November 2017

Hospitality Directions US

Our updated lodging outlook

Harvey and Irma recovery efforts boost lodging industry performance in the third quarter

Nine months into the new administration, the US lodging industry and broader economy appear to have shrugged off worries of any initial disruption to the economy. Though initial expectations of broad-based economic stimulus, regulatory reform, and tax policy reform have been significantly tempered, underlying macroeconomic conditions, such as consumer spending and employment remain solid.

Our outlook for 2017 anticipates:

Supply growth of **1.8%**, just shy of the long-term average

Occupancy of 65.8%

Average daily rate is primary driver of ***2.6%*** *increase in RevPAR*

Our outlook for 2018 anticipates:

Slight increase in supply growth to long-term average of **1.9%**

Slowing growth in demand still results in slight increase in occupancy to 65.9%

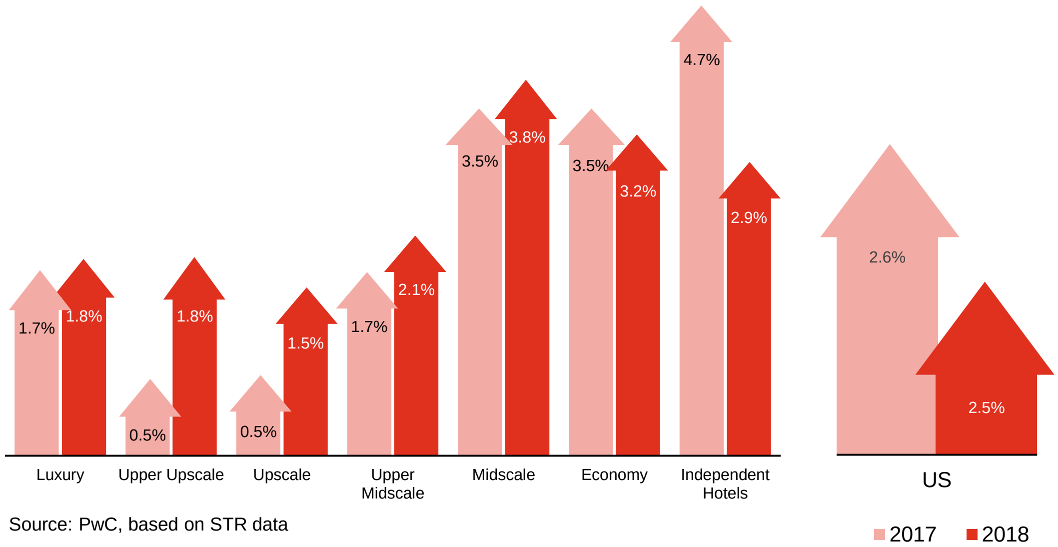
After slowing in 2017, ***average daily rate growth flattens,*** driving RevPAR increase of **2.5%**

Economists at IHS-Markit anticipate that the back-to-back hurricanes in late August and early September (Harvey in Houston and Irma in South Florida) will end up having a negative impact on GDP growth in the third quarter. However, as recovery efforts continue and local and regional economies stabilize, fourth quarter GDP is expected to recover meaningfully, recouping most of the lost output. The significant impact of these storms on the US lodging industry has been initially positive, particularly in areas like Houston where hotels initially filled up with displaced families and teams from FEMA, followed by recovery work crews. Though outperformance in several individual metropolitan areas is typically not enough to sway the performance of the domestic industry as a whole, data provided by STR throughout October suggest that the recovery after Harvey and Irma has significantly boosted lodging performance not only in the cities directly impacted by the storms, but in the surrounding areas as well.

In addition to these one-off events, continued strength in consumer spending, supported by rising disposable income, employment, and household asset values, continues to act as a tailwind for the lodging industry. Though supply is still an exigent worry for many hoteliers, our updated lodging forecast anticipates a resilient demand base, supported by solid macroeconomic fundamentals, and boosted by continued storm recovery efforts through at least the beginning of next year. For 2017, we anticipate demand to support an increase in occupancy to 65.8 percent, with ADR growth driving a RevPAR increase of 2.6 percent.

Looking ahead to 2018, economic momentum is expected to remain relatively strong. Though changes to Federal Reserve leadership are looming, monetary policy is largely seen as being comparable to that of the current Fed Chair. Unlike last quarter, the prospect of major tax policy reform is more tangible, though it faces many hurdles. Overall, we anticipate demand will continue to outpace supply in 2018, albeit barely, resulting in the highest occupancy level since 1981, at 65.9 percent. ADR growth of 2.2 percent is expected to continue to outpace inflation, resulting in a RevPAR increase of 2.5 percent.

Figure 1: RevPAR growth, US and chain scales

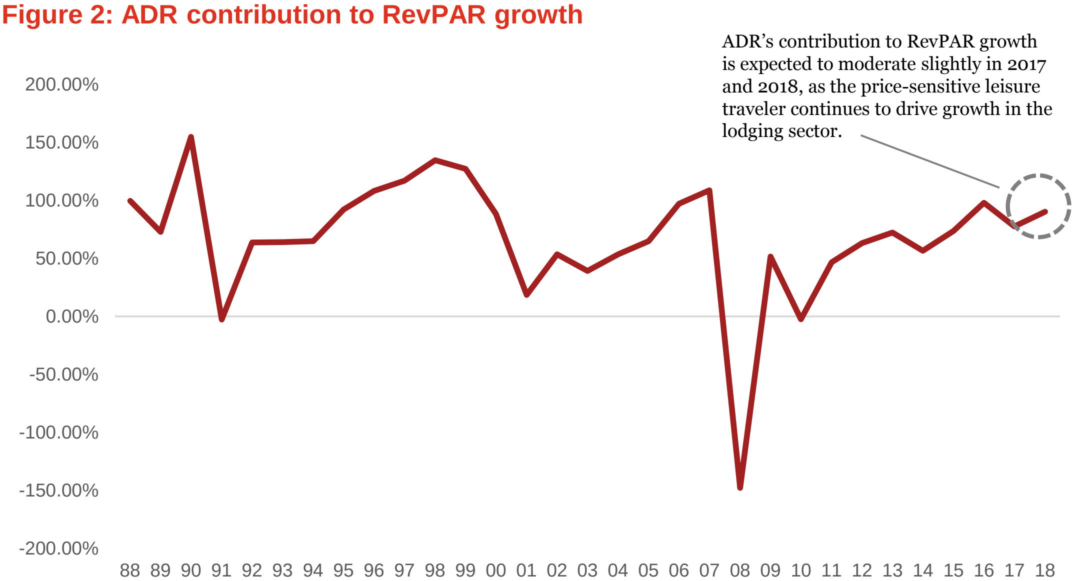


Source: PwC, based on STR data

Hospitality Directions Outlook Tables

For detailed outlook tables covering the US and each of the chain scales, please access the *Hospitality Directions Outlook Tables* available online.

Figure 2: ADR contribution to RevPAR growth



Source: PwC, based on STR data

Continued economic momentum drives growth through 2018

Though the October forecast from IHS-Markit does not anticipate a Republican-led tax reform bill to be successful, significant efforts to craft a bill have been made public in the time since it was released. While it remains to be seen whether any meaningful policy reforms will ultimately materialize, any reduction in corporate or personal tax rates is likely to further boost business and consumer spending in 2018. Consumer spending, supported in its own way by rising disposable income, employment, and household asset values, has been a long-term performance driver for the lodging industry, and is expected to continue to accelerate through the remainder of 2017 and into 2018.

With the President's recent nomination of Jerome Powell to replace Janet Yellen as Fed Chair, economists largely anticipate Powell's monetary policy platform to be consistent with that of Yellen, with moderate increases in interest rates through 2020. Further, despite continued socioeconomic turmoil abroad, including the ongoing Catalan independence referendum, the US economy appears to have largely been unaffected. Overall, the economic forecast underlying our lodging industry outlook anticipates GDP will increase in 2018 at a 2.6 percent growth rate, on a fourth-quarter-over-fourth-quarter basis, as consumer spending continues to grow and residential construction resumes after a brief respite in 2017.

Table 1: US outlook (released November 13, 2017)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Demand growth	0.7%	-2.5%	-6.2%	7.3%	4.6%	2.7%	1.9%	4.0%	2.5%	1.6%	2.4%	2.1%
Supply growth	1.2%	2.4%	2.8%	1.7%	0.4%	0.3%	0.5%	0.6%	1.0%	1.5%	1.8%	1.9%
Room starts, % change	4.9%	-9.2%	-63.7%	-39.1%	57.9%	26.1%	26.6%	36.4%	12.3%	14.6%	-2.8%	11.1%
Occupancy	62.8%	59.8%	54.6%	57.6%	60.0%	61.4%	62.3%	64.4%	65.4%	65.4%	65.8%	65.9%
% change	-0.5%	-4.8%	-8.8%	5.6%	4.2%	2.4%	1.4%	3.4%	1.5%	0.1%	0.6%	0.2%
Average daily rate	$104.31	$107.37	$98.16	$98.02	$101.75	$106.04	$110.03	$115.14	$120.33	$124.11	$126.66	$129.51
% change	6.6%	2.9%	-8.6%	-0.1%	3.8%	4.2%	3.8%	4.7%	4.5%	3.1%	2.1%	2.2%
RevPAR	$65.54	$64.24	$53.55	$56.45	$61.05	$65.12	$68.51	$74.12	$78.65	$81.17	$83.32	$85.39
% change	6.1%	-2.0%	-16.6%	5.4%	8.2%	6.7%	5.2%	8.2%	6.1%	3.2%	2.6%	2.5%
GDP, % change Q4/Q4	1.9%	-2.8%	-0.2%	2.7%	1.7%	1.3%	2.7%	2.7%	2.0%	1.8%	2.4%	2.6%
Inflation, % change	2.5%	3.1%	-0.1%	1.7%	2.5%	1.9%	1.3%	1.5%	0.3%	1.2%	1.6%	1.3%

Source: STR; Bureau of Economic Analysis; IHS-Markit (forecast released October 2017); MHC Construction Analysis System; PwC

Table 2: Chain scale outlook, percentage change from prior year

	2017					2018				
Chain scale	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	1.8	2.2	-0.4	2.1	1.7	1.7	2.3	-0.6	2.4	1.8
Upper upscale	1.6	2.2	-0.6	1.0	0.5	1.3	1.8	-0.5	2.4	1.8
Upscale	5.2	5.9	-0.6	1.1	0.5	2.4	3.2	-0.8	2.3	1.5
Upper midscale	3.7	3.2	0.4	1.2	1.7	4.1	4.0	0.1	2.0	2.1
Midscale	2.9	1.3	1.6	1.9	3.5	3.6	2.0	1.6	2.1	3.8
Economy	1.1	0.1	1.0	2.4	3.5	1.3	0.5	0.8	2.3	3.2
Independent hotels	1.0	0.1	1.0	3.7	4.7	1.0	0.6	0.4	2.5	2.9
US total	2.4	1.8	0.6	2.1	2.6	2.1	1.9	0.2	2.2	2.5

Source: PwC, based on STR data

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Definitions and information requests

Abbreviated terms include average daily rate ("ADR"), revenue per available rooms ("RevPAR"), and real gross domestic product ("GDP"). Growth rates are percentage change in annual averages, except GDP growth, which is expressed on a fourth-quarter-over-fourth-quarter basis. The personal consumption expenditure price index is used to measure inflation, including the conversion of RevPAR to constant dollars, which is reported as real RevPAR.

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