

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 2009 (for the year 2008)*, published by Smith Travel Research and the *Korpacz Real Estate Investor Survey (First Quarter 2010)*, published by Price Waterhouse Coopers.

Overview of National Lodging Market

The *HOST Study 2009* (most recent issue available) reported in its review of 2008, “A slowing economy that came to a virtual halt in the third quarter made for a tough 2008 for the U.S. hotel industry. Lingering effects from the sub-prime mortgage meltdown in 2007 took their toll on the U.S. economy, and the mix of a business slowdown and higher operating costs was a tough combination for U.S. hotels. 2008 proved to be a year of declining performance measurements for hotels, as the only indicators that increased were average daily rate and the number of guestrooms in the industry. The number of guestrooms in the U.S. grew 2.7 percent during 2008 to a record 4.69 million. However, year-over-year occupancy for the industry dropped 4.2 percent to 60.4 percent—the lowest occupancy rate in five years. Thanks to a strong performance early in the year, average daily rate for the overall industry increased 2.4 percent to a record \$106.55, but it was the smallest ADR increase in five years. Revenue per available room in 2008 fell 1.9 percent to \$64.37—the first time since 2002 the measurement hit negative territory. The industry as a whole generated \$140.6 billion in total revenue during 2008, a 0.9-percent increase from 2007.” The chart below gives a snapshot look into the overall performance of the lodging industry over the past decade.

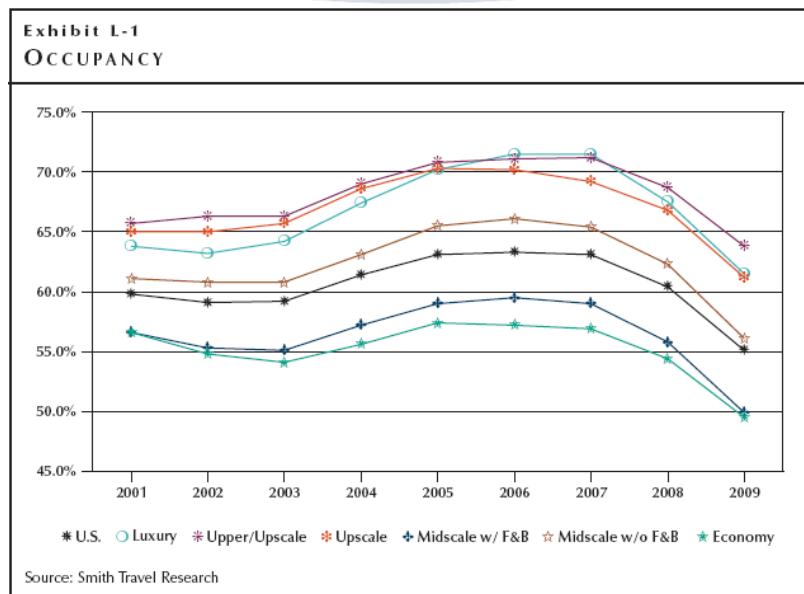
	Occupancy (%)		ADR (\$)		RevPAR (\$)		Supply % Change	Demand % Change	Room Revenue % Change	GOP (RTS)	Fixed Charges (RTS)
	This Year	% Change	This Year	% Change	This Year	% Change					
1999	62.9	-0.8	80.94	3.5	50.90	2.7	3.8	3.0	6.6	39.2	13.9
2000	63.3	0.7	85.30	5.4	54.02	6.1	2.9	3.6	9.2	40.9	13.5
2001	59.8	-5.6	84.07	-1.4	50.26	-7.0	2.4	-3.3	-4.7	37.1	17.7
2002	59.1	-1.2	82.82	-1.5	48.91	-2.7	1.6	0.3	-1.1	35.7	18.2
2003	59.2	0.3	82.96	0.2	49.15	0.5	1.0	1.3	1.5	35.0	18.9
2004	61.4	3.6	86.41	4.2	53.03	7.9	0.4	4.0	8.4	36.6	18.0
2005	63.1	2.9	91.16	5.5	57.56	8.5	-0.1	2.8	8.4	38.8	16.2
2006	63.3	0.3	98.00	7.5	62.03	7.8	0.2	0.5	8.0	41.3	17.2
2007	63.1	-0.4	104.08	6.2	65.63	5.8	1.3	0.9	7.2	41.3	16.8
2008	60.4	-4.2	106.55	2.4	64.37	-1.9	2.7	-1.6	0.7	38.2	17.4

Development

The Korpacz report stated that “Construction activity in 2009 proved more resilient than anticipated a year ago. PwC Hospitality & Leisure estimates that roughly 140,000 new rooms opened during 2009. Also during 2009, it estimates that construction activity commenced on hotel projects representing approximately 50,000 potential rooms. As a portion of these hotels reach completion in 2010, hotel inventory is expected to increase 0.9% between year-end 2009 and year-end 2010. When considering hotel closures and the seasonal opening and closing of hotels, average room supply in 2010 is expected to be 1.7% higher than in 2009 – much lower than the 20-year average pace of 2.1% annual growth.”

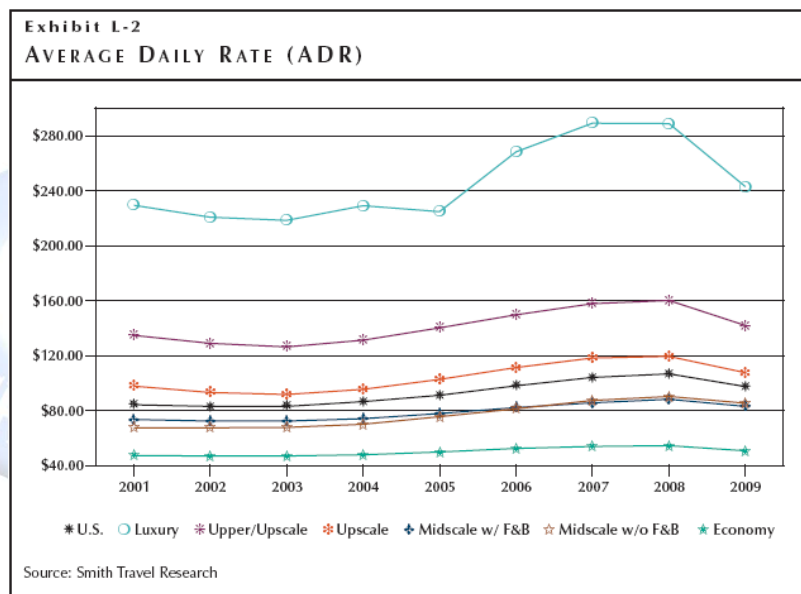
Occupancy

The Korpacz report stated that “Overall occupancy for the lodging industry was 55.1% for 2009, an 8.7% decrease from 2008, according to STR (see Exhibit L-1). Occupancy levels declined in each chain-scale segment over the year with the midscale-with-F&B (food-and-beverage) segment posting the largest loss of 10.5%. The upper-upscale chain-scale segment reported the lowest shift in occupancy during 2009, declining 7.0%. All nine regions of the country posted annual declines in occupancy in 2009. The largest decrease was reported in the West South Central region – the states of Texas, Louisiana, Oklahoma, and Arkansas – where occupancy fell 13.3% in 2009. The South Atlantic region, which includes Florida, Georgia, North Carolina, South Carolina, Virginia, West Virginia, Maryland, and Washington, DC, posted the smallest drop in occupancy in 2009 at 6.8%.”



Average Daily Rate (ADR)

The Korpacz report stated that “The overall ADR for the lodging industry was \$97.51 for 2009, an 8.8% decrease from 2008, according to STR (see Exhibit L-2). ADR fell in each chain-scale segment over the year with the luxury segment posting the largest loss of 16.3%. All nine regions of the country posted annual declines in ADR in 2009. The largest decrease was reported in the Middle Atlantic region – the states of New York, New Jersey, and Pennsylvania – where ADR fell 13.2% in 2009. The Mountain region, which includes the states of Idaho, Montana, Utah, Nevada, Arizona, New Mexico, Colorado, and Wyoming, also reported a sharp decline in ADR growth in 2009, dropping 12.8%.”



National Economy/Limited-Service Lodging Segment

The Korpacz survey from the First Quarter 2010 reported, “In 2009, demand in the economy segment declined 7.7% while ADR slid 6.8%, as per Smith Travel Research (STR). Overall, RevPAR dropped 15.0% in the economy segment in 2009. In the midscale-without-F&B segment, declines also occurred in these key performance indicators but at reduced levels. As per STR, demand declined 3.5% while ADR slid 5.5%. Overall, RevPAR dropped 14.5% in the midscale-without-F&B segment in 2009. In 2010, this segment's out-performance trend is expected to continue. As shown in Table ELM-1, occupancy, ADR, and RevPAR are forecast to perform better in the midscale-without-F&B segment than the economy segment, according to Pricewaterhouse - Coopers *Hospitality Directions US* dated January 2010. Despite the substantial setback

experienced in the U.S. economy and the lodging industry, the wave of distressed asset sales highly anticipated by many investors has yet to materialize. Even though Real Capital Analytics reports that the hotel sector currently has the greatest proportion of troubled assets among any of the property types, hotel sales activity has been minimal. One reason for the lack of forced sales may be that lenders and owners see the hotel sector bottoming, allowing both to feel more comfortable extending loan terms in lieu of surrendering assets. The interest to acquire hotel assets at this point in the cycle remains strong. However, it is one of the most challenging times to purchase assets since buyers and sellers remain at odds over pricing. For now, Survey participants concur that buyers hold the upper hand in dictating pricing for lodging assets.”

	CURRENT QUARTER	THIRD QUARTER 2009	YEAR AGO
DISCOUNT RATE (IRR)^a			
Range	10.00% – 15.00%	10.00% – 18.00%	10.00% – 18.00%
Average	12.75%	13.19%	12.94%
Change (Basis Points)		- 44	- 19
OVERALL CAP RATE (OAR)^a			
Range	9.00% – 12.00%	9.00% – 14.00%	9.00% – 14.00%
Average	10.83%	10.85%	10.75%
Change (Basis Points)		- 2	+ 8
RESIDUAL CAP RATE			
Range	9.00% – 12.50%	9.00% – 14.00%	9.00% – 14.00%
Average	11.25%	11.25%	11.25%
Change (Basis Points)		0	0
AVERAGE DAILY RATE CHG. RATE^b			
Range	(4.00%) – 3.00%	(4.00%) – 3.00%	(4.00%) – 5.00%
Average	(1.10%)	(0.80%)	0.50%
Change (Basis Points)		- 30	- 160
OPERATING EXPENSE CHG. RATE^b			
Range	1.00% – 5.00%	1.00% – 5.00%	2.00% – 5.00%
Average	2.85%	2.90%	3.10%
Change (Basis Points)		- 5	- 25
AVERAGE MARKETING TIME^c			
Range	4.00 – 12.00	4.00 – 12.00	3.00 – 10.00
Average	7.40	7.83	6.88
Change (%)		- 5.49	+ 7.56
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, 1st Quarter 2010).

Table ELM-1 LODGING FORECASTS		
Segment	2010	Change From 2009
Midprice without F&B		
Occupancy	56.7%	+ 1.1%
ADR	\$84.05	- 1.4%
Nominal RevPAR	\$47.66	- 0.3%
Economy		
Occupancy	49.7%	+ 0.4%
ADR	\$49.92	- 1.5%
Nominal RevPAR	\$24.81	- 1.2%

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

Outlook for 2009 and Beyond

Smith Travel Research concludes the *HOST Study 2009* with their future outlook, as follows. “The recession will continue to have a deep impact on the hotel industry for the foreseeable future. A tough operating environment is compounded by a lack of business travelers, steep cuts from corporate America and the collapse of the capital markets. While the industry enjoyed pricing power early in the recession, that advantage went away as the economy worsened and hotel operators cut rates to remain competitive. The large amount of debt maturing through 2009 and 2010 combined with the stress of dramatically less demand and higher operating costs will force a number of owners of distressed hotel assets to sell. Once a large number of assets hit the open market, companies that have been waiting in the wings for buying opportunities will emerge with cash to acquire the distressed properties.

We forecast a trying operating environment for 2009 and 2010. A challenging economy will result in a struggling hotel industry for the near future. As the global economy rebounds, the U.S. hotel industry will continue to show signs of stabilization, beginning in the fourth quarter of 2009.”