

A Ten-Year Investment Analysis of Hotels

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In the past three to five years, until a few months ago, hotel prices and transactions were accelerating at a remarkable rate. During this period of industry recovery, savvy buyers and sellers were poised to secure assets as revenues and income increased and cap rates declined. This robust investment environment was not unique to hotels; private equity funds, REITs, and other investors actively sought out all types of property including office buildings, shopping center, and residential projects.

In considering the financial investment using a discounted cash flow analysis, two components are typically given the most emphasis: the change in net operating income of the property over time, and impact of the capital markets as reflected in capitalization rates.

Unlike office buildings, retail centers, and even apartment buildings, hotels have no leases to secure income. Rates and occupancy levels change almost daily and often react quickly - positively or negatively - to economic change on a short-term basis. In the last cycle, the peaks at the end of the 1990s and the nadir following in 2001 and 2002 resulted in an extraordinary fluctuation in hotel performance.

Changes in Hotel Financial Performance

As a demonstration of the annual operating performance of hotels, a series of samples of operating statements from the mid-1990s (1994 to 1996) were compared to the statements for the same samples in the mid-2000s (2004 to 2006). Three samples were examined:

- 1. 30 full-service hotels
- 2. 33 select-service and extended-service properties
- 3. 11 resorts

The periods reviewed were selected as being representative of what we might call "a normalized period." That is to say, in the mid-1990s many lodging properties were rebounding from the downturn of the recession of the early 1990s, while in the mid-2000s numerous markets were recovering from the impact of the economic downturn following the dot-com bust and the tragic events of 9/11. The middle part of each decade was neither the nadir nor the peak of the respective cycles. As a benchmark for analyzing the hotels' performance, the CPI index change

of 28.5% for the 10-year period between 1996 and 2006 was used.

While the samples are not representative of all hotels, the trends reflected by the two points in time are consistent with the operating performance of many properties. Each sample includes a range of geographical locations, brands, improvements, and property ages and condition.

For the purposes of comparison, any ground lease payments or other unusual revenues or expenses were excluded from the analysis and franchise fees were incorporated into the marketing expense. Management fees and FF&E reserves for all properties in the sample have been standardized at 3.0% and 4.0% of gross revenues, respectively. It should also be noted that the reallocation of all insurance expense from A&G to the insurance line item in the uniform system of accounts during this period explains some of the decline of the A&G ratio and increase in the insurance line item.

To illustrate the changes in hotel financial performance in the most recent ten-year period, composite statements for three different product types were researched.

Full-Service Hotel Performance

Table 1 (on the following page) sets forth the performance details for the 30 full-service hotels.

The data reveal that, despite the dramatic income loss experienced by many hotels in 2001 and 2002, the increase in net operating income generated by full-service hotels exceeded the increase in the rate of inflation over the ten-year term identified in this analysis. Average rate increased at 29.8%, a rate slightly higher than the 28.5% inflation rate. Occupancy and RevPAR, however, declined as many full-service hotels have been negatively impacted by a number of factors including the increase of new focused- and select-service hotel inventory.

The increase in food and beverage revenues generally exceeded inflationary growth on a per-occupied room basis, increasing by 41.5%. Telephone revenues, consistent with national and international trends, declined precipitously. Other income increased, as some hotels added amenities such as spa facilities and charged for internet access.

On the expense side, hotel operators continue to improve



Table 1: Full-Service Hotel Performance	Performan	lce												
Year:	Year: 1994 to 1996			-	1994 to 1996			W	2004 to 2006					
Number of Rooms: Occupied Rooms:	12,865 3,456,586				12,865 3,456,586				13,348 3,362,101				Mid 1990s to Mid 2000s Percentage Change	o Mid 2000s e Change
Days Open:	365		•		365				365			-	•	, -
occupancy: Average Rate:	\$113.39		₹ ~	Amount per Occupied	73.6% \$145.69	Percentage	Amount per Available	Amount per Occupied	_	Percentage	Amount per Available	Amount per Amount per Available Occupied	Amount per Available	Amount per Occupied
REVPAK	\$83.47	or Kevenue	Ж 00 Ж	K00M	\$107.24	or Kevenue	Ж00Ш	Ж00Ш	\$6.101\$	or Kevenue	H00H	K00M	K00M	K00M
KEVENUE Dogge	0001 000	0 0 0	420 465	0110	\$500 E00	0 0 0	\$50 444	41 45 60	\$40.4 00£	/o	\$27 07¢	01 77 00	70/	%0 CC
Food & Beverage	9291,950	36.4	18 830	70 12	311 410		939,144	9143.09	333 464	38.0 %	070,764	9147.20	% I.1 % 30 E%	71.5%
Telephone	18.278		1.421	5.29	23.485	2.7	1,826	6.79	9,638	1.5	722	2.87	-49.2%	-45.8%
Other Income	14,164	2.1	1,101	4.10	18,200	2.1	1,415	5.27	40,241	4.6	3,015	11.97	173.8%	192.1%
Total	666,742	100.0	51,826	192.89	856,693	100.0	66,591	247.84	878,229	100.0	65,795	261.21	27.0%	35.4%
DEPARTMENTAL EXPENSES														
Rooms	100,912	25.7	7,844	29.19	129,662	25.7	10,079	37.51	128,854	26.0	9,653	38.33	23.1%	31.3%
Food & Beverage	186,953	77.1	14,532	54.09	240,215	77.1	18,672	69.49	230,284	69.1	17,252	68.49	18.7%	26.6%
Telephone	8,574	46.9	999	2.48	11,017	46.9	826	3.19	9,443	98.0	707	2.81	6.1%	13.2%
Other Income	5,258	37.1	409	1.52	6,756	37.1	525	1.95	12,679	31.5	950	3.77	132.4%	147.9%
Total	301,698	45.2	23,451	87.28	387,650	45.2	30,132	112.15	381,260	43.4	28,563	113.40	21.8%	29.9%
DEPARTMENTAL INCOME	365,044	54.8	28,375	105.61	469,043	54.8	36,459	135.70	496,969	74.5	37,232	147.82	31.2%	40.0%
OPERATING EXPENSES														
Administrative & General	51,980	7.8	4,040	15.04	68,789	7.8	5,192	19.32	64,827	7.4	4,857	19.28	20.2%	28.2%
Marketing	42,253	6.3	3,284	12.22	54,290	6.3	4,220	15.71	76,567	8.7	5,736	22.77	74.7%	86.3%
Property Operations & Maintenance	31,470	4.7	2,446	9.10	40,435	4.7	3,143	11.70	37,114	4.2	2,780	11.04	13.7%	21.3%
Utilities	23,714	3.6	1,843	98.9	30,470	3.6	2,368	8.81	30,697	3.5	2,300	9.13	24.8%	33.1%
Total	149,416	22.4	11,614	43.23	191,984	22.4	14,923	55.54	209,205	23.8	15,673	62.22	34.9%	43.9%
HOUSE PROFIT	215,628	32.3	16,761	62.38	277,059	32.3	21,536	80.15	287,764	32.8	21,559	85.59	28.6%	37.2%
Management Fee	20,008	3.0	1,555	5.79	25,708	3.0	1,998	7.44	26,398	3.0	1,978	7.85	27.2%	32.6%
INCOME BEFORE FIXED CHARGES	195,620	29.3	15,206	56.59	251,351	29.3	19,538	72.72	261,366	29.8	19,581	77.74	28.8%	37.4%
FIXED EXPENSES														
Property Taxes	22,523	3.4	1,751	6.52	28,940	3.4	2,250	8.37	30,133	3.4	2,257	8.96	28.9%	37.5%
Insurance	4,203	9.0	327	1.22	5,400	9.0	420	1.56	10,658	1.2	798	3.17	144.4%	160.7%
Miscellaneous	883	0.1	69	0.26	1,135	0.1	88	0.33	4,710	0.5	353	1.40	414.1%	448.4%
Reserve for Replacement	25,845		2,009	7.48	33,208	3.9	2,581	9.61	35,198	4.0	2,637	10.47	31.3%	40.0%
Total	53,454		4,155	15.46	68,683	8.0	5,339	19.87	80,699	9.5	6,046	24.00	45.5%	55.2%
NET INCOME	\$142,166	21.3 %	\$11,051	\$41.13	\$182,668	21.3 %	\$14,199	\$52.85	\$180,667	% 9.02	\$13,535	\$53.74	22.5%	30.7%



performance efficiencies. Despite the lower RevPAR performance in the mid-2000s, rooms department expense decreased as a percentage of revenue. More notably, the food and beverage expense ratio also decreased, positively impacting the overall profitability of the hotels. As can be expected, telephone expenses increased as a percentage of a diminishing revenue source. During the period tracked for this article, many operators have invested in better cost-control methodology and practice.

Administrative and general and property operations and maintenance departments are areas where staffing and fixed costs have been heavily scrutinized. On a peravailable-room basis and on an operating margin basis, both line items have increased at below-inflationary levels. While marketing expense is largely controllable, this function has been heavily invested in by hotel operators. Full-service properties still require extensive sales and marketing staff to sell the product, particularly when differentiating their product from the select-service sector. Over this ten-year period, guest loyalty became both more prevalent and more expensive with individual properties bearing increased program-associated costs. Utility costs are less controllable and have grown at 41.1%, thus exceeding inflation on a per-occupied-room basis over the ten-year period. The most dramatic increases have been in the fixed expenses. Soaring property taxes and insurance costs have burdened many hotels.

As a result of largely better cost controls, particularly in the food and beverage department, overall profitability of the sample hotels improved over the ten-year period. Despite the decline in occupancy between the two periods under analysis, net operating income in mid-2000s was 21.3 % of gross revenues as compared to 21.1 % in the mid-1990s.

Select-service and Extended Stay hotel performance

Using a sample of 33 select-service hotel and extended-stay hotel statements, the same comparison was made. While average rate increased by over 40% between the two periods, the decline in occupancy resulted in a RevPAR gain of 33.5%, still higher than the 28.5% rate of inflation. For this particular sample of select-service and extended-stay hotels, net operating income on a per-room basis was on par with the inflation index. The composite performance from the select-service and extended-stay sample is shown in Table 2.

Resort Performance

Of the three product types considered in this analysis, resorts demonstrated the strongest performance. Because of the difficulty and expense involved in the construction

of resorts, the supply of properties in this segment is more limited. As such, when demand is strong, destination resorts are often able to robustly yield-manage average rates. The average rate for the sample increased 30.9% during the ten-year period. Occupancy also increased marginally, resulting in a RevPAR increase of 32.0%, compared to the CPI change of 28.5%, as shown in Table 3.

In recent years, resorts have also been able to increase food and beverage sales while reducing food and beverage departmental expenses. The improved revenue contribution from food and beverage and the higher departmental profitability have provided positive operating leverage for the segment. This trend has also been evidenced in the spa department. (In this particular sample, the golf facility of one property was under renovation, negatively skewing the golf department performance.) As with full-service hotels, fixed costs are heavily managed, resulting in continued strong operating performance.

Influence of the Capital Markets

Hotels are difficult and volatile businesses. While the cash flow potential of the properties may not support investors' return requirements, the timing of the capital markets can often dramatically impact the valuation of the assets. In the last cycle, holding on to the assets and selling them at the right time more than compensated for the uncertainty of the annual income.

Using the capitalization rate from the two different points in time to represent the investment requirements, the composite net operating incomes from the samples were capitalized. Based on data collected by HVS, average capitalization rates for full-service hotels from 1994 to 1996 ranged from 5.7% to 7.0% and from 2004 to 2006 ranged from 5.2% to 5.5%.

Using these ranges and adjusting upwards 150 basis points from the full-service capitalization rates to those applied to the select-service properties, the change in value between the two periods far exceeds the inflation index change of 28.5%. The chart on Page 6 sets forth the results.

Capitalization rates reached their nadir in 2007 and, as a result, the increase in the capitalized values of the properties between the mid-1990s and the mid-2000s well exceeded the growth in net operating income, not to mention inflation. While hotel investors may have profited from a ten-year holding period, market timing remains a critical force in profiting from hotel cycles. The long-term value of a hotel in the most recent cycle is primarily in the influence of the financial markets.



Table 2: Select-Service and Extended-Stay Hotel Performance

Number of floams 337 3.87 3.891 Amount per Amount pe	Year:	1994 to 1996	"~		-	1994 to 1996			7	2004 to 2006					
Participa per 1,714,566	Number of Rooms:	3,827				3,827				3,901				Mid 1990s to	Mid 2000s
HICH 3865 Amount per	Occupied Rooms:	1,074,980				1,074,980				1,039,986				Percentag	e Change
Optimization 77.70% Announi part 77.70% Announi part	Days Open:	365				365				365					
RATIOL ST. PERFORMING PARIBINIS ANAILISM STATES STR. SALOR PREPRINGING PARIBINIS PARIBINIS STATES FORTINIS PROCESSION P	Occupancy:	77.0%			Amount per	_		_	Amount per	73.0%			Amount per	Amount per	Amount per
SSALOR of Revenue Room SGALOR of Revenue Room	Average Rate:	\$70.25	Percentage		Occupied		Percentage		Occupied	\$98.78	Percentage	Available	0ccupied	Available	Occupied
e 7.5 516 94.9 \$ 19,72 \$ 7.02 94.9 \$ 20,3354 \$ 80.02 102,77 97.9 \$ 20,334 \$ 80.02 17.7 10.02 3.02 2.02 497 0.5 1.77 0.48 (7.7) 1.02 497 0.5 1.77 0.48 (7.7) 1.02 497 0.5 1.27 0.48 (7.7) 1.02 1.02 0.44 1.02 2.28 2.27 2.69 2.1 1.07 0.48 (7.7) 1.02 1.02 1.02 1.02 1.02 1.02 1.02 1.02 1.02 2.29 2.6 0.60 1.07 0.5 1.07 1.02 1.03 2.0 0.60 1.07 0.5 1.07 1.02 1.03 2.6 0.6 1.07 0.5 1.03 2.0 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00	RevPAR:	\$54.06		Room	Room		of Revenue	Room	Room	\$72.15	of Revenue	Room	Room	Room	Room
Table Tabl	REVENUE														
TALL KPCHNEST* 1,774 2.2 464 1.65 2.279 2.2 5.96 2.8 757 2.69 497 0.5 1.67 0.48 (78.4)	Rooms	75,516		\$19,732	\$70.25	97,030	%	\$25,354	\$90.26	102,727		\$26,334	\$98.78		
1,774 2.2 464 165 2.279 2.2 566 2.12 1,675 1,6 4.29 1,6 7,9 1,9 1,4 1,	Telephone	2,254	2.8	589	2.10	2,896	2.8	757	2.69	497	0.5	127	0.48	(78.4)	(77.2)
Table Note Table Note Table Ta	Other Income	1,774	2.2	464	1.65	2,279	2.2	596	2.12	1,675	1.6	429	1.61	(7.4)	(2.4)
FIGURE FY: 1701 2.5 4,445 15.82 21.857 2.25 5,711 20.33 23.035 22,4 5,905 22.15 32.8 3.8 1.20 18.17 231 0.87 (18.5) 37.8 1.007 56.8 26.3 0.94 1.01 1.394 56.8 3.88 1.20 1414 84.4 362 1.36 37.8 37.8 1.1007 56.8 26.3 0.94 1.294 56.8 3.88 1.20 1414 84.4 362 1.36 37.8 37.8 1.1007 56.8 26.3 0.94 1.294 56.8 3.88 1.20 1414 84.4 362 1.36 3.78 3.78 3.0 15.793 56.22 77.568 75.9 20.292 72.4 75.55 20.391 76.49 24.38 30 0.94 1.294 56.8 7.20 1.224 75.55 20.391 76.49 24.38 30 0.94 1.294 56.8 1.204 20.292 7.224 7.524 75.55 20.391 76.49 2.91 2.99	Total	79,544	6.66	20,785	74.00	102,206	6.66	26,706	92.08	104,899	100.0	26,890	100.87	29.4	36.3
1701 225 4445 15.82 21.857 22.5 5,711 20.33 23.035 22.4 5,905 22.15 32.8 1007 56.8 263 0.94 1.94 1.84 28.8 1.30 903 181.7 231 0.87 (18.5) 1307 24.2 4.992 17.77 24.548 24.0 6.414 22.84 25.32 24.2 6.499 24.38 30 19.105 24.2 4.992 17.77 24.548 24.0 6.414 22.84 25.32 24.2 6.499 24.38 30 19.105 24.2 4.992 17.77 24.548 24.0 6.414 22.84 25.32 24.2 6.499 24.38 30 24.00 15.793 56.22 77.568 75.9 20.292 77.24 75.8 20.391 76.49 24.38 30 25.107 25.5 1.384 4.83 6.678 6.5 1.745 6.21 9.27 88 2.865 8.87 7.24 25.108 25.0 1.044 3.72 5.132 5.0 1.341 4.77 5.25 5.0 1.347 5.05 29.1 25.108 25.0 1.044 3.72 5.132 27.0 25.19 4.477 5.25 5.0 1.347 5.05 29.1 25.108 25.5 1.386 3.0 6.24 2.722 3.147 3.1 822 2.93 3.147 3.0 807 3.03 25.108 25.5 25.0 24.42 2.22 3.147 3.1 822 2.93 3.147 3.0 807 3.03 25.108 25.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 25.108 25.0 24.0 25.0 24.0 24.0 25.0 24.0 25.0 24.0 25.0 25.108 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 25.108 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 25.108 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 25.108 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25.0 24.0 25	DEPARTMENTAL EXPENSES*														
1,087 48.2 284 1.01 1,397 48.2 365 1.30 903 181.7 231 0.87 (18.5) 1,087 48.2 28.4 1.01 1,397 48.2 38.8 1.20 1414 84.4 84.4 84.8 37.8 37.8 19,105 24.2 4.992 1.777 24.548 75.9 20,292 72.24 25,325 24.2 6,499 24.38 37.8 19,105 24.2 4.992 1.777 24.548 75.9 20,292 72.24 79.547 75.8 20,391 76.49 29.8 19,105 24.2 4.992 1.777 1.0560 10.5 1.244 2.548 20,391 76.49 24.38 37.8 19,105 24.2 4.992 1.777 1.0560 10.5 1.244 2.548 20,292 1.224 2.548 3.94 1.044 3.72 5.136 4.5 1.344 4.77 5.255 5.0 1.347 5.05 8.8 7.42 2.246 2.248 3.94 5.0 1.044 3.72 5.136 3.94 4.77 5.255 5.0 1.347 3.0 80.7 3.03 3.04 4.5 4.5 4	Rooms	17,011	22.5	4,445	15.82	21,857	22.5	5,711	20.33	23,035	22.4	5,905	22.15	32.8	40.0
rest 1007 56.8 263 0.94 1294 56.8 338 1.20 1414 84.4 362 1.36 37.8 TALINCOME 60.439 76.0 17.77 24.948 24.0 6.414 22.84 25.352 24.2 6.499 24.38 30 TALINCOME 60.439 76.0 15.793 75.9 20.292 72.24 79.547 75.8 20.391 76.49 29.3 XFERINSE 8.320 10.5 2.174 7.74 10.690 10.5 2.793 9.94 9.517 75.4 76.9 ve & General 8.320 10.5 2.174 7.74 10.690 10.5 2.793 9.94 9.517 7.48 9.517 9.24 9.527 8.8 2.365 8.97 7.72 7.24 7.248 8.7 7.745 4.77 5.756 9.27 8.8 2.365 8.8 7.35 9.27 8.8 2.365 8.9 7.224 7.27	Telephone	1,087	48.2	284	1.01	1,397	48.2	365	1.30	903	181.7	231	0.87	(18.5)	(14.1)
TALINCOME 60.439 7.7 24,548 24.0 6,414 22.84 25,352 24.2 6,499 24.38 30 EXPENSES TALINCOME 60.439 76.0 15,733 56.22 77,568 75.9 20,292 72.24 79,547 76.49 24.38 30 EXPENSES 8.32D 1.6 1.5,733 56.2 77,658 75.9 20,292 72.24 79,547 76.49 27.3 29 Ver & General 8.32D 1.0.5 1.74 1.745 6.2 1.24 7.45 6.2 1.74 7.45 6.2 1.74 7.75 6.2 1.74 7.45 6.2 1.74 7.75 6.2 1.74 7.75 6.2 1.74 7.75 6.2 7.77 7.2 8.8 7.45 7.45 7.75 7.2 8.8 7.3 7.2 7.77 7.0 2.2 7.0 7.0 2.2 7.0 7.0 2.0 7.0 7.0 2.0 <	Other Expenses	1007	56.8	263	0.94	1294	9.99	338	1.20	1414	84.4	362	1.36	37.8	45.1
TALINCOME 60,439 76.0 15,793 56.22 77,658 75.9 20,922 72.24 79,547 75.8 20,391 76.49 29 XYPENISES XXPENISES XXPE	Total	19,105	24.2	4,992	17.77	24,548	24.0	6,414	22.84	25,352	24.2	6,499	24.38	30	37.2
EXPENSES Ve & General 8,320 10.5 2,174 7,74 10,690 10.5 2,793 9.94 9,512 9,1 2,438 9,15 12.2 Fight 6,518 6,578 6,57 1,745 6,21 9,227 8.8 2,685 8.87 742 enations & Maintenance 3,994 5.0 1,044 3,72 5,132 6.0 1,347 4,2 4,445 4,2 1,347 5,05 29.1 11 21,078 2.6 5,508 19.61 27,083 26.5 7,077 25.19 28,451 27.1 7,93 27.36 29.1	DEPARTMENTAL INCOME	60,439	76.0	15,793	56.22	77,658	75.9	20,292	72.24	79,547	75.8	20,391	76.49	29	36.0
ve & General 8,320 10.5 2,174 7,74 10,690 10.5 2,793 9.94 9,512 9.1 2,438 9.15 12.2 erations & Maintenance 5,197 6.5 1,346 6.2 1,745 6.21 9,527 8.8 2,386 8.87 74.2 erations & Maintenance 3,994 5.0 1,044 3,72 4,182 6.2 1,745 4.26 6,285 8.87 7.07 1,49 4.77 6,255 5.0 1,347 5.05 8.94 4.26 6,285 5.0 1,434 4.29 4,27 4,29 4,29 2,346 4.29 2,236 3.0 2.2 4,183 4.26 7,077 25.48 4.70 1,143 4.29 2.2 2.4 1,143 4.29 2.2 2.6 7,077 2.9 4,47 3.0 8.0 2.2 3.4 1,21 3.1 3.0 8.0 3.4 3.1 3.0 4.1 3.1 3.0 4.1<	OPERATING EXPENSES														
5,197 6.5 1,358 4.83 6,678 6.5 1,745 6.21 9,227 8.8 2,365 8.87 74.2 reations & Maintenance 3,994 5.0 1,044 3.72 5,132 5.0 1,341 4.77 5,255 5.0 1,347 5.05 29.1 3.5	Administrative & General	8,320	10.5	2,174	7.74	10,690	10.5	2,793	9.94	9,512	9.1	2,438	9.15	12.2	18.2
3,994 5.0 1,044 3.72 5,132 5.0 1,341 4.77 5,255 5.0 1,347 5.05 29.1 3,567 4.5 932 3.32 4,583 4.5 1,198 4.26 4,457 4.2 1,143 4.29 22.6 Fit 21,078 26.5 5.08 19.61 27,083 26.5 7.077 25.19 28.451 27.1 7.293 27.36 32.2 Fe 2.386 3.0 624 2.22 3.147 3.1 822 2.93 3.147 3.0 807 3.03 29.7 SES 3.657 46.5 2.22 3.147 3.1 822 2.93 3.147 3.0 807 3.03 29.7 SES 4.055 4.0 1,060 3.77 47,949 45.7 12,291 46.11 27.44.6 7 Replacement 3.18 4.0 4.055 4.0 1,060 3.77 3.67 <t< th=""><th>Marketing</th><th>5,197</th><th>6.5</th><th>1,358</th><th>4.83</th><th>6,678</th><th>6.5</th><th>1,745</th><th>6.21</th><th>9,227</th><th>8.8</th><th>2,365</th><th>8.87</th><th>74.2</th><th>83.5</th></t<>	Marketing	5,197	6.5	1,358	4.83	6,678	6.5	1,745	6.21	9,227	8.8	2,365	8.87	74.2	83.5
3,567 4,5 932 3.32 4,583 4.5 1,198 4.26 4,457 4.2 1,143 4.29 2.6 2.6 1,077 25.19 28,451 27.1 7,293 27.36 32 32 32 31	Property Operations & Maintenance	3,994	5.0	1,044	3.72	5,132	2.0	1,341	4.77	5,255	2.0	1,347	5.05	29.1	36.0
1T 21,078 26.5 5,508 19.61 27,083 26.5 7,077 25.19 28,451 27.1 7,293 27.36 32 IT 39,361 49.5 10,285 36.62 50,575 49.4 13,215 47.05 51,096 48.7 13,098 49.13 27 Fee 2,386 3.0 624 2.22 3,147 3.1 822 2.93 3,147 3.0 87 3.03 29 ORE FIXED CHARGES 36,975 46.5 12,393 44.12 47,949 45.7 12,291 46.11 27 SES 3,975 46.5 47,428 46.3 12,393 44.12 47,949 45.7 12,291 46.11 27 Res 53,975 4.0 4,055 4.0 1,060 3.77 3,812 3.6 3.6 18.5 48 6.3 1,060 3.77 3,812 3.6 40.4 1.52 190.1 89	Utilities	3,567	4.5	932	3.32	4,583	4.5	1,198	4.26	4,457	4.2	1,143	4.29	22.6	29.5
IT 39,361 49.5 10,285 36.62 50,575 49.4 13,215 47.05 61,096 48.7 13,098 49.13 27 Fee 2,386 3.0 624 2.22 3.47 3.1 822 2.93 3.147 3.0 807 3.03 29 ORE FIXED CHARGES 36,975 46.5 9,662 3.47 4.728 46.3 12,393 44.12 47,949 45.7 12,291 46.11 27 ISES 3,156 4.0 825 2.94 4,055 4.0 1,060 3.77 3,812 3.6 977 3.67 18.5 (es 533 0.7 139 0.50 685 0.7 179 0.64 1,577 1,57 4,04 1,52 190.1 Replacement 3,182 4.0 1,060 3.70 4,196 4.0 1,076 9.0 4,196 4.0 1,076 9.0 2.33 0.87 6,746 7.4 <th>Total</th> <th>21,078</th> <th>26.5</th> <th>5,508</th> <th>19.61</th> <th>27,083</th> <th>26.5</th> <th>7,077</th> <th>25.19</th> <th>28,451</th> <th>27.1</th> <th>7,293</th> <th>27.36</th> <th>32</th> <th>39.5</th>	Total	21,078	26.5	5,508	19.61	27,083	26.5	7,077	25.19	28,451	27.1	7,293	27.36	32	39.5
Fee 2,386 3.0 624 2.22 3,147 3.1 822 2.93 3,147 3.0 807 3.03 29 ONE FIXED CHARGES 36,975 46.5 9,662 34.40 47,428 46.3 12,393 44.12 47,949 45.7 12,291 46.11 27 ISES 3,156 4.0 825 2.94 4,055 4.0 1,060 3.77 3,812 3.6 977 3.67 18.5 css 73 0.7 1,39 0.50 685 0.7 179 0.64 1,577 1,5 404 1.52 190.1 los 1,38 3,182 4.0 1,060 3.7 3,81 4,196 4.0 1,076 907 907 909 233 0.87 6,744.6 7 Replacement 3,182 4.0 1,799 6,40 8,845 8.7 2,311 8.23 10,492 10.0 2,690 10.09 29.4 </th <th>HOUSE PROFIT</th> <th>39,361</th> <th>49.5</th> <th>10,285</th> <th>36.62</th> <th>50,575</th> <th>49.4</th> <th>13,215</th> <th>47.05</th> <th>51,096</th> <th>48.7</th> <th>13,098</th> <th>49.13</th> <th>27</th> <th>34.2</th>	HOUSE PROFIT	39,361	49.5	10,285	36.62	50,575	49.4	13,215	47.05	51,096	48.7	13,098	49.13	27	34.2
ORE FIXED CHARGES 36,975 46.5 9,662 34.40 47,428 46.3 12,393 44.12 47,949 45.7 12,291 46.11 27 ISES 3,156 4.0 825 2.94 4,055 4.0 1,060 3.77 3,812 3.6 97.7 3.67 18.5 cls 533 0.7 139 0.50 685 0.7 179 0.64 1,577 1.5 404 1.52 190.1 us 13 0.0 3 0.01 1 0.0 4 0.02 907 0.9 233 0.87 6,744.6 7 Replacement 3,182 4.0 8.31 2,311 8.23 1,076 4.03 29.4 49.5 Replacement 5.884 8.7 2,311 8.23 10,492 10.0 2,690 10.09 49.5 8.30,091 330,091 37.7 8,10,082 \$37,457 8,6,602 \$36.02 \$21.8	Management Fee	2,386		624	2.22	3,147	3.1	822	2.93	3,147	3.0	807	3.03	29	36.3
ses 3,156 4.0 825 2.94 4,055 4.0 1,060 3.77 3,812 3.6 977 3.67 18.5 18.5 18.5 18.5 19.1 18.5 18.5 19.1 19.0 19.0 19.0 19.0 19.0 19.0 19.0	INCOME BEFORE FIXED CHARGES	36,975	46.5	9,662	34.40	47,428	46.3	12,393	44.12	47,949	45.7	12,291	46.11	27	34.0
(es 3,156 4.0 825 2.94 4,055 4.0 1,060 3.77 3,812 3.6 977 3.67 18.5 13 0.7 139 0.50 685 0.7 179 0.64 1,577 1.5 404 1.52 190.1 us 13 0.0 3 0.01 17 0.0 4 0.02 907 0.9 233 0.87 6,74.6 7 Replacement 3,182 4.0 831 2.96 4,088 4.0 1,068 3.80 4,196 4.0 1,076 4.03 29.4 Replacement 6,884 8.7 2,311 8.23 10,492 10.0 2,690 10.09 49.5 830,091 33,091 37.7 8,10,082 \$37.457 \$36,602 \$36.02 \$21.8	FIXED EXPENSES														
533 0.7 139 0.50 685 0.7 179 0.64 1,577 1.5 404 1.52 190.1 us 13 0.0 3 0.01 17 0.0 4 0.02 907 0.9 233 0.87 6,744.6 7 Replacement 3,182 4.0 831 2.96 4,08 4.0 1,068 3.80 4,196 4.0 1,076 4.03 2.94 6.40 8,845 8.7 2,311 8.23 10,492 10.0 2,690 10.09 49.5 830,091 37.8 % \$7,863 \$27.7 % \$10,082 \$35.89 \$37,457 35.7 % \$9,602 \$36.02 \$21.8	Property Taxes	3,156	4.0	825	2.94	4,055	4.0	1,060	3.77	3,812	3.6	226	3.67	18.5	24.9
us 13 0.0 3 0.01 17 0.0 4 0.02 907 0.9 233 0.87 6,744.6 7 Replacement 3,182 4.0 831 2.96 4,088 4.0 1,068 3.80 4,196 4.0 1,076 4.03 29.4 6,884 8.7 1,799 6.40 8,845 8.7 2,311 8.23 10,492 10.0 2,690 10.09 49.5 830,091 37.8 \$ \$7,863 \$27.99 \$38,582 37.7 \$ \$10,082 \$35.89 \$37,457 \$5.7 \$ \$9,602 \$36.02 \$30.02 22.1 \$**	Insurance	533	0.7	139	0.50	685	0.7	179	0.64	1,577	1.5	404	1.52	190.1	205.7
Replacement 3,182 4.0 831 2.96 4,088 4.0 1,068 3.80 4,196 4.0 1,076 4.03 29.4 Replacement 6,884 8.7 1,799 6.40 8,845 8.7 2,311 8.23 10,492 10.0 2,690 10.09 49.5 830,091 37.8 8,7,863 \$27.99 \$38,582 37.7 \$10,082 \$35.89 \$37,457 35.7 \$9,602 \$36.02 22.1 %	Miscellaneous	13	0.0	က	0.01	17	0.0	4	0.02	206	6.0	233	0.87	6,744.6	7,111.7
6,884 8.7 1,799 6.40 8,845 8.7 2,311 8.23 10,492 10.0 2,690 10.09 49.5 \$30,091 37.8 \$7,863 \$27.99 \$38,582 37.7 \$10,082 \$37,457 35.7 \$9,602 \$36.02 22.1 %	Reserve for Replacement	3,182	4.0	831	2.96	4,088	4.0	1,068	3.80	4,196	4.0	1,076	4.03	29.4	36.3
\$30,091 37.8 % \$7,863 \$27.99 \$38,582 37.7 % \$10,082 \$35.89 \$37,457 35.7 % \$9,602 \$36.02 22.1 %	Total	6,884	8.7	1,799	6.40	8,845		2,311	8.23	10,492	10.0	2,690	10.09	49.5	57.5
	NET INCOME	\$30,091		\$7,863	\$27.99	\$38,582	%	\$10,082	\$35.89	\$37,457		\$9,602	\$36.02		28.7 %

Departmental expense ratios are expressed as a percentage of departmental revenues *Marketing expenses include franchise fees

Table 3: Resort Performance

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Year: 1 Number of Rooms: Occupied Rooms: Days Onen:	1994 to 1996 5755 1,545,699 365				1996 5755 212,647 365				2004 to 2006 5985 1,620,585				Mid 1990s i Percenta	Mid 1990s to Mid 2000s Percentage Change
Occupancy: Average Rate: RevPAR:	73.6% \$170.76 \$125.65	Percentage of Revenue		Amount per Amount per Available Occupied Room Room	73.6% \$219.41 \$161.45	Percentage of Revenue	Amount per Available Room	Amount per Occupied Room	74.2% \$223.59 \$165.87	Percentage of Revenue	Amount per Available Room	Amount per Occupied Room	Amount per Available Room	Amount per Occupied Room
REVENUE														
Rooms	\$263,940	51.5 %	\$45,863	\$170.76	\$339,135	51.5 %	\$58,929	\$219.41	\$362,353	46.2 %	\$60,544	\$223.59	32.0%	30.9%
Food and Beverage	183,271		31,846	118.57	235,484	35.7	40,918	152.35	298,425	38.1	49,862	184.15	26.6%	55.3%
Telephone	9,794	1.9	1,702	6.34	12,584	1.9	2,187	8.14	8,123	1.0	1,357	5.01	-20.2%	-20.9%
Golf	10,610	2.1	1,844	98.9	13,633	2.1	2,369	8.82	6,615	0.8	1,105	4.08	-40.0%	-40.5%
Spa	6,763	1.3	1,175	4.38	8,690	1.3	1,510	5.62	26,238	3.3	4,384	16.19	273.1%	270.0%
Retail	9,177	1.8	1,595	5.94	11,791	1 .8	2,049	7.63	13,759	8.	2,299	8.49	44.2%	43.0%
Other Income	29,317	2.7	5,094	18.97	37,669	2.7	6,545	24.37	53,853	6.9	8,998	33.23	%9'9/	75.2%
Total	512,872	100.0	89,118	331.81	658,987	100.0	114,507	426.34	783,486	100.0	130,908	483.46	46.9%	45.7%
DEPARTMENTAL EXPENSES														
Rooms	60,334	22.9	10,484	39.03	77,523	22.9	13,471	50.15	87,994	24.3	14,702	54.30	40.2%	39.1%
Food and Beverage	129,522	70.7	22,506	83.80	166,422	70.7	28,918	107.67	200,690	64.2	33,532	123.84	49.0%	47.8%
Telephone	4,650	47.5	808	3.01	5,975	47.5	1,038	3.87	5,903	72.7	986	3.64	22.1%	21.1%
Golf	4,789	45.1	832	3.10	6,153	45.1	1,069	3.98	7,522	113.7	1,257	4.64	51.0%	49.8%
Spa	7,673	113.5	1,333	4.96	9,859	113.5	1,713	6.38	18,373	70.0	3,070	11.34	130.2%	128.4%
Retail	6,500	70.8	1,129	4.21	8,352	70.8	1,451	5.40	8,537	62.0	1,426	5.27	26.3%	25.3%
Other Income	13,570	46.3	2,358	8.78	17,436	46.3	3,030	11.28	17,699	32.9	2,957	10.92	25.4%	24.4%
Total	227,038	44.3	39,451	146.88	291,720	44.3	50,690	188.73	346,718	44.3	57,931	213.95	46.8%	45.7%
DEPARTMENTAL INCOME	285,834	22.7	49,667	184.92	367,267	22.7	63,817	237.61	436,768	22.7	72,977	269.51	46.9%	45.7%
OPERATING EXPENSES														
Administrative & General	36,687	7.2	6,375	23.73	47,139	7.2	8,191	30.50	53,718	6.9	8,975	33.15	40.8%	39.7%
Marketing	32,215	6.3	5,598	20.84	41,393	6.3	7,193	26.78	50,414	6.4	8,423	31.11	20.5%	49.3%
Property Operations & Maintenance	24,301	4.7	4,223	15.72	31,224	4.7	5,426	20.20	30,320	3.9	5,066	18.71	20.0%	19.0%
Energy	16,255	3.2	2,825	10.52	20,886	3.2	3,629	13.51	23,080	2.9	3,856	14.24	36.5%	35.4%
Total	109,458	21.3	19,020	70.82	140,642	21.3	24,438	90.99	158,771	20.3	26,528	97.97	39.5%	38.3%
HOUSE PROFIT	176,376	34.4	30,647	114.11	226,625	34.4	39,379	146.62	277,997	35.4	46,449	171.54	51.6%	20.3%
Management Fee	15,386	3.0	2,674	9.92	19,770	3.0	3,435	12.79	23,505	3.0	3,927	14.50	46.9%	45.7%
INCOME BEFORE FIXED CHARGES	160,990	31.4	27,974	104.15	206,855	31.4	35,944	133.83	254,492	32.5	42,522	157.04	52.0%	20.8%
FIXED EXPENSES Property Taxes	14 163	0	2 461	9 16	18 108	8	3 162	11 77	20 003	90	3 357	12 40	36.4%	35 3%
Insurance	4 239) & i C	737	2.13	5 447) 8 	946	3.52	9 795	- i	1 637	6.04	122 2%	120.4%
Leases	328	0.1	57	0.21	421	0.1	213	0.27	12.061	, <u>t</u>	2.015	7.44	3435.8%	3407.2%
Other	1.451	0.3	252	0.94	1.864	0.3	324	1.21	5.149	0.7	860	3.18	241.2%	238.5%
Reserve for Replacement	20,515	4.0	3,565	13.27	26,359	4.0	4,580	17.05	31,339	4.0	5,236	19.34	46.9%	45.7%
Total	40,696	8.0	7,071	26.33	52,290		9,086	33.83	78,437	10.1	13,106	48.40	85.3%	83.8%
NET INCOME	V 00 00 + 0	/o V CC	000	11	101 111	/o v	010	00 00 00	110 011	/0	077 000	7000	100	,00



Per-Room Valu	ue Analysis					
		Net Operating Income per Room	Percentage Difference	Cap Rate	Implied Value	Percentage Difference
Full Service						
	1994 to 1996	\$8,489		7.00 %	\$121,273	
	2004 to 2006	11,258	32.6 %	5.50	204,682	68.8 %
Select Service						
	1994 to 1996	\$7,863		8.50 %	\$92,503	
	2004 to 2006	9,602	22.1 %	7.00	137,170	48.3 %
Resort						
	1994 to 1996	\$20,903		7.00 %	\$298,607	
	2004 to 2006	31,107	48.8 %	5.50	565,578	89.4 %

About the Author:



Elaine Sahlins is Senior Vice President with the HVS Consuloting & Valuation office in San Francisco, California. She holds an undergraduate degree from Barnard College, Columbia University in New York City and an MPS degree in Hotel Administration from Cornell University. After graduating from Cornell she worked for VMS Realty in Chicago analyzing hotel investments, and then went on to join Security Pacific in San Francisco, which was subsequently acquired by Bank of America. She joined HVS in 1987 as a Director in the San Francisco office. Ms. Sahlins also, with Suzanne Mellen, directs the HVS Gaming division.

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Since 1980, HVS has provided hospitality services to more than 10,000 hotels throughout the world. Principals and associates of the firm have written textbooks and thousands of articles regarding all aspects of the hospitality industry, and literally "wrote the book" on how hotels should be valued.