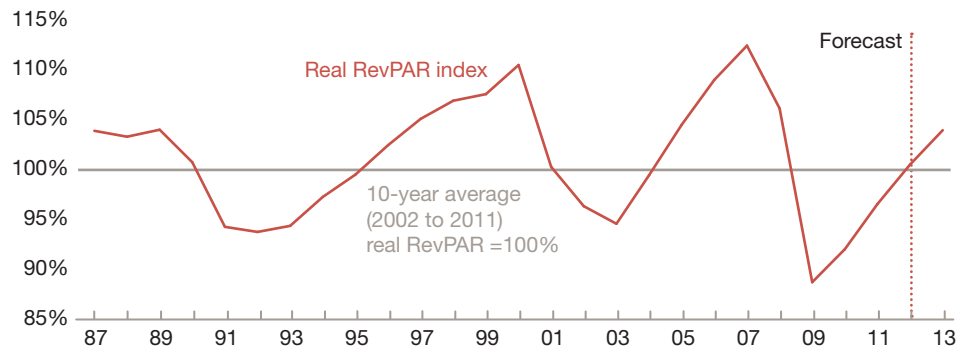


Note: Information for 2012 is year-to-date through April compared to the same period in 2007. Upper-tier refers to luxury, upper upscale and upper-tier independent properties, as tracked by Smith Travel Research.

Source: Smith Travel Research; PwC.

Figure 6: Real RevPAR, 1987 to 2013

Ratio of real RevPAR to its ten-year average (index)



Source: Smith Travel Research; Bureau of Labor Statistics; Macroeconomic Advisers, LLC (forecast released May 2012); PwC

during mid-week peak periods, and shifts to replace lower-rated commercial accounts and some mid-week leisure travel with higher-rated business, are expected to allow hotels to achieve valuable increases in ADR. As a result, looking ahead, we anticipate ADR growth will accelerate, improving from 3.7 percent growth in 2011 to

4.3 percent in 2012, and 4.8 percent in 2013. Adjusted for inflation, this would bring 2012 ADR to just 1.4 percent below the 10-year average and 2013 ADR to 1.2 percent ahead.

Figure 6 shows our outlook for real RevPAR, and Tables 2 and 3 summarize the key annual and quarterly measures in our US outlook.

Table 2: US lodging outlook, June 4, 2012

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	59.0%	59.2%	61.3%	63.0%	63.1%	62.8%	59.8%	54.6%	57.5%	60.0%	61.3%	61.7%
Percentage change from prior year	-1.1%	0.3%	3.6%	2.8%	0.2%	-0.5%	-4.8%	-8.8%	5.4%	4.3%	2.1%	0.7%
Pct. point difference from prior year	(0.7)	0.2	2.1	1.7	0.1	(0.3)	(3.0)	(5.2)	3.0	2.5	1.3	0.4
Average daily rate (\$)	\$82.54	\$82.68	\$86.19	\$91.04	\$97.82	\$104.32	\$107.40	\$98.07	\$98.06	\$101.70	\$106.08	\$111.18
Percentage change from prior year	-1.3%	0.2%	4.3%	5.6%	7.4%	6.6%	3.0%	-8.7%	0.0%	3.7%	4.3%	4.8%
Nominal RevPAR (\$)	\$48.71	\$48.91	\$52.81	\$57.36	\$61.76	\$65.53	\$64.22	\$53.50	\$56.41	\$61.05	\$65.01	\$68.63
Percentage change from prior year	-2.4%	0.4%	8.0%	8.6%	7.7%	6.1%	-2.0%	-16.7%	5.4%	8.2%	6.5%	5.6%
Inflation-adjusted RevPAR (\$, 2005 base)	\$52.88	\$51.91	\$54.58	\$57.36	\$59.83	\$61.71	\$58.26	\$48.69	\$50.51	\$52.99	\$55.17	\$57.06
Percentage change from prior year	-3.9%	-1.8%	5.1%	5.1%	4.3%	3.1%	-5.6%	-16.4%	3.7%	4.9%	4.1%	3.4%
Inflation as measured by CPI	1.6%	2.3%	2.7%	3.4%	3.2%	2.9%	3.8%	-0.3%	1.6%	3.1%	2.3%	2.1%
Real GDP, percentage change from prior year (annual average)	1.8%	2.5%	3.5%	3.1%	2.7%	1.9%	-0.3%	-3.5%	3.0%	1.7%	2.3%	2.8%
Real GDP, percentage change from prior year (fourth quarter over fourth quarter)	1.9%	3.9%	2.9%	2.8%	2.4%	2.2%	-3.3%	-0.5%	3.1%	1.6%	2.5%	3.1%
Average daily rooms sold (000s)	2,571	2,605	2,709	2,784	2,796	2,816	2,745	2,575	2,761	2,896	2,967	3,010
Percentage change from prior year	0.5%	1.3%	4.0%	2.8%	0.4%	0.7%	-2.5%	-6.2%	7.2%	4.9%	2.5%	1.5%
Room starts (000s)	68.4	76.6	81.3	83.4	138.9	145.9	132.2	47.8	30.1	46.0	56.6	65.9
Percentage change from prior year	-24.4%	12.0%	6.0%	2.6%	66.5%	5.0%	-9.4%	-63.8%	-37.1%	53.1%	23.1%	16.4%
End-of-year supply (000s)	4,350	4,385	4,386	4,379	4,413	4,488	4,625	4,745	4,784	4,799	4,826	4,867
End-of-year supply change from prior year	1.5%	0.8%	0.0%	-0.2%	0.8%	1.7%	3.1%	2.6%	0.8%	0.3%	0.6%	0.9%
Average supply change from prior year	1.6%	1.0%	0.4%	-0.1%	0.2%	1.2%	2.4%	2.8%	1.7%	0.5%	0.4%	0.8%

Source: Smith Travel Research; Macroeconomic Advisers, LLC (forecast released May 2012); PwC

Table 3: PwC lodging outlook

	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4
Occupancy (percent)	50.9%	57.2%	60.0%	50.0%	51.9%	60.7%	63.9%	53.4%
Percentage change from prior year	-11.1%	-10.9%	-8.0%	-4.7%	2.1%	6.0%	6.5%	6.8%
Pct. point difference from prior year	(6.4)	(7.0)	(5.2)	(2.5)	1.0	3.4	3.9	3.4
Occupancy (percent, seas. adj.)	54.9%	54.2%	54.6%	54.6%	56.1%	57.4%	58.0%	58.4%
Average daily rate (\$)	\$100.70	\$97.99	\$97.48	\$96.32	\$96.36	\$98.04	\$99.20	\$98.30
Percentage change from prior year	-7.6%	-9.5%	-9.6%	-7.6%	-4.3%	0.1%	1.8%	2.1%
Average daily rate (\$, seas. adj.)	\$100.37	\$97.94	\$97.09	\$96.90	\$96.33	\$98.00	\$98.61	\$98.86
RevPAR (\$)	\$51.21	\$56.07	\$58.48	\$48.18	\$50.01	\$59.47	\$63.39	\$52.52
Percentage change from prior year	-17.8%	-19.4%	-16.9%	-11.9%	-2.3%	6.1%	8.4%	9.0%
RevPAR (\$, seas. adj.)	\$55.15	\$53.12	\$53.03	\$52.95	\$54.08	\$56.27	\$57.20	\$57.75
Inflation as measured by CPI (percentage change from prior year)	-0.1%	-1.0%	-1.6%	1.5%	2.3%	1.8%	1.2%	1.2%
Average daily rooms sold (000s)	2,359	2,701	2,861	2,378	2,464	2,921	3,092	2,564
Percentage change from prior year	-8.4%	-8.4%	-5.4%	-2.1%	4.5%	8.1%	8.1%	7.9%
Average daily rooms sold (000s, seas. adj.)	2,566	2,548	2,583	2,602	2,685	2,753	2,787	2,811
Room starts (000s)	12.9	14.1	11.1	9.8	5.5	8.1	7.8	8.6
Percentage change from prior year	-64.2%	-62.5%	-68.5%	-58.6%	-57.1%	-42.3%	-29.6%	-11.8%
End-of-quarter supply (000s)	4,654	4,744	4,777	4,745	4,759	4,833	4,840	4,784
Percentage change from prior year	3.0%	2.8%	2.8%	2.6%	2.3%	1.9%	1.3%	0.8%

Source: Smith Travel Research; Macroeconomic Advisers, LLC (forecast released May 2012); PwC

	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4
	54.7%	63.3%	66.4%	55.4%	56.8%	64.8%	67.6%	55.9%	56.7%	65.4%	68.2%	56.4%
	5.4%	4.4%	4.0%	3.8%	3.8%	2.3%	1.7%	0.8%	-0.1%	0.9%	0.9%	1.0%
	2.8	2.7	2.5	2.0	2.1	1.4	1.1	0.4	(0.0)	0.6	0.6	0.6
	59.2%	59.9%	60.2%	60.7%	61.4%	61.0%	61.2%	61.3%	61.5%	61.6%	61.8%	62.0%
	\$99.60	\$101.56	\$103.06	\$102.23	\$103.54	\$105.24	\$107.68	\$107.61	\$109.17	\$110.65	\$112.48	\$112.14
	3.4%	3.6%	3.9%	4.0%	4.0%	3.6%	4.5%	5.3%	5.4%	5.1%	4.5%	4.2%
	\$99.73	\$101.51	\$102.35	\$102.82	\$103.76	\$105.17	\$106.88	\$108.24	\$109.46	\$110.59	\$111.65	\$112.79
	\$54.46	\$64.33	\$68.47	\$56.68	\$58.78	\$68.18	\$72.77	\$60.12	\$61.94	\$72.36	\$76.70	\$63.29
	8.9%	8.2%	8.0%	7.9%	7.9%	6.0%	6.3%	6.1%	5.4%	6.1%	5.4%	5.3%
	\$59.02	\$60.80	\$61.65	\$62.41	\$63.75	\$64.21	\$65.45	\$66.39	\$67.29	\$68.14	\$68.98	\$69.89
	2.1%	3.3%	3.8%	3.3%	2.8%	2.2%	2.1%	2.2%	2.1%	2.1%	2.0%	2.0%
	2,615	3,065	3,227	2,671	2,723	3,135	3,295	2,711	2,741	3,186	3,350	2,761
	6.1%	4.9%	4.4%	4.2%	4.1%	2.3%	2.1%	1.5%	0.7%	1.6%	1.7%	1.9%
	2,851	2,888	2,907	2,931	2,969	2,953	2,966	2,977	2,989	3,002	3,015	3,032
	7.8	12.5	12.2	13.5	11.0	14.6	15.2	15.9	12.4	18.1	17.6	17.8
	41.8%	53.7%	56.2%	57.0%	40.2%	17.1%	24.5%	17.4%	13.2%	23.7%	16.1%	12.1%
	4,789	4,855	4,859	4,799	4,804	4,872	4,879	4,826	4,836	4,907	4,917	4,867
	0.6%	0.5%	0.4%	0.3%	0.3%	0.3%	0.4%	0.6%	0.7%	0.7%	0.8%	0.9%

Our chain scale outlook

The following provides a brief analysis of our current outlook for the US, and each of the six chain scale segments and independent hotels, as shown in Table 4. Additional tables with our chain scale outlook are

shown as Tables 5 to 11. As noted in a previous edition of PwC Hospitality Directions US, Smith Travel Research has revised its chain scale classifications, and PwC has updated its analysis to reflect the changes.¹³

Table 4: US and chain scale segment outlook

	Percent change from 2011 to 2012					Percent change from 2012 to 2013					
	Demand	Average room supply	Occupancy	ADR	RevPAR	Demand	Average room supply	Occupancy	ADR	RevPAR	
Luxury	2.2	0.0	2.1	5.7	7.9	Luxury	0.6	0.1	0.4	6.4	6.8
Upper upscale	1.8	(0.1)	1.9	5.2	7.2	Upper upscale	1.1	0.6	0.5	5.7	6.3
Upscale	3.4	1.5	1.8	4.9	6.9	Upscale	2.1	1.3	0.8	5.4	6.2
Upper midscale	4.9	2.6	2.3	3.4	5.8	Upper midscale	2.0	1.1	0.9	4.4	5.3
Midscale	(1.4)	(3.5)	2.2	2.4	4.7	Midscale	1.0	0.1	0.9	2.4	3.3
Economy	1.5	0.1	1.4	3.0	4.5	Economy	1.0	0.4	0.6	2.7	3.3
Independent hotels	2.5	0.3	2.3	4.0	6.3	Independent hotels	1.5	0.8	0.6	4.9	5.5
US total	2.5	0.4	2.1	4.3	6.5	US total	1.5	0.8	0.7	4.8	5.6

Source: Smith Travel Research; PwC

¹³ PricewaterhouseCoopers LLP. (Q1 May 2011) Hospitality Directions US. Retrieved from: <http://www.pwc.com/us/hospitality>

**Real RevPAR percentage difference
from 10-year average**

Chain scale	2010	2011	2012	2013	Comments
Luxury	(10.8)%	(4.0)%	1.2%	6.0%	Luxury hotels were more negatively impacted than upper upscale hotels during the recent recession, but since then, luxury hotels have recovered strongly. Adjusted for inflation, RevPAR at luxury hotels in 2012 is anticipated to be 1.2 percent above its 10-year average. In comparison, RevPAR at upper upscale hotels is expected to be 0.7 percent below its 10-year inflation-adjusted average. Luxury hotels have been particularly effective at rebuilding occupancy levels, and are estimated to reach 72.5 percent occupancy during 2012, equivalent to peak levels achieved in 2006 and 2007. Though group demand accounts for a lower share of occupancy at luxury hotels than it did during those peak years, group room nights are picking up. ADR growth is expected to strengthen in 2012 and 2013. Construction of new hotels remains scarce.
Upper upscale	(8.3)	(5.2)	(0.7)	3.4	During the recession, relative to the broader industry, upper upscale hotels were slightly better able to maintain occupancy, but did so with a greater decline in ADR. While the upper upscale segment is experiencing a solid recovery, ADR gains in the first quarter were again weaker than anticipated, as hotels continued to rely on occupancy improvements. RevPAR levels lag the segment's real, long-term average by more than the US average. The key weak points are transient ADR (2011 was 10.0 percent below 2007 levels) and group occupancy contribution (13.7 percent below 2007 levels). Hotel operators report a return of business travelers, higher corporate negotiated rates, and stronger group bookings, which are expected to help close these gaps. Very few new hotels are under construction (current count is equivalent to approximately 1.2 percent of 2011 year-end room supply, with planned opening dates spread over the next three years). The level of existing supply in the segment was negatively impacted by the conversion of the 2,995-room Las Vegas Hilton to an independent property,
Upscale	(8.3)	(3.9)	0.4	4.5	The upscale segment has shown a strong ability to rebuild occupancy after the twin impacts of the recession and an active construction pipeline that delivered a 29.8 percent increase in rooms between the end of 2006 and the end of 2011. Assuming upscale hotels achieve 70.8 percent occupancy in 2012, it would represent the highest annual occupancy in the segment since 1998, when it had half as many rooms. However, hotels have achieved this performance at the expense of ADR, and the RevPAR recovery in the upscale segment has been broadly similar to the US average. The segment continues to have a more active construction pipeline than any of the other segments, but even that level of activity is quite low.
Upper Midscale	(6.9)	(1.8)	1.5	4.7	The upper midscale segment held ADR levels during the recession better than the industry overall, but experienced greater declines in occupancy. Reporting of results for the upper midscale segment is still being impacted by the substantial numbers of Best Western properties that moved from the Best Western core affiliation, which is classified by Smith Travel Research in the midscale segment, to the Best Western Plus designation, which is classified as upper midscale. While the majority of the affected properties were reclassified within the Smith Travel Research data by June 2011, there were still additional properties reclassified during the second half of 2011. The full-year operation of these properties continues to impact year-over-year comparisons.
Midscale	(10.3)	(11.2)	(9.1)	(8.0)	Consistent with the comments related to the upper midscale segment, year-over-year comparisons in the midscale segment are being impacted by the reclassification of Best Western properties (Best Western Plus properties to upper midscale, and Best Western Premier properties to upscale). First quarter results, which are less impacted by this reclassification, indicate that RevPAR is improving solidly, but that the pace is slower than the US average.
Economy	(14.2)	(11.7)	(9.8)	(8.7)	RevPAR performance in the economy segment has generally traced a weaker than average path. Results in the second half of 2011 and into 2012 have been somewhat better than anticipated, though ADR growth is still expected to lag the US average over 2012 and 2013. Supply growth in this segment occurs primarily through conversions, rather than new construction. The number of conversions to economy segment brands picked up slightly in 2011, but was still below 2008 and 2009 levels.
Independent hotels	(9.4)	(4.8)	(1.1)	2.3	Of the US inventory of hotel rooms at year-end 2011, 30.8 percent were independent hotels that are not affiliated with a brand. This segment spans a range of product and price tiers, with aggregate occupancy and ADR levels that are slightly below the US average.
US total	(8.0)	(3.4)	0.5	4.0	

Source: Smith Travel Research; Macroeconomic Advisers, LLC (forecast released May 2012); PwC

Table 5: Luxury outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	65.2%	65.1%	65.9%	69.2%	71.7%	72.5%	72.5%	69.0%	63.6%	67.6%	71.0%	72.5%	72.9%
Percentage change from prior year	-12.3%	-0.2%	1.2%	5.0%	3.6%	1.1%	0.1%	-4.8%	-7.9%	6.3%	5.0%	2.1%	0.4%
Change in occupancy points	-9.1	-0.1	0.8	3.3	2.5	0.8	0.1	-3.5	-5.4	4.0	3.4	1.5	0.3
Average daily rate (\$)	\$229.59	\$219.27	\$217.39	\$230.30	\$249.35	\$274.08	\$292.71	\$292.57	\$242.99	\$247.18	\$261.07	\$275.91	\$293.44
Percentage change from prior year	-2.1%	-4.5%	-0.9%	5.9%	8.3%	9.9%	6.8%	0.0%	-16.9%	1.7%	5.6%	5.7%	6.4%
Nominal RevPAR (\$)	\$149.72	\$142.67	\$143.20	\$159.36	\$178.83	\$198.65	\$212.30	\$202.00	\$154.59	\$167.13	\$185.44	\$200.15	\$213.81
Percentage change from prior year	-14.2%	-4.7%	0.4%	11.3%	12.2%	11.1%	6.9%	-4.9%	-23.5%	8.1%	11.0%	7.9%	6.8%
Inflation-adjusted RevPAR (\$)	\$165.13	\$154.89	\$151.97	\$164.72	\$178.83	\$192.44	\$199.93	\$183.24	\$140.69	\$149.65	\$160.98	\$169.83	\$177.77
Percentage change from prior year	-16.5%	-6.2%	-1.9%	8.4%	8.6%	7.6%	3.9%	-8.3%	-23.2%	6.4%	7.6%	5.5%	4.7%
Demand (thous.)	39.8	44.3	48.5	52.7	54.7	58.7	61.1	61.3	61.8	70.2	75.1	76.7	77.1
Percentage change from prior year	-4.4%	11.5%	9.4%	8.7%	3.8%	7.3%	4.0%	0.4%	0.7%	13.5%	7.0%	2.2%	0.6%
Average room supply (thous.)	61.0	68.1	73.6	76.2	76.3	81.0	84.2	88.9	97.2	103.8	105.7	105.7	105.8
Percentage change from prior year	9.0%	11.7%	8.0%	3.5%	0.2%	6.1%	4.0%	5.5%	9.3%	6.8%	1.9%	0.0%	0.1%

Note: Inflation-adjusted RevPAR is expressed in 2005 dollars.

Source: Smith Travel Research; PwC

Table 6: Upper upscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	65.2%	66.1%	66.2%	68.9%	70.7%	70.6%	70.5%	68.0%	63.2%	67.4%	69.3%	70.7%	71.0%
Percentage change from prior year	-9.6%	1.3%	0.3%	4.1%	2.6%	-0.1%	-0.2%	-3.5%	-7.0%	6.6%	2.8%	1.9%	0.5%
Change in occupancy points	-7.0	0.9	0.2	2.7	1.8	-0.1	-0.1	-2.5	-4.8	4.2	1.9	1.3	0.4
Average daily rate (\$)	\$135.26	\$129.20	\$126.21	\$131.00	\$140.03	\$149.96	\$158.68	\$161.03	\$143.45	\$142.59	\$147.77	\$155.43	\$164.26
Percentage change from prior year	-2.9%	-4.5%	-2.3%	3.8%	6.9%	7.1%	5.8%	1.5%	-10.9%	-0.6%	3.6%	5.2%	5.7%
Nominal RevPAR (\$)	\$88.19	\$85.34	\$83.58	\$90.28	\$98.98	\$105.90	\$111.88	\$109.52	\$90.69	\$96.12	\$102.43	\$109.81	\$116.68
Percentage change from prior year	-12.3%	-3.2%	-2.1%	8.0%	9.6%	7.0%	5.6%	-2.1%	-17.2%	6.0%	6.6%	7.2%	6.3%
Inflation-adjusted RevPAR (\$)	\$97.26	\$92.65	\$88.70	\$93.32	\$98.98	\$102.59	\$105.36	\$99.35	\$82.54	\$86.06	\$88.92	\$93.18	\$97.01
Percentage change from prior year	-14.7%	-4.7%	-4.3%	5.2%	6.1%	3.7%	2.7%	-5.7%	-16.9%	4.3%	3.3%	4.8%	4.1%
Demand (thous.)	304.0	314.3	322.4	340.8	350.9	347.3	348.6	346.7	337.2	365.0	382.0	388.8	393.3
Percentage change from prior year	-6.1%	3.4%	2.6%	5.7%	2.9%	-1.0%	0.4%	-0.6%	-2.7%	8.2%	4.6%	1.8%	1.1%
Average room supply (thous.)	466.3	475.8	486.9	494.5	496.4	491.7	494.5	509.7	533.4	541.6	551.0	550.4	553.6
Percentage change from prior year	3.9%	2.0%	2.3%	1.6%	0.4%	-0.9%	0.6%	3.1%	4.6%	1.5%	1.8%	-0.1%	0.6%

Note: Inflation-adjusted RevPAR is expressed in 2005 dollars.

Source: Smith Travel Research; PwC

Table 7: Upscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	65.2%	65.1%	65.5%	68.7%	70.1%	70.1%	69.6%	67.3%	62.2%	66.8%	69.6%	70.8%	71.4%
Percentage change from prior year	-7.6%	-0.2%	0.7%	4.8%	2.1%	0.0%	-0.8%	-3.3%	-7.6%	7.4%	4.1%	1.8%	0.8%
Change in occupancy points	-5.3	-0.1	0.4	3.2	1.5	0.0	-0.5	-2.3	-5.1	4.6	2.8	1.3	0.5
Average daily rate (\$)	\$100.73	\$96.10	\$94.06	\$97.35	\$104.43	\$114.20	\$121.28	\$122.76	\$109.77	\$107.63	\$111.72	\$117.23	\$123.56
Percentage change from prior year	-0.7%	-4.6%	-2.1%	3.5%	7.3%	9.4%	6.2%	1.2%	-10.6%	-2.0%	3.8%	4.9%	5.4%
Nominal RevPAR (\$)	\$65.68	\$62.53	\$61.61	\$66.84	\$73.24	\$80.11	\$84.43	\$82.62	\$68.28	\$71.88	\$77.70	\$83.03	\$88.19
Percentage change from prior year	-8.2%	-4.8%	-1.5%	8.5%	9.6%	9.4%	5.4%	-2.1%	-17.4%	5.3%	8.1%	6.9%	6.2%
Inflation-adjusted RevPAR (\$)	\$72.45	\$67.88	\$65.39	\$69.09	\$73.24	\$77.61	\$79.51	\$74.95	\$62.14	\$64.36	\$67.45	\$70.46	\$73.33
Percentage change from prior year	-10.7%	-6.3%	-3.7%	5.7%	6.0%	6.0%	2.5%	-5.7%	-17.1%	3.6%	4.8%	4.5%	4.1%
Demand (thous.)	243.7	256.8	268.3	285.6	296.3	304.9	317.0	325.5	327.6	373.2	396.4	409.7	418.4
Percentage change from prior year	-0.4%	5.4%	4.5%	6.4%	3.8%	2.9%	4.0%	2.7%	0.6%	13.9%	6.2%	3.4%	2.1%
Average room supply (thous.)	373.7	394.7	409.6	415.9	422.4	434.7	455.3	483.7	526.6	558.8	570.0	578.5	586.2
Percentage change from prior year	7.8%	5.6%	3.8%	1.5%	1.6%	2.9%	4.7%	6.2%	8.9%	6.1%	2.0%	1.5%	1.3%

Note: Inflation-adjusted RevPAR is expressed in 2005 dollars.

Source: Smith Travel Research; PwC

Table 8: Upscale midscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	61.8%	61.3%	60.9%	63.1%	65.2%	66.0%	65.1%	61.5%	55.4%	58.2%	61.3%	62.7%	63.3%
Percentage change from prior year	-4.8%	-0.8%	-0.6%	3.6%	3.3%	1.2%	-1.4%	-5.6%	-9.9%	5.1%	5.3%	2.3%	0.9%
Change in occupancy points	-3.1	-0.5	-0.3	2.2	2.1	0.8	-0.9	-3.6	-6.1	2.8	3.1	1.4	0.5
Average daily rate (\$)	\$74.38	\$73.50	\$73.51	\$75.73	\$80.95	\$87.19	\$93.44	\$96.96	\$91.48	\$91.01	\$93.93	\$97.13	\$101.36
Percentage change from prior year	0.9%	-1.2%	0.0%	3.0%	6.9%	7.7%	7.2%	3.8%	-5.6%	-0.5%	3.2%	3.4%	4.4%
Nominal RevPAR (\$)	\$45.95	\$45.03	\$44.78	\$47.78	\$52.78	\$57.55	\$60.84	\$59.62	\$50.67	\$52.97	\$57.59	\$60.93	\$64.13
Percentage change from prior year	-4.0%	-2.0%	-0.5%	6.7%	10.5%	9.0%	5.7%	-2.0%	-15.0%	4.5%	8.7%	5.8%	5.3%
Inflation-adjusted RevPAR (\$)	\$50.68	\$48.88	\$47.52	\$49.39	\$52.78	\$55.75	\$57.29	\$54.09	\$46.11	\$47.43	\$49.99	\$51.70	\$53.32
Percentage change from prior year	-6.6%	-3.5%	-2.8%	3.9%	6.9%	5.6%	2.8%	-5.6%	-14.7%	2.9%	5.4%	3.4%	3.1%
Demand (thous.)	417.7	427.1	435.6	454.8	466.0	470.3	471.1	459.4	430.7	465.9	515.0	540.4	551.1
Percentage change from prior year	-1.3%	2.3%	2.0%	4.4%	2.5%	0.9%	0.2%	-2.5%	-6.2%	8.2%	10.5%	4.9%	2.0%
Average room supply (thous.)	676.2	697.2	715.1	720.8	714.7	712.6	723.6	747.1	777.7	800.5	840.0	861.6	871.0
Percentage change from prior year	3.7%	3.1%	2.6%	0.8%	-0.8%	-0.3%	1.5%	3.2%	4.1%	2.9%	4.9%	2.6%	1.1%

Note: Inflation-adjusted RevPAR is expressed in 2005 dollars.

Source: Smith Travel Research; PwC

Table 9: Midscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	54.6%	53.6%	54.1%	56.4%	58.7%	59.0%	58.3%	55.5%	49.4%	51.6%	53.3%	54.4%	54.9%
Percentage change from prior year	-4.6%	-1.8%	0.9%	4.3%	4.0%	0.6%	-1.3%	-4.8%	-10.9%	4.4%	3.2%	2.2%	0.9%
Change in occupancy points	-2.6	-1.0	0.5	2.3	2.3	0.3	-0.8	-2.8	-6.0	2.2	1.7	1.2	0.5
Average daily rate (\$)	\$64.72	\$63.88	\$63.80	\$65.30	\$68.77	\$73.05	\$76.71	\$78.67	\$74.39	\$73.08	\$72.31	\$74.06	\$75.82
Percentage change from prior year	0.6%	-1.3%	-0.1%	2.4%	5.3%	6.2%	5.0%	2.6%	-5.4%	-1.8%	-1.1%	2.4%	2.4%
Nominal RevPAR (\$)	\$35.36	\$34.26	\$34.54	\$36.86	\$40.36	\$43.13	\$44.71	\$43.63	\$36.77	\$37.73	\$38.52	\$40.32	\$41.64
Percentage change from prior year	-4.1%	-3.1%	0.8%	6.7%	9.5%	6.9%	3.7%	-2.4%	-15.7%	2.6%	2.1%	4.7%	3.3%
Inflation-adjusted RevPAR (\$)	\$39.00	\$37.19	\$36.66	\$38.10	\$40.36	\$41.78	\$42.10	\$39.58	\$33.46	\$33.78	\$33.44	\$34.21	\$34.62
Percentage change from prior year	-6.7%	-4.6%	-1.4%	3.9%	6.0%	3.5%	0.8%	-6.0%	-15.5%	1.0%	-1.0%	2.3%	1.2%
Demand (thous.)	285.2	281.4	279.3	287.9	295.7	298.1	296.5	286.4	263.8	277.6	259.7	255.9	258.5
Percentage change from prior year	-4.7%	-1.3%	-0.8%	3.1%	2.7%	0.8%	-0.5%	-3.4%	-7.9%	5.2%	-6.4%	-1.4%	1.0%
Average room supply (thous.)	522.0	524.7	515.9	510.1	503.9	504.9	508.8	516.4	533.8	537.7	487.4	470.2	470.6
Percentage change from prior year	-0.1%	0.5%	-1.7%	-1.1%	-1.2%	0.2%	0.8%	1.5%	3.4%	0.7%	-9.4%	-3.5%	0.1%

Note: Inflation-adjusted RevPAR is expressed in 2005 dollars.

Source: Smith Travel Research; PwC

Table 10: Economy outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	56.6%	55.0%	54.2%	55.6%	57.4%	57.2%	57.0%	54.1%	49.2%	51.6%	53.5%	54.2%	54.6%
Percentage change from prior year	-3.4%	-2.9%	-1.4%	2.5%	3.3%	-0.4%	-0.4%	-5.1%	-9.1%	5.0%	3.7%	1.4%	0.6%
Change in occupancy points	-2.0	-1.6	-0.7	1.4	1.8	-0.2	-0.2	-2.9	-4.9	2.4	1.9	0.7	0.3
Average daily Rate (\$)	\$47.10	\$46.81	\$46.78	\$47.82	\$49.99	\$52.71	\$54.40	\$55.01	\$50.87	\$49.29	\$50.50	\$52.03	\$53.43
Percentage change from prior year	0.0%	-0.6%	-0.1%	2.2%	4.5%	5.4%	3.2%	1.1%	-7.5%	-3.1%	2.5%	3.0%	2.7%
Nominal RevPAR (\$)	\$26.67	\$25.74	\$25.38	\$26.59	\$28.70	\$30.14	\$31.00	\$29.75	\$25.00	\$25.43	\$27.01	\$28.22	\$29.15
Percentage change from prior year	-3.4%	-3.5%	-1.4%	4.8%	7.9%	5.0%	2.8%	-4.0%	-16.0%	1.7%	6.2%	4.5%	3.3%
Inflation-adjusted RevPAR (\$)	\$29.42	\$27.95	\$26.93	\$27.49	\$28.70	\$29.20	\$29.19	\$26.99	\$22.75	\$22.77	\$23.45	\$23.94	\$24.24
Percentage change from prior year	-6.0%	-5.0%	-3.6%	2.1%	4.4%	1.7%	0.0%	-7.5%	-15.7%	0.1%	3.0%	2.1%	1.2%
Demand (thous.)	421.1	412.3	402.1	411.5	425.9	424.7	431.9	417.6	384.3	404.3	419.9	426.0	430.4
Percentage change from prior year	-1.2%	-2.1%	-2.5%	2.3%	3.5%	-0.3%	1.7%	-3.3%	-8.0%	5.2%	3.9%	1.5%	1.0%
Average room supply (thous.)	743.6	749.6	741.2	739.9	741.8	742.6	757.9	772.2	781.9	783.6	785.1	785.5	788.8
Percentage change from prior year	2.2%	0.8%	-1.1%	-0.2%	0.3%	0.1%	2.1%	1.9%	1.3%	0.2%	0.2%	0.1%	0.4%

Note: Inflation-adjusted RevPAR is expressed in 2005 dollars.

Source: Smith Travel Research; PwC

Table 11: Independent hotels

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	58.7%	57.7%	58.1%	59.8%	61.1%	61.0%	61.0%	57.6%	52.4%	54.6%	57.1%	58.4%	58.7%
Percentage change from prior year	-5.1%	-1.6%	0.7%	2.9%	2.2%	-0.1%	-0.1%	-5.6%	-9.1%	4.3%	4.5%	2.3%	0.6%
Change in occupancy points	-3.2	-1.0	0.4	1.7	1.3	-0.1	-0.1	-3.4	-5.2	2.3	2.5	1.3	0.4
Average daily rate (\$)	\$82.33	\$82.11	\$82.77	\$86.77	\$89.87	\$95.69	\$103.25	\$107.35	\$96.94	\$97.61	\$101.23	\$105.25	\$110.37
Percentage change from prior year	-0.9%	-0.3%	0.8%	4.8%	3.6%	6.5%	7.9%	4.0%	-9.7%	0.7%	3.7%	4.0%	4.9%
Nominal RevPAR (\$)	\$48.30	\$47.37	\$48.09	\$51.89	\$54.93	\$58.41	\$62.97	\$61.82	\$50.77	\$53.31	\$57.78	\$61.44	\$64.84
Percentage change from prior year	-6.0%	-1.9%	1.5%	7.9%	5.9%	6.3%	7.8%	-1.8%	-17.9%	5.0%	8.4%	6.3%	5.5%
Inflation-adjusted RevPAR (\$)	\$53.27	\$51.43	\$51.04	\$53.64	\$54.93	\$56.58	\$59.30	\$56.08	\$46.20	\$47.74	\$50.16	\$52.13	\$53.91
Percentage change from prior year	-8.6%	-3.5%	-0.8%	5.1%	2.4%	3.0%	4.8%	-5.4%	-17.6%	3.3%	5.1%	3.9%	3.4%
Demand (thous.)	848.4	835.2	848.7	875.8	894.6	892.2	889.8	847.5	769.7	805.3	847.5	869.1	881.7
Percentage change from prior year	-4.3%	-1.6%	1.6%	3.2%	2.1%	-0.3%	-0.3%	-4.8%	-9.2%	4.6%	5.2%	2.5%	1.5%
Average room supply (thous.)	1,446.2	1,447.5	1,460.7	1,464.6	1,463.7	1,461.6	1,459.0	1,471.8	1,469.8	1,474.3	1,484.7	1,488.9	1,501.0
Percentage change from prior year	0.8%	0.1%	0.9%	0.3%	-0.1%	-0.1%	-0.2%	0.9%	-0.1%	0.3%	0.7%	0.3%	0.8%

Source: Smith Travel Research; PwC

End of a six-year detour in sight

Since the start of the current recovery in mid-2009, the industry's peak RevPAR in 2007 (\$65.53) has stood as a frequently referenced benchmark. It will have been a six-year detour, but we are looking ahead to 2013 as the year in which industry RevPAR finally exceeds its 2007 peak.

This is a welcome threshold. However, it risks overstating the extent of the recovery. Broad consumer prices are on track to increase 13.3 percent between 2007 and 2013, as measured by the CPI, while hotel prices have lagged. The message is that despite the strong recovery in lodging since the end of the recession, when it comes to top-line performance measures, hoteliers are still left with more ground to cover. Hotel brands, operators, and owners will

continue to look for revenue growth opportunities. Some will be competitive, such as improving distribution methods, targeting refreshed brands to specific consumers, and capturing market share wherever possible. Others however will have broader benefits. For example, travel sector advocacy initiatives, such as a focus on growing the US share of international travel and steps to convey the value of meetings and mitigate fallout from attention on specific incidents such as the GSA event in Las Vegas, have a potential to capitalize on the travel sector as a positive force in the national economic recovery. Local and regional strategies also have potential benefits. In a sector recognized for its shared interests, successful leaders will emphasize competitive opportunities, as well as such broader initiatives.

Contact us

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For more information,
please contact
Maridel Gutierrez at
(305) 375-6253,
[maridel.gonzalezgutierrez@
us.pwc.com](mailto:maridel.gonzalezgutierrez@us.pwc.com) or email us at
contact.hospitality@us.pwc.com.

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Time series data

Time series data in this publication are subject to revision periodically. All prior forecasts are superseded by the most current forecast.

Data sources

PwC would like to credit the following organizations with providing data used in this issue: F.W. Dodge—quarterly hotel starts; Smith Travel Research—monthly hotel performance statistics (occupancy rate, ADR, supply, demand); Macroeconomic Advisers, LLC—macroeconomic forecasts; Bureau of Economic Analysis—real GDP; Bureau of Labor Statistics—consumer price index.

Further reading



US Real Estate Insights

What share of the lodging asset inventory in the US is currently owned by public lodging REITs? What are the characteristics of the REIT-owned hotel base, how does it differ from the broader US lodging industry, and what are the implications for REIT investors and other market participants? These are some of the questions addressed in an article in upcoming June 2012 issue of Real Estate Insights. The publication provides perspectives on the latest market and economic trends, regulatory activities and legislative changes affecting the real estate industry.



Experience Radar 2012

Consumer insights for the US hospitality industry

Travelers are back on the road and the hotels and brands that deliver the experiences that customers not only want, but also are willing to pay for, can benefit from the continued lodging recovery. Using an approach that differs from traditional methods of consumer research, PwC's Experience Radar measures the features consumers value as they select a hotel, and reveals that issue resolution and current room amenities are particularly sought by customers. The research points to important

issues on the minds of hoteliers today, including: attracting and retaining guests, investing in capital improvements, and reaping benefits from “brand ambassadors.”

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Warren Marr, Editor

Aran Ryan, Contributing writer

To have a discussion about
Hospitality Directions US,
please contact:

Scott D. Berman

Principal and US Industry Leader,
Hospitality & Leisure
Phone: +1 (305) 375 6210

Warren Marr

Managing Director,
Hospitality & Leisure
Phone: +1 (267) 330 3062

Aran Ryan

Director, Hospitality & Leisure
Phone: +1 (267) 330 3136

Address all inquiries to:
contact.hospitality@us.pwc.com