

Hospitality Directions US

Hospitality and Leisure

May 2011

Q1

At a glance

Balanced growth in occupancy and ADR will result in a 7.6 percent increase in RevPAR in 2011, followed by a 7.0 percent increase in 2012.

Activity in the lodging sector has recovered to a similar footing as broader travel and tourism, though a pricing gap is evident.

Hospitality business leaders will monitor how pricing unfolds, recognizing that the pace of recovery can change quickly.

Balanced growth in occupancy and average daily rate (ADR) will result in a 7.6 percent increase in revenue per available room (RevPAR) in 2011. RevPAR is expected to grow 7.0 percent in 2012.

Despite experiencing a steeper decline during the recent recession, activity in the lodging sector has recovered to a similar footing as broader travel and tourism activity, though a pricing gap is evident.

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Demand growth continues, focus turns to pricing

Performance in the initial months of 2011 confirmed that travel volumes are returning, but raised questions about the anticipated timing of the ADR recovery. Despite weaker ADR gains in the first quarter than we had previously anticipated, we believe the outlook for a pricing recovery remains intact. Increased occupancy rates and heightened focus on pricing will support solid ADR growth through the balance of the year. Highlights of our outlook, and related economic assumptions, are outlined as follows.

First quarter results showed continued recovery in lodging demand, despite a period of temporarily slower economic growth. Occupied room nights during the quarter were 6.7 percent ahead of the prior year, and ADR increased 3.1 percent. Combined with

moderate supply growth, this resulted in a RevPAR gain of 9.0 percent, which was slightly below our previous expectation of a 9.6 percent gain.

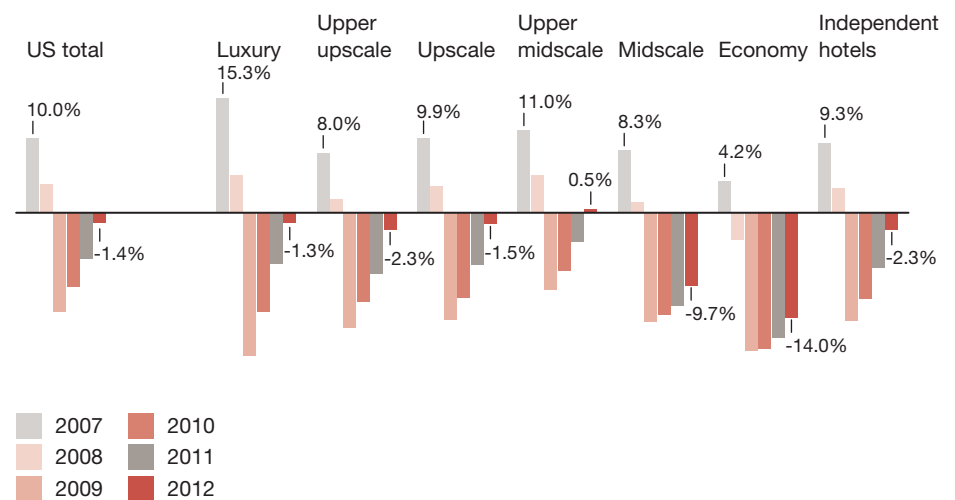
The lodging recovery is anticipated to continue at a solid pace through 2011, resulting in a 7.6 percent increase in RevPAR for the year. Three factors support this outlook. First, a strengthening economy in the second half of 2011 is expected to fuel further growth in demand. Second, the recent growth of lodging demand, including a pick-up in business travel, and more recent increases in group demand, has laid a foundation for ADR recovery. Third, construction activity remains suppressed and supply growth has slowed as anticipated, reducing the dilutive impacts of new hotel openings.

Our outlook for RevPAR growth during 2011 decreased only slightly from the outlook we released in January 2011, which anticipated 7.8 percent growth. However, as a result of strong demand trends and delays in expected ADR gains, the

underlying sources of RevPAR growth assumed in the forecast have shifted. We now anticipate that occupancy and ADR gains will be more balanced in 2011, with a 3.8 percent occupancy increase, and a 3.7 percent increase in ADR. In 2012, we

expect RevPAR to increase 7.0 percent, as occupancy gains slow to 1.4 percent and ADR growth accelerates to 5.5 percent. Overall, 2012 RevPAR, adjusted for inflation, is expected to be 1.4 percent below its ten-year average (Figure 1).

Figure 1: RevPAR, real, percentage difference from ten-year average, 2007 to 2012



Source: Smith Travel Research; PwC
 Note: To simplify the graph, data labels are shown for 2007 and 2012 only. Values for other years are available upon request. Ten-year average reflects 2000 to 2009.

Economic outlook moderates, but recovery is intact

The initial months of 2011 brought slower economic growth than initially anticipated; however, the primary factors contributing to this slowing were temporary. Because the momentum of recovery is largely intact, economic growth is expected to regain traction going into the second half of the year. On balance, temporary slowing in the first quarter, additional fiscal constraint, and higher oil prices, have resulted in expectations for the pace of the economic recovery in 2011 and 2012 that are moderately slower than anticipated at the start of the year.

Relative to the assumptions underlying our previous outlook, Macroeconomic Advisers' forecast

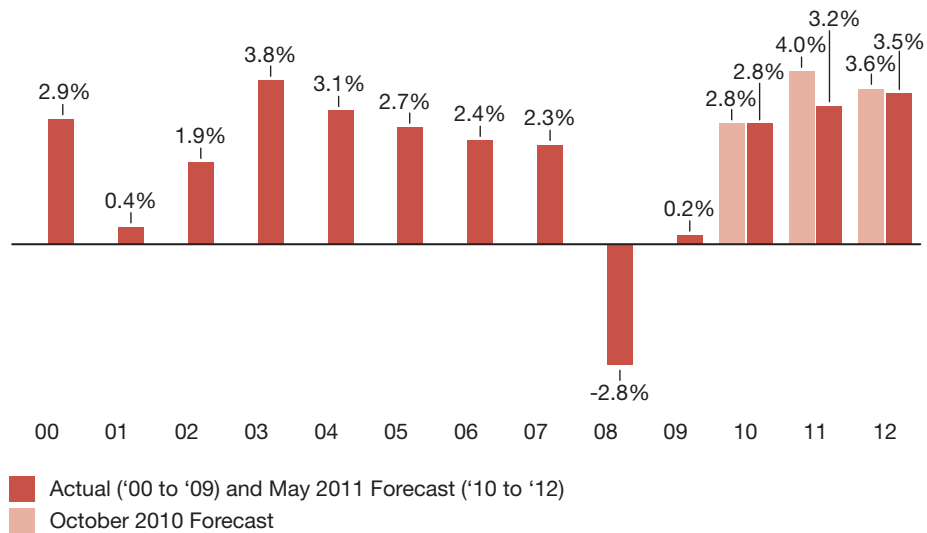
for GDP growth in 2011 has been reduced from 4.0 percent to 3.2 percent, on a fourth quarter over fourth quarter basis, as shown in Figure 2.¹ In comparison, consensus estimates of annualized GDP growth during 2011 have decreased from 3.3 percent to 2.9 percent.² Though first quarter GDP growth was slower than expected (1.8 percent annualized rate), this was not a primary driver to the reduction of growth expectations. First quarter growth was restrained by slower than expected defense spending, harsh weather, and weaker exports, and Macroeconomic Advisers expects each of these factors to unwind in the second quarter, allowing the underlying momentum of the recovery to re-assert itself.

¹ The Macroeconomic Advisers forecast and commentary referenced on this page, and used as an input in our lodging forecast, was released on May 9, 2011.

² Wall Street Journal Economic Forecasting survey (May 6 to 11, 2011). Retrieved from <http://online.wsj.com/public/page/economic-forecasting.html>.

Figure 2: Annual growth in GDP, 2000 to 2012

Real GDP growth, on a fourth quarter over fourth quarter basis



Source: Bureau of Economic Analysis; Macroeconomic Advisers, LLC (forecast released May 2011)

Setting aside first quarter growth factors, the primary causes of the reduction in the outlook were advances on fiscal restraint and higher oil prices. As events unfolded in March and April, Macroeconomic Advisers incorporated assumptions on Federal spending cuts in 2011 and 2012 that reduced GDP growth estimates. Similarly, higher oil prices also fed through to reduce expectations, cutting 2011 GDP growth estimates by nearly 0.5 percentage points.

Despite these reductions, the outlook for the economic recovery remains moderately

positive. Solid GDP growth in the second half of 2011 and 2012 is expected to be sufficient to bring the unemployment rate down to 8.3 percent by the end of 2012. Monthly employment gains are expected to accelerate from approximately 165,000 a month in May and June to between 200,000 and 250,000 a month over the second half of 2011. The following are key considerations in the outlook.

- Sustained business confidence shows through in strong investment spending. Business spending on equipment and software

grew at a 16.9 percent rate during 2010, and is expected to continue at double-digit rates through 2011. Companies may not be hiring aggressively, but they are continuing to invest in large technology projects and other equipment.

- Consumer spending growth is expected to remain solid through 2011. De-leveraging by household has likely peaked, as the saving rate that shot up during the recession is expected to moderate. Households will continue to reduce outstanding debt, but will do so at a slower pace,

releasing cash flow for pent-up purchases, and allowing spending to grow faster than income for a period. Though the impact of falling housing prices continues as a negative factor, overall wealth effects are boosted by gains in equity values, and are expected to boost spending.

- Financial conditions became more supportive of growth during recent weeks. Bank lending conditions have improved more than expected, Treasury yields are lower, and corporate yields and mortgage rates have fallen mostly in

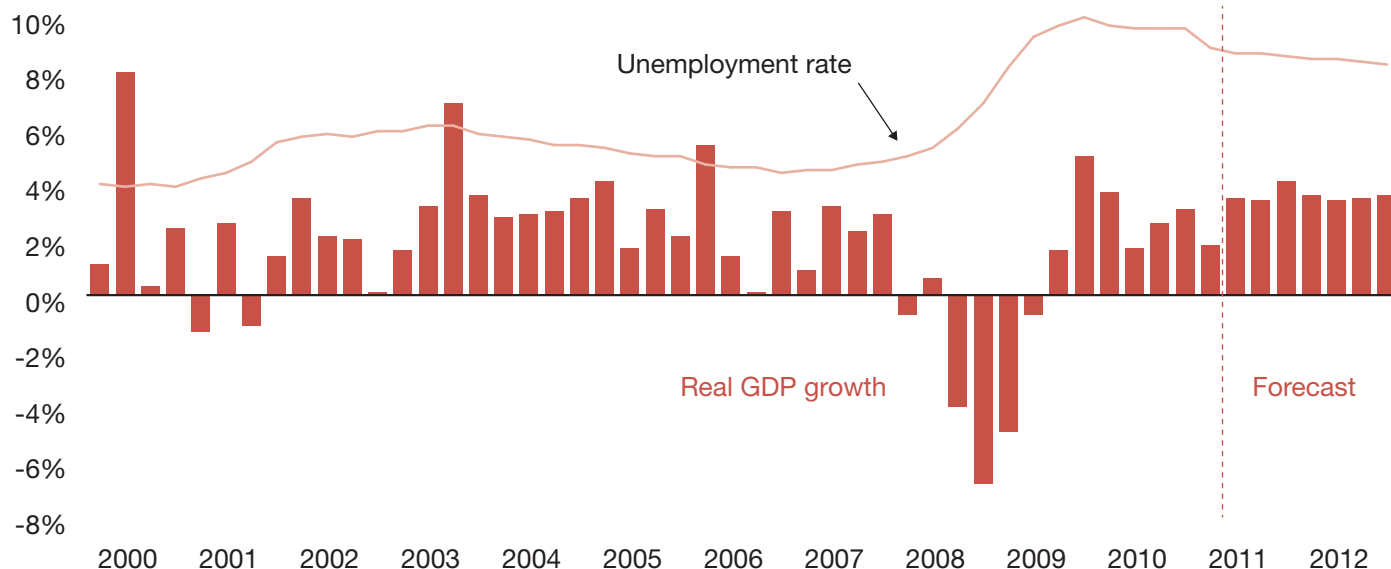
line with Treasury yields, indicating relatively unchanged assessments of risk appetite and credit risk, even as market expectations have shifted toward less robust growth.

- The economy will experience increased fiscal drag in 2012. The wind down of the stimulative effects of the first Obama stimulus plan and the fiscal compromise reached in December 2010 (extending Bush tax cuts, temporary payroll tax cut, and the extension of emergency unemployment benefits) will reduce growth. During this

wind down, there is a “pay back” effect as the boost of fiscal stimulus is reversed. Meanwhile, reductions to federal discretionary spending are assumed to become incrementally more significant in 2012.

Overall, Macroeconomic Advisers forecasts quarterly GDP growth at an annualized rate of 3.5 percent in the second quarter of 2011, increasing to a 3.8 percent rate in the second half of 2011, and then slowing to 3.5 percent during 2012, as illustrated in Figure 3.

Figure 3: Annualized rate of growth in real GDP and unemployment rate, 2000Q1 to 2012Q4



Source: Bureau of Economic Analysis; Bureau of Labor Stateistics; Macroeconomic Advisers, LLC (forecast released May 2011)

Our key macroeconomic assumptions

The following describes the key assumptions supporting the current macroeconomic outlook.^{3,4}

Factor	Assumption
Consumer spending	Consumer spending growth in recent quarters has experienced an added boost from spending on durable goods, including motor vehicles, as households release demand “pent up” during the recession. Consumer spending, adjusted for inflation, is expected to grow at a 2.7 percent annualized rate in the first half of 2011, before improving to 3.1 percent growth in the second half of 2011.
Labor markets	Employment growth is expected to accelerate in 2011, from monthly gains of 134,000 jobs in the first quarter to 247,000 in the fourth quarter. The unemployment rate is expected to decline, falling from 9.6 percent in the fourth quarter of 2010, to 8.6 percent and 8.3 percent in the fourth quarters of 2011 and 2012, respectively.
Oil prices	Oil prices increased substantially in March and April. As a result, the outlook is for oil prices to be 40.4 percent higher on average in 2011, after a gain of 27.8 percent in 2010. This outlook predates the decline in oil prices in mid-May.
US dollar	The value of the US dollar rose 5.9 percent in 2009, and fell 3.4 percent in 2010. Recent declines have set expectations for 2011 at a level 6.2 percent below 2010, and for 2012 at 0.8 percent below 2011.
Equity and housing markets	Equities have risen 32 percent since the low for 2010 reached in early July, and are currently (as of May 13, 2011) at levels slightly ahead of the average for 2006. Housing prices through March 2011, as measured by the CoreLogic Home Price Index, have decreased for eight consecutive months. Housing prices are expected to decrease slightly in 2011 and then increase slightly in 2012. Overall, an estimated 23.1 percent of all residential properties with mortgages were in negative equity in December 2010, which is down slightly from 23.8 percent at the end of 2009.
Inflation	Boosted by food and gasoline prices, the consumer price index (CPI) is expected to increase 3.6 percent in 2011, slowing to 1.6 percent in 2012. Long-term inflation expectations average 2.1 percent.
Fiscal stimulus	Fiscal drag in 2012 is assumed to continue, due to the payback from the American Recovery and Reinvestment Act of 2009 and the December 2010 fiscal stimulus compromise, and as a result of a decline in federal discretionary spending.
Terrorist threats and natural disasters	The forecast assumes no significant terrorist acts in the United States or against US interests abroad that could negatively affect consumer travel. Also, the forecast does not incorporate an expectation of any major natural disasters.

³ Macroeconomic Advisers, LLC. (May 9, 2011) *Outlook Commentary*. Retrieved from <http://macroadvisers.com>.

⁴ Macroeconomic Advisers, LLC. (May 11, 2011) *Forecast Details*. Retrieved from <http://macroadvisers.com>.

Our outlook for the US lodging industry

Demand

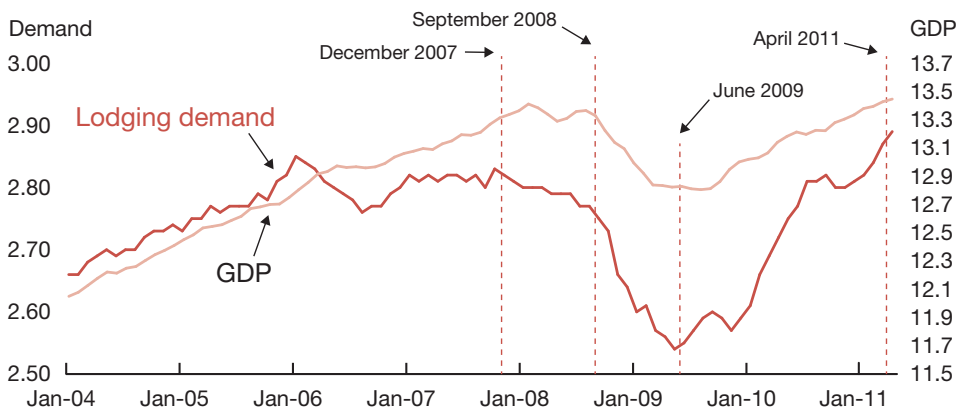
Our outlook continues to anticipate a transition of lodging demand growth from cyclical rebound to more sustained growth. We had expected signs of this transition would be evident in the first quarter of 2011, but results proved stronger than

anticipated, with first quarter demand 6.7 percent higher than a year ago. In comparison, demand in the fourth quarter of 2010 was 8.3 percent higher than the year-ago quarter.

Recent gains have raised our overall demand expectations for 2011, but we anticipate growth will slow as the year progresses. The underpinning of this outlook is the core tenet that a durable positive relationship exists between GDP growth and lodging demand growth. We've experienced a strong rebound in lodging demand since mid-2009, but this pace is expected to gradually taper, reverting to a situation in which further increases in lodging demand are closer in line with growth in economic fundamentals.

Recent monthly results confirm the steady accent of lodging demand, as shown in Figure 4. Lodging demand for the three-month period of February, March and April averaged 2.89 million room nights daily (seasonally

Figure 4: Monthly lodging demand and GDP, 2004 to 2011, three-month moving average



Left axis: Monthly lodging demand, average daily room nights, in millions, seasonally adjusted, through April 2011

Right axis: Monthly GDP index, billions of 2005 dollars, seasonally adjusted, through March 2011

Note: April 2011 lodging demand is estimated based on daily results from Smith Travel Research. Macroeconomic Advisers' index of monthly GDP is a monthly indicator of real aggregate output that is conceptually consistent with real gross domestic product. As of this publishing, monthly GDP was not yet available for April 2011.

Source: Macroeconomic Advisers, LLC; Smith Travel Research; PwC

adjusted). This was slightly higher than the 2006 and 2007 annual averages of 2.79 and 2.82 million, respectively.

Using weekday and weekend data as a proxy for business and leisure travel, respectively, first quarter results for upper-tier hotels show continued improvement.⁵ Indeed, the share of available rooms occupied by weekday transient travelers has nearly regained 2007 levels, and the share occupied by weekend transient travelers exceeded 2007 levels, as shown in Figure 5. Considered in connection with the supply growth experienced since 2007, these results indicate that the volume of transient travelers using upper-tier hotels

has increased substantially relative to 2007, keeping pace with supply growth.⁶

In part, increased volumes in the transient segment are the result of efforts by hotels to attract replacements for group business, which has not regained 2007 levels. As shown in Figure 5, the share of rooms occupied by group demand during weekday periods in the first quarter was still off 18.8 percent from 2007 levels. This represents an improvement from 2010, when such group demand was down 25.2 percent from 2007, but upper-tier hotels still have ground to cover to return to a mix of business that will help optimize profitability.

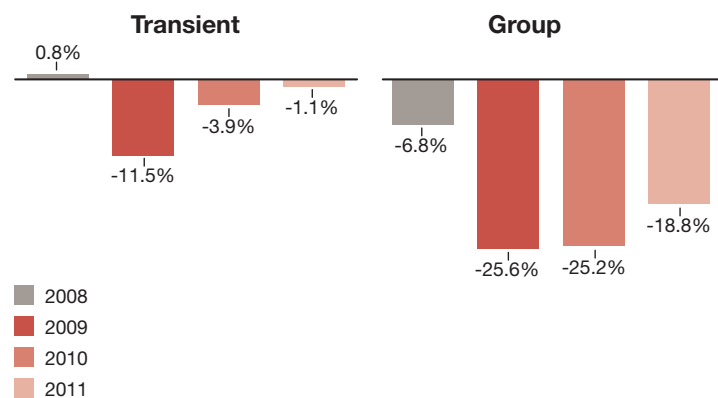
ADR patterns have shown almost a mirror image. Group rates, frequently contracted a year or more in advance for major events, have declined less steeply than transient rates, and group ADR during weekdays averaged just 3.7 percent below 2007 levels during the first quarter, compared to a 9.3 percent gap for transient weekday ADR. In part, lower weekday transient rates reflect short-term tactics to accept lower-rated business available through alternative distribution channels, such as leisure guests booking through online travel agents. Steps taken by hotels to reduce the volume of business generated through such channels have the potential to result in ADR gains that are

⁵ Upper-tier refers to luxury, upper upscale and upper-tier independent properties, as tracked by Smith Travel Research.

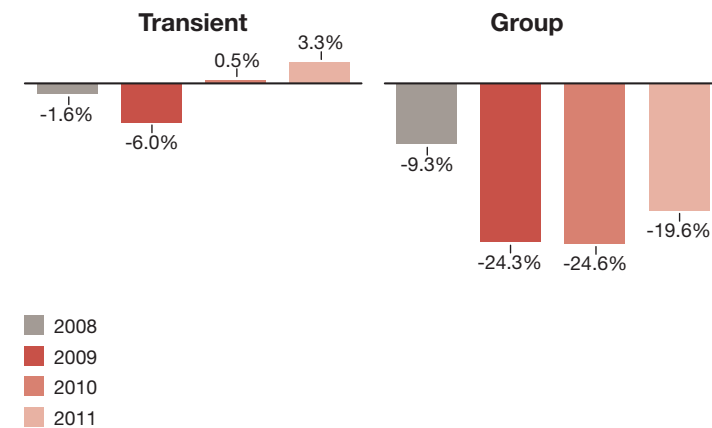
⁶ Rooms available in the luxury and upper upscale segments in the first quarter of 2011 were 24.4 percent and 12.1 percent greater than levels in the first quarter of 2007, respectively.

Figure 5: Change from peak: occupancy and ADR levels at upper-tier properties, first quarter of each year, shown as percentage difference from year-to-date 2007 levels

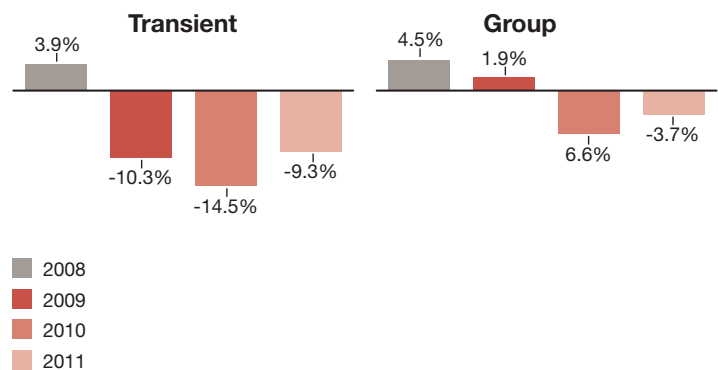
Occupancy: Weekday



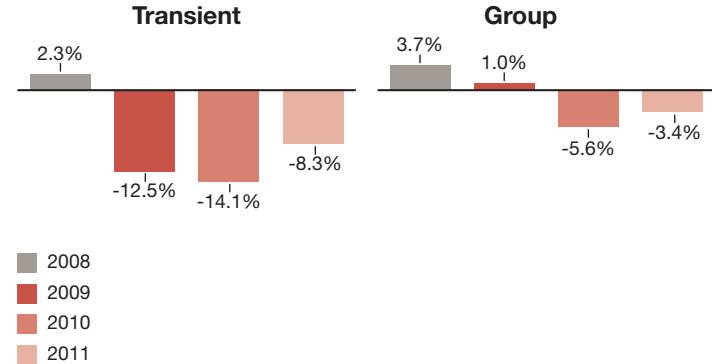
Occupancy: Weekend



ADR: Weekday



ADR: Weekend



Source: Smith Travel Research; PwC

incremental to price increases for business travelers. Such yield management strategies support the expectation that as business travel continues to recover, solid ADR gains will resume.

Supply

During 2010, the ratio of new hotel construction starts to existing supply fell to its lowest level in over 20 years (equivalent to 0.6 percent of existing supply). The most recent comparable period occurred in 1993, when construction activity slowed as the lodging sector worked through the combined effects of excess supply added during the late 1980s and a national recession in 1990-91. Information on construction starts during the fourth quarter

of 2010 and the first quarter of 2011 shows a slight increase in activity on a seasonally adjusted basis, but even that level remains quite low (equivalent to 0.7 percent of existing supply).

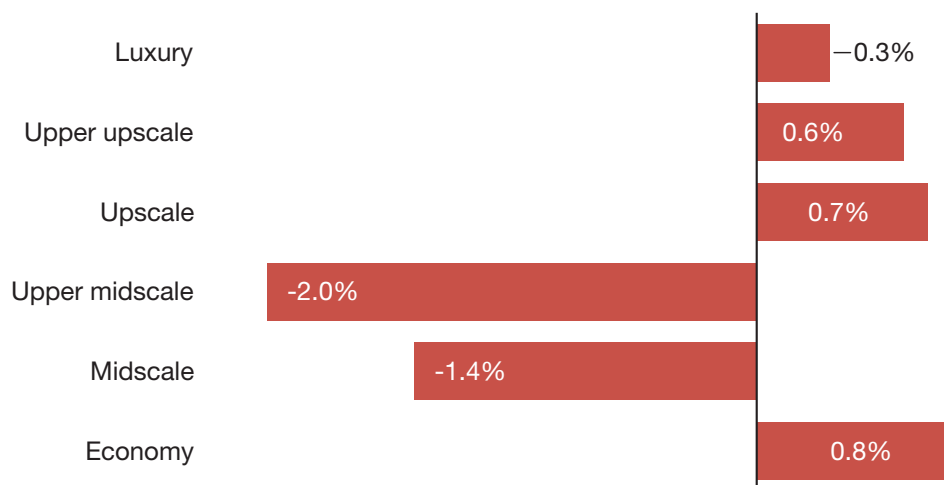
As a result of reduced construction starts, the number of rooms at hotel projects currently under construction with opening dates in 2011 and 2012 has decreased to 0.7 percent and 0.3 percent of estimated prior year supply, respectively. This measure differs within individual chain-scale segments. For example, projects under construction in the upper upscale segment with opening dates in 2011 and 2012 represent 0.3 percent and 0.4 percent of estimated prior year supply, respectively. As

an indication of the moderate ongoing pace of construction in the upscale segment, the same measures are 1.4 percent and 0.9 percent, respectively.

Conversion activity is also an important element of supply changes within individual chain-scale segments, particularly as new openings slow. Each chain-scale segment experiences a flow of conversions into the segment—as hotels change from brands outside the segment or unaffiliated independent status, to a brand inside the segment—as well as conversions out. “Net conversions” refers to the combined effect of conversions in and out.

As shown in Figure 6, over the past five years, the economy

Figure 6: Net conversions as a percentage of average room supply
(annual average during a five-year period, February 2006 to February 2011)



Source: Smith Travel Research; PwC

segment has experienced positive annual net conversions equivalent to 0.8 percent of supply, which accounts for about two-thirds of the overall supply growth in this segment. As a result, even though there are very low levels of construction activity in the economy segment, we anticipate some ongoing supply growth. Conversions are also a source of growth for the upscale and upper upscale

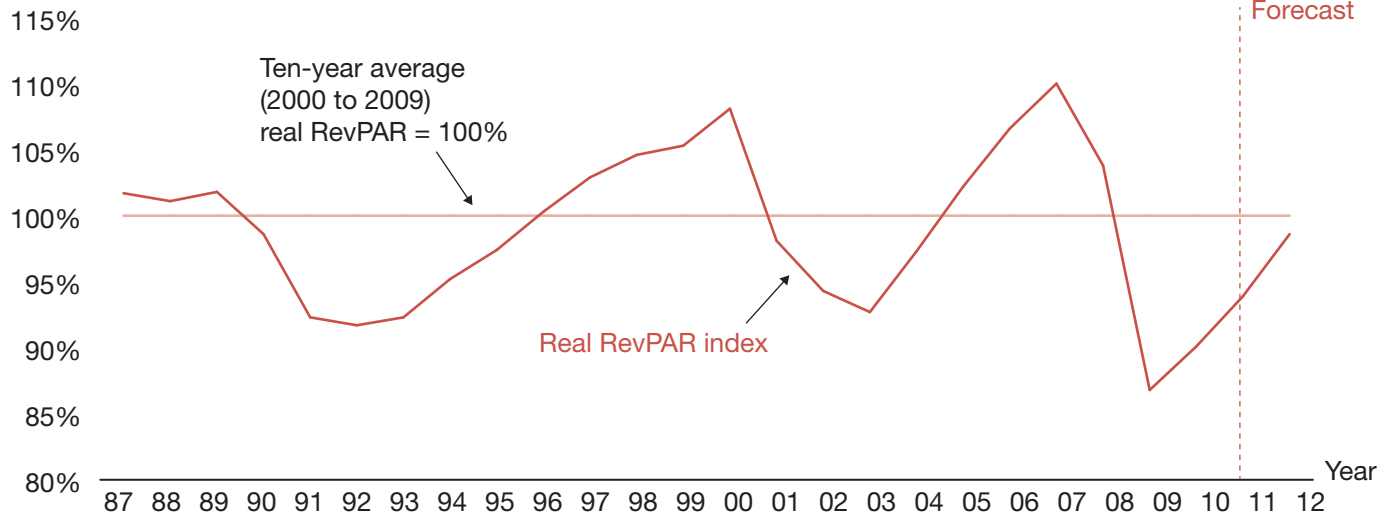
segments, though most of the growth over the past five years in these segments is attributable to new builds.

Occupancy

With growing demand and decelerating supply growth, occupancy increased 3.1 percentage points in 2010, reaching 57.6 percent. This is 4.5 percentage points below the 20-year average of 62.1 percent.

Figure 7: Real RevPAR, 1987 to 2012

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



Source: Smith Travel Research; Bureau of Labor Statistics; Macroeconomic Advisers, LLC; PwC

ADR and RevPAR

Results in the first quarter of 2011 showed ADR levels that were 3.1 percent higher than prior year levels, but which fell short of our previous expectations. As a result, our outlook for overall ADR growth in 2011 is lower than in our January outlook, but still represents a solid 3.7 percent gain over 2010. This anticipates that a combination of benign supply growth and recognition

that demand is returning across many markets, will help orient hotels to focus on rebuilding rate.

Additional factors positive for ADR growth include the negotiating stance taken by hotel operators during corporate rate negotiations last fall, and an improved context for group bookings (particularly corporate) that is building some confidence that group-oriented hotels will have an incrementally better base of

advance bookings with less risk of attrition. Also, increased confidence in recovering markets can support distribution and yield management tactics that refine the use of certain distribution channels, such as online travel agents (OTAs).

Figure 7 shows our outlook for real RevPAR, and Tables 1 and 2 summarize the key annual and quarterly measures in our US outlook.

Table 1: US lodging outlook, May 24, 2011

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	59.7%	59.0%	59.3%	61.3%	63.0%	63.1%	62.8%	59.8%	54.5%	57.6%	59.8%	60.6%
Percentage change from prior year	-5.5%	-1.1%	0.5%	3.3%	2.8%	0.2%	-0.5%	-4.8%	-8.8%	5.6%	3.8%	1.4%
Pct. Point difference from prior year	(3.5)	(0.7)	0.3	2.0	1.7	0.1	(0.3)	(3.0)	(5.3)	3.1	2.2	0.9
Average daily rate (\$)	\$83.61	\$82.54	\$82.71	\$86.19	\$91.03	\$97.82	\$104.32	\$107.35	\$98.17	\$98.07	\$101.67	\$107.25
Percentage change from prior year	-1.2%	-1.3%	0.2%	4.2%	5.6%	7.5%	6.6%	2.9%	-8.6%	-0.1%	3.7%	5.5%
Nominal RevPAR (\$)	\$49.91	\$48.71	\$49.03	\$52.80	\$57.35	\$61.75	\$65.52	\$64.18	\$53.52	\$56.47	\$60.79	\$65.04
Percentage change from prior year	-6.7%	-2.4%	0.7%	7.7%	8.6%	7.7%	6.1%	-2.0%	-16.6%	5.5%	7.6%	7.0%
Inflation-adjusted RevPAR (\$, 2005 base)	\$55.05	\$52.88	\$52.03	\$54.58	\$57.35	\$59.82	\$61.70	\$58.22	\$48.71	\$50.56	\$52.71	\$55.33
Percentage change from prior year	-9.3%	-3.9%	-1.6%	4.9%	5.1%	4.3%	3.1%	-5.6%	-16.3%	3.8%	4.2%	5.0%
Inflation as measured by CPI	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.9%	3.8%	-0.3%	1.6%	3.3%	1.9%
Real GDP, percentage change from prior year (annual average)	1.1%	1.8%	2.5%	3.6%	3.1%	2.7%	1.9%	0.0%	-2.6%	2.9%	2.8%	3.6%
Real GDP, percentage change from prior year (fourth quarter over fourth quarter)	0.4%	1.9%	3.8%	3.1%	2.7%	2.4%	2.3%	-2.8%	0.2%	2.8%	3.2%	3.5%
Average daily rooms sold (000s)	2,559	2,571	2,609	2,708	2,783	2,795	2,815	2,746	2,579	2,774	2,900	2,955
Percentage change from prior year	-3.2%	0.4%	1.5%	3.8%	2.8%	0.4%	0.7%	-2.5%	-6.1%	7.6%	4.5%	1.9%
Room starts (000s)	90.5	68.4	76.6	81.3	83.4	138.9	146.0	132.6	47.6	28.9	46.8	60.8
Percentage change from prior year	-24.8%	-24.4%	12.0%	6.0%	2.6%	66.5%	5.1%	-9.2%	-64.1%	-39.2%	61.8%	30.0%
End-of-year supply (000s)	4,286	4,349	4,384	4,385	4,378	4,412	4,489	4,630	4,758	4,809	4,831	4,836
End-of-year supply change from prior year	2.0%	1.5%	0.8%	0.0%	-0.2%	0.8%	1.7%	3.1%	2.8%	1.1%	0.4%	0.1%
Average supply change from prior year	2.4%	1.6%	1.0%	0.4%	-0.1%	0.2%	1.2%	2.5%	3.0%	1.9%	0.7%	0.4%

Source: Smith Travel Research; PwC

Table 2: US lodging outlook, May 24, 2011

	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4
Occupancy (percent)	57.2%	64.2%	65.2%	52.5%	50.9%	57.2%	59.9%	50.0%	52.0%	60.7%	63.9%	53.5%	54.9%	63.4%	65.9%	54.8%	55.7%	64.1%	66.9%	55.7%
Percentage change from prior year	-3.3%	-3.2%	-4.3%	-8.6%	-11.1%	-11.0%	-8.1%	-4.7%	2.2%	6.2%	6.7%	7.0%	5.7%	4.4%	3.1%	2.4%	1.5%	1.2%	1.5%	1.6%
Pct. Point difference from prior year	-2.0%	-2.2%	-2.9%	-5.0%	-6.3%	-7.1%	-5.3%	-2.4%	1.1%	3.5%	4.0%	3.5%	2.9%	2.7%	2.0%	1.3%	0.8%	0.8%	1.0%	0.9%
Occupancy (percent, seas. adj.)	61.6%	61.0%	59.5%	57.2%	54.9%	54.2%	54.6%	54.6%	56.1%	57.5%	58.1%	58.4%	59.3%	59.8%	59.9%	60.0%	60.3%	60.5%	60.8%	61.0%
Average daily rate (\$)	\$108.90	\$108.21	\$107.83	\$104.13	\$100.70	\$98.09	\$97.64	\$96.44	\$96.35	\$98.07	\$99.23	\$98.30	\$99.37	\$100.83	\$102.96	\$103.32	\$105.35	\$106.34	\$108.32	\$108.81
Percentage change from prior year	5.2%	4.4%	3.3%	-1.6%	-7.5%	-9.4%	-9.4%	-7.4%	-4.3%	0.0%	1.6%	1.9%	3.1%	2.8%	3.8%	5.1%	6.0%	5.5%	5.2%	5.3%
Average daily rate (\$, seas. adj.)	\$108.00	\$108.18	\$107.76	\$104.88	\$100.13	\$98.16	\$97.41	\$97.00	\$95.99	\$98.21	\$98.89	\$98.81	\$99.12	\$100.99	\$102.55	\$103.83	\$105.16	\$106.51	\$107.90	\$109.34
RevPAR (\$)	\$62.28	\$69.52	\$70.30	\$54.63	\$51.21	\$56.06	\$58.51	\$48.24	\$50.07	\$59.52	\$63.44	\$52.63	\$54.56	\$63.88	\$67.86	\$56.65	\$58.69	\$68.21	\$72.45	\$60.61
Percentage change from prior year	1.7%	1.0%	-1.1%	-10.0%	-17.8%	-19.4%	-16.8%	-11.7%	-2.2%	6.2%	8.4%	9.1%	9.0%	7.3%	7.0%	7.7%	7.6%	6.8%	6.8%	7.0%
RevPAR (\$, seas. adj.)	\$66.51	\$65.99	\$64.17	\$59.98	\$54.94	\$53.22	\$53.22	\$52.96	\$53.87	\$56.47	\$57.49	\$57.75	\$58.79	\$60.36	\$61.40	\$62.32	\$63.37	\$64.46	\$65.57	\$66.68
Inflation as measured by CPI (seas. adj., percentage change from prior year)	4.2%	4.3%	5.3%	1.6%	-0.2%	-1.0%	-1.6%	1.5%	2.4%	1.8%	1.2%	1.2%	2.2%	3.4%	3.9%	3.6%	2.7%	1.9%	1.5%	1.6%
Average daily rooms sold (000s)	2,577	2,950	3,025	2,431	2,362	2,703	2,864	2,383	2,475	2,932	3,104	2,582	2,641	3,074	3,219	2,664	2,692	3,123	3,281	2,719
Percentage change from prior year	-1.4%	-1.0%	-1.8%	-5.9%	-8.4%	-8.4%	-5.3%	-1.9%	4.8%	8.5%	8.4%	8.3%	6.7%	4.8%	3.7%	3.2%	2.0%	1.6%	1.9%	2.1%
Average daily rooms sold (000s, seas. adj.)	2,794	2,787	2,741	2,654	2,566	2,551	2,589	2,606	2,692	2,767	2,804	2,825	2,874	2,900	2,906	2,917	2,931	2,946	2,962	2,977
Room starts (000s)	35.9	37.7	35.1	23.8	12.9	13.8	11.1	9.8	5.4	8.2	6.7	8.6	8.1	12.1	12.8	13.8	11.3	16.3	16.1	17.1
Percentage change from prior year	21.8%	-7.6%	1.8%	-42.2%	-64.2%	-63.4%	-68.5%	-58.7%	-57.8%	-40.6%	-39.2%	-13.0%	48.6%	47.9%	89.6%	61.6%	40.3%	34.6%	25.9%	23.7%
End-of-quarter supply (000s)	4,523	4,617	4,651	4,630	4,660	4,754	4,788	4,758	4,774	4,850	4,859	4,809	4,819	4,884	4,886	4,831	4,836	4,902	4,907	4,856
Percentage change from prior year	2.2%	2.3%	2.7%	3.1%	3.0%	3.0%	2.9%	2.8%	2.4%	2.0%	1.5%	1.1%	1.0%	0.7%	0.6%	0.4%	0.3%	0.4%	0.4%	0.5%

Source: Smith Travel Research; PwC

Lodging demand and pricing in context

Solid demand gains, but lagging ADR, characterized the lodging sector in 2010 and the initial months of 2011. How does this performance compare to the broader travel and tourism industry? PwC addressed this question in a recent assessment of the broader travel and tourism context, and noted three key observations.⁷

- 1 Travel and tourism activity is still below trend, but the difference is similar to overall consumer spending and GDP levels, and there is further room for recovery in both activity and prices as the economy strengthens.
- 2 Lodging demand has recovered from its low point in the recession and regained a similar footing as other travel and tourism sectors.
- 3 Lodging pricing, though improving, is notably weaker than in other travel and tourism sectors.

These key observations are summarized on the accompanying pages.

Our approach

It's useful to understand two aspects of our approach. First, we grounded the analysis by comparing recent levels of per capita activity to averages experienced during a longer period, using the trend growth over the 1998 to 2009 period. Second, we focused on measures of activity separately from prices. For example, the number of rooms occupied or miles traveled, rather than rooms revenue or ticket revenue.

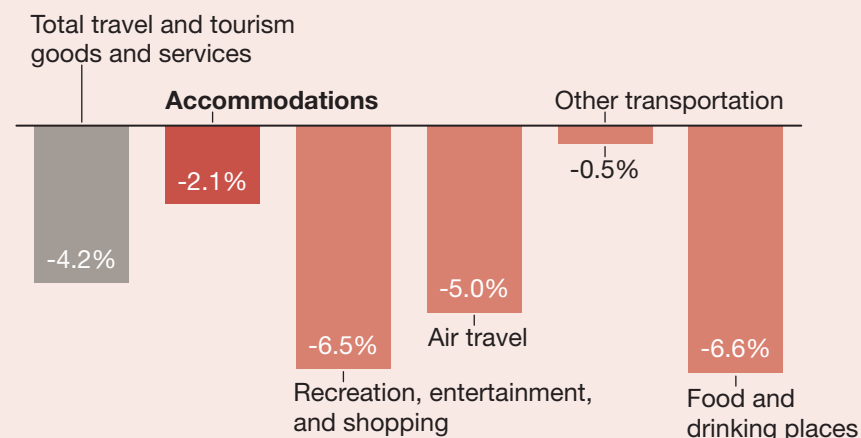
As part of this approach of focusing on activity separately from price, we used information available on the “output” of various travel and tourism sectors. Output measures the quantity of goods and services sold to travelers. For hotels, output can be thought of as the quantity and quality of services, such as rooms, banquets and meals, separate from the prices paid for those services. Though output is measured in dollar terms, using a base year, in this analysis it's useful to think of output simply as a measure of the quantity and quality of goods and services consumed, or equivalently, a measure of travel and tourism “activity.”⁸

⁷ PwC analyzed several sources of information in this analysis, including Smith Travel Research, the Bureau of Transportation Statistics, and the Bureau of Economic Analysis (BEA). The US Travel and Tourism Satellite Accounts maintained by the BEA were particularly useful in this analysis. In this data, travel and tourism includes spending by business and leisure travelers who have traveled outside of their usual environment (50 to 100 miles, depending on the data source), or who have stayed overnight in a hotel or motel. It is focused on goods and services produced in the US, and includes spending by international visitors to the US.

⁸ Output can also be measured in current dollars, which effectively includes the effect of price changes. In our approach, we've used output to refer to real output, or output that is expressed in dollars of a base year.

Figure 8: Travel and tourism output and selected benchmarks, 2010, per capita, percentage difference from trend

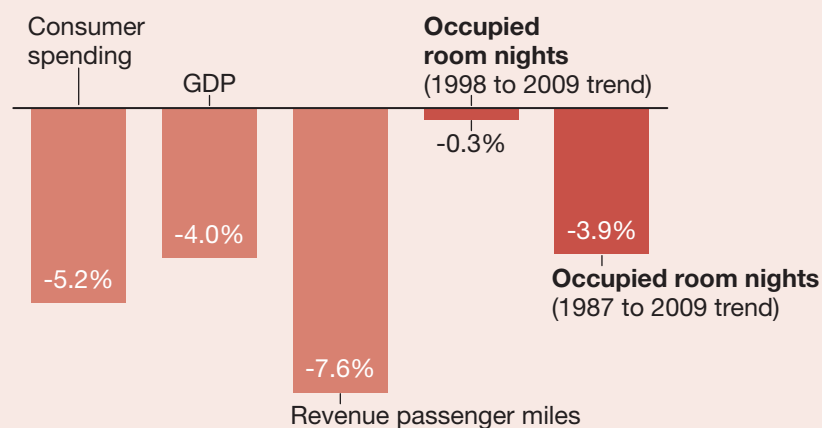
Travel and tourism output



Note: Trend calculated on period from 1998 to 2009.

Source: Bureau of Economic Analysis; Bureau of Transportation Statistics; Smith Travel Research; PwC

Selected benchmarks



Note: Trend calculated on period from 1998 to 2009, unless otherwise noted. Revenue passenger miles measures activity in the air travel sector as one revenue passenger transported one mile. The series used in this analysis measures passengers on domestic, scheduled flights of US airlines.

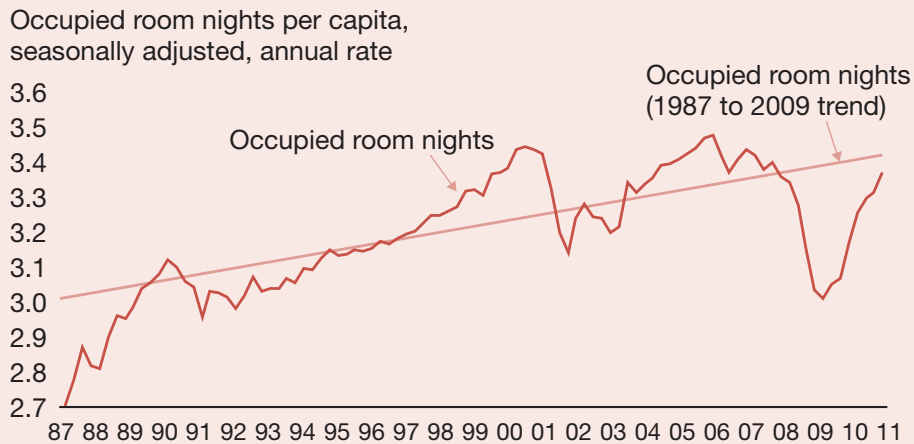
Source: Bureau of Economic Analysis; Bureau of Transportation Statistics; Smith Travel Research; PwC

Observation 1. Travel and tourism activity continues to recover.

The ongoing recovery in travel and tourism activity resulted in per capita travel activity levels in 2010 that were slightly below trend. These levels are consistent with per capita measures of the broader economy, including GDP and consumer spending, which are also slightly below trend.

In aggregate, the level of travel and tourism activity in 2010, consisting of elements such as air travel, dining, shopping, and accommodations, was 4.2 percent below its trend on a per capita basis (Figure 8). In comparison, GDP and consumer spending levels in 2010 were similarly suppressed, averaging 4.0 percent and 5.2 percent below trend, respectively.

Figure 9: Lodging demand over the long term, 1987 to 2011



Source: Smith Travel Research; PwC

Observation 2: Lodging demand has regained its footing. Despite experiencing a steeper decline during the recent recession, activity in the lodging sector has recovered to a similar footing as broader travel and tourism activity. Demand is still below peak levels.

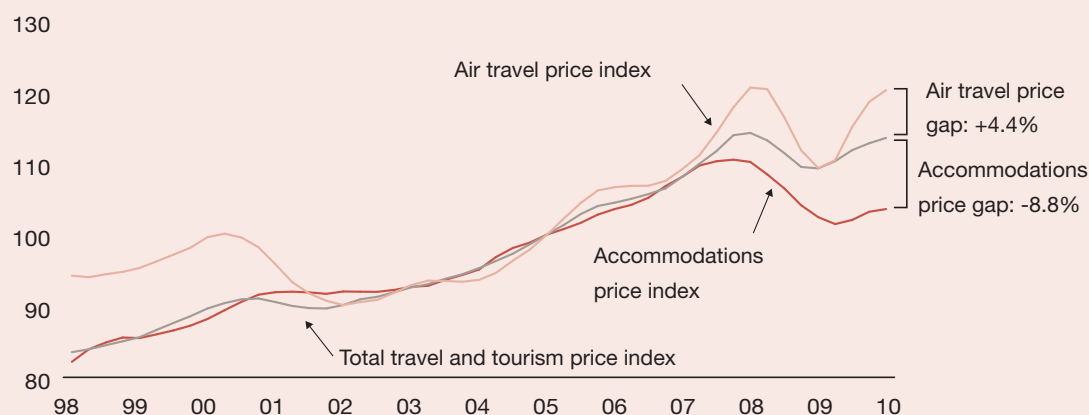
Relative to the overall economy, and relative to the broader travel and tourism industry, the lodging sector experienced a more severe decline in demand during the recession. Since the end of the recession in mid-2009, the lodging and air travel sectors have both experienced strong growth in demand. As shown in Figure 9, occupied room nights recovered to 3.9 percent below the long-term trend (1987 to 2009) in 2010. Considering a comparison to a trend estimated over a shorter period (1998 to 2009) to

be consistent with the available information on travel and tourism output, occupied room nights in 2010 were 0.3 percent below trend, and accommodations output was 2.1 percent below trend.⁹ Together these three measures indicate that despite falling further than travel and tourism overall, lodging demand has now recovered to a similar—arguably slightly better—footing as the broader travel and tourism sector, which was 4.2 percent below trend in 2010.

⁹ Over the past ten years, estimated accommodations output has tended to grow slightly faster than occupied rooms. In part this is due to the somewhat faster growth of the inventory of upper-tier properties, which now account for a greater share of supply and demand in the lodging sector than ten years ago, as well as changes in the services offered per occupied room night (e.g. improved bedding and in-room technology). One implication in this analysis is that measured on the basis of output, lodging is further below its trend than when measured on the basis of occupied room nights. As a result, while occupied room nights indicate lodging has recovered to quite close to trend levels (0.3 percent below), output, which provides a somewhat broader measure of the potential demand for lodging, indicates that the difference is slightly larger (2.1 percent). The upshot is that lodging demand may have relatively more ground to recover.

Figure 10: Travel and tourism price indices

Price index, equal to 100 in 2005



Source: Bureau of Economic Analysis; PwC

Observation 3: However, lodging pricing shows a gap. Prices in the lodging sector have lagged other travel and tourism sectors, and there is evidence of a greater “price gap” in lodging than in other sectors.

A view on pricing in the lodging sector is provided by comparing trends in the price index for accommodations to the price index for travel and tourism services in aggregate.¹⁰ As shown in Figure 10, the accommodations price index diverges from the broader travel and tourism index at the end of 2007, and by 2010, accommodation prices, which include the full view of property prices, not just guest room rates, are estimated to be 8.8 percent

below the level that reflects the path of broader travel and tourism prices. We’ve referred to this difference as the “price gap.” In comparison, based on industry measures, we estimate that real ADR in 2010 was 5.1 percent below its ten-year average (without adjusting for changes in the mix of properties). Using either measure, there is an indication that lodging prices have further room to recover.

¹⁰ These indexes are calculated to measure changes in price, holding quality constant. This is similar in a sense to the consumer price index (CPI).

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 3. Additional tables showing our chain scale outlook are shown as Tables 4 to 10.

Smith Travel Research recently revised its chain scale classifications, and PwC has updated its analysis to reflect the changes. The primary change was to replace the midscale with food and beverage and the midscale without food and beverage segments with the upper midscale and midscale

segments. In announcing the change, Smith Travel Research stated that in the past, there had been more distinction between the midscale with food and beverage and the midscale without food and beverage segments, but that many brands had started to offer a mix of full and select services. Further information on the revised chain scale classifications is available from Smith Travel Research, including a list of the brands included in each chain scale, an article announcing the revision, and an article providing brief comments on the process.^{11, 12, 13}

¹¹ A list of the brands in each of the Smith Travel Research chain scales is available at <http://www.strglobal.com/Resources/Documents.aspx>

¹² HotelNewsNow.com. (2010, December 14). STR, STR Global announce Chain Scale changes. Retrieved from: <http://www.hotelnewsnow.com/Articles.aspx/4580/STR-STR-Global-announce-Chain-Scale-changes>

¹³ Lamanno, M.V. (2011, February 28). STR's chain scales: What's an industry to do? HotelNewsNow.com. Retrieved from: <http://www.hotelnewsnow.com/Articles.aspx/5047/STRs-chain-scales-Whats-an-industry-to-do?>

Table 3: US and chain scale segment outlook

Percent change from 2010 to 2011						Percent change from 2011 to 2012					
	Demand	Average room supply	Occu-pancy	ADR	RevPAR		Demand	Average room supply	Occu-pancy	ADR	RevPAR
Luxury	5.6	1.0	4.5	5.7	10.5	Luxury	0.7	0.4	0.3	7.2	7.5
Upper upscale	3.6	1.5	2.1	5.1	7.2	Upper upscale	1.1	0.3	0.8	7.0	7.8
Upscale	5.9	2.3	3.5	4.2	7.9	Upscale	1.9	1.4	0.5	6.9	7.5
Upper midscale	7.1	2.9	4.0	3.0	7.1	Upper midscale	3.6	1.2	2.3	3.8	6.2
Midscale	(1.5)	(5.2)	3.9	0.2	4.2	Midscale	(0.1)	(1.8)	1.8	2.9	4.7
Economy	4.0	0.1	3.9	0.8	4.7	Economy	1.5	0.1	1.4	3.4	4.8
Independent hotels	5.3	1.2	4.1	3.3	7.5	Independent hotels	2.3	0.7	1.6	5.5	7.1
US Total	4.5	0.7	3.8	3.7	7.6		1.9	0.4	1.4	5.5	7.0

Source: Smith Travel Research; PwC

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

Chain scale	2009	2010	2011	2012	Comments
Luxury	(19.1)%	(13.3)%	(6.8)%	(1.3)%	As a result of continued demand growth, occupancy rates at luxury hotels averaged 69.3 percent, on a seasonally adjusted basis, during the first quarter. This is only moderately below levels experienced during the peak years of 2006 and 2007, when occupancy levels averaged 71.8 percent and 71.7 percent, respectively. ADR remains substantially below peak levels, though ADR gains in the first quarter were solid.
Upper upscale	(15.4)	(11.9)	(8.1)	(2.3)	Similar to luxury hotels above, and upscale hotels below, upper upscale hotels realized a trough in occupancy levels in the first half of 2009. In the second half of 2009, in a pattern that differed from the lower-rated segments, upper-tier hotels started posting strong occupancy gains, and improved occupancy penetration relative to the US average. This somewhat earlier occupancy recovery may reflect multiple factors, including types of guests; the relatively higher fixed costs of upper-tier hotels, which can drive price tactics to retain occupancy; and hotel locations in sub-markets with higher barriers to entry. That said, occupancy gains at upper upscale hotels have been slowing, and the 2.1 percent overall increase expected in 2011 is lower than the US average, though ADR growth is expected to exceed the average.
Upscale	(14.3)	(11.4)	(7.0)	(1.5)	During the recession, hotels in the upscale segment initially experienced a slightly more severe RevPAR decline than the US average. Overall, segment RevPAR fell 15.2 percent from 2007 to 2010, compared to the US decline of 13.8 percent. More recently, the segment is showing a quicker occupancy recovery than the US average, though this is coming partly at the expense of ADR. Growth in 2011 is expected to be similar to the US average, but slightly more heavily weighted toward ADR gains.
Upper Midscale	(10.3)	(7.8)	(3.9)	(0.5)	The upper midscale segment experienced smaller ADR declines during the 2007 to 2010 period than any other chain-scale segment, though occupancy declines were worse than average. Results for the first quarter of 2011 show that the pattern of stability in ADR is holding. ADR in the segment rose 2.4 percent on a year-over-year basis in the first quarter of 2011, compared to a 3.1 percent gain for the national average.
Midscale	(14.6)	(13.6)	(12.4)	(9.7)	The midscale segment experienced a 6.0 percent reduction in room supply between the end of the first quarter 2010 and the end of the first quarter 2011, with much of the activity occurring in first quarter 2011. These reductions were primarily attributable to substantial numbers of Best Western properties that moved from the Best Western core brand, which is classified by Smith Travel Research in the midscale segment, to the Best Western Plus brand, which is classified as upper midscale.
Economy	(18.5)	(18.2)	(16.7)	(14.0)	RevPAR performance in the economy segment continues to trace a weaker than average path, as pricing remains suppressed.
Independent hotels	(14.5)	(11.5)	(7.4)	(2.3)	Of the US inventory of hotel rooms at year-end 2010, 29.6 percent were independent hotels that are not affiliated with a brand. This segment spans a range of markets, with occupancy and ADR levels that are slightly below the US average.
US total	(13.2)	(9.9)	(6.1)	(1.4)	

Table 4: Luxury outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	64.3%	63.9%	64.7%	68.0%	70.7%	71.8%	71.7%	67.6%	62.2%	66.5%	69.5%	69.7%
Percentage change from prior year	-12.2%	-0.6%	1.3%	5.2%	3.9%	1.5%	-0.1%	-5.7%	-8.0%	6.9%	4.5%	0.3%
Change in occupancy points	-8.9	-0.4	0.8	3.3	2.7	1.1	-0.1	-4.1	-5.4	4.3	3.0	0.2
Average daily rate (\$)	\$226.67	\$218.09	\$215.13	\$226.13	\$242.86	\$266.45	\$285.60	\$286.28	\$239.20	\$243.66	\$257.56	\$275.99
Percentage change from prior year	-2.6%	-3.8%	-1.4%	5.1%	7.4%	9.7%	7.2%	0.2%	-16.4%	1.9%	5.7%	7.2%
Nominal RevPAR (\$)	\$145.72	\$139.33	\$139.18	\$153.85	\$171.71	\$191.20	\$204.68	\$193.53	\$148.70	\$162.00	\$178.99	\$192.33
Percentage change from prior year	-14.4%	-4.4%	-0.1%	10.5%	11.6%	11.3%	7.0%	-5.4%	-23.2%	8.9%	10.5%	7.5%
Inflation-adjusted RevPAR (\$)	\$160.72	\$151.26	\$147.70	\$159.03	\$171.71	\$185.23	\$192.76	\$175.56	\$135.34	\$145.05	\$155.88	\$165.03
Percentage change from prior year	-16.8%	-5.9%	-2.4%	7.7%	8.0%	7.9%	4.1%	-8.9%	-22.9%	7.2%	7.5%	5.9%
Demand (thous.)	48.8	53.5	58.1	62.9	65.7	69.9	72.7	72.8	72.7	81.4	85.9	86.5
Percentage change from prior year	-4.0%	9.8%	8.5%	8.4%	4.3%	6.4%	4.0%	0.2%	-0.3%	12.0%	5.6%	0.7%
Average room supply (thous.)	75.9	83.8	89.8	92.5	92.9	97.4	101.4	107.8	116.9	122.4	123.6	124.1
Percentage change from prior year	9.3%	10.5%	7.1%	3.1%	0.4%	4.9%	4.1%	6.2%	8.5%	4.7%	1.0%	0.4%

Source: Smith Travel Research; PwC

Table 5: Upper upscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	65.3%	66.1%	67.3%	69.0%	70.7%	70.6%	70.5%	68.0%	63.2%	67.4%	68.8%	69.3%
Percentage change from prior year	-9.5%	1.3%	1.8%	2.4%	2.5%	-0.1%	-0.2%	-3.5%	-7.0%	6.6%	2.1%	0.8%
Change in occupancy points	-6.9	0.9	1.2	1.6	1.7	-0.1	-0.1	-2.5	-4.8	4.2	1.4	0.5
Average daily rate (\$)	\$135.01	\$129.11	\$125.57	\$130.96	\$140.02	\$149.96	\$158.69	\$161.01	\$143.44	\$142.56	\$149.76	\$160.25
Percentage change from prior year	-3.0%	-4.4%	-2.7%	4.3%	6.9%	7.1%	5.8%	1.5%	-10.9%	-0.6%	5.1%	7.0%
Nominal RevPAR (\$)	\$88.14	\$85.39	\$84.55	\$90.32	\$99.01	\$105.90	\$111.89	\$109.51	\$90.69	\$96.05	\$103.00	\$111.08
Percentage change from prior year	-12.2%	-3.1%	-1.0%	6.8%	9.6%	7.0%	5.7%	-2.1%	-17.2%	5.9%	7.2%	7.8%
Inflation-adjusted RevPAR (\$)	\$97.21	\$92.71	\$89.72	\$93.36	\$99.01	\$102.59	\$105.37	\$99.35	\$82.54	\$86.00	\$89.70	\$95.31
Percentage change from prior year	-14.7%	-4.6%	-3.2%	4.1%	6.1%	3.6%	2.7%	-5.7%	-16.9%	4.2%	4.3%	6.3%
Demand (thous.)	308.1	319.0	332.1	345.1	352.0	347.3	348.6	346.7	337.1	364.8	377.8	381.9
Percentage change from prior year	-5.7%	3.5%	4.1%	3.9%	2.0%	-1.3%	0.4%	-0.6%	-2.8%	8.2%	3.6%	1.1%
Average room supply (thous.)	471.9	482.3	493.3	500.4	497.8	491.7	494.5	509.7	533.2	541.4	549.4	551.0
Percentage change from prior year	4.2%	2.2%	2.3%	1.4%	-0.5%	-1.2%	0.6%	3.1%	4.6%	1.5%	1.5%	0.3%

Source: Smith Travel Research; PwC

Table 6: Upscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	65.4%	65.3%	65.7%	68.7%	70.3%	70.3%	69.7%	67.1%	61.9%	66.3%	68.6%	69.0%
Percentage change from prior year	-7.4%	-0.1%	0.6%	4.7%	2.3%	0.0%	-0.9%	-3.6%	-7.8%	7.0%	3.5%	0.5%
Change in occupancy points	-5.2	-0.1	0.4	3.1	1.6	0.0	-0.6	-2.5	-5.2	4.3	2.3	0.4
Average daily rate (\$)	\$100.59	\$96.05	\$94.19	\$97.61	\$104.72	\$114.35	\$121.40	\$123.15	\$110.29	\$108.30	\$112.89	\$120.69
Percentage change from prior year	-0.7%	-4.5%	-1.9%	3.6%	7.3%	9.2%	6.2%	1.4%	-10.4%	-1.8%	4.2%	6.9%
Nominal RevPAR (\$)	\$65.75	\$62.71	\$61.85	\$67.10	\$73.62	\$80.36	\$84.59	\$82.69	\$68.28	\$71.76	\$77.44	\$83.22
Percentage change from prior year	-8.0%	-4.6%	-1.4%	8.5%	9.7%	9.2%	5.3%	-2.2%	-17.4%	5.1%	7.9%	7.5%
Inflation-adjusted RevPAR (\$)	\$72.51	\$68.08	\$65.64	\$69.36	\$73.62	\$77.85	\$79.66	\$75.01	\$62.15	\$64.25	\$67.44	\$71.41
Percentage change from prior year	-10.5%	-6.1%	-3.6%	5.7%	6.2%	5.7%	2.3%	-5.8%	-17.2%	3.4%	5.0%	5.9%
Demand (thous.)	251.0	265.3	277.6	295.7	312.8	325.3	338.6	347.1	347.2	394.6	417.8	425.8
Percentage change from prior year	-0.3%	5.7%	4.6%	6.5%	5.8%	4.0%	4.1%	2.5%	0.0%	13.6%	5.9%	1.9%
Average room supply (thous.)	384.1	406.4	422.7	430.1	445.0	462.8	486.0	516.9	560.8	595.5	609.1	617.5
Percentage change from prior year	7.7%	5.8%	4.0%	1.7%	3.4%	4.0%	5.0%	6.4%	8.5%	6.2%	2.3%	1.4%

Source: Smith Travel Research; PwC

Table 7: Upper midscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	61.9%	61.4%	61.0%	63.1%	65.3%	66.2%	65.3%	61.8%	55.7%	58.4%	60.8%	62.2%
Percentage change from prior year	-4.8%	-0.8%	-0.6%	3.5%	3.5%	1.3%	-1.3%	-5.4%	-9.8%	4.9%	4.0%	2.3%
Change in occupancy points	-3.1	-0.5	-0.4	2.1	2.2	0.8	-0.9	-3.5	-6.1	2.7	2.4	1.4
Average daily rate (\$)	\$74.36	\$73.50	\$73.54	\$75.81	\$81.06	\$87.33	\$93.64	\$97.25	\$91.79	\$91.40	\$94.11	\$97.65
Percentage change from prior year	0.9%	-1.1%	0.1%	3.1%	6.9%	7.7%	7.2%	3.9%	-5.6%	-0.4%	3.0%	3.8%
Nominal RevPAR (\$)	\$46.02	\$45.11	\$44.85	\$47.85	\$52.95	\$57.77	\$61.15	\$60.05	\$51.12	\$53.40	\$57.21	\$60.74
Percentage change from prior year	-3.9%	-2.0%	-0.6%	6.7%	10.7%	9.1%	5.8%	-1.8%	-14.9%	4.5%	7.1%	6.2%
Inflation-adjusted RevPAR (\$)	\$50.75	\$48.97	\$47.60	\$49.47	\$52.95	\$55.97	\$57.59	\$54.48	\$46.53	\$47.82	\$49.82	\$52.12
Percentage change from prior year	-6.5%	-3.5%	-2.8%	3.9%	7.0%	5.7%	2.9%	-5.4%	-14.6%	2.8%	4.2%	4.6%
Demand (thous.)	406.7	414.7	421.7	439.2	448.4	451.2	451.1	439.5	412.1	445.5	477.1	494.1
Percentage change from prior year	-1.7%	2.0%	1.7%	4.2%	2.1%	0.6%	0.0%	-2.6%	-6.2%	8.1%	7.1%	3.6%
Average room supply (thous.)	657.1	675.8	691.4	695.9	686.4	682.0	690.9	711.8	740.0	762.5	784.7	794.4
Percentage change from prior year	3.2%	2.8%	2.3%	0.6%	-1.4%	-0.6%	1.3%	3.0%	4.0%	3.0%	2.9%	1.2%

Source: Smith Travel Research; PwC

Table 8: Midscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	54.7%	53.8%	54.3%	56.7%	58.9%	59.2%	58.4%	55.4%	49.4%	51.7%	53.8%	54.7%
Percentage change from prior year	-4.7%	-1.7%	1.0%	4.3%	3.8%	0.6%	-1.4%	-5.1%	-11.0%	4.8%	3.9%	1.8%
Change in occupancy points	-2.7	-0.9	0.5	2.4	2.2	0.4	-0.8	-3.0	-6.1	2.4	2.0	0.9
Average daily Rate (\$)	\$65.05	\$64.25	\$64.19	\$65.69	\$69.27	\$73.65	\$77.43	\$79.33	\$74.85	\$73.41	\$73.60	\$75.72
Percentage change from prior year	0.7%	-1.2%	-0.1%	2.3%	5.4%	6.3%	5.1%	2.5%	-5.7%	-1.9%	0.2%	2.9%
Nominal RevPAR (\$)	\$35.59	\$34.56	\$34.88	\$37.25	\$40.78	\$43.62	\$45.24	\$43.97	\$36.94	\$37.98	\$39.56	\$41.42
Percentage change from prior year	-4.0%	-2.9%	0.9%	6.8%	9.5%	7.0%	3.7%	-2.8%	-16.0%	2.8%	4.2%	4.7%
Inflation-adjusted RevPAR (\$)	\$39.26	\$37.52	\$37.01	\$38.50	\$40.78	\$42.26	\$42.60	\$39.89	\$33.62	\$34.01	\$34.45	\$35.54
Percentage change from prior year	-6.7%	-4.4%	-1.3%	4.0%	5.9%	3.6%	0.8%	-6.4%	-15.7%	1.1%	1.3%	3.2%
Demand (thous.)	295.5	293.1	292.1	302.2	311.7	315.4	314.3	303.6	280.1	295.9	291.5	291.3
Percentage change from prior year	-4.2%	-0.8%	-0.3%	3.5%	3.1%	1.2%	-0.4%	-3.4%	-7.7%	5.6%	-1.5%	-0.1%
Average room supply (thous.)	540.1	544.9	537.6	533.0	529.4	532.5	537.9	547.7	567.5	571.9	542.3	532.4
Percentage change from prior year	0.5%	0.9%	-1.3%	-0.9%	-0.7%	0.6%	1.0%	1.8%	3.6%	0.8%	-5.2%	-1.8%

Source: Smith Travel Research; PwC

Table 9: Economy outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	56.6%	55.0%	54.3%	55.6%	57.4%	57.2%	57.0%	54.1%	49.1%	51.7%	53.7%	54.5%
Percentage change from prior year	-3.4%	-2.9%	-1.4%	2.5%	3.3%	-0.4%	-0.4%	-5.1%	-9.1%	5.2%	3.9%	1.4%
Change in occupancy points	-2.0	-1.6	-0.7	1.4	1.8	-0.2	-0.2	-2.9	-4.9	2.6	2.0	0.8
Average daily rate (\$)	\$47.11	\$46.81	\$46.78	\$47.82	\$49.99	\$52.71	\$54.40	\$55.01	\$51.04	\$49.44	\$49.84	\$51.53
Percentage change from prior year	0.0%	-0.6%	-0.1%	2.2%	4.5%	5.4%	3.2%	1.1%	-7.2%	-3.1%	0.8%	3.4%
Nominal RevPAR (\$)	\$26.68	\$25.75	\$25.38	\$26.59	\$28.70	\$30.14	\$30.99	\$29.75	\$25.09	\$25.57	\$26.77	\$28.07
Percentage change from prior year	-3.4%	-3.5%	-1.4%	4.8%	7.9%	5.0%	2.8%	-4.0%	-15.7%	1.9%	4.7%	4.8%
Inflation-adjusted RevPAR (\$)	\$29.43	\$27.95	\$26.93	\$27.49	\$28.70	\$29.20	\$29.19	\$26.99	\$22.83	\$22.89	\$23.31	\$24.08
Percentage change from prior year	-6.0%	-5.0%	-3.6%	2.1%	4.4%	1.7%	0.0%	-7.5%	-15.4%	0.3%	1.8%	3.3%
Demand (thous.)	421.1	412.3	402.1	411.5	425.9	424.3	431.4	417.1	383.4	403.7	419.8	425.9
Percentage change from prior year	-1.2%	-2.1%	-2.5%	2.3%	3.5%	-0.4%	1.7%	-3.3%	-8.1%	5.3%	4.0%	1.5%
Average room supply (thous.)	743.6	749.6	741.2	739.9	741.7	742.0	757.2	771.2	780.0	780.7	781.5	781.9
Percentage change from prior year	2.2%	0.8%	-1.1%	-0.2%	0.3%	0.0%	2.0%	1.9%	1.1%	0.1%	0.1%	0.1%

Source: Smith Travel Research; PwC

Table 10: Independent hotels outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	58.5%	57.5%	57.9%	59.6%	60.8%	60.7%	60.7%	57.4%	52.1%	54.6%	56.9%	57.7%
Percentage change from prior year	-5.1%	-1.8%	0.7%	2.9%	2.1%	-0.2%	0.0%	-5.5%	-9.1%	4.8%	4.1%	1.6%
Change in occupancy points	-3.2	-1.0	0.4	1.7	1.2	-0.1	0.0	-3.3	-5.2	2.5	2.2	0.9
Average daily rate (\$)	\$80.66	\$80.25	\$81.02	\$84.89	\$87.84	\$93.45	\$100.70	\$104.51	\$94.83	\$95.29	\$98.43	\$103.83
Percentage change from prior year	-1.0%	-0.5%	1.0%	4.8%	3.5%	6.4%	7.8%	3.8%	-9.3%	0.5%	3.3%	5.5%
Nominal RevPAR (\$)	\$47.21	\$46.14	\$46.92	\$50.60	\$53.44	\$56.73	\$61.11	\$59.95	\$49.44	\$52.04	\$55.97	\$59.96
Percentage change from prior year	-6.0%	-2.3%	1.7%	7.8%	5.6%	6.2%	7.7%	-1.9%	-17.5%	5.3%	7.5%	7.1%
Inflation-adjusted RevPAR (\$)	\$52.06	\$50.09	\$49.80	\$52.30	\$53.44	\$54.96	\$57.55	\$54.38	\$45.00	\$46.60	\$48.74	\$51.45
Percentage change from prior year	-8.6%	-3.8%	-0.6%	5.0%	2.2%	2.8%	4.7%	-5.5%	-17.3%	3.6%	4.6%	5.6%
Demand (thous.)	828.2	812.7	825.4	851.4	866.6	861.4	858.5	819.3	746.2	788.6	830.6	849.4
Percentage change from prior year	-4.5%	-1.9%	1.6%	3.2%	1.8%	-0.6%	-0.3%	-4.6%	-8.9%	5.7%	5.3%	2.3%
Average room supply (thous.)	1,415.2	1,413.4	1,425.2	1,428.4	1,424.3	1,418.8	1,414.7	1,428.2	1,431.3	1,444.0	1,460.7	1,471.0
Percentage change from prior year	0.6%	-0.1%	0.8%	0.2%	-0.3%	-0.4%	-0.3%	1.0%	0.2%	0.9%	1.2%	0.7%

Source: Smith Travel Research; PwC

Pricing to drive value

The trajectory of ADR will be perhaps the most closely watched performance measure during 2011. Pricing gains, whether achieved through shifts in business mix, distribution channels, rate negotiations, or yield management during peak periods, offer the potential for hotel operators to make valuable progress in recovering from depressed profit margins. Such improvements are most important in the upper-tier segments, which tend to have higher fixed cost structures relative to hotels in the middle-

and lower-tier segments, and which experienced the greatest ADR decline during the recession.

Solid ADR gains in the second half of 2011 have the potential to confirm expectations of the course of the recovery. The inverse is also possible, with weakness eroding confidence. As a result, hospitality business leaders will monitor how pricing unfolds, recognizing that views on the pace of recovery can change quickly.

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Requests for data

Supplemental data requests related to this publication are available at PwC's current billing rates. For data requests, please call Abhishek Jain at (646) 471-2016.

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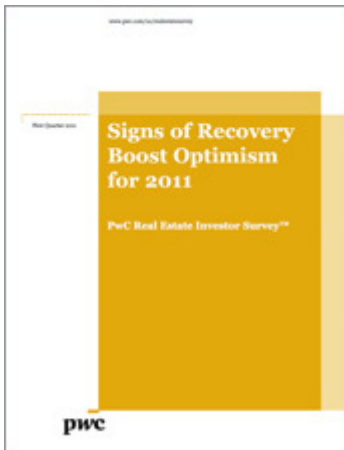
Time series data

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 in square feet; 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



PwC Real Estate Investor Survey *First Quarter 2011*

The most recent issue of the PwC Real Estate Investor Survey includes several key features. The national highlights article, “Signs of Recovery Boost Optimism for 2011”, observes that with more confidence comes the desire to deploy more capital on behalf of investors, consumers, and

businesses. The semiannual lodging section reports survey results on cap and discount rates being used by investors in four lodging segments. And the PwC Real Estate Barometer pages provide insights into the recovery of the commercial real estate industry by market for the office, multifamily, retail, and construction sectors.

(Subscription required)

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