Expensive Oil:  
A Detour on the Road to Recovery?  
or  
A Bump on the Path to Better Times?

Prepared for:

Economic Forecasting Center  
Georgia State University

R. Mark Woodworth  
PKF Hospitality Research

Accelerating success.
Questions We Have Been Asking:

How many of you believe that hotel owners will make more money this year than last?
Answer:

Demand, Occupancy, Average Daily Rate, RevPAR and Profits will all be higher in 2011 than they were in 2010*

* Last said in 2006.
Questions We Have Been Asking:

How about more money in 2012 than in 2011?
The Hotel Market Cycle

Moving Along the Road to Recovery

- **Equilibrium ADR**
- **Rapid Development**
- **Lodging Decline, Leads Other Sectors**
- **Development Picks Up**
- **Rapid Development**

- **Long Run Occupancy**
- **Occupancy Declines, ADR Follows**
- **Development Slows**
- **Development at Minimum Levels**
- **Lodging Recovers, Lags Other Sectors**
- **Occupancy Recovers**
- **ADR and Margins Recover**

**U.S. and Atlanta are Here**

- **May 2010**
- **2011-2012**
- **2013-2014**
**Economic Assumptions Driving Our Forecasts:**

### Base Case Scenario

<table>
<thead>
<tr>
<th>Year</th>
<th>Payroll Employment</th>
<th>Real Personal Income</th>
<th>Real GDP</th>
<th>CPI (Inflation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>-4.3%</td>
<td>-1.9%</td>
<td>-2.6%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>2010</td>
<td>-0.5%</td>
<td>1.3%</td>
<td>2.9%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2011</td>
<td>1.2%</td>
<td>3.7%</td>
<td>3.3%</td>
<td>2.1%</td>
</tr>
<tr>
<td>2012</td>
<td>2.3%</td>
<td>4.7%</td>
<td>4.3%</td>
<td>2.0%</td>
</tr>
<tr>
<td>2013</td>
<td>2.6%</td>
<td>5.0%</td>
<td>3.9%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

**L.R.A.**

| 1.2% | 2.7% | 2.7% | 2.9% |

Source: Moody’s Analytics, April 2011 L.R.A. = Long Run Average

(January 2011)
A Review of the Drivers of Demand Change

Demand $= f (\text{Income}, \text{Employment } \Delta, \text{ADR})$

- Real Personal Income (RPI)
  - Sluggish but not the problem or solution

- Employment $\Delta$ - Who lost their jobs?

- ADR – Plunged!
4-Quarter Moving Average – U.S. All
Total Payroll Employment Change,
Average Daily Room Night Demand

Source: Colliers PKF Hospitality Research, Moody’s Analytics, Smith Travel Research
Happy Thoughts

History:
- # of Consecutive Quarters of Increases
  \( \Delta \) Demand – 5 Quarters
  \( \Delta \) Occupancy – 5 Quarters
  \( \Delta \) ADR – 4 Quarters
  \( \Delta \) RevPAR – 4 Quarters

Forecast (Base Case Scenario):
- # of Consecutive Quarters above (below) Long Run Average
  \( \Delta \) Demand (1.5\%) – 11 Quarters
  \( \Delta \) (Supply) (2.2\%) – 14 Quarters
  \( \Delta \) ADR (2.9\%) – 19 Quarters (as far as we can see)
  \( \Delta \) RevPAR (2.3\%) – 19 Quarters (ditto)
# National Horizon - Forecasts through 2012

<table>
<thead>
<tr>
<th></th>
<th>Long Term Average</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011F</th>
<th>2012F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>2.2%</td>
<td>0.2%</td>
<td>1.3%</td>
<td>2.5%</td>
<td>3.0%</td>
<td>1.9%</td>
<td>0.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Demand</td>
<td>1.5%</td>
<td>0.5%</td>
<td>0.7%</td>
<td>-2.5%</td>
<td>-6.1%</td>
<td>7.7%</td>
<td>5.2%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>62.2%</td>
<td>63.1%</td>
<td>62.8%</td>
<td>59.8%</td>
<td>54.5%</td>
<td>57.6%</td>
<td>60.3%</td>
<td>63.2%</td>
</tr>
<tr>
<td>ADR</td>
<td>2.9%</td>
<td>7.6%</td>
<td>6.4%</td>
<td>2.9%</td>
<td>-8.5%</td>
<td>-0.2%</td>
<td>2.6%</td>
<td>5.8%</td>
</tr>
<tr>
<td>RevPAR</td>
<td>2.3%</td>
<td>7.9%</td>
<td>5.9%</td>
<td>-2.1%</td>
<td>-16.6%</td>
<td>5.4%</td>
<td>6.8%</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

**Base Case Scenario**

Severe Rate Discounting Set the Stage

For a Record Decline

And a Quicker Demand Turnaround

Surpasses Long Run Average

Source: PKF Hospitality Research – June-August 2011 Horizons® Report (preliminary), Smith Travel Research
Nominal RevPAR Levels Return to Historical Maximum in Year...

The map below displays the year in which nominal RevPAR levels are forecast to once again achieve their historical maximum: 1 market in 2010, 0 in 2011, 10 markets in 2012, 23 markets in 2013, 8 markets in 2014, and 8 markets in 2015 or later.

Source: Colliers PKF Hospitality Research – March - May 2011 Hotel Horizons® Report, Smith Travel Research
U.S. Hotel Markets
Greatest and Least Change in RevPAR

Forecast Change 2010 to 2011

- Seattle: 8.9%
- Oakland: 8.4%
- San Diego: 8.3%
- Portland: 8.1%
- Minneapolis: 7.8%
- National Average: 7.1%
- New York: 1.9%
- Raleigh-Durham: 1.7%
- Philadelphia: 1.0%
- Indianapolis: 0.3%
- Washington DC: -1.3%

Source: Colliers PKF Hospitality Research, March - May 2011 Hotel Horizons® report.
2011 RevPAR Forecast By Chain-Scale

Forecast Change 2010 to 2011

- Luxury: 9.6%
- Upper-Upscale: 7.1%
- Upscale: 6.0%
- Midscale with F&B: 5.3%
- Midscale without F&B: 7.4%
- Economy: 6.4%

Annual Change – All U.S. Hotels
Unit-Level NOI*

Base Case Scenario

Note: * Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

No Margin for Error in Global Oil Markets…

OPEC spare capacity as a % of global oil demand

Sources: OPEC, EIA, IEA, Moody’s Analytics
Moody’s approximates the fundamental price of oil at $93.53 in 2011.
“Every $1 increase in the price of crude oil raises gasoline prices by 2.2 cents per gallon and costs consumers about $3 billion over the course of a year.”

- Moody’s Analytics
Potential effect of Oil Price Increases on RevPAR

Baseline Scenario (Current Forecast)
$125 Scenario
$150 Scenario

Long Run Average per STR = 2.3%

Source: PKF Hospitality Research
Cumulative Change in RevPAR 2010 – 2012 – By Location

Resort and Suburban Locations take the Big Hit

Source: PKF Hospitality Research
## Summary Estimates

<table>
<thead>
<tr>
<th></th>
<th>Base Case</th>
<th>Oil at $125</th>
<th>Oil at $150</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
<td>2011</td>
<td>2012</td>
<td>2011</td>
</tr>
<tr>
<td><strong>Occupancy</strong></td>
<td>60.3%</td>
<td>63.2%</td>
<td>59.7%</td>
</tr>
<tr>
<td><strong>ADR</strong></td>
<td>2.6%</td>
<td>5.8%</td>
<td>2.1%</td>
</tr>
<tr>
<td><strong>RevPAR</strong></td>
<td>6.8%</td>
<td>7.6%</td>
<td>5.7%</td>
</tr>
<tr>
<td><strong>NOI</strong></td>
<td>10.4%</td>
<td>13.5%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

Source: PKF Hospitality Research – June-August 2011 Horizons® Report (preliminary), Smith Travel Research
Atlanta Forecasts Come from Hotel Horizons®

ATLANTA ECONOMIC FORECASTS OF U.S. LODGING MARKETS

ATLANTA REGIONAL ECONOMIC SUMMARY

Economic news from South District business contacts indicated that the lack of economic activity, BKLYD, lowered consumption in July and early August. Barometer readings indicated a slight increase in traffic and sales, but the outlook was not optimistic for the remainder of the summer. Mining activity was generally low. However, significant growth was expected. Construction-related activities around the city were expected to increase. Existing home sales slowed, and new home sales remained slow. Manufacturers were also affected, as the sales of new homes and production slowed. Retailers and wholesalers continued to increase their sales, with many companies reporting a 10% to 15% increase in sales. Transportation and travel costs rose slightly, but most firms reported no increase in office rents.

Atlanta Hotel Market Summary

The Atlanta hotel market is forecast to see a RevPAR increase of 4.5%. This is the result of an increased number of guests in the market. The ADR is forecast to increase by 1.5%, while the occupancy rate is expected to increase by 3.0%. The increase in demand is expected to drive an overall increase in RevPAR of 5.0%. The forecast is based on the assumption of continued economic growth in the region.

ATLANTA NEXT FOUR QUARTERS

The table below shows the forecasted direction of change for the Atlanta hotel market over the next 4 quarters, from the previous 4 quarters. Each column indicates the change in the long term average and direction indicated below.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>ADR</th>
<th>ADR Growth</th>
<th>Occupancy</th>
<th>Occupancy Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021Q1</td>
<td>85.0%</td>
<td>4.0%</td>
<td>4.4%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2021Q2</td>
<td>82.5%</td>
<td>3.5%</td>
<td>4.3%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2021Q3</td>
<td>81.0%</td>
<td>3.0%</td>
<td>4.2%</td>
<td>3.0%</td>
</tr>
<tr>
<td>2021Q4</td>
<td>79.5%</td>
<td>2.5%</td>
<td>4.1%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Note: October, November, and December revenue are projected to be lower than the previous year due to the COVID-19 pandemic.

Source: PKF Hospitality Research

Graph: 2020-2021 Hotel Market Trends

- ADR: Average Daily Rate
- Occupancy: Percentage of rooms sold
- RevPAR: Revenue per Available Room

Graph shows the trend in hotel market performance over the past 5 years, indicating a slight increase in ADR and Occupancy, but a decrease in RevPAR.

Source: PKF Hospitality Research

Colliers International®

PKF Hospitality Research
4-Quarter Moving Average
Total Atlanta Employment and Total Atlanta Hospitality Employment

1990 – 2010
Total:
+ 1.8%
Hospitality:
+ 2.3%

2011-2015
Total:
2.7%
Hospitality:
3.8%

Forecast

Source: PKF Hospitality Research, Moody’s Analytics
## Atlanta Projects Under Construction

<table>
<thead>
<tr>
<th>City Sectors</th>
<th># Projects</th>
<th># Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airport</td>
<td>1</td>
<td>120</td>
</tr>
<tr>
<td>I-75 South</td>
<td>2</td>
<td>181</td>
</tr>
<tr>
<td>Six Flags I-20 West</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4</strong></td>
<td><strong>401</strong></td>
</tr>
</tbody>
</table>

Long Run Average = 3.24% per year

*Source: Dodge / TWR / STR*
## Representative Brands Upper and Lower Tiers

<table>
<thead>
<tr>
<th>Upper-Priced</th>
<th>Lower-Priced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Courtyard by Marriott</td>
<td>Days Inn</td>
</tr>
<tr>
<td>Holiday Inn</td>
<td>Fairfield Inn</td>
</tr>
<tr>
<td>Hyatt</td>
<td>Hampton Inn</td>
</tr>
<tr>
<td>Loews</td>
<td>Holiday Inn Express</td>
</tr>
<tr>
<td>Marriott Hotels</td>
<td>Microtel</td>
</tr>
<tr>
<td>Ritz-Carlton</td>
<td>TownPlace Suites</td>
</tr>
</tbody>
</table>

*Source: Smith Travel Research*
### Atlanta MSA

**All Hotels**

**Improved Occupancy in 2010 = Better ADR Performance in 2011**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011F</th>
<th>Long-Term Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy</td>
<td>63.4%</td>
<td>59.2%</td>
<td>53.0%</td>
<td>58.0%</td>
<td>58.2%</td>
<td>63.2%</td>
</tr>
<tr>
<td>% Change</td>
<td>-2.5%</td>
<td>-6.6%</td>
<td>-10.5%</td>
<td>+9.3%</td>
<td>+0.4%</td>
<td>-</td>
</tr>
<tr>
<td>ADR</td>
<td>$93.44</td>
<td>$93.95</td>
<td>$85.45</td>
<td>$84.85</td>
<td>$88.53</td>
<td>-</td>
</tr>
<tr>
<td>% Change</td>
<td>+5.2%</td>
<td>+0.5%</td>
<td>-9.0%</td>
<td>-0.7%</td>
<td>+4.3%</td>
<td>+2.0%</td>
</tr>
<tr>
<td>RevPAR</td>
<td>$59.25</td>
<td>$55.65</td>
<td>$45.30</td>
<td>$49.18</td>
<td>$51.51</td>
<td>-</td>
</tr>
<tr>
<td>% Change</td>
<td>+2.6%</td>
<td>-6.1%</td>
<td>-18.6%</td>
<td>+8.6%</td>
<td>+4.7%</td>
<td>+1.7%</td>
</tr>
</tbody>
</table>

Source: PKF Hospitality Research –March-May 2011 Hotel Horizons® Report, Smith Travel Research
## Atlanta MSA
### Upper-Priced Hotels

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011F</th>
<th>Long-Term Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy</td>
<td>65.3%</td>
<td>61.6%</td>
<td>55.9%</td>
<td>61.8%</td>
<td>61.9%</td>
<td>66.8%</td>
</tr>
<tr>
<td>% Change</td>
<td>-1.8%</td>
<td>-5.6%</td>
<td>-9.4%</td>
<td>+10.7%</td>
<td>0.2%</td>
<td>-</td>
</tr>
<tr>
<td>ADR</td>
<td>$125.25</td>
<td>$124.56</td>
<td>$111.47</td>
<td>$110.81</td>
<td>$115.79</td>
<td>-</td>
</tr>
<tr>
<td>% Change</td>
<td>5.2%</td>
<td>-0.6%</td>
<td>-10.5%</td>
<td>-0.6%</td>
<td>4.5%</td>
<td>+2.1%</td>
</tr>
<tr>
<td>RevPAR</td>
<td>$81.75</td>
<td>$76.78</td>
<td>$62.26</td>
<td>$68.52</td>
<td>$71.72</td>
<td>-</td>
</tr>
<tr>
<td>% Change</td>
<td>3.2%</td>
<td>-6.1%</td>
<td>-18.9%</td>
<td>+10.1%</td>
<td>4.7%</td>
<td>+2.6%</td>
</tr>
</tbody>
</table>

Source: PKF Hospitality Research –March-May 2011 Hotel Horizons® Report, Smith Travel Research
## Atlanta MSA
### Lower-Priced Hotels

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011F</th>
<th>Long-Term Average</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Occupancy</strong></td>
<td>61.7%</td>
<td>57.0%</td>
<td>50.3%</td>
<td>54.1%</td>
<td>54.4%</td>
<td>60.7%</td>
</tr>
<tr>
<td>% Change</td>
<td>-3.0%</td>
<td>-7.6%</td>
<td>-11.7%</td>
<td>+7.7%</td>
<td>0.5%</td>
<td>-</td>
</tr>
<tr>
<td><strong>ADR</strong></td>
<td>$61.77</td>
<td>$62.60</td>
<td>$57.64</td>
<td>$55.68</td>
<td>$57.35</td>
<td>-</td>
</tr>
<tr>
<td>% Change</td>
<td>5.9%</td>
<td>1.3%</td>
<td>-7.9%</td>
<td>-3.4%</td>
<td>3.0%</td>
<td>+1.9%</td>
</tr>
<tr>
<td><strong>RevPAR</strong></td>
<td>$38.08</td>
<td>$35.66</td>
<td>$28.98</td>
<td>$30.14</td>
<td>$31.21</td>
<td>-</td>
</tr>
<tr>
<td>% Change</td>
<td>2.7%</td>
<td>-6.4%</td>
<td>-18.7%</td>
<td>+4.0%</td>
<td>3.5%</td>
<td>+1.5%</td>
</tr>
</tbody>
</table>

Source: PKF Hospitality Research –March-May 2011 Hotel Horizons® Report, Smith Travel Research
Summary

No Tailwinds Yet:

* Persistent high levels of unemployment
* Continued weakness in housing
* Higher inflation lifts appeal of hotels
* Oil prices – a Bump on the Path.
Thank you for your time.