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2011 UNITED STATES HOTEL VALUATION INDEX

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2011 U.S. HOTEL VALUATION INDEX

An optimistic outlook for the industry marks the 2011 edition of the HVS U.S. Hotel Valuation Index. The U.S. lodging market experienced strong demand recovery throughout 2011. Strong occupancy growth continued in 2011, as well as some initial recovery in average rates.

The transaction side of the business has increased considerably from the nadir witnessed in 2009 as numerous high-profile assets have come to market, and fierce bidding is commonplace among active institutional buyers and investors. In order to take advantage of depressed sales prices, Real Estate Investment Trusts (REITs) and large private equity firms dedicated in excess of \$16 billion to hotel acquisitions in 2011. These investors are fiercely pursuing assets that are currently trading below their potential value.

As capital has become more readily available to a broader spectrum of potential investors in 2011, transaction activity has significantly increased when compared with 2010 levels. Acquisition efforts by active buyers have been focused on the full gamut of hotel assets – underperforming/distressed portfolios and properties, as well as stabilized portfolios and individual properties. Even though the supply pipeline appears to be limited and will likely be somewhat restricted over the near- to mid-term, some development has resumed.

Demand for discounted assets, strengthening RevPAR fundamentals, improved lending parameters, and the absence of the threat of overbuilding – often the greatest and most underrated external threat to a hotel's success – appear to paint a bright picture for the lodging industry. Challenges are certain in the near future, but the industry outlook is generally optimistic.

U.S. Economic Trends

The following discussion helps to provide the context for the per-room values forecast in this edition of the U.S. Hotel Valuation Index report.

The U.S. economy is continuing its recovery from the financial crisis. Growth occurred at a relatively slow pace in the first half of 2011, but accelerated in the latter half. For instance, in the first quarter, the economy did not expand as previously thought, as real GDP growth remained below its pre-recession peak. Revised figures for the first quarter of 2011 revealed that real GDP grew only 0.4% after inflation, compared to earlier estimates of 1.9%. As a result, economists had marked down their growth forecasts for the second half of the year. Stock market turmoil, the downgrade of the U.S. Treasuries' credit rating, European debt crisis and the debt ceiling debate contributed to a weakened forecast. However, in the third quarter, real GDP increased by 2% percent. By year-end, the GDP is expected to increase by 2%. Overall, the outlook of the U.S. economy has become more positive towards the end of the year and concerns of a second recession have dwindled.

Moreover, the unemployment rate decreased slightly in November, by 0.4 percentage points over last November, to 8.6%. Although the number of unemployed dropped by roundly 8,300, 13.3 million people are still out of work. Particularly concerning is the high level of long-term unemployment; nearly half of the unemployed have been jobless for over six months. People without work for long periods can find it increasingly difficult to obtain a job comparable to their previous one, as their skills tend to deteriorate over time and as employers are often reluctant to hire the long-term unemployed. Although the job market remains quite weak and progress has been uneven, overall we have seen signs of gradual improvement. The private sector added a net of 140,000 jobs in November 2011 and 1.6 million over the past 12 months, which indicates that the economy is growing modestly.

In the housing sector, low home prices and mortgage rates imply that homes are quite affordable in historical standards; yet, since credit standards remain high, potential buyers are unqualified for loans. Uncertainties about job prospects and the future course of house prices have also deterred potential buyers. Given these constraints on the demand for housing, and with a large inventory of vacant and foreclosed properties overhanging the market, construction of new single-family homes remained at very low levels, and house prices continued to fall, particularly in the first half of the year. In July, single-family housing starts dropped 4.9%, from an already historically low number. However, the housing market began to improve towards the end of the year. In November, single-family housing starts

increased by 2.3% over October, largely due to an increase in apartment permits. Construction of apartment buildings jumped by 32% in November, as more and more people opt to rent in an uncertain market. Existing home sales increased by 4% in November, rising to a 10-month high. With increased demand, housing prices are steadily improving. A moderate housing recovery is forecasted for the next few years. Home prices are expected to increase 2% to 3% in 2012, 3% in 2013, and 4% in 2014, on average.

Although economic growth has slowed, a recession does not seem imminent. One main reason is that corporate profits, which are a leading economic indicator, suggest a recession is unlikely in the next 18 months. Corporate profits remain high and continue to rise, which is important considering that corporate profitability typically deteriorates dramatically before a recession. Another important reason is that transitory factors impeded growth in the first half of the year, including gas prices, Japanese supply disruptions in the manufacturing sector and uncertainty over debt ceiling impasse. While each of these factors undoubtedly took an economic toll—thereby slowing the economy—their subsequent resolution should pose at the very least a modest lift to output. Crude oil prices are well off of their mid-April peak, parts shortages among manufacturers are dissipating and the debt ceiling was finally increased.

Relative to the hospitality industry, investors are aggressively re-entering the hotel market. In the first half of 2011, the volume of hotel investment transactions that occurred in the U.S. market reached \$7.4 billion, an increase of 180% year over year. The U.S. continues to be the dominant country in the Americas region for hotel transactions, accounting for 94% of the regional transaction volume. REITs have been trading at strong multiples and have been able to access the equity markets, while private equity funds have raised significant sums of capital and the debt markets are more active, which has led to the significant increase in activity. New York City is at the forefront of this year's deal volume.

U.S. Hospitality Trends and the Hotel Valuation Index

Following in the path of the U.S. economy, the U.S. hotel industry also showed signs of recovery. Overall, hotel occupancy, average rate, and RevPAR in the U.S. are trending upward. In November, occupancy increased 4.7% to 55.7%, average daily rate increased by 4.3% to \$100.85 and RevPAR increased by 9.2% to \$56.17. Hotel demand in the U.S. is up and this increase is expected to continue, but average rate growth continues to lag.

The analyses for this year's Hotel Valuation Index are supported by HVS's forecasts for occupancy and average rate. HVS presently anticipates modest RevPAR growth in 2011, of 8.0% to 10%, which is supported by continued strong occupancy growth as well as some initial recovery in average rates. Given the current pace and outlook for the economic recovery, RevPAR is anticipated to exceed its pre-recession level by 2014.

While most consulting firms focus on RevPAR results, HVS believes that value trends are significantly more meaningful to hotel owners, operators, and lenders. Through the Hotel Valuation Index (HVI), HVS monitors hotel value changes in 51 individual U.S. markets and the United States as a whole. The HVI looks at hotel supply, demand, occupancy, and average rate trends for each market area and creates an income and expense projection based on local operating costs. It then capitalizes the resulting net income by an appropriate capitalization rate, producing an estimate of value for a typical hotel in that market. The HVI tracks historical hotel values back to 1987 and projects them out to 2015. This tool shows the high and low points of each cycle, the velocity of the declines and recovery, and the overall value volatility of each market.

The following figure shows the HVI for a typical hotel in the United States. It contains the value per room, the percent change, and the value change, on a per-room basis.

HVI – VALUE TREND FOR A TYPICAL U.S. HOTEL – 2000 THROUGH 2015

	2000	2001	2002	2003	2004	2005
Value Per Room	\$67,000	\$51,000	\$51,000	\$51,000	\$65,000	\$82,000
Percent Change	13%	-24%	0%	0%	27%	26%
	2006	2007	2008	2009	2010	2011F
Value Per Room	\$99,000	\$95,000	\$81,000	\$56,000	\$65,000	\$84,000
Percent Change	21%	-4%	-15%	-31%	17%	28%
	2012F	2013F	2014F	2015F		
Value Per Room	\$104,000	\$123,000	\$136,000	\$151,000		
Percent Change	25%	18%	11%	11%		

Source: HVS

During the early 1990s, hotel values declined by roughly 29% as a result of a nationwide recession and severe overbuilding during the 1980s. Values started to recover in 1992; the velocity of growth during the rebound phase was strong but did not realize significant levels, ranging from roundly 10% to 12% between 1992 and 1994. Poor RevPAR fundamentals held growth in check as the excess supply was gradually being absorbed.

The next value decline occurred from 2001 to 2003 when hotel values dipped approximately 26% from their 2000-high, a result of the terrorist attacks of 9/11 and the concurrent nationwide recession. The recovery following this downturn was more robust, with values increasing roughly 22% to 28% between 2004 and 2006. The strong economy, lack of overbuilding, and readily available financing fueled this growth period, which was highlighted by hotel values nearly doubling.

The latest downturn set in during the fourth quarter of 2007 and was exacerbated by the collapse of the real estate lending market. The resulting recession led hotel values to decline by roundly 15% in 2008 and 31% in 2009. While this drop was severe, positive outlook abounds for the recovery given the absence of overbuilding that precipitated the 1991 recession. Fortunately, the CMBS lending vehicle that fueled the collapse of the real estate lending market worked well for existing hotels with established cash flow, but was not appropriate for proposed lodging facilities, which produce no cash flow during construction.

With the potential growth of RevPAR, the huge amount of acquisition capital waiting for hotels to come to market, and the pent-up desire of sellers to put their properties on the market, we believe that U.S. hotel values bottomed out in 2009 and that a healthy recovery will occur in 2010. This recovery will gather momentum in subsequent years, eventually achieving substantial levels between 2011 and 2013, attributable to the limited potential for overbuilding and to recovering RevPAR fundamentals.

Hampering the recovery somewhat is the current lack of financing. Most hotel buyers are buying “all cash” and hoping to obtain debt financing at some point in the future. Presently, financing parameters, if available, generally range between a 50% and 60% loan-to-value ratio with interest rates at 8% to 10%; however, personal guarantees are often required in such cases. Overall, we anticipate U.S. hotel values to continue to trend upward as the economic recovery intensifies, exceeding their pre-recession high by 2012/13.

The limited financing available appears to be restricted to hotel acquisitions and refinancing for properties that have continued to produce strong cash flows. This factor is a reinforcing characteristic of the recovery as the already limited supply pipeline is unlikely to increase substantially given the difficulty in securing financing. Our estimates for supply conclude that the threat of overbuilding in most markets is eliminated for the next three to five years.

Based on the HVI, U.S. hotel values peaked in 2006 at \$100,000 per room. The low point during the recent downturn occurred in 2009, with values dropping to \$56,000 per room. By 2012/13, hotel values should recover to 2006 levels and continue to increase from that point. These data illustrate that buyers need to stop waiting and start buying immediately and how this strategy will pay off with significant value growth over the coming years.

U.S. Lodging Sales Activity and Capitalization Rates

A useful barometer to the income approach to hotel valuation is the presence of comparable sales data. The following figure illustrates the history of U.S. hotel sales priced at \$10,000,000 and above between 1998 and 2010, as well as year-to-date trends through July for both 2010 and 2011.

LODGING SALES ACTIVITY

	Number of Hotels	Change		Number of Rooms	Change		Average Price Per Room	Change	
1998	241			78,865			\$136,000		
1999	125	(48.1)	%	35,901	(54.5)	%	\$139,000	2.2	%
2000	138	10.4		37,443	4.3		\$117,000	(15.8)	
2001	117	(15.2)		29,668	(20.8)		\$153,000	30.8	
2002	105	(10.3)		31,626	6.6		\$111,000	(27.5)	
2003	135	28.6		35,489	12.2		\$136,000	22.5	
2004	191	41.5		61,324	72.8		\$140,000	2.9	
2005	279	46.1		83,354	35.9		\$158,000	12.9	
2006	265	(5.0)		80,523	(3.4)		\$203,000	28.5	
2007	256	(3.4)		64,872	(19.4)		\$191,000	(5.9)	
2008	121	(52.7)		24,228	(62.7)		\$175,000	(8.4)	
2009	47	(61.2)		13,882	(42.7)		\$162,000	(7.4)	
2010	134	185.1		33,395	140.6		\$191,000	17.9	
Year-to-date Through July									
2010	60			15,008			\$165,356		
2011	89	48.3		24,162	61.0		\$194,085	17.4	

Source: HVS

The profound impact of the latest recession on lodging sales activity is exemplified by the trends of 2008 and 2009. Between 2007 and 2009, the number of hotels transacted declined by over 80%, while the average price per room declined by roundly 15%. Net operating income suffered drastic losses in 2009 in particular, leading numerous hotels into default. During this period, virtually no financing for

transactions was available as most transactions that occurred during this period (particularly in 2009) were carried out on an all-cash basis. Sales activity in 2009 was further depressed by a wide disconnect between the expectations of potential buyers and sellers. Buyers were typically cash-rich and looking for a high return on their investment, and thus wanted to purchase distressed assets at a steep discount from peak pricing. Owners, and lenders in particular, that were intent on reclaiming lost value on their assets adopted a “pretend and extend” attitude where foreclosure or equity infusions were postponed with the expectation that improving RevPAR dynamics would lead to a healthy recouping of cash flow and thus asset value. Given these dynamics, the year 2009 recorded the lowest total annual number of hotel transactions during the period reviewed.

In 2010, pricing per room illustrated a sizeable increase of roundly 10%. As markets illustrated signs of recovery, the disconnect between buyers and sellers was somewhat repaired. Cash-rich buyers were actively seeking to purchase hotels now at realistic prices so that they could reap the benefits of the forthcoming stronger rebound phase. In response, lenders were providing reasonable levels of financing for such investors, albeit primarily for assets that are in tier-one markets and are not hindered by any extenuating circumstances. By the end of 2010, per-room pricing had already recovered to 2007 level, and number of hotels transacted increased for the first time since 2007.

In the year-to-date period through July 2011, sales activity continued to recover at an accelerated pace, boosted by portfolio sales such as the Ashford Hospitality Trust joint-venture’s acquisition of Highland Hospitality’s 28-hotel portfolio. As financing becomes more readily available, development activities have also resumed.

MAJOR HOTEL SALES IN 2010

Property	Location	State	Room	Sale Date	Interest Conveyed	Price Paid	Price Per Rooms	Buyer	Seller
DoubleTree Metropolitan Hotel	New York	New York	759	December-10	Fee Simple	\$334,700,000	\$441,000	RLJ Real Estate Fund III	W2001 Metropolitan Hotel Realty LLC
Sofitel Philadelphia	Philadelphia	California	306	December-10	Fee Simple	\$86,900,000	\$284,000	Pebblebrook Hotel Trust	GEM Realty Capital Inc./Whitehall Street Real Estate Fund/Accor SA, JV
Chamberlain West Hollywood	West Hollywood	California	113	December-10	Fee Simple, Leased Fee	\$38,500,000	\$341,000	LaSalle Hotel Properties	Kor Hotel Management, LLC
Le Meridien San Francisco	San Francisco	Mississippi	360	December-10	Fee Simple	\$142,900,000	\$397,000	Chesapeake Lodging Trust	HEI San Francisco, LLC (HEI Hotels & Resorts)
Harlow's Casino Resort	Greenville	New York	105	December-10	Leasehold Ground	\$138,000,000	\$1,314,000	Churchill Downs Incorporated	Levine Leichtman Capital Partners
Skamania Lodge	Stevenson	California	254	November-10	Fee Simple	\$55,900,000	\$220,000	Pebblebrook Hotel Trust	Lowe Enterprises Investors
Homewood Suites Carlsbad North San Diego County	Carlsbad	Maryland	145	November-10	Fee Simple	\$32,000,000	\$221,000	Chatham Lodging Trust	Royal Hospitality Washington, LLC/Lee Estates, LLC
Residence Inn National Harbor Washington DC	National Harbor	California	162	November-10	Fee Simple	\$48,900,000	\$302,000	RLJ Real Estate Fund III	Integrated Capital
Sheraton Delfina Santa Monica	Santa Monica	Pennsylvania	310	November-10	Fee Simple	\$102,900,000	\$332,000	Pebblebrook Hotel Trust	Private Investor
Embassy Suites Irvine Orange County Airport	Irvine	Massachusetts	293	October-10	Fee Simple	\$59,200,000	\$202,000	Private Investor	HEI Hotels & Resorts
Radisson Boston	Boston	New York	356	October-10	Fee Simple	\$143,500,000	\$403,000	Northwood Partners, LLC	JPA IV Management, LLC
Hotel Roger Williams	New York	Washington	193	October-10	Leasehold Ground	\$89,900,000	\$466,000	LaSalle Hotel Properties	JRK Hotel Group, Inc.
Hilton Garden Inn Nashville Vanderbilt	Nashville	Minnesota	194	September-10	Fee Simple	\$42,700,000	\$220,000	Apple REIT Nine, Inc.	Private Investor
Grand Hotel Minneapolis	Minneapolis	Pennsylvania	140	September-10	Fee Simple	\$33,000,000	\$236,000	Pebblebrook Hotel Trust	Wirth Companies, Inc
Embassy Suites Philadelphia Center City	Philadelphia	District of Columbia	288	September-10	Fee Simple	\$78,900,000	\$274,000	LaSalle Hotel Properties	HEI Hospitality
Hampton Inn Washington DC Convention Center	Washington	California	228	September-10	Fee Simple	\$73,000,000	\$320,000	Hersha Hospitality Trust	The JBG Companies
Hotel Monaco San Francisco	San Francisco	Colorado	201	September-10	Fee Simple	\$68,500,000	\$341,000	LaSalle Hotel Properties	Bellevue Associates, LP
St. Regis Aspen	Aspen	District of Columbia	179	September-10	Fee Simple	\$70,000,000	\$391,000	315 Dean Associates, Inc. (OpAsia Capital Co., Ltd.)	Starwood Hotels & Resorts Worldwide, Inc.
Kimpton Hotel Monaco Washington DC	Washington	New York	183	September-10	Leasehold Ground	\$73,900,000	\$404,000	Pebblebrook Hotel Trust	Kimpton Hotel & Restaurant Group, LLC
Hilton Garden Inn New York Chelsea	New York	New York	169	September-10	Fee Simple	\$68,400,000	\$405,000	DiamondRock Hospitality Company	Inland American Real Estate Trust
Fashion 26	New York	Pennsylvania	280	September-10	Fee Simple	\$121,800,000	\$435,000	RLJ Real Estate Fund III	Infinity Real Estate, LLC
Westin Philadelphia	Philadelphia	New York	294	September-10	Fee Simple	\$144,900,000	\$493,000	LaSalle Hotel Properties	HEI Hospitality
W New York Union Square	New York	California	270	September-10	Fee Simple	\$187,900,000	\$696,000	Host Hotels & Resorts/Istithmar JV	LEM Mezzanine
Renaissance Charleston Historic District	Charleston	Massachusetts	166	August-10	Fee Simple	\$39,000,000	\$235,000	DiamondRock Hospitality Company	Private Investor
Fairmont Copley Plaza	Boston	Florida	383	August-10	Fee Simple	\$98,400,000	\$257,000	Felcor Lodging Trust, Inc.	Fairmont Hotels & Resorts
Omni Amelia Island Plantation Resort	Amelia Island	Florida	249	August-10	Fee Simple	\$67,000,000	\$269,000	TRT Holdings (Omni Hotels)	Amelia Island Company (through US Bankruptcy Court)
Royal Palm Hotel Miami Beach	Miami Beach	Illinois	407	August-10	Fee Simple	\$126,200,000	\$310,000	Sunstone Hotel Investors	Court Appointed Receiver
Westin Chicago River North	Chicago	Tennessee	424	August-10	Fee Simple	\$164,900,000	\$389,000	Host Hotels & Resorts	Tishman Realty
Marriott Fairview Park	Falls Church	Georgia	395	July-10	Fee Simple	\$92,800,000	\$235,000	Thayer Hotel Investors V, LP	JER Partners
InterContinental Buckhead Atlanta	Atlanta	District of Columbia	422	July-10	Fee Simple	\$105,100,000	\$249,000	Pebblebrook Hotel Trust	Intercontinental Hotel Group
Homewood Suites Washington	Washington	South Carolina	175	July-10	Fee Simple	\$58,500,000	\$334,000	RLJ Real Estate Fund III, LP	Barcelo Crestline
Red Roof Inn Downtown	Washington	District of Columbia	195	June-10	Fee Simple	\$40,000,000	\$205,000	RLJ Real Estate Fund III, LP	LNR Partners, Inc.
Sir Francis Drake Hotel	San Francisco	California	416	June-10	Fee Simple	\$89,900,000	\$216,000	Pebblebrook Hotel Trust	The Chartres Lodging Group, LLC
Solara Canmore	Canmore	California	106	June-10	Fee Simple	\$24,600,000	\$232,000	N/A	N/A
Hilton Checkers	Los Angeles	Maryland	188	June-10	Fee Simple	\$46,100,000	\$245,000	Chesapeake Lodging Trust	Tarsadia Hotels
Doubletree Bethesda	Bethesda	Virginia	269	June-10	Fee Simple	\$67,000,000	\$249,000	Pebblebrook Hotel Trust	Thayer Lodging Group
Holiday Inn New York City Wall Street	New York	New York	113	May-10	Fee Simple	\$34,800,000	\$308,000	Hersha Hospitality Trust	Private Developer
Embassy Suites Tampa Downtown Convention Center	Tampa	Florida	360	April-10	Fee Simple	\$77,000,000	\$214,000	RLJ Development LLC	WPM Construction, LLC
St. Giles The Court	New York	New York	198	April-10	Fee Simple	\$48,300,000	\$244,000	St. Giles Hotel LLC	Emstar Realty, LLC (affiliate of Starwood Hotels & Resorts)
St. Giles The Tuscany	New York	New York	122	April-10	Fee Simple	\$29,800,000	\$244,000	St. Giles Hotel LLC	Emstar Realty, LLC (affiliate of Starwood Hotels & Resorts)
Embassy Suites Anchorage	Anchorage	Alaska	169	April-10	Fee Simple	\$42,100,000	\$249,000	Apple REIT Nine, Inc.	Denali Lodging, LLC
Hyatt Regency Boston	Boston	Massachusetts	498	March-10	Leasehold Ground	\$112,100,000	\$225,000	Chesapeake Lodging Trust	Hyatt Hotel Corporation
Candlewood Suites New York City Times Square	New York	New York	188	February-10	Fee Simple	\$50,900,000	\$271,000	Hersha Hospitality Trust	McSam Hotel Group
Holiday Inn Express New York City Times Square	New York	New York	210	February-10	Fee Simple	\$58,000,000	\$276,000	Hersha Hospitality Trust	McSam Hotel Group
Hampton Inn Manhattan Times Square South	New York	New York	184	February-10	Fee Simple	\$55,900,000	\$304,000	Hersha Hospitality Trust	McSam Hotel Group
Sofitel Washington DC Lafayette Square	Washington	District of Columbia	237	February-10	Fee Simple	\$95,000,000	\$401,000	LaSalle Hotel Properties	GEM Realty Capital, JV
Marriott Houston Energy Corridor	Houston	Texas	206	January-10	Fee Simple	\$50,700,000	\$246,000	Apple Hospitality Nine	MWE Houston Property, LP
Sebastian Vail	Vail	Colorado	100	January-10	Fee Simple	\$52,000,000	\$520,000	Furnuco Vail Ventures	Vail Plaza Development, LLC

MAJOR HOTEL SALES YEAR-TO-DATE THRU JULY 2011

Property	Location	State	Room	Sale Date	Interest Conveyed	Price Paid	Price Per Rooms	Buyer	Seller
Hotel Adagio Union Square	San Francisco	California	171	July-11	Fee Simple	\$42,250,000	\$247,076	Chesapeake Lodging Trust	SC Hotel Partners, LLC
Homewood Suites San Antonio Riverwalk	San Antonio	Texas	146	July-11	Fee Simple	\$37,264,456	\$255,236	Chatham Lodging Trust	Innkeepers USA Trust
DoubleTree Guest Suites Washington DC	Washington	District of Columbia	105	July-11	Fee Simple	\$26,799,780	\$255,236	Chatham Lodging Trust	Innkeepers USA Trust
Residence Inn Tysons Corner Mall	Vienna	Virginia	121	July-11	Fee Simple	\$30,883,556	\$255,236	Chatham Lodging Trust	Innkeepers USA Trust
Residence Inn San Diego Mission Valley	San Diego	California	192	July-11	Fee Simple	\$49,005,312	\$255,236	Chatham Lodging Trust	Innkeepers USA Trust
Residence Inn Anaheim Resort Area	Garden Grove	California	200	July-11	Fee Simple	\$51,047,200	\$255,236	Chatham Lodging Trust	Innkeepers USA Trust
Courtyard Denver Downtown	Denver	Colorado	177	July-11	Fee Simple	\$46,000,000	\$259,887	DiamondRock Hospitality Company	Sage Hospitality
Red Lion Fifth Avenue Seattle	Seattle	Washington	297	June-11	Fee Simple	\$71,000,000	\$239,000	Lowe Enterprises	Red Lion Hotel Corp.
Hotel Indigo San Diego Gaslamp Quarter	San Diego	California	210	June-11	Fee Simple	\$55,400,000	\$264,000	Chesapeake Lodging Trust	InterContinental Hotels Group PLC
Courtyard Washington Capitol Hill Navy Yard	Washington	District of Columbia	204	June-11	Fee Simple	\$67,900,000	\$333,000	Chesapeake Lodging Trust	NJA Hotel, LLC
W Hotel & Residences Boston	Boston	Massachusetts	235	June-11	Fee Simple	\$89,500,000	\$381,000	Pebblebrook Hotel Trust	Sawyer Enterprises
Radisson Lexington Hotel	New York	New York	712	June-11	Fee Simple	\$335,400,000	\$471,000	DiamondRock Hospitality Company	Whitehall Street Real Estate/Highgate Holdings (Lexington Hotel, LLC)
Viceroy Miami Hotel & Resort	Miami	Florida	148	May-11	Fee Simple	\$36,600,000	\$247,000	Pebblebrook Hotel Trust	Related Group of Florida
Westin Pasadena	Pasadena	California	350	May-11	Fee Simple	\$92,100,000	\$263,000	HEI Hotels & Resorts	MPG Office Trust, Inc.
Homewood Suites Seattle Convention Center	Seattle	Washington	195	May-11	Fee Simple	\$53,000,000	\$272,000	Chesapeake Lodging Trust	AEW SBCO Seattle, LLC
Se San Diego	San Diego	California	161	May-11	Fee Simple	\$48,900,000	\$304,000	KHP Hotel Holding, LP (Kimpton Hotel Group)	5th Avenue Partners, LLC
W Chicago City Center	Chicago	Illinois	368	May-11	Fee Simple	\$128,800,000	\$350,000	Chesapeake Lodging Trust	Starwood Hotels & Resorts Worldwide, Inc.
JW Marriott Denver at Cherry Creek	Denver	Colorado	196	May-11	Fee Simple	\$72,500,000	\$370,000	DiamondRock Hospitality Company	JP Morgan Asset Management/Sage Hospitality
Morgans Hotel	New York	New York	114	May-11	Fee Simple	\$56,500,000	\$496,000	Felcor Lodging Trust, Inc.	Morgans Hotel Group
Royalton Hotel	New York	New York	168	May-11	Fee Simple	\$83,300,000	\$496,000	Felcor Lodging Trust, Inc.	Morgans Hotel Group
Mondrian Hotel	West Hollywood	California	237	May-11	Fee Simple, Leased Fee	\$137,000,000	\$578,000	Pebblebrook Hotel Trust	Mondrian Holdings, LLC
Westin San Diego Gaslamp Quarter	San Diego	California	450	April-11	Fee Simple	\$109,800,000	\$244,000	Pebblebrook Hotel Trust	Starwood CMBSI, LLC
W San Diego	San Diego	California	258	April-11	Fee Simple	\$56,000,000	\$217,000	Rockpoint Group, JV	Private Lender
Continental Hotel South Beach	Miami Beach	Florida	251	April-11	Fee Simple	\$61,000,000	\$243,000	InSite Group/Cube Capital, JV	RFR Holding, LLC
Hotel Monaco Seattle	Seattle	Washington	189	April-11	Fee Simple	\$51,200,000	\$271,000	Pebblebrook Hotel Trust	Kimpton Hotels & Restaurants
Capitol Hill Suites	Washington	District of Columbia	152	April-11	Fee Simple	\$47,600,000	\$313,000	Hersha Hospitality Trust	Host Hotels & Resorts
Royal Palm Hotel Miami Beach	Miami Beach	Florida	409	April-11	Fee Simple	\$130,100,000	\$318,000	KSL Capital Partners, LLC	Sunstone Hotel Investors, Inc.
Hilton San Diego Bayfront	San Diego	California	1,190	April-11	Leasehold Ground, Partial	\$474,800,000	\$399,000	Sunstone Hotel Investors, Inc.	ING Clarion Partners LLC
Stonebridge Hotel Fort McMurray	Fort McMurray	Alberta	134	March-11	Fee Simple	\$28,100,000	\$210,000	Shelbra International Inc.	Stonebridge Hotel Ltd.
Hilton Garden Inn Denver Downtown	Denver	Colorado	221	March-11	Fee Simple	\$58,600,000	\$265,000	Apple REIT Ten, Inc.	5280 Lodging, LLC
Hyatt Manchester Grand San Diego	San Diego	California	1,625	March-11	Leasehold Ground	\$570,400,000	\$351,000	Host Hotels & Resorts, Inc.	Manchester Grand Resorts
Holiday Inn Express New York City Wall Street	New York	New York	112	March-11	Fee Simple	\$40,100,000	\$358,000	Hersha Hospitality Trust	McSam Hotel Group
New York Helmsley Hotel	New York	New York	775	March-11	Fee Simple	\$313,900,000	\$405,000	Host Hotels & Resorts, Inc.	Helmsley Enterprises, Inc.
Viceroy Santa Monica Hotel	Santa Monica	California	162	March-11	Leasehold Ground	\$80,000,000	\$494,000	LaSalle Hotel Properties	The Kor Group
Argonaut Hotel San Francisco	San Francisco	California	252	February-11	Leasehold Ground	\$83,900,000	\$333,000	Pebblebrook Hotel Trust	Kimpton Group
Best Western Tuscan Inn at Fishermans Wharf	San Francisco	California	221	February-11	Fee Simple	\$52,600,000	\$238,000	Walnut Hill Group	Edge Principal Advisors, LLP/Abacus Lodging Investors, LLC
JW Marriott San Francisco	San Francisco	California	338	February-11	Leasehold Ground	\$96,000,000	\$284,000	Thayer Lodging Group	Ashford Hospitality Trust
Holiday Inn Express New York City Fifth Avenue	New York	New York	125	February-11	Fee Simple	\$43,900,000	\$351,000	Walnut Hill Group	Magna Hospitality Group
Hotel Icon	Houston	Texas	135	January-11	Fee Simple	\$27,000,000	\$200,000	Canyon Johnson Urban Funds/Centurion Partners, JV	LH Houston Holding, LP

As illustrated by the preceding figure, the number of transactions carrying a price tag of over \$200,000 per room continued to increase in the year-to-date period through July 2011. A total of 40 such properties transacted in the year-to-date period through July 2011, approaching 2010 year-end total of 48.

Given the preceding data, the following figure details the recent prevailing capitalization rates, equity yield requirements, and pro-forma discount rates by property type. HVS prepared these data through analysis of recent sales, appraisal work, and extensive interviews with market participants.

CURRENT CAPITALIZATION, EQUITY YIELD, AND DISCOUNT RATES

	Overall Capitalization				
	Rate Based On				
	T-12	Year One	Equity Yield	Terminal Cap Rate	Discount Rate
Luxury	3-5%	5-7%	12-15%	6.5-8%	9.0-10.5%
Upper Upscale	4-7%	6-8%	14-17%	8-9.5%	9.5-11.5%
Upscale/Mid-Scale	5-8%	7-9%	16-19%	9-11%	11-12.5%

Considering the fact that a strong recovery in income levels is anticipated over the next few years, overall capitalization rates across the board remain fairly low. This is particularly the case for luxury and trophy assets – these assets incurred strong declines in performance in 2009 and first half of 2010, and thus potent recoveries are anticipated for these assets as the economic recovery intensifies.

In the initial months of the latest downturn, equity yields increased, reflecting the elevated level of the perceived risk of the hospitality sector and the uncertainty concerning the length and depth of the downturn. As noted, over the past year, income levels have begun to illustrate signs of recovery. With a limited number of assets currently available for sale, competition for quality hotel assets has been increasing. As noted, many cash-rich buyers are looking to invest in hotels. However, given the limited amount of hotel product available for purchase, pricing has trended upward while equity yield and discount rates have trended downward.

Understanding the HVI

The Hotel Valuation Index (HVI) tracks hotel values in 51 major markets and the United States as a whole. Created in 1987 by HVS, the HVI is derived from an income capitalization approach, utilizing market area data provided by Smith Travel Research (STR) and historical operational information from HVS's extensive global experience in hotel feasibility studies and valuations. The data are then aggregated to produce a pro-forma performance for a typical full-service hotel in each respective market of the United States. Based upon our experience of real-life hotel financing structures gained from valuing thousands of hotels each year, we then apply appropriate valuation parameters for each market, including loan-to-value ratios, real interest rates, and equity return expectations. These market-specific valuation parameters are applied to the net operating income for a typical full-service hotel in each city.

The HVI is an indexed value that uses the 1987 value of a typical U.S. hotel (1987 = 1.0000) as a base. Each market area is then indexed off this base, with a number showing the value relationship of that market area to the base. For example, in 1987, the index for New York was 1.3797, which means that the value of a hotel located in New York was approximately 38% higher than that of a similar hotel in the U.S. in 1987.

Another useful comparison highlights the value differences between hotels in two different U.S. cities. For example, say that a hotel in Philadelphia, Pennsylvania, sold in 2008 for \$100,000 per room. If a similar hotel were situated in New York, it would probably have sold for roundly \$461,600 per room in 2008. This figure is calculated by taking the 2008 HVI for New York, and dividing it by the 2008 HVI for Philadelphia to determine the value adjustment.

$$\text{2008 HVI New York (12.5096) / 2008 HVI Philadelphia (2.7100) = 4.6160}$$

The 2008 sales price of \$100,000 per room is then multiplied by the amount of the previously calculated factor of 4.6160, yielding the estimated 2008 sales price per room for New York.

$$\$100,000 \times 4.6160 = \$461,600$$

To calculate the percentage change of hotel values in the same market at different points in time using the HVI, divide the HVI for the last year by the HVI for the first year, and then subtract 1 from this calculation. For example, in 2006, the HVI for Miami was 6.1717, and in 2008, the HVI for the city was 6.8243. To calculate the estimated percentage change in value for a typical Miami hotel from 2006 to 2008, divide the 2008 HVI for Miami by the 2006 HVI, and then subtract 1 to get an approximate 11% increase in value from 2006 to 2008.

$$(6.8243/6.1717) - 1 = 0.1057, \text{ or roundly } 11\%$$

2011 HVI Highlights

We previously discussed our value projections for the U.S. as a whole. The following table provides insight into the changes in per-room value in 2010 over 2009 for the ten markets that experienced the worst declines and the ten markets that fared the best, along with the U.S. average.

CHANGES IN VALUE PER ROOM – 2010 (ROUNDED)

Rank			Rank		
1	San Francisco	\$75,000	43	Philadelphia	(\$600)
2	Oahu	\$68,000	44	Indianapolis	(\$750)
3	Boston	\$60,000	45	Long Island	(\$1,000)
4	Miami	\$39,000	46	Cincinnati	(\$1,100)
5	Los Angeles	\$36,000	47	Richmond	(\$1,800)
6	Washington DC	\$35,000	48	Tampa	(\$2,000)
7	Chicago	\$35,000	49	Buffalo	(\$2,500)
8	Pittsburgh	\$26,000	50	Norfolk	(\$6,000)
9	San Jose	\$26,000	51	Las Vegas	(\$12,000)
10	Denver	\$25,000	52	Houston	(\$15,000)
23	United States	\$10,000			

Source: HVS

As indicated in our previous discussion, the severe economic recession, which worsened in 2009 to reach its nadir during the summer months, had a significant impact upon per-room values in the U.S. However, the U.S. lodging industry experienced a moderate turn-around in 2010. The U.S. average change in per-room value equated to a \$10,000 increase, which ranks 23 out of the 52 major markets evaluated.

Ranking first in 2010 with the most significant per-room decline was Houston. Historically, the Houston market has been prone to a high degree of volatility. Strong declines in RevPAR during recession years are followed by even stronger increases during recovery years. The most recent recession is anticipated to be no exception. Houston incurred the largest RevPAR decline in 2010, which resulted in the highest per-room decline in value, at \$15,000 per room. Similarly, the Las Vegas lodging market's heavy reliance on meeting & group bookings has forced this once robust market area into a dangerous downward spiral.

At the opposite end of the spectrum was the San Francisco lodging market, which achieved the highest per-room value increase in 2010. San Francisco was quick to recover from the economic downturn of 2009, registering positive gains in both occupancy and average rates by mid-2010. These hearty dynamics translated into staunch value growth in 2010.

The following figure presents the per-room values forecast for the top ten and bottom ten markets for 2011; we note that the annual HVI represents per-room values as of the end of the year. Despite a modest pace of improving operating fundamentals in the first half of the year, improvements in demand levels have resulted to strengthening average rate trends in many markets. These improving dynamics coupled with the frenzied nature of buyers for quality assets are anticipated to yield a positive per-room value change for the U.S. in 2011. While competitive bidding among buyers is likely increasing per-room value, these increases are partially tempered by the fact that most winning bids are all-cash offers.

PROJECTED CHANGES IN VALUE PER ROOM – 2011 (ROUNDED)

Rank			Rank		
1	San Francisco	\$51,000	43	Raleigh-Durham	\$9,000
2	Oahu	\$41,000	44	Nashville	\$8,000
3	New Orleans	\$34,000	45	Memphis	\$8,000
4	San Diego	\$34,000	46	Norfolk	\$8,000
5	Chicago	\$26,000	47	Tucson	\$7,000
6	Miami	\$25,000	48	Indianapolis	\$7,000
7	Phoenix	\$25,000	49	Buffalo	\$6,000
8	Orlando	\$23,000	50	St. Louis	\$6,000
9	Anaheim	\$22,000	51	Sacramento	\$4,000
10	Los Angeles	\$22,000	52	Albuquerque	\$4,000
18	United States	\$18,000			

Source: HVS

San Francisco and Oahu are anticipated to exhibit the greatest growth in per-room values in 2011. As noted, San Francisco is prone to high volatility, and year-to-date data already illustrate a strong rebound for this market.

VALUE DECLINE FROM 2006 TO 2010 (PERCENTAGE)

1	WPB - Boca Raton	-77%	43	Cincinnati	-20%
2	Las Vegas	-75%	44	Houston	-18%
3	Tucson	-72%	45	Portland	-12%
4	Phoenix	-71%	46	Denver	-12%
5	Sacramento	-71%	47	Boston	-9%
6	Tampa	-69%	48	Austin	-6%
7	Detroit	-66%	49	San Francisco	-4%
8	Jacksonville	-62%	50	Pittsburgh	4%
9	Orlando	-59%	51	Washington DC	10%
10	Chicago	-55%	52	Buffalo	45%
21	<i>United States</i>	-44%			

Source: HVS

As noted, the year 2006 represents the value peak for the U.S. as a whole, and for most major markets. Due to reasons mentioned previously, WPB – Boca Raton exhibited the largest decline in value between 2006 and 2010. Hotel values in the Las Vegas market, which incurred a dramatic decline in 2009, continued to erode in 2010. This market has been particularly impacted by major additions to supply in recent years. Lodging supply in this market increased by 2.7% in 2008, 3.5% in 2009, and a 5.1% increase in supply in 2010. MGM Resorts International and Dubai World opened their massive CityCenter complex in December 2009, which represented three properties totaling roughly ±5,900 rooms. Moreover, the Las Vegas market particularly relies on demand generated by the meeting and group segment. Such demand is yet to recover, as group demand from corporations remains limited. Many firms are wary of risking damage to their image following the vilification of numerous entities that accepted massive publicly funded bailouts. In contrast, Buffalo, NY has been a vanguard of market stability during the same period. Thus, this market is forecast to record the largest increase in value during the period reviewed.

RECOVERY- CHANGE IN VALUE PER ROOM 2010-2015

Rank			Rank		
1	San Francisco	\$233,000	43	Nashville	\$56,000
2	Oahu	\$185,000	44	Memphis	\$54,000
3	New York	\$180,000	45	Indianapolis	\$53,000
4	San Diego	\$128,000	46	Miami	\$53,000
5	Phoenix	\$126,000	47	Cincinnati	\$52,000
6	Las Vegas	\$118,000	48	Milwaukee	\$50,000
7	Chicago	\$114,000	49	Norfolk	\$42,000
8	New Orleans	\$114,000	50	St. Louis	\$40,000
9	San Antonio	\$105,000	51	Buffalo	\$40,000
10	Dallas	\$103,000	52	Albuquerque	\$32,000
19	United States	\$85,000			

Source: HVS

RECOVERY- CHANGE IN VALUE PER ROOM 2010-2015 (PERCENTAGE)

Rank			Rank		
1	Las Vegas	324%	43	Albuquerque	65%
2	Tampa	254%	44	Anaheim	64%
3	Phoenix	228%	45	Oahu	61%
4	Detroit	223%	46	New York	56%
5	Tucson	196%	47	Pittsburgh	54%
6	Cleveland	190%	48	Los Angeles	53%
7	Richmond	187%	49	Buffalo	47%
8	Sacramento	175%	50	Boston	39%
9	WPB - Boca Raton	165%	51	Miami	26%
10	Orlando	145%	52	Washington DC	22%
16	United States	130%			

Source: HVS

On a dollar basis, Las Vegas and Tampa are expected to register the most growth from low point to 2015. Because of the overheating of the real estate market in 2006 and 2007 and as discussed previously, Las Vegas has recorded the most substantial decrease. As such, this market is forecast to represent the strongest rebound on a percentage basis.

The following figures summarize key results of the 2011 HVI projections.

VALUE-PER-ROOM RANKINGS – 2006, 2009 AND 2015 (ROUNDED)

2006 - Peak		2009-Valley		2015-Projected Value	
New York	\$383,000	New York	\$300,000	San Francisco	\$539,000
Oahu	\$337,000	Washington DC	\$264,000	New York	\$500,000
San Francisco	\$240,000	Oahu	\$236,000	Oahu	\$488,000
Washington DC	\$240,000	San Francisco	\$230,000	Washington DC	\$363,000
San Diego	\$230,000	Boston	\$195,000	Boston	\$354,000
Miami	\$220,000	Miami	\$162,000	San Diego	\$278,000
Boston	\$215,000	San Diego	\$145,000	Miami	\$254,000
Chicago	\$198,000	Los Angeles	\$128,000	Los Angeles	\$251,000
Los Angeles	\$193,000	Austin	\$126,000	Chicago	\$239,000
WPB - Boca Raton	\$193,000	Seattle	\$119,000	Seattle	\$225,000

VALUE-PER-ROOM RANKINGS – AVERAGE ANNUAL COMPOUNDED CHANGE 1987 TO 2015

Rank			Rank		
1	Austin	10%	43	Orlando	3%
2	New York	9%	44	Buffalo	3%
3	Miami	9%	45	Tucson	3%
4	Houston	7%	46	Indianapolis	3%
5	Denver	7%	47	Philadelphia	2%
6	San Antonio	7%	48	Richmond	2%
7	Oahu	7%	49	Albuquerque	2%
8	Portland	7%	50	Detroit	2%
9	San Francisco	6%	51	Norfolk	1%
10	New Orleans	6%	52	Long Island	1%
19	United States	5%			

Source: HVS

The following figures present the historical and projected estimates for the Hotel Valuation Index. For informational purposes, we have presented HVI results between 1987 and 2004, then from 2005 to 2010, plus forecasts from 2011 through 2015.

HOTEL VALUATION INDEX – 1987 TO 2004

Market	HISTORICAL ESTIMATES																
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Albuquerque	1.2915	1.2708	1.5871	1.5722	1.6266	1.6771	1.8552	1.8240	1.7560	1.5823	1.5756	1.1694	1.0056	1.1045	0.9719	1.0473	0.9906
Anaheim	1.3220	1.3953	1.4539	0.9892	0.7899	0.6252	0.8368	0.7401	1.1254	1.3849	1.6683	1.5607	1.6211	2.2258	2.3159	2.0279	2.3218
Atlanta	1.3797	1.2398	1.1953	1.0528	1.0223	1.2159	1.6769	2.0222	2.4662	2.7377	2.2414	2.2458	2.2964	2.2953	1.7543	1.6378	1.3696
Austin	0.4022	0.3560	0.5455	0.6551	0.7993	1.0662	1.3944	1.6566	2.3965	2.2677	2.5236	2.4502	2.4787	3.0194	2.0017	1.5694	1.3588
Baltimore	1.5667	1.3242	1.2837	0.9072	0.7781	0.8608	0.9609	1.2038	1.5350	1.8123	2.3598	2.5495	2.8316	3.3718	2.9698	3.4163	3.4470
Boston	2.5803	2.7079	2.3338	2.4630	1.8153	2.0223	2.4707	3.2626	4.1306	4.7294	6.4254	6.7620	7.0476	8.2063	5.3752	4.5937	3.1799
Buffalo	1.3565	1.2740	1.5669	1.5352	1.5439	1.2993	1.2066	1.1330	1.1908	1.2113	1.3945	1.2355	1.3416	1.4199	1.1654	1.2191	1.1119
Charlotte	1.1741	1.1504	1.0877	0.7615	0.5684	0.6334	0.7142	0.9955	1.3617	1.7419	1.9956	1.9601	1.9418	1.6160	1.0218	1.0920	1.0540
Chicago	1.6660	1.5906	1.4130	1.4266	1.1749	1.2135	1.4659	2.0733	2.5600	3.1069	3.9542	3.9975	4.0703	4.2041	2.7175	2.5052	2.5638
Cincinnati	1.1563	1.1981	1.1594	1.0945	1.0202	1.0872	1.1269	1.2446	1.3731	1.5032	1.6914	1.5981	1.5374	1.4412	0.9973	1.1428	1.2326
Cleveland	0.8386	0.9111	0.9613	0.7653	0.6945	0.7679	0.9663	1.2638	1.7757	1.6990	1.9651	1.7758	1.6882	1.5952	1.0697	0.9536	0.7995
Dallas	0.9156	0.9905	1.2193	1.1470	1.1706	1.4429	1.5940	1.9833	2.4551	2.6608	2.8724	2.7837	2.4765	2.5651	1.6186	1.5036	1.2393
Denver	0.8620	0.7986	0.7784	0.9138	1.0673	1.2656	1.6357	1.8652	2.2120	2.4440	2.9010	2.6476	2.2310	2.3945	1.8383	1.6464	1.4325
Detroit	1.4715	1.1811	0.8845	0.5201	0.3353	0.4452	0.5758	0.9538	1.2799	1.3963	1.5759	1.7069	1.9673	2.1054	1.4808	1.1673	0.9490
Fort Lauderdale	1.0896	1.0110	1.1466	0.9757	0.8156	1.5333	1.3094	0.9815	1.3652	1.6337	2.2311	2.0343	2.2217	2.3181	2.0038	1.7665	2.1607
Houston	0.5420	0.7464	0.8181	1.0494	1.1231	1.1610	1.1379	1.1450	1.3026	1.3873	1.8952	1.9654	1.6571	1.8088	1.9016	1.7435	1.2778
Indianapolis	1.1994	1.1020	1.1525	0.9634	0.9427	1.0538	1.1831	1.3965	1.7310	1.7046	1.9031	1.6257	1.4756	1.7626	1.5892	1.6325	1.6059
Jacksonville	0.9149	0.8568	0.9218	0.7311	0.5471	0.7592	0.8708	1.0870	1.4329	1.6776	1.9243	1.5903	1.7051	1.8608	1.7071	1.9857	2.3665
Kansas City	1.0058	1.0153	0.9626	0.7667	0.6733	0.8151	1.1000	1.2908	1.6905	1.8991	2.0965	1.8218	1.6275	1.5415	1.3129	1.2938	1.0115
Las Vegas	0.9703	0.9555	1.0094	1.1587	0.7158	0.8500	1.3523	2.1388	2.5350	3.2622	3.2307	2.6854	2.9638	3.8388	3.2920	3.4987	5.1457
Long Island	3.7499	2.8609	2.2314	1.2611	0.8456	0.7703	0.9377	1.2250	1.6704	2.0771	2.6706	3.1684	4.1148	5.2680	4.6117	4.0571	3.8664
Los Angeles	1.6660	1.5483	1.5627	1.5952	1.0343	0.5690	0.4337	0.8490	0.8761	1.2627	2.0160	2.4123	2.6847	3.3454	2.4958	2.3953	2.5114
Memphis	0.9256	0.6730	0.6647	0.5616	0.6504	0.7378	0.9388	1.2871	1.4844	1.4803	1.7287	1.5753	1.3083	1.1095	0.9125	1.0189	0.9661
Miami	0.7012	0.8215	0.9987	1.3408	1.2943	2.2444	1.7389	0.8235	1.5046	1.7479	2.4496	2.5273	3.0889	3.1251	2.1399	1.5424	2.0095
Milwaukee	0.9468	0.9226	0.8631	0.8284	0.6328	0.6227	0.7226	0.8100	0.9380	0.9267	1.1648	1.2214	1.2127	1.3313	0.9816	1.1257	1.1738
Minneapolis	1.0946	0.8925	0.7574	0.6484	0.8661	1.1618	1.4375	1.7610	2.1029	2.0762	2.3574	2.3717	2.2191	2.3820	1.8595	1.7789	1.5495
Nashville	1.1112	1.1687	1.2620	0.9797	0.9270	1.1340	1.3483	1.7218	2.0948	2.1294	2.3773	1.9646	1.8035	1.6564	1.2524	1.4198	1.5930

HOTEL VALUATION INDEX – 1987 TO 2004 (CONTINUED)

Market	HISTORICAL ESTIMATES																
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
New Orleans	1.0619	1.3622	1.4547	1.5741	1.6811	2.1094	2.0719	2.6460	3.0312	2.9371	3.3898	3.4842	3.8548	4.0975	3.4208	3.3033	2.9876
New York	1.3182	1.3549	1.1210	0.8786	0.8364	0.6970	0.8364	0.5576	1.3556	2.6500	4.7503	6.3549	6.8927	8.2612	3.7267	2.7900	2.7881
Norfolk	1.4238	1.2045	1.1265	0.7927	0.6823	0.7182	0.7302	0.7529	0.9119	0.8392	1.0930	1.1956	1.0909	1.2026	1.1737	1.7421	2.0556
Oahu	2.1834	2.5399	3.1870	4.0155	3.4147	3.9805	2.8787	3.2135	4.5598	4.5979	5.0713	3.9021	3.4489	4.6048	3.4328	3.6325	4.2960
Oakland	1.2794	1.1892	1.2142	0.9744	0.9372	0.9584	0.8035	0.9041	1.2914	1.8073	2.7078	2.9417	3.0389	4.1551	3.2382	2.2324	1.5597
Orlando	1.7378	1.8355	2.4008	2.1639	1.8631	2.2073	2.0555	1.9579	2.2922	3.0006	3.7644	3.4412	3.1884	3.3315	2.2347	2.3289	2.1823
Philadelphia	1.9904	1.5994	1.3843	0.9427	0.6186	0.5212	0.6997	0.9934	1.3517	1.8487	2.4493	2.3960	2.2722	2.3269	1.7404	2.1688	1.9775
Phoenix	1.3389	1.0659	1.5575	1.3966	1.1730	1.3491	1.8508	2.5874	3.3033	3.6150	3.8670	3.0921	2.5940	2.6181	1.9657	1.7540	2.0152
Pittsburgh	1.2944	1.1737	1.2757	1.1964	1.1350	1.2905	1.3385	1.5190	1.5630	1.6766	1.6935	1.5463	1.6190	1.7065	1.1997	1.2598	1.2151
Portland	0.8523	1.1642	1.6770	1.7048	1.8112	1.7693	1.9544	2.0734	2.5423	2.7513	2.6822	2.1712	1.8494	1.7556	1.4093	1.4129	1.3403
Raleigh-Durham	1.0696	0.8941	0.7524	0.6279	0.5615	0.7648	1.0013	1.1156	1.6692	2.1045	2.3021	1.7022	1.5931	1.7257	1.3343	1.2900	1.2506
Richmond	1.4675	1.3986	1.3541	1.2097	0.9188	0.9155	1.0124	1.0496	1.1905	1.3621	1.5959	1.5606	1.3666	1.4256	1.1333	1.1621	1.5758
Sacramento	0.9081	0.8946	0.9318	0.8165	0.7344	0.9616	1.1104	1.2191	1.4237	1.2722	1.5339	1.6646	1.6892	2.1148	1.8311	1.9009	2.0042
Salt Lake City	1.1479	1.3875	1.6178	1.5802	1.6652	1.8313	2.1887	2.3828	2.6431	3.1340	3.1228	2.5218	1.9382	1.8537	1.7634	2.8837	1.8488
San Antonio	0.8254	1.1697	1.3597	1.3422	1.4672	2.0071	2.4186	2.3102	2.3118	2.0637	2.1943	2.3506	2.2823	2.4335	2.2570	2.7313	2.4796
San Diego	1.8992	1.7008	1.7127	1.2241	1.2467	1.1951	1.0633	1.2544	1.6681	2.0457	2.9662	3.7134	3.8813	4.3371	3.8948	4.0639	4.4497
San Francisco	2.6931	2.5040	2.4165	2.9037	2.4400	2.4430	2.8604	3.3339	4.2517	5.3394	7.3189	7.4874	7.4415	9.0858	5.2681	3.2880	2.9149
San Jose	1.5739	1.6657	1.8935	1.5767	1.2925	1.1733	1.2181	1.4730	2.2886	3.2112	4.4185	4.4461	4.6188	6.5847	4.0642	2.4176	1.2950
Seattle	1.4658	1.6240	2.0256	1.9887	1.8974	1.8889	2.0071	2.1571	2.7925	3.0239	3.4655	3.3748	3.0455	3.1015	2.4131	2.1715	2.2622
St. Louis	0.8170	0.7622	0.8139	0.7258	0.6782	0.7658	0.9648	1.1732	1.3696	1.4094	1.4971	1.3321	1.3603	1.4777	1.2350	1.4177	1.1944
Tampa	0.6695	0.7042	0.9699	0.9161	0.8868	0.9101	0.9197	0.9544	1.0854	1.3783	1.8892	1.8542	1.9503	2.0427	1.8890	1.6073	1.6003
Tucson	1.1738	1.2013	1.3488	1.2339	1.1752	1.3275	1.7985	1.9313	2.5244	2.5436	2.5233	2.2683	2.1322	2.0804	1.7473	1.5337	1.5069
United States	1.0000	0.9848	1.0216	0.8599	0.7342	0.7913	0.8696	1.0004	1.2015	1.3401	1.5992	1.6173	1.6583	1.8738	1.4270	1.4269	1.4244
Washington DC	1.9327	1.9346	2.0035	1.7577	1.5095	1.7246	2.2816	2.2477	2.7768	2.7469	3.7356	3.7302	4.0383	4.6320	3.6777	3.9715	4.2486
WPB - Boca Raton	1.1123	1.0527	1.0722	0.5130	0.2816	0.7403	1.2803	1.2422	1.5063	1.6030	2.2731	2.2780	2.3491	2.7753	2.4365	2.4564	2.8197

HOTEL VALUATION INDEX – 2005 THRU FORECAST 2011 - 2015

Market	HISTORICAL ESTIMATES						FORECAST				
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Albuquerque	1.2647	1.6033	1.5650	1.5358	1.1660	1.3557	1.4614	1.6880	1.8511	2.0161	2.2354
Anaheim	4.0177	4.7284	4.5406	3.7973	3.0307	3.4919	4.1065	4.7036	5.2142	5.3460	5.7316
Atlanta	2.4655	3.0407	2.6513	2.0662	1.5370	2.0011	2.4893	3.1444	3.7478	4.0537	4.4252
Austin	2.5109	3.7222	3.9894	3.9298	3.4999	3.5580	4.0679	4.9025	5.5838	5.7232	5.9749
Baltimore	4.0237	4.3289	3.7481	2.8072	2.5451	2.7062	2.9979	3.5742	4.1035	4.2856	4.6110
Boston	5.3263	5.9889	7.2986	6.3803	5.4312	7.0949	7.6623	7.8874	8.6571	8.9771	9.8747
Buffalo	1.3194	1.7022	1.8772	2.1379	2.4635	2.3930	2.5661	3.0889	3.3350	3.3542	3.5105
Charlotte	1.8351	2.7294	2.9544	2.5397	1.9742	2.4715	2.8263	3.3857	3.7957	3.9808	4.3243
Chicago	3.8789	5.5203	5.8970	4.6797	2.4955	3.4616	4.1999	4.6803	5.5516	6.0246	6.6529
Cincinnati	1.6669	1.9924	1.8082	1.7347	1.5902	1.5603	1.8290	2.3151	2.6484	2.7637	3.0124
Cleveland	1.0530	1.6244	1.5203	1.0955	0.7596	0.8925	1.2796	1.8087	2.2465	2.4101	2.5904
Dallas	2.3245	2.9771	2.7381	2.4703	1.7871	2.0850	2.6433	3.4278	4.1841	4.4833	4.9590
Denver	2.4150	3.4302	3.6912	3.6143	3.0281	3.7127	4.2674	5.0155	5.5845	5.8156	6.1677
Detroit	1.2858	1.6574	1.4045	1.0862	0.5576	0.6970	1.0796	1.6179	1.9235	2.0499	2.2491
Fort Lauderdale	3.8784	4.4574	3.9435	3.1907	2.3297	2.9671	3.4498	3.9667	4.4670	4.6809	5.0383
Houston	2.4708	2.9499	3.0259	3.6058	2.4197	1.9966	2.3015	2.7458	3.2432	3.4678	3.8993
Indianapolis	2.0549	2.5174	2.2266	1.8186	1.3657	1.3448	1.5335	1.8187	2.1861	2.4675	2.8302
Jacksonville	3.3248	3.3671	2.9488	2.1193	1.2643	1.4076	1.8081	2.2689	2.6646	2.9836	3.3488
Kansas City	1.4809	1.9300	1.8259	1.4792	1.1554	1.2812	1.5415	2.0146	2.4511	2.6738	3.0182
Las Vegas	5.8598	5.2958	5.9111	4.4109	1.3414	1.0139	1.2744	1.7899	2.6351	3.6531	4.3032
Long Island	4.3404	4.1055	4.0097	3.3797	2.6342	2.6048	2.8829	3.2956	3.7996	4.1128	4.6737
Los Angeles	4.8761	5.3944	6.0310	5.3317	3.5760	4.5719	5.1801	5.2869	5.9999	12.6831	7.0069
Memphis	1.6642	2.1485	2.0411	1.4559	1.1627	1.1690	1.3945	1.7536	2.1025	2.3390	2.6881
Miami	5.8484	6.1253	7.8886	6.9984	4.5134	5.6009	6.2979	6.4921	6.5207	6.7375	7.0725
Milwaukee	1.5614	2.1886	1.9623	1.9498	1.0435	1.2940	1.6295	2.0381	2.3009	2.3884	2.6963
Minneapolis	2.5886	3.0629	2.8428	2.4554	1.6640	2.1036	2.5430	3.0748	3.4916	3.7943	4.1829
Nashville	2.0829	2.9683	2.7893	2.3080	1.8973	1.9997	2.2343	2.6595	3.0471	3.1875	3.5472

HOTEL VALUATION INDEX – 2005 THRU FORECAST 2011 - 2015 (CONTINUED)

	HISTORICAL ESTIMATES						FORECAST				
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
New Orleans	3.8218	3.2412	1.9782	2.3667	2.0640	2.7184	3.6801	4.5331	5.1675	5.3714	5.8966
New York	8.7566	10.6828	13.9362	12.7886	8.3643	8.9219	9.2488	10.7640	11.9733	12.7714	13.9360
Norfolk	1.7918	1.7856	1.7778	1.0240	1.0247	0.8590	1.0773	1.3619	1.5792	1.7390	2.0428
Oahu	9.2467	9.4110	8.9102	7.5067	6.5700	8.4602	9.5996	10.3905	11.4438	12.2464	13.6105
Oakland	2.1825	2.8145	2.8888	2.2792	1.2965	1.5638	1.9225	2.3610	2.7910	3.0714	3.5432
Orlando	3.2957	3.5174	3.1822	2.5518	1.4585	1.8416	2.4946	3.2233	3.8425	4.1362	4.5155
Philadelphia	2.8570	3.3292	3.2666	2.7400	2.0399	2.0233	2.6103	3.2997	3.7429	3.7343	3.9457
Phoenix	3.7410	4.7820	4.3078	3.0904	1.3715	1.5428	2.2378	2.9118	3.5652	3.8801	5.0576
Pittsburgh	1.6225	2.4494	2.3672	2.8555	2.5391	3.2675	3.6207	4.3920	4.9084	4.8476	5.0377
Portland	2.3176	3.0920	3.2619	3.2588	2.7288	3.0856	3.4701	4.0747	4.5751	4.8050	5.2229
Raleigh-Durham	1.6460	2.2746	2.3025	1.8823	1.2636	1.2586	1.5093	1.8938	2.3109	2.6076	2.9933
Richmond	1.9589	2.2713	2.3378	1.8165	1.0455	0.9943	1.3785	1.8392	2.2489	2.4383	2.8506
Sacramento	2.4520	2.8852	2.2736	1.6759	0.8364	0.8922	1.0158	1.4075	1.7652	2.0225	2.4513
Salt Lake City	2.6847	3.5619	3.5056	3.1595	2.6071	2.7056	3.0863	3.7292	4.1957	4.3178	4.6029
San Antonio	3.2150	3.9306	3.3873	3.3020	2.3003	2.4822	3.0055	3.9038	4.6157	4.8640	5.4070
San Diego	5.3418	6.4167	6.0657	5.3845	4.0355	4.1676	5.1026	6.1562	7.0749	7.2760	7.7488
San Francisco	5.7092	6.7013	8.0002	8.3254	6.4219	8.5189	9.9277	10.9695	12.6900	13.7057	15.0213
San Jose	2.4533	3.6745	3.9104	3.5079	2.1214	2.8477	3.1593	3.7564	4.3109	4.5012	4.8427
Seattle	3.5611	4.8688	4.7822	4.3502	3.3089	3.6909	4.2312	5.1157	5.6396	5.8812	6.2780
St. Louis	1.5510	1.7525	1.7666	1.4887	1.1518	1.2923	1.4559	1.7137	2.0190	2.1720	2.4165
Tampa	2.6460	2.8722	2.3637	1.6532	0.8845	0.8284	1.1642	1.5975	2.1250	2.4512	2.9288
Tucson	2.6076	3.3112	3.0411	2.2366	0.9167	0.9934	1.1834	1.5315	1.9088	2.3036	2.9363
United States	2.2747	2.7558	2.6429	2.2451	1.5563	1.8256	2.3303	2.9088	3.4341	3.8036	4.2045
Washington DC	7.2075	6.6968	7.3626	6.8368	7.3530	8.3252	8.7954	8.8694	9.0958	9.6627	10.1276
WPB - Boca Raton	5.2901	5.3794	4.0608	2.9471	1.2546	1.5335	1.8215	2.4510	3.0285	3.5005	4.0626

The figures on the following two pages exhibit per-room values for 51 HVI markets and the United States from 2006 through 2010, together with forecasts through 2015. The subsequent two figures illustrate the annual percentage change in per-room hotel values by market for the same periods.

PER-ROOM VALUE BY MARKET – 2006 THRU FORECAST 2011- 2015

Market	HISTORICAL ESTIMATES					FORECAST					Prior Decline		Forecast Recovery	
											2006 - 2010		2010-2015	
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total	AACG	Total	AACG
Albuquerque	\$57,675	\$55,559	\$55,347	\$41,905	\$48,625	\$52,417	\$60,543	\$66,395	\$72,311	\$80,176	-15.7%	-5.5%	65%	8.7%
Anaheim	171,080	163,330	137,400	112,403	125,242	147,286	168,702	187,017	191,742	205,573	-26.8%	-9.9%	64%	8.6%
Atlanta	109,962	95,258	74,180	55,253	71,774	89,282	112,780	134,420	145,392	158,717	-34.7%	-13.3%	121%	14.1%
Austin	134,718	142,967	141,217	125,452	127,615	145,901	175,835	200,272	205,273	214,301	-5.3%	-1.8%	68%	9.0%
Baltimore	155,739	134,658	101,113	91,899	97,064	107,523	128,194	147,178	153,711	165,382	-37.7%	-14.6%	70%	9.3%
Boston	214,867	261,472	226,979	190,991	254,471	274,823	282,897	310,502	321,978	354,173	18.4%	5.8%	39%	5.7%
Buffalo	61,265	67,573	72,545	72,717	85,827	92,038	110,789	119,616	120,304	125,909	40.1%	11.9%	47%	6.6%
Charlotte	97,187	106,084	90,855	67,490	88,644	101,369	121,433	136,139	142,777	155,100	-8.8%	-3.0%	75%	9.8%
Chicago	199,370	211,256	166,835	88,008	124,157	150,635	167,868	199,118	216,084	238,617	-37.7%	-14.6%	92%	11.5%
Cincinnati	69,443	62,214	60,067	51,248	55,962	65,601	83,037	94,988	99,124	108,047	-19.4%	-6.9%	93%	11.6%
Cleveland	58,367	55,621	39,323	28,397	32,010	45,896	64,873	80,573	86,442	92,909	-45.2%	-18.1%	190%	19.4%
Dallas	107,306	98,121	88,903	65,012	74,782	94,806	122,944	150,068	160,801	177,864	-30.3%	-11.3%	138%	15.5%
Denver	125,210	132,373	129,622	108,696	133,162	153,059	179,889	200,299	208,588	221,216	6.4%	2.1%	66%	8.8%
Detroit	59,675	50,363	39,126	25,000	25,000	38,723	58,027	68,991	73,522	80,668	-58.1%	-25.2%	223%	21.6%
Fort Lauderdale	159,939	141,335	114,479	83,708	106,422	123,733	142,271	160,216	167,888	180,708	-33.5%	-12.7%	70%	9.2%
Houston	105,392	108,216	129,596	86,939	71,611	82,546	98,484	116,323	124,377	139,855	-32.1%	-12.1%	95%	11.8%
Indianapolis	90,363	79,250	65,026	48,421	48,234	55,003	65,231	78,409	88,501	101,508	-46.6%	-18.9%	110%	13.2%
Jacksonville	120,880	106,728	77,736	47,076	50,486	64,852	81,378	95,571	107,010	120,111	-58.2%	-25.3%	138%	15.5%
Kansas City	66,662	61,593	52,864	37,617	45,951	55,290	72,259	87,914	95,899	108,253	-31.1%	-11.7%	136%	15.4%
Las Vegas	194,792	219,706	169,168	51,043	36,364	45,707	64,198	94,511	131,025	154,343	-81.3%	-42.8%	324%	27.2%
Long Island	147,271	143,932	124,114	96,581	93,425	103,401	118,202	136,281	147,512	167,631	-36.6%	-14.1%	79%	10.2%
Los Angeles	195,108	216,978	192,478	129,049	163,980	185,795	189,625	215,196	454,903	251,317	-16.0%	-5.6%	53%	7.4%
Memphis	78,052	73,175	53,019	41,904	41,930	50,017	62,897	75,409	83,891	96,412	-46.3%	-18.7%	130%	14.9%
Miami	224,139	282,815	247,839	159,843	200,885	225,884	232,851	233,878	241,652	253,666	-10.4%	-3.6%	26%	4.0%
Milwaukee	78,741	70,785	68,912	36,703	46,410	58,445	73,100	82,525	85,665	96,709	-41.1%	-16.2%	108%	13.0%
Minneapolis	110,979	103,375	89,459	61,754	75,448	91,208	110,282	125,231	136,090	150,028	-32.0%	-12.1%	99%	12.1%
Nashville	107,939	100,535	83,360	69,157	71,724	80,136	95,387	109,290	114,324	127,228	-33.6%	-12.7%	77%	10.0%

PER-ROOM VALUE BY MARKET – 2006 THRU FORECAST 2011 - 2015 (CONTINUED)

Market	HISTORICAL ESTIMATES					FORECAST					Prior Decline		Forecast Recovery	
											2006 - 2010		2010-2015	
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total	AACG	Total	AACG
New Orleans	\$116,117	\$70,254	\$85,109	\$71,917	\$82,683	\$114,885	\$143,331	\$169,130	\$188,345	\$215,707	-28.8%	-0.4%	88%	11.1%
New York	378,554	499,000	454,315	195,813	265,701	403,350	510,279	551,976	567,842	597,188	-29.8%	2.1%	48%	6.8%
Norfolk	64,986	62,655	36,266	29,442	18,081	21,294	30,237	43,103	56,958	71,438	-72.2%	-31.1%	235%	22.4%
Oahu	340,473	320,798	271,498	236,589	271,779	335,718	376,652	384,863	392,340	396,558	-20.2%	-0.5%	18%	2.8%
Oakland	100,892	103,730	82,322	46,226	49,876	61,549	73,827	91,334	108,497	127,384	-50.6%	-15.2%	107%	12.9%
Omaha	84,145	76,469	71,613	54,983	57,086	70,996	86,048	99,173	106,770	114,182	-32.2%	-5.5%	61%	8.2%
Orlando	126,281	114,328	92,819	54,961	64,872	80,712	97,160	111,179	124,732	140,008	-48.6%	-13.9%	73%	9.6%
Philadelphia	120,052	116,982	98,422	73,574	82,161	107,712	123,948	134,759	137,582	142,543	-31.6%	-3.6%	32%	4.8%
Phoenix	171,346	153,580	111,264	47,923	46,972	64,281	88,508	110,327	129,178	147,661	-72.6%	-27.9%	130%	14.9%
Pittsburgh	88,717	84,851	94,450	107,178	101,308	107,378	116,010	121,917	126,935	133,706	14.2%	6.6%	25%	3.7%
Portland	111,505	116,133	116,912	99,215	110,117	131,487	145,077	158,732	162,089	162,319	-1.2%	5.6%	23%	3.6%
Raleigh-Durham	81,827	81,785	67,414	45,032	35,499	41,725	52,302	65,015	78,157	90,793	-56.6%	-20.1%	118%	13.8%
Richmond	81,488	83,767	65,237	37,465	32,708	38,350	45,007	57,149	67,075	76,545	-59.9%	-22.2%	100%	12.2%
Sacramento	106,934	81,722	64,393	26,056	26,634	37,050	46,241	59,499	77,082	97,493	-75.1%	-29.8%	163%	17.5%
Salt Lake City	128,077	125,642	113,086	91,662	98,730	118,264	127,220	136,091	142,955	152,066	-22.9%	-2.6%	29%	4.3%
San Antonio	141,068	121,591	119,063	82,973	83,091	102,390	123,328	141,501	149,860	154,593	-41.1%	-10.1%	51%	7.1%
San Diego	230,514	217,374	193,724	145,804	151,926	182,754	209,004	232,879	244,096	256,141	-34.1%	-7.4%	40%	5.8%
San Francisco	241,139	286,662	299,799	232,696	248,182	280,684	308,983	351,995	375,072	396,624	2.9%	5.2%	41%	5.9%
San Jose	131,944	139,986	126,198	66,703	64,484	79,710	97,777	122,446	137,885	155,310	-51.1%	-15.5%	95%	11.8%
Seattle	174,894	171,258	156,066	119,399	134,891	166,436	186,828	207,621	214,812	225,407	-22.9%	-1.6%	35%	5.2%
St. Louis	63,336	63,483	53,813	41,752	44,159	54,972	66,901	78,913	84,481	87,978	-30.3%	-4.6%	60%	8.2%
Tampa	102,824	83,543	59,791	33,638	25,341	41,743	59,647	78,507	95,838	116,308	-75.4%	-26.0%	179%	18.6%
Tucson	119,317	108,924	77,520	30,017	31,295	37,578	52,616	72,275	92,484	113,715	-73.8%	-32.0%	203%	20.3%
United States	100,000	95,000	81,000	56,000	65,000	83,000	105,000	126,000	137,000	142,000	-35.0%	-6.0%	71%	9.4%
Washington DC	241,009	264,664	245,423	264,965	257,981	271,714	300,482	335,214	333,896	340,547	7.0%	4.1%	25%	3.8%

ANNUAL PERCENTAGE CHANGES IN PER-ROOM VALUE BY MARKET – 2006 THRU FORECAST 2011 - 2015

Market	HISTORICAL ESTIMATES					FORECAST				
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Albuquerque	28.0	(3.7)	(0.4)	(24.3)	16.0	7.8	15.5	9.7	8.9	10.9
Anaheim	18.3	(4.5)	(15.9)	(18.2)	11.4	17.6	14.5	10.9	2.5	7.2
Atlanta	24.0	(13.4)	(22.1)	(25.5)	29.9	24.4	26.3	19.2	8.2	9.2
Austin	52.5	6.1	(1.2)	(11.2)	1.7	14.3	20.5	13.9	2.5	4.4
Baltimore	7.6	(13.5)	(24.9)	(9.1)	5.6	10.8	19.2	14.8	4.4	7.6
Boston	12.5	21.7	(13.2)	(15.9)	33.2	8.0	2.9	9.8	3.7	10.0
Buffalo	29.4	10.3	7.4	0.2	18.0	7.2	20.4	8.0	0.6	4.7
Charlotte	48.5	9.2	(14.4)	(25.7)	31.3	14.4	19.8	12.1	4.9	8.6
Chicago	43.2	6.0	(21.0)	(47.2)	41.1	21.3	11.4	18.6	8.5	10.4
Cincinnati	16.0	(10.4)	(3.5)	(14.7)	9.2	17.2	26.6	14.4	4.4	9.0
Cleveland	54.1	(4.7)	(29.3)	(27.8)	12.7	43.4	41.3	24.2	7.3	7.5
Dallas	28.7	(8.6)	(9.4)	(26.9)	15.0	26.8	29.7	22.1	7.2	10.6
Denver	44.2	5.7	(2.1)	(16.1)	22.5	14.9	17.5	11.3	4.1	6.1
Detroit	29.1	(15.6)	(22.3)	(36.1)	0.0	54.9	49.9	18.9	6.6	9.7
Fort Lauderdale	15.1	(11.6)	(19.0)	(26.9)	27.1	16.3	15.0	12.6	4.8	7.6
Houston	19.2	2.7	19.8	(32.9)	(17.6)	15.3	19.3	18.1	6.9	12.4
Indianapolis	21.4	(12.3)	(17.9)	(25.5)	(0.4)	14.0	18.6	20.2	12.9	14.7
Jacksonville	0.6	(11.7)	(27.2)	(39.4)	7.2	28.5	25.5	17.4	12.0	12.2
Kansas City	25.3	(7.6)	(14.2)	(28.8)	22.2	20.3	30.7	21.7	9.1	12.9
Las Vegas	(8.0)	12.8	(23.0)	(69.8)	(28.8)	25.7	40.5	47.2	38.6	17.8
Long Island	(5.1)	(2.3)	(13.8)	(22.2)	(3.3)	10.7	14.3	15.3	8.2	13.6
Los Angeles	11.0	11.2	(11.3)	(33.0)	27.1	13.3	2.1	13.5	111.4	(44.8)
Memphis	28.4	(6.2)	(27.5)	(21.0)	0.1	19.3	25.8	19.9	11.2	14.9
Miami	6.1	26.2	(12.4)	(35.5)	25.7	12.4	3.1	0.4	3.3	5.0
Milwaukee	40.3	(10.1)	(2.6)	(46.7)	26.4	25.9	25.1	12.9	3.8	12.9
Minneapolis	18.0	(6.9)	(13.5)	(31.0)	22.2	20.9	20.9	13.6	8.7	10.2
Nashville	42.6	(6.9)	(17.1)	(17.0)	3.7	11.7	19.0	14.6	4.6	11.3

ANNUAL PERCENTAGE CHANGES IN PER-ROOM VALUE BY MARKET – 2006 THRU FORECAST 2011 - 2015 (CONTINUED)

Market	HISTORICAL ESTIMATES					FORECAST				
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
New Orleans	(15.7)	(39.5)	21.1	(15.5)	15.0	38.9	24.8	18.0	11.4	14.5
New York	21.2	31.8	(9.0)	(56.9)	35.7	51.8	26.5	8.2	2.9	5.2
Norfolk	1.1	(3.6)	(42.1)	(18.8)	(38.6)	17.8	42.0	42.5	32.1	25.4
Oahu	2.3	(5.8)	(15.4)	(12.9)	14.9	23.5	12.2	2.2	1.9	1.1
Oakland	29.1	2.8	(20.6)	(43.8)	7.9	23.4	19.9	23.7	18.8	17.4
Omaha	35.4	(9.1)	(6.4)	(23.2)	3.8	24.4	21.2	15.3	7.7	6.9
Orlando	6.4	(9.5)	(18.8)	(40.8)	18.0	24.4	20.4	14.4	12.2	12.2
Philadelphia	17.3	(2.6)	(15.9)	(25.2)	11.7	31.1	15.1	8.7	2.1	3.6
Phoenix	28.1	(10.4)	(27.6)	(56.9)	(2.0)	36.9	37.7	24.7	17.1	14.3
Pittsburgh	53.9	(4.4)	11.3	13.5	(5.5)	6.0	8.0	5.1	4.1	5.3
Portland	35.1	4.2	0.7	(15.1)	11.0	19.4	10.3	9.4	2.1	0.1
Raleigh-Durham	38.6	(0.1)	(17.6)	(33.2)	(21.2)	17.5	25.4	24.3	20.2	16.2
Richmond	15.7	2.8	(22.1)	(42.6)	(12.7)	17.3	17.4	27.0	17.4	14.1
Sacramento	21.5	(23.6)	(21.2)	(59.5)	2.2	39.1	24.8	28.7	29.6	26.5
Salt Lake City	32.9	(1.9)	(10.0)	(18.9)	7.7	19.8	7.6	7.0	5.0	6.4
San Antonio	22.1	(13.8)	(2.1)	(30.3)	0.1	23.2	20.4	14.7	5.9	3.2
San Diego	20.2	(5.7)	(10.9)	(24.7)	4.2	20.3	14.4	11.4	4.8	4.9
San Francisco	17.6	18.9	4.6	(22.4)	6.7	13.1	10.1	13.9	6.6	5.7
San Jose	49.2	6.1	(9.8)	(47.1)	(3.3)	23.6	22.7	25.2	12.6	12.6
Seattle	37.5	(2.1)	(8.9)	(23.5)	13.0	23.4	12.3	11.1	3.5	4.9
St. Louis	12.8	0.2	(15.2)	(22.4)	5.8	24.5	21.7	18.0	7.1	4.1
Tampa	8.8	(18.8)	(28.4)	(43.7)	(24.7)	64.7	42.9	31.6	22.1	21.4
Tucson	28.5	(8.7)	(28.8)	(61.3)	4.3	20.1	40.0	37.4	28.0	23.0
United States	22.0	(4.7)	(14.6)	(31.3)	16.1	27.7	26.5	20.0	8.7	3.6
Washington DC	(7.0)	9.8	(7.3)	8.0	(2.6)	5.3	10.6	11.6	(0.4)	2.0

Volatility Index

Investing in hotels is an exercise in balancing risks with rewards. An attractive hotel acquisition would offer low risk coupled with high returns. Hotels are subject to all types of risks that impact the certainty of achieving specific levels of return. Examples of hotel investment risks include the potential for overbuilding (e.g., excessive hotel supply), a decline in demand (e.g., employer closure, recession), incompetent management, functional and external obsolescence, poor brand recognition, over-leverage, natural and man-made disasters (e.g., volcanic ash in the atmosphere, oil spills). Each one of these risks translates into either lower than anticipated revenues and/or higher operating expenses, which result in a lower bottom line profit (return). With so many different types of risks, quantifying the overall risk of a hotel investment is difficult.

The Volatility Index is an analysis of the historical and projected rates of per-room value changes for an individual market. For the purposes of this analysis, we have utilized the data period of 2010 to 2015. Hotel value volatility is measured by calculating the standard deviation of the annual change in value divided by the average value over the same period. This result is then indexed to the volatility of a typical hotel in the United States. The Volatility Index shows the percentage relationship of the value volatility of a specific market to the value volatility of the United States. For example, Miami has a Volatility Index of 86%, which means that hotel values are 86% more volatile than the value of a typical hotel in the United States.

The following figure exhibits the index of volatility, illustrating the top ten most volatile and top ten least volatile markets based on historical and projected changes in value between 2010 and 2015.

VOLATILITY

Rank			Rank		
1	New York	117%	43	San Diego	-12%
2	San Jose	98%	44	San Antonio	-12%
3	Miami	86%	45	Portland	-13%
4	WPB - Boca Raton	72%	46	Baltimore	-16%
5	Las Vegas	72%	47	Indianapolis	-17%
6	Oakland	57%	48	Washington DC	-21%
7	Chicago	51%	49	St. Louis	-25%
8	Phoenix	51%	50	Albuquerque	-29%
9	San Francisco	44%	51	Buffalo	-34%
10	Los Angeles	41%	52	Cincinnati	-36%
37	United States	0%			

Source: HVS

As illustrated by the preceding figure, Cincinnati is found to be the least volatile at -36%, while New York is the most volatile, at 117%. We note that Cincinnati is forecast to exhibit a recovery through 2015 at a rate significantly lower than U.S. national average, while New York is forecast to exceed the U.S. average by roundly 22 percentage points, which is impressive when considering the dollar-per-room value for New York resulting from this growth rate. Although this relationship between growth potential and volatility is of interest, it is not consistent among all markets.

As indicated by the following figure, there are limited opportunities to find major markets that are less risky than the average U.S. hotel market but that provide a greater return. The following figure illustrates five markets that are less volatile than the U.S. average; these markets are anticipated to recover nearly in line with or above the U.S. forecast rate of recovery through 2015.

MARKETS WITH VOLATILITY BELOW U.S. AND RECOVERY RATE (THROUGH 2015) NEAR OR ABOVE U.S.

<u>Market</u>	<u>Value Change</u>	<u>Volatility Index</u>
Seattle	\$92,792	-7%
San Antonio	\$104,903	-12%
New Orleans	\$113,994	-8%
San Diego	\$128,444	-12%
<i>United States</i>	<i>\$85,322</i>	<i>0%</i>

Source: HVS

The per-room value of a typical hotel in the U.S. is anticipated to increase by roundly \$85,000 through 2015. The preceding table indicates that very few of the markets considered less risky than the U.S. are anticipated to exhibit a recovery near or above the U.S. per-room average through 2015. Although high risk does not necessarily equate to high returns, it appears that few investments are considered low risk and high return, similar to nearly every facet of business.

Those markets with a Volatility Index greater than the U.S. baseline that are forecast to realize growth of less than \$85,000 per room have been identified in the subsequent figure. While healthy profits are possible in any given market, the following markets represent investments that, on a macro level, are considered more risky and likely to yield a lesser return than the U.S. average.

MARKETS WITH VOLATILITY ABOVE U.S. AND RECOVERY RATE (THROUGH 2015) BELOW U.S.

<u>Market</u>	<u>Value Change</u>	<u>Volatility Index</u>
Norfolk	\$42,456	10%
Miami	\$52,781	86%
Milwaukee	\$50,299	29%
Detroit	\$55,668	37%
Memphis	\$54,482	15%
Sacramento	\$55,922	13%
<i>United States</i>	<i>\$85,322</i>	<i>0%</i>

Source: HVS

Although hotel value volatility is not the only measure of investment risk and the projected change in value is not the only measure of investment return, they are both important factors to consider when making a hotel investment, particularly in today's uncertain market. Irrespective of its incredibly high volatility, New York is still a highly attractive market as it is anticipated to realize value growth of roundly \$179,840 per room from 2010 to 2015. As in any sector, high risk investments are rewarded with the potential for high returns. Five of the markets that yielded the highest returns between 1987 and 2006 are included within the top seven most volatile markets. However, as indicated in the previous figure, volatility is not necessarily an indicator of growth potential.

Conclusions

Throughout 2011, volatility in the U.S. stock market and concerns over a weakening economy increased uncertainty in the hotel investment market. Based on our discussions with hotel investors, lenders, and brokers, we anticipate that forecasts of revenue growth will likely be moderated until there is greater clarity regarding the future prospects for our economy. Demand for hotel assets is still expected to remain strong due to an active market by yield-hungry investors and the low interest rate environment. The pullback by lodging REITs from their recent aggressive acquisition activity is expected to open up the market for investors that had recently been priced out of the market. Once market stability and consistent macroeconomic growth become commonplace, the U.S. lodging industry is anticipated to recover in its entirety. As highlighted in this report, per-room values increased through year-end 2011 after witnessing moderate increases in 2010. Significant improvements in value are forecast between 2012 and 2013, supported by improving cash flows and a limited supply pipeline. As such, it is presently the best opportunity to buy hotels. It is recommended, however, that owners and lenders hold on to assets over the short- to mid-term to capitalize on rapidly improving per-room values.

Interpreting the Hotel Valuation Index

HVS routinely receives numerous inquiries as to how the Hotel Valuation Index data can be interpreted by hotel owners, investors, and lenders considering their own assets and investment strategies. The HVI tracks hotel values in the U.S. as a whole as well as for 51 major lodging markets. It is calculated using occupancy and average rate data provided by Smith Travel Research for each of the markets reviewed. These market data represent the aggregate performance of virtually all the hotels within the defined geographic market.

The HVI is an index, a statistical concept reflecting a measure of the difference in the magnitude of a group of related variables compared with a base period. As such, it is a measure of broad market trends, rather than a conclusion as to the specific value of any asset, and cannot be applied to an individual asset. A good comparison is the Consumer Price Index. While this index provides a reliable measure of the overall rate of inflation in a region, it does not indicate how the price of milk has changed at your grocery store.

In any market, the aggregate nature of the STR occupancy and average rate data limits its comparability to an individual asset. In the case of the STR data used in developing the HVI, the breadth of the sample included in the report is a material factor. The sample for each market area includes virtually all the hotels in the defined market, ranging from economy to luxury properties; limited-service to full-service operations; assets in poor to excellent condition; and a wide array of locations, from Tier 1 urban settings to peripheral locations in tertiary submarkets. The resulting data, while an excellent measure of the overall trends in the market as a whole, cannot be applied to any individual submarket or asset group, much less any one hotel. For example, the addition of new supply, or a change in the performance of an individual submarket within the broader market, can cause that submarket to have significantly different results than the market as a whole.

Numerous factors influence the value of an individual asset, including the property's age, condition, location, amenities and services, brand, management expertise, and reputation. These factors must all be considered in the context of the hotel's specific competitive market, including the nature, strength, and trends in demand generators, the character and competitive posture of the existing hotels, and the potential addition of any new properties. The value of any individual asset can only be concluded after a thorough investigation of all these factors. And that conclusion will invariably differ – often materially – from the index indicated by the HVI.

So how can the HVI be of use to an individual investor? Although the HVI cannot tell you what a particular hotel is worth, it does provide excellent “big picture” data, indicating which market areas are experiencing positive trends and thus may present good investment opportunities. The HVI for the U.S. is a measure of the strength of the lodging industry as a whole and, specifically, the hospitality investment market. The HVI for the various identified markets can provide a basis to evaluate and compare different geographic regions.

ABOUT THE AUTHORS



Steve Rushmore is the president and founder of HVS, a hospitality consulting organization with 30 offices around the globe. He directs the worldwide operation of this firm and is responsible for future office expansion and new product development. Steve has provided consultation services for more than 15,000 hotels throughout the world during his 40-year career and specializes in complex issues involving hotel feasibility, valuations, and financing. He was one of the creators of the Microtel concept and was instrumental in its IPO. Steve is a partner in HEI Hospitality, LLC, a hotel investment fund, which makes him one of the few hospitality consultants that actually invest in and own hotels.

HVS, which Steve founded in 1980, has provided consulting services for thousands of clients in all 50 states and more than 60 foreign countries. Its professional staff of more than 400 industry specialists offers a wide range of services, including market feasibility studies, valuations, strategic analyses, development planning, and litigation support. Through its divisions, HVS supplies unique hotel consulting expertise in the areas of executive search, food and beverage operations, gaming, technology, hotel operations, asset management, marketing, interior design, parking, golf, and investment counseling. HVS is the industry's primary source of hotel sales information. Its databases contain information on more than 13,000 hotel transactions and thousands of financial statements. HVS is also the most comprehensive source of hotel compensation data.

As a leading authority and prolific author on the topic of hotel feasibility studies and appraisals, Steve Rushmore has written all five textbooks and two seminars for the Appraisal Institute covering this subject. He has also authored three reference books on hotel investing and has published more than 400 articles. He writes a column for *Lodging Hospitality* magazine and is widely quoted by major business and professional publications. Steve lectures extensively on hotel trends and has taught hundreds of classes and seminars to more than 20,000 industry professionals. He is also a frequent lecturer at major hotel schools around the world, including Lausanne, NYU, Cornell, Houston, and IMHI.

Steve has a BS degree from the Cornell Hotel School and an MBA from the University of Buffalo. He holds MAI and FRICS appraisal designations and is a CHA (certified hotel administrator). He is a member of numerous hotel industry committees, including IREFAC and the NYU Hotel Investment Conference. In 1999, Steve was recognized by the New York chapter of the Cornell Hotel Society as "Hotelie of the Year." In his free time, he enjoys skiing, diving, and sailing. He holds a commercial pilot's license with multi-engine instrument rating, collects hotel key tags, and is one of the foremost authorities on regional dining (www.roadfood.com).

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About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. We are client driven, entrepreneurial, and dedicated to providing the best advice and services in a timely and cost-efficient manner. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.