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HOTEL FRANCHISE FEE GUIDE

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Introduction to U.S. Hotel Franchise Fee Guide

The HVS U.S. Hotel Franchise Fee Guide provides a comparative review of various hotel franchises based on their applicable franchise fees. The selection of an appropriate franchise affiliation affects a property's ability to compete in its local market, generate profits, and achieve a desirable image and market orientation. Because the success of a hotel is based primarily on the cash flow generated, owners and lenders must weigh the benefits of a brand affiliation against the total cost of such a commitment.

Please note that the study results are not indicative of the impact an individual brand may have on a hotel's overall profitability because only the costs and not the benefits of the franchise affiliations have been analyzed. Furthermore, the study does not reflect, nor does it claim to address, operating results of any one particular brand or any particular brand affiliation upon any single hotel property. This 2015/16 U.S. Franchise Fee Guide is meant to illustrate a basic comparison among franchise fees charged by participants.

HVS has extensive experience in assisting clients in selecting the appropriate franchise and/or management brand for their proposed or exiting hotels. This service also includes assisting with or managing the negotiations in coordination with experienced attorneys and other industry professionals.

SUMMARY OF FINDINGS



The median franchise cost of a traditional franchise was 11.7% of rooms revenue, while the average cost was 10.9% of rooms revenue.



Median franchise costs per product type did not vary greatly, indicating that the discrepancies between different brands' franchise costs are more dependent on hotel company, chain scale, or other factors than on product type.



Within the extended-stay product type, most brands incur franchise fees as a percent of rooms revenue lower than the industry median.



The ten highest franchise costs represented a mix of Mid-Rate and First-Class chain scales spanning all product types. The ten lowest-cost franchises were reported by Economy and Mid-Rate properties. First Class includes Luxury, Upper Upscale, and Upscale chain scales, as discussed later in this report.



Independent or "soft brand" hotel companies, which are reviewed in our report but not quantitatively represented in the Key Findings tables, provide an alternative business model for property owners desiring a more flexible franchise arrangement. The overall fee structure and costs associated with such franchises are different than the traditional franchise model.

DISCLAIMER

Hotels are complicated investments. Selecting an appropriate franchise for a property entails exhaustive research and investigation by an investor. The information presented in this guide was developed to provide insight into franchise fee structures and should not be relied upon by an investor other than as a preliminary resource. HVS has researched and gathered data from authoritative sources, and all efforts have been made to verify the accuracy of these data; however, given variances in reporting methods and franchise terms, HVS cannot guarantee the accuracy of all the data contained in this study. Finally, it should be noted that the 2015/16 version of this guide is not necessarily comparable with previous versions because of the new methodology of calculating franchise costs, which takes into account historical data for each brand and does not subject all brands to uniform assumptions.

TYPES OF HOTEL FRANCHISE FEES

Brand attributes play a crucial role in an investor's decision to acquire or change a hotel's franchise affiliation. When evaluating a potential hotel franchise, one of the important economic considerations is the structure and amount of the franchise fees. Second only to payroll, franchise fees are among the largest operating expenses for most hotels.

Hotel franchise fees are compensation paid by the franchisee to the franchisor for the use of the brand's name, logo, marketing, and referral and reservation systems. Franchise fees normally include an initial fee with the franchise application, plus ongoing fees paid periodically throughout the term of the agreement.

Initial Fee

The initial fee typically takes the form of a minimum dollar amount based on a hotel's room count. For example, the initial fee may be a minimum of \$45,000 plus \$300 per room for each room over 150. Thus, a hotel with 125 rooms would pay \$360 per room, and a hotel with 200 rooms would pay \$300 per room. The initial fee is paid upon submission of the franchise application. This amount covers the franchisor's cost of processing the application, reviewing the site, assessing market potential, evaluating the plans or existing layout, inspecting the property during construction, and providing services during the pre-opening or conversion phases. In cases of re-flagging an existing hotel, the initial fee structure is occasionally reduced. Some franchisors will return the initial fee if the franchise is not approved, while others will retain a portion of approximately 5% to 20% to cover the costs described above.

Converting the affiliation of an existing hotel may require the purchase of certain soft and trademarked goods to comply with the new franchise's minimum standards. The potential affiliate may have to undertake property refurbishment or renovation (e.g., laying a higher-grade carpet or enclosing a property's exterior corridors). Certain brands also require the presence of additional amenities, such as a fitness center. Both newly built franchises and conversions also incur the cost of signage. Some franchisors require the operator to cover a property improvement plan (PIP) fee. Although these potential costs are not quantified in our study, they must be considered when measuring the costs and benefits of a franchise affiliation. Requirements of this kind vary from brand to brand and from property to property; thus, they should be closely reviewed when evaluating potential affiliations.

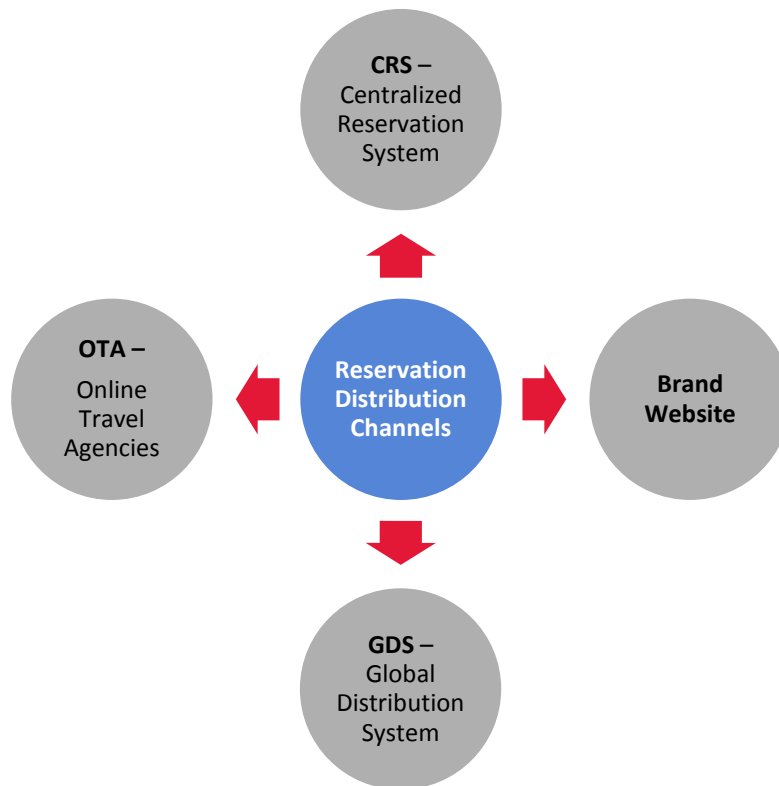
Continuing Fees

Payment of ongoing franchise fees commences when the hotel assumes the franchise affiliation, and fees are usually paid monthly over the term of the agreement. Continuing costs generally include a royalty fee, an advertising or marketing contribution fee, and a reservation fee. In addition, ongoing fees include a frequent traveler loyalty program, as well as other miscellaneous fees. Starwood, IHG, Hilton, Wyndham, Choice, Hyatt, and Red Roof combine the marketing and reservation fees into one category, inclusive of the program fee and system fee. The distribution between marketing and reservation vary from company to company. In an effort to analyze data accurately, HVS queried each of the applicable participants as to how marketing and reservation fees within the program fee were distributed. The continuing fees we analyzed are categorized as follows:

Royalty Fee: All franchisors collect a royalty fee, which represents compensation for the use of the brand's trade name, service marks and associated logos, goodwill, and other franchise services. Royalty fees represent a major source of revenue for a franchisor and are calculated based on a percentage of rooms revenue. Moreover, some brands charge an additional royalty fee based on a percentage of food and beverage revenue.

Advertising or Marketing Contribution Fee: Brand-wide advertising and marketing consists of national or regional advertising in various types of media, the development and distribution of a brand directory, and marketing geared toward specific groups and segments. In many instances, the advertising or marketing contribution fee goes into a fund administered by the franchisor on behalf of all members of the brand.

Reservation Fee: If the franchise maintains a reservation system, the reservation fee supports the cost of operating the central office, telephones, computers, and reservation personnel. The reservation fee contains all distribution-related fees, including fees payable to third parties, such as travel agents and distributors. Reservation fees are based on a combination of a percentage of rooms revenue and/or a dollar amount per available room per month, depending on the source of booking per reservation. These sources are shown in the chart below:



Frequent-Traveler Program Fee: Some franchisors offer incentive programs that reward guests for frequent stays; these programs are designed to encourage brand loyalty. The cost of managing such programs is financed by frequent-traveler assessments. Many franchisors now require franchisees to bear their fair share of the costs associated with operating a frequent-traveler program. Typically, frequent-traveler program assessments are based on a percentage of total or rooms-only revenue generated by a program member staying at a hotel, or a fixed dollar amount for each room occupied by a program member. Many brands also require hotels to contribute a one-time participation fee, while others use a combination of the three methods.

Miscellaneous Fees: This category includes fees payable to the franchisor or to third-party suppliers for additional system and technical support. It also includes fees related to training programs, as well as national and regional annual conferences.

Generally, franchisors offer additional services and equipment, which can include consulting, assistance with purchasing, computer equipment, equipment rental, onsite pre-opening assistance, centralized revenue management, sales commissions, and marketing campaigns. Such services are most often offered on an optional basis to franchisees; hence, the fees for these services are usually not quantified in the disclosure document. Our study considers only those costs that are mandatory and quantified by the franchisor.

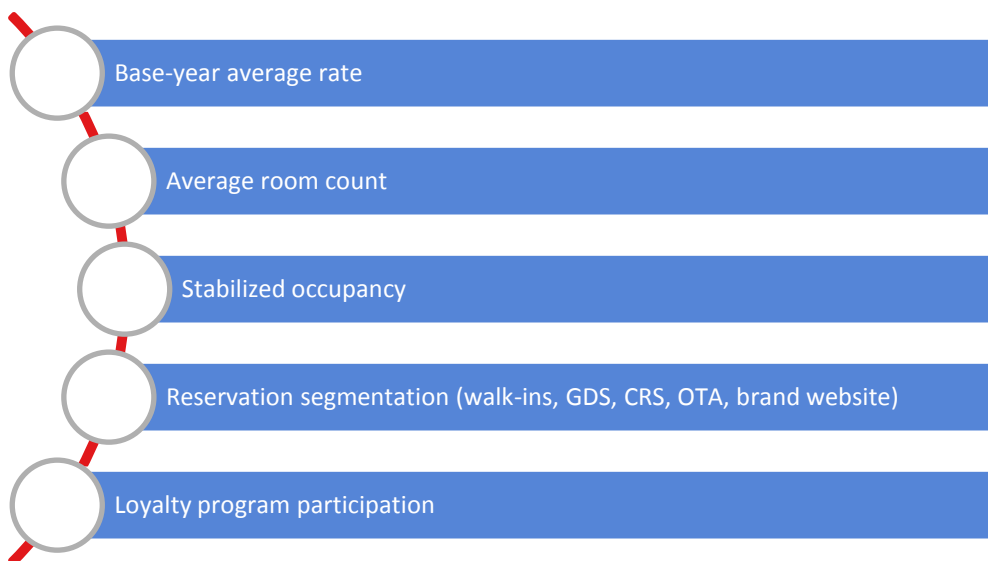
Methodology and Assumptions

Historically, this guide subjected each brand's criteria to a broader and uniform set of assumptions. However, the 2014 guide and subsequent updates have been reengineered to consider each brand's own unique set of variables.

HVS collected the Franchise Disclosure Documents (FDD) from 69 hotel brands and then analyzed the sections pertaining to the costs associated with being a franchisee. Since the Federal Trade Commission regulates the sale of franchises, information regarding each franchise fee structure is readily available through these disclosure documents. For purposes of this study, FDDs published in 2015 for all brands represented herein were collected and reviewed. Franchisors must reveal and adhere to all terms of the franchise agreement as set forth in these documents, thereby eliminating (in theory) the potential for introducing variables in any individual contract. Only mandatory and quantified fees were included, and each of these was categorized as one of the following:



By contacting brand representatives and reviewing companies' 10-Ks or annual reports, HVS was able to confirm the values of the following inputs:



In order to calculate the estimated costs associated with each of the fee categories, HVS made assumptions on the average length of stay and the food and beverage revenue as a percentage of rooms revenue for each brand based on information provided from HVS's in-house database.

As these values are different for every hotel, HVS primarily developed the assumptions by calculating averages on a brand-by-brand basis from a selection of data sources. These included HVS's extensive database of financial statements and operating data

collected from nearly thousands of consulting and valuation engagements over the past few years, as well as data provided directly from the hotel companies. These assumptions are intended to reflect on the property characteristics and operating performance of a “typical” hotel from each brand. It should be noted that location, reservation segmentation, facilities, amenities, and other factors could cause this hypothetical “typical” property to vary significantly from an actual one.

For the purposes of this guide, HVS assumes that a hotel entering into a franchise agreement has recently opened with a new contract from the brand, and that the hotel has not been converted from a different brand. As such, this hypothetical “typical” hotel is forecast to stabilize in the third projection year. Occupancy has been forecast at 85% and 95% of the stabilized year's occupancy in the first and second projection years, respectively. Occupancy from the stabilized year forward remains unchanged.

Finally, HVS applied average-rate inflation assumptions of 2.0% in the first projection year, 2.5% in the second projection year, and 3.0% in the third projection year and thereafter.

Once all the assumptions were entered into the model, HVS projected the operating performance of the hypothetical property over a period of ten years and calculated the various franchise fee costs over said period to account for a stabilized hotel. In order to provide a consistent basis of comparison, all of the franchise fees are expressed as a percentage of rooms revenue.



Brand Participants

HVS categorized the brands into three hotel chain scales: First Class, Mid-Rate, and Economy. HVS defines *First Class* as luxury, upper-upscale, and upscale brands from the STR Global Chain Scale, while *Mid-Rate* comprises upper-midscale and midscale brands; *Economy* corresponds directly to STR's economy brands. It should be noted that the luxury sub-set was included within the *First Class* category given the limited data available. Furthermore, while some hotel companies have additional brands not listed in the table below, HVS only included the brands with reliable historical data.

For referential purposes, the appendix at the end of this guide includes tables outlining the overall cost for each brand, along with the breakdown of total cost by component.

Parent	Brand	Chain Scale	Product Type
Best Western	Best Western	Mid-Rate	Limited Service
	Best Western Plus	Mid-Rate	Limited Service
	Best Western Premier	First Class	Select Service
Carlson Rezidor	Country Inn & Suites	Mid-Rate	Limited Service
	Park Inn	Mid-Rate	Limited Service
	Radisson	First Class	Full Service
Choice	Ascend	First Class	Full Service
	Clarion	Mid-Rate	Select Service
	Comfort Inn & Suites	Mid-Rate	Limited Service
	Econo Lodge	Economy	Limited Service
	Mainstay Suites	Mid-Rate	Extended Stay
	Quality Inn & Suites	Mid-Rate	Limited Service
	Rodeway Inn	Economy	Limited Service
	Sleep Inn	Mid-Rate	Limited Service
	Suburban Extended Stay	Economy	Extended Stay
Hilton	DoubleTree Hotels	First Class	Full Service
	Embassy Suites	First Class	Full Service
	Hampton Inn	Mid-Rate	Limited Service
	Hilton Garden Inn	First Class	Select Service
	Hilton Hotels	First Class	Full Service
	Home2 Suites by Hilton	Mid-Rate	Extended Stay
	Homewood Suites	First Class	Extended Stay
Hyatt	Hyatt House	First Class	Extended Stay
	Hyatt Place	First Class	Select Service
IHG	Candlewood Suites	Mid-Rate	Extended Stay
	Crowne Plaza	First Class	Full Service
	Holiday Inn	Mid-Rate	Full Service
	Holiday Inn Express	Mid-Rate	Limited Service
	Hotel Indigo	First Class	Select Service
	InterContinental Hotels	First Class	Full Service
	Staybridge Suites	First Class	Extended Stay
La Quinta	La Quinta Inn & Suites	Mid-Rate	Limited Service
Leading Hotels of the World*	Leading Hotels of the World	First Class	Full Service
Magnuson	Magnuson	Mid-Rate	Full Service

Parent	Brand	Chain Scale	Product Type
Marriott	Autograph Collection	First Class	Full Service
	Courtyard	First Class	Select Service
	Fairfield Inn	Mid-Rate	Limited Service
	Marriott	First Class	Full Service
	Renaissance	First Class	Full Service
	Residence Inn	First Class	Extended Stay
	SpringHill Suites	First Class	Select Service
	TownePlace Suites	Mid-Rate	Extended Stay
Preferred Hotels & Resorts*	Preferred Hotels & Resorts	First Class	Full Service
Red Roof Inn	Red Roof Inn	Economy	Limited Service
Small Luxury Hotels*	Small Luxury Hotels	First Class	Full Service
Starwood	Aloft	First Class	Select Service
	Element	First Class	Extended Stay
	Four Points	First Class	Select Service
	Le Méridien	First Class	Full Service
	Luxury Collection	First Class	Full Service
	Sheraton	First Class	Full Service
	Westin	First Class	Full Service
Vagabond Inn	Vagabond Inn	Economy	Limited Service
Vantage	Americas Best Value Inn	Economy	Select Service
	Country Hearth Inn	Economy	Limited Service
	Jameson Inn	Mid-Rate	Limited Service
	Lexington Hotel	First Class	Full Service
	Lexington Inn	Mid-Rate	Select Service
	Baymont Inn & Suites	Mid-Rate	Limited Service
Wyndham	Days Inn	Economy	Limited Service
	Hawthorn Suites	Mid-Rate	Extended Stay
	Howard Johnson	Economy	Limited Service
	Knights Inn	Economy	Limited Service
	Microtel	Economy	Limited Service
	Ramada Inn	Mid-Rate	Select Service
	Super 8	Economy	Limited Service
	Travelodge	Economy	Limited Service
	Wingate by Wyndham	Mid-Rate	Limited Service
	Wyndham	First Class	Full Service

** The brands are not included in data used for Key Findings tables.*

Over the past several years, the lodging industry has experienced some of the largest traditional hotel companies enter into this space with “collection” brands, including Marriott’s Autograph Collection, Starwood’s Luxury Collection and Tribute Portfolio, Choice’s Ascend Collection, Hilton’s recent Curio Collection, Best Western’s BW Premier Collection, and Hyatt’s 2016 announcement of the Unbound Collection. These “collection” brands offer owners greater leeway to design, market, and brand their hotels while simultaneously providing national marketing and reservations support behind the scenes. While these franchises target similar properties as independent hotel companies, the “collection” franchise fees follow a more traditional structure, amounting to relatively higher costs overall. HVS had limited information on “collection” or independent brands for this year’s guide; however, HVS plans on collecting more data and conducting in-depth analyses on those brands for the publication next year.



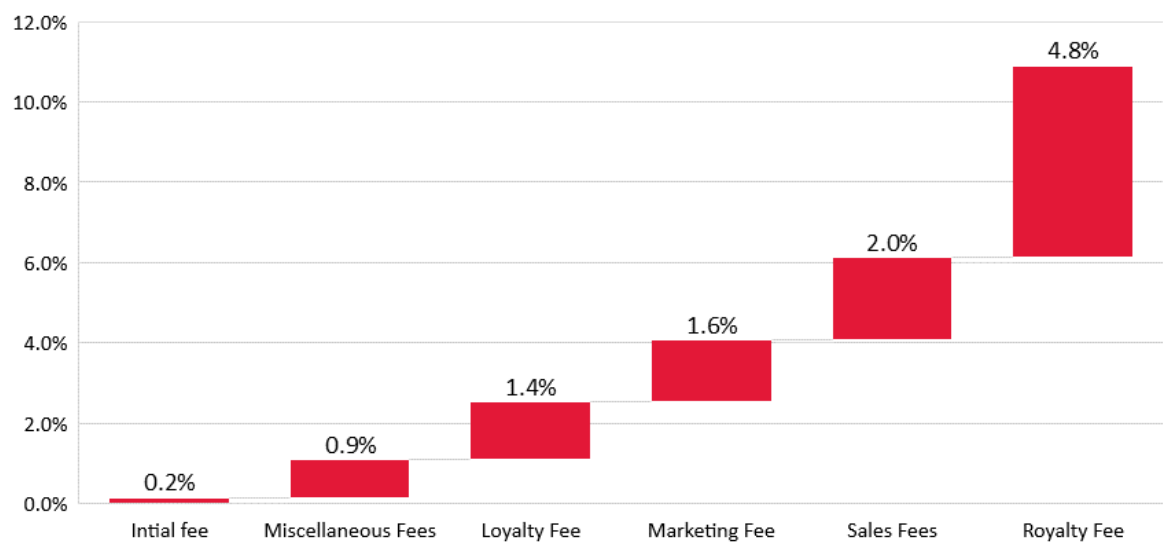
Key Findings

The following results were derived from the analysis.

AVERAGE FRANCHISE COST TO ROOMS REVENUE

The following table illustrates the separate components of an overall franchise cost. HVS have concluded an overall average franchise cost of 10.9%, as well as the average percentage of the initial fee, royalty fee, marketing fee, loyalty fee, sales fees, and miscellaneous fees in rooms revenue.

On Average, Initial Fee and Continuous Franchise Costs Total Nearly 11% of Rooms Revenue

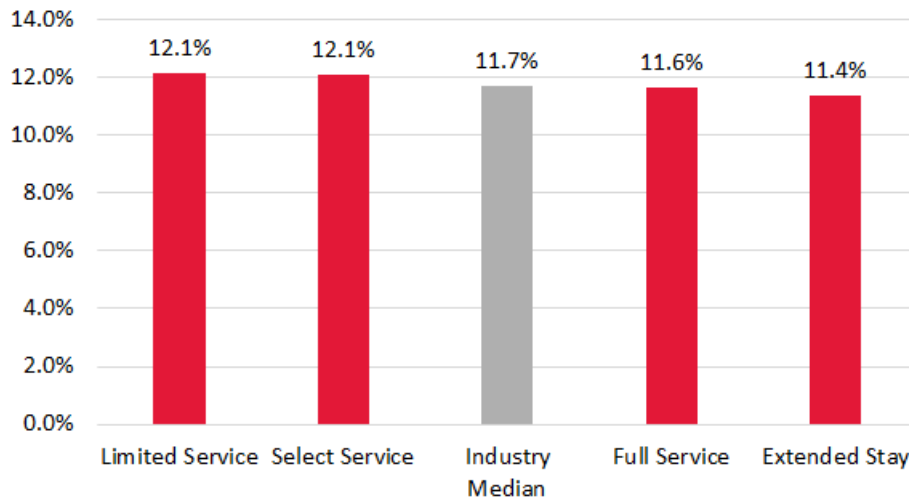


On average, franchise costs comprise 10.9% of rooms revenue over an initial ten years of operations. The royalty fee comprises the largest portion of the collective franchise costs, followed in decreasing order by the sales fees, marketing fee, loyalty fee, miscellaneous fees, and initial fee. We projected rooms revenue and continuous costs over a period of ten years. The initial fee only occurs during the first year, which explains why the initial fee percentage is only 0.2% of the total when amortized/averaged over the ten-year forecast. Comparative analysis of the initial fee percentage of the first-year rooms revenue will be discussed in the next section of this report.

MEDIAN FRANCHISE COST COMPARISON

The industry median for a typical franchise equaled 11.7%. The following tables illustrate how the median franchise cost compares to each product type reviewed in this report.

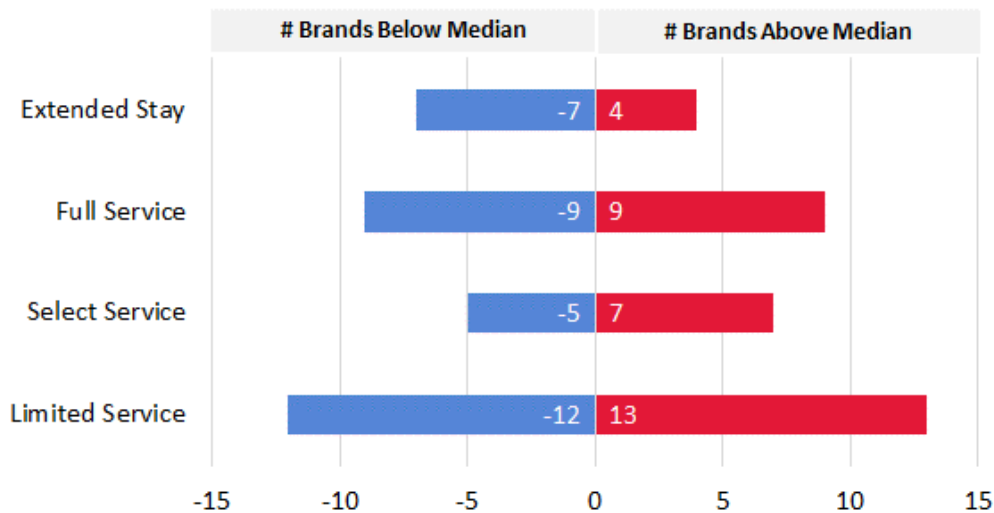
Minimal Variance in Median Franchise Cost per Product Type



The extended-stay product type recorded the lowest median costs (as a percentage of rooms revenue), while the highest median cost ratios were recorded by limited-service hotels.

However, the spread between the medians per product type is minimal at only 0.7%; the median limited-service franchise cost (the highest) is just 0.7% more than the median cost to franchise an extended-stay hotel (the lowest). While these ratios automatically adjust for RevPAR differences between product types, we note that the costs across product types are generally similar.

Extended-Stay Brands Mostly Pay Lower Fees than the Median



The graph above indicates that the brand numbers of full-service, select-service, and limited-service products are evenly spread out around the industry median. The extended-stay category, on the other hand, has seven brands below the median and only four above. Extended-stay brands, therefore, generally incur franchise fees as a percentage of rooms revenue lower than the industry median. As will be illustrated through this report, each brand's franchise costs do vary to a much greater extent than these medians show. This fact indicates that the volatility across brands is less dependent on the hotel's product type and more attributable to other factors, such as parent hotel companies, chain scales, or specific brand characteristics like loyalty participation or reservation channels.

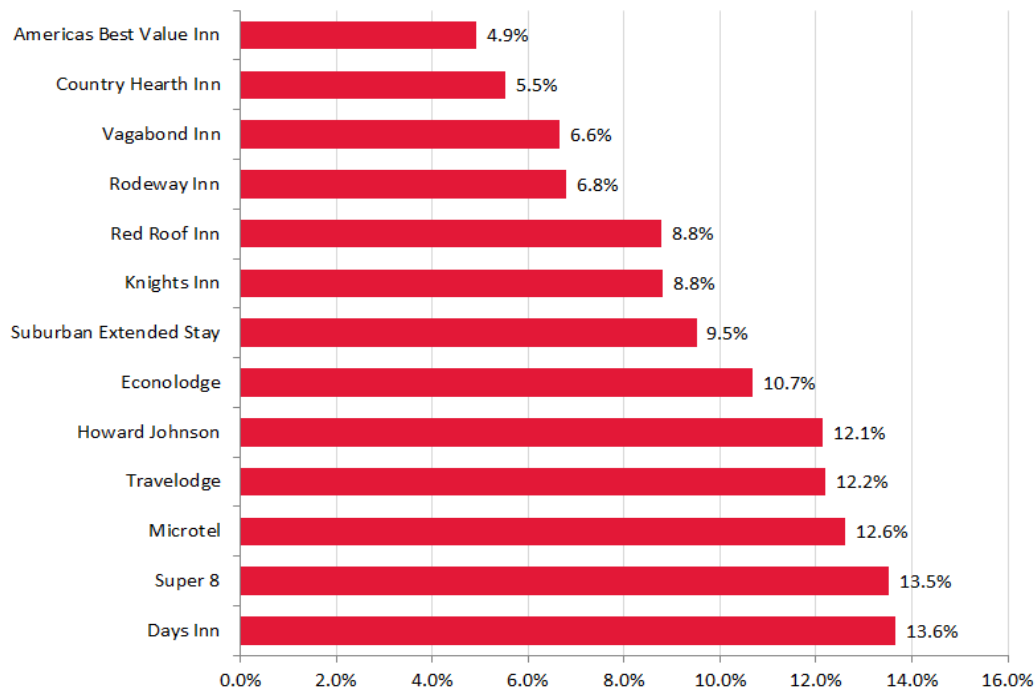
FRANCHISE COSTS ACROSS CHAIN SCALES

Franchise cost as a percentage of rooms revenue varies across hotel chain scales. The average *Economy* hotel franchise cost was 9.7%, while *Mid-Rate* was 11.0% and *First Class* was 11.9%. Given these variances, HVS compared each brand's total cost to rooms revenue by hotel chain scales to make fair brand comparisons.

ECONOMY

The 13 economy hotel brands that participated in this report had an average total franchise cost relative to rooms revenue of 9.7%.

Lowest Franchise Costs for Vantage Brands, Highest for Wyndham Brands



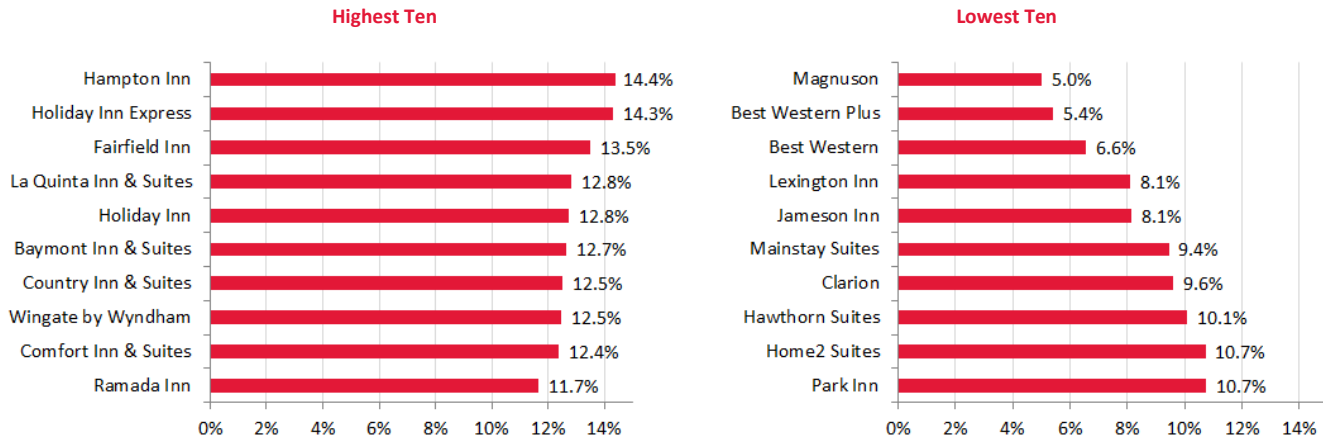
Among all asset classes, the *Economy* hotels averaged the smallest franchise cost relative to rooms revenue, as mentioned above. Americas Best Value Inn and Country Hearth Inn, both by Vantage, had the lowest franchise costs relative to rooms revenue; Days Inn and Super 8 by Wyndham had the highest. This percentage gap between brands is largely influenced by the loyalty fee percentage. Parent companies such as Choice and Wyndham have a greater loyalty participation rate that may result in a higher loyalty fee percentage. For example, Microtel by Wyndham, which has the third-largest franchise cost percentage, has the highest loyalty participation rate among all the economy brands surveyed. By contrast, Vantage does not charge any loyalty program fees but also has a less-significant loyalty participation rate among its franchised properties.

With a franchise cost of 9.5% of rooms revenue, the Suburban Extended Stay brand from Choice Hotels came in closest to the overall average of 9.7%. The brand represents the only extended-stay hotel franchise in the *Economy* chain scale.

MID-RATE BRANDS

Twenty-six *Mid-Rate* hotel brands participated in this study. The average franchise cost versus rooms revenue was 10.8% for the *Mid-Rate* chain scale, 1.1% higher than the average for the *Economy* category.

Hampton Inn & Holiday Inn Express Relatively Costly to Franchise among Mid-Rate Hotels



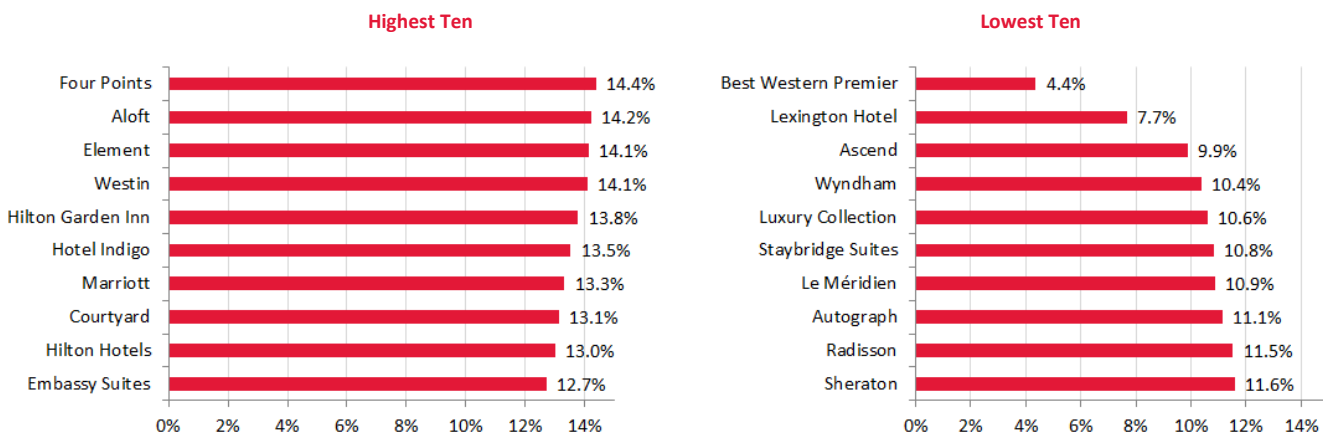
Among *Mid-Rate* hotels, Hampton Inn (Hilton) and Holiday Inn Express (InterContinental Hotels Group) exhibited the highest costs relative to rooms revenue; Magnuson, Best Western Plus, and Best Western had the lowest franchise costs percentage. The difference reflects the higher loyalty and marketing fee percentages charged by the more established hotel companies.

Three extended-stay brands—Mainstay Suites, Hawthorne Suites, and Home2 Suites by Hilton—had some of the lowest total franchise cost percentages, despite having some individual fee components with relatively high costs. For example, Home2 Suites by Hilton has the second-highest loyalty participation rates among all *Mid-Rate* hotels, yet maintains low franchise cost percentages.

FIRST-CLASS BRANDS

First-Class hotel brands exhibited the highest overall franchise cost percentage compared with brands in lower chain scales. Among the 27 *First-Class* brands that participated in this study, the average franchise cost to rooms revenue was 11.9%, which was 1.2% higher than that of *Mid-Rate* hotel brands.

Starwood Brands Show Highest Franchise Cost Percentage to Rooms Revenue



Four Points by Sheraton, Aloft, Element, and Westin—all Starwood brands—had the highest total cost percentage to rooms revenue in the *First-Class* hotel chain scale. This reflects, in part, Starwood’s impressive RevPAR and loyalty-program participation rate, which warrants the higher percentages.

Choice and Wyndham brands, which ranked high in the *Economy* hotel chain scale, rank among the lowest franchise cost percentages in the *First-Class* category. However, both Wyndham hotels and the Ascend brand by Choice have lower RevPAR levels than the other *First-Class* brands.

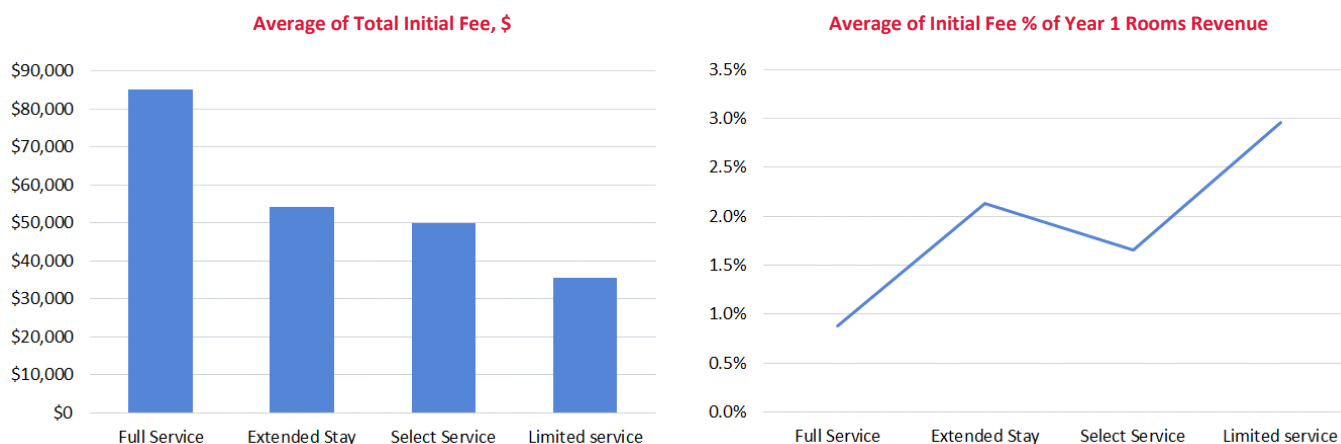
DESCRIPTIONS OF INDIVIDUAL FRANCHISE FEE COMPONENTS

The following section provides details on the various franchise fee components, including the initial fee; royalty, marketing, and loyalty fees; reservations fee; and miscellaneous fees.

INITIAL FEE

Typically, the initial fee takes the form of a minimum dollar amount based on a hotel’s room count. Because the initial fee is paid at the time the franchise application is submitted, HVS calculated the initial fee percentage against first-year rooms revenue, which is a product of Year One average rate (a base-year estimate grown by 2.0%) and occupancy (85% of the stabilized occupancy estimate). Total average initial fees were between \$5,000 and \$149,200, though fees can range beyond these figures depending on a given property’s total room count.

Full-Service Brands Exhibit Highest Average Total Initial Fee, Lowest as Percentage of First-Year Rooms Revenue

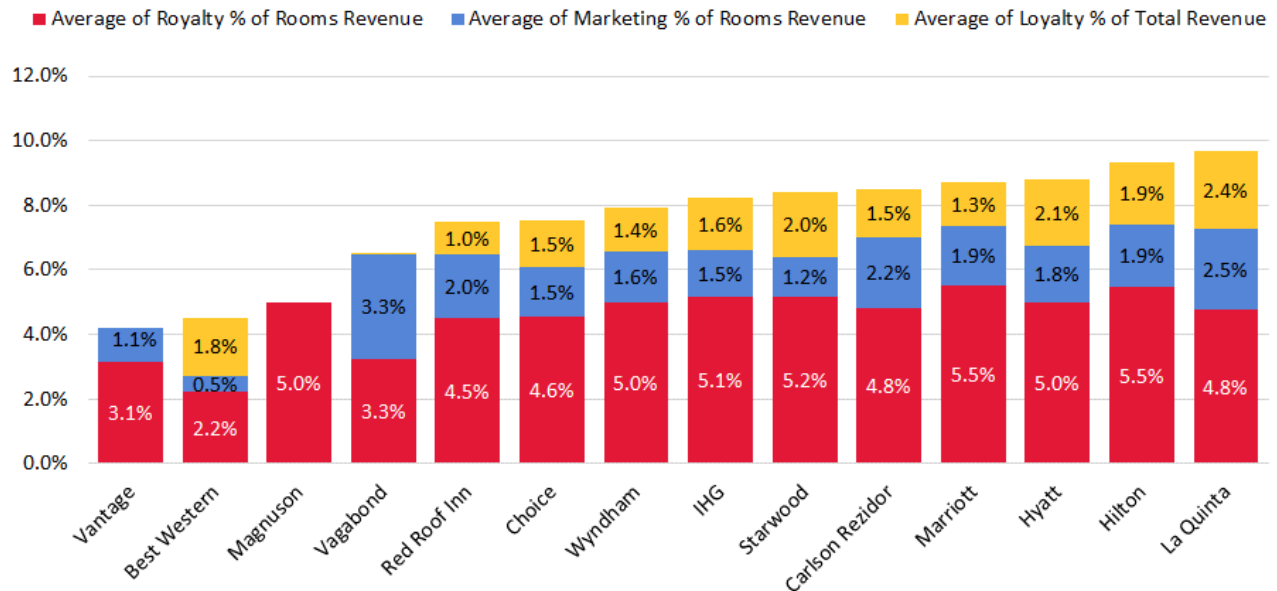


The graphs above illustrate how initial fees vary by hotel asset types. Essentially, more comprehensive hotel facilities are associated with a higher total initial fee. For example, full-service hotels’ total average initial fee in dollar terms was 1.4 times that of limited-service assets. However, the average initial fee percentage of first-year rooms revenue exhibits a contrary pattern. The limited-service initial fee percentage of first-year rooms revenue averaged 2.9%, versus 0.9% for the full-service brand. This indicates that even though the preliminary investment in the initial fee for full-service hotels may be higher, the returns in revenue can be much higher as well.

ROYALTY, MARKETING, AND LOYALTY FEES

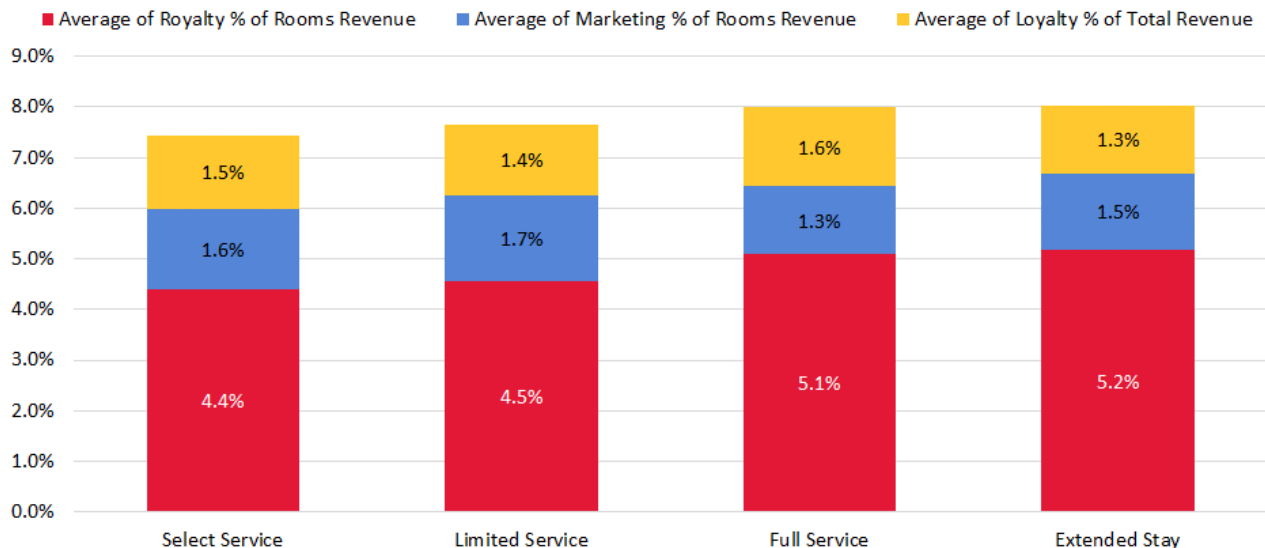
The majority of a brand’s ongoing franchise fee is composed of royalty fees, marketing fees, and loyalty fees. These are summarized in the following tables, which illustrate the corresponding royalty, marketing, and loyalty percentages of rooms revenue for various hotel companies and an average based on asset type.

Aggregate Fees by Hotel Company Indicate Royalty Consistencies, Marketing and Loyalty Discrepancies



Overall, the La Quinta brand had the highest fee percentages, while Vantage had the lowest. Magnuson and Vantage reportedly do not charge loyalty fees; hence, none was recorded for these brands. La Quinta and Hyatt brands had the highest loyalty fees. Hilton and Marriott reported figures that were nearly identical with the exception of average loyalty fees, in which Hilton surpassed Marriott levels.

Marketing and Loyalty Fees Consistent across Product Types

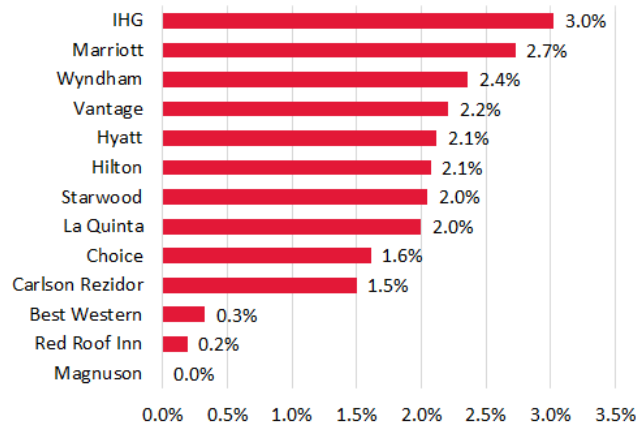


In terms of hotel product types, full-service and extended-stay hotels showed the greatest percentage of total fees; however, the variation among product types did not differ significantly. Average royalty fees ranged from 4.4% to 5.2% of rooms revenue; marketing fees ranged from 1.3% to 1.7%, and loyalty fees ranged from 1.3% to 1.6%.

RESERVATION (SALES) FEE

Typically, a hotel company will stipulate similar reservation or sales fees for all brands within its portfolio. While the amount per reservation channel may vary depending on the brand, the fee structure will likely remain similar. As such, we have reviewed total reservation fees on a company-by-company basis.

Brand Reservation Fees Range from Zero to 5.0 Percent of Rooms Revenue



As illustrated above, at 3.0%, IHG requires the largest reservation fee from its brands, whereas Red Roof Inn and Best Western require 0.2% and 0.3% reservation fees, respectively. The amount that a hotel company charges for its reservation fee heavily depends on the extent and methods it employs to support various reservation options for its branded properties across the globe. Reservation channels can include the brand's webpage, a reservation center, third-party online agencies (OTAs), and booking via the hotel directly.

It is interesting to note that in addition to reservation fees charged as a flat percent of rooms revenue (or per room), which varies by specific brand and is not discussed in detail in this report, specific fees are often stipulated for each reservation channel. These fees are typically reflected as a dollar amount, although are sometimes reflected as a percentage of revenue through the given channel. Moreover, unlike flat reservation fees, which vary by brand, these fees vary depending on the parent hotel company. The following chart clarifies the various charges per reservation channel for the participating parent companies, as reflected in their 2015 FDDs. We note that this does not comprise the entirety of any brand's "Reservation Fee," but does provide interesting information to how a hotel's reservation channels can affect the overall cost of a brand affiliation. It is also important to remain cognizant of the dollar amounts of these fees in the context of each brand's RevPAR.

Reservation Fees by Channel Vary by Parent Company

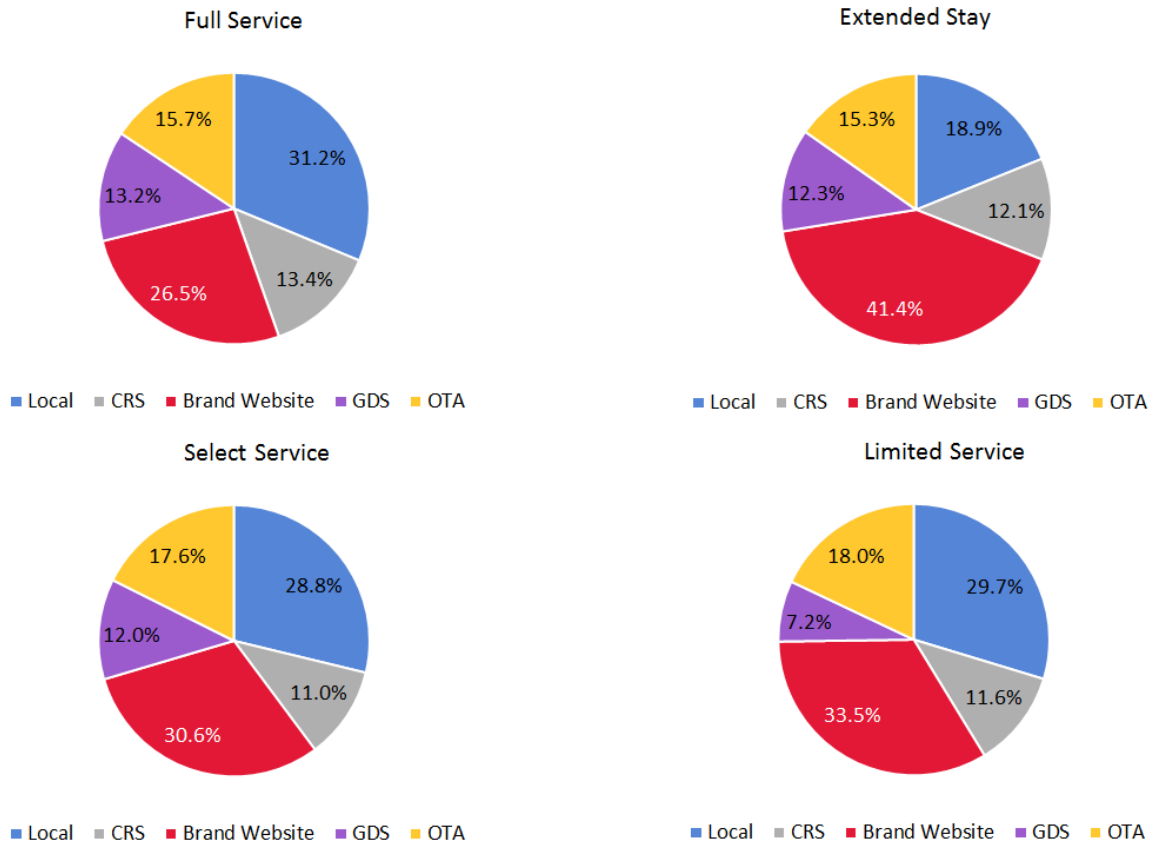
Parent Company	Fees - CRS	Fees - Brand	Fees - GDS	Fees - OTA (\$)	Fees - OTA(%)
Best Western			\$7.70	\$2.82	
Carlson Rezidor	--	--	--	--	--
Choice			\$6.75	\$0.09	
Hilton		\$0.18	\$4.65		
Hyatt			\$7.10		
IHG			\$6.81		10.0%
La Quinta	--	--	--	--	--
Marriott					12.5%
Magnuson	--	--	--	--	--
Red Roof Inn		\$3.00	\$6.00		
Starwood	\$4.00	\$2.65	\$5.50	\$2.65	
Vantage	\$6.00	\$6.50	\$6.00		10.0%
Wyndham			\$6.55	\$5.55	

* Fees charged by percentage of rooms revenue are not included in the chart above

** Vagabond is not represented here because the company did not disclose the breakdown of fees

The following charts illustrate the reservation channel breakdown for a given product type. Each brand reported its various breakdowns of total reservations by the channels discussed in this report. The data were compiled and presented on a product-type basis.

Website and Onsite Bookings Most Prominent Reservation Channels

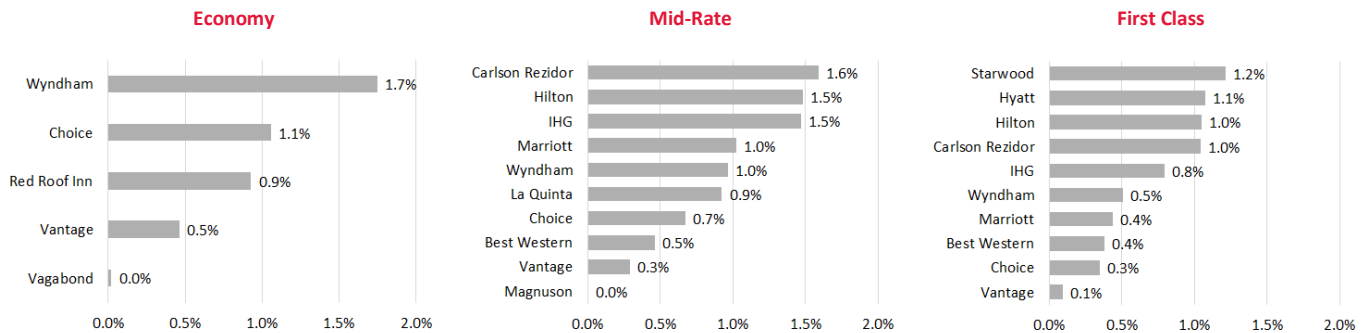


Across product types, direct website reservations typically comprised the largest portion of total reservations. “Local” designation includes any reservations made at the property, which could include walk-ins and meeting/group reservations sold on site. As such, the large distribution of “Local” bookings at full- and select-service hotels (which feature larger function space) is appropriate. OTA reservations were highest at limited- and select-service hotels. GDS channels were utilized most at full-service hotels and least at limited-service hotels.

MISCELLANEOUS FEES

Similar to reservation fees, a hotel company will stipulate miscellaneous fees for all brands within its portfolio. As such, miscellaneous fees were reviewed on a hotel-company basis, and then each hotel companies' brands were divided by chain scale. The following chart illustrates average miscellaneous fees for each hotel company's portfolio of brands within the *Economy*, *Mid-Rate*, and *First-Class* categories.

Miscellaneous Fees Most Prominent at Mid-Rate and First-Class Brands



Miscellaneous fees can represent many different items that support a hotel's operation, as previously discussed. *Mid-Rate* hotels have the greatest number of brands with miscellaneous fee percentages tied to rooms revenue. By contrast, miscellaneous services are rarely mandatory for *Economy* brands.

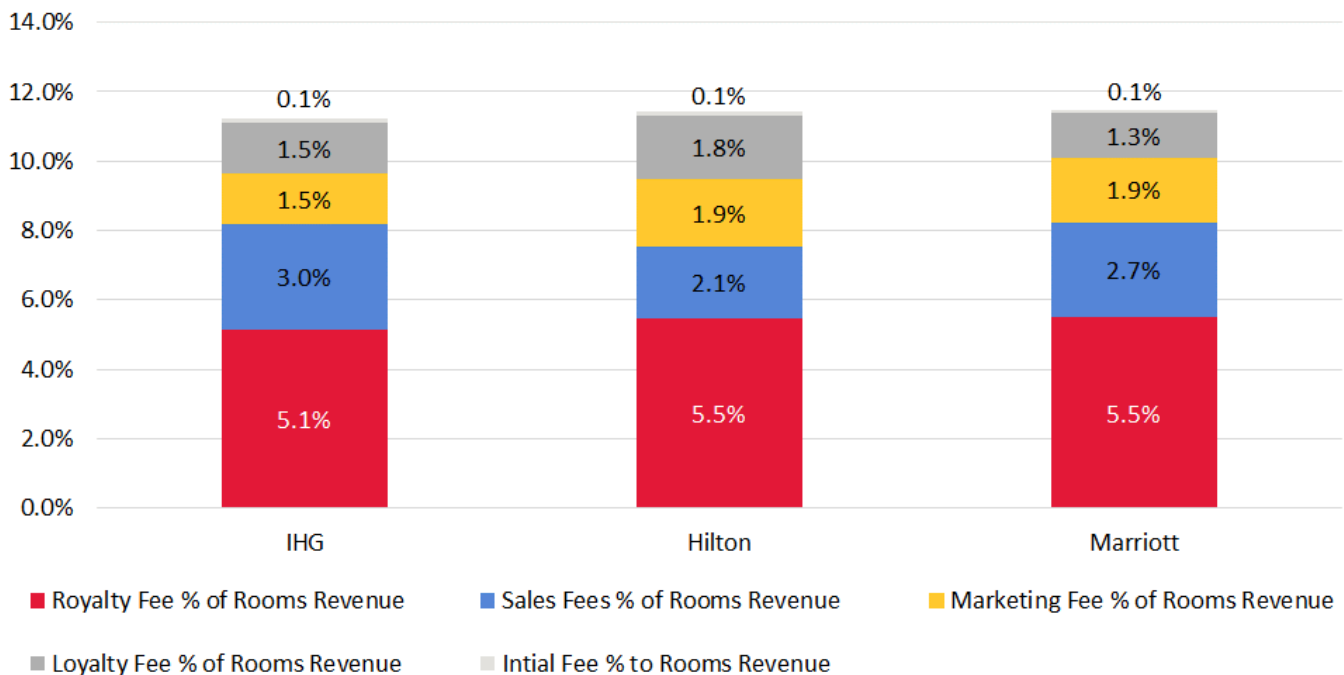
Takeaways per Brand or Hotel Company

The following section of this report provides HVS insights into data provided by select hotel companies. Preferred Hotels & Resorts, Leading Hotels of the World, and Small Luxury Hotels are discussed in a subsequent section of this report.

HILTON, INTERCONTINENTAL HOTELS GROUP (IHG), AND MARRIOTT

Because Hilton, IHG, and Marriott have portfolios with similar brand distributions among chain scales and franchise fee costs, these companies' franchise fee data sets have been reviewed together. Starwood is not part of this analysis because the company only has *First-Class* brands, whereas Hilton, IHG, and Marriott have a similar mix of *First-Class* and *Mid-Rate* brands.

Royalty & Sales Fees Most Prominent for Hilton, IHG, and Marriott Brands



Hilton and Marriott reported identical royalty and marketing fees (as a percentage to rooms revenue); IHG reported a slightly lower percentage for both fees. IHG had the highest sales fees percentage, and Hilton had the lowest among the three. All three brands reported a low 0.1% initial fee. Overall, IHG shows lower fees as a percentage of rooms revenue than Hilton and Marriott.

The following section provides brief insights into franchise fee policies by hotel brand, exclusive of Marriott, IHG, and Hilton.

Best Western: Best Western reported relatively low franchise costs, overall. Royalty, marketing, reservation, and miscellaneous fees as a percentage to rooms revenue were one of the lowest among the surveyed hotel companies.

Carlson Rezidor: Compared to other large hotel companies, Carlson Rezidor reported relatively low overall franchise costs as a percentage to rooms revenue. The company's royalty and reservation fees ranked especially low, with the marketing fee percentage slightly higher than similar brands.

Choice: Choice's *Economy* brands require higher fees compared with others in the same chain scale, but the company's *Mid-Rate* and *First-Class* brands boast relatively lower fees. Among the *Economy* brands surveyed, Choice reported the highest loyalty participation rate.

Hyatt: Both Hyatt Place and Hyatt House are categorized as *First-Class* chains, and both reported franchise costs similar to those of Hilton, IHG, and Marriott.

La Quinta: La Quinta offers a lower royalty fee percentage than similar brands but charges higher loyalty and marketing fees. La Quinta also reported the third-highest loyalty participation rate (after Marriott and Hilton) among *Mid-Rate* brands.

Magnuson: Apart from its initial fees, Magnuson charges only 5% for royalty fee and requires no other franchise fees for marketing, loyalty, reservation, or miscellaneous services. Hence, Magnuson's franchise fees ranked among the lowest as a percentage of rooms revenue.

Starwood: Starwood's overall portfolio ranked among the strongest in terms of RevPAR and loyalty participation rate among all brands surveyed. The company displayed a fairly high loyalty fee percentage to rooms revenue but a reasonable fee percentage for all the other franchise costs.

Vagabond: Vagabond reported both marketing and loyalty fees of 3.3% of rooms revenue; other fees appear minimal, making Vagabond's total cost to rooms revenue one of the lowest among all brands. Moreover, the brand's total cost to rooms revenue was below average in the *Economy* hotel chain scale.

Vantage: Overall, Vantage's franchise costs as a percentage of rooms revenue were fairly low, but the company's reservation-fee percentage fell in a higher range among brands surveyed. The company does not charge any loyalty fees to hotels for the reservations made by loyalty members.

Red Roof Inn: The brand's total cost to rooms revenue fell below average for its *Economy* chains. Red Roof Inn also reported a slightly higher RevPAR and loyalty participation rate than the average of participating *Economy* hotels.

Wyndham: Wyndham's *Economy* brands charge higher fees compared with others in the same chain scale; its total cost percentage to rooms revenue among Mid-Rate hotels fell close to the average, and the company's *First-Class* hotels boasted lower fees than other brands in the same chain scale.

Independent Brands Comparison

In addition to the more traditional franchise structure that is the focus of this study, HVS reviewed some hotel companies that offer “independent” brands, which differ from the typical franchise model in terms of fee structure, overall cost, and operational support.

Such hotel companies offer a flexible option for owners who look to maintain the independent positioning of their property but affiliate with a group boasting national or international recognition and corporate accounts. The properties that comprise these “independent” portfolios are typically first-class, full-service hotels, often with a smaller guestroom inventory than the norm. Independent hotel companies do significant business overseas, where independent hotel operation has historically remained more prevalent than the franchise model; however, we note that our analysis only reviews U.S. operations.

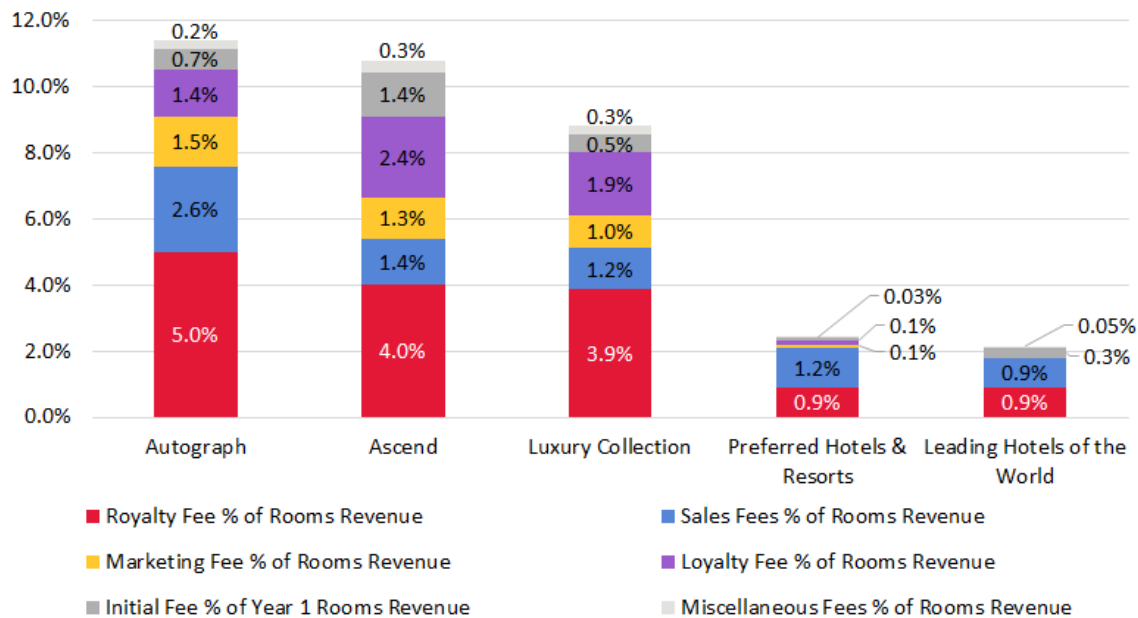
One of the largest discrepancies between independent hotels and the traditional franchise model is the application of fees toward revenues. While a typical franchise applies stipulated fees toward total rooms revenue, independent hotel companies only apply fees toward reservations that stream through their channels. This is typically a reduced portion of total reservations, which can vary greatly per hotel depending on the product or market type (e.g., resort-style hotels, urban markets). However, the overall “franchise” cost to an owner for an independent hotel would take into account only those reservations and revenues derived from the independent hotel company.

As illustrated below, the overall costs as a portion of revenues are relatively reduced for independent hotels. These companies exert less control over design and conformity; they also exert less support for national or international reservations and marketing, as well as guest loyalty programs. The looser structure of these agreements (which typically span five years, compared with ten or twenty for a more traditional franchise) is a marked appeal as a possible alternative to the typical franchise model.

HVS's attempts to garner involvement from other independent brands were relatively unsuccessful. Some hotels operating under independent brands do not report overall performance to parent companies, so no aggregate data were available for the analysis. The following table displays information for two independent brands with aggregate U.S. data available.

Total Franchise Cost Ratios for Independent Brands Remain Low

Company	Total Cost to Rooms Revenue	Royalty Fee to Rooms Revenue	Reservation Fee to Room Revenue	Marketing Fee to Rooms Revenue	Loyalty Fee to Rooms Revenue	Initial Fee to 1st year Rooms Revenue	Miscellaneous Fees to Rooms Revenue
Leading Hotels of the World	1.5%	0.5%	0.9%	0.0%	0.0%	0.3%	0.05%
Luxury Collections of Preferred Hotels & Resorts in North America	1.9%	0.7%	1.2%	0.1%	0.1%	0.1%	0.03%
Preferred Hotels & Resorts	2.2%	0.9%	1.2%	0.1%	0.1%	0.1%	0.03%

“Collection” Franchises versus Independent Brands: Higher Costs for Wider Array of Benefits

As consumer preferences evolve and as the “boutique hotel” emerges as an attractive, authentic experience for travelers, the independent (or perceived as independent) hotel is likely a product type that will continue to rise in popularity in the United States. With more hotels maintaining unique styles and marketing as independent, the option of a more flexible, short-term agreement with an independent hotel company would be expected to appeal to owners and operators in the years to come.

Conclusion

This study has reviewed the various costs of prominent national hotel franchise brands in the context of each brand’s historical performance. By applying these various costs to historical data, realistic expectations of how franchise costs compare to total revenues can be derived. Further analysis of the data provides insight on how costs range across product types and asset classes.

The franchise model, and the reputation a franchise’s name reflects on the individual hotel properties that bear it, has historically been an important factor in the operation of hotels, as well as the financing of their development or operation, throughout the United States. Yet as consumer tastes evolve, identifiable characteristics of a given brand may no longer be as relevant to today’s traveler. As such, hotel companies continue to expand and reposition their brand portfolios to match traveler preferences.

In this climate, owners and operators should select a brand based not only on consumer-oriented positioning, but should remain well informed about the various costs a franchise affiliation would incur. Hoteliers also need to be well aware of the depth to which a franchise agreement can provide a hotel with recognition, operational support, return on investment, and success.

Contact Us

HVS’s depth of knowledge of both the franchise market and the benefits and costs of the myriad options of brands today remains a useful tool to owners and operators. HVS can apply that knowledge and experience in assisting clients with brand selection. To ensure that your company continues to be at the forefront of franchise model knowledge, contact HVS with any queries. For more information on HVS’s methodology and this study, please reach out to Ms. Bomie Kim. For information on feasibility studies, cost/benefit analyses, or rebranding studies, please contact Ms. Kasia Russell, MAI. Contact information is provided on the following page.



About HVS

HVS, the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrated its 35th anniversary in 2015. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and more than 500 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. HVS.com

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Appendix

The following tables display the total cost, and breakdown by component, of each brand. These ratios are depicted as a percentage of rooms revenue. For those brands that stipulate Food & Beverage Royalty Fees, the Total Cost to Total Revenue has been included, which shows the total franchise cost over total revenue (incorporating the additional—typically significant—portion of food and beverage revenue for those brands).

Company	Brand	Total Cost to Rooms Revenue	Royalty Fee to Rooms Revenue	Marketing Fee to Rooms Revenue	Loyalty Fee to Rooms Revenue	Initial Fee to 1st year Rooms Revenue	Miscellaneous Fees to Rooms Revenue	Total Cost to Total Revenue
Best Western	Best Western	5.0%	3.0%	0.6%	0.2%	3.6%	0.5%	–
Best Western	Best Western Plus	3.8%	2.2%	0.5%	0.2%	2.6%	0.4%	–
Best Western	Best Western Premier	2.8%	1.5%	0.4%	0.2%	1.7%	0.4%	–
Carlson Rezidor	Country Inn & Suites	12.5%	5.0%	2.5%	1.7%	3.5%	1.8%	–
Carlson Rezidor	Park Inn	10.7%	4.5%	2.0%	1.5%	1.3%	1.4%	–
Carlson Rezidor	Radisson	11.5%	5.0%	2.0%	1.4%	1.6%	1.0%	–
Choice	Ascend	9.9%	4.0%	1.3%	2.8%	1.4%	0.3%	–
Choice	Clarion	9.6%	4.3%	1.6%	1.2%	2.4%	0.5%	–
Choice	Comfort Inn & Suites	12.4%	5.7%	1.9%	1.8%	3.6%	0.6%	–
Choice	Econo Lodge	10.7%	4.5%	1.8%	1.0%	4.9%	1.2%	–
Choice	Mainstay Suites	9.4%	5.0%	1.3%	1.0%	2.3%	0.6%	–
Choice	Quality Inn & Suites	11.5%	4.7%	1.9%	1.7%	3.5%	0.8%	–
Choice	Rodeway Inn	6.8%	3.4%	0.7%	0.9%	3.1%	1.4%	–
Choice	Sleep Inn	11.6%	4.7%	1.9%	1.8%	3.8%	0.8%	–
Choice	Suburban Extended Stay	9.5%	5.0%	1.3%	1.0%	2.8%	0.6%	–
Hilton	DoubleTree Hotels	12.5%	5.0%	2.0%	1.8%	0.9%	1.3%	–
Hilton	Embassy Suites	12.7%	5.5%	2.0%	2.2%	0.9%	0.8%	–
Hilton	Hampton Inn	14.4%	6.0%	2.0%	2.7%	3.0%	1.2%	–
Hilton	Hilton Garden Inn	13.8%	5.5%	2.2%	2.7%	1.8%	0.7%	–
Hilton	Hilton Hotels	13.0%	5.8%	2.0%	1.6%	0.8%	1.0%	10.2%
Hilton	Home2 Suites	10.7%	5.0%	1.5%	1.1%	2.7%	1.8%	–
Hilton	Homewood Suites	12.3%	5.5%	1.8%	1.6%	2.1%	1.4%	–
Hyatt	Hyatt House	12.1%	5.0%	1.8%	2.3%	1.2%	0.9%	–
Hyatt	Hyatt Place	12.1%	5.0%	1.8%	1.8%	1.4%	1.2%	–
IHG	Candlewood Suites	11.6%	5.0%	1.3%	1.2%	2.8%	1.8%	–
IHG	Crowne Plaza	12.5%	5.0%	1.5%	1.5%	1.1%	0.9%	–
IHG	Holiday Inn	12.8%	5.0%	1.5%	1.8%	1.3%	1.2%	–
IHG	Holiday Inn Express	14.3%	6.0%	1.5%	2.4%	2.4%	1.4%	–
IHG	Hotel Indigo	13.5%	5.0%	1.8%	1.7%	1.6%	1.0%	–
IHG	InterContinental Hotels	11.7%	5.0%	1.5%	1.5%	0.4%	0.4%	–
IHG	Staybridge Suites	10.8%	5.0%	1.3%	1.2%	1.7%	0.9%	–
La Quinta	La Quinta Inn & Suites	12.8%	4.8%	2.5%	2.4%	3.1%	0.9%	–
Leading Hotels of the World	Leading Hotels of the World	1.5%	0.5%	0.0%	0.0%	0.3%	0.0%	–

*Best Western charges a 5% membership fee for properties that have joined the company since 2015

Company	Brand	Total Cost to Rooms Revenue	Royalty Fee to Rooms Revenue	Marketing Fee to Rooms Revenue	Loyalty Fee to Rooms Revenue	Initial Fee to 1st year Rooms Revenue	Miscellaneous Fees to Rooms Revenue	Total Cost to Total Revenue
Magnuson	Magnuson	5.0%	5.0%	0.0%	0.0%	0.2%	0.0%	–
Marriott	Autograph	11.1%	5.0%	1.5%	1.8%	0.7%	0.2%	–
Marriott	Courtyard	13.1%	5.5%	2.0%	1.6%	1.8%	0.5%	–
Marriott	Fairfield Inn	13.5%	5.0%	2.5%	1.1%	2.4%	1.5%	–
Marriott	Marriott	13.3%	6.9%	1.0%	1.8%	0.9%	0.4%	10.2%
Marriott	Renaissance	11.8%	5.6%	1.5%	1.6%	0.9%	0.6%	9.1%
Marriott	Residence Inn	11.7%	6.0%	2.5%	0.9%	1.9%	0.4%	–
Marriott	SpringHill Suites	12.1%	5.0%	2.5%	1.1%	1.6%	0.5%	–
Marriott	TownePlace Suites	11.4%	5.0%	1.5%	0.7%	2.2%	0.6%	–
Preferred Hotels & Resorts	Preferred Hotels & Resorts	2.2%	0.9%	0.1%	0.1%	0.1%	0.0%	–
Red Roof Inn	Red Roof Inn	8.8%	4.5%	2.0%	1.0%	2.4%	0.9%	–
Starwood	Aloft	14.2%	5.5%	1.4%	2.3%	1.3%	2.2%	–
Starwood	Element	14.1%	5.5%	1.4%	2.4%	1.3%	2.3%	–
Starwood	Four Points	14.4%	5.5%	1.4%	2.0%	1.5%	2.5%	–
Starwood	Le Méridien	10.9%	4.5%	1.0%	2.1%	0.6%	0.4%	9.0%
Starwood	Luxury Collection	10.6%	3.9%	1.0%	1.9%	0.5%	0.3%	7.6%
Starwood	Sheraton	11.6%	5.3%	1.0%	1.6%	1.1%	0.4%	9.4%
Starwood	Westin	14.1%	6.1%	1.3%	1.9%	1.1%	0.4%	10.8%
Vagabond Inn	Vagabond Inn	6.6%	3.3%	3.3%	0.0%	1.3%	0.0%	–
Vantage	Americas Best Value Inn	4.9%	1.6%	1.1%	0.0%	1.6%	0.4%	–
Vantage	Country Hearth Inn	5.5%	2.1%	1.2%	0.0%	1.7%	0.5%	–
Vantage	Jameson Inn	8.1%	4.0%	1.3%	0.0%	2.3%	0.3%	–
Vantage	Lexington Hotel	7.7%	4.0%	0.7%	0.0%	1.1%	0.1%	–
Vantage	Lexington Inn	8.1%	4.0%	1.0%	0.0%	1.9%	0.2%	–
Wyndham	Baymont Inn & Suites	12.7%	5.0%	2.0%	1.7%	2.8%	1.6%	–
Wyndham	Days Inn	13.6%	5.5%	1.9%	1.5%	4.0%	1.8%	–
Wyndham	Hawthorn Suites	10.1%	5.0%	1.3%	1.2%	2.4%	0.7%	–
Wyndham	Howard Johnson	12.1%	4.5%	2.0%	1.2%	3.2%	1.4%	–
Wyndham	Knights Inn	8.8%	5.0%	0.0%	0.4%	1.7%	1.9%	–
Wyndham	Microtel	12.6%	6.0%	1.0%	2.0%	4.2%	1.6%	–
Wyndham	Ramada Inn	11.7%	4.5%	2.0%	1.4%	1.8%	0.7%	–
Wyndham	Super 8	13.5%	5.5%	1.5%	1.7%	3.7%	2.3%	–
Wyndham	Travelodge	12.2%	4.5%	2.0%	1.1%	3.6%	1.6%	–
Wyndham	Wingate by Wyndham	12.5%	4.5%	2.0%	2.0%	2.2%	0.9%	–
Wyndham	Wyndham	10.4%	5.0%	1.5%	0.8%	0.7%	0.5%	–