



Composite Comp Sets FAQ

Updated July 6, 2020



Composite Comp Sets

Details of the Composite Comp Set methodology constitutes a trade secret and cannot be shared with anyone outside of STR's Composite Comp Set Steering Committee. This memo is free of such protected information and can be shared internally among STR staff. Talking points from this document can be discussed externally with clients.

If you have any additional questions specific to the product, or questions regarding what you can and cannot disclose to clients, please contact Patrick Mayock or Kay Caudle.

What you **CAN** discuss:

- Potential use cases (e.g. broken sets, non-ideal sets, insufficient sample)
- The general variables we use to select properties that make up the Composite Property: Location (i.e. distance), performance, class, property size and mix of business.
 - Weighting of the Composite Property within the Comp Set:
 - The Composite Property is set to the minimum weight needed to make the set sufficient.
- The Composite Property cannot exceed 25% of the total set.
- Current status: STR successfully completed a Composite Comp Set pilot and received good feedback from a representative of clients that included major brands, owners and management companies. We are now building the solution and will have it launched for commercial consumption in Q4.

What you can **NOT** discuss (STR's Trade Secret):

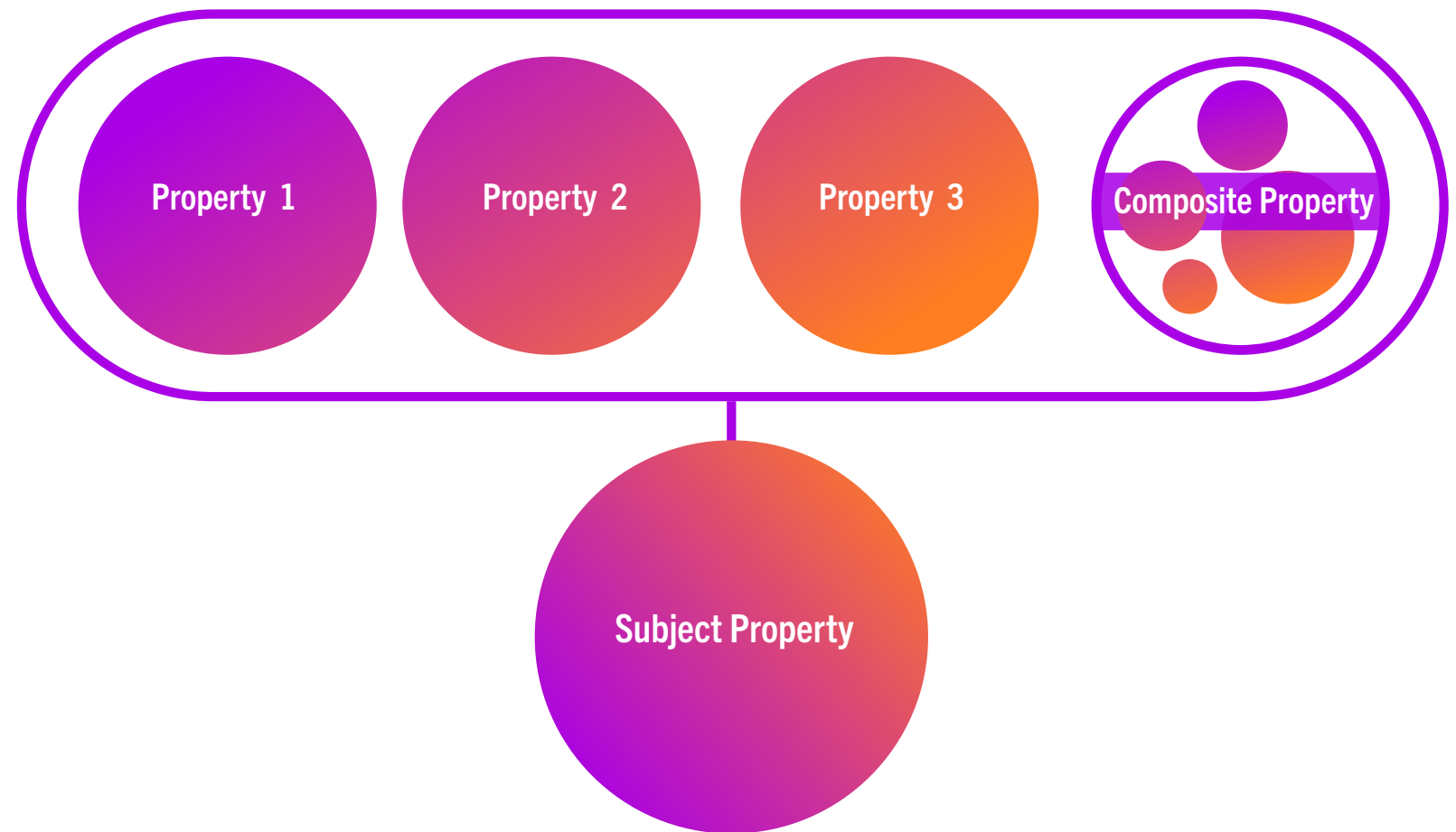
- Any details regarding methodology, including how we select hotels to include in the Composite Property.
- The number of properties that make up the Composite Property.
- Note: This memo does not include any information protected by a trade secret.

What is a Composite Comp Set?

Composite Comp Sets are an alternative to our traditional competitive sets that offer greater flexibility when selecting and maintaining your Comp Set over time.

A Composite Comp Set is a competitive aggregate used to compare against a subject property in a similar way a subject property compares to a traditional Comp Set. The key distinction is one of the properties in the set (aka the Composite Property) is a composite of multiple hotels.

The hotels that make up this Composite Property are anonymized and chosen automatically by STR's proprietary methodology that weighs objective criteria such as location, performance, class, property size and mix of business (based on available data points such as Day of Week or Segmentation). The result is an amalgamation that can be added to fix a broken Comp Set, replace a non-ideal property or help create Comp Sets in areas with low sample, among other use cases.



Is a Composite Comp Set better or worse than a traditional a Comp Set?

Composite Comp Sets are not better or worse—they are an alternative offering to STR's traditional Comp Sets that are based on objective criteria and enable additional flexibility and visibility when creating and managing your Comp Sets.

How do you choose my Composite Property?

The hotels that make up this Composite Property are chosen automatically by STR's proprietary methodology that weighs objective criteria such as location, performance, class, property size and mix of business (based on available data points such as Day of Week or Segmentation). The methodology selection criteria is meant to mirror what you would deem most critical in choosing a comp set. It avoids including any property that cannot rationally be considered comparable, including those considerably outside your market or with different demand drivers.

Does this solution work in all cases?

The Composite Comp Set model addresses approximately 85% of existing hotels, with a greater success rate in area in which STR's existing sample is highest. STR maintains strict standards to ensure data integrity; thus, the solution does not work in all instances.

Can I choose which properties make up my Composite Property?

The hotels that make up the Composite Property are anonymous and are selected automatically by STR's proprietary methodology. The purpose of a Composite Comp Set is to allow greater flexibility in Comp Set Creation. (e.g. You can add/drop a Composite Property as a single action rather than needing to add/drop by two.) A Composite Comp Set also allows flexibility between multiple Comp Sets; a traditional Comp Set might require a difference by two hotels. Anonymity is required in order for STR to provide this flexibility while still maintaining data confidentiality.

Can I choose which variables I want STR to consider when selecting my Composite Property?

STR's Composite Comp Set methodology weighs factors most relevant in Comp Set selection, such as location, performance, class, property size and mix of business. In creating our proprietary model, we have done extensive testing on tens of thousands of Comp Sets to fine tune the criteria to deliver the most statistically relevant output. The variables cannot be adjusted; they must remain consistent to ensure accuracy of the model and also to maintain the confidentiality of the data in the Composite Property.

Does STR used modeled performance data in the Composite Property?

STR only uses performance data from participating hotels when aggregating data for the Composite Property.

Are Reverse Comp Sets included in the criteria?

STR does not look at Reverse Comp Sets when creating a Composite Property. Reverse Comp Sets, while useful in some applications, are largely subjective. Simply being named in another set does not mean that a property is a true competitor nor performs similarly to a subject property. In some instances, properties are named in Comp Sets as aspirational measures or for a specific mix of business. The Composite Comp Set methodology is made up of a set of objective criteria to yield a data-driven benchmark for your subject property.

How many hotels make up my Composite Property?

The Composite Property is made up of several hotels based on objective criteria such as location, performance, class, property size and mix of business.

How is a Composite Property weighted?

The Composite Property is weighted to the minimum number of rooms required to make the set compliant.

Example:

If Parent Company A represents 750 rooms in a 1,000-room set (75% parent share), the Composite Property would be weighted to make Parent Company A's 750 rooms act as 70.9% of the set, which is the maximum allowable share per STR's guidelines. Doing the math, the Composite Property would be weighted to 58 rooms ($750/(1000+58) = 70.9\%$). solution and will have it launched for commercial consumption in Q4.

Other important guidelines about Composite Property weighting:

- The Composite Property can never exceed 25% of rooms in the total Comp Set.
- The Composite Property cannot be weighted less than 5% of rooms in the total Comp Set. In instances where the minimum number of rooms required to make the set compliant is less than 5%, the Composite Property automatically will be weighted to 5%.

Why is the maximum weight set to 25%? Shouldn't the Composite Property be weighted more closely to the size of other hotels in the Comp Set?

The Composite Property is weighted to the minimum number of rooms required to make the set compliant. A maximum weight of 25% of rooms ensures the Composite Property does not begin to skew data away from the other client-named hotels in the Comp Set.

Can I change the weight of my Composite Property?

Weighting is set automatically per the guidelines listed above.

STR has never weighted Comp Sets previously. Why are you doing it now?

STR does weight properties in traditional Comp Sets, based on room count. (e.g. A 300-room property has a higher weight in the Comp Set than does a 100-room property.)

I have concerns about having an amalgamation of properties in my set rather than a known hotel.

In creating our proprietary model, we have done extensive testing on tens of thousands of Comp Sets to fine tune the criteria to deliver the most statistically relevant output. This represents a significant step forward in STR's existing methodology when one hotel in a Comp Set stops reporting or is late in reporting; provided the Comp Set is still sufficient, we currently replace the non-reporter's data with an amalgamation of data from reporting properties. The new Composite Comp Set methodology improves on this methodology with a more statistically sound output.

Why would I want to use a Composite Comp Set?

Composite Comp Set use cases include:

- To fix Comp Sets that break due to property/brand/parent company over-dominance.
- To enable a Comp Set in submarkets/markets with limited supply, limited participation or limited class representation.
- To limit or avoid significant changes to a set due to industry consolidation.
- To enable a change by one property (requires a Composite Property to be in the set or added to the set).
- To improve a non-ideal set, which currently has properties selected to comply with traditional Comp Set guidelines.



I'm very interested.

Are Composite Comp Sets available today?

STR successfully completed a Composite Comp Set pilot in 2019 and received good feedback from a representative of clients that included major brands, owners and management companies. We are now building the solution and will have it launched for commercial consumption in Q4 2020.

I have some questions and would like to discuss further.

Please contact your Account Manager to arrange a call or meeting with our product team.

How much do Composite Comp Sets cost?

Composite Comp Sets are priced the same as traditional Comp Sets. Composite Comp Sets are not inferior or superior to traditional competitive sets; they are simply an alternative with pricing reflected as such.

How often will we re-evaluate or change the hotels that make up the Composite Property?

Once a Composite Property is created, it will only change because of one of the following scenarios:

- If there exists a risk of data isolation within the Composite Property (e.g. if most hotels that make up the Composite Property were to close). This change is made automatically; clients will be alerted that their Composite Property has been recalculated.
- If the client makes a change to the named hotels in the Comp Set. Whenever a change is made in the Comp Set, the Composite Property automatically will be refreshed and reweighted.
- If the client requests a change.

Note: A client may initiate a refresh at any time, although the model may or may not return different hotels in the Composite Property. If market factors hold relatively consistent, the model is likely to return to the same Composite Property. However, if there have been changes in market factors (e.g. hotel openings or closures; dramatic shifts in performance) the model may pull different hotels into the Composite Property that are a better statistical comparison to the subject hotel.

When selecting hotels that make up the Composite Property, what thresholds or parameters exist for distance? (e.g. Do we look within a 10-mile radius? A 40-mile radius?) And does this change based on location?

Hotels that make up the Composite Property are located within a reasonable proximity to the subject hotel. The methodology accounts for variance in regional density (i.e. it recognizes there typically are more hotels concentrated in urban locations and fewer hotels in regional or rural locations). Specific details constitute a trade secret and cannot be shared with anyone outside of STR.

In which products will this new solution be available?

Composite Comp Sets initially will launch in xISTAR and select Corporate Reports and Data Files.

It will be subsequently rolled out to other products, although scope and timing is TBD.

Will this impact comp set checks? Does the Composite methodology negate the need to check this set against other comp sets even if it's one property (read: the Composite Property) off from another set?

Composite Comp Sets do not negate the need for STR's checks and guidelines. When a property has more than one comp set, the composition of each set must still differ by two consistently reporting properties. However, one of those properties can be a Composite Property.

Composite Comp Sets grant operators additional flexibility in meeting this and all of STR's comp set guidelines. For instance, if an operator wants to create a second comp set with only one hotel that is different between the two, that operator could pull in a Composite Property at the minimum required weight to make the second set sufficient.

