Hospitality Directions US

Our updated lodging outlook

Occupancies may have peaked, with flattening or slight declines on the near horizon. Room rate growth remains the key to above inflationary RevPAR increases through 2019.

Our outlook for 2018 anticipates:

Continued supply growth of **2.0%;** *the long-term average*

Occupancy of ***66.2%***

Average daily rate growth continues to drive RevPAR increase of ***3.0%***

Our outlook for 2019 anticipates:

Slight uptick in supply growth to **2.1%**

Demand growth decelerates to **1.9%**

An increase in average daily rate, combined with slightly lower occupancy, results in RevPAR growth of ***2.8%***

Third quarter lodging fundamentals came in below the expectations of many, with RevPAR growth of 1.7 percent year-over-year, led by rate growth of 2.1 percent. The industry also saw third quarter lodging supply growth (1.9 percent) outpace demand (1.6 percent), resulting in occupancy decreasing 0.4 percent. September lodging results broke the industry's 102-month streak of consecutive RevPAR gains, dropping 0.3 percent.

Demand in the Top 25 markets decreased year-over-year with a portion of this decline attributable to last year's hurricane season effecting markets like Houston and Orlando. Group demand increased 2.5 percent in the third quarter, with growth in the transient and contract segments also remaining positive. However, supply also increased, and occupancy flattened out over the past quarter, reporting a slight decrease in group occupancy (0.1 percent) and a 0.9 percent decrease in transient occupancy. As occupancy levels stabilize, room rate growth will remain the key to RevPAR increases through the balance of this year and into next.

As we head towards 2019, economic indicators appear to support continued industry growth, given high consumer spending supported by rising disposable income, employment and household net worth. Counter-balances to continue monitoring into the new year include: continued trade tensions, waning fiscal stimulus, increasing interest rates, and growing inflation. Overall, growth in the industry is expected to continued, albeit at a slower pace.

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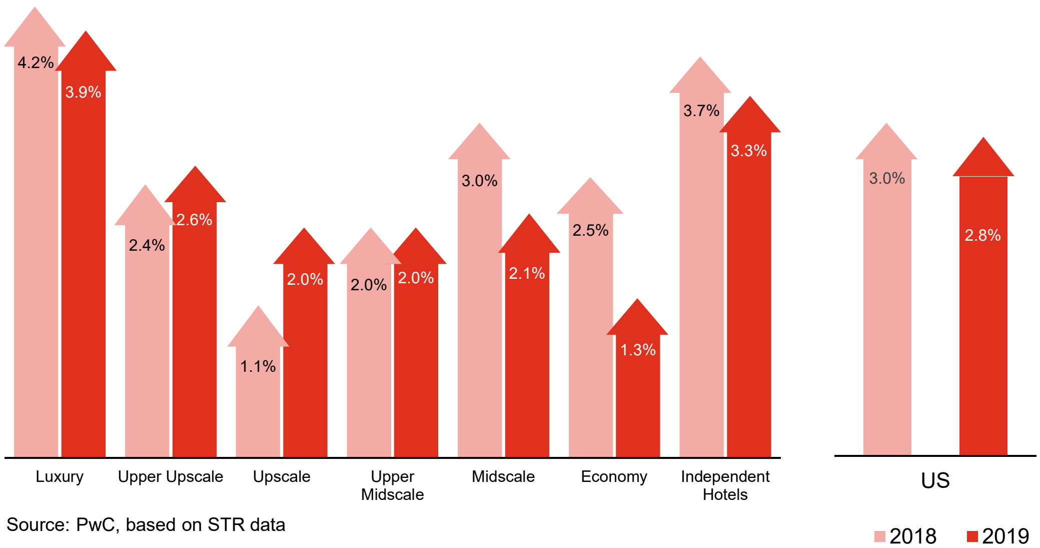
Figure 1: RevPAR growth, US and chain scales

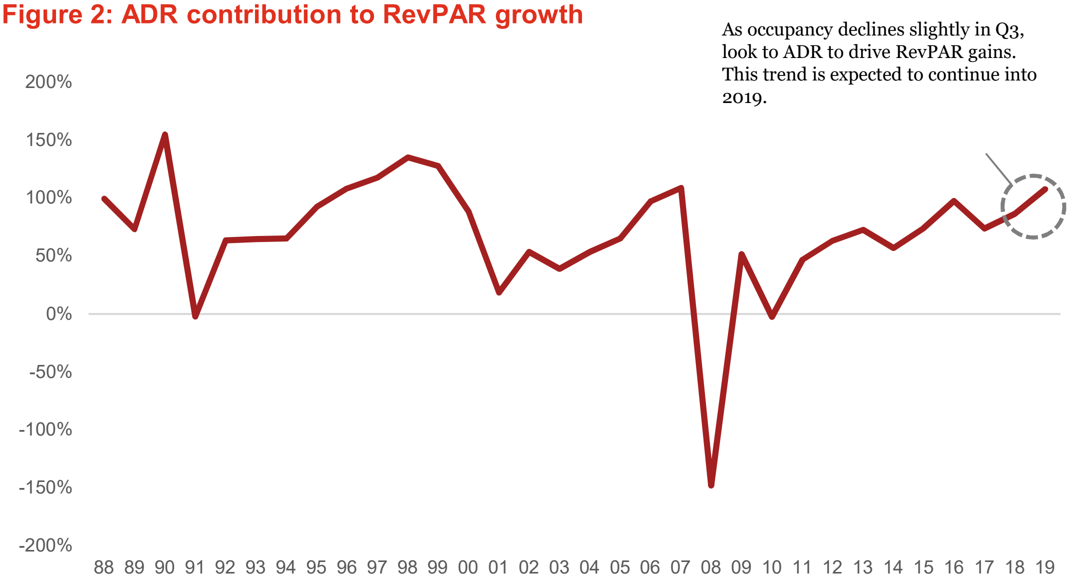


Source: PwC, based on STR data

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

Growth continues, but pace may slow

IHS-Markit economists look to continued growth in GDP for the remainder of 2018 and through 2019, with slowing growth in 2020. Currently, the economy is supported by nearly "full employment", strong business and consumer sentiment and employment growth. The economists at IHS-Markit point to rising interest rates, increasing inflation, and diminishing fiscal stimulus to slow economic growth by 2020.

New tariffs on Chinese imports ($200B) may also continue to raise inflation above the Fed target of 2.0 percent and ultimately slow economic growth. IHS –Markit expects continued upward pressures on inflation due to the tightening labor market, as well as increasing trade tensions and new tariffs on various Chinese imports. Through 2018, inflation is expected to continue just above 2.0 percent.

IHS-Markit economists estimate solid fixed business investment, increasing 7.0 percent in 2018 and slowing to 4.8 percent in 2019. Our lodging commentary highlights continued increases in corporate transient and group demand through 2019, due in part to solid fixed business investment.

Overall, IHS-Markit economists anticipate GDP will grow at a rate of approximately 3.1 percent in 2018, measured on a fourth-quarter-over-fourth-quarter basis. Estimated 2019 GDP growth slows to 2.5 percent.

Table 1: US outlook (released November 14, 2018)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Demand growth	0.7%	-2.5%	-6.2%	7.3%	4.6%	2.7%	1.9%	4.0%	2.5%	1.5%	2.5%	2.4%	1.9%
Supply growth	1.2%	2.4%	2.8%	1.7%	0.4%	0.3%	0.5%	0.6%	1.0%	1.5%	1.7%	2.0%	2.1%
Room starts, % change	4.9%	-9.2%	-63.7%	-39.1%	57.9%	26.1%	26.6%	35.2%	13.4%	15.0%	-1.9%	1.7%	10.9%
Occupancy	62.8%	59.8%	54.6%	57.6%	60.0%	61.4%	62.3%	64.4%	65.4%	65.4%	65.9%	66.2%	66.0%
% change	-0.5%	-4.8%	-8.8%	5.6%	4.2%	2.4%	1.4%	3.4%	1.5%	0.1%	0.8%	0.4%	-0.2%
Average daily rate	$104.33	$107.39	$98.18	$98.05	$101.76	$106.06	$110.05	$115.19	$120.39	$124.02	$126.71	$129.94	$133.86
% change	6.6%	2.9%	-8.6%	-0.1%	3.8%	4.2%	3.8%	4.7%	4.5%	3.0%	2.2%	2.5%	3.0%
RevPAR	$65.55	$64.25	$53.56	$56.46	$61.05	$65.14	$68.52	$74.15	$78.69	$81.13	$83.52	$85.98	$88.40
% change	6.1%	-2.0%	-16.6%	5.4%	8.1%	6.7%	5.2%	8.2%	6.1%	3.1%	2.9%	3.0%	2.8%
GDP, % change Q4/Q4	2.0%	-2.8%	0.2%	2.6%	1.6%	1.5%	2.6%	2.7%	2.0%	1.9%	2.5%	3.1%	2.5%
Inflation, % change	2.5%	3.0%	-0.1%	1.7%	2.5%	1.9%	1.3%	1.5%	0.3%	1.1%	1.8%	2.1%	2.1%

Source: STR; Bureau of Economic Analysis; IHS-Markit (forecast released October 2018); MHC Construction Analysis System; PwC

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

	2018					2019				
Chain scale	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	2.4	1.9	0.5	3.7	4.2	1.0	1.1	(0.1)	4.0	3.9
Upper upscale	2.9	2.5	0.3	2.0	2.4	2.1	2.3	(0.2)	2.8	2.6
Upscale	5.0	5.5	(0.5)	1.7	1.1	4.8	5.2	(0.4)	2.4	2.0
Upper midscale	4.6	4.1	0.5	1.5	2.0	4.2	4.0	0.2	1.8	2.0
Midscale	2.0	1.0	1.1	1.9	3.0	1.1	1.0	0.1	2.0	2.1
Economy	(0.0)	0.0	(0.1)	2.6	2.5	(0.5)	0.2	(0.7)	2.0	1.3
Independent hotels	0.5	0.1	0.4	3.3	3.7	(0.2)	0.6	(0.7)	4.1	3.3
US total	**2.4**	**2.0**	**0.4**	**2.5**	**3.0**	**1.9**	**2.1**	**(0.2)**	**3.0**	**2.8**

Source: PwC, based on STR data

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Definitions

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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