June 17, 2013

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RE: Preferred Hotel Group
HVS Reference: 2013010188

Dear Mr. Newbury:

HVS was retained by Preferred Hotel Group to evaluate the performance of the Preferred Hotel Group ("PHG"), in the context of the North American lodging market. Specifically, we reviewed the performance of the hotels affiliated with the PHG family of brands, over the period 2009 to 2012. This period was selected to focus on the performance of the PHG affiliated hotels during the economic recovery, to assess the success of the PHG hotels in participating in that recovery. We herewith present a summary of our findings.

In developing this study, we have relied on information provided by STR Analytics, which assembled occupancy, average rate and RevPAR data, in aggregate, for the following:

- All hotels in North America affiliated with Preferred Hotel Group ("PHG")
- All hotels identified as competitors by the PHG-affiliated hotels ("Peer Properties")
- All hotels in the 25 major markets in the U.S., as defined by STR the U.S.
- All hotels in the U.S.

We have also relied on information presented in the 2013 U.S. Hotel Franchise Fee Guide, published by HVS.

Finally, we have reviewed property specific information on an individual basis for select PHG hotels. This data was provided to HVS on a confidential basis, and has not been disclosed to any individual or entity outside the HVS project team. This information has been used solely to provide the authors context, to assist in the interpretation of the data provided by STR Analytics.

Preferred Hotel Group

Preferred Hotel Group is a global hospitality company based in Chicago, Illinois. The company encompasses five primary brands; an overview of each of these is presented below.

Preferred Hotels & Resorts: the original PHG brand, Preferred Hotels & Resorts encompasses Four and Five Star, full-service hotels and resorts, predominantly classified as luxury hotels, and including iconic properties. As of the date of this study, a majority of the PHG-affiliated hotels operate under the Preferred Hotels & Resorts brand.

Preferred Boutique: similar in profile to Preferred Hotels & Resorts, but with 100 or fewer rooms. Hotels operating in the Preferred Boutique family are subject to somewhat less stringent service standards in recognition of the constraints imposed by the smaller guestroom inventory.

Summit Hotels & Resorts: Hotels operating within the Summit brand are predominantly Four Star, Four Diamond, full-services hotels; the average price point is $50 to $100 below hotels in the Preferred Hotels & Resorts brand.

Sterling Hotels: Hotels operating within the Sterling brand are predominantly Three to Three and a half Star; most of these are full-services hotels, but offer fewer services and amenities than Preferred and Summit. The average price point is $50 to $100 below hotels in the Summit Hotels & Resorts brand.

Sterling Design Hotels: Sterling Design Hotels comprise PHG's Life Style brand, and feature hotels that are characterized by distinctive design elements with a modern twist. These properties are predominantly located in urban markets.

In addition to the five above-described brands, PHG also includes **Summit Residences** and **Preferred Residences**. These alternatives are similar in profile to their respective brands, but comprise properties oriented toward extended stay customers.

All of the PHG brands can be classified as "soft" brands, essentially comprising individual hotels that operate under the PHG umbrella. Like traditional hotel brands, soft brands provide affiliates with reservation systems and connectivity, sales support, and other marketing and operational support systems, such as a frequent guest program. Soft brands require that affiliated properties meet defined quality operational standards, but typically do not mandate specific facility, design or operational criteria. As a result, hotels affiliated with soft brands usually maintain a distinct identity and offer an array of facilities, amenities and service as appropriate to the location and market.

The services and support that PHG provides to the hotels affiliated with one of the PHG brands include reservation and reservation management systems; integrated marketing and communications; the "iPrefer" loyalty program; sales support; representation at trade shows and events; quality assurance; and group purchasing.

The Peer Properties

For the purposes of this study, the peer properties comprise the competitive sets selected by each PHG hotel to be included in their Monthly STAR Report. The following table sets forth the profile of the hotels that comprise the Peer Properties, based on chain scale, as defined by STR.

FIGURE 1 PROFILE OF THE PEER PROPERTIES, BY CHAIN SCALE

	Number of Properties		Number of Rooms	
Breakdown by Chain Scale	**Total**	**Percent of Total**	**Total**	**Percent of Total**
Luxury	301	36.4%	80,424	33.5%
Upper Upscale	309	37.3%	114,237	47.6%
Upscale	142	17.1%	36,481	15.2%
Upper Midscale	54	6.5%	6,473	2.7%
Midscale	14	1.7%	1,554	0.6%
Economy	8	1.0%	920	0.4%
	828	100.0%	240,089	100.0%

A majority of the Peer Properties are classified as luxury or upper upscale by STR; together these sectors account for 74% of the hotels and 81% of the guestroom inventory. Peer properties in the luxury sector include hotels affiliated with Four Seasons, Ritz Carlton, St. Regis, and Mandarin Oriental Hotels, as well as numerous iconic hotels and resorts. Less than 3% of the hotels, and only 1% of the guestroom inventory, are classified as economy or midscale. The predominance of luxury and upper upscale properties within the peer set reflects the overall quality of the hotels affiliated with PHG. The majority of the PHG hotels operate under the Preferred Hotels and Resorts brand, which comprises four- and five-star hotels.

The following table sets forth the profile of the hotels that comprise the Peer Properties, based on brand or hotel company. In the case of Marriott, Hilton, and Starwood, the category includes hotels operating under one of the company's full service brands. For example, the Marriott International category includes hotels operating as a Marriott, Renaissance, Ritz Carlton and Autograph by Marriott.

FIGURE 2 PROFILE OF THE PEER PROPERTIES, BY AFFILIATION

	Number of Properties			Number of Rooms		
Breakdown by Brand	**Total**	**Percent of Total**		**Total**	**Percent of Total**	
Marriott International	137	16.3%		49,499	20.3%	
Hilton Worldwide	110	13.1%		35,029	14.4%	
Starwood Hotels & Resorts	86	10.2%		32,833	13.5%	
Intercontinental Hotels Group	36	4.3%		8,519	3.5%	
Hyatt	30	3.6%		12,849	5.3%	
Four Seasons	14	1.7%		3,608	1.5%	
Total	413		49.0%	142,337		58.4%
Other Brand	60	7.1%		17,554	7.2%	
Total Branded	473		56.2%	159,891		65.6%
Other Affiliations	64	7.6%		14,453	5.9%	
Total Branded or affiliated	537		63.8%	174,344		71.5%
Independent or Soft Brand	305		36.2%	69,353		28.5%
Total Competitive Sample	842		100.0%	243,697		100.0%

*Other brand includes Fairmont, Kimpton, Loews, Omni and Wyndham Hotels

** Other affiliations includes all properties affiliated with a chain, excluding "soft" brands

Note: STR does not specifically track affiliations with Leading Hotels of the Wold, World Hotels, Small Luxury Hotels or other soft brands

A majority of the Peer Property hotels are affiliated with a brand; in aggregate, 64% of the hotels and 71% of the guestroom inventory are affiliated with a hotel chain. Almost half (49%) of the hotels and 58% of the room inventory operate under Marriott, Hilton, Starwood, Intercontinental Hotel Group, Hyatt and Four Seasons full-service brands. Another 15% are affiliated with smaller brands.

Approximately 36% of the hotels are classified as "independent." This category includes hotels that are affiliated with other soft brands, such as Leading Hotels of the World, World Hotels and Small Luxury Hotels., as well as hotels that operate independent of any affiliation. As STR Analytics does not currently track all soft brand affiliations, it is not possible to further subdivide this category.

The brands that are included in the first category are generally viewed as the strongest brands in the US in terms of market presence and room night delivery. Each is characterized by a well-recognized market image, wide geographic distribution, strong reservation system, well-established sales and marketing functions, and popular frequent guest program. By virtue of these attributes, properties affiliated with these brands are generally considered to be less vulnerable to macro-economic fluctuations, although individual properties can have significantly different experiences depending on property- and market-specific circumstances. The predominance of these brands among the peer properties suggests that, in aggregate, the PHG properties have had to operate in a highly competitive market, particularly through the recent recession, which had a dramatic, negative impact on the US Lodging industry as a whole.

Overview of the US Lodging Industry through the Recession

The onset of the recession in December of 2007 first became evident in lodging trends in the spring of 2008 as demand levels decreased from the peak recorded in the prior year. The pace of decline accelerated in the fall of 2008, as both corporate and consumer spending fell dramatically in the wake of the financial crisis and in response to intensifying recessionary pressures. Continued increases in lodging supply, which grew by 2.7% in 2008 and 3.2% in 2009, combined with demand decreases, resulted in a national average occupancy of 55.1% in 2009, an historic low. Aggressive price cuts and rate discounting strategies that were implemented in the face of falling occupancy levels caused average rate to decrease by 8.8% in that same year. The resulting $53.71 RevPAR recorded in 2009 was 16.7% lower than the 2008 RevPAR, and was on par with the level recorded in 2004.

Demand growth resumed in 2010, led by select markets that had recorded positive growth trends in the fourth quarter of 2009. The pace of demand growth accelerated through the year; in 2010, lodging demand in the U.S. increased by 7.7% over 2009 levels. A return of business travel and some group activity contributed to these positive trends. The resurgence in demand was partly fueled by the significant price discounts that were widely available in the first half of 2010. These discounting policies began to be phased out in the latter half of the year, offsetting much of the rate declines recorded in the first half of the year. As a result, average rate decreased by only 0.1% in 2010 when compared to 2009. Strong demand growth continued in 2011 and 2012, at 5.0% and 3.0%, respectively. These trends, combined with minimal supply growth, resulted in an occupancy level of 61.4% in 2012, which was above the average recorded over the preceding ten years. Average rate rebounded by 3.7% and 4.2% in 2011 and 2012, respectively, reaching just over $106 in 2012. The positive trends in occupancy and average rate resulted in an aggregate average RevPAR of $65.17 in 2012, which was on par with the RevPAR levels recorded in 2007 and 2008, prior to the recession.

STR Analytics Data

STR Analytics has complied performance data for the hotels that are affiliated with PHG, as well as for the hotels identified as Peer Properties. Data for the 25 Major Lodging Markets and for the U.S. Lodging industry as a whole was also provided. The statistics include occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized. The data was provided to us in aggregate form, as is set forth in the following chart.

FIGURE 3 OCCUPANCY, AVERAGE RATE AND REVPAR SOURCE DATA

	2009	2010	2011	2012
Preferred Hotel Group Properties				
Occupancy	55.0 %	59.0 %	62.7 %	64.9 %
Change	—	7.3 %	6.2 %	3.6 %
Average Rate	$211.47	$211.76	$225.99	$236.65
Change	—	0.1 %	6.7 %	4.7 %
RevPAR	$116.39	$125.03	$141.72	$153.70
Change	—	7.4 %	13.3 %	8.5 %
Aggregate Peer Properties				
Occupancy	61.7 %	66.1 %	68.4 %	69.5 %
Change	—	7.2 %	3.6 %	1.6 %
Average Rate	$190.58	$192.44	$202.41	$211.55
Change	—	1.0 %	5.2 %	4.5 %
RevPAR	$117.50	$127.15	$138.49	$147.12
Change	—	8.2 %	8.9 %	6.2 %
US Major Markets				
Occupancy	60.2 %	63.8 %	66.6 %	68.6 %
Change	—	6.0 %	4.4 %	3.0 %
Average Rate	$117.44	$118.42	$123.59	$129.25
Change	—	0.8 %	4.4 %	4.6 %
RevPAR	$70.65	$75.54	$82.34	$88.67
Change	—	6.9 %	9.0 %	7.7 %
Total US Lodging Industry				
Occupancy	55.1 %	57.6 %	60.1 %	61.4 %
Change	—	4.5 %	4.3 %	2.2 %
Average Rate	$97.51	$98.08	$101.64	$106.10
Change	—	0.6 %	3.6 %	4.4 %
RevPAR	$53.71	$56.47	$61.06	$65.17
Change	—	5.1 %	8.1 %	6.7 %

Source: STR Analytics

PHG Hotels vs. the Peer Properties and Market

The aggregate performance of the PHG hotels as compared to each of the data sets is set forth in the following charts. In addition to the statistical data, we have calculated the penetration rate for the occupancy, average rate and RevPAR. The penetration rate measures the performance of the PHG hotels against the peer properties

FIGURE 4 PREFERRED HOTEL GROUP PROPERTIES VS AGGREGATE PEER PROPERTIES

	2009	2010	2011	2012	Change: 2009 - 2012 Ave Ann Cmpd Growth	Total Change	Absolute Increase
Preferred Hotel Group Properties							
Occupancy	55.0 %	59.0 %	62.7 %	64.9 %	5.7 %	18.0 %	9.9 pts
Change	—	7.3 %	6.2 %	3.6 %			
Occupancy Penetration	89.3 %	89.4 %	91.7 %	93.4 %			
Average Rate	$211.47	$211.76	$225.99	$236.65	3.8 %	11.9 %	$25.19
Change	—	0.1 %	6.7 %	4.7 %			
Average Rate Penetration	111.0 %	110.0 %	111.6 %	111.9 %			
RevPAR	$116.39	$125.03	$141.72	$153.70	9.7 %	32.1 %	$37.31
Change	—	7.4 %	13.3 %	8.5 %			
RevPAR Penetration	99.1 %	98.3 %	102.3 %	104.5 %			

	2009	2010	2011	2012			
Aggregate Peer Properties							
Occupancy	61.7 %	66.1 %	68.4 %	69.5 %	4.1 %	12.8 %	7.9 pts
Change	— %	7.2 %	3.6 %	1.6 %			
Average Rate	$190.58	$192.44	$202.41	$211.55	3.5 %	11.0 %	$20.98
Change	— %	1.0 %	5.2 %	4.5 %			
RevPAR	$117.50	$127.15	$138.49	$147.12	7.8 %	25.2 %	$29.62
Change	— %	8.2 %	8.9 %	6.2 %			

Source: STR Analytics

The PHG hotels maintained an average rate above the aggregate peer properties throughout the four year period reviewed, with the average rate penetration varying in a narrow range of 110% to 112%. In terms of occupancy growth, the PHG hotels outperformed the peer properties, as occupancy increased by 9.9 points between 2009 and 2012, as compared to the 7.9 point increase recorded by the peer properties. As a result, the RevPAR of the PHG hotels increased by over 32%, or $37, between 2009 and 2012; this compares favorably to the 25% ($30) increase achieved by the peer properties. 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 5 PREFERRED HOTEL GROUP PROPERTIES VS US MAJOR HOTEL MARKETS

	2009	2010	2011	2012	Change: 2009 - 2012 Ave Ann Cmpd Growth	Total Change	Absolute Increase
Preferred Hotel Group Properties							
Occupancy	55.0 %	59.0 %	62.7 %	64.9 %	5.7 %	18.0 %	9.9 pts
Change	—	7.3 %	6.2 %	3.6 %			
Occupancy Penetration	91.4 %	92.5 %	94.2 %	94.7 %			
Average Rate	$211.47	$211.76	$225.99	$236.65	3.8 %	11.9 %	$25.19
Change	—	0.1 %	6.7 %	4.7 %			
Average Rate Penetration	180.1 %	178.8 %	182.9 %	183.1 %			
RevPAR	$116.39	$125.03	$141.72	$153.70	9.7 %	32.1 %	$37.31
Change	—	7.4 %	13.3 %	8.5 %			
RevPAR Penetration	164.7 %	165.5 %	172.1 %	173.3 %			
	2009	2010	2011	2012			
US Major Markets							
Occupancy	60.2 %	63.8 %	66.6 %	68.6 %	4.5 %	14.0 %	8.4 pts
Change	—	6.0 %	4.4 %	3.0 %			
Average Rate	$117.44	$118.42	$123.59	$129.25	3.2 %	10.1 %	$11.81
Change	—	0.8 %	4.4 %	4.6 %			
RevPAR	$70.65	$75.54	$82.34	$88.67	7.9 %	25.5 %	$18.02
Change	—	6.9 %	9.0 %	7.7 %			

Source: STR Analytics

The PHG hotels maintained an average rate well above the aggregate for the US major markets, recording average rate penetration rates of over 178% in the four year period reviewed. The extent of the premium can be attributed to the caliber of the hotels that comprise the PHG set; by contrast, the US Major markets data includes hotels from all chain scales. In aggregate, the average rate penetration rate of the PHG hotels declined in 2010, suggesting that these properties had to moderate their pricing strategy in response to the downturn. In 2011, the PHG hotels achieved average rate growth well in excess of the major markets, and kept pace with the broader market trend in 2012. As a result, the average rate achieved by the PHG hotels increased by $25 between 2009 and 2012, which compares favorably to the $12 increase reported by the major markets.

In terms of occupancy, the PHG hotels recorded a 9.9 point increase from 2009 to 2011, which is 1.5 points above the increase achieved by the US major markets. The occupancy level remained below that recorded by the major markets, but the occupancy penetration increased from 91.4% to 94.7%. The below-market occupancy level was more than offset by the average rate premium. As a result, the RevPAR penetration of the PHG hotels as compared to the aggregate major markets increased from 164.7% to 173.3% over the recovery. The aggregate RevPAR increased by over $37, which was more than double the increase achieved by the aggregate major markets.

FIGURE 6 PREFERRED HOTEL GROUP PROPERTIES VS TOTAL US LODGING INDUSTRY

					Change: 2009 - 2012		
	2009	2010	2011	2012	Ave Ann Cmpd Growth	Total Change	Absolute Increase
Preferred Hotel Group Properties							
Occupancy	55.0 %	59.0 %	62.7 %	64.9 %	5.7 %	18.0 %	9.9 pts
Change	—	7.3 %	6.2 %	3.6 %			
Occupancy Penetration	99.9 %	102.5 %	104.3 %	105.8 %			
Average Rate	$211.47	$211.76	$225.99	$236.65	3.8 %	11.9 %	$25.19
Change	—	0.1 %	6.7 %	4.7 %			
Average Rate Penetration	216.9 %	215.9 %	222.3 %	223.0 %			
RevPAR	$116.39	$125.03	$141.72	$153.70	9.7 %	32.1 %	$37.31
Change	—	7.4 %	13.3 %	8.5 %			
RevPAR Penetration	216.7 %	221.4 %	232.1 %	235.8 %			
	2009	2010	2011	2012			
Total US Lodging Industry							
Occupancy	55.1 %	57.6 %	60.1 %	61.4 %	3.7 %	11.4 %	6.3 pts
Change	—	4.5 %	4.3 %	2.2 %			
Average Rate	$97.51	$98.08	$101.64	$106.10	2.9 %	8.8 %	$8.59
Change	—	0.6 %	3.6 %	4.4 %			
RevPAR	$53.71	$56.47	$61.06	$65.17	6.7 %	21.3 %	$11.46
Change	—	5.1 %	8.1 %	6.7 %			

Source: STR Analytics

The average rate attained by the PHG hotels exceeded the US lodging market as a whole by an even greater premium than that recorded against the major markets. The extent of the premium can again be attributed to the difference in the makeup of the sample, with the total US lodging industry data incorporating a greater proportion of upscale, midscale and economy hotels than either of the other data samples. The pace and strength of the recovery achieved by the PHG hotels is even more striking in this comparison, with both the occupancy and average rate penetration rates increasing significantly between 2009 and 2012. As a result, the $37 RevPAR increase recorded by the PHG hotels is more than triple the increase recorded by the US lodging industry as a whole.

STR Analytics Data by Market Segment

In addition to the aggregate market data presented above, STR Analytics also provided data for the PHG Properties and the Peer Properties based on the source of demand. The data comprises three market segments: Transient, Group and Contract. We have reviewed this data for the transient and group segments. The contract segment has not been considered, as this segment is a minor component of demand among both the PHG and Peer Property hotels. This data is set forth in the following table. Note that the occupancy data reflects the points of occupancy derived from each segment. The average rate reflects the average rate associated with each segment.

FIGURE 7 PREFERRED HOTEL GROUP PROPERTIES VS PEER PROPERTIES: OCCUPANCY, AVERAGE RATE AND REVPAR DATA BY SEGMENT

	2009	2010	2011	2012
Preferred Hotel Group Properties				
Occupancy				
Transient	34.9 %	36.7 %	39.5 %	42.4 %
Group	19.0	21.2	22.3	21.9
Contract	1.0	1.1	0.8	0.6
Total	55.0	59.0	62.7	64.9
Average Rate				
Transient	$222.93	$228.56	$247.07	$256.44
Group	191.05	184.75	190.83	199.50
Contract	200.11	170.84	167.75	196.27
Total	$211.47	$211.76	$225.99	$236.65
RevPAR				
Transient	$77.90	$83.99	$97.70	$108.77
Group	36.39	39.20	42.63	43.73
Contract	2.10	1.84	1.38	1.21
Total	$116.39	$125.03	$141.72	$153.70

	2009	2010	2011	2012
Aggregate Peer Properties				
Occupancy				
Transient	39.7 %	41.9 %	43.5 %	44.7 %
Group	20.4	22.5	23.2	23.2
Contract	1.6	1.7	1.7	1.7
Total	61.7	66.1	68.4	69.5
Average Rate				
Transient	$200.38	$206.28	$218.77	$228.99
Group	177.77	173.77	179.34	185.58
Contract	109.70	98.02	100.97	107.19
Total	$190.58	$192.44	$202.41	$211.55
RevPAR				
Transient	$79.53	$86.36	$95.06	$102.26
Group	36.23	39.14	41.69	43.06
Contract	1.73	1.64	1.74	1.81
Total	$117.50	$127.15	$138.49	$147.12

PHG Hotels vs. Peer Properties: Group Segment

The following chart sets forth the aggregate data for the Group segment, for both the PHG hotel and the peer properties.

FIGURE 8 PREFERRED HOTEL GROUP PROPERTIES VS AGGREGATE PEER PROPERTIES: GROUP SEGMENT

					Change: 2009 - 2012		
	2009	2010	2011	2012	Average Annual Compound Growth	Total Change	Absolute Increase
Preferred Hotel Group Properties							
Occupancy Points*	19.0 %	21.2 %	22.3 %	21.9 %	4.8 %	15.1 %	2.9 pts
Change	—	11.4 %	5.3 %	(1.9) %			
Occupancy Penetration	93.5 %	94.2 %	96.1 %	94.5 %			
Average Rate**	$191.05	$184.75	$190.83	$199.50	1.5 %	4.4 %	$8.45
Change	—	(3.3) %	3.3 %	4.5 %			
Average Rate Penetration	107.5 %	106.3 %	106.4 %	107.5 %			
RevPAR	$36.39	$39.20	$42.63	$43.73	6.3 %	20.2 %	$7.34
Change	—	7.7 %	8.8 %	2.6 %			
RevPAR Penetration	100.4 %	100.1 %	102.3 %	101.6 %			
	2009	2010	2011	2012			
Aggregate Peer Properties							
Occupancy Points*	20.4 %	22.5 %	23.2 %	23.2 %	4.4 %	13.8 %	2.8 pts
Change	— %	10.5 %	3.2 %	(0.2) %			
Average Rate**	$177.77	$173.77	$179.34	$185.58	1.4 %	4.4 %	$7.82
Change	— %	(2.2) %	3.2 %	3.5 %			
RevPAR	$36.23	$39.14	$41.69	$43.06	5.9 %	18.8 %	$6.83
Change	— %	8.0 %	6.5 %	3.3 %			

**Data reflects occupancy points derived from the Transient Segment*

***Average rate reflects average for transient room nights.*

Source: STR Analytics

The data for the group segment indicates that the performance of the PHG hotels over the years 2009 to 2012 was generally on par with the peer properties. The PHG hotels consistently achieved average rates in excess of the aggregate average reported by the peer properties, but derived less occupancy from the group segment than the peer hotel set.

PHG Hotels vs. Peer Properties: Transient Segment

The following chart sets forth the aggregate data for the transient segment, for both the PHG hotel and the peer properties.

FIGURE 9 PREFERRED HOTEL GROUP PROPERTIES VS AGGREGATE PEER PROPERTIES: TRANSIENT SEGMENT

					Change: 2009 - 2012		
	2009	2010	2011	2012	Average Annual Compound Growth	Total Change	Absolute Increase
Preferred Hotel Group Properties							
Occupancy Points*	34.9 %	36.7 %	39.5 %	42.4 %	6.7 %	21.4 %	7.5 pts
Change	—	5.2 %	7.6 %	7.3 %			
Occupancy Penetration	88.0 %	87.8 %	91.0 %	95.0 %			
Average Rate**	$222.93	$228.56	$247.07	$256.44	4.8 %	15.0 %	$33.50
Change	—	2.5 %	8.1 %	3.8 %			
Average Rate Penetration	111.3 %	110.8 %	112.9 %	112.0 %			
RevPAR	$77.90	$83.99	$97.70	$108.77	11.8 %	39.6 %	$30.87
Change	—	7.8 %	16.3 %	11.3 %			
RevPAR Penetration	97.9 %	97.3 %	102.8 %	106.4 %			
	2009	2010	2011	2012			
Aggregate Peer Properties							
Occupancy Points*	39.7 %	41.9 %	43.5 %	44.7 %	4.0 %	12.5 %	5.0 pts
Change	— %	5.5 %	3.8 %	2.8 %			
Average Rate**	$200.38	$206.28	$218.77	$228.99	4.5 %	14.3 %	$28.61
Change	— %	2.9 %	6.1 %	4.7 %			
RevPAR	$79.53	$86.36	$95.06	$102.26	8.7 %	28.6 %	$22.72
Change	— %	8.6 %	10.1 %	7.6 %			

**Data reflects occupancy points derived from the Transient Segment*

***Average rate reflects average for transient room nights.*

Source: STR Analytics

The data by segment demonstrates that the strong performance of the PHG hotels through the recovery was driven by the transient segment. Specifically, the PHG hotels recorded a 7.5 point increase in occupancy derived from the transient segment, as compared to a 5.0 point increase by the aggregate peer properties. At the same time, the PHG hotels were able to maintain – and in fact slightly improve – average rates, maintaining an average rate penetration rate of over 110% in the transient segment. The strong recovery in occupancy is particularly notable given the fact that PHG did not offer a frequent guest program during the period reviewed. Such programs generally have the most direct influence on the transient segment, and as noted, a majority of the peer properties are affiliated with brands that feature strong frequent guest programs.

Cost-Benefit Considerations

The cost of membership in a hotel brand 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 fee structure for each of the Preferred Hotel Group brands is summarized in the following table.

FIGURE 10 PREFERRED HOTEL BRANDS – SUMMARY OF FEE STRUCTURE

Brand	Total Initial Fee	Royalty Fee	Reservation Fee	Marketing Fee	Loyalty Fees
Preferred Hotels and Resorts	$100 per key	$300 per key, minimum $20,000	7% of net room revenue (varies by channel)	$20,000	2.5% of net room revenue for iPrefer Rewards Guests
Preferred Boutique Hotels	$100 per key	$300 per key, minimum $15,000	7% of net room revenue (varies by channel)	$10,000	2.5% of net room revenue for iPrefer Rewards Guests
Summit Hotels & Resorts	$70 per key	$150 per key, minimum $10,000	7% of net room revenue (varies by channel)	$15,000	2.5% of net room revenue for iPrefer Rewards Guests
Sterling Hotels	$70 per key	$150 per key, minimum $10,000	7% of net room revenue (varies by channel)	$10,000	2.5% of net room revenue for iPrefer Rewards Guests
Sterling Design Hotels	$70 per key	$150 per key, minimum $10,000	7% of net room revenue (varies by channel)	$10,000	2.5% of net room revenue for iPrefer Rewards Guests
Summit Serviced Residences	$100 per key	$150 per key, minimum $15,000	7% of net room revenue (varies by channel)	$10,000	2.5% of net room revenue for iPrefer Rewards Guests

Based on a pro forma forecast of income and expense for a typical full service hotel, we have calculated the royalty fees and the aggregate and marketing, advertising and reservation fees for the hotel brands that comprise a majority of the peer properties. The same calculations have been made for PHG hotels, using the average for the Preferred Hotels and Resorts, Summit and Sterling affiliations. This methodology is consistent with that employed in the preparation of HVS's Hotel Franchise Fee Guide. The following chart presents the results of these calculations.

FIGURE 11 AVERAGE AFFILIATION COSTS, PREFERRED HOTEL GROUP AND PEER PROPERTY BRANDS

	Average Annual Cost Per Room			Percent of Gross Rooms Revenue		
Brand	**Royalty Fees**	**Reservation, Marketing & Advertising Fees**	**Total**	**Royalty Fees**	**Reservation, Marketing & Advertising Fees**	**Total**
Autograph	$1,686	$1,278	$2,963	5.0%	3.8%	8.8%
Doubletree Hotels	1,686	1,456	3,142	5.0%	4.3%	9.3%
Embassy Suites	1,686	363	2,048	5.0%	1.1%	6.1%
Hilton	2,292	1,456	3,748	6.8%	4.3%	11.1%
Hyatt Regency	2,630	279	2,909	7.8%	0.8%	8.6%
InterContinental Hotels & Resorts	1,686	1,346	3,032	5.0%	4.0%	9.0%
Le Meridien	2,090	1,169	3,260	6.2%	3.5%	9.7%
Luxury Collection	2,090	1,169	3,260	6.2%	3.5%	9.7%
Marriott	2,630	1,047	3,676	7.8%	3.1%	10.9%
NYLO	1,686	1,436	3,121	5.0%	4.3%	9.3%
Renaissance	1,686	1,208	2,894	5.0%	3.6%	8.6%
Sheraton	2,427	1,169	3,597	7.2%	3.5%	10.7%
Westin	2,967	1,507	4,473	8.8%	4.5%	13.3%
Preferred (Average of all brands)	**$230**	**$1,007**	**$1,237**	**0.7%**	**3.0%**	**3.7%**

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

In developing the above data, we have aggregated the reservamtion, marketing and advertising fees to facilitate a comparison, as the various brands structure and categorize these fees differently. We also note that these calculations do not include any costs related to frequent guest programs. Most of these brands support, and charge for, frequent guest programs. PHG's iPrefer frequent guest program did not not charge any fees to member hotels during the period reviewed.

Based on the pro forma forecast, the average annual fees payable by hotels that operate under a PHG affiliation is $1,237 per room; this equates to 3.7% of rooms revenue. By comparison, all of the brands reviewed in the above chart are characterized by significantly higher fees, as a dollar amount per room and as a percentage of rooms revenue. Consistent with the methodology in the Franchise Fee Guide, the calculations assume that approximately 75% of all reservations are subject to reservation fees. According to representatives of PHG, reservation fees are assessed only on those reservations that pass through the PHG central reservations system.

The following chart summarizes the range and average fee structure indicated by the Franchise Fee Guide study.

FIGURE 12 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%	
Average	*6.5%*	*3.5%*	*10.0%*
All First Class brands**	4.0 - 8.8%	0.8 - 7.0%	
Average	*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

For the PHG hotels, the total marketing, advertising and/or reservation fees payable equates to 3.0% of rooms revenue; this is within the range indicated for the other brands, and slightly lower than the average. The difference in the cost of the royalty fee is striking. The $230 per room annual fee is substantially lower than the royalty fees payable under the other brands, which range from $1,686 to $2,967 per room. The PHG royalty fee equates to 0.7% of rooms revenue, as compared to 4.0% to 8.8% for the larger brands.

We hereby certify that we have no undisclosed interest in the subject of this study, and our employment and compensation are not contingent upon our findings and conclusions.

Very truly yours,

HOTEL APPRAISALS, LLC
Doing Business as HVS