Global Real Estate Center

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US 2008 Lodging Report

Ernst & Young

Introduction

Dear Colleagues,

We are pleased to present the 2008 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 www.ey.com/us/realestate.

I would like to thank the Hospitality Services professionals who contributed significant time and effort to prepare the US 2008 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

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1 Condominium-Hotels, Fractionals, and Destination Clubs – Evolution of the Second Home

Condominium-hotels, fractionals, and destination clubs are all hybrids of traditional hotel and timeshare products and serve as second-home alternatives. Though long-term demographics bode well for continued growth, the softening of the US real estate market is affecting buyers who purchased hybrid second-home products based on investment motivations rather than lifestyle decisions.

Condominium-hotels, primarily used as a financing instrument by developers in recent years, are experiencing pull-back from developers and consumers as their complex legal and structuring issues surface. While some projects have been put on hold, others are in litigation over control, budgeting, or securities issues. Developers of recently opened projects are realizing that the typical issues faced by hotels (e.g., ramp-up of performance, seasonal fluctuations, and high operating costs) are difficult to explain to owners who may have purchased units for investment reasons. Several lodging operators have recently terminated their management agreements and/or have restricted or stopped managing condominium-hotels. The recent speculative market for condominiums and the lack of transparency for buyers about hotel operating expectations may taint this asset class in the short term. This being said, the condominium-hotel structure can be mutually beneficial for all parties when interests are aligned and carefully thought through, disclosed, and documented. Condominium-hotels work best in strong resort markets and when purchased by buyers who are looking for a second-home alternative for personal use, which also provides them with the potential to defray carrying costs by renting their properties.

Fractional residences have garnered less interest from speculators and, as a result, are weathering a declining real estate market better than condominium-hotels. Branded developments are leading the way. Developers indicate that fractionals are generating price premiums of 100% to 200% per square foot over full-ownership products, although with higher marketing costs and longer absorption periods. The credibility of a well-known professional operator and sales team, in addition to the flexibility of an exchange program, allows owners to trade time in any destination where the operator has a property and makes these programs more appealing than those offered by independent projects. Fractionals generally fare better when developed alongside established hotels, as the hotels may encourage potential buyers, as well as critical mass for the development and associated guest services.

Destination clubs are experiencing growing pains yet have seen the greatest percentage growth in sales volume relative to other vacation ownership options.[1] Faced with affluent members who expect luxurious residences and world-class service in an ever-increasing number of attractive vacation destinations, operators are refining their facilities to suit the needs of this demanding clientele best. Challenges arise for clubs that rent locations, as they maintain limited control over product quality, cost increases, and guest service, resulting in disgruntled members. Because they need to be well capitalized to achieve a critical mass of members and locations, it is anticipated that the consolidation of destination clubs will continue in 2008. Other trends anticipated in the sector include refinement of the ratios of destinations to members, cancellation terms, and a general movement towards non-equity structures.

In summary, while the various second-home hybrids are expected to be tested by a softening US housing market in 2008, the underlying fundamentals of the baby boomer generation (the generation born between 1946 and 1964) — their upcoming wealth transfer and the time to enjoy it — will lead to continued growth and metamorphosis of the second-home sector.

1 Ragatz Associates. *The Shared-Ownership Resort Real Estate Industry in North America: 2007*, p. 13. March 2007.

2 Fair Market Value: A New Way of Looking at an Old Measure

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards 157 (FAS 157), *Fair Value Measurements,* which will be implemented in 2008. While the new standards do not change the areas requiring fair value accounting, they do seek to reduce the diversity that has existed in the actual determination of fair value. The standard that emphasizes fair value as an "exit measurement" will generally require companies that have historically relied on internal cash flow models to seek out actual market transactions and market data for purposes of determining values.

For financial reporting purposes, fair market value is generally defined as "the amount a seller could reasonably expect to receive in a current sale between a willing buyer and a willing seller." While the concepts underlying such a definition are relatively straightforward, market dynamics often result in substantial complexities in the practical determination of values. It is generally thought that actual market transactions for the same or similar assets represent the best indication of asset value. FAS 157 re-emphasizes this point.

However, substantial market volatility, thinly traded markets, lack of market liquidity, or perception of value on the part of the asset owner often result in the use of more highly judgmental valuation techniques: comparative adjustments to market transactions for dissimilar assets or discounted cash flow models. Nowhere has this been more apparent recently than with asset-backed securities in the financial services industry. The choice of valuation techniques has historically rested with the preparer of the financial statements. This, in turn, has resulted in the diversity in practice that the framework in FAS 157 is designed to address.

While financial statements under US Generally Accepted Accounting Principles (GAAP) are fundamentally based on the historical cost model, fair market value is increasingly finding its way into the preparation of such statements. The hospitality industry is no exception, with the requirement that valuation of goodwill and contract intangibles, allocation of purchase price, impairment assessment, and carrying values of hotel assets be reported as fair market values. FAS 157 will require hospitality companies to seek out actual market transactions related to such assets.

Absent such transactions, “observable market inputs” (e.g., cap rates, discount rates, multiples, revenue per available room [RevPAR], and growth rate assumptions) must be sought out for purposes of modeling fair value calculations.

Only after a company has demonstrated that such information is unavailable will it be acceptable to employ internal models using internal assumptions for purposes of determining fair value. In such cases, extensive footnote disclosure will be required regarding the modeling technique and associated assumptions. In that respect, FAS 157 will not only have an impact on how companies determine fair value, it will also expand transparency in the marketplace with regard to those determinations. Going forward, FAS 157 will allow for increased consistency and comparability in fair value measurements across the marketplace.

3 Hotel Development: Pipeline Remains Strong, Countering the Credit Crisis with Modern Brand Development

The US lodging industry was hit with record-high construction cost increases in 2006. In 2007, by comparison, it has experienced only moderate price increases, despite a 29.7% increase in the cost of diesel fuel during the year.[2] The increase in fuel price was somewhat defrayed by a decrease in the cost of key construction materials, such as gypsum and steel products, which declined in 2007 by 22% and 3.7%, respectively. Higher construction costs and land prices have led to only a marginal reduction in the number of proposed hotel projects that have broken ground, an indication that the credit crunch has not yet had a significant impact on development.[3]

As reported by *Lodging Econometrics*,[4] the US industry set another record, with more than 5,000 hotels in the pipeline in the third quarter of 2007. The current credit crisis has not had a significant impact on those projects; however, increases in cancellations and postponements are expected in the fourth quarter of 2007 and the first half of 2008. While construction financing may be more expensive and more difficult to secure in the short run, it is expected that interest rates will stabilize at higher, yet still relatively moderate levels. Commercial and public construction continues to offset shortfalls in the housing market with the lodging industry leading the pack in new commercial construction. Reduction, although slight, in the supply pipeline, due to less favorable financing terms for deals under negotiation, is anticipated to benefit the performance levels of existing hotels, as other sectors of the economy are exposed to a potential softening and the reduction of new supply becomes less of a threat.

In terms of investment strategy within the US, a clear shift has begun toward development projects and away from acquisitions. Ernst & Young's *2007 Hospitality Investment Survey* indicated that this trend is seen likely to continue through 2010. It has become increasingly apparent during the last two years that in certain markets, despite rising costs, building a new hotel may be more feasible than buying an existing hotel as demand outpaces supply.[5]

2 "US No. 2 Diesel Sales by All Sellers." US Energy Information Administration. 14 January 2008.

3 Robert Murray. "September Construction Slides 9 Percent." *McGraw Hill Construction.* 23 October 2007.

4 Patrick Ford. "U.S. Construction Pipeline Sets Another Record." *Lodging Econometrics.* 31October 2007

5 *Ernst & Young Hospitality Investment Survey,* December 2007.

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Development activity persists as lodging industry executives remain bullish on the short- and long-term outlook. Whereas the 2006 surge was led by projects in Las Vegas and Atlantic City, last year's top metropolitan areas for new hotel construction were Chicago and Orlando.[6] Looking forward, industry leaders expect 2008 to reflect the impact of the development pipeline buildup. Supply additions are expected to hit the market at an annual rate in excess of 100,000 new rooms from 2008 to 2011. The majority of 2008 development activity, however, is expected to occur in the upscale and midscale without food and beverage hotel industry segments.[7] The upscale segment is expected to reflect the rollout of new brands by larger hotel companies seeking to reach critical mass on brands such as Hotel Indigo, Hyatt Place, and Cambria Suites. In the midscale segment, considerable development activity is expected to come to fruition due to generally shorter development time frames relative to the announcement of projects, compared with those of full-service hotels.

6 Associated General Contractors of America."Construction Economics" *The Data DIGest.* 22-29 May 2007.

7 Mark Woodworth. "New Forecast Report from PKF Hospitality Research No Sunset on the Horizon." www.hotel online.com. 12 September 2007.

4 Inbound Investments: US Goes Global

Lured by a booming market and a weakened US dollar, foreign companies are deploying capital into the US at a record pace. In September 2007, foreign organizations spent approximately US$276 billion in acquiring various US businesses, near the 2000 record of US$325 billion.[8]

In light of the recent credit crunch, the debt markets in the United States have significantly slowed, which has brought domestic hotel transaction activity by domestic investors to a minimum. However, heavily capitalized foreign investors and entities have benefited due to decreased competition for acquisition targets, as these transactions are less reliant on debt financing.

In addition, the steady decline of the US dollar has further increased the attractiveness of US assets for foreign investors. Throughout 2007, the US dollar steadily declined against most of the world's major currencies. Predictions that the dollar will fall even further are an indication that conditions for subprime borrowers and the overall credit landscape in the US have the potential to worsen. While the decrease in the dollar's value has prompted domestic lenders and investors to proceed with caution, if at all, investors originating abroad, especially those who are highly capitalized, have enjoyed an increase in their purchasing power.

Transactions such as Istithmar Hotels' acquisition of the Mandarin Oriental in New York and Taj Hotels Resorts and Palaces' acquisition of the Ritz-Carlton Boston and the Campton Place Hotel in San Francisco were indications of heightened interest in US real estate from abroad in the first half of 2007. Given the change in the US financial markets in the third quarter of 2007, foreign investors have become increasingly focused on the US real estate market, paying particular attention to lodging properties.

Marked by large-scale investments such as those in Las Vegas, investors from the Middle East have become prominent players in US real estate markets. However, investments such as the acquisition of a 90% interest in the St. Regis Hotel in Washington, DC, by Claret Capital, a private investment firm based in Dublin,

8 Weil, Dan. "Weak Dollar Allows Foreigners to Snap up US Firms." www.newsmax.com. 16 October 2007.

Ireland, in September 2007 demonstrate that investors continue to make inroads in US real estate.

The weak US dollar and strong lodging fundamentals are expected to continue to attract non-US investors. As credit conditions raise caution among domestic investors in the short to medium term, it is anticipated that foreign investors will continue to drive a significant portion of investment activity through 2008.

5 Lodging Life Cycle: Are the Good Times Coming to an End?

The hospitality industry has had steady growth since the events of 11 September 2001, with significant demand increases. With a compound annual growth rate of 7.9% for RevPAR from 2003 to 2006, RevPAR growth in 2007 is expected to be approximately 6%,[9] and 2007 overall RevPAR is anticipated to be close to its previous peak recorded in 2000 (adjusted for inflation). As hospitality cycles historically last between six and nine years, current indicators suggest that the hotel industry will continue to achieve gains in 2008, although smaller than the gains in previous years.

While the lodging industry is experiencing RevPAR growth, occupancy levels and average daily rate growth rates are decelerating.[10] According to a recent poll[11] of the Hospitality Asset Managers Association (HAMA), 2008 RevPAR growth for full-service properties is expected to increase by 5%, and 2008 net operating income (NOI) growth for these properties is anticipated to increase by 5% to 6%, slightly below 2007 estimates. Furthermore, those polled responded that the lodging sector is in the end stages of expansion. Similarly, most of the publicly traded domestic companies provided lower estimates than in the prior year.

The expected decline in GDP growth further indicates that the lodging cycle is shifting and that demand growth is waning. Historically, room demand growth has been strongly correlated to changes in GDP. Real GDP growth is projected to slow to a rate of 2.2% for 2007 and 2.6% for 2008, compared to expansions between 2.9% and 3.6% from 2004 to 2006. The threat of a more accelerated deterioration of economic conditions or even a recession, due to the debt and housing markets, may cause the current positive lodging cycle to end sooner than expected. Because new lodging supply is anticipated to accelerate in 2008, the effect of negative, or even minimal, economic growth would have a greater impact on industry fundamentals. Conversely, a prolonged decline of the US

9 Smith Travel Research. *Lodging Review*. December 2003-2006.

10 Smith Travel Research, *Lodging Review.* January and November 2007, and PKF Hospitality Research, *Hotel Horizons.* 3rd Quarter 2007.

11 Green Street Advisors. 2007 Hospitality Asset Managers Association Meeting Survey. 3 October 2007.

dollar could have a beneficial effect on US lodging demand, as domestic leisure trips are expected to grow in 2008 by 2% and international travel to the US is projected to rise 3.7% in 2008.[12] However, although inbound international travel is anticipated to increase, it has yet to surpass the level reached in 2000.

The end of previous cycles in the US lodging industry was often accompanied by significant increases in supply. While the current hotel construction pipeline is showing strong quarterly growth compared with that of the last three years, lodging supply growth is anticipated to remain below its historical average through 2008.[13] The slowdown of the capital markets that began in mid-2007 is expected to decelerate further the pace of the supply pipeline. As lenders are reevaluating risk and pricing, developers are finding it increasingly difficult to obtain financing commitments for their projects. Annual supply growth between 2008 and 2010 is estimated to decrease by at least 3,000 rooms, which could extend the current cycle. While certain factors could potentially shorten or lengthen it, most indicators suggest two years remain in this cycle.

12 "Modest Growth Predicted in US Travel Projected in 2008." Travel Industry Association of America. 30 October 2007.

13 "LE's U.S. Construction Pipeline Sets Another Record at 5,011 Hotels with 654,503 Rooms. Hotel Companies Ready to Reap Benefits of Repositioning Strategies." *Lodging Econometrics.* 31 October, 2007.

6 Green Hotels: Environmentally and Economically Friendly

With the increased focus on the environment and climate change during the last few years, real estate and hotel developers and guests alike are focusing on environmentally friendly (or "green") hotels. While it was estimated a few years ago that developing a green hotel would cost upwards of 20% more than building a hotel by conventional standards, the cost premium has decreased significantly. Furthermore, according to the US Green Building Council (USGBC), the most significant green performance features add only 2% to 7% to the initial design and construction costs of projects, with these additional costs constantly decreasing.[14] The additional costs are often recovered within one to two years through decreases in expenses, making the development of green hotels appealing from both an environmental and an economic standpoint.[15]

Green hotels are economically designed and environmentally friendly properties typically identified as green by meeting standards set forth in Leadership in Energy and Environmental Design (LEED) certification. These standards include programs for sustainable site development, water savings, energy efficiency, materials selection, and indoor environmental quality. Strong economics have resulted in a number of major hotel companies either developing green hotels or retrofitting existing properties to become part of the green movement. Additionally, numerous developers of existing luxury-branded hotels and residences, as well as new brands, are now focusing on environmentally friendly hotel design and operation. Former Starwood Hotels CEO Barry Sternlicht is launching a group of environmentally friendly hotels and condominium properties under the "1" Hotel and Residences brand. The buildings will derive 50% of their energy from renewable sources and will use energy-efficient systems and recycled materials, thus qualifying for LEED certification.[16]

While there may be a marginal increase in up-front construction costs associated with green hotels, the benefits and future savings may outweigh the extra expenses for many developers. Numerous incentives are

14 "Leadership and Sustainability: Gettys Blazes a Trail In Green Hospitality Design." http://www.hotel-online.com/News/PR2007_3rd/Sept07_GettysGreen.html. 27 September 2007.

15 "JMBM Hotel Lawyers Announce First Green Hotel Development Conference." http://hotellaw.jmbm.com/2007/07/jmbm_hotel_lawyers_announce_fi.html. 27 July 2007.

16 "Green: The Color of Money." http://www.cnbc.com. November 2007.

frequently offered by cities to developers of LEED-certified hotels, including quicker approvals for entitlements, incentive payments, and tax credits.[17] Additionally, according to the USGBC, LEED-certified buildings can save from 30% to 50% in energy use, 35% in carbon emissions, 40% in water consumption, and 70% in solid waste. This will significantly mitigate the increased construction expenses with savings that translate into the equivalent of increases in average daily room rate (ADR) from US$2 at limited-service hotels to upwards of US$7 at full-service hotels.[18] Furthermore, according to a recent ecotourism survey conducted by the website TripAdvisor, travelers may be willing to pay more to stay in an environmentally friendly hotel: approximately 36% of respondents indicate the willingness to pay upwards of 20% more to stay in a green hotel.[19] The savings and increases in revenues may translate into higher sales values for environmentally friendly hotels.

The focus on the environment is likely to continue. The trend is being further solidified by California State Law AB 32, which establishes a goal of reducing California's greenhouse gas emissions by 30% to 35% of 1990 levels by 2020 and to less than 80% of 1990 levels by 2050. At least 40 other states are also taking action to combat global warming.[20] The development of green hotels will continue to translate into value for hotels and for the environment.

17 "Green Hotel Development Gaining In Popularity." www.hotel-online.com/News/PR2007_4th/Oct07_JMBMLEED.html. October 2007.

18 "Hotel Lawyer on the 'Real Economics' Behind the Paradigm Shift to GREEN Hotels." http://hotellaw.jmbm.com/2007/10/hotel_lawyer_on_the_real_econo.html. 23 October 2007.

19 "Leadership and Sustainability: Gettys Blazes a Trail In Green Hospitality Design." www.hotel-online.com/News/PR2007_3rd/Sept07_GettysGreen.html. 27 September 2007.

20 Jeffer, Mangels, Butler, & Marmaro LLP. "How Global Warming Laws Will Affect Hotels: Will California's New Legislation Set the 'Standard' for the Country?" *Global Hospitality Advisor:* November 2007.

7 Tourism: Strategy and Branding from a Local Perspective

The US tourism market sustained high levels of growth in 2007 as state and local governments continued to recognize the benefits of using tourism to supplement their economic base. The ability of states to improve their economies by increasing visitation and tourism plays a central role in their vitality. On a microeconomic level, local city governments are beginning to realize the importance of developing a local brand. If developed and implemented properly, a brand can be the foundation for a positive economic turnaround and can lead to growth in revenues to be used for education, development, and general growth.

Cities such as Austin, Texas; Baltimore, Maryland; Cleveland, Ohio; and Kansas City, Missouri; have been recognized for their best practices in regional marketing. For example, the "Cleveland+" brand was recently developed to position and promote Cleveland and the neighboring cities of Akron, Canton, and Youngstown as one unified region. By leveraging the strengths of entire regions, a tourism strategy can focus on the assets of those regions. Las Vegas has also successfully developed as a brand by integrating local efforts with the media and internet communities.

Local tourism can have an impact on more than just the demand for hotel rooms. It increases attraction visits, package tours, retail sales, restaurant receipts, local transportation, and other events and activities that affect the local economy in a positive way. For example, a boost in demand for and use of convention center facilities by out-of-town groups draws attendees to stay overnight. Moreover, an effective tourism strategy can bring national and international media exposure to attractions, unique features, lifestyle, history, and the natural environment — all of which can bring increased business to more than just hotels.

A comprehensive strategy is essential to creating a long-lasting local brand. Extensive research is necessary before building the key messaging and creative elements that lead to a successful "imaging" campaign. In the end, a collaborative/cooperative effort must exist among convention and visitors bureaus, economic development organizations, chambers of commerce, civic groups, political leaders, and private-sector industry stakeholders such as hotel and restaurant associations. A brand name and a powerful marketing strategy that focus on long-term results can be the determining factors for a successful tourism strategy.

8 "Credit Crunch" and Sovereign Wealth Funds Filling the Gap

Global credit markets were strong at the beginning of 2007 as an abundance of inexpensive capital flowed into real estate markets, financial markets were stable, and investors' appetite for risk was strong. However, aggressive lending practices and weakness in the residential housing market eventually contributed to increased delinquency rates among subprime borrowers in the second quarter of 2007.

Decreasing home values and increased delinquency rates caused significant losses among investors and raised concerns about mortgage-backed commercial real estate securities. Credit ratings agencies have already downgraded more than US$50 billion worth of mortgage-backed securities and further downgrades are anticipated. The volatility in the residential mortgage market leaked into the commercial real estate sector, despite its historically low delinquency rates and strong fundamental performance, as many investors were sidelined by illiquidity in the commercial paper market or concerned about underwriting practices, the accurate pricing of risk, and increasing capitalization rates.

While many lenders currently remain on the sidelines due, in part, to a backlog of unsecuritized loans, high-quality assets can still receive financing, albeit at less favorable terms than seen prior to the liquidity crisis (fewer interest-only loans, higher interest rates, lower loan-to-value ratios, and increased debt-service coverage ratios). As a result of increased borrowing costs and less favorable loan terms, traditionally high-leverage private equity groups are searching for alternative methods of debt financing to boost deal activity and returns. Alternative sources for debt financing include seller financing, hedge funds, mutual funds, and sovereign wealth funds. It is estimated that the global private equity industry may have as much as US$500 billion awaiting investment. However, decreased leverage, which has a greater impact on returns than higher interest rates, is anticipated to place upward pressure on capitalization rates and downward pressure on real estate prices.

The US real estate market has recently experienced a surge in equity investment from Asian and Middle Eastern sovereign wealth funds. Some noteworthy transactions in 2007 include Dubai World's purchase of a 50% interest in MGM Mirage's Project CityCenter for US$2.96 billion and the Chinese government's US$3 billion investment for a 10% stake in the Blackstone Group. The impact of sovereign wealth funds is expected to increase significantly over the next decade. While the top 20 sovereign wealth funds are currently valued at US$2.2 trillion, their value could increase to US$13.4 trillion in the next decade if current growth rates continue.

The first half of 2007 was characterized by a number of large-scale lodging transactions, including the Lightstone Group's US$8 billion acquisition of Extended Stay America[21] and Blackstone Group's US$26 billion acquisition of Hilton Hotels Corporation.[22] In addition, Four Seasons Hotels Inc. was taken private by affiliates of Cascade Investment LLC, an entity owned by William H. Gates III, and Kingdom Hotels International, a company owned by a trust created by Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud, at a value of US $3.8 billion (including debt), or US $82 cash per share.[23] Similar large-scale transactions are not anticipated in the near term due to limited availability of debt financing in the current environment.

21 Kalinoski, Gail. "Lightstone Closes on $8B Acquisition of Extended Stay." *Commercial Property News.* 12 June 2007.

22 "Blackstone Completes Hilton Hotels Acquisition." *Commercial Property News.* 6 November 2007

23 "Four Seasons Agrees to US $3.8 Billion Buyout Offer from Microsoft's Bill Gates and Saudi Prince Alwaleed bin Talal." www.hotel-online.com. 12 February 2007.

9 Brand Proliferation: The Benefits of Branding

The lodging sector has experienced an upswing in branding in recent years. While there are certainly inherent benefits in relation to non-branded properties, in today's market, the addition of a brand can make a significant impact on the cash flows of both operators and owners alike. This impact on the bottom line is evident in an expanded market share, additional revenue channels, and, in some instances, favorable financing terms.

A new travel segment has emerged recently: the lifestyle segment. These travelers are seeking amenities that blend work and play with style, resulting in creative and artistic design elements that are becoming ever more important in attracting consumers.[24] Many players in the lodging sector are creating new lifestyle brands to diversify their existing product offerings, as can be seen in the emergence of brands such as Hyatt Andaz and Starwood aLoft. Even traditional anti-brand hoteliers such as Kimpton, Schrager Rosewood, and Kor have jumped on the "brand wagon." These new brands enable the lodging conglomerates to capture market share that had previously been captured almost exclusively by independent boutique hotels.

Aside from expanded market share, a brand can generate additional revenue through the recent trend of residential branding. In such developments, residential unit owners usually receive the services also offered to hotel guests, such as housekeeping and room service, in addition to the convenience, status, and reputation that come with the lodging brand. In some circumstances, they are also offered the potential to place their unit in a rental program, though this is not an option for fractional or strictly branded residential developments. Hotel operators generate income by charging branding or licensing fees to developers, as well as from increased revenues obtained from offering à la carte services to unit owners. This branding fee trend evolved when lodging companies observed the premiums in pricing obtained by developers of branded developments, in some instances reported at upwards of 20% to 50%, on the sale of the branded residential units relative to comparable unbranded products.

While branding a hotel is not a necessity, in today's lending market, it is certainly an added benefit. As lenders become more stringent in their underwriting, owners and

24 Escalera, Karen Weiner. "Design: It's What Customers Crave Everywhere." *Luxury Travel & Lifestyle Trends.* July 2007.

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developers whose projects are associated with established brand names generally have an easier time obtaining construction financing, as well as more favorable financing terms. This is particularly evident in unproven secondary or tertiary markets when branded properties are viewed as a safer investment.

As the lodging cycle begins to shift, some industry participants believe further consolidation is inevitable. Certainly, there are pros and cons to branded and non-branded hotels. In today's market, however, the addition of the right brand can generate incremental value for all parties — owners and operators alike.

10 Outbound Investment: Capital Goes Around

Finding it progressively more difficult to source investment opportunities to fit their return profiles, US investors are increasingly looking outside the domestic market for cross-border investment opportunities. Approximately half, or US$35 billion, of hotel investment in 2006 was placed in investments outside of the US,[25] a trend that continued in 2007. This phenomenon may be witnessed in significant portfolio transactions that occurred in the first half of 2007 and by the findings of Ernst & Young's *2007 Hospitality Investment Survey*. The survey, which targeted key decision-makers in the US hospitality industry, indicated that while currently only approximately one-third (37%) of the respondents invest in hospitality internationally, this percentage is anticipated to increase in the near to medium term as almost 46% of respondents plan to focus more on international opportunities.

While investors have increasingly turned their focus outside of the US to global markets, a few regions have demonstrated their propensity for growth more quickly than others. Europe and Asia continue to have a stronghold on investor interests due to strong ADR and RevPAR growth rates and high barriers to entry. Twenty-two percent of those surveyed are currently investing in Europe, and 15% believe Europe to have the greatest potential for hospitality investment. According to the survey responses, 41% believe that Asia has the greatest potential for hospitality investment, while 19% are currently invested there. With China and India having opened their markets to international investors, a record level of transaction volume was recorded in 2006.

Additionally, despite obstacles such as local legislation and development laws, both Latin America and the Caribbean remain attractive locations for investment. Stabilizing economies and politics in countries such as Mexico, Brazil, and Argentina further support foreign investment initiatives. Investment in the Middle East continues to grow as well, most notably developments in the luxury segment and those with mixed-use components, especially in areas such as Dubai and Abu Dhabi, as tourist arrivals and RevPAR growth reach record levels and returns remain high.

25 Jones Lang LaSalle. *Global Hotel Investment Survey 2006*.

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Ernst & Young's survey further indicated that investors' interest is skewed toward the luxury segment, with a preference of 37% internationally versus 23% domestically. Investors appear to be more comfortable investing in high-end properties, which tend to attract more international travelers and to rely less on the local markets.

Finally, while international expansion does come with some additional risks, such as political and economic instability, currency risk/inflation, and prohibitive and unclear local legislation, in certain instances it also presents opportunities for higher returns on investment and risk diversification.

US Industry Overview

US Industry Overview*

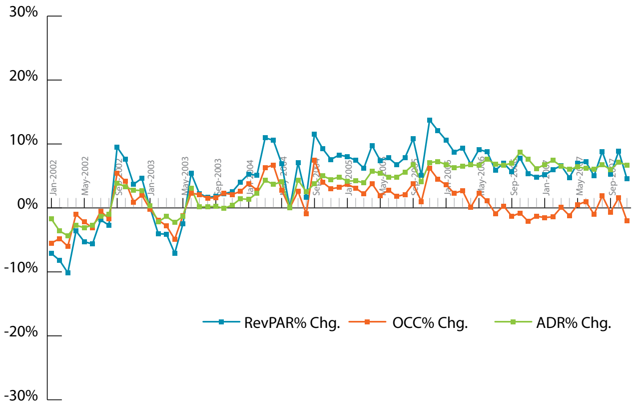
The lodging industry continued to be extremely active in 2007, with strong tourism activity, development of new brands, and a continued growth in RevPAR. Overall, in 2007, US lodging performance was slightly less robust than in 2006, due in part to the credit crunch sparked by the subprime debt market, as well as to the overall economic uncertainty associated with it.

Despite this uncertainty, particularly during the second half of the year, the industry continued to move forward in other respects, overcoming the challenges it had faced in recent years as a result of increasing energy costs and geo-political conflicts. The growth in lodging fundamentals was driven by strong demand levels as the US economy continued to expand and international inbound travel surged on the weakness of the dollar. This growth was further supported by moderate increases in room supply, partially attributed to the continuing rise in the cost of construction materials, as well as the active transaction environment in the first half of 2007 caused by favorable financing terms. As the year progressed, new development projects in the

* Note: The data is this section is based on material from the STR Lodging Report of Smith Travel Research, November 2007.

US Lodging Market
Change in Monthly Occupancy, ADR, RevPAR Performance
January 2002 – December 2007

Source: Smith Travel Research Monthly Lodging Review



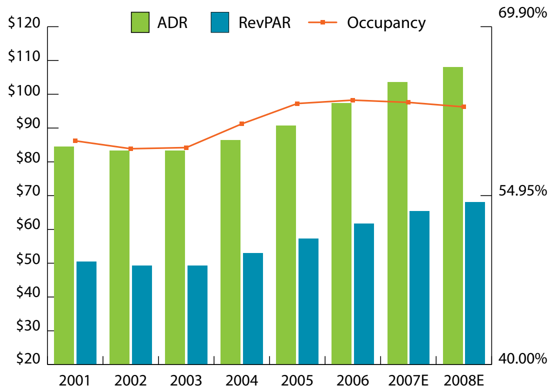
pipeline slowed, resulting in relatively stable occupancy levels coupled with moderate to strong gains in ADR. In 2007, the industry is anticipated to experience a 6.1% increase in RevPAR. RevPAR growth in 2008 is anticipated to decline to 4.0%.

The projected US lodging market's 6.1% increase in RevPAR during 2007 is less than the RevPAR growth of 7.6% in 2006. Based on year-to-date November 2007 data provided by Smith Travel Research, year-end 2007 occupancy is anticipated to be approximately 63.2%, a 0.2 percentage point decrease from the same period in 2006. The overall industry's estimated year-end ADR of approximately US$104 in 2007 represents a 6.4% increase over 2006, with overall RevPAR increasing to US$65 from US$62.

It is expected that overall occupancy will continue to decline slightly in 2008, with continued moderate ADR gains. Occupancy is expected to decrease by 0.4 percentage points to 62.8%, while ADR is anticipated to increase by 4.7% to approximately US$108, resulting in a RevPAR increase of 4.0% to US$68.

US Lodging Market
Occupancy, ADR, RevPAR
Performance 2001 – 2008E

Source: Smith Travel Research
Monthly Lodging Review



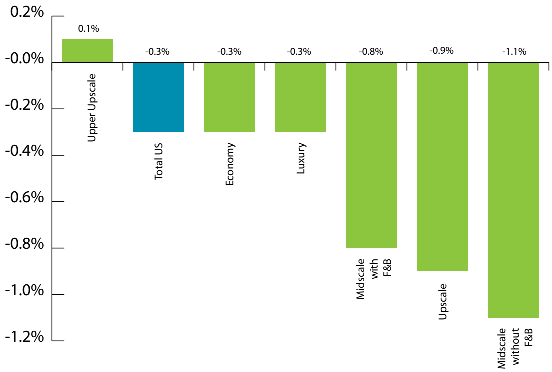
RevPAR Trends by Market Segment

It is anticipated that 2007 will be the second year when all segments of the lodging industry surpass peak levels achieved in 2000. Though not as robust as 2006, year-end 2007 RevPAR levels are anticipated to grow in all segments, resulting in a 6.1% growth nationally over 2006. This trend is expected to continue into 2008, with an estimated growth rate of 4.0%.

By year-end 2007, the luxury segment is anticipated to experience the highest RevPAR growth among all the segments, at 6.8% compared with 10.5% the previous year. The midscale without food and beverage and upper upscale segments are projected to experience the next highest increases in RevPAR by year-end

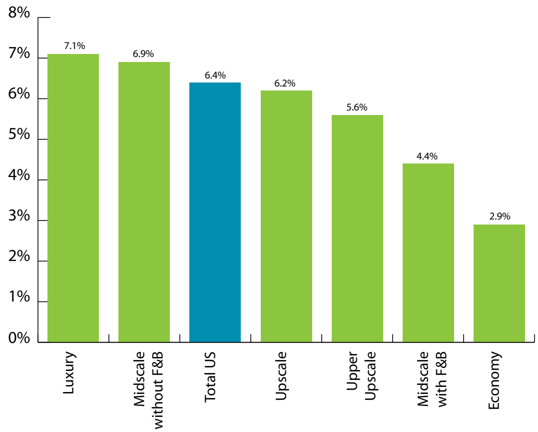
2007E Occupancy Performance by Segment

Source: Smith Travel Research Monthly Lodging Review



2007E ADR Performance by Segment

Source: Smith Travel Research Monthly Lodging Review

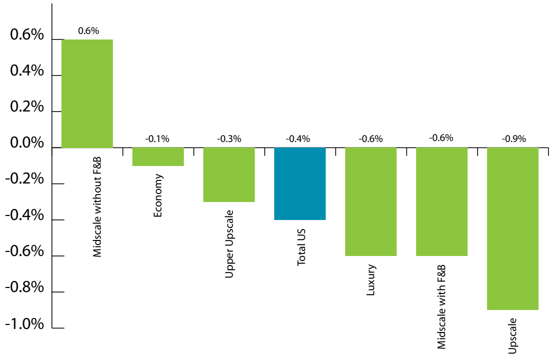


2007, at approximately 5.8% and 5.6%, respectively, as compared with 2006.

The top three performing segments in terms of RevPAR growth in 2007 are the luxury, midscale without food and beverage, and upper upscale segments, which are also expected to outperform the other segments in RevPAR growth in 2008. The luxury, midscale without food and beverage, and upper upscale segments are expected to experience RevPAR increases of 5.9%, 5.5%, and 4.9%, respectively.

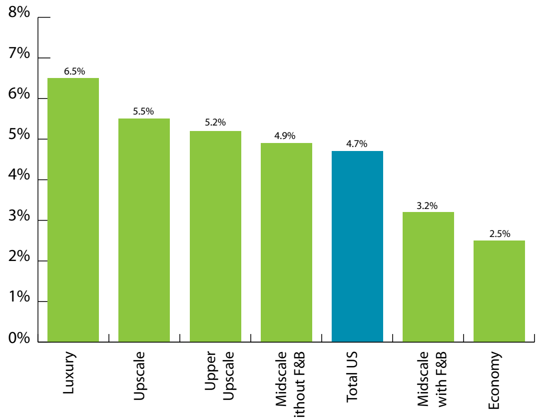
2008E Occupancy Performance by Segment

Source: Smith Travel Research Monthly Lodging Review



2008E ADR Performance by Segment

Source: Smith Travel Research Monthly Lodging Review

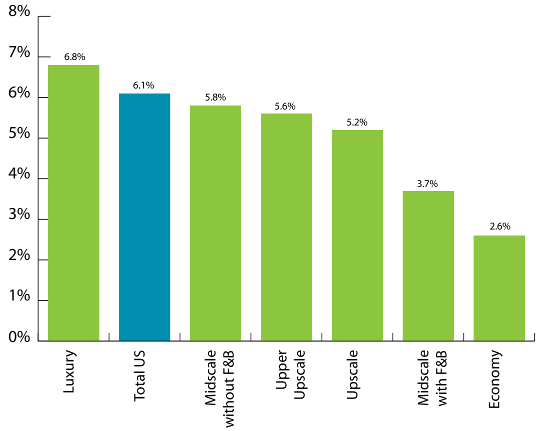


RevPAR Compound Annual Growth Rate by Chainscale

The midscale without food and beverage and upscale segments have demonstrated the most significant compound annual growth rates between 2000 and anticipated year-end 2008, at 4.7% and 3.3%, respectively. The economy and upper upscale segments demonstrated the weakest compound annual growth rates between

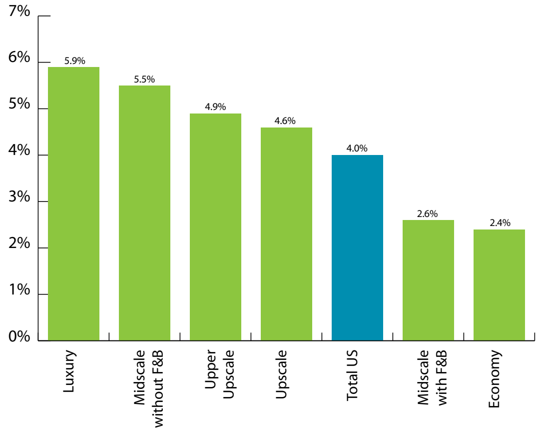
2007E RevPAR Performance by Segment

Source: Smith Travel Research Monthly Lodging Review



2008E RevPAR Performance by Segment

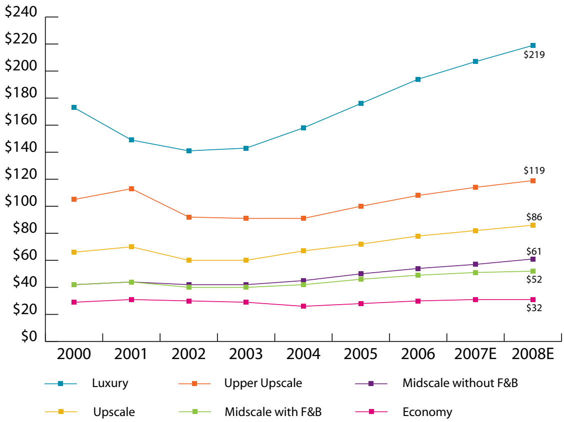
Source: Smith Travel Research Monthly Lodging Review



2000 and anticipated year-end 2008 of 1.2% and 1.6%, respectively. Overall, the industry continues to demonstrate RevPAR growth rates consistent with longer-term industry trends, with the US market achieving a 2.7% compound annual RevPAR growth between 2000 and anticipated year-end 2008.

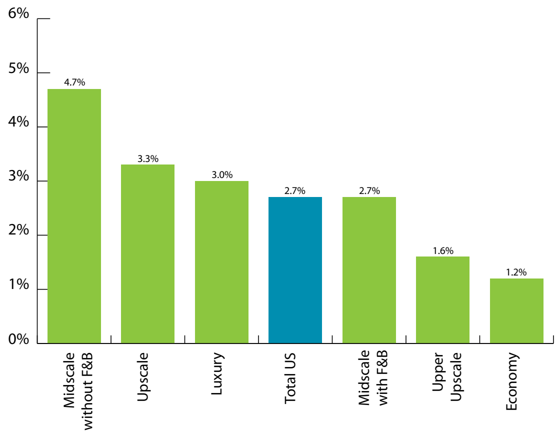
RevPAR Trend by Chainscale
2000 – 2008E

Source: Smith Travel Research Monthly Lodging Review



RevPAR Compound Annual Growth Rate (%)
2000 – 2008E

Source: Smith Travel Research Monthly Lodging Review

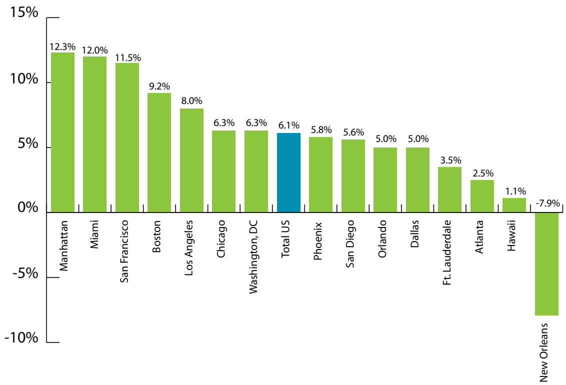


Top Performing Markets

Manhattan continues to lead the major markets in terms of performance, with RevPAR in 2007 reaching US$251, followed by Hawaii at US$149, and Miami at US$113. In terms of RevPAR percentage increases from 2006 to 2007, Manhattan, Miami, San Francisco, and Boston lead the markets with the most significant gains of 12.3%, 12.0%, 11.5%, and 9.2%, respectively.

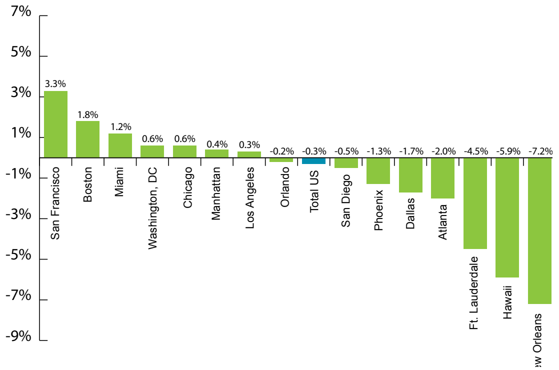
2007E RevPAR Performance by Market

Source: Smith Travel Research Monthly Lodging Review



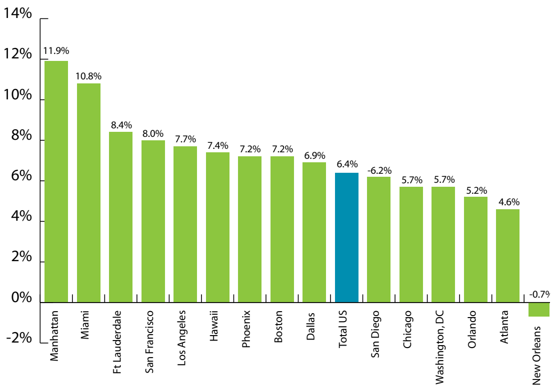
2007E Occupancy Performance by Market

Source: Smith Travel Research Monthly Lodging Review



2007E ADR Performance by Market

Source: Smith Travel Research Monthly Lodging Review



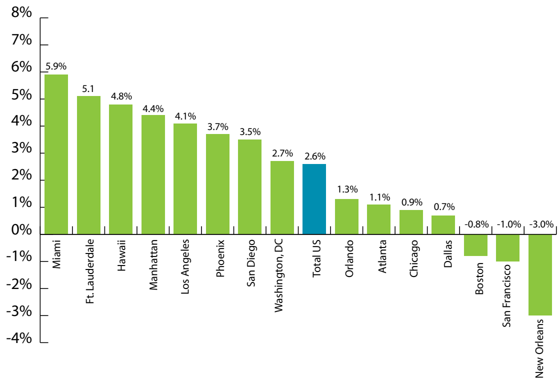
RevPAR Compound Annual Growth Rate by Market

All of the major markets covered in this report have experienced increases in RevPAR since 2003, with the exception of New Orleans. Between 2000 and 2007, Miami experienced the most significant gains, with a compound annual growth rate of approximately 5.9%. Other top performing markets include Ft. Lauderdale (5.1%), Hawaii (4.8%), Manhattan (4.4%), and Los Angeles (4.1%).

Between 2000 and 2007, Boston, San Francisco, and New Orleans experienced negative compound annual growth rates in RevPAR of -0.8%, -1%, and -3%, respectively.

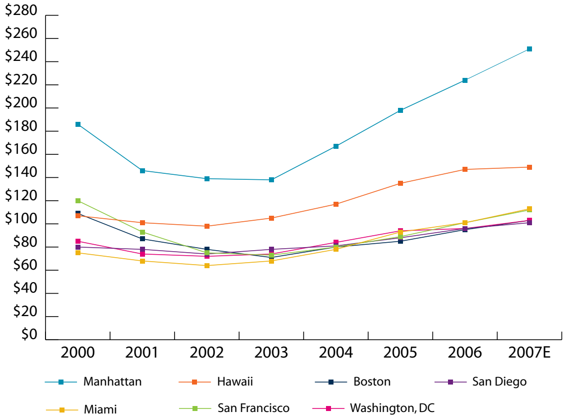
RevPAR Compound Annual Growth Rate (%) 2000 – 2007E

Source: Smith Travel Research Monthly Lodging Review



RevPAR Trend for Top Markets
2000 – 2007E

Source: Smith Travel Research
Monthly Lodging Review



Global Perspectives

Global Perspectives

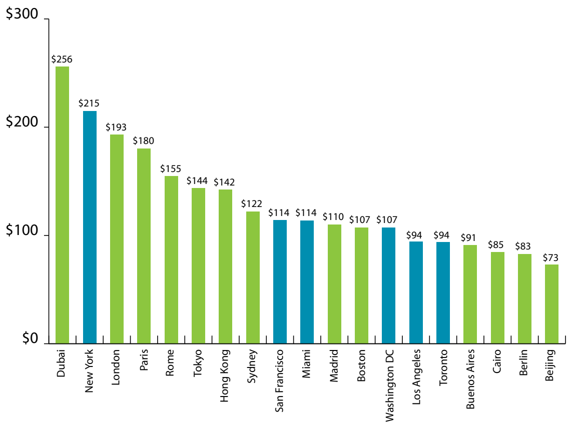
Operating performance remains strong across most regions of the world as the global economy continues to rebound. Global RevPAR growth patterns, similar to those experienced in the US from January 2007 through October 2007, have been driven primarily by increases in ADR, with relatively minor changes in occupancy.

Dubai continues to achieve the highest RevPAR (US$256) of the major global markets, chiefly due to a high concentration of luxury hotels. As of October 2007, New York City had achieved the second highest RevPAR of the major global markets at approximately US$215. London, which has benefited from the recent exchange rate fluctuations compared to US markets, was the third highest performing lodging market in the world, with a RevPAR of approximately US$193, as of October 2007. The next highest US cities, ranked on a RevPAR basis, are San Francisco and Miami, both at US$114.

Overall, a majority of the global markets experienced strong RevPAR growth during the first ten months of 2007. These significant year-to-date increases indicate the strength of the global hospitality sector, with London, Sydney, and Dubai leading the global rebound in terms of RevPAR growth for YTD October 2007. New York City represented the largest US RevPAR increase at 12%.

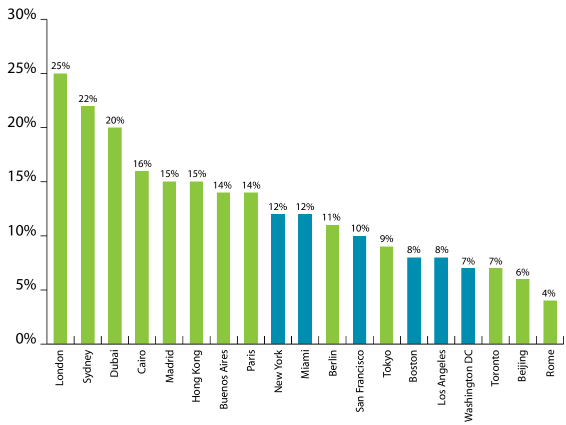
YTD October 2007 RevPAR Performance by Market

Source: Smith Travel Research Monthly Lodging Review

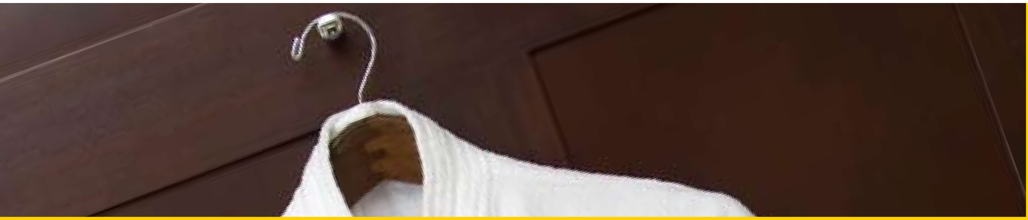


YTD October 2007 RevPAR
Percent Change by Market

Source: Smith Travel Research
Monthly Lodging Review



Spotlight Segments



Luxury

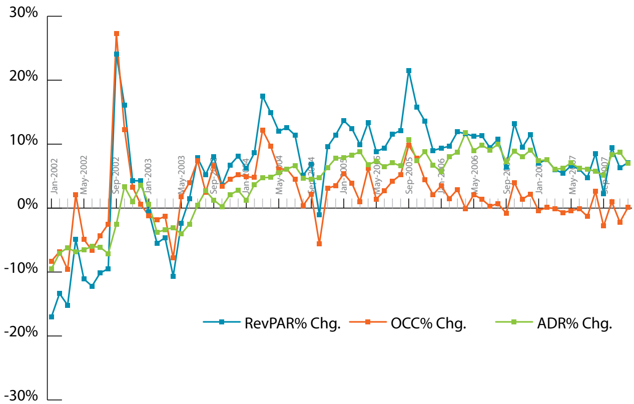
As the luxury segment achieved higher RevPAR levels during the past few years, a number of new "design focus" luxury hotel brands emerged. A majority of these new brands have a lifestyle/boutique orientation that capitalizes on the latest design trends and technology, attracting customers who are willing to pay for state-of-the-art facilities and lavish personal amenities. Today's affluent consumers also have an affinity for environmentally friendly products and practices, influencing some developers to offer features such as automated energy conservation systems and organic food in restaurants. According to Torto Wheaton Research, approximately 10,300 luxury rooms are under construction and due to become operational in the next 12 months.[1]

The decline in the Conference Board Consumer Confidence Index from 99.5 in September 2007 to 95.6 in October 2007, amid the ongoing credit crisis that began during the third quarter of 2007, is not expected to impact the luxury segment significantly. According to the *Worldwide Wealth Report 2007*, the number of high net-worth individuals in 2006 (those who

1 Torto Wheaton Research. *Construction Pipeline.* 2007-2008.

Luxury Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance January 2002 – December 2008E

Source: Smith Travel Research Monthly Lodging Review



owned at least US$1 million in liquid investable assets) was estimated at 9.5 million, an increase of 8.3% compared with 2005. Similarly, the number of high net-worth individuals in 2007 is expected to increase compared with 2006.[2] This has resulted in growing global affluence that is fueling demand in all areas, from extravagant hotel room amenities to haute cuisine and spa services.

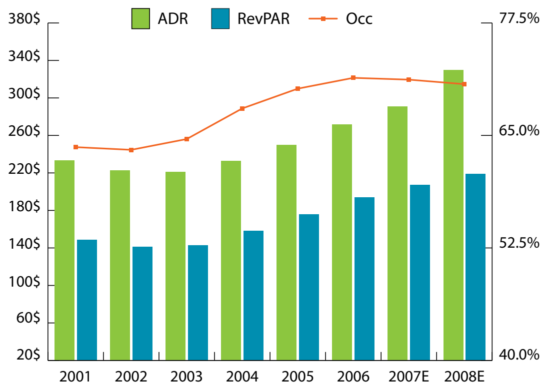
Based on year-to-date data through November 2007 provided by Smith Travel Research, it is projected that the luxury segment will achieve a 6.8% increase in RevPAR in 2007, primarily through ADR growth. Occupancy is estimated at 71.2%, a 0.3 percentage point decrease against 2006, while ADR is estimated at US$291, a 7.1% increase over 2006.

In 2008, it is estimated that the luxury segment will achieve a fairly constant occupancy of 70.7%, 0.6 percentage points below 2007. ADR is anticipated to grow by 6.5% to US$310, resulting in a RevPAR increase of 5.9% to US$219.

2 Merrill Lynch and Capgemini. *Worldwide Wealth Report 2007,* June 2007

Luxury Lodging Market
Occupancy, ADR, RevPAR
Performance 2001 – 2008E

Source: Smith Travel Research
Monthly Lodging Review



Upper Upscale

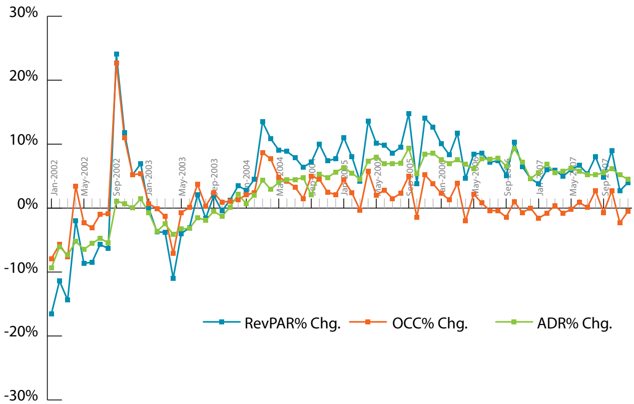
According to a recent survey published by the Association of Corporate Travel Executives (ACTE), travel budgets increased by 8% on average in 2007 and are anticipated to continue to increase in 2008.[3] The upper upscale segment is expected to benefit from this trend through strong corporate and convention demand, although growth in demand may slow temporarily as the markets continue to settle following the recent turmoil in the US financial markets.

The transaction environment for upper upscale hotels has been lucrative in recent years due to high construction costs and the low cost of financing. Investors have been eyeing properties with potential for growth and/or turnaround through rebranding, renovation, and/or expansion. However, with prices rising continually due to compressed cap rates, development activity has also increased. For new builds, developers are looking at mixed-use developments incorporating hotels, secondary and tertiary markets in gateway cities, and more creative financing strategies to make the projects financially feasible. An important aspect of upper upscale properties is restaurant operations, which can be a drain on

3 *5th Annual Executive Corporate Travel Survey*. Hospitality Net Website. November 2007.

Upper Upscale Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance January 2002 – December 2008E

Source: Smith Travel Research Monthly Lodging Review



resources and profits and is not the hotelier's primary expertise. Therefore, an increasing number of hotel owners and operators are tapping into the expertise of seasoned restaurateurs and turning to third-party food service operators, particularly in larger cities where competition is fierce.

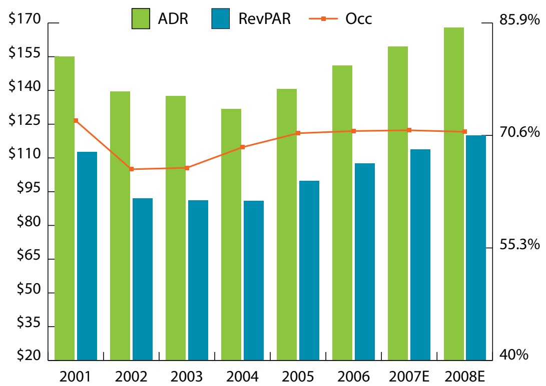
Based on year-to-date data through November 2007 provided by Smith Travel Research, it is anticipated that the upper upscale segment will achieve occupancy of 71.3% in 2007, remaining at the same level as 2006, as demand and supply increased by 1.4% and 1.2%, respectively. However, ADR is anticipated to increase by 5.6% to US$159, resulting in an overall RevPAR increase of 5.6% to US$114.

Moreover, approximately 24,500 rooms under construction in this segment are expected to become operational in the next 12 months.[4] The anticipated weakening of demand growth, combined with the additions to supply, could potentially result in a slight drop in occupancy in 2008 to 71.1%, while ADR increases by 5.2% to US$168 and RevPAR increases by 5.2% to US$119.

4 Torto Wheaton Research. *Construction Pipeline.* 2007-2008.

Upper Upscale Lodging Market Occupancy, ADR, RevPAR Performance 2001 – 2008E

Source: Smith Travel Research Monthly Lodging Review



Upscale

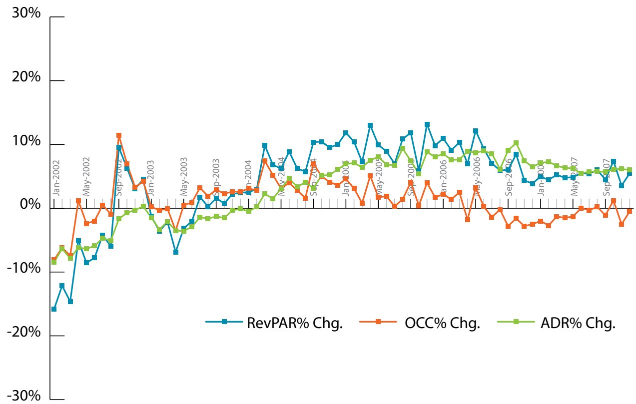
A significant number of new upscale lifestyle brands, focused on attracting newer generations of travelers, has emerged. Developers have responded positively to these brands, which can be developed in both commercial and suburban settings. With a large percentage of select-service brands, these properties are also less operationally intensive and are therefore desirable to hotel developers and investors. Overall, the upscale segment is witnessing a surge in construction activity; approximately 225 upscale hotels with 31,090 rooms[5] are under construction in the US and anticipated to open in the next 12 months. However, due to the recent downturn in the housing sector and its impact on the credit markets in the second half of 2007, the pace of new developments in the pipeline is likely to slow down.

Many of the new brands in the upscale segment have embraced new standards in technology, courting design- and budget-conscious travelers who are now demanding upscale, technology-focused, design-driven rooms. These brands offer lobbies that serve

5 Torto Wheaton Research. *Construction Pipeline.* 2007-2008.

Upscale Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance January 2002 – December 2007

Source: Smith Travel Research Monthly Lodging Review



as social hubs, wireless Internet, flat-screen televisions, ergonomic desk chairs, grab-and-go meals, and trendy contemporary rooms. Given these features, guests are willing to give up amenities such as room service, fine-dining restaurants, or porters for rates that in most markets average less than US$150 a night.[6]

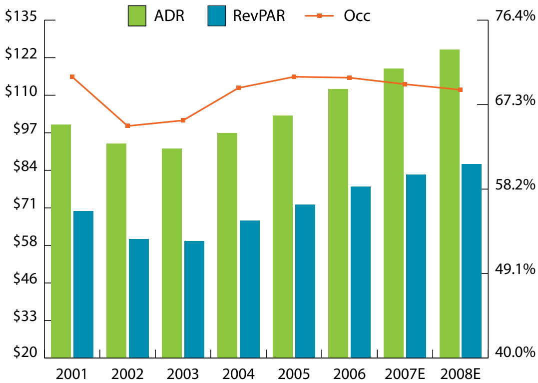
Based on year-to-date data through November 2007 provided by Smith Travel Research, it is anticipated that the upscale segment will achieve a 5.2% increase in RevPAR in 2007, reaching US$82. Occupancy is forecast at 69.5%, 0.9 percentage points below its 2006 level, while ADR is anticipated to increase by 6.2% to US$118.

In 2008, occupancy is anticipated to decline further, though marginally, by 0.9 percentage points to 68.9%, as a result of the influx of new supply. Nonetheless, ADR growth is projected at approximately 5.5%, resulting in an ADR of US$125 and a RevPAR of US$86.

6 Yancey, Kitty Bean. "Hip Hotel Chains Court the Cost-Conscious." *USA Today.* 5 July 2007.

Upscale Lodging Market Occupancy, ADR, RevPAR Performance 2001 – 2008E

Source: Smith Travel Research Monthly Lodging Review



Midscale with Food and Beverage

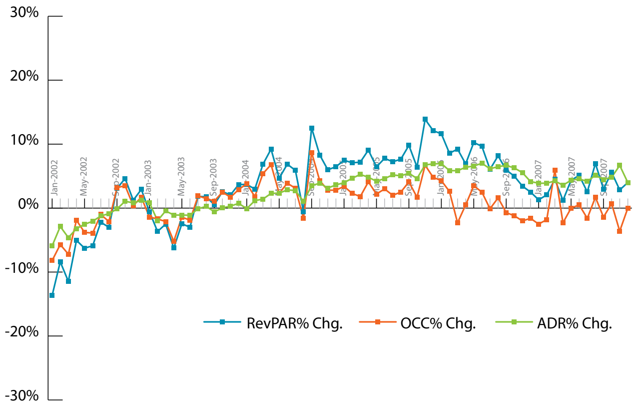
In 2008, it is anticipated that the midscale with food and beverage segment will continue to experience a slowdown in performance, with a slight decrease in occupancy levels, albeit minimal growth in ADR. The continued weakening in performance can be attributed to generally older brands in a widening field of new or reconceived, high-value, select-service brands. In addition, greater numbers of business travelers are seeing more value in the segment's counterpart, midscale without food and beverage, which now typically offers free breakfast options.

According to Torto Wheaton Research, the midscale with food and beverage segment will have a slight increase in its development pipeline in 2008, with approximately 5,400 rooms opening, compared to 4,200 rooms in 2007.[7] This near-stagnant growth can be attributed to the high costs and challenges associated with hotel-operated food and beverage outlets, the dated image of many brands within the segment, and increasing investment alternatives such as high-profit select-service hotels that require relatively limited expertise. Overall, food service sales as reported by hotel brands were mostly

7 Torto Wheaton Research. *Construction Pipeline*. 2007-2008.

Midscale with Food and Beverage Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance January 2002 – December 2007

Source: Smith Travel Research Monthly Lodging Review



stagnant to slightly higher in 2006.[8] Some brands within the segment have been taking active steps to regain competitive position during the last several years by introducing new bedding and amenities, redesigning front-desk areas, and unveiling new signage.

Based on year-to-date data through November 2007 provided by Smith Travel Research, lodging demand for the midscale with food and beverage segment is anticipated to continue its decline as popularity shifts to the more value-driven midscale without food and beverage segment and select-service brands.

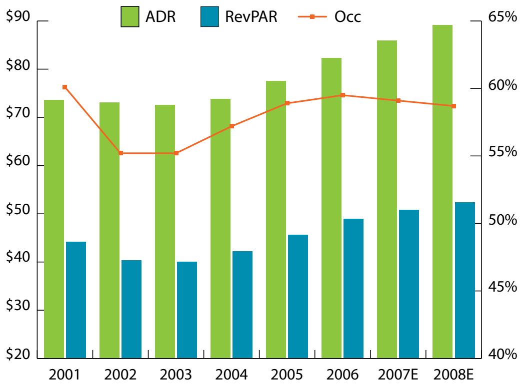
This is expected to result in a decrease in occupancy of 0.8 percentage points, to 59.1% versus the same period in the previous year. ADR is anticipated to reach US$86, a 4.4% increase versus 2006, resulting in a RevPAR increase of 3.7% to US$51.

In 2008, the midscale with food and beverage segment is anticipated to achieve an even lower occupancy of 58.7%, a 0.6 percentage point decrease. ADR is anticipated to increase to US$89, a 3.2% growth, resulting in a RevPAR growth of 2.6% to US$52.

8 Ruggless, Ron. "Hotel Segment Expects to See Growth Continue at a Moderate Rate." *Nation's Restaurant News.* 23 July 2007.

Midscale with Food and Beverage Lodging Market Occupancy, ADR, RevPAR Performance 2001 – 2008E

Source: Smith Travel Research Monthly Lodging Review



Midscale without Food and Beverage

The midscale without food and beverage segment demonstrated continued activity in 2007 with regard to demand growth and increases in room supply. Growth in this segment is likely to continue into the foreseeable future as it is the leading segment in the construction pipeline in terms of new rooms in each stage of development. With relatively low barriers to entry and a redistribution of demand toward this segment and the upscale segment, it is likely that midscale without food and beverage will be the single largest segment before the decade is over.[9] Like the midscale with food and beverage segment, some brands in this segment have enhanced their bedding and bath amenities, with many properties adding hot items to their free continental breakfasts.[10]

The midscale without food and beverage segment is anticipated to end the year with strong RevPAR growth. Interestingly, hotels in this segment have achieved percentage rate growths similar to many higher-priced full-service properties, enabling them to close the pricing gap with properties providing food and beverage services.[11] In 2007, for the first time, it is anticipated to cost slightly more to stay at a midscale hotel without food and beverage service than to stay at one with food and beverage service.

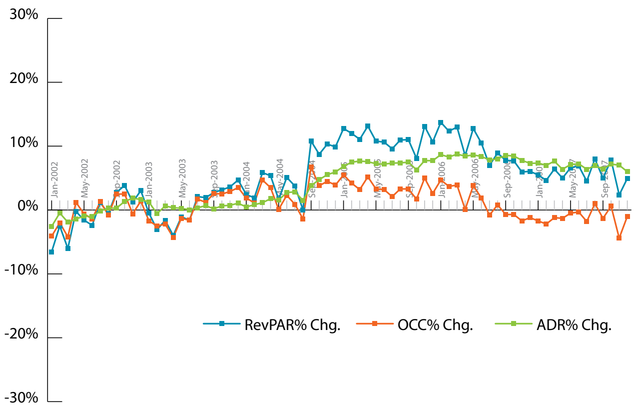
9 Lomanno, Mark. "Midscale Hotels without F&B Outperform those with F&B." *Hotel and Motel Management.* 19 February 2007.

10 "Data Suggests Buyers Trading Down Tiers in Hotel Programs." *Business Travel News.* 5 March 2007.

11 Ibid.

Midscale without Food and Beverage Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance January 2002 – December 2008E

Source: Smith Travel Research Monthly Lodging Review



Relatively low barriers to entry, along with recent strong performance levels, have resulted in significant development activity for this segment. According to Torto Wheaton Research, the supply pipeline for 2008 totals approximately 31,000 rooms compared to 5,000 rooms for the midscale with food and beverage segment.[12] The growth trend for the midscale without food and beverage segment may continue even as the abundance of new supply enters the market.

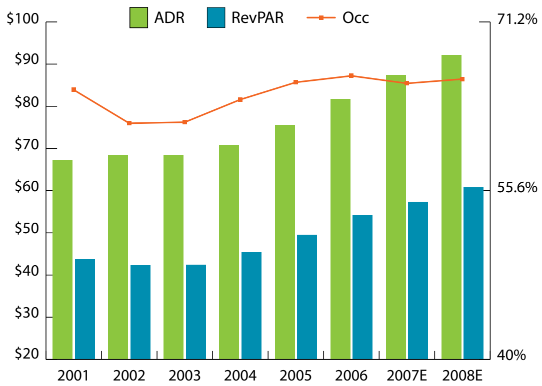
Based on year-to-date data through November 2007 provided by Smith Travel Research, occupancy for the midscale without food and beverage segment is anticipated to be 65.6% in 2007, a 0.7 percentage point decrease against the occupancy of 66.3% in 2006. The segment's ADR of US$87 represents a 6.9% increase over 2006, resulting in an overall RevPAR increase of 5.8% to US$57.

In 2008, it is anticipated that occupancy growth will increase by 0.6 percentage points to 66%, limited by additions to supply and new competition. However, some demand from other segments, such as midscale with food and beverage, is shifting to this segment because of a higher value perception, and is anticipated to continue to have a positive impact on occupancy growth. ADR is anticipated to increase by 4.9% to US$92, resulting in a RevPAR increase of 5.5% to US$61.

12 Torto Wheaton Research. *Construction Pipeline.* 2007-2008.

Midscale without Food and Beverage Lodging Market Occupancy, ADR, RevPAR Performance January 2002 – December 2008E

Source: Smith Travel Research Monthly Lodging Review



Economy

The economy segment slowed in terms of occupancy but showed improvement in ADR despite slowing economic growth brought on by the housing market downturn, decreasing consumer confidence, and the credit crisis. One of the most encouraging signs for the economy segment has been its ability to maintain room-rate growth consistent with that of the other chainscale segments during the past three years.[13] On the other hand, the economy segment's RevPAR growth for 2006 was 5.4%, which was the lowest growth of all chainscale segments.[14] Compared with 2006, the economy segment construction pipeline remains relatively low, with 1,582 rooms being added to the supply in the next 12 months, a 9.5% decrease, making it the only segment to have a decline in the number of new rooms.[15]

In addition to the slow growth, the market is feeling the pressure from brands, which have heightened the level of quality in the segment. To keep up with their midscale competition, many economy brands have worked to improve their standards, whether in linen and bedding programs, upgrades in toiletries, or revamped frequent guest programs. Within the past two years, many of the technology mandates that have been

13 Lomanno, Mark V. "Economy Hotel Performance Indication of Travel Trends." *Hotel & Motel Management.* 21 May 2007.

14 "Economy Operational Stats, While Strong, Show Some Weaknesses." *Hotel Business.* 7 March 2007.

15 Torto Wheaton Research. *Construction Pipeline.* 2007-2008.

Economy Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance January 2002 – December 2007

Source: Smith Travel Research Monthly Lodging Review

common in the mid-tier and upper tier have now trickled down to the lower tier.[16] For example, some brands mandate specific property management systems for their hotels. Increases in expenses related to raising standards and upgrading amenities are decreasing an already tight bottom line margin. As a result, many hotels have been forced to leave their brand systems, most commonly converting to independent properties.[17]

Based on year-to-date data through November 2007 provided by Smith Travel Research, economy segment occupancy is anticipated to be 57.1%, a 0.2 percentage point decrease relative to 2006. The segment is expected to achieve an ADR of US$54 in 2007, a 2.9% increase over 2006, with overall RevPAR reaching US$31, a 2.6% increase driven mainly by ADR growth.

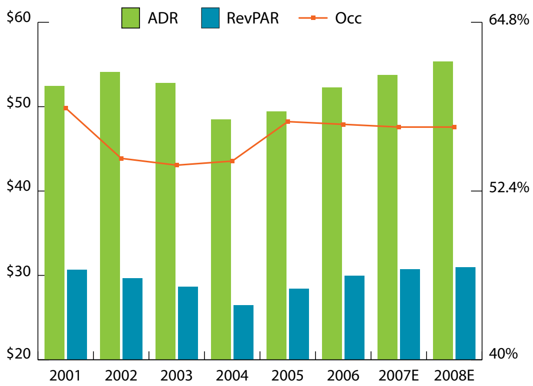
ADR growth in 2008 is projected at a moderate 2.5%, resulting in an ADR of US$55, while occupancy remains at 57.1%. Overall, RevPAR is anticipated to increase 2.4% to US$32.

16 O'Connor, Stefani C. "Economy Owners Hit with Tech Adoption Double-Edged Sword." *Hotel Business.* June 21, 2007.

17 Lomanno, Mark V. "Economy Hotel Performance Indication of Travel Trends." *Hotel & Motel Management.* 21 May 2007.

Economy Lodging Market Occupancy, ADR, RevPAR Performance 2001 – 2008E

Source: Smith Travel Research Monthly Lodging Review



Atlanta

Regions and Markets

Introduction

Atlanta's lodging industry experienced mixed performance in 2007, showing increasing ADR but a slight decrease in occupancy despite strong convention activity and well-known sporting events held in the city during the year. Based on year-to-date October 2007 data from Smith Travel Research, occupancy is expected to decrease 1.3 percentage points to 63.2% in 2007, with ADR increasing 4.6% to US$90, resulting in a RevPAR of approximately US$57, an increase of 2.5% versus 2006.

Hot Topics

Citywide Activity and Conventions – Continuous Growth

A number of conventions and sporting events have had a significant economic impact on the Atlanta market in the past year. In March, Atlanta hosted the National College Athletic Association (NCAA) Final Four basketball tournament, attracting the attention of college basketball fans nationwide. According to the Atlanta Sports Council, the tournament generated US$43.9 million in Atlanta, with additional revenue of US$51.6 million in greater Georgia, laying the groundwork to host similar events in the future.[1] In addition to an active calendar of sports events, Atlanta is home to the fourth-largest convention facility in the US, the Georgia World Congress Center, and also hosts a wide variety of citywide conventions and meetings. As of September 2007, the city was projected to host 62 groups in 2007, a 4.1% increase over 2006.[2] The year's largest events include the bi-annual Atlanta International Gift & Home Furnishings Market, the Primerica Financial Services annual conference, and the Bonner Brothers International Beauty Show, events with a combined attendance of more than 200,000 people. In 2008, Atlanta expects continued strong sports and convention activity.

Hartsfield-Jackson Atlanta Airport – Focus on International Growth

Currently the busiest airport in the US, Hartsfield-Jackson Atlanta Airport is expected to welcome approximately 89.4 million passengers in 2007.[3] The airport's growth plans are now centered on serving international flights. In 2007, direct connections to China

1 Stafford, Leon. "Final Four: Atlanta Scores Big as a Host, Officials Claim." *The Atlanta Journal-Constitution.* 4 April 2007.

2 Kate Stuart. "City-Wide Groups." Atlanta Convention and Visitors Bureau. 2007

3 www.atlanta-airport.com. September 2007.

and Europe were added and more are planned for 2008.[4] The expansion of Hartsfield's international routes illustrates the increasingly international business climate of Atlanta, exemplified by the Chinese Ministry of Commerce's arrangement with ChinaMex, a business incubator providing logistical, marketing, administrative, and related support to the China-based companies looking to expand in the United States.

Given that airline delays are a nationwide problem, airport officials indicate that recent and planned projects have focused on increasing the airport's efficiency. Following the opening of a fifth runway in 2006, the completion of an end-around runway in April 2008 is expected to ease airplane movement. Furthermore, a new international terminal currently under construction is scheduled for completion in 2010, accompanied by improvements in access roads, parking, rental car facilities, and access to public transportation.[5]

Midtown and Downtown – Continued Revitalization

Moving away from its reputation as a suburban city, Atlanta has recently started to revitalize and develop the midtown and downtown markets into restaurant, shopping, and living areas inhabited by affluent young urban professionals, 25 to 45 years of age, who are looking for active residential locations. These live-work-play communities are exemplified by multiple projects, one of which is the Mid-town Mile, a retail area similar in positioning to the widely known

4 Simmons, Andria. "Welcome Abroad: Airline Secures Lucrative Route to Shanghai'." *The Atlanta Journal-Constitution.* 26 September 2007.

5 Tharpe, Jim. "Airport Terminal Gets Push: $110 million OK'd." *The Atlanta Journal-Constitution.* 13 September 2007.

Miracle Mile in Chicago. In addition to mixed-use developments and high-end condominiums, hotel projects such as the W Hotel, the Palomar, and the Four Seasons are also anticipated to open in the area in the next two to five years.

New Cultural Attractions – Positioning Atlanta as an Emerging Tourist Destination

Atlanta is no longer a business- or convention-only city. The recent development of multiple cultural and leisure attractions is positioning Atlanta as a tourist destination as well. This trend began in late 2005 with the addition of the Georgia Aquarium, the world's largest aquarium. In May 2007, the relocation and construction of the new US$100 million World of Coke museum was completed and projected 1.2 million visitors in its first year.[6] All these attractions are located in the downtown area and provide leisure guests easy access to a variety of diversions. This increase in family attractions not only benefited the existing hotels, but also attracted the interest of leisure-oriented brands. In October 2007, Hard Rock International announced plans to develop a hotel as part of a mixed-use development. This development, with 270 rooms, 30 residences, retail, and entertainment, sits on a site opposite the Georgia Aquarium.

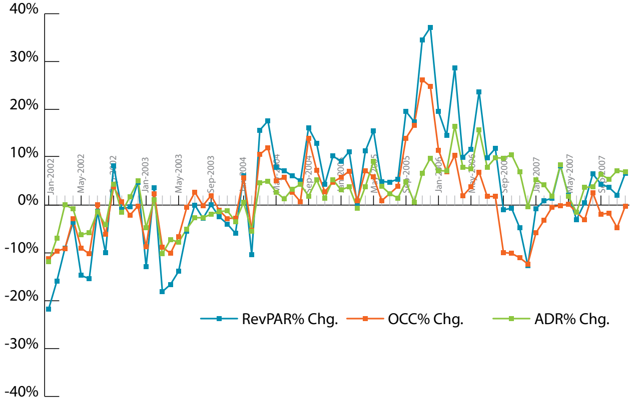
New Lodging Supply – Integrating into the City's Development

Because improvements to the midtown and downtown markets have caused a surge in the young urban demographic in these areas, numerous hotels are being planned

6 Yee, Daniel. "New Coca-Cola Museum Adds Fizz to Capital City." Associated Press. 3 June 2007.

Atlanta Lodging Market
Change in Monthly Occupancy, ADR, RevPAR Performance
January 2002 – December 2007

Source: Smith Travel Research Lodging Supply Reports



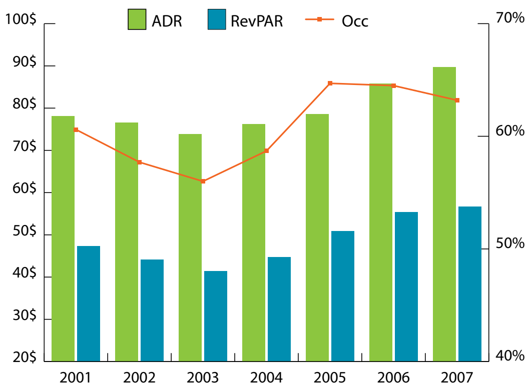
for the city's new communities. To serve this new demographic with trendy and modern attractions, hotel projects are integrated into mixed-use projects or areas with bars, restaurants, and shopping to accommodate the changing consumer tastes. One example is the W Hotel Downtown, which is part of Allen Plaza, a US$1 billion mixed-use development including a 28-story tower with 237 hotel rooms and 76 condominiums. Nearby is TWELVE, the Novare Group's integrated condominium and boutique hotel brand, which recently opened a location at Centennial Park. Other projects contributing to the increasingly modern face of Atlanta include the Solis in Alpharetta (opening late 2007) and the Hotel Palomar (anticipated opening in mid 2009). Also of note: the Marriott Marquis is in the process of a US$138 million renovation to keep up with the increased quality of market entrants, adding 40,000 square feet of meeting space, new food and beverage offerings, and a spa and fitness center, with completion anticipated for February of 2008.

Outlook

Due to a diverse base of conventions and sports events in Atlanta, the international growth strategy at the country's busiest airport, and the city's enhanced retail and cultural offerings, Atlanta's lodging industry performance is anticipated to continue its positive RevPAR growth trend in 2008, driven primarily by moderate increases in ADR.

Atlanta Lodging Market Occupancy, ADR, RevPAR Performance 2001 – 2007

Source: Smith Travel Research
Lodging Supply Reports



Supply Additions

Based on year-to-date September 2007 data from Smith Travel Research, the existing hotel supply in Atlanta is approximately 90,800 rooms. The following chart summarizes selected major supply changes.

Property	Location	Units	Scheduled Opening Date	Developer/Owner
The Stanbury, a Solis Boutique Hotel & Spa	Alpharetta, GA	144	December 2007	West Paces Hotel Group LLC
The Mansion on Peachtree Hotel	Atlanta, GA	124	February 2008	City Centre Properties
W Hotel Atlanta Downtown	Atlanta, GA	237	January 2009	Barry Real Estate Companies
St. Regis Hotel & Residences @ Two Buckhead Plaza	Atlanta, GA	150	January 2009	Rabun Rasche Rector & Reese Architects
Hilton Atlanta Buckhead	Atlanta, GA	300	February 2009	Sandcastle Resorts & Hotels
Hotel Palomar	Atlanta, GA	304	May 2009	Kim King Associates LLC, Kimpton Hotels & Restaurant Group LLC, Atlanta's Gulch Ventures LLC
The Grand Bohemian Atlanta	Atlanta, GA	254	Third Quarter 2009	The Kessler Enterprise, Inc.
Grand Empire Palace & Indoor Amusement & Waterpark Resort	Lithonia, GA	400	January 2010	Top Flight Development LLC
Loews	Atlanta, GA	414	April 2010	Daniel Corporation
Mandarin Oriental Atlanta	Atlanta, GA	200	2010	Tivoli Properties Inc.
1 Hotel & Residences Buckhead	Atlanta, GA	175	2010	Barry Real Estate Companies & Starwood Capital Group

Source: Smith Travel Research and Atlanta Convention and Visitors Bureau

Boston

Regions and Markets

Introduction

In 2007, the Boston lodging market experienced another year of improving RevPAR performance driven primarily by an increase in ADR. Growth in lodging demand has been supported by the US$20 billion investment in public infrastructure during the last two decades, as well as ongoing significant construction projects such as those located in the Seaport District. As of year-to-date September 2007, market occupancy increased 0.6 percentage points to 69.1% over year-to-date September 2006. During the same period, ADR increased 5.7% from US$140.14 to US$148.07. The increase in occupancy and ADR resulted in an increase in RevPAR of 6.5% from US$96.04 for year-to-date 2006 to US$102.31 year-to-date September 2007. The positive trend is expected to continue through the end of 2007.

Hot Topics

Investment in Public Infrastructure Pays Off

The build-up of infrastructure has helped to support demand for tourism and investment. Improvements in infrastructure in the form of enhanced accessibility and public spaces and parks have increased the city's appeal for residents and visitors alike. The city's US$20[7] billion investment in public infrastructure, The Big Dig, is finally nearing completion. This highway project replaced an elevated freeway in downtown Boston with the Ted Williams Tunnel and now connects downtown and the Seaport District with Logan International Airport. It, along with the new Silver Line underground electric bus service, has significantly improved the accessibility of the city and the suburbs to the airport. Various initiatives have also contributed to an improved image of the city, such as the harbor cleanup, which began in the 1980s and is an ongoing effort by the Massachusetts Water Resources Authority (MWRA), and the development of the Rose Kennedy Greenway, a series of parks and public spaces downtown.

Emergence of the Seaport/Waterfront District

The new Seaport District is being transformed from the most scenic parking

7 Knight, Rebecca. "Work Begins on Boston's Building Renaissance." *Financial Tmes.* 25 July 2007.

lot in Boston to the new Back Bay. The Back Bay is an upscale retail, residential, and commercial office district considered to be the most expensive neighborhood in Boston. With the required infrastructure in place in the Seaport District, many new development projects are in the final stages of approval or have already broken ground. Some of the most notable of them are a 6.5 million-square-foot mixed-use project being developed by Gale International and Morgan Stanley;[8] Pier 4, a mixed-use development; Fan Pier, another mixed-use development; the Institute of Contemporary Art; Waterside Place, a mixed-use complex with an area of more than 1.2 million square feet;[9] the Renaissance Boston Waterfront Hotel; and the redevelopment of the Gillette parcel, a 24-hour mixed-use neighborhood anchored by 11 acres of new public space and approximately 5.9 million square feet of development projects. With Boston's newly amended zoning code, which now requires all private development projects of more than 50,000 square feet to meet the minimum standards of the US Green Building Council's LEED rating system, this redeveloped neighborhood is expected to be the nation's greenest and to offer some of Boston's newest and most desirable office space.

8 Leon, Hortense. "Boston's Uncommon Market." *Mortgage Banking.* 1 January 2007.

9 Palmes, Thomas. "Waterfront Growth Accelerates as City OKs South Boston Complex." *The Boston Globe.* 22 June 2007.

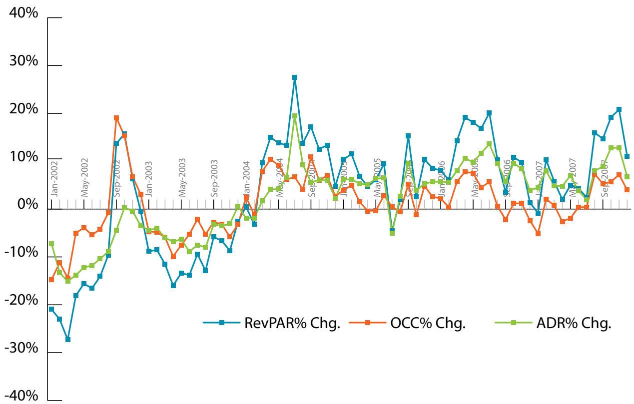
Significant Increase in Supply

The city of Boston experienced an increase of 7.1%[10] in supply, or over 1,000 available rooms, resulting in an inventory of 16,548 rooms through year-to-date June 2007 versus 15,447 during the same period in 2006. Approximately 1,749 additional rooms are under construction as of year-to-date September 2007 and more than 4,000 are in the planning stages. Of the projected new supply, six of the new hotels are affiliated with well-recognized brands and are expected to add 1,261 rooms between 2007 and 2009. Moreover, the majority of the new supply is in the upper upscale and luxury segments. Additionally, a number of new brands, such as Element and Aloft, are scheduled to enter the market. Largely supported by the development of the Waterfront District and the Boston Convention and Exhibition Center (BCEC), which opened in mid-2004 without a large block of rooms within walking distance, the

10 Dolan, Thomas, and Kalcenz, Laura. "Supply Impacts Boston Market." *New England Hotel Magazine.* 19 September 2007.

Boston Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance January 2002 – December 2007

Source: Smith Travel Research Lodging Supply Reports



proposed additions are concentrated in the Waterfront/Convention Center District and Downtown Waterfront District.

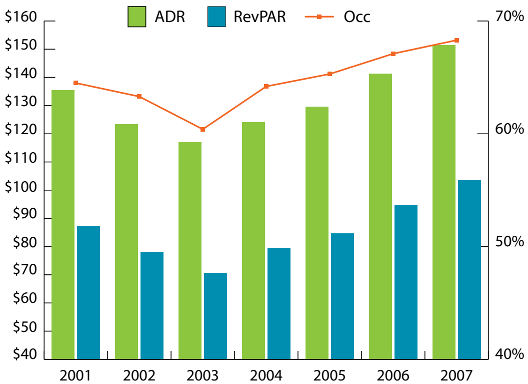
Lagging Demand

Although group demand is projected to grow relative to increases in supply, lagging commercial activity may pose challenges to the lodging market going forward. The New England Economic Partnership[11] sees the overall Massachusetts economy, which is currently expanding below the national average of 3.2% GDP growth, increasing by 2.8% in 2007. According to the Bureau of the Census, population growth in the metropolitan Boston area has slowed from 1990 – 2000 (6.2%) to 2000 – 2005 (0.4%). Employment is estimated to have increased by 2.9% between 2004 and 2006, primarily driven by health care, finance, insurance, and education sectors.

11 Luttrell, Martin. "Catchup for Northeast Economy." *Worcester Telegram & Gazette.* 25 May 2007.

Boston Lodging Market Occupancy, ADR, RevPAR Performance 2001 – 2007

Source: Smith Travel Research Lodging Supply Reports



Logan International Airport has seen a year-to-date August 2007 rise of 2.4% in the total number of passengers. However, over the same period, the number of flight operations has fallen by 0.1%.

More favorably, in 2007, the demand for office space has remained strong with vacancy at 6.1%, the lowest in seven years. Average rental rates have increased for the tenth consecutive quarter to US$50.99, chiefly driven by class A office space. At the end of third quarter 2007, there was positive net absorption of 571,000 square feet of office space. The BCEC has been the major source of new lodging demand over the past few years, with 648,862 room nights booked in 2006, which accounts for 15% of the city's room nights. Plans are underway to expand the BCEC by another 200,000 to 300,000 square feet.[12] However, changing market fundamentals in the city may provide challenges to the lodging industry going forward as significant new lodging supply is introduced to the market.

New Lifestyle Hotels Trend

Boston has been an active participant in the proliferation of new brands and lifestyle-concept hotels. Starwood Hotels and Resorts has begun construction on Aloft and Element hotels in Lexington, Mass., both of which are scheduled to open in early 2008.[13] Sawyer Enterprise has started construction of a W hotel in the theater district of Boston. Marriott has partnered with Ian Schrager, one of the founders of the boutique hotel concept, to develop or convert more than 100 hotels throughout the country, ranging in size from 150 to 200 rooms, including several locations in Boston. With Boston being the home to Harvard, Massachusetts Institute of Technology, and other universities, and consequently, a younger population, further emphasis on the development of lifestyle hotels is expected in the future.

12 Howe, Peter. "Convention Hall Sees Success, Looks to Grow." *The Boston Globe.* 18 July 2007.

13 "Standard Hotels Announces First Wholly-Owned Aloft and Element Development in Lexington Massachusetts." BusinessWire. 21 August 2007.

Outlook

Although performance is anticipated to be marginally impacted by the addition of new supply in 2008, the Boston market is expected to experience similar growth in RevPAR to that of 2007. Despite slowing economic growth, the new Seaport District, along with investment in public infrastructure, is seen driving corporate demand. Overall lodging demand is expected to be supported by improved connectivity between the suburbs and the city, and airport and convention activity related to continuing growth in demand for the BCEC, as well as the Center's proposed expansion.

Supply Additions

Based on year-to-date August 2007 data from Smith Travel Research, the existing hotel supply is 48,947 rooms. The following chart summarizes selected major supply changes.

Property	Location	Units	Scheduled Opening Date	Developer/Owner
Renaissance Hotel Boston Waterfront	South Boston/Waterfront, Boston, MA	470	November 2007	Faithful & Gould
Regent Boston	Battery Wharf, Boston, MA	150	Early 2008	Development Management
Aloft Hotel Lexington	Lexington, MA	136	Early 2008	Starwood Hotels and Resorts Worldwide, Inc.
Element Lexington	Lexington, MA	123	Early 2008	Starwood Hotels and Resorts Worldwide, Inc.
Mandarin Oriental Hotel & Residences Boston	Back Bay, Boston, MA	148	June 2008	CWB Boylston c/o S R Weiner
W Hotel Boston	Theater District, Boston, MA	234	Mid 2009	Sawyer Enterprises
Congress Street Hotel	South Boston/Waterfront, Boston, MA	502	To Be Decided	Madison Properties
Waterside Place Mixed-Use Development	South Boston/Waterfront, Boston, MA	300	To Be Decided	John Drew Co./Fidelity Investments
Unnamed Hotel Mixed-Use South Station	South Station, Boston, MA	200	To Be Decided	Gerald D. Hines Interests
Fan Pier Hotel	South Boston/Waterfront, Boston, MA	150	To Be Decided	Fallon Company

Source: Smith Travel Research

Chicago

Regions and Markets

Introduction

Similar to many lodging markets across the US, Chicago's lodging industry experienced performance growth in 2007, primarily driven by improvements in ADR. According to year-end 2007 data from Smith Travel Research, overall occupancy in the Chicago market increased by one percentage point to 68.5%, and ADR increased by 4.7% to US$128, resulting in a RevPAR increase of 6.3% to US$88.

Hot Topics

The Luxury Segment – Competition Heats Up for Chicago's Luxury Hotels

Chicago has a significant number of luxury hotels, which are competing to win loyal customers by offering non-traditional amenities and services in addition to standard luxury hotel services[14] to distinguish themselves and create unique guest experiences. Five of the eight branded hotels due to enter the lodging market between 2007 and 2010 are classified as luxury hotels. As the proliferation of these hotels continues, flat panel televisions, MP3 players, and high thread-count sheets are becoming common. Some luxury hotels also include complimentary services such as pillow menus and dog walking. In anticipation of three new luxury hotels planned to open by 2009 — Trump International Hotel & Tower Chicago, Mandarin Oriental Tower, and Shangri-La Chicago — Chicago's current luxury hotels are focused more than ever on offering innovative amenities and building loyalty among their guests to achieve a competitive edge.

O'Hare International Airport – Expansion Costs Higher than the Budget

The expansion of O'Hare International Airport was estimated in 2001 to cost approximately US$6.6 billion, including realigning runways and acquiring homes, businesses, and parks in the surrounding neighborhoods of Bensenville and Elk Grove Village.[15] In September 2007, Chicago won a legal decision to acquire St. Johannes Cemetery in Bensenville to add new runways[16] to O'Hare. The expansion is projected to be complete in 2013, and delays at O'Hare are anticipated to decrease by 68% as a result of reconfiguring currently

14 Nemes, Judith. "Luxury Hotels Aim to Please; As Competition Increases Among the City's Growing Ranks of High-End Hotels, an Extravagant List of Amenities Has Evolved, Including $60,000 Proposal Packages and In-Room Spas." *Chicago Tribune.* 23 July 2007.

15 "City Running Out of Money for O'Hare Expansion." *Chicago Tribune.* 6 April 2007.

16 Merrison, Paul. "City Gets Big Win on O'Hare Expansion." *Chicago Business.* 13 September 2007.

intersecting runways into a modernized parallel layout to increase traffic capacity. The expansion plans include a new terminal facility with additional gates and a new parking facility. Proponents of the controversial expansion assert that the plans would allow O'Hare to accommodate approximately 1.6 million flights per year, a 78% increase. Despite increases in the budget, the project is currently over budget by more than US$400 million. Financing woes and backlash from the community may lead to delays for the project, but ultimately, increased airport capacity is anticipated to impact lodging demand positively.

McCormick Place West Opens to Accolades

The expansion of Chicago's McCormick Place Convention Center (McCormick Place), which began in 2001, was completed in August 2007. The expansion's new building is anticipated to generate approximately 25,000 jobs and an additional US$1.3 billion in local spending for the city and state. Total direct expenditures generated by McCormick Place for the city and state are estimated at more than US$4 billion annually. The west building is estimated to have cost approximately US$882 million and to have added 470,000 square feet of exhibit space to McCormick Place's existing 2.2 million square feet. The building also features a rooftop garden and 250,000 square feet of meeting space that includes 61 meeting rooms and a 100,000-square-foot ballroom. The expansion is projected to generate additional bookings of 250,000 to 300,000 hotel-room nights, a 25% increase over what McCormick Place currently generates.

Chicago Gaming – Illinois State Senate Approves Casinos

In September 2007, the Illinois State Senate approved the opening of three new casinos in the state, including one in Chicago. Tax revenues from these casinos have been committed to improving the state's infrastructure.[17] Collectively, the casinos are anticipated to provide approximately US$25 billion to fund state, federal, and local construction programs to help modernize Illinois' roads, bridges, and public schools, as well as US$200 million for Chicago's public transit agencies, which are also in need of funding. While it is anticipated that Chicago's new casino will be located on land, the plan also allows the city's existing riverboat casinos to increase the number of gaming machines. Should Illinois approve a gambling expansion, the development of casinos on land, as well as the increased capacity of the riverboat casinos, is anticipated to generate considerable lodging demand.

Chicago's Office Market – New Supply and Lower Rent Growth

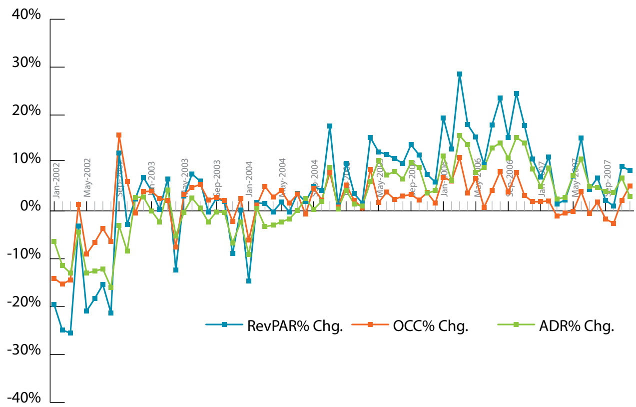
According to Real Capital Analytics, approximately six million square feet of office buildings currently under construction or in the planning stages in the downtown area are expected to be added to the more than 100 million square feet of existing office space. Despite this rise in office building construction, particularly in the city's Central Business District (CBD), Chicago is expected to have a record year in office building transactions, due largely to acquisitions by private equity firms such as the Blackstone Group.[18] However, although Chicago's office market has had strong performance for most of 2007, average

17 McKinney, Dave. "Senate Backs 3 New Casinos; But House Likely to Shoot Down Plan." *The Chicago Sun-Times.* 19 September 2007.

18 Diesenhouse, Susan. "Office Market Beyond '07 Not As Strong." *Chicago Tribune.* 6 October 2007.

Chicago Lodging Market
Change in Monthly Occupancy, ADR, RevPAR Performance
January 2002 – December 2007

Source: Smith Travel Research Lodging Supply Reports



asking-rent growth has begun to slow. Furthermore, according to research done for the *Chicago Tribune* by the Federal Reserve Bank of Chicago, job growth declined by 26.6% in August 2007 in the metropolitan area compared with a year earlier. Since job growth is a key indicator of office space demand, the decline could mean decreases in office demand in the short term which, combined with an increase in office supply, could further increase vacancy rates. Weakened job growth, a struggling housing market, a dip in consumer confidence, and a tightening of the credit markets have ultimately led to some concern over the immediate future of Chicago's office market.

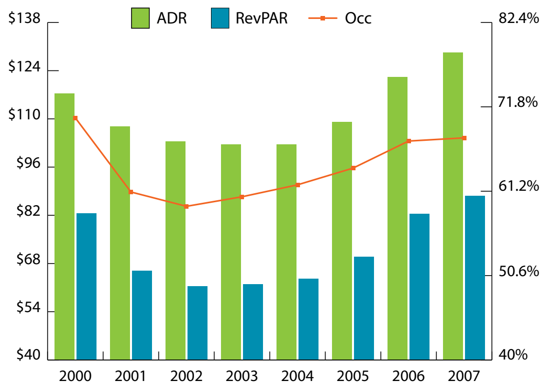
Chicago's Economy – Rising Energy Costs and Inflation Dampen Consumer Spending

Rising energy and commodity costs have resulted in increases in the cost of living in Chicago. According to Moody's, Chicago had an inflation rate of 2.1% in 2006. This year, inflation in Chicago is anticipated to rise to 3.6% whereas the average inflation in the US is projected to be 2.7%.[19] Under these circumstances, restaurants have increased menu prices, and landlords are raising apartment rents due, in part, to higher utility bills. Chicago is thus experiencing a decrease in spending power, which may impact the lodging industry.

19 Fields-White, Monee. "Chicago Prices Going Up Across the Board; Fuel, Energy Costs Push Local Inflation at Faster Clip Than US" *Crain's Chicago Business*. 1 October 2007.

Chicago Lodging Market Occupancy, ADR, RevPAR Performance 2001 – 2007

Source: Smith Travel Research Lodging Supply Reports



Outlook

Key demand generators such as McCormick Place, which generates high overnight visitation volume from its convention activities, as well as Chicago's leisure demand generators, are anticipated to support lodging demand in the near future. New supply is expected to meet the growing demand for hotels in Chicago. However, the rising inflation and cost of living, as well as the threat of a weaker office market, may inhibit lodging fundamentals by limiting demand for rooms going forward. Following the past years of record growth in ADR, occupancy, and RevPAR, the lodging market is anticipated to experience comparatively moderate growth in 2008.

Supply Additions

The following chart summarizes selected major supply changes.

Property	Location	Units	Scheduled Opening Date	Developer/Owner
Blackstone Renaissance	Chicago, IL	330	December 2007	Sage Hospitality Resources
Trump International Hotel & Tower	Chicago, IL	286	February 2008	Hollinger International, Inc.
W Hotel Gurnee	Gurnee, IL	500	March 2008	Great Northern Resorts
Le Meridien Chicago O'Hare	Rosemont, IL	525	May 2008	Mid-America Development Partners
InterContinental Chicago O'Hare	Rosemont, IL	563	September 2008	InterContinental Hotels Group
InterContinental Chicago	Chicago, IL	150	June 2009	Strategic Hotel Capital, Inc.
Mandarin Oriental Chicago	Chicago, IL	252	June 2009	Mandarin Oriental Hotel Group
JW Marriott Chicago Downtown	Chicago, IL	619	June 2010	Not Available

Source: Smith Travel Research

Dallas

Regions and Markets

Introduction

The Dallas lodging industry experienced only slight-to-moderate growth in RevPAR performance, as initial convention demand that shifted from New Orleans after Hurricane Katrina began to level off. Based on year-to-date October 2007 data from Smith Travel Research, overall occupancy is anticipated to decrease by 1.1 percentage points to 60.6%, with ADR estimated to increase by 6.9% to US$92, resulting in a RevPAR increase of 5% to US$56 in 2007.

Hot Topics

Dallas Economy – Positive Commercial and Industrial Growth Fuels Hotel Development

Despite the recent nationwide downturn in the residential sector, the commercial and industrial sectors in Dallas are anticipated to remain vibrant in 2008, as shown by the development of the Dallas Logistics Hub, a 6,000-acre multi-modal park with more than 827,000 square feet of industrial space, a 635,000-square-foot distribution facility, and a 193,000-square-foot warehouse facility in southeast Dallas County. Commercial and mixed-use developments in sub-markets include the Glorypark development in Arlington, a sports complex in Allen, and more than two million square feet of retail space and one million square feet of office, residential, and hotel space in Grand Prairie.[20] These levels of commercial and industrial development are anticipated to help fuel the demand for the more than 4,000 hotel rooms under construction or in the final stages of planning in the Dallas market.[21]

Dallas Lodging Demand – Will Lodging Demand Keep Pace with Supply Growth?

Although the commercial and industrial sectors are fueling the growth of lodging demand in Dallas, the lingering question is whether that demand will be able to match the increase in supply. Occupancy is anticipated to decrease approximately 2.4% in 2007, while lodging supply is anticipated to increase approximately 1.5%. Further, an additional 2,960 rooms, or 4.1% of current supply,[22] are under construction and may outpace demand growth in 2008 and 2009, which places negative pressure on market occupancy growth. The majority of supply under construction is classified as upscale or

20 Philylaw, Jason. *The Bond Buyer.* SouceMedia, Inc. 3 July 3 2007.

21 "Lodging Supply Report – Dallas, TX." Smith Travel Research. 2 November 2007.

22 Ibid.

Dallas

luxury, which bodes well for a market trying to increase its profile as an upscale and luxury lodging destination.

Downtown Development – Dallas "Growing Up"

The continued development of the master-planned Victory Park project (anticipated to include a hotel, retail, and office components opening in phases through 2010), in addition to developments around Main Street and the West End, is strengthening the image of Dallas as possessing a vibrant urban core. The new developments are expected to encourage the return of local residents to the downtown area, creating an exciting urban environment for residents and tourists alike. Moreover, by enacting improvements to the zoning system, Dallas is enabling changes that will allow for higher-density projects. The new developments in the downtown core are expected to bring both corporate and tourism development back into the center of Dallas.

Dallas Sub-markets – Proving Grounds for New Limited-Service Brands

As the development of commercial projects such as office parks and distribution and warehouse centers continues in Dallas sub-markets, so does the construction of limited-service hotels in the surrounding areas. As noted, there are currently more than 4,000 hotel rooms under construction or in the final stages of planning in the Dallas market, with the majority consisting of limited-service properties located in various sub-markets. Included in the new limited-service supply are several recently created select-service brands such as Element, Aloft, and Hyatt Place, which are seen replacing aging lodging stock. Leading the way in additional lodging supply are the sub-markets north of Dallas, Frisco and McKinney, which together are projected to add approximately 1,600 limited-service and full-service rooms between 2008 and 2010.

Demand Generators – Attracting Leisure Travelers

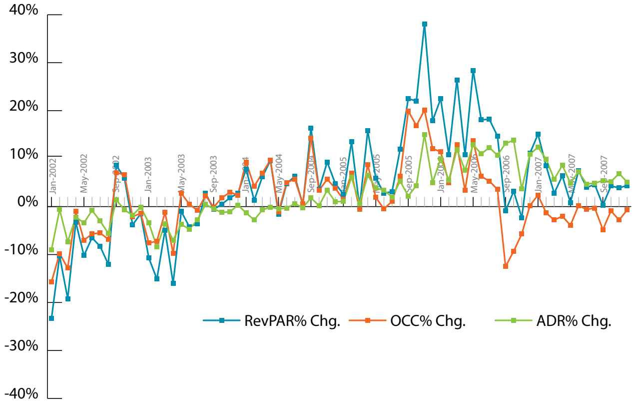
The City of Dallas Office of Cultural Affairs has recently launched the Cultural Tourism Initiative, which is intended to support projects that link the arts and culture sector and the tourism industry as a means to attract more leisure visitors to Dallas. The program focuses on prioritizing projects anticipated to attract overnight visitors to the city.[23] Additionally, the opening of the Dallas Performing Arts Center in the Dallas Art District in downtown Dallas, a US$250 million venue for music and opera due to be completed in 2009[24], should enhance Dallas' appeal as a tourism destination capable of offering the arts at their best.

23 "Cultural Tourism Initiative." City of Dallas. www.dallasculture.org/culturalTourismInitiative.cfm. 2007.

24 "About Us." www.dallasperformngarts.org. 2007

Dallas Lodging Market
Change in Monthly Occupancy, ADR, RevPAR Performance
January 2002 – December 2007

Source: Smith Travel Research
Lodging Supply Reports

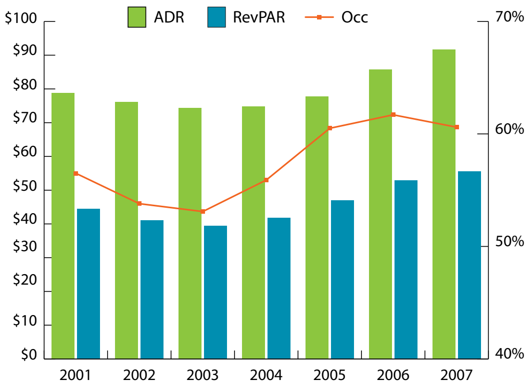


Outlook

Continued economic growth should benefit Dallas' lodging industry in 2008. Both the downtown and suburban lodging sub-markets are expected to show continued growth resulting from an influx of commercial and industrial real estate development. However, the level of lodging supply under construction and anticipated to open in 2008 and 2009 may put negative pressure on overall market occupancy. Although market rate growth may be realized in 2008 as additional upscale and luxury hotels open, Dallas' lodging market may experience limited RevPAR growth due to occupancy pressures.

Dallas Lodging Market
Occupancy, ADR, RevPAR
Performance 2001 – 2007

Source: Smith Travel Research
Lodging Supply Reports



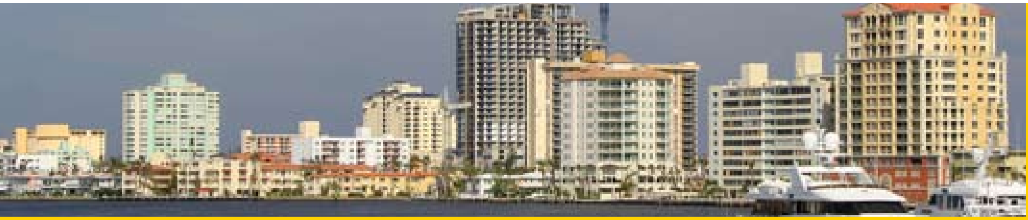
Supply Additions

Based on year-to-date September 2007 data from Smith Travel Research, the existing hotel supply in Dallas is estimated at approximately 72,000 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Sheraton Stonebriar Hotel	Frisco, TX	120	January 2008	Windmill Development LLC
Hilton Bella Harbor Dallas Rockwall	Rockwall, TX	231	February 2008	Whittle Development Inc.
Joule Urban Resort	Dallas, TX	125	March 2008	Eureka Hotel Group II LP
Great Wolf Lodge – Phase II	Grapevine, TX	203	December 2008	Great Wolf Resorts
Embassy Suites	Fairview, TX	280	January 2009	John Q. Hammons Hotels Inc.
Renaissance Hotel	Plano, TX	276	January 2009	N/A
Mandarin Oriental	Dallas, TX	120	April 2009	Hillwood Development
Westin Hotel	McKinney, TX	211	June 2009	N/A
Westin Glorypark Hotel	Arlington, TX	300	January 2011	Steiner and Associates
W Hotel	Arlington, TX	140	January 2011	Steiner and Associates

Source: Smith Travel Research

Fort Lauderdale



Regions and Markets

Introduction

The Fort Lauderdale lodging industry experienced strong performance in 2007, driven primarily by an increase of 9.4% in ADR to US$125. This enhanced rate performance is the result of new upper upscale and luxury supply additions, coupled with the rebranding of Fort Lauderdale as an upscale destination.

The surge in supply, however, had an impact on occupancy, which decreased 3.2 percentage points to 70.4%, based on information provided by the Fort Lauderdale Convention and Visitors Bureau. As a result, RevPAR increased by approximately 5.1% to US$88.

Hot Topics

Development Trends – Hotels and Office Space Replace Condominium-Hotels

While Broward County ranks as the nation's 36th largest lodging market, it ranks sixth in terms of condominium-hotel activity, with nearly 2,800 units under development.[25] Most recently, however, lodging development activity has been shifting from condominium-hotels to stand-alone projects as increasing competition and new city regulations limiting residential growth in the downtown area continue to discourage further development of this hybrid asset class. Accordingly, while many lodging projects continue to be associated with mixed-use developments, they are now connected to non-residential components. Currently, there are plans for almost 1,000 hotel units in Fort Lauderdale's downtown area and more than one million square feet of new office space.[26]

Fort Lauderdale – Reinventing the Destination

During the past decade, Fort Lauderdale has successfully rebranded itself from a midscale beach and sun travel spot to a more upscale, diverse destination. Cultural attractions such as the King Tutankhamen exhibition, the annual Fort Lauderdale Boat Show, art galleries, and various festivals have brought visitors who are looking for a more varied experience. In conjunction with the increased cultural offerings, the city's inventory of hotel rooms is also being upgraded, with recent luxury additions such as the St. Regis,

25 Hanks, Douglas. "Trump Puts Las Olas Plans on Hold." *The Miami Herald.* 4 October 2007

26 Wallman, Brittany. "The Fort Lauderdale condo Boom is Over and a New One Has Begun: Hotels." *South Florida Sun-Sentinel/McClatchy-Tribune Regional News.* 13 Oct 2007.

Fort Lauderdale

the Atlantic, and anticipated additions like the W and Blackstone's Stay Social. In fact, this luxury inventory has been the main driver behind the market's increasing ADR levels, which have exhibited cumulative yearly growth of approximately 9.6% from 2003 to 2007. According to Smith Travel Research, there are currently 496 upscale hotel rooms under construction, which is more than twice the number of midscale hotel rooms also under development.

Foreign Exchange – Increasing International Visitation

While international visitation represents only approximately 20.0% of the total number of visitors flying into the Fort Lauderdale Airport,[27] city tourism officials continue to focus on increasing international visitation riding on the current strength of the euro and the British pound relative to the US dollar. Further, the low-cost Spirit Airlines has opened three additional, non-stop, international routes from Fort Lauderdale to Ponce, Puerto Rico; Aruba; and Freeport, Grand Bahama; in 2007[28] and has announced the opening of a non-stop route to Panama City in January 2008.

Fort Lauderdale Airport – Still Gaining Market Share

Access to Fort Lauderdale is improving for both domestic and international travelers who fly into the Fort Lauderdale-Hollywood

27 Fort Lauderdale Convention and Visitors Bureau

28 www.spiritair.com.

International Airport. As of year-end 2006, Fort Lauderdale-Hollywood International Airport ranked 24th among the busiest airports in the US,[29] and it is at one end of the most frequently flown route in the US, the New York to Fort Lauderdale circuit. In addition to offering an increasing number of flight options from other airlines, the airport also serves as a hub for Spirit Air, which continued to expand its domestic and international routes during 2007, including the additions mentioned above. The escalating traffic provides further confirmation of the need for the airport's expansion, including the addition of a second runway, which has been in the planning stages since 2003.

Greater Fort Lauderdale/Broward County Convention Center Hotel – Long Overdue

After two decades of planning and discussion, Broward County has selected an operator and developer for a convention center hotel next to the Greater Fort Lauderdale Convention Center, off 17th Street. Announced as a Hilton-branded hotel in November 2007, the 30-story, 1,000-room hotel is projected to open in early 2012. The dedicated convention center hotel is expected to ease the booking process for meeting planners, improve access and transportation for attendees, and offer more break-out space for groups utilizing the convention center.

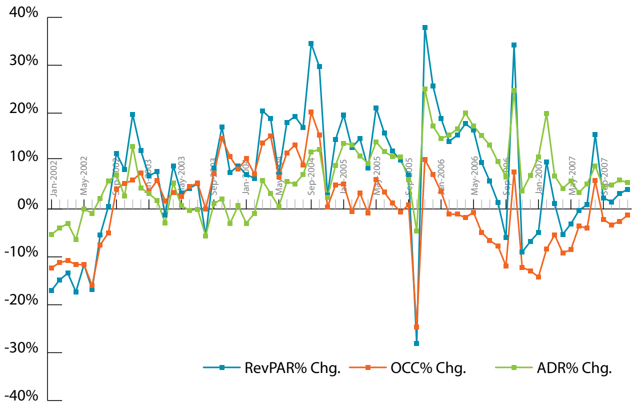
Outlook

Fort Lauderdale continues to profit from its repositioning as an upscale destination for both leisure and business travelers. While condominium-hotel development has been strong in the past years, increasing competition, a weak residential market, and zoning restrictions have driven the current development trend toward hotel and commercial developments instead. ADR is anticipated to drive additional RevPAR improvements in 2008, overcoming the recent decreases in occupancy attributed to increasing rate levels in the city's hotels. The continued addition of diverse cultural attractions and the construction of the convention center hotel will further heighten the appeal of Fort Lauderdale as a leisure and group destination.

29 http://www.aci-na.org.

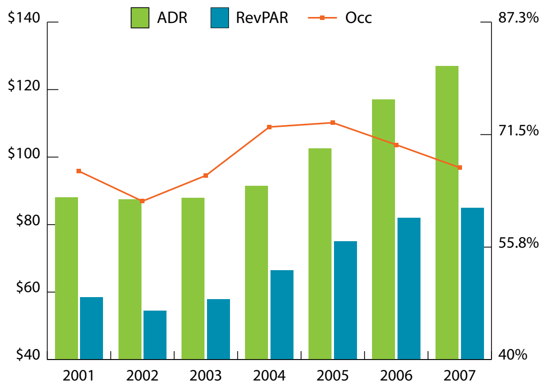
Fort Lauderdale Lodging Market
Change in Monthly Occupancy, ADR, RevPAR Performance
January 2002 – December 2007

Source: Smith Travel Research



Fort Lauderdale Lodging Market
Occupancy, ADR, RevPAR Performance 2001 – 2007

Source: Smith Travel Research



Supply Additions

Year-to-date September 2007 data from Smith Travel Research estimates the existing hotel supply in Fort Lauderdale at approximately 27,500 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
W Hotel and Residences	Fort Lauderdale Beach, FL	346	June 2008	DYL Group
Hollywood Grande Condominium Hotel & Resort	Hollywood Beach, FL	225	July 2008	Fabrizio Passalacqua
Trump International Hotel & Tower	Fort Lauderdale Beach, FL	298	April 2009	Stillman Bayrock Merrimac LLC
Hilton Convention Center	Fort Lauderdale, FL	1,000	Early 2012	Faulkner USA

Source: Smith Travel Research

Hawaii

Regions and Markets

Introduction

Hawaii's lodging industry experienced moderate growth in 2007, characterized by a sharp decrease in overall occupancy offset by an increase in room rates. Overall visitor spending increased in 2007 from the previous year. Average daily visitor spending for September 2007 rose from US$188 per person to US$194 per person.[30] *Based on year-to-date October 2007 data from Smith Travel Research, overall occupancy levels are expected to decrease by 4.7 percentage points to 75.1%, with ADR increasing 7.4% to US$199, resulting in a RevPAR increase of 1.1% to US$149.*

Hot Topics

Room Rates – Still Second to New York in the US

Total visitor spending increased 0.6% in 2007, exceeding the record set in 2006 of US$12 billion. Hawaii experienced an increase in ADR in 2007 compared to 2006, with an overall average ADR of approximately US$202 and the peak months of July and August averaging approximately US$212. The increase in room rates is attributed to an increase in higher-priced, upgraded rooms, coupled with a scarcity of budget and economy properties in the state. Overall occupancy in 2007 declined compared to 2006, mainly because of an increase in overall room supply from new developments and renovations, a shorter average length of stay for visitors, declines in the number of conventions, reduced Japanese arrivals, and a decreasing number of visitors compared to the previous year. Visitors are also choosing alternative accommodations such as timeshares, condominium-hotels, bed and breakfast inns, and cruise ships, rather than traditional hotels.[31] Slower to moderate ADR growth is anticipated in 2008 due to higher room rates, increases in supply resulting from renovated units being reintroduced to the market, and new developments. While performance has slowed in comparison to 2006, the market in Hawaii still compares favorably to other US markets, ranking second behind New York City in ADR and RevPAR, and fourth in occupancy.[32]

30 "Visitor Expenditures Increase $4.8 Million to $927.1 Million in September 2007." Hawaii State Department of Business, Economic Development & Tourism. 25 October 2007.

31 "Hotels See Drop For 12th Straight Month." Associated Press Newswire. 1 June 2007.

32 "Hawaii Hotel Revenues Drop 2% in First Half of Year." Associated Press Newswire. 6 August 2007.

Hawaii

Hawaii – Fastest-Growing US Cruise Destination

The US and international cruise ship industry continued to grow in 2007, with the number of visitors who arrived in Hawaii by cruise ship increasing 29.2% to 371,440 (year-to-date September 2007), compared to 287,440 in 2006.[33] Of the visitors arriving by ship, 57.5% were repeat visitors, a 0.2 percentage point increase versus the corresponding period of the previous year. On average, cruise visitors stayed for 9.9 days in Hawaii, but nearly two-thirds of the time was actually spent aboard the ship. The growing popularity of cruises to Hawaii is anticipated to continue during the next year.

Nature of Visitors – International and Domestic Travelers

Overall visitor arrivals to Hawaii in 2007 totaled approximately 5.68 million (year-to-date September 2007), representing a slight decrease of 1% versus 5.72 million visitor arrivals during the corresponding period the previous year. As of year-to-date September 2007, international visitors decreased by approximately 4.6% to 1.4 million. Although visitors from Japan accounted for nearly 71% of international visitors, the total number of Japanese visitors decreased by approximately 2.6%. However, they continued to spend the most per capita on a daily basis, at US$263 per person. The number of visitors from Canada increased by 1.9% with an increase

33 "Hawaii State Department of Business, Economic Development & Tourism. Monthly Visitor Statistics." http://www.hawaii.gov/dbedt/info/visitor-stats/tourism/. September 2007.

in their total expenditures of 5.1% to US$368 million compared to the previous year. On the other hand, domestic visitors increased by only 0.2% to 4.2 million compared to the previous year.[34]

New Flights — Alaska Airlines, Hawaiian Airlines, and Jetstar Airlines

Alaska Airlines has begun service to Hawaii with daily service that includes Seattle – Honolulu, Seattle – Kauai (as of 28 October 2007), and Anchorage – Honolulu (as of 9 December 2007). Each of the new flights is able to accommodate 157 passengers, resulting in more than 171,000 additional travelers arriving in Hawaii.[35] Furthermore, Hawaiian Airlines has obtained approval to launch non-stop service between Honolulu and Manila in the Philippines, the airline's first expansion into Asia. The service is expected to start in March 2008 and can accommodate up to 264 passengers per flight.[36] The Qantas Group's value-based airline, Jetstar, commenced service to Honolulu directly from Sydney and Melbourne, Australia, in December 2006.

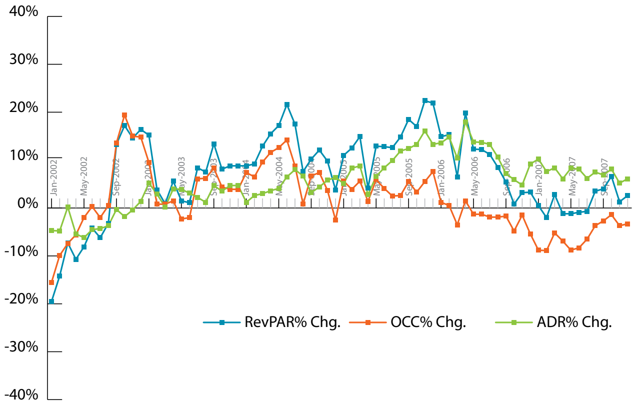
34 "Visitor Expenditures Increase $4.8 Million to $927.1 Million in September 2007." Hawaii State Department of Business, Economic Development & Tourism. 25 October 2007.

35 "Alaska Airlines Inaugurates Service to Hawaii; Seattle-Honolulu Flights Launch Today, with Seattle-Kauai Service Starting Oct. 28, Anchorage-Honolulu Service Beginning Dec. 9." PR Newswire (US). 12 October 2007.

36 "Hawaiian Granted Approval to Launch Honolulu-Manila Flights." PR Newswire (US). 1 October 2007.

Hawaii Lodging Market
Change in Monthly Occupancy, ADR, RevPAR Performance
January 2002 – December 2007

Source: Smith Travel Research Lodging Supply Reports



The service includes three weekly departures from Sydney and two weekly departures from Melbourne. Each flight will have seats for approximately 303 passengers.[37]

Visa Waiver Program – More South Korean and Chinese Visitors

In August 2007, the US passed a law that will allow more countries to qualify for visa waivers. This could add to the number of visitors coming to Hawaii from South Korea (among other countries) in the future. Currently, Hawaii has an estimated 70,000 South Korean visitors a year, but the number is projected to grow to 225,000 within a few years after the waiver program is in place. The waiver program could also involve citizens of other countries, such as China. Hawaii hopes to compete for the more than 100 million tourists expected to travel from China by 2020.[38]

Noteworthy Developments and Renovations

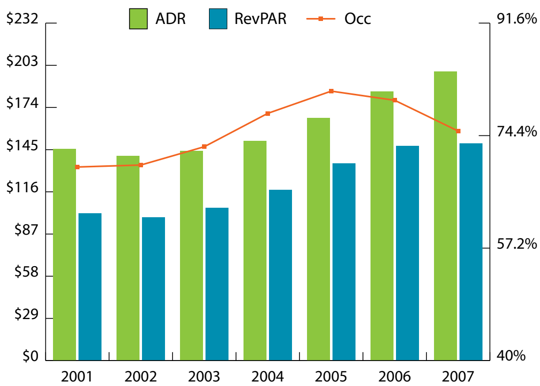
In October 2007, Walt Disney Parks and Resorts announced that the company had finalized plans to purchase 21 acres of

37 "G'Day Mate – Jetstar Touches Down in Hawaii; New Jetstar Long Haul International Services From Australia – 5 Times Weekly." PR Newswire (US). 27 December 2006.

38 "Hawaii Governor: State Isn't 'Amusement Park'." AP Newswires. 29 August 2007.

Hawaii Lodging Market Occupancy, ADR, RevPAR Performance 2001 - 2007

Source: Smith Travel Research Lodging Supply Reports



oceanfront property on Hawaii's island of Oahu. The property is located in the Ko Olina Resort and Marina and will be home to Disney's first mixed-use resort outside of its theme park developments. The resort, scheduled to open in 2011, will have more than 800 units, including hotel rooms and villas for Disney Vacation Club, Disney's rapidly growing timeshare business.[39]

The US$535 million Outrigger Waikiki Beach Walk project, the largest development project in Waikiki's history, was completed in 2007 and features nearly 50 retail stores and 16 restaurants and includes four existing hotels (both renovated and undergoing renovation) and one new hotel development. Renovations for the Wyndham Vacation Ownership Resort and Embassy Suites Waikiki Beach Walk were completed in late 2006. Currently, the Outrigger Reef Hotel is undergoing a US$100 million renovation and the Ohana Islander Hotel is scheduled for a similar renovation later in 2007. The Trump International Hotel & Tower is a new development that is expected to be completed in 2009.[40]

Starwood Hawaii Hotels has planned a US$750 million renovation for their Waikiki hotels. The project, which will reposition the historic Moana Surfrider as a Westin resort, add three swimming pools, and restore the grounds for both the Sheraton Waikiki and the Royal Hawaiian, calls for the renovation of guest rooms, suites, and facilities. Plans also call for the renovation of the Sheraton Princess Kaiulani, which includes a partial conversion to timeshare properties.[41]

Convention Center – Bookings Decline

During 2007, 35 out-of-state conventions were booked through the Hawaii Convention Center. In comparison, as of October 2007, only 16 out-of-state conventions were booked for 2008. Although the number of bookings for 2008 is lower than that of the prior year, the conventions that have booked include many high-end convention groups. Groups booked in 2008 include the American Podiatric Medical Association, the American Society of Brewing Chemists,[42] the Toyota Motor Company of North America, and the

39 "Adding Multimedia Disney Expands Resort Business on Oceanfront Property in Hawaii; Luxury Family Resort Planned for Ko Olina." Business Wire. 3 October 2007.

40 Lenhart, Maria. "Focusing on Waikiki." Travelweekly.com. 12 February 2007.

41 Schaefers, Allison. "Hawaii's Boomtown-Remaking Mecca-Waikiki." *Honolulu Star Bulletin.* 2007

42 Leidemann, Mike & Nakaso, Dan. "Hawaii Could See Fewer Conventions Next Year; 16 Groups Booked So Far Compared With 35 This Year." *USA Today.* 28 June 2007.

American Medical Association. According to the State Department of Business, Economic Development, and Tourism, year-to-date visitor arrivals for conventions and corporate meetings in 2007 were 293,964 compared to 344,130 during the same period in 2006. The Hawaii Convention Center has made a concerted effort to reach markets in Asia to attract foreign business. In October 2007, Hawaii Convention Center officials traveled to Beijing, Shanghai, and Thailand to help promote their global outreach program and prompt more exposure to foreign organizations.[43]

Outlook

The Hawaii lodging market appears to show signs of moderate growth, reflected in the decrease in the number of visitors arriving in 2007 and the decline in occupancy from record high levels set in 2006. The outlook for 2008 shows a slight increase in visitor arrivals of 0.5%, with arrivals from the US projected to increase 0.1% and those from Japan to decrease 0.9%[44] Hawaii continues to be an in-demand destination, as illustrated by an increase in room rates during a period when occupancy rates have declined. Additionally, the development market continues to be active, with new hotel developments, renovations of existing hotels, and development of surrounding areas, which will result in greater supply for the future. With demand remaining high, and an increase in new supply and renovations, the trend of rising ADR is anticipated to continue as the overall quality of hotel inventory improves.

43 "Hawaii Convention Center officials Court Asia Market." *Honolulu Advertiser.* 25 October 2007.

44 Bonham, Carl S. and Byron Ganges. "UHERO Quarterly Hawaii Forecast Update: Mainland Woes Pose Risks for Visitor Sector." *University of Hawaii Economic Research Organization Quarterly Forecast Update,* 28 September 2007.

Supply Additions

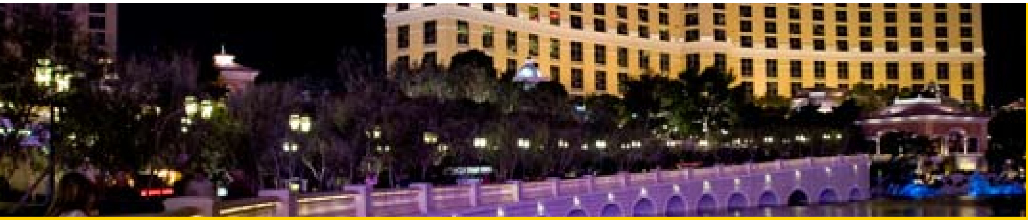
Based on year-to-date September 2007 data from Smith Travel Research, the existing hotel supply is approximately 56,100 rooms.

The following chart summarizes selected major supply changes.

Property	Location	Units	Scheduled Opening Date	Developer/Owner
Waldorf-Astoria Ho'olei @ Grand Wailea	Kihei, HI	60	November 2007	Waldorf Astoria Collection
2121 Kuhio	Honolulu, HI	140	March 2008	K3 Owners LLC
Holiday Inn Express & Suites Kailua Kona	Kona, HI	75	June 2008	Troon Construction
Coco Palms Resort	Lihue–Kauai, HI	104	August 2008	Weiser Companies Inc.
Trump International Hotel & Tower Waikiki Beach Walk	Honolulu, HI	460	November 2009	Irongate Capital Partners
Unnamed Disney Resort @ Ko Olina	Kapolei–Oahu, HI	400	June 2011	Walt Disney Parks & Resorts/Disney Vacation Club
Sea Mountain @ Punaluu	Punaluu, HI	300	June 2015	Ocean Future Society
Baccarat Resort Wailea	Wailea, HI	193	Not Available	Kobayashi Development Group/ Starwood Capital Group
Turtle Bay Resort Expansion	Kahuku, HI	3,500	Not Available	Kuilima Resort Company
Kona Kai Ola Mixed-Use Development	Hilo, HI	400	Not Available	Jacoby Development Inc.
Royal Lahaina Resort Development	Lahaina, HI	330	Not Available	Royal Lahaina Development Group LLC
Konea Townhomes/Condominiums/ Retail Bldgs	Lahaina, HI	300	Not Available	Intrawest Corp
Palamanui Mixed-Use Development	Kailua Kona–Hawaii, HI	120	Not Available	Keauhou Kona Construction LP
Keaau Village Inn	Keaau–Hawaii, HI	60	Not Available	Bob Saunders
Royal Palms @ Poipu Beach Phase II	Poipu, HI	To Be Decided	Not Available	Poipu Palms Limited Partnership
Oahu Mixed-Use Development	Honolulu, HI	To Be Decided	Not Available	Jacoby Development Inc
Grand Ko Olina Resort Hotel & Spa	Kapolei–Oahu, HI	To Be Decided	Not Available	Marriott Vacation Club International

Source: Smith Travel Research, Market Media

Las Vegas



Regions and Markets

Introduction

The Las Vegas market continued to experience positive lodging fundamentals in 2007. While overall hotel occupancy and convention center attendance experienced minimal growth at 0.7 percentage points and 0.5%, respectively, average daily rate and economic impact from convention center attendance increased 12.8% and 5.8%, respectively, year-to-date through August 2007, compared with the same period in 2006.[45] *Las Vegas continues to be a top convention center market and international destination, as reflected by year-over-year demand growth. Additionally, Las Vegas has proven to be unaffected by the cannibalization that often occurs in major lodging markets. The market has historically proven its strength and stamina as supply growth continues to spur demand in the area. This is reflected by the expansion and development plans of McCarran International Airport and Ivanpah Valley Airport. Las Vegas has also proven to be an active transaction market, with land sales as high as US$82 million per acre.*

Hot Topics

Las Vegas Convention Market – Top Destination Market

According to *TradeShow Week*, Las Vegas was scheduled to have hosted 250 trade and consumer shows in 2007, representing an 18.5% increase over 2006 at 211 shows.[46] Las Vegas continues to host the largest number of top convention events, followed by Chicago, New York, and Orlando, Florida. Additionally, the Las Vegas convention market features the most convention space in the US at 22.6 million square feet (followed by Orlando at 7.56 million square feet)[47] and is also the only market in the US to feature three major convention venues of more than one million square feet each — the Las Vegas Convention Center, Mandalay Bay Convention Center, and Sands Expo and Convention Center. While convention attendance only increased 0.5% year-to-date through August 2007 compared to August 2006, the economic impact of the conventions increased 5.8% to US$6.4 billion,[48] reflecting Las Vegas' shift in the market mix to higher-rated convention business (e.g., large corporations,

45 "Visitors Statistics." Las Vegas Convention and Visitors Authority. August 2007.

46 *TradeShow Week*. June 2007.

47 *TradeShow Week*. June 2007.

48 "Visitors Statistics." Las Vegas Convention and Visitors Authority. August 2007.

health/medical associations, entertainment companies, technology companies, and others), resulting in greater room-rate gains and convention center revenues.[49]

Given the strength of the overall convention market in Las Vegas, a significant improvement project is underway at the Las Vegas Convention Center, as well as at other convention center facilities in the market. In November 2006, the Las Vegas Convention Center began construction of a US$890 million expansion and facelift, which is scheduled for completion by the end of 2011.[50] Additionally, the Sands Exposition and Convention Center at the Venetian, Project CityCenter, Las Vegas ExpoCenter at Echelon, and Caesars Palace are expected to contribute to a major increase in convention center supply by 2010.

International Visitation – Visitation Anticipated to Increase with Decreasing US Dollar

International visitation to Las Vegas increased 6.2% year-to-date through August 2007 compared with the same period in

49 *TradeShow Week.* June 2007.

50 "Las Vegas Convention Center $890M Expansion and Renovation Makeover." *Fine Homes Las Vegas.* 18 May 2007.

2006.[51] The market focused on attracting more international visitors for both gaming and convention purposes. The opening of the MGM Macau, Wynn Macau, and Venetian Macau in 2007 will likely increase overseas traffic from Asia, acting as a marketing catalyst for high-stakes players. Furthermore, it is anticipated that Las Vegas will benefit from Nevada's tourism marketing campaign in China. Nevada is the first US state to organize a marketing campaign to promote tourism in the China market. According to the Nevada Tourism Bureau, more than 90% of mainland Chinese tourists who travel to the United States have visited Las Vegas. In addition to its effort to promote visitation from China, the Las Vegas Convention and Visitors Authority voted to spend approximately US$1.5 million to renew international marketing contracts in several countries in an effort to increase the number of international visitors to comprise 15% of Las Vegas' projected 43 million annual visitors by 2010. Contracts were renewed with countries including Canada, Germany, United Kingdom, Mexico, Japan, France, South Korea, and Australia.[52] Additionally, with the US dollar expected to decline in the coming years due to low long-term yields and international trade deficits in the US, international travel is anticipated to increase further.

Supply Additions – If You Build it, They Will Come

It is estimated that the lodging supply in Las Vegas will increase by 42,937 guest rooms from 2006 through 2011, representing a compounded annual growth rate of 5.8%. This growth is 1.1 percentage points greater than the 36-year (i.e., 1970 through 2006) average of 4.7% for new supply. Historically, Las Vegas has proven to be an atypical market in which new supply stimulates demand. During the 36-year period, lodging supply increased more than 8% each year while demand experienced an average growth of 10.4%. It is estimated that the Las Vegas Strip will undergo capital investments of approximately US$39 billion in new hotels, condominium-hotel, and casino-hotel developments from 2007 through 2012.[53]

51 "Visitors Statistics." Las Vegas Convention and Visitors Authority. August 2007.

52 Spillman, Benjamin. "Las Vegas Tourism Officials Think Globally." *Las Vegas Review-Journal.* 13 June 2007.

53 Greff, Joseph, Carlo Santarelli and James Ornstrom. *US Gaming.* Bear Stearns. October 2007.

Transaction Market – No Signs of Slowing

In the past 18 months, Las Vegas has proved to be an active real estate transaction market, with numerous land and single-asset purchases. One of the most notable transactions was the October 2006 land exchange between Harrah's Entertainment and Barbary Coast Hotel and Casino. Harrah's Entertainment acquired the 4.4-acre site of the former Barbary Coast Hotel and Casino, which was previously owned by Boyd Gaming, in exchange for a 24-acre site north of Echelon Place. The parcels had land values of US$81.8 million per acre and US$15 million per acre, respectively.[54] Additionally, in April 2007, MGM Mirage purchased 26-acre and 8-acre land parcels, which currently border Circus Circus, and are valued at approximately US$16.9 million per acre.[55] MGM Mirage has also partnered with Kerzner International and Istithmar Hotels to develop Project CityCenter II, which will be located on Las Vegas Boulevard and Sahara Avenue.[56] Another significant transaction includes Elad Group's purchase of the 986-room, 34.5-acre New Frontier Hotel Casino for US$1.2 billion, or US$34.8 million per acre, in May 2007. Elad Group expects to demolish the New Frontier and construct a US$5 billion ultra-luxury hotel under The Plaza brand.[57] And in July 2007, Africa Israel Investments acquired 60 acres along the Harmon corridor west of Hard Rock Hotel for US$625 million, or US$10.4 million per acre. Africa Israel Investments plans to develop a casino with several hotels, retail, restaurants, and convention space on the land parcel that was the home of the Related Companies' former Las Ramblas site and more recently the Edge Group's W Hotel project.[58]

Airport Expansion – McCarran Airport to Reach Capacity

Due to the increase in visitation, as well as the new casino and lodging supply in the Las Vegas pipeline, McCarran International Airport is projected to reach capacity by 2017. The Clark County Department of Aviation (CCDOA) has plans to increase the size and capacity of the present McCarran Airport facilities: nine new gates are under construction and an additional terminal with 14 gates is being designed, anticipated to be

54 "Boyd Gaming Announces Agreement to Sell Barbary Coast to Harrah's Entertainment." Boyd Gaming. 2 October 2006.

55 "Lodging Development." Market Media, Inc. 25 June 2007.

56 "MGM Mirage, Kerzner International and Istithmar Finalize Definite Agreements to Develop Multi-Billion Dollar Las Vegas Resort." Reuters. 11 September 2007.

57 Stutz, Howard. "More than $1.2 Billion: New Frontier Sale Sets Record." *Las Vegas Review-Journal.* 16 May 2007.

58 "W Las Vegas Condos By Edge Group Sold to Billionaire for $625 Million." *Fine Homes Las Vegas.* 8 July 2007.

completed in 2008 and 2012, respectively.[59] Officials at McCarran Airport estimate that the facility's maximum long-term sustainable capacity will be roughly 53 million passengers (post-expansion), an increase of 7 million passengers from 2006 levels.[60] Passenger traffic growth at McCarran Airport continues to increase steadily, mainly due to a much larger domestic population base comprising a greater percentage of traffic. It is estimated that McCarran Airport's sustainable capacity is only 16% greater than the 2006 passenger levels.[61]

Because McCarran Airport's expansion space is limited, the CCDOA plans to build Ivanpah Valley Airport (IVP), a US$7 billion supplemental commercial service airport in Ivanpah Valley, located approximately 28 miles southeast of McCarran Airport. Construction is expected to begin in 2010 and to be completed in 2017. IVP is intended to serve more than 35 million domestic and international passengers annually upon stabilization.[62]

59 Greff, Joseph, Carlo Santarelli and James Ostrom. *US Gaming.* Bear Stearns. October 2007.

60 Spillman, Benjamin. "Airport Can't Deliver on Tourism Demands." *Las Vegas Review-Journal.* 2 December 2006.

61 Greff, Joseph, Carlo Santarelli and James Ostrom. *US Gaming.* Bear Stearns. October 2007.

62 Spillman, Benjamin. "Ivanpah Proposal: Airport Doesn't Fly For All." *Las Vegas Review-Journal.* 30 June 2007.

Supply Additions

Based on year-to-date August 2007 data, the following chart summarizes selected major supply changes from 2007 through 2010.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
The Signature at MGM Grand, Tower 2	Las Vegas, NV	576	March 2007	MGM MIRAGE/Turnberry Associates
The Signature at MGM Grand, Tower 3	Las Vegas, NV	576	July 2007	MGM MIRAGE/Turnberry Associates
The Palazzo Resort	Las Vegas, NV	3,025	December 2007	Las Vegas Sands
Palms Place	Las Vegas, NV	599	March 2008	Fiesta Hotel Corporation
Trump International, Tower 2	Las Vegas, NV	1,282	April 2008	Trump International
Caesars Palace (expansion)	Las Vegas, NV	665	March 2009	Harrah's Entertainment
Las Palmas Hotel	Las Vegas, NV	800	January 2009	Peebles Corporation
Hard Rock (expansion)	Las Vegas, NV	950	May 2009	Morgans Hotel Group
CityCenter Hotel/Casino	Las Vegas, NV	4,000	November 2009	MGM MIRAGE/Dubai World
Mandarin Oriental Hotel (CityCenter)	Las Vegas, NV	400	November 2009	MGM MIRAGE/Dubai World
Harmon Hotel (CityCenter)	Las Vegas, NV	400	November 2009	MGM MIRAGE/Dubai World
Vdara Condo Hotel (CityCenter)	Las Vegas, NV	1,543	November 2009	MGM MIRAGE/Dubai World
Southern Highlands Hotel	Las Vegas, NV	1,400	November 2009	Olympia Land Corporation
Encore Resort	Las Vegas, NV	2,054	2009	Wynn Resorts
Fontainebleau Condominium-Hotel	Las Vegas, NV	3,889	January 2010	Turnberry Construction/ Development Co.
Hotel Echelon (Echelon Place)	Las Vegas, NV	3,150	April 2010	Boyd Gaming
Shangri-La (Echelon Place)	Las Vegas, NV	353	April 2010	Boyd Gaming
Delano (Echelon Place)	Las Vegas, NV	550	April 2010	Boyd Gaming/Morgans Hotel Group
Mondrian (Echelon Place)	Las Vegas, NV	860	April 2010	Boyd Gaming/Morgans Hotel Group
Cosmopolitan Resort	Las Vegas, NV	3,000	2010	3700 Associates LLC
Tropicana Redevelopment	Las Vegas, NV	3,000	2010	Aztar

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

Los Angeles

Regions and Markets

Introduction

Throughout 2007, the Los Angeles lodging industry demonstrated strong market fundamentals due to continued increases in lodging demand and limited lodging supply additions. Based on year-to-date October 2007 data from Smith Travel Research, overall occupancy is estimated to increase by 0.2 percentage points to 75.3%, with ADR increasing 7.7% to US$123, resulting in a RevPAR increase of 8% to reach US$92.

Hot Topics

Economic Output

In October 2007, the Writers Guild of America's (WGA) contract with the Alliance of Motion Picture and Television Producers expired. Unable to agree on terms for a new contract, the WGA decided to strike. Although the strike was settled in February 2008, it is estimated to have cost the economy of Los Angeles approximately US$1.5 billion.[63] According to Bloomberg.com, entertainment is the third-largest employer in Los Angeles County, behind trade and tourism. Entertainment employs approximately 254,000 people and accounts for US$30 billion, or 6.8% of Los Angeles County's annual economy.

Travel and Tourism – Los Angeles Is a Top Domestic Travel Destination

The Travel Industry Association of America considers Los Angeles a top travel destination. Los Angeles hosted 25 million visitors in 2006, with approximately 72% of the city's overnight visitors indicating that leisure activities were the primary purpose of their travel. Approximately five million were international visitors, of whom Mexico, Canada, the United Kingdom, and Japan were the major countries of origin. According to the Los Angeles Convention and Visitors Bureau, total visitor spending was approximately US$14 billion, while international visitor spending was estimated at US$4 billion. Mexican and Japanese travelers spent US$575 million and US$284 million, respectively.

Los Angeles Convention Center – 2.5 Million Visitors in 2006

The Los Angeles Convention Center (LACC) attracted more than 2.5 million visitors to 393 events in the 2006 fiscal year. Total sales

63 "Writer's Strike May End Soon, but Trouble Isn't Over." *All Things Considered.* National Public Radio. 12 February 2008.

Los Angeles

from secondary spending were approximately US$1 billion, generating and sustaining more than 12,000 local jobs.[64] According to the Los Angeles Convention and Visitors Bureau, convention center seminars account for approximately 10% of visitors to the city annually. Approximately 11% of these convention attendees are visitors from Japan.[65] With continuing development of LA Live (discussed below) and other downtown Los Angeles projects, the LACC is expected to continue to be a significant demand generator for Los Angeles.

Downtown Offices Are Looking Up – Landlords are Bullish

In the 12-month period ending October 2007, average monthly office rents increased approximately 12% to US$36 per square foot. In addition, by offering lower rental rates to West Los Angeles tenants, downtown Los Angeles' office vacancy rates have also decreased significantly. These strong market fundamentals have encouraged new office developments, including developer Robert Maguire's planned one million-square-foot, 50-story office tower, the first new office tower to be built there in 15 years.[66]

Development – Focus on Revitalization Projects

Downtown Los Angeles, Hollywood, and Anaheim are undergoing a number of revitalization projects which would contribute to an increase in the lodging demand in the area. One of the projects is LA Live, an Anschutz Entertainment Group development, which is anticipated to be completed by 2010. The development includes the recently completed 7,100-

64 "Windpower 07 Conference Records Highs at LA." www.lacclink.com/pages/press/default.aspx?menu=press. June 2007.

65 "LA Travel Stats 2007." www.laincresearch.com/all/LATravelStats06Final.pdf. January 2008.

66 George, Evan, Andrew Haas-Roche, Kathryn Maese, Kathleen Nye Flynn, Jon Regardie. "The Big Picture." *Los Angeles Downtown News.* 21 May 2007.

seat Nokia Theatre, 12 restaurants, and the 52-story tower that will be the site of the JW Marriott, Ritz Residences, and Ritz-Carlton Hotel.[67] Another example is The Grand Avenue Project, which includes a 16-acre park and high-rise condos, and which also would be the site of the future Mandarin Oriental Los Angeles.

A mixed-use project at Hollywood and Vine consists of various residential and hospitality developments, including a 305-room W Hotel and 143 condominium units. The W Hotel, which will be a LEED-certification project, is a joint venture planned by developers HEI Hospitality and Gatehouse Capital Corporation. It is scheduled for completion by the fourth quarter of 2009.

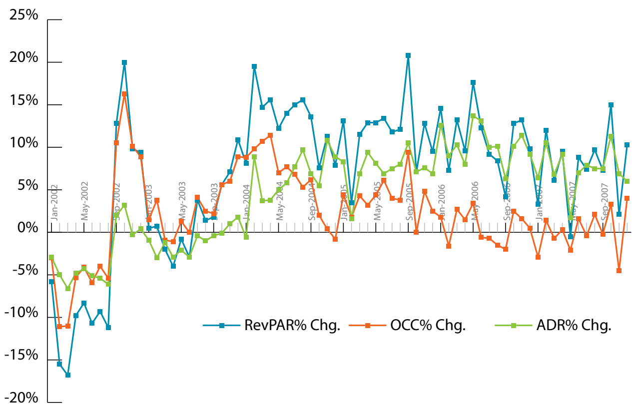
The Walt Disney Company recently announced that a 2.5-acre expansion on Disney's Grand California Hotel & Spa's south side in Anaheim will be comprised of 200 new hotel rooms and 50 two-bedroom vacation villas. The villas will be the first of Disney's West Coast Vacation Clubs.[68]

67 "Time Line." http://www.lalive.com/timeline.php..

68 "First West Coast Disney Vacation Villas Planned." http://corporate.disney.go.com/corporate/moreinfo/grandcalifornia.html. 18 September 2007.

Los Angeles Lodging Market
Change in Monthly Occupancy, ADR, RevPAR Performance
January 2002 – December 2007

Source: Smith Travel Research Lodging Supply Reports

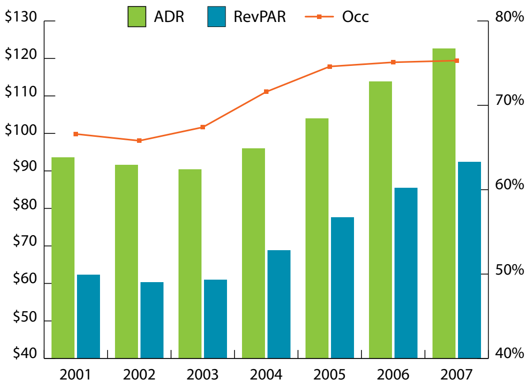


Outlook

While the impacts of the slowing local residential market, the WGA strike, and the Southern California wildfires that struck in the third quarter of 2007 may be a concern, the outlook for the Los Angeles lodging market remains positive. Since 2003, occupancy and ADR in Los Angeles have increased at an average annual rate of two percentage points and 5.7%, respectively. The Los Angeles market has benefited from a strong local economy, international visitation and convention attendance, and improvements to city infrastructure such as Orange County's Metrolink commuter rail service.

Los Angeles Lodging Market
Occupancy, ADR, RevPAR
Performance 2001 – 2007

Source: Smith Travel Research
Lodging Supply Reports



Supply Additions

According to year-to-date September 2007 data from Smith Travel Research, the existing Los Angeles hotel supply is approximately 92,250 rooms. The following chart summarizes selected major supply changes.

Property	Location	Units	Scheduled Opening Date	Developer/Owner
The Inn at the Pike	Long Beach, CA	138	June 2008	LodgeWorks LP
Hotel Esterel	Long Beach, CA	160	June 2009	The D'Orsay International Partners LLC
Ocean Avenue Hotel	Santa Monica, CA	73	December 2009	Jeff Worthe and StockBridge Real Estate Fund
W Hollywood Hotel & Residences	Hollywood, CA	305	December 2009	Gatehouse Capital Corp.
Central Hub Hotel & Waterpark	Garden Grove, CA	1,400	June 2010	McWhinney Enterprises
JW Marriott & Ritz-Carlton	Los Angeles, CA	1000	December 2010	Anschutz Entertainment Group
Beach Plaza Hotel & Residence	Long Beach, CA	40	December 2010	Ocean Boulevard Long Beach LLC, an affiliate of West Millenium Group
Park 5th Hotel	Los Angeles, CA	234	December 2011	Houk Development Company Inc.
Garden Walk Hotels	Anaheim, CA	886	December 2011	Excel Realty Holdings
Figueroa Central Hotel	Los Angeles, CA	222	Not Available	Fig Central LLC, an affiliate of The Moinian Group
Mandarin Oriental LA	Los Angeles, CA	275	July 2010	The Related Companies
Waldorf Astoria	Beverly Hills, CA	120	October 2009	Oasis West Realty, LLC
Montage Beverly Hills Resort	Beverly Hills, CA	201	October 2008	The Athens Group
SLS Beverly Hills	Beverly Hills, CA	NAV	Not Available	SBE Entertainment Group
James Hotel	Hollywood, CA	205	Not Available	James Hotel Group
London West Hollywood	Los Angeles, CA	200	January 2008	LXR

Source: Smith Travel Research

Manhattan

Regions and Markets

Introduction

Manhattan's lodging industry continues to be the strongest market in the US in terms of RevPAR performance, as a result of generally strong demographic and economic fundamentals, increasing demand for office space, and the increased focus on promoting Manhattan as a tourist destination. Further strengthening Manhattan's lodging fundamentals has been the decrease in supply of hotel rooms since 2003, due to the recent trend of converting hotels into condominiums. While the supply pipeline is significant, with more than 15,000 hotel rooms in various stages of development and construction as of October 2007, according to Smith Travel Research, the introduction of new and the expansion of existing demand generators throughout Manhattan are anticipated to mitigate the new supply. Data from Smith Travel Reseach indicates that Manhattan's RevPAR rose by approximately 13.5% through September 2007 versus the same period in 2006, due primarily to a robust improvement in ADR coupled with a marginal increase in occupancy. For year-to-date September 2007, Manhattan achieved occupancy of approximately 85%, a rise of 1.1 percentage points versus the same period in 2006, while ADR surpassed US$274, an increase of 12% versus the same period in 2006.

Hot Topics

Global Campaigns for New York – "This is New York City"

In October 2007, the City of New York launched a US$30 million global marketing campaign, including television advertising in the US and foreign markets, and outdoor and print media, entitled "This is New York City."[69] Television advertisements are scheduled to air in Spain, Ireland, France, and the UK, as well as on cable stations in the US, while outdoor advertising is planned for cities in the US and abroad in locations such as Brazil, Portugal, and Spain. This advertising campaign is in conjunction with Mayor Michael R. Bloomberg's plan to boost annual visitation to New York City from an anticipated 45.5 million visitors in 2007 to approximately 50 million visitors by 2015.

Hudson Yards – Transforming Manhattan's Western Skyline

In November 2007, five proposals from various developers were submitted for the redevelopment of the Western and Eastern

69 McGeehan, Patrick. "City's Virtues to Be Sold in New Global Ad Campaign." *The New York Times.* 11 October 2007.

Rail Yards between West 30th and 33rd Streets and 10th and 12th Avenues. The proposals call for upwards of a total 13 million square feet of residential, retail, commercial, hotel, cultural activities, parking, and public open spaces.[70] The various plans also potentially include new headquarters for Morgan Stanley, Condé Nast Publications, and News Corp.[71] Only two of the proposals contemplated including a hotel component. The Jacob K. Javits Convention Center, between West 34th and 39th Streets and 11th Avenue and the West Side Highway, is also anticipated to undergo a 910,000-square-foot expansion and renovation, more than doubling its capacity during the next few years.

Renovations and Revitalizations – Penn Station and Madison Square Garden

In October 2007, the State of New York announced a revised plan for the redevelopment and renovation of the Penn

70 Ouroussoff, Nicolai. "In Plans for Railyards, a Mix of Towers and Parks." *The New York Times.* 24 November 2007.

71 "Release the Bids." Editorial, *The New York Sun.* 20 November 2007.

Station area, estimated to cost approximately US$14 billion.[72] The plans include the conversion of the James A. Farley General Post Office into a major transportation hub called Moynihan Station, while Madison Square Garden would be demolished and rebuilt between West 31st and 33rd Streets on Ninth Avenue. Additional plans include the renovation of Penn Station and construction of a new hall to be built on the current Madison Square Garden site. The plan also calls for the development of more than seven million square feet of commercial space to be built between West 33rd and 34th Streets and Seventh and Eighth Avenues, including the closing and conversion of the Hotel Pennsylvania into office space. The first phase of this plan (Moynihan Station and the new Madison Square Garden) is anticipated to be finished by 2011, while the second phase (demolition of the existing Madison Square Garden and the Penn Station expansion) is targeted for completion by 2018.

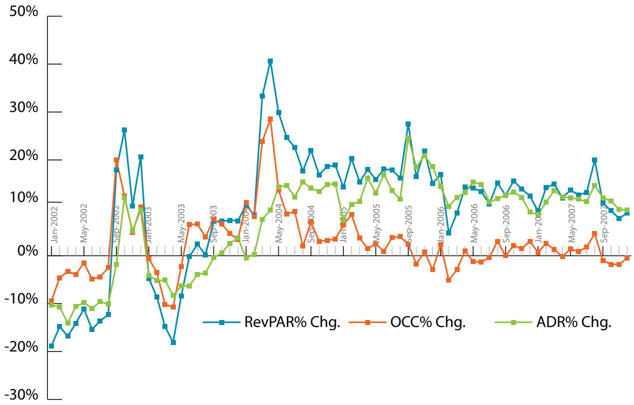
Lower Manhattan – Reviving and Improving the Area as a 24/7 Community

Lower Manhattan continues to transform itself into a major tourist, commercial, and residential area. Its redevelopment also includes significant lodging development,

72 Lemire, Joathan. "New Plan for Penn Station and Madison Square Garden." *New York Daily News.* 24 October 2007.

Manhattan Lodging Market
Change in Monthly Occupancy, ADR, RevPAR Performance
January 2002 – December 2007

Source: Smith Travel Research

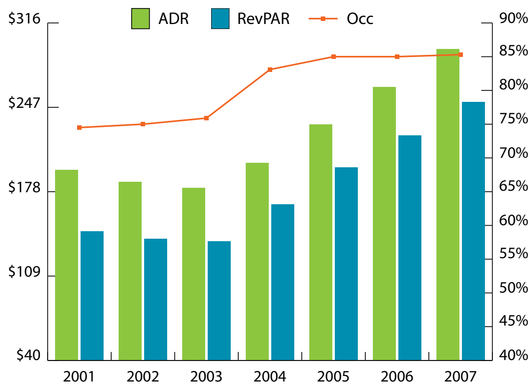


with approximately 20 hotel projects in the pipeline in the area as of September 2007. As of the second quarter of 2007, approximately 12.4 million square feet of office space in Lower Manhattan was either recently completed, under construction, or in various stages of planning, particularly in the World Trade Center area. JP Morgan Chase agreed to build and move its investment banking unit into the fifth tower of the World Trade Center redevelopment, adding approximately 1.3 million square feet to the office market in 2013. Meanwhile, residential projects are expected to add more than 6,000 residential condominium and rental units to the area through development of new condominium buildings and the redevelopment of pre-war commercial buildings into high-end residential properties. Furthermore, high-end retailers, who have traditionally favored Midtown and Upper East Side neighborhoods, are entering Lower Manhattan, including Tiffany & Co., Hermés, and Thomas Pink.[73] 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 for Manhattan's economy in the near future.

73 Stoler, Michael. "Lower Manhattan Looks Ever Upward in Its Transformation." *The New York Sun.* 19 October 2006.

Manhattan Lodging Market Occupancy, ADR, RevPAR Performance 2001 – 2007

Source: Smith Travel Research



Chelsea – Hoteliers Developing Artistic Hotels Befitting the Neighborhood

According to Smith Travel Research, as of September 2007, approximately 2,000 rooms were in various stages of construction and planning in Chelsea. The 12-story Chelsea Hotel, which was historically the home of avant-garde artists, writers, and performers, underwent a change in management in June 2007, and a renovation is expected. Other boutique hotels are anticipated to open in the area, including Greenhouse 26, a 28-room environmentally friendly hotel with its own geothermal heating and cooling system, due to open in 2008, and Manhattan's first Hotel Indigo, a 122-room property due to open in late 2008.[74]

Outlook

Throughout 2008, continued improvement is projected for Manhattan's lodging fundamentals. Moreover, upon completion of the expansion of the Jacob K. Javits Convention Center, the significant increase expected for convention activity should increase lodging demand throughout New York City. While lodging supply in Manhattan is anticipated to increase primarily in the upscale, midscale, and select-service market segments, the supply increases are expected to keep lagging behind increases in demand, resulting in continued significant ADR growth. Based on their speculative nature, it is also doubtful that all these projects will be completed. Presently, approximately 3,000 rooms are under construction. As Manhattan neighborhoods continue to improve and become revitalized, and the new tourism initiatives to improve visitation take root, Manhattan's lodging market is expected to remain the strongest in the US.

74 Chamberlain, Lisa. "For Chelsea, a Morning of New Hotels." *The New York Times.* 8 July 2007.

Supply Additions

The following chart summarizes selected major supply changes.

Property	Location	Units	Scheduled Opening Date	Developer/Owner
Doubletree Hotel	128 West 29th Street, New York, NY	230	March 2008	Not Available
Vu Hotel	653 11th Avenue, New York, NY	222	March 2008	Horizen Global LLC
Thompson Lower East Side	180 Allen Street, New York, NY	100	March 2008	Pomeranc Group
Sheraton Hotel New York	217 Pearl Street, New York, NY	660	June 2008	Lam Golden Pearl Hotel Plaza LLC
Holiday Inn New York	99 Washington Street, New York, NY	371	June 2008	McSam Hotel LLC
Standard Hotel	848 Washington Street, New York, NY	344	July 2008	ABG 45 Hotel LLC
Smyth Hotel	85 West Broadway, New York, NY	100	August 2008	Pomeranc Group
Setai Wall Street	405 Lexington Avenue, New York, NY	250	November 2008	Zamir Equities
W Hotel Downtown	123 Washington Street, New York, NY	217	March 2009	Moinian Group
Hyatt Andaz	75 Wall Street, New York, NY	250	April 2009	Park West Associates LLC
Trump Hotel and Tower SoHo	246 Spring Street, New York, NY	413	Second Quarter 2009	Trump & Bayrock Group
Sheraton Hotel	114 West 28th Street, New York, NY	361	June 2009	Golden Tower Realty
Mondrian Hotel SoHo	150 Lafayette Street, New York, NY	270	November 2009	Morgans Hotel Group
1 Hotel and Residences	14-20 West 40th Street, New York, NY	162	May 2010	Starwood Capital Group
Shangri-La Hotel	610 Lexington Avenue, New York, NY	125	June 2010	RFR Holding Corporation

Source: Smith Travel Research

Miami

Regions and Markets

Introduction

The lodging industry in Miami experienced its fifth consecutive year of RevPAR growth as the city established its presence in the luxury lodging market and continued to maintain its status as a major international getaway. Based upon year-to-date October 2007 data from Smith Travel Research, occupancy in 2007 is anticipated to increase slightly to 71.7%, while ADR is projected to increase 11% to US$157, resulting in an anticipated RevPAR of US$113, second only to New York City, and representing a healthy increase of 12% over 2006.

Hot Topics

The New Downtown Miami Skyline – If You Build It, Will They Close?

With approximately 17,000 condominium units, three million square feet of commercial space, and 960 hotel units currently under construction and nearing completion in the downtown Miami and Brickell districts,[75] inventory delivery in 2008 and 2009 will test developers' assertions that upscale mixed-use developments can continue to transform downtown Miami into a new, vibrant destination within the city. As in the past, when lodging developments such as the Mandarin Oriental, the JW Marriott, the Four Seasons, and the Conrad helped reinvigorate the Brickell area, the success or failure of downtown developments nearing completion in 2008 will be vital in determining the future outlook for downtown Miami, particularly in light of the recent slowdown of the residential real estate market.

Luxury and Upper-Upscale Lodging Supply Additions – Opening Delays Coming to an End

Since 2002, Miami has seen a 2.8% compounded annual decrease in the room supply of luxury and upper-upscale properties amid renovations and closings. This has occurred despite recent luxury additions along Miami Beach and Sunny Isles which, coupled with increasing visitation, has led to a continuing improvement in lodging performance. In 2008, even as some renovations and new construction are expected to be delayed due to cost increases and slowing demand for residential product, high-end lodging supply is anticipated to experience a net

75 *Development Activity Breakdown Report*. Miami Downtown Development Authority. November 2007.

Miami

inventory increase. As some traditional properties re-open, such as the 1,035-room Fontainebleau Resort, and new ones are delivered, such as the 128-room Canyon Ranch Resort, luxury/upper-upscale supply should begin to rise toward the second quarter of 2008 and through 2009, increasing competition and putting lodging market fundamentals to the test.

Condominium-Hotels – Future Developments at a Standstill

In recent years, mixed-use projects that included condominium-hotel units and/or branded residences were among the leading drivers of South Florida's residential real estate rise, benefiting from strong residential and lodging markets. However, amid a slump in the nation's housing market, and with home prices in the greater Miami area having fallen 7.3% through September 2007 versus the same period in the previous year,[76] the sale of second-home residential units has witnessed a significant slowdown. While branded projects in premium locations are expected to withstand better the market's downturn, smaller, unaffiliated projects in less desirable locations may have increasing difficulty in obtaining necessary financing, particularly as the majority of new luxury lodging supply in the short term will feature a condominium-hotel component.

International Visitation – Helping to Mitigate Seasonality

Miami International Airport is the third busiest international airport in the US, exhibiting continued growth in 2007,

76 Fabrikant, Geraldine. "As Housing in Florida Plummets, the Top Tier of the Market Just Dips." *NY Times*. 27 October 2007.

with October year-to-date international passenger arrivals up 4.4% over the same period in the previous year to 32 million passengers.[77] The weakening of the US dollar, coupled with robust economic performance in Latin America, should fuel the growth of international visitation through 2008. This rise in international travel should continue to enhance demand during the months of June through August, which also constitute the peak travel season for Europeans, resulting in citywide occupancies of more than 70%.

Economic Slowdown – Will It Affect the Lodging Industry?

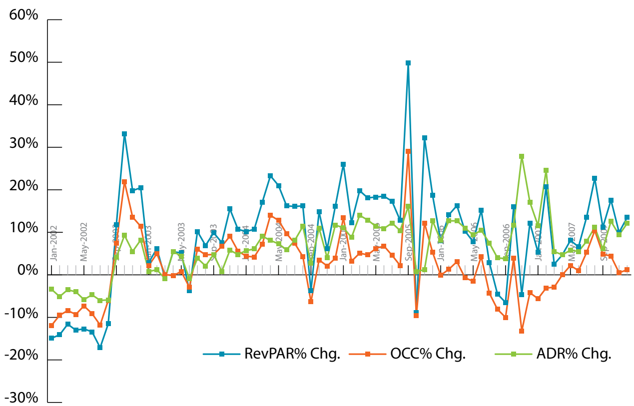
The Florida economy began showing signs of an economic slowdown near the third quarter of 2007, as unemployment figures reached a two-year high on the heels of a decrease in construction and housing market prospects in the state.[78] While Miami-Dade County has been somewhat insulated from the economic downturn to date, due to stronger tourism and international trade, a slowdown in state economic activity would eventually affect Miami's lodging sector.

77 Miami Airport. http://www.miami-airport.com/html/monthly_traffic_sep.html.

78 Boodhoo, Niala. "Jobless Rate Rises as Construction Slows." *The Miami Herald.* 18 August 2007.

Miami Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance January 2002 – December 2007

Source: Smith Travel Research Lodging Supply Reports



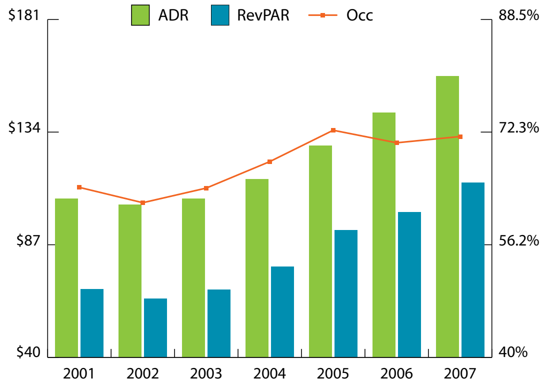
While hotels dedicated to high-end leisure and international travelers may remain somewhat protected from such a slowdown, midscale and extended-stay properties could show adverse performance if the economy recovers more slowly than expected.

Outlook

The Miami lodging market is expected to remain one of the top performing markets in the US in 2008 as moderate growth in international and domestic visitation continues to exceed growth in supply of lodging inventory. While the return of renovated supply should keep occupancy levels relatively stable throughout 2008, construction delays at new developments have also pushed some hotel openings to the first quarter of 2009, thus allowing for further rate increases during the peak demand periods of 2008.

Miami Lodging Market
Occupancy, ADR, RevPAR
Performance 2001 – 2007

Source: Smith Travel Research
Lodging Supply Reports



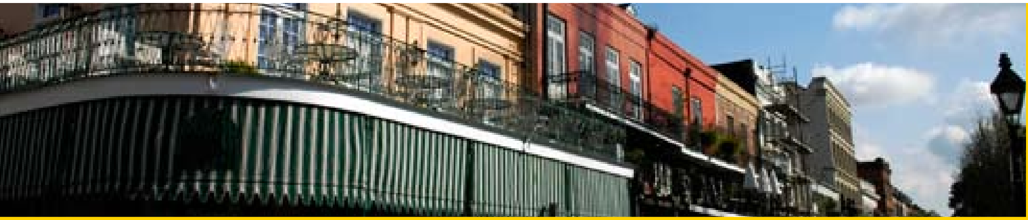
Supply Additions

Based on year-to-date September 2007 data from Smith Travel Research, the existing hotel supply in Miami is estimated at approximately 41,400 rooms. The following chart summarizes selected major supply changes.

Property	Location	Units	Scheduled Opening Date	Developer/Owner
Canyon Ranch Living Condominium Hotel	Miami Beach, FL	128	January 2008	WSG Development Co.
Regent Bal Harbour	Bal Harbour, FL	124	January 2008	WCI
Mondrian South Beach Hotel and Condominium	Miami Beach, FL	342	Second Quarter 2008	Morgans Hotel Group
Gansevoort South	Miami Beach, FL	334	March 2008	Gansevoort Hotel Group
Fontainebleau Sorrento (Renovation and Expansion)	Miami Beach, FL	1,035	June 2008	Hotelrama Associates Ltd.
Sole on the Ocean Condominium Tower	Sunny Isles, FL	147	July 2008	The Helix Group
Epic @ Dupont Towers Hotels & Residences	Downtown Miami, FL	400	January 2009	Lionstone Hotels & Resort
Westin Hotel Miami @ Island Gardens	Watson Island, FL	345	Not Available	Flagstone Property Group
Shangri-La Hotel Miami	Watson Island, FL	153	Not Available	Flagstone Property Group
St. George Coral Gables Hotel & Residences	Coral Gables, FL	117	Second Quarter 2009	Hilton Hotels/City Centre Properties
W Hotel & Residences	Miami Beach, FL	511	May 2009	Tri Star Capital/Related Companies
St. Regis Resort & Residences Bal Harbour	Bal Harbour, FL	219	December 2009	Related Companies of Florida
JW Marriott Miami Met-Marquis	Downtown Miami, FL	396	December 2009	MDM Development Group
Viceroy @ Icon Brickell	Brickell, FL	129	2009	The Related Group

Source: Smith Travel Research

New Orleans



Regions and Markets

Introduction

Occupancy for New Orleans in 2007 is estimated at approximately 62.3%, a 0.3 percentage point increase relative to 2006, with ADR increasing approximately 1.2% to US$120, resulting in an annual RevPAR of approximately US$75, a 1.5% increase from 2006. The limited improvement in performance can be attributed to the increase in room inventory, as previously hurricane-damaged units reopened. An additional 2,600 rooms were available in September 2007 relative to 2006 levels, an 8.5% increase. This was coupled with a slow business recovery from pre-Hurricane Katrina levels.[79]

Hot Topics

New Orleans – Corporate Meetings on the Rise

The 1.1 million-square-foot Ernest N. Morial Convention Center continues to recover and attract conventions and association events, receiving approximately 323,000 attendees in 2007, an approximate 75% to 80% increase relative to 2006, but still 35% to 40% below pre-Katrina levels. The New Orleans Convention and Visitors Bureau anticipates approximately 490,000 convention attendees in 2009, with expectations of reaching pre-Katrina levels by 2010 – 2011. Recognizing that convention bookings continue to face an uphill battle, the Convention and Visitors Bureau has shifted its focus in the short term from conventions and association events to self-contained corporate meetings in larger hotels with ample meeting space,[80] which are favored by meeting planners due to minimal distractions to attendees and reduced logistical concerns. Under this new strategy, local hoteliers benefiting from the new corporate group demand are competing more effectively with destinations such as New York, Chicago, Los Angeles, Atlanta, and Dallas. The outlook for 2008 remains positive for large, group-focused hotels, as the Convention and Visitors Bureau continues to promote New Orleans' hotels as an alternative corporate meeting destination with the capability to manage entire events internally.

Infrastructure and Accessibility Improvements – Paving the Way for Continued Recovery

Many airlines have not reinstated air routes to New Orleans that were lost because of

79 *Lodging Supply Report: New Orleans, LA.* Smith Travel Research. 2 November 2007.

80 White, Jaquetta. "Convention Mix Shifts, Tourism Officials Say; Post-Katrina N.O. Called Gamble for Associations." *Times-Picayune.* 22 June 2007.

New Orleans

Katrina, meaning that Louis Armstrong International Airport has not yet achieved its pre-Katrina airlift levels. While year-to-date arrivals through August 2007 indicate a 26% increase relative to the same period in 2006, they are still at 75% of pre-Katrina flight levels,[81] with estimated year-end arrivals of 7.5 million, below the approximately 10 million arrivals registered in 2004. However, improvement is anticipated going forward with the addition of flights from Southwest Airlines, ExpressJet, US Airways, and United Airlines.[82] Meeting planners are expected to react positively in the medium term, as increased airlift and ongoing airport renovations continue to open the city for business. Additionally, cruise activity rebounded in 2007: the port recorded 490,000 cruise ship passengers using New Orleans as a port of call. While still below pre-Katrina levels, cruise arrivals rebounded from 155,800 passengers as compared to the fiscal year ending in June 2006.[83]

Construction and Film Industries – Opportunities for the Extended-Stay Segment

The ongoing inflow of contractors and employees involved in rebuilding efforts has resulted in a rise in demand for long-term lodging. The extended-stay segment's performance is expected to remain strong, as short-term housing options remain limited by delays related to post-Katrina residential redevelopment, and given the anticipated need for infrastructure and real estate improvements in the mid-term. The

81 *Lodging Supply Report: New Orleans, LA.* Smith Travel Research. 2 November 2007.

82 Guillet, Jaime. "Optimism Is Flying High at Louis Armstrong N.O. International Airport." *New Orleans City Business.* 21 May 2007.

83 Warner, Coleman and Daniel Monteverde. "Progress and Pain: The Signs of Recovery Are There, but the Glacial Speed Frustrates Residents Straining to Come Back." *Times-Picayune.* 27 August 2007.

increasing presence of film and television crews has also boosted extended-stay demand: more than 20 films planned for release in 2007 were filmed in New Orleans, driven by Louisiana's favorable tax incentives for filming. The state ranks third as a film location, behind New York and California.[84]

New Orleans – A City with Emotional Appeal

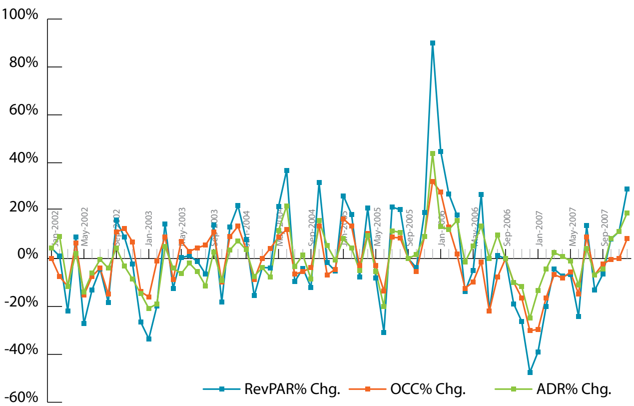
As nationwide support continues to pour into New Orleans, the city's tourism industry continues to benefit from the "sympathy component" to bring in visitors. This effect is also being felt across corporate meeting activity, as corporations seek to do their part in rebuilding efforts. Most recently, after years of holding their annual sales conference in St. Louis, Missouri-based Maritz Inc. decided to move its meeting to New Orleans, citing as its motive the desire to contribute to the revival of the city.[85] In addition, and given

84 Scott, Robert Travis. "LIFT Officials Pressured State to Speed Tax Credits." *Times-Picayune.* 4 June 2007.

85 "Meeting Industry Supports New Orleans." Meetingsnet.com. 27 February 2006.

New Orleans Lodging Market
Change in Monthly Occupancy,
ADR, RevPAR Performance
January 2002 – December 2007

Source: Smith Travel Research
Lodging Supply Reports



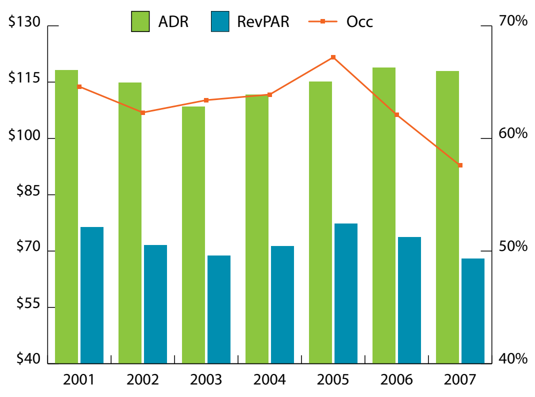
the relatively lesser impact of Hurricane Katrina on historic downtown areas, the city is anticipated to attract increased leisure visitation as infrastructure and security concerns diminish.

Road to Recovery – Leading to Higher Rates

While the exact timeline for recovery remains difficult to define, employment growth remains positive, and the city's infrastructure continues to be rebuilt. As an initial reaction to the post-Katrina economic environment, the lodging sector has engaged in significant discounting to attract meeting and group demand, with discounts granted for bookings as far ahead as 2011. As demand recovery catches up with supply growth, rate discounting is projected to decrease, which will benefit the market's mid- to long-term performance.

New Orleans Lodging Market
Occupancy, ADR, RevPAR
Performance 2001 – 2007

Source: Smith Travel Research
Lodging Supply Reports



Outlook

The reopening of the Convention Center and the Superdome in 2006 opened the city for business again, and after two years of recovery, New Orleans has started to be showcased again on the national and international scenes. In January 2008, the city hosted two of the US sporting world's most publicized events, the NCAA Sugar Bowl football championship (1 January 2008) and the NCAA football Bowl Championship Series (7 January 2008), and in February it hosted the National Basketball Association's All-Star Game (15-17 February 2008). Moreover, local festivals such as Mardi Gras (5 February 2008) and Jazzfest (25 April – 4 May 2008) are expected to draw their usual large crowds, providing the current hotel supply with much anticipated demand. Overall hotel performance is projected to accelerate in 2008 and aims to achieve pre-Katrina levels by 2009 or 2010.

Supply Additions

Based on year-to-date September 2007 data from Smith Travel Research, the existing hotel supply in New Orleans is estimated at approximately 33,100 rooms, still 13% below pre-Katrina levels. The following chart summarizes selected major supply changes.

Property	Location	Units	Scheduled Opening Date	Developer/Owner
Trump International Hotel & Tower New Orleans	New Orleans, LA	250	December 2008	Poydras Property Holdings LLC
Embassy Suites Downtown French Quarter	New Orleans, LA	222	January 2009	Not Available
Holiday Inn	Covington, LA	120	February 2009	Not Available
Residence Inn	Covington, LA	126	March 2009	Not Available
Staybridge Suites	Covington, LA	100	June 2009	Evonne Machen
Royal Cosmopolitan Hotel	New Orleans, LA	131	Third Quarter 2009	Angelo Farrell/ Lee Laporte
Hyatt Regency	New Orleans, LA	1,184	2009	Poydras Property Holdings LLC

Source: Smith Travel Research

Orlando

Regions and Markets

Introduction

The lodging industry in Orlando is projected to experience its fourth consecutive year of positive RevPAR gains in 2007 as hotels achieve moderate increases in ADR, while occupancy remains relatively unchanged relative to 2006. Based on year-to-date October 2007 data from Smith Travel Research, RevPAR is estimated at US$71 in 2007, a rise of 5% compared to the previous year. While ADR in 2007 is expected to increase by 5.2% to US$106, occupancy is expected to decline by 0.1 percentage points to 67.5%.

Hot Topics

Convention Activity – Strong Year Anticipated

The Orlando convention market typically exhibits a strong cyclical pattern every other year because of the rotational bookings of major citywide events. Following a slow 2007, Orlando is anticipated to see an upswing of approximately 3% to 4% in convention activity this year, driven by the return of large group and industry conventions. Growth in demand is anticipated to be satisfied by recent convention hotel openings, such as the 1,500-room Rosen Shingle Creek Hotel, renovations to existing properties, and the addition of approximately 600,000 square feet of meeting space to the market in 2007.

Visitation – International Demand Growth Continues to Be Strong

Total airport arrivals at the Orlando International Airport increased moderately in 2007, spurred by added service from European gateway cities, most notably London and Frankfurt.[86] As a result of the strong performance of the euro as compared to the US dollar, international arrivals grew approximately 4.8% in 2007 compared to 2006 and should continue to grow in 2008 as airlines such as Virgin Atlantic increase the number of flights to the city. Meanwhile, domestic visitation increased 3.8% in 2007 and is expected to continue to increase two to three percentage points

86 Garcia, Jason. "British Airways Adds More OIA Flights." *Orlando Sentinel.* 20 September 2007.

in 2008 as new attractions at theme parks such as Aquatica Waterpark at Seaworld and greater convention activity continue to drive domestic demand. Overall, Orlando visitation is anticipated to pass the 50-million visitor mark in 2008.

Orlando's Luxury Segment – Gauging the Level of Luxury Demand

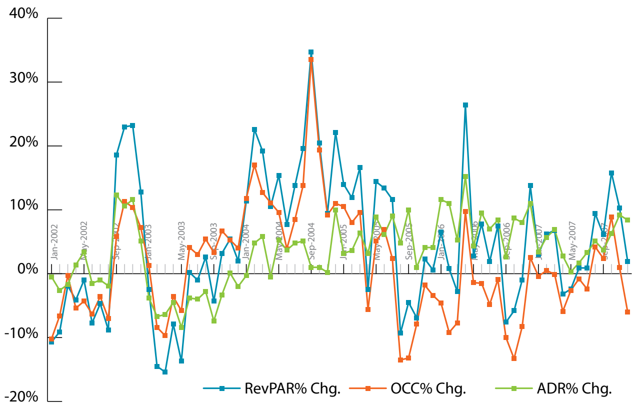
Long known as a family-oriented leisure market and a convention market, Orlando has recently exhibited trends that support the addition of more luxury hotel rooms to satisfy the demand from more affluent travelers. The introduction of numerous fine dining restaurants, upscale shopping centers, branded golf courses, and full service spas, in addition to the opening of the Ritz-Carlton Orlando in 2003, suggests that Orlando is ready for more luxury players although the depth of the market remains untested. No luxury hotels or resorts are projected to open in 2008 though approximately 900 luxury hotel rooms are currently under construction or planned in the next three years, most notably Disney's announced Four Seasons Resort and the Waldorf-Astoria Bonnet Creek. Further, numerous upper-upscale hotels are improving their facilities through renovations and the addition of new amenities, including spas and fitness centers, in an attempt to satisfy visitors' demand for a heightened product offering.

Condominium Rentals – Another Hand in the Lodging Market's Cookie Jar?

The active second-home real estate market of recent years may have an impact on Orlando's lodging market in the short term. The addition of approximately 3,750 to 4,250 condominium-hotel units in 2007 and 2008, the majority of which are anticipated to be available for short-term transient rentals and offer resort-like amenities, combined with the approximately 26,000 timeshare units already available in Orlando, may negatively affect demand for traditional lodging accommodations. In fact, according to the Orlando Convention and Visitors Bureau, the portion of overnight visitors staying in hotels decreased from 68% in 2005 to 65% in 2006. While 2007 figures are not yet available, hotel operators have reported a slight decrease in average length of stay year-to-date, a possible sign of condominium and timeshare units working their way into the transient lodging market. With additional condominium and

Orlando Lodging Market
Change in Monthly Occupancy, ADR, RevPAR Performance
January 2002 – December 2007

Source: Smith Travel Research
Lodging Supply Reports



condominium-hotel units opening in 2008, it is anticipated that condominium-hotel rentals will play a larger role in the transient lodging market.

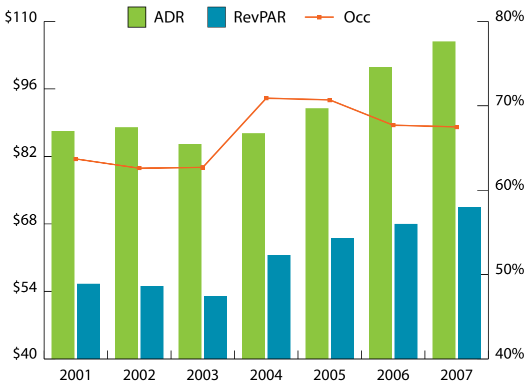
Orlando's Theme Parks – Will New Attractions Boost Attendance, Visitation, and Lodging Demand?

Despite successful marketing efforts, the absence of major new rides or attractions during the past one to two seasons may have limited attendance growth at Orlando's amusement parks. In 2008, however, new rides and attractions could boost park attendance and perhaps lodging demand in the third quarter. Most notable is the 2008 opening of the Aquatica Waterpark at Sea World and "The Simpsons" ride at Universal Studios. Meanwhile, Disney is likely to keep driving attendance growth through packaged vacation experiences, which include the increasingly popular Disney Magical Express, and the continuation of 2007's marketing campaign for "A Year of a Million Dreams."[87]

87 Coates, Greg. "Disney Conjures Up a Million More Dreams for 2008." *The Toronto Star.* 13 October 2007.

Orlando Lodging Market Occupancy, ADR, RevPAR Performance 2001 – 2007

Source: Smith Travel Research Lodging Supply Reports



Outlook

In 2008, overall lodging demand is projected to show continued growth based on international demand increases, an anticipated strong convention year, and additions to area theme parks. RevPAR growth is expected to be driven by ADR as hotels continue to raise leisure and group rates. Occupancy, however, is projected to remain stable or to decline slightly, as increases in condominium-hotel and timeshare supply continue to capture an increasing portion of transient lodging demand.

Supply Additions

Based on year-to-date September 2007 data from Smith Travel Research, the existing hotel supply in Orlando is estimated at approximately 111,300 rooms. The following chart summarizes selected major supply changes.

Property	Location	Units	Scheduled Opening Date	Developer/Owner
Westin Village of Imagine	International Drive, Orlando, FL	456	June 2008	Intrawest
Wyndham Lake Buena Vista Hotel and Spa at Bonnet Creek	Lake Buena Vista, Orlando, FL	400	Mid 2009	Fairfield Resorts
Hilton Convention Center	International Drive, Orlando, FL	1,400	October 2009	Hilton Hotels, Apollo Real Estate Advisors, RIDA Development Corp.
Waldorf Astoria Bonnet Creek	Lake Buena Vista, Orlando, FL	498	October 2009	Brooksville Development Corp., GEM Realty Capital, Merrill Lynch Global Principal Investments
Hilton Bonnet Creek	Lake Buena Vista, Orlando, FL	1,000	November 2009	Brooksville Development Corp., GEM Realty Capital, Merrill Lynch Global Principal Investments
Blue Rose Resort	International Drive, Orlando, FL	1,300	January 2010	CMA Companies
Peabody Orlando (Expansion)	International Drive, Orlando, FL	750	February 2010	Peabody Hotel Group
Palazzo del Lago (InterContinental Resort & Residences)	South International Drive, Orlando, FL	1,260	Late 2010	Hospitality Development Group, Inc.
Four Seasons Walt Disney	Walt Disney World, Orlando, FL	400	Late 2010	Walt Disney World Co.

Source: Smith Travel Research

Phoenix

Regions and Markets

Introduction

The lodging industry in Phoenix experienced relatively flat occupancy in 2007; however, strong growth in ADR has contributed to positive growth in RevPAR for the market. Major events scheduled for 2008, along with the continuation of revitalization efforts throughout downtown Phoenix, are anticipated to further growth in the city. Based on year-to-date October 2007 data from Smith Travel Research, overall occupancy is estimated to decrease by 0.9 percentage points to 67.3%, with ADR increasing by 7.2% to US$121, resulting in a RevPAR increase of 5.8% to reach US$81.

Hot Topics

Super Bowl Year – Sports Events and Venues Drive Future Seasons

Glendale, Arizona, hosted the 2008 National Football League's Super Bowl and the Fiesta Bowl college football championship at the University of Phoenix Stadium. The 2008 Insight Bowl college football championship will take place in Phoenix. According to the Los Angeles Sports and Entertainment Commission, the Super Bowl is estimated to generate between US$300 and US$350 million in economic impact.[88] In addition, three Major League Baseball clubs have committed to moving their spring training homes to the Phoenix area for the 2009 Spring Training season. The Cleveland Indians plan to construct a 10,000-seat ballpark, 38,000-square-foot clubhouse, six full practice fields, two half practice fields, and an agility field in Goodyear, Arizona.[89] The Los Angeles Dodgers will relocate to Glendale, Arizona, to share a new facility with the Chicago White Sox. The shared facility will include a 12,000-seat stadium and six practice fields for each team.[90]

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

Phase II of the US$600 million expansion of the Phoenix Convention Center is scheduled to open in May 2009. Upon completion, the center will feature a total of approximately 1.2 million square feet of space, a light rail station, and an underground exhibit hall, as well as 50,000 square feet of newly renovated meeting room space. Phase I, which was completed in July 2006, included the new West Building with 400,000 square

88 Gintonio, Jim. "In Battle for Big Games, Stadium Reaches for Title." *The Arizona Republic.* 7 January 2007.

89 Suttell, Scott. "Arizona Training Complex Will Offer Team More Modern Amenities." *Crain's Cleveland Business.* 19 March 2007.

90 Shaikin, Bill. "For Dodgers, Spring is in the Air." *Los Angeles Times.* 15 February 2007.

Phoenix

feet of space.[91] A continuing concern for local tourism industry participants is the lack of lodging for conventions, particularly those hosted at the new facility. In 2009, the downtown area will have approximately 2,900 hotel rooms in the immediate area whereas the Convention Center will be able to host 10,000 people, leaving a large deficit for convention planners to consider during the process of selecting a venue.[92]

Light Rail – Linking Downtown

Construction of the initial 20-mile light rail line that links midtown and downtown Phoenix with Sky Harbor Airport and downtown Tempe is scheduled to be completed in December 2008.[93] The line's north end begins at Phoenix Spectrum Mall and runs along Camelback Road to the east and south through midtown and downtown Phoenix. In the heart of downtown, at Central Avenue and Washington Street, the route turns east to Sky Harbor Airport and Arizona State University and terminates in West Mesa. The line links three communities, as well as the main campus of Arizona State University with its growing downtown Phoenix Campus.

Arizona State University's Downtown Focus

Arizona State University (ASU) is continuing its focus on developing a prominent downtown campus. In 2006, city residents voted to spend US$220 million in bond money to assist in the development of the campus. The university reports a 22% growth in students on the downtown campus, double the number targeted by the university

91 Blair, Scott and Tom McClure. "Features: Southwest Contractor 2006 Top Projects Arizona." *Southwest Contractor.* 1 June 2007.

92 Paterik, Stephanie. "Lack of Hotel Rooms Challenges Downtown." *The Arizona Republic.* 20 November 2006.

93 "Light Rail Update." Valley Metro Org. Summer 2007.

for 2007. ASU plans to add several buildings to the campus during the next few years to accommodate this growth. In 2008, a US$71 million journalism school and the first phase of a US$150 million dormitory project are anticipated to open. The nursing school will begin construction in 2008 on a US$15 million complex to house classrooms and offices.[94] The university currently has more than 64,000 students, which is projected to grow to 90,000 by 2020,[95] further generating potential lodging demand.

Major Developments

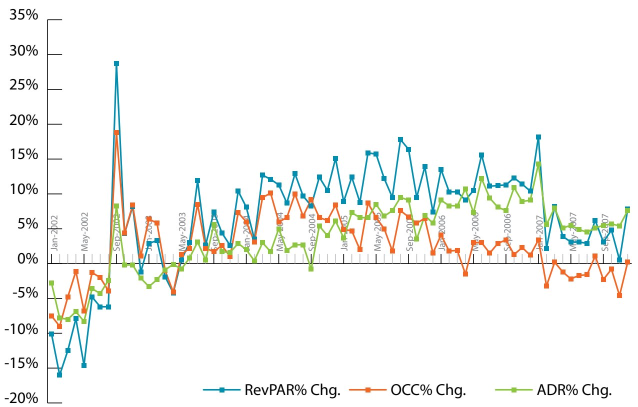
The Downtown Sheraton in Phoenix "topped out" in August 2007, which marked a significant milestone for hotel supply in the downtown area. The Sheraton will add 1,000 hotel rooms, and 80,000 square feet of meeting space, including a 30,000-square-foot ballroom and 15,000-square-foot junior ballroom. The project was financed with US$350 million in revenue bonds issued by the City of Phoenix. Upon its targeted opening in October 2008, the hotel will offer the greatest number of

94 Berry, Jahna. "Year-Old Campus Plays Key Role in Area Revitalization." *The Arizona Republic.* 3 October 2007.

95 Finder, Alan. "Sun Belt Growth is Playing Out on Campus," *The New York Times.* 6 October 2007.

Phoenix Lodging Market
Change in Monthly Occupancy, ADR, RevPAR Performance
January 2002 – December 2007

Source: Smith Travel Research
Lodging Supply Reports



rooms of any hotel in Arizona and will be the first hotel in the downtown area to be built since 1976.[96]

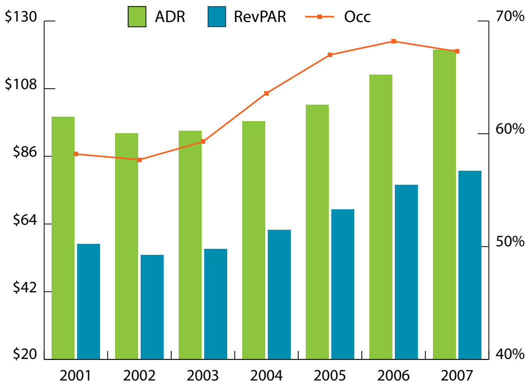
Outside the downtown area, the JW Marriott Desert Ridge Resort and Spa in northeast Phoenix is expanding after five years in operation. To address the increase in demand, the JW Marriott plans to break ground on 150 new suites by mid-2008. The plans also call for a 25,000-square-foot ballroom that is already under construction and is expected to be completed by February 2008.

Also in northeast Phoenix is CityNorth, a mixed-use master-planned community situated on a 144-acre parcel of land. The current master plan for the project features more than 7.8 million square feet of office, residential, retail, hotel, and restaurant space. The hotel component is projected to feature a total of 250 guest rooms falling into several different hotel categories. The hotels will vary from boutique to super-luxury to business-oriented brands. The hotel component will also feature 50 one-, two- and three-bedroom residences for sale,

96 Berry, Jahna. " Construction Tops Out at New Hotel," *The Arizona Republic.* 15 August 2007.

Phoenix Lodging Market
Occupancy, ADR, RevPAR
Performance 2001 – 2007

Source: Smith Travel Research
Lodging Supply Reports



four restaurants (including a poolside grille and café), and a 40,000-square-foot Equinox Sports Club and Spa. Phase I, including the retail, restaurant, office, and residential units, is currently under construction and slated to open in second quarter 2008.[97]

Outlook

With key demand generators such as the completion of the Phoenix Convention Center, the light rail line, and scheduled national events planned through the high season, the performance of Phoenix's lodging industry is projected to improve in 2008. The number of new hotels is expected to increase during the next few years to accommodate the increasing demand. In his October 2007 State of the City address, Phoenix Mayor Phil Gordon called on the hotel industry to add 1,000 rooms to the current stock and indicated that if the private sector did not do so, then the City of Phoenix would, as seen in the case of the new 1,000-room Sheraton nearing completion.[98] The continued attraction of national events is contributing to the demand and is anticipated to further economic growth in the Phoenix Area.

Supply Additions

Based on year-to-date September 2007 data from Smith Travel Research, the existing hotel supply is estimated at approximately 52,100 rooms. The following chart summarizes selected major supply changes.

97 Meyer, Julie. " City North Celebrates Groundbreaking in Northeast Valley." The Lavidge Company. 15 November 2006.

98 Berry, Jahna. " Gordon Wants ASU's Law School Downtown, Joined by More Hotels." *The Arizona Republic.* 31 October 2007.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Hilton Garden Inn	Avondale, AZ	123	February 2007	DH Ventures
Renaissance Glendale Hotel & Spa	Glendale, AZ	320	October 2007	John Q Hammons Hotels Inc.
Residence Inn Phoenix-Glendale	Phoenix, AZ	126	October 2007	The Law Company
Homewood Suites	Avondale, AZ	123	November 2007	DH Ventures
Radisson Glendale	Glendale, AZ	120	January 2008	Not Available
Staybridge Suites Phoenix-Glendale	Glendale, AZ	116	January 2008	Holtra Construction, LLC
Residence Inn Phoenix North Black Canyon	Phoenix, AZ	129	January 2008	White Lodging Services
Sundial Resort	Scottsdale, AZ	54	January 2008	Sundial Resorts
Hilton Resort & Conference Center	Fountain Hills, AZ	196	January 2008	DFD Architecture
W Hotel & Residences Scottsdale	Scottsdale, AZ	225	February 2008	Downtown Scottsdale Developers LLC
Hyatt Place Gilbert	Gilbert, AZ	127	February 2008	Hyatt Corporation
Hampton Inn & Suites Glendale Westgate	Glendale, AZ	120	March 2008	North Central Management Corp.
CityNorth	Scottsdale, AZ	250	March 2008	Related Urban
Embassy Suites Phoenix Glendale	Glendale, AZ	272	April 2008	Northwest Hospitality Group, LLC
Homewood Suites Airport	Phoenix, AZ	125	April 2008	Cotton Center Hospitality
Hilton Garden Inn Phoenix North Happy Valley	Phoenix, AZ	126	April 2008	Chew – Fisher Capital Investments
Montelucia – InterContinental Resort & Spa	Paradise Valley, AZ	293	May 2008	Crown Realty & Development
Renaissance ClubSport Hotel	Chandler, AZ	243	August 2008	Signature RCS Chandler LLC
Aloft Hotel Glendale at the Gateway Center	Glendale, AZ	120	August 2008	Glendale 13.5 LLC
Sheraton Phoenix Convention Center	Phoenix, AZ	1,000	October 2008	City of Phoenix
Hotel Monroe	Phoenix, AZ	150	October 2008	Grace Communities
Homewood Suites Phoenix (I-17)	Phoenix, AZ	120	November 2008	Ryan Companies US, Inc.
Hilton Phoenix Chandler	Chandler, AZ	197	December 2008	Western International
Aloft Hotel Tempe	Tempe, AZ	139	January 2009	Triyar Hospitality
Embassy Suites Chandler	Chandler, AZ	200	January 2009	Cyburt Hall Partners
Aloft Hotel Phoenix Airport	Phoenix, AZ	143	February 2009	Corporex Properties
Le Meridien Hotel Hayden Ferry Lakeside	Tempe, AZ	183	August 2009	Suncor Development

Source: Smith Travel Research

San Diego

Regions and Markets

Introduction

The San Diego lodging market continued to experience healthy fundamentals in 2007. Despite uncertainty about the strength of the local economy, demand generators such as casino developments, convention business, and the growing cruise industry are anticipated to sustain the lodging market. Based on year-to-date October 2007 data from Smith Travel Research, we estimate overall occupancy to decrease by 0.4 percentage points to 72.9%, with ADR increasing by 6.2% to US$139, resulting in a RevPAR increase of 5.6% to reach US$101.

Hot Topics

Slowing of Housing Market – Increasing Unemployment

In August 2007, 19% fewer homes were sold in San Diego County than in the corresponding period the previous year. Home prices were nearly 8% lower, based on the Standard & Poor's/Case-Shiller Index. The slowing market has prompted developers to cancel residential projects. In September 2007, only 211 single-family housing permits were issued, the lowest monthly number since January 1933.[99] Job losses in construction and real estate pushed the local unemployment rate above the national rate for the first time in seven years. Rising regional unemployment was 4.8% in July 2007 compared to 4.6% nationwide. In 2006, construction and real estate-related jobs represented 9.5% of the jobs in the San Diego region and 27% of jobs gained regionally since 2002.[100]

California Wildfires – Effects and Aftereffects

San Diego was affected by the wildfires that occurred throughout Southern California in October 2007. Hotels ran at full capacity due to in-place business and a high volume of evacuees seeking shelter. Evacuees were charged low rates and filled vacancies. Weekend leisure business was impacted due to highway disruption, congestion, and smoke levels.[101] Many attractions, such as San Diego Wild Animal Park, Sea World San Diego, Harbor Excursions, Old Town Trolley Tours/Seal Tours, and the Museum of Contemporary

99 Calbreath, Dean. "S.D. Economic Forecast Looks 'Pretty Bad.'" *The San Diego Union Tribune.* 28 September 2007.

100 Eastman, Quinn. "Job Losses Mount as Real Estate Declines." *North County Times.* 8 October 2007.

101 "Lodging: CA Wildfire Impact & Exposure." Wachovia Capital Markets, LLC, publication. 24 October 2007.

Art, were temporarily closed as a result of the fires.[102]

Convention Business – Expanding

San Diego continues to focus on attracting lucrative convention business, particularly medical conventions, with approximately 536 medical conventions hosted annually. During the American Academy of Orthopedic Surgeons Conference held at the San Diego Convention Center (SDCC) in February 2007, the 30,000 out-of-town visitors led to direct attendee spending of US$47 million with an overall economic impact of nearly US$113 million. In June 2008, San Diego expects to host the world's largest annual gathering of life science companies, where it is estimated that more than 24,000 industry attendees will spend US$37.6 million.[103] Based on its 2007 forecast, the SDCC projects a record-breaking year with regard to economic impact, event attendance, and building occupancy. Of the conventions booked in 2007, 65 are anticipated to generate a record US$1.6 billion in regional impact, representing a 16% rise over the previous year, while total tax revenues generated by events at the center are expected to exceed US$25.1 million, up from US$24.9 million in 2006.[104] Major lodging developments are being added to support the expansion of the convention business, including the 1,190-room Hilton San Diego Convention Center Hotel, which is anticipated to open by the end of 2008.

102 San Diego Travel Tips Team. "San Diego Fires Closures." www.sandiegotraveltips.com, 24 October 2007.

103 Weeks, Katie. "Race Is on to Book Hotel Rooms, Reception Venues for BIO'08 Events." *San Diego Business Journal.* 21 May 2007.

104 Broderick, Pat. "Boutique Hotels Take Heaping Portion of Meetings Market." *San Diego Business Journal.* 4 June 2007.

Casino Resorts – New Developments

The Viejas Band of Kumeyaay Indians announced in August 2007 that it plans to build a US$800 million casino-hotel resort, the most expensive in the state, just east of its existing 2,500-slot machine casino and outlet mall. The new resort, 35 miles from downtown San Diego, will feature 2,500 slot machines (slots), a 600-room hotel, pool, spa, shops, restaurants, conference center, multiplex movie theater, two parking structures, and a new power plant. Construction is scheduled for completion by 2012.[105] In total, Native American casinos generated approximately US$7.7 billion in revenue for California in 2006, and San Diego County has more of them than any other US county. The county's 10 casinos, with approximately 13,500 slots, range from large resorts with hotels and fine restaurants to rural facilities. Total annual revenues are estimated at US$1.7 billion.[106]

Outlook

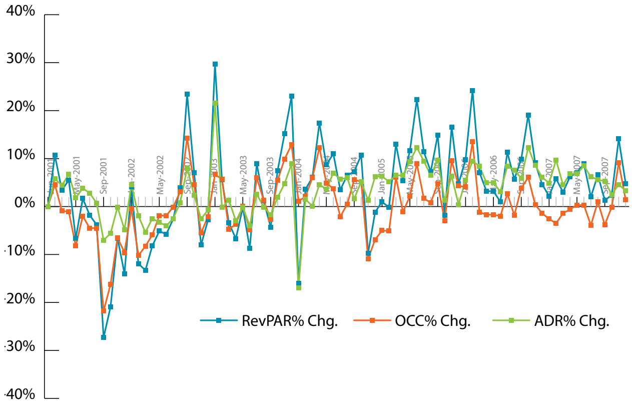
The San Diego lodging industry is projected to remain strong in 2008. The growing convention business and gaming industry are anticipated to attract additional visitors to the region. Continued hotel renovations and new developments, along with the opening of the convention center hotel in 2008, are making San Diego more competitive as a convention destination for the coming years.

105 Soto, Onell R. "Viejas Band Plans to Add US$800 Million Casino Resort." *The San Diego Union Tribune.* 24 August 2007.

106 Soto, Onell R. "S.D. Gambling Brings in US$1.7 Billion." *The San Diego Union Tribune.* 28 June 2007.

San Diego Lodging Market
Change in Monthly Occupancy,
ADR, RevPAR Performance
January 2002 – December 2007

Source: Smith Travel Research
Lodging Supply Reports



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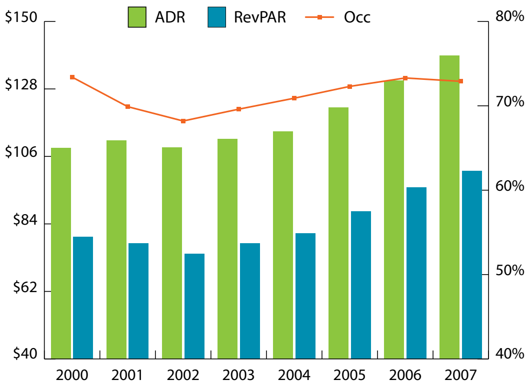
Source: Smith Travel Research
Lodging Supply Reports



Supply Additions

Based on year-to-date September 2007 data from Smith Travel Research, the existing hotel supply is estimated at approximately 54,100 rooms. The following chart summarizes selected major supply changes.

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Residence Inn	Oceanside, CA	125	July 2007	R D Olson Development
Courtyard	San Diego, CA	200	August 2007	Awbrey Cook Mcgill Architects
The Grand Del Mar Lodge	San Diego, CA	261	October 2007	Manchester Development
Hard Rock Hotel	San Diego, CA	420	November 2007	Tarsadia Hotel Inc.
Spinnaker Hotel	San Diego, CA	250	Late 2007	Fifth Avenue Landing, LLC
Sunroad Harbor Island Hotel	San Diego, CA	600	Not Available	Sunroad Enterprises
Sheraton Carlsbad Resort	Carlsbad, CA	250	January 2008	Grand Pacific Resorts
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
Westin La Jolla	La Jolla, CA	327	June 2009	Not Available
Marriott Hotel	Escondido, CA	198	November 2009	City of Escondido and C.W. Clark Inc.
InterContinental	San Diego, CA	550	2010	Manchester Development
Nickelodeon Family Resort Hotel	San Diego, CA	650	January 2010	McMillin Companies
Westin Oceanside Hotel	Oceanside, CA	289	April 2010	S.D. Malkin Properties and Interstate Hotels & Resorts

Source: Smith Travel Research

San Francisco

Regions and Markets

Introduction

Voted once again the top US city destination by Condé Nast Traveler in 2007, San Francisco continued to experience healthy lodging fundamentals in 2007, largely due to a booming tourism industry coupled with limited supply. The city's strengthening economy, as indicated by a 2.1% increase in employment levels between August 2006 and September 2007, also assisted in bolstering these fundamentals.[107] *Based on year-to-date October 2007 data from Smith Travel Research, we estimate that overall occupancy will increase by 2.4 percentage points to 75.3%, with ADR increasing by 8% to US$149, resulting in a RevPAR increase of 11.5% to US$112.*

Hot Topics

San Francisco Economy – Technology Sector Fuels Job Growth

San Francisco's economy grew at a solid pace in 2007 as the city's recovering technology sector continued to fuel job growth. According to the California State Employment Department, the San Francisco Metro Area added nearly 20,700 jobs from August 2006 to September 2007, placing it 25th among US metro areas in terms of job creation. During the next five years, employment levels are anticipated to grow at an average annual rate of 1.1%.[108] Wages have also continued to rise for San Francisco Bay Area workers, largely due to the city's strategic position in the global technology sector. In 2006, wages in the San Francisco metro area were 19% above the national average, the highest in the nation.[109]

Convention Activity – Banner Year Ahead

As a result of the normal cycle of convention rotations, 2007 was a relatively lackluster year for San Francisco's convention business as hotel room nights booked for the year declined nearly 13% versus 2006.[110] However, 2008 is anticipated to be one of the city's biggest convention seasons, with more than 900,000 hotel room nights booked, compared to 740,000 in 2007, and an estimated 16 million visitors expected to travel to the city.[111]

107 Simmers, Tim. "Local Job Growth Still Leads State." *Oakland Tribune.* 22 September 2007.

108 "San Francisco – Overview." *TWR Hotel Outlook.* Fall 2007.

109 Zuckerman, Sam. "We're Rich!" *San Francisco Chronicle.* 27 September 2007.

110 Tate, Ryan. "Hotels See Room for Improvement." *San Francisco Business Times.* 29 December 2006.

111 Tate, Ryan. "Conventions, Tourism Set to Smash Records." *San Francisco Business Times.* 24 August 2007.

San Francisco

Likewise, the next few years look promising for San Francisco. During the 2006 – 2007 fiscal year, the San Francisco Convention and Visitors Bureau booked a record-breaking 1,121 convention groups and meetings at the Moscone Convention Center over the next 21 years, representing a total of 2,158,921 hotel room nights and an estimated citywide economic impact of US$1.7 billion.[112]

Airports – More Passenger Traffic and International Air Routes

Increasing passenger traffic and an influx of low-fare carriers have led to discussions of expansion plans for the San Francisco International Airport (SFO). More specifically, airport officials are deciding whether to give the airport's old international terminal, which has been closed since 2000 and used for office space, a US$250 million renovation that would allow SFO to accommodate more domestic traffic by adding up to 14 new gates. According to airport officials, domestic passenger traffic increased 2% from September 2006 to September 2007 while international passenger traffic increased 8%.[113] These numbers are anticipated to rise in the coming years, partly due to the launch of new services from low-fare carriers such as Virgin America and JetBlue Airways, as well

112 "San Francisco Convention & Visitors Bureau 2006-2007 Year-end Highlights." www.sfcvb.org/travel_media/press.asp?rid=385&cid=1. 13 August2007.

113 Simmers, Tim. "More Traffic Prompts SFO to Plan Growth." *The Oakland Tribune.* 18 September 2007.

as to additional international air routes. In particular, US-to-China air routes are expected to be SFO's fastest growing market, spurred by China's booming economy. Currently, there are six daily flights from SFO to Hong Kong and mainland China that offer more than 10,000 seats weekly, a 34% increase since 2006.[114] SFO also welcomed the world's largest passenger jetliner in 2007 after constructing a US$900 million international terminal with two-level gateways specifically designed to accommodate it.[115] Known as the Airbus A380, the double-deck, four-engine jumbo jet can seat more than 800 passengers. Airbus officials anticipate that the Airbus A380 will be used for commercial flights by the middle of 2008, with one or two such planes arriving at SFO daily.[116]

Strong Office Market – Future Growth in Rents More Moderate, Sustainable

Office market fundamentals continued to strengthen during the third quarter of 2007, with rents averaging US$39 per square foot, a 24.2% increase over the corresponding period the previous year. Furthermore, vacancy averaged 8.2%, compared with 20% from 2000 to 2003.[117] As a result of growing demand from the technology and biotechnology industries, as well as positive job growth, occupancies and rents are anticipated to remain strong through 2008

114 Simmers, Tim. "US-to-China Air Routes Seen as the Fastest Growing at SFO." *The Oakland Tribune.* 19 October 2007.

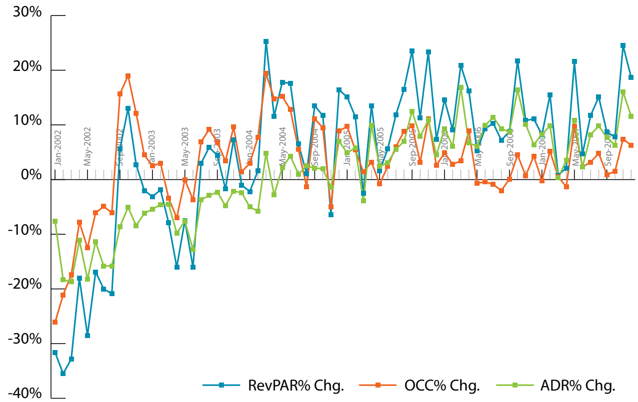
115 Armstrong, David. "A Whole New Magic Carpet Ride, SFO Up and Ready for 2006 Arrival of Airbus A380." *San Francisco Chronicle.* 27 January 2005.

116 Ostrom, Mary Anne. "Super Jumbo Jet Lands in S.F." *The Mercury News.* 5 October 2007.

117 Levy, Dan. "Commercial Rents Pick Up." *San Francisco Chronicle.* 7 October 2005.

San Francisco Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance January 2002 – December 2007

Source: Smith Travel Research
Lodging Supply Reports



despite new office developments that will add approximately 2,154,000 square feet in 2008 and another 963,000 square feet in 2009.[118] However, rents are anticipated to grow at a slower, more sustainable pace. Grubb and Ellis forecasts that rents will experience an average annual growth rate of 10% during the next few years.[119]

Renovations – Raising Market Standards and Rates

Several San Francisco hotels underwent multi-million-dollar renovations in 2007, including the Sheraton at Fisherman's Wharf (US$33 million), Stanford Court, a Renaissance Hotel (US$32 million), Parc 55 Hotel (US$25 million), Sir Francis Drake Hotel (US$20 million), Hilton San Francisco (US$13 million), San Francisco Marriott (US$12 million), Omni San Francisco (US$6 million), and W San Francisco (cost not disclosed). The 676-room Argent Hotel also underwent a US$30 million renovation as it was repositioned to become the Westin San Francisco Market Street. In 2008, the 183-room Villa Florence Hotel is anticipated to undergo major renovations as well, and to be reflagged as a four-star hotel. In the coming years, these repositionings and renovations are anticipated to increase ADR and to usher in a new wave of hotel upgrades. [120]

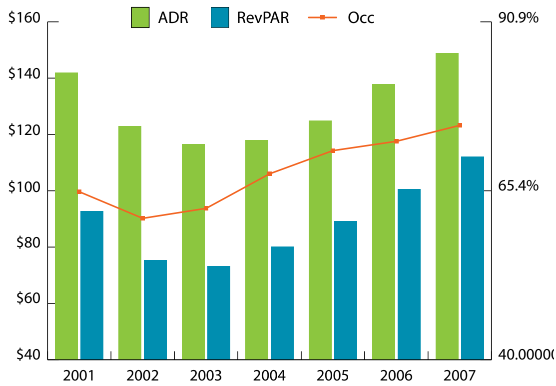
118 CB Richard Ellis. *Market Review: San Francisco Office.* Third Quarter 2007.

119 Grubb & Ellis. *Office Market Trends San Francisco.* Third Quarter 2007.

120 "San Francisco Hotel Updates and Upgrades." Travel Writers News.com. 31 July 2007.

San Francisco Lodging Market Occupancy, ADR, RevPAR Performance 2001 – 2007

Source: Smith Travel Research Lodging Supply Reports



Outlook

The San Francisco lodging industry is expected to have another strong year in 2008 with high occupancy rates and increasing ADR due to growing demand and limited supply. Major demand generators include a busy convention season, an increase in international and domestic visitors, and a tight office market. Recent hotel renovations are also anticipated to increase ADR.

Supply Additions

Based on year-to-date September 2007 data from Smith Travel Research, the existing hotel supply is estimated at approximately 50,400 rooms. The following chart summarizes selected major supply changes.

Property	Location	Units	Scheduled Opening Date	Developer/Owner
InterContinental Hotel	San Francisco, CA	554	February 2008	Continental Development
Hyatt Place	South San Francisco, CA	159	September 2008	Global Hyatt Corporation
Sheraton San Francisco Convention Center Hotel	San Francisco, CA	To Be Decided	Early 2008	Starwood Hotels and Resorts Worldwide, Inc.
Millennium Tower @ 301 Mission	San Francisco, CA	120	August 2008	Millennium Partners
Hotel SoMa	San Francisco, CA	64	To Be Decided	Metrovation
Aloft Hotel San Francisco Airport	San Francisco, CA	138	To Be Decided	Gatehouse Capital
Aloft Hotel Millbrae	Millbrae, CA	167	To Be Decided	Starwood Hotels and Resorts Worldwide, Inc.
Element Millbrae	Millbrae, CA	124	To Be Decided	Starwood Hotels and Resorts Worldwide, Inc.

Source: Smith Travel Research, Market Media

Washington, DC

Regions and Markets

Introduction

In 2007, the Washington, DC, metropolitan market experienced moderate improvement in lodging fundamentals as a result of continued strong corporate demand from a healthy office market and improvements in tourism. According to data from Smith Travel Research, RevPAR for the Washington, DC, area increased by approximately 6.6% through October 2007 versus the same period in 2006, due primarily to a strong improvement in ADR coupled with a marginal increase in occupancy. For year-to-date October 2007, Washington, DC, achieved occupancy of approximately 71.4%, an increase of 0.7 percentage points versus the same period in 2006, while ADR surpassed US$150, an increase of 5.7% against the same period in 2006.

Hot Topics

Elections 2008 – Regardless of the Outcome, the DC Lodging Market Is Likely to Win

Major election years have historically been strong years for the Washington, DC, lodging market, due to demand associated with election-related events and activities. In 2004, when elections for president, the Senate, and the House of Representatives took place, RevPAR increased 13.7% versus the previous year, according to data from Smith Travel Research. The lodging market improved due to recovery from 9/11, the anthrax scare in 2001, and the beltway sniper attacks that took place in 2002, which contributed to significant RevPAR increases in 2004. Similarly, in 2008, the Washington, DC, market is anticipated to experience strong RevPAR growth, particularly in terms of ADR.

Office Market – Diversification Cushions Negative Economic Effects

As of the third quarter of 2007, office vacancy and rental rates for the Washington, DC, market set new records, achieving a vacancy rate of 5.9% (a six-year low) and a class-A rental rate of more than US$52 (a record high), according to Cushman and Wakefield. The office market is expected to continue to achieve strong performance due to the diverse mix of office tenants, combined with accelerated job growth. Approximately 8,000 new jobs were added between October 2006 and September 2007.[121]

121 Cushman and Wakefield. "Washington, DC Office Overview." *Marketbeat Snapshot.* 3Q 2007.

Washington, DC

Per Diem Rates – Government Rates Remain Steady at All-Time Highs

Government per diem rates in Washington, DC, have experienced healthy increases in recent years, with rates rising approximately US$10 between fiscal year 2006 and January 2007, or approximately 4.6%. Per diem rates remained relatively steady during 2007, with a modest average annual increase of approximately US$5.50 per room night, or 2.3%, to slightly less than $250 per room night. For January through September 2008, per diem rates are anticipated to increase by approximately US$5 per room night, or 2%, to US$254.[122] The relatively slow growth may positively impact hotels in the suburban areas, which rely on compression resulting from downtown Washington, DC hotels charging rates above the per diem rate. As per diem rates plateau, government business may become less attractive for the downtown market.

Construction Boom – Mixed-Use and Office Construction Should Improve Lodging Demand

According to the Washington, DC, Economic Partnership, more than US$15.2 billion of mixed-use development projects have been completed in the area since 2001, with approximately US$7.5 billion of additional developments under construction as of mid-2007. Additionally, approximately US$8 billion to US$10 billion of new construction is projected to be generated by the government by 2011. According

122 "US General Services Administration, Domestic Per Diem Rates." www.gsa.gov.

to Cushman and Wakefield, three office projects were begun in mid-2007, increasing the total Washington, DC, office pipeline to approximately five million square feet.

Visitation – Area Visitation Anticipated to Decrease Marginally in the Coming Years

The Washington, DC, Convention and Tourism Corporation forecasts that area visitation will decrease marginally by approximately 150,000 visitors during the next two years to 14.9 million visitors in 2009. Factors contributing to the anticipated decrease include slowing personal income growth in the US, particularly in major Washington, DC, feeder markets, as well as increases in the cost of travel (e.g., airfare, gasoline, and so on). This outlook is supported by historical and future forecasts of Washington, DC lodging trends of RevPAR growth primarily through ADR.

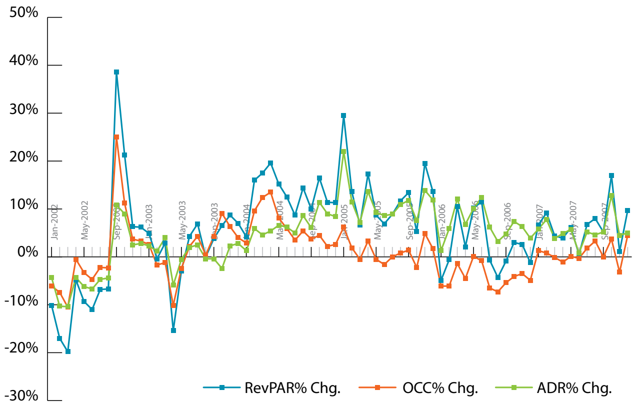
Outlook

The overall outlook for the Washington, DC, lodging market is strong, with key indicators, including employment and construction, showing signs of growth, and the government per diem rate expected to rise. Area activity generated by the 2008 elections should further accelerate lodging performance through late 2008. Furthermore, additional lodging demand is anticipated in the coming years with the completion of the five million square feet of office space currently under construction.

According to Smith Travel Research, as of October 2007, the Washington, DC, metropolitan lodging market consisted of approximately 92,000 hotel rooms, with a net increase of approximately 500 hotel rooms between late 2006 and October 2007. Additionally, as of that time, approximately 7,000 hotel rooms were under construction, representing an approximate 7.5% increase in supply, including the 2,000-room Gaylord National Resort Convention Center Hotel and the 1,150-room Marriott Marquis Hotel Convention Center, anticipated to enter the market in 2008 and 2011, respectively. While the increase in supply may moderately dampen the full effects of the strong lodging indicators, the Washington, DC, metropolitan lodging market should experience positive lodging fundamentals in 2008, primarily due to the 2008 elections.

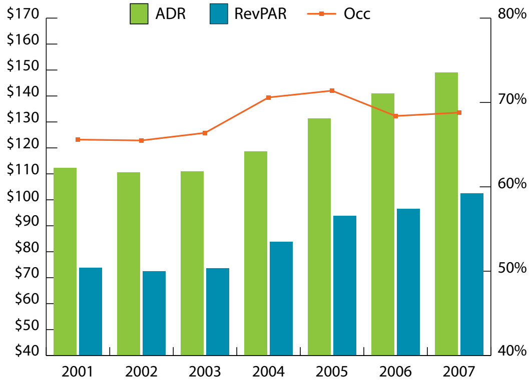
Washington DC Lodging Market
Change in Monthly Occupancy,
ADR, RevPAR Performance
January 2002 – December 2007

Source: Smith Travel Research
Lodging Supply Reports



Washington DC Lodging Market
Occupancy, ADR, RevPAR
Performance 2001 – 2007

Source: Smith Travel Research
Lodging Supply Reports



Supply Additions

The following chart summarizes selected major supply changes.

Property	Location	Units	Scheduled Opening Date	Developer/Owner
Hotel Palomar Waterview	Arlington, VA	154	November 2007	The JBG Companies
Westin Alexandria	Alexandria, VA	319	November 2007	Regent Partners
Canyon Ranch Hotel at Rock Spring Centre	Bethesda, MD	157	January 2008	The Penrose Group
Gaylord National Resort on the Potomac	Landover, MD	2,000	March 2008	Gaylord Entertainment
Westin Reston Heights	Reston, VA	319	March 2008	The JBG Companies
Westin Hotel at National Harbor	Oxon Hill, MD	195	April 2008	National Harbor Development LLC
Aloft Hotel Oxon Hill	Oxon Hill, MD	150	May 2008	Not Available
Aloft Hotel Dulles North	Ashburn, VA	136	July 2008	Not Available
Hyatt Place Dulles Station	Herndon, VA	153	September 2008	Washington Real Estate Investment Trust
Marriott Bethesda North & Conference Center (Addition)	North Bethesda, MD	225	October 2008	Marriott International
Hilton Garden Inn Bethesda	Bethesda, MD	216	November 2008	Donohoe Development Company
Aloft Hotel Chantilly	Chantilly, VA	131	December 2008	Not Available
Westin Chantilly Westfields	Chantilly, VA	211	May 2009	Not Available
1 Hotel & Residences	Washington, DC	180	June 2010	Starwood Capital Group
Marriott Marquis Hotel Convention Center	Washington, DC	1,150	June 2011	Tishman Urban Development Corporation

Source: Smith Travel Research

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