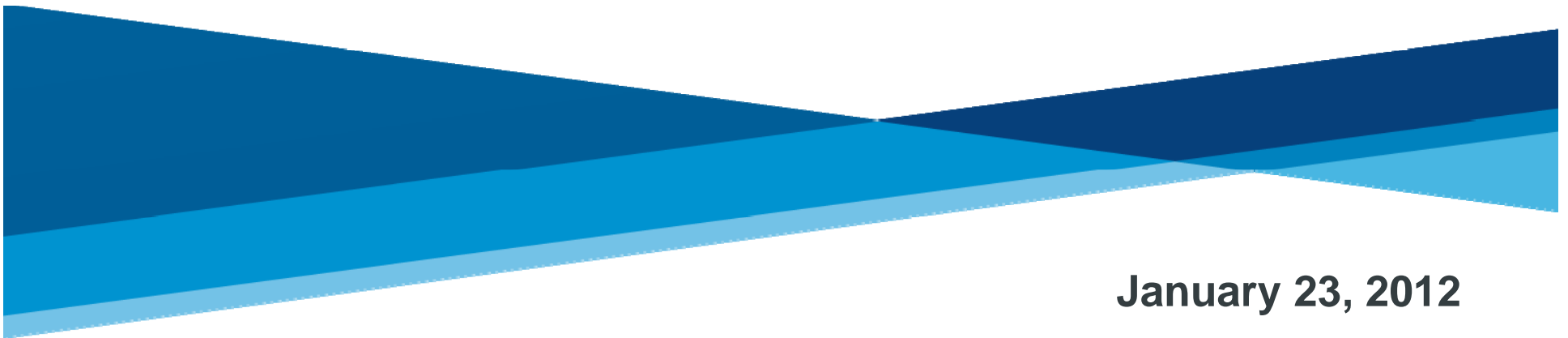




Where Are We Headed?



January 23, 2012

Mark Woodworth

PKF Hospitality Research

Accelerating success.



- **Some Disconnects**
- **Economic Drivers**
- **National Outlook**

New! ➤ **You Pick the Forecast**

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Some Disconnects

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A Fundamentally Good Sign:

Lodging Demand Has Recovered in Most of Our 50 Hotel Horizons® Markets

Market	Number of Markets at or Above Past Peak Demand as of Q3 2011*
All Hotels	41
Upper-Priced	49
Lower-Priced	16

* Four Quarter Moving Average

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Source: Smith Travel Research

Something Different This Time Around:

Fact:

Changes in Total Employment
Correlate Closely with Changes in Lodging Demand

Fact:

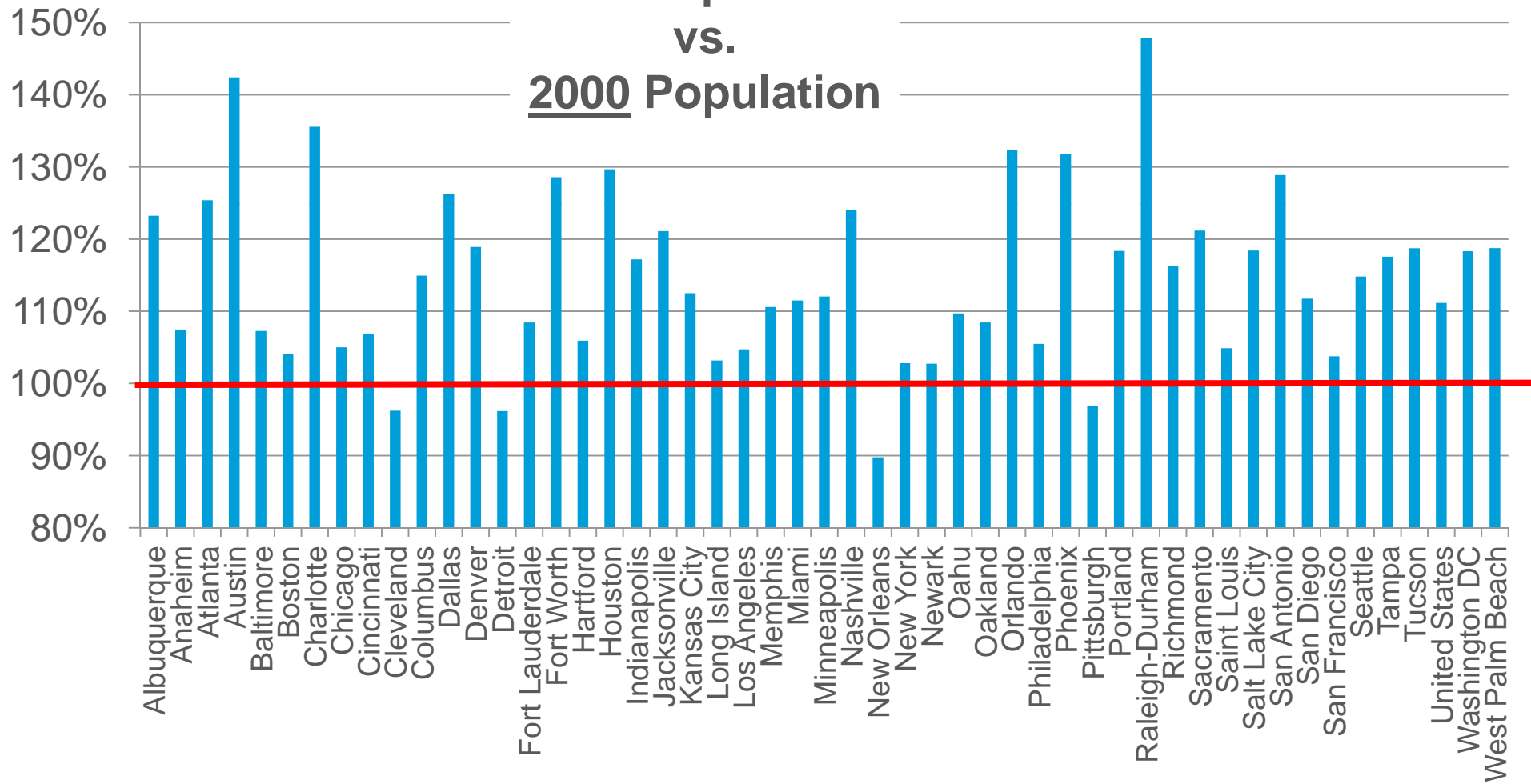
There are **Fewer** Jobs in America Today
Than There were in the Year **2000**

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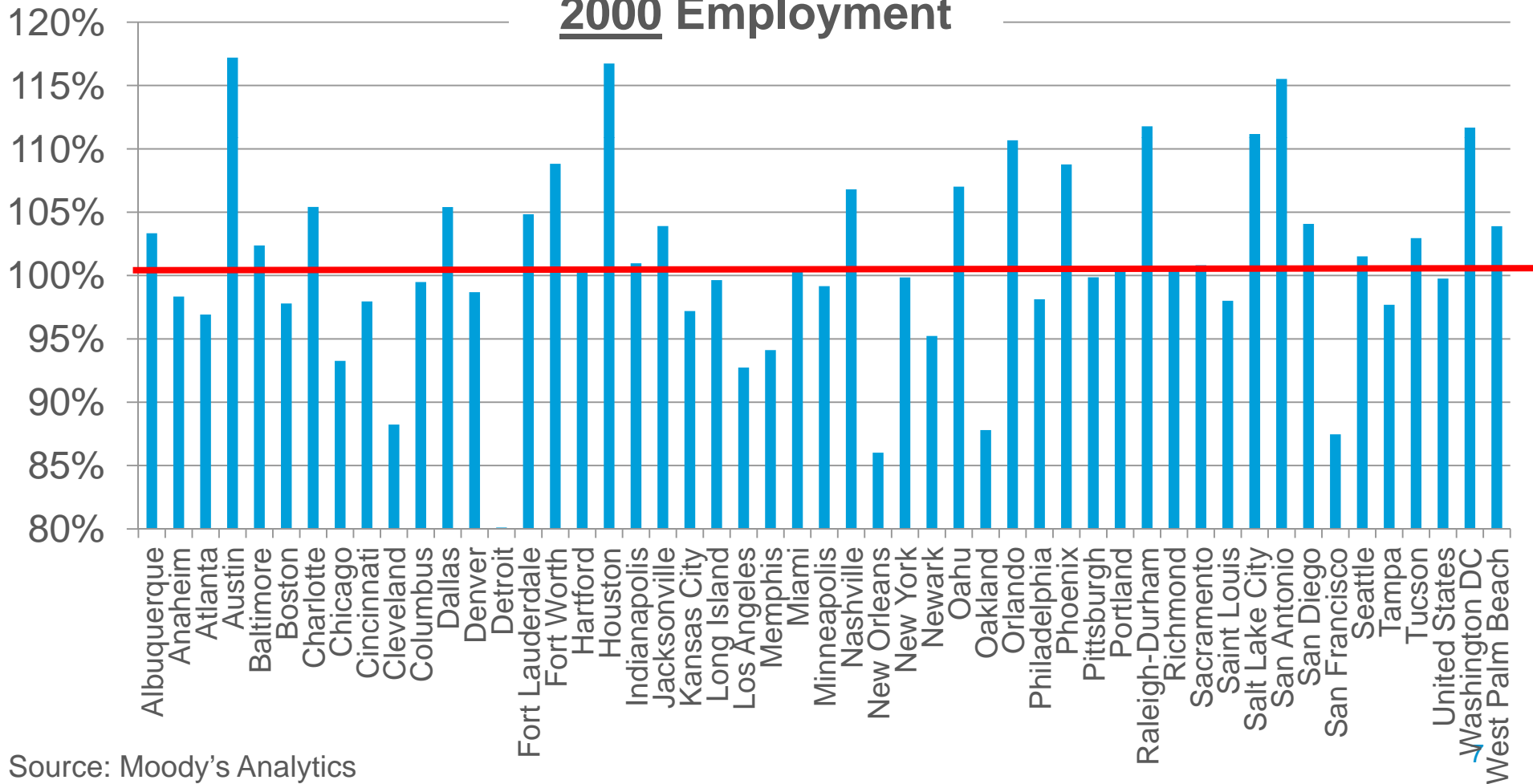
Not Because There are Fewer People

**2011 Population
vs.
2000 Population**



Not All Cities are Lagging 2000 Levels...

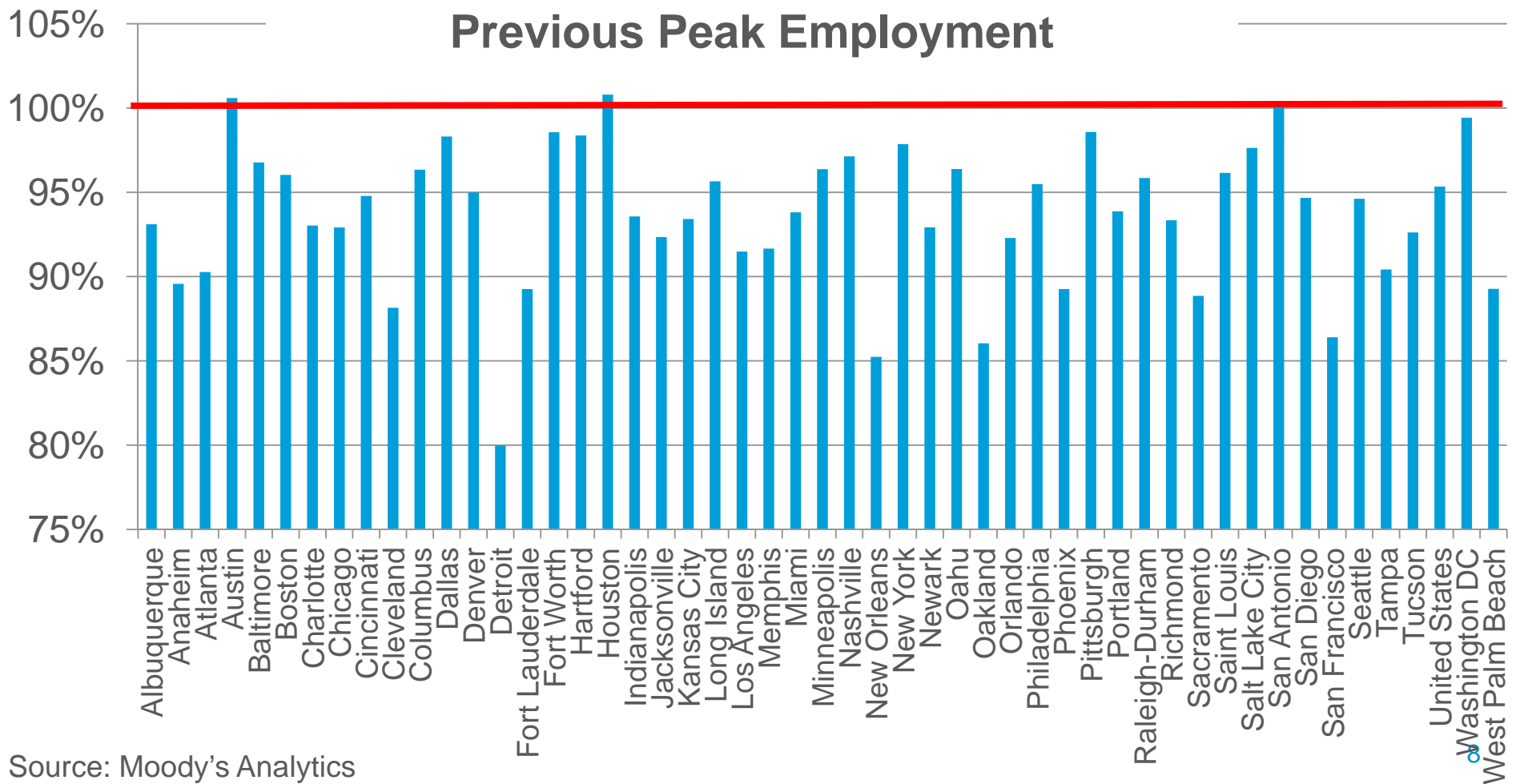
2011 Employment vs. 2000 Employment



Source: Moody's Analytics

.....Although Most are Well Below Their Past Peak.....

2011 Employment vs. Previous Peak Employment



Source: Moody's Analytics

...and the Return to Past Peaks will be Slow.

This is True in Almost Half of Our 50 Hotel Horizons® Markets

	Employment Levels	
	>2000	>Peak
2011	28	3
2012	34	5
2013	41	12

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Source: Moody's Analytics

There is a Disconnect:

Employment is **Weak**

Lodging Demand is **Strong**

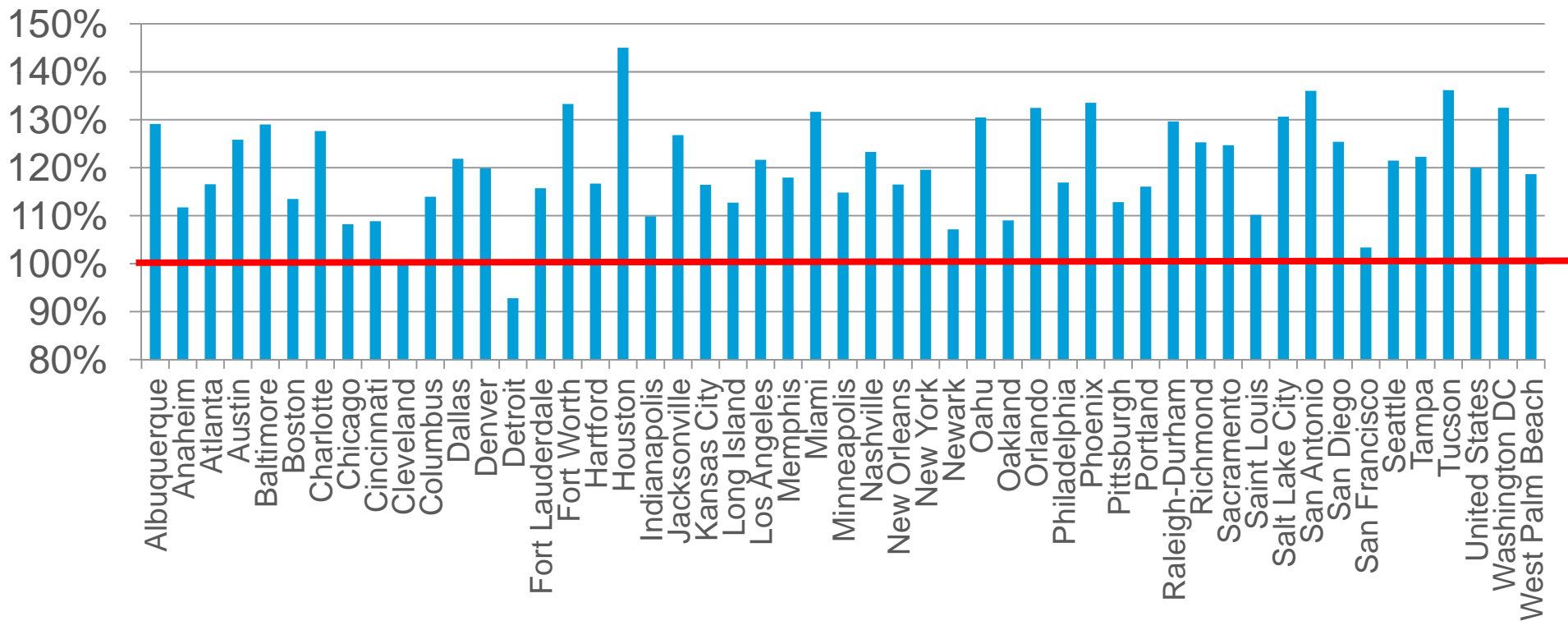
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Total Real Personal Income Levels up for Most Compared to 2000....

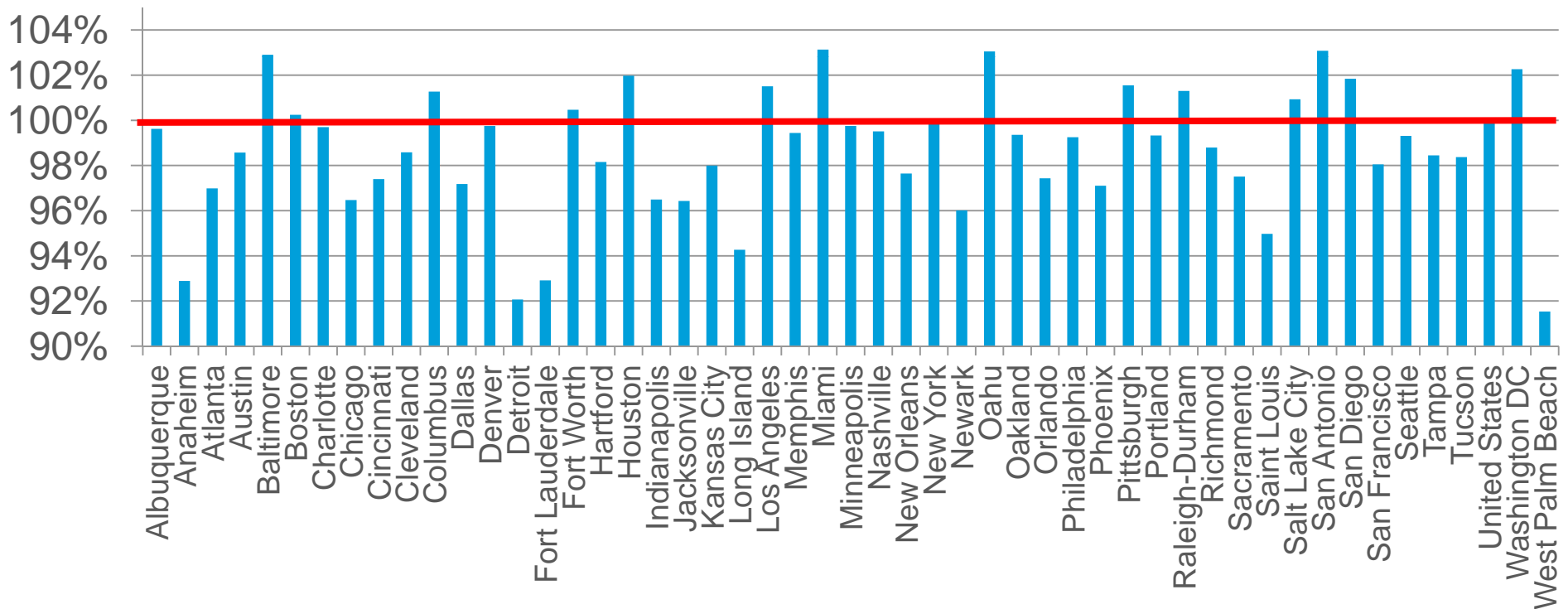


2011 Real Personal Income vs. 2000 Real Personal Income



....But Almost 4 of 5 Cities Have Not Returned to Their Past Peak...

2011 Real Personal Income vs. Previous Peak Real Personal Income



The Answer: Part 1

Consumers, Businesses have the \$'s to Travel

Total Real Personal Income Levels		
	>2000	>Peak
2011	49	13
2012	49	37
2013	49	43

Source: Moody's Analytics

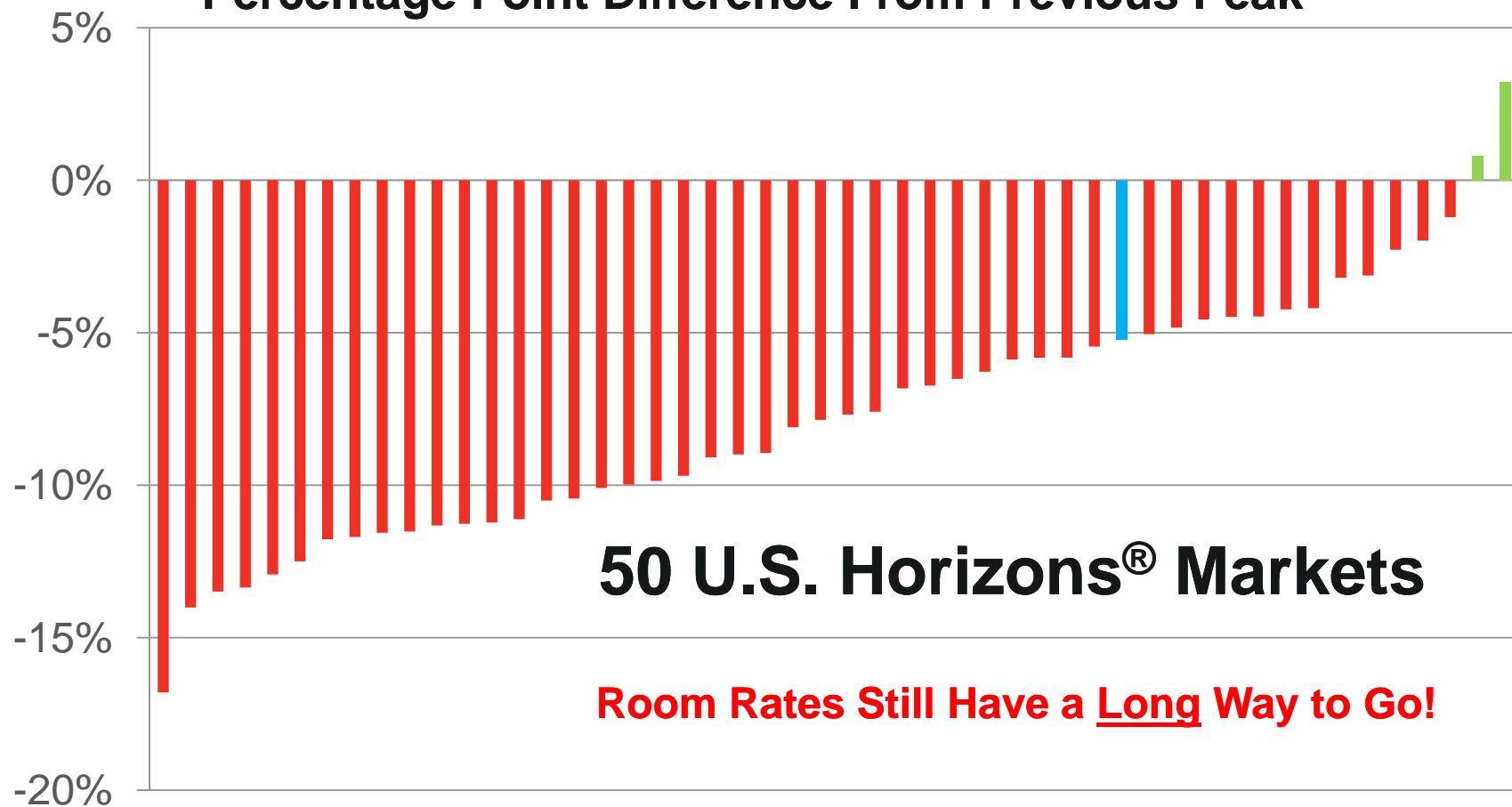
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The Answer: Part 2

2011 Forecast ADR

Percentage Point Difference From Previous Peak



Source: PKF Hospitality Research, December –February 2012 *Hotel Horizons[®]*

The Economic Outlook:



Headwinds Diminish... ...Tailwinds Develop

MARK ZANDI, CHIEF ECONOMIST

Moody's Analytics

Our Updated Forecasts*

*Preliminary

For a Copy:

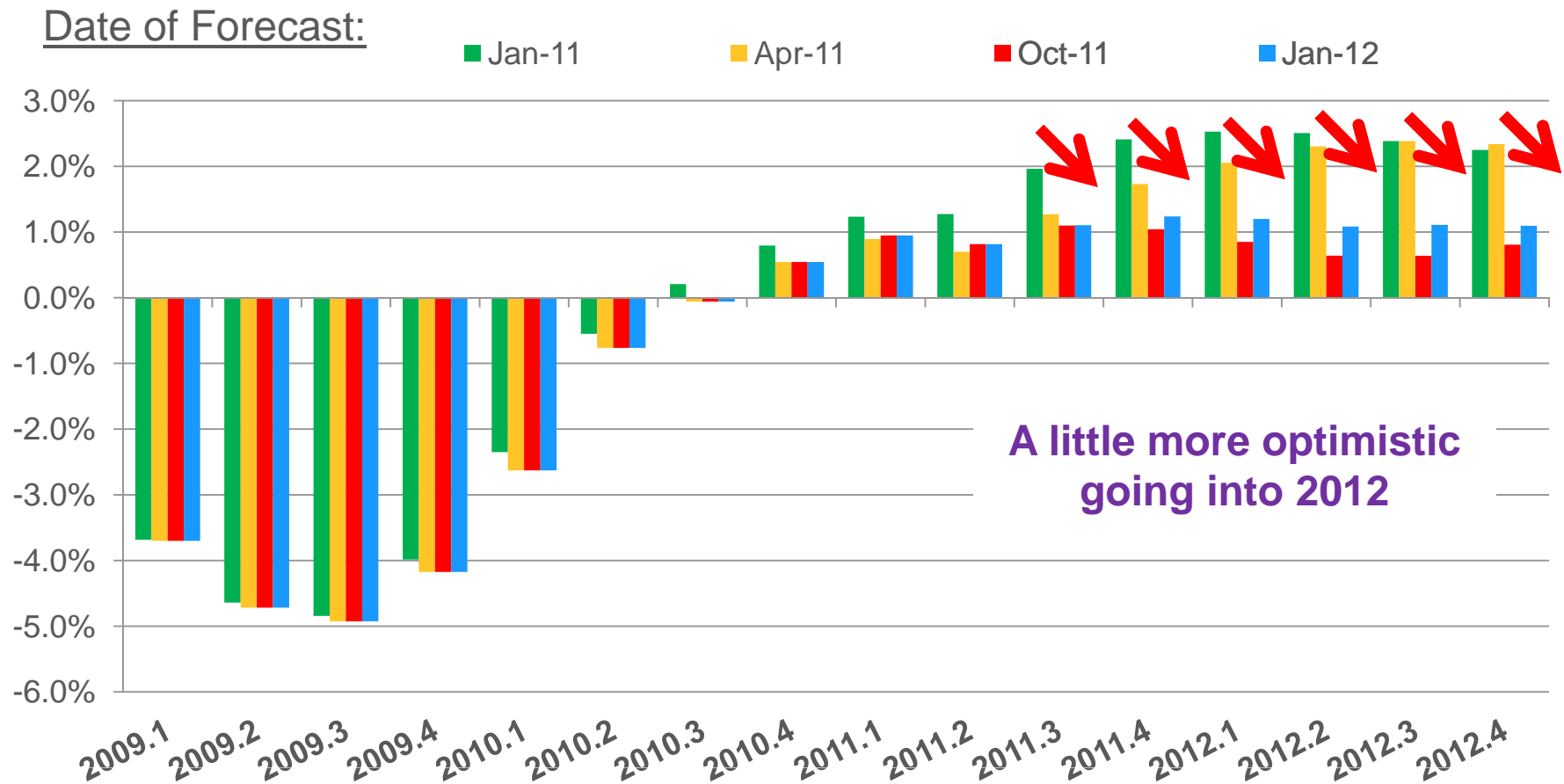
www.pkfc.com/presentations

Policy Uncertainty is Choking the Recovery



Source: Baker, Bloom and Davis

Total Payroll Employment in a Delayed Expansion



Source: Moody's Analytics

Real Personal Income

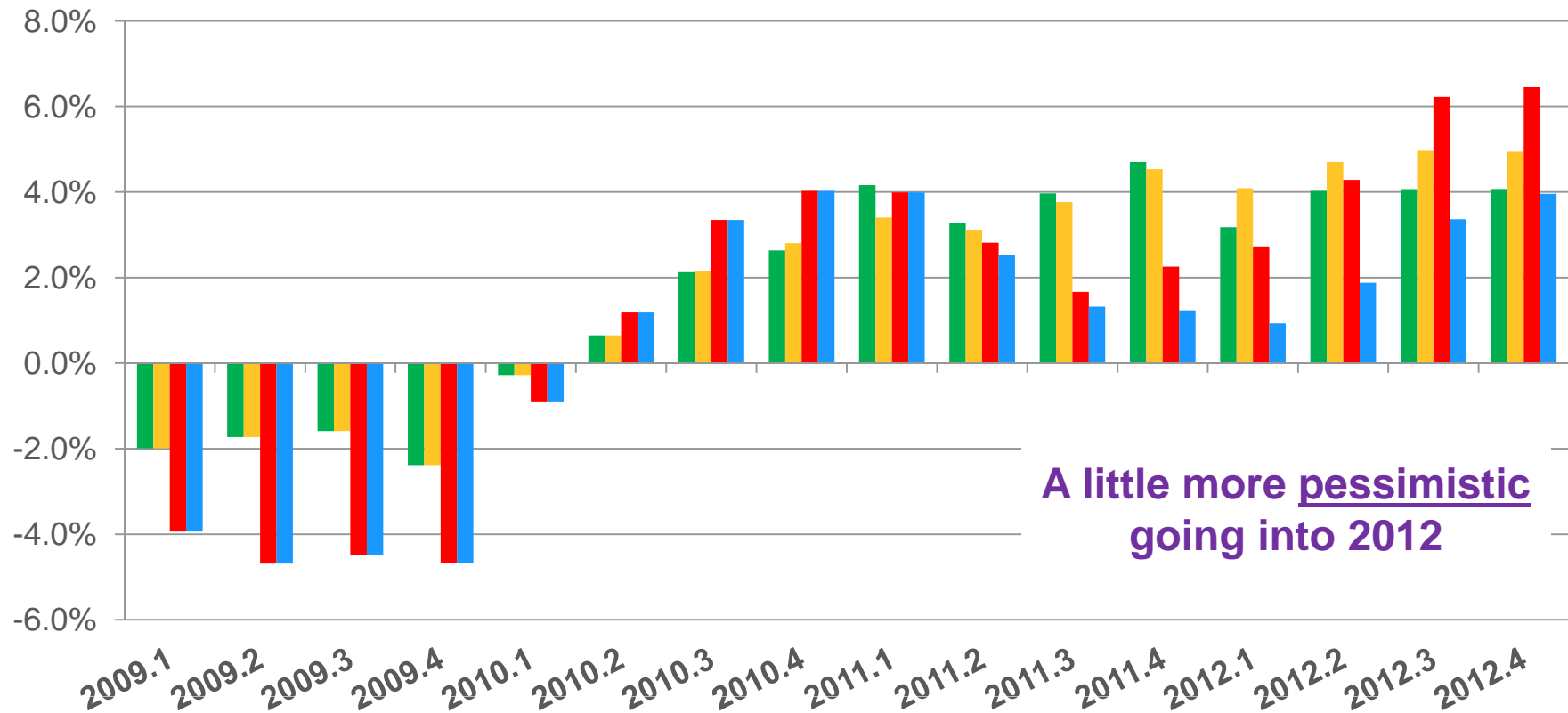
Date of Forecast:

■ Jan-11

■ Apr-11

■ Oct-11

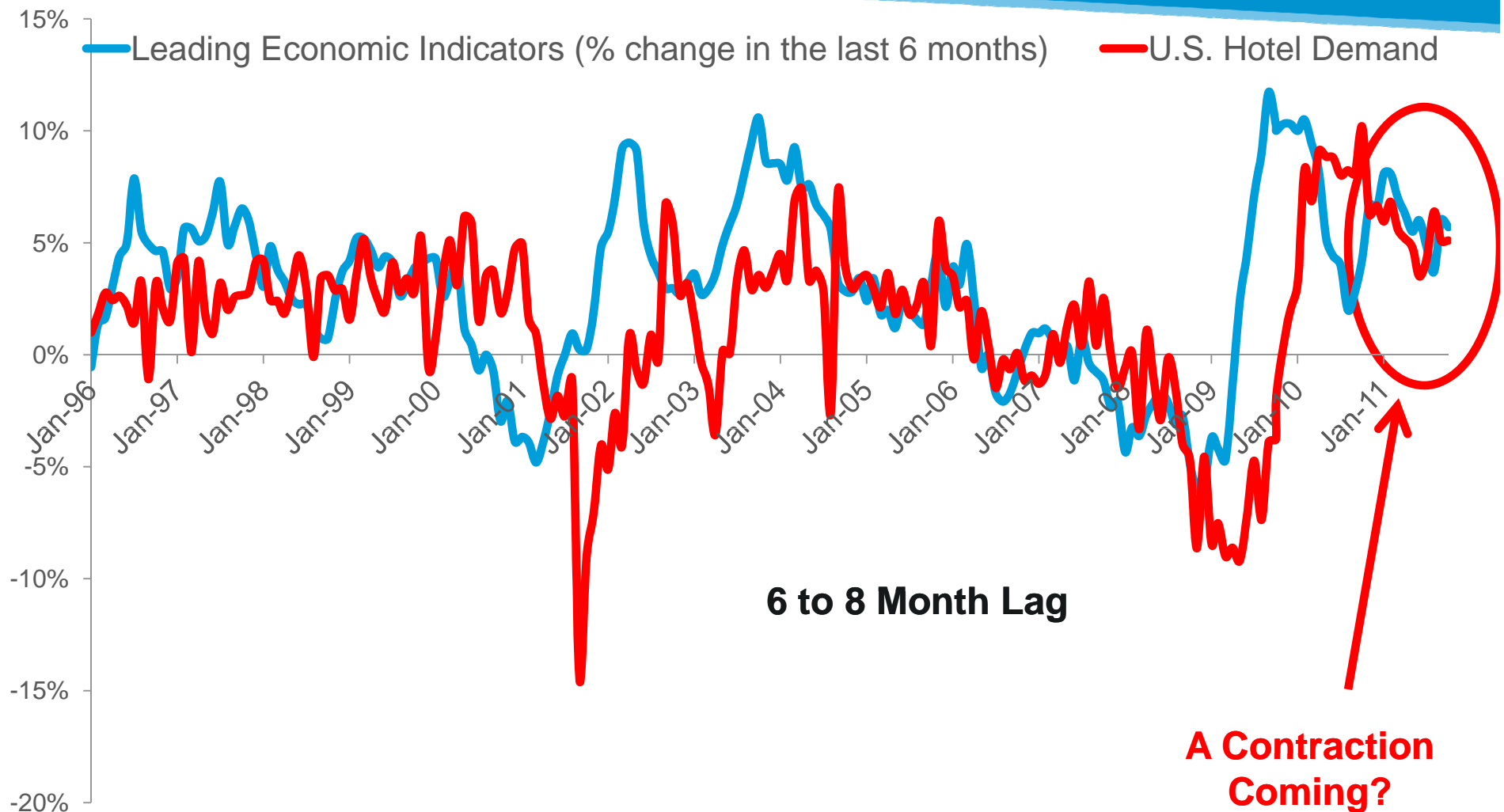
■ Jan-12



Source: Moody's Analytics

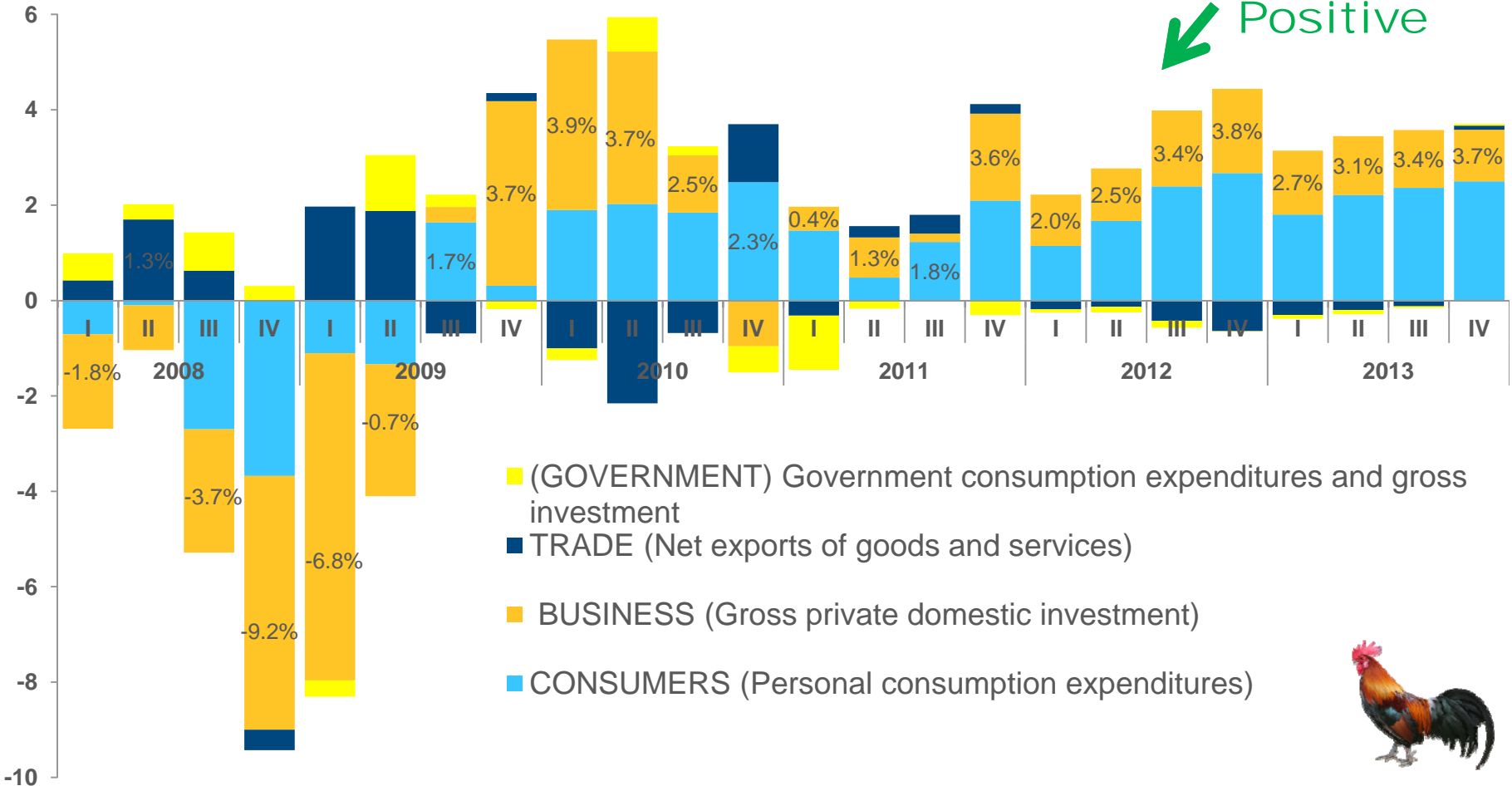
Leading Economic Indicators

% change in last 6 months – November 2011



GDP Component Forecast

Contributions to percentage change in gross domestic product



New for ALIS 2012:



Pick Your Own Forecast

Pick Your Own Forecast:

Three Scenarios

- 1. Expected Case**
- 2. Mild Second Recession**
- 3. Strong Near-term Rebound**

Expected Case Scenario

- Unemployment is expected to remain above 8% through 2012 even with the addition of 2 million jobs.
- Extend payroll tax holiday and emergency unemployment insurance through the rest of 2012.
- Housing prices continue to fall through Q2 2012 as foreclosures and short sales increase.
- Mild European Recession.
- Business Investment increases 8.9%.

2012 Expected Case Economic Forecast			
Income	Employment	CPI	GDP
2.5%	1.1%	2.1%	2.6%

Expected Case Scenario

Measure	2011	2012
Supply	0.6%	0.7%
Demand	5.0%	1.5%
Occupancy	60.1%	60.5%
Average Daily Rate	3.7%	4.7%
RevPAR	8.2%	5.4%

Mild Second Recession

- European Sovereign and banking debt problems intensify, causing the European recession to worsen.
- U.S. business confidence weakens and total U.S. exports level off and begin to decline.
- Lack of progress on the U.S. fiscal situation further undermines business confidence.
- A mild second recession occurs during first and second quarters of 2012.
- Unemployment rate rises, peaking at 11.1% in Q1 2013.

2012 Mild Second Recession Economic Forecast			
Income	Employment	CPI	GDP
1.5%	-0.3%	0.8%	0.1%

Mild Second Recession

Measure	2011	2012
Supply	0.6%	0.7%
Demand	5.0%	-0.1%
Occupancy	60.1%	59.6%
Average Daily Rate	3.7%	2.7%
RevPAR	8.2%	1.9%

Strong Near-term Rebound

- Better than expected progress on the European sovereign debt crisis and the U.S. federal fiscal debate raises business confidence, speeding up fixed investment & hiring.
- Consumer sentiment rebounds strongly.
- No further declines in house prices.
- Unemployment rate declines to less than 8%.
- Federal Reserve begins to raise the federal funds rate slowly over the course of 2012.

2012 Strong Near-term Rebound Economic Forecast			
Income	Employment	CPI	GDP
3.4%	1.7%	2.3%	3.7%

Strong Near-term Rebound

Measure	2011	2012
Supply	0.6%	0.7%
Demand	5.0%	2.4%
Occupancy	60.5%	61.1%
Average Daily Rate	4.7%	5.2%
RevPAR	5.4%	6.9%

You Pick the Forecast

	2012		
Measure	Mild Second Recession	Expected Case	Strong Near-term Rebound
Demand	-0.1%	1.5%	2.4%
Occupancy	59.6%	60.5%	61.1%
Average Daily Rate	2.7%	4.7%	5.2%
RevPAR	1.9%	5.4%	6.9%

1.

2.

3.

Some Things to Think About



Summary

- 1. Uncertainty, both at home and abroad, remains high – some slowdown will occur. Weak housing markets remain a substantial problem.*
- 2. Personal incomes and corporate profit growth will continue, but at less robust levels. Lodging demand growth in 2012, while still positive, will pale relative to the past two years.
- Higher rooms rates will impede demand growth as well.*
- 3. Unemployment will remain high – helps to keep labor costs in check and profit growth up.*

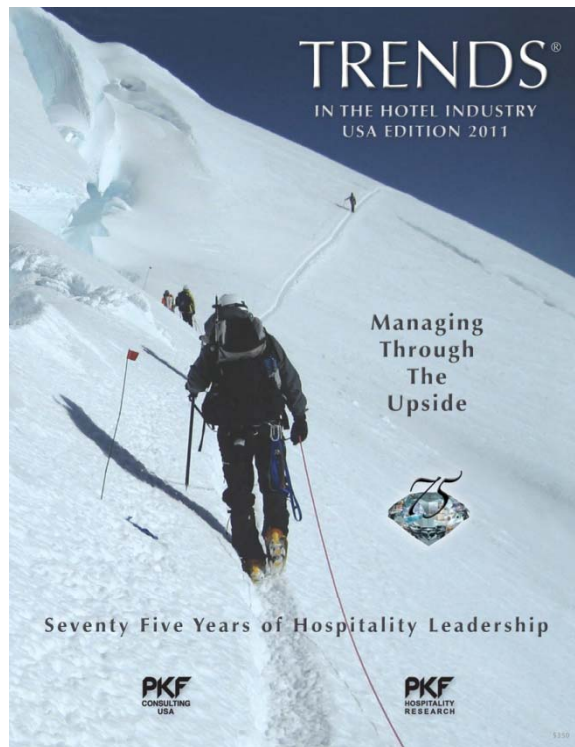
Summary

4. *Oil is a wild card for 2012 – too big an increase will undermine the economy – lodging demand will suffer as a result.*

5. *Overall, the second half of 2012 will be better than the first half as the future political leadership of the U.S. becomes clear.*

Thank You

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