

Hospitality Directions US

Our updated lodging outlook

As occupancy levels continue to surprise, average daily rate growth lags expectations

Our outlook for 2015 anticipates:

Stronger-than-previously-expected increase in occupancy levels, offset by softer than anticipated average daily rate growth.



RevPAR increasing 7.0%, still driven primarily by average daily rate.

Our outlook for 2016 anticipates:

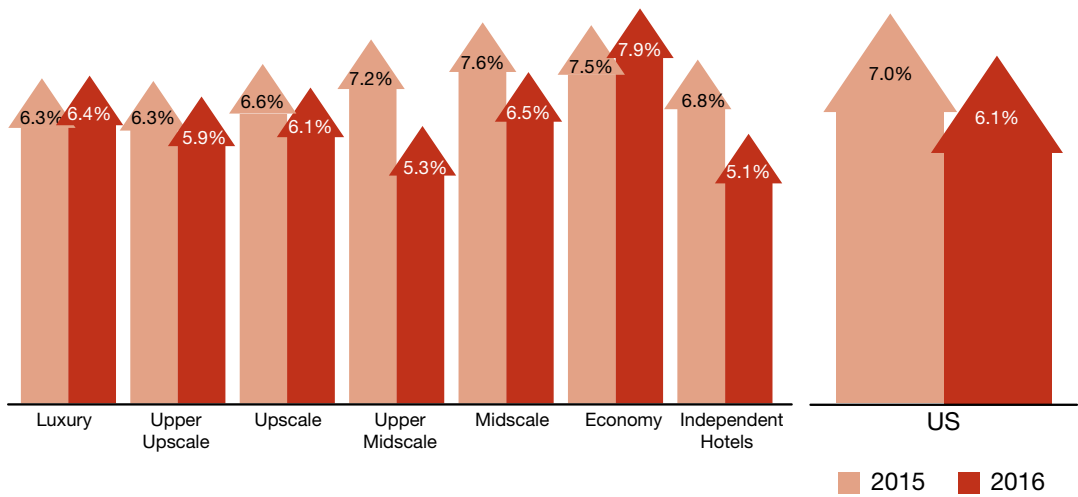
Supply growth, at 2.2%, exceeding long-term average of 1.9% for the first time since 2009.

As occupancy levels begin to stabilize, average daily rate growth drives RevPAR increase of 6.1%.

Despite weak US economic performance, driven, in part, by unseasonably harsh winter weather conditions, the US lodging sector registered a strong demand performance during the first quarter of 2015, with a year-over-year RevPAR increase of approximately 8.0%. Occupancy growth drove RevPAR increases to a larger degree than previously expected. Both transient and group demand exhibited continued momentum, with the year-over-year pace of growth in group continuing to outpace the transient segment. This demand momentum is expected to continue for the remainder of 2015, setting the stage for a 7.0% increase in RevPAR, with occupancy growth contributing more to this year's RevPAR increase than previously expected. In 2015, US lodging occupancy is expected to reach 65.7%, the highest level since 1981, with a number of factors contributing to the continued increase in these levels, including the expansion of online distribution channels, which have helped hotel operators fill rooms during more off-peak periods. While industry occupancy is expected to reach levels not seen since 1981, average daily rate growth is expected to remain somewhat controlled, in part, due to the impact of the value of the US Dollar, which is expected to restrict the level that hotel operators are able to raise rates, primarily in certain gateway markets.

In 2016, our outlook anticipates a deceleration in lodging demand growth, as US economic growth moderates. Supply growth is expected to accelerate to 2.2% in 2016, with the increase in available hotel rooms exceeding the long-term average for the first time since 2009. As a result, while occupancy levels are expected to begin to stabilize, these peak levels, coupled with the absence of this year's drag on the US Dollar, are expected to give hotel operators more confidence to increase room rates, resulting in an average daily rate-driven RevPAR increase of 6.1%.

Figure 1: RevPAR growth, US and chain scales

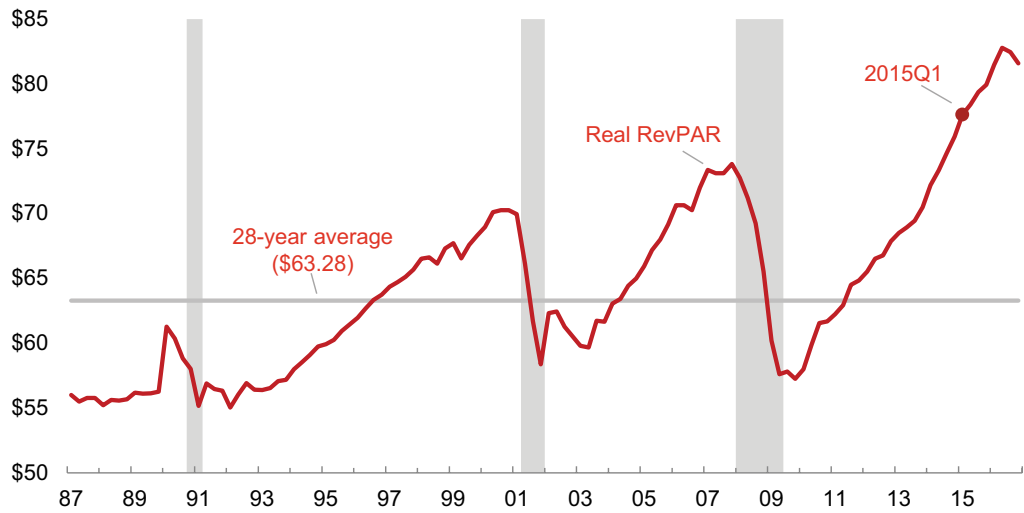


Source: PwC, based on STR data

**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.

Figure 2: RevPAR, real (2014 dollars)



Source: STR; Bureau of Economic Analysis; National Bureau of Labor Statistics; Macroeconomic Advisers, LLC (forecast released April 7, 2015); PwC

Economy regains momentum after temporary weakness

According to Macroeconomic Advisers, LLC, GDP is expected to have increased at an annualized pace of 1.2% during the first quarter of 2015, approximately 140 percentage points lower than previously expected, due to a combination of factors, including an unseasonably harsh winter and a drag from net exports, which were impacted by the recent increase in the value of the US Dollar. While weather-related temporary factors are expected to dissipate in the second quarter, the value of the US Dollar is expected to peak in the third quarter of 2015, before declining gradually through the end of 2017.

However, the underlying momentum of economic growth remains strong, with a transition from fiscal drag to stimulus, a continued, but uneven, improvement in financial conditions, and a solid growth of real income. Overall, Macroeconomic Advisers now expects GDP to increase 2.8% in 2015, approximately two-tenths of a point lower than in our January forecast, with above-trend growth expected in the second-half of 2015. In 2016, Macroeconomic Advisers, LLC expects GDP to increase 2.5%. Downside risks appear to be minimal, with the path of the value of the US Dollar posing some risk.

Table 1: US outlook (released May 20, 2015)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Demand growth	0.4%	0.7%	-2.5%	-6.2%	7.3%	4.7%	2.8%	2.0%	4.4%	3.3%	2.3%
Supply growth	0.2%	1.2%	2.4%	2.8%	1.7%	0.5%	0.4%	0.7%	0.8%	1.3%	2.2%
Room starts, % change	66.1%	4.9%	-9.2%	-63.7%	-39.1%	56.5%	27.0%	25.1%	37.2%	44.9%	18.2%
Occupancy	63.2%	62.8%	59.8%	54.6%	57.6%	60.0%	61.4%	62.2%	64.4%	65.7%	65.8%
% change	0.2%	-0.5%	-4.8%	-8.8%	5.6%	4.2%	2.3%	1.3%	3.6%	1.9%	0.1%
Average daily rate	\$97.82	\$104.31	\$107.38	\$98.15	\$98.01	\$101.71	\$105.97	\$110.06	\$115.00	\$120.73	\$128.04
% change	7.5%	6.6%	2.9%	-8.6%	-0.1%	3.8%	4.2%	3.9%	4.5%	5.0%	6.1%
RevPAR	\$61.78	\$65.54	\$64.24	\$53.55	\$56.44	\$61.03	\$65.06	\$68.47	\$74.10	\$79.31	\$84.19
% change	7.7%	6.1%	-2.0%	-16.6%	5.4%	8.1%	6.6%	5.2%	8.2%	7.0%	6.1%
GDP, % change Q4/Q4	2.4%	1.9%	-2.8%	-0.2%	2.7%	1.7%	1.6%	3.1%	2.4%	2.8%	2.5%
Inflation, % change	2.7%	2.5%	3.1%	-0.1%	1.7%	2.5%	1.8%	1.2%	1.3%	0.5%	1.9%

Source: STR; Bureau of Economic Analysis; Macroeconomic Advisers, LLC (forecast released April 7, 2015); MHC Construction Analysis System; PwC

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

Chain scale	2015					2016				
	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	1.3	1.1	0.3	6.0	6.3	1.9	2.2	(0.3)	6.7	6.4
Upper upscale	2.2	1.0	1.1	5.1	6.3	1.2	1.5	(0.2)	6.2	5.9
Upscale	5.9	4.7	1.2	5.3	6.6	5.4	6.0	(0.5)	6.6	6.1
Upper midscale	4.0	1.8	2.2	5.0	7.2	3.7	3.7	(0.0)	5.3	5.3
Midscale	3.3	0.9	2.4	5.1	7.6	2.4	1.4	1.0	5.5	6.5
Economy	2.3	0.0	2.2	5.1	7.5	1.5	(0.3)	1.8	6.0	7.9
Independent hotels	2.8	0.7	2.1	4.6	6.8	0.7	1.5	(0.8)	6.0	5.1
US total	3.3	1.3	1.9	5.0	7.0	2.3	2.2	0.1	6.1	6.1

Source: PwC, based on STR data

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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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