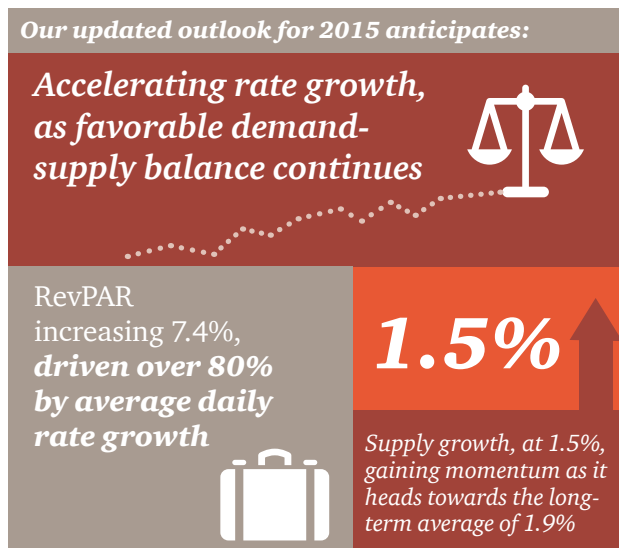


Hospitality Directions US

Our updated lodging outlook

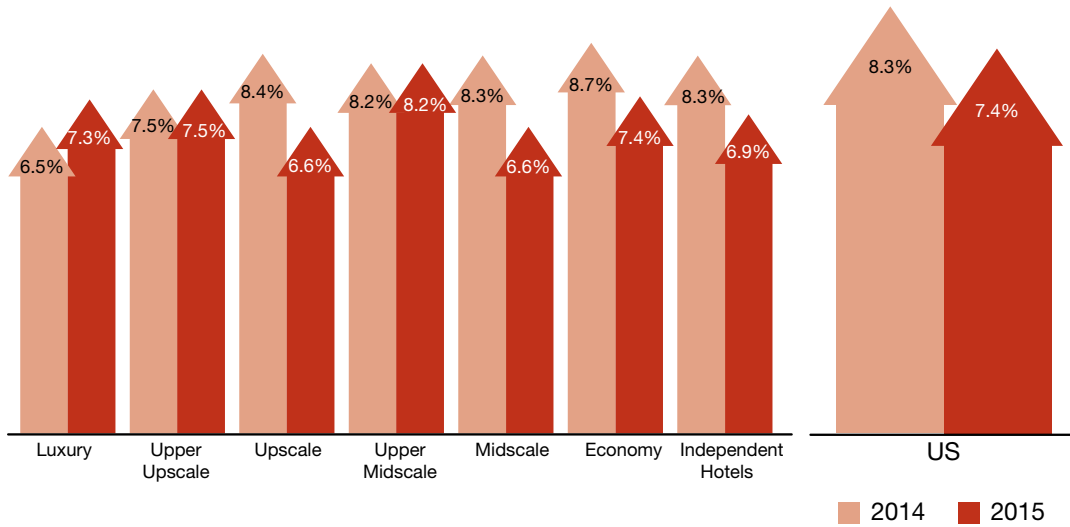
Average daily rate growth takes the driver's seat, as occupancy reaches peak levels



2014 shaped up to be a year of surprises for the US lodging industry – while the US economy languished during the first quarter, experiencing a 2.1% decline in GDP, the lodging industry registered an impressive performance, with the strength of group demand outpacing all expectations. Both transient and group demand exhibited strong momentum in 2014, with the year-over-year pace of growth in group outpacing the transient segment. This solid momentum is expected to continue in 2015, setting the stage for a significant increase in pricing power for hotels, and supporting our outlook of a solid 7.4% increase in RevPAR in 2015. While industry occupancy is expected to reach levels not seen since 1984, our outlook expects growth in average daily rate to be the primary driver of RevPAR gains – with over 80% of RevPAR growth coming from increases in average daily rate – the highest contribution average daily rate has made to RevPAR growth in the current cycle.

Three factors are key to our updated lodging outlook. First, a strong macroeconomic context is assumed, with a reversal from fiscal drag to a boost, although the path of economic growth appears to be unclear with several potential risks, including oil prices, US Dollar value, and the state of the Eurozone economies. Second, strong momentum in travel activity continues throughout 2015. Third, despite an increasing pipeline of hotels, supply growth remains below the long-term average in 2015. The supply pipeline continues to expand, with hotels starting construction expected to increase by over 45% in 2015 (over 2014 levels), compared to a 35% increase in 2014 (over 2013 levels). As a result, our outlook anticipates supply growth to increase to 1.5% in 2015, but still remain below the long-term average annual increase of 1.9%.

Figure 1: RevPAR growth, US and chain scales

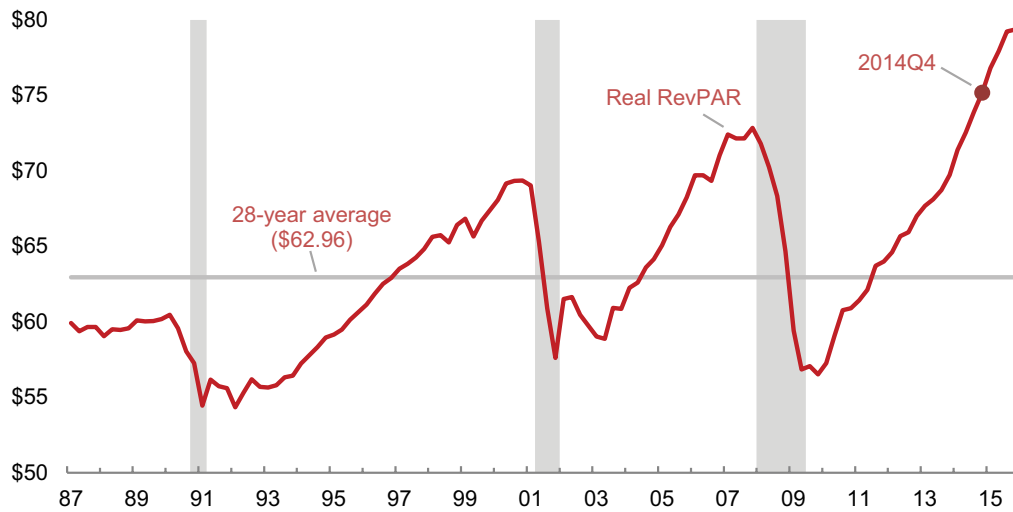


Source: PwC; STR

**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.

Figure 2: RevPAR, real (2013 dollars)



Source: STR; Bureau of Economic Analysis; National Bureau of Labor Statistics; Macroeconomic Advisers, LLC (forecast released January 2015); PwC

Strong near-term economic growth, but uncertainty increases

According to Macroeconomic Advisers, LLC, after a disappointing start, the US economy grew at a solid pace in the last three quarters of 2014, with GDP estimated to have increased at an average pace of 4.3%, resulting in a respectable 2.7% GDP growth for the year. The forward momentum of economic growth remains strong, with a transition from fiscal drag to stimulus and continued, albeit uneven, improvement in financial conditions. Overall, Macroeconomic Advisers now expects GDP to increase 3.0% in 2015, approximately two-

tenths of a point higher than in our November forecast. The US Dollar's continued rise, combined with further declines in oil prices, points to a stronger growth through mid-2015, with somewhat slower growth expected beyond that due to uncertainty about the path of US Dollar and oil prices. Downside risks appear to have increased since our November forecast, including heightened political tensions, uncertainty of oil prices, and increased signs of splintering in Eurozone economies.

Table 1: US outlook (released January 26, 2015)

	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%	4.5%	2.6%
Supply growth	-0.1%	0.2%	1.2%	2.4%	2.8%	1.7%	0.5%	0.4%	0.7%	0.9%	1.5%
Room starts, % change	2.6%	66.1%	4.9%	-9.2%	-63.7%	-39.1%	56.5%	27.0%	25.1%	35.2%	45.0%
Occupancy	63.0%	63.2%	62.8%	59.8%	54.6%	57.5%	59.9%	61.3%	62.1%	64.4%	65.1%
% change	2.9%	0.2%	-0.5%	-4.8%	-8.8%	5.4%	4.2%	2.3%	1.4%	3.6%	1.1%
Average daily rate	\$91.03	\$97.83	\$104.31	\$107.39	\$98.16	\$98.21	\$101.93	\$106.21	\$110.42	\$115.45	\$122.66
% change	5.6%	7.5%	6.6%	2.9%	-8.6%	0.1%	3.8%	4.2%	4.0%	4.6%	6.2%
RevPAR	\$57.37	\$61.78	\$65.55	\$64.24	\$53.55	\$56.46	\$61.04	\$65.08	\$68.60	\$74.31	\$79.80
% change	8.6%	7.7%	6.1%	-2.0%	-16.6%	5.4%	8.1%	6.6%	5.4%	8.3%	7.4%
GDP, % change Q4/Q4	3.0%	2.4%	1.9%	-2.8%	-0.2%	2.7%	1.7%	1.6%	3.1%	2.7%	3.0%
Inflation, % change	2.9%	2.7%	2.5%	3.1%	-0.1%	1.7%	2.5%	1.8%	1.2%	1.3%	0.4%

Source: STR; Bureau of Economic Analysis; Macroeconomic Advisers, LLC (forecast released January 2015); 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	0.9	0.9	5.6	6.5	2.1	1.9	0.2	7.1	7.3
Upper upscale	3.6	1.3	2.3	5.0	7.5	2.0	1.0	1.0	6.5	7.5
Upscale	6.9	3.5	3.3	5.0	8.4	4.8	4.1	0.6	5.9	6.6
Upper midscale	4.7	0.6	4.0	4.1	8.2	3.7	2.0	1.7	6.3	8.2
Midscale	3.6	(0.7)	4.3	3.9	8.3	2.7	0.9	1.8	4.7	6.6
Economy	4.1	0.3	3.8	4.7	8.7	2.4	0.8	1.6	5.7	7.4
Independent hotels	4.4	0.6	3.7	4.4	8.3	1.1	0.8	0.3	6.6	6.9
US total	4.5	0.9	3.6	4.6	8.3	2.6	1.5	1.1	6.2	7.4

Source: PwC, based on STR data

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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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