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Hospitality and Leisure

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At a glance

Lodging recovery continues into the second half of 2012.

Economy slows, but is expected to skirt recession.

Our RevPAR outlook for 2012 has increased to 7.2 percent growth, followed by 5.6 percent in 2013.

Hotels in higher-priced segments are expected to post the strongest gains.

pwc

Even as economic clouds have darkened, the lodging sector continues to benefit from an ongoing recovery in travel activity. However, slower growth in the US and global economies, and yet another quarter without clear progress in the Eurozone, results in an outlook for the lodging sector that is not as positive as it could have been otherwise.

PwC's lodging outlook anticipates continued growth in occupancy and average daily rate (ADR) will result in a 7.2 percent increase in revenue per available room (RevPAR) in 2012, followed by a 5.6 percent gain in 2013. Supply growth remains suppressed and the focus on improved pricing as a source of revenue growth has continued.

In this issue

Lodging recovery continues

Even as economic clouds have darkened, the lodging sector continues to benefit from an ongoing recovery in travel activity. Patterns of business and leisure travel that were suspended during the recession are normalizing, resulting in solid demand growth in the second quarter. These recent gains, coupled with indications of year-over-year improvement in bookings currently in place for the balance of the year, have raised our expectations for 2012 RevPAR growth to 7.2 percent, more than offsetting a weaker near-term outlook for economic fundamentals.

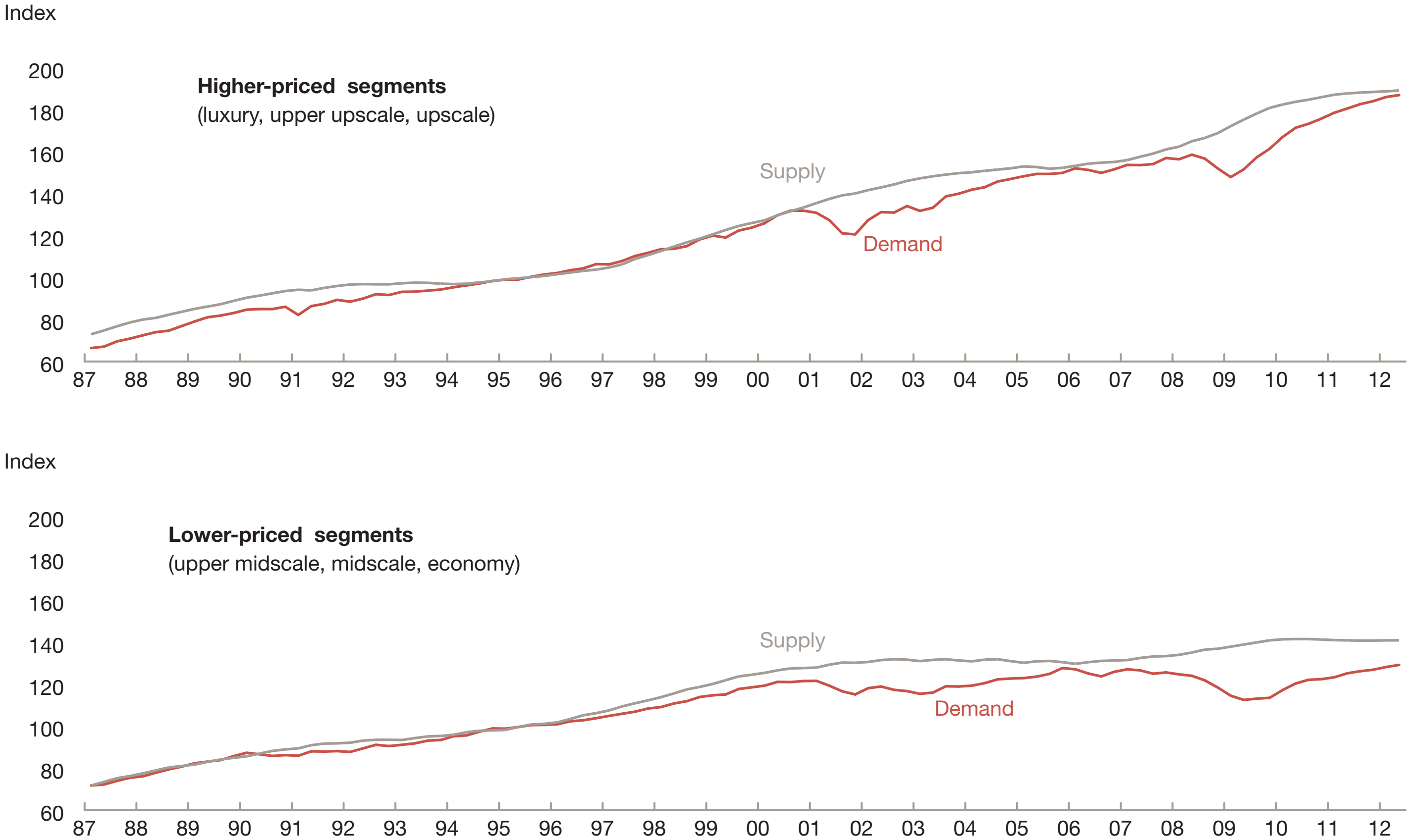
Since last November, PwC has maintained an above-consensus outlook for 2012 RevPAR growth, and incoming data is confirming this view. RevPAR increased 7.9 percent in the second quarter, fueled by strong gains in both occupancy and ADR. Results for July were weaker (4.3 percent RevPAR growth), in part due to the timing of Independence Day and the start of Ramadan, resulting year-to-date RevPAR through July that was 7.3 percent ahead of last year. Results for the first 18 days of August show an approximately 7.2 percent increase in RevPAR. Hotels report a solid pace of forward bookings for the remainder of 2012, including a greater volume of group bookings for meetings and other events. All else equal, these results would indicate momentum in travel activity and set a context for hotels to price more confidently entering the second half of 2012.

However, over the past three months, the economic outlook has pulled back. Incoming data indicates a slower than anticipated pace of economic growth. This information, combined with signs the global recovery has eased and an absence of clear progress in the Eurozone debt crisis, has reduced forecasts for US GDP growth in 2012 and 2013. As a result, our outlook for the lodging sector is not as positive as it could have been otherwise.

Overall, we anticipate hotel occupancy will increase 2.5 percent in 2012, accompanied by a 4.6 percent increase in ADR. Our outlook for RevPAR growth in 2013 remains unchanged at 5.6 percent. Our view on the outlook for individual chain scale segments has remained largely consistent, with the largest changes occurring in the luxury segment - which continues to exceed even our strong expectations - and, interestingly, the midscale segment, which demonstrated notably stronger occupancy levels and ADR levels in the second quarter. The outlook for supply growth remains muted.

We continue to expect the strongest performance gains in the higher-priced chain scale segments. Hotels in these segments experienced the greatest decline during the recession, but more recently have been more successful than hotels in lower-priced segments at rebuilding occupancy levels. The balance between supply and demand in the higher-priced segments and lower-priced segments in aggregate is shown in Figure 1. We expect occupancy in the luxury, upper upscale, and upscale segments, will meet or exceed each segment's 2007 average. As stronger business transient and group activity returns to these hotels, revenue management techniques are anticipated to drive increased pricing, resulting in a continuation of solid RevPAR gains. Hotels in the lower-priced segments are operating at lower occupancy levels (particularly the midscale and economy segments), but are still expected to realize increased ADR as demand gradually strengthens. Overall, industry RevPAR is expected to recover to $65.41 in 2012, just slightly below its prior peak of $65.54 in 2007.

Figure 1: **Demand and supply trends in higher-priced and lower-priced segments**



Note: Series are indexed to equal 100 in 1995. The data is seasonally adjusted.
The most recent data point is the second quarter of 2012.
Source: Smith Travel Research; PwC

Economic clouds darken, but US is expected to skirt recession

A gathering of headwinds and slowdown in economic activity in the first half of 2012 has further reduced expectations for growth in the remainder of the year and the first half of 2013. Thus, even as the economic outlook appeared to have improved this spring, with concerns about Europe easing, the situation has now reversed, resulting in an outlook for GDP growth in 2012 of 1.8 percent according to Macroeconomic Advisers, the firm that provides the underlying economic drivers to our lodging outlook. This is lower than the outlook of 2.5 percent anticipated earlier this summer, and the 2.3 percent growth expectation that was in place at the start of the year.[1]

What has changed in recent weeks? In short, mixed data on the US economy has pointed to slower near-term growth of GDP than previously anticipated, perceived momentum in the global economy has eased, and attention has refocused on risks in Europe. When combined with existing headwinds, including contractionary fiscal policy, sluggish job growth, and a broader context of uncertainty, the result has been a step down in expectations for economic growth. However, even with the most recent slowing, Macroeconomic Advisers still anticipates that the US economy will avoid slipping back into recession. Instead, normal

[1] Annual GDP growth rates are reported on a fourth-quarter over fourth-quarter basis, unless otherwise noted.

cyclical dynamics, such as the release of pent-up demand and a gradual return of risk appetite, accompanied by low interest rates, are expected to eventually allow the economy to resume above-trend growth.

Before addressing the baseline scenario in greater detail, it is important to acknowledge the key headwinds and downside risks that are evident.

- **A slower pace of US economic growth puts the domestic recovery on a more fragile path.** After growing at a 2.7 percent annualized pace in the second half of 2011, GDP growth slowed to a 1.7 percent rate in the first half of 2012. While the July employment report, which showed an increase of 163,000 nonfarm jobs and exceeded expectations, is perceived as an indication that the US economy is not slipping into recession quite yet, GDP growth in the second half of 2012 is expected to increase at a sluggish 1.9 percent pace. (Table 1).

- **Eurozone leaders have yet to demonstrate sufficient progress on a credible path to contain the sovereign debt crisis. As a result, the risk of a euro-area-induced contagion in global financial markets remains uncomfortably high.** The July 26 commitment by European Central Bank President Mario Draghi to do "whatever it takes" to preserve the euro drew initial financial market support, but this has yet to carry through to a clear path for shoring up Eurozone sovereign debt and banking risks, particularly related to Greece, Spain, and Italy. Macroeconomic Advisers estimates the probability of a re-intensification of the Eurozone crisis, and corresponding financial contagion that would likely tip the US economy back into recession, at approximately one-in-three.[2] Even in its baseline scenario, which is used as the assumption for our lodging outlook, Macroeconomic Advisers assumes Eurozone challenges will be resolved only in fits and starts, potentially getting worse before they get better, with the related overhang on the US outlook only gradually subsiding

Table 1: GDP outlook summary

Outlook	2012 Second half	2012 Full year	2013 Full year
Current	1.9%	1.8%	3.0%
Prior	2.7%	2.5%	3.1%

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 August 2012, and the prior outlook refers to the Macroeconomic Advisors forecast released May 2012, which was used as a base in PwC Hospitality Directions US June 2012. Source: Macroeconomic Advisers, LLC

[2] In comparison, Macroeconomic Advisers estimates the likelihood of its baseline scenario at approximately 40 to 45 percent, with only a 15 percent probability of a qualitatively better scenario.

How prepared are global businesses to face a worsening Eurozone crisis?

PwC analysis indicates that while corporate leaders recognize the business risks stemming from the Eurozone, only 45 percent of CEOs say the crisis has triggered changes to strategy, risk management, or operational planning.[3]

- **The momentum of global recovery has slowed, resulting in a weaker outlook for 2012 and 2013.** Reflecting incoming data, the International Monetary Fund recently lowered its outlook for 2012 global GDP growth to 3.4 percent, with an improvement to 4.1 percent anticipated for 2013.[4] Demand is slowing in Brazil, China and India, and second quarter GDP in Europe showed a contraction across the 17-country Eurozone. The expectation is that global growth improves, but in the near term, weaker international demand dampens US exports, and greater uncertainty weighs on investor risk appetites, restraining investment.

- **Even assuming the "fiscal cliff" is successfully averted, US fiscal policy is contractionary.** Macroeconomic Advisers assumes that Republicans and Democrats will find a compromise to avoid the large fiscal contraction—spending cuts and tax increases equaling about five percent of GDP—that is in place under current laws and which is being referred to as the "fiscal cliff." Even with such a fix, some fiscal contraction is anticipated in the near-term, due to factors such as the expiration of the payroll tax holiday and federal emergency unemployment benefits at the end of 2012.

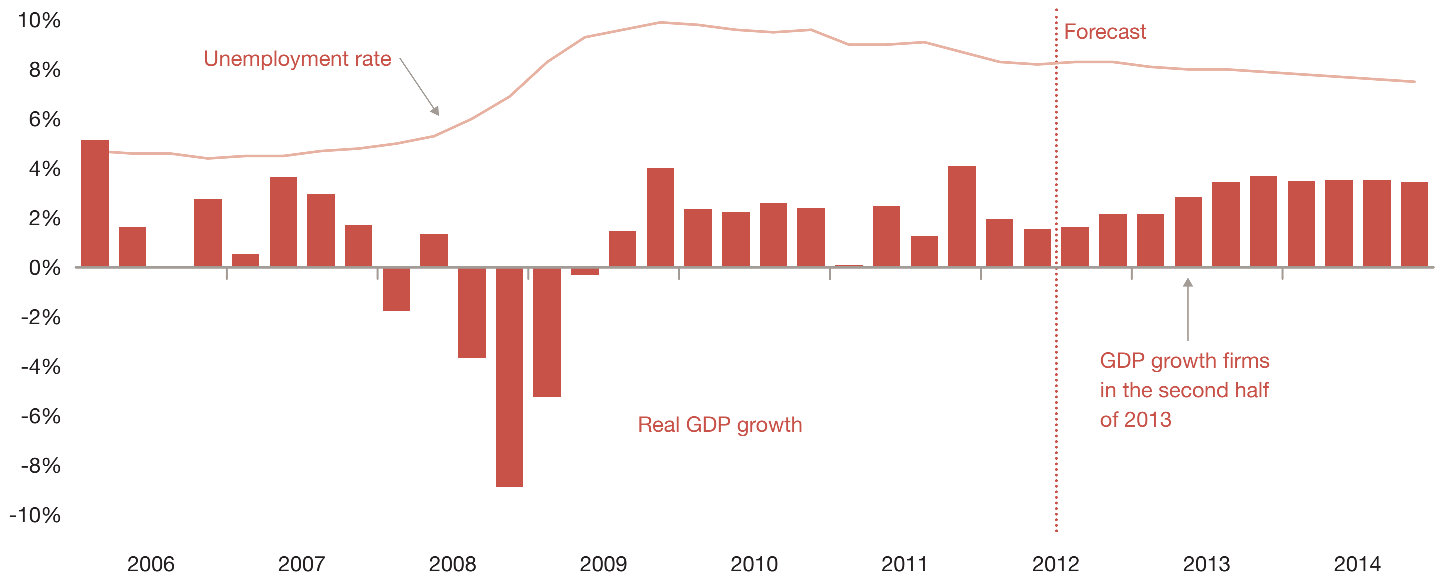
- **Other risks are also evident, including potential for further declines in home prices, or a sharp increase in oil prices.** Stabilization of home prices is a critical element of the recovery. Likewise, while oil prices are assumed to gradually decline, a steep increase, such as related to military action in Iran, would also put growth at risk.

These headwinds and downside risks contribute to substantial uncertainty about the health of the global financial system and global economic growth, which in turn, is perceived as weighing on the willingness of businesses and other investors to take the types of risks that would typically help propel the economy towards a stronger recovery. It is assumed, for the purpose of a baseline outlook, that a way forward in

[3] PricewaterhouseCoopers LLP. (2012, July) 10Minutes on the Eurozone Sovereign Debt Crisis. Retrieved from: http://www.pwc.com/en_US/us/10minutes/assets/pwc-eurozone-sovereign-debt-crisis.pdf

[4] International Monetary Fund. (2012, July 16). World Economic Outlook Update: New Setbacks, Further Policy Action Needed. Retrieved from: http://www.imf.org/external/pubs/ft/weo/2012/update/02/

Figure 2: **Annualized rate of growth in real GDP and unemployment rate**



Source: Bureau of Economic Analysis; Bureau of Labor Statistics; Macroeconomic Advisers, LLC (forecast released August 2012)

Europe fitfully emerges, and that global financial markets are spared a severe correction. In such a context, the pace of US economic growth is expected to gradually accelerate through 2014 (Figure 2), supported by the following factors.

- **Gradual improvement in financial conditions:** US financial markets have weathered recent economic developments without a severe correction. US equity values are up 12.1 percent so far in 2012, and are not far below peak levels achieved in 2007. Risk spreads on corporate debt, while elevated, are below crisis levels. By 2013, with lessening uncertainty and a renewed decline in risk aversion, financial conditions are expected to gradually improve, resulting in increased equity values and greater willingness on the part of banks to lend to businesses and consumers.

- **Slower pace of household deleveraging:** Households have "delevered," reducing their debt burden through a combination of higher personal savings and debt forgiveness by lenders, and rising equity values have helped boost household net worth. Going forward, a greater portion of disposable income is available to support resumed consumer spending growth.

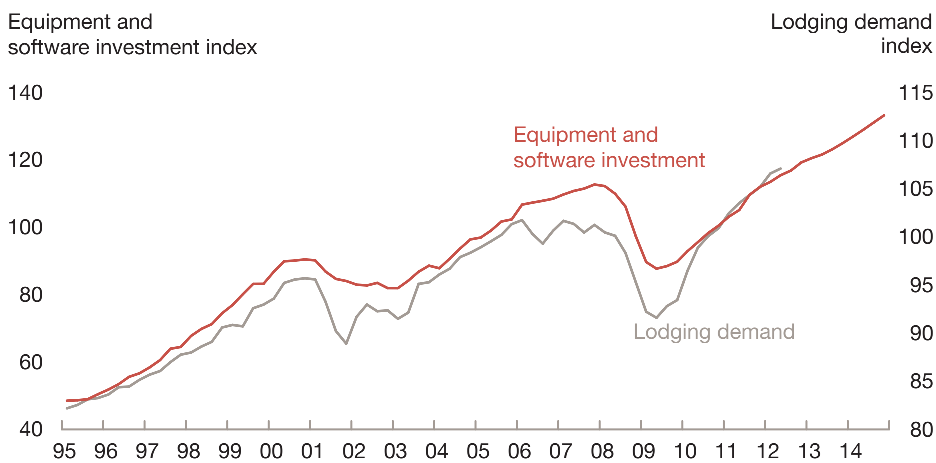
- **Stabilization in home prices:** Confidence that home prices are no longer steadily declining is anticipated to help support economic growth. Prospective home buyers are more likely to step off the sidelines to purchase a home, boosting related spending and helping to rekindle home building activity. Also, existing home owners are expected to perceive greater stability in net worth, which is expected to support spending growth.

- **Recovering business investment:** Businesses are in a position to make greater capital investments, supported by ample cash flow, low borrowing costs, and available liquid assets. Companies are expected to increase spending on equipment and software, at a 5.9 percent average annual rate through the end of 2014. In the past, such growth has corresponded to growing levels of lodging demand (Figure 3).

- **Energy sector growth:** Substantial investment in domestic natural gas production has spurred economic growth in parts of the US, and has resulted in a sharp decline in natural gas prices. A recent PwC analysis points to potential benefits to the US manufacturing sector.[5]

Lastly, though fiscal policy is contractionary, the Federal Reserve maintains an accommodative monetary policy. Macroeconomic Advisers now anticipates that the Fed will announce a third round of quantitative easing in September, referred to as QE3. The Federal Reserve is also expected to keep the federal funds rate at its current exceptionally low range through mid-2015.

Figure 3: Investment spending on equipment and software continues to grow



Note: Both series are seasonally adjusted and indexed such that the average during 2005 equals 100. Equipment and software investment is measured in real dollars. The most recent data point shown for lodging demand is the second quarter of 2012, while equipment and software investment (forecast) is shown through the fourth quarter of 2014.
Source: Bureau of Economic Analysis; Macroeconomic Advisers, LLC (forecast released August 2012); PwC

[5] PricewaterhouseCoopers LLP. (2011, December) *Shale Gas: A Renaissance in US Manufacturing*. Retrieved from: http://www.pwc.com/us/en/industrial-products/publications/shale-gas.jhtml

Our key macroeconomic assumptions

The following describes the key assumptions supporting the current macroeconomic outlook.[6,7]

Factor	Assumption
Consumer spending	Following three months of declines, retail sales grew in July, exceeding expectations, and helping ease concerns somewhat. Consumer spending growth is expected to average 1.9 percent in 2012 (on a real dollar, fourth quarter over fourth quarter basis). Growth is expected to gradually improve in 2013 (2.2 percent) and 2014 (2.3 percent).
Labor markets	The July employment report was well above low expectations, but labor markets remain weak. Nonfarm payrolls have expanded an average of 151,000 jobs per month during the first seven months of 2012. Gains in the remainder of the year are expected to be lackluster, with close to 100,000 new jobs per month, improving to an average of 140,000 per month in 2013, and 200,000 per month in 2014. The unemployment rate is expected to remain at or above eight percent until late in 2013, well above the estimated natural rate of unemployment of approximately 5.5 percent.
Oil prices	After adjusting for inflation, the average per-barrel cost of oil in the second quarter of 2012 ($99.93, refiner average imported crude oil acquisition cost) was more than two times greater than the average over the last 20 years ($46.06). Based on recent declines, the outlook assumes a 2.9 percent nominal decrease in the price of oil this year, followed by 5.8 and 2.7 percent declines in 2013 and 2014, respectively.
US dollar	Overall, the value of the dollar is expected to average 3.3 percent higher in 2012 than in 2011, gradually easing under the baseline assumption that the financial crisis in the Eurozone doesn't materially worsen.
Equity and housing markets	Household net worth is expected to increase 7.3 percent in 2012, 6.6 percent in 2013, and 3.2 percent in 2014. Equity values have increased 12.1 percent year-to-date (through August 22). The recent strength in various measures of home prices is a positive. Home prices measured by the CoreLogic HPI are expected to increase 4.9 percent this year, before rising 2.0 percent in 2013 and 2.5 percent in 2014.
Inflation	The consumer price index (CPI) is expected to increase 2.0 percent in 2012 and 1.9 percent in 2013. Long-term inflation forecasts among economists average 2.5 percent on a CPI basis.
Fiscal policy	The baseline assumes the 2.0 percent payroll tax holiday and federal unemployment benefits expire at the end of 2012 as scheduled, which combined with other tax changes and declines in discretionary spending, slows GDP growth by approximately 1.3 percentage points in 2013. However, the baseline also assumes that lawmakers avoid the "fiscal cliff" by reaching an agreement to extend the Bush era tax cuts beyond the end of this year, continue the Alternative Minimum Tax patch and "doc fix" payments by Medicare, and avoid a full sequester dictated by the debt limit law passed last August.
Monetary policy	Economic conditions have deteriorated to the point at which the Federal Reserve is now expected to implement a third round of quantitative easing (also referred to as QE3), most likely in September, by purchasing $600 billion to $750 billion of Treasuries and mortgage-backed securities. The effort is expected to lower long-term interest rates by enough to add about 25 basis points to GDP growth in 2013 and 10 basis points in 2014. The Federal Reserve is expected to maintain the exceptionally low federal funds rate through at least mid-2015.
Terrorist threats and natural disasters	The outlook assumes no significant terrorist acts in the United States or against US interests abroad that could negatively affect consumer travel. Also, the outlook does not incorporate an expectation of any major natural disasters.

[6] Macroeconomic Advisers, LLC. (2012, August 13) *Outlook Commentary*. Retrieved from http://macroadvisers.com.

[7] Macroeconomic Advisers, LLC. (2012, August 15) *Forecast Details.* Retrieved from http://macroadvisers.com.

Our outlook for the US lodging industry

Lodging performance has grown into, and even run slightly ahead of the robust expectations that we had in place for 2012. In the previous two quarters, the positive surprises had come strictly in the form of stronger than expected occupancy momentum, but in the second quarter, both occupancy and ADR came in slightly ahead of expectations. The pace of transient demand growth remained solid, with both business and leisure travel improving over prior year levels in the first half of 2012. While group demand has not fully recovered, group bookings for the remainder of 2012 are ahead of prior year levels, and the outlook for 2013 is positive.

Yet, even as travel activity shows momentum, the near term economic outlook has deteriorated. As an economically sensitive sector, travel is not expected to be spared the effects of a slower economy. As a result, our updated lodging outlook reflects the combination of two effects. Positive momentum within the lodging sector boosts our expectations for 2012, yet the uptick is partly offset by recognition that slower economic growth will continue to weigh on decision-making by businesses and consumers, somewhat dampening growth in the second half of 2012 and into 2013.

Demand

Even as business and consumer confidence remains shaky, travel continues to play an important role in numerous aspects of commercial and leisure activities. Though businesses and households found ways to temporarily suspend certain trips during the recession, recognition of the value of travel has resulted in a resumption of many travel activities as the economy emerges from recession. Lodging demand, adjusted for seasonality, increased at an annualized rate of 2.0 percent in the second quarter of 2012. This pace is slower than the 4.8 percent expansion experienced during 2011, and we anticipate that demand growth will slow further in the second half of 2012. In 2013, we expect continued demand growth will result in approximately 1.3 percent more occupied room nights than in 2012.

What factors do we anticipate will drive further demand growth?

- **Business travel** – Companies are being cautious in hiring, but many businesses, particularly large companies, are generating solid cash flows and are gradually ramping up corporate investment initiatives in equipment, software, and human capital. As noted on the following page, some components of the economy have weathered the recession better than others, and key sectors and occupations that are important to the lodging industry are on a more solid footing. For example, companies in the business and professional services, and finance sectors, have added jobs in the first half of 2012, and year-to-date equity market gains point to greater confidence in the outlook for the technology, biotechnology, financial, and telecom sectors. Meanwhile, uncertainty regarding the upcoming elections overhangs some business decisions.

- **Leisure travel** – Looking forward, the outlook for leisure travel spending is moderately positive. Consumer spending growth slowed in the second quarter, and is expected to only gradually improve as the year progresses. Job markets remain weak, but household net worth has benefited from equity market gains and an uptick in housing values. As consumer spending gradually improves in 2013, leisure travel is expected to benefit.

- **International travel** – Overseas arrivals started out 2012 with a strong 13.4 percent increase in the first quarter, but this pace slowed in the first two months of the second quarter, and the year-to-date increase through May is running at 8.6 percent.[8] This remains ahead of the five to six percent annual growth that the Department of Commerce forecasts for the period from 2012 to 2016.[9] So far, the largest increases in visitor volumes to the US in 2012 are attributable to Japan, China, and Brazil, though arrivals from Argentina, Venezuela, and Columbia also increased substantially in percentage terms. There are reports that steps to improve the visa process for inbound visitors have had some initial effects,[10] and travel sector representatives are expected to continue to push for progress on key steps, such as an expansion of the visa waiver program to additional countries.[11]

[8] Overseas arrivals exclude arrivals from Canada and Mexico.

[9] Office of Travel & Tourism Industries, International Trade Administration, US Commerce Department. (2012, April 23). *U.S. Commerce Department Forecasts Growth in International Travel to the United States through 2016* [Press release] Retrieved from http://www.tinet.ita.doc.gov/view/f-2000-99-001/forecast/Forecast-Summary.pdf

[10] Chipkin, H. (2012, August 6). *White House Forum Shines Light on Travel's Economic Impact. Travel Market Report.* Retrieved from: http://www.travelmarketreport.com/international?articleID=7564&LP=1

[11] U.S. Travel Association. (2012, June 22) *U.S. Travel Industry Applauds G20 Summit Travel Announcement* [Press release] Retrieved from: http://www.ustravel.org/news/press-releases/us-travel-industry-applauds-g20-summit-travel-announcement

Snapshot: Recession impacts and the travel sector

The lodging sector reflects the breadth of the US economy, appealing to a range of traveler price points. However, hotels are more heavily dependent on some parts of the economy than others. For example, certain industries and occupations tend to generate greater levels of business travel, and higher income households tend to account for a majority of leisure travel spending.

The recent recession and sluggish recovery has had differing impacts on various components of the economy. For example, job losses have been more severe in sectors such as construction and manufacturing, and the labor market has been more challenging for workers with lower levels of educational attainment. In this context, the dependence of the lodging sector on higher income households and certain occupations and industry sectors that emphasize more specialized skills, appears to have helped support a stronger pace of recovery than is being experienced in other parts of the broader economy.

In this snapshot, we highlight aspects of these recent trends. We note however, that situations across individual hotel markets differ substantially, with some companies driving new sources of growth in some of the most challenging industries, and some local markets experiencing slow lodging demand growth despite seemingly favorable economic foundations.

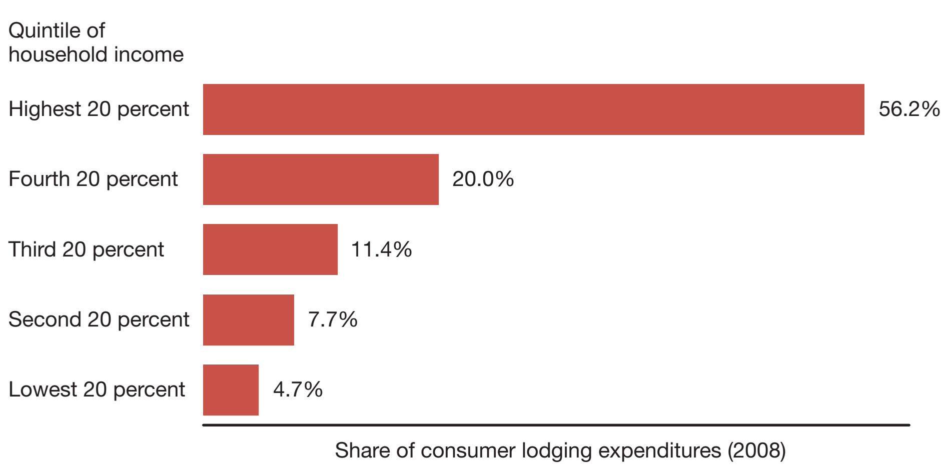
Observation 1. The lodging sector is heavily dependent on spending by higher income households.

The top fifth of households by income account for approximately one third of total consumer spending (38 percent), but more than half of consumer spending on lodging (56 percent) (Figure 4).

Observation 2. Employees in managerial and professional occupations were less negatively impacted during the recent recession.

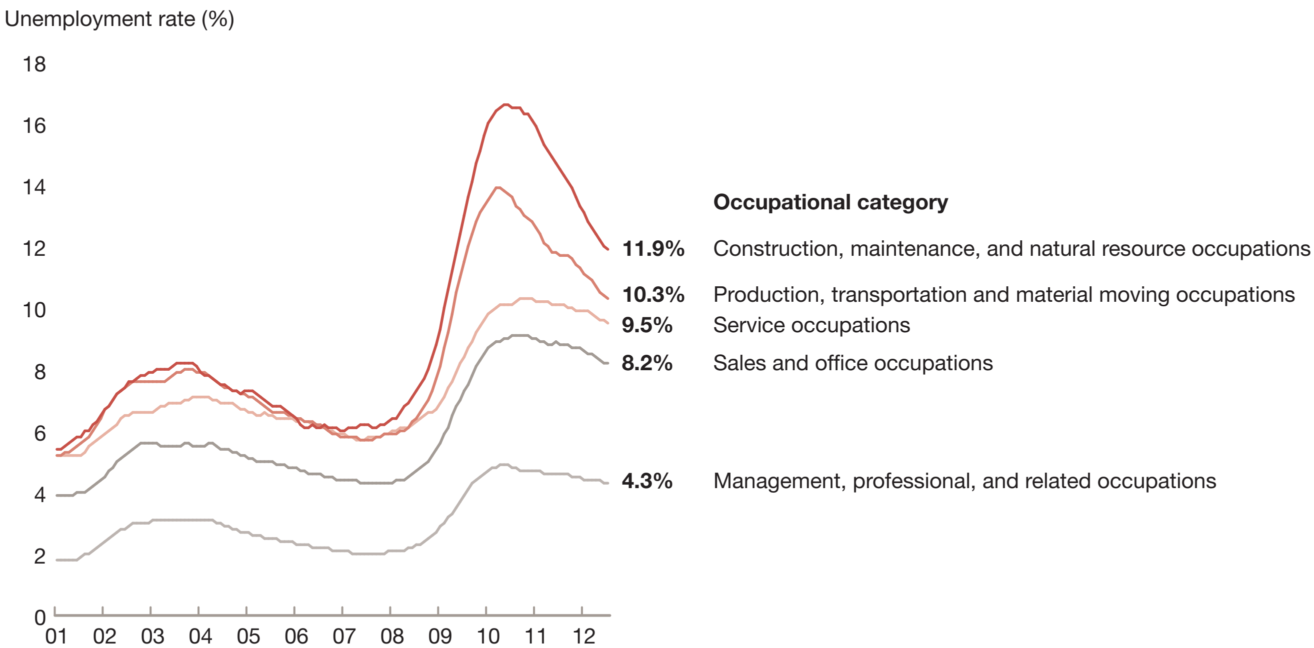
Four out of every 100 persons who are either currently working in a management, professional or related occupation, or who are looking for work and report such an occupation as their most recent job, are currently unemployed (Figure 5). In comparison, in a similar selection of 100 current or former construction or maintenance workers, about 12 are unemployed. Among production and transportation workers, about 10 are unemployed.

Figure 4: Distribution of consumer spending on lodging by income cohort



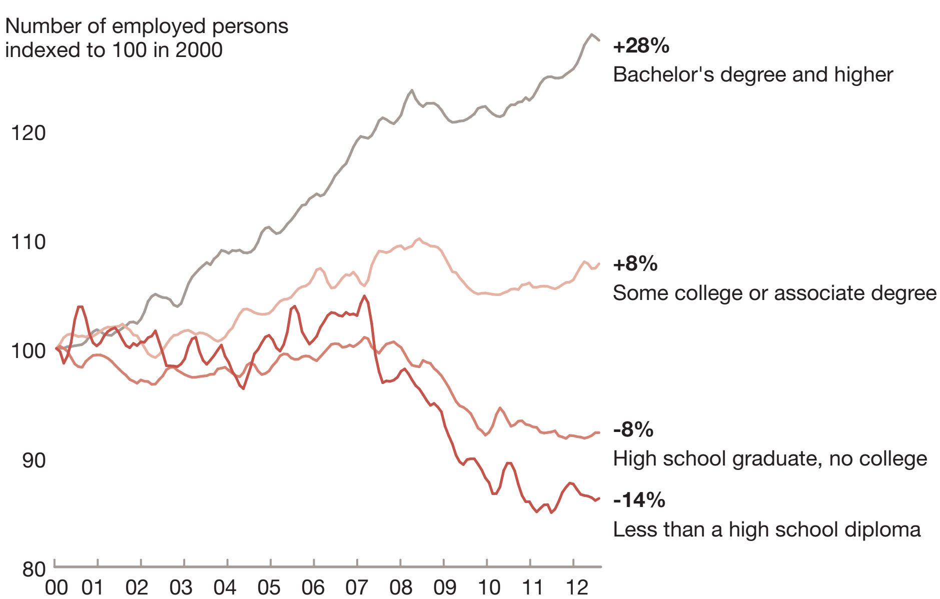
Note: Percentages reflect the share of consumer spending on lodging accounted for by each of the income cohorts in 2008. The income quintiles are based on income before taxes and are summarized as follows: highest 20 percent earned above $93,000 and the average household in this cohort spent $932 per year on lodging; fourth 20 percent earned above $59,000 (spent $331 on lodging); third 20 percent earned above $36,000 (spent $189 on lodging), second 20 percent earned above $19,000 (spent $127 on lodging); the lowest 20 percent earned below $19,000 (spent $78 on lodging). The average income before taxes in the highest 20 percent group was $159,000. Additional information is available at http://www.bls.gov/spotlight/2010/travel/
Source: Bureau of Labor Statistics; PwC

Figure 5: Unemployment rate by occupational category



Note: Unemployed persons are classified in this data set according to the occupation in their last job. Each series is shown as the twelve-month moving average. The last data point is July 2012. Additional background on detailed occupations in each category is available from the Bureau of Labor Statistics at http://www.bls.gov/cps/cenocc.pdf.
Source: Bureau of Labor Statistics; PwC

Figure 6: Employment change since 2000 by level of educational attainment



Note: Data reflects persons 25 years and older. Each series is the three-month moving average. The most recent data point is July 2012.
Source: Bureau of Labor Statistics; PwC

Observation 3. Job growth among those with a college education has been stronger than for those with lower levels of educational attainment.

Since 2000, the number of employees with a college degree has increased by 28 percent, while the number of employees with only some college education has increased only eight percent (Figure 6).

Supply

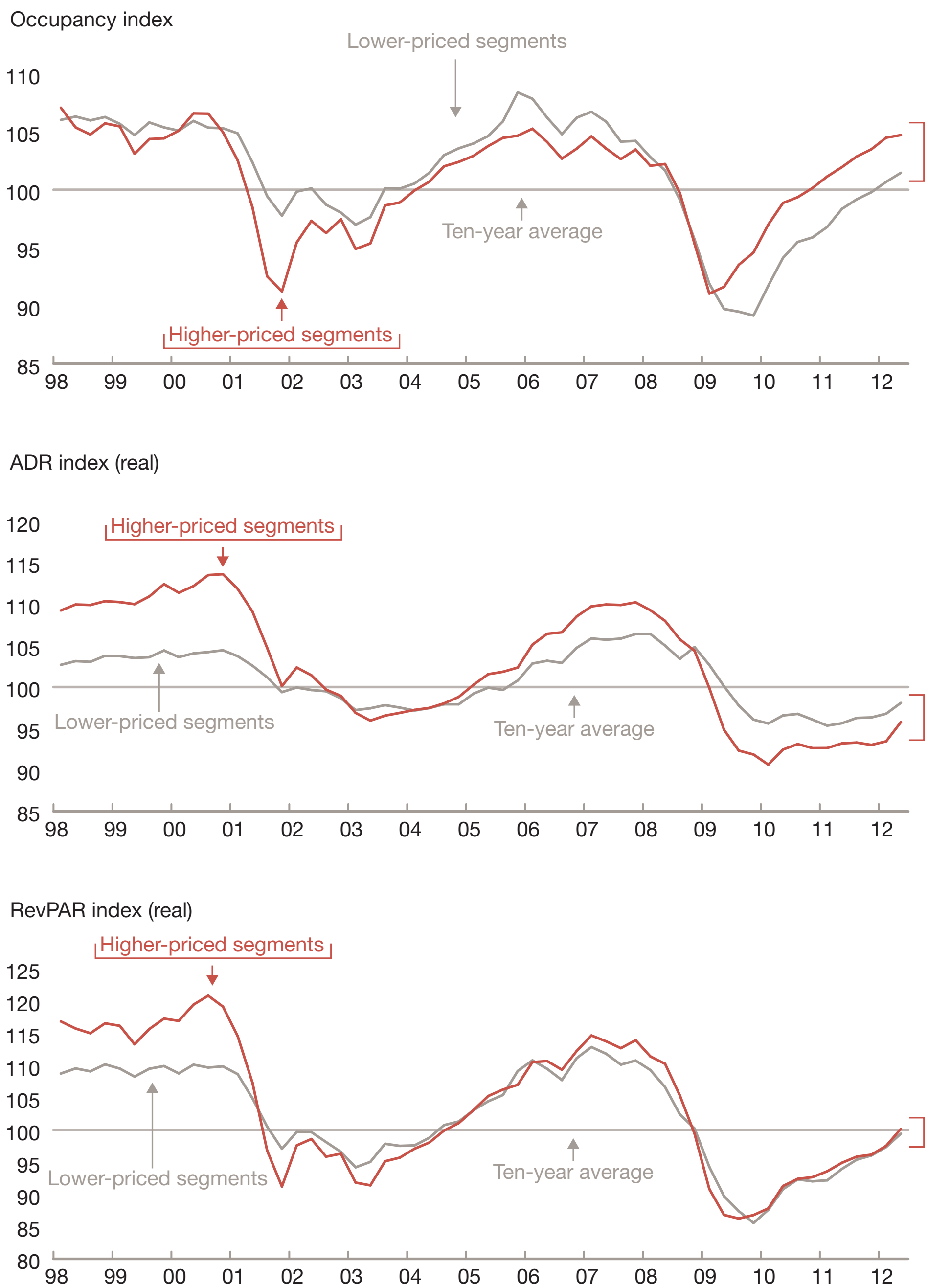
Construction starts reached a trough in the first quarter of 2010 on a seasonally adjusted basis, and since then new construction activity has increased only marginally. There are more hotels under construction than there were a year ago, but the current pace of construction starts is still equivalent to only 1.1 percent annual supply growth, before removals of closed hotels, and approximately 0.7 percent after removals. Net supply growth, which lags construction starts, is estimated to have reached a trough in the fourth quarter of 2011, on a seasonally adjusted basis, and is expected to accelerate gradually through 2013. Overall room supply is expected to increase 0.5 percent in 2012 and 0.7 percent in 2013.

Occupancy

Travelers are back on the road, and lodging demand has surpassed its pre-recession peak, but in the meantime, additional hotels have opened, and occupancy still has some room to recover. Overall, on a seasonally adjusted basis, the average daily room nights occupied during the second quarter was 5.8 percent ahead of the annual average during 2007, the industry's pre-recession peak. However, supply is 7.9 percent greater than in 2007, and as a result, industry occupancy—in aggregate—remains below its 2007 level. With growing demand and decelerating supply growth, we expect occupancy will increase to 61.5 percent during 2012.

As referenced in the lead section, there are differences among the chain-scale segments that underlie the trend in overall industry occupancy. For example, in the luxury, upper upscale, and upscale segments, 2012 occupancy is on track to meet or exceed each segment's 2007 average, as hotels in these segments have generally been more successful at rebuilding occupancy than the industry overall (Figure 7). However, ADR levels in these three higher-priced segments were more negatively impacted during the recession than ADRs among the three lower-priced segments. As a result, RevPAR has traced a broadly similar path in both the higher-priced and lower-priced components of the industry.

Figure 7: Occupancy, ADR, and RevPAR in higher-priced and lower-priced segments



Higher-priced segments have recovered occupancy more quickly than lower-priced segments

However, real ADR declined further in higher-priced segments

RevPAR in higher-priced and lower-priced segments have traced a similar path relative to the ten-year average, adjusted for inflation.

Note: The higher-priced segments series includes the luxury, upper upscale, and upscale chain scale segments as defined by Smith Travel Research, while the lower-priced segments series includes the upper midscale, midscale and economy chain scale segments.Each index is set such that the 10-year average is equal to 100. The data is seasonally adjusted. ADR and RevPAR are in real terms. The most recent data point is the second quarter of 2012.

ADR and RevPAR

Hotels that are experiencing rising occupancy levels are in favorable positions to realize greater ADR gains. For example, stronger occupancy levels in the top 25 markets, including increased incidence of nights on which demand in certain sub-markets reaches compression levels, resulting in displacement of excess demand to other sub-markets, are expected to be supportive of stronger ADR growth this year. ADR in the top 25 markets rose 4.7 percent over the prior year during the first seven months of 2012, compared to a 3.9 percent gain for all other markets. Urban and resort hotels experienced the largest price gains, while hotels in small metro areas and towns, as well as interstate and airport hotels, experienced slightly less growth. With recent gains, ADR levels at upper-tier hotels are recovering close to 2007 nominal levels. Through July 2012, ADR at upper-tier hotels was 1.1 percent below 2007 levels, though weekday and weekend transient rates were still 3.1 percent and 1.7 percent below 2007 levels, respectively (Figure 8).

The risk that government lodging reimbursement rates would be cut by as much as 30 percent has been avoided, and "per diem" rates are set to be frozen at current levels for the next fiscal year.[12]

Operators are carefully monitoring the pace of incoming reservations, and looking for opportunities to use more solid occupancy levels to support active revenue management. There are indications that group bookings in place for the remaining months of 2012 show gains, and assuming both group and transient activity holds up, the prospects for revenue management tactics to drive ADR gains are positive. As a result, looking ahead, we anticipate ADR growth will accelerate, improving from 3.7 percent in 2011 to 4.6 percent in 2012, and 4.9 percent in 2013. Adjusted for inflation, this would bring 2012 ADR to just 0.9 percent below the 10-year average and 2013 ADR to 2.1 percent ahead.

[12] Rein, L. (2012, August 14). *Federal travel reimbursement rate to stay same in fiscal 2013*. The Washington Post. Retrieved from: http://www.washingtonpost.com/politics/federal-travel-reimbursement-rate-to-stay-same-in-fiscal-2013/2012/08/14/a481359a-e64a-11e1-8f62-58260e3940a0_story.html

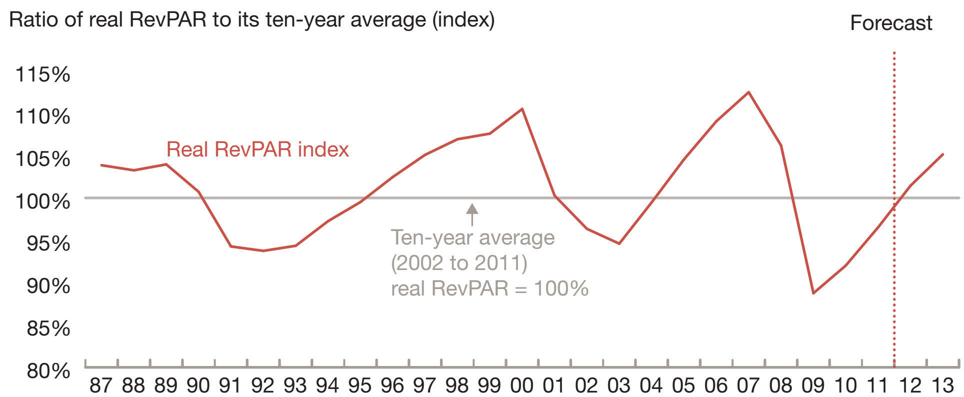
Figure 8: **Transient and group comparison**

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

Note: Information for 2012 is year-to-date through July 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

Figure 9: **Real RevPAR**



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

Our outlook for real RevPAR is shown in Figure 9, and Tables 2 and 3 summarize the key annual and quarterly measures in our US outlook.

Table 2: US lodging outlook, August 28, 2012

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	59.0%	59.2%	61.3%	63.0%	63.2%	62.8%	59.8%	54.6%	57.5%	60.0%	61.5%	61.9%
Percentage change from prior year	-1.1%	0.3%	3.5%	2.9%	0.2%	-0.5%	-4.8%	-8.8%	5.4%	4.3%	2.5%	0.6%
Pct. point difference from prior year	(0.7)	0.2	2.1	1.8	0.1	(0.3)	(3.0)	(5.2)	2.9	2.5	1.5	0.4
Average daily rate ($)	$82.52	$82.66	$86.17	$91.02	$97.80	$104.30	$107.37	$98.05	$98.04	$101.71	$106.35	$111.60
Percentage change from prior year	-1.3%	0.2%	4.3%	5.6%	7.4%	6.6%	3.0%	-8.7%	0.0%	3.7%	4.6%	4.9%
Nominal RevPAR ($)	$48.70	$48.91	$52.80	$57.37	$61.77	$65.54	$64.24	$53.51	$56.40	$61.02	$65.41	$69.08
Percentage change from prior year	-2.4%	0.4%	8.0%	8.6%	7.7%	6.1%	-2.0%	-16.7%	5.4%	8.2%	7.2%	5.6%
Inflation-adjusted RevPAR ($, 2005 base)	$52.87	$51.91	$54.58	$57.37	$59.84	$61.72	$58.27	$48.70	$50.50	$52.97	$55.66	$57.69
Percentage change from prior year	-3.9%	-1.8%	5.1%	5.1%	4.3%	3.1%	-5.6%	-16.4%	3.7%	4.9%	5.1%	3.6%
Inflation as measured by CPI	1.6%	2.3%	2.7%	3.4%	3.2%	2.9%	3.8%	-0.3%	1.6%	3.1%	2.0%	1.9%
Real GDP, percentage change from prior year (annual average)	1.8%	2.5%	3.5%	3.1%	2.7%	1.9%	-0.3%	-3.1%	2.4%	1.8%	2.2%	2.4%
Real GDP, percentage change from prior year (fourth quarter over fourth quarter)	1.9%	3.9%	2.9%	2.8%	2.4%	2.2%	-3.3%	-0.1%	2.4%	2.0%	1.8%	3.0%
Average daily rooms sold (000s)	2,573	2,606	2,710	2,786	2,798	2,818	2,747	2,577	2,762	2,894	2,982	3,021
Percentage change from prior year	0.5%	1.3%	4.0%	2.8%	0.4%	0.7%	-2.5%	-6.2%	7.2%	4.8%	3.0%	1.3%
Room starts (000s)	68.4	76.6	81.3	83.4	138.9	145.9	132.2	47.9	29.8	45.7	52.7	69.1
Percentage change from prior year	-24.4%	12.0%	6.0%	2.6%	66.5%	5.0%	-9.4%	-63.8%	-37.7%	53.3%	15.2%	31.2%
End-of-year supply (000s)	4,351	4,386	4,387	4,381	4,415	4,489	4,626	4,746	4,785	4,799	4,831	4,869
End-of-year supply change from prior year	1.5%	0.8%	0.0%	-0.2%	0.8%	1.7%	3.0%	2.6%	0.8%	0.3%	0.7%	0.8%
Average supply change from prior year	1.6%	1.0%	0.4%	-0.1%	0.2%	1.2%	2.4%	2.8%	1.7%	0.5%	0.5%	0.7%

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

Table 3: US lodging outlook, quarterly

	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4
Occupancy (percent)	50.9%	57.2%	60.0%	50.0%	51.9%	60.6%	63.9%	53.4%
Percentage change from prior year	-11.1%	-10.9%	-8.0%	-4.7%	2.0%	5.9%	6.5%	6.8%
Pct. point difference from prior year	(6.4)	(7.0)	(5.2)	(2.5)	1.0	3.4	3.9	3.4
Occupancy (percent, seas. adj.)	55.0%	54.3%	54.6%	54.6%	56.2%	57.4%	58.0%	58.4%
Average daily rate ($)	$100.68	$97.97	$97.47	$96.30	$96.35	$97.98	$99.20	$98.29
Percentage change from prior year	-7.6%	-9.5%	-9.6%	-7.6%	-4.3%	0.0%	1.8%	2.1%
Average daily rate ($, seas. adj.)	$100.46	$97.84	$97.04	$96.86	$96.49	$97.81	$98.58	$98.83
RevPAR ($)	$51.22	$56.08	$58.49	$48.19	$50.01	$59.42	$63.39	$52.52
Percentage change from prior year	-17.8%	-19.4%	-16.9%	-11.9%	-2.4%	6.0%	8.4%	9.0%
RevPAR ($, seas. adj.)	$55.23	$53.11	$53.02	$52.92	$54.19	$56.16	$57.17	$57.70
Inflation as measured by CPI (percentage change from prior year)	-0.1%	-1.0%	-1.6%	1.5%	2.3%	1.8%	1.2%	1.2%
Average daily rooms sold (000s)	2,360	2,703	2,862	2,379	2,465	2,920	3,092	2,565
Percentage change from prior year	-8.4%	-8.4%	-5.4%	-2.1%	4.4%	8.0%	8.0%	7.8%
Average daily rooms sold (000s, seas. adj.)	2,568	2,551	2,585	2,602	2,687	2,754	2,787	2,810
Room starts (000s)	12.9	14.1	11.1	9.8	5.5	8.1	7.8	8.4
Percentage change from prior year	-64.2%	-62.5%	-68.5%	-58.3%	-57.1%	-42.3%	-29.6%	-14.7%
End-of-quarter supply (000s)	4,655	4,746	4,778	4,746	4,760	4,833	4,841	4,785
Percentage change from prior year	2.9%	2.8%	2.8%	2.6%	2.2%	1.8%	1.3%	0.8%

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

2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4
54.7%	63.2%	66.4%	55.4%	56.7%	65.2%	67.9%	56.1%	56.8%	65.5%	68.4%	56.7%
5.4%	4.2%	4.0%	3.8%	3.7%	3.1%	2.2%	1.1%	0.1%	0.6%	0.7%	1.1%
2.8	2.6	2.5	2.0	2.0	2.0	1.5	0.6	0.1	0.4	0.5	0.6
59.2%	59.8%	60.2%	60.7%	61.4%	61.6%	61.5%	61.5%	61.6%	61.7%	62.0%	62.2%
$99.59	$101.63	$103.07	$102.21	$103.63	$106.40	$107.63	$107.38	$108.74	$111.16	$113.10	$113.05
3.4%	3.7%	3.9%	4.0%	4.1%	4.7%	4.4%	5.1%	4.9%	4.5%	5.1%	5.3%
$99.97	$101.36	$102.33	$102.78	$104.13	$106.05	$106.81	$107.98	$109.32	$110.74	$112.24	$113.69
$54.47	$64.23	$68.47	$56.67	$58.79	$69.33	$73.07	$60.21	$61.78	$72.85	$77.35	$64.10
8.9%	8.1%	8.0%	7.9%	7.9%	7.9%	6.7%	6.3%	5.1%	5.1%	5.9%	6.5%
$59.20	$60.59	$61.63	$62.34	$63.97	$65.35	$65.70	$66.43	$67.33	$68.38	$69.54	$70.72
2.1%	3.3%	3.8%	3.3%	2.8%	1.9%	1.6%	1.8%	1.6%	1.9%	2.0%	2.0%
2,615	3,059	3,227	2,671	2,720	3,165	3,314	2,724	2,747	3,195	3,361	2,775
6.1%	4.7%	4.4%	4.1%	4.0%	3.5%	2.7%	2.0%	1.0%	0.9%	1.4%	1.9%
2,854	2,883	2,906	2,929	2,968	2,983	2,983	2,989	2,997	3,010	3,026	3,045
7.7	12.7	12.1	13.2	10.6	13.6	14.4	14.1	12.0	18.5	18.9	19.7
40.0%	56.9%	55.0%	57.0%	37.7%	6.4%	19.4%	6.6%	13.3%	36.6%	30.8%	39.9%
4,790	4,856	4,859	4,799	4,802	4,878	4,885	4,831	4,839	4,911	4,920	4,869
0.6%	0.5%	0.4%	0.3%	0.3%	0.5%	0.5%	0.7%	0.8%	0.7%	0.7%	0.8%

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.[13]

Table 4: US and chain scale segment outlook

	Percent change from 2011 to 2012					Percent change from 2012 to 2013				
	Demand	Average room supply	Occupancy	ADR	RevPAR	Demand	Average room supply	Occupancy	ADR	RevPAR
Luxury	2.8	0.0	2.7	6.5	9.4	0.3	0.1	0.2	6.6	6.8
Upper upscale	2.4	(0.1)	2.4	5.3	7.8	0.9	0.5	0.4	6.0	6.4
Upscale	3.9	1.7	2.2	5.0	7.2	1.9	1.3	0.7	5.5	6.2
Upper midscale	5.4	2.6	2.7	3.7	6.6	1.9	1.2	0.7	4.5	5.2
Midscale	(0.3)	(3.3)	3.1	2.9	6.1	0.9	0.1	0.7	2.4	3.1
Economy	1.3	(0.4)	1.7	3.6	5.3	0.7	0.1	0.6	2.9	3.5
Independent hotels	3.4	0.8	2.6	4.0	6.7	1.3	0.6	0.7	4.9	5.6
US total	3.0	0.5	2.5	4.6	7.2	1.3	0.7	0.6	4.9	5.6

Source: Smith Travel Research; PwC

[13] 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 2010	2011	2012	2013	Comments
Luxury	(10.8)%	(4.1)%	2.9%	7.8%	Luxury hotel performance continues to rebound at an impressive pace. In the second quarter, the momentum of ADR gains strengthened, and occupancy continued to build. Luxury hotels operated at occupancy levels in the second quarter that were equivalent to an annualized occupancy rate of 73.1 percent, ahead of the annual average occupancy achieved in 2006 and 2007 of 72.5 percent. Though group demand accounts for a lower share of occupancy at luxury hotels than it did during those peak years, group room nights are picking up. ADR growth is expected to strengthen in 2012 and 2013. Construction of new hotels remains scarce.
Upper upscale	(8.3)	(5.3)	0.1	4.6	After several quarters in which upper upscale RevPAR gains were solid but not quite as strong as anticipated, second quarter results were a welcome improvement. RevPAR increased 7.6 percent over the prior year, representing stronger momentum in ADR gains, while continuing year-over-year improvements in occupancy. Looking forward, upper upscale hotels are expected to focus on rebuilding ADR. Transient ADR year-to-date through July 2012 was still 5.5 percent below 2007 levels. Upper upscale hotels are still rebuilding a base of group business (group occupancy contribution during the first half of 2012 was still 11.7 percent below 2007 levels), but there are indications that corporate group bookings, which tend to have a shorter booking window than association business, are picking up. Very few new hotels are under construction (current count is equivalent to approximately 1.5 percent of 2012 mid-year room supply, with planned opening dates spread over the next three years). The level of existing supply in the segment was negatively impacted by the conversion of the 2,995-room Las Vegas Hilton to an independent property, as well as the conversion of several smaller hotels, and as a result, supply growth for 2012 is estimated to be negative.
Upscale	(8.4)	(3.9)	1.0	5.3	The upscale segment includes a mix of more traditional full-service urban hotels, as well as smaller select-service hotels that are located in a mix of urban and suburban locations. Broadly in the US, in 2011 and the first half of 2012, there appears to be a stronger pick-up of group business at hotels with fewer than 300 rooms. This is positive news for such hotels, but this is also the type of group business that may fall off quickly if economic conditions worsen. 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 29.7 percent increase in rooms between the end of 2006 and the end of 2011. Assuming upscale hotels achieve 71.0 percent occupancy in 2012, it would represent the highest annual occupancy in the segment since 1998, when it had half as many rooms. 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. This segment continues to have a more active construction pipeline than any of the other segments, but even that level of activity is quite low (3.4 percent of existing supply).
Upper Midscale	(6.9)	(1.8)	2.5	5.9	The upper midscale segment held ADR levels during the recession better than the industry overall, but experienced greater declines in occupancy. Reporting of results for the upper midscale segment is still being impacted by the 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 designation, which is classified as upper midscale. While the majority of the affected properties were reclassified within the Smith Travel Research data by June 2011, there were still additional properties reclassified during the second half of 2011. The full-year operation of these properties continues to impact year-over-year comparisons. STR has reported that, adjusting for the reclassification, upper midscale performance was slightly stronger than is apparent in the published chain-scale data (occupancy year-to-date through June was up 4.0 percent on a same-store basis, compared to 3.7 percent as reported, and ADR was up 3.9 percent on a same-store basis, compared to 3.8 percent as reported).
Midscale	(10.3)	(11.2)	(7.7)	(6.6)	Consistent with the comments related to the upper midscale segment, year-over-year comparisons in the midscale segment are being impacted by the reclassification of Best Western properties (Best Western Plus properties to upper midscale, and Best Western Premier properties to upscale). STR has reported that, adjusting for the reclassification, midscale performance was slightly different than is apparent in the published chain-scale data (occupancy year-to-date through June was up 3.6 percent on a same-store basis, compared to 4.2 percent as reported, and ADR was up 3.5 percent on a same-store basis, compared to 2.7 percent as reported). Even with such comparison challenges, it is apparent that midscale hotels had a stronger second quarter performance than was anticipated, with RevPAR up 7.5 percent compared to the prior year, and as a result our outlook for 2012 as a whole has improved.
Economy	(14.2)	(11.7)	(8.9)	(7.4)	RevPAR performance in the economy segment has generally traced a weaker than average path. Results in the second quarter were better than anticipated; however, ADR growth is still expected to lag the US average over 2012 and 2013, as occupancy rates remain low. Supply growth in this segment occurs primarily through conversions, rather than new construction. Conversions out of the segment and closures have resulted in supply decreases during the first half of 2012, both in the economy chain scale segment, and in the economy and budget price scale segments reported by STR.
Independent hotels	(9.5)	(5.0)	(0.6)	3.0	Of the US inventory of hotel rooms at year-end 2011, 30.3 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	**(8.0)**	**(3.5)**	**1.4**	**5.1**	

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

Table 5: Luxury outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	65.2%	65.1%	65.9%	69.2%	71.7%	72.5%	72.5%	69.1%	63.6%	67.6%	71.1%	73.0%	73.2%
Percentage change from prior year	-12.3%	-0.2%	1.3%	5.1%	3.7%	1.0%	0.1%	-4.8%	-7.9%	6.3%	5.0%	2.7%	0.2%
Change in occupancy points	-9.1	-0.1	0.8	3.3	2.5	0.7	0.1	-3.5	-5.4	4.0	3.4	2.0	0.2
Average daily rate ($)	$229.61	$219.47	$217.56	$230.48	$249.55	$274.31	$292.94	$292.79	$243.12	$247.30	$261.16	$278.10	$296.33
Percentage change from prior year	-2.1%	-4.4%	-0.9%	5.9%	8.3%	9.9%	6.8%	-0.1%	-17.0%	1.7%	5.6%	6.5%	6.6%
Nominal RevPAR ($)	$149.74	$142.80	$143.33	$159.52	$179.02	$198.83	$212.50	$202.18	$154.70	$167.27	$185.56	$203.02	$216.78
Percentage change from prior year	-14.1%	-4.6%	0.4%	11.3%	12.2%	11.1%	6.9%	-4.9%	-23.5%	8.1%	10.9%	9.4%	6.8%
Inflation-adjusted RevPAR ($)	$165.15	$155.02	$152.10	$164.89	$179.02	$192.62	$200.12	$183.40	$140.78	$149.77	$161.08	$172.78	$181.06
Percentage change from prior year	-16.5%	-6.1%	-1.9%	8.4%	8.6%	7.6%	3.9%	-8.4%	-23.2%	6.4%	7.6%	7.3%	4.8%
Demand (thous.)	39.8	44.2	48.4	52.6	54.6	58.6	61.0	61.3	61.7	70.1	75.0	77.1	77.3
Percentage change from prior year	-4.4%	11.2%	9.4%	8.8%	3.8%	7.3%	4.1%	0.4%	0.8%	13.5%	7.0%	2.8%	0.3%
Average room supply (thous.)	61.0	68.0	73.4	76.0	76.2	80.9	84.1	88.7	97.0	103.6	105.5	105.5	105.6
Percentage change from prior year	9.0%	11.5%	8.1%	3.5%	0.2%	6.2%	4.0%	5.5%	9.4%	6.8%	1.9%	0.0%	0.1%

Note: Inflation-adjusted RevPAR is expressed in 2005 dollars.

Source: Smith Travel Research; PwC

Table 6: Upper upscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	65.2%	66.1%	66.2%	68.9%	70.7%	70.6%	70.5%	68.0%	63.2%	67.4%	69.3%	71.0%	71.3%
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%	2.4%	0.4%
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	1.7	0.3
Average daily rate ($)	$135.26	$129.20	$126.21	$131.00	$140.03	$149.96	$158.68	$161.03	$143.44	$142.59	$147.77	$155.55	$164.83
Percentage change from prior year	-2.9%	-4.5%	-2.3%	3.8%	6.9%	7.1%	5.8%	1.5%	-10.9%	-0.6%	3.6%	5.3%	6.0%
Nominal RevPAR ($)	$88.19	$85.34	$83.58	$90.28	$98.98	$105.90	$111.88	$109.52	$90.70	$96.12	$102.43	$110.44	$117.52
Percentage change from prior year	-12.3%	-3.2%	-2.1%	8.0%	9.6%	7.0%	5.6%	-2.1%	-17.2%	6.0%	6.6%	7.8%	6.4%
Inflation-adjusted RevPAR ($)	$97.26	$92.65	$88.70	$93.32	$98.98	$102.59	$105.36	$99.35	$82.54	$86.06	$88.92	$93.99	$98.16
Percentage change from prior year	-14.7%	-4.7%	-4.3%	5.2%	6.1%	3.7%	2.7%	-5.7%	-16.9%	4.3%	3.3%	5.7%	4.4%
Demand (thous.)	304.0	314.3	322.4	340.8	350.9	347.3	348.6	346.7	337.3	365.1	382.0	391.0	394.4
Percentage change from prior year	-6.2%	3.4%	2.6%	5.7%	2.9%	-1.0%	0.4%	-0.6%	-2.7%	8.2%	4.6%	2.4%	0.9%
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	550.7	553.2
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%	-0.1%	0.5%

Note: Inflation-adjusted RevPAR is expressed in 2005 dollars.

Source: Smith Travel Research; PwC

Table 7: Upscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	65.2%	65.1%	65.5%	68.7%	70.1%	70.1%	69.6%	67.3%	62.2%	66.7%	69.5%	71.0%	71.5%
Percentage change from prior year	-7.6%	-0.2%	0.7%	4.8%	2.1%	0.0%	-0.8%	-3.3%	-7.6%	7.3%	4.2%	2.2%	0.7%
Change in occupancy points	-5.3	-0.1	0.4	3.2	1.5	0.0	-0.5	-2.3	-5.1	4.5	2.8	1.5	0.5
Average daily rate ($)	$100.73	$96.10	$94.06	$97.35	$104.43	$114.20	$121.28	$122.76	$109.77	$107.60	$111.72	$117.25	$123.74
Percentage change from prior year	-0.7%	-4.6%	-2.1%	3.5%	7.3%	9.4%	6.2%	1.2%	-10.6%	-2.0%	3.8%	5.0%	5.5%
Nominal RevPAR ($)	$65.68	$62.53	$61.61	$66.84	$73.24	$80.11	$84.43	$82.62	$68.28	$71.81	$77.66	$83.27	$88.45
Percentage change from prior year	-8.2%	-4.8%	-1.5%	8.5%	9.6%	9.4%	5.4%	-2.1%	-17.4%	5.2%	8.2%	7.2%	6.2%
Inflation-adjusted RevPAR ($)	$72.44	$67.88	$65.39	$69.09	$73.24	$77.61	$79.51	$74.95	$62.14	$64.29	$67.42	$70.86	$73.88
Percentage change from prior year	-10.7%	-6.3%	-3.7%	5.7%	6.0%	6.0%	2.5%	-5.7%	-17.1%	3.5%	4.9%	5.1%	4.3%
Demand (thous.)	243.7	256.8	268.3	285.6	296.3	304.9	317.0	325.5	327.6	372.9	396.2	411.5	419.4
Percentage change from prior year	-0.4%	5.4%	4.5%	6.4%	3.8%	2.9%	4.0%	2.7%	0.6%	13.8%	6.2%	3.9%	1.9%
Average room supply (thous.)	373.7	394.7	409.6	415.9	422.4	434.7	455.3	483.7	526.6	558.8	569.9	579.5	586.8
Percentage change from prior year	7.8%	5.6%	3.8%	1.5%	1.6%	2.9%	4.7%	6.2%	8.9%	6.1%	2.0%	1.7%	1.3%

Note: Inflation-adjusted RevPAR is expressed in 2005 dollars.

Source: Smith Travel Research; PwC

Table 8: Upper midscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	61.8%	61.3%	60.9%	63.1%	65.2%	66.0%	65.1%	61.5%	55.4%	58.2%	61.3%	63.0%	63.4%
Percentage change from prior year	-4.8%	-0.8%	-0.6%	3.6%	3.3%	1.2%	-1.4%	-5.6%	-9.9%	5.1%	5.3%	2.7%	0.7%
Change in occupancy points	-3.1	-0.5	-0.3	2.2	2.1	0.8	-0.9	-3.6	-6.1	2.8	3.1	1.7	0.4
Average daily rate ($)	$74.38	$73.50	$73.51	$75.73	$80.95	$87.19	$93.44	$96.96	$91.48	$91.01	$93.93	$97.42	$101.83
Percentage change from prior year	0.9%	-1.2%	0.0%	3.0%	6.9%	7.7%	7.2%	3.8%	-5.6%	-0.5%	3.2%	3.7%	4.5%
Nominal RevPAR ($)	$45.95	$45.03	$44.78	$47.78	$52.78	$57.55	$60.84	$59.62	$50.67	$52.97	$57.58	$61.36	$64.56
Percentage change from prior year	-4.0%	-2.0%	-0.5%	6.7%	10.5%	9.0%	5.7%	-2.0%	-15.0%	4.5%	8.7%	6.6%	5.2%
Inflation-adjusted RevPAR ($)	$50.68	$48.88	$47.52	$49.39	$52.78	$55.75	$57.29	$54.09	$46.11	$47.43	$49.99	$52.22	$53.92
Percentage change from prior year	-6.6%	-3.5%	-2.8%	3.9%	6.9%	5.6%	2.8%	-5.6%	-14.7%	2.9%	5.4%	4.5%	3.3%
Demand (thous.)	417.7	427.1	435.6	454.8	466.0	470.3	471.1	459.4	430.7	465.9	515.0	543.0	553.3
Percentage change from prior year	-1.3%	2.3%	2.0%	4.4%	2.5%	0.9%	0.2%	-2.5%	-6.2%	8.2%	10.5%	5.4%	1.9%
Average room supply (thous.)	676.2	697.2	715.1	720.8	714.7	712.6	723.6	747.1	777.7	800.5	840.0	862.1	872.7
Percentage change from prior year	3.7%	3.1%	2.6%	0.8%	-0.8%	-0.3%	1.5%	3.2%	4.1%	2.9%	4.9%	2.6%	1.2%

Note: Inflation-adjusted RevPAR is expressed in 2005 dollars.

Source: Smith Travel Research; PwC

Table 9: Midscale outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	54.6%	53.6%	54.2%	56.5%	58.7%	59.1%	58.3%	55.5%	49.4%	51.6%	53.2%	54.9%	55.3%
Percentage change from prior year	-4.6%	-1.8%	0.9%	4.2%	4.0%	0.6%	-1.3%	-4.8%	-10.9%	4.4%	3.2%	3.1%	0.7%
Change in occupancy points	-2.7	-1.0	0.5	2.3	2.3	0.3	-0.8	-2.8	-6.0	2.2	1.6	1.6	0.4
Average daily rate ($)	$64.72	$63.87	$63.80	$65.30	$68.77	$73.05	$76.71	$78.67	$74.39	$73.10	$72.32	$74.40	$76.17
Percentage change from prior year	0.6%	-1.3%	-0.1%	2.3%	5.3%	6.2%	5.0%	2.6%	-5.4%	-1.7%	-1.1%	2.9%	2.4%
Nominal RevPAR ($)	$35.37	$34.27	$34.55	$36.87	$40.38	$43.14	$44.71	$43.63	$36.77	$37.73	$38.51	$40.85	$42.11
Percentage change from prior year	-4.1%	-3.1%	0.8%	6.7%	9.5%	6.9%	3.6%	-2.4%	-15.7%	2.6%	2.1%	6.1%	3.1%
Inflation-adjusted RevPAR ($)	$39.01	$37.20	$36.67	$38.11	$40.38	$41.80	$42.10	$39.58	$33.46	$33.78	$33.43	$34.76	$35.17
Percentage change from prior year	-6.7%	-4.6%	-1.4%	3.9%	6.0%	3.5%	0.7%	-6.0%	-15.5%	1.0%	-1.0%	4.0%	1.2%
Demand (thous.)	285.3	281.5	279.4	288.0	295.8	298.2	296.5	286.4	263.8	277.5	259.5	258.7	261.0
Percentage change from prior year	-4.8%	-1.3%	-0.8%	3.1%	2.7%	0.8%	-0.6%	-3.4%	-7.9%	5.2%	-6.5%	-0.3%	0.9%
Average room supply (thous.)	522.0	524.7	515.9	510.1	503.9	504.9	508.8	516.4	533.8	537.7	487.3	471.3	472.0
Percentage change from prior year	-0.1%	0.5%	-1.7%	-1.1%	-1.2%	0.2%	0.8%	1.5%	3.4%	0.7%	-9.4%	-3.3%	0.1%

Note: Inflation-adjusted RevPAR is expressed in 2005 dollars.

Source: Smith Travel Research; PwC

Table 10: Economy outlook

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	56.6%	55.0%	54.3%	55.6%	57.4%	57.2%	57.0%	54.1%	49.2%	51.6%	53.5%	54.4%	54.7%
Percentage change from prior year	-3.3%	-2.9%	-1.3%	2.5%	3.2%	-0.4%	-0.4%	-5.1%	-9.1%	5.0%	3.6%	1.7%	0.6%
Change in occupancy points	-2.0	-1.6	-0.7	1.4	1.8	-0.2	-0.2	-2.9	-4.9	2.5	1.9	0.9	0.3
Average daily rate ($)	$47.10	$46.81	$46.78	$47.82	$49.98	$52.71	$54.39	$55.01	$50.86	$49.28	$50.48	$52.27	$53.79
Percentage change from prior year	0.0%	-0.6%	-0.1%	2.2%	4.5%	5.4%	3.2%	1.1%	-7.5%	-3.1%	2.4%	3.6%	2.9%
Nominal RevPAR ($)	$26.68	$25.75	$25.39	$26.61	$28.71	$30.15	$31.00	$29.76	$25.00	$25.44	$27.00	$28.43	$29.42
Percentage change from prior year	-3.4%	-3.5%	-1.4%	4.8%	7.9%	5.0%	2.8%	-4.0%	-16.0%	1.7%	6.1%	5.3%	3.5%
Inflation-adjusted RevPAR ($)	$29.42	$27.96	$26.95	$27.50	$28.71	$29.21	$29.20	$26.99	$22.75	$22.78	$23.44	$24.19	$24.57
Percentage change from prior year	-6.0%	-5.0%	-3.6%	2.1%	4.4%	1.7%	0.0%	-7.6%	-15.7%	0.1%	2.9%	3.2%	1.6%
Demand (thous.)	421.2	412.4	402.3	411.7	426.0	424.8	432.0	417.7	384.3	404.3	419.6	425.0	428.1
Percentage change from prior year	-1.2%	-2.1%	-2.4%	2.3%	3.5%	-0.3%	1.7%	-3.3%	-8.0%	5.2%	3.8%	1.3%	0.7%
Average room supply (thous.)	743.6	749.6	741.2	739.9	741.8	742.6	757.9	772.1	781.7	783.2	784.4	781.5	782.6
Percentage change from prior year	2.2%	0.8%	-1.1%	-0.2%	0.3%	0.1%	2.1%	1.9%	1.2%	0.2%	0.2%	-0.4%	0.1%

Note: Inflation-adjusted RevPAR is expressed in 2005 dollars.

Source: Smith Travel Research; PwC

Table 11: Independent hotels

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Occupancy (percent)	58.7%	57.7%	58.1%	59.8%	61.2%	61.1%	61.1%	57.7%	52.4%	54.6%	57.0%	58.5%	58.9%
Percentage change from prior year	-5.1%	-1.7%	0.7%	2.9%	2.3%	-0.1%	-0.1%	-5.6%	-9.1%	4.2%	4.3%	2.6%	0.7%
Change in occupancy points	-3.2	-1.0	0.4	1.7	1.4	-0.1	0.0	-3.4	-5.2	2.2	2.4	1.5	0.4
Average daily rate ($)	$82.28	$82.06	$82.73	$86.73	$89.81	$95.62	$103.17	$107.27	$96.89	$97.57	$101.26	$105.36	$110.51
Percentage change from prior year	-0.9%	-0.3%	0.8%	4.8%	3.6%	6.5%	7.9%	4.0%	-9.7%	0.7%	3.8%	4.0%	4.9%
Nominal RevPAR ($)	$48.28	$47.36	$48.08	$51.88	$54.96	$58.45	$63.01	$61.86	$50.80	$53.29	$57.71	$61.59	$65.04
Percentage change from prior year	-6.0%	-1.9%	1.5%	7.9%	6.0%	6.3%	7.8%	-1.8%	-17.9%	4.9%	8.3%	6.7%	5.6%
Inflation-adjusted RevPAR ($)	$53.26	$51.41	$51.02	$53.62	$54.96	$56.62	$59.34	$56.11	$46.23	$47.72	$50.10	$52.42	$54.32
Percentage change from prior year	-8.6%	-3.5%	-0.8%	5.1%	2.5%	3.0%	4.8%	-5.4%	-17.6%	3.2%	5.0%	4.6%	3.6%
Demand (thous.)	849.5	836.3	849.8	876.9	896.7	894.3	892.1	849.7	771.6	806.0	846.9	875.7	887.1
Percentage change from prior year	-4.3%	-1.6%	1.6%	3.2%	2.3%	-0.3%	-0.3%	-4.8%	-9.2%	4.5%	5.1%	3.4%	1.3%
Average room supply (thous.)	1,447.7	1,449.1	1,462.3	1,466.1	1,465.3	1,463.2	1,460.6	1,473.5	1,471.6	1,475.7	1,485.9	1,497.8	1,507.1
Percentage change from prior year	0.8%	0.1%	0.9%	0.3%	-0.1%	-0.1%	-0.2%	0.9%	-0.1%	0.3%	0.7%	0.8%	0.6%

Note: Inflation-adjusted RevPAR is expressed in 2005 dollars.

Source: Smith Travel Research; PwC

Prepare for more than one future

We entered 2012 with robust expectations for the lodging sector, and thus far, the recovery appears to be on track. Performance gains have added to our confidence that businesses and consumers recognize and value travel as an integral part of commerce and life. Yet the experience of the recent recession remains close at hand. We anticipate that the economy will proceed on a delicate balance through the remainder of this year and likely into the start of next year, with no small risk that events aboard—or domestically—could tip us back into recession. In such a scenario, travel activity would be anticipated to once again pull back more sharply than the broader economy. The implication for hospitality sector leaders is clear: set the vision for growth in the competitive environment, but also challenge teams to embrace adaptability. It's an uncertain world, prepare for more than one future by taking time to ask, *what if?*

Develop a blueprint for resilience: *What if?*

The Eurozone crisis intensifies, financial markets plummet, and travel pulls back
Policy makers delay resolution of the impending "fiscal cliff," undermining the US recovery
Instability in the Middle East, such as a situation in which imposition of full sanctions on Iran elicits a response, causes oil prices to spike sharply
China's growth decelerates even further, eluding an aggressive policy response
Congress fundamentally reforms the visa system and entry process,[14] or, the US adds Brazil to the visa waiver program and inbound travel to Miami and other US destinations expands[15, 16]
Consumers embrace simplified travel research and booking tools, altering existing patterns
The lodging sector responds to PwC research findings that indicate "issue resolution" is highly valued by guests, and re-asserts lodging's reputation for "hospitality" in the modern era[17]

[14] U.S. Travel Association. (2012, May 12) *U.S. Travel Commends New Bipartisan House and Senate JOLT Bills* [Press release] Retrieved from: http://www.ustravel.org/news/press-releases/us-travel-commends-new-bipartisan-house-and-senate-jolt-bills

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

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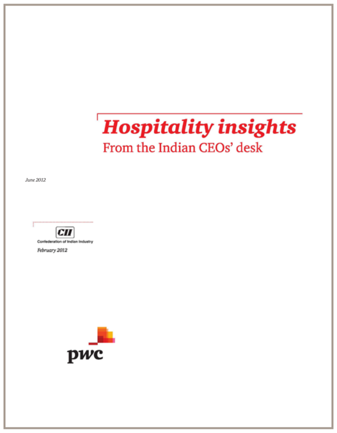
Further reading



Hospitality insights
From the Indian CEOs' desk

pwc

10Minutes
on the Eurozone sovereign debt crisis

pwc

Minimizing surprises despite Eurozone uncertainties

Hospitality insights from the Indian CEOs' desk

Which types of Indian markets are being looked to as sources of growth? What growth strategies are most popular? How is procurement being managed? What are the key challenges to growth? With a view to bring out the relevant industry insights, PwC India interviewed 20 eminent CEOs on the following parameters:

- Trends for the future
- Growth strategies
- Key to sustainable growth
- Challenges and expectations

The responses provide a compelling view of trends in this major developing market.

10Minutes on the Eurozone sovereign debt crisis

The Eurozone crisis is unfolding in ways that will have deep, unpredictable and volatile impacts on business for the foreseeable future. The crisis is driving companies to rethink their approach to business, starting with their global footprints and how they set strategies and position operations to compete. The depth and breadth of this impact is challenging many companies to manage through the crisis, but it is also bringing opportunity to those prepared to act.

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