Hotel Transaction Results

INTRODUCTION

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CBRE Hotels is pleased to provide an analysis of historical closed hotel sale data, broadly covering US transactions from 2009 through Q1 2012. The results represent completed sale transactions with researched and reported prices and rates of return indications (overall capitalization rates), and illustrate the aggregation of actual deal points. With the combined resources of our brokerage and valuation professionals, this report illustrates broad market trends in closed hotel sale transactions, and provides a clear look at recent and current pricing metrics. Further, given that the data is generated by hotel professionals, the resulting averages are prepared with industry-specific knowledge.

Some key points from the survey are found below:

Overall (Capitalization) Rates

- Between 2009 and 2011 Overall Rates for full-service hotels moved from 8.27 percent to 7.43 percent, a change of 84 basis points. From Q1 2011 to Q1 2012, the Overall Rates showed an increase of 142 basis points from 6.94 percent in 2011 to 8.36 percent in 2012; however, this increase is likely due in large part to the smaller data set of full-service properties sold in 2012 and a shift in the investment characteristics for such properties.

- Between 2009 and 2011 Overall Rates for limited-service hotels moved from 9.46 percent to 8.95 percent, a change of 51 basis points. From Q1 2011 to Q1 2012, the Overall Rates showed a decline of 95 basis points to 9.1 percent.

Room Revenue Multipliers

- Between 2009 and 2011 Room Revenue Multipliers for full-service hotels increased fairly dramatically from 3.42 to 4.46, and the multipliers continued to increase, 76 basis points to 5.37, when comparing Q1 year over year (2012 to 2011).

- Between 2009 and 2011 Room Revenue Multipliers for limited-service hotels stayed relatively flat, dropping from 3.36 to 3.30. However, Q1 2012 indicators jumped slightly, 14 basis points to 3.41, over the same period in 2011.

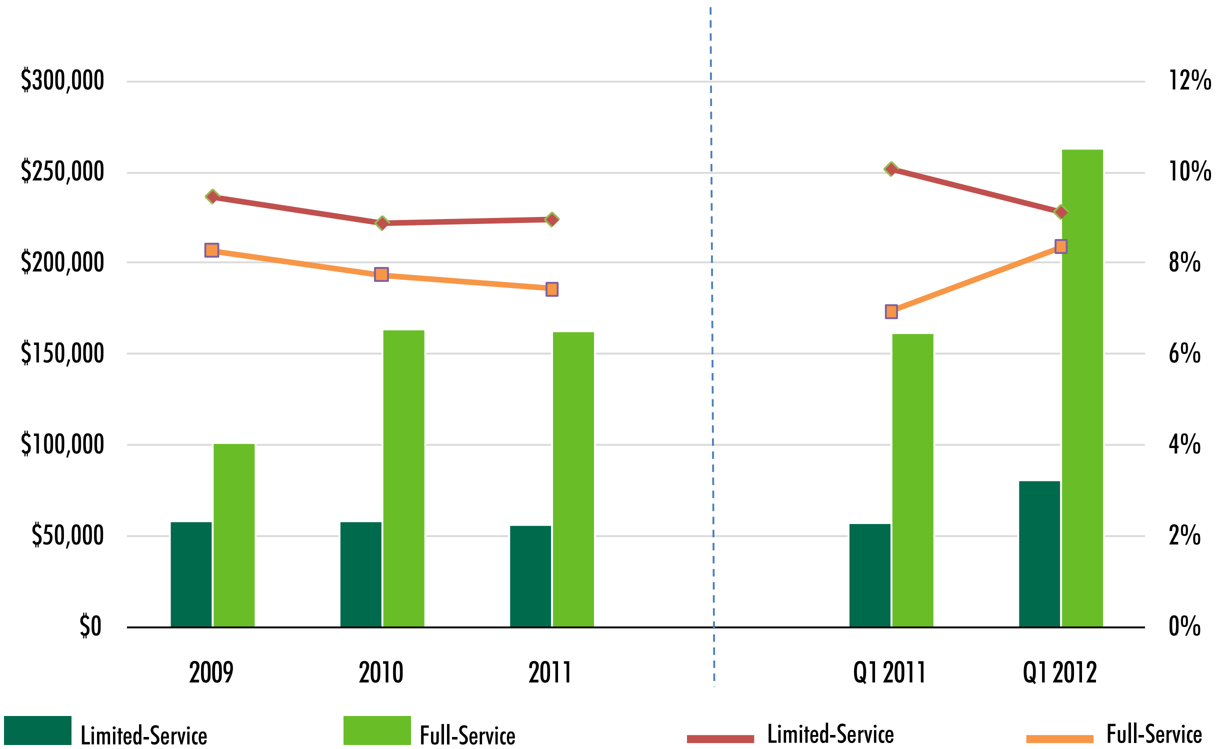
Average Sales Price per Room

- Between 2009 and 2011 the average sales price per room for full-service hotels moved from $101,359 to $162,181, and in Q1 2012 average price per room was $263,254 versus $161,357 for the same quarter in 2011.

- Between 2009 and 2011 the average sales price per room for limited-service hotels moved from $57,686 to $56,404. In the first quarter of 2012, the average price per room increased to $80,614 from $56,737 during Q1 2011.

General observations include that the Overall Rates from 2009 to 2011 moved in directions that are not surprising, as the perceived risk in the market lessened during this timeframe. Similarly, the average per room prices and Room Revenue Multipliers for full-service hotels moved up, while the average prices and Room Revenue Multipliers for limited-service hotels did not move in a material way. Regarding Q1 2011 versus Q1 2012, Overall Rates moved down in limited-service sales while full-service sales showed an increase (likely due to the data set, and not necessarily a broad indicator of market risk).

Sales Price per Room and Overall (Capitalization) Rate 2009-2011 | Q1 2011 and Q1 2012



CBRE Hotels Perspective

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The transaction indices summarized above illustrate an accurate recent history of the hotel transaction market. After experiencing historic declines in occupancy and ADR due to the national economic recession, the US hotel industry began its recovery in early 2010 and has since realized continued RevPAR growth fueled by a resurgence in corporate, group and leisure travel as well as a lack of new supply. The declines felt during late 2008 and 2009 created buying opportunity for hotel investors, and the full-service segment experienced the greatest decline in value. This segment is heavily dependent on group travel, which essentially ground to a halt during the economic downturn due to cuts in corporate travel budgets and pullback in group demand. These trends coupled with high fixed operating costs decimated operating cash flow in the full-service segment. Although the limited-service segment experienced its fair share of performance declines, the segment was better insulated to sustain itself through the downturn due to its ADR positioning, which enabled these properties to capture some of the corporate and leisure travelers that historically frequented full-service hotels within the same family of brands.

In addition to these trends, lending in the hotel sector pulled back significantly which had a direct impact on property values and transaction volume. This phenomenon changed the investor landscape and allowed institutions that had the ability to purchase all-cash, specifically publicly traded REITs, to dominate the acquisition playing field. This was most prevalent during late 2010 and early 2011, as a majority of the large full-service and select-service acquisitions were consummated by REITs at historically low capitalization rates and high prices per room. In mid to late 2011, the hotel REITs lost their luster in the public equity markets resulting in decreased investment capacity. Fortunately, the debt markets re-emerged in early 2011 allowing for private equity investors to take the lead. During the balance of 2011 and through the first quarter of 2012, private equity groups were the most active investors.

As we look ahead, transaction activity is well positioned to increase significantly across all segments of the hotel sector. Four driving factors include continued RevPAR growth, the re-emergence of hotel REITs as active buyers, the resurgence of hotel lending, and a continued lack of supply growth. While occupancy increases drove RevPAR growth over the last 18 months, gains have shifted to ADR and as this trend continues hotel profits will increase rapidly, resulting in strong profit growth for owners and increased opportunities to sell assets.

The strong overall health of REIT stocks has led to the re-emergence REITs as active acquirers of hotel assets. Recent acquisitions by Pebblebrook, Summit, Sunstone and Supertel are early examples of REIT buyers re-entering the arena.

The overall health of the US hotel sector coupled with declines in foreclosures has enabled hotel lenders to once again become more active. Debt has and is becoming more readily available each day across all sources including CMBS, Life Companies, Local/Regional Lenders, government backed SBA and USDA Loan Programs, and Mortgage Funds/REITs. A healthy pool of lenders is a key driver of hotel transaction activity.

While hotel lending has opened up dramatically over the last 12 months, construction lending is still difficult to source at attractive LTC ratios. As a result, supply growth has been less than one percent since the second quarter of 2010. This presents owners with a unique opportunity to preserve and significantly grow cash flow over the next 12-24 months by renovating their assets and pushing average rates as corporate, group and leisure demand continues its upward trend.

Despite a somewhat murky few quarters for full-service asset sales in late 2011 and early 2012, both capital markets and operational fundamentals point towards a vibrant transaction market in the coming months for all asset types. The rise in operating profits and trends in the equity and debt markets will provide owners with the opportunity to realize strong sales proceeds; the foresight to sell at the opportune time, as always, is paramount.

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