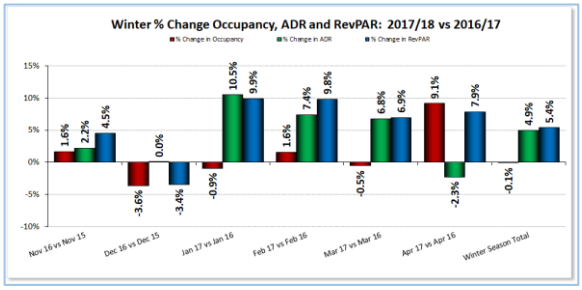
Flat Occupancy and Strong Rate Extend into Winter

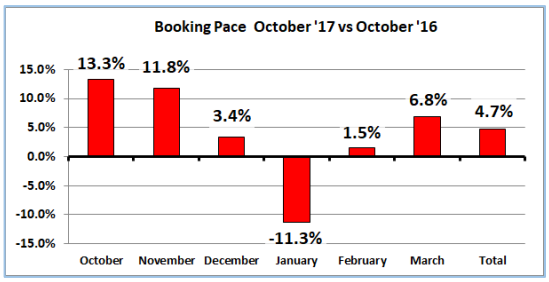
Economic indicators continue to reflect robust consumerism at the end of the summer season. Strong job creation, record-setting financial markets, and consumer confidence hovering around December 2000 levels make for an opportunistic marketplace. And, though the summer finished with occupancy up only very slightly, the strength of the consumer marketplace is apparent in strong rate gains that are supporting another summer of record revenue. It doesn't stop there, as the same pattern is evident in the winter data on-the-books for November through April arrivals. With occupancy levels often hitting maximum practical capacity at peak times, lodging properties are gaining revenue on rising rates, but is there a limit? December is showing strain in both occupancy and rate, and with the Christmas holiday falling on a Monday this year, shifts in school breaks are all but eliminating the chances for success in the week before Christmas. Extend the flat or declining occupancy to other months of the season such as January and March and suddenly the winter is down compared to this time last year. But significant snow is yet to fall, we're still not in the prime booking window, and the volume is such that the statistics can swing in a heartbeat. So, with that teed up, let's get on with our solstice edition, with the full wrap of summer 2017 and our first complete look ahead to winter 2017/18.

Section 1a: Lodging Performance – Winter 2017/18 (Nov. – April)

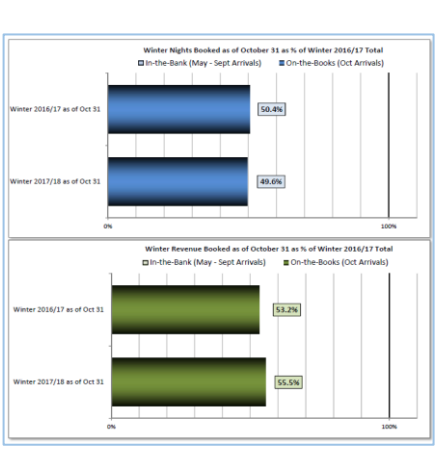
Winter (November '17 to April '18) on-the books aggregate occupancy as of Oct. 31 is down -0.1 percent compared to Winter 2016/17 as of this same time last year, at 24.8 percent occupancy. Occupancy is declining in three of the six winter months led by December, down -3.6 percent, and joined by January (-0.9 percent) and March (-0.5 percent), all strategic months. Average Daily Rate (ADR) on-the-books for the season is up 4.9 percent at $432 with gains in four of the six months, with critical December flat and April down -2.3 percent. The moderate rate gains are offsetting the declines in occupancy, resulting in moderate on-the-books revenue growth of 5.4 percent, with RevPAR at $107 compared to this same time last year. Revenue is showing increases in all months except December, which is down -3.4 percent due to a decrease in occupancy for that month (see "Commentary – Winter" on P2).



Bookings made in October for arrivals in November through March are up 4.7 percent compared to bookings made in October 2016 for arrival in the corresponding months last year. Bookings made for arrivals in January are down -11.3 percent, while all other months are up, led by October and November arrivals, up 13.3 percent and 11.8 percent, respectively. When considering the overall decline in on-the-books winter occupancy (see above), the gain in booking pace compared to last year reveals that the very strong early bookings made in 2016 are not being replicated in 2017, despite some western mountain resorts receiving marketable snowfall before Oct. 31.

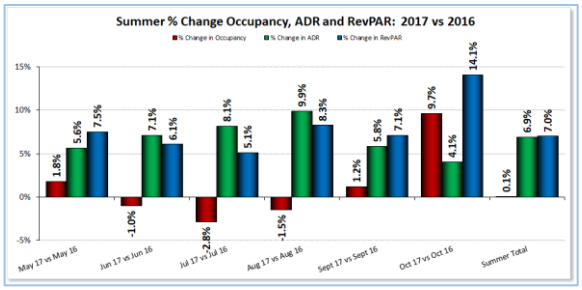


Winter Season 2017/18 Year-Over-Year Room Nights and Revenue Booked as of Oct. 31 Room nights on-the-books for arrival November 2017 through April 2018 currently represent 49.6 percent of all room nights booked for the entire winter season last year. This is slightly lower than the 50.4 percent of all room nights that were booked for last winter as of this time. Room revenue on-the-books for arrival November 2017 through April 2018 currently represents 55.5 percent of the total actual revenue booked for the entire winter season last year. This is somewhat higher than the 53.2 percent of all eventual revenue that had already been booked as of Oct. 31 for Winter 2016/17.



Section 1b: Lodging Performance – Summer 2017 (May – October 2017)

October historic actual occupancy as of Oct. 31 was up 9.7 percent compared to October 2016, with a 35.5 percent occupancy rate. The ADR for the same period was up moderately, gaining 4.1 percent for the month compared to last year at $168, resulting in a strong 14.1 percent year-over-year gain in revenue, with RevPAR at $57.

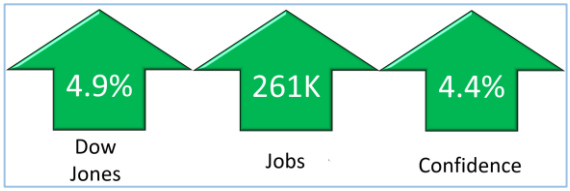


Summer (May '17 to October '17) seasonal total aggregate occupancy as of Oct. 31 was up a scant 0.1 percent compared to Summer 2016, at 48.6 percent and marks the smallest summer season gain since 2010, but still clinches a new record. Occupancy gained in three of the six months of the season, led by October with a 9.7 percent jump followed by May and September, up 1.8 and 1.2 percent, respectively. The peak months of June, July, and August posted slight-to-moderate declines, down -1.0, -2.8, and -1.5 percent, respectively. ADR for the season finished with a strong 6.9 percent compared to Summer 2016, and at $229 set another summer record. Rate showed growth and strength consistently throughout the season, with gains ranging from a low of 4.1 percent to a high of 9.9 percent, indicating consistent demand and rate tolerance. The slight gain in occupancy and strong rate growth combined for a strong 7.0 percent year-over-year revenue gain, with RevPAR at $111. Increases in revenue ranged from a moderate 5.1 percent in July to a strong 14.1 percent boost in October.

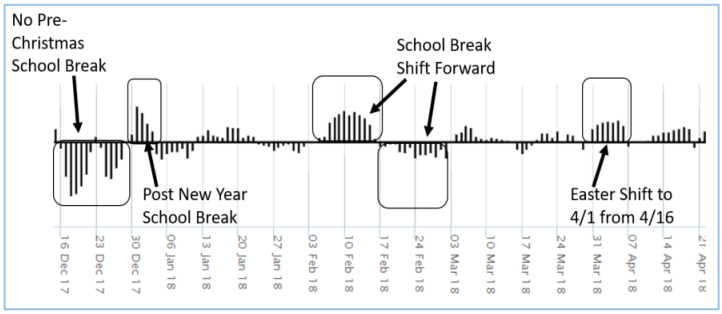
Summer Season 2017 Year-Over-Year Room Nights and Revenue Booked as of Oct. 31 Absolute room nights in-the-bank for arrival May through October 2017 represent 97.4 percent of all room nights booked for the entire summer season last year. Room revenues for May through October 2017 finished at 104.2 percent of the total actual revenue booked for the entire summer season last year.

Section 2: The Economy

Employment and job creation recovered strongly from a stormy September, which was originally reported at a loss of 33,000 jobs but later revised to a gain of 18,000. In October, employers added 261,000 new jobs to payrolls, contributing in-part to a decline in the unemployment rate from 4.2 to 4.1 percent, though workers halting their job search efforts was the strongest contributor to the decline. Though job creation was short of the 310,000 anticipated by Wall Street, the data were well received. The Dow Jones gained 4.3 percent, or 972 points, in October, finishing the month at 23,377 points, a gain of 28.9 percent since this time last year and setting yet another all-time record. All of this is apparent in October's consumer confidence data, which gained 4.4 percent to 125.9 points, its highest level since December 2000 and is reflected in ongoing rate gains in mountain destination communities. While consumers expressed concern at the economic impact of hurricane Irma, there is no lingering expectation that the economy will be slowing in the near future, a positive sign for lodging properties and retailers alike.



Section 3a: Commentary – Winter 2017/18 Destinations head into Winter 2017/18 with a lot of economic momentum and the usual excitement for the upcoming season, despite several western resorts pushing back opening day while they await adequate snow. While we're early in the booking season, the foundation of lodging transactions has been laid by the pure destination traveler, who comes from afar, books further in advance, and is less concerned about snow conditions than local and regional visitors. And, the now familiar pattern of relatively flat occupancy and high rate gains is continuing. It appeared in January 2017, carried through the summer, and remains the trend in mountain destinations. However, the winter season is actually pacing slightly down (-0.1 percent) at western mountain resorts, while rate is gaining moderately (4.9 percent) when compared to the same time last year. While this strategy has the benefit of resulting in revenue gain, it's a concern when the proverbial eggs are all in a single basket (rate). But the pattern isn't necessarily true in all months of the season, with some performing more positively and others less so. December, the highest ADR month of the season, is struggling with occupancy, down -3.6 percent, and is unable to match the rate gains seen in other months, literally flat at 0.0 percent change from last year. There are a few potential reasons, but chief among them is Christmas



YOY % Change in Daily Total Occupancy: Winter 2017/18

Day moving to a Monday, effectively eliminating school breaks for the week preceding the Christmas holiday and shifting them into early January (see chart, previous page). Rates during December may be another contributing factor, with an ADR of $529 for the month, which is anecdotally as much as 50 percent less than ADR during the Christmas week, creating downward consumer pressure. January, February, and March, the peak occupancy months of the winter season, are mixed on occupancy, with January down a slight -0.9 percent, but rate up a staggering 10.5 percent to $463 for early bookings. A similar, but less dramatic pattern in March is helping to create the slight seasonal occupancy decline for the season, but delivering a highly respectable 5.4 percent revenue gain. Other significant shifts this season include a school break shift in February that's helping fill in the beginning of the month while the President's Day weekend remains strong. The result is a 1.6 percent occupancy gain and 7.4 rate gain, making February the shining star of the winter. Lastly, look for the Easter shift from April 16 last year to April 1 this year to have a positive impact on the late winter season since the Easter holiday landed after closing day at many resorts in 2016. But, of course, snow will be the trump card, and it's in short supply at the moment, so our fingers are crossed for some cool temps and stormy weather.

Section 3b: Commentary – Summer 2017

Summer 2017 has been well-documented over these past few months, and our quarterly webinar, now available on the website for your viewing pleasure, reviews the performance of the industry well, so we'll keep this narrative brief. As noted in the Winter Commentary above, the trend towards flat occupancy and strong rate gain began in January 2017 and extended through summer. Though the season ended on a record note for both occupancy and rate at 48.6 percent (see "1b – Lodging Performance – Summer" above), the 0.1 percent gain is the smallest gain since the catastrophic decline at the beginning of the recession in 2009. But rate pushes performance metrics forward and it's hard to argue with revenue gains, irrespective of the methodology. However, of note are the consecutive declines in occupancy for each of June, July, and August, perhaps hinting that rate tolerance is coming to an end. But more positively, we know that several destinations in the western region experience their peak performance of the calendar year during summer, and maximum practical occupancy may be coming into play, at least on weekends and during special events, so this may be the result of market forces as much as rate management, and we hope to be able to support one of these theories with data in the coming weeks. Either way, it represents a paradigm shift and raises the questions about growing overnight visitation in mountain communities concurrent with rate gain, rather than exclusive of it.

Conclusion

Though economic data point to a bubble-like situation, and there's a measurable, significant shift in booking patterns in 2017 and into 2018, the data clearly indicate an industry with a strong consumer base purchasing mountain destination product at a record price in an economic environment that can only be described as robust. The sustainability of those prices will be determined as we watch economic conditions possibly shift over the coming months, while revenue managers work their yield to their maximum benefit. What isn't now clear is whether occupancy is flattening due to capacity issues, downward pressure from rate, a combination of both (the most likely scenario), or some other force not apparent in the data. What is clear is that this pattern has sustained itself for 10 consecutive months when we look at the seasons in aggregate, so an immediate upward jolt in occupancy gains is not likely. Either way, we look back at another record summer and stand on the brink of a new ski season with record on-the-books rates driving good early revenue gains. We're strapped in, ready to go, and looking forward to providing you with the best we can offer in property and destination performance reporting. On that note, we also remind you that these data are based on regional aggregate reports, and that performance varies widely from destination-to-destination and property-to-property, so make sure to log into the website at www.DestiMetrics.com to see how you stack up.