Hospitality Directions US

Our updated lodging outlook

November 2021

Average daily rate expected to drive RevPAR next year to 93% of 2019 levels

The US lodging industry continued to benefit from an outsized improvement in leisure demand through the summer months. As kids headed back to school, individual business travel and group demand that historically replaces summer leisure business post Labor Day has yet to surface, with office re openings pushed later into 2021 or early 2022 as a result of the delta variant of the virus. That said, given the strength of demand during the summer, we expect annual occupancy for US hotels this year to remain consistent with our May 2021 outlook, increasing to 57.1 percent. The bigger story is the significant lift in average daily room rates during the back half of Q2 and Q3; exceeding 2019 (pre-pandemic) levels in each month of Q3. We now expect average daily room rates to increase 19.6 percent for the year, with resultant RevPAR up 55.1 percent - - approximately 82 percent of pre-pandemic levels.

With slowing growth in vaccinations (59 percent of the US population was fully vaccinated as of November 16, 2021) and waning consumer optimism as we head into the final month of this year, lodging's recovery is expected to remain uneven. With leisure's outsized importance in this recovery to date, destinations reliant on leisure demand are expected to continue to see stronger performance even as the temperature drops. With back-to-office plans only slowly starting to accelerate, markets reliant on individual business travel and group demand will likely have a softer Q4 this year than pre-pandemic.

In 2022, as previously forecasted, we continue to expect the vast majority of temporarily-closed hotels will have reopened and demand growth (particularly from individual business travelers and groups) will improve if infection rates continue to drop. Continued growth in both occupancy and ADR is expected, with a year-over-year rebound in RevPAR of 14.4 percent - - approximately 93 percent of pre-pandemic levels. ADR in Q3 and Q4 2022 is expected to surpass comparable 2019 levels.

Challenges to this outlook include the effectiveness of a campaign to increase the number of people getting vaccinated; severity of virus mutations and corresponding vaccination efficacy; and Congress reaching a more permanent solution to the country's debt ceiling in early December.

Our revised outlook for 2022 anticipates

Continued demand recovery, lead by individual business travel and groups, resulting in **occupancy** of

61.7%

Average daily rate continues to strengthen as all segments of demand see growth accelerate - up

5.9%

As a result, **RevPAR** experiences strong growth - up

14.4%

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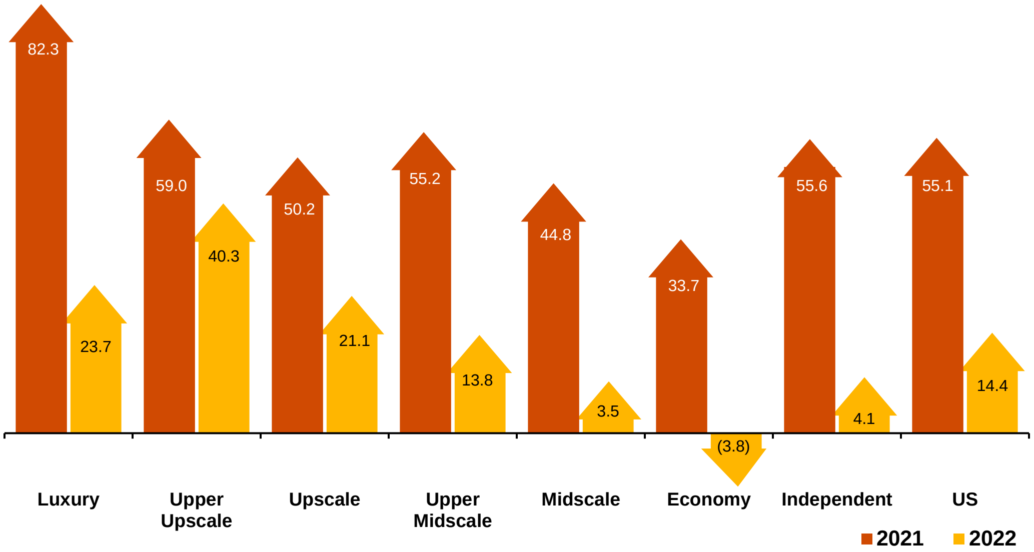
Figure 1: RevPAR percent change, US and chain scales

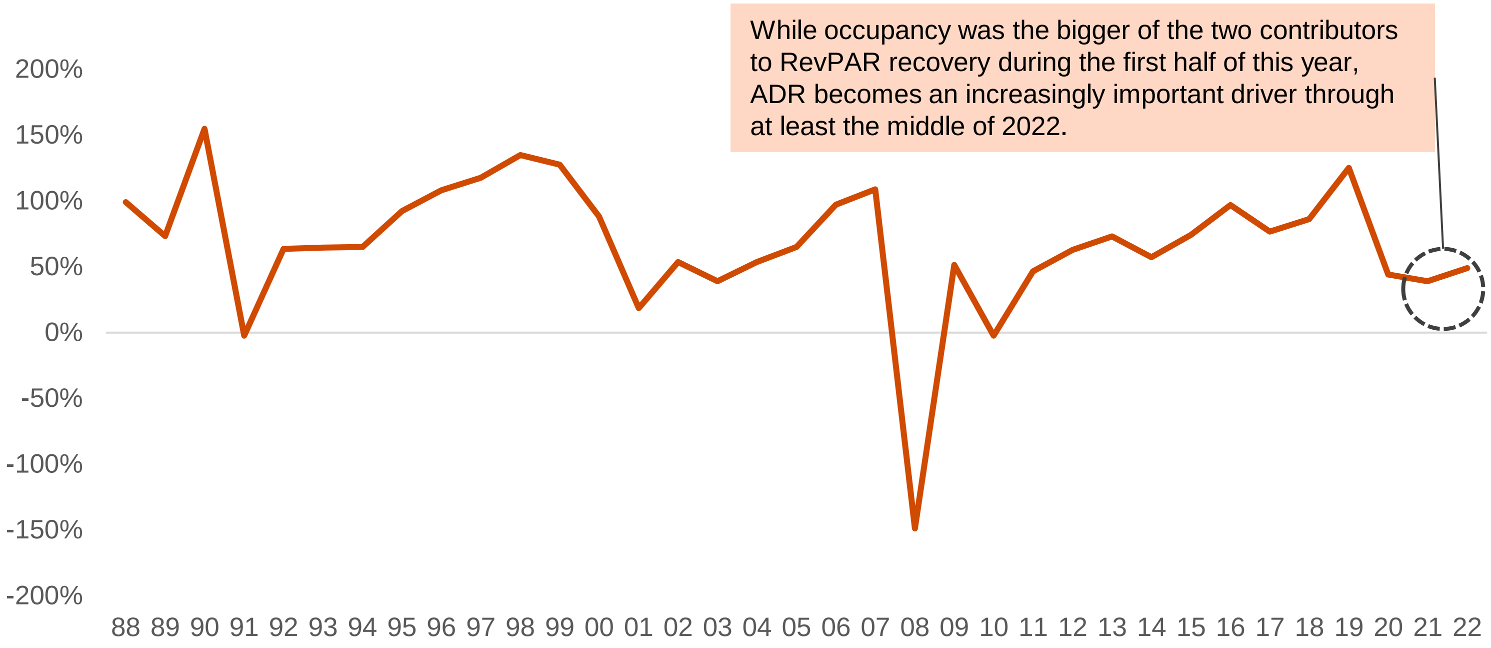


Hospitality Directions Outlook Tables

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

Source: PwC, based on STR data

Figure 2: ADR contribution to change in RevPAR



Source: PwC, based on STR data

Delta variant and supply chain issues push back economic growth

Supply disruptions, labor shortages, and growing COVID-19 concerns caused by new virus strains are resulting in a worsening short-term outlook for the US economy. IHS Markit estimates that GDP increased at a below-trend annual rate of only 1.4% in the third quarter of 2021 and expects an annualized increase of 5.4% and 4.3% for this year and next, respectively. This expectation is largely attributed to low inventory investment and net exports, a lower short-term outlook for supply-constrained vehicle sales, and a decrease in PCE-services due to the spread of the COVID-19 delta strain.

Despite hotel owners continuing to staff up with increasing demand levels, October unemployment for the hotel sector increased to 12.9% (from 11.0% in September), compared to the US overall rate decreasing to 4.6% (from 4.8% the prior month).

Source: IHS Markit (forecast released October 2021); Bureau of Labor Statistics (November 5, 2021); PwC

IHS Markit expects the unemployment rate to average 5.5% this year and 4.1% next year, as certain sectors, like hotels and airlines, add back previously shed jobs. However, it’s not just about the unemployment rate. In February 2020, the labor-force participation rate was 63.3%. In September 2021, it was 61.6%. The difference implies a shortfall of around 4.5 million people available to work. As a result, wage rates are accelerating as businesses compete for fewer workers. It will take increases in labor-force participation to prevent labor supply from limiting overall growth.

The US economy continues to show early signs of mounting a recovery with GDP growth through the end of 2022 driven by slow resolution of supply and labor shortages and progression of vaccination status across the population. Due to the recent spread of the delta strain, recovery is delayed as the US adjusts to the prospect of the virus lasting within society for an extended period.

Table 1: US outlook (November 22, 2021)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Demand growth	2.5%	2.1%	4.0%	2.4%	1.2%	2.5%	2.2%	1.7%	-36.1%	36.5%	9.8%
Supply growth	0.0%	0.8%	0.6%	0.9%	1.0%	1.9%	1.8%	1.8%	-4.2%	5.3%	1.6%
Room starts, % change	26.1%	26.6%	35.4%	14.7%	14.5%	-4.4%	5.4%	-6.0%	-51.3%	-20.5%	23.7%
Occupancy	61.4%	62.2%	64.3%	65.3%	65.4%	65.8%	66.1%	66.0%	44.0%	57.1%	61.7%
% change	2.4%	1.3%	3.4%	1.5%	0.1%	0.7%	0.4%	-0.2%	-33.3%	29.6%	8.1%
Average daily rate	$105.53	$109.54	$114.69	$119.92	$123.60	$126.39	$129.57	$130.95	$103.21	$123.48	$130.76
% change	4.2%	3.8%	4.7%	4.6%	3.1%	2.3%	2.5%	1.1%	-21.2%	19.6%	5.9%
RevPAR	$64.76	$68.12	$73.74	$78.29	$80.78	$83.15	$85.60	$86.37	$45.42	$70.45	$80.63
% change	6.7%	5.2%	8.2%	6.2%	3.2%	2.9%	2.9%	0.9%	-47.4%	55.1%	14.4%
GDP, % change Q4/Q4	1.6%	2.5%	2.6%	1.9%	2.0%	2.7%	2.3%	2.6%	-2.3%	4.9%	4.0%
Inflation, % change	1.9%	1.4%	1.5%	0.2%	1.0%	1.8%	2.1%	1.5%	1.2%	3.5%	2.2%

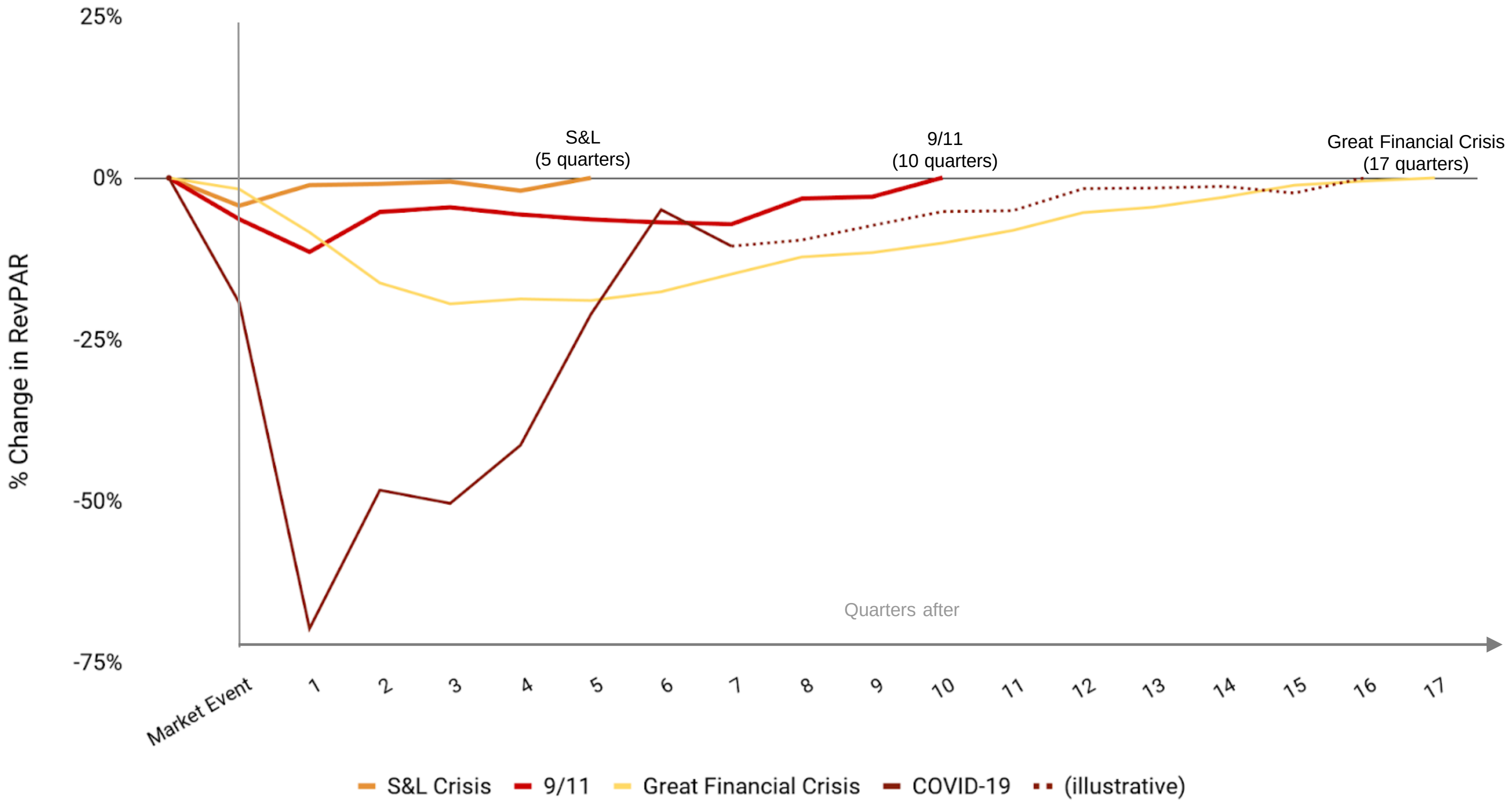
Source: STR; Bureau of Economic Analysis; IHS-Markit (forecast released October 2021); MHC Construction Analysis System; PwC

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

	2021					2022				
Chain scale	**Demand**	**Supply**	**Occupancy**	**ADR**	**RevPAR**	**Demand**	**Supply**	**Occupancy**	**ADR**	**RevPAR**
Luxury	74.0	18.0	47.0	24.0	82.3	38.8	1.1	37.3	(9.9)	23.7
Upper upscale	62.1	13.8	42.0	12.0	59.0	35.7	2.1	33.0	5.5	40.3
Upscale	46.7	6.9	36.8	9.8	50.2	12.6	2.4	10.0	10.1	21.1
Upper midscale	41.7	4.3	35.5	14.6	55.2	11.7	2.9	8.5	4.9	13.8
Midscale	30.0	1.6	27.6	13.5	44.8	3.2	1.9	1.3	2.1	3.5
Economy	16.4	(1.0)	17.3	14.0	33.7	(2.5)	0.1	(2.6)	(1.2)	(3.8)
Independent hotels	31.8	4.5	26.0	23.5	55.6	4.1	0.6	3.5	0.6	4.1
US total	**36.5**	**5.3**	**29.6**	**19.6**	**55.1**	**9.8**	**1.6**	**8.1**	**5.9**	**14.4**

Source: PwC, based on STR data

Figure 3: Year-over-year RevPAR change after market event



	S&L Crisis	9/11	Great Financial Crisis
Market Event / Month	S&L Crisis / Gulf War (Aug.1990)	Terrorist Attacks (Sep. 2001)	Lehman Bankruptcy (Sep. 2008)
Economic Conditions	●Decelerating GDP growth ●Recession ●Peaking savings and loan crisis	●Bursting of dot-com bubble ●Decelerating GDP growth ●Recession	●Decelerating GDP growth ●Recession ●Historically low CRE risk premium ●Ubiquity of CMBS
Prior Lodging Industry Conditions	●Flat RevPAR prior to onset of the crisis ●"Non-economic" hotel development ●Significant lodging oversupply	● RevPAR declines prior to the terrorist attacks ● Above-average quarterly supply growth	● RevPAR declines prior to the onset of the financial crisis ●Frothy valuations ●Above-average quarterly supply growth ●Previously decelerating performance
Recovery & Key Impact	● Five quarters to recover to pre-market event RevPAR levels ● Emergence of REITs, fundamentally changing the lodging landscape	● 10 quarters to recover to pre-market event RevPAR levels ● Subsequent US intervention in Iraq significantly prolonged the recovery	● 17 quarters to recover to pre-market event RevPAR levels ● Lenders amended and extended loans instead of foreclosing ●Accelerated pace of sector consolidation

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To have a discussion about Hospitality Directions US, please contact:

Scott D. Berman
Principal and US Industry Leader, Hospitality & Leisure
scott.berman@pwc.com

Warren Marr
Managing Director, Hospitality & Leisure
warren.marr@pwc.com

Abhishek Jain
Director, Hospitality & Leisure
a.jain@pwc.com

Address all inquiries to: us_contact_hospitality@pwc.com

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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.

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Information requests

For more information about this publication, please contact Maridel Gutierrez at maridel.gonzalezgutierrez@pwc.com or email us at us_contact_hospitality@pwc.com.

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