



U.S. LODGING INDUSTRY 2005

"Perspectives on the Road to Recovery"

Winter 2005 Outlook

November 15, 2004

presented by:

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John Fox – PKF Consulting





Presentation Outline

I. HRG/TWR Approach to Forecasting

II. Hotel Outlook – Winter 2005

- Operating Trends
- Property Pricing

III. Issues of the Day

- Supply Pipeline
- Oil Prices
- Winners and Losers



Objectivity and Rigor Support the HRG/TWR Forecasting Effort

Data Sources:

- Smith Travel Research
- Economy.com
- Real Estate Research Corp.
- PKF Consulting

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 - Professor, Massachusetts Institute of Technology
 - Principal, Torto Wheaton Research



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 - Professor, Cornell University
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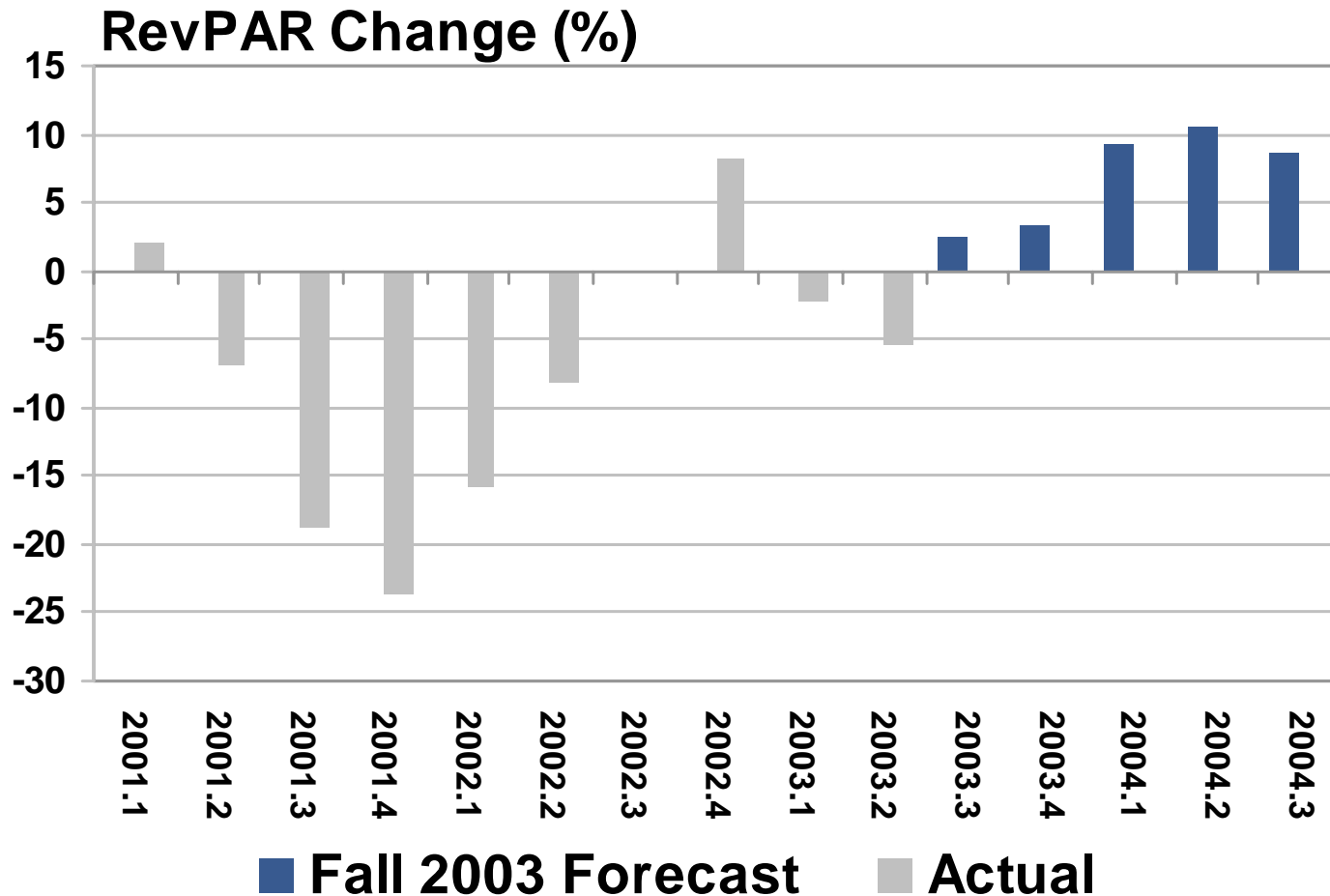


The HRG/TWR Econometric Model to Forecasting U.S. Hotel Markets

- **Exclusive Provider of Detailed Local Market Forecasts**
- **Universe:**
 - All Chain Affiliated Hotels
 - Top 50 Markets
 - Full and Limited Service Properties
- **Tracks Very Closely with STR All-Hotels Sample**

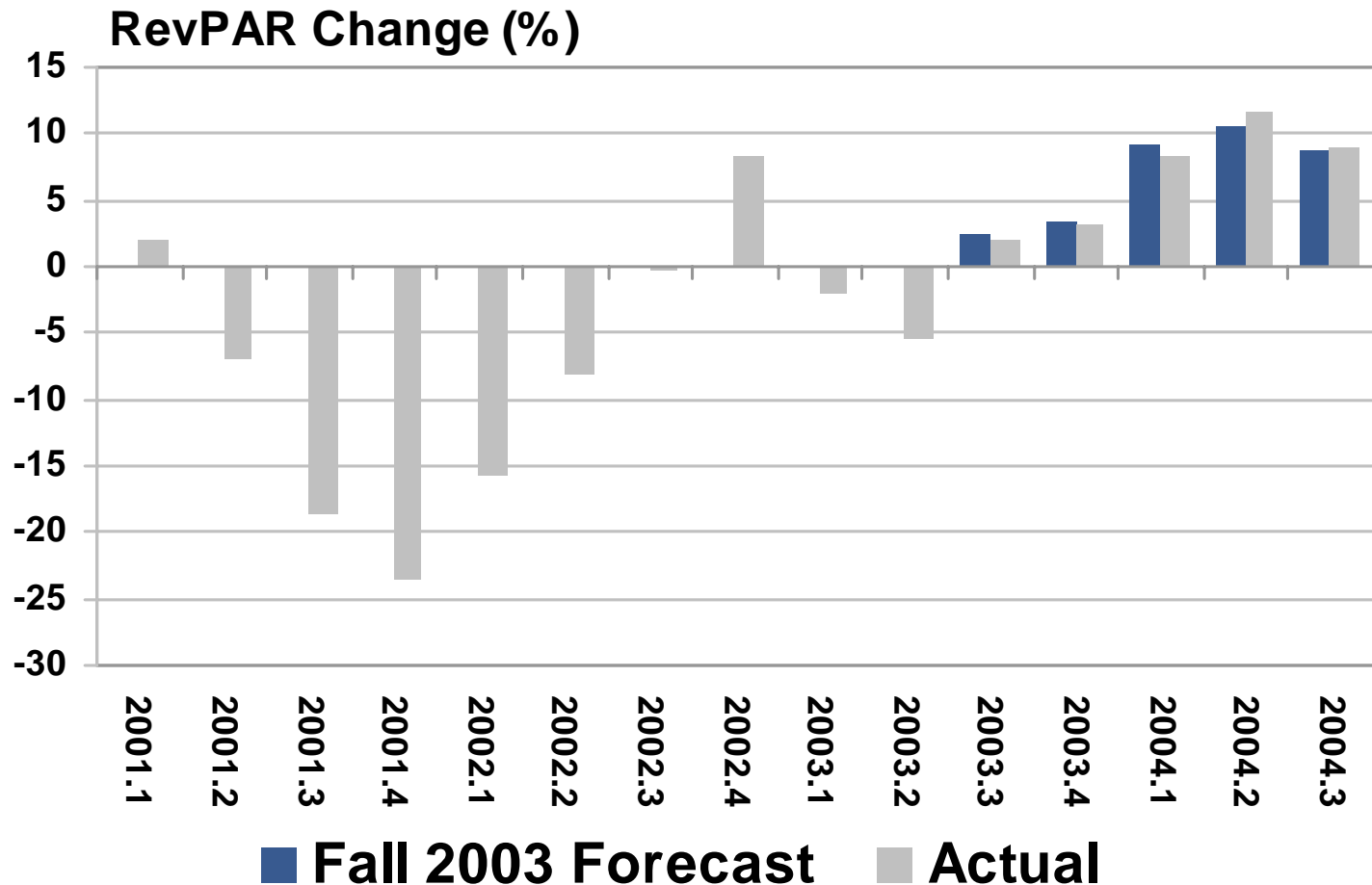


HRG/TWR's Forecast of RevPAR Change in **Fall 2003** for Subsequent Five Quarters





Actual RevPAR Change was Very Close to What We Predicted!!





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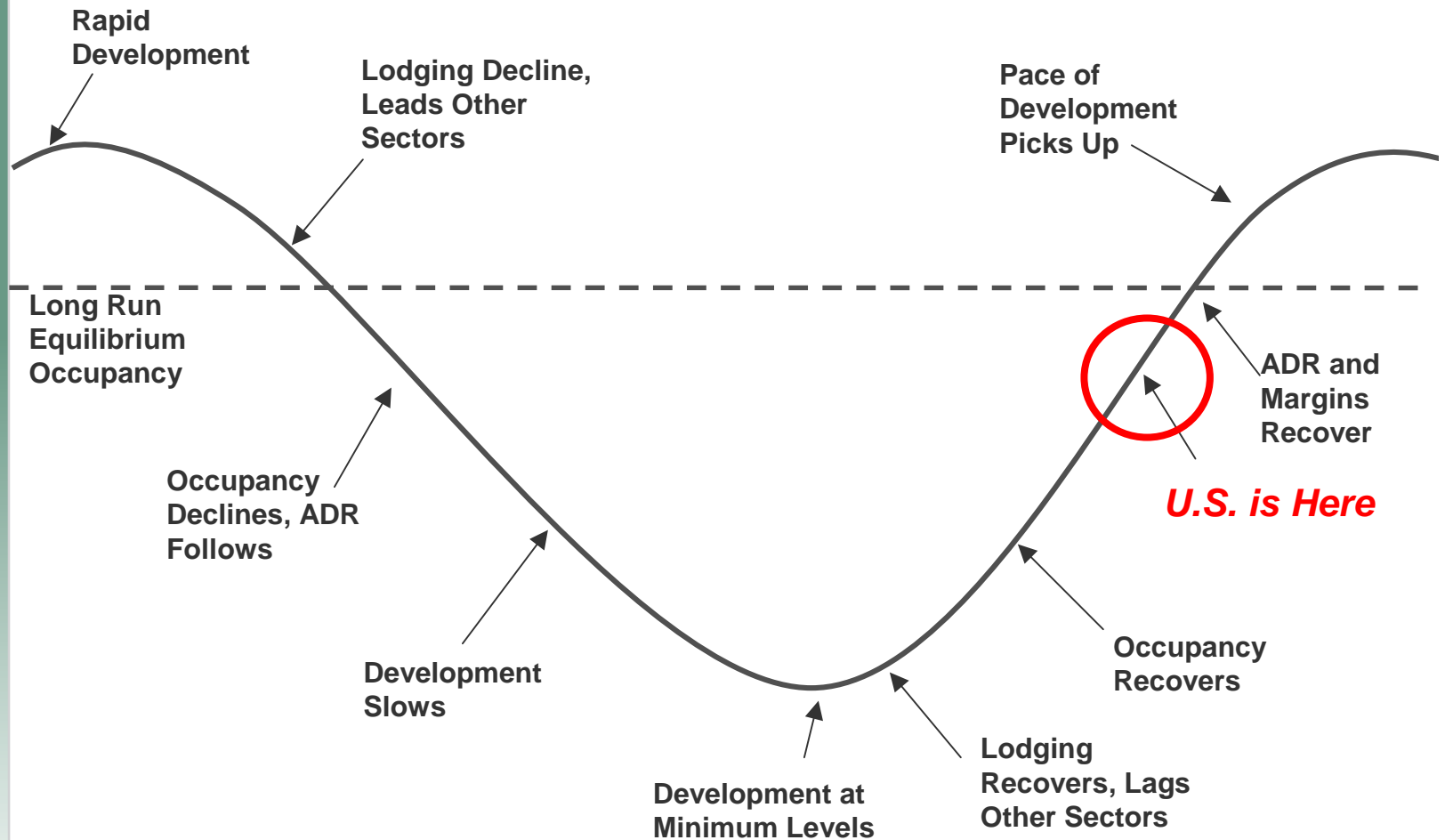
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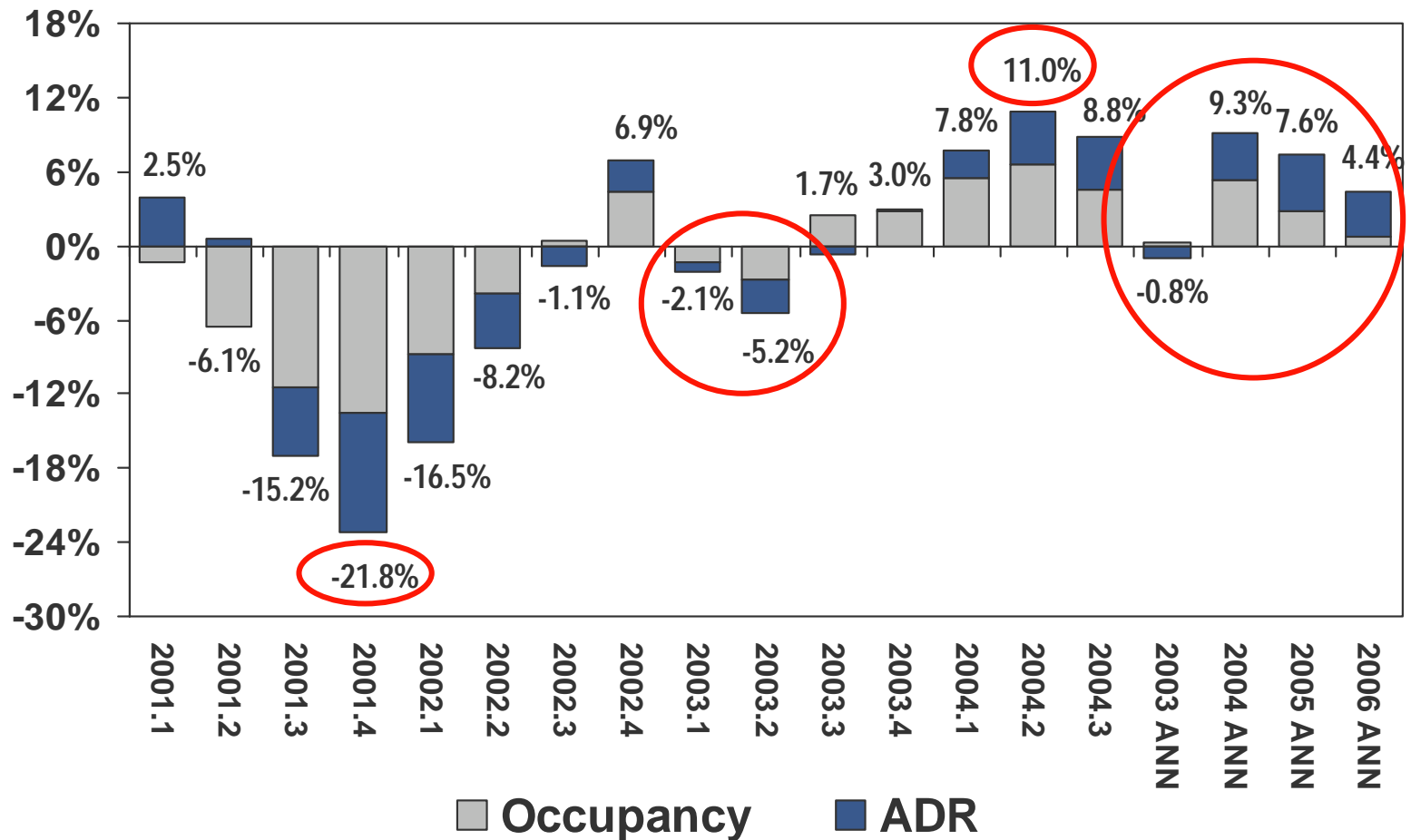
Well Along The Road To Recovery Hotel Market Cycle





Recovery Gains Traction

RevPAR Change – Top 50 U.S. Markets





Rate Growth Begins to Take Hold All Hotels - Top 50 U.S. Markets

	<u>2003</u>	<u>2004 F</u>	<u>2005 F</u>
Occupancy	61.5%	64.8%	66.6%
% Change	+0.2% →	+5.4%	+2.8%
ADR	\$94.37	\$97.84	\$102.42
% Change	-1.0% →	+3.7% →	+4.7%
RevPAR	\$58.04	\$63.40	\$68.21
% Change	-0.9%	+9.3%	+7.6%



Full Service Hotels Lead the Recovery

Full Service Hotels - Top 50 U.S. Markets

	<u>2003</u>	<u>2004 F</u>	<u>2005 F</u>
Occupancy	63.7%	67.0%	68.6%
% Change	+0.8% →	+5.2%	+2.4%
ADR	\$112.01	\$116.40	\$122.40
% Change	-1.6% →	+3.9% →	+5.2%
RevPAR	\$71.35	\$77.99	\$83.97
% Change	-0.8%	+9.3%	+7.7%



Limited Service Turnaround Just Beginning

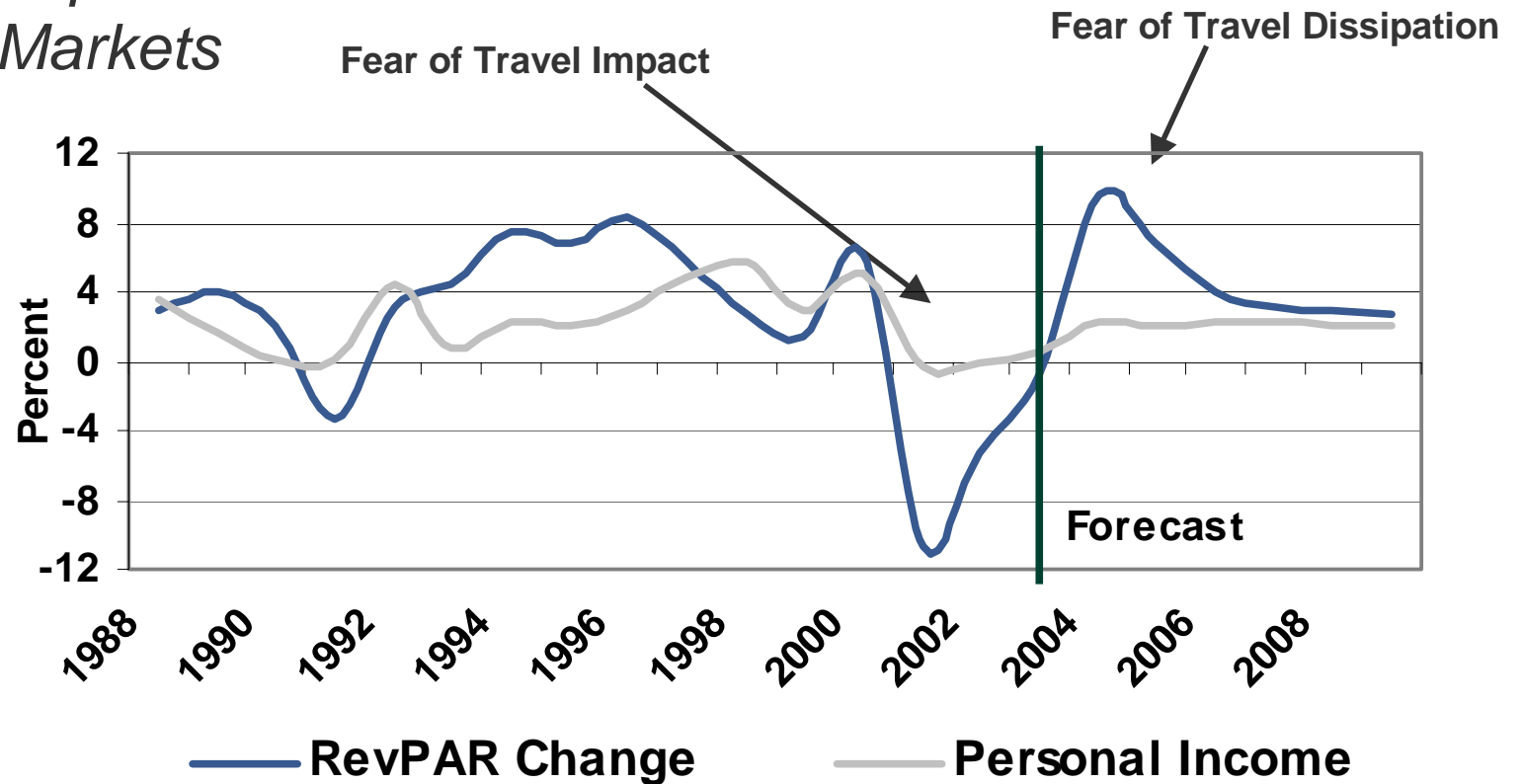
Limited Service Hotels - Top 50 U.S. Markets

	<u>2003</u>	<u>2004 F</u>	<u>2005 F</u>
Occupancy	57.3%	60.4%	63.0%
% Change	-1.2% →	+5.4%	+4.3%
ADR	\$57.18	\$58.76	\$61.04
% Change	0.0% →	+2.8% →	+3.9%
RevPAR	\$32.79	\$35.49	\$38.46
% Change	-1.2%	+8.3%	+8.4%



Diminished Travel Concerns and Economic Growth will Drive RevPAR Recovery

Top 50 Markets





Best Markets - Full Service Ranked by RevPAR Growth 2004-2006

	Forecast RevPAR Growth in the Next Two Years	Difference of Current RevPAR from 2000 Peak	Difference of 2006 RevPAR from 2000 Peak
Market	2004 - 2006	2000 - 2004	2000 - 2006
San Francisco	21.9%	-31.1%	-16.0%
Philadelphia	20.1%	-2.9%	16.6%
Atlanta	19.4%	-10.5%	6.9%
Los Angeles	18.4%	-1.3%	16.8%
Raleigh	11.9%	-6.8%	4.2%
Albuquerque	10.6%	1.2%	11.9%
Seattle	10.2%	-8.3%	1.1%



Worst Markets - Full Service Ranked by RevPAR Growth 2004-2006

Market	Forecast RevPAR Growth in the Next Two Years	Difference of Current RevPAR from 2000 Peak	Difference of 2006 RevPAR from 2000 Peak
Market	2004 - 2006	2000 - 2004	2000 - 2006
Fort Worth	-2.5%	6.5%	3.9%
Omaha	1.9%	10.8%	12.9%
Memphis	2.5%	1.8%	4.4%
Long Island	2.8%	-19.6%	-17.4%
Pittsburgh	5.3%	-5.9%	-0.9%
New Orleans	6.8%	-18.1%	-12.6%
West Palm Beach	19.8%	8.5%	30.0%



Best Markets - Limited Service Ranked by RevPAR Growth 2004-2006

	Forecast RevPAR Growth in the Next Two Years	Difference of Current RevPAR from 2000 Peak	Difference of 2006 RevPAR from 2000 Peak
Market	2004 - 2006	2000 - 2004	2000 - 2006
San Francisco	32.2%	-42.5%	-23.9%
Orlando	25.2%	-8.0%	15.2%
Phoenix	20.2%	3.8%	24.8%
Atlanta	18.0%	-12.1%	3.8%
Orange County	14.7%	5.0%	20.4%
Charlotte	10.4%	-11.4%	-2.2%
Minneapolis	9.8%	-11.8%	-3.1%

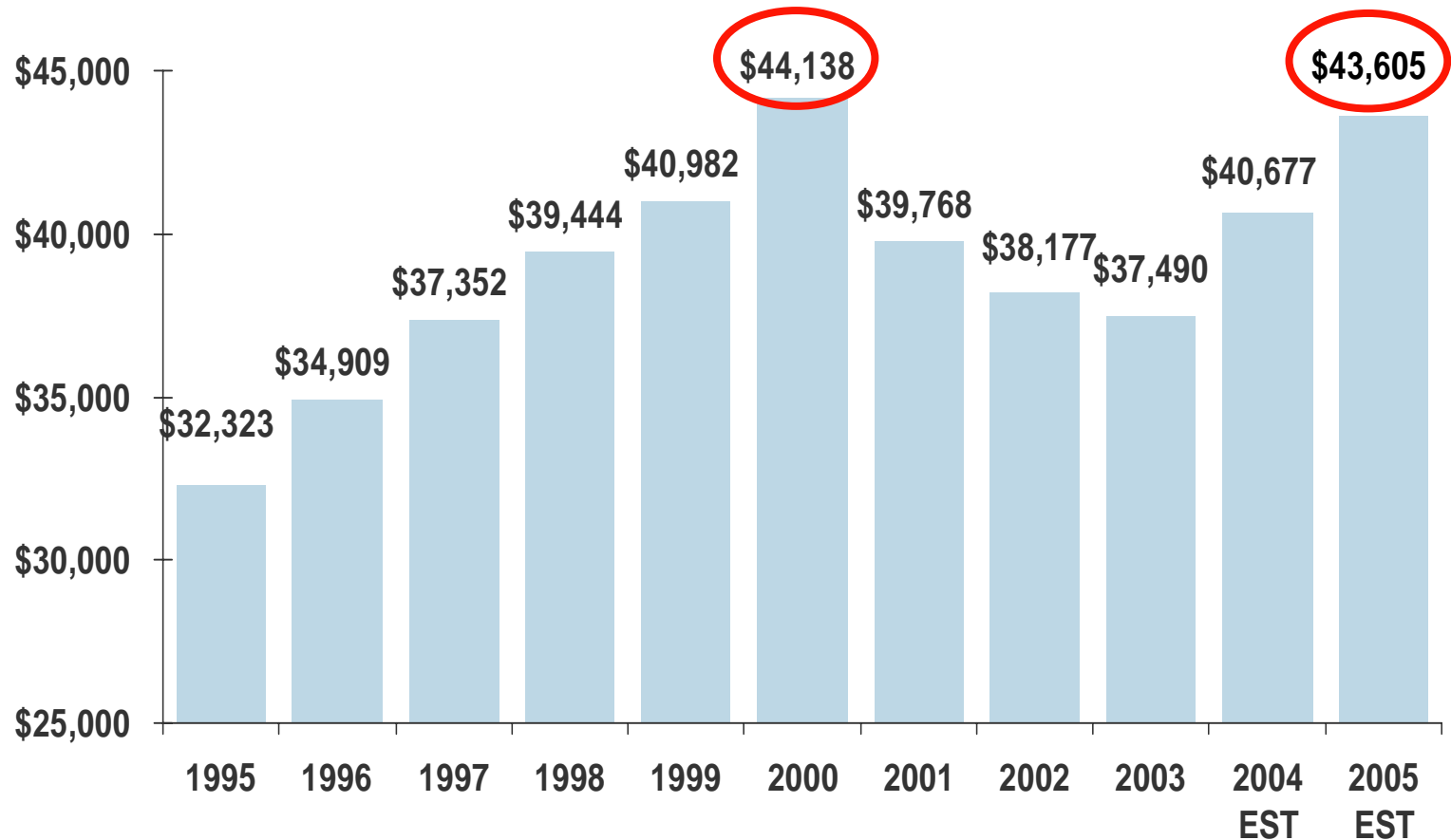


Worst Markets - Limited Service Ranked by RevPAR Growth 2004-2006

Market	Forecast RevPAR Growth in the Next Two Years	Difference of Current RevPAR from 2000 Peak	Difference of 2006 RevPAR from 2000 Peak
	2004 - 2006	2000 - 2004	2000 - 2006
Hartford	-3.3%	-5.0%	-8.1%
Albany	2.0%	12.1%	14.3%
Cleveland	3.6%	-14.6%	-11.6%
Detroit	4.3%	-18.5%	-15.0%
Pittsburgh	4.5%	-1.3%	3.1%
Indianapolis	6.7%	-3.8%	2.6%
Tampa	8.6%	16.0%	26.0%



Back to 2000 in Nominal Terms Total Revenue Per Available Room





It's Hard to Keep Expense Growth Down!

Revenue and Expense Change Following Recessions

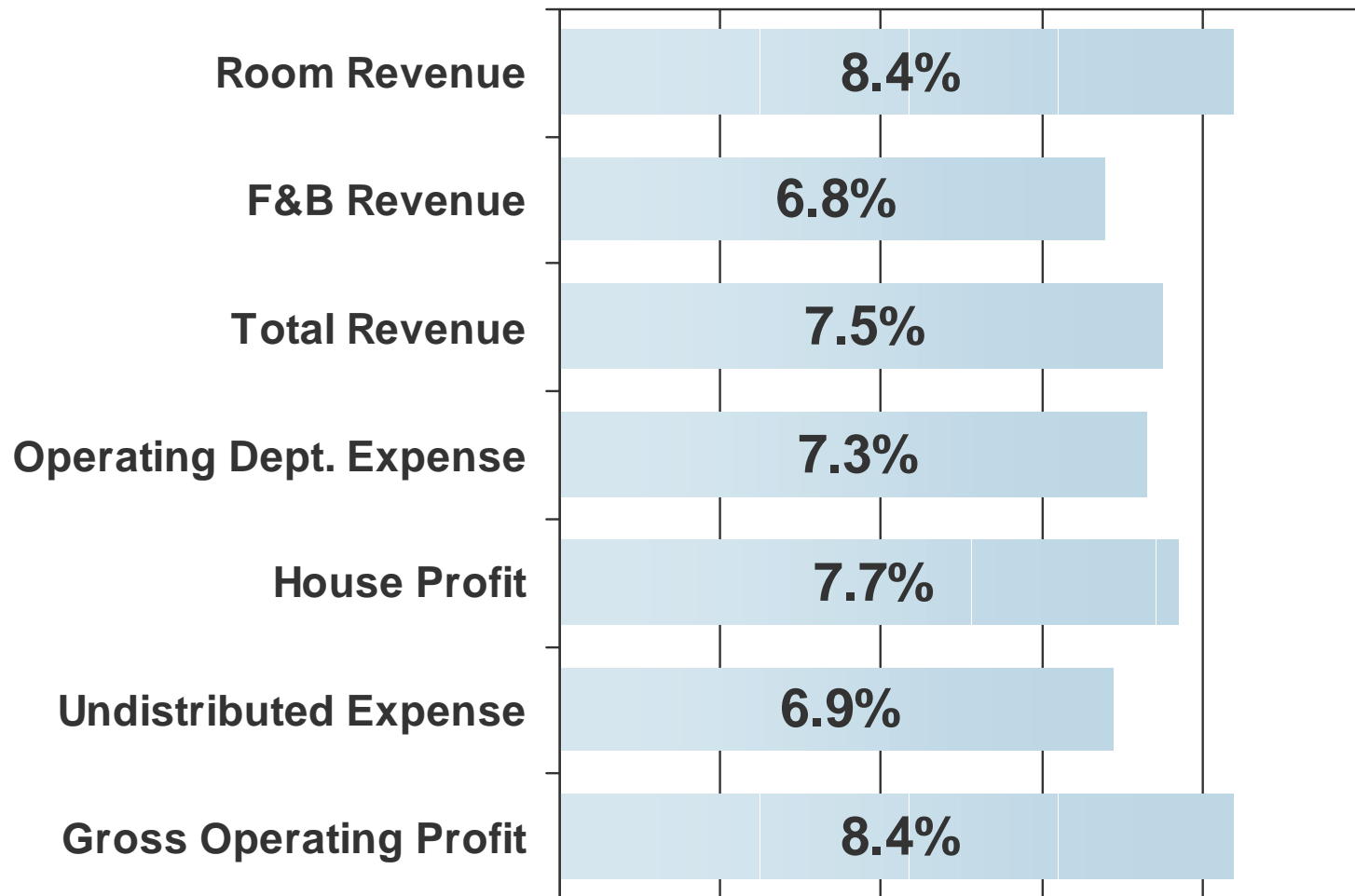
Average Annual Rates (Nominal) of Change
for THREE Years Following Recession

RECESSION PERIODS*	Room Revenue	Operating Expenses	Profits
July 1990 - March 1991	5.20%	3.53%	11.30%
January 1980 - July 1980 and July 1981 - November 1982	5.16%	6.03%	-2.67%
November 1973 - March 1975	11.93%	9.70%	19.80%
December 1969 - November 1970	3.93%	5.83%	-6.27%
April 1960 - February 1961	0.20%	1.13%	-3.20%

* As defined by the National Bureau of Economic Research

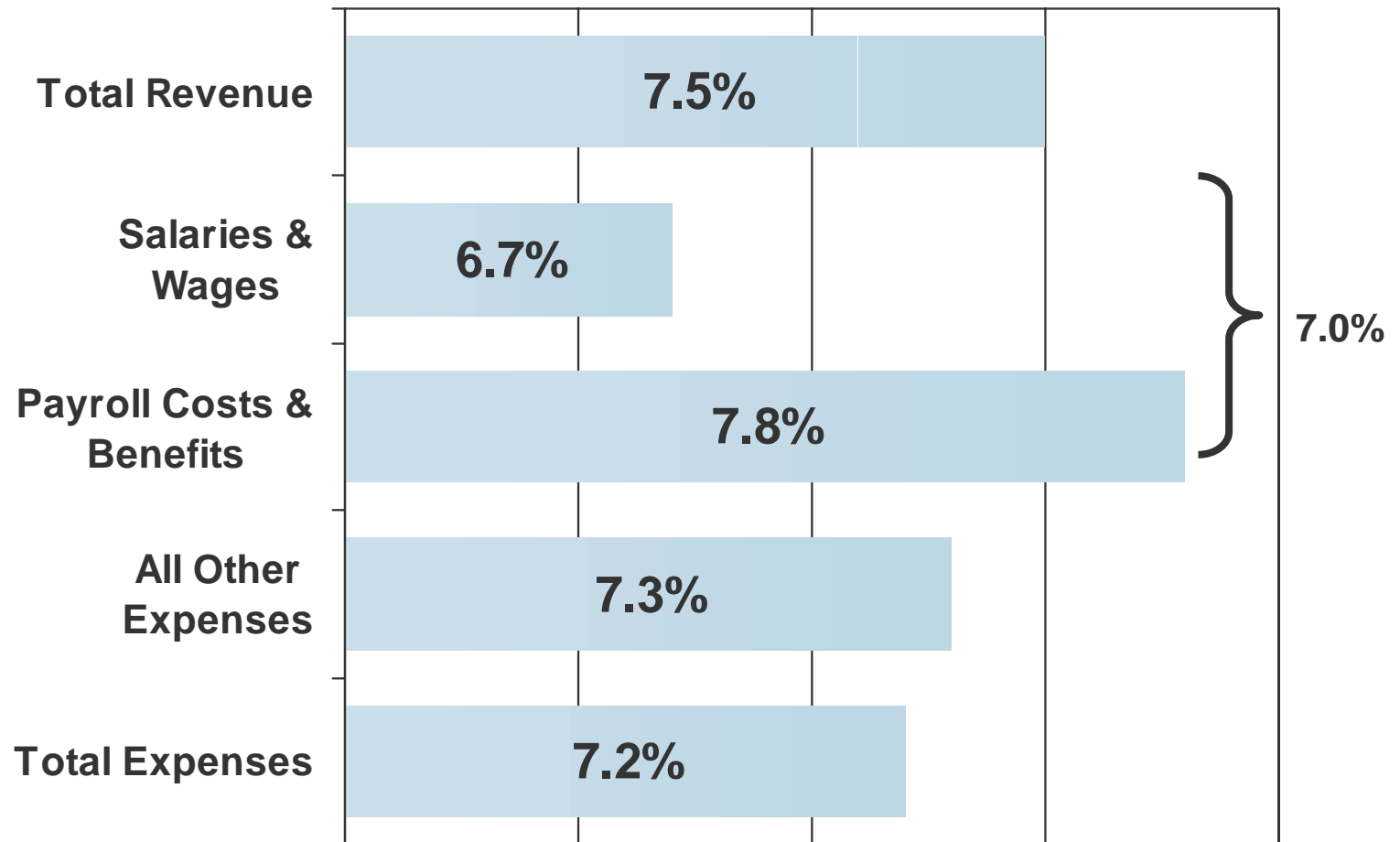


2004 First Half Operating Results



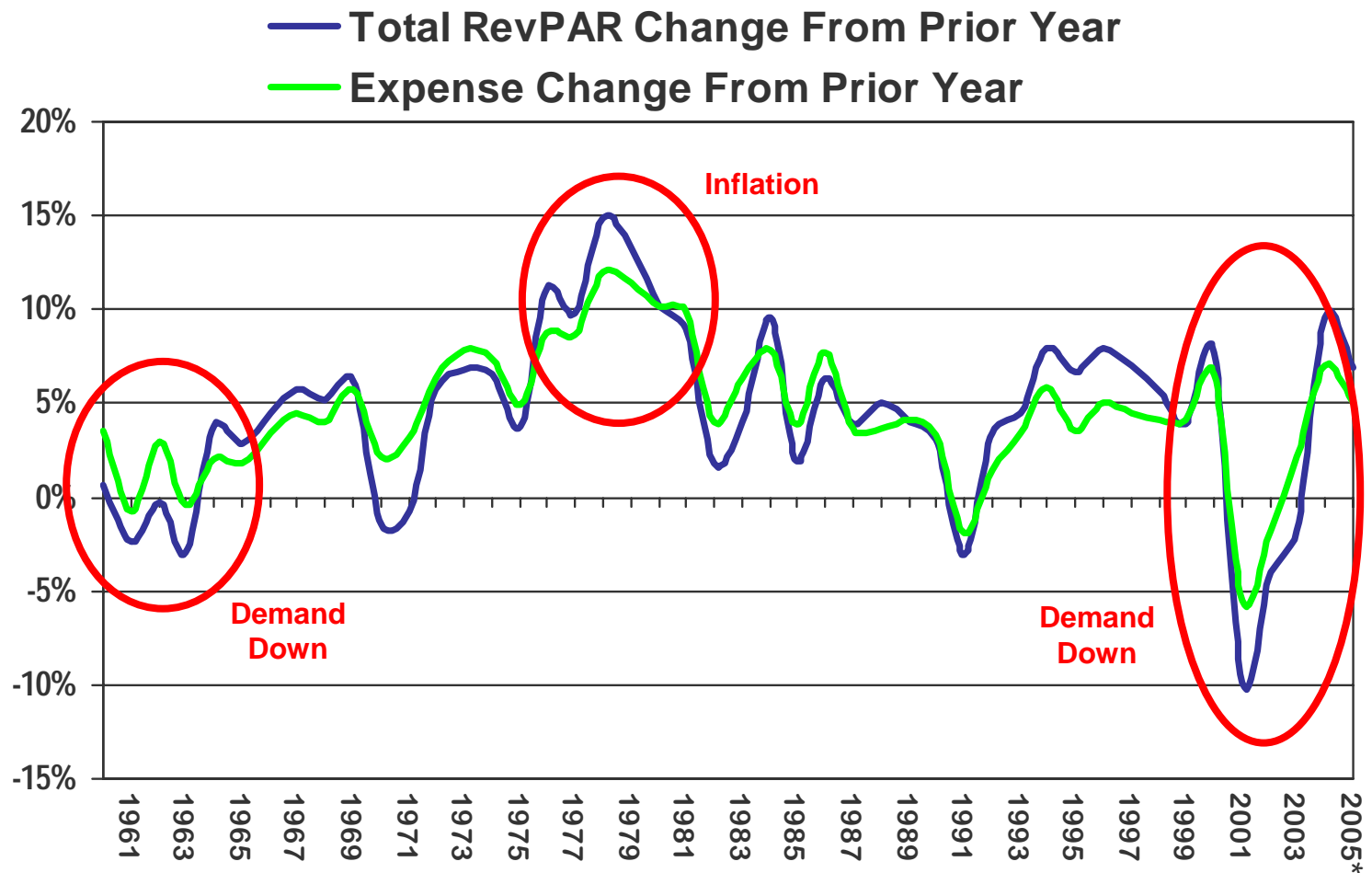


2004 First Half Payroll Costs





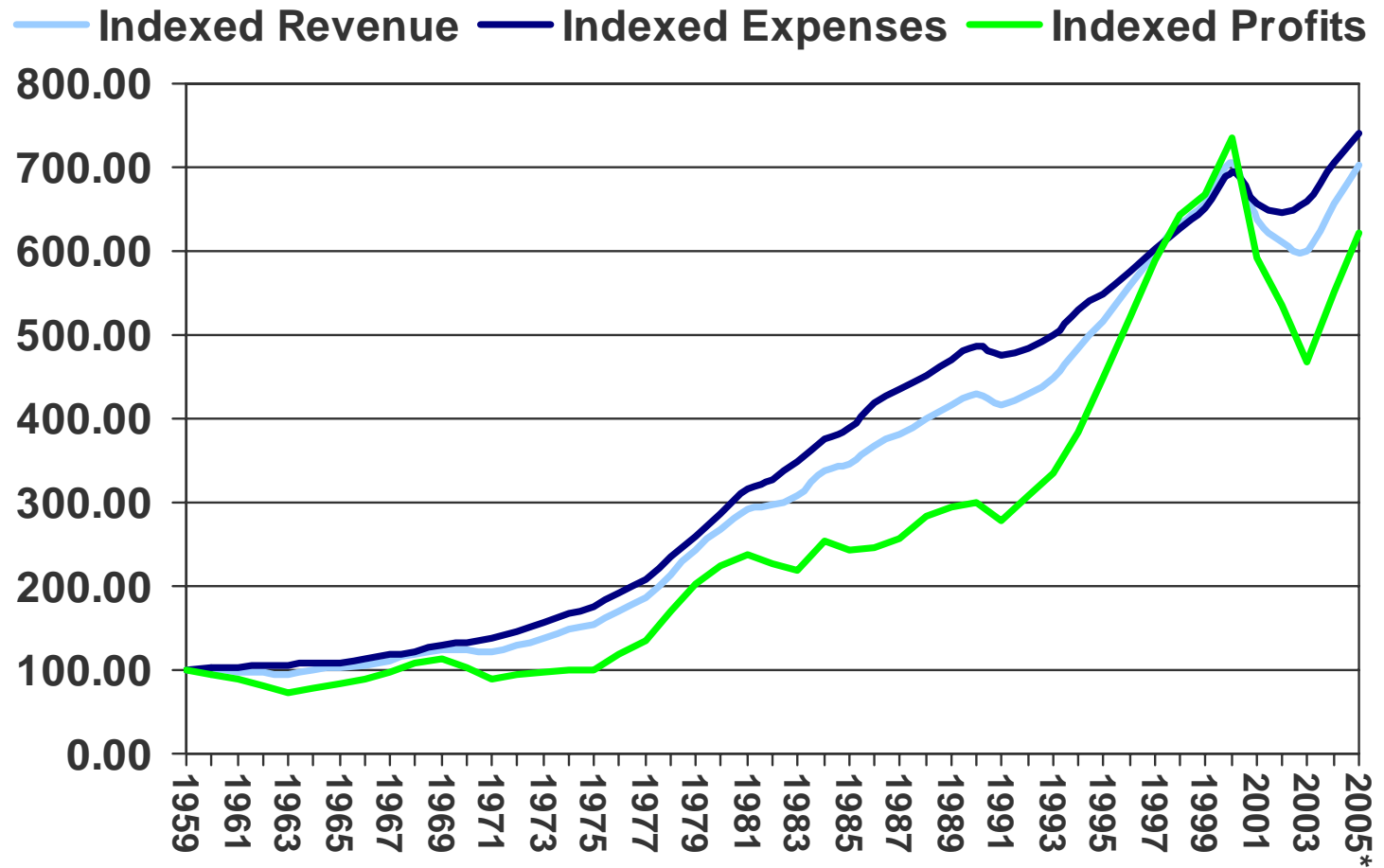
Annual Changes in Revenues and Expenses



*Estimated



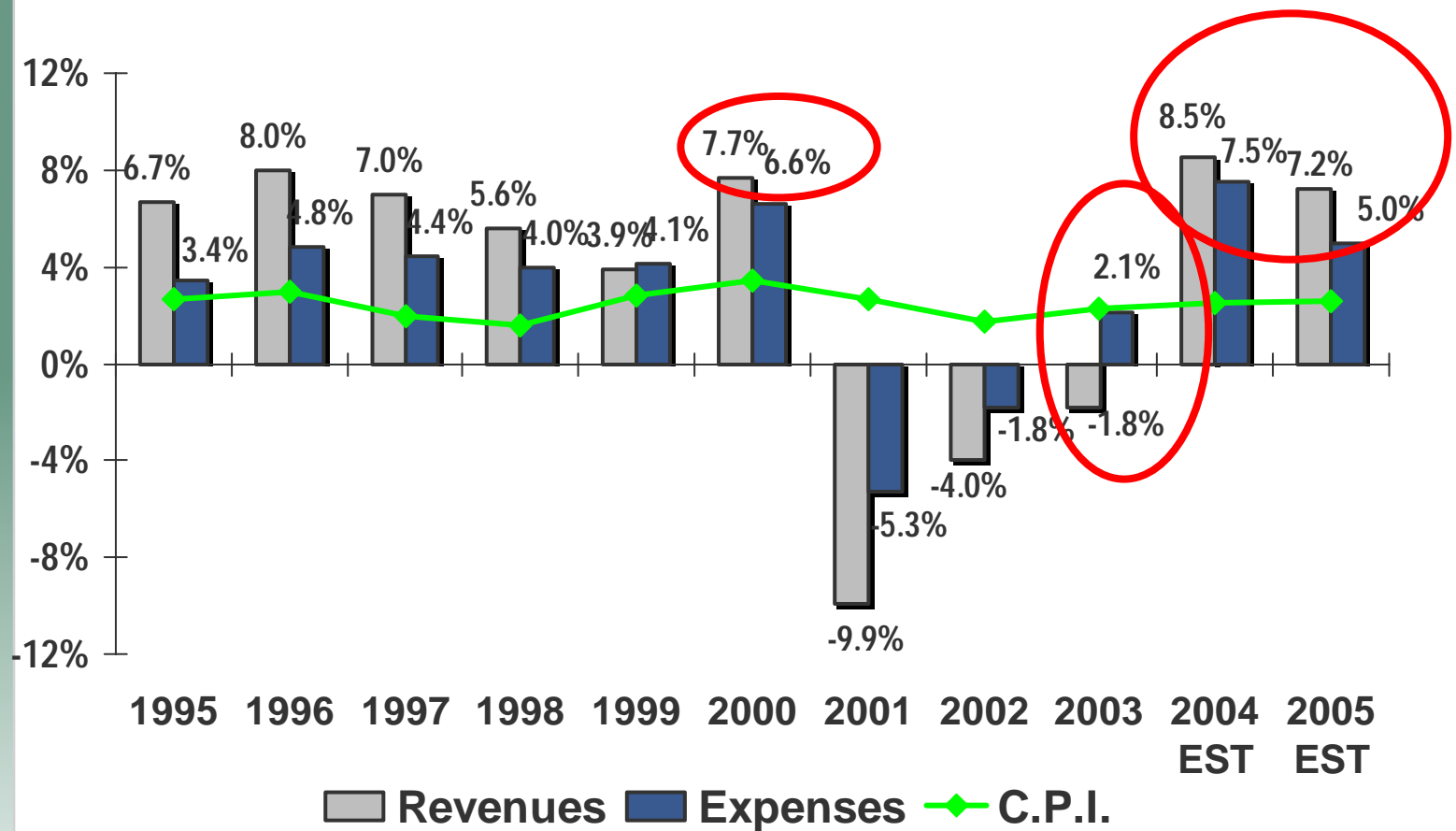
Indexed Revenues, Expenses, & Profits 1959 = 100



*Estimated

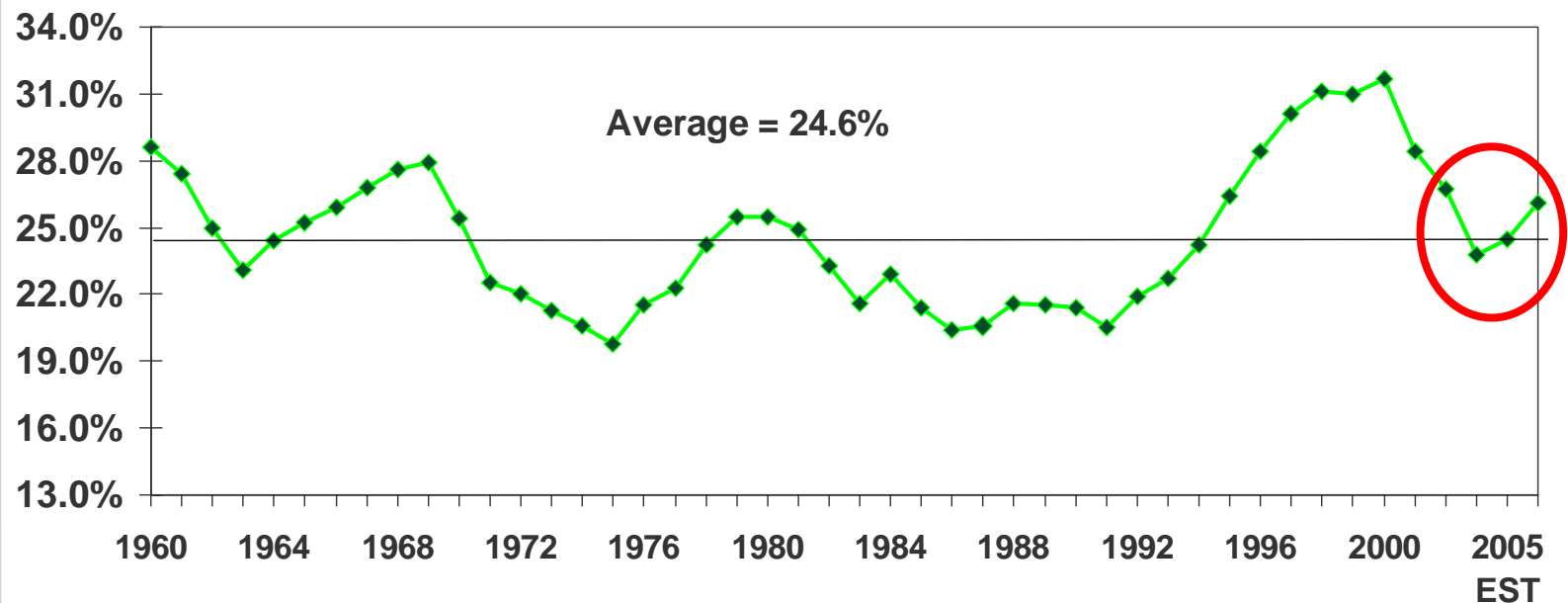


Strong Turnaround in Profitability Growth in Revenues vs. Expenses





Operating Profit Margins* Remain Above the Long Term Average

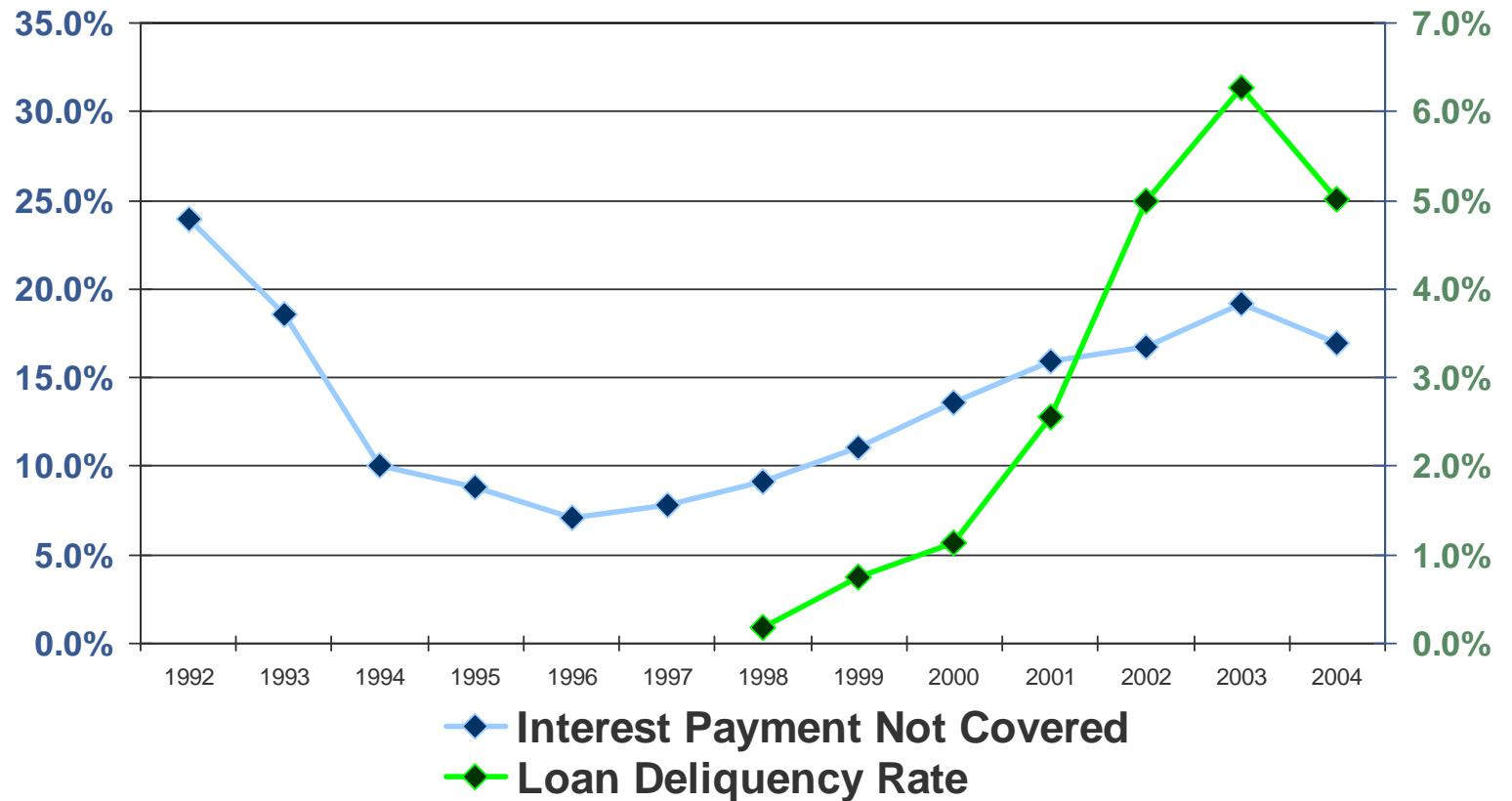


Note: * Before capital reserve, debt service, rent, income taxes, depreciation, amortization.



Relief Ahead For Lenders

Percent of Hotels Not Covering Interest Payments and Hotel Loan Delinquency Rates



Note: Data prior to 2002 from different samples.



Source: Interest Payment Data: HRG-PKFC
Loan Data: Trepp, JP Morgan





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Going In Cap Rates Trending Down

Hotel Real Estate Cap Rate Analysis

Year/ Quarter	Going In Cap Rate (%)	IRR Pre Tax
1992	11.40	14.30
1993	11.60 High	14.50
1994	11.20	13.60
1995	10.80	12.80
1996	10.60	13.00
1997	9.80	12.20
1998	9.70 Low	11.90
1999	10.40	12.70
2000	10.70	13.60
2001	11.20	13.90
2002	11.30	13.80
2003 I	11.00	13.70
2003 II	11.00	13.20
2003 III	10.50	12.80
2003 IV	10.60	12.60
2004 I	10.70	12.60
2004 II	10.90	12.70
2004 III	10.30	12.20

Average 10.8 13.2



Holding Period Shortens, LTV's Creep Back Up Hospitality Investment Survey

INVESTMENT TRENDS IN THE LODGING INDUSTRY

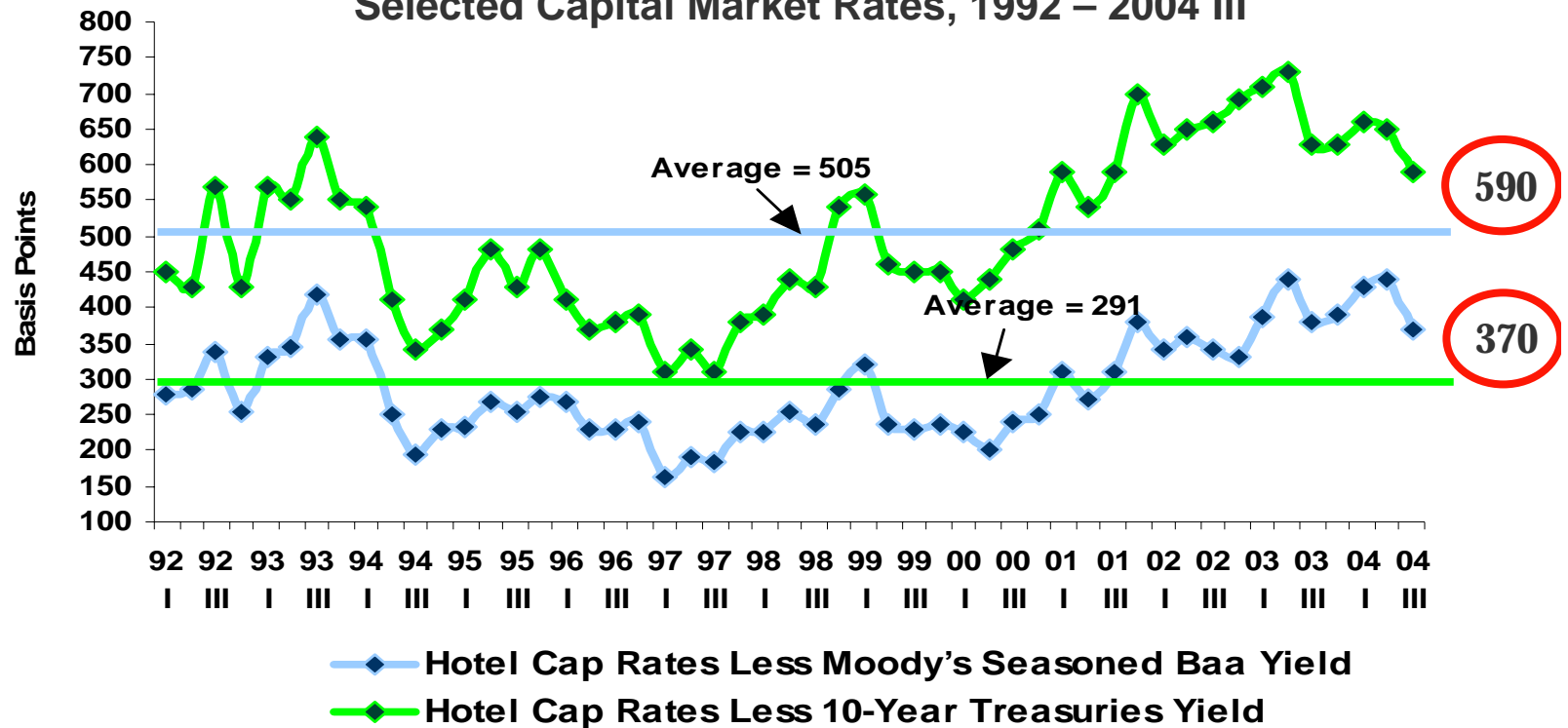
<u>INVESTMENT CRITERIA</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2000</u>	<u>1998</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
Overall Cap Rate	9.92%	11.24%	10.94%	11.26%	10.87%	11.10%	11.04%	11.20%
Discount Rate	14.17%	15.96%	16.15%	14.54%	13.50%	14.10%	14.57%	14.70%
Holding Period (Years)	5.67	7.74	9.27	8.60	5.53	6.70	6.27	7.10
Debt Coverage Ratio	1.47	1.47	1.52	1.41	1.38	1.40	1.38	1.40
Interest Rate	7.08%	7.72%	8.25%	9.21%	7.65%	9.10%	9.59%	9.90%
Loan-to-Value Ratio	68.96%	65.25%	62.17%	66.41%	65.33%	69.70%	69.12%	68.00%



What Is The Risk?

Cap Rate Spread Analysis

Spread Between Hotel Property Capitalization Rates and Selected Capital Market Rates, 1992 – 2004 III





Will the Risk be Appropriately Rewarded?

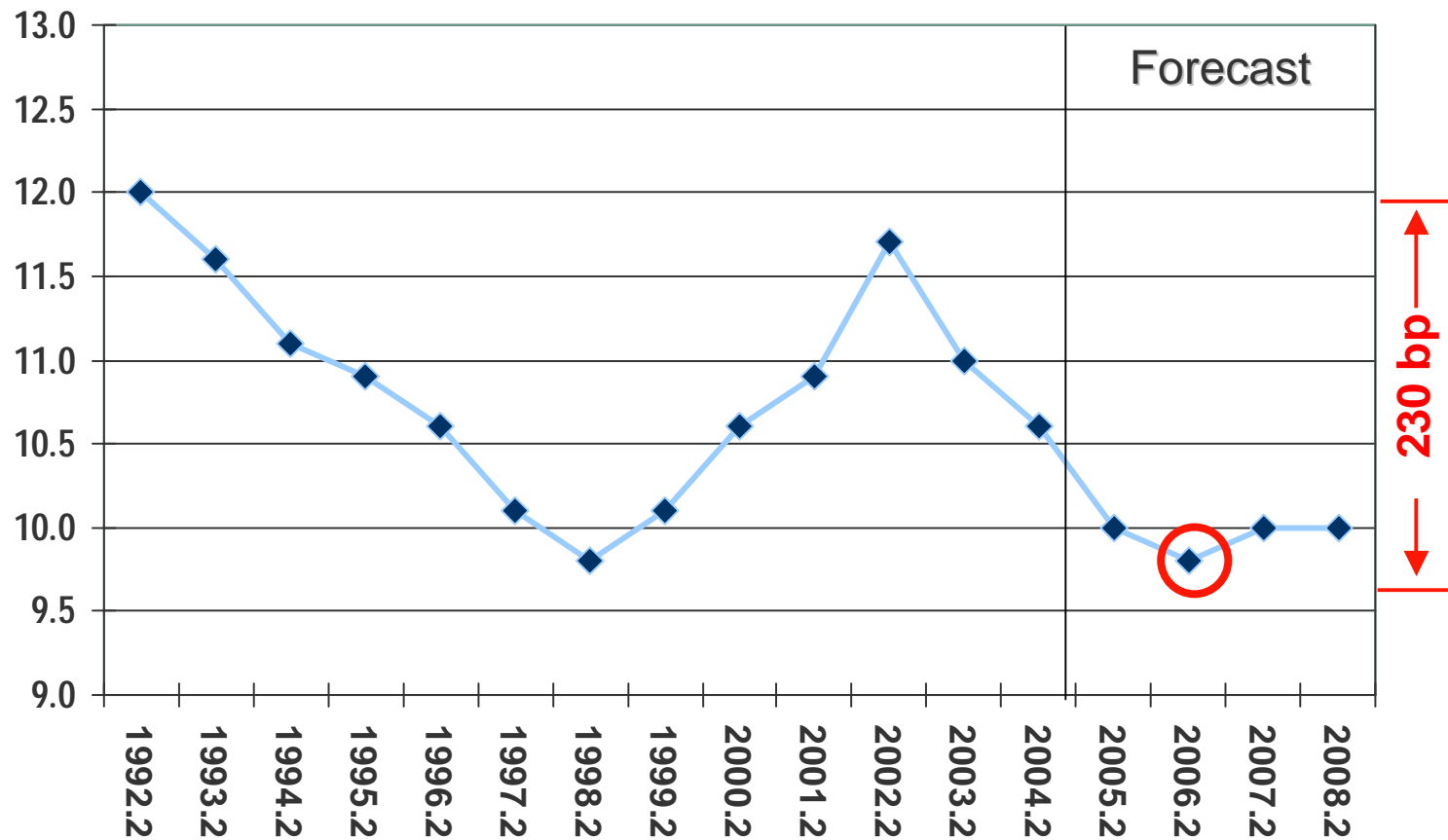
Cap Rate Forecasting Method

Three Main Components Included in the Econometric Model:

- 1) Interest Rates
- 2) Growth in Cash Flow
- 3) Volatility of Cash Flow



Cap Rate Declines to Continue Window Begins to Close in 2006?





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Profile of Future Lodging Market Development

U.S. Lodging Market	Percent Change Modeled Demand 2004 - 2009	Percent Change Modeled Supply 2004 - 2009	Percent Change Pipeline Supply 2004 - 2009
Atlanta	36.4%	18.9%	3.5%
Chicago	26.0	14.8	5.1
Dallas	35.2	15.1	4.2
Houston	35.3	24.1	4.8
Los Angeles	21.7	16.9	3.3
Miami	28.6	13.9	7.9
Orlando	35.7	20.0	4.7
Philadelphia	24.5	18.8	5.5
Phoenix	24.8	14.8	5.5
Washington, DC	29.7	20.7	8.1



Status Of New Supply Pipeline 2nd Quarter 2004

U.S. Lodging Market	Ratio Pipeline Supply To Modeled Supply 2004 - 2009	Ratio Pipeline Supply To Modeled Demand 2004 - 2009
Atlanta	18.7%	17.1%
Los Angeles	19.4	22.0
Orlando	23.4	21.4
Houston	19.9	23.9
Dallas	28.1	22.6
Chicago	34.7	32.1
Philadelphia	29.1	34.3
Phoenix	37.5	37.1
Washington, DC	39.3	40.7
Miami	57.1	42.5



What Attracts Developer Attention? Preliminary Indicators

- **Average Daily Rate Growth - HIGH**
 - Favorable patterns of recent ADR growth are attractive
- **Occupancy – LOW**
 - Recent vs. long-term average performance = N/A
- **Age of Inventory – MODERATE**
 - Older inventories attract attention
- **Other factors to be investigated:**
 - Branded vs. Independent
 - Full vs. Limited-Service
 - NOI



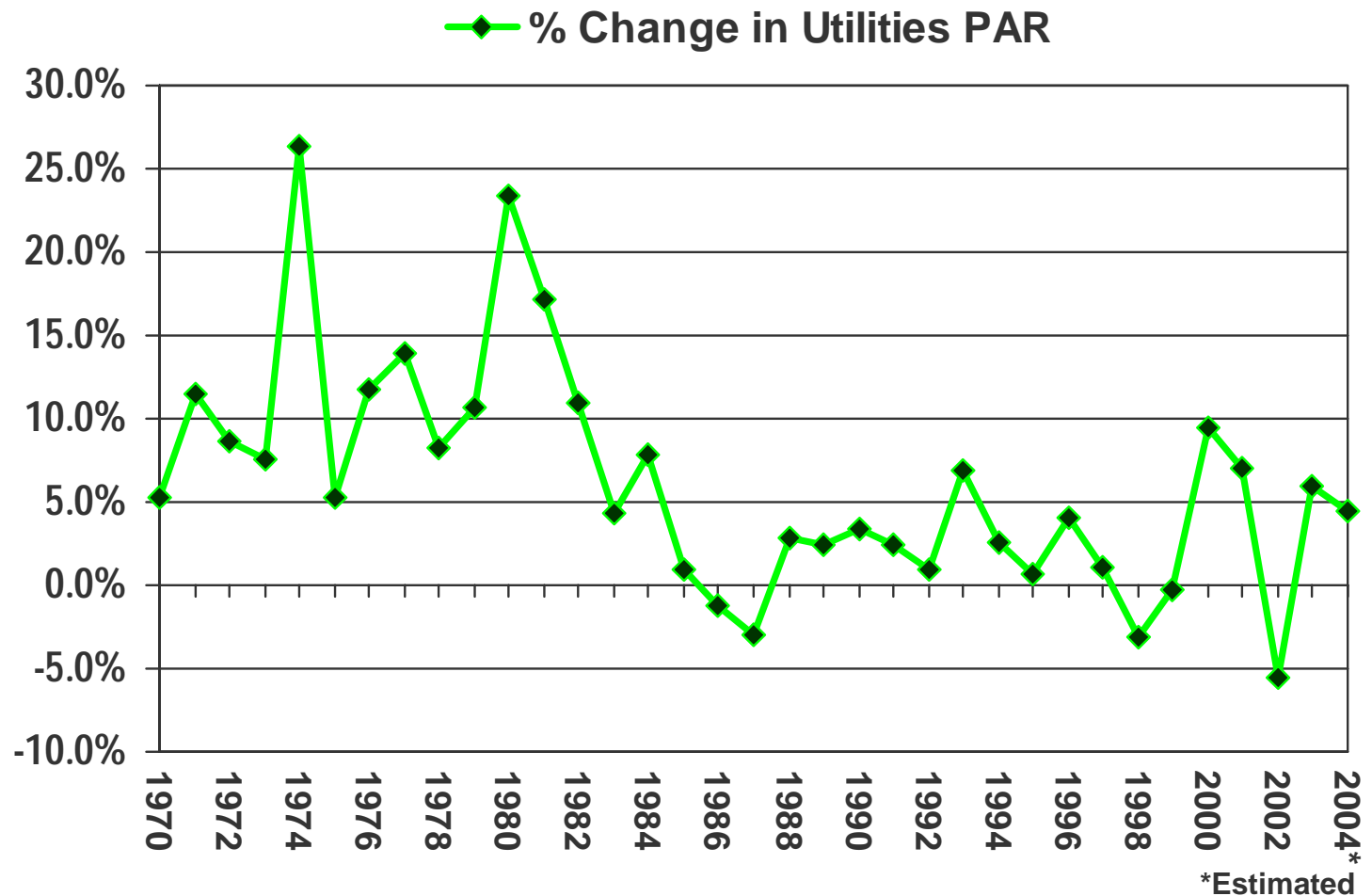
Escalating Oil Prices

- **Indirect Effects**
 - Demand
 - Cost of Supplies/Goods

- **Direct Effects**
 - Utility Costs



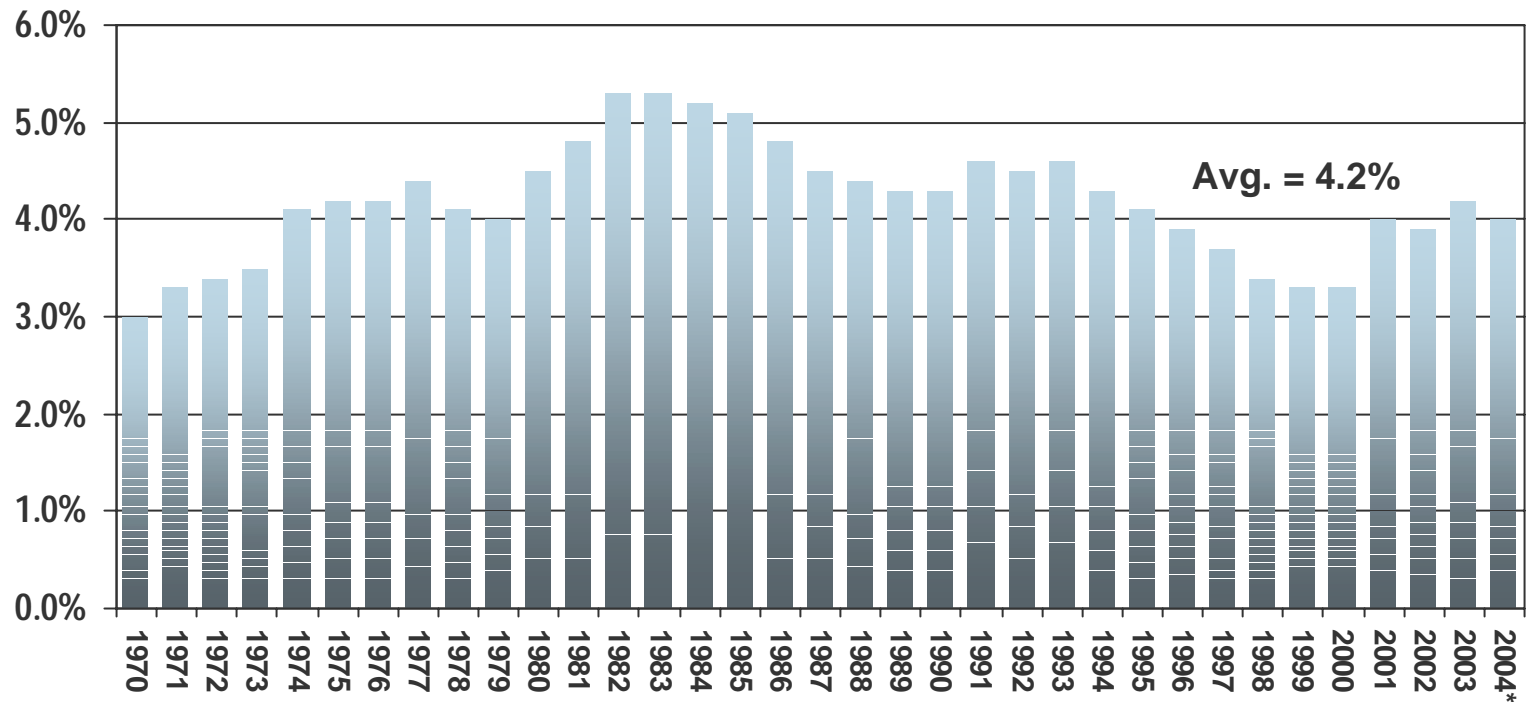
Far From a Return to the 1970's!





Tough to Control, We're Now at the Long-Term Average

■ % of Total Revenue



*Estimated



Winners and Losers

■ Winners

- Owners
- Franchise Companies
- Management Firms
- Lenders
- Employees

■ Losers

- The Customer



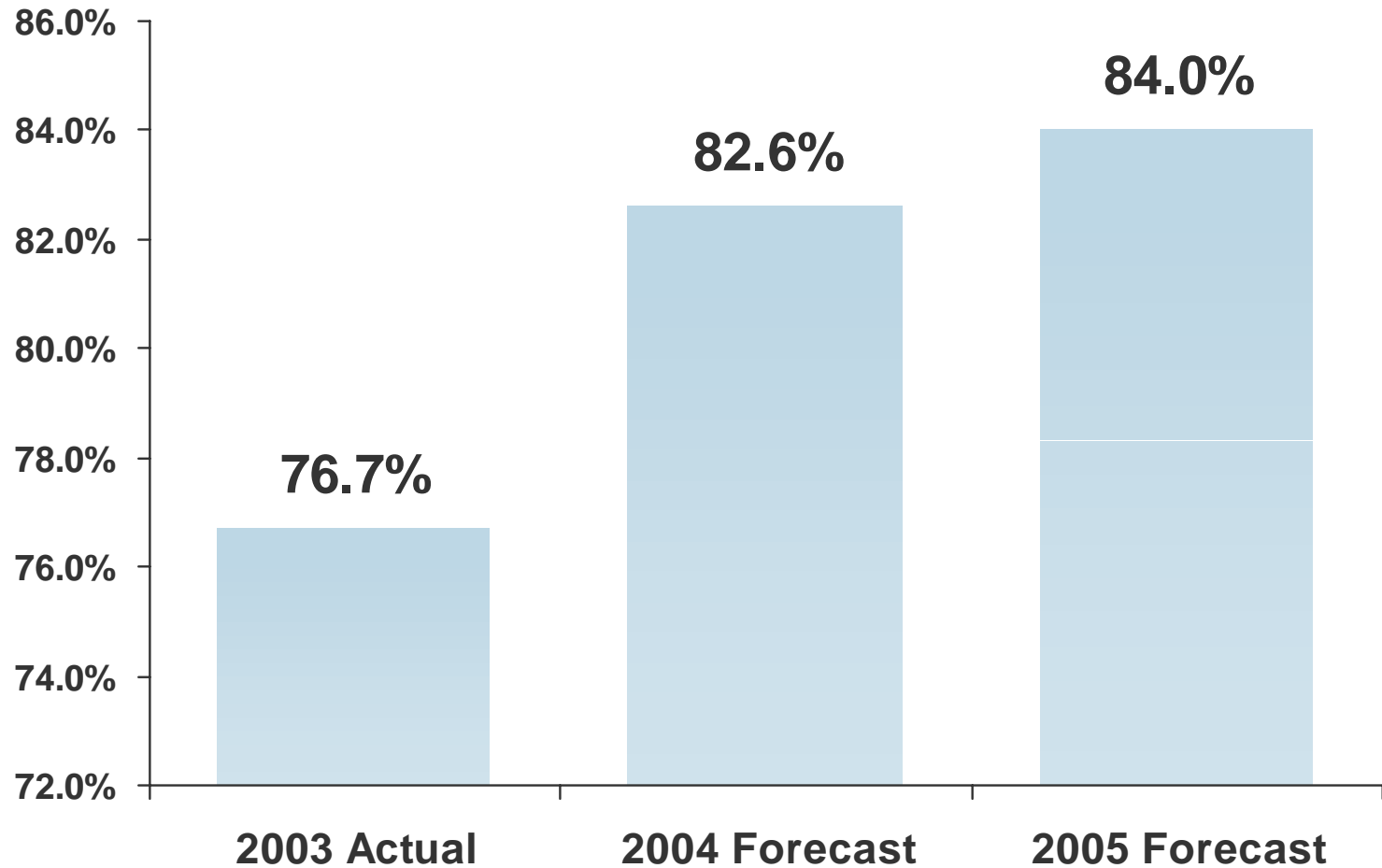
New York City Overview

John Fox
Senior Vice President
PKF Consulting



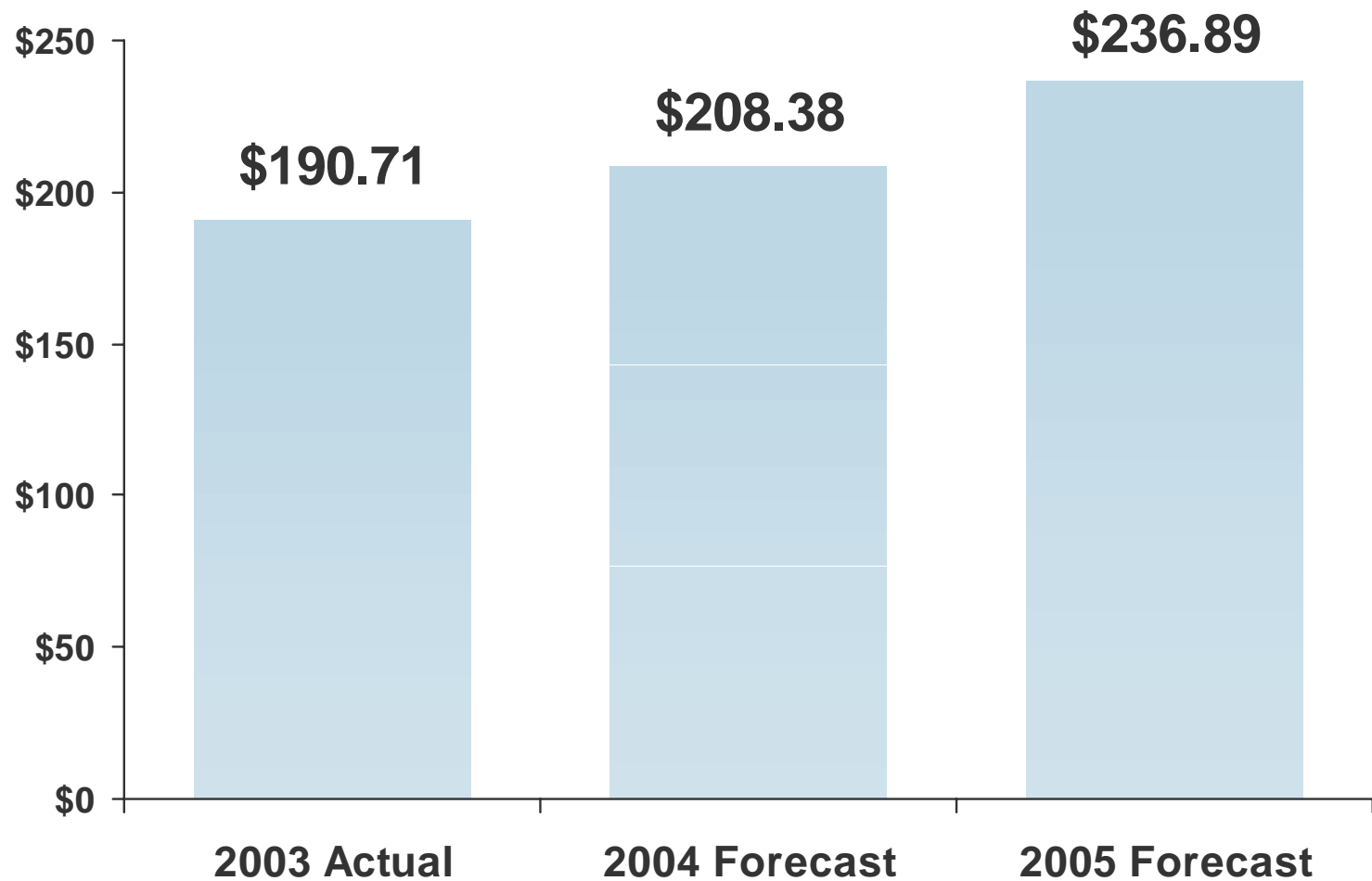


New York City – We're Back!



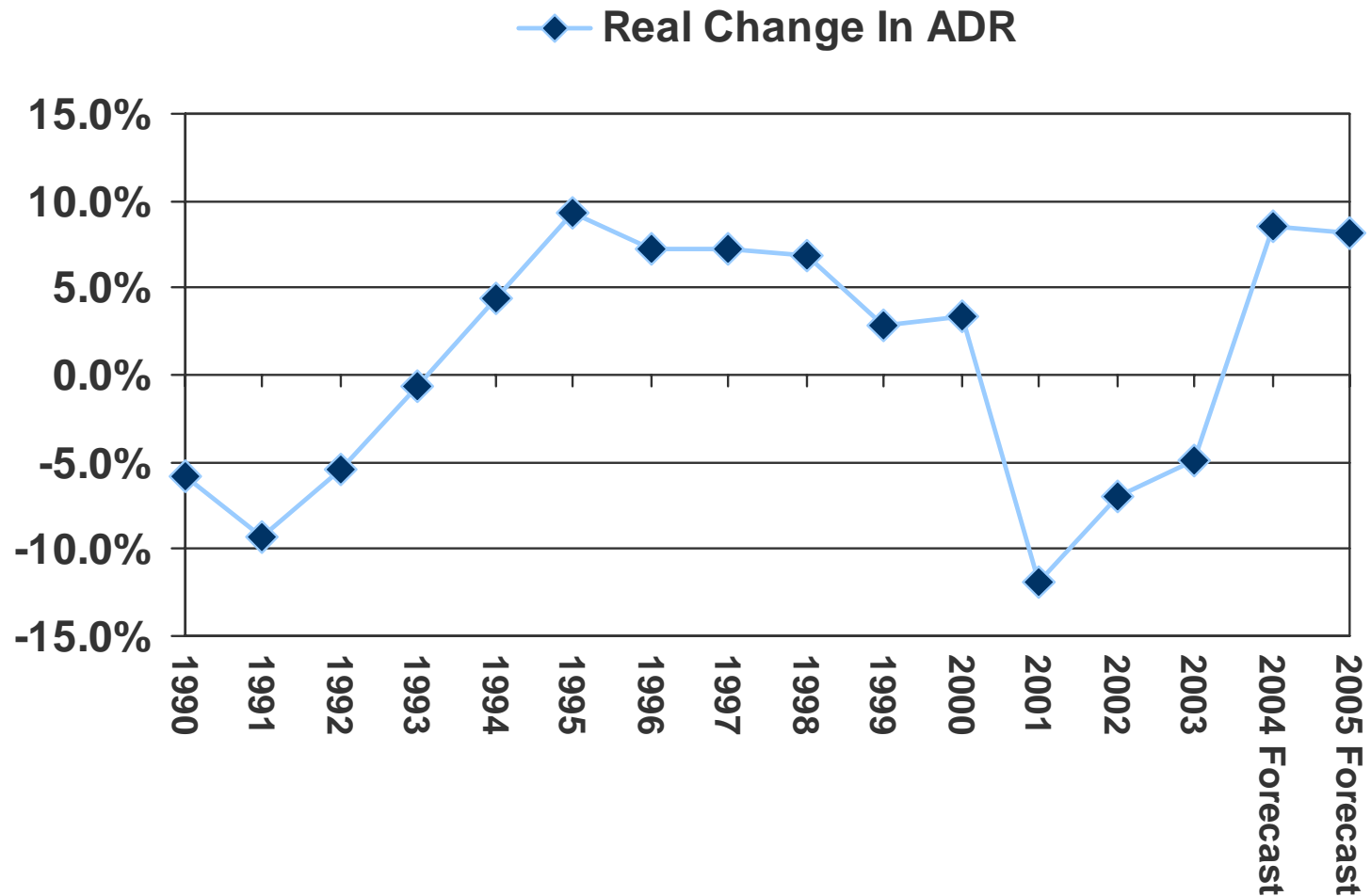


New York City – ADR Returns in 2005!





Real ADR Growth Means Real Profit and Value Growth





Thanks For Coming!

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