

Meet the Money 2014

R. Mark Woodworth
PKF Hospitality Research, LLC
May 6, 2014
mark.woodworth@pkfc.com

The Path to
the Peak

PKF
HOSPITALITY
RESEARCH-LLC

The Path to the Peak

- **Some Happy Facts**
- **Our Forecasts**
- **The Supply Story**
- **Cap Rate Expectations**

For a Copy of this Presentation:
www.pkfc.com/presentations



Hotel Horizons® Forecasting Model

- **STR, Inc.**
 - Historical rooms occupied, room available, rooms revenue
 - Pipeline of future hotel construction
- **Moody's Analytics**
 - Economic forecasts

Some Happy Facts:

1. Demand has fully recovered.
 - Nationally and in 45 of 50 Top Markets.
2. 2013 Occupancy level was above the long run average.
 - Occupancy has increased four years in a row – 2014 will be a record 5th.
3. Limited supply growth persists.
 - Below long run average Nationally and in 47 of 50 top markets.
4. Urban locations at record occupancy levels.
 - To be followed by Airport locations in 2014.
5. Profits have increased > 10% per year since 2011.
 - A run that should last through 2015.

A Not So Happy Fact:

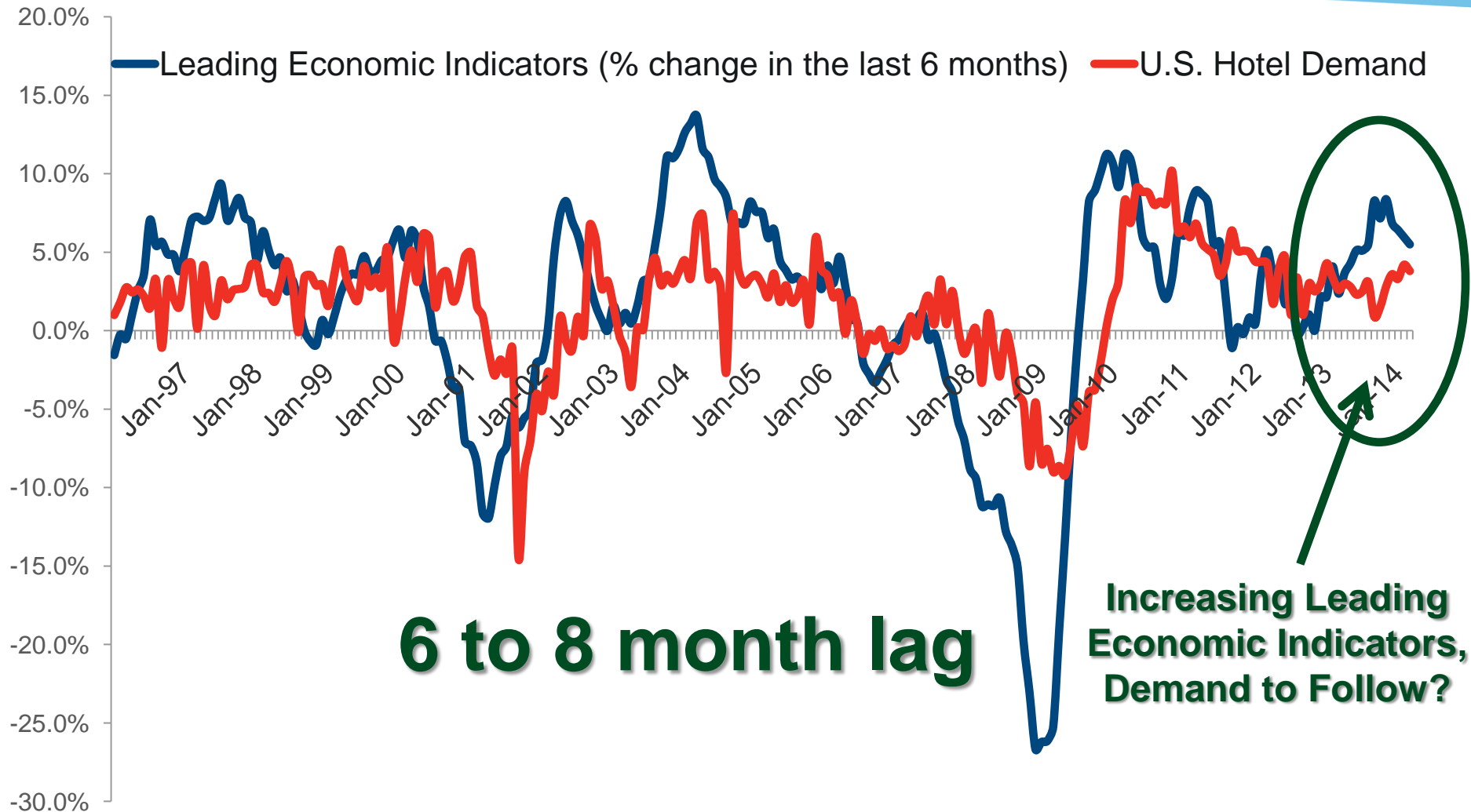
6. Real average daily rates have a way to go.

Next Topic

Our Forecasts

For a Copy of this Presentation:
www.pkfc.com/presentations

% change in last 6 months – March 2014



What's Different Now?

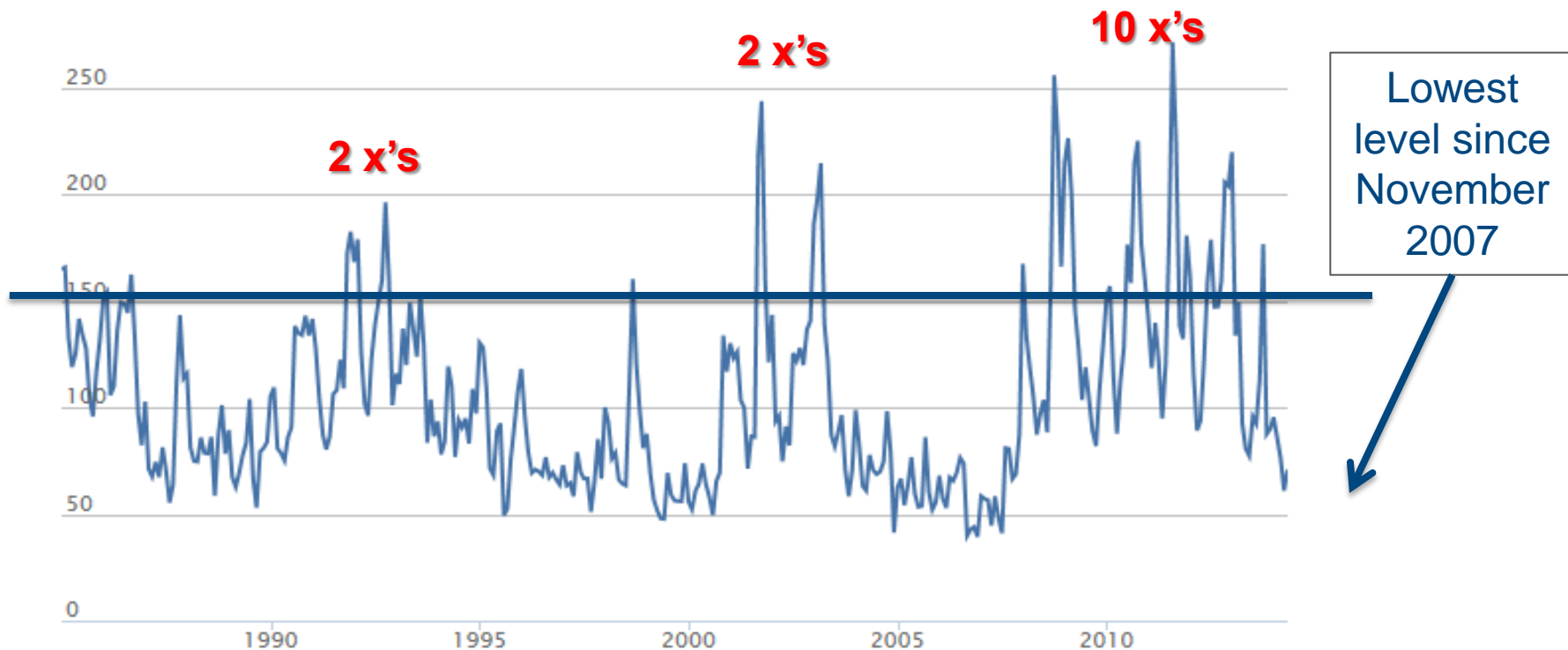
Economic Policy Uncertainty Index

We develop indices of economic policy uncertainty for the world's major economies.

Daily News-based Economic Policy Uncertainty (7-Day Moving Avg)  


Zoom

From: To:

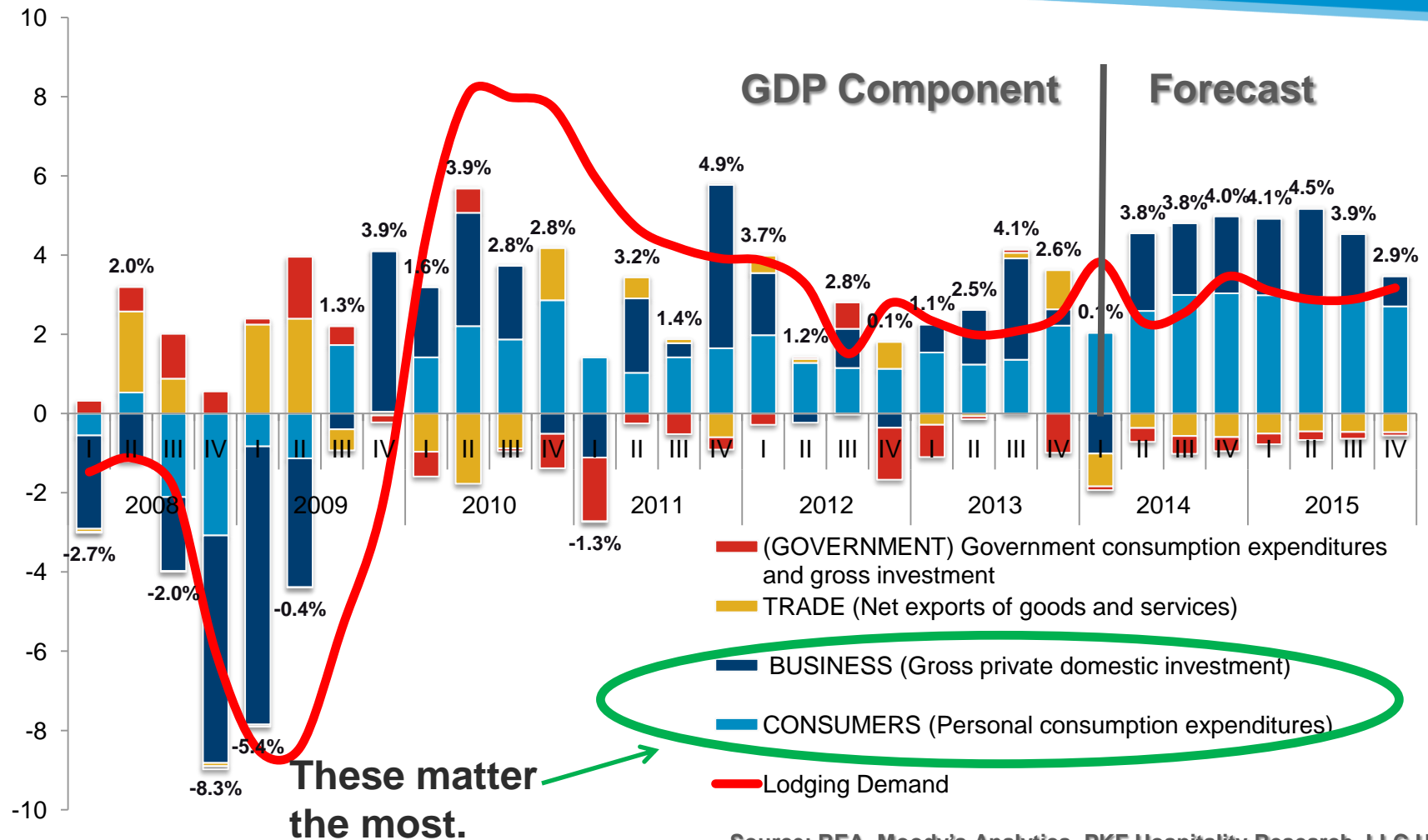


Source: policyuncertainty.com

What is Different Today?

- Remember the:
 - **Fiscal Cliff**
 - **S+P Downgrade**
 - **Government Shutdown**
 - **Greece, Cyprus, Spain, etc.**
- Today:
 - **Russia**
 - I hope Jim has  **at the Reception tonight**

The Outlook for the Drivers that are Most Important to Hotels Remains Favorable



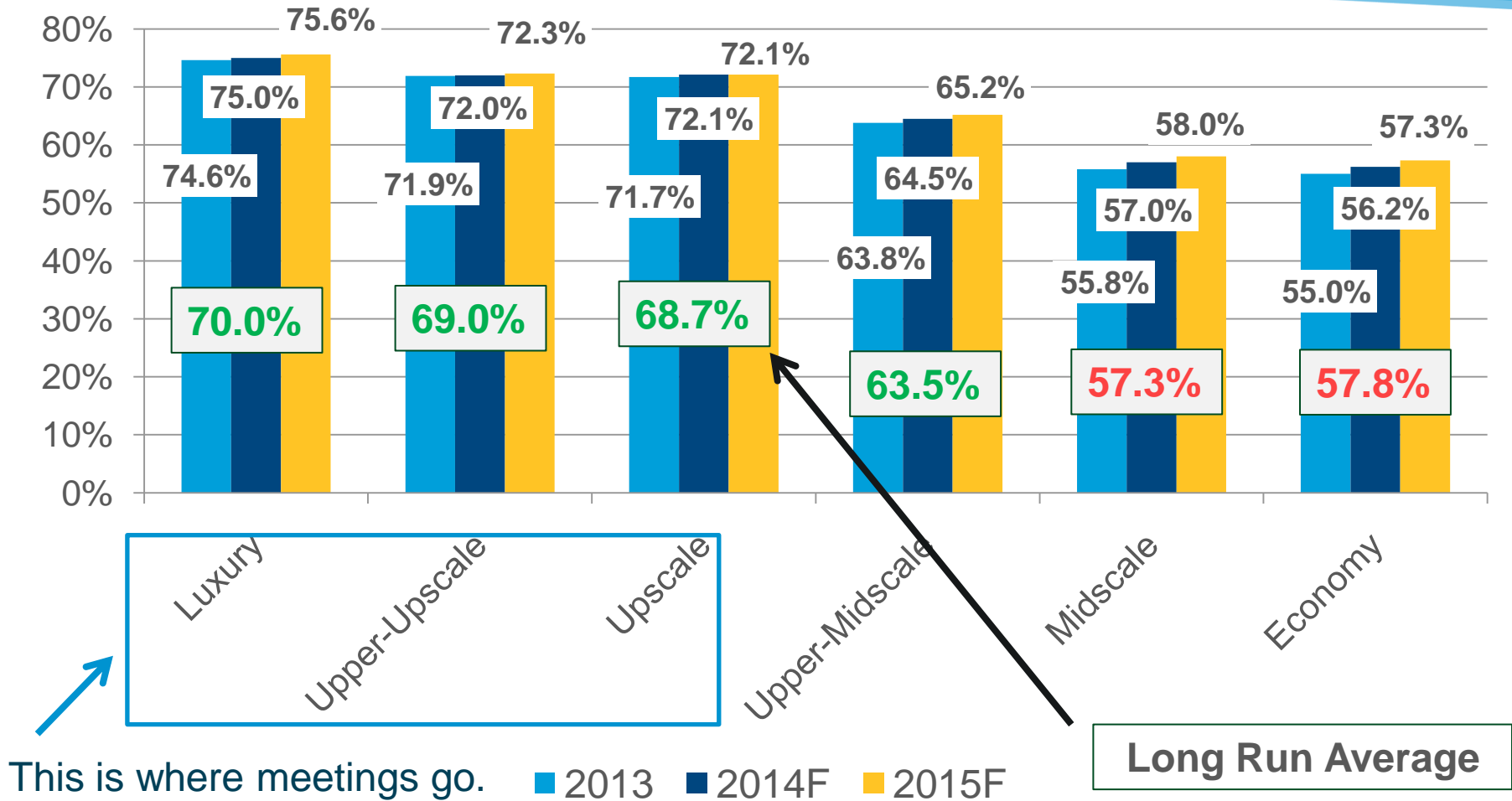
Source: BEA, Moody's Analytics, PKF Hospitality Research, LLC Hotel Horizons: December - February 2014, Smith Travel Research

National Forecast – 2014/2015

	Long Term Average	2009	2010	2011	2012	2013	Very Limited New Supply	
							2014F	2015F
Supply	1.9%	2.8%	1.7%	0.5%	0.5%	0.7%	1.0%	1.3%
Demand	2.1%	-6.2%	7.2%	4.7%	3.0%	2.2%	3.0%	3.0%
Occupancy	61.9%	54.5%	57.5%	59.9%	61.4%	62.2%	63.4%	64.5%
ADR	2.9%	-8.7%	0.0%	3.8%	4.2%	3.9%	4.3%	5.4%
RevPAR	2.9%	-16.7%	5.4%	8.2%	6.8%	5.4%	6.3%	7.1%

Passing Through Long
Run Average Level

Forecast Occupancy Levels By Chain-Scale



Next Topic

The Supply Story

For a Copy of this Presentation:
www.pkfc.com/presentations

Troubling Signs in the Pipeline?

<u>Phase</u>	<u>2014</u>	<u>2013</u>	<u>% Change</u>
In Construction	102,855	72,509	41.9%
Final Planning	133,090	96,365	38.1%
Planning	145,558	151,876	-4.2%
Active Pipeline	<u>381,503</u>	<u>320,750</u>	18.9%

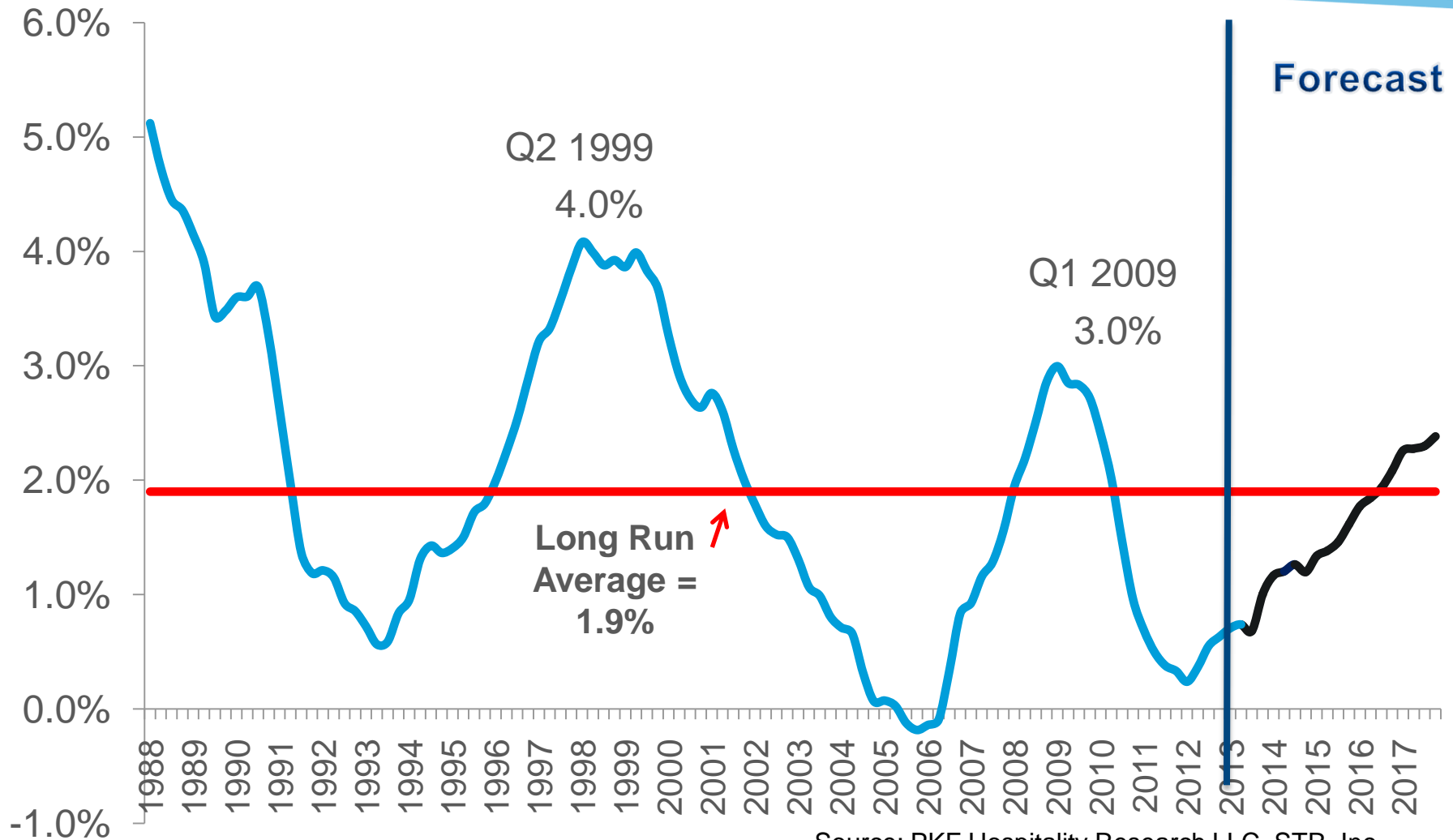
Total U.S. Pipeline, Number of Rooms by Phase, March 2014 and 2013

Source: STR, Inc.

Question:

**When Was Overbuilding
Last an Issue?**

U.S. Supply Change



Source: PKF Hospitality Research LLC, STR, Inc.

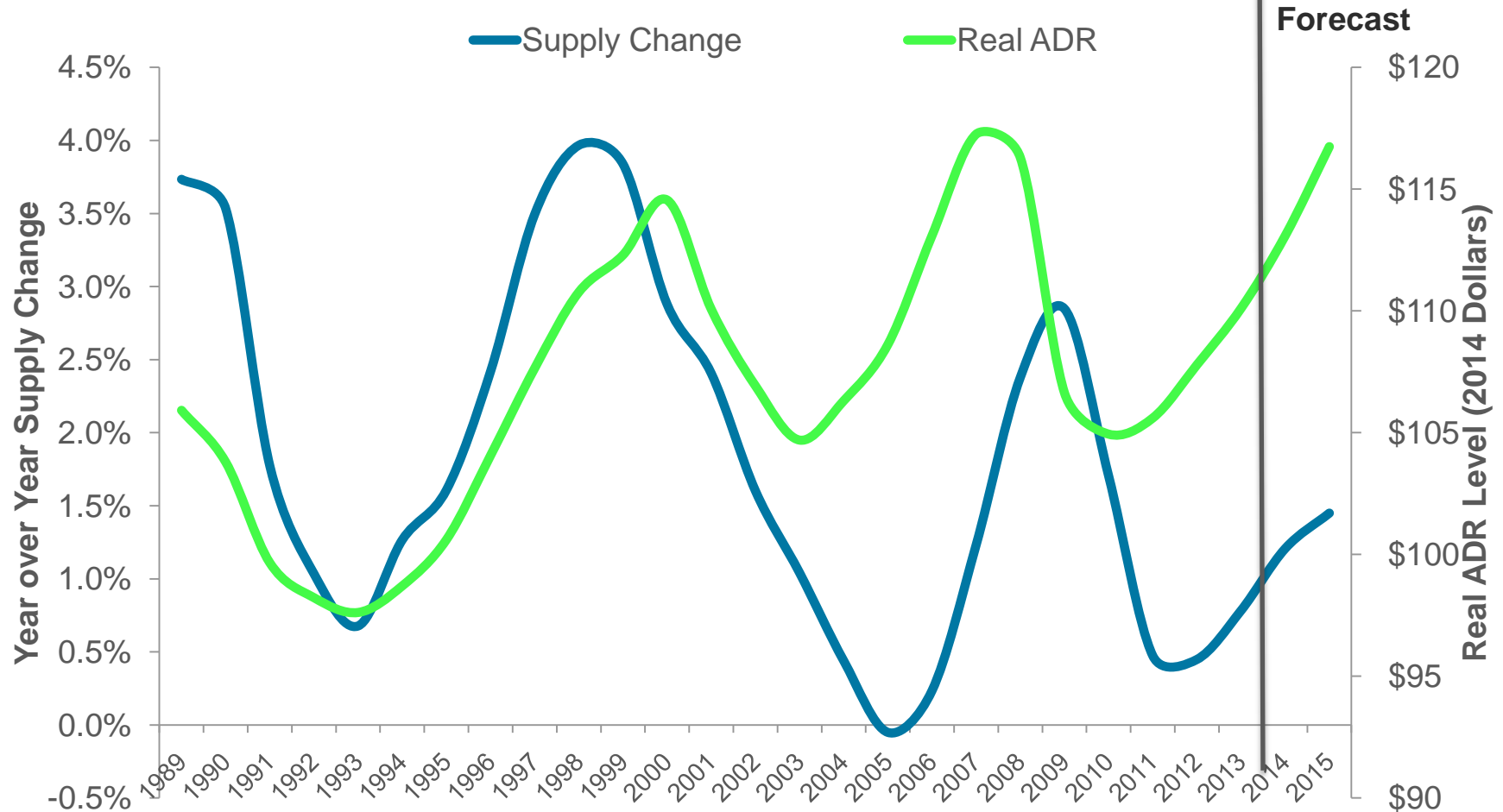
Today vs. the Previous Peak of Construction Activity – Q1 2008

<u>Phase</u>	<u>2014</u>	<u>Q1/2008</u>	<u>% Difference Change</u>
In Construction	102,855	207,468	-50.4%
Final Planning	133,090	113,419	17.3%
Planning	145,558	344,363	-57.7%
Active Pipeline	<u>381,503</u>	<u>665,250</u>	-42.7%

Total U.S. Pipeline, Number of Rooms by Phase, March 2014 and March 2008

Source: STR, Inc.

New Construction: Not a Near-Term Threat



Real ADR Has Recovered in Six Markets

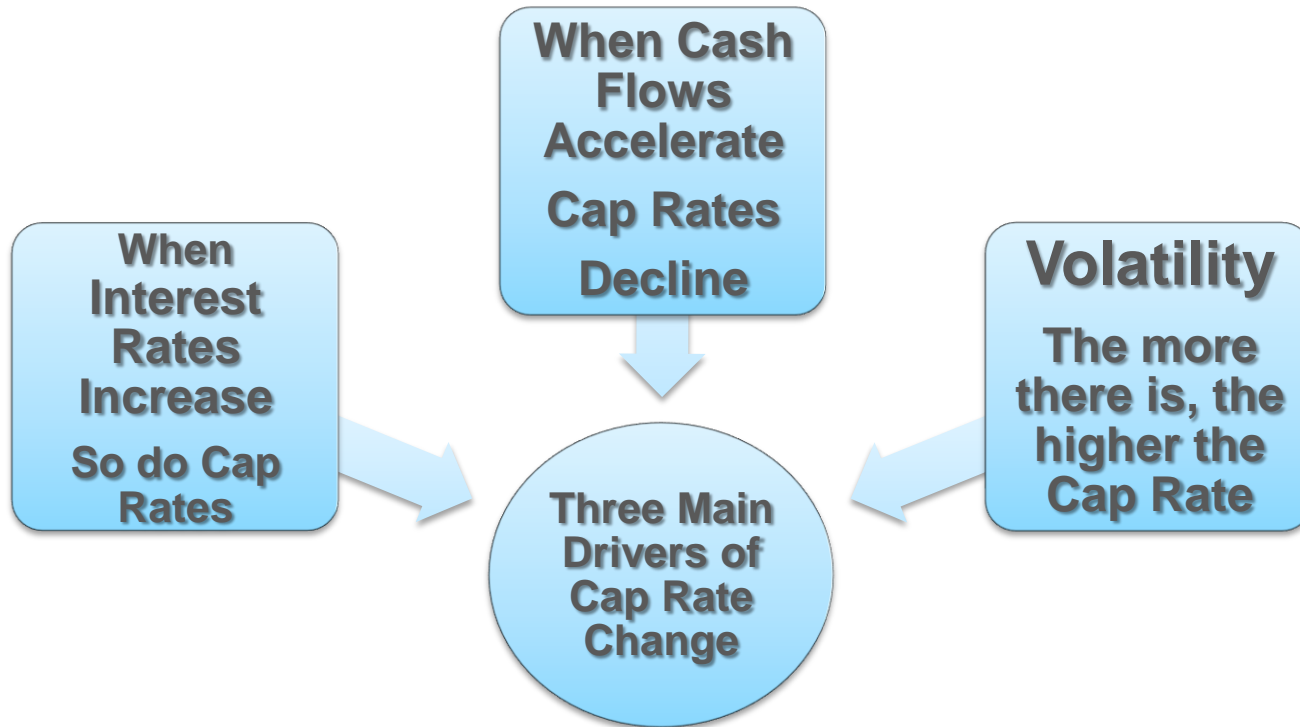
	2013-2015 Supply Growth
Market	Top 50 Rank
Austin	# 2
Nashville	# 3
Pittsburgh	# 4
New Orleans	# 13
San Francisco	# 45
Oahu	# 47

New York = #1

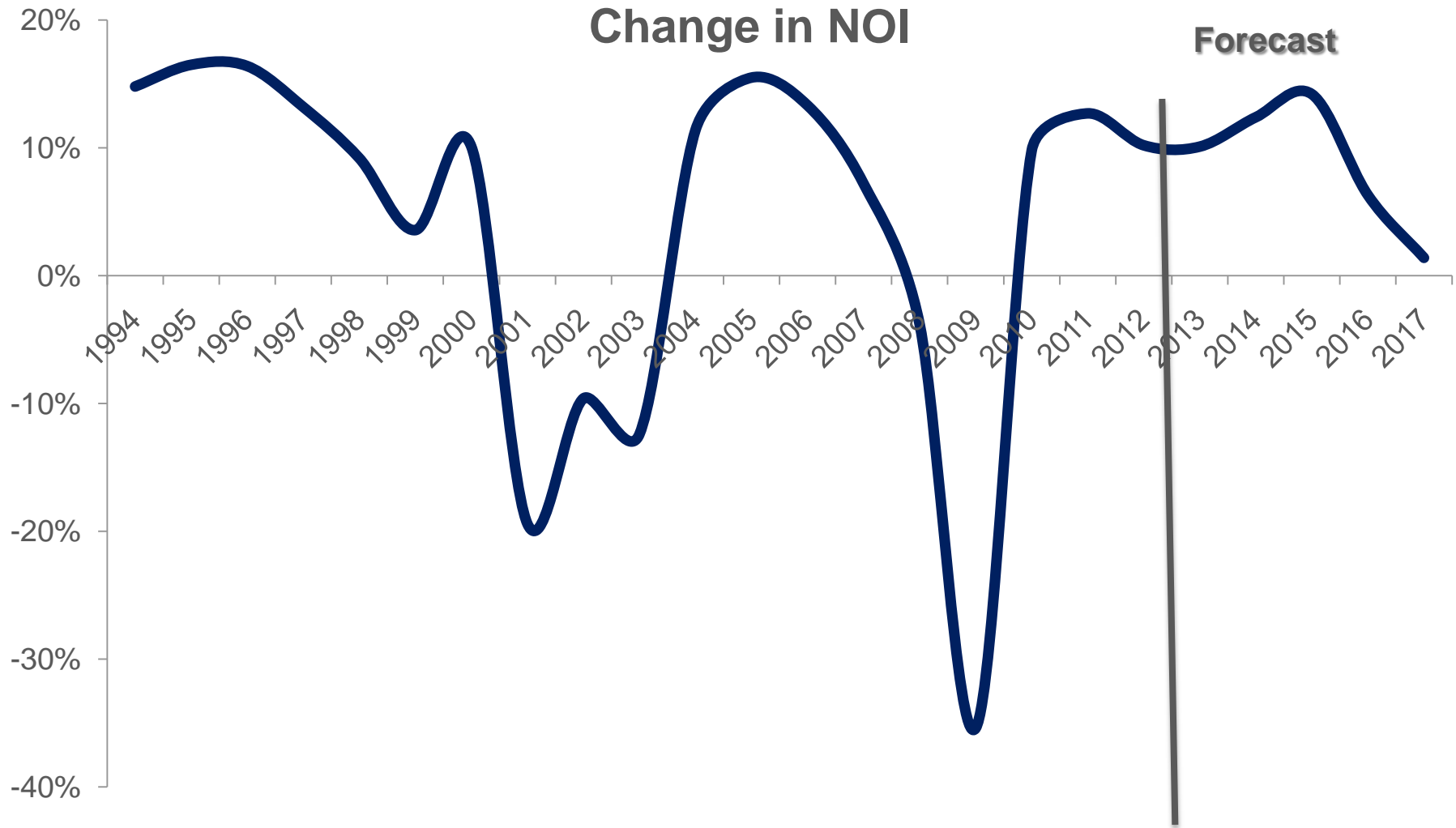
Cap Rate Expectations

For a Copy of this Presentation:
www.pkfc.com/presentations

Where are Cap Rates Going?



Hotel Profits: A Strong, Favorable Run



Source: PKF Hospitality Research, LLC

Hotel Profits vs. Spread in Hotel Capitalization

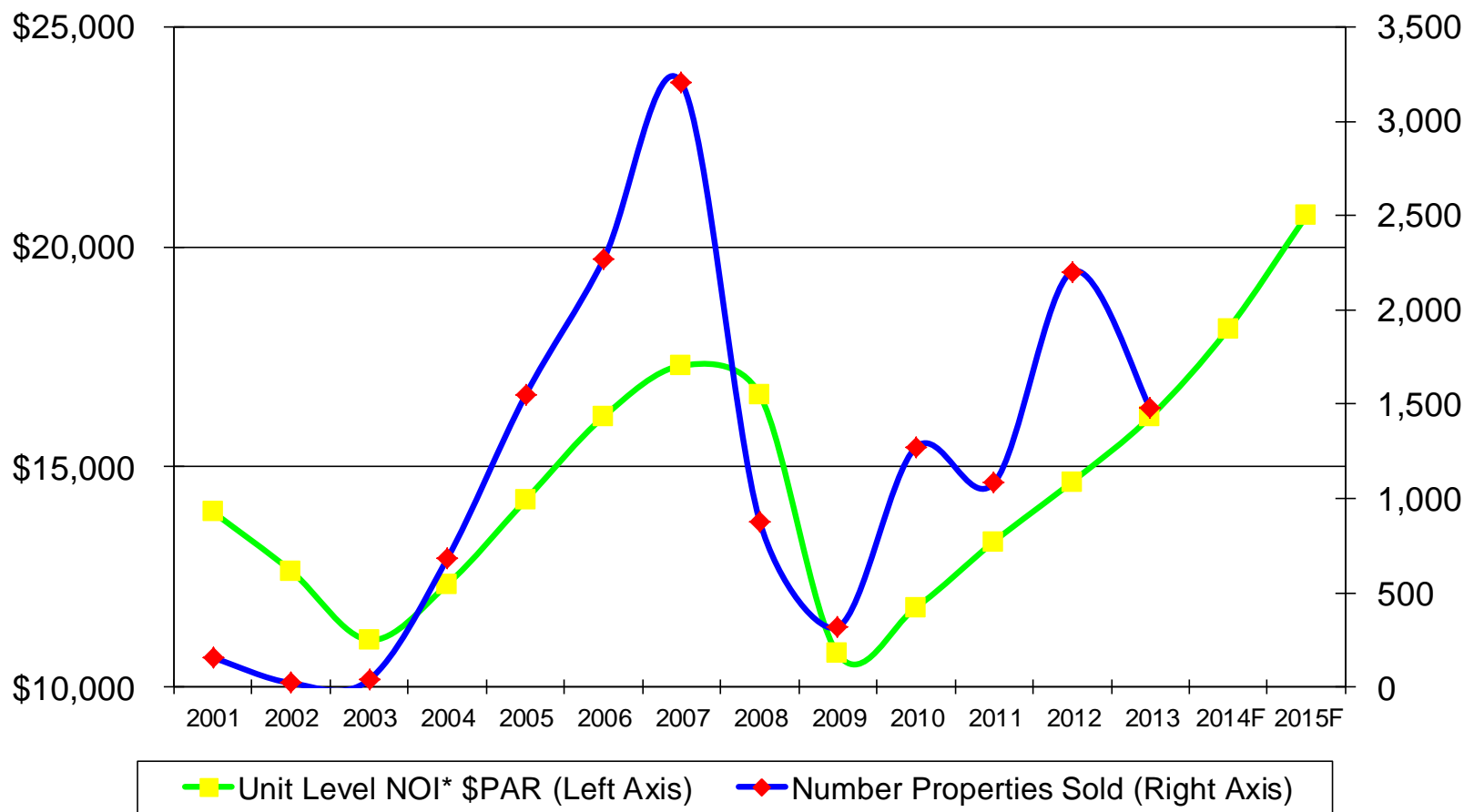
Forecasts of Return Components

Hotel Risk Premium Contracts

	Cap Rate	Baa	Hotel Risk Premium	% Δ Supply	% Δ Net Operating Income
2011	8.2%	5.6%	2.6%	0.5%	12.7%
2012	8.1%	4.9%	3.2%	0.4%	10.2%
2013	8.0%	5.0%	3.0%	0.7%	10.1%
2014F	8.3%	6.0%	2.3%	1.0%	12.4%
2015F	8.8%	6.9%	1.9%	1.3%	14.2%
2016F	8.8%	7.6%	1.2%	1.7%	6.3%

Source: PKF Hospitality Research, LLC, STR, Inc., RERC, RCA, Moody's Analytics

Unit Level Hotel Profits* and Hotel Transaction Volume



Note: * Before deduction for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Sources: Real Capital Analytics March 2014, PKF Hospitality Research, LLC, March 2014 Hotel Horizons® Report

Summary Thoughts:

1. **The Economic Outlook for 2014 Has Remained Relatively Consistent Over the Past Three Years; Uncertainty is Disapating.**
2. **Industry Fundamentals Remain Solid.**
3. **Supply Growth will Remain in Check for at Least Another Two Years as Real ADR's Recover.**
4. **Attractive Hotel Profit Growth Continues and will Serve to Mitigate the Impact of Rising Interest Rates.**
5. **Owners and Investors will be Rewarded as a Result.**

**How Much
Longer to the
Peak?**

