

Canadian Lodging Outlook

May 2005



SMITH TRAVEL RESEARCH

A Case For Being Independent

By: Stephen Rushmore, MAI, CHA - HVS International - New York

Most hotel owners and lenders believe a chain affiliation is an essential ingredient of a hotel's economic success. As with many things in life, decisions usually require tradeoffs, which sometimes lead to strategies that differ from the norm. This month I want to set forth the case of why a chain affiliation is not always the best decision. Every hotel owner should investigate the option of going independent.

A hotel obtains a chain affiliation in one of two ways: purchase a franchise that allows you to operate the hotel under a specific brand and participate in its reservation system, frequent traveller program and other marketing activities; or you can hire a branded hotel company to actually manage your hotel under a management contract and participate in its branding benefits. The advantage of a pure franchise over a management contract is that you can operate the hotel and not relinquish management control. Examples of pure franchises are Holiday Inns, Days Inns and Comfort Inns. Branded management companies include Hyatt, Four Seasons and Hilton.

The primary reason hotel owners opt for independence is the huge cost of affiliating with a major hotel company. According to HVS International's survey of franchise fees and other costs, approximately 8% to 11% of rooms revenue ends up in the hands of the franchisor. This expense is

equivalent to taking on a 25% partner. Successful independent hotel operators effectively use this money to promote and sell their own properties, which is often a good strategy for convention and extended-stay hotels that typically derive minimal benefit from a chain affiliation.

While a brand identification differentiates your property from other brands or independents, the recent rash of hotel chain consolidations has seriously reduced some of the benefits of affiliating. Twenty-five years ago when you obtained a Marriott franchise to brand your full-service hotel, you were probably the only Marriott branded hotel in the market. You effectively had exclusive use of Marriott's brand, reservation system and frequent traveller program for your local market. Today, you are probably competing with a host of Marriott products, including Courtyard, Fairfield Inn, Residence Inn and Ritz-Carlton to name a few. Hilton's mergers have created direct brand competition with Doubletree, Embassy Suites and now Hilton Garden Inn.

An independent hotel has none of these competitive conflicts of interest that can seriously erode profitability. Chains attempt to mitigate this potential by hiring outside consultants to measure the economic impact of allowing an additional hotel with the same or similar brand to enter the market. The process of quantifying economic impact is so

subjective and fraught with bias, any hotel chain that relies on this approach in an attempt to appear fair and reasonable is shirking its responsibility to protect the interests of its existing owners. A much more equitable approach would be to negotiate a geographic area of exclusivity with the prospective franchisee that would require a chain's approval prior to granting a new franchise within the territory.

The last area of contention faced by many chain-affiliated owners is the regular change in brand standards, marketing direction and operating requirements. Franchisors seem to be regularly changing their logos, signs, reservation systems, technology requirements, marketing strategies and operating procedures. Each change typically requires a capital expenditure for the property, which comes out of the pocket of the owner. An independent hotel is free to spend money for projects it believes will offer the greatest economic benefit for the property.

While I am generally a believer that a chain affiliation is money well spent, don't overlook the possibility of going independent.

For instance, if your hotel has one or more of the following characteristics, it might be a good candidate for independence:

- An extremely good location (Nob Hill, San Francisco)

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HVS INTERNATIONAL - CANADA**

May 2005	Number of Rooms	Occupancy Rate (%)		Average Room Rates (\$)		RevPAR (\$)		Room Supply % change	Room Demand % change
		2005	2004	2005	2004	2005	2004		
Nova Scotia Area	1,261	67.1%	63.1%	\$91.84	\$73.92	\$61.62	\$46.64	0.0%	6.4%
Halifax, NS	2,169	76.3%	72.1%	\$130.80	\$131.28	\$99.80	\$94.65	2.7%	8.7%
Montreal, QC	14,436	62.3%	68.8%	\$118.87	\$117.70	\$74.06	\$80.98	0.9%	-8.5%
Quebec City, QC	3,787	69.2%	67.3%	\$126.59	\$122.11	\$87.60	\$82.18	0.0%	2.7%
Quebec Area	3,369	58.6%	55.2%	\$92.99	\$90.52	\$54.49	\$49.97	0.4%	6.5%
Toronto Downtown	12,665	72.1%	72.8%	\$161.39	\$161.16	\$116.36	\$117.32	0.0%	-1.0%
Toronto North/East	5,978	65.3%	59.8%	\$115.27	\$109.55	\$75.27	\$65.51	-6.5%	2.1%
Toronto Airport/West	7,240	67.9%	66.5%	\$109.09	\$109.32	\$74.07	\$72.70	1.6%	3.6%
Ottawa, ON	7,163	75.6%	68.4%	\$134.67	\$130.56	\$101.81	\$89.30	0.5%	11.2%
Ontario East	3,667	56.2%	55.5%	\$97.59	\$94.37	\$54.85	\$52.38	0.0%	1.3%
Ontario Southwest	7,931	55.6%	53.7%	\$92.28	\$89.16	\$51.31	\$47.88	0.0%	3.5%
Ontario North	5,290	57.5%	53.4%	\$79.98	\$79.96	\$45.99	\$42.70	-0.4%	7.2%
Niagara Falls, ON	6,073	57.0%	57.8%	\$124.97	\$116.32	\$71.23	\$67.23	4.4%	2.9%
Ontario Central	7,679	59.9%	58.5%	\$104.73	\$101.10	\$62.73	\$59.14	-0.2%	2.2%
Winnipeg, MB	3,799	60.8%	66.1%	\$93.45	\$93.06	\$56.82	\$61.51	1.4%	-6.8%
Regina/Saskatoon, SK	3,840	64.1%	58.7%	\$100.74	\$91.59	\$64.57	\$53.76	1.0%	10.3%
Calgary, AB	8,125	69.2%	69.5%	\$114.61	\$110.35	\$79.31	\$76.69	0.5%	0.0%
Edmonton, AB	5,854	63.5%	63.8%	\$97.34	\$99.03	\$61.81	\$63.18	0.6%	0.2%
Alberta Area	7,975	63.1%	58.5%	\$119.38	\$113.99	\$75.33	\$66.68	2.8%	11.0%
Mountain Regions, AB	880	79.2%	76.8%	\$151.70	\$146.48	\$120.15	\$112.50	0.0%	3.1%
Vancouver, BC	13,287	74.8%	73.7%	\$137.80	\$137.53	\$103.07	\$101.36	-1.2%	0.2%
British Columbia Area	9,905	53.0%	50.4%	\$86.46	\$86.11	\$45.82	\$43.40	0.7%	5.9%
Victoria, BC	2,697	60.4%	59.2%	\$106.55	\$104.63	\$64.36	\$61.94	0.3%	2.2%
Provinces									
Alberta	22,834	66.0%	64.4%	\$113.63	\$110.18	\$75.00	\$70.96	1.8%	4.3%
British Columbia	26,786	66.0%	64.9%	\$122.73	\$122.01	\$81.00	\$79.18	0.2%	2.0%
Manitoba	4,438	59.6%	64.4%	\$91.27	\$90.49	\$54.40	\$58.28	2.4%	-5.2%
New Brunswick	2,698	60.5%	60.2%	\$104.35	\$97.82	\$63.13	\$58.89	0.6%	1.2%
Newfoundland	1,622	66.6%	64.9%	\$123.67	\$110.27	\$82.36	\$71.57	0.0%	2.6%
Nova Scotia	3,430	72.9%	67.8%	\$117.61	\$105.89	\$85.74	\$71.79	0.8%	8.4%
Northwest Territories	66	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	62,724	64.7%	62.4%	\$122.60	\$119.00	\$79.32	\$74.26	0.1%	3.8%
Prince Edward Island	831	45.7%	46.4%	\$95.21	\$92.95	\$43.51	\$43.13	0.0%	-1.6%
Quebec	22,554	64.6%	67.2%	\$128.39	\$129.17	\$82.94	\$86.80	0.6%	-3.3%
Saskatchewan	4,967	61.1%	55.7%	\$94.10	\$84.27	\$57.50	\$46.94	0.4%	10.1%
Yukon Territory	638	55.3%	41.3%	\$81.39	\$81.06	\$45.01	\$33.48	0.0%	34.0%
Canada	153,588	59.8%	58.8%	\$102.04	\$99.80	\$61.02	\$58.68	0.5%	2.2%

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Continued from front page

- An architecturally significant building (Arizona Biltmore)
- A convention or extended-stay property
- A boutique hotel
- A prominent name (the Connaught in London)
- Exceptional management
- Unusual amenities (hot springs, views of the Grand Canyon)

Independence will save you money that can be put to good use based on your own discretion - not the franchisor's. All you need to be able to do is convince your other investor (your lender) that going it alone is a good decision.

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).

*If you have any questions regarding this publication please send a message to bmacdonald@hvsinternational.com
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SMITH TRAVEL RESEARCH

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HOTEL ASSOCIATION OF CANADA INC.

The Hotel Association of Canada is a federation of provincial and territorial associations, hotel chains and suppliers with a mandate to represent members nationally and internationally and to provide cost-effective services that stimulate and encourage a free market accommodation industry.

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