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FAVORABLE FORECAST ACCURACY

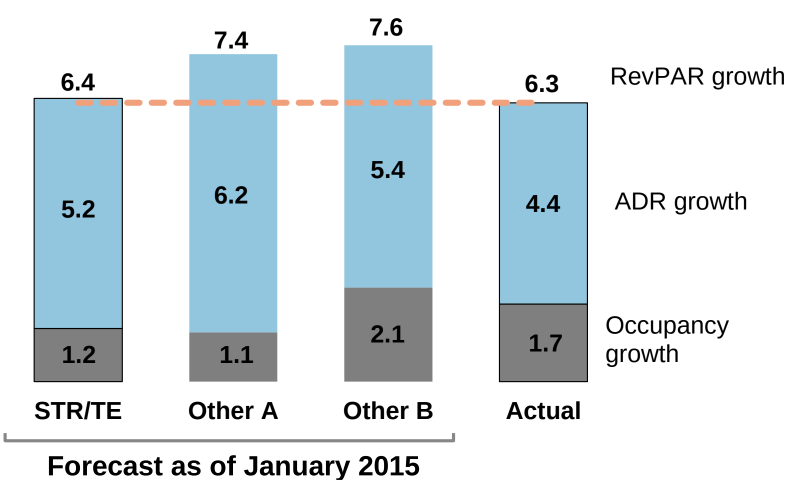
YEAR-END ASSESSMENT

MARCH 2016

We recently revisited our 2015 forecasts for US lodging industry performance to assess accuracy relative to actual results. The results were favorable. At the start of 2015, STR and Tourism Economics (STR/TE) released a joint forecast that anticipated RevPAR growth would slow from greater than 8% in 2014 to 6.4% in 2015. Actual 2015 RevPAR growth was 6.3%, just 10 basis points lower than forecast.

Compared to other more bullish industry forecasters, this expectation for slower industry performance proved a prescient call. The more conservative expectations in the STR/TE forecast correctly anticipated the more gradual pace in store for the year, as summarized in Figure 1.

Fig. 1: January forecast of 2015 performance



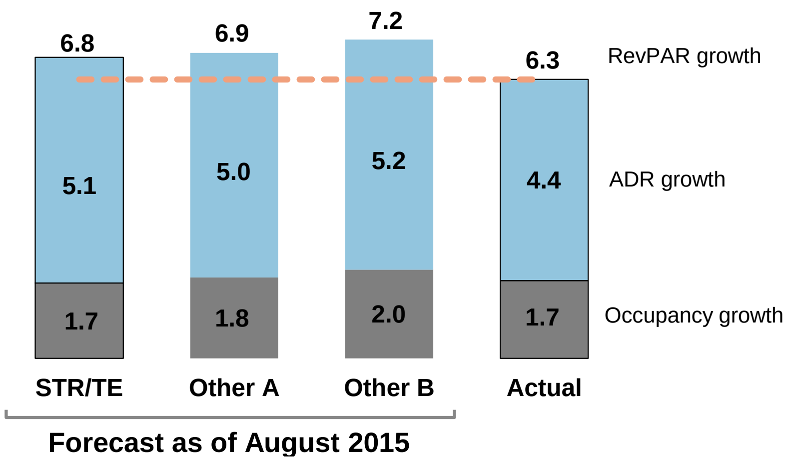
Source: STR, Inc.; Tourism Economics

At the start of the year, STR/TE anticipated a gradual acceleration of ADR growth from 4.5% in 2014 to 5.2% in 2015. While this was more restrained than the outlook held by other forecasters, it proved optimistic, as ADR did not accelerate and instead maintained a steady pace, posting a 4.4% gain for

2015 overall. Demand, which had exceeded expectations by a wide margin in 2014 with a 4.2% gain, once again surprised to the upside, expanding 2.9% in 2015. This stands in contrast to the broader economy, which expanded moderately. Meanwhile, even as the hotel development pipeline gathered momentum, openings were moderate and room supply expanded only 1.1%, short even of STR/TE's conservative forecast expectations at the start of the year for 1.3% growth.

The STR/TE RevPAR outlook remained largely stable through each of the quarterly forecast releases in 2015. The highest it reached was 6.8% with the August forecast release. Even at this point, it was a more conservative outlook than held by other forecasters as shown in Figure 2, and it correctly anticipated occupancy growth of 1.7% for the year.

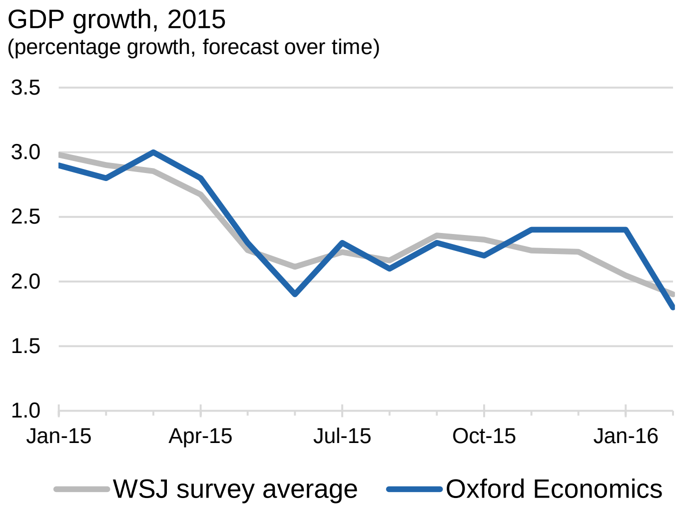
Fig. 2: August forecast of 2015 performance



Source: STR, Inc.; Tourism Economics

Macroeconomic conditions during 2015 proved weaker than initially anticipated. At the start of the year, Oxford Economics, the parent company of Tourism Economics, anticipated 3.3% GDP growth in 2015 on an annual average basis. This outlook eased as momentum at the end of 2014 proved weaker than initially estimated, and as the stronger dollar and weaker global growth weighed on growth during the year. By May, Oxford Economics reduced its 2015 GDP outlook to 2.3% (on a fourth-quarter-over-fourth-quarter basis). This forecast reduction was in line with the changes in consensus forecasts, as shown in Figure 3. It is notable that despite this weaker macroeconomic climate, lodging performance held up well.

Fig. 3: Evolution of GDP assumptions



Note: Graph shows monthly releases of estimated 2015 Q4/Q4 GDP growth.
Source: Wall Street Journal; Tourism Economics

We also assessed forecast accuracy by chain scale. The largest differences between forecast and actual were in the luxury and upper upscale segments, where RevPAR growth proved weaker than initially forecast. In addition to weaker occupancy gains than anticipated, the luxury and upper upscale segments experienced weaker ADR gains in 2015 than any of the other segments. In the other segments, in terms of RevPAR, upscale underperformed, the upper midscale and economy segments performed largely as expected, and midscale and independent outperformed.

Overall, this forecast assessment reflects a favorable year of forecast performance. Additional detail for each of the quarterly forecast releases is provided in Figure 4. The February 2015 forecast was initially released in January 2015 at the Americas Lodging Investment Summit and is referred to as the January forecast in the text of this document.

Fig. 4: Forecast of 2015 growth

	Forecast release month				Actual
	2015-Feb	2015-May	2015-Aug	2015-Nov	2016-Feb
US					
Supply	1.3%	1.3%	1.2%	1.1%	1.1%
Demand	2.4%	2.6%	2.9%	2.8%	2.9%
Occupancy	1.2%	1.4%	1.7%	1.7%	1.7%
ADR	5.2%	5.2%	5.1%	4.8%	4.4%
RevPAR	6.4%	6.6%	6.8%	6.5%	6.3%
RevPAR by chain scale					
Luxury	6.1%	6.1%	5.9%	5.4%	4.7%
Upper upscale	6.3%	6.2%	5.9%	5.4%	4.8%
Upscale	6.5%	6.0%	6.1%	6.0%	5.6%
Upper midscale	6.5%	7.1%	7.0%	6.4%	6.3%
Midscale	5.2%	6.1%	6.5%	6.7%	6.3%
Economy	6.2%	7.1%	7.2%	6.7%	6.5%
Independent	5.7%	6.1%	6.9%	7.0%	7.1%

Note: Percentages reflect forecasted growth of the annual average from 2014 to 2015.

Source: STR, Inc.; Tourism Economics

BACKGROUND

Tourism Economics has worked with STR to develop a suite of models to accurately track and forecast hotel performance across a number of markets worldwide. Robust equations have been econometrically estimated that closely follow past movements in hotel performance as measured by STR data. These equations are used to forecast hotel performance using economic forecasts from Oxford Economics' global macroeconomic database, and Oxford Economics' and Tourism Economics' global city and region forecasts.

The US and chain scale forecast results presented in this assessment are published as a quarterly subscription product by STR, Inc. Additional information is available online through STR or Tourism Economics.

March 2, 2016

All data shown in tables and charts are STR, Inc. and Tourism Economics' own data, except where otherwise stated and cited in footnotes.

The modelling and results presented here are based on information provided by third parties, upon which Tourism Economics has relied in producing its report and forecasts in good faith. Any subsequent revision or update of those data will affect the assessments and projections shown.

To discuss the report further please contact:

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