A KALIBRI LABS SPECIAL REPORT

U.S. Groups & Meetings:

The Economics and Complexity of Intermediation

kalibri LABS

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**U.S. GROUPS & MEETINGS:
THE ECONOMICS AND COMPLEXITY OF INTERMEDIATION**

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About

KALIBRI LABS, LLC

Kalibri Labs evaluates and predicts revenue performance in the digital marketplace with its next-generation hotel benchmarking platform and analytical reports. The Kalibri Labs database, updated monthly, is comprised of guest stay records, including cost of sales and detailed source of business information, from over 30,000 hotels dating back more than 5 years to give an expansive view of the U.S. hotel industry.

CINDY ESTIS GREEN, KALIBRI LABS, CEO & CO-FOUNDER

Cindy Estis Green started her career in corporate marketing and senior operations positions with Hilton International before launching a series of data analytics businesses. She has written over a dozen industry books on distribution and marketing strategy and is a frequent speaker at industry conferences. Cindy holds a BS from Cornell University's School of Hotel Administration and an MBA from The American University.

What you need to know

1.

Groups and meetings business in the U.S. represents about

$300B

with about

$140B

in hotel spend, including approximately

$30B

in room revenue, and the balance (roughly $110B) in F&B, ground transportation, A/V, and other ancillary services.

2.

Groups and meetings business is about

15%

of total U.S. room nights across the full spectrum of hotel segments.

Full service hotels at the higher end of the rate range (those over $220 published rates) have 30-35% of their room nights generated by groups and meetings business.

3.

Small meetings, defined as under 100 rooms on the peak night, make up almost three-fourths of the meetings in the U.S., however this represents just over one-fourth of the meetings revenue (28%).

The balance of revenue is split between meetings between 100-499 rooms (33%) and those over 500 rooms (39%).

What you need to know

4. Members of the groups & meetings ecosystem participate in a complex process from the point at which an event is contemplated through to its execution. There are many intermediaries involved at various points in the value chain which adds to the process' fragmentation and ultimately to its costs. With so many parties involved at various stages in the Groups and Meetings booking process from sourcing to execution, each asks for a cut of the revenue or added transaction fees.

   It is estimated that 40-60% of group business is intermediated at the point of sourcing and some at many points before execution.

5. The cost of customer acquisition has risen dramatically over the last 5 years as the proportion of intermediated events has increased, equating to between $3.4 to $4B in costs. As group booking intermediation evolves further into a combination of third-party planners and third-party technology the rate of intermediation will grow.

   In 2022, with an estimated $40B in groups and meetings room revenue, and expectations of two-thirds of the business intermediated, this puts costs closer to 15-20% of revenue, and the potential industry cost could reach closer to $8-10B.

   As intermediaries look for additional revenue opportunities, it is likely that more smaller meetings, previously booked direct to a hotel, may start to be handled by third parties.

6. The timing is right for the hotel industry to ensure that the introduction of digital processes, designed to improve the work flow and customer experience, are conscious of over-commoditizing the meeting experience.

   THIS APPROACH WOULD CALL FOR:

   a. making the booking of events, groups and meetings easier, faster, and more convenient for both professional meeting planners and casual/consumer-oriented organizers of social and personal events and

   b. establishing pathways and methodologies that reduce costs with a more streamlined process so suppliers, meeting planners and consumers can all benefit.

Introduction

The U.S. meetings industry generates approximately $30B in hotel room revenue with another $110B estimated in ancillary spend including catered food and beverage, AV, ground transportation and other services[1].

Given the distribution of meeting space within the hotel industry, there is a wide gap between the small meetings, under 100 peak guest rooms, estimated at almost three-fourths of the total, and those larger[2]. Despite this large number of smaller meetings, less than one-third of the total U.S. meetings revenue is estimated to be produced from them (28%). While all hotel segments participate in the groups and meetings business, smaller meetings differ in terms of complexity related to meeting space and ancillary services, the way they are booked and serviced may vary considerably from the larger meetings.

In spite of the differences, the process to book and execute meetings business has been characterized by many parties involved to be cumbersome and inefficient. The costs associated with this execution have risen dramatically over the last five years with a variety of third parties providing services at various points along the way.

There has been speculation about the degree to which traditional meetings are shifting to a virtual model with the advent of online conferencing technology. The trend data may support this in that the groups/meetings customer segment has not grown dramatically but it still remains a strong and steady source of hotel business. There has been recognition that in-person meetings continue to be necessary to accomplish the objectives of many types of meetings.

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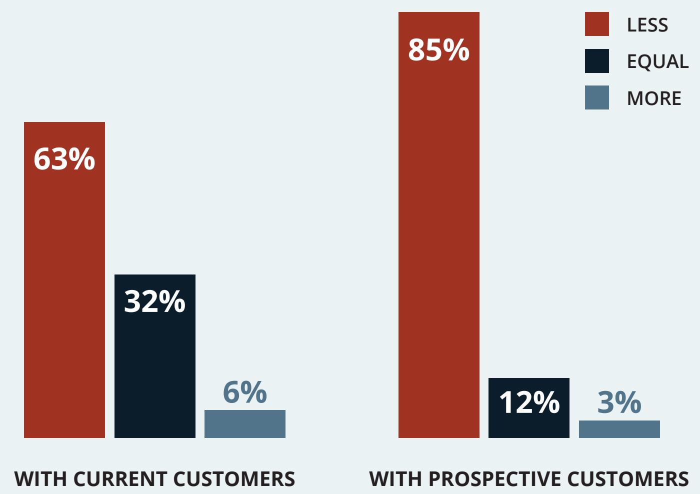
[1] PwC study on Groups and Meetings for the Consumer Innovation Forum, AHLA 2017
[2] ibid.

A study conducted by Oxford Economics, a global research firm, provides clear evidence that business travel directly leads to an increase in both corporate revenue and profits. The study found that every dollar invested in business travel results in $12.50 in added revenues and $3.80 in new profits[3].

While virtual meetings offer the appeal of cost and, often, time savings, 85% of corporate executives surveyed perceived the effectiveness of web or teleconference meetings to be less effective than in-person meetings with prospective customers and 63% less effective with current customers.

EFFECTIVENESS OF VIRTUAL VS. IN-PERSON MEETINGS



SOURCE: The Return on Investment on U.S. Business Travel, prepared by Oxford Economics USA

Since the 2008-09 recession, the groups & meetings business has rebounded and there have been many online platforms that have emerged to support this business, as well as offline consultants that assist corporations and associations in their sourcing. In the online platforms, much of the focus has been on identifying and fielding venue options and the offline support has been largely in sourcing and contracting the events. In order to enable bookings, the platforms would require access to inventory for both guest rooms and function space at a minimum and ideally, they would also offer room rates and catering options to allow some meetings to be contracted entirely online. The complexity involved in this has been the primary reason for delays in the development and adoption of this technology. Traditionally, control of hotel meeting space has been decentralized at the property level and building connectivity to it for external users to gain direct access has only been initiated in the last few years.

[3] Oxford Economics, The Return on Investment on U.S. Business Travel, 2009

Much of the automation for groups and meetings has facilitated parts of the process for one player at the expense of others but the fragmentation still poses problems for all. For instance, companies provide tools for meeting planners to review venue options by automating the distribution of requests for proposal (RFPs), but while this may ease the meeting planner's job, it can cause hotels to incur high labor costs fielding large volumes of requests with a varied range of lead quality and declining conversion rates. In an effort to automate more of the process, some companies like Cvent have indicated an interest in supplementing their current functionality to include completed bookings, and Expedia has tested the use of their technology platform that was designed for individual travelers for small groups that don't involve meeting space. There are also many new players like Groupize, BookingTek, Groups360 and HotelPlanner that have gone down the path of offering either white label solutions for a hotel's branded website to enable online bookings or for small chain and independent hotels to make their inventory available in a larger multi-brand platform. The traction in multi-brand booking capability is still limited, likely due to the need for broader access to meeting space that can be offered through a user-friendly interface for consumers.

While some of the concerns in this ecosystem involve control over the meeting space inventory, there is also a high level of concern around the cost of sales brought on by additional vendors. With so many parties involved at various stages in the process from sourcing to execution, each asks for a cut of the revenue or added transaction fees. It is estimated that 40-60% of group business is intermediated at the point of sourcing and some at many points before execution. With costs ranging from 15-35% for group bookings, the fees paid by the hotel are substantial no matter how much group business a hotel accepts. This level of cost rises with more intermediaries participating and with more meetings of different types and sizes subject to commission and other fees. Across the U.S. hotel industry, Kalibri Labs estimates these costs in 2017 will be approximately $3.4B to $4B and as more third parties emerge and more business is subject to intermediation, this cost could potentially double by 2022[4].

[4] PwC, Oliver Wyman and Kalibri Labs projections 2015, 2016 and 2017

Hotels in the U.S. in 2017 are paying 15-25% of guest-paid revenue* in total customer acquisition costs which adds up to approximately $25B for both transient and group business. A potential doubling of costs associated with large and small groups and meetings could push this number to 20-30% of guest-paid revenue by 2022 with groups and meetings representing a growing share of the total.

With a ten-year history of rising acquisition costs, the hotel industry is facing an inflection point over the next several years. After a period of heavy development of third party technology in consumer bookings, the time is now ripe to evaluate ways to leverage technology and improve the processes involved in the booking of events, groups and meetings. With a highly fragmented ecosystem combining a mix of automated and manual process with many third parties contributing to high and rising costs, improvements that are more frictionless and efficient would be welcome. For those evaluating how best to automate elements of the process, it is a good time to consider how to avoid commoditizing the meeting experience by enabling hotels to convey the unique value of their venue. This approach would call for (1) making the booking of events, groups and meetings easier, faster, and more convenient for both professional meeting planners and casual/consumer-oriented organizers of social and personal events and (2) establishing pathways and methodologies that reduce costs with a more streamlined process so suppliers, meeting planners and consumers can all benefit.

***GUEST-PAID REVENUE:** Reflects the total amount that the guest has actually paid for the room, including wholesale commissions that are not documented on a hotel P&L.

The Groups and Meetings Profile

In a recent industry analysis, the 2017 groups, meetings and event market in the U.S. was estimated, by PwC, to be over $300B with $140B served by hotels. Just over one in five dollars of the total is attributed to hotel room revenue, $30B, with another $110B in ancillary services such as catered food and beverage, event space and equipment rental, ground transportation, audiovisual support, planning costs and other services needed to support the many different types of meetings.

This market is varied and ranges from business meetings to conventions, trade shows and incentive trips as well as social and other non-business events such as sports tournaments, family reunions, religious, educational and fraternal gatherings (SMERF). The meeting type mix varies significantly by hotel based on the size of the property, average rate band and the ratio between guest rooms and meeting capacity.

Based on analysis of the Kalibri Labs census database, in looking at the U.S. in total, just over

10%

of hotels have over 160 rooms and just over

7%

have 8,000 sq. ft. of meeting space or more. Therefore, a relatively small number of hotels can accommodate the needs of large groups.

The Groups and Meetings Profile

However, there are thousands of smaller hotels that accommodate the needs of small groups. In fact, PwC estimates the number of meetings with peak room nights below 100 at almost three-fourths (73%) of the total number of meetings, with almost one-fourth (23%) between 100-499 peak room nights and only 4% over 500. This split is more balanced from a revenue perspective, with 28% of the revenue attributed to meetings under 100 peak rooms, 33% at 100-499 and 39% representing the meetings over 500 peak room nights.

In terms of who is hosting the meetings, PwC estimated that half of all meetings revenue is spent by corporations, one-fourth by associations and most of the balance by non-profits (23%) with a small percentage by government groups (2%). Of the meeting types, almost half are business meetings (47%) with just over a third being conventions and trade shows (36%) and the balance being incentives (13%) and other.

Of the overall spending on meetings, about

20%

of it is spent before the meeting is executed during the discovery, sourcing and planning stages,

50%

is paid to the venues during execution and the balance goes to other providers supporting the venue in the execution.

The Process

The booking of groups and meetings is a complex process with many steps from the conception of a meeting through to its execution. Despite the large number of parties involved in this booking process, it hasn't fundamentally changed in 40 years. It is cumbersome for the meeting planner as well as the hotel or supplier serving the guests. A vendor ecosystem has grown around this static process with various service providers assisting along the way, charging fees and shifting the value around from the traditional legacy model. In the legacy model the host organization paid the venue for all aspects of the meeting whereas today, the value of the meeting is diffused across the many providers of services in the chain and the overall cost to conduct a meeting has risen dramatically.

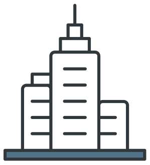
THERE ARE THREE PRIMARY PLAYERS IN THE PROCESS:

THE HOST

who decides they want to have a meeting,

THE MEETING PLANNER

who runs the process of executing on that meeting and

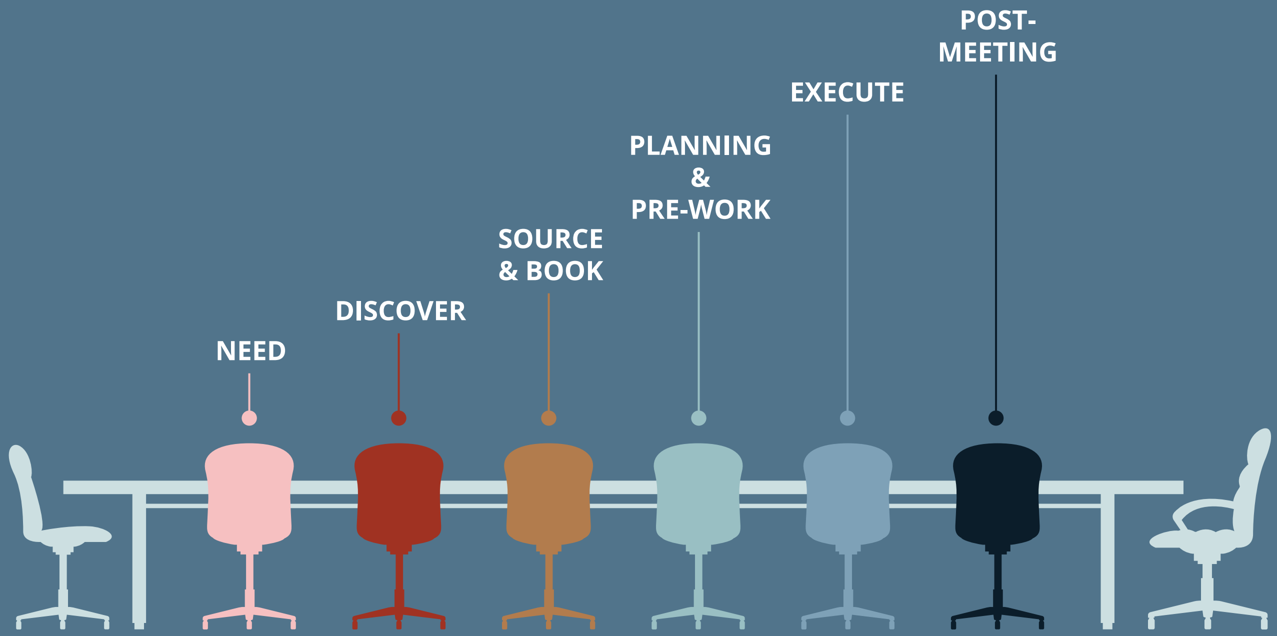


THE SUPPLIER(S)

who provides services in the execution of the meeting such as hotels, CVBs, AV companies, florists and ground operators.

The Process

Added to the primary players are the secondary ones who have entered to support one of the primary three. It is this secondary market that has been the main source of incremental costs.



There are many external meeting planners that participate in this process and most of their assistance occurs during the first four steps: discovery, sourcing and booking, planning and executing. Of the estimated 100,000 meeting planners in the U.S., PwC estimated that 20% are self-employed or independent contractors who operate externally from the companies they assist with meetings, and about one-third of that external group is employed by one of the six companies listed below.

DISCOVER AND SOURCE/BOOK	PLANNING, PRE-WORK & EXECUTE
HB HELMSBRISCOE	experient A Maritz Travel Company
ConferenceDirect®	Maritz® TRAVEL
AMERICAN EXPRESS MEETINGS & EVENTS	BCD meetings & events

Besides the assistance provided by actual meeting planners at third party agencies, there is also support provided in the process through technology. The technology solutions are focused on the same stages of the booking: discovery, sourcing/booking and specific elements of planning and execution. The execution support tends to be around programming, promoting the event, housing, logistics, and on-site registration.

THESE COMPANIES PROVIDE TECHNOLOGY TO SUPPORT THE DISCOVERY, SOURCING, BOOKING, PLANNING AND EXECUTION OF MEETINGS.

cvent Lanyon etouches CENDYN®

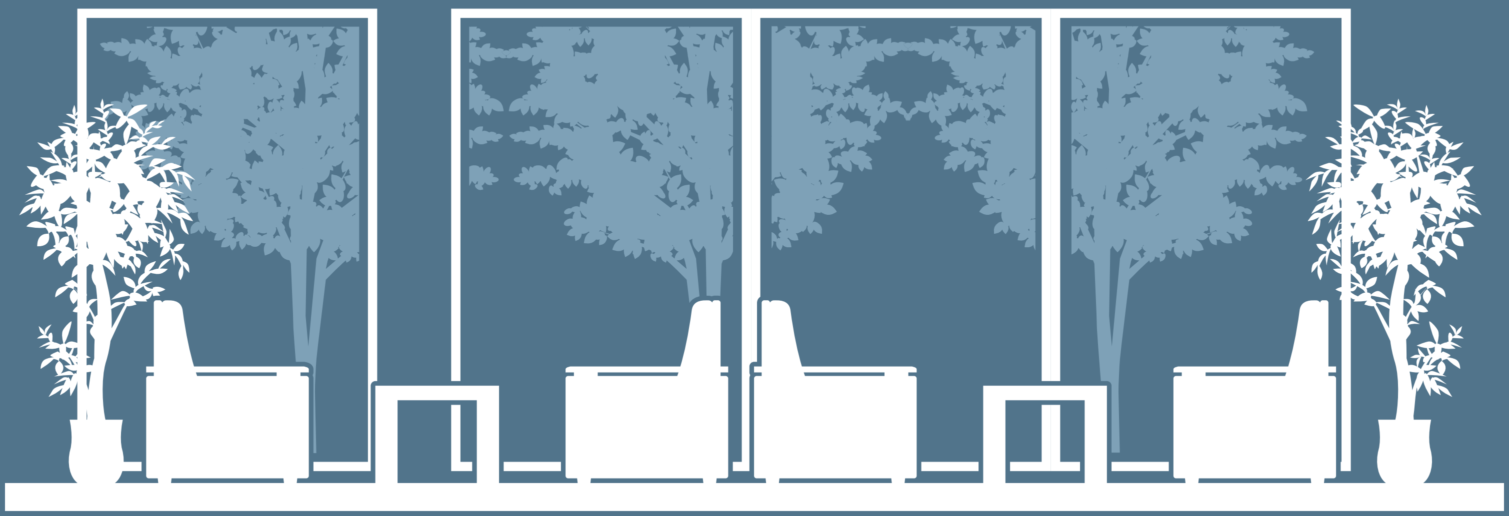
HotelPlanner iVvy socialtables

groups360 groupize

While automation has resulted in increased efficiency in many other spaces, it has not substantially improved the ease of groups and meetings booking despite the introduction of technology over the last 5-10 years.

There are certainly areas that have been made easier but there are still many aspects that are tedious and cumbersome, and because of the many players involved, it may be more difficult to leverage technology across all parties. The meeting host, meeting planner and hotel or event supplier all find the process complicated and labor intensive with many pain points.

Ultimately, as the costs have risen within this fragmented ecosystem, so too have questions about ways to streamline the process.



Meeting process –
6 stages along with pain points

NEED

During the need phase of booking the meeting the host decides the meeting purpose and who will attend. They design an outline of the content of the program which in turn establishes the overall venue, space requirements and general guidelines on food and beverage, entertainment, local transportation and other needs. During this phase, the host will likely have a budget established.

- **CRITICAL PAIN POINTS**
  The host may have a conflict internally on whether a meeting is required, how much to spend and who are the appropriate participants.

DISCOVER

In the discovery phase, a planner may have a destination in mind or there may be a process of evaluating different destinations. Once a destination is selected, a list of venues may be evaluated, and outreach done to CVBs/DMOs or other regional sales teams to shortlist some options. Venue comparisons, including both venues for accommodation as well as the meeting or event itself, will occur during this phase as well as identifying issues around airline and ground transportation options depending on the profile of the meeting.

- **CRITICAL PAIN POINTS**
  The typical friction point during this phase occurs when shortlisting suitable destinations and/or venues within each destination.

SOURCE AND BOOK

Once a short list of destination(s) and venues are selected there is a formal or informal, RFP process to get bids from the various venues involved. This may result in site visits for larger events. Evaluation of the bids and negotiating the contract terms and housing contract follows, depending on the size of the meeting. There is often a lot of work performed by the event venues at this stage along with the effort related to the site visits.

- **CRITICAL PAIN POINTS**
  Reviewing RFPs and submitting bids can be challenging for event suppliers due to the high volume enabled by automated RFP systems. Hosts and meeting planners have to review those bids and ultimately negotiate terms which can be a difficult and time-consuming effort.

PLANNING AND PRE-WORK

After the deal is signed with the venue(s), the execution work begins. This involves working out the services required from third party vendors who support the venue (such as AV, florists, equipment) as well as selecting the vendors, finalizing content and program details and communicating meeting information to attendees, which could be public advertising or internal logistics. A registration or housing component is established as necessary and a schedule is created for all logistics around on-site or off-site elements of the program.

- **CRITICAL PAIN POINTS**
  Housing and registration can add complexity for the meeting planner.

EXECUTE

As the date of the event arrives, the meeting is set up, rooms are inspected, technology requirements are enabled, and troubleshooting happens. On-site and off-site teams coordinate with the meeting planner and host contacts. Once the program is completed, the rooms are returned to their original state.

- **CRITICAL PAIN POINTS**
  Depending on the scope of the event, coordination between meeting planner and suppliers, both on-site and off-site can prove challenging.

POST-MEETING

Following the meeting, invoices are prepared, reviewed and paid. Participants are queried for feedback to meeting planners and meeting planners are queried for feedback to suppliers. The meeting is evaluated by the planner and host for success against its objectives and budget. Suppliers are evaluated relative to execution efficiency, service levels and meeting planner and host satisfaction. The supplier will pursue re-booking and the meeting planner will share feedback with clients and colleagues.

- **CRITICAL PAIN POINTS**
  The venue may have issues related to receiving final payment and with the best way to pursue re-booking, especially if there is a third party participating in the sourcing/booking stage.

Intermediation –
Secondary vendors supporting the groups and meetings process

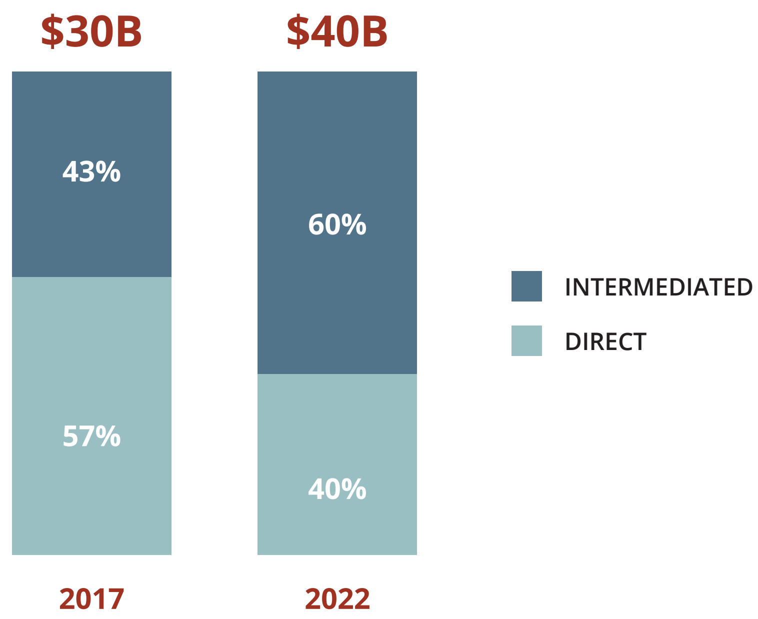
This space is increasingly intermediated through a growing group of secondary participants in this process, primarily eChannels, who facilitate the RFP and discovery process and through third party meeting planners who often provide services for sourcing and booking. The venue selection process and the negotiation of the meeting arrangement is the area most heavily intermediated. There are costs associated with the introduction of third parties that are generally paid by the venue or the suppliers in the form of a commission. The eChannels are often used as advertising mediums and suppliers pay for placement or presence.

Third party planners offer a value proposition to the meeting planner in a host organization by conducting discovery, sourcing and booking. They offer to do this at no charge to the organization and charge the venue a fee instead. Third party planners often share a portion of this commission with the organization so the host not only doesn't have to pay any fees but also gets a "rebate" which functions as a meeting discount.

Many hotels pay traditional offline third-party intermediaries working on behalf of meeting hosts for an estimated 40-50% of their meeting business. In the 1980s and 1990s, corporations and associations had their own internal meeting planners and worked directly with hotels to execute events. Over the last ten years, due to an accelerated transition to third party meeting planners, many of these associations and corporations were able to reduce their internal meeting planning budgets to a minimal spending level and remove all or most of their head count in the area as the third-party planners took on this task and asked the hotels to pay them for it. In fact, third-party planners share some of the fees they earn with their association or corporate clients to reduce the cost of the meeting. Because of the shift to third-party meeting planners, it can create distance between the meeting hosts and the venue which is in sharp contrast to the direct relationship that was prevalent for many years between the end user corporate or association account and the hotel teams.

This disruption of a previously direct relationship may diminish a hotel's ability to understand an account's requirements in order to provide better and more personalized services. There are also costs associated with the third-party economic model that are increasing and used to be absorbed by the meeting host organizations. In spite of the current model where the hotel pays the third party meeting planner, as the overall ecosystem becomes more costly, the increases often will ultimately find their way back to the host organization.

It was estimated in 2017 that approximately 43% of the meetings revenue in the U.S. market was subject to intermediation by third party planners, eChannels or a combination of the two and is expected to increase by almost 50% to an estimated 60% by 2022[5].



Based on 2017 group rooms revenue of $30B industry-wide, the cost of intermediary commissions alone was estimated at $1.3B. This is based on 43% of group rooms revenue being intermediated at a commission rate of 10%. This does not include all other aspects of the ecosystem that may involve eChannel advertising, group block reservation processing and other technology related costs increasing the total to closer to $3.4-$4B. As group booking intermediation evolves further into a combination of third-party planners and third-party technology the rate of intermediation will grow. In 2022, with an estimated $40B in group room revenue, expectations of almost two-thirds intermediation and costs closer to 15-20% of revenue, the potential industry cost could reach closer to $8-10B[6].

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[5] PwC, Oliver Wyman and Kalibri Labs projections
[6] Ibid

Costs for hotels with group business can be up to 35% of room revenue per group including housing, third party intermediation and all routine execution costs.

TYPICAL COSTS INCLUDE:

- 3rd party commissions
- Above property fees for RSO (% revenue)
- Loyalty fees for meeting planners
- Loyalty fees for attendees
- eChannel costs
- CVB costs
- Technology related costs—system recovery cost
- Housing fees (citywides)
- Reservation costs (e.g. Passkey/Lanyon)—for managing internal blocks
- Credit card processing

Although there is often ancillary revenue from food & beverage, audio visual, meeting room rental and other services, most costs are typically keyed to room revenue and it is a clearer assessment to evaluate them in this way.

In examining these costs at an individual hotel level, three different hotel examples are used as illustrations of the range of costs incurred with all acquisition costs taken into account. From this analysis, it appears that today's costs can range from 7% to 16% of total group room revenue at the 2017 level of intermediation. Assuming these costs may double over the next 5-6 years, group intermediation is an area that needs attention from both a financial and client engagement perspective.

Groups and Meetings	Independent 200 rms	Medium/Small chain 300 rms	Big Brand 500 rms
Guest rooms	200	300	500
Group Room Nights	14235 (30%)	26828 (35%)	51100 (40%)
Group Room Revenue	$2,491,125 (ADR $175)	$5,365,500 (ADR $200)	$11,497,500 (ADR $225)
Cost type			
3rd party commissions (e.g., Helms Briscoe, Conference Direct)	$74,734	$214,620	$459,900
Above property RSO/NSO (3rd party rep fees and commissions e.g. ALHI, Preferred and business performance incentives)	$49,823	$140,844	$646,734
Loyalty fees meeting planners	N/A	N/A	$344,925
Loyalty fees attendees	$2,491	$5,366	$206,955
eChannel costs	$10,000	$12,500	$15,000
Tech related costs	$30,000	$50,000	$76,650
Housing bureau fees	$7,118	$20,121	$51,100
Res costs for internal blocks (e.g., Passkey, Lanyon)	$20,000	$30,000	$45,000
TOTAL Annual Group Acquisition Costs	**$194,166**	**$473,330**	**$1,846,264**
Cost as a % Group Room Revenue	**7.8%**	**8.8%**	**16.0%**

ASSUMPTIONS:
Independent 200 rooms - 30% Group, 65% occupancy, 20% soft brand source, 30% 3rd party, no loyalty cost for meeting planners, loyalty fee of 1% for 10% of guests, Housing - 10% of Groups charge $5/room/night.
Medium/Small chain 300 rooms - 35% group, 70% occupancy, 35% RSO/NSO, no loyalty cost for meeting planners, loyalty fee of 1% for 10% of guests, Housing - 15% of Groups charge $5/room/night.
Big Brand 500 rooms - 40% group, 70% occupancy, 50% RSO/NSO, group loyalty contribution 40%, guest loyalty fee 4%, Meeting planner loyalty contribution 50%, technology is $1.75 per group room, Housing - 20% of Groups charge $5/room/night.

GENERAL:
not including incremental labor for processing and filtering leads
not including sales team payroll and related

Detailed Profiles

Groups and Meetings in the U.S. market (Sept YTD 2015, 2016, 2017)

HOTEL CAPACITY FOR GROUPS & MEETINGS

Those hotels in the U.S. with more meeting space tend to be skewed toward the higher end of the rate range and hotel size.

BELOW ARE HIGHLIGHTS OF THE HOTEL PROFILE IN THE U.S. MARKET:

- About **three in ten hotels in the U.S. (27%) have more than 1,000 square feet of meeting space with just over 7% with over 8,000 square feet. Only 12.1% of the U.S. hotels have over 30 square feet of meeting space for every guest room.**

- **Hotels with under 3,000 square feet of meeting space tend to have under 120 rooms while hotels with 3,000-8,000 square feet average 142 rooms and those with 8,000-15,000 sq. ft. having 214 guest rooms. Hotels with more than 15,000 square feet of meeting space average over 400 guest rooms.**

- **Hotels with significant meeting space (over 5,000 square feet) tend to be in the Upscale, Upper Upscale and Luxury Chain scale segments with average rates over $150.**

MEETING SPACE CAPACITY IN MAJOR MARKETS

Market	Average Square Footage	Average Square feet per Guest Room
Phoenix	6327	22.4
Washington DC	6187	20.5
Chicago	5417	19.3
Miami-Ft. Laud	4800	22.7
Dallas-Ft Worth	4240	16.5
San Francisco	3259	12.8
NYC	3088	17.7
Los Angeles	3030	11.9
Atlanta	2963	12.3
Houston	2606	12.6

Groups & Meetings
Hotel Performance

A trend analysis was made of the group and meetings transactions in the Kalibri Labs database from 2015-2017 for January through September in each year. The analysis was done on seven dimensions and analyzed by grouping hotels on various categories by rate range, property room count, square footage of meeting space, meeting space-to-guest room ratios and by geographic market. The analysis was based on room revenue only; it did not document F&B or other ancillary revenue.

HIGHLIGHTS OF GROUPS & MEETINGS HOTEL PERFORMANCE

1. FLAT DEMAND SHARE (% SHARE OF TOTAL ROOM NIGHTS SOLD)

Groups & meetings room night share for the hotels in the U.S. market has been relatively flat over the last three years moving from a demand share of 14.8% to 14.4% (based on room nights) with some differences by hotel segment and size. The largest decline was in the larger hotels (over 300 rooms) and those with higher rates (over $220 Rack/BAR).

2. FLAT CONTRIBUTION TO GUEST-PAID REVPAR

The contribution made by groups & meetings to Guest-Paid RevPAR was relatively flat moving from 18.1% to 17.9% of the total Guest-Paid RevPAR generated by hotels. The MSAs most dependent on groups & meetings for their contribution to Guest-Paid RevPAR were Washington, DC (29.8%), Phoenix (27.8%), and Chicago (26.3%) and those least dependent were Houston (17.6%), NYC (17.7%) and LA (17.5%).

3. GROUP ADR RUNS LOWER THAN RACK/BAR

The groups & meetings ADR has been running lower on average than the hotel's Rack/BAR rate at a discount of -$11.21 in 2015 shifting to -$6.27 in 2017, as this gap is closing in all hotel segments. The group ADR was higher than the Rack/BAR in 2017 in Washington, DC (+$5.14), Houston (+$4.58), Chicago (+$3.41) and Phoenix (+$2.44).

4. INCREASING LENGTH OF STAY AND LEAD TIME

Some positive trends in the groups & meetings market indicate that both length of stay and lead time have grown for hotels from 2015 to 2017 (Sept YTD).

Overall in the U.S. market from Jan-Sept 2015 to 2017, the average length of stay (ALOS) for Groups & Meetings grew slightly from 2.44 days in 2015 to 2.46 days in 2017. Markets with growing lengths of stay were: NYC, LA, Miami, Washington, DC with the biggest growth being in Houston from 2.76 days to 2.92. Markets with declining lengths of stay were: Atlanta, San Francisco and Phoenix. Phoenix had a drop from 3.0 to 2.94 days but had the longest length of stay overall.

Overall in the U.S. market from Jan-Sept 2015 to 2017, the booking lead time for groups & meetings business has grown from 17.7 days to 18.5 days. The pattern that emerges from the data, not surprisingly, is that the higher the rates, the more rooms and the more meeting space, the longer the lead time.

5. INCREASED LOYALTY CONTRIBUTION

Overall in the U.S. market from Jan-Sept 2015 to 2017, the loyalty contribution of those attending meetings in hotels has moved up from 31.3% to 35.6%. This means the proportion of meeting attendees who are hotel loyalty program members is increasing.

DETAILED FINDINGS OF GROUPS & MEETINGS HOTEL PERFORMANCE

1. **DEMAND SHARE**
   % of room nights booked for groups and meetings as a % of total business (including group and transient combined)

2. **CONTRIBUTION TO GUEST PAID REVPAR**
   % of Guest-paid RevPAR generated by the groups/meetings segment

3. **GROUP ROOM REVENUE PER SQUARE FEET OF MEETING SPACE**
   Room revenue generated for every square foot of available meeting space

4. **GROUP RATES RELATIVE TO RACK/BAR**
   The difference (premium or discount) between Group ADR compared to Rack/BAR ADR

5. **AVERAGE LENGTH OF STAY**
   The change over time for the average length of stay of the groups/meetings segment

6. **BOOKING LEAD TIME**
   The change over time in days between booking and first arrival date

7. **LOYALTY CONTRIBUTION**
   The % room nights associated with a loyalty member (applies only to companies with programs)

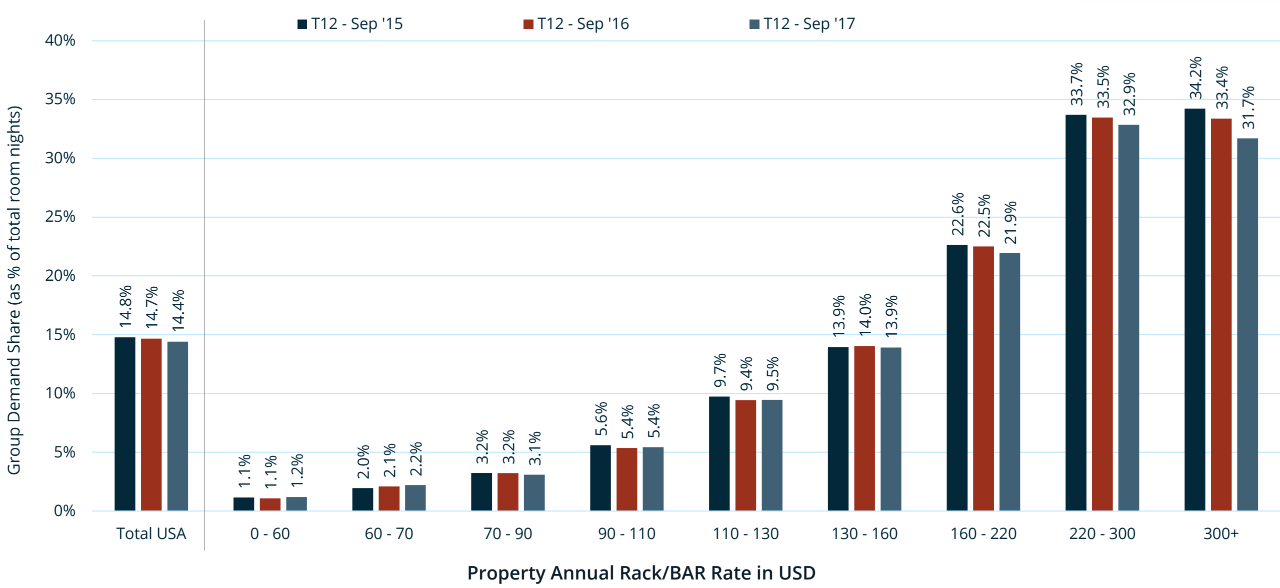
GROUP DEMAND SHARE (ROOM NIGHTS)

- Overall in the U.S. market for Jan-Sept 2015 to 2017, group demand share has been flat to slightly down moving from 14.8% to 14.4% over that three-year period.

- In examining hotels with Rack/BAR ADR between $60-$160, the change over the three years is marginal. The largest decline in demand share occurs in the hotels with the highest Rack/BAR rates of $300+ with a shift from 34.2% to 31.7%. There is a similar pattern by property size with the larger hotels, over 300 rooms, experiencing similar drops in groups/meetings demand share.

GROUP DEMAND SHARE BY PROPERTY ANNUAL RACK/BAR RATE

Trailing 12 month September 2015-2017



- By square footage of meeting space: In examining hotels by meeting space, those under 3000 square feet were relatively flat in group demand share while hotels with 3,000-8,000 square feet of meeting space showed a slight decline. The largest drops in group demand share were in those hotels with 8,000-15,000 (25.7% to 23.9%), and those with 15,000+ square feet of meeting space (38.2% to 37.1%).

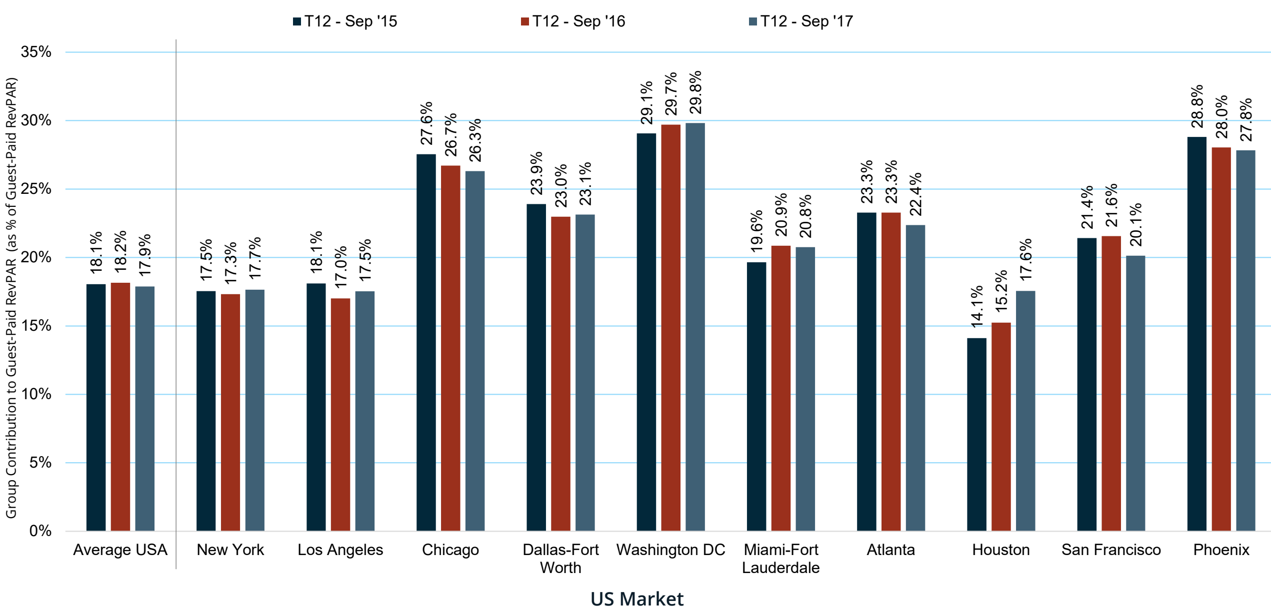
- By MSA: the MSAs that were relatively flat in groups/meetings demand share were NYC and Washington, DC. Those markets with growth were Houston (11.9% to 13%) and Miami with a slight growth from 17% to 17.2%. Those markets that declined in demand share were Chicago, Dallas, Atlanta, and Phoenix along with San Francisco and LA seeing the greatest drop.

CONTRIBUTION TO GUEST-PAID REVPAR

- Overall in the U.S. market from Jan-Sept 2015 to 2017 the trend of group contribution to Guest Paid RevPAR has had slight reductions from 18.1% in 2015 down to 17.9% in 2017. **Group contribution means that hotels received this percentage of their total Guest-Paid RevPAR from the groups and meetings segment**.
- Most hotels were flat in Guest-Paid RevPAR contribution with the main group declining being the hotels with a Rack/BAR rate of $300+ that experienced a slight drop from 30.3% to 29.1%.
- Those hotels with 8,000-15,000 square feet of meeting space had a drop in contribution to Guest-Paid RevPAR along with those with 30-50 square feet of meeting space/guest room.
- The markets that are most dependent on groups/meetings as a primary contributor to Guest-Paid RevPAR in 2017 are Washington, DC (29.8%), Phoenix (27.8%), and Chicago (26.3%). In these markets, Chicago (27.6% to 26.3%) and Phoenix (28.8 to 27.8%) declined during the three years examined and only Washington, DC grew (29.1% to 29.8%).
- The markets least dependent on groups/meetings for contribution to Guest-Paid RevPAR are Houston (17.6%), NYC (17.7%) and LA (17.5%). Of these markets, Houston had the greatest growth from 2015 to 2017 (14.1% to 17.6%) with NYC showing a slight gain (17.5 to 17.7%) and LA a slight decline (18.1% to 17.5%).

GROUP CONTRIBUTION TO GUEST-PAID REVPAR BY MARKET*

Trailing 12-month September 2015-2017



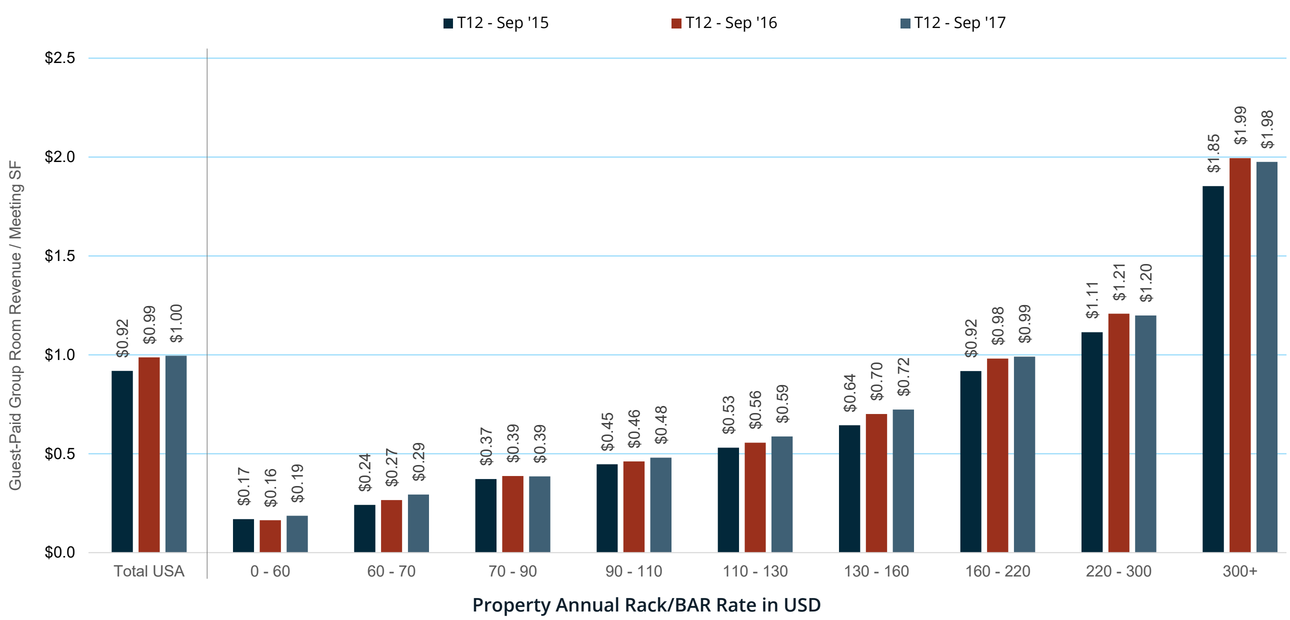
*Each US market is represented by the full metropolitan statistical area (MSA)

GROUP ROOM REVENUE PER AVAILABLE SQUARE FOOT OF MEETING SPACE

- Overall in the U.S. market from Jan-Sept 2015 to 2017, the room revenue generated for every square foot of available meeting space grew from $.92 to $1.00. However, this was a wide range in 2017 from the hotels with the lowest rates (under $60 in Rack/BAR) at $.19 to the highest rates (over $300 in Rack/BAR) at $1.98 per square foot of available meeting space.

DAILY GUEST-PAID GROUP ROOM REVENUE PER SQUARE FOOT OF MEETING SPACE BY PROPERTY ANNUAL RACK/BAR RATE

Trailing 12-month September 2015-2017



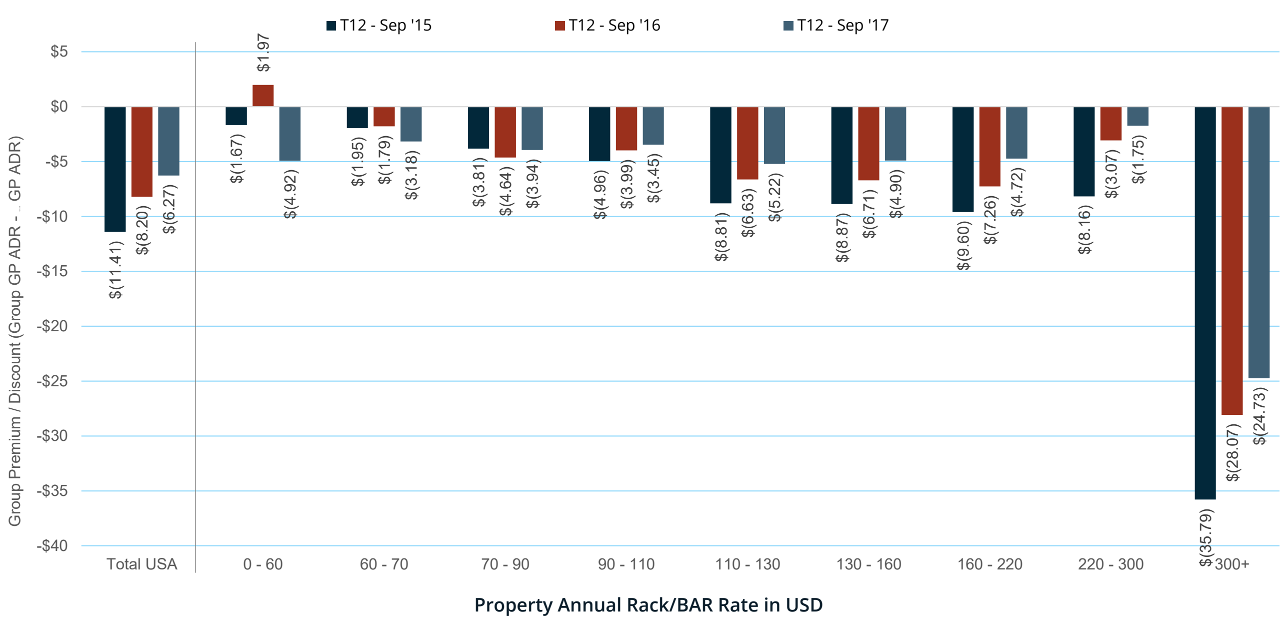
- The MSAs generating the highest room revenue per available square feet in 2017 were NYC ($1.79), San Francisco ($1.67) and Washington, DC ($1.47). The MSAs with the lowest yield in terms of room revenue per square foot were Houston ($.82), Dallas ($.83) and Phoenix ($.90).

GROUPS & MEETINGS RATES RELATIVE TO RACK/BAR RATES

- The groups & meetings average rate is below that of the Rack/BAR rate but this gap is closing. In examining the difference, premium or discount, between groups & meetings ADR compared to Rack/BAR ADR, the average across all hotels in the U.S. was a discount to total Rack/BAR that has been shrinking over time from -$11.41 in 2015 to -$8.20 in 2016 and -6.27 in 2017. However, there were some differences by hotel profile and MSA.

GROUP PREMIUM / DISCOUNT VS. PROPERTY ANNUAL RACK/BAR RATES

Trailing 12-month September 2015-2017



- At the highest rate levels, the gap between Groups & Meetings ADR and Rack/BAR was much larger. In the hotels with Rack/BAR between $110-$300 the gap between the group rates narrowed from about -$9 down to about -$2 from 2015 to 2017. However, the hotels with rates over $300 still had a narrowing between the rates but it moved from -$36 in 2015 to -$25 in 2017, meaning that the group rates were still $25-$36 lower than the Rack/BAR of the hotel.

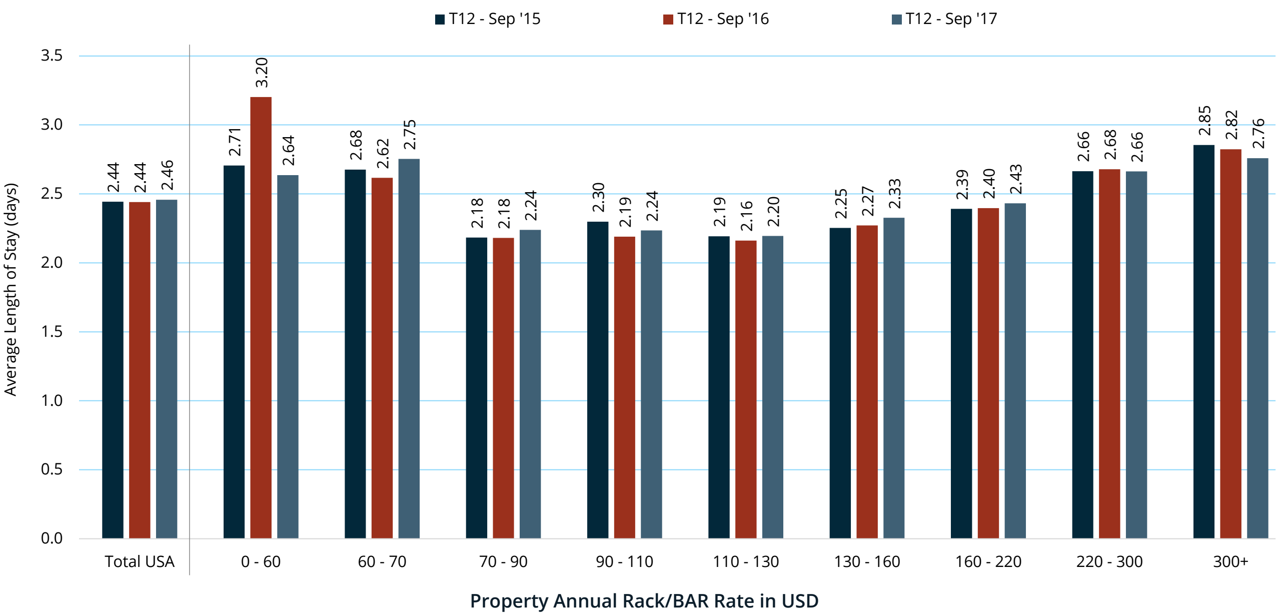
- In looking at different MSAs, there were four markets where the group ADR was higher than the Rack/BAR in 2017: Washington, DC (+$5.14), Houston (+$4.58), Chicago (+$3.41) and Phoenix (+$2.44). There were three markets where the group ADR was well below Rack/BAR for the last three years; by 2017 the gap to Rack/BAR was in LA (-$16.18), San Francisco (-$10.50) and Miami (-$7.75).

AVERAGE LENGTH OF STAY

- Overall in the U.S. market from Jan-Sept 2015 to 2017, the average length of stay (ALOS) for Groups & Meetings grew slightly from 2.44 days in 2015 to 2.46 days in 2017.

GROUP AVERAGE LENGTH OF STAY BY PROPERTY ANNUAL RACK/BAR RATES

Trailing 12-month 2015-2017



- The only notable drop in average length of stay was in hotels with $300+ Rack/BAR rates. These hotels saw a decline in ALOS from 2.85 days to 2.76 days.

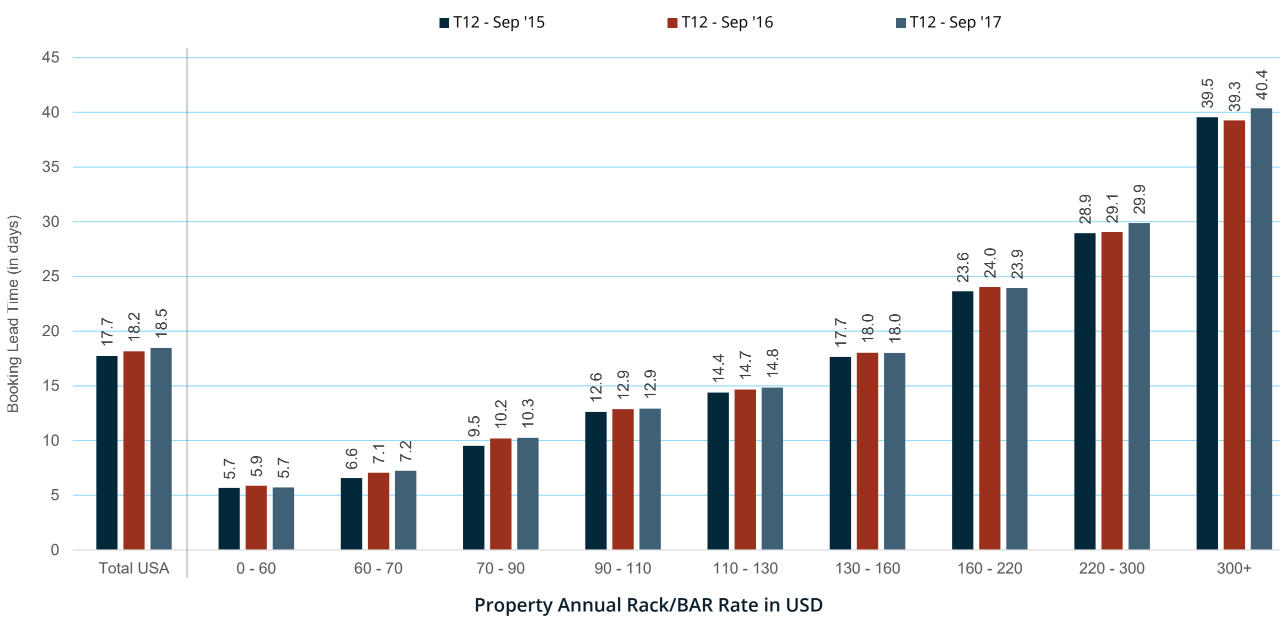
- There are markets with growing lengths of stay: NYC, LA, Miami, Washington, DC and the biggest growth in Houston from 2.76 days to 2.92. Those that have declining lengths of stay: Atlanta, San Francisco and Phoenix with a drop from 3.0 to 2.94 days and Phoenix had the longest length of stay overall. The markets with the least change in length of stay over the three years examined were Chicago and Dallas.

BOOKING LEAD TIME

- Overall in the U.S. market from Jan-Sept 2015 to 2017, the booking lead time for groups & meetings business has grown from 17.7 days to 18.5 days. The pattern that emerges from the data, not surprisingly, is that the higher the rates, the more rooms, the more meeting space, the longer the lead time. The lowest rated hotels had 5-6 day lead times growing to 40 days for the hotels with $300+ Rack/BAR ADRs.

GROUP AVERAGE BOOKING LEAD TIME BY PROPERTY ANNUAL RACK/BAR RATES

Trailing 12-month September 2015-2017



*Booking Lead Time is measured from the day when the group booking is entered in the PMS as reserved date until the day of the group arrival.

- There are some differences by MSA. The shortest lead times are in Dallas (16.2), Atlanta (15.1) and Houston (13.4). The longest lead times are in NYC (27.4), Miami (25.5) and San Francisco (24.2).

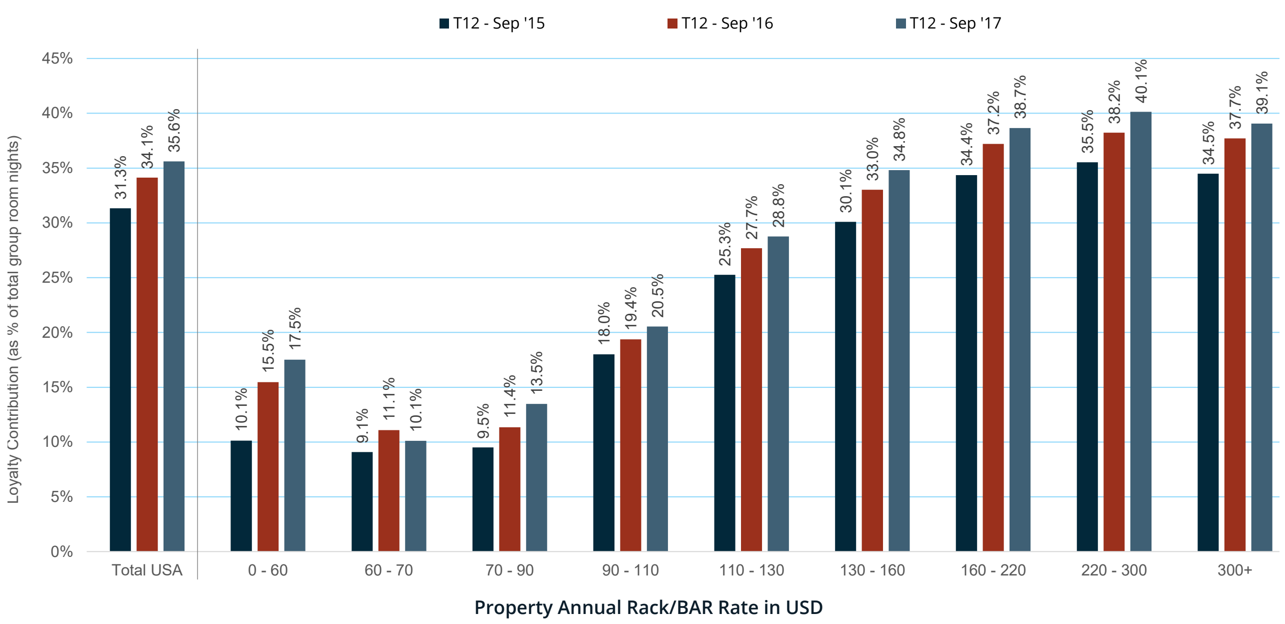
- There are patterns in those markets that are seeing the biggest change in lead time. Those that are getting longer (NYC, Chicago, DC) with DC growing from 21.1 to 22.3 days, those getting shorter (Miami, Houston and Atlanta) with Houston going from 14.3 to 13.4 days and there are markets that have not seen much change (LA, San Francisco and Phoenix).

LOYALTY CONTRIBUTION

- Overall in the U.S. market from Jan-Sept 2015 to 2017, the loyalty contribution of those attending meetings in hotels has moved up from 31.3% to 35.6%. This means the proportion of meeting attendees who are hotel loyalty program members is increasing.

GROUP LOYALTY CONTRIBUTION BY PROPERTY ANNUAL RACK/BAR RATES

Trailing 12-month September 2015-2017



- There was an increase by hotel ADR and property size with the largest growth at the highest rates. The hotels with $160+ Rack/BAR rates had 38.7%-40% of the meeting attendees as members in the loyalty program while the lower rated hotels ($60-$130) ranged from 10% to 28% loyalty contribution. There was not much of a difference in loyalty contribution based on square footage of meeting space.

- The MSAs with the highest loyalty contribution were Phoenix (43.9%), Dallas (41.4%) and Chicago (41%). Those with the lowest loyalty participation were NYC (28%) and LA (31%).