U.S. Lodging Horizon 2008

”What Lies Ahead?”

Economic Forecasting Center

Georgia State University

Wednesday, May 14, 2008

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PKF | CONSULTING
CAPITAL
HOSPITALITY RESEARCH

Presentation Outline

I. The Economy

II. Current Horizon:

Have We Seen this Before?

III. Some Thoughts to Take-away

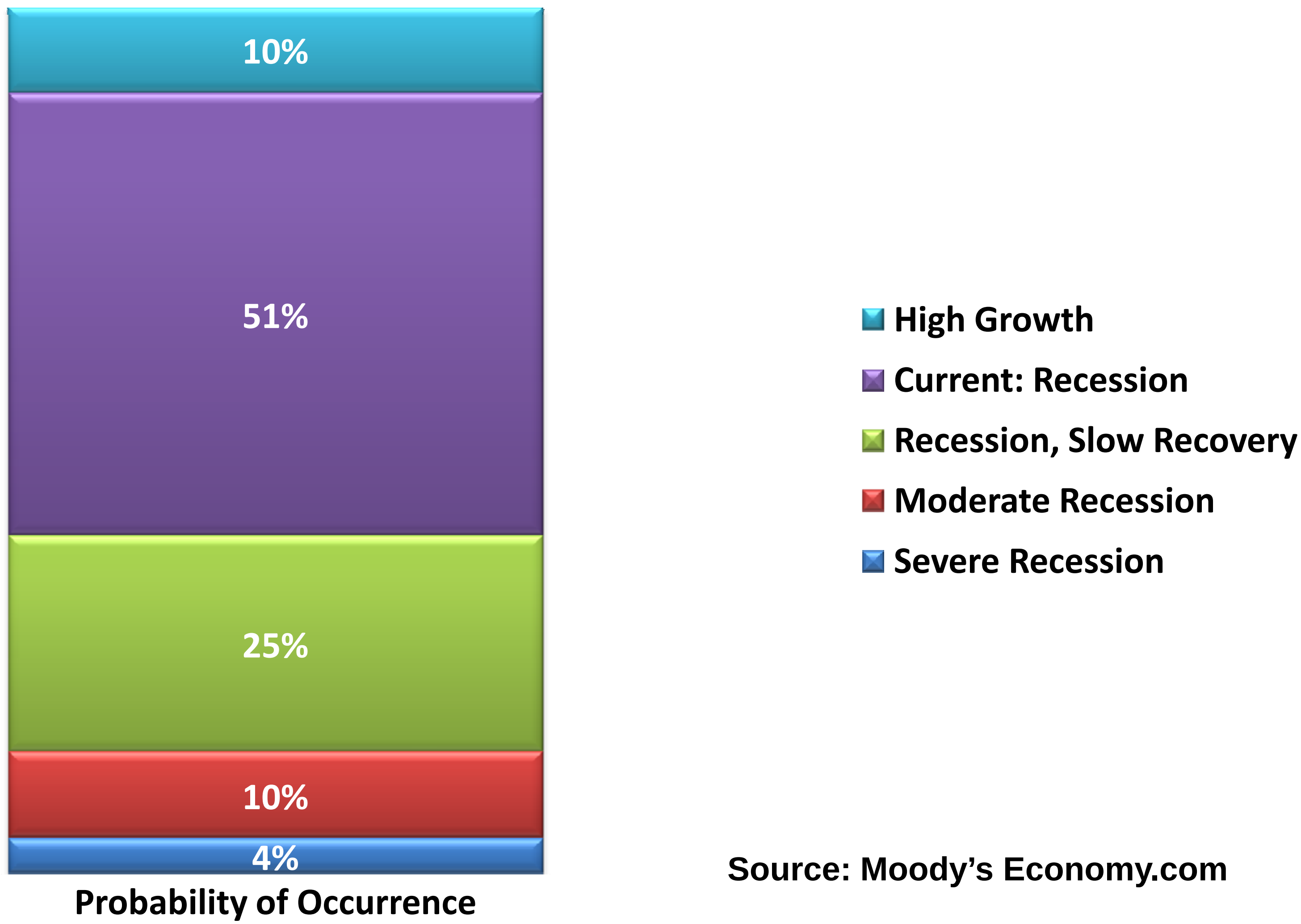
Question:

Are we headed for a recession?

Or just a healthy correction?

Economy.com's Current Outlook Drives our Forecasts

90% Probability of a Recession



Source: Moody's Economy.com

Much Happening in the National Economy

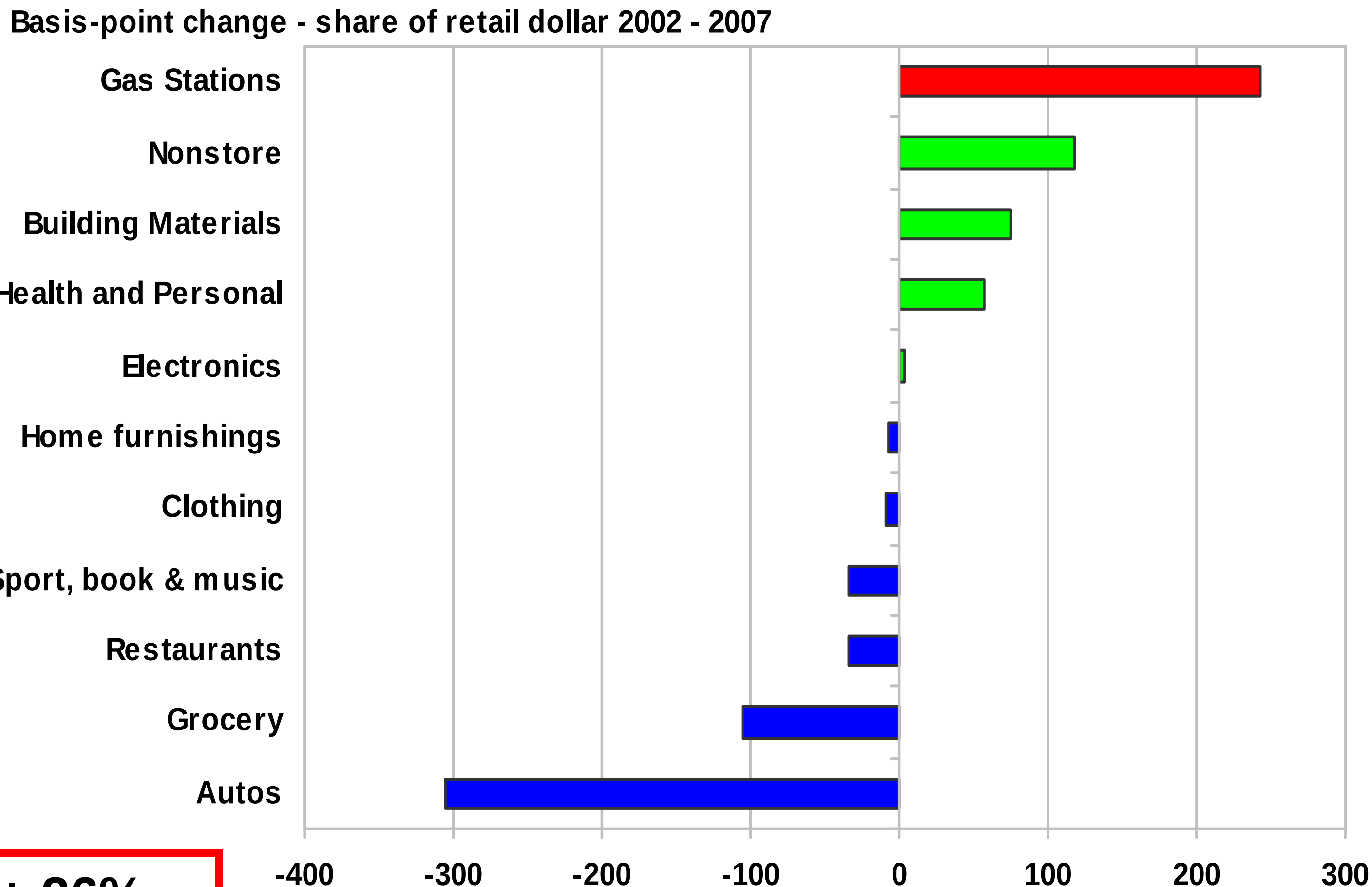
I. Credit Crunch:
- Stifles Consumer & Business Activity

II. High Oil Prices:
- ‘Fuels’ Inflation; Impacts Travel

III. Low Dollar Valuation
- Helps In-Bound International Travel
- Increases Exports, Inflation

IV. Employment Growth Slowing

Consumers Continue to Make Tough Decisions



Source: BOC

Gasoline + 26% from a year ago

One of Six Leisure Travelers Plans to Take Fewer Trips This Year

Not Because of Time Poverty

Reasons For Taking Fewer Leisure Trips:	2007%	2008%
Current economic conditions make it difficult for me to travel	16	19
Have projects/things I need to do at home	22	15 †
Not able to get away from my job/work/less vacation time	24	12 †
The overall cost of leisure travel is too high	*NA*	12
There are other things I'd rather do with my vacation/leisure time than travel	*NA*	11
Price of gasoline is too high	5	9 †
Air travel is too big of a hassle	3	4
I believe it is not safe to travel	1	4 †

† Denotes statistically significant difference from prior year.
NA Not asked in 2007.

Source: YPartnership Leisure Travel Monitor

One Exception!

2007-2009 Economic Outlook

Expectations Decline Dramatically

	Percent Change 2007 - 2008			
Forecast Point	**Employment**	**Income**	**GDP**	**CPI**
October 2007	0.7%	2.6%	2.3%	0.2%
January 2008	0.4%	1.4%	1.5%	2.7%
April 2008	0.2%	1.3%	1.5%	3.0%

	Percent Change 2008 - 2009			
Forecast Point	**Employment**	**Income**	**GDP**	**CPI**
October 2007	1.1%	3.3%	0.3%	1.9%
January 2008	0.9%	3.2%	3.4%	2.0%
April 2008	0.9%	3.1%	3.3%	2.0%

Source: Moody's Economy.com

In-Bound International Travel
Finally Back to Pre-2001 Levels

Inbound Travel to the United States								
	2001	2002	2003	2004	2005	2006	2007	2007:2000
Total All Countries	-8.4%	-7.1%	-5.4%	11.8%	6.8%	3.8%	11.1%	10.7%
North America	-0.7%	-2.5%	-5.2%	11.1%	6.8%	6.8%	11.7%	29.9%
Overseas	-15.9%	-12.4%	-5.7%	12.7%	6.7%	0.0%	10.3%	-8.0%
Europe								
Western Europe	-18.5%	-9.5%	0.6%	12.2%	6.2%	-2.1%	12.6%	-2.5%
Eastern Europe	-8.8%	-7.7%	-2.9%	10.3%	13.9%	6.3%	11.5%	21.5%
Asia	-16.4%	-9.9%	-12.1%	16.0%	6.8%	-0.7%	3.7%	-15.6%
Middle East	-8.3%	-25.1%	-7.3%	12.3%	5.0%	4.8%	12.1%	-11.7%
Africa	-2.8%	-16.0%	-2.1%	1.9%	4.8%	0.1%	10.0%	-6.0%
Oceania	-19.8%	-9.8%	-0.8%	25.8%	11.7%	2.6%	10.2%	14.0%
South America	-14.0%	-28.3%	-16.1%	8.1%	10.6%	5.9%	18.0%	-22.7%
Central America	-6.2%	-8.7%	-6.8%	5.4%	0.7%	-0.3%	13.3%	-4.3%
Caribbean	-9.7%	-12.4%	-5.2%	9.7%	3.7%	5.6%	9.9%	-1.1%

Sources: U.S. Department of Commerce, ITA, Office of Travel & Tourism Industries; Statistics Canada (Canada); and Banco de Mexico/Secretaria de Turismo (Mexico).

In-Bound International Travel

U.S. PORT OF ENTRY (ALL MODES) OF NON-RESIDENT ARRIVALS 2007						
PORTS	2007 TOTAL OVERSEAS	% change 2007/2006	Rank	Year End 2007/2006 Hotel Change Occ	ADR	RevPAR
Grand Total-All U.S.	23,892,277	10%		-0.2%	5.9%	5.7%
NEW YORK, NY	3,806,028	16%	1	1.4%	11.2%	12.8%
MIAMI, FL	2,847,413	13%	2	1.6%	10.7%	12.5%
LOS ANGELES, CA	2,293,241	6%	3	-0.2%	7.4%	7.2%
NEWARK, NJ	1,590,400	16%	4	3.2%	5.4%	8.7%
HONOLULU, HI	1,456,381	-2%	5	-6.7%	6.6%	-0.6%
SAN FRANCISCO, CA	1,320,723	10%	6	3.0%	7.3%	10.5%
CHICAGO, IL	1,302,177	8%	7	-0.2%	5.8%	5.6%
AGANA, GU	1,064,371	0%	8	N.A	N.A	N.A
ATLANTA, GA	940,700	12%	9	-2.1%	4.9%	2.7%
WASHINGTON, DC	774,556	15%	10	0.2%	5.2%	5.4%
ORLANDO, FL	592,684	14%	11	0.0%	4.1%	4.2%
BOSTON, MA	520,999	9%	12	1.8%	7.3%	9.2%
DETROIT, MI	515,628	17%	13	2.3%	0.2%	2.5%
HOUSTON, TX	496,792	14%	14	0.4%	8.6%	9.0%
SANFORD (Orlando), FL	444,496	-4%	15	0.0%	4.1%	4.2%

Source: U.S. Department of Commerce, ITA, Office of Travel & Tourism Industries from the Summary of International Travel to the U.S. (I-94) report. Smith Travel Research.

*Overseas includes all countries except Canada and Mexico

Where Are Cap Rates Going?

When Cash Flows Decelerate

Cap Rates Increase

When Interest Rates Increase

So do Cap Rates

Volatility

The more there is, the higher the Cap Rate

Three Main Drivers of Cap Rate Change

Forecasts of Return Components
Cap Rates Moving Up – 190 bps by 2010

	10 Year Treasury	Treasury Spread	Cap Rate	% Δ NOI
2005	4.3%	5.0%	9.3%	15.5%
2006	4.8%	3.7%	8.5%	13.3%
2007	4.6%	2.9%	7.6%	7.2%
2008F	4.1%	3.5%	7.5%	2.9%
2009F	5.4%	3.3%	8.6%	4.9%
2010F	5.6%	3.9%	9.5%	5.0%
LRA:	**5.5%**	**4.8%**	**10.3%**	**4.7%**

PKF Hospitality Research, Moody's Economy.com, RERC

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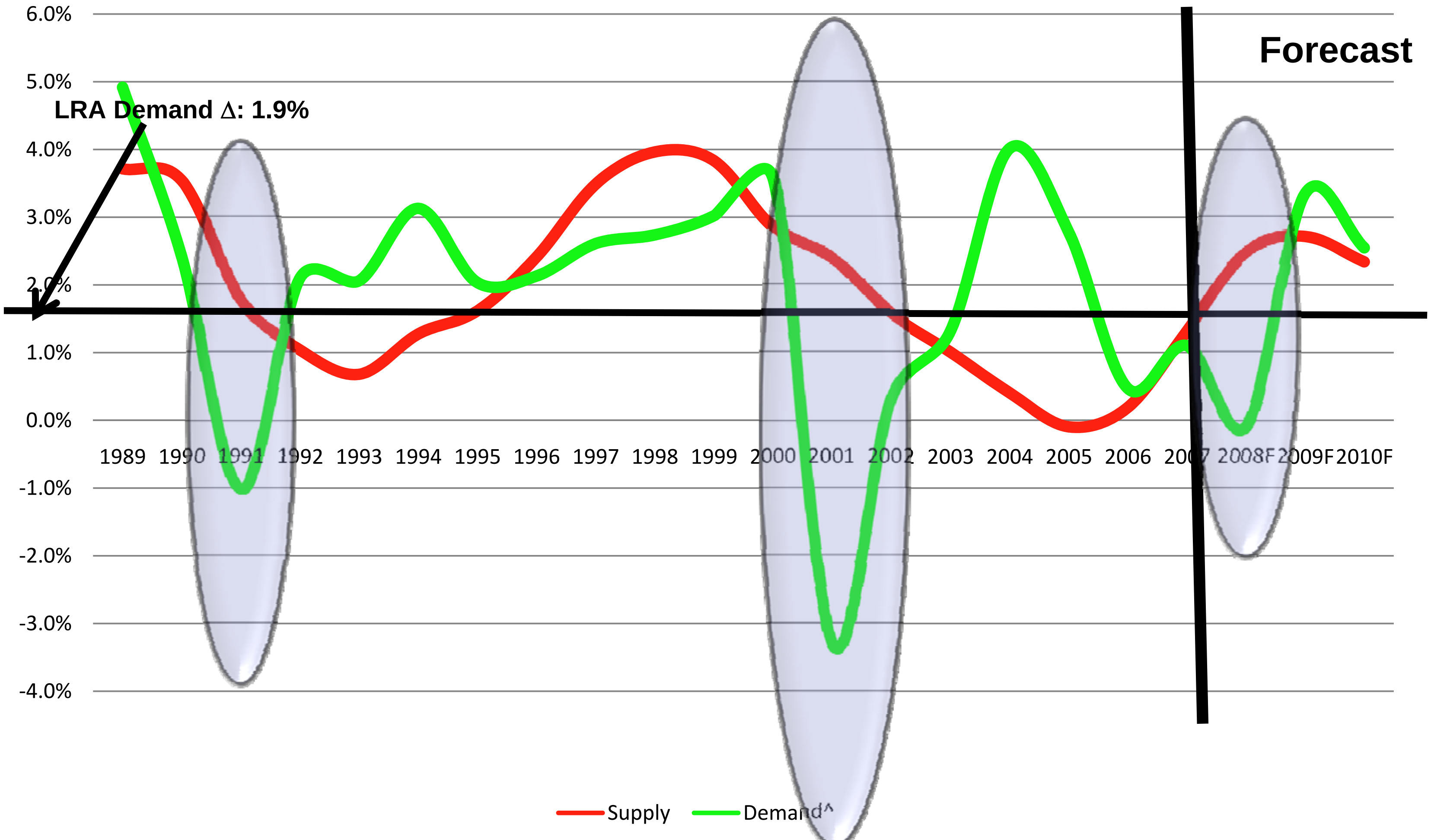
High Supply Growth Preceded Last Two Downturns

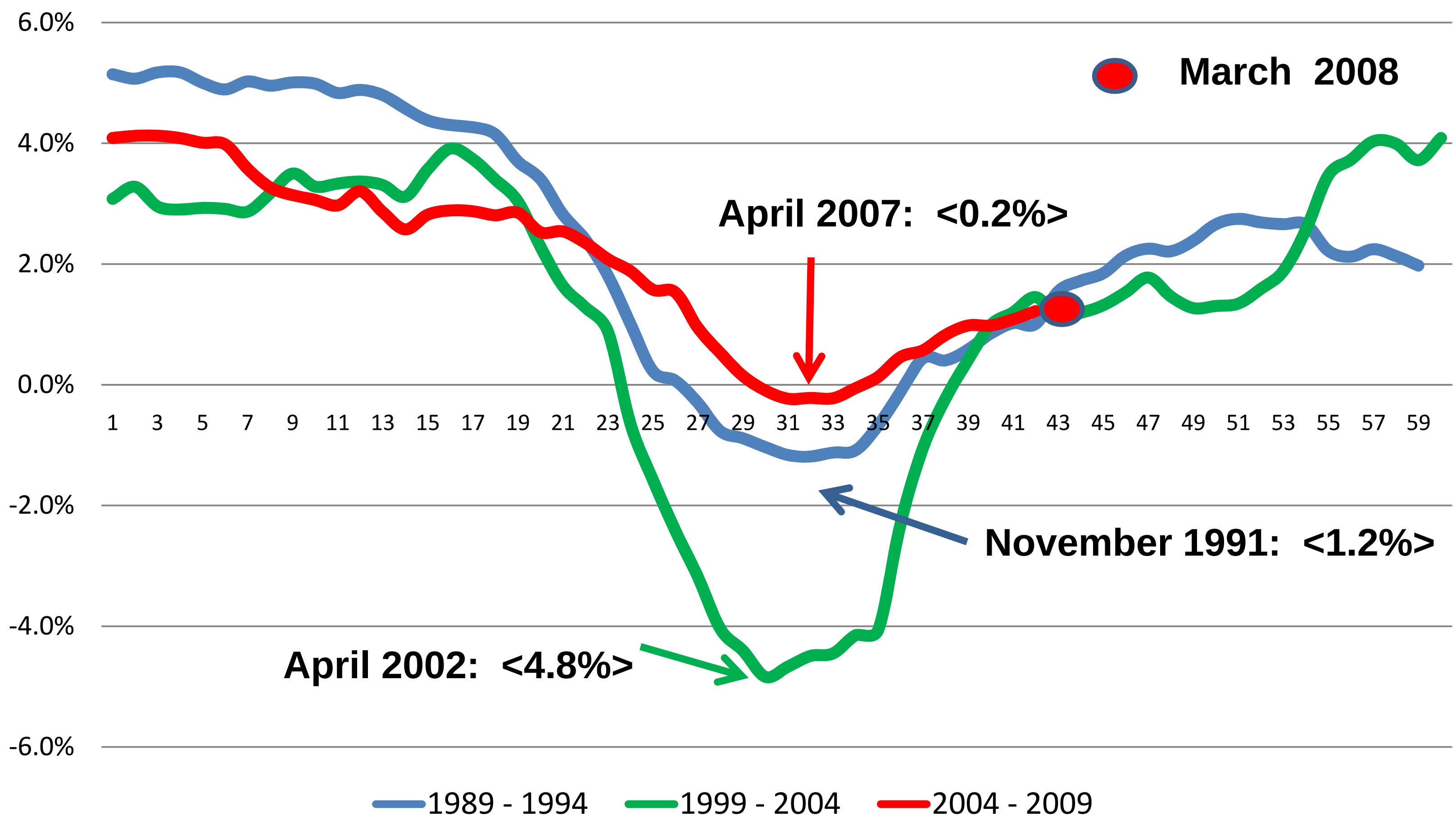
Not This Time Around



Source: PKF Hospitality Research, STR, BLS, Moody's Economy.com

Historical Change in U.S. Lodging Demand - Trough

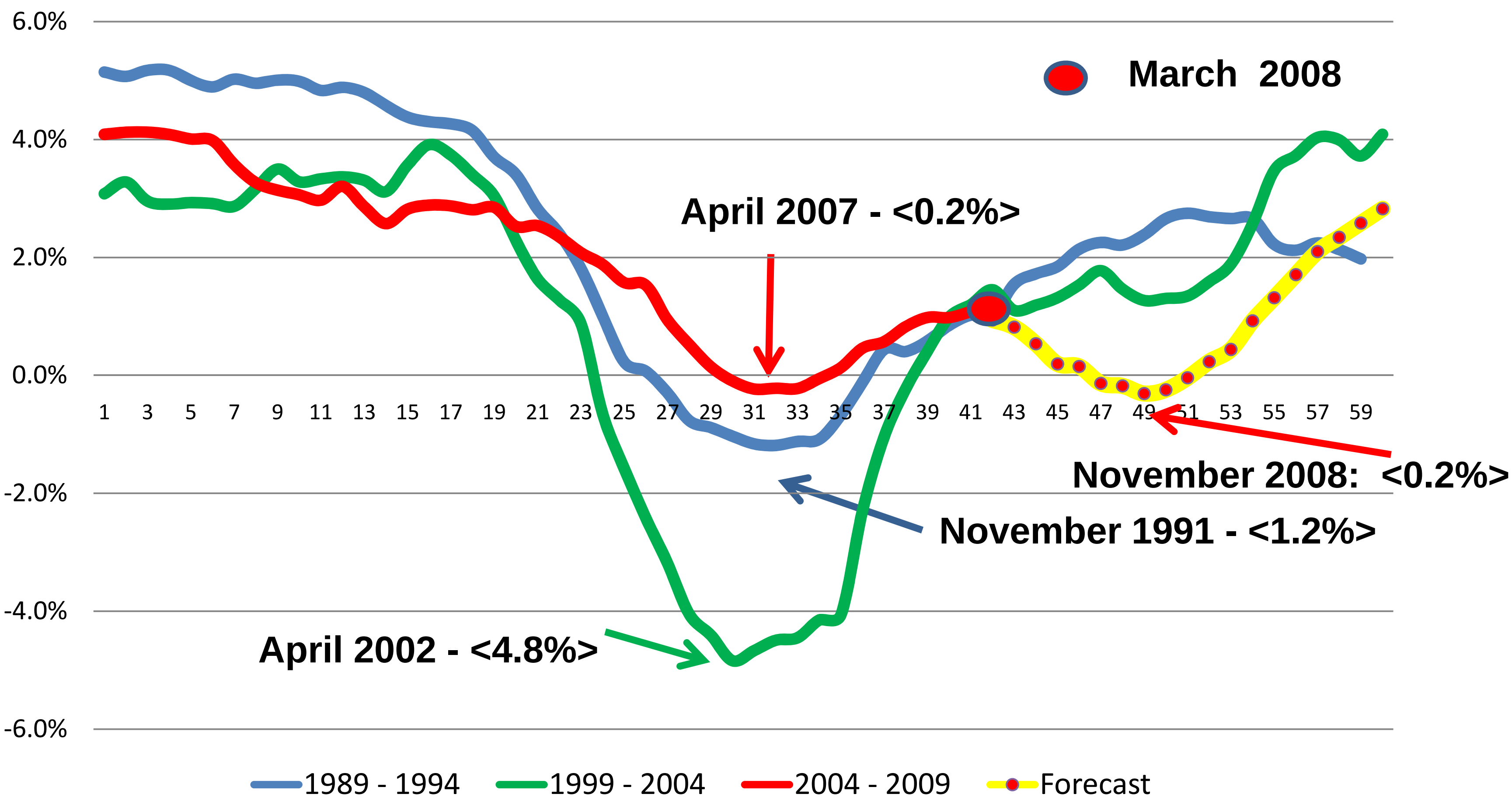
12 Month Moving Average



Sources: PKF-HR, Smith Travel Research

Historical Change in U.S. Lodging Demand – A Double-Dip

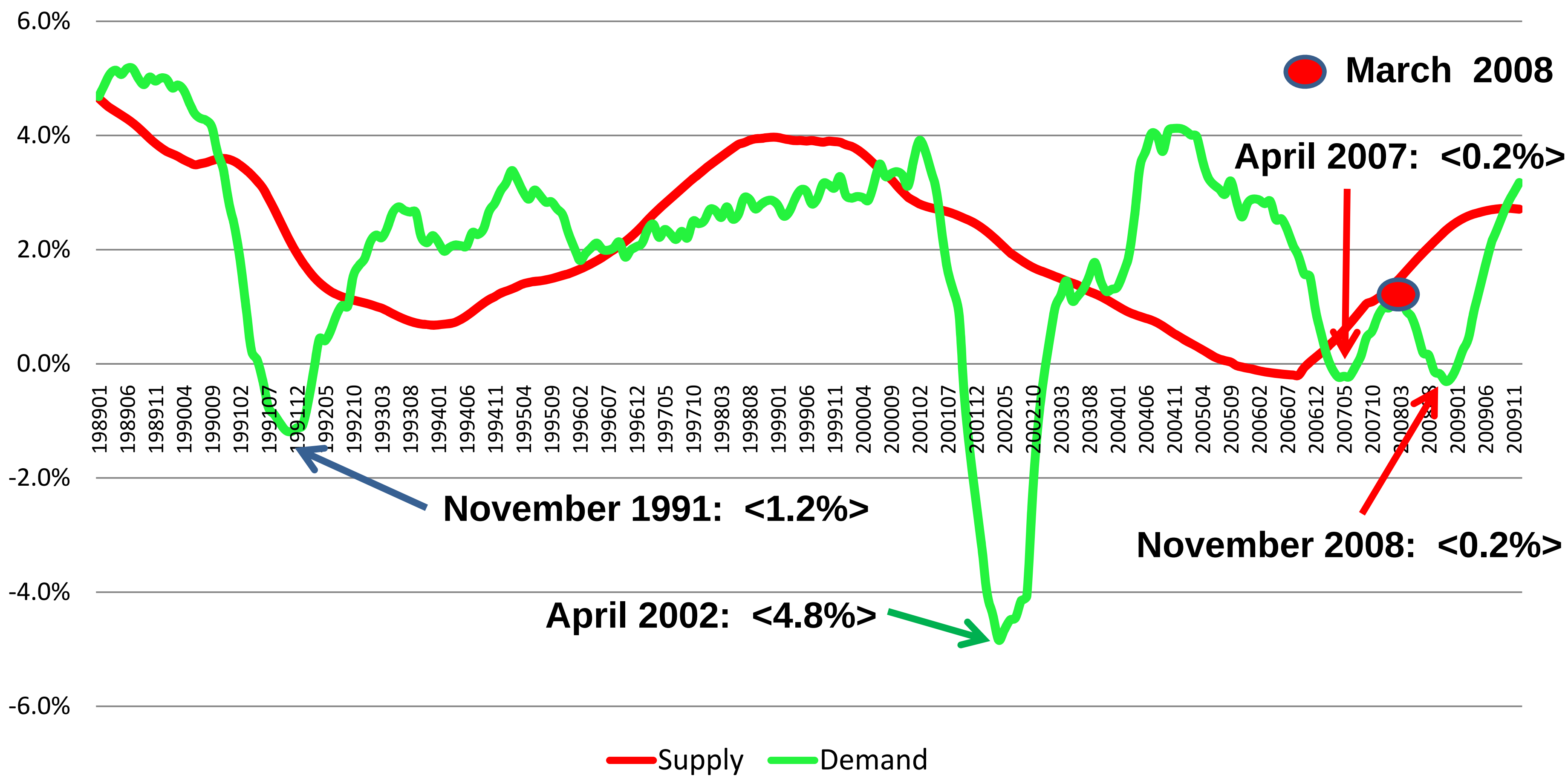
12 Month Moving Average



Sources: PKF-HR, Smith Travel Research

The Mild Double-Dip Extends Recovery

12 Month Moving Average



Sources: PKF-HR, Smith Travel Research

The Double-Dip Extends a Recovery

		12 Month Moving Averages				
		Supply	Demand	Occupancy	ADR	RevPAR
November	**1991**	2.1%	-1.2%	62.0%	0.6%	-2.7%
+ 1 Year		1.1%	1.7%	62.4%	1.1%	1.8%
+ 2 Years		0.7%	2.1%	63.2%	2.4%	3.9%
April	**2002**	2.1%	-4.8%	58.9%	-3.9%	-10.4%
+ 1 Year		1.4%	1.1%	58.6%	0.2%	0.0%
+ 2 Years		0.9%	2.6%	59.8%	1.0%	2.7%
April	**2007**	0.5%	-0.2%	63.1%	7.2%	6.5%
+ 1 Year		***1.5%***	1.2%	63.0%	5.7%	5.4%
+ 2 Years		***2.6%***	0.9%	61.6%	0.7%	**-0.9%**
November	**2008F**	***2.3%***	-0.3%	61.6%	2.8%	0.1%
+ 1 Year		***2.7%***	3.0%	61.8%	0.4%	0.7%
+ 2 Years		***2.7%***	2.8%	61.8%	3.2%	***3.2%***

Sources: PKF Hospitality Research; Smith Travel Research

ADR Growth Will Continue

RevPAR Performance up in 2009

2008 = the Low Point Going Forward

= Below/Above Long Run Average

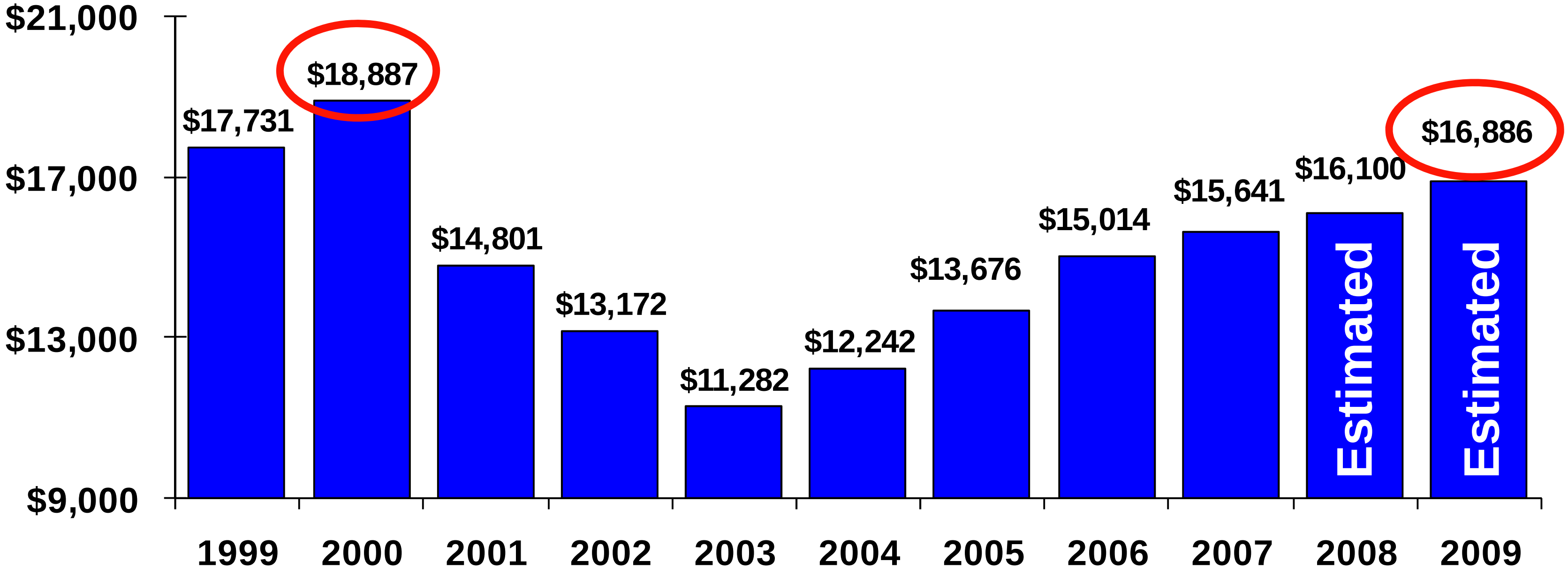
	Long Term Average	2004	2005	2006	2007	2008P	2009P	2010P
Supply	1.9%	0.4%	-0.1%	0.2%	1.3%	2.5%	2.7%	2.3%
Demand	1.9%	4.0%	2.8%	0.5%	1.1%	-0.1%	3.3%	2.5%
Occupancy	62.8%	61.3%	63.1%	63.3%	63.1%	61.6%	62.0%	62.1%
ADR	3.5%	4.2%	5.5%	7.5%	6.0%	4.0%	3.4%	3.7%
RevPAR	3.5%	7.9%	8.5%	7.8%	5.7%	1.5%	4.0%	3.9%

Source: PKF Hospitality Research, Smith Travel Research

2008 = (P) Preliminary Q2 2008

2008: 62.2%, 4.7%, 3.0%

Nominal Dollar Operating Profits* Still Not Back to 2000



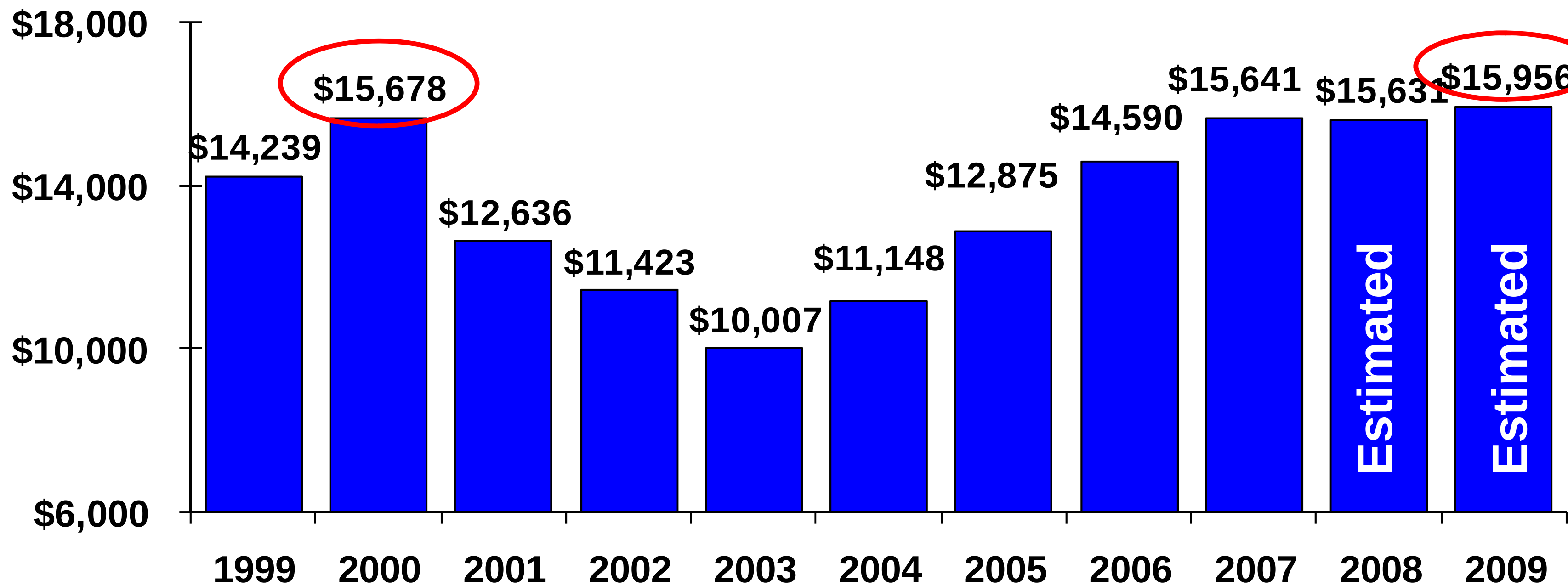
U.S. Trends Sample

Dollars per Available Room

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

Source: PKF Hospitality Research

Operating Profits*
A Decade of No Real Growth
(2007 Constant Dollars)



U.S. Trends Sample

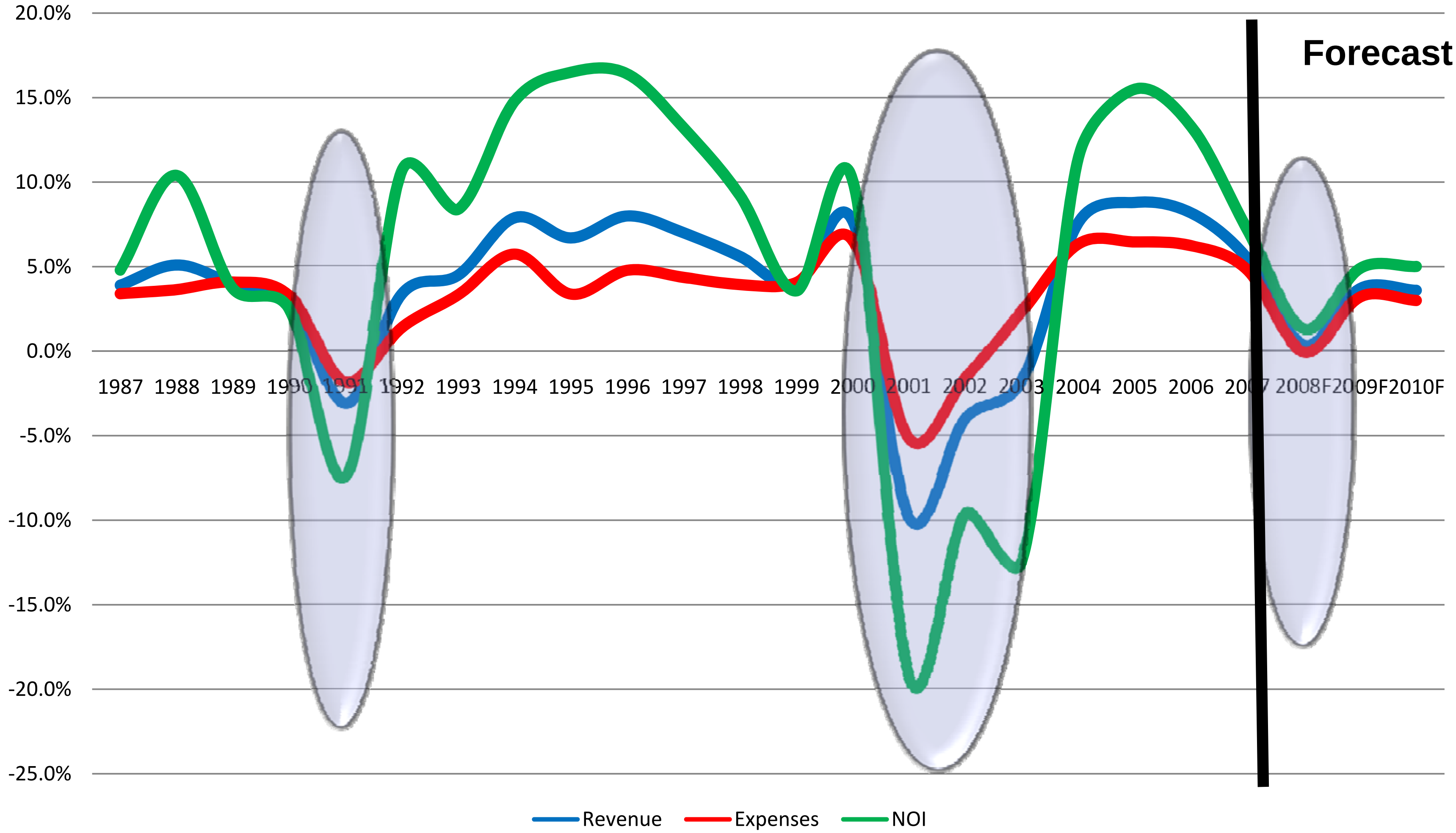
Dollars per Available Room

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

Source: PKF Hospitality Research

Lodging Same-Store Sales

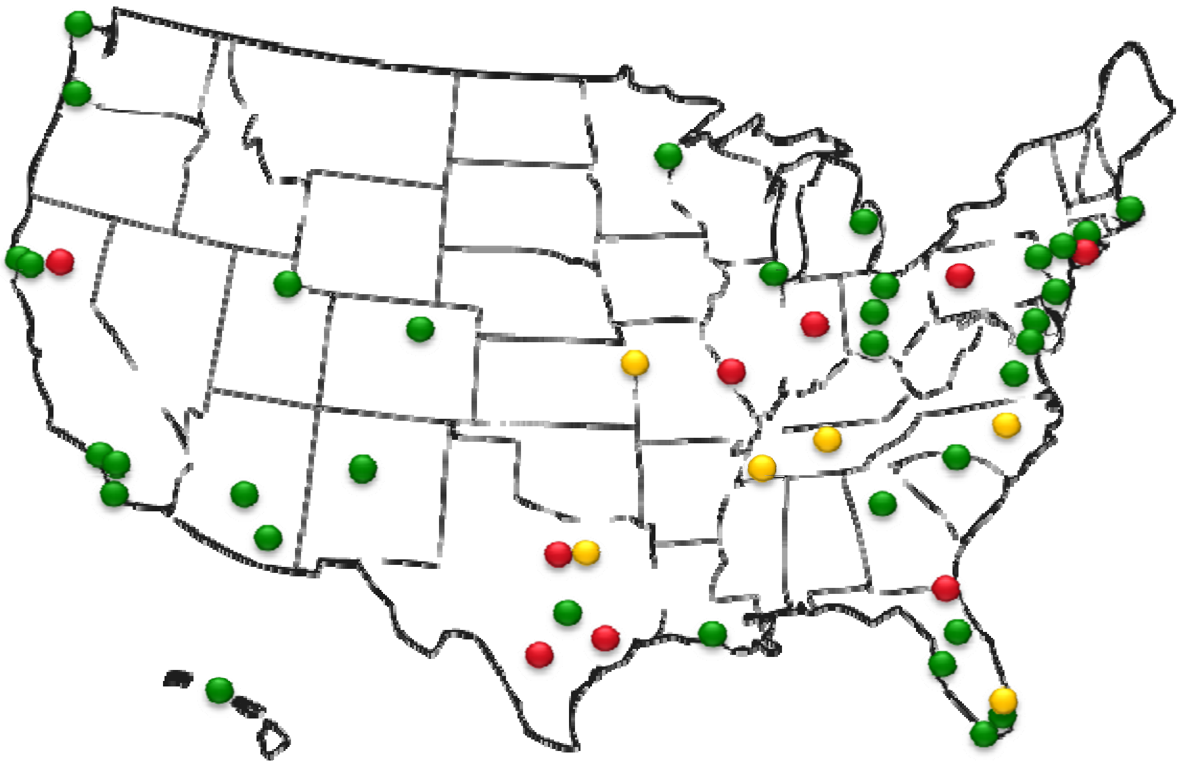
NOI Stays Positive This Time Around



Source: PKF Hospitality Research, STR,

Real RevPAR Growth 90 Days Ago…

Forecast Change – 2007-2008



Top 5:	Change
Anaheim	7.4%
Oakland	7.3%
Fort Lauderdale	6.6%
Tucson	6.4%
Richmond	6.2%

Bottom 5:	Change
Fort Worth	-3.2%
Houston	-2.6%
San Antonio	-2.4%
Indianapolis	-1.1%
Jacksonville	-1.0%

RevPAR growing faster than CPI

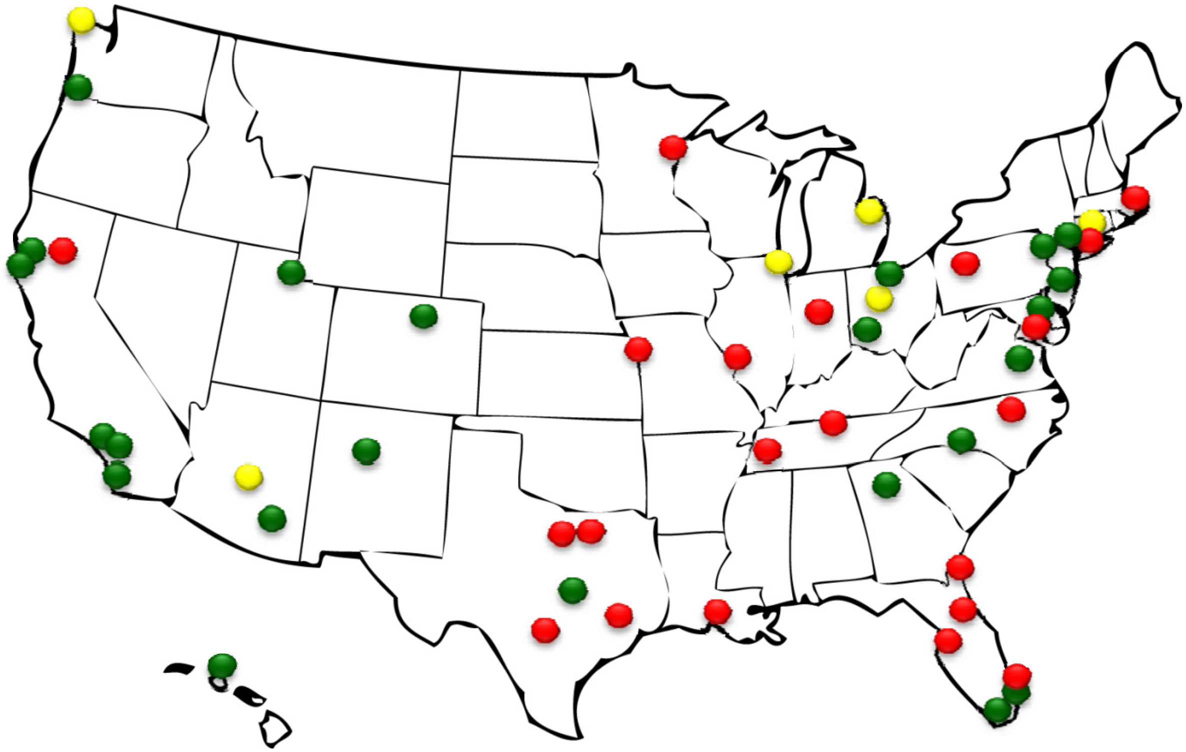
RevPAR growing on par with CPI

RevPAR growing slower than CPI

PKF Hospitality Research, Moody's Economy.com

Real RevPAR Growth <u>Today</u>…

Revised Forecast Change – 2007-2008



Top 5:	Change
Salt Lake City	3.9%
Austin	3.7%
San Francisco	3.5%
Fort Lauderdale	3.3%
Denver	3.3%

Bottom 5:	Change
Fort Worth	-5.4%
San Antonio	-3.7%
Long Island	-2.9%
Jacksonville	-2.8%
Houston	-2.0%

RevPAR growing faster than CPI

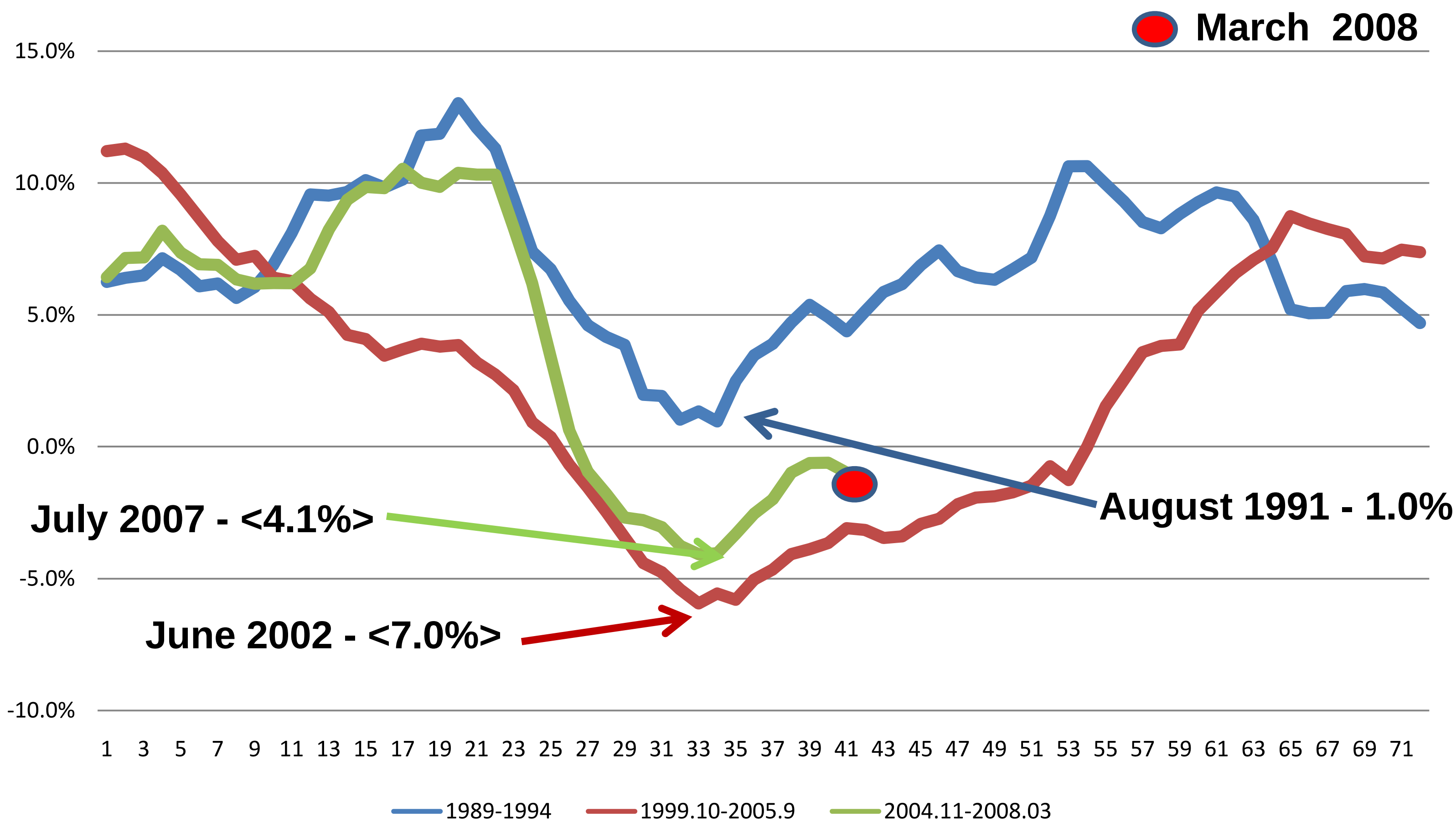
RevPAR growing on par with CPI

RevPAR growing slower than CPI

PKF Hospitality Research, Moody's Economy.com

Historical Change in Atlanta MSA Lodging Demand

12 Month Moving Average

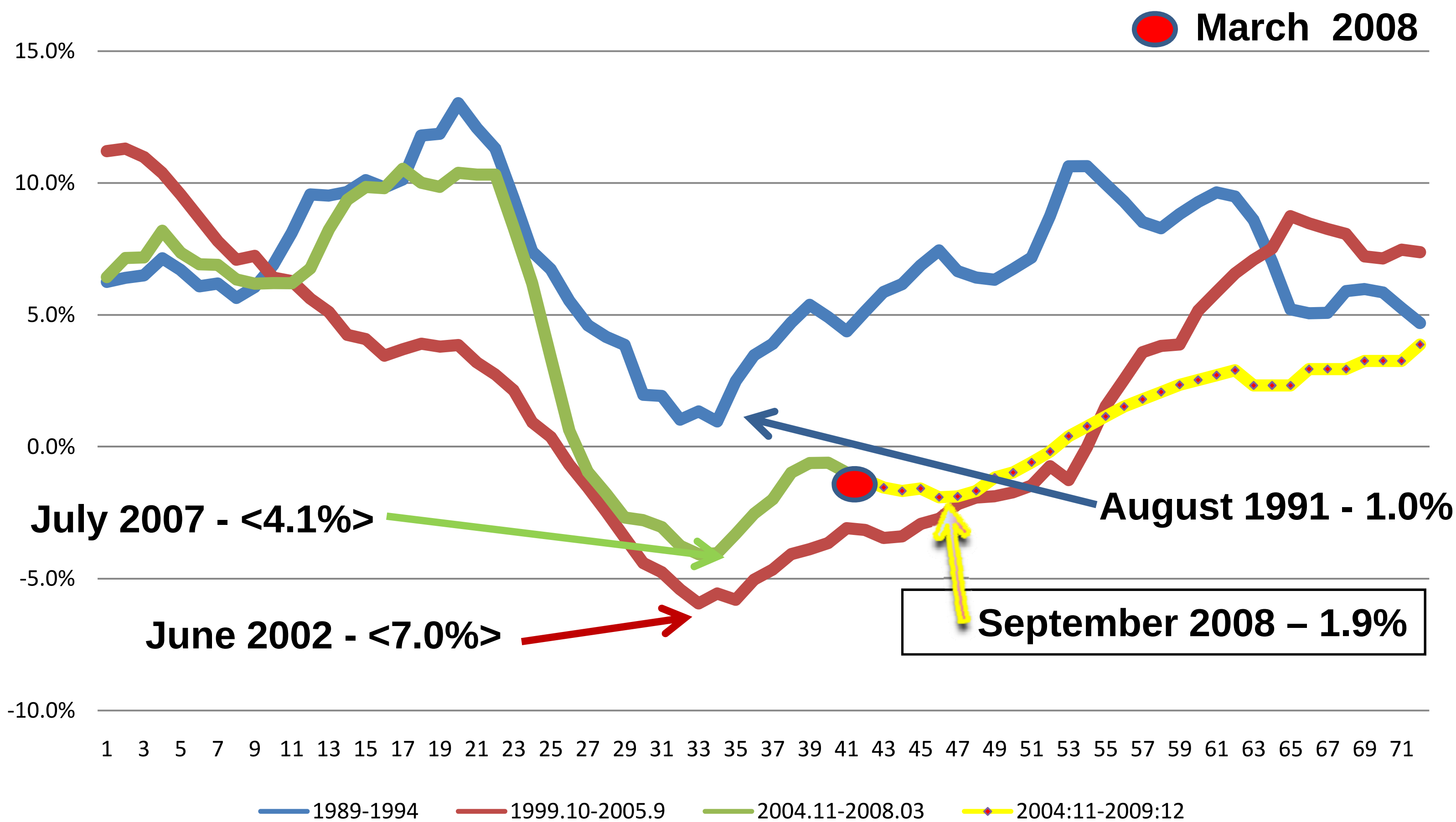


Sources: PKF-HR, Smith Travel Research

Atlanta MSA Lodging Demand

A Second Dip Has Started

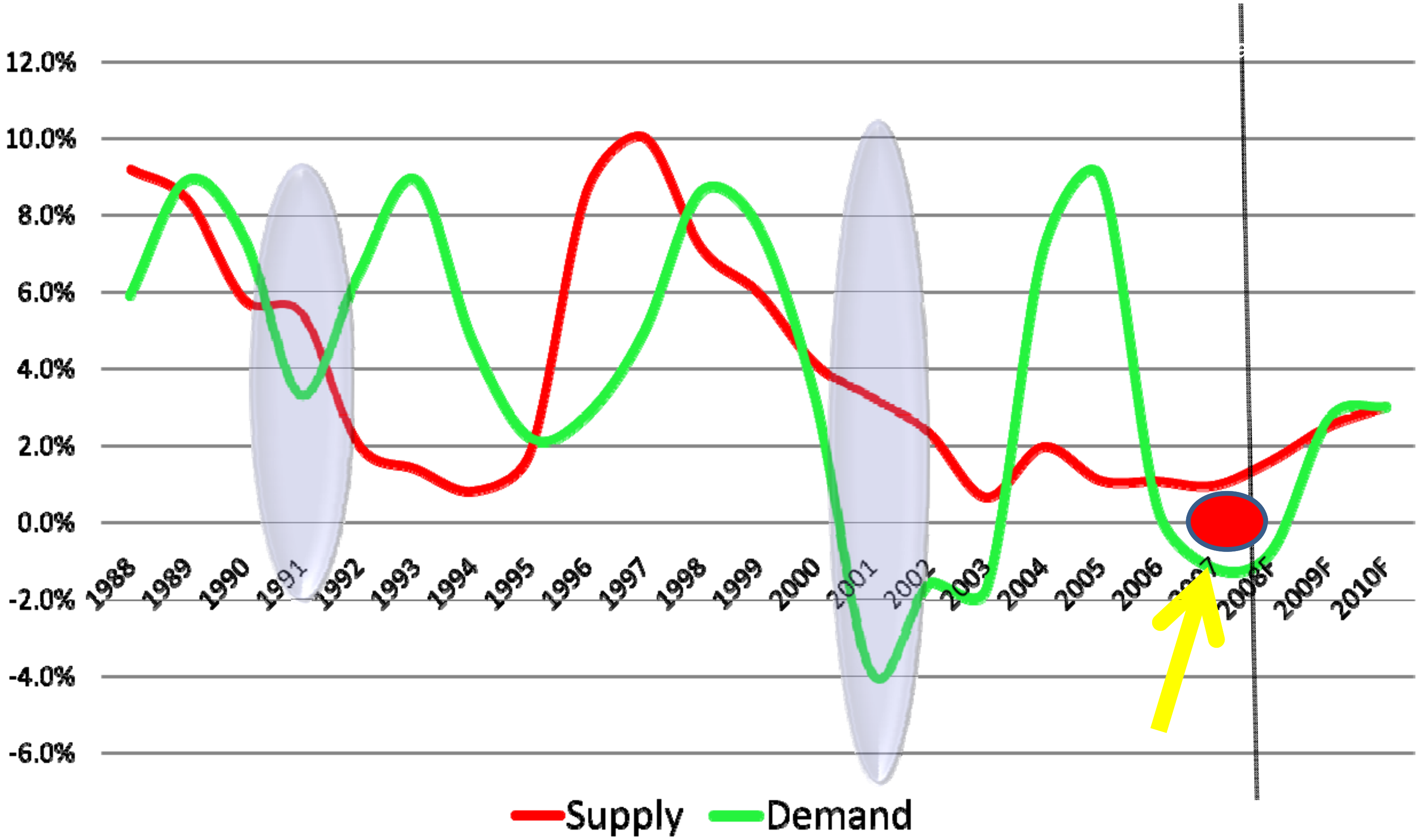
12 Month Moving Average



Sources: PKF-HR, Smith Travel Research

Atlanta-The Tale of Two Recessions

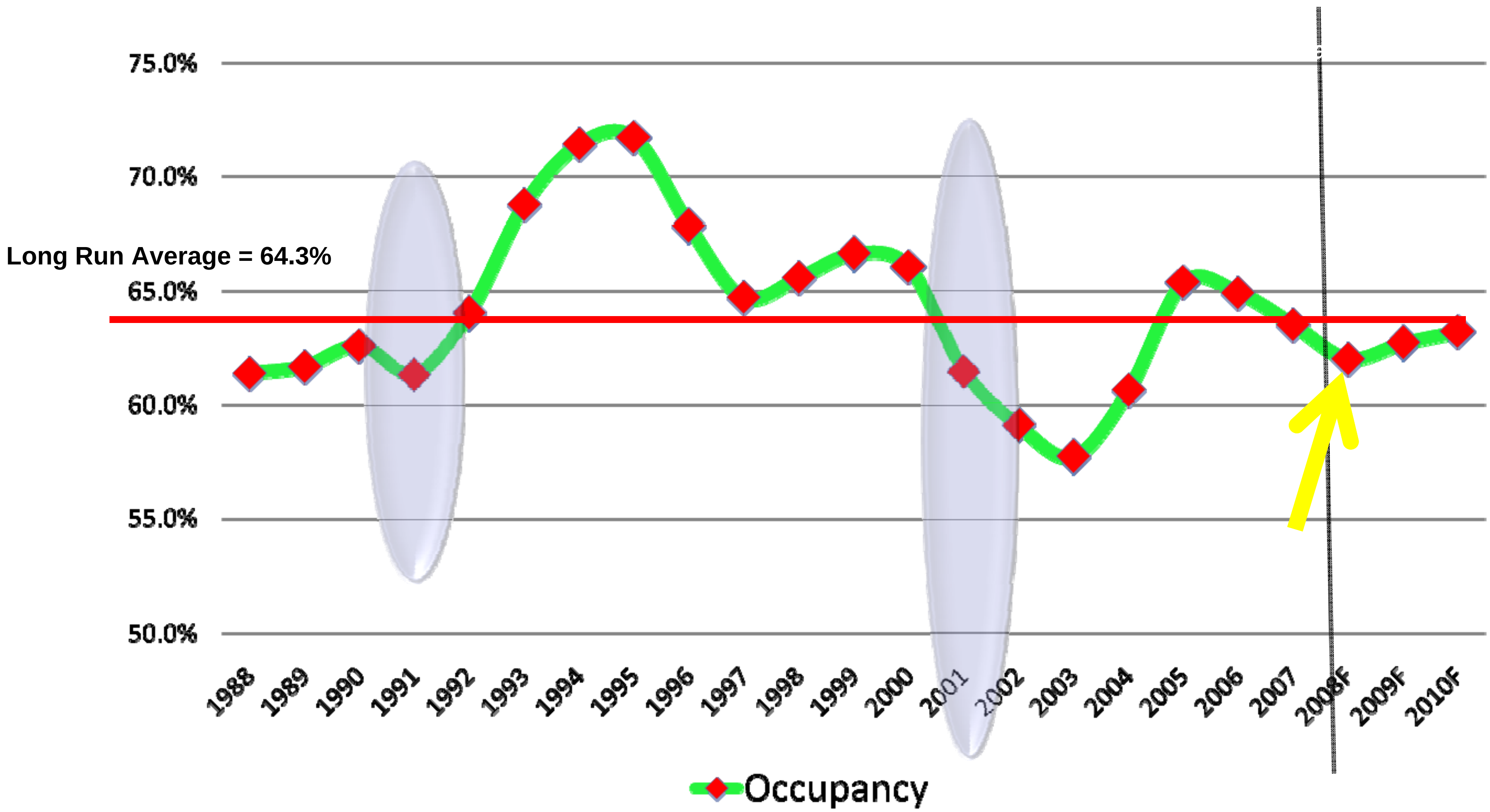
Demand Declines as Supply Accelerates



Source: PKF Hospitality Research, STR

Atlanta-The Tale of Two Recessions

Occupancy Remains Above Previous Trough



Source: PKF Hospitality Research, STR

Atlanta MSA

All Hotels- 2008

Weak Occupancy = Below Average Revenue Growth

	2005	2006	2007	2008F	Long-Term Average
Occupancy	65.3%	64.9%	63.5%	62.0%	64.3%
% Change	+7.8%	-0.7%	-2.1%	-2.3%	-
ADR	$80.56	$88.41	$92.76	$95.26	-
% Change	+5.6%	+9.7%	+4.9%	+2.7%	+2.6%
RevPAR	$52.63	$57.37	$58.92	$59.06	-
% Change	+13.8%	+9.0%	+2.7%	+0.2%	+2.7%

Sources: Smith Travel Research, PKF Hospitality Research

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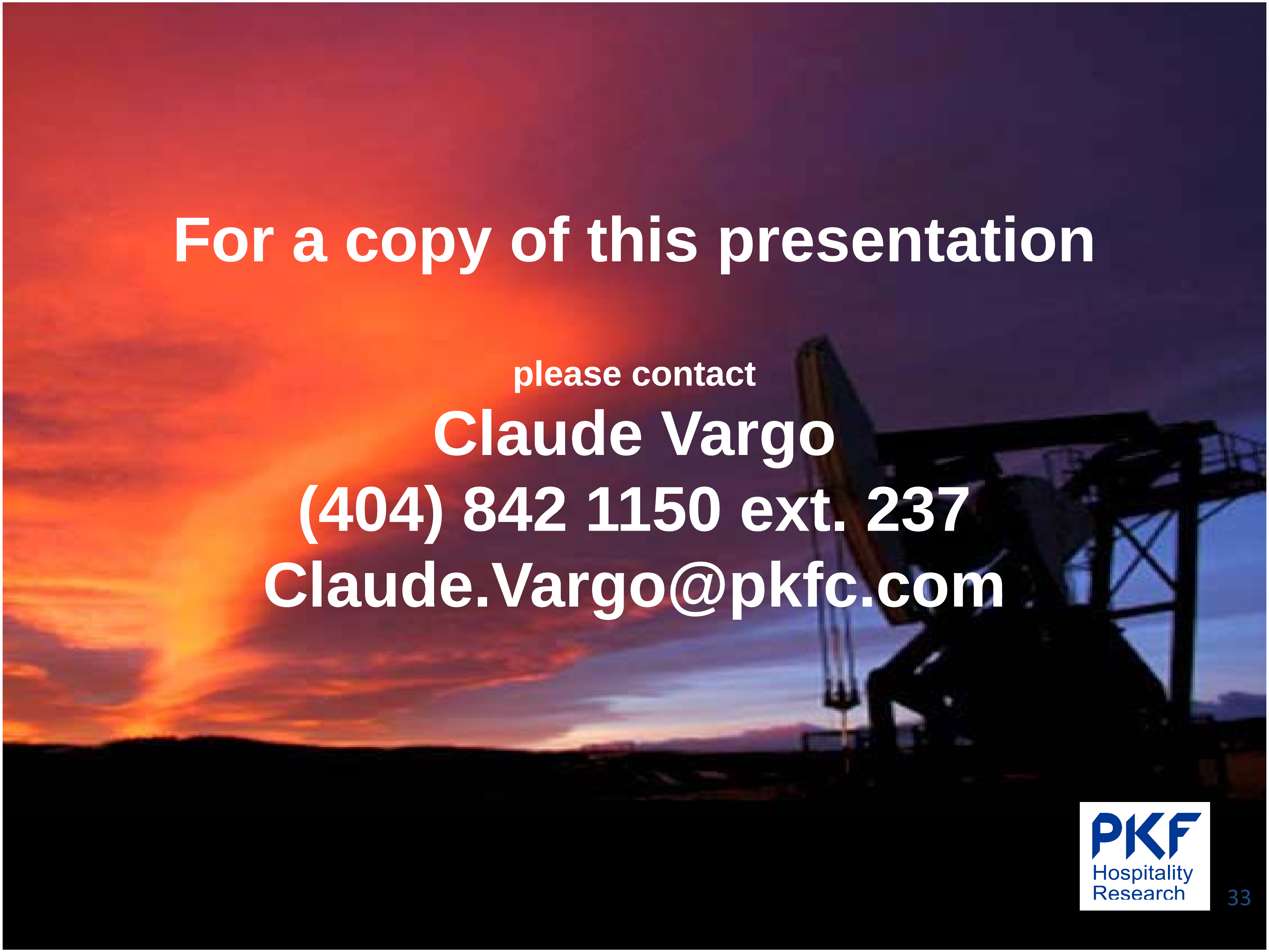
Something to Take Away

- ✓ U.S. Economy Might be in a Recession, But Not Hotels
- ✓ Double Demand Dip This Cycle is Unique:

  (1) High ADR's (2) Weak Economy

- ✓ Trough of Current Downturn Q3 2008 (US + ATL)
- ✓ Supply/Demand Imbalance Will Temper Recovery - 2010
- ✓ NOI Essentially Flat in 2008
- ✓ Increasing Cap Rates Will Moderate Appreciation for the Balance of the Decade



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