

Hotel Investment



Highlights

U.S. Transactions – 2005

February 2006

States



Arranged by Jones Lang LaSalle Hotels, the 1,639 room landmark Palmer House Hilton Hotel represents the largest hotel sale in Chicago history at \$230 million.

United

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Hotel Investment Highlights

2005 U.S. Hotel Transaction Volume Tops Previous Records at \$21 Billion

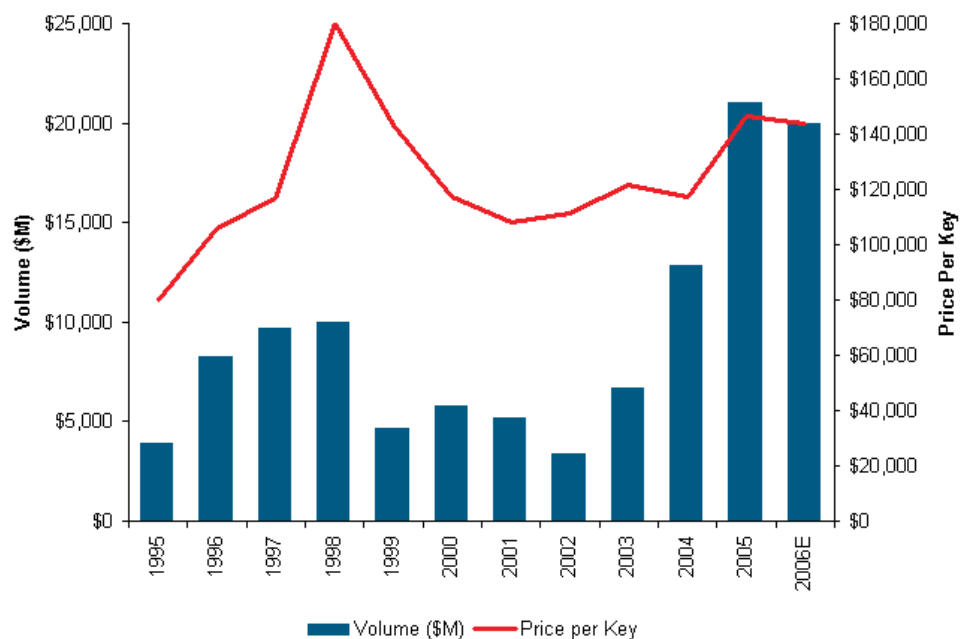
According to Jones Lang LaSalle Hotels' proprietary database which tracks transactions \$10 million and above, 218 transactions closed in 2005. These yielded an average price per key of \$146,400 and a total volume slightly over \$21 billion. The 2005 transaction volume outpaced the record-breaking \$12.9 billion in 2004 by 63% and represents approximately three times the volume of 2003, and six times that of 2002.

For a second year in a row, the lodging industry has experienced an unprecedented

level of sales activity. The positive market conditions that resulted in record-breaking transaction volume in 2004 persisted throughout 2005. These market conditions have produced an environment that has spurred the highest degree of activity in history, surpassing the once unparalleled transaction volume during the REIT boom in 1997 and 1998. The historic level of full service hotel acquisitions was propelled by improved industry fundamentals, controlled levels of new supply, high availability of both debt and equity capital, favorable risk-adjusted returns, a lacklustre stock market, and an overwhelmingly optimistic outlook for the lodging industry.

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U.S. Transaction Volume Since 1995
(Transactions \$10M and Above)



Source: Jones Lang LaSalle Hotels

“The current growth cycle is expected to be prolonged by limited supply increases, supporting hoteliers’ overwhelmingly optimistic outlook.”



Fairmont Chicago, which was arranged by Jones Lang LaSalle Hotels, sold for \$154.7 million and represents the third largest hotel sale in Chicago history.

2005 Industry Fundamentals

- » 2005 occupancy increased 2.9%, reaching 63% in 2005.⁽¹⁾
- » 2005 ADR increased 5.3%, reaching \$90.84 in 2005.⁽¹⁾
- » 2005 RevPAR increased 8.4%, reaching \$57.34.⁽¹⁾
- » 2005 supply increased by a mere 0.4%, while demand surged 3.3%.⁽¹⁾
- » Supply is expected to remain limited as a result of both high costs of construction materials and increasing land prices.
- » The capital markets have fully embraced hotels, with lenders offering more lenient terms and higher loan to value ratios. This flow of debt and equity to hotels has created an environment of significant amounts of capital hunting a limited number of assets.
- » Hotels exhibit potential for high returns over other property asset categories, many of which are still in the recovery phase. Additionally, Wall Street continues to offer uncompetitive returns in comparison to the lodging industry.
- » Rebounding business and leisure travel, as well as favorable exchange rates, encouraged foreigners to spend their money in the U.S., a critical factor in the upturn of lodging fundamentals.
- » In North America, international tourism arrivals grew 4.1% in 2005.⁽²⁾
- » The current growth cycle is expected to be prolonged by limited supply increases, supporting hoteliers’ overwhelmingly optimistic outlook that the current conditions will exist unabated through 2006 and into 2007.

Eight of the Top Ten U.S. Single Asset Transactions in 2005 Exceeded \$250 Million

Large single-asset transactions were prevalent in 2005. Of the top 10 largest transactions based on sale price, eight achieved a price of more than \$250 million. In total, the ten largest single asset transactions reached a volume of \$2.9 billion and on a per room basis averaged \$308,939, more than two times the overall average in 2005. This is down considerably, about \$141,000, in comparison to the average price per key of the top ten transactions in 2004 of \$450,000.

The high price per room in 2004 is mainly attributable to the strong price per key of the Mayflower Hotel and the Plaza Hotel in Manhattan, as well as the Fairmont Kea Lani, and the Four Seasons Maui. The Manhattan properties included underlying real estate value for residential and retail development, while the Maui properties fetched extremely high prices as a result of the overall attractiveness of Hawaii resort assets and the scarcity of product in that market.

Of the top ten single asset transactions in 2005, Strategic Hotel Capital’s sale of the 605-room Essex House in New York to Dubai Investment Group for \$440 million outpaced all other transactions in both total price and price per room by \$122 million and \$331,258 respectively. At \$727,273 per key, this value exemplifies the strength of the New York hotel market with an average occupancy of 82.9% in 2005 and an ADR of \$211.62. New York’s strong fundamentals can be moderately attributed to the lack of available land and the high cost of development, resulting in a market experiencing falling supply and rising demand. In 2005, supply decreased by 0.8%, while demand increased by 1.5%.⁽³⁾

Supply has been even further constricted in the New York market, as well as other top 25

Notes: (1) Smith Travel Research
(2) World Tourism Organization
(3) Smith Travel Research

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Top Ten Single Asset U.S. Transactions in 2005[^]

Property Name	Location	Closing Date	Sales Price	Rooms	Price Per Key	Buyer
Essex House	New York, New York	September	\$440,000,000	605	\$727,273	Dubai Investment Group
Westin Copley Place	Boston, Massachusetts	August	\$318,000,000	803	\$396,015	LaSalle Hotel Properties
Marriott Wardman Park Hotel	Washington, D.C.	June	\$300,000,000	1,334	\$224,888	Affiliate of JBG Companies, L.L.C. together with partner CIM Group
Century Plaza Hotel and Spa	Los Angeles, California	August	\$293,000,000	728	\$402,472	Sunstone Hotel Investors, Inc. and Global Hyatt Corp.
New York Marriott East Side	New York, New York	November	\$287,000,000	646	\$444,272	Morgan Stanley Real Estate (Prime Property Fund)
Waikiki Beach Marriott Resort	Oahu, Hawaii	October	\$279,000,000	1,310	\$212,977	Affiliate of Whitehall Street Global Real Estate Limited Partnership (2005)
Hyatt Regency on Capitol Hill	Washington, D.C.	September	\$274,000,000	834	\$328,537	Host Marriott Corporation
The Fairmont Orchid	Mauna Lani, Hawaii	December	\$250,000,000	540	\$462,963	Westbrook Partners
Palmer House Hilton	Chicago, Illinois	August	\$240,000,000	1,639	\$146,431	Thor Equities, LLC.
Park Central Hotel	New York, New York	January	\$215,000,000	935	\$229,946	Highgate Holdings and Goldman, Sachs & Co.

[^] Data based on non-casino, publicly disclosed transactions
Source: Jones Lang LaSalle Hotels

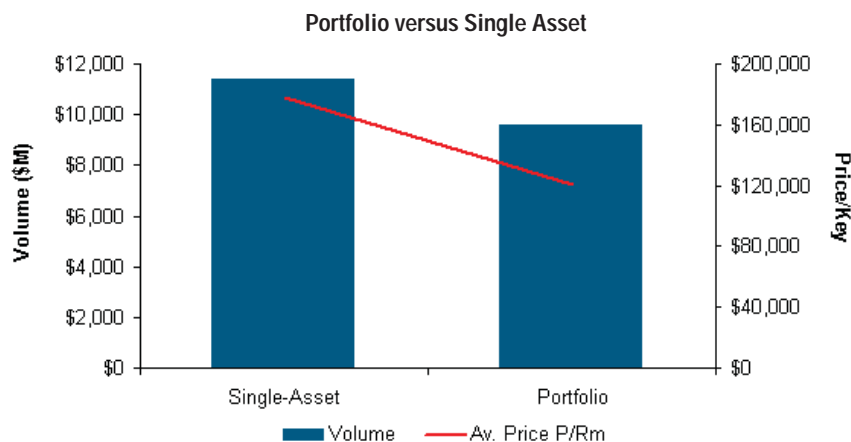
U.S. markets, due to residential conversions. A number of New York's best known hotels are undergoing condominium conversions – such as The Plaza, Stanhope Park Hyatt,* InterContinental Central Park South,* and Empire Hotel – to fulfill the high demand of the residential sector. However, of the three top 10 transactions in 2005 that involve New York hotels, none are currently being fully converted to condominiums. Dubai Investment Group announced that they plan to convert only 15% of the Essex House rooms to condo units.

The 803-room Westin Copley Place, located in a high barrier-to-entry urban location in the Back Bay market of Boston, represented the second largest single-asset transaction in 2005. Starwood Hotels and Resorts sold the property to LaSalle Hotel Properties for \$318 million.

Single Asset Transactions

In the midst of these celebrity deals, total single asset transactions reached \$11.4 billion, encompassing 54.3% of total transaction volume. Single asset transactions commanded a significantly

higher price per key relative to portfolios, with a 48% premium to portfolio transactions at \$178,279 versus \$120,737. This disparity resulted from the combination of the large number of high price per key single asset transactions, as well as the types



Source: Jones Lang LaSalle Hotels

Top Three U.S. Portfolio Transactions in 2005**

Property Name	Sale Price	Rooms	Price Per Key	Buyer	Seller
Wyndham International (29 Properties)	\$3,240,000,000	11,000	\$294,545	The Blackstone Group	Wyndham International
Wyndham International (14 Properties)	\$1,400,000,000	5,800	\$241,379	Columbia Sussex Corporation	The Blackstone Group
CTF Portfolio (27 Properties)*	\$1,398,000,000	11,825	\$118,224	Marriott International	CTF Holdings

* Marriott International separately closed an additional three properties from the CTF Hotel portfolio on a later date in 2005. These properties are not included in the sale price listed.
** Data based on publicly disclosed transactions.
Source: Jones Lang LaSalle Hotels

of portfolios that traded, which here comprised predominantly of traditional full-service and mid-priced hotels.

Portfolio Transaction Volume Nudges \$10 Billion

With a glut of capital in the market, particularly in the hands of private equity funds who have a need to place that capital, portfolio deals serve as an effective way for buyers to put it to work on an efficient basis. In addition, investors can improve their overall yield on a portfolio investment by offsetting more valuable assets with less attractive ones and then selling off the residual assets individually at a premium.

Portfolio transactions thrived in the dynamic, sophisticated marketplace of 2005, increasing by approximately \$3.1 billion over 2004 and almost four times the 2003 volume, reaching \$9.6 billion. Portfolio transactions in 2005 comprised of almost half of all hotel sales, representing a slight dip from 2004.

The Blackstone acquisition of Wyndham International accounted for almost half of the portfolio volume during 2005. Blackstone acquired Wyndham for \$3.24 billion, representing the largest portfolio deal in 2005. Blackstone then sold 14 Wyndham hotels for \$1.4 billion to Columbia Sussex Corporation,

which is converting many of the hotels to other brands (such as Marriott). Thus, the acquisition of Wyndham by Blackstone and the subsequent sale of the 14 full-service hotels totalled approximately \$4.6 billion of the \$10 billion of portfolio transactions. The transaction served as a logistical move for Blackstone, as Wyndham's resort portfolio could be effectively integrated into Blackstone's Luxury Hotels and Resorts (LXR) business. Another major portfolio transaction was Marriott International's acquisition of 27 properties from CTF holdings for nearly \$1.4 billion. Marriott then "flipped" a significant portion of these assets to Walton Street Capital.

Public Companies Disposed of Over \$8.5 Billion in Assets

Public ownership companies are increasingly rewarded for the quantity and success of their management agreements and reduced exposure to the real estate market. Thus, with public companies compelled to drive management fees and increase management based earnings for shareholders, public ownership companies divested of assets and captured high returns while maintaining control through management contracts. Consequently, public companies were the largest net seller in 2005.



Snake River Lodge exemplifies luxurious ski lodging; sale arranged by Jones Lang LaSalle Hotels.

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“The once integrated model of hotel ownership, combining property assets with the hotel operating company, is no longer the prevailing standard.”

As such, they disposed of more than \$8.5 billion in assets, representing 41.2% of all transactions in 2005.

Starwood Hotels and Resorts’ pending sale of 38 assets to Host Marriott for more than \$4 billion is reflective of Starwood’s transformation from a real estate ownership company to a company focused on hotel and brand management.

This trend is not only expanding in the U.S., but also around the globe, as international companies dedicate their focus to increasing their branded portfolio. Hotel firms are securing long term leases or management contracts and disposing of assets to free up capital for further brand expansion.

Fairmont Hotels and Resorts, InterContinental, and Hilton have arranged to shed properties worth billions of dollars in 2006 and devote their focus on managing and growing their brands, rather than owning hotels. The once integrated model of hotel ownership, combining property assets with the hotel operating company, is no longer the prevailing standard.

In addition to public companies, other asset owners took advantage of the low cap rate environment by disposing of non-strategic assets.

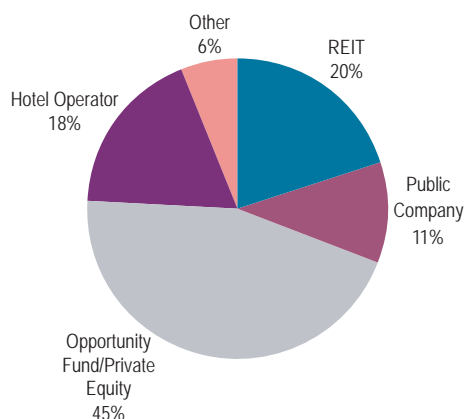
Opportunity/Private Equity funds were the second largest seller in 2005, accounting for 34% of total sales volume. The strength of the capital markets has generated a shortened hold period. Private equity funds are traditionally three-to-five year holders of real estate. However, there are several examples of this period being compressed as investors are able to enjoy high capital gains in the form of strong IRRs and multiples of invested equity in as little as 18 months. One example is The Blackstone Group’s sale of the Hyatt Regency Capitol Hill to Host Marriott.

Private Equity and Opportunity Funds Purchased Almost Half of U.S. Hotel Assets in 2005

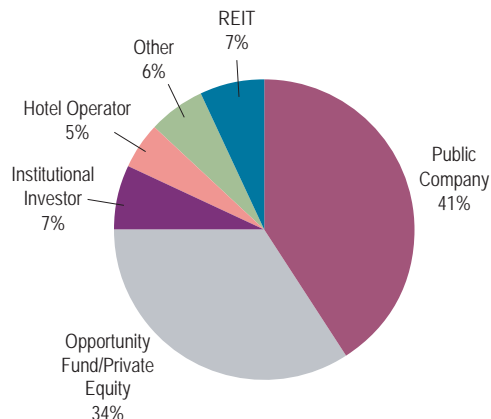
With abundant financing opportunities and low interest rates, buyers in 2005 benefited from the lodging industry’s improving fundamentals and strong risk-based return in comparison to other industries.

The current success and optimistic outlook for the lodging industry brought a wide-ranging group of buyers to the market, including investors looking to diversify their real estate portfolio, penetrate high barrier to entry

2005 Hotel Buyer Groups



2005 Hotel Seller Groups



Source: Jones Lang LaSalle Hotels

Top Sellers in 2005 included:

- » **The Blackstone Group**
- » **CNL Hotels and Resorts**
- » **InterContinental Hotels Group**
- » **Hilton Hotels Corp.**
- » **Starwood Hotels and Resorts**

Top Buyers in 2005 included:

- » **The Blackstone Group**
- » **Columbia Sussex Corp.**
- » **DiamondRock Hospitality Co.**
- » **LaSalle Hotel Properties**
- » **Sunstone Hotel Investors Inc.**

markets, build market share, or diversify into new segments of the lodging market (extended stay, select service, resorts, condo-hotels, etc.).

The growing dominance of large private equity firms, coupled with their aggressive and agile financing skills, diverse portfolios, and short term investment horizons, has caused a prominent shift in hotel ownership. Spurred by weak returns in other investment classes, private equity and opportunity funds gravitated towards hotel real estate, accounting for almost half (45%) of U.S. hotel acquisitions in 2005.

As the second most active buyer group in 2005, REITs acquired more than \$4.1 billion. To produce dividends and income growth, REITs focused on acquiring strategic, income-producing assets. Lodging REITs accessed capital through asset sales and continued to raise a significant amount of funds through capital markets. Last year, lodging REITs raised \$950 million in debt, \$1.1 billion in secondary common and preferred equity, and \$313 million in initial equity offerings.⁽⁴⁾ Moreover, between March 2004 and December 2005, the number of lodging and resort REITs increased from 14 to 19, and boosted their market cap by approximately \$8.5 billion.

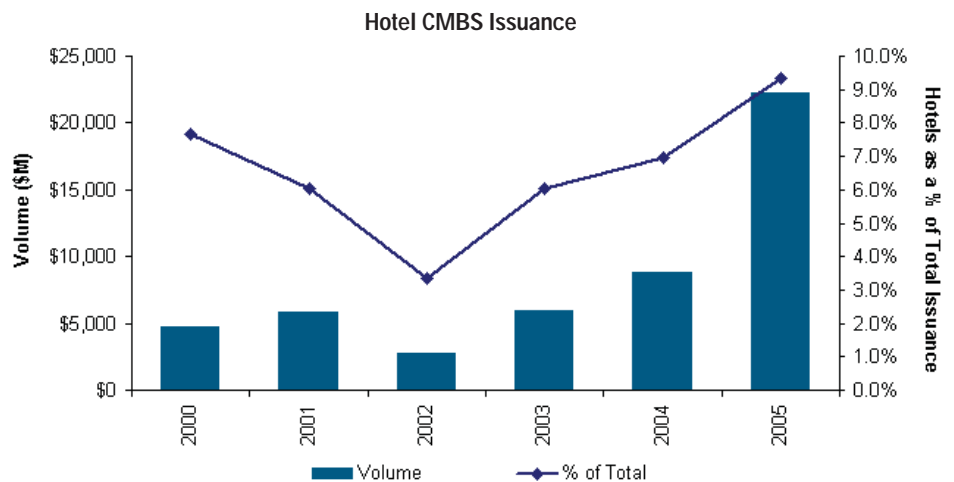
Increasingly Aggressive Debt and Equity Capital Markets

Adding to the supply of capital entering the hotel market is the enduring dissatisfaction of stock market returns, pushing yield driven capital towards income producing real estate. The significant development in hotel fundamentals has expanded financing opportunities.

Major equity and debt participants, in addition to newer entrants such as high net worth syndicates, private REIT investors, 1031 exchange buyers, and international investors, have begun to increase the supply of capital for hotels.

The dramatic improvement of hotel fundamentals in the last two years has caused hotel loan spreads to become increasingly competitive. This competition among lenders to place capital has lead to sharply contracting spreads. Lenders are offering typical rates of 130 to 175 basis points over LIBOR for stabilized properties. LTV ratios are also inching up. Loans of up to 80% LTV at favorable spreads have become common-place.

Spurred by weak returns in other investment classes, private equity and opportunity funds gravitated towards hotel real estate.



Source: Real Capital Analytics

Note: (4) NAREIT Sector Spotlight

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Facilitator of Competition: Hotel CMBS Issuance Increased 151% over 2004

The CMBS market has become the facilitator of a highly competitive process that provides borrowers with the lowest cost of capital. In 2005, 9.4% of total CMBS issuances were devoted to hotels, compared to 7.0% in 2004. This means that \$22.2 billion in debt was issued to hotels, a rise of 151% over the \$8.8 billion issued in 2004.⁽⁵⁾ This abundant availability of debt continues to stimulate pricing and transaction volume in the lodging industry.

Lehman Brothers and USB are shopping a \$2.45 billion deal that has a 21.4% concentration of hotels,⁽⁶⁾ a substantial increase from the average hotel concentration, particularly since September 11, 2001 – and this deal is expected to be a precursor of more deals to come. With several years of solid income growth, the industry is perceived today to be a lower risk, higher growth segment, as investors now view hotels as less volatile than in previous years. As hotels are expected to maintain a value edge over other forms of real estate in the near term, CMBS financing is expected to remain plentiful in 2006.

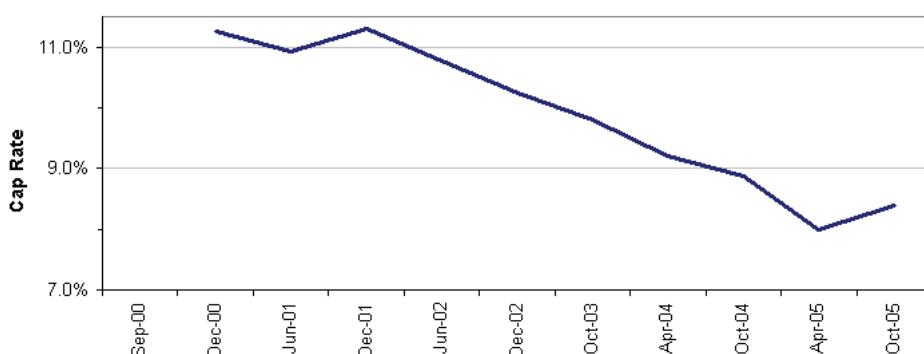
Capitalization Rates Average 6.0% in 2005

The weight of capital chasing hotel deals has created unprecedented pressure on yields, with an average cap rate of 6.0%. This is based on 60 transactions for which cap rates were reported, representing more than \$4.2 billion in deals. This is significantly lower than the average cap rate of 7.1% for 2004.

Further compression of cap rates in 2006 is unlikely. Investors who participated in Jones Lang LaSalle Hotels' December 2005 *Hotel Investment Sentiment Survey (HISS)* indicated the expectation of a slight increase in future yield requirements. Overall, survey respondents for the Americas indicated that they were willing to acquire hotel properties at an average cap rate of 8.4% (typically survey rates are 100-200 basis points above actual rates). This is a rise of 40 basis points over the last six months. Cap rates will trend upwards as hotel cash flows and interest rates rise. Despite this modest upturn, investment yields remain at historic lows. Investors' current cap rate requirements represent a decrease of 290 basis points over the last four years.

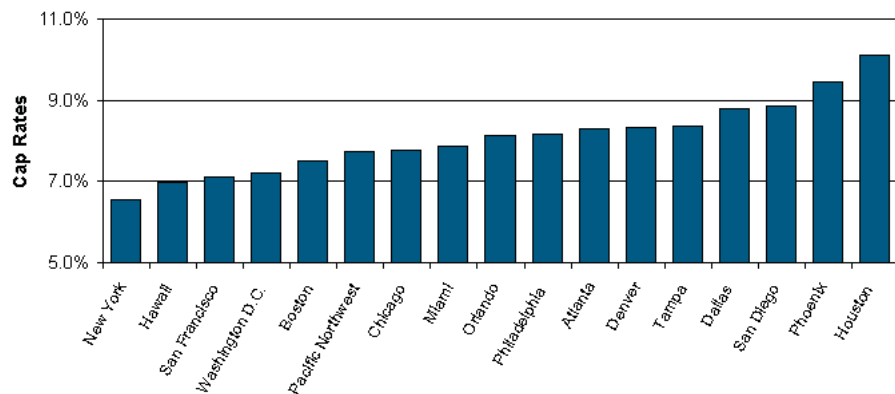
According to the *HISS* report, New York City leads the U.S. market in low cap rates, as is historically true, with investors stating a willingness to acquire hotel assets at a current yield of 6.5%, emphasizing the city's continued ability to attract investment. Hawaii (7.0%), San Francisco (7.1%), and Washington D.C. (7.2%) follow closely, as investors remain confident about the performance outlook and risk profile of these markets. The two highest stated cap rate markets are in Houston (10.1%) and Phoenix (9.5%). This is primarily due to supply concerns, market stability, and low barriers to entry.

America's Average Capitalization Rate*



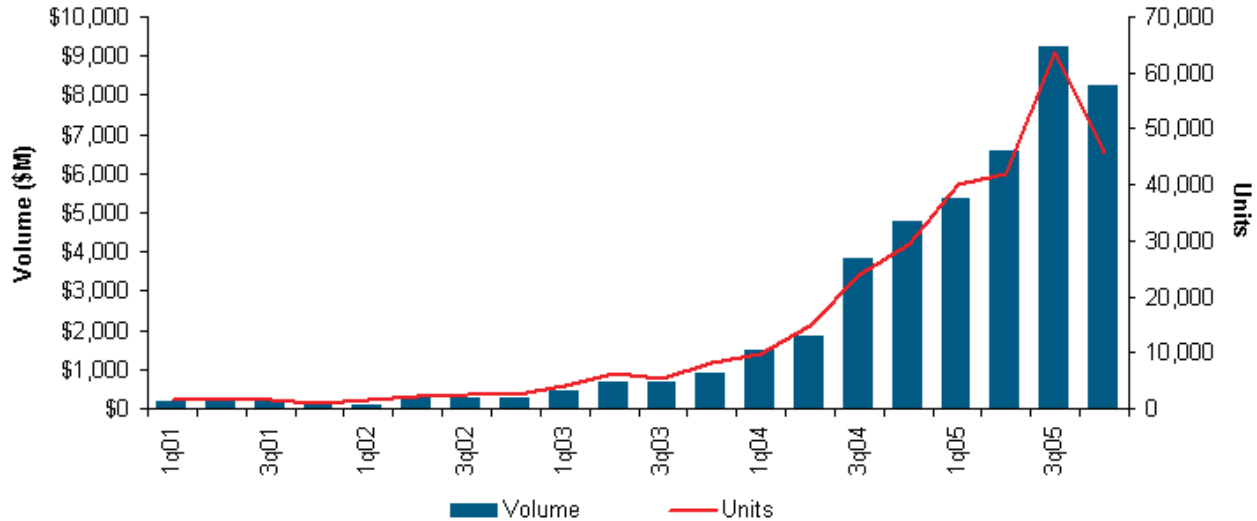
Note: *Includes Canada, U.S., Caribbean, Mexico, and Latin America markets.
Source: Hotel Investment Sentiment Survey, December 2005

Capitalization Rates Across the U.S. Remain Low



Source: Hotel Investment Sentiment Survey, December 2005

U.S. Quarterly Sales for Condo Conversions (All Property Types)



Source: Real Capital Analytics

High Construction Costs and Condo-Hotels Limit Supply

Typically in an environment of extremely strong lodging fundamentals, low cap rates, an abundance of capital and the economic expansion phase in full gear, construction escalates. Yet, rising construction costs and high land values have prevented the building momentum from gaining traction.

With demand growth well above supply growth in many markets, construction levels have increased but still have not risen to the levels typically experienced during an expansion phase. The high construction costs were and continue to be an impediment to the supply growth.

According to the Turner Building Cost Index, the construction cost index in 4Q2005 rose 2.8% over 3Q2005 and 9.7% over 4Q2004.⁽⁷⁾ This increase is due primarily to escalating material prices and energy costs. The effect of the Gulf hurricanes have yet to be fully realized,

thus costs are expected to rise as the Gulf's demand for construction materials intensifies.

To mitigate the high costs of construction, many developers are building condo hotels with a portion of the project dedicated to residential units that generate pre-sale profits. The residential segment spreads development costs among various components and decreases the initial investment.

Further limiting new construction is the tendency of private equity funds to seek strong current (or short-term) returns. As such, exposing themselves to development risk and the extended time necessary to plan, execute and reap the benefits of a construction project is unappealing relative to acquiring either income producing property or assets that can be repositioned more quickly and with a lower perceived risk.

Condo converters took full advantage of the thriving residential market and the disposable income of the baby boomer generation. Accordingly, they were one of

Note: (7) The cost index is determined by several factors considered on a nationwide basis: labor rates and productivity, material prices and the competitive condition of the marketplace.

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“The hotel sector maintains the most upside of the five major property types in terms of investment returns.”

the largest net buyers of commercial property in 2005, purchasing \$34.1 billion in 2005, representing 783 properties nationwide.⁽⁸⁾ The wide-spread condo craze continues to further reduce lodging supply and to increase the price of land.

Best 2006 Commercial Real Estate Investment: Hotels

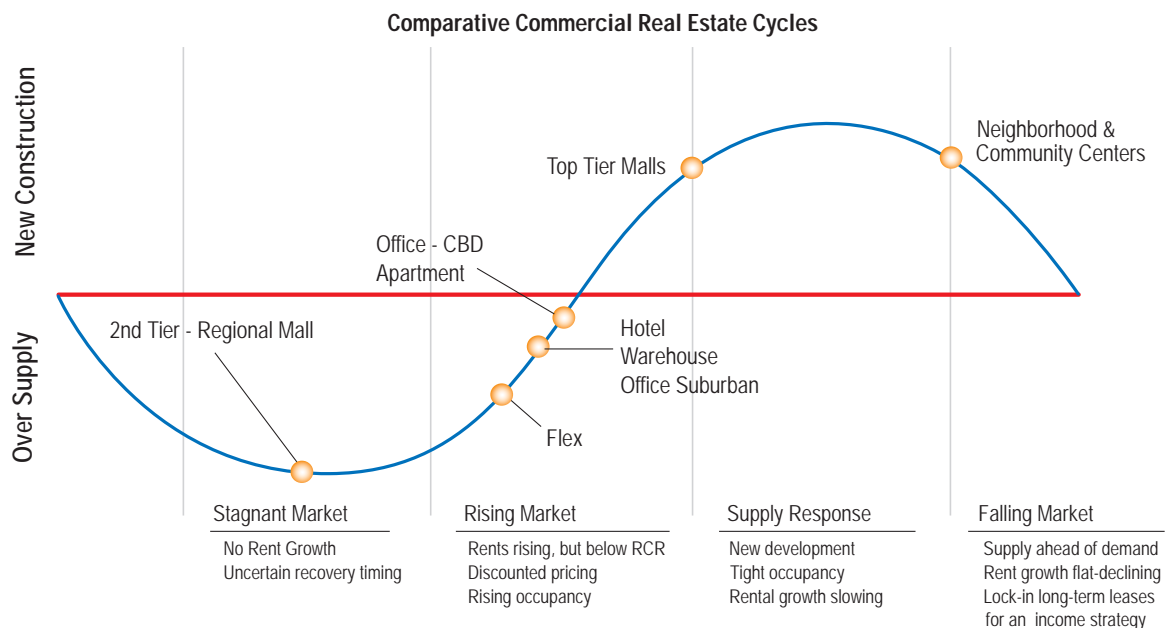
Hotels continue to provide an exceptional counter-cyclical position, good risk diversification by asset type, strong comparative returns, and a steady annuity income stream. Hotels offer one of the best positions on the real estate cycle, having experienced the worst downturn and now firmly positioned in the growth phase, making 2006 an excellent time to invest in hotels.

Hotels are well positioned to continue outperforming other property types over the next few years. The hotel sector maintains the most upside of the five major property types in terms of investment returns. It is the only one

of the five major commercial property types in which income has outpaced appreciation in terms of total return contribution over the last year. Regarding the spread between cap rates and Treasuries, hotels are the only major property type currently trading wider than its 10.5-year long term average, and thus, using this measure, is the sector with the most upside potential.⁽⁹⁾

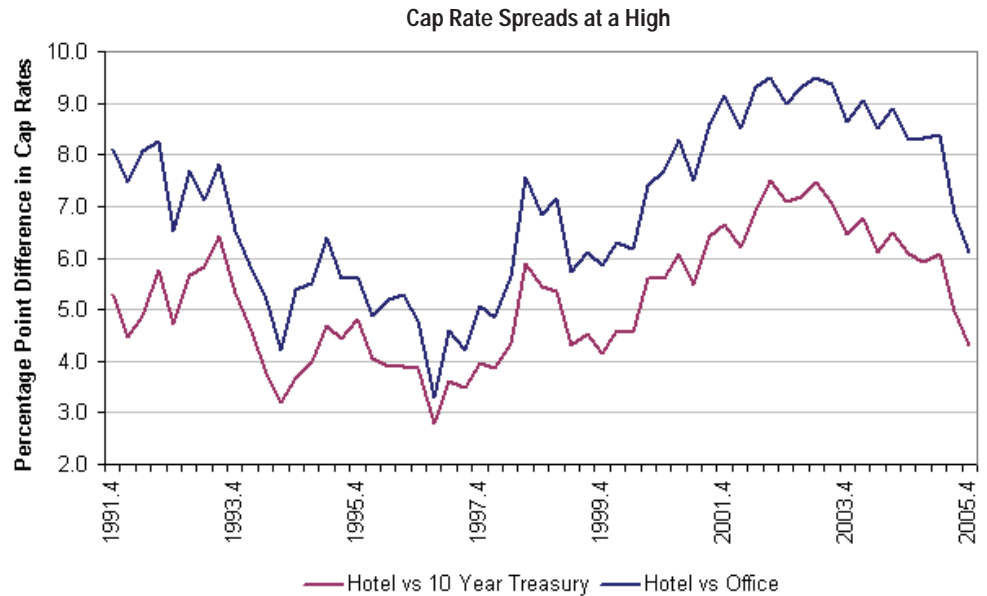
The spread between hotel and office remains considerably high, indicating hotel values remain competitive against office, particularly considering the strong positive outlook for the sector. The hotel and office yields in the graph are from RERC and are therefore required yields, not actual yields, which typically differ by 100-200 basis points. The current spread between office and hotel yields currently measures 180 basis points, meaning that hotels provide a higher rate of return.

While the comparison of Treasury to hotel is not an exactly equal relationship, the trend is valuable and noteworthy. The current spread



Source: LaSalle Investment Management; Jones Lang LaSalle

More merger and acquisition activity is expected to materialize throughout 2006.



Source: RERC and Economy.com

between the 10-year Treasury is 430 basis points, a dramatic decrease from Q1-2005 when the spread was 592 basis points. The tightening of hotel cap rates is the primary cause for the large decrease in spreads, as Treasuries have remained fairly stable over the course of the last two years.

announced its entrance into an agreement in which Kingdom Hotels International and Colony Capital will acquire Fairmont's outstanding common shares for US\$5.5 billion (or US\$3.9 billion, without giving effect to the Raffles combination). Hilton Hotels Corp. also announced the acquisition of Hilton Group PLC assets for \$5.7 billion.

FORECAST FOR 2006 2006 Poised to be the Year of Portfolio Transactions

2006 is already gearing up to be a record-breaking year for portfolio transactions, predominantly due to M&A consolidation activity. At the time of this writing, just two months into the year, the acquisition of LaQuinta Corp. for \$3.4 million has closed. A second portfolio, the Starwood Hotel and Resorts' sale of 38 properties to Host Marriott for \$4.1 billion, is anticipated to close early in 2006.

Globally, M&A activity is also booming. Most recently, Fairmont Hotels & Resorts Inc.

More merger and acquisition activity is expected to materialize throughout 2006 as owners and/or investors attempt take advantage of the impressive performance, abundance of affordable debt, and lack of supply.

Rising Interest Rates Could Change Buyer Groups in 2006

Interest rates are threatening to push upward in 2006, making profits vulnerable for some hotel owners with substantial portions of floating rate debt. This will be mitigated by the fact that investors have considered interest increases into their acquisition underwriting. Furthermore, rising interest rates signal economic expansion. As such, room rates



The AAA Four Diamond Westin Michigan Avenue sold for \$137 million; one of eight Chicago-area transactions arranged by Jones Lang Lasalle Hotels in 2005.

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Rising Interest Rates Could Change Buyer Groups in 2006



Source: Federal Reserve and Economy.com

traditionally rise in response to a strong economy, thereby absorbing rising debt costs. However, more expensive leverage could impinge on future acquisition and financing strategies. Private investors typically highly leverage their acquisitions; thus, rising interest rates may curtail their appetite for real estate in general.

Low leveraged buyers, pension funds, private REITs, institutional investors and many foreign buyers will suffer the least if interest

rates rise dramatically. Most public REITs also have relatively low levels of debt. In 2005, REITs had only \$1.3 billion in debt maturities. Maturing debt issuances from 2006 to 2009 should more accurately reflect the overall four-year average of \$18.3 billion, indicating REITs should feel minimal effects if a rise in interest rates occurs.⁽¹⁰⁾

Despite rising interest rates, debt payments will continue to remain low due to the proliferation of interest without amortization.

Additionally, investment demand for property will prove to be resilient to inflation-related interest rate increases, since real estate is typically a good hedge against inflation.

Jones Lang LaSalle Hotels Expects Another Robust Year in 2006

The combination of low interest rates, rising cash flows, and sluggish markets for corporate securities continue to keep hotel real estate in the spotlight. Accompanied by the supply trend slanting in favor of existing lodging property owners and leisure and corporate travel reviving, the next several years will be accompanied by continued transaction volume and relatively low cap rates.

Industry fundamentals are expected to remain strong. High construction costs and inflated land values will help curtail significant increases in supply. Consequently, increasing demand will put upward pressure on both rates and occupancy. Moreover, in certain prime destinations like Miami and New York, the partial or whole conversion of existing hotels into residential developments will continue to retract a portion of rooms from the market. With significant capital flows to real estate from equity investors and



The Four Seasons Resort Nevis is recognized as one of the best resorts in the world by major travel publications including Conde Nast Traveler and Andrew Harper's Hideaway Report; financing arranged by Jones Lang LaSalle Hotels.



The 206 room Shelter Pointe Hotel is set on the western end of Shelter Island in the San Diego Bay; sale arranged by Jones Lang LaSalle Hotels.

The expectation of further improving fundamentals and an increasing depth of capital will stimulate a similar level of transaction volume in 2006 and into 2007.

lenders, the unprecedented transaction levels achieved over the past two years are expected to continue.

Summary

The hotel industry attracted unparalleled interest in 2005 as improving industry fundamentals merged with an abundance of yield driven capital. Transaction volume reached \$21 billion in 2005, surpassing the record breaking volume in 2004 by 63% and represents three times the volume of 2003 and six times the volume of 2002.

The record volume of transactions was driven by low interest rates and favorable risk-adjusted returns relative to other real estate asset classes, much of which traded at lower initial yields with less potential for upside. Single asset transactions surged in 2005, reaching \$11.4 billion.

With investors seeking to place large sums of capital, portfolio activity also flourished in 2005, comprising of 45.7% of total transaction volume, reaching \$9.5 billion. As large portfolio buyers selectively elect the most strategic assets from these newly acquired portfolios, the industry will likely experience a shedding of the residual assets over the next two years.

Opportunity/Private Equity funds were the most active buyer group in 2005 with \$9.6 billion in acquisitions. As public companies shifted focus from owning real estate to building brand dominance and securing long term management contract, they disposed of \$8.6 billion in real estate, making public companies the largest seller of 2005.

The lodging industry's operating success over the past year has gained attention from the capital markets, bringing larger groups and many new entrants to the hotel investment arena. Many hotel REITs are trading at or near 52 week highs and CMBS issuances for hotels increased by 151% above the level reached in 2004. As a result, there is more available capital chasing less available product, which has an upward impact on pricing and continues to put pressure on yields. The average cap rate on 60 transactions, for which cap rates were recorded, remained historically low at 6.0%.

High construction costs and residential conversions are keeping supply low. Subsequently, increasing demand will put upward pressure on both rate and occupancy. The expectation of further improving fundamentals and an increasing depth of capital will stimulate a similar level of transaction volume in 2006 and into 2007.

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BIOGRAPHY OF AUTHORS



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With more than 25 years of experience in the hotel industry, **Art Adler** heads the Americas division of Jones Lang LaSalle Hotels. Mr. Adler specializes in arranging hotel market transactions, financings, investment advisory services and consulting for domestic and offshore owners and investors. Mr. Adler's clients include notable companies such as The Blackstone Group, FelCor, Host Marriott, Hyatt Hotels, ING Real Estate, InterContinental, Rockwood Capital, Starwood Hotels and Resorts, Strategic Hotel Capital, and Walton Street Capital, among others.

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Melinda McKay
Senior Vice President

Melinda McKay has over 10 years experience in the lodging industry and is responsible for investment sales assignments primarily in the Midwest. Having relocated to Chicago in June 2001 from the firm's Sydney office, Ms. McKay has participated in the sale of over \$700 million of hotels in the Midwest, including the Fairmont Hotel Chicago, Hyatt Regency Oak Brook, Palmer House Hilton Chicago, and Memphis Marriott East. She is currently involved in the disposition of approximately \$150 million in hotel assets. As an extensive writer, Ms. McKay has been widely quoted in the U.S. and international press. She was also recently featured in *Commercial Property News*' "Stars to Watch" and *Crain's Chicago Business*' "40 Under 40," a list of the most influential professionals in Chicago under the age of 40.

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Kristina Paider
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Leyla Leblebici is a research analyst for the Americas region, based in Chicago. Keeping abreast industry movement and prevalent industry topics, with an emphasis on the transactional aspect of the lodging industry, Ms. Leblebici is involved with the analysis of client strategy, outlook, and market forecasts. Prior to Jones Lang LaSalle Hotels, Ms. Leblebici was a mutual fund analyst with Lincoln Financial Group in Philadelphia, where she was responsible for valuing the individual asset holdings of several mutual funds. Ms. Leblebici holds a Bachelor of Science in Finance from University of Illinois.

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