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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 desirable 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 2018 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 and/or management brand 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



Collection franchises charge low franchise fees compared to other brands within the same company.



Both the median and average franchise costs of a traditional franchise were close to 11% of rooms revenue.



Median franchise costs per product type did not vary greatly, indicating that the discrepancies between different brands' franchise costs are more dependent on hotel company, chain scale, or other factors than on product type.



Although alternative and/or third-party booking channels continue to be an important driver of rooms revenue, direct booking platforms are the most predominant source for reservations.



Independent or "soft brand" hotel companies, which are reviewed in our report but not quantitatively represented in the Key Findings tables, provide an alternative business model for property owners desiring a more flexible franchise arrangement. The overall fee structure and costs associated with such franchises are different from the traditional franchise model.

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 two 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, and La Quinta Inn & Suites 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 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
Radisson Hotel Group		
Country Inn & Suites	Upper Midscale	Limited-Service
Park Inn	Upper Midscale	Limited-Service
Radisson	Upscale	Full-Service
Choice		
Ascend Collection	Upscale	Full-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
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	Midscale	Extended-Stay
Homewood Suites	Upscale	Extended-Stay
Hyatt		
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
Staybridge Suites	Upscale	Extended-Stay

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	
Red Roof Inn		
Red Roof Inn	Economy	Limited-Service
RLH Corporation		
Americas Best Value Inn	Economy	Limited-Service
Country Hearth 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	Economy	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

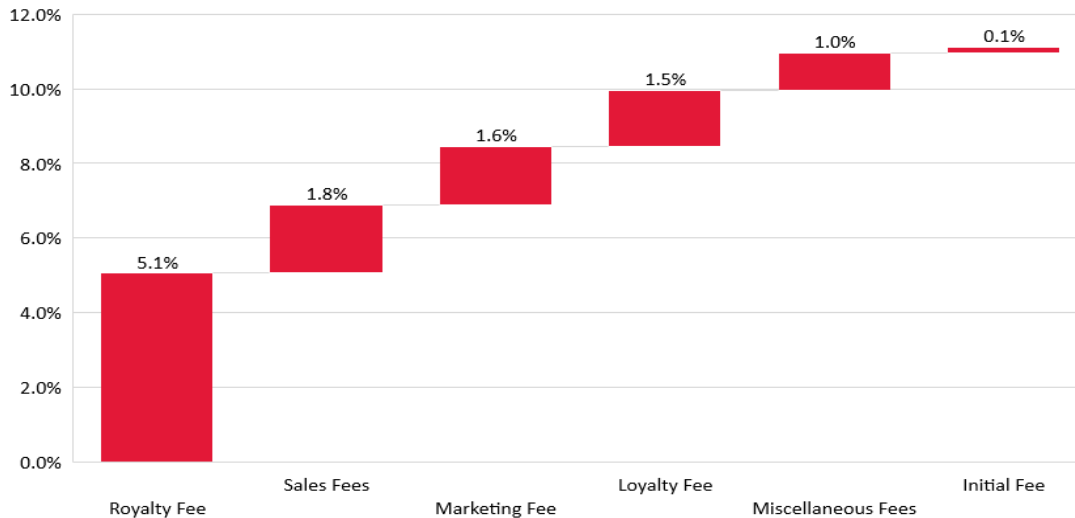
**Preferred Hotels & Resorts is not included in data used for Key Findings tables*

***AmericInn and La Quinta's data are obtained from franchise disclosure documents after Wyndham's acquisition*

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 11.1%, as well as the average percentage of the initial fee, royalty fee, marketing fee, loyalty fee, sales fees, and miscellaneous fees in rooms revenue.

On Average, Initial Fee and Continuous Franchise Costs Total Nearly 11% of Rooms Revenue



On average, franchise costs comprise 11.1% 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 sales fees, marketing fee, loyalty fee, miscellaneous fees, and initial fee. 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 0.1% 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 2018 increased from 2016, due in part to changes in participating brands. Other factors that contributed to this increase in average franchise fees are listed below:

- According to 2018 franchise disclosure documents, program fees have been implemented for the Aloft, Element, and Four Points brands. The program fees include marketing and miscellaneous charges. As the three brands had charged marketing fees in the previous years, no notable shift in marketing fees for Marriott is indicated. We note, however, that the implementation of the program fee contributed to the increase in miscellaneous fees.
- Comparison between the disclosure documents in 2016 and 2018 revealed that the average royalty fee for Choice Hotel's brands increased to 5.4% in 2018 from 4.8% in 2016. We note that the participating brands for Choice Hotels had remained consistent for our analysis in both years.
- Increases in initial fees were noted for Hyatt brands in 2018 compared to those fees in 2016

The increases in overall franchise fees may indicate that the cost to expand and grow the influence of brands is increasing, and that cost is being passed on to the franchisee. Special marketing campaigns, loyalty program advertisement, and technology support are only a small example of a few of the increased investments brands are making to combat the impact of OTAs and independent properties.



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	Initial Fee to 1st year Rooms Revenue	Miscellaneous Fees to Rooms Revenue	Total Cost to Total Revenue
Best Western	Best Western	7.5%	5.0%	1.0%	0.1%	3.4%	0.6%	-
Best Western	Best Western Plus	7.2%	5.0%	0.9%	0.1%	2.5%	0.5%	-
Best Western	Best Western Premier	6.9%	5.0%	0.8%	0.1%	1.8%	0.5%	-
Radisson Hotel Group	Country Inn & Suites	11.9%	5.0%	2.5%	1.6%	3.2%	1.4%	-
Radisson Hotel Group	Park Inn	11.2%	4.5%	2.0%	1.7%	2.0%	1.6%	-