

**Real Estate Research**

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# Trends in Hotel Capital Markets

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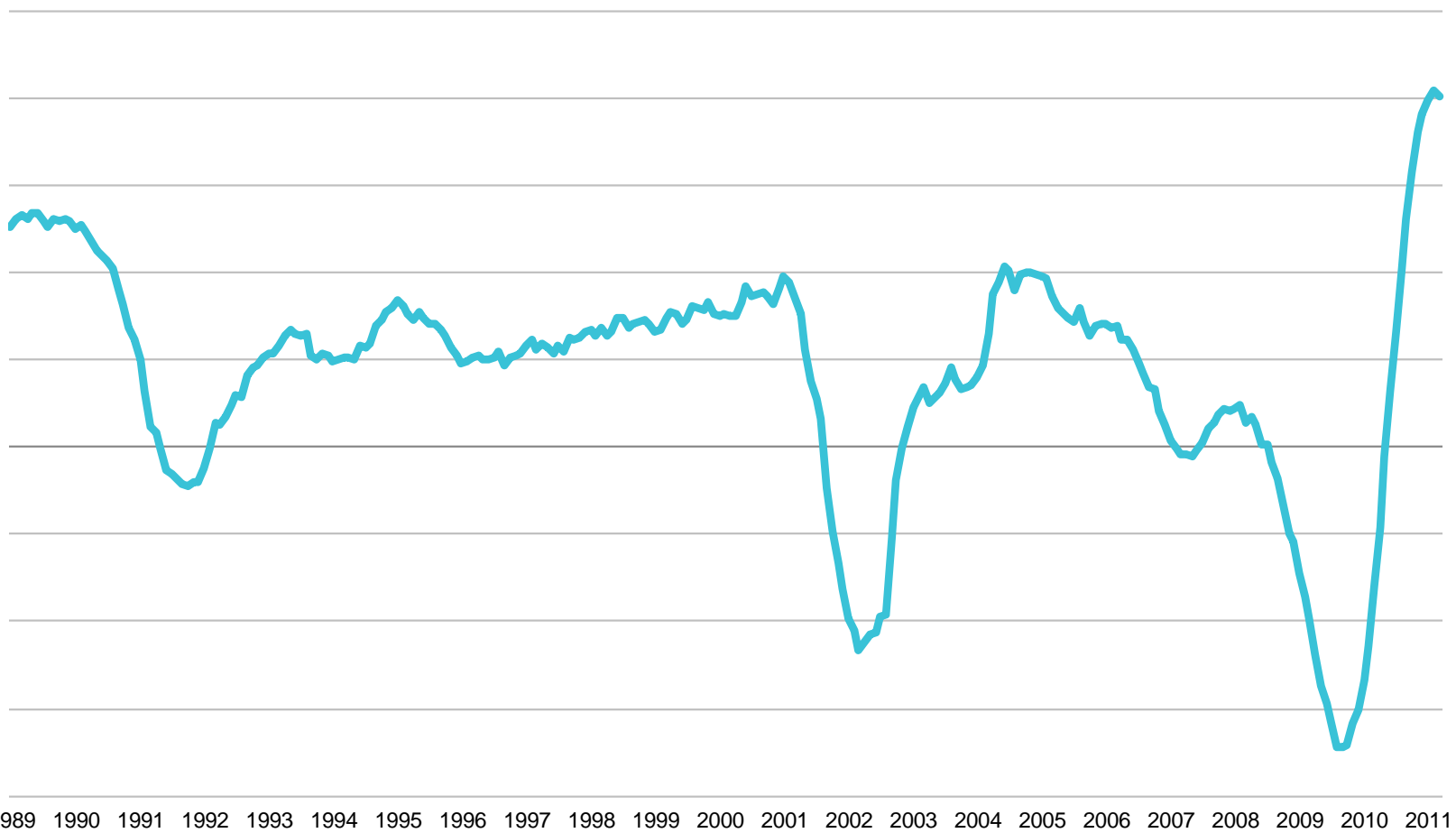


Please refer to Appendix - Important Disclosures  
and Analyst Certification.

# Today's Topics

- Hotel transaction market
- Debt capital markets
- Equity capital markets
- Questions

# Quick, Get Me Some Prozac!



Source: Baird Research, Smith Travel Research

# Transaction Market

Public REITs have **cost-of-** and **access-to-capital** advantage versus private investors

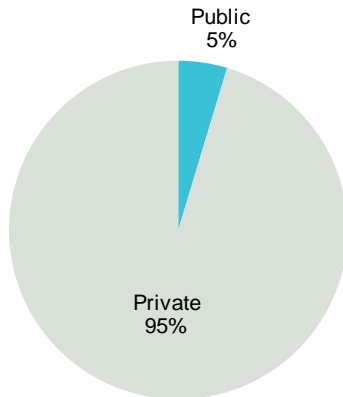
# Public REITs Dominating Transaction Market

- 165 institutional-quality hotels traded in 2010 = \$7.6 billion
  - \$2 billion in 2009, \$46 billion in 2007

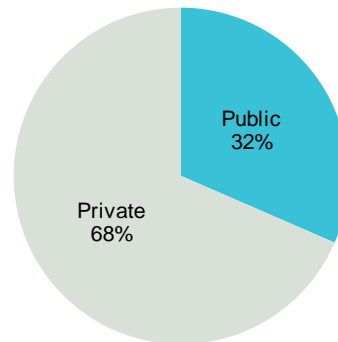
Summary of 2010 Hotel Deal Flow: \$7.6 billion and 165 hotels identified by Baird Research

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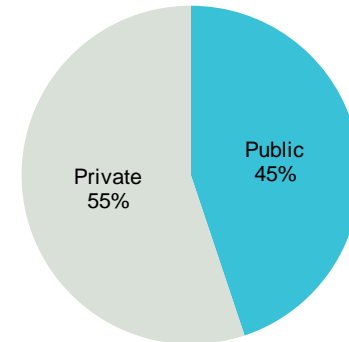
Ownership of Existing Hotel Rooms



Number of Hotels



Dollar Amount



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Source: Baird Research

- YTD 2011 transactions at \$5 billion – REITs 80% of \$ volume

# Real Estate Debt Capital Markets

**Credit markets thawing; debt becoming available**

# Loan Originations & Refinancings

- Debt available for high-quality assets in top markets
- Debt yields now sub-9%
- Adding leverage appears to be a prudent strategy
  - Still in early stages of recovery; downside fairly limited
- We expect all-equity buyers to begin layering on property-specific debt soon
- Financing not as readily available outside of top 15 MSAs
- Construction financing essentially non-existent
  - Lenders still cautious
  - We've seen some financing for NYC and DC projects

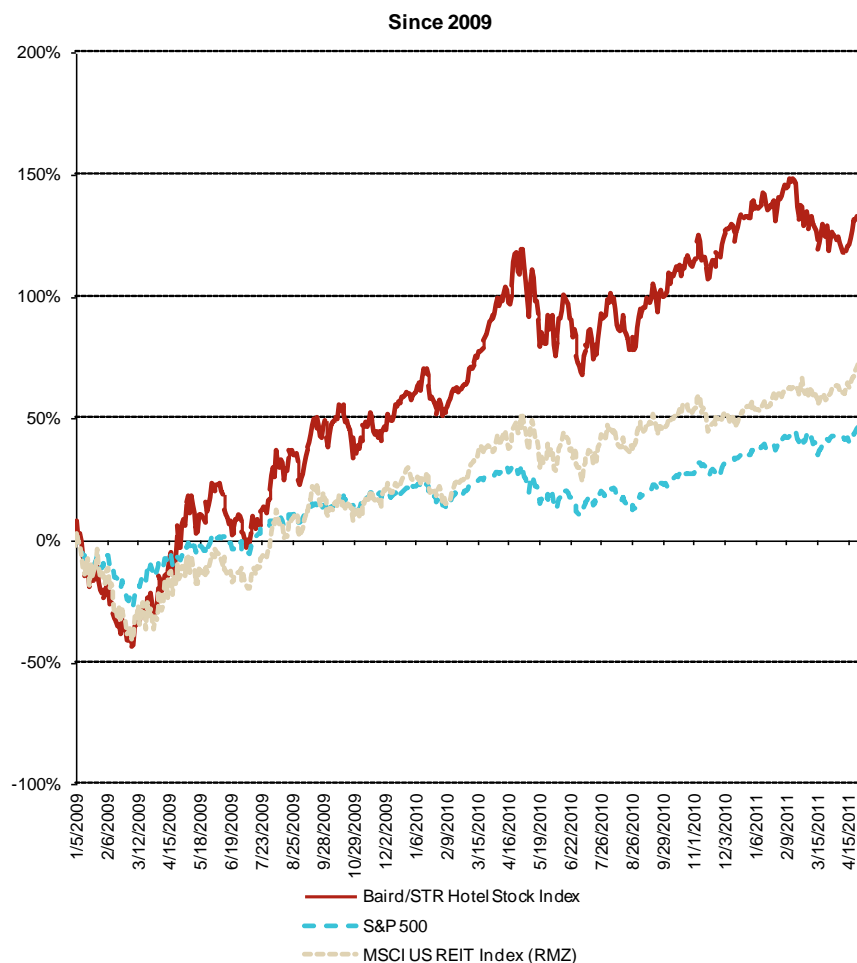
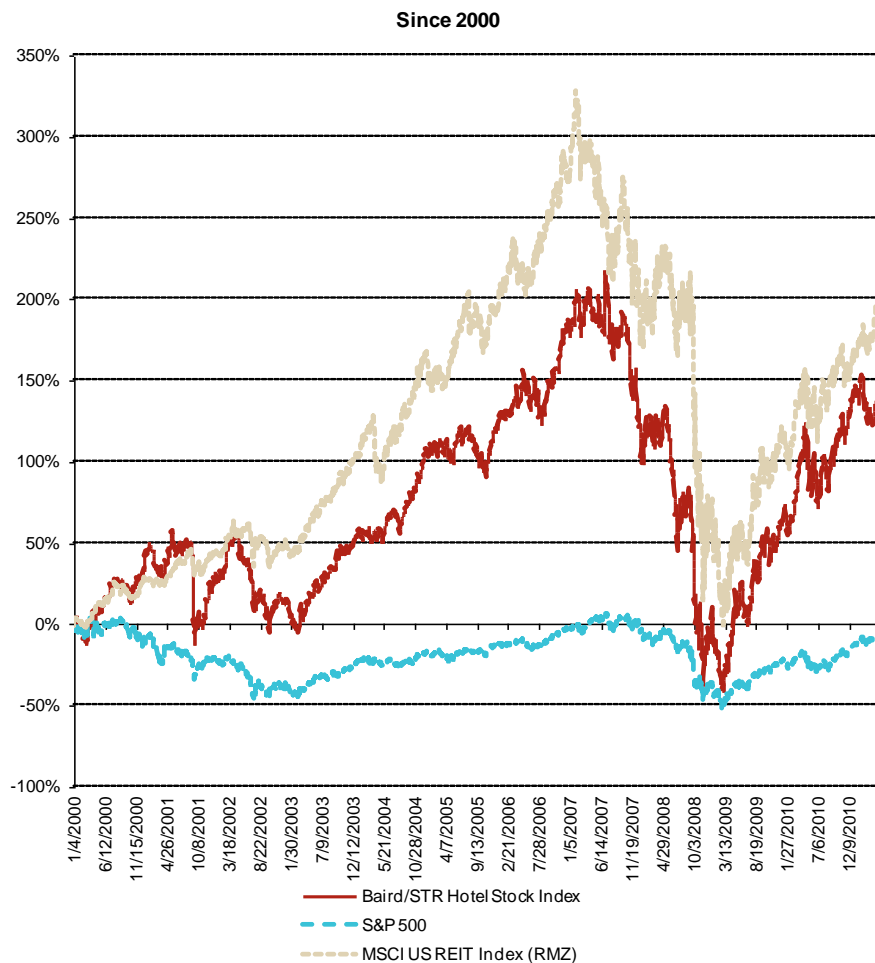
# Real Estate Equity Capital Markets

**Balance sheet delevering complete; capital raises  
now funding acquisitions**



# Baird/Smith Travel Research Hotel Index

Baird / Smith Travel Research Hotel Stock Index Versus Other Major Stock Indices



Source: Baird Research, SNL Financial

The Baird/STR Hotel stock index was created on June 1, 2010, and characterizes stock performance since January 1, 2000. Performance for time periods prior to the creation date is hypothetical. The index is comprised of 15 of the largest domestically available hotel stocks and reviewed quarterly for composition adjustments by Baird equity research. It is not possible to invest directly in the index.

# Massive Amount of Equity Raised

- \$7.3 billion raised over last three years (since May 2008)
- Most companies raised multiple times
  - LaSalle has raised nearly \$800 million through four offerings and two at the market ("ATM") programs

## Public Hotel Common Equity

	<u>Amount (mil)</u>	<u># Offerings</u>	<u># Companies</u>
<b>2008</b>	\$120,525	2	2
<b>2009</b>	\$2,508,705	11	8
<b>2010</b>	\$3,045,683	15	12
<b>2011 YTD</b>	\$1,627,120	8	9

*Note: "# offerings" does NOT include ATM issuances, "amount" does*

*Source: Baird Research*

# Stock Prices Up, but Market Cap Up More

- 2009 equity raises needed for survival, balance sheet restructuring
- 2010 equity raises mostly for acquisition funding
- Stocks up sharply, but shareholders significantly diluted

Then vs. Now: March 9, 2009 vs. April 18, 2011

	Market Capitalization (mil)			Equity Issuance			Stock Price			Dilution
	Then	Now	Chg	Amt (mil)	Raises	Avg Price	Then	Now	Chg	
AHT	\$92	\$952	936%	\$83	1	\$9.65	\$0.91	\$12.59	1284%	0.7x
BEE	\$58	\$1,205	1971%	\$399	2	\$4.76	\$0.77	\$6.86	791%	2.5x
DRH	\$260	\$2,022	679%	\$580	3	\$8.04	\$2.85	\$12.11	325%	2.1x
FCH	\$56	\$822	1379%	\$340	2	\$5.73	\$0.88	\$6.59	649%	2.1x
HST	\$2,032	\$12,471	514%	\$1,300	1	\$9.52	\$3.58	\$17.91	400%	1.3x
HT	\$66	\$1,052	1504%	\$527	5	\$4.28	\$1.15	\$5.94	417%	3.6x
LHO	\$161	\$2,399	1393%	\$794	4	\$18.14	\$3.99	\$28.20	607%	2.3x
SHO	\$104	\$1,234	1083%	\$469	3	\$7.42	\$2.18	\$10.50	382%	2.8x

Note: "Raises" do NOT include ATM issuances, "Amt (mil)" does

Source: Baird Research

# Preferreds Becoming Part of Capital Structure

- Provide “forever” capital
- Less restrictive covenants than debt
- Issuance does not dilute common equity
- Investor appetite high, yields attractive

## Public Hotel Preferred Equity

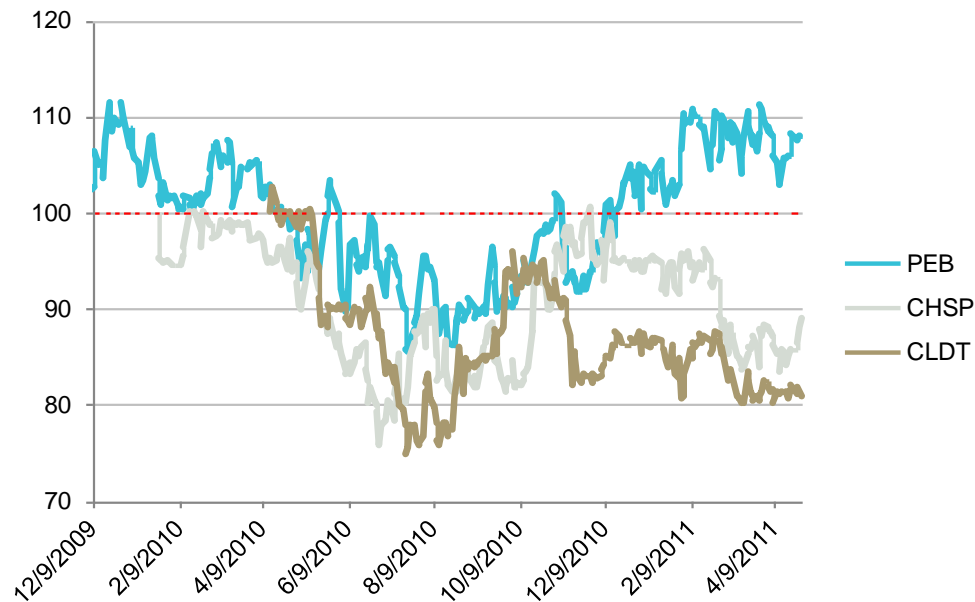
<b>Issuer</b>	<b>Date</b>	<b>Coupon</b>	<b>Proceeds (\$000s)</b>
Ashford Hospitality Trust	09/15/10	9.11%	76,487
LaSalle Hotel Properties	01/19/11	7.50%	68,750
Pebblebrook Hotel Trust	03/08/11	7.875%	125,000
Sunstone Hotel Investors	04/01/11	8.00%	115,000
Ashford Hospitality Trust	04/13/11	9.00%	75,000
<b>Total</b>			<b>\$460,237</b>

*Source: Baird Research*

## IPO Record Mixed

- Most “blind pool” IPOs have underperformed; investors skeptical of all REIT IPOs
- Bar raised for each successive deal
- Pristine corporate governance is a must
- Only Pebblebrook has achieved “escape velocity”

Hotel Stock Performance: Blind Pool REITs

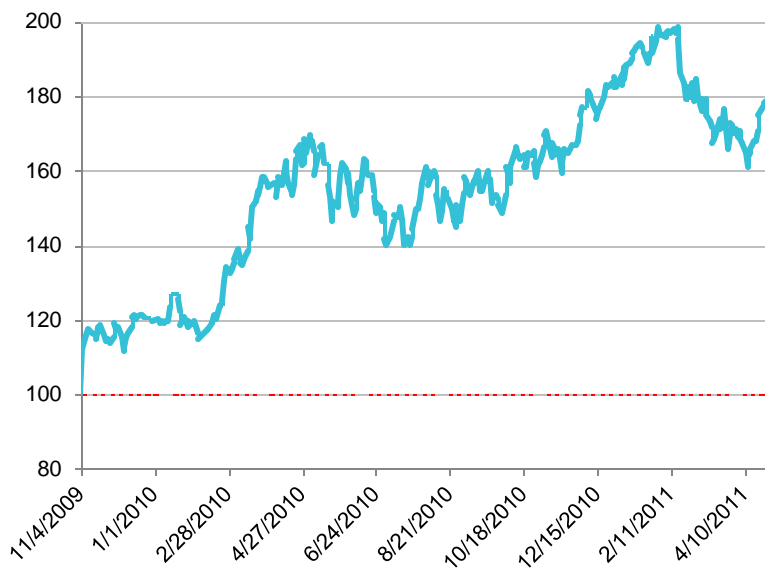


Source: Baird Research

# IPO Record Mixed

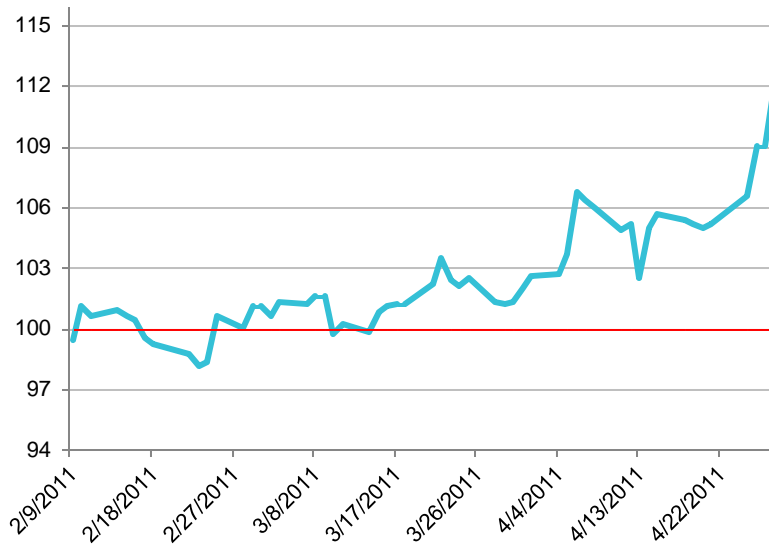
- Non-blind pool hotel companies, Hyatt (C-Corp) and Summit (REIT), have done well

Hotel Stock Performance: Hyatt Hotels



Source: Baird Research

Hotel Stock Performance: Summit Hotel Properties



Source: Baird Research

Since their IPOs, shares of Hyatt have risen 78.0% and shares of Summit have risen 12.2%. Over the comparable periods, the S&P 500 has risen 30.0% and 3.0%, respectively.

# IPO Pipeline Drying Up

- Five IPOs completed since November 2009
- RLJ just launched road show, pricing expected May 10
  - Not a blind pool, well-respected team

## Public Hotel Completed, Pending, and Withdrawn IPOs

<u>Issuer</u>	<u>Ticker</u>	<u>Completion Date</u>	<u>Proceeds (mil)</u>
<b><u>Completed</u></b>			
Hyatt Hotels	H	11/03/09	\$1,093
Pebblebrook Hotel Trust	PEB	12/08/09	\$405
Chesapeake Lodging Trust	CHSP	01/21/10	\$180
Chatham Lodging Trust	CLDT	04/15/10	\$183
Summit Hotel Properties	INN	02/08/11	<u>\$265</u>
			<b>\$2,125</b>
<b><u>Pending</u></b>			
RLJ Lodging Trust	RLJ	02/02/11	\$550
<b><u>Withdrawn</u></b>			
Pyramid Hotels & Resorts	PYR	12/07/09	\$275
Reunion Hospitality Trust	RBSC	03/23/10	\$250
Clearview Hotel Trust	CVW	05/10/10	\$375

*Source: Baird Research*

# Challenging IPO Market for ALL Real Estate

- Real estate dedicated managers always skeptical of IPOs
- Pristine corporate governance is a must
- Investors like scale, proven management teams
- Most funds prefer \$1 billion market cap; \$500 million is threshold for investment for many
- Only a few appeal to non-dedicated buyers; hotels more likely to have broader appeal

## RBT Completed, Pending, Withdrawn IPOs

*Since January 2008*

	<u>Deals</u>	<u>Size (mil)</u>
<b>Completed</b>	24	\$5,783
<b>Still in Registration</b>	11	\$4,337
<b>Withdrawn</b>	24	\$7,401

*Source: Baird Research, Dealogic*



# IPO Case Study: Summit

## Deal Specifics:

- 65 select-service hotels
- IPO proceeds of \$253.5 million
- \$364.4 million post-deal market cap
- 35% leverage ratio at IPO

## Interested Investors:

- More small cap value managers
- A few real estate dedicated managers
- Real estate investors likely to jump on in future deals as market cap and float grows
- Larger hotel REITs much more likely to be owned by real estate dedicated managers

Questions?

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- Hospitality Monthly
- Industry and company research
- This presentation

# Appendix: Transaction Tables

# Selected 2010 Hotel Sales

## Selected 2010 Hotel Transactions

<u>Date</u>	<u>Hotel</u>	<u>Rooms</u>	<u>Price (\$000s)</u>	<u>Per key</u>	<u>Buyer</u>	<u>Seller</u>	<u>Comments</u>
Feb 2010	Sofitel Washington DC	237	\$95,000	\$401	LHO	Whitehall/GEM	15.7x 2009 EBITDA (ex-inauguration)
March 2010	Raffles L'Ermitage - Beverly Hills	119	\$44,800	\$376	Viceroy	Colony (Fairmont Raffles)	
March 2010	Hyatt Regency Boston	498	\$112,000	\$225	CHSP	H	7% cap TTM
May 2010	Sir Francis Drake, San Francisco	416	\$90,000	\$216	PEB	Chartres	Will stay Kimpton. FTM 4.4x EBITDA, and 3% cap expected.
July 2010	Westin Chicago River North	424	\$165,000	\$389	HST	Tishman	5.1% TTM cap rate
July 2010	W New York - Union Square	270	\$185,233	\$686	HST/Istithmar World		Host majority partner; LEM Mezzanine seller; Dubai World bought for \$282mm in 2006
Aug 2010	Fairmont Copley Plaza Hotel	383	\$98,500	\$257	FCH	Fairmont	\$25mm renovation in 2004; less than 9.0x 2007 EBITDA; \$162 RevPAR in 2009
Aug 2010	Royal Palm - Miami Beach	409	\$117,000	\$286	SHO		Bought at foreclosure auction after purchasing junior debt at a discount
Aug 2010	Hotel Monaco San Francisco	201	\$68,500	\$341	LHO	Kimpton	\$2.7million of capex expected; 3.6% TTM cap rate, 4.7% EBITDA yield
Aug 2010	Westin Philadelphia	294	\$145,000	\$493	LHO	HEI	5.7% TTM cap rate, 6.4% TTM EBITDA yield
Aug 2010	Hampton Inn Washington DC	228	\$73,000	\$320	HT	JBG	6.7% TTM cap rate, 7.1% TTM EBITDA yield; 8.3% projected cap rate and 11.7% IRR
Sept 2010	Hilton Garden Inn Chelsea NYC	169	\$68,400	\$405	DRH	Inland	12.9x 2010 EBITDA, 7% cap rate (2010 NOI), \$2.5mm of EBITDA in '10, \$6mm in '11
Dec 2010	Sofitel Philadelphia	306	\$87,000	\$284	PEB	Whitehall/GEM	Assuming \$56.1mm of debt at LIBOR+130bps; 4.7% NTM cap rate, 5.7% NTM EBITDA yield
Dec 2010	DoubleTree Metropolitan Hotel NYC	755	\$335,000	\$444	RLJ	Whitehall/Highgate/Rockwood	RLJ paid off \$250mm of debt, adding \$200mm new debt; 5.3% TTM EBITDA yld; last traded for \$110.5mm in 2003 (\$35mm renos since)

Source: Baird Research

# Selected YTD Hotel Sales

## Selected 2011 Hotel Transactions

<u>Date</u>	<u>Hotel Name</u>	<u>Rooms</u>	<u>Price</u>	<u>Per Key</u>	<u>Buyer</u>	<u>Seller</u>	<u>Comments</u>
Jan 2011	DoubleTree Times Square	285	\$177,320	\$622	SHO	Highgate/ Whitehall	SHO bought 62% interest from partners; \$286mm implied valuation; 14.7x 2010
Feb 2011	JW Marriott New Orleans	494	\$93,800	\$190	SHO	Clearview	7.8% 2010 EBITDA yield; 6.3% 2010 cap rate
Mar 2011	Helmsley Hotel	775	\$313,500	\$488	HST	Helmsley Estate	\$5mm EBITDA in 2011 during conversion to Westin, \$30-\$35mm EBITDA in 2012
Feb 2011	JW Marriott San Francisco	338	\$96,000	\$284	Thayer	AHT	3.7% TTM cap rate
Mar 2011	Manchester Hyatt San Diego	1625	\$570,000	\$351	HST		\$30mm EBITDA in 2011; renovation costs not disclosed
Mar 2011	Highland portfolio - 28 hotels	8,084	\$1,277,000	\$158	AHT/PREI		AHT-PREI owned mezz-4 piece, restructured capital stack; 6.1% TTM cap rate, 35% per- key discount to '07 take-private value
Mar 2011	Viceroy Santa Monica	162	\$80,100	\$494	LHO	Kor	4% TTM cap rate (thru Feb), 5% TTM EBITDA yield; 7.5mm peak EBITDA (10.7x), 6.4mm
Apr 2011	Morgans Hotel & Royalton Hotel	282	\$140,000	\$496	FCH	Morgans	\$6-\$6.5mm EBITDA in 2011 during FCH ownership
Apr 2011	Royal Palm - Miami Beach	409	\$130,000	\$318	KSL	SHO	SHO bought 8/2010 for \$126mm gross; \$42.6mm reno to continue as planned; SHO providing \$90mm financing
Apr 2011	Hilton San Diego Bayfront	893	\$356,250	\$399	SHO		SHO bought 75% interest; 13.8x 2010 EBITDA, 6.2% cap rate; opened Dec 2008 w/ cost of \$348mm
Apr 2011	Westin Gaslamp - San Diego	450	\$110,000	\$296	PEB	HOT	\$110mm plus \$10mm reno reimburse; planning add'l \$13mm reno; 5.8% NTM EBITDA yield, 5.1% cap on \$133mm price
Apr 2011	Hotel Monaco Seattle	189	\$51,200	\$287	PEB	Kimpton	Reno 4Q11; \$2.95mm NTM EBITDA = 5.44% (4.5% cap) on \$54.2mm price

Source: Baird Research

# Loan Originations & Refinancings

## Recent Hotel Loan Originations & Refinancings

### Loan Details

<u>Date</u>	<u>Hotel</u>	<u>Company</u>	<u>Value (\$000s)</u>	<u>Rate</u>	<u>Maturity</u>	<u>LTV</u>	<u>Debt Yld</u>	<u>Type</u>
May 2010	9-hotel portfolio	FelCor	212,000	8.10%	5 years	71%	11.41%	Fixed
June 2010	Hilton Garden Inn NYC/West 35th	RLJ	60,000	5.50%	5 years	48%	11.46%	Fixed
Oct 2010	Embassy Suites Tampa	RLJ	40,000	5.50%	5 years	52%	10.59%	Fixed
Oct 2010	Homewood Suites Washington, DC	RLJ	31,000	5.50%	5 years	53%	10.38%	Fixed
Oct 2010	Marriott Gateway	Ashford	105,000	6.26%	10 years	60%	10.43%	Fixed
Nov 2010	Hilton Times Square	Sunstone	92,500	4.97%	10 years	51%	9.75%	Fixed
Dec 2010	InterContinental Buckhead	Pebblebrook	52,500	4.88%	5 years	50%	9.76%	Fixed
Dec 2010	DoubleTree Metropolitan	RLJ	150,000	4.90%	5 years	60%	9.38%	Fixed
Dec 2010	DoubleTree Metropolitan	RLJ	50,000	10.75%	5 years	60%	9.38%	Fixed
Jan 2011	Skamania Lodge	Pebblebrook	31,000	5.44%	5 years	56%	9.79%	Fixed
Jan 2011	DoubleTree Bethesda	Pebblebrook	36,000	5.28%	5 years	54%	9.84%	Fixed
Feb 2011	Hotel Del Coronado	Strategic/BX/KSL	425,000	5.80%	5 years	72%	8.05%	Floating
Apr 2011	Royal Palm	Sunstone/KSL	90,000	6.00%	3 years	69%	8.67%	Floating
Apr 2011	Hilton San Diego Bayfront	Sunstone/Hilton	240,000	3.55%	5 years	51%	7.03%	Floating
Apr 2011	Hilton Minneapolis	DiamondRock	100,000	5.46%	10 years	62%	8.81%	Fixed

Source: Baird Research

# Public Companies Actively Raising Equity

## Public Hotel Common Equity

Issuer	Date	Proceeds (\$000s)	Issuer	Date	Proceeds (\$000s)
Hersha Hospitality Trust	05/13/08	65,340	DiamondRock Hospitality Company	03/26/10	25,564
Orient-Express Hotels Ltd.	11/14/08	55,185	<b>Chatham Lodging Trust</b>	<b>04/15/10</b>	<b>182,500</b>
DiamondRock Hospitality Company	04/14/09	86,451	Strategic Hotels & Resorts	05/13/10	349,140
LaSalle Hotel Properties	04/23/09	124,861	DiamondRock Hospitality Company	05/25/10	193,200
Host Hotels & Resorts, Inc.	04/24/09	499,950	FelCor Lodging Trust	06/16/10	173,938
Orient-Express Hotels Ltd.	04/28/09	148,781	Pebblebrook Hotel Trust	07/22/10	332,350
Sunstone Hotel Investors, Inc.	05/21/09	103,500	LaSalle Hotel Properties	08/31/10	76,500
LaSalle Hotel Properties	06/10/09	147,500	Host Hotels & Resorts, Inc.	09/30/10	105,000
Hospitality Properties Trust	06/18/09	231,438	Chesapeake Lodging Trust	10/06/10	147,631
Hersha Hospitality Trust	08/04/09	14,250	Hersha Hospitality Trust	10/19/10	166,750
Hospitality Properties Trust	08/11/09	158,700	Sunstone Hotel Investors	11/09/10	199,875
DiamondRock Hospitality Company	09/11/09	53,504	Ashford Hospitality Trust	12/14/10	83,230
Host Hotels & Resorts, Inc.	09/11/09	131,000	Host Hotels & Resorts, Inc.	12/31/10	250,000
DiamondRock Hospitality Company	10/08/09	21,495	DiamondRock Hospitality Company	01/18/11	150,887
Sunstone Hotel Investors, Inc.	10/16/09	165,600	Chatham Lodging Trust	02/02/11	73,600
<b>Pebblebrook Hotel Trust</b>	<b>12/08/09</b>	<b>405,200</b>	<b>Summit Hotel Properties</b>	<b>02/08/11</b>	<b>265,052</b>
Hersha Hospitality Trust	12/31/09	8,492	LaSalle Hotel Properties	02/23/11	73,500
DiamondRock Hospitality Company	12/31/09	49,383	Chesapeake Lodging Trust	03/01/11	255,160
Host Hotels & Resorts, Inc.	12/31/09	158,600	Strategic Hotels & Resorts	03/11/11	50,000
Orient-Express Hotels Ltd.	01/12/10	138,000	FelCor Lodging Trust	03/29/11	165,600
Hersha Hospitality Trust	01/14/10	155,250	Host Hotels & Resorts, Inc.	03/31/11	100,000
<b>Chesapeake Lodging Trust</b>	<b>01/21/10</b>	<b>180,234</b>	Pebblebrook Hotel Trust	04/01/11	235,980
LaSalle Hotel Properties	03/02/10	113,821	LaSalle Hotel Properties	04/11/11	39,000
Hersha Hospitality Trust	03/19/10	117,300	LaSalle Hotel Properties	04/26/11	218,341
Host Hotels & Resorts, Inc.	03/26/10	55,400			
			<b>Total</b>		<b>\$7,302,033</b>

Note: IPOs in bold italics

Source: Baird Research, SNL Financial



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