



Hotel Values & CAP Rates

Meet The Money 2011

May 2-4, 2011 – Sheraton Gateway Hotel Los Angeles

Presented by:

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Senior Managing Director

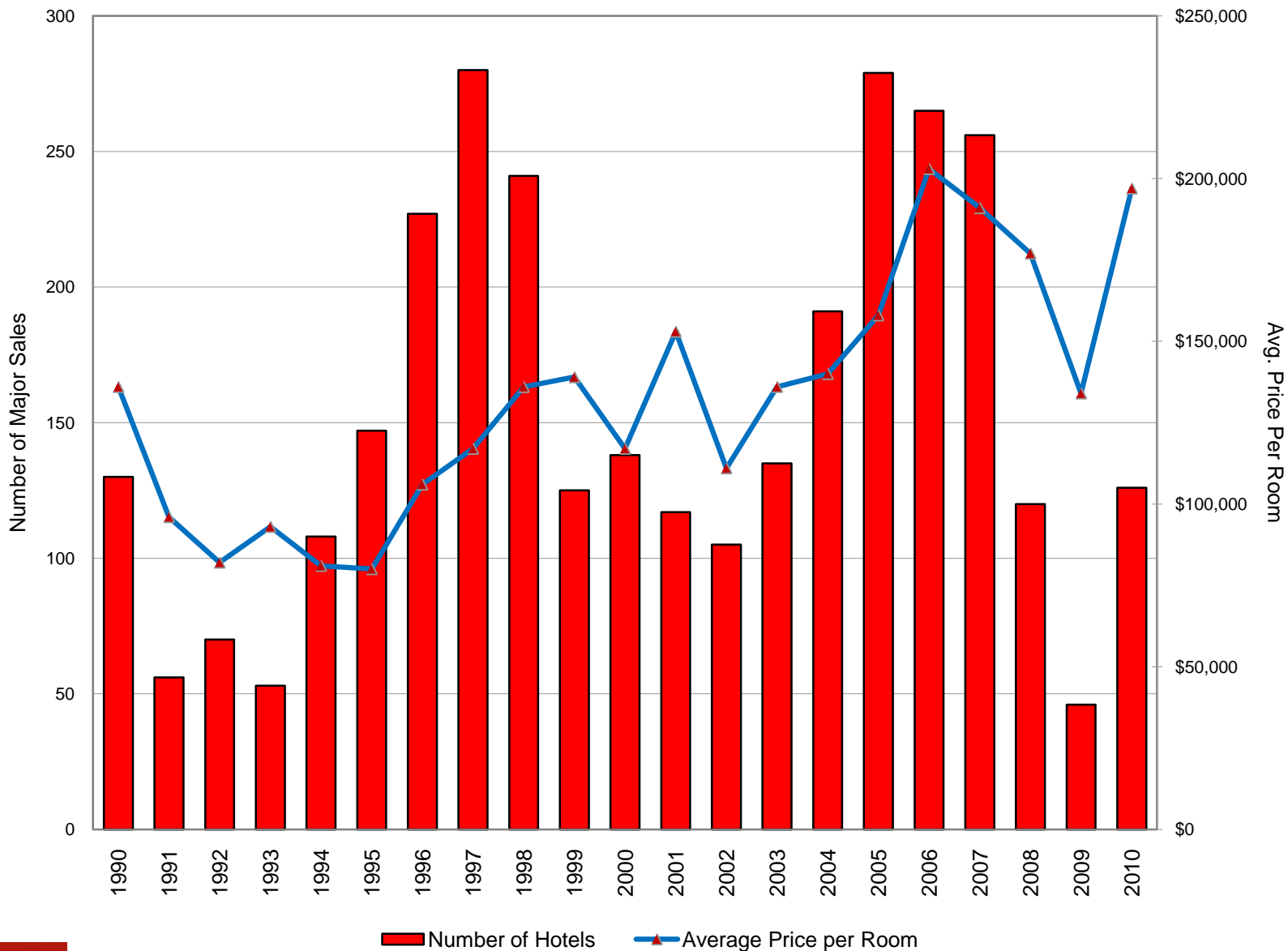
Hotel and Casino Consulting and Valuation

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Major Sales Transactions (>\$10 Million)



Source: HVS

Major Hotel Sales Transactions (Sales Price > \$10 Million)

| | | | | |
|------|-----|---------|---------|---------|
| 1991 | 56 | -56.9 % | 96,000 | -29.4 % |
| 1992 | 70 | 25.0 | 82,000 | -14.6 |
| 1993 | 53 | -24.3 | 93,000 | 13.4 |
| 1994 | 108 | 103.8 | 81,000 | -12.9 |
| 1995 | 147 | 36.1 | 80,000 | -1.2 |
| 1996 | 227 | 54.4 | 106,000 | 32.5 |
| 1997 | 280 | 23.3 | 117,000 | 10.4 |
| 1998 | 241 | -13.9 | 136,000 | 16.2 |
| 1999 | 128 | -46.9 | 148,000 | 8.8 |
| 2000 | 150 | 17.2 | 116,000 | -21.6 |
| 2001 | 105 | -30.0 | 146,000 | 25.9 |
| 2002 | 106 | 1.0 | 111,581 | -23.6 |
| 2003 | 142 | 34.0 | 132,944 | 19.1 |
| 2004 | 189 | 33.1 | 136,056 | 2.3 |
| 2005 | 331 | 75.1 | 168,225 | 23.6 |
| 2006 | 270 | -18.4 | 201,935 | 20.0 |
| 2007 | 252 | -6.7 | 192,566 | -4.6 |
| 2008 | 114 | -54.8 | 176,067 | -8.6 |
| 2009 | 46 | -59.6 | 133,629 | -24.1 |
| 2010 | 129 | 180.4 | 196,134 | 46.8 |

Source: HVS

What is the reference point in the discussion of hotel capitalization rates and values?

- Luxury and Upper Upscale Hotels make up less than 15% of the total supply of hotel rooms in the U.S.
- Luxury, Upper Upscale and Upscale Hotels make up less than 25% of total rooms in the U.S.
- These are the hotels that attain average rates above \$100 per night and occupancy levels > 65%
- The balance of the U.S. hotel supply operates at levels below the industry average
- Capitalization rates and the factors that impact them vary with property type, age, location, etc.
- Barriers to entry, age and type of construction most significant factors

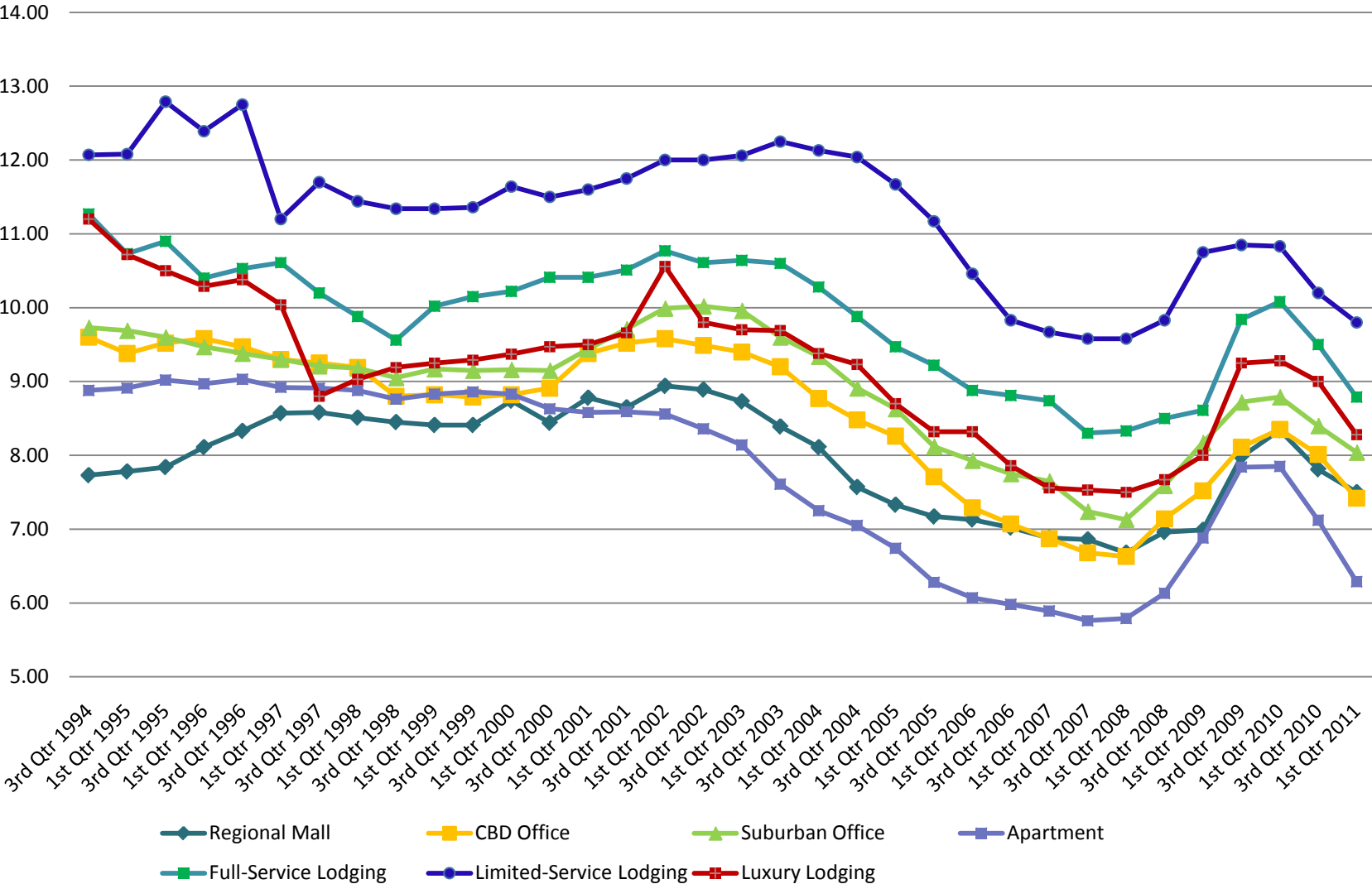
Capitalization Rates Derived From Historical Net Income

| | 2009 | | | 2010 | | |
|--------------------------|---------|--------------|--|---------|-------------|--|
| | Average | Range | | Average | Range | |
| Full Service | 10.0 % | 6.6 - 16.7 % | | 5.3 % | 1.7 - 8.0 % | |
| Select and Extended Stay | N/A | N/A | | 7.8 | 3.1 - 12.4 | |
| Limited Service | 11.8 | 1.4 - 28.8 | | 8.5 | 1.3 - 16.3 | |

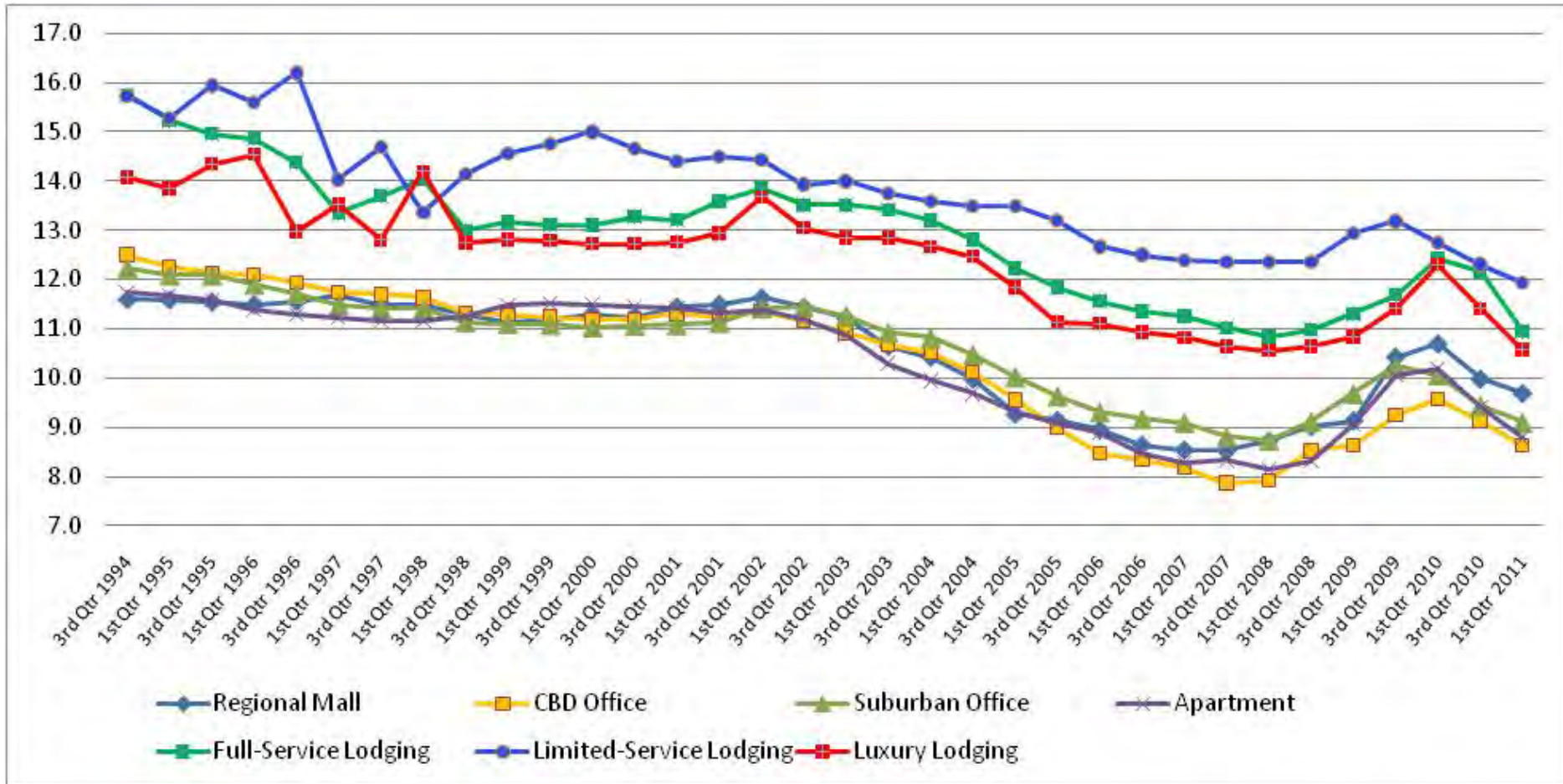
Hotel Mortgage Interest Rates



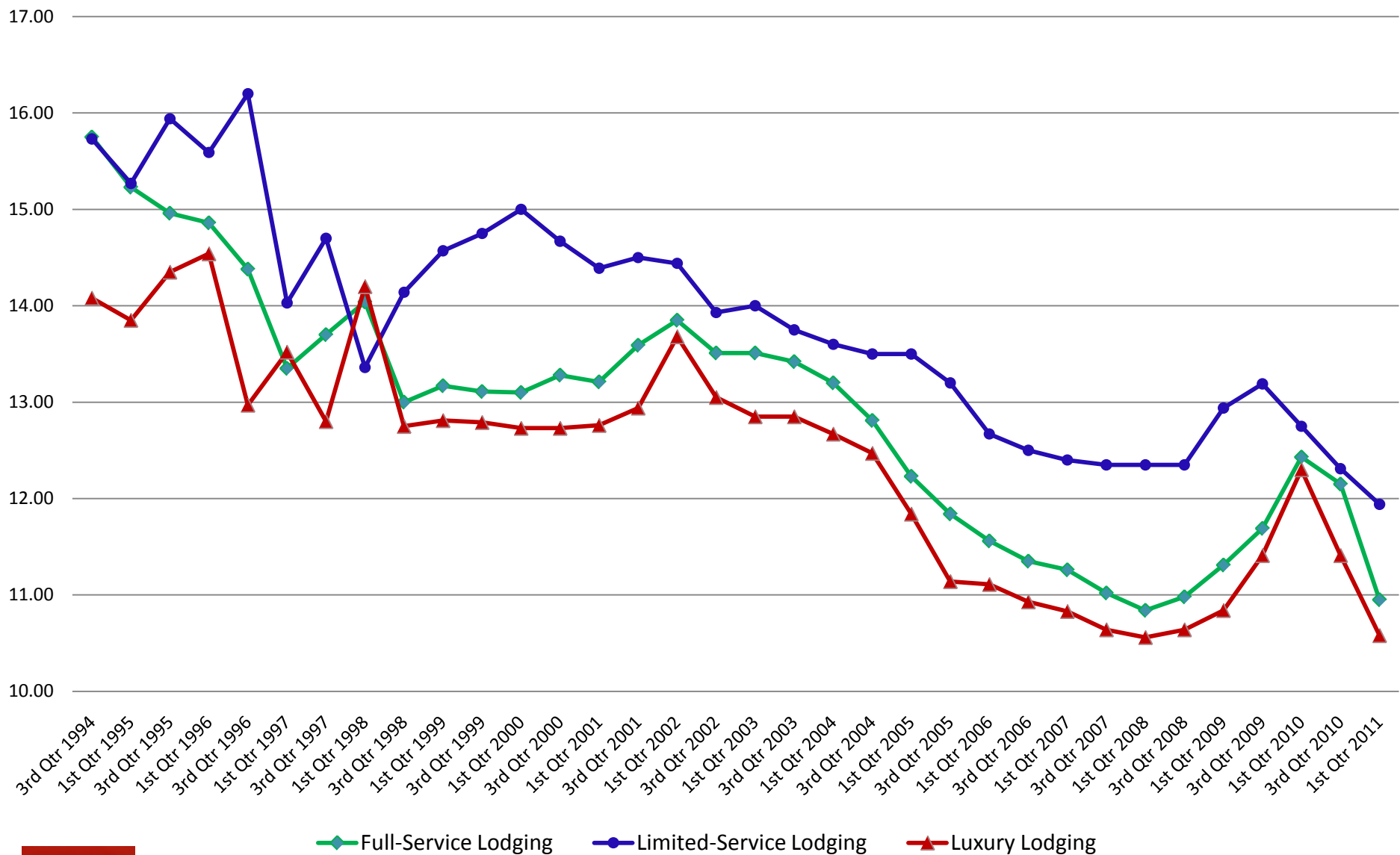
Survey Cap Rate Comparison



Survey Discount Rate Comparison



Survey Hotel Discount Rate Comparison



Source: PWC Korpacz Investor Survey

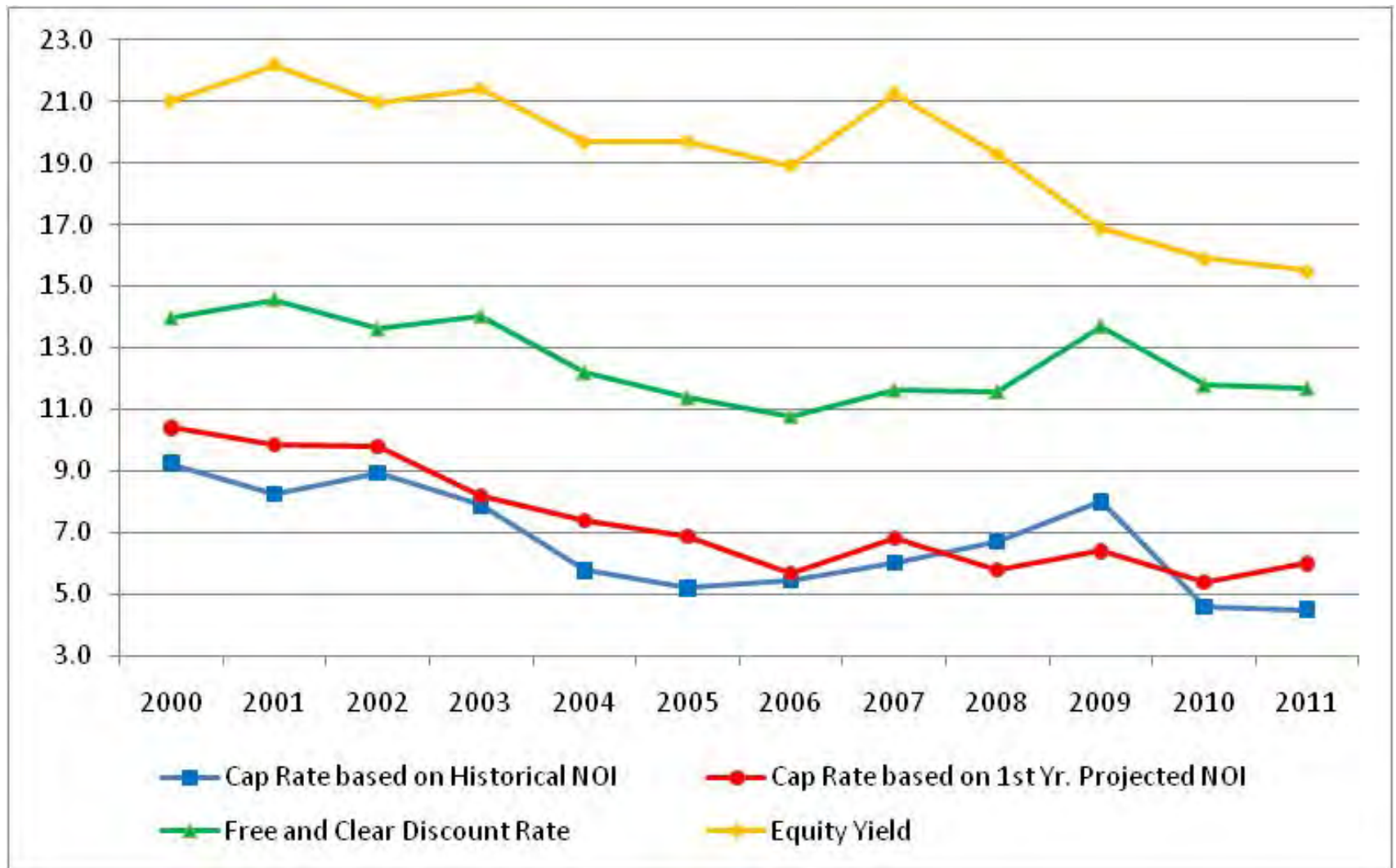
Historical Cap Rates – Select Set of Full Service Hotels

| | Cap Rate based on Historical NOI | Cap Rate based on 1st Yr. Projected NOI | Free and Clear Discount Rate | Equity Yield |
|------|-------------------------------------|--|---------------------------------|-----------------|
| 2011 | 4.5 | 6.0 | 11.7 | 15.5 |
| 2010 | 4.6 | 5.4 | 11.8 | 15.9 |
| 2009 | 8.0 | 6.4 | 13.7 | 16.9 |
| 2008 | 6.6 | 5.3 | 11.9 | 20.0 |
| 2007 | 6.0 | 6.8 | 11.6 | 21.3 |
| 2006 | 5.5 | 5.7 | 10.8 | 18.9 |
| 2005 | 5.2 | 6.9 | 11.4 | 19.7 |
| 2004 | 5.8 | 7.4 | 12.2 | 19.7 |
| 2003 | 7.9 | 8.2 | 14.0 | 21.4 |
| 2002 | 8.9 | 9.8 | 13.6 | 21.0 |
| 2001 | 8.2 | 9.8 | 14.6 | 22.2 |
| 2000 | 9.2 | 10.4 | 14.0 | 21.0 |
| 1999 | 10.3 | 11.4 | 15.5 | 24.9 |
| 1998 | 8.8 | 9.7 | 14.5 | 22.2 |
| 1997 | 9.3 | 10.5 | 15.4 | 23.9 |
| 1996 | 7.0 | 9.8 | 13.5 | 21.4 |
| 1995 | 7.0 | 11.1 | 14.1 | 20.5 |
| 1994 | 5.7 | 8.3 | 14.8 | 21.8 |
| 1993 | 8.5 | 12.0 | 20.8 | 34.3 |
| 1992 | 4.8 | 7.7 | 15.1 | 21.9 |
| 1991 | 6.4 | 8.9 | 19.4 | 24.0 |
| 1990 | 8.0 | 10.0 | 15.1 | 22.4 |
| 1989 | 9.5 | 9.4 | 17.6 | 28.8 |
| 1988 | 9.1 | 9.7 | 14.7 | 21.4 |

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Capitalization and Discount Rates – Select Set of Full Service Hotels



Transaction Cap Rate Comparisons

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------------------|------------------------|-------------------------|--------------------|--------------------|--------------------|---------------------------|-----------------------------|-----------------|--------------------------|-------------------------------------|
| | Boston Copley Marriott | Le Meridien New Orleans | Lexington Radisson | Marriott East Side | Westin St. Francis | Boston Long Warf Marriott | Hyatt Regency Orange County | W San Francisco | Tuscan Inn San Francisco | Average of Two Hotels San Francisco |
| Transaction Size | \$214 Million | \$93.5 Million | \$214 Million | \$287 Million | \$440 Million | \$231 Million | \$112 Million | \$90 Million | \$36.5 Million | \$93 Million |
| Trailing CAP Rate | 8.4% | 6.7% | 6.2% | 5.2% | 5.3% | 5.5% | 7.8% | 8.0% | 6.6% | 2.2% |
| Forward CAP Rate | 7.0% | 8.6% | 7.1% | 6.5% | 6.0% | 5.9% | 9.5% | 6.4% | 6.6% | 3.6% |



Source: HVS

Tuscan Inn – San Francisco

- Sold in January 2010 for \$36,500,000 or \$165,158 per room at an overall capitalization rate of 6.7%
- Resold in February 2011 for \$52,250,000 or \$236,425 per room at a reported capitalization rate of 5.5%
- 43% increase in value
- Revenue had increased roundly 10% from January 2010 to February 2011
- NOI increased by roundly 20% over the same period
- Less than 50% of appreciation was driven by an NOI increase
- Majority of appreciation driven by reduction in required rate of return
- With cap rates and cost of capital at historic low, future appreciation will have to be driven by NOI gains alone

Sample Forecast Illustrating Operating Leverage

| | Historical Operating Results | | Forecast of Income and Expense | | | | | | |
|---|---------------------------------|--------|--------------------------------|--------|----------|--------|----------|--------|------------|
| | 2010 | | 2011/12 | | 2012/13 | | 2013/14 | | Stabilized |
| Number of Rooms: | 260 | | 260 | | 260 | | 260 | | 260 |
| Occupancy: | 70% | | 72% | | 74% | | 74% | | 74% |
| Average Rate: | \$120.00 | | \$126.00 | 5.0% | \$134.19 | 6.5% | \$143.58 | 7.0% | \$149.33 |
| RevPAR: | \$84.00 | | \$90.72 | 8.0% | \$99.30 | 9.5% | \$106.25 | 7.0% | \$110.50 |
| Days Open: | 365 | | 365 | | 365 | | 365 | | 365 |
| Occupied Rooms: | 66,430 | %Gross | 68,328 | %Gross | 70,226 | %Gross | 70,226 | %Gross | 70,226 |
| REVENUE | | | | | | | | | |
| Total Revenues | 10,109 | 100.0 | 10,840 | 100.0 | 11,745 | 100.0 | 12,473 | 100.0 | 12,949 |
| DEPARTMENTAL EXPENSES * | | | | | | | | | |
| Total | 3,366 | 33.3 | 3,481 | 32.1 | 3,588 | 30.5 | 3,695 | 29.6 | 3,806 |
| DEPARTMENTAL INCOME | | | | | | | | | |
| | 6,743 | 66.7 | 7,359 | 67.9 | 8,157 | 69.5 | 8,778 | 70.4 | 9,143 |
| UNDISTRIBUTED OPERATING EXPENSES | | | | | | | | | |
| Total | 2,922 | 28.9 | 3,045 | 28.2 | 3,193 | 27.2 | 3,338 | 26.8 | 3,452 |
| HOUSE PROFIT | | | | | | | | | |
| | 3,821 | 37.8 | 4,314 | 39.7 | 4,964 | 42.3 | 5,440 | 43.6 | 5,691 |
| Management Fee | 354 | 3.5 | 325 | 3.0 | 352 | 3.0 | 374 | 3.0 | 388 |
| INCOME BEFORE FIXED CHARGE | | | | | | | | | |
| | 3,468 | 34.3 | 3,989 | 36.7 | 4,611 | 39.3 | 5,065 | 40.6 | 5,302 |
| FIXED EXPENSES | | | | | | | | | |
| Total | 849 | 8.4 | 891 | 8.3 | 940 | 8.0 | 984 | 7.9 | 1,017 |
| NET INCOME | | | | | | | | | |
| | \$2,618 | 25.9 % | \$3,098 | 28.4 % | \$3,671 | 31.3 % | \$4,082 | 32.7 % | \$4,285 |
| % CHANGE IN NOI | | | 18.3% | | 18.5% | | 11.2% | | |
| Total % Change | | | 64% | | | | | | |

Valuation of Sample Hotel

Valuation Input

| | |
|-----------------------|-----------------|
| Stabilized Inflation: | 3.0% |
| Loan/Value: | 65% |
| Amortization: | 30 Years |
| Term: | 10 Years |
| Interest Rate: | 6.00% |
| Terminal Cap Rate: | 8.50% |
| Transaction Costs: | 3.0% |
| Equity Yield: | 16.0% |

Valuation of Sample Hotel at Current Rates of Return

Valuation Output

| | |
|-------------------------------|------------------|
| Value: | \$48,012,871 |
| (Say): | \$48,000,000 |
| Value per Room: | \$185,000 |
| Overall Discount Rate: | 10.3% |

| | |
|---------------------------------------|-------------|
| Overall Rate (Historical NOI): | 5.6% |
|---------------------------------------|-------------|

| | |
|-------------------------------------|-------------|
| Overall Rate (1st Year NOI): | 6.5% |
|-------------------------------------|-------------|

| | |
|------------------------------------|-----|
| Debt Coverage Ratio (Hist. NOI) | 1.2 |
| Debt Yield (Historical NOI) | 8% |
| Debt Coverage Ratio (1st Year NOI) | 1.4 |
| Debt Yield (1st Year NOI) | 10% |

Valuation at End of Year 3

100 bp Increase in Interest Rate, Leverage up to 75% LTV (all else equal)

Valuation Input

| | |
|-----------------------|-----------------|
| Year of Value: | 2014/15 |
| Stabilized Inflation: | 3.0% |
| Loan/Value: | 75% |
| Amortization: | 30 Years |
| Term: | 10 Years |
| Interest Rate: | 7.00% |
| Terminal Cap Rate: | 8.50% |
| Transaction Costs: | 3.0% |
| Equity Yield: | 18.0% |

Value at End of Year Three

100 bp Increase in Interest Rate; 75% LTV

Valuation Output: End of 3rd Year

Before Deduct:

| | |
|-----------------|------------------|
| Value: | \$52,628,167 |
| (Say): | \$52,600,000 |
| Value per Room: | \$202,308 |

| | |
|------------------------|--------------|
| Overall Discount Rate: | 10.6% |
|------------------------|--------------|

| | |
|--------------------------------|-------------|
| Overall Rate (Historical NOI): | 7.8% |
|--------------------------------|-------------|

| | |
|------------------------------|-------------|
| Overall Rate (1st Year NOI): | 8.1% |
|------------------------------|-------------|

| | |
|------------------------------------|-------|
| Debt Coverage Ratio (Hist. NOI) | 1.3 |
| Debt Yield (Historical NOI) | 10.3% |
| Debt Coverage Ratio (1st Year NOI) | 1.4 |
| Debt Yield (1st Year NOI) | 10.9% |

Value at End of Year Three

Appreciation = 9.6%

Valuation Output: End of 3rd Year

Before Deduct:

| | |
|-----------------|------------------|
| Value: | \$52,628,167 |
| (Say): | \$52,600,000 |
| Value per Room: | \$202,308 |

Overall Discount Rate: 10.6%

Overall Rate (Historical NOI): 7.8%

Overall Rate (1st Year NOI): 8.1%

| | |
|------------------------------------|-------|
| Debt Coverage Ratio (Hist. NOI) | 1.3 |
| Debt Yield (Historical NOI) | 10.3% |
| Debt Coverage Ratio (1st Year NOI) | 1.4 |
| Debt Yield (1st Year NOI) | 10.9% |

Valuation of Sample Hotel at End of Year 3

150 bp Increase in Interest Rate; 100 bp Increase in Equity Yield and Terminal Rate

Valuation Input

| | |
|-----------------------|-----------------|
| Year of Value: | 2014/15 |
| Stabilized Inflation: | 3.0% |
| Loan/Value: | 75% |
| Amortization: | 30 Years |
| Term: | 10 Years |
| Interest Rate: | 7.50% |
| Terminal Cap Rate: | 9.00% |
| Transaction Costs: | 3.0% |
| Equity Yield: | 19.0% |

Valuation of Sample Hotel at End of Year 3 Result is 100 bp Increase in Discount Rate

Appreciation = 2.5%

Valuation Output: End of 3rd Year

Before Deduct:

| | |
|-----------------|------------------|
| Value: | \$49,207,052 |
| (Say): | \$49,200,000 |
| Value per Room: | \$189,231 |

Overall Discount Rate: 11.3%

Overall Rate (Historical NOI): 8.3%

Overall Rate (1st Year NOI): 8.7%

| | |
|------------------------------------|-------|
| Debt Coverage Ratio (Hist. NOI) | 1.3 |
| Debt Yield (Historical NOI) | 11.1% |
| Debt Coverage Ratio (1st Year NOI) | 1.4 |
| Debt Yield (1st Year NOI) | 11.6% |

Actual Example of Operating Leverage

| | Historical Statement of Income and Expense | | | | | | | |
|---|--|---------|----------|---------|----------|---------|----------|---------|
| | 2004 | | 2005 | | 2006 | | 2007 | |
| Number of Rooms: | 800 | | 800 | | 800 | | 800 | |
| Occupancy: | 72% | | 74% | | 80% | | 83% | |
| Average Rate: | \$164.50 | | \$182.50 | 10.9% | \$204.11 | 11.8% | \$212.56 | 4.1% |
| RevPAR: | \$118.86 | | \$133.03 | 11.9% | \$164.16 | 23.4% | \$176.61 | 7.6% |
| REVENUE | | | | | | | | |
| Total Revenues | 55,763 | 100.0 % | 61,179 | 100.0 % | 72,137 | 100.0 % | 81,076 | 100.0 % |
| DEPARTMENTAL EXPENSES * | | | | | | | | |
| Total | 23,433 | 42.0 | 24,175 | 39.5 | 27,647 | 38.3 | 30,488 | 37.6 |
| DEPARTMENTAL INCOME | 32,330 | 58.0 | 37,004 | 60.5 | 44,490 | 61.7 | 50,588 | 62.4 |
| UNDISTRIBUTED OPERATING EXPENSES | | | | | | | | |
| Total | 11,481 | 20.6 | 13,666 | 22.3 | 14,051 | 19.5 | 15,010 | 18.5 |
| HOUSE PROFIT | 20,849 | 37.4 | 23,338 | 38.2 | 30,439 | 42.2 | 35,578 | 43.9 |
| Management Fee | 1,639 | 2.9 | 571 | 0.9 | 1,569 | 2.2 | 2,279 | 2.8 |
| INCOME BEFORE FIXED CHARGE | 19,210 | 34.5 | 22,767 | 37.2 | 28,870 | 40.0 | 33,299 | 41.1 |
| FIXED EXPENSES | | | | | | | | |
| Total | 5,897 | 10.6 | 6,505 | 10.6 | 7,311 | 10.1 | 8,746 | 10.8 |
| NET INCOME | \$13,313 | 23.9 % | \$16,262 | 26.6 % | \$21,559 | 29.9 % | \$24,553 | 30.3 % |
| % CHANGE IN NOI | | 22% | | 33% | | 14% | | 14% |
| Total % Change | | 84% | | | | | | |

Valuation as of Year One Based on Historical Cash Flow of Actual Hotel (2004-2007)

Valuation Based on Actual Historical Cash Flow

| | |
|-----------------|------------------|
| Value: | \$269,857,720 |
| (Say): | \$269,900,000 |
| Value per Room: | \$337,000 |

Overall Discount Rate: 10.5%

Overall Rate (Historical NOI): 3.7%

Overall Rate (1st Year NOI): 4.9%

Value of Actual Hotel Assuming Cost of Capital Remains the Same

Valuation Based on Actual Historical Cash Flow

Before Deduct:

| | |
|-----------------|------------------|
| Value: | \$313,427,275 |
| (Say): | \$313,400,000 |
| Value per Room: | \$391,750 |

Overall Discount Rate: 10.5%

Overall Rate (Historical NOI): 6.9%

Overall Rate (1st Year NOI): 7.8%

Appreciation: 16.1%

Value of Actual Hotel Assuming 100 bp increase in Weighted Cost of Capital

Valuation Based on Actual Historical Cash Flow

Before Deduct:

Value: \$293,281,731

(Say): \$293,300,000

Value per Room: \$366,625

Overall Discount Rate: 11.5%

Overall Rate (Historical NOI): 7.4%

Overall Rate (1st Year NOI): 8.4%

Appreciation: 8.7%

Outlook

- Expect capitalization rates on both historical and projected 1st year NOI to drift upwards over the next two years
- Interest rates likely to rise, offset in large part by higher leverage
- Values will continue to rise
- Expectation for operating leverage to continue over the near term
- Values expected to continue to rise, but appreciation will be constrained due to rise in cost of capital
- Capital improvement costs will further challenge appreciation levels
- Look out for new supply, especially limited and select service, as well as extended stay.
- Take care when valuing a specific property – make sure the capitalization rate and/or discount rate you apply fits the profile of the asset!!

Please, E-Mail for a Copy of This
Presentation or Call Me With Any
Questions

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Thank You!

Suzanne R. Mellen, MAI, CRE, FRICS, ISHC

Suzanne R. Mellen is Senior Managing Director of Consulting & Valuation for HVS San Francisco and Las Vegas and President of HVS Gaming Services. HVS is a full-service consulting and valuation firm specializing in hotel, gaming, and hospitality properties worldwide. Under Ms. Mellen's leadership, HVS San Francisco and Las Vegas have become renowned for excellence and integrity. Suzanne Mellen's professional experience includes consulting and appraisal positions with HVS New York, Morgan Guaranty Trust, Laventhol & Horwath, and Helmsley-Spear Hospitality Services, Inc. in New York City and Harley-Little Associates in Toronto, Canada. She gained her operational experience at the Plaza Hotel in New York.

Ms. Mellen has a B.S. degree in Hotel Administration from Cornell University and holds the following designations: MAI (Appraisal Institute), CRE (Counselor of Real Estate), FRICS (Fellow of the Royal Institution of Chartered Surveyors), and ISHC (International Society of Hospitality Consultants). She has been appraising hotels, gaming assets and related real estate for over 30 years, has authored numerous articles, and is a frequent lecturer and expert witness on the valuation of hotels, casinos and related issues. She developed the Simultaneous Valuation Formula, a mortgage-equity income capitalization formula for variable income properties, and developed the software for the model.