

ISHC Annual Conference 2014

Isaac Collazo



IHG Performance Strategy & Planning

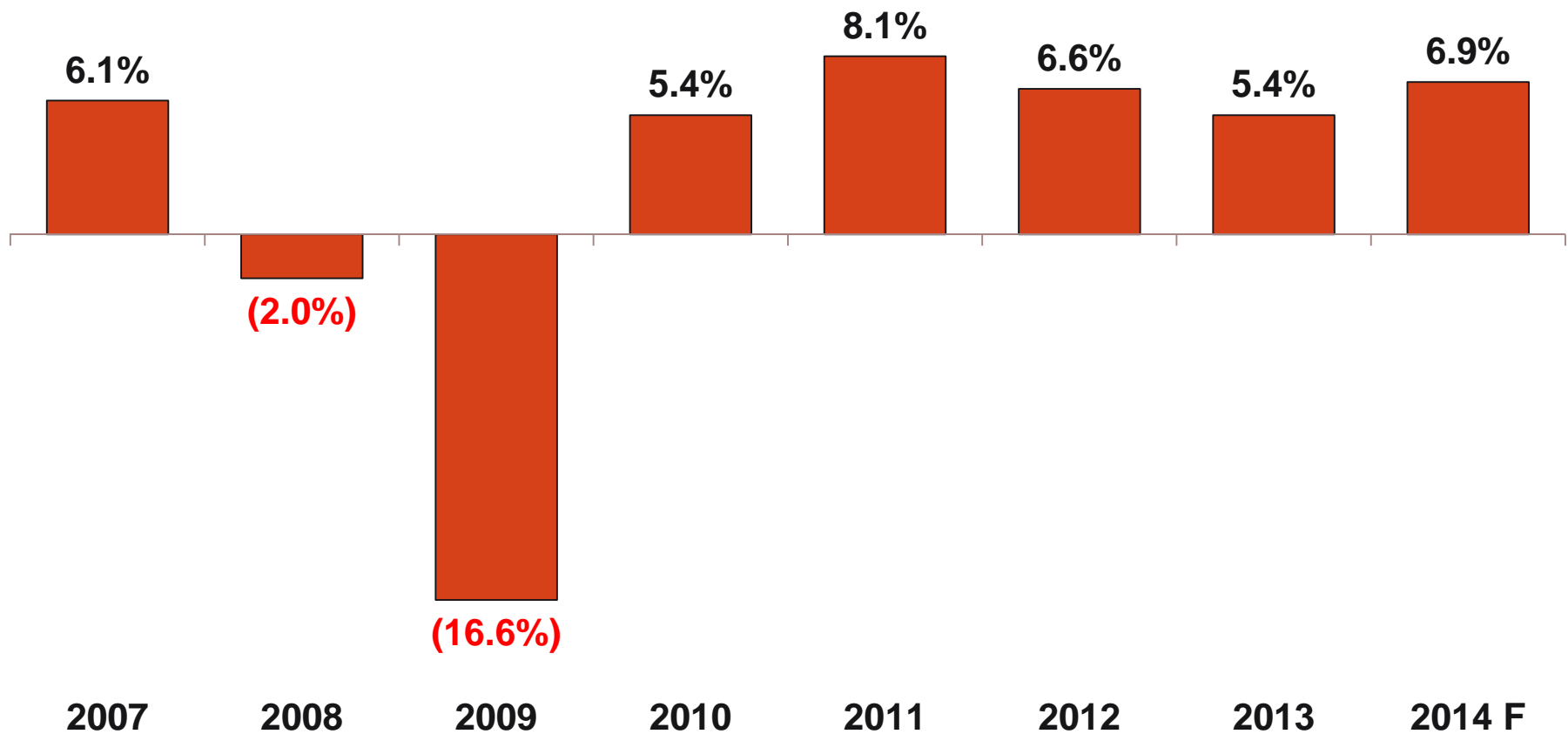
We are IHG's impartial authority on industry and brand performance by integrating multiple information streams and analysis on economic conditions, the industry, customers and competitors in order to provide recommendations and impactful decision-making support.

Presentation Premise

- **The industry has missed an opportunity for outstanding RevPAR growth**
 - Demand is growing like never before.
 - Driven by factors not normally reported in the mainstream media.
 - And the factors have behaved differently than in the past.
- **ADR growth has been nominal, leaving much on the table.**
- **We must change the way we look and listen to reports on macro data.**
- **We must be holistic in our view and consider alternatives.**
- **Essentially, it's about looking at our industry differently.**

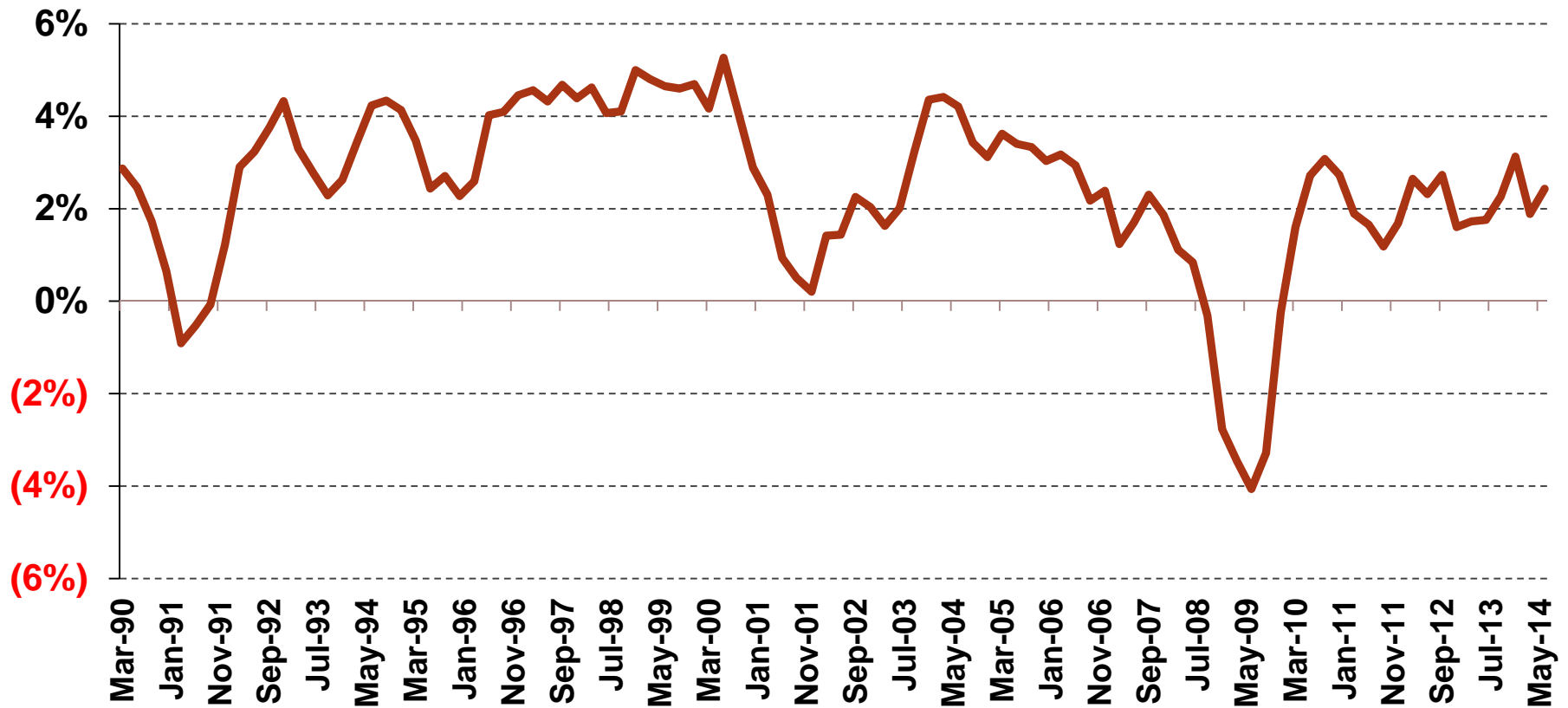
We are in our fifth year of recovery.

US Industry RevPAR Change
Year-Over-Year Change



US economic growth has been rather anemic since the end of the recession.

US GDP Change
Year-Over-Year Change—Seasonally- Adjusted



In fact, this recovery has been the weakest of the past three recessions.

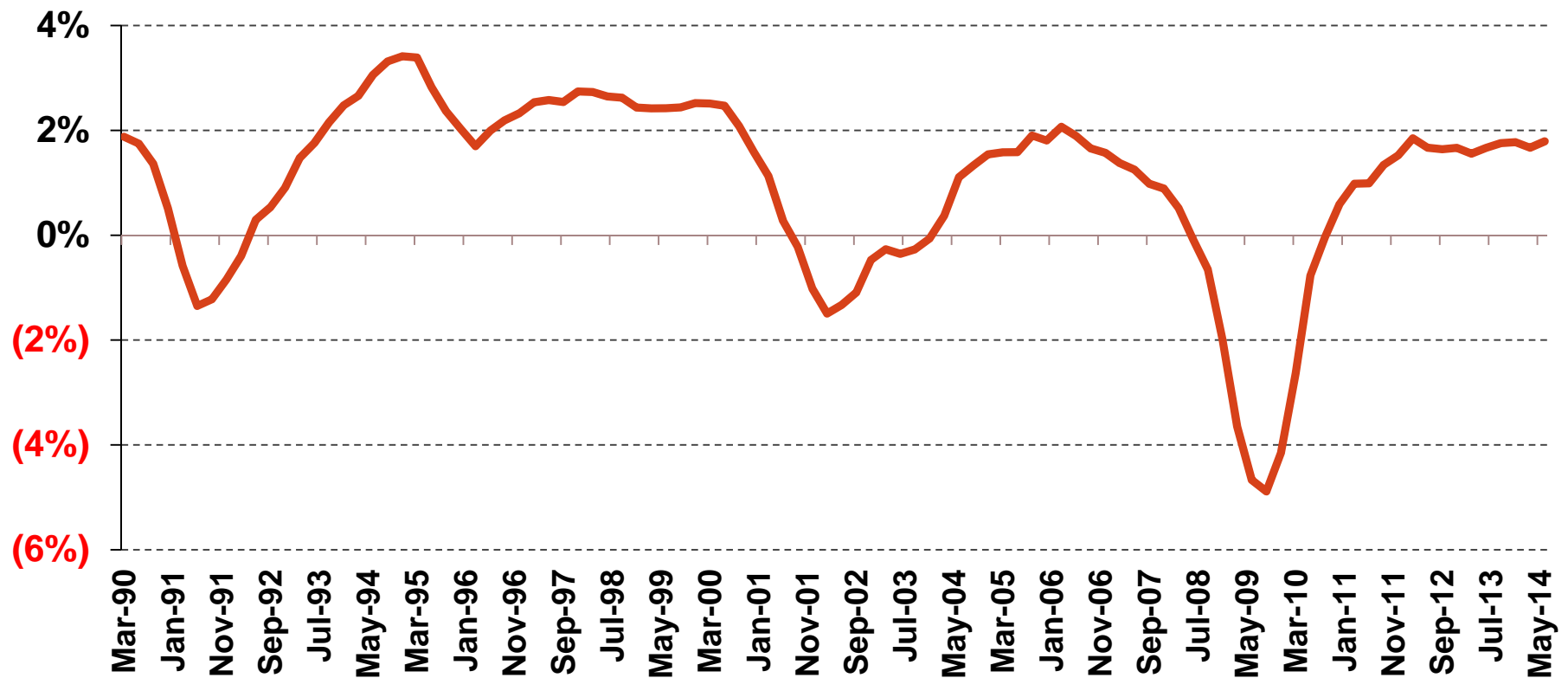
US Economic Indicators Post Recession Recovery
Indexed To Previous Peak



US employment has also been somewhat restrained.

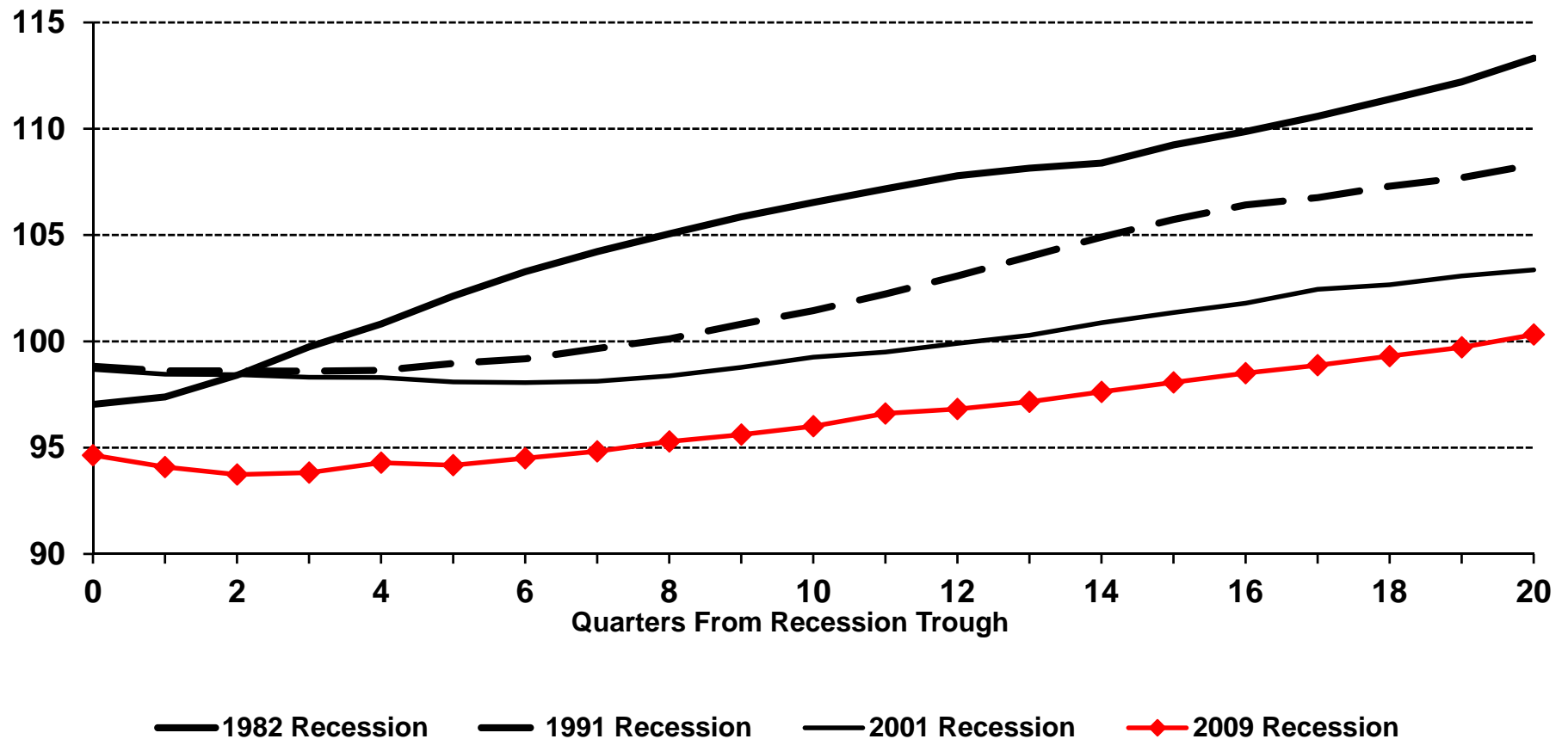
US Employment Change

Year-Over-Year Change—Total Non-Farm Employment—Seasonally- Adjusted



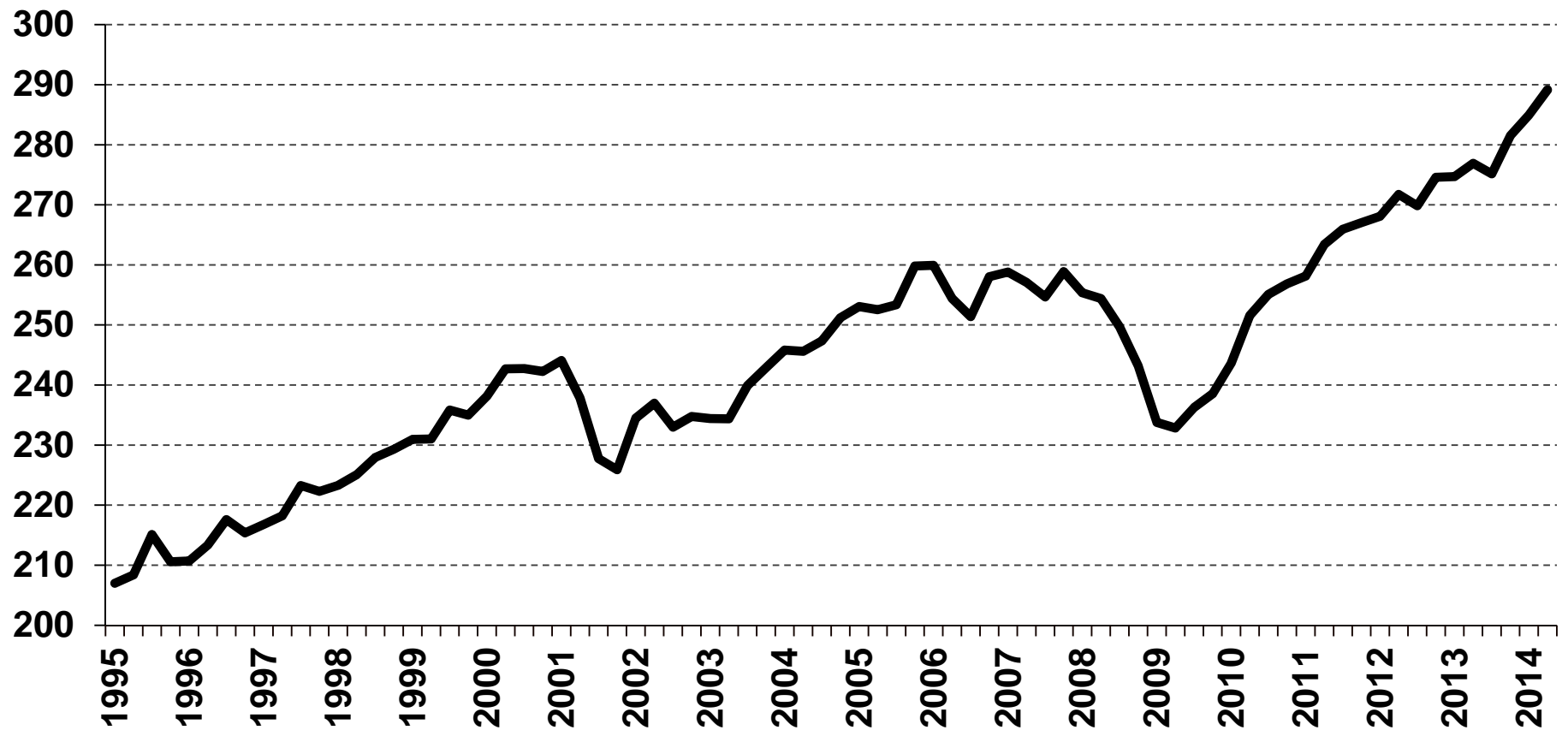
This recovery has truly been a “jobless” one.

US Employment Post Recession Recovery
Indexed To Previous Peak



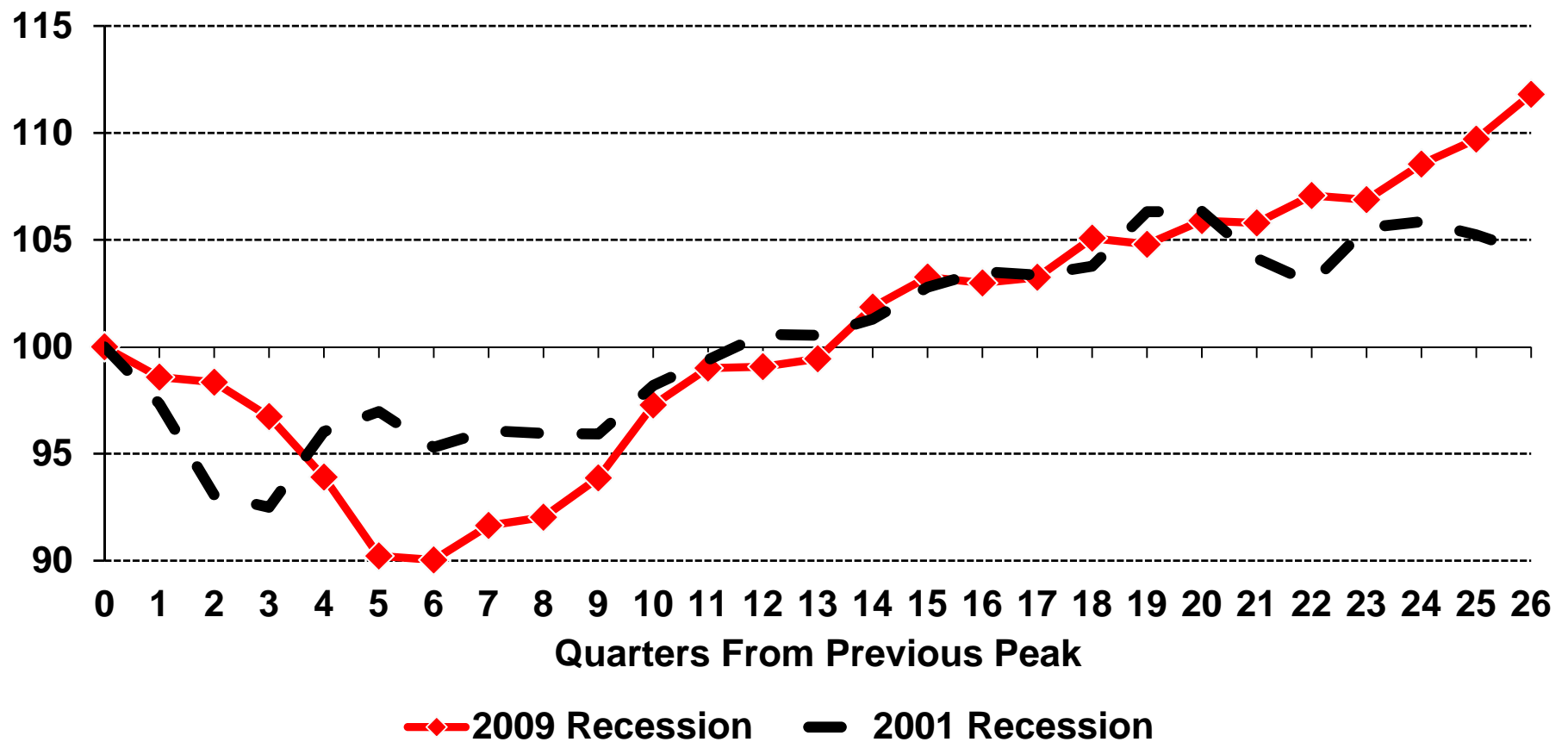
Lodging demand however has been growing strongly.

US Lodging Industry Quarterly Room Nights
Seasonally-Adjusted—In Millions



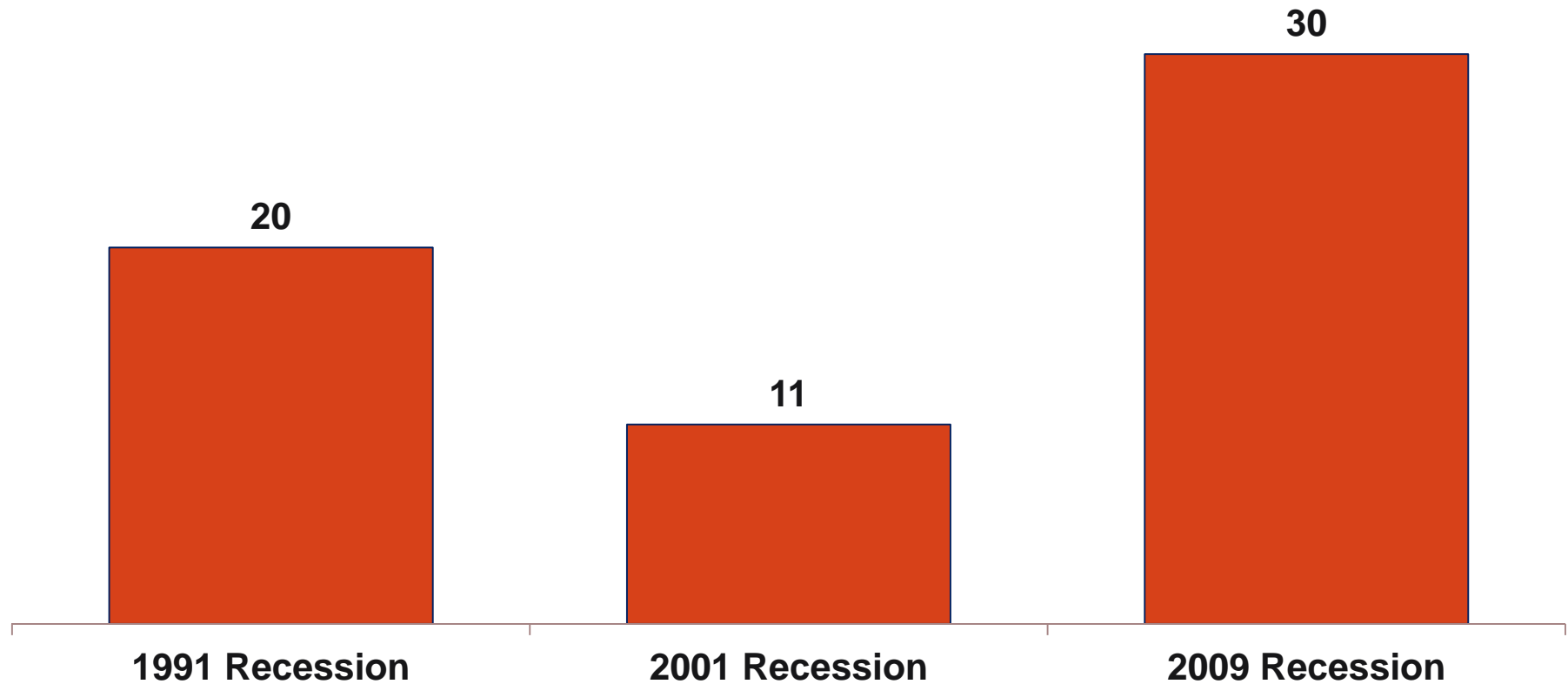
The recovery of lodging demand post the great recession has been one of the best ever seen.

US Industry Demand Post Recession Change
Indexed To Previous Peak—Seasonally-Adjusted



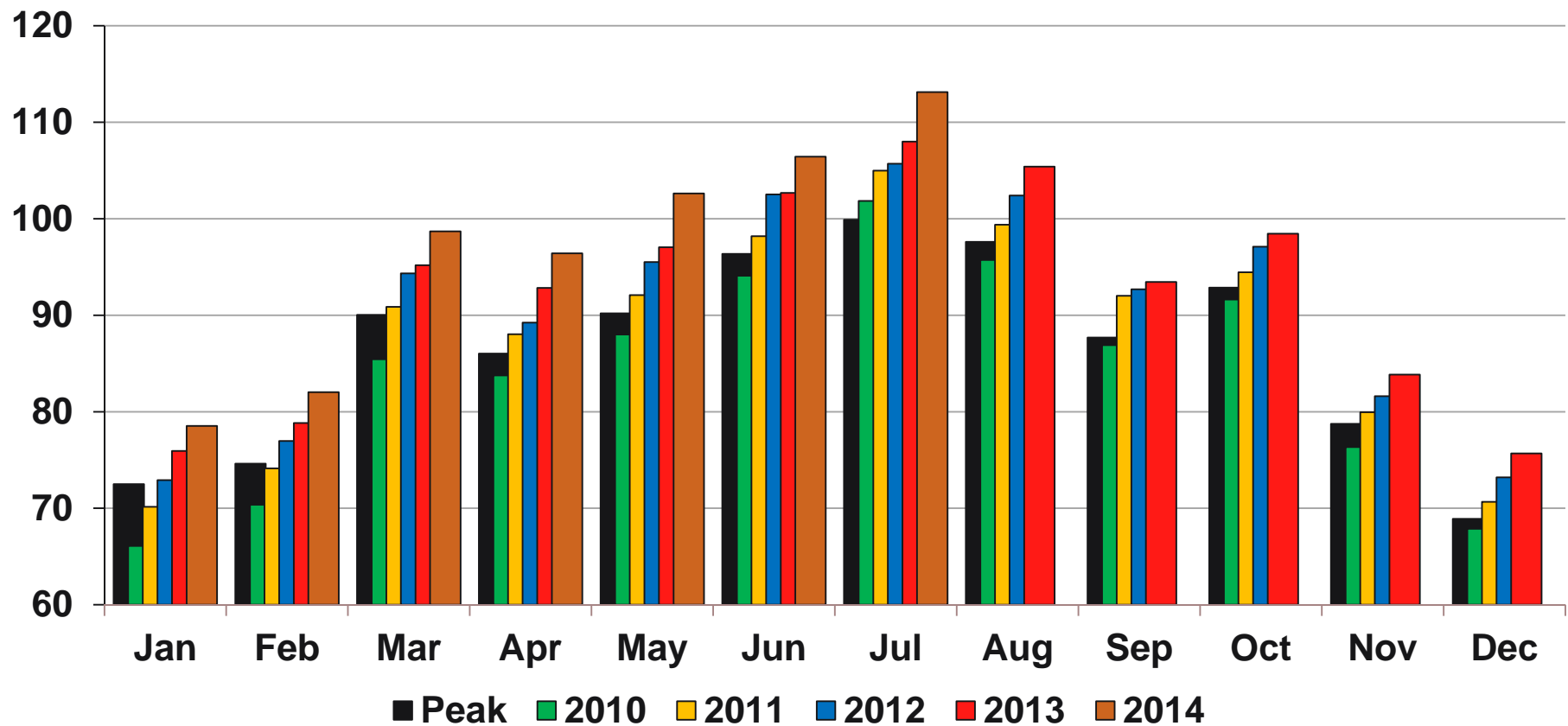
This recovery has seen the largest gain in room demand post recession.

US Lodging Industry Room Demand Growth From Previous Peak
27 Quarters From Previous Peak—Seasonally-Adjusted



Since March 2011, each month has brought a new monthly demand record.

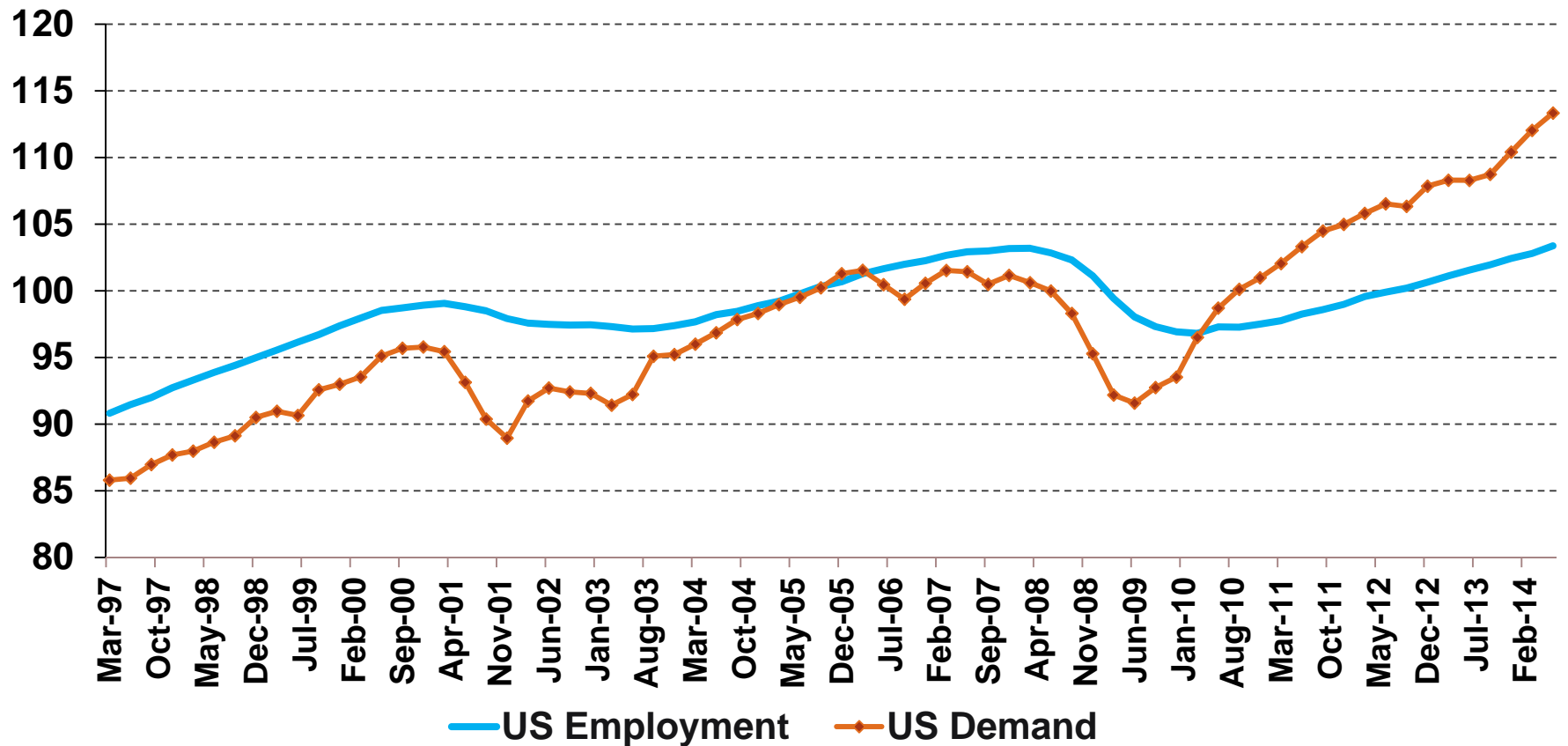
US Lodging Industry Room Demand



US demand is well above the pace of employment gains.

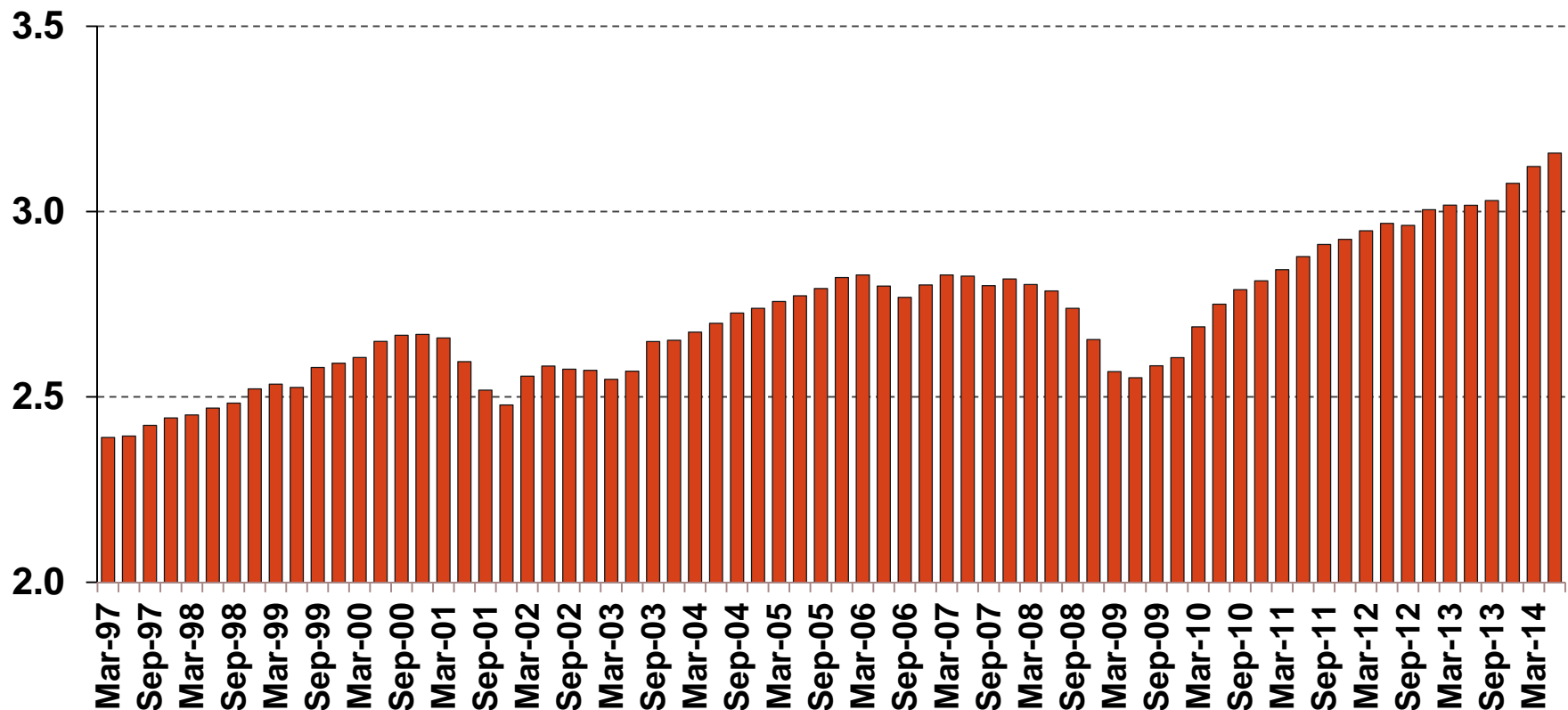
US Employment & Demand

Year-Over-Year Change—Total Non-Farm Employment—Seasonally- Adjusted—2005 Index



And we are selling more rooms per capita than ever before.

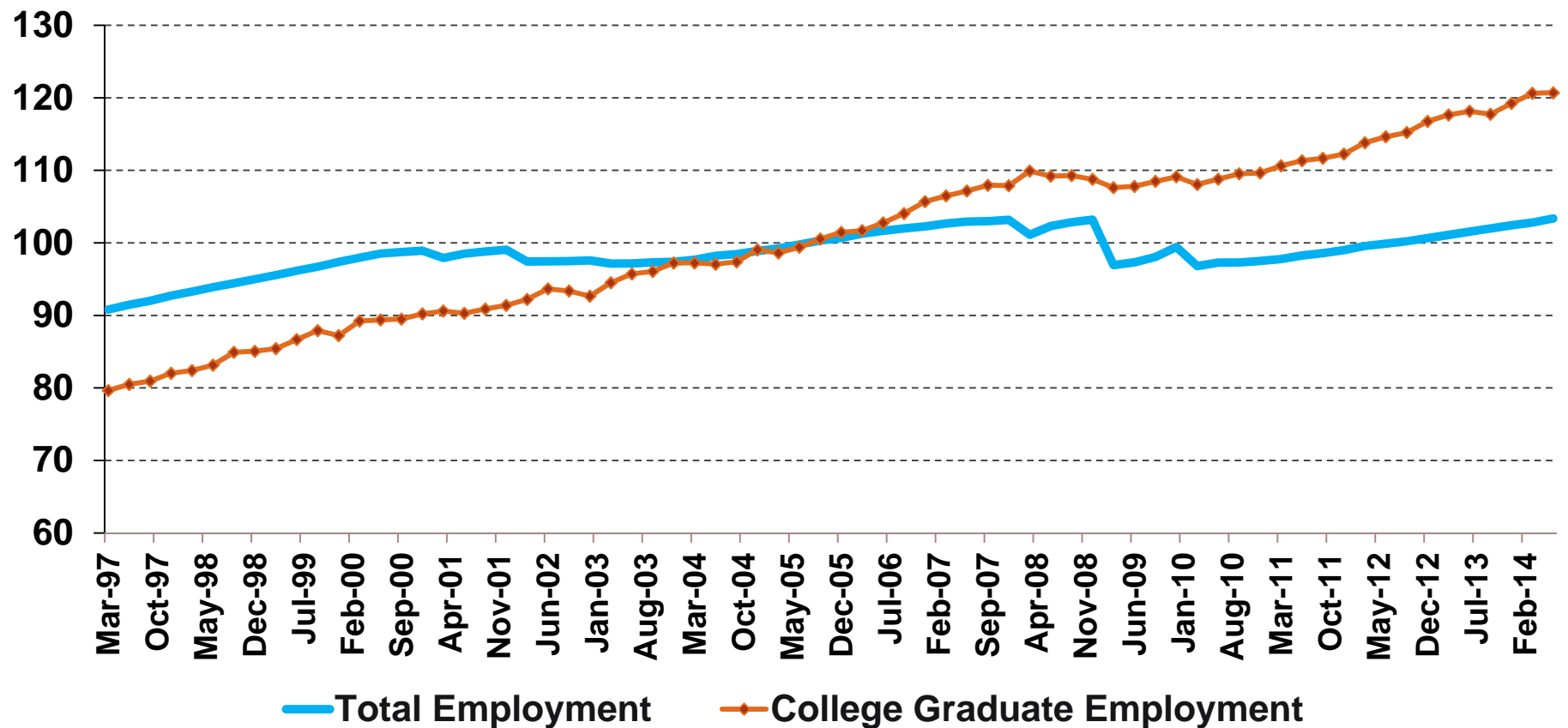
US Demand Per Employed Annualized
Year-Over-Year Change—Seasonally- Adjusted





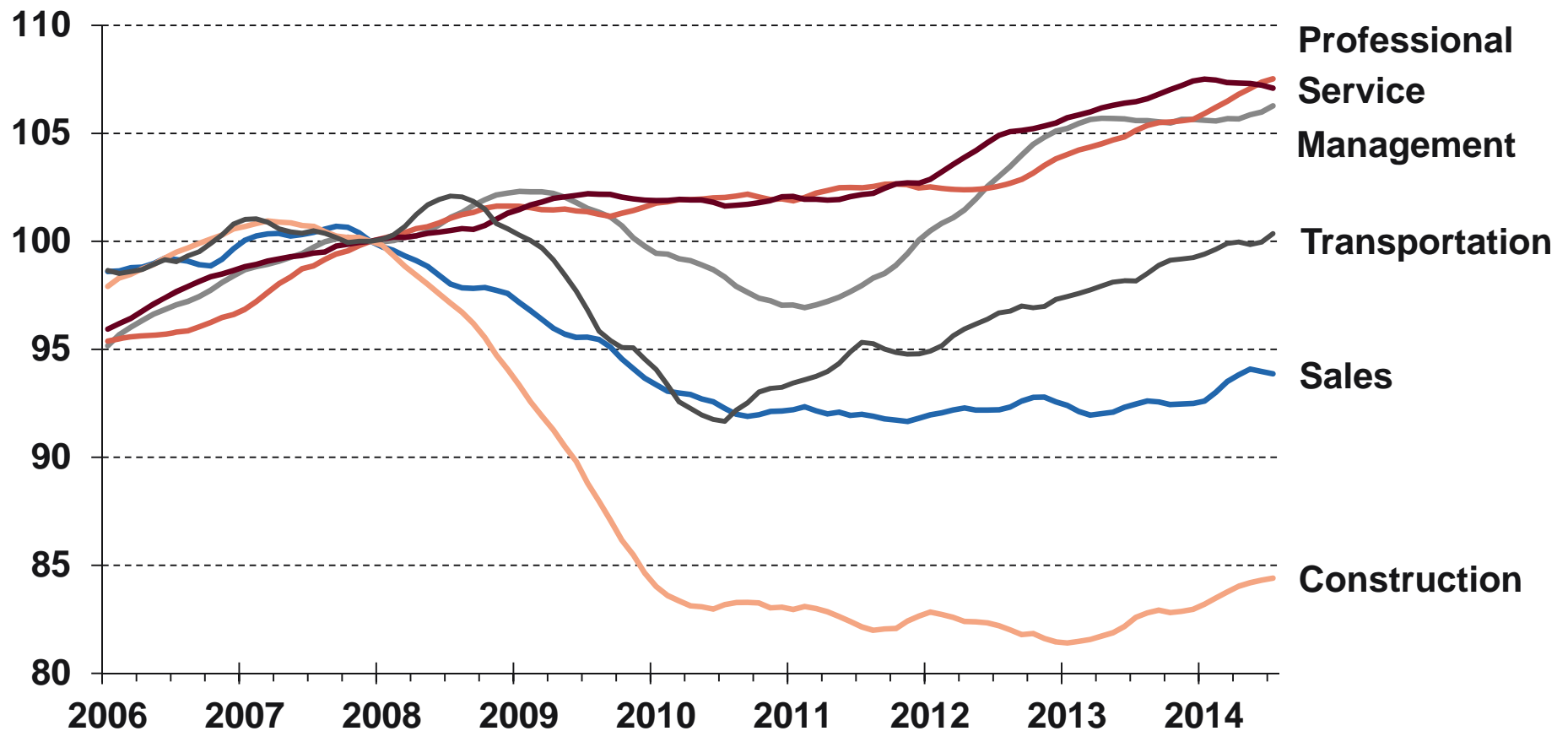
Total employment may be too broad of a measure for the lodging industry.

US Employment by College Educated Individuals
Seasonally- Adjusted—Indexed to 2005



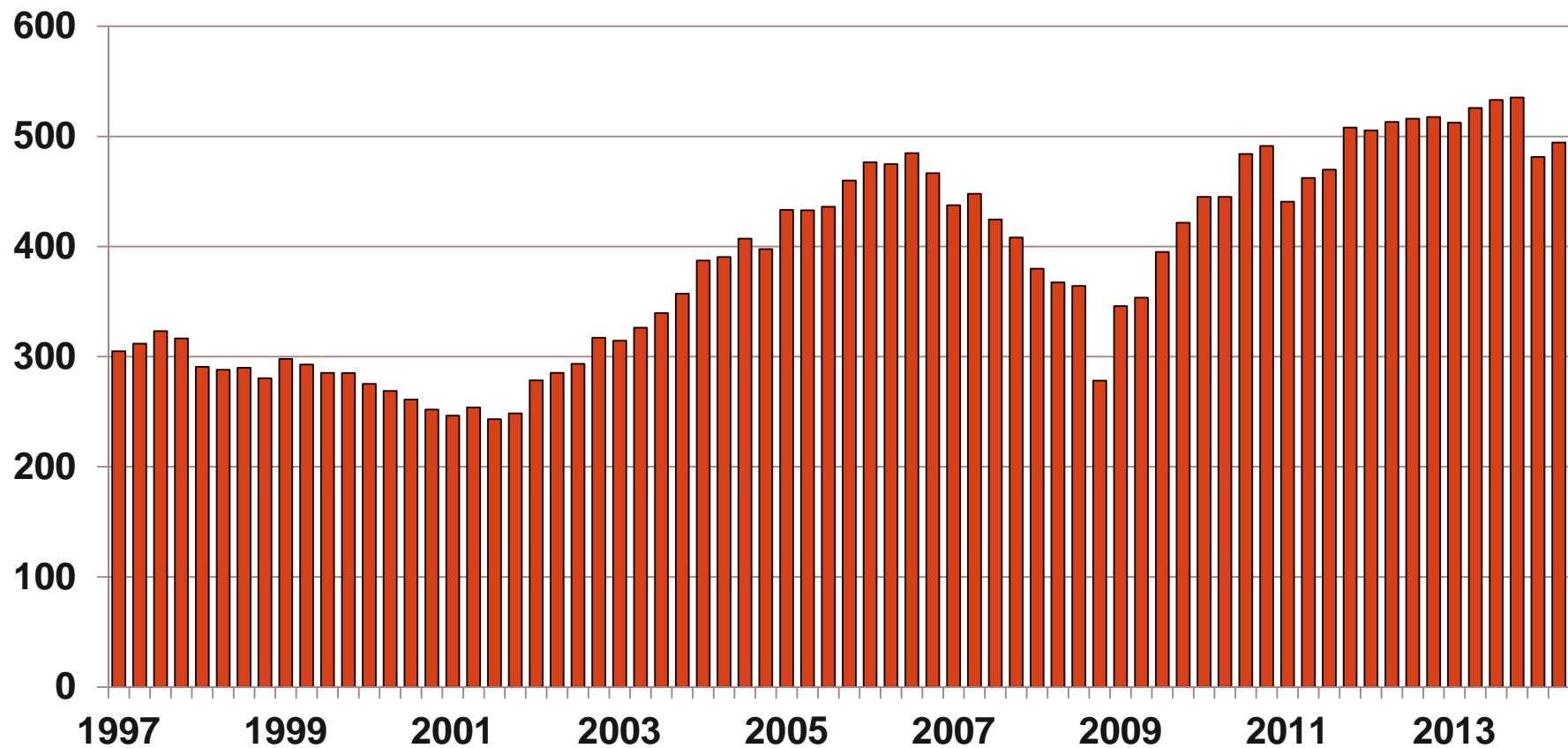
Sectors that use hotels generally fell less and are observing increased employment.

US Employment by Occupation
Indexed 12-Months Ending December 2007



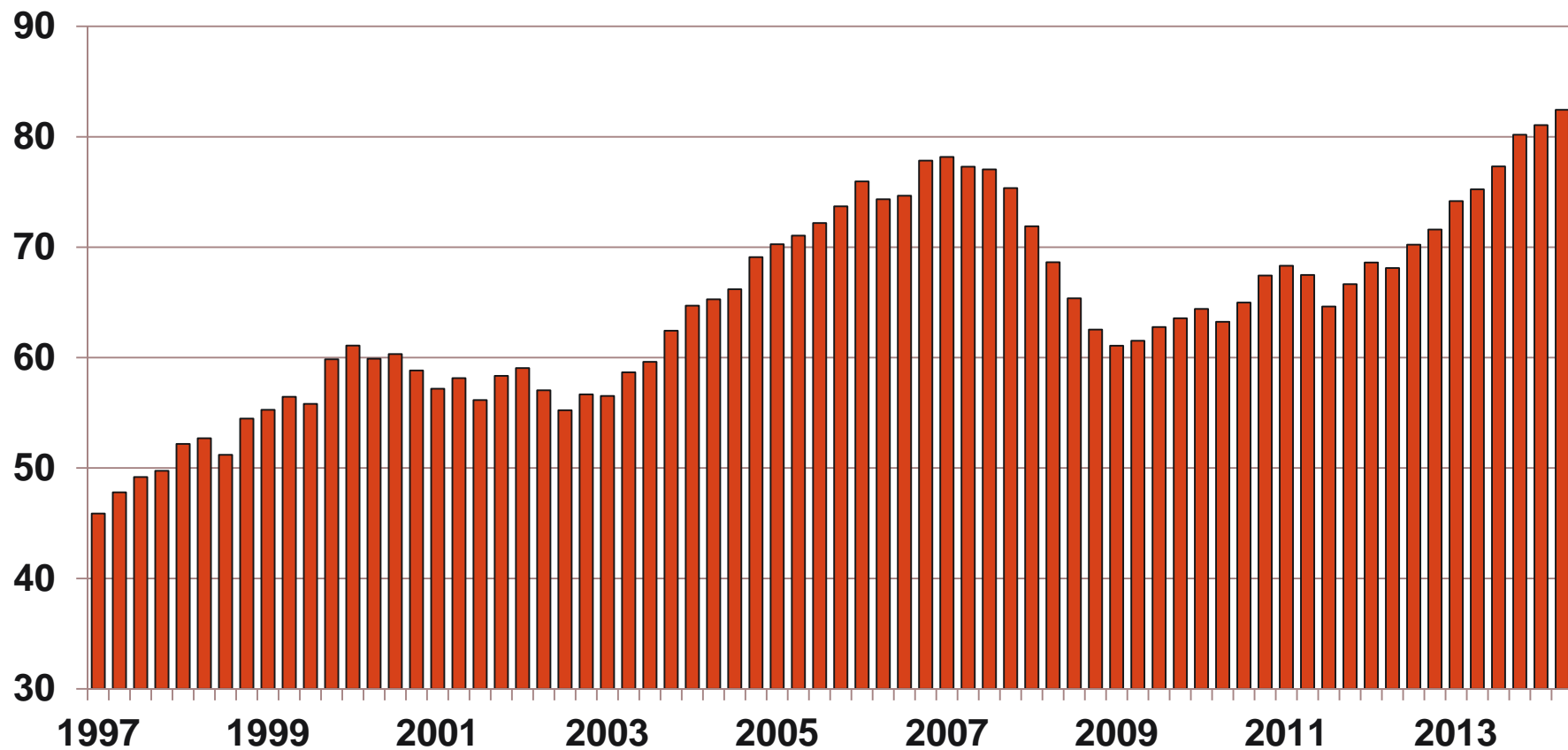
US corporate profits remain at a historically-high level, supporting business travel.

US Corporate Profits
2013 Base Year—In Billions



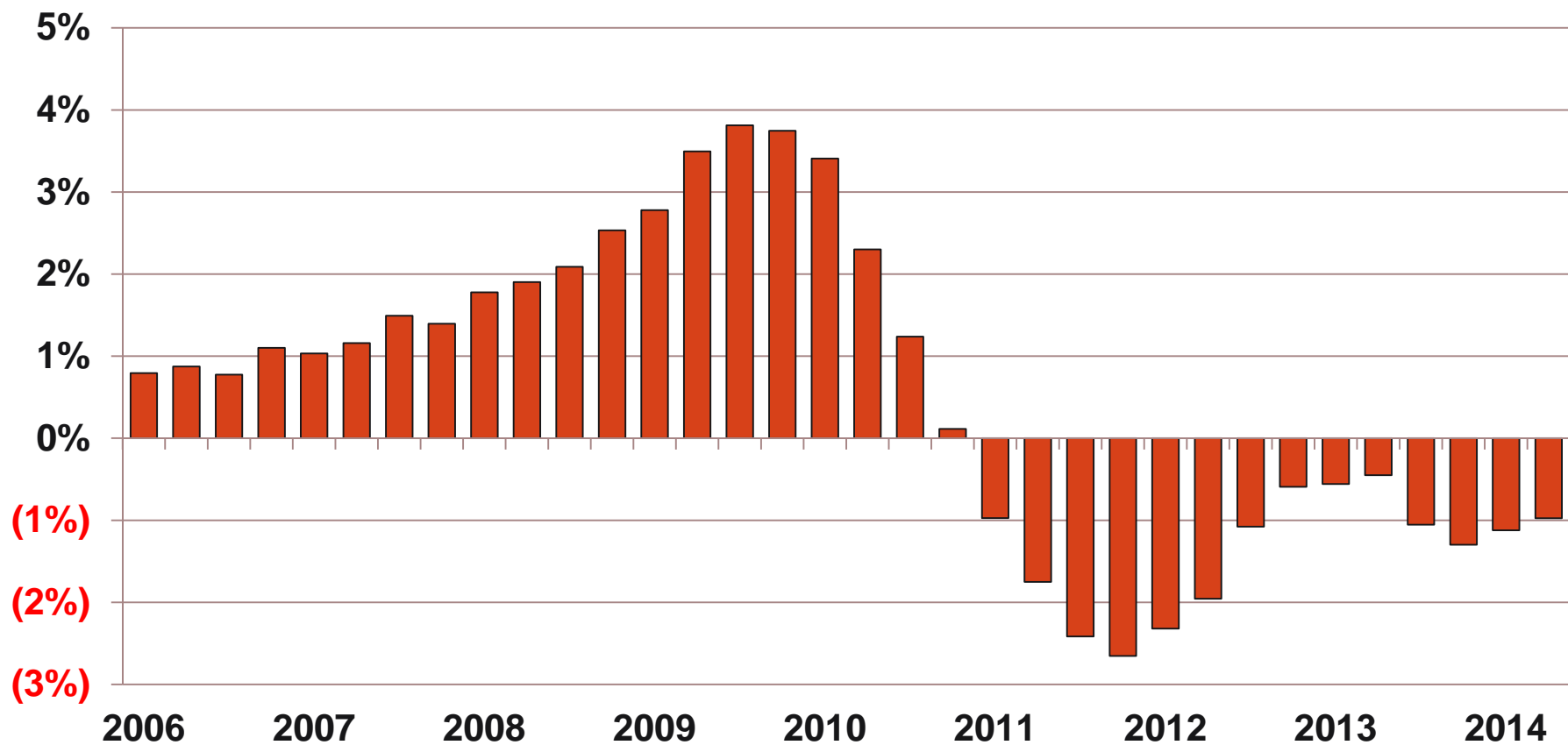
Household wealth is well past the pre-recession peak, supporting leisure travel.

Net US Household Wealth
2013 Base Year



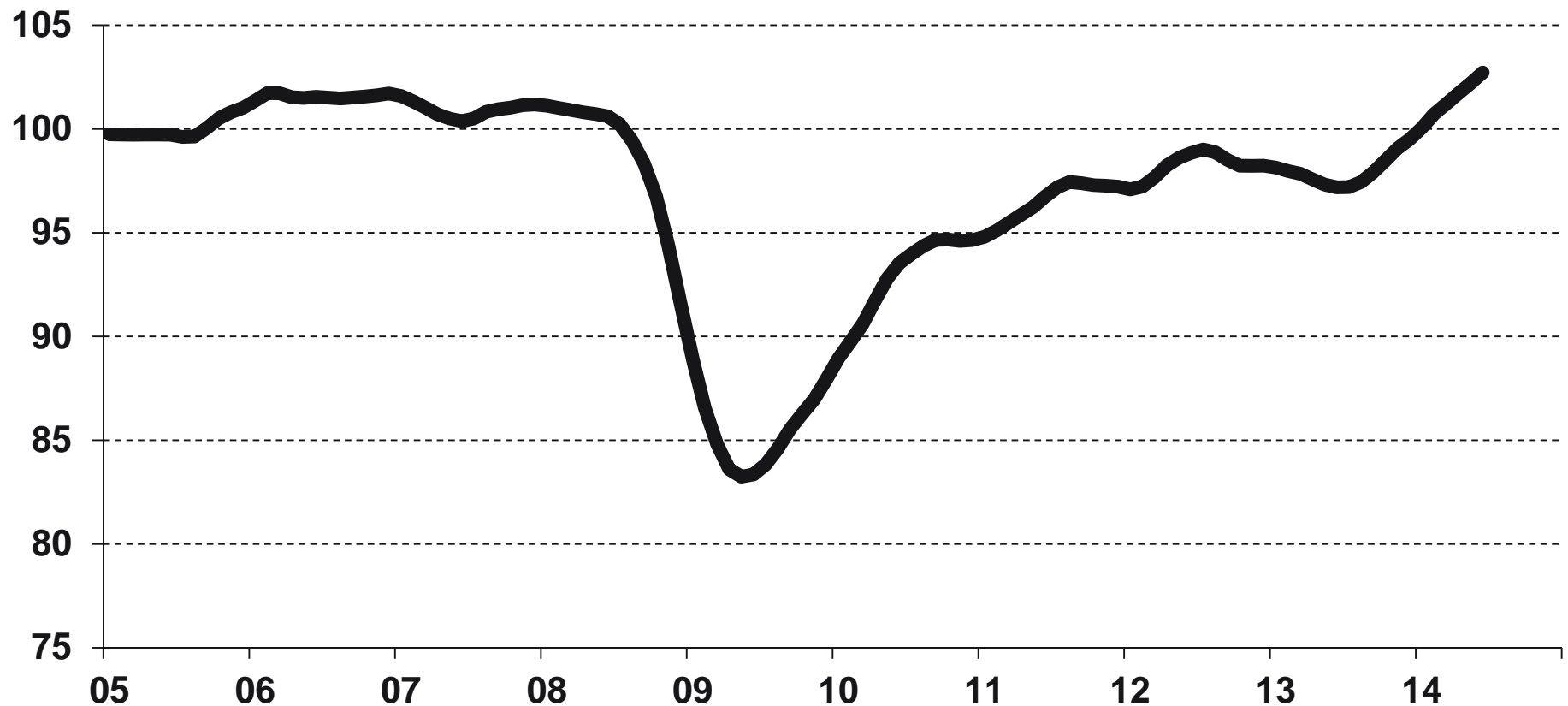
Government is becoming less of a drag on the economy, especially at the state and local level.

US Government Spending Change



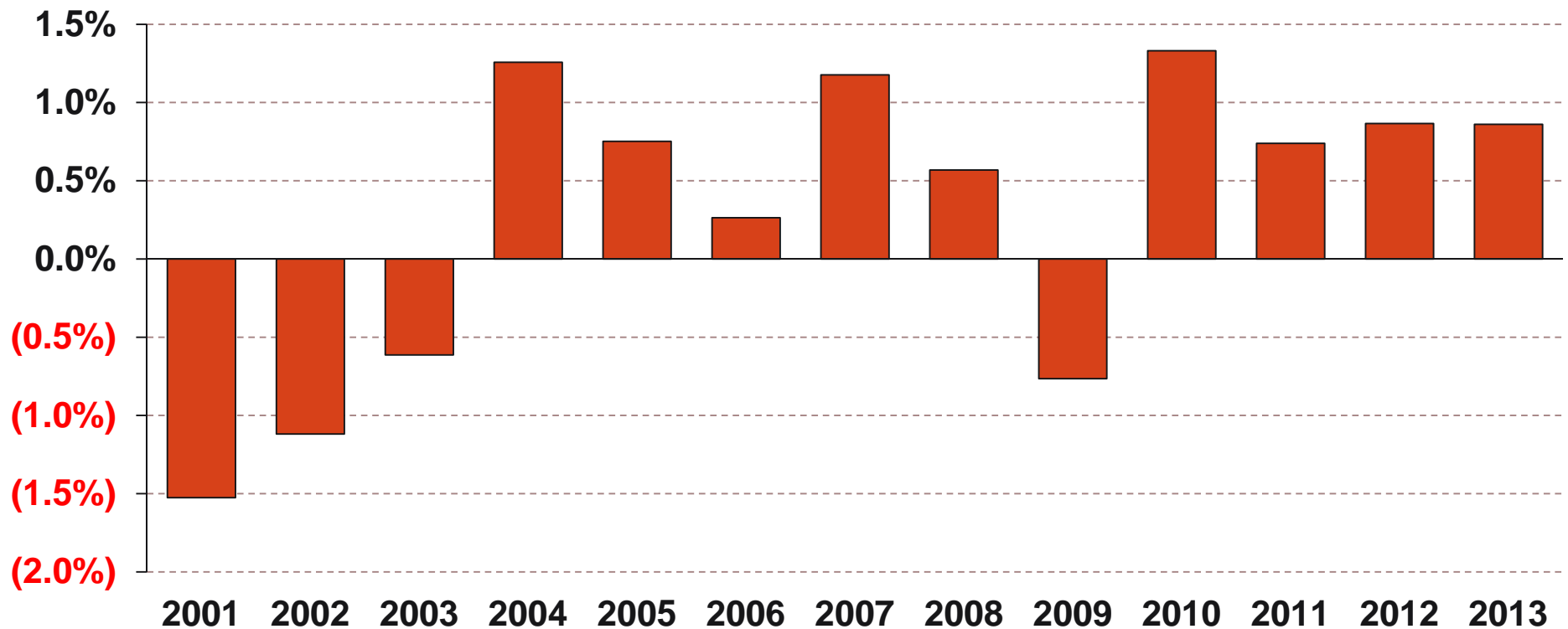
Group demand turned upwards in late 2013, further propelling demand growth.

Luxury & Upper Upscale Group Demand
Seasonally-Adjusted—2005 Index



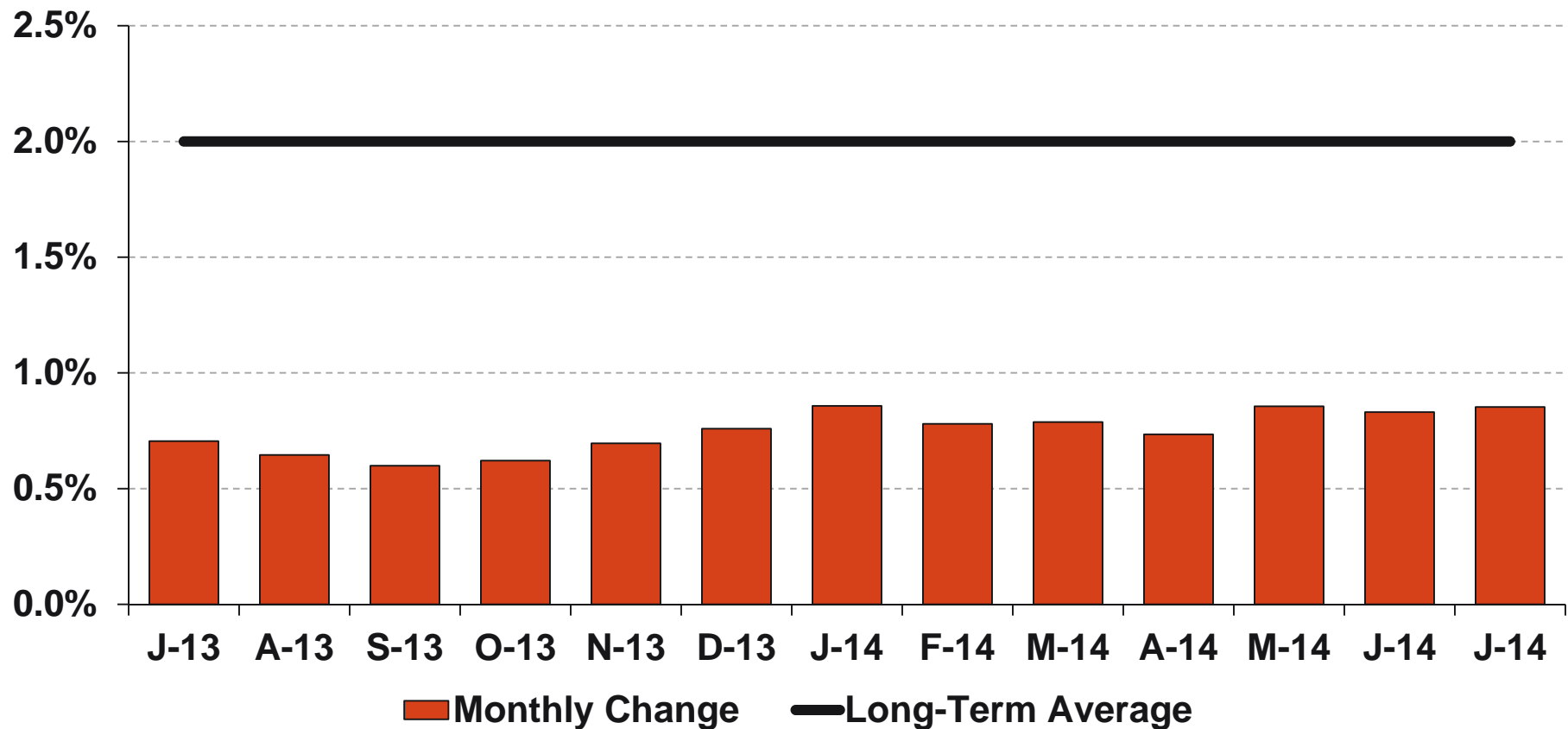
International demand has also kept rooms full.

International Traveler Demand
Contribution To Total US Demand Growth



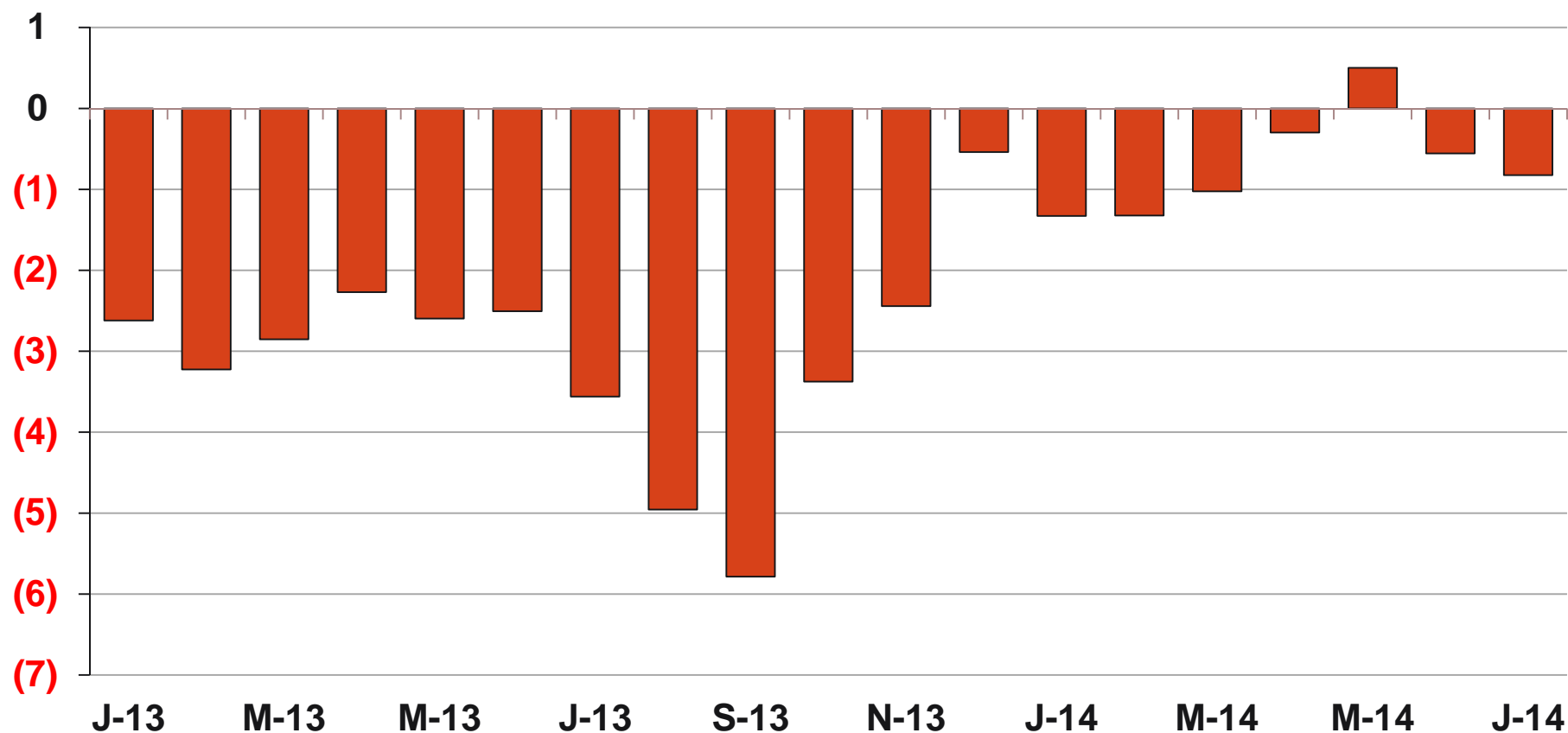
US supply growth has been nearly non-existent since the end of the recession.

US Industry Supply Change
Year-Over-Year Change



With limited supply and high demand growth, occupancy has neared all time highs set in 1995/1996.

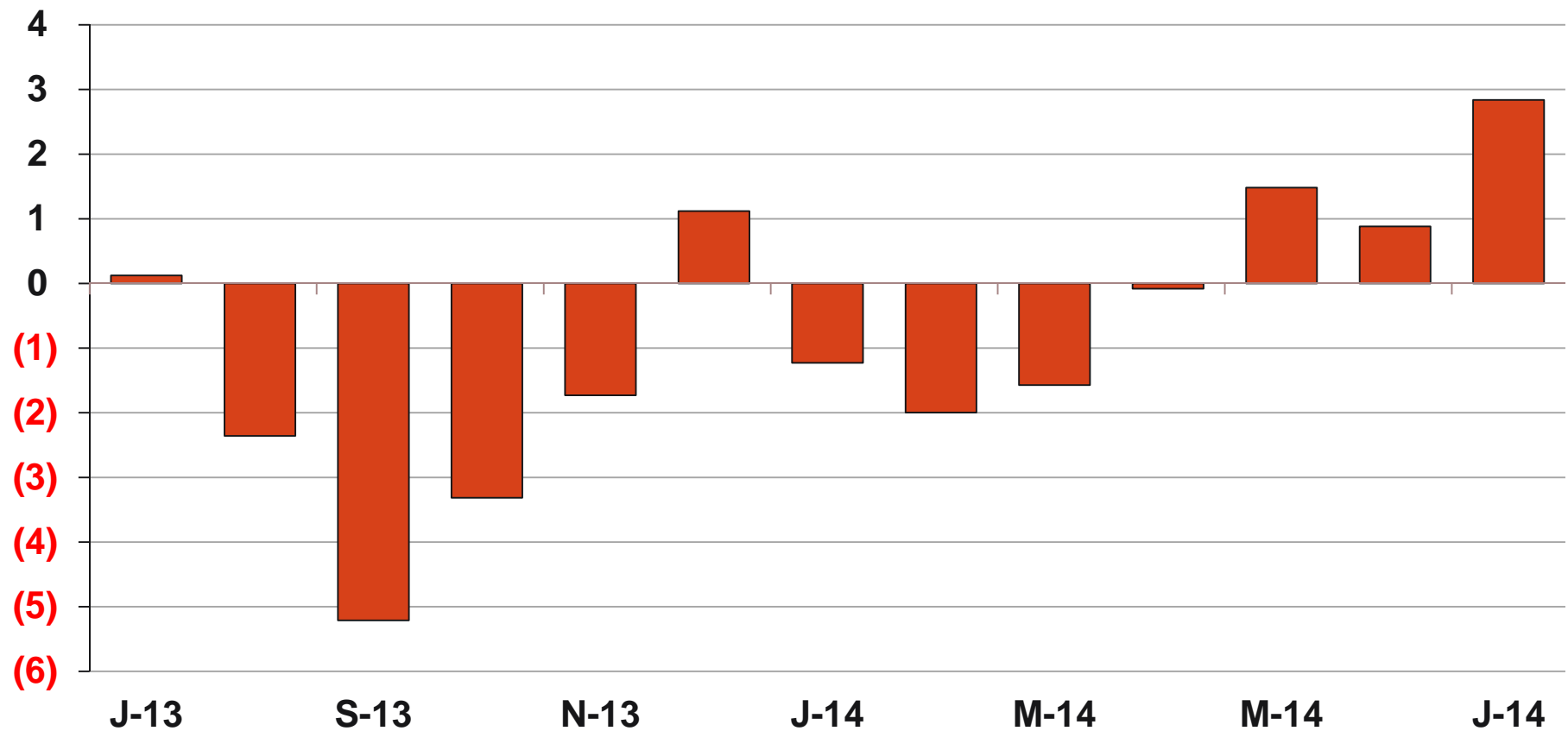
US Lodging Industry Occupancy Gap To Prior Record High



In fact, core business hotels have seen three straight months of record monthly occupancy.

US Lodging Industry Occupancy Gap To Prior Record High

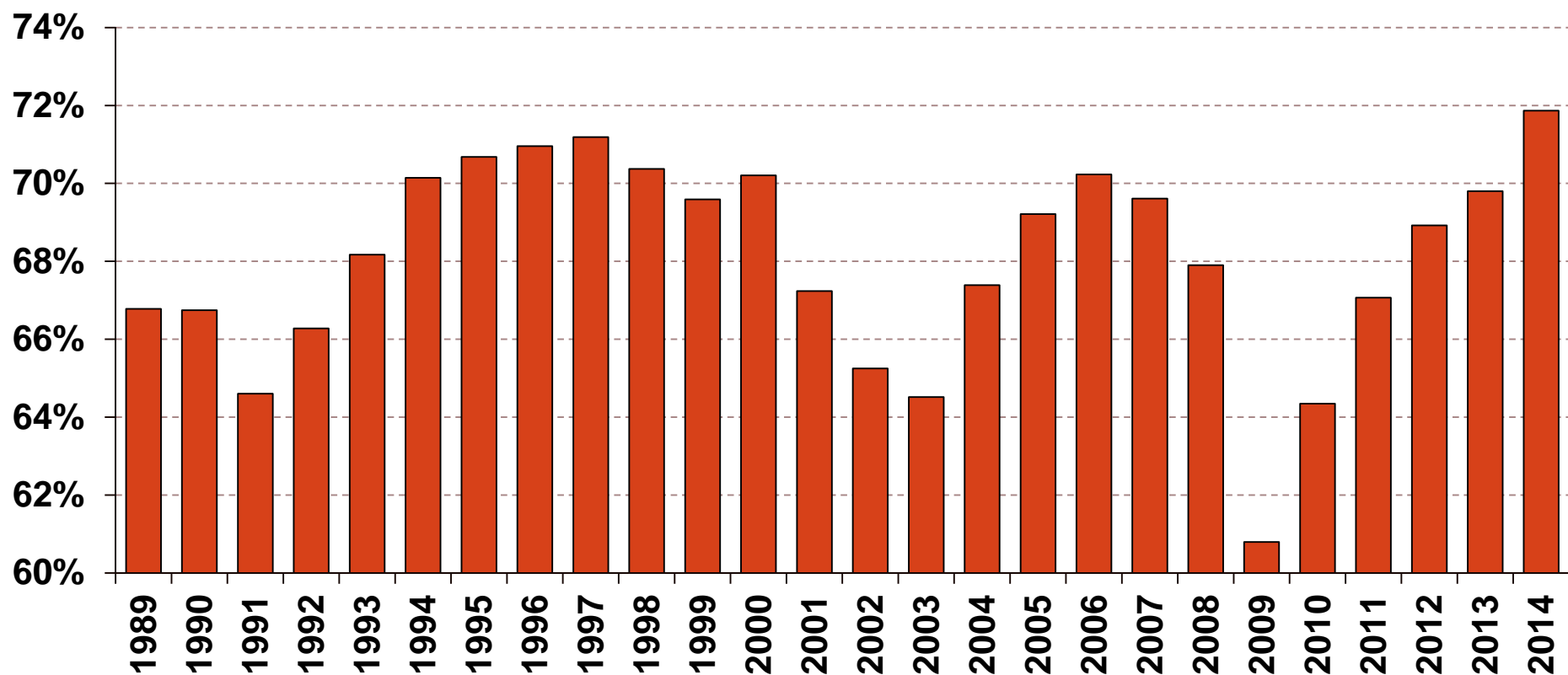
Luxury, Upper Upscale, Upscale and Upper Midscale Segments Only



Occupancy at core business hotels is at a YTD record high.

Core Lodging Occupancy

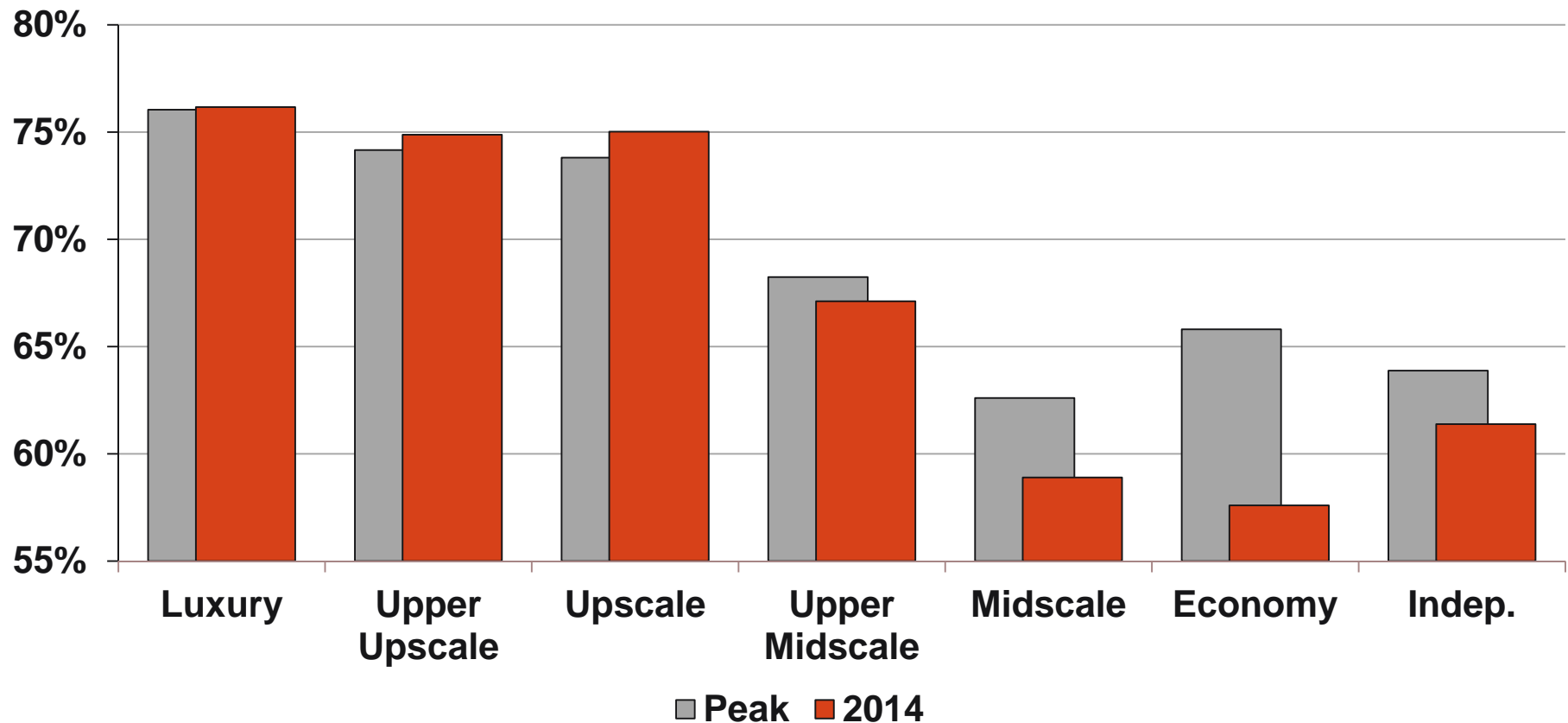
July YTD--Luxury, Upper Upscale, Upscale and Upper Midscale Segments Only



Nearly all core segments are at an all-time record occupancy.

US Lodging Industry Occupancy Gap To Prior Record High

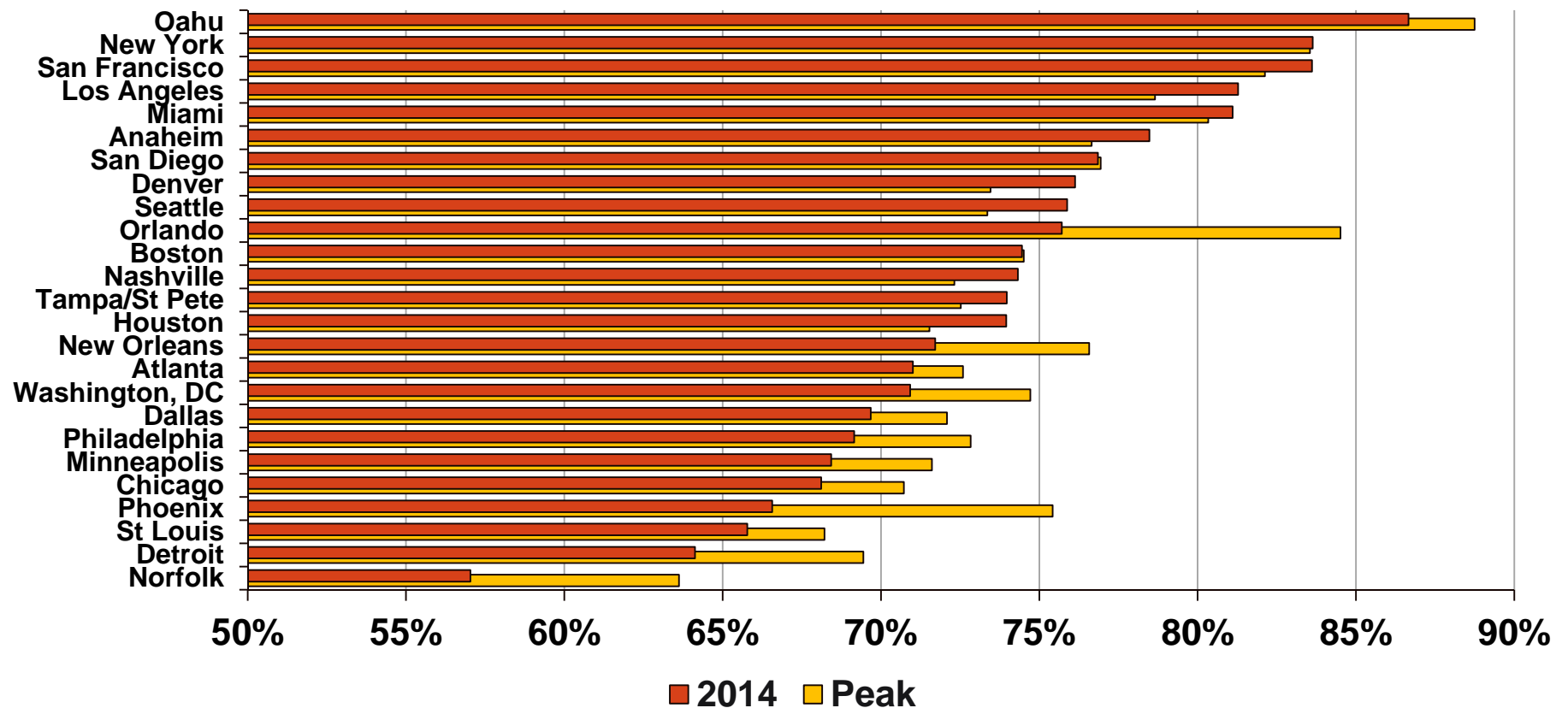
July 2014 YTD



Ten of the 25 largest US markets have record YTD occupancy

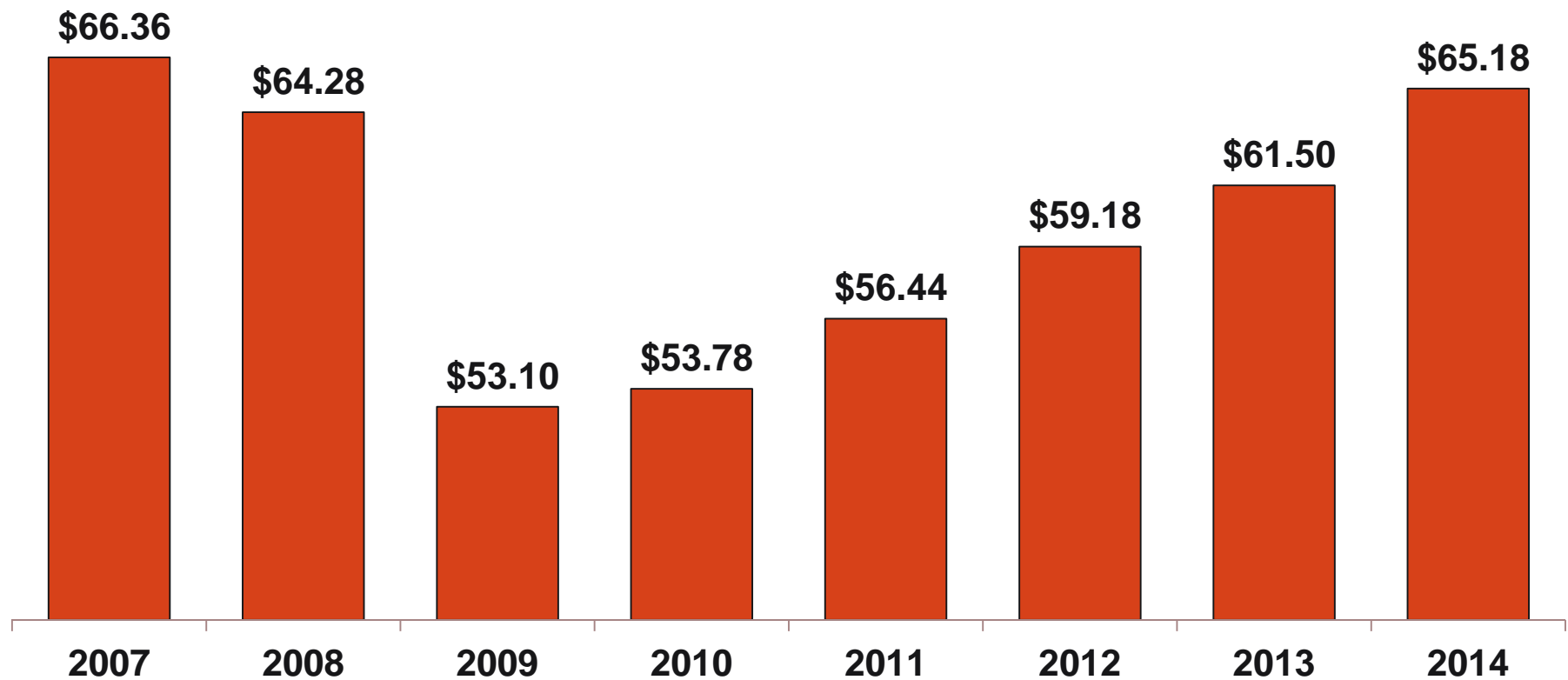
YTD Occupancy Versus Peak YTD Occupancy

July 2014 YTD



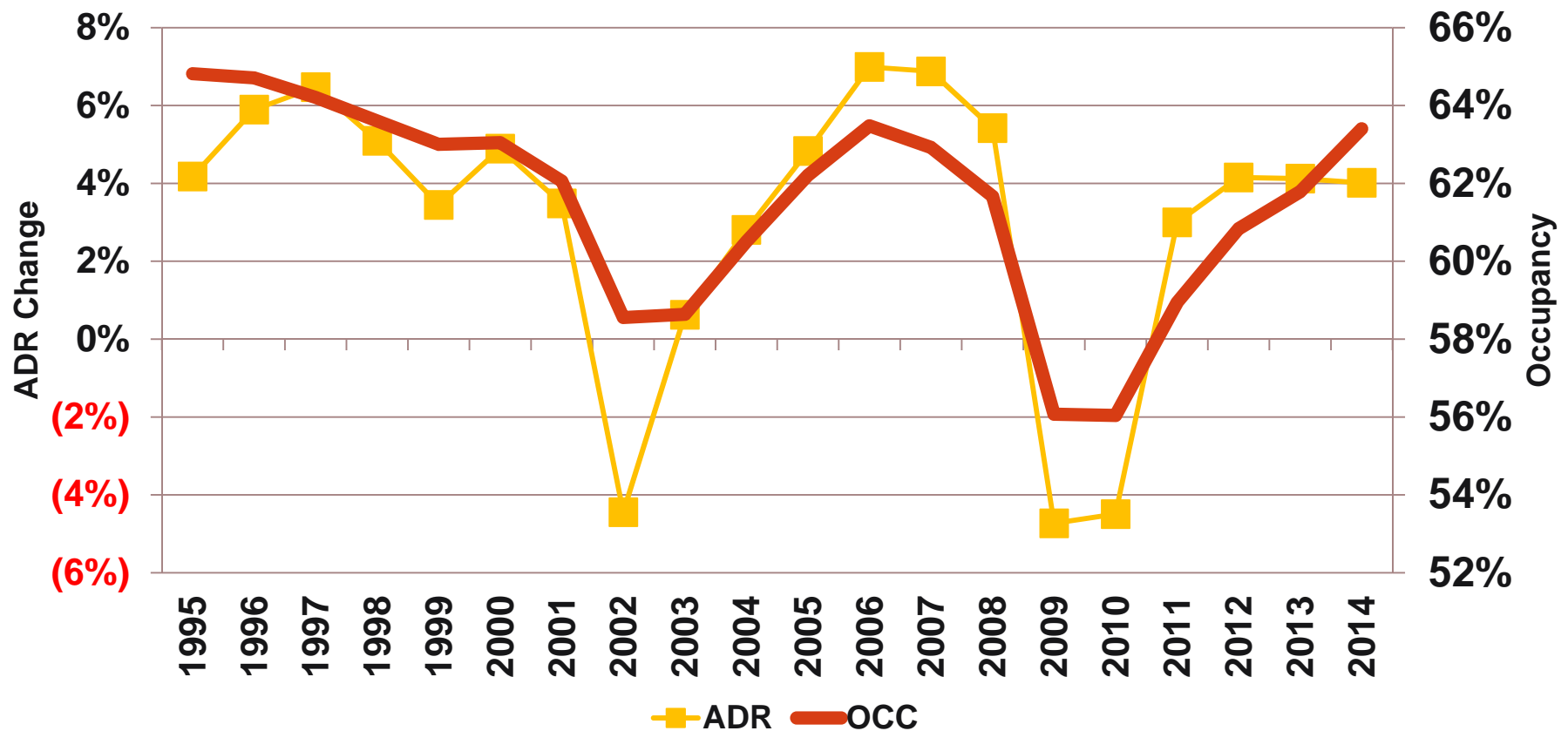
While real RevPAR is nearing the prior peak, it is masking a more serious issue.

US Lodging Industry RevPAR
July YTD—Inflation-Adjusted With 2007 Base Year



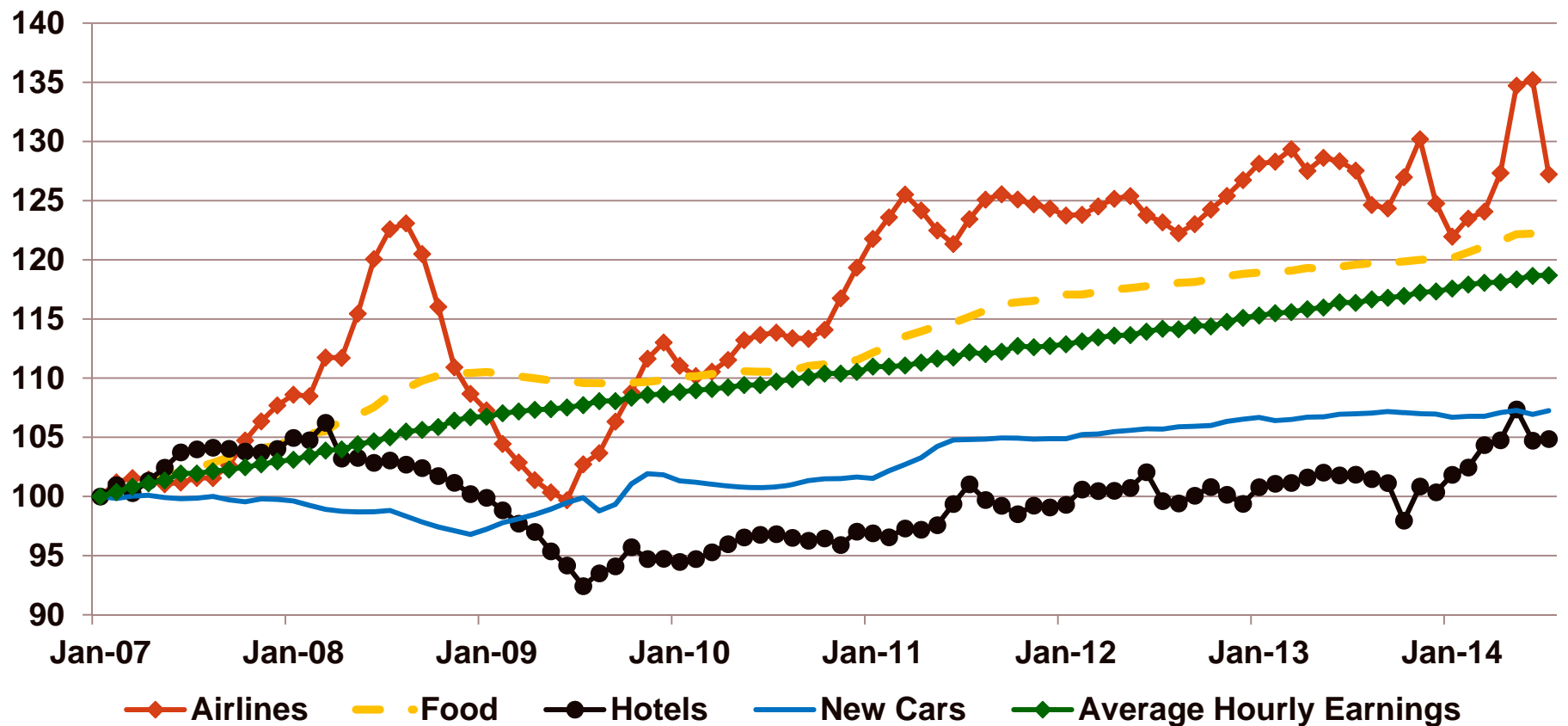
With occupancy at or near record levels, we would expect higher ADR growth.

US Lodging Industry Demand & ADR Change
12-Months Ending July



As compared to other indicators, lodging rate growth remains relatively low.

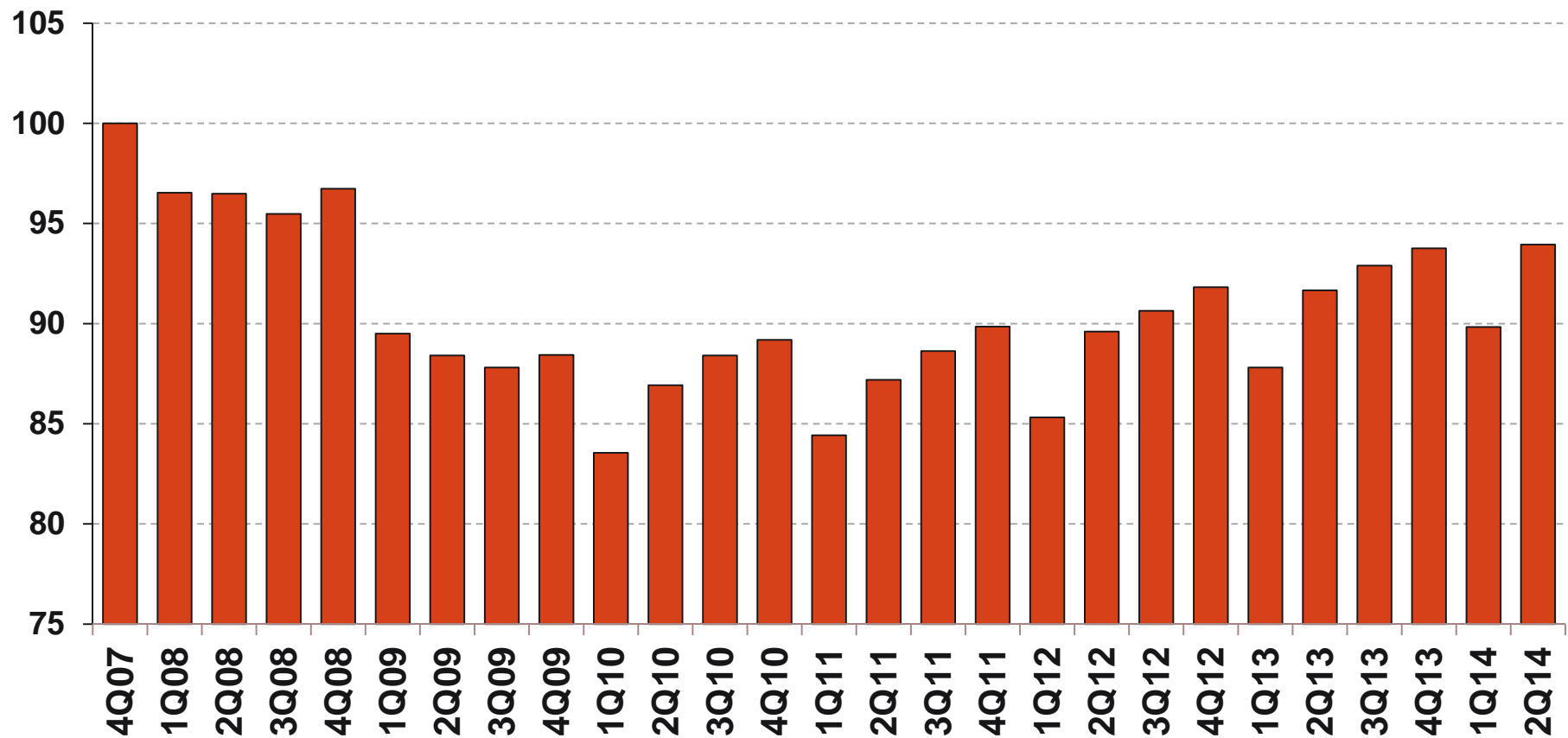
Monthly Price Indices Of US Goods & Services
Seasonally-Adjusted—2007 Index



ADR remains more than 5% below its pre-recession quarterly peak.

US Lodging Industry Quarterly ADR Gap

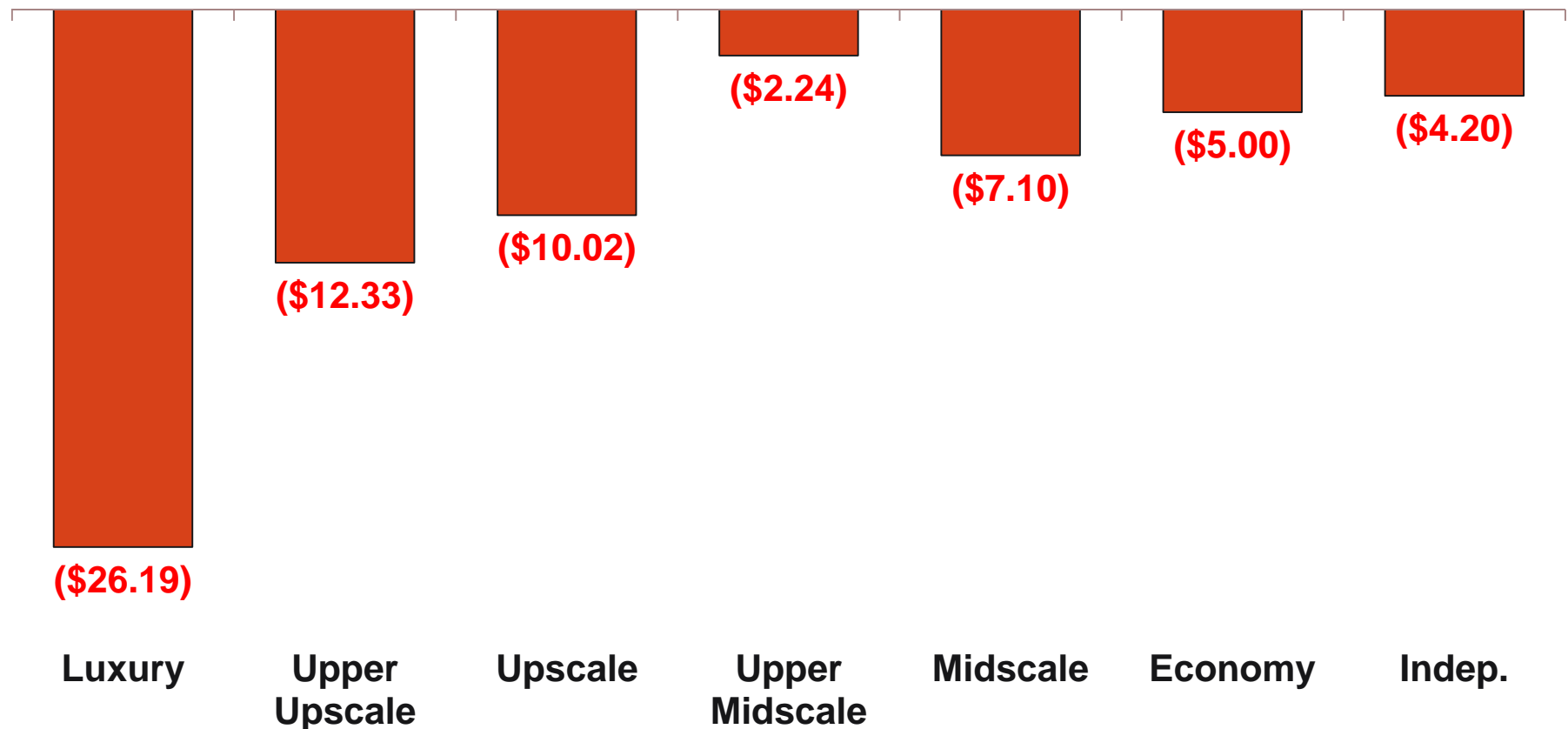
Seasonally-Adjusted—Inflation-Adjusted With 2007 Base Year—Indexed To Prior Peak



Even the strongest business segments have a sizable ADR gap as compared to the pre-recession peak.

US Lodging Industry Real ADR Gap To Previous Peak

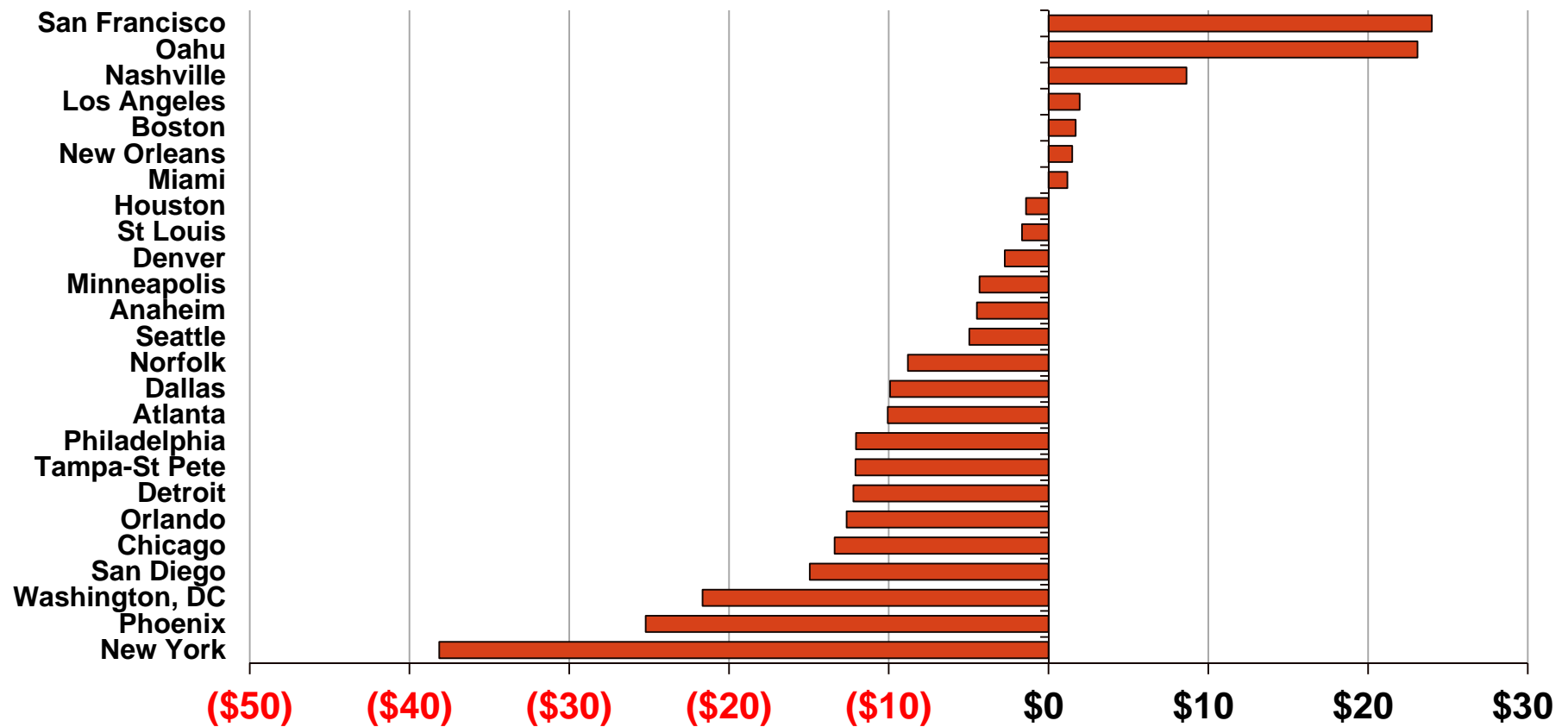
July 2014 YTD—Inflation-Adjusted With 2007 Base Year



With few exceptions, every major market's real ADR is lower today versus where it was prior to the recession.

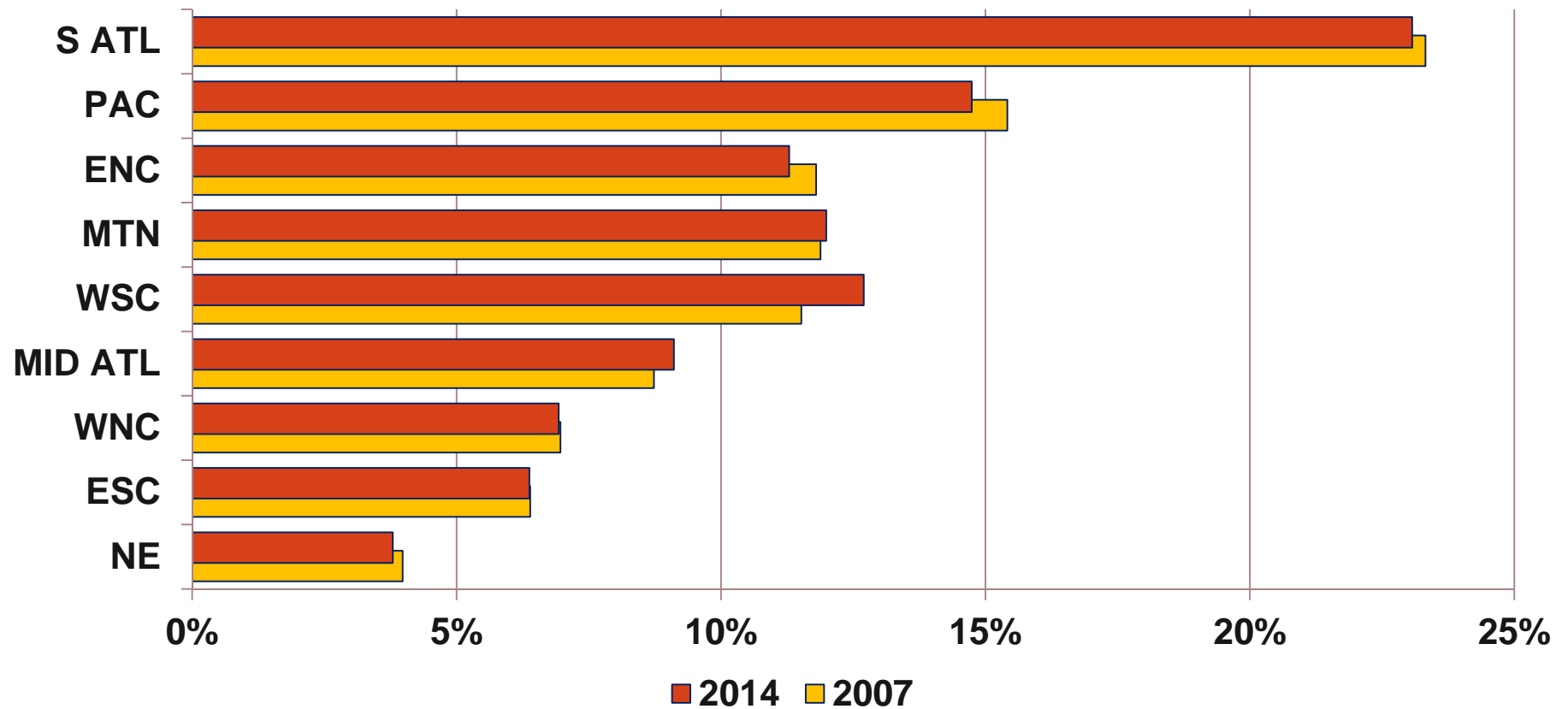
YTD ADR Versus Previous Peak

July 2014 YTD—Inflation-Adjusted With 2007 Base Year



Supply composition does not appear to be a big factor in the ADR differences.

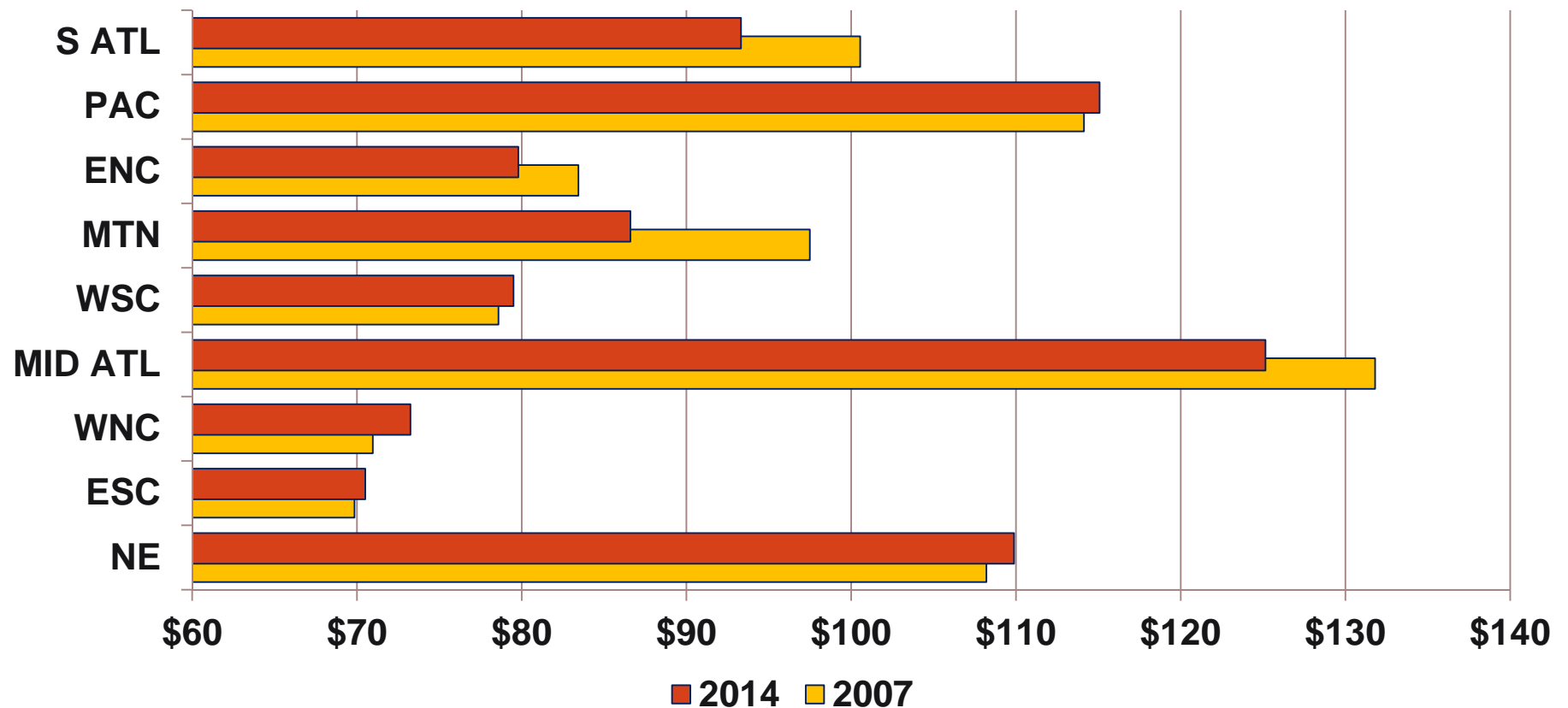
Industry Supply Composition
Percent Of Total Supply



Although the largest regions generally have the largest gap to pre-recession ADR peak.

Real YTD ADR By Region Comparison

2005 Base Year





NEWS

fear

economic turmoil

Oil

Perception

uncertainty

health care,

education

WORLD

uncertainty

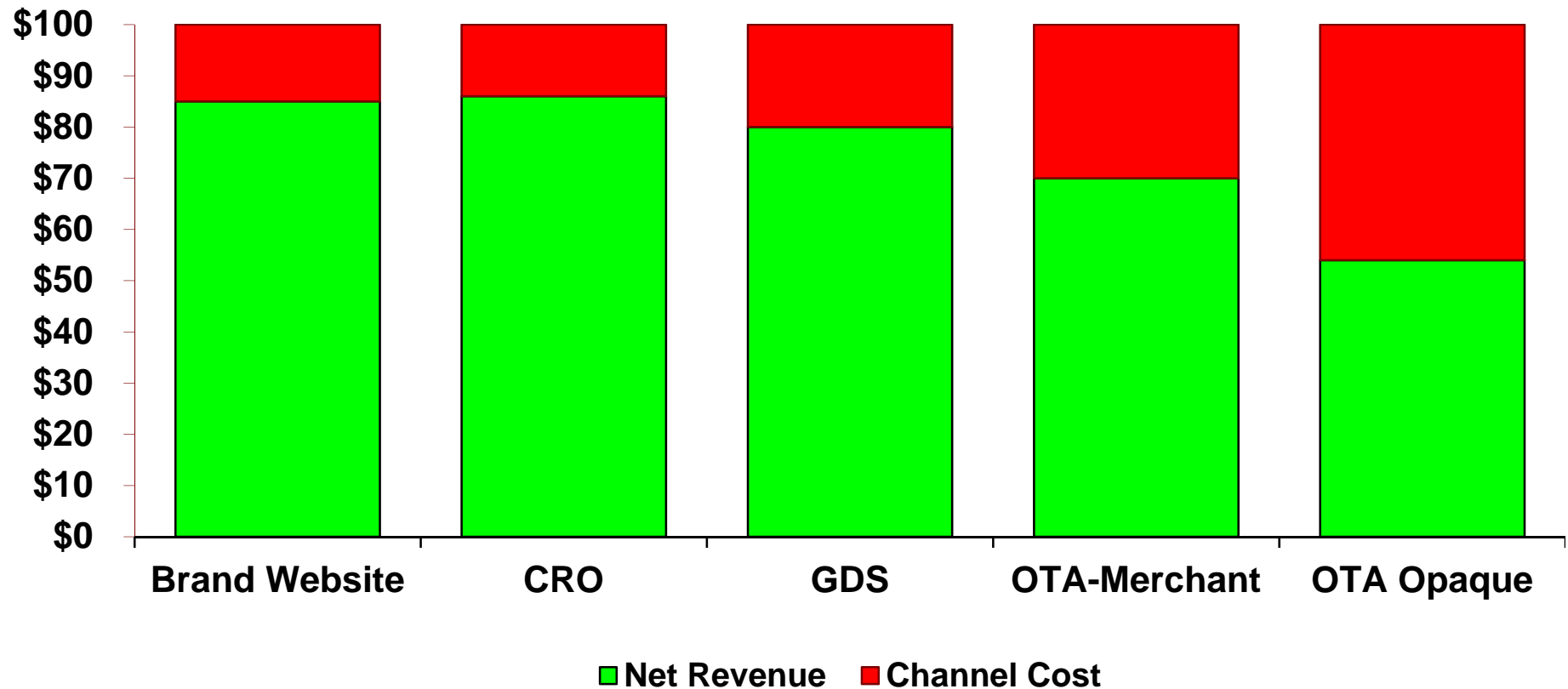
series

Vermont

NICK

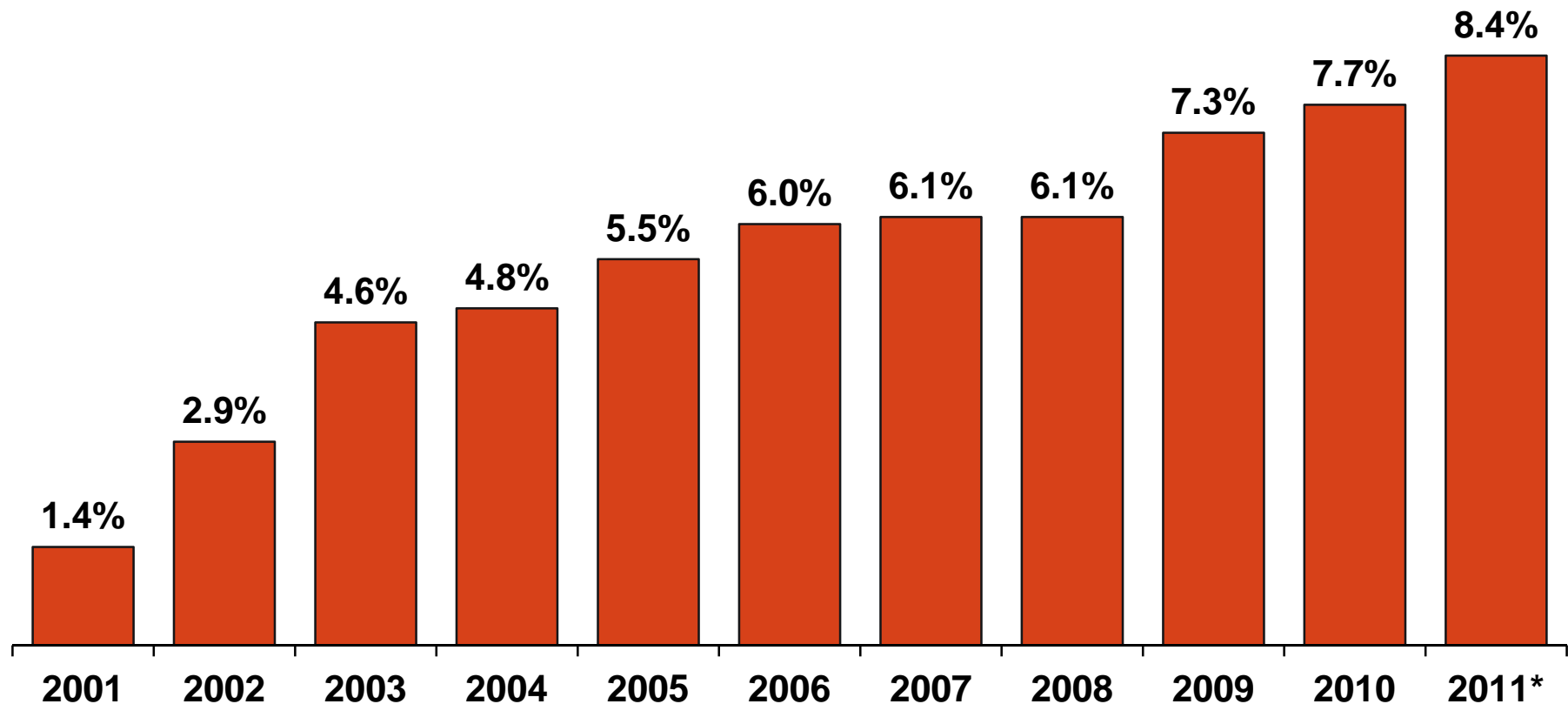
Acquisition costs are rising so margins and ADR will remain under pressure.

2010 Room Revenue Contribution



New channels are emerging and will grow similar to what we have seen with OTAs, impacting margins.

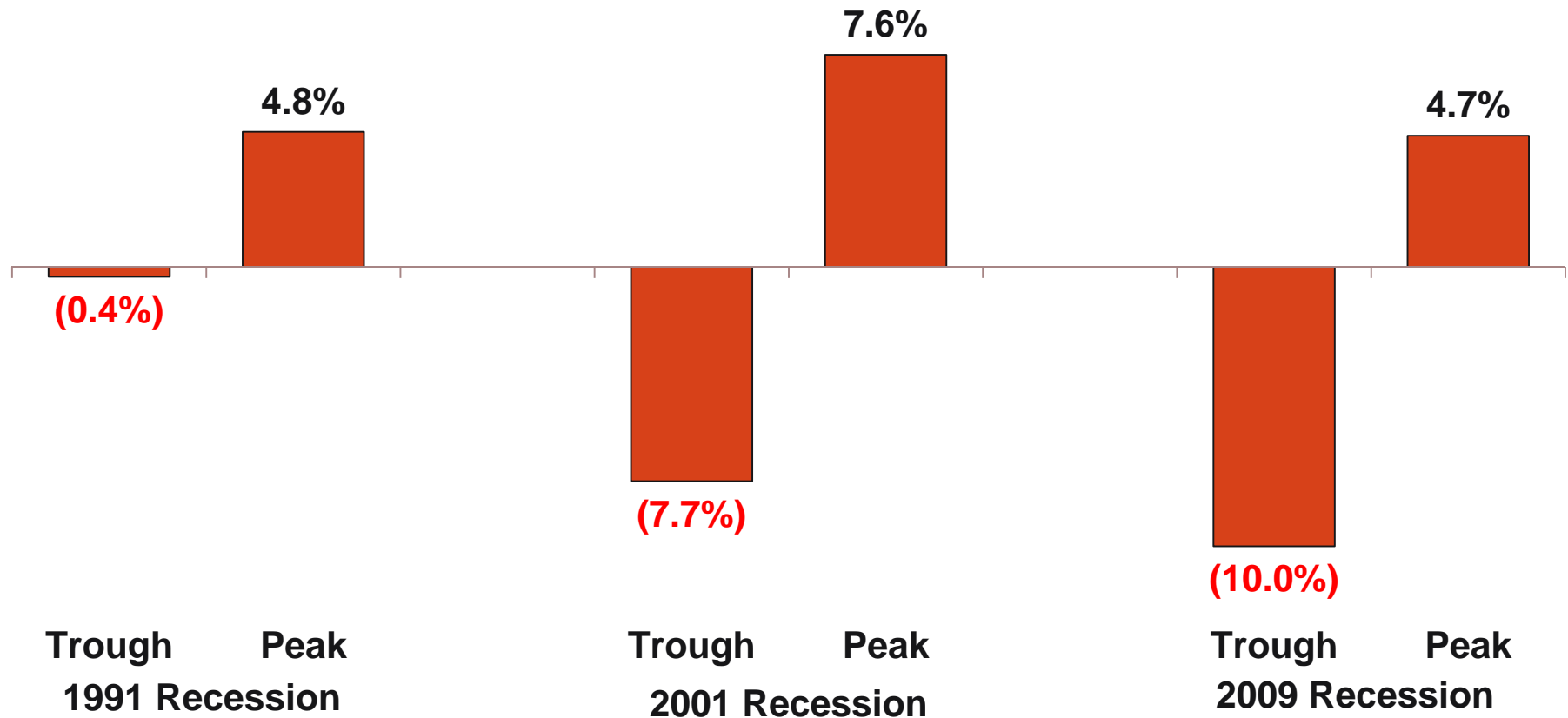
OTA Room Revenue Share



Five years from the recession, ADR growth is 300 bps lower than the previous recovery.

US Lodging Industry Quarter ADR Change

Quarterly ADR Change—18 Quarter From Trough To Match Current Cycle





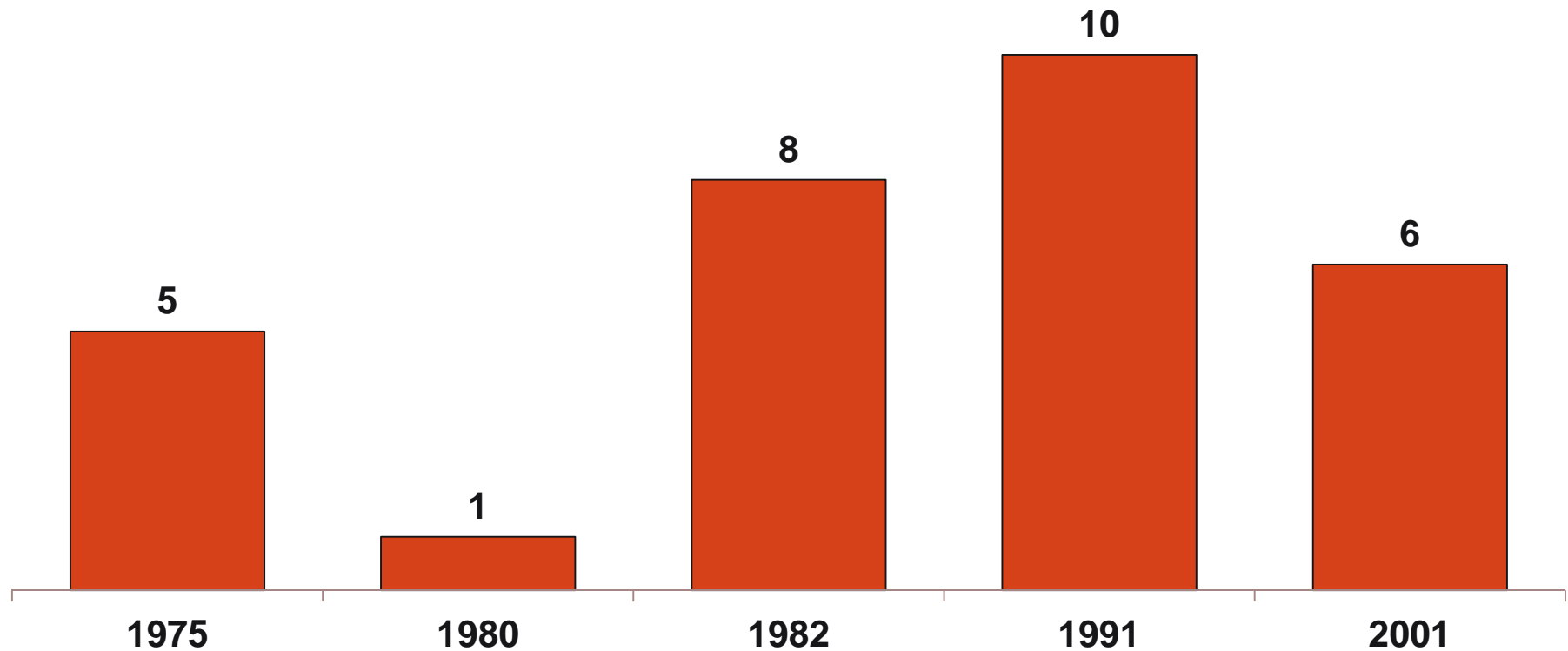
HELLO

my name is

**MISSED
OPPORTUNITIES**

Since 1948, on average, the US has seen a cyclical recession every five years.

Number of Year Between US Recessions



Final Thoughts

- High demand period but the industry is not healthy.
 - Distribution/business acquisition costs increasing rapidly.
 - ADR growth slowly responding.
- Look at economic and competitive data holistically
 - Too many operators are myopic.
- Use various sources of data and triangulate success strategies.
- Since 1948, a recession has occurred every 5 years on average.