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At a glance

The economy accelerated in the fourth quarter, and occupancy gains exceeded expectations.

However, economic growth is expected to slow in the first half of 2012.

Hotels are expected to increasingly rely on improved pricing to drive revenue growth.

We expect RevPAR growth of 6.5 percent in 2012, led by hotels in higher-priced segments.

pwc

PwC's lodging outlook anticipates continued growth in occupancy and average daily rate (ADR) will result in a 6.5 percent increase in revenue per available room (RevPAR) in 2012. Momentum in the sector has continued, despite slower economic growth, and hotels are expected to increasingly rely on improved pricing to drive revenue growth. Supply growth remains suppressed.

In this issue

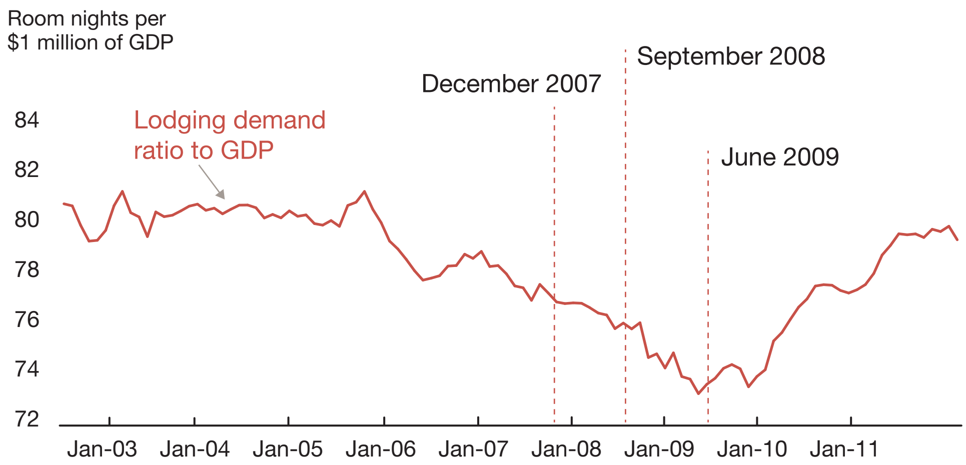
Improved occupancy turns focus to pricing

Lodging sector performance continues to benefit from a return of business and leisure guests. Hotels across the spectrum of chain-scale segments experienced occupancy and ADR gains in 2011, reflecting the breadth of the recovery. Overall, hotel occupancy in 2011 recovered to 60.1 percent, just slightly ahead of its ten-year average of 60.0 percent, and RevPAR rose 8.2 percent.

Last January, PwC's outlook for 7.8 percent RevPAR growth was above consensus, anticipating a stronger industry recovery than others at the time. As the year progressed, it became clear that the economy was growing more slowly than anticipated, leading to greater uncertainty in the outlook, even as lodging demand growth exceeded expectations. In this issue of Hospitality Directions, we consider this seeming de-coupling of lodging demand growth from the broader economy. We look at a longer time horizon and observe that, in this context, recent performance can be seen as a normalization of travel patterns. In other words, a rebound to an activity level that is more consistent with long-term trends.

A snapshot of this perspective is evident in Figure 1, which shows lodging demand as a ratio to GDP. Following the worsening of the financial crisis in September 2008, lodging demand declined even more quickly than GDP, causing this ratio to decline. Then in summer 2009, lodging reached a trough at a similar point as the broader economy. As economic activity turned a corner in June 2009, lodging demand started to rebound. Lodging demand

Figure 1: Lodging demand per $1 million of GDP, 2003 to 2011



Note: The room night demand and GDP inputs to the ratio were both expressed on a seasonally adjusted, annualized basis using a three-month moving average to smooth the series. GDP is measured in 2005 dollars. The last data point shown is the three-month moving average through December 2011. The GDP series is converted from quarterly data and the final three months of 2011 represent a forecast.

Source: Bureau of Economic Analysis; Macroeconomic Advisers, LLC (forecast released January 2012); Smith Travel Research; PwC.

grew quickly in 2010 and 2011, reverting to a more normal level. This experience serves as a reminder of the interdependent, and cyclical, characteristics of the lodging sector.

The outsized gains experienced during this resumption of travel activity have largely run their course and, unfortunately, the broader economy remains sluggish. Stronger GDP growth in the fourth quarter of last year was partly due to temporary factors, and that pace is expected to slow in the first half of 2012. The sovereign debt crisis in Europe remains an overhang on the outlook, and conditions in Europe are expected to get worse before they get better. US economic growth also remains hindered by the degree of structural change that is occurring, including the gradual redeployment of labor and capital toward areas of growth. As a result, while some sectors are expanding, such as professional and business services, and healthcare and education, which have experienced 5.5 percent and 5.3 percent increases in jobs since the end of the recession, respectively, other sectors, such as the finance (broadly defined) and construction, are growing slowly, at best.

In the lodging sector, there are indications of momentum. 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. Unemployment remains quite high, but domestic job growth has improved slightly, and US corporations continue to make capital investments, supporting an outlook of further growth in commercial transient travel and group events. Leisure demand continues to increase, as indicated by transient growth at resorts, and weekend occupancy rates that exceed prior year levels.

In this context, our updated outlook anticipates RevPAR growth of 6.5 percent in 2012. This reflects a 5.1 percent increase in ADR, with occupancy gains slowing to 1.3 percent. Overall, 2012 RevPAR is expected to reach a level 0.7 percent below the nominal peak achieved in 2007.

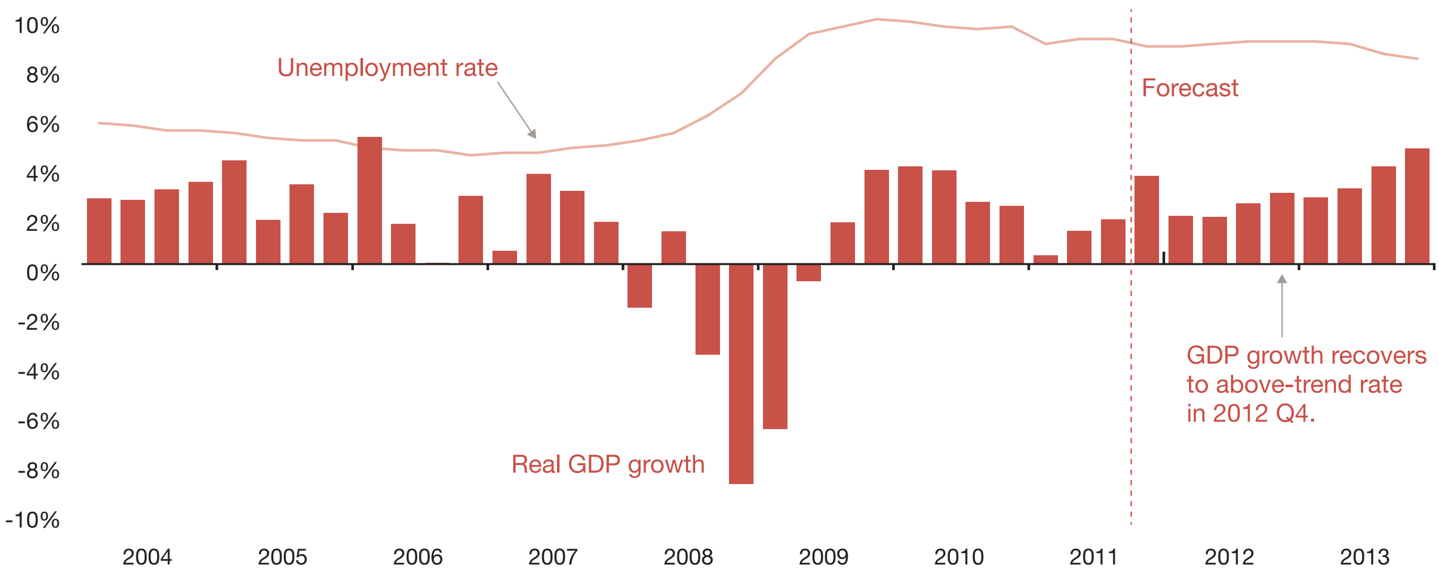
Sluggish economic growth, awaiting a fix in Europe

The economic outlook for 2012 remains anchored by weak underlying momentum and the overhang of risks related to Europe. Headwinds persist and this year is expected to be characterized by sluggish, below-trend growth. The base assumption is for the US economy to avoid a double-dip recession, and to regain a more solid pace of growth in 2013.

Macroeconomic Advisers, the firm that provides the underlying macroeconomic drivers to our lodging outlook, expects GDP growth in the fourth quarter of 2011 to come in near 3.5 percent when preliminary figures are released later this month, representing a solid gain. Among other factors, this reflects indications that consumer spending expanded and exports improved. Unfortunately, the fourth quarter pace is not anticipated to continue into 2012, and current quarter growth is expected to slow to 2.0 percent (Figure 2).

In this outlook, one of the most important overhangs and downside risks is the evolving sovereign debt crisis in Europe. While some progress has been made toward a resolution, Macroeconomic Advisers anticipates that the situation in Europe will get worse before it gets better. In this view, financial markets are assumed to become increasingly impatient early in the year, driving the peripheral countries' yields on sovereign debt to unsustainable levels, threatening the stability of European banks, and generating adverse spillovers to US financial markets. Indeed, it is these financial spillover effects, such as declining equity values, rising risk spreads, and a rally to the

Figure 2: **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 January 2012).

dollar, that are expected to do the greatest harm to the US economy. The impact to the US of reduced exports driven by the current recession in Europe is inconsequential relative to the risks posed to the US by global financial market contagion. As the market-driven scenario unfolds, it is assumed to inspire resolute policy actions in Europe, resulting in steps that are sufficient to turn the corner to a convincing stabilization of the situation, avoidance of a splintering of the Euro, and ultimately a solid recovery in financial markets.

In Macroeconomic Advisers' forecast, such a scenario is a negative to the US until the second half of 2012, by which point an assumed resolution, and related financial market rally and reduction in uncertainty, are expected to be important positives for the US economy. As a result, US growth is expected to gradually accelerate in the second half of 2012, reaching an above trend pace of 2.9 percent annualized growth by the fourth quarter of the election year. As momentum gradually improves, economic growth is expected to reach a 4.3 percent pace by the second half of 2013, sufficient to bring the unemployment rate down to 8.3 percent by late 2013. If the situation in Europe is not mended, disarray in financial markets would be expected to lead to a recession in the US (potentially a severe one at that), presenting an important downside risk to the current outlook.

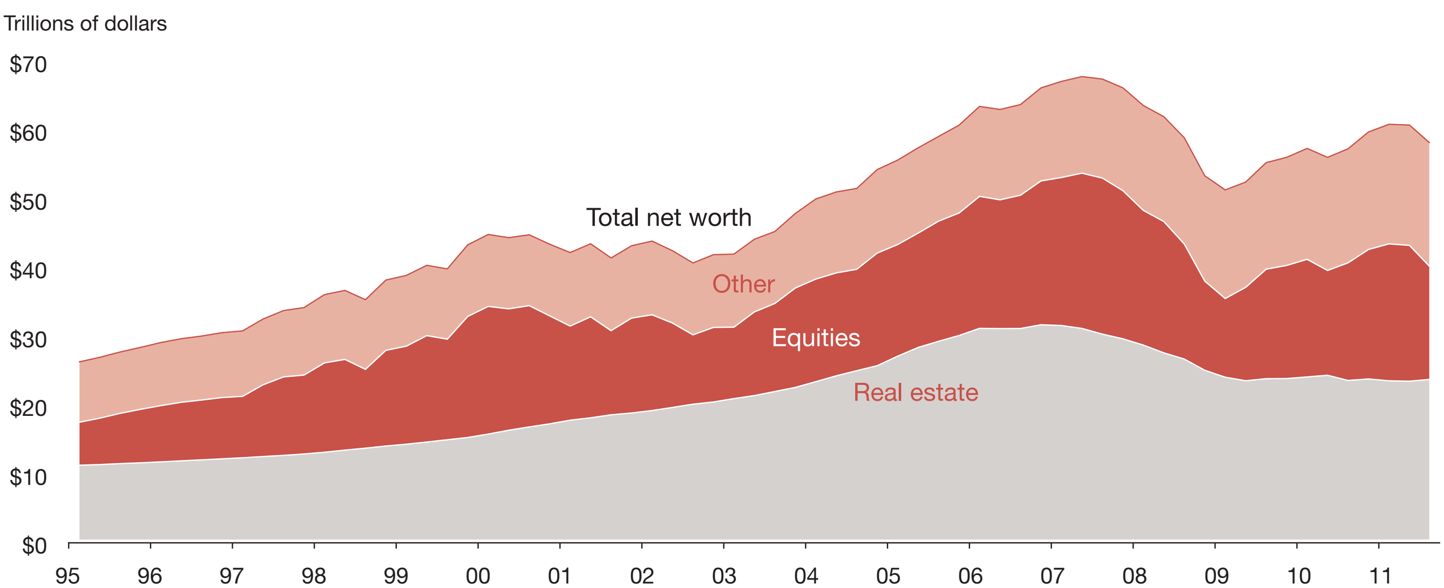
In addition to a worsening, and then improving, situation in Europe, the key assumptions underlying the baseline economic outlook are summarized as follows:

- **Consumer spending growth remains moderate in the near term, but household situations gradually improve.** Consumer spending growth is expected to continue at a moderate pace, with some mild improvement in the second half of 2012. Household balance sheets have improved in recent years, in part due to household deleveraging, but are still subject to financial market swings. As shown in Figure 3, the significant setback in household net worth experienced from 2007 to 2009 is becoming a more distant reference point, and household decisions are increasingly being made based on current conditions rather than past losses. The outlook for a strengthening economy in late 2012 and 2013 assumes equity value gains and a gradual improvement in housing prices will support positive wealth effects, and an improved context for consumer spending.

- **Businesses continue to invest and gradually accelerate hiring.** Businesses have continued to approve investment spending, despite weak GDP growth. Though there are signs of some slowing in the fourth quarter of 2011, the continued firming of demand and production, combined with further improvement in balance sheets and availability of financing, is expected to contribute to further growth of business spending on equipment and software this year and next. Business investment spending during the recession was extraordinarily depressed and companies are taking steps to update and replace infrastructure. Hiring decisions remain restrained; however, the addition of 156,000 nonfarm jobs per month on average over the past four months is an improvement from the average of 76,000 jobs per month added in the four months through August.

- **Financial contraction by federal, state and local governments restrains growth.** Fiscal policy is expected to continue to have a contractionary effect on the economy in the year ahead. Despite an assumption that the

Figure 3: Household net worth, 1995 to 2011



Note: Last data point is the third quarter of 2011 (most recent available).
Source: Federal Reserve; Macroeconomic Advisers, LLC; PwC.

payroll-tax holiday is extended not just for two months as agreed to as a temporary solution in December, but through the full year of 2012, it is anticipated that nominal federal spending will decline this year, subtracting about 0.3 percentage points from GDP growth, as compared to a drag of just 0.1 in 2011. State and local government budgets remain under pressure, with sharp declines in federal transfers to state and local governments as the effects of the American Recovery and Reinvestment Act passed in February 2009 come to an end.

- **The Federal Reserve maintains accommodative monetary policy.** Macroeconomic Advisers' outlook for the Federal Reserve is unchanged. 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 aggregate, Macroeconomic Advisers' estimate for GDP growth in the fourth quarter of 2011 is substantially stronger than the rate assumed in our November issue of Hospitality Directions, resulting in an estimate for growth in the second half of 2011 that is higher than we previously assumed (Table 1). The estimate for 2012 growth is slightly weaker.

Table 1: GDP outlook summary

Outlook	2011 Second half	2012 Full year	2013 Full year
Current	2.7%	2.3%	3.6%
Prior	2.4%	2.5%	3.9%

Note: Figures reflect real GDP growth at an annualized rate. Full year figures are reported on a fourth quarter over fourth quarter basis. The current outlook corresponds to the Macroeconomic Advisors forecast released January 2012, and the prior outlook refers to the Macroeconomic Advisors forecast released October 2011, which was used as a base in PwC Hospitality Directions US November 2011.

Source: Macroeconomic Advisers, LLC

Our key macroeconomic assumptions

The following describes the key assumptions supporting the current macroeconomic outlook.[1,2]

Factor	Assumption
Consumer spending	Consumer spending is estimated to have grown at a 1.8 percent rate in 2011 (on a real dollar, fourth quarter-over-fourth quarter basis), and is expected to improve slightly to 2.4 percent growth in 2012, and then 2.5 percent in 2013. Slow employment and labor income growth constrained spending growth in 2011, though households did increase spending on durable goods, including motor vehicles, at a strong 7.2 percent rate. In part, this represents an ongoing release of pent-up demand, as earlier purchases were postponed by economic conditions.
Labor markets	Employment growth improved at the end of 2011, and the unemployment rate declined to 8.7 percent in the fourth quarter. The baseline outlook assumes sluggish job growth, with the addition of 80,000 nonfarm jobs monthly during 2012, and an unemployment rate that declines to a still-high 8.3 percent by the fourth quarter of 2013.
Oil prices	After adjusting for inflation, the average per barrel cost of oil in 2011 ($103.42, refiner average imported crude oil acquisition cost) was more than two times greater than the average over the last 20 years ($45.68). The outlook assumes a 3.2 percent decline this year, and a 5.7 percent decline in 2013.
US dollar	The value of the US dollar declined on average in 2011, though the fourth quarter represented an increase. Overall, the value of the dollar is expected to average 3.2 percent higher in 2012 than in 2011. The value of the dollar is expected to hold approximately stable in 2013.
Equity and housing markets	As of January 18, equities were flat with year ago levels, but are assumed to rise in 2012 and 2013. Home prices appear to be stabilizing, with estimated declines of 2.0 percent and 0.2 percent in 2011 and 2012, respectively, expected to be followed by a 1.8 percent increase in 2013. Overall, an estimated 22.1 percent of all residential properties with mortgages were in negative equity in September 2011, which is down only slightly from 22.5 percent a year ago.
Inflation	The consumer price index (CPI) increased 3.1 percent in 2011, and is expected to increase only 1.8 percent in 2012. Long-term inflation forecasts among economists average 2.5 percent on a CPI basis.
Fiscal policy	The payroll tax holiday has been temporarily extended for two months and is assumed to be extended through the balance of this year. 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.
Monetary policy	In addition to maintaining an exceptionally low federal funds rate through mid-2014, the Federal Reserve is assumed to take additional steps, as announced in September, 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.

[1] Macroeconomic Advisers, LLC. (January 6, 2012) *Outlook Commentary*. Retrieved from http://macroadvisers.com.

[2] Macroeconomic Advisers, LLC. (January 9, 2012) *Forecast Details*. Retrieved from http://macroadvisers.com.

Our outlook for the US lodging industry

2011 finished on a positive note, with lodging performance exceeding expectations in the fourth quarter, in part due to an uptick in economic activity. As a result, even with an economic outlook that anticipates continued sluggish growth in the US economy through the first three quarters of 2012, we anticipate there is adequate momentum to support a 6.5 percent increase in RevPAR this year.

In this outlook, the volume of travel activity continues to recover, boosting the average industry occupancy to 60.9 percent for the year. More importantly for hotel owners and operators, the return of travel demand that has already occurred has put hotel operators in a better position to set prices and negotiate with corporate accounts and meeting planners, and is expected to provide greater traction for yield management strategies during the year, resulting in ADR growth of 5.1 percent. While we anticipate that the strongest gains will occur at hotels in the higher-priced segments (luxury, upper upscale, and upscale) and corresponding independent properties, our outlook for hotels in lower-priced segments (upper midscale, midscale, and economy) has improved slightly since our prior outlook, as recent results show signs of moderate gains.

The strength of lodging demand growth in 2011 stands in contrast to the weakness of the broader economy, drawing attention to the concept that lodging demand has appeared “de-coupled” from GDP growth. We take a closer look at this concept in the following section.

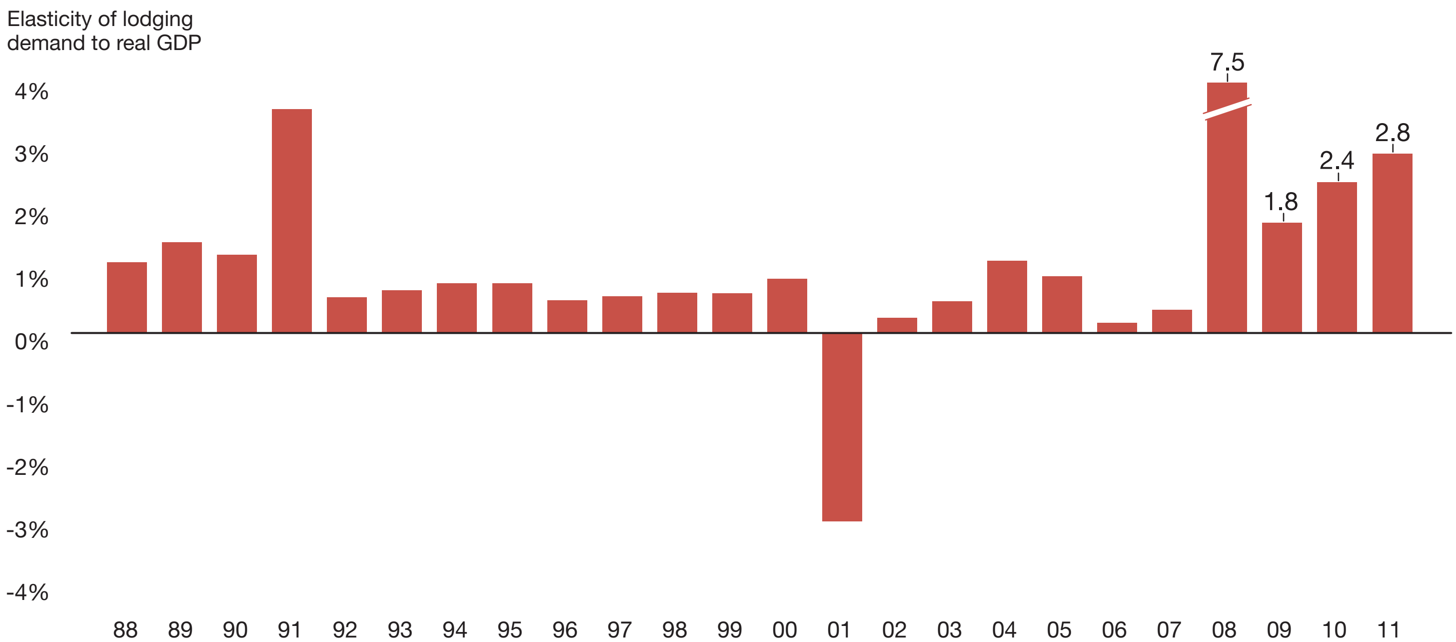
Has demand de-coupled?

The apparent disconnect between lodging demand and GDP was a frequently cited observation during 2011. Even as the already weak US recovery slowed further in mid-2011, lodging demand maintained a solid upward trajectory. This raised the question: Has the historical relationship between lodging demand and GDP eroded? In other words, has lodging demand de-coupled from the broader economy?

As background, the economic outlook, and expectations of GDP growth in particular, traditionally serve as a key indicator in the outlook for the lodging sector. Travel is cyclical. It is prone to decline during recessions—as businesses scale back output and spending, and consumers face income and wealth reductions and postpone or shorten trips—and is prone to increase during expansions. GDP, as an indicator that is not only a broad measure of the economy, but also one for which forecasts are readily available and frequently discussed, has served as a traditional forecast "driver." This is evident in quantitative approaches, such as econometric models, as well as qualitative discussions in which the outlook for the economy is summarized by referring to expected GDP growth.

As part of such discussions, the elasticity of lodging demand to GDP is one reference point. Elasticity refers to the ratio of the percentage change in lodging demand to the percentage change in GDP. For example, in 2011, with lodging demand estimated to expand 5.0 percent, and GDP

Figure 4: **Lodging demand elasticity to GDP**



Note: The observation for 2008 has been clipped at a maximum of 4.0 to better fit the y-axis scale in the graph. The actual value was 7.5. The 2011 value is an estimate based on current forecasts.
Source: Smith Travel Research, Bureau of Economic Analysis, Macroeconomic Advisors (forecast released January 2012), and PwC.

estimated to expand 1.8 percent, the implied elasticity is 2.8.

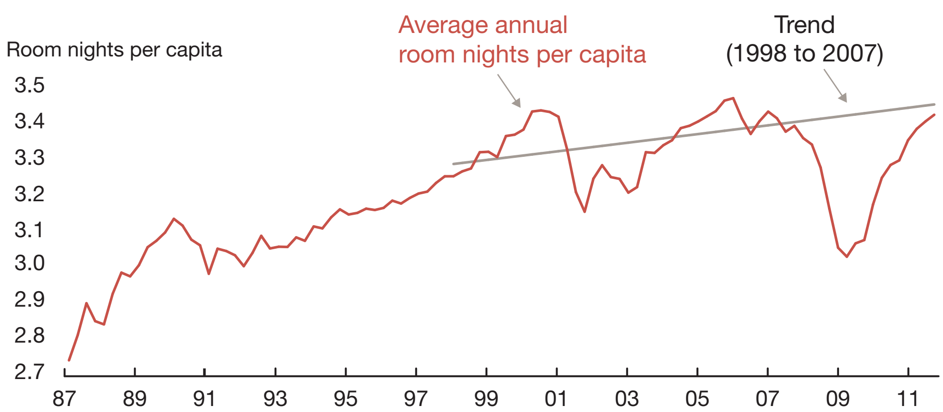
As shown in Figure 4, on an annual basis, elasticity since 1987 has had a median value of 0.8, but has ranged from as low as -3.0 in 2001, when lodging demand contracted even as the economy expanded, to as high as 7.5 in 2008, when lodging demand contracted by 2.5 percent as the economy contracted just 0.3 percent.[3]

These figures raise a potential question: If the median elasticity over the past 24 years has been 0.8, what explains the high elasticities that are observed in the period from 2008 to 2011? Does this represent a "de-coupling" of demand from GDP? Would lodging demand growth in 2011, which is estimated at almost three times the rate of GDP growth, suggest this relationship has changed?

To address such questions it is useful to consider two graphs. The first shows lodging demand in terms of annual room nights per capita (Figure 5). Because room nights per capita has generally increased from the levels experienced in the late 1980s and early 1990s, the figure shows an upward trend. However, the characteristic that dominates the graph are the changes in lodging demand

[3] The median elasticity of 0.8 partly reflects the slower trend rate of growth of lodging demand relative to GDP. Between 1987 and 2011, room nights grew at a compound annual rate of 1.8 percent, as compared to 2.5 percent growth in GDP. PwC analysis that adjusts for this effect, and which considers higher frequency data, indicates an arguably more accurate estimate of the elasticity between lodging demand and GDP of 1.1. An elasticity that exceeds 1.0 tends to conform with the expectation that lodging demand is sensitive to changes in economic conditions, as it indicates that a one percentage point change in GDP growth would correspond with a 1.1 percentage point change in lodging demand.

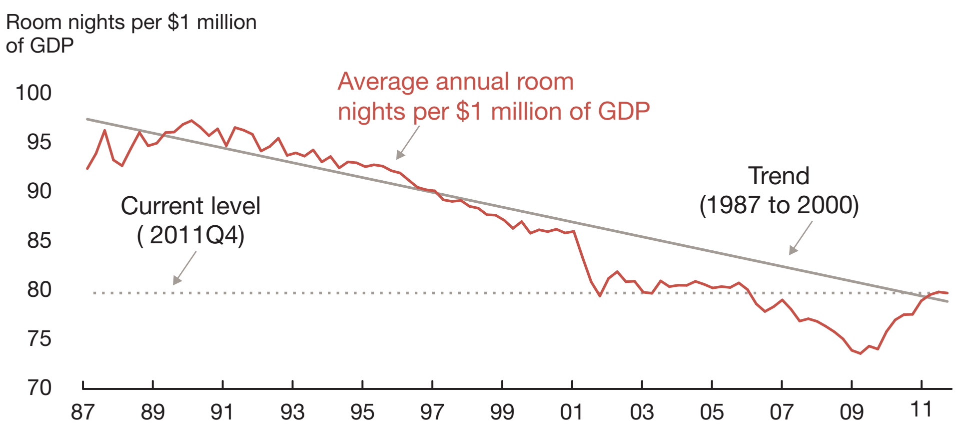
Figure 5: Lodging demand per capita, 1987 to 2011



Note: Room night demand is expressed on a seasonally adjusted, annualized basis.

Source: Smith Travel Research, Bureau of Economic Analysis, and PwC.

Figure 6: Lodging demand as a ratio to GDP, 1987 to 2011



Note: This graph is a longer-term, quarterly view of the same concept presented in Figure 1. The room night demand and GDP inputs to the ratio were both expressed on a seasonally adjusted, annualized basis at a quarterly frequency. GDP is measured in 2005 dollars. The last data point shown is the fourth quarter of 2011, and the GDP value for that quarter is a forecast.

Source: Bureau of Economic Analysis; Macroeconomic Advisers, LLC (forecast released January 2012); Smith Travel Research; PwC.

during stages of economic cycles. In this context, it's clear that the six quarters from the start of 2008 to the middle of 2009 were periods of severe decline, and that it has taken the second half of 2009, 2010, and most of 2011, for the industry to recover that lost ground. In other words, the most prominent trend evident in recent years has been the recovery and normalization of lodging demand. During the course of this cyclical rebound, the impacts of other factors, such as the slowdown in GDP growth that the economy experienced during the first three quarters of 2011, have been obscured.

The second figure shows lodging demand as a ratio to GDP (Figure 6). This relationship has tended to show a negative trend, as lodging demand has not grown quite as quickly as GDP. Taking a closer look at the period from 2003 to 2005, the stable ratio indicates that lodging demand growth was roughly keeping pace with the economy during that period, averaging 80 room nights per $1 million of GDP. However, by the start of the recession in December 2007, lodging demand had started to shrink, and when the financial crisis took hold, lodging demand fell more quickly than GDP, causing the ratio to fall further. After reaching a low point in the second quarter of 2009, demand turned with the economy and started a solid ascent. As a result, lodging demand in 2011 has recovered to a level that is at a similar ratio to GDP as was experienced in the 2003 to 2005 period, and which is roughly consistent with its long term trend.

Returning to the concept of "de-coupling," there are two key takeaways from these graphs. First is the recognition that the lodging sector has indeed been synchronized with broader economic conditions. The timing of the decline in lodging demand, and subsequent recovery, has been approximately contemporaneous with the timing of the turning points in the broader economy. Second, while lodging has been recovering more quickly than anticipated over the past two and half years, (from some vantage points appearing "de-coupled" from GDP), lodging demand had declined more substantially during the recession, and recent gains only bring lodging demand back to levels in proportion to activity in the broader economy. Indeed the high elasticities experienced during the past four years, in part, reflect the depth of the lodging downturn and its subsequent recovery, rather than a fundamental break from historical relationships.[4,5]

As we look ahead, the more relevant concept at this point may be to consider the implications of a potential "re-coupling" of lodging demand to the broader economy. As travel patterns normalize, and the pace of cyclical recovery eases, the lodging sector will become increasingly dependent on underlying growth in the economy to fuel additional growth in room night demand. With expectations that GDP growth will not return to an above-trend pace until late-2012, the lodging sector faces an important transition, shifting from occupancy-driven gains driven by the "return" of travelers, to ADR gains driven by effective yield management.

[4] Greater elasticity during downturns and recoveries is also consistent with prior recessions (1990-91 and 2001, for example).

[5] It is also useful to consider whether other factors play a role, such as the extent to which the lodging sector has benefited from greater dependence on demand generated by certain sectors, occupations and income cohorts. For example, the professional services sector, which has held up relatively better during the most recent economic down cycle, tends to be a more intensive driver of lodging demand than some other sectors, such as construction, which is struggling to recover.

Figure 7: **Transient and group comparison**

Performance of the transient and group segments at upper-tier hotels, shown as percentage difference from 2007 levels

Note: Information for 2011 is year-to-date through November compared to the same 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.

Demand

The ongoing recovery in business travel is evident in weekday hotel performance at upper-tier hotels.[6] The share of available rooms occupied by weekday transient travelers—a proxy for business travel—declined in 2008 and 2009, reaching a level in 2009 that was 8.3 percent below the 2007 level, as shown in Figure 7. By 2011, weekday travel activity had resumed and transient occupancy was 0.5 percent ahead of 2007 levels,[7] in part due to steps taken by upper-tier hotels to compensate for weak group demand. Group travel, which includes meetings, tours, and other groups booking more than 10 rooms at a time, fell more steeply than transient travel during the recession, reaching an occupancy contribution in 2009 that was 23.9 percent below the 2007 level. Though group activity improved in 2011, weekday group occupancy still ran 15.4 percent below 2007 levels. Average daily rate patterns have shown almost a mirror image. Group rates, frequently contracted a year or more in advance for major events, have declined less steeply than transient rates, and group ADR during weekdays in 2011 averaged just 1.7 percent below 2007 levels, compared to an 8.0 percent gap for transient weekday rates during 2011.

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 committed for 2012 are ahead of bookings that were in place in advance of 2011, and transient demand continued to expand in 2011. Our expectation of demand growth in 2012 stands at 1.8 percent, though if momentum in travel activity persists, this expectation could be exceeded.

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

[7] 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 fourth quarter of 2011 were 18.4 percent and 10.7 percent greater than levels in the fourth quarter of 2007, respectively.

Supply

Lodging supply growth remains at low levels, though there has been some pick up of construction activity. On a seasonally adjusted basis, hotel construction starts reached a low point in the first quarter of 2010. Since that point, starts have slowly resumed, and the number of room starts in 2011 was approximately one third greater than in 2010. That said, even at slightly higher levels, the opening of 45,000 rooms, which is the cumulative level of openings anticipated in our outlook for 2012, would represent an increase of just 0.9 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.

Occupancy

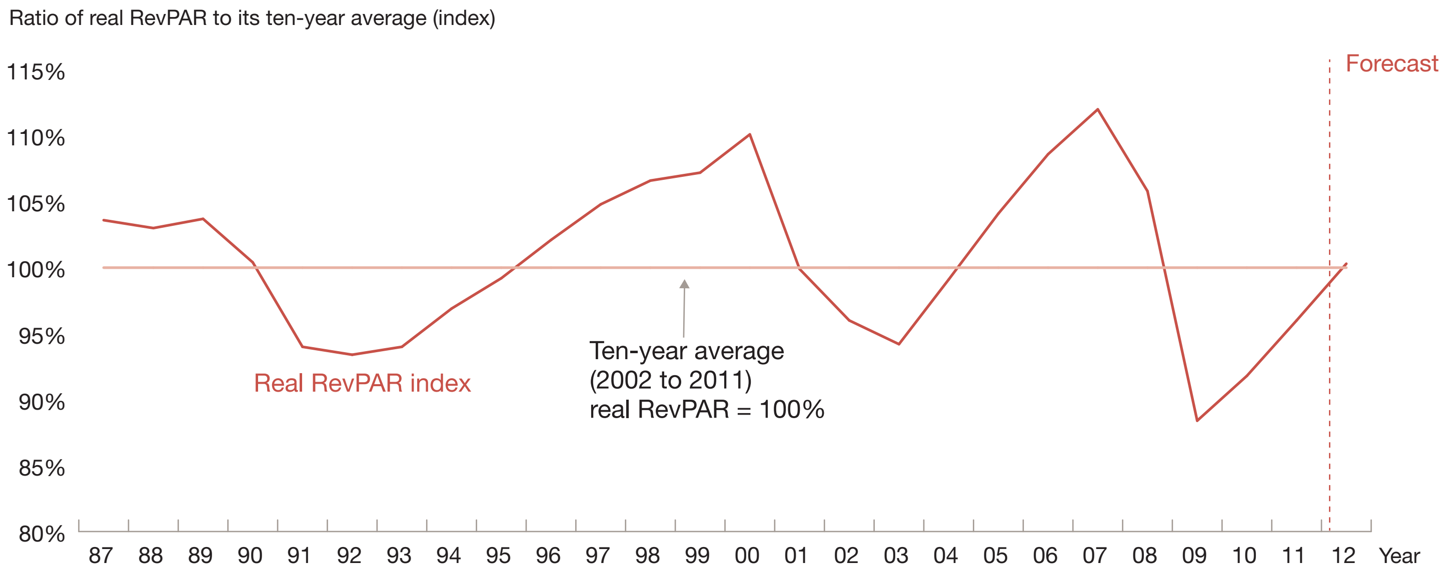
With growing demand and decelerating supply growth, we expect occupancy levels during 2012 to average 60.9 percent. This is 0.9 percentage points ahead of the 10-year average of 60.0 percent, and 0.7 percentage points below the 20-year average of 61.6 percent.

ADR and RevPAR

Hotels across the spectrum of price segments experienced ADR gains in 2011, reflecting the breadth of the industry recovery.[8] Stronger occupancy levels in the top 25 markets are expected to be supportive of stronger ADR growth this year in these markets. Upper-tier hotels in the top 25 markets experienced some of the largest declines in ADR

[8] The reclassification of certain Best Western properties from the midscale segment to the upper midscale segment during 2011 contributed to an artificial decline in midscale ADR for the year. Smith Travel Research results indicate that on a same set basis, ADR in the midscale segment actually increased 2.0 percent during the year-to-date period through November.

Figure 8: **Real RevPAR, 1987 to 2012**



Source: Smith Travel Research; Bureau of Labor Statistics; Macroeconomic Advisers, LLC (forecast released January 2012); PwC.

during the recession. Even with solid gains in 2011 (5.0 percent increase year-to-date through November), ADR levels at upper-tier hotels in the top 25 markets were still 5.7 percent below 2007 levels, primarily due to transient rates that were 8.1 percent below 2007 levels. These hotels have had greater than average success retaining occupancy levels, and the typical occupancy level among upper-tier hotels in the top 25 markets was just 2.8 percent below 2007 levels.

Tactics, including stronger pricing during mid-week peak periods, and shifts to replace lower-rated commercial accounts and some mid-week leisure travel with higher-rated business, are expected to allow hotels to achieve valuable increases in ADR. As a result, looking ahead, we anticipate ADR growth will accelerate, improving from 3.7 percent growth in 2011 to 5.1 percent in 2012. Adjusted for inflation, this would bring ADR in 2012 to just 0.2 percent below its 10-year average.

Figure 8 shows our outlook for real RevPAR, and Tables 2 and 3 summarize the key annual and quarterly measures in our US outlook.

Table 2: US lodging outlook, January 23, 2012

	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%	57.5%	60.1%	60.9%
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%	4.4%	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	2.5	0.8
Average daily rate ($)	$83.62	$82.54	$82.67	$86.19	$91.04	$97.81	$104.31	$107.38	$98.06	$98.06	$101.64	$106.86
Percentage change from prior year	-1.2%	-1.3%	0.2%	4.3%	5.6%	7.4%	6.6%	3.0%	-8.7%	0.0%	3.7%	5.1%
Nominal RevPAR ($)	$49.91	$48.71	$48.91	$52.80	$57.35	$61.75	$65.52	$64.22	$53.50	$56.43	$61.06	$65.05
Percentage change from prior year	-6.7%	-2.4%	0.4%	8.0%	8.6%	7.7%	6.1%	-2.0%	-16.7%	5.5%	8.2%	6.5%
Inflation-adjusted RevPAR ($, 2005 base)	$55.05	$52.88	$51.91	$54.58	$57.35	$59.82	$61.71	$58.26	$48.69	$50.53	$53.01	$55.46
Percentage change from prior year	-9.3%	-3.9%	-1.8%	5.1%	5.1%	4.3%	3.2%	-5.6%	-16.4%	3.8%	4.9%	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%	3.1%	1.8%
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%	2.3%
Average daily rooms sold (000s)	2,560	2,571	2,604	2,708	2,783	2,795	2,815	2,744	2,575	2,762	2,900	2,953
Percentage change from prior year	-3.2%	0.4%	1.3%	4.0%	2.8%	0.4%	0.7%	-2.5%	-6.2%	7.3%	5.0%	1.8%
Room starts (000s)	90.5	68.4	76.6	81.3	83.4	138.9	145.9	132.2	47.6	30.2	44.0	55.5
Percentage change from prior year	-24.8%	-24.4%	12.0%	6.0%	2.6%	66.5%	5.0%	-9.4%	-64.0%	-36.6%	45.6%	26.1%
End-of-year supply (000s)	4,285	4,348	4,383	4,384	4,378	4,412	4,486	4,623	4,743	4,783	4,806	4,833
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%	0.8%	0.5%	0.6%
Average supply change from prior year	2.4%	1.6%	1.0%	0.4%	-0.1%	0.2%	1.2%	2.4%	2.9%	1.7%	0.6%	0.5%

Source: Smith Travel Research; Macroeconomic Advisers, LLC (forecast released January 2012); PwC

Table 3: 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%	54.7%	54.6%
Average daily rate ($)	$108.94	$108.24	$107.85	$104.19	$100.69	$97.98	$97.47	$96.31
Percentage change from prior year	5.2%	4.4%	3.4%	-1.5%	-7.6%	-9.5%	-9.6%	-7.6%
Average daily rate ($, seas. adj.)	$108.19	$108.11	$107.71	$104.93	$100.34	$97.94	$97.12	$96.86
RevPAR ($)	$62.33	$69.54	$70.33	$54.67	$51.20	$56.06	$58.48	$48.18
Percentage change from prior year	1.7%	1.0%	-1.1%	-10.0%	-17.8%	-19.4%	-16.9%	-11.9%
RevPAR ($, seas. adj.)	$66.67	$65.96	$64.13	$60.00	$55.10	$53.13	$53.09	$52.89
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)	2,575	2,947	3,023	2,428	2,358	2,700	2,860	2,377
Percentage change from prior year	-1.5%	-1.1%	-1.9%	-6.0%	-8.4%	-8.4%	-5.4%	-2.1%
Average daily rooms sold (000s, seas. adj.)	2,794	2,785	2,738	2,650	2,564	2,548	2,585	2,599
Room starts (000s)	35.9	37.6	35.1	23.6	12.9	14.1	10.9	9.8
Percentage change from prior year	21.8%	-7.9%	2.1%	-42.8%	-64.2%	-62.5%	-68.9%	-58.6%
End-of-quarter supply (000s)	4,519	4,612	4,645	4,623	4,652	4,743	4,775	4,743
Percentage change from prior year	2.1%	2.2%	2.6%	3.1%	3.0%	2.8%	2.8%	2.6%

Source: Smith Travel Research; Macroeconomic Advisers, LLC (forecast released January 2012); 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%	53.4%	54.9%	63.4%	66.5%	55.5%	56.0%	64.5%	67.2%	55.8%
2.2%	6.0%	6.5%	6.8%	5.6%	4.4%	4.0%	3.8%	2.0%	1.7%	1.1%	0.6%
1.1	3.5	3.9	3.4	2.9	2.7	2.5	2.0	1.1	1.1	0.7	0.3
56.2%	57.4%	58.1%	58.3%	59.4%	59.9%	60.3%	60.6%	60.6%	60.8%	60.9%	61.1%
$96.39	$98.03	$99.19	$98.29	$99.48	$101.54	$103.03	$102.14	$104.22	$105.96	$108.22	$108.81
-4.3%	0.1%	1.8%	2.1%	3.2%	3.6%	3.9%	3.9%	4.8%	4.4%	5.0%	6.5%
$96.32	$98.01	$98.68	$98.80	$99.56	$101.51	$102.41	$102.68	$104.38	$105.93	$107.53	$109.39
$50.09	$59.48	$63.40	$52.52	$54.58	$64.33	$68.47	$56.65	$58.31	$68.30	$72.69	$60.69
-2.2%	6.1%	8.4%	9.0%	9.0%	8.2%	8.0%	7.8%	6.8%	6.2%	6.2%	7.1%
$54.12	$56.31	$57.30	$57.65	$59.10	$60.84	$61.78	$62.25	$63.28	$64.36	$65.53	$66.89
2.4%	1.8%	1.2%	1.2%	2.2%	3.3%	3.8%	3.3%	2.4%	1.8%	1.4%	1.6%
2,467	2,921	3,092	2,564	2,624	3,067	3,230	2,675	2,691	3,125	3,281	2,711
4.6%	8.2%	8.1%	7.9%	6.3%	5.0%	4.5%	4.3%	2.6%	1.9%	1.6%	1.3%
2,687	2,754	2,790	2,807	2,860	2,891	2,913	2,931	2,935	2,945	2,958	2,971
5.4	8.3	7.7	8.8	7.6	12.3	11.3	12.8	10.0	14.6	14.7	16.3
-58.4%	-41.0%	-29.3%	-9.7%	42.8%	48.3%	45.9%	44.6%	30.2%	18.4%	30.3%	27.5%
4,759	4,831	4,839	4,783	4,791	4,857	4,863	4,806	4,814	4,881	4,887	4,833
2.3%	1.9%	1.3%	0.8%	0.7%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%

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 4. Additional tables with our chain scale outlook are shown as Tables 5 to 11. 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.[9]

Table 4: US and chain scale segment outlook

	Percent change from 2010 to 2011				
	Demand	Average room supply	Occupancy	ADR	RevPAR
Luxury	6.0	0.8	5.2	5.7	11.2
Upper upscale	4.6	1.8	2.8	3.6	6.6
Upscale	6.0	1.8	4.1	3.8	8.0
Upper midscale	11.0	5.5	5.2	3.3	8.6
Midscale	(5.5)	(8.7)	3.5	(0.5)	3.0
Economy	4.0	0.3	3.7	2.2	6.0
Independent hotels	5.6	0.8	4.7	3.6	8.5
US total	5.0	0.6	4.4	3.7	8.2

	Percent change from 2011 to 2012				
	Demand	Average room supply	Occupancy	ADR	RevPAR
Luxury	1.1	0.3	0.7	6.5	7.2
Upper upscale	1.7	0.6	1.1	6.0	7.2
Upscale	2.9	1.3	1.5	5.7	7.3
Upper midscale	4.2	2.3	1.9	3.8	5.8
Midscale	(1.6)	(3.1)	1.6	2.9	4.5
Economy	1.5	0.5	1.0	3.6	4.6
Independent hotels	1.3	0.4	0.9	5.3	6.3
US total	1.8	0.5	1.3	5.1	6.5

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

Chain scale	Real RevPAR percentage difference from 10-year average				Comments
	2009	2010	2011	2012	
Luxury	(16.5)%	(10.5)%	(3.5)%	1.6%	Luxury hotels posted the strongest occupancy and ADR gains in the industry last year, fueled by gains in both the transient and group segments (upper midscale achieved stronger occupancy growth, but this was partly achieved by reclassification of certain properties as discussed below). Based on recent performance, luxury hotels are on track to reach an average occupancy rate of 70.4 percent in 2012, 2.7 percentage points ahead of the segment's 10-year average. The pace of ADR gains slowed in the fourth quarter, but is assumed to resume in 2012, driving a greater share of RevPAR growth. Construction of new hotels remains scarce.
Upper upscale	(12.0)	(8.3)	(5.3)	(0.3)	During the recession, relative to the broader industry, upper upscale hotels were slightly better able to maintain occupancy, but did so at a greater decline in rates (second only to the decline in the luxury segment). While the upper upscale segment is experiencing a solid recovery, ADR gains in the second half of 2011 were weaker than we anticipated, as hotels continued to rely on occupancy improvements to drive revenue growth. RevPAR levels lag the segment's real, long-term average by more than the US average (5.3 percent below in 2011 for the upper upscale segment, as compared to 3.4 percent for the US overall). The key weak points are transient ADR (9.9 percent below 2007 levels, on year-to-date basis through November 2011) and group occupancy contribution (13.5 percent below 2007, on a year-to-date basis).
Upscale	(11.4)	(8.2)	(3.8)	1.3	The upscale segment has shown a strong ability to rebuild occupancy after the twin impacts of the recession and an active construction pipeline that delivered a 27.9 percent increase in rooms between the end of 2006 and the end of 2010. However, hotels have achieved this performance at the expense of ADR, and the RevPAR recovery in the upscale segment has been broadly similar to the US average. Estimated 2011 occupancy levels at upscale hotels are 3.0 percent ahead of the segment's 10-year average, while real ADR is 6.6 percent below. The segment continues to have a more active construction pipeline than any of the other segments, but even that level of activity is quite low. Baring an upsurge in conversion activity, supply is expected to increase just 1.3 percent in 2012, the slowest pace in the 25 years of available history.
Upper Midscale	(9.1)	(6.5)	(1.6)	2.3	The upper midscale segment experienced a 7.2 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	(11.3)	(10.3)	(10.5)	(8.1)	Consistent with the comments related to the upper midscale segment, year-over-year comparisons in the midscale segment are being impacted by the recent reclassification of Best Western properties. Considering the year-to-date November performance of midscale hotels on a same set basis, which removes the impact of the Best Western classifications, reveals occupancy growth of 4.0, ADR growth of 2.0, and RevPAR growth of 6.1, which is broadly consistent with the economy segment.
Economy	(14.3)	(14.2)	(11.8)	(9.4)	RevPAR performance in the economy segment has generally traced a weaker than average path. However, results in the second half of 2011 were better than expected, with signs that ADR levels have improved. Supply growth in this segment occurs primarily through conversions rather than new construction. Indeed, over the past five years, there have been more than five times as many conversions of hotels to economy brands than there have been openings of new economy-branded hotels.
Independent hotels	(12.4)	(9.4)	(4.7)	(0.5)	Of the US inventory of hotel rooms at year-end 2011, 29.9 percent were independent hotels that are not affiliated with a brand. This segment spans a range of product and price tiers, with aggregate occupancy and ADR levels that are slightly below the US average.
US total	**(11.3)**	**(7.9)**	**(3.4)**	**1.1**	

Table 5: Luxury outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	64.3%	63.9%	64.7%	68.0%	70.7%	71.8%	71.7%	67.6%	62.2%	66.5%	69.9%	70.4%
Percentage change from prior year	-12.1%	-0.6%	1.3%	5.2%	3.9%	1.5%	-0.1%	-5.7%	-8.1%	6.9%	5.2%	0.7%
Change in occupancy points	-8.8	-0.4	0.8	3.3	2.7	1.1	-0.1	-4.1	-5.5	4.3	3.4	0.5
Average daily rate ($)	$226.67	$218.08	$215.13	$226.12	$242.86	$266.45	$285.60	$286.28	$239.17	$243.52	$257.43	$274.06
Percentage change from prior year	-2.6%	-3.8%	-1.4%	5.1%	7.4%	9.7%	7.2%	0.2%	-16.5%	1.8%	5.7%	6.5%
Nominal RevPAR ($)	$145.72	$139.30	$139.18	$153.84	$171.71	$191.20	$204.68	$193.53	$148.65	$161.85	$179.95	$192.94
Percentage change from prior year	-14.4%	-4.4%	-0.1%	10.5%	11.6%	11.3%	7.0%	-5.4%	-23.2%	8.9%	11.2%	7.2%
Inflation-adjusted RevPAR ($)	$160.72	$151.23	$147.70	$159.02	$171.71	$185.23	$192.76	$175.56	$135.29	$144.92	$156.22	$164.50
Percentage change from prior year	-16.7%	-5.9%	-2.3%	7.7%	8.0%	7.9%	4.1%	-8.9%	-22.9%	7.1%	7.8%	5.3%
Demand (thous.)	48.8	53.5	58.1	63.0	65.7	69.9	72.7	72.8	72.6	81.3	86.1	87.0
Percentage change from prior year	-3.9%	9.8%	8.5%	8.4%	4.3%	6.4%	4.0%	0.2%	-0.3%	11.9%	6.0%	1.1%
Average room supply (thous.)	75.9	83.8	89.8	92.5	92.9	97.4	101.4	107.8	116.9	122.3	123.2	123.6
Percentage change from prior year	9.3%	10.5%	7.1%	3.1%	0.4%	4.9%	4.1%	6.2%	8.5%	4.6%	0.8%	0.3%

Source: Smith Travel Research; PwC

Table 6: Upper upscale outlook

	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%	69.3%	70.1%
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%	2.8%	1.1%
Change in occupancy points	-7.0	0.9	0.2	2.7	1.8	-0.1	-0.1	-2.5	-4.8	4.2	1.9	0.8
Average daily rate ($)	$135.26	$129.20	$126.21	$131.00	$140.03	$149.96	$158.68	$161.03	$143.45	$142.57	$147.74	$156.66
Percentage change from prior year	-2.9%	-4.5%	-2.3%	3.8%	6.9%	7.1%	5.8%	1.5%	-10.9%	-0.6%	3.6%	6.0%
Nominal RevPAR ($)	$88.19	$85.34	$83.58	$90.28	$98.98	$105.90	$111.88	$109.52	$90.69	$96.10	$102.41	$109.79
Percentage change from prior year	-12.3%	-3.2%	-2.1%	8.0%	9.6%	7.0%	5.6%	-2.1%	-17.2%	6.0%	6.6%	7.2%
Inflation-adjusted RevPAR ($)	$97.27	$92.65	$88.70	$93.32	$98.98	$102.59	$105.37	$99.35	$82.54	$86.05	$88.90	$93.61
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%	3.3%	5.3%
Demand (thous.)	304.0	314.3	322.4	340.8	350.9	347.3	348.6	346.7	337.2	365.0	382.0	388.6
Percentage change from prior year	-6.1%	3.4%	2.6%	5.7%	2.9%	-1.0%	0.4%	-0.6%	-2.7%	8.2%	4.6%	1.7%
Average room supply (thous.)	466.3	475.8	486.9	494.5	496.4	491.7	494.5	509.7	533.4	541.6	551.1	554.6
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%	1.8%	0.6%

Source: Smith Travel Research; PwC

Table 7: Upscale outlook

	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%	66.8%	69.5%	70.6%
Percentage change from prior year	-7.5%	-0.3%	0.7%	4.8%	2.1%	0.0%	-0.8%	-3.3%	-7.6%	7.4%	4.1%	1.5%
Change in occupancy points	-5.3	-0.2	0.4	3.2	1.5	0.0	-0.5	-2.3	-5.1	4.6	2.8	1.1
Average daily rate ($)	$100.76	$96.13	$94.05	$97.34	$104.41	$114.18	$121.26	$122.74	$109.76	$107.70	$111.75	$118.10
Percentage change from prior year	-0.7%	-4.6%	-2.2%	3.5%	7.3%	9.4%	6.2%	1.2%	-10.6%	-1.9%	3.8%	5.7%
Nominal RevPAR ($)	$65.75	$62.55	$61.61	$66.84	$73.23	$80.09	$84.42	$82.61	$68.27	$71.93	$77.72	$83.40
Percentage change from prior year	-8.2%	-4.9%	-1.5%	8.5%	9.6%	9.4%	5.4%	-2.1%	-17.4%	5.4%	8.0%	7.3%
Inflation-adjusted RevPAR ($)	$72.52	$67.91	$65.38	$69.09	$73.23	$77.59	$79.50	$74.94	$62.14	$64.41	$67.47	$71.10
Percentage change from prior year	-10.7%	-6.4%	-3.7%	5.7%	6.0%	6.0%	2.5%	-5.7%	-17.1%	3.7%	4.7%	5.4%
Demand (thous.)	243.3	256.3	268.2	285.4	296.1	304.8	316.8	325.4	327.4	373.0	395.4	406.9
Percentage change from prior year	-0.3%	5.4%	4.6%	6.4%	3.7%	2.9%	4.0%	2.7%	0.6%	13.9%	6.0%	2.9%
Average room supply (thous.)	372.8	393.9	409.4	415.7	422.2	434.5	455.2	483.5	526.4	558.4	568.6	576.3
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%	1.8%	1.3%

Source: Smith Travel Research; PwC

Table 8: Upper midscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	61.9%	61.4%	61.0%	63.1%	65.3%	66.2%	65.3%	61.7%	55.7%	58.4%	61.5%	62.6%
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%	1.9%
Change in occupancy points	-3.1	-0.5	-0.4	2.1	2.2	0.8	-0.9	-3.5	-6.1	2.8	3.0	1.2
Average daily rate ($)	$74.36	$73.50	$73.54	$75.81	$81.06	$87.33	$93.64	$97.25	$91.81	$91.42	$94.40	$98.00
Percentage change from prior year	0.9%	-1.2%	0.1%	3.1%	6.9%	7.7%	7.2%	3.9%	-5.6%	-0.4%	3.3%	3.8%
Nominal RevPAR ($)	$46.02	$45.11	$44.85	$47.85	$52.95	$57.77	$61.14	$60.05	$51.11	$53.42	$58.03	$61.38
Percentage change from prior year	-3.9%	-2.0%	-0.6%	6.7%	10.7%	9.1%	5.8%	-1.8%	-14.9%	4.5%	8.6%	5.8%
Inflation-adjusted RevPAR ($)	$50.75	$48.97	$47.59	$49.47	$52.95	$55.97	$57.58	$54.48	$46.52	$47.83	$50.37	$52.33
Percentage change from prior year	-6.5%	-3.5%	-2.8%	3.9%	7.1%	5.7%	2.9%	-5.4%	-14.6%	2.8%	5.3%	3.9%
Demand (thous.)	406.7	414.7	421.6	439.2	448.4	451.2	451.1	439.6	412.0	445.5	494.4	515.3
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%	11.0%	4.2%
Average room supply (thous.)	657.1	675.8	691.4	695.9	686.4	682.0	690.9	711.9	740.0	762.5	804.3	822.6
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%	2.3%

Source: Smith Travel Research; PwC

Table 9: Midscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	54.7%	53.8%	54.3%	56.7%	58.9%	59.2%	58.4%	55.5%	49.4%	51.7%	53.5%	54.4%
Percentage change from prior year	-4.7%	-1.7%	1.0%	4.3%	3.8%	0.6%	-1.3%	-5.0%	-11.0%	4.7%	3.5%	1.6%
Change in occupancy points	-2.7	-0.9	0.5	2.4	2.2	0.4	-0.8	-2.9	-6.1	2.3	1.8	0.8
Average daily Rate ($)	$65.04	$64.25	$64.19	$65.69	$69.25	$73.62	$77.40	$79.36	$75.03	$73.68	$73.28	$75.41
Percentage change from prior year	0.7%	-1.2%	-0.1%	2.3%	5.4%	6.3%	5.1%	2.5%	-5.5%	-1.8%	-0.5%	2.9%
Nominal RevPAR ($)	$35.59	$34.56	$34.88	$37.24	$40.77	$43.60	$45.23	$44.05	$37.08	$38.11	$39.24	$41.02
Percentage change from prior year	-4.0%	-2.9%	0.9%	6.8%	9.5%	6.9%	3.7%	-2.6%	-15.8%	2.8%	3.0%	4.5%
Inflation-adjusted RevPAR ($)	$39.25	$37.52	$37.01	$38.50	$40.77	$42.24	$42.59	$39.96	$33.75	$34.12	$34.07	$34.97
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%	2.7%
Demand (thous.)	296.1	293.7	292.8	303.0	312.5	316.3	315.3	305.1	281.4	296.8	280.6	276.2
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%	-1.6%
Average room supply (thous.)	541.1	546.1	538.8	534.3	530.8	534.0	539.6	549.6	569.4	573.8	524.1	507.7
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%	-8.7%	-3.1%

Source: Smith Travel Research; PwC

Table 10: Economy outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Occupancy (percent)	56.6%	55.0%	54.3%	55.6%	57.4%	57.2%	57.0%	54.1%	49.2%	51.6%	53.5%	54.0%
Percentage change from prior year	-3.4%	-2.9%	-1.4%	2.5%	3.3%	-0.4%	-0.4%	-5.1%	-9.1%	5.0%	3.7%	1.0%
Change in occupancy points	-2.0	-1.6	-0.7	1.4	1.8	-0.2	-0.2	-2.9	-4.9	2.4	1.9	0.5
Average daily rate ($)	$47.10	$46.81	$46.78	$47.82	$49.99	$52.71	$54.40	$55.01	$50.87	$49.29	$50.37	$52.16
Percentage change from prior year	0.0%	-0.6%	-0.1%	2.2%	4.5%	5.4%	3.2%	1.1%	-7.5%	-3.1%	2.2%	3.6%
Nominal RevPAR ($)	$26.67	$25.74	$25.38	$26.59	$28.70	$30.14	$31.00	$29.75	$25.00	$25.43	$26.95	$28.19
Percentage change from prior year	-3.4%	-3.5%	-1.4%	4.8%	7.9%	5.0%	2.8%	-4.0%	-16.0%	1.7%	6.0%	4.6%
Inflation-adjusted RevPAR ($)	$29.42	$27.95	$26.93	$27.49	$28.70	$29.20	$29.19	$26.99	$22.75	$22.77	$23.39	$24.03
Percentage change from prior year	-6.0%	-5.0%	-3.6%	2.1%	4.4%	1.7%	0.0%	-7.5%	-15.7%	0.1%	2.7%	2.7%
Demand (thous.)	421.1	412.3	402.1	411.4	425.9	424.6	431.9	417.6	384.3	404.3	420.4	426.6
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%	4.0%	1.5%
Average room supply (thous.)	743.6	749.6	741.2	739.9	741.7	742.5	757.9	772.2	781.8	783.5	785.8	789.4
Percentage change from prior year	2.2%	0.8%	-1.1%	-0.2%	0.3%	0.1%	2.1%	1.9%	1.3%	0.2%	0.3%	0.5%

Source: Smith Travel Research; PwC

Table 11: Independent hotels outlook

	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%	57.5%	52.3%	54.6%	57.2%	57.7%
Percentage change from prior year	-5.1%	-1.6%	0.7%	2.9%	2.2%	-0.2%	-0.1%	-5.5%	-9.0%	4.4%	4.7%	0.9%
Change in occupancy points	-3.1	-1.0	0.4	1.7	1.3	-0.1	0.0	-3.4	-5.2	2.3	2.6	0.5
Average daily rate ($)	$80.99	$80.67	$81.38	$85.37	$88.36	$94.01	$101.30	$105.32	$95.18	$95.85	$99.33	$104.63
Percentage change from prior year	-0.9%	-0.4%	0.9%	4.9%	3.5%	6.4%	7.8%	4.0%	-9.6%	0.7%	3.6%	5.3%
Nominal RevPAR ($)	$47.51	$46.54	$47.28	$51.03	$53.96	$57.31	$61.71	$60.61	$49.82	$52.36	$56.83	$60.40
Percentage change from prior year	-5.9%	-2.0%	1.6%	7.9%	5.7%	6.2%	7.7%	-1.8%	-17.8%	5.1%	8.5%	6.3%
Inflation-adjusted RevPAR ($)	$52.40	$50.53	$50.17	$52.75	$53.96	$55.52	$58.12	$54.98	$45.34	$46.89	$49.34	$51.50
Percentage change from prior year	-8.5%	-3.6%	-0.7%	5.1%	2.3%	2.9%	4.7%	-5.4%	-17.5%	3.4%	5.2%	4.4%
Demand (thous.)	839.7	826.1	839.0	865.5	884.0	881.2	878.7	836.5	759.5	796.2	841.0	852.2
Percentage change from prior year	-4.3%	-1.6%	1.6%	3.2%	2.1%	-0.3%	-0.3%	-4.8%	-9.2%	4.8%	5.6%	1.3%
Average room supply (thous.)	1,431.5	1,431.8	1,444.2	1,447.9	1,447.5	1,445.6	1,442.4	1,453.7	1,451.1	1,457.4	1,469.8	1,476.3
Percentage change from prior year	0.8%	0.0%	0.9%	0.3%	0.0%	-0.1%	-0.2%	0.8%	-0.2%	0.4%	0.8%	0.4%

Source: Smith Travel Research; PwC

Refocusing on growth in an uncertain world

Last January, our outlook assumed 7.8 percent RevPAR growth, with an underlying assumption of above-trend growth in the economy (4.0 percent GDP growth, on a fourth-quarter-over-fourth-quarter basis). The economic assumption proved optimistic, with slowing growth in the first half of 2011, soon followed by heightened uncertainty related to the European sovereign debt crisis, US debt negotiations, and falling financial markets (resulting in 1.8 percent GDP growth, substantially weaker than Macroeconomic Advisors anticipated at the start of the year). Nevertheless, the lodging recovery continued, and actual RevPAR growth came in slightly ahead of expectations, at 8.2 percent.

Where do we go from here? The momentum of the travel rebound is anticipated to transition to a slower pace of expansion in 2012. In this context, the overhang of challenging economic conditions in the US, and persistent risks related to the debt crisis in Europe, can appear ready to tip the balance toward the negative. The implications of this outlook are two-fold. First, it is important for industry leaders to emphasize current priorities for growth. For example, in markets that are making transitions from occupancy- to rate-driven growth, operators can support property teams to take the necessary risks to close the pricing gap and optimize profit per available room. Second, leadership teams can ensure that downside risks receive adequate consideration. With fragile financial markets and slow economic momentum, the potential for a downturn in economically sensitive sectors such as travel remains elevated. By balancing these two implications, and leveraging lessons from the downturn, sector leaders can refocus on growth in a post-crisis world.

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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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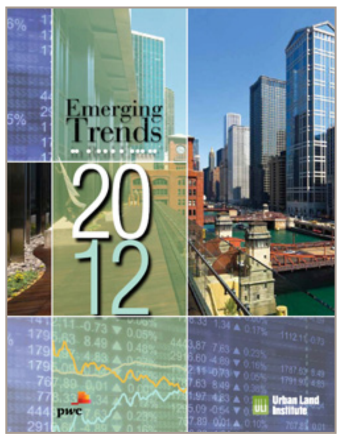
Time series data

Time series data in this publication are subject to revision periodically. All prior forecasts are superseded by the most current forecast.

Data sources

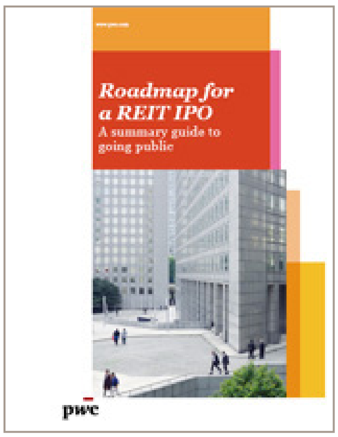
PwC would like to credit the following organizations with providing data used in this issue: F.W. Dodge—quarterly hotel starts in square feet; Smith Travel Research—monthly hotel performance statistics (occupancy rate, ADR, supply, demand); Macroeconomic Advisers, LLC—macroeconomic forecasts; Bureau of Economic Analysis—real GDP; Bureau of Labor Statistics—consumer price index.

Further reading



Emerging Trends in Real Estate® 2012

PwC US recently released Emerging Trends in Real Estate® 2012, a joint undertaking with the Urban Land Institute (ULI). Now in its 33rd edition, the report is the oldest, most highly regarded annual industry outlook for the real estate and land use industry. It provides a timely perspective on US, Canadian, and Latin American real estate investment and development trends, real estate finance and capital markets, property sectors (including lodging), and metropolitan areas.



Roadmap for a REIT IPO

A summary guide to going public

Going public is a monumental decision. It forever changes how a company does business. Moreover, from a practical standpoint, completing a public offering can be time consuming and expensive and can take substantial management focus away from the day-to-day operations of the company. This is why adequate preparation for a public offering is critical and can be the key to the IPO's success. This summary guide has been prepared to assist in completing a REIT IPO and to provide a resource on REIT issues and terminology to those who are new to this area.

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