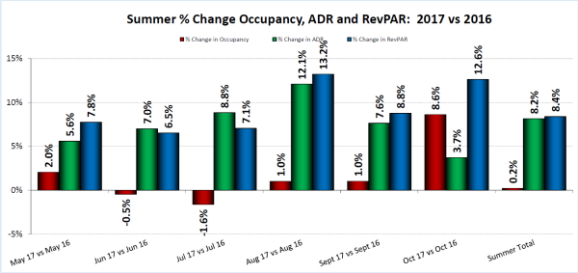
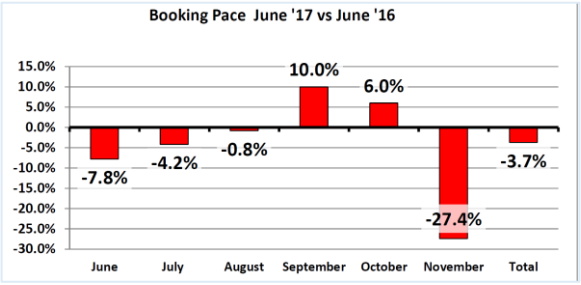
Occupancy Remains Flat While Rate and the Economy Set Records

The mountain travel industry is well into the summer season and booking patterns that emerged during Winter 2016/17 are now well-established; occupancy rates for summer are essentially flat and lodging properties are achieving robust increases in revenue through strong gains in room rates. And with a booming economy, the opportunities to push rate are, for the time being, ripe. But whether the industry is nearing a rate ceiling is not entirely clear. There is some evidence that the flat occupancy is a result of pushback from consumers, though maximum practical occupancy levels may be part of the reason, and more research is required to fully understand. In the meantime, we offer the DestiMetrics view of mountain travel performance as of June 30.

June historic actual occupancy as of June 30 was down a slight -0.5 percent compared to June 2016, with a 50.1 percent occupancy rate. The Average Daily Rate (ADR) for the same period was up considerably, gaining 7.0 percent for the month compared to last year, at $230. The gain in ADR offset the slight occupancy decline for a 6.5 percent revenue gain for June when compared to last year, with RevPAR at $115.

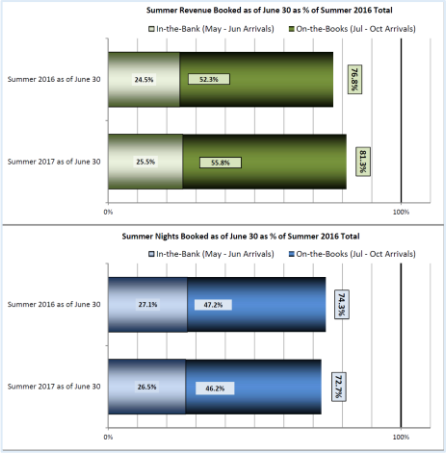


Summer (May to October) actual and on-the books aggregate occupancy as of June 30 is up very slightly, gaining 0.2 percent compared to Summer 2016 as of this same time, at 35.1 percent occupancy. This is a slight dip in the seasonal occupancy pace since last month, which was up 0.6 percent on May 31. Occupancy is gaining in four of the six months, led by an 8.6 percent gain in October. All other gains are 2.0 percent or lower. Occupancy declined for June (-0.5 percent) and is down for July (-1.6 percent). Conversely, aggregate ADR for the season is up a strong 8.2 percent at $243 with gains in all six months, including a 12.1 percent gain in August, traditionally the busiest summer month, and an 8.8 percent gain on-the-books for July. The nearly flat occupancy performance for the summer is being offset by the strong rate gains, resulting in an aggregate gain in revenue on-the-books for the season of 8.4 percent. Revenue is showing increases in all six months, including a 13.2 percent gain in August and 12.6 percent gain in October.



Total bookings made in June for arrival in June through November are down somewhat (-3.7 percent) compared to bookings made in June 2016 for arrival in the corresponding months last year. Bookings for arrival in June decreased considerably, declining -7.8 percent, while bookings for the other peak summer months also declined, with July down -4.2 percent and August down -0.8 percent. Bookings made in June for arrival in September and October are up 10.0 and 6.0 percent respectively, while November is down a very sharp -27.4 percent.

Summer 2017 Year-Over-Year Room Nights and Revenue Booked as of June 30. Room nights "in-the-bank" (actual room nights for May - June) for Summer '17 currently represent 26.5 percent of the total actual room nights that were booked for the entire summer season last year. An additional 46.2 percent of last year's total nights are already on-the-books for arrival in July - October. Overall, 72.7 percent of all nights for Summer '16 are now either banked or booked for Summer '17, a slight decline from this time last year (74.3 percent). Room revenue in-the-bank as of June 30 represents 25.5 percent of the total actual revenue booked last summer. An additional 55.8 percent of last year's total revenue is on-the-books for July through October arrivals. Overall, 81.3 percent of all revenue booked in Summer '16 has already been banked or booked this year, a significant increase from this time last year (76.8 percent).



Section 2: The Economy

- **Dow Jones Industrial Average:** The Dow Jones was up in June, adding a strong 341 points, or 1.6 percent, finishing the month at 21,349.6 points. Wall Street was bolstered by strong job creation and consumer confidence. Despite the gains, financial markets have been in a watch-and-wait mode in recent months as they look for guidance from Washington on tax reform, health care reform, and an easing of banking regulations to pre-recession levels, none of which have advanced through the legislative process. As such, some analysts are nervous about ongoing gains as they ponder the potential market consequences of an ultimate failure on one or more of these initiatives. But the market strength is helping to bolster consumers, which in turn is a likely contributor to the high rate tolerance we see in the data on page 1.
- **Consumer Confidence Index (CCI):** After two months of consecutive declines, consumer confidence regained some ground in June, adding a modest 1.3 points, or 1.1 percent, to reach a very strong 118.9 points for the month. Confidence is currently 22.1 percent higher than at this same time last year (97.4 pts) and reflects the overall consumer economy. The survey shows that consumers feel better about current conditions than they have at any time in the last 16 years, but their expectations for the short-term outlook declined from last month. While consumers are expecting earnings to increase, which would have a direct impact on discretionary spending such as travel, there is no indication from employers that wages will finally advance from their stagnant 2.5 percent annual growth rate (see below).
- **Unemployment/Jobs:** Employers exceeded expectations in June, adding 222,000 jobs during the month, with the unemployment rate rising slightly to 4.4 percent as job seekers returned to the marketplace. Job creation numbers for April and May were revised upward by 33,000 and 14,000, respectively, but the employment participation rate was relatively unchanged overall. The ongoing issue continues to be earnings. Employee earnings were up slightly in June to 2.5 percent year-over-year, but earnings have paced well below overall economic growth since the recovery from the Great Recession began. Travel consumers in general, and particularly those traveling to mountain communities, are showing remarkable tolerance for rate increases given the relatively stagnant growth of earnings.

Section 3: Commentary

Regional Comparison: Summer 2017 vs 2016

Summer 2017 v 2016 (May-Oct)	Far West	Rockies	West Aggregate
% Change Occupancy	0.2%	0.6%	0.2%
% Change ADR	5.9%	9.0%	8.2%
% Change RevPAR	6.1%	9.7%	8.4%

With June closed, the summer season is now entering its peak, with the Fourth of July holiday and a myriad of special events across mountain destinations crowding the calendar through Labor Day—especially on weekends. And with summer comes the ongoing challenge to grow this 'season of opportunity' as mountain resorts look for new ways to extend their business to a year-round venture. This expansion has been progressing steadily for most of the past eight years and occupancy rates for the summer season are approaching those of winter. However, room rates remain at about 55 percent of winter rates and both are gaining strongly year-over-year. This is where the opportunity for summer resides, as the potential for summer revenue is considerable. But finite inventory and maximum practical occupancy levels are potential barriers. Summer brings other opportunities too, including the ability to operate in most weather conditions, which allows for a broader range of guest activities and a shift in branding and image. Summer weather also brings potential threats such as drought and wildfire, and we'll be watching this very dry season with concern for the potential danger of both.

While revenue performance across the industry has been strong, it has been based almost entirely on a mix of flat occupancy and strong room rate since late 2016, rather than the more traditional combination of moderate occupancy and rate gain. This is playing out in both the Far West and Rocky Mountain regions. As of June 30, summer occupancy rates at Far West resorts are up just 0.2 percent compared to last year at this time, while room rate is up 5.9 percent and the resulting revenue is up 6.1 percent. Meanwhile, occupancy rates in the Rockies are also essentially flat, gaining 0.6 percent compared to last year, while rate is up a sharp 9.0 percent and revenue is up 9.7 percent. While this pattern is working for the summer season, there is a real threat, as evidenced by the peak months of the past winter season, that these record-setting rates will be achieved at the expense of occupancy and a less-affluent segment of our customer base. But the market forces are well-established and until the inventory begins to grow, the consumer's tolerance for rate is going to determine what course the industry takes going forward.

Conclusion: The mountain travel industry is positioning itself for a sixth consecutive summer of record room rates and revenue, and doing so amid strong market conditions. But financial markets are waiting for Washington to determine their ultimate direction for the rest of 2017 and mountain communities are struggling to find adequate inventory. It's not clear how this will play out, but for the time being, the bottom line is looking great. As usual, we remind you that conditions vary between destinations and properties, and we urge subscribers to log into www.DestiMetrics.com to see how they're performing compared to other regions and competitors.