2013 Texas Trends® Hotel Industry Report

Galveston Hotel & Lodging Association

October 8, 2013

PKF CONSULTING USA

Presentation Outline

PKF CONSULTING USA

I. **The Economy**

II. Lodging Forecasts – U.S.

III. Lodging Forecasts - Texas

IV. Galveston

V. The Lodging Cycle

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United States: Economic Outlook

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	Employment	Personal Income	GDP	CPI (Inflation)
2012	1.7%	1.8%	2.2%	2.1%
2013	1.5%	2.1%	2.2%	2.0%
2014	1.7%	4.2%	3.4%	2.1%
2015	2.6%	4.6%	4.2%	2.4%
2016	2.3%	4.0%	3.3%	2.5%
2017	1.4%	2.9%	2.6%	2.4%

Source: Moody's Analytics, July 2013

Houston: Economic Outlook

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	Employment	Personal Income	GMP	CPI (Inflation)
2012	3.8%	4.8%	5.7%	1.8%
2013	4.0%	3.5%	3.9%	1.3%
2014	3.0%	2.9%	3.9%	2.3%
2015	3.2%	5.4%	5.3%	2.6%
2016	3.5%	5.9%	5.3%	2.7%
2017	2.5%	4.2%	3.7%	2.6%

Source: Moody's Analytics, July 2013

Unemployment Comparison*

	July 2012	July 2013
United States	8.6%	7.7%
Texas	7.4%	6.7%
Austin	6.3%	5.6%
Dallas/Fort Worth	7.2%	6.4%
Houston	7.3%	6.5%
San Antonio	7.1%	6.5%

*** Not seasonally adjusted**

Source: Texas Work Force Commission

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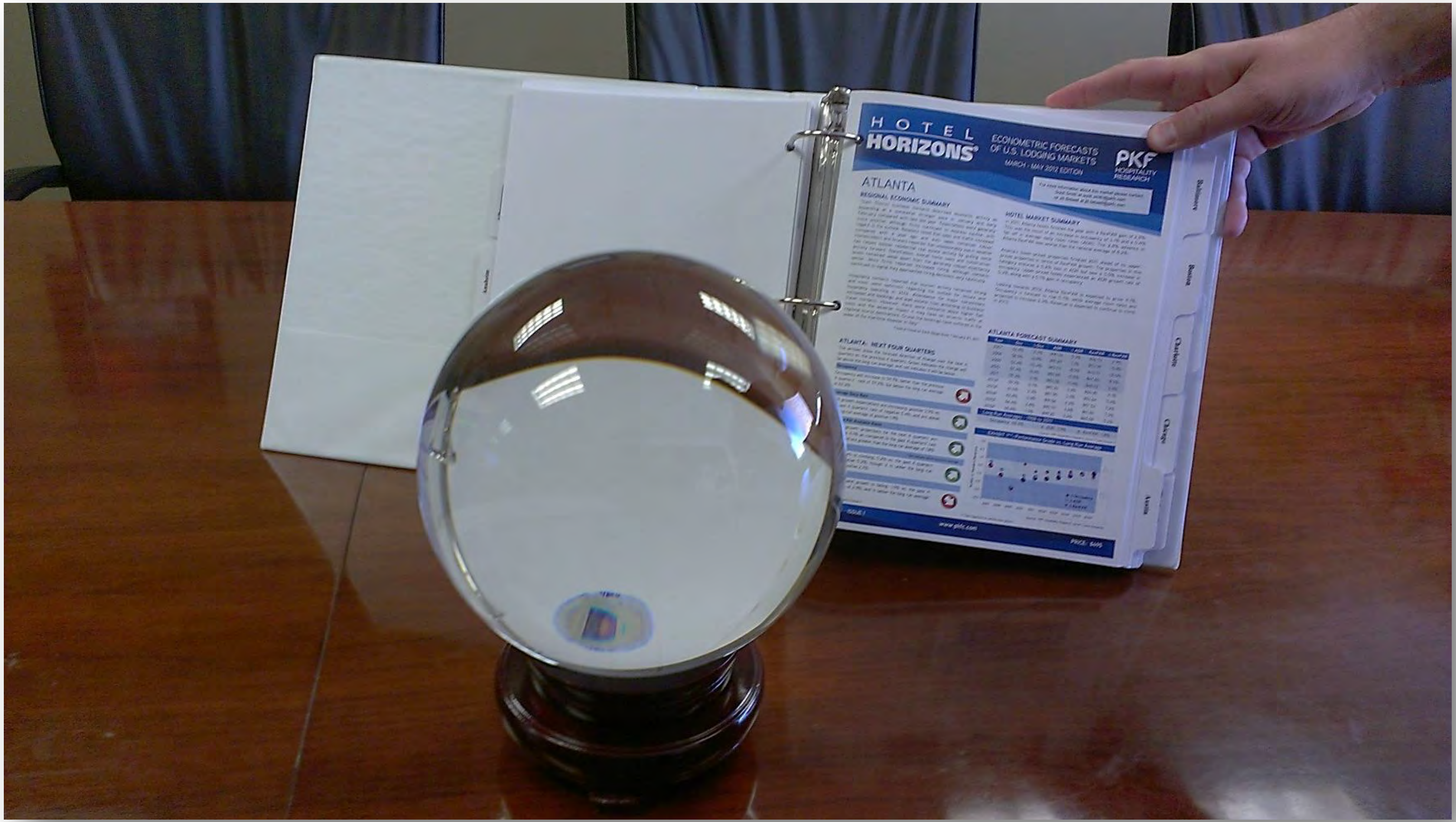

United States: 2nd Quarter 2013

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= Below/Above Long Run Average

	Long Term Average	2009	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Supply	2.0%	2.8%	1.7%	0.5%	0.5%	0.8%	1.1%	1.4%	1.8%	2.3%
Demand	1.9%	-6.2%	7.2%	4.7%	2.9%	2.4%	3.1%	3.5%	1.8%	1.1%
Occupancy	61.9%	54.5%	57.5%	59.9%	61.4%	62.3%	63.5%	64.8%	64.8%	64.0%
ADR	2.9%	-8.7%	0.0%	3.8%	4.2%	4.2%	5.2%	5.9%	5.3%	3.9%
RevPAR	2.9%	-16.7%	5.4%	8.2%	6.8%	5.9%	7.2%	8.1%	5.3%	2.7%

Source: PKF Hospitality Research – Hotel Horizons® Report, Smith Travel Research

New Supply Outlook

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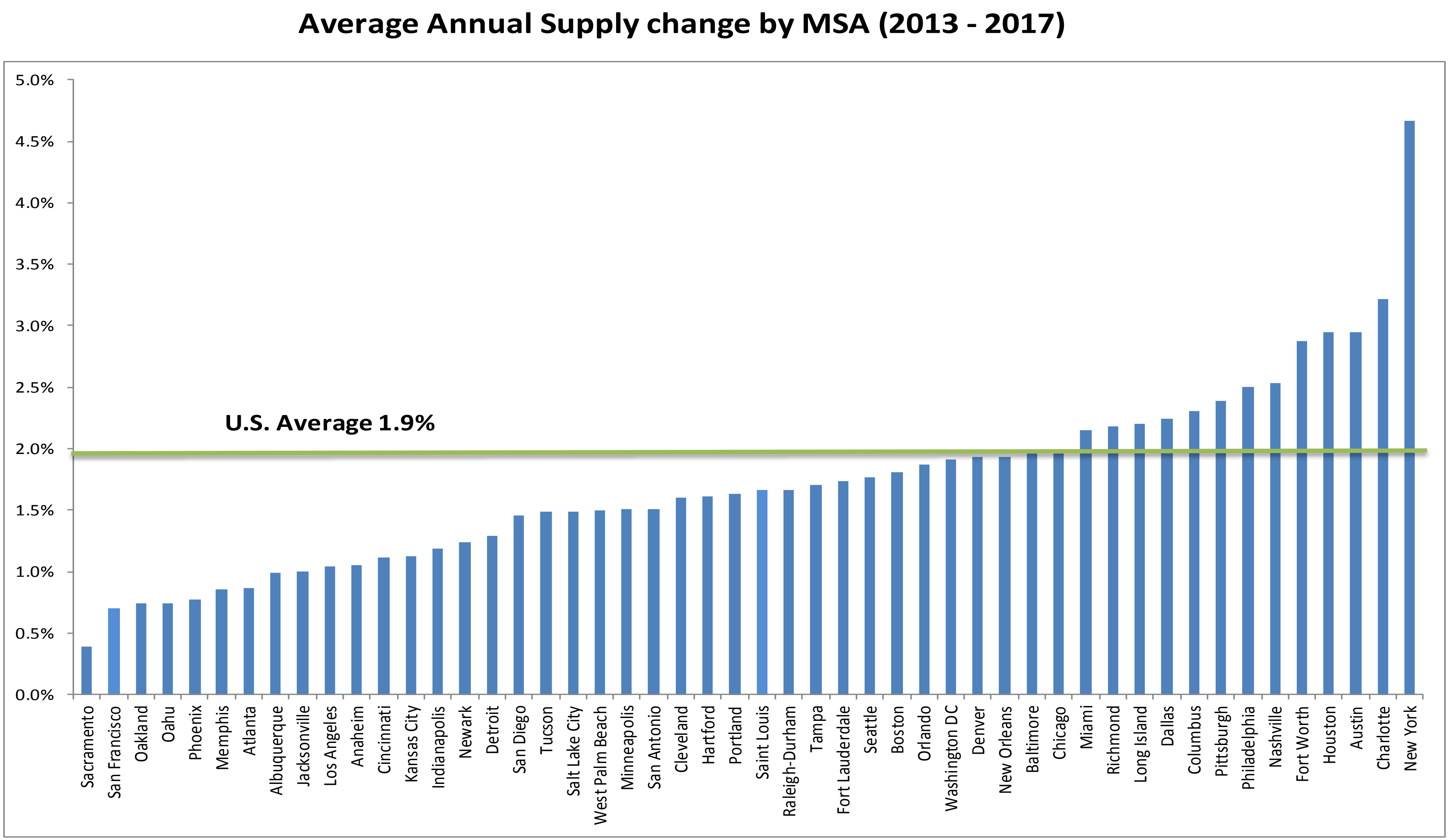

Source: PKF Hospitality Research LLC

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Texas Summary

Austin: 2nd Quarter 2013

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= Below/Above Long Run Average

	Long Term Average	2009	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Supply	3.3%	4.7%	4.8%	2.4%	0.7%	3.3%	2.7%	3.2%	4.5%	5.2%
Demand	4.2%	-5.2%	10.3%	6.8%	3.1%	6.3%	3.9%	3.0%	3.6%	3.2%
Occupancy	66.0%	60.5%	63.7%	66.5%	68.1%	70.0%	70.9%	70.7%	70.1%	68.8%
ADR	4.0%	-7.5%	-2.6%	5.9%	7.6%	6.0%	5.2%	4.5%	4.6%	3.5%
RevPAR	5.1%	-16.2%	2.5%	10.5%	10.2%	9.0%	6.4%	4.3%	3.7%	1.5%

Source: PKF Hospitality Research – Hotel Horizons® Report, Smith Travel Research

Dallas: 2nd Quarter 2013

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	Long Term Average	2009	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Supply	2.6%	2.5%	2.7%	0.8%	1.4%	0.4%	0.8%	2.3%	2.5%	2.4%
Demand	3.3%	-10.2%	9.5%	9.0%	4.8%	3.5%	2.5%	3.6%	3.4%	1.6%
Occupancy	60.6%	51.1%	54.5%	59.0%	61.0%	62.9%	63.9%	64.7%	65.3%	64.8%
ADR	2.0%	-10.1%	-2.6%	3.4%	1.1%	5.4%	6.9%	7.2%	5.5%	4.8%
RevPAR	2.8%	-21.3%	3.9%	11.9%	4.5%	8.7%	8.6%	8.6%	6.5%	4.0%

Source: PKF Hospitality Research – Hotel Horizons® Report, Smith Travel Research

Fort Worth: 2nd Quarter 2013

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	Long Term Average	2009	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Supply	3.2%	9.8%	3.7%	1.3%	1.2%	0.9%	1.1%	3.0%	4.5%	4.9%
Demand	3.5%	-7.3%	8.3%	6.8%	2.8%	4.2%	3.0%	4.1%	4.4%	3.5%
Occupancy	60.8%	54.0%	56.4%	59.4%	60.3%	62.3%	63.5%	64.2%	64.2%	63.3%
ADR	3.3%	-4.3%	-1.5%	3.6%	-0.2%	1.7%	5.0%	4.9%	3.6%	3.7%
RevPAR	3.8%	-19.2%	2.8%	9.3%	1.3%	5.1%	7.0%	6.1%	3.4%	2.3%

Source: PKF Hospitality Research – Hotel Horizons® Report, Smith Travel Research

San Antonio: 2nd Quarter 2013

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= Below/Above Long Run Average

	Long Term Average	2009	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Supply	3.5%	6.7%	8.4%	2.5%	1.6%	0.5%	1.2%	1.7%	2.3%	2.8%
Demand	3.8%	-6.5%	12.4%	7.2%	5.7%	2.1%	3.0%	2.6%	2.6%	1.6%
Occupancy	65.1%	56.2%	58.2%	60.9%	63.3%	64.3%	65.5%	66.0%	66.2%	65.5%
ADR	3.0%	-10.1%	0.3%	0.1%	1.2%	5.3%	4.5%	4.8%	4.3%	3.3%
RevPAR	3.4%	-21.3%	4.0%	4.6%	5.3%	7.0%	6.3%	5.7%	4.6%	2.1%

Source: PKF Hospitality Research – Hotel Horizons® Report, Smith Travel Research

Houston – Local Demand Factors

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- Oil & Gas
  - Eagle Ford Shale & Permian Basin
  - Offshore Drilling – 2008 Levels
  - Increased Refining Capacity
  - Kinder Morgan Storage Expansion
- Exxon/Mobil New Headquarters
- Phillips 66 New Campus
- Noble Energy to HP Campus
- West Houston Office Additions
- Industrial Expansions – Service
- Retail & Residential Expansions
- TMC Expansions
- 2013 NBA All Star Game
- 2016 NCAA Final Four
- 2017 Super Bowl
- Convention Activity
  - 2013: Record Levels
  - 2014: Slower Pace
- Convention Center Hotel
- Light Rail Expansions
- Southwest Airlines International Terminal at Hobby by 2015
- Per Diem Rate Up $9 to $118

Houston: 2nd Quarter 2013

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	Long Term Average	2009	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Supply	2.6%	5.7%	6.0%	1.8%	0.9%	0.7%	1.6%	2.9%	4.8%	6.3%
Demand	3.8%	-12.6%	5.4%	10.7%	10.3%	4.5%	2.3%	4.2%	5.2%	4.0%
Occupancy	61.5%	55.3%	55.0%	59.8%	65.4%	67.8%	68.3%	69.1%	69.4%	67.9%
ADR	2.8%	-8.2%	-4.0%	2.6%	3.9%	7.1%	6.7%	5.8%	4.6%	3.1%
RevPAR	4.2%	-24.1%	-4.6%	11.5%	13.7%	11.1%	7.4%	7.1%	5.0%	0.9%

Source: PKF Hospitality Research – Hotel Horizons® Report, Smith Travel Research

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Galveston – Economic Development

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- Jennie Sealy Hospital
  - $438 million / Open 2016
- Texas A&M Galveston
  - Ocean & Coastal Studies - $54 million Marine Research Facility
  - New Student Center & Two New Residence Halls
- Galveston College
  - Charlie Thomas Applied Technology Center
- Maritime / Offshore Support Services
  - Port – Interest in Roll-on/Roll-off Cargo Service
  - Southwest Shipyards – Expansion Project
  - Pelican Island – Increasing Interest
  - New Marinas – Galveston Yacht Basin & Pelican Rest Marina

Galveston – Summer Statistics

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Summer Statistics	2012	2013	Percent Change
Car Count (May - July) Causeway Southbound	3,576,025	3,590,954	0.4%
Car Count - All Parks	128,869	151,015	17.2%
Hotel Activity (May - August)			
Occupancy	75.6%	75.5%	---
ADR	$140.90	$141.78	0.6%

Source: Galveston Island Convention & Visitors Bureau

Galveston – New Offerings

- Galveston Island Historic Pleasure Pier – Opened May 2012
- Cruise Lines
  - Royal Caribbean & Carnival Magic – Year-Round Feb 2014
- Moody Gardens - $25M Rainforest & Other Enhancements
- Downtown Galveston – New Attractions/Shops/Restaurants/Bars
- Apffel Beach Pavilion – Renovated & Reopened
- Sea Scout Base Camp – Under Construction

Galveston – Efforts to Improve Island

- Park Board – New Director – Increased Community Outreach
- CVB - Special Events Manager - Established New Guidelines with City to Attract More Events
- Increasing Multi-Hotel Events – Incentive Program
- Expanding Cruise Line Offerings
- Interpretive Signage Installed- Seawall, Cruise Ship Terminals and Throughout Downtown
- Enhancements at Beach Park Facilities

Galveston – Efforts to Improve Island

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- Trickle Down Funds - $400K Approved to Promote Tourism, Convention Activity and Hotel Offerings
- Certified Tourism Ambassador Program - $50K to Improve Visitor Experience & Encourage Extended Stay
- Passport to Holiday Magic Advertising Campaign – $175K to Promote Galveston During the Slowest Season of the Year
- Image Study – Public Perception of Galveston to Better Position Future Tourism Marketing Efforts

Galveston – Events/Festivals

- January – Chili Quest & Beer Festival
- February/March – Mardi Gras
- April – Food and Wine, JA-GA Reggae Festival, Red Cat Jazz
- May – Historic Homes Tour, Wild Game Cook-Off, Galveston Beach Revue, Gritty Goddess
- September – Shrimp Festival, Gritty Goddess, 5150
- November – Lone Star Rally
- November / December – Festival of Lights
- December – Dickens on the Strand

Galveston – Multi-Hotel Events

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- TSAE (Sept 2013 – Annual Convention)
- Cheer Power (2012 to 2015)
- Iron Man (2012 to 2015)
- Space City Con – Comic Book Convention (Jan 2014)
- DIVAS Half Marathon (April 2014)
- Latin American Council of Christian Churches (Oct 2014)
- Santa Hustle (December 2014)
- Church of God (Oct 2014, Oct/Nov 2015, Nov 2016)
- Bidding On
    - EcoFest Music Festival (April 2014)
    - The Beach Soccer Championships (April 2014)
    - State Fireman and Fire Marshalls Assn of Texas (Jan 2015)
    - HOSA (April 2016)

CVB Bookings

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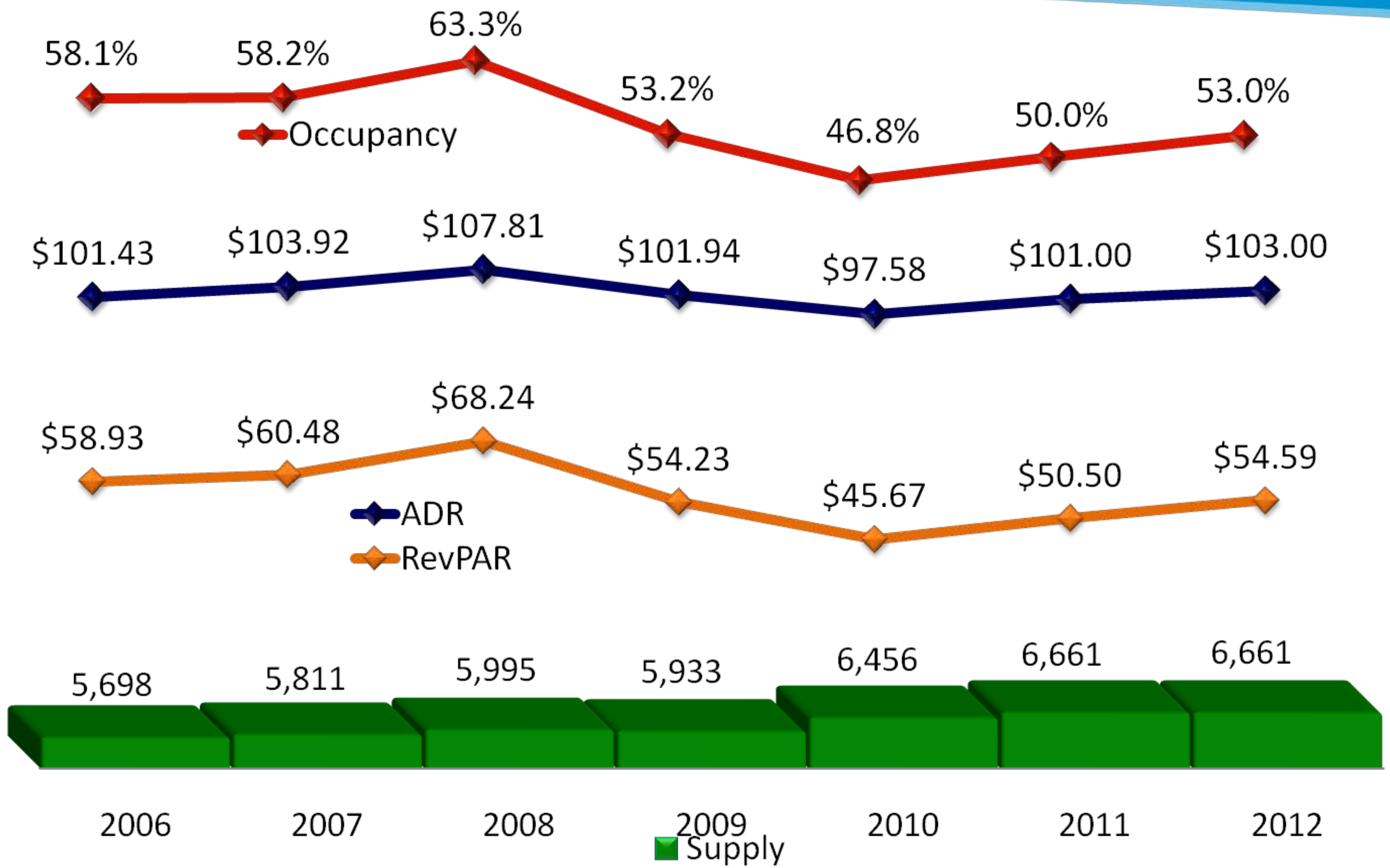
	Number of Events	Attendance	Room Nights	Events >1,000
2008	145	32,187	33,676	9
2009	105	34,904	48,357	11
2010	129	31,760	44,455	14
2011	127	39,069	40,121	9
2012	169	68,706	60,776	18
2013 (est)	130	45,398	39,272	11
2014 (est)	68	47,810	35,302	9
2015 (est)	28	21,630	25,907	5

Source: Galveston Island Convention and Visitors Bureau

Galveston – 2011/2012 Projections



Galveston – 2013/2014 Projections

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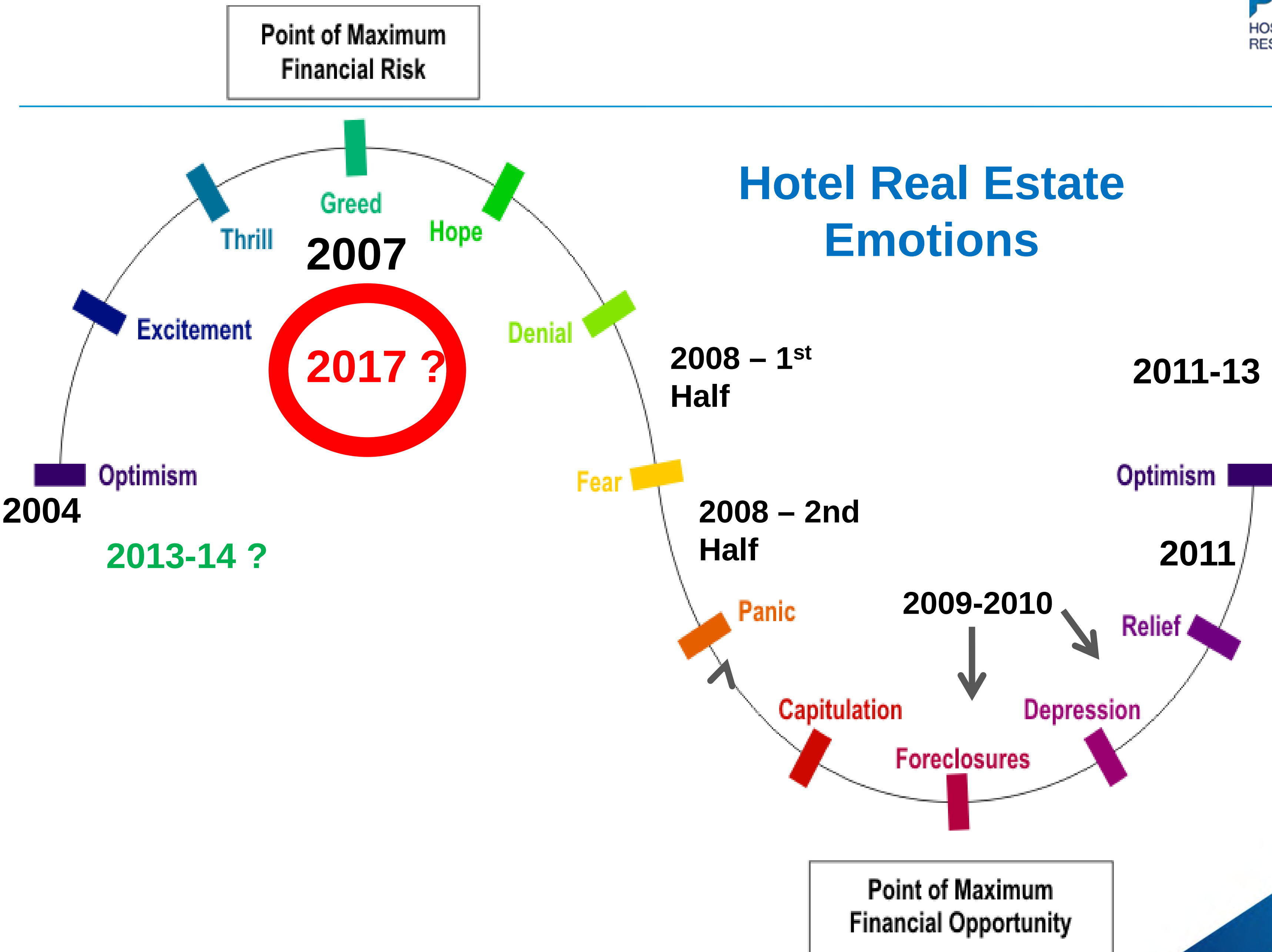
PKF HOSPITALITY RESEARCH

Hotel Real Estate Emotions



"I figured out how we can double our quarterly sales. From now on, each quarter will last six months."

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