

Washington Lodging Association 2011 Annual Convention

The Road to Recovery
How Good Do You Feel?

Tulalip Casino Resort
October 3, 2011

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PKF
CONSULTING
USA

Topics

- **The Economy**
- **Our Forecasts**
- **Some Things to Think About**

How Do You Feel?

Great!

Good

Not So Good

Bad

No Idea?

Lodging Outlook 2010:

Question Last Year:

Will there be a double dip recession?

Some said yes; most said no.

Then What Happened?

Period	U.S. Demand	U.S. RevPAR	Seattle MSA Demand	Seattle MSA RevPAR
Q3 2010	8.4%	8.4%	8.7%	8.0%
Q4 2010	8.2%	9.1%	10.9%	10.4%
Q1 2011	6.5%	8.9%	7.0%	8.3%
Q2 2011	5.2%	8.1%	7.0%	9.6%
4 Quarter Average	7.1%	8.6%	8.4%	9.1%

How Accurate Have We Been?

ACCURACY ASSESSMENT

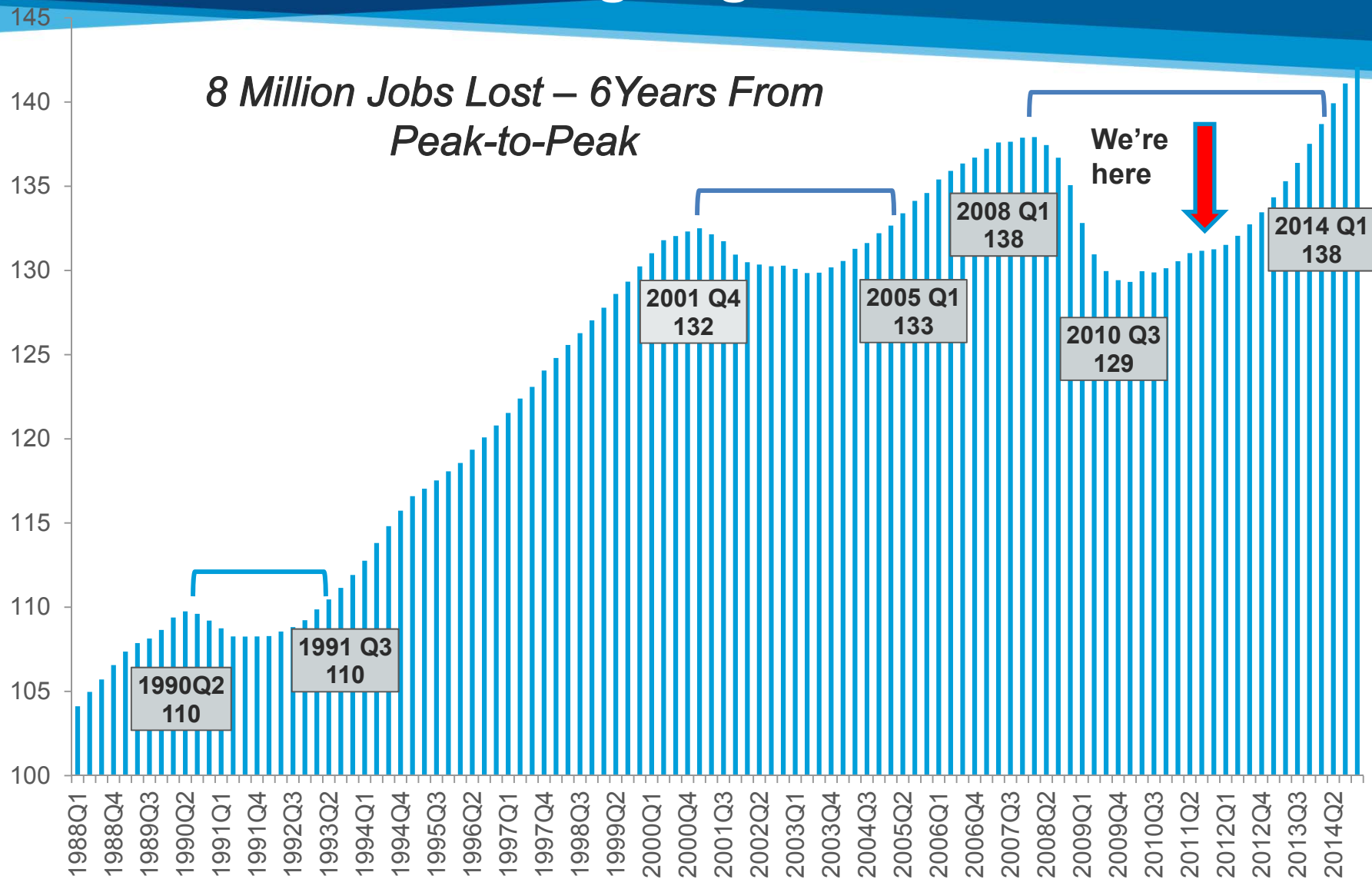


United States

	<u>2010</u>		<u>2011</u>	
	<u>WLA</u> <u>2010</u>	<u>2010</u> <u>Actual</u>	<u>WLA</u> <u>2010</u>	<u>Current</u> <u>Forecast</u>
Occupancy	57.5%	57.6%	58.7%	59.8%
ADR	-0.6%	-0.1%	3.8%	3.2%
RevPAR	4.6%	5.5%	5.9%	7.2%
	Not Too Bad		More Optimistic Today	

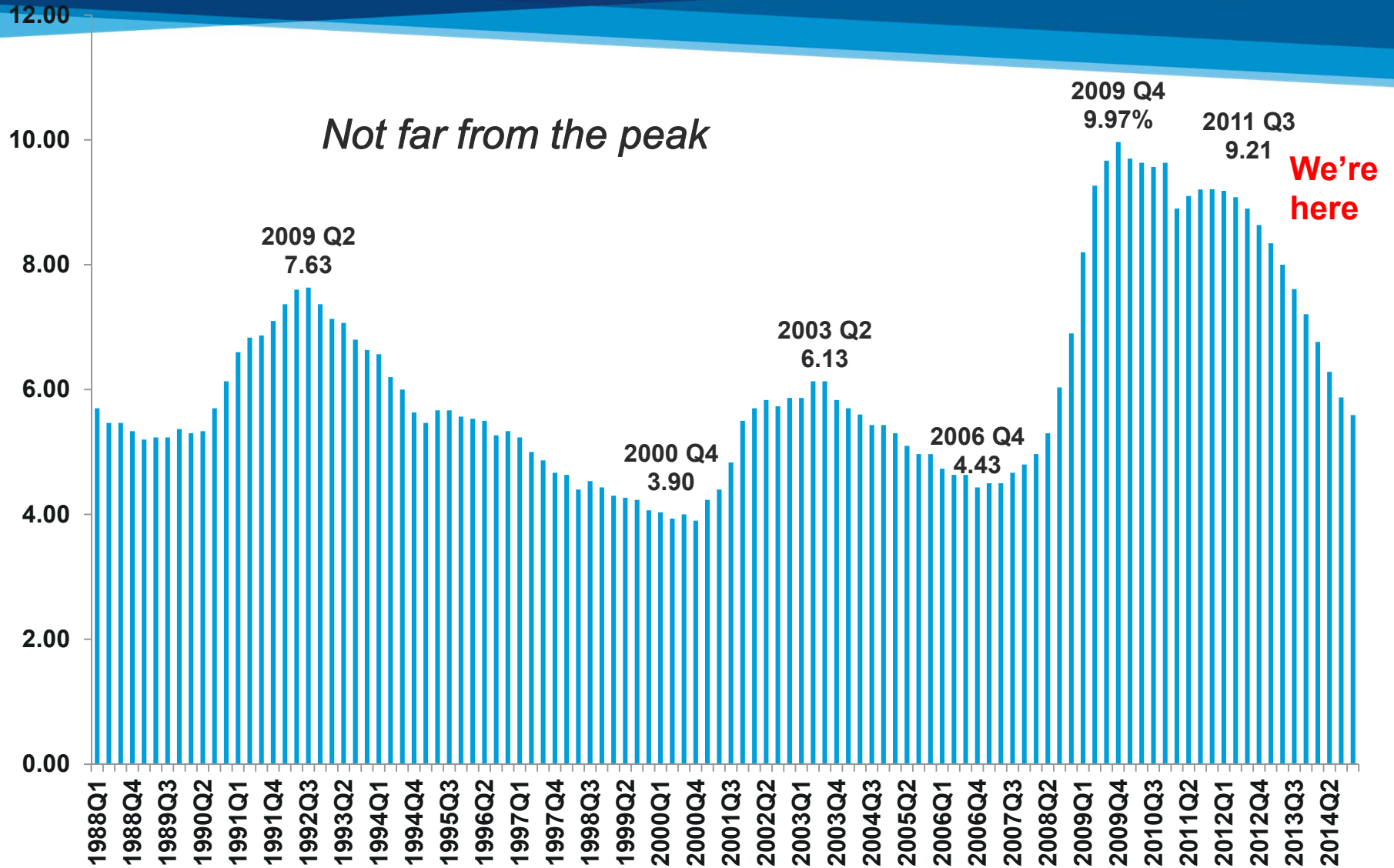
The Economy

U.S. TOTAL EMPLOYMENT LEVELS are starting to gain



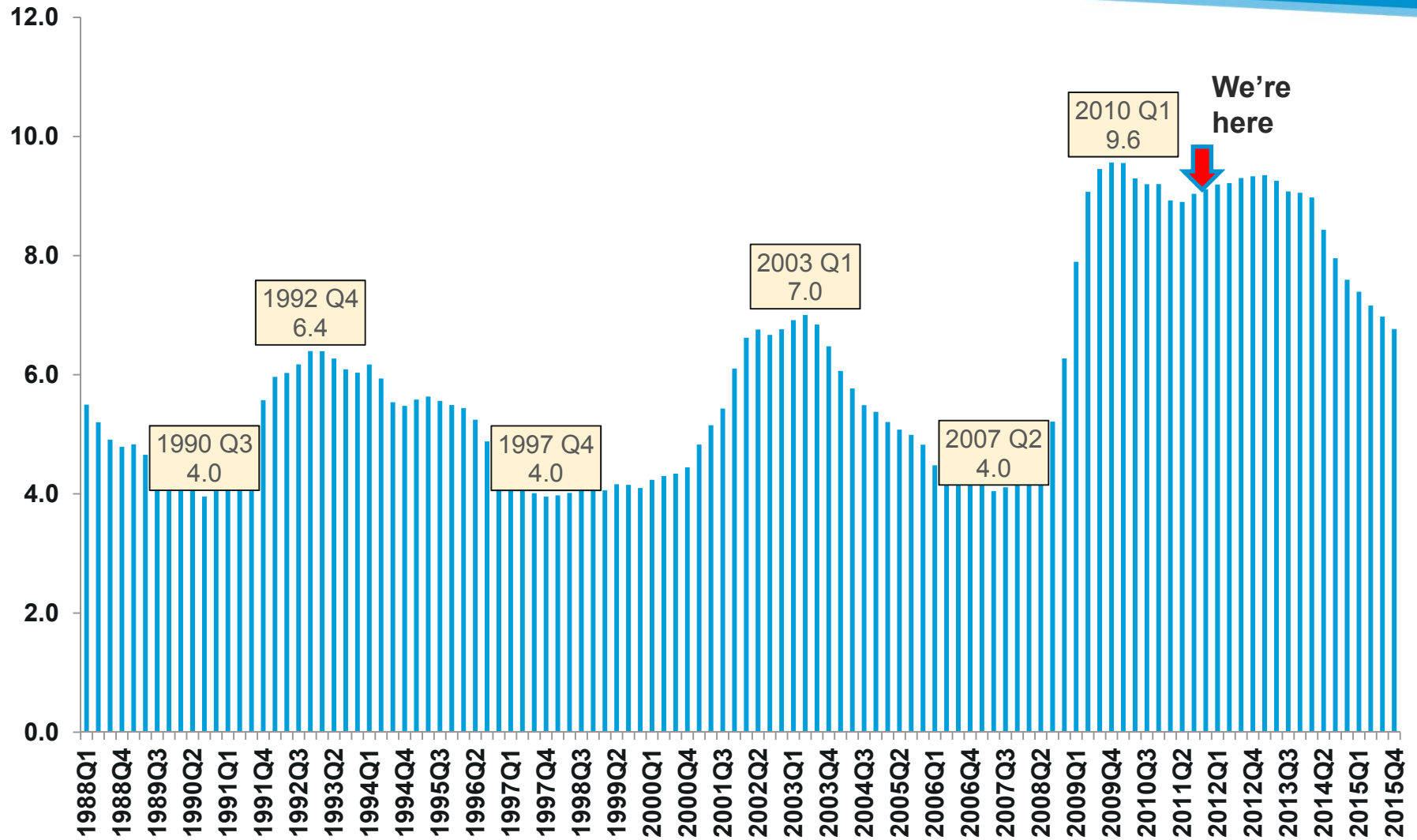
Source: Moody's Analytics

U.S. UNEMPLOYMENT RATE



Source: Moody's Analytics

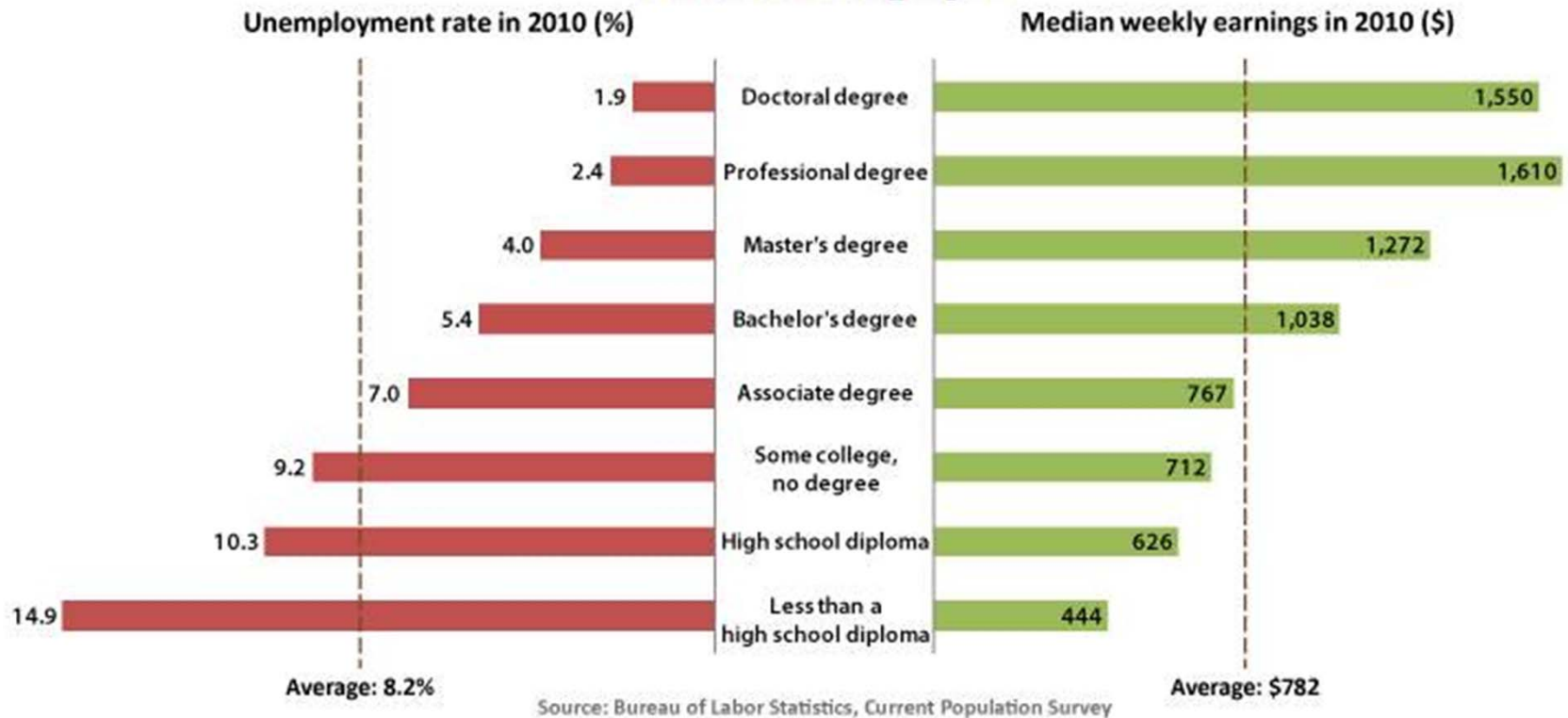
SEATTLE MSA UNEMPLOYMENT RATE



Source: Moody's Analytics

The More Education, the Lower the Unemployment Rate

Education pays:



The Wealthier Represent a Growing Percentage of All Demand



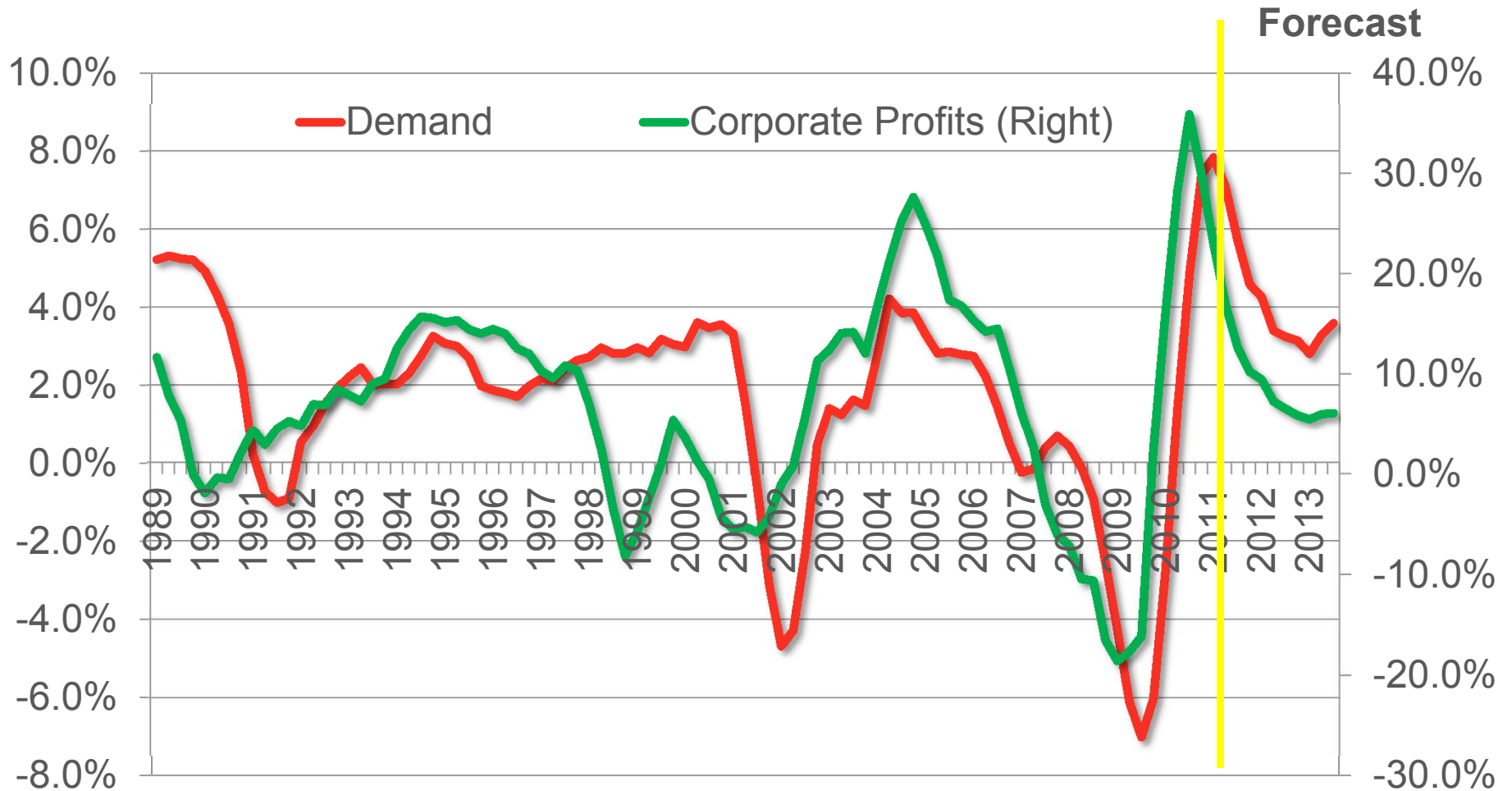
Domestic U.S. Room-Nights by U.S. Travelers

	<u>Under \$75K</u>	<u>\$75K-\$149K</u>	<u>\$150K+</u>
2011 (Preliminary):	42.7%	42.6%	14.7%
2010:	42.2%	44.1%	13.7%
2007:	45.8%	43.3%	10.8%

Source: D. K. Shifflet & Associates 2011 Performance Monitor



4-Quarter Moving Average – U.S. All Change in Corporate Profits and Average Daily Room Night Demand



Source: PKF Hospitality Research, STR, Moody's Analytics

Economic Assumptions – U.S. Forecasts

	Payroll Employment		Real Personal Income		Real GDP		CPI (Inflation)	
2009	-4.3%	-4.3%	-1.9%	-1.9%	-2.6%	-2.6%	-0.3%	-0.3%
2010	-0.7%	-0.7%	1.3%	1.3%	2.9%	2.9%	1.6%	1.6%
2011	1.1%	1.2%	2.1%	3.7%	1.6%*	3.3%	3.0%	2.1%
2012	1.7%	2.3%	4.0%	4.7%	2.7%*	4.3%	1.8%	2.0%
2013	2.5%	2.6%	5.0%	5.0%	3.4%*	3.9%	2.5%	2.9%
L.R.A.	<u>1.2%</u>		<u>2.7%</u>		<u>2.7%</u>		<u>2.9%</u>	

August 2011 Forecast (April in Red)

Source: Moody's Analytics, August 2011 L.R.A. = Long Run Average

* Updated as of September 16, 2011

Seattle MSA Economic Assumptions



	Payroll Employment		Real Personal Income		Real GMP (U.S. GDP)		CPI (Inflation)	
2009	-5.2%	-4.3%	-1.1%	-1.9%	-2.9%	-2.6%	0.1%	-0.3%
2010	-1.8%	-0.7%	0.6%	1.3%	1.6%	2.9%	0.3%	1.6%
2011	1.6%	1.1%	3.2%	2.1%	3.4%	1.6%*	2.5%	3.0%
2012	0.7%	1.7%	3.8%	4.0%	4.2%	2.7%*	2.7%	1.8%
2013	1.3%	2.5%	3.7%	5.0%	3.9%	3.4%*	3.5%	2.5%

August 2011 Forecast

U.S. in Red

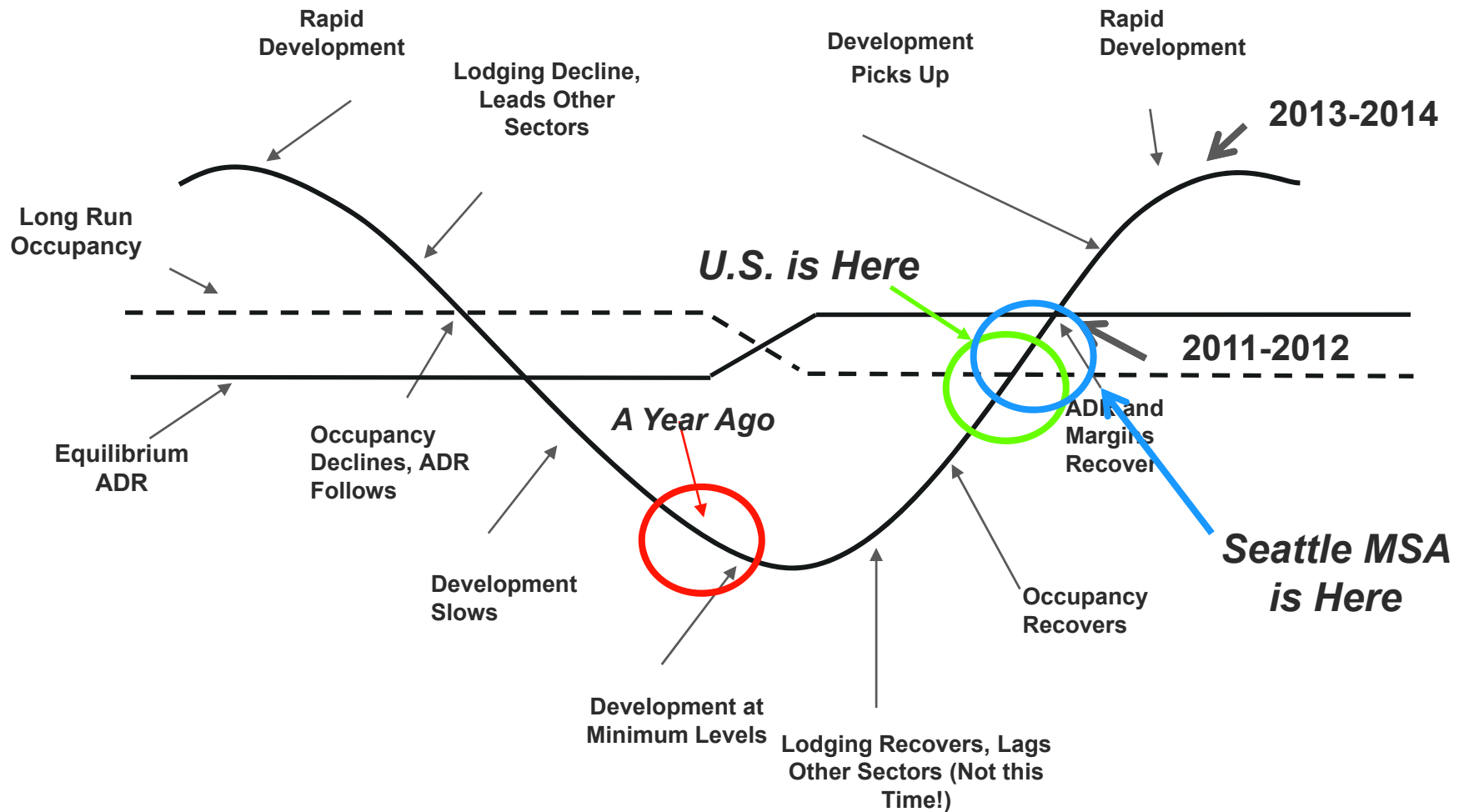
Source: Moody's Analytics, August 2011

* Updated as of September 16, 2011

Our Forecasts

The Hotel Market Cycle

The Long, Hard Climb Up Growth Hill



National Forecast – 2011, 2012

	Long Term Average	2006	2007	2008	2009	2010	2011F	2012F
Supply	2.2%	0.2%	1.3%	2.5%	3.0%	1.8%	0.6%	0.7%
Demand	1.5%	0.5%	0.7%	-2.5%	-6.1%	7.5%	4.5%	3.1%
Occupancy	62.0%	63.1%	62.8%	59.8%	54.5%	57.6%	59.8%	61.2%
ADR	2.8%	7.6%	6.4%	2.9%	-8.5%	-0.1%	3.2%	4.8%
RevPAR	2.5%	7.9%	5.9%	-2.1%	-16.6%	5.5%	7.2%	7.3%

Markets are Returning to Long-Run Average Occupancy

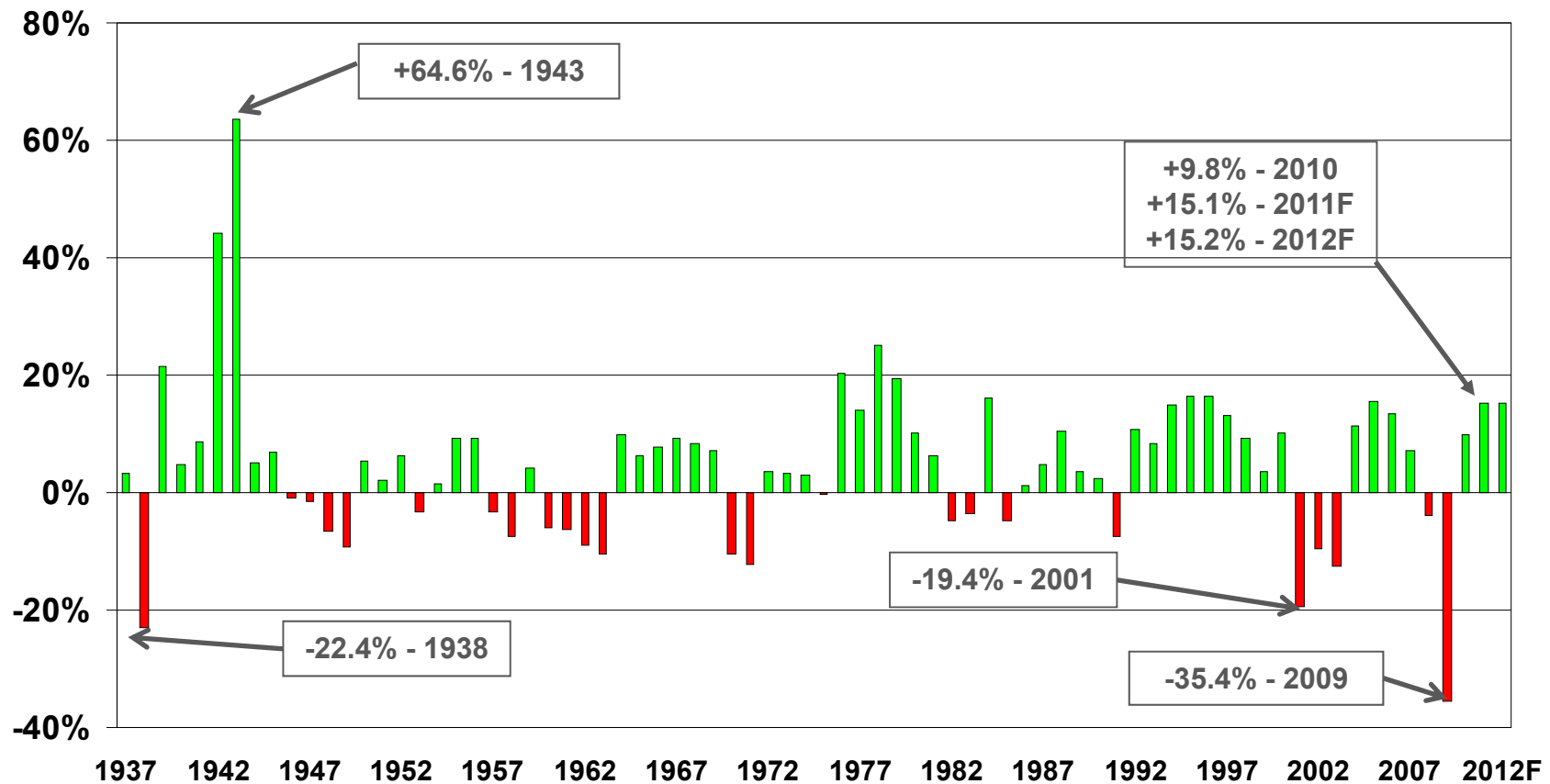


Markets above L.R.A. Occupancy Level

2011	17
2012	24
2013	27
2014	33
2015	33

Source: PKF Hospitality Research, STR

Annual Change – All U.S. Hotels Unit-Level NOI*



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

Source: PKF Hospitality Research, *Trends® in the Hotel Industry* sample.

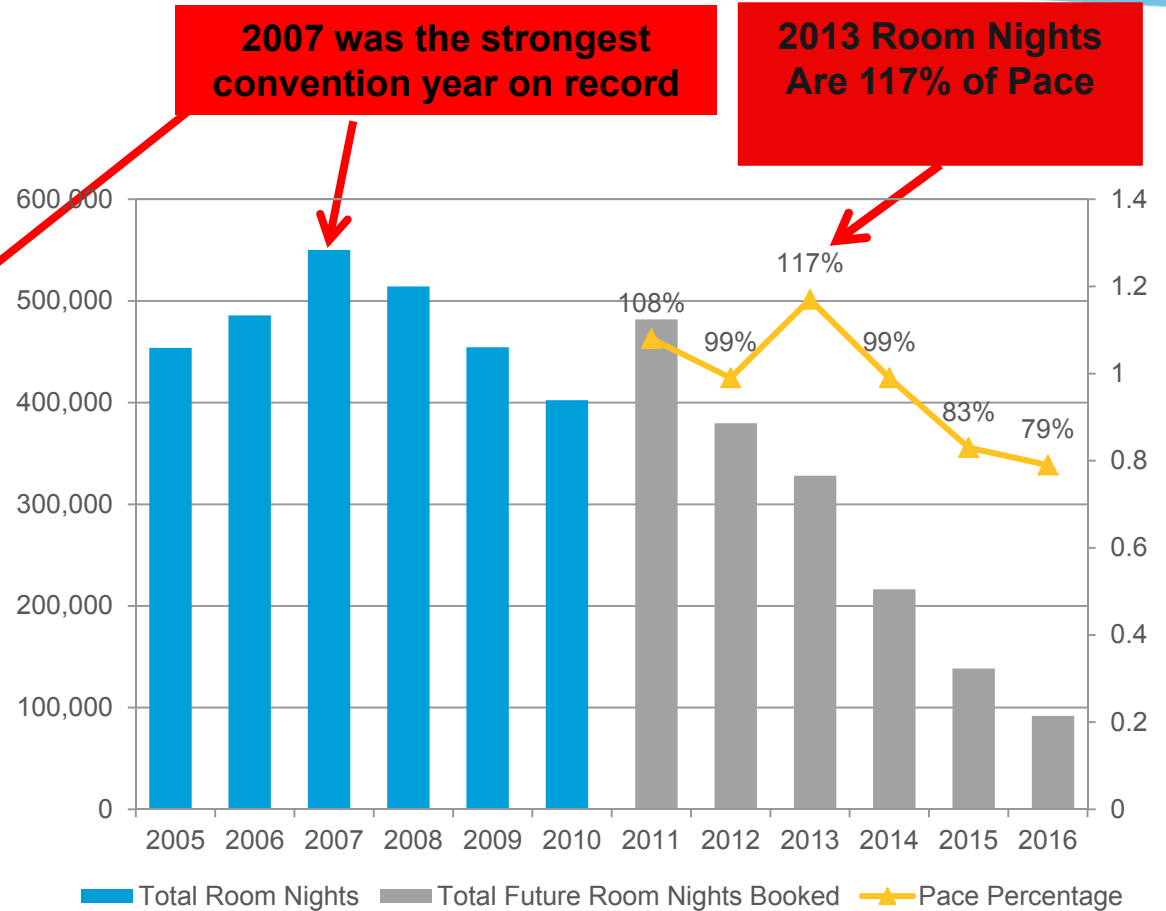
Seattle MSA Lodging Market



Seattle Convention & Visitors Bureau

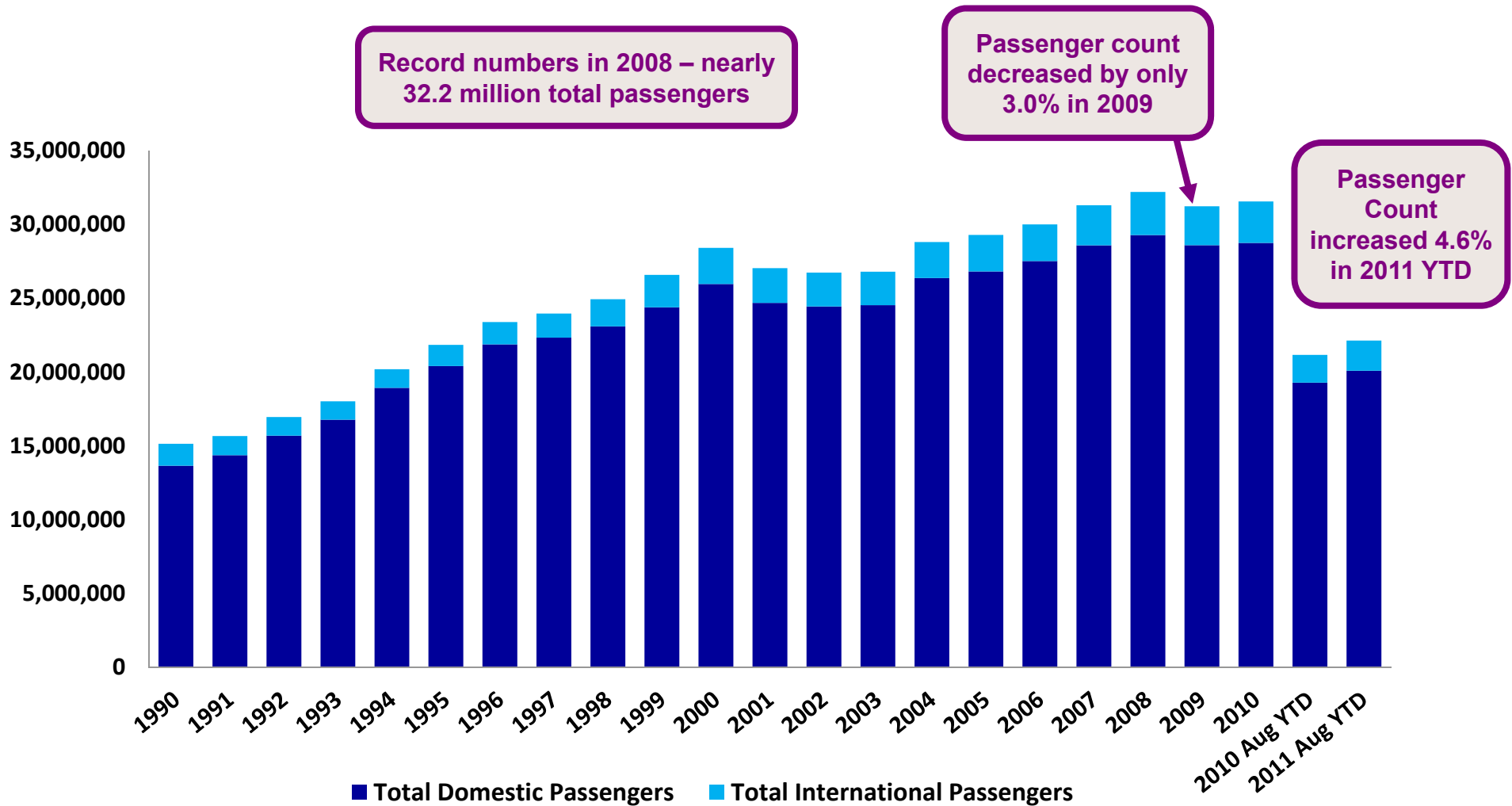
Convention Calendar Outlook

	Total Number of Booked Room	
2005	453,839	-
2006	485,775	7%
2007	550,184	13%
2008	514,286	-7%
2009	454,557	-12%
2010	402,388	-11%
2011	481,886	20%
2012	379,670	-21%
2013	328,058	-14%
2014	216,300	-34%
2015	138,505	-36%
2016	91,875	-34%



Sea-Tac

Airport Passenger Statistics



Source: Bureau of Transportation Statistics

Representative Brands Upper and Lower Tiers

Upper-Priced	Lower-Priced
Courtyard by Marriott Hilton Garden Inn Hyatt Loews Marriott Hotels Ritz-Carlton Westin	Days Inn Fairfield Inn Hampton Inn Holiday Inn Express InTown Suites TownePlace Suites

Source: Smith Travel Research

Seattle MSA

All Hotels



Improved Occupancy = Better ADR Performance in 2012

	2008	2009	2010	2011F	2012F	Long-Term Average
Occupancy	67.8%	61.4%	65.6%	68.4%	68.9%	67.7%
% Change	-5.1%	-9.5%	6.8%	4.4%	0.8%	-
ADR	\$127.11	\$112.92	\$110.29	\$113.87	\$121.65	-
% Change	3.5%	-11.1%	-2.4%	3.2%	6.8%	2.5%
RevPAR	\$86.14	\$69.22	\$72.23	\$77.88	\$83.87	-
% Change	-1.7%	-19.6%	4.4%	7.8%	7.7%	2.6%

Source: PKF Hospitality Research –September-November 2011 Hotel Horizons® Report, Smith Travel Research

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Upper-Priced Hotels

Above Average Occupancy = Better Pricing Power

	2008	2009	2010	2011F	2012F	Long-Term Average
Occupancy	71.9%	66.0%	70.5%	73.4%	73.4%	72.9%
% Change	-2.3%	-8.2%	6.8%	4.1%	0.1%	-
ADR	\$163.39	\$142.99	\$139.64	\$143.88	\$154.18	-
% Change	+0.4%	-12.5%	-2.3%	3.0%	7.2%	2.4%
RevPAR	\$117.44	\$94.34	\$98.44	\$105.50	\$113.17	-
% Change	-1.9%	-19.7%	4.3%	7.2%	7.3%	2.5%

Source: PKF Hospitality Research –September-November 2011 Hotel Horizons® Report, Smith Travel Research

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Lower-Priced Hotels

Above Average Occupancy = Better Pricing Power

	2008	2009	2010	2011F	2012F	Long-Term Average
Occupancy	64.4%	57.2%	60.9%	63.9%	64.9%	63.6%
% Change	-7.5%	-11.1%	6.6%	4.8%	1.6%	-
ADR	\$93.53	\$82.47	\$79.41	\$82.28	\$88.22	-
% Change	+5.1%	-11.8%	-3.7%	3.6%	7.2%	2.5%
RevPAR	\$60.20	\$47.17	\$48.40	\$52.54	\$57.24	-
% Change	-2.8%	-19.9%	2.6%	8.6%	8.9%	2.1%

Source: PKF Hospitality Research –September-November 2011 Hotel Horizons® Report, Smith Travel Research

Some Things to Think About

SUMMARY

- 1. Heightened uncertainty, at home and abroad, will cause a growing number of firms to hit the “slowdown” or “pause” button in the months ahead. Weak housing markets remain a substantial problem.*
- 2. Corporate profit growth will remain attractive – business travel will continue to benefit as a result.*
- 3. Unemployment will remain high – helps to keep labor costs in check – continued boosts to profits – well above long run average for the foreseeable future.*

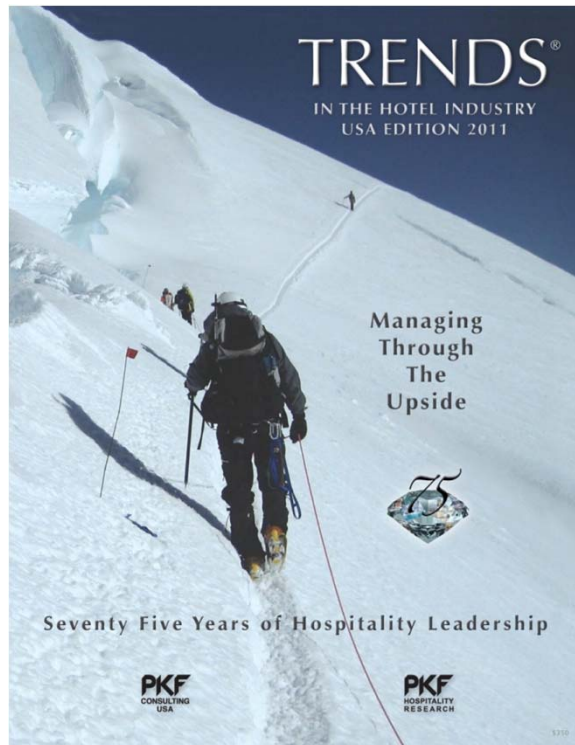
SUMMARY

4. *Low airline seat capacity growth .*
 - *Not a good sign for lodging.*

5. *Declining guest satisfaction as ADR's grow.*
 - *Investing in the “cost to cure” made more difficult by market uncertainty.*

Thank You

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