



## Lodging Outlook

As we approach the end of the year, the performance of the US lodging industry continues to be driven by growth in individual business and leisure travelers, partially offset by weak group demand.

Where are we at the cycle? It is our belief that we are currently at the later innings of the recovery. RevPAR in this part of the cycle is characterized by flat to slightly lower occupancy levels and modest ADR growth. We note that transient and group ADRs are exhibiting similar behavior to the later stages of past cycles, showing a possible cautionary signal in which transient is first to lose rate power followed by group as the group booking window is considerably more elongated relative to transient. At this juncture, we anticipate RevPAR growth to further decelerate in 2018 and 2019.

When thinking about the potential length of the current lodging cycle, we believe it is useful to review prior cycles (1991-'01 and 2002-'08), paying particularly close attention to the relationship between demand growth and supply growth. It is worth noting that while the current cycle has lasted 96 months so far (since RevPAR troughed during the downturn to October 2017), we've had 84 months of demand growth exceeding supply growth. The real key to anticipating the next peak in RevPAR is simple: figure out when demand growth will no longer outpace supply growth. The previous cycle (2002-2018) only lasted 74 months (after trough demand until peak RevPAR), but the one prior (1991-2001) to that lasted a full 10 years (120 months after trough demand to peak RevPAR). In that cycle, we had 71 consecutive months of demand growth outpacing supply growth.

Exhibit 1: RevPAR Forecast Model

	2011	2012	2013	2014	2015	2016	2017(E)	2018(E)
Occupancy	60.0%	61.4%	62.3%	64.4%	65.4%	65.4%	65.7%	65.7%
% change	240bps	140bps	90bps	210bps	100bps	0bps	30bps	0bps
ADR	\$101.8	\$106.0	\$110.0	\$115.1	\$120.3	\$124.1	\$126.6	\$129.1
% change	3.8%	4.2%	3.8%	4.7%	4.5%	3.0%	2.0%	2.0%
<b>RevPAR</b>	<b>\$61.1</b>	<b>\$65.1</b>	<b>\$68.5</b>	<b>\$74.2</b>	<b>\$78.7</b>	<b>\$81.2</b>	<b>\$83.2</b>	<b>\$84.8</b>
% change	8.1%	6.6%	5.3%	8.2%	6.1%	3.2%	2.5%	2.0%

Source: Smith Travel Research and Deutsche Bank

**2018 Outlook.** For 2018, we believe US RevPAR will increase to \$84.8 (+2.0% versus \$83.2) owing to higher ADR of \$129.1 (+2.0% versus \$126.6), partially offset by flat occupancy of 65.7%. We note that our RevPAR forecast is modestly below the estimates put forth by CBRE (+2.5%), PwC (+2.5%) and STR (+2.2%).

Room supply growth remained well below historical levels from 2011 to 2015; however, it has gradually increased since then. In October, the number of domestic hotel rooms increased to 5.18 million (+1.7% versus the prior year). Meanwhile, the number of room nights available (which reflects the cumulative effect of rooms opened over the past 12 months), increased by 1.9%. Most markets have a manageable supply pipeline in the near term, although construction is brisk in a few markets like Nashville, New York, Seattle, Denver, and Dallas. Of importance, New York City-area construction activity (10.7% of existing supply) is concentrated in Upscale and Upper Midscale (select-service) hotel rooms in Midtown South/Times Square and outer boroughs.