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Hospitality Sales and Marketing Association

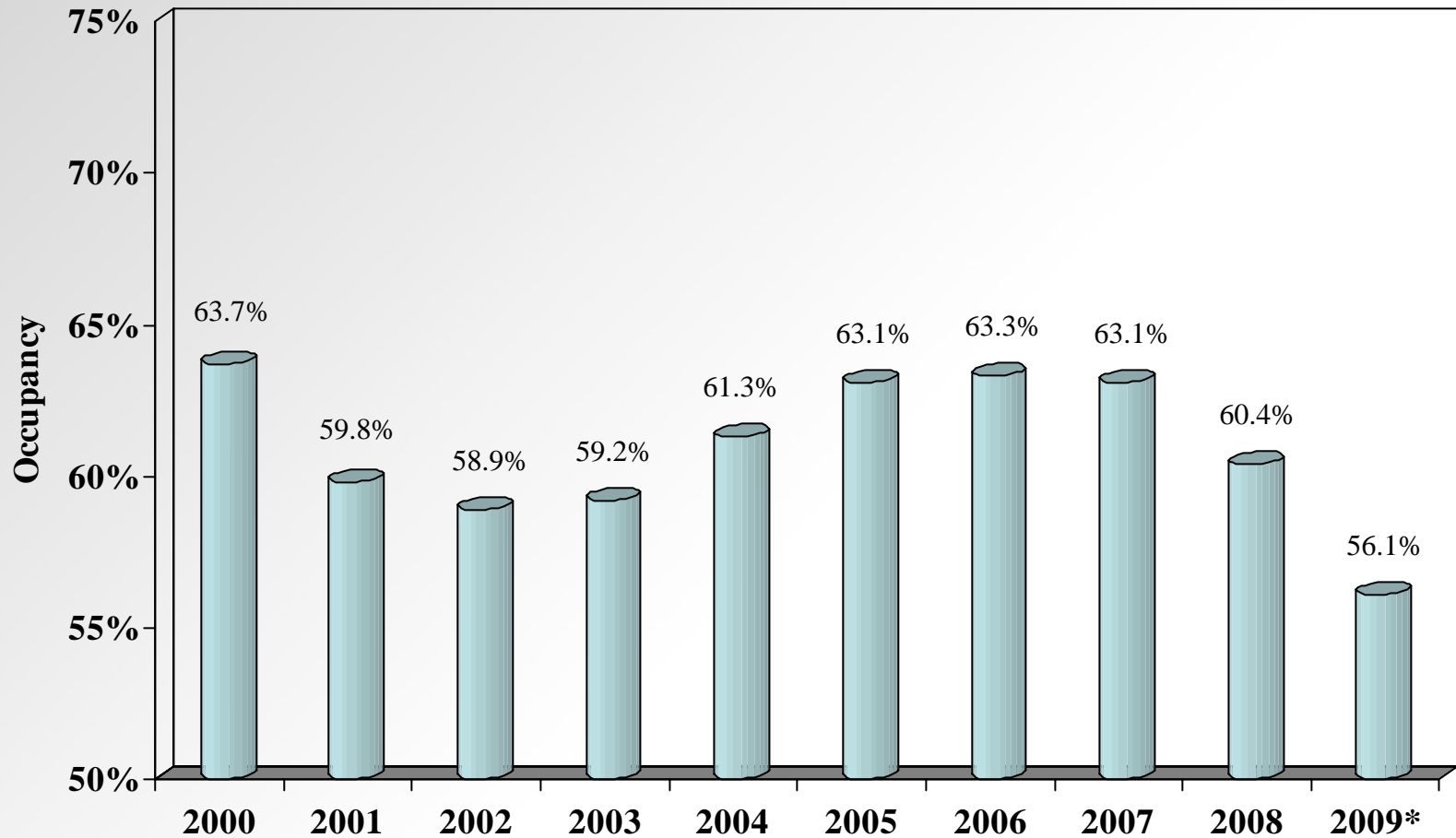
January 21, 2010
Robert A. Hayward



United States Lodging Market Overview



United States Lodging Market Historical Occupancy Performance 2000 – 2009

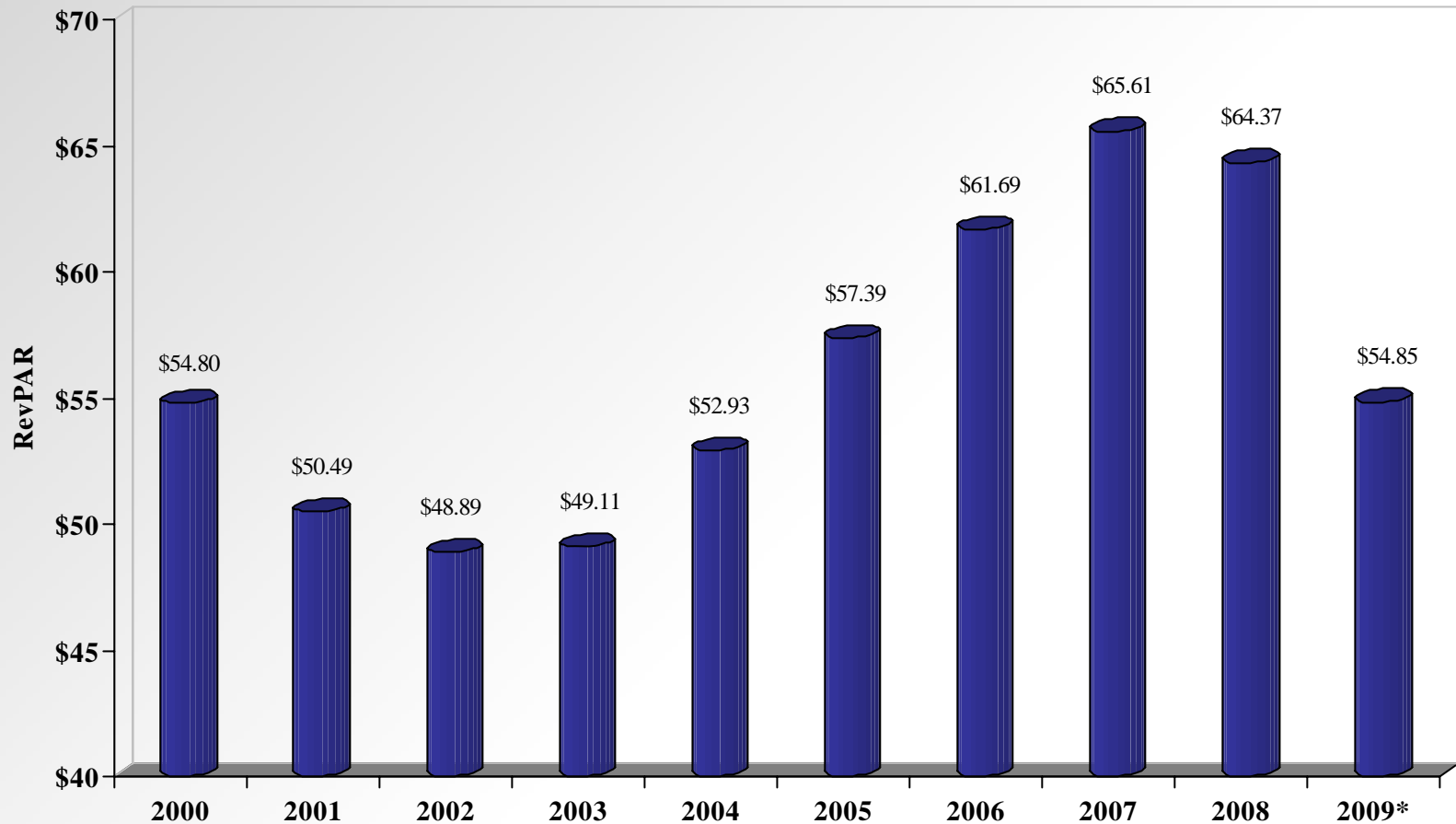


* Note: 2009 estimated based on year-to-date November performance.

Source: *Smith Travel Research*



United States Lodging Market Historical RevPAR Performance 2000 – 2009

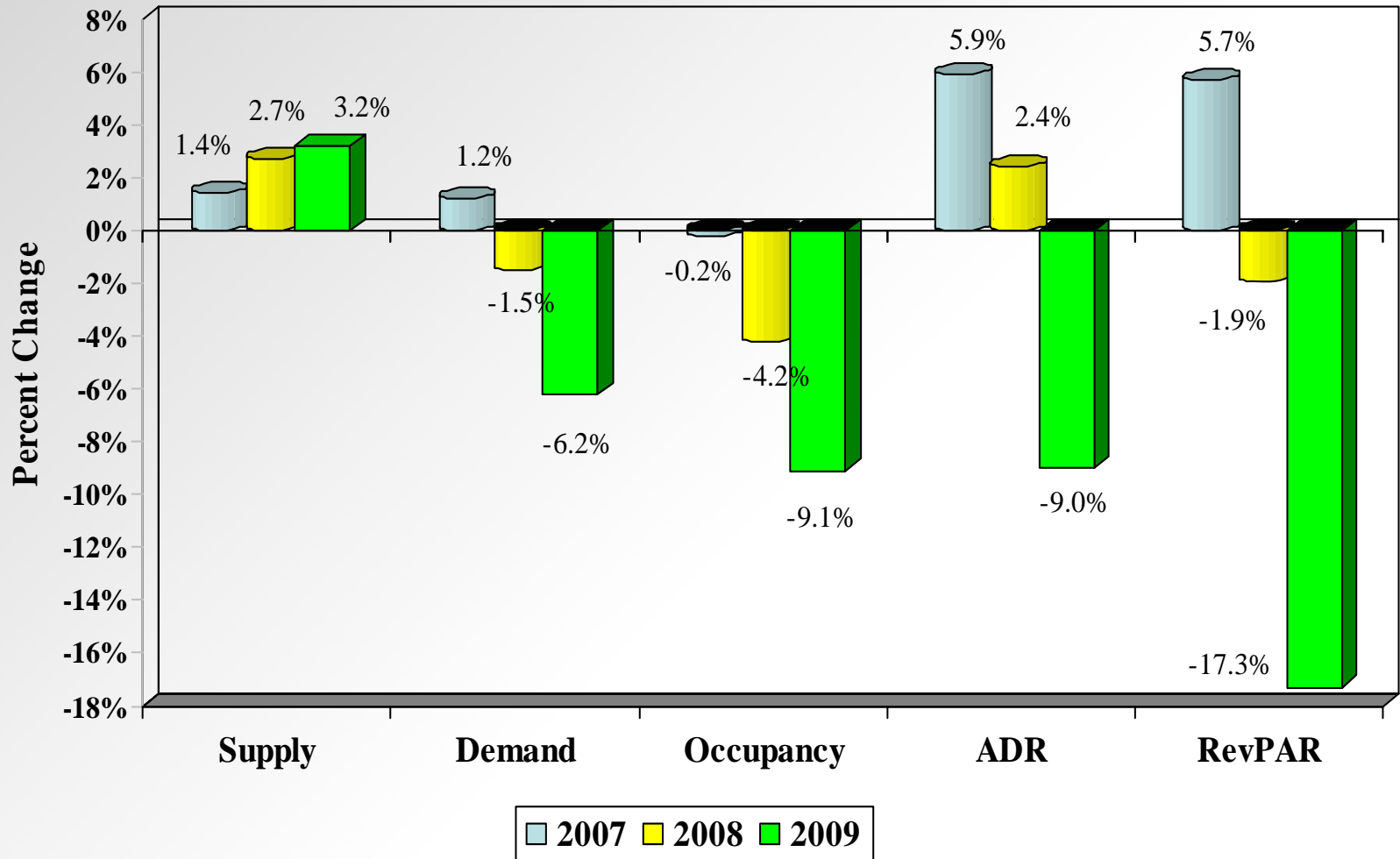


* Note: 2009 estimated based on year-to-date November performance.

Source: *Smith Travel Research*



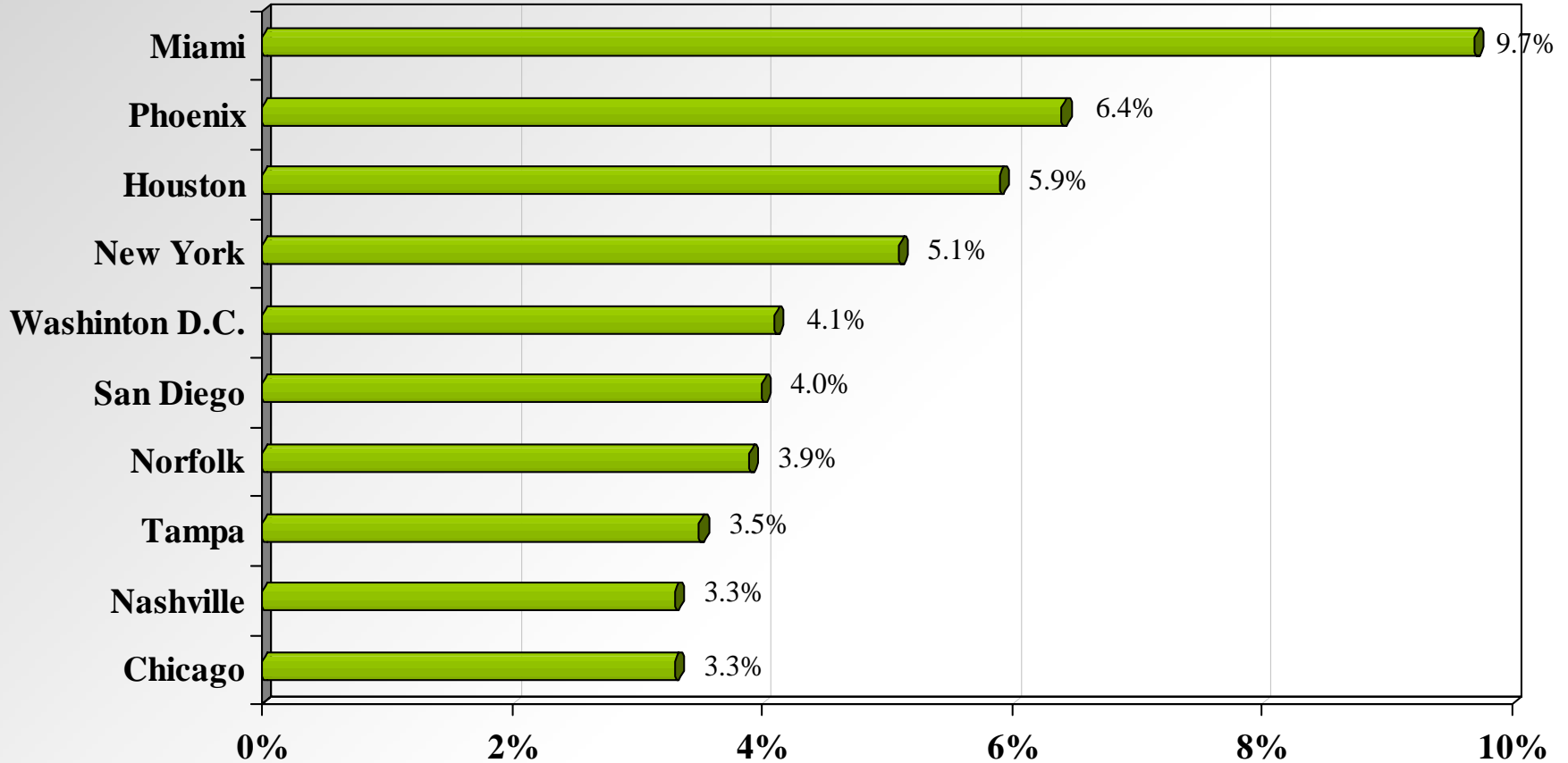
United States Lodging Market Percent Change in Key Performance Indicators



Source: *Smith Travel Research*



United States Lodging Market Top 10 Supply Growth Markets 2009

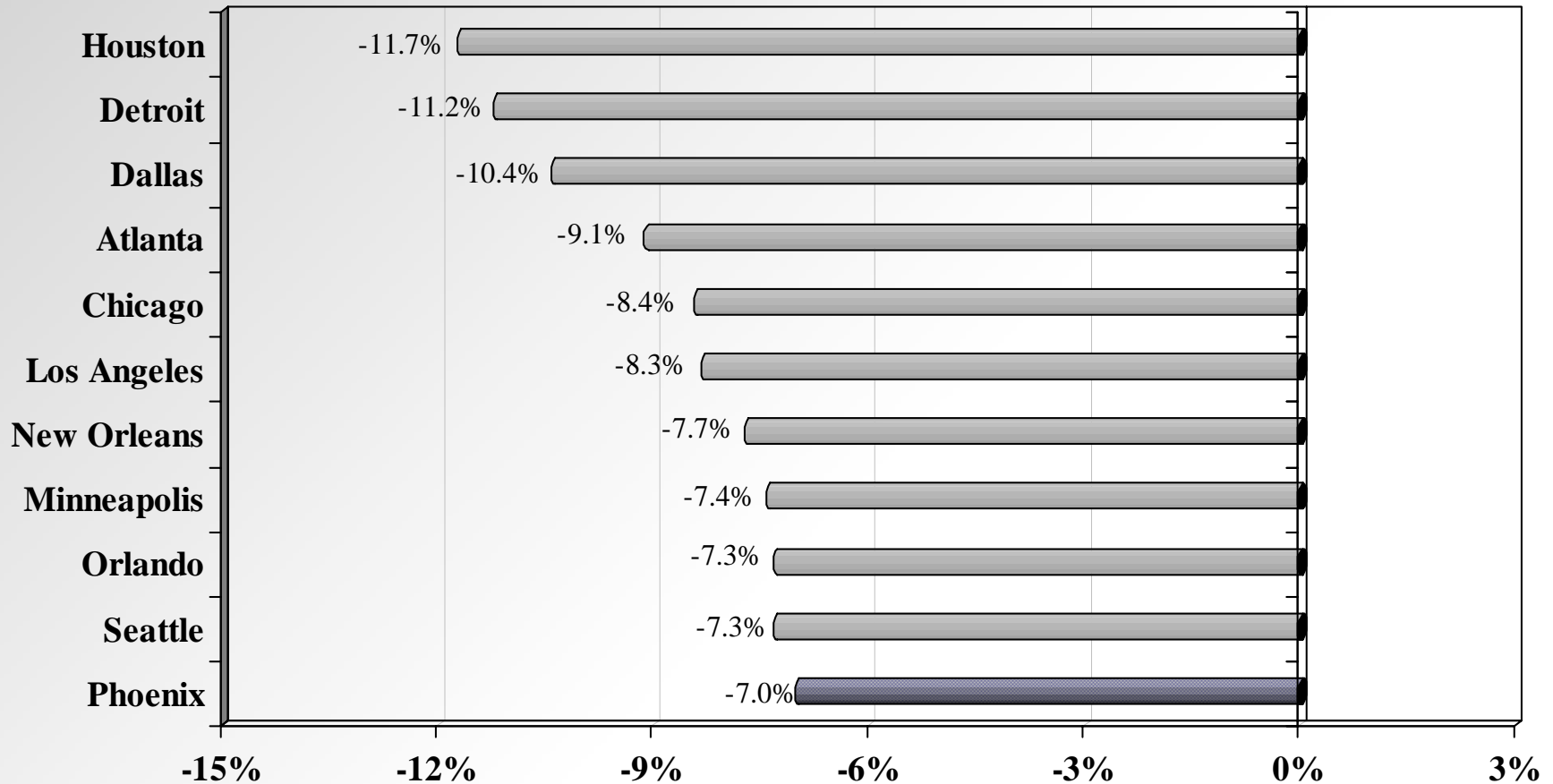


Note: Represents year-to-date November performance.

Source: *Smith Travel Research*



United States Lodging Market Market Demand Activity 2009

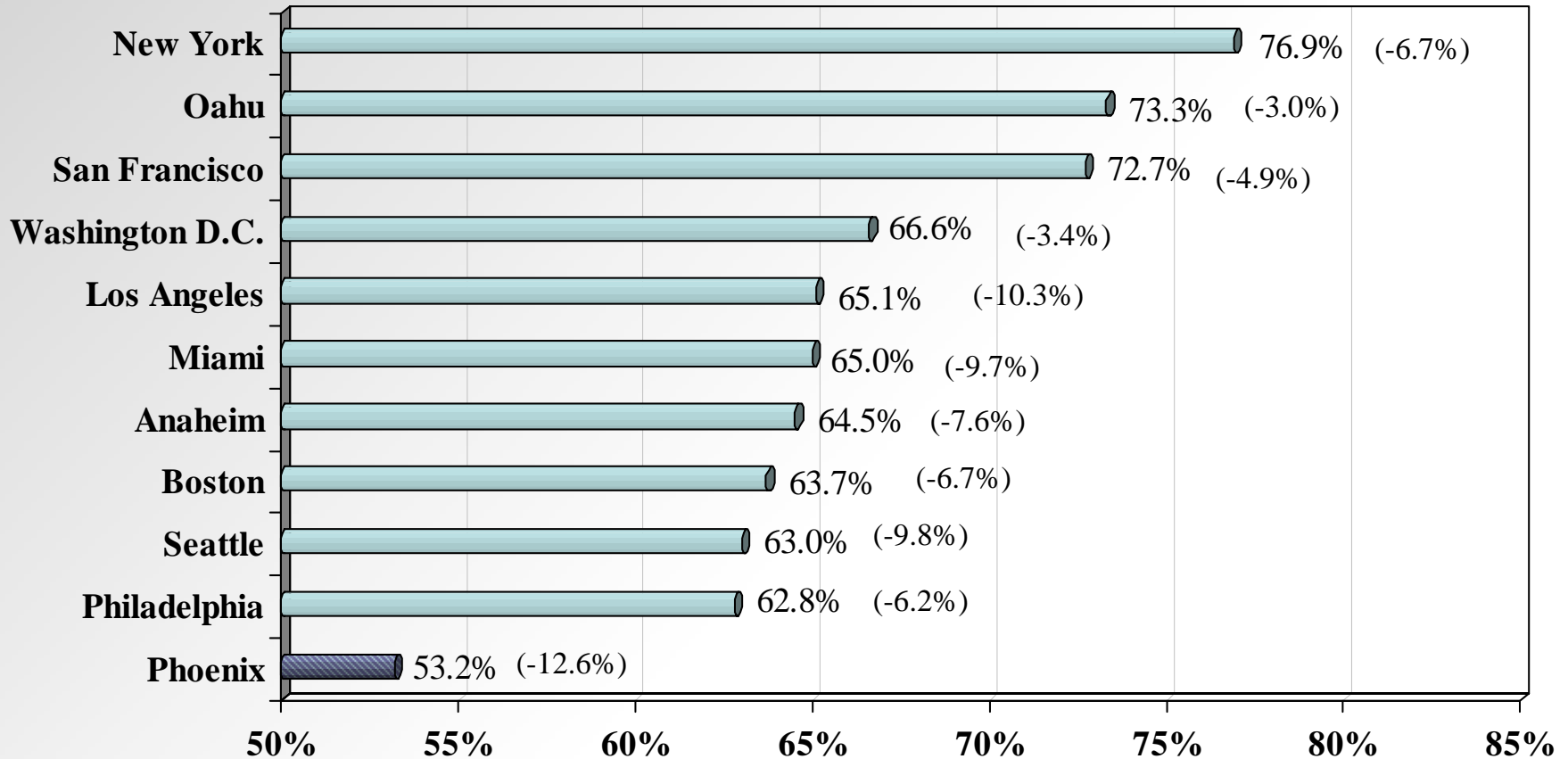


Note: Represents year-to-date November performance.

Source: *Smith Travel Research*



United States Lodging Market Top 10 Occupancy Markets 2009

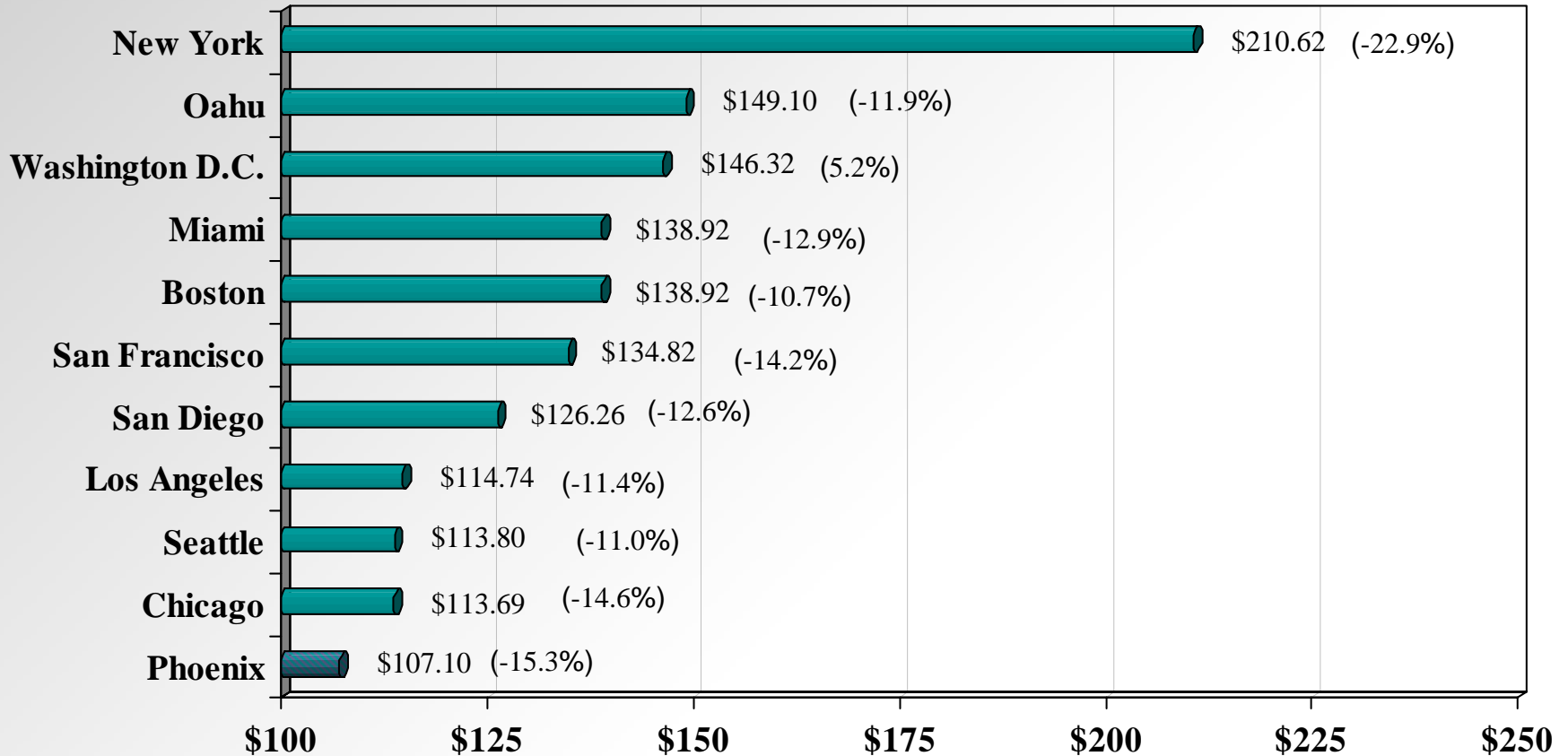


Notes: Represents year-to-date November occupancy. The number in parentheses represents change from prior year.

Source: *Smith Travel Research*



United States Lodging Market Top 10 ADR Markets 2009

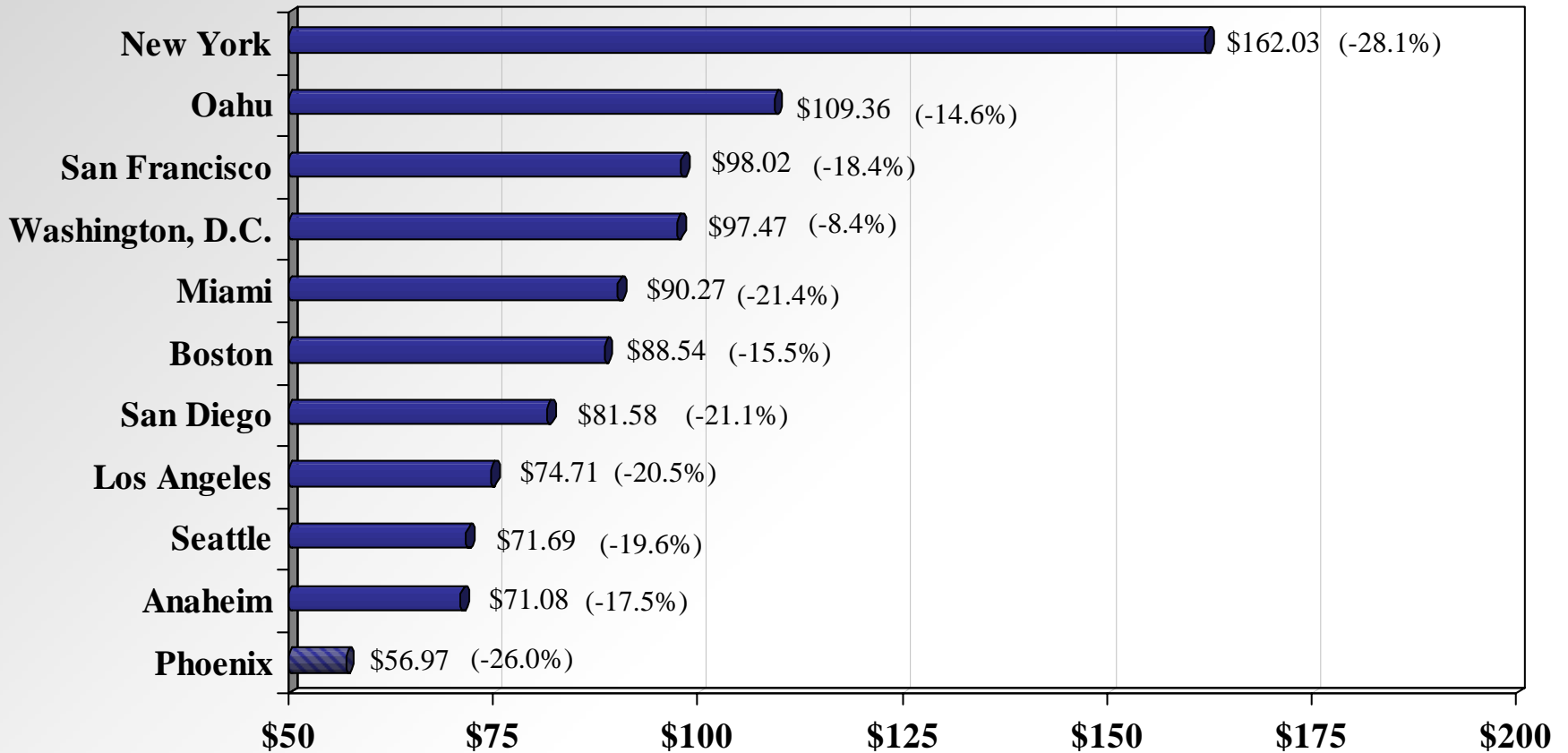


Notes: Represents year-to-date November ADR. The number in parentheses represents change from prior year.

Source: *Smith Travel Research*



United States Lodging Market Top 10 RevPAR Markets 2009

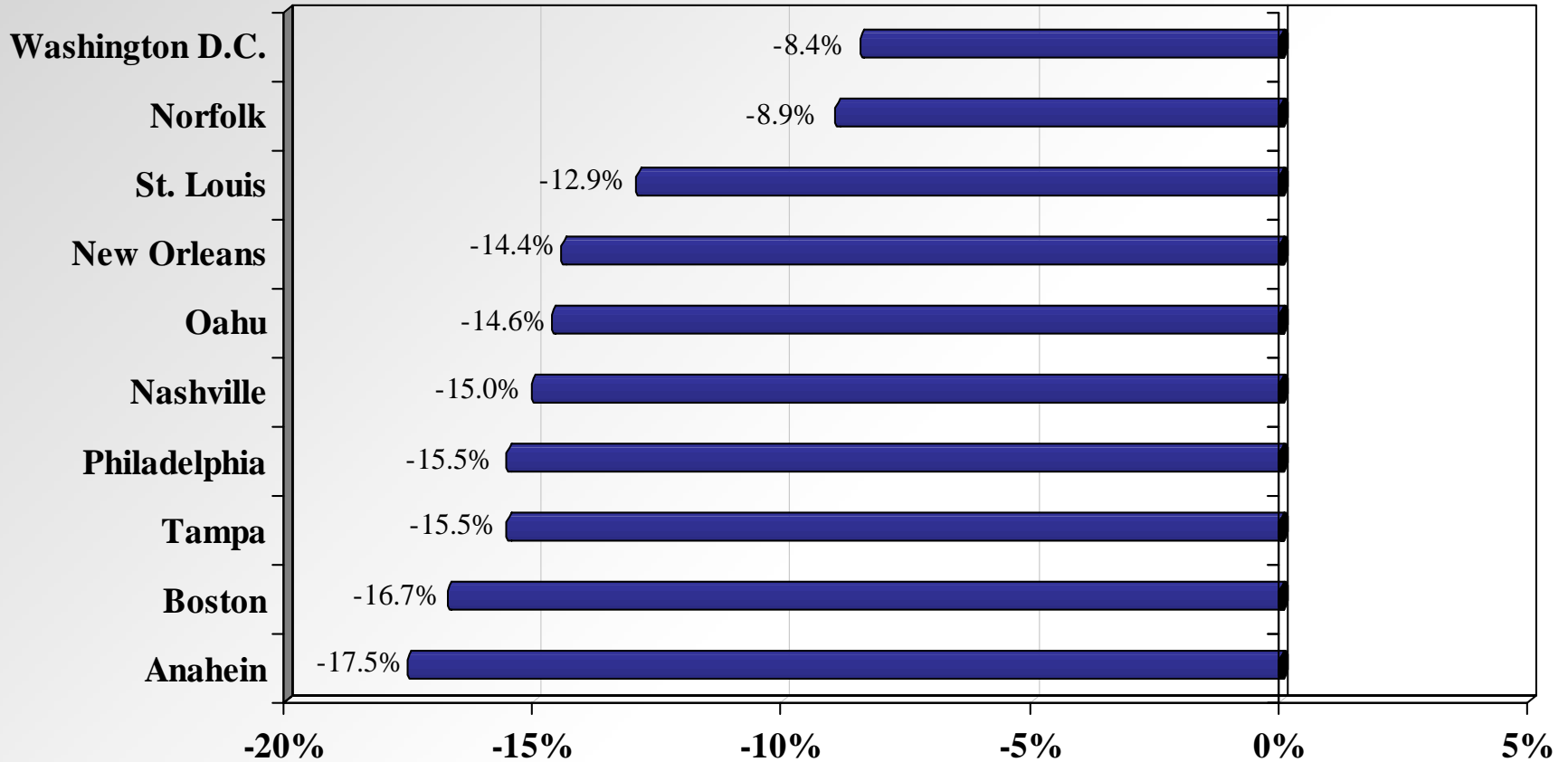


Notes: Represents year-to-date November RevPAR. The number in parentheses represents change from prior year.

Source: *Smith Travel Research*



United States Lodging Market Top 10 Best RevPAR Markets 2009 (% Change)

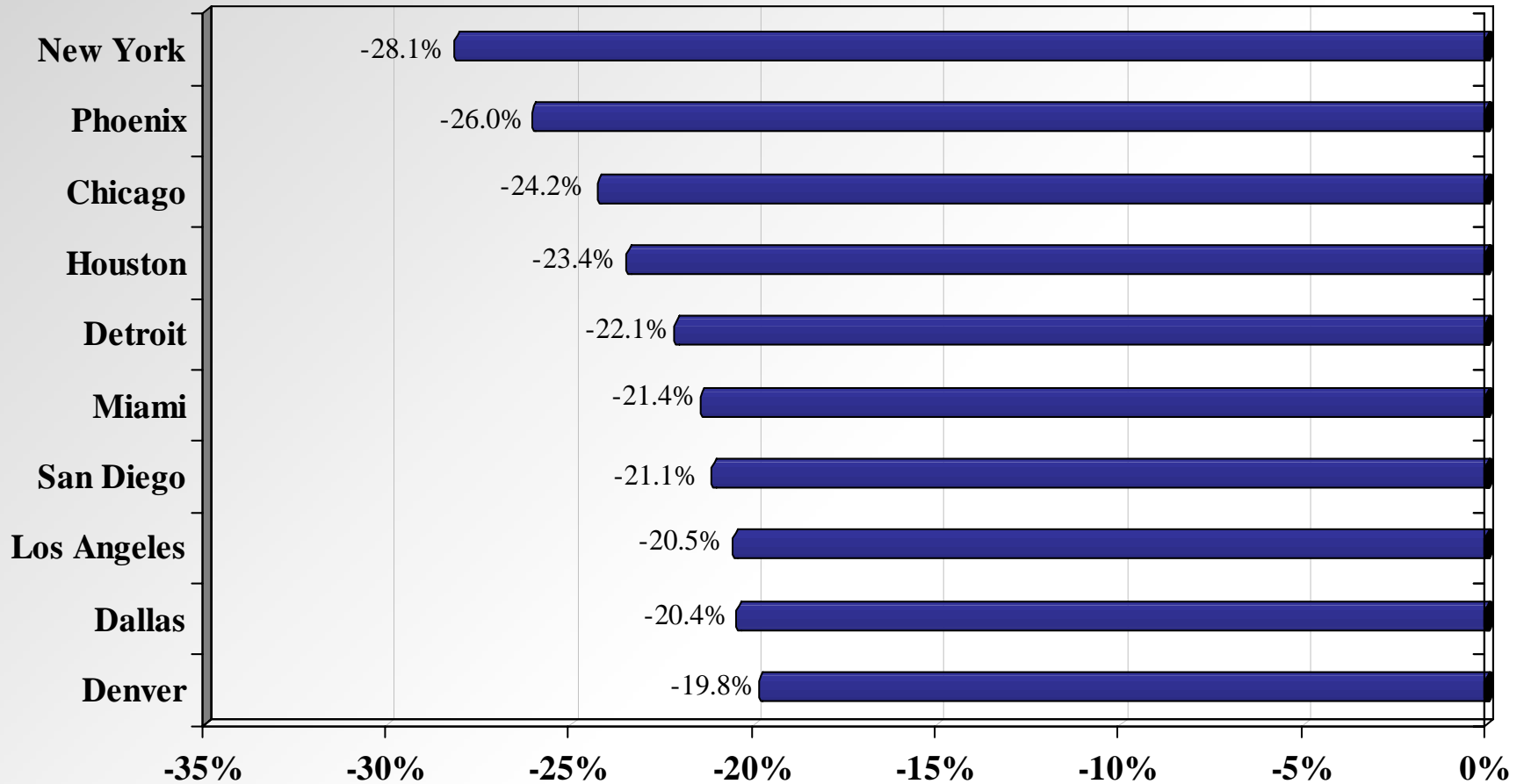


Note: Represents year-to-date November performance.

Source: *Smith Travel Research*



United States Lodging Market Bottom 10 Worst RevPAR Markets 2009 (% Change)



Note: Represents year-to-date November performance.

Source: *Smith Travel Research*



United States Lodging Market Top Ten Markets: Supply (2009)

Market	No. of Rooms
Las Vegas	165,424
Orlando	116,400
Chicago	110,000
Washington, D.C.	102,300
Los Angeles/Long Beach	97,200
Atlanta	94,000
New York	92,200
Dallas	76,300
Houston	68,700
Phoenix	59,761

Source: *Smith Travel Research*

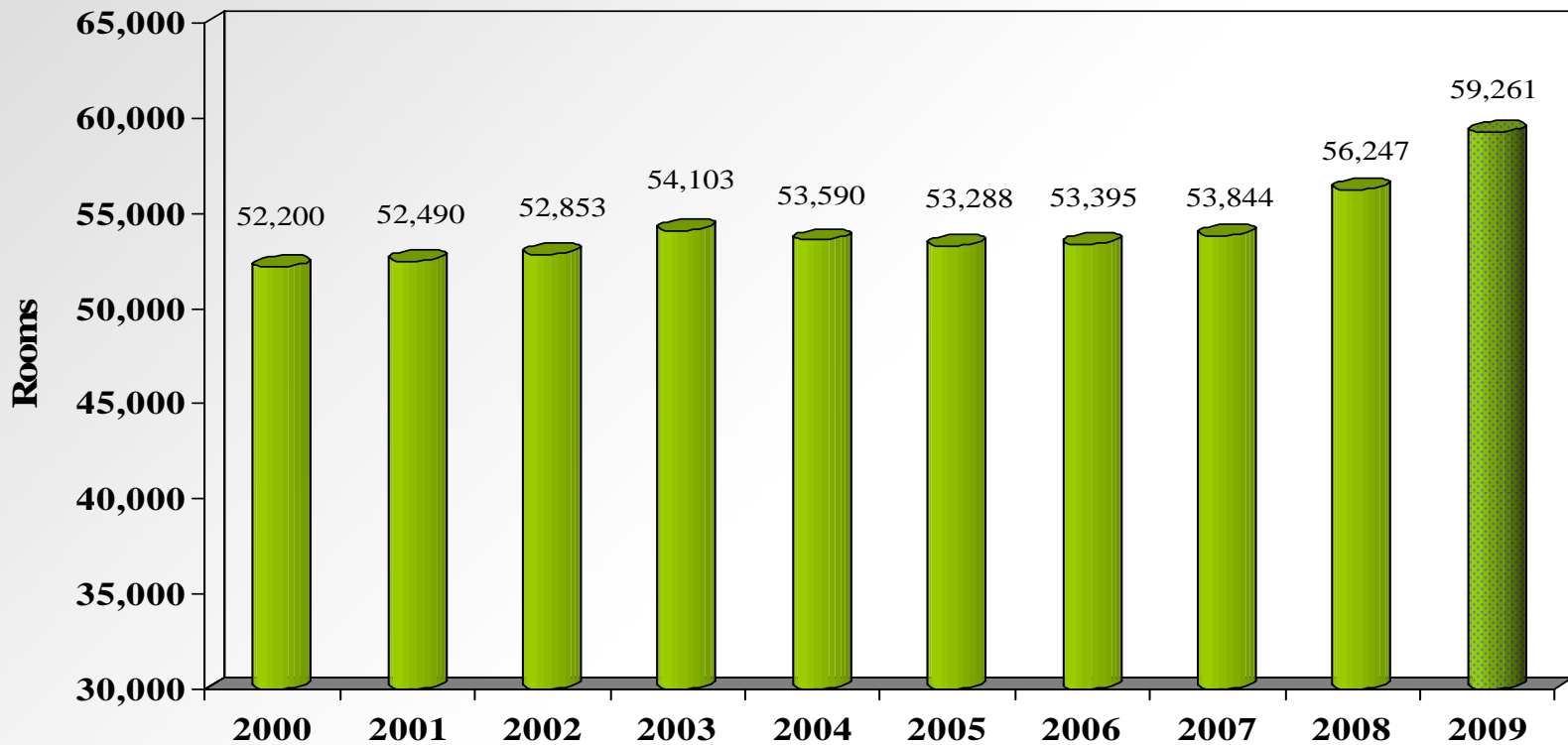


Metropolitan Phoenix Lodging Market Overview



Metro Phoenix Total Available Rooms

Notwithstanding a continued decline in demand and ADR, the market experienced strong growth in supply.

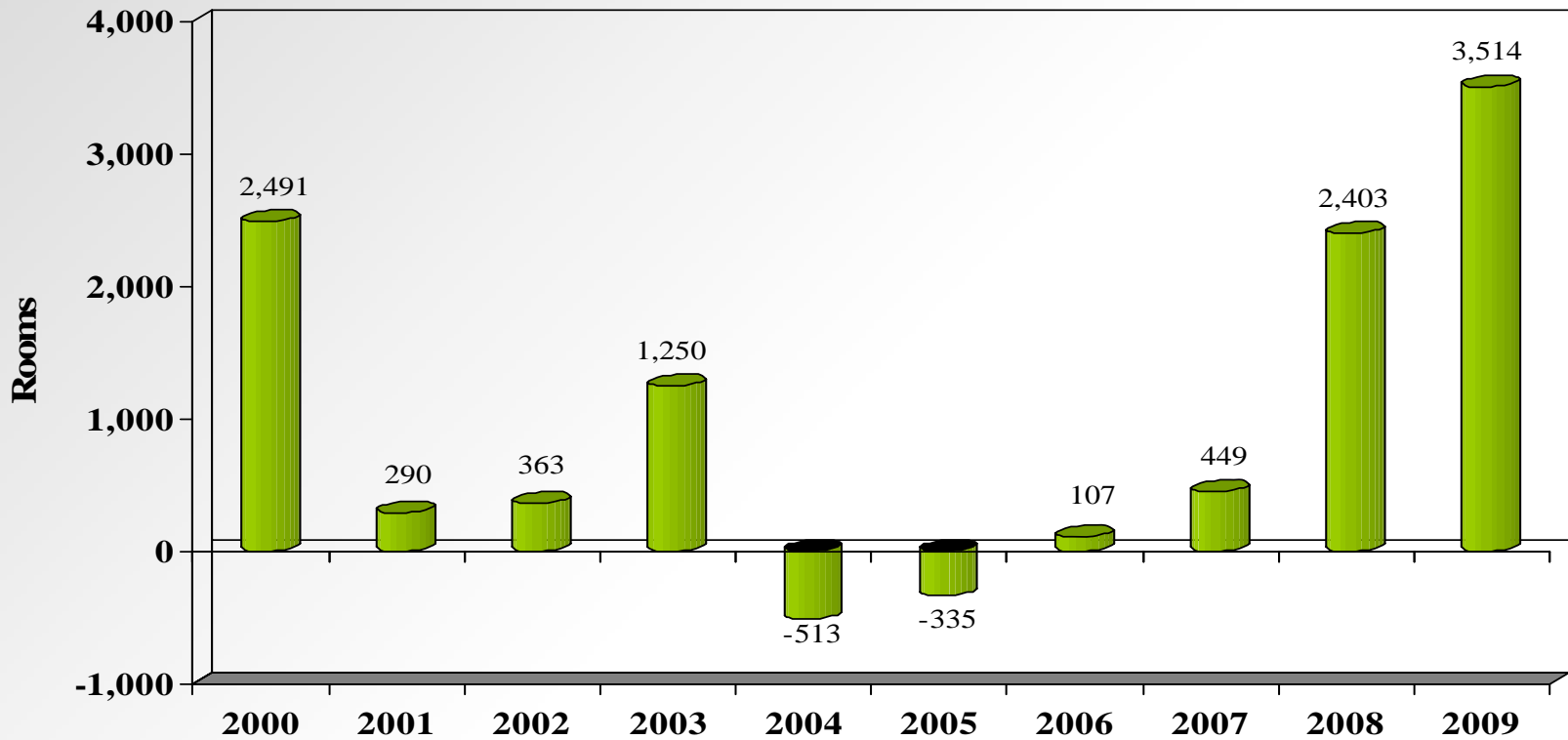


Source: *Smith Travel Research, Warnick + Company*



Metro Phoenix Number of Rooms Added (Annualized)

In 2009, Metro Phoenix experienced a 3,514-room net gain in overall supply, representing the largest annual increase since 1998.



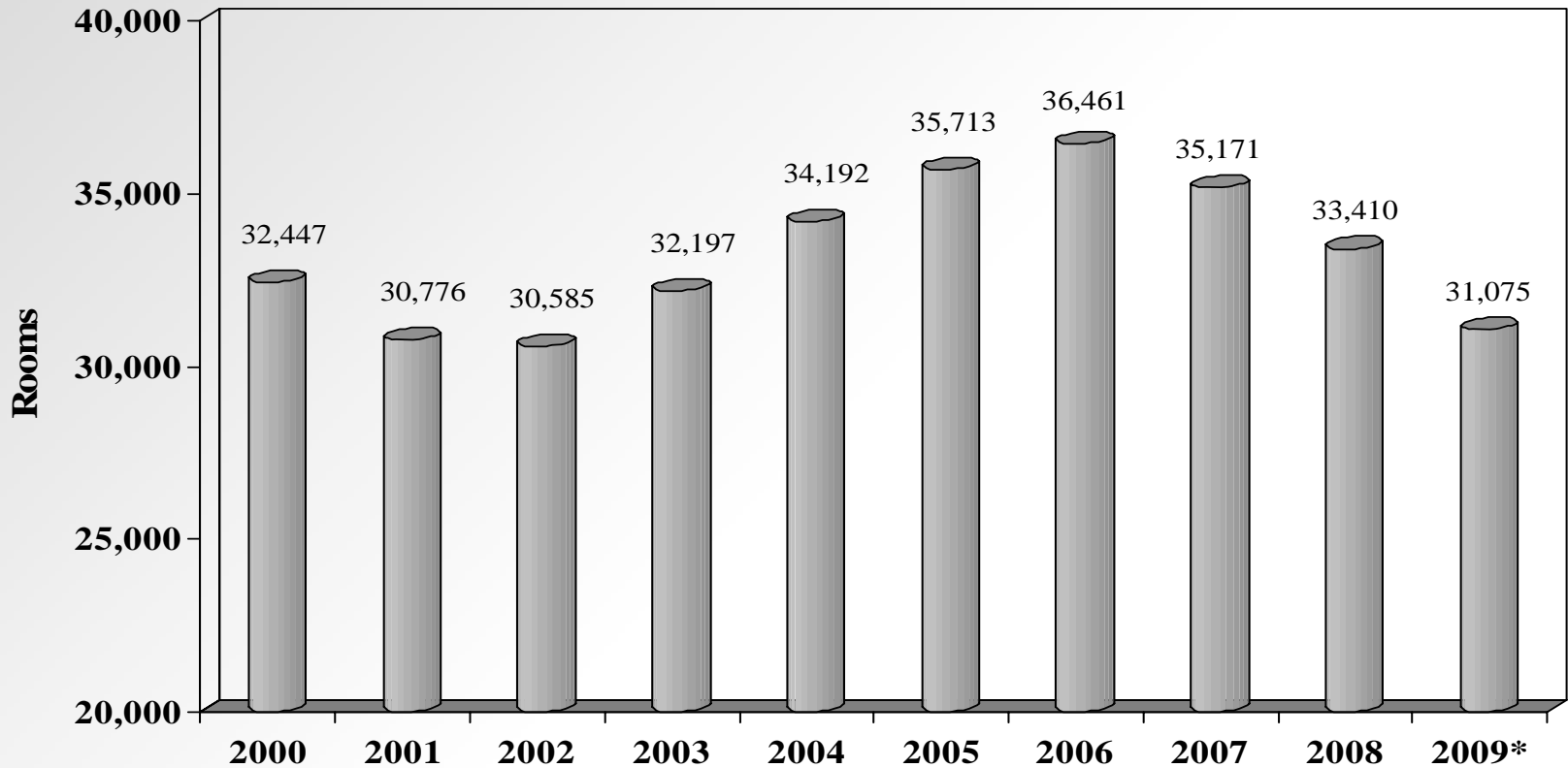
Note: Represents year-to-date November performance.

Source: *Smith Travel Research, Warnick + Company*



Metro Phoenix Occupied Rooms Per Day

In 2009, the market captured approximately 31,000 room nights of demand, an approximate 7.0 percent decrease from 2008.



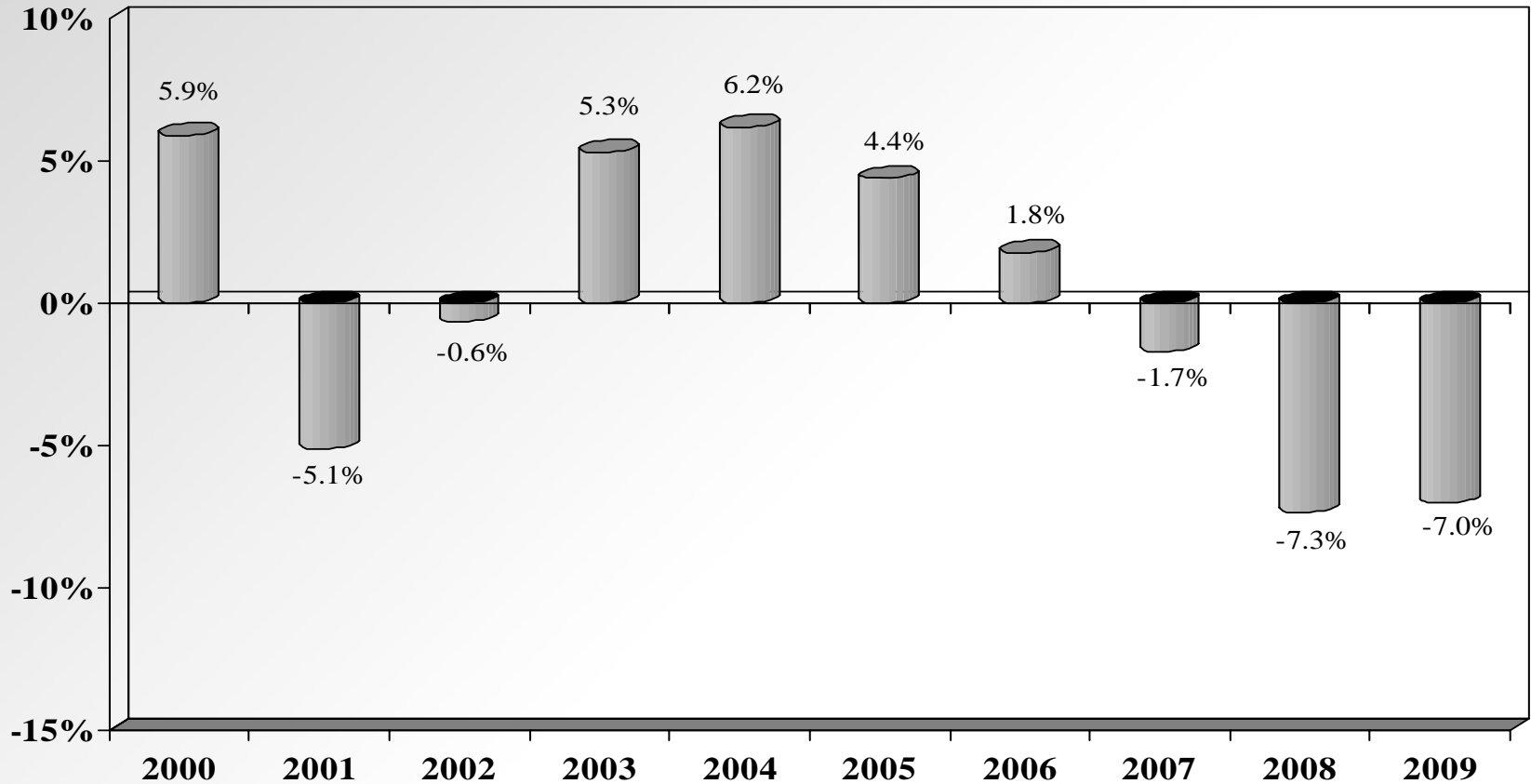
*Note: 2009 estimates based on year-to-date November performance.

Source: *Smith Travel Research, Warnick + Company*



Metro Phoenix Percent Change in Demand

The market experienced a significant decline in demand in 2009, continuing a downward trend that has been present since 2005.



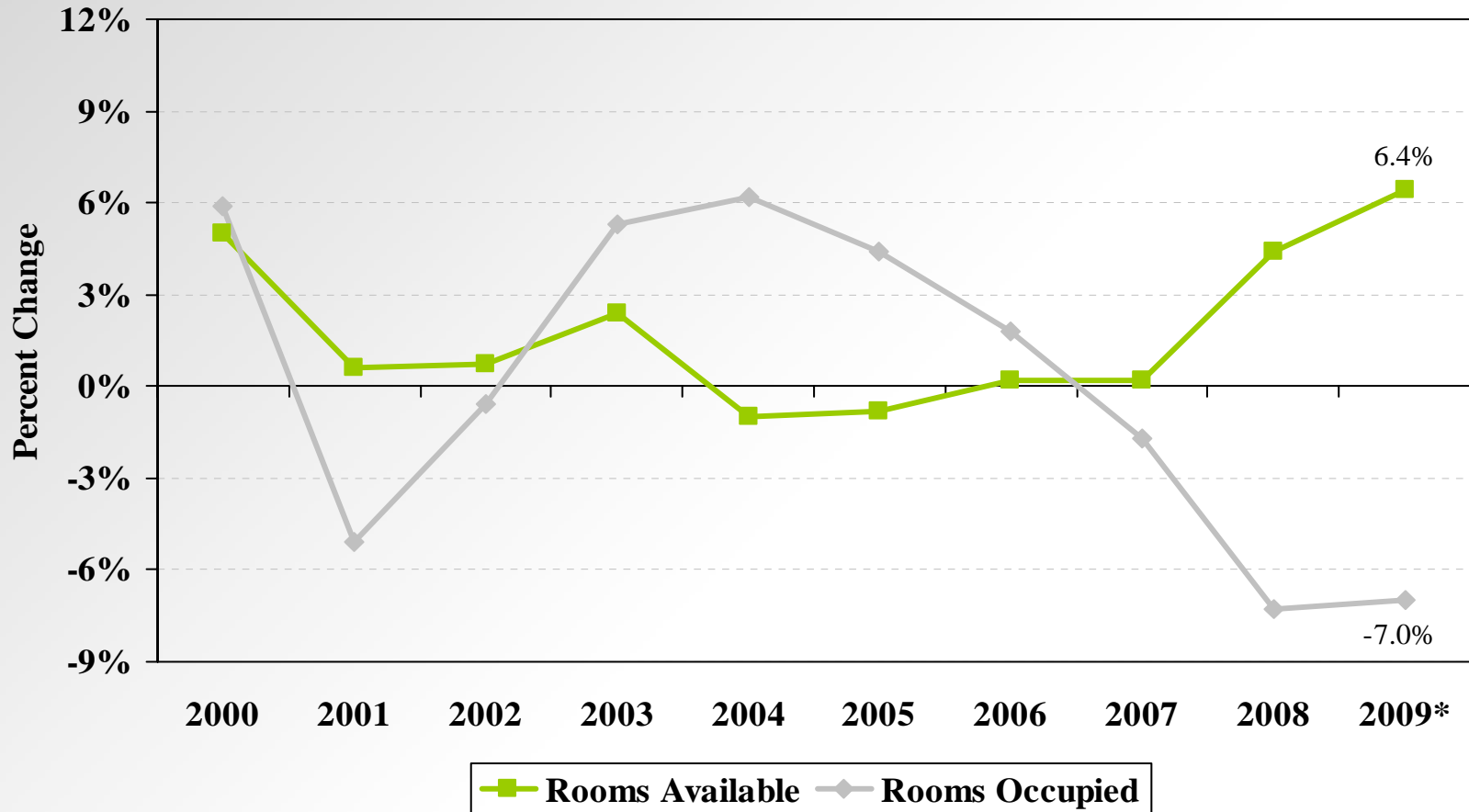
*Note: 2009 estimates based on year-to-date November performance.

Source: *Smith Travel Research, Warnick + Company*



Metro Phoenix Percent Change in Supply & Demand

For the third year in a row, demand growth fell below supply.



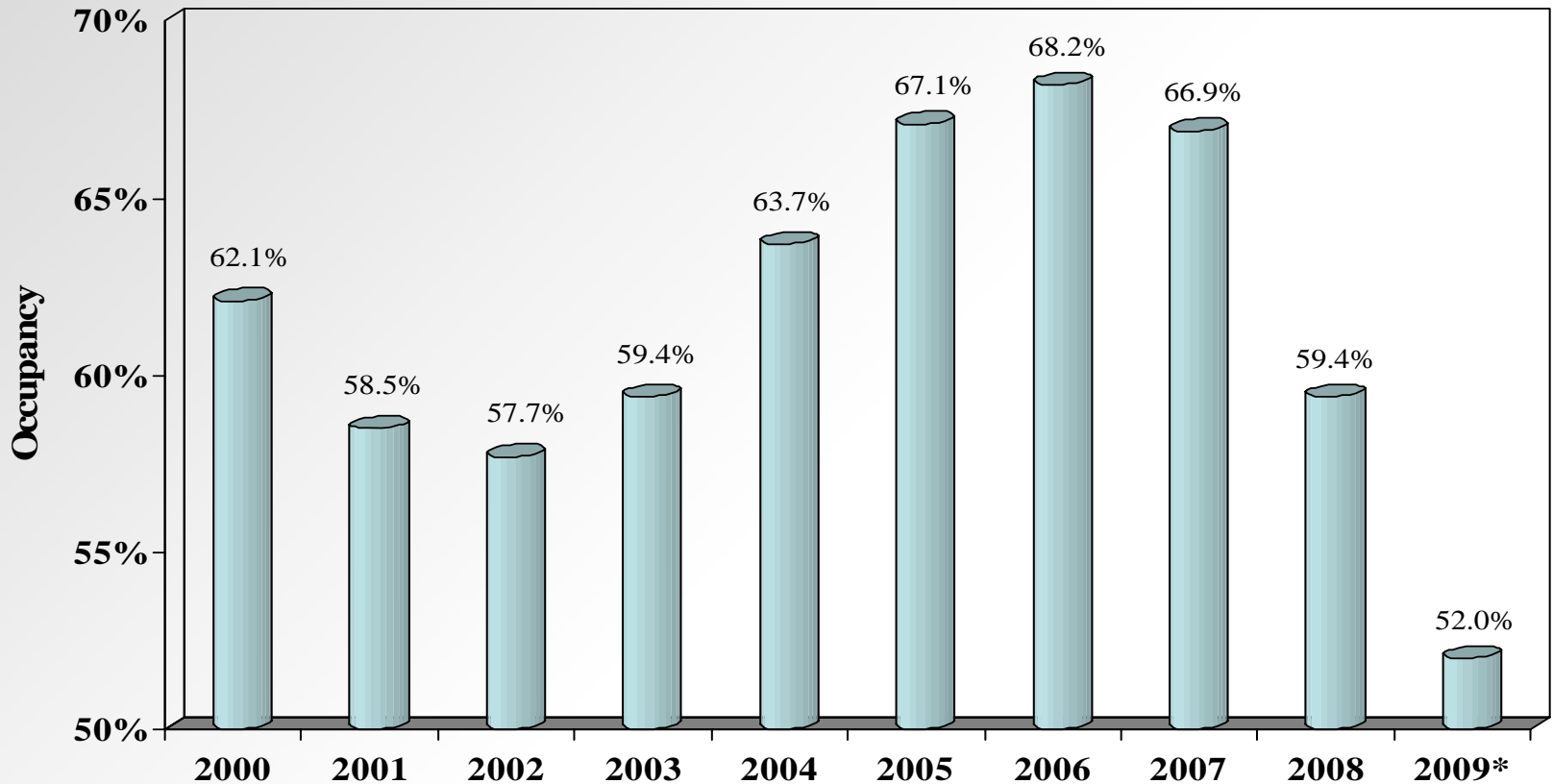
*Note: 2008 estimates based on year-to-date November performance.

Source: *Smith Travel Research, Warnick + Company*



Metro Phoenix Occupancy

The continued decline in occupancy and increase in supply, resulted in an occupancy well below that achieved during the aftermath of 9/11.



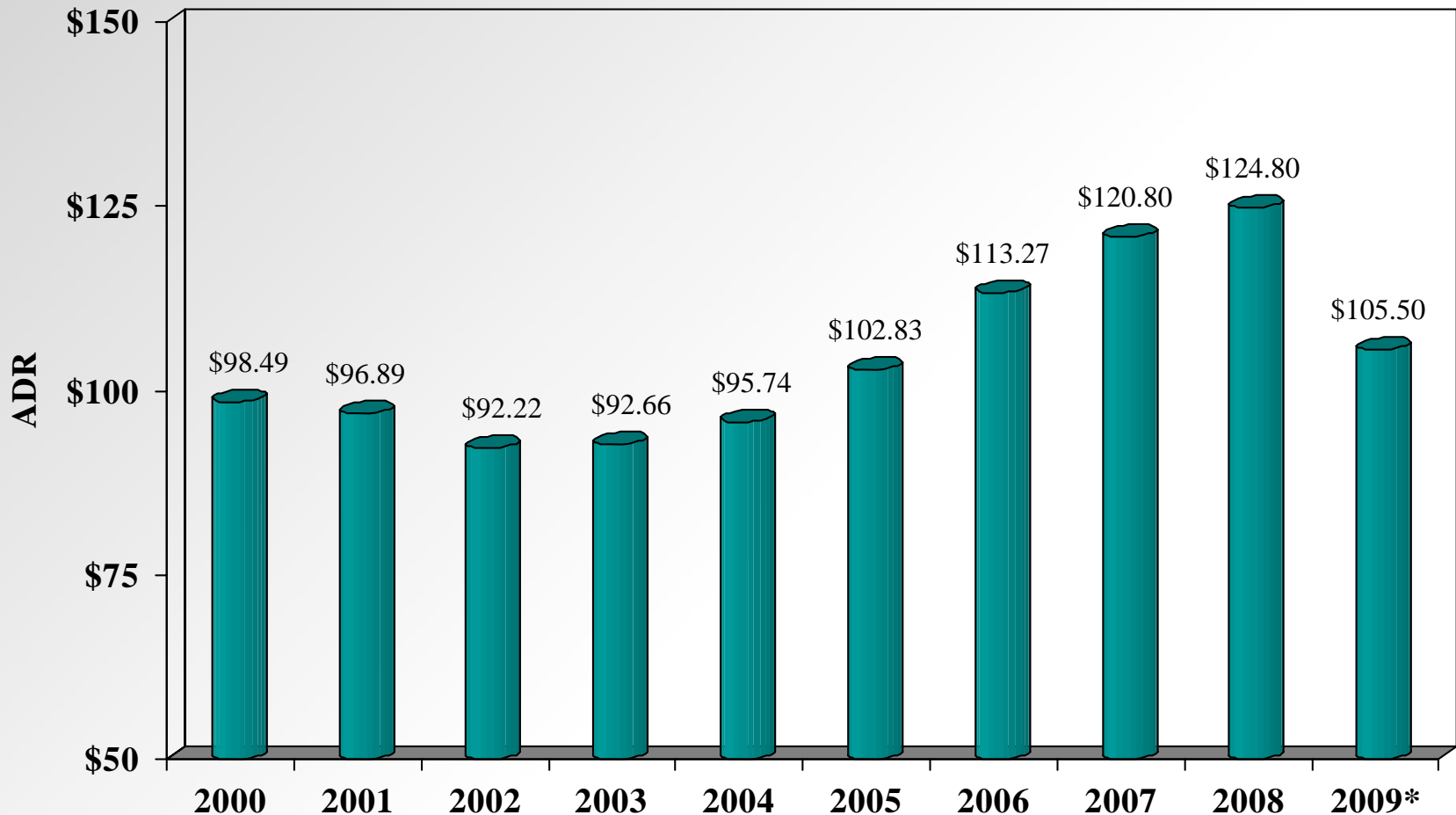
*Note: 2009 estimates based on year-to-date November performance.

Source: *Smith Travel Research, Warnick + Company*



Metro Phoenix Average Daily Rate

As a result of declining occupancy and enhanced competitive environment, ADR has eroded, declining 15.5% for the year (below previous 9/11 decline in real dollars).



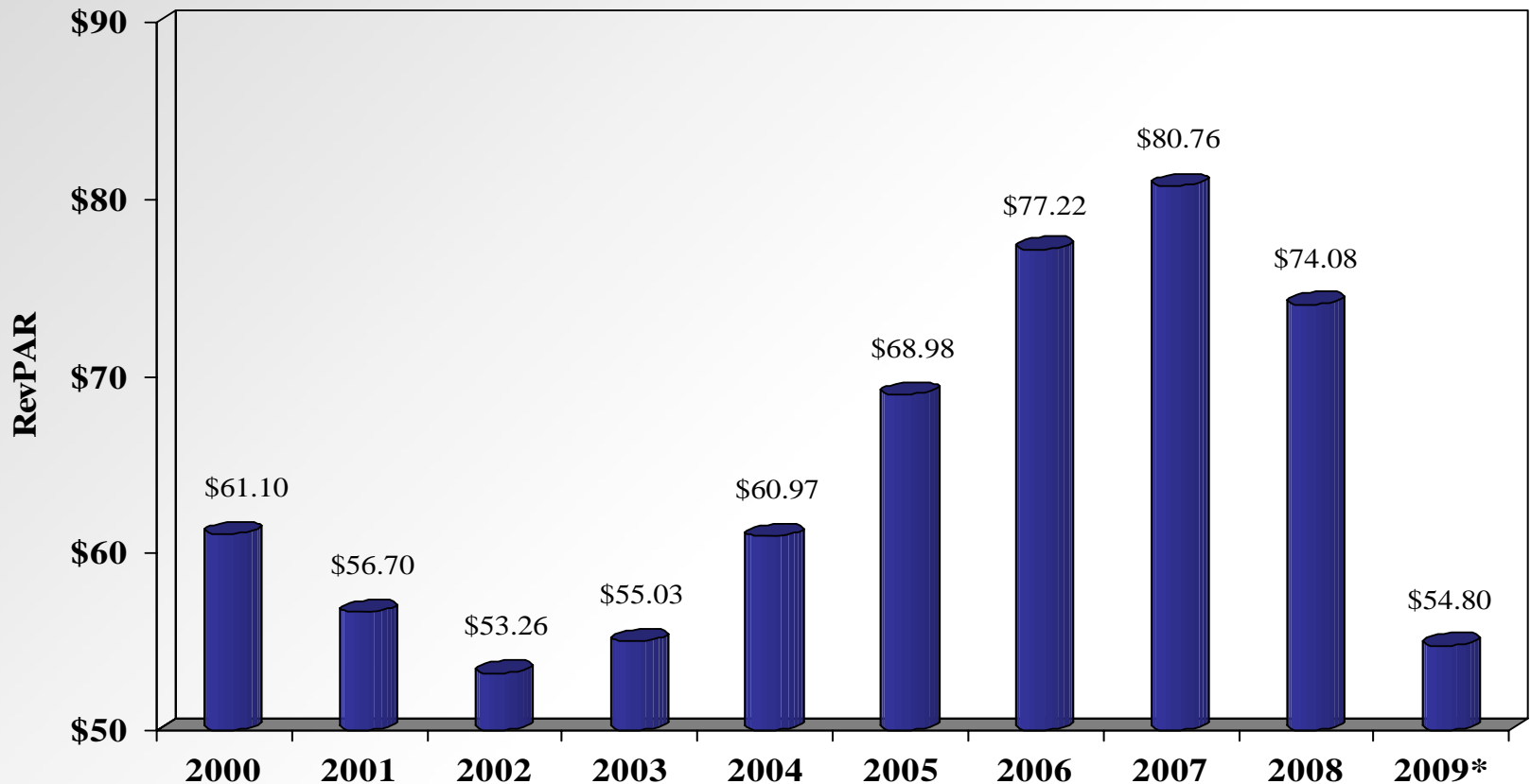
*Note: 2009 estimates based on year-to-date November performance.

Source: *Smith Travel Research, Warnick & Company*



Metro Phoenix Revenue Per Available Room

The 26% decline in RevPAR is unprecedented with the resulting RevPAR well below the previous low set in 2002, considering inflation.



*Note: 2009 estimates based on year-to-date November performance.

Source: *Smith Travel Research, Warnick + Company*



Metropolitan Phoenix vs. United States Lodging Market

	Metro Phoenix			United States		
	2008	2009*	% Change	2008	2009*	% Change
Occupancy	59.4%	52.0%	-12.6%	60.4%	54.9%	-9.1%
ADR	\$124.80	\$105.50	-15.4%	\$106.55	\$96.95	-9.0%
RevPAR	\$74.08	\$54.80	-26.0%	\$64.37	\$53.23	-17.3%
Supply	—	—	6.4%	—	—	3.2%
Demand	—	—	-7.0%	—	—	-6.2%

* Note: 2009 estimated based on year-to-date November annualized performance.

Source: *Smith Travel Research, Warnick + Company*



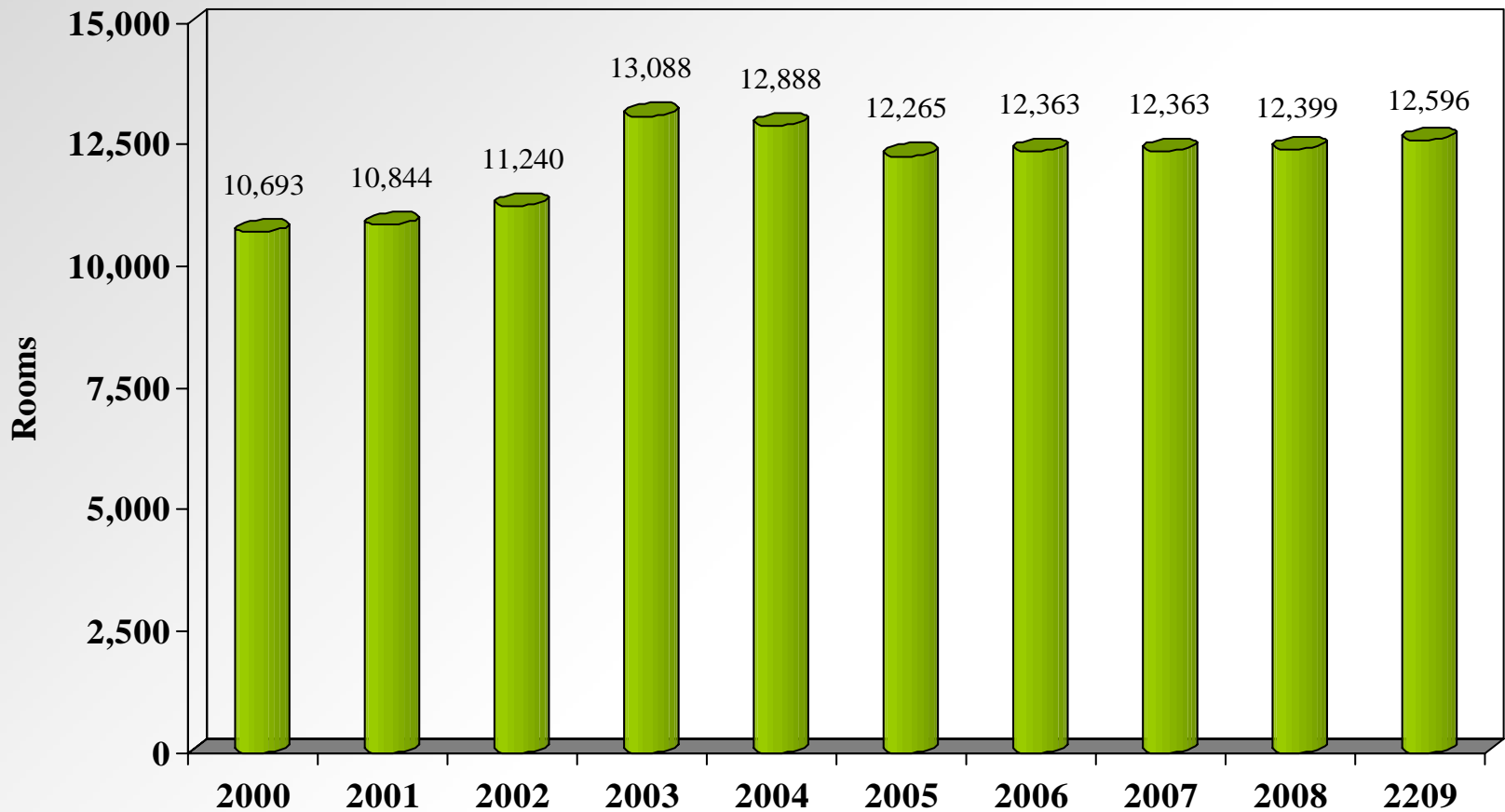
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Metro Phoenix Resort Market



Metro Phoenix Resort Market Total Available Rooms

The resort inventory grew slightly in 2009, reflecting the late 2008 opening of the InterContinental Montelucia Resort & Spa.

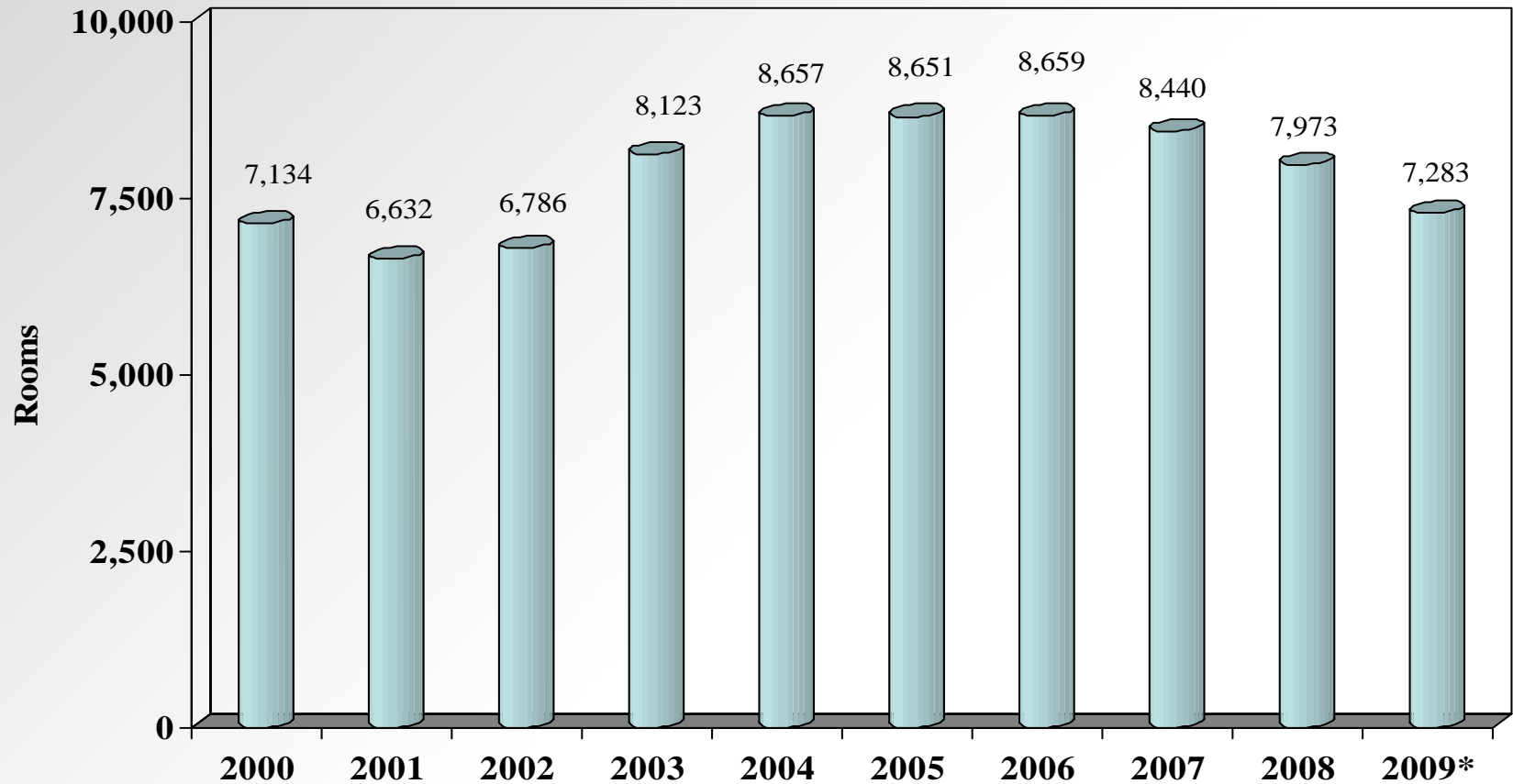


Source: *Smith Travel Research, Warnick + Company*



Metro Phoenix Resort Market Occupied Rooms Per Day

The resort market experienced a significant decline in demand during 2009; the lowest level in the past six years.



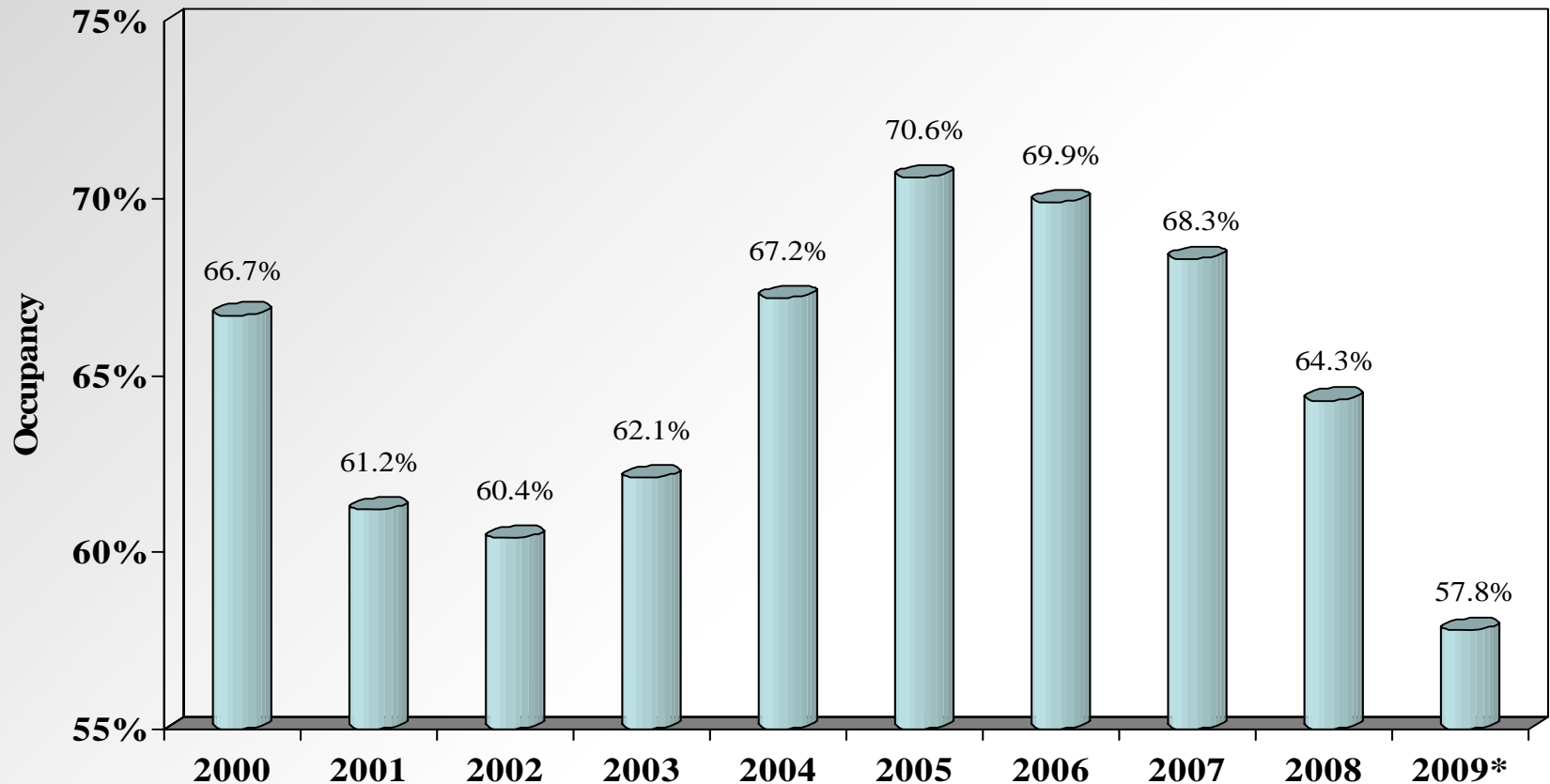
*Note: 2009 estimates based on year-to-date November performance.

Source: *Smith Travel Research, Warnick + Company*



Metro Phoenix Resort Market Occupancy

The decrease in demand, combined with a supply increase, resulted in a decline in 2009 occupancy to unprecedented lows.



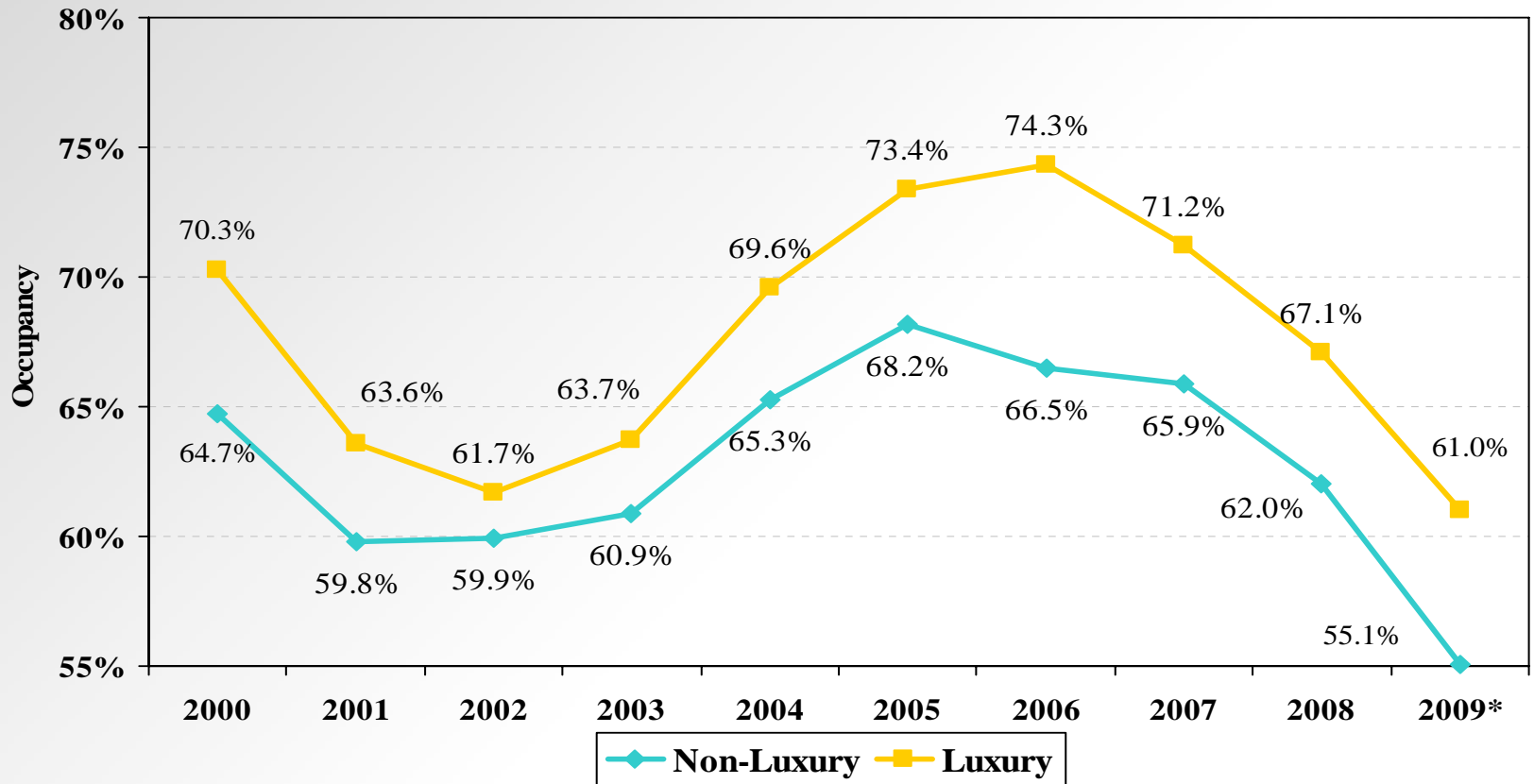
*Note: 2009 estimates based on year-to-date November performance.

Source: *Smith Travel Research, Warnick + Company*



Metro Phoenix Resort Market Occupancy

A decline in occupancy was experienced by both the luxury and non-luxury resort segments.



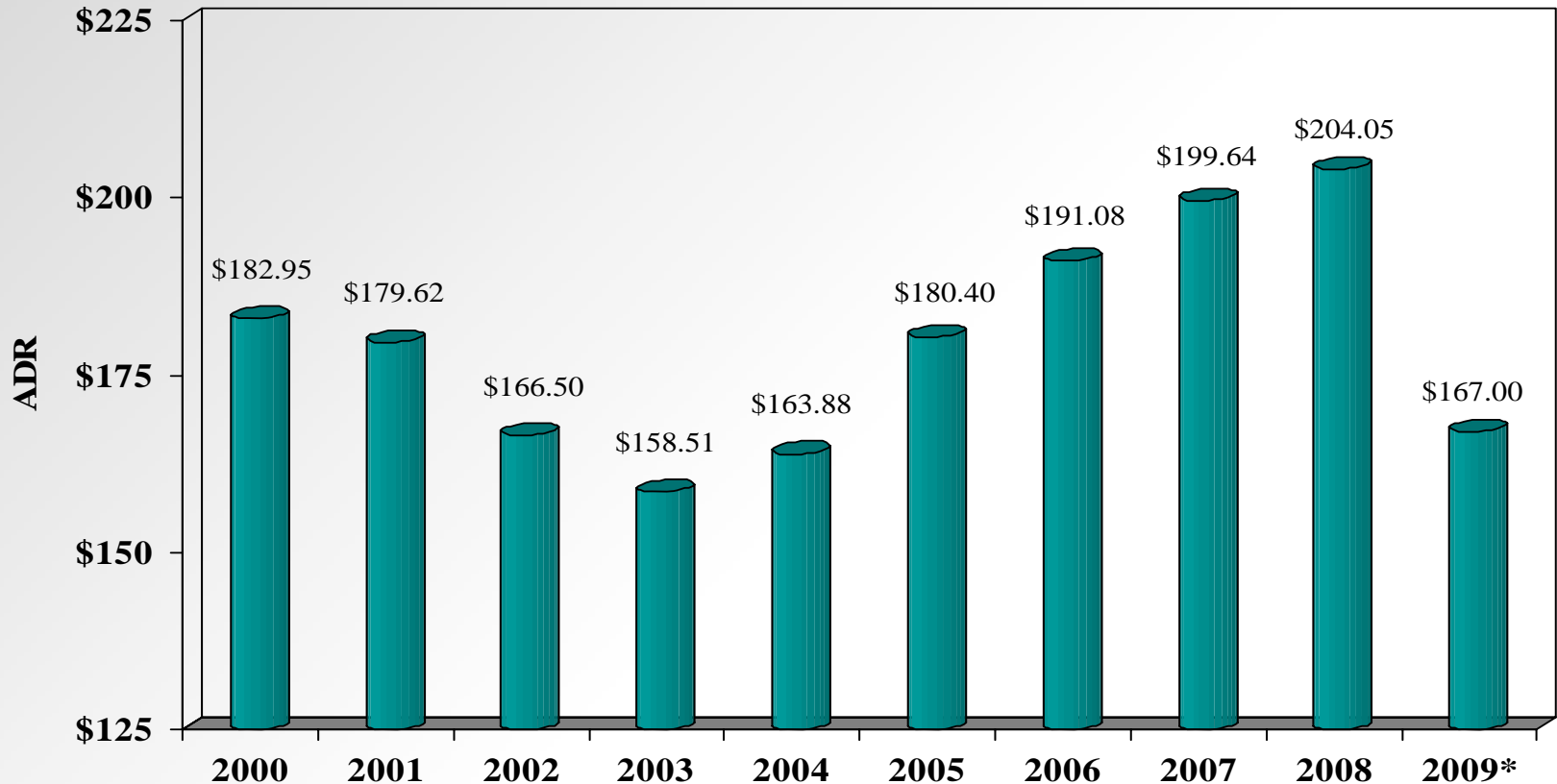
*Note: 2009 estimates based on year-to-date November performance.

Source: *Smith Travel Research, Warnick + Company*



Metro Phoenix Resort Market Average Daily Rate

ADR declined by approximately 18%, stopping a growth trend that had been present since 2004.



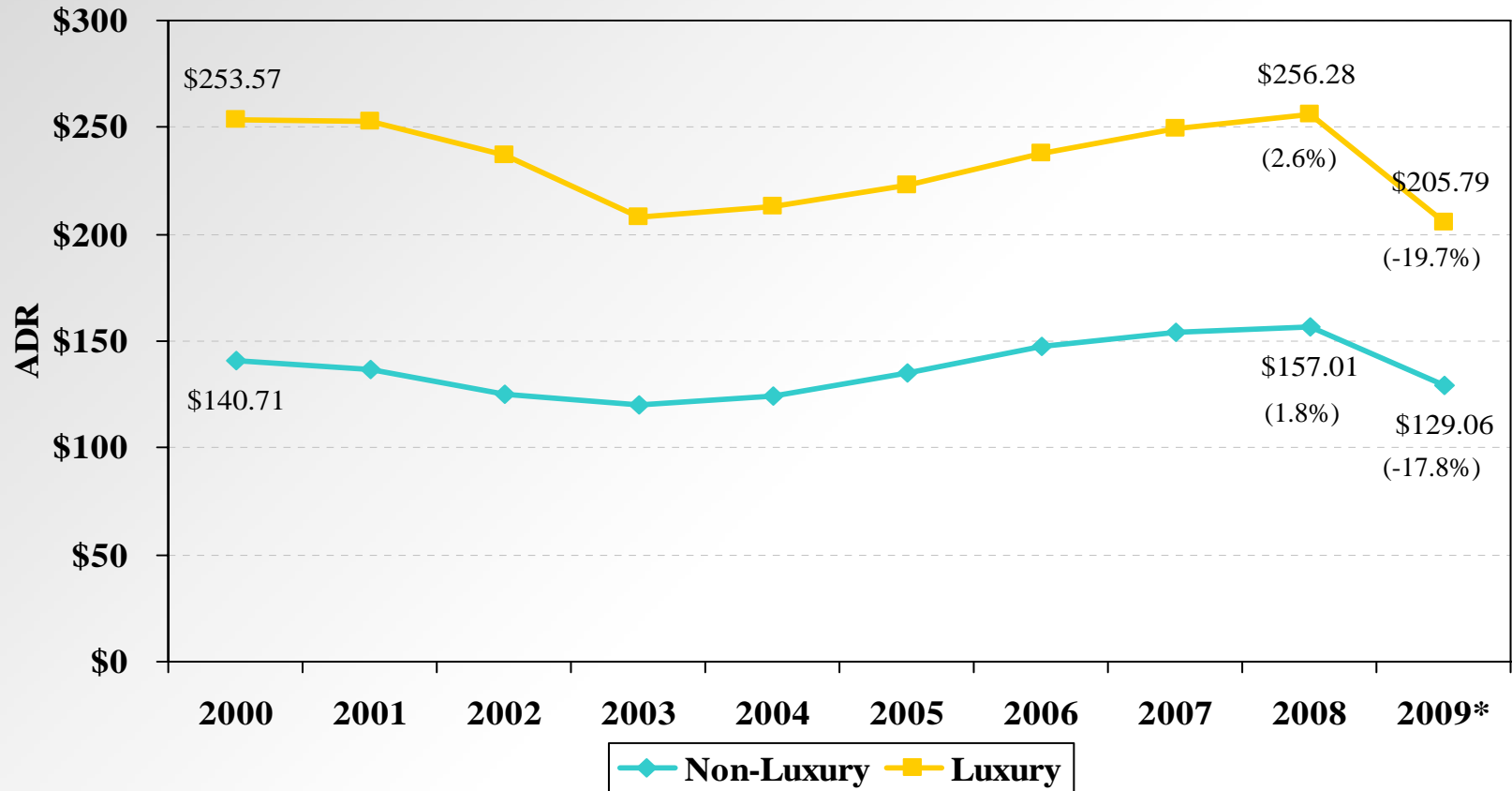
*Note: 2009 estimates based on year-to-date November performance.

Source: *Smith Travel Research, Warnick + Company*



Metro Phoenix Resort Market Average Daily Rate

As a result of an ever-increasing competitive market, strong erosion of rate was experienced by both the luxury and non-luxury resort sectors in 2009.



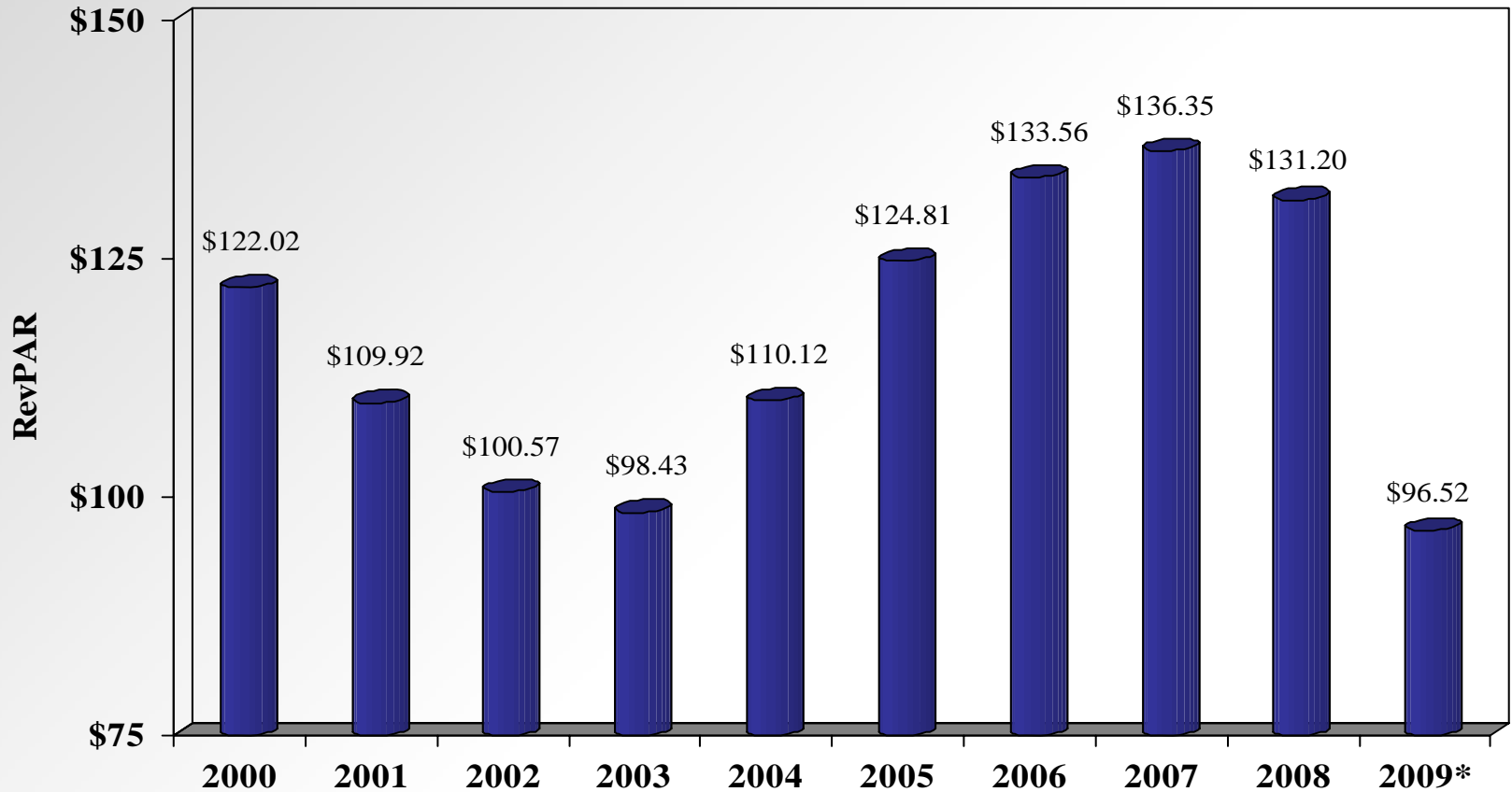
*Note: 2009 estimates based on year-to-date November performance.

Source: *Smith Travel Research, Warnick + Company*



Metro Phoenix Resort Market Revenue Per Available Room

A decline in occupancy and ADR resulted in a 27% decrease in RevPAR, a larger decline than was experienced by the Phoenix hotel market as a whole.



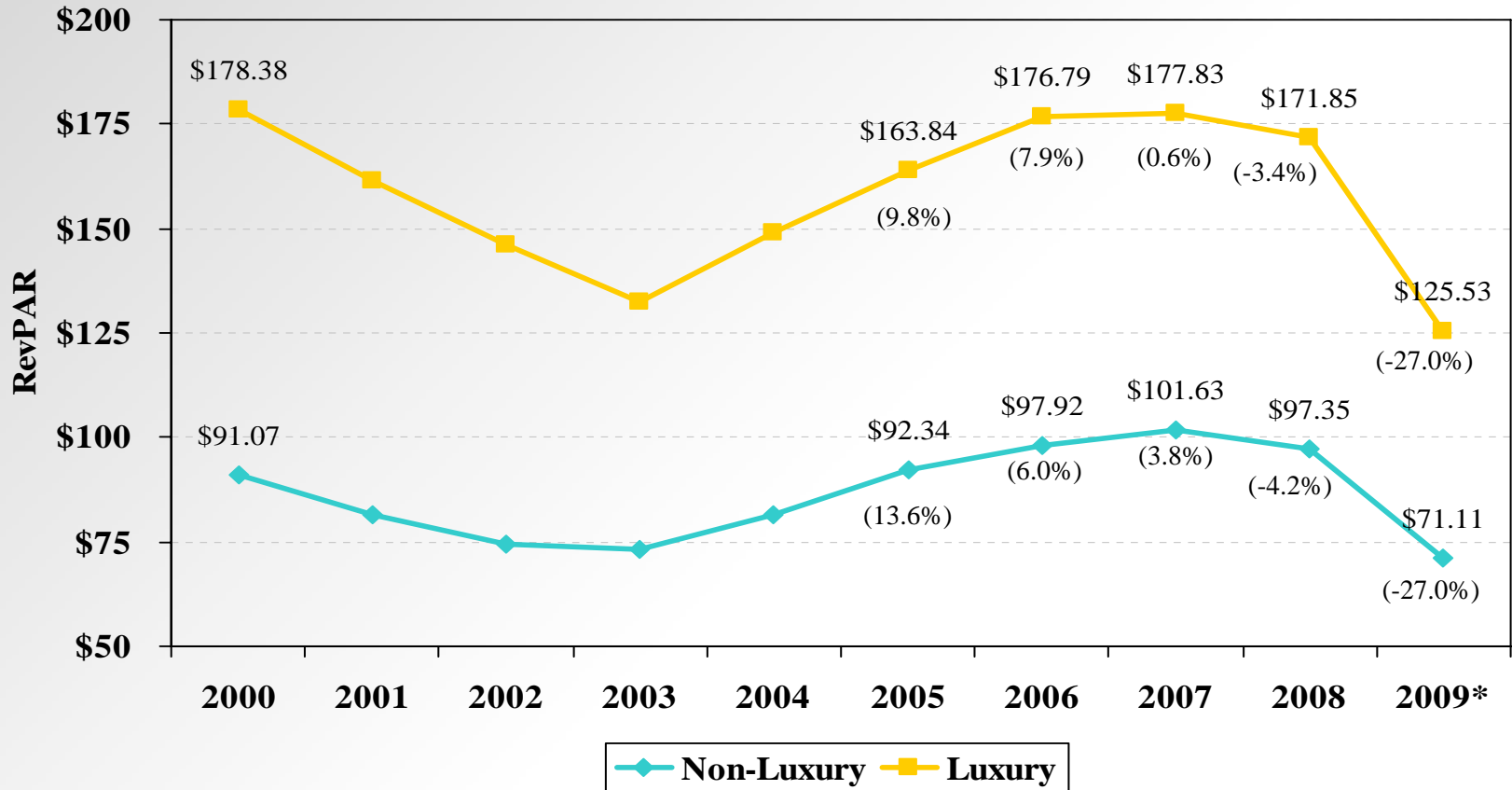
*Note: 2009 estimates based on year-to-date November performance.

Source: *Smith Travel Research, Warnick + Company*



Metro Phoenix Resort Market Revenue Per Available Room

RevPAR decreased in both the luxury and non-luxury resort sectors.



*Note: 2009 estimates based on year-to-date November performance.

Source: *Smith Travel Research, Warnick + Company*



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New Supply

W+C New Supply Summary

Since 2007, 45 hotels have opened in Metropolitan Phoenix, representing approximately 7,500 additional rooms.

- Of the 45 new hotels, six are full-service properties – 2,255 rooms
 - Renaissance Glendale Hotel & Spa (2007)
 - Sheraton Phoenix Downtown Hotel (2008)
 - The W Scottsdale (2008)
 - InterContinental Montelucia Resort & Spa (2008)
 - Hilton Chandler (2009)
 - Wild Horse Pass Hotel & Casino (2009)

- The remaining 5,245 rooms are comprised of various select-service hotels located throughout the Valley

2009 marked the opening of the Hilton Chandler, Wild Horse Pass Casino Hotel, and 15 select-service hotels.

Proposed Full-Service and Resort Hotels

• Gaylord Williams Gateway (Mesa)	1,200	• Collier Center (Phoenix)	Undetermined
• Luhrs Center Phoenix (2 hotels)	800	• Mountain Shadows (PV)	Undetermined
• Tahona O'odham Casino Hotel (Glendale)	600	• One Scottsdale	Undetermined
• Talking Stick Resort & Casino	497	• Scottsdale Waterfront	Undetermined
• Main Street Glendale (2 hotels)	400	• SkySong Center	Undetermined
• Southbank (Tempe)	250	• Waterview at Scottsdale	Undetermined
• Ritz-Carlton (Paradise Valley)	225	• Westgate Glendale	Undetermined
• One Central Park East (Phoenix)	220		
• Kimpton Cityscape (Phoenix)	200		
• Scottsdale Quarter	200		
• Monroe Hotel (Phoenix)	125		



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Market Issues



Issues Facing the Phoenix Market: National and Global Influences

- The country remains in a recession
- Evidence suggests the wider economy has bottomed out; lodging sector typically follows the economy by six to nine months
 - Crash and recovery of financial markets
 - Impact of governmental bailout programs
 - Unlike previous recessionary periods and 9/11, this downturn extends throughout the globe
- Continued threat of political turmoil and terrorist activity on a global basis



Issues Facing the Phoenix Market: Financial Markets

- No capital for new development, renovation, or capital replacement; brand integrity – brands working with owners
- Projects built on the back of residential and/or mixed-use projects are no longer supportable; residential activity will likely never return to 2006 levels
- Major defaults in the commercial sector are looming and will impact future commercial travel
- CMBS market continues to be in disarray; significant default rate
- Public/private model is not sustainable today
- Continued asset value decline through most of 2010



Issues Facing the Phoenix Market: Foreclosure Activity is Alarming

- Record foreclosure activity on a national and local basis
- The bottom has yet to surface
- Anticipated increase in foreclosure activity during 2010 as market performance and industry profitability continues to be challenged
- Properties are now re-entering the market at a lower price point



Issues Facing the Phoenix Market: Demand Anticipated to remain soft in 2010

- Continued reaction to local and national economic conditions
- Decline felt across all product sectors and demand segments
- “AIG” factor has been significant and has potential for long-term impact
- Continued competitive pressure from emerging markets
- Changes in consumer travel and spending patterns (group, leisure, transient, commercial)
 - Extravagance and consumerism is out; flight away from luxury
 - Ancillary spending is off
 - Shorter booking windows
 - While consumers spend less, their expectations remain high
- Decrease in AOT budget

Issues Facing the Phoenix Market: No Significant Supply Growth in 2010

- Notwithstanding lower market performance, lower cost select-service development has occurred in the market over the past 24 months.
 - New select-service supply will moderate in 2010
- No development capital is available for larger upscale/full-service projects, even with lower construction costs
 - Competitive environment
 - Low rate and profit potential
- New supply likely soft for next two to three years
 - Supportable market dynamics (commercial and residential markets), travel patterns, financing, locations, etc.



Issues Facing the Phoenix Market: Average Rates Continue to Decline

- Reaction to lower occupancy and a more competitive environment
- Pressure from meeting and travel planners
- Lesson from 9/11
- Discounting and rate integrity continues to be an issue



Issues Facing the Phoenix Market: Panic Selling – Stop the Mindless Discounting

- Notwithstanding the damage incurred in 2009, some operators continue to offer rates below incremental cost
- Will hotel industry follow the economy or continue to decline? – depends on how quickly panic selling subsides and rebuilding rate integrity becomes a focus market-wide
- Effective revenue management is paramount – now more than ever



Issues Facing the Phoenix Market: Continued Decline in Profitability, Asset Values

- Flat demand, additional supply, declining average rates
- Declining ancillary spending
- Increased operating costs
 - Labor
 - Wages, benefits, and incentives
 - Diminishing labor pools; impact of immigration laws
 - Union threat is real
 - Security, insurance, energy
- Cutbacks in operating expenses may be sustainable; rethink how we operate (staffing, service, etc.)
- Decline in industry profit will be greater than the decline in revenue (as a percentage)
- Maintaining customer expectations
- Cap Ex- maintain/enhance future competitive position



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Thank you for coming!

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