

Fundamental Certainty...or No?

a presentation at:



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Hotel Horizons® Forecasting Model

- **Smith Travel Research**
 - Historical rooms occupied, room available, rooms revenue
 - Pipeline of future hotel construction
- **Moody's Analytics**
 - Economic forecasts

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History:

- # of Consecutive Quarters of Increases
 - Δ Demand – 13 Quarters
 - Δ Occupancy – 13 Quarters
 - Δ ADR – 11 Quarters
 - Δ RevPAR – 12 Quarters



Forecast:

- # of Consecutive Quarters above (below) Long Run Average
 - Δ Demand (2.1%) – 10* Quarters * (starting Q4 2013)
 - Δ (Supply) (2.0%) – 14 Quarters
 - Δ ADR (2.9%) – 18 Quarters
 - Δ RevPAR (2.9%) – 16 Quarters

Source: PKF-HR; STR

May 2012

What Did We Say a Year Ago?

United States

	<u>2012</u>		<u>2013</u>	
	April <u>2012</u>	STR <u>Actual</u>	April <u>2012</u>	Most Recent <u>Update</u>
Occupancy	60.7%	61.4%	61.9%	62.0%
ADR	4.7%	4.2%	5.3%	5.0%
RevPAR	6.7%	6.8%	7.3%	6.1%

**Stronger than Expected
Demand Growth**

**ADR Recovery Slower than
Expected**

United States Q1 2013 Forecast

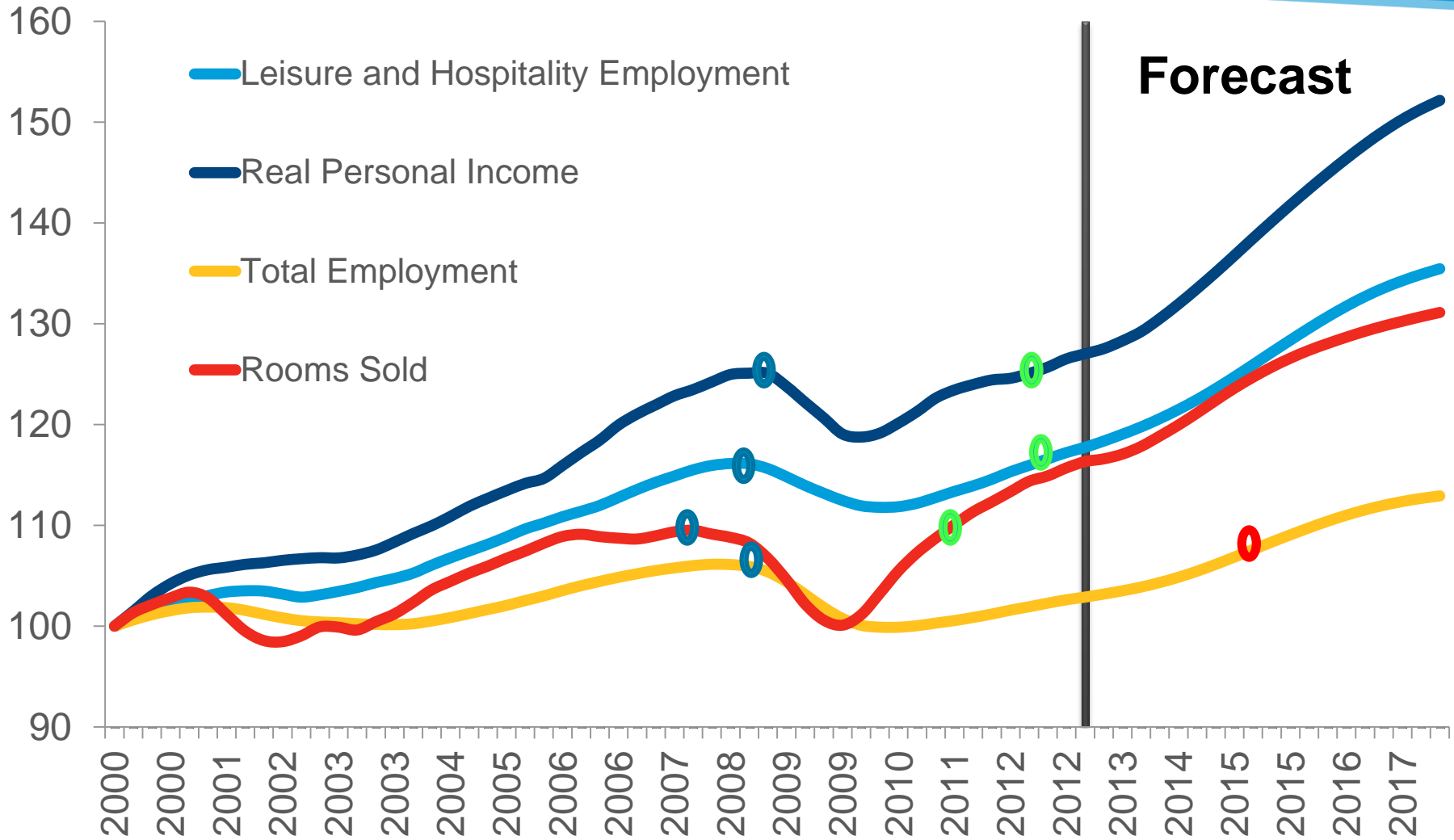
	PKF-HR Forecast	STR Q1 2013
	<u>Q1 2013</u>	<u>Actual</u>
Supply	0.8%	0.7%
Demand	2.3%	2.6%
Occupancy	1.6%	1.8%
ADR	5.8%	4.5%
RevPAR	7.4%	6.4%

**Stronger than Expected
Demand Growth (again)**

**ADR Lift Very Good; Not
Great**

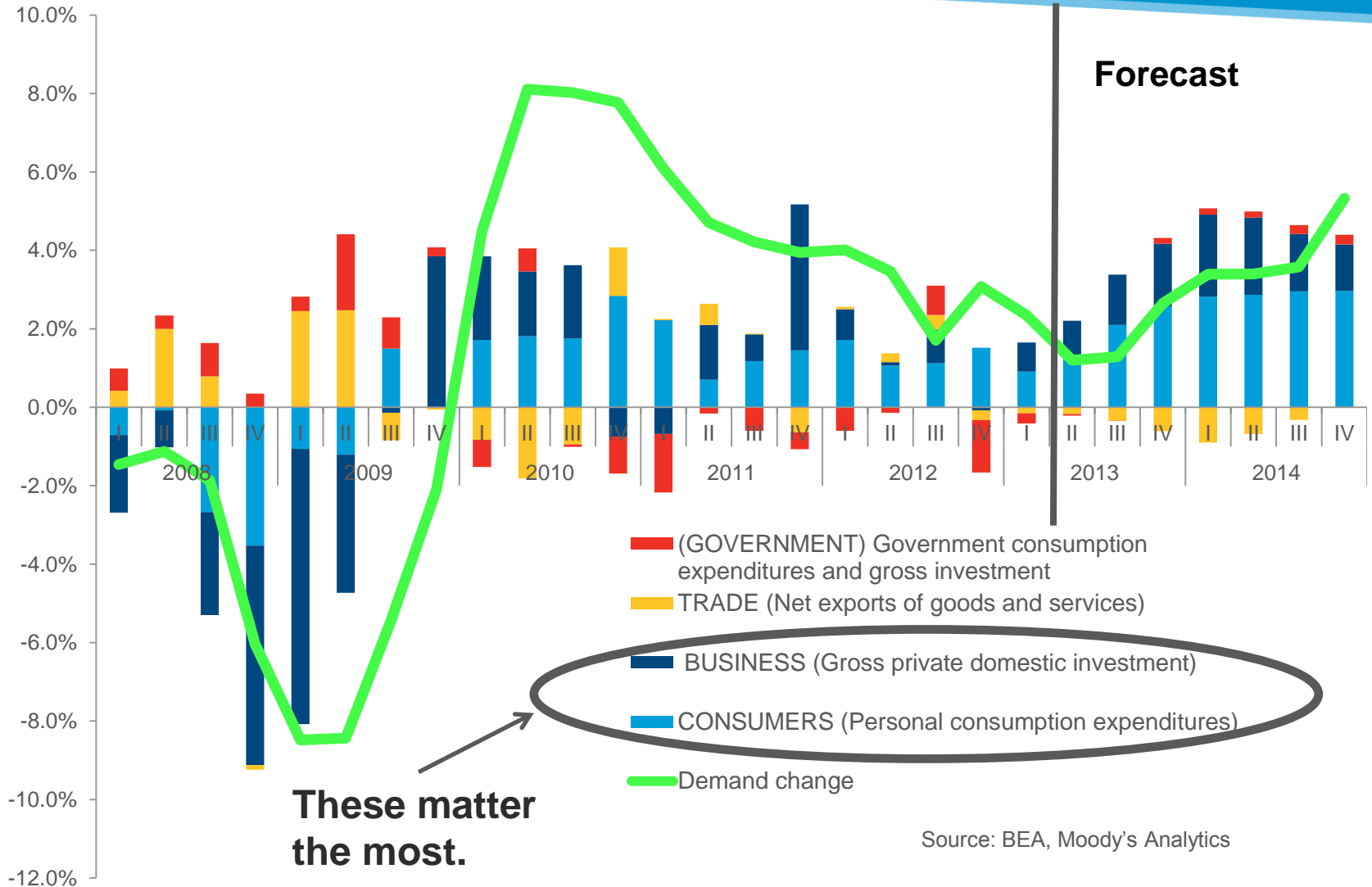
Key Economic Measures for the Lodging Industry

U.S.: All But Employment Has Recovered

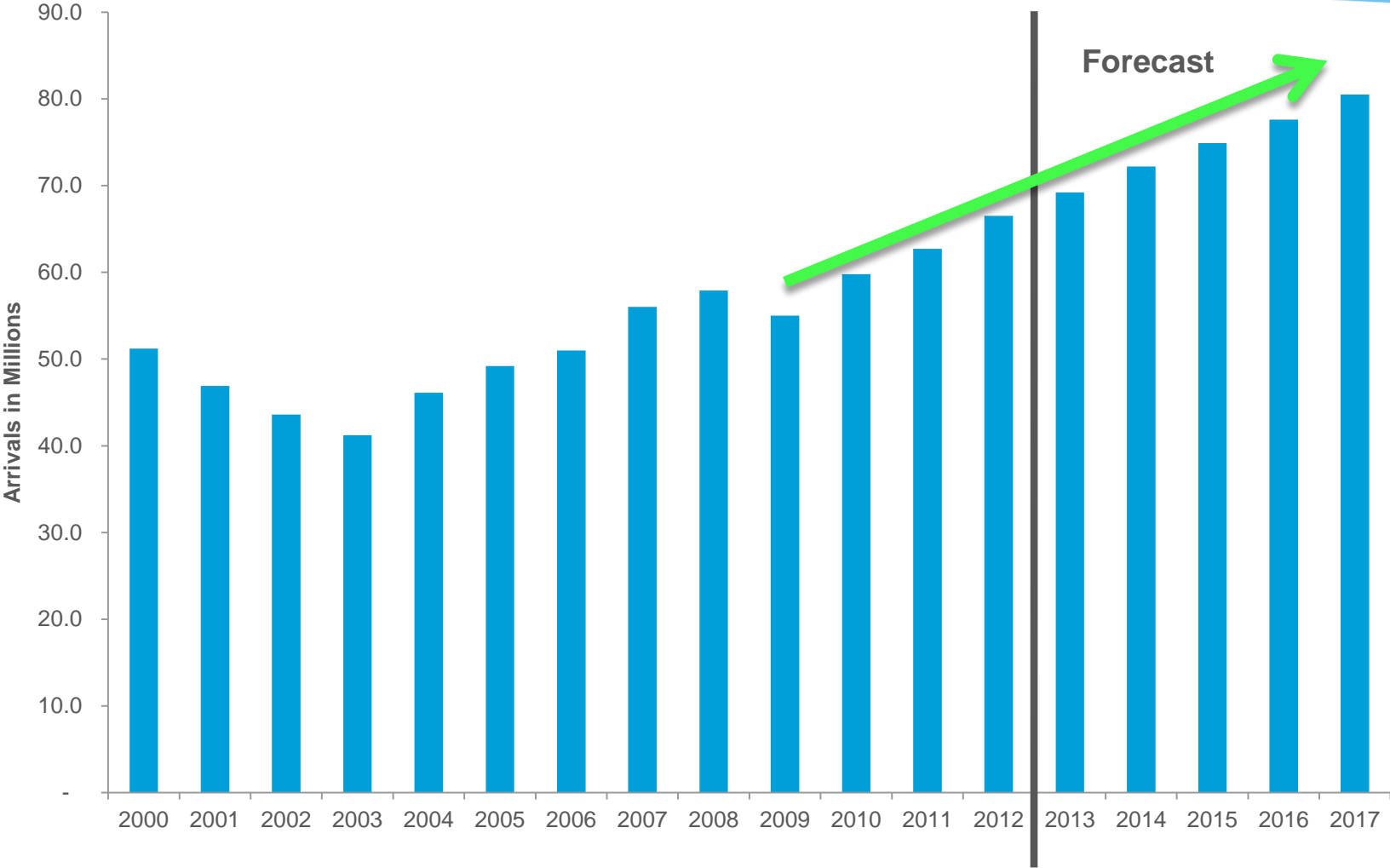


Source: PKF-HR, Moody's Analytics, STR (Historical Rooms Sold)

GDP Component Forecast



Historic and Projected International Visitors to the U.S.



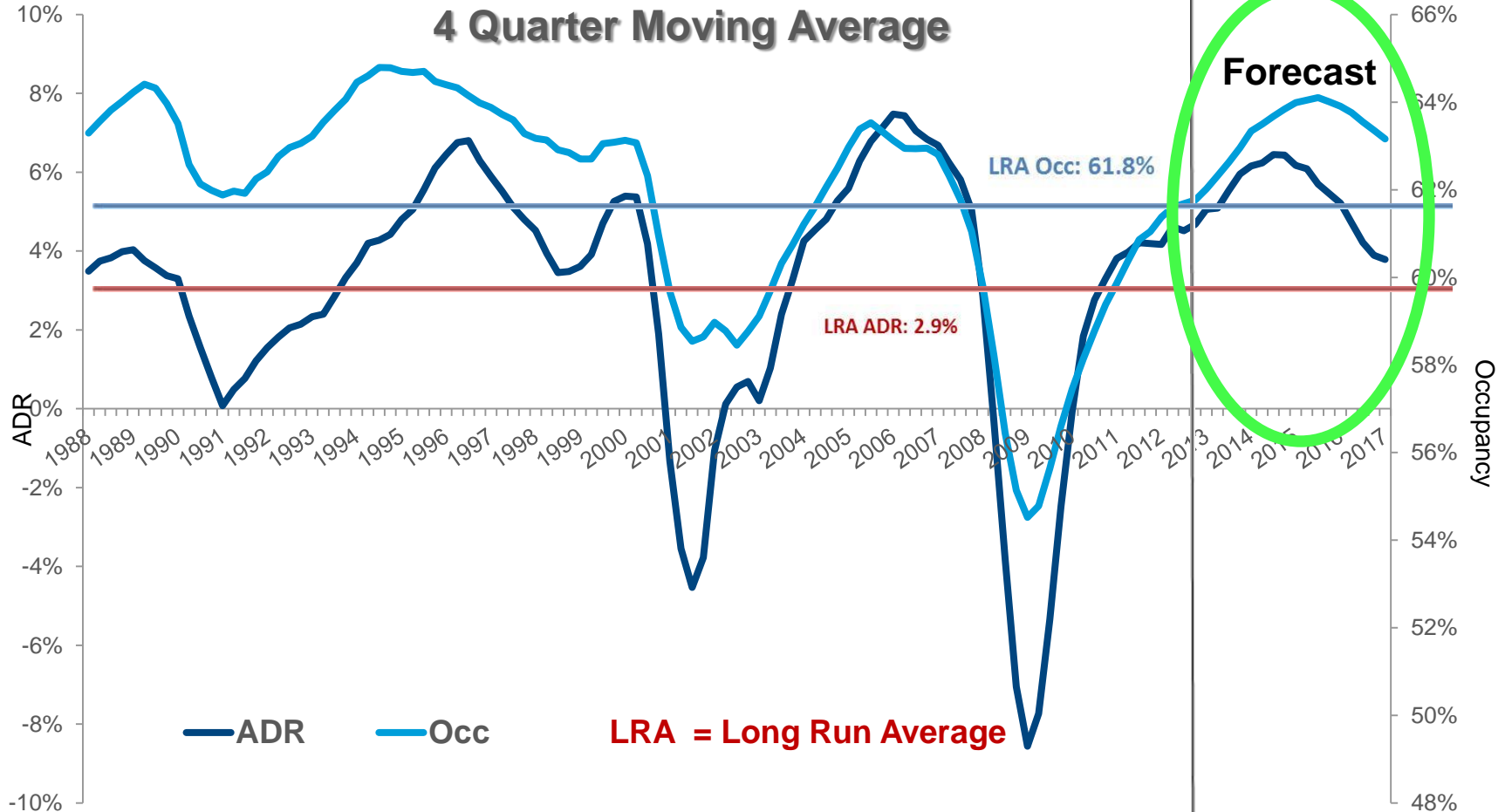
Source: International Trade Administration

Good News Summary

1. *Supply Growth: Below Average through 2016.*
2. *Demand Growth: Above Average through 2015.*
3. *Occupancy: Above Average Level through 2016.*
4. *ADR Growth: 2 x's Average through 2015.*
5. *RevPAR Growth: 2.5 x's Average through 2015.*

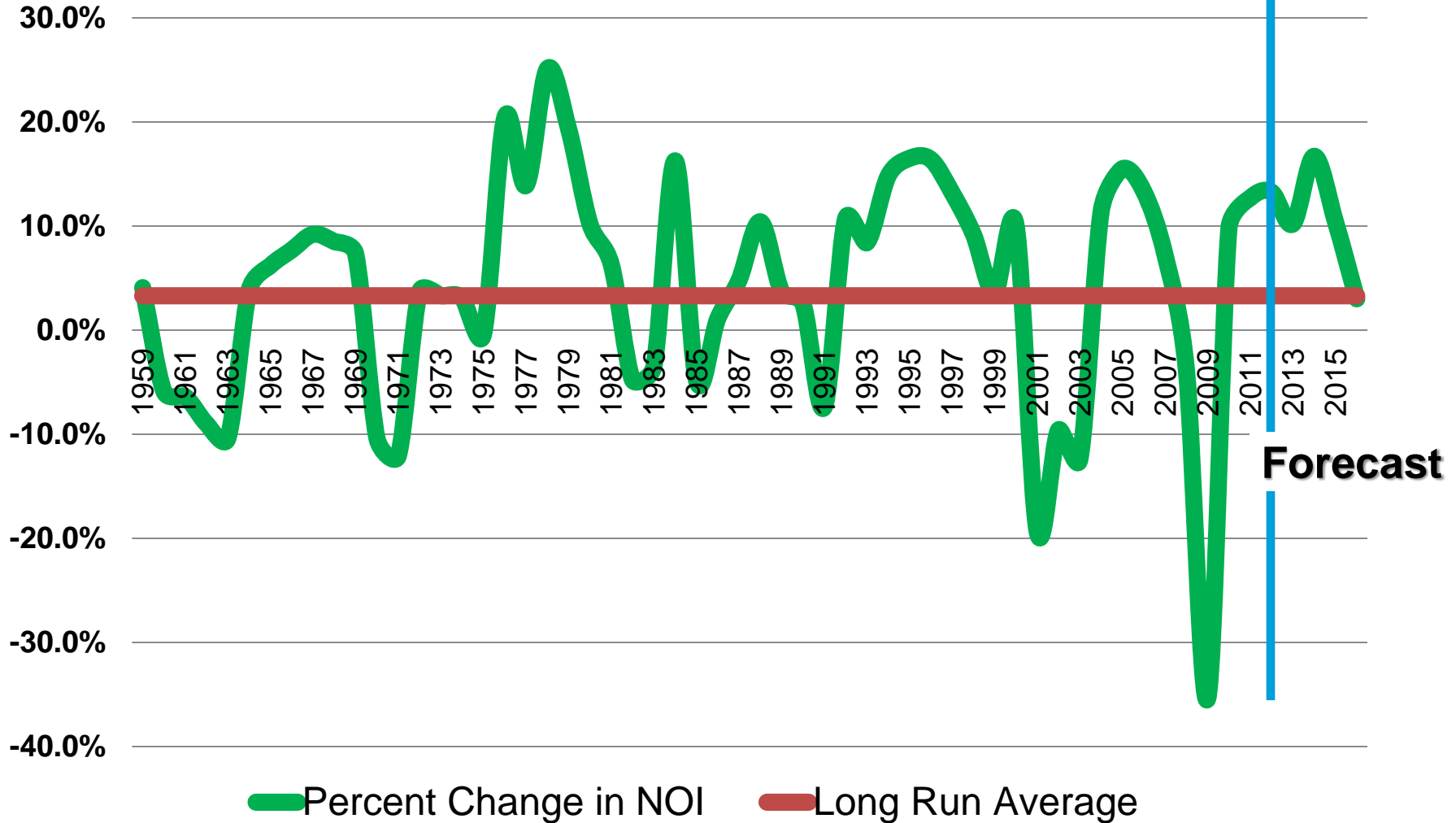
These Strong Market Conditions will Persist through 2017

Historic and Forecast Occupancy and ADR



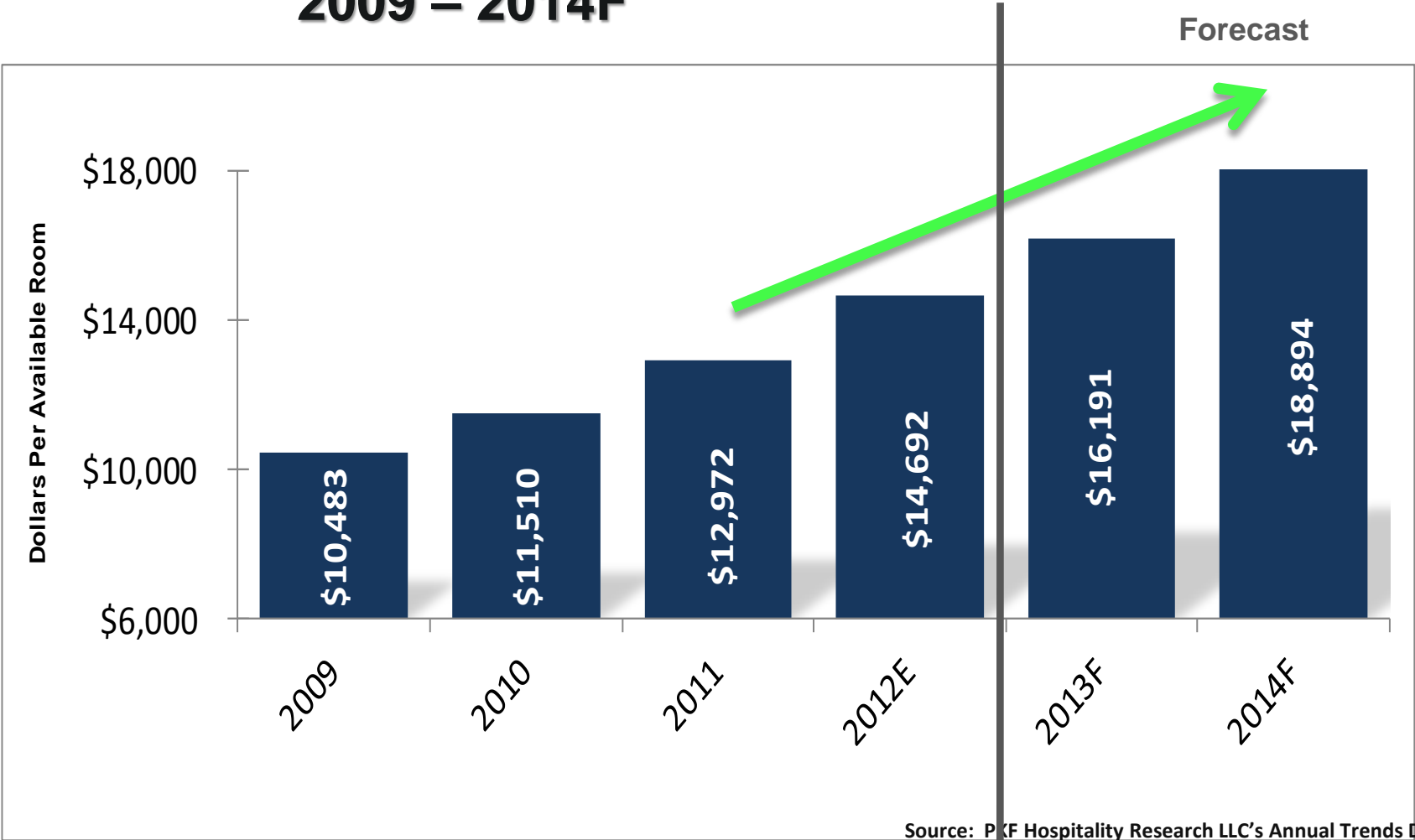
Source: PKF Hospitality Research LLC, Smith Travel Research

Profit Growth Will be Above Average as Well



Nominal Dollar Operating Profits* Will Continue to Increase

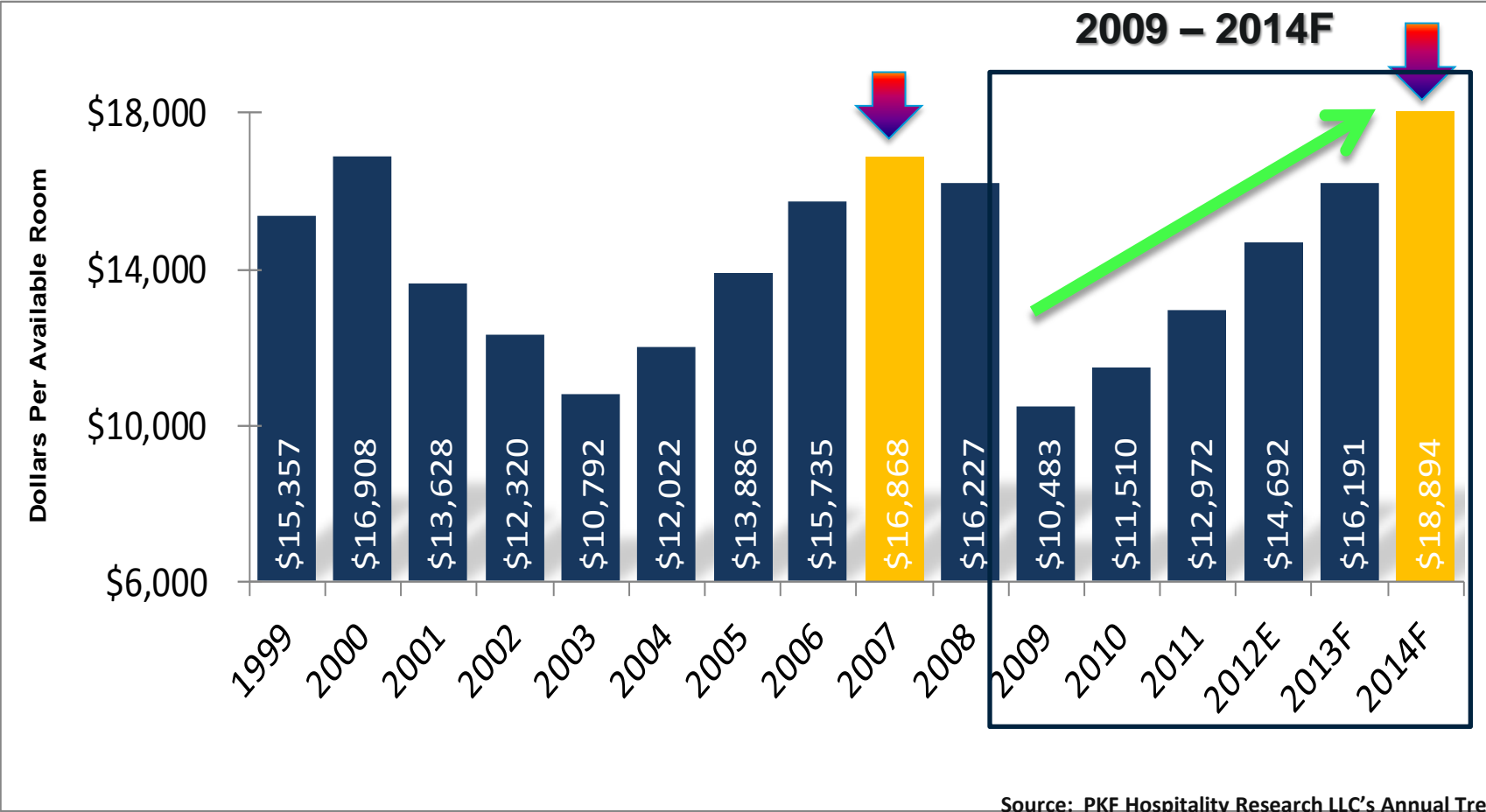
2009 – 2014F



Source: PKF Hospitality Research LLC's Annual Trends Database

Note: * Before capital reserve, debt service, rent, income taxes, depreciation, amortization.

Nominal Dollar Operating Profits* Surpass Previous Peak in 2014

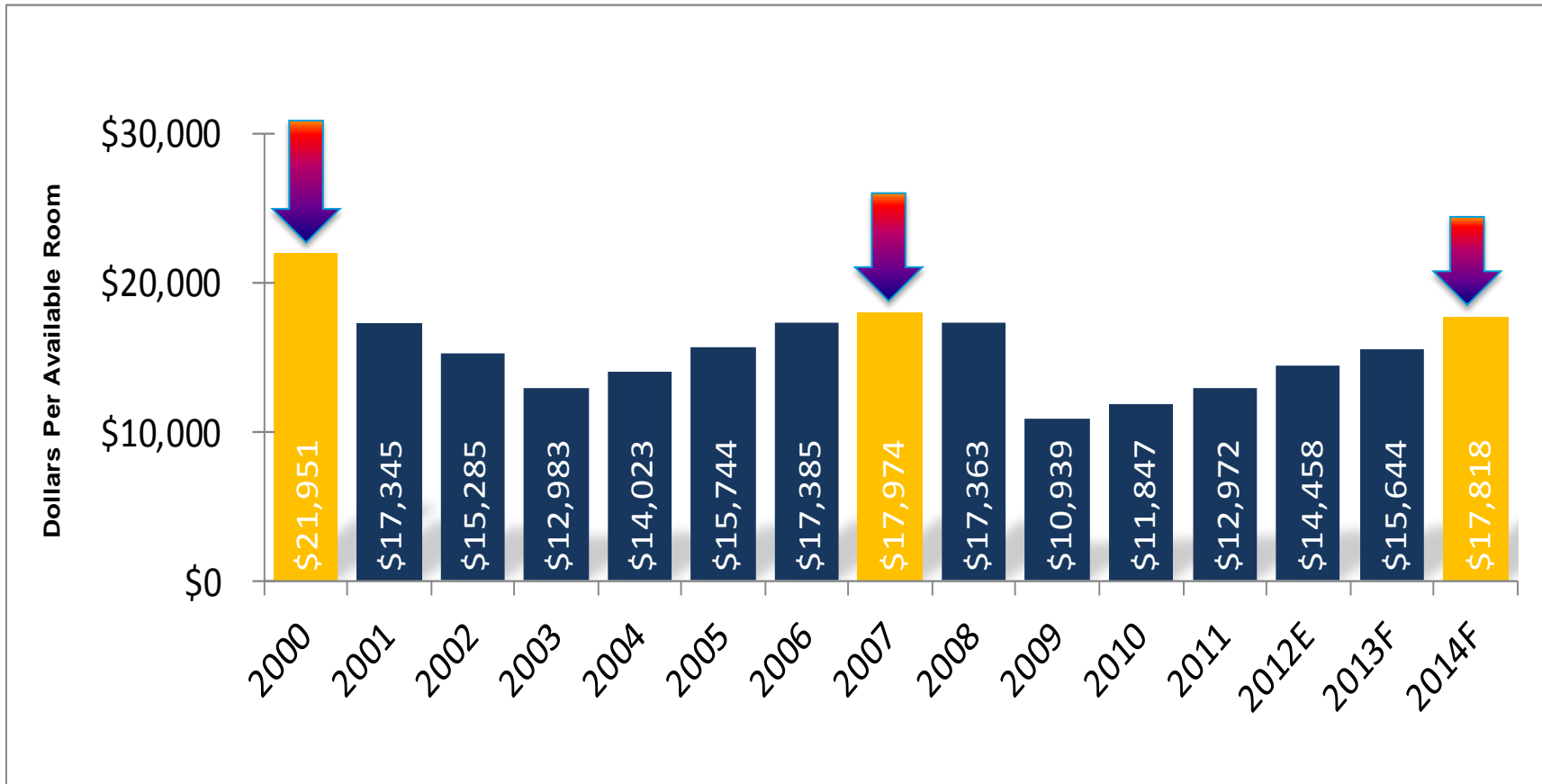


Source: PKF Hospitality Research LLC's Annual Trends Database

Note: * Before capital reserve, debt service, rent, income taxes, depreciation, amortization.

Real Changes In NOI*

Still Below All-Time High and Previous Peak



Source: PKF Hospitality Research LLC's Annual Trends Database

Note: * Before capital reserve, debt service, rent, income taxes, depreciation, amortization

2011 Constant value dollars

Mixed Signals on New Hotel Construction

PROSPECTS BY INDIVIDUAL SECTORS BY FIRMS WORKING IN THOSE MARKETS

MARKET	NUMBER OF FIRMS	CURRENTLY (%)			3-6 MONTHS (%)			12-18 MONTHS (%)		
		DECLINING ACTIVITY	STABLE ACTIVITY	IMPROVING ACTIVITY	DECLINING ACTIVITY	STABLE ACTIVITY	IMPROVING ACTIVITY	DECLINING ACTIVITY	STABLE ACTIVITY	IMPROVING ACTIVITY
COMMERCIAL OFFICE	257	26	52	23	20	52	28	8	44	48
DISTRIBUTION/WAREHOUSE	137	21	53	26	16	52	32	6	51	43
EDUCATION K-12	186	24	58	18	20	57	23	12	58	30
ENTERTAINMENT	92	35	51	14	29	52	18	21	41	38
HEALTH CARE	228	9	56	35	8	50	42	8	36	56
HIGHER EDUCATION	230	14	63	23	12	62	26	8	52	40
HOTELS	148	16	51	33	16	43	41	10	43	47
MULTI-UNIT RESIDENTIAL	141	9	33	57	7	33	60	9	43	48
RETAIL	176	18	60	23	13	57	30	7	48	44
INDUSTRIAL/MANUFACTURING	182	18	53	29	15	45	41	9	38	53
TRANSPORTATION	125	20	54	26	17	54	30	14	40	46
WATER, SEWER AND WASTE	109	22	56	22	17	59	25	8	55	37
POWER	103	8	51	41	8	46	47	6	39	55
PETROLEUM	58	2	48	50	0	38	62	0	31	69
ENVIRONMENTAL/HAZARDOUS WASTE	49	16	59	24	14	53	33	12	53	35

SOURCE: ENR. NOTE: FIGURES MAY NOT ADD UP TO 100% DUE TO ROUNDING.

Source: Engineering News Record Q1 2013 Report

Question

What do you care more about?

The magnitude of the upside?

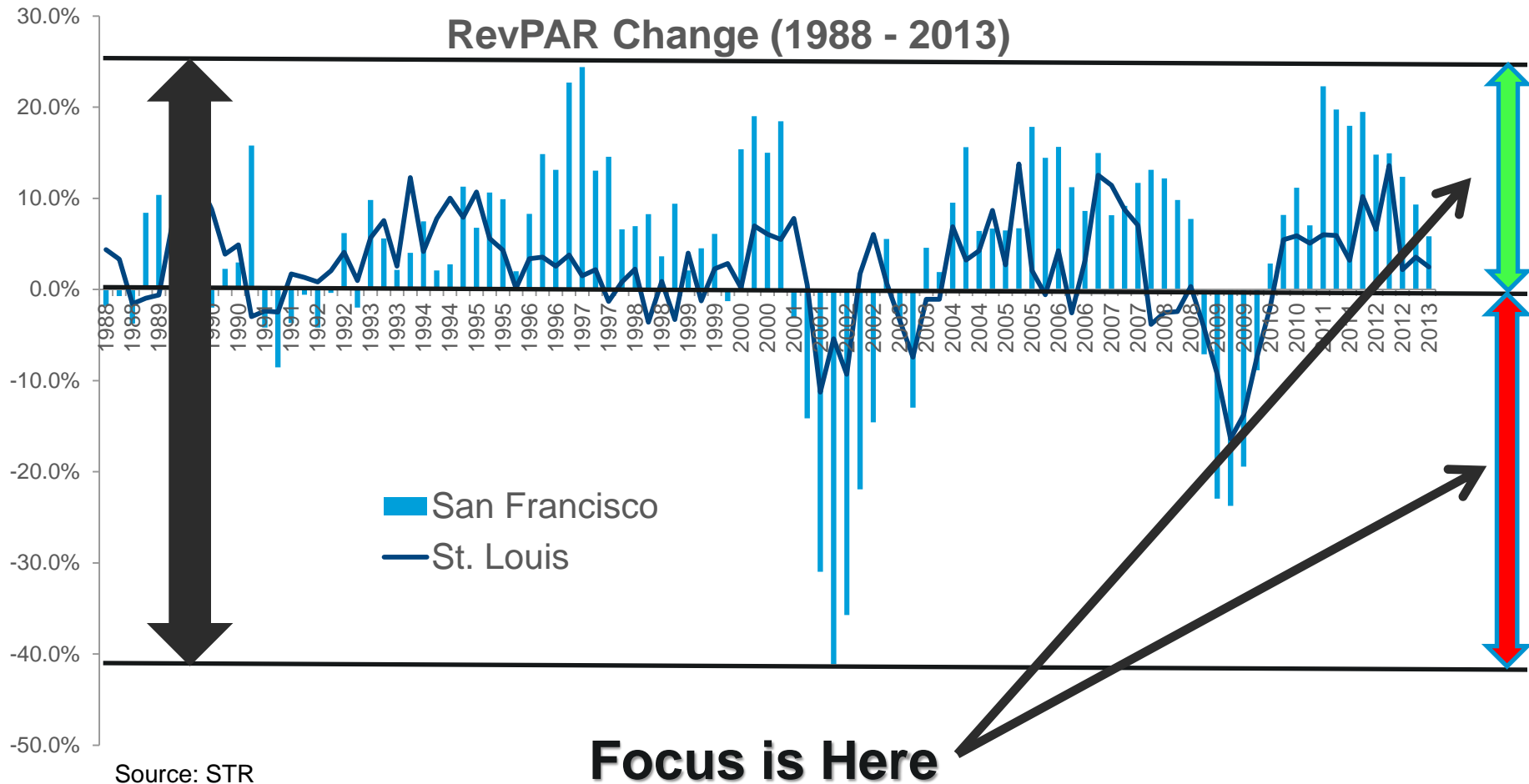
The depth of the downside?

A Different Way to Look at Markets



Semi-variance only considers values (below) above the target value.

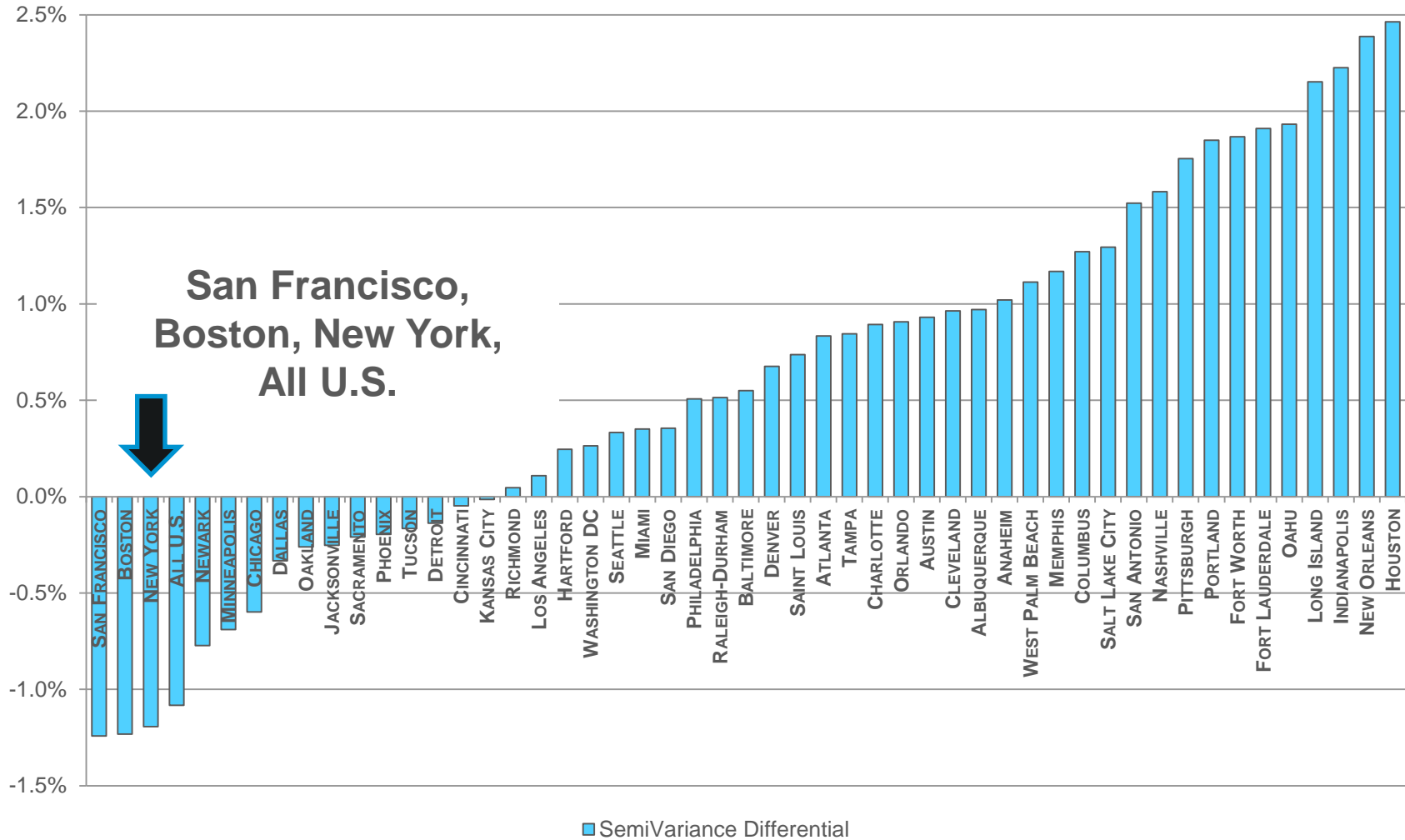
A Close Look at Two Markets



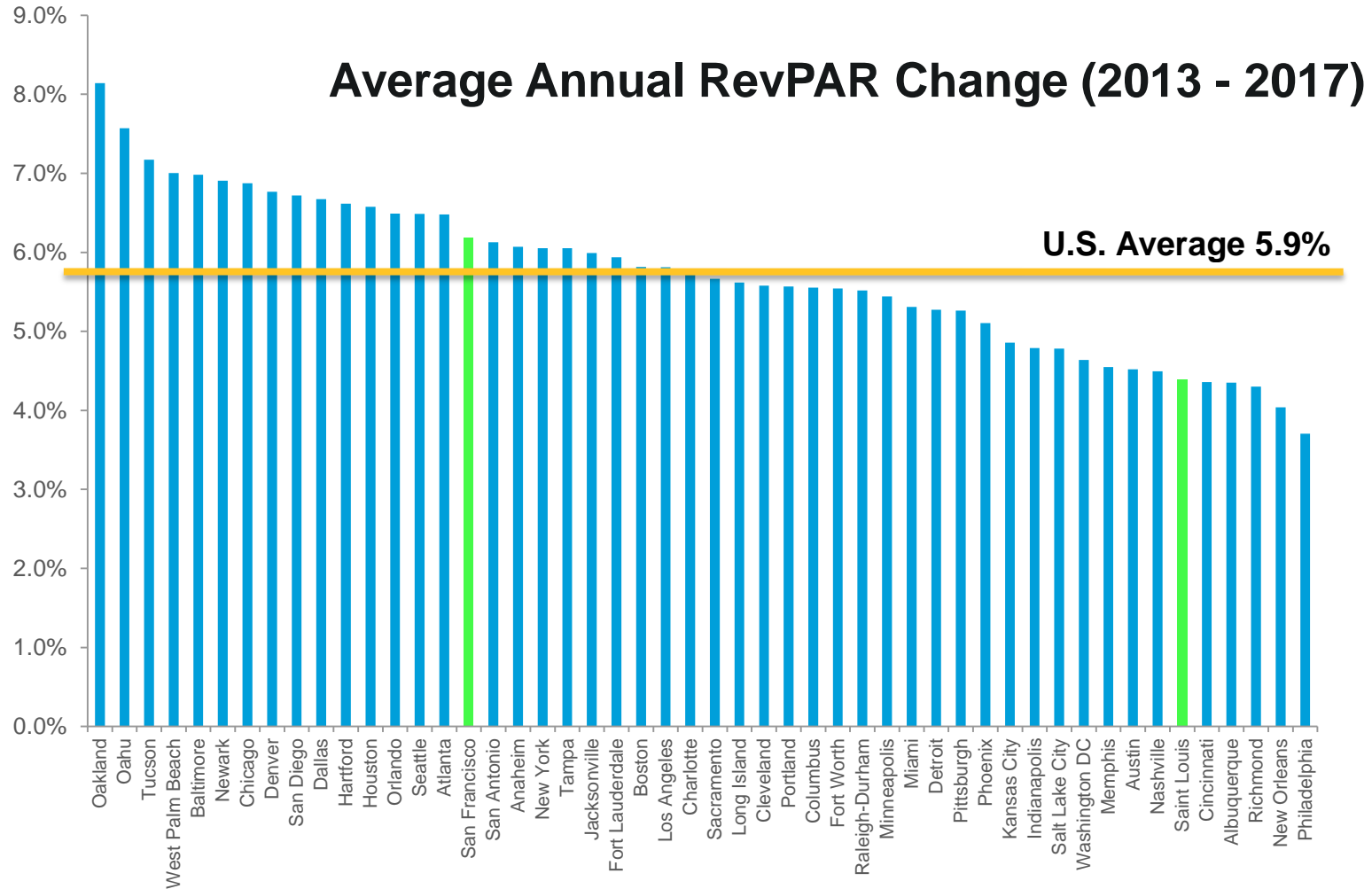
Which Market Has a Higher Return Requirement?

	Downside Variance	Upside Variance	Difference
San Francisco	7.7%	6.4%	-1.2%
St. Louis	2.9%	3.7%	0.7%

Semi-Variance Differential: Smaller Markets “In the Positive”

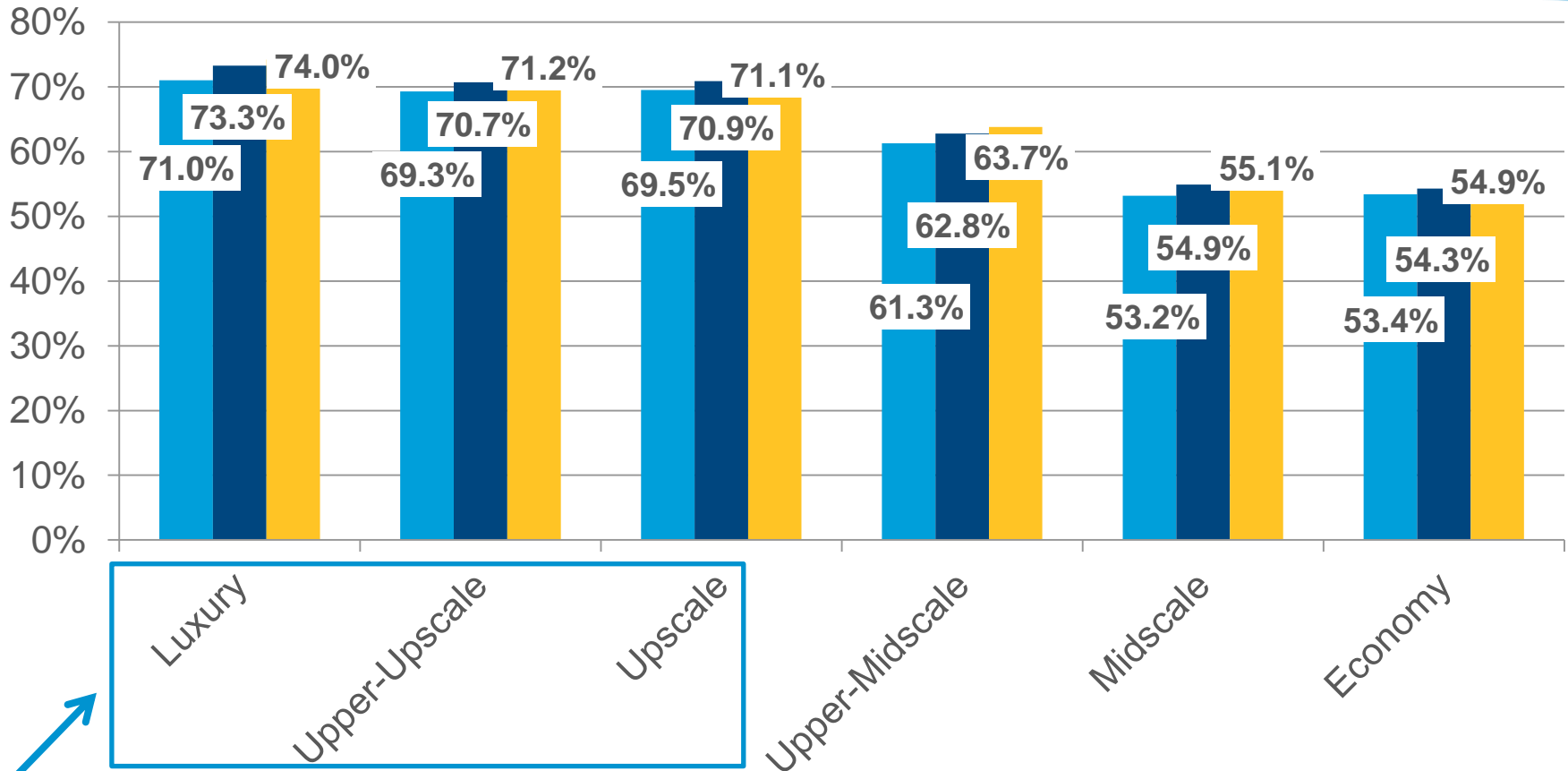


Longer Term Outlook Remains Strong Across Markets



Source: PKF Hospitality Research LLC, Smith Travel Research

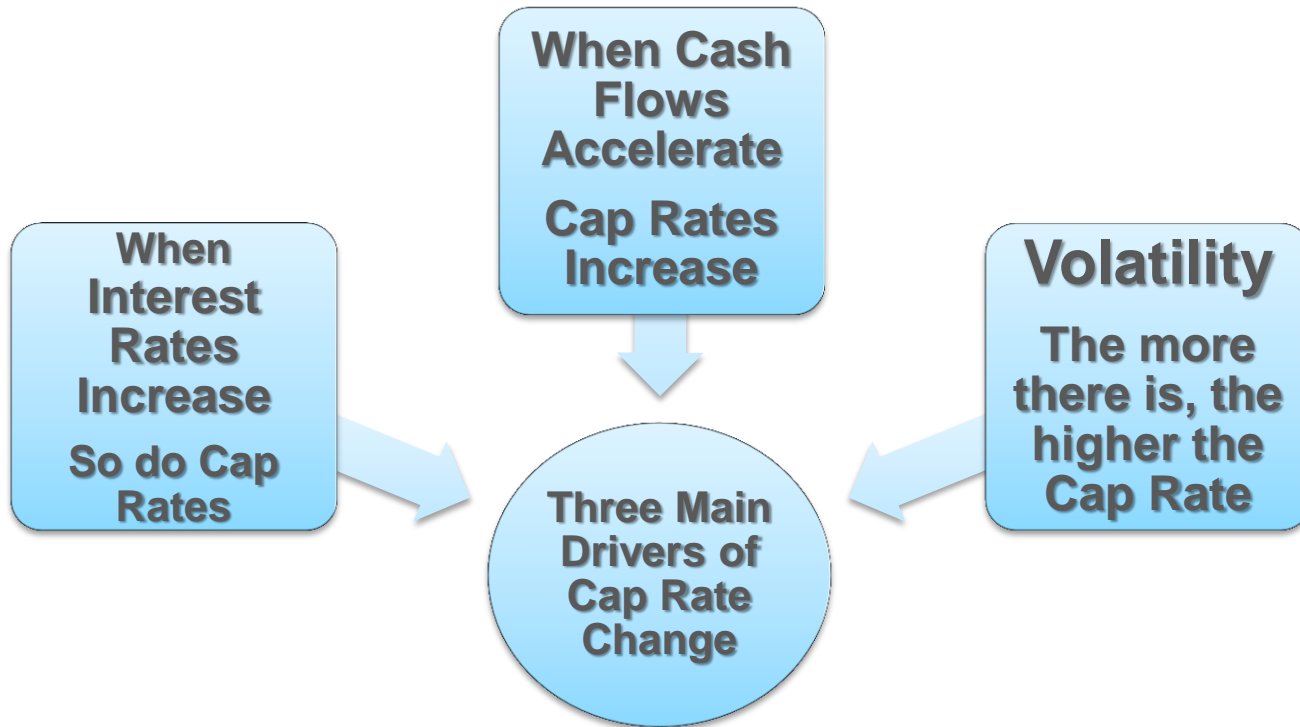
Forecast Occupancy Levels By Chain-Scale



This is where meetings go.

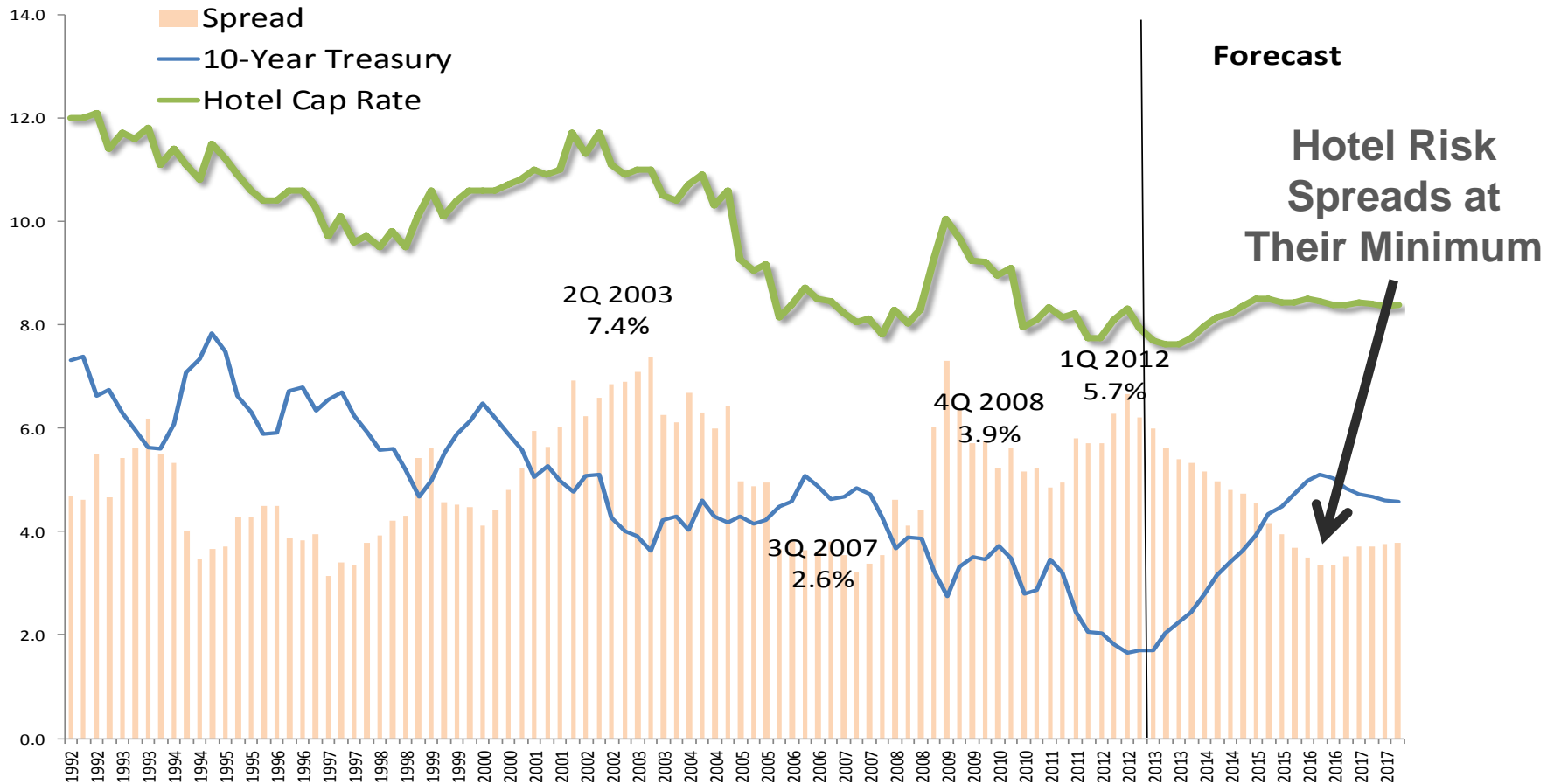
■ 2011 ■ 2012 ■ 2013F

Where are Cap Rates Going?



Hotel Risk Premium Slowly Contracts

Hotel Cap Rates, 10 Year Treasuries and Risk Premium



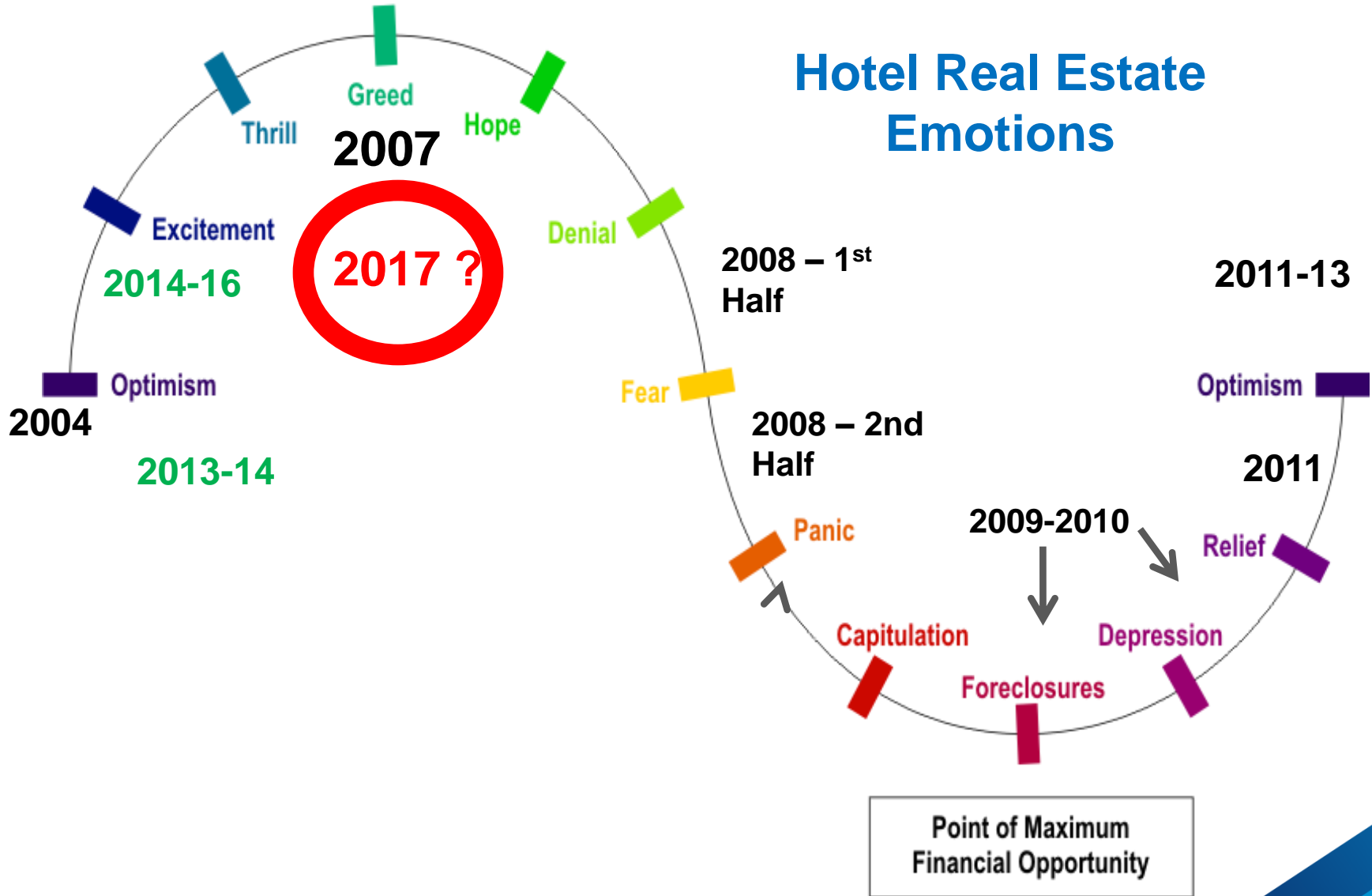
Summary

- 1. Uncertainty continues to be a drag – an important impediment to the recovery of the group segment and pricing overall.***
- 2. Industry growth, while still positive, will slow relative to what we have become used to.
Q2 and Q3 2013 will be weaker ; 2014 should be next really good year.***

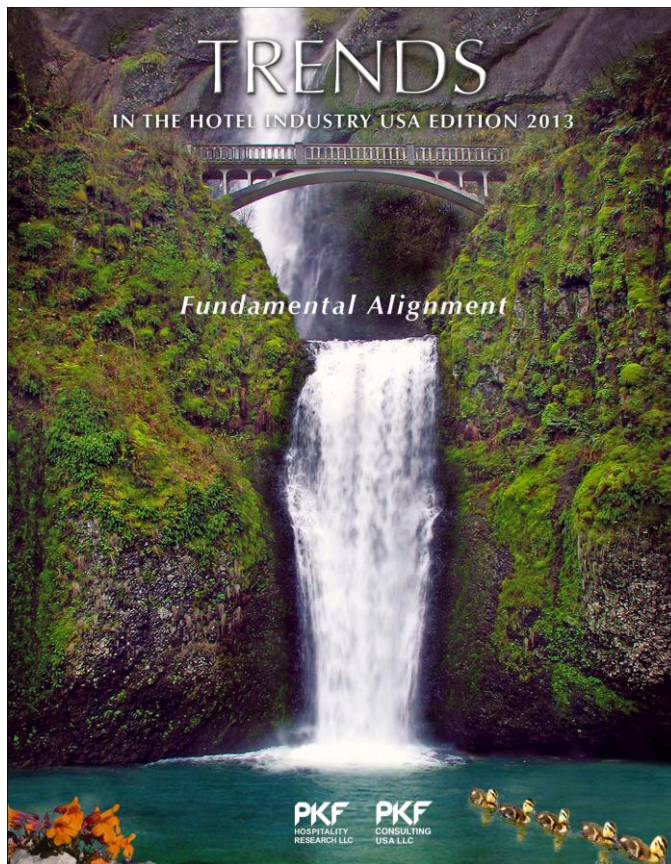
- 3. Positive momentum will persist as industry fundamentals solidify and greater levels of debt and equity find their way into the market. The hotel risk premium contracts as a result.*
- 4. It is a great time to be in the hotel business!*

(But when will the window begin to close?)

Point of Maximum
Financial Risk



Thanks for Your Time



***“Fundamental
Alignment”***

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