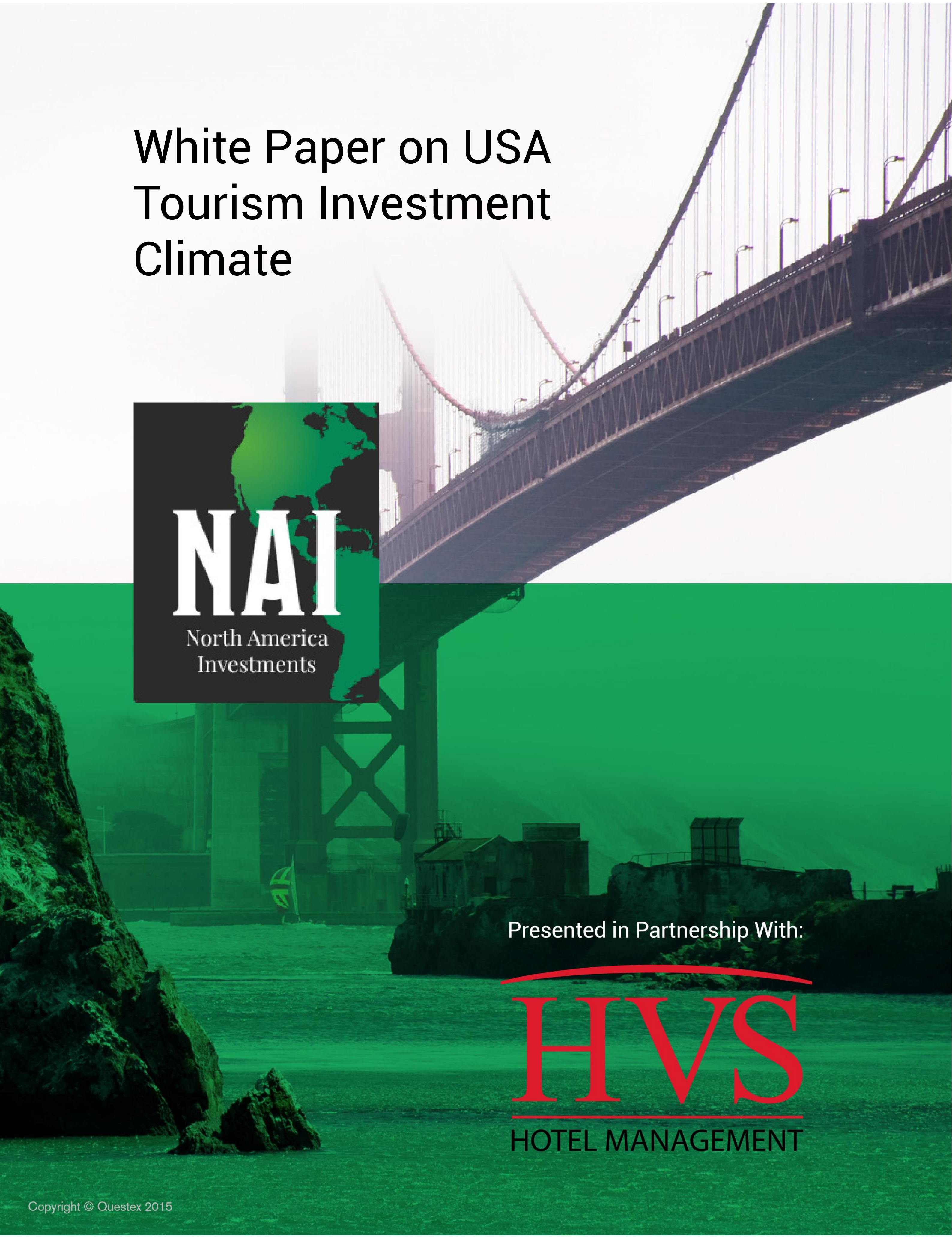
White Paper on USA Tourism Investment Climate



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As one of the most competitive economies and tourism environments in the world, the United States has long been one of the world's top tourism destinations. The country's diverse geography, history, culture and demographics have historically fueled growing global and national interest in investing in, doing business with and visiting the U.S. Key economic and tourism-related data are testimony to this interest. The following is a summary of this data, comprising key facts and figures about the tourism investment climate of the United States, and highlighting three trends.

Overall, with positive growth the past few years, including record-breaking hotel occupancy and revenue, the forecast for the next few years is bright and optimistic for visitors, residents, operators and investors. Some of the demand is driven by three key trends: technology, especially the rise of the "sharing economy;" the rise of the millennials as a key traveler segment; and the continued travel demands of baby boomers. And, internationally, increased disposable income among especially the Chinese is also helping to drive demand. It is a great time to be in tourism and be a tourist in the United States.

Key Country Facts:
Diversity that helps tourism demand

GEOGRAPHY

Everything from the highest mountain in North America (Mount McKinley) to one of the lowest points on the planet (Death Valley) with nearly every geographical feature imaginable in between, many of which have become key visitor attractions. At 9.8 million square kilometers, the Continental US is about half the size of Russia and Latin America, a third the size of Africa and double the European Union.

DEMOGRAPHICS

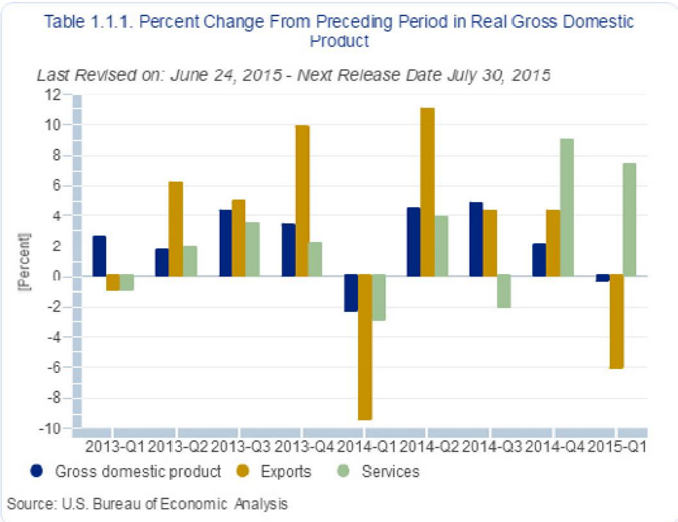
At a population of more than 319 million, Americans are as diverse as the geography – a veritable global melting pot with nearly every ethnic group, culture, religion and race represented – perhaps the planet's most pluralistic society. While the median age is almost 38 years, more than a quarter are 55 and older while about a third are millennials in the 18- to 35-year bracket.

US Economy Driving Demand

With gross domestic product of approximately US$17.46 trillion (2014 est.) and per capita GDP of $54,800, the U.S. continues to be the world's economic powerhouse, driving demand globally for many industries. More than three quarters of the U.S. GDP is generated by services, of which travel-and-tourism is a major component.

Employment trends have been similarly positive and thus help to drive growing demand for goods and services. As of May 2015, although U.S. unemployment was at 5.5 percent, nearly 149 million people were employed. The unemployment rate hit a painfully high point of 10 percent in October 2009, but has steadily crept downward nearly every month since then thanks, in part, to annual GDP growth hovering around 2.2 percent. The following chart shows that services exports have been one of the brightest growth drivers, some of which could be attributed to international tourism growth.

After more than a century, though, the U.S. is now estimated by the CIA's World Factbook to be second to China in total GDP.



The appreciation of the dollar, especially against the euro, Canadian dollar and Mexican peso, has impacted U.S. exports. The appreciation might impact international arrivals and thus tourism spending from the European Union, Canada and Mexico, the three main sources of international arrivals in the U.S.

Figure 1: Euro per 1 US$

Figure 2: Canadian $ per 1 US$

Figure 3: Mexican pesos per 1 US$

Source: www.x-rates.com

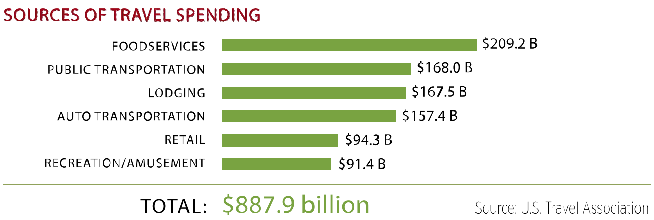
Tourism Growth in the U.S.

The EU, Mexico and Canada comprised more than 67 percent of total arrivals to the U.S. in 2014 and with appreciation in the dollar, the U.S. would become a more expensive destination. However, in the latest forecasts from the Department of Commerce, no decrease overall or in these and other generating markets is foreseen. In fact, the forecasts see a 3.8-percent to 4.6-percent annual growth in visitor volume during the 2015-2020 timeframe with 96.4 million visitors expected, thus an increase of 29 percent over 2014. All of this bodes well for tourism investments, especially lodging, in the pipeline and for new investors planning to enter the market.

Countries with the largest total growth percentages are China (163 percent), Colombia (54 percent), India (42 percent), Mexico (37 percent), and Taiwan (33 percent). Venezuela is the only country expected to have a decline in volume during the forecast period. Three countries – Mexico, China and Canada – are expected to account for 61 percent of the projected growth from 2014 through 2020. By 2020, arrivals from Europe are projected to be 16.7 million, or 21 percent higher than in 2014.

Historically, U.S. domestic tourism has been an even more powerful source of tourism growth for the country. The latest data from the U.S. Travel Association in 2013 show **1.6 billion "person-trips"** (one person away from home overnight in paid accommodations or on a day-trip 50 miles away from home) for leisure by U.S. residents, plus 452 million for business travel.

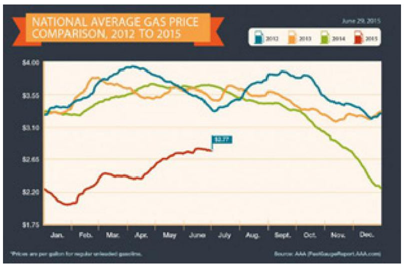
Combined, according to the U.S. Travel Association, domestic and international visitors **spent US$621.4 billion on leisure travel in 2013, which generated nearly US$92 million in tax revenue and directly supported 5.6 million jobs. Business travel generated an additional US$266.5 billion in spending** and US$42 billion in taxes, supporting 2.3 million jobs. Total spending in 2013 amounted to nearly US$888 billion and was spent as follows:

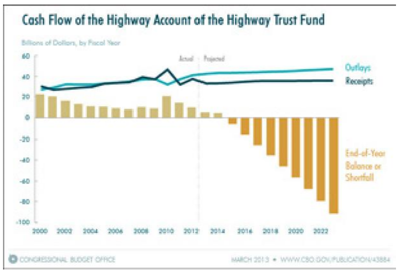


By the end of 2014, the Bureau of Economic Analysis reported that the total of direct tourism-related spending jumped to US$905.5 billion. Add in indirect tourism-related spending and the total is US$1.6 trillion.

Supporting this spending is **substantial transportation infrastructure**, especially the air transport infrastructure, which the World Economic Forum's 2015 Travel and Tourism Competitiveness Index ranked as the second best in the world after Canada. Road and port infrastructure do not fare as well on the Index with a ranking of 31/141. The United States counts 13,513 domestic and international airports that serviced 850.5 million international and domestic passengers on 9.5 million flights in 2014 (Source: U.S. Department of Transportation: http://www.transtats.bts.gov/Data_Elements.aspx?Data=2).

Ground transportation infrastructure is equally substantive with 6.5 million kilometers of roads and 224,792 kilometers of rail lines. The lower rating on the WEF TTCI underscores the need for increased public and private investment to improve and expand the system. Some of this investment for the road system is financed by the Highway Trust Fund, which is derived from excise taxes, the most important of which has been the tax on gasoline. The tax is 18.4 cents per gallon and has not changed since 1993. Consequently, it is not surprising that the Congressional Budget Office is forecasting serious shortfalls in the Fund (see chart below), especially as lower fuel prices stimulate more driving and thus further stress the road system.

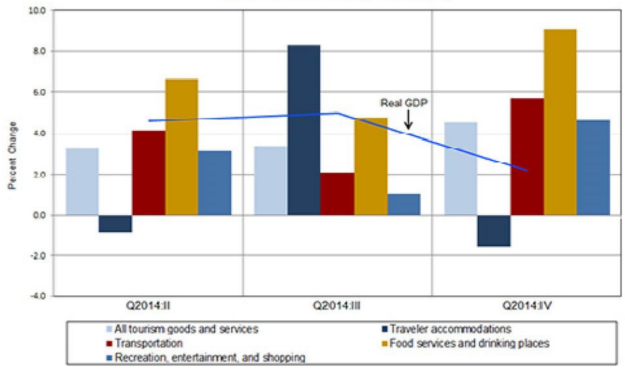




Although the gas price began to increase somewhat in mid-2015, the Energy Department estimated that the average household would save US$650 from the lower gas prices this year. The drop in the gas price could stimulate more travel and thus encourage more tourism investment in the U.S.

The extent to which Americans would use their gas savings for travel around the country was unknown as of mid-2015. The spending figures for 2014 that the Bureau of Economic Analysis reported on March 18, 2015, are encouraging indicators of continued tourism growth: 2.5-percent increase in spending for the year, especially stimulated by increases in passenger air transport and recreation/entertainment. In the fourth quarter of 2014, traveler accommodations actually decreased 1.5 percent after increasing 8.3 percent during the third quarter.

Chart 1. Real Tourism Spending



Source: http://www.bea.gov/newsreleases/industry/tourism/2015/tour414.htm

Another issue that may cast some doubt on whether the windfall will translate substantially into increased travel spending is the propensity for Americans not to use their vacation time. In March 2015, the U.S. Travel Association reported that "[e]ach year Americans fail to use 429 million vacation days and with those days, $160 billion in economic opportunity is lost." In response, the U.S. Travel Association launched "Project: Time Off, an initiative to prove the personal, professional, economic, and social benefits that taking time off can deliver." (http://www.projecttimeoff.com/sites/projecttimeoff.com/files/fact-sheets/USTCaseStudy.pdf)

And with the bright forecasts for international travel to the U.S. mentioned above, the tourism industry is thriving and seems positioned to continue thriving for the next several years. In 2014, international visitors flocked (in order of popularity) to New York, Miami, Los Angeles, Orlando, San Francisco, Las Vegas, Honolulu, Washington, D.C, Boston and Chicago – receiving from 9.7 million to 1.3 million visitors. No surprises. The surprises were among the next group of destinations ranging from 11 to 19 in popularity, five of which saw their international visitors increase by 22 percent to 24 percent over 2013: San Diego, Atlanta, Anaheim (Calif.), Seattle and Tampa.

Key Demand Drivers - Technology

With Internet access increasingly faster, cheaper and more available on multiple devices from tablets and smartphones to now smart watches, lots of destination information is feeding more independent decision-making on where to go, stay, play and eat. This access has also spawned a vast and growing sharing economy – networks of peer-to-peer platforms – around the world where people share travel reviews and tips (TripAdvisor, Facebook and Twitter), travel photos (Pinterest and Instagram), travel videos (YouTube), cars (Uber) and homes (Airbnb). The influence of these and other sharing economy leaders is having a profound effect on travel and tourism – disruptive for traditional suppliers, but potentially opening destinations to more visitors and new and perhaps innovative investment opportunities.

In a 2013 Phocuswright report for TripAdvisor, the following highlights are significant indicators of a trend that seems set to continue:

- 77 percent usually or always reference TripAdvisor reviews before selecting a **hotel.**
- 80 percent read six to 12 reviews before booking accommodations.
- 50 percent usually or always reference TripAdvisor reviews before selecting a **restaurant.**
- 44 percent usually or always reference TripAdvisor reviews before selecting an **attraction.**

And in a study by research agency Sparkler conducted for Facebook, 95 percent of people use Facebook for travel-related activities prior to going on vacation. In fact, Facebook U.K.'s measurement solutions lead, Andy Pang, said that Facebook is present throughout the five stages of travel.

Then after selecting a holiday destination, perhaps with tips from TripAdvisor and Facebook friends, there is an increasing chance that the traveler will not select a hotel, but instead opt for private accommodations through Airbnb.

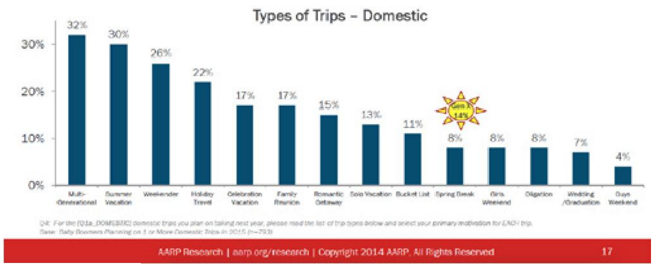
A May 2015 Boston University study, "The Rise of the Sharing Economy: Estimating the Impact of Airbnb on the Hotel Industry," found in analyzing the Texas hotel market that revenue of "the most vulnerable hotels" decreased 8 percent to 10 percent since 2010 due to Airbnb. In fact, they found that, at least in Texas, each additional 10 percent increase in the size of the Airbnb market resulted in a 0.37-percent decrease in hotel room revenue. In mid-June, Skift reported that Airbnb was close to raising US$1 billion in financing that values the company at US$24 billion, which exceeds the 2015 market valuations of Hyatt Hotels Corporation (US$8.14 billion), Starwood Hotels & Resorts Worldwide (US$14 billion), Marriott International (US$21 billion), Wyndham Worldwide (US$10 billion), InterContinental Hotels Group (US$9.87 billion), and Choice Hotels International (US$3.24 billion). With 1.2 million rooms/listings, Airbnb also has the largest inventory – and is growing globally. Many municipalities concerned about lost room tax revenue have begun to tax owners as accommodation providers.

Rise of the Millennials

Millennials and Gen Ys are children of baby boomers (born 1977 to 1995), comprise about 20 percent of the population and are the fastest growing generation of customers. Skift reported in June 2015 that they are expected to surpass boomers in overall travel spending. While the millennials are one of the reasons for the fast growth of the sharing economy, it is not because they are tech savvy, according to millennials/Gen Y expert Jason Dorsey. It is because they are, he claims, "tech dependent and can't live without it and as a result their communications skills are more focused on SMS-length messages and not much longer." For the travel industry, according to Skift, this means more emphasis on personalization and connectivity. Technology becomes a key to providing them with "highly personalized experiences shared within larger connected networks of like-minded travelers… they want the freedom to do what they want, when and how they want to, and they want to share those experiences with friends, family and colleagues when and how they want to… Michael Tiedy, senior VP of brand design at Starwood says millennials like to be alone together." (Skift.com, June 19th, 2015) For the tourism industry, particularly hotels, this means providing experiences and spaces that are and feel more personal and enable both virtual and real connectivity.

Decline of Boomers?

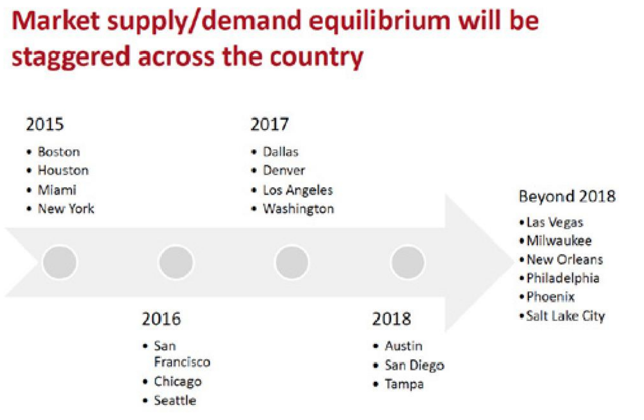
Hardly. The rise of the millennials does not mean the decline of boomers as an important travel segment. On the contrary, boomers are living longer, have accumulated substantial disposable income and want to travel the world. According to an AARP study, "Travel Research: 2015 Boomer Travel Trends," 97 percent of respondents expect to travel in the U.S. in 2015 on at least one trip with almost 40 percent expecting to take four or more domestic trips. The types of trips anticipated, as shown in the following chart, provide lots of food for thought for tourism industry investment and offers.



Technology also plays a significant role in their decision making with 85 percent having researched their trips online. Of the review sites used, TripAdvisor tops the list at 86 percent followed by Yelp at 23 percent. Popular booking sites include Expedia for 55 percent of respondents, Travelocity for 51 percent and Orbitz for 37 percent. However, 54 percent of the respondents have also gone directly to hotel, airline and rental car sites.

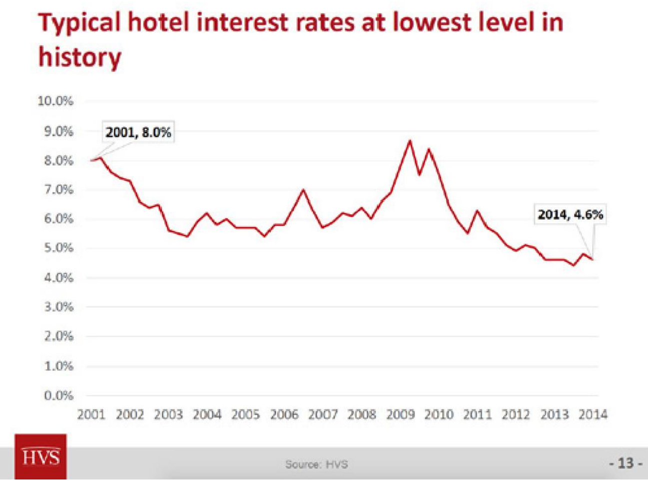
Lodging Sector in Parallel with Tourism Trends

At the 36th and 37th Annual NYU International Hospitality Industry Investment Conferences in New York (2014 and 2015), HVS CEO and President Stephen Rushmore Jr. was moderately optimistic about the future of the lodging sector in the U.S. In his 2014 presentation, he said that the "future looks good for the U.S. hotel industry" and that hotel values will continue to grow but at a slowing rate because supply has been accelerating somewhat beyond demand. A year later, he predicted that overall supply and demand will reach equilibrium late 2016 or early 2017, although some markets will see equilibrium in 2015.



Source: Stephen Rushmore, Jr., HVS Presentation at NYU Conference 2015

Some of these markets are no doubt being boosted by the double-digit international visitor demand cited above. In 2013, for example, according to the American Hotel & Lodging Association's "2014 Lodging Industry Profile," international visitors accounted for 20 percent of all lodging sales with 64 percent visiting for holidays and 14 percent for business/conventions with strong growth forecasted to continue through 2018. Moderate economic growth, lowest hotel interest rates ever for now (see chart below) and continued lower gas prices are also helping to sustain demand and stimulate some hotel investment.



Source: Stephen Rushmore, Jr., HVS Presentation at NYU Conference 2015

Lodging Econometrics' spring 2015 executive summary report reinforces Rushmore's conclusions and forecasts. It reported that in the first quarter 2015, guestroom demand was at a 4.2-percent growth rate, which was "**running four times greater than new supply growth and other operating metrics – occupancy, average daily room rate, revenue per available room and profitability – are already at modern-day highs.**" LE explained that with "3885 projects/488,230 rooms, the total construction pipeline has shown seven consecutive quarters of growth, with the last three quarters posting year-over-year (YOY) gains of 20 percent or greater." The company forecasts continued growth and profitability "barring any exogenous event[s]."

Interestingly, LE further explained that 75 percent of the pipeline project growth was concentrated among upper midscale and upscale projects, with 22 percent of the former becoming Holiday Inn Express-branded properties and 21 percent becoming Hilton Hampton Inn properties; 29 percent of the upscale projects will become Marriott Courtyards and Residence Inns.

This pipeline of growth will add to the flourishing stock of nearly 5 million hotel rooms in the U.S., which as the table below shows set new industry records as of April 2015.

12 Months Ending April 2015: New Industry Records		
		% Change
Room Supply		0.9%
Room Demand	99.4 mn rooms	4.5%
Occupancy	65%	3.5%
A.D.R.	$117	4.7%
RevPAR	$76	8.4%
Room Revenue		9.4%

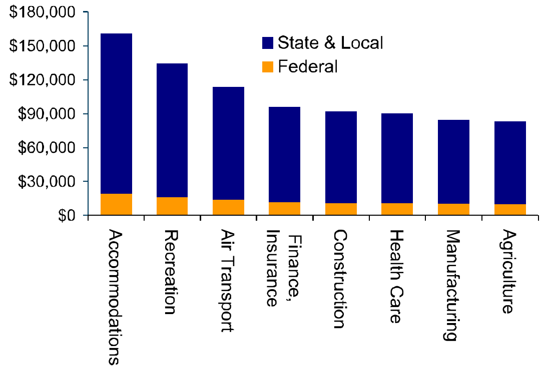
Source: NYU 2015 Presentation by Amanda Hite, President, STR

Are Taxes an Issue?

A 2013 World Travel & Tourism Council study emphasizes that the multitude of taxes on travel and tourism in the U.S. amounted to US$121 billion in tax revenue in 2012 with a roughly equal distribution between federal and state & local governments. The total impact, including indirect and induced impacts, was US$268 billion.

For accommodations, federal, state and local taxes total more than US$375,000 per US$1 million of sales, which exceeds the other sectors reviewed in the study.which exceeds the other sectors reviewed in the Study.

Indirect Business Taxes per $1 mn Sales



Source: WTTC Report: US Tax Burden on Travel & Tourism, 2013

Nevertheless, the tourism industry overall and, as mentioned above, the lodging sector all grew at healthy rates in 2014. Would the industry have grown even more strongly with lower taxes and perhaps, in so doing, contribute even more tax revenue? That is a question for future consideration.

Key Legislative & Regulatory Issues

As the prime advocate for the hospitality sector in the U.S., the American Hotel & Lodging Association pursues a number of legislative and regulatory priorities, which provide some indicators as to key regulatory issues for tourism overall. The following table summarizes the group's actions.

Issue	Actions
911 Dial-Through	Requiring direct 911 dialing from hotel rooms.
ADA Accessibility Guide	Compliance with the Americans with Disabilities Act
Healthcare Implementation	Compliance with the patient Protection and Affordable Care Act (ACA)
Immigration Reform	Supports a broad-based approach to immigration reform that: 1) ensures secure borders but allows the U.S. to remain a hospitable nation to those that travel here for business and leisure; 2) Establishes an earned legalization process to screen and identify current undocumented workers. 3) Creates an adequate system that provides access to workers to meet economic growth; 4) Provide a worker verification system that is far, accurate and efficient with a safe harbor for employers; 5) Retain and protect the H-2B seasonal worker program.

Issue	Actions
Labor	Reasonable minimum wage and overtime pay requirements.
OTCs	OTCs are paying state and local taxes on the wholesale cost they pay to a hotel for a room, rather than the retail price they receive from the customer, which results in lower taxes for jurisdictions for OTC booked rooms.
Travel and Tourism	Implementation of policies to boost international travel to the US.
Terrorism Risk Insurance	Reauthorization of terrorism risk insurance.

Environmental Issues

Environmental issues are not on the list of high priorities for the AH&LA, except in regard to energy conservation and climate change. The AH&LA works with the industry in increasing environmental sensitivity, especially in reducing energy costs through programs such as the U.S. government's Energy Star program. The lodging sector has been increasingly proactive on energy conservation because it cuts costs, reduces greenhouse gas emissions and responds to growing business and traveler interest in green properties.

The lodging industry has been responding, in part, through the U.S. Green Building Council's Leadership in Energy & Environmental Design certification program. The Council and the Cornell Center for Hospitality Research found in their July 2014 report on the impact of LEED certification on hotel performance that 354 hotels had been certified by 2012 and experienced increased average daily rates and revenue per available room. That's still a small percentage of properties, but gradually increasing. (See: http://bit.ly/1H5Fwy0)

Concluding Thoughts

Despite some room for improvement in areas such as taxes, price competitiveness and environmental sustainability, the tourism industry will continue to grow in response to increased demand from millennials, baby boomers, international visitors and others for at least the next five years. For now, this demand has also been translating into hotel demand that exceeds supply in several U.S. cities, thus fueling record-breaking occupancy levels, RevPAR and ADRs. While trends such as diversification of travel booking options through a rapidly expanding sharing economy compete with traditional supply channels, the tourism industry and thus investors will adapt to and adopt the trends, as well as influence them. Expect to see the sharing economy become increasingly mainstream as major investment flows in and travelers begin to demand consistent quality from the offers. For the tourism industry, investors and travelers, even more opportunities are becoming available.

About the Author:

Scott Wayne is the President of SW Associates (www.sw-associates.net), a Washington, DC-based tourism development and strategy consultancy. He is a frequent strategic advisor to companies, investors, destinations and the World Bank Group/IFC in over 45 countries.

HVS (www.hvs.com) and Lodging Econometrics (www.lodgingeconometrics.com) provided invaluable input to the White Papers. HVS is a world leader in hotel consulting, valuation, management and multiple other areas of industry expertise. Lodging Econometrics is a preeminent industry consulting partner for global real estate intelligence and analysis of trends.