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# 2007 U.S. Hotel Franchise Fee Guide

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The purpose of this U.S. Hotel Franchise Fee Guide, prepared by HVS, is to provide a comparative review of various hotel franchise brands based on the applicable franchise fees. The selection of an appropriate franchise affiliation affects a property's ability to compete in the local market, generate profits, achieve a certain image or market orientation, and benefit from referral business. Because the success of a hotel is primarily based on the cash flows it generates, owners and lenders must weigh the benefits of a brand affiliation against the total cost of such a commitment. We note that the fees outlined herein apply only to hotels operating in the United States.

## **Types of Hotel Franchise Fees**

Brand attributes play a crucial role in an investor's decision to acquire or change a 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 represent one of 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, good will, marketing, and referral and reservation systems. Franchise fees normally include an initial fee with the franchise application, plus continuing fees paid periodically throughout the term of the agreement.

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 \$45,000 and a hotel with 200 rooms would pay \$60,000. 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 the case of the reflagging of 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 keep a portion, approximately 5% to 20%, to cover the cost of reviewing the application.

Converting the affiliation of an existing hotel may require the purchase of towels, brochures, operating supplies, and paper items imprinted with the national franchisor's logos. The potential affiliate may have to undertake property refurbishment or renovation (ranging from laying a higher-grade carpet to enclosing a property's exterior corridors). Both new franchises and conversions also pay for the cost of signage. Some franchisors require the operator to pay a property improvement plan fee. Although these potential costs are not quantified in our study, they must be considered when measuring the costs and benefits of an affiliation. Requirements of this kind vary from brand to brand.

## **Continuing Fees**

Payment of continuing franchise fees commences when the hotel assumes the franchise affiliation, and are usually paid monthly over the term of the agreement. Continuing fees generally include a royalty fee, an advertising or marketing contribution fee, and a reservation fee. In addition, continuing fees may include a frequent traveler program and other miscellaneous fees. The continuing fees we analyzed are categorized as follows.

**Royalty Fee:** Almost 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.

**Advertising or Marketing Contribution Fee:** Brandwide advertising and marketing consist 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 that is administered by the franchisor on behalf of all members of the brand.

**Reservation Fee:** If the franchise brand has 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. Our study takes into account only those distribution

fees that have been quantified in the Uniform Franchise Offering Circulars prepared by each franchisor.

**Frequent Traveler Program Fee:** Some franchisors offer incentive programs that reward guests for frequent stays; these programs are designed to encourage loyalty toward a brand. The cost of managing such programs is financed by frequent traveler assessments.

**Other Miscellaneous Fees:** This category includes fees payable to the franchisor or third-party supplier(s) for additional system and technical support. It also includes fees related to training programs, and national and regional annual conferences.

Sometimes franchisors offer additional services. These services generally include consulting, purchasing assistance, computer equipment, equipment rental, on-site pre-opening assistance, and marketing campaigns. The fees for these services are typically not quantified in the disclosure document. Our study considers only those costs that are mandatory and quantified by the franchisor.

### **Calculation of Continuing Franchise Fees**

The assessment of continuing franchise fees is based on several different formulas. In general, royalty fees are calculated based on a percentage of rooms revenue. However, a few hotel operators charge an additional royalty fee based on a percentage of food and beverage revenue. In 2006, the ratio of royalty fee to rooms revenue ranged from 2.50% to 6.00%. Advertising, marketing, and training fees are usually calculated as a percentage of rooms revenue, and ranged from 1.0% to 4.5%.

In some cases, reservation fees are based on a combination of a percentage of rooms revenue (0.15% to 4.50%), a dollar amount per available room per month (\$3.00 to \$8.65), and a fixed dollar amount (\$1.00 to \$25.00), which depends on the source of booking, per reservation.

Many franchisors now require franchisees to bear their fair share of the costs associated with operating a frequent traveler program. Frequent traveler program assessments are typically based on a percentage of total or rooms-only revenue (0.60% to 5.50%) generated by a program member staying at a hotel, or a fixed dollar amount (\$4.00 to \$6.00) 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 all three methods. In

determining the frequent traveler program fees, we have not considered any costs associated with frequent flyer miles.

Generally, these various fee formulas are applied individually, but in some cases, franchisors combine a number of formulas. Many also have first-month contingency fees in lieu of recorded revenues (e.g., a royalty fee of \$24.00 per room for the first month and then 5.0% of gross revenues in the ensuing months).

Each fee structure offers advantages and disadvantages; a fee based entirely on a percentage of rooms revenue is favorable for hotels that derive significant income from food and beverage sales. Fees based on an amount per available room are fixed, and tend to benefit high-volume hotels and penalize properties with lower operating results. Paying a reservation fee based on the number of reservations received is equitable, as long as the reservations equate to occupied room nights and not to no-shows.

A potential franchisee should first carefully evaluate the fee structure and project the total cost of initial and continuing franchise fees, and then determine whether or not the price/value relationship warrants the acquisition of the franchise. Because the Federal Trade Commission regulates the sale of franchises, information regarding each franchise fee structure is readily available through a disclosure document known as a Uniform Franchise Offering Circular (UFOC). Franchisors must reveal and adhere to all terms of the franchise agreement as set forth in the UFOC, thereby eliminating (in theory) any potential for negotiating a more or less favorable contract.

## **Review of Franchise Fees**

To provide a preliminary comparison of hotel franchise fees, Tables 2, 3, and 4 were developed from information presented in the UFOC documents prepared by the respective franchisors. Each table assumes a different class of lodging facility (i.e., level of quality), so that comparisons can be made between brands of a similar class. The economy category includes brands that are classified as such by Smith Travel Research, an independent research firm that compiles data on the lodging industry. The mid-rate category includes brands that are classified as mid-scale brands with and without food and beverage by Smith Travel Research. The first-class category includes brands that are classified as upscale, upper-upscale, or luxury brands by Smith Travel Research. Table 1 summarizes the assumptions incorporated in Tables 2, 3, and 4.

We note that the assumptions presented in Table 1 have been updated to reflect current market conditions; therefore, any comparison of 2007 franchise fee estimates with prior years' estimates may not be relevant.

**Table 1: Assumptions Incorporated into Each Data Table**

2006 Assumptions	Economy	Mid-Rate	First-Class
Room Count	100	200	300
Average Room Rate (Year One)	\$50	\$80	\$110
Room Rate Growth (per annum)	3.0%	3.0%	3.0%
Occupancy			
Year One	60.0%	60.0%	60.0%
Year Two	70.0%	70.0%	70.0%
Years Three to Ten	75.0%	75.0%	75.0%
Projection Period	Ten Years	Ten Years	Ten Years
Total Room Nights	266,450	532,900	799,350
Total Bookings	133,225	266,450	399,675
Total Rooms Revenue	\$15,323,447	\$49,035,031	\$101,134,752
F&B Ratio to Rooms Revenue	N/A	N/A	60%
Total Food and Beverage Revenue	N/A	N/A	\$60,680,851
Total Reservations (% of Rooms Occupied)	86%	86%	86%
Central Reservations System	10.0%	10.0%	10.0%
Internet - Brand Website	35.0%	35.0%	35.0%
Global Distribution System (GDS)	30.0%	30.0%	30.0%
Internet-based Travel Agent (e.g., Expedia)	5.0%	5.0%	5.0%
Loyalty Program Guests - % of Total Reservations	5.0%	5.0%	5.0%
Global Sales Office	1.0%	1.0%	1.0%
Average Length of Stay (Nights)	2	2	2
Days in Year	365	365	365

Our model assumes that each brand affiliation is capable of generating the same volume of bookings through the various distribution channels. In reality, some affiliations generate more or less demand than others. Although most of the fees are based on a percentage of rooms revenue, there are other fees that are either fixed or variable (i.e., dependent on the room count). The majority of the UFOCs have provisions for revision of these costs; therefore, we have used a cost adjustment factor calculated based on the underlying rate of inflation of 3.0%.

We have included a total of 93 franchise brands in our study. This number includes brand variants; for example, Hampton Inn & Suites is a variant of Hampton Inn, and Vagabond Executive is a variant of Vagabond Inn. Our study covered 31 economy (including seven variants), 28 mid-rate (including five variants), and 34 first-class (including one variant) brands. Our survey also encompassed some of the recently launched brands, such as aloft and Element by Starwood, Cambria Suites by Choice Hotels, Hotel Indigo by InterContinental Hotels Group, and Hyatt Place by Hyatt. Furthermore, some brands, such as Holiday Inn Select and Holiday Inn SunSpree, are no longer offered and are therefore excluded from this edition. The 2007 U.S. Hotel Franchise Fee Guide also includes upscale hotel consortiums such as Relais & Chateaux, The Leading Hotels of the World, Preferred Hotels & Resorts, Preferred Boutique, Summit Hotels & Resorts, and Sterling Hotels.

Tables 2, 3, and 4 summarize the estimates of ten-year franchise costs for each brand classified by chain scale. The continuing fees were calculated on an annual basis and represent the total amount that would be paid by the franchisee over the ten-year projection period. As previously mentioned, we have considered only those fees that are mandatory and are quantified in the UFOC.

**Table 2: Summary of Brand Franchise Fees – Economy Hotels (Based on 100 Rooms)**

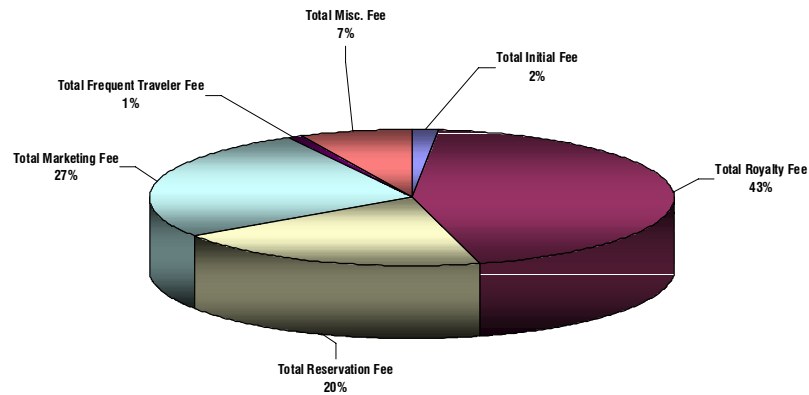
Economy Brand	Total Initial Fee	Total Royalty Fee	Total Reservation Fee	Total Marketing Fee	Total Frequent Traveler Fee	Total Misc. Fee	Total Ten-Year Fee	Total Ten-Year Fee/Rooms	Percent of Total Rooms Revenue
Americas Best Value Inn	\$14,000	\$130,688	\$898,516	\$89,418	\$0	\$28,889	\$1,161,512	\$11,615	7.6%
AmericInn	35,000	766,172	448,914	459,703	0	76,833	1,786,623	17,866	11.7%
Budget Host	5,000	102,946	13,757	0	0	0	121,702	1,217	0.8%
Days Inn	36,000	766,172	290,640	582,291	38,309	153,689	1,867,101	18,671	12.2%
Downtowner Inn/Suites	6,000	459,703	0	383,086	0	2,000	850,790	8,508	5.6%
Econolodge	25,000	689,555	187,855	536,321	38,309	132,819	1,609,859	16,099	10.5%
GuestHouse	27,500	528,659	627,170	229,852	0	18,649	1,431,829	14,318	9.3%
Key West Inn	5,500	165,080	938,798	0	0	0	1,109,378	11,094	7.2%
Knights Inn	6,000	766,172	351,731	0	38,309	153,689	1,315,901	13,159	8.6%
Lexington Collection	30,000	550,266	523,092	247,620	0	34,392	1,385,369	13,854	9.0%
Master Hosts Inn/Suites	6,000	612,938	0	383,086	0	2,000	1,004,024	10,040	6.6%
Microtel Inn/Suites	35,000	919,407	45,818	329,454	0	22,195	1,351,874	13,519	8.8%
Motel 6	25,000	612,938	0	536,321	0	217,050	1,391,308	13,913	9.1%
Park Inn	25,000	689,555	391,998	306,469	26,816	198,492	1,638,330	16,383	10.7%
Passport Inn/Suites	6,000	459,703	0	383,086	0	2,000	850,790	8,508	5.6%
Red Carpet Inn/Suites	6,000	536,321	0	383,086	0	2,000	927,407	9,274	6.1%
Red Roof	30,000	689,555	0	612,938	30,647	192,976	1,556,116	15,561	10.2%
Rodeway Inn	8,850	214,948	256,638	110,053	38,309	131,673	760,471	7,605	5.0%
Scottish Inn/Suites	6,000	459,703	0	383,086	0	2,000	850,790	8,508	5.6%
Studio 6	25,000	766,172	0	306,469	0	217,050	1,314,691	13,147	8.6%
Suburban Extended Stay	30,000	766,172	187,855	383,086	0	138,301	1,505,415	15,054	9.8%
Super 8	25,000	766,172	290,640	459,703	38,309	153,689	1,733,514	17,335	11.3%
Travelodge	36,000	689,555	290,640	654,781	38,309	153,689	1,862,974	18,630	12.2%
Vagabond Inn/Executive	21,500	383,086	229,091	383,086	0	76,115	1,092,878	10,929	7.1%

As indicated in the preceding table, franchise fees as a percentage of total rooms revenue ranged from 0.8% to 12.2% in the economy category in 2006. The average franchise fee as a percentage of total rooms revenue was 8.3%, and the median was 8.7%. In addition, the total initial fees ranged from \$5,000 to \$36,000. The initial fee represents only 1.6% of the total ten-year fee, whereas the royalty, marketing, and reservation fees accounted for approximately 90.6% of the overall ten-year franchise fees as indicated in the following chart.

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**Chart A: Franchise Fees Allocation – Economy Brands**

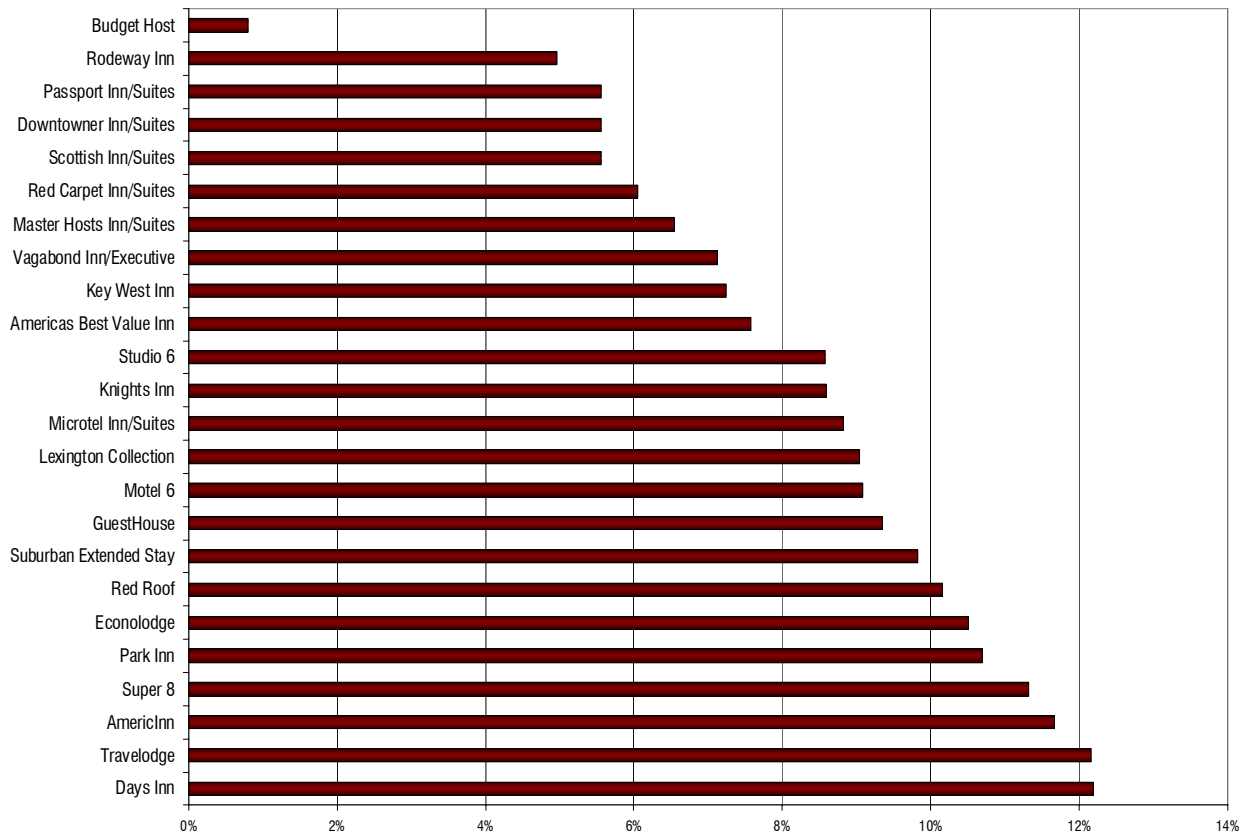
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Over a ten-year period, the total franchise fees per available room (based on 100 rooms) range from \$1,217 to \$18,671 for economy brands, with an average of \$12,700. The following table presents the ranking for economy brands based on a percentage of total rooms revenue.

**Chart B: Ranking of Economy Brands – Franchise Fee as a Percentage of Total Rooms Revenue**



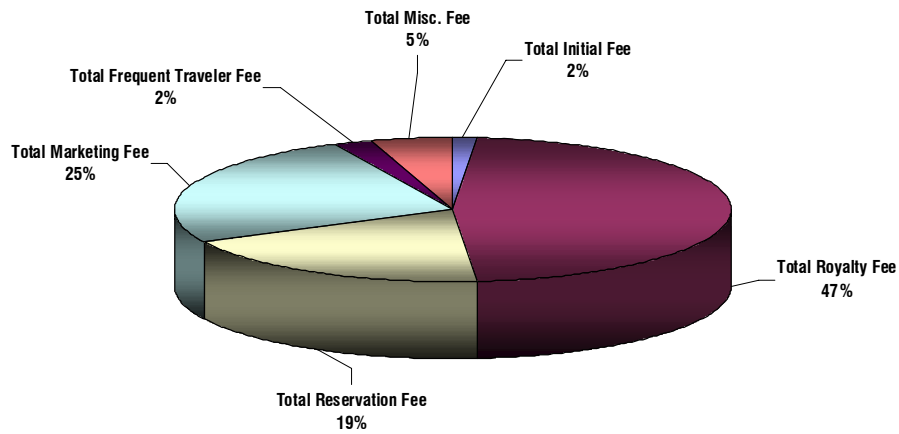
The following table details the franchise fees for mid-rate hotels.

**Table 3: Summary of Brand Franchise Fees – Mid-Rate Hotels (Based on 200 Rooms)**

Mid-Rate Brand	Total Initial Fee	Total Royalty Fee	Total Reservation Fee	Total Marketing Fee	Total Frequent Traveler Fee	Total Misc. Fee	Total Ten-Year Fee	Total Ten-Year Fee/Rooms	Percent of Total Rooms Revenue
Baymont Inn/Suites	\$26,000	\$1,961,401	\$1,589,563	\$735,525	\$122,588	\$153,689	\$4,588,767	\$22,944	9.4%
Best Western	71,000	68,256	209,216	829,538	0	0	1,178,010	5,890	2.4%
Candlewood Suites	100,000	2,451,752	454,517	1,225,876	58,842	528,160	4,819,147	24,096	9.8%
Clarion	60,000	2,083,989	988,648	980,701	122,588	203,776	4,439,701	22,199	9.1%
ClubHouse	30,000	1,961,401	2,372,709	0	160,364	5,732	4,530,206	22,651	9.2%
Coast Hotels & Resorts	0	1,961,401	288,655	0	55,027	50,000	2,355,083	11,775	4.8%
Comfort Inn/Suites	100,000	2,770,479	1,233,823	1,029,736	122,588	203,776	5,460,402	27,302	11.1%
Country Inn/Suites	90,000	2,206,576	1,013,848	1,225,876	85,811	195,242	4,817,353	24,087	9.8%
Fairfield Inn/Suites	80,000	2,206,576	1,181,412	1,225,876	38,002	281,693	5,013,560	25,068	10.2%
Hampton Inn/Suites	95,000	2,451,752	0	1,961,401	122,588	396,663	5,027,403	25,137	10.3%
Holiday Inn	100,000	2,451,752	454,517	1,225,876	116,458	558,160	4,906,763	24,534	10.0%
Holiday Inn Express	100,000	2,942,102	454,517	1,471,051	116,458	528,160	5,612,288	28,061	11.4%
Howard Johnson	71,000	1,961,401	1,834,738	980,701	122,588	153,689	5,124,117	25,621	10.4%
La Quinta Inn	80,000	2,157,541	980,701	1,225,876	122,588	218,375	4,785,081	23,925	9.8%
La Quinta Inn & Suites	80,000	2,157,541	980,701	1,225,876	122,588	218,375	4,785,081	23,925	9.8%
MainStay Suites	60,000	2,451,752	375,710	1,225,876	122,588	217,276	4,453,201	22,266	9.1%
Quality Inn	60,000	2,280,129	1,233,823	1,029,736	122,588	203,776	4,930,051	24,650	10.1%
Quality Suites	60,000	2,280,129	1,233,823	1,029,736	122,588	203,776	4,930,051	24,650	10.1%
Ramada	71,000	1,961,401	608,863	2,206,576	122,588	188,081	5,158,509	25,793	10.5%
Red Lion	60,000	1,961,401	0	2,206,576	0	0	4,227,978	21,140	8.6%
Sleep Inn	60,000	2,280,129	1,233,823	1,029,736	122,588	198,776	4,925,051	24,625	10.0%
TownePlace Suites	80,000	2,451,752	763,704	735,525	14,711	298,527	4,344,218	21,721	8.9%
Wingate Inn	71,000	2,206,576	539,372	1,961,401	122,588	107,211	5,008,148	25,041	10.2%

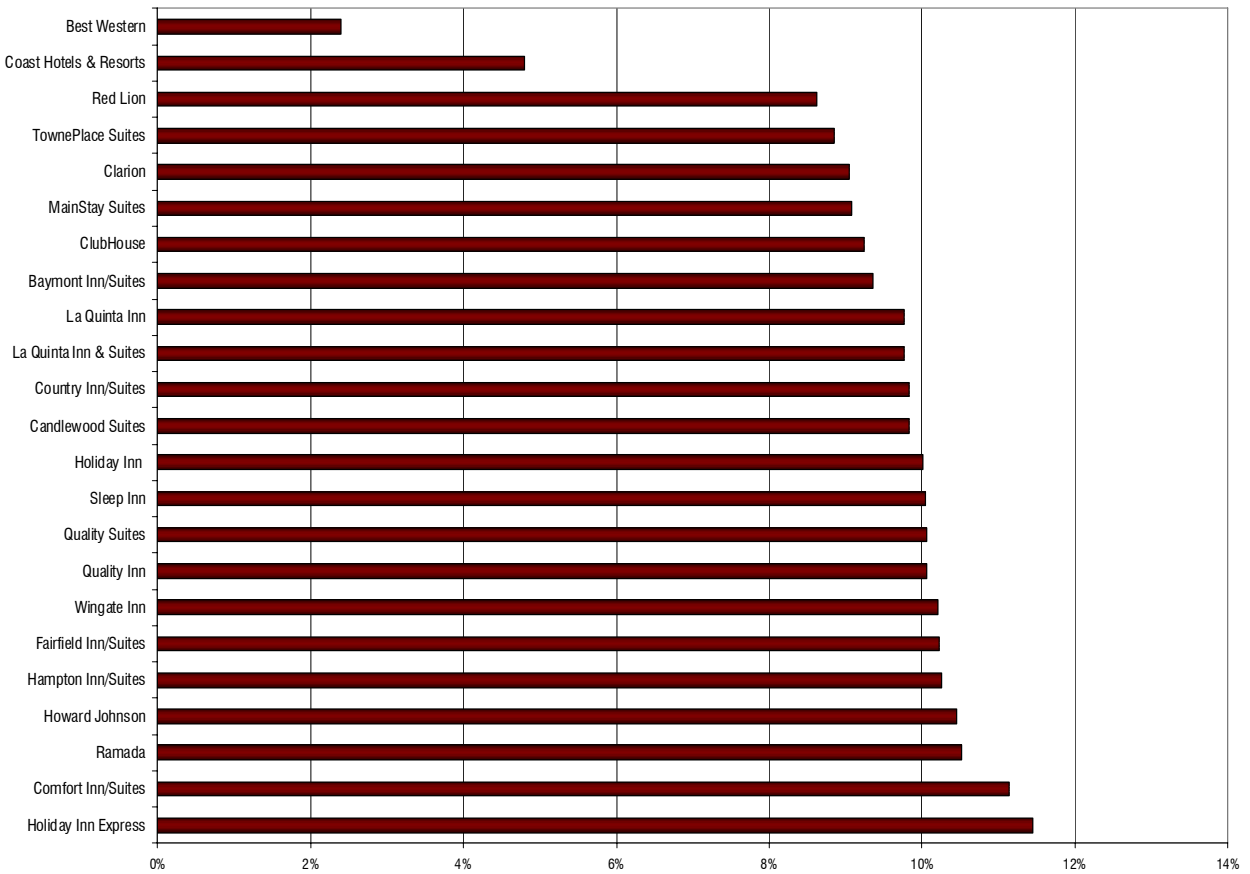
As indicated in the preceding table, franchise fees as a percentage of total rooms revenue ranged from 2.4% to 11.4% in the mid-rate category in 2006. The average franchise fee as a percentage of total rooms revenue was 9.3%, and the median was 9.8%. In addition, the total initial fees ranged from \$0 to \$100,000. In 2006, Coast Hotels was the only brand that was not charging an initial fee. However, according to Coast Hotels UFOC, it may add an initial fee to its franchise fee structure. The initial fee represents only 1.5% of the total ten-year fee, whereas the royalty, marketing, and reservation fees account for roundly 89.8% of the overall ten-year franchise fees as indicated in the following chart.

**Chart C: Franchise Fee Allocation – Mid-Rate Brands**



Over a ten-year period, the total franchise fees per available room (based on 200 rooms) range from \$5,890 to \$28,061 for mid-rate brands, with an average of \$22,917. The following table presents the ranking for mid-rate brands based on a percentage of total rooms revenue.

**Chart D: Ranking of Mid-Rate Brands – Franchise Fee as a Percentage of Total Rooms Revenue**



The following table details the franchise fees for first-class hotels.

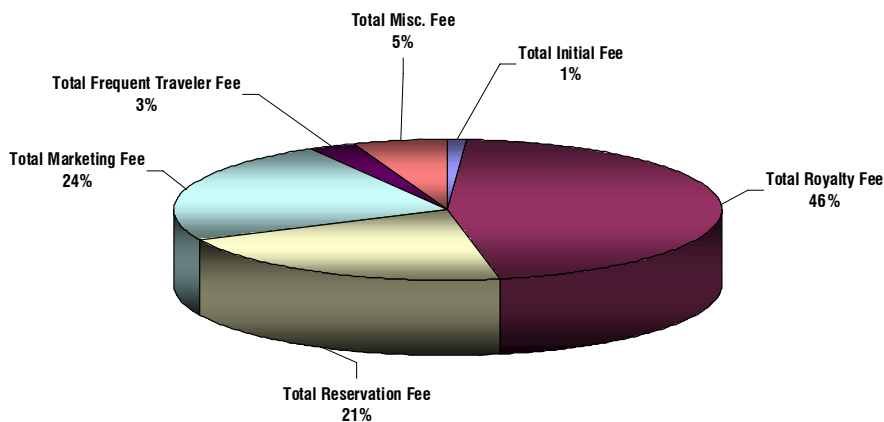
**Table 4: Summary of Brand Franchise Fees – First-Class Hotels**

First-Class Brand	Total Initial Fee	Total Royalty Fee	Total Reservation Fee	Total Marketing Fee	Total Frequent Traveler Fee	Total Misc. Fee	Total Ten-Year Fee	Total Ten-Year Fee/Rooms	Percent of Total Rooms Revenue
aloft	\$120,000	\$5,562,411	\$1,750,229	\$4,045,390	\$331,722	\$172,744	\$11,982,497	\$39,942	11.8%
Cambria Suites	150,000	5,056,738	2,333,423	2,123,830	404,539	208,776	10,277,306	34,258	10.2%
Courtyard	120,000	5,562,411	1,720,678	2,022,695	194,179	351,769	9,971,732	33,239	9.9%
Crowne Plaza	150,000	5,056,738	681,776	3,157,852	384,312	558,160	9,988,838	33,296	9.9%
Doubletree Hotels/Suites	90,000	4,045,390	0	4,045,390	388,357	957,503	9,526,641	31,755	9.4%
Element	120,000	5,562,411	1,750,229	4,045,390	331,722	172,744	11,982,497	39,942	11.8%
Embassy Suites	90,000	5,056,738	0	4,045,390	388,357	591,952	10,172,437	33,908	10.1%
Four Points	80,000	5,056,738	3,065,972	1,011,348	331,722	803,081	10,348,860	34,496	10.2%
Hawthorn Suites	120,000	5,056,738	0	2,528,369	404,539	86,887	8,196,532	27,322	8.1%
Hilton	92,500	5,056,738	0	4,045,390	388,357	1,306,646	10,889,631	36,299	10.8%
Hilton Garden Inn	127,500	5,056,738	0	4,348,794	388,357	367,146	10,288,535	34,295	10.2%
Homewood Suites	127,500	4,045,390	0	4,045,390	388,357	422,182	9,028,819	30,096	8.9%
Hotel Indigo	150,000	5,056,738	681,776	3,539,716	384,312	528,160	10,340,702	34,469	10.2%
Hyatt Place	120,000	4,753,333	584,183	3,539,716	404,539	209,030	9,610,802	32,036	9.5%
Le Meridien	115,000	6,068,085	3,158,004	1,011,348	331,722	1,040,212	11,724,371	39,081	11.6%
Leading Hotels of the World	50,000	0	6,500,386	1,169,316	0	166,226	7,885,928	26,286	7.8%
Luxury Collection	100,000	6,270,355	3,158,004	1,011,348	331,722	1,004,674	11,876,102	39,587	11.7%
Marriott	90,000	7,585,106	2,237,186	1,011,348	347,904	775,840	12,047,383	40,158	11.9%
Omni	50,000	3,034,043	0	3,843,121	0	269,000	7,196,163	23,987	7.1%
Preferred Boutique*	10,000	687,833	4,551,064	0	0	0	5,248,897	17,496	5.2%
Preferred Hotels & Resorts	42,500	1,719,582	4,551,064	0	0	0	6,313,146	21,044	6.2%
Radisson	150,000	5,056,738	2,624,060	2,022,695	278,121	472,540	10,604,153	35,347	10.5%
Relais & Chateaux*	16,745	1,274,787	4,633,372	0	0	1,442,000	7,366,904	24,556	7.3%
Renaissance	60,000	5,056,738	2,276,963	1,517,021	347,904	751,250	10,009,875	33,366	9.9%
Residence Inn	120,000	5,562,411	0	2,528,369	88,999	325,655	8,625,434	28,751	8.5%
Sheraton	130,000	5,056,738	3,158,004	1,011,348	331,722	1,040,212	10,728,023	35,760	10.6%
SpringHill Suites	120,000	5,056,738	1,683,938	2,528,369	137,543	295,781	9,822,369	32,741	9.7%
Staybridge Suites	150,000	5,056,738	681,776	2,528,369	194,179	528,160	9,139,221	30,464	9.0%
Sterling Hotels	20,000	687,833	4,551,064	0	0	0	5,258,897	17,530	5.2%
Summerfield Suites	120,000	4,753,333	584,183	3,539,716	404,539	192,030	9,593,802	31,979	9.5%
Summit Hotels & Resorts	20,000	1,134,924	4,551,064	0	0	0	5,705,988	19,020	5.6%
Westin	115,000	7,281,702	2,855,612	2,022,695	331,722	1,040,212	13,646,943	45,490	13.5%
Wyndham	90,000	5,056,738	2,514,277	3,034,043	444,993	1,350,432	12,490,482	41,635	12.4%

\*Size restriction of 100 guestrooms maximum

As indicated in the preceding table, franchise fees as a percentage of total rooms revenue ranged from 5.2% to 13.5% in the first-class category in 2006. The average franchise fee as a percentage of total rooms revenue was 9.5%, and the median was 9.9%. In addition, the total initial fee ranged from \$10,000 to \$150,000. We note that the hotel consortiums included in this study charge comparatively lower initial fees than those charged by the traditional franchisors. Initial fees for hotel consortiums ranged from \$10,000 to \$50,000, whereas traditional first-class hotel franchisors have initial fees that range from \$50,000 to \$150,000. The initial fee represents only 1.0% of the total ten-year fee, whereas the royalty, marketing, and reservation fees account for roundly 90.8% of the overall ten-year franchise fees as indicated in the following chart.

**Chart E: Franchise Fee Allocation – First-Class Brands**

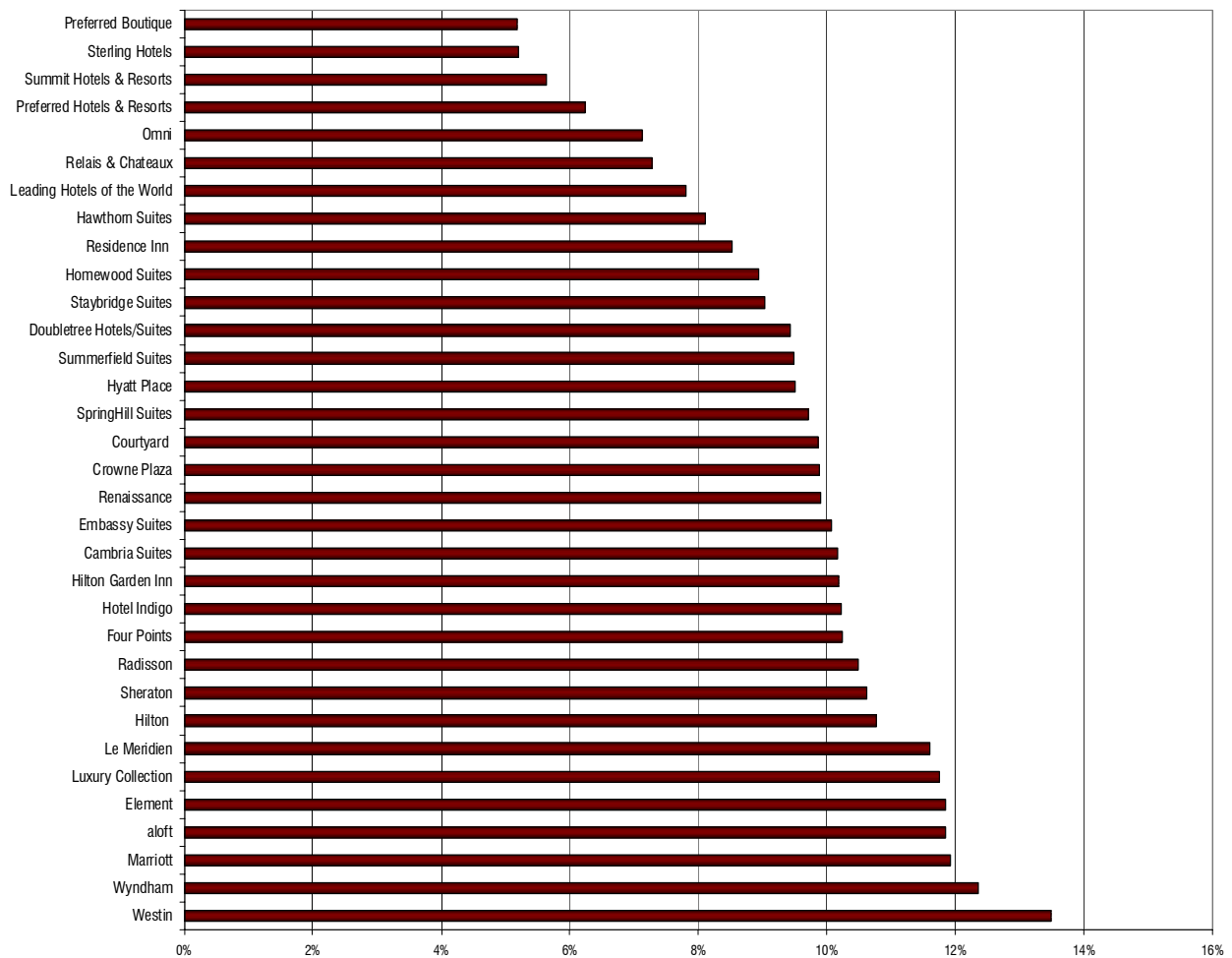


Over a ten-year period, the total franchise fees per available room (based on 300 rooms) range from \$17,496 to \$45,490 for first-class brands, with an average of \$32,110. We note that the fees charged by the hotel consortiums fall toward the middle of this range. The upscale brands, such as Marriott and Westin, that base their royalty fees on a percentage of the combined rooms and food and beverage revenues fall toward the upper end of the franchise fee percentage range. Upscale brands also generate significant fees from their frequent traveler programs; the average frequent traveler fee for first-class

brands is approximately \$263,165, compared to \$97,361 for mid-rate brands, and \$11,971 for economy brands.

The following table presents the ranking for first-class brands based on a percentage of total rooms revenue.

**Chart F: Ranking of First-Class Brands – Franchise Fee as a Percentage of Total Rooms Revenue**



**Conclusion**

Most hotel lenders believe that to be competitive in today's hotel market, a strong franchise affiliation is essential. Customers want to know the level of quality for which they are paying and would rather not risk an unpleasant surprise from a "no-name" lodging facility. Hotel lenders also typically insist on a franchise affiliation of some type because it reduces the perceived investment risk.

The selection of a brand affiliation should be evaluated carefully to determine when the price/value relationship is favorable to the hotel owner and when that relationship shows promise for long-term stability. One of the tools available to compare the relative cost of a franchise brand affiliation is the data presented in this study. Using this information as a preparatory guide, owners can then research the additional costs pertinent to their particular property and determine the overall cost of affiliation.

Buying a franchise is a complicated investment. Selecting an appropriate franchise for a property entails exhaustive research and investigation by an investor. The information presented in this Franchise Fee 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. We do not warrant the data contained in this study. It has been obtained from the UFOCs prepared by each franchisor and/or from various other sources, including brochures and Internet web sites, as directed by the franchise companies. These documents and sources are assumed to contain accurate information. It should be noted that the fees set forth in this Franchise Fee Guide pertain only to hotels operating in the United States.