

Real Estate Research

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## Trends In Hotel Capital Markets

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Please refer to Appendix - Important Disclosures  
and Analyst Certification on page 33.





## Today's Topics

- Hotel debt capital markets far from healed
- Hotel transaction market slowly improving
- Public equity market happily chasing hotels
- Conclusions
- Questions

# Real Estate Debt Capital Markets

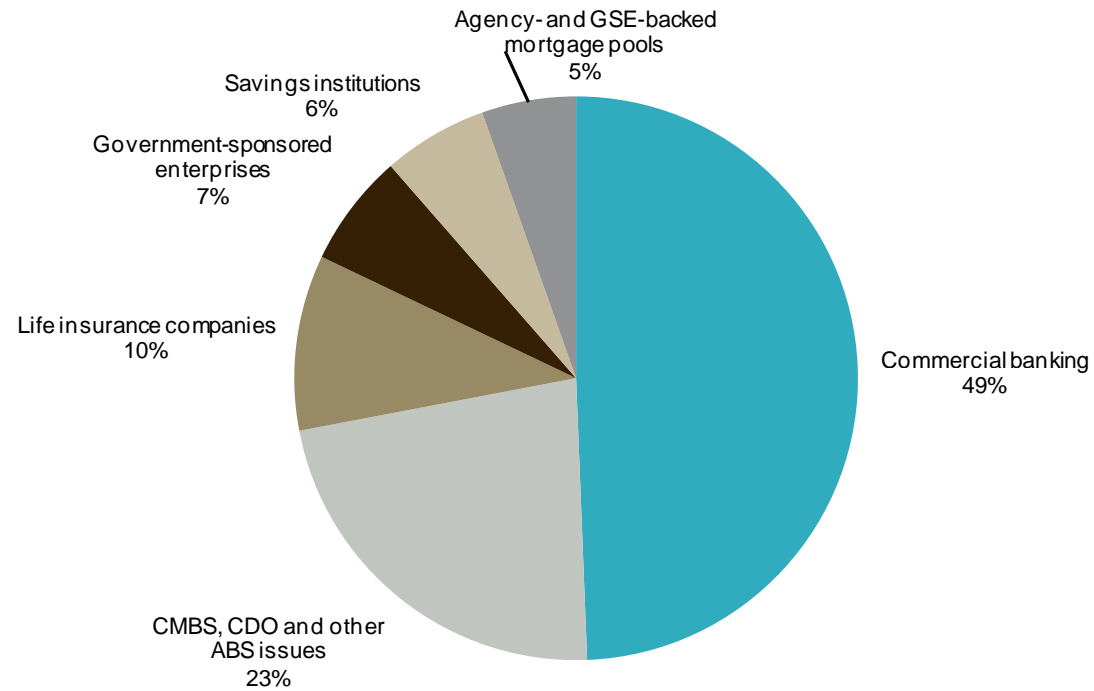
# Lots of Debt Outstanding



## Commercial and Multifamily Debt Outstanding - Year-End 2009

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### \$3.38 Trillion of Outstanding Commercial/Multifamily Mortgages



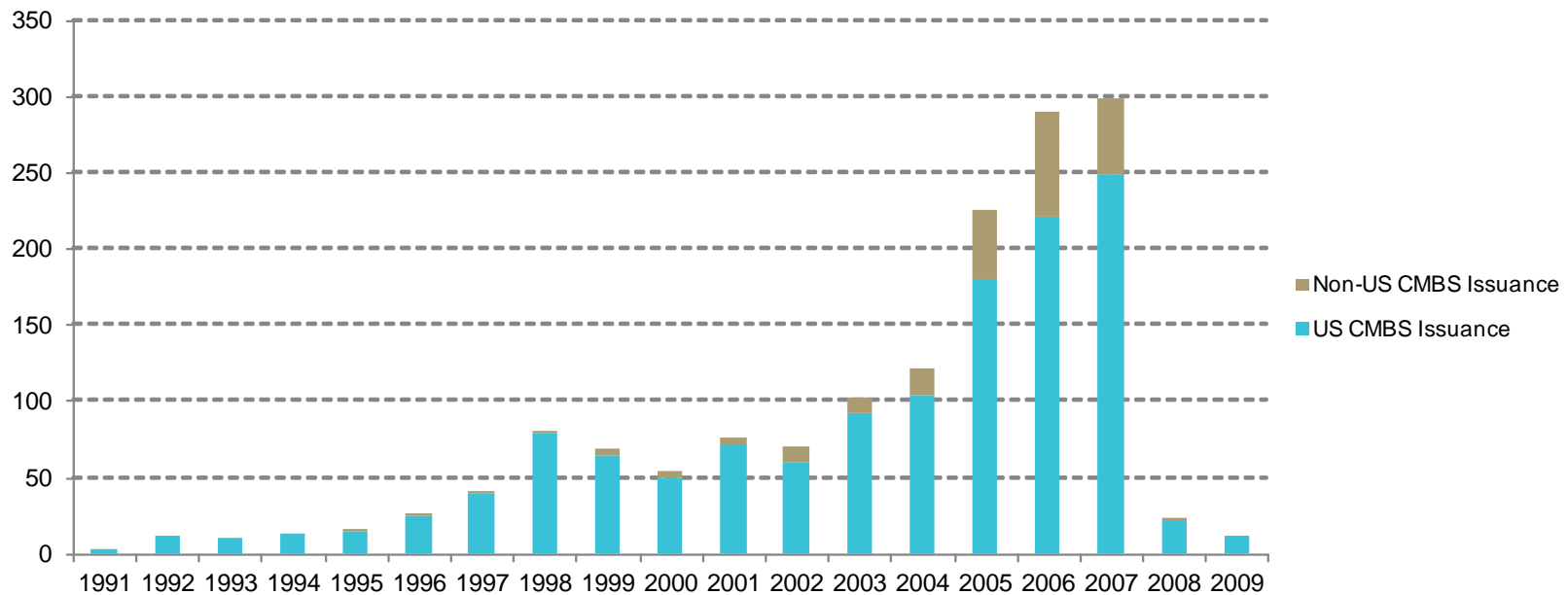
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Source: Federal Reserve



# Refinancing Will Be Hot Topic for Years

CMBS Issuance 1991-2009 (billions)

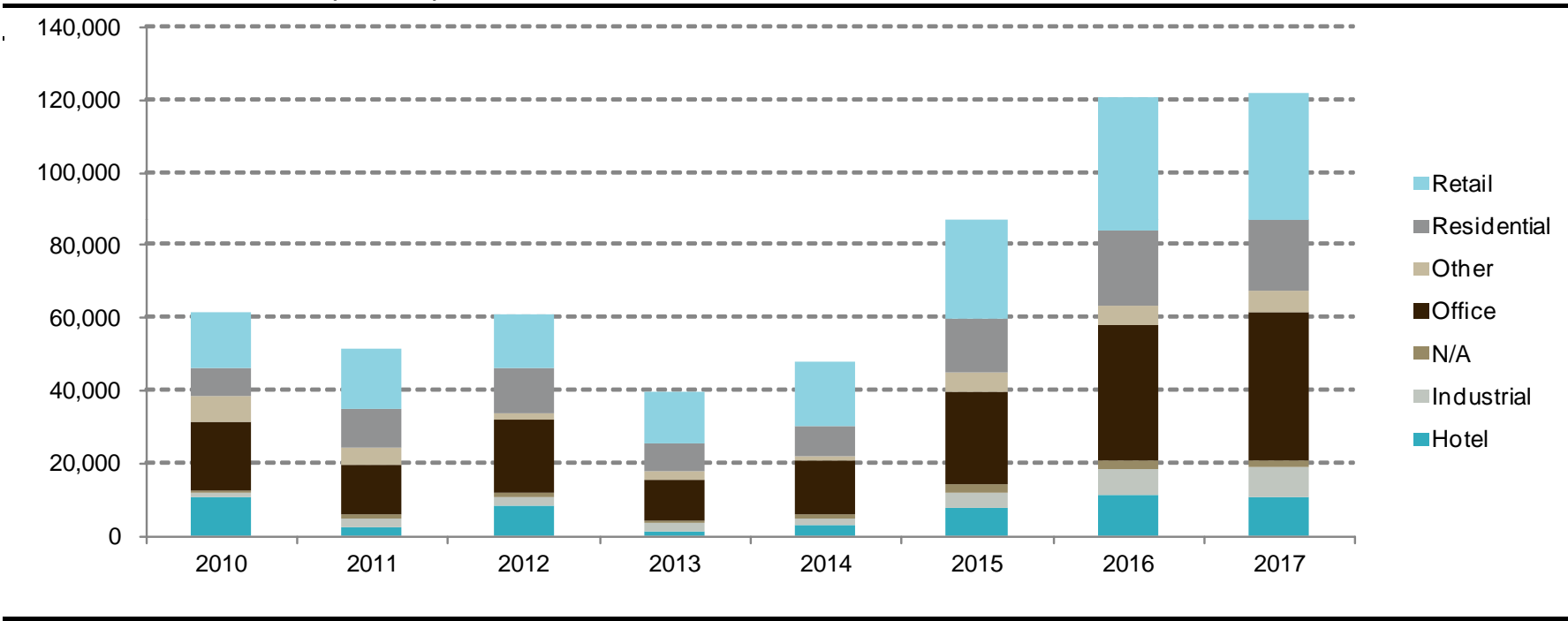


Source: Bloomberg



# Significant Maturities Across Property Types

CMBS Maturities 2010-2017 (millions)

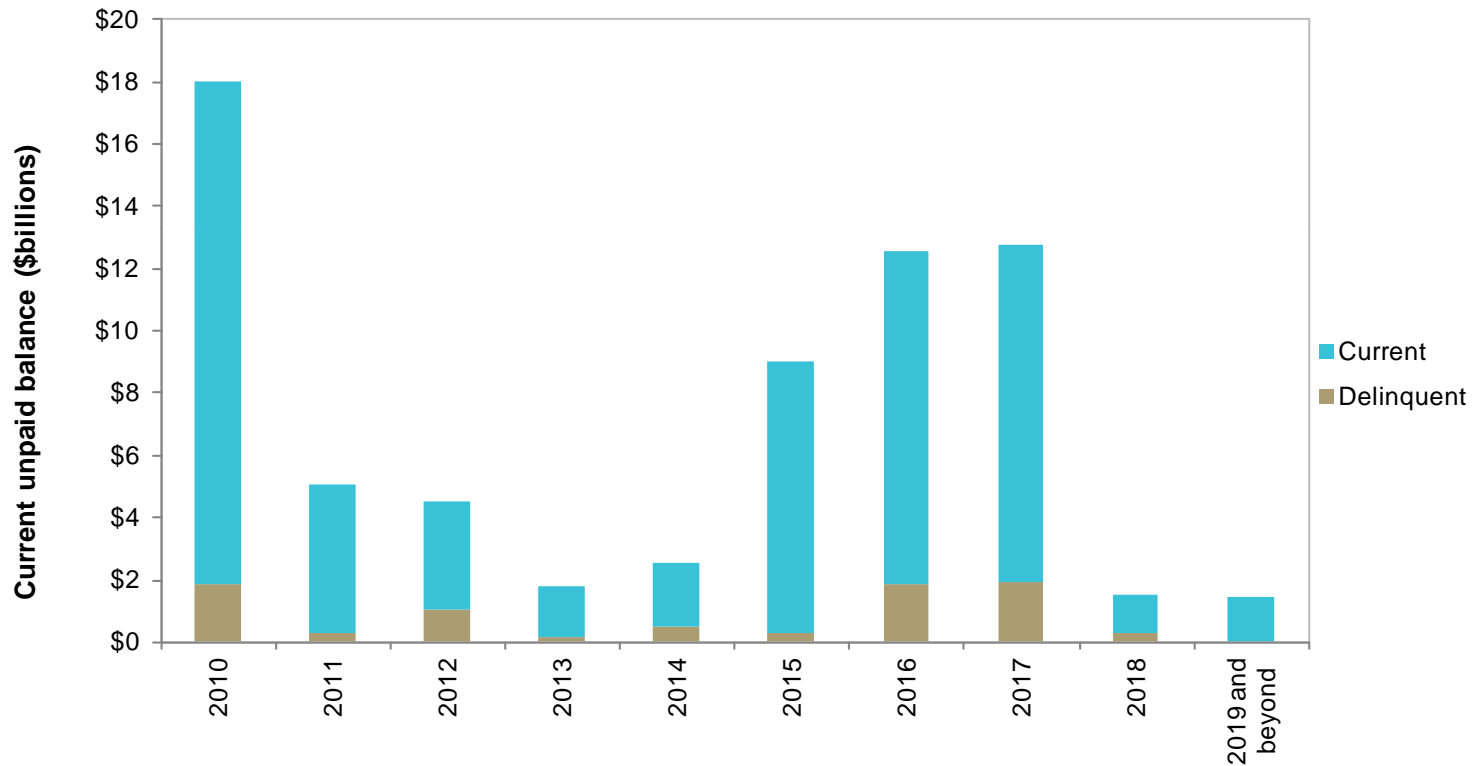


Source: Bloomberg



# Another Maturity Wave Lies Ahead for Hotels

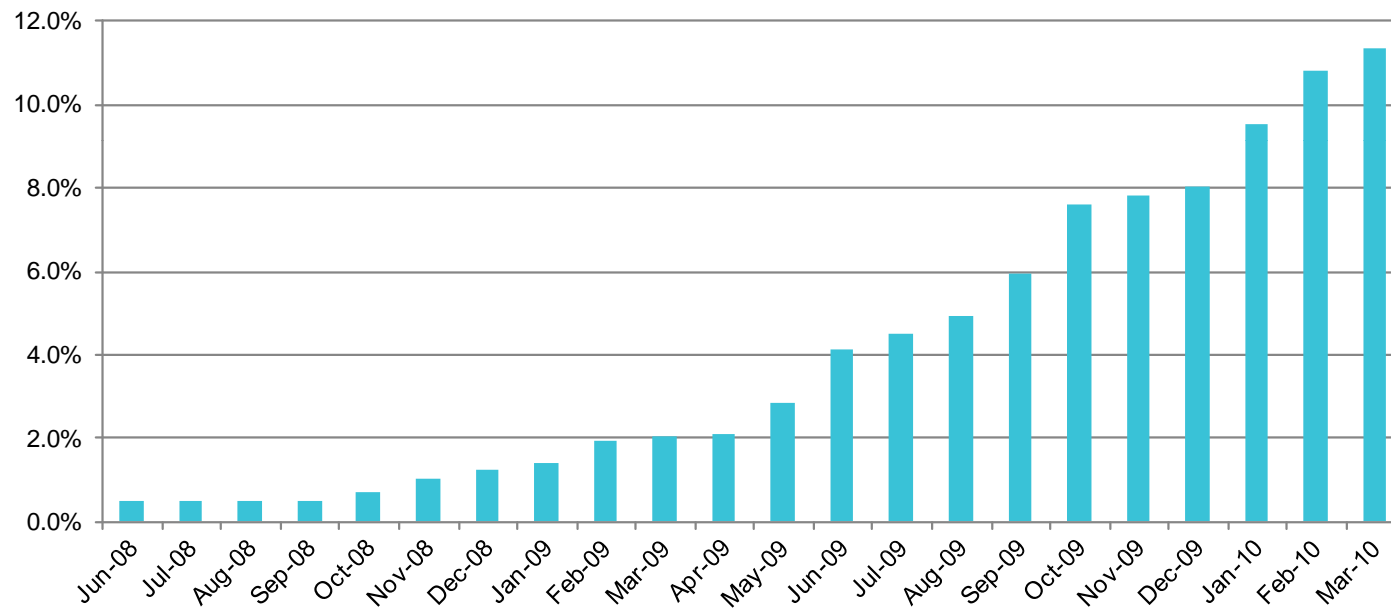
Hotel CMBS Loan Maturities By Year



Source: Realpoint

# Delinquency rates getting worse

**Hotel loan delinquency rate by month (as % of total CMBS hotel loans)**

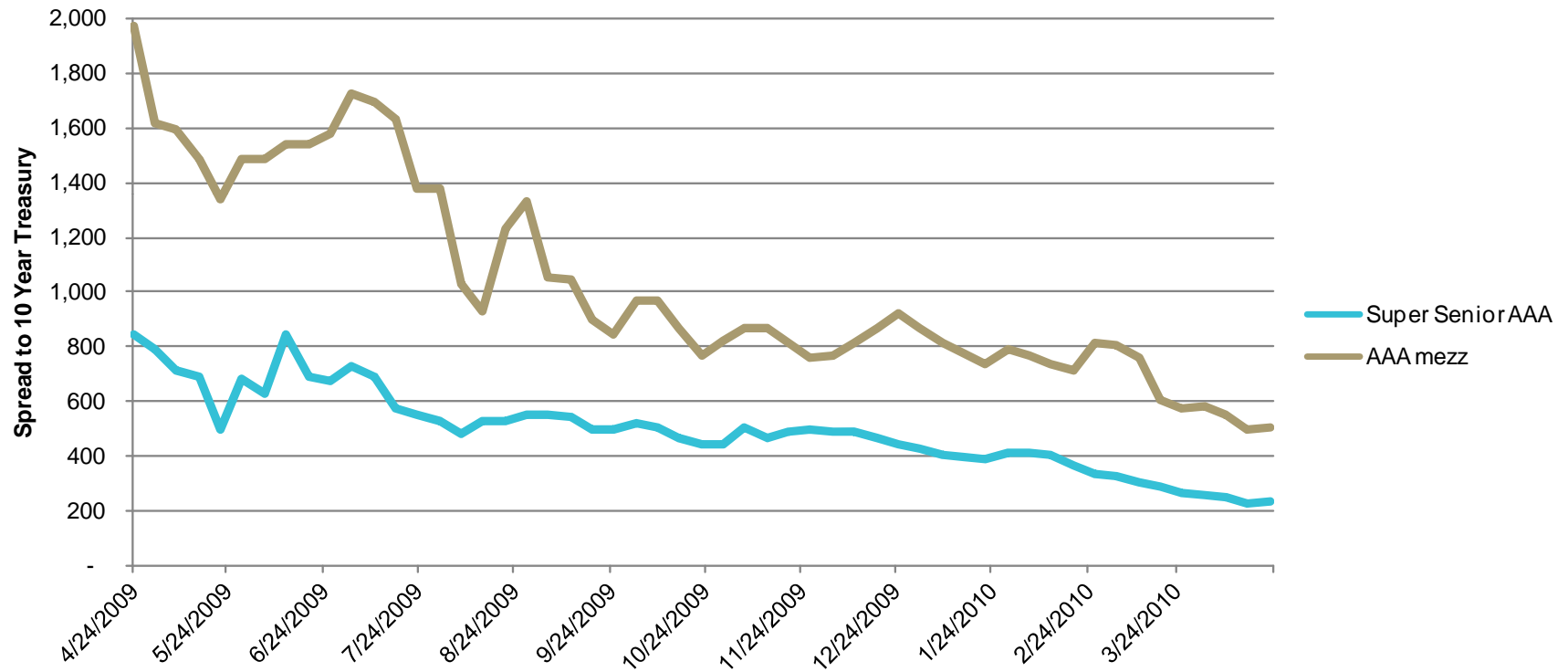


Source: Realpoint



# Spreads on Existing Debt are Narrowing

## CMBS Spreads



Source: Bloomberg



## The Problem: Extend and Pretend Worked

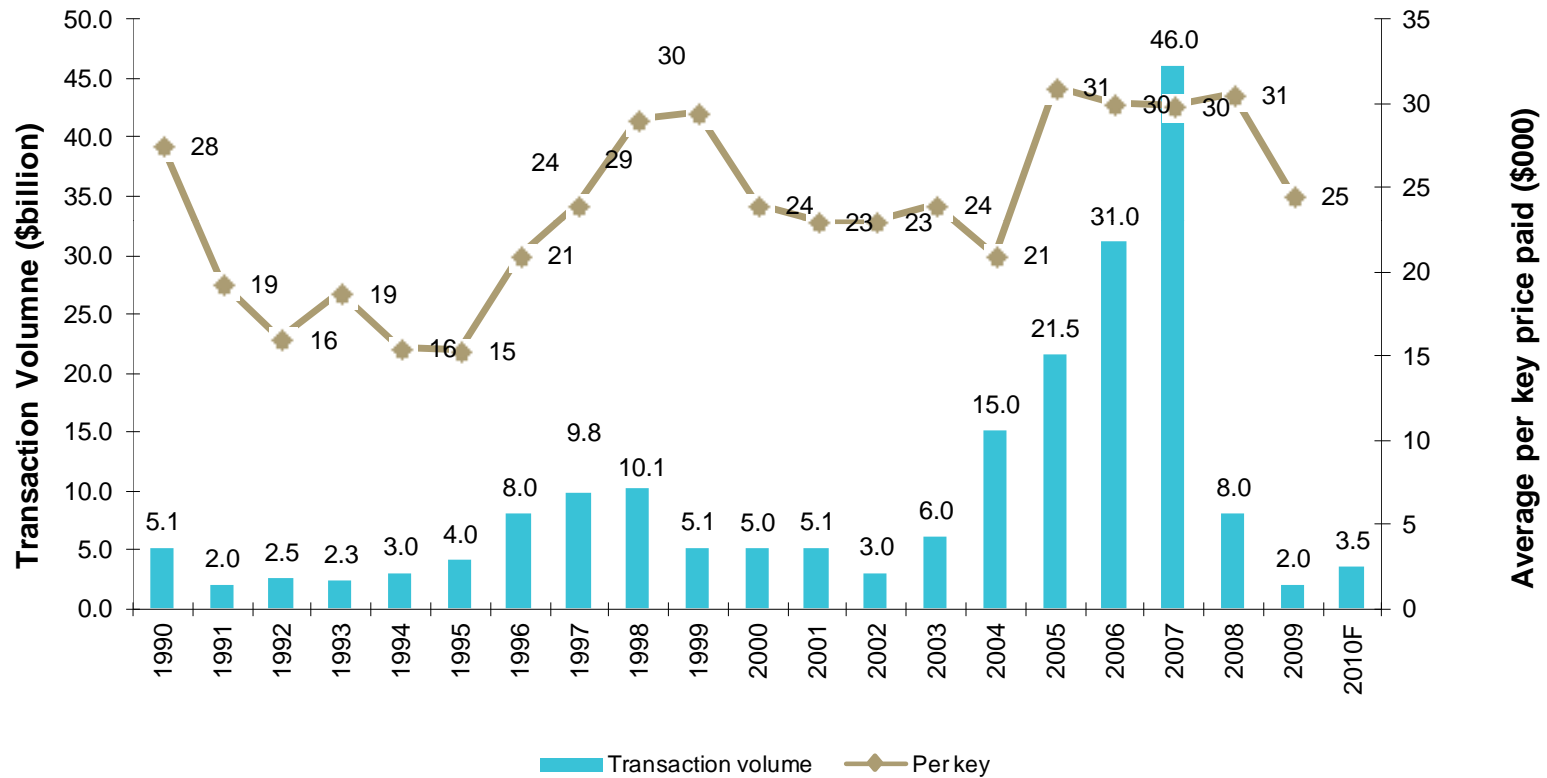
- Many lenders opted to work with borrowers, ignore delinquencies, or offer more time
- Bet has been that cycle will turn up, increasing debt service coverage and collateral value
- Smaller banks under increasing regulatory pressure to deal with bad loans
- Still WAY too much debt coming due relative to available new debt
- Additional equity is the ultimate answer—property and entity level

# Transaction Markets



# Hotel Transactions Are Recovering

United States Hotel Transactions



Source: Jones Lang LaSalle Hotels



# Recent Hotel Sales Utilized Public Capital

## Recent Hotel Transactions

<u>Date</u>	<u>Hotel</u>	<u>Rooms</u>	<u>Price (\$000s)</u>	<u>Per key</u>	<u>Comments</u>
Feb 2010	Holiday Inn Express - Times Square	210	\$56,500	\$269	McSam to Hersha Hospitality. Reported 8.2% cap on 2010
Feb 2010	Candlewood Suites-Times Square	188	\$51,000	\$271	McSam to Hersha Hospitality. Reported 8.2% cap on 2010
Feb 2010	Hampton Inn-Times Square	184	\$56,000	\$304	McSam to Hersha Hospitality. Reported 8.2% cap on 2010
Feb 2010	Sofitel Washington DC	237	\$95,000	\$401	Whitehall/GEM sold to LHO for 15.7x '09 EBITDA (ex-inauguration)
March 2010	W New York - The Court/Tuscany	328	\$78,000	\$238	Starwood sold - will lose W flag- convert to St. Giles Hotels
March 2010	Ambassador East Hotel, Chicago	285	\$25,000	\$88	Ian Shrager bought from Peter Dumon and David Bossy
March 2010	Marriott - Houston Energy Corridor	206	\$50,750	\$246	Apple 9, bought from MWE Houston Property LP
March 2010	Raffles L'Ermitage - Beverly Hills	119	\$44,800	\$376	Viceroy bought from Colony
March 2010	Four Seasons San Francisco	277	\$107,500	\$388	Westbrook bought 67% interest from Millennium Partners
March 2010	Four Seasons Miami	221	\$60,000	\$271	Westbrook bought 67% interest from Millennium Partners
March 2010	Ritz-Carlton Boston	193	\$37,500	\$194	Westbrook bought 67% interest from Millennium Partners

Source: Baird Research. Highlighted transactions involved public company purchasing the hotels



# Recent Hotel Sales Utilized Public Capital

## Recent Hotel Transactions

<u>Date</u>	<u>Hotel</u>	<u>Rooms</u>	<u>Price (\$000s)</u>	<u>Per key</u>	<u>Comments</u>
March 2010	Hyatt Boston	498	\$112,000	\$225	Hyatt sold to Chesapeake, reported to be 7% cap TTM
March 2010	Sheraton, Pleasanton, CA	170	\$12,300	\$72	Mesa West Capital sold
March 2010	Marriott Downtown Los Angeles	469	\$60,000	\$128	Purchased by Shenzhen New World in foreclosure previously Manco Capital. \$13 mm renovation scheduled
March 2010	Hampton Inn and Suites, Beale Street Memphis	144	\$20,000	\$139	Fairwood Hospitality acquired
March 2010	TownPlace Suites, Panama City, FL	103	\$10,600	\$103	Apple 9 acquired
April 2010	St. Regis Monarch Beach	400	\$230,000	\$575	Citi took over with mezz in late '09-sold to Washington Holdings. Cancelled \$230 mm first, now reported to have \$165 mm first and \$40 mm mezz
April 2010	Marriott and Independent in Rochester, MN, Courtyard LAX	653	\$83,000	\$127	9.6x 2009 EBITDA. Sunstone bought these hotels from their lender after tried to walk away
April 2010	Portfolio of 6 Homewood Suites	813	\$73,500	\$90	RLJ Development sold to Chatham Lodging Trust. Will get \$11 million capex.
April 2010	Embassy Suites, Tampa Convention Center	360	\$77,000	\$214	RLJ Development purchased from Whiteco Industries
May 2010	Hilton Checkers, Los Angeles, Courtyard Anaheim	341	\$71,000	\$208	Chesapeake purchased from Tarsadia. Baird estimates 7.25% blended cap

Source: Baird Research. Highlighted transactions involved public company purchasing the hotels

# Public Companies Play Lead Role

- 28 institutional deals and 6,500 rooms uncovered by Baird Research so far in 2010
- \$1.34 billion of assets
- Public companies have emerged as key capital providers, with ability to recapitalize larger properties

Summary of YTD Hotel Deal Flow

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Source: Baird Research



# Transaction Case Study: Hersha

## Deal Specifics:

- Acquired three limited service hotels in Times Square area on 39<sup>th</sup> between 8<sup>th</sup> and 9<sup>th</sup>.
- Paid \$163.5 million for 582 rooms (\$281k/key)
- Company estimates 2010E cap rate of 8.3%

## Deal Financing:

- Funded primarily with newly issued equity
- Completed TWO equity offerings totaling \$272 million
- Deals announced, but not closed, prior to first equity raise
- Both equity offerings were well over-subscribed
- Hotels owned with no property debt today





# Transaction Case Study: LaSalle

## Deal Specifics:

- Acquired Sofitel Washington D.C
- Paid \$95 million for 237 rooms (\$401k/key)
- Baird estimated cap rate of 5.7% on 2009 EBITDA (ex-inauguration)

## Deal Financing:

- Funded with newly sold equity AFTER the deal was announced and closed
- Today hotel is owned without property debt



# Transaction Case Study: Sunstone

## Deal Specifics:

- Acquired 3 hotels: Marriott & Independent in Rochester, MN, Courtyard LAX
- Paid \$83 million for 635 rooms (\$127k/key)
- Baird estimated cap rate of 8.75% on 2009 EBITDA

## Deal Financing:

- “Acquired” by paying release fee as part of returning large portfolio from lender; Sunstone just kept ownership, while handing keys on remaining asset to lender
- Funded with excess cash on hand as Sunstone has no credit facility
- Today hotels owned without property debt



## The Solution: Become a Seller

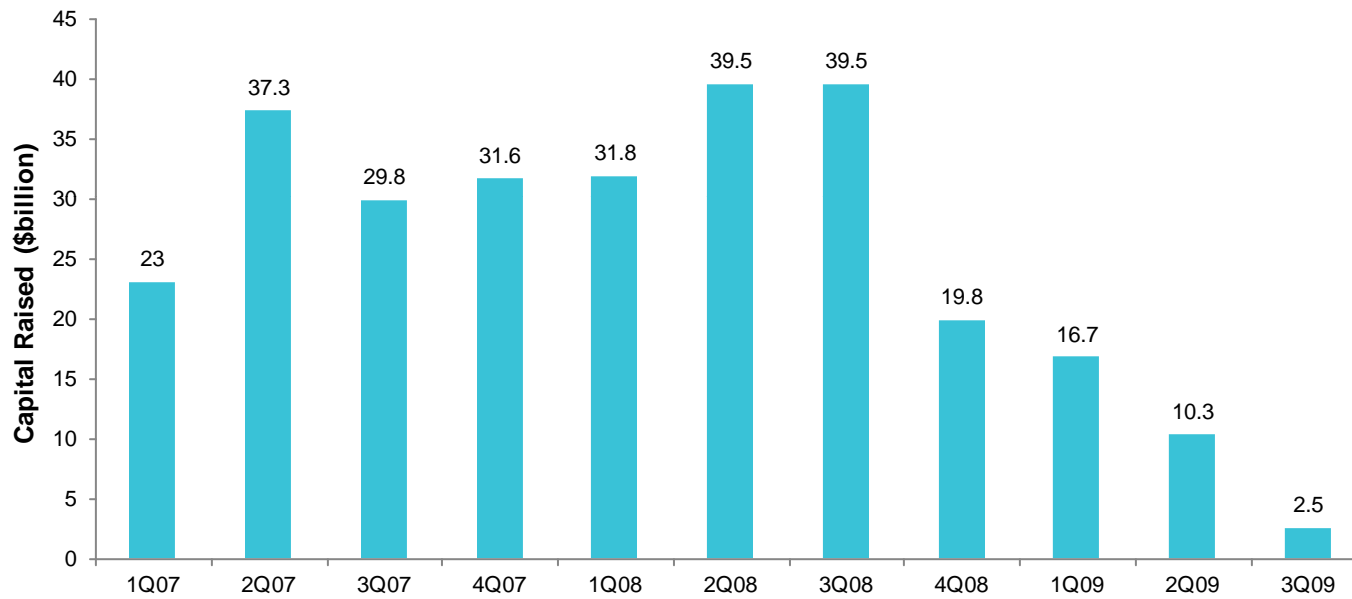
- Not that much on the market and lots of buyers looking
- Cap rates are down, prices are up
- Public companies have a lower cost of capital

***Lesson from 2007: It pays to swim against the tide, so take your profits when others see more value than you do***

# Public Equity Markets

# Don't Look to Private Equity

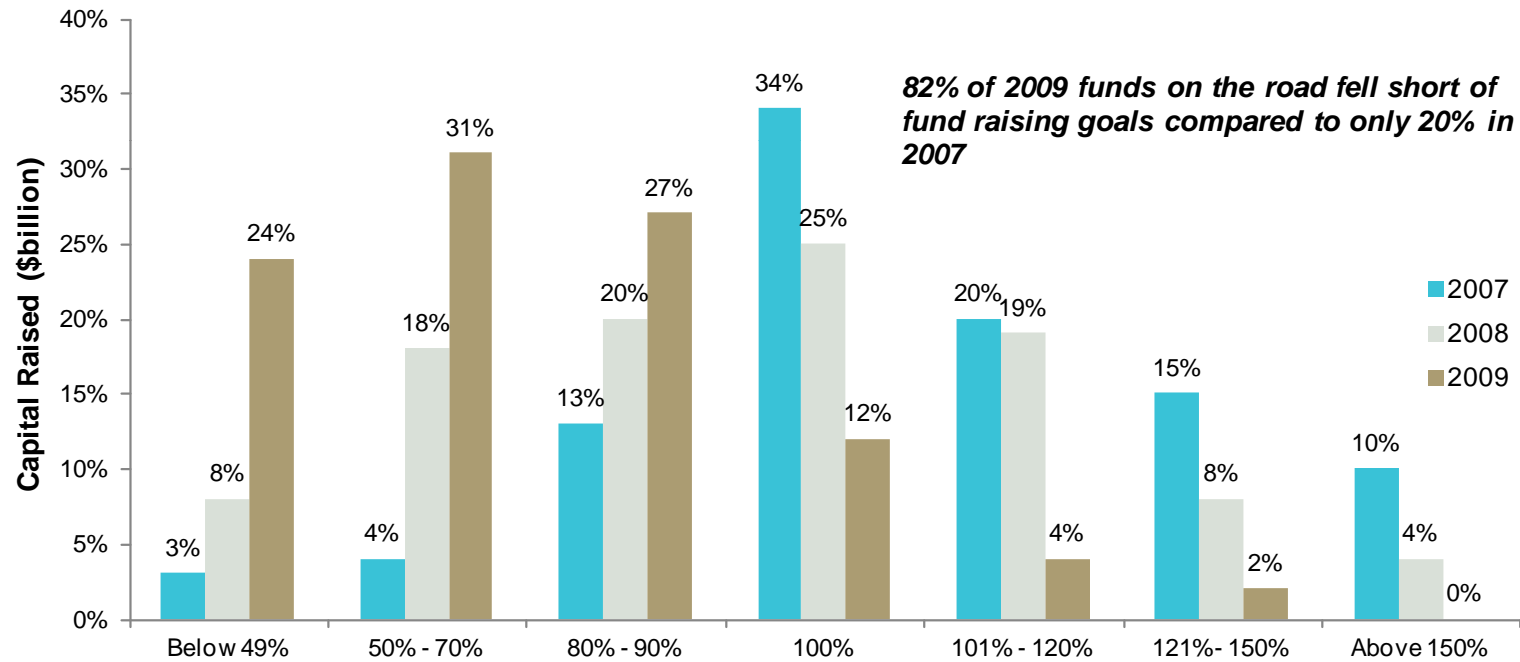
**Real Estate Private Equity Fund Raising: Capital Raising**



Source: Preqin

# PE Raising Less than Targeting

**Real Estate Private Equity Fund Raising: Final Closing as a Percentage of Target**

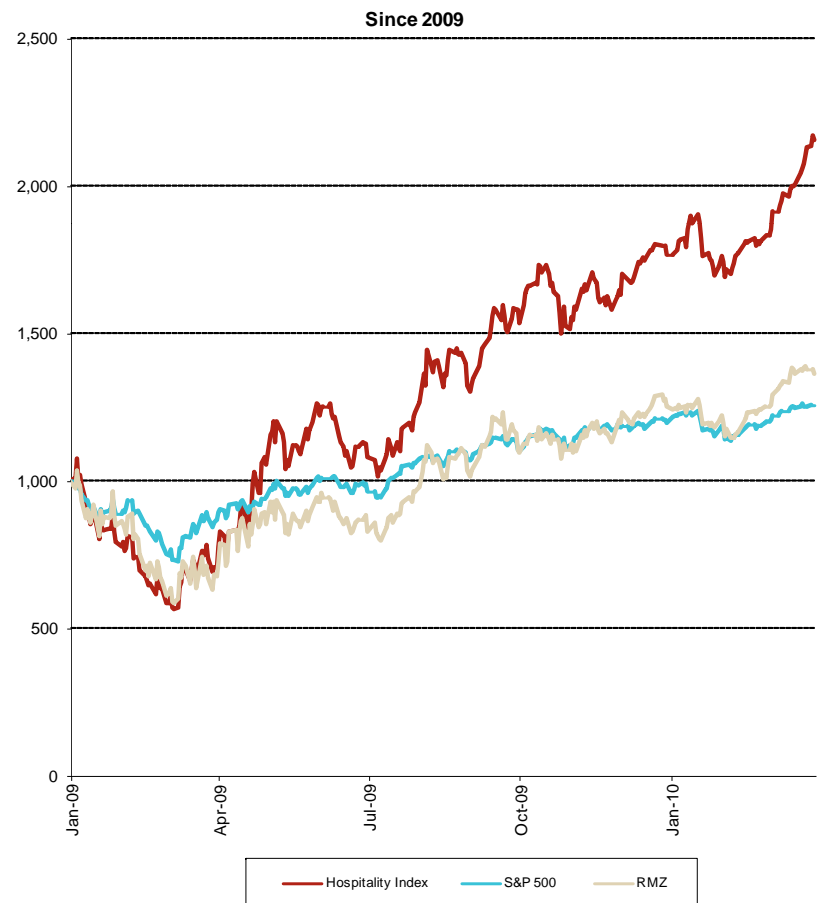
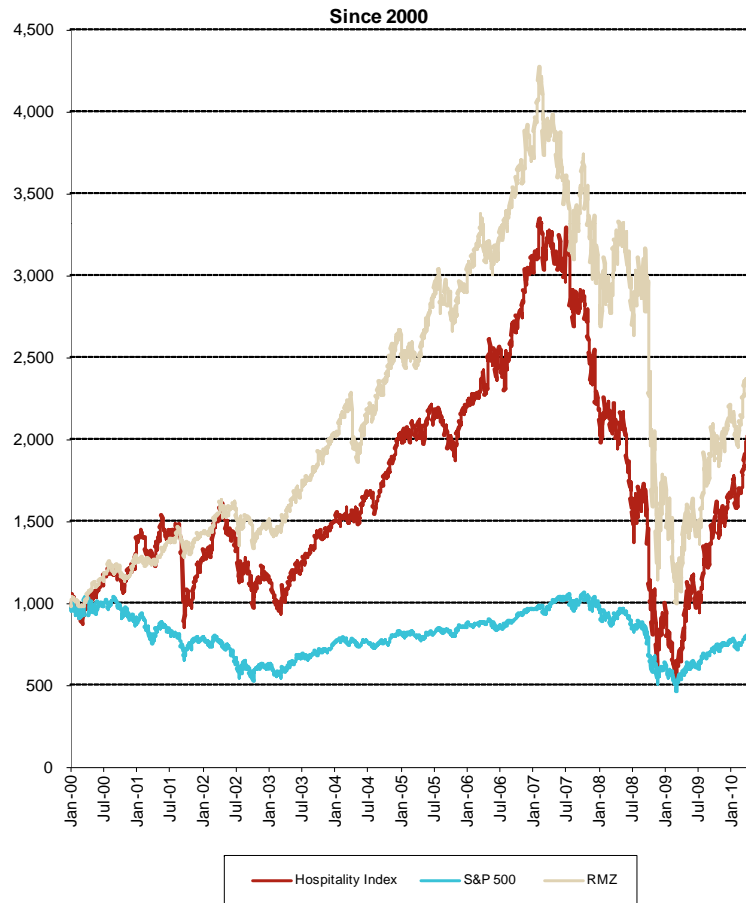


Source: Preqin

# Hotel Stocks Up Sharply As Investors Seek Recovery Investment Vehicles



Baird Hospitality and Major Stock Indices



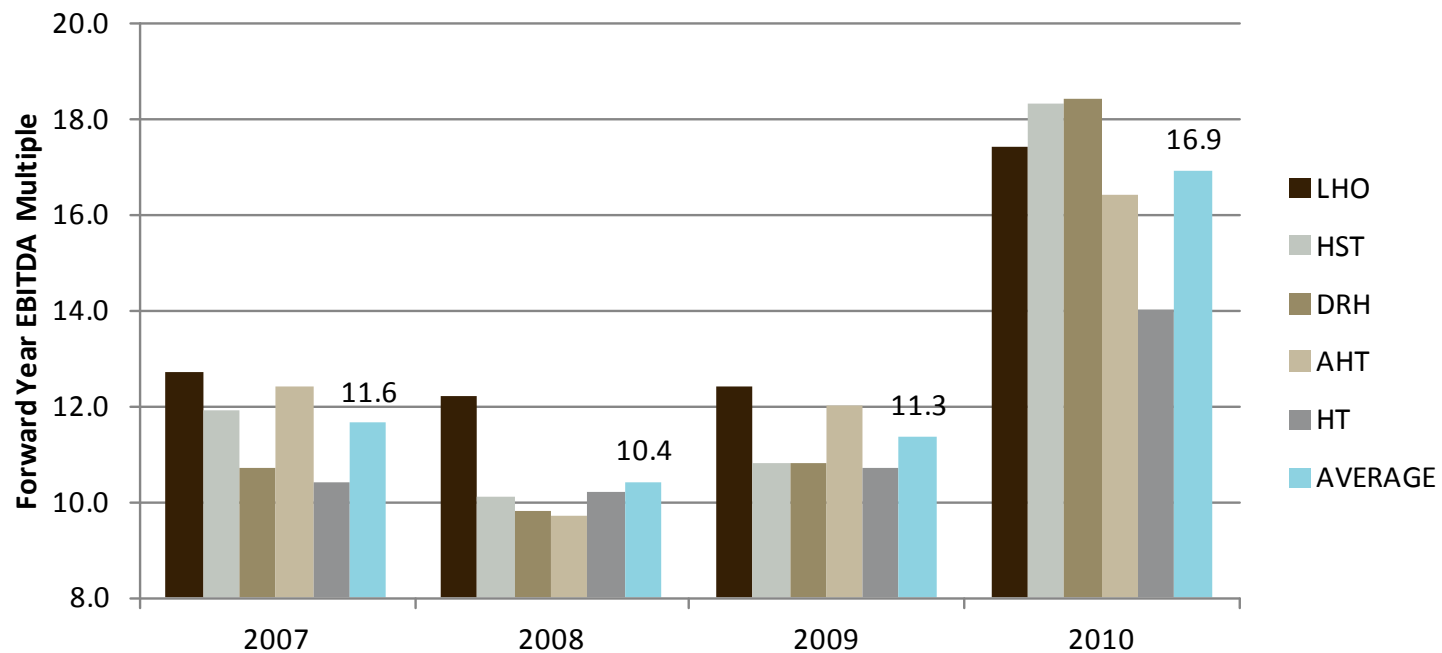
Source: Baird Research, SNL Financial

# Public Markets Discounting the Recovery

- Public market EBITDA multiples are at cyclical peaks
- Private market cap rates are at cyclical lows

*All hotel stock buyers appear to be discounting a strong recovery*

**Historical Hotel REIT EBITDA Multiples for Select Companies**



Source: Baird Research



# Public Companies Actively Raising Equity . . .

## Public Hotel Equity Raised Since 2008

Issuer	Completion Date	Equity Proceeds (\$000s)	Issuer	Completion Date	Equity Proceeds (\$000s)
Hersha Hospitality Trust	05/13/08	65,340	Sunstone Hotel Investors, Inc.	10/16/09	165,600
Apple REIT Eight, Inc.	06/30/08	950,000	Pebblebrook Hotel Trust	12/08/09	402,500
Orient-Express Hotels Ltd.	11/14/08	55,185	Pebblebrook Hotel Trust	12/08/09	2,700
DiamondRock Hospitality Company	04/14/09	86,451	DiamondRock Hospitality Company	12/31/09	49,383
LaSalle Hotel Properties	04/23/09	124,861	Host Hotels & Resorts, Inc.	12/31/09	157,350
Host Hotels & Resorts, Inc.	04/24/09	499,950	Orient-Express Hotels Ltd.	01/12/10	138,000
Orient-Express Hotels Ltd.	04/28/09	148,781	Hersha Hospitality Trust	01/14/10	155,250
Sunstone Hotel Investors, Inc.	05/21/09	103,500	MHI Hospitality Corporation	01/15/10	3,412
LaSalle Hotel Properties	06/10/09	147,500	Chesapeake Lodging Trust	01/21/10	151,717
Hospitality Properties Trust	06/18/09	231,438	Chesapeake Lodging Trust	01/21/10	3,000
Hersha Hospitality Trust	08/04/09	14,250	Chesapeake Lodging Trust	01/21/10	25,517
Hospitality Properties Trust	08/11/09	158,700	LaSalle Hotel Properties	03/02/10	113,821
DiamondRock Hospitality Company	09/11/09	53,504	Hersha Hospitality Trust	03/19/10	117,300
Host Hotels & Resorts, Inc.	09/11/09	130,000	Chatham Lodging Trust	04/15/10	172,500
DiamondRock Hospitality Company	10/08/09	21,495	Chatham Lodging Trust	04/15/10	10,000
<b>Total</b>					<b>\$4,459,005</b>

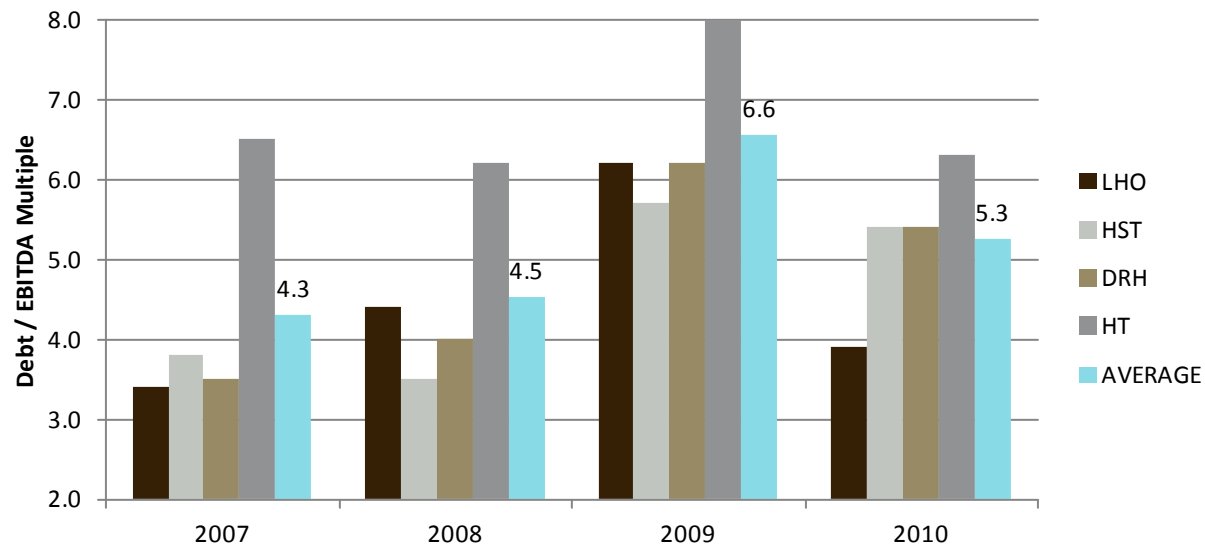
Note: Hyatt IPO raised an additional \$1.1 billion from public hotel investors, but was not new equity

Source: SNL Financial and Baird Research

## ... and Using Proceeds for De-leveraging

- The new normal is expected to be much lower financial leverage
- Today's debt to EBITDA of 5.3x looks like 3.8x on a 2007 EBITDA basis, when EBITDA was roughly 40% higher than today
- Hotel companies are deleveraging by unencumbering specific assets or through purchasing with 100% cash

Historical Hotel REIT Leverage: Debt /EBITDA for Select Companies



Source: Baird Research



## Public Markets Offer Solution to Private Market Leverage

- Rescue financing, 2010 (and beyond) edition
- Valuations quite attractive
- Large and small portfolios may seek public exit
- Opportunistic buyers looking for public capital (blind pool IPOs)
- Now-private companies may seek public exit – Hilton is best example of possible IPO, but there could be a number of others
- Looming debt maturities can be catalyst, but public valuation can create great outcomes



## “Blind Pool” IPOs

- Public market investors becoming increasingly skeptical
- Bar is being raised for each successive deal
- Pristine corporate governance is a must
- Differentiated business plan or credible “twist” required
- Management reputation / track record is important
- \$767 million raised so far, another \$525 million is trying

### Public Hotel Equity Blind Pools, Near Blind Pools, Attempted Blind Pools, and Blind Pool Wanna Be

<u>Issuer</u>	<u>Ticker</u>	<u>Completion Date</u>	<u>Equity Proceeds (\$mil)</u>
<b><u>Completed</u></b>			
Pebblebrook Hotel Trust	PEB	12/08/09	\$405
Chesapeake Lodging Trust	CHSP	01/21/10	\$180
Chatham Lodging Trust	CLDT	04/15/10	<u>\$182</u>
			\$767
<b><u>In registration</u></b>			
Pyramid Hotels and Resorts	PYR	12/08/09	\$275
Reunion Hotel Trust	RBSC	01/21/10	\$250

*Source: Baird Research*

## Conclusions

- **Extend and pretend**—So crazy, it just might work! And has, so far
- Now could be a great time to **sell assets**
- **Public equity investors are hungry for real companies**; too little stock to go around today, as investors keep looking for more ways to invest in hotels
- By this time next year, expect **3-6 more public hotel companies**

Questions?



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- Hospitality Monthly
- Industry and company research
- This presentation



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