

HOSPITALITY ADVISORS' LODGING COMMENTARY

Hospitality Advisors in conjunction with the Michigan Hotel, Motel, and Resort Association
Spring 2011

Vol 21; Number 1

Skelton's Comments

I love to say I was right so, "I was right." Last year end I was grasping for words to describe the disaster that was 2009. Out of that fog however, I forecast that occupancies would grow somewhat in 2010 but rate would not and that is exactly what occurred. In most parts of the country and particularly in the upper Midwest we saw occupancies rebound from 2009 as the corporate business traveler went back on the road and to some degree hiring and training were on the rebound and SMERF business increased. The group meetings segment barely stirred but I do think we will see some improvement in 2011 for this segment. It will not come back to historic levels but there will at least be a sign of life as some companies are resuming some levels of training.

Brands are requiring bigger levels of product improvement and operators are scampering to find the dollars to pay for these upgrades. This must mean that the brands are looking at the same crystal ball that I am. This shows slow improvement through 2011 and then more aggressive growth in the years to follow. It is still a buyers market and rate growth will be painfully slow in 2011. With many rooms available the consumer is in the enviable position of having alternatives which tends to slow rate growth. As I have pointed out in the past, it takes a longer time to grow rates following a turn down than it takes for them to tumble when business slows. It is really an interesting phenomenon as operators drop rates too quickly and too far during bad times and then have a very difficult time manipulating them upward as demand improves. There are quite a few dollars left on the table at both ends of this equation.

We are, however, dealing with a much wiser and savvy consumer these days that has much better tools to shop price via the internet. The brands have tried to counteract that by developing frequent stay programs that lock in loyalty and that has worked to a large degree.

It is no easy way back to solid operating levels but we are on that track but it would be a much faster trip if the economy was on more solid ground!

Michigan Overview

Year-end 2010 for the state was flat to last year with certain markets up slightly. Most markets benefited from good weather in the summer months, but the rest of the year was flat to down overall. There was also a significant amount of supply turnover with old properties either left the market or were re-flagged as a lesser brand. Additionally, there were some new properties added to the market, particularly in the Detroit Metro area. Rates increased in the full service segment in Southeast Michigan, which reported a \$1 increase with limited service properties up a little more than \$1 in rate.

Ann Arbor and Troy were the only two markets in Southeast Michigan above 50 percent occupancy. Additionally, the only out-state market which was not above 50% was the Northern Resorts. Grand Rapids showed the highest occupancy in the state at 54%, down from 56.5% in 2009.

Out-state, Grand Rapids dropped the least falling approximately two occupancy points with Southwest Michigan and Northern areas dropping 1-2% each. Lansing fell to 53% and the Southwest Michigan market was up slightly to 54%. Additionally, Lansing showed a \$2 increase in ADR at \$84. Flint also showed a \$1 increase in ADR to \$83.

Rates fluctuated in a narrow range, up a few dollars and down a few dollars depending on the market. Exceptions were East and Romulus/Airport which were by more than \$3 and \$7 each. Troy also showed nearly a \$6 increase in average daily rate. The East market benefited from increases in auto and defense manufacturing as well as market turnover. Romulus benefited from supply turnover as well as an increase in full service rates, while Troy has seen many properties re-flagged an increase in automotive business. Rates will be interesting in 2011!

We want to thank the ever-expanding base of properties that contribute to both our mid-year and our end-of-the-year publication. We greatly appreciate your participation and hope that this resulting publication is worthwhile for you.

Included in these numbers are estimates and they should be used as guides only. Hospitality Advisors has taken care in the preparation but we do not guarantee the accuracy of the contents. The numbers are not to be depended upon in calculations of value and may not be used without written permission of Hospitality Advisors.

Please contact us with suggestions, questions, or comments.

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State of Michigan:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
51%	\$87	\$44.18	51%	\$87	\$44.41
			47%	12%	41%

Full Service:

50%	\$99	\$49.13	50%	\$99	\$49.50
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Limited Service:

52%	\$72	\$37.41	52%	\$72	\$37.38
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Southeast Michigan:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
48%	\$89	\$42.86	50%	\$87	\$44.08
			46%	13%	41%

Full Service:

49%	\$100	\$49.23	50%	\$99	\$49.92
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Limited Service:

47%	\$72	\$34.23	50%	\$70	\$35.40
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Ann Arbor:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
54%	\$87	\$46.60	56%	\$86	\$48.18
			50%	11%	39%

Full Service:

58%	\$100	\$58.23	58%	\$100	\$57.46
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Limited Service:

50%	\$76	\$38.22	55%	\$76	\$41.50
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Auburn Hills:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
44%	\$82	\$36.16	42%	\$77	\$32.33
			57%	8%	35%

Full Service:

47%	\$90	\$42.12	47%	\$84	\$39.58
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Limited Service:

42%	\$75	\$31.80	36%	\$68	\$24.59
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Dearborn:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
49%	\$92	\$45.24	49%	\$91	\$44.71
			45%	20%	35%

Full Service:

49%	\$100	\$49.16	48%	\$98	\$47.39
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Limited Service:

49%	\$72	\$35.50	51%	\$75	\$37.91
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Detroit - CBD:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
49%	\$115	\$55.69	49%	\$117	\$57.66
			43%	24%	33%

Full Service:

49%	\$115	\$55.69	49%	\$117	\$57.66
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Downriver:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
44%	\$66	\$28.97	43%	\$65	\$27.55
			40%	4%	55%

Full Service:

37%	\$69	\$25.56	37%	\$69	\$25.44
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Limited Service:

48%	\$64	\$31.03	46%	\$63	\$28.88
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East Area:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
49%	\$74	\$35.87	47%	\$70	\$32.73
			52%	4%	44%

Full Service:

43%	\$78	\$33.07	42%	\$77	\$32.77
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Limited Service:

51%	\$72	\$37.05	49%	\$67	\$32.70
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I-275 Corridor/Farmington:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
48%	\$77	\$36.82	54%	\$80	\$43.08
			43%	12%	45%

Full Service:

48%	\$85	\$41.38	55%	\$90	\$49.43
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Limited Service:

47%	\$68	\$31.63	52%	\$65	\$34.11
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Romulus-Airport:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
47%	\$91	\$42.69	54%	\$83	\$44.62
			39%	13%	48%

Full Service:

48%	\$103	\$49.33	54%	\$92	\$49.82
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Limited Service:

46%	\$72	\$32.64	53%	\$70	\$37.35
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Southfield:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
46%	\$84	\$39.11	45%	\$83	\$37.51
			40%	11%	49%

Full Service:

53%	\$92	\$48.72	43%	\$94	\$39.90
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Limited Service:

39%	\$70	\$26.93	49%	\$69	\$33.75
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Troy/Birmingham/Madison Heights:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
50%	\$102	\$51.04	55%	\$96	\$52.31
			49%	13%	38%

Full Service:

51%	\$115	\$58.14	55%	\$109	\$59.63
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Limited Service:

49%	\$80	\$39.17	54%	\$76	\$41.18
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Flint/Tri-Cities:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
50%	\$83	\$41.66	51%	\$82	\$41.59
				51%	9% 40%

Full Service:

46%	\$101	\$46.59	46%	\$101	\$46.18
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Limited Service:

53%	\$73	\$38.49	53%	\$73	\$38.93
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Grand Rapids:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
54%	\$95	\$51.37	56%	\$95	\$53.80
				45%	12% 43%

Full Service:

55%	\$105	\$57.88	57%	\$105	\$60.30
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Limited Service:

51%	\$76	\$38.90	55%	\$72	\$39.53
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Lansing:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
53%	\$84	\$44.43	54%	\$84	\$45.53
				52%	10% 38%

Full Service:

48%	\$86	\$41.83	50%	\$87	\$43.87
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Limited Service:

58%	\$82	\$47.49	59%	\$81	\$47.27
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Northern Resorts:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
46%	\$94	\$43.51	47%	\$94	\$44.13
				51%	13% 36%

Full Service:

43%	\$109	\$46.77	44%	\$107	47.71
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Limited Service:

52%	\$73	\$37.82	52%	\$74	\$38.25
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Southwest Michigan:

2010 YE	Rev	2009 YE	Rev	2010 Mkt	Mix
<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>	<u>Occ%</u>	<u>ADR</u>	<u>PAR</u>
54%	\$75	\$40.06	54%	\$75	\$40.32
				51%	9% 40%

Full Service:

58%	\$80	\$40.28	50%	\$81	\$40.97
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Limited Service:

58%	\$69	\$39.82	59%	\$67	\$39.30
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Note: Numbers may not foot due to rounding

Income Statement

The income statement we present on the following page is an average of operation results from full and limited service hotels throughout the state that participated in our survey. We intend this statement to provide a benchmark by which hotels may compare their own operations. Management may adjust the statement to fit their appropriate levels of utilization.

For the purpose of this Commentary, we consider full-service hotels to be those with food and beverage service, while limited service hotels do not have food or beverage operations. We present the income statement in the standard "Uniform System of Accounts for Hotels" format. As indicated, we show these results in Dollars per Room, Dollars per Occupied Room, and Percentage of Revenues. Percentages shown are of total revenues except Departmental Expenses, which we show as a percentage of Departmental Revenues.

The response rate for both MHMRA member hotels and non-members was over 50 percent and we sincerely appreciate your cooperation. If you wish to be included in future samples, fax your Occupancy and Average Rate information to:

Hospitality Advisors - Consulting Group
FAX: (734) 741-7499

Your responses, as always, are held in absolute confidence.

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	2010					
	FULL SERVICE			LIMITED SERVICE		
	%	PAR	POR	%	PAR	POR
REVENUES:						
ROOMS	73.3%	\$23,413	\$102.63	98.3%	\$22,284	\$86.98
FOOD	76.6%	\$4,839	\$21.21	0.0%	\$0	\$0.00
BEVERAGE	23.4%	\$1,479	\$6.48	0.0%	\$0	\$0.00
TELEPHONE	0.6%	\$180	\$0.79	0.1%	\$18	\$0.07
OTHER INCOME, NET	6.4%	\$2,031	\$8.90	1.6%	\$366	\$1.43
GROSS OPERATING REVENUE	100.0%	\$31,941	\$140.02	100.0%	\$22,668	\$88.47
DEPARTMENTAL EXPENSES:						
ROOMS	26.7%	\$6,257	\$27.43	20.4%	\$4,549	\$17.76
FOOD AND BEVERAGE	95.4%	\$6,027	\$26.42	0.0%	\$0	\$0.00
FD COGS	24.4%	\$1,541	\$6.76	0.0%	\$0	\$0.00
BEV COGS	5.3%	\$333	\$1.46	0.0%	\$0	\$0.00
PAYROLL	51.2%	\$3,236	\$14.19	0.0%	\$0	\$0.00
OTHER	14.5%	\$916	\$4.01	0.0%	\$0	\$0.00
TELEPHONE	245.9%	\$442	\$1.94	430.1%	\$76	\$0.30
OTHER EXPENSE	39.2%	\$796	\$3.49	17.0%	\$62	\$0.24
TOTAL DEPARTMENTAL	42.3%	\$13,521	\$59.27	20.7%	\$4,688	\$18.30
CASH FLOW BEFORE DEBT SERVICE	57.7%	\$18,420	\$80.75	79.3%	\$17,980	\$70.18
UNDISBURSED OPERATING EXPENSES:						
ADMINISTRATIVE AND GENERAL	8.6%	\$2,753	\$12.07	11.3%	\$2,567	\$10.02
TOTAL MANAGEMENT FEE	1.8%	\$586	\$2.57	2.8%	\$637	\$2.49
MARKETING	8.4%	\$2,678	\$11.74	2.3%	\$527	\$2.06
FRANCHISE FEE	3.9%	\$1,236	\$5.42	9.5%	\$2,148	\$8.38
PROPERTY OPER. & MAINT.	5.5%	\$1,751	\$7.68	3.9%	\$885	\$3.45
ENERGY	6.4%	\$2,037	\$8.93	4.7%	\$1,073	\$4.19
TOTAL UNDISTRIBUTED OPER. EXPENSES	34.6%	\$11,041	\$48.40	34.6%	\$7,838	\$30.59
INCOME BEFORE FIXED CHARGES	23.1%	\$7,379	\$32.35	44.7%	\$10,142	\$39.58
FIXED CHARGES:						
REAL & PERSONAL PROPERTY TAX	6.0%	\$1,927	\$8.45	4.4%	\$994	\$0.80
PROPERTY INSURANCE	1.0%	\$331	\$1.45	0.9%	\$205	\$0.80
CAPITAL REPLACEMENT RESERVE	0.8%	\$252	\$1.10	0.0%	\$8	\$0.03
TOTAL FIXED CHARGES	7.1%	\$2,510	\$11.00	5.3%	\$1,206	\$4.71
CASH FLOW BEFORE DEBT SERVICE	15.2%	\$4,869	\$21.34	39.4%	\$8,936	\$34.88
OCCUPANCY	62.5%			70.2%		
ADR		\$102.63			\$86.98	