

STR LODGING REVIEW

May 1, 2007 Volume 7, Issue SA1

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STR Lodging Review – Special Analysis

LODGING REVIEW SMITH TRAVEL RESEARCH FIRST QUARTER 2007

Total U.S. room occupancy in the first three months of 2007 was 59.5 percent, nearly 1 percent below the same period last year although still the third highest for the quarter in the past ten years. The number of rooms sold increased only .3 percent from a year ago while supply rose more than 1 percent. Revenue per available room increased over 5 percent due entirely to the higher average room rate. Business travel held up fairly well during the quarter but leisure travel was down significantly. This can be attributed to several factors including the continued high cost of gasoline; the depressed housing market and a general lack of consumer confidence in the economy.

We analyzed the TRENDS by quarter for the past 10 years and discuss the results in detail in the special analysis that follows these introductory comments. Some highlights of the performance of the lodging industry in the first quarter of 2007 are as follows:

- ◆ The average room rate increased by over 6 percent to \$102.71, the first time over \$100 in the first quarter, and the highest we have reported. The rate change was the second highest in the last ten years.
- ◆ Room occupancy in the Top 25 Markets was 66.5 percent, a decrease of almost 1 percent from the same period a year ago. Room demand showed no change while the number of available rooms rose almost 1 percent. In All Other Markets occupancy dropped 1 percent as the slight improvement in demand (.4 percent) was offset by a rise of over 1 percent in the number of available rooms.
- ◆ Based on market share of supply, the *Commercial* hotel markets and those that cater to *Both* business and leisure travelers provided over one-half of the change in the national number of rooms sold while those properties in the *Resort* markets reported a significant drop compared to the first quarter of 2006.

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- ◆ The increase in demand in the first quarter was shared by four of the nine regions while hotels in the Mountain states reported no change and those in the South Atlantic, South Central and Pacific regions showed declines, generally less than 1 percent. The lower-priced properties reported drops in demand as did those in Suburban and Resort locations. The largest increase was over 4 percent in the North Central region, apparently in the higher-priced hotels and those at Airport and Interstate locations.

SPECIAL ANALYSIS: PERFORMANCE MEASURES IN THE FIRST QUARTER

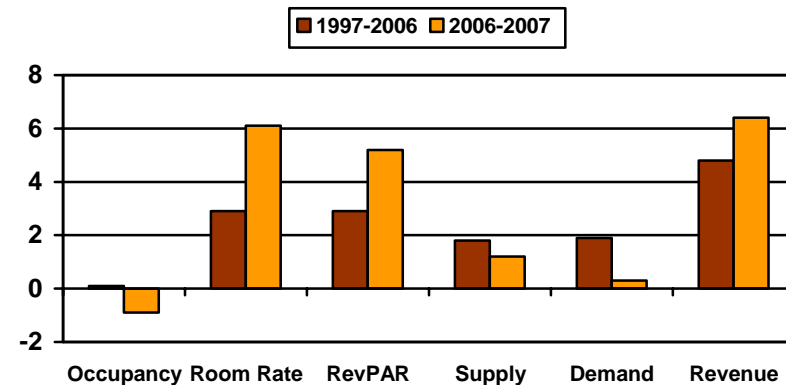
Since 1997 the STR database has grown by nearly 7 thousand hotels with over 730 thousand rooms, a growth rate of 20 percent. Unfortunately the number of rooms sold in the first quarter has increased only 19 percent so that room occupancy during the period has dropped slightly (.6 percent). The lowest occupancy in the last ten years was 54.4 percent during the first three months of 2003. Room revenue in the first quarter of 2007 was over \$24 billion, a 61 percent increase over the same period in 1997 due entirely to the growth in available rooms and a rise of 35 percent in ADR. In the first quarter during the past 10 years, hotel operators have produced 23 percent of the annual room revenue from approximately the same percentage of annual demand. Other highlights of our analysis of the TRENDS in the

first quarter of the years 1997 to 2007 are discussed in the text and illustrated by the accompanying charts.

Performance Measures – Chart 1

Except for the changes in supply, demand and room occupancy, the performance measures of the industry were significantly greater in the first quarter of 2007 than the average annual changes of the preceding 10 years. The comparison is shown in Chart 1. The changes of 6.4 percent in Room Revenue and 5.2 percent in RevPAR were the lowest since the beginning of the recovery in 2004 as was the slight increase of less than 1 percent in demand.

Chart 1 Total U.S. Hotels
Changes in Performance Ratios First Quarter 2007 vs. 2006 and Annual Average 1997 to 2006

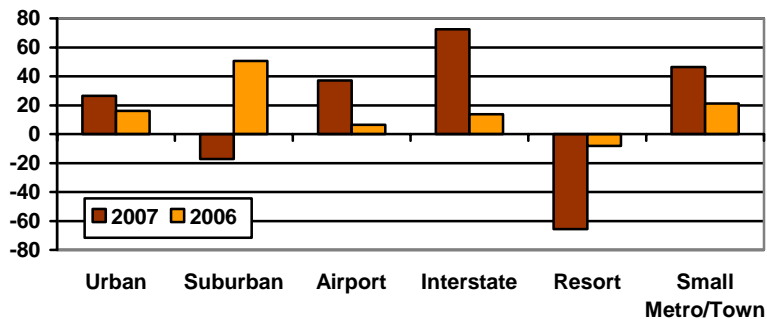


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Comparison of Portions of Changes in Demand – Chart 2

In the first quarter of 2007, hotels located in Urban areas contributed a 65 percent larger portion of the national change in demand than in 2006. The comparison is shown in Chart 2. The change in Suburban hotels was even more drastic as they failed to contribute to the national figure. Airport properties reported over six times the portion of last year while those properties on Interstate locations more than quintupled their share. The severe drop in the portion attributable to Resort locations is further indication of the decline in leisure travel previously mentioned. Small Metro/Town locations in 2007 received almost 50 percent of the national change in demand in spite of the high cost of gasoline.

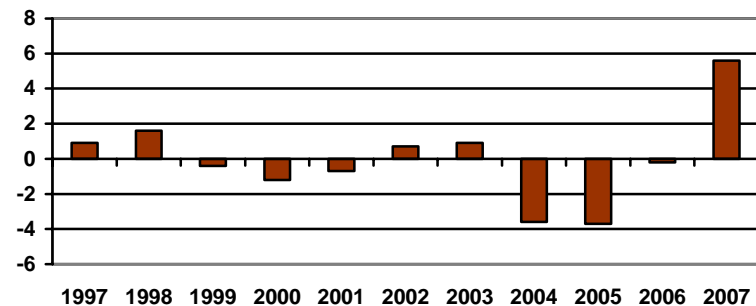
**Chart 2 Total U.S. Hotels - By Location
Portions of Change in Total Demand
First Quarter 2007 vs. 2006**



Variance Between Actual ADR and Fitted Value – Chart 3

The correlation between the number of rooms sold and the average room rate in the first quarter has been over 90 percent in the past ten years. In Chart 3 we show the variance between the actual ADR and what it would have been (fitted value) using the regression formula (demand times calculated variable plus a constant). For eight of the past ten years the variation has been relatively slight: however, in 2004-2005 the actual ADR was significantly below the calculated amount based on the demand. As we have pointed out previously this was a period of recovery and operators hesitated to increase rates until convinced that the increase in demand was real. However, in 2007 the ADR increased significantly while demand showed only a slight change.

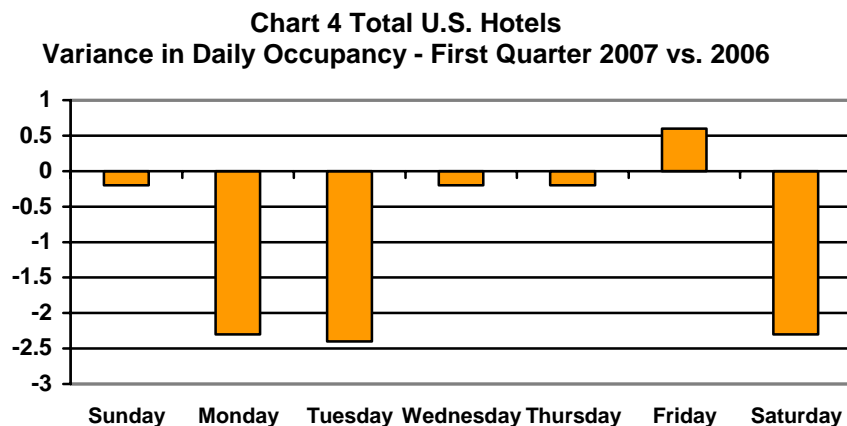
**Chart 3 Total U.S. Hotels
Variance Between Actual ADR and Fitted Value Based on
Regression Formula First Quarter 1997-2007**



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Variance in Daily Occupancy – Chart 4

Using the *daySTAR* reports for the periods, we compared the daily occupancies reported for the first quarters of 2007 and 2006. The variances are shown in Chart 4. The lower demand affected all days of the week except Friday, but Mondays, Tuesdays and Saturdays were particularly poor.



Summary

The analysis of the TRENDS for the first quarter of the past ten years shows a relatively poor performance of the industry so far in 2007. The economy is sluggish and the steadily rising cost of energy and the poor housing market continue to impact leisure travel. However, the continued increase in the ADR and growth in the number

of available rooms are expected to produce room revenue for 2007 of over \$107 billion, an increase of more than 7 percent from a year ago and the highest we have reported.

Outlook

Based on the portions of the annual results achieved in the first quarter of the past ten years, we have prepared the following estimates for 2007. All factors are the average portions of the annual amounts since 1997. This does not represent a change in our forecast for the industry and there is no guarantee that the actual results will follow the pattern of previous years. History can sometimes provide a good basis for estimates of future performance.

Measure	First Quarter 2007	Factor	Estimate 2007
Room Occupancy	59.5%	1.069	63.6%
Average Room Rate	\$102.71	.993	\$102.02
RevPAR	\$61.14	1.062	\$64.92
Change in:			
Supply	1.2%	4.111	.8*
Demand	.3%	4.394	1.2%*
Room Revenue	6.4%	4.365	6.0%*

* Current amount multiplied by factor minus measure for 2006