

# U.S. Lodging Market Outlook

Prepared for:

## Meet the Money 2012

May 2012

**Some Headwinds...  
More Tailwinds**

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- **Our Current Forecasts**
- **A Look at Productivity**
- **Profit Outlook**

# Our Current Forecasts

# *Fewer Jobs Today...and the Return to Past Peaks will be Slow.*

**This is True in 20% of Our 50 Hotel Horizons® Markets**

	<b>Employment Levels</b>	
	<b>&gt;2000</b>	<b>&gt;Peak</b>
<b>2011</b>	<b>28</b>	<b>3</b>
<b>2012</b>	<b>34</b>	<b>6</b>
<b>2013</b>	<b>41</b>	<b>12</b>

Source: Moody's Analytics

# A Fundamentally Good Sign:

Lodging Demand Has Recovered in Over Half of Our 50 Hotel Horizons® Markets

<b>Market</b>	<b>Number of Markets at or Above Past Peak Demand as of Q4 2011*</b>
All Hotels	30
Upper-Priced	47
Lower-Priced	10 <small>* Four Quarter Moving Average</small>

Source: Smith Travel Research

# *There is a Disconnect:*

Employment is **Weak**

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Lodging Demand is **Strong**

**Why?**

# The Answer: Part 1

Consumers, Businesses have the \$'s to Travel

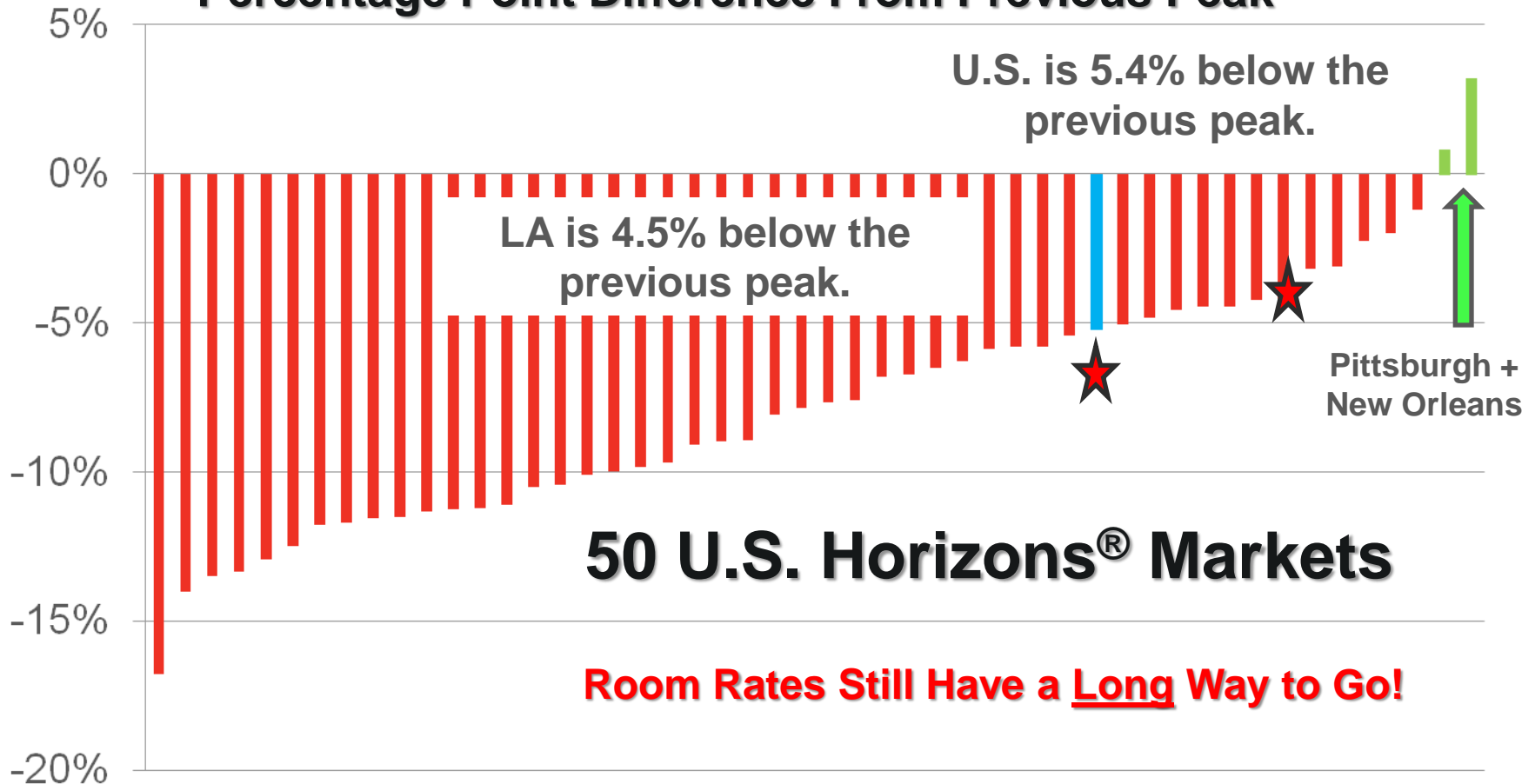
<b>Total Real Personal Income Levels</b>		
	<b>&gt;2000</b>	<b>&gt;Peak</b>
<b>2011</b>	<b>49</b>	<b>13</b>
<b>2012</b>	<b>49</b>	<b>37</b>
<b>2013</b>	<b>49</b>	<b>43</b>

Source: Moody's Analytics

# The Answer: Part 2

## 2011 ADR

### Percentage Point Difference From Previous Peak





# Meet the Money 2011 Accuracy Assessment

## United States

	<u>2011</u>		<u>2012</u>	
	<u>MTM</u> <u>2011</u>	<u>2011</u> <u>Actual</u>	<u>MTM</u> <u>2011</u>	<u>Current</u> <u>Forecast</u>
Occupancy	60.3%		63.2%	
ADR	2.6%		5.8%	
RevPAR	6.8%		7.6%	

**Full Demand Recovery**

**Less Optimistic**

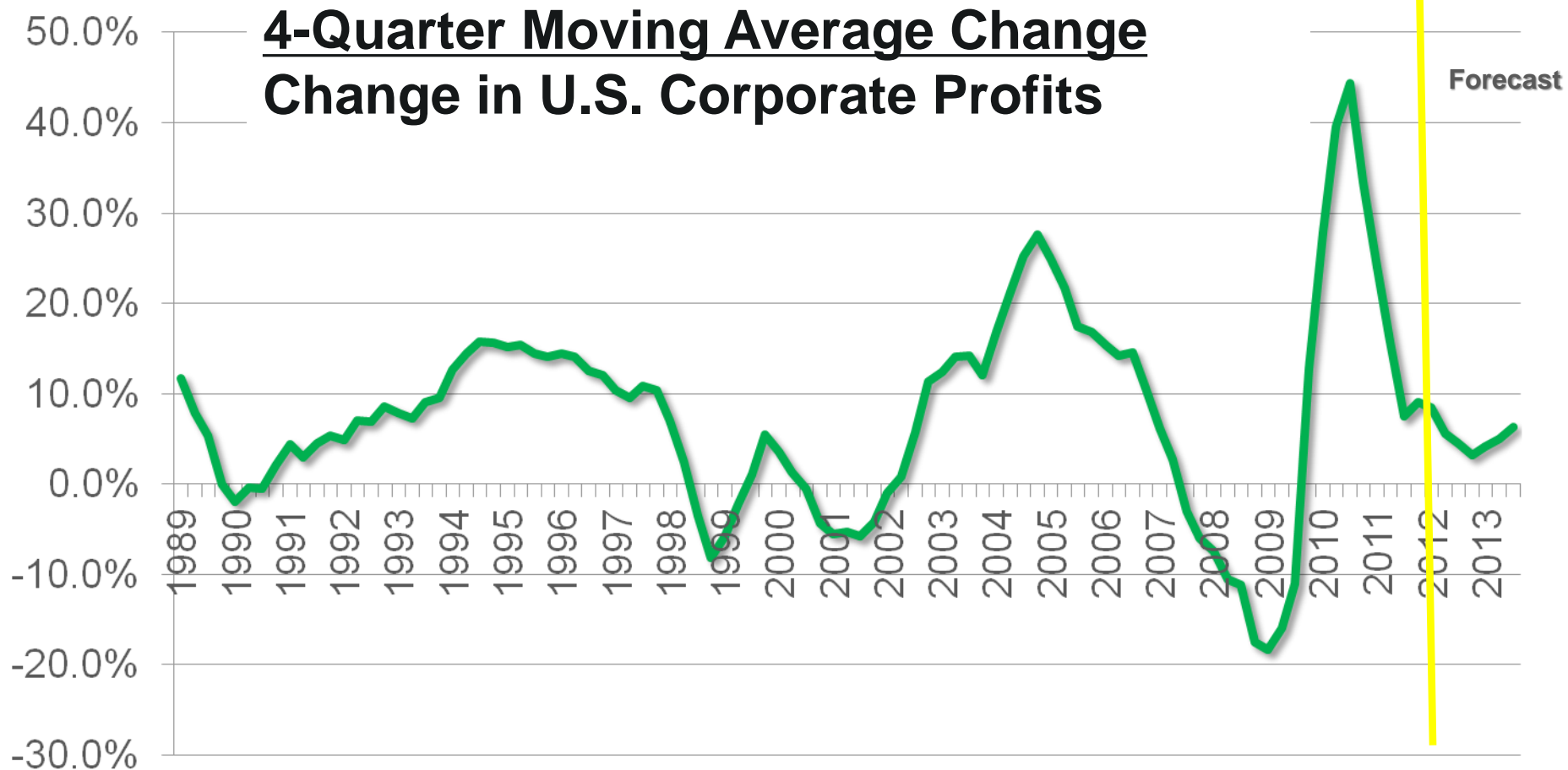
**Why?**

## **Main drivers of the demand recovery 2010 - 2011:**

- Corporate profit growth
- Real personal income growth
- Low room rates

# Rate of Corporate Profit Growth

## Not as Robust in 2012



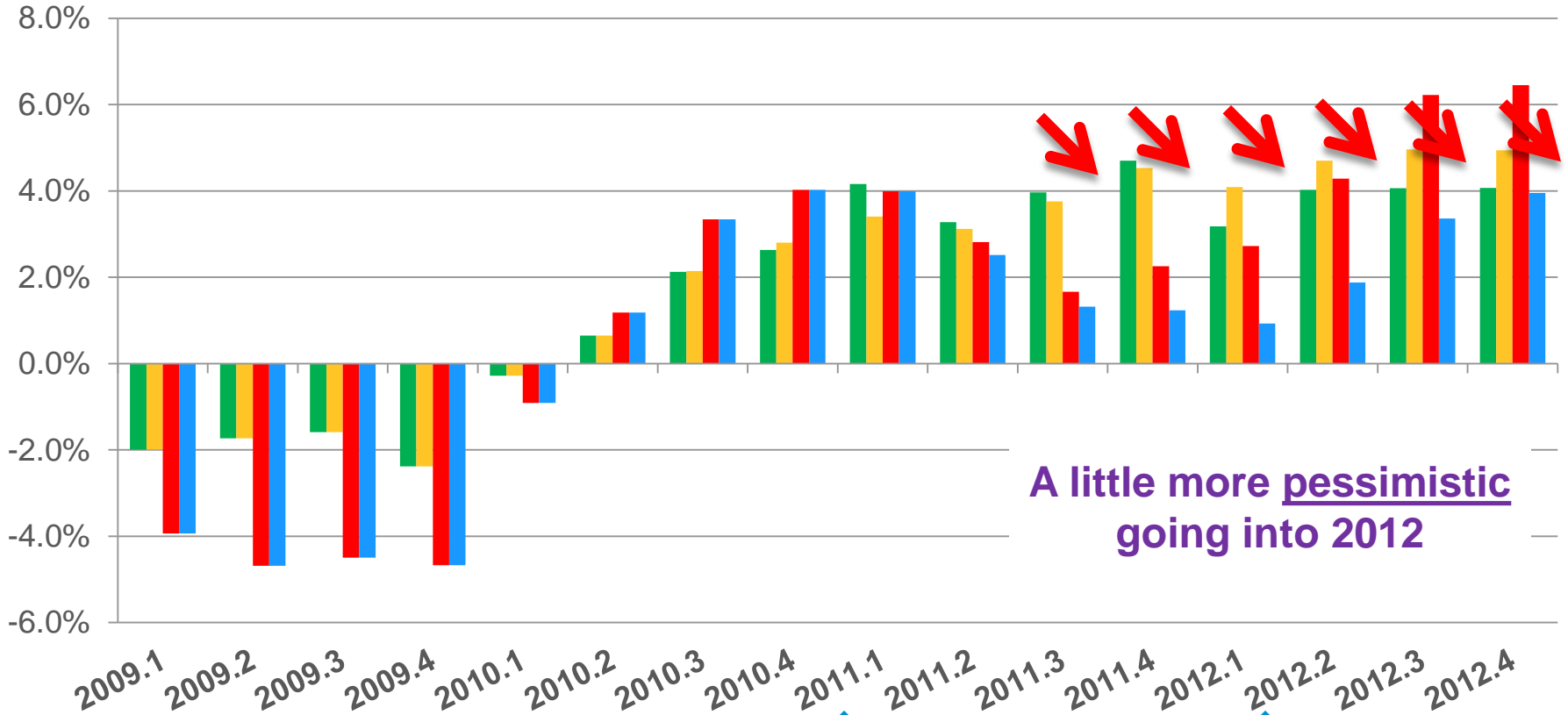
Source: Moody's Analytics

# Change in Total Real Personal Income

**April  
2011**

Date of Forecast:

■ Jan-11      ■ Apr-11      ■ Oct-11      ■ Jan-12



**A little more pessimistic  
going into 2012**

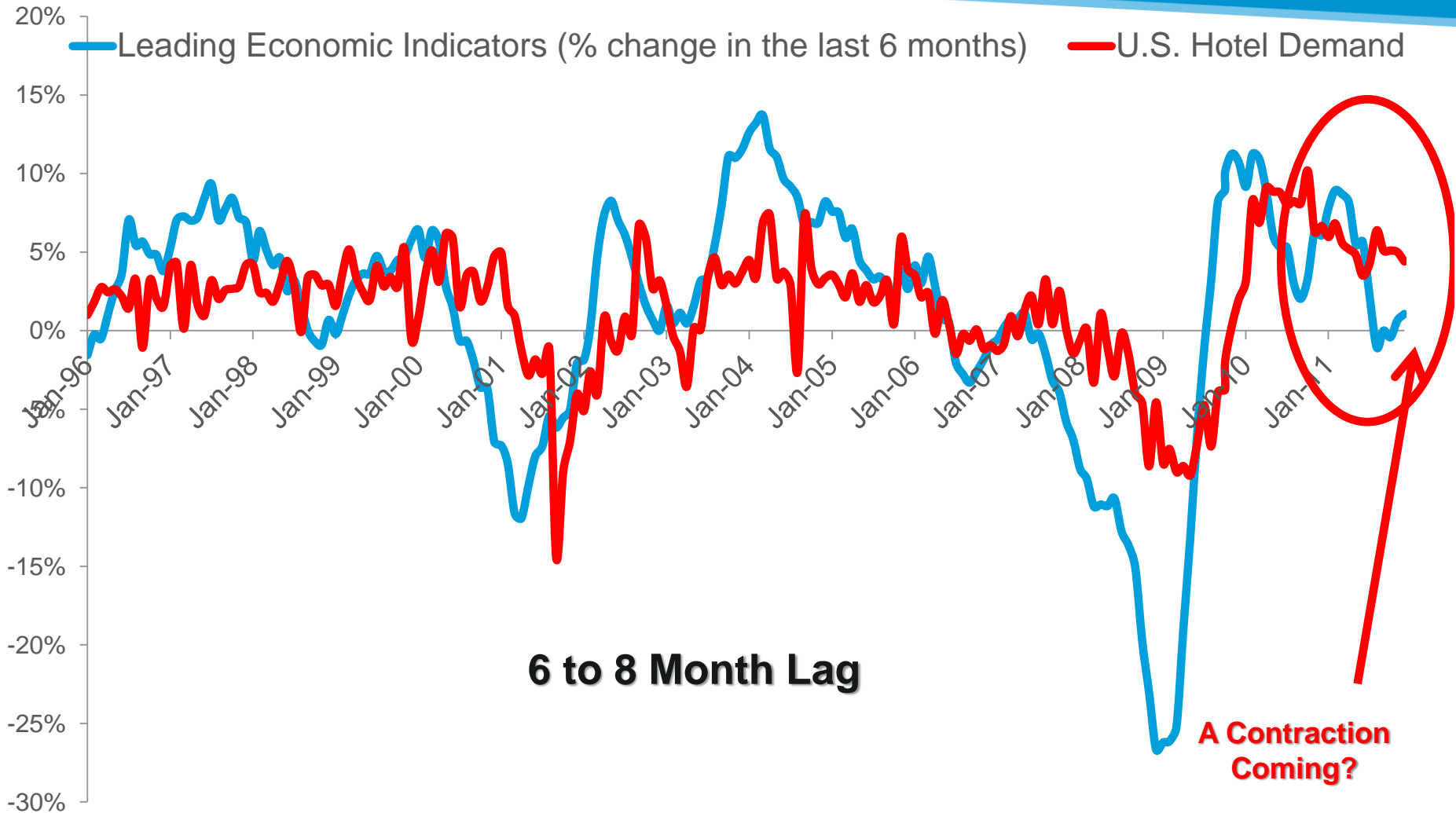
Source: Moody's Analytics

↑  
**April  
2011**

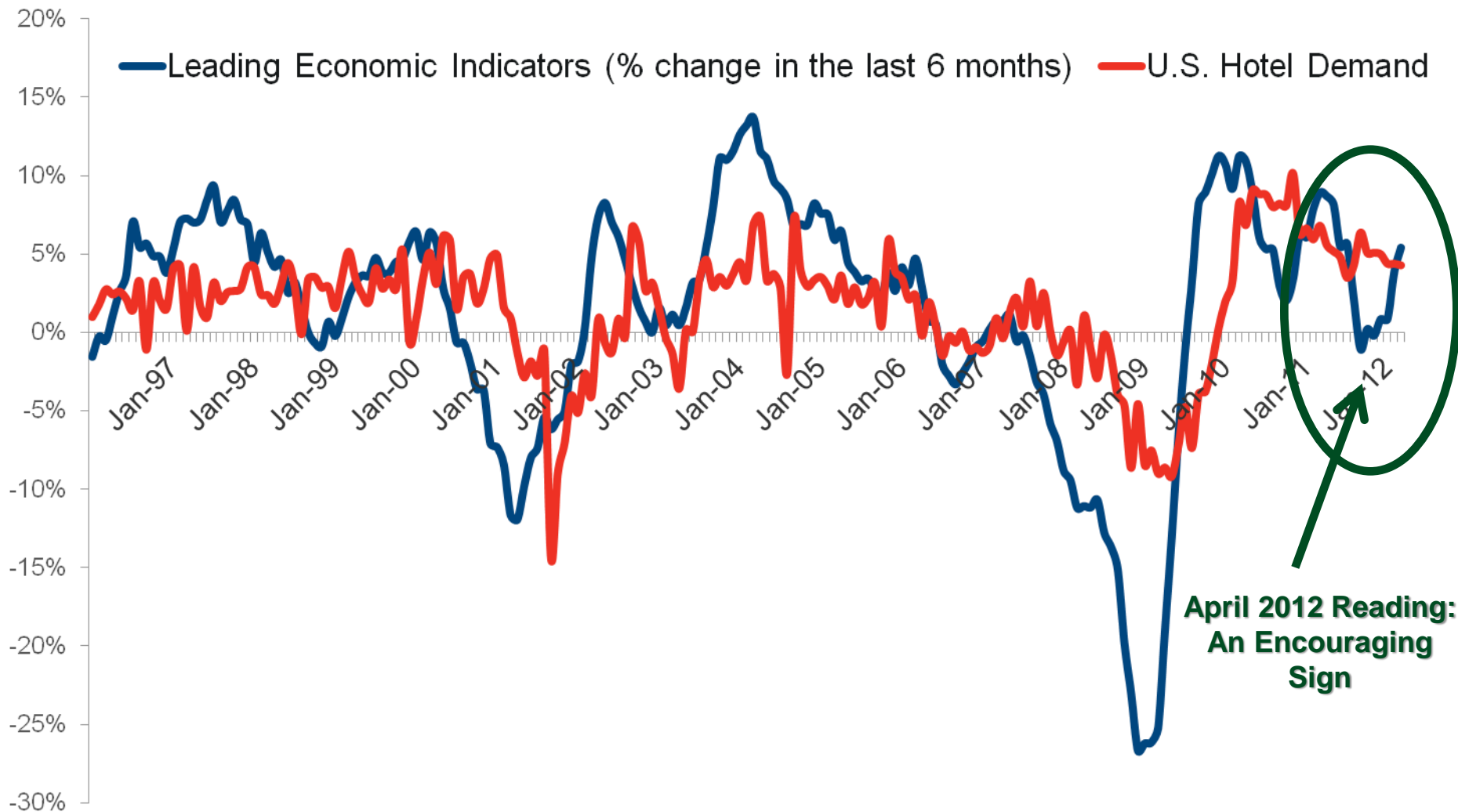
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**Today**

# Leading Economic Indicators

## % change in last 6 months – February 2012



# Leading Economic Indicators % change in last 6 months – April 2012



## Some Headwinds

### Cost of Federal Fiscal Policies Set to Expire in 2013 Under Current Law

Fiscal Policy	2013 Current Law	2013 MA Assumption
	\$ bil	\$ bil
Emergency Unemployment Insurance	-35	-35
Payroll Tax Holiday	-110	-110
Bonus Depreciation	-64	-32
Affordable Care Act (Obamacare)	-46	-46
Bush Era Tax Cut (Top Bracket)	-83	-83
Bush Era Tax Cut (Other Brackets)	-198	0
Automatic Spending Cuts (Sequestration)	-90	-45
<b>Total</b>	<b>-626</b>	<b>-351</b>

Sources: CBO, OMB, Moody's Analytics

# But Fundamentals are Improving

## Number of Top U.S. Markets with Increasing:

**H O T E L**  
**HORIZONS®**

		Average Daily <u>Rates</u>	<u>Occupancy</u>	
Outliers	2008	47	4	Outliers
	2009	0	0	
	2010	9	49	
	2011	48	49	
	2012F	50	44	
	2013F	50	48	
	2014F	50	49	
	2015F	50	48	

**Rates and Occupancies are Going Up !**



# Expected Case Scenario

- Unemployment is expected to remain above 8% through 2012 even with the addition of 2 million jobs.
- Extend payroll tax holiday and emergency unemployment insurance through the rest of 2012 (done).
- Housing prices continue to fall through Q2 2012 as foreclosures and short sales increase.
- Mild European Recession.
- Business Investment increases 8.9%.

2012 Expected Case Economic Forecast			
Income	Employment	CPI	GDP
2.5%	1.1%	2.1%	2.6%

# Expected Case Scenario

<b>Measure</b>	<b>2011</b>	<b>2012</b>
Supply	0.6%	0.6%
Demand	5.0%	2.2%
Occupancy	60.1%	61.0%
Average Daily Rate	3.7%	4.1%
RevPAR	8.2%	5.8%

# 2012 RevPAR Forecast By Chain-Scale

<b>Chain-Scale</b>	<b>2012 RevPAR Change</b>
<b>Luxury</b> (Ritz-Carlton, Four Seasons, InterContinental,..)	6.0%
<b>Upper-Upscale</b> (Marriott, Hilton, Hyatt, ..)	6.5%
<b>Upscale</b> (Courtyard, Crowne Plaza, Hyatt Place,...)	7.4%
<b>Upper-Midscale</b> (Hampton, Holiday Inn, Comfort..)	4.8%
<b>Midscale</b> (Best Western, LaQuinta, Quality ...)	3.2%
<b>Economy</b> (Days Inn, Red Roof, Motel 6 ...)	4.6%

Source: PKF Hospitality Research, March-May 2012 *Hotel Horizons*® report.

# A Look at Productivity

# A Look at Productivity



**Cornell Hospitality Quarterly**  
Hospitality Leadership Through Learning  
Volume 53 Number 1 February 2012 • [www.chr.cornell.edu](http://www.chr.cornell.edu)

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<b>Industry Analysis</b>	6	Can 2010 Productivity Gains Be Sustained? R. MARK WOODWORTH AND ROBERT MANDELBAUM
<b>Human Resources Management</b>	10	Motivational Effects of Empowerment on Employees' Organizational Commitment: A Mediating Role of Management Trustworthiness

# Drivers of Labor Costs

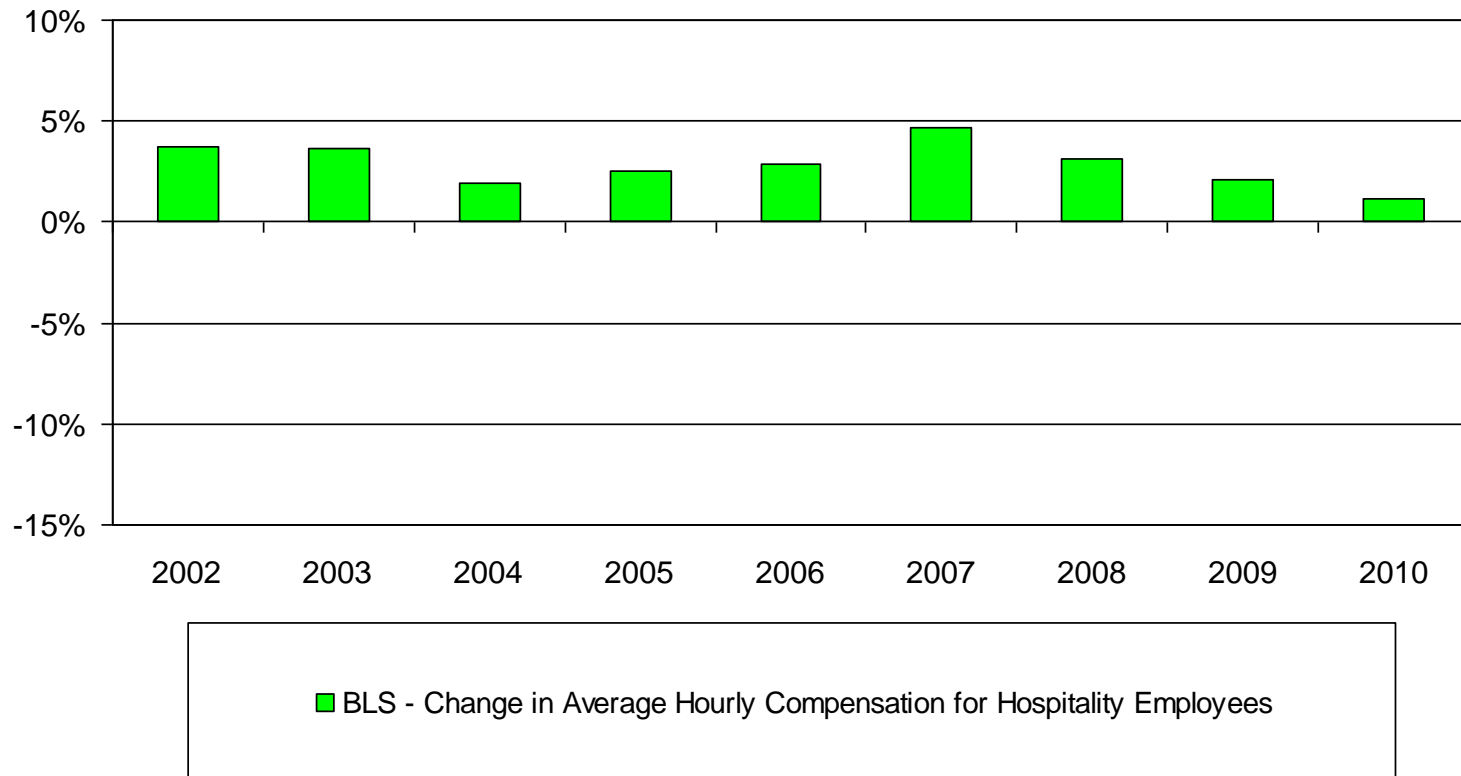
- 1. Business Volume – rooms sold; covers served.**
- 2. Compensation Levels – wages; benefits.**
- 3. Productivity – Output achieved per hour worked.**

- 1. Year-Over-Year Change in Labor Costs (PKF-Hospitality Research)**
- 2. Year-Over-Year Change in Average Hourly Compensation Levels (BLS)**
- 3. Year-Over-Year Change in Total Hours Worked (1 - 2)**

- **According to the BLS, the average weekly hours worked per employee has remained generally stable.**
- **Therefore:**
  - Δ **total labor costs -**
  - Δ **average hourly \$ levels =**
- **Δ Total hours worked**

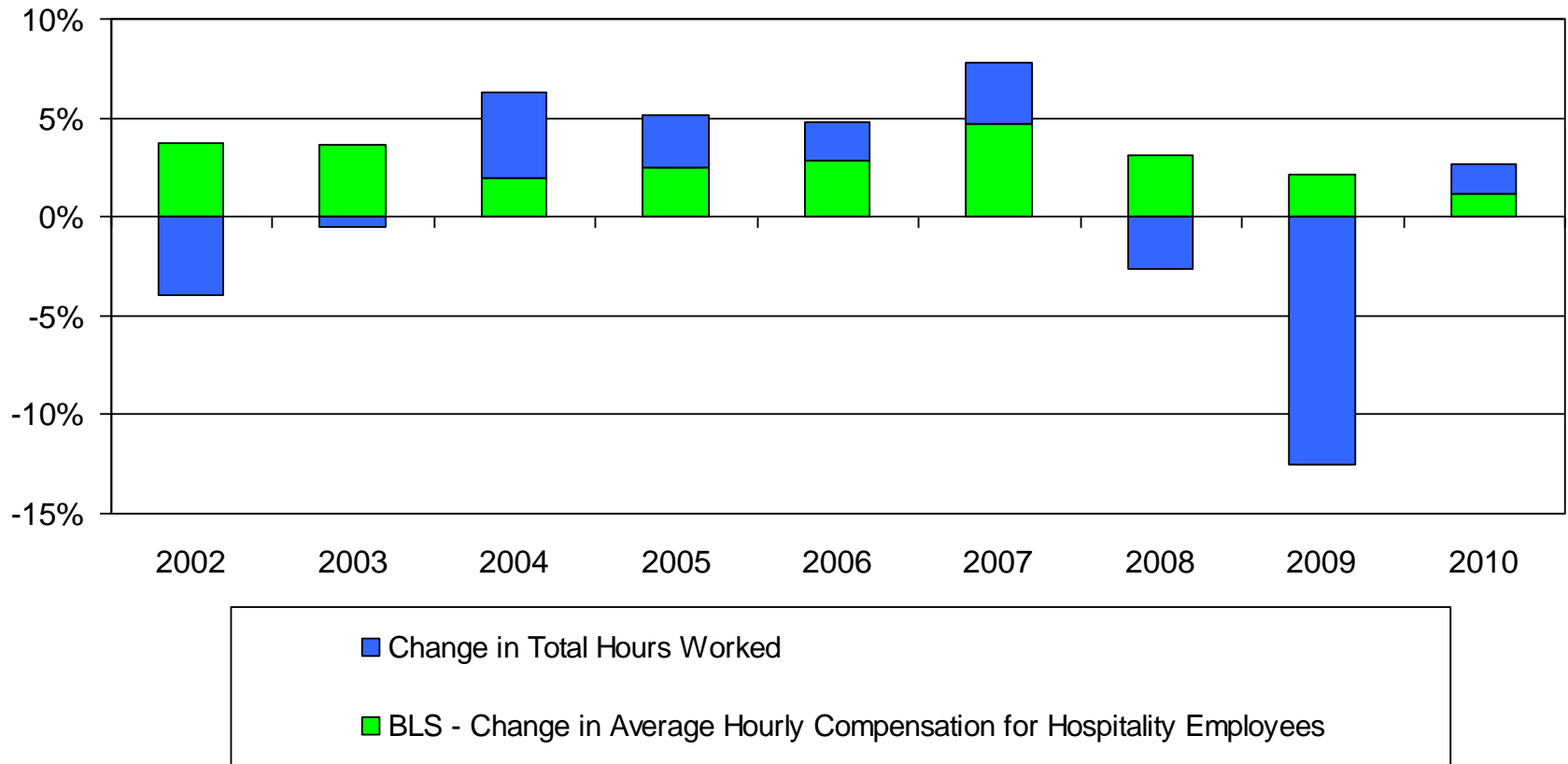


# Change in Average Hourly Compensation



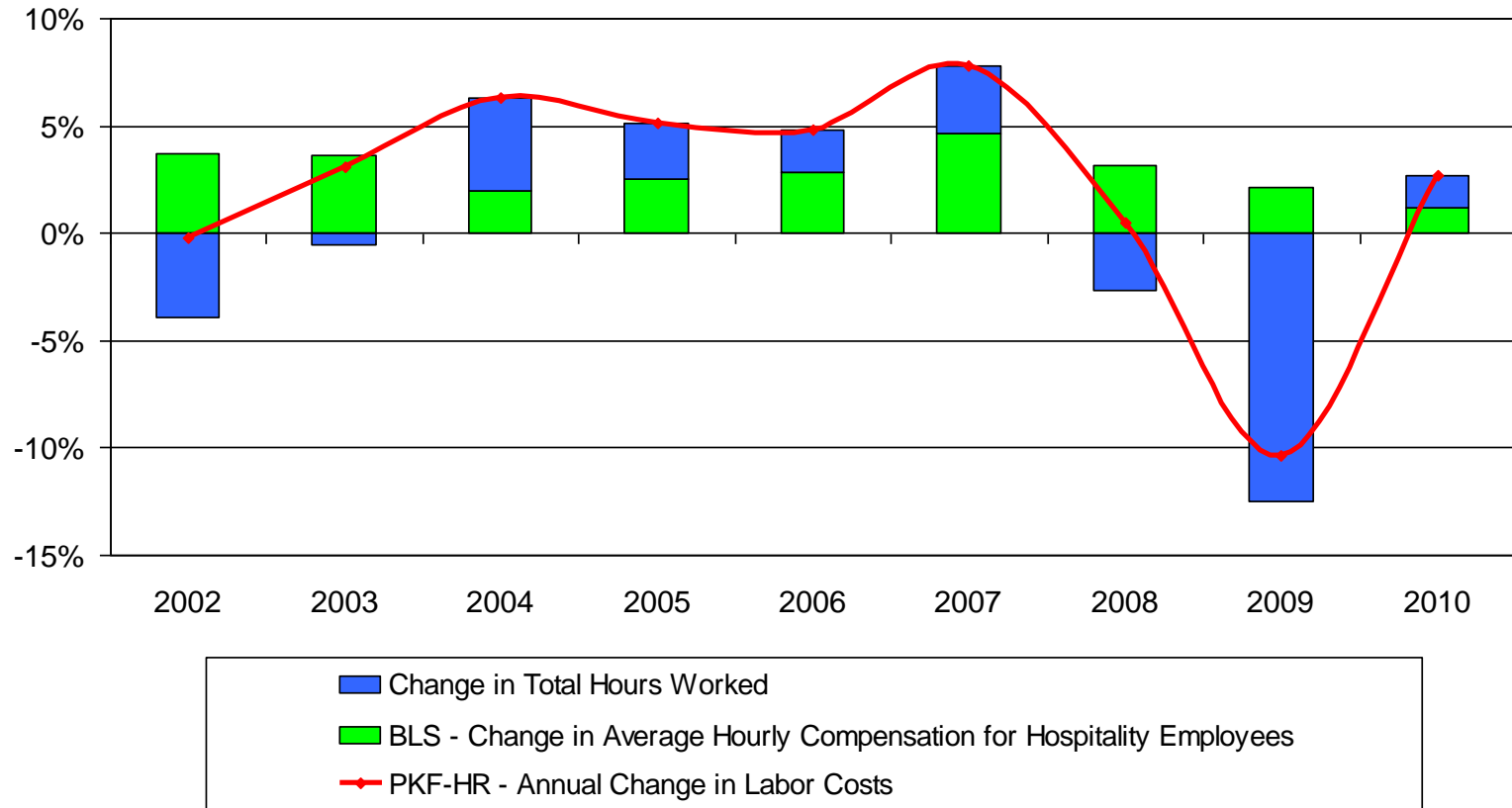
Source: PKF Hospitality Research, Bureau of Labor Statistics

# Compensation and Hours Worked



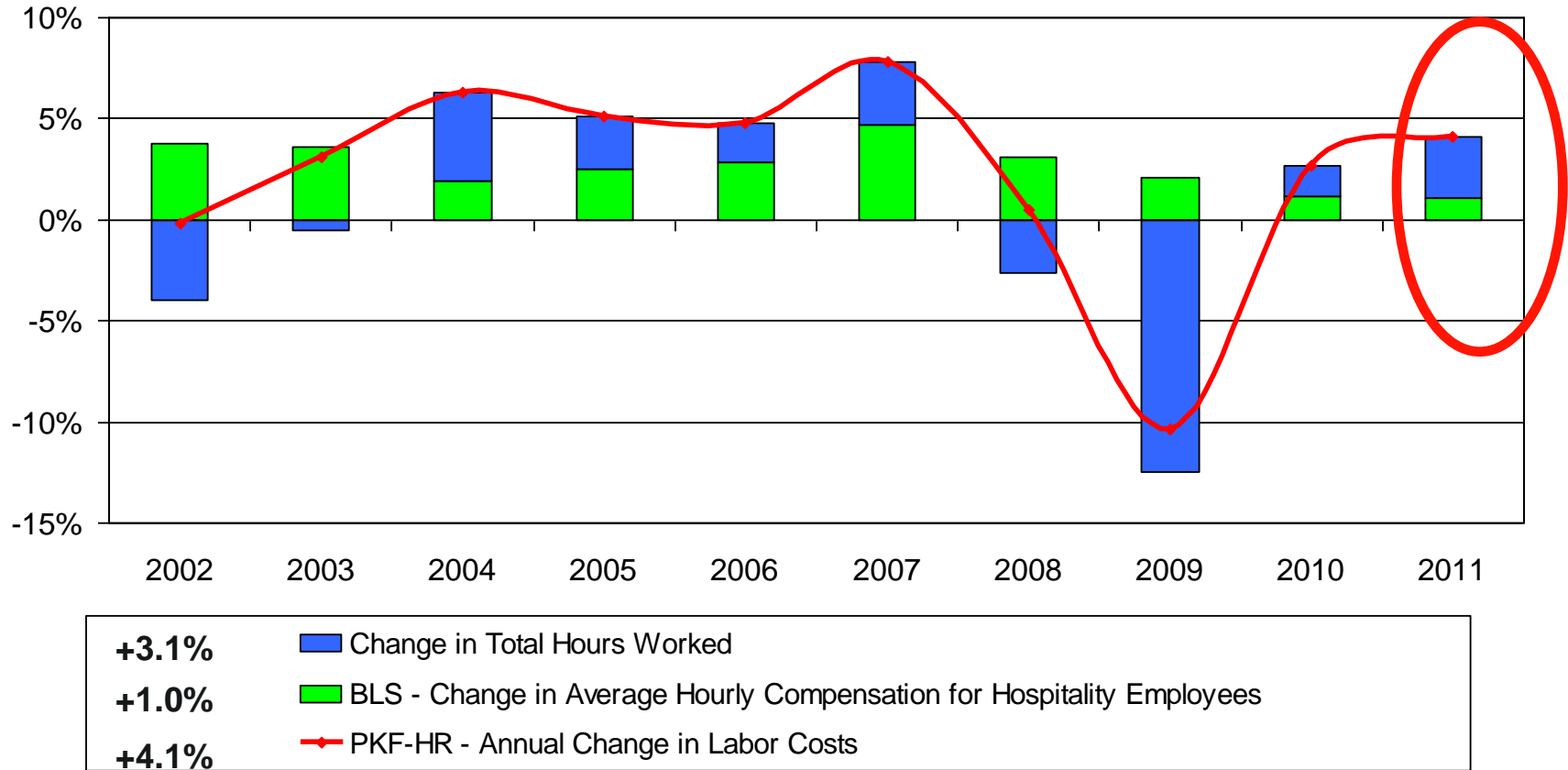
Source: PKF Hospitality Research, Bureau of Labor Statistics

# Annual Change in Labor Costs



Source: PKF Hospitality Research, Bureau of Labor Statistics

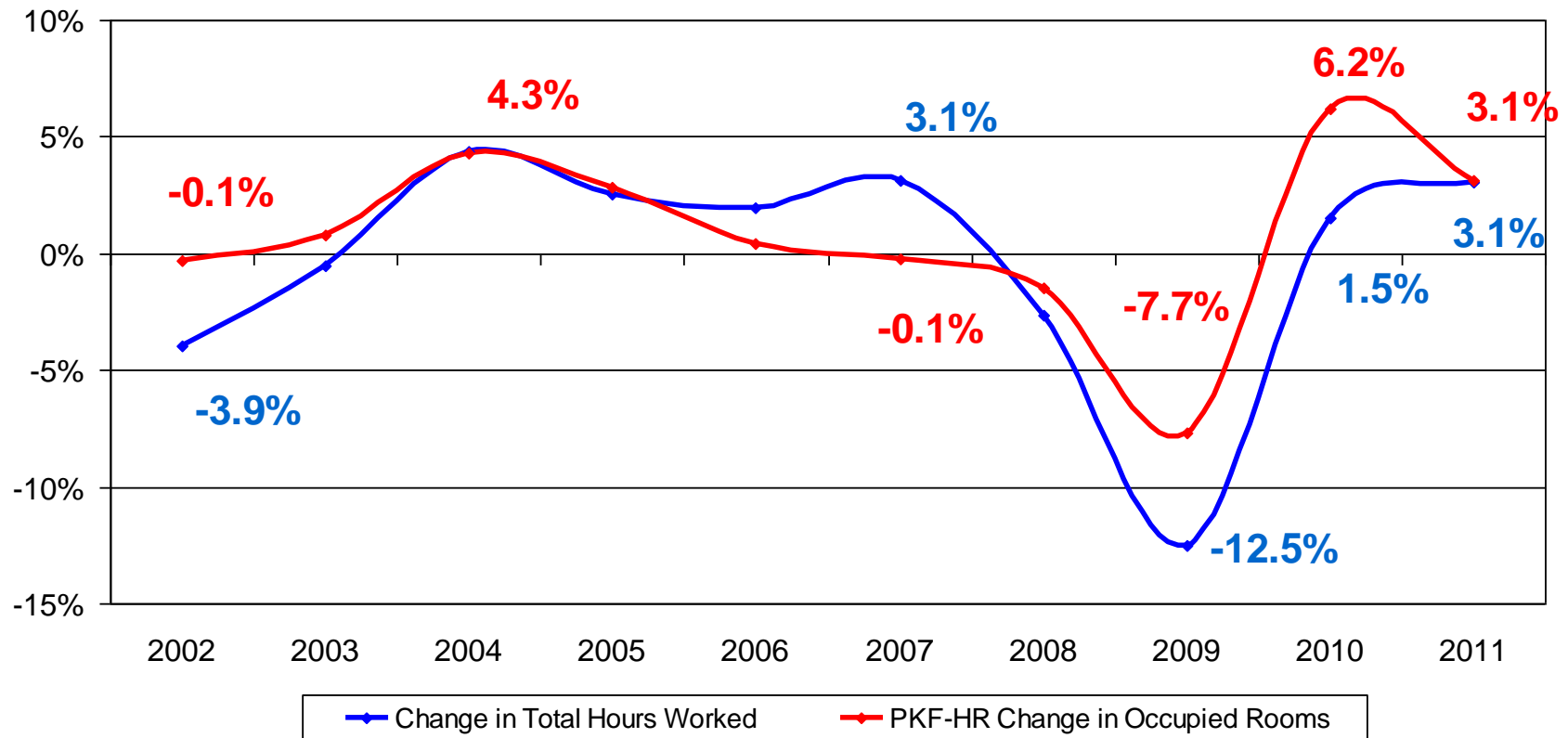
# What Happened in 2011?



Source: PKF Hospitality Research, Bureau of Labor Statistics

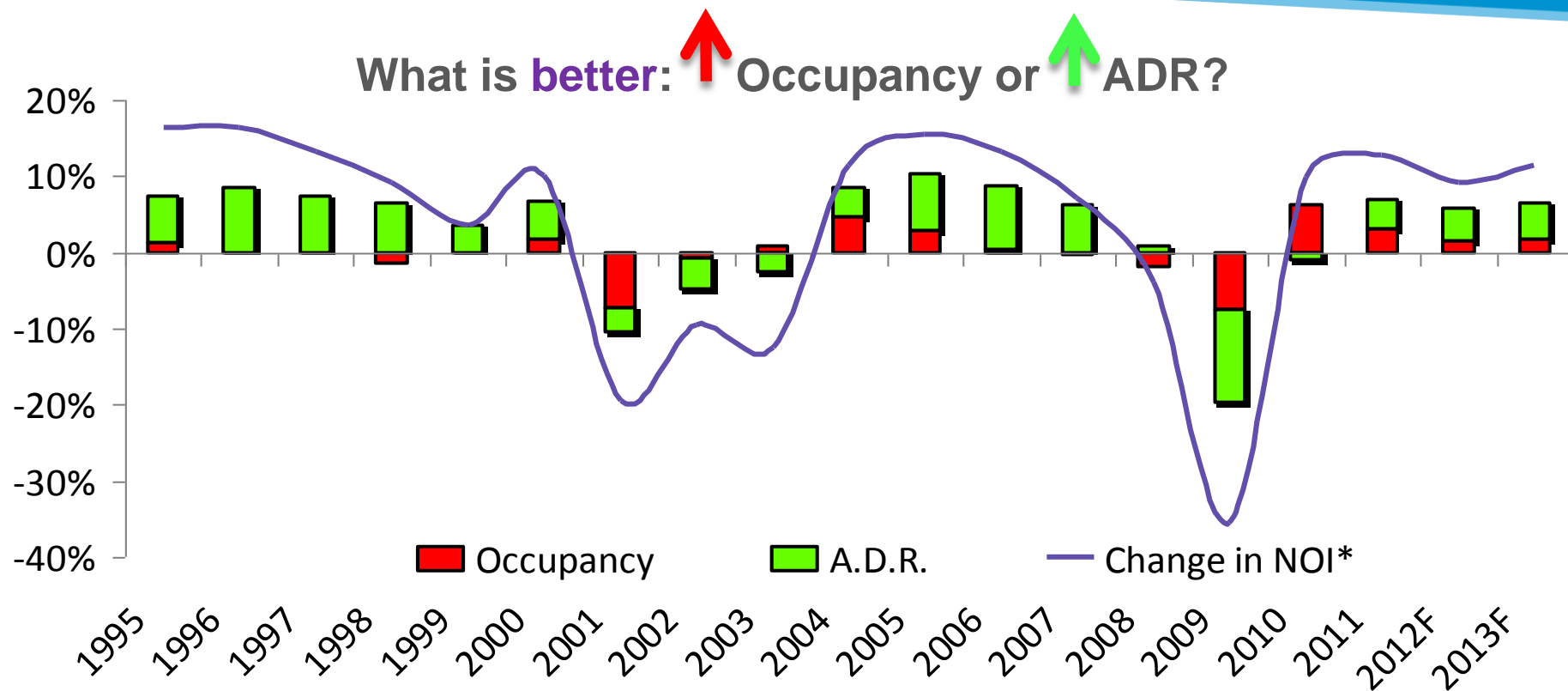
# Change in Total Hours Worked v. Change in Occupied Rooms

## Productivity Was Flat in 2011



# Profit Outlook

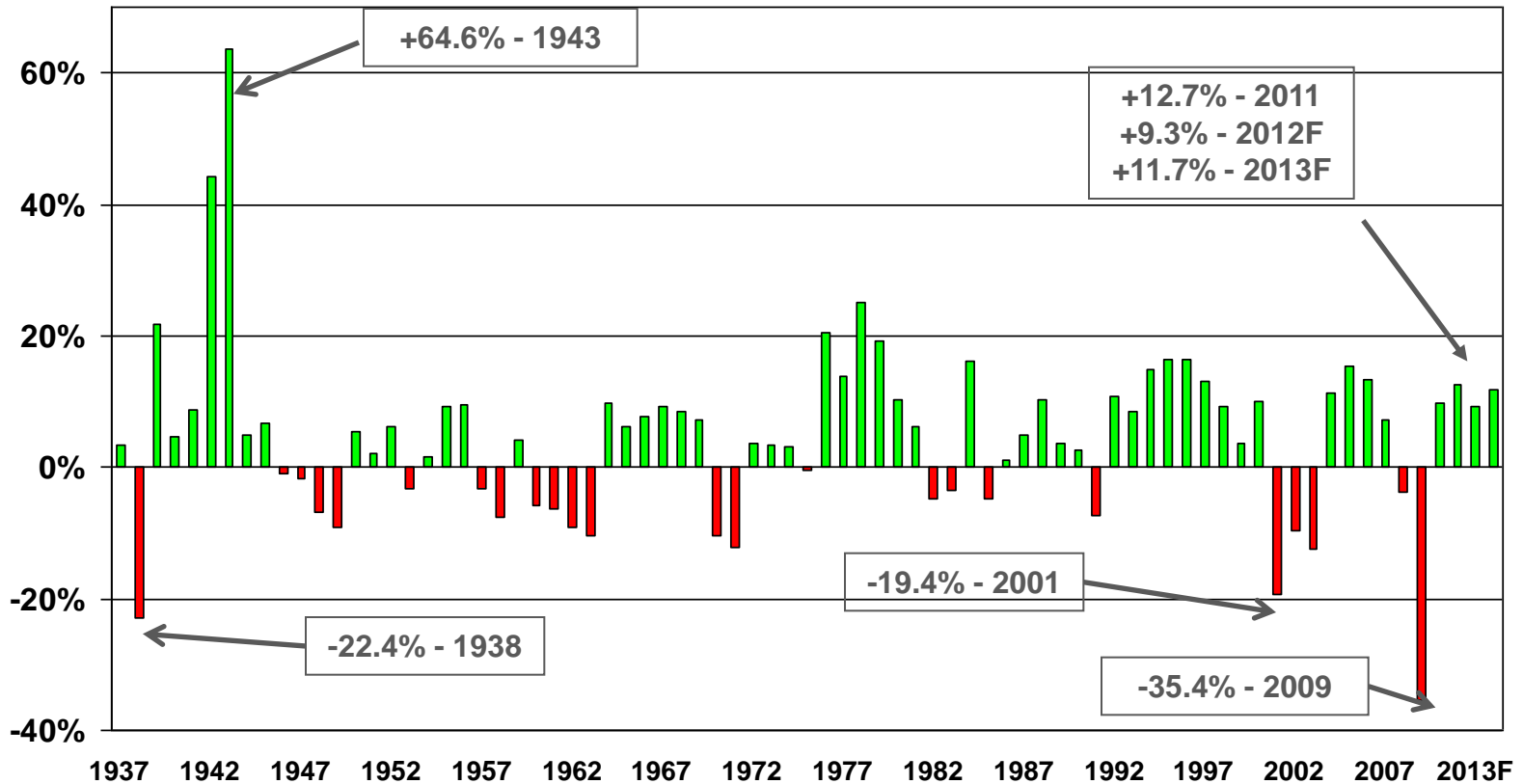
# RevPAR Components and NOI\* Change



Source: PKF Hospitality Research's Annual Trends® Database

Note: \* Before capital reserve, debt service, rent, income taxes, depreciation, amortization.

# Annual Change – All U.S. Hotels Unit-Level NOI\*

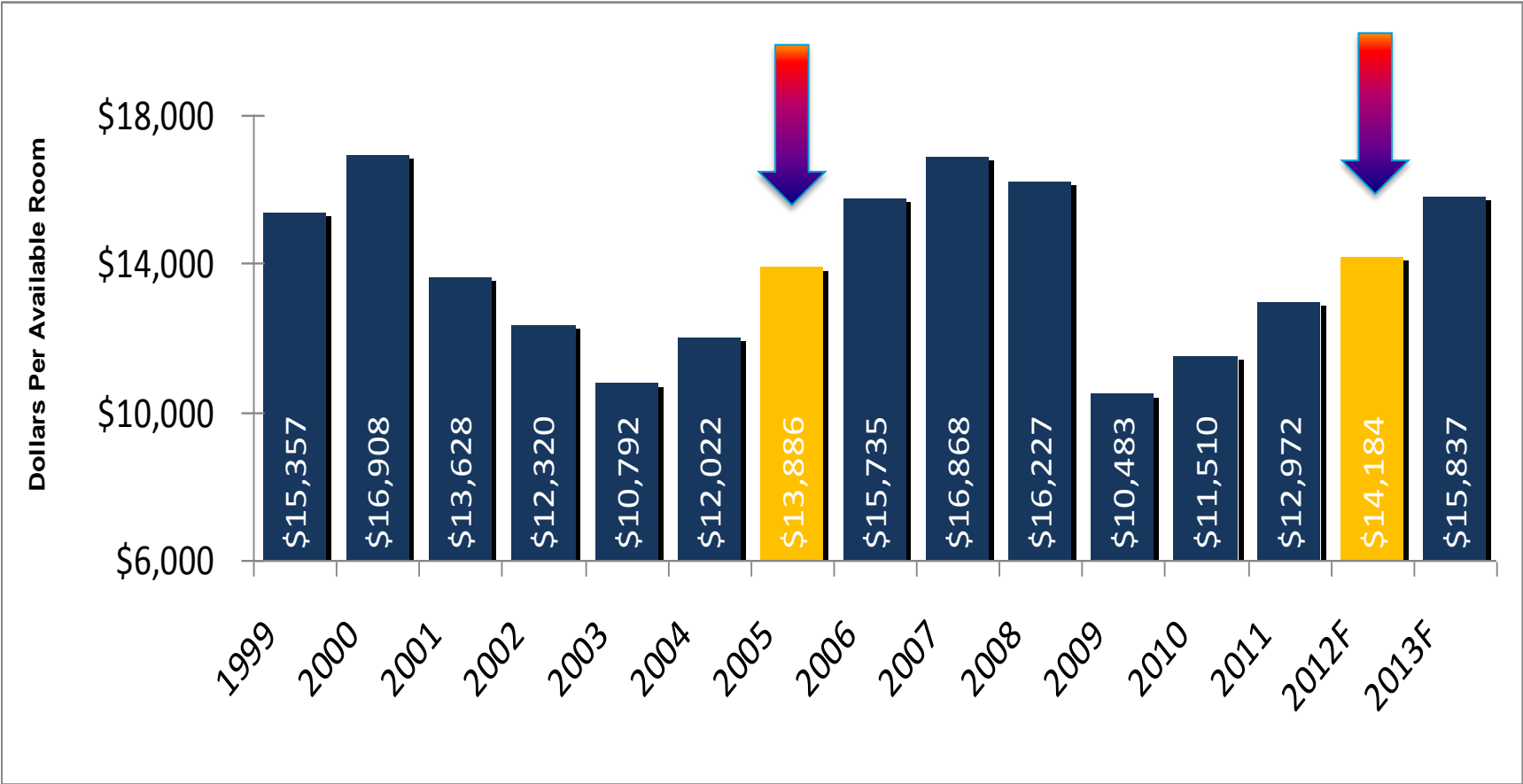


Note: \* Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research, *Trends® in the Hotel Industry* sample.



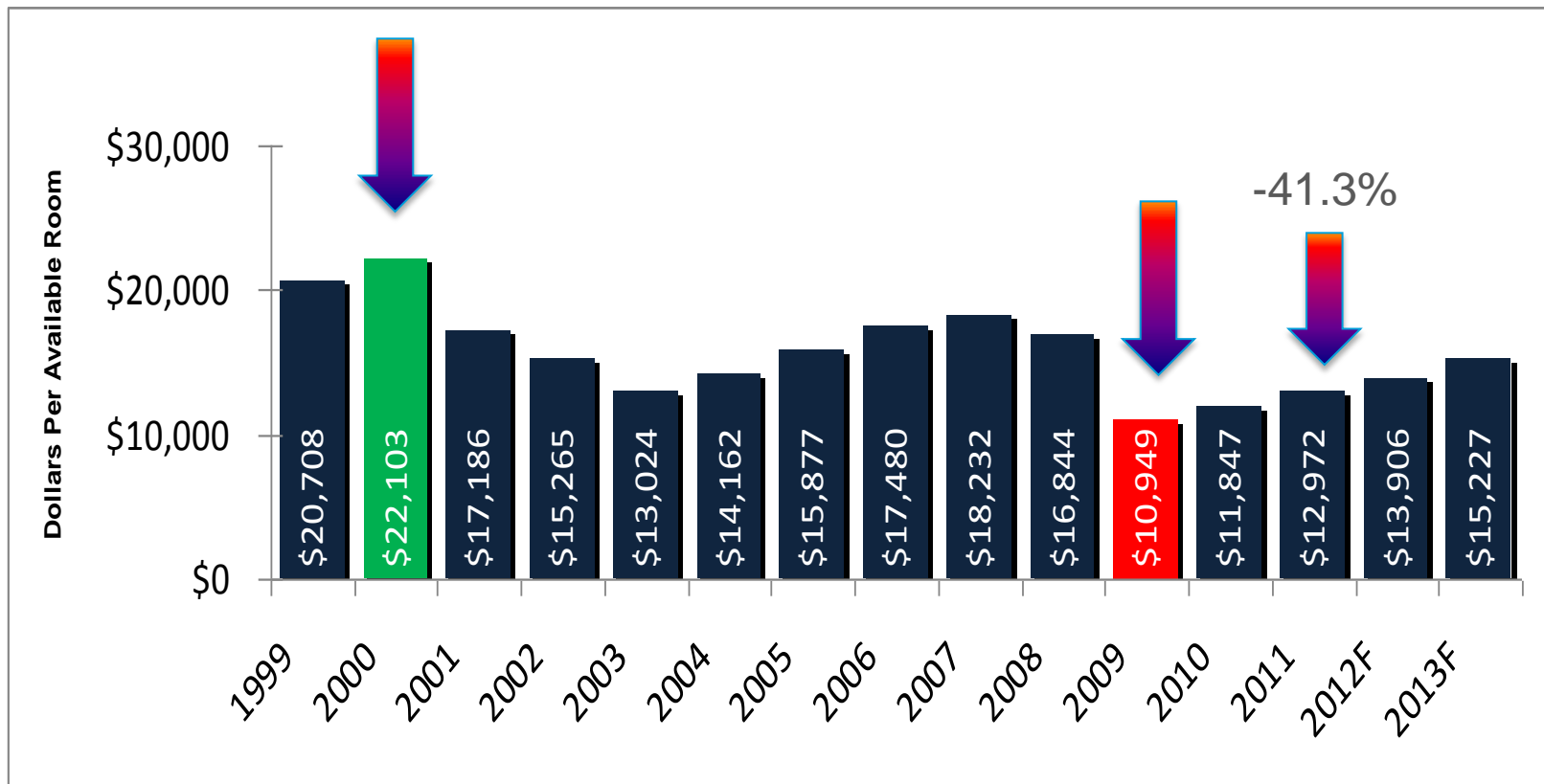
# Nominal Dollar Operating Profits\* Surpass 2005 Dollars in 2012



Source: PKF Hospitality Research's Annual Trends Database

Note: \* Before capital reserve, debt service, rent, income taxes, depreciation, amortization.

# Peak to Trough Decline in Operating Profits\* 50% Decline in Real Terms



Source: PKF Hospitality Research's Annual Trends Database

Note: \* Before capital reserve, debt service, rent, income taxes, depreciation, amortization.

# Some Things to Think About

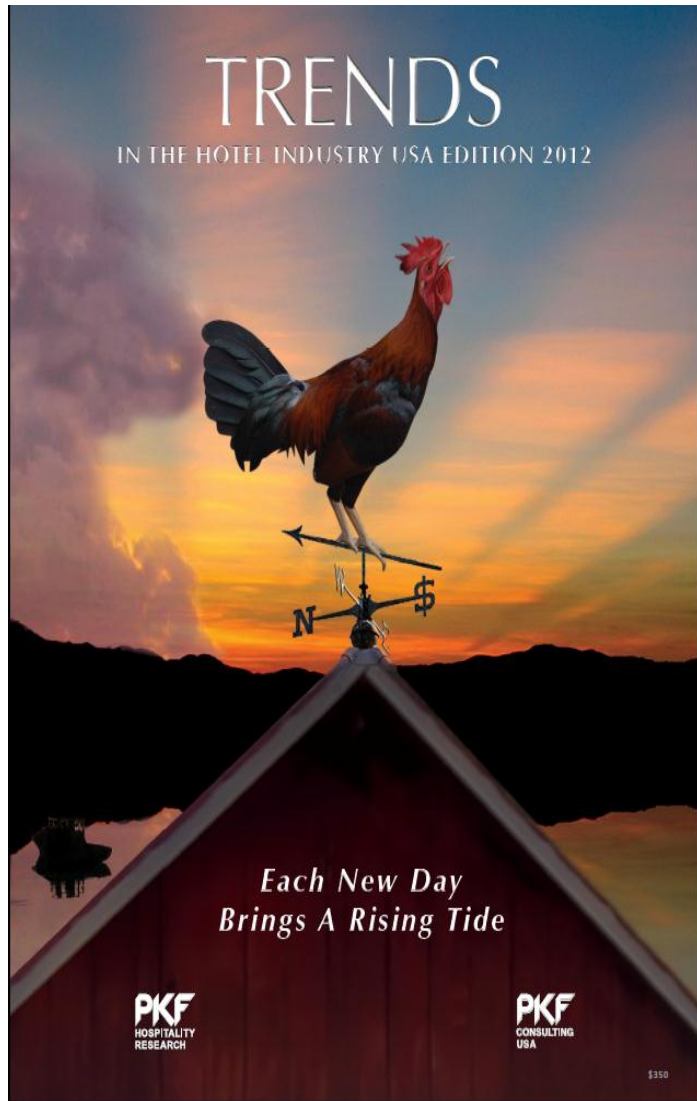
# Summary

- 1. Personal incomes and corporate profit growth will continue, but at less robust levels. Lodging demand growth in 2012, while still positive, will pale relative to the past two years.  
- Higher rooms rates will help to slow demand growth as well.*
- 2. Unemployment will remain high – helps to keep labor costs in check and profit growth up.*

# Summary

3. *Oil is a wild card for 2012 – too big an increase will undermine the economy – lodging demand will suffer as a result.*
  
4. *Overall, the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2012 will be the weakest given the economic slow down currently underway.*

# A Final Thought



***“Each New Day  
Brings a Rising Tide”***

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