

Hospitality Directions US

Hospitality and Leisure

August 2011

Q2

At a glance

Recent results show the lodging sector continues to demonstrate recovery momentum, yet a resetting of the economic outlook lowers expectations for lodging performance in the year ahead.

Balancing these factors, our outlook for revenue per available room (RevPAR) growth is largely intact for 2011, at 7.5 percent, but shows gains slowing to 6.2 percent in 2012.

Risk factors weigh on hotel asset values in the near term, but real estate characteristics favor a longer view.

RevPAR gains are expected to slow in the second half, resulting in a 7.5 percent increase in 2011. RevPAR is expected to grow 6.2 percent in 2012, largely driven by average daily rate (ADR) gains.

Our current outlook is based on an economy that faces more fundamental and persistent headwinds than previously anticipated. Upside and downside risks to the lodging outlook are elevated.

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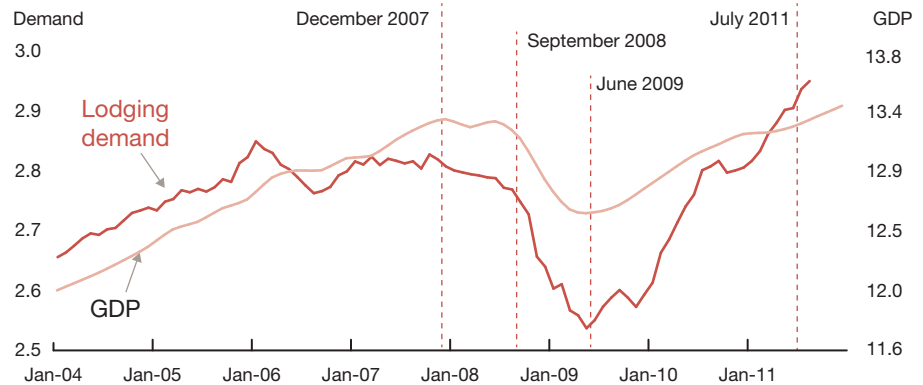
Lodging momentum expected to yield to economic reality

The recent slowdown in economic growth started earlier, and was sharper than previously recognized. Earlier this summer, it was believed that slower economic growth was explained by temporary factors, and that the US economy would soon regain momentum. That view has been altered by recent events, including incoming data reflecting a faltering economy, the evolving European sovereign debt crisis, US debt negotiations, and deteriorating financial conditions. The outlook now incorporates a substantial resetting of economic growth expectations, and this environment weighs on our outlook for the lodging sector, reducing expectations for RevPAR growth in the remainder of 2011 and into 2012.

Our reduced outlook for the lodging sector reflects the balanced consideration of weaker economic fundamentals on the one hand, and solid year-to-date lodging trends on the other. The steady growth of lodging demand during recent months, even as the economy slowed, demonstrates the underlying momentum of the lodging recovery. As shown in Figure 1, lodging demand for the three-month period of May, June and July showed continued improvement, with demand averaging 2.93 million room nights daily (seasonally adjusted).

Indeed, second quarter performance slightly exceeded our expectations, with occupancy and ADR 4.5 percent and 3.5 percent ahead of prior year results, respectively. Recent

Figure 1: 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 July 2011. Right axis: Monthly GDP index, trillions of 2005 dollars, annual rate, seasonally adjusted.

Note: July 2011 lodging demand is estimated based on daily results from Smith Travel Research. Monthly GDP is converted from quarterly data based on Macroeconomic Advisers' forecast. Source: Bureau of Economic Analysis; Macroeconomic Advisers, LLC (forecast released August 2011); Smith Travel Research; PwC.

occupancy gains, as well as indications that group business is gradually returning, provide a base for further recovery of lodging pricing. Meanwhile, supply growth remains suppressed. All else equal, the 8.1 percent year-over-year increase in RevPAR achieved in the second quarter of 2011 would have bolstered our outlook for the second half of 2011. However, this positive effect was more than offset by the substantial setback to the economic forecast.

We recognize the sensitivity of some aspects of travel to

economic conditions, and, perhaps more importantly in the current situation, the potential challenges to travel demand presented by an environment of economic uncertainty and wavering confidence. In this context, our updated outlook anticipates RevPAR growth of 7.5 percent in 2011, and 6.2 percent in 2012. Growth in 2012 reflects a solid 5.1 percent increase in ADR, with occupancy gains slowing to 1.0 percent. Overall, 2012 RevPAR is expected to reach a level 1.6 percent below the nominal peak achieved in 2007.

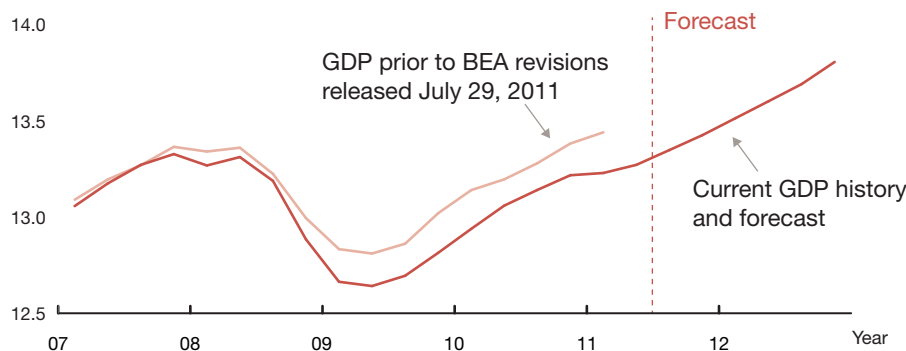
Economic outlook marked down

In mid-August, Macroeconomic Advisers released a major reset of its forecast for the US economy. In short, the effects of headwinds had proved stronger than the normal cyclical forces of recovery.

The economy entered 2011 with the overhang of a still impaired financial system; low business and consumer confidence; weak employment growth; excess housing stock and declining home prices; and weakened household balance sheets. Added to this were the temporary effects of adverse weather, spiking energy prices, and supply-chain disruptions from the earthquake in Japan, as well as the effects of the European sovereign debt crisis and uncertainty created by the US debt ceiling debate. Incoming data, including a revision of GDP information (Figure 2) now confirms that the recent slowdown, which Macroeconomic Advisers previously thought was concentrated in the first half

Figure 2: Impact of GDP data revision, 2007 to 2012

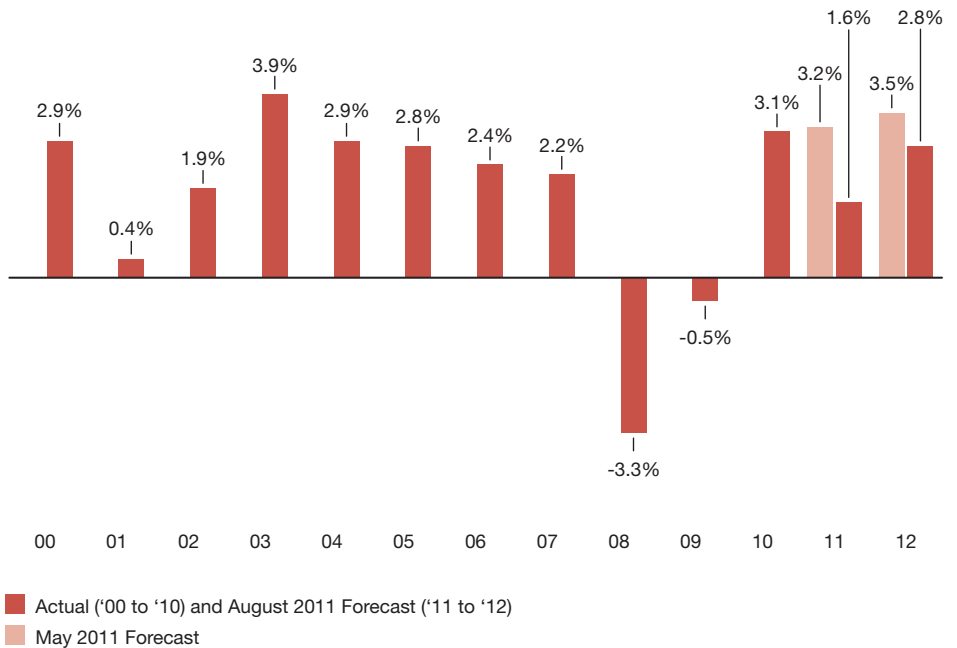
Real GDP, trillions of 2005 dollars,
quarterly data at annual rate



Source: Bureau of Economic Analysis ("BEA"), Macroeconomic Advisers, LLC (forecast released August 2011); PwC

Figure 3: Annual growth in real GDP, 2000 to 2012

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



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

of 2011 and attributable to temporary factors, started sooner and has been sharper than indicated by the pre-revised data.

As a result of this view of more fundamental and persistent forces, Macroeconomic Advisers' outlook for GDP growth is lowered to 1.6 and 2.8 percent in 2011 and 2012, respectively.¹

This represents a substantial reduction from its forecast used as an input to our previous lodging forecast in May 2011 (Figure 3). It is now expected that growth in the second half is reduced to 2.3 percent (Figure 4), and does not recover to above-trend growth until the fourth quarter of 2012. According to Macroeconomic Advisers, the economy remains

¹ Unless indicated otherwise, annual GDP growth figures in this article are expressed on a fourth quarter over fourth quarter basis.

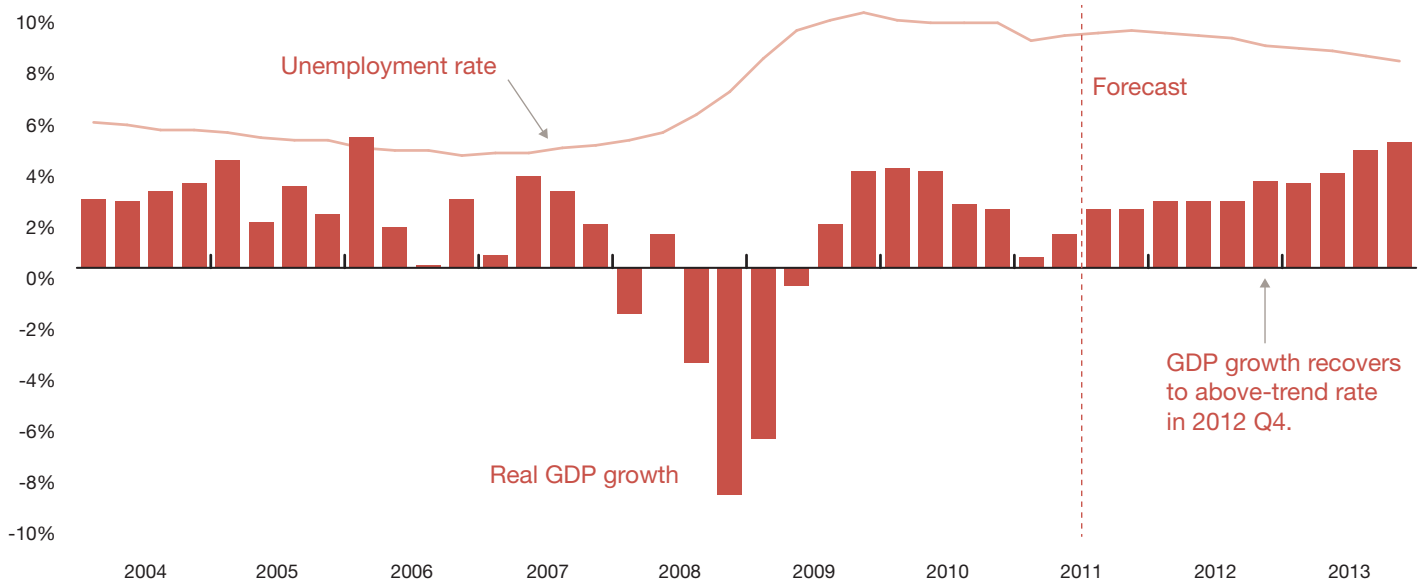
in what can be described as a “growth recession” for the remainder of 2011, and the unemployment rate increases to 9.3 percent by the end of 2011. Nonfarm job gains averaging 173,000 per month in 2012 gradually nudge the unemployment rate down to 8.7 percent at the end of the year.

Other economists made similar revisions in August, abruptly reducing the consensus outlook for GDP growth in 2011 from 2.6 percent to 1.6 percent (Figure 5).

What are the downside risks? Macroeconomic Advisers recognizes that recession risks have increased materially with

recent events. Slow growth puts the economy in a zone referred to by some as a “stall speed,” which refers to the concept that a slow growth environment may lead firms to delay investment and hiring decisions, and postpone orders, potentially tipping the economy into recession. As shown in Figure 6, economists surveyed in August estimated

Figure 4: Annualized rate of growth in real GDP and unemployment rate, 2004Q1 to 2013Q4

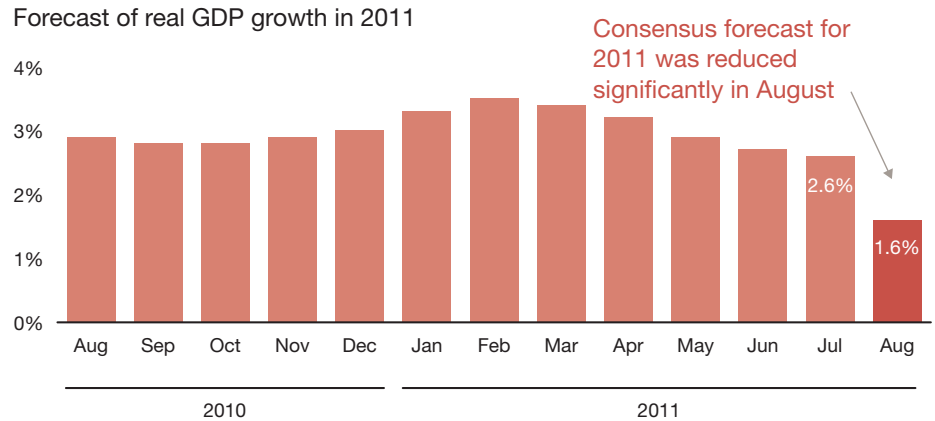


Source: Bureau of Economic Analysis; Bureau of Labor Statistics; Macroeconomic Advisers, LLC (forecast released August 2011)

² The Federal Reserve Bank of Philadelphia (August 12, 2011) Survey of Professional Forecasters. Retrieved from <http://www.philadelphiafed.org>.

³ For the purpose of this analysis, PwC considered estimates of long-run trend growth in real GDP at 2.8 percent, and grouped the economists' responses in three categories. We considered estimates of real GDP growth on an annual average basis of less than 2.0 percent to represent quite slow growth or recession, growth between 2.0 and 2.9 percent to represent slow to moderate growth, and growth above 3.0 percent to represent above-trend growth. Probability figures reflect rounding.

Figure 5: Evolution of consensus 2011 GDP forecast



Note: Includes responses of 47 economists. The August 2011 survey was conducted August 5 to 10, 2011.
Source: The Wall Street Journal Economic Forecasting Survey, August 2011.

the probability that the economy would contract next quarter (fourth quarter 2011) at 21 percent, up from just eight percent² in the prior survey. Considering the distribution of potential paths during 2012, economists estimate the probability of quite slow growth or recession at 39 percent, slow to moderate growth at 41 percent, and strong growth at 21 percent.³

While further developments, such as a worsening of the European sovereign debt crisis, could contribute to a US recession, Macroeconomic Advisers does not yet characterize a recession as the base case.

Instead, the outlook assumes the following:

- In the near term, growth in the second half of 2011 improves as domestic motor vehicle producers step up production following supply-chain reactivations, consumer spending strengthens in line with recent fundamentals, and business spending on equipment and software accelerates.
- Government spending reductions at the federal, state, and local levels dampen growth, with the drag expected to be at its worst in 2011. The

² The Federal Reserve Bank of Philadelphia (August 12, 2011) Survey of Professional Forecasters. Retrieved from <http://www.philadelphiafed.org>.

³ For the purpose of this analysis, PwC considered estimates of long-run trend growth in real GDP at 2.8 percent, and grouped the economists' responses in three categories. We considered estimates of real GDP growth on an annual average basis of less than 2.0 percent to represent quite slow growth or recession, growth between 2.0 and 2.9 percent to represent slow to moderate growth, and growth above 3.0 percent to represent above-trend growth. Probability figures reflect rounding.

effects of the Budget Control Act of 2011 are estimated to subtract one-tenth of a percent from GDP growth in 2012 and four-tenths in 2013.

- Monetary and fiscal policy makers react to the prospect of continued slow growth and rising unemployment. Specifically, the forecast assumes: (1) the payroll tax holiday, which is currently set to expire next year, is extended for one more year (2012); and (2) the Federal Reserve, which has already committed to keep the funds rate exceptionally

low through mid-2013, takes further actions to ease monetary conditions by selling shorter-duration and buying longer-duration Treasuries to apply additional downward pressure on long-term yields.

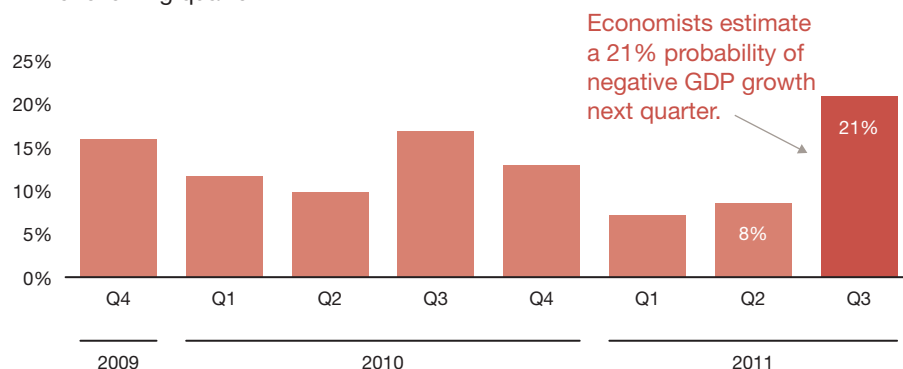
- Looking ahead, continued firming of demand and production, combined with further improvement in businesses' balance sheets and availability of financing, is expected to support solid growth of business spending on equipment and software of 8.4 percent in 2011 and

8.5 percent in 2012. Consumer spending is expected to gradually accelerate in 2012, in part as improved household balance sheets allow the saving rate to decline, releasing income for spending growth.

Overall, Macroeconomic Advisers forecasts quarterly GDP growth at an annualized rate of 2.3 percent in the second half of 2011, increasing to 2.6 percent for the first three quarters of 2012, before finally reaching an above-trend rate of 3.4 percent in the fourth quarter of 2012.

Figure 6: Anxious index

Probability of negative GDP growth in the following quarter



Note: Figure is interpreted as follows: economists surveyed during the third quarter of 2011 estimate a 21 percent probability that real GDP growth in the subsequent quarter (fourth quarter of 2011) will be negative. This compares to survey result in the second quarter of 2011 which indicated an eight percent probability of negative growth in the subsequent quarter (third quarter of 2011). The due date for the third quarter 2011 survey was August 8, 2011.

Source: Survey of Professional Forecasters, Federal Reserve Bank of Philadelphia.

Our key macroeconomic assumptions

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

Factor	Assumption
Consumer spending	Slow employment and labor income growth, and significant declines in net worth related to weakness in house prices and equity values, have restrained consumer spending growth. Going forward, it is assumed that gradual improvements to household balance sheets resulting from an assumed upturn in equity values and home prices, as well as firming job growth, results in stronger consumer spending growth in 2012 and 2013.
Labor markets	Employment growth is expected to decelerate in the second half of 2011, and gains in nonfarm employment are expected to average approximately 79,000 per month. Job growth is expected to improve in 2012. As a result, the unemployment is expected to initially increase, reaching 9.3 percent in the fourth quarter of 2011, and then decrease, reaching 8.7 and 8.1 percent in the fourth quarters of 2012 and 2013, respectively.
Oil prices	The surge in oil prices in March and April 2011 has been reversed by declines from May to August. Markets remain volatile, but these recent declines appear to reduce a perceived headwind.
US dollar	The value of the US dollar declined 3.4 percent in 2010 and has continued to fall gradually in 2011. As a result, the value of the dollar is expected to average 5.8 percent lower in 2011 than in 2010. Adjusting for inflation differentials between countries, the real value of the dollar is expected to decline slightly through 2013.
Equity and housing markets	As of August 19, equities had declined 16 percent from the start of July, reaching levels that are slightly below the average for 2005. Through June 2011, housing prices have increased for three consecutive months as measured by the CoreLogic Home Price Index. After remaining approximately stable in the second half of this year, home prices are expected to increase roughly one percent in 2012. Overall, an estimated 22.7 percent of all residential properties with mortgages were in negative equity in March 2011, which is down from 23.7 percent a year ago.
Inflation	The consumer price index (CPI) is expected to increase 3.0 percent in 2011, slowing to 1.7 percent in 2012. Long-term inflation forecasts among economists average 2.4 percent on a CPI basis, which is slightly lower than the average expectation over the past ten years.
Fiscal policy	In light of the recent economic slowing, the payroll tax holiday is assumed to be extended an extra year (through 2012). Additionally, the forecast incorporates effects of the Budget Control Act of 2011, including discretionary spending caps, as well as an additional \$1.5 trillion in deficit reduction to be determined by a special Joint Select Committee; one-third of which is anticipated to come in the form of higher revenues.
Monetary policy	In August, the Federal Reserve committed to maintaining an exceptionally low funds rate through mid-2013. The Federal Reserve is assumed to take additional steps to ease monetary conditions by selling shorter-duration, and buying longer-duration Treasuries, to apply downward pressure to long-term yields.
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.

⁴ Macroeconomic Advisers, LLC. (August 17, 2011) *Outlook Commentary*. Retrieved from <http://macroadvisers.com>.

⁵ Macroeconomic Advisers, LLC. (August 18, 2011) *Forecast Details*. Retrieved from <http://macroadvisers.com>.

Our outlook for the US lodging industry

Demand

At the start of this year, our outlook for 2011 and 2012 anticipated the robust cyclical recovery of travel would gradually transition to a more sustainable pace of demand growth. Today, this trajectory remains intact, but less certain.

The first half of 2011 boosted confidence as the lodging sector continued to benefit from a recovery in travel that has been underway for the past two years. Lodging demand fell further than the economy during the recession, but it is now recovering more quickly. Indeed during seven of the eight quarters since the trough of the US recession in June 2009, lodging demand has grown at a faster

pace than GDP.⁶ The first half of 2011 reinforced this pattern; even as the economy slowed, the momentum of lodging demand growth continued.

As we proceed through the third quarter, there are signs that strength in the lodging sector has continued. For example, at the start of the quarter, lodging operators noted continued transient and group bookings, and preliminary results for July and early-August point toward solid levels of summer demand. Holding other factors constant, year-to-date performance in the sector would support a slightly stronger lodging outlook for the second half of 2011 and 2012 than we anticipated three months ago.

⁶ The last time lodging demand growth exceeded GDP growth on a quarter-to-quarter basis for seven out of eight quarters was 21 years ago, during the two-year period that ended in the first quarter of 1990.

However, other factors have not remained constant. Slower economic growth in recent quarters, reduced business and consumer confidence, and greater uncertainty surrounding the economic outlook, change the context of travel.^{7,8} As a result, our outlook for continued recovery in lodging has been reduced, but not reversed. Aspects of travel that are closely linked to the economic cycle are expected to pull back. Some trips that would have occurred in a more robust environment will be shortened or cancelled. But at the same time, travel driven by key corporate initiatives, growing business sectors, and the resumption of previously suspended activities is expected to continue to expand. The balance leans in favor of continued demand growth, but this situation can change quickly. If incoming information confirms a recessionary path, travel would be expected to respond.

The composition of lodging demand during the first half of 2011 shows that activity in the group segment has continued to trail the recovery of transient demand, though the gap is gradually closing. Using weekday and weekend data as a proxy for business and leisure travel, respectively, year-to-date results through June for upper-tier hotels show that the occupancy level accounted for by the business group segment averaged 16.2 percent lower than in 2007 (Figure 7). Meanwhile, the share of available rooms occupied by business transient travelers during the first half of 2011 was only 0.8 percent below its 2007 level.^{9,10} The group segment continued to strengthen during the first half of 2011, 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 set a year or more in advance for major events, have declined less steeply than transient rates, and group ADR during weekdays averaged just 1.8 percent below 2007 levels during the first half, compared to a 7.7 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 incremental to price increases for business travelers. Such yield management strategies support the expectation that incremental improvements in business travel will help fuel solid ADR gains.

⁷ PwC's most recent Private Company Trendsetter Barometer indicates only 43 percent of executives say they're optimistic about the outlook for the US economy over the next 12 months, a decrease of 21 points from the previous quarter's pre-recession optimism level of 64 percent. The survey is based on responses of 240 CEO's and CFO's at leading US private businesses interviewed between April 28 and July 22, 2011. Despite rising uncertainty, 73 percent of panelists plan to increase operational spending, up three points from the prior quarter. Information technology, new product or service introductions, and marketing and sales promotion led the way in planned budget increases.

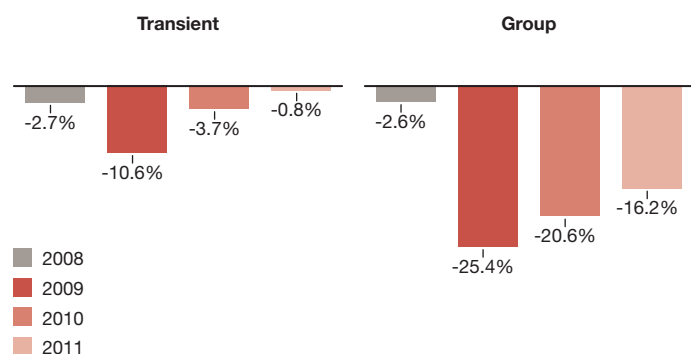
⁸ PricewaterhouseCoopers LLP. (August 11, 2011) Private Company Trendsetter Barometer. Retrieved from <http://www.pwc.com/us/en/private-company-services/publications/pcs-trendsetter-barometer.jhtml>.

⁹ Because these measures are calculated on the basis of occupancy contribution, and room inventory has expanded since 2007, business transient travel has actually recovered to above its peak level in 2007 when considered on the basis of number of occupied room nights. Rooms available in the luxury and upper upscale segments in the second quarter of 2011 were 22.6 percent and 11.1 percent greater than levels in the second quarter of 2007, respectively.

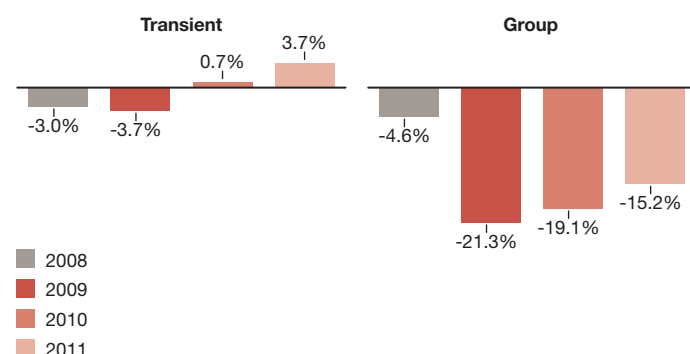
¹⁰ Upper-tier refers to luxury, upper upscale and upper-tier independent properties, as tracked by Smith Travel Research.

Figure 7: Change from peak: occupancy and ADR levels at upper-tier properties, first half of each year, shown as percentage difference from year-to-date 2007 levels

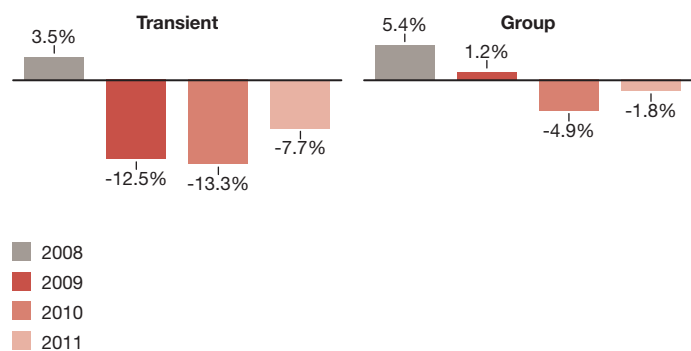
Occupancy: Weekday



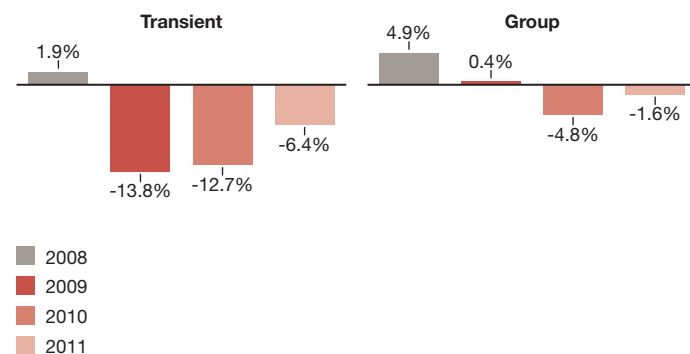
Occupancy: Weekend



ADR: Weekday



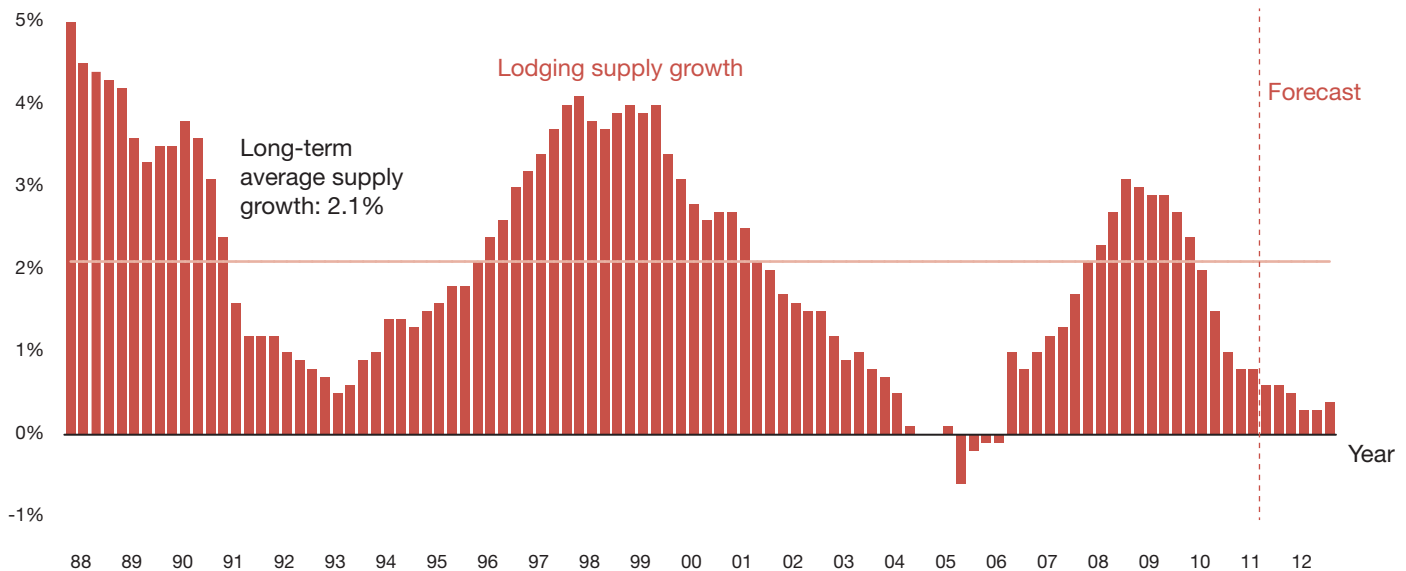
ADR: Weekend



Source: Smith Travel Research; PwC

Figure 8: Lodging supply growth 1988 to 2012

Lodging supply, percentage change from prior year



Source: Smith Travel Research; PwC

Supply

Lodging supply growth remains suppressed (Figure 8). Though construction starts picked up in the first half of 2011 relative to 2010, the activity represents slightly less than 1.0 percent of existing supply. This pace, combined with a context of heightened economic uncertainty, is expected to result in limited numbers of new hotel openings through 2012. Indeed, the anticipated pace is equivalent to approximately 100 hotel rooms

opening per day over the next six quarters, which compares to approximately 300 hotel rooms per day experienced over the past five years.

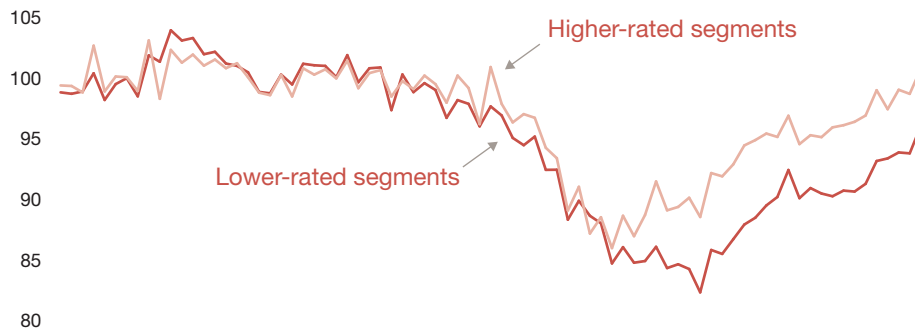
As a result of reduced construction starts, the number of rooms at hotel projects currently under construction with opening dates in 2011 and 2012 has decreased to 0.9 percent and 0.6 percent of estimated prior year supply, respectively.¹¹ These hotel openings are expected to result

in annual supply growth of 0.8 and 0.4 percent on an average annual basis in 2011 and 2012, respectively. This measure differs within individual chain-scale segments. In this context, conversion activity remains an important element of supply changes within individual chain-scale segments. On an overall basis, about 35 percent more hotel rooms are being converted from brand affiliated status to independent status than the reverse, which is higher than in recent years.

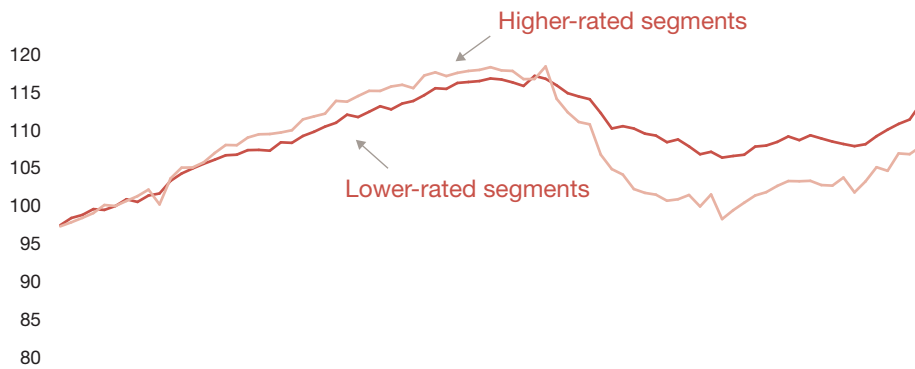
¹¹ The 2011 figures in this paragraph include openings in the first half of the year.

Figure 9: Segment performance comparison

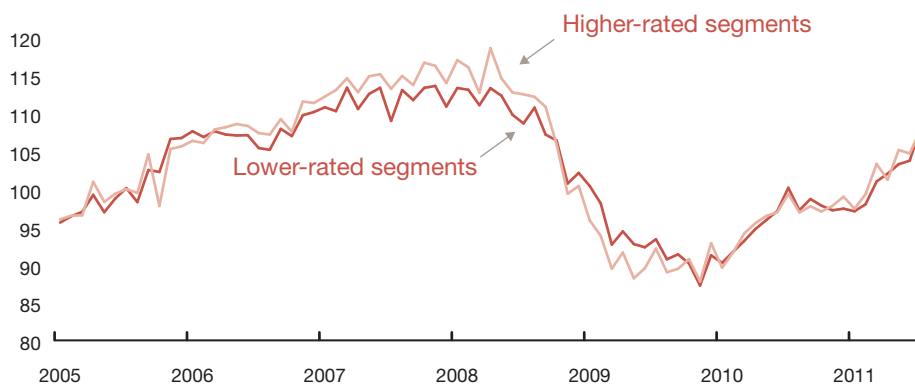
Occupancy index



ADR index



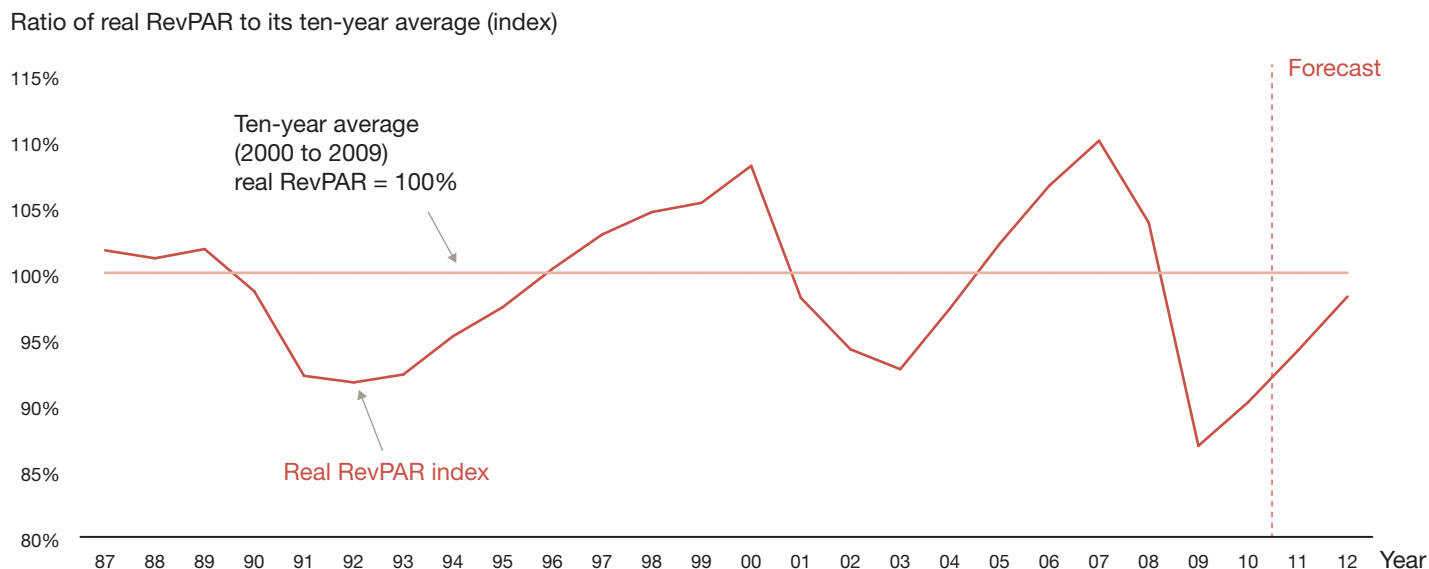
RevPAR index



Note: The higher-rated segment series includes the luxury, upper upscale, and upscale segments. The lower-rated segment series includes upper midscale, midscale, and economy segments. Data is seasonally adjusted, monthly data, indexed such that 2005 equals 100. July 2011 is based on preliminary average daily results.

Source: Smith Travel Research; PwC.

Figure 10: Real RevPar, 1987 to 2012



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

Occupancy

With growing demand and decelerating supply growth, occupancy levels during the second quarter increased to 59.9 percent on a seasonally adjusted basis. This is 2.2 percentage points below the 20-year average of 62.1 percent.

ADR and RevPAR

ADR levels have continued to recover from the low point reached in early 2010 and second quarter ADR was 3.5 percent above prior year levels, exceeding our expectations. Despite this performance, our outlook has been tempered by downward revisions to the economic outlook, and remains

critically dependent on actions by hotel management teams to rebuild ADR. We believe the recovery of demand over the past two years has helped create opportunities for such strategies. For example, occupancy rates at luxury, upper upscale and upscale hotels have recovered to levels that exceed the 10-year average in each segment, supply growth is benign, and advance bookings for group events set a more secure base to drive yield management decisions on transient demand. As a result, our outlook anticipates further increases in ADR through the remainder of 2011 and 2012, resulting in a gain of 3.6 percent in 2011 and 5.1 percent in 2012.

It is interesting to compare the occupancy and ADR patterns in higher-rated segments (luxury, upper upscale, and upscale) with the pattern in the lower-rated segments (upper midscale, midscale, and economy). As shown in Figure 9, using indexes set to equal 100 in 2005, the higher-rated segments have recovered occupancy at the expense of ADR, while the situation is the reverse in the lower-rated segments. Overall, the path of the RevPAR index for both categories is quite similar.

Figure 10 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, August 30, 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%	60.4%
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%	1.0%
Pct. point difference from prior year	(3.5)	(0.7)	0.3	2.0	1.7	0.1	(0.3)	(3.0)	(5.3)	3.0	2.2	0.6
Average daily rate (\$)	\$83.62	\$82.54	\$82.71	\$86.19	\$91.03	\$97.82	\$104.32	\$107.37	\$98.18	\$98.11	\$101.62	\$106.82
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%	3.6%	5.1%
Nominal RevPAR (\$)	\$49.91	\$48.71	\$49.03	\$52.80	\$57.35	\$61.75	\$65.52	\$64.20	\$53.55	\$56.49	\$60.76	\$64.49
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%	7.5%	6.2%
Inflation-adjusted RevPAR (\$, 2005 base)	\$55.05	\$52.88	\$52.04	\$54.58	\$57.35	\$59.83	\$61.71	\$58.24	\$48.74	\$50.58	\$52.81	\$55.11
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%	4.4%	4.4%
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%	3.0%	1.7%
Real GDP, percentage change from prior year (annual average)	1.1%	1.8%	2.5%	3.5%	3.1%	2.7%	1.9%	-0.3%	-3.5%	3.0%	1.8%	2.5%
Real GDP, percentage change from prior year (fourth quarter over fourth quarter)	0.4%	1.9%	3.9%	2.9%	2.8%	2.4%	2.2%	-3.3%	-0.5%	3.1%	1.6%	2.8%
Average daily rooms sold (000s)	2,559	2,571	2,609	2,708	2,783	2,795	2,815	2,746	2,578	2,771	2,900	2,939
Percentage change from prior year	-3.2%	0.4%	1.5%	3.8%	2.8%	0.4%	0.7%	-2.5%	-6.1%	7.5%	4.6%	1.3%
Room starts (000s)	90.5	68.4	76.6	81.3	83.4	138.9	145.9	132.5	47.4	29.5	38.5	52.8
Percentage change from prior year	-24.8%	-24.4%	12.0%	6.0%	2.6%	66.5%	5.0%	-9.2%	-64.2%	-37.8%	30.7%	37.1%
End-of-year supply (000s)	4,285	4,348	4,383	4,384	4,377	4,412	4,488	4,628	4,753	4,799	4,827	4,846
End-of-year supply change from prior year	2.0%	1.5%	0.8%	0.0%	-0.2%	0.8%	1.7%	3.1%	2.7%	1.0%	0.6%	0.4%
Average supply change from prior year	2.4%	1.6%	1.0%	0.4%	-0.1%	0.2%	1.2%	2.4%	2.9%	1.8%	0.8%	0.4%

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

Table 2: US lodging outlook

	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4
Occupancy (percent)	57.2%	64.2%	65.2%	52.5%	50.9%	57.2%	59.9%	50.0%
Percentage change from prior year	-3.3%	-3.2%	-4.3%	-8.6%	-11.1%	-10.9%	-8.1%	-4.7%
Pct. point difference from prior year	-2.0%	-2.1%	-2.9%	-4.9%	-6.3%	-7.0%	-5.3%	-2.5%
Occupancy (percent, seas. adj.)	61.6%	61.0%	59.6%	57.2%	55.0%	54.2%	54.6%	54.6%
Average daily rate (\$)	\$108.92	\$108.22	\$107.83	\$104.15	\$100.73	\$98.00	\$97.68	\$96.49
Percentage change from prior year	5.2%	4.4%	3.3%	-1.5%	-7.5%	-9.4%	-9.4%	-7.3%
Average daily rate (\$, seas. adj.)	\$108.12	\$108.13	\$107.73	\$104.85	\$100.31	\$98.00	\$97.41	\$97.00
RevPAR (\$)	\$62.31	\$69.52	\$70.32	\$54.66	\$51.23	\$56.07	\$58.55	\$48.27
Percentage change from prior year	1.7%	1.0%	-1.1%	-10.0%	-17.8%	-19.3%	-16.7%	-11.7%
RevPAR (\$, seas. adj.)	\$66.64	\$65.96	\$64.16	\$59.94	\$55.12	\$53.16	\$53.21	\$52.92
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%
Average daily rooms sold (000s)	2,576	2,949	3,025	2,431	2,361	2,704	2,862	2,382
Percentage change from prior year	-1.4%	-1.1%	-1.8%	-5.9%	-8.4%	-8.3%	-5.4%	-2.0%
Average daily rooms sold (000s, seas. adj.)	2,795	2,786	2,740	2,652	2,568	2,552	2,587	2,602
Room starts (000s)	35.9	37.7	35.0	23.8	12.9	14.0	10.7	9.8
Percentage change from prior year	21.8%	-7.5%	1.8%	-42.2%	-64.2%	-62.9%	-69.4%	-58.7%
End-of-quarter supply (000s)	4,521	4,616	4,649	4,628	4,658	4,750	4,784	4,753
Percentage change from prior year	2.1%	2.3%	2.7%	3.1%	3.0%	2.9%	2.9%	2.7%

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

2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4
52.0%	60.7%	63.9%	53.5%	54.9%	63.4%	66.0%	54.8%	55.4%	63.9%	66.6%	55.5%
2.2%	6.0%	6.7%	7.0%	5.6%	4.5%	3.2%	2.3%	0.9%	0.9%	0.9%	1.4%
1.1%	3.5%	4.0%	3.5%	2.9%	2.7%	2.1%	1.2%	0.5%	0.5%	0.6%	0.8%
56.2%	57.4%	58.1%	58.4%	59.4%	59.9%	59.9%	59.9%	60.0%	60.2%	60.5%	60.7%
\$96.40	\$98.02	\$99.30	\$98.39	\$99.48	\$101.44	\$102.72	\$102.58	\$104.53	\$105.99	\$107.98	\$108.57
-4.3%	0.0%	1.7%	2.0%	3.2%	3.5%	3.5%	4.3%	5.1%	4.5%	5.1%	5.8%
\$96.25	\$98.03	\$98.91	\$98.84	\$99.45	\$101.44	\$102.26	\$103.01	\$104.57	\$105.97	\$107.50	\$109.03
\$50.10	\$59.46	\$63.49	\$52.68	\$54.58	\$64.28	\$67.79	\$56.17	\$57.87	\$67.73	\$71.89	\$60.28
-2.2%	6.0%	8.4%	9.1%	8.9%	8.1%	6.8%	6.6%	6.0%	5.4%	6.0%	7.3%
\$54.12	\$56.31	\$57.50	\$57.70	\$59.07	\$60.79	\$61.30	\$61.68	\$62.76	\$63.82	\$65.00	\$66.20
2.4%	1.8%	1.2%	1.2%	2.2%	3.3%	3.4%	3.1%	2.2%	1.6%	1.5%	1.5%
2,473	2,928	3,101	2,578	2,633	3,081	3,222	2,659	2,674	3,109	3,262	2,706
4.7%	8.3%	8.4%	8.2%	6.5%	5.2%	3.9%	3.2%	1.5%	0.9%	1.2%	1.8%
2,695	2,761	2,800	2,818	2,872	2,904	2,908	2,907	2,918	2,930	2,944	2,959
5.3	8.2	7.1	8.8	7.2	10.2	10.2	10.9	9.3	14.2	14.1	15.2
-58.4%	-41.6%	-33.4%	-10.4%	35.2%	25.0%	42.9%	23.4%	28.7%	38.5%	38.6%	39.8%
4,769	4,845	4,853	4,799	4,809	4,881	4,885	4,827	4,833	4,898	4,902	4,846
2.4%	2.0%	1.5%	1.0%	0.8%	0.8%	0.6%	0.6%	0.5%	0.3%	0.3%	0.4%

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. As

noted in the previous edition of PwC Hospitality Directions US, Smith Travel Research recently revised its chain scale classifications, and PwC has updated its analysis to reflect the changes.¹²

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	6.5	1.5	4.8	6.3	11.5	Luxury	0.6	0.7	(0.1)	6.8	6.7
Upper upscale	4.2	1.5	2.6	4.2	7.0	Upper upscale	0.7	0.3	0.4	6.8	7.2
Upscale	6.2	2.4	3.7	3.7	7.6	Upscale	1.8	1.4	0.4	6.5	6.9
Upper midscale	10.0	5.1	4.7	3.0	7.9	Upper midscale	3.3	1.7	1.6	3.3	4.9
Midscale	(5.2)	(7.9)	2.9	(0.0)	2.9	Midscale	(1.4)	(2.8)	1.5	2.6	4.1
Economy	3.9	0.2	3.6	1.4	5.1	Economy	1.1	0.2	0.9	2.8	3.8
Independent hotels	4.9	1.3	3.6	3.0	6.7	Independent hotels	1.4	0.4	1.0	4.9	6.0
US Total	4.6	0.8	3.8	3.6	7.5		1.3	0.4	1.0	5.1	6.2

Source: Smith Travel Research; PwC

¹² 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	2009	2010	2011	2012	Comments
Luxury	(19.1)%	(13.3)%	(6.2)%	(1.8)%	The solid pace of RevPAR recovery in the luxury segment continued in the second quarter. Rate gains exceeded our expectations, resulting in an increase in our outlook for the year. Though performance in the segment fell dramatically from September 2008 to March 2009 (a 28.2% RevPAR decline over seven months, on a seasonally adjusted basis), luxury hotels have recovered lost RevPAR quickly. The luxury segment is now operating at levels closer to the segment's long-term average real RevPAR, than either upper upscale or upscale hotels, though the setback from peak levels has been more severe. RevPAR gains in 2012 are expected to be driven by ADR growth.
Upper upscale	(15.4)	(11.8)	(8.5)	(3.8)	During the recession, the upper upscale segment was less severely impacted than the luxury segment, but slightly more impacted than the upscale segment. While the upper upscale segment is experiencing a strong recovery, RevPAR levels lag the segment's real, long-term average by slightly more than the US average (8.5 percent below in 2011 for the upper upscale segment, as compared to 5.9 percent for the US overall). The key weak points are transient ADR and group demand. Transient ADR during the first half of 2011 averaged 10.3 percent below its 2007 level, compared to 1.4 percent below at hotels outside of the upper-tier categories. Similarly, the share of available rooms occupied by group demand during the first half of 2011 was 14.6 percent below 2007 levels.
Upscale	(14.2)	(11.4)	(7.5)	(3.1)	RevPAR recovery in the upscale segment has been broadly similar to the US average. However, hotels have achieved this performance by rebuilding occupancy at the expense of ADR. Estimated 2011 occupancy levels at upscale hotels are 1.9 percent ahead of the segment's 10-year average, while real ADR is 9.1 percent below. The operating expenses associated with higher occupancy levels imply that performance at upscale hotels has been more impacted than RevPAR levels would initially indicate.
Upper Midscale	(10.3)	(7.8)	(3.5)	(0.7)	The upper midscale segment experienced a 6.4 percent increase in room supply during the 12 months through June 2011. This increase was 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. The magnitude of these reclassifications is impacting year over year comparisons in operating performance.
Midscale	(14.3)	(13.3)	(13.4)	(11.6)	Occupancy and ADR levels in the midscale segment were negatively impacted during the recession and have not recovered to the same degree as the broader industry. Our outlook assumes gradual growth through 2012. 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 that is occurring.
Economy	(18.6)	(18.4)	(16.8)	(15.3)	RevPAR performance in the economy segment continues to trace a weaker than average path, as pricing remains suppressed.
Independent hotels	(14.5)	(11.5)	(8.3)	(4.7)	Of the US inventory of hotel rooms at year-end 2010, 29.4 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	(13.1)	(9.8)	(5.9)	(1.8)	

Table 4: Luxury forecast

	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%	69.7%	69.6%
Percentage change from prior year	-12.2%	-0.6%	1.3%	5.2%	3.9%	1.5%	-0.1%	-5.7%	-8.1%	7.0%	4.8%	-0.1%
Change in occupancy points	-8.9	-0.4	0.8	3.3	2.7	1.1	-0.1	-4.1	-5.4	4.3	3.2	-0.1
Average daily rate (\$)	\$226.67	\$218.08	\$215.13	\$226.12	\$242.86	\$266.45	\$285.60	\$286.28	\$239.19	\$243.69	\$259.09	\$276.75
Percentage change from prior year	-2.6%	-3.8%	-1.4%	5.1%	7.4%	9.7%	7.2%	0.2%	-16.5%	1.9%	6.3%	6.8%
Nominal RevPAR (\$)	\$145.72	\$139.30	\$139.18	\$153.84	\$171.71	\$191.20	\$204.68	\$193.53	\$148.66	\$162.01	\$180.59	\$192.70
Percentage change from prior year	-14.4%	-4.4%	-0.1%	10.5%	11.6%	11.3%	7.0%	-5.4%	-23.2%	9.0%	11.5%	6.7%
Inflation-adjusted RevPAR (\$)	\$160.72	\$151.23	\$147.70	\$159.02	\$171.71	\$185.23	\$192.76	\$175.56	\$135.30	\$145.06	\$156.88	\$164.18
Percentage change from prior year	-16.8%	-5.9%	-2.3%	7.7%	8.0%	7.9%	4.1%	-8.9%	-22.9%	7.2%	8.1%	4.6%
Demand (thous.)	48.8	53.5	58.1	63.0	65.7	69.9	72.7	72.8	72.6	81.4	86.6	87.1
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%	6.5%	0.6%
Average room supply (thous.)	75.9	83.8	89.8	92.5	92.9	97.4	101.4	107.8	116.9	122.4	124.3	125.1
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%	1.5%	0.7%

Source: Smith Travel Research; PwC

Table 5: Upper upscale forecast

	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%	69.2%	69.5%
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%	2.6%	0.4%
Change in occupancy points	-6.9	0.9	1.2	1.6	1.7	-0.1	-0.1	-2.5	-4.8	4.2	1.8	0.3
Average daily rate (\$)	\$135.01	\$129.11	\$125.57	\$130.96	\$140.02	\$149.96	\$158.69	\$161.01	\$143.44	\$142.54	\$148.60	\$158.70
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%	4.2%	6.8%
Nominal RevPAR (\$)	\$88.14	\$85.39	\$84.55	\$90.32	\$99.01	\$105.90	\$111.89	\$109.51	\$90.70	\$96.09	\$102.82	\$110.22
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%	7.0%	7.2%
Inflation-adjusted RevPAR (\$)	\$97.21	\$92.71	\$89.72	\$93.36	\$99.01	\$102.59	\$105.37	\$99.35	\$82.55	\$86.04	\$89.33	\$93.91
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%	3.8%	5.1%
Demand (thous.)	308.1	319.0	332.1	345.1	352.0	347.3	348.6	346.7	337.1	364.7	380.1	382.7
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%	4.2%	0.7%
Average room supply (thous.)	471.9	482.3	493.3	500.4	497.8	491.7	494.5	509.7	533.1	541.1	549.3	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 forecast

	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%	62.0%	66.3%	68.8%	69.0%
Percentage change from prior year	-7.4%	-0.1%	0.6%	4.7%	2.3%	0.0%	-0.9%	-3.6%	-7.7%	7.0%	3.7%	0.4%
Change in occupancy points	-5.2	-0.1	0.4	3.1	1.6	0.0	-0.6	-2.5	-5.2	4.3	2.5	0.2
Average daily rate (\$)	\$100.59	\$96.05	\$94.19	\$97.61	\$104.72	\$114.35	\$121.40	\$123.15	\$110.34	\$108.21	\$112.20	\$119.49
Percentage change from prior year	-0.7%	-4.5%	-1.9%	3.6%	7.3%	9.2%	6.2%	1.4%	-10.4%	-1.9%	3.7%	6.5%
Nominal RevPAR (\$)	\$65.74	\$62.71	\$61.85	\$67.10	\$73.62	\$80.36	\$84.59	\$82.69	\$68.37	\$71.74	\$77.17	\$82.47
Percentage change from prior year	-8.0%	-4.6%	-1.4%	8.5%	9.7%	9.2%	5.3%	-2.2%	-17.3%	4.9%	7.6%	6.9%
Inflation-adjusted RevPAR (\$)	\$72.51	\$68.08	\$65.64	\$69.36	\$73.62	\$77.85	\$79.66	\$75.01	\$62.22	\$64.23	\$67.04	\$70.26
Percentage change from prior year	-10.5%	-6.1%	-3.6%	5.7%	6.2%	5.7%	2.3%	-5.8%	-17.1%	3.2%	4.4%	4.8%
Demand (thous.)	251.0	265.3	277.6	295.7	312.8	325.3	338.6	347.1	347.5	394.8	419.4	426.7
Percentage change from prior year	-0.3%	5.7%	4.6%	6.5%	5.8%	4.0%	4.1%	2.5%	0.1%	13.6%	6.2%	1.8%
Average room supply (thous.)	384.1	406.4	422.7	430.1	445.0	462.8	486.0	516.9	560.8	595.5	609.8	618.3
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%	2.4%	1.4%

Source: Smith Travel Research; PwC

Table 7: Upper midscale forecast

	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%	61.2%	62.1%
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%	4.7%	1.6%
Change in occupancy points	-3.1	-0.5	-0.4	2.1	2.2	0.8	-0.9	-3.5	-6.1	2.7	2.7	1.0
Average daily rate (\$)	\$74.36	\$73.50	\$73.54	\$75.81	\$81.06	\$87.33	\$93.64	\$97.25	\$91.80	\$91.40	\$94.17	\$97.31
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%	3.3%
Nominal RevPAR (\$)	\$46.02	\$45.11	\$44.85	\$47.86	\$52.95	\$57.77	\$61.15	\$60.05	\$51.12	\$53.40	\$57.60	\$60.45
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%	7.9%	4.9%
Inflation-adjusted RevPAR (\$)	\$50.75	\$48.97	\$47.60	\$49.47	\$52.95	\$55.97	\$57.59	\$54.48	\$46.52	\$47.82	\$50.04	\$51.51
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%	4.7%	2.9%
Demand (thous.)	406.7	414.7	421.7	439.2	448.4	451.2	451.1	439.5	412.0	445.5	490.2	506.2
Percentage change from prior year	-1.7%	2.0%	1.7%	4.2%	2.1%	0.6%	0.0%	-2.6%	-6.3%	8.1%	10.0%	3.3%
Average room supply (thous.)	657.1	675.8	691.4	695.9	686.4	682.0	690.8	711.8	739.9	762.4	801.4	814.9
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%	5.1%	1.7%

Source: Smith Travel Research; PwC

Table 8: Midscale forecast

	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%	55.5%	49.4%	51.8%	53.3%	54.1%
Percentage change from prior year	-4.7%	-1.7%	1.0%	4.3%	3.8%	0.6%	-1.3%	-5.0%	-10.9%	4.7%	2.9%	1.5%
Change in occupancy points	-2.7	-0.9	0.5	2.4	2.2	0.4	-0.8	-2.9	-6.1	2.3	1.5	0.8
Average daily Rate (\$)	\$65.05	\$64.25	\$64.19	\$65.69	\$69.26	\$73.63	\$77.41	\$79.37	\$75.03	\$73.68	\$73.65	\$75.57
Percentage change from prior year	0.7%	-1.2%	-0.1%	2.3%	5.4%	6.3%	5.1%	2.5%	-5.5%	-1.8%	0.0%	2.6%
Nominal RevPAR (\$)	\$35.59	\$34.56	\$34.88	\$37.25	\$40.77	\$43.61	\$45.23	\$44.05	\$37.09	\$38.14	\$39.24	\$40.86
Percentage change from prior year	-4.0%	-2.9%	0.9%	6.8%	9.5%	6.9%	3.7%	-2.6%	-15.8%	2.8%	2.9%	4.1%
Inflation-adjusted RevPAR (\$)	\$39.26	\$37.52	\$37.02	\$38.50	\$40.77	\$42.24	\$42.60	\$39.96	\$33.75	\$34.15	\$34.09	\$34.82
Percentage change from prior year	-6.7%	-4.4%	-1.3%	4.0%	5.9%	3.6%	0.8%	-6.2%	-15.5%	1.2%	-0.2%	2.1%
Demand (thous.)	296.1	293.7	292.8	303.0	312.5	316.3	315.3	305.1	281.5	297.1	281.8	277.9
Percentage change from prior year	-4.2%	-0.8%	-0.3%	3.5%	3.1%	1.2%	-0.3%	-3.2%	-7.7%	5.5%	-5.2%	-1.4%
Average room supply (thous.)	541.1	546.1	538.8	534.3	530.8	534.1	539.6	549.6	569.5	573.9	528.9	514.0
Percentage change from prior year	0.5%	0.9%	-1.3%	-0.8%	-0.7%	0.6%	1.0%	1.9%	3.6%	0.8%	-7.9%	-2.8%

Source: Smith Travel Research; PwC

Table 9: Economy forecast

	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%	53.6%	54.1%
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%	3.6%	0.9%
Change in occupancy points	-2.0	-1.6	-0.7	1.4	1.8	-0.2	-0.2	-2.9	-4.9	2.5	1.9	0.5
Average daily rate (\$)	\$47.11	\$46.81	\$46.78	\$47.82	\$49.99	\$52.71	\$54.40	\$55.01	\$50.97	\$49.38	\$50.07	\$51.49
Percentage change from prior year	0.0%	-0.6%	-0.1%	2.2%	4.5%	5.4%	3.2%	1.1%	-7.3%	-3.1%	1.4%	2.8%
Nominal RevPAR (\$)	\$26.68	\$25.75	\$25.38	\$26.59	\$28.70	\$30.14	\$31.00	\$29.75	\$25.05	\$25.52	\$26.82	\$27.84
Percentage change from prior year	-3.4%	-3.5%	-1.4%	4.8%	7.9%	5.0%	2.8%	-4.0%	-15.8%	1.9%	5.1%	3.8%
Inflation-adjusted RevPAR (\$)	\$29.43	\$27.95	\$26.93	\$27.49	\$28.70	\$29.20	\$29.20	\$26.99	\$22.80	\$22.85	\$23.30	\$23.72
Percentage change from prior year	-6.0%	-5.0%	-3.6%	2.1%	4.4%	1.7%	0.0%	-7.6%	-15.5%	0.2%	2.0%	1.8%
Demand (thous.)	421.1	412.3	402.1	411.5	425.9	424.6	431.9	417.5	383.7	404.0	419.7	424.3
Percentage change from prior year	-1.2%	-2.1%	-2.5%	2.3%	3.5%	-0.3%	1.7%	-3.3%	-8.1%	5.3%	3.9%	1.1%
Average room supply (thous.)	743.6	749.6	741.2	739.9	741.7	742.5	757.9	772.0	780.9	781.7	783.4	784.7
Percentage change from prior year	2.2%	0.8%	-1.1%	-0.2%	0.3%	0.1%	2.1%	1.9%	1.1%	0.1%	0.2%	0.2%

Source: Smith Travel Research; PwC

Table 10: Independent hotels forecast

	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%	52.2%	54.6%	56.6%	57.1%
Percentage change from prior year	-5.1%	-1.8%	0.7%	2.9%	2.1%	-0.2%	0.0%	-5.5%	-9.1%	4.6%	3.6%	1.0%
Change in occupancy points	-3.2	-1.0	0.4	1.7	1.2	-0.1	0.0	-3.3	-5.2	2.4	2.0	0.6
Average daily rate (\$)	\$80.68	\$80.27	\$81.04	\$84.91	\$87.87	\$93.49	\$100.75	\$104.59	\$94.85	\$95.43	\$98.27	\$103.11
Percentage change from prior year	-1.0%	-0.5%	1.0%	4.8%	3.5%	6.4%	7.8%	3.8%	-9.3%	0.6%	3.0%	4.9%
Nominal RevPAR (\$)	\$47.22	\$46.16	\$46.94	\$50.61	\$53.47	\$56.77	\$61.15	\$60.01	\$49.48	\$52.09	\$55.58	\$58.91
Percentage change from prior year	-6.0%	-2.3%	1.7%	7.8%	5.6%	6.2%	7.7%	-1.9%	-17.6%	5.3%	6.7%	6.0%
Inflation-adjusted RevPAR (\$)	\$52.08	\$50.11	\$49.81	\$52.32	\$53.47	\$55.00	\$57.59	\$54.44	\$45.03	\$46.64	\$48.29	\$50.19
Percentage change from prior year	-8.6%	-3.8%	-0.6%	5.0%	2.2%	2.9%	4.7%	-5.5%	-17.3%	3.6%	3.5%	3.9%
Demand (thous.)	827.5	811.9	824.5	850.5	865.6	860.3	856.9	816.9	743.4	783.6	822.2	833.9
Percentage change from prior year	-4.5%	-1.9%	1.5%	3.2%	1.8%	-0.6%	-0.4%	-4.7%	-9.0%	5.4%	4.9%	1.4%
Average room supply (thous.)	1,413.9	1,412.0	1,423.6	1,426.7	1,422.6	1,416.7	1,411.7	1,423.8	1,425.2	1,435.6	1,453.6	1,459.6
Percentage change from prior year	0.6%	-0.1%	0.8%	0.2%	-0.3%	-0.4%	-0.3%	0.9%	0.1%	0.7%	1.3%	0.4%

Source: Smith Travel Research; PwC

Asset values in flux

Recent developments have not only reduced operating performance expectations, but also raised near-term investment uncertainty and fostered a pullback from risk taking. As we consider the impact to hotel asset values, we note the contrast between two points of view.

The risk emphasis: In this view, the emphasis is placed on the potential for increased risk aversion to negatively impact hotel transaction activity. Driven by factors such as a reduced appetite for exposure to hotel real estate, and lower availability of leverage than would have otherwise been the case, buyers may retrench. This raises the attraction to core properties in primary markets, at the expense of other properties.

The real estate emphasis: In this alternative view, the focus remains on the current situation in the hotel industry and the characteristics of real estate as an asset class. Emphasis is placed on the following favorable aspects of the sector:

- hotel asset values remain below replacement cost, and the current supply pipeline is near its lowest level in over 20 years;
- increased ADR levels are expected to result in substantial margin improvements, fueling cash flow growth; and,
- the past two years of lodging demand growth demonstrate the sector's resiliency.

At the same time, characteristics of real estate—a lower-risk asset class with a role in diversified portfolios—remain appealing to some investors during periods of volatility. In this view, investors seeking to acquire hotel assets maintain interest in the sector, and search for attractive opportunities across markets.

Of the two perspectives, the current balance appears tilted toward the former, as public equity prices indicate a recent markdown of hotel asset values. Yet it is at such times that hotel owners who favor the alternative view tend to see valuable opportunities.

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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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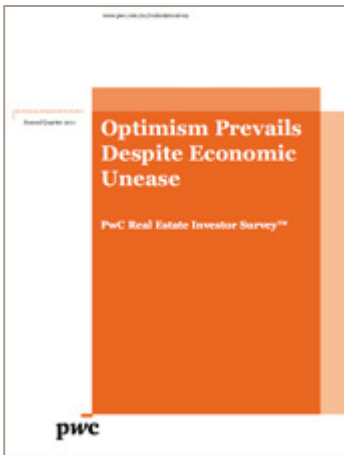
Time series data

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 *Second Quarter 2011*

The most recent issue of the PwC Real Estate Investor Survey includes several key features. The national highlights article, “Optimism Prevails Despite Economic Unease,” comments on investor’s outlook. The PwC

Real Estate Barometer provides insights on the anticipated cycle paths for the four main property sectors, as well as geographic regions and metro areas. The semiannual National Development Land Market draws views from this fragile sub-sector.

(Subscription required)

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