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At a glance

The ongoing recovery in lodging demand has continued, despite an economic outlook that remains uncertain.

Recent lodging results support improved confidence, slightly raising our expectation for 2011 and 2012 RevPAR growth to 7.8 and 6.5 percent, respectively.

As pricing momentum improves, hotels in higher-priced segments are expected to secure greater RevPAR gains.

pwc

Revenue per available room (RevPAR) gains in the third quarter exceeded our expectations, raising our outlook for growth in 2011 to 7.8 percent. RevPAR is expected to grow 6.5 percent in 2012, largely driven by increases in average daily rate (ADR).

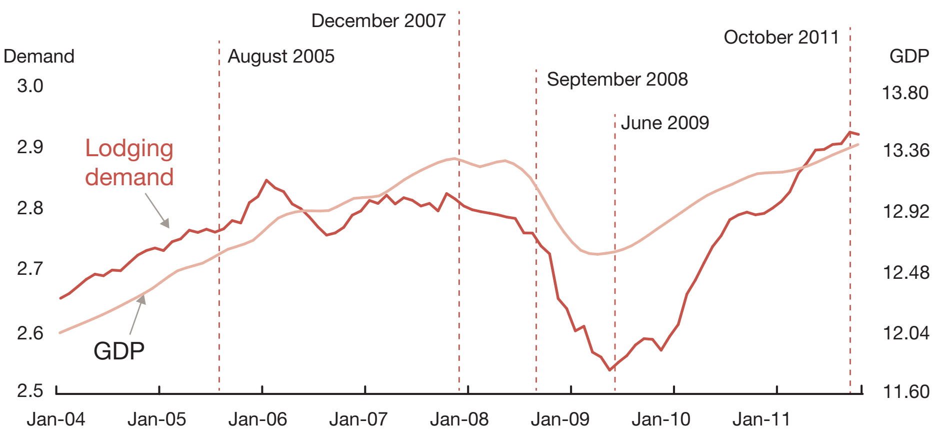
Economic growth has firmed in the second half of 2011, though risks of recession persist. Upside and downside risks to the lodging outlook are elevated.

In this issue

Lodging recovery intact

Persistent momentum in the lodging sector in recent months has increased confidence that the lodging recovery remains intact, despite slow economic growth and heightened uncertainty. Broadly, lodging demand continued to recover in the third quarter as shown in Figure 1, reaching an average daily pace of 2.9 million room nights, seasonally adjusted, which is 3.1 percent ahead of its pre-recession peak. Pricing showed steady improvement, with ADR 3.8 percent above year-ago levels. Both of these measures were slightly ahead of our expectations. Indeed, while the economic outlook has moved sideways since August, with a slightly weaker forecast for 2012 GDP growth, balanced by near term signs that economic activity is firming in the second half of 2011, conditions in the lodging sector demonstrate resiliency.

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 October 2011. Lodging demand for October 2011 is estimated based on daily results.
Right axis: GDP, trillions of 2005 dollars, annualized. GDP is converted from quarterly data published by Macroeconomic Advisers and is shown here as a monthly time series. It represents a forecast from October to December 2011.

Source: Macroeconomic Advisers, LLC (forecast released October 2011); Smith Travel Research; PwC

Hotel operators report group booking levels for 2012 that are ahead of prior year levels. The pace of transient travel has continued, despite frequent headlines highlighting tumultuous political and economic conditions in Europe and, to a lesser degree, in the US. Domestic job growth remains weak, but US corporations continue to make capital investments, supporting an outlook of ongoing growth in commercial transient travel and group events. Leisure demand continues to increase, as indicated by continued transient growth at resorts in the third quarter, and weekend transient business at upper-tier hotels that exceeded prior year levels.

Hotels in the higher-priced chain scale segments have maintained stronger occupancy levels than hotels oriented toward lower price points, and, with strengthening pricing trends, higher-priced hotels are expected to achieve stronger RevPAR gains in 2012. Hotels in the luxury, upper upscale, and upscale segments are operating at occupancy levels that exceed historical averages. Though ADR declined more precipitously at hotels in the higher-priced segments during 2009, pricing is gaining momentum. As a result, our outlook anticipates 7.5 percent RevPAR growth in 2012 for the three higher-priced segments in aggregate, compared to 5.0 percent for the three lower-priced segments.

Overall, we recognize the economic outlook is uncertain, and that the risk of another recession persists. Travel demand is sensitive to expectations of future economic conditions. Thus, even as our outlook anticipates RevPAR growth of 6.5 percent in 2012, fueled by a 1.3 percent increase in occupancy and 5.2 percent increase in ADR, such performance is dependent on perceptions of an improving economy. Should the economy demonstrate stronger—or weaker —growth than expected entering 2012, travel activity could respond quickly.

Economic growth firms, though risks of recession persist

Though there are indications economic growth has firmed up a bit in the second half of 2011, economic momentum remains weak. The economy is vulnerable and there is an elevated risk that a series of negative events could quickly become a self-fulfilling path back into recession. Thus, while the base assumption is for the US economy to avoid a double-dip recession in 2012, and to regain a more solid pace of growth in 2013, Macroeconomic Advisers characterizes the risk of recession as roughly one in three.

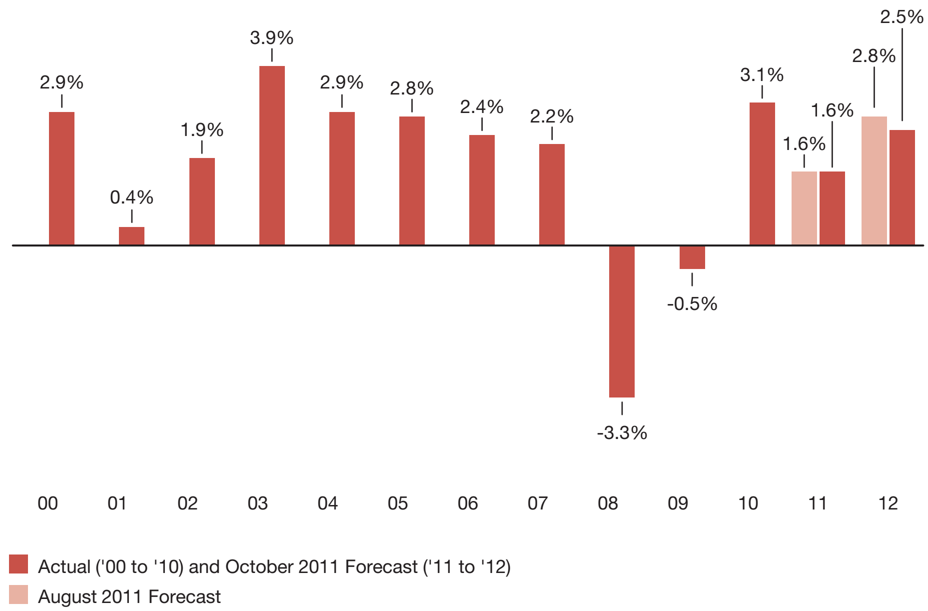
Taking a near-term perspective, incoming information indicates that economic growth in the second half of 2011 has strengthened moderately. Indeed, in its October forecast, Macroeconomic Advisers, the firm that provides the underlying macroeconomic drivers to our lodging outlook, revised upward its forecast for GDP growth in the second half of 2011 for the first time in eight months. Contributing factors included incoming data on trade, business investment and construction, as well as the expectation that motor-vehicle production is emerging from supply chain disruptions related to the earthquake in Japan.[1] Meanwhile, stock markets have improved more quickly than previously anticipated.

As a result, Macroeconomic Advisers' outlook anticipates a 2.4 percent pace of GDP growth in the second half of 2011, compared to 0.8 percent in the first half. The slight upward revision to the second half of 2011 corresponds with 1.6 percent growth for 2011 overall, on a fourth-quarter-over-fourth quarter basis, which is the

[1] This positive is partly offset by more recent flooding in Thailand that has resulted in cuts in planned production at some US-based motor-vehicle assembly facilities of Japanese automakers.

Figure 2: **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 October 2011)

same annual growth assumption as was in place for our previous lodging outlook in August (Figure 2).

Considering a broader perspective, the economy remains near a stall speed, with growth of just 2.5 percent expected in 2012 on a fourth-quarter-over-fourth quarter basis, and risk persists that a disruption or erosion of confidence can result in a recession. The evolving sovereign debt crisis in Europe appears to pose just such a risk and a discussion of how a recession scenario may unfold is provided in the accompanying section (see page 7)

In this context, financial market swings, headline risks, and political turf battles attract heavy attention. At times, this news obscures perception of a more likely potential future path in which the US economy survives without tipping into recession. Considering that our lodging outlook is based on just such a path, the key assumptions of this baseline are important:

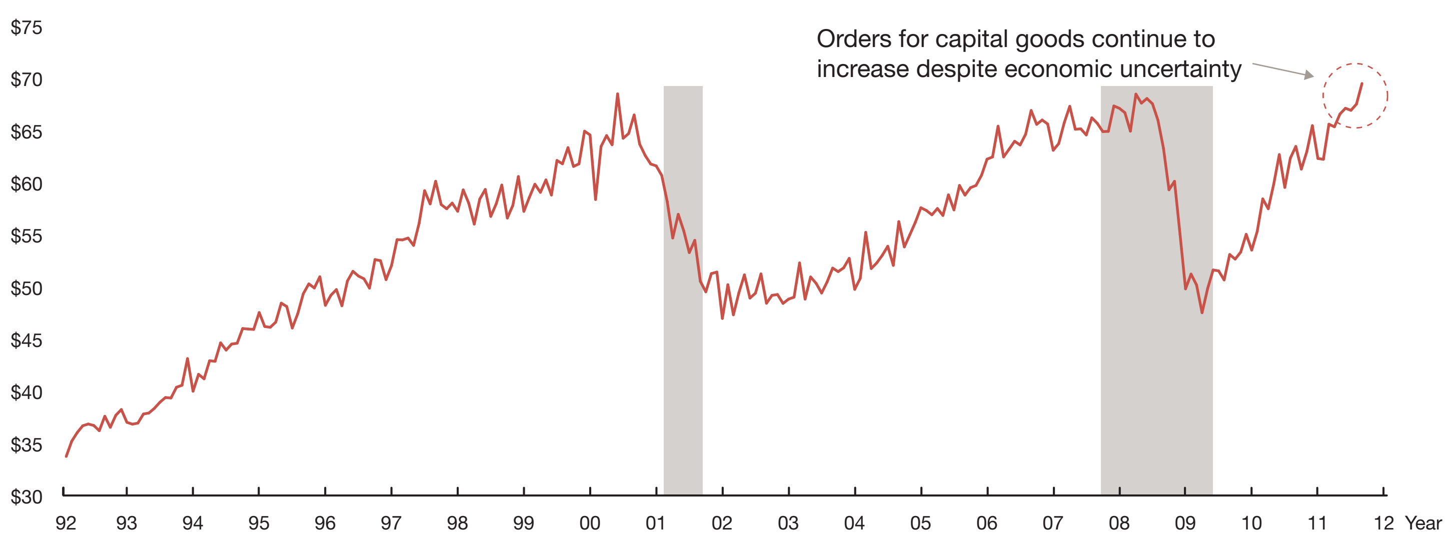
- **Policy makers to do what it takes to avoid a full-on Euro zone implosion.** Given this assumption, financial markets are expected to be spared a further financial contagion, and gradually normalize.

- **Consumer spending picks up in the second half of 2011.** Aspects of household balance sheets are improving. For example, in a setting of increased savings and decreased availability of credit, households have done a notable job reducing the burden of debt and other financial obligations to the point at which financial obligations such as mortgages, credit card debt, and rental payments account for just 16.1 percent of disposable income, the lowest ratio since 1993. This means that a greater share of income is available to support spending growth in future quarters. Also, with a gradual stabilization of household net worth, households are expected to resume purchases of durable goods that were postponed during the recession and sluggish recovery.

- **Businesses continue to invest and gradually accelerate hiring.** Businesses have continued to approve investment spending despite weak GDP growth. Even as economic uncertainty stepped up this summer, manufacturers continued to receive a steady flow of orders for capital goods through September 2011 (Figure 3). Meanwhile, corporate profits are at record levels, equivalent to 12.9 percent of GDP, compared to a long-term average of 9.2 percent. Large firms have good access to credit at low borrowing costs, as well as internal cash flow funding, supporting investment decisions. Hiring remains weak, with just 80,000 nonfarm jobs added in October, but nonfarm job gains are expected to pick up to a monthly pace in excess of 100,000 by the start of 2012.

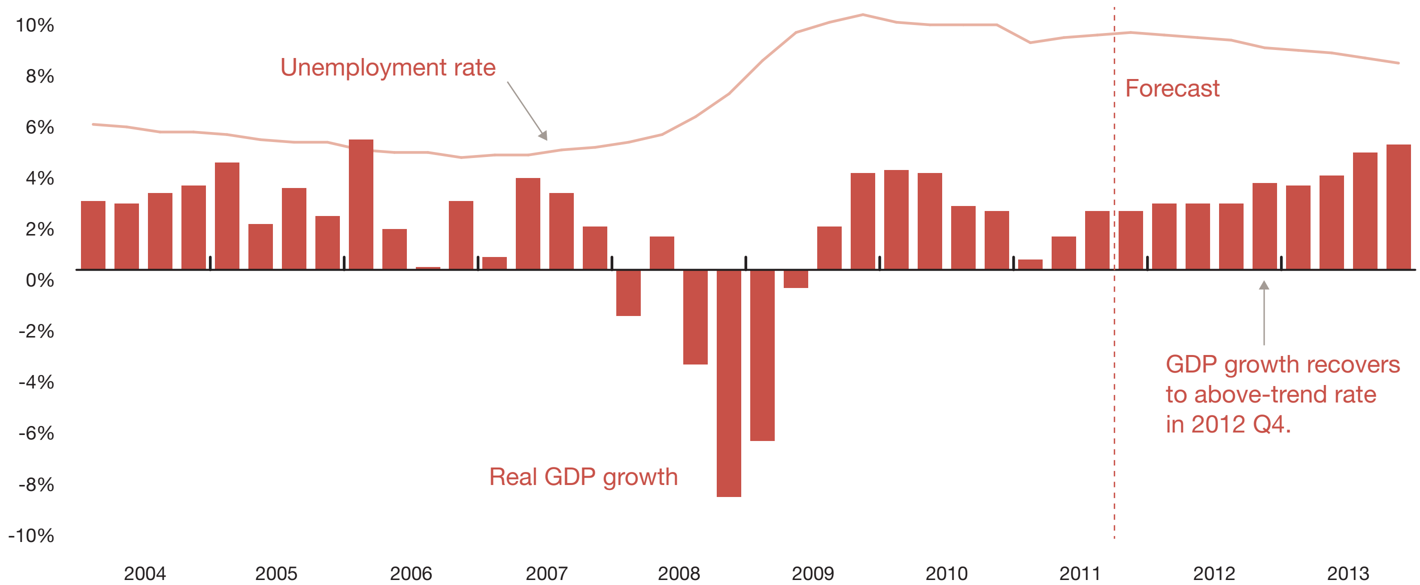
- **Financial contraction by federal, state and local governments restrains growth.** Fiscal policy is expected to have a contractionary effect on the economy in the year ahead. Assumptions include an end to the payroll-tax holiday; lack of action on short-term stimulus; federal spending cuts and additional tax revenues, as a result of the recently passed Budget Control Act and forthcoming

Figure 3: New orders for manufactured goods, 1992 to 2011



Note: Data shown through September 2011. Series includes nondefense sectors only, and is seasonally adjusted. Capital goods include objects used to produce other goods and services (e.g., machinery, tools, equipment, computers). Shaded areas represent recessions.
Source: US Census Bureau

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 October 2011)

recommendations of the Joint Select Committee; and a decline in some spending, as effects of the original federal stimulus bill passed in February 2009 come to an end. State and local government budgets remain under pressure.

- **The Federal Reserve maintains accommodative monetary policy.** The Federal Reserve is expected to keep the federal funds rate at its current level, which it refers to as "exceptionally low", until mid-2014. The Federal Reserve is also expected to keep longer-dated yields lower than would otherwise be the case, by conducting the sterilized large-scale asset purchases announced in September, and referred to by some as Operation Twist.

In this baseline outlook, Macroeconomic Advisers anticipates that GDP growth will gradually accelerate in the second half of 2012, reaching a 3.0 percent rate in the fourth quarter of 2012 and improving to 3.9 percent growth during 2013 (Figure 4).

What could happen? A recession scenario

If the sovereign debt crisis in Europe were to intensify, it could result in a recession in the US. Based on recent analysis by Macroeconomic Advisers, such a scenario could unfold as follows.

In a situation of already high macroeconomic and financial uncertainty, as well as a lack of clarity about the ability of European authorities to contain the crisis, and the extent of the exposure of the European banking system to losses on sovereign debt, an intensification of the crisis in Europe could lead to an additional pullback from risk. This would be expected to result in a sharp decline in global equity values, a jump in the value of the US dollar, and a widening of risk spreads. The result of such a scenario could be a mild US recession, characterized by two quarters of negative GDP growth (resulting in annualized growth in 2012 of 1.1 percent, approximately 1.5 percentage points lower than the base case) and a steep increase in the unemployment rate to 10.7 percent by late 2012 (1.6 percentage points higher than the base case). Growth could turn positive by the second half of 2012, and by 2013 a solid recovery could be underway with GDP growth of 4.3 percent.

This represents a “mild recession” scenario, and there are risks that the outcome could be worse. Greater declines in the value of sovereign debt of several countries, and greater risk of insolvency at large European banks with spillovers to the US, could result in an extended global downturn.

Our key macroeconomic assumptions

The following describes the key assumptions supporting the current macroeconomic outlook.[2,3]

Factor	Assumption
Consumer spending	In addition to slow employment and labor income growth, households have seen net worth buffeted by turbulence in equity markets. 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, support a pick-up in consumer spending growth in the second half of 2011, and further strengthening in the second half of 2012 and 2013.
Labor markets	Employment growth slowed in the third quarter, and gains in nonfarm employment are expected to average about 61,000 per month in the fourth quarter. Job growth is expected to improve in 2012. As a result, the unemployment rate is expected to decrease slowly, reaching 9.0 percent in the fourth quarter of 2011, and then 8.9 and 8.4 percent in the fourth quarters of 2012 and 2013, respectively.
Oil prices	The surge in oil prices in early 2011 has been reversed by more recent declines. Markets remain volatile, but lower oil prices represent the removal of what otherwise would have been a headwind.
US dollar	The value of the US dollar has generally declined in 2011, though the three months through October brought an increase. Overall, the value of the dollar is expected to average 4.7 percent lower in 2011 than in 2010. The value of the dollar is expected to hold stable in 2012.
Equity and housing markets	As of November 4, equities had increased 13 percent from August 8, recovering to levels that are similar to the average for 2006. Home prices appear to be stabilizing, and are assumed to fall a total of 1.5 percent in 2011, before rising 0.3 percent in 2012 and then 2.0 percent in 2013. Overall, an estimated 22.5 percent of all residential properties with mortgages were in negative equity in June 2011, which is down slightly from 22.7 percent a year ago.
Inflation	The consumer price index (CPI) is expected to increase 3.2 percent in 2011, slowing to a 1.9 percent increase 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	Given the opposition to the President's proposed American Jobs Act, there appears to be a low probability of a compromise on near-term stimulus and therefore, the forecast drops the assumption that the payroll tax holiday would be extended an extra year (through 2012). The forecast continues to incorporate 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. This reduces expected GDP growth by one-tenth in 2012 and then four-tenths in 2013.

[2] Macroeconomic Advisers, LLC. (October 13, 2011) *Outlook Commentary*. Retrieved from http://macroadvisers.com.

[3] Macroeconomic Advisers, LLC. (October 14, 2011) *Forecast Details*. Retrieved from http://macroadvisers.com.

Our outlook for the US lodging industry

Despite an economic outlook that has inched sideways, our expectations for lodging sector performance have improved moderately in the past three months. The sector continues to benefit from a recovery in travel activity that is taking place in spite of a backdrop of sluggish economic growth and heightened risk of a recession. Indeed, in the third quarter of 2011, lodging demand once again grew at a faster pace than GDP, marking the seventh consecutive quarter in which the pace of lodging demand growth has exceeded the pace of GDP growth.

With the solid demand recovery experienced thus far in 2011, our confidence improves that 2012 will be recognized as a period of stronger hotel pricing. Overall, we anticipate RevPAR growth of 7.8 percent in 2011 will be followed by 6.5 percent growth in 2012, with gains strongest at hotels in the higher-priced segments (luxury, upper upscale, and upscale) and corresponding independent properties. Hotels in lower-priced segments (upper midscale, midscale, and economy) are also expected to realize RevPAR gains, but at a slower pace. This expectation is due to more gradual demand growth and weaker pricing leverage.

Demand

The "return" of commercial transient and group demand continued in the third quarter of 2011, and the total number of occupied room nights set a quarterly record. Despite greater uncertainty surrounding the economy, and lower business and consumer confidence, average daily room nights occupied during July, August, and September averaged 2,918,000 on a seasonally adjusted basis, which is 3.1 percent ahead of the previous peak reached in the first quarter of 2006, and 4.6 percent higher than a year ago. The continued strength of the recovery in travel is still being driven to a large degree by a normalization of travel patterns. In other words, travel activity that was suspended during the recession is returning through effects such as re-instatement of annual training events, increased attendance at conventions, greater authorization of travel expenditures for business purposes, and increased leisure travel.

Considering performance at upper-tier hotels thus far in 2011[4], we see that group activity, which includes meetings, tours, and other groups booking more than 10 rooms at a time, remains at reduced levels, despite some recent improvement. Weekday occupancy accounted for by the group segment, averaged 15.4 percent lower year-to-date through September 2011 than in 2007, though it grew 3.5 percent from the prior year. Using weekday and weekend data as a proxy for business and leisure travel, respectively, year-to-date results through September at upper-tier hotels show that the share of available rooms occupied by business transient travelers was actually 0.5 percent ahead of 2007, as a result of growing 5.0 percent from the prior year.[5] To a degree, some of the increase in weekday transient business accommodated by upper tier hotels is attributable to tactics to fill transient demand around lower levels of group business, rather than an increase in overall transient demand. In other words, in a more normal market, a given hotel may have targeted a greater group mix, with associated catering revenues and more secure rates, but in the current market, with lower levels of group activity, this hotel may seek to attract additional transient business, including travelers who may have otherwise stayed at properties in a lower chain scale segment, such as upscale hotels.

Looking ahead, there are indications that there is room for further demand recovery in 2012. For example, hotel operators are reporting that levels of group business already booked for 2012 are ahead of bookings that were in place in advance of 2011, and transient demand has continued to expand in 2011, despite a sluggish economy. As a result of such indications, and the strength experienced during the third quarter and into October, our expectation of demand growth in 2012 has increased to 1.6 percent. If travel activity remains strong, this expectation could be exceeded.

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

[5] Because these measures are calculated on the basis of occupancy contribution, and room inventory has expanded since 2007, business transient travel has actually recovered further 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 third quarter of 2011 were 20.7 percent and 11.1 percent greater than levels in the third quarter of 2007, respectively.

Supply

Lodging supply growth remains at low levels, though there has been some pick up of construction activity relative to 2010. Based on Smith Travel Research construction statistics, as of the end of September 2011, there were 261 hotels representing approximately 37,500 rooms under construction to open in 2012 or 2013. This represents an increase in construction activity of 8.9 percent compared to the number of rooms under construction at the same point in 2010, that had planned opening dates in 2011 and 2012. Similarly, construction starts have shown increases in each of the first three quarters of 2011 relative to prior year levels.

That said, even at slightly higher levels, the opening of 38,000 rooms, which is the cumulative level of openings anticipated in our outlook for 2011, would represent an increase of just 0.8 percent relative to the room inventory at the start of the year. With removal of closed hotels, this is expected to result in a 0.6 percent increase of supply by year-end.

The current pace of construction 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 five quarters, which compares to the approximately 300 hotel rooms per day that opened over the past five years.

Occupancy

With growing demand and decelerating supply growth, occupancy levels during the third quarter increased to 60.3 percent on a seasonally adjusted basis. This is 0.3 percentage points ahead of the 10-year average of 60.0 percent, and 1.5 percentage points below the 20-year average of 61.7 percent.

ADR and RevPAR

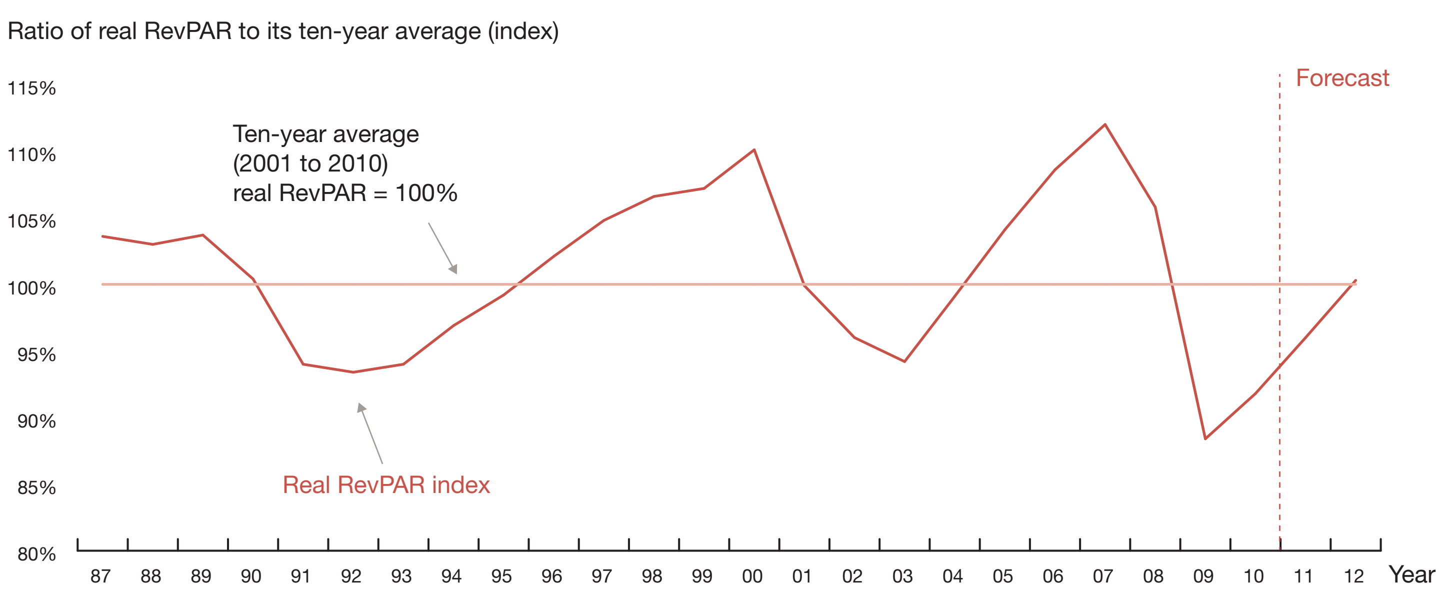
After declining steeply in late 2008 and throughout 2009, average daily rates reached a low point in the first quarter of 2010, on a seasonally adjusted basis. Since that point, rates have improved, and ADR during the third quarter of 2011 was 3.8 percent higher than its year ago level, the strongest year-over-year gain since the second quarter of 2008. Preliminary daily data for October showed ADR for the month averaged 3.5 percent ahead of prior year levels.

Looking ahead, we anticipate ADR growth will accelerate, improving from 3.6 percent growth in 2011 to 5.2 percent in 2012. This view is tempered by recognition that increased uncertainty about the economy will continue to overhang pricing decisions, but it is supported by the following favorable factors:

- stronger pricing expected around peak periods, such as mid-week when certain local sub-markets are reaching high occupancy levels;
- greater levels of advance group bookings in place at large, group-oriented hotels, which puts these hotels in a better position to yield higher transient rates on remaining rooms, while also supporting stronger pricing at smaller, transient-oriented hotels in local markets;
- shifts in transient business mix, as recovering commercial transient travel allows hotels to replace lower-rated commercial accounts, and some mid-week leisure travel, with higher-rated business; and,
- other yield management tactics, including anticipated efforts by hotel operators to secure solid rate increases during corporate rate negotiations for 2012, and renewed focus on managing booking channels to maximize yield per room.

Figure 5 shows our outlook for real RevPAR, and Tables 1 and 2 summarize the key annual and quarterly measures in our US outlook.

Figure 5: Real RevPAR, 1987 to 2012



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

Table 1: US lodging outlook, November 10, 2011

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	59.7%	59.0%	59.2%	61.3%	63.0%	63.1%	62.8%	59.8%	54.6%	57.6%	59.9%	60.7%
Percentage change from prior year	-5.5%	-1.1%	0.3%	3.5%	2.8%	0.2%	-0.5%	-4.8%	-8.8%	5.5%	4.1%	1.3%
Pct. point difference from prior year	(3.5)	(0.7)	0.2	2.1	1.7	0.1	(0.3)	(3.0)	(5.2)	3.0	2.3	0.8
Average daily rate ($)	$83.62	$82.54	$82.67	$86.19	$91.03	$97.81	$104.31	$107.38	$98.09	$98.07	$101.62	$106.94
Percentage change from prior year	-1.2%	-1.3%	0.2%	4.3%	5.6%	7.4%	6.6%	2.9%	-8.7%	0.0%	3.6%	5.2%
Nominal RevPAR ($)	$49.91	$48.71	$48.91	$52.80	$57.35	$61.75	$65.52	$64.21	$53.52	$56.47	$60.90	$64.89
Percentage change from prior year	-6.7%	-2.4%	0.4%	8.0%	8.6%	7.7%	6.1%	-2.0%	-16.7%	5.5%	7.8%	6.5%
Inflation-adjusted RevPAR ($, 2005 base)	$55.05	$52.88	$51.91	$54.58	$57.35	$59.82	$61.70	$58.25	$48.71	$50.56	$52.85	$55.26
Percentage change from prior year	-9.3%	-3.9%	-1.8%	5.1%	5.1%	4.3%	3.1%	-5.6%	-16.4%	3.8%	4.5%	4.6%
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%	3.2%	1.9%
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%	2.3%
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%	2.5%
Average daily rooms sold (000s)	2,560	2,571	2,604	2,708	2,783	2,795	2,815	2,745	2,576	2,766	2,901	2,948
Percentage change from prior year	-3.2%	0.4%	1.3%	4.0%	2.8%	0.4%	0.7%	-2.5%	-6.1%	7.4%	4.8%	1.6%
Room starts (000s)	90.5	68.4	76.6	81.3	83.4	138.9	145.9	132.4	47.6	29.7	40.0	53.7
Percentage change from prior year	-24.8%	-24.4%	12.0%	6.0%	2.6%	66.5%	5.0%	-9.2%	-64.1%	-37.5%	34.4%	34.3%
End-of-year supply (000s)	4,285	4,348	4,383	4,384	4,378	4,412	4,487	4,626	4,747	4,790	4,818	4,837
End-of-year supply change from prior year	2.0%	1.5%	0.8%	0.0%	-0.2%	0.8%	1.7%	3.1%	2.6%	0.9%	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%	0.7%	0.4%

Source: Smith Travel Research; Macroeconomic Advisers, LLC (forecast released October 2011); 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%	60.0%	50.0%
Percentage change from prior year	-3.3%	-3.2%	-4.3%	-8.6%	-11.1%	-10.9%	-8.0%	-4.7%
Pct. point difference from prior year	-2.0	-2.1	-2.9	-5.0	-6.4	-7.0	-5.2	-2.5
Occupancy (percent, seas. adj.)	61.6%	61.0%	59.5%	57.2%	54.9%	54.3%	54.6%	54.6%
Average daily rate ($)	$108.93	$108.23	$107.84	$104.18	$100.68	$97.97	$97.46	$96.48
Percentage change from prior year	5.2%	4.4%	3.4%	-1.5%	-7.6%	-9.5%	-9.6%	-7.4%
Average daily rate ($, seas. adj.)	$108.16	$108.15	$107.72	$104.86	$100.30	$98.00	$97.13	$96.96
RevPAR ($)	$62.32	$69.54	$70.33	$54.67	$51.20	$56.06	$58.47	$48.26
Percentage change from prior year	1.7%	1.0%	-1.1%	-10.0%	-17.8%	-19.4%	-16.9%	-11.7%
RevPAR ($, seas. adj.)	$66.67	$66.00	$64.11	$59.97	$55.10	$53.19	$53.06	$52.93
Inflation as measured by CPI (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	2.948	3.024	2.429	2.359	2.702	2.862	2.379
Percentage change from prior year	-1.4%	-1.1%	-1.8%	-6.0%	-8.4%	-8.4%	-5.4%	-2.1%
Average daily rooms sold (000s, seas. adj.)	2.795	2.786	2.737	2.652	2.566	2.551	2.584	2.600
Room starts (000s)	35.9	37.6	35.1	23.8	12.9	14.1	10.8	9.8
Percentage change from prior year	21.8%	-7.9%	2.1%	-42.2%	-64.2%	-62.5%	-69.3%	-58.7%
End-of-quarter supply (000s)	4,520	4,614	4,647	4,626	4,654	4,746	4,778	4,747
Percentage change from prior year	2.1%	2.3%	2.6%	3.1%	3.0%	2.9%	2.8%	2.6%

Source: Smith Travel Research; Macroeconomic Advisers, LLC (forecast released October 2011); 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%	66.5%	54.8%	55.6%	64.1%	67.1%	55.8%
2.2%	6.0%	6.5%	7.0%	5.6%	4.4%	4.0%	2.4%	1.3%	1.2%	0.9%	1.7%
1.1	3.5	3.9	3.5	2.9	2.7	2.5	1.3	0.7	0.8	0.6	0.9
56.2%	57.5%	58.0%	58.4%	59.4%	60.0%	60.3%	60.0%	60.3%	60.5%	60.8%	61.0%
$96.37	$98.01	$99.19	$98.39	$99.47	$101.52	$102.96	$102.20	$104.24	$105.85	$108.39	$109.04
-4.3%	0.0%	1.8%	2.0%	3.2%	3.6%	3.8%	3.9%	4.8%	4.3%	5.3%	6.7%
$96.27	$98.09	$98.68	$98.82	$99.51	$101.60	$102.35	$102.61	$104.37	$105.92	$107.69	$109.48
$50.08	$59.47	$63.40	$52.67	$54.57	$64.32	$68.44	$56.04	$57.93	$67.89	$72.70	$60.80
-2.2%	6.1%	8.4%	9.1%	9.0%	8.2%	7.9%	6.4%	6.2%	5.6%	6.2%	8.5%
$54.12	$56.40	$57.27	$57.73	$59.11	$60.95	$61.69	$61.58	$62.89	$64.10	$65.46	$66.82
2.4%	1.8%	1.2%	1.2%	2.2%	3.3%	3.8%	3.4%	2.5%	1.9%	1.6%	1.7%
2.469	2.924	3.095	2.573	2.628	3.073	3.239	2.658	2.679	3.115	3.280	2.712
4.7%	8.2%	8.2%	8.1%	6.4%	5.1%	4.6%	3.3%	2.0%	1.4%	1.3%	2.1%
2.691	2.760	2.791	2.814	2.866	2.900	2.918	2.909	2.924	2.939	2.954	2.969
5.4	8.2	7.5	8.7	7.4	10.8	11.2	10.7	8.9	13.9	14.7	16.1
-58.4%	-41.8%	-30.8%	-11.4%	37.8%	31.3%	49.7%	22.2%	21.3%	29.2%	31.9%	51.0%
4,763	4,837	4,845	4,790	4,799	4,869	4,876	4,818	4,824	4,888	4,892	4,837
2.3%	1.9%	1.4%	0.9%	0.8%	0.7%	0.6%	0.6%	0.5%	0.4%	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. Given the importance of the luxury and upper upscale segments, we have included a separate focus on these two segments (page 17).

Additional tables with our chain scale outlook are shown as Tables 4 to 10. As noted in a previous edition of PwC Hospitality Directions US, Smith Travel Research has revised its chain scale classifications, and PwC has updated its analysis to reflect the changes.

Table 3: US and chain scale segment outlook

	Percent change from 2010 to 2011					Percent change from 2011 to 2012				
	Demand	Average room supply	Occupancy	ADR	RevPAR	Demand	Average room supply	Occupancy	ADR	RevPAR
Luxury	6.3	1.4	4.8	6.0	11.1	1.3	0.8	0.5	6.9	7.5
Upper upscale	4.3	1.7	2.6	3.8	6.5	1.4	0.5	0.8	6.8	7.7
Upscale	6.0	1.9	4.1	3.9	8.1	2.6	1.7	0.9	6.5	7.5
Upper midscale	10.9	5.5	5.2	3.4	8.7	3.7	2.0	1.7	3.5	5.2
Midscale	(5.5)	(8.6)	3.4	(0.4)	3.0	(1.9)	(3.3)	1.5	2.6	4.1
Economy	3.8	0.1	3.7	2.0	5.8	1.3	0.1	1.2	2.8	4.1
Independent hotels	5.4	1.4	3.9	3.2	7.2	1.4	0.3	1.1	5.0	6.1
US Total	4.8	0.7	4.1	3.6	7.8	1.6	0.4	1.3	5.2	6.5

Source: Smith Travel Research; PwC

[6] PricewaterhouseCoopers LLP. (Q1 May 2011) Hospitality Directions US. Retrieved from: http://www.pwc.com/us/hospitality.

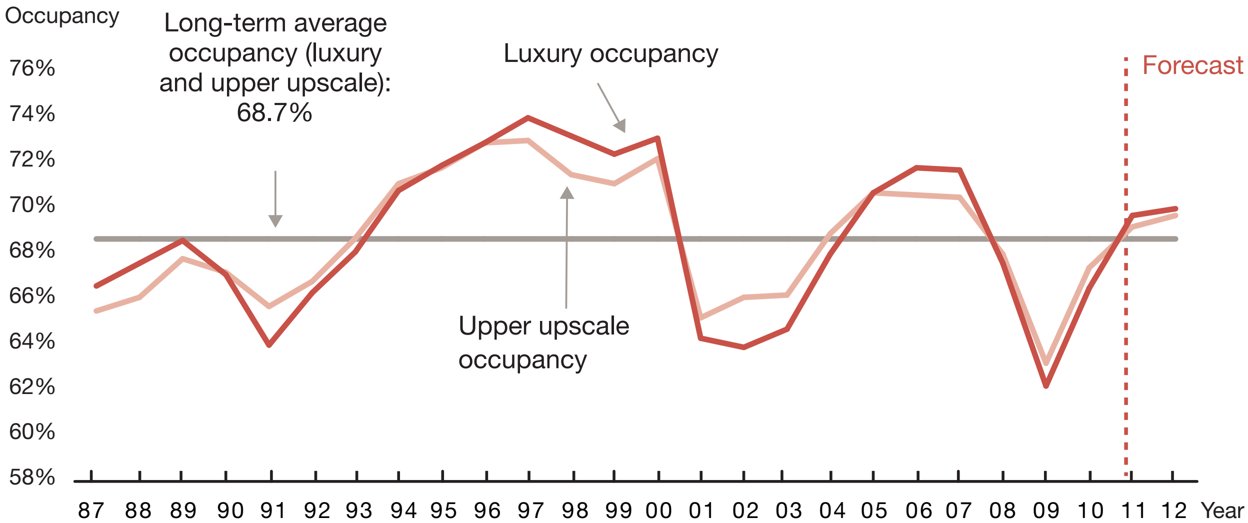
Focus on luxury and upper upscale

The luxury and upper upscale segments represent the higher priced tiers of the chain-affiliated hotel market and were disproportionately impacted during the downturn. Hotels in these segments, which account for 2.6 percent and 11.4 percent of total US room inventory, respectively, are frequently situated in markets with recognized barriers to entry, such as urban centers or high-end resort markets; in many cases have extensive onsite facilities and amenities; and are more heavily dependent on business and financial service sectors and other higher-priced demand drivers. As a result, these hotels have the potential to experience performance variations that differ from broader industry averages, and the following comments highlight recent observations. Additional comments are provided in the table on page 21.

- **Luxury hotels were hit hard during the recession, but have recovered to a solid footing. Upper upscale hotels declined slightly more than the US average during the downturn, and are recovering a bit more slowly.** During the recent downturn, luxury hotels experienced a more severe decline in performance than upper upscale hotels, with RevPAR declines of 27.4 percent and 18.9 percent from 2007 to 2009, in the two segments, respectively. Given our current outlook, the luxury hotel segment is expected to achieve a RevPAR level in 2011 that is 3.8 percent below its ten-year average (after adjusting for inflation), slightly better than the upper upscale segment, which is expected to achieve a level that is 6.2 percent below its ten-year average, and similar to the gap for the overall US average, which is expected to be 4.0 percent below its ten-year average. The upper upscale segment is on pace to experience a two-year RevPAR gain of 12.8 percent from 2009 to 2011, which is a bit slower than the expected overall US growth of 13.8 percent.

- **Group business is disproportionately important to these two segments, and though group demand is recovering, its contribution to occupancy remains below 2007 levels.** The group segment accounted for 11.5 percentage points of occupancy at hotels in lower priced segments during 2010, but 23.7 and 23.3 percentage points of occupancy at luxury and upper upscale hotels, respectively. This was approximately 16 percent lower than in 2007 for both segments. Group demand growth year-to-date through September 2011 has been stronger in the luxury segment than in the upper upscale segment.

Figure 6: **Luxury and upper upscale segment occupancy, 1987 to 2012**



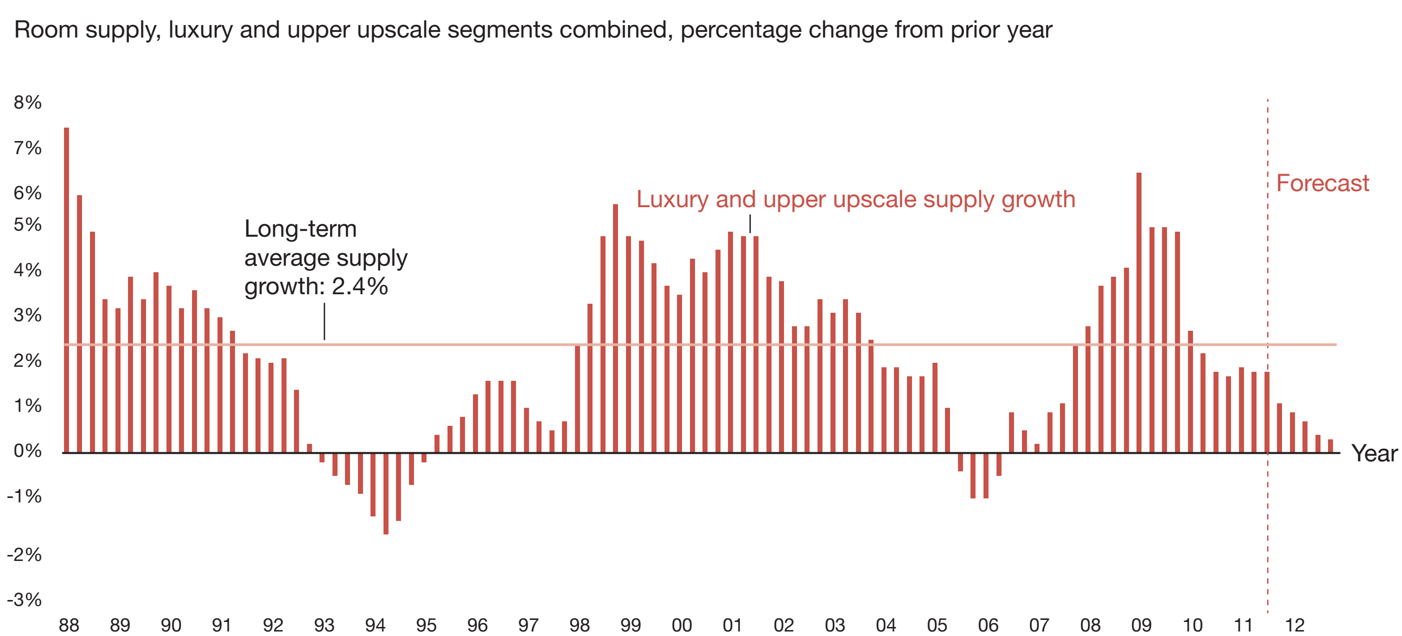
Note: The long-term average occupancy (1987 to 2010) of both the luxury and upper upscale segments is 68.7 percent.
Source: Smith Travel Research; PwC

- **Occupancy at luxury and upper upscale hotels has recovered to be slightly ahead of long-term average levels.** Over the past 20 years, occupancy levels at both luxury and upper upscale hotels have averaged 68.7 percent. According to our outlook for 2011, occupancy levels at luxury and upper upscale hotels are expected to average 69.7 percent, and 69.2 percent, respectively (Figure 6).

- **Both the luxury and upper upscale segments were in the process of absorbing new supply in many markets when the downturn hit. Since then, new construction has slowed substantially.** The year-over-year supply growth of the two segments combined, peaked at an increase of 6.2 percent in the first quarter of 2009, just as travel was being severely impacted by the recession (Figure 7). Supply growth has slowed since then and a further slowing in supply growth is anticipated. Current projects under construction with planned opening dates in 2012 or 2013 are equivalent to just 0.6 percent of existing supply.

- **Luxury and upper upscale hotels located in the top 25 markets were impacted slightly more severely during the downturn than hotels in the same chain scale segments outside of the top 25 markets. However, hotels in the top 25 markets have recently demonstrated a faster recovery.** Luxury and upper upscale hotels are concentrated in the largest metro areas. While the top 25 markets contain only one-third of US hotel rooms, these markets contain 72.8 percent and 60.3 percent of luxury and upper upscale hotel inventory, respectively. The performance of upper-tier hotels (luxury, upper upscale, and upper-tier independents) in the top 25 markets was slightly more impacted during the downturn than the full set of all upper-tier hotels in the US (Figure 8). That situation has now reversed. RevPAR during year-to-date 2011 was 8.1 percent lower than the same period in 2007 for upper-tier hotels in the top 25 markets, compared to 9.7 percent lower for upper-tier hotels nationwide, which includes the top 25 markets. One difference has been that occupancy at hotels in the top 25 markets declined slightly less, and ADR declined slightly more, than at all upper-tier hotels.

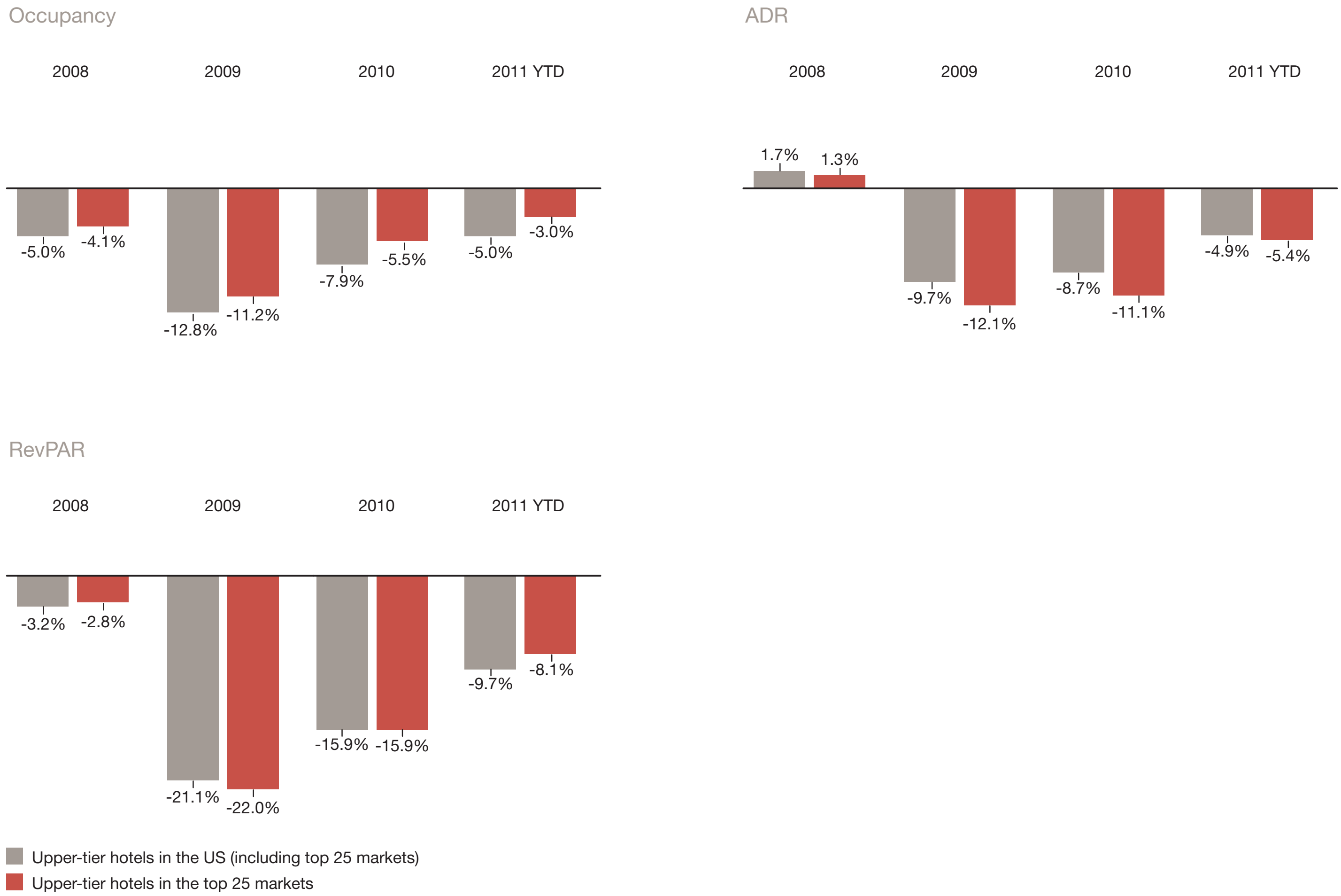
Figure 7: Lodging supply growth, luxury and upper upscale segments combined, 1988 to 2012



Source: Smith Travel Research; PwC

Figure 8: **Upper-tier comparison**

Performance at upper-tier hotels in the top 25 markets compared to upper-tier hotels in the US overall (including top 25 markets), shown as percentage difference from 2007 levels



Note: 2011 year-to-date information is the period through September compared to the same year-to-date period in 2007. Upper-tier refers to luxury, upper upscale and upper-tier independent properties, as tracked by Smith Travel Research.
Source: Smith Travel Research; PwC

Chain scale	Real RevPAR percentage difference from 10-year average 2009	2010	2011	2012	Comments
Luxury	(16.7)%	(10.7)%	(3.8)%	1.4%	The solid pace of RevPAR recovery in the luxury segment continued in the third quarter, with occupancy and rate gains coming in close to our expectations. Though performance in the segment fell dramatically from September 2008 to March 2009 (a 28.5 percent RevPAR decline over six months, on a seasonally adjusted basis), luxury hotels have recovered lost RevPAR quickly. The luxury segment is posting the strongest ADR gains in the industry and is operating at 2011 real RevPAR levels that are 3.8 percent below the segment's ten-year average. RevPAR gains in 2012 are expected to be driven primarily by ADR growth.
Upper upscale	(12.8)	(9.1)	(6.2)	(0.9)	During the recession, relative to the upscale segment, upper upscale hotels were slightly better able to maintain occupancy, but did so at a greater decline in rates, and the RevPAR decline from 2007 to 2009 was similar for both segments. While the upper upscale segment is experiencing a solid recovery, ADR gains in the third quarter were weaker than we anticipated, and occupancy levels in preliminary daily results for October are only slightly ahead of last year. RevPAR levels lag the segment's real, long-term average by more than the US average (6.2 percent below in 2011 for the upper upscale segment, as compared to 4.0 percent for the US overall). The key weak points are transient ADR (running 9.6 percent below 2007, on year-to-date basis) and group demand (13.6 percent below 2007, on a year-to-date basis).
Upscale	(12.0)	(8.8)	(4.5)	0.8	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 3.5 percent ahead of the segment's 10-year average, while real ADR is 7.7 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	(9.2)	(6.6)	(1.6)	1.6	The upper midscale segment experienced a 7.1 percent increase in room supply during the 12 months through September 2011. This increase was primarily attributable to substantial numbers of Best Western properties that moved from the Best Western core affiliation, which is classified by Smith Travel Research in the midscale segment, to the Best Western Plus and Premier designations, which are classified as upper midscale. The magnitude of these reclassifications is impacting year over year comparisons in operating performance.
Midscale	(12.5)	(11.5)	(11.7)	(9.8)	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	(16.1)	(16.0)	(13.9)	(12.1)	RevPAR performance in the economy segment has generally traced a weaker than average path. However, third quarter results were favorable, with a surprising 8.2 percent RevPAR gain in September.
Independent hotels	(12.9)	(9.8)	(6.3)	(2.5)	Of the US inventory of hotel rooms at year-end 2010, 30.1 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	**(11.6)**	**(8.2)**	**(4.0)**	**0.3**	

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%	70.0%
Percentage change from prior year	-12.1%	-0.6%	1.3%	5.2%	3.9%	1.5%	-0.1%	-5.7%	-8.1%	7.0%	4.8%	0.5%
Change in occupancy points	-8.8	-0.4	0.8	3.3	2.7	1.1	-0.1	-4.1	-5.4	4.3	3.2	0.3
Average daily rate ($)	$226.67	$218.08	$215.13	$226.12	$242.86	$266.45	$285.60	$286.28	$239.17	$243.74	$258.36	$276.31
Percentage change from prior year	-2.6%	-3.8%	-1.4%	5.1%	7.4%	9.7%	7.2%	0.2%	-16.5%	1.9%	6.0%	6.9%
Nominal RevPAR ($)	$145.72	$139.30	$139.18	$153.84	$171.71	$191.20	$204.68	$193.53	$148.65	$162.03	$180.01	$193.48
Percentage change from prior year	-14.4%	-4.4%	-0.1%	10.5%	11.6%	11.3%	7.0%	-5.4%	-23.2%	9.0%	11.1%	7.5%
Inflation-adjusted RevPAR ($)	$160.72	$151.23	$147.70	$159.02	$171.71	$185.23	$192.76	$175.56	$135.29	$145.08	$156.23	$164.77
Percentage change from prior year	-16.7%	-5.9%	-2.3%	7.7%	8.0%	7.9%	4.1%	-8.9%	-22.9%	7.2%	7.7%	5.5%
Demand (thous.)	48.8	53.5	58.1	63.0	65.7	69.9	72.7	72.8	72.6	81.4	86.5	87.7
Percentage change from prior year	-3.9%	9.8%	8.5%	8.4%	4.3%	6.4%	4.0%	0.2%	-0.3%	12.0%	6.3%	1.3%
Average room supply (thous.)	75.9	83.8	89.8	92.5	92.9	97.4	101.4	107.8	116.9	122.4	124.2	125.2
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%	1.4%	0.8%

Source: Smith Travel Research; PwC

Table 5: Upper upscale forecast

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	65.2%	66.1%	66.2%	68.9%	70.7%	70.6%	70.5%	68.0%	63.2%	67.4%	69.2%	69.7%
Percentage change from prior year	-9.6%	1.3%	0.3%	4.1%	2.6%	-0.1%	-0.2%	-3.5%	-7.0%	6.6%	2.6%	0.8%
Change in occupancy points	-7.0	0.9	0.2	2.7	1.8	-0.1	-0.1	-2.5	-4.8	4.2	1.7	0.6
Average daily rate ($)	$135.26	$129.20	$126.21	$131.00	$140.03	$149.96	$158.69	$161.03	$143.44	$142.54	$147.95	$158.00
Percentage change from prior year	-2.9%	-4.5%	-2.3%	3.8%	6.9%	7.1%	5.8%	1.5%	-10.9%	-0.6%	3.8%	6.8%
Nominal RevPAR ($)	$88.19	$85.34	$83.58	$90.28	$98.98	$105.90	$111.89	$109.52	$90.70	$96.09	$102.31	$110.19
Percentage change from prior year	-12.3%	-3.2%	-2.1%	8.0%	9.6%	7.0%	5.7%	-2.1%	-17.2%	5.9%	6.5%	7.7%
Inflation-adjusted RevPAR ($)	$97.27	$92.65	$88.70	$93.32	$98.98	$102.59	$105.37	$99.35	$82.55	$86.03	$88.79	$93.84
Percentage change from prior year	-14.7%	-4.8%	-4.3%	5.2%	6.1%	3.7%	2.7%	-5.7%	-16.9%	4.2%	3.2%	5.7%
Demand (thous.)	304.0	314.3	322.4	340.8	350.9	347.3	348.6	346.7	337.1	364.7	380.4	385.7
Percentage change from prior year	-6.1%	3.4%	2.6%	5.7%	3.0%	-1.0%	0.4%	-0.6%	-2.8%	8.2%	4.3%	1.4%
Average room supply (thous.)	466.3	475.8	486.9	494.5	496.4	491.7	494.5	509.7	533.1	541.1	550.1	553.1
Percentage change from prior year	3.9%	2.0%	2.3%	1.6%	0.4%	-0.9%	0.6%	3.1%	4.6%	1.5%	1.7%	0.5%

Source: Smith Travel Research; PwC

Table 6: Upscale forecast

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	65.3%	65.1%	65.5%	68.7%	70.1%	70.1%	69.6%	67.3%	62.2%	66.7%	69.4%	70.1%
Percentage change from prior year	-7.5%	-0.3%	0.7%	4.8%	2.1%	0.0%	-0.8%	-3.3%	-7.6%	7.3%	4.1%	0.9%
Change in occupancy points	-5.3	-0.2	0.4	3.2	1.5	0.0	-0.5	-2.3	-5.1	4.5	2.7	0.6
Average daily rate ($)	$100.75	$96.13	$94.05	$97.34	$104.41	$114.18	$121.26	$122.74	$109.88	$107.87	$112.05	$119.34
Percentage change from prior year	-0.7%	-4.6%	-2.2%	3.5%	7.3%	9.4%	6.2%	1.2%	-10.5%	-1.8%	3.9%	6.5%
Nominal RevPAR ($)	$65.75	$62.55	$61.61	$66.84	$73.23	$80.09	$84.42	$82.61	$68.33	$71.98	$77.81	$83.64
Percentage change from prior year	-8.2%	-4.9%	-1.5%	8.5%	9.6%	9.4%	5.4%	-2.1%	-17.3%	5.4%	8.1%	7.5%
Inflation-adjusted RevPAR ($)	$72.52	$67.91	$65.38	$69.09	$73.23	$77.59	$79.50	$74.94	$62.19	$64.45	$67.53	$71.23
Percentage change from prior year	-10.7%	-6.4%	-3.7%	5.7%	6.0%	6.0%	2.5%	-5.7%	-17.0%	3.6%	4.8%	5.5%
Demand (thous.)	243.3	256.3	268.2	285.4	296.1	304.8	316.8	325.4	327.4	372.6	395.0	405.5
Percentage change from prior year	-0.3%	5.4%	4.6%	6.4%	3.7%	2.9%	4.0%	2.7%	0.6%	13.8%	6.0%	2.6%
Average room supply (thous.)	372.8	393.9	409.4	415.7	422.2	434.5	455.2	483.5	526.4	558.4	568.9	578.5
Percentage change from prior year	7.8%	5.7%	3.9%	1.5%	1.6%	2.9%	4.7%	6.2%	8.9%	6.1%	1.9%	1.7%

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%	61.7%	55.7%	58.4%	61.5%	62.5%
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%	5.2%	1.7%
Change in occupancy points	-3.1	-0.5	-0.4	2.1	2.2	0.8	-0.9	-3.5	-6.1	2.7	3.0	1.1
Average daily rate ($)	$74.36	$73.50	$73.54	$75.81	$81.06	$87.33	$93.64	$97.25	$91.80	$91.40	$94.48	$97.76
Percentage change from prior year	0.9%	-1.1%	0.1%	3.1%	6.9%	7.7%	7.2%	3.9%	-5.6%	-0.4%	3.4%	3.5%
Nominal RevPAR ($)	$46.02	$45.11	$44.85	$47.85	$52.95	$57.77	$61.15	$60.05	$51.11	$53.40	$58.07	$61.11
Percentage change from prior year	-3.9%	-2.0%	-0.6%	6.7%	10.7%	9.1%	5.8%	-1.8%	-14.9%	4.5%	8.7%	5.2%
Inflation-adjusted RevPAR ($)	$50.75	$48.97	$47.60	$49.47	$52.95	$55.97	$57.59	$54.48	$46.52	$47.82	$50.40	$52.04
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%	5.4%	3.3%
Demand (thous.)	406.7	414.7	421.7	439.2	448.4	451.2	451.1	439.5	412.0	445.5	494.2	512.5
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%	10.9%	3.7%
Average room supply (thous.)	657.1	675.8	691.4	695.9	686.4	682.0	690.8	711.8	739.9	762.4	804.1	819.8
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%	5.5%	2.0%

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%	51.7%	53.5%	54.3%
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%	3.4%	1.5%
Change in occupancy points	-2.7	-0.9	0.5	2.4	2.2	0.3	-0.8	-2.9	-6.1	2.3	1.8	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	$73.37	$75.26
Percentage change from prior year	0.7%	-1.2%	-0.1%	2.3%	5.4%	6.3%	5.1%	2.5%	-5.5%	-1.8%	-0.4%	2.6%
Nominal RevPAR ($)	$35.59	$34.56	$34.88	$37.25	$40.77	$43.60	$45.23	$44.05	$37.08	$38.12	$39.26	$40.87
Percentage change from prior year	-4.0%	-2.9%	0.9%	6.8%	9.5%	6.9%	3.7%	-2.6%	-15.8%	2.8%	3.0%	4.1%
Inflation-adjusted RevPAR ($)	$39.26	$37.52	$37.02	$38.50	$40.77	$42.24	$42.59	$39.96	$33.75	$34.14	$34.07	$34.81
Percentage change from prior year	-6.7%	-4.4%	-1.3%	4.0%	5.9%	3.6%	0.8%	-6.2%	-15.5%	1.1%	-0.2%	2.2%
Demand (thous.)	296.1	293.7	292.8	303.0	312.5	316.3	315.3	305.1	281.5	297.0	280.6	275.4
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%	-5.5%	-1.9%
Average room supply (thous.)	541.1	546.1	538.8	534.3	530.8	534.1	539.6	549.6	569.5	573.9	524.4	507.1
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%	-8.6%	-3.3%

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%	51.6%	53.5%	54.2%
Percentage change from prior year	-3.4%	-2.9%	-1.4%	2.5%	3.3%	-0.4%	-0.4%	-5.1%	-9.1%	5.1%	3.7%	1.2%
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	0.6
Average daily rate ($)	$47.10	$46.81	$46.78	$47.82	$49.99	$52.71	$54.40	$55.01	$50.91	$49.33	$50.32	$51.75
Percentage change from prior year	0.0%	-0.6%	-0.1%	2.2%	4.5%	5.4%	3.2%	1.1%	-7.5%	-3.1%	2.0%	2.8%
Nominal RevPAR ($)	$26.67	$25.75	$25.38	$26.59	$28.70	$30.14	$31.00	$29.75	$25.02	$25.47	$26.94	$28.03
Percentage change from prior year	-3.4%	-3.5%	-1.4%	4.8%	7.9%	5.0%	2.8%	-4.0%	-15.9%	1.8%	5.8%	4.1%
Inflation-adjusted RevPAR ($)	$29.42	$27.95	$26.93	$27.49	$28.70	$29.20	$29.19	$26.99	$22.77	$22.81	$23.38	$23.87
Percentage change from prior year	-6.0%	-5.0%	-3.6%	2.1%	4.4%	1.7%	0.0%	-7.5%	-15.6%	0.2%	2.5%	2.1%
Demand (thous.)	421.1	412.3	402.1	411.4	425.9	424.6	431.9	417.7	384.1	404.2	419.6	425.1
Percentage change from prior year	-1.2%	-2.1%	-2.5%	2.3%	3.5%	-0.3%	1.7%	-3.3%	-8.0%	5.2%	3.8%	1.3%
Average room supply (thous.)	743.6	749.6	741.2	739.9	741.7	742.5	758.0	772.3	781.6	782.9	783.9	784.9
Percentage change from prior year	2.2%	0.8%	-1.1%	-0.2%	0.3%	0.1%	2.1%	1.9%	1.2%	0.2%	0.1%	0.1%

Source: Smith Travel Research; PwC

Table 10: Independent hotels forecast

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	58.7%	57.7%	58.1%	59.8%	61.1%	61.0%	60.9%	57.6%	52.4%	54.7%	56.9%	57.5%
Percentage change from prior year	-5.1%	-1.6%	0.7%	2.9%	2.2%	-0.2%	-0.1%	-5.5%	-9.0%	4.5%	3.9%	1.1%
Change in occupancy points	-3.1	-1.0	0.4	1.7	1.3	-0.1	0.0	-3.4	-5.2	2.4	2.1	0.6
Average daily rate ($)	$80.99	$80.66	$81.38	$85.37	$88.36	$94.00	$101.28	$105.29	$95.21	$95.81	$98.88	$103.82
Percentage change from prior year	-0.9%	-0.4%	0.9%	4.9%	3.5%	6.4%	7.7%	4.0%	-9.6%	0.6%	3.2%	5.0%
Nominal RevPAR ($)	$47.51	$46.54	$47.28	$51.03	$53.96	$57.30	$61.70	$60.60	$49.85	$52.44	$56.22	$59.65
Percentage change from prior year	-5.9%	-2.0%	1.6%	7.9%	5.7%	6.2%	7.7%	-1.8%	-17.7%	5.2%	7.2%	6.1%
Inflation-adjusted RevPAR ($)	$52.40	$50.52	$50.17	$52.74	$53.96	$55.51	$58.11	$54.97	$45.37	$46.95	$48.79	$50.79
Percentage change from prior year	-8.5%	-3.6%	-0.7%	5.1%	2.3%	2.9%	4.7%	-5.4%	-17.5%	3.5%	3.9%	4.1%
Demand (thous.)	839.7	826.0	838.9	865.3	883.8	881.2	878.8	837.6	761.5	801.1	844.2	855.8
Percentage change from prior year	-4.4%	-1.6%	1.6%	3.1%	2.1%	-0.3%	-0.3%	-4.7%	-9.1%	5.2%	5.4%	1.4%
Average room supply (thous.)	1,431.4	1,431.6	1,444.0	1,447.6	1,447.3	1,445.5	1,442.6	1,455.4	1,454.5	1,463.7	1,484.9	1,489.6
Percentage change from prior year	0.8%	0.0%	0.9%	0.3%	0.0%	-0.1%	-0.2%	0.9%	-0.1%	0.6%	1.4%	0.3%

Source: Smith Travel Research; PwC

Will rate gains follow occupancy?

As a business with fixed inventory that perishes nightly, there is a perceived incentive to secure an occupied room night as long as it generates sufficient revenue to offset variable costs. During the recession, facing the tradeoff between empty rooms and an opportunity to generate cash flow to cover fixed costs, many hotels "bought occupancy" from competitors at the expense of lower room rates and higher distribution costs.

Looking forward, in 2012 greater travel activity is expected to result in 60.7 percent occupancy for the industry as a whole. This compares favorably to the industry's 10-year average occupancy of 60.0 percent, though it is slightly below its 20-year average of 61.7 percent.

While 60+ percent occupancy is a positive consideration, aggregate industry occupancy isn't expected to be the primary driver of improved pricing. Instead, a recovery of average room rates is heavily dependent on local market dynamics and tactics, not the least of which is confidence among hotel operators to take greater short-term risks and to set prices that will be favorable to longer-term performance. In other words, operators must face the prospect of unsold rooms, and choose future profit over short-term sales. If such steps are taken, the sector could take a solid step in 2012 not just regain occupancy, but also drive increased cash flows.

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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

Best placed to grow

European cities hotel forecast 2011 & 2012

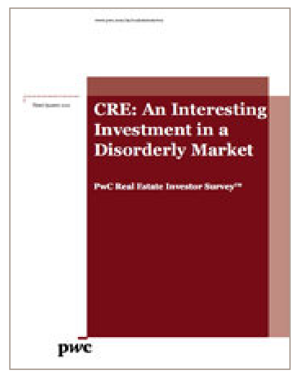
Europe has the biggest hotel and travel market in the world, but its cities and its hotel markets are undergoing change. Countries and cities alike are being buffeted by new economic, social, technological, environmental and political currents. Europe has already begun to feel the winds of change as the old economic order shifts eastwards and economic growth becomes more elusive. While some cities struggle, hotel markets in other, often bigger and better connected cities prosper. For many countries provincial markets have been hit harder than those in the larger cities.

This report looks forward to 2012 and asks which European cities' hotel sectors are best placed to take advantage of the changing economic order. Are these the cities of the so called 'old' Europe or the cities of the fast growing 'emerging' economies such as Istanbul and Moscow? What will be driving the growth? What obstacles do they face? Will the glut of new hotel rooms built in the boom years prove difficult to digest?

PwC Real Estate Investor Survey
Third Quarter 2011

The most recent issue of the PwC Real Estate Investor Survey includes several key features. The national highlights article, “CRE: An Interesting Investment in a Disorderly Market”, comments on investors’ outlook. A special report on green buildings presents the case that green building investment strategies present opportunities for greater asset-based financial returns and a reduced risk profile. 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 lodging section reports survey results on cap and discount rates being used by investors in four lodging sectors.

(Subscription required)



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