November 2015

Hospitality Directions US

Our updated lodging outlook

Average daily rate growth continues to look for a firm footing, despite peak occupancy levels

Our outlook for 2015 anticipates:

Softer than expected average daily rate growth in Q3 driving RevPAR increase of ***6.5%*** *for the year.*

Occupancy's contribution to RevPAR growth more meaningful than previously expected for some segments.

Our outlook for 2016 anticipates:

Supply growth reaching long-term average of ***1.9%****.*

As occupancy levels stabilize, average daily rate growth drives RevPAR increase of ***5.7%****.*

Performance of the US lodging sector during the third quarter surprised industry participants, as some US lodging companies reduced RevPAR growth guidance, driven by a combination of factors, including weaker-than-expected demand performance. While the factors for recent weakness in demand appeared to be restricted to one quarter, the overarching question related to the lack of average daily rate growth, despite peak occupancy levels. Indeed, occupancy levels in the first-half were at their highest levels since 1987, which was expected to have given operators the confidence to drive targeted price increases in many markets. However, a lack of more significant average daily rate growth continues to defy expectations, even though many hotels in many markets are increasingly experiencing sell-out conditions. Overall, demand conditions in the US remain strong, contributing to still increasing occupancy levels this year. However, as a result of continued pricing challenges, our outlook for 2015 is reduced moderately, to a RevPAR increase of 6.5%, driven by lower-than-previously-expected average daily rate growth. A combination of strong demand trends and continued lower-than-average supply growth in 2015 is expected to drive peak demand levels, with US hotel occupancy expected to reach 65.6%, the highest level since 1981.

In 2016, our outlook anticipates a stabilization in occupancy. The pace of supply growth is expected to accelerate to 1.9% in 2016, with the percentage increase in available hotel rooms mirroring the long-term average. As a result, with occupancy levels expected to remain stable, albeit at a 35-year high, coupled with the absence of this year's drag on the US Dollar, increased confidence amongst hotel operators and brands is expected to result in meaningful average daily rate increases, resulting in RevPAR growth of 5.7%.

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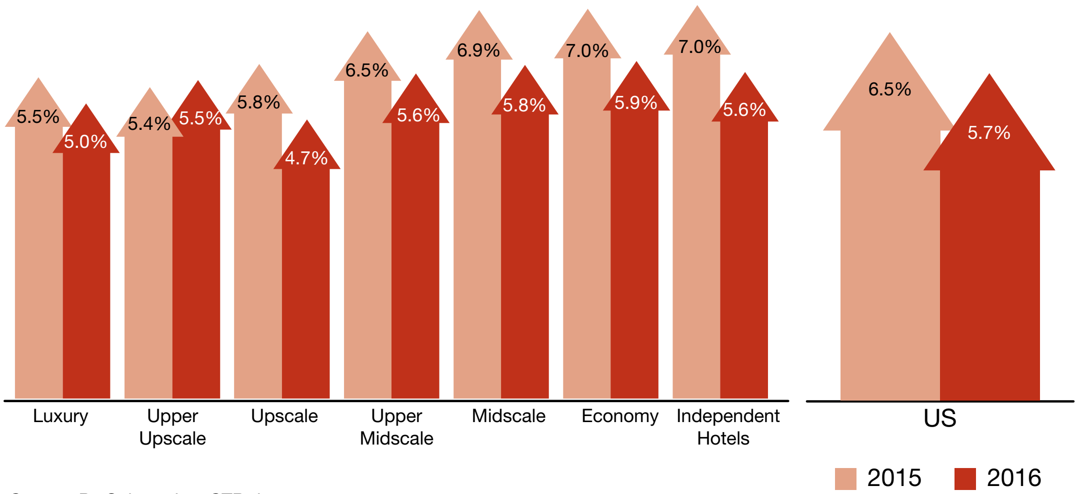
Figure 1: RevPAR growth, US and chain scales



Source: PwC, based on STR data

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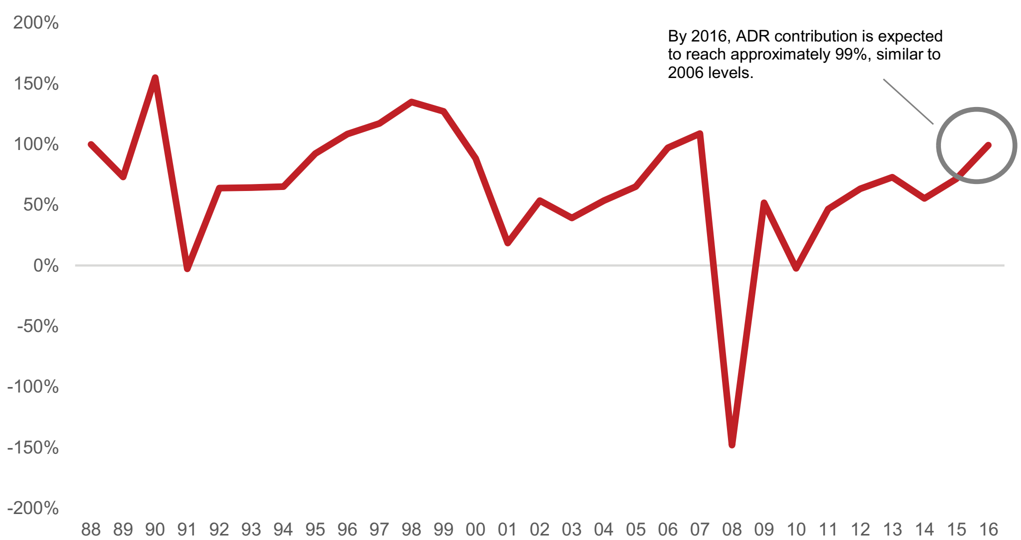
> *For detailed outlook tables covering the US and each of the chain scales, please access the Hospitality Directions Outlook Tables available online.*

Figure 2: ADR contribution to RevPAR growth



Source: PwC, based on STR data

Economic growth protected by slower pace of monetary tightening

According to Macroeconomic Advisers, LLC, GDP during the second quarter of 2015 was stronger than previously expected, boosted by the reversal of weather and seasonal effects of the first quarter. However, economic growth in the third-quarter is tracking lower than previously expected, in part due to slowing production under the weight of a strong US Dollar. Overall, Macroeconomic Advisers expects a slower pace of interest rate increases than previously expected, contributing to a relatively more stable GDP growth outlook, compared to our previous forecast. GDP is now expected to increase at an annualized pace of approximately 2.2% in 2015, approximately 20 basis points higher than in our August forecast. The underlying economic fundamentals are expected to remain strong in 2016, with the US Dollar stabilizing, creating less drag on the economy and contributing to GDP growth of 2.5%. However, there are concerns about growth in China and other emerging economies, contributing to a 40 basis point decrease GDP growth in 2016, compared in our August forecast.

Table 1: US outlook (released November 10, 2015)

	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%	4.3%	2.9%	1.9%
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%	13.5%	31.1%
Occupancy	63.2%	62.8%	59.8%	54.6%	57.6%	60.0%	61.4%	62.2%	64.4%	65.6%	65.6%
% change	0.2%	-0.5%	-4.8%	-8.8%	5.6%	4.2%	2.3%	1.4%	3.5%	1.8%	0.0%
Average daily rate	$97.82	$104.31	$107.38	$98.15	$98.03	$101.73	$106.00	$110.02	$114.98	$120.35	$127.19
% change	7.5%	6.6%	2.9%	-8.6%	-0.1%	3.8%	4.2%	3.8%	4.5%	4.7%	5.7%
RevPAR	$61.78	$65.54	$64.24	$53.55	$56.45	$61.04	$65.09	$68.47	$74.07	$78.91	$83.43
% change	7.7%	6.1%	-2.0%	-16.6%	5.4%	8.1%	6.6%	5.2%	8.2%	6.5%	5.7%
GDP, % change Q4/Q4	2.4%	1.9%	-2.8%	-0.2%	2.7%	1.7%	1.3%	2.5%	2.5%	2.2%	2.5%
Inflation, % change	2.7%	2.5%	3.1%	-0.1%	1.7%	2.5%	1.9%	1.4%	1.4%	0.3%	1.4%

Source: STR; Bureau of Economic Analysis; Macroeconomic Advisers, LLC (forecast released October 8, 2015); 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	1.4	0.6	0.8	4.7	5.5	1.3	2.0	(0.7)	5.7	5.0
Upper upscale	2.2	1.3	0.9	4.4	5.4	1.2	1.3	(0.1)	5.6	5.5
Upscale	4.8	4.0	0.8	5.0	5.8	4.4	5.0	(0.5)	5.2	4.7
Upper midscale	3.4	1.5	1.9	4.4	6.5	4.2	3.7	0.5	5.1	5.6
Midscale	2.3	(0.1)	2.4	4.4	6.9	1.8	1.3	0.5	5.2	5.8
Economy	1.8	0.1	1.7	5.2	7.0	(0.3)	(0.4)	0.1	5.7	5.9
Independent hotels	2.8	0.6	2.2	4.7	7.0	0.6	1.0	(0.4)	6.1	5.6
US total	**2.9**	**1.1**	**1.8**	**4.7**	**6.5**	**1.9**	**1.9**	**0.0**	**5.7**	**5.7**

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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