

Hospitality Directions **US**

January 2014

Our updated lodging outlook

Highlights

Lodging's recovery continues, with strong demand growth and rising room rates. Construction activity remains below historical averages, but is picking up.

Our outlook for 2014 anticipates:

- RevPAR growth of 6.0%, primarily driven by stronger ADR
- Demand growth of 2.4%
- Increased hotel construction starts, but supply growth of 1.0%, still well below the long-term average of 1.9%
- Accelerating gains in hotel pricing, with ADR rising 4.5% compared to 3.9% in 2013
- Strongest performance gains in the higher-priced chain-scale segments, particularly luxury.

Our outlook assumes stronger economic growth, as fiscal headwinds ease and the underlying momentum of the recovery shows through. We assume GDP growth of 3.1% in 2014 (Q4/Q4 basis).

Room rate gains accelerate, aided by strong occupancy and below average supply growth

Continued recovery in lodging demand and gathering economic momentum supports our expectations for hotel performance in 2014. The lodging cycle is in a favorable stage, with above average occupancy levels and demand growth that continues to outpace hotel openings. Stronger gains in ADR are expected as revenue management tactics gain traction, and we expect RevPAR growth to accelerate to 6.0% in 2014. As a milestone in the recovery, by the fourth quarter of 2014 we expect real, seasonally adjusted RevPAR will recover to the peak reached in the fourth quarter of 2007 at the onset of the economic recession.

Our updated lodging outlook incorporates recent hotel performance—strong demand growth in the fourth quarter, albeit with somewhat slower ADR gains—and a macroeconomic context that is more clear. Hotel construction activity is rebounding from a low base. Our outlook for supply continues to anticipate 1.0% growth, but with fourth quarter room starts up solidly (44.1% ahead of prior year), the pipeline for 2015 openings is expanding. In the current economic cycle, hotels in the luxury, upper upscale and upscale chain scales have recovered occupancy levels more quickly and are now experiencing greater gains in ADR. In particular, luxury hotels are on track to reach 75.0% occupancy in 2014, and upper upscale hotels are anticipated to benefit from a gradual recovery in group activity and reach 72.7%.

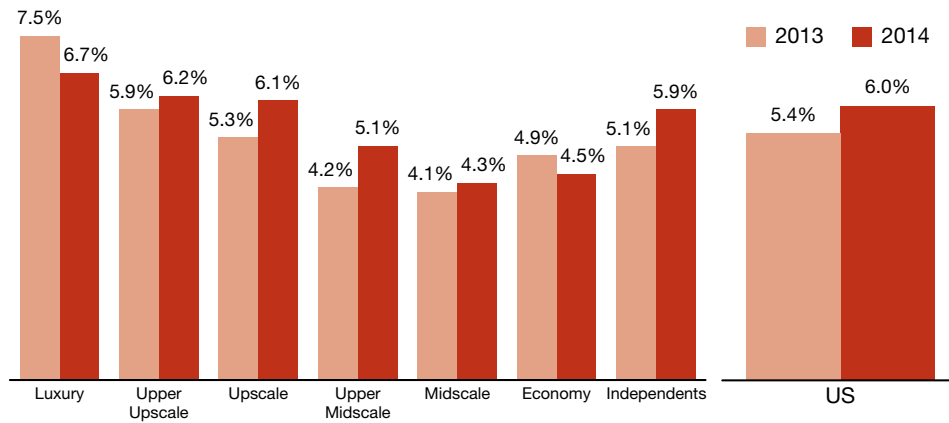
Economic momentum gains, boosting expectations for travel

Underlying the effects of fiscal drag, the economy showed greater than anticipated momentum last year. Macroeconomic Advisers now anticipates GDP grew above-trend during 2013 (2.6%), and expects growth to improve to 3.1% in 2014. In the leisure segment, travel growth is expected to be supported by recent gains in household wealth (up \$9.7 trillion in 2013, or 13.7%), reduced household deleveraging, and waning effects of the adjustment to higher income taxes. In the business segment, the lingering uncertainty that restrained business investment spending is ebbing and confidence is building. Downside risks have eased some with the signing of the two-year Federal budget, better prospects for Eurozone recovery, less concern of a hard-landing in China, and lower risk of a wider conflict in the Middle East.



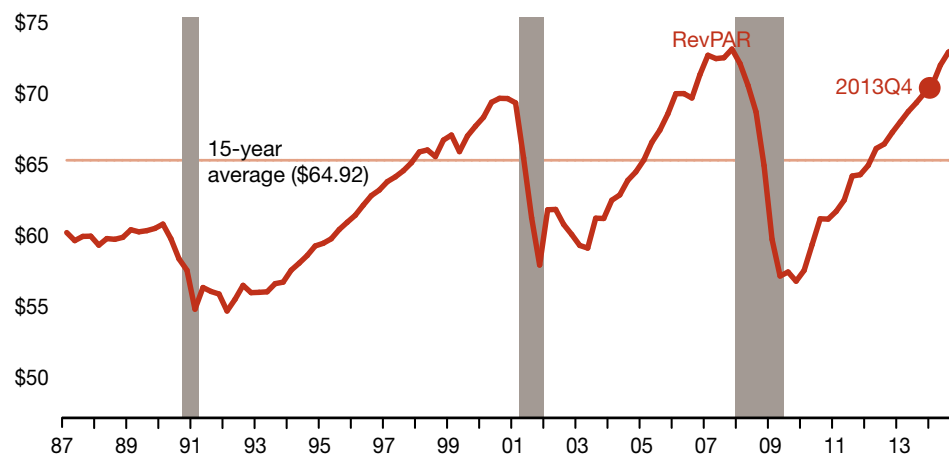
Outlook at a glance

Figure 1: RevPAR growth, US and chain scales



Source: Smith Travel Research; PwC

Figure 2: RevPAR, real (2013 dollars)



Source: Smith Travel Research; Bureau of Economic Analysis; Macroeconomic Advisors, LLC (forecast released January 2014); PwC

US and chain scale performance

Table 1: US outlook (released January 27, 2014)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Demand growth	2.8%	0.5%	0.7%	-2.5%	-6.2%	7.2%	4.7%	2.8%	2.2%	2.4%
Supply growth	-0.1%	0.2%	1.2%	2.4%	2.8%	1.7%	0.5%	0.4%	0.7%	1.0%
Room starts, % change	2.6%	66.1%	5.3%	-9.5%	-63.8%	-39.1%	56.2%	26.1%	22.7%	37.4%
Occupancy	63.0%	63.2%	62.8%	59.8%	54.6%	57.5%	59.9%	61.3%	62.3%	63.2%
% change	2.9%	0.2%	-0.5%	-4.8%	-8.8%	5.4%	4.2%	2.4%	1.5%	1.4%
Average daily rate	\$91.04	\$97.84	\$104.35	\$107.43	\$98.19	\$98.23	\$101.96	\$106.24	\$110.33	\$115.31
% change	5.6%	7.5%	6.7%	2.9%	-8.6%	0.0%	3.8%	4.2%	3.9%	4.5%
RevPAR	\$57.37	\$61.80	\$65.48	\$64.26	\$53.57	\$56.48	\$61.07	\$65.15	\$68.69	\$72.82
% change	8.6%	7.7%	6.1%	-2.0%	-16.6%	5.4%	8.1%	6.7%	5.4%	6.0%
GDP, % change Q4/Q4	3.0%	2.4%	1.9%	-2.8%	-0.2%	2.8%	2.0%	2.0%	2.6%	3.1%
Inflation, % change	2.9%	2.7%	2.5%	3.1%	-0.1%	1.7%	2.4%	1.8%	1.1%	1.3%

Source: Smith Travel Research; Bureau of Economic Analysis; Macroeconomic Advisors, LLC (forecast released January 2014); MHC Construction Analysis System; PwC

Table 2: Chain scale outlook, percentage change from prior year

	2013					2014				
Chain scale	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	1.7	(0.1)	1.8	5.6	7.5	2.0	1.3	0.6	6.0	6.7
Upper upscale	2.2	0.7	1.5	4.3	5.9	2.2	1.2	1.0	5.2	6.2
Upscale	4.5	3.4	1.1	4.1	5.3	4.7	3.4	1.3	4.8	6.1
Upper midscale	1.8	0.6	1.2	2.9	4.2	2.6	1.2	1.4	3.7	5.1
Midscale	3.0	1.2	1.8	2.3	4.1	1.2	(0.3)	1.6	2.6	4.3
Economy	0.5	(1.0)	1.5	3.3	4.9	1.3	(0.2)	1.5	2.9	4.5
Independent hotels	2.1	0.5	1.6	3.5	5.1	2.3	0.9	1.4	4.4	5.9
US total	2.2	0.7	1.5	3.9	5.4	2.4	1.0	1.4	4.5	6.0

Source: Smith Travel Research; PwC

Hospitality Directions Outlook Tables

For detailed outlook tables covering the US and each of the chain scales, please access the [Hospitality Directions Outlook Tables](#) available online.

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

Scott D. Berman

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

Warren Marr

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

Aran Ryan

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

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

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Definitions and information requests

Abbreviated terms include average daily rate (“ADR”), revenue per available rooms (“RevPAR”), and real gross domestic product (“GDP”). Growth rates are percentage change in annual averages, except GDP growth, which is expressed on a fourth-quarter-over-fourth-quarter basis. The personal consumption expenditure price index is used to measure inflation, including the conversion of RevPAR to constant dollars, which is reported as real RevPAR.

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