

May 18, 2011

U.S. Lodging Industry Overview

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

by
R. Mark Woodworth
PKF Hospitality Research

Accelerating success.

PKF
HOSPITALITY
RESEARCH

Questions We Have Been Asking:

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

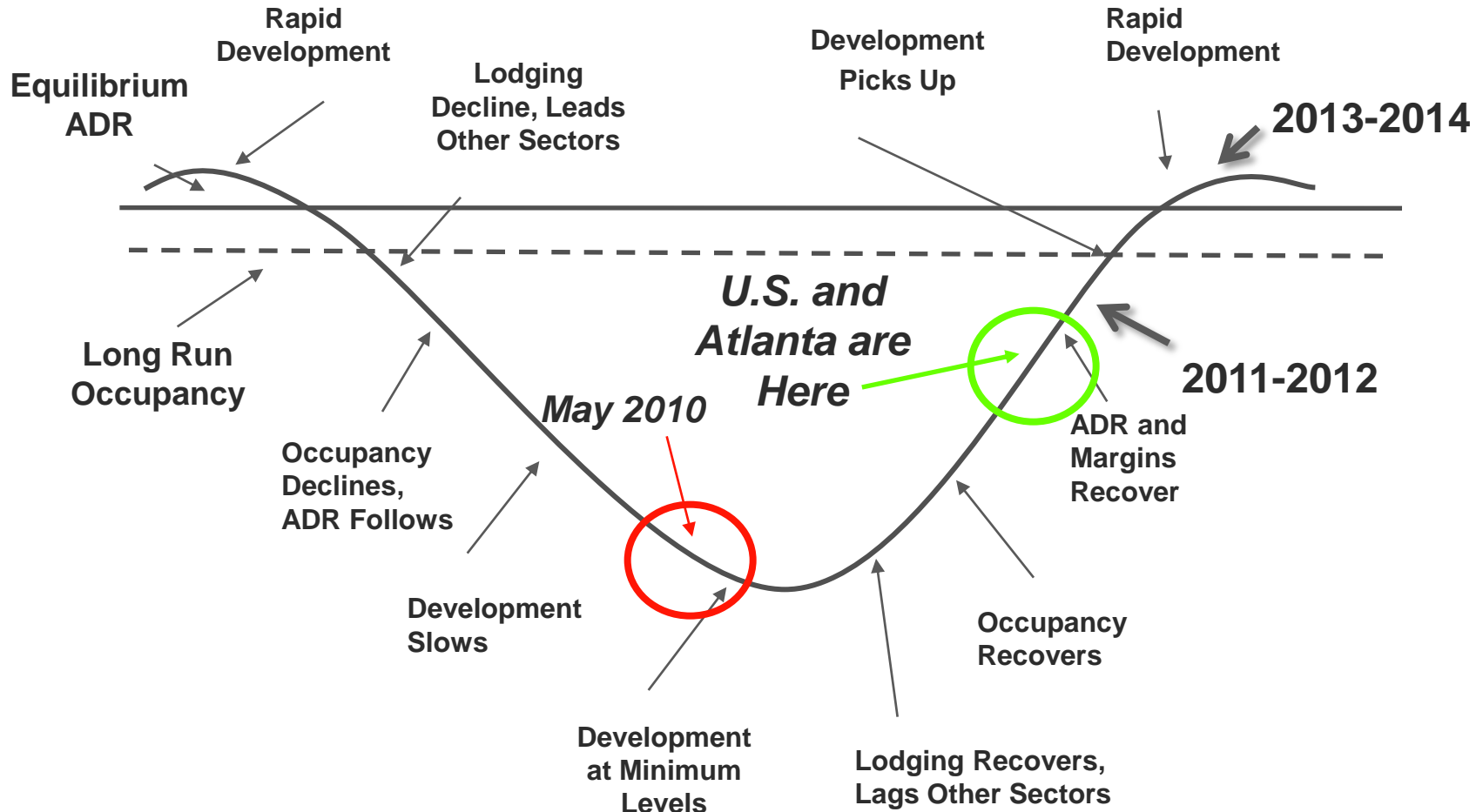
**Demand,
Occupancy, Average
Daily Rate, RevPAR
and Profits will all be
higher in 2011 than
they were in 2010***

* Last said in 2006.

**How about more money in 2012 than
in 2011?**

The Hotel Market Cycle

Moving Along the Road to Recovery



Economic Assumptions Driving Our Forecasts:

Base Case Scenario

	Payroll Employment		Real Personal Income		Real GDP		CPI (Inflation)	
2009	-4.3%	-4.3%	-1.9%	-1.9%	-2.6%	-2.6%	-0.3%	-0.3%
2010	-0.5%	-0.5%	1.3%	1.3%	2.9%	2.9%	1.6%	1.6%
2011	1.2%	1.7%	3.7%	4.0%	3.3%	3.9%	2.1%	1.5%
2012	2.3%	2.4%	4.7%	3.8%	4.3%	4.0%	2.0%	2.5%
2013	2.6%	2.5%	5.0%	4.6%	3.9%	3.7%	2.9%	3.2%
L.R.A.	<u>1.2%</u>		<u>2.7%</u>		<u>2.7%</u>		<u>2.9%</u>	

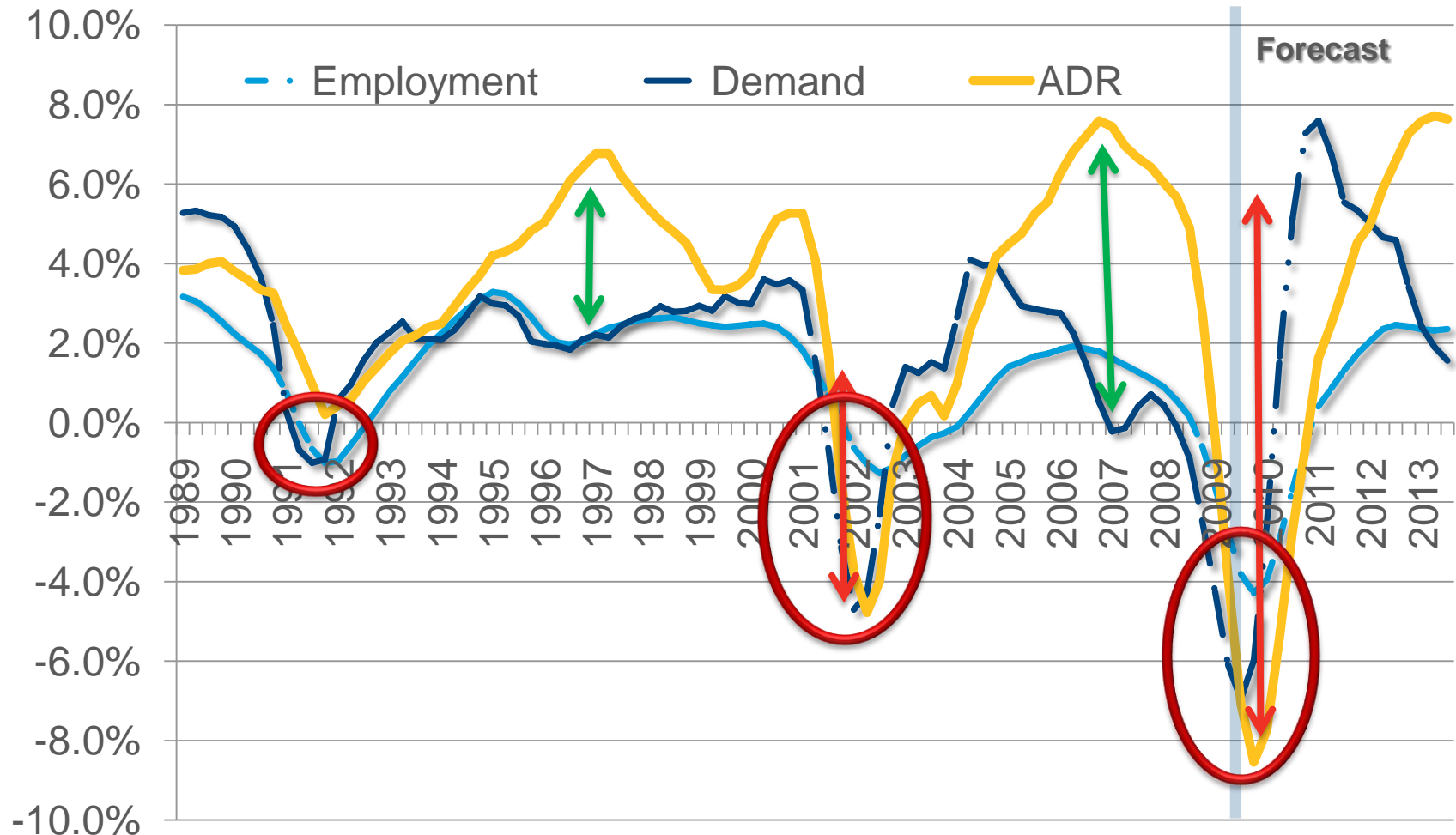
Source: Moody's Analytics, April 2011 L.R.A. = Long Run Average
(January 2011)

A Review of the Drivers of Demand Change

Demand = f (Income, Employment Δ , ADR)

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

History:

- # of Consecutive Quarters of Increases
 - Δ Demand – 5 Quarters
 - Δ Occupancy – 5 Quarters
 - Δ ADR – 4 Quarters
 - Δ RevPAR – 4 Quarters



Forecast (Base Case Scenario):

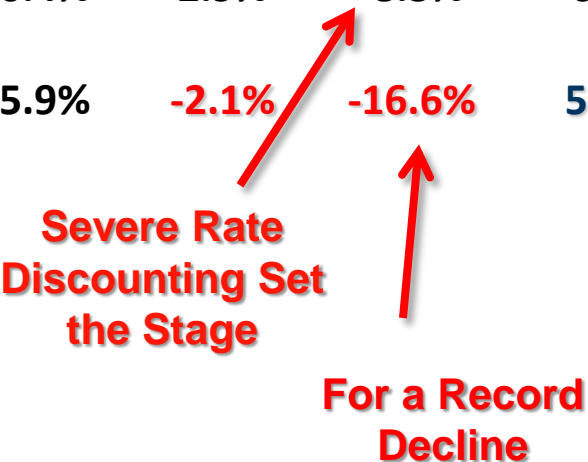
- # of Consecutive Quarters above (below) Long Run Average
 - Δ Demand (1.5%) – 11 Quarters
 - Δ (Supply) (2.2%) – 14 Quarters
 - Δ ADR (2.9%) – 19 Quarters (as far as we can see)
 - Δ RevPAR (2.3%) – 19 Quarters (ditto)

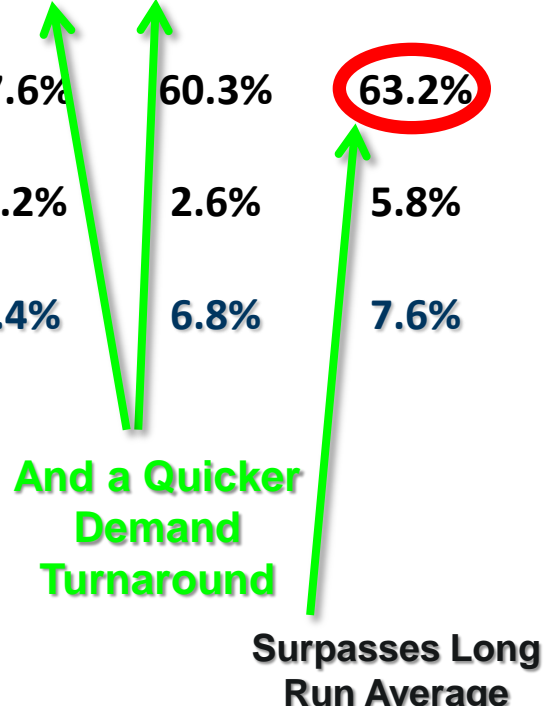
National Horizon

- Forecasts through 2012

Base Case Scenario

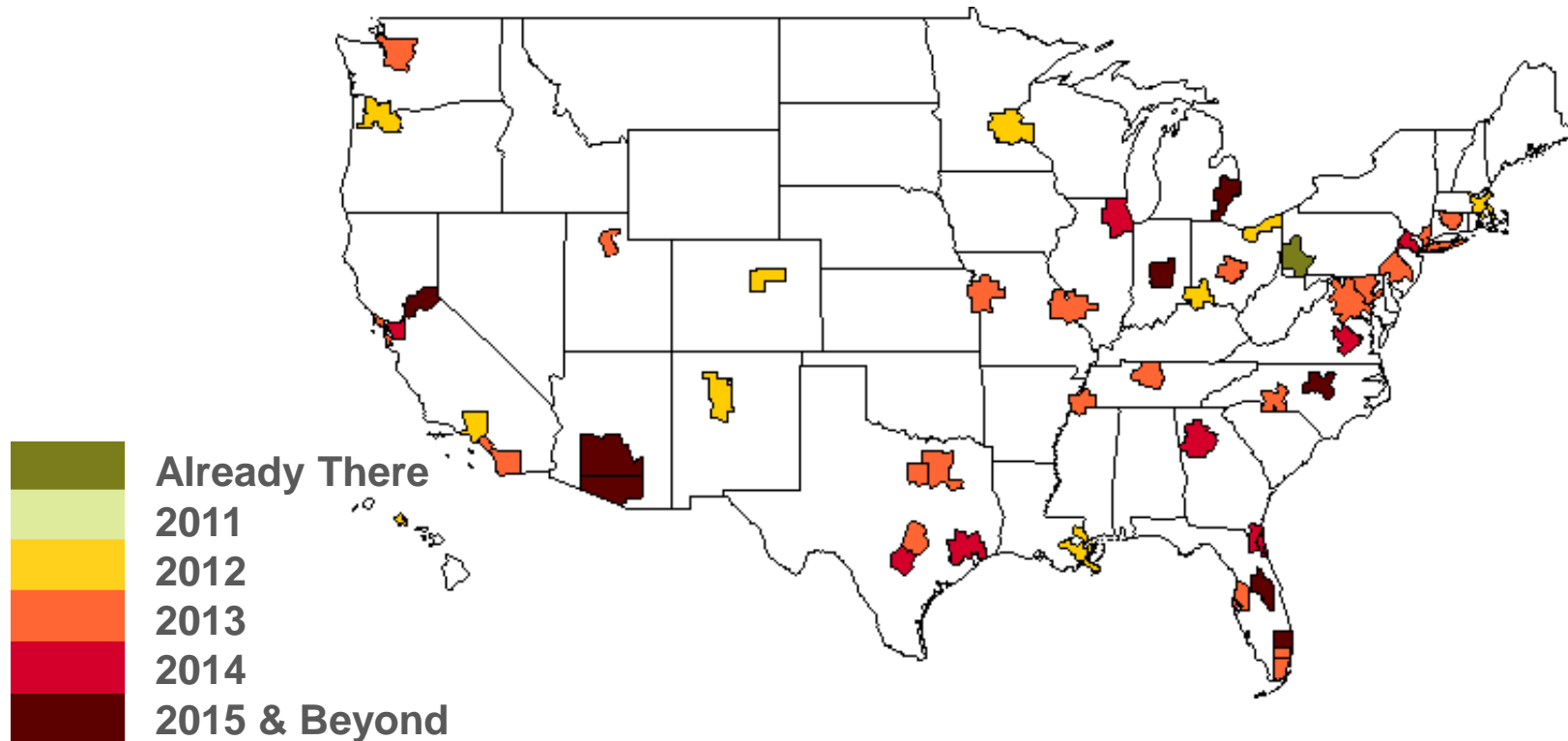
	Long Term Average	2006	2007	2008	2009	2010	2011F	2012F
Supply	2.2%	0.2%	1.3%	2.5%	3.0%	1.9%	0.4%	0.5%
Demand	1.5%	0.5%	0.7%	-2.5%	-6.1%	7.7%	5.2%	5.3%
Occupancy	62.2%	63.1%	62.8%	59.8%	54.5%	57.6%	60.3%	63.2%
ADR	2.9%	7.6%	6.4%	2.9%	-8.5%	-0.2%	2.6%	5.8%
RevPAR	2.3%	7.9%	5.9%	-2.1%	-16.6%	5.4%	6.8%	7.6%


Severe Rate Discounting Set the Stage
For a Record Decline


And a Quicker Demand Turnaround
Surpasses Long Run Average

Nominal RevPAR Levels Return to Historical Maximum in Year...

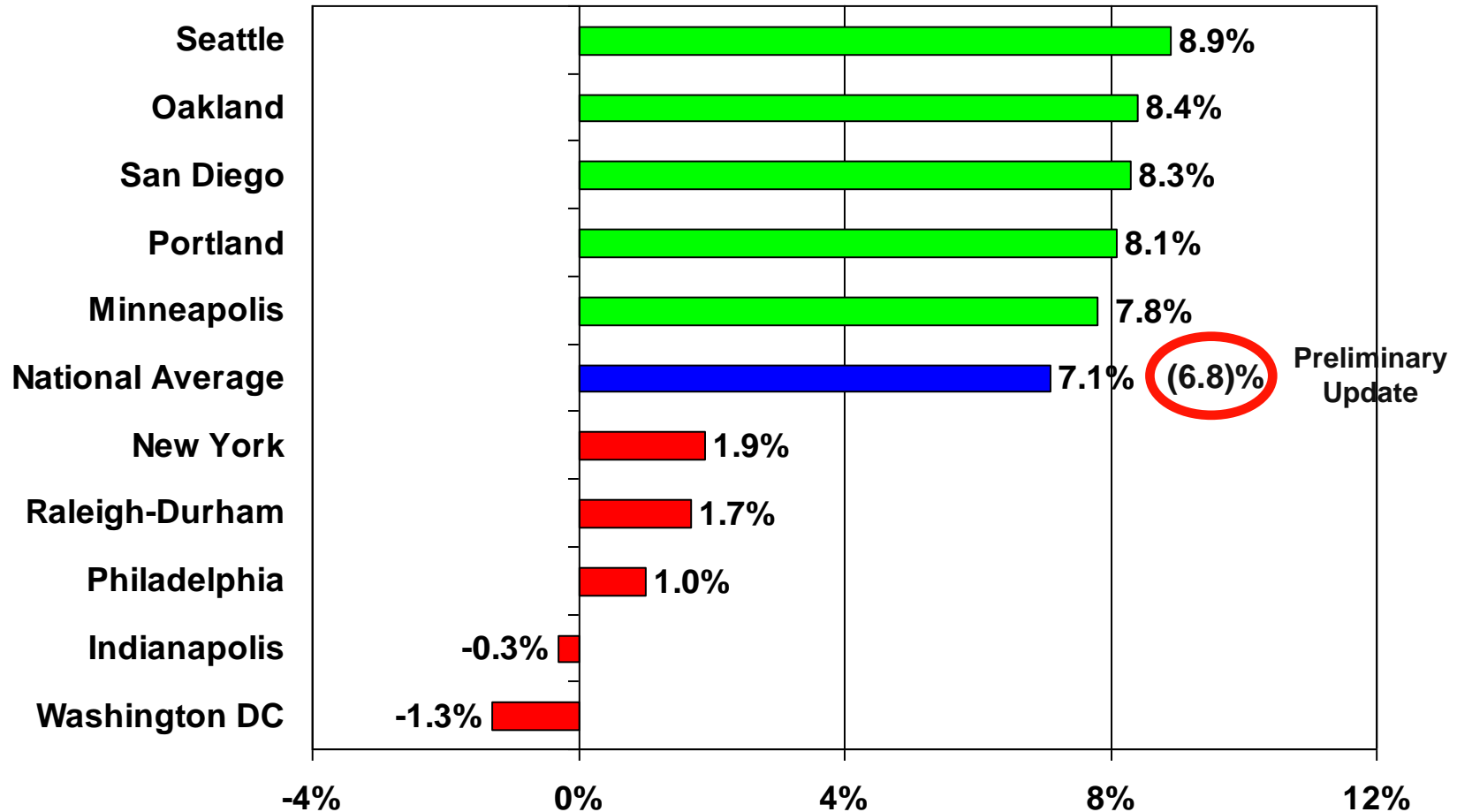
The map below displays the year in which nominal RevPAR levels are forecast to once again achieve their historical maximum: 1 market in 2010, 0 in 2011, 10 markets in 2012, 23 markets in 2013, 8 markets in 2014, and 8 markets in 2015 or later.



U.S. Hotel Markets

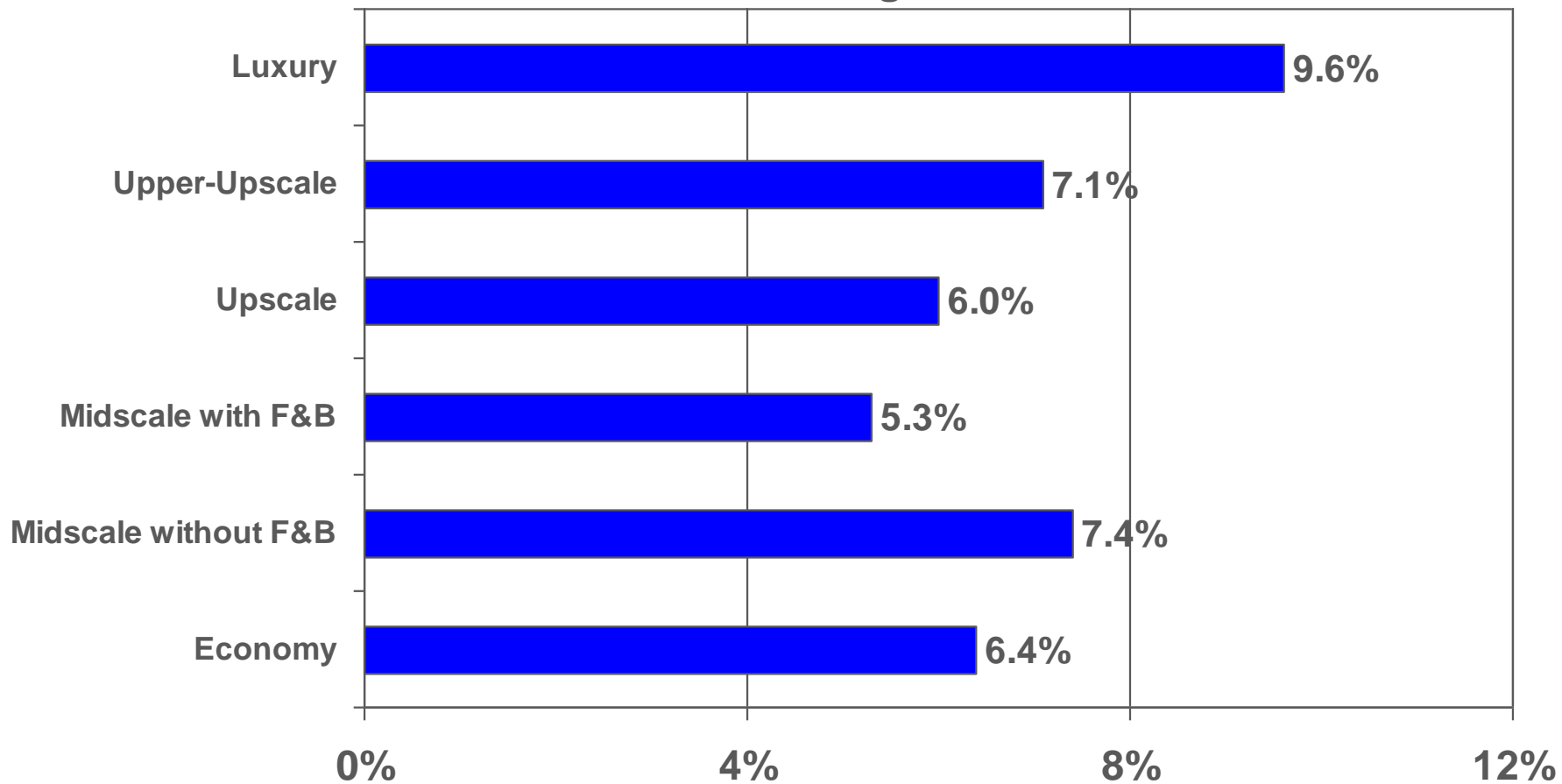
Greatest and Least Change in RevPAR

Forecast Change 2010 to 2011



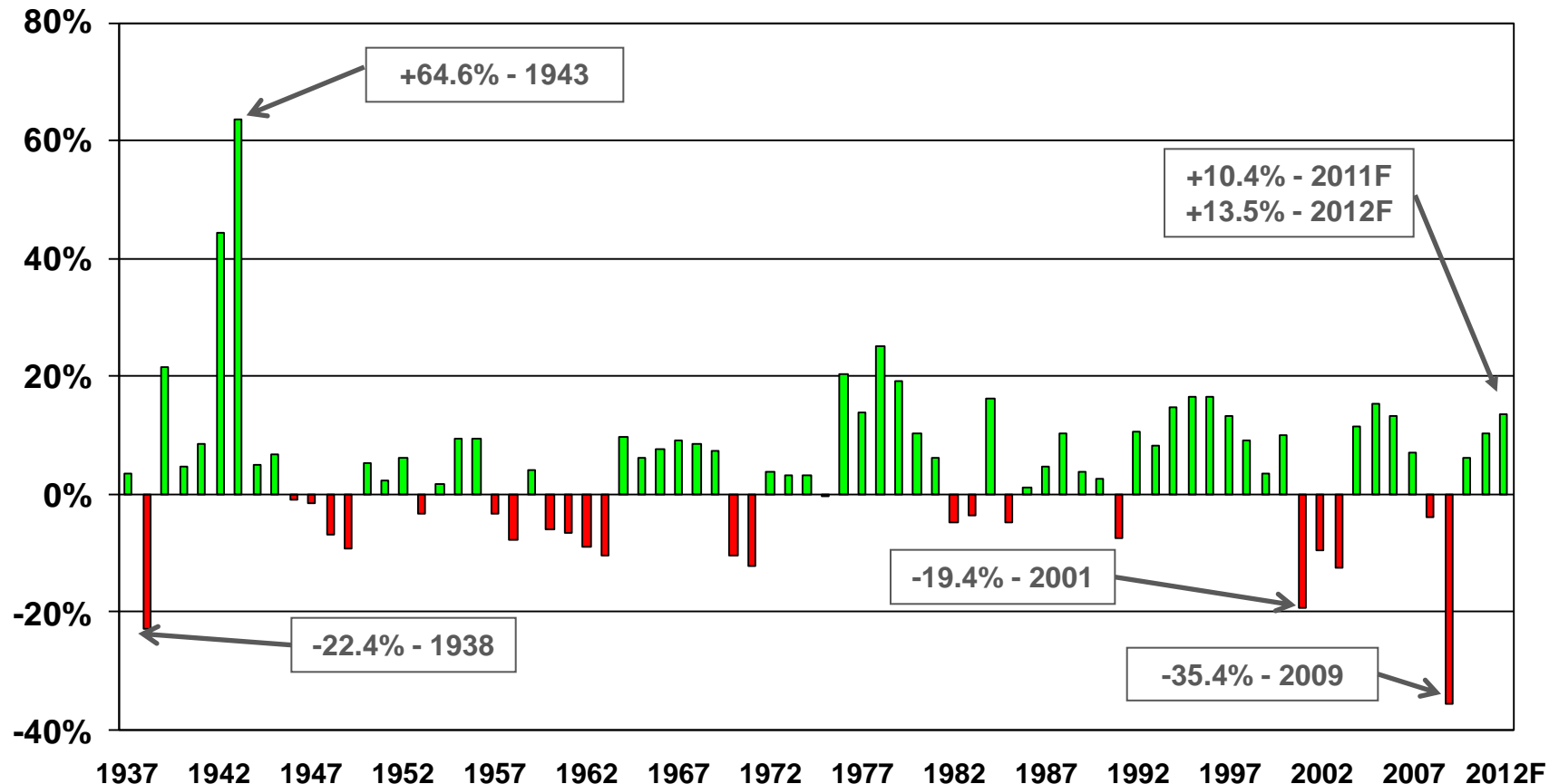
2011 RevPAR Forecast By Chain-Scale

Forecast Change 2010 to 2011



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

Base Case Scenario

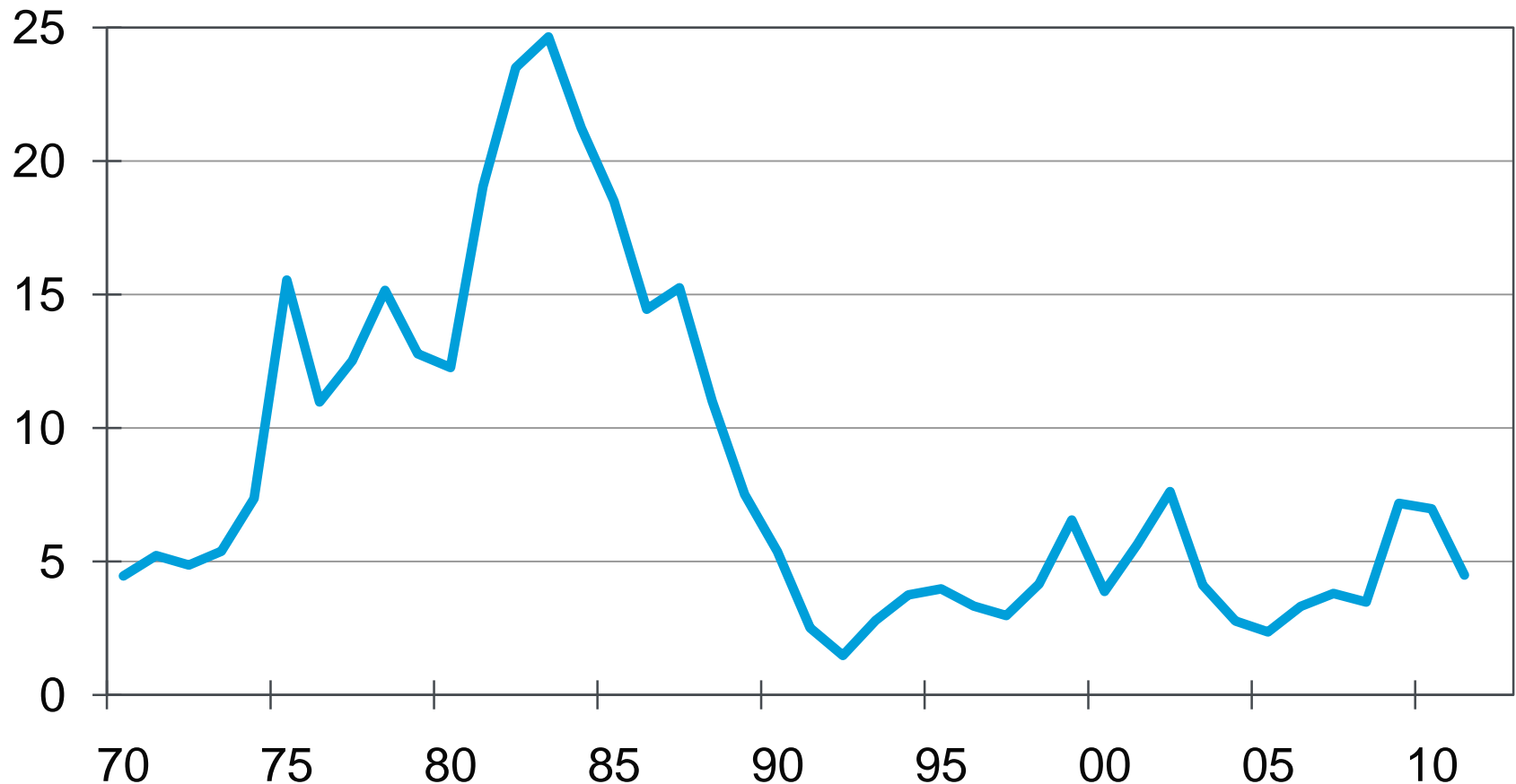


Note: * Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF Hospitality Research, *Trends® in the Hotel Industry* sample.

No Margin for Error in Global Oil Markets...

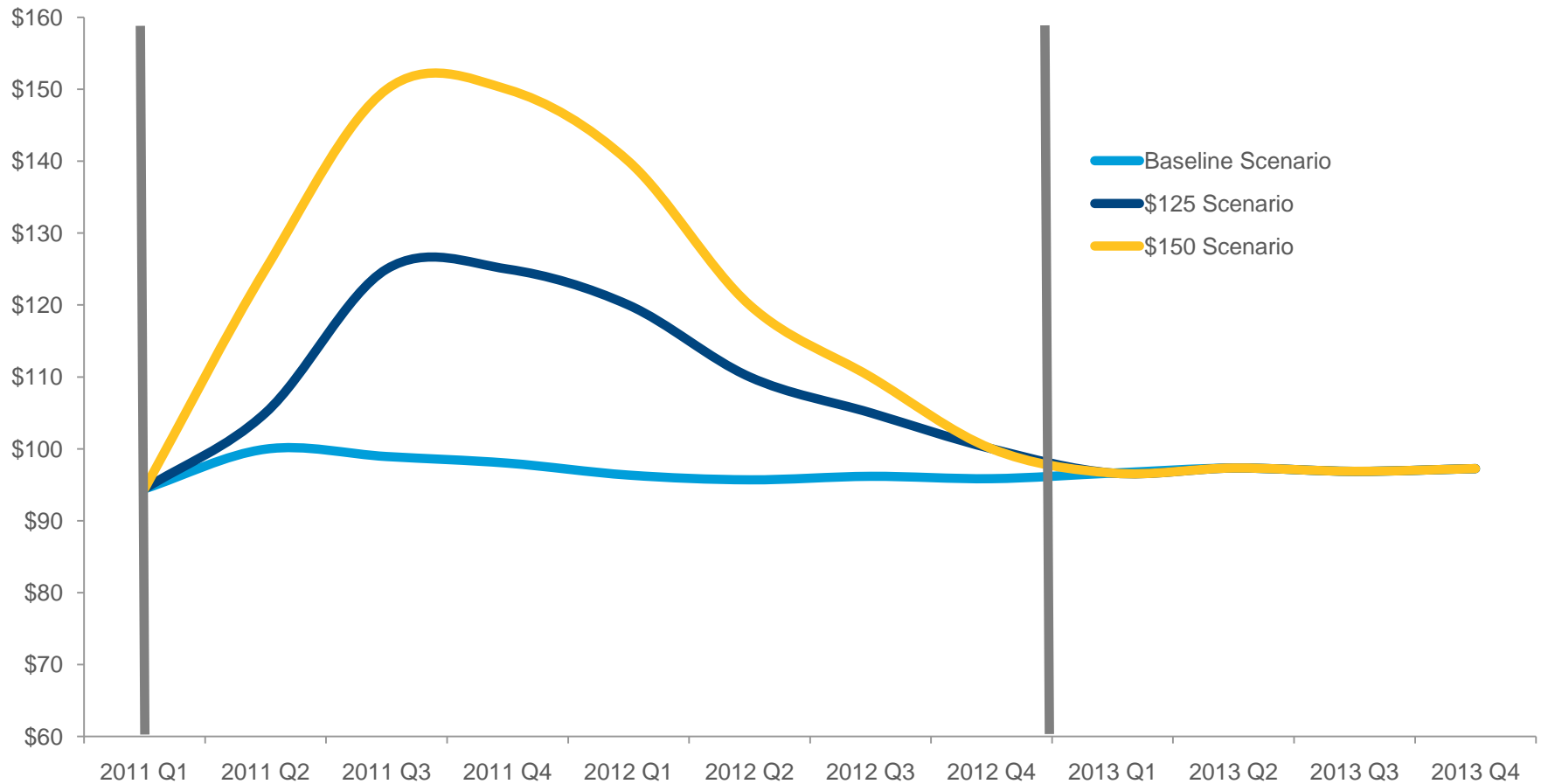
OPEC spare capacity as a % of global oil demand



Sources: OPEC, EIA, IEA, Moody's Analytics

Moody's Oil Price Scenarios

Moody's approximates the fundamental price of oil at \$93.53 in 2011.

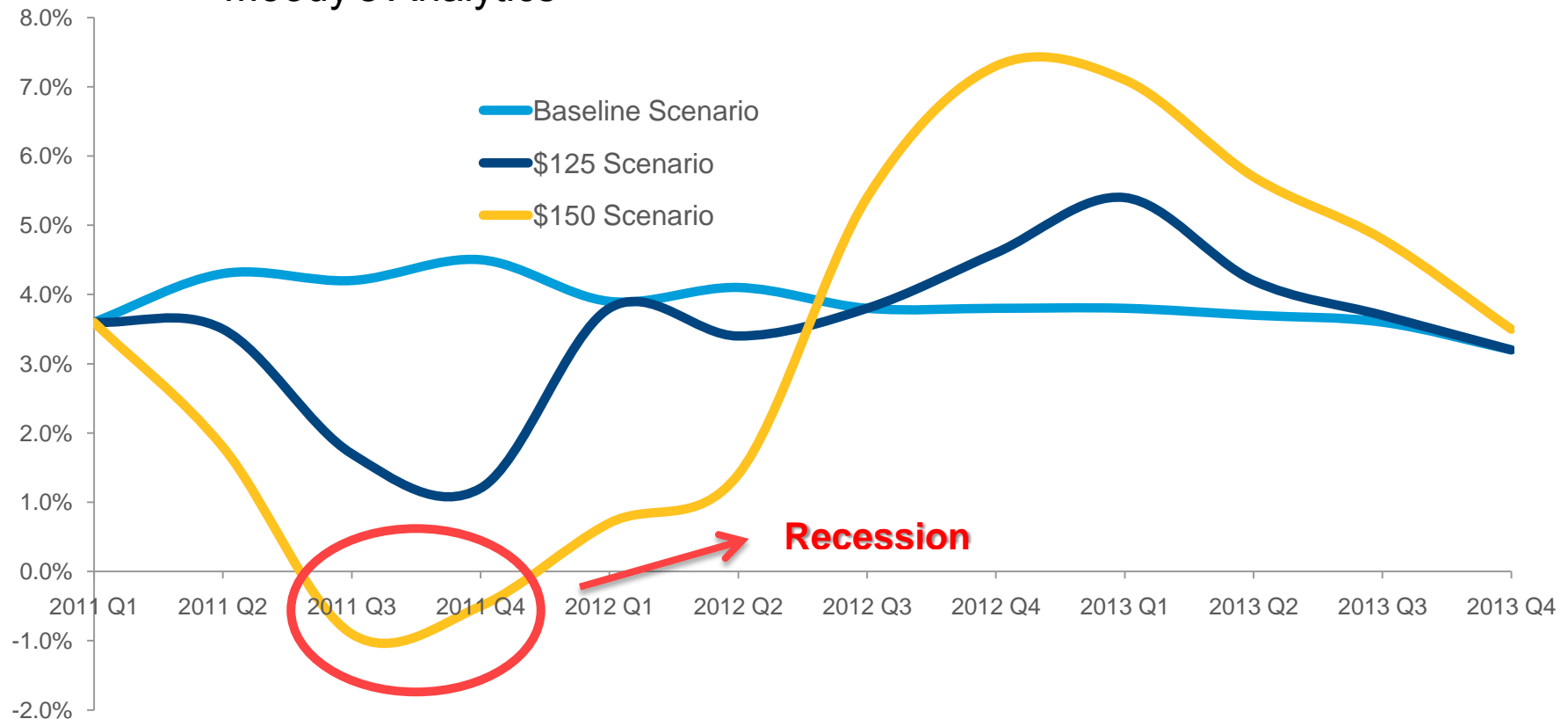


Source: Moody's Analytics

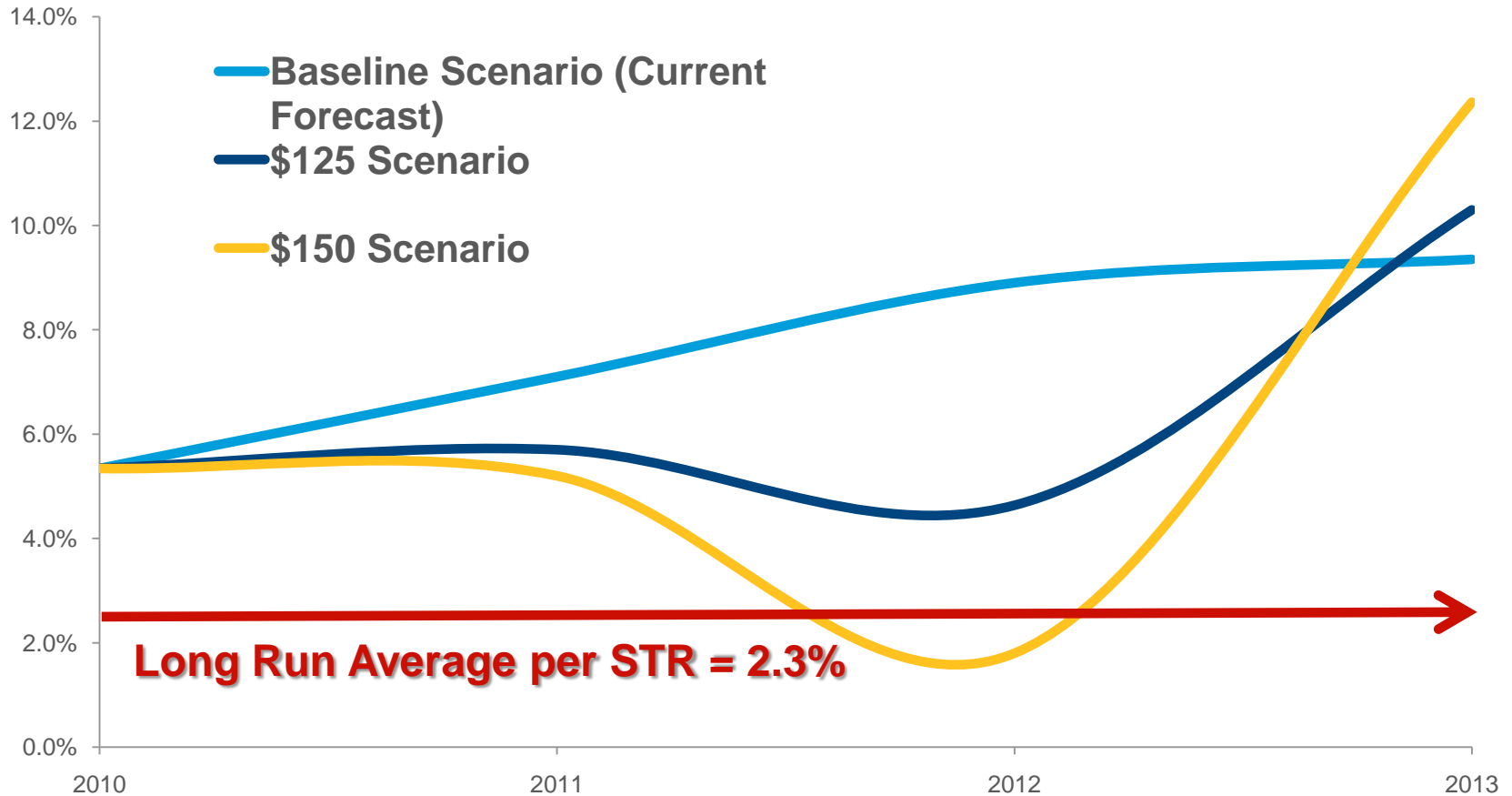
Potential Effect of an Oil Price Spike on U.S GDP

“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

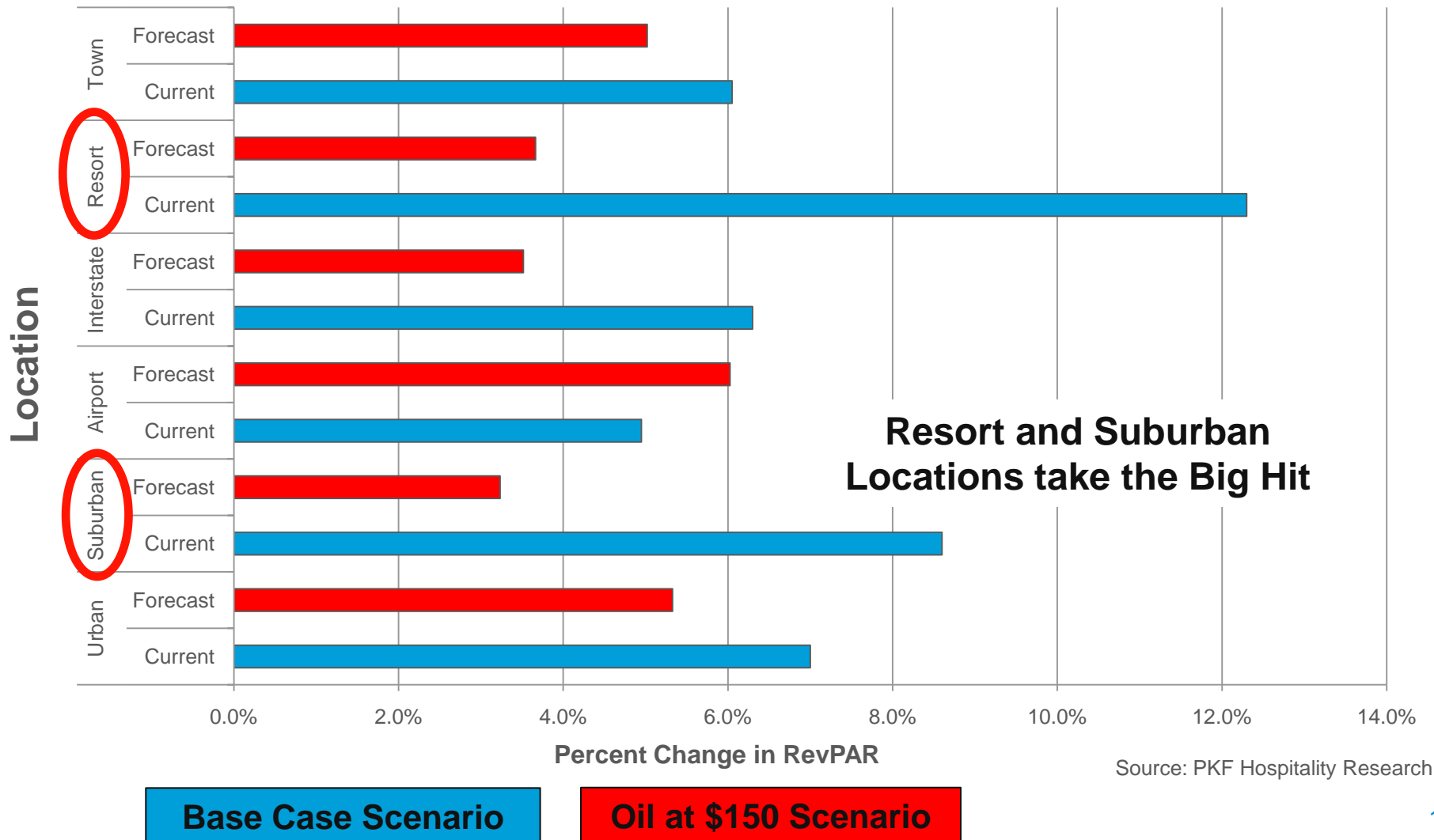


Potential effect of Oil Price Increases on RevPAR



Source: PKF Hospitality Research

Cumulative Change in RevPAR 2010 – 2012 – By Location



Summary Estimates

	Base Case		Oil at \$125		Oil at \$150	
<u>Year</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Occupancy	60.3%	63.2%	59.7%	61.6%	59.2%	60.2%
ADR	2.6%	5.8%	2.1%	1.3%	2.4%	0.1%
RevPAR	6.8%	7.6%	5.7%	4.6%	5.2%	1.8%
NOI	10.4%	13.5%	6.5%	1.9%	6.2%	-2.2%

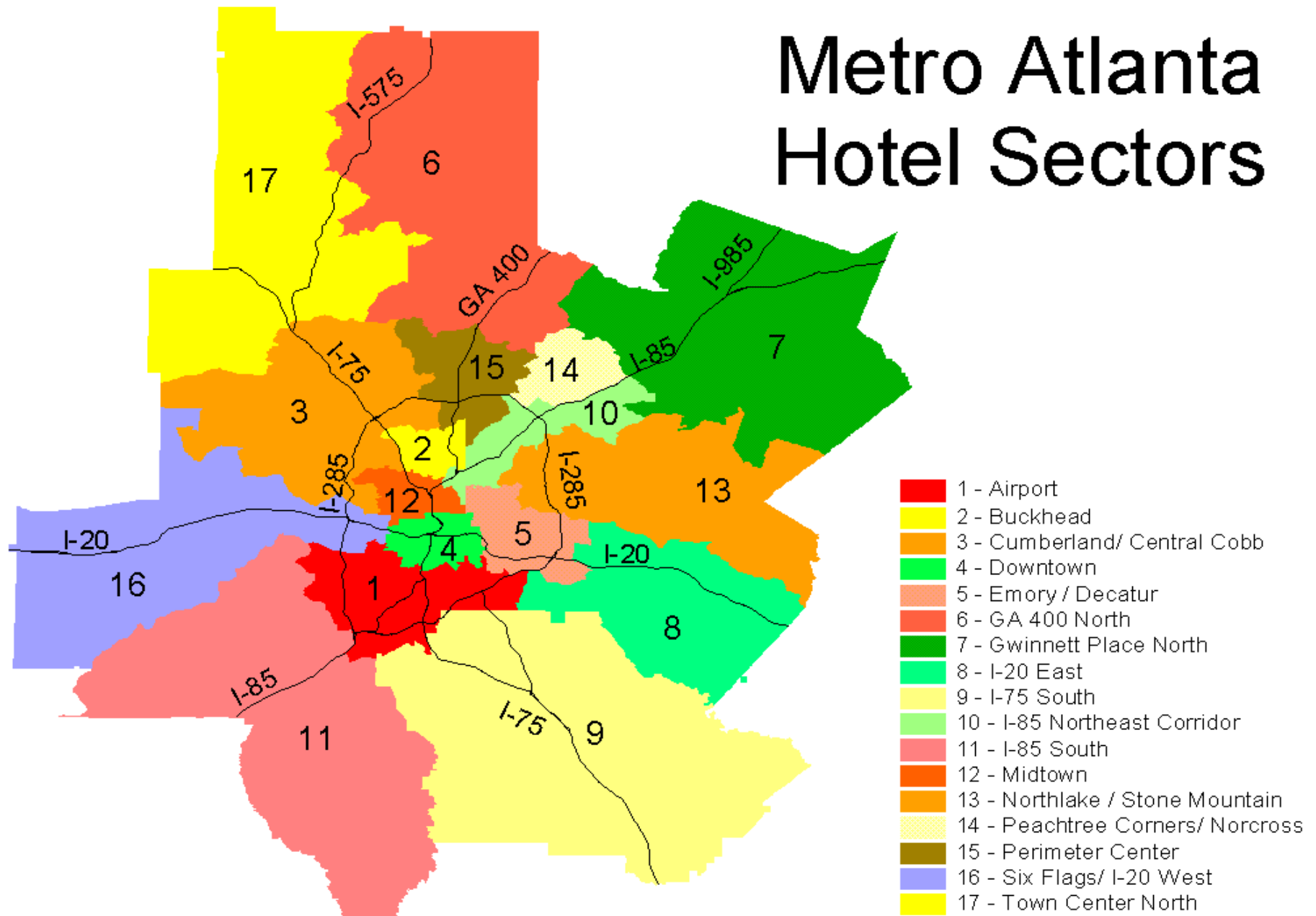
Atlanta Forecasts Come from Hotel Horizons®

PKF
HOSPITALITY
RESEARCH

Colliers
INTERNATIONAL

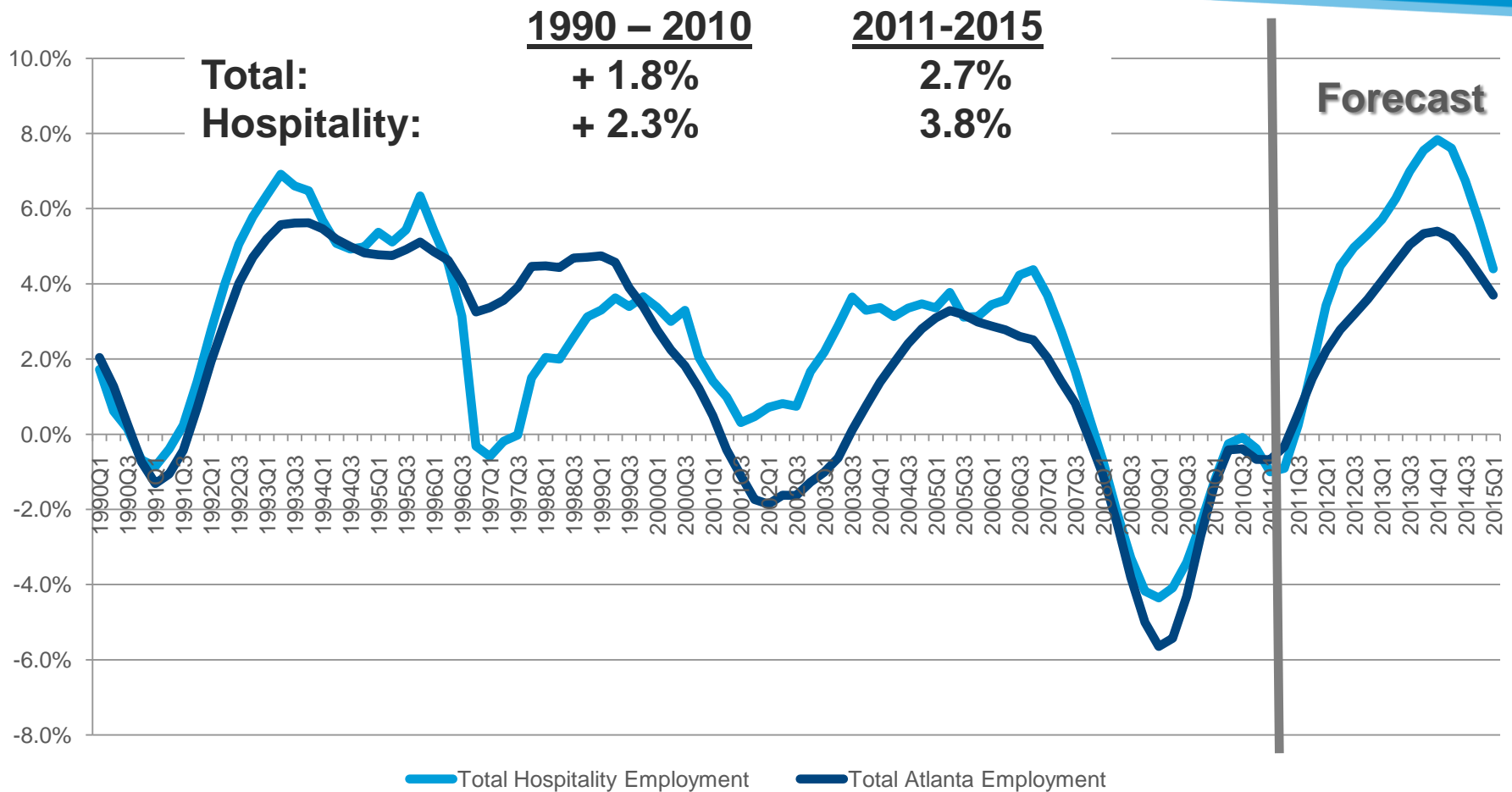


Metro Atlanta Hotel Sectors



4-Quarter Moving Average

Total Atlanta Employment and Total Atlanta Hospitality Employment



Source: PKF Hospitality Research, Moody's Analytics

Atlanta Projects Under Construction

City Sectors	# Projects	# Rooms
Airport	1	120
I-75 South	2	181
Six Flags I-20 West	1	100
	4	401

Long Run Average = 3.24% per year

**0.4% of
Existing
Supply**

Source: Dodge / TWR / STR

Representative Brands Upper and Lower Tiers

Upper-Priced	Lower-Priced
Courtyard by Marriott Holiday Inn Hyatt Loews Marriott Hotels Ritz-Carlton	Days Inn Fairfield Inn Hampton Inn Holiday Inn Express Microtel TownPlace Suites

Source: Smith Travel Research

Atlanta MSA

All Hotels

Improved Occupancy in 2010 = Better ADR Performance in 2011

PKF
HOSPITALITY
RESEARCH

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

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

Atlanta MSA

Upper-Priced Hotels

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

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

Atlanta MSA

Lower-Priced Hotels

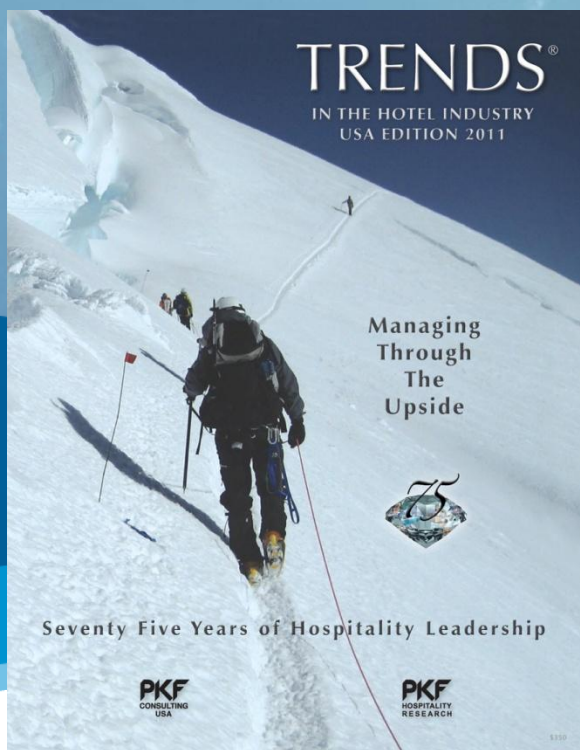
	2007	2008	2009	2010	2011F	Long-Term Average
Occupancy	61.7%	57.0%	50.3%	54.1%	54.4%	60.7%
% Change	-3.0%	-7.6%	-11.7%	+7.7%	0.5%	-
ADR	\$61.77	\$62.60	\$57.64	\$55.68	\$57.35	-
% Change	5.9%	1.3%	-7.9%	-3.4%	3.0%	+1.9%
RevPAR	\$38.08	\$35.66	\$28.98	\$30.14	\$31.21	-
% Change	2.7%	-6.4%	-18.7%	+4.0%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

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

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.