

Canadian August 2005 Lodging Outlook



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SMITH TRAVEL RESEARCH

What Does a Franchise Cost?

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The selection of an appropriate hotel franchise affiliation affects a property's ability to compete in the local market, generate profits, achieve a certain image or market orientation and benefit from referral business. Because the success of a hotel is primarily based on the cash flow it generates, owners must weigh the benefits and services of a national franchise affiliation against the total cost of such a commitment.

The cost of a hotel franchise affiliation is based on various fees and expenses charged by the franchisor for the use of the brand's name, logo, identity, image, good will, procedures and controls, marketing, and referral and reservation systems. Franchise fees normally include an initial fee paid with the franchise application, plus continuing fees paid periodically throughout the term of the agreement.

The initial fee typically takes the form of a minimum monetary amount based on a hotel's room count. For example, in the United States the initial fee may be a minimum of US\$45,000 plus US\$300 per room for each room over 150. The initial fee covers the

franchisor's cost of processing the application, reviewing the site, assessing market potential, evaluating the plans or existing layout, inspecting the property during construction, and providing services during the pre-opening and conversion phases. The continuing fees are typically paid monthly over the term of the agreement and include the following costs.

Royalty Fee. Usually based on a percentage of rooms revenue, the royalty fee represents compensation for the use of the brand's trade name, service marks and associated logos, good will and other franchise services.

Advertising or Marketing Contribution Fee. This fee covers the cost of brand-wide advertising and marketing placed in various types of media, the development and distribution of a brand directory, and marketing geared toward specific groups and segments.

Reservation Fee. If the franchise brand utilizes reservation systems, the reservation fee supports the cost of operating and paying for the central office, telephone,

computers and reservation personnel.

Frequent Traveler Program. Some franchisors maintain incentive programs that reward guests for frequent stays; these programs are designed to encourage loyalty to the brand. The cost of administering the program is financed by a frequent traveler assessment.

Miscellaneous Fees. Depending on the franchise agreement, the franchisor may provide a separately charge for additional services such as training programs, travel agent commissions, global distribution system fees, computer hardware and software and software maintenance.

Periodically, HVS International reviews the franchise documents of 89 major franchise hotel companies to determine the various fees they are charging their franchisees. Three models utilizing different revenue assumptions representing the economy, mid-rate and first-class hotel brands provide the basis for determining the total cost of the affiliation over a 10-year holding period.

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The table below shows the results of the HVS franchise fee survey for the two lowest and the two highest total 10-year costs for each of the three class assumptions. The table breaks out the initial cost, royalty cost, reservation cost, marketing cost, frequent traveler cost, miscellaneous cost, the 10-year cost and the 1-year cost as a percentage of

the assumed rooms revenue during that 10-year term.

Obviously the cost of a hotel franchise affiliation is an important consideration when selecting a franchisor. However, other factors such as the strength of the brand, the ability of the reservation system to deliver customers, the availability of other services such as a

frequent traveler program are all critical factors that go into developing a price-value relationship necessary for making the correct decision.

Note: Parris Jordan and Zubin Saxena of HVS International developed the data for the HVS 2005 Hotel Franchise Fees Analysis Guide.

| Economy Brands | Total Initial Cost | Total Royalty Cost | Total Reservation Cost | Total Marketing Cost | Total Frequent Traveler Cost | Total Misc. Cost | Total 10-Year Cost | Percent of Total Rooms Revenue |
|---------------------------|---------------------------|---------------------------|-------------------------------|-----------------------------|-------------------------------------|-------------------------|---------------------------|---------------------------------------|
| Budget Host | US\$5,000 | US\$71,250 | US\$12,000 | --- | --- | US\$4,900 | US\$93,150 | 0.6 % |
| Best Value Inn | 5,000 | 93,000 | --- | 36,000 | --- | 2,400 | 136,400 | 0.9 |
| Select Inn | 10,000 | 383,086 | 17,053 | 153,234 | 7,994 | 150,385 | 721,752 | 4.7 |
| Super 8 | 25,000 | 766,172 | 229,852 | 229,852 | 61,294 | 256,098 | 1,568,268 | 10.2 |
| Travelodge | 36,000 | 689,555 | 315,594 | 315,594 | 61,294 | 207,354 | 1,625,390 | 10.6 |
| Days Inn | 36,000 | 766,172 | 291,145 | 291,145 | 61,294 | 243,228 | 1,688,985 | 11.0 |
| Mid-Rate Brands | | | | | | | | |
| Best Western | \$61,000 | \$545,680 | \$292,000 | --- | --- | \$489,653 | \$1,388,333 | 2.8 % |
| ClubHouse Inn | 30,000 | 1,961,401 | 164,666 | --- | 69,943 | --- | 2,226,010 | 4.5 |
| Master Host Inns | 6,000 | 1,961,401 | --- | 1,225,876 | - | 19,750 | 3,213,027 | 6.6 |
| Baymont | 50,000 | 2,189,056 | 980,701 | 1,225,876 | 196,140 | 557,663 | 5,199,436 | 10.6 |
| Hampton Inn | 95,000 | 2,451,752 | --- | 1,961,401 | 196,140 | 509,192 | 5,213,485 | 10.6 |
| Comfort Inn | 100,000 | 2,574,339 | 858,113 | 1,029,736 | 196,140 | 493,985 | 5,252,313 | 10.7 |
| First-Class Brands | | | | | | | | |
| Omni | \$50,000 | \$3,034,043 | \$1,152,936 | \$1,152,936 | \$1,152,936 | \$523,000 | \$7,065,851 | 7.0 % |
| Luxury Collection | 120,000 | 4,045,390 | 954,931 | 1,011,348 | 404,539 | 696,044 | 7,232,252 | 7.2 |
| Woodfin Suites | 120,000 | 5,056,738 | --- | 2,528,369 | --- | 90,000 | 7,795,107 | 7.7 |
| Radisson | 150,000 | 6,068,085 | 2,022,695 | 2,022,695 | 239,805 | 454,306 | 10,957,587 | 10.8 |
| Hilton | 92,500 | 5,056,738 | 2,022,695 | 2,022,695 | 621,372 | 1,376,681 | 11,192,681 | 11.1 |
| Marriott | 90,000 | 7,888,511 | 648,320 | 1,011,348 | 582,536 | 1,010,329 | 11,231,043 | 11.1 |

Source: HVS International

CANADIAN LODGING OUTLOOK
HVS INTERNATIONAL - CANADA

| August 2005 | Number of Rooms | Occupancy Rate (%) | | Average Room Rates (\$) | | RevPAR (\$) | | Room Supply % chg | Room Demand % chg |
|----------------------------|-----------------|--------------------|-------|-------------------------|----------|-------------|----------|-------------------|-------------------|
| | | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | | |
| Nova Scotia Area | 737 | 80.1% | 77.6% | \$95.44 | \$96.02 | \$76.45 | \$74.51 | 0.0% | 3.1% |
| Halifax, NS | 2,838 | 82.4% | 86.7% | \$125.03 | \$131.34 | \$103.02 | \$113.87 | 2.0% | -3.0% |
| Montreal Downtown | 8,978 | 80.6% | 84.6% | \$154.95 | \$155.67 | \$124.89 | \$131.70 | 2.3% | -2.5% |
| Montreal Area | 4,444 | 77.0% | 76.3% | \$103.16 | \$101.73 | \$79.43 | \$77.62 | 1.4% | 2.2% |
| Quebec City, QC | 3,828 | 85.1% | 82.1% | \$157.12 | \$159.38 | \$133.71 | \$130.85 | 1.1% | 4.7% |
| Quebec Area | 3,990 | 71.5% | 69.7% | \$127.81 | \$125.93 | \$91.38 | \$87.77 | 0.1% | 2.7% |
| Toronto Downtown | 11,795 | 77.2% | 77.7% | \$156.20 | \$157.97 | \$120.59 | \$122.74 | 0.6% | -0.1% |
| Toronto North/East | 6,306 | 74.4% | 70.4% | \$115.30 | \$109.18 | \$85.78 | \$76.86 | -10.3% | -5.3% |
| Toronto Airport/West | 6,833 | 70.4% | 70.9% | \$111.11 | \$104.58 | \$78.22 | \$74.15 | 4.5% | 3.8% |
| Ottawa, ON | 7,289 | 65.4% | 63.0% | \$121.25 | \$120.90 | \$79.30 | \$76.17 | 0.0% | 3.9% |
| Ontario East | 3,972 | 71.4% | 71.0% | \$110.97 | \$107.01 | \$79.23 | \$75.98 | 0.9% | 1.4% |
| Windsor/ Ontario SW | 2,767 | 57.8% | 56.6% | \$99.35 | \$99.08 | \$57.42 | \$56.08 | 0.0% | 2.1% |
| London/ Kitchener | 5,785 | 63.8% | 65.0% | \$101.19 | \$99.00 | \$64.56 | \$64.35 | 0.0% | -1.8% |
| Ontario North/ Thunder Bay | 1,610 | 77.4% | 71.9% | \$79.50 | \$84.15 | \$61.53 | \$60.50 | 0.3% | 8.0% |
| Ontario NC/ Sudbury | 3,746 | 75.6% | 71.4% | \$118.71 | \$127.47 | \$89.74 | \$91.01 | 0.3% | 6.1% |
| Niagara Falls, ON | 7,532 | 84.0% | 83.5% | \$175.29 | \$171.46 | \$147.24 | \$143.17 | 0.0% | 0.7% |
| Ontario Central | 2,571 | 69.4% | 73.4% | \$101.35 | \$98.98 | \$70.34 | \$72.65 | 1.0% | -4.4% |
| Mississauga, ON | 5,482 | 61.6% | 65.3% | \$102.53 | \$100.69 | \$63.16 | \$65.75 | 2.9% | -2.9% |
| Winnipeg, MB | 3,774 | 66.0% | 66.0% | \$88.20 | \$89.04 | \$58.21 | \$58.77 | 0.0% | 0.1% |
| Regina/Saskatoon, SK | 3,974 | 64.8% | 55.9% | \$95.08 | \$85.55 | \$61.61 | \$47.82 | 0.0% | 16.1% |
| Calgary, AB | 7,950 | 80.1% | 74.8% | \$117.16 | \$111.95 | \$93.85 | \$83.74 | 0.0% | 7.0% |
| Edmonton, AB | 6,197 | 68.8% | 68.1% | \$97.53 | \$98.61 | \$67.10 | \$67.15 | 1.5% | 2.5% |
| Alberta North Area | 2,671 | 81.3% | 74.0% | \$164.59 | \$160.39 | \$133.81 | \$118.69 | 1.6% | 11.7% |
| Alberta South Area | 5,733 | 75.4% | 72.9% | \$181.10 | \$172.92 | \$136.55 | \$126.06 | 2.2% | 5.8% |
| Vancouver Downtown | 7,900 | 88.7% | 84.4% | \$182.76 | \$177.08 | \$162.11 | \$149.46 | 0.0% | 5.1% |
| Vancouver/ Burnaby Area | 2,233 | 85.2% | 83.5% | \$122.30 | \$109.61 | \$104.20 | \$91.52 | -5.4% | -3.5% |
| Richmond-Surrey/ East Area | 5,388 | 80.5% | 76.8% | \$105.64 | \$98.75 | \$85.04 | \$75.84 | 4.3% | 9.3% |
| British Columbia Area | 5,605 | 67.6% | 65.8% | \$132.44 | \$127.86 | \$89.53 | \$84.13 | 0.1% | 2.8% |
| Kamloops/ Kelowna Area | 4,108 | 75.8% | 72.7% | \$119.59 | \$114.10 | \$90.65 | \$82.95 | 0.0% | 4.4% |
| Vancouver Island | 3,183 | 82.8% | 78.3% | \$165.99 | \$162.82 | \$137.44 | \$127.49 | 0.6% | 6.3% |
| Provinces | | | | | | | | | |
| Alberta | 22,551 | 76.0% | 72.4% | \$134.45 | \$130.15 | \$102.18 | \$94.23 | 1.5% | 6.5% |
| British Columbia | 27,766 | 80.3% | 76.7% | \$145.12 | \$138.21 | \$116.53 | \$106.01 | 0.2% | 4.9% |
| Manitoba | 4,473 | 65.3% | 65.7% | \$85.84 | \$86.49 | \$56.05 | \$56.82 | 1.5% | 1.0% |
| New Brunswick | 3,088 | 78.6% | 78.1% | \$115.15 | \$113.44 | \$90.51 | \$88.60 | 1.8% | 2.5% |
| Newfoundland | 1,831 | 73.3% | 78.5% | \$118.62 | \$115.43 | \$86.95 | \$90.61 | 4.1% | -2.7% |
| Nova Scotia | 3,575 | 81.9% | 84.1% | \$119.05 | \$122.07 | \$97.50 | \$102.66 | 0.8% | -1.8% |
| Northwest Territories | 66 | INS | INS | INS | INS | INS | INS | INS | INS |
| Ontario | 64,593 | 71.8% | 71.4% | \$127.63 | \$126.43 | \$91.64 | \$90.27 | 0.1% | 0.5% |
| Prince Edward Island | 938 | 84.3% | 82.7% | \$129.34 | \$128.66 | \$109.03 | \$106.40 | 0.0% | 1.9% |
| Quebec | 22,335 | 78.3% | 78.6% | \$139.13 | \$138.77 | \$108.94 | \$109.07 | 0.8% | 0.4% |
| Saskatchewan | 5,191 | 64.5% | 56.6% | \$89.16 | \$81.34 | \$57.51 | \$46.04 | 0.4% | 14.5% |
| Yukon Territory | 585 | 76.6% | 70.2% | \$102.41 | \$101.76 | \$78.45 | \$71.44 | 0.0% | 9.1% |
| Canada | 156,992 | 72.1% | 70.7% | \$113.21 | \$111.81 | \$81.62 | \$79.05 | 0.6% | 2.5% |

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|-----------------------------|--------------------|-----------------------|-------|----------------------------|----------|----------------|----------|-------------------------|-------------------------|
| | | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | | |
| Nova Scotia Area | 737 | 56.0% | 54.1% | \$85.46 | \$77.90 | \$47.86 | \$42.14 | 0.3% | 3.8% |
| Halifax, NS | 2,838 | 68.5% | 69.1% | \$116.81 | \$118.63 | \$80.01 | \$81.97 | 2.0% | 1.2% |
| Montreal Downtown | 8,978 | 64.3% | 66.4% | \$154.13 | \$151.23 | \$99.11 | \$100.42 | 2.3% | -1.1% |
| Montreal Area | 4,444 | 67.1% | 65.3% | \$105.13 | \$102.85 | \$70.54 | \$67.16 | 0.8% | 3.6% |
| Quebec City, QC | 3,828 | 67.4% | 63.6% | \$135.66 | \$132.51 | \$91.43 | \$84.28 | 0.1% | 6.1% |
| Quebec Area | 3,990 | 58.9% | 56.2% | \$119.40 | \$114.53 | \$70.33 | \$64.37 | 0.2% | 5.0% |
| Toronto Downtown | 11,795 | 68.4% | 67.9% | \$156.43 | \$153.22 | \$107.00 | \$104.04 | 0.4% | 1.2% |
| Toronto North/East | 6,306 | 62.4% | 59.0% | \$112.92 | \$108.30 | \$70.46 | \$63.90 | -8.8% | -3.5% |
| Toronto Airport/West | 6,833 | 69.7% | 67.9% | \$110.66 | \$107.21 | \$77.13 | \$72.80 | 3.6% | 6.2% |
| Ottawa, ON | 7,289 | 64.2% | 61.2% | \$127.13 | \$124.18 | \$81.62 | \$76.00 | 0.4% | 5.3% |
| Ontario East | 3,972 | 57.7% | 55.2% | \$99.67 | \$95.54 | \$57.51 | \$52.74 | 0.2% | 4.8% |
| Windsor/ Ontario SW | 2,767 | 53.7% | 55.7% | \$99.36 | \$98.70 | \$53.36 | \$54.98 | 0.0% | -3.5% |
| London/ Kitchener | 5,785 | 59.4% | 58.3% | \$99.08 | \$95.96 | \$58.85 | \$55.94 | 0.6% | 2.4% |
| Ontario North/ Thunder Bay | 1,610 | 65.3% | 61.6% | \$79.21 | \$79.15 | \$51.72 | \$48.76 | 1.0% | 7.2% |
| Ontario NC/ Sudbury | 3,746 | 58.9% | 54.7% | \$101.19 | \$103.66 | \$59.60 | \$56.70 | -0.4% | 7.2% |
| Niagara Falls, ON | 7,532 | 56.0% | 55.8% | \$139.50 | \$133.64 | \$78.12 | \$74.57 | 2.5% | 2.8% |
| Ontario Central | 2,571 | 59.2% | 59.3% | \$96.55 | \$95.75 | \$57.16 | \$56.78 | 0.9% | 0.7% |
| Mississauga, ON | 5,482 | 59.1% | 57.3% | \$104.35 | \$101.19 | \$61.67 | \$57.98 | -0.6% | 2.7% |
| Winnipeg, MB | 3,774 | 63.2% | 62.5% | \$90.39 | \$90.39 | \$57.13 | \$56.49 | 1.0% | 2.2% |
| Regina/Saskatoon, SK | 3,974 | 62.5% | 57.1% | \$92.63 | \$88.32 | \$57.89 | \$50.43 | 0.0% | 9.4% |
| Calgary, AB | 7,950 | 70.0% | 67.2% | \$118.44 | \$114.23 | \$82.91 | \$76.76 | 0.2% | 4.4% |
| Edmonton, AB | 6,197 | 66.5% | 63.3% | \$97.27 | \$98.30 | \$64.68 | \$62.22 | 1.4% | 6.6% |
| Alberta North Area | 2,671 | 71.8% | 62.4% | \$126.05 | \$125.87 | \$90.50 | \$78.54 | 2.5% | 17.9% |
| Alberta South Area | 5,733 | 65.4% | 60.5% | \$139.64 | \$138.70 | \$91.32 | \$83.91 | 2.2% | 10.5% |
| Vancouver Downtown | 7,900 | 71.2% | 69.7% | \$155.26 | \$155.78 | \$110.55 | \$108.58 | 0.0% | 2.1% |
| Vancouver/ Burnaby Area | 2,233 | 67.9% | 63.3% | \$106.24 | \$101.20 | \$72.14 | \$64.06 | -5.4% | 1.4% |
| Richmond-Surrey/ East Area | 5,388 | 66.6% | 63.5% | \$95.58 | \$91.22 | \$63.66 | \$57.92 | 1.5% | 6.4% |
| British Columbia Area | 5,605 | 59.3% | 59.8% | \$148.49 | \$147.71 | \$88.05 | \$88.33 | 0.4% | -0.4% |
| Kamloops/ Kelowna Area | 4,108 | 57.2% | 54.9% | \$99.74 | \$97.25 | \$57.05 | \$53.39 | 0.1% | 4.3% |
| Vancouver Island | 3,183 | 67.0% | 63.5% | \$126.55 | \$124.93 | \$84.79 | \$79.33 | 1.3% | 6.9% |
| Provinces | | | | | | | | | |
| Alberta | 22,551 | 68.1% | 63.9% | \$118.87 | \$117.11 | \$80.95 | \$74.83 | 1.7% | 8.3% |
| British Columbia | 27,766 | 65.1% | 63.1% | \$128.37 | \$126.73 | \$83.57 | \$79.97 | 0.2% | 3.3% |
| Manitoba | 4,473 | 61.5% | 60.7% | \$88.14 | \$87.54 | \$54.21 | \$53.14 | 1.8% | 3.2% |
| New Brunswick | 3,088 | 62.4% | 60.9% | \$103.94 | \$99.96 | \$64.86 | \$60.88 | 0.7% | 3.2% |
| Newfoundland | 1,831 | 65.3% | 64.9% | \$117.67 | \$111.91 | \$76.84 | \$72.63 | 1.2% | 1.7% |
| Nova Scotia | 3,575 | 65.4% | 64.7% | \$110.38 | \$108.60 | \$72.19 | \$70.26 | 1.0% | 2.0% |
| Northwest Territories | 66 | INS | INS | INS | INS | INS | INS | INS | INS |
| Ontario | 64,593 | 62.4% | 60.7% | \$120.90 | \$117.74 | \$75.44 | \$71.47 | 0.1% | 2.9% |
| Prince Edward Island | 938 | 52.4% | 52.4% | \$103.40 | \$103.88 | \$54.18 | \$54.43 | 0.0% | 0.0% |
| Quebec | 22,335 | 64.2% | 63.3% | \$133.57 | \$130.38 | \$85.75 | \$82.53 | 0.6% | 2.1% |
| Saskatchewan | 5,191 | 60.7% | 55.2% | \$87.59 | \$83.19 | \$53.17 | \$45.92 | 0.6% | 10.7% |
| Yukon Territory | 585 | 61.2% | 50.8% | \$89.96 | \$89.73 | \$55.06 | \$45.58 | 0.0% | 20.6% |
| Canada | 156,992 | 60.2% | 57.8% | \$104.40 | \$102.28 | \$62.85 | \$59.12 | 0.6% | 4.8% |

CANADIAN LODGING OUTLOOK HVS INTERNATIONAL - CANADA

DEFINITIONS

| | |
|---|--|
| Occupancy: | Rooms sold divided by rooms available. |
| Room Revenue: | Total room revenue generated from the sale or rental of rooms. |
| Average Daily Rate (ADR): | Room revenue divided by rooms sold. |
| Room Revenue Per Available Room (RevPAR): | Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR). |

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