

Hospitality Directions **US**

May 2014

Our updated lodging outlook

Highlights

Group demand strengthens, while occupancy and rate growth accelerate in lower priced chain-scale segments.

Our updated outlook for 2014 anticipates:

- RevPAR growth of 6.5%, with stronger occupancy growth than previously expected
- Demand growth of 3.1%, with group demand picking up pace significantly
- Accelerating recovery in lower priced chain-scale segments

Our outlook for 2015 anticipates:

- RevPAR growth of 6.4%, driven primarily by rate growth
- Increasing supply growth, at 1.3%, continuing to narrow the gap towards long-term average of 1.9%

Our outlook assumes rebounding economic growth, as temporary factors restraining growth in the first quarter recede and the underlying momentum of the recovery shows through. We assume GDP growth of 2.6% in 2014 and 3.3% in 2015 (Q4/Q4 basis).

Room rate gains accelerate in 2015, as group demand strengthens and recovery gains momentum in lower priced chain-scale segments

Despite a lackluster performance by the US economy in the first quarter, the lodging sector outperformed expectations. Group demand growth, which had been trailing the recovery in transient demand, accelerated in the first quarter. Continued recovery in the group segment and rebounding economic momentum supports our expectations of a solid 6.5% RevPAR growth in 2014. In 2015, as supply growth accelerates, occupancy growth is expected to moderate to 1.3%. However, as many hotels more frequently reach occupancy constraints, pricing power is expected to accelerate, resulting in a solid 5.1% growth in average daily room rates.

Our updated lodging outlook incorporates recent hotel performance – strong recovery in demand, driven most recently by the group segment – and a macroeconomic environment that is expected to improve, after a recent temporary weakness. Our outlook for supply continues to anticipate 1.0% growth in 2014, accelerating to 1.3% in 2015, as construction of new hotels gathers momentum (up 44.5% in the first quarter, compared to the same quarter last year). The lodging cycle has entered a new phase, with RevPAR recovery now beginning to percolate down to lower priced chain-scale segments, as hotels in the higher priced segments implement revenue management strategies to manage a stronger-than-expected recovery in group demand. In particular, upper midscale hotels are on track to surpass peak occupancy levels in 2015, while hotels in the midscale and economy chain-scale segments are anticipated to approach their prior peak occupancy levels.

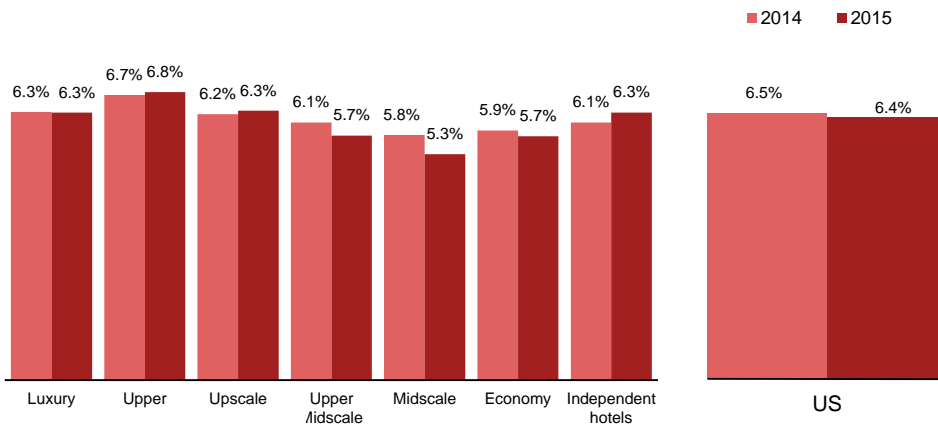
Economic momentum interrupted, regaining traction as temporary factors dissipate

Economic growth almost stalled during the first quarter, with GDP increasing only 0.1%, driven primarily by abnormal weather conditions. In the second quarter, temporary factors, such as weather, are expected to reverse, boosting economic growth to 3.7%. Macroeconomic Advisers now anticipates GDP to grow 2.6% in 2014, one-half of a point less than previously expected, reflecting the unexpectedly weak first quarter. In 2015, economic growth is expected to accelerate to 3.3%, driven by firming employment levels, improving financial conditions, and lessening fiscal drag. Downside risks have continued to ease, but near-term risks related to a tepid recovery in the domestic housing sector continue to linger.



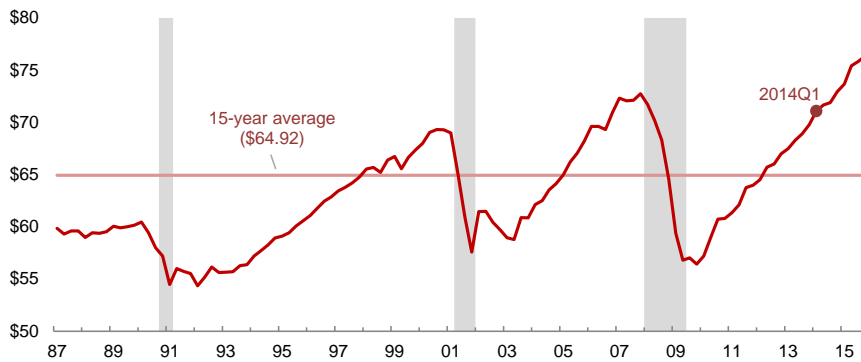
Outlook at a glance

Figure 1: RevPAR growth, US and chain scales



Source: PwC

Figure 2: RevPAR, real (2013 dollars)



Source: Smith Travel Research; Bureau of Economic Analysis; Macroeconomic Advisors, LLC (forecast released May 2014); PwC

US and chain scale performance

Table 1: US outlook (released May 19, 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%	2.2%	3.1%	2.5%
Supply growth	-0.1%	0.2%	1.2%	2.4%	2.8%	1.7%	0.5%	0.4%	0.7%	1.0%	1.3%
Room starts, % change	2.6%	66.1%	5.3%	-9.5%	-63.8%	-39.1%	56.5%	26.7%	23.8%	32.9%	32.7%
Occupancy	63.0%	63.2%	62.8%	59.8%	54.6%	57.5%	59.9%	61.3%	62.2%	63.5%	64.3%
% change	2.9%	0.2%	-0.5%	-4.8%	-8.8%	5.4%	4.2%	2.4%	1.5%	2.1%	1.3%
Average daily rate	\$91.03	\$97.83	\$104.32	\$107.39	\$98.16	\$98.20	\$101.93	\$106.21	\$110.33	\$115.06	\$120.88
% change	5.6%	7.5%	6.6%	2.9%	-8.6%	0.0%	3.8%	4.2%	3.9%	4.3%	5.1%
RevPAR	\$57.37	\$61.78	\$65.55	\$64.24	\$53.55	\$56.46	\$61.04	\$65.10	\$68.64	\$73.08	\$77.74
% change	8.6%	7.7%	6.1%	-2.0%	-16.6%	5.4%	8.1%	6.6%	5.4%	6.5%	6.4%
GDP, % change Q4/Q4	3.0%	2.4%	1.9%	-2.8%	-0.2%	2.8%	2.0%	2.0%	2.6%	2.6%	3.3%
Inflation, % change	2.9%	2.7%	2.5%	3.1%	-0.1%	1.7%	2.4%	1.8%	1.1%	1.4%	1.5%

Source: Smith Travel Research; Bureau of Economic Analysis; Macroeconomic Advisors, LLC (forecast released May 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	1.9	1.4	0.5	5.8	6.3	1.3	1.1	0.3	6.0	6.3
Upper upscale	3.1	1.3	1.7	4.9	6.7	1.7	1.4	0.3	6.4	6.8
Upscale	5.5	3.5	1.9	4.2	6.2	3.4	3.0	0.4	5.9	6.3
Upper midscale	3.9	1.0	2.9	3.1	6.1	4.7	2.6	2.1	3.5	5.7
Midscale	2.1	(0.3)	2.4	3.3	5.8	2.6	0.5	2.1	3.2	5.3
Economy	2.3	0.3	2.0	3.8	5.9	2.6	0.4	2.2	3.5	5.7
Independent hotels	2.2	0.5	1.7	4.3	6.1	1.2	0.5	0.7	5.6	6.3
US total	3.1	1.0	2.1	4.3	6.5	2.5	1.3	1.3	5.1	6.4

Source: PwC

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.

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Definitions and information requests

Abbreviated terms include average daily room rate (“ADR”), room revenue per available room (“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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