

U.S. Lodging Market Outlook

Recovery is Near...
or is That a Cliff Ahead?

18th Annual
The Lodging Conference



October 3, 2012
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Recovery ...or No?

•National Lodging Market

- The National Economy
- National Market Forecast
- Timing of the Recovery

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Hotel Horizons® Forecasting Model

- **Smith Travel Research**
 - Historical rooms occupied, room available, rooms revenue
 - Pipeline of future hotel construction
- **Moody's Analytics**
 - Economic forecasts

Happy Thoughts October 2012

History:

- # of Consecutive Quarters of Increases

Δ Demand – 11 Quarters

Δ Occupancy – 11 Quarters

Δ ADR – 10 Quarters

Δ RevPAR – 10 Quarters



Forecast (Base Case Scenario):

- # of Consecutive Quarters above (below) Long Run Average

Δ Demand (1.9%) – 10* Quarters *(starting Q4 2013)

Δ (Supply) (2.1%) – 14 Quarters

Δ ADR (2.9%) – 18 Quarters

Δ RevPAR (2.7%) – 16 Quarters

How Accurate Have We Been?

Lodging Conference 2011?

United States

	<u>2011</u>		<u>2012</u>	
	September <u>2011</u>	<u>Actual</u>	September <u>2011</u>	Most Recent <u>Update</u>
Occupancy	59.8%	60.0%	61.2%	61.4%
ADR	3.2%	3.7%	4.8%	4.2%
RevPAR	7.2%	8.2%	7.3%	6.7%

Demand and ADR : Great!

**Not Much Change
Considering a Better 2011**

The Economy

Lots of Negative News

Orders for durable goods fell 13.2% in August and inflation-adjusted personal income fell 0.3%.

The administration will have spent more than \$14 trillion in just four years and added \$6 trillion to the national debt.

Since January 2009, the U.S. government has implemented more fiscal stimulus and monetary intervention than ever before, yet real GDP has slowed from 2.4% in 2010 to 2% in 2011, and to only 1.6% in the first half of 2012.

Unemployment has been stuck above 8% for 43 months.
Median household income adjusted for inflation fell 1.5% in 2011.

The confidence of small businesses is below or near the recession lows of 1981, 1991 and 2001.

David Malpass, Wall Street Journal ; September 29, 2012

Lots of Negative News

(continued)

Nearly 25% of Americans ages 25 to 55 are not employed, the highest percentage in 30 years, pointing toward an atrophy in job skills.

Inflation-protected Treasury bonds have a negative yield for the first time in history.

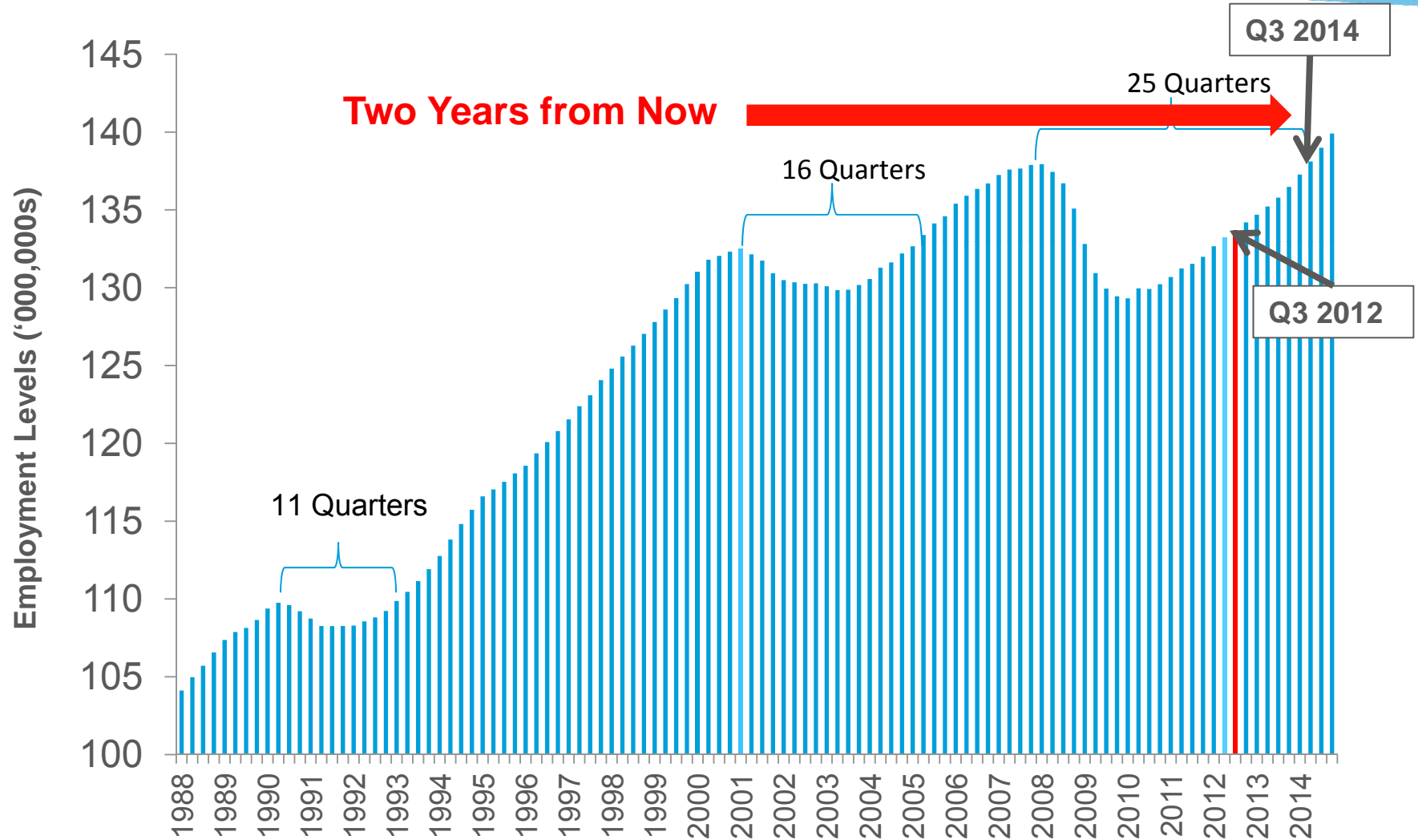
Standard & Poor's downgraded the U.S. government's AAA credit rating in August 2011. Egan-Jones did it two weeks ago, and Moody's said it expects to lower its rating unless Washington adopts new policies.

The national debt is expected to rise to \$16.4 trillion by year's end, from \$10 trillion in 2008, and our public debt-to-GDP ratio to 73% from 41%. . . The capital-gains tax rate is scheduled to rise to 23.8% from 15%, hammering the after-tax value of assets.

David Malpass, Wall Street Journal ; September 29, 2012.

U.S. Employment:

A Slow Return to Previous Peak



Source: Moody's Analytics

There is a Disconnect:

Employment is **Weak**

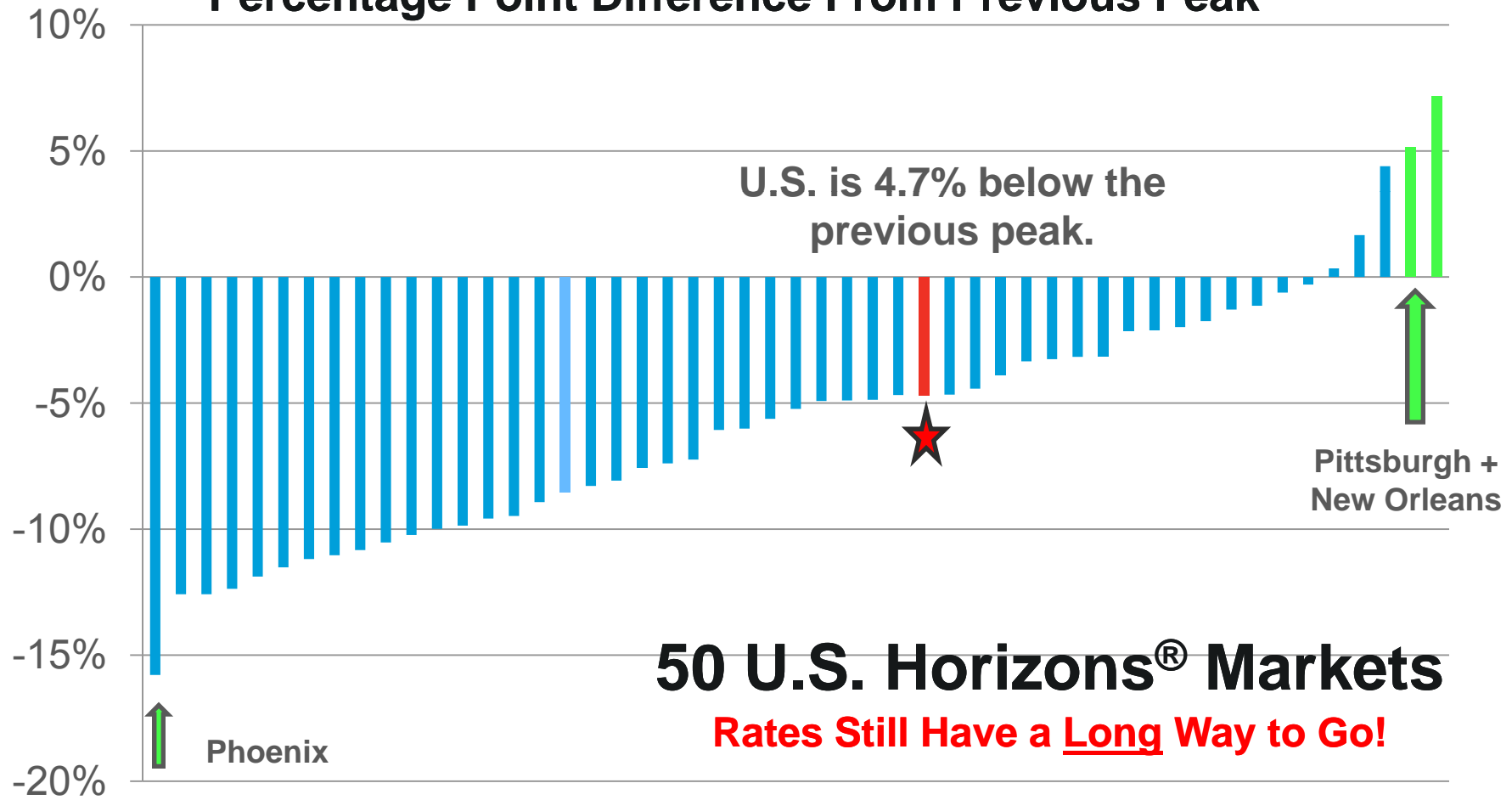
Lodging Demand is **Strong**

Why?

Hotel Rooms Are Cheap

4 Quarter Moving Average ADR

Percentage Point Difference From Previous Peak



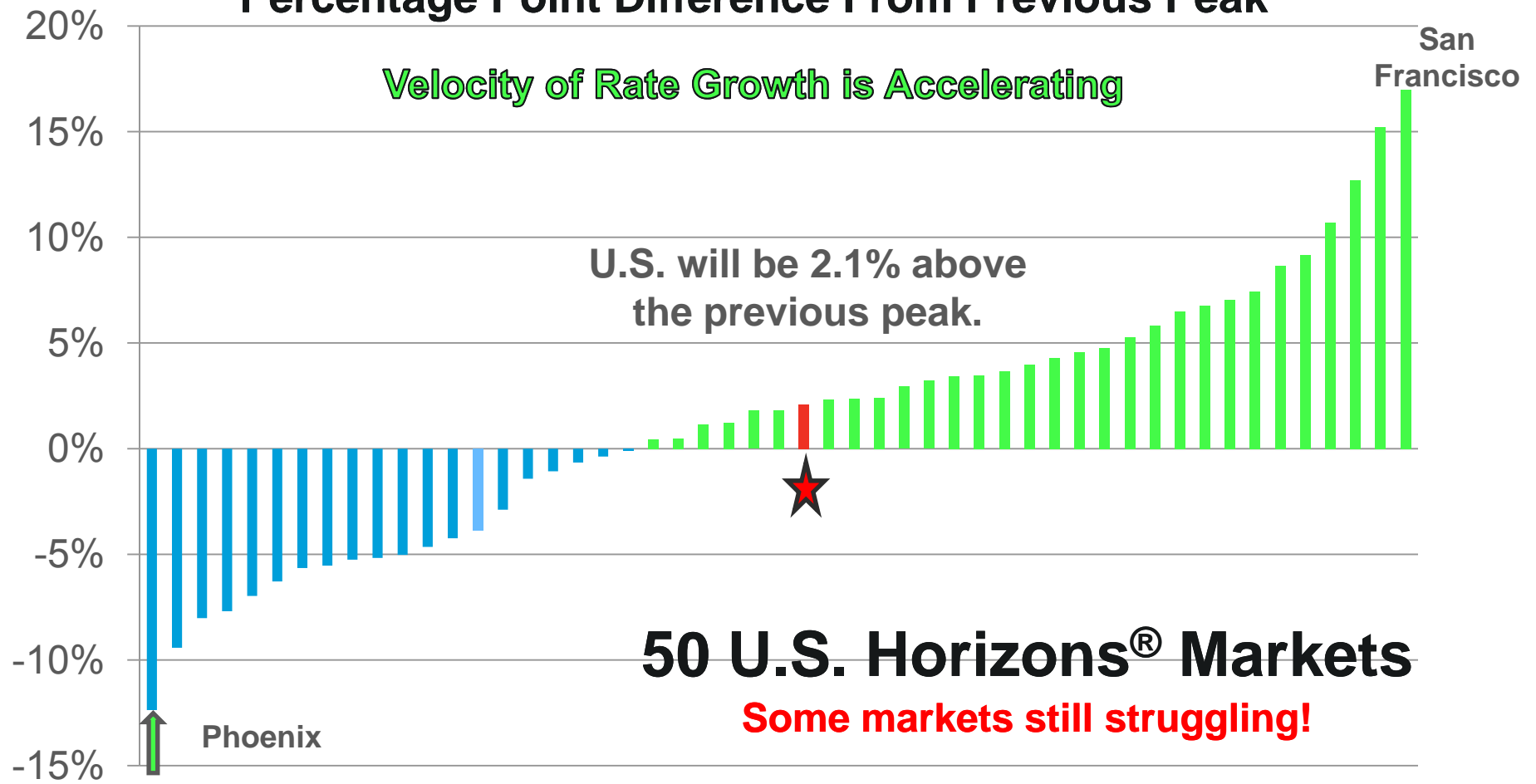
50 U.S. Horizons® Markets

Rates Still Have a Long Way to Go!

Nominal Recovery for Many in 2013

4 Quarter Moving Average ADR

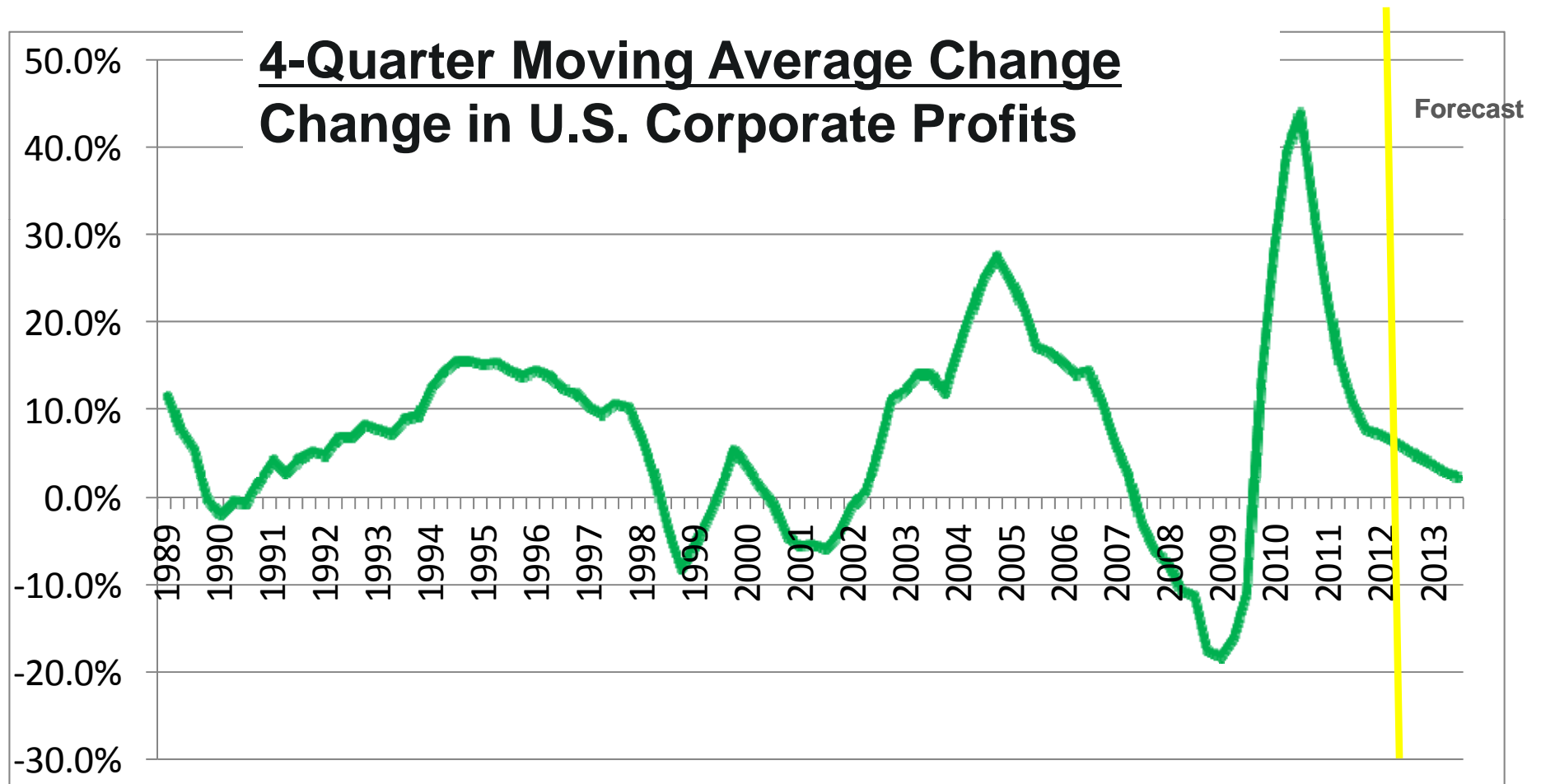
Percentage Point Difference From Previous Peak



Source: PKF Hospitality Research, LLC, September – November 2012 *Hotel Horizons®*

Rate of Corporate Profit Growth

Not as Robust in 2012



Source: Moody's Analytics

Personal Income Levels Are Up

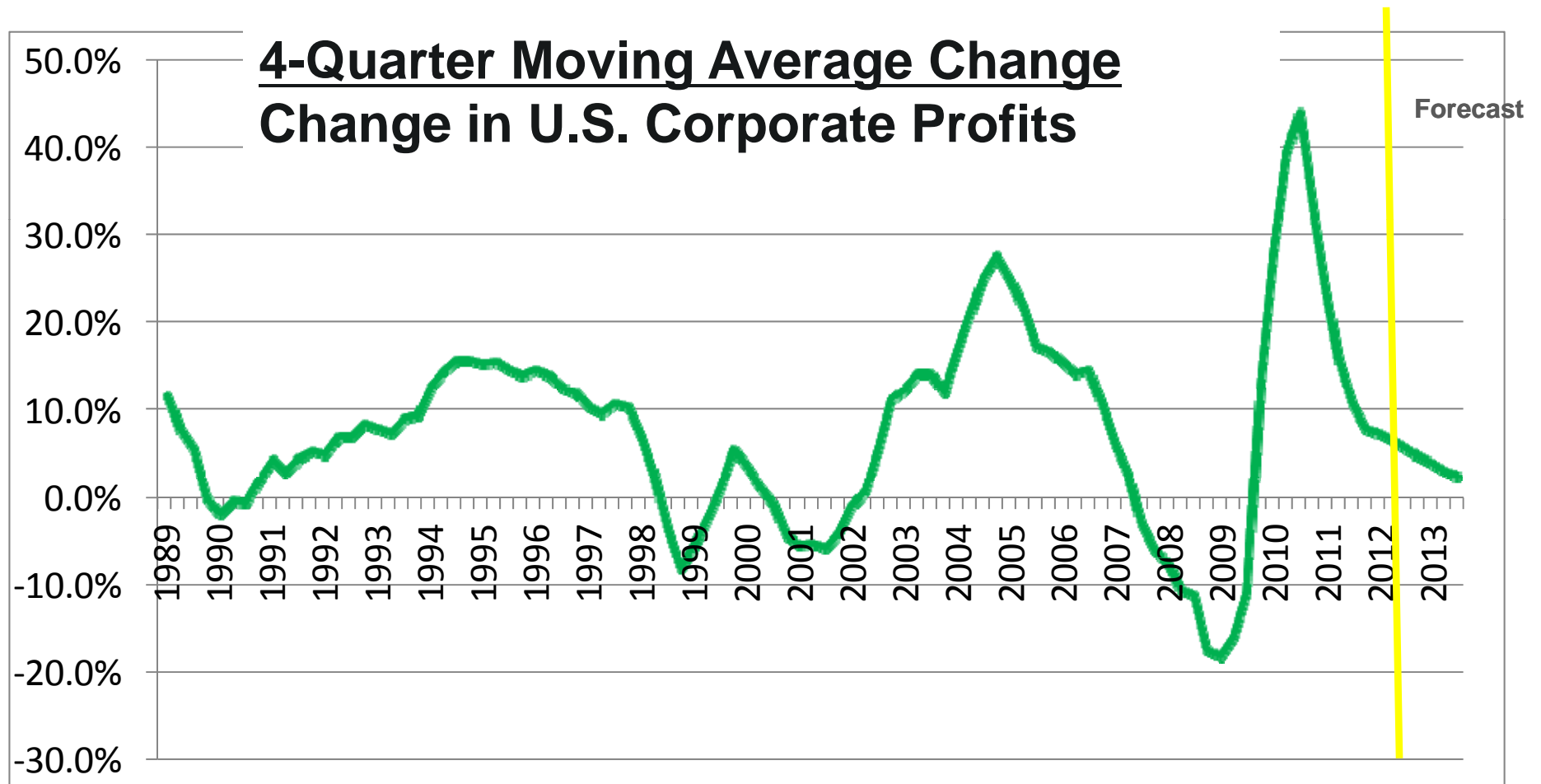
Consumers, Businesses have the \$'s to Travel

Number of Markets with Total Real Personal Income Levels > Previous Peak	
2011	13
2012	37
2013	43

Source: Moody's Analytics

Rate of Corporate Profit Growth

Not as Robust in 2012



Source: Moody's Analytics

GDP Component Forecast

Contributions to percentage change in gross domestic product



These matter the most.

- (GOVERNMENT) Government consumption expenditures and gross investment
- TRADE (Net exports of goods and services)
- BUSINESS (Gross private domestic investment)
- CONSUMERS (Personal consumption expenditures)



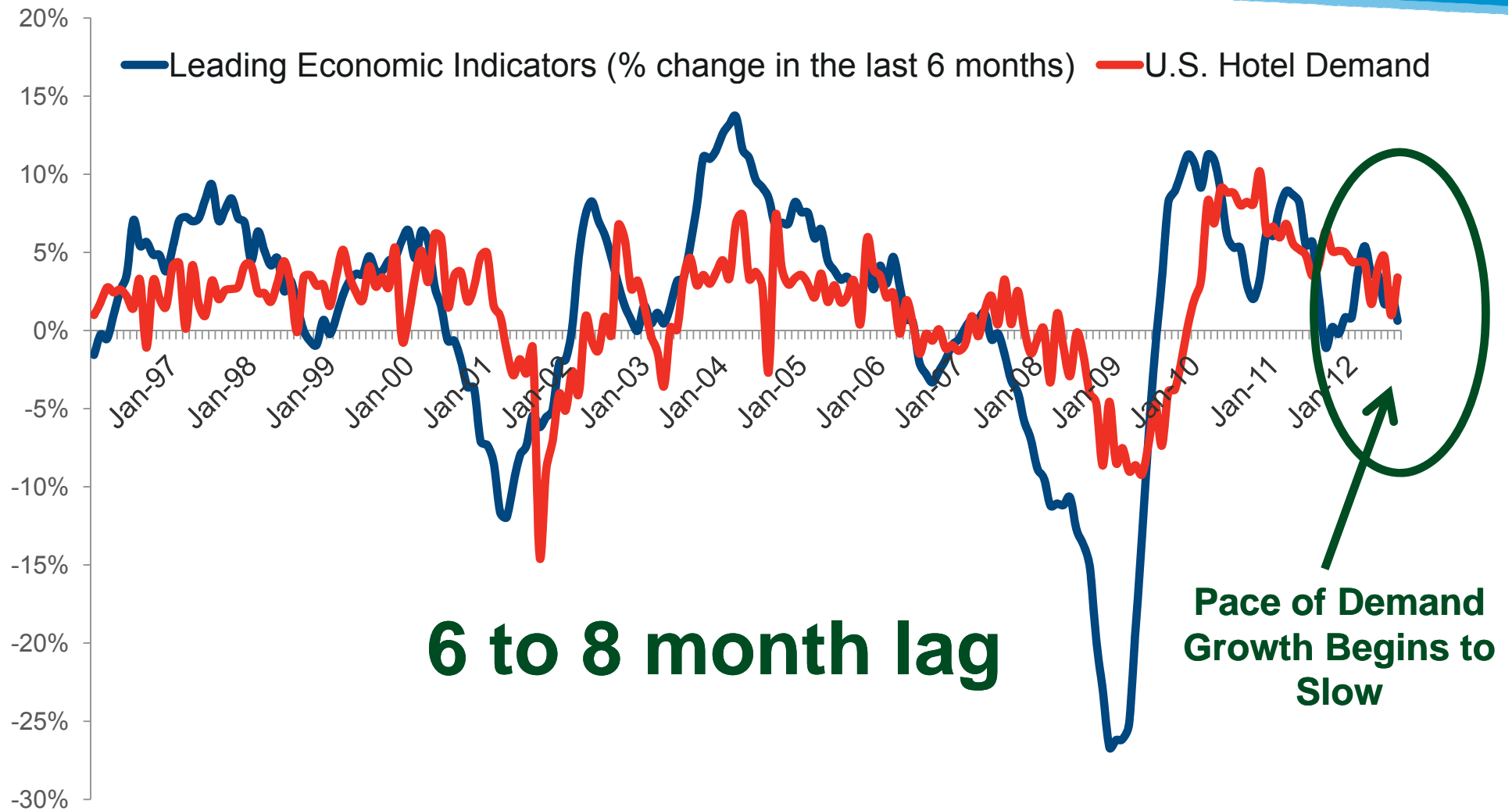
Leading Economic Indicator Index

The Conference Board

Components of the Conference Board's Leading Economic Indicator Index:





- Average weekly hours, manufacturing
- Average weekly initial claims for unemployment insurance
- Manufacturers' new orders, consumer goods and materials
- ISM new orders index
- Manufacturers' new orders, nondefense capital goods excl. aircraft
- Building permits, new private housing units
- Stock prices, 500 common stocks
- Leading Credit Index™
- Interest rate spread, 10-year Treasury bonds less federal funds
- Avg. consumer expectations for business conditions

Leading Economic Indicators % change in last 6 months –September 2012



Source: The Conference Board, PKF-HR, STR

Current Economic Assumptions U.S.

	Payroll Employment	Real Personal Income	Real GDP	CPI (Inflation)
2009	-4.4%	-4.4%	-3.5%	-0.3%
2010	-0.7%	1.9%	3.0%	1.6%
2011	1.2%	2.5%	1.7%	3.1%
2012F	1.4% 	2.0% 	2.3% 	2.1% 
2013F	1.5%	2.7%	2.4%	2.3%
L.R.A.	<u>1.2%</u>	<u>2.7%</u>	<u>2.6%</u>	<u>2.9%</u>

Source: Moody's Analytics, September 2012

National Lodging Forecast

National Forecast – 2012/2013

	Long Term Average	2007	2008	2009	2010	2011	2012F	2013F
Supply	2.1%	1.2%	2.4%	2.9%	1.7%	0.6%	0.4%	0.8%
Demand	1.9%	0.7%	-2.5%	-6.2%	7.3%	5.0%	2.8%	1.7%
Occupancy	61.9%	62.8%	59.8%	54.5%	57.5%	60.1%	61.4%	62.0%
ADR	2.9%	6.6%	3.0%	-8.7%	0.0%	3.6%	4.1%	5.2%
RevPAR	2.7%	6.1%	-2.0%	-16.7%	5.4%	8.2%	6.6%	6.1%

Very Limited New
Supply

Passing Through Long
Run Average Level

Source: PKF Hospitality Research, LLC – Hotel Horizons® Preliminary Update October 2012, Smith Travel Research

“Kick the Cliff”:

- Policy makers essentially do nothing.
- Current policy is extended such that there are no changes to taxes and spending in 2013.
- The economy would be better as a result.
- U.S. government debt, however, gets downgraded.
- Fiscal and economic outlook for the longer term is significantly weaker.
- Unemployment rate remains above 6.0%

“Fiscal Cliff”:

- Policy makers decide to stick to current law.
- U.S. goes into another recession in early 2013.
- GDP would be 2.8 percentage points below what it would be if current policies are extended.
- A move to fiscal sustainability has some positive effect, but this would likely be overcome by the weak U.S. economy.
- Unemployment rate moves to 9.2% by year end.

What Could Happen

Alternative Scenarios

	“Kick the Cliff”	“Fiscal Cliff”
	2013	2013
	Percent Change	Percent Change
Supply	0.8%	0.8%
Demand	3.0%	<1.0%>
Occupancy	2.1%	<1.8%>
Average Daily Rate	4.9%	1.9%
RevPAR	7.1%	0.1%

2014 Looking Good Under All Scenarios

	Expected Case	“Kick the Cliff”	“Fiscal Cliff”
	2014	2014	2014
	Percent Change	Percent Change	Percent Change
Supply	1.2%	1.2%	1.0%
Demand	4.0%	3.3%	6.1%
Occupancy	2.7%	2.0%	5.1%
Average Daily Rate	6.8%	6.5%	6.5%
RevPAR	9.5%	8.7%	11.8%

Timing of Recovery

Recovery Defined

**Point in time when
Real Average Daily Rate
returns to previous peak.**

Deeper Occupancy Trough = Protracted Recovery This Time Around

Recession Cycle	1991	2001	Current
Occupancy Low	61.9%	58.5%	54.5%
Occupancy High	65.2%	63.1%	62.3%
Spread	3.3 pts	4.6 pts	7.8 pts
Real ADR Decline (2011's)	-\$7.40	-\$9.90	-\$13.90
Duration (Quarters)	27	24	31

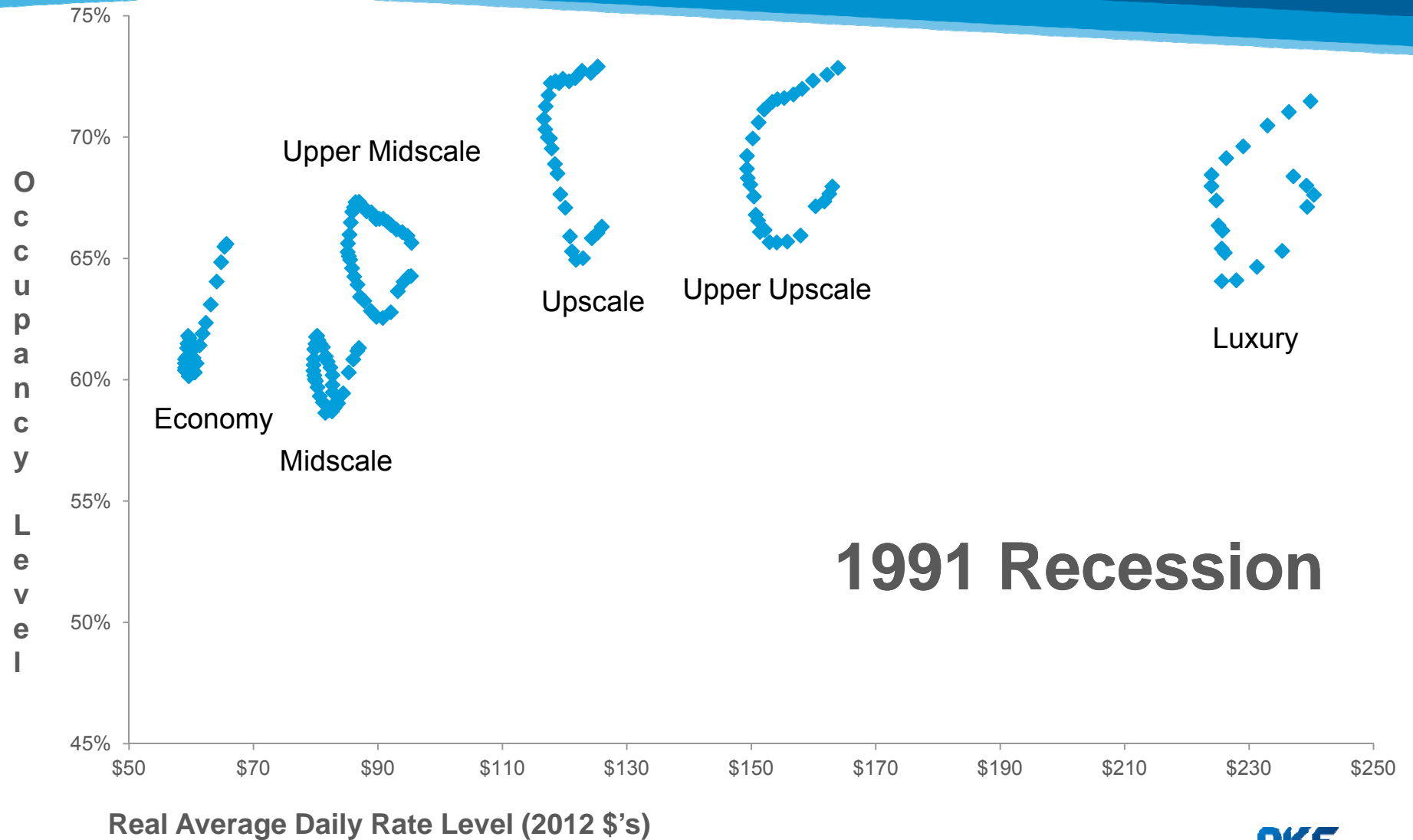
Chain Scale Definitions

<u>Luxury</u>	<u>Upper Upscale</u>	<u>Upscale</u>
Fairmont	Embassy Suites	Courtyard by Marriott
Four Seasons	Hilton	Crowne Plaza
Loews	Hyatt	Hyatt Place
Ritz Carlton	Marriott	Radisson
W Hotels	Westin	Residence Inn

<u>Upper Midscale</u>	<u>Midscale</u>	<u>Economy</u>
Best Western Plus	Best Western	Days Inn
Comfort Inn	Country Inn & Suites	Econo Lodge
Hampton Inn	La Quinta	Extended Stay America
Holiday Inn	Mainstay Suites	Red Roof
TownePlace Suites	Quality Inn	Value Place

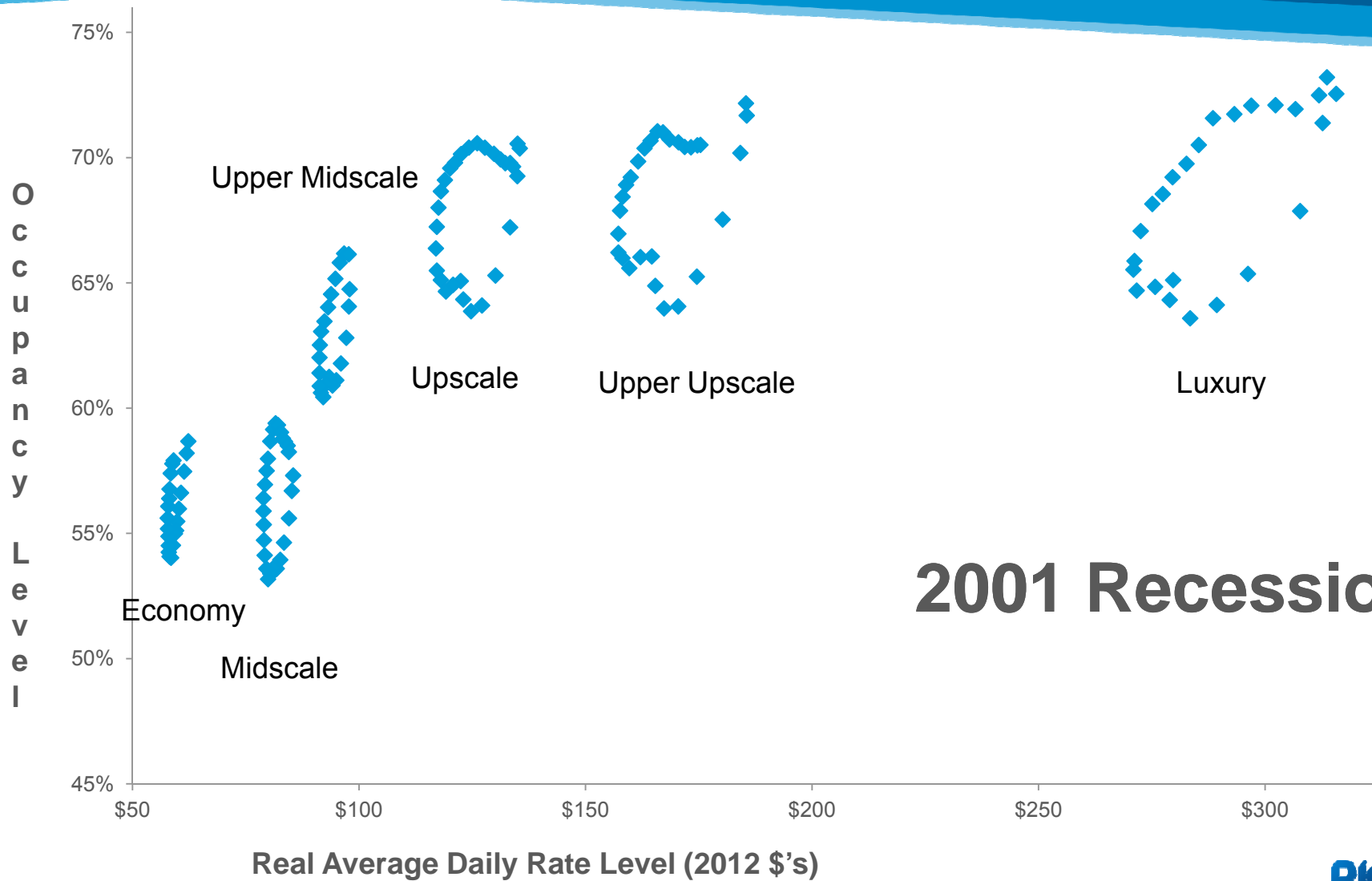
Source: STR

Chain Scale Cycles



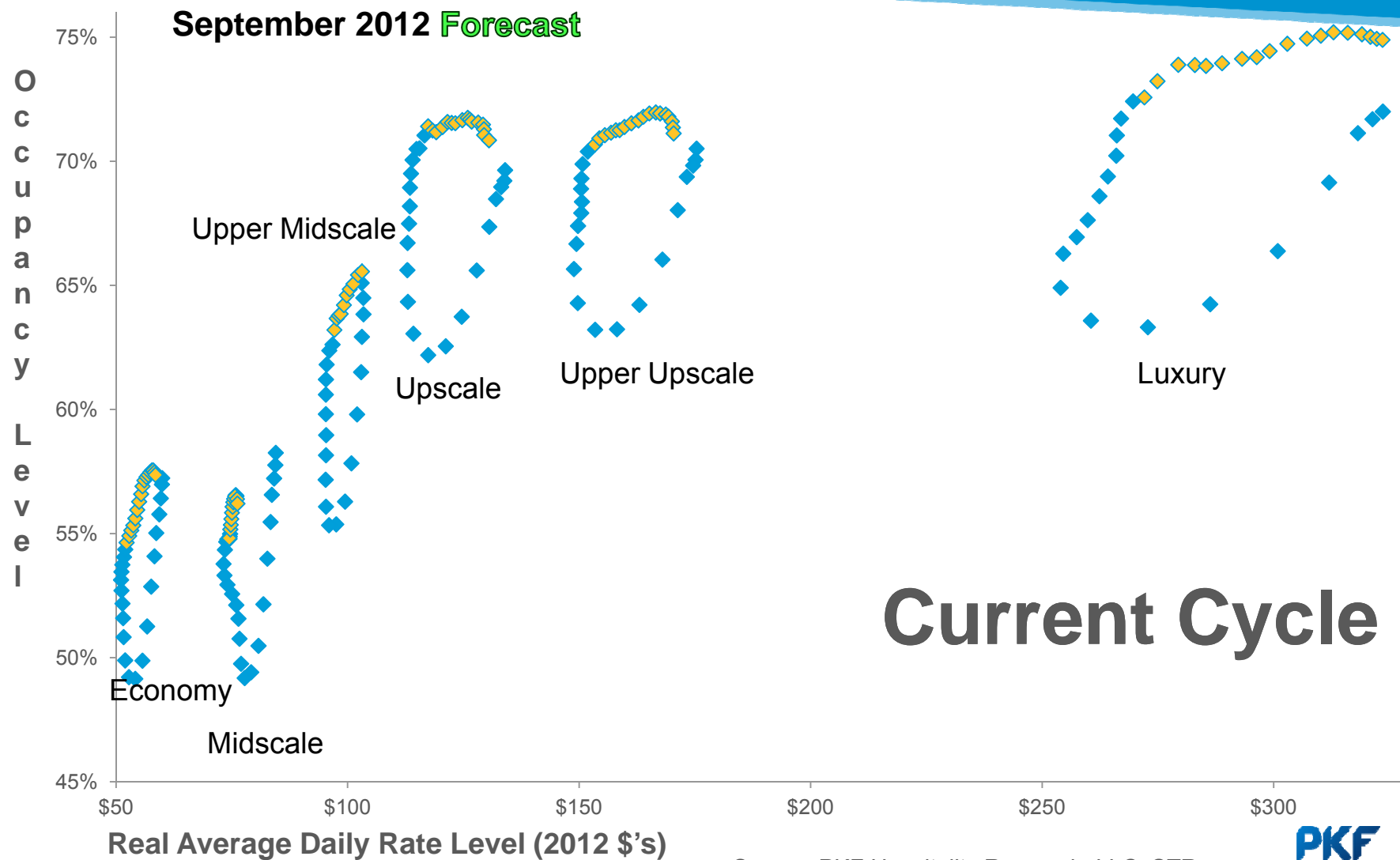
Source: PKF Hospitality Research, LLC; STR

Chain Scale Cycles



2001 Recession

Chain Scale Cycles



Source: PKF Hospitality Research, LLC; STR

Chain Scale Behavior Across the Cycles

Occupancy Low Point						
Recession Cycle	Economy	Midscale	Upper Midscale	Upscale	Upper Upscale	Luxury
1991	60.0%	59.0%	63.0%	65.0%	66.0%	64.0%
2001	54.0%	53.0%	60.0%	64.0%	64.0%	64.0%
2009	49.0%	49.0%	55.0%	62.0%	63.0%	63.0%
91 vs 09	-11	-10	-8	-3	-3	-1

Points of Occupancy Lost						
Recession Cycle	Economy	Midscale	Upper Midscale	Upscale	Upper Upscale	Luxury
1991	6.0	2.0	1.0	1.0	2.0	4.0
2001	5.0	4.0	5.0	7.0	8.0	9.0
2009	8.0	9.0	10.0	8.0	8.0	9.0

Source: PKF Hospitality Research, LLC; STR

Chain Scale Behavior Across the Cycles

Length of Occupancy Recovery from Low Point (Quarters)

Recession Cycle	Economy	Upper			Upper	
		Midscale	Midscale	Upscale	Upscale	Luxury
1991	NR	13	6	3	8	7
2001	12	8	9	17	24	20
2009F	19	NR	17	8	12	10

Quarters to Recovery - Real Average Daily Rate

Recession Cycle	Economy	Upper			Upper	
		Midscale	Midscale	Upscale	Upscale	Luxury
1991	NR	NR	33	26	26	19
2001	NR	NR	22	28	NR	24
2009F	NR	NR	29	36+	NR	35

NR = Not Recovered

Source: PKF Hospitality Research, LLC; STR

RevPAR Forecast By Chain-Scale

Chain-Scale	2011	2012F	2013F
Luxury (Ritz-Carlton, Four Seasons)	11.2%	8.5%	8.2%
Upper-Upscale (Marriott, Hyatt)	6.6%	6.9%	5.4%
Upscale (Courtyard, Crowne)	8.0%	6.7%	5.9%
Upper-Midscale (Hampton, Holiday)	8.6%	7.0%	5.7%
Midscale (Best Western, LaQuinta)	3.0%	5.8%	3.1%
Economy (Days Inn, Red Roof)	6.0%	6.3%	7.5%
All Hotels	8.2%	6.7%	6.2%

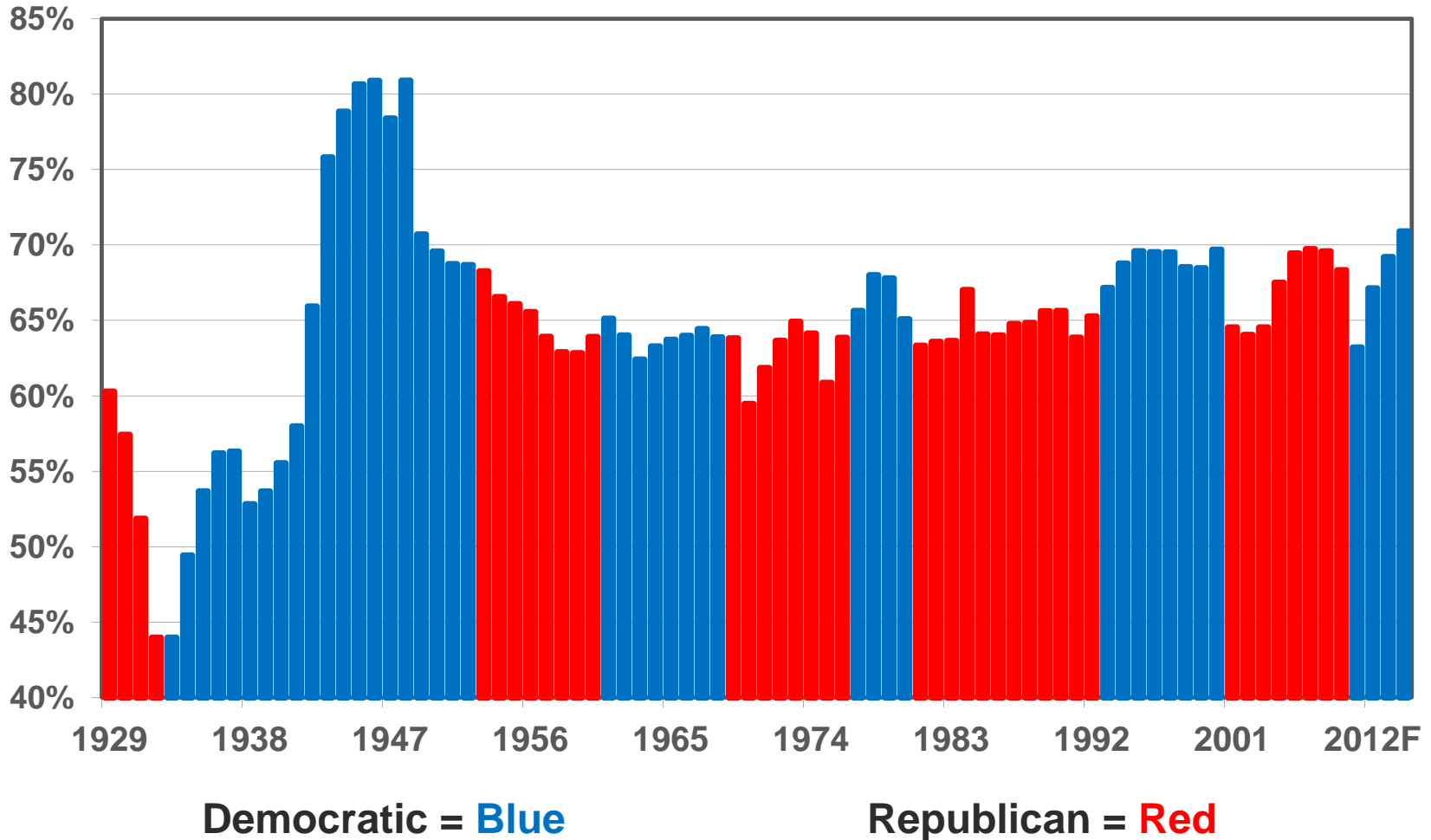
Some Things to Think About

Summary

- 1. Uncertainty is the wild card for the next six months – fiscal cliff is a big issue – how it is resolved remains a large unknown .*
- 2. Overall, the 3rd quarter of 2012 will be the weakest given the economic slow down currently underway.*
- 3. Under any scenario, Q1 and Q2 2013 may be softer than originally anticipated. 2014 should be next really good year.*
- 4. Impact of the Presidential election results = ?*

U.S. OCCUPANCY PERFORMANCE

Democratic and Republican Administrations



Source: PKF Hospitality Research, LLC

Predicting Presidential Election Outcomes

From 1932 through 2008 there have been 20 elections. During the year of the election, Real RevPAR change has averaged 1.9 %.

-In 8 of the 20 elections, the Real RevPAR change was **<1.9%**.

- 25% of the time, the incumbent party won.
- 75% of the time, the incumbent party lost.

-In the remaining 12 elections, Real RevPAR change was **>1.9 %**.

- 75% of the time, the incumbent party won.
- 25% of the time, the incumbent party lost.*

*** Each time, the incumbent party was Democratic, the winning party was Republican**

Source: PKF Hospitality Research, LLC

Thanks for Your Time

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