

PREFERRED HOTEL GROUP

Using data provided by STR Analytics, HVS evaluated the performance of the 218 hotels affiliated with Preferred Hotel Group (PHG) in North America. The study focused on the performance of the PHG hotels over the period 2009 to 2012, to assess the group’s success in participating in the economic and lodging industry recovery. The performance of the group was measured against the hotels identified as “Peer Properties”. Data reflecting the performance of the US Lodging Industry overall was also considered, as were statistics for the 25 largest lodging markets in the US (“Major Markets”), as defined by STR.

THE PEER PROPERTIES

For the purposes of this study, the peer properties comprise the competitive sets selected by each Preferred Group hotel in their Monthly STAR Report. In aggregate, 64% of these hotels – and 71% of the rooms – are affiliated with a hotel chain; 48% of the hotels (58% of the room inventory) operate under Marriott, Hilton, Starwood, Hyatt, and Intercontinental Hotel Group full-service brands. A majority of the properties are classified as Luxury or Upper Upscale by STR, and the set includes hotels affiliated with Four Seasons, Ritz Carlton, St. Regis, and Mandarin Oriental Hotels, as well as numerous iconic hotels and resorts.

STRONG REVPAR RECOVERY: 2009 - 2012

The hotels affiliated with Preferred Hotel Group have outpaced their peer properties, the Major Markets and the US Lodging Industry as a whole through the recovery, recording strong positive trends in terms of both the amount and the pace of RevPAR growth. As a result, the RevPAR penetration levels achieved by the PHG hotels against their peer properties has increased by over five points since 2009, from 99.1% in 2009 to 104.5% in 2012.

FIGURE 1 OVERALL REVPAR PERFORMANCE

	2009	2012	Percent Change		Total Increase
			Total	AACG*	
Preferred Hotel Group	\$116.39	\$153.70	32.1%	9.7%	\$37.31
Peer Properties	\$117.50	\$147.12	25.2%	7.8%	\$29.62
US Major Markets	\$70.65	\$88.67	25.5%	7.9%	\$18.02
US Lodging Industry	\$53.71	\$65.17	21.3%	6.7%	\$11.46
PHG Hotels Penetration vs. Peer Properties	99.1%	104.5%			

*Average Annual Compound Growth
Source: STR Analytics

TRANSIENT SEGMENT

The improved performance of the PHG hotels over the past four years has been driven by the transient segment, which recorded significant occupancy growth while maintaining premium average rate levels; the ADR penetration level averaged 111.8% over the period reviewed. The strong performance through the recovery is particularly impressive when considered in the context of the peer properties, the majority of which are affiliated with national or international lodging brands.

FIGURE 2 TRANSIENT SEGMENT REVPAR PERFORMANCE

	2009	2012	Percent Change	Amount
Preferred Hotel Group	\$77.90	\$108.77	39.6%	\$30.87
Peer Properties	\$79.53	\$102.26	28.6%	\$22.73
Penetration	98.0%	106.4%		

Source: STR Analytics

COST-BENEFIT CONSIDERATIONS

The cost of generating revenues is also an important consideration. To evaluate the costs associated with a PHG affiliation in the context of the peer properties, we reviewed the results published in the 2013 U.S. Hotel Franchise Fee Guide. For the purposes of this analysis, we have considered only the royalty fees and the marketing, advertising and reservation fees; the latter three have been aggregated to facilitate this comparison. The costs for a PHG affiliation are based on the average for the Preferred Hotels and Resorts, Summit and Sterling affiliations.

FIGURE 3 AFFILIATION COSTS, AS A PERCENTAGE OF TOTAL ROOM REVENUE

	Royalty Fees	Marketing, Advertising, and/or Reservation Fees	Total
Full-Service First Class Brands*	5.0% - 8.8%	0.8% - 4.5%	
<i>Average</i>	6.5%	3.5%	10.0%
All First Class brands**	4.0 - 8.8%	0.8 - 7.0%	
<i>Average</i>	5.6%	3.9%	9.5%
Preferred Hotel Group	0.7%	3.0%	3.7%

* Includes Marriott, Hilton, Starwood, Hyatt and Intercontinental Hotel Group brands

**Includes all Luxury, Upper Upscale and Upscale brands

Source: HVS, 2013 U.S. Hotel Franchise Fee Guide, Preferred Hotel Group

In aggregate, the total fees payable under a PHG affiliation equal 3.7% of rooms revenue, less than half of the average for the identified first class brands.