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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 distinguished 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 brand or any particular brand affiliation upon any single hotel property. The 2020 U.S. Franchise Fee Guide is meant to illustrate a basic comparison among franchise fees charged by participants.

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

SUMMARY OF FINDINGS



The COVID-19 pandemic has tested the very core of the hospitality franchise community. Franchisors and franchisees have both been directly affected by the demise of travel, globally. Although select accommodations for payment deferrals may have been negotiated, there have been no sweeping permanent changes across brand families as of yet.



This report includes four more participating brands than the previous year's publication. We anticipate that participation will increase as mergers of hotel companies and the proliferation of new brands continue.



In the past few years, loyalty-fee percentage to rooms revenue has increased, largely attributed to guests' rising participation rates in hotel companies' frequent-traveler programs.



Consistent with last year's guide, collection brands' franchise cost structures remained generally below the average franchise fees of other brands within the same parent company.

RESPONSES TO COVID-19

While no major changes were made in the franchise disclosure documents because of the COVID-19 pandemic, hotel companies have allowed deferments and rebates of franchise fees to help relieve the financial burden on hotel owners during this trying time. G6 Hospitality reduced monthly royalty and marketing/reservation fees by 75 points from March 1, 2020, through year-end 2020. Furthermore, all guest relations fees were waived, and 2.0 % of Expedia OTA fees were credited back from March 1, 2020, through August 31, 2020. RLH provided fee deferrals for the months of April and May, to be deferred until the end of March 2021. For the properties that have been closed, the company has suspended the franchise fees and added the period of closure toward the end of agreement expiration dates. Radisson also noted that several miscellaneous fees were deferred or relaxed. Choice hotels tailored its fee-relief programs for individual hotels, which included reductions in revenue-management fees, deferral of education charges, and waiver of financial charges and reputation management and guest relations fees. When queried, no details were provided from other franchisors; however, reportedly, the majority of the hotel companies have provided some sort of relief in franchise fees in 2020.

DISCLAIMER

Hotels are complicated investments. Selecting an appropriate franchise affiliation 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 the significant 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 2020 version of this guide is not necessarily comparable with previous versions because of different and/or new brands participating in the report each year, changes in franchise-fee structures by companies, and the new methodology of calculating franchise costs, which considers 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 a hotel investor's choice of 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 branded hotels.

Hotel franchise fees are compensation paid by the franchisee to the franchisor for the use and benefit 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 consists of a minimum dollar amount based on the 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 and/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 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 exterior corridors). Certain brands also require the presence of additional amenities, such as a fitness center. The conversion, if it is to another brand owner's brand, not under the same parent company, is likely to require changing the property management system (PMS) and related workstations, as well as possibly changing the F&B point of sale system (POS), both of which are expensive. Both newly built franchises and conversions also incur the cost of signage. Some franchisors require the operator to cover a property improvement plan (PIP) inspection 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 sales/reservation fee. In addition, ongoing fees include a frequent traveler loyalty program, as well as other miscellaneous fees. Marriott, IHG, Hilton, Wyndham, Choice, and Hyatt combine the marketing and sales/reservation fees into one category, inclusive of the program fee and system fee. The distribution between marketing and sales/reservation fees varies from company to company. Marriott implemented a program services contribution fee for all brands in its 2020 franchise disclosure documents; this new fee consists of marketing, reservation, and miscellaneous charges. We have made an appropriate allocation of the program fee within the three categories, which will be discussed in detail later in this report. The continuing fees we analyzed are categorized as follows:

Royalty Fee

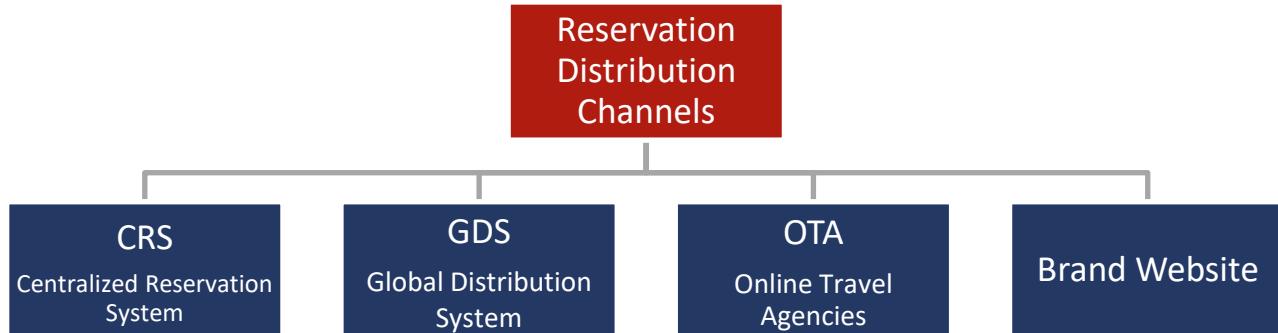
All franchisors collect a royalty fee, which represents compensation for the use of the brand's trade name, service marks and associated logos, goodwill, and other franchise services. Royalty fees represent a major source of revenue for a franchisor and are calculated based on a percentage of rooms revenue.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

Sales/Reservation Fee

If the franchisor maintains a reservation system, the sales/reservation fee supports the cost of operating the central office, telephones, computers, and reservation personnel. The sales/reservation fee contains all distribution-related fees, often including fees payable to third parties, such as travel agents and distributors. It is important to note that the sales/reservation fee does not include group booking fees and sales commissions earned by sales teams at the property level. Sales/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:



- **Central Reservation System** pertains to a hotel-specific reservation program that helps maintain and manage the hotel's guestroom inventory and average rates.
- **Global Distribution System** can be defined as reservation platform that collects hotel inventory data, which is accessible for travel agents to utilize on behalf of their clients.
- **Online Travel Agencies (OTAs)** are third-party, web-based booking platforms that act as an intermediary between the hotel and consumer.
- **Brand Website** (as a reservation platform) pertains to direct booking on the brand's website.

Reportedly, companies are not required to disclose negotiated commission rates with online travel agencies in the franchise disclosure documents. Furthermore, OTA commission rates are frequently readjusted and subject to change. Since OTA charges are neither mandated by brands nor fully disclosed in the franchise disclosure documents, we have excluded OTA fees in our quantitative analysis to ensure the fairness of data across all brands. However, we note that OTA fees may increase the overall reservation charges by a significant margin, and franchisees are highly recommended to thoroughly review and compare OTA fees when selecting a brand.

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 rooms and other revenue. For instance, Marriott applies loyalty fee for applicable F&B revenue for full-service brands, as well as rooms revenue. However, details of the items subjected to the frequent-traveler program fee are not specified in franchise disclosure documents. Therefore, in our analysis, we only have applied loyalty fee to rooms revenue for all brands represented in this report. Furthermore, 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 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 more uniform set of assumptions. However, the 2018 guide and subsequent updates have been reengineered to consider each brand's own unique set of variables.

HVS collected the franchise disclosure documents (FDDs) from 77 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 2020 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 in this study, and each of these was categorized as one of the following:

Royalty Fee

Sales/Reservation Fees

Marketing Fees

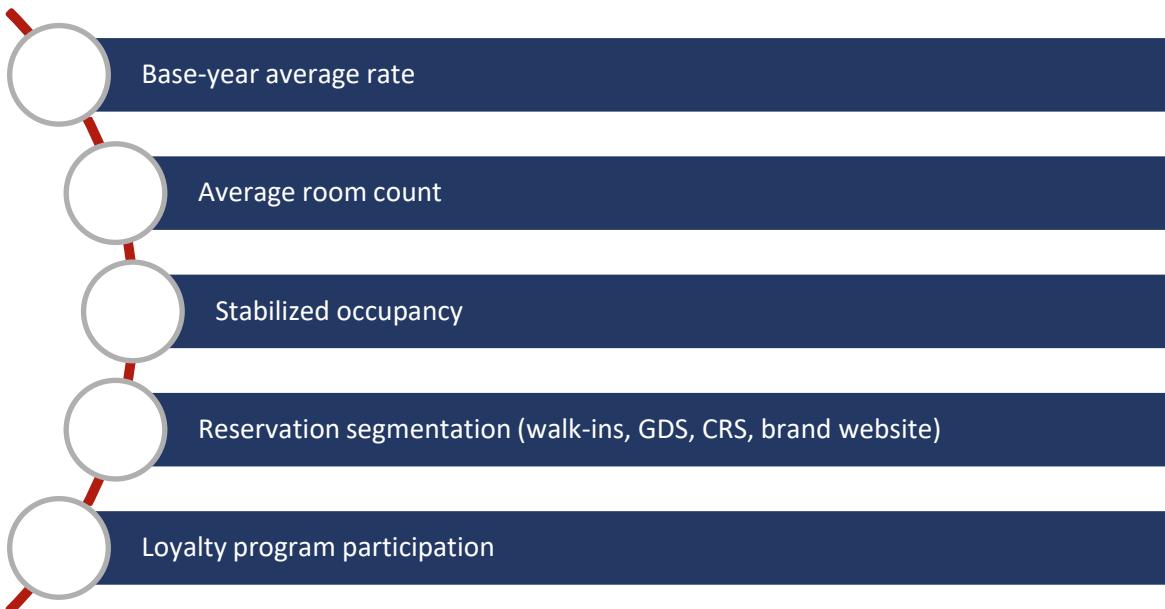
Frequent-Traveler Program Fee

Miscellaneous Fees

Initial Fee

By contacting brand representatives and reviewing companies' SEC filings or annual reports, HVS could confirm the values of the following inputs:





To calculate the estimated costs associated with each of the fee categories, HVS made assumptions regarding the average length of stay and the F&B revenue as a percentage of rooms revenue for each brand based on information available within 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. Such sources included HVS's extensive database of financial statements and operating data collected from thousands of consulting and valuation engagements over the past few years, as well as information provided directly from the hotel companies. These assumptions are intended to reflect 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 recently opened with a new contract from the brand, rather than being 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.

Moreover, 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. To provide a consistent basis of comparison, all franchise fees are expressed as a percentage of rooms revenue.

Finally, a point of clarification regarding the specific terminology used to identify the various classes of branded and non-branded properties is warranted. The evolution and popularity of independently operated hotels, especially in response to growth in the shared economy sector, has been somewhat confusing from a terminology perspective. Specific to this guide and how we have analyzed fee structures, we have embraced the following terminology. "Independent Collection" represent hotels that are backed by leading hotel chains but

have lenient programming and design standards. Examples of independent collection used in this guide include the Autograph Collection by Marriott, Ascend Collection by Choice, and Curio Collection by Hilton, among others. As later described, soft-branded properties benefit from the reservation and marketing platforms of a large hotel company such as Preferred Hotels & Resorts (often with international recognition), while maintaining nearly total control of business strategy, yield management, amenity offering, and creative design elements. Lastly, our definition of independent properties refers to hotels operating entirely independently of any sort of reservation platform or branding support.

BRAND PARTICIPANTS

HVS categorized the brands into five hotel chain scales: First Class, Upscale, Upper Midscale, Midscale, and Economy. HVS defines *First Class* as luxury and upper-upscale brands from the STR Global Chain Scale, given the limited data available for the luxury chain scales, while *Upscale*, *Upper Midscale*, *Midscale*, and *Economy* correspond directly to STR's brands categories. Brands not included in the STR Global Chain Scale were categorized based on the industry standard. Additionally, segment categories for Holiday Inn, Home2 Suites by Hilton, and La Quinta Inn & Suites by Wyndham were adjusted based on our opinions of and experience with the brands and competitive positioning. Furthermore, Red Lion Hotel, Inn & Suites did not report separate performance measures (e.g., occupancy and average rate) for each brand; therefore, they were combined into one segment that would best describe the brands. Lastly, 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 in fees for each brand, along with the breakdown of total cost by component.



Parent/Brand	Segment	Hotel Type
Best Western		
Best Western	Midscale	Limited-Service
Best Western Plus	Upper Midscale	Limited-Service
Best Western Premier	Upscale	Select-Service
SureStay	Economy	Limited-Service
Choice		
Ascend Collection	Upscale	Full-Service
Cambria	Upscale	Select-Service
Clarion	Upper Midscale	Select-Service
Comfort Inn & Suites	Upper Midscale	Limited-Service
Econo Lodge	Economy	Limited-Service
MainStay Suites	Midscale	Extended-Stay
Quality Inn	Midscale	Limited-Service
Rodeway Inn	Economy	Limited-Service
Sleep Inn	Midscale	Limited-Service
Suburban Extended Stay	Economy	Extended-Stay
WoodSpring Suites	Economy	Extended-Stay
G6 Hospitality		
Motel 6	Economy	Limited-Service
Studio 6	Economy	Extended-Stay
Hilton		
Curio	First Class	Full-Service
DoubleTree	Upscale	Full-Service
Embassy Suites	First Class	Full-Service
Hampton Inn & Suites	Upper Midscale	Limited-Service
Hilton	First Class	Full-Service
Hilton Garden Inn	Upscale	Select-Service
Home2 Suites	Upper Midscale	Extended-Stay
Homewood Suites	Upscale	Extended-Stay
Hospitality International		
Passport Inn & Suites	Economy	Limited-Service
Red Carpet Inn & Suites	Economy	Limited-Service
Scottish Inn & Suites	Economy	Limited-Service
Hyatt		
Hyatt Centric	First Class	Full-Service
Hyatt House	Upscale	Extended-Stay
Hyatt Place	Upscale	Select-Service
Hyatt Regency	First Class	Full-Service
IHG		
Candlewood Suites	Midscale	Extended-Stay
Crowne Plaza	Upscale	Full-Service
Holiday Inn	Upscale	Full-Service
Holiday Inn Express	Upper Midscale	Limited-Service
Hotel Indigo	Upscale	Select-Service
InterContinental Hotels	First Class	Full-Service
Kimpton	First Class	Full-Service
Staybridge Suites	Upscale	Extended-Stay

Source: STR and HVS

Parent/Brand	Segment	Hotel Type
Marriott		
Aloft	Upscale	Select-Service
Autograph	First Class	Full-Service
Courtyard	Upscale	Select-Service
Element	Upscale	Extended-Stay
Fairfield Inn	Upper Midscale	Limited-Service
Four Points	Upscale	Select-Service
Le Méridien	First Class	Full-Service
Luxury Collection	First Class	Full-Service
Marriott	First Class	Full-Service
Renaissance	First Class	Full-Service
Residence Inn	Upscale	Extended-Stay
Sheraton	First Class	Full-Service
SpringHill Suites	Upscale	Select-Service
TownePlace Suites	Upper Midscale	Extended-Stay
Westin	First Class	Full-Service
Preferred Hotels & Resorts		
Preferred Hotels & Resorts	Soft-Branded	
Radisson Hotel Group		
Country Inn & Suites	Upper Midscale	Limited-Service
Radisson	Upscale	Full-Service
Red Roof Inn		
Red Roof Inn	Economy	Limited-Service
RLH Corporation		
Americas Best Value Inn	Economy	Limited-Service
GuestHouse	Economy	Limited-Service
Hotel RL	Upscale	Full-Service
Knights Inn	Economy	Limited-Service
Red Lion Hotel, Inn & Suites	Midscale	Select-Service
Wyndham		
AmericInn	Midscale	Limited-Service
Baymont Inn & Suites	Midscale	Limited-Service
Days Inn	Economy	Limited-Service
Hawthorn Suites	Midscale	Extended-Stay
Howard Johnson	Economy	Limited-Service
La Quinta Inn & Suites	Upper Midscale	Limited-Service
Microtel Inn & Suites	Economy	Limited-Service
Ramada Inn	Midscale	Select-Service
Super 8	Economy	Limited-Service
Travelodge	Economy	Limited-Service
Wingate	Midscale	Limited-Service
Wyndham	First Class	Full-Service
Wyndham Garden	Upper Midscale	Select-Service

**Preferred Hotels & Resorts is not included in data used for Key Findings tables*

Source: STR and HVS

Economy	Midscale	Upper Midscale	Upscale	First Class
Extended Stay	Extended Stay	Extended Stay	Extended Stay	Full Service
Studio 6	Candlewood Suites	Home2 Suites	Element	Autograph
Suburban Extended Stay	Hawthorn Suites	TownePlace Suites	Homewood Suites	Curio
WoodSpring Suites	MainStay Suites	Limited Service	Hyatt House	Embassy Suites
Limited Service	Limited Service	Best Western Plus	Residence Inn	Hilton
Americas Best Value Inn	AmericInn	Comfort Inn & Suites	Staybridge Suites	Hyatt Centric
Days Inn	Baymont Inn & Suites	Country Inn & Suites	Select Service	Hyatt Regency
Econo Lodge	Best Western	Fairfield Inn	Aloft	InterContinental Hotels
GuestHouse	Quality Inn	Hampton Inn & Suites	Best Western Premier	Kimpton
Howard Johnson	Sleep Inn	Holiday Inn Express	Courtyard	Le Méridien
Knights Inn	Wingate	La Quinta Inn & Suites	Four Points	Luxury Collection
Microtel Inn & Suites	Select Service	Select Service	Hilton Garden Inn	Marriott
Motel 6	Ramada Inn	Clarion	Hotel Indigo	Renaissance
Red Roof Inn	Red Lion Hotel, Inn & Suite	Wyndham Garden	Hyatt Place	Sheraton
Rodeway Inn			SpringHill Suites	Westin
Super 8			Cambria	Wyndham
SureStay			Full Service	
Travelodge			Ascend Collection	
Passport Inn & Suites			Crowne Plaza	
Scottish Inn & Suites			DoubleTree	
Red Carpet Inn & Suites			Holiday Inn	
			Hotel RL	
			Radisson	

Source: STR and HVS

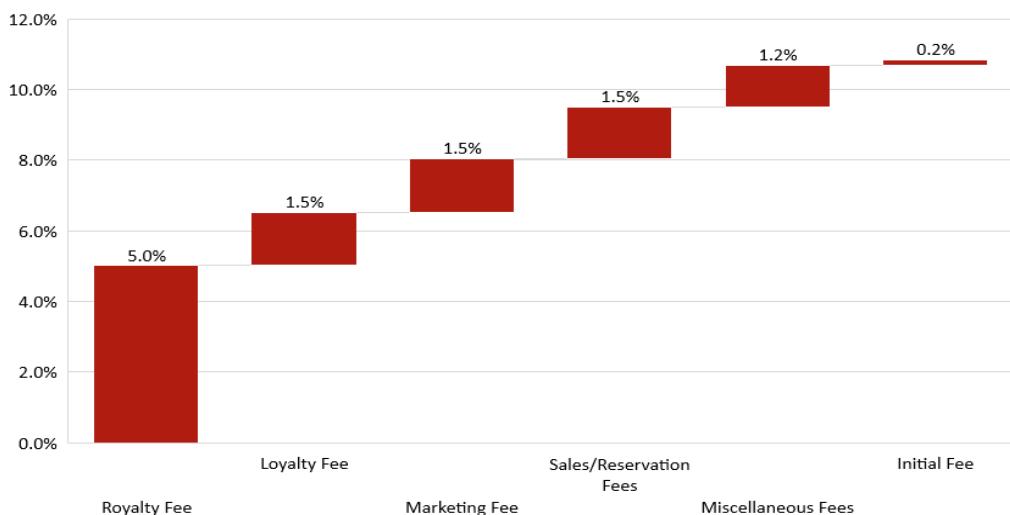
KEY FINDINGS

The following results were derived from the analysis.

AVERAGE FRANCHISE COST TO ROOMS REVENUE

The following chart illustrates the separate components of an overall franchise cost. HVS has concluded an overall average franchise cost of 10.8%, as well as the average percentage of the initial fee, royalty fee, loyalty fee, marketing fee, sales/reservation fees, and miscellaneous fees in rooms revenue.

On Average, Initial Fee and Continuous Franchise Costs Total Nearly 10.8% of Rooms Revenue



Source: HVS

On average, franchise costs comprise 10.8% 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 loyalty fee, marketing fee, sales/reservation fee, miscellaneous fee, and initial fee. Although the rounded percentages of loyalty, marketing, and sales/reservation fees to rooms revenues were identical, median levels for the three fees varied and were 1.7%, 1.5%, and 1.6%, respectively. Despite the addition of economy hotels from Hospitality International in this year's publication (a company that does not charge loyalty fees), the loyalty-fee percentage to rooms revenue increased compared to last year's publication. There was no notable increase in loyalty fees that companies charged. The increase in average and median loyalty-fee percentage to rooms revenue is largely a result of the higher loyalty participation rate at a few major companies, which will be discussed later in this report.

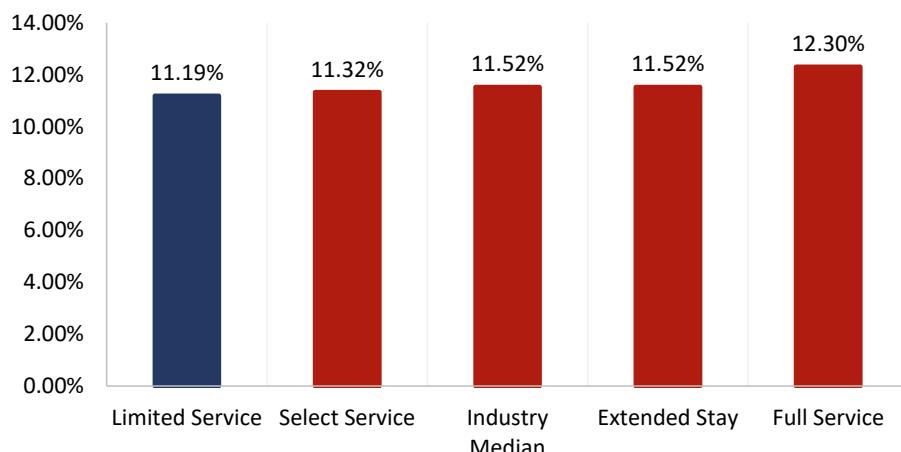
It is important to note that the sales/reservation fees no longer include OTA charges. In the previous publications prior to 2019, sales/reservation fees represented the second-largest franchise costs. Without the OTA charges, however, sales/reservation fees account for less than 1.5% of the total franchise fees. This indicates that OTA fees can increase the overall reservation charges for franchisees by a notable margin. However, as mentioned above, OTA charges are not required in all FDDs and often subject to change, we excluded this fee in our analysis beginning in 2019. 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.

The average of total franchise fees in 2020 remained relatively consistent with that of 2019. The addition of Hospitality International brands in our analysis this year placed downward pressure on total franchise fees, but the impact was relatively minor. From our interviews with brand representatives and our review of 2020 FDDs, there were no significant changes in franchise fees or fee structures made. However, as mentioned above, hotel companies have provided temporary deferrals and rebates in franchise fees to ease the financial burden on hotel owners during the COVID-19 pandemic.

MEDIAN FRANCHISE COST COMPARISON

The industry median for a typical franchise cost equaled 11.2%. The following graph illustrates how the median franchise cost compares to each product type reviewed in this report.

Minimal Variance in Median Franchise Cost per Product Type



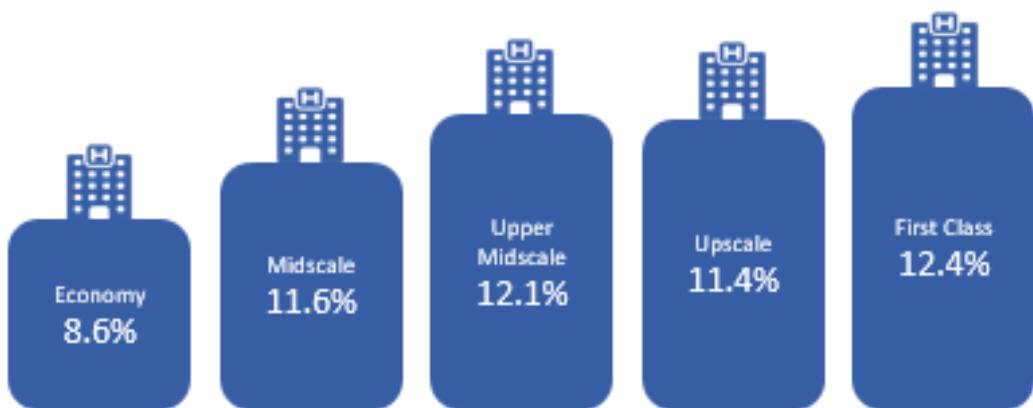
Source: HVS

The limited- and select-service product types recorded the lowest median costs (as a percentage of rooms revenue), while the highest median cost ratio was recorded by full-service hotels. Extended-stay hotels' cost ratios fell squarely in line with the industry median.

However, the spread between the medians per product type is minimal; the median full-service franchise cost (the highest) is just 1.12% more than the median cost to franchise a limited-service branded 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. In addition, despite that a few full-service brands charge royalty fees for F&B facilities, franchise fees for select- and full-service hotels only differ by roughly 1.0% in median franchising costs.

FRANCHISE COSTS ACROSS CHAIN SCALES

Franchise cost as a percentage of rooms revenue varies across hotel chain scales. The average economy hotel franchise cost as a percentage of rooms revenue was 8.6% (the lowest), somewhat higher for upscale hotels at 11.4%, followed by midscale at 11.6%; however, the upper-midscale and first-class categories led the pack, registering 12.1% and 12.4%, respectively. We note that there is not one particular variable contributing to the upper-midscale category's higher franchise costs.

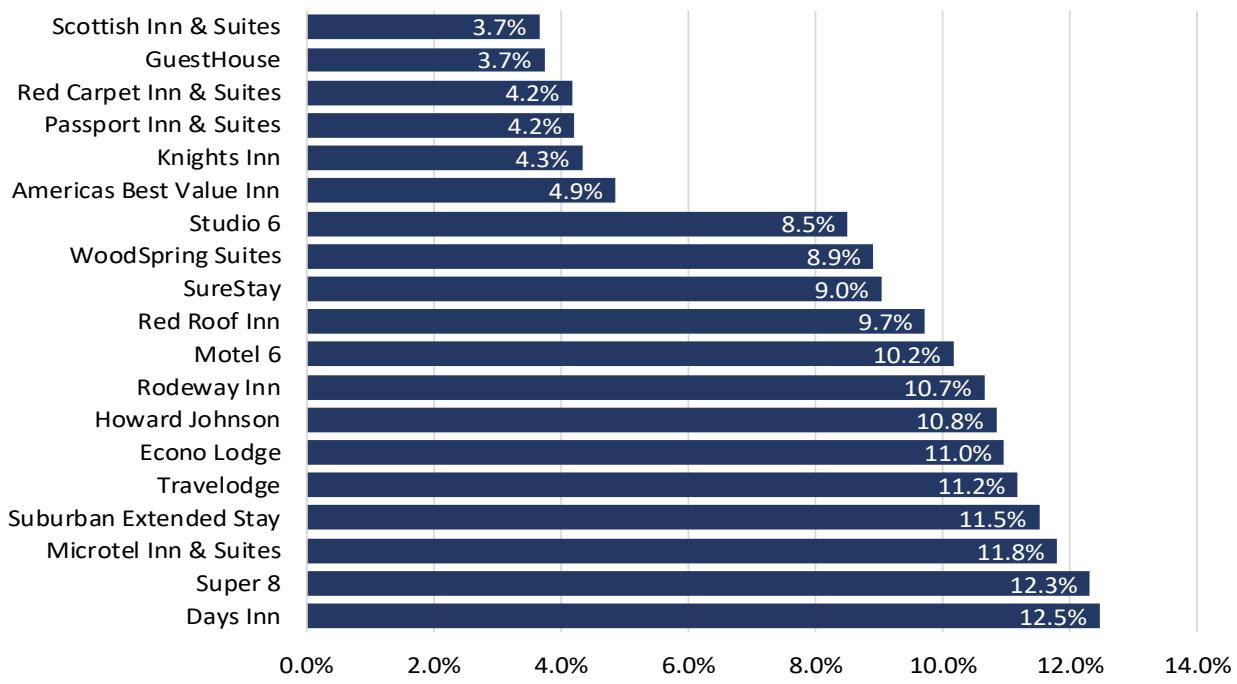


Economy

The 19 economy hotel brands that participated in this report had an average total franchise cost relative to rooms revenue of 8.6%.



Percentage Gaps Between Brands Highest Among Economy Brands



Source: HVS

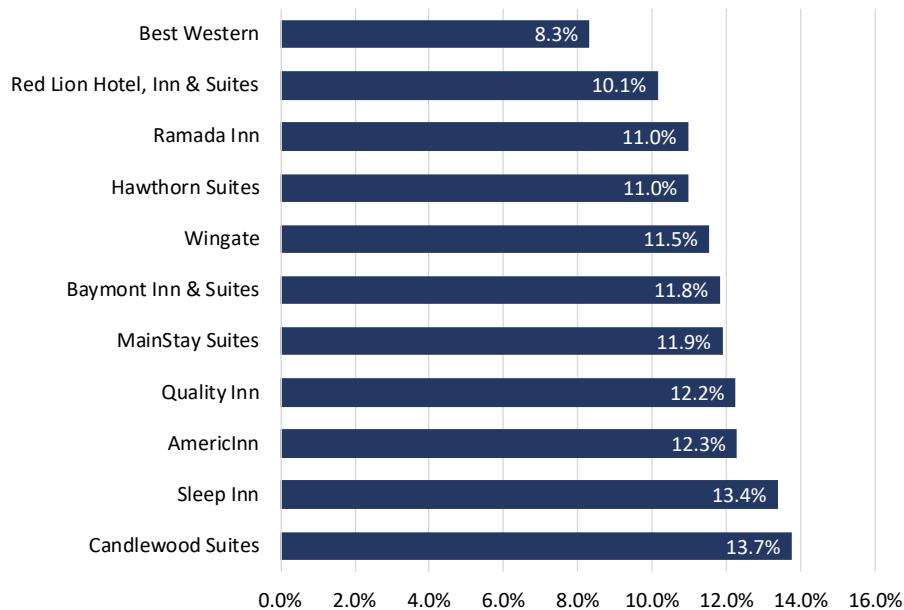
Among all asset classes, the economy hotels averaged the smallest franchise cost relative to rooms revenue, as mentioned above. Hospitality International (Scottish Inn & Suites, Red Carpet Inn & Suites, and Passport Inn & Suites) and RLH Corporation's (Guesthouse, Knights Inn, and Americas Best Value Inn) economy brands had the lowest franchise-fee percentage, less than 5.0% this year. A sizeable jump into the next pricing tier was led by Studio 6, WoodSpring Suites, Red Roof Inn, and SureStay by Best Western, all of which registered total franchise costs relative to rooms revenue of less than 10.0%. Although SureStay by Best Western has relatively low franchise fees among economy hotels, the brand's overall franchise cost is relatively high due to its higher marketing fee. The royalty fee for SureStay by Best Western is approximately two points lower, but the marketing fees are four points higher than other participating Best Western brands. The brands from RLH Corporation, Hospitality International, WoodSpring Suites, and G6 Hospitality do not charge frequent-traveler program fees, which contributed to their lower franchise-fee percentages. In addition, GuestHouse does not charge marketing fees. Motel 6 by G6 Hospitality, Rodeway Inn, and Howard Johnson registered costs under 11.0%. Conversely, Choice and Wyndham brands registered franchise fees at more than 11.0% to rooms revenue. This percentage gap between brands is largely influenced by the loyalty-fee percentage. Parent companies like Choice and Wyndham have a greater loyalty participation rate that may result in a higher loyalty-fee percentage.

Midscale and Upper-Midscale Brands

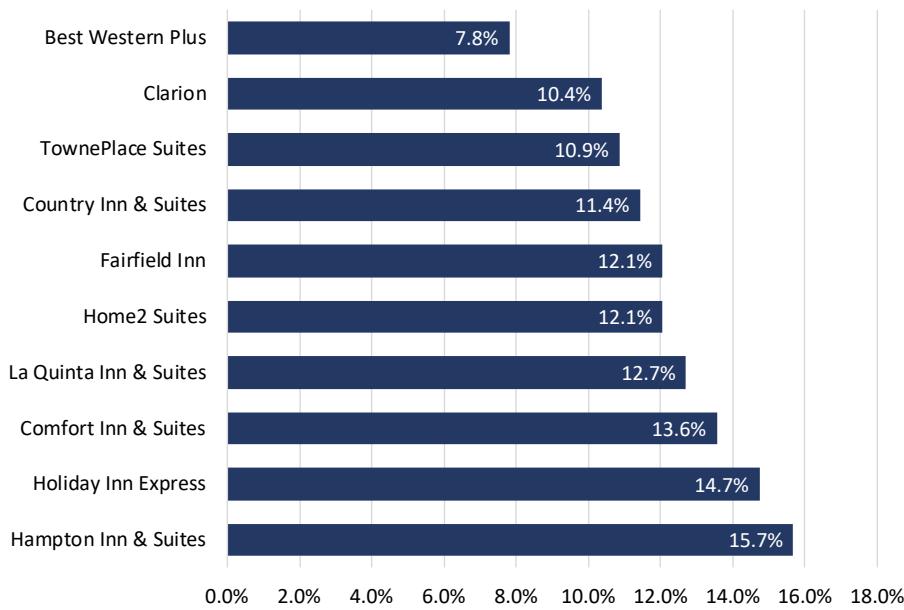
Eleven midscale and ten upper-midscale hotel brands participated in this study. The average franchise cost versus rooms revenue was 11.6% for the midscale brands and 12.1% for the upper-midscale brands.

TOTAL FRANCHISE COSTS TO ROOMS REVENUE

Midscale Brands



Upper-Midscale Brands



Source: HVS

The midscale brands Best Western and Red Lion Hotel, Inn & Suites had the lowest franchise-fee percentages, partly because these brands require minimal or no loyalty fees. Midscale hotels affiliated with IHG, Wyndham, and Choice had higher total franchise fees when compared to rooms revenue.

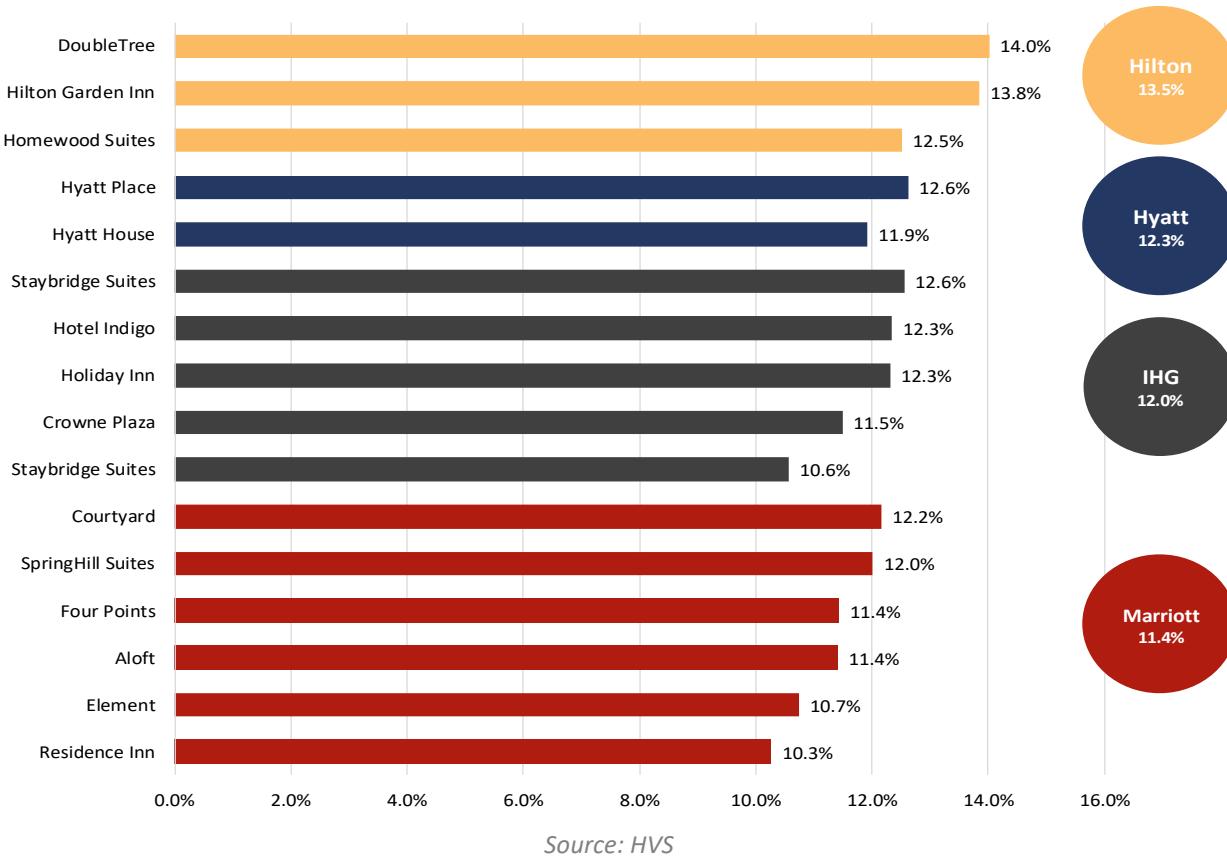
Among the upper-midscale hotels, Holiday Inn Express (IHG) and Hampton Inn & Suites (Hilton) exhibited the highest costs relative to rooms revenue, while Best Western Plus had the lowest franchise-cost percentages. The

difference can be attributed in part to the higher loyalty- and marketing-fee percentages charged by hotel companies that carry more brand recognition than others.

Upscale Brands

Sixteen upscale hotel brands participated in this study, with most brands under the Hyatt, Hilton, Marriott, and IHG umbrellas. The findings of brands affiliated with the top four parent companies are exhibited below.

Upscale Brands from Hyatt, Hilton, IHG, and Marriott Exhibit Fees Over 11.0% to Rooms Revenue

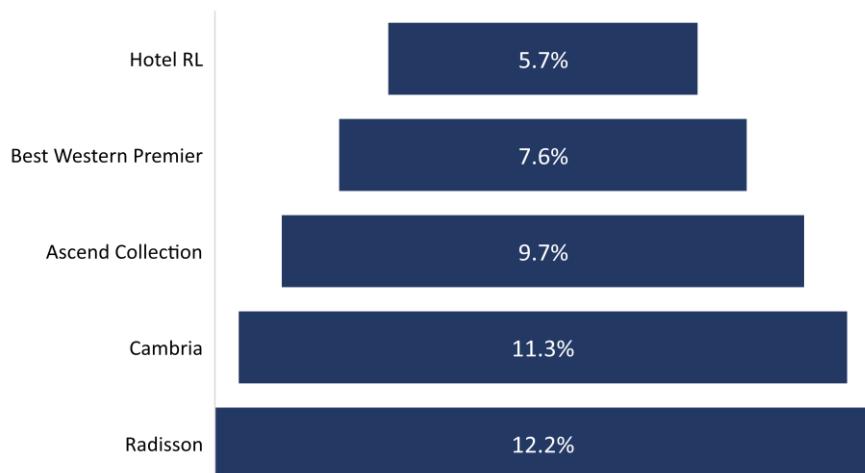


Source: HVS

We note that Hilton had the highest franchise costs out of the four major parent companies, due primarily to Hilton's relatively significant program fee. All participating Hilton brands, aside from its two extended-stay brands (i.e., Home2 Suites and Homewood Suites), impose a program fee of 4.0% of rooms revenue. Meanwhile, the IHG brands' service contribution fees generally range from 2.5% to 3.5% of rooms revenue. Furthermore, service/fund-contribution fees for most of Marriott's participating brands, as well as Hyatt House and Hyatt Place, are also less than 4.0% of rooms revenue. We note that the flat-fee portion of Marriott's program contribution services fee has been allocated to miscellaneous fees in our analysis.

However, it is important to note that OTA fees have not been quantitatively considered in our analysis given the limitation of data disclosed in the FDDs. Franchisees should review and compare OTA fees across various brands, as the OTA charges may have a substantial impact on overall sales/reservation fees.

Other Upscale Brands' Franchise Fees Range from 5.7% to 12.2%



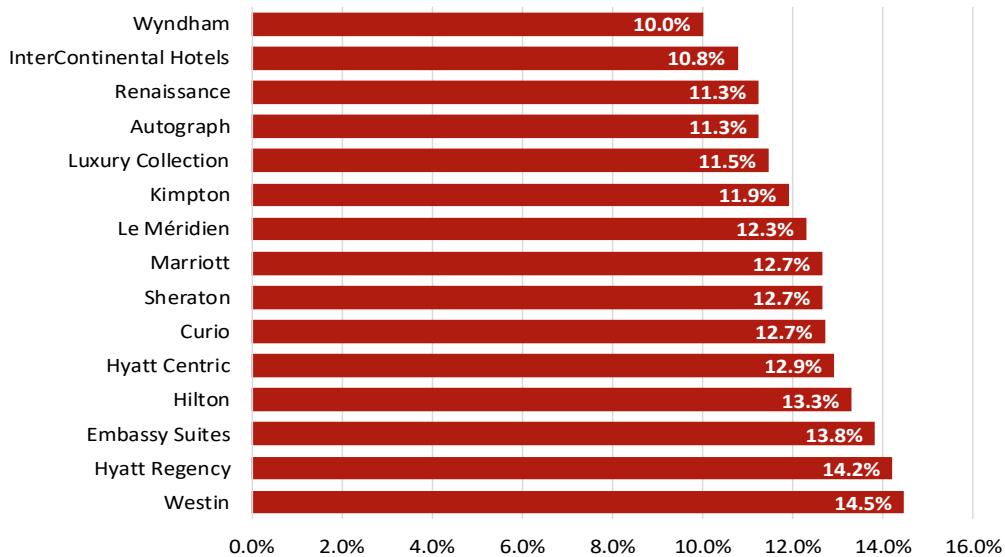
Source: HVS

Outside of the four major parent companies, Radisson reported the highest franchise fees at 12.2%, while Choice's growing brand, Cambria, registered the next highest franchise costs at 11.3% of rooms revenue. Ascend Collection by Choice Hotels registered franchise fees less than 10.0%, and Hotel RL and Best Western reported the lowest franchise fees in the upscale category.

First-Class Brands

First-class hotel brands exhibited the highest overall franchise-cost percentage compared to the brands belonging to lower chain scales. Among the 15 first-class brands that participated in this study, the average franchise cost percentage (to rooms revenue) was 12.4%.

Franchise Cost Percentage to Rooms Revenue for First-Class Brands



Source: HVS

The median franchise cost percentage was 12.7%, and all individual brands were generally near this level. Wyndham had the lowest franchise fee, driven mostly by the comparatively lower royalty fees charged by this

brand. Marriott, Le Méridien, Westin, Hilton, and Hyatt Regency charge a separate F&B royalty fee, which resulted in a higher total cost percentage (to rooms revenue). We note that Westin had the highest franchise costs of all participating brands, largely attributed to its royalty fee, which is 7.0% of rooms revenue.

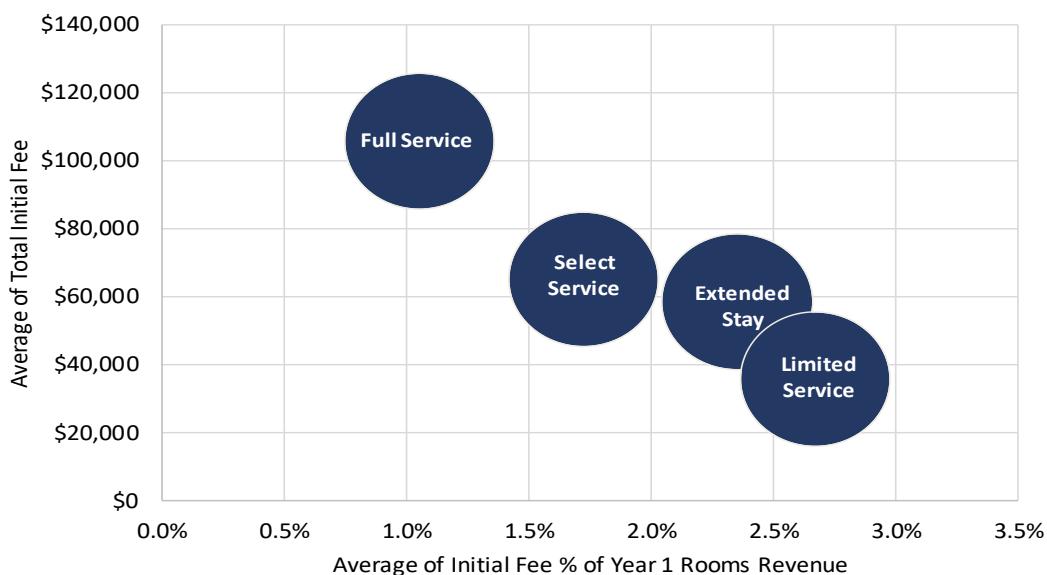
DESCRIPTIONS OF INDIVIDUAL FRANCHISE FEE COMPONENTS

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 the first year's 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 (Passport Inn & Suites) and \$271,867 (Hyatt Regency), though we note that 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



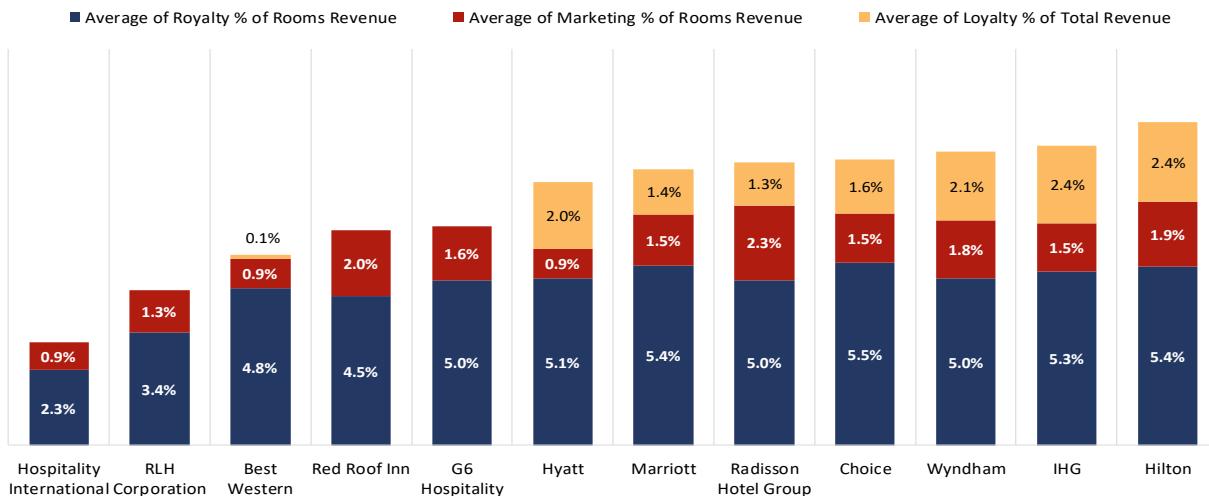
Source: HVS

The graph above illustrates how initial fees vary by hotel asset types. Essentially, the more comprehensive a hotel's facilities are, the higher the total initial fees; however, the average initial fee percentage of first-year rooms revenue exhibits a reverse pattern. The limited-service hotel's initial-fee percentage of first-year rooms revenue averaged 2.7%, versus 1.1% 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 comprises royalty fees, marketing fees, and loyalty fees. These are summarized in the following graph, which illustrates 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 and Marketing and Loyalty Discrepancies



Source: HVS

Overall, Hilton had the highest fee percentages, while Hospitality International had the lowest. We note that Hilton's average loyalty fee decreased by 0.3 points from last year. Per 2019 FDDs, a 4.3% loyalty fee is applied to Hilton brands. The loyalty fees for Hilton Garden Inn, Homewood Suites, and Home2 Suites by Hilton were lowered below 4.0% in 2020. However, Hampton Inn's loyalty fee increased from 2019 by 0.6 points. We note that Marriott (brand), Le Méridien, Luxury Collection, Westin, Sheraton, Hilton, Hyatt Regency, and Radisson charge royalty fees on F&B revenues, which are reflected in the royalty percentage presented above. Moreover, loyalty fees for most of the brands are also applied to revenues other than rooms; however, as stated previously, the FDDs lack further details. Thus, we have only considered the loyalty fees related to rooms revenue for all brands.

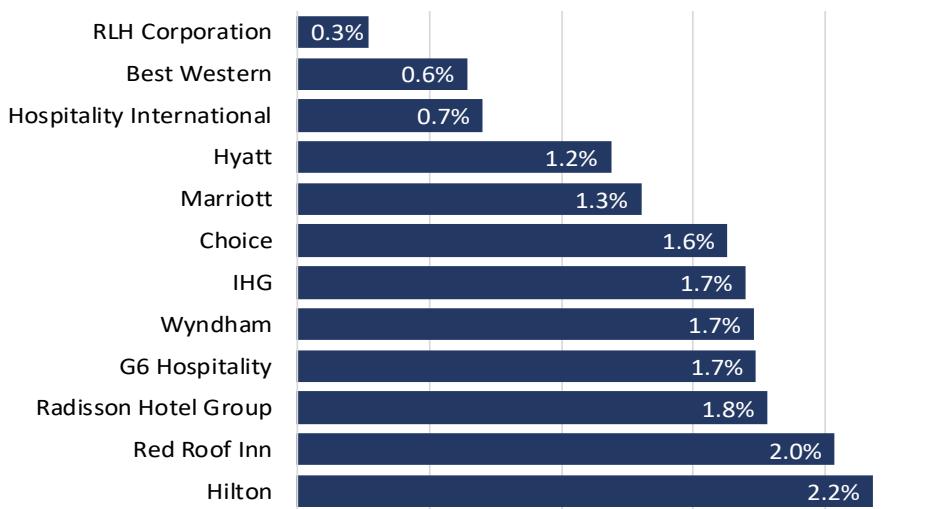
Loyalty Participation Rates on the Rise

Although the loyalty-fee percentage that companies charge has remained relatively flat, the total loyalty fee that hotel owners pay has generally increased, a trend we have observed consistently since the compilation of this guide. This increase is largely due to the rising participation rates in loyalty programs at a few companies. Most notably, the average loyalty participation rate for the contributing Hilton brands was close to 70%, which is a record-high figure since the inception of our franchise-fee guide. The average participation rates also increased. Hyatt, IHG, and Wyndham also experienced growth in loyalty participation rates close to or slightly above five points from the rates reported in the 2019 FDDs. In the past few years, companies' efforts to expand their loyal customer bases have been burgeoning. Some companies offer special "member rates" when guests book directly through a brand's official website, and Hyatt Place started offering free breakfast to its frequent travelers. Additionally, many hotel companies have created their own applications for mobile devices or expanded their presence on social media to engage with and attract tech-savvy travelers.

Sales/Reservation 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 sales/reservation fees on a company-by-company basis.

Brand Sales/Reservation Fees Range from 0.3% to 2.2% of Rooms Revenue



Source: HVS

As illustrated above, at approximately 2.2%, Hilton requires the largest sales/reservation fee from its brands, whereas RLH Corporation requires 0.3% in sales/reservation fees. Hilton has relatively large sales/reservation fees given its higher program fee. Per our conversations with Hilton brand representatives, 50% of the program fee was allocated to sales/reservation fees in our analysis. Additionally, OTA fees were excluded in this analysis, as noted previously. The amount a hotel company charges for its sales/reservation fee depends heavily 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 OTAs, and booking via the hotel directly. In the chart above, Red Roof Inn, G6 Hospitality, and Wyndham have the highest sales/reservation fees percentage to rooms revenue. Although these companies charge similar sales/reservation fees as other major brands do, the percentage is higher for the listed firms, as these companies include more limited-service hotels with lower average rates (whose total revenue would be lower). Hyatt's reservation-fees percentage is relatively low partly because Hyatt Regency and Hyatt Centric do not charge percentage sales/reservation fees to rooms revenue. Instead, the two brands charge higher miscellaneous fees for their affiliations.

In addition to sales/reservation fees charged as a flat percentage of rooms revenue (or per room), which vary by specific brand and are 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 but are sometimes reflected as a percentage of revenue through the given channel. Moreover, unlike flat sales/reservation fees, which vary by brand, these fees vary depending on the parent hotel company. The following table clarifies the various charges per reservation channel for the participating parent companies, as reflected in their 2020 FDDs. We note that this does not comprise the entirety of any brand's sales/reservation fee but does provide insight into the way a hotel's reservation channels can affect the overall cost of a brand affiliation. Different brands charge additional fees for

reservations that originate from third-party booking channels. It is also important to remain cognizant of the dollar amounts of these fees in the context of each brand's RevPAR.

Sales/Reservation Fees by Channel Vary by Parent Company

Average of Sales Fees on Each Channel					
	CRS	Brand	GDS	% Sales/Reservation fee to Rooms Revenue	\$ Sales fee per Occupied Room
Best Western			\$7.90		
Choice			\$7.70	1.50%	
G6 Hospitality		\$1.50		1.63%	
Hilton		\$0.18	\$5.45	1.94%	
Hyatt			\$8.45	1.75%*	
IHG			\$6.40	1.47%	
Marriott				1.30%	
Radisson				1.63%	\$3.38
Red Roof Inn			\$6.30	2.00%	
RLH Corporation**	\$2.45	\$2.55	\$7.90		
Wyndham		\$3.50***	\$3.19	1.67%	

*This does not apply to Hyatt Centric and Hyatt Regency

** These fees represent the charges that the brands implement. FDDs may exhibit higher fees for some of the sales charges for this company.

***Only applies to Wyndham and Wyndham Garden

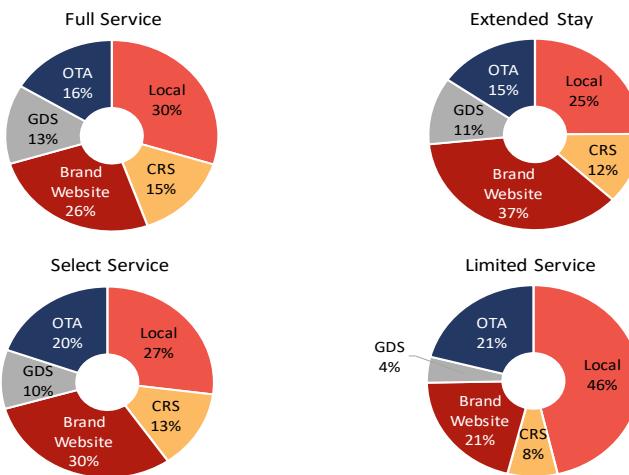
Source: HVS

There is no identifiable pattern with respect to which companies charge what types of sales/reservation fees and how much those fees amount to. Additionally, it is difficult to understand how the exhibited sales/reservation fees affect the overall sales/reservation fees percentage to rooms revenue, as total sales/reservation fees depend on various factors such as rooms revenue, occupied room nights, and segmentation for each reservation channel. Therefore, we recommend carefully reviewing the data when selecting a brand, depending on hotels' segmentation characteristics in reservation channels.

The following charts illustrate the reservation channel breakdown for a given product type. Each brand reported its breakdown 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



Source: HVS

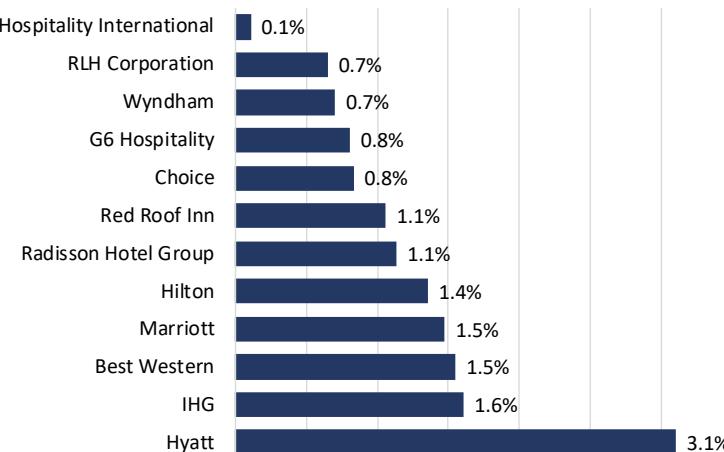
* The total reservation channel breakdown for extended-stay brands does not add up to 100% as G6 brands' breakdowns were not provided for our study

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 by sales teams at the respective hotel. 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

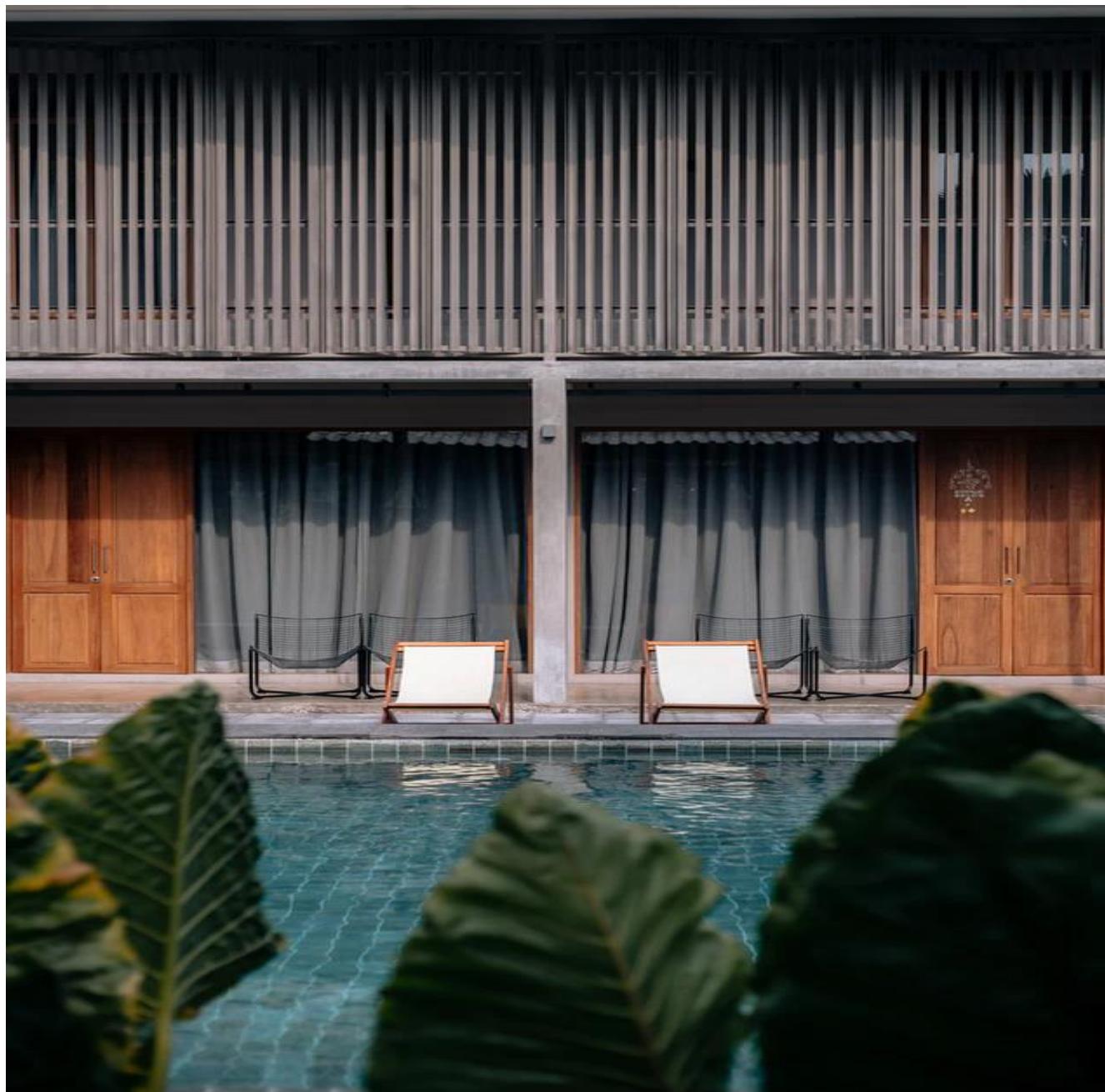
Similar to sales/reservation fees, a hotel company stipulates miscellaneous fees for all brands within its portfolio. As such, miscellaneous fees were reviewed on a hotel-company basis, and then each company's brands were divided by chain scale. The following graph illustrates average miscellaneous fees for each hotel company's portfolio of brands.

Miscellaneous Fees to Rooms Revenue Do Not Correlate to Sizes of Parent Companies



Source: HVS

Miscellaneous fees can represent many different items that support a hotel's operation, as noted previously. As exhibited in the graph above, miscellaneous-fee percentages do not correlate to parent company size for various reasons. For example, Hyatt has a large percentage, as Hyatt Centric and Hyatt Regency do not charge sales/reservation fees per rooms revenue, and Hyatt Regency does not require a marketing fee. Instead, these two brands charge flat fees per guestroom for service expenses, which are categorized as a miscellaneous fee. Additionally, flat fees for program service contribution charges for Marriott have been allocated to the miscellaneous-fee category. Hilton brands that had relatively high fees in the other franchise fees category charge lower miscellaneous charges compared to other major hotel companies such as Hyatt, IHG, and Marriott.



TAKEAWAYS PER BRAND OR HOTEL COMPANY

The following section of this report provides HVS insights into data supplied by select hotel companies. Subsequently, we discuss soft brands and affiliations, inclusive of Preferred Hotels & Resorts, on page 26.

	Average of Royalty % of Rooms Revenue	Average of Marketing % of Rooms Revenue	Average of Loyalty % of Total Revenue	Average of Sales/Reservation Fees % of Rooms Revenue	Average of Misc % of Rooms Revenue	Average of Initial fee % to Total Room Revenue
Hospitality International	2.3%	0.9%	0.0%	0.7%	0.1%	0.1%
RLH Corporation	3.4%	1.3%	0.0%	0.3%	0.7%	0.2%
Best Western	4.8%	0.9%	0.1%	0.6%	1.5%	0.2%
G6 Hospitality	5.0%	1.6%	0.0%	1.7%	0.8%	0.2%
Red Roof Inn	4.5%	2.0%	0.0%	2.0%	1.1%	0.1%
Marriott	5.4%	1.5%	1.4%	1.3%	1.5%	0.1%
Choice	5.5%	1.5%	1.6%	1.6%	0.8%	0.2%
Wyndham	5.0%	1.8%	2.1%	1.7%	0.7%	0.2%
Radisson Hotel Group	5.0%	2.3%	1.3%	1.8%	1.1%	0.2%
Hyatt	5.1%	0.9%	2.0%	1.2%	3.1%	0.1%
IHG	5.3%	1.5%	2.4%	1.7%	1.6%	0.1%
Hilton	5.4%	1.9%	2.4%	2.2%	1.4%	0.1%

Source: HVS

Best Western: Best Western reported relatively low membership fees overall. While the royalty fee is in line with most of major companies, the marketing, loyalty, reservation, and miscellaneous fees as a percentage to rooms revenue were some of the lowest among the surveyed hotel companies. Best Western had been known for its flat membership charges for royalty fees; however, in recent years, Best Western began charging royalty fees as a percentage of rooms revenue. However, hotels with existing membership agreements may continue to be charged flat membership fees. We also note that SureStay's 4% of sales and marketing fee was equally split between the reservation and marketing fees. SureStay requires relatively high marketing fees compared to other brands in similar asset class.

Radisson Hotel Group: Compared with other large hotel companies, Radisson Hotel Group (RHG) reported relatively low overall franchise costs as a percentage to rooms revenue. The company's loyalty and miscellaneous fees ranked especially low, with the marketing fee percentage slightly higher than similar brands.

Choice: Choice's economy and midscale brands require higher fees compared with others in the same chain scale; however, the company boasts relatively high brand participation rates contributing to rooms reservations, which results in higher loyalty-fee percentages to rooms revenue.

G6: The company has relatively low total franchise fees, largely due to its lack of a loyalty fee. G6 Hospitality only has economy brands, specifically, Motel 6 and Studio 6. Nevertheless, the total franchise fee for G6 Hospitality is higher than RLH and Hospitality International, which also include economy hotels, given the 5.0% royalty fee and higher marketing and sales/reservation fees.

Hilton: The company has the highest franchise-fee percentage among all the brands. The fee percentage is comparable to Hyatt and IHG. Albeit high, it is important to note that the company's brands have the strongest loyalty-program participating rate among all brands listed in this report.

Hospitality International: This company is newly added to our report this year, boasting the lowest total franchise fee to rooms revenue among all participating companies. In our analysis, Passport Inn & Suites, Scottish Inn & Suites, and Red Carpet Inn brands were included. Hospitality International offers primarily economy, limited-service hotels and implements a fixed-fee franchise model for a majority of their franchise fees.

Hyatt: All the Hyatt brands reported in this guide are either upscale or first-class brands. Therefore, the total percentage appears high, but the fee percentages are consistent with other upscale and first-class brands.

IHG: The IHG brands charge relatively high reservation and miscellaneous fees. In addition, given the recent increase in loyalty participation rates, loyalty fees as a percentage of rooms revenue also rose compared to what was recorded in past years.

Marriott: Since the merger between Starwood and Marriott, the company has made various structural changes in its FDDs. Beginning in 2019, the company implemented a program service contribution fee for all participating brands, which includes marketing, reservation, and miscellaneous charges. In addition, flat fees of the program service contribution fee were allocated to the miscellaneous category. Due to the allocation of the program service contribution charges, the miscellaneous fees are relatively high compared to other brands.

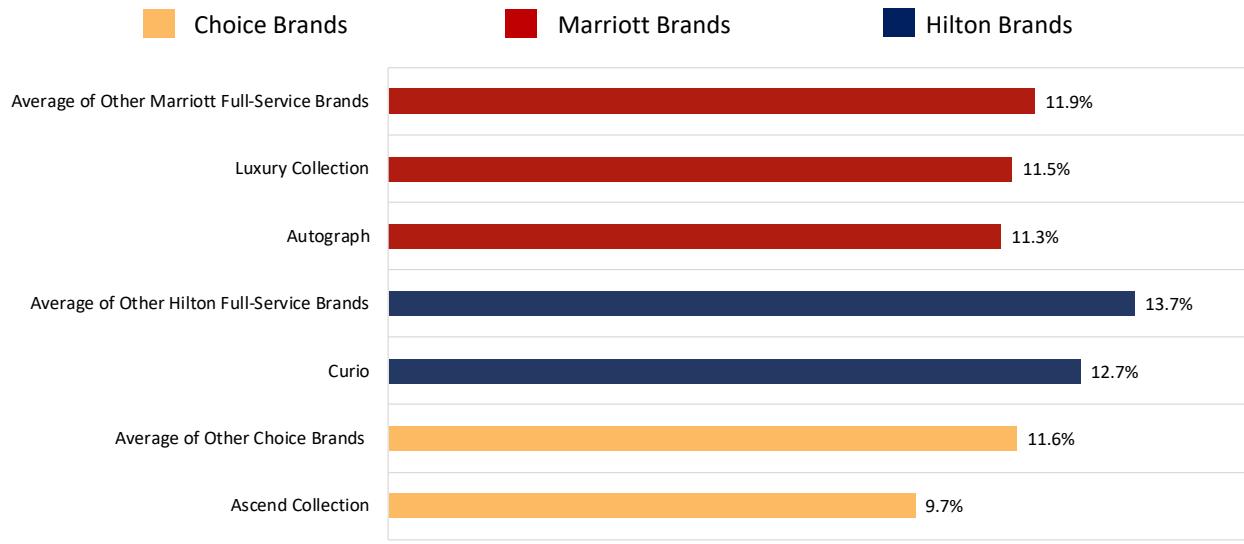
Red Roof Inn: Similar to other economy brands, Red Roof Inn requires comparatively low franchise fees. Meanwhile, the brand's marketing and sales/reservation fees were higher than other competing brands (e.g., Best Western, Motel 6, and Studio 6).

RLH Corporation: RLH Corporation's predominantly fixed-fee franchise model results in some of the lowest costs in the industry. Its loyalty program, Hello Rewards, does not require hotels to purchase points; thus, the company is able to deliver the program at a lower fixed fee (included in "miscellaneous").

Wyndham: Wyndham's economy, midscale, and upper-midscale brands charge higher fees than others in the same chain scale; however, its first-class brand, Wyndham, boasted lower fees than other brands in the same chain scale.

COLLECTION FRANCHISES COMPARISON

Collection franchises, such as Ascend Collection, Curio, Autograph, and Luxury Collection, generally appeal to independent hotel owners who want more autonomy with respect to design and programming standards but the benefits of a major hotel brand's reservation system. The following graph compares collection franchises' overall franchise costs to those of other brands within the same parent company.



Source: HVS

Our findings illustrate that collection franchises generally charge lower franchise fees than the other brands

within the same parent company. Ascend Collection is one of Choice Hotels' two full-service brands, which generally charges higher franchise fees; however, Ascend Collection charges almost 2.0% less than the average of total franchise fees charged by other Choice brands, which mainly consist of limited-service and extended-stay hotels. Although the difference is relatively minor, franchise fees for Curio Collection by Hilton are also lower, about 1.0% less than the average total franchise fees for other Hilton full-service brands. Marriott's collection franchises (Autograph by Marriott and Luxury Collection by Marriott) also charge lower total franchise costs in comparison to other full-service Marriott brands; however, we note that the spread between Autograph, Luxury Collection, and the average of other Marriott full-service brands is relatively small, due in part to the Luxury Collection's royalty fees for F&B revenues.

In recent years, the hotel industry has experienced a spurring emergence of new collection franchises. For example, Hilton added the Tapestry by Hilton and Tempo by Hilton collections. On the Marriott side, new additions under the collection umbrella have included the Tribute Portfolio by Marriott and Design Hotels. Hyatt launched The Unbound Collection by Hyatt in 2016. In 2019, the company added the Two Roads Hospitality portfolio to its family, inclusive of the Alila, Destination, and Joie de Vivre. Best Western launched SureStay Collection (economy and midscale), Signature Collection (upper-midscale), and Premier Collection (upscale and upper-upscale) between 2015 and 2017. Furthermore, in 2019, the company acquired WorldHotels, giving it a wider platform in the upper-upscale and luxury segments. For this analysis, we have selected collection franchises that were introduced several years ago so that we have relatively large sample sets of properties in the United States to accurately reflect the brands' performances with stabilized occupancy and ADR levels.

“SOFT BRAND” AND “INDEPENDENT COLLECTION” COMPARISON

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

Independent soft-branded properties benefit from the reservation and marketing platforms of a large hotel company (often with international recognition), while maintaining nearly total control of business strategy, yield management, amenity offering, and creative design elements. Independent soft-branded hotels have different fee structures that are, in most cases, less costly, but the exposure and “brand reach” may be more limited.

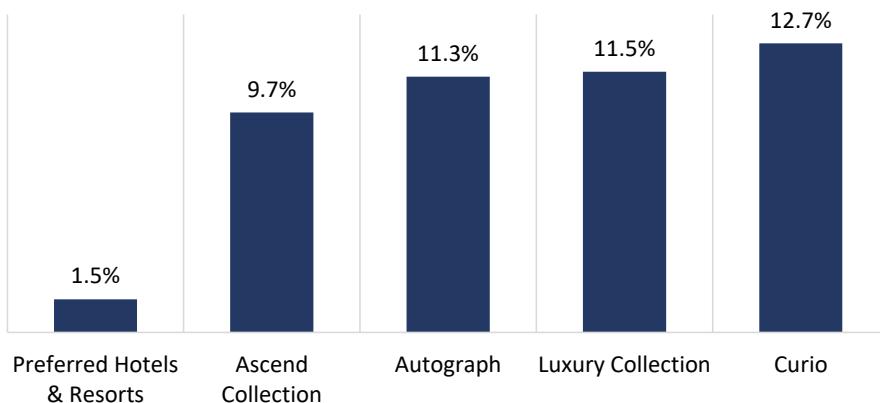
Independent franchise hotel collections, like those noted above, offer the marketing and reservation platform of their parent company, but the development standards and facility programming tend to be more defined and rigorous. The fee structure for these collections appears to be in line with those of similar chain-scale-ranked hotels within the respective parent company.

Such hotel companies offer a flexible option for owners who seek 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” and “soft brands” 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 franchise collections, who use the typical franchise fee model, is the application of fees toward revenues. While a typical franchise applies stipulated fees to total rooms revenue, independent hotel companies only apply fees to 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 consider 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 may also provide 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) has a strong appeal as an alternative to the typical franchise model.

“Collection” Franchises versus Preferred Hotels & Resorts: Higher Costs for Wider Array of Benefits



Source: HVS

**Due to soft brand's different fee structures, the graph only illustrates total fee percentages*

***Preferred Hotels & Resorts cost to rooms revenue represents the average of all sub-brands under Preferred Hotels & Resorts*

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.

This concept has been further escalated as the retail industry continues to work to provide its customers with “experiential retail” to further tap into already-loyal customer’s pocketbooks and to extend brand reach and influence. Hospitality appears to be a natural fit with brands like Shinola, West Elm, RH, Ikea, Vera Bradley, and many others entering the hotel business. Very little data with respect to these fee structures are available, and it is likely that as popularity of these brands grows and franchising opportunities become available, the market for these types of properties will likely also expand.

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 franchisor’s name carries to 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. This has been especially evident with the emergence of the alternative lodging marketplace platforms of Airbnb, Sonder, and VRBO, to name a

few. Only time will tell how the tech industry defines the future of the hotel industry, as big names such as Google, Amazon, and Expedia look to further capitalize on the extraordinary amounts of consumer data available to them. As such, it is imperative that hotel companies continue to expand and reposition their brand portfolios to match traveler preferences.

Nevertheless, the existing hotel companies have successfully broadened their frequent-traveler programs, and many were able to achieve record-high loyalty participation rates as of year-end 2019. The hotel companies have and will continue to focus on the use of technology, initiating innovative strategies to expand their loyal customer base to stay competitive against emerging technology companies in the hotel industry.

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

At the writing of this study, the COVID-19 vaccines were beginning to be distributed in the United States. Technology advancements, traveler preferences, and safety concerns, among a multitude of other factors, have influenced the hospitality industry amid the pandemic. We note that there were no major structural changes in the franchise fees across the participating brands in response to the COVID-19 pandemic. However, hotel companies have responded and worked with individual franchisees on a case-by-case basis to address the needs of their franchisees today with a renewed focus on their success in the future. Reportedly, many companies have been providing rebates and payment deferments to hotel owners in 2020. However, how the current pandemic will shape the FDD structures and fee negotiations in the upcoming year remains uncertain at this time.

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 [Bomie Kim](#). For information on feasibility studies, cost/benefit analyses, or rebranding studies, please contact [Kasia Russell, MAI](#); contact information is provided on the following page.

*Note that an appendix containing brand-specific data concludes this publication.

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APPENDIX

Each brand's total costs, including a breakdown by component, are presented below. These ratios are depicted as a percentage of rooms revenue. For the brands that stipulate F&B royalty fees, the total cost to total revenue ratio has been included, which shows the total franchise cost over total revenue (incorporating the additional, typically significant, portion of F&B 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	Sales/Reservation 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	8.3%	5.0%	0.6%	0.1%	0.2%	3.4%	2.1%	—
Best Western	Best Western Plus	7.8%	5.0%	0.5%	0.1%	0.2%	2.6%	1.8%	—
Best Western	Best Western Premier	7.6%	5.0%	0.5%	0.1%	0.1%	2.0%	1.7%	—
Best Western	SureStay	9.0%	4.0%	2.0%	0.1%	2.1%	3.6%	0.5%	—
Radisson Hotel Group	Country Inn & Suites	11.4%	5.0%	2.5%	1.5%	1.4%	3.2%	0.8%	—
Radisson Hotel Group	Radisson	12.2%	5.0%	2.0%	1.1%	2.2%	2.0%	1.5%	10.1%
Choice	Ascend Collection	9.7%	5.0%	1.3%	1.5%	1.4%	1.9%	0.5%	—
Choice	Cambria	11.3%	6.0%	1.5%	1.5%	1.6%	1.3%	0.6%	—
Choice	Clarion	10.4%	5.0%	1.5%	1.5%	1.7%	2.1%	0.6%	—
Choice	Comfort Inn & Suites	13.6%	6.0%	1.8%	2.4%	1.9%	3.2%	1.3%	—
Choice	Econo Lodge	11.0%	5.0%	1.5%	1.5%	1.7%	3.8%	1.0%	—
Choice	MainStay Suites	11.9%	6.0%	1.3%	2.2%	1.3%	4.3%	0.8%	—
Choice	Quality Inn	12.2%	5.3%	1.8%	2.1%	2.0%	3.5%	1.0%	—
Choice	Rodeway Inn	10.7%	5.0%	1.5%	1.2%	1.8%	2.3%	1.1%	—
Choice	Sleep Inn	13.4%	5.5%	1.8%	2.3%	1.9%	3.3%	1.7%	—
Choice	Suburban Extended Stay	11.5%	6.0%	1.3%	2.2%	1.4%	2.3%	0.6%	—
Choice	WoodSpring Suites	8.9%	6.0%	1.3%	0.0%	1.3%	3.5%	0.1%	—
G6 Hospitality	Motel 6	10.2%	5.0%	2.0%	0.0%	2.2%	2.3%	0.8%	—
G6 Hospitality	Studio 6	8.5%	5.0%	1.3%	0.0%	1.3%	2.3%	0.8%	—
Hilton	Curio	12.7%	5.0%	2.0%	2.2%	2.1%	0.9%	1.3%	—
Hilton	DoubleTree	14.0%	5.0%	2.0%	2.6%	2.3%	1.0%	2.0%	—
Hilton	Embassy Suites	13.8%	5.5%	2.0%	3.1%	2.3%	0.8%	0.9%	13.8%
Hilton	Hampton Inn & Suites	15.7%	6.0%	2.0%	3.5%	2.3%	2.5%	1.7%	—
Hilton	Hilton	13.3%	5.8%	2.0%	2.0%	2.1%	0.8%	0.7%	—
Hilton	Hilton Garden Inn	13.8%	5.5%	2.0%	2.6%	2.4%	1.6%	1.2%	—
Hilton	Home2 Suites	12.1%	5.0%	1.8%	1.5%	2.0%	2.4%	1.7%	—
Hilton	Homewood Suites	12.5%	5.5%	1.8%	1.9%	1.9%	1.8%	1.3%	—
Hospitality International	Passport Inn & Suites	4.2%	2.4%	0.9%	0.0%	0.7%	1.1%	0.1%	—
Hospitality International	Scottish Inn & Suites	3.7%	2.0%	0.8%	0.0%	0.7%	1.1%	0.1%	—
Hospitality International	Red Carpet Inn & Suites	4.2%	2.4%	0.9%	0.0%	0.7%	1.2%	0.1%	4.2%
Hyatt	Hyatt Centric	12.9%	5.0%	0.0%	2.4%	0.2%	0.8%	5.2%	—
Hyatt	Hyatt House	11.9%	5.0%	1.8%	2.2%	2.1%	1.3%	0.7%	—
Hyatt	Hyatt Place	12.6%	5.0%	1.8%	2.2%	2.2%	1.8%	1.3%	—
Hyatt	Hyatt Regency	14.2%	5.2%	0.0%	1.3%	0.2%	1.5%	5.2%	—

Source: HVS

Company	Brand	Total Cost to Rooms Revenue	Royalty Fee to Rooms Revenue	Marketing Fee to Rooms Revenue	Loyalty Fee to Rooms Revenue	Sales/Reservation Fee to Rooms Revenue	Initial Fee to 1st year Rooms Revenue	Miscellaneous Fees to Rooms Revenue	Total Cost to Total Revenue
IHG	Candlewood Suites	13.7%	5.0%	1.3%	2.9%	1.4%	2.7%	2.9%	—
IHG	Crowne Plaza	11.5%	5.0%	1.5%	1.8%	1.8%	1.0%	1.3%	—
IHG	Holiday Inn	12.3%	5.0%	1.5%	2.3%	1.8%	1.2%	1.6%	—
IHG	Holiday Inn Express	14.7%	6.0%	1.5%	2.9%	1.8%	2.2%	2.4%	—
IHG	Hotel Indigo	12.3%	5.0%	1.8%	2.1%	2.0%	1.5%	1.4%	—
IHG	InterContinental Hotels	10.8%	5.0%	1.5%	2.0%	1.7%	0.4%	0.6%	—
IHG	Kimpton	11.9%	6.0%	1.5%	2.0%	1.7%	0.6%	0.8%	—
IHG	Staybridge Suites	12.6%	5.0%	1.3%	2.9%	1.4%	1.6%	1.9%	—
Marriott	Aloft	11.6%	5.5%	1.0%	1.6%	2.2%	1.6%	1.3%	—
Marriott	Autograph	11.3%	5.0%	1.5%	2.1%	0.5%	1.1%	2.0%	—
Marriott	Courtyard	12.1%	6.0%	2.0%	1.3%	1.4%	2.0%	1.3%	12.1%
Marriott	Element	11.1%	5.5%	1.0%	1.0%	2.2%	1.7%	1.3%	11.1%
Marriott	Fairfield Inn	12.1%	5.5%	2.5%	0.8%	1.4%	3.1%	1.7%	12.1%
Marriott	Four Points	11.3%	5.5%	1.0%	1.3%	2.2%	1.6%	1.2%	—
Marriott	Le Méridien	12.3%	4.5%	1.0%	1.8%	1.4%	1.1%	2.2%	—
Marriott	Luxury Collection	11.5%	4.1%	1.0%	1.7%	1.3%	0.5%	0.9%	8.2%
Marriott	Marriott	12.7%	6.9%	1.0%	1.8%	0.6%	1.0%	1.7%	—
Marriott	Renaissance	11.3%	5.0%	1.5%	2.3%	0.6%	0.9%	1.8%	—
Marriott	Residence Inn	10.2%	6.0%	2.5%	0.7%	0.1%	2.0%	0.8%	—
Marriott	Sheraton	12.7%	5.1%	1.0%	1.3%	1.4%	1.1%	1.9%	—
Marriott	SpringHill Suites	11.9%	5.5%	2.5%	1.0%	1.4%	2.0%	1.4%	—
Marriott	TownePlace Suites	10.9%	5.5%	2.0%	0.6%	1.4%	2.3%	1.3%	—
Marriott	Westin	14.5%	6.1%	1.3%	1.6%	1.7%	0.8%	1.4%	—
Preferred Hotels & Resorts	Preferred Hotels & Resorts	1.5%	0.3%	0.1%	0.2%	0.8%	0.1%	0.0%	—
Red Roof Inn	Red Roof Inn	9.7%	4.5%	2.0%	0.0%	2.0%	1.7%	1.1%	—
RLH Corporation	Americas Best Value Inn	4.9%	2.2%	1.5%	0.0%	0.2%	2.9%	0.7%	—
RLH Corporation	GuestHouse	3.7%	3.3%	0.0%	0.0%	0.2%	2.1%	0.1%	—
RLH Corporation	Hotel RL	5.7%	2.8%	1.8%	0.0%	0.3%	1.0%	0.7%	—
RLH Corporation	Knights Inn	4.3%	3.8%	0.0%	0.0%	0.2%	2.9%	0.2%	—
RLH Corporation	Red Lion Hotel, Inn & Suites	10.1%	5.0%	3.0%	0.0%	0.5%	2.0%	1.5%	—
Wyndham	AmericInn	12.3%	5.0%	2.0%	2.7%	1.3%	3.7%	1.0%	—
Wyndham	Baymont Inn & Suites	11.8%	5.0%	2.0%	2.3%	1.5%	2.5%	0.9%	—
Wyndham	Days Inn	12.5%	5.5%	1.9%	2.1%	1.9%	3.1%	0.8%	—
Wyndham	Hawthorn Suites	11.0%	5.5%	1.3%	2.3%	1.3%	2.2%	0.5%	—
Wyndham	Howard Johnson	10.8%	4.5%	2.0%	1.9%	2.0%	1.6%	0.4%	—
Wyndham	La Quinta Inn & Suites	12.7%	5.0%	2.3%	2.2%	2.4%	2.6%	0.6%	12.7%
Wyndham	Microtel Inn & Suites	11.8%	6.0%	1.0%	2.5%	1.0%	4.2%	1.0%	11.8%
Wyndham	Ramada Inn	11.0%	4.5%	2.0%	1.9%	2.0%	2.0%	0.4%	11.0%
Wyndham	Super 8	12.3%	5.5%	1.5%	2.3%	1.5%	3.1%	1.3%	12.3%
Wyndham	Travelodge	11.2%	4.5%	2.0%	1.6%	2.0%	2.8%	0.8%	11.2%
Wyndham	Wingate	11.5%	4.5%	2.0%	2.2%	2.1%	2.0%	0.6%	11.5%
Wyndham	Wyndham	10.0%	5.0%	1.5%	1.6%	1.7%	1.5%	0.1%	10.0%
Wyndham	Wyndham Garden	10.1%	5.0%	1.5%	1.5%	1.8%	1.1%	0.2%	10.1%

Source: HVS

* Marriott, Le Méridien, Luxury Collection, Westin, Sheraton, Hilton, Hyatt Regency, and Radisson charge royalty fees on F&B revenues, which are reflected in total costs to rooms revenue.

** Sum of each category should not add up to the total cost noted above because the tables reflect initial fee to first-year rooms revenue (rather than to total rooms revenue). The total cost to rooms revenue is calculated with initial fee to rooms revenue for ten projection years.