

PREFERRED HOTELS & RESORTS®

SUMMARY

Using data provided by STR Analytics, HVS evaluated the performance of the 72 hotels affiliated with Preferred Hotels & Resorts (PHR) in North America. The study focused on the performance of the PHR hotels over the period from 2015 through 2017 to assess the success of the properties participating actively with PHR affiliation benefits. The performance of the PHR hotels was measured against the identified competitive hotels as defined within the STR report; hereafter, these hotels will be identified as “peer properties.” Data reflecting the overall performance of the U.S. Lodging Industry were also considered, as were statistics for the 25 largest lodging markets in the U.S. (known as the “Major Markets”), as defined by STR.

MARKET CLASSIFICATION

In our analysis, we have categorized PHR hotels and peer properties into three different groups, whose definitions were both agreed upon by PHR and HVS jointly.

- Group 1: Hotels in primary markets
 - *Example cities: New York, San Francisco, Boston, Los Angeles, etc.*
- Group 2: Hotels in secondary and tertiary markets
 - *Example cities: Denver, Nashville, Detroit, New Orleans, etc.*
- Group 3: Resort hotels
 - *Example cities: Vail, Laguna Beach, Pebble Beach, etc.*

THE PEER PROPERTIES

For the purposes of this study, the peer properties (aggregated competitive properties) comprise the competitive sets belonging to each PHR hotel’s individual monthly STAR report. In aggregate, 59% of these hotels (64% of the room inventory) are affiliated with a national hotel chain. Most of the peer properties in Group 1 and Group 3 are classified as luxury or upper-upscale by STR; the set includes hotels affiliated with Four Seasons, Ritz-Carlton, St. Regis, Mandarin Oriental Hotels, Hilton, and Marriott as well as numerous iconic hotels and resorts. We note that some peer properties in Group 3 are affiliated with soft brands such as Curio by Hilton or Autograph Collection by Marriott. Group 1 hotels are located in large urban markets, catering to high-end transient travelers, as well as high-end groups. The peer properties in Group 2 are much more varied, with a large range in the size of the overall market; these hotels fall into all categories. Group 3 hotels located in the markets with beaches and resort amenities.

**STABLE REVPAR
GROWTH: 2015–2017**

For all three groups, the performance of the PHR hotels generally outpaced the performance of the peer properties and that of the “Major Markets” and overall U.S. Lodging Industry during the period shown. The PHR hotels recorded strong, positive trends in both the amount and the pace of RevPAR growth. In each group, the overall RevPAR penetration levels achieved by the PHR hotels surpassed 100% during the three-year period, with RevPAR registering higher than the peer properties in each group, as illustrated below. The total RevPAR increase during the three-year period shown is highest for the PHR properties.

FIGURE 1 OVERALL REVPAR PERFORMANCE

| | 2015 | 2016 | 2017 | Percentage Change | | |
|---|-----------------|-----------------|-----------------|-------------------|-------------|----------------|
| | | | | Total | AACG* | Total Increase |
| Primary Markets | | | | | | |
| Preferred Hotels & Resorts | \$242.12 | \$245.71 | \$249.87 | 3.2% | 1.6% | \$7.74 |
| Peer Properties | \$230.92 | \$232.11 | \$236.98 | 2.6% | 1.3% | \$6.07 |
| <i>PHR Hotels Penetration vs. Peer Properties</i> | 104.9% | 105.9% | 105.4% | | | |
| Secondary and Tertiary Markets | | | | | | |
| Preferred Hotels & Resorts | \$118.92 | \$120.15 | \$125.73 | 5.7% | 2.8% | \$6.81 |
| Peer Properties | \$111.12 | \$112.08 | \$116.59 | 4.9% | 2.4% | \$5.47 |
| <i>PHR Hotels Penetration vs. Peer Properties</i> | 107.0% | 107.2% | 107.8% | | | |
| Resort Markets | | | | | | |
| Preferred Hotels & Resorts | \$199.55 | \$204.38 | \$212.13 | 6.3% | 3.1% | \$12.58 |
| Peer Properties | \$194.94 | \$198.40 | \$202.74 | 4.0% | 2.0% | \$7.81 |
| <i>PHR Hotels Penetration vs. Peer Properties</i> | 102.4% | 103.0% | 104.6% | | | |

REPORT HIGHLIGHTS

Group 1 – Primary Markets

On average, the growth in overall RevPAR for the PHR properties in primary markets was strong over the last three years, driven primarily by the high average rates achieved in the transient segment. The transient segment is the largest demand source for PHR hotels within this group, and average rates for this segment at PHR properties grew 7.4% in the last three years by maintaining higher rates than the peer properties, as illustrated below.

FIGURE 2 AVERAGE-RATE PERFORMANCE: TRANSIENT SEGMENT

| | 2015 | 2016 | 2017 | Percent Change | Amount |
|----------------------------|---------------|---------------|---------------|----------------|---------|
| Preferred Hotels & Resorts | \$347.42 | \$378.96 | \$373.04 | 7.4% | \$25.62 |
| Peer Properties | \$296.22 | \$297.32 | \$302.33 | 2.1% | \$6.11 |
| Penetration | 117.3% | 127.5% | 123.4% | | |

Source: STR Analytics

Group 2 – Secondary and Tertiary Markets

We evaluated the segmentation for the hotels in secondary markets, as well. In the transient segment, the RevPAR penetration levels of PHR properties reached over 100%, growing continuously from 2015 through 2017. We note that the above-market RevPAR levels were achieved at PHR properties by both occupancy and average-rate increases during those years.

FIGURE 3 TRANSIENT SEGMENT REVPAR PERFORMANCE

| | 2015 | 2016 | 2017 | Percent Change (2015 -2017) | Amount |
|----------------------------|---------------|---------------|---------------|-----------------------------|--------|
| Preferred Hotels & Resorts | \$77.82 | \$78.02 | \$82.74 | 6.3% | \$4.92 |
| Peer Properties | \$68.58 | \$69.51 | \$74.84 | 9.1% | \$6.26 |
| Penetration | 113.5% | 112.2% | 110.5% | | |

Source: STR Analytics

Group 3 – Resort Markets

Most properties in resort markets focus on two segments: transient and group. We analyzed the performance of the PHR hotels compared to the performance of the peer properties. PHR hotels in resort markets outperformed their peer properties in both occupancy and average rate in the transient segment. Additionally, their occupancy and average-rate growth rates outpaced those of the peer properties. This above-market performance indicates a strong capture of high-rated transient demand at the PHR hotels.

FIGURE 4 RESORT-MARKETS PERFORMANCE: TRANSIENT SEGMENT

| | 2015 | 2016 | 2017 | Change: 2015 - 2017 | | |
|--|-------------|-------------|-------------|---------------------|--------------|-------------------|
| | | | | Ave Ann Cmpd Growth | Total Change | Absolute Increase |
| Preferred Hotels & Resorts Properties | | | | | | |
| Occupancy Points* | 37.5 % | 38.4 % | 38.7 % | 1.0 % | 3.1 % | 1.2 pts |
| Change | 3.2 % | 2.4 % | 0.7 % | | | |
| Occupancy Penetration | 101.6 | 104.2 | 103.2 | | | |
| Average Rate** | \$346.49 | \$347.92 | \$362.99 | 1.6 % | 4.8 % | \$16.50 |
| Change | 1.8 % | 0.4 % | 4.3 % | | | |
| Average Rate Penetration | 104.5 | 102.1 | 105.0 | | | |
| RevPAR | \$130.05 | \$133.75 | \$140.52 | 2.6 % | 8.1 % | \$10.48 |
| Change | 5.0 % | 2.8 % | 5.1 % | | | |
| RevPAR Penetration | 106.2 | 106.3 | 108.3 | | | |
| | 2015 | 2016 | 2017 | | | |
| Aggregate Peer Properties | | | | | | |
| Occupancy Points* | 36.9 % | 36.9 % | 37.5 % | 0.5 % | 1.6 % | 0.6 pts |
| Change | 0.2 % | (0.1) % | 1.7 % | | | |
| Average Rate** | \$331.58 | \$340.92 | \$345.74 | 1.4 % | 4.3 % | \$14.16 |
| Change | 4.9 % | 2.8 % | 1.4 % | | | |
| RevPAR | \$122.48 | \$125.78 | \$129.75 | 1.9 % | 5.9 % | \$7.27 |
| Change | 5.1 % | 2.7 % | 3.2 % | | | |

**Data reflects occupancy points derived from the Transient Segment*
***Average rate reflects average for transient room nights.*

Source: STR Analytics

We also analyzed the performance of the group segment for the properties in resort markets. On a dollar-basis amount, PHR hotels in resort markets achieved higher average rates than the peer properties.

FIGURE 5 AVERAGE-RATE PERFORMANCE: GROUP SEGMENT

| | 2015 | 2016 | 2017 |
|----------------------------|----------|----------|----------|
| Preferred Hotels & Resorts | \$263.87 | \$263.33 | \$267.75 |
| Peer Properties | \$236.79 | \$244.91 | \$249.16 |
| Penetration | 111% | 108% | 107% |

Source: STR Analytics

**COST-BENEFIT
CONSIDERATIONS**

Finally, we analyzed the affiliation cost of the average peer property compared to the PHR hotel. The traditional franchise fees continue to rise. PHR affiliation fees remain as the lowest costs of any brand according to the 2016/2017 HVS Franchise Fee Guide. We reviewed HVS's data sources to compare different franchise fees charged by major brands in the U.S. For the purposes of this analysis, we have considered only the royalty fees and the marketing, advertising, and reservation fees; the latter three have been combined to facilitate this comparison. In aggregate, the total fees payable under a PHR affiliation equal 1.4% of rooms revenue, less than 20% of the average for the identified first-class brands.

FIGURE 6 AFFILIATION COSTS, AS A PERCENTAGE OF TOTAL ROOMS REVENUE

| | Royalty Fees to Rooms Revenue | Marketing Fees to Rooms Revenue | Reservation Fees to Rooms Revenue | Loyalty Fees to Rooms Revenue | Total |
|---------------------------------------|--|--|--|--|--------------|
| Full-Service First-Class Brands * | 3.9% - 6.9% | 1.0% - 2.5% | 1.1% - 4.0% | 0% - 5.0% | 6% - 18.4% |
| <i>Average</i> | <i>5.4%</i> | <i>1.6%</i> | <i>2.3%</i> | <i>4.0%</i> | <i>13.3%</i> |
| All First-Class Brands ** | 2.5% - 6.9% | 0.0% - 2.5% | 0.3% - 4.0% | 0.0% - 5.0% | 2.8% - 18.4% |
| <i>Average</i> | <i>5.2%</i> | <i>1.5%</i> | <i>2.0%</i> | <i>3.74%</i> | <i>12.4%</i> |
| Preferred Hotels & Resorts | 0.4% | 0.1% | 0.8% | 0.1% | 1.4% |

**Includes Marriott, Hilton, Hyatt, and InterContinental Hotels Group brands*
***Includes all Luxury, Upper-Upscale and Upscale brands*

Source: HVS (2016/2017 Franchise Fee Guide)