Hotel BRAND Report

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Hotel Industry Performance Results

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Know your competition.

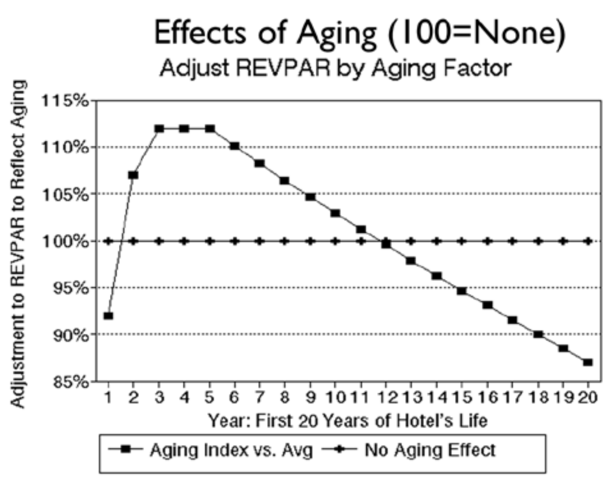
The Best Surprise is No Surprise: New Chain Hotels Generate 22% More REVPAR Than Old Chain Hotels

By Bruce H. Walker

A new, special and extensive computer study of the latest year performance of 265,900 Texas hotel rooms shows that new chain hotels outperform old chain hotels by 22%, with results varying by chain segment and brand. That 22% premium for new chain hotels is conservative due to some of the poorest performing hotels leaving the market before reaching 20 years of age and not factoring in our calculations.

The study compared same-brand hotels that had a significant number of 'Old' properties, built 1994 or earlier, as compared to 'New' properties built 1995 or later. The study strongly supports the premise that one cannot renovate an old hotel and expect it to perform like a new hotel.

None of this should be news to many, but the degree of premium that a new hotel achieves over an old hotel should be highly important to those who forecast the



performance of hotel revenues or invest in Old and New hotels.

New Findings Confirm Prior Study

In 2001, we studied all Texas hotels and motels opened from 1990 through 1994 and compared their REVPAR performance with the entire hotel industry in Texas.

It showed that new hotels and motels provide their peak performance in Years III through V, when they typically reach 112% of their local, same-market average REVPAR performance.

In other words, the newness of a property is a major advantage, on the order of 12% in Years III through V – versus the average REVPAR that would otherwise be expected for that property over a twenty-year period, and 22% higher in Year 5 than in Year 17, (the same finding as the new study finding below). The higher performance of new hotels is the result of the consumer almost always picking new over old because, to them, 'new' means 'clean,' 'new' means 'value,' and 'new' means 'style.'

New Hotels 35% of Room Count and 42% of Room Revenues

The new study computed the REVPAR results for the 12 months ending September 30, 2006 for two groups of hotels:

Hotels built before 1995 and Hotels built in 1995 or later.

Study includes only brands with significant room counts in both groups. This means that brands like Ramada, with no new hotels, were excluded, and conversely, brands operating only post-1995, such as Mini-suite brands, were also excluded (e.g. Comfort Suites, AmeriSuites, SpringHill)

In general, the study method neutralizes the effect of brand name (each name has old and new product of same brand), location (each has too many locations to affect results (small exception: some Upscale downtown hotels with prime locations).

As expected, the New hotel rooms in the sample account for about a third of total. This makes sense as the New hotels have operated within the ten year window since 1995 while the Old hotels would be typically be about 20 years old.

The data shows that Independents have the fewest new rooms (20% of total) due to the conversion of branded hotels to an Independent name as they become older, while Limited Service Midscales (Holiday Express, Hampton, Fairfield et al) have 58% new rooms in their total sample. High priced Suites also were strong with new rooms at 49% of total. Low Price Extended Stay properties were the newest segment shown (Mini-suites were even newer). Looking at room revenues showed similar patterns. The total sample represented almost $2 billion in room revenues for the year.

Performance Results, Year Ending September 30, 2006
Old Hotels (1994 & earlier) versus New Hotels (built 1995 and later)

	% Occupancy			Est. $ ADR			$ REVPAR			REVPAR Index Vs Total Mkt		%
Segments	Old	New	Total	Old	New	Total	Old	New	Total	Old	New	Chg
Luxury	68.3	65.1	67.2	145.74	200.99	163.78	99.54	130.84	110.06	216	284	31%
Upscale	69.6	68.2	69.2	134.48	146.32	137.58	93.60	99.79	95.21	203	217	7%
Suites	70.4	71.0	70.7	107.40	118.14	112.73	75.61	83.88	79.70	164	182	11%
Mid/Upscales	65.2	72.8	67.1	83.94	101.07	88.56	54.73	73.58	59.42	119	160	34%
L.S./Midscales	63.4	70.3	67.5	64.45	81.58	74.87	40.86	57.35	50.54	89	124	40%
L.P. Ext. Stay	69.3	69.2	69.2	38.45	39.68	39.35	26.65	27.46	27.23	58	60	3%
Budget	56.7	60.2	57.8	44.80	53.30	47.50	25.40	32.09	27.46	55	70	26%
Total Chains	62.8	69.1	65.1	76.51	84.02	79.86	48.05	58.06	51.99	104	126	21%
Tot. Independ.	50.5	54.4	51.2	63.17	79.22	66.61	31.90	43.10	34.10	69	94	35%
Total Market	57.8	67.1	60.5	71.77	83.27	76.15	41.48	55.87	46.07	90	121	35%

Limited Service Midscales and Mid-Upscales Generate the Highest Change in REVPAR from Old to New Hotels

Limited Service Midscales raised their REVPAR index from 89 in the pre-1995 Old sample to 124 in the New, 1995+ sample, a 40% increase. While this certainly reflects the major and primary advantage of being new, it may also reflect a few other changes. This group of brands made the greatest product change of any segment, moving from exterior to interior corridors, offering greater security to the guest, adding suites to most new hotels ('Inn & Suites'), and exercising greater marketing power (e.g. the rise of frequent traveler programs and higher media spending).

Mid-Upscales gained a strong 34%, from a 119 Index to 160. However, Holiday dropped from 80% of the Old sample to only 13% of the New sample while Courtyard almost doubled in size, meaning the sample went from being mostly Holiday to being mostly Courtyard.

Westin was the only Luxury brand with Old and New hotels and gained 31%. The Budget segment gained 26% with almost all brands showing similar results. We speculate that because the segment contains some very old hotels, the New hotels of the segment had an 'extra' advantage. This finding also applies to Independents, which includes many former branded hotels.

The only group not to gain strongly were the Upscales, Hilton and Marriott in this case, who saw their REVPAR index rise just 7% from Old to New. The fact that Marriott in particular has wonderful locations for their Old hotels in San Antonio, Austin and Houston makes the New upscale hotels suffer from weaker market locations.

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Old Hotels (1994 & earlier) versus New Hotels (built 1995 and later)

Brands/	% Occupancy			Est. $ ADR			$ REVPAR			REVPAR Index Vs Total Mkt		%
Segments	Old	New	Total	Old	New	Total	Old	New	Total	Old	New	Chg
Westin Hotel	68.3	65.1	67.2	145.74	200.99	163.78	99.54	130.84	110.06	216	284	31%
Luxury	68.3	65.1	67.2	145.74	200.99	163.78	99.54	130.84	110.06	216	284	31%
Hilton	68.3	68.7	68.4	126.64	146.67	132.00	86.50	100.76	90.29	188	219	16%
Marriott	70.8	67.7	70.0	141.88	145.97	142.94	100.45	98.82	100.06	218	214	-2%
Upscale	69.6	68.2	69.2	134.48	146.32	137.58	93.60	99.79	95.21	203	217	7%
Embassy	70.2	74.7	71.5	121.99	143.90	128.61	85.64	107.49	91.96	186	233	26%
Residence Inn	76.8	74.0	74.8	107.39	111.77	110.47	82.48	82.71	82.63	179	180	0%
Other	67.7	65.4	66.6	92.62	113.85	102.31	62.70	74.46	68.14	136	162	19%
Suites	70.4	71.0	70.7	107.40	118.14	112.73	75.61	83.88	79.70	164	182	11%
Courtyard	70.6	73.9	72.5	97.38	103.92	101.29	68.75	76.80	73.44	149	167	12%
Holiday Inn	63.8	66.0	63.9	80.18	80.23	80.18	51.15	52.95	51.24	111	115	4%
Mid/Upscales	65.2	72.8	67.1	83.94	101.07	88.56	54.73	73.58	59.42	119	160	34%
Baymont	62.9	68.5	66.8	54.12	58.59	57.26	34.04	40.13	38.25	74	87	18%
Best Western	59.0	66.0	62.1	60.83	71.31	65.76	35.89	47.06	40.84	78	102	31%
Comfort Inn	59.9	65.0	63.4	60.14	70.19	67.28	36.02	45.62	42.66	78	99	27%
Drury Inn	69.8	73.7	72.2	73.76	92.35	85.54	51.48	68.06	61.76	112	148	32%
Fairfield Inn	65.6	72.9	71.3	72.34	80.19	78.60	47.46	58.46	56.04	103	127	23%
Hampton Inn	70.2	75.1	73.9	76.07	91.97	88.35	53.40	69.07	65.29	116	150	29%
Holiday Express	61.9	71.1	70.2	71.83	83.85	82.82	44.46	59.62	58.14	97	129	34%
La Quinta Inn	65.5	70.6	67.0	63.39	86.04	70.48	41.52	60.74	47.22	90	132	46%
LS/Midscales	63.4	70.3	67.5	64.45	81.58	74.87	40.86	57.35	50.54	89	124	40%
Homestead	73.9	72.7	72.8	33.41	48.97	46.95	24.69	35.60	34.18	54	77	44%
Studio 6	71.9	74.0	72.5	36.09	43.75	39.21	25.95	32.38	28.43	56	70	25%
Other LPES	59.8	66.3	65.5	49.72	33.47	35.35	29.73	22.19	23.15	65	48	-25%
LP Ext Stay	69.3	69.2	69.2	38.45	39.68	39.35	26.65	27.46	27.23	58	60	3%
Best Value	48.2	54.8	49.9	38.29	51.08	41.93	18.46	27.99	20.92	40	61	52%
Days Inn	53.9	56.6	54.5	48.87	53.80	50.03	26.34	30.45	27.27	57	66	16%
Econo Lodge	49.6	59.0	50.9	41.38	50.35	43.09	20.52	29.71	21.93	45	64	45%
How. Johnson	51.6	58.7	52.9	54.07	69.08	57.04	27.90	40.55	30.17	61	88	45%
Microtel	25.3	59.4	56.8	41.29	50.81	50.49	10.45	30.18	28.68	23	66	+
Motel 6	68.7	69.2	68.8	38.06	46.31	39.17	26.15	32.05	26.95	57	70	23%
Quality Inn	54.4	59.9	55.7	55.94	68.99	59.40	30.43	41.33	33.09	66	90	36%
Red Roof Inn	55.8	62.0	59.2	45.53	49.57	47.82	25.41	30.73	28.31	55	67	21%
Super 8	56.3	59.8	58.2	48.73	54.72	52.08	27.43	32.72	30.31	60	71	19%
Other Budgets	52.3	60.9	55.1	45.24	50.60	47.17	23.66	30.82	25.99	51	67	30%
Budget	56.7	60.2	57.8	44.80	53.30	47.50	25.40	32.09	27.46	55	70	26%
Total Chains	62.8	69.1	65.1	76.51	84.02	79.86	48.05	58.06	51.99	104	126	21%
Independents												
$100+ ADR	56.8	57.4	56.9	160.38	159.88	160.23	91.10	91.77	91.17	198	199	1%
$60-$99.99	48.0	50.7	48.4	86.97	85.25	86.57	41.75	43.22	41.90	91	94	4%
Under $60	49.7	54.3	50.6	34.71	41.68	36.00	17.25	22.63	18.22	37	49	31%
Tot. Independ.	50.5	54.4	51.2	63.17	79.22	66.61	31.90	43.10	34.10	69	94	35%
Total Market	57.8	67.1	60.5	$71.77	$83.27	76.15	$41.48	$55.87	$46.07	90	121	35%