

Is the Hotel Industry Under Siege?

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InterContinental Hotels Group
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Headlines

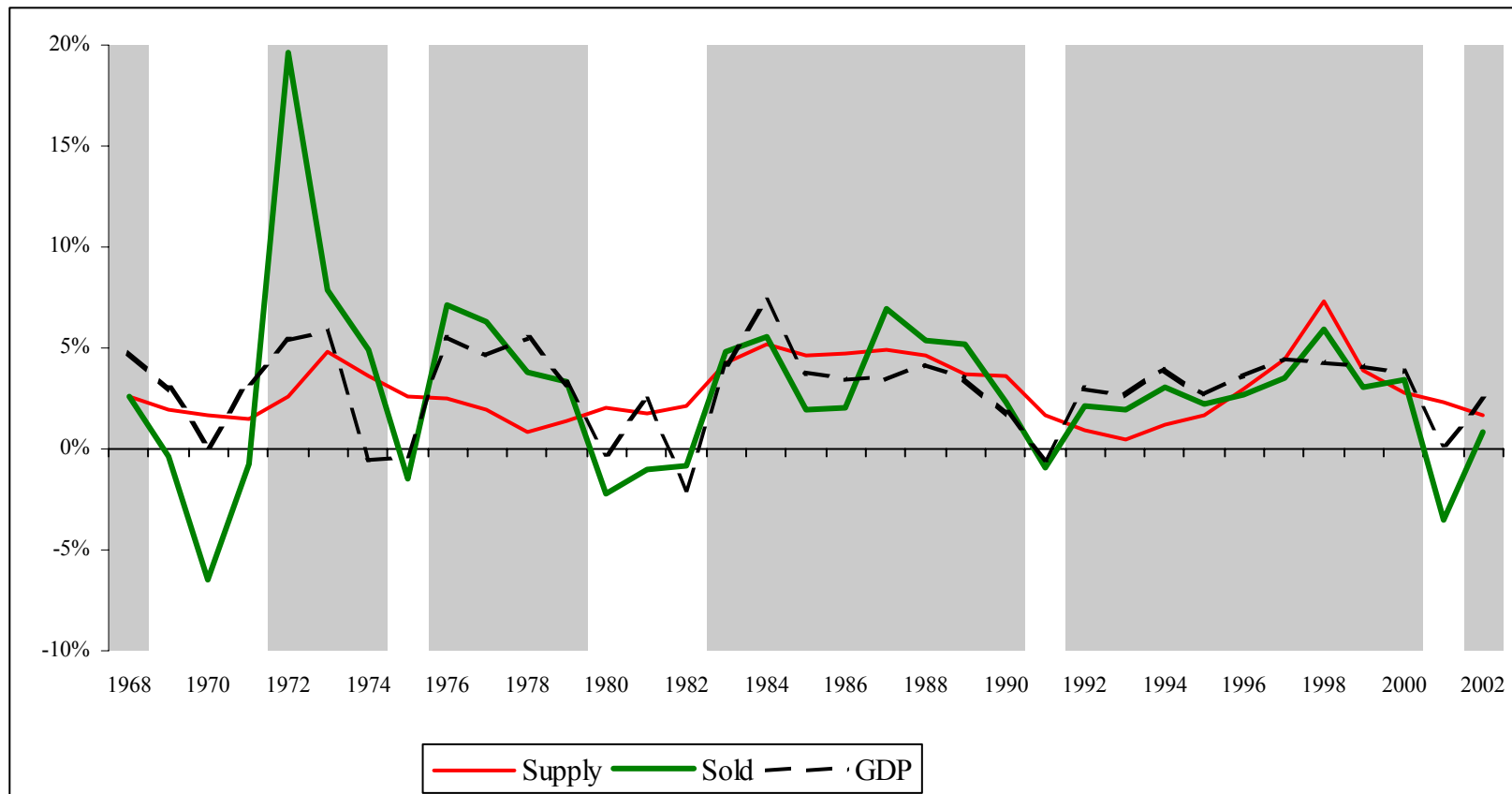
- ◆ ...2000 was the best year for the hotel industry in the past 10 years. (Smith Travel Research)
- ◆ We believe the lodging industry is in the early stages of the its worst downturn since 1990-91. (UBS Warburg, April 2001)
- ◆ ...the events of September 11 exaggerated the drop and contributed to the worst single year deterioration in hotel performance ever (PKF, HRG)
- ◆ ...we see a soft recovery in 2002, led by the middle segments of the industry... (Deutsche Banc Alex. Brown, Inc.)
- ◆ Now, all of us think it's probably going to be around 2003. (Ernst & Young)
- ◆ Business travel is not forecast to climb back to 2000 levels until some time in 2003. (Travel Industry Association of America)
- ◆ Teleconferencing, telecommuting and business-to-business e-commerce may eventually replace the need for some, if not most, business trips. (Travel Industry Association of America)

Industry Performance



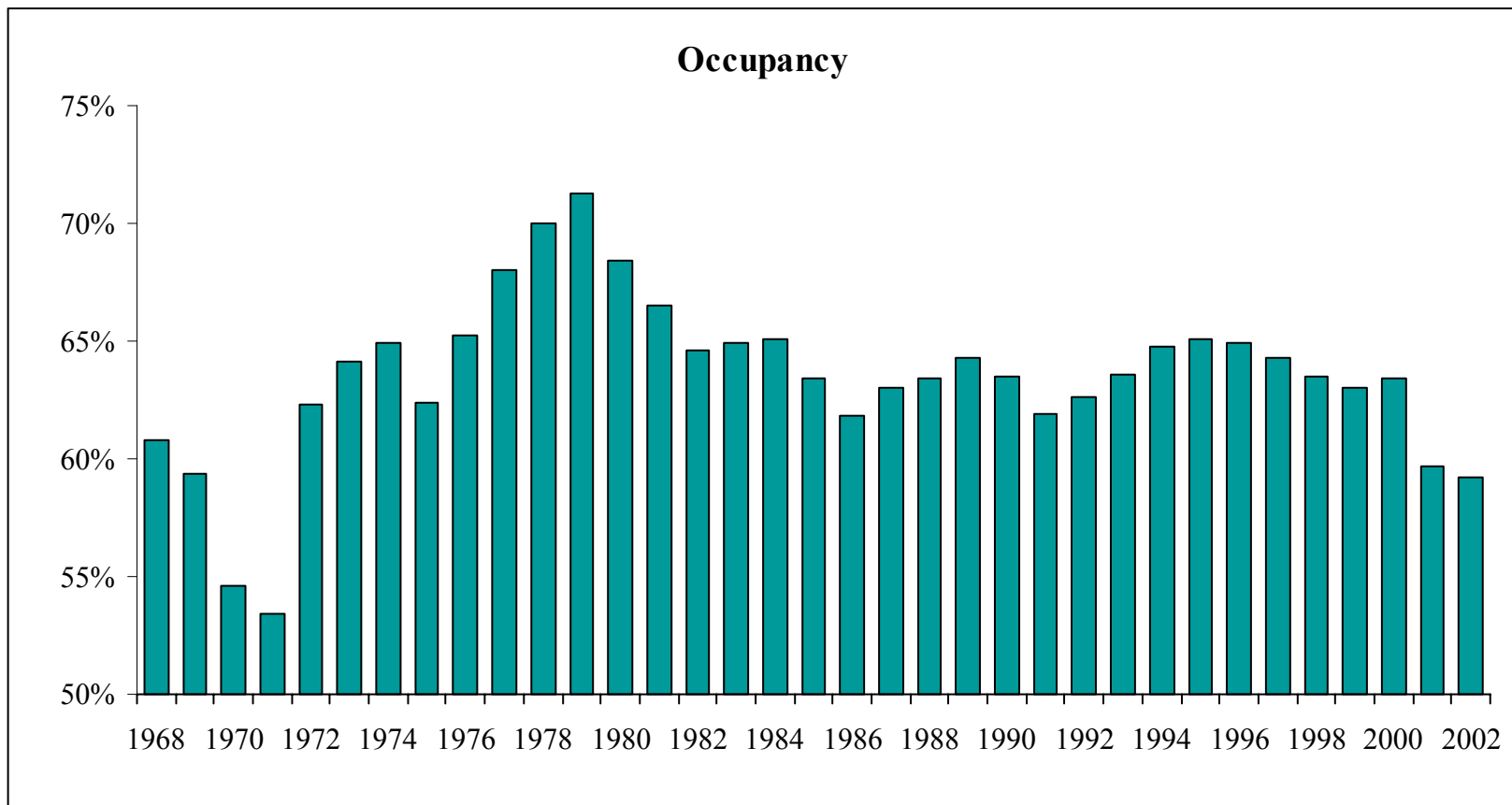
Demand and Supply Trends

Since 1968, the US hotel industry has observed four distinct performance cycles. The 2001 downturn was the second worst in the past 36 years. Beginning in April of that year, demand began edging downward and was followed by **the largest single drop recorded in the past 75 years as a result of 9/11.**



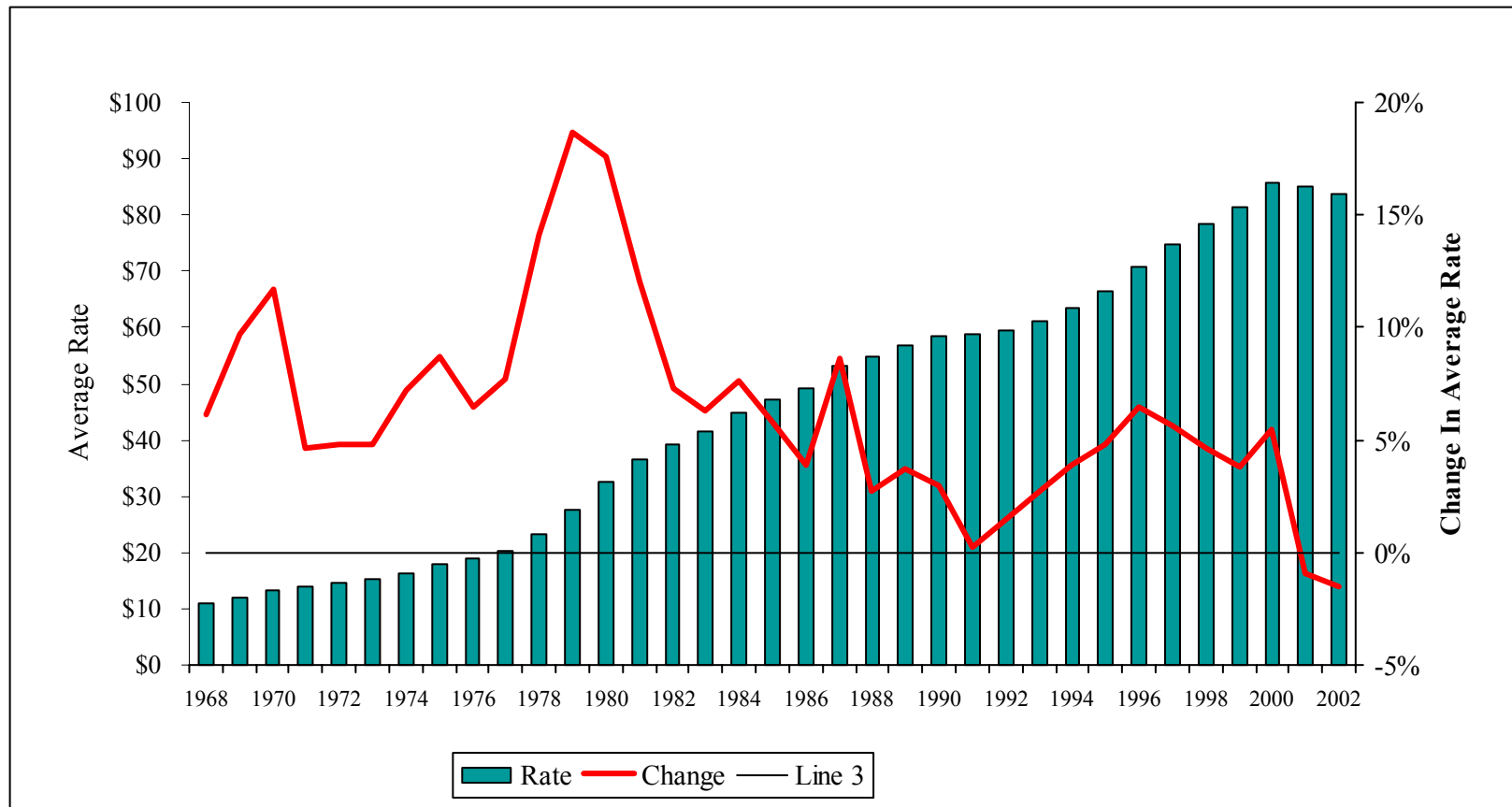
Occupancy

Occupancy has fallen steadily since 1980. **The 2002 level is the third lowest observed since 1968.** However, according to PricewaterhouseCoopers, break-even occupancy has been falling since the early 1990s. In 2002, it achieved a record low of 47.4% . In 1995, PWC estimates that the break-even point was above 60%.



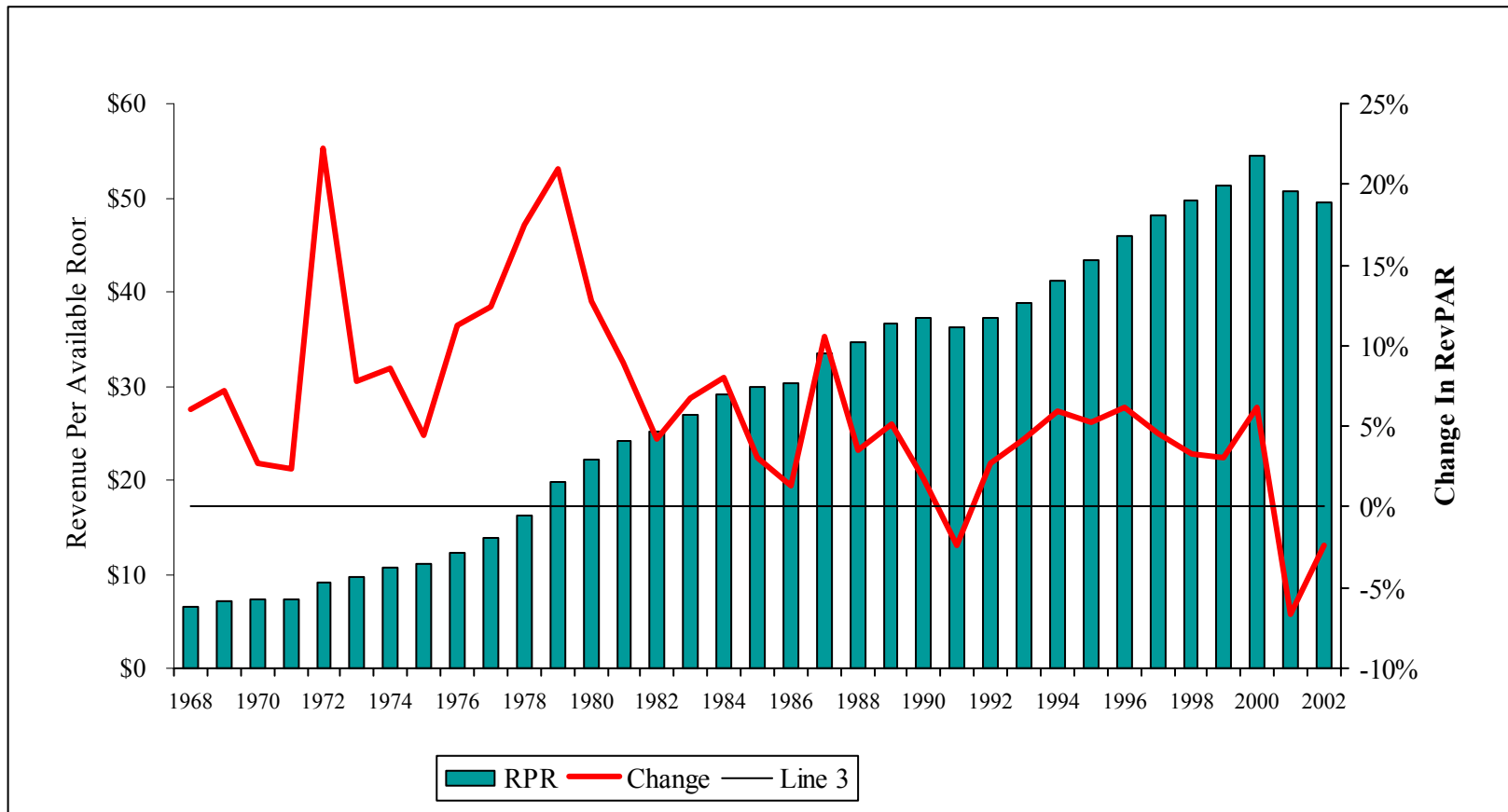
Average Daily Rate

From 1990 to 2000, average daily rate grew slightly faster than inflation (3.8% versus 3.0%) on average. On an annual basis, over the past 36 years, **average daily rate declined only twice: in 2001 and 2002**. Beginning in July 2001, average daily rate dropped for 14 consecutive months--the longest streak in current history.



RevPAR

Since 1968, there has been only three years where Revenue per Available Room (RevPAR) has declined: 1991, 2001 and 2002. **The 2001 and 2002 drops were the first back-to-back decreases in the past 36 years.**

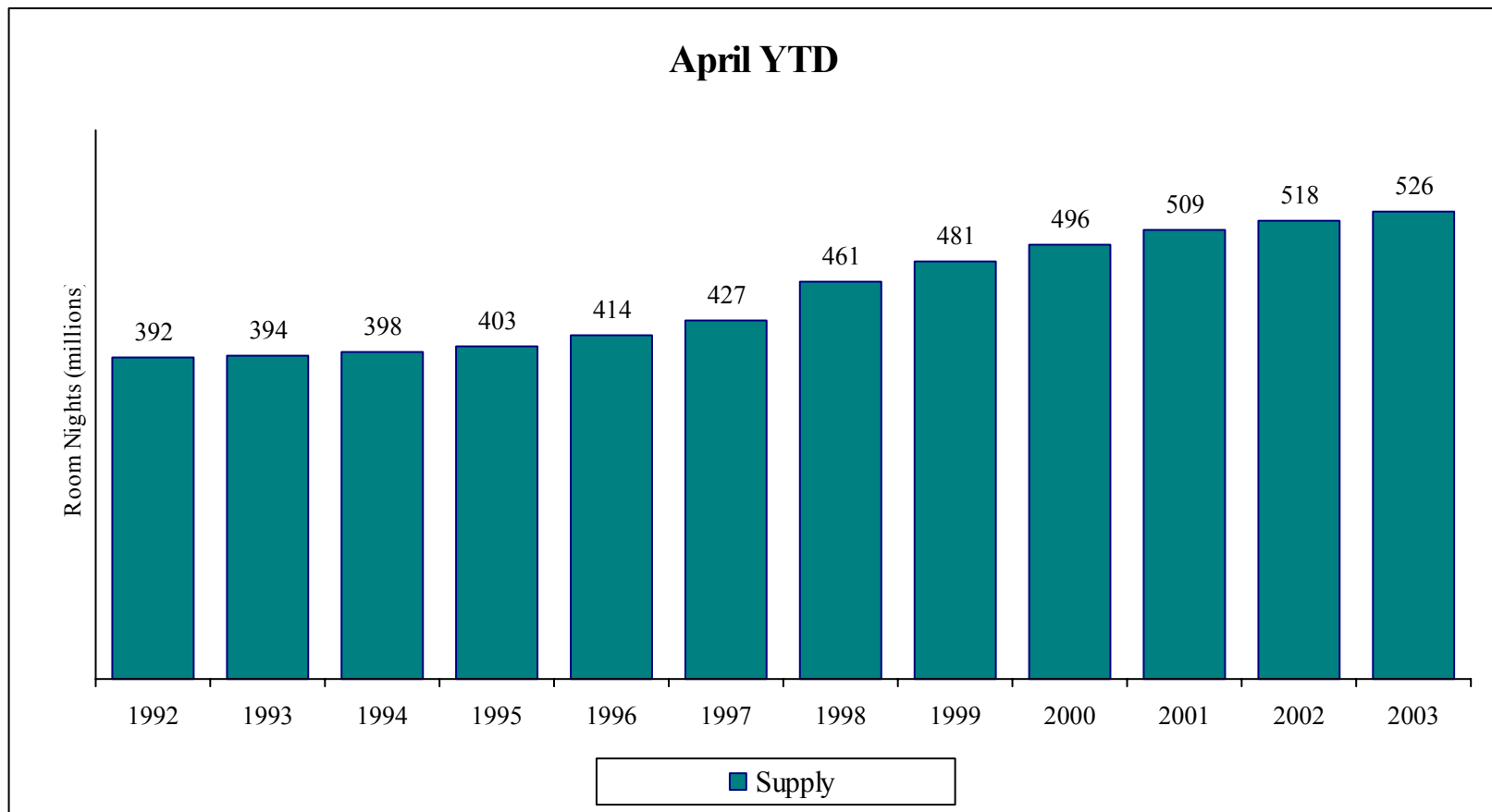


Current Performance



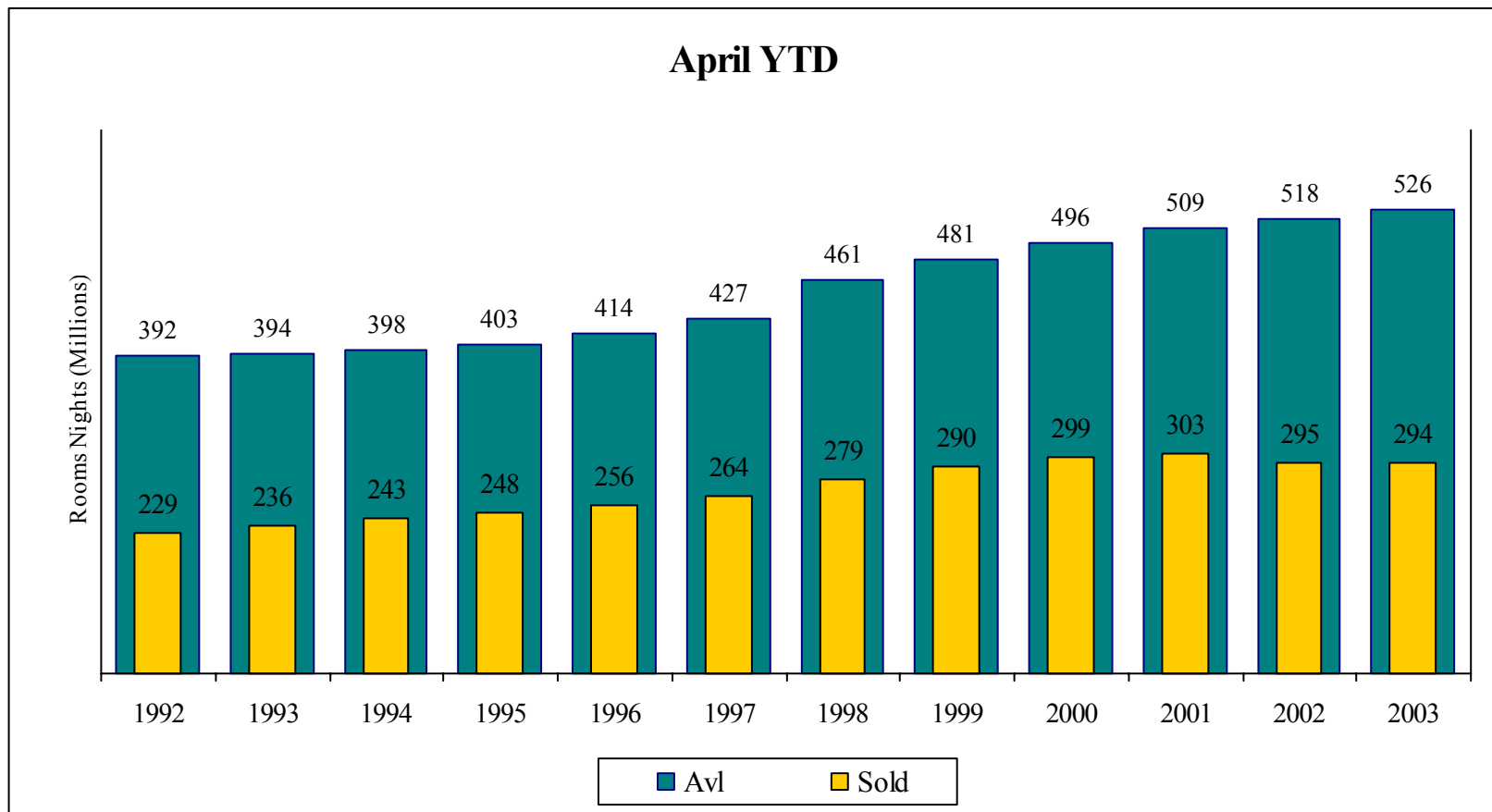
Industry Supply

At the peak of supply additions, more than 34.1 million room nights (284,000 rooms) were added during the first four months of 1998 versus the same period in 1997. **Since 1998, more than 65 million room nights have been added to industry supply--540,000 new rooms.** Over the last two years, supply additions have moderated. However, during the first four months of 2002 and 2003, an additional 70,000 rooms (8 million room nights) were added, in each year, respectively, exacerbating difficult trading conditions.



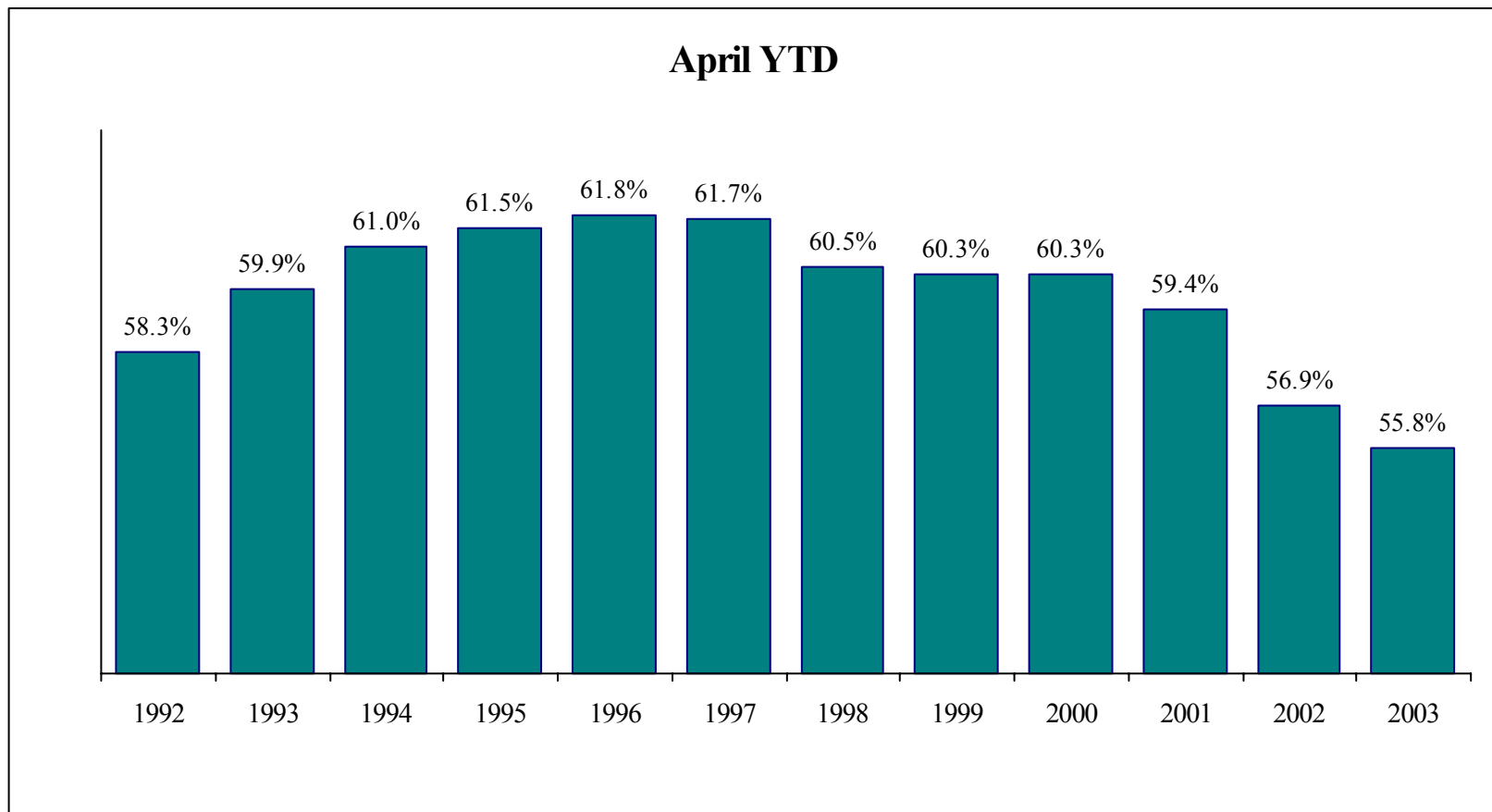
Industry Supply & Demand

While increases have abated during the past two years, supply growth remains significant and troublesome, especially since **demand has declined 16 out of the past 24 months**. For the year, demand has dropped even further than its level of a year ago. On average, during the first four months of the year, the industry sold more than 2.4 million rooms daily versus the 2.5 million it averaged at its peak in 2001.



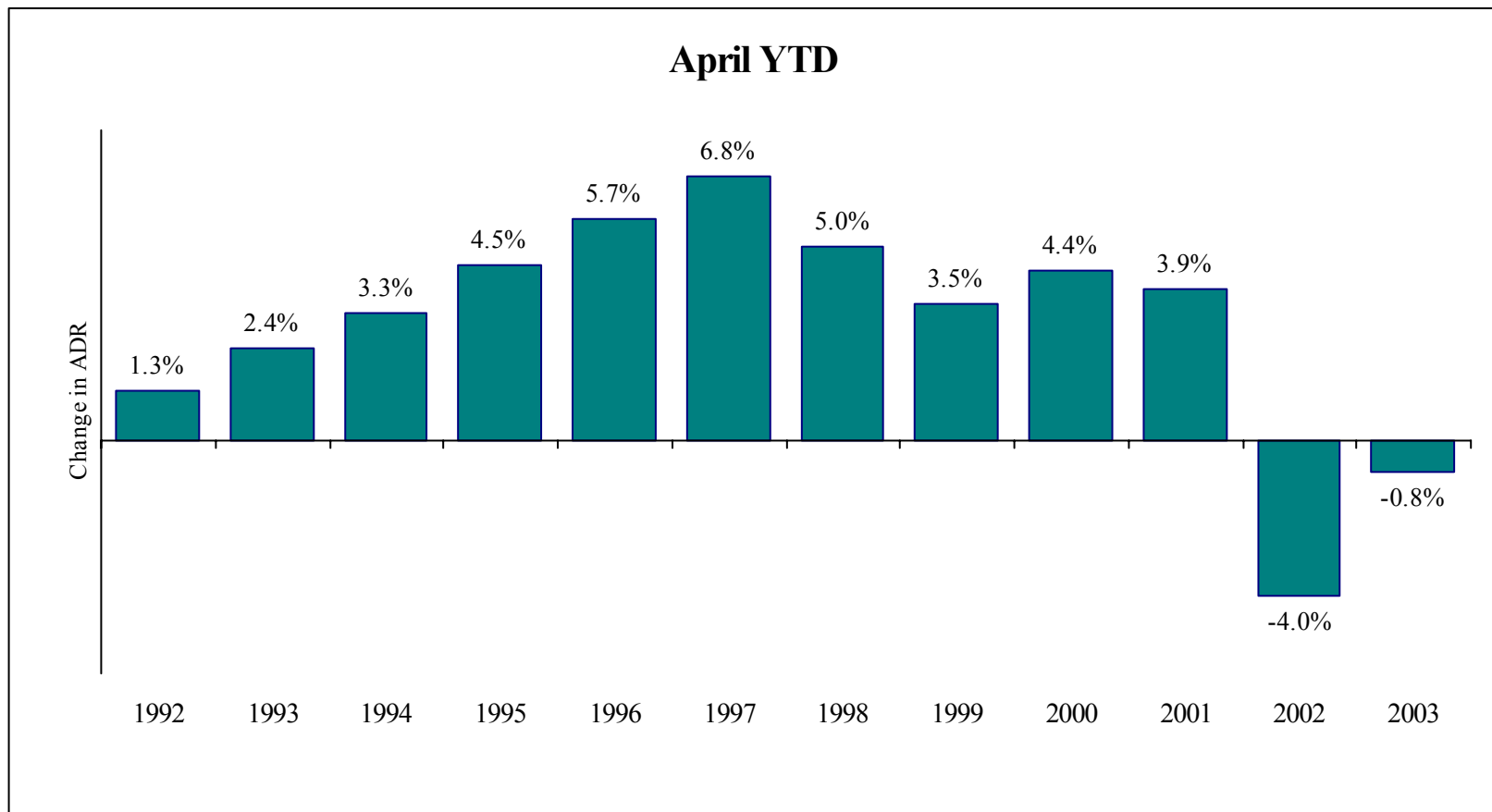
Industry Occupancy

With increasing supply and decreasing demand, **April YTD occupancy reached its lowest point ever (55.8%)**. The highest occupancy posted for April YTD occurred in 1996 when it reached 61.8% (255 million rooms sold). Even though this year's occupancy is the worst ever recorded, room demand for the period was 38.0 million greater than it was in 1996.



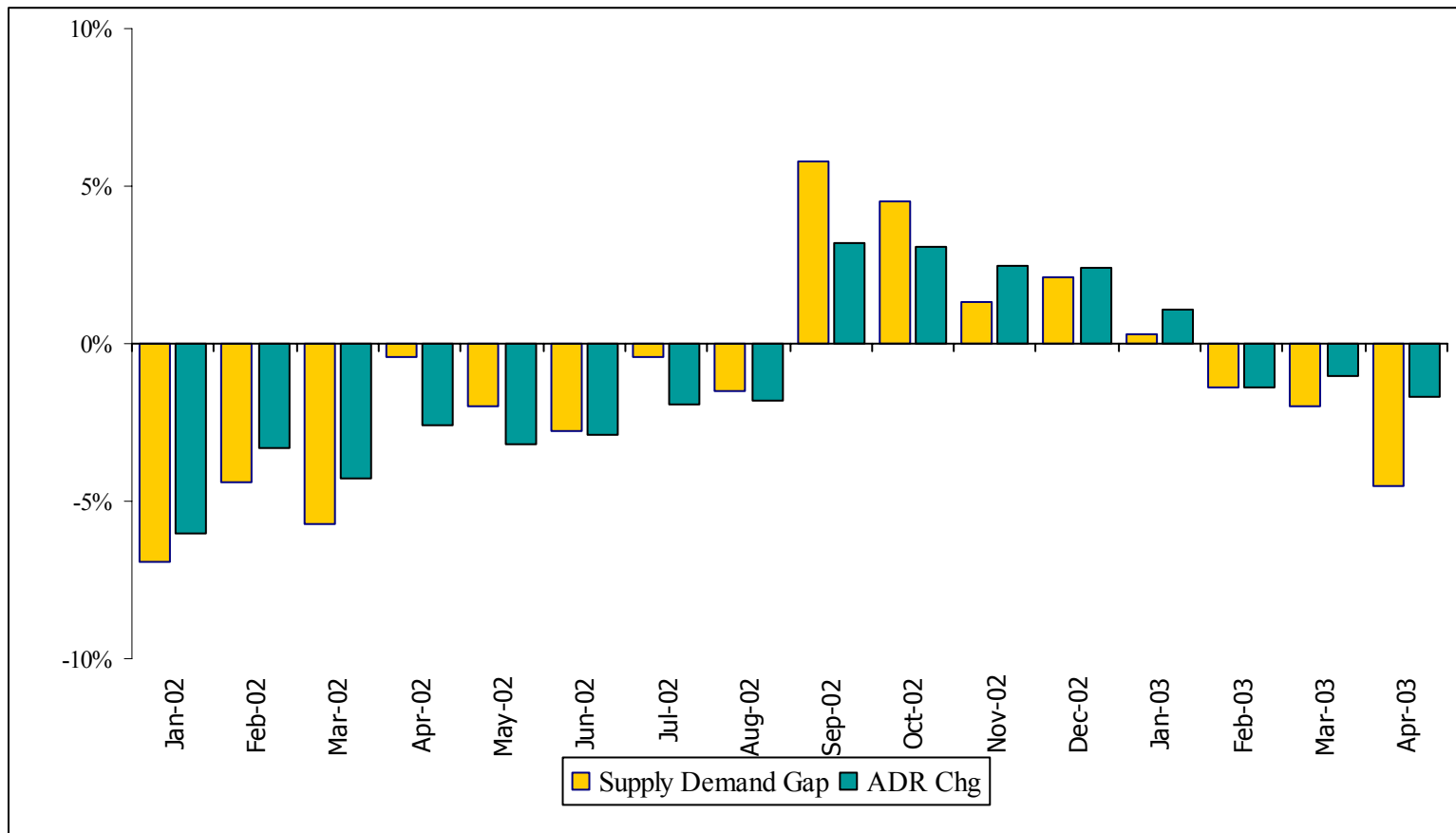
Average Daily Rate

Given the supply/demand imbalance, **average daily rate continues to drop as hoteliers try to lure guests via discounting.** In the past 15 years, average daily rate has declined 19 times, with 17 of the monthly decreases occurring in the past two years.

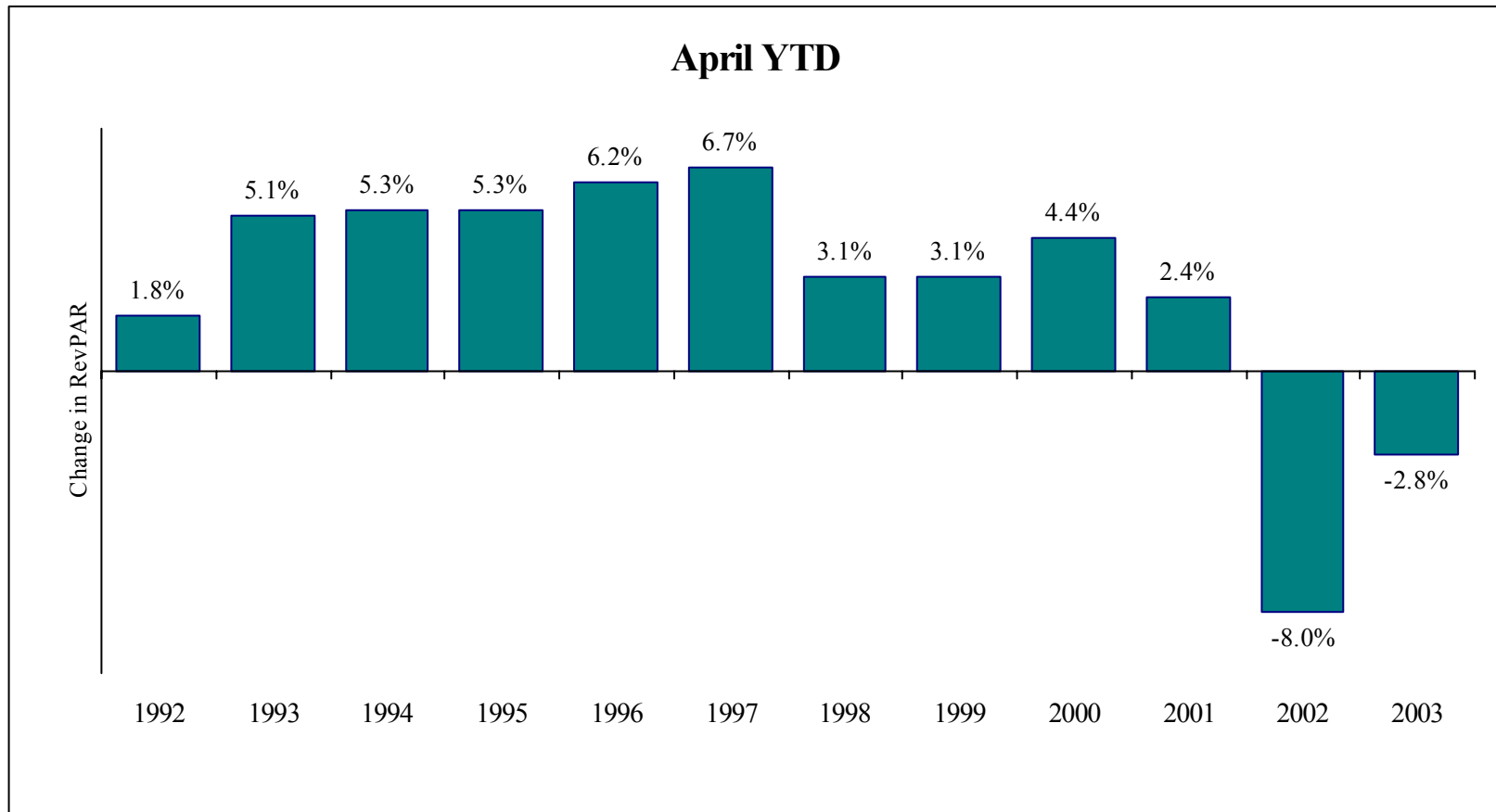


Supply, Demand and Rate

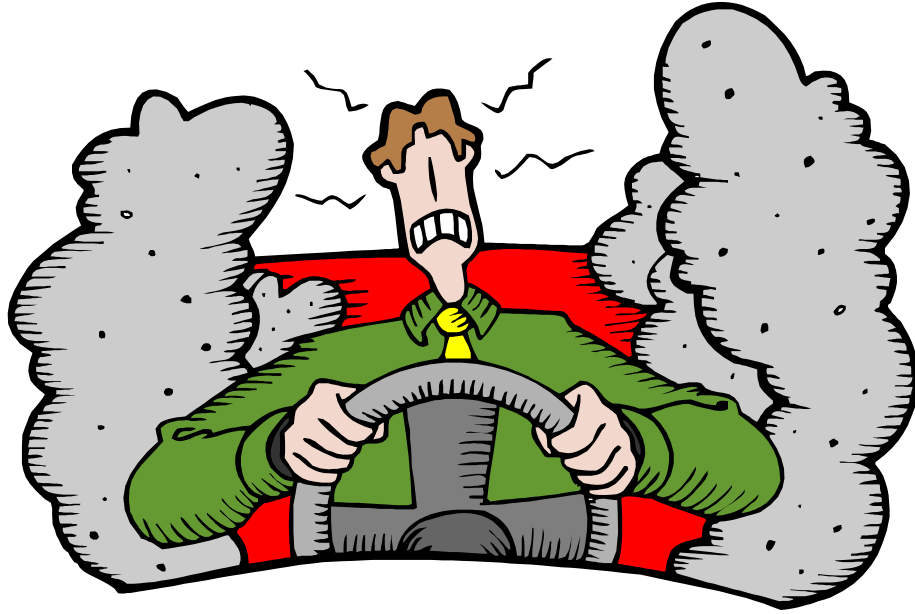
The interplay between supply and demand continues to dominate current industry performance. Over the last two years, average rate has decreased 4.8%. As one would expect, **demand weakness undermines pricing power**. Certainly the instantaneous availability of information has further eroded rate pressure.



Given the decline in both occupancy and average rate during the last four months, industry RevPAR has fallen, but **not as precipitously as had been expected**. It appears that consumer reaction to the Iraqi conflict was “baked into” industry results throughout the period from January to April. Others suggest that there was simply very little to lose since those traveling must travel (low discretion). **Since 2001, RevPAR has declined 10.6%.**



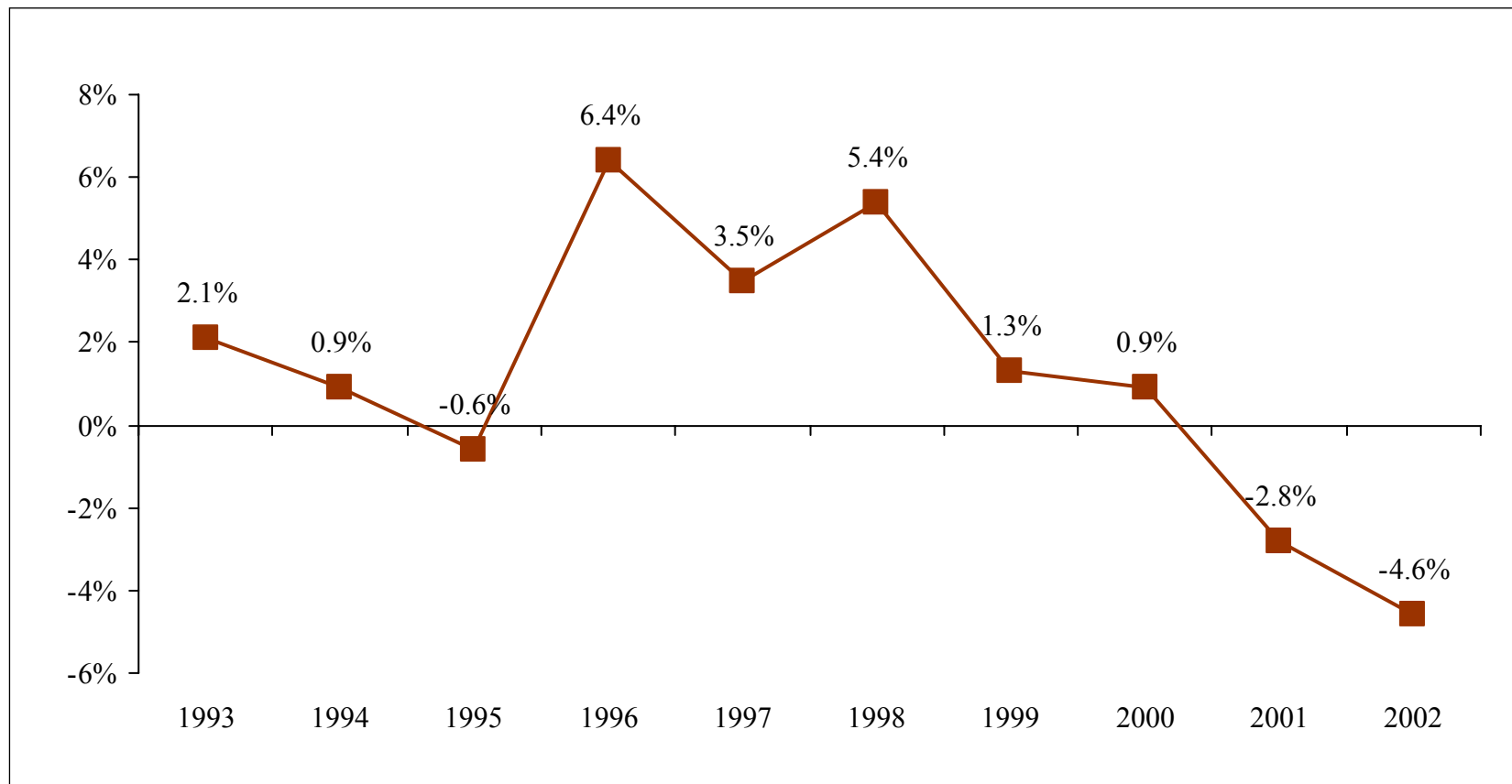
Performance Drivers



Business Demand Trends

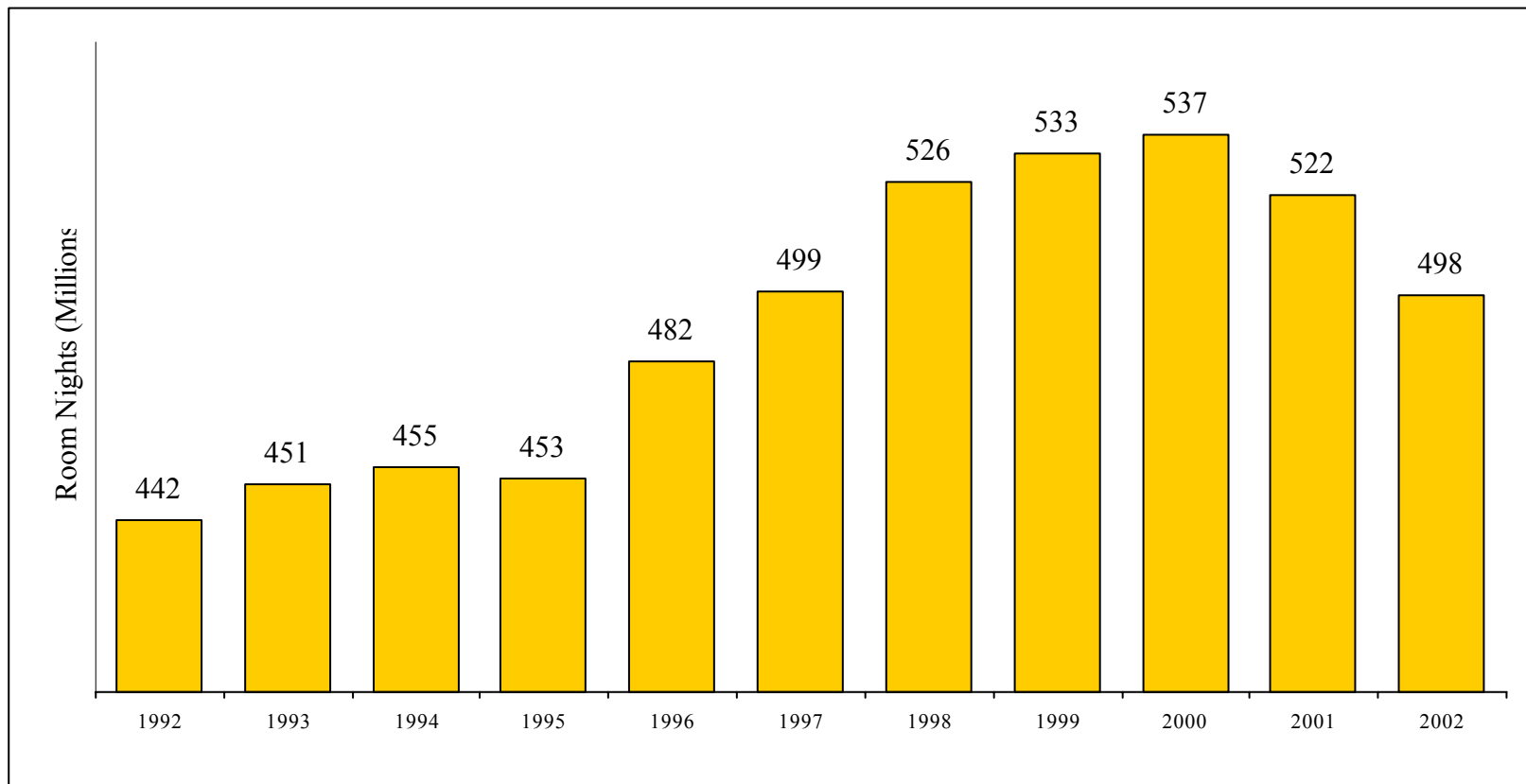
Change in Business Demand

In 1999, the growth in business room nights began to slow as business performance peaked. Beginning in April 2001, **business demand began falling due to economic reasons**, which was followed by a near total stoppage after the 9/11 attacks. Business demand continues to fall as the economy remains weak.



Total Business Nights

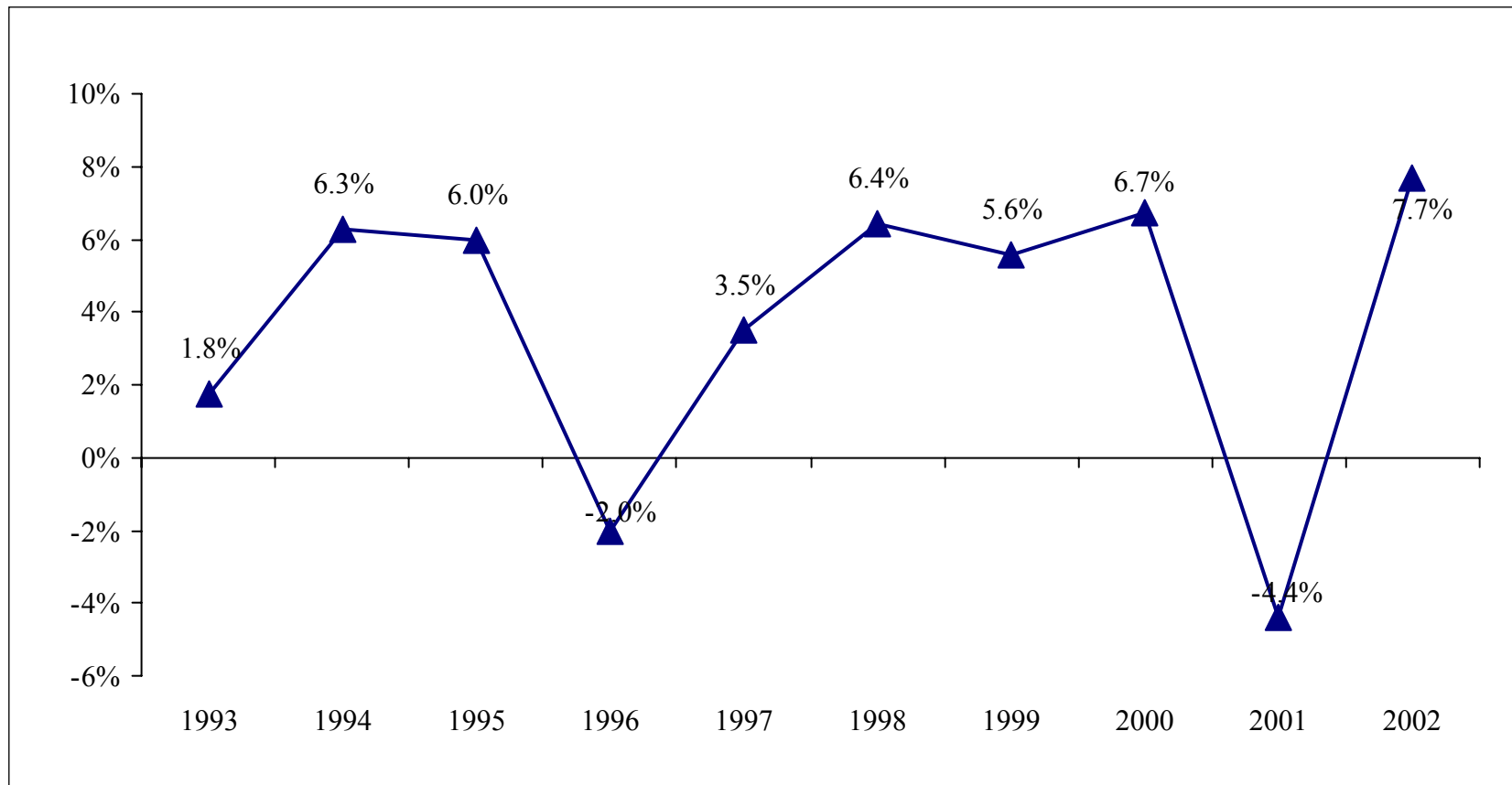
Since 2000, business room nights have fallen by 39 million. **Each day during 2002, the industry sold approximately 107,000 less rooms for business purposes than it did in 2000.** During the same time period, an additional 181,000 room nights were added to supply.



Leisure Demand Trends

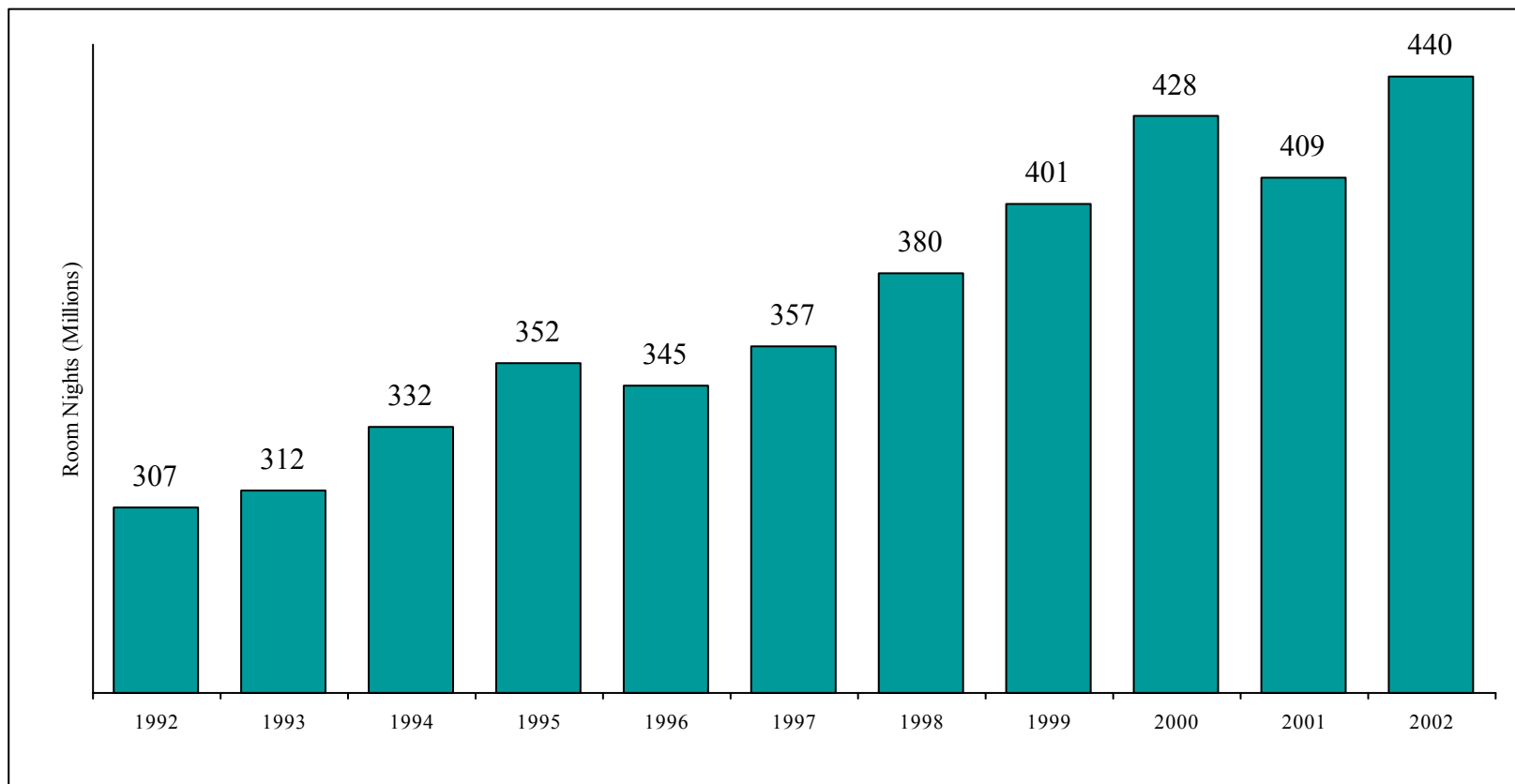
Change in Leisure Demand

Overall industry demand increased moderately (+0.8%) in 2002. The increase was driven mainly by increases in **leisure travel**, which achieved a new record level in 2002.



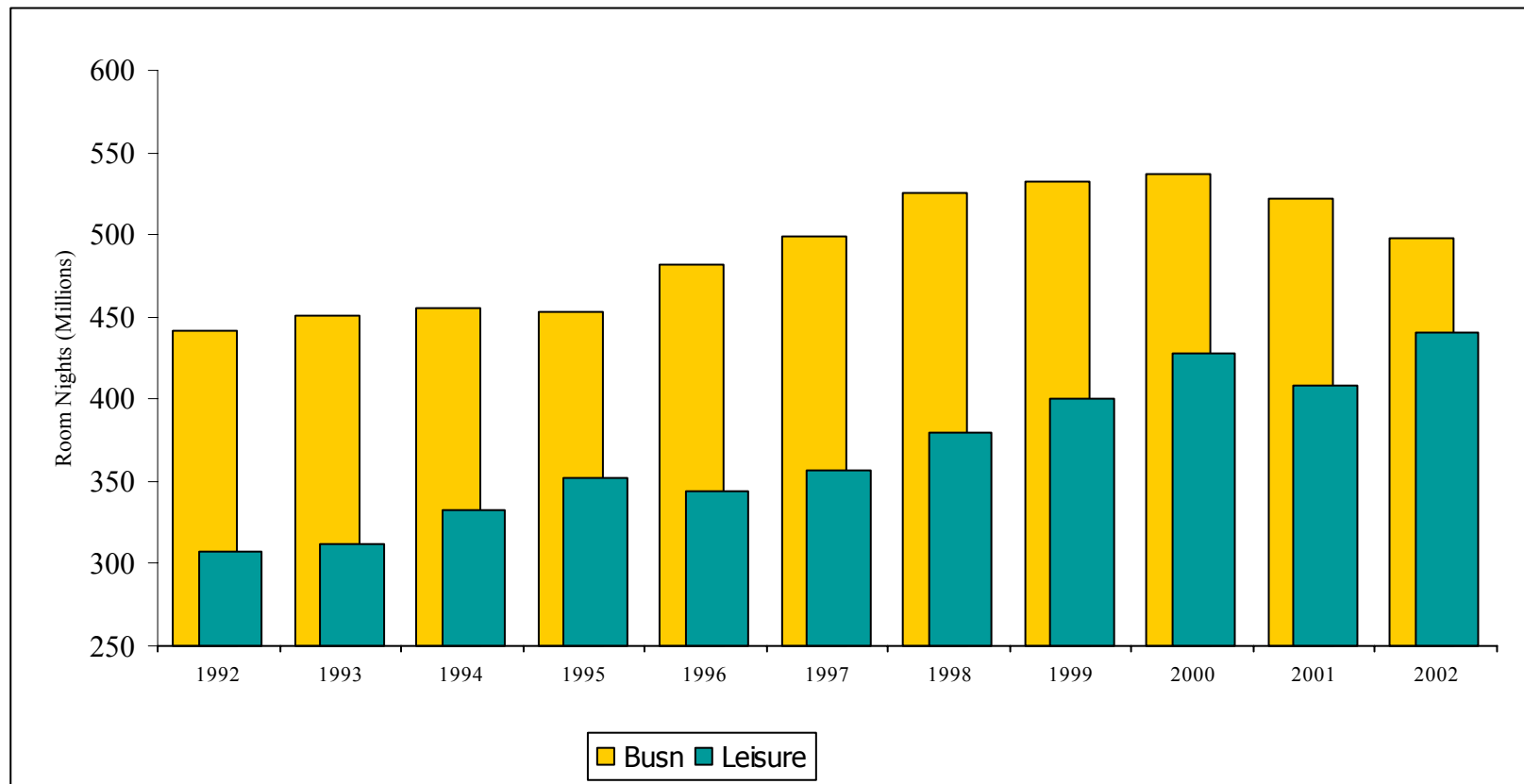
Total Leisure Nights

Since 2000, leisure rooms nights have increased +2.8%. Compared to 2000, **the industry sold an estimated 34,000 additional rooms per day during 2002 for leisure purposes.**



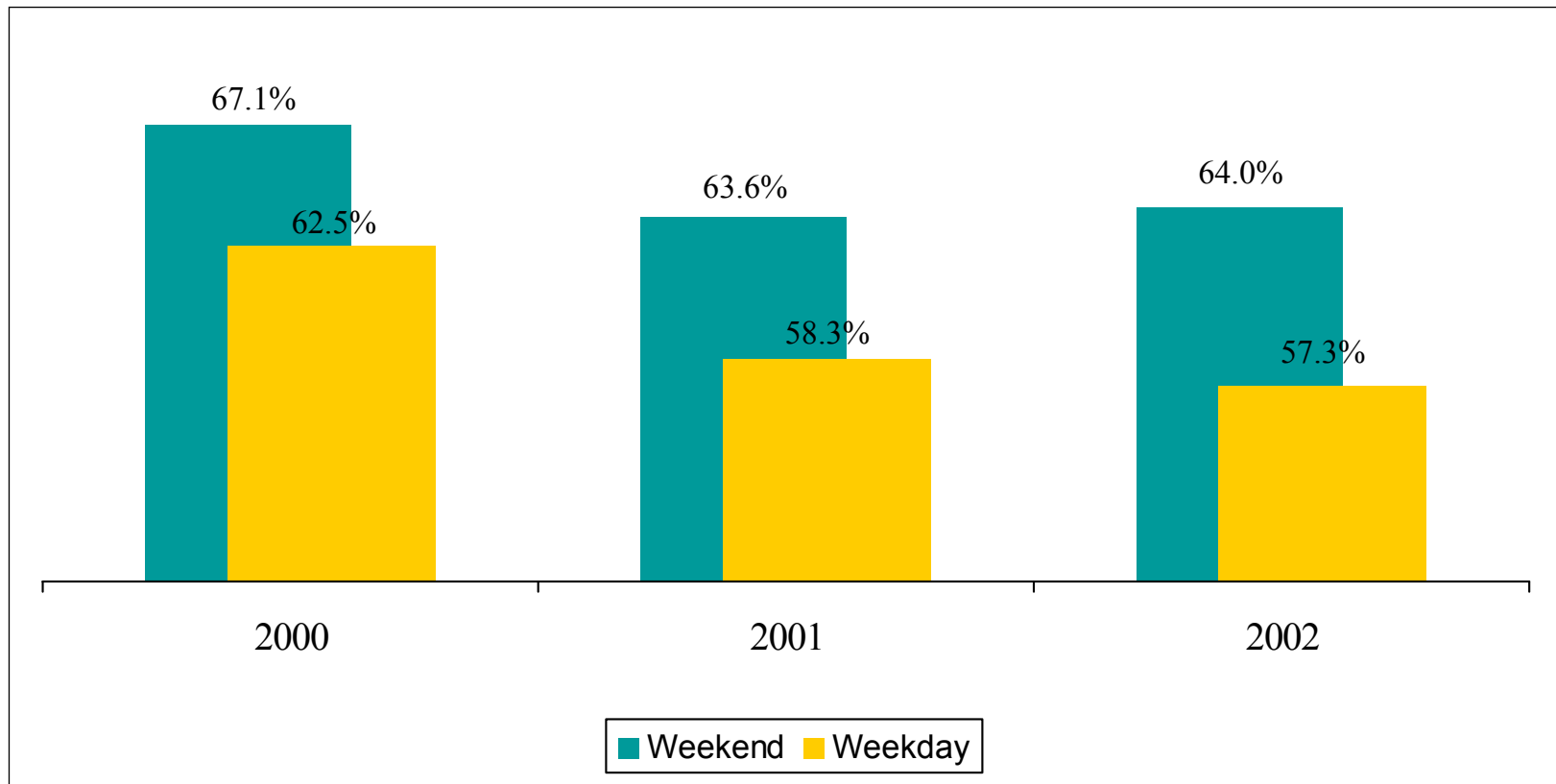
Business vs. Leisure Nights

In the third quarter of 2001, leisure room nights surpassed business room nights for the first time. The increase in leisure room nights was large enough to move the business mix for the industry by three percentage points during 2002.

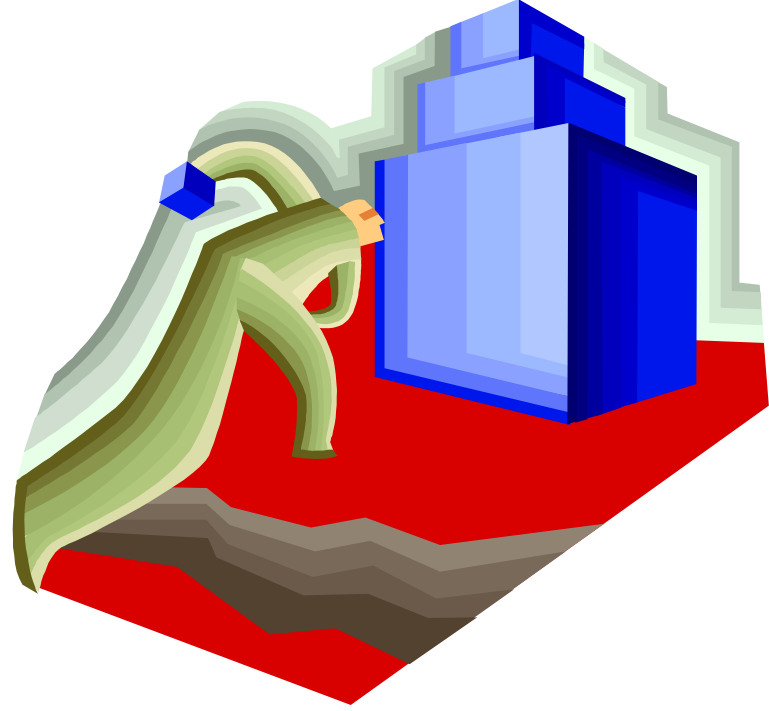


Weekday vs. Weekend

With the decrease in business travel, it is not surprising to see a continued decline in weekday occupancy. Weekend occupancy rose in 2002 as leisure demand increased.



Market Performance

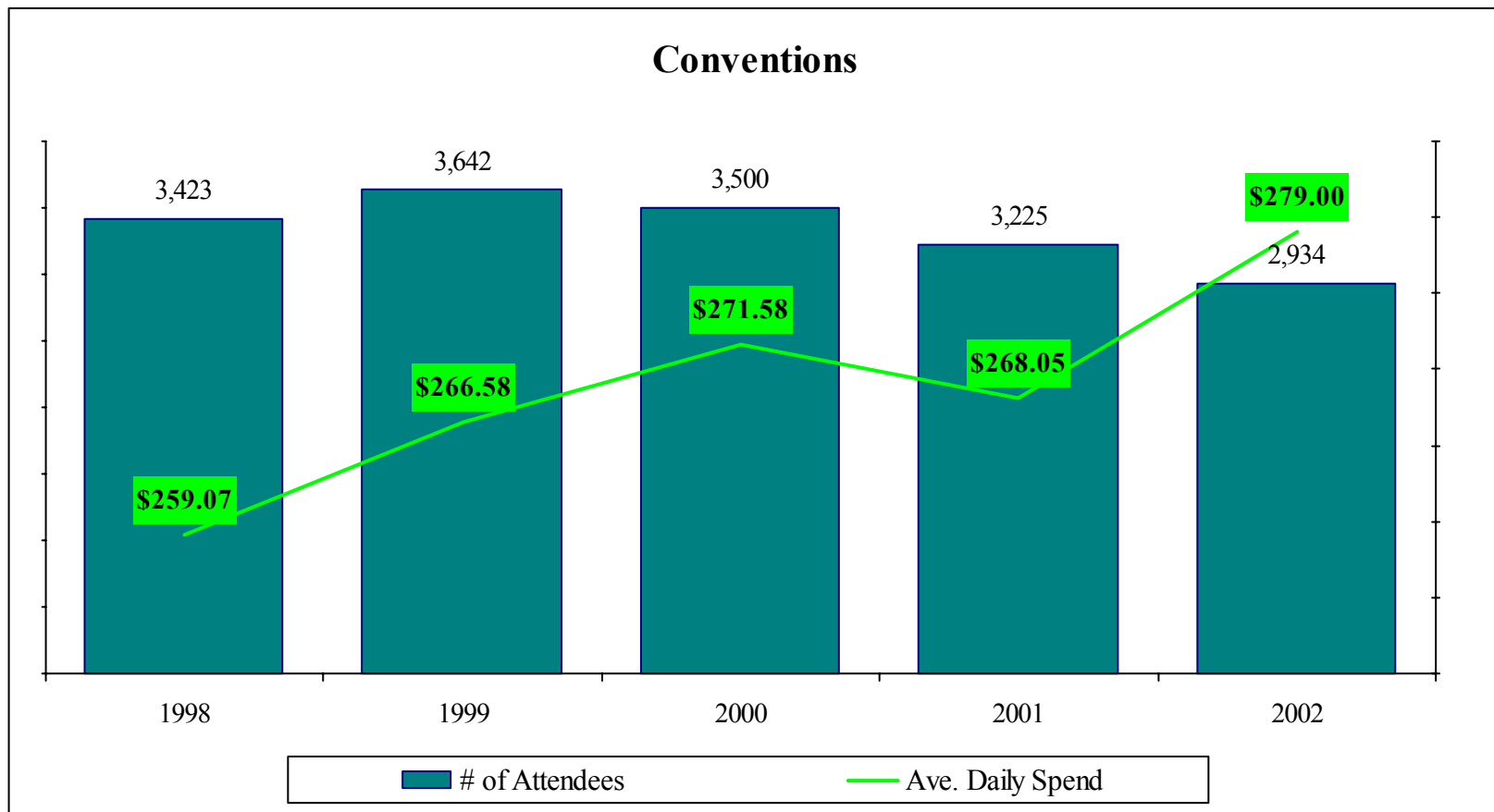


Atlanta Performance Generators

- ◆ Moderating supply
- ◆ Expansion/Renovation of key facilities
 - Hartsfield (\$5.4B development project)
 - World Congress Center
 - International Convention Center
- ◆ New/Renovation of Tourist attractions
 - Children’s Museum of Atlanta
 - Georgia Aquarium (2005)
 - New World of Coke (2005)
- ◆ Hotel Industry--2003 1st Quarter
 - 4.6 Million Rooms Sold
 - \$355 Million in Room Revenues
- ◆ Convention Industry--2003 1st Quarter Bookings
 - \$1.8 Billion Total Economic Impact

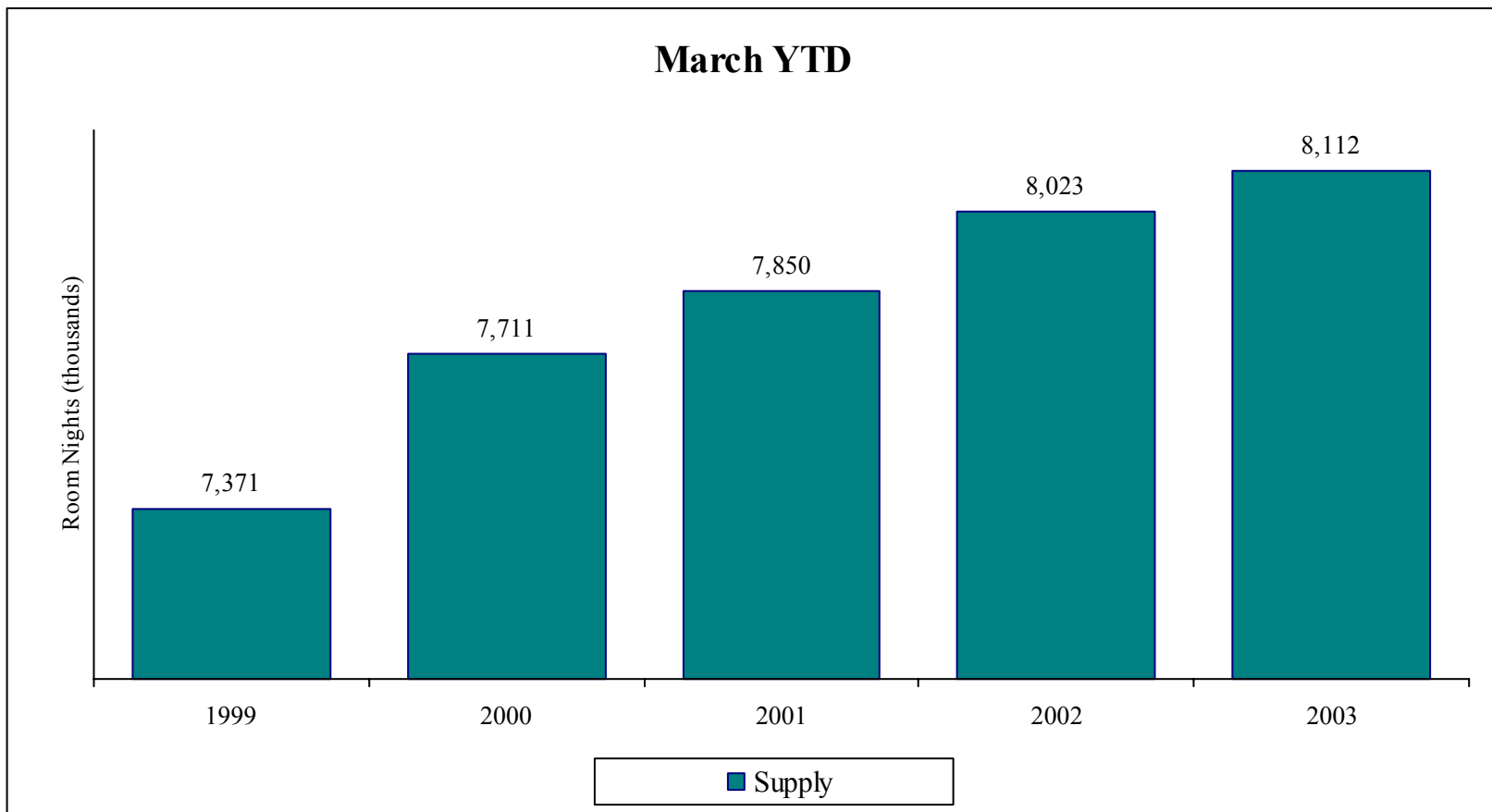
Atlanta Conventions

While the number of convention attendees has fallen steadily since 1999, 2002 did witness a recovery in the average daily spend of conventioners.



Atlanta Supply

Since 1996, 207 new hotels (19,596 rooms) have opened in the greater Atlanta area. On an annualized basis, the additions have added **approximately 7 million more room nights to the market**. For the year, supply growth has slowed to 1.1% versus 2.2% a year ago.

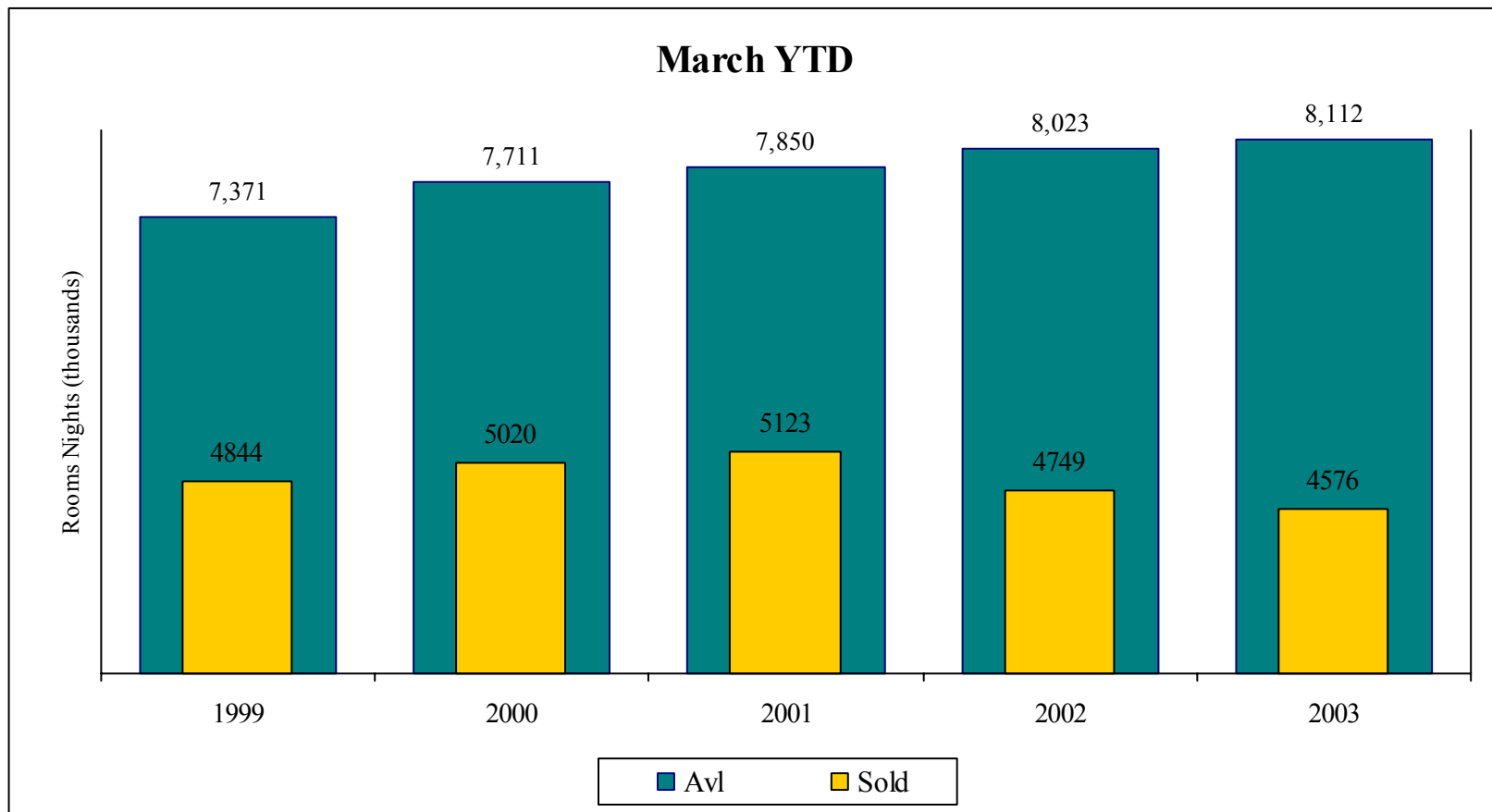


Atlanta Supply Changes

- ◆ New InterContinental – Buckhead (2004)
 - Atlanta’s first new Luxury hotel since 1992
 - 26,000 sq. feet of meeting space
 - 12,000 sq. foot Grand Ballroom
- ◆ Omni Hotels (2003)
 - 27-story tower (CNN center)
- ◆ Georgia Tech Hotel & Conference Center (Fall 2003)
- ◆ Renovations
 - Marriott Marquis (Exhibit Level)
 - Hilton (Crystal Ballroom)
 - Ritz-Carlton-Buckhead (Grand Ballroom)
 - Westin-Peachtree Plaza (Comprehensive (\$30M))

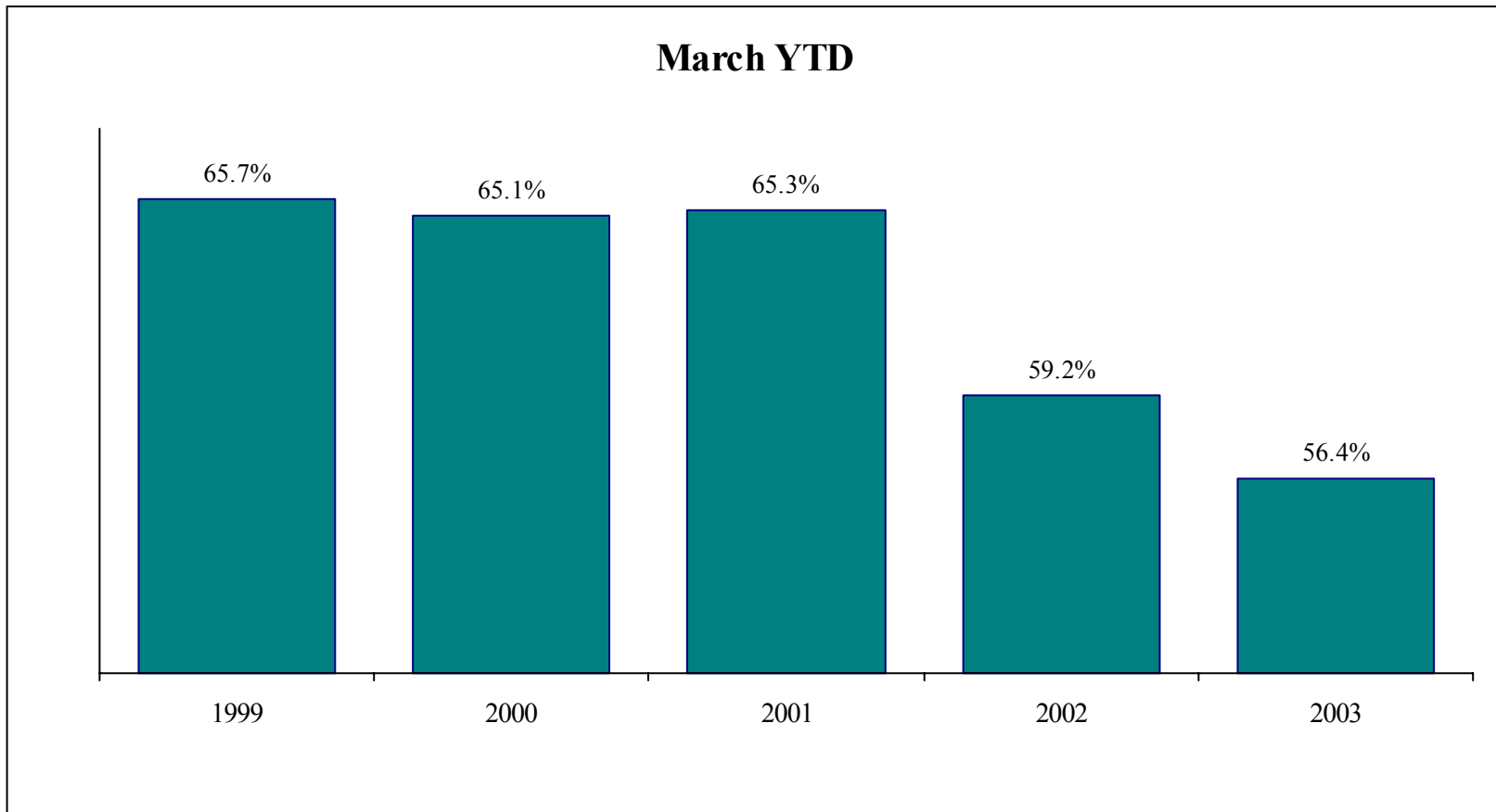
Atlanta Supply & Demand

Compared to March 2001 YTD, supply has increased by 3.3% while demand has decreased by -10.7%. **For the period, demand is at a five year low.**



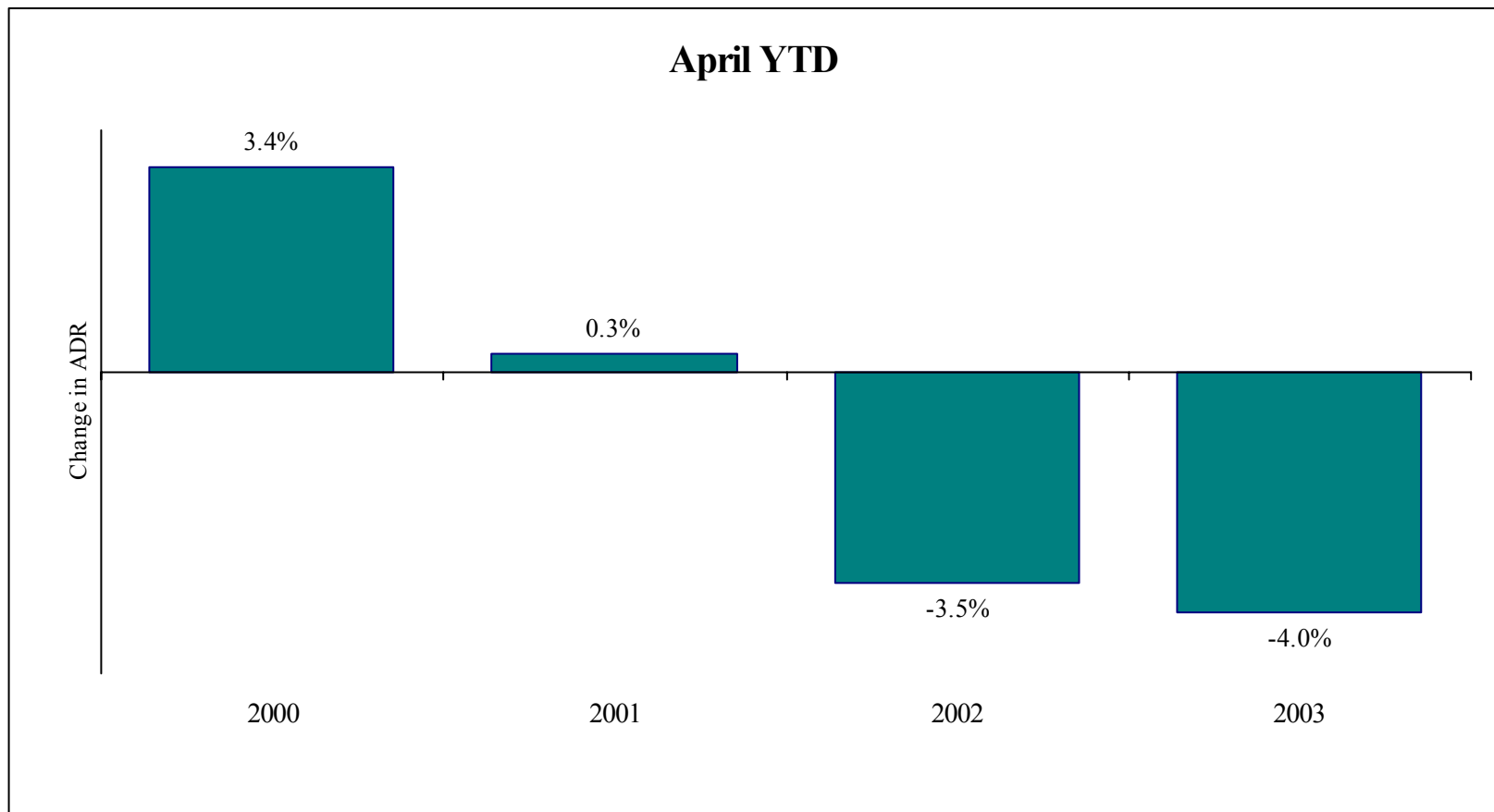
Atlanta Occupancy

Occupancy has also reached a new low as a result of the increased supply and drop in demand.



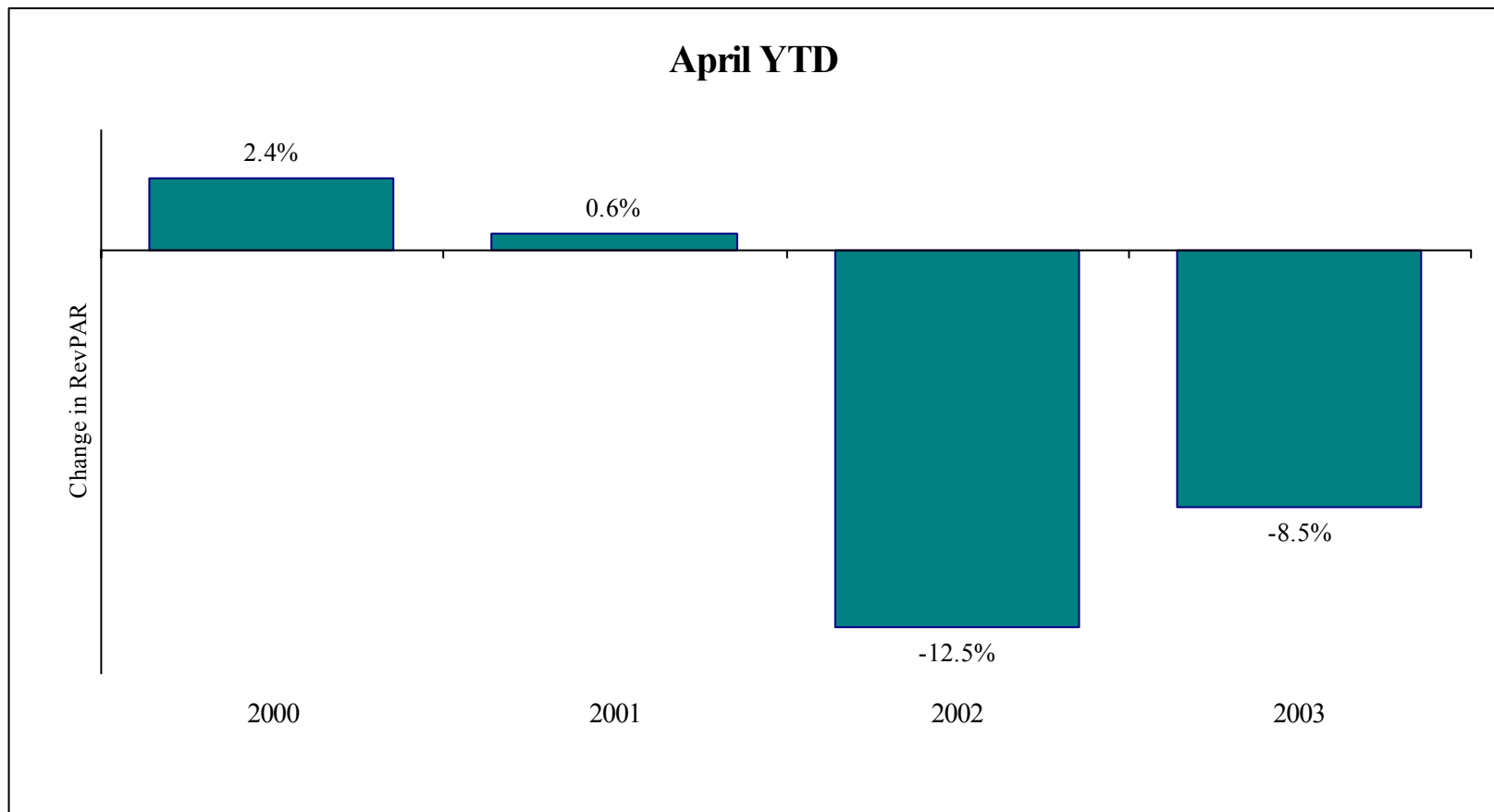
Atlanta Average Daily Rate

Not surprising, rates continue to decrease as a result of the supply/demand imbalance.



Atlanta RevPAR

While not as bad as a year ago, revenue per available room also continues to decline.

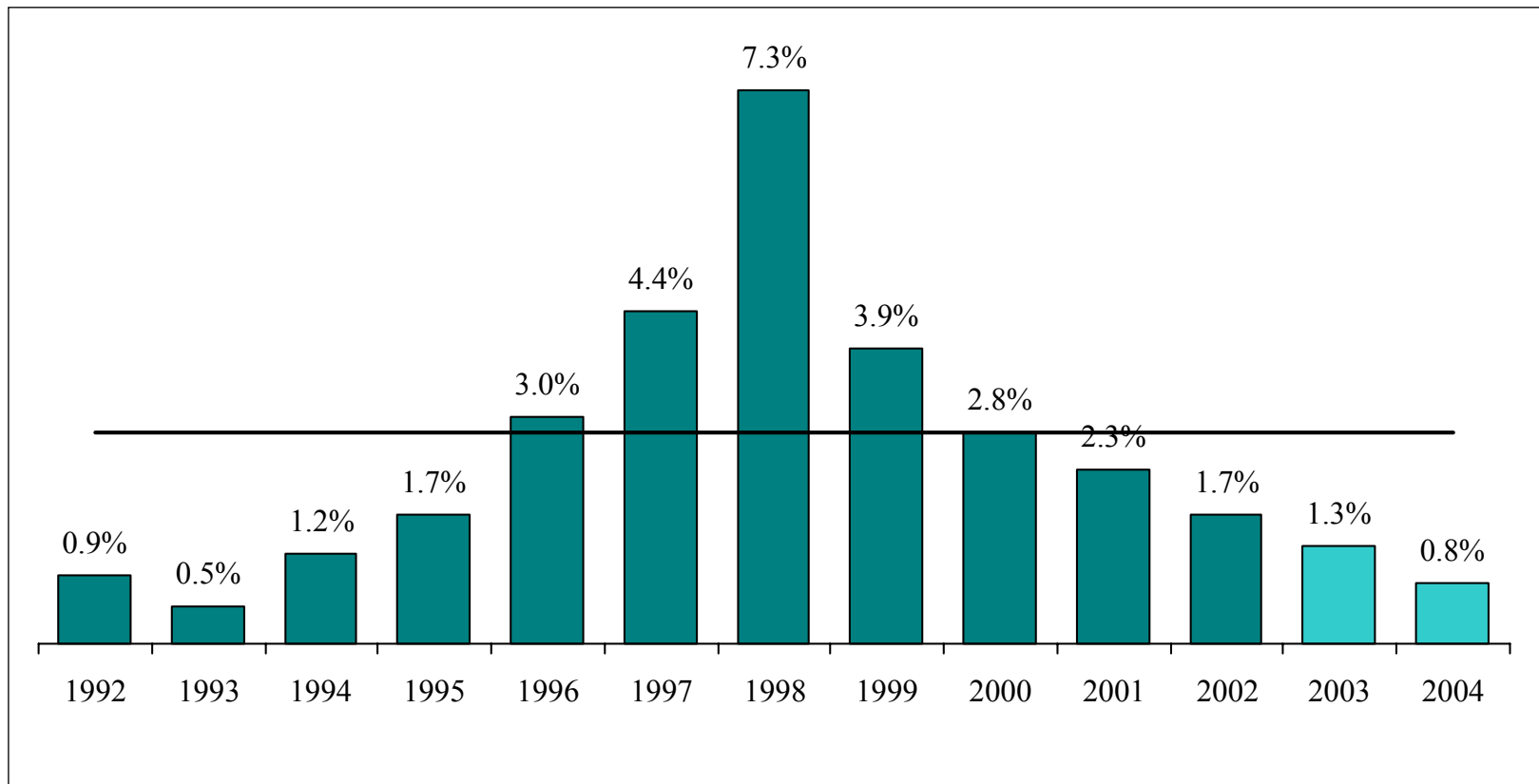


Industry Forecast



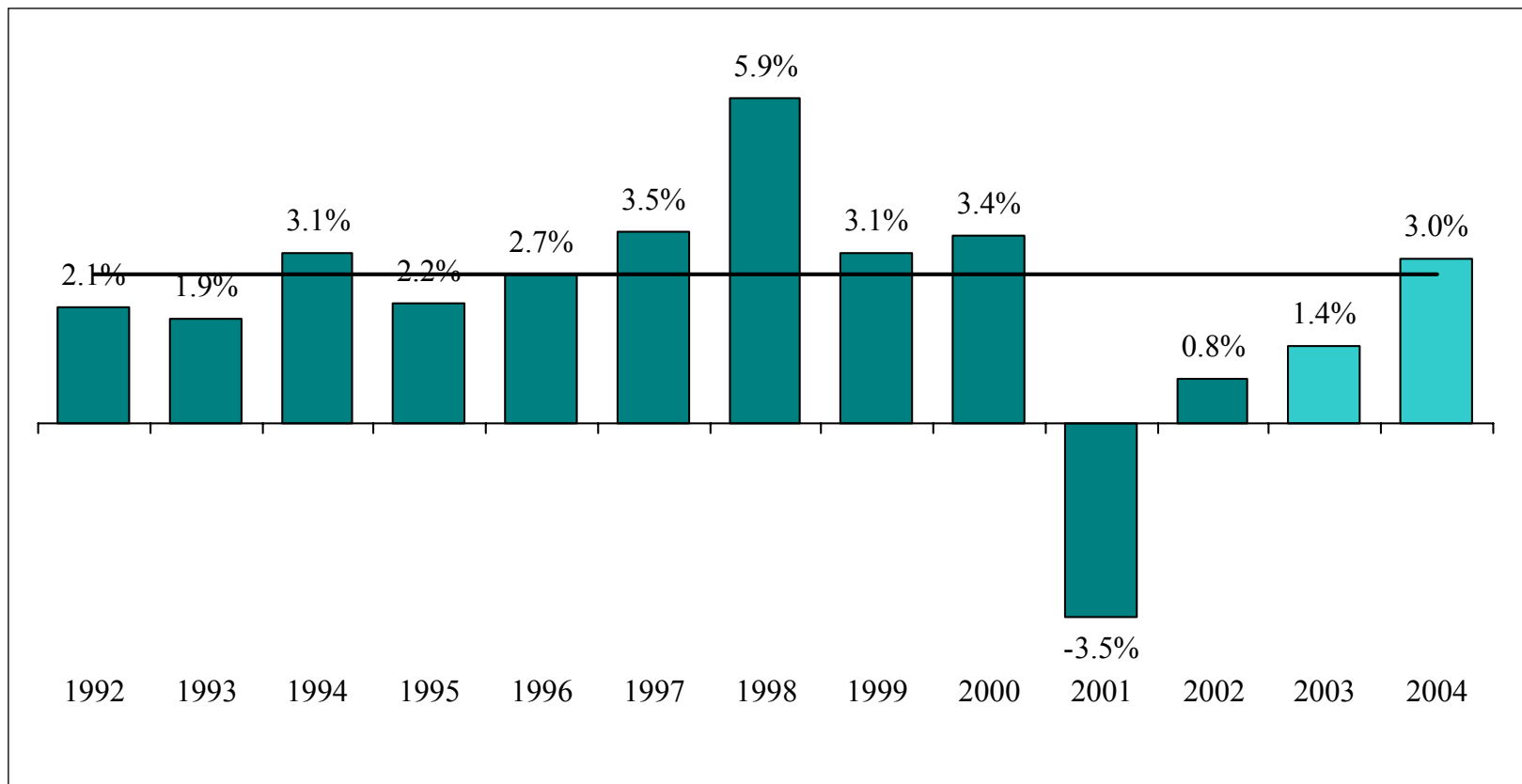
Room Supply Forecast

Supply increases are expected to continue to decrease in 2002 and 2003. By 2005, supply should begin to rebound, but the gains will be well below the 10-year industry average of 2.8%.



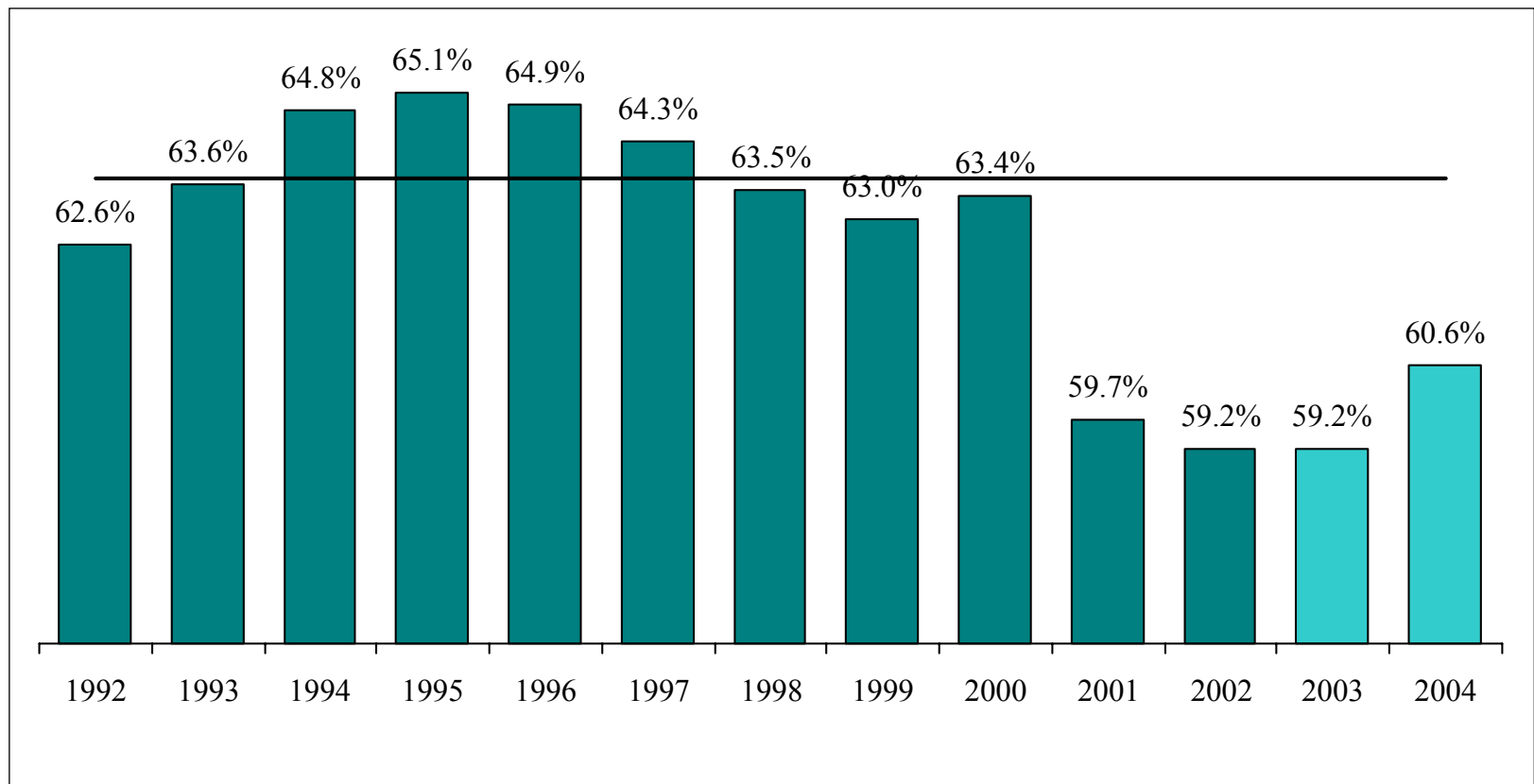
Room Demand Forecast

Demand growth is expected to return to its pre-2001 levels by year-end 2004. At that time, demand, in absolute terms, will surpass the record set in 2000 of 959 million room nights.



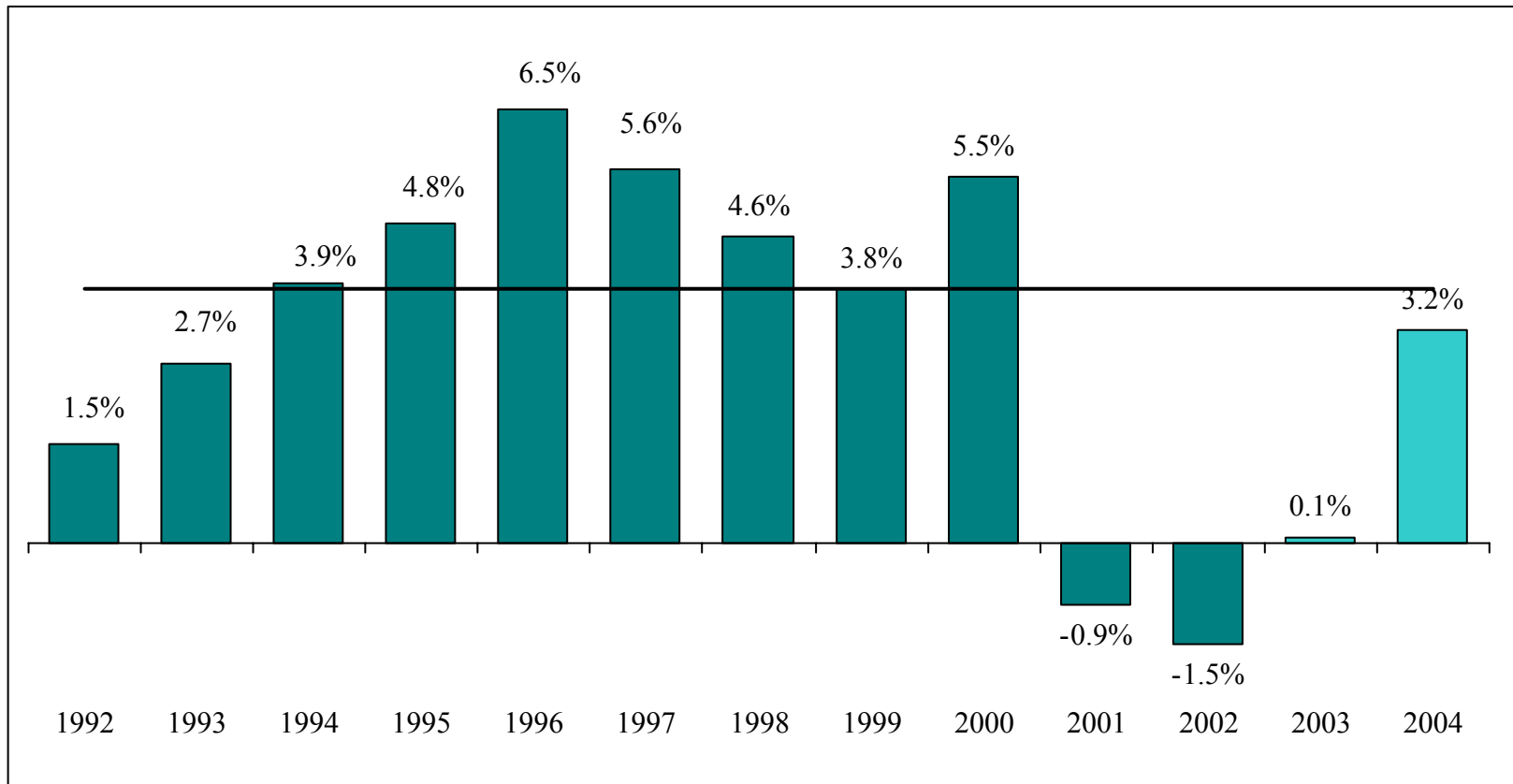
Occupancy Forecast

But even with the anticipated 2004 record setting demand, occupancy will continue to be well below the 10-year average due to supply gains over the past several years.



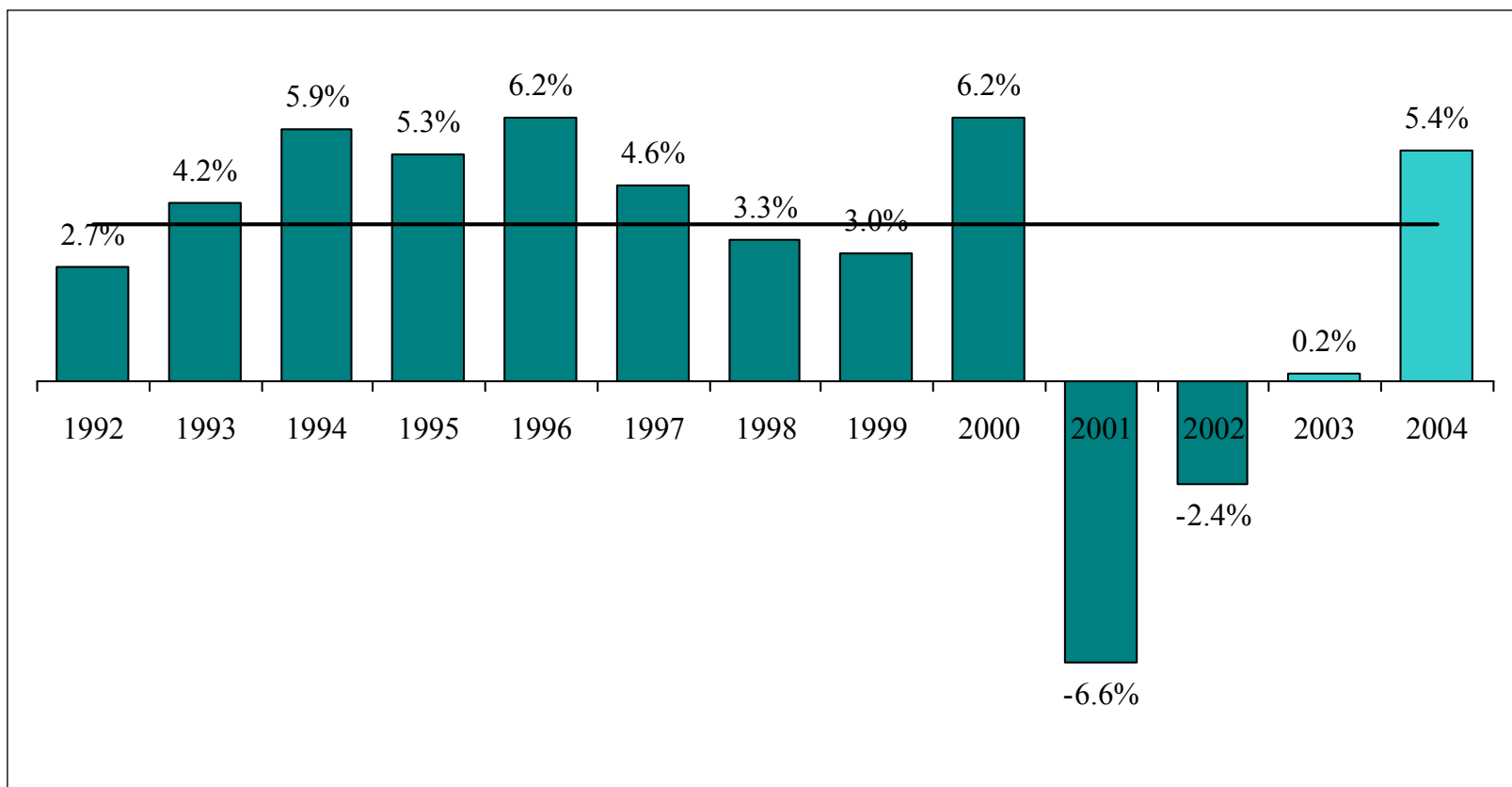
ADR Forecast

Rates are expected to begin an ascent by the end of this year and should accelerate as the environment stabilizes and demand growth returns.



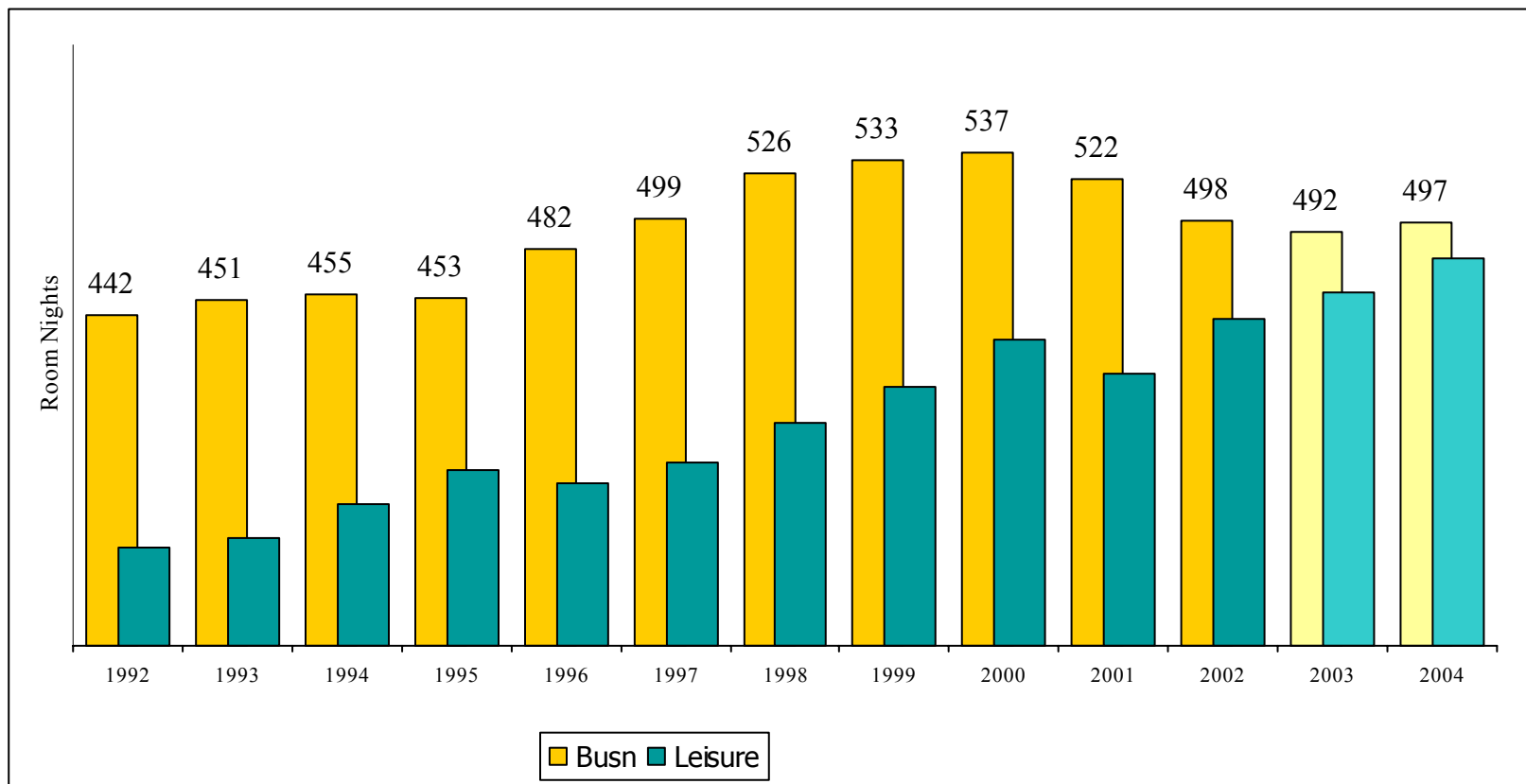
RevPAR Forecast

Assuming that the environment stabilizes, **RevPAR will observe its first increase in two years during 2003 and rise above its 10-year average in 2004.**



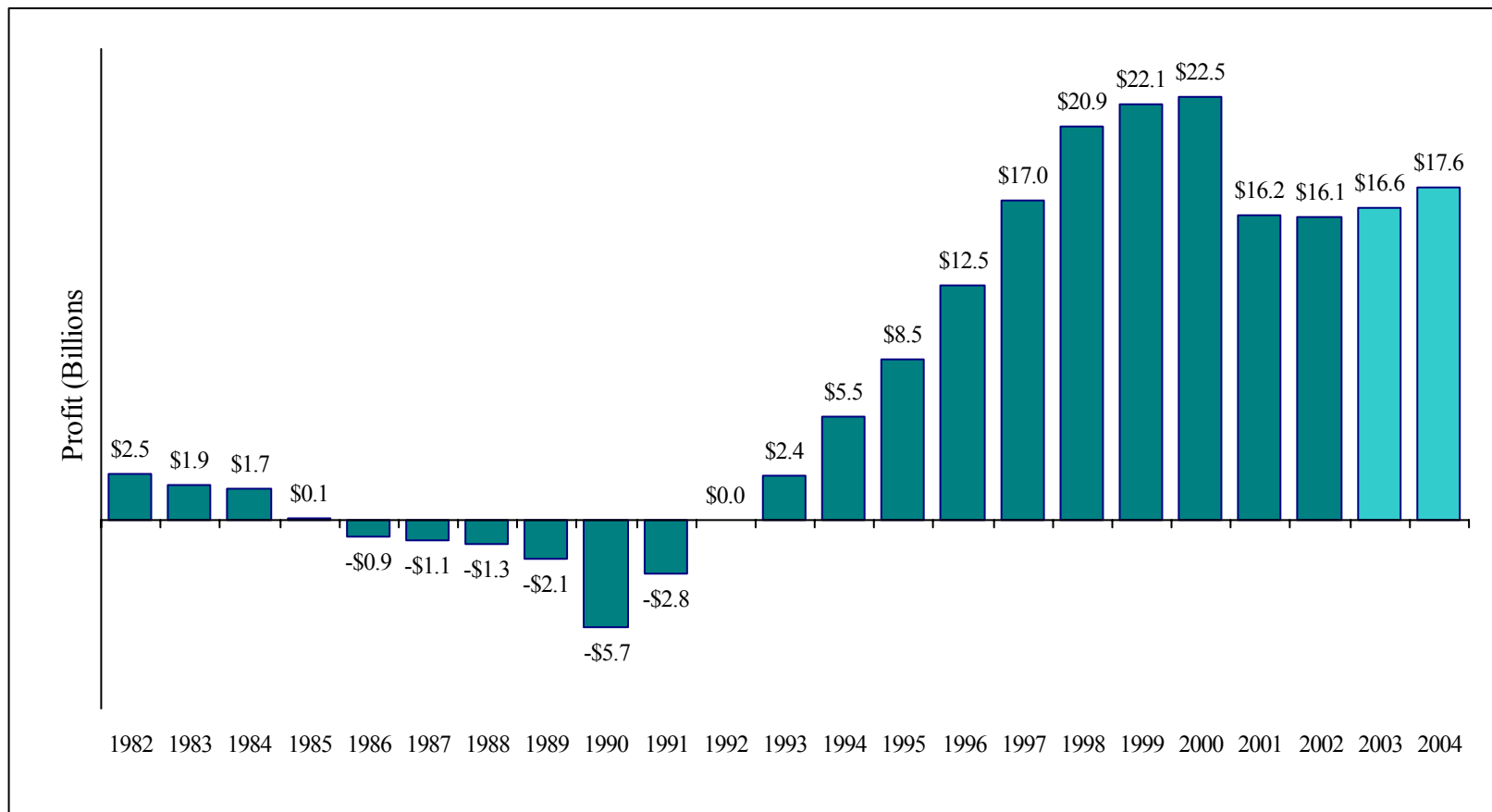
Business vs. Leisure Nights

As the industry recovers in 2004, it is expected that total room nights will increase with business nights remaining somewhat flat (+1.0%), but leisure nights increasing (+4.3%) after also increasing +3.6% in 2003. The customer mix in 2004 is expected to be near 50% business/leisure.



Industry Profits

Over the last two years, the industry has continued to reduce operating expenses, which, according to PricewaterhouseCoopers, has reduced the break-even point to a record low of 47.4%. In 1995, PWC estimates that the break-even point was above 60%. Thus, while the industry has been in a significant downturn, its **profitability has remained intact and will do so for the foreseeable future.**



Atlanta Market Forecast

While current performance is rather gloomy, the Atlanta market is expected to return to a growth mode by 2004.

