PREFERRED HOTELS & RESORTS

Using data provided by STR Analytics, HVS evaluated the performance of the 172 hotels affiliated with Preferred Hotels & Resorts (PHR) in North America. The study focused on the performance of the PHR hotels over the period from 2012 to 2016 to assess the success of the properties 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 U.S. Lodging Industry overall was also considered, as were statistics for the 25 largest lodging markets in the U.S. ("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, 69% of these hotels – and 78% of the rooms – are affiliated with a hotel chain. Furthermore, 48% of the hotels (57% of the room inventory) operate under Marriott, Hilton, Hyatt, Four Seasons, and InterContinental Hotels Group full-service brands. Most 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.

STABLE REVPAR GROWTH: 2012 - 2016

The hotels affiliated with Preferred Hotels & Resorts outpaced their peer properties, the Major Markets, and the U.S. Lodging Industry from 2012 to 2016, 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 PHR hotels against their peer properties has remained very close to or over 100% through the last five years. The total RevPAR increase over the five-year period shown is highest for the PHR properties.

FIGURE 1 OVERALL REVPAR PERFORMANCE

			Percent Change		Total
	2012	2016	Total	AACG*	Increase
Preferred Hotels & Resorts	**$154.86**	**$187.01**	**20.8%**	**4.8%**	**$32.15**
Peer Properties	$153.00	$184.78	20.8%	4.8%	$31.79
U.S. Major Markets	$88.67	$110.97	25.1%	5.8%	$22.30
U.S. Lodging Industry	$65.17	$81.19	24.6%	5.6%	$16.02
PHR Hotels Penetration					
vs. Peer Properties	101.2%	101.2%			

*Average Annual Compound Growth

Source: STR Analytics

TRANSIENT AND GROUP SEGMENT

The stable growth in overall RevPAR is mainly driven by high average rates achieved in the transient segment and strong occupancy of the group segment. The transient segment is the largest demand source for PHR, and average rates for this segment at PHR properties grew at 6.6% compounded in the last five years by maintaining higher rates than the peer properties.

FIGURE 2 TRANSIENT SEGMENT AVERAGE RATE PERFORMANCE

	2012	2016	Percent Change	Amount
Preferred Hotels & Resorts	$252.85	$306.05	21.0%	$53.20
Peer Properties	$238.24	$274.32	15.1%	$36.08
Penetration	***106.1%***	***111.6%***		

Source: STR Analytics

Moreover, the PHR hotels performed better in group-segment occupancy compared to peer properties. Occupancy penetration rates as compared to peer properties remained higher than 104% in all five years, except during 2014. (The table below presents group occupancy as percentage points, not percentage of total occupancy.)

FIGURE 3 GROUP SEGMENT OCCUPANCY PERFORMANCE

	2012	2016	Percent Change	Amount
Preferred Hotels & Resorts	25.8%	26.1%	1.0%	0.3%
Peer Properties	24.0%	24.9%	3.8%	0.9%
Penetration	***107.6%***	***104.7%***		

Source: STR Analytics

The two positive trends mentioned above largely contributed to PHR's strong performance in the past five years.

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 penentration level during the 2009-2012 period, whereas the current results indicate the peer properties have caught up to the PHR properties in their recovery.

COST-BENEFIT CONSIDERATIONS

The cost of generating revenues is also an important consideration. To evaluate the costs associated with a PHR affiliation in the context of the peer properties, we reviewed our own data sources to compare different franchise fees charged by major brands in the U.S. 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.

FIGURE 5 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
Full-Service First-Class Brands*	3.9% - 6.9%	1.0% - 2.5%	1.1% - 4.0%	0% - 5.0%
Average	*5.4%*	*1.6%*	*2.3%*	*4.0%*
All First-Class Brands**	2.5% - 6.9%	0.0% - 2.5%	0.3% - 4.0%	0.0% - 5.0%
Average	*5.2%*	*1.5%*	*2.0%*	3.74%
Preferred Hotels & Resorts	**0.4%**	**0.1%**	**0.8%**	**0.1%**

**Includes Marriott, Hilton, Hyatt, and InterContinental Hotels Group brands*

***Includes all Luxury, Upper-Upscale and Upscale brands*

Source: HVS

In aggregate, the total fees payable under a PHR affiliation equal 1.3% of rooms revenue, less than 20% of the average for the identified first-class brands.