Special Update for

Independent Hotel Owners and Operators

One in a series during the changing industry conditions of 2009

February, 2009

Dear Reader

As you may be aware, in our industry dominated by the major hotel chains there is limited research data available for independent hotels. One of the key advantages that the big chains have is their ability to use company wide data along with industry and local statistics to make informed decision. Owners, operators, lenders, and investors of independent hotels benefit from the data and information we possess and we invite you to make use of.

We examine and gather vital details, statistics and facts directly from owners, operators, travelers and traveler's buying agents. Our information has a balance of influence from around the world with just about half coming from North America. Our key findings that impact your independent hotel business include areas such as:

- Performance by solo operations compared to collaborations
- Reservation sources, delivery methods, and buying behaviors
- Impact of endorsement names and marketing affiliations

When it comes to owning or operating an independent hotel, you most likely experience the predicament of achieving personal expression from the hotel's independence while competing within an industry where business success is more frequently improved through a) collaboration b) group effort and c) hotel identification reached by a broader range of travelers, investors, employees, and communities.

We would like to thank all of the recent survey participants and trust you'll find our briefing helpful in your navigation through this new period of opportunistic times.

In the spirit of hospitality,

February, 2009

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Methodology

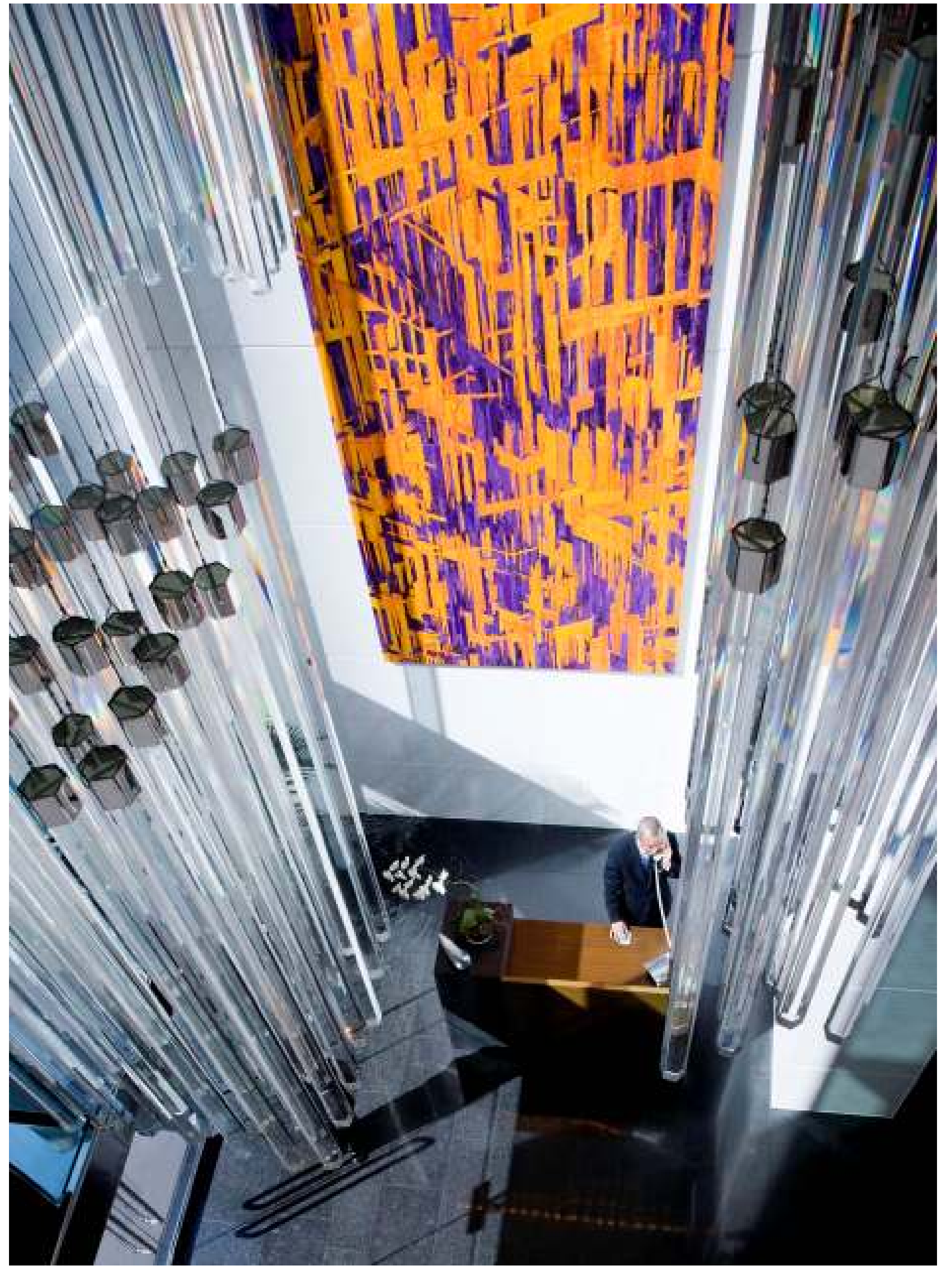
Boutique Hotel Advisors conduct research assignments and studies in the hospitality segment and specifically for individuals related to independently owned and operated hotels and resorts worldwide.

Proprietary information is composed from our hoteliers, travel agents, and consumer databases.

- Travel agents are IATA registered and serving the corporate and leisure segments.
- Consumers are limited to those who spent at least fourteen nights in hotels during 2008.
- Hotelier criteria to participate included independently operated properties with a room count less than 300.

All data and information submitted is analyzed on a consolidated basis and is based on a non-weighted average of the categories (i.e. the mean).

The survey responses are organized according to industry standard classifications when appropriate. The following brief report is based on the recent survey data collected as well as additional research undertaken. The survey responses were not audited. The information is deemed to be accurate.



Participants Profile

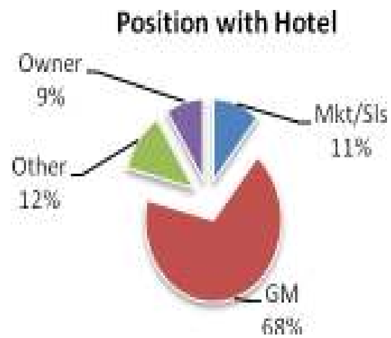
Shown in the tables to the right are the demographic characteristics of the 3,734 worldwide hoteliers we recently received survey feedback from. The individuals were made up of owners, general managers, marketing and sales directors. The other category represents lenders, department managers, and consultants replying in regards to one select hotel assignment.

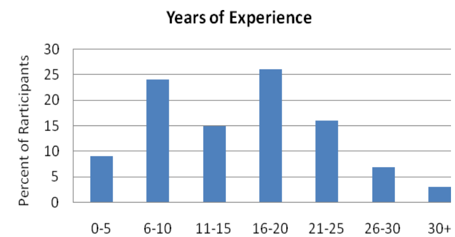
The median hotel participant profile

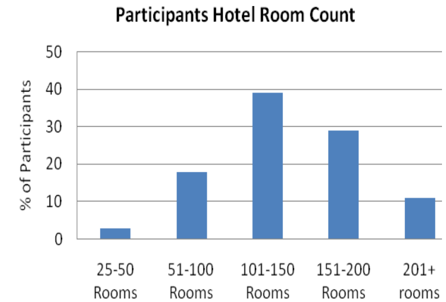
- General Manager Position
- 15 Years Experience
- 105 Room Property

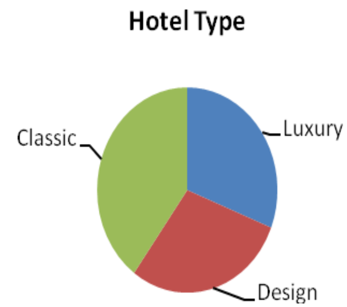
Below the hotelier illustrations are charts signaling the characteristics of the 2,468 travel agent and consumer participants submitting feedback. They are evenly distributed from an international perspective. The individuals participating were limited to those with at least three consecutive years of experience and at least three consecutive years of staying at least fourteen nights a year in hotels.

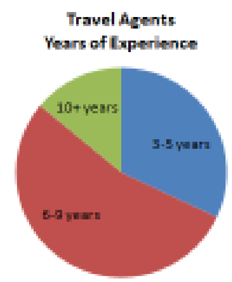
Respondents voluntarily submitted their replies to a wide range and series of questions that included accuracy testing. Not reflected in the charts included in this brief summary report are the number of respondents who have previously worked with the large franchises or chain hotels and whether or not the individual respondents had general management or marketing responsibilities with those types of hotel companies.

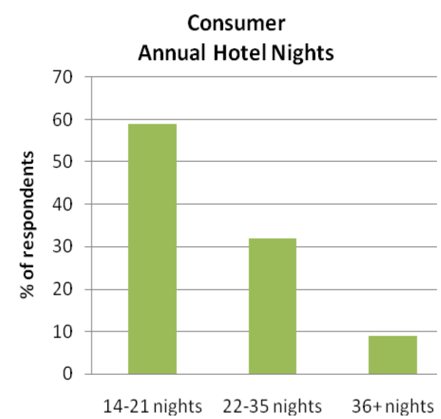












Reservation Trends

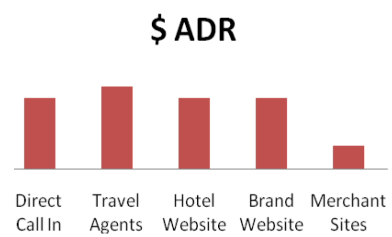
Clearly hotel competition doesn't begin or end just among hotels. As a basic reminder, every source of reservation competes for the hotel guest and how that guest is going to confirm their reservation.

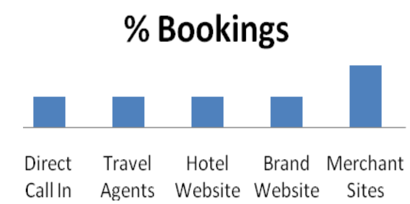
Evident in the data submitted through our recent and ongoing research, most independent hotels are still in fierce competition with the Merchant Sites. Merchant Sites are delivering a high number of reservations, however, at significantly reduced net rates. Based on the average total cost per transaction, three voice reservations or reservations booked on the hotel website site are worth more than four on the Merchant Sites. Savvy hotels are constantly reviewing methods on how to convert merchant shoppers to hoppers and institute tactics that make shoppers hop to their hotel website.

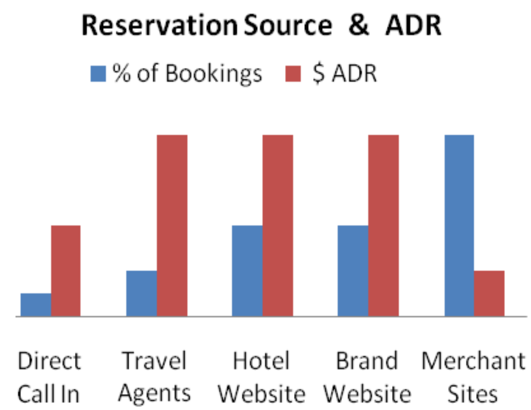
…hotels receiving the highest percentage of reservations via merchant sites were not represented or associated with marketing partners or endorsement name brands.

Equally important to note, in the data submitted for this report we discovered a direct pattern of hotels that received a higher percentage of reservations via merchant sites were not represented by an endorsement brand and that hotels represented by endorsement brands had a significantly higher percentage of direct call in reservations.

	Respondents	Global Averages	
	2008	2007	2003
Voice	18%	26%	16%
Hotel Website	31%	25%	13%
GDS	14%	27%	37%
IDS	38%	23%	14%
Brand sites	na	16%	9%
Retail sites	na	2%	2%
Merchant sites	na	4%	2%
Opaque sites	na	2%	1%







[1] ***Brand Website:*** Website where distribution is operated and managed by the brand (e.g. www.PreferredHotels.com, www.RitzCarlton.com).

[2] ***Retail Website:*** Third-party distributor where the hotel lists inventory at the same price that it is sold to the consumer and hotel pays distributor agreed upon commission (e.g. HRS, Bookings, Venere).

[3] ***Merchant Website:*** Third-party distributor where the hotel provides inventory to the site at a net rate. The merchant marks up the rate by an agreed upon percentage. The consumer pays the merchant at the gross rate and the merchant site pays the hotel the net rate (e.g. Expedia/Hotels.com, Travelocity and Orbitz).

[4] ***Opaque Website:*** Third-party distributor that enables customers to chose a rate without knowing the hotel until after the item is purchased (e.g. Priceline).

Opportunity

Independent hotels generally found that chain hotels have three main points of competitive advantages. Indicated by highly consistent responses from each of the main geographic regions, name recognition of hotels was the advantage most influential to travelers, followed by booking loyalty, and then a direct sales effort.

Interesting to further point out is the consistent agreement that name recognition is by far the most influential factor in all regions. Europe and Asia identified booking loyalty, which is comprised of loyalty programs as well as gds code familiarity, as the second highest challenge from the chain hotels. North America leans to the direct sales efforts of the larger companies as the second highest challenge.

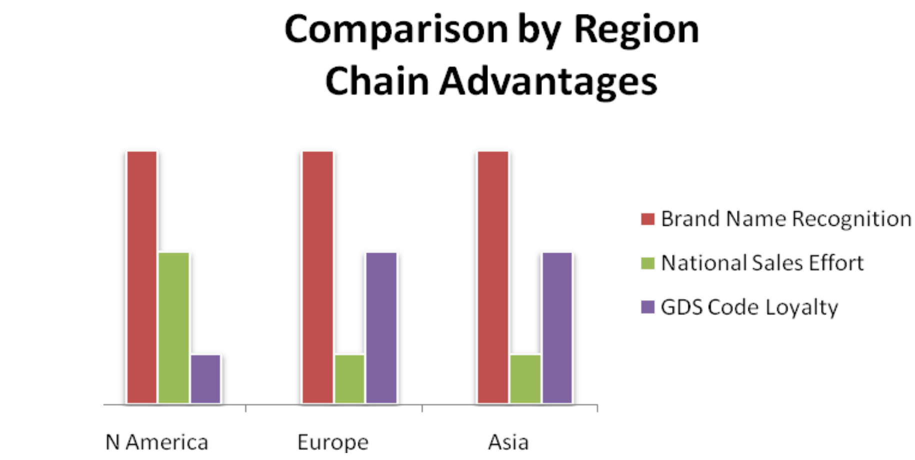
....in 2003 the European Hotel Conference predicted that independent hotels must collaborate to survive.

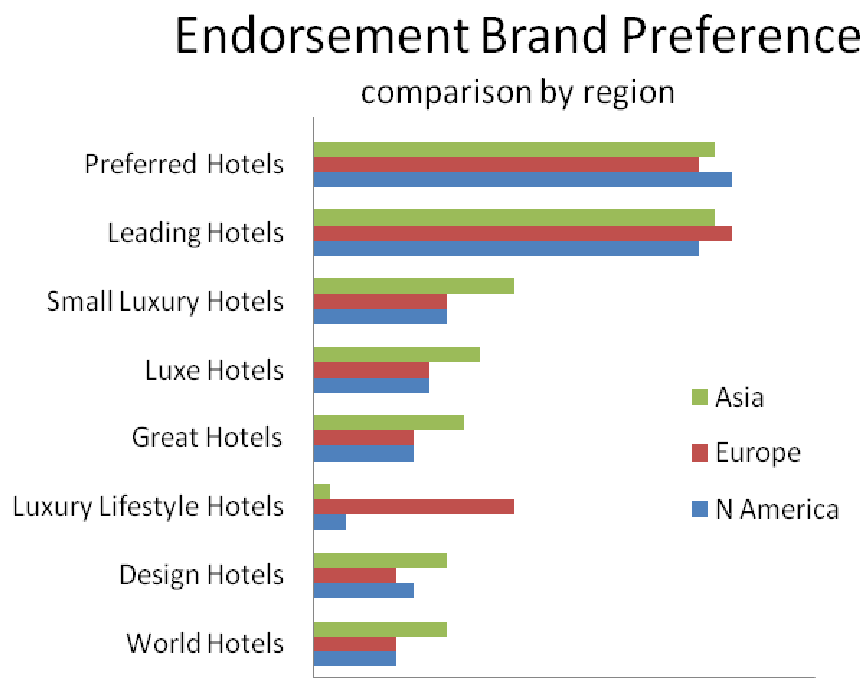
The chart to the right reflects the combined preferences of consumers, travel agents, and hoteliers for the best known hotel endorsement brands. These established names have the farthest reach and most credible impact with travelers.

As the world continues to evolve into a more common place of travel, the big chains face exigent global competition from the well prepared and positioned endorsement brands.

This is a highly competitive and fast growing segment of the hotel market. A uniform trend of consideration for two of the most powerful brands representing larger luxury hotels and an even disbursement spread across the group of brands generally representing smaller hotels are reflected in the charts.

Before selecting a representation vendor for your hotel thorough due diligence is strongly recommended. Some groups may have a negative impact and provide little to no return on cost for your particular hotel.





Logic & Rationale

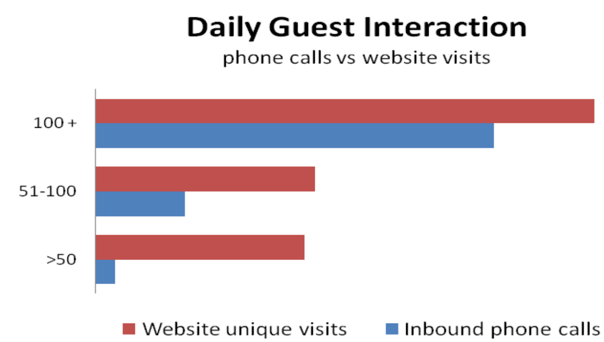
There are some surprising findings revealed in the diagrams to the right when you chart recent industry statistics against the responses tabulated by this study. According to the responses of consumers and travel agents, many hotels appear to have a misconception of the buyer behavior selection process.

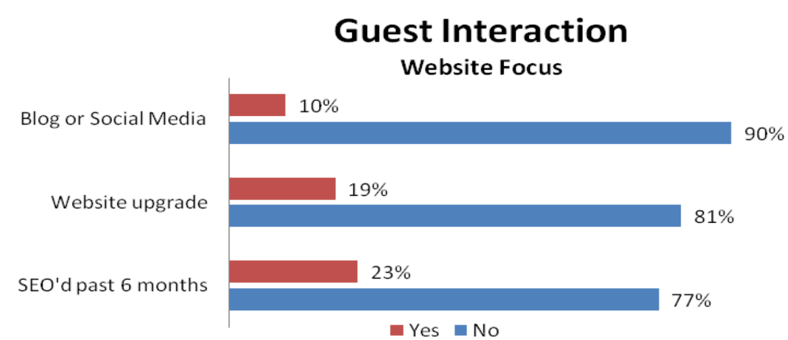
The surprise is the criteria that travelers and travel planners use to choose a hotel differs than the conventional industry wisdom. Owners and operators of independent hotels may want to renew their hotel marketing and business rationale in pace with the changing buying behaviors and traveler characteristics.

The hotel selection process chart displays the importance level of hotel offerings when travel agents and consumers book reservations compared to the positioning that the majority of hoteliers make. Common ground was reached from all participating respondents when it comes to room rate.

The daily guest interaction charts signify that hotels are receiving, on average, about three times more unique visits to their hotel website than inbound phone calls. Conversely, the data received shows that independent hotels have yet to focus as much attention on the interaction their guests experience when visiting the most frequent communication tool with their guest.

Industry wide, RevPar declined 1.9% in 2008 and of the independent hotels surveyed 55% reported a decline, 38% reported no-change, and 7% reported an increase in 2008.





Special Report – Loyalty

Reported by Market Matrix LLC - In 2002, 32% of guests said that the loyalty program was a key factor in deciding where to stay. That number has grown steadily to 37% in 2007 but has declined in the first 9 months of 2008. Among the major chains, the most effective programs in the hotel industry are Marriott Rewards, Hilton HHonors and the Starwood Preferred Guest program. Starwood's Preferred Guest has seen the biggest improvement (+6) in the past three years (2006-2008) compared to earlier years (2002-2005). Approximately one of every three guests at these hotels said their loyalty program membership was very important in hotel selection.

Loyalty Program Effectiveness: 2002-2008

Company	2002	2003	2004	2005	2006	2007	2008
Marriott	37%	37%	37%	38%	38%	43%	36%
Hilton	34%	35%	36%	39%	39%	39%	34%
Starwood	29%	29%	31%	29%	39%	36%	32%
InterContinental	33%	32%	31%	32%	30%	31%	27%
Choice	28%	31%	31%	32%	31%	30%	26%
Hyatt	29%	27%	23%	23%	25%	24%	18%
Wyndham	27%	28%	19%	20%	21%	18%	18%
Industry	**32%**	**33%**	**34%**	**34%**	**36%**	**37%**	**31%**

Results based on average performance of all brands within each company.

January - September 2008

Wyndham Worldwide was spun off from Cendant Corporation in July 2006.

Luxury Market	
Mandarin Oriental	60%
Oberoi Hotels and Resorts	50%
Peninsula Hotels	40%
Ritz-Carlton	40%
Taj Hotels	36%
Four Seasons Hotels	34%

Although it took a serious recession and the near-collapse of the world economy, hotel companies are making their loyalty programs more attractive. As a result, loyalty travelers will be the recipients of some of the best incentives we have seen in years.

One measure we use to evaluate the success of a brand's loyalty program is called "loyalty program effectiveness". This measure identifies the percentage of persons saying that their loyalty program membership was very important in choosing that hotel. Smaller hotel chains are developing successful loyalty programs of their own, and in many cases outperform the major chains in program effectiveness. Pan Pacific Privileges ranks near the top in program effectiveness with 71%. This indicates that 71% of Pan Pacific's loyalty-club members said their membership was very important in selecting a Pan Pacific Hotel. Ohana Hotels, Harrah's and Mandarin Oriental also maintain highly effective loyalty programs.

Q1 2009 Independent Hotel Strategy

In an industry filled with competition, data overload, segment upon segment of expertise and niche slants, it can be difficult, costly and time consuming to research facts and trends outside the familiar local market. BHA's guiding principle is "better informed decision making" for hotel owners and operators. Owners and operators can tap our worldwide network and years of experience for a swift, complete and reliable resource to the everyday or unusual situations facing hotel management.

Boutique Hotel Advisors is a specialized hospitality information resource that provides customized, partner-level services for owners, investors and operators of independent hotels, resorts, and residences. Each advisor is recognized in the industry with more than a decade of front-line hands-on experience among the world's most recognized hotels. They have operated within the most competitive markets and demanding clientele. BHA's comprehensive and diverse careers in all aspects of hotel sales, marketing and operations are founded on the experiences and the key roles each advisor has played in developing, opening, sustaining, acquiring, and repositioning of international hotels and destinations.

We understand, from our experience, the ins-and-outs of management companies and marketing partners. We objectively reveal and assist to gather and verify qualifications, references, capabilities, contractual obligations and positions, fees and performance criteria, and systems to oversee and measure their performance. On behalf of owners, we employ a systematic approach for selecting hotel management companies and the process that will maximize the benefit for the property owner.

As owners and managers in the independent hotel market are more "*attached*" to their hotel, their decisions are often 'emotional' or 'personal'. It takes discipline to step outside of the immediate nature and review true business alternatives that are better chosen with objective rational criteria. Popular matters include; management review, executive analysis, sales representation, brand selection, marketing alliances, and partnerships. These subjects are thoroughly evaluated for the results, recognition, and resources actually provided and that can be measured and calculated as an undisputable return on *your* cost.

Worldwide Partners

Lefteris Karatarakis
Athens

Thomas Meyer
Dusseldorf

West Tucker
Miami

Monica Lewison
New York

Jeffery Guanicale
Rio De Janeiro

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