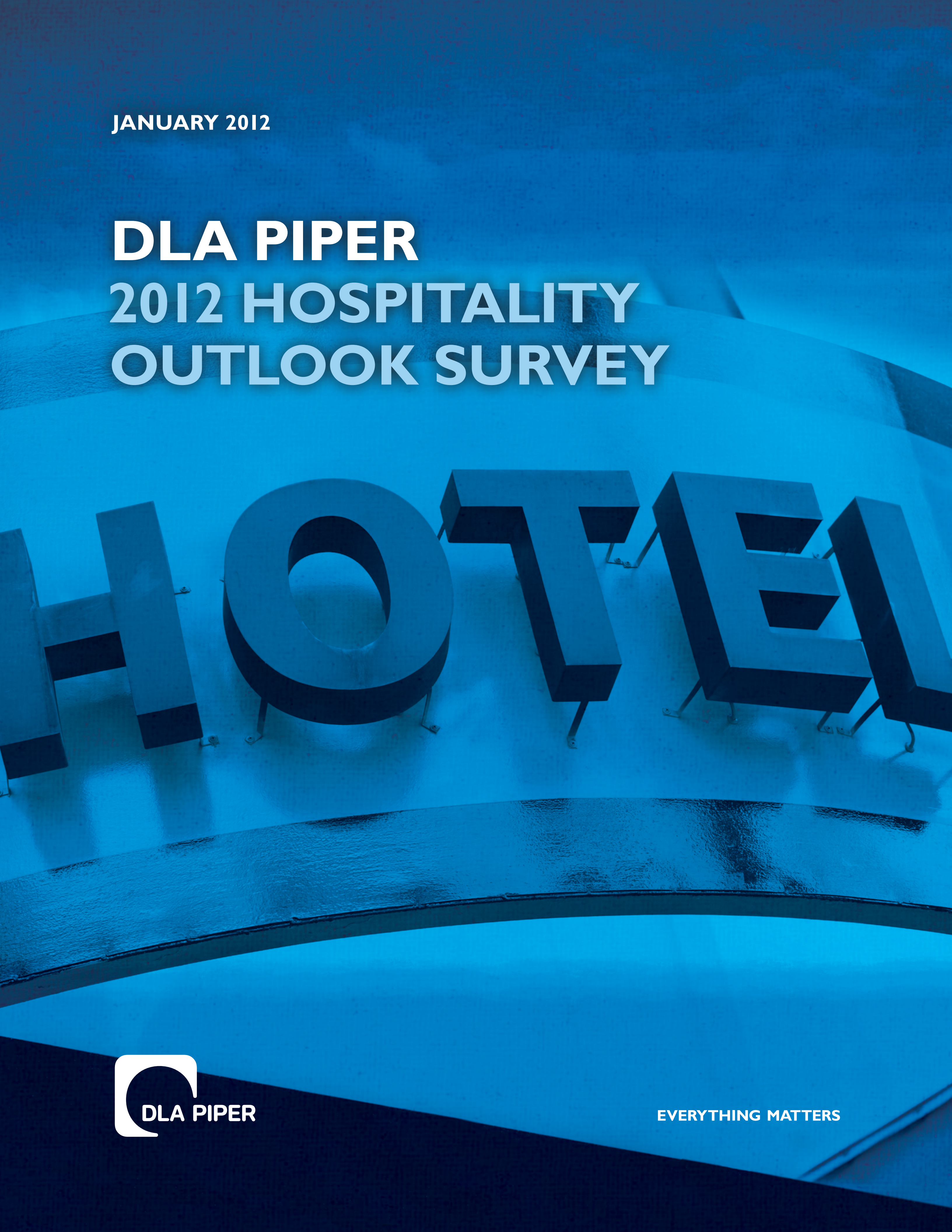
JANUARY 2012

DLA PIPER
2012 HOSPITALITY OUTLOOK SURVEY



DLA PIPER

EVERYTHING MATTERS

EXECUTIVE SUMMARY

The expectations of US hospitality executives have tempered, but the overwhelming majority remain bullish on the marketplace as investors look to pick up where they left off in 2011 – hunting for deals. With that in mind, the US hospitality industry will also keep a watchful eye on Washington, DC in 2012 as the country prepares for further political gridlock amid another election-year showdown for the White House.

According to the DLA Piper 2012 Hospitality Outlook Survey, after a flurry of deals in 2011, current market conditions remain favorable for investment, while business travel is expected to increase for the second consecutive year. According to respondents, a strong appetite exists for hotel transactions, fueled in part by an expected – and significant – uptick in private equity investment activity, as well as flattening asset values. These factors are expected to far outweigh any concerns over hotel debt issues or any election-related market malaise in 2012.

Taking a look at the operational side, the emergence of "daily deal" websites has become a polarizing issue for the US hospitality industry. While few respondents reported using these sites for promotions, nearly all those who did cited them as a source of repeat business. Furthermore, a healthy debate has begun on the value these daily deal websites provide (see Verbatims section, page 2), and this dialogue is likely to continue as more hotels experiment further with these platforms.

HIGHLIGHTS OF DLA PIPER'S 2012 HOSPITALITY OUTLOOK SURVEY INCLUDE:

- 80 percent of respondents describe their 12-month outlook for the US hospitality industry as "bullish," down from 88 percent in 2011.
- For the second consecutive year, 9 out of 10 respondents believe that market conditions have created good buying opportunities for well-capitalized investors.
- 78 percent of respondents believe that the political gridlock in Washington, DC poses a chief threat to the recovering US hospitality industry.
- Only 47 percent of respondents expect hotel asset values to rise in 2012, down sharply from 82 percent of respondents in 2011.
- Private equity investment is on the upswing: 76 percent of respondents expect private equity investors to be the most active in 2012, jumping up from 40 percent in 2011.
- 9 out of 10 respondents expect that the industry's "debt hangover" will force more hotel properties into the marketplace in the coming year.
- Representing the first drop in three years, 29 percent of respondents expect that their hotel debt will be refinanced or restructured in 2012 – down from 37 percent in 2011.
- Only 19 percent of respondents participated in "daily deal" website promotions in 2011, but of these respondents, 90 percent cited these deals as sources of repeat business.
- Respondents rank TripAdvisor and Expedia as the two most influential websites for travel customers, easily trumping the influence of social media's "Big Three" – Facebook, Twitter and LinkedIn.

VERBATIMS

Respondents were asked to share their thoughts on the following in an open forum for comment and feedback. The following represent select verbatims received from survey respondents.

Have daily deal websites been a boon or bust for the hotel industry? Explain:

- Boon. They have helped to boost short term sales.
- Boon. The arrival of daily deals in consumers' inboxes gets everyone thinking about traveling again. We should not underestimate the amplification.
- Boon. Fills otherwise empty inventory.
- Boon, can sell excess inventory at a lower fee than the OTA's like Expedia.
- Bust. Economically unattractive.
- Bust. It is not the way people buy travel.
- Bust. Too many options. No real substance or organization.
- Yes and no. Yes, because it drives business; no, because it depresses rates.
- Neither, just a different distribution channel. Helps to offset the decline in forward booking pace seen with slowdown in corporate and group bookings.
- Neither: They provide an outlet for short-term windows of availability. Not a significant driver of business, but rather a filler.
- They are, and continue to be, a threat to commoditizing our industry.
- Probably a good thing overall, but it's up to operator to yield manage.

Q1. HOW WOULD YOU DESCRIBE YOUR 12-MONTH OUTLOOK FOR THE US HOSPITALITY INDUSTRY?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Bullish	74	79.57%	
Bearish	19	20.43%	
Total Responses	93		20% 40% 60% 80% 100%

- Optimism for the US hospitality industry has leveled off with 80 percent of respondents describing themselves as "bullish" for the next 12 months, down from 88 percent in 2011.

Q2. WHAT IS THE PRIMARY REASON FOR YOUR CONFIDENCE?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Expected growth of US economy	22	29.73%	
Increased business travel	23	31.08%	
Foreign investment in the US market	4	5.41%	
Investment opportunities created by the financial crisis	13	17.57%	
Abundance of equity capital available for investment	12	16.22%	
Total Responses	74		20% 40% 60% 80% 100%

- With questions swirling around the current strength of the US economy, bullish respondents attribute most of their confidence to an expected increase in business travel (31 percent), combined with the expected growth of the US economy (30 percent). This is markedly different from 2011, when 49 percent of respondents cited the US economy as their source of optimism.

Note: This question was only made available to those respondents who described their outlook as "bullish."

Q3. WHAT IS THE PRIMARY REASON FOR YOUR LACK OF CONFIDENCE?			
RESPONSES	**COUNT**	**%**	**PERCENTAGE OF TOTAL RESPONDENTS**
Struggling US economy/fears of recession	14	73.68%	
Lack of liquidity (debt or equity)	1	5.26%	
Current operating performance of hotels	1	5.26%	
Time and cost restraints of hotels	1	5.26%	
Reduced business travel	2	10.53%	
Total Responses	12		**20% 40% 60% 80% 100%**

- For the fourth consecutive year, the struggling US economy (74 percent) remained the top concern of "bearish" respondents, down slightly from 80 percent of respondents in 2011.

Note: This question was only made available to those respondents who described their outlook as "bearish."

Q4. WHICH OF THE FOLLOWING WEBSITES DOES YOUR ORGANIZATION CONSIDER THE MOST INFLUENTIAL INFORMATION SOURCE AMONG ITS TRAVEL CUSTOMERS? PLEASE RANK WITH 1 BEING THE HIGHEST.							
RESPONSES	**RANK 1**	**RANK 2**	**RANK 3**	**RANK 4**	**RANK 5**	**RANK 6**	**WEIGHTED RANK (SCORE)**
TripAdvisor	49	15	16	1	1	0	1 (438)
Expedia	26	35	9	10	2	0	2 (401)
Orbitz	2	18	29	15	11	7	3 (292)
Facebook	4	5	20	32	19	2	4 (265)
Twitter	0	9	5	16	26	26	5 (191)
LinkedIn	1	0	3	8	23	47	6 (135)
Total Responses							**82**

- By a wide margin, respondents rank TripAdvisor and Expedia as the two most influential websites for travel customers.
- On the other end of the spectrum, it is interesting to note that the largest social media organizations – Facebook, Twitter and LinkedIn – are viewed by respondents as the least influential websites when it comes to travel.

Q5. DURING THE PAST 12 MONTHS, HAS YOUR ORGANIZATION PARTICIPATED IN A "DAILY DEALS" PROMOTION WITH GROUPON, LIVINGSOCIAL OR A SIMILAR WEBSITE?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Yes	16	18.60%	
No	70	81.40%	

- While a hot commodity with Wall Street and consumers in 2011, the hotel industry has not been as keen to embrace daily deal websites: The majority of respondents (81 percent) report they have not participated in a "daily deals" promotion with Groupon, LivingSocial or a similar website in the last year.

Q6. DID THIS PROMOTION GENERATE ANY REPEAT BUSINESS FOR YOUR ORGANIZATION?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Yes	66	68.75%	
No	31	32.29%	
Total Responses	97		**20% 40% 60% 80% 100%**

- Interestingly, nearly 90 percent of respondents who participated in a "daily deals" promotion reported repeat business for their organizations.

Note: This question was only made available to those respondents who confirmed they participated in a "daily deals" promotion in the last year.

Q7. THE POLITICAL GRIDLOCK IN WASHINGTON, DC REMAINS A CHIEF HURDLE FACING THE RECOVERING HOSPITALITY INDUSTRY IN 2012. AGREE OR DISAGREE?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Strongly Agree	28	32.94%	
Agree	38	44.71%	
Neutral	9	10.59%	
Disagree	9	10.59%	
Strongly Disagree	1	1.18%	
Total Responses	85		**20% 40% 60% 80% 100%**

- Despite the bullish sentiment reported in Question No. 1, a majority of respondents (78 percent) agree that the political gridlock in Washington, DC remains a chief threat facing the recovering hospitality industry in the year ahead.

Q8. WHERE DO YOU THINK HOTEL ASSET VALUES ARE HEADED DURING THE NEXT 12 MONTHS?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Up	40	46.51%	
No significant change	44	51.16%	
Down	2	2.33%	
Total Responses	86		20% 40% 60% 80% 100%

- Following the industry's rebound in 2011, respondents have significantly tempered expectations for hotel asset values in 2012:
  - Only 47 percent of respondents expect hotel asset values to rise in 2012, down sharply from 82 percent of respondents in 2011.
  - Meanwhile, the majority of respondents (51 percent) foresee no significant change in asset values in 2012.

Q9. WILL THE CURRENT DEBT OVERHANG IN THE INDUSTRY FORCE MORE HOTEL PROPERTIES INTO THE MARKETPLACE IN THE NEXT 12 MONTHS?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Yes	81	94.19%	
No	5	5.81%	
Total Responses	86		20% 40% 60% 80% 100%

- The overwhelming majority of respondents (94 percent) expect that the current debt overhang facing the industry will force more hotel properties into the marketplace in 2012.

Q10. WHICH SECTOR OF THE HOSPITALITY INDUSTRY REPRESENTS THE MOST ATTRACTIVE OPPORTUNITY FOR INVESTORS IN THE NEXT 12 MONTHS?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Economy/budget	2	2.15%	
Midscale	32	34.41%	
Upscale	46	49.46%	
Luxury	10	10.75%	
Resorts	3	3.23%	
Mixed-use/branded residential	0	0%	
Total Responses	93		**20% 40% 60% 80% 100%**

- For the third consecutive year, respondents rank the upscale sector as the most attractive investment opportunity (49 percent), while the midscale sector (34 percent) and luxury sectors (11 percent) flip-flopped positions from 2011, but remain in the top three.

Q11. FOR WELL-CAPITALIZED INVESTORS, DO YOU THINK CURRENT MARKET CONDITIONS HAVE NOW CREATED GOOD BUYING OPPORTUNITIES?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Yes	84	91.30%	
No	8	8.70%	
Total Responses	92		**20% 40% 60% 80% 100%**

- 9 out of 10 respondents (91 percent) believe that market conditions have created good buying opportunities for well-capitalized investors, up slightly from 89 percent in 2011.

Q12. WHAT TYPES OF INVESTORS DO YOU EXPECT TO BE MOST ACTIVE IN THE US HOSPITALITY INDUSTRY IN THE COMING YEAR?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Foreign investors	7	7.53%	
Insurance companies	2	2.15%	
Pension funds	0	0%	
Private equity	71	76.34%	
REITs	12	12.90%	
Other (please specify)	1	1.08%	
Total Responses	93		**20% 40% 60% 80% 100%**

- Riding the industry's rebound in 2011, private equity capital has returned to the US hospitality industry in significant fashion: 76 percent of respondents expect private equity investors will be the most active in 2012, up from 40 percent in 2011.
- Consequently, expectations are that REIT investment activity will fall precipitously, dropping from 50 percent in 2011 to 13 percent in 2012.

Q13. WHAT TYPES OF LENDERS DO YOU EXPECT TO BE THE MOST ACTIVE IN THE US HOSPITALITY INDUSTRY IN THE COMING YEAR?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Commercial banks	31	33.70%	
Hedge funds	12	13.04%	
Investment banks	24	26.09%	
Mutual insurance/assurance companies	17	18.48%	
Pension funds	5	5.43%	
Other (please specify)	3	3.26%	
Total Responses	92		**20% 40% 60% 80% 100%**

- For the third consecutive year, respondents expect commercial banks (34 percent) and investment banks (26 percent) to be the most active lenders in the US hospitality industry in the coming year.
- Notably, respondents expect that mutual insurance / assurance companies (19 percent) will leap-frog hedge funds (13 percent) to be more active lenders in 2012.

Q14. DO YOU EXPECT YOUR ORGANIZATION TO REFINANCE OR RESTRUCTURE ITS HOTEL DEBT IN THE NEXT 12 MONTHS?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Yes	27	29.35%	
No	25	27.17%	
Not applicable	40	43.48%	
Total Responses	92		20% 40% 60% 80% 100%

- Representing the first drop in three years, 29 percent of respondents expect that their hotel debt will be refinanced or restructured in 2012, down from 37 percent in 2011.

Q15. WHICH REGION REPRESENTS THE MOST ATTRACTIVE OPPORTUNITY FOR OUTBOUND US INVESTORS IN THE NEXT 12 MONTHS?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Brazil	38	44.71%	
China	21	24.71%	
Eastern Europe	3	3.53%	
India	13	15.29%	
Mexico	1	1.18%	
Middle East	2	2.35%	
Russia	2	2.35%	
Western Europe	5	5.88%	
Total Responses	85		20% 40% 60% 80% 100%

- Brazil, China and India remain the three most attractive markets for outbound US investors for the third consecutive year, according to respondents.

Q16. WHICH REGION WILL BE THE LARGEST INBOUND FOREIGN INVESTOR IN THE UNITED STATES DURING THE NEXT 12 MONTHS?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Brazil	5	5.75%	
China	56	64.37%	
Eastern Europe	1	1.15%	
India	3	3.45%	
Mexico	0	0%	
Middle East	13	14.94%	
Russia	3	3.45%	
Western Europe	6	6.90%	
Total Responses	87		**20% 40% 60% 80% 100%**

- In line with the results of our 2011 survey (65 percent vs. 64 percent in 2012), China remains the top choice of respondents who expect that investors from the world's second-largest economy will significantly outpace all other foreign investors in the United States.

Q17. IN THE EUROZONE, WHICH OF THE FOLLOWING COUNTRY'S SOLVENCY CONCERNS YOU THE MOST?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
France	11	12.09%	
Germany	10	10.99%	
Greece	19	20.88%	
Ireland	0	0%	
Italy	39	42.86%	
Portugal	0	0%	
Spain	12	13.19%	
Total Responses	91		**20% 40% 60% 80% 100%**

- While respondents are notably concerned with the solvency issues of several EuroZone nations, they are most concerned with Italy (43 percent), which has become the latest epicenter of the EuroZone financial crisis.

Q18. BETWEEN THE US AND WESTERN EUROPE, WHICH REGION'S HOSPITALITY INDUSTRY WILL BE STRONGER IN 2012?			
RESPONSES	**COUNT**	**%**	**PERCENTAGE OF TOTAL RESPONDENTS**
United States	83	92.22%	
Western Europe	7	7.78%	
Total Responses	90		**20% 40% 60% 80% 100%**

- With the EuroZone facing a variety of solvency issues, as well as highly publicized instances of civil unrest, respondents believe that the US hospitality industry (92 percent) will be significantly stronger than Western Europe in 2012.

METHODOLOGY

In January of 2012, DLA Piper distributed a survey via email to top executives within the hospitality industry, including CEOs, COOs, CFOs and other senior executives, which was completed by 100 respondents.

Question No. 2 was only made available to those respondents who described themselves as "bullish" in Question No. 1.

Question No. 3 was only made available to those respondents who described themselves as "bearish" in Question No. 1.

Question No. 6 was only made available to those respondents who answered "yes" to Question No. 5.

Due to rounding, all percentages used in all questions may not add up to 100 percent.

CONTACTS

For a copy of the complete results for DLA Piper's 2012 Hospitality Outlook Survey, please visit www.dlapiper.com and search "Hospitality and Leisure" or contact one of the following:

Sandra Kellman
Global Co-chair and Head of Hospitality and Leisure Group US, DLA Piper
T +1 312 368 4082

Brian Kiefer
Media Relations, DLA Piper
T +1 312 252 4113