

TRANSACTION VOLUME TO ESCALATE THROUGH 2014 - 2010 AVERAGE SELLING PRICE UP 86% FROM 2009

A total of 1,298 hotels were sold or transferred in 2010, up two and a half times from 2009, when only 513 hotels changed hands. The volume increase was largely due to a revived Wall Street, rekindling M&A activity. Individual and Portfolio Transactions increased 19% year-over-year (YoY) from 513 hotels to 608 hotels. An additional 690 hotels were transferred in two separate mergers. Transaction volume is poised to increase over the next three years, with Wall Street banking activity accelerating and a large flow of existing real estate loans coming due. Many of these assets will be distressed, presenting attractive investment opportunities for those able to access funds.

The Average Selling Price Per Room (ASPR) for transactions with a reported selling price increased an astonishing 86% YoY and just 9% down from the all-time high recorded in 2007. For the 477 hotels reporting, ASPR rose to \$108,199/room compared to \$58,301 in 2009. In 2007, ASPR peaked at \$119,420/room. Selling prices will continue to increase going forward, but at a more modest pace, as a broader mix of hotel types should soon begin to come to market and as interest rates creep up.

ASPR can justifiably be described as "frothy." In 2010, there was not a regular distribution of hotels transacted across all chain scales, brands and locations, as in 2007. Instead, a higher proportion of hotels were of institutional-quality and sizes. As such, these hotels were either newer or classic, older properties. There was a skewed concentration of luxury, upper upscale and select-service hotels in the Top 25 Markets, in CBD's, key suburban locations, and in destination resorts.

In 2010, many select-service hotels sold at or near the selling price highs recorded in 2006-2008. A number also sold at or exceeded their estimated cost of replacement. Among the brands in such high demand included: Residence Inn, Courtyard by Marriott, SpringHill Suites, Hilton Garden Inn, Home-wood Suites, and Hampton Inn & Suites.

The rapid recovery of investment banking contributed to the strong rebound in selling prices. New REITs were formed and were able to access both equity and debt. Older REITs, publicly traded hotel companies and private equity groups were also able to secure corporate debt at record low interest rates. With so many well-funded investor groups chasing too few investment opportunities, prices were bid higher than usual, as these investors were highly motivated to enter the market as early as possible in the new cycle.

2010 REAL ESTATE INVESTMENT FLOWS NEARLY TRIPLED

In 2010, total industry investment flows reached an estimated \$13.5 billion, the highest since pre-recession 2007. Of that total, \$7.2 billion was from the 477 hotels that reported a selling price, a 270% increase from \$2.7 billion in 2009. An estimated \$2.1 billion was for all other fee simple transactions, while \$4.2 billion was attributed to two mergers.

For the 477 transactions with a reported selling price, REITs accounted for 40% of total investment dollars at \$2.8 billion for the year, up \$2.6 billion from 2009 when they invested just \$197 million. These publicly traded entities mainly targeted high-quality individual assets, and often were able to pay premium prices because their equity return requirements are generally lower than privately held companies.

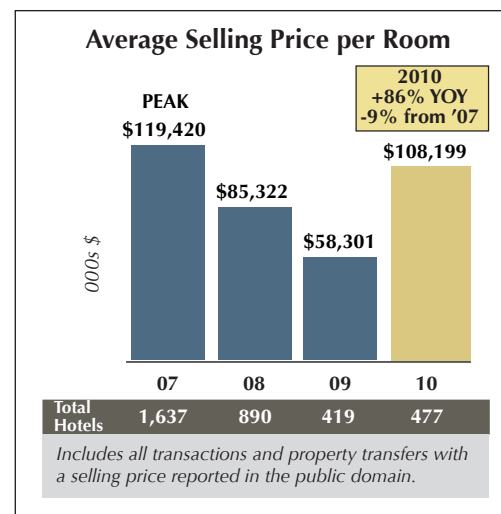
Lodging Industry Investment
Transactions with a Reported Selling Price

Millions \$	As Buyers			As Sellers		
	2009	2010	VAR	2009	2010	VAR
Publicly Traded Companies						
REITs ¹	197	2,808	2,611	179	337	158
Hotel Companies ²	6	0	-6	334	639	305
Privately Held Companies						
Equity Funds ¹	591	1,558	967	235	867	632
Large Hotel Companies ²	628	1,143	515	663	2,474	1,811
Individual Owners ²	1,011	1,223	212	1,034	1,996	962
Other Entities ²	221	435	214	209	854	645
Total	2,654	7,167	4,513	2,654	7,167	4,513

(1) Net Buyers (2) Net Sellers

Total Transactions & Property Transfers

	2007	2008	2009	2010	10 vs. 09 VAR
Individual Transactions	1,491	960	489	491	2
Portfolio Transactions	674	141	24	117	93
M&A Transfers	1,382	43	-	690	690
Total Transactions & Transfers	3,547	1,144	513	1,298	785



Private equity funds represented a further 22% of total transaction dollars, investing \$1.6 billion, over two and a half times the amount they spent in 2009. Requiring a higher equity yield than REITs, equity funds often purchased distressed mezzanine debt on hotel portfolios at a deep discount. As such, many cash-rich equity groups were in an ideal situation to negotiate an ownership position for a multiple number of properties when the senior debt came due.

With capital so plentiful, all investor sectors, both publicly traded and privately held companies, accelerated disposition activity in 2010. It was a perfect time to dispose of hotels that could not be sold previously because the capital markets were seized up. Assets that no longer fit their long-term objectives, particularly distressed hotels, were first to be pruned from their portfolios. Originating lenders were frequently involved in "3-corner transactions," as fresh capital from new investor groups was highly coveted and created the opportunity for all parties to seek resolution.

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