January 2017

Hospitality Directions US

Our updated lodging outlook

Post-election Surge in Consumer and Business Sentiment Suggests Momentum for 2017

Our outlook for 2017 anticipates:

Accelerating supply growth, reaching the ***long-term average*** of **1.9%**

Demand growth below supply leads to first occupancy decline in eight years

Average daily rate growth slows, but supports above-inflationary[1] RevPAR growth of **2.3%**

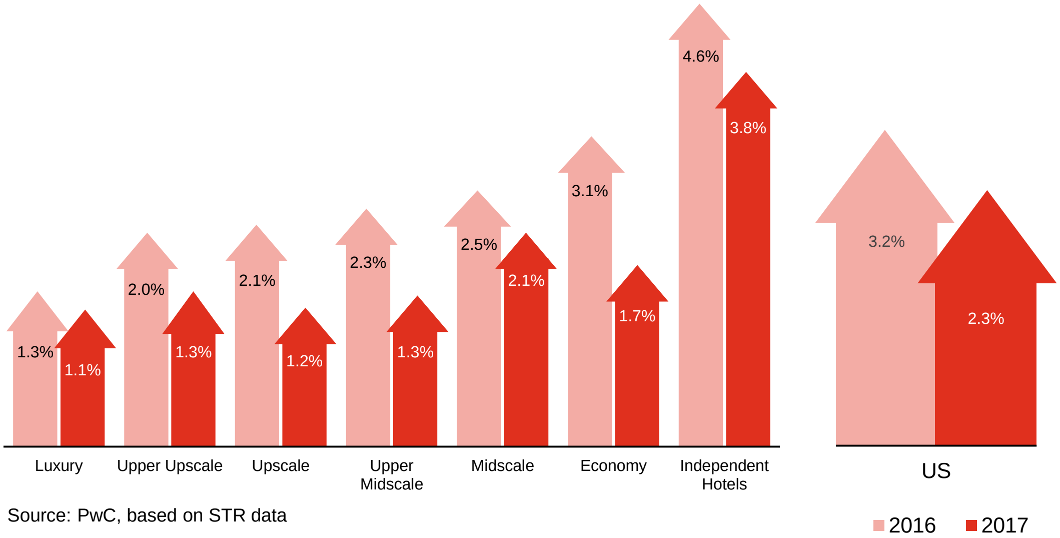
[1]Inflation as measured by the personal consumption expenditure price index

Following initially lower expectations, US lodging performance in the fourth quarter of 2016 was encouraging. Stronger demand, driven primarily by a surge in post-election consumer and business sentiment, contributed to a better-than-expected RevPAR increase of 3.2 percent.

Looking ahead, earlier concerns related to economic and political uncertainty appear to have moderated. The prospects of lower taxes, reduced regulations, and updated trade policies are expected to contribute to improving economic conditions, surging capital markets, and increasing business and consumer confidence. These economic conditions are expected to support growth in corporate transient demand, which was uneven throughout 2016. However, other demand-side concerns continue to linger, including the strength of the US Dollar and its impact on inbound, international travel. As a result, our outlook anticipates moderating demand growth in 2017.

On balance, increase in the supply of hotel rooms is expected to outpace demand growth, resulting in a marginal decline in occupancy levels to 65.3 percent. Aided by an expected increase in corporate transient demand, growth in average daily rate is expected to drive a RevPAR increase of 2.3 percent.

Figure 1: RevPAR growth, US and chain scales



Source: PwC, based on STR data

Figure 2: ADR contribution to RevPAR growth

Source: PwC, based on STR data

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.

Market conditions show signs of improvement, but economic headwinds remain

According to The Economist, Harry Truman once demanded "Give me a one-handed economist. All my economists say, 'on the one hand…on the other'". It should come as no surprise, then, that economists are struggling to definitively agree on the far-reaching effects the Trump administration will have on US and global economies. On the one hand, many domestic and international economic headwinds still continue to weigh on domestic economic performance. According to IHS Markit, strength of the US Dollar and an increase in long-term interest rates are anticipated to constrain domestic economic activity in the short- and medium-term.

On the other hand, uncertainty in the marketplace seems to have moderated following the end of the election cycle, and business and consumer confidence have reached pre-recession levels. Overall, IHS Markit now forecasts real GDP to increase 2.3 percent in 2017, measured on a fourth-quarter-over-fourth-quarter basis, approximately 50 basis points higher than in our November forecast. Improving economic conditions are driven by a number of factors, including improving business and consumer confidence, and surging financial markets, as well as potential policy decisions related to tax cuts and changes to trade regulations.

Table 1: US outlook (released January 30, 2017)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Demand growth	0.7%	-2.5%	-6.2%	7.3%	4.6%	2.7%	2.0%	4.1%	2.7%	1.7%	1.6%
Supply growth	1.2%	2.4%	2.8%	1.7%	0.4%	0.4%	0.6%	0.7%	1.0%	1.6%	1.9%
Room starts, % change	4.9%	-9.2%	-63.7%	-39.1%	57.9%	26.1%	26.8%	34.8%	12.0%	8.1%	14.7%
Occupancy	62.8%	59.8%	54.6%	57.6%	60.0%	61.4%	62.3%	64.4%	65.4%	65.5%	65.3%
% change	-0.5%	-4.8%	-8.8%	5.6%	4.2%	2.4%	1.4%	3.4%	1.6%	0.1%	-0.3%
Average daily rate	$104.32	$107.38	$98.18	$98.05	$101.76	$106.04	$110.02	$115.14	$120.32	$123.97	$127.21
% change	6.6%	2.9%	-8.6%	-0.1%	3.8%	4.2%	3.7%	4.6%	4.5%	3.1%	2.6%
RevPAR	$65.54	$64.24	$53.56	$56.46	$61.05	$65.12	$68.50	$74.13	$78.72	$81.19	$83.09
% change	6.1%	-2.0%	-16.6%	5.4%	8.1%	6.7%	5.2%	8.2%	6.2%	3.2%	2.3%
GDP, % change Q4/Q4	1.9%	-2.8%	-0.2%	2.7%	1.7%	1.3%	2.7%	2.5%	1.9%	1.8%	2.3%
Inflation, % change	2.5%	3.1%	-0.1%	1.7%	2.5%	1.9%	1.3%	1.5%	0.4%	1.1%	1.8%

Source: STR; Bureau of Economic Analysis; IHS Markit (forecast released January 2017); MHC Construction Analysis System; PwC

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

	2016					2017				
Chain scale	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR
Luxury	2.4	2.8	(0.3)	1.7	1.3	1.1	2.6	(1.5)	2.5	1.1
Upper upscale	1.4	1.6	(0.2)	2.2	2.0	0.6	1.4	(0.8)	2.2	1.3
Upscale	5.0	5.6	(0.6)	2.7	2.1	4.7	5.5	(0.8)	2.0	1.2
Upper midscale	1.9	2.1	(0.2)	2.5	2.3	3.9	4.4	(0.5)	1.8	1.3
Midscale	1.1	1.2	(0.1)	2.5	2.5	1.0	1.1	(0.1)	2.1	2.1
Economy	(0.1)	0.3	(0.4)	3.4	3.1	(0.7)	(0.2)	(0.5)	2.2	1.7
Independent hotels	1.0	0.2	0.8	3.8	4.6	0.3	0.2	0.1	3.7	3.8
US total	**1.7**	**1.6**	**0.1**	**3.1**	**3.2**	**1.6**	**1.9**	**(0.3)**	**2.6**	**2.3**

Source: PwC, based on STR data

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Definitions and information requests

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, except GDP growth, which is expressed on a fourth-quarter-over-fourth-quarter basis. The personal consumption expenditure price index is used to measure inflation, including the conversion of RevPAR to constant dollars, which is reported as real RevPAR.

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