

July 14, 2017

Jonathan Newbury
Vice President, Strategic Development
Preferred Hotels & Resorts
311 South Wacker Drive
Suite 1900
Chicago, IL 60606-6620

HVS Chicago

205 West Randolph Street, Suite
1650

Chicago, Illinois, 60606

+1 419 367-3879

+1 (516) 742-3059 FAX

www.hvs.com

RE: Preferred Hotels & Resorts
HVS Reference: 2017020458

Dear Mr. Newbury:

HVS was retained by Preferred Hotels & Resorts (“PHR”) to evaluate their affiliated hotels in the context of the North American lodging market. Specifically, we reviewed the performance of the hotels affiliated with the brand over the period from 2012 to 2016. This period was selected to focus on the performance of the PHR-affiliated hotels after the economic recovery to assess the success of the PHR hotels in participating in that period. 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:

- Select 172 hotels in North America affiliated with Preferred Hotels & Resorts (“PHR”)
- All hotels identified as competitors by the PHR-affiliated hotels (“Peer Properties”)
- All hotels in the 25 major markets in the U.S., as defined by STR
- All hotels in the U.S.

We have also relied on the internal database prepared for the 2016/17 U.S. Hotel Franchise Fee Guide, published by HVS.

**Preferred Hotels & Resorts
2012 - 2016 Performance Evaluation
North American Hotels**

Submitted to:

Jonathan Newbury
Vice President, Strategic Hotel Development
Preferred Hotels & Resorts
311 South Wacker Drive
Suite 1900
Chicago, IL 60606-6620

Prepared by:

HVS
Chicago

Date: July 14, 2017

Purpose of the Engagement

HVS was retained by Preferred Hotels & Resorts (“PHR”) to evaluate their affiliated hotels in the context of the North American lodging market. Specifically, we reviewed the performance of the hotels affiliated with the brand over the period from 2012 to 2016. This period was selected to focus on the performance of the PHR-affiliated hotels over the last five years to assess the success of the PHR hotels in that period. HVS evaluated the PHR hotels’ performance for the 2009 to 2012 period in a prior study for Preferred Hotels & Resorts; however, due to differences in the comparable data sets, the figures do not align over the eight-year period. We herewith present a summary of our findings for the last five years only.

Methodology and Scope of Work

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:

- Select 172 hotels in North America affiliated with PHR
- All hotels identified as competitors by the PHR-affiliated hotels (“Peer Properties”)
- All hotels in the 25 major markets in the U.S., as defined by STR
- All hotels in the U.S.

We have also relied on the internal database prepared for the 2016/17 U.S. Hotel Franchise Fee Guide, published by HVS.

Preferred Hotels & Resorts

Preferred Hotels & Resorts is a global hospitality company based in Chicago, Illinois. Preferred Hotels & Resorts encompasses four- and five-star, full-service hotels and resorts, predominantly classified as luxury hotels and including iconic properties.

Preferred Hotels & Resorts can be classified as a “soft” brand, essentially comprising individual hotels that operate under the PHR 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 services as appropriate to the location and market.

The services and support that PHR provides to its affiliated hotels 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 came from STAR competitive sets selected by each PHR hotel operator individually. 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

Breakdown by Chain Scale	Number of Properties		Number of Rooms	
	Total	Percent of Total	Total	Percent of Total
Luxury	166	35.2%	51,391	33.0%
Upper Upscale	206	43.6%	82,343	52.9%
Upscale	78	16.5%	18,568	11.9%
Upper Midscale	18	3.8%	3,106	2.0%
Midscale	4	0.8%	285	0.2%
Economy	0	0.0%	-	0.0%
	472	100%	155,693	100%

Most of the Peer Properties are classified as luxury or upper-upscale by STR; together, these sectors account for 79% of the hotels and 86% 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 1.0% of the hotels, and only 0.2% of the guestroom inventory, are classified as midscale, and none of peer properties are classified as economy. The predominance of luxury and upper-upscale properties within the peer set reflects the overall quality of the hotels affiliated with PHR.

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 and Hilton, 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, Autograph Collection, Westin, The Luxury

Collection, W Hotels, Sheraton, Le Meridien by Marriott, and so on. We were provided with the aggregate data by parent company, rather than a detailed list of the individual hotels.

FIGURE 2 PROFILE OF THE PEER PROPERTIES, BY AFFILIATION

Breakdown by Brand	Number of Properties		Number of Rooms	
	Total	Percent of Total	Total	Percent of Total
Marriott International	173	25.4%	59,460	29.7%
Hilton Worldwide	82	12.0%	31,618	15.8%
InterContinental Hotels Group	26	3.8%	8,093	4.0%
Hyatt	28	4.1%	11,836	5.9%
Four Seasons Hotels & Resorts	16	2.3%	3,823	1.9%
Total	325	47.7%	114,830	57.3%
Other Brand	48	7.0%	18,319	9.1%
Total Branded	373	54.8%	133,149	66.4%
Other Affiliations	98	14.4%	22,544	11.2%
Total Branded or Affiliated	471	69.2%	155,693	77.7%
Independent or Soft Brand	210	30.8%	44,748	22.3%
Total Competitive Sample	681	100.0%	200,441	100.0%

*Other brand includes FRHI, Loews, Omni, and Wyndham Hotels (distinguished by sample size)

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

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

A majority of the Peer Properties are affiliated with a brand; in aggregate, 69% of the hotels and 78% of the guestroom inventory are affiliated with a hotel chain. Almost half (48%) of the hotels and 57% of the room inventory operate under Marriott, Hilton, InterContinental Hotels Group, Hyatt, and Four Seasons full-service brands. Another 21% are affiliated with smaller brands.

Approximately 31% 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, Worldhotels and Small Luxury Hotels of the World, 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 first category, which includes the larger brands (and the recently merged Marriott and Starwood companies), are generally viewed as the strongest brands in the U.S. 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. Based on 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 PHR properties have had to operate in a highly competitive market, particularly through the recent recession, which had a dramatic negative impact on the U.S. lodging industry as a whole.

Overview of the U.S. Lodging Industry through and after the Recession

The onset of the recession in December 2007 first became evident in lodging trends in the spring of 2008 and accelerated in the fall of 2008, as both corporate and consumer spending fell dramatically in the wake of the financial crisis. Continued increases in lodging supply 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% that year. The resulting RevPAR of \$53.71 in 2009 was 16.7% lower than the 2008 RevPAR.

Demand growth resumed in 2010, led by select markets that had recorded 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. These trends, combined with minimal supply growth, resulted in an occupancy level of 61.3% in 2012, which was above the average recorded over the preceding ten years. 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, and in most markets, it was widely accepted that lodging trends had recovered.

In the last four years, occupancy and average rate have reached record highs in many markets across the country. The limited supply growth continued, allowing

for a period of sustained profits for hoteliers. From 2012 through 2016, occupancy increased at an annual compound rate of 1.7%, and average rate grew at 3.9%. This steadfast growth of both occupancy and average rate resulted in a RevPAR of \$81.20 in 2016. The national occupancy and average rate growth rates have slowed in recent years as supply growth has become more prevalent in markets across the country. Most analysts agree the national lodging market is approaching its peak.

When comparing the results of this study to the study completed in 2012 for PHR, it was apparent that the PHR properties recovered more quickly from the recession in 2008/09. The rate of recovery in that report showed a higher penetration level during the 2009 to 2012 period, whereas the current results indicate the peer properties have caught up to the PHR properties in their recovery.

STR Analytics Data

STR Analytics has compiled performance data for the hotels that are affiliated with PHR, as well as for the hotels identified as Peer Properties. Data for the 25 Major Lodging Markets and for the U.S. Lodging Industry 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 set forth in the following chart.

FIGURE 3 OCCUPANCY, AVERAGE RATE AND REVPAR SOURCE DATA

	2012	2013	2014	2015	2016
Preferred Hotels & Resorts Properties					
Occupancy	69.2 %	70.1 %	70.7 %	71.4 %	70.8 %
Change	—	1.3 %	0.8 %	1.0 %	(0.9) %
Average Rate	\$223.68	\$233.23	\$244.86	\$255.73	\$264.24
Change	—	4.3 %	5.0 %	4.4 %	3.3 %
RevPAR	\$154.86	\$163.60	\$173.18	\$182.68	\$187.01
Change	—	5.6 %	5.9 %	5.5 %	2.4 %
Aggregate Peer Properties					
Occupancy	69.8 %	71.2 %	72.6 %	73.3 %	73.2 %
Change	—	2.0 %	1.9 %	1.0 %	(0.1) %
Average Rate	\$219.24	\$229.74	\$239.96	\$247.68	\$252.55
Change	—	4.8 %	4.4 %	3.2 %	2.0 %
RevPAR	\$153.00	\$163.56	\$174.13	\$181.50	\$184.78
Change	—	6.9 %	6.5 %	4.2 %	1.8 %
U.S. Major Markets					
Occupancy	68.6 %	70.0 %	72.4 %	73.6 %	73.4 %
Change	—	2.0 %	3.4 %	1.7 %	(0.3) %
Average Rate	\$129.25	\$135.04	\$141.48	\$147.30	\$151.22
Change	—	4.5 %	4.8 %	4.1 %	2.7 %
RevPAR Change	\$88.67	\$94.47	\$102.45	\$108.47	\$110.97
Change	—	6.5 %	8.4 %	5.9 %	2.3 %
Total U.S. Lodging Industry					
Occupancy	61.4 %	62.3 %	64.4 %	65.6 %	65.5 %
Change	—	1.5 %	3.4 %	1.9 %	(0.2) %
Average Rate	\$106.10	\$110.35	\$115.32	\$120.01	\$123.97
Change	—	4.0 %	4.5 %	4.1 %	3.3 %
RevPAR Change	\$65.17	\$68.69	\$74.28	\$78.67	\$81.19
Change	—	5.4 %	8.1 %	5.9 %	3.2 %

Source: STR Analytics

PHR Hotels vs. the Peer Properties and Market

The aggregate performance of the PHR 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 PHR hotels against the peer properties.

FIGURE 4 PREFERRED HOTELS & RESORTS PROPERTIES VS AGGREGATE PEER PROPERTIES

	2012	2013	2014	2015	2016	Change: 2012 - 2016		
						Ave Ann Cmpd Growth	Total Change	Absolute Increase
Preferred Hotels & Resorts Properties								
Occupancy	69.2 %	70.1 %	70.7 %	71.4 %	70.8 %	0.7 %	2.2 %	1.5 pts
Change	—	1.3 %	0.8 %	1.0 %	(0.9) %			
Occupancy Penetration	99.2	98.5	97.5	97.5	96.7			
Average Rate	\$223.68	\$233.23	\$244.86	\$255.73	\$264.24	5.7 %	18.1 %	\$40.6
Change	—	4.3 %	5.0 %	4.4 %	3.3 %			
Average Rate Penetration	102.0	101.5	102.0	103.3	104.6			
RevPAR	\$154.86	\$163.60	\$173.18	\$182.68	\$187.01	6.5 %	20.8 %	\$32.2
Change	—	5.6 %	5.9 %	5.5 %	2.4 %			
RevPAR Penetration	101.2	100.0	99.5	100.7	101.2			
Aggregate Peer Properties								
Occupancy	69.8 %	71.2 %	72.6 %	73.3 %	73.2 %	1.6 %	4.8 %	3.4
Change	—	2.0 %	1.9 %	1.0 %	(0.1) %			
Average Rate	\$219.24	\$229.74	\$239.96	\$247.68	\$252.55	4.8 %	15.2 %	\$33.3
Change	—	4.8 %	4.4 %	3.2 %	2.0 %			
RevPAR	\$153.00	\$163.56	\$174.13	\$181.50	\$184.78	6.5 %	20.8 %	\$31.8
Change	—	6.9 %	6.5 %	4.2 %	1.8 %			

Source: STR Analytics

The PHR hotels maintained an average rate above that of the aggregate peer properties throughout the five-year period reviewed, with the average rate penetration remaining in a narrow range from 102% to 105%. Although occupancy grew at a slower pace than that of the Peer Properties, the PHR hotels outperformed the Peer Properties in terms of average rate growth. Average rate increased for the PHR hotels by \$40.60 between 2012 and 2016, as compared to the \$33.30 increase recorded by the peer properties. As a result, the RevPAR of the PHR hotels increased annually by more than 6%, or \$32, between 2012 and 2016. The overall RevPAR increase is comparable between the PHR hotels and the Peer Properties. The strong performance of the PHR hotels during the last five years is particularly impressive when considered in the context of the Peer Properties, the majority of which are affiliated with national or international lodging brands. Furthermore, as illustrated in the 2012 study for PHR, the PHR hotels recovered

from the downturn at a faster pace than the peer properties. This extended recovery is indicative of positive operating performance for the PHR hotels when external or specific market factors are excluded.

FIGURE 5 PREFERRED HOTELS & RESORTS PROPERTIES VS U.S. MAJOR HOTEL MARKETS

	2012	2013	2014	2015	2016	Change: 2012 - 2016		
						Ave Ann Cmpd Growth	Total Change	Absolute Increase
Preferred Hotels & Resorts Properties								
Occupancy	69.2 %	70.1 %	70.7 %	71.4 %	70.8 %	0.7 %	2.2 %	1.5 pts
Change	—	1.3 %	0.8 %	1.0 %	(0.9) %			
Occupancy Penetration	100.9	100.2	97.7	97.1	96.4			
Average Rate	\$223.68	\$233.23	\$244.86	\$255.73	\$264.24	5.7 %	18.1 %	\$40.6
Change	—	4.3 %	5.0 %	4.4 %	3.3 %			
Average Rate Penetration	173.1	172.7	173.1	173.6	174.7			
RevPAR	\$154.86	\$163.60	\$173.18	\$182.68	\$187.01	6.5 %	20.8 %	\$32.2
Change	—	5.6 %	5.9 %	5.5 %	2.4 %			
RevPAR Penetration	174.6	173.2	169.0	168.4	168.5			
U.S. Major Markets								
Occupancy	68.6 %	70.0 %	72.4 %	73.6 %	73.4 %	2.3 %	7.0 %	4.8
Change	—	2.0 %	3.4 %	1.7 %	(0.3) %			
Average Rate	\$129.25	\$135.04	\$141.48	\$147.30	\$151.22	5.4 %	17.0 %	\$22.0
Change	—	4.5 %	4.8 %	4.1 %	2.7 %			
RevPAR Change	\$88.67	\$94.47	\$102.45	\$108.47	\$110.97	7.8 %	25.1 %	\$22.3
Change	—	6.5 %	8.4 %	5.9 %	2.3 %			

Source: STR Analytics

The PHR hotels maintained an average rate well above the aggregate for the U.S. major markets, recording average-rate penetration levels of over 172% in the five-year period reviewed. The extent of the premium can be attributed to the caliber of the hotels that comprise the PHR set; by contrast, the U.S. Major Markets data includes hotels from all chain scales. In aggregate, the average rate penetration rate of the PHR kept pace with the broader market trend from 2012 through 2016. As a result, the average rate achieved by the PHR hotels increased by \$40.60 between 2012 and 2016, which compares favorably to the \$22.30 increase reported by the major markets.

In terms of occupancy, the PHR hotels recorded a 1.5-point increase from 2012 to 2016, which is 3.3 points below the increase achieved by the U.S. major markets, and the occupancy penetration decreased from 100.9% to 96.4%. As a result, the RevPAR penetration of the PHR hotels against the U.S. Major Markets has remained around 168% last five years. The aggregate RevPAR increased by over \$32, which was \$10 higher than the increase achieved by the aggregate major markets.

FIGURE 6 PREFERRED HOTELS & RESORTS PROPERTIES VS TOTAL US LODGING INDUSTRY

	2012	2013	2014	2015	2016	Change: 2012 - 2016		
						Ave Ann Cmpd Growth	Total Change	Absolute Increase
Preferred Hotels & Resorts Properties								
Occupancy	69.2 %	70.1 %	70.7 %	71.4 %	70.8 %	0.7 %	2.2 %	1.5 pts
Change	—	1.3 %	0.8 %	1.0 %	(0.9) %			
Occupancy Penetration	112.8	112.6	109.8	108.9	108.0			
Average Rate	\$223.68	\$233.23	\$244.86	\$255.73	\$264.24	5.7 %	18.1 %	40.6
Change	—	4.3 %	5.0 %	4.4 %	3.3 %			
Average Rate Penetration	210.8	211.4	212.3	213.1	213.2			
RevPAR	\$154.86	\$163.60	\$173.18	\$182.68	\$187.01	6.5 %	20.8 %	32.2
Change	—	5.6 %	5.9 %	5.5 %	2.4 %			
RevPAR Penetration	237.6	238.2	233.1	232.2	230.3			
Total U.S. Lodging Industry								
Occupancy	61.4 %	62.3 %	64.4 %	65.6 %	65.5 %	2.2 %	6.7 %	4.1
Change	—	1.5 %	3.4 %	1.9 %	(0.2) %			
Average Rate	\$106.10	\$110.35	\$115.32	\$120.01	\$123.97	5.3 %	16.8 %	17.9
Change	—	4.0 %	4.5 %	4.1 %	3.3 %			
RevPAR Change	\$65.17	\$68.69	\$74.28	\$78.67	\$81.19	7.6 %	24.6 %	16.0
Change	—	5.4 %	8.1 %	5.9 %	3.2 %			

Source: STR Analytics

The average rate attained by the PHR hotels exceeded the average rate of the U.S. lodging market 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 U.S. 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 PHR hotels is even more striking in this comparison, with the average rate penetration rates increasing between 2012 and 2016. As a result, the \$32 RevPAR increase recorded by the PHR hotels is more than double the increase recorded by the U.S. lodging industry.

**STR Analytics Data
by Market Segment**

In addition to the aggregate market data presented above, STR Analytics also provided data for the PHR 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 PHR and Peer Properties. 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 HOTELS & RESORTS PROPERTIES VS PEER PROPERTIES: OCCUPANCY, AVERAGE RATE AND REVPAR DATA BY SEGMENT

	2012	2013	2014	2015	2016
Preferred Hotels & Resorts Properties					
Occupancy					
Transient	40.8 %	46.0 %	40.3 %	40.6 %	41.0 %
Group	25.8	21.2	26.1	26.6	26.1
Contract	2.7	3.0	4.4	4.3	3.7
Total	69.2	70.1	70.7	71.4	70.8
Average Rate					
Transient	\$252.85	\$254.86	\$286.54	\$299.77	\$306.05
Group	\$189.95	\$201.76	\$205.20	\$212.56	\$220.14
Contract	\$104.08	\$123.36	\$97.84	\$106.10	\$114.04
Total	\$223.68	\$233.23	\$244.86	\$255.73	\$264.24
RevPAR					
Transient	\$103.07	\$117.19	\$115.37	\$121.64	\$125.34
Group	\$49.01	\$42.73	\$53.52	\$56.50	\$57.40
Contract	\$2.77	\$3.68	\$4.29	\$4.53	\$4.27
Total	\$154.86	\$163.60	\$173.18	\$182.68	\$187.01
	2012	2013	2014	2015	2016
Aggregate Peer Properties					
Occupancy					
Transient	43.8 %	45.6 %	45.7 %	46.1 %	46.3 %
Group	24.0	23.7	24.9	25.3	24.9
Contract	2.0	1.9	1.9	2.0	2.0
Total	69.8	71.2	72.6	73.3	73.2
Average Rate					
Transient	\$238.24	\$249.27	\$262.57	\$270.91	\$274.32
Group	\$194.39	\$201.95	\$208.25	\$215.64	\$222.52
Contract	\$100.97	\$109.23	\$111.04	\$115.47	\$119.16
Total	\$219.24	\$229.74	\$239.96	\$247.68	\$252.55
RevPAR					
Transient	\$104.37	\$113.55	\$120.11	\$124.77	\$127.04
Group	\$46.61	\$47.93	\$51.91	\$54.45	\$62.91
Contract	\$2.02	\$2.08	\$2.10	\$2.28	\$2.33
Total	\$153.00	\$163.56	\$174.13	\$181.50	\$192.28

PHR Hotels vs. Peer Properties: Group Segment

The following chart sets forth the aggregate data for the Group segment, for both the PHR hotels and the Peer Properties.

FIGURE 8 PREFERRED HOTELS & RESORTS PROPERTIES VS AGGREGATE PEER PROPERTIES: GROUP SEGMENT

	2012	2013	2014	2015	2016	Change: 2012 - 2016		
						Ave Ann Cmpd Growth	Total Change	Absolute Increase
Preferred Hotels & Resorts Properties								
Occupancy Points *	25.8 %	21.2 %	26.1 %	26.6 %	26.1 %	0.3 %	1.0 %	0.3 pts
Change	—	(17.9) %	23.2 %	1.9 %	(1.9) %			
Occupancy Penetration	107.6	89.2	104.6	105.3	104.7			
Average Rate**	\$189.95	\$201.76	\$205.20	\$212.56	\$220.14	5.0 %	15.9 %	30.2
Change	—	6.2 %	1.7 %	3.6 %	3.6 %			
Average Rate Penetration	97.7	99.9	98.5	98.6	98.9			
RevPAR	\$49.01	\$42.73	\$53.52	\$56.50	\$57.40	5.4 %	17.1 %	8.4
Change	—	(12.8) %	25.3 %	5.6 %	1.6 %			
RevPAR Penetration	105.1	89.1	103.1	103.8	91.2			
	2012	2013	2014	2015	2016			
Aggregate Peer Properties								
Occupancy Points *	24.0 %	23.7 %	24.9 %	25.3 %	24.9 %	1.3 %	3.8 %	0.9
Change	—	(1.0) %	5.0 %	1.3 %	(1.4) %			
Average Rate**	\$194.39	\$201.95	\$208.25	\$215.64	\$222.52	4.6 %	14.5 %	28.1
Change	—	3.9 %	3.1 %	3.5 %	3.2 %			
RevPAR	\$46.61	\$47.93	\$51.91	\$54.45	\$62.91	10.5 %	35.0 %	16.3
Change	—	2.8 %	8.3 %	4.9 %	15.5 %			

*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 PHR hotels from 2012 to 2016 was generally on par with the peer properties. Except in 2013, the PHR hotels consistently achieved occupancy above the aggregate average reported by the Peer Properties, but commanded a lower average rate than the peer hotel set in the group segment.

PHR Hotels vs. Peer Properties: Transient Segment

The following chart sets forth the aggregate data for the transient segment for both the PHR hotels and the Peer Properties.

**FIGURE 9 PREFERRED HOTELS & RESORTS PROPERTIES VS AGGREGATE PEER PROPERTIES:
TRANSIENT SEGMENT**

	2012	2013	2014	2015	2016	Change: 2012 - 2016		
						Ave Ann Cmpd Growth	Total Change	Absolute Increase
Preferred Hotels & Resorts Properties								
Occupancy Points *	40.8 %	46.0 %	40.3 %	40.6 %	41.0 %	0.2 %	0.5 %	0.2 pts
Change	—	12.8 %	(12.4) %	0.8 %	0.9 %			
Occupancy Penetration	93.1	100.9	88.0	88.1	88.4			
Average Rate **	\$252.85	\$254.86	\$286.54	\$299.77	\$306.05	6.6 %	21.0 %	\$53.20
Change	—	0.8 %	12.4 %	4.6 %	2.1 %			
Average Rate Penetration	106.1	102.2	109.1	110.7	111.6			
RevPAR	\$103.07	\$117.19	\$115.37	\$121.64	\$125.34	6.7 %	21.6 %	\$22.27
Change	—	13.7 %	(1.6) %	5.4 %	3.0 %			
RevPAR Penetration	98.8	103.2	96.0	97.5	98.7			
	2012	2013	2014	2015	2016			
Aggregate Peer Properties								
Occupancy Points *	43.8 %	45.6 %	45.7 %	46.1 %	46.3 %	1.9 %	5.7 %	2.5
Change	—	4.0 %	0.4 %	0.7 %	0.6 %			
Average Rate **	\$238.24	\$249.27	\$262.57	\$270.91	\$274.32	4.8 %	15.1 %	\$36.08
Change	—	4.6 %	5.3 %	3.2 %	1.3 %			
RevPAR	\$104.37	\$113.55	\$120.11	\$124.77	\$127.04	6.8 %	21.7 %	\$22.67
Change	—	8.8 %	5.8 %	3.9 %	1.8 %			
*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 in average rate of the PHR hotels in recent years was driven by the transient segment. Specifically, the PHR hotels recorded a \$53.20 increase in average rate derived from the transient segment, as compared to a \$36.10 increase for the aggregate peer properties. At the same time, the PHR hotels maintained only a slightly lower

occupancy, with the occupancy penetration rate remaining around 90% in the transient segment.

Cost-Benefit Considerations

The cost of membership in a hotel brand is also an important consideration. To evaluate the costs associated with a PHR affiliation in the context of the Peer Properties, we reviewed the database prepared for 2016/17 U.S. Hotel Franchise Fee Guide. For the purposes of this analysis, we have considered only the royalty, marketing, and reservation fees.

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 marketing, advertising, and reservation fees for the hotel brands that comprise most of the Peer Properties. The same calculations have been made for PHR hotels using the average for Preferred Hotels & Resorts. 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 10 AVERAGE AFFILIATION COSTS, PREFERRED HOTELS & RESORTS AND PEER PROPERTY BRANDS

Brand	Percent of Gross Rooms Revenue			
	Royalty Fees	Reservation Fees	Marketing Fees	Loyalty Fees
Autograph	5.0%	2.6%	1.5%	1.9%
DoubleTree Hotels	5.0%	2.2%	2.0%	1.9%
Embassy Suites	5.5%	2.3%	2.0%	2.3%
Hilton	5.8%	2.1%	2.0%	1.5%
Hyatt Regency	4.5%	1.4%	1.0%	2.2%
InterContinental Hotels & Resorts	5.0%	3.3%	1.5%	1.7%
Le Meridien	4.5%	1.4%	1.0%	2.2%
Luxury Collection	3.9%	1.1%	1.0%	1.9%
Marriott	6.9%	2.7%	1.0%	1.8%
Renaissance	5.0%	2.1%	1.5%	2.2%
Sheraton	6.0%	1.6%	1.0%	1.9%
Westin	6.1%	1.5%	1.3%	1.8%
Preferred Hotels & Resorts	0.4%	0.8%	0.1%	0.1%

Source: HVS

We note that these calculations may appear different in the 2016/17 Franchise Fee Guide upon final reviews from brand representatives. However, we anticipate that any changes would be minimal.

Based on the pro forma forecast, the average annual fees payable by hotels that operate under a PHR affiliation equates to 1.4% of rooms revenue. By comparison, all the brands reviewed in the above chart require significantly higher fees, both as a dollar amount per room and as a percentage of rooms revenue. According to representatives of PHR, reservation fees are assessed only on those reservations that pass through the PHR central reservations system.

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

FIGURE 11 AFFILIATION COSTS, AS A PERCENTAGE OF TOTAL ROOM REVENUE

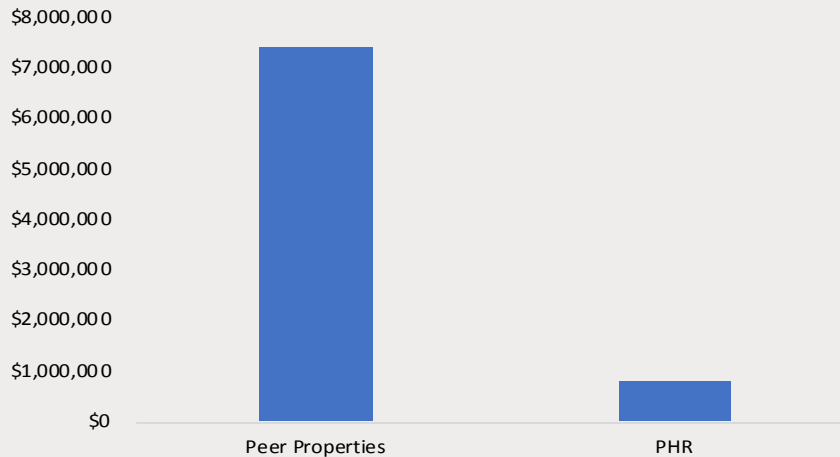
	Royalty Fees to Rooms Revenue	Marketing Fees to Rooms Revenue	Reservation Fees to Rooms Revenue	Loyalty Fees to Rooms Revenue	Total
Full-Service First-Class Brands*	3.9% - 6.9%	1.0% - 2.5%	1.1% - 4.0%	0% - 5.0%	
<i>Average</i>	<i>5.4%</i>	<i>1.6%</i>	<i>2.3%</i>	<i>4.0%</i>	<i>13.3%</i>
All First-Class Brands**	2.5% - 6.9%	0.0% - 2.5%	0.3% - 4.0%	0.0% - 5.0%	
<i>Average</i>	<i>5.2%</i>	<i>1.5%</i>	<i>2.0%</i>	<i>3.74%</i>	<i>12.4%</i>
Preferred Hotels & Resorts	0.4%	0.1%	0.8%	0.1%	1.4%

**Includes Marriott, Hilton, Hyatt, and InterContinental Hotels Group brands*
***Includes all Luxury, Upper-Upscale and Upscale brands*

Source: HVS

For the PHR hotels, the total marketing and reservation fees equate to 0.9% and loyalty fees equal 0.1% of rooms revenue; these levels are below the average indicated for the other brands. Particularly, the difference in the royalty fee is striking. The royalty fee of 0.4% of total rooms revenue is substantially lower than the royalty fees payable under the other brands, which range from 2.5% to 6.9%.

FIGURE 12 FRANCHISE COSTS COMPARISON



**The chart assumes 300-property with average RevPAR in 2016*

***Franchise costs included are royalty, marketing, reservation, and loyalty fees*

For the purposes of illustration, using the 2016 RevPAR for both the PHR Hotel average (\$187.01) and Peer Properties average (\$184.87), the total franchise cost for a 300-room hotel would be \$780,000 (rounded) for a PHR hotel, as compared to \$7,380,000 (rounded) for a Peer Property (13.3% franchise cost). While this substantial difference is not universal across all properties, as these figures are presented in averages, the average franchise cost for a national brand is over nine times the affiliation cost of PHR hotels.

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,

TS Worldwide, LLC
Doing Business as HVS