MARKET REPORT

HVS U.S. Hotel Franchise Fee Guide 2016/17

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The HVS U.S. Hotel Franchise Fee Guide provides a comparative review of various hotel franchises based on their applicable franchise fees.

The selection of an appropriate franchise affiliation affects a property's ability to compete in its local market, generate profits, and achieve a desirable image and market orientation. Because the success of a hotel is based primarily on the cash flow generated, owners and lenders must weigh the benefits of a brand affiliation against the total cost of such a commitment.



Please note that the study results are not indicative of the impact an individual brand may have on a hotel's overall profitability because only the costs, and not the benefits of the franchise affiliations, have been analyzed. Furthermore, the study does not reflect, nor does it claim to address, operating results of any one brand or any particular brand affiliation upon any single hotel property. The 2016/17 U.S. Franchise Fee Guide is meant to illustrate a basic comparison among franchise fees charged by participants.

HVS has extensive experience with assisting clients in selecting the appropriate franchise and/or management brand for their proposed or existing hotels. This service also includes assisting with or managing the negotiations in coordination with experienced attorneys and other industry professionals.

Types of Hotel Franchise Fees

Brand attributes play a crucial role in a hotel investor's choice of franchise affiliation. When evaluating a potential hotel franchise, one of the important economic considerations is the structure and amount of the franchise fees. Second only to payroll, franchise fees are among the largest operating expenses for most hotels.

Hotel franchise fees are compensation paid by the franchisee to the franchisor for the use of the brand's name, logo, marketing, and referral and reservation systems. Franchise fees normally include an initial fee with the franchise application, plus ongoing fees paid periodically throughout the term of the agreement.

Summary of Findings



The median franchise cost of a traditional franchise was 11.5% of rooms revenue, while the average cost was 10.8% of rooms revenue.



Median franchise costs per product type did not vary greatly, indicating that the discrepancies between different brands' franchise costs are more dependent on hotel company, chain scale, or other factors than on product type.



The ten highest franchise costs represented a mix of Upper-Midscale, Upscale, and First-Class chain scales in full- and select-service hotels. The ten lowest-cost franchises were reported by Economy and Mid-Rate brands, spanning all product types. First Class includes Luxury and Upper-Upscale chain scales, as discussed later in this report.



Independent or "soft brand" hotel companies, which are reviewed in our report but not quantitatively represented in the Key Findings tables, provide an alternative business model for property owners desiring a more flexible franchise arrangement. The overall fee structure and costs associated with such franchises are different from the traditional franchise model.

Disclaimer

Hotels are complicated investments. Selecting an appropriate franchise affiliation for a property entails exhaustive research and investigation by an investor. The information presented in this guide was developed to provide insight into franchise-fee structures and should not be relied upon by an investor other than as a preliminary resource. HVS has researched and gathered data from authoritative sources, and all efforts have been made to verify the accuracy of these data; however, given variances in reporting methods and franchise terms, HVS cannot guarantee the accuracy of all the data contained in this study. Finally, it should be noted that the 2016/17 version of this guide is not necessarily comparable with previous versions because of the new methodology of calculating franchise costs, which considers historical data for each brand and does not subject all brands to uniform assumptions.

Click Here for a Complimentary Copy of the 2016/17 HVS Franchise Fee Guide