

Hospitality Directions US

Our updated lodging outlook

Room rate driven RevPAR gains take hold in 2015, as the US lodging industry flirts with highest occupancy levels since 1984

Our updated outlook for 2014 anticipates:

RevPAR growth of **8.2%**
with accelerating group
demand contributing to
stronger occupancy gains



Our updated outlook for 2015 anticipates:



Hotels achieving highest
occupancy level since
1984

RevPAR
increasing 7.4%;
over 80%
coming from
room rate



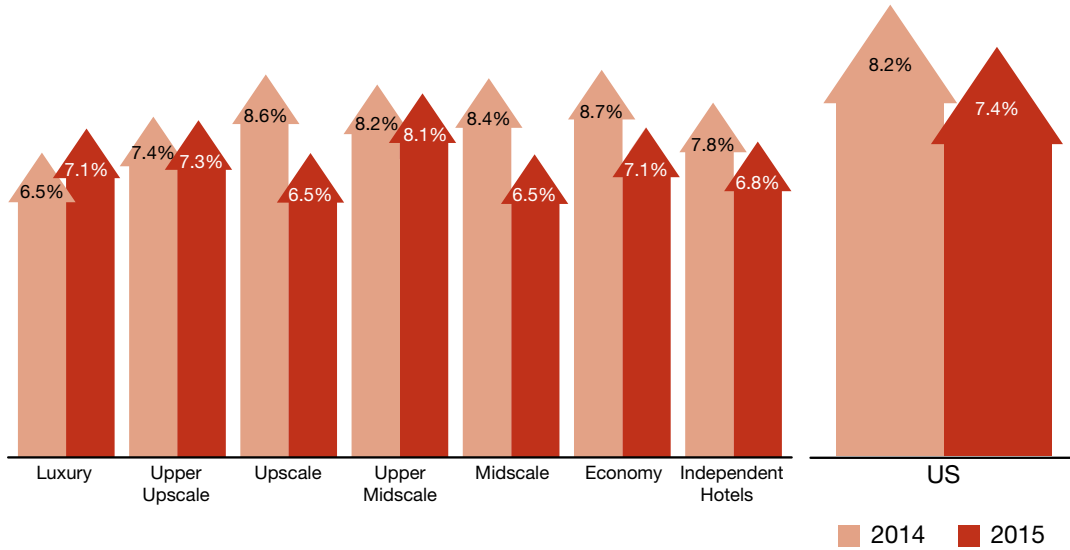
1.4%

Supply growth, at 1.4%,
gaining momentum as it
heads towards the long-
term average of 1.9%

In the third quarter, group demand pace far exceeded growth in transient demand, driving industry-wide occupancy that was stronger than, and average daily rate levels that were in-line with, our expectations in August. During the first nine months of the year, both transient and group demand exhibited solid momentum, with the year-over-year pace of recovery in group demand outpacing the transient segment. Increased momentum of group demand growth during the third quarter is expected to continue in the fourth quarter, and into 2015. Lodging operators are reporting solid forward momentum in group pace for 2015. This strong outlook for group demand, coupled with continued strong transient travel activity and a positive economic environment, supports our expectation of a solid 8.2% RevPAR increase in 2014. In 2015, supply growth is expected to accelerate, resulting in moderating growth in occupancy. Still, industry-wide occupancy levels are expected to reach 64.9%, the highest since 1984, providing hotel operators with leverage to drive more aggressive pricing.

Three factors are central to our updated lodging outlook. First, a strong macroeconomic context is assumed, with a reversal from fiscal drag to a slight boost, and continuing improvement in financial conditions, including improved balance sheets and easing lending conditions. Second, strong momentum in travel activity continues in the fourth-quarter, and throughout 2015. Air travel activity remains strong, with airline load factors of approximately 85%, indicating continued strength in business and leisure travel. Third, despite an increasing pipeline of hotels, supply growth remains below the long-term average in both 2014 and 2015. The supply pipeline continues to expand, with hotels under construction increasing approximately 40% in the third quarter, compared to the same period last year. As a result, our outlook anticipates supply growth to accelerate to 1.4% in 2015, but remain below the long-term average annual increase of 1.9%.

Figure 1: RevPAR growth, US and chain scales

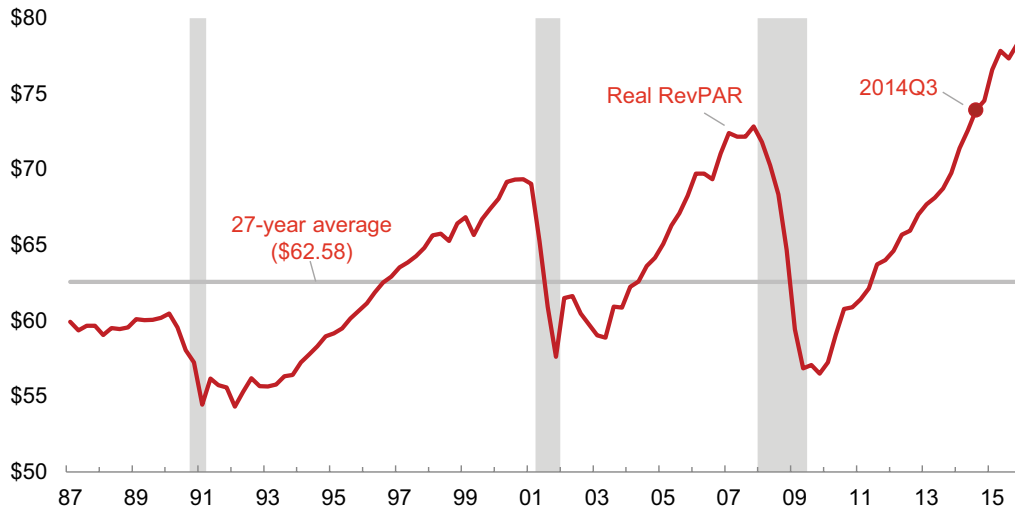


Source: PwC

Hospitality Directions Outlook

For detailed outlook tables covering the US and each of the chain scales, please access the [Hospitality Directions Outlook](#) available online.

Figure 2: RevPAR, real (2013 dollars)



Source: STR; Bureau of Economic Analysis; Macroeconomic Advisers, LLC (forecast released October 2014); PwC

Economic momentum remains intact

According to Macroeconomic Advisers, LLC, the US economy showed strong momentum in the second quarter, with GDP rising at an annualized pace of 4.6%, as it rebounded from a first quarter decline. In the third quarter, monthly indicators point to strong continued momentum, with GDP expected to increase at a solid annualized pace of 3.3%. Overall, Macroeconomic Advisers now expects GDP to increase 2.2% in 2014, approximately two-tenths of a point higher than in our August forecast. In 2015, economic growth is expected

to continue at an above-trend pace of 2.8%, approximately three-tenths of a point lower than in our August forecast, with the slight decline driven, in part, by rising value of the US Dollar. Nonetheless, the underlying fundamentals of economic growth remain strong, including decreasing unemployment rates, absence of fiscal drag, easing lending conditions, and firming household balance sheets. While downside risks continue to be minimal, the pace of the housing market's recovery still remains a concern.

Table 1: US outlook (released November 10, 2014)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Demand growth	2.8%	0.4%	0.7%	-2.5%	-6.2%	7.2%	4.6%	2.8%	2.1%	4.3%	2.5%
Supply growth	-0.1%	0.2%	1.2%	2.4%	2.8%	1.7%	0.5%	0.4%	0.7%	0.9%	1.4%
Room starts, % change	2.6%	66.1%	4.9%	-9.2%	-63.7%	-39.1%	56.5%	27.0%	25.1%	35.6%	39.5%
Occupancy	63.0%	63.2%	62.8%	59.8%	54.6%	57.5%	59.9%	61.3%	62.1%	64.2%	64.9%
% change	2.9%	0.2%	-0.5%	-4.8%	-8.8%	5.4%	4.2%	2.3%	1.4%	3.4%	1.1%
Average daily rate	\$91.03	\$97.83	\$104.32	\$107.39	\$98.16	\$98.21	\$101.93	\$106.21	\$110.41	\$115.57	\$122.77
% change	5.6%	7.5%	6.6%	2.9%	-8.6%	0.1%	3.8%	4.2%	4.0%	4.7%	6.2%
RevPAR	\$57.37	\$61.78	\$65.55	\$64.24	\$53.55	\$56.46	\$61.04	\$65.08	\$68.61	\$74.24	\$79.70
% change	8.6%	7.7%	6.1%	-2.0%	-16.6%	5.4%	8.1%	6.6%	5.4%	8.2%	7.4%
GDP, % change Q4/Q4	3.0%	2.4%	1.9%	-2.8%	-0.2%	2.7%	1.7%	1.6%	3.1%	2.2%	2.8%
Inflation, % change	2.9%	2.7%	2.5%	3.1%	-0.1%	1.7%	2.5%	1.8%	1.2%	1.4%	1.3%

Source: STR; Bureau of Economic Analysis; Macroeconomic Advisers, LLC (forecast released October 2014); MHC Construction Analysis System; PwC

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

Chain scale	2014					2015				
	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	1.8	1.1	0.7	5.7	6.5	2.1	2.0	0.1	7.0	7.1
Upper upscale	3.6	1.4	2.2	5.1	7.4	2.0	1.0	0.9	6.4	7.3
Upscale	6.9	3.5	3.3	5.1	8.6	5.2	4.5	0.6	5.9	6.5
Upper midscale	4.4	0.6	3.8	4.3	8.2	3.7	2.0	1.7	6.3	8.1
Midscale	3.4	(0.7)	4.1	4.1	8.4	1.9	0.1	1.7	4.7	6.5
Economy	4.1	0.3	3.8	4.7	8.7	2.0	0.5	1.5	5.5	7.1
Independent hotels	3.7	0.6	3.1	4.5	7.8	0.9	0.7	0.3	6.5	6.8
US total	4.3	0.9	3.4	4.7	8.2	2.5	1.4	1.1	5.2	7.4

Source: PwC, based on STR data

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To have a discussion about Hospitality Directions US, please contact:

Scott D. Berman

Principal and US Industry Leader, Hospitality & Leisure
Phone: +1 (305) 375 6210

Warren Marr

Managing Director,
Hospitality & Leisure
Phone: +1 (267) 330 3062

Abhishek Jain

Director, Hospitality & Leisure
Phone: +1 (646) 471 2016

Address all inquiries to: contact.hospitality@us.pwc.com

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Definitions and information requests

Abbreviated terms include average daily rate (“ADR”), revenue per available rooms (“RevPAR”), and real gross domestic product (“GDP”). Growth rates are percentage change in annual averages, except GDP growth, which is expressed on a fourth-quarter-over-fourth-quarter basis. The personal consumption expenditure price index is used to measure inflation, including the conversion of RevPAR to constant dollars, which is reported as real RevPAR.

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For more information, please contact Maridel Gutierrez at (305) 375-6253, maridel.gonzalezgutierrez@us.pwc.com or email us at contact.hospitality@us.pwc.com.