

US Lodging Sector Recovery Continues Cautiously



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Reflecting strong performance during the first quarter and positive momentum in travel activity, offset by impacts from near-term fiscal challenges, an updated lodging forecast released today by PwC US anticipates revenue per available room ("RevPAR") recovery in 2013 to stay on course, consistent with PwC's expectations at the start of the year. Recent lodging performance has been favorable, with occupancy levels at higher-priced hotels ahead of prior peak levels, real RevPAR that is above its long-term average, and slow supply growth. This positive trajectory is expected to continue, resulting in RevPAR growth of 5.9 percent in 2013. PwC expects slightly stronger RevPAR growth of 6.2 percent in 2014, driven by strengthening economic growth and solid room rate gains in the context of below-average lodging supply growth.

The updated estimates from PwC US are based on a quarterly econometric analysis of the lodging sector, using an updated macroeconomic forecast released by Macroeconomic Advisers, LLC and historical statistics supplied by Smith Travel Research and other data providers. Macroeconomic Advisers' outlook released in May anticipates sequestration impacts and other fiscal challenges in the near-term, resulting in weaker economic growth in the second and third quarters of 2013. Macroeconomic Advisers expects real gross domestic product ("GDP") to increase by 2.4 percent in 2013, and then accelerate to slightly above-trend growth of 3.3 percent in 2014, measured on a fourth-quarter-over-fourth-quarter basis.

While fiscal contraction is slowing the broader economy, underlying economic momentum is expected to drive further growth in business and leisure travel activity. Recent macroeconomic data suggest that consumer spending is firming, supported by strong gains in household wealth, lower household debt burdens, and gradual improvement in labor markets. Though business leaders remain cautious, business investment spending is growing, and companies continue to plan group meetings and events, with stronger bookings in place for 2014.

Overall, based on the analysis referenced above, PwC expects lodging demand in 2013 to increase 2.2 percent, which combined with still-restrained supply growth of 0.8 percent, is anticipated to boost occupancy levels to 62.2 percent, the highest since 2007. Increased occupancy levels are expected to give operators further confidence to drive increased pricing, resulting in a solid 6.2 percent increase in RevPAR in 2014. The strongest performance gains are expected in urban markets, as additional demand allows hotels to be more selective and yield the highest rates on available rooms.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Occupancy	59.2%	61.3%	63.0%	63.2%	62.8%	59.8%	54.6%	57.5%	59.9%	61.4%	62.2%	62.9%
ADR Growth	0.2%	4.3%	5.6%	7.5%	6.7%	3.0%	-8.7%	0.0%	3.8%	4.2%	4.4%	5.1%
RevPAR Growth	0.4%	7.9%	8.6%	7.7%	6.1%	-2.0%	-16.7%	5.4%	8.2%	6.8%	5.9%	6.2%

Source: PwC and Smith Travel Research

"Recent performance of the lodging sector has exceeded industry expectations, even as fiscal challenges encourage near-term caution," said Scott D. Berman, principal and U.S. industry leader, hospitality & leisure, PwC. "Hotels in higher-priced segments are achieving occupancy levels above the prior peak, and looking ahead, the foundation is in place for solid rate gains as travel demand grows and hotel operators adjust strategies accordingly."

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