

HOTEL MARKET ANALYSIS

The market analysis forms a basis for assessing market area boundaries, supply and demand factors, and indications of the subject's position within the market. The following analysis is based on information compiled by *The HOST Study 2010 (for the year 2009)*, published by Smith Travel Research and the Korpacz Real Estate Investor Survey (Third Quarter 2010), published by Price Waterhouse Coopers.

Overview of National Lodging Market

The *HOST Study 2010* (most recent issue available) reported in its review of 2009, “the data collected for STR’s HOST 2010 report confirm what many hotel-industry executives have known: 2009 was the worst year in modern history for U.S. hotel performance. What began during the middle of 2008 as a result of the sub-prime mortgage meltdown reached full-blown disaster status for hotel owners and operators throughout the country during 2009. Each of the three major metrics—occupancy, average daily rate and revenue per available room—suffered year-over-year declines during every month of 2009. Double-digit declines were common: Occupancy experienced it during six months and RevPAR experienced it during 11 months (only during December did it experience a single-digit percentage drop from 2008). The number of guestrooms in the U.S. increased 3.0 percent to more than 4.8 million, representing 1.73 billion roomnights. Meanwhile, demand declined 6.0 percent to a little more than 944 million roomnights—the first time that metric dipped below 1 billion since 2004. Year-over-year occupancy fell 8.8 percent to 54.7 percent—the lowest occupancy rate and highest percentage drop for U.S. hotels in the 20-plus years that STR has been tracking industry performance. The story is similar for ADR and RevPAR, as both categories experienced record declines. ADR dropped 8.7 percent to \$97.86—the lowest industrywide average rate since 2005. RevPAR during 2009 decreased 16.7 percent to finish the year at \$53.53. The 16.7-percent decline is the worst since STR began tracking the industry, and the \$53.53 is the lowest RevPAR since 2004 (\$52.84). The overall industry generated \$92.41 billion in room revenue during 2009, a 14.2-percent decrease from 2008 and the lowest year-end total since \$85.18 billion during 2004.” The chart below gives a snapshot look into the overall performance of the lodging industry over the past decade.

A Decade of Selected Performance Measures: 2000-2009

	Occupancy (%)		ADR (\$)		RevPAR (\$)		Supply	Demand	Room Revenue	GOP	Fixed Charges
	This Year	% Change	This Year	% Change	This Year	% Change	% Change	% Change	% Change	(RTS)	(RTS)
2000	63.2	0.7	85.11	5.3	53.79	6.1	2.9	3.6	9.1	40.9	13.5
2001	59.7	-5.5	89.91	-1.4	50.09	-6.9	2.4	-3.3	-4.6	37.1	17.7
2002	59.0	-1.2	82.68	-1.5	48.79	-2.6	1.6	0.4	-1.1	35.7	18.2
2003	59.2	0.3	82.80	0.1	49.02	0.5	1.0	1.4	1.5	35.0	18.9
2004	61.3	3.5	86.26	4.2	52.84	7.8	0.4	3.9	8.3	36.6	18.0
2005	63.0	2.9	91.06	5.6	57.37	8.6	-0.1	2.8	8.5	38.8	16.2
2006	63.2	0.2	97.96	7.6	61.87	7.8	0.2	0.4	8.1	41.3	17.2
2007	62.8	-0.5	104.23	6.4	65.51	5.9	1.3	0.8	7.2	41.3	16.8
2008	60.0	-4.6	107.15	2.8	64.24	-1.9	2.5	-2.2	0.5	38.2	17.4
2009	54.7	-8.8	97.86	-8.7	53.53	-16.7	3.0	-6.0	-14.2	34.0	20.9

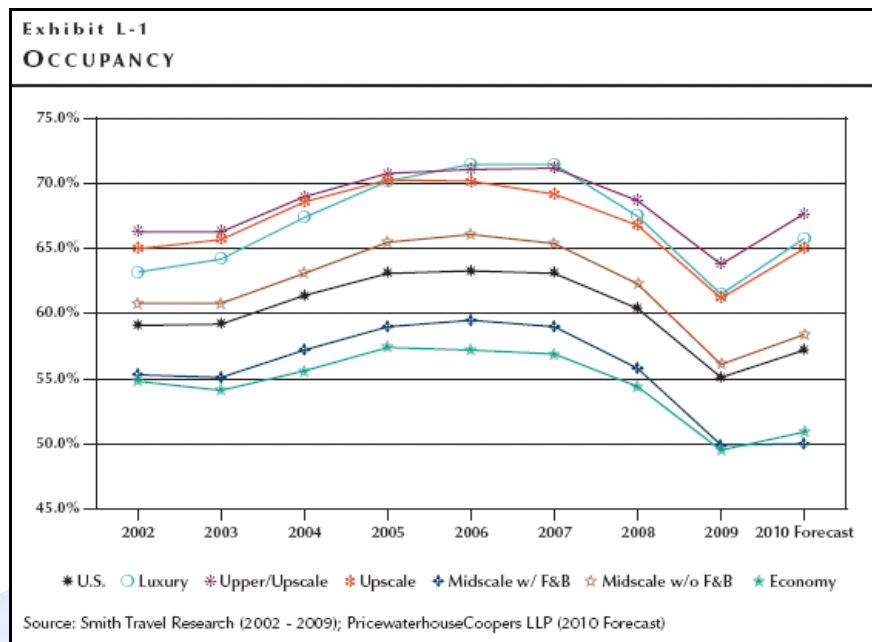
Development

The Korpacz report stated that “the current slowdown in hotel construction activity is a key element in the recovery of the operating performance of existing hotels. The pace of new construction starts fell from 133,000 rooms annually in 2008 to 47,000 room starts in 2009 and is on pace for 31,800 starts in 2010 (0.7% of existing room supply). The construction pipeline has slowed most significantly in the luxury and upper-upscale segments. In midyear 2007, there were 18,500 upper-upscale rooms under construction with planned opening dates in 2008 (3.3% of existing room supply). Based on the June 2010 pipeline report issued by Smith Travel Research (STR), there are currently only 2,500 such rooms under construction with scheduled openings in 2011 (0.4% of existing room supply). Within that same report, zero properties with luxury brand affiliations were in construction to open in 2011.”

Occupancy

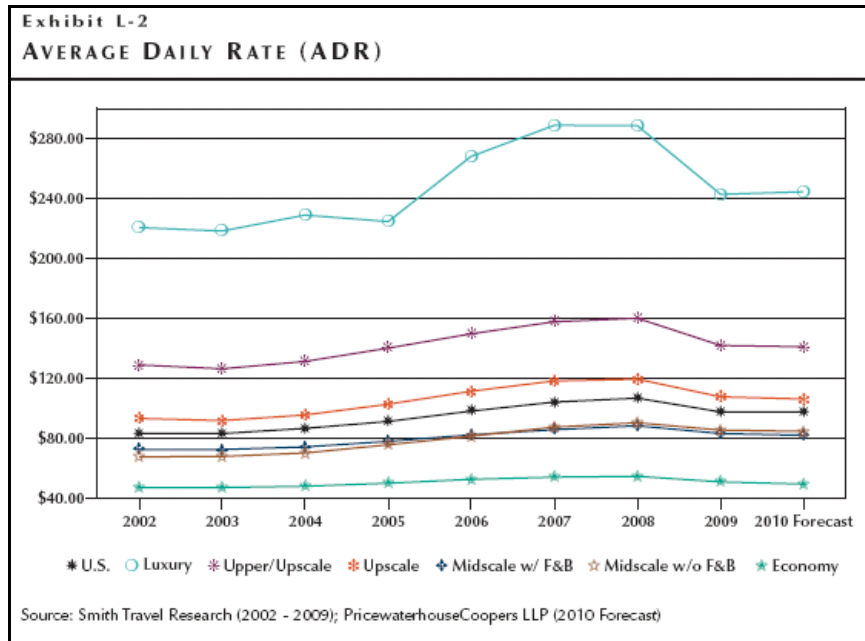
The Korpacz report stated that “overall occupancy for the lodging industry was 56.4% for the first half of 2010, a 4.4% increase from the same period in 2009, according to STR. Occupancy levels improved in each chainscale segment over this time period with the luxury segment posting the largest gain of 10.3% (see Exhibit L-1). The upper-upscale and upscale segments were close behind with occupancy increases of 7.6% and 7.3%, respectively. On the other hand, the midscale-with-food-and-beverage segment reported the smallest occupancy gain of 1.3%. Geographically, all nine regions of the country experienced improvement in occupancy between midyear 2009 and midyear 2010. The New England region, which includes the states of Connecticut, New

Hampshire, Maine, Massachusetts, Rhode Island, and Vermont, posted the largest gain in occupancy during this time, climbing 9.9%.”



Average Daily Rate (ADR)

The Korpacz report stated that “the overall ADR for the lodging industry was \$97.18 for the first half of 2010, a 2.0% decrease from the same period in 2009, according to STR (see Exhibit L-2). ADR fell in each chain-scale segment over this time period with the economy segment experiencing the largest decrease of 5.6%. Within the United States, only the Middle Atlantic region, which includes the states of New York, New Jersey, and Pennsylvania and the West North Central region, which includes the states of North Dakota, South Dakota, Minnesota, Nebraska, Iowa, Kansas, and Missouri, posted marginal increases in ADR during this time, rising 1.6% and 0.2%, respectively.”



National Economy/Limited-Service Lodging Segment

The Korpacz survey from the Third Quarter 2010 reported, “Although properties in the midscale-without-food-and-beverage (F&B) chain-scale segment did not experience the same boost in occupancy during the first half of 2010 as some of the other segments, occupancy rates in this segment remain slightly above the U.S. average. According to Smith Travel Research (STR), occupancy levels increased to 57.3% year-to-date in June 2010 for the midscale-without-F&B segment, up 2.9% on a year-over-year basis. In the economy segment, occupancy rates have generally traced a similar pattern as the U.S. average during the past ten years, albeit at a lower level. This relationship weakened in the first half of 2010 as the economy segment experienced less of an occupancy boost. Through June 2010, the economy segment reported occupancy of 49.7%, up 2.7% on a year-over-year basis, as per STR. While there are indications that ADR is stabilizing in this segment, it appears on track for a RevPAR gain in 2010 that is only slightly better than the midscale-with-F&B segment, according to PricewaterhouseCoopers *Hospitality Directions US* (see Table ELM-1). On the supply side, growth has slowed less rapidly in the midscale without-food-and-beverage (F&B) chain-scale segment than in other segments and is expected to result in a 4.0% increase in supply in 2010 (followed by growth of 1.8% in 2011). Supply concerns are muted in the economy segment, where growth has been on a downward trend since 2007. Supply growth for this segment is estimated at 0.5% in 2010 and just 0.3% in 2011. The desire to acquire limited-service hotels remains strong among many investment groups, especially private in-state investors. According to Real Capital Analytics, this buyer group accounted for 57.0% of the total limited-service hotel deals that occurred in the 12 months ending June

30, 2010. "Buyers looking to acquire quality limited-service hotels are encountering a highly competitive, low overall-cap rate environment," states a participant."

Table 31
NATIONAL ECONOMY/LIMITED-SERVICE LODGING SEGMENT
Third Quarter 2010

	CURRENT QUARTER	FIRST QUARTER 2010	YEAR AGO
DISCOUNT RATE (IRR)^a			
Range	10.00% – 14.00%	10.00% – 15.00%	10.00% – 18.00%
Average	12.31%	12.75%	13.19%
Change (Basis Points)		- 44	- 88
OVERALL CAP RATE (OAR)^a			
Range	8.00% – 12.00%	9.00% – 12.00%	9.00% – 14.00%
Average	10.20%	10.83%	10.85%
Change (Basis Points)		- 63	- 65
RESIDUAL CAP RATE			
Range	9.00% – 12.00%	9.00% – 12.50%	9.00% – 14.00%
Average	10.43%	11.25%	11.25%
Change (Basis Points)		- 82	- 82
AVERAGE DAILY RATE CHG. RATE^b			
Range	(4.00%) – 3.00%	(4.00%) – 3.00%	(4.00%) – 3.00%
Average	(0.25%)	(1.10%)	(0.80%)
Change (Basis Points)		+ 85	+ 55
OPERATING EXPENSE CHG. RATE^b			
Range	1.00% – 3.00%	1.00% – 5.00%	1.00% – 5.00%
Average	2.55%	2.85%	2.90%
Change (Basis Points)		- 30	- 35
AVERAGE MARKETING TIME^c			
Range	4.00 – 12.00	4.00 – 12.00	4.00 – 12.00
Average	7.60	7.40	7.83
Change (%)		+ 2.70	- 2.94

a. Rate on unleveraged, all-cash transactions b. Initial rate of change c. In months

The table below details the industry's outlook for the economy/limited-service lodging segment (source: Korpacz survey, 3rd Quarter 2010).

Table ELM-1
LODGING FORECASTS

Segment	2010	Change From 2009
Midprice without F&B		
Occupancy	58.4%	+ 5.1%
ADR	\$84.42	- 1.2%
Nominal RevPAR	\$49.27	+ 3.8%
Economy		
Occupancy	50.9%	+ 3.9%
ADR	\$49.14	- 3.3%
Nominal RevPAR	\$25.01	+ 0.5%

Source: *Hospitality Directions US, August 2010*;
published by PricewaterhouseCoopers LLP

Outlook for 2010 and Beyond

Smith Travel Research concludes the *HOST Study 2010* with their future outlook, as follows. "It looks as if the worst is over for the hotel industry. 2009 was a year that just about everyone associated with the hotel industry would like to forget. A tough operating environment caused by the virtual stoppage of group and convention business and a serious decline in business travel gave most hotel operators plenty of headaches. Add the frozen credit market to that list, and hotel owners felt the pinch no matter where they turned. But occupancy began to return during the second quarter of 2010, and the expectations are that pricing power will follow. It looks as though a recovery will start at the top with the Luxury segment and work its way down.

	2010	2011
Supply	↑ + 2.0 percent	↑ + 0.6 percent
Demand	↑ + 5.7 percent	↑ + 3.1 percent
Occupancy	↑ + 3.6 percent	↑ + 2.5 percent
ADR	↓ - 0.6 percent	↑ + 3.9 percent
RevPAR	↑ + 3.0 percent	↑ + 6.5 percent