



2009 U.S. Hotel Franchise Fee Guide

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The purpose of this U.S. Hotel Franchise Fee Guide, prepared by HVS, is to provide a comparative review of various hotel franchise brands based on the applicable franchise fees. The selection of an appropriate franchise affiliation affects a property's ability to compete in the local market, generate profits, achieve a certain image or market orientation, and benefit from referral business. Because the success of a hotel is 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 (ranging from laying a higher-grade carpet to enclosing a property's exterior corridors). Both new franchises and conversions also pay for the cost of signage. Some franchisors require the operator to pay a property improvement plan fee. Although these potential costs are not quantified in our study, they must be considered when measuring the costs and benefits of an affiliation. Requirements of this kind vary from brand to brand.

Continuing Fees

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

Royalty Fee: Almost all franchisors collect a royalty fee, which represents compensation for the use of the brand's trade name, service marks and associated logos, goodwill, and other franchise services. Royalty fees represent a major source of revenue for a franchisor.

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

Reservation Fee: If the franchise brand has a reservation system, the reservation fee supports the cost of operating the central office, telephones, computers, and reservation personnel. The reservation fee contains all distribution-related fees, including fees payable to third parties, such as travel agents and distributors. Our study takes into account only those distribution fees that have been quantified in the Uniform Franchise Offering Circulars prepared by each franchisor.

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

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

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

Calculation of Continuing Franchise Fees

The assessment of continuing franchise fees is 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 2009, the ratio of royalty fee to rooms revenue ranged from 3.0% to 7.0%. Advertising, marketing, and training fees are usually calculated as a percentage of rooms revenue, and ranged from 1.0% to 4.5%.

In some cases, reservation fees are based on a combination of a percentage of rooms revenue (0.4% to 8.0%), and/or a dollar amount per available room per month (\$0.00 to \$17.00), 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 (1.8% to 6.0%) generated by a program member staying at a hotel, or a fixed dollar amount (\$2.00 to \$10.00) for each room occupied by a program member. Many brands also require hotels to contribute a one-time participation fee, while others use a combination of all three methods. In determining the frequent traveler program fees, we have not considered any costs associated with frequent flyer miles.

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

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

A potential franchisee should first carefully evaluate the fee structure and project the total cost of initial and continuing franchise fees, and then determine whether or not the price/value relationship warrants the acquisition of the franchise. Because the Federal Trade Commission regulates the sale of franchises, information regarding each franchise fee structure is readily available through 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 Data Table

2009 Assumptions	Economy	Mid-Rate	First-Class
Room Count	100	200	300
Average Room Rate (Year One)	\$50	\$80	\$110
Room Rate Growth (per annum)	3.0%	3.0%	3.0%
Occupancy			
Year One	60.0%	60.0%	60.0%
Year Two	70.0%	70.0%	70.0%
Years Three to Ten	75.0%	75.0%	75.0%
Projection Period	Ten Years	Ten Years	Ten Years
Total 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)	86.0%	86.0%	86.0%
Central Reservations System	10.0%	10.0%	10.0%
Internet - Brand Website	35.0%	35.0%	35.0%
Global Distribution System (GDS)	30.0%	30.0%	30.0%
Internet-based Travel Agent (e.g. Expedia)	5.0%	5.0%	5.0%
Loyalty Program Guests - % of Total Reservations	5.0%	5.0%	5.0%
Global Sales Office	1.0%	1.0%	1.0%
Average Length of Stay (Nights)	2	2	2
Days in Year	365	365	365

Our model assumes that each brand affiliation is capable of generating the same volume of bookings through the various distribution channels. In reality, some affiliations generate more or less demand than others. Although most of the fees are based on a percentage of rooms revenue, there are other fees that are either fixed or variable (i.e., dependent on the room count). The majority of the 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%.

We have included a total of 96 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 25 economy, 29 mid-rate, and 42 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 2009 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. We note that the Relais & Chateaux fees are typically included in the HVS franchise fee guide but were unavailable for the 2009 publication.

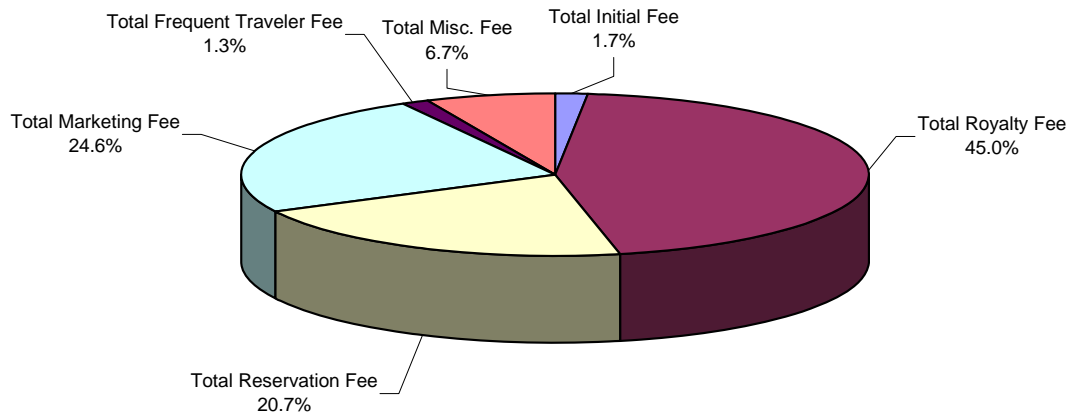
Tables 2, 3, and 4 summarize the estimates of ten-year franchise costs for each brand classified by chain scale. The continuing fees were calculated on an annual basis and represent the total amount that would be paid by the franchisee over the ten-year projection period. As previously mentioned, we 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	Total Initial Fee	Total Royalty Fee	Total Reservation Fee	Total Marketing Fee	Total Frequent Traveler Fee	Total Misc. Fee	Total Ten-Year Fee	Total Ten-Year Fee/Rooms	Percent of Total Rooms Revenue
Americas Best Inn/Suites	\$25,500	\$612,938	\$600,213	\$229,852	\$0	\$46,750	\$1,515,252	\$15,153	9.9%
Americas Best Value Inn	14,000	158,202	474,240	123,810	0	28,889	799,140	7,991	5.2%
Budget Host	5,000	102,946	13,757	0	0	0	121,702	1,217	0.1%
Budgetel Inn & Suites	10,500	171,958	1,072,641	103,175	0	44,892	1,403,166	14,032	9.2%
Country Hearth Inn/Suites	25,500	612,938	600,213	229,852	0	46,750	1,515,252	15,153	9.9%
Days Inn	47,500	842,790	278,346	582,291	43,917	140,475	1,935,318	19,353	12.6%
Downtown Inns	6,000	459,703	0	383,086	0	3,250	852,040	8,520	5.6%
Econolodge	25,000	689,555	291,328	536,321	35,133	111,216	1,688,553	16,886	11.0%
Knights Inn	6,000	766,172	339,437	0	43,917	43,581	1,199,107	11,991	7.8%
Master Hosts Inns and Resorts	16,000	612,938	0	383,086	0	3,250	1,015,274	10,153	6.6%
Microtel	40,000	904,083	0	321,792	43,917	138,228	1,448,021	14,480	9.4%
Motel 6	25,000	766,172	0	536,321	0	201,127	1,528,620	15,286	10.0%
Park Inn	35,000	689,555	223,043	306,469	39,525	403,810	1,697,402	16,974	11.1%
Passport Inns	6,000	459,703	0	383,086	0	3,250	852,040	8,520	5.6%
Red Carpet Inns	11,000	536,321	0	383,086	0	3,250	933,657	9,337	6.1%
Red Roof Inn	30,000	689,555	0	612,938	26,350	128,072	1,486,915	14,869	9.7%
Rodeway Inn	12,500	426,456	291,328	261,376	35,133	96,229	1,123,022	11,230	7.3%
Scottish Inns	8,500	459,703	0	383,086	0	3,250	854,540	8,545	5.6%
Select Inn	18,500	612,938	1,225,876	0	0	22,077	1,879,391	18,794	12.3%
Studio 6	25,000	766,172	0	306,469	0	201,127	1,298,768	12,988	8.5%
Suburban Extended Stay	30,000	766,172	291,328	383,086	72,168	114,984	1,657,739	16,577	10.8%
Super 8	26,500	842,790	278,346	459,703	43,917	140,395	1,791,650	17,917	11.7%
Travelodge	36,000	689,555	584,815	349,115	43,917	139,042	1,842,443	18,424	12.0%
Vagabond Inn	19,000	498,012	229,091	498,012	0	62,919	1,307,034	13,070	8.5%
Value Place	64,200	766,172	61,905	383,086	0	98,008	1,373,372	13,734	9.0%

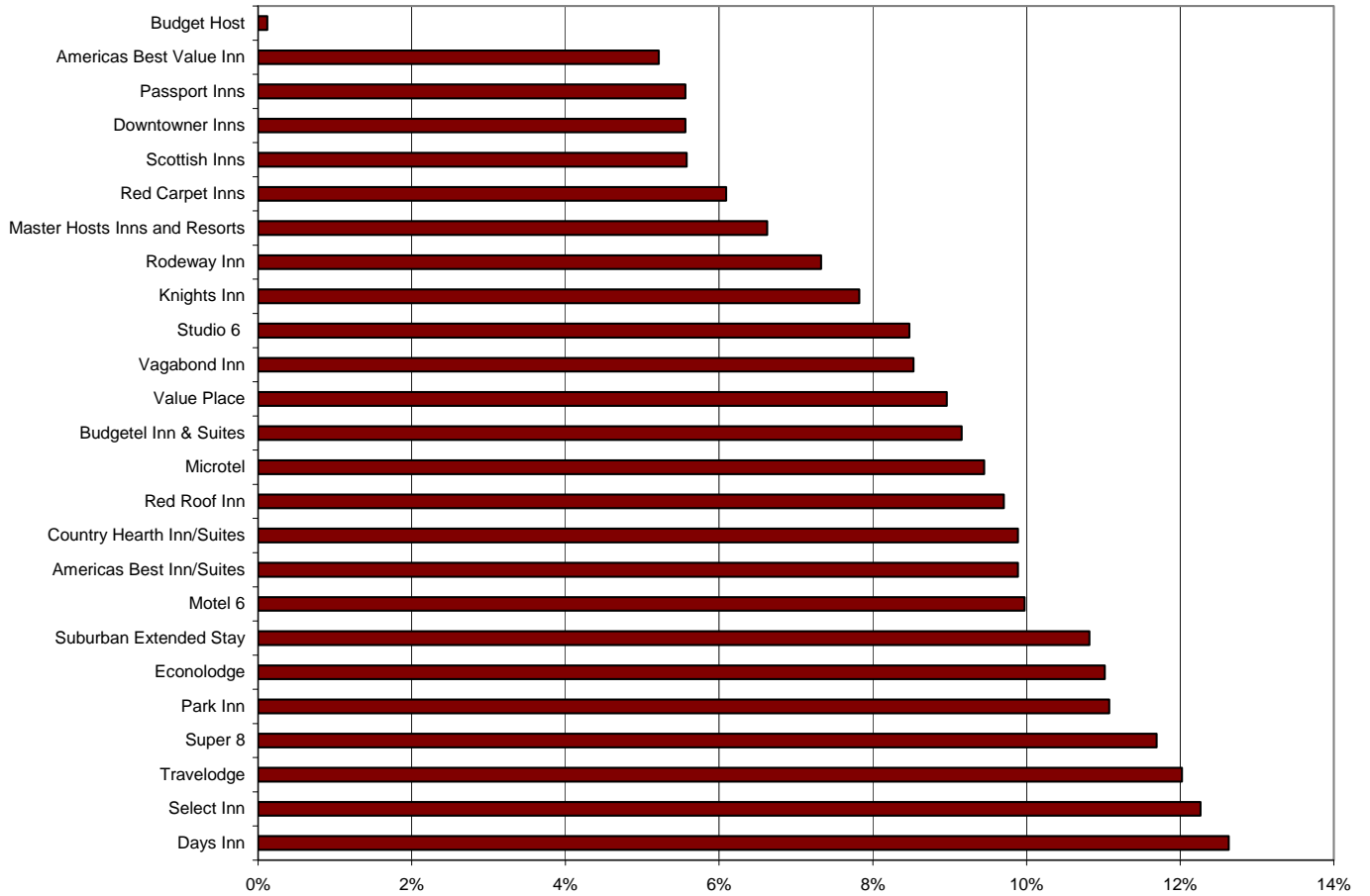
As indicated in the preceding table, franchise fees as a percentage of total rooms revenue ranged from 0.1% to 12.6% in the economy category in 2009. The average franchise fee as a percentage of total rooms revenue was 8.6%, and the median was 9.2%. In addition, the total initial fees ranged from \$5,000 to \$64,200. The initial fee represents only 1.7% of the total ten-year fee, whereas the royalty, reservation, and marketing fees accounted for approximately 90.3% 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 \$1,217 to \$19,353 for economy brands, with an average of \$13,248. The following table presents the ranking for economy brands based on a percentage of total rooms revenue.

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



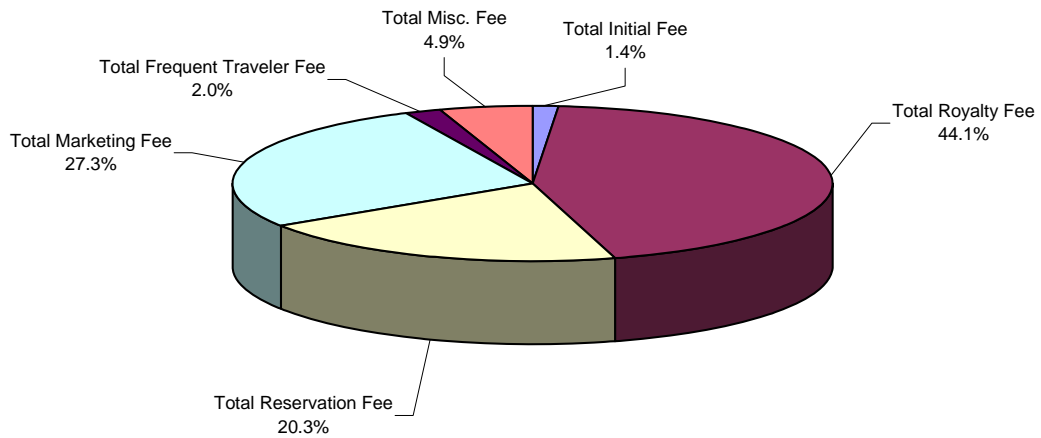
The following table details the franchise fees for mid-rate hotels.

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

Brand	Total Initial Fee	Total Royalty Fee	Total Reservation Fee	Total Marketing Fee	Total Frequent Traveler Fee	Total Misc. Fee	Total Ten-Year Fee	Total Ten-Year Fee/Rooms	Percent of Total Rooms Revenue
AmericInn	\$40,000	\$2,451,752	\$757,808	\$1,471,051	\$61,091	\$103,788	\$4,885,489	\$24,427	10.0%
Baymont Inn & Suites	27,000	2,451,752	1,292,217	980,701	140,533	189,197	5,081,399	25,407	10.4%
Best Western	70,000	953,233	54,718	209,927	154,586	0	1,442,464	7,212	2.9%
Candlewood Suites	100,000	2,451,752	504,001	1,225,876	69,456	852,373	5,203,457	26,017	10.6%
Clarion	60,000	2,083,989	582,656	1,593,639	140,533	142,066	4,602,882	23,014	9.4%
Comfort Inn/Suites	100,000	2,770,479	582,656	1,887,849	140,533	142,066	5,623,583	28,118	11.5%
Country Inn/Suites	100,000	2,206,576	675,938	1,225,876	126,480	590,801	4,925,670	24,628	10.0%
Crossing Inns & Suites	35,000	2,290,913	1,929,136	980,701	0	35,300	5,271,050	26,355	10.7%
Fairfield Inn/Suites	80,000	2,206,576	983,161	1,225,876	98,373	339,881	4,933,867	24,669	10.1%
Grandstay Residential Suites	35,000	2,290,913	1,929,136	980,701	0	35,300	5,271,050	26,355	10.7%
GuestHouse International	52,500	1,691,709	980,701	1,961,401	0	8,820	4,695,130	23,476	9.6%
Hampton Inn/Suites	95,000	2,451,752	0	1,961,401	137,722	424,396	5,070,271	25,351	10.3%
Hawthorn Suites	80,000	2,451,752	0	1,225,876	140,533	145,527	4,043,687	20,218	8.2%
Holiday Inn	100,000	2,451,752	504,001	1,225,876	135,506	655,437	5,072,572	25,363	10.3%
Holiday Inn Express	100,000	2,942,102	504,001	1,471,051	135,506	643,051	5,795,711	28,979	11.8%
Home2 Suites	50,000	2,451,752	0	1,471,051	50,592	447,956	4,471,350	22,357	9.1%
Howard Johnson	71,000	1,961,401	1,782,568	980,701	140,533	191,432	5,127,635	25,638	10.5%
InnSuites Boutique Hotel Collection	5,000	248,906	740,729	0	0	0	994,635	4,973	2.0%
Key West Inn/Suites	8,500	412,700	2,994,308	0	0	207,580	3,623,087	18,115	7.4%
La Quinta Inn & Suites	105,000	2,157,541	980,701	1,225,876	140,533	13,470	4,623,121	23,116	9.4%
Mainstay Suites	60,000	2,451,752	582,656	1,225,876	191,229	137,395	4,648,907	23,245	9.5%
Quality Inn/Suites	60,000	2,280,129	582,656	1,887,849	140,533	142,066	5,093,232	25,466	10.4%
Ramada	71,000	1,961,401	1,537,392	1,225,876	140,533	236,438	5,172,641	25,863	10.5%
Red Lion	77,500	1,961,401	0	2,206,576	0	8,450	4,253,928	21,270	8.7%
Settle Inn/Suites	25,000	1,691,709	980,701	1,961,401	0	8,820	4,667,630	23,338	9.5%
Sleep Inn	100,000	2,280,129	582,656	1,887,849	140,533	142,066	5,133,232	25,666	10.5%
TownePlace	80,000	2,451,752	692,193	735,525	53,403	358,741	4,371,614	21,858	8.9%
Vista Inn/Suites	32,250	467,726	3,922,803	192,593	0	22,077	4,637,449	23,187	9.5%
Wingate by Wyndham	71,000	2,206,576	556,692	1,961,401	140,533	332,024	5,268,227	26,341	10.7%

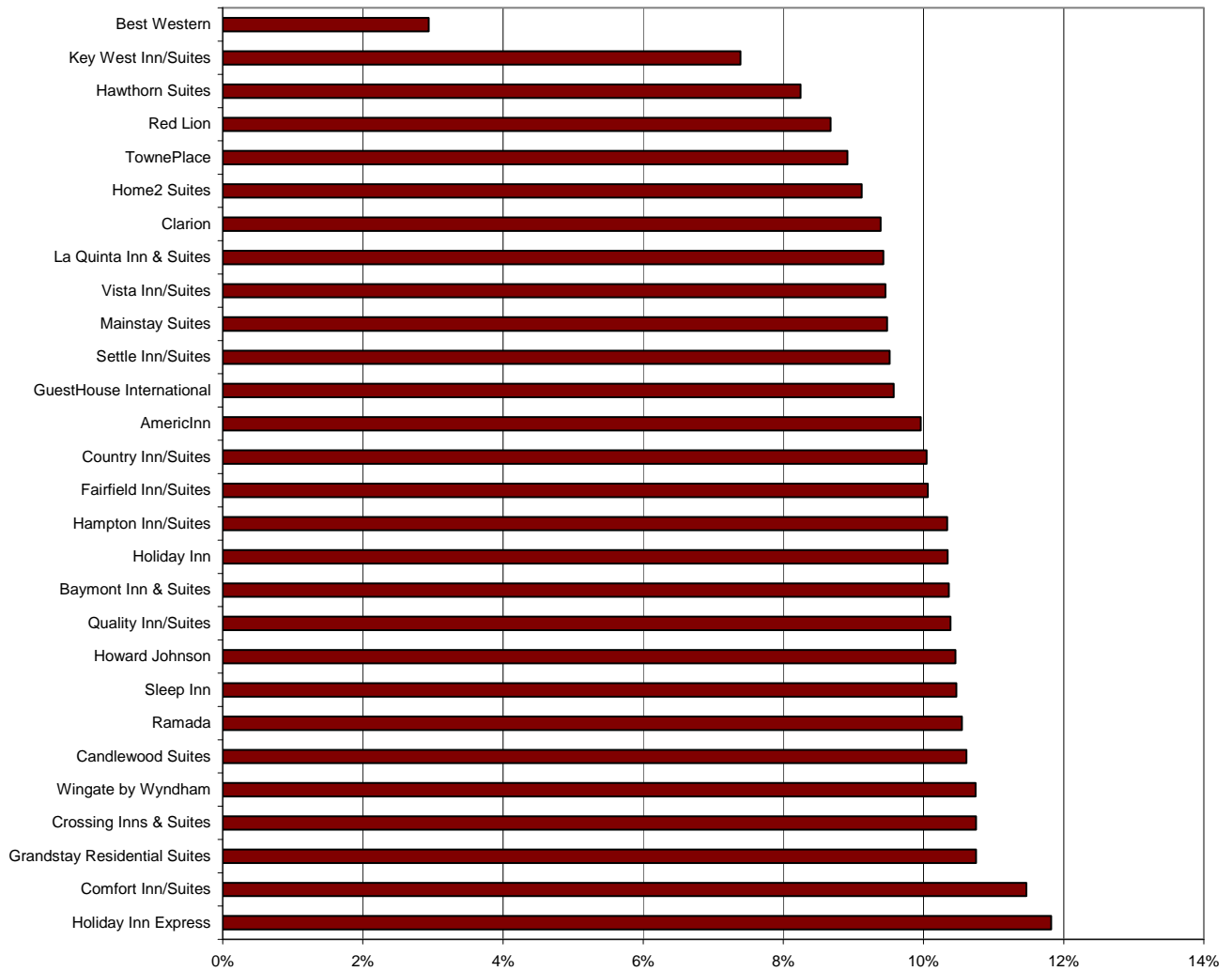
As indicated in the preceding table, franchise fees as a percentage of total rooms revenue ranged from 2.0% to 11.8% in the mid-rate category in 2009. The average franchise fee as a percentage of total rooms revenue was 9.4%, and the median was 10.0%. In addition, the total initial fees ranged from \$5,000 to \$105,000. The initial fee represents only 1.4% of the total ten-year fee, whereas the royalty, reservation, and marketing fees account for roundly 91.7% of the overall ten-year franchise fees as indicated in the following chart.

Chart C: Franchise Fee Allocation – Mid-Rate Brands



Over a ten-year period, the total franchise fees per available room (based on 200 rooms) range from \$4,973 to \$28,979 for mid-rate brands, with an average of \$23,104. The following table presents the ranking for mid-rate brands based on a percentage of total rooms revenue.

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



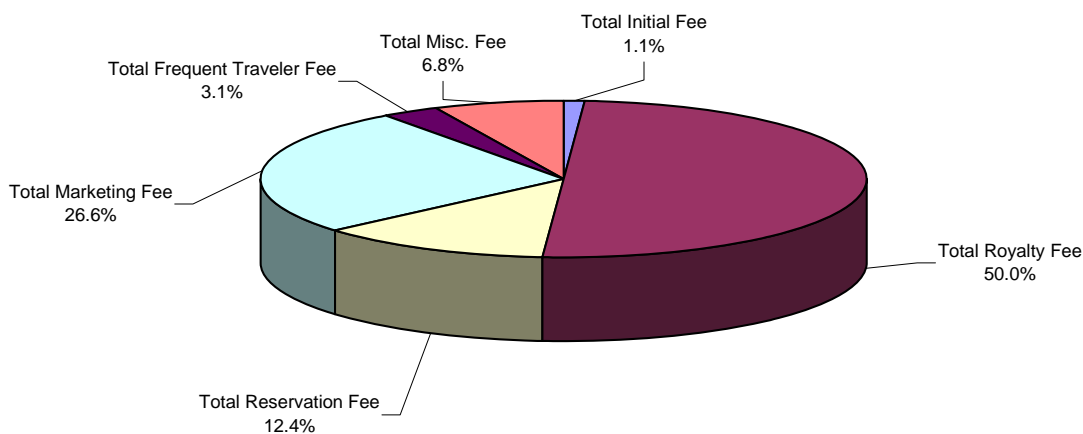
The following table details the franchise fees for first-class hotels.

Table 4: Summary of Brand Franchise Fees – First-Class Hotels (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/Rooms	Percent of Total Rooms Revenue
aloft	\$127,500	\$5,562,411	\$1,391,730	\$4,045,390	\$380,282	\$795,406	\$12,302,719	\$41,009	12.2%
Ascend	112,500	4,045,390	873,983	2,528,369	463,759	138,816	8,162,817	27,209	8.1%
Cambria Suites	150,000	5,056,738	749,129	4,045,390	463,759	205,082	10,670,097	35,567	10.6%
Chase Suites	120,000	5,056,738	0	4,045,390	0	0	9,222,128	30,740	9.1%
Coast Hotels & Resorts	0	4,045,390	481,092	0	82,540	50,000	4,659,022	15,530	4.6%
Conrad	75,000	5,056,738	0	4,045,390	435,933	1,574,895	11,187,956	37,293	11.1%
Courtyard	120,000	5,562,411	1,697,843	2,022,695	208,691	430,160	10,041,801	33,473	9.9%
Crowne Plaza	150,000	5,056,738	758,750	3,157,852	443,571	1,083,385	10,650,296	35,501	10.5%
Doubletree Hotels	90,000	5,056,738	0	4,045,390	394,195	1,836,809	11,423,132	38,077	11.3%
element	127,500	5,562,411	1,391,730	4,045,390	380,282	588,056	12,095,370	40,318	12.0%
Embassy Suites	90,000	4,753,333	0	4,045,390	394,195	578,649	9,861,567	32,872	9.8%
Four Points	127,500	5,562,411	2,557,793	1,264,184	380,282	1,176,862	11,069,033	36,897	10.9%
Hilton	92,500	6,877,163	0	4,045,390	435,933	1,255,164	12,706,151	42,354	12.6%
Hilton Garden Inn	127,500	5,056,738	0	4,348,794	435,933	526,535	10,495,500	34,985	10.4%
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	208,691	459,787	8,886,759	29,623	8.8%
Hotel Indigo	150,000	5,056,738	756,001	3,539,716	443,571	1,170,811	11,116,837	37,056	11.0%
Hyatt Place	120,000	4,753,333	531,950	3,539,716	371,007	240,216	9,556,223	31,854	9.4%
Hyatt Summerfield Suites	120,000	4,753,333	531,950	3,539,716	371,007	227,466	9,543,473	31,812	9.4%
Intercontinental Hotels & Resorts	150,000	5,056,738	1,044,491	3,034,043	443,571	1,228,543	10,957,385	36,525	10.8%
Le Meridien	115,000	7,888,511	2,557,793	1,011,348	380,282	1,486,090	13,439,023	44,797	13.3%
Leading Hotels of the World	142,500	1,470,243	5,067,500	0	0	0	6,680,242	22,267	6.6%
Lexington	70,000	1,437,570	3,694,735	784,129	0	124,956	6,111,391	20,371	6.0%
Luxury Collection	115,000	6,270,355	2,557,793	1,011,348	380,282	1,560,666	11,895,443	39,651	11.8%
Marriott	90,000	7,888,511	2,268,832	1,011,348	347,904	697,961	12,304,555	41,015	12.2%
NYLO	109,600	5,056,738	767,456	3,539,716	463,759	187,045	10,124,314	33,748	10.0%
Preferred Boutique	15,000	257,937	286,597	114,639	0	68,783	742,956	9,906	0.7%
Preferred Hotels and Resorts	25,000	687,833	1,146,388	229,278	0	137,567	2,226,065	11,130	2.2%
Radisson	160,000	5,056,738	2,117,195	2,022,695	556,510	506,260	10,419,398	34,731	10.3%
Renaissance	60,000	5,056,738	2,270,035	1,517,021	347,904	697,961	9,949,658	33,166	9.8%
Residence Inn	120,000	5,562,411	0	2,528,369	104,346	406,147	8,721,273	29,071	8.6%
Sheraton	115,000	7,281,702	2,557,793	1,011,348	380,282	1,522,774	12,868,899	42,896	12.7%
SpringHill Suites	120,000	5,056,738	1,594,926	2,528,369	197,097	364,954	9,862,085	32,874	9.8%
Staybridge Suites	150,000	5,056,738	756,001	2,528,369	225,604	1,059,645	9,776,356	32,588	9.7%
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	306,081	901,969	10,360,178	34,534	10.2%
Waldorf=Astoria Collection Named Hotels	100,000	5,056,738	0	4,045,390	306,081	1,070,524	10,578,732	35,262	10.5%
Westin	115,000	8,899,858	2,557,793	2,022,695	380,282	1,220,381	15,196,009	50,653	15.0%
Woodfin Suites	120,000	5,056,738	0	4,045,390	0	0	9,222,128	30,740	9.1%
Wyndham / Wyndham Garden	90,000	5,056,738	2,554,368	3,034,043	463,759	741,570	11,940,476	39,802	11.8%
XP by NYLO	105,550	5,056,738	767,456	3,034,043	463,759	156,818	9,584,363	31,948	9.5%

As indicated in the preceding table, franchise fees as a percentage of total rooms revenue ranged from 0.6% to 15.0% in the first-class category in 2009. The average franchise fee as a percentage of total rooms revenue was 9.2%, and the median was 10.0%. In addition, the total initial fee ranged from \$0 to \$160,000. We note that the hotel consortiums included in this study charge comparatively lower initial fees than those charged by the traditional franchisors. Initial fees for hotel consortiums included in the 2009 Franchise Fee Guide average \$37,250, whereas traditional first-class hotel franchisors have initial fees that average \$110,629. The initial fee for first-class brands represents only 1.1% of the total ten-year fee, whereas the royalty, marketing, and reservation fees account for roundly 89.0% of the overall ten-year franchise fees as indicated in the following chart.

Chart E: Franchise Fee Allocation – First-Class Brands

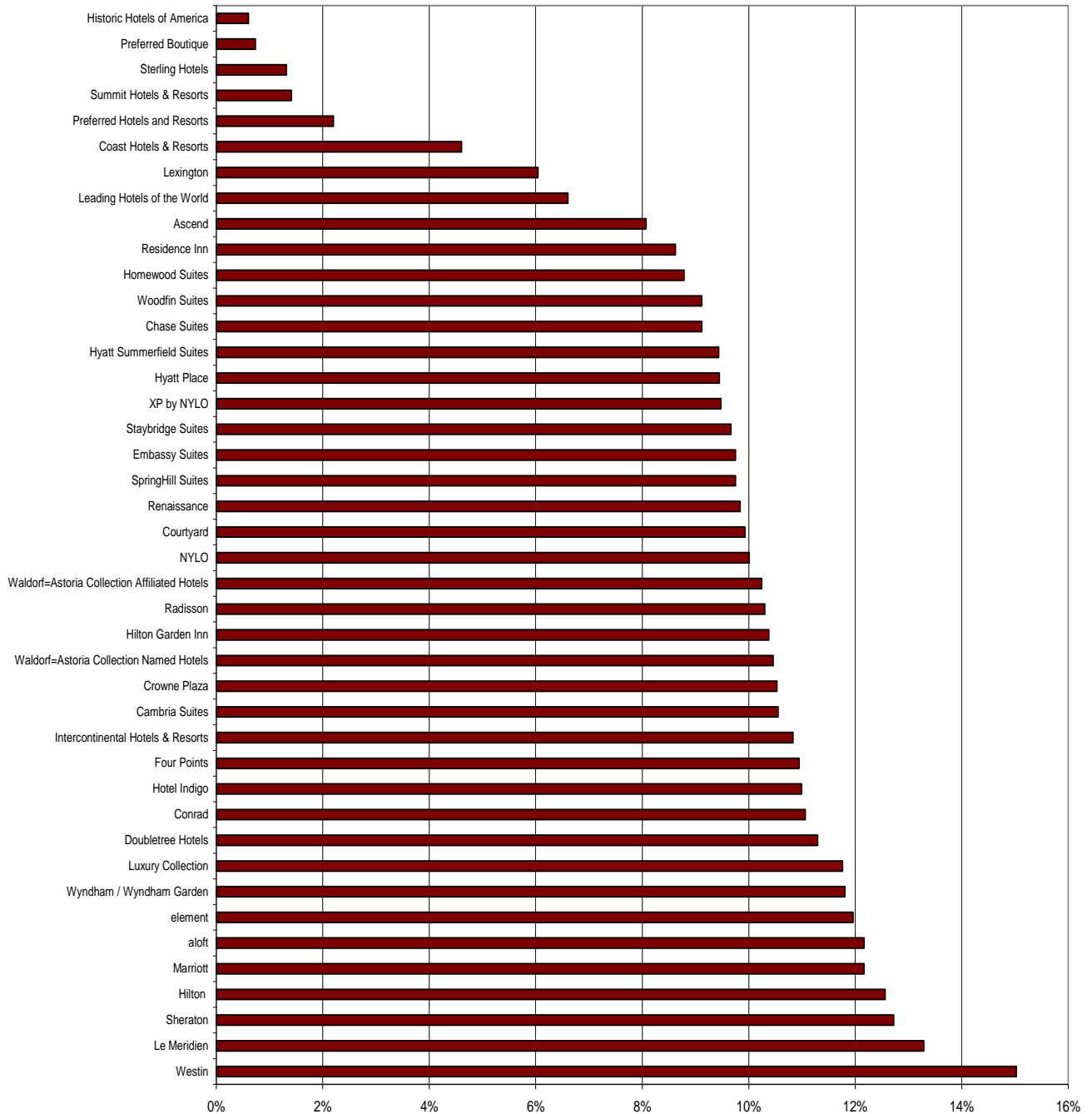


Over a ten-year period, the total franchise fees per available room (based on 300 rooms) range from \$3,068 to \$50,653 for first-class brands, with an average of \$31,351. We note that the fees charged by the hotel consortiums generally fall toward the lower end of this range. The upscale brands, such 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 \$286,694, compared to \$84,989 for mid-rate brands, and \$17,116 for economy brands.

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

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



Conclusion

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

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

Buying a franchise is a complicated investment. Selecting an appropriate franchise for a property entails exhaustive research and investigation by an investor. The information presented in this Franchise Fee Guide was developed to provide insight into franchise fee structures and should not be relied upon by an investor other than as a preliminary resource. We do not warrant the data contained in this study. It has been obtained from the UFOCs 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.

HVS Global Hospitality Services

HVS is a global services and consulting organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Since the launching of the firm in 1980, our clients have relied on our specialized industry knowledge and expertise for advice and services geared to enhancing economic returns and asset value. Through a network of more than 25 offices staffed by approximately 400 seasoned industry professionals, HVS offers a wide scope of services that track the development and ownership process.

Starting with an HVS market feasibility and appraisal study, a newly conceived project is justified. Financing through the HVS investment banking team is then arranged, interiors designed, and management hired. Sales and marketing strategies are developed, and organizational assessments are made. When a client requires actual, on-site hotel or restaurant management and marketing, HVS offers these specialized services as well. HVS asset management provides constant operational oversight to ensure the maximization of economic returns and asset value. No other organization offers such a broad range of services. HVS also has specialists in parking operations, golf courses, and convention centers.

Since the year 2000, HVS has performed nearly 20,000 assignments throughout the world for virtually every major industry participant. Our principals literally “wrote the book” on hospitality consulting, authoring numerous authoritative texts and hundreds of articles. HVS is client driven, entrepreneurial, and dedicated to providing the best advice and services in a timely and cost-efficient manner.