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HOTEL FRANCHISE FEE GUIDE

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2011 U.S. Hotel Franchise Fee Guide

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 based primarily 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, goodwill, 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 reflagging 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 (e.g., laying a higher-grade carpet or 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 fees are usually paid monthly over the term of the agreement. Continuing costs generally include a royalty fee, an advertising or marketing contribution fee, and a reservation fee. In addition, 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. This year's guide allocates a greater percentage of room nights to the brand's frequent traveler program, approximately 20% of total reservations, up from 5% in 2009's Franchise Fee Guide, thus increasing the costs associated with frequent traveler programs.

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 determined using 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. For 2010, the ratio of royalty fee to rooms revenue ranged from 3.0% to 7.0%. Advertising and marketing fees are usually calculated as a percentage of rooms revenue, and ranged from 1.0% to 4.3%.

In some cases, reservation fees are based on a combination of a percentage of rooms revenue (0.4% to 10.0%) and/or a dollar amount per available room per month (\$1.10 to \$10.00), 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 (0.3% to 6.2%) generated by a program member staying at a hotel, or a fixed dollar amount (\$4.20 to \$4.20) for each room occupied by a program member. Many brands also require hotels to contribute a one-time participation fee, while others use a combination of the three methods. 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 revenue 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 disclosure documents known as either a Uniform Franchise Offering Circular (UFOC) or Franchise Disclosure Document (FDD). Franchisors must reveal and adhere to all terms of the franchise agreement as set forth in these documents, 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 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 (STR), 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 STR. The first-class category includes brands that are classified as upscale, upper-upscale, or luxury brands by STR. Table 1 summarizes the assumptions incorporated in Tables 2, 3, and 4.

TABLE 1: ASSUMPTIONS INCORPORATED INTO EACH TABLE

	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 Occupied 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	60.0%
Total Food and Beverage Revenue	N/A	N/A	\$60,680,851
Total Reservations (% of Rooms Occupied)	91.0%	96.0%	96.0%
Central Reservations System	10.0%	10.0%	10.0%
Internet - Brand Website	35.0%	35.0%	30.0%
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	10.0%	15.0%	20.0%
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 franchise documents have provisions for future adjustments of these costs; therefore, we have used a cost adjustment factor calculated based on the underlying rate of inflation of 3.0%.

Please note, our study results may not be indicative of the impact an individual brand can have on a hotel's overall profitability. Furthermore, our study does not reflect, nor does it claim to address, operating results of any one brand, or any one brand affiliation with any one property. This 2011 U.S. Franchise Fee Guide is meant to illustrate a basic comparison among franchise fees charged by participants. Quantifiable data taken from the participants' Uniform Franchise Offering Circulars (UFOC) or Franchise Disclosure Documents (FDD) have formed the basis of our analysis.

We have included a total of 89 franchise brands in our study. This number includes brand variants; for example, Hampton Inn & Suites is a variant of Hampton Inn, and Wyndham Garden is a variant of Wyndham. Our study covered 21 economy, 27 mid-rate, and 41 first-class brands. Our survey also encompassed some of the recently launched brands, such as Home2 Suites by Hilton, NYLO, and XP by NYLO. The 2011 U.S. Hotel Franchise Fee Guide also includes upscale hotel consortiums such as The Leading Hotels of the World, Preferred Hotels & Resorts, Preferred Boutique, Summit Hotels & Resorts, and Sterling Hotels.

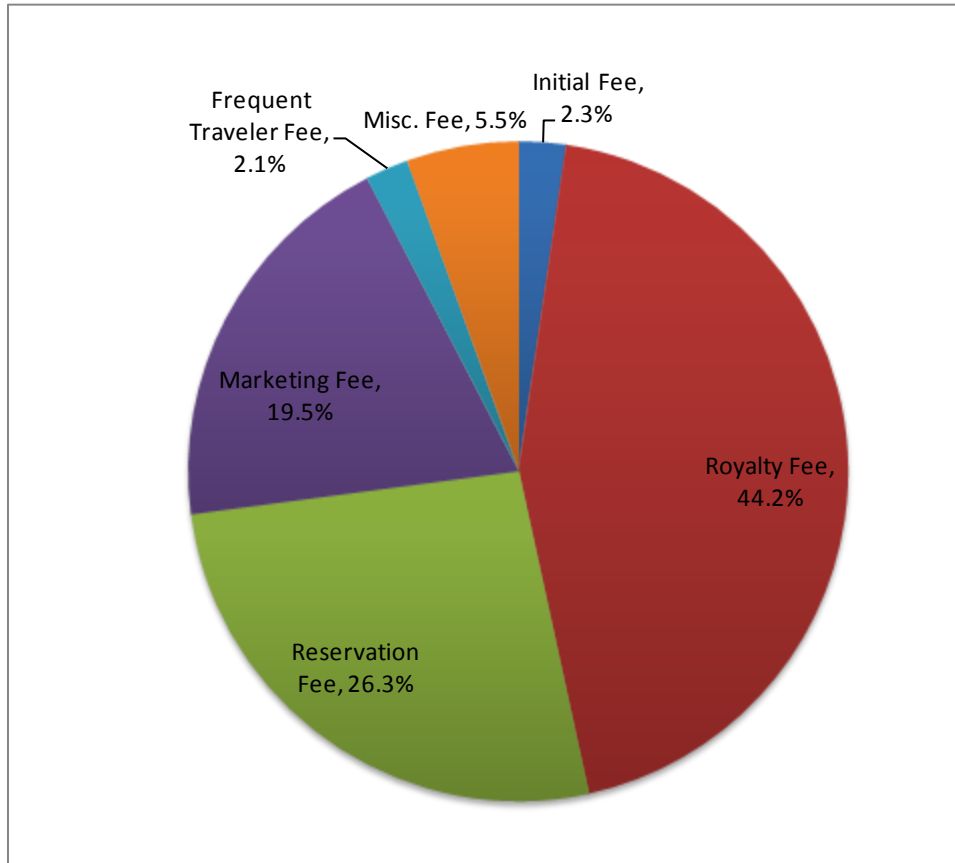
Tables 2, 3, and 4 summarize the estimates of ten-year franchise costs for each brand, classified by chain scale. The continuing fees were calculated on an annual basis and represent the total amount that would be paid by the franchisee over the ten-year projection period. As previously mentioned, we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

TABLE 2: SUMMARY OF BRAND FRANCHISE FEES – ECONOMY HOTELS (BASED ON 100 ROOMS) -

Brand	Initial Fee	Royalty Fee	Reservation Fee	Marketing Fee	Frequent Traveler Fee	Misc. Fee	Ten-Year Fee	Ten-Year Fee/Room	Percent of Total Rooms Revenue
Crossings Inns & Suites	\$35,000	\$1,145,456	\$929,511	\$306,469	\$0	\$0	\$2,416,437	\$24,164	15.8%
Days Inn	\$46,000	\$766,172	\$316,910	\$582,291	\$87,833	\$197,795	\$1,997,001	\$19,970	13.0%
Downtowner Inns	\$6,000	\$459,703	\$0	\$383,086	\$0	\$5,732	\$854,522	\$8,545	5.6%
Econolodge	\$25,000	\$689,555	\$590,674	\$552,370	\$52,700	\$54,660	\$1,964,958	\$19,650	12.8%
Knights Inn	\$6,000	\$766,172	\$352,801	\$0	\$87,833	\$38,684	\$1,251,490	\$12,515	8.2%
Master Hosts Inns and Resorts	\$16,000	\$612,938	\$0	\$383,086	\$0	\$5,732	\$1,017,756	\$10,178	6.6%
Microtel	\$40,000	\$904,083	\$665,128	\$321,792	\$87,833	\$140,464	\$2,159,302	\$21,593	14.1%
Motel 6	\$25,000	\$612,938	\$536,321	\$153,234	\$0	\$177,455	\$1,504,948	\$15,049	9.8%
Park Inn	\$35,000	\$689,555	\$391,998	\$306,469	\$0	\$196,320	\$1,619,342	\$16,193	10.6%
Passport Inn	\$6,000	\$459,703	\$0	\$383,086	\$0	\$5,732	\$854,522	\$8,545	5.6%
Red Carpet Inn	\$11,000	\$536,321	\$0	\$383,086	\$0	\$5,732	\$936,139	\$9,361	6.1%
Red Roof Inn	\$27,000	\$689,555	\$612,938	\$0	\$70,266	\$98,373	\$1,498,132	\$14,981	9.8%
Rodeway Inn	\$12,500	\$426,456	\$590,674	\$277,426	\$52,700	\$54,660	\$1,414,415	\$14,144	9.2%
Scottish Inns	\$8,500	\$459,703	\$0	\$383,086	\$0	\$5,732	\$857,022	\$8,570	5.6%
Select Inn	\$18,500	\$612,938	\$1,225,876	\$0	\$0	\$7,778	\$1,865,092	\$18,651	12.2%
Shoney's Inn	\$250,000	\$536,321	\$390,748	\$153,234	\$64,146	\$44,973	\$1,439,421	\$14,394	9.4%
Studio 6	\$25,000	\$766,172	\$306,469	\$153,234	\$0	\$177,455	\$1,428,331	\$14,283	9.3%
Suburban Extended Stay	\$30,000	\$766,172	\$590,674	\$383,086	\$52,700	\$58,867	\$1,881,499	\$18,815	10.6%
Super 8	\$25,000	\$842,790	\$316,910	\$459,703	\$87,833	\$218,366	\$1,950,601	\$19,506	12.7%
Travelodge	\$36,000	\$689,555	\$623,379	\$306,469	\$87,833	\$205,351	\$1,948,586	\$19,486	12.7%
Value Place	\$59,200	\$766,172	\$0	\$383,086	\$0	\$54,315	\$1,262,774	\$12,628	8.2%

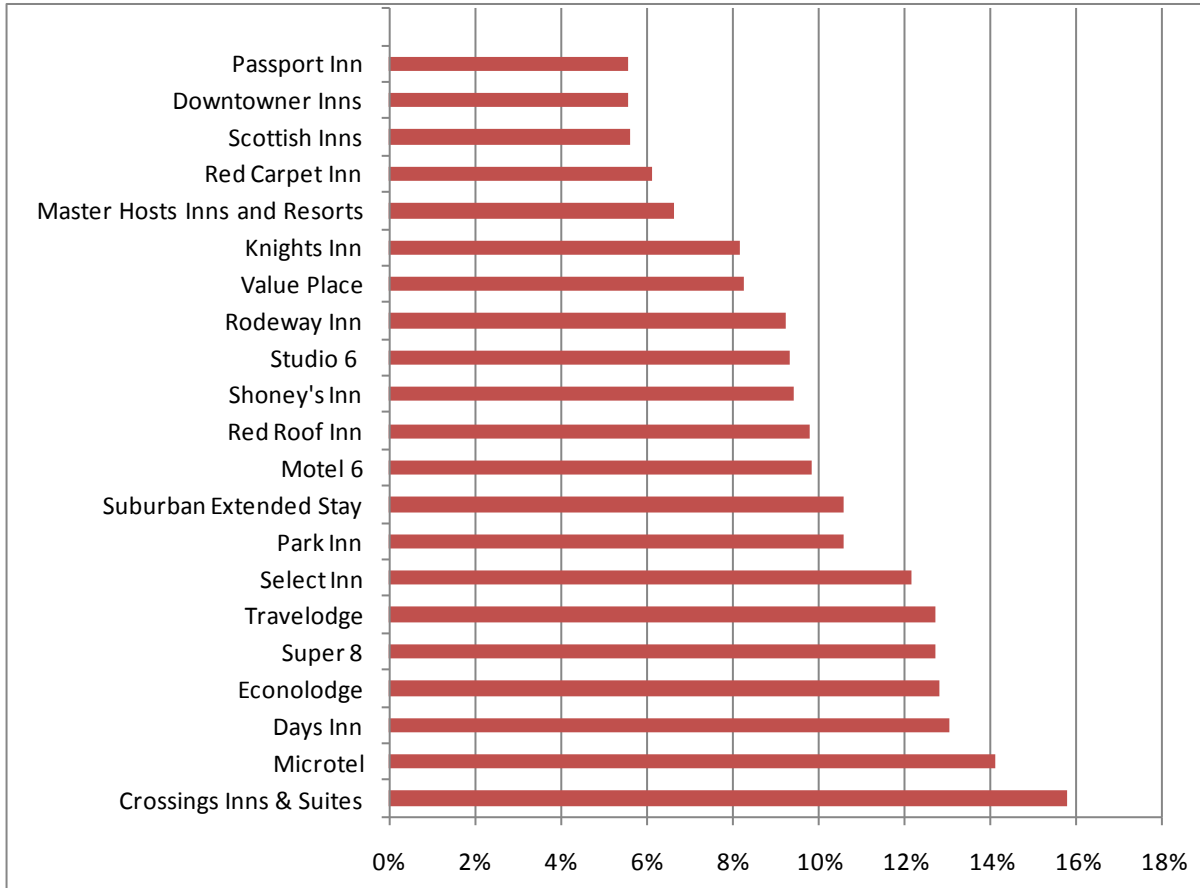
As indicated in the preceding table, franchise fees as a percentage of total rooms revenue ranged from 5.6% to 15.8% in the economy category in 2010. The average franchise fee as a percentage of total rooms revenue was 9.9%, and the median was 9.8%. In addition, the total initial fees ranged from \$6,000 to \$250,000. The initial fee represents only 2.3% of the total ten-year fee, whereas the royalty, reservation, and marketing fees accounted for approximately 89.9% of the overall ten-year franchise fees as indicated in the following chart.

CHART A: FRANCHISE FEES ALLOCATION – ECONOMY BRANDS



Over a ten-year period, the total franchise fees per available room (based on 100 rooms) range from \$8,545 to \$24,164 for economy brands, with an average of \$15,296. The following table presents the ranking for economy brands based on a percentage of total rooms revenue.

CHART B: RANKING OF ECONOMY BRANDS – FRANCHISE FEES AS A PERCENTAGE OF TOTAL ROOMS REVENUE



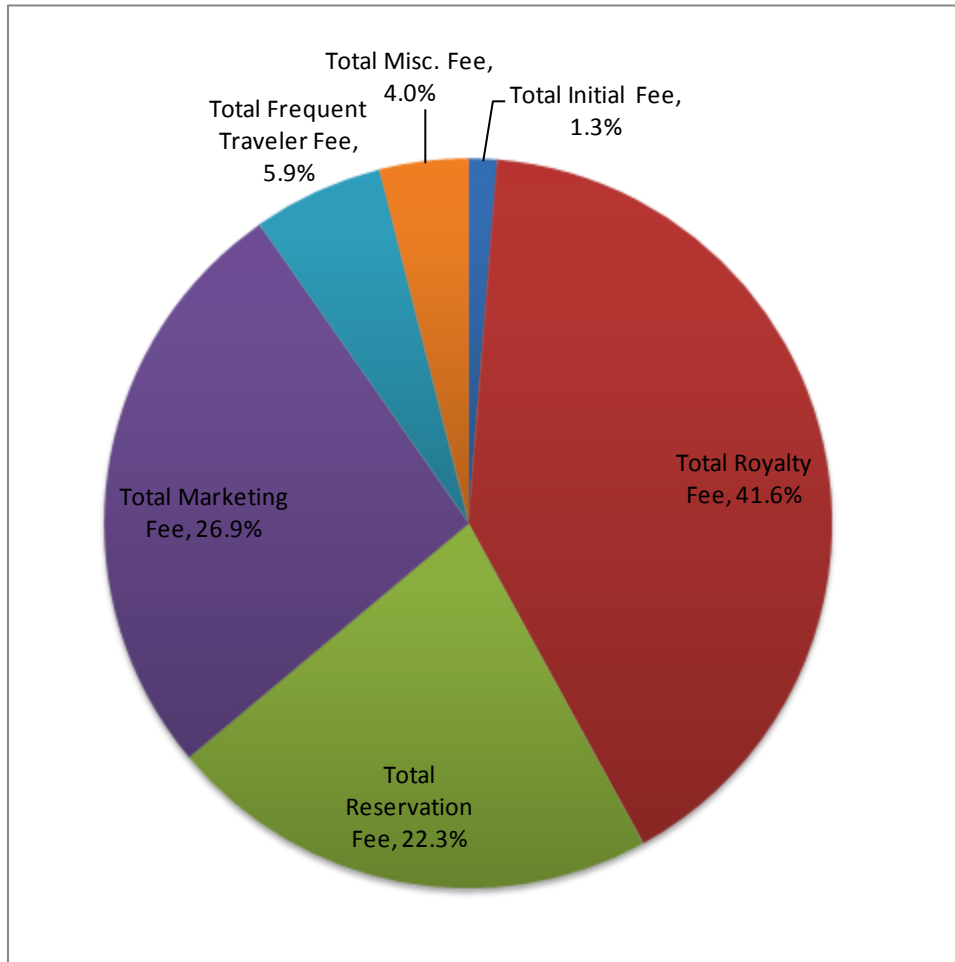
The following table details the franchise fees for mid-rate hotels.

TABLE 3: SUMMARY OF BRAND FRANCHISE FEES – MID-RATE HOTELS (BASED ON 200 ROOMS)

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/Room	Percent of Total Rooms Revenue
AmericInn	\$35,000	\$2,451,752	\$1,158,175	\$980,701	\$337,279	\$82,831	\$5,045,737	\$25,229	10.3%
Baymont Inn & Suites	\$26,000	\$2,451,752	\$1,318,945	\$980,701	\$421,599	\$269,785	\$5,468,780	\$27,344	11.2%
Best Western	\$70,000	\$1,110,804	\$117,161	\$0	\$0	\$0	\$1,297,965	\$6,490	2.6%
Candlewood Suites	\$102,500	\$2,451,752	\$96,060	\$1,501,009	\$203,317	\$230,178	\$4,584,816	\$22,924	9.4%
Clarion	\$60,000	\$2,083,989	\$1,181,347	\$1,609,688	\$421,599	\$81,670	\$5,438,293	\$27,191	11.1%
Comfort Inn/Suites	\$100,000	\$2,770,479	\$1,181,347	\$1,903,898	\$421,599	\$81,670	\$6,458,994	\$32,295	13.2%
Country Inn/Suites	\$90,000	\$2,206,576	\$1,013,848	\$1,225,876	\$0	\$217,354	\$4,753,654	\$23,768	9.7%
Fairfield Inn/Suites	\$80,000	\$2,206,576	\$619,900	\$1,225,876	\$375,223	\$698,915	\$5,206,491	\$26,032	10.6%
Grandstay Residential Suites	\$35,000	\$2,290,913	\$1,929,136	\$980,701	\$0	\$0	\$5,235,750	\$26,179	10.7%
GuestHouse International	\$25,000	\$1,691,709	\$2,329,490	\$490,350	\$192,437	\$44,973	\$4,773,958	\$23,870	9.7%
Hampton Inn/Suites	\$95,000	\$2,451,752	\$0	\$1,961,401	\$413,167	\$524,197	\$5,445,517	\$27,228	11.1%
Hawthorn Suites	\$80,000	\$2,451,752	\$665,128	\$1,225,876	\$486,459	\$133,712	\$5,042,927	\$25,215	10.3%
Holiday Inn	\$102,500	\$2,451,752	\$96,060	\$1,225,876	\$402,519	\$338,433	\$4,617,139	\$23,086	9.4%
Holiday Inn Express	\$102,500	\$2,942,102	\$96,060	\$1,471,051	\$402,519	\$338,433	\$5,352,665	\$26,763	10.9%
Home2 Suites	\$50,000	\$2,451,752	\$0	\$4,045,390	\$151,776	\$536,519	\$4,661,097	\$23,305	9.5%
Howard Johnson	\$71,000	\$1,961,401	\$1,859,695	\$980,701	\$421,599	\$279,785	\$5,574,180	\$27,871	11.4%
InnSuites Boutique Hotel Collection	\$0	\$0	\$1,034,333	\$0	\$0	\$0	\$1,034,333	\$5,172	2.1%
Key West Inn/Suites	\$8,500	\$357,673	\$958,972	\$2,751,331	\$0	\$3,631	\$4,080,108	\$20,401	8.3%
La Quinta Inn & Suites	\$105,000	\$2,157,541	\$980,701	\$1,225,876	\$421,599	\$91,700	\$4,982,417	\$24,912	10.2%
Mainstay Suites	\$60,000	\$2,451,752	\$1,181,347	\$1,225,876	\$252,959	\$80,877	\$5,252,811	\$26,264	10.7%
Quality Inn/Suites	\$60,000	\$2,280,129	\$1,181,347	\$1,903,898	\$421,599	\$81,670	\$5,928,644	\$29,643	12.1%
Ramada Inn	\$71,000	\$1,961,401	\$1,614,520	\$1,225,876	\$835,599	\$265,937	\$5,974,333	\$29,872	12.2%
Settle Inn/Suites	\$25,000	\$1,691,709	\$2,329,490	\$490,350	\$192,437	\$44,973	\$4,773,958	\$23,870	9.7%
Sleep Inn	\$60,000	\$2,280,129	\$1,181,347	\$1,903,898	\$421,599	\$81,670	\$5,928,644	\$29,643	12.1%
TownePlace Suites	\$80,000	\$2,451,752	\$673,022	\$735,525	\$84,320	\$455,521	\$4,480,139	\$22,401	9.1%
Vista Inn/Suites	\$32,250	\$467,726	\$3,922,803	\$192,593	\$0	\$7,778	\$4,623,150	\$23,116	9.4%
Wingate by Wyndham	\$71,000	\$2,206,576	\$633,819	\$1,961,401	\$486,459	\$294,472	\$5,653,728	\$28,269	11.5%

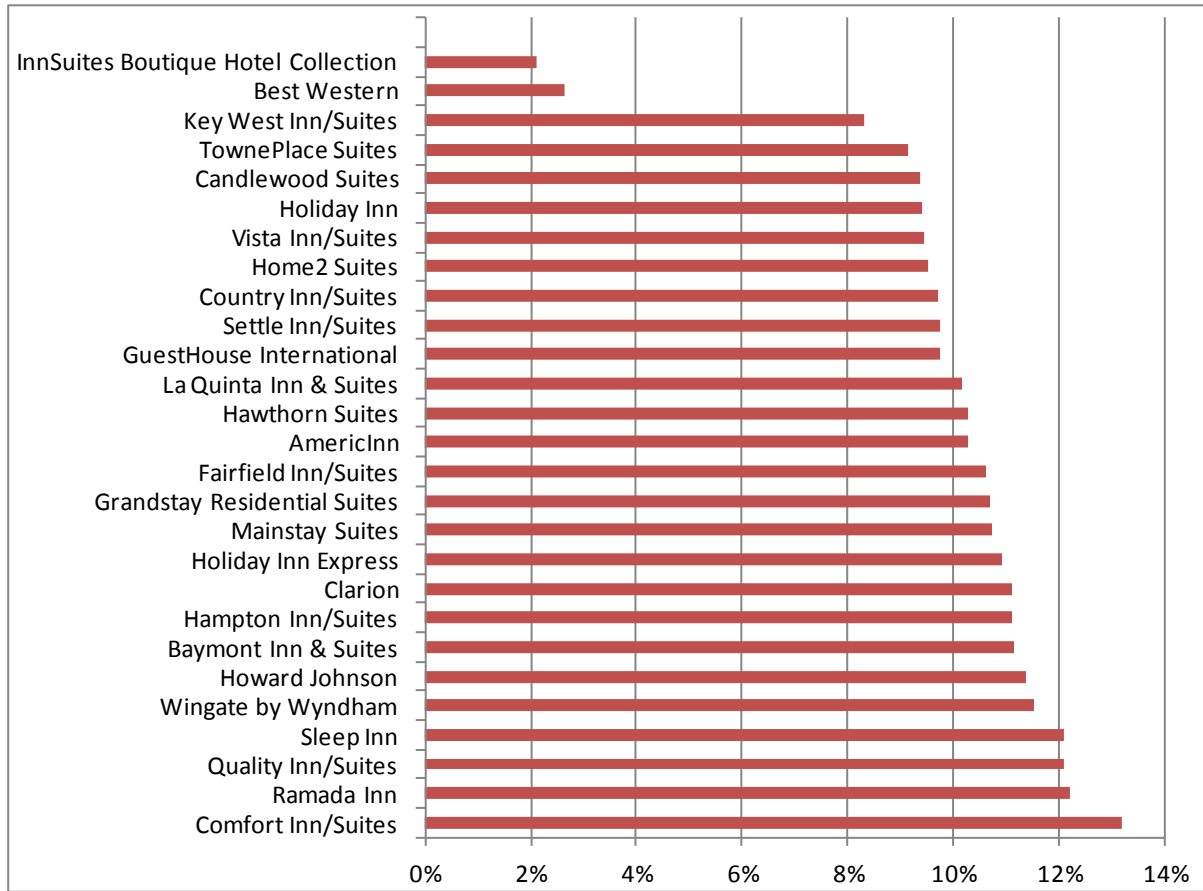
As indicated in the preceding table, franchise fees as a percentage of total rooms revenue ranged from 2.1% to 13.2%, in the mid-rate category in 2010. The average franchise fee as a percentage of total rooms revenue was 9.9%, and the median was 10.3%. In addition, the total initial fees ranged from \$0 to \$105,000. The initial fee represents only 1.3% of the total ten-year fee, whereas the royalty, reservation, and marketing fees account for roundly 90.8% of the overall ten-year franchise fees as indicated in the following chart.

CHART C: FRANCHISE FEES ALLOCATION – MID-RATE BRANDS



Over a ten-year period, the total franchise fees per available room (based on 200 rooms) range from \$5,172 to \$32,295 for mid-rate brands, with an average of \$24,383. 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 FEES AS A PERCENTAGE OF TOTAL ROOMS REVENUE



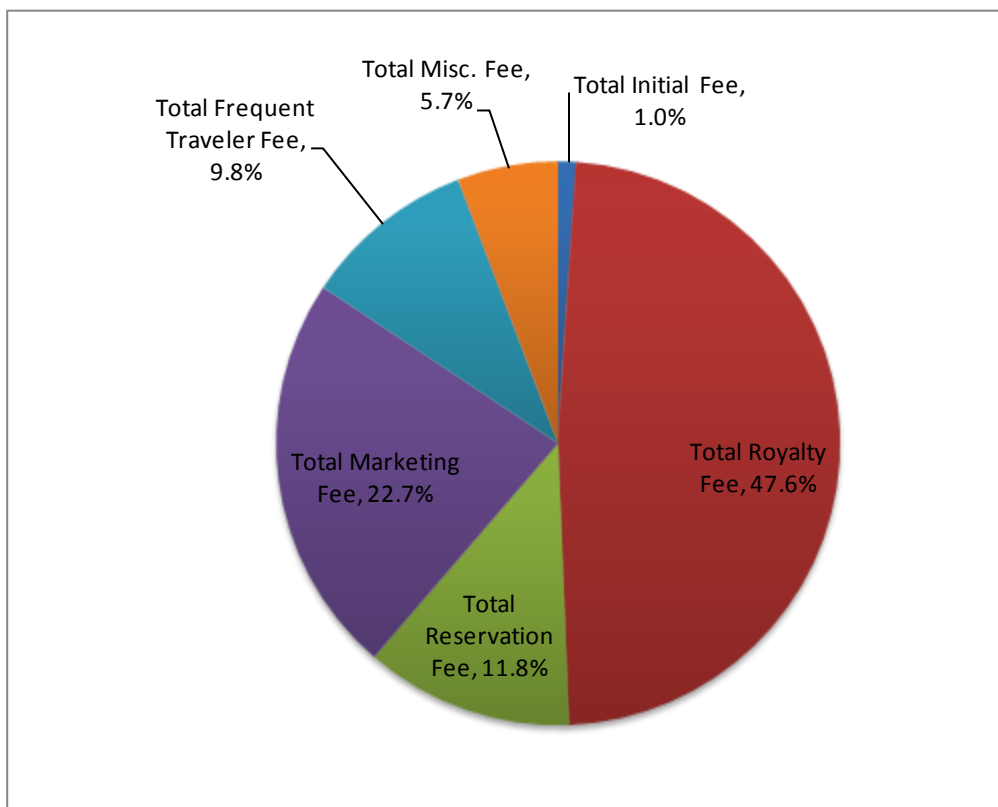
The following table details the franchise fees for first-class hotels.

TABLE 4: SUMMARY OF BRAND FRANCHISE FEES – FIRST-CLASS HOTELS (BASED ON 300 ROOMS)

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/Room	Percent of Total Rooms Revenue
aloft	\$132,500	\$5,562,411	\$1,331,020	\$4,045,390	\$1,521,128	\$485,917	\$13,078,367	\$43,595	12.9%
Ascend	\$112,500	\$4,045,390	\$1,635,712	\$2,544,418	\$1,855,035	\$78,970	\$10,272,025	\$34,240	10.2%
Autograph	\$60,000	\$5,056,738	\$422,380	\$1,517,021	\$997,081	\$843,546	\$8,896,766	\$29,656	8.8%
Cambria Suites	\$150,000	\$5,056,738	\$1,635,712	\$4,061,440	\$1,855,035	\$92,842	\$12,851,766	\$42,839	12.7%
Coast Hotels & Resorts	\$0	\$4,045,390	\$481,092	\$0	\$82,540	\$0	\$4,609,022	\$15,363	4.6%
Courtyard	\$150,000	\$5,562,411	\$1,320,693	\$2,022,695	\$1,055,051	\$391,076	\$10,501,927	\$35,006	10.4%
Crowne Plaza	\$152,500	\$5,056,738	\$96,060	\$1,553,591	\$1,765,283	\$306,982	\$8,931,153	\$29,771	8.8%
Doubletree Hotels	\$90,000	\$5,056,738	\$0	\$4,045,390	\$1,576,779	\$1,287,426	\$12,056,333	\$40,188	11.9%
element	\$127,500	\$5,562,411	\$1,331,020	\$4,045,390	\$1,521,128	\$183,984	\$12,771,434	\$42,571	12.6%
Embassy Suites	\$90,000	\$4,753,333	\$0	\$4,045,390	\$1,576,779	\$793,941	\$11,259,444	\$37,531	11.1%
Four Points	\$127,500	\$5,562,411	\$2,497,084	\$1,264,184	\$1,521,143	\$654,318	\$12,792,704	\$42,642	12.6%
Hilton	\$92,500	\$6,877,163	\$0	\$4,045,390	\$1,743,732	\$1,461,976	\$14,220,762	\$47,403	14.1%
Hilton Garden Inn	\$127,500	\$5,056,738	\$0	\$4,348,794	\$1,743,732	\$519,419	\$11,796,183	\$39,321	11.7%
Historic Hotels of America	\$6,000	\$171,958	\$343,916	\$57,319	\$0	\$34,392	\$613,586	\$3,068	0.6%
Homewood Suites	\$127,500	\$4,045,390	\$0	\$4,045,390	\$834,766	\$632,037	\$9,685,083	\$32,284	9.6%
Hotel Indigo	\$152,500	\$5,469,437	\$96,060	\$3,539,716	\$1,765,283	\$431,974	\$11,454,971	\$38,183	11.3%
Hyatt Place	\$120,000	\$4,753,333	\$721,179	\$3,539,716	\$0	\$198,663	\$9,332,892	\$31,110	9.2%
Hyatt Regency	\$100,000	\$7,888,511	\$721,638	\$0	\$0	\$262,000	\$8,972,148	\$29,907	8.9%
Hyatt Summerfield Suites	\$120,000	\$4,753,333	\$721,179	\$3,539,716	\$0	\$198,663	\$9,332,892	\$31,110	9.2%
InterContinental Hotels & Resorts	\$152,500	\$5,056,738	\$95,760	\$3,446,742	\$3,000	\$446,942	\$9,201,682	\$30,672	9.1%
Le Meridien	\$115,000	\$5,056,738	\$2,497,084	\$1,011,348	\$2,315,682	\$1,248,222	\$13,410,136	\$44,700	13.3%
Leading Hotels of the World	\$50,000	\$3,140,708	\$4,439,237	\$0	\$0	\$0	\$7,629,946	\$25,433	7.5%
Luxury Collection	\$115,000	\$5,663,546	\$2,497,084	\$1,011,348	\$1,521,128	\$1,170,101	\$13,144,269	\$43,814	13.0%
Marriott	\$90,000	\$7,888,511	\$1,978,590	\$1,011,348	\$1,391,614	\$584,063	\$12,944,125	\$43,147	12.8%
NYLO	\$109,600	\$5,056,738	\$767,456	\$3,539,716	\$1,855,035	\$187,045	\$11,515,589	\$38,385	11.4%
Preferred Boutique	\$15,000	\$257,937	\$286,597	\$114,639	\$0	\$68,783	\$742,956	\$9,906	0.7%
Preferred Hotels and Resorts	\$45,000	\$230,000	\$729,274	\$230,000	\$0	\$137,567	\$1,371,841	\$4,573	1.4%
Radisson	\$150,000	\$5,056,738	\$2,624,060	\$2,022,695	\$0	\$513,292	\$10,366,784	\$34,556	10.3%
Renaissance	\$60,000	\$5,056,738	\$2,356,687	\$1,517,021	\$1,391,614	\$1,414,881	\$11,796,941	\$39,323	11.7%
Residence Inn	\$150,000	\$5,562,411	\$156,673	\$2,528,369	\$417,383	\$545,231	\$9,360,067	\$31,200	9.3%
Sheraton	\$115,000	\$7,281,702	\$2,485,629	\$1,011,348	\$1,521,128	\$1,046,303	\$14,627,174	\$48,757	14.5%
Sonesta	\$150,000	\$766,172	\$956,524	\$0	\$742,014	\$150,514	\$2,765,225	\$9,217	2.7%
SpringHill Suites	\$120,000	\$5,056,738	\$731,853	\$2,528,369	\$790,593	\$391,896	\$9,619,448	\$32,065	9.5%
Staybridge Suites	\$152,500	\$5,056,738	\$3,130,103	\$2,528,369	\$3,000	\$389,998	\$11,260,707	\$37,536	11.1%
Sterling Hotels	\$15,000	\$286,597	\$859,791	\$114,639	\$0	\$57,319	\$1,333,346	\$6,667	1.3%
Summit Hotels & Resorts	\$20,000	\$343,916	\$859,791	\$171,958	\$0	\$34,392	\$1,430,057	\$7,150	1.4%
Waldorf=Astoria Collection Affiliated Hotels	\$50,000	\$5,056,738	\$0	\$4,045,390	\$1,224,323	\$1,886,204	\$12,262,655	\$40,876	12.1%
Waldorf=Astoria Collection Named Hotels	\$100,000	\$5,056,738	\$0	\$4,045,390	\$1,224,323	\$1,886,204	\$12,312,655	\$41,042	12.2%
Westin	\$115,000	\$8,899,858	\$2,497,084	\$2,022,695	\$1,558,229	\$1,091,047	\$17,349,976	\$57,833	17.2%
Wyndham / Wyndham Garden	\$92,500	\$5,056,738	\$2,474,186	\$3,034,043	\$596,859	\$5,897	\$11,260,222	\$37,534	11.1%
XP by NYLO	\$105,550	\$5,056,738	\$767,456	\$3,034,043	\$1,855,035	\$156,818	\$10,975,639	\$36,585	10.9%

As indicated in the preceding table, franchise fees as a percentage of total rooms revenue ranged from 0.6% to 17.2% in the first-class category in 2010. The average franchise fee as a percentage of total rooms revenue was 9.6%, and the median was 10.9%. In addition, the total initial fee ranged from \$0 to \$152,500. 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 included in the 2011 Franchise Fee Guide average \$32,500, whereas traditional first-class hotel franchisors have initial fees that average \$113,576. The initial fee for first-class brands represents only 1.0% of the total ten-year fee, whereas the royalty, marketing, and reservation fees account for roundly 82.0% of the overall ten-year franchise fees as indicated in the following chart.

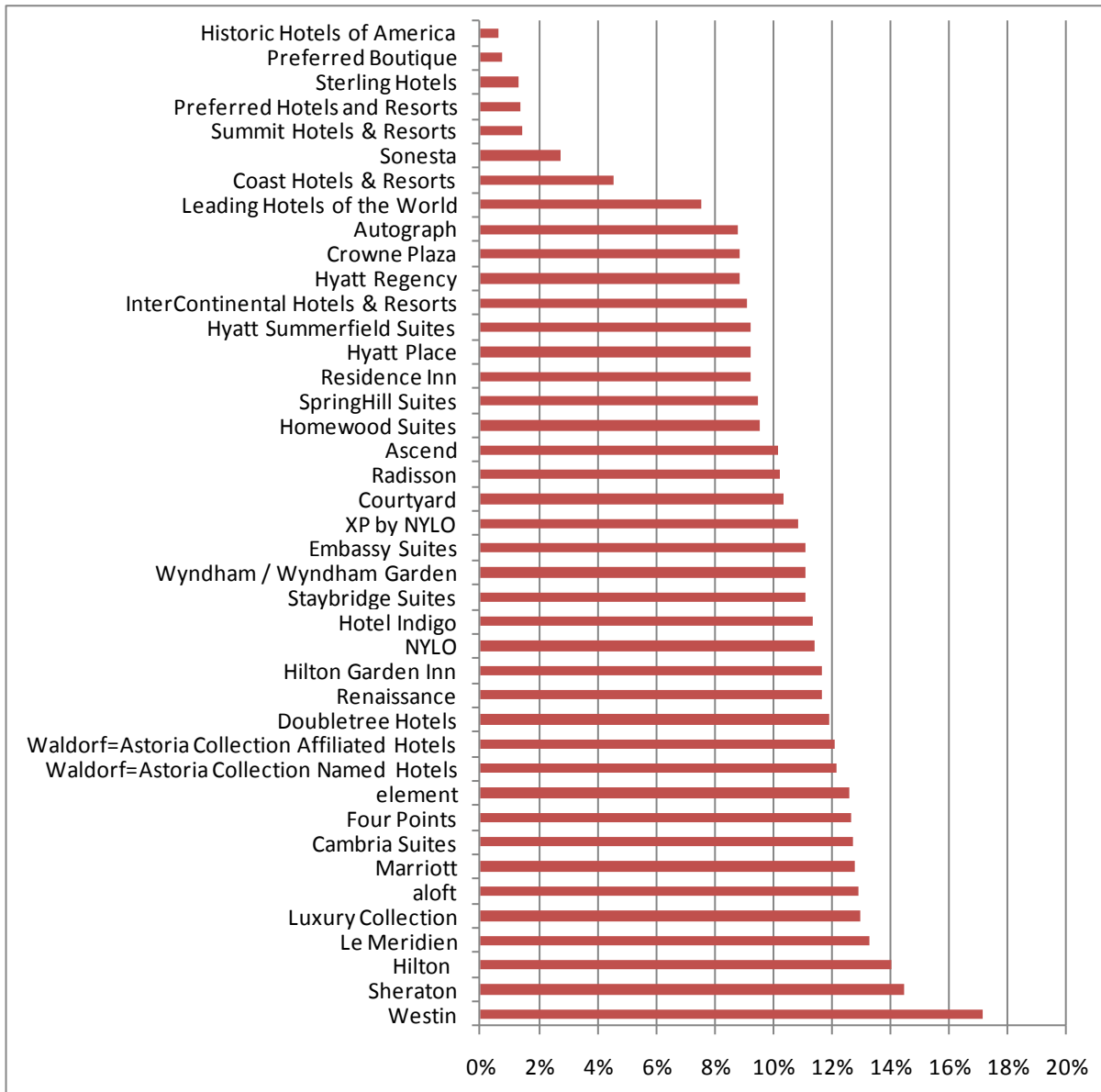
CHART E: FRANCHISE FEES ALLOCATION – FIRST-CLASS BRANDS



Over a ten-year period, the total franchise fees per available room (based on 300 rooms) range from \$3,068 to \$57,833 for first-class brands, with an average of \$32,848. We note that the fees charged by the hotel consortiums generally fall toward the lower end of this range. The upscale brands, such as Westin and Le Meridien, 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 \$971,353, compared to \$287,691 for mid-rate brands, and \$32,332 for economy brands. As previously discussed, the total cost associated with frequent traveler programs increased significantly this year primarily due to our new assumption that brand-loyal guests now make up a larger percentage of overall reservations.

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 FEES 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 or FDDs 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.

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company offers a comprehensive scope of services and specialized industry expertise to help you enhance the economic returns and value of your hospitality assets.

Because hotels represent both real property and operating businesses, the founding partners of HVS decided to develop the first comprehensive valuation methodology for appraising these specialized assets. Their initial textbook on this topic entitled, The Valuation of Hotels and Motels, published by the Appraisal Institute, created the industry standard for valuing hotels and is now used by virtually every appraiser around the world. Thus, HVS principals literally 'wrote the book' on hotel valuation, which significantly enhances the credibility and reliability of our conclusions. HVS continues to be at the forefront of hotel valuation methodology, having published six textbooks and hundreds of articles on this subject, which are used in appraisal courses and seminars and at leading hotel schools such as Lausanne, IMHI, and Cornell. HVS associates are constantly called upon to teach this methodology to hotel owners, lenders, and operators and to participate at industry conferences.

Over the past three decades, HVS has expanded both its range of services and its geographical boundaries. The company's global reach, through a network of 30 offices staffed by 400 seasoned industry professionals, gives you access to an unparalleled range of complementary services for the hospitality industry:

Consulting & Valuation	Property Tax Services
Investment Banking	Convention, Sports & Entertainment Facilities
Asset Management & Advisory	Interior Design
Hotel Management	Sales & Marketing Services
Hotel Parking Consulting	Shared Ownership Services
Executive Search	Golf Services
Food & Beverage Services	Eco Services
Gaming Services	Risk Management

Our clients include prominent hotel owners, lending institutions, international hotel companies, management entities, governmental agencies, and law and accounting firms from North America, Europe, Asia, Latin America, and the Caribbean. HVS principals are regarded as the leading professionals in their respective regions of the globe.

HVS is the industry's primary source of hotel ownership data. Our 2,000+ assignments each year keep us at the forefront of trends and knowledge regarding information on financial operating results, management contracts, franchise agreements, compensation programs, financing structures, and transactions. With access to our industry intelligence and data, you will have the most timely information and the best tools available to make critical decisions about your hospitality assets.

For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

About the Authors

Steve Rushmore, MAI, FRICS, CHA



Steve Rushmore is the president and founder of HVS, a global hospitality consulting organization with 30 offices around the world. He directs the worldwide operation of this firm and is responsible for future office expansion and new product development. Steve has provided consultation services for more than 15,000 hotels throughout the world during his 40-year career and specializes in complex issues involving hotel feasibility, valuations, and financing. He was one of the creators of the Microtel concept and was instrumental in its IPO. Steve is a partner in HEI Hospitality, LLC, a hotel investment fund, which makes him one of the few hospitality consultants that actually invest in and own hotels.

HVS, which Steve founded in 1980, has provided consulting services for thousands of clients in all 50 states and more than 60 foreign countries. Its professional staff of more than 400 industry specialists offers a wide range of services, including market feasibility studies, valuations, strategic analyses, development planning, and litigation support. Through its divisions, HVS supplies unique hotel consulting expertise in the areas of executive search, food and beverage operations, gaming, technology, hotel operations, asset management, marketing, interior design, parking, golf, and investment counseling. HVS is the industry's primary source of hotel sales information. Its databases contain information on more than 13,000 hotel transactions and thousands of financial statements. HVS is also the most comprehensive source of hotel compensation data.

As a leading authority and prolific author on the topic of hotel feasibility studies and appraisals, Steve Rushmore has written all five textbooks and two seminars for the Appraisal Institute covering this subject. He has also authored three reference books on hotel investing and has published more than 400 articles. He writes a column for *Lodging Hospitality* magazine and is widely quoted by major business and professional publications. Steve lectures extensively on hotel trends and has taught hundreds of classes and seminars to more than 20,000 industry professionals. He is also a frequent lecturer at major hotel schools around the world, including Lausanne, NYU, Cornell, Houston, and IMHI.

Steve has a BS degree from the Cornell Hotel School and an MBA from the University of Buffalo. He holds MAI and FRICS appraisal designations and is a CHA (certified hotel administrator). He is a member of numerous hotel industry committees, including IREFAC and the NYU Hotel Investment Conference. In 1999, Steve was recognized by the New York chapter of the Cornell Hotel Society as "Hotelie of the Year." In his free time, he enjoys skiing, diving, and sailing. He holds a commercial pilot's license with multi-engine instrument rating, collects hotel key tags, and is one of the foremost authorities on regional dining (www.roadfood.com).

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