Global Real Estate Center

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The 2007 US Lodging Report

introduction

Dear Colleague,

We are pleased to present the 2007 edition of Ernst & Young's US Lodging Report. Our report offers our assessment of the direction of the US lodging industry, including our thoughts on key lodging industry trends and segment performance, as well as our detailed outlook for major metropolitan markets. Additional copies of this report are available through our local offices or on our Website <http://www.ey.com/us/realestate>.

I would like to thank the Hospitality Services professionals who contributed significant time and effort in preparing the 2007 US Lodging Report.

Ernst & Young's Hospitality Services professionals provide developers, lenders, owners, and operators with an array of advisory services each year. Please feel free to contact me or any of the professionals mentioned at the end of this report if we may be of service.

Sincerely,

Michael Fishbin
National Director,
Hospitality & Leisure
Ernst & Young LLP

contents

top 10

thoughts

top 10 thoughts

1. Industry Fundamentals: Supply Playing Catch-Up as Stabilization Sets In

The lodging sector is anticipated to approach a stabilization phase in 2007, with accelerated supply growth and modest demand. Lodging Econometrics forecasts approximately 1,100 new projects in the US in 2007 (116,000 rooms), representing a 2.5% supply increase compared to a 1.8% increase in 2006.[1] The nation's lodging markets, most of which are past their post-9/11 recovery phase, are absorbing the additional supply. Nonetheless, the economic conditions in 2007 may lead to more moderate lodging demand.

Total US Revenue per Available Room (RevPAR) as of year-to-date November 2006 increased US$63, a 7.7% increase versus the previous year.[2] The strength of the market and increasing RevPAR performance in 2006 was dominated by significant increases in Average Daily Room Rate (ADR) but marginal occupancy growth. Despite the anticipated slowdown of the overall economy, the lodging industry is expected to continue to achieve gains in 2007.[3] Buyers and owners are taking advantage of relatively moderate supply growth to upwardly reposition existing hotels. The industry's sensitivity to the healthy business environment, increasing business travel, and marginal supply growth in 2006 is anticipated to yield a solid position for RevPAR in 2007, albeit below the gains of 2006.

Although stabilization is approaching, buyers, sellers, and lenders continue to be active. The optimism of the peak-of-the-cycle behavior is supported by the industry's growth rate for both ADR and RevPAR in 2006, with a tapering off anticipated in 2007. Active business and leisure travel is anticipated to enhance RevPAR performance, along with the strengthening of the upscale to luxury segments, evidenced by gains in the mid to high single digits as of year-to-date October 2006. As a result, the outlook for 2007 remains positive, with a healthy business economy that would support RevPAR growth into 2007, below that of 2006, but solid nonetheless.

2. Luxury Brands: Life in the Fast Lane

As the lodging industry's current positive cycle matures, most segments are enjoying the benefits of strong fundamentals, which lead to future increases in supply. One segment, however, stands out as

1. Lodging Econometrics. "LE Revises Supply Side Forecast Downward for '06 and '07 and Identifies Seven Trend-Setting Markets to Monitor for '08 and Beyond." 20 October 2006.
2. Smith Travel Research Weekly Lodging Review. 10-16 Dec 2006.
3. The Global Hospitality Advisor. "Industry Outlook: Looking Back on 2006, Looking Forward to 2007." December 2006.

the leader in both recent performance and supply growth. According to Smith Travel Research, the luxury hotel segment has led in occupancy growth, and is estimated to have achieved demand growth of approximately 2.0 to 2.5% and rate growth of approximately 9.0% in 2006.[4] The luxury segment, the smallest of all lodging segments, with approximately 80,000 rooms nationwide, is rapidly expanding and leads all segments in terms of net supply growth as a percentage of existing inventory.[5]

Fueling the supply growth is the continued expansion of a number of Asian and Middle Eastern luxury brands into Western markets in an effort to diversify their customer base, increase brand awareness, and tap into the lucrative US market. Since Western luxury brands have a strong presence in major US markets, developers, investors, and lodging operators are considering expansion into secondary markets. In addition, given the opportunity to add luxury hotels in some gateway destinations, the industry is witnessing the transformation of landmark luxury properties into international brands to penetrate additional niche markets.

While improving segment fundamentals is undoubtedly the main driver, other factors are also worth noting. The appeal of owning luxury assets associated with exclusive brands continues to attract "ego" buyers; from consumers' perspectives, luxury hotels bode well with the trend towards the sale of lifestyle hotel experiences: creating unique guest experiences that are reflective of their way of life, self-image and interests. Further, given that it has been very difficult to build luxury projects today without a residential component, the trend in luxury hotel development has been partially fueled by a hot residential real estate market.

Overall, while some concerns are cited about the depth of the luxury travel market to sustain such fast-paced supply growth, the segment appears to be poised for continued strong performance. With a customer base that is anticipated to continue expanding (for example, the retirement of baby boomers and the associated increase in their travel activities) and which is comprised primarily of affluent individuals who are not as price-sensitive as other travelers, the luxury segment appears to have open roads and clear skies ahead.

3. Hotel Development: Managing Increasing Construction Costs

With strong industry fundamentals, rising profits, and an active transaction environment, the lodging sector continues to attract the interest of traditional developers and those new to the industry. Nevertheless, while the potential for strong operating margins and high transaction prices are appealing, hotel developers are facing a trend of rising construction costs.

4. Smith Travel Research Lodging Review. Performance by Industry Segments. October 2006.
5. Lomanno, Mark. H&MM. "Fundamentals, Guest Makeup Keep Luxury Segment Strong." 20 November 2006.

Total construction costs are estimated to have increased approximately 5.0% in 2006, while some specific construction materials, including steel and concrete, experienced double-digit price increases.[6] Although new residential construction started to decline towards the end of 2006, alleviating pressure on some construction goods (e.g., lumber, gypsum), worldwide commercial construction continues to cause high demand for construction materials.[7] This, in addition to increasing fuel prices, has caused the prices of some construction goods (e.g., concrete, metals) to reach record highs.

One effect of increases in construction costs is the shrinking of margins on ground-up and even renovation projects. In an effort to improve returns and mitigate risks, developers have become more creative in planning, developing, and financing new lodging projects. The expansion of stand-alone hotels into hotel-enhanced mixed-use developments by adding residential, retail, office, and other forms of recreational components (e.g., golf, spa, marina) to the projects is not a new trend, but remains a popular way to increase density and to spread the development risk (and potential rewards). Especially in the upper-upscale and luxury lodging segments, mixed-use appears to be the preferred strategy for developers facing costs upwards of US$500,000 per key and more in many circumstances. As such, a significant portion of the new supply has been announced as part of urban or resort mixed-use developments. The sale of condominium-hotel units further provides up-front cash receipts that partially reduce the need for and cost of debt.

As international demand for basic construction materials from countries such as China, Dubai, and India is anticipated to continue to be strong, construction material costs should continue to escalate in 2007. However, with the cooling of the US housing market, domestic construction labor shortages should become less frequent, therefore diminishing increases in construction labor costs. Nonetheless, careful planning is critical for developers to maximize project density and diversity to improve their margins.

4. Operating Costs: Creative Control

While the US lodging industry experienced double-digit profit growth in 2006, hotel operating costs increased at almost twice the rate of inflation for the same period, with the greatest increases occurring in areas that traditionally experienced little volatility.[8] Labor, energy, insurance, and real estate taxes all impeded the industry’s ability to achieve higher profit margins. As a result, management's focus is on fine tuning expenses that can be controlled, understanding that there are new operating paradigms that will result in some operating expenses remaining at their current high levels.

6. Construction News, The Associated General Contractors of America. “Construction Costs Cool In November But Outpace General Inflation For Year.” 19 December 2006.
7. ENR, McGraw-Hill Construction. “Housing Slump Undercuts Lumber Prices”. 19 December 2006.
8. Hotel Interactive. “US Hotel Profits Up 13.1 Percent in 2006.” 28 November 2006.

Demographic changes, government regulations, new contracts, and higher benefit expenses have all affected labor costs, which account for over 40% of total operating expenses. Unfortunately, the benefits of automation enjoyed by other industries are difficult to attain in lodging, but creative steps are being taken with attempts at maintaining service quality and guest experience while simultaneously reducing expenses. Web-based check-in and lobby self-service kiosks are following the trend of the airline industry in efforts to streamline processes, reduce labor, and increase efficiency.

The double-digit increase in recent utility costs represents the largest increase of any individual expense on a hotel's operating statement. Increasing energy costs have had an impact on profit margins.[9] As a result, the "green hotel" is becoming more of a strategic operational initiative. For example, the recent announcement of Starwood's "1" brand seeks to address guests' desire for a luxury, eco-friendly hotel brand while demonstrating that green principles and the US Green Building Council's LEED[10] certification can coexist. The economic benefits of green buildings, however, are still unclear. In addition, there is limited data suggesting that complying with LEED standards and going "green" enhances the operator's ability to increase rates or gain market share. However, rebates and tax incentives offered by some states in implementing these measures are making some of these initiatives more appealing for developers. And with issues such as global warming increasingly in the forefront of the news, the "feel good" factor associated with green hotels may become a competitive advantage in capturing guests.

Current profit growth and property reassessment based on new developments are driving property tax increases to levels higher than anticipated. Combined with escalating insurance costs, particularly in coastal regions in the US, these represent a new reality in operating expenses. While other expense increases can be allocated, operators are experiencing a "no value added" scenario for customers with insurance and real estate increases. It is unlikely that the industry will see a retraction in these costs; for this reason, operators will need to continue to be innovative in order to drive profit to the bottom line.

5. Globalization: Inbound and Outbound Investments Make Capital Global

During 2006, capital markets' interest in hospitality assets strengthened as lodging fundamentals continued to improve, and returns on the sector continued to outpace other real estate classes and portfolio alternatives on a risk-adjusted basis. As domestic lodging assets become increasingly pricey, US investors are set to intensify global strategies in order to maximize deployment of soaring corporate

9. PKF Reports: Hospitality Net. "US Hotels: Revenues and Profits Rise, But So Do Expenses." 29 May 2006.
10. The Leadership in Energy and Environmental Design (LEED) Green Building Rating System is the nationally accepted benchmark for design, construction, and operation of high performance green buildings. LEED promotes a whole-building approach to sustainability by recognizing performance in five key areas of human and environmental health: sustainable site development, water savings, energy efficiency, materials selection, and indoor environmental quality.

profits, while select international players will continue to enter the country in search of stable properties and trophy assets in major markets.

As the most transparent market in the world, the US provides a favorable investment environment for cross-border investors. Record petrodollars from Russia and the Middle East and investment from the Eurozone will continue, as oil prices are set to remain high and the US dollar continues to depreciate relative to the euro. Hotel-condominiums in Florida and Hawaii have also provided a vehicle for minor investors to enter the lodging arena, mostly from Western Europe and Japan, by owning single-room assets. On the other hand, investors from the Middle East are investing in significant luxury assets in an attempt to gain from the lucrative US market. In contrast, and despite sustained growth in RevPAR, foreign appetite has decreased cap rates, thereby reducing investment returns, and encouraging US investors to look elsewhere.

Recurring patterns in foreign investment, which started in 2006, will continue to focus on portfolio strategies in large developing economies with robust GDP growth, and on single-asset, mixed-use plays in baby-boomer, second-home destinations. China, India, and the United Arab Emirates are likely to remain the preferred choices for outbound investment, driven by anticipated GDP growth of 9.5%, 8.0%, and 9.9% respectively in 2007 and significant RevPAR improvement. All the major lodging companies have aggressive expansion strategies in these locations through joint ventures with local partners. As investment banks become more comfortable with these geographies, new partnerships are expected to incorporate substantial foreign investment. Similar strategies, albeit on a smaller scale, could take place across countries that have recently joined the European Union, where transparency and law enforcement are more recognized. Branded products are ripe for growth, particularly in the select service category. Asia is also anticipated to see a growing number of foreign investments in the gaming-lodging industry, particularly in Macau, where gambling revenues have exceeded those of Las Vegas. Consumer appetite for gambling and increased disposable income is attracting major industry players to the region.

In the Americas, domestic opportunity funds are setting up portfolio opportunities in Mexico, Central America, and the Caribbean, taking advantage of a relatively stable political environment, strong lodging fundamentals, and demand for sun-and-beach and residential second homes from affluent baby boomers. Costa Rica and Panama are likely to continue to attract investment into Central America, whereas Turks and Caicos and the Bahamas are also likely to remain sought-after investment markets in the Caribbean, with products across the region heavily relying on residential uses to achieve target returns. South America, particularly the growing economies of Brazil, Argentina, and Chile, could also see increased activity, albeit with hotel-only strategies.

6. Western Hemisphere Travel Initiative: Long-Term Benefits for Short-Term Costs

In January 2007, new passport requirements for US citizens traveling within the Western Hemisphere went into effect, requiring that all US citizens have a passport to re-enter the US when traveling by air. The policy is a continuation of stricter national security measures that also introduced requirements in 2005 for foreign nationals visiting the US. The concerns surrounding the new policy focus on timing and cost issues associated with obtaining passports, implications which may have a positive effect on the US as it experiences a short-term shift in travel from the Caribbean and Mexico to domestic locations.

Government statistics have indicated that prior to the implementation of the new policy, approximately 60% of US travelers utilized passports to travel internationally.[11] As US citizens fail to obtain passports in a timely manner, since the application process may slow during the first half of 2007 due to an influx of applications, there may be a decrease in travel to the Caribbean and Mexico. This decrease, anticipated to affect mostly leisure travel, may temporarily enhance visitation to domestic destinations, especially coastal, resort-oriented locations, with a short-term increase in demand.

Still, the reduction in travel to the Caribbean and Mexico is of concern. For this reason, several lodging operators, in addition to travel agents and airlines, have been providing warnings and notices to those booking trips in 2007. Although this benefits advanced bookings, short-term, spontaneous travel plans by those without passports would decrease. To address fears that some US citizens may balk at the price for a passport, US$97, some hotels are offering rebates to first-time passport holders. A survey conducted by the World Travel and Tourism Council, commissioned by the Caribbean Hotel Association, concludes that visitor exports in the Caribbean will be impacted by nearly US$2.6 billion, and estimates a potential loss of approximately 188,330 jobs.[12]

In the end, it may be difficult to measure accurately the economic impact the passport regulations have on travel, but it is anticipated that domestic demand may increase in 2007. The real positives of the passport regulation are the long-term efficiencies created by a one-document system which eases confusion over which documents are acceptable at which destination. Additionally, the standardization should ease congestion at airline ticket counters and customs, and provide for amplified security by making it more difficult to enter the US using falsified documents.

11. Associated Press. "DHS to Require Passports From All Travelers Entering United States." 22 November 2006.
12. Tourism Economics. "Shifts in US Outbound Travel – A New Paradigm." July 2006.

7. The Transaction Environment: Can the Asset Fill the Price's Shoes?

During the last 24 months, the lodging industry has experienced a wave of transactions that has demonstrated a somewhat unusual and interesting trend: hotel companies (and their assets) going from public to private ownership. Fueled by strong industry fundamentals and increasingly available streams of capital, the hotel transaction environment has been quite active. Many of these transactions involved the acquisition of public companies (at substantial premiums vs. their stock price) by private equity firms, whose funding sources include high net worth individuals and institutional investors. These investors are betting on a "turn-around-and-sell" strategy that is characteristic of leveraged-buyout transactions, where holding periods are less than five years.

One notable recent trend is an increase in the number of "million-dollar-per-room" transactions, driven by a combination of strong industry fundamentals – e.g., trophy assets in premier locations – and an influx of foreign capital. While some may argue that these transactions might be overvalued, the question lies, in part, in the compression in capitalization rates and borrowing rates for lodging assets into the near future. While "going in" rates were anticipated a year ago to be on the rise by year-end 2006, they have remained stable. Although interest rates in general have increased over the last 12 months, the lending community continues to be eager to finance lodging transactions, and is willing to compress loan spreads so that borrowing rates remain competitive. In addition to reasonably priced debt, plenty of equity capital continues to chase what are considered to be "prime" deals, with many investors willing to reduce their required equity returns.

Overall, the lodging industry has experienced increasing performance fundamentals over the past few years due to increases in both leisure-based and corporate travel. Combined with limited supply additions, as construction costs escalate, and the tempting returns for investors in hotel conversions and renovations, the industry observed a surge in transaction activity. Yet, as industry fundamentals stabilize and new supply is added, it may be difficult for lodging properties to maintain the operating growth levels experienced in the past two years.

In the mid-term, the industry is likely to start observing the divestiture of many of the current large private-equity hotel portfolios, as the private equity firms begin execution on their exit strategies. A normalization of RevPAR growth may lead to a reversal in the transaction environment, potentially leading to higher capitalization rates and lower asset valuations. Under those circumstances, increases in operating performance, rather than favorable valuation metrics, become the true driver of investor returns.

8. Private Equity: Strong Activity from Non-Traditional Hotel Investors

While the strong performance of the lodging industry seems to be catching the attention of experienced investors and those new to the sector, the prevalence of private equity firms, especially on the buy-side, is evident. Motivated by the anticipation of strong returns, driven not only by robust operating fundamentals but also by the anticipated appreciation of the assets, and by the availability of capital (both on the debt and equity side), private equity firms have found themselves in the industry spotlight, frequently in the center of multi-billion-US-dollar transactions involving large hotel portfolios.

With such an influx of private equity players into the industry, it will be interesting to see how these new funds execute their strategies. While the most common approach remains the search for assets that have allowed for turn-around opportunities through renovation and repositioning, larger funds are more broadly exploring opportunities beyond the asset level to include the acquisition of management companies and their associated portfolios. Several high profile transactions demonstrated investors' appetite to go beyond traditional asset acquisitions to continue to extract value through other components of the industry's value chain: management, branding, and franchising.

As the current industry cycle matures, private equity is anticipated to continue to play a key role in the industry's transaction market, not only on the buy-side but also on the sell-side. With the tremendous liquidity of the current market chasing yield, private equity firms are enjoying the benefit of peaking valuations which affords them great opportunity to monetize assets at attractive Internal Rates of Return (IRRs) ahead of their intended timelines. At the same time, their ability to raise capital has never been better. The greatest difficulty is finding the new investments in this volitile market that will ultimately fulfill to their underwriting targets. Competition is intense to say the least. Will all private equity funds be successful through the industry cycle? Only time will tell.

9. Condominium-Hotels: Growing Pains

Last year's US Lodging Report noted the popularity of this sector and discussed how condominium-hotels' "complex nature equals risky business." 2006 has seen a pullback in this sector in the face of a cooling real estate market, as issues and risks have become better understood, and operators become more cautious.

Condominium-hotels have been a popular financing option for developers over the past years as developers sold into a hot real estate market. This approach may reduce the exit strategy alternatives of developers who are left owning a hotel's public space after the units are sold, which has, at present, a limited secondary market. This, combined with a cooling real estate market, complexity over shared facilities budgets, risks associated with the sales process, and other issues, have reduced interest.

In certain markets the potential for oversupply of condominium product—and its corresponding risk of localized market corrections—could haven an impact on hospitality-anchored projects to the extent that such projects rely on the closing of these condominiums to finance and complete the construction. The threat of this ripple effect has caused lenders to think twice about condominium-hotels. In the second half of 2006, several major branded management companies took a step back from condominium-hotels. The often unanticipated complexity of everyday hotel operating issues in this environment, like complimentary room and frequent guest programs, combined with inventory control, budgeting issues and uncertainty over ability to maintain operating standards, led to a re-evaluation of their involvement within the segment. In many cases, these operating complexities were not appropriately addressed when documents were drafted. Invariably, multiple issues will arise while trying to manage expectations of dozens to hundreds of owners – all with different agendas, motivations and levels of understanding relative to hotel ownership.

With estimates of over 8,000 condominium-hotel units anticipated to become operational in 2007,[13] owners who purchased with the anticipation for a quick resale in a hot real estate market may find themselves holding onto assets longer than intended, while lifestyle buyers begin to settle into their first year of hotel ownership. A calm period may occur in 2007, and it remains to be seen how owners will react to the realities of the hotel business (e.g., ramp-up to stabilization, seasonality, ADR versus rack rates) and the costs of ownership. A primary issue of concern that will become more relevant as projects open is that condominium budgets are assembled long before the asset opens, often prior to the involvement of the lodging operator. Changing these budgets materially without conferring rescission rights to buyers, which varies by state, will bring enormous challenges. This, and how the documents treat operating shortfalls in this environment will become prevalent issues. The biggest concern remains the sales and marketing process – and whether there were misrepresentations made to buyers and whether this might transition to rescission claims on behalf of buyers and/or securities fraud.

We are headed into a more challenging time for the latest iteration of condominium-hotels. Opening properties will begin to produce results and provide a sense of the real economics of this operating model while developers and operators will learn what works and what does not and put together more refined programs to take to market. Ultimately, there will continue to be a pipeline for condominium-hotels, albeit at a more moderate pace and structured more thoroughly to address some of the complex issues and problems that are arising.

13. Hotel-Online. "New Hotel Projects with Condo, Private Residence and Timeshare Components Set to Decline as Developers, Lenders and Consumers Turn Cautious." 14 April 2006.

10. Global Lodging Market Resiliency: Standing Firm Through Waves of Disasters

Over the last few years, a trend toward rapid recovery has occurred in markets with heavy emphasis on tourism, in light of various natural disasters and human conflicts. Even though the lodging industry has faced numerous challenges, particularly in markets affected by hurricanes along the US Gulf Coast, the tsunami in South Asia, and terrorist attacks in the Middle East, there are continued plans for long and steady development. In the wake of any such disaster, the lodging industry is usually one of the first impacted, yet it is also a key player in a region's overall economic redevelopment. The road to recovery is usually a struggle that encompasses not only the rebuilding of infrastructure, but also revitalization of communities and regaining confidence amongst travelers. Despite such obstacles, the industry as a whole has proved quite resilient, with affected markets making significant progress over a short period of time.

Within the US, the Mississippi Gulf Coast welcomed approximately five million visitors in 2006. However, authorities are projecting 30 million visitors annually by 2010, 11 million more than before Hurricane Katrina.[14] As of September 2006, room inventory was at 55% of pre-Hurricane Katrina levels, up approximately 23% since March 2006, while monthly gaming revenues have surpassed 2005 levels for the first time since August 2005. Another nine casinos are proposed to open by 2010, with more than US$4 billion invested in 2006 alone.[15]

Despite terrorist attacks aimed at the Sinai Peninsula region in Egypt in recent years, tourism has continued to improve with an increasing number of visitors, easing the fear that the heavily tourism-driven economy would be negatively impacted. Visitors to Egypt increased for the month of October 2006 to 855,000, 20% greater than the same period in the previous year.[16] According to the World Travel and Tourism Council, Southeast Asia travel and tourism has generated approximately US$236 billion in economic activity in 2006.[17] Most of Thailand's tsunami-affected resorts had plans to open within two weeks of the disaster. This aggressive commitment and subsequent real estate development, particularly by large local and international chains, have helped the region rebound. The Kasikorn Research Centers predict that the number of tourists to Thailand in 2006 will rise to 4.7 million, an 87% increase from the previous year.[18] The study further states that international travel would have accounted for approximately 3.3 million visitors, only 6% below pre-tsunami levels.

14. *Mississippi Gulf Coast*. "Moving Forward." 8 June 2006.
15. ibid
16. Reuters. "Egypt October Visitor Numbers Up 20 pct y/y." 19 December 006.
17. Reuters. "Asian Economies Feel the Growing Beat of Tourism." 12 November 2006.
18. Kasikorn Research Info - Thai News Service. "Thailand: Tourism in Phuket Faces Bright Prospects." 13 December 2006.

Even though some regions severely impacted by disasters may have to diversify their economic base to maintain stability, the industry has shown its resiliency with its speed of recovery in a post-9/11 world. This rapid response will continue to be fueled by the locals' eagerness to rebuild and by international travelers who seek adventure through foreign cultures, both groups increasingly accustomed to natural and man-made disasters while longing for a state of normalcy.

industry overview

industry overview[1]

The lodging industry continued to see positive changes in 2006, with the development of new brands and trends, record prices in single-asset and hotel portfolio transactions, and an overall continued growth in RevPAR. The industry continues to move forward, overcoming the challenges it faced as a result of numerous natural disasters and human conflicts over the past couple of years. As the industry becomes more resilient and better prepared for such situations, guests and travelers are showing their resolve as well. In a survey conducted by Hotel Business of 1,262 travelers, 80% indicated that the threat of terrorism would not force them to reduce their travel plans and 86% stated that they have traveled the same or more in 2006 than in 2005.[2] The continued growth in lodging fundamentals has been driven by moderate growth in room supply over the past several years, partially attributed to the continued rise in costs of construction materials. Therefore, new developments in the pipeline slowed in pace, resulting in relatively stable occupancy levels with strong gains in ADR. From 2005 to 2006, the industry experienced an 8.1% increase in rooms revenue, and it is anticipated to show similar revenue growth through 2007.

The US lodging market achieved a 7.6% increase in RevPAR during 2006, mainly from ADR growth, slightly below the growth in 2005. Based on year-end 2006 data provided by Smith Travel Research, occupancy was estimated at 63.4%, a 0.3 percentage point increase in 2005. The overall industry's ADR of US$97 in 2006 represents a 7.2% increase over 2005, with overall RevPAR increasing to US$62 from US$57.

In 2007, it is anticipated that occupancy will decrease slightly, while the strongest gains will continue to be in ADR. Occupancy is anticipated to decrease by 0.2 percentage points to 63.3%, while ADR increases by 6.0% to US$103 and RevPAR increases by 5.8% to US$65.

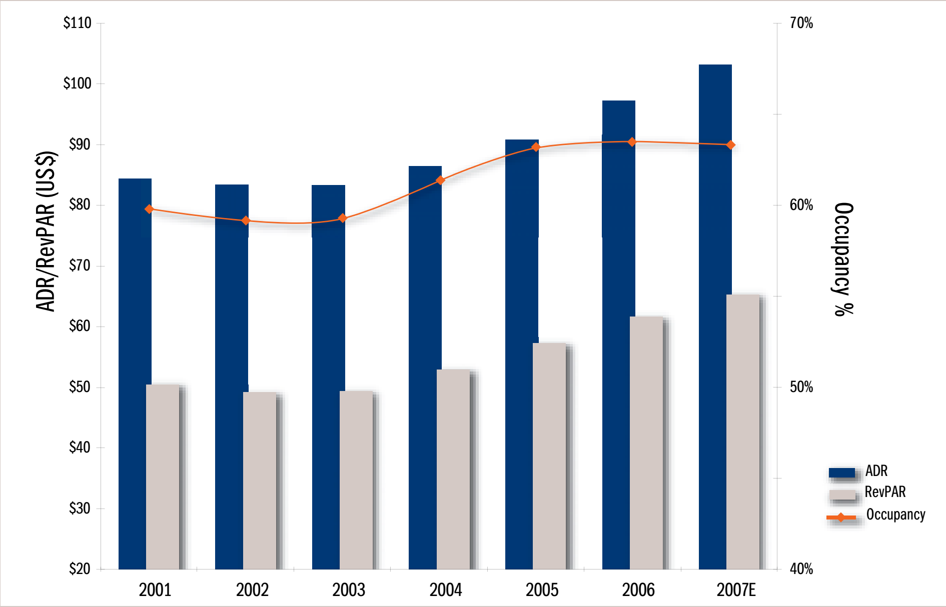
RevPAR Trends by Chainscale

RevPAR levels in all segments of the lodging industry were at their peak in 2000 and have been slowly increasing since 2004. In 2006, RevPAR continued to grow in all segments, resulting in 7.6% growth nationally over 2005. This trend is anticipated to continue into 2007, with an anticipated growth rate of 5.8%.

(continued on p. 20)

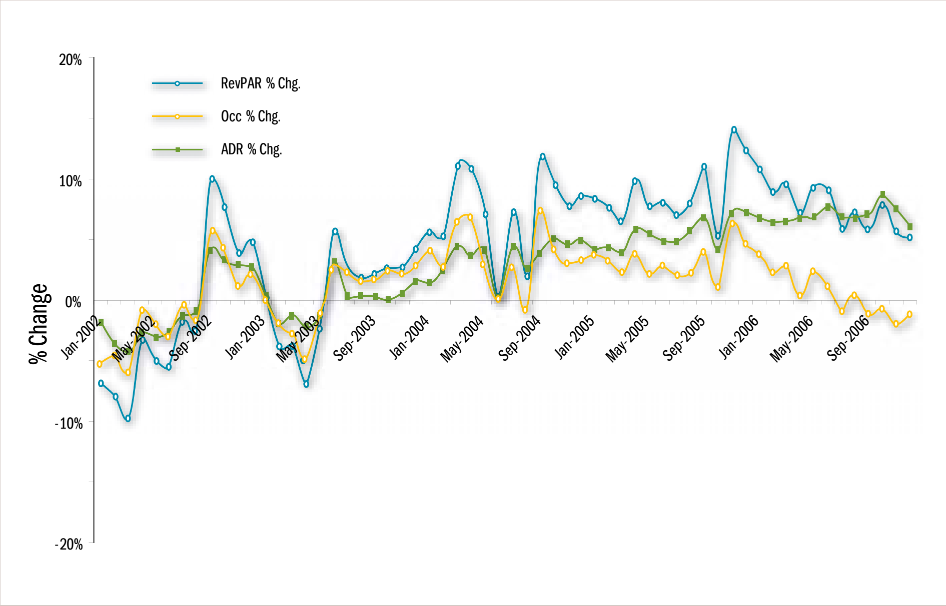
1 Smith Travel Research.
2 Dennis Nessler, "Consumer Forecast 2007," Hotel Business, October 2006.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

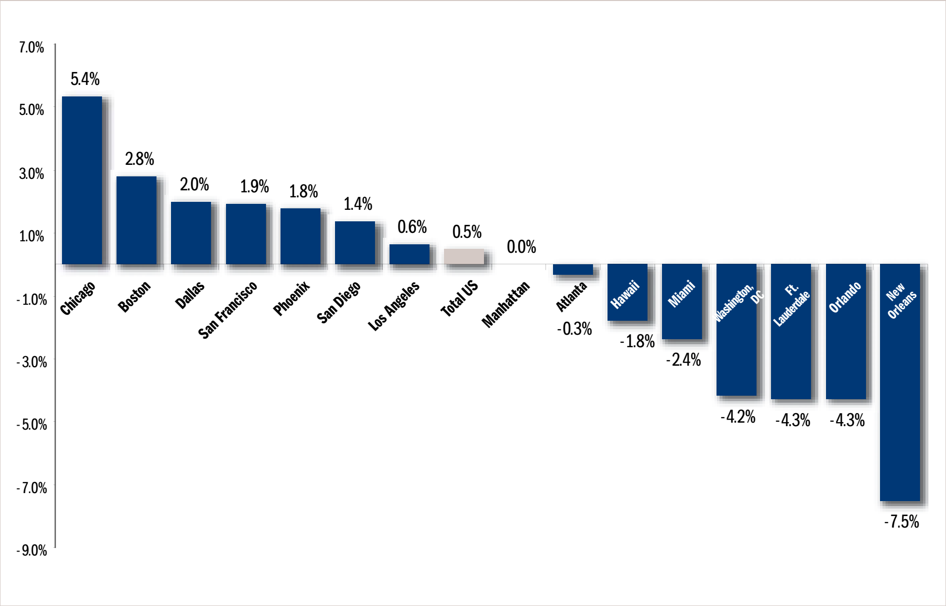
LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET

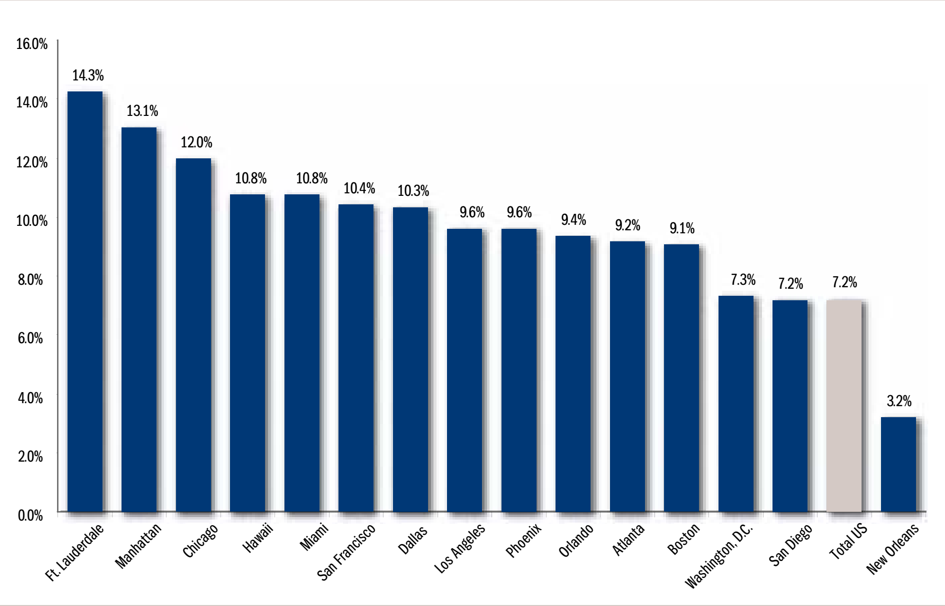
2006 Occupancy Performance by Market



Source: Smith Travel Research

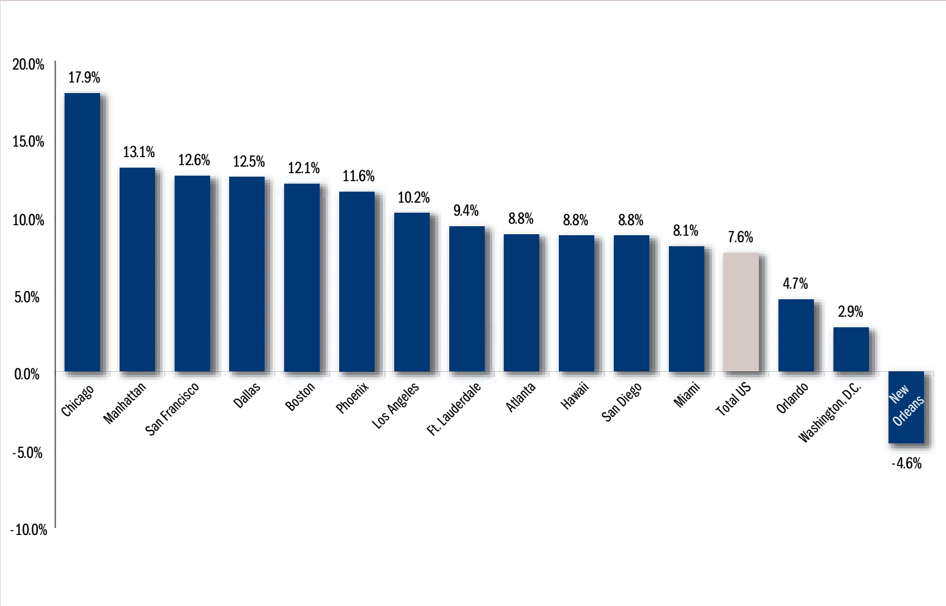
LODGING MARKET

2006 ADR Performance by Market



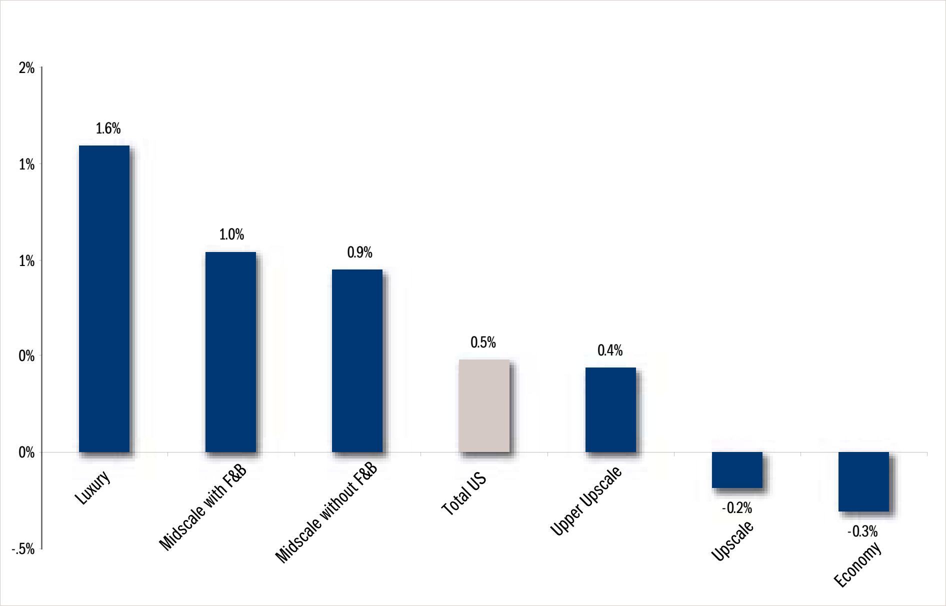
Source: Smith Travel Research

LODGING MARKET 2006 RevPAR Performance by Market



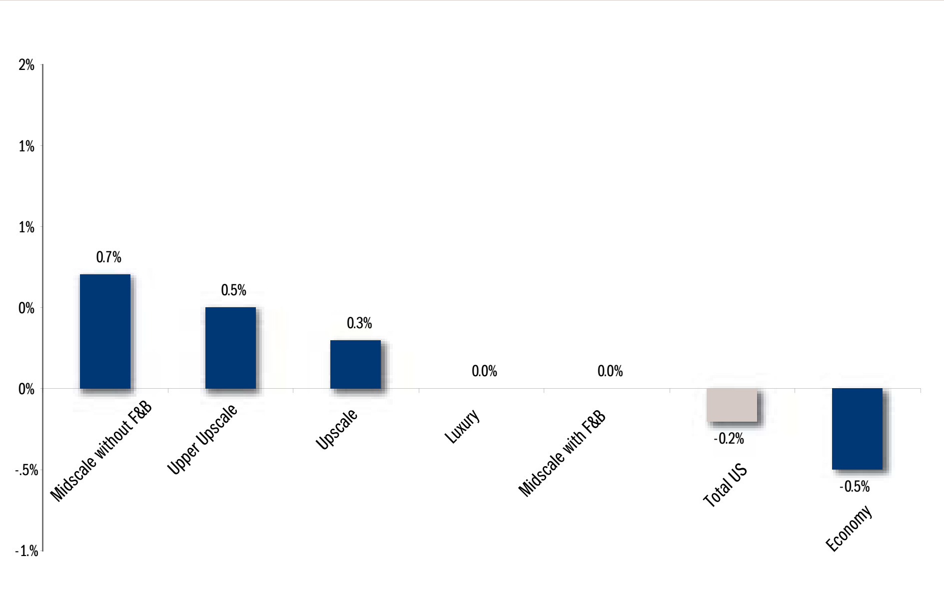
Source: Smith Travel Research

LODGING MARKET 2006 Occupancy Performance by Segment



Source: Smith Travel Research

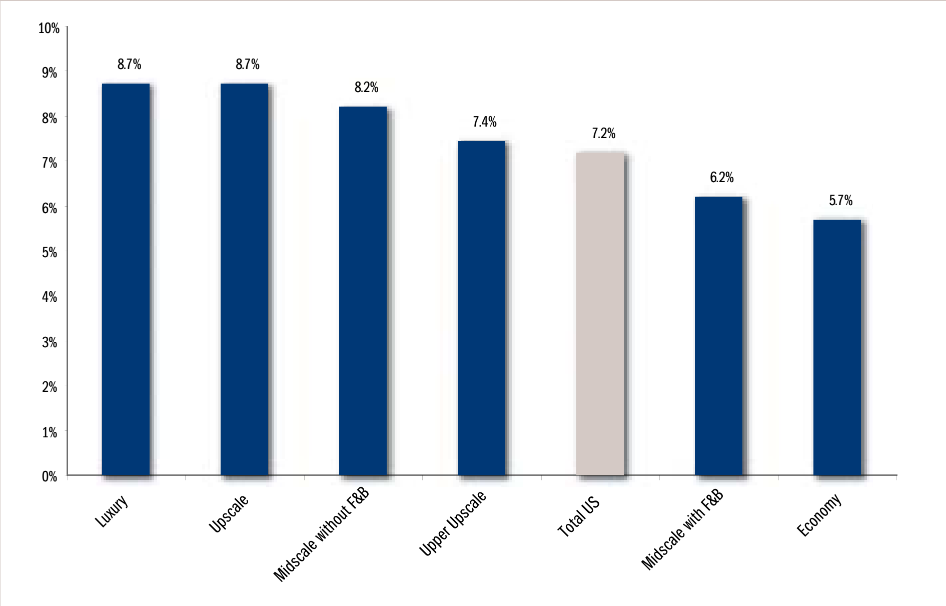
LODGING MARKET 2007E Occupancy Performance by Segment



Source: Smith Travel Research

LODGING MARKET

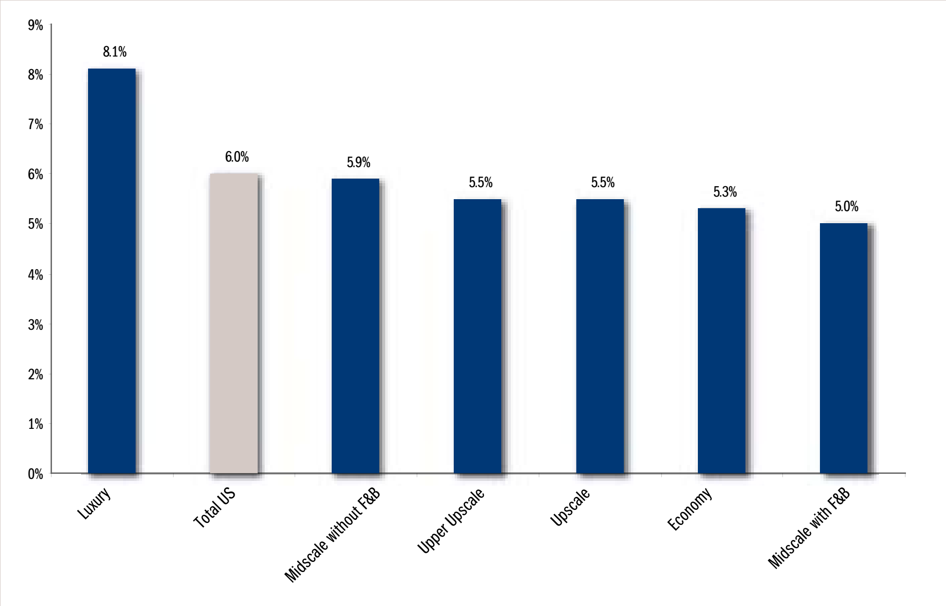
2006 ADR Performance by Segment



Source: Smith Travel Research

LODGING MARKET

2007E ADR Performance by Segment



Source: Smith Travel Research

(continued from p.14)
In 2006, the Luxury segment, out of all the segments, experienced the highest RevPAR growth of 10.5% versus the previous year and is anticipated to show the highest growth of 8.1% in 2007 as well. Economy and Upper Upscale, the only two segments that have not reached pre-2001 levels in terms of RevPAR, are both anticipated to surpass those levels in 2007. Behind the Luxury segment, Midscale without Food and Beverage and Upper Upscale segments are anticipated to experience the next highest increases in RevPAR in 2007, at approximately 6.6% and 6.0%, respectively, versus 2006.

RevPAR Compound Annual Growth Rate by Chainscale

The Midscale without Food and Beverage and Upscale segments have demonstrated the most significant compound annual growth rates between 2000 and 2006, at 4.4% and 2.8%, respectively. The Economy and Upper Upscale segments demonstrated the weakest compound annual growth rates between 2000 and 2006 of 0.8% and 0.3%, respectively. As a whole, the industry continues to demonstrate significant recovery, with the US market achieving a 2.0% RevPAR compound annual growth between 2000 and 2006.

Top-Performing Markets

Manhattan continues to lead the major markets in terms of performance, with RevPAR in 2006 reaching US$224, followed by Hawaii at US$147, and San Francisco and Miami both at US$101. In terms of RevPAR percentage increases from 2005 to 2006, Chicago, Manhattan, San Francisco, and Dallas lead the markets with the most significant gains of 17.9%, 13.1%, 12.6%, and 12.5%, respectively. These gains can be attributed to several factors, including increases in corporate demand and higher ADRs from new luxury supply.

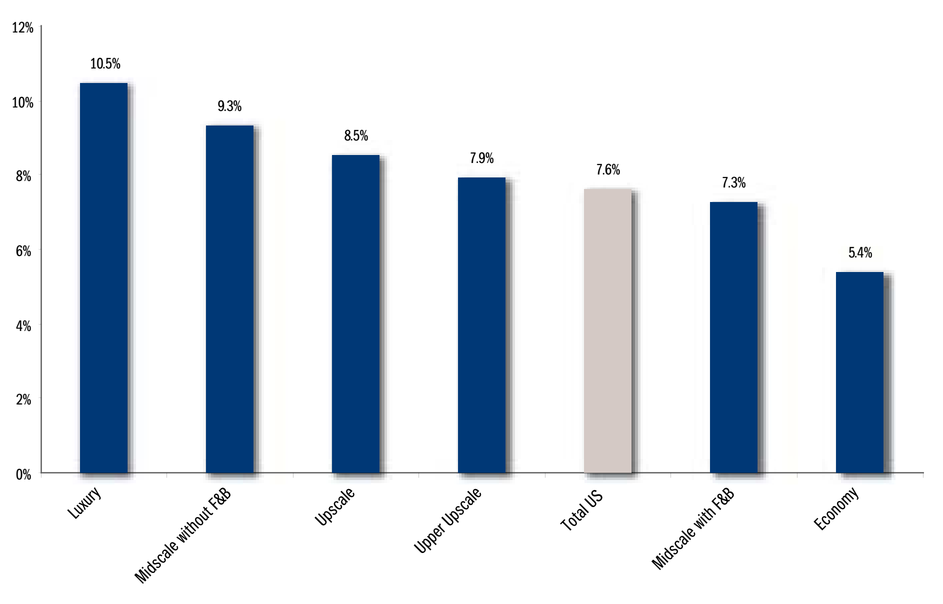
RevPAR Compound Annual Growth Rate by Market

Most of the major markets covered in this report experienced increases in RevPAR since 2003. Between 2000 and 2006, Hawaii experienced the most significant gains, with a compound annual growth rate of approximately 5.5%. Other markets with significant increases include Fort Lauderdale (5.4%), Miami (5.0%), Los Angeles (3.4%), and Phoenix (3.3%).

Between 2000 and 2006, New Orleans, Boston, and San Francisco experienced negative compound annual growth levels in RevPAR of -2.1%, -2.3%, and -2.9%, respectively.

LODGING MARKET

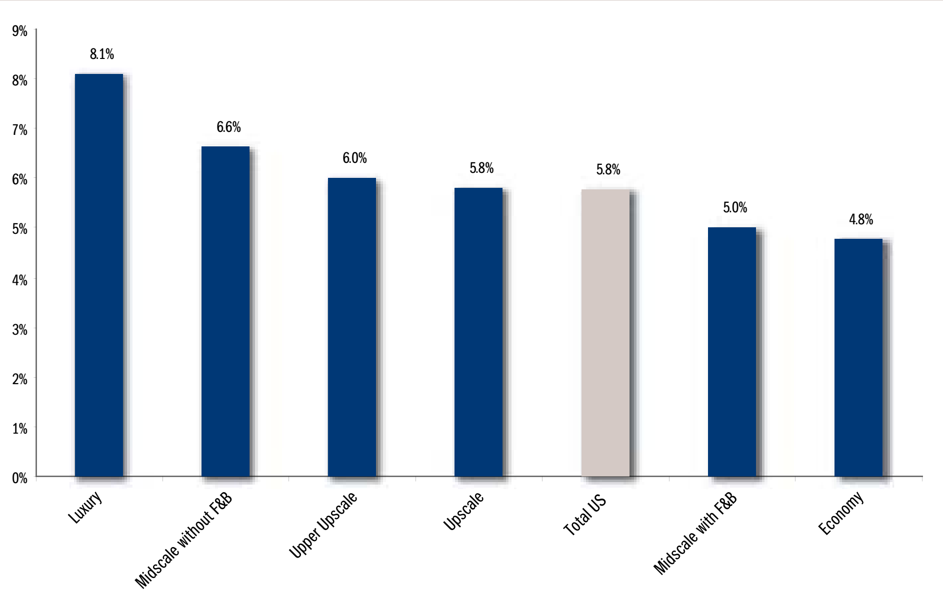
2006 RevPAR Performance by Segment



Source: Smith Travel Research

LODGING MARKET

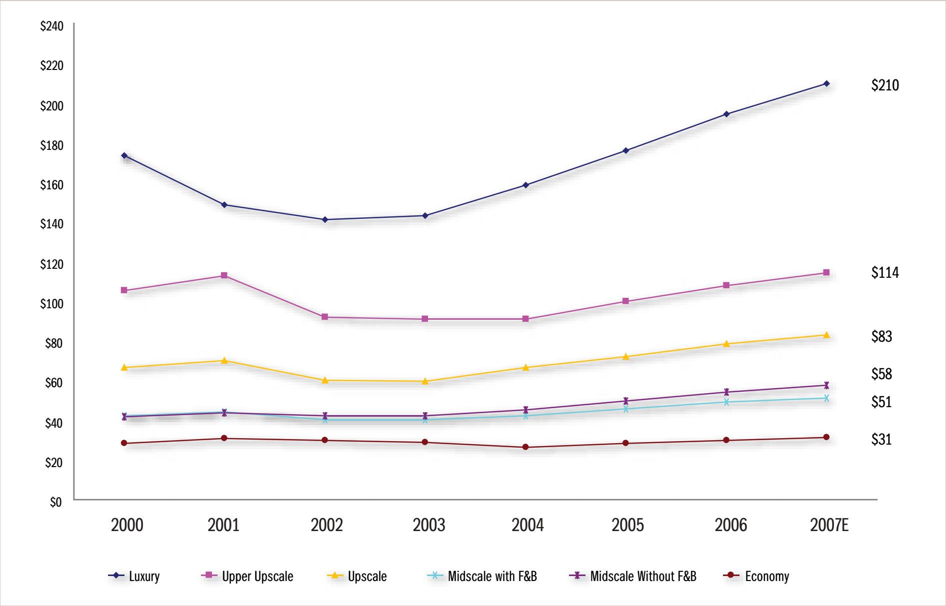
2007E RevPAR Performance by Segment



Source: Smith Travel Research

LODGING MARKET

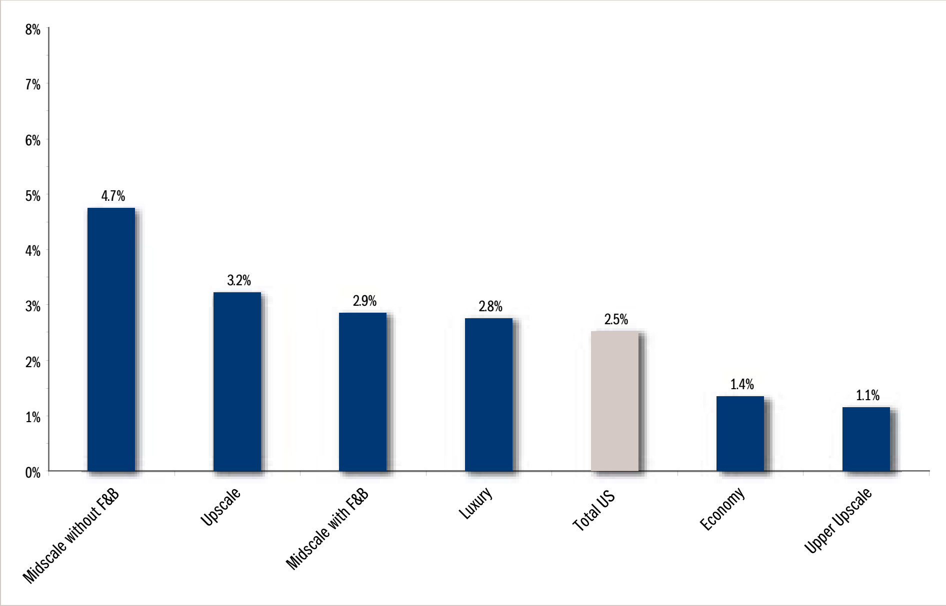
RevPAR Trend by Chainscale 2000–2007E (US$)



Source: Smith Travel Research

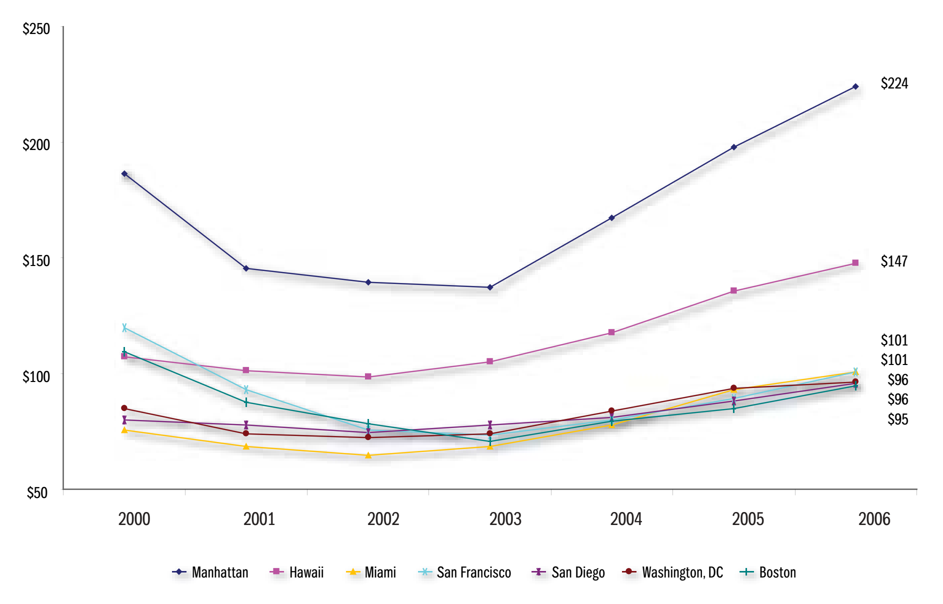
LODGING MARKET

RevPAR Compound Annual Growth Rate (%) 2000–2007E



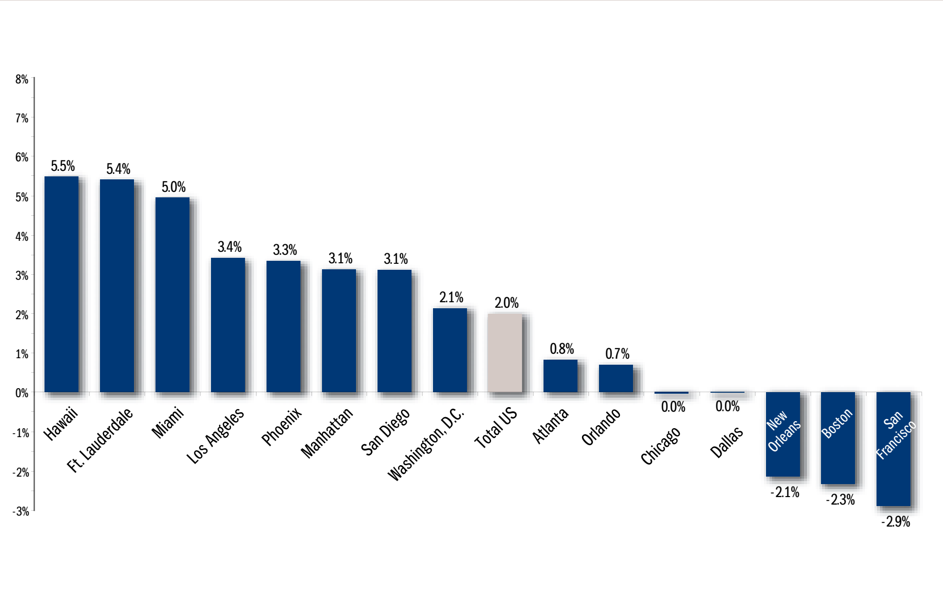
Source: Smith Travel Research

LODGING MARKET RevPAR Trend for Top Markets 2000–2006 (US$)



Source: Smith Travel Research

LODGING MARKET RevPAR Compound Annual Growth Rate (%) 2000–2006



Source: Smith Travel Research

global hospitality insights

regions and markets

Global Hospitality Insights: Domestic Lodging Market Goes International

With an increasing number of foreign brands investing in the US, the domestic lodging market is quickly becoming a center for international activity. Aside from major investments from domestic corporations and private equity groups, foreign investors, especially those from rapidly growing emerging markets, have emerged as key and often high profile players in the industry.

Recently, investment groups from the Middle East have become well known through a number of high profile transactions. In 2006, Istithmar purchased New York's celebrated Knickerbocker Hotel in Times Square for US$300 million, as well as the W Hotel Union Square for US$285 million. Moreover, in December 2006, Istithmar set a record in sales price per room in New York, purchasing a 73% share of the Mandarin Oriental Hotel for US$380 million, setting the average room cost at US$1.53 million per key. Also in December, Istithmar announced its plan to invest US$230 million (approximately €178 million) in International Hotel Investments, which is the principal owner of Corinthia Hotels International, Wyndham Hotel Group's joint-venture partner. This transaction closed in March 2007.

Another key player over the recent years has been Prince Alwaleed's Kingdom Hotels International group. In 2006, Kingdom Hotels International and private equity firm Colony Capital combined to take over Fairmont Hotels & Resorts worth a total of US$3.9 billion. Similarly, in February 2007, the Prince partnered with Microsoft Corp. Chairman, Bill Gates, to take the Four Seasons Hotel Inc. private in a deal worth approximately US$3.8 billion .

The Middle East is not the only source of foreign interest in the US. Hong Kong-based Mandarin Oriental Hotel Group announced in May 2006 that it will manage a new mixed-use property in Dallas, Texas, which is due to open in 2009. The 120-room hotel will feature 90 branded residences, six food and beverage venues, and state-of-the-art guestrooms, averaging 750 square feet in size. Mandarin Oriental will also manage a 400-room luxury property as part of Las Vegas' new urban development entitled "Project CityCenter". This property will include 310 guestrooms, 90 luxury suites, seven food and beverage facilities, and a spa. The first phase of this development is due to open in 2009. In addition, the Mandarin Oriental Boston (opening June 2008), is expected to expand the company's US presence.

Another Hong Kong-based hotel company, Shangri-La, is also making its presence known in the US. Due to open in early 2010, the Shangri-La Hotel Las Vegas will be part of Boyd Gaming's Echelon

Place, a 63-acre mixed-use development to be located on the Las Vegas Strip. The hotel will feature 400 keys, including 300 rooms, 100 suites, and 20,000 square feet of function space. Currently development plans are underway for the Shangri-La Miami (opening 2008) and Shangri-La Chicago (opening 2009) .

The Tata-controlled Indian Hotels Company Ltd. (IHCL) Taj Group has also actively been looking for significant acquisitions in the US. After acquiring the Pierre Hotel in New York in 2005, the group acquired the Ritz-Carlton hotel in Boston for US$170 million in 2006, and rebranded it as Taj Boston. The group is now considering purchasing similar landmark assets on the West Coast.

As illustrated, significant inbound investment and foreign interest into the US lodging market is on the rise. A multitude of opportunities and benefits have proven to be synergistic with such international investments. Hotel companies are targeting key gateway cities and markets, in attempts to increase their worldwide presence, follow the global traveler, and increase their brand recognition and loyalty. As a result, the marketplace is becoming increasingly global and an international presence is seemingly critical among the major players in the hospitality industry. These trends of inbound investment are anticipated to continue, with overseas companies bringing foreign talent and international insights to the domestic market.

segments

spotlight

luxury

Economic indicators demonstrated strong signals of continued growth in 2006, including increases in disposable income and personal consumption expenditures for services, compared to last year.[1] These trends are driven by consumers of luxury products, who are generally comprised of aging baby boomers with high disposable income and affluent young professionals, who are not as price sensitive as other travelers.[2] Their constant search for intimate and design-conscious accommodation experiences have resulted in the Luxury segment's boutique brands, introducing more properties. Newer brands to this segment continue to build brand awareness with locations in key markets, usually through acquisition and repositioning of well-known assets. Traditional Luxury hotel brands that are already established are venturing more into fractional ownership in popular second-home residential areas to cater to that strong demand base and extend the brand. To take advantage of synergies between services offered by typical Luxury hotels and amenities commonplace to Luxury residential developments (e.g., concierge, restaurants, fitness center), developers are combining hotels and residences into mixed-use projects to enhance overall perceived value. Rising construction costs and the need for high volume demand for service offerings have increased barriers to entry in the Luxury segment, resulting in transactions that have risen in terms of average price per room. With continued increases to construction costs in 2007, the Luxury segment is anticipated to have further notable transactions.

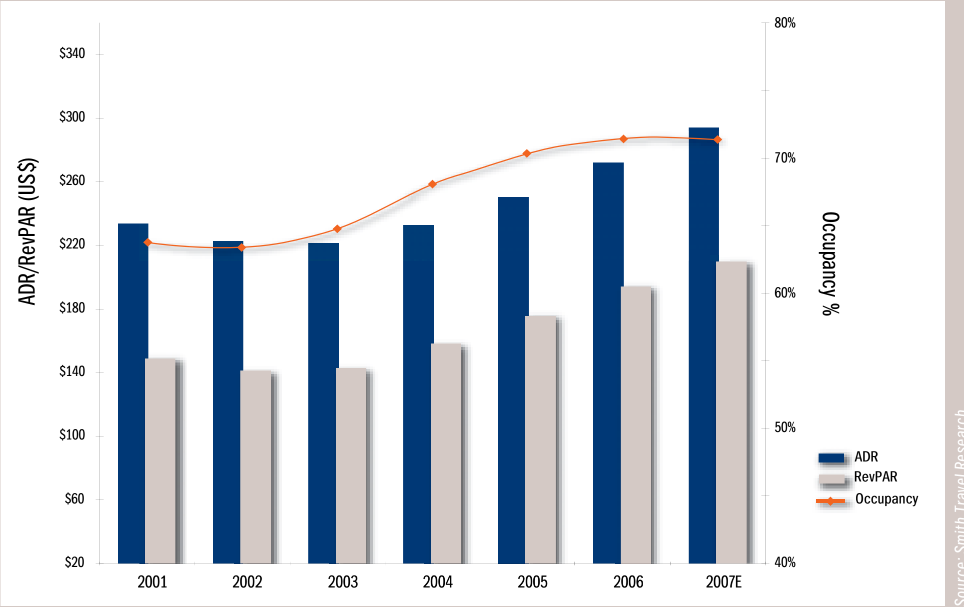
The Luxury segment achieved a 10.5% increase in RevPAR during 2006 mainly from ADR growth. Based on year-end 2006 data provided by Smith Travel Research, occupancy was at 71.4%, a 1.2 percentage point increase over 2005's occupancy of 70.2%. The segment's ADR of US$272 in 2006 represents an 8.7% increase over 2005, with an overall RevPAR increase of 10.5% to US$194.

In 2007, it is anticipated that occupancy will remain constant with limited new supply, while the strongest gains will continue to be in ADR. ADR is anticipated to increase by 8.1% to US$294, and RevPAR by 8.1% to US$210.

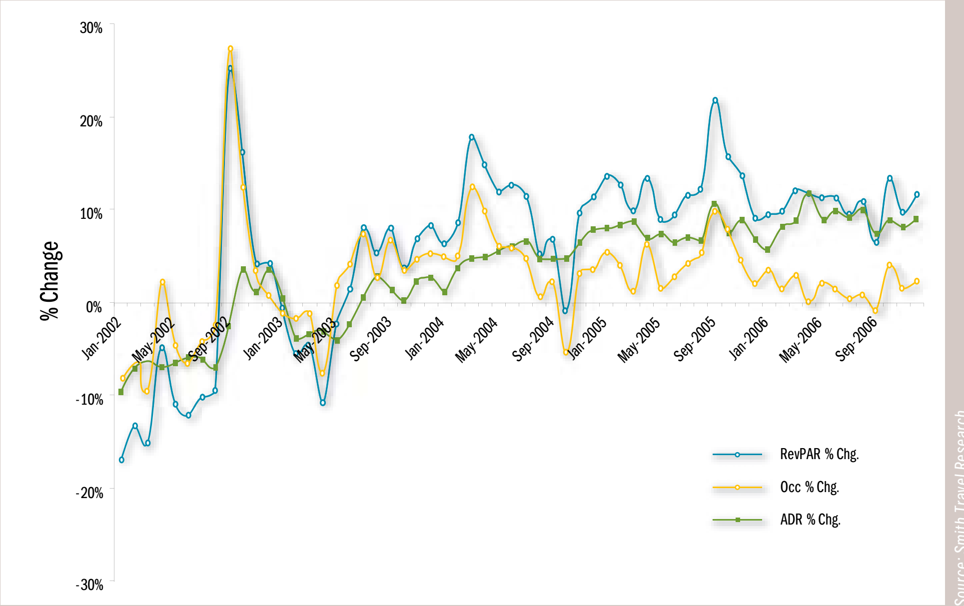
1 US Department of Commerce, Bureau of Economic Analysis. Personal Income and Outlays, <http://www.bea.gov/bea/dn/home/personalincome.htm.> November 2006.

2 Lomanno, Mark. Hotel & Motel Management. "Fundamentals, Guest Makeup Keep Luxury Segment Strong." 20 November 2006.

LODGING MARKET Occupancy, ADR, RevPAR Performance



LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



upper upscale

The Upper Upscale segment has continued to benefit from the recovering economy with increases in corporate, convention, and leisure demand levels. Strong economic indicators have helped further the ADR growth in this segment. With moderate supply growth and limited demand growth in 2007, occupancy for this segment overall is anticipated to remain stable. However, the "amenity war" between the top three segments (i.e., Luxury, Upper Upscale, and Upscale) is anticipated to continue, with newer, more sophisticated and affordable technology and the desire of guests to customize their hotel rooms to recreate them as their own residential spaces.[1] Additionally, hotel developers are looking at creating different brands by mixing luxury lifestyle elements with a boutique chic environment to differentiate their hotel products and the overall guest experience. As well, to satisfy the demands of sophisticated guests common to this segment, some brands have recently introduced kiosks that provide a streamlined process to guests from check-in during their stay through printing boarding passes for flights upon their departure[2]. The constant battle to create the new trend in hotel design and innovative experiences is anticipated to continue in 2007.

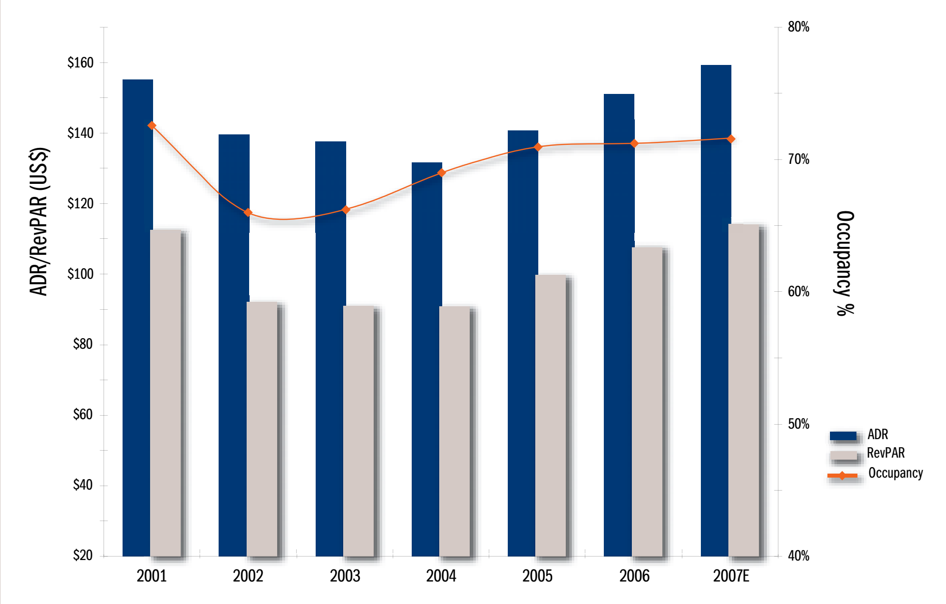
Based on year-end 2006 data provided by Smith Travel Research, the Upper Upscale segment achieved RevPAR growth during 2006 largely from ADR increases. Occupancy had a minor change reaching 71.2%, a 0.3 percentage point increase over 2005's occupancy of 70.9%. However, the segment's ADR of US$151 in 2006 represents a 7.4% increase over 2005, resulting in an overall RevPAR increase of 7.9% to US$108.

In 2007, it is anticipated that occupancy growth will remain extremely low due to moderate new supply, while ADR will grow at a much faster pace. Occupancy is anticipated to increase by 0.4 percentage points to 71.6% and ADR by 5.5% to US$159, resulting in a RevPAR increase of 6.0% to US$114.

1 Stefani C. O'Connor - Luxury/Upscale: High-End Hotels Set Pace for Industry, Hotel Business: Forecast 2007- October 2006, page 14

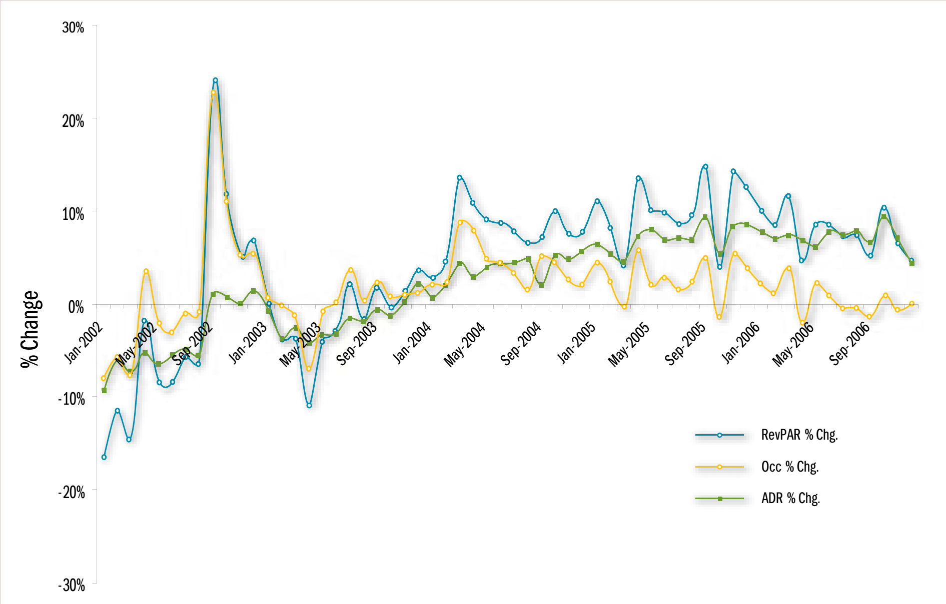
2 Embassy Suites Hotels Completes Installation of Self-Service Kiosks in All Hotels with Airline Boarding Pass Printing; Announces Brand Enhancement Program Supported by Brand and Hotel Owners, Business Wire, 27 September 2006.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

upscale

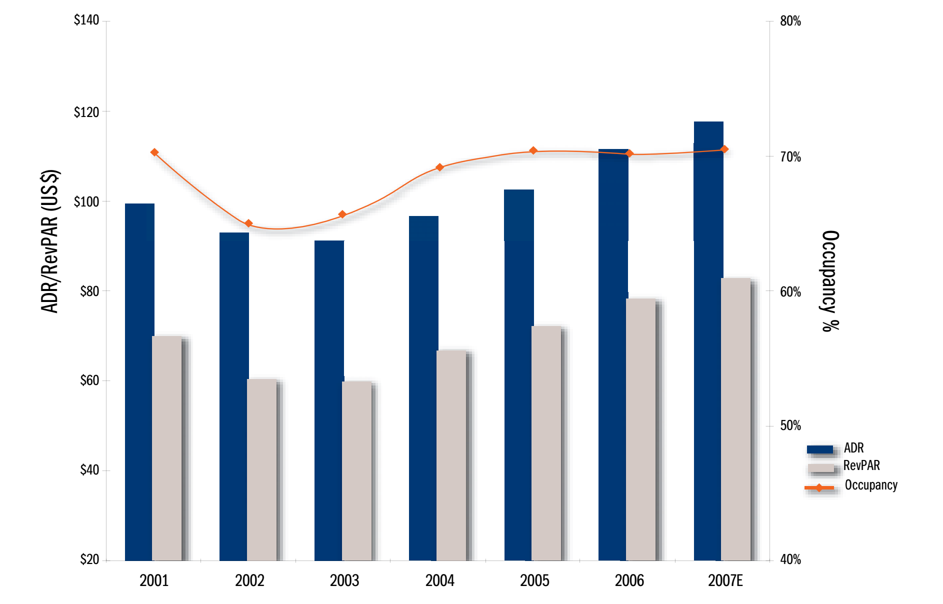
The Upscale segment in the lodging industry maintained strong growth throughout 2006. With continued demand and an increase to room inventory, the Upscale segment is anticipated to keep its performance through overall RevPAR growth in 2007. In a recent survey conducted by *Hotel Business*, 44% of the participants indicated that they would choose the Upscale segment for business travel, greater than the 31% for Midscale and 6% for Luxury.[1] Similarly, 36% indicated that they would choose the Upscale segment for leisure travel. Although the survey did not differentiate between Upper Upscale and Upscale segments, the responses clearly indicate the consumer preferences in terms of amenity options and affordability. A number of new brands are specifically focusing on trendy designs that will cater to these consumers in their 20s and 30s who desire "affordable luxury." In 2007, most of these brands will either begin construction or even open their first properties in key secondary markets across the country, with strong pipelines through 2012, further demonstrating fast-paced growth and attempts to differentiate with competitors in the market. Approximately 22,000 rooms were estimated to have opened in 2006;[2] however, for 2007, there are an estimated 28,000 rooms scheduled for opening, a 27% increase.[3]

The Upscale segment achieved an 8.5% increase in RevPAR during 2006, mainly driven by increases in ADR. Based on year-end 2006 data provided by Smith Travel Research, occupancy reached 70.2%, a 0.1 percentage point decrease over 2005's occupancy of 70.3%. The segment's ADR of US$112 in 2006 represents an 8.7% increase over 2005, with an overall RevPAR increase to US$78.

In 2007, it is anticipated that occupancy growth will remain slow due to a robust new supply pipeline, while the strongest gains will continue to be in ADR. Occupancy is anticipated to increase by 0.2 percentage points to 70.4%, while ADR increases by 5.5% to US$118, resulting in a RevPAR increase of 5.8% to US$83.

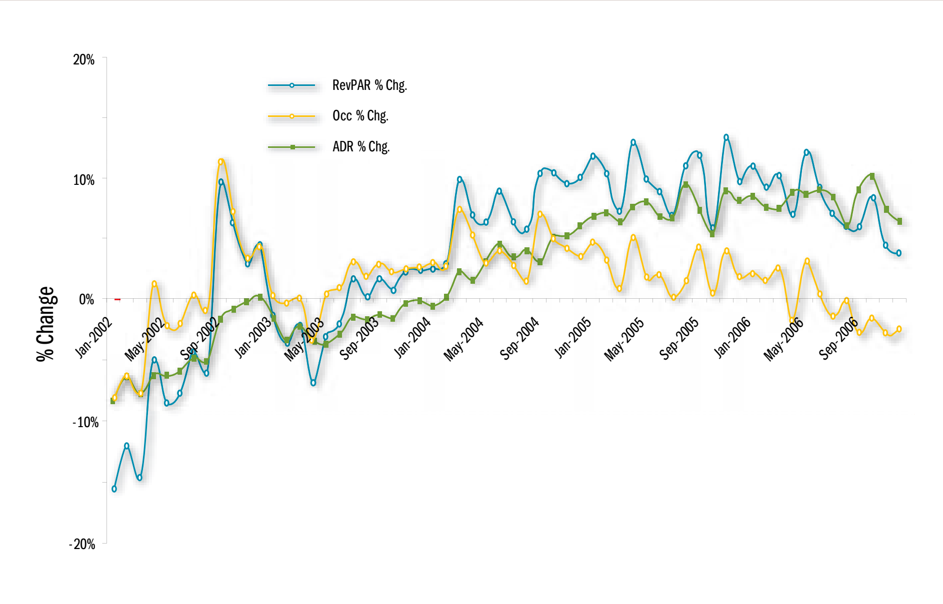
1 Dennis Nessler, "Consumer Forecast," Hotel Business, - Forecast 2007, October, 2006, page 8.
2 Smith Travel Research, Upscale Segment Pipeline Report 2005.
3 Torto Wheaton Research, Construction Pipeline 2006-2007.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

midscale with food and beverage

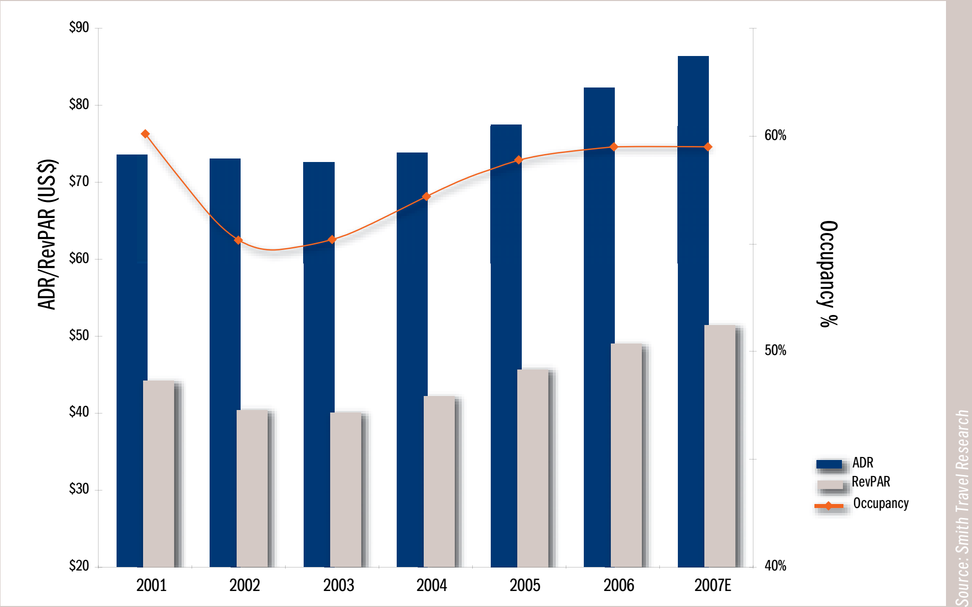
Whether hotels offer food and beverage service has always been the distinguishing factor between the Midscale segments, with the share of properties having food and beverage outlets declining over the past couple of years due to high costs associated with this service. Although the Midscale with Food and Beverage segment has shown moderate growth in RevPAR, based on year-end 2006 data provided by Smith Travel Research, it also experienced an approximate 2.6% decline in number of rooms available versus the previous year, with declines over the last several years. However, this decrease in supply has also prompted an increase in occupancy levels, especially by brands that offer attractive frequent guest and corporate rate programs. With industry-wide focus on implementing new bedding programs, this segment has also upgraded its packages, providing guests who are more sophisticated with less of a midscale experience.[1] Having food and beverage options is an added benefit to the guest, but can pose some operational challenges if not managed efficiently. In turn, some properties have opted to convert to non food and beverage brands, economy brands, or close.

Based on year-end 2006 data provided by Smith Travel Research, the lodging demand for Midscale with Food and Beverage segment continued to decrease in terms of room supply, resulting in an increase in occupancy to 59.5% by 0.6 percentage points versus the previous year. ADR reached US$82, a 6.2% increase versus 2005, resulting in a RevPAR increase of 7.3% to US$49.

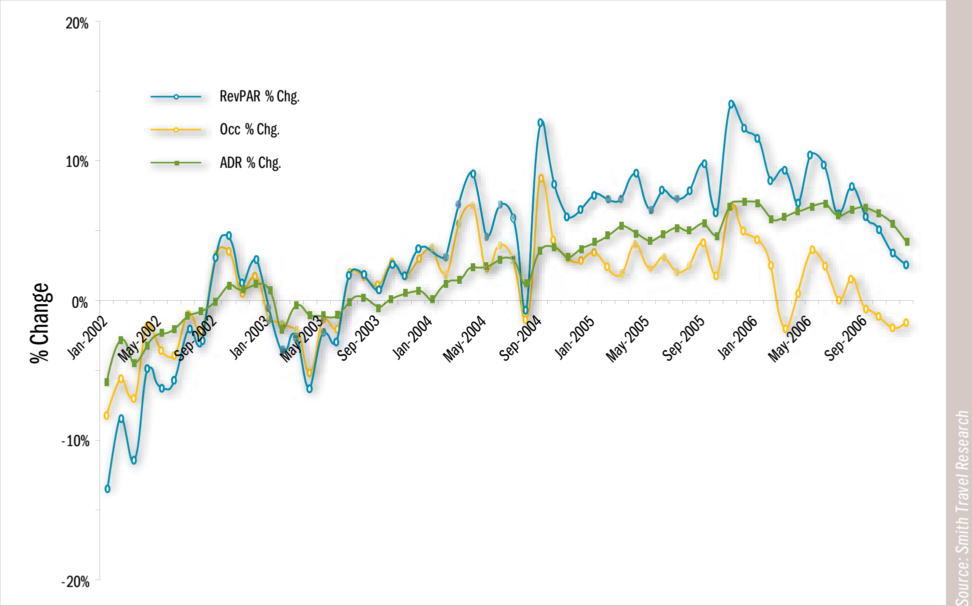
In 2007, the Midscale with Food and Beverage segment is anticipated to remain constant at 59.5%. However, ADR is anticipated to increase by 5.0% to US$86, resulting in a RevPAR growth of 5.0% to US$51.

1 Business Travel News, "Top US Hotel Chain Survey: Courtyard Takes Midprice With F&B; Country Inns Without," March 6, 2006.

LODGING MARKET Occupancy, ADR, RevPAR Performance



LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



midscale without food and beverage

The Midscale without Food and Beverage segment has seen significant activity in 2006, with continued increases to room supply, the addition of new brands, and continued demand growth. Although this trend is projected to continue into 2007, its pace is anticipated to slow down slightly. In comparison to the Midscale with Food and Beverage segment, Midscale without Food and Beverage has performed an average of approximately 6.8 percentage points higher in occupancy. Despite continued increases in room supply, this trend is anticipated to continue in 2007 as a result of increasing value to the customer through bedding program upgrades and better complimentary breakfast offerings. The continued effort by brands towards upgrading amenities blends the line between the Midscale without Food and Beverage and the Midscale with Food and Beverage segment.[1]

The spurred growth of the Midscale without Food and Beverage segment can be attributed to the conversion of underperforming hotels from other segments and its increased appeal to developers and lenders. According to Torto Wheaton Research, the supply pipeline for 2007 totals approximately 26,000 rooms compared to 4,000 rooms for the Midscale without Food and Beverage segment.[2] This segment is often viewed as a win-win situation for all parties involved, as it has a relatively lower construction cost, an expanded Midscale franchise market, and higher operating performances with comparatively lower risks. As a result, it is considered the most stable segment during economic downturns but is also a relatively solid performer during economic prosperity, as indicated post-9/11.

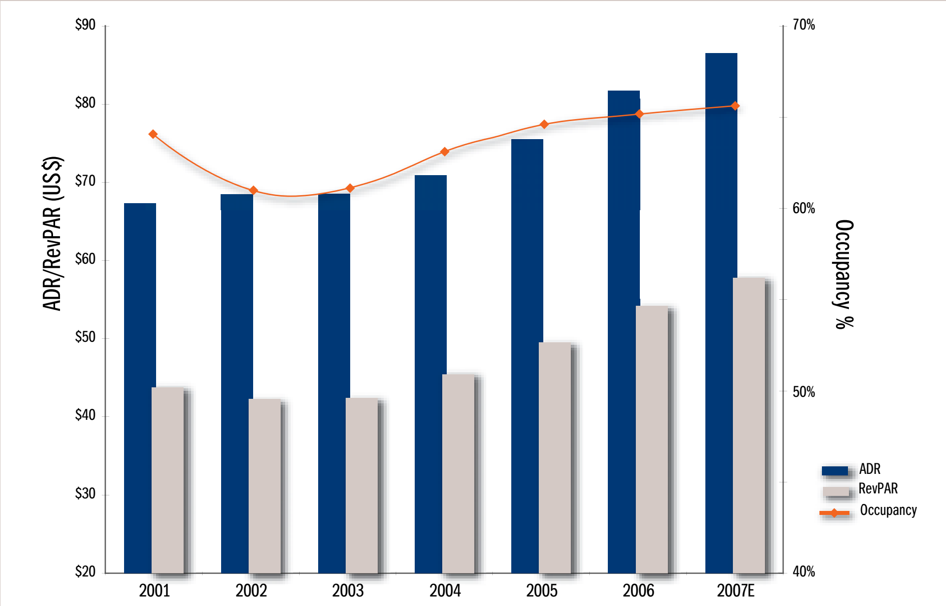
The Midscale without Food and Beverage segment achieved a 9.3% increase in RevPAR during 2006, mainly from ADR growth. Based on year-end 2006 data provided by Smith Travel Research, occupancy was at 66.3%, a 0.6 percentage point increase over the occupancy of 65.7% in 2005. The segment's ADR of US$82 in 2006 represents an 8.2% increase over 2005, resulting in an overall RevPAR increase to US$54.

In 2007, it is anticipated that occupancy growth will remain moderate with both an increase in new supply and continued demand growth. The strongest gains will continue to be in ADR. Occupancy is anticipated to increase by 0.5 percentage point to 66.8%, ADR by 5.9% to US$87, resulting in a RevPAR increase of 6.6% to US$58.

1 Business Travel News, "Top US Hotel Chain Survey: Courtyard Takes Midprice With F&B; Country Inns Without," 6 March 2006.

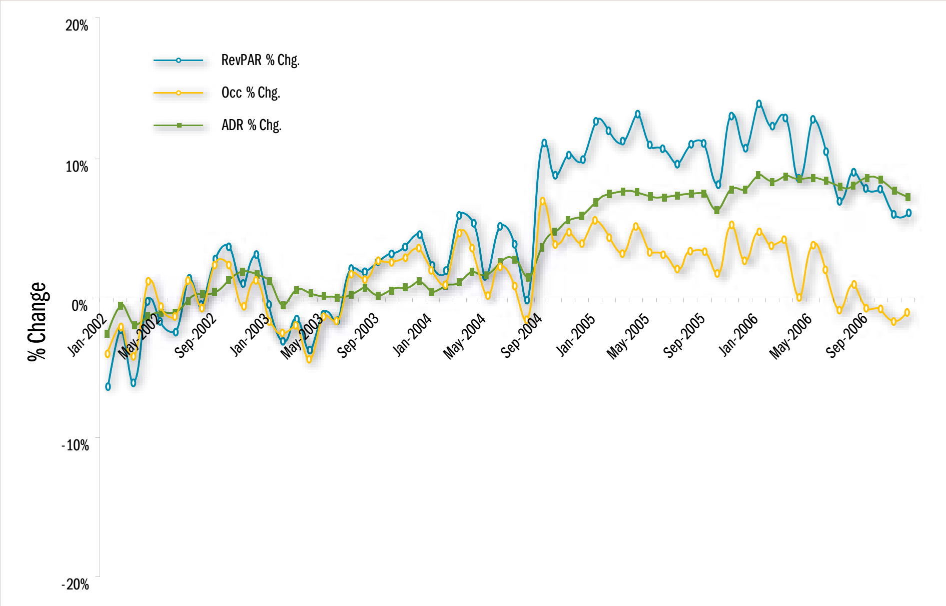
2 Torto Wheaton Research, Construction Pipeline 2006-2007.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

economy

While the overall US lodging market continued to show strong signals of economic growth in 2006, the Economy segment slowed in terms of occupancy and showed improvement in ADR. With stronger economic indicators, business and leisure travelers are choosing higher segments for their travel. In a recent survey conducted by Hotel Business, only 11% of the participants indicated that they would choose the Economy segment for their travel, lower than the 31% for Midscale and 44% for Upscale.[1] Increases to fuel prices over the past year have resulted in air travel becoming an even more expensive means for leisure travel compared to automobiles. With many Economy hotels located in proximity to major roadways, occupancy may be positively impacted in the near future.[2]

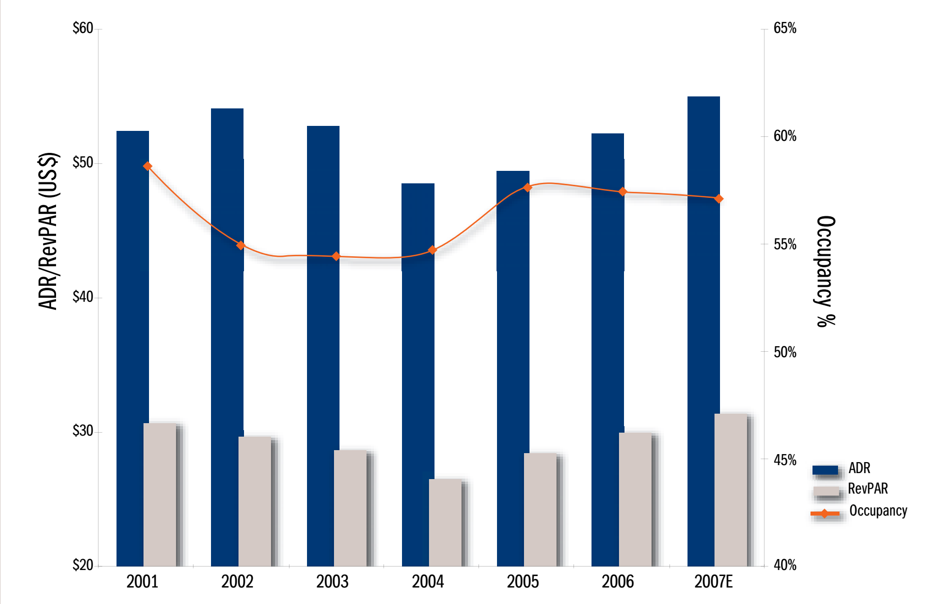
Despite a moderate growth outlook for 2007, the Economy segment will experience continued supply growth through 2010, both domestically and internationally. Some hotel groups with both Upscale and Economy brands expect to open over 200,000 rooms through 2010. One-quarter of those rooms planned for the Economy segment will be opened domestically.[3] In addition to continued growth, the market as a whole has seen a change in the products it offers. With newer technologies and amenities being offered to guests by other segments, the Economy segment has begun to offer a more standard product in an attempt to grow its share of leisure and business travelers. To market to these travelers, brands are upgrading their properties and amenities as well as their guest loyalty program.[4]

The Economy segment achieved a 5.4% increase in RevPAR during 2006 mainly from ADR growth. Based on year-end 2006 data provided by Smith Travel Research, occupancy was at 57.3%, a 0.2 percentage point decrease relative to occupancy in 2005 of 57.5%. The segment achieved an ADR of US$52 in 2006, representing a 5.7% increase over 2005, with overall RevPAR reaching US$30.

Occupancy growth in 2007 is anticipated to be negative with limited new supply and moderate gains with respect to ADR. Occupancy is anticipated to decrease by 0.3 percentage points to 57.0%, while ADR increases by 5.3% to US$55, and RevPAR increases by 4.8% to US$31.

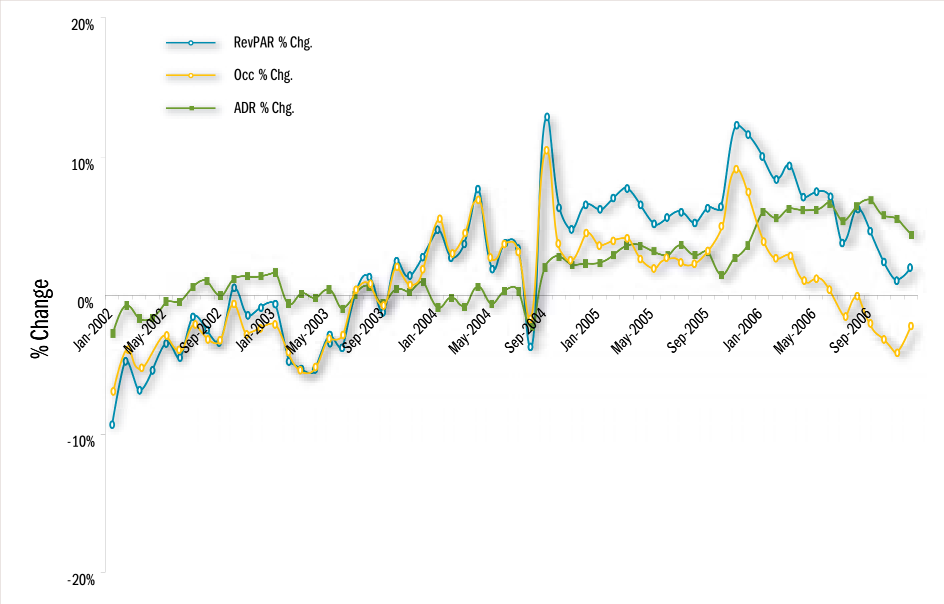
1 Dennis Nessler, “Consumer Forecast,” Hotel Business, - Forecast 2007, October2006, page 8.
2 Business Wire, “Accor North America Offers Consumers Great Options for Summer Travel at Its Leading Economy Properties; Travelers Choosing Automobile over Planes Due to Cost Increases,” 11 July 2006.
3 Marshall Krantz, Meeting News, “Room Boom,” - Factiva search, 18 December 2006.
4 Business Travel News (US), “Cendant Reveals Hotel Strategy,” 3 April 2006.

LODGING MARKET Occupancy, ADR, RevPAR Performance

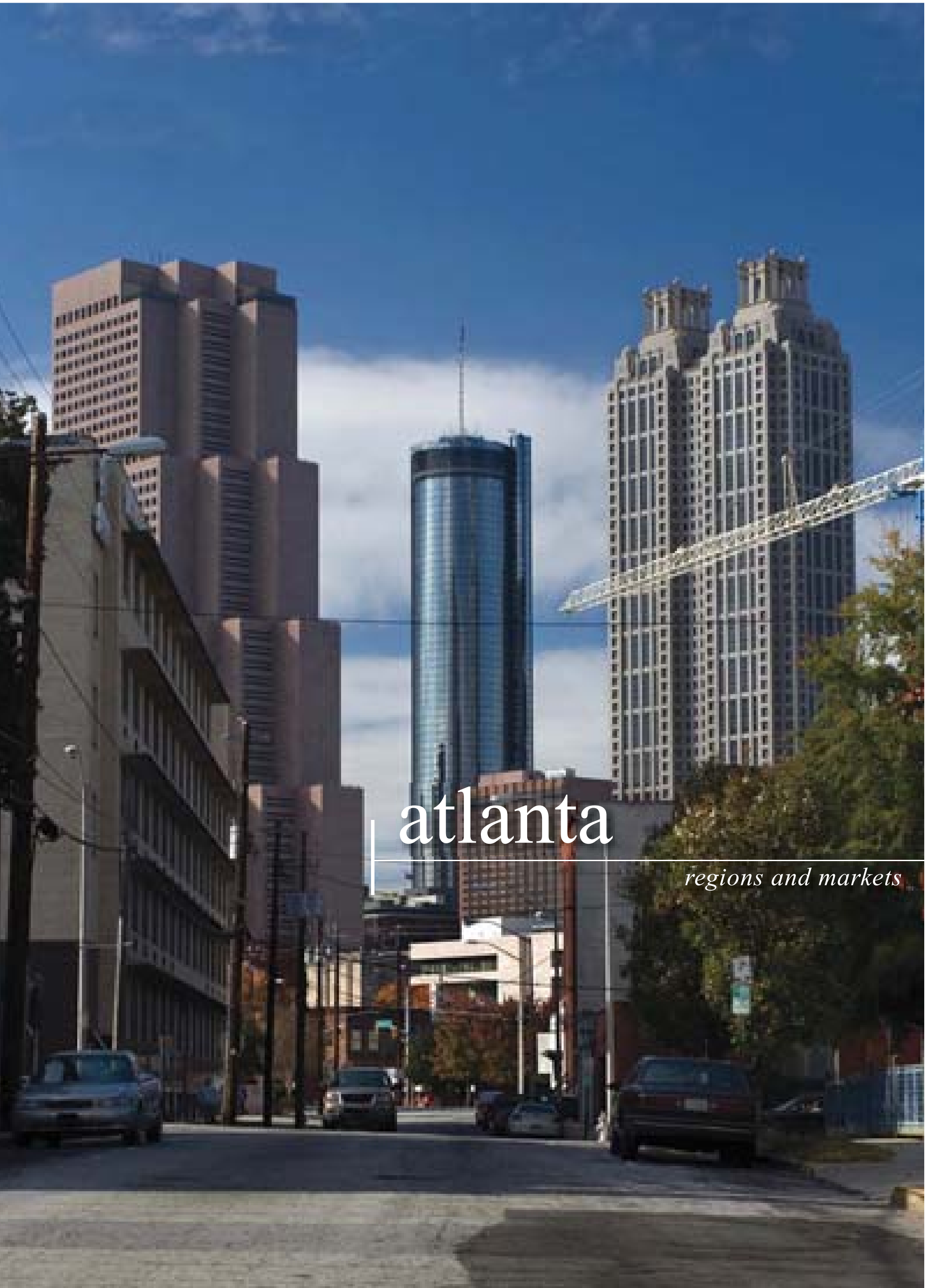


Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research



atlanta

regions and markets

atlanta

Introduction

Atlanta's lodging industry experienced solid performance in 2006, showing significant growth in ADR. Strong convention activity helped maintain occupancy levels through the year. Based on year-end 2006 data from Smith Travel Research, overall occupancy in 2006 decreased 0.2 percentage points to 64.5%, with ADR increasing by 9.2% to US$86, resulting in a RevPAR increase of 8.8% to US$55.

Hot Topics

Economic and Convention Growth – Hotel Development Activity Continues

The Atlanta metro area is estimated to have approximately 93,000 rooms, one of the largest concentrations of hotel inventory in the country.[1] However, with continued economic and convention growth, the area is anticipated to see continued development over the next couple of years. With large conventions creating sell-out situations and scarcity of rooms, an additional ten hotels are either under construction or scheduled to begin construction in 2007. Although the direct economic impact of the additional hotels will vary depending on size and services offered, jobs will be created along with opportunities for other service providers, spurring more growth.

The Luxury Segment – Existing Hotels Continually Evolve In Light of New Competitors

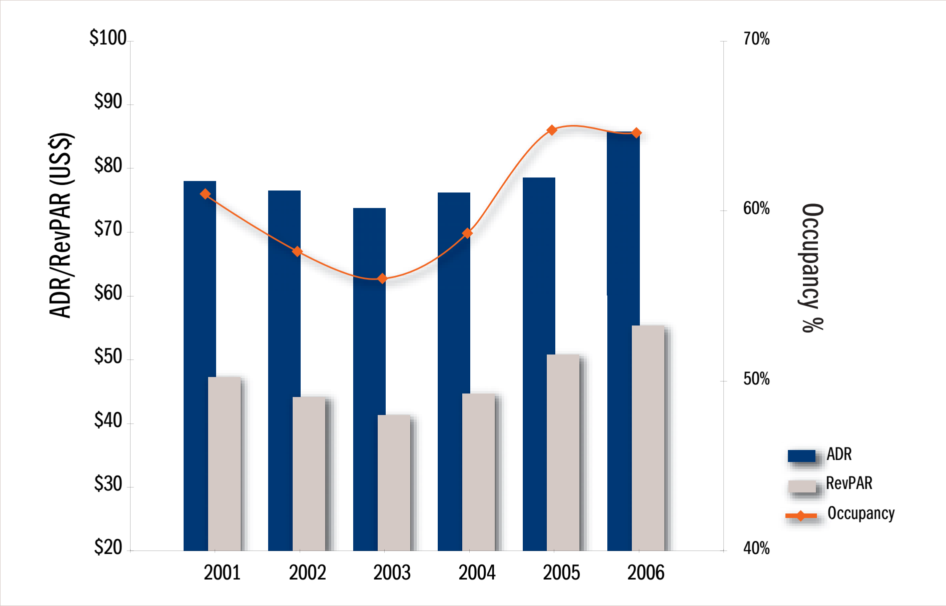
Atlanta's Luxury segment already includes a number of major luxury brands, such as the W at the Perimeter, a Four Seasons, a Ritz Carlton, and an InterContinental. Despite strong luxury brand presence and high barriers to entry, additional luxury brands are anticipated to enter the market over the next couple of years. Hotel developers will add rooms representing luxury brands, such as the Rosewood, another W Hotel, and a St. Regis. In anticipation of these new additions, existing hotels have already started renovating and upgrading their rooms.

Atlanta's Convention & Visitors Bureau – One of the Country's Top Performers

Atlanta's Convention & Visitors Bureau (ACVB) was selected as one of the nation's top convention and visitors bureaus by reader polls from several industry magazines, and Atlanta continues to remain one of the top convention cities. At more than US$10 billion, Atlanta's convention and tourism market

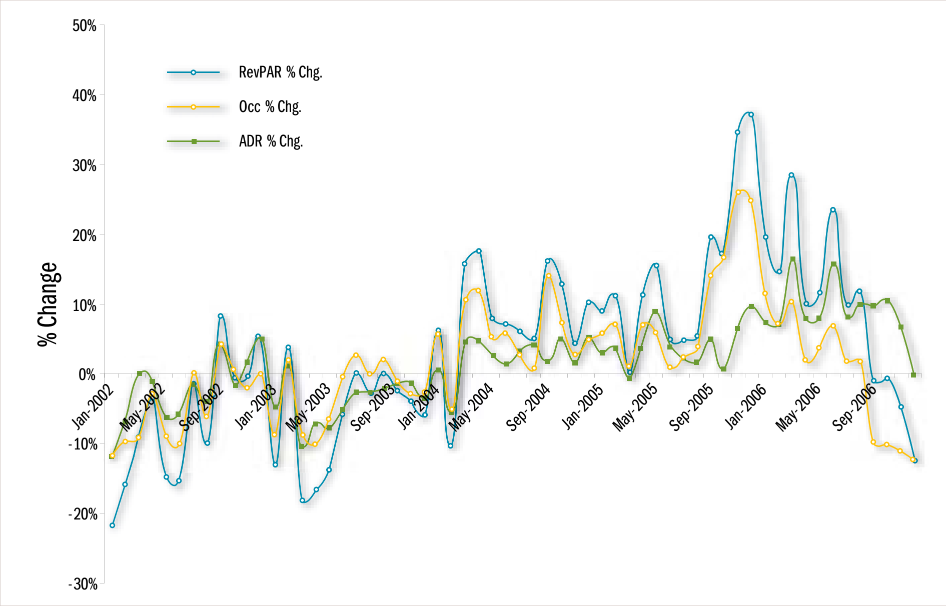
1 "New Hotels Spread Wealth: Chance to Grow: Those Who Provide Services to the Innkeepers, Guests See Opportunity with 10 New Venues." The Atlanta Journal-Constitution, 28 September 2006.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

is one of the city's largest industries.[2] 2006 experienced an increase in convention activity as the economy grew stronger and several conventions from New Orleans were relocated to Atlanta. In addition, the ACVB is promoting Atlanta as a destination providing not only convention facilities but various entertainment venues.

Hartsfield-Jackson Atlanta International Airport – Keeping Up with Strong Demand

The Hartsfield-Jackson Atlanta International Airport is considered one of the world's busiest passenger airports. It caters to approximately 32 airlines.[3] Overall, as of year-end 2006, the airport serviced nearly 84.8 million passengers, a 1.2% decline versus the same period the previous year, and showed an increase of 19.9% in international operations versus the same period the previous year. To keep pace with changing consumer trends, industry standards, and future growth, the city of Atlanta and the airlines have authorized nearly US$5.4 billion towards a 10-year development program for Hartsfield-Jackson airport .

Georgia Aquarium – Incredible First-Year Performance Leads to Significant Economic Impact

When the Georgia Aquarium opened in November 2005, the impact of this new demand generator was yet unknown to the market. In its opening year, there were more than 3.6 million visitors, resulting in the decision to undergo a US$13 million building improvement project in anticipation of future growth. The aquarium has had a direct impact on hotel occupancy in the city and in attracting additional conventions to the area. Although the actual economic impact is difficult to estimate, according to a study being conducted by the aquarium, the facility is anticipated to generate US$1.3 to US$1.5 billion in economic activity.

Outlook

With ACVB continuing to attract major conventions to Atlanta, the continued development plans of Hartsfield-Jackson Atlanta International Airport, and the evolving luxury market, Atlanta's industry performance is anticipated to remain strong in 2007.

2 "Atlanta Convention & Visitors Bureau Soars in 2006" – Bureau Receives five industry awards and exceeds year-end-expectations –www.atlanta.net , 19 January 2007.

3 "Hartsfield-Jackson Atlanta International Airport – Monthly Airport Traffic Report" – November 2006, <www.atlanta-airport.com>.

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 91,907 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Homewood Suites	Lawrenceville, GA	110	February 2007	Quality Oil Co.
The Ellis	Atlanta, GA	127	April 2007	Kelco Management & Development Co
Twelve Centennial Park	Atlanta, GA	100	August 2007	Novare Group
Courtyard by Marriott	Buford, GA	107	September 2007	Sivica Communities Inc
W Hotel Atlanta Downtown	Atlanta, GA	237	October 2007	Barry Real Estate Co.'s
Hilton Garden Inn @ Centennial Olympic Park	Atlanta, GA	242	November 2007	Hilton Hotels Corp.
The Stanbury A Solis Boutique Hotel & Spa	Alpharetta, GA	144	December 2007	West Paces Hotel Group LLC
The Mansion on Peachtree Hotel (Rosewood)	Atlanta, GA	124	February 2008	City Centre Properties
Hotel Indigo	College Park, GA	120	February 2008	InterContinental Hotel Group
Embassy Suites	Kennesaw, GA	156	June 2008	Not Available
Hilton Atlanta Buckhead	Atlanta, GA	300	February 2009	Hilton Hotels Corp.
St. Regis Buckhead Hotel & Condominiums	Atlanta, GA	150	May 2009	Starwood Hotels and Resorts Worldwide, Inc.
Hotel Palomar Atlanta	Atlanta, GA	230	May 2009	Kimpton Hotel and Restaurant Group Inc.
Grand Empire Palace & Indoor Amusement & Waterpark Resort	Lithonia, GA	400	January 2010	Top Flight Development LLC

Source: Smith Travel Research

boston

regions and markets

boston

Introduction

The Boston lodging market had a strong performance in 2006 with increases in both occupancy and ADR. Based on year-end 2006 data from Smith Travel Research, overall occupancy increased 1.8 percentage points from 65.3% to 67.1%. During the same period, ADR increased 9.1% from US$130 to US$142. The increases in occupancy and ADR resulted in an increase in RevPAR of 12.1% from US$85 to US$95.

Hot Topics

The Big Dig – Regains Momentum after Accident

In December 2006, following repairs and inspection, the Big Dig reopened months after a fatal accident which claimed the life of a motorist in July 2006. The most expensive highway project in US history, the Big Dig has been plagued with problems since planning started over two decades ago. The long-term impact of the accident on tourism, travel, and convention business is uncertain, but informal surveys conducted by the Greater Boston Convention & Visitors Bureau indicate that the effect on tourism is small.[1]

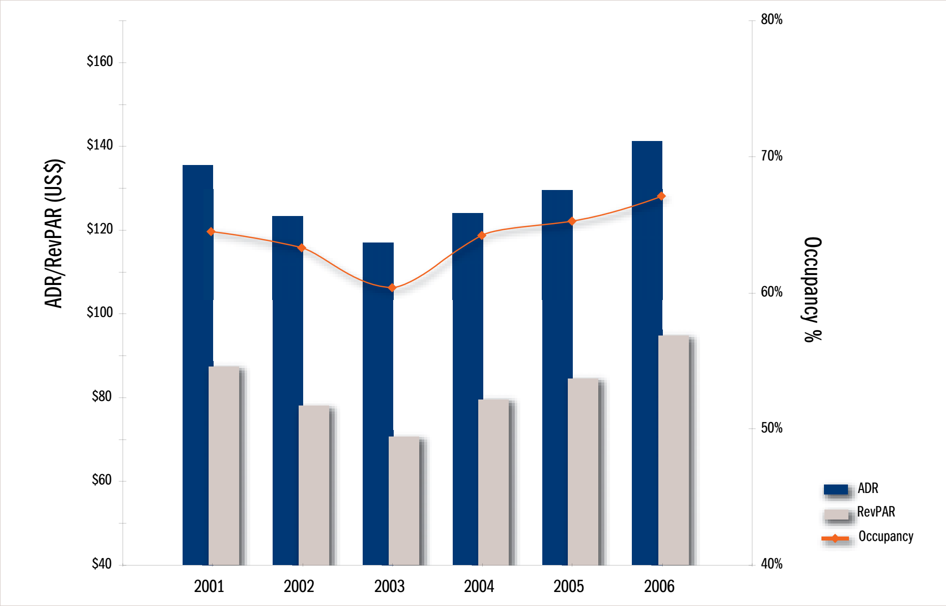
Convention Activity – Boston Convention & Exhibition Center Performance Surpasses Hynes Veterans Memorial Convention Center

Opened in June 2004, the US$800 million Boston Convention & Exhibition Center (BCEC) has become a major demand generator for the Boston lodging market, in particular the South Boston area. For the first time this year, the hotel bookings generated by the BCEC will exceed those generated by the Hynes Veterans Memorial Convention Center in Back Bay, more than tripling from 108,000 room nights in 2006 to a projected 356,000 room nights in 2007. Together, the two convention centers hosted 276 events in fiscal year 2006, bringing in 579,370 attendees and generating US$434.71 million for the Greater Boston economy.[2]

1 Burge, Kathleen. "While Far-Flung Tourists Still Stream In, Many Neighbors Don't Venture Our Way If They Can Help It. So the Powers That Be Have Launched a Plan to Bring Them Back." The Boston Globe, 3 September 2006.

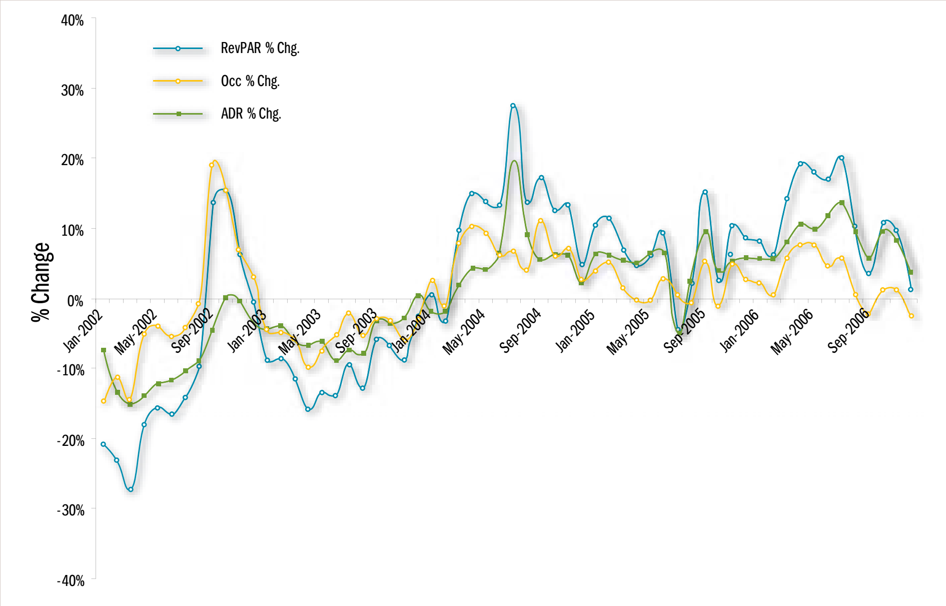
2 "MCCA Launches Neighborhood Art Program to Promote Local Art Groups." Massachusetts Convention Center Authority, 4 December 2006.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Luxury Brands – Rapid Growth in Supply and Rate

Despite the strong presence of luxury brands in Boston, rapidly rising room rates have attracted more high-end development to the areas of Back Bay, the Financial District, and South Boston. According to a Priceline.com survey, the average room rate at a four-star hotel in June through August 2006 increased 35% over the previous year to US$253, the highest increase observed in the country[3]. One of Boston's newest hotels, the 424-room InterContinental, opened in November 2006 and features a US$6,000-a-night presidential suite. Attached to the BCEC, the much-anticipated, 793-room Westin Boston Waterfront opened in June 2006 and was awarded the AAA four-diamond designation in November 2006. Other new projects include the 149-room Mandarin Oriental (opening September 2007) and the Regent (opening February 2008). City officials worry about the lack of Midscale hotels in the area, which cost the BCEC two significant convention bids in the past year. However, the high land costs in Boston's premier markets have driven development toward Upscale and Luxury products and are anticipated to continue to do so.

Transactions – Investors Taking Advantage of Attractive Market

Boston continues to be an attractive market to investors, evidenced by the high-profile transactions which took place in 2006. In November 2006, Taj Hotels entered into an agreement with Millennium Partners to acquire the 273-room Ritz-Carlton for US$170 million. The Ritz-Carlton, which was restored and refurbished in 2002 for US$50 million, is being converted to the Taj Boston, becoming the second Taj hotel in the US In March 2006, the Kimpton Hotel Group purchased the 189-room boutique property Nine Zero from InterContinental Real Estate Corporation for approximately US$71 million. Other properties that changed hands include the 273-room Embassy Suites Boston, which Eagle Hospitality acquired for US$53.4 million, and the 373-room Sheraton Framingham, which Pyramid Advisors purchased in April and plans to renovate for US$8 million.

Union Woes – Negotiations Continue as a Result of Previous Boycotts

If recent union activity is any indication, the union environment in Boston may give hotel operators and investors cause for concern. In the past year, Starwood conducted negotiations with Unite Here Local 26, which represents 5,000 workers in 19 hotels. Among the union's demands were higher wages, health-care contributions, and pension benefits. In October 2004, 85 union members participated in a sit-in at the Boston Hyatt Regency in support of 4,000 hotel workers who were locked out in San Francisco. In June 2005, Unite Here Local 26 declared a boycott on the InterContinental while it was still under construction because of a disagreement over whether the hotel would be operated by union employees.

3 Powell, Jennifer Heldt. "Commercial Real Estate Trends: Hub Hotel Rates Leap Up Fastest in Nation." Boston Herald. 29 June 2006.

Outlook

The Boston market is anticipated to follow its 2006 performance with another strong year in 2007. In spite of safety issues surrounding the Big Dig and concerns over union activity, Boston remains an attractive investment opportunity, and transaction and development activity is anticipated to remain high in the near future. With the BCEC bringing more business to the city's economy, lodging demand is anticipated to remain strong.

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 48,652 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
O'Callaghan Hotel Boston	Back Bay	130	April 2007	O'Callaghan Hotels
Liberty Hotel	Beacon Hill/West End	300	June 2007	Massachusetts General Hospital Planning Department
Unnamed Hotel Mixed-Use South Station	Downtown (Financial District)	200	June 2007	Gerald D Hines Interests
Mandarin Oriental Boston	Back Bay	149	September 2007	CWB Bolyston
Renaissance Hotel Boston Waterfront	Waterfront (South Boston)	471	December 2007	Hanscomb, Faithful & Gould
Regent Boston at Battery Wharf	Waterfront (South Boston)	150	February 2008	Development Management Corp.
W Hotel Boston	Downtown	234	April 2009	Sawyer Enterprises
Congress Hotel	Downtown (Financial District)	502	TBD	Madison Properties

Source: Smith Travel Research

chicago

regions and markets

chicago

Introduction

Chicago's lodging industry experienced robust performances in 2006 due to increases in occupancy and ADR. Strong convention activity helped finish the year with a return to pre-2001 levels. Based on year-end 2006 data from Smith Travel Research, overall occupancy in the Chicago market increased by 3.4 percentage points to 67.5% and ADR increased by 12.0% to US$122, resulting in a significant RevPAR increase of 17.9% to US$82.

Hot Topics

McCormick Place – Regaining Popularity as One of the Top Convention Destinations

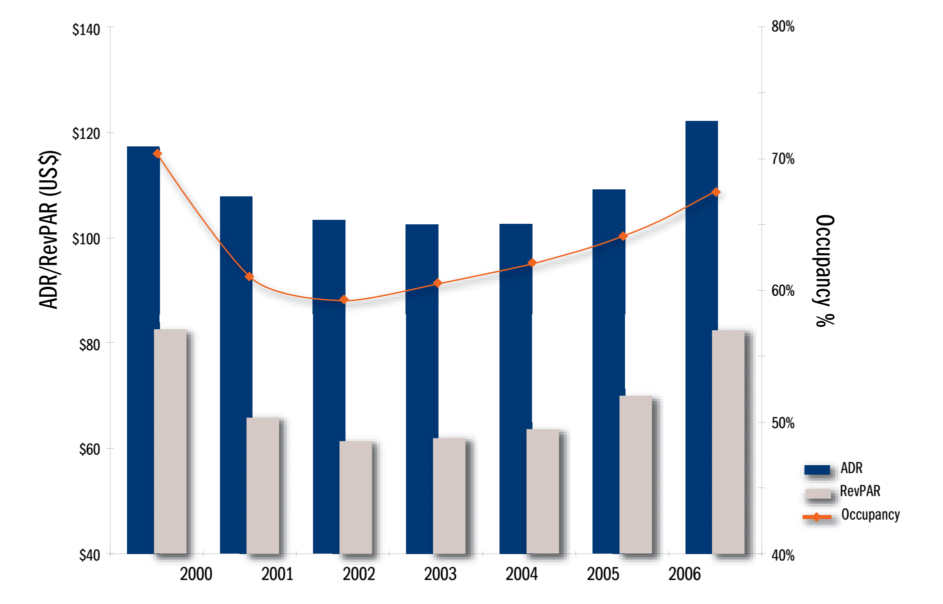
McCormick Place, which is anticipated to experience the highest convention activity in 2007 since 2000, is undergoing a US$850 million renovation, expanding convention space by approximately 470,000 square feet, making it the largest convention center in the US and third largest in the world. The extension of the National Restaurant Association's annual Restaurant Hotel-Motel Show agreement will contribute to stable convention activity through 2011.[1] This year's show brought more than 73,000 visitors from 110 different countries. To prove Chicago's commitment, the local hotel industry agreed to increase the number of rooms and room blocks for this annual tradeshow.

The Luxury Segment – The Choice for New Brands Entering Chicago

Chicago's Luxury segment already has major brand presence from the Ritz-Carlton and Four Seasons, creating high barriers to entry for new players. Nonetheless, there continues to be new players interested in entering this market. Proposed new developments include the Trump Tower, the Elysian Hotel, the Mandarin Oriental Hotel, and the Shangri-La (part of the new mixed-use Waterview Tower). [2] Starwood Capital's newly acquired brand, Le Crillon, is planning a 200-room hotel south of the Chicago River. In addition, GHM, a luxury British hotel chain, is currently looking at potential sites in the metropolitan area.

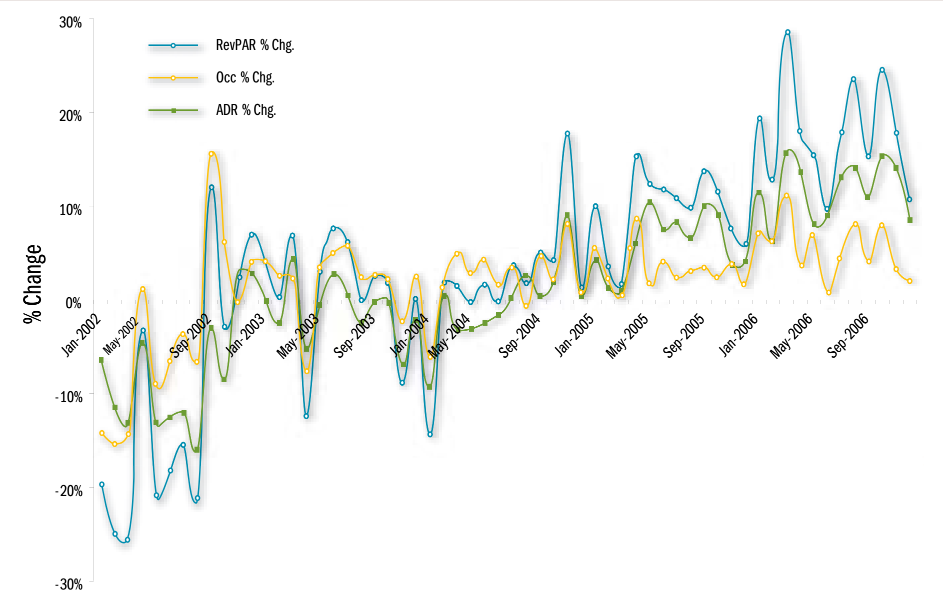
1 "Important Day in Chicago's Convention History as the National Restaurant Association Restaurant Hotel-Motel Show Signs 5 Year Agreement to Stay at McCormick Place." http://www.hotel-online.com/News/PR2006_3rd/Jul06_NRAChicago.html. July 2006.
2 "Shangri-La Hotels Selected as Operator for 200-room Condominium Hotel Within the 90-Story Waterview Tower Development in Chicago." http://www.hotel-online.com/News/PR2005_4th/Oct05_ShangriLaChicago.html. October 2005.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

The Suburbs – Development Activity Provides Continued Growth for the Chicago Market

Suburban Chicago has become a popular destination for developers, with new developments proving to help propel the region's economy. In Schaumburg, the new US$224 million, 500-room Renaissance Schaumburg Hotel & Convention Center opened in August.[3] Prior to opening, the hotel secured more than US$5.8 million in rooms and convention revenues.

Noteworthy Transactions – Entering the Market through Impressive Acquisitions

Chicago's transaction market witnessed notable properties changing hands in 2006, due to strong lodging fundamentals. Joint venture partners and foreign investors were active participants. The 357-room Inn of Chicago, a landmark building opened in 1928, was purchased for US$40 million by a joint venture between Oxford Lodging Advisory & Investment Group and Longwing Real Estate Ventures, a member of the Dubai Investment Group.[4] The 443-room Allerton Crowne Plaza Chicago was also sold to Oxford Lodging and Perry Capital for more than US$70 million.[5] Also in November, the 311-room Conrad Chicago was sold for US$117.5 million to DiamondRock Hospitality.

Mixed-Use Popularity – Creating Value by Offering More Options

Mixed-use projects continue to be popular. Strategic Hotels & Resorts is planning an office, residential, and 150-room InterContinental with a 20,000 square-foot ballroom and an outdoor terrace view of Lakeshore East Park in the Aqua Building by 2009.[6] Draper & Kramer, Inc is anticipated to construct a mixed-use complex in South Streeterville containing 170 luxury condominiums and 200 hotel rooms. Overlooking the Magnificent Mile, Canyon Ranch is anticipated to operate the first urban hotel and residence wellness center, containing residential and hotel-condominiums, a 65,000 square-foot health and wellness center, a 100-seat restaurant, and parking facility.[7]

3 "The US$224 million Renaissance Schaumburg Hotel & Convention Center Opens with a US$200,000 Grand Opening Party." http://www.hotel-online.com/News/PR2006_3rd/Aug06_RenSchaumburg.html. August 2006.

4 "Oxford Lodging and Longwing Acquire the 357-room Inn of Chicago." http://www.hotel-online.com/News/PR2006_1st/Feb06_OxfordLongwing.html. February 2006.

5 "Oxford Lodging and Perry Capital Acquire Chicago's Allerton Crowne Plaza Chicago, Landmark-Designated Property Will Receive US$10-Million Renovation." http://www.hotel-online.com/News/PR2006_4th/Nov06_OxfordAllerton.html. November 2006.

6 "Strategic Hotels & Resorts, Inc. Acquiring 15 floors of the To-be-built Aqua Building in Chicago for US$82.4 million; Space to be Completed as 200 Hotel Rooms and 20,000 square foot Ballroom." http://www.hotel-online.com/News/PR2006_3rd/Sep06_AquaChicago.html. September 2006.

7 "Canyon Ranch and LR Development Company Building 128 Hotel Condominiums and 256 Residential Condominiums in a 67-story Tower in Downtown Chicago." http://www.hotel-online.com/News/PR2006_2nd/May06_CanyonChicago.html. May 2006.

Outlook

With key demand generators such as major convention activity at McCormick Place, Chicago's lodging industry performance is anticipated to remain strong again in 2007. Although construction costs are rising, developers continue to participate through hotel conversions and new hotel construction as part of mixed-use complexes. With submarkets that are not as mature as the downtown area, developers are also expanding into the suburbs where barriers to entry are lower. With high barriers to entry in the downtown area, Chicago will continue to see significant hotel transactions volume, which is a way for investors to take advantage of the strong economy.

Supply Additions

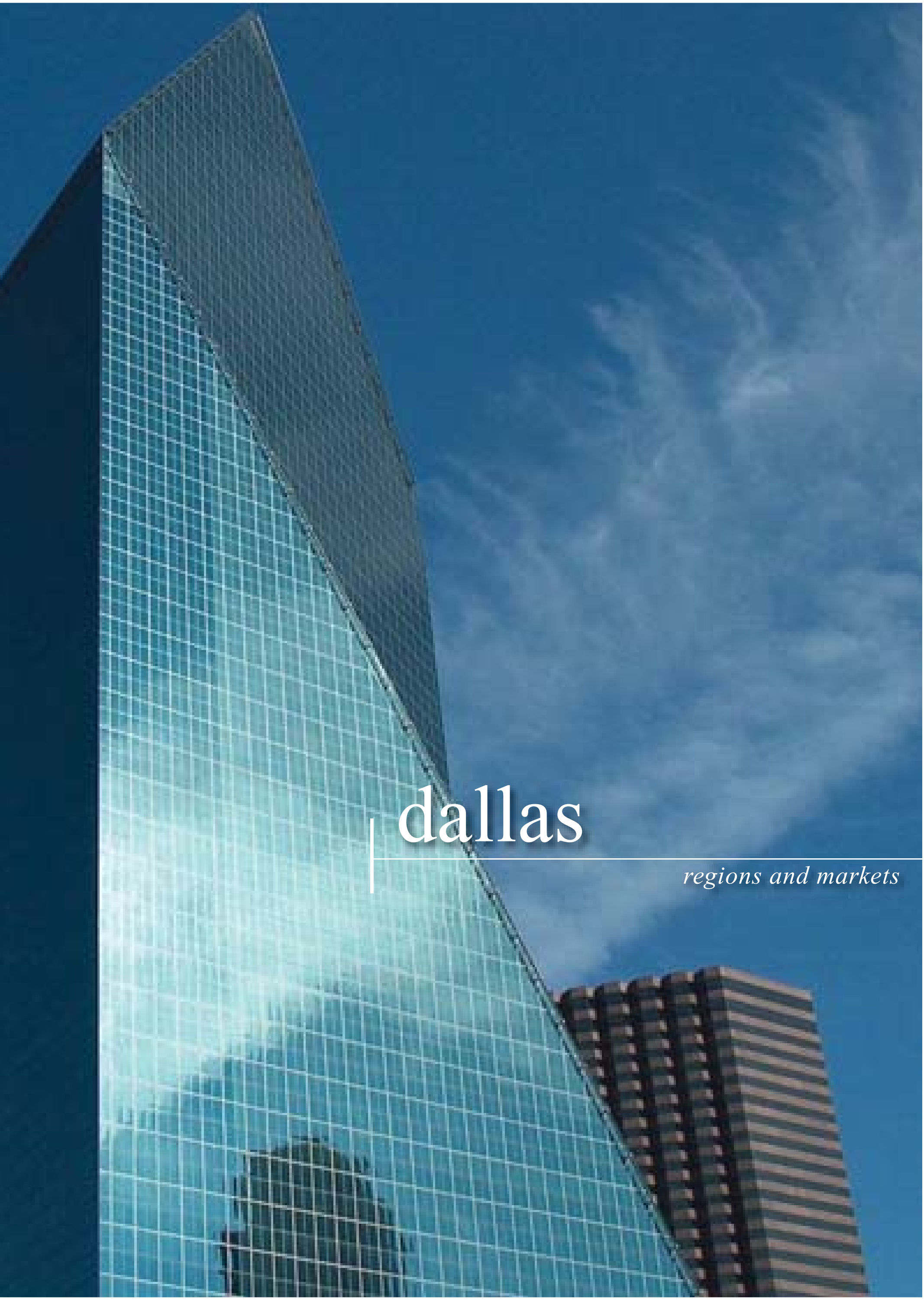
Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 102,082 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Homewood Suites Orland Park	Orland Park, IL	81	January 2007	Schulte Hospitality Group
Inn at Lincoln Park	Chicago, IL	150	January 2007	Inn at Lincoln Park
Residence Inn Mettawa	Mettawa, IL	130	March 2007	Hellmuth Obata & Kassabaum Inc.
Solis Chicago & Spa (renovation)	Chicago, IL	437	April 2007	The Falor Companies
Keylime Cove Resort	Gurnee, IL	611	June 2007	Great Northern Resorts
W Hotel Gurnee	Gurnee, IL	500	June 2007	Great Northern Resorts
Westin Lombard Yorktown Center	Lombard, IL	500	September 2007	Starwood Hotels and Resorts Worldwide Inc.
Springhill Suites Chicago Waukegan	Waukegan, IL	122	October 2007	White Lodging Services
Elysian Hotel	Chicago, IL	183	2007	Golub & Company
Hilton Garden Inn Lake Forest Mettawa	Mettawa, IL	170	January 2008	Hellmuth Obata & Kassabaum Inc.
Residence Inn Chicago Downtown River North	Chicago, IL	253	January 2008	White Lodging Services
Springhill Suites Chicago Downtown River North	Chicago, IL	253	January 2008	White Lodging Services

(Chicago Supply Additions, continued)

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Trump International Hotel & Tower Chicago	Chicago, IL	286	April 2008	Hollinger International Inc. (Chicago Sun Times)
Le Meridien Chicago O'Hare	Rosemont, IL	525	June 2008	Mid-America Development Partners
Residence Inn Chicago Lake Forest	Lake Forest, IL	130	June 2008	Not Available
Aloft Hotel Lincolnshire	Lincolnshire, IL	130	March 2009	Not Available
Shangri-La Hotel Chicago	Chicago, IL	222	May 2009	Not Available
InterContinental Chicago	Chicago, IL	150	June 2009	Strategic Hotel Capital Inc.
Mandarin Oriental Chicago	Chicago, IL	250	June 2009	Mandarin Oriental Hotel Group
Staybridge Suites Chicago	Chicago, IL	200	June 2009	Dellisart Lodging LLC
Aloft Hotel Chicago	Chicago, IL	250	July 2009	The John Buck Co.

Source: Smith Travel Research


dallas
regions and markets

Introduction

In 2006, the Dallas lodging industry experienced slight to moderate growth in ADR, occupancy, and RevPAR performance, partially due to convention activity shifting to Dallas in the past year and through the near term due to Hurricane Katrina. Based on year-end 2006 data from Smith Travel Research, overall occupancy in Dallas increased by 1.2 percentage points to 61.7%, with ADR increasing by 10.3% to US$86, resulting in a RevPAR increase of 12.5% to US$53.

Hot Topics

Dallas Economy – New Initiatives to Increase Hotel Development

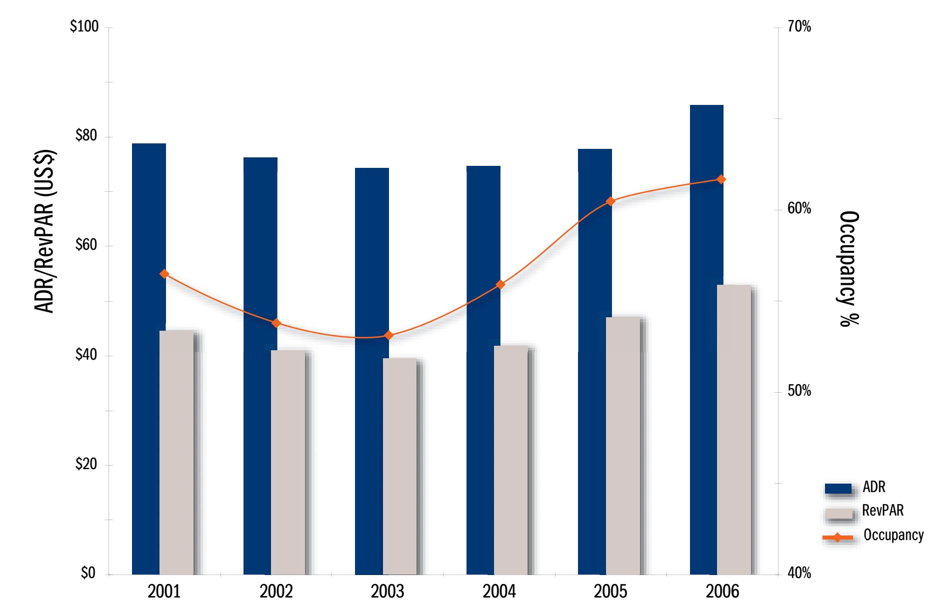
Though Dallas' economy has lagged behind other metropolitan cities[1] indicated by a stagnant personal income tax base, it grew at a solid pace in 2006, with increasing employment, particularly in the construction segment due to strong demand for office and hotel real estate.[2] Historically, Dallas' suburbs had been economically stronger than the city of Dallas. As such, in November 2006, Dallas voters approved a US$1.35 billion bond package to fund various city projects over the next couple of years.[3]

Dallas Convention & Visitors Bureau – Increases in Budget and Convention Activity

The Dallas Convention & Visitors Bureau (DCVB) is anticipated to increase its marketing budget by US$5 million to promote the "Live Large. Think Big." campaign.[4] Currently, the DCVB budget includes approximately US$1.7 million for advertising, compared to Las Vegas' marketing budget, which exceeds US$110 million. Although the number of convention bookings in Dallas has been increasing, the delay until 2009 in the opening of a 1,000-room hotel attached to Dallas Convention Center may forego over US$100 million in economic impact for Dallas. Currently, the Dallas Convention Center is the only facility among the top 20 US convention centers without a headquarters hotel.

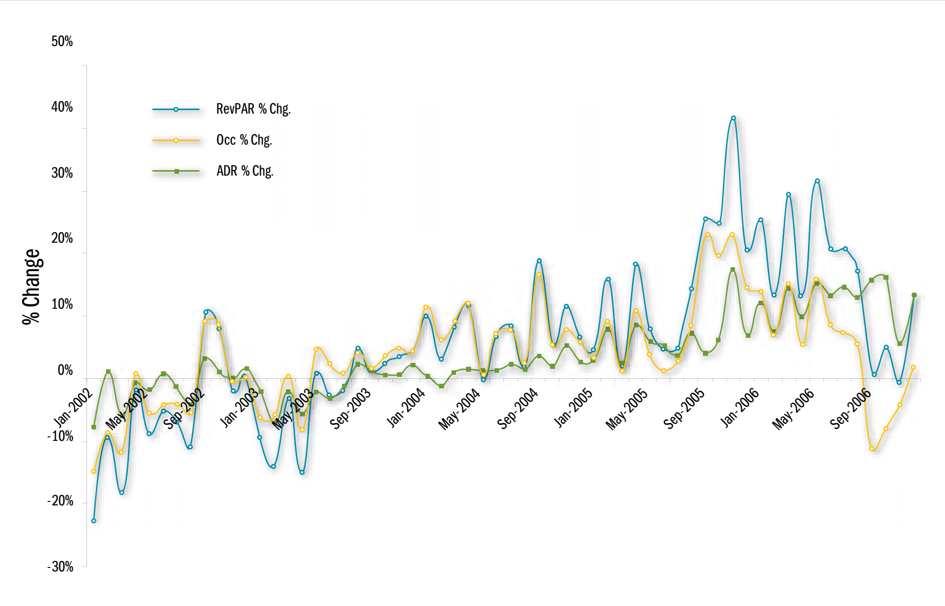
1 Shah, Angela. "Dallas At the Tipping Point: A Road Map for Renewal." The Dallas Morning News. 2004.
2 "Hot Stats – Texas State and Metro Economic Indicators." Federal Reserve Bank of Dallas. http://dallasfed.org/data/hotstats/econ/2007/econ0702.cfm. February 2007.
3 "With Bonds Passed, Prioritizing Begins in Dallas, Leaders Agree Projects for Flood Control, Streets Should Come First" The Dallas Morning News – 12 November 2006.
4 Marta, Suzanne. "Tourism Official Thinks Bigger Dallas Visitors Bureau Chief to Seek US$5 Million in Supplemental Funds." The Dallas Morning News. 25 October 2006.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Increasing Property Taxes – Higher Rates as Hotels' Value and Performance Improve

Since 2005, Dallas has increased hotel property tax rates by approximately 19%.[5] After major hotel property tax reductions post-9/11, this increase reflected improvement in the market and marked one of the highest increases in hotel property taxes in recent history, as property taxes are based on a property's market value and ability to produce income. As a result, Dallas hotels continue to increase room rates to offset higher taxes.

Existing Luxury Hotels – Strategies to Cope With Potential Over-Saturation in Supply

The number of luxury hotels in Dallas increased with the opening of the new W Dallas Victory and the Hotel Palomar Dallas in 2006. In the summer of 2007, the 216-room Ritz-Carlton Dallas is anticipated to open in Uptown Dallas.[6] Although initiatives to improve downtown Dallas have been made, Dallas may not have enough demand generators to support the growing number of luxury hotels. Historically, Dallas' ADR and occupancy rates have been consistently low compared to other urban cities. In an attempt to increase rates and in anticipation of new luxury hotels over-saturating the market, existing hotels, such as the Four Seasons Resort and Club Dallas, have made significant improvements to upgrade the properties.[7]

Real Estate Development – Strong Performance into the Near Future

Dallas is anticipated to experience continued growth of its condominium sale prices and office rental rates as demand increases in locations such as Uptown Dallas. High-rise condominium prices have increased from approximately US$325 to US$350 per square foot, while rental rates in both condominiums and offices are anticipated to increase due to a lag in construction pace. With the opening of the new Dallas Cowboys Stadium, Glorypark Arlington, a US$600 million mixed-use project is under development and will include more than one million square feet of office, retail, dining, hotel, and residential facilities.[8]

Outlook

As real estate performance in Dallas remains strong, investors will likely increase investment in the area, potentially resulting in a further increase in supply. However, with the increase in marketing budget, the DCVB should drive additional lodging demand into Dallas. In addition, with the increase in visibility from the new Dallas Cowboys Stadium in 2009, the outlook for the Dallas lodging

5 De Lollis, Barbara. "As Hotels Prosper, Their Property Taxes Surge." USA Today. July 13, 2006.

6 Crail, Bonnie. "The Ritz-Carlton, Dallas Announces Summer 2007 Opening, New Luxury Meeting and Event Options for Dallas." http://www.ritzcarlton.com/hotels/dallas/overview/pressreleases/opening.html.

7 Marta, Suzanne. "Four Seasons Plans US$150 Million Update Las Colinas Resort to Add Condos in a Crowded Luxury Field." The Dallas Morning News. December 2, 2006.

8 Ahles, Andrea. "Making a Deal; Large Mixed-Use Developments Now Rely on Local Governments to Pick Up a Share of the Tab for Roads and Public Infrastructure." The Fort Worth Star Telegram. November 27, 2006.

market remains positive for the next several years. As a result, it is anticipated to experience marginal to moderate growth in 2007.

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 71,695 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Holiday Inn	Denton, TX	153	January 2007	Teasley Partners Ltd.
Staybridge Suites	Plano, TX	110	January 2007	Silver Tree Partners
Holiday Inn Express & Suites DeSoto	DeSoto, TX	90	June 2007	Not Available
Hilton Dallas Rockwall	Rockwall, TX	231	July 2007	Whittle Development Inc.
Ritz-Carlton Hotel & Residences Dallas	Dallas, TX	216	July 2007	The Ritz-Carlton Hotel Co.
Hilton Garden Inn	Lewisville, TX	161	September 2007	Second Century Investments
Joule Urban Resort	Dallas, TX	125	October 2007	Eureka Hotel Group II, LP
NYLO Plano	Plano, TX	176	November 2007	The Karahan Cos.
Westin Pierre	Frisco, TX	100	November 2007	Not Available
Element Las Colinas	Las Colinas, TX	123	January 2008	Sava Group
Holiday Inn	Frisco, TX	126	March 2008	Glenbrook Lodging Inc.
Golden Tulip Hotel	McKinney, TX	280	November 2008	Craig Int'l.
Courtyard by Marriott McKinney	McKinney, TX	250	January 2009	John Q. Hammons Hotels, Inc.
Mandarin Oriental Hotel & Residences	Dallas, TX	120	April 2009	Hillwood Development
Marriott Convention Hotel	Dallas, TX	1,000	2009 – 2010	Woodbine Development Corp.
Watters Creek Development	Allen, TX	292	Not Available	Coventry Real Estate Partners of New York
Unnamed Hotel	Flower Mound, TX	280	Not Available	Cornell/Rader, LLC

Source: Smith Travel Research

fort lauderdale

regions and markets

fort lauderdale

Introduction

Fort Lauderdale experienced significant fluctuations in occupancy and ADR performance in 2006 relative to 2005, mostly attributable to the impact of an active 2005 hurricane season on available supply and demand. ADR increased 14.3% relative to 2005 to US$117, which can be partially attributed to a contraction in available supply following the renovation of inventory damaged by the 2005 hurricanes. Conversely, occupancy performance decreased by approximately 3.1 percentage points to 70.1%, a result of a decrease in hurricane-related demand in 2005 (e.g., utilities workers, insurance adjusters, displaced residents) as well as concern from leisure and group demand over hurricane activity during the season.

Hot Topics

Fort Lauderdale International Airport (FLL) – Constrained Capacity as a Challenge to Growth

Capacity constraints at FLL and the lack of international flights from Latin America and Europe pose a challenge to the city's future growth in tourism visitation. While expansion discussions were initiated in 2003 and a master plan was proposed for a second runway, no agreement has been reached to date. According to the Greater Fort Lauderdale Convention and Visitors Bureau, since 58% of domestic leisure visitors arrive by airplane,[1] the expansion of FLL will play a key role in the lodging industry's demand growth. Another challenge is the impact of fuel costs, which affect airport arrivals as large national carriers (e.g., Continental, Delta) have been shifting from low-fare domestic routes, such as many to and from FLL, to international routes that generate higher yields.

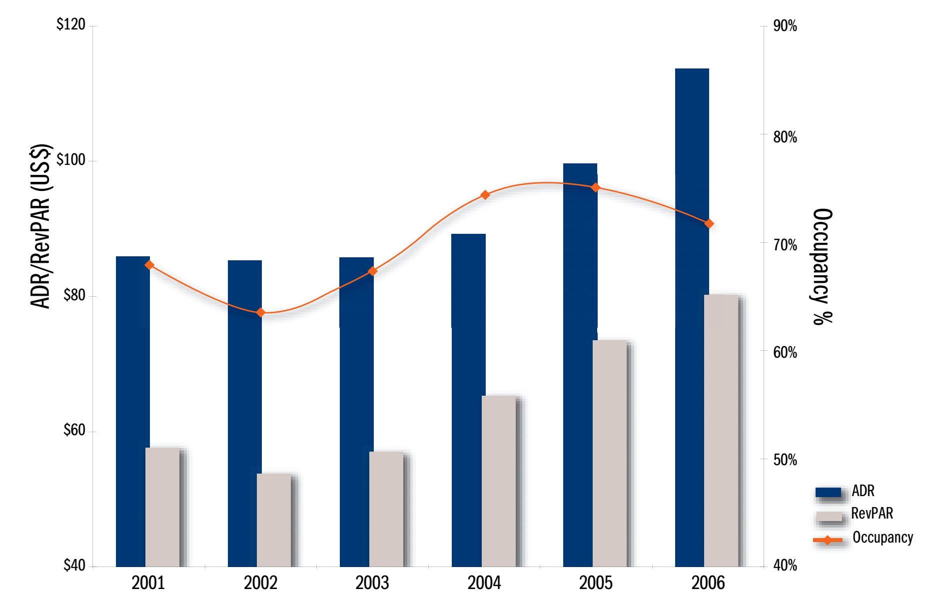
Greater Fort Lauderdale/Broward County Convention Center – Future Expansion May Continue to Help as Key for Seasonality Reduction

The 600,000 square foot convention center[2] is currently seeking approvals for an expansion that would increase its size to approximately one million square feet and the addition of a convention center hotel. The expansion (anticipated completion post-2010) would address the relocation of the

1 "Greater Fort Lauderdale 2005 Year-End Tourism Marketing Report", Greater Fort Lauderdale Convention and Visitors Bureau, 2006.

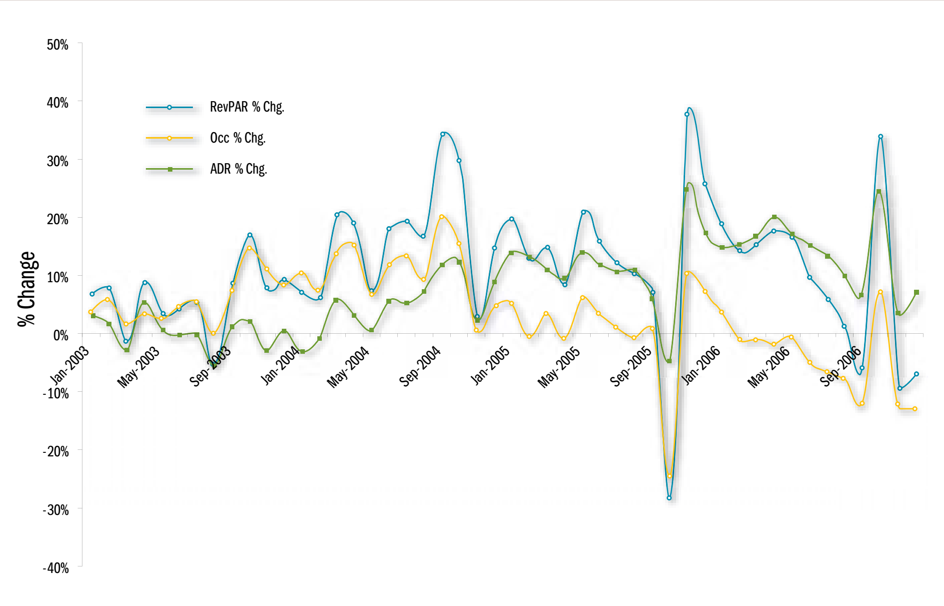
2 Fort Lauderdale Convention Center, http://www.ftlauderdalecc.com/facility.php , February 2007.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Port Everglades' security area, thus avoiding security check points for convention center visitors. During the low season (June through October), group demand remains an essential component of lodging market performance. In fiscal year 2006, 35% of future group bookings were for events in the low season.[3]

Fort Lauderdale Beach – A New Lifestyle Destination

Between 2007 and 2008, brands such as W, St. Regis, Trump, and Hilton will be adding approximately 1,300 condominium-hotel units to Fort Lauderdale Beach, effectively creating a lifestyle destination that began with the 2004 opening of The Atlantic, a member of Starwood's Luxury Collection. While these properties are anticipated to enhance the image of Fort Lauderdale as an upscale destination, they represent a significant addition to the market's lodging supply. Should this supply fail to induce sufficient demand, price discounts on beachfront properties could have a ripple effect on other submarkets and hurt overall rate performance in the mid-term. To the extent that the condominium market struggles in the Miami-Fort Lauderdale corridor and prices decline, there may be significant challenges for resales at many of these condominium-hotels.

Renovations – Repositioning as the Preferred Stand-Alone Hotel Strategy

While the majority of larger new developments have been financed through a condominium-hotel strategy, hotel-only owners/operators have been focused on repositioning their existing assets in prime locations to drive value and achieve faster exit strategies. Examples include renovations at LXR Resorts' Hyatt Pier 66, Fort Lauderdale Grande (formerly a Marriott), Stay Social (formerly a Holiday Inn), and Pyramid Advisors' conversion of a dated Doubletree beach property into a Courtyard. As these properties complete renovations through early 2008, some lodging submarkets, such as Fort Lauderdale Beach, are anticipated to benefit from further supply and demand imbalance.

Hurricane Season – Anticipated Stronger Activity in 2007 than in 2006

Late-developing conditions of El Niño, the main force behind hurricane activity, contributed to a calmer 2006 hurricane season compared to 2005. According to the National & Oceanic Atmospheric Administration, hurricane activity on the Florida coast is anticipated to be stronger in 2007 than in 2006, yet not as destructive as in 2005.[4] The beginning of the hurricane season is also anticipated to have a significant impact on lodging performance. In 2006, occupancy increased during the first six months, yet it decreased significantly in July and August, as the impact of hurricanes from the corresponding period in 2005 likely affected reservations from leisure travelers fearing another active season.

3 Interview with Chris Pollock, President, Fort Lauderdale Chamber of Commerce, November 2006.

4 "Return of el Nino Yields Near Normal 2006 Atlantic Hurricane Season," National Oceanic and Atmospheric Administration (NOAA), http://www.noaanews.noaa.gov/stories2006/s2748.htm , 2006.

Outlook

Fort Lauderdale continues to position itself as an upscale, leisure destination. As 2006 did not bring any major hurricane disruption, leisure demand is anticipated to pick up again in 2007. New supply entering the market is anticipated to keep occupancy relatively constant and ADR growth would remain moderately strong. While Port of Everglades has undergone renovations to enable more sustainable growth of visitation from cruise passengers, airport capacity concerns might pose a challenge for demand growth in the mid-term, thus affecting newly-opened and renovated properties beyond 2008. Further, as new luxury hotels on Fort Lauderdale Beach open, they are anticipated to become the rate leaders in the market; if demand for luxury accommodation lags new supply, rate discounts at these properties could have a negative impact on the overall market performance.

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 28,215 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Hilton Fort Lauderdale Beach Resort	Fort Lauderdale Beach, FL	373	February 2007	Costa Dorada
Il Lugano at the Intracoastal Homewood Suites	Fort Lauderdale Intracoastal, FL	105	February 2007	Robert M Couf
St Regis Resort, Fort Lauderdale	Fort Lauderdale Beach, FL	166	March 2007	Castillo Grande LLC
Crowne Plaza Sian Ocean Resort	Hollywood, FL	311	April 2007	MHI Hotels
Hollywood Grande Condominium Hotel & Resort	Hollywood Beach, FL	225	Early 2008	Fabrizio Passalacqua
W Hotel and Residences	Fort Lauderdale Beach, FL	346	Early 2008	Colonial Development Group LLC
Trump International Hotel & Tower	Fort Lauderdale Beach, FL	298	Early 2008	Stillman Bayrock Merrimac LLC
Trump Las Olas Beach Resort	Fort Lauderdale Beach, FL	95	Late 2008	550 Seabreeze Development

Source: Smith Travel Research

hawaii

regions and markets

Introduction

Hawaii's lodging industry experienced strong performance in 2006 largely due to increases in ADR. Based on year-end data from Smith Travel Research, overall occupancy levels decreased by 1.4 percentage points to 79.8%, with ADR increasing 10.8% to US$185, resulting in a RevPAR increase of 8.8% to reach US$147.

Hot Topics

Record Room Rates – Second in the US to New York

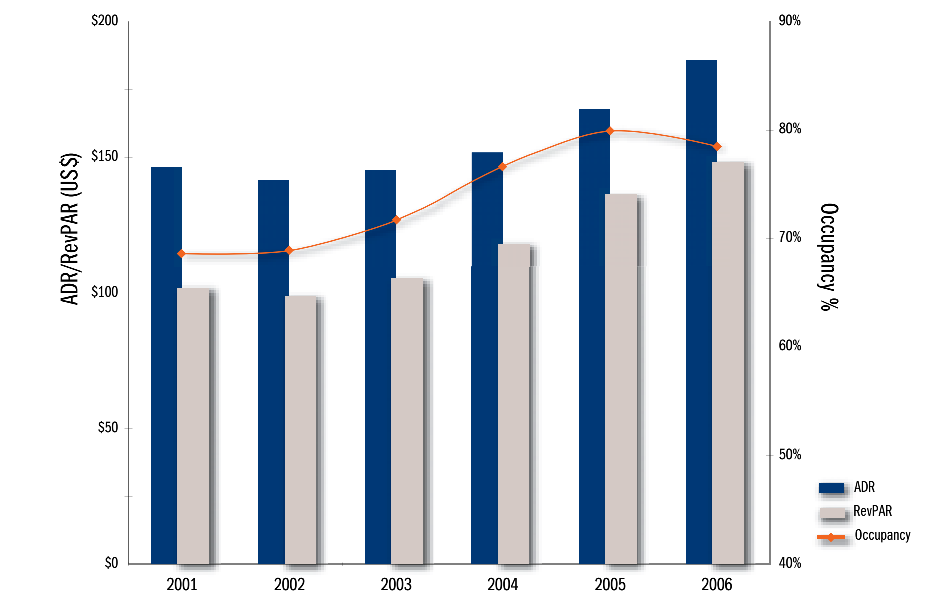
Total visitor spending increased 2.9% in 2006, bringing the total to US$12 billion and setting a new record.[1] With increasing demand coupled by decreasing supply, Hawaii achieved record ADR in 2006, averaging approximately US$180, with the peak months of July and August averaging approximately US$198. This increase in ADR is anticipated to continue in 2007 due to limited supply additions and a steady growth in the economy. Year-end 2006 ADR was US$185, second to New York at US$240, and ahead of Miami, third at US$142.

Hawaii – Fastest Growing US Cruise Destination

The cruise industry continued to expand into Hawaii as Norwegian Cruise Line introduced its third ship to the Hawaiian fleet. In 2006, the number of visitors who arrived by air to board cruises increased by approximately 29.2% to 330,000 compared to 2005.[2] The visitors were aboard 56 cruise ships and approximately 58.7% of out-of-state visitors were repeat visitors, a 3.3 percentage point increase compared to the same period the previous year. On average, cruise visitors stayed for 9.7 days in Hawaii of which nearly two-thirds were spent on the cruise.[3] This growing popularity of Hawaiian cruises is anticipated to continue over the next year.

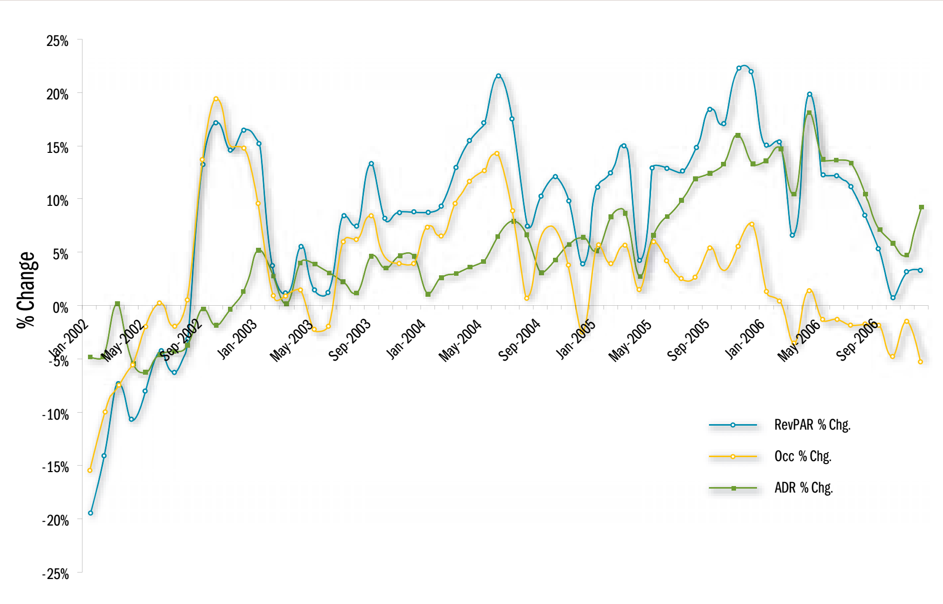
1 "Year-End Visitor Expenditures Set New Record" - http://www.hawaii.gov/dbedt/main/news_releases/2007/news-release-0701. 26 January 2007.
2 ibid.
3 ibid.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Nature of Visitors – International and Domestic Travelers[4]

Overall visitor arrivals to Hawaii in 2006 totaled approximately 67.5 million, representing a slight decrease of 0.3% compared to the previous year. International visitors decreased by approximately 6.6% to 1.9 million. Although visitors from Japan accounted for nearly 70% of international visitors, the total Japanese visitors decreased by approximately 9.4%, but continued to spend the most on a daily basis at US$267 per person or US$2.1 billion total, representing an increase of 4.7% compared to the previous year. The number of visitors from Canada increased by 9.9%, and their total expenditures increased by 8.2% to US$488 million, compared to the previous year. On the other hand, domestic visitors increased by 2.5% to 5.4 million setting a new record, a trend that is anticipated to continue.

Noteworthy Transactions – Reaching Record Prices

Hawaii's transaction market witnessed record-breaking transactions in 2006. In the past three years, approximately 35 major properties sold for an estimated US$4.4 billion. The 243-room Four Seasons Resort Hualalai was purchased by MSD Capital L.P. and the Rockpoint Group in June. The package which included the Four Seasons Resort and a master-planned residential village on 865 acres of coastal land, sold for approximately US$500 million. The value of the resort is estimated to have been more than US$1 million per key.[5] The 540-room Fairmont Orchid Hotel was sold to Westbrook Partners for US$250 million, approximately US$444,000 per key.

Condominium-Hotels – Incredible Sales Value and Volume

Record-breaking sales transactions and strong lodging fundamentals have made Hawaii an attractive investment location, particularly for condominium-hotels. There are an anticipated 27 condominium-hotel projects to open in 2007, representing an additional 5,025 rooms. The sales of Trump's International Hotel condominium-hotel project in Waikiki set a record for the amount of residential property – both in US dollar value and in unit volume – sold in one development in one day. More than 460 suites were sold in a few hours, worth over US$700 million.[6]

Outlook

Although Hawaii is celebrating 10 years of continued economic growth, the University of Hawaii Economic Research Organization indicates that the economy is anticipated to slow in 2007 as construction and tourism ease and inflation increases. With the high barriers to entry, Hawaii is still anticipated to see continued hotel transactions.

4 "Year-End Visitor Expenditures Set New Record" - http://www.hawaii.gov/dbedt/main/news_releases/2007/news-release-0701. 26 January 2007.

5 "Luxury Hotels breaking a million-dollar barrier" – The New York Times – 29 October 2006.

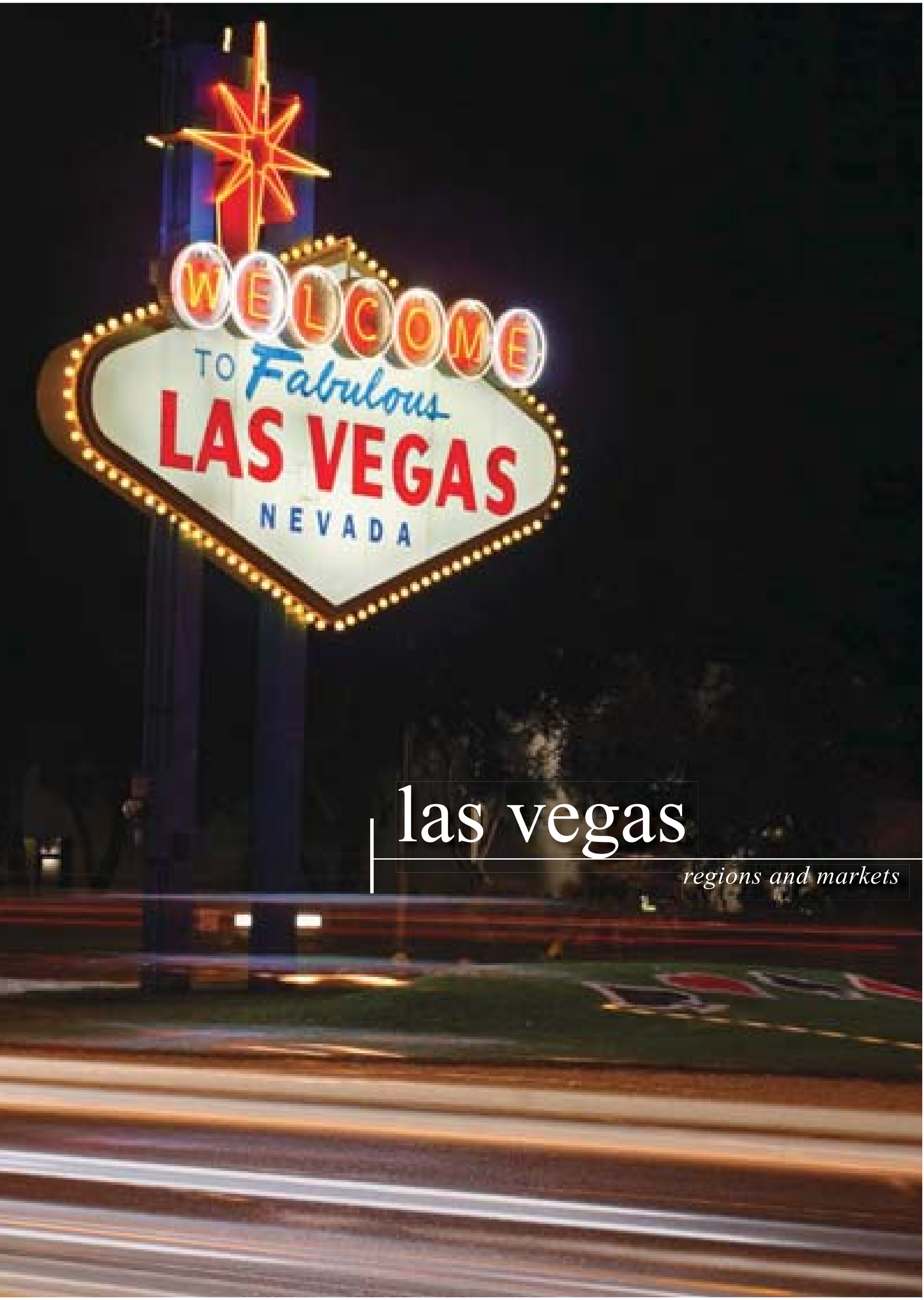
6 "Celebrities, investors buy Trump hotel-condos in Hawaii for US$700 million in single day" – Associated Press – 10 November 2006

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 59,102 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Embassy Suites	Honolulu, HI	421	January 2007	Outrigger Enterprises Inc.
Outrigger Waipouli Beach Resort & Spa	Kapaa–Kauai, HI	190	January 2007	Outrigger Enterprises Inc.
Trump International Hotel & Tower Waikiki Beach Walk	Honolulu, HI	464	November 2007	Irongate Capital Partners
Coco Palms Resort	Lihue – Kauai, HI	104	August 2008	Weiser Cos.

Source: Smith Travel Research



las vegas

regions and markets

las vegas

Introduction

The Las Vegas lodging and gaming industry continued to experience robust performances in 2006. Overall visitation to Las Vegas and passenger counts at McCarran International Airport increased compared to the previous year. Based on year-end 2006 data from the Las Vegas Convention and Visitors Authority, occupancy increased only 0.5 percentage points compared to the previous year, and ADR increased by 16.0%. Overall gaming revenue for Clark County in 2006 reached approximately US$10.6 billion, a 9.5% increase versus the previous year. Las Vegas is already home to 17 of the largest 20 hotels in the world based on room inventory. There are a number of mega projects either under development or in the planning stage, and Las Vegas is not showing signs of slowing down.

Hot Topics

Las Vegas Convention Center – Keeping Up with the National Convention Market

The Las Vegas Convention Center opened in 1959 with approximately 110,000 square feet of space[1]. Today, it features over 3.2 million square feet of space, making it the third largest convention center in the US after McCormick Place (Chicago) and the Orange County Convention Center (Orlando)[2]. In 2006, convention attendance in Las Vegas was up by 2.3% versus the corresponding period the previous year, setting a new record of 6.3 million attendees[3]. However, according to research sponsored by the Las Vegas Convention and Visitors Authority, attendance is anticipated to decrease unless the center is upgraded[4], so the convention center has approved test designs and materials that will be used toward a US$737 million renovation[5] (anticipated from 2007 through 2011). Convention attendance is anticipated to increase by approximately 300,000 per year thereafter.[6]

Development of New Airport – Resolution for Current Capacity Constraints

Capacity issues at McCarran International Airport have become a growing concern. It is anticipated that McCarran International Airport will reach its capacity before the targeted opening of a new

1 "Board to mull US$1.4 billion revamp for Las Vegas Convention Center" – Associated Press – 12 February 2006.
2 ibid.
3 "Las Vegas Welcomes Record Breaking Number of Visitors in 2006" – www.lvcva.com – 31 December 2006.
4 "Board to Mull US$1.4 billion Revamp for Las Vegas Convention Center" – Associated Press – 12 February 2006.
5 "Remodeling Project Serve as Test for Overhaul of Las Vegas Convention Center" – Las Vegas Review- Journal (MCT) – 11 October 2006.
6 "Board to Mull US$1.4 billion Revamp for Las Vegas Convention Center" – Associated Press – 12 February 2006.

airport in the Ivanpah Valley in 2017. With the continued development in Las Vegas and mega projects such as MGM Mirage's CityCenter, Boyd Gaming's Echelon, Wynn Las Vegas' Encore and Venetian's Palazzo, McCarran is expected to reach its capacity in 2012.

Slowing Housing Market – Overall Outlook Remains Positive

Despite a slowing housing market, Las Vegas's economy is healthy and growing. Currently, Las Vegas has approximately a 5.5% job growth and 7,800 new residents a month.[7] According to the University of Nevada Las Vegas (NLV) research center, the Southern Nevada Index of Leading Economic Indicators moved modestly upward to 132.6 in October 2006, versus the corresponding period the previous year of 131.8. However, UNLV's tourism index rose 5.8% versus the corresponding period the previous year to reach 162.4[8]. Year-to-date October gaming revenue in the Las Vegas metropolitan area is up 6.8% while visitor volume is up by 1.1% versus the same period the previous year.[9]

Airport and Freeway Congestions – Trains Are Possible Future Option

The last train to leave Las Vegas was more than nine years ago.[10] However, the prospect of trains reappearing in Las Vegas is being reconsidered. There have been plans for a high-speed, magnetic levitation train between Los Angeles and Las Vegas, although optimistic estimates do not have the system operational for another 10 years or more[11]. DesertXpress Enterprises Inc., a private company, is proposing a high speed conventional rail line between Las Vegas and Victorville, California, approximately 97 miles northeast of Los Angeles. Although both these proposals are in their preliminary stages, the capacity issues at McCarran International Airport and growing congestion on the freeway are encouraging alternative means of transportation to Las Vegas as a priority.

Private Equity – A Growing Player in Las Vegas

In the past, the gaming industry in Las Vegas has traditionally partnered with public markets to raise necessary capital for financing various operations. Recently, the gaming industry has gained additional attention from the private equity sector as well. The initial move towards private equity started again in 2004 when Colony Capital purchased the Las Vegas Hilton. More recently, Harrah's Entertainment was purchased for US$27.8 billion by two private equity groups: Apollo Management and Texas Pacific Group. This deal, the third-largest private-equity buyout in American history, has marked private equity groups as key players in Las Vegas.

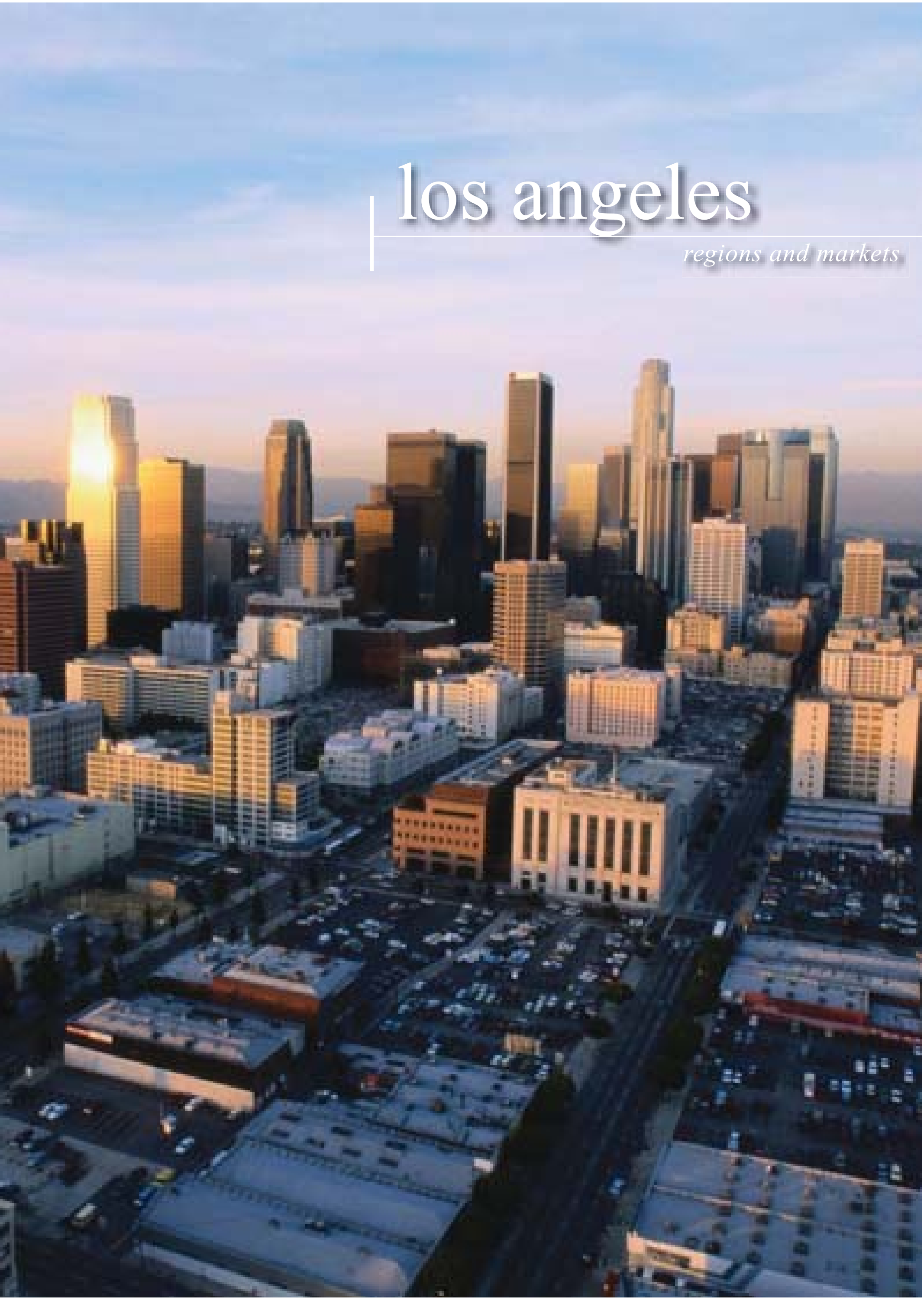
7 "Las Vegas economy keeps on ticking through housing downturn" – Las Vegas Review-Journal (MCT) – 11 November 2006.
8 ibid.
9 "2006 Las Vegas Year-to-date Executive Summary" – Las Vegas Convention & Visitors Bureau – www.lvcva.com
10 "Want to hop a train to L.A.? Take your pick" – Las Vegas Review-Journal (MCT) – 13 August 2006.
11 ibid.

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 154,406 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Palms Place Condominium-Hotel	Las Vegas, NV	599	June 2007	The Palms Casino Resort
The Palazzo Resort	Las Vegas, NV	3,025	July 2007	Venetian Hotel & Casino
Trump Tower II	Las Vegas, NV	1,282	January 2008	The Trump Organization
M Resort Hotel and Casino	Henderson, NV	1,000	May 2008	M Holdings, LLC
Grand Hyatt Las Vegas @ The Cosmopolitan Resort & Casino	Las Vegas, NV	800	June 2008	3700 Associates LLC
Loews Hotel	Lake Las Vegas, NV	400	2008	Loews Hotel
Encore Resort	Las Vegas, NV	2,054	December 2008	Wynn Resorts
Fontainebleau Condominium-Hotel	Las Vegas, NV	4,000	2009	Turnberry Construction/ Development Co.
MGM Mirage CityCenter	Las Vegas, NV	6,800	2009	MGM Mirage
W Hotel Condominium Resort & Casino	Las Vegas, NV	3,000	2009	Starwood Hotels and Resorts Worldwide, Inc. Edge Group
Echelon Place	Las Vegas, NV	5,300	2010	Boyd Gaming Morgans Hotel Group

Source: Las Vegas Convention and Visitors Bureau, Smith Travel Research


los angeles
regions and markets

los angeles

Introduction

The Los Angeles lodging industry experienced strong performance in 2006 largely due to increases in ADR. Based on year-end data from Smith Travel Research, overall occupancy levels increased a modest 0.5 percentage points to 75.1%, with ADR increasing 9.6% to US$114, resulting in a RevPAR increase of 10.2% to reach US$86.

Hot Topics

Downtown Boom – US$12.2 Billion Planned Construction Since 1999

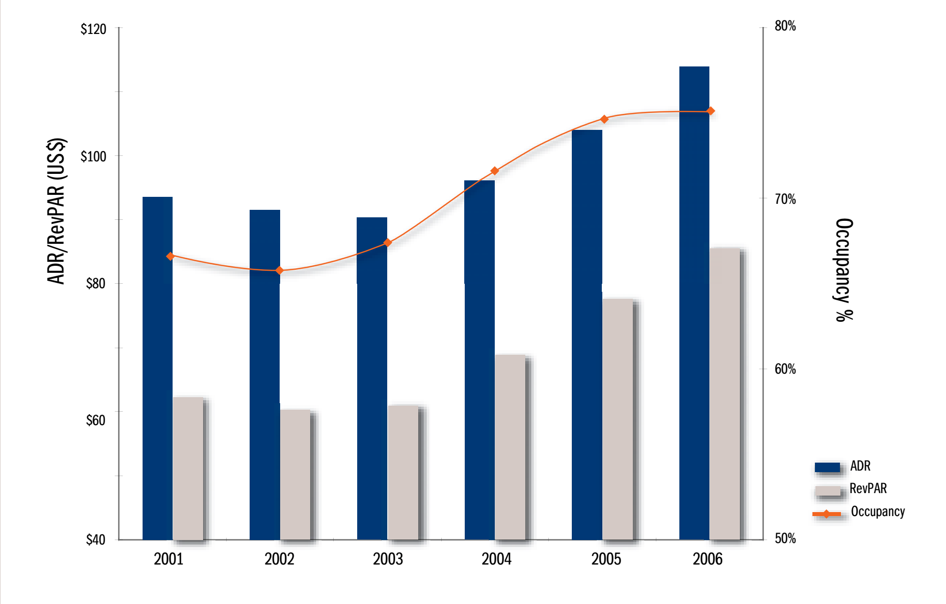
Downtown Los Angeles experienced significant increases in occupancy levels over the past years, largely due to the renewed interest in staying downtown and the continued renovation of rooms. On average, downtown hotels' ADR is anticipated to reach the low US$70s compared with the low US$50s in 2003. Furthermore, downtown has experienced a number of revitalization projects. According to a study conducted by the Los Angeles County Economic Development Corporation in February 2006, there has been an estimated US$12.2 billion worth of built and planned construction since 1999.[1] Approximately US$8.7 billion of this consists of private projects while the remaining capital is being spent on cultural and civic projects,[2] such as AEG's L.A. Live (consisting of retail, residential, hotel, entertainment) and The Related Company's Grand Avenue (including up to 3.2 million square feet of residential, hotel, retail, and park development[3]).

Lodging Fundamentals – Nearing Stabilized Occupancy

Over the past couple of years, Los Angeles experienced average occupancy growth of 5% annually, increasing from 67.4% in 2003 to approximately 74.6% in 2005. However, occupancy has only increased by 0.6% in 2006. Although certain locations within Los Angeles, such as Santa Monica and downtown, are anticipated to achieve continued growth, the overall occupancy level in Los Angeles is anticipated to experience minimal growth in 2007.

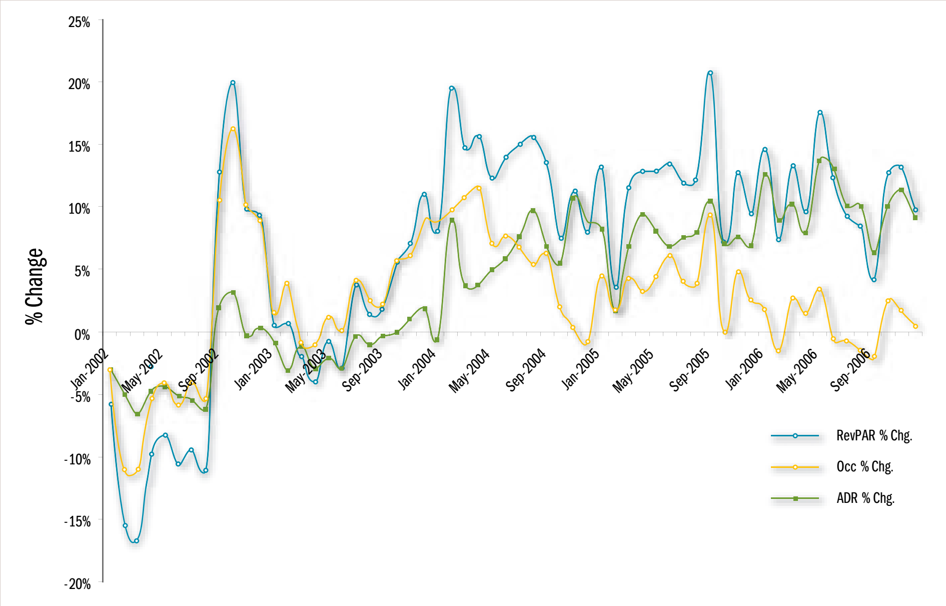
1 "In Los Angeles, Downtown Is a Boomtown" – Architectural Record – 1 May 2006
2 ibid.
3 ibid.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Hotels Wage Increase Near LAX – Debate Continues Regarding Final Verdict

In November 2006, Los Angeles City Council voted to require hotels near Los Angeles International Airport (LAX) to pay workers wages and benefits equal to US$10.64 per hour[4]. This is the first time that Los Angeles has required companies that have no direct financial relationship with the city's government to pay such wages. Although this ordinance is limited to hotel employees near LAX, unions nationwide are planning to target other service industries such as restaurants and retail centers. The result of the ordinance will have a direct impact on the performance of the 12 affected hotels in the area and the industry. Should the ordinance uphold, hotel operators are anticipated to increase room rates in an attempt to counter the wage increase. In March 2007, a supreme court judge had temporarily blocked this new law from taking effect until May at the earliest. This ruling was in response to a challenge to the law filed by seven of the dozen hotels that would be required to pay all workers a living wage of $10.64 per hour including health benefits.

Airport Redevelopment – Plans to Boost Flights

Los Angeles World Airports (including LAX, Ontario International Airport, Van Nuys Airport, and Palmdale Regional Airport) has numerous plans for the upcoming year in hopes to boost flights into the region. LAX is anticipated to spend up to US$154 million to pay off facility bonds on terminals 2 and 5 and end their long-term leases so it can offer additional airplane parking spots to low-cost carriers[5]. The agency is also planning to modify some gates for certain international carriers such as the Airbus A380 and other new larger aircraft that are anticipated to arrive between 2008 and 2010.

Los Angeles Convention Center – Developing the "LA Live" Project

In an attempt to make downtown Los Angeles a more attractive convention destination, plans are in place to develop 1,000 guestrooms near the convention center. The two proposed hotels in the complex include a 124-room Ritz-Carlton (the first five-star hotel downtown), and a 876-room Marriott Marquis, anticipated to have the largest ballroom in the city.[6] Currently, Los Angeles has only 650 hotel rooms within immediate walking distance to the convention center, compared to Anaheim and San Diego at 4,500 and 3,200, respectively. Although the development is projected to be completed in 2010, the addition of these hotels is anticipated to encourage further development of the downtown area and draw in more events and convention visitors.

4 "The State; Airport hotels ordered to pay a 'living wage'; Workers Celebrate the City Council's Vote. Business Say They'll Seek a Referendum." – Los Angeles Times – 16 November 2006

5 "LAX plan could boost flights; The City's Airport Agency is Considering Acquiring Terminals from Carriers in an Effort to Increase the Number of Flights from low-cost airlines" – Los Angeles Times – 8 January 2007.

6 "L.A. Convention Center to Get Major Hotel Tower; The Complex Would Give Downtown the Magnet for Business Conferences it has Lacked for Years." – Los Angeles Times – 13 June 2006.

Outlook

With the revitalization of downtown, and various other future developments, Los Angeles lodging performance is anticipated to remain stable in 2007. Although occupancy levels are anticipated to experience minimal increases, continued growth in ADR and the active development pipeline result in a positive outlook for the lodging industry. Furthermore, the development of various downtown projects and continued plans to improve LAX and its infrastructure are anticipated to have a long-term effect on the industry.

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 95,000 rooms. The following chart summarizes selected major supply changes currently under construction.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Homewood Suites	Agoura Hills, CA	125	December 2006	HBF Holdings, LLC
Hotel Gansevoort	West Hotel Los Angeles, CA	167	Early 2007	Gansevoort West
Fairfield Inn & Suites	West Covina	110	March 2007	Pacific Design Group
Courtyard	Santa Clarita, CA	140	April 2007	Ocean Park Hotels Development Office
Embassy Suites	Santa Clarita, CA	157	May 2007	The Heller Co.
Residence Inn	Burbank, CA	166	June 2007	RD Olson Development
Sierra Suites	Long Beach, CA	140	June 2007	Developers Diversified Realty Corp.
Hilton Garden Inn	Palmdale, CA	100	August 2007	The Breckenridge Group
Candlewood Suites	Hawthorne, CA	100	October 2007	Not Available
Embassy Suites at D'Orsay Promenade	Long Beach, CA	228	Late 2007	The D'Orsay International Partners, LLC
Holiday Inn Express	Hawthorne, CA	100	January 2008	Not Available
Montage Hotel	Beverly Hills, CA	214	October 2008	The Athens Group
Terranea Resort	Palos Verdes, CA	400	4th Quarter 2008	Lowe Destination Development
Campus El Segundo Hotel	El Segundo, CA	100	2008	Thomas Properties Group
Tejon Mountain Village	Lebec, CA	750	2008	Tejon Ranch and DMB Associates, Inc.

(Los Angeles Supply Additions, continued)

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
W Hollywood Hotel & Residences	Hollywood, CA	300	2008	Gatehouse Capital Corp. and Legacy Partners
Mandarin Hotel at Grand Avenue	Los Angeles, CA	225	Early 2009	Related Co.'s
Marriott Marquis Convention Center	Hotel Los Angeles, CA	876	2010	Anschutz Entertainment Group
Ritz-Carlton Hotel	Los Angeles, CA	124	2010	KB Urban and Anschutz Entertainment Group

Source: Smith Travel Research

manhattan

regions and markets

manhattan

Introduction

Throughout 2006, Manhattan continued to remain the strongest lodging market in the US in terms of RevPAR performance. Based on year-end 2006 data from Smith Travel Research, occupancy in the Manhattan market remained constant at 85.0%, with ADR increasing 13.1% to US$263, resulting in a RevPAR increase of 13.1% to US$224. The improvement in performance is primarily attributed to continued increases in lodging demand coupled with marginal new lodging supply. This dynamic has resulted in a significant increase in room rates, particularly in the Luxury segment.

Hot Topics

Noteworthy Transactions – Prices Top US$1 Million per Room

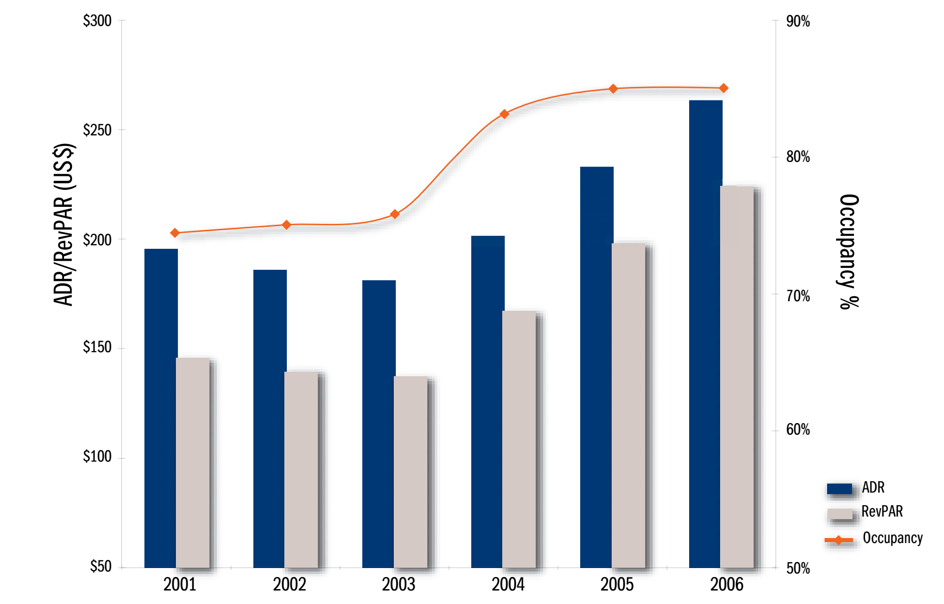
Several prominent hotels changed hands in 2006 as New York remained a popular location for hotel transaction activity, accounting for a total of approximately US$2.9 billion as of year-to-date November 2006. The most notable transactions included the sales of the 72-room Sutton East (US$1.16 million per room), the 270-room W Union Square (US$1.056 million per room), the 495-room Drake Hotel (US$890,000 per room), and the 180-room Mark Hotel (US$833,000 per room). In December 2006, a 73% share of the Mandarin Oriental Hotel was sold for US$380 million (US$1.53 million per room).[1] Transaction activity in the New York lodging market is anticipated to continue into 2007.

Visitation – Number of Visitors Surpass Pre-9/11 Levels

According to NYC & Company (the city's tourism authority), total visitation in 2006 totaled approximately 44 million, representing an increase of approximately 4.2% versus 2005. As of December 2006, domestic visitation was anticipated to increase 3.9% to 37.2 million for year-end 2006 versus 2005, and international visitation was anticipated to increase 7.4% to 7.3 million, surpassing levels achieved in 2000. The significant increase in international visitation is attributed to the weak US dollar versus numerous other currencies, the improved world economy, a focus on international visitors by NYC & Company, and a receding fear of terrorism in New York City as the attacks of 9/11 become further removed. Total visitation is anticipated to reach approximately 45.5 million in 2007.[2]

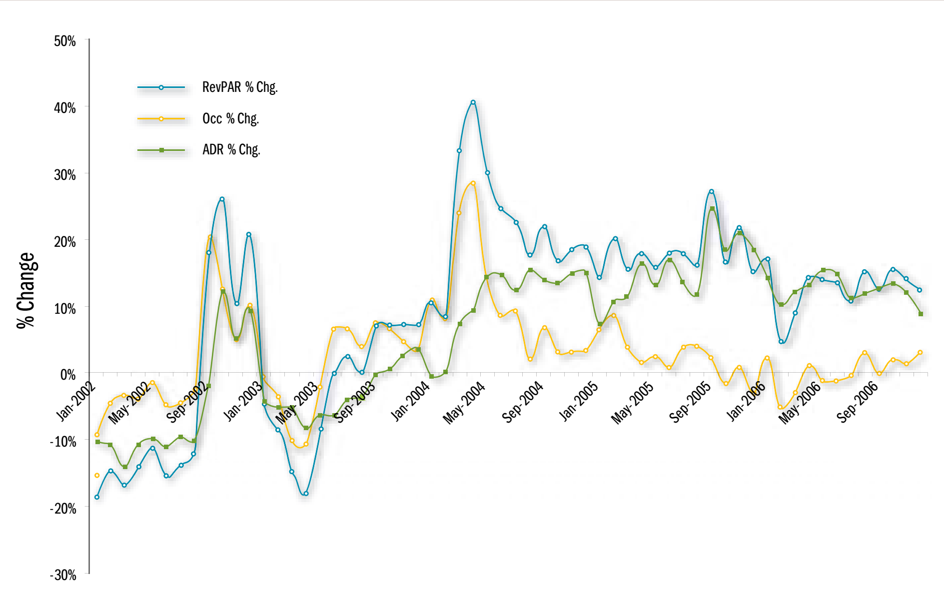
1 "Istithmar busy US$340m Share of Luxurious Mandarin Oriental". Real Estate Weekly. 3 January 2007.
2 "Mayor Bloomberg and NYC & Company Announce 44 Million Tourists Visited New York City in 2006, Pumping US$24 Billion into Economy." http://www.nycvisit.com/content/index.cfm?pagePkey=1817. 27 December 2006.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Airports – Continued Improvements in Performance and Passenger Service

As of year-to-date November 2006, the total combined number of passengers at John F. Kennedy International Airport (JFK), Newark Liberty International Airport, and LaGuardia Airport increased by 4.1% versus the same period last year, with a 4.1% increase in domestic passengers to 66.9 million and a 4.1% increase in international passengers to 28.4 million.[3] A plan is currently underway to construct a US$6 billion rail link from JFK to Lower Manhattan, with US$2 billion already committed by the US Federal Government.[4]

Javits Convention Center – Expansion to Generate Tax Revenues and Employment Opportunities

The 790,000-square foot Jacob K. Javits Convention Center is scheduled for a US$1.68 billion two-phase expansion. The first phase, which is anticipated to be completed in 2010, is expected to increase the exhibition area by approximately 45% to 1.1 million square feet. Additionally, a request for proposal for a 1,000-room hotel has been issued to be located on 11th Avenue between 35th and 36th Streets. The hotel, which is supposed to be completed during the first phase of construction, is also expected to contain approximately 50,000 square feet of meeting space. A future second phase consisting of 500,000 square feet of space is also planned, with an unknown completion date. The expanded Javits Center is anticipated to generate US$53 million in additional tax revenue for the city and to create approximately 10,000 new jobs.[5]

World Trade Center Redevelopment – Construction Begins and Aims for Completion in 2012

Following the opening of 7 World Trade Center, the long-awaited construction has begun on the remainder of the World Trade Center site, including the 1,776-foot Freedom Tower, which is anticipated to include 2.6 million square feet of office space, an observation deck, and restaurants. The overall development includes three additional towers containing 6.2 million square feet of office space and 490,000 square feet of retail. Construction is anticipated to be completed in 2012 and generate a significant amount of tourist traffic throughout this period and upon completion.[6]

3 "November 2006 – Monthly Traffic Report." http://www.panynj.gov/aviation/traffic/coverfram.HTM. 19 January 2007.
4 "President's Promise Could Benefit Lower Manhattan." http://www.globest.com/news/836_836/newyork/152638-1.html. 5 February 2007.
5 "Groundbreaking on Javits First Phase; Construction on the US$1.68 billion Jacob K. Javits Convention Center Expansion Is Under Way." http://www.newyork.construction.com/news/building/default.asp. January 2007.
6 "Agreement Reached for WTC Site Build-Out." http://www.lowermanhattan.info/news/port_authority_silverstein_formalize_66156.aspx. September 22, 2006.

Outlook

Demand for hotel rooms in Manhattan continues to reach record levels, creating a favorable environment for hotel owners and contributing to increasing ADR levels. As the residential market slows and hotels are once again becoming a more viable option for developers, there has been increased activity in the development pipeline. Many of these projects are targeted toward a more price sensitive traveler. Further, the trend toward hotel enhanced mixed-use development is anticipated to continue for the foreseeable future. Throughout 2007, Manhattan's lodging fundamentals are anticipated to continue to improve as a result of increasing tourism activity and business travel. In addition, the expansion of the Javits Center and the redevelopment of Lower Manhattan, as a 24/7 residential community with major tourist attractions and a revitalized office market, are key drivers of growth in the near future.

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 63,601 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Hotel Mela	120 W. 44th Street	235	January 2007	O&O Properties
Six Columbus	6 Columbus Circle	90	January 2007	Thompson Hotels
Comfort Inn New York	39th Street & 8th Avenue	78	February 2007	Not Available
Ramada New York	416 Broadway	100	May 2007	King Fook Realty Corp.
Howard Johnson New York	203 E. 24th Street	100	May 2007	Not Available
Hilton Garden Inn New York City Tribeca	6 York Street	150	July 2007	Mikesam Construction Corp.
Best Western New York	231 Grand Street	102	September 2007	LBW Enterprises, LLC
Holiday Inn New York City	123 W. 26th Street	180	October 2007	Mikesam Construction Corp.
Four Points Soho Village	66 Charlton Street	153	October 2007	Starwood Hotels & Resorts Worldwide Inc.
The Plaza Condominium Hotel	768 5th Avenue	130	November 2007	Elad Properties
Holiday Inn Express New York City	39th Street & 8th Avenue	204	April 2008	Not Available

(Manhattan Supply Additions, continued)

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Four Points Midtown	40th Street & 8th Avenue	250	May 2008	Not Available
The Standard Hotel	844 Washington Street	344	June 2008	AB Green Gansevoort LLC
Hotel Indigo	127 W. 28th Street	122	August 2008	Indigo Hotel
Hilton Grand Vacation Club	57th Street between 6th & 7th Avenues	161	Early 2009	Hilton Grand Vacation Company
Trump SoHo Condotel	246 Spring Street	Not Available	June 2009	The Trump Organization
Javits Convention Hotel	11th Avenue between 35th and 36th Streets	1,000 – 1,500	June 2010	Not Available

Source: Smith Travel Research

miami

regions and markets

miami

Introduction

Miami has long enjoyed a reputation as an international business center and warm-weather leisure destination, shaping its image as one of the nation's most talked about lodging markets. According to Smith Travel Research, the lodging market posted an ADR increase of 10.8% as of year-end 2006 versus the corresponding period the previous year, rising to US$142. Occupancy, however, took a hit in 2006, dropping 1.8 percentage points from 2005 to 70.8%. The net result was a RevPAR increase of 8.1% to US$101.

Hot Topics

Events and Corporations – Helping to Grow Room Demand

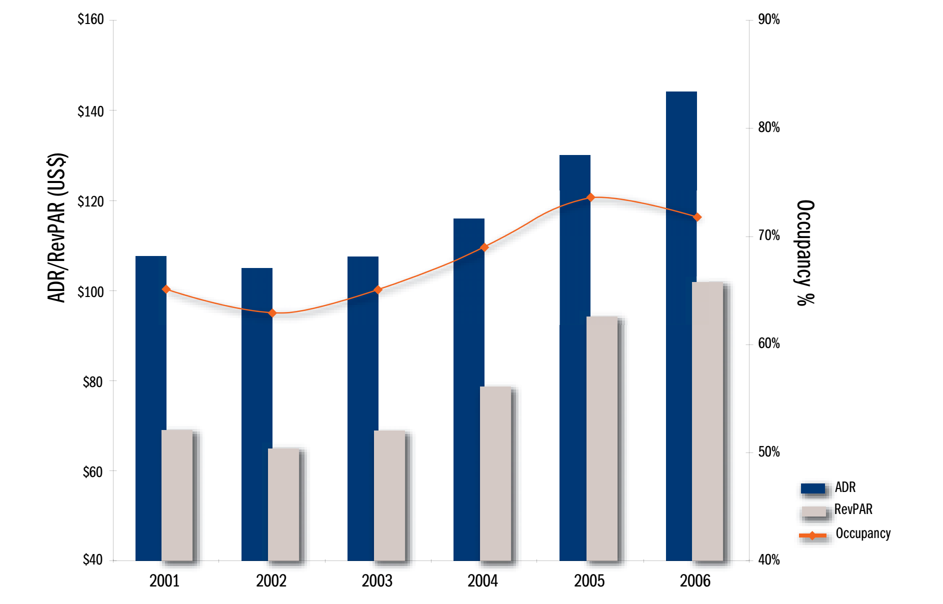
The quiet 2006 hurricane season and mega events like Super Bowl XLI, the Miami International Boat Show, Art Basel Miami Beach, and the South Beach Food and Wine Festival continue to enhance Miami's profile. The National Football League alone contracted nearly 17,000 rooms for the Super Bowl spread across Miami-Dade (70% of total room block), Broward, and Palm Beach Counties.[1] In addition, multinational corporations are gaining an increased presence in Miami, truly adding to its reputation as a business center of the Americas and resulting in additional demand for overnight accommodations. Nokia was one of many new additions to Miami's growing population of global and regional corporate headquarters, representing a capital investment of US$3.5 million for Miami-Dade County.[2]

Real Estate Developments – Significant Activity in Miami and Surrounding Neighborhoods

More than 3.3 million square feet of office space is anticipated to be in the planning stages for Miami-Dade County, much of which is scheduled to break ground in 2007.[3] The continuous development in Brickell and Downtown Miami has positively affected outlying areas such as Doral, South Miami, and Miami Lakes, which are developing their own reputation as business centers and joining Coral Gables as alternatives for corporate offices. Other developments, such as mixed-use, luxury

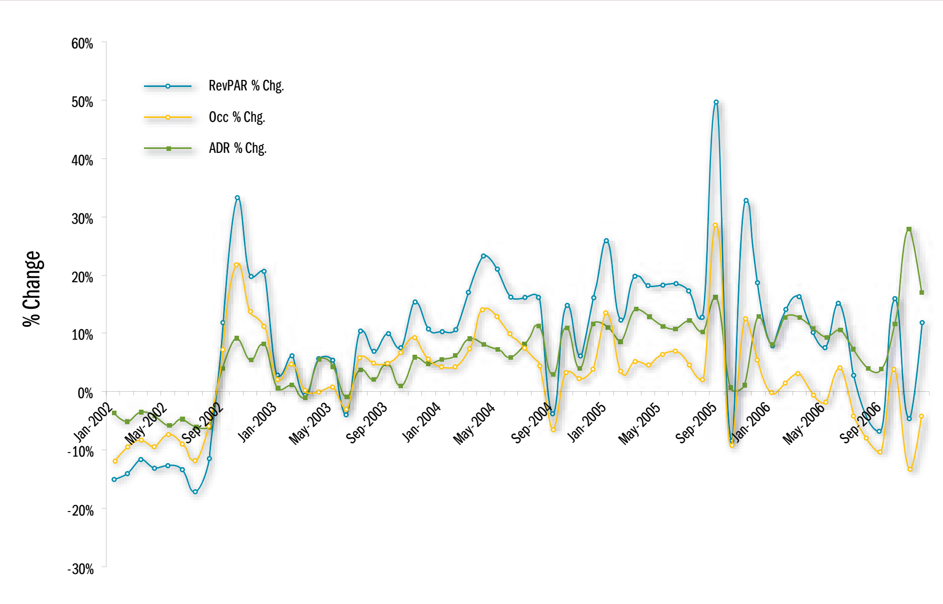
1 Stieghorst, Tom. "Super Bowl 13, Wedding Party 0: Miami Beach Hotel Cancels Room Reservations." South Florida Sun-Sentinel. 8 December 2006.
2 Miami Business Profile 2007. The Beacon Council.
3 CB Richard Ellis. Market View, Miami Office Report. Fourth Quarter 2006.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

hotels, condominium towers and residences, and the Carnival Performing Arts Center have been significant additions to Miami demand generators and are anticipated to attract new lodging supply and increase demand for overnight accommodations.

Major Supply Changes – Closings at Popular Destinations, Openings of More Condominium-Hotels

Supply for Miami has decreased approximately 4% in 2006 relative to 2005,[4] with lodging operators anticipating negative occupancy growth in 2007. The closings of the Fontainebleau, Sheraton Bal Harbour, and the Sonesta Key Biscayne for construction and renovation are anticipated to reduce inventory by approximately 1,800 rooms. Condominium-hotels continue to open, with Acqualina and Regent South Beach in 2006; Solé on the Ocean, Marquis Miami, and parts of the Fontainebleu in 2007; and the St. Regis Bal Harbour and W South Beach in 2008.[5] Condominium-hotels represent a significant portion of new lodging supply, although a cooling real estate market combined with complex risks have put the brakes on this asset class.

Tourism Trends – Returning to Pre-9/11 Levels

According to the Yearbook of Immigration Statistics, Miami ranked number one in the nation in arrivals growth.[6] However, visitor surveys by the Greater Miami Convention & Visitors Bureau (GMCVB) indicate Miami has dropped 8% in international visitors in 2006 versus 2000, including a 17% drop in European visitors. Nevertheless, Florida remains the most popular destination for international visitors, ahead of California, New York, Texas, and Hawaii. After five years of recovery, Miami has finally returned to pre-9/11 visitation levels of over 11 million visitors. Despite positive news regarding tourism and visitation, there are still some concerns posing an ongoing challenge in the upcoming year due to room losses at major hotels and resorts undergoing reconstruction, as well as potential hurricanes affecting the region's image as a carefree destination.

The Entertainment Industry – Marketing Miami On-Screen and Through Direct Investments

High-profile celebrities, actors, designers, and sports stars continue to frequent the Miami scene, nowadays, with investment and business interests in mind. Many hotels, in an effort to maintain and attain status in the competitive Miami Beach market, are adding features such as celebrity-branded restaurants and fitness centers and designer-influenced amenities such as bars, rooftop pools, and luxury suites. Television shows and the big screen have also helped increase Miami's presence

4 Smith Travel Research

5 ibid

6 Chardy, Alfonso. "Miami Leads Nation's Rebound in Tourism: The Immigration Figures Confirm a Rebound in International Travel After a post-9/11 Slump – and Miami Remains the Busiest International Visitor." The Miami Herald. 19 March 2006.

through shows such as CSI: Miami, and the releases of Miami Vice and Reno 911: Miami, providing the international audience with a taste of the energy, excitement, and star appeal of Miami.

Outlook

Recent statistics from GMCVB show an estimated 12.2 million air and 225,000 cruise passengers arriving to Miami for year-to-date September 2006. Tourism officials remain optimistic, as Miami is anticipated to break its record of 11.3 million overnight visitors. Occupancy is anticipated to increase in 2007, influenced by the decrease in supply, Super Bowl XLI, and the steady stream of demand generators via international festivals and shows through the first half of the year. However, with mostly upscale and luxury supply entering the market, ADR is expected to increase, somewhat suppressing occupancy growth in the short term. Condominium-hotels are experiencing growing pains as issues and risks become better understood and operators become more cautious. Despite such concerns, condominium-hotels continue to attract investment in South Florida, as new construction and conversions maintain presence in the construction pipeline. According to a study by Lodging Econometrics, four cities – Las Vegas, Orlando, Miami and Fort Lauderdale – account for nearly 56% of all US condominium-hotel units in the pipelines.

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 43,543 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Hotel Gansevoort South	Miami Beach, FL	232	April 2007	CG Florida Properties LLC
Canyon Ranch Living Condominium Hotel	Miami Beach, FL	151	April 2007	WSG Development Co.
Regent Bal Harbour	Bal Harbour, FL	124	3rd Quarter 2007	WCI
Solé on the Ocean Condominium Tower	Sunny Isles, FL	250	August 2007	The Helix Group
Fontainebleau Ocean Club (renovation and expansion)	Miami Beach, FL	258	September 2007	Hotelrama Associates Ltd.
Epic @ Dupont Towers Hotel & Residences	Downtown Miami, FL	400	November 2007	Lionstone Hotels & Resorts
W Hotel & Residences	Miami Beach, FL	511	Early 2008	Tri Star Capital/ Related Co.'s
Mondrian South Beach Hotel & Condominium	Miami Beach, FL	342	Early 2008	Morgan Hotel Group

(Miami Supply Additions, continued)

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Fontainebleau Tower Suites, Chateau, Versailles (renovation and expansion)	Miami Beach, FL	1,246	3rd Quarter 2008	Hotelrama Associates Ltd.
St. George Coral Gables Hotel & Residences	Coral Gables, FL	117	Summer 2008	City Centre Properties
Westin Hotel Miami @ Island Gardens	Watson Island, FL	345	September 2008	Flagstone Property Group
Marquis Hotel & Spa	Downtown Miami, FL	56	February 2009	Leviev Boymelgreen Marquis Developers of Florida
St. Regis Resort & Residences Bal Harbour	Bal Harbour, FL	241	March 2009	Related Co.'s of Florida
Shangri-La Hotel Miami	Watson Island, FL	252	September 2009	Flagstone Property Group

Source: Smith Travel Research

new orleans

regions and markets

new orleans

Introduction

New Orleans' lodging industry made initial strides in 2006 with the post-hurricane rebuilding process. The number of rooms coming back on-line from 2005 to 2006 is an important indicator of a revitalization of the overall hospitality industry. Based on year-end 2006 data from Smith Travel Research, occupancy in the New Orleans market decreased by 5.1 percentage points to 62.1%, with ADR increasing by 3.2% to US$119, resulting in a decrease in RevPAR of -4.6% to US$74.

Hot Topics

Economic Outlook – Significant Room for Growth

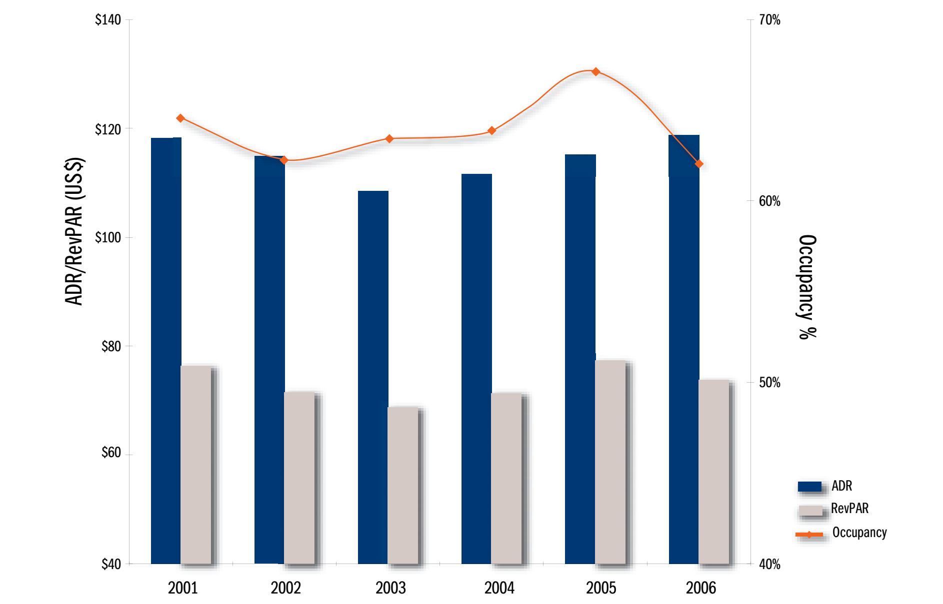
The New Orleans economy has been severely damaged by Hurricane Katrina, but there is ample room for growth, despite this market's history as one of the poorest performing markets in the south. With approximately US$60 billion anticipated for construction and related actions, such efforts are likely to help the economy continue to grow for another 5 to 10 years.[1] The outlook for the local hotel industry is favorable, with 28,000 of the city's 38,000 hotel rooms already reopened as of September 2006.[2] However, the overall economy is directly related to the redevelopment of homes and continued improvements to the quality of life, so if improvements are not made in these two aspects, the exodus of locals is anticipated to continue. Thus, residential construction is key toward the overall economic growth in New Orleans.

Ernest N. Morial Convention Center – Major Groups Returning for Meetings

Convention business is returning to the Ernest N. Morial Convention Center, where 70% of conventions are retained in 2007 and 90% in 2008.[3] The city has spent US$60 million on improvements to the convention center, which reopened in June 2006. Although only 197,000 people attended conventions in 2006 as compared to 532,700 in 2004, the hope is to return to pre-Katrina levels of US$15 million injected annually into the economy.[4] In November 2006, one of the top conventions in the country, the National Association of Realtors (25,000 members), held their annual meeting here along with the American Library Association, the American College of Emergency Physicians, the

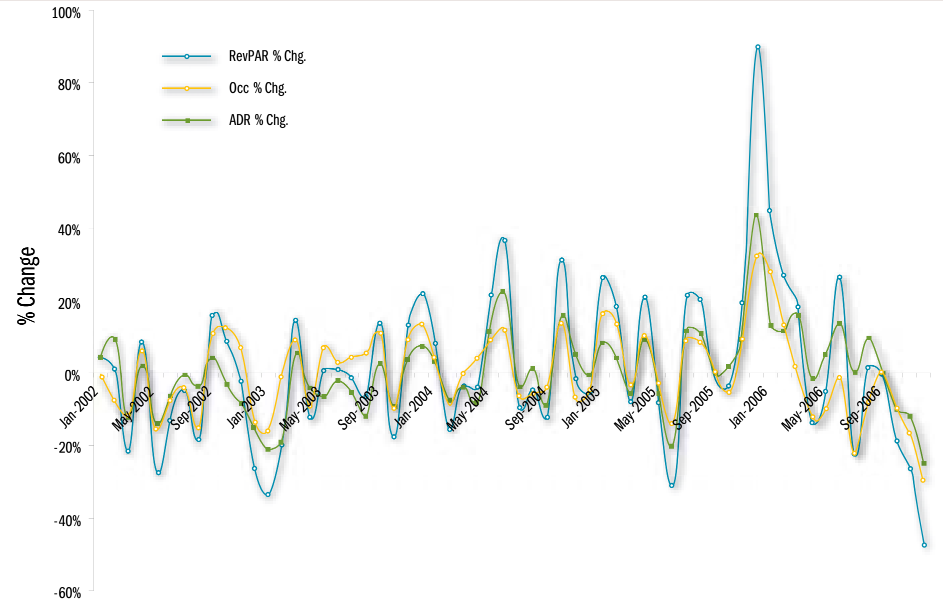
1 "Big comeback New Orleans" hospitality sector rallies to make huge convention success. November 2006 Real Estate Editor, The Dallas Morning News.
2 Ritz-Carlton will return as elite hotel in N.O. New Orleans City Business. September 2006.
3 2007 Critical Year Recovery And Rebuilding Efforts. http://www.cityofno.com/portal.aspx?portal=1&load=~/PortalModules/ViewPressRelease.ascx&itemid=3733.
4 New Orleans begins 2007 still in Katrina recovery. http://www.alertnet.org/thenews/newsdesk/N31181542.htm.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

American Society of Exploration Geophysicists, and other trade groups. These meetings cannot be overlooked as they prove that the convention center and city are open for business and can accommodate large groups. Currently, the major challenge is attracting such large conventions in light of peoples' perception of New Orleans.[5]

Cruising and Gaming – Both Industries Continue to Prosper

The gaming industry in New Orleans has shown robust growth, with 12.6% more gambling revenue than pre-Katrina levels.[6] These increases can be attributed to fewer opened casinos, temporary workers currently within the city earning competitive wages, and a shift in gaming from the Mississippi Gulf Coast casinos. In 2007, the challenge will be to maintain performance at such high levels despite increasing competition from developments that are new or reopening. For the cruise industry, the New Orleans Port generated US$208 million in passenger revenues and provided approximately 5,000 jobs pre-Katrina.[7] With the new 90,000 square-foot, US$37 million terminal, and the return of Norwegian, Royal Caribbean, Carnival, and P&O,[8] it is anticipated that the cruise industry in New Orleans is once again regaining its leisure appeal.

Tourism – Optimism is Building Through Entertainment and Business

Since Katrina hit in August 2005, New Orleans has lost about US$2 billion in revenue from tourism[9]. The restaurant industry has been affected greatly, with a little more than half of the 3,400 pre-Katrina restaurants open, supported by only 39,000 out of 53,000 original employees.[10] Although 300,000 fewer people celebrated Mardi Gras in February 2006,[11] cruise ship companies have returned service to the New Orleans Port while the New Orleans Saints provided much needed revenue from sports venues, and convention business is on the rise. Showing similar support for the market, Orbitz.com and Travel + Leisure Magazine have named New Orleans a popular destination for travel in 2007.[12]

Supply Changes – Significant Number of Rooms Opening Over Next Two Years

With convention business looking better, new and reopened hotels are anticipated to capture the continued demand growth in 2007. Hotels affected by Hurricane Katrina have slowly completed renovations and are reopening, adding to the overall room inventory. The Ritz-Carlton, Fairmont, and Hyatt,

5 "Big Comeback New Orleans' Hospitality Sector Rallies to Make Huge Convention a Success. Real Estate Editor. November 2007
6 Economic Report Buoys Big Easy. New Orleans Bureau. September 2006.
7 Rebound Is More than a Fantasy; Cruise Line Sees City with a Future. The Times-Picayune. November 2006.
8 Cruises Return to a Familiar Stop. New York Times. October 2006.
9 "The 'Big Easy' is Back; One Year After Hurricane Katrina, New Orleans is Charming Tourists Again." AM N PM. 7 September 2006.
10 Restaurants Act as Beacons in Battered N.O. Eateries Cite Gradual Growth in Business. New Baton Rouge Advocate. August 2006.
11 The 'Big Easy' is Back; One Year After Hurricane Katrina, New Orleans is Charming Tourists Again. Today. September 2006
12 Travel + Leisure Magazine and Orbitz Insider Name New Orleans as a Top Tourism Destination in 2007. http://www.neworleansonline.com/news/2007/Jan/Orbitz.html.

represent 2,600 rooms in the area. The Ritz-Carlton has already re-opened, the Hyatt has plans to reopen in 2007 as part of a Jazz-Center that is anticipated to create 6,500 jobs, and the Fairmont is anticipated to open in mid-2008.[13] The new Hilton St. Charles Hotel (formerly Hotel Monaco) has recently opened in May 2007. Overall, 140 metropolitan area hotels are open as of February 2007, 90 of which are located in the downtown New Orleans area and account for more than 29,500 of 38,000 hotel rooms.[14]

Outlook

In large areas, the parts of New Orleans that most tourists recognize did not suffer from the flooding and damage seen on television. Currently, the major tourist areas and the central business district are being renovated back to pre-Katrina status. With the amount of money being poured into the city, it is anticipated that investment will continue well into 2007 and beyond.

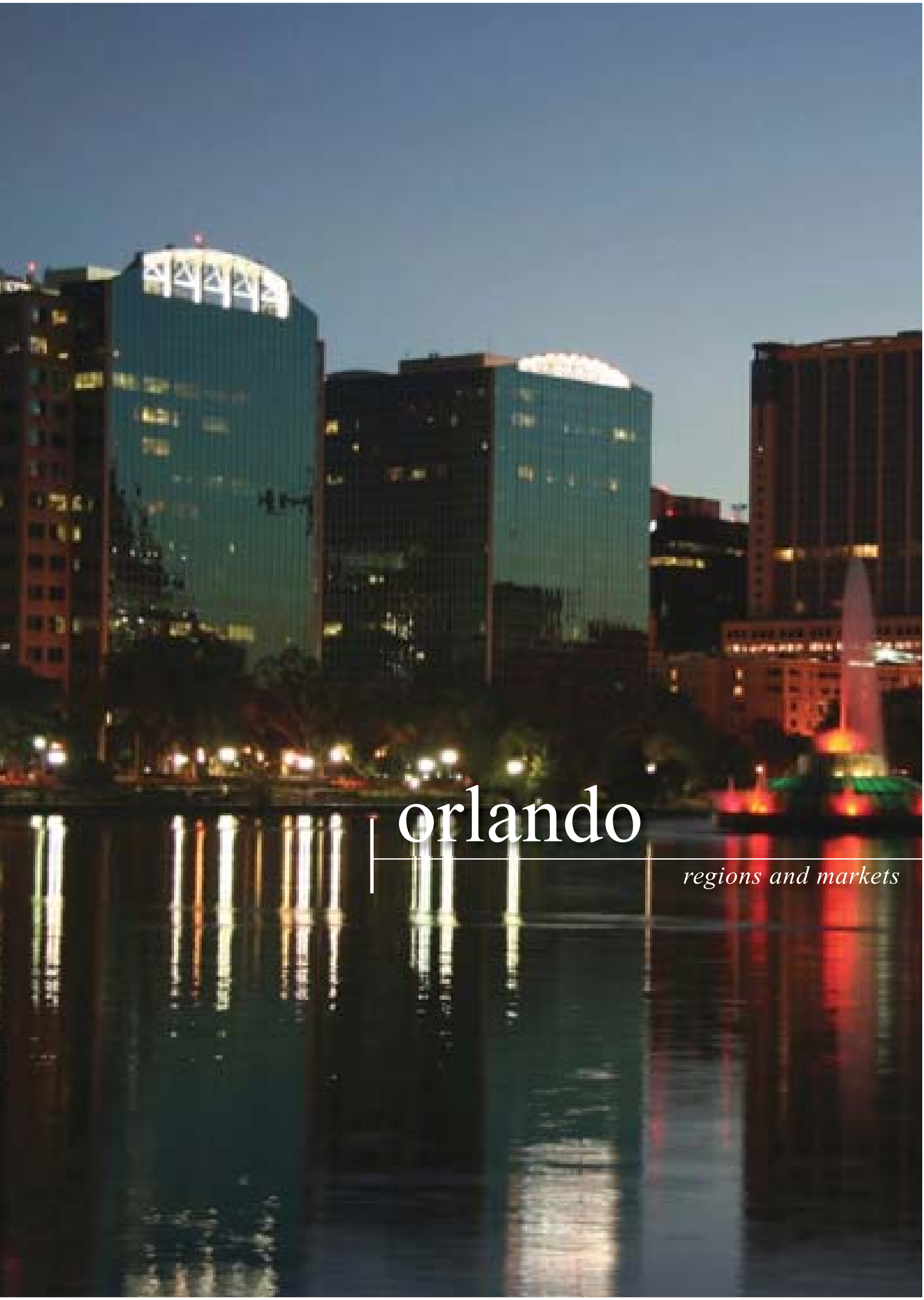
Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 29,824 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Marriott New Orleans Metairie@ Lakeway	Metairie, LA	218	January 2007	Pyramid Advisors
Hyatt Regency New Orleans	New Orleans, LA	1,184	4th Quarter 2007	Not Available
Hilton Garden Inn	Slidell, LA	90	May 2008	Not Available
Fairmont New Orleans	New Orleans, LA	700	Mid 2008	Not Available
Trump International Hotel & Tower New Orleans	New Orleans, LA	250	December 2008	Poydras LLC
Embassy Suites	New Orleans, LA	222	December 2008	Not Available

Source: Smith Travel Research

13 New Orleans City Business – September 2006
14 "NOMCVB Issues "State of the City" Report – February 2007.



orlando

regions and markets

Introduction

The lodging industry in Orlando posted positive RevPAR gains in 2006, despite a drop in occupancy, as rates experienced growth unseen for the past ten years. Based on year-end data from Smith Travel Research, the overall Orlando market achieved a RevPAR of US$68, an increase of 4.7%, based upon an ADR increase of 9.4% to US$101, and an occupancy decrease of 3.0 percentage points to 67.7%.

Hot Topics

Orlando Convention & Visitors Bureau – New Marketing Campaign to Boost Leisure Travel

In the first quarter of 2007, it is anticipated that the Orlando CVB will launch its new US$68 million, two-year marketing campaign in an attempt to recapture what has been described as waning leisure visitation (and lodging demand). The new campaign, representing a budget increase of over 200% relative to 2005 and 2006 levels, is aimed at creating an image of Orlando as a place for families to reconnect and bond.[1]

Condominium-Hotel Supply – Opening in Phases Due to Concerns over Demand

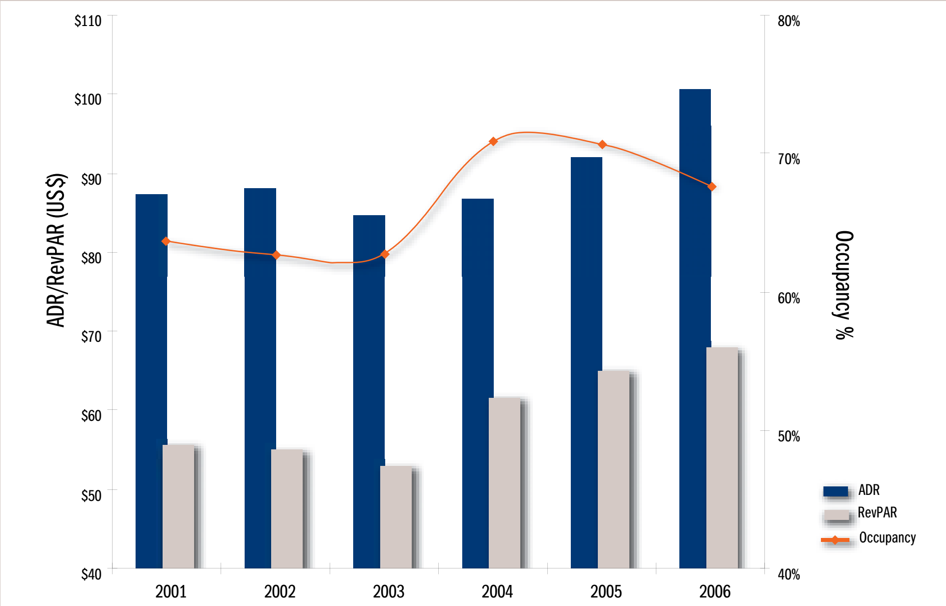
Industry reports indicate that over 17,300 condominium-hotel units are in various phases of development in the greater Orlando area.[2] Although the cooling residential market may reduce the number of condominium-hotel units that see completion, many Orlando operators and market analysts are concerned about lodging demand keeping pace with supply additions. Unlike hotel developments that tend to open all guestrooms at once, the majority of the proposed condominium-hotel developments have phased launches of blocks of rooms over a multiyear time frame, suggesting that the impact from condominium-hotels would be felt over the course of several years.

Declining Lodging Demand – Possible Lack of New Demand Generators and Growth of Alternative Accommodations

According to Smith Travel Research, Orlando has experienced monthly room demand decreases for 15 of the past 18 months. In comparison to 2005, overall Orlando room demand is estimated to have

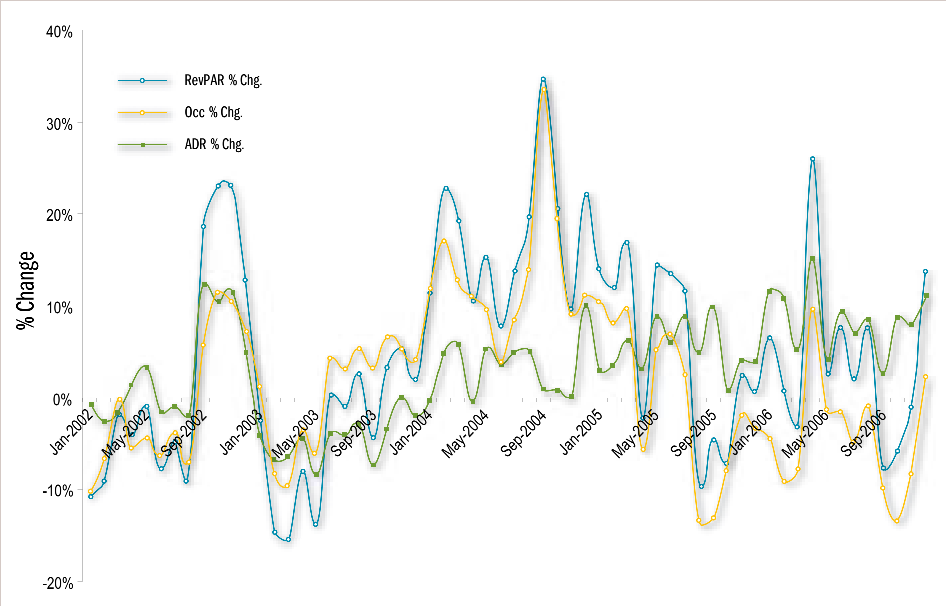
1 "Orlando Plans Largest Ad Campaigning Destination's History Two-Year, Multi-Million Dollar Effort Reinforces Orlando as Ultimate Family Vacation Destination." http://www.orlandoinfo.com/b2b/pr/releases/campaignrelease07.cfm. December 2006.
2 "Orlando Building Too Many Condo Hotels, Study Warns." http://orlando.bizjournals.com/orlando/stories/2006/07/03/story2.html. June 2006.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

decreased approximately 4.1% in 2006. Market representatives noted that people are visiting Orlando at a slower pace than in past years, suggesting a possible out-growth from the current lack of new significant attractions and openings of new theme parks.[3] Additionally, it has been observed that visitors are utilizing alternative accommodations, including timeshares and condominium-hotels, at higher rates than five years ago, which further deteriorates lodging performance.[4]

Renovated Properties – Raising Market Standards and Rates

Several hotel renovation projects were completed in 2006 and they are anticipated to usher in a wave of additional hotel renovations as properties try to remain competitive. Properties throughout metro Orlando, including Maitland, Lake Buena Vista, Kissimmee, downtown, and near the airport, underwent significant renovations in 2006 or are scheduled for renovations in 2007. It is anticipated that the renovations, when completed, would have a positive impact on rate performance. Furthermore, the addition of new Upper Upscale to luxury hotels, such as the proposed Waldorf Astoria, InterContinental, Westin, and Hilton hotels, is anticipated to increase market standards and rates, in addition to generating demand from brand loyal guests upon their opening in the next two to three years.

Convention Hotels – Tougher Competition During Convention Down Cycle and Large-Scale Meeting Space Additions

Over the course of 2006 and 2007, approximately 600,000 square feet of meeting space is scheduled to be added, including the recent addition of the Rosen Shingle Creek which has approximately 445,000 square feet of meeting space and 1,500 guestrooms.[5] As 2007 is anticipated to be a cyclical down year in the convention center's activity cycle, the pressure from the increased room and meeting space supply may result in a more competitive environment for the large convention hotels.

Outlook

A combination of factors is expected to limit the growth potential of the Orlando market in 2007. Occupancy is anticipated to remain flat in 2007 as revitalized marketing efforts are expected to be offset by the loss of room nights to alternative accommodations and declining interest from the leisure segment. An anticipated increase in rate, which could result from recently renovated supply and the lack of additional ground-up full-service inventory entering the market in 2007, may further limit

3 "Peeper Details 'Health Check' of Orlando as Visitor Destination." http://orlando.bizjournals.com/orlando/stories/2006/07/31/daily41.html August 2006.

4 "Big Boost in Time-share Ownership Has Orlando Hoteliers and Orange County Hotel Occupancy Tax Collectors Worried." http://www.hotel-online.com/News/PR2006_2nd/May06_OrlandoTimeShares.html. May 2006.

5 "Orlando Meeting & Event Facilities." http://shinglecreekresort.com/meetingAndEventFacilities.asp. February 2007.

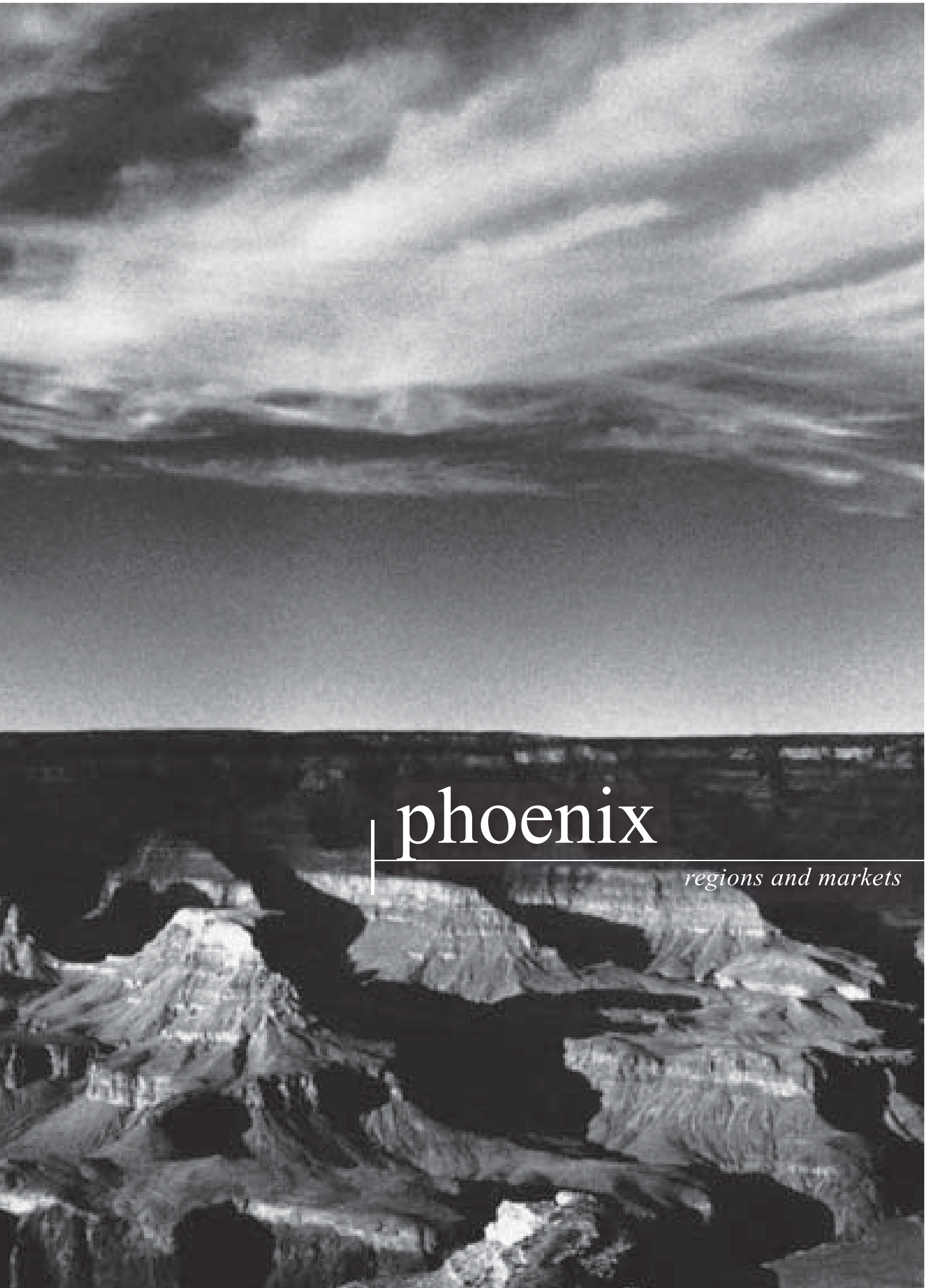
occupancy growth. Over the next several years the low barriers to entry in the Orlando market may provide for additional supply growth, which could suppress occupancy and rate growth in the near term despite the revitalized marketing efforts.

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 112,610 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Village of Imagine (Westin)	International/ Universal Drive, FL	456	Early/Mid 2008	Orlando Village Development LP (affiliate of Intrawest)
Blue Rose Resort	International/ Universal Drive, FL	1,300	Mid 2009	CMA Co.'s
Hilton Bonnet Creek	Lake Buena Vista, FL	1,000	Mid 2009	Brooksville Development Corp., GEM Realty Capital
InterContinental Lake Bryan	South International Drive, FL	1,260	Mid 2009	Hospitality Development Group
Waldorf Astoria Bonnet Creek	Lake Buena Vista, FL	500	Mid 2009	Brooksville Development Corp., GEM Realty Capital
Hilton Convention Center	International/ Universal Drive, FL	1,400	Late 2009	Hilton Hotels, Apollo Real Estate Advisors, RIDA Development Corp.

Source: Smith Travel Research


phoenix
regions and markets

Introduction

Phoenix's lodging industry experienced robust performances in 2006 with increases in both occupancy and ADR. Growing convention activities along with various revitalization efforts are anticipated to help further growth in the area. Based on year-end 2006 data from Smith Travel Research, overall occupancy in the Phoenix market increased by 1.2 percentage points to 68.2%, with ADR increasing by 9.6% to US$113, resulting in a RevPAR increase of 11.6% to reach US$77.

Hot Topics

Development – Spur of Hotel Growth Around the Phoenix Area

Neighboring markets around Phoenix are anticipated to experience an increase in the number of hotels over the coming years. Chandler, which currently has two full service hotels, has plans for nearly 1,000 rooms in a four-mile stretch, including branded hotels such as a Hilton, Aloft, Renaissance ClubSport, and Embassy Suites[1]. Similarly, other markets are seeing more hotel developments such as the proposed Le Meridian in Tempe, part of a project including a multistory office building, condo towers, and a 2,460-space parking garage.[2] These projects are anticipated to affect positively the economic viability and attractiveness of the entire metro area.

Phoenix Convention Center – Becoming 1 of the Top 20 Convention Markets

Phase two of the US$600 million expansion of the Phoenix Convention Center is scheduled to open in January 2009. The center will feature approximately 900,000 square feet and can host more than 80% of its current convention business, increasing the number of delegates from 135,000 to 375,000 and bringing approximately US$500 million in annual direct spending to Arizona by 2013.[3] The Greater Phoenix Convention & Visitors Bureau has already experienced an increase in convention bookings since the expansion. As of year-to-date November 2006, the number of groups currently holding dates at the Phoenix Convention Center has increased by 49% compared to the same period last year.[4]

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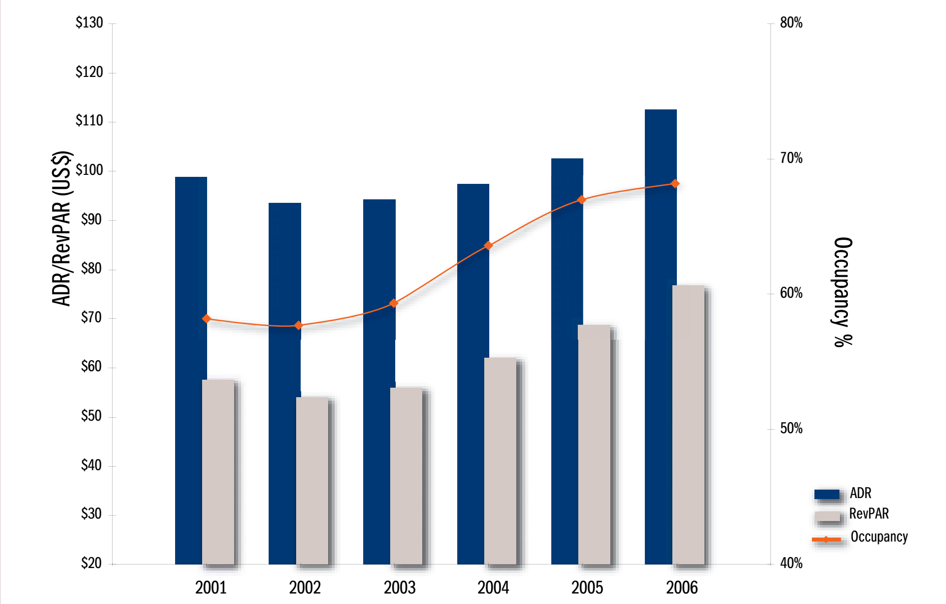
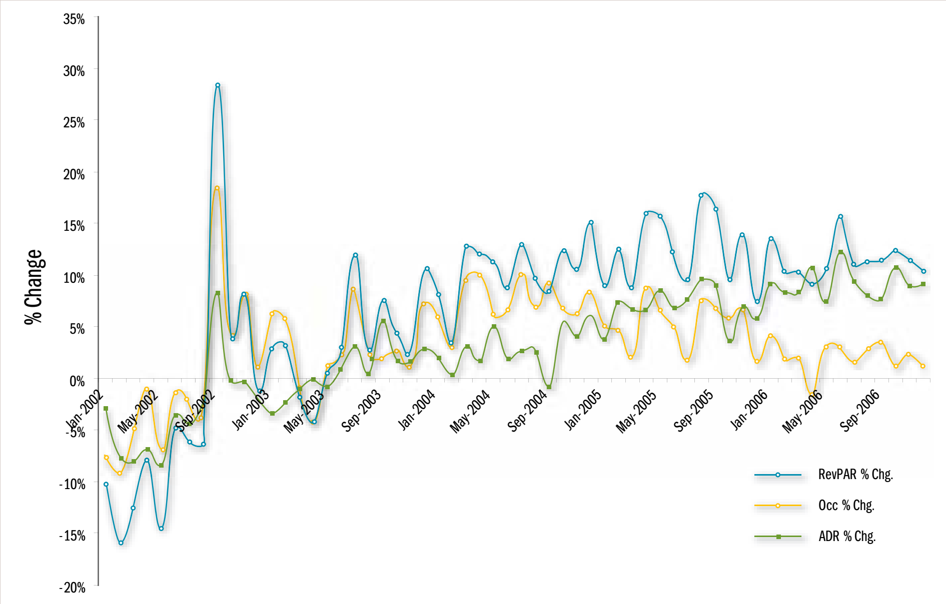
1 "Potential Hotel Row Welcomed," The Arizona Republic, 22 September 2006.
2 "Le Meridien Hotel just the thing for Tempe", The Arizona Republic, 17 August 2006.
3 "Fact Sheet – Expansion Project", www.phoenixconventioncenter.com.
4 "Overview – Expansion Project Benefits", www.phoenixconventioncenter.com.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Union Hotels – Arizona May See Its Second Union Hotel

Along with the rest of downtown Phoenix, union groups are eagerly awaiting the opening of the 1,000-room Sheraton Phoenix Downtown, as it may become Arizona's second and largest union hotel. The agreement with Sheraton allows employees to decide whether they want to be unionized, without the input from hotel management or a secret ballot, the process also known as card-check neutrality. Traditionally, unions struggled in Arizona due to the nature of this right-to-work state, making the laws on collective bargaining stricter.[5]

Catch-22 – Developing Hotels Downtown to Keep Up with Convention Demand[6]

With the convention center's completion of phase one and scheduled completion of phase two by 2009, downtown Phoenix has pressure to ensure it can support the anticipated demand growth. Over the past decade, downtown Phoenix has had approximately 1,500 rooms, supplied mostly by the 712-room Hyatt and the 532-room Wyndham. The 1,000-room Sheraton is still in initial development stages, but already has more than 67,000 room nights booked for 2009 and beyond. Therefore, downtown Phoenix faces a catch-22 situation: large hotels attract large convention business, yet only after seeing large conventions are large hotels developed.

Noteworthy Transactions – Entering the Market Through Impressive Acquisitions[7]

Both private and public companies have been eager to invest in Phoenix, and to capitalize on the positive fundamentals anticipated over the next several years. Notable properties changed hands in 2006, due to strong lodging fundamentals, including the 194-room James Hotel sold by Stephen Hanson and Danny Errico for US$46.5 million to the Morgans Hotel Group, the 640-room Pointe South Mountain Resort acquired for US$206 million by MONY Life Insurance, the 732-room Westin Kierland Resort & Spa purchased by Host Hotels & Resorts for US$393 million, and the 651-room Fairmont Scottsdale Princess sold for US$345 million to Strategic Hotels & Resorts.

Outlook

With key demand generators, such as the Phoenix Convention Center, being developed, Phoenix's lodging industry performance is anticipated to remain strong through 2007. Although construction costs are rising, Phoenix is anticipated to see a number of new hotels being developed in surrounding neighborhoods. The continued growth into the suburbs of Phoenix is anticipated to further economic growth in those markets and help revitalize the overall area.

5 "Union Gets Advantage in Downtown Hotel Deal," The Arizona Republic, 3 September 2006.
6 "Lack of Hotel Rooms Challenges Downtown," The Arizona Republic, 20 November 2006.
7 "Resort Sales are Hot in Valley", The Arizona Republic, 20 October 2006.

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 53,097 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Hilton Garden Inn	Avondale, AZ	123	February 2007	DH Ventures
Homewood Suites	Avondale, AZ	123	March 2007	DH Ventures
Cibola Vista Resort & Spa Condotel	Peoria, AZ	100	May 2007	Princeton Resort Group
Renaissance @ Westgate City Center	Glendale, AZ	330	June 2007	John Q Hammons Hotels Inc.
Montelucia – InterContinental Resort & Spa	Paradise Valley, AZ	157	June 2007	Crown Realty & Development
W Hotel & Residences Scottsdale	Scottsdale, AZ	225	July 2007	Downtown Scottsdale Developers LLC
Embassy Suites Phoenix Glendale	Glendale, AZ	272	August 2007	Northwest Hospitality Group, LLC
Sundial Resort	Phoenix, AZ	51	October 2007	Sundial Resorts
Hilton Garden Inn	Phoenix, AZ	126	December 2007	Chew- Fisher Capital Investments
Renaissance ClubSport Hotel	Chandler, AZ	243	January 2008	Signature RCS Chandler LLC
Hilton Resort & Conference Center	Fountain Hills, AZ	196	January 2008	DFD Architecture
Embassy Suites Chandler	Chandler, AZ	226	March 2008	Cyburt Hall Partners
Hilton Phoenix Chandler	Chandler, AZ	199	August 2008	Western International
Le Meridien Hotel Hayden Ferry Lakeside	Tempe, AZ	183	September 2008	Suncor Development
Sheraton Phoenix Convention Center	Phoenix, AZ	1,000	October 2008	City of Phoenix
Aloft Hotel Washington Fork	Phoenix, AZ	143	Not Available	Corporex Properties

Source: Smith Travel Research

san diego

regions and markets

san diego

Introduction

San Diego continued to experience healthy lodging fundamentals in 2006. Based on year-end data from Smith Travel Research, overall occupancy increased 1.0 percentage point to 73.3%, with ADR increasing by 7.2% to US$131, resulting in a RevPAR increase of 8.8% to reach US$96.

Hot Topics

Seaside Condominium-Hotels – Impact on Public and Local Business

Although condominium-hotels are common along the coastlines of Florida and Hawaii, the concept is relatively new in California, particularly along San Diego's coastline. With the boom of seaside condominium-hotels, California's Coastal Commission, which has a mandate under the 1976 Coastal Act to keep the coast accessible to the public, is trying to study the potential impact.[1] The commission has plans to assess whether condominium-hotels will impact the number of regular hotel rooms available to travelers, and furthermore, the impact of continued luxury condominium-hotel development on room rates and budget-sensitive travelers.

Slowing of Housing Market – Rise in Rental Rates

San Diego's median housing prices, which doubled between 2000 and 2005, experienced a slower pace in 2006. As a result, average vacancy rates are decreasing and apartment rental rates are increasing as the public holds back from buying homes, anticipating a further decline in sales prices. A survey released in December 2006 by the San Diego County Apartment Association indicated that average rent for all types of units increased by 5.8% over the average rent in 2005 of US$1,237.[2] Although investors in all sectors of the economy are following the residential market carefully, the slowing housing market in San Diego is not anticipated to significantly affect the lodging market.

Cruises – Charting New Waters

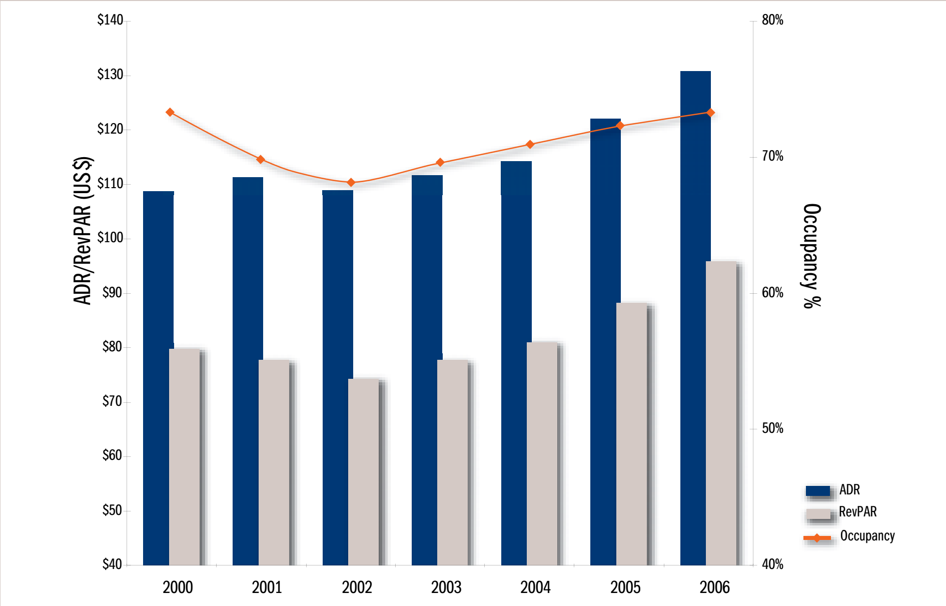
San Diego experienced a boost in its cruise industry, with more than 190 ships docking in the county in 2006, representing approximately 640,000 passengers.[3] The Port of San Diego estimates that the industry has a potential to reach more than 1.4 million passengers within the next ten years. In addition,

1 "A Beach Building Boom – As Seaside Condo Hotels Sprout, Impact on Tourists is a Concern" – The San Diego Union-Tribune - 7 August 2006

2 "Rents in county rise 5.8 percent as home sales slow" – The San Diego Union- Tribune – 12 December 2006.

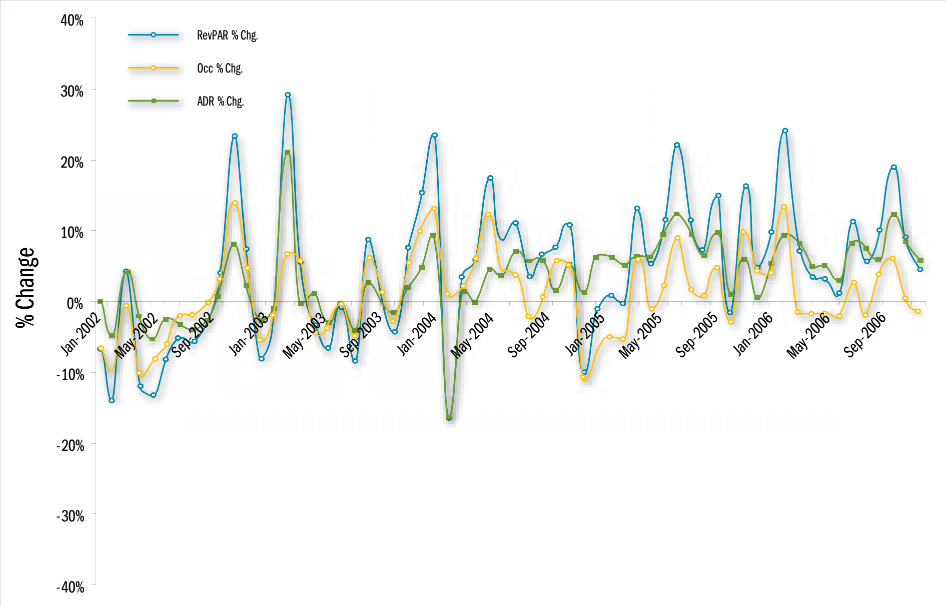
3 "2007 Visitor Industry Forecast – Tourism Outlook Solid for 2007" – www.sandiego.org.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Carnival Cruise Line will be introducing the first year-round cruise from San Diego commencing June 2007,[4] estimated to have a US$110 million direct economic impact, creating 1,600 jobs.[5] Nevertheless, the Port faces the challenge of accommodating the increasing number of cruise ships as the new cruise terminal is not anticipated to open until 2010.

San Diego International Airport – Reaching Capacity

San Diego County Regional Airport Authority had proposed to relocate San Diego International Airport to Miramar Marine Corps Air Station by 2020. However, this proposal was rejected by voters during the November 2006 ballot. The airport authority is now planning a US$550 million master plan through 2015 to maximize the current airport's capacity and to commence construction on a ten-gate second terminal by 2008.[6] Year-to-date November airport arrivals increased by a modest 0.4% to approximately 8 million visitors, versus the corresponding period the previous year.[7] However, airport arrival is anticipated to continue to rise due to an increase in availability of more direct, low cost flights by airlines such as JetBlue and Southwest, to major cities around the US.

San Diego Tourism – Hotels Showing Strong Growth

In 2006, San Diego County estimated approximately 28 million visitors, representing 41% day visitors and 59% overnight visitors, consisting of either hotel stays or home guests.[8] Hotel stay visitors account for nearly one-third of all visitors but contribute three-quarters of the total economic impact of tourism to the region. Leisure purpose room nights accounted for an estimated 52% of room nights sold in 2006. Year-to-date November, the number of conventions in San Diego grew by 32.7% and delegate attendance increased by 20.7% versus the corresponding period the previous year.[9] With over 1 million future room nights reserved for conventions dating to 2011 and the opening of the 1,190-room Hilton Convention Center Hotel in 2008, convention business is anticipated to increase.

Outlook

With continued growth and development in the market, San Diego's lodging industry performance is anticipated to remain strong in 2007. The growing cruise line industry and increasing number of direct, low cost flights is anticipated to attract more visitors to the region. Continued hotel renovations and new developments along with the opening of the convention center hotel in 2008 are making San Diego more competitive as a convention destination for the coming years.

4 "2007 Visitor Industry Forecast – Tourism Outlook Solid for 2007" – www.sandiego.org.
5 "Carnival to Run Cruises Year-Round from Port of San Diego" – The San Diego Union-Tribune – 2 November 2006.
6 "With Congestion Looming, San Diego Plans Expansion" – Engineering News-Record – 4 December 2006.
7 "San Diego County Visitor Industry Summary" – www.sandiego.org.
8 ibid.
9 ibid.

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 53,499 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
The Ivy Hotel	San Diego, CA	159	December 2006	Kelly Capital
Diegan Hotel	San Diego, CA	185	2007	5th Avenue Partners, LLC
Marriott Renaissance Hotel	San Diego, CA	334	Early 2007	Not Available
Hotel Del Coronado (addition)	Coronado, CA	205	April 2007	Strategic Hotels and Resorts
Homewood Suites	San Diego, CA	150	May 2007	Awbrey Cook Mcgill Architects
Gaslamp Quarter	Gaslamp Quarter, CA	344	June 2007	Not Available
Residence Inn	Oceanside, CA	125	July 2007	R D Olson Development
Courtyard	San Diego, CA	200	August 2007	Awbrey Cook Mcgill Architects
Hard Rock Hotel	San Diego, CA	420	Third Quarter 2007	Tarsadia Hotel Inc
Grand Del Mar Resort & Spa	Del Mar, CA	261	November 2007	Manchester Grand Resorts
Spinnaker Hotel	San Diego, CA	250	Late 2007	Fifth Avenue Landing, LLC
Sheraton Carlsbad Resort	Carlsbad, CA	350	June 2008	Not Available
Hilton San Diego Convention Center Hotel	San Diego, CA	1,190	November 2008	The Port of San Diego, Portman Holdings, Phelps Development, Hilton Hotels Corp. ING Clarion Partners
Marriott Hotel	Escondido, CA	196	March 2009	City of Escondido
Westin La Jolla	La Jolla, CA	327	June 2009	Not Available
Westin Oceanside Hotel	Oceanside, CA	302	Late 2009	S.D. Malkin Properties and Interstate Hotels & Resorts
InterContinental	San Diego, CA	550	2010	Manchester Development
Chula Vista Convention Center Hotel	Chula Vista, CA	1,500-2,000	2011	Gaylord Entertainment


san francisco
regions and markets

san francisco

Introduction

The San Francisco real estate market improved in 2006 driven by a strengthening economy and indicated by rental rate increases and vacancy rate decreases for office space. Moreover, the area experienced growth in tourism, particularly in the international sector as a result of the weakening US dollar. San Francisco is becoming a sought after destination for conventions, hosting two mega-conferences over the last two years, each generating over US$40 million in economic activity. Based on year-end 2006 data from Smith Travel Research, overall occupancy increased 1.4 percentage points to 72.9%, with ADR increasing by 10.4% to US$138, resulting in a RevPAR increase of 12.6% to reach US$101.

Hot Topics

Strengthening Economy – Increasing Business Confidence Index

As of December 2006, the Bay Area Business Confidence Index increased two points from the previous quarter. This is due, in part, to the 45% of CEOs surveyed in the nine Bay Area counties who believe the local economy will improve over the next half-year; only 16% predicted an economic decline, and 39% anticipate the economy to remain constant. As for employment, 39% of Bay Area employers anticipate the hiring of additional workers over the next half year, as opposed to only 11% planning on cutting jobs over the same time period.[1]

Convention Activity – Continued Expansion Generating Millions in Economic Activity

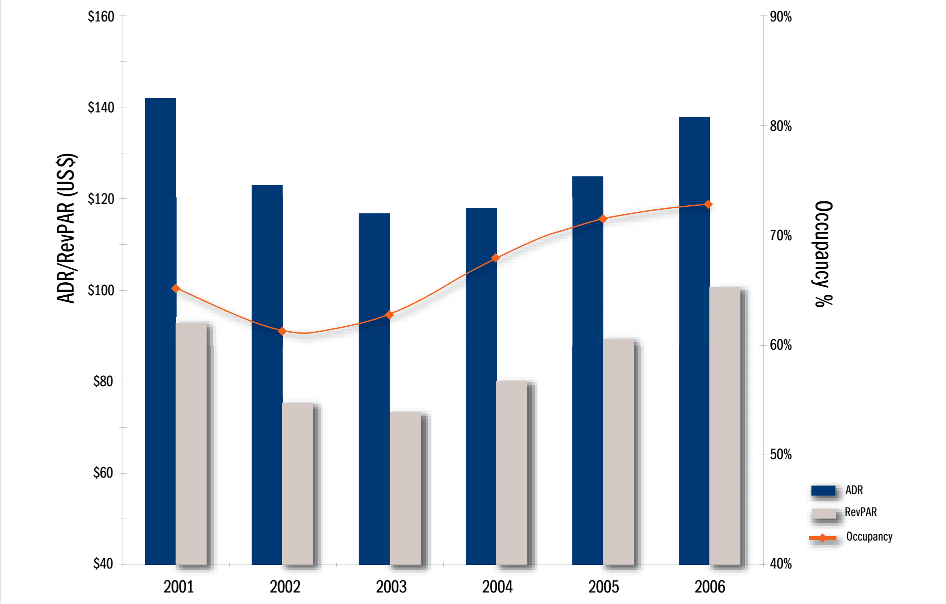
In October 2006, Oracle held its annual OpenWorld convention in San Francisco with approximately 42,000 attendees and US$60 million of economic activity generated for the local economy. This US$60 million represents a 43% increase over the US$42 million generated by the Semiconductor Equipment and Materials International convention, which was San Francisco's largest convention in 2005.

Tourism – Third Most Visited City in the US

From 2004 to 2005, San Francisco experienced a 4.1% increase in the number of visitors.[2] San Francisco's 2006 year-end hotel occupancy percentage experienced a 1.4 percentage point increase

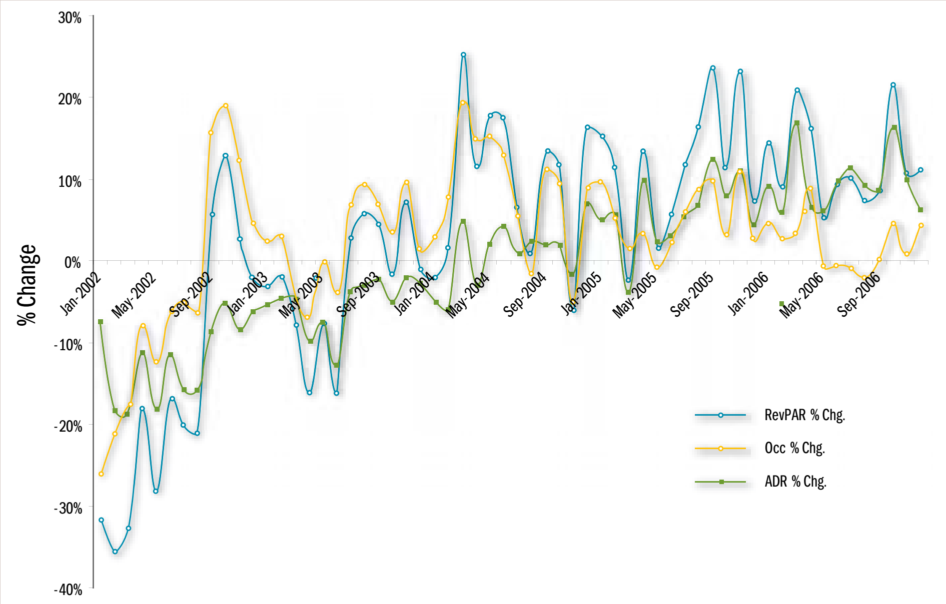
1 "CEO's Confidence Rises in Increasingly ('Global') Bay Area Economy". Business Wire. 8 December 2006.
2 Raine, George. Tourism Dollars Add Up / San Francisco Seeing More Visitors, More Cash—It's Our No. 1 Industry." The San Francisco Chronicle. 13 May 2006.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

over 2005, to 72.9%. After New York and Los Angeles, San Francisco is the third most visited city in the US for international tourists. The tourism industry is responsible for contributing an estimated US$7.4 billion annually to San Francisco's economy[3]. Year-end 2006 ADR and RevPAR increased by 10.4% and 12.6%, respectively. Additionally, it is anticipated that hotel room supply will remain relatively constant over the next few years.[4]

Positive Office Market Outlook – Rising Rental Rates Coupled with Decreasing Vacancy

In the third quarter of 2006, rents for office space increased 15.0% as vacancies decreased from 13.1% to 11.5%. Average rental rates surpassed US$33 per square foot, compared to US$29 during the previous 12 months. The vacancy rate for Class A office space decreased below 10% in certain parts of the financial district, and average rental rates increased to US$40 to US$50 per square foot. It is anticipated that San Francisco's overall vacancy rate may decrease below 10% in 2007, which will be the first time this has happened since 2000.[5] The technology sector continues to rebound: Google recently purchased its headquarters in Silicon Valley,[6] and as of December 2006, Microsoft is in talks to lease downtown San Francisco space.[7]

Port Improvements – US$1.1 Billion Required in Repairs and Upgrades

It is estimated that the Port of San Francisco will require over US$1.1 billion in repairs and upgrades to its piers. Seven piers are near closure, and the future of the active cruise ship industry is uncertain.[8] Having had over 80 ships docked in 2006, it is anticipated that San Francisco will have 25% fewer ships docked in its port in 2007.[9] Despite the needs of these deteriorating piers, a US$54 million mixed-use project recently opened in three unoccupied piers, expanding office space by 60,000 square feet and restaurant and retail space by 17,000 square feet.[10]

3 Armstrong, David. "Tourists Flocking to Bay Area / A Weak Dollar Draws US Foreign Visitors to S.F., Surroundings". The San Francisco Chronicle. 20 August 2006.

4 Raine, George. "S.F. Hotels are Filling up / Consultant Says Business Will Keep Getting Better". The San Francisco Chronicle. February 24, 2006.

5 Kottle, Marni Leff. "S.F. Office Rents Rise in Quarter." The San Francisco Chronicle". October 6, 2006.

6 Liedtke, Michael. "Google to Buy its Headquarters for US$319 Million". Associated Press Newswires. 14 June 2006.

7 "Commercial Real Estate News [Microsoft]". San Jose Mercury News. 5 December 2006.

8 Vega, Cecilia M. "7 Piers are Falling Down—Port Has a Plan, Needs Money/10-Year Capital Project Needs more than US$734 Million to Repair, Replace, Upgrade Facilities—many of them 100 Years Old". The San Francisco Chronicle. 14 March 2007.

9 Hilton, Spud. "South of the Border-Bound Ship Tossing San Francisco Overboard". The San Francisco Chronicle. 10 September 2006.

10 "The Piers Project Transforms Piers 1½, 3, and 5 Near San Francisco's Ferry Building". http://www.sfcvb.org/travel_media/whatsnew.asp?iid=27.

Outlook

The outlook for San Francisco remains positive with business confidence high, a strengthening economy, and strong job growth. The decline in cruise ship visitors is one of the key drivers for the tourism sector. Although fewer cruise ships are expected to dock in the Port of San Francisco in 2007, it is anticipated that there will be more land-based visitors. This, coupled with modest increases in supply, should increase the occupancy percentage.

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 50,159 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Unnamed Boutique Hotel	San Francisco, CA	132	Jul 2007	Chelsea Development
Hotel SoMa	San Francisco, CA	64	Jul 2007	Metrovation/Circe Sher
Unnamed Hotel @ Harbor Village	El Granada, CA	95	Sep 2007	KN Properties
The Essex SRO Hotel	San Francisco, CA	84	Oct 2007	Mercy Housing California
Inter-Continental Hotel	San Francisco, CA	550	Dec 2008	Continental Development Corp.

Source: Smith Travel Research

washington, d.c.

regions and markets

washington, d.c.

Introduction

The Washington, D.C. metro area lodging market experienced moderate growth in 2006 due to a strong increase in ADR and decreases in occupancy. Based on year-end 2006 data from Smith Travel Research, ADR increased by 7.3%, from US$131 in 2005 to US$141. Occupancy rates in 2006 decreased 3.0 percentage points to 68.4%, mainly attributed to the 2005 presidential inauguration, which enhanced performance in 2005. Overall, RevPAR increased by 2.9% in 2006 to US$96 from US$94 in 2005.

Hot Topics

Rising ADRs - Strong Growth in Governmental Per Diem Rates

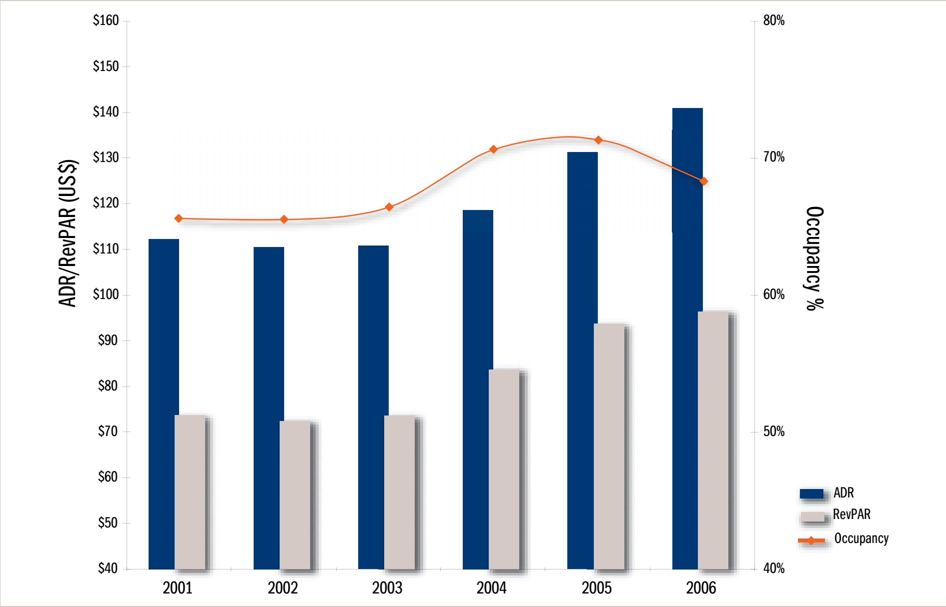
Governmental per diem rates have experienced strong growth over the past four years, with per diem rates increasing on average US$10 each month from fiscal year 2006 to 2007, representing an average increase of 4.6 percentage points.[1] The strong growth in per diem rates is anticipated to continue in the future, increasing overall ADR in the Washington, D.C., metro area. This may negatively impact hotels in the suburban areas which rely on compression resulting from Downtown D.C. hotels charging rates greater than the per diem rate. As the per diem rates increase, government business will become more attractive for the Downtown market.

Convention Activity – Setting Records in Size and Attendance

Development is underway on the Gaylord National Resort & Convention Center (opening early 2008), which will feature the largest convention hotel on the East Coast with an estimated 2,000 hotel rooms and suites.[2] The 470,000-square foot convention center will be located on the banks of the National Harbor, a 300-acre waterfront, mixed-use development that will feature retail, dining, and entertainment. In June 2006, approval for the development of a 1,220-room Marriott hotel (opening 2008) with 50,000 square feet of meeting space adjacent to the Washington Convention Center was obtained from the mayor.[3]

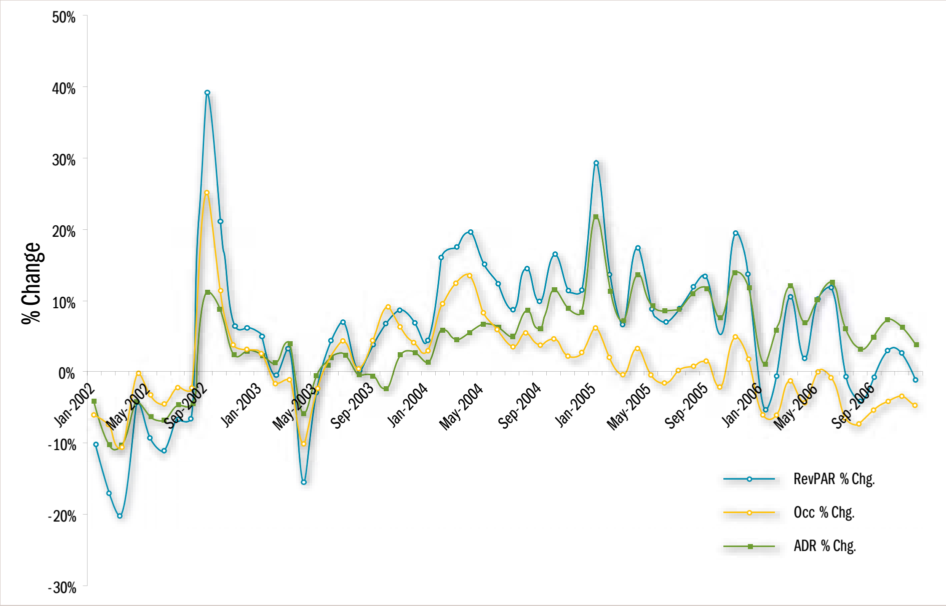
1 U.S General Services Administration, Domestic Per Diem Rates, www.gsa.gov.
2 Gaylord Hotels, www.gaylordhotels.com.
3 Washington, DC Convention and Tourism Corporation, http://www.washington.org/index.cfm?blnNavView=True&idContentType=431&idCurrentPage=32&CFID=16603280&CFTOKEN=59548626.

LODGING MARKET Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

LODGING MARKET Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

According to the Washington, D.C. Convention and Tourism Corporation, 592,825 room nights were generated in 2005, representing a record-breaking year in convention attendance. As of late September 2006, 407,895 room nights were booked for 2006, showing strong signs of growth. 2007 has 347,785 room nights booked, while 2008 has 509,945 room nights booked.

Neighborhood Revitalizations – Washington Areas Becoming Popular Destination

Many previously unpopular neighborhoods in the D.C. metro area are undergoing revitalization, which is anticipated to increase overall market demand. For example, the development of the nearby convention center caused the gentrification of the surrounding Penn Quarter area, which is adding new condominiums and apartments, theaters, galleries, hotels, and the new Smithsonian American Art Museum. Another area being revitalized is the Anacostia waterfront, consisting of an US$800 million redevelopment of the Waterside Mall site for 1.2 million square feet of office space, 1.2 million square feet of residential space, and 110,000 to 165,000 square feet of restaurants and shops.[4] These large scale projects are anticipated to increase Washington's popularity as a destination and to increase overall hotel demand in the future.

Office Market – D.C. Market Leads Nation with Positive Indicators

The office market is currently experiencing some of the lowest vacancy rates in five years. According to CBRE during the first quarter of 2007, Washington, D.C. had a 8.1% vacancy rate, one of the five lowest amongst downtown markets in the nation. The overall downtown US markets had a vacancy rate of 10.8% for the same period. According to CB Richard Ellis, Washington, D.C. "leads the nation" in suburban completion and is second, behind New York City, in downtown completions, due in part to the government spending on biotech, defense, and homeland security programs.

Outlook

The overall Washington, D.C. metro area shows signs of moderate growth in 2007 as a result of anticipated demand coupled with an increase in supply. Governmental per diem rates for 2007 will be on average US$10 higher than the previous year. With the continued debate over the development of the 1,400-room convention hotel, demand for a convention center is still uncertain. However, leisure demand is anticipated to increase due in part to the neighborhood revitalization programs. Finally, as office space is completed in both downtown and suburban metro areas, further business demand is anticipated to increase.

4 Hedgpeth, Dana. The Washington Post. "Waterfront Project to House D.C. Agencies; SW Development Is Back on Track," December 5, 2006.

Supply Additions

Based on year-to-date October 2006 data from Smith Travel Research, the existing hotel supply is 92,200 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Westin Alexandria	Alexandria, VA	319	October 2007	Regent Partners
Westin @ National Harbor	Oxon Hill, MD	195	March 2008	National Harbor Development LLC
Westin Reston Heights	Reston, VA	175	March 2008	The JBG Co.'s
Renaissance Clubsport Hotel Rockville	Rockville, MD	200	April 2008	Not Available
Aloft Hotel Oxon Hill	Oxon Hill, MD	150	May 2008	Not Available
Gaylord National Resort	Oxon Hill, MD	2,000	June 2008	Gaylord Entertainment
Sheraton Dulles Town Center	Sterling, VA	179	June 2008	Atlantic Space LLC
Marriott Hotel Convention Center	Washington, D.C.	1,220	June 2008	Tishman Urban Development Corp.
Hyatt Place Fredericksburg	Fredericksburg, VA	139	October 2008	Not Available
Aloft Hotel Chantilly	Chantilly, VA	130	November 2008	Not Available
Sheraton Dulles South Hotel	Chantilly, VA	249	January 2009	Not Available
Sheraton Herndon Dulles Station Hotel	Herndon, VA	180	January 2009	Not Available

Source: Smith Travel Research

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