An overview of the travel and hospitality industry through the first three quarters of 2011 and a look forward to the year ahead

THE ORLANDO ATTRACTION

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As we enter the fourth quarter of 2011, there is much relief in the hospitality sector that year over year performance has not been pummeled by the continued cascade of negative economic press from around the globe. While supply only inched up to 115,199 rooms according to Visit Orlando, roomnight demand has continued its growth, pushing overall average daily rates (ADR) to $94.37 at an occupancy of 68.6% through September, 2011. That represents a 4.5% improvement in ADR and a 7.1% growth in occupancy over 2010. This follows a 4.7% increase in RevPar in the prior year, according to Smith Travel Research. It is the breadth of demand generators which has served as somewhat of a safety net for Central Florida, limiting the decline in the trough of 2009 in visitors to two million, a contraction in demand of 9.7% and lessening the fear that the market would drop like Disney's Tower of Terror.

Lodging Results

Encouraging growth in demand for hotel rooms through June, partially offset by inventory growth. Local occupancy rate exceed state and national averages.

2011 Sep YTD	Orange County		Metro Orlando		Florida		National	
Demand (% change)	7.5%		7.8%		7.0%		5.3%	
Occupancy*	72.6%	6.6%	68.6%	7.1%	64.4%	6.8%	61.6%	4.6%
Average Daily Rate*	$100.82	5.2%	$94.37	4.5%	$109.25	4.1%	$101.45	3.6%
RevPAR*	$73.23	12.1%	$64.74	11.9%	$70.36	11.2%	$62.54	8.3%

*Occupancy, ADR & RevPAR from Smith Travel Research does not include Disney-owned hotels or alternative forms of accommodations such as vacation homes, timeshares, or campgrounds.

VisitOrlando

Source: Smith Travel Research; Visit Orlando® Market Research & Insights

According to Tourism Economics, the rebound came swiftly with 94% of the 2009 slippage being regained in 2010 followed by another five percent increase in the current year. Of the 53,000,000 visitors expected to contribute to the Orlando economy in 2011, approximately forty million will be leisure/vacation guests; another 10,000,000 will participate in Orlando's expanding business community with the remaining 3,000,000 attending meetings and conventions. At the same time international visitors will have grown by 17% to 3,800,000 by the end of 2011 indicating the overall demand for rooms for the year will exceed 27.8 million roomnights.

Metro Orlando Visitor Forecast

Visitor Volumes (millions)	2010	2011	11 vs 10	2012	12 vs 11
Total	51.46	53.37	3.7%	54.34	1.8%
Domestic	**47.78**	**49.56**	**3.7%**	**50.36**	**1.6%**
Leisure	38.26	39.68	3.7%	40.10	1.1%
Business	9.52	9.88	3.8%	10.26	3.8%
International	**3.68**	**3.82**	**3.8%**	**3.98**	**4.2%**
Canada	0.96	1.01	5.3%	1.03	2.3%
Overseas	2.72	2.80	3.3%	2.94	4.9%
United Kingdom	.84	.83	-.9%	.85	2.8%

VisitOrlando. Source: D.K. Shifflet & Associates; Office of Travel & Tourism Industries; Tourism Economics

With two thirds of all visitors to Orlando being overnight guests, according to D. K. Shifflet & Associates, Orlando's airport traffic has increased by 2.7% through August, 2011 suggesting similar expansion in roomnight demand. In addition, the Greater Orlando Aviation Authority stated in a recent release that operations at Orlando's Executive Airport are up 17% year to date. Even more impressive is the report by the Orlando-Sanford International Airport that passenger count is up over 30% year to date through August, implying a potential total passenger count for 2011 of over 2,000,000 passengers. With service to London, Amsterdam, and Paris about one third of all travelers served at Orlando-Sanford are international visitors staying from seven to twenty-one days in the U.S.

About 10% of all overseas visitors to America arrive through and visit Orlando. While that percentage continues to grow each year it has not yet returned to the pre-September 11, 2001 level of 11.6% reported by the US Department of Commerce. Although visitors from parts of Europe and the United Kingdom have declined in recent years, the market is experiencing a marked resurgence in traffic from a number of South American countries, most notably Brazil and Argentina.

U.S. Arrivals from Key Overseas Markets*

U.S. arrivals from the United Kingdom and Ireland continue to decline, while South American origin markets are showing strong growth.

	2008	2009	2010	10/09	YTD Aug 2011	11/10
Total Overseas	**25,341,451**	**23,756,184**	**26,362,616**	**+11.0%**	**18,381,944**	**6.4%**
United Kingdom	4,565,000	3,899,167	3,850,864	-1.2%	1,449,128	1.3%
Germany	1,782,000	1,686,825	1,726,193	+2.3%	1,182,967	5.9%
Brazil	769,000	892,611	1,197,866	+34.2%	939,617	27.2%
Colombia	419,000	424,526	494,739	+16.5%	311,234	1.4%
Argentina	318,000	356,428	436,192	+22.4%	341,591	17.0%
Ireland	531,000	411,203	360,492	-12.3%	221,834	-3.5%

VisitOrlando

* The Office of Travel & Tourism Industries (US Department of Commerce) only releases year-end destination figures; monthly data is only available at the U.S. level.

Source: US Department of Commerce, Office of Travel & Tourism Industries

With an overall average stay of almost four days, Orlando visitors are predominantly focused on visiting its world renowned attractions. With the June, 2010 opening of Universal Studios Orlando's $265,000,000 Wizarding World of Harry Potter, the attraction reported a 20 percent growth in attendance in 2010 with 11.2 million visitors, up nearly 2 million from 2009. Fourth-quarter revenue rose 81 percent to $359 million, and its quarterly operating profit nearly quadrupled, from $30 million to $115 million. *Sunshine State News* reported earlier this year that attendance at Universal Studios Orlando is up 46% since opening the new venue.

Not to be outdone by the 100 acre Universal Orlando attraction, down the road at its 43 square mile destination Walt Disney World continues to amaze even the most seasoned Disney observers. Boasting 2.5% of the state's entire gross domestic product, Disney continues to enhance its offerings. Now 40 years old, the parks are undertaking massive construction projects. Fantasyland with its fabled Dumbo and Flying Elephant rides is being re-imagineered and renovated. Downtown Disney has been substantially redesigned and reconstructed along with renovations of its Hollywood Studios and the enormous theme park not only operates 26,000 guest rooms inside the parks but has another 1,900 rooms under construction. Reportedly employing over 60,000 workers, Orlando's Walt Disney World is said to be the largest single site employer in the nation with both direct and indirect compensation to workers of approximately six billion dollars, according to *a* spokesperson for Walt Disney World.

The third soubrette in the dynamic attractions theatre in Orlando is Sea World with its Discovery Cove and Aquatica Water Park venues. Now owned by Blackstone, Sea World will be the site of extensive expansion as well. In 2012, the theme park will introduce both Turtle Trek, showcasing a "sea turtle's epic and astounding journey" along with Freshwater Oasis, "a limited-admission, all-inclusive tropical resort where guests swim with dolphins, hand-feed tropical birds in a free-flight aviary, snorkel among thousands of colorful fish and rays and relax on pristine beaches", explains Sea World's media release. In 2013 the attraction has announced its largest expansion ever, Antarctica - Empire of the Penguin, billed as a visit to the bottom of the earth.

Opening in October of 2011, the newcomer to the family entertainment mix in Central Florida is LegoLand, located forty minutes from Walt Disney World in Winter Haven. Situated on the grounds of the former Cypress Gardens, the 150 acre theme park targets families with children between the ages of two and twelve. At a reported development cost north of $500,000,000 the attraction is scheduled to employ more than 1,000 people and features a Lego themed ski venue with costumed characters and over 50 rides and attractions. Whether a sufficient number of Orlando visitors will make the trek to the LegoLand location remains a yet unanswered question.

The complement of 10,000,000 business travelers arriving in Orlando will stay at hotels predominantly located outside of the area typically referred to as the tourist corridor. Although unemployment has barely receded from the rarified 10% point the general business attitude in Central Florida is positive. Cautious development is surfacing with the Millenia Mall area continuing to expand its significance in the Orlando retail and luxury automotive markets.


UCF College of Medicine

Driven by the ever-growing University of Central Florida, the east/southeast side of the metro marketplace is expressing vibrant performance. With its emphasis on robotics, optics, and medicine, the university has become the catalyst for growth in the corridor between its primary campus and the high end community of Lake Nona, situated along the Beachline Highway (SR 528), due east of the Orlando International Airport. With the opening of its health sciences building in the community, UCF emerged with the first completed structures in this expansive medical community. Followed by its nursing school will be the opening of the world class Burnham Institute research facility and the much anticipated Nemours Children's Hospital in 2012. Adjacent to the Burnham facility, the University of Florida is developing a 100,000 square foot medical research building and the Veteran's Administration will open the $665 million VA Medical Center at Lake Nona housing the first VA hospital to be built in the United States since 1995. The medical center will include a 134-bed inpatient diagnostic and treatment hospital, a 118-bed nursing home, a 60-bed domiciliary, an outpatient clinic, a veterans benefit mini service center.

Irrespective of the currently sluggish nationwide business environment, Orlando's Entertainment Technology industry continues its prominence with over 30,000 employed there along with an additional 15,000 people working in other software development disciplines. Coupled with the optics, life sciences, and modeling developments, centered around UCF, employment generally represents higher paying jobs in the marketplace and clearly is a foundation for roomnight demand.

Many of the stable and expanding industries in metropolitan Orlando also inspire conventions and meetings throughout the marketplace. The Link Simulation and Training events bring in attendees to its Fall events at the Orange County Convention Center. The home of a multitude of recreational opportunities, Central Florida attracts such trade shows to the convention center as the annual PGA Merchandise Show with almost ten miles of exhibits and the Surf Expos along with a regional Boat Show (Orlando is home to both Regal and Ski Nautique boats). With an increase in convention center business of 24% since 2009 to an estimated million and a quarter attendees in 2011, it is inevitable that the hospitality industry will continue to see positive contributions from this expanding source of demand.

Orange County Convention Center

The Orange County Convention Center is currently ranked 2nd in the United States in terms of prime exhibit space behind McCormick Place in Chicago.

Orange County Convention Center Event Attendance							
	Conventions/Tradeshows		Other Events		Attendance		
	2010	2011	2010	2011	2010	2011	% change
January	8	5	8	2	126,003	79,314	-37.1%
February	8	13	5	5	78,290	219,929	180.9%
March	15	14	13	3	186,238	146,921	-21.1%
April	7	11	6	8	57,887	91,009	57.2%
May	10	8	10	13	85,436	86,495	1.2%
June	5	4	9	6	88,858	105,734	19.0%
July	10	5	4	4	73,256	28,485	-61.1%
August	6	2	9	6	60,414	27,150	-55.1%
September	7	7	10	8	59,800	86,978	45.4%
October	8		10		142,272		
November	7		12		122,625		
December	4		10		97,326		
YTD	**76**	**69**	**74**	**55**	**816,182**	**872,015**	**6.8%**
TOTAL	**95**		**106**		**1,178,405**		

**Numbers are reflective of show move out dates.*

Total Exhibit Space	2,053,820 Sq. Ft.
Total Meeting Space*	479,190 sq. ft.
Additional space:	
Valencia Room	62,182 sq. ft.
Auditorium	2,643 seats
Lecture Theatre	160 seats

**Meeting space consists of 74 meeting rooms and 235 breakouts.*
Source: Orange County Convention Center

In the midst of the current national economic environment it is impossible to address hotel occupancies and economic impacts without considering the stability or increase in room supply. With the underlying focus in the nation being employment and economic recovery, lenders have been essentially been frozen for the past two years, thereby severely constraining new development. With 451 lodging properties in the metro market, Orlando will increase its near term rooms supply only slightly. Of the seven 2012 hotel openings, Disney's Art of Animation resort will offer 1,120 family suites beginning in May, with the final 800 units opening near the end of the year along with a 450 room Embassy Suite, two Hampton Inns and a 236 room Drury. With the closing of approximately 750 units during the year, the net effect will be a 1.8% increase in available rooms to the market during 2012.

While foreclosure activity still plays a role in the market, sales activity in 2011 has accelerated, driven by bargain prices. Fourteen properties have sold, year-to-date, in the metropolitan market, aggregating to approximately $100,000,000 and an average sales price of just over $30,000 per unit. The average size of the assets sold was 225 rooms. Of those reported, transactions occurred at capitalization rates ranging from 8.25% to 11%. It is interesting to note that the average age of properties sold throughout the year is approximately 30 years of age with only two recorded sales being for properties under 20 years old and that only half of the fourteen properties were franchised at the time of sale.

Lodging and travel comprise the spine that keeps Orlando and Central Florida erect. With visitors spending in excess of $28 billion annually, the industry employs 216,000 workers or one quarter of the entire workforce in metro Orlando's three primary counties. According to the *Orlando Sentinel,* "the sector accounts for more than 55 percent of all jobs reported by the region's 15 biggest companies. And it has almost single-handedly driven local job growth during the past 12 months". The only industry to significantly add jobs in 2011, the recovery and future prosperity of Central Florida lie undeniably in the hospitality sector.

The bottom line for the metropolitan Orlando Hospitality Industry is that, while hotel RevPar has not returned to the 2007 high water mark, it is trending in the right direction. With a relatively minor increase in supply and consistent demand growth, it is reasonable to anticipate that ADR will increase by another 3% in 2012 and that occupancy should climb by 2%. Given that scenario, RevPar will ascend to its second highest level in history. RevPar improvement will certainly increase property demand with newer, more productive properties coming to the market. We anticipate the number of transactions in 2012 could double with as much as a 50% increase in the average sale price per unit. It goes without saying that all market expectations are predicated on improving economic conditions in the country with a resurgence of offshore investment coupled with an increase in both U.S. employment and consumer confidence.

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