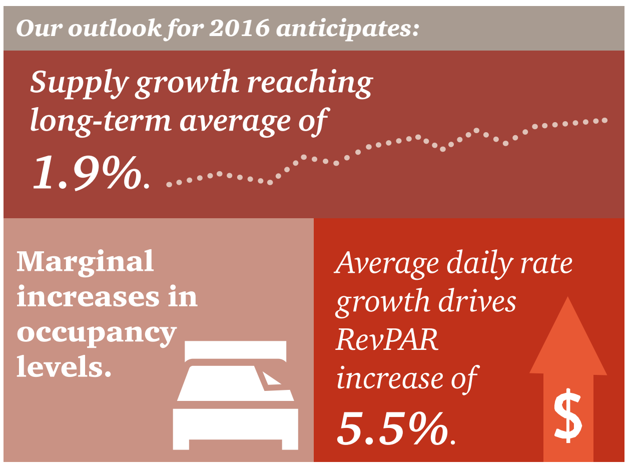
January 2016

Hospitality Directions US

Our updated lodging outlook

Average daily rate reluctantly takes the driver's seat



Performance of the US lodging sector during the fourth quarter was lackluster, with hotels struggling to meaningfully increase average daily rates, even as occupancy levels continued to increase, albeit at a slower pace. The overarching question related to the lack of average daily rate growth, despite peak occupancy levels, raise concerns among industry participants. Recent trends continue to point to hotels' lack of ability to meaningfully increase rates, with Luxury hotels trailing other chain scale segments in pricing power in the fourth quarter. While overall demand conditions in the US remain favorable, contributing to still increasing occupancy levels, the subdued increases in average daily rates appear to be impacted, in part, by the continued strength of the US Dollar, especially in select gateway markets, as well as the distribution channels that are increasingly driving this growth in occupancy.

Demand trends are expected to remain strong in 2016, driven by a number of factors, including continued economic growth and improving group demand. The pace of supply growth is expected to increase to 1.9%, reaching the long-term average. As a result, our outlook anticipates a marginal increase in occupancy levels to 65.7%; the highest since 1981. With occupancy levels at a 35-year high, increased confidence amongst hotel operators and brands is expected to result in more meaningful average daily rate increases, albeit offset by the continued strength of the US Dollar, resulting in RevPAR growth of 5.5%; approximately 20 basis points lower than in our November forecast.

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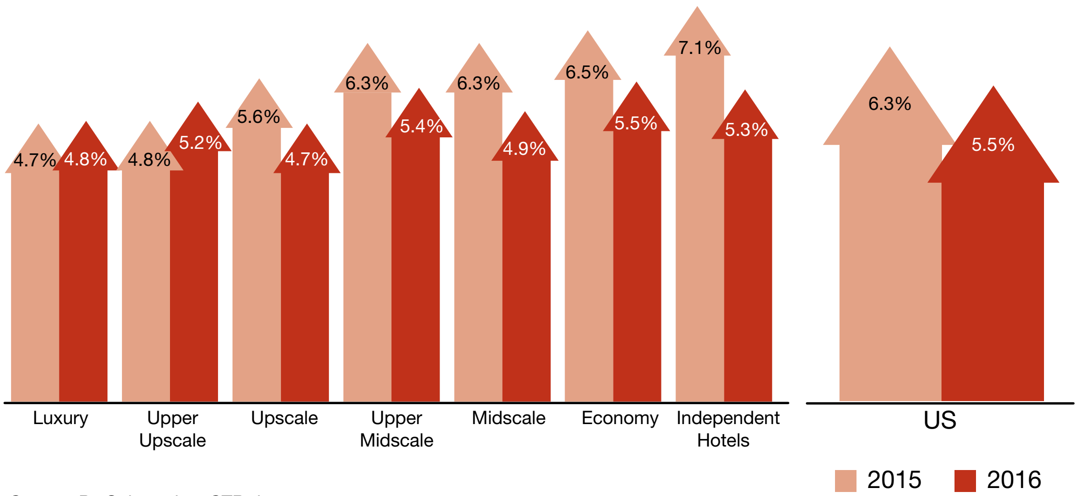
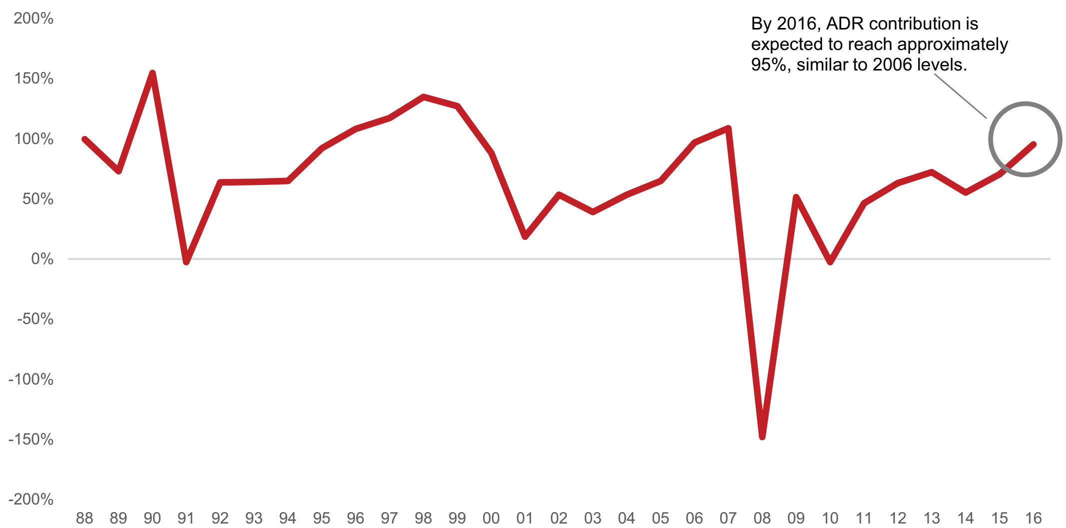
Figure 1: RevPAR growth, US and chain scales



Source: PwC, based on STR data

Figure 2: ADR contribution to RevPAR growth



Source: PwC, based on STR data

Hospitality Directions Outlook Tables

For detailed outlook tables covering the US and each of the chain scales, please access the Hospitality Directions Outlook Tables available online.

Signs of economic growth concerns surface

Solid economic performance in the third quarter of 2015 appears to have been overshadowed by loss of momentum in the fourth quarter. According to Macroeconomic Advisers, LLC, GDP during the fourth quarter of 2015 is expected to have grown by only 0.5 percent, impacted by a number of factors, including weak inventory investment and net exports, which appear to have been impacted by the continued strength of the US Dollar. Overall, GDP is now expected to increase at an annualized pace of approximately 2.4% in 2016, approximately 10 basis points lower than in our November forecast, driven by less economic momentum and less favorable financial conditions, including the US Dollar, stock prices and corporate spreads. However, the strong fundamentals of employment, wages, and wealth – aided by solid housing price gains – are expected to help partially offset lack of momentum in the economy and unfavorable financial conditions. Downside risks to the GDP forecast include sharper-than-expected slowing in China, a stronger-than-expected US Dollar, widening conflict in the Middle East, and reduction in the pace of recovery in housing prices, among others.

Table 1: US outlook (released January 25, 2016)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Demand growth	0.4%	0.7%	-2.5%	-6.2%	7.3%	4.7%	2.7%	2.0%	4.2%	2.9%	2.1%
Supply growth	0.2%	1.2%	2.4%	2.8%	1.7%	0.4%	0.4%	0.6%	0.7%	1.1%	1.9%
Room starts, % change	66.1%	4.9%	-9.2%	-63.7%	-39.1%	56.5%	26.3%	27.1%	35.3%	12.0%	35.6%
Occupancy	63.2%	62.8%	59.8%	54.6%	57.6%	60.0%	61.4%	62.3%	64.4%	65.5%	65.7%
% change	0.2%	-0.5%	-4.8%	-8.8%	5.6%	4.2%	2.3%	1.4%	3.5%	1.7%	0.2%
Average daily rate	$97.83	$104.32	$107.39	$98.16	$98.03	$101.74	$106.01	$109.99	$114.95	$120.04	$126.28
% change	7.5%	6.6%	2.9%	-8.6%	-0.1%	3.8%	4.2%	3.8%	4.5%	4.4%	5.2%
RevPAR	$61.78	$65.55	$64.24	$53.55	$56.45	$61.04	$65.10	$68.47	$74.04	$78.67	$82.96
% change	7.7%	6.1%	-2.0%	-16.6%	5.4%	8.1%	6.6%	5.2%	8.1%	6.3%	5.5%
GDP, % change Q4/Q4	2.4%	1.9%	-2.8%	-0.2%	2.7%	1.7%	1.3%	2.5%	2.5%	1.7%	2.4%
Inflation, % change	2.7%	2.5%	3.1%	-0.1%	1.7%	2.5%	1.9%	1.4%	1.4%	0.3%	1.2%

Source: STR; Bureau of Economic Analysis; Macroeconomic Advisers, LLC (forecast released January 11, 2016); MHC Construction Analysis System; PwC

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

	2015					2016				
Chain scale	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	1.2	0.7	0.5	4.2	4.7	1.5	2.0	(0.5)	5.3	4.8
Upper upscale	2.0	1.3	0.7	4.0	4.8	1.3	1.3	0.0	5.2	5.2
Upscale	4.8	4.1	0.7	4.9	5.6	4.7	5.0	(0.3)	5.0	4.7
Upper midscale	3.3	1.3	1.9	4.3	6.3	4.4	3.6	0.7	4.6	5.4
Midscale	2.1	0.1	2.1	4.2	6.3	1.9	1.2	0.6	4.3	4.9
Economy	1.6	0.2	1.4	5.0	6.5	(0.1)	(0.4)	0.2	5.2	5.5
Independent hotels	3.0	0.5	2.5	4.4	7.1	0.9	1.0	(0.1)	5.5	5.3
US total	**2.9**	**1.1**	**1.7**	**4.4**	**6.3**	**2.1**	**1.9**	**0.2**	**5.2**	**5.5**

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@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 +1 305 375 6253, maridel.gonzalezgutierrez@pwc.com or email us at contact.hospitality@pwc.com.