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2010 UNITED STATES
HOTEL VALUATION INDEX

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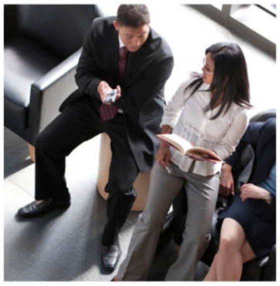

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2010 U.S. Hotel Valuation Index

An optimistic outlook for the industry marks the 2010 edition of the HVS U.S. Hotel Valuation Index. The supply pipeline appears to be limited and will likely be severely restricted over the near- to mid-term given the limited financing available for new development. Shifting segmentation and the resurgence of the corporate traveler became the dominant trends over the second and third quarters of 2010, although same-guest pricing power is still fragile. The transaction side of the business has increased moderately from the nadir witnessed in 2009 as numerous high-profile assets have come to market, and fierce bidding is commonplace among cash-rich buyers. Despite downward revisions to the GDP for year-end 2010 and the acknowledgement of a weaker recovery by top economic officials, the lodging sector appears coordinated in its efforts to improve average rate as occupancy trends upward.

The transaction side of the business is somewhat reflective of stock market trends exhibited in late 2009 and early 2010, where growth was rampant despite only modest gains in the underlying fundamentals and general health of the economy, such as high unemployment and national deficit levels. As the lodging industry's fundamentals improved only marginally over the first half of 2010, hotel prices traded up to that time were driven higher by an abundance of eager investors desperately trying to outbid one another at the prospect of high future returns given the depressed per-room values from 2006 peaks. These prices were kept somewhat in check by the fact that acquisitions have largely been all-cash.

The sentiment held by many lenders to "pretend and extend" has reached a tipping point in many situations, and foreclosures have increased. However, many market participants hold the outlook that we are still witnessing only the tip of the iceberg, and a substantial amount of real estate will come to market in 2011 as lenders can no longer "kick the can down the road." Furthermore, any severe worsening of the economy, such as a "double-dip" recession, would undoubtedly result in a significant increase in the pace of foreclosure.

The increase in demand for discounted assets, strengthening RevPAR fundamentals, 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 hotel industry. Challenges are certain in the near future, but the industry generally appears to be on track.

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 remains in a precarious state, as mixed signals dominate the landscape. The economy is considered to be in a recovery stage, as the national GDP has recorded four consecutive quarters of growth. However, the pace of the recovery has moderated as the pace of GDP growth has successively subsided in the first and second quarters of 2010. Revised figures for the second quarter of 2010 illustrate an annualized growth rate of 1.6%, which remains far below the annualized growth rate realized in the fourth quarter of 2009, of 5.0%. Moreover, at 9.6% as of August 2010, the unemployment rate is still very high. The prevailing sentiment remains that banks and corporations alike have rebuilt cash reserves and are in the position to lend and invest. Yet such financial activity remains modest at best, as firms are wary of weak consumer spending and remain concerned about the government's potential response to the astronomically high national deficit (vis-à-vis tax policy). Given such dynamics, some economic analysts remain concerned about a potential slide into a second recession.

Those less concerned about a "double-dip" provide sound reasons for their optimism. Amidst the deepening recession, manufacturers ceased production, which eventually led to the depletion of their inventory. In response, production resumed and, in turn, contributed to strong GDP growth in the fourth quarter of 2009 and further gains in the first quarter of 2010. However, because inventory levels had increased to more healthy/sustainable levels, the pace of GDP growth logically subsided in the first and second quarters of 2010. Thus, the volatility in growth is partially attributable to the logistical supply issues resulting from manufacturers cutting production in 2008 and 2009 and their eventual need to rebuild inventories.

Concerns and/or potential remedies relative to the state of unemployment, investment activity, and the national deficit remain circular to some extent. Roughly half of the eight million jobs lost during the latest recession relate to the construction and manufacturing industries. This dynamic has potentially transcended into structural unemployment, as those forced to venture into growing sectors, such as education and health services, don't necessarily have the skill set to successfully secure such employment. Note, however, that the U.S. economy has not been particularly reliant on the manufacturing segment for several decades now. Nevertheless, the housing bust has further amplified this issue, as those still committed to somehow retaining ownership of their highly devalued and thus over-leveraged homes are unable to relocate to more flourishing cities where jobs are more available. Similarly, dual-income households where one spouse has become unemployed are less likely to relocate when this means forfeiting an existing source of income. In addition, several states have extended unemployment benefits to 99 weeks from the typical limit of 26 weeks; this benefit has partially contributed to roughly 45% of the currently unemployed maintaining their status as jobless for longer than six months.

Those with an opposite view on "double-dip" argue that the U.S. economy, in its current form, is well equipped to combat the prevailing ills related to unemployment and maintain a positive pace of recovery. Banks and corporations are perceived to have the cash reserves to spur economic activity and development. This sentiment alone could preclude the American economy from reverting to a second slide into recession. A heightened level of lending/investment commitment from such firms would certainly help accelerate economic growth and reduce unemployment levels. However, a lack of confidence in the direction of the economy and/or economic policy seems to be stifling active investment and lending. There remains active discussion in Washington DC relative to how forthcoming policy enactments could help remedy this issue. Policies being discussed include, but are not limited to, proposed stimulus plans (camouflaged under a different name to clear Congress and prevent a populist backlash), tax deductions frontloaded against investments made in 2011, continued low interest rates, quantitative easing, and the possible extension of many of the Bush-era tax cuts. Although a second recession is not anticipated, little policy is expected in the near term that would alleviate economic pressures given the elections looming in November. Thus, a modest pace for economic growth is likely to be maintained through the end of 2010.

Overall, the U.S. economy is faced with challenges, and the recovery process has been painfully slow. However, it is undeniable that the economy is clearly in a better position than it was roughly one year ago. For most, if not all economic indicators, the plummeting trend has ceased and has slowly translated into stabilization or modest growth. Moreover, as mentioned, there is a considerable amount of cash available on the sidelines. Relative to the hospitality industry – travel activity, which had declined heavily through most of 2009, has rebounded in 2010. Investors are actively seeking to purchase hotels now at realistic prices, so that they reap the benefits of the forthcoming stronger rebound phase. Even lenders are offering financing for such investors, albeit primarily for assets that have no extenuating circumstances and are located in major markets. Slowly but surely, the economy and, in turn, the hospitality industry remain poised for a proper recovery.

U.S. Hospitality Trends and the Hotel Valuation Index

Similar to trends discussed for the economy as a whole, it appears that the U.S. hotel industry realized the bottom point of this cycle and has progressively shown signs of recovery. By nearly every measure, this cycle has been the worst downturn experienced since the Great Depression. U.S. hotel demand plunged 8% during 2008 and 2009. This produced a 14% reduction in occupancy, which coupled with a $9.40 drop in average rate during 2009, yielded a RevPAR decline of $11.79, or 18%. While the recession of the early 1980s produced a drop in the national hotel occupancy of 17% between 1979 and 1986, the average rate during this period increased 62%, producing positive RevPAR growth of 34%. It is important to note that wild inflationary growth during the recession of the early 1980s fueled the significant average rate increases at that time. Inflation is a real risk but certainly not immediately relevant given the challenges the government faces to get additional economic stimulus spending passed.

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 2010, of 4.3%, which is largely supported by a 5.3% gain in occupancy; increases in occupancy will continue to offset continued declines in average rate. Assuming a full recovery in the economy, RevPAR is anticipated to appropriately rebound by 2013, exceeding its pre-recession level.

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 – U.S. HOTEL VALUE PER ROOM – 1987 THROUGH 2015

Year	1987	1988	1989	1990	1991	1992	1993	1994
Value per Room	$37,000	$37,000	$38,000	$32,000	$27,000	$30,000	$33,000	$37,000
Percent Change	—	0.0	2.7	(15.8)	(15.6)	11.1	10.0	12.1
Per-room Change	—	$0	$1,000	($6,000)	($5,000)	$3,000	$3,000	$4,000

Year	1995	1996	1997	1998	1999	2000	2001	2002
Value per Room	$45,000	$50,000	$59,000	$60,000	$61,000	$69,000	$52,000	$52,000
Percent Change	21.6	11.1	18.0	1.7	1.7	13.1	(24.6)	0.0
Per-room Change	$8,000	$5,000	$9,000	$1,000	$1,000	$8,000	($17,000)	$0

Year	2003	2004	2005	2006	2007	2008	2009	2010
Value per Room	$51,000	$65,000	$82,000	$100,000	$95,000	$81,000	$56,000	$65,000
Percent Change	(1.9)	27.5	26.2	22.0	(5.0)	(14.7)	(30.9)	16.1
Per-room Change	($1,000)	$14,000	$17,000	$18,000	($5,000)	($14,000)	($25,000)	$9,000

Year	2011	2012	2013	2014	2015
Value per Room	$83,000	$105,000	$126,000	$137,000	$142,000
Percent Change	27.7	26.5	20.0	8.7	3.6
Per-room Change	$18,000	$22,000	$21,000	$11,000	$5,000

Peak-to-Peak - Recovery Period - Early 1990's Recession

Peak-to-Peak - Recovery Period - Early 2000's Recession

Peak-to-Peak - Recovery Period - Latest Recession

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.

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, 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 $3,000,000 and above between 1999 and 2009, as well as year-to-date trends through August for both 2009 and 2010.

LODGING SALES ACTIVITY

Year	Number of Hotels	Change	Number of Rooms	Change	Average Price Per Room	Change
1999	420	—	66,737	—	$92,557	—
2000	532	26.7 %	80,145	20.1 %	78,724	(14.9) %
2001	390	(26.7)	58,422	(27.1)	107,759	36.9
2002	442	13.3	72,895	24.8	70,448	(34.6)
2003	516	16.7	84,697	16.2	78,245	11.1
2004	701	35.9	121,474	43.4	84,140	7.5
2005	721	2.9	152,074	25.2	130,116	54.6
2006	630	(12.6)	127,007	(16.5)	158,523	21.8
2007	654	3.8	119,335	(6.0)	153,708	(3.0)
2008	379	(42.0)	50,796	(57.4)	123,976	(19.3)
2009	217	(42.7)	30,506	(39.9)	93,638	(24.5)
Year-to-date Through August						
2009	93	—	18,080	—	$122,049	—
2010	113	21.5 %	20,926	15.7 %	134,647	10.3 %

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 roughly 67%, while the average price per room declined by roundly 39%. 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 the year-to-date period through August 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 are actively seeking to purchase hotels now at realistic prices so that they reap the benefits of the forthcoming stronger rebound phase. In response, lenders are 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. The following details major sales, in excess of $200,000 per room, occurring in 2009 and the year-to-date period through August 2010.

MAJOR HOTEL SALES ABOVE $200,000 PER ROOM IN 2009 AND IN YEAR-TO-DATE THROUGH AUGUST 2010

	Property	City	State	No. of Rms	Date of Sale	Interest Conveyed	Price Paid	Price per Room	Buyer	Seller
1	Marlin Hotel	Miami Beach	Florida	13	02/01/09	Fee Simple	$5,500,000	$423,077	Mario Valadares da Costa	1200 Collins Avenue LLC
2	Hyatt Regency Boston	Boston	Massachusetts	500	02/01/09	Leasehold	110,000,000	220,000	Hyatt Corp.	Host Hotels & Resorts
3	Best Western President Hotel New York	New York	New York	334	02/01/09	Leasehold	142,000,000	425,150	Investcorp International, Inc.	Bridgewater Realty, LLC
4	Fairfield Inn New York Manhattan Times Square	New York	New York	244	02/01/09	Fee Simple	99,500,000	407,787	Gehr Development	The Lam Group
5	Hilton Garden Inn West 35th Street	New York	New York	298	02/25/09	Fee Simple	125,000,000	419,463	RLJ Development LLC	Barack Capital Real Estate BV
6	Treasure Island Hotel & Casino	Las Vegas	Nevada	2,885	03/20/09	Fee Simple	775,000,000	268,631	Ruffin Acquisition, LLC	MGM Mirage
7	W Hotel San Francisco	San Francisco	California	404	07/01/09	Fee Simple	90,000,000	222,772	Keck Seng Investments Limited	Starwood Hotels & Resorts
8	Franklin Hotel Chapel Hill	Chapel Hill	North Carolina	67	07/01/09	Fee Simple	14,000,000	208,955	Wintergreen Hospitality	Franklin at Chapel Hill, LLC
9	Raleigh Hotel Miami Beach	Miami Beach	Florida	105	09/01/09	Fee Simple	30,000,000	285,714	Brilla Group/AJ Capital Partners	Andre Balazs Properties
	Year-to-date through August 2010									
1	Marriott Houston Energy Corridor	Houston	Texas	206	01/01/10	Fee Simple	$50,750,000	$246,359	Apple Hospitality Nine	MWE Houston Property, LP
2	Sofitel Lafayette Square	Washington	District of Columbia	237	02/01/10	Fee Simple	95,000,000	400,844	LaSalle Hotel Properties	GEM Realty Capital, JV
3	Holiday Inn Express New York City Times Square	New York	New York	210	02/01/10	Fee Simple	58,000,000	276,190	Hersha Hospitality Trust	McSam Hotel Group
4	Hampton Inn Times Square South	New York	New York	184	02/01/10	Fee Simple	56,000,000	304,348	Hersha Hospitality Trust	McSam Hotel Group
5	Candlewood Suites New York City Times Square	New York	New York	188	02/01/10	Fee Simple	51,000,000	271,277	Hersha Hospitality Trust	McSam Hotel Group
6	Hyatt Regency Boston	Boston	Massachusetts	498	03/01/10	Leasehold	112,000,000	224,900	Chesapeake Lodging Trust	Hyatt Hotel Corporation
7	Embassy Suites Tampa Convention Center	Tampa	Florida	360	04/01/10	Fee Simple	77,000,000	213,889	RLJ Development LLC	WPM Construction, LLC
8	St. Giles The Court	New York	New York	198	04/01/10	Fee Simple	48,312,000	244,000	St. Giles Hotel LLC	Starwood Hotels & Resorts
9	St. Giles The Tuscany	New York	New York	122	04/01/10	Fee Simple	29,768,000	244,000	St. Giles Hotel LLC	Starwood Hotels & Resorts
10	Embassy Suites Anchorage	Anchorage	Alaska	169	04/01/10	Fee Simple	42,000,000	248,521	Apple REIT Nine, Inc.	Denali Lodging, LLC
11	Holiday Inn New York City Wall Street	New York	New York	113	05/01/10	Fee Simple	34,800,000	307,965	Hersha Hospitality Trust	Private Developer
12	Sir Francis Drake Hotel	San Francisco	California	416	06/01/10	Fee Simple	90,000,000	216,346	Pebblebrook Hotel Trust	The Chartres Lodging Group, LLC
13	Doubletree Hotel Bethesda	Bethesda	Maryland	269	06/01/10	Fee Simple	67,100,000	249,442	Pebblebrook Hotel Trust	Thayer Lodging Group
14	Hilton Checkers	Los Angeles	California	188	06/01/10	Fee Simple	46,000,000	244,681	Chesapeake Lodging Trust	Tarsadia Hotels
15	Red Roof Inn Downtown	Washington	District of Columbia	195	06/01/10	Fee Simple	40,000,000	205,128	RLJ Real Estate Fund III, LP	LNR Partners, Inc.
16	InterContinental Hotel Buckhead	Atlanta	Georgia	422	07/01/10	Fee Simple	105,000,000	248,815	Pebblebrook Hotel Trust	InterContinental Hotels Group
17	Marriott Fairview Park	Falls Church	Virginia	395	07/01/10	Fee Simple	93,000,000	235,443	Thayer Hotel Investors V, LP	JER Partners
18	Homewood Suites Washington	Washington	District of Columbia	175	07/01/10	Fee Simple	58,500,000	334,286	RLJ Real Estate Fund III, LP	Barcelo Crestline
19	Fairmont Copley Plaza	Boston	Massachusetts	383	08/01/10	Fee Simple	98,500,000	257,180	Felcor Lodging Trust, Inc.	Fairmont Hotels & Resorts
20	Renaissance Charleston Hotel	Charleston	South Carolina	166	08/01/10	Fee Simple	39,000,000	234,940	DiamondRock Hospitality	Private Investor

Source: HVS

As illustrated by the preceding figure, the number of transactions carrying a price tag of over $200,000 per room increased dramatically in the year-to-date period through August 2010 compared to the total for 2009. Only nine such sales occurred in 2009, whereas 20 sales transpired in the year-to-date period through August 2010.

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

	Overal Capitalization Rates Based On:		Equity	Terminal	Discount
	T-12	Year One	Yield	Cap. Rate	Rate
Luxury	4% to 6%	5% to 7%	13% to 16%	7% to 9%	10% to 11.5%
Upper Upscale	5% to 7%	6% to 8%	15% to 18%	8% to 10%	11% to 12.5%
Upscale/Mid-Scale	6% to 8%	7% to 8%	17% to 20%	9% to 11%	12% to 13.5%

Source: HVS

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 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 several months, 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 over the past few months. 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.

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 x 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, or roundly 11%

2010 HVI Highlights

We previously discussed our value projections for the U.S. as a whole. The following figure provides insight into the changes in per-room value in 2009 over 2008 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 – 2009 (ROUNDED)

Rank			Rank		
1	New York	($258,000)	43	Albuquerque	($13,000)
2	Las Vegas	(118,000)	44	St. Louis	(12,000)
3	Miami	(88,000)	45	Memphis	(11,000)
4	Chicago	(79,000)	46	Cleveland	(11,000)
5	San Francisco	(67,000)	47	Baltimore	(9,000)
6	Los Angeles	(63,000)	48	Cincinnati	(9,000)
7	Phoenix	(63,000)	49	Norfolk	(7,000)
8	San Jose	(59,000)	50	Buffalo	0
9	San Diego	(48,000)	51	Pittsburgh	13,000
10	Tuscon	(48,000)	52	Washington DC	20,000
22	United States	($25,000)			

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. The U.S. average change in per-room value equated to a $25,000 decrease, which ranks 22 out of the 52 major markets evaluated; 49 of the 52 markets exhibited a negative change in value in 2009.

Ranking first in 2009 with the most significant per-room decline was New York. Historically, the New York 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 recent recession is anticipated to be no exception. New York incurred the largest RevPAR decline in 2009, which resulted in the highest per-room decline in value, at $258,000 per room. However, as illustrated in forthcoming sections, New York is anticipated to illustrate a strong recovery in per-room values. Year-to-date occupancy and average rate data through August 2010 for this market have already illustrated a strong rebound in performance.

At the opposite end of the spectrum was the Washington DC market, which was one of two markets to achieve a positive value change in 2009. Washington was buoyed by the January 2009 presidential inauguration during the low season as well as relatively healthy per-diem government rates. Increased political and foreign delegation activity prompted by the start of a new presidential administration contributed to healthy demand levels to round out the year. Average rate, however, declined through much of 2009 for this market, albeit at a pace significantly below the national rate of decline. Nevertheless, these dynamics translated into reasonable value growth in 2009.

The following figure presents the per-room values forecast for the top ten and bottom ten markets for 2010; 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 compounded with the frenzied nature of buyers for quality assets are anticipated to yield a positive per-room value change for the U.S. in 2010. 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 – 2010 (ROUNDED)

Rank			Rank		
1	New York	$70,000	43	Detroit	($5,000)
2	Miami	47,000	44	Chicago	(6,000)
3	Oahu	35,000	45	Milwaukee	(6,000)
4	Boston	34,000	46	Pittsburgh	(6,000)
5	Seatle	16,000	47	Houston	(7,000)
6	Denver	16,000	48	Washington DC	(7,000)
7	San Francisco	15,000	49	Tampa	(9,000)
8	Los Angeles	14,000	50	Raleigh-Durham	(16,000)
9	Baltimore	13,000	51	Norfolk	(16,000)
10	Portland	11,000	52	Las Vegas	(16,000)
22	United States	$9,000			

New York and Miami, which incurred two of the largest declines in 2009, are anticipated to exhibit the greatest growth in per-room values in 2010. As noted, New York is prone to high volatility, and year-to-date data already illustrate a strong rebound for this market. In February 2010, Miami hosted the NFL Pro and Super Bowls, and the city's growth is bolstered by the temporary demand that was infused by these events.

In contrast, the Las Vegas market, which incurred a dramatic decline in 2009, is anticipated to post a substantial decline 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 is forecast to round out 2010 with a 5.1% increase in supply. 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.

With the absence of demand that was temporarily induced by the presidential inauguration in 2009, moderate decreases in the per-diem government rates for fiscal year 2010/11, and a stricter Department of Defense budget aimed at complying with the populist sentiment of fiscal conservatism, Washington DC is anticipated to exhibit a modest decline in value per room in 2010.

FORECAST VALUE DECLINE FROM 2006 TO 2010 (PERCENTAGE)

Rank			Rank		
1	Las Vegas	-84%	43	Albuquerque	-28%
2	Tampa	-76%	44	Boston	-27%
3	Sacramento	-76%	45	Cincinnati	-26%
4	Tucson	-75%	46	Buffalo	-26%
5	Phoenix	-73%	47	San Francisco	-22%
6	Norfolk	-72%	48	Pittsburgh	-21%
7	Detroit	-67%	49	Denver	-17%
8	Jacksonville	-61%	50	Portland	-15%
9	Chicago	-61%	51	Austin	-13%
10	Milwaukee	-61%	52	Washington DC	-9%
24	United States	-35%			

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, Las Vegas is forecast to illustrate the largest decline in value between 2006 and 2010. Meanwhile, Washington DC is not intrinsically a particularly volatile market, as lodging demand is fueled primarily by the relatively stable government sector. Thus, this market is forecast to record the smallest decline in value during the same period. Despite the aforementioned significant decreases in per-room values for the U.S. average in 2008 and 2009, a rebound in occupancy over the second half of 2010 is anticipated to lead the U.S. per-room value average to strong positive growth for the year.

FORECAST VALUE CHANGE FROM LOW POINT TO 2015 (PER ROOM)

Rank			Rank		
1	New York	$401,000	43	St. Louis	$46,000
2	Miami	178,000	44	Albuquerque	45,000
3	San Francisco	164,000	45	Milwaukee	45,000
4	Oahu	160,000	46	Cleveland	44,000
5	Las Vegas	152,000	47	Memphis	44,000
6	New Orleans	146,000	48	Richmond	44,000
7	Boston	137,000	49	Dallas	42,000
8	Fort Lauderdale	133,000	50	Kansas City	38,000
9	Los Angeles	122,000	51	Cincinnati	35,000
10	Chicago	117,000	52	Detroit	33,000
30	United States	$86,000			

Source: HVS

FORECAST VALUE CHANGE FROM LOW POINT TO 2015 (PERCENTAGE)

Rank			Rank		
1	Las Vegas	434%	43	Oahu	68%
2	Tampa	364%	44	Houston	66%
3	Norfolk	294%	45	Salt Lake City	65%
4	Tucson	280%	46	Dallas	65%
5	Sacramento	273%	47	Portland	64%
6	Phoenix	215%	48	Denver	60%
7	New Orleans	209%	49	Pittsburgh	58%
8	New York	205%	50	Anaheim	53%
9	Oakland	176%	51	Austin	51%
10	Detroit	165%	52	Washington DC	41%
20	United States	154%			

Source: HVS

On a dollar basis, New York and Miami 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 2010 HVI projections.

VALUE-PER-ROOM RANKINGS – 2009 VS. 2015 (ROUNDED)

2009			2015		
1	Washington, DC	$265,000	1	New York	$597,000
2	Oahu	237,000	2	San Francisco	397,000
3	San Francisco	233,000	3	Oahu	397,000
4	New York	196,000	4	Washington DC	341,000
5	Boston	191,000	5	Miami	338,000
6	Miami	160,000	6	Boston	328,000
7	San Diego	146,000	7	San Diego	256,000
8	Los Angeles	129,000	8	Los Angeles	251,000
9	Austin	125,000	9	Seattle	225,000
10	Seattle	119,000	10	Fort Lauderdale	217,000

Source: HVS

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

1	Miami	10.2%	43	Milwaukee	2.8%
2	New York	9.3%	44	Orlando	2.8%
3	Austin	9.2%	45	Kansas City	2.6%
4	Omaha	9.1%	46	Philadelphia	2.5%
5	Houston	7.0%	47	Cincinnati	2.4%
6	Las Vegas	6.8%	48	Albuquerque	2.3%
7	Denver	6.6%	49	Richmond	1.3%
8	Fort Lauderdale	6.2%	50	Long Island	1.3%
9	Oahu	6.0%	51	Norfolk	0.8%
10	New Orleans	5.8%	52	Detroit	0.0%
17	United States	5.0%		CPI - 1987-2009	3.1%

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 2009, plus forecasts from 2010 through 2015.

HOTEL VALUATION INDEX – 1987 TO 2004

	HISTORICAL ESTIMATES																	
Market	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Albuquerque	1.2801	1.2882	1.5969	1.5822	1.6037	1.6320	1.8324	1.8231	1.7245	1.5551	1.5406	1.1318	0.9738	1.0608	0.9318	1.0217	0.9735	1.0210
Anaheim	1.4205	1.4199	1.4417	0.9880	0.7891	0.6660	0.9139	0.8144	1.2164	1.4737	1.6839	1.5851	1.6124	2.1733	2.2588	2.0032	2.2996	2.9339
Atlanta	1.3361	1.2152	1.1976	1.0820	1.0619	1.2136	1.6619	2.0030	2.4504	2.7392	2.2396	2.2289	2.2758	2.2743	1.7406	1.6247	1.3481	1.7550
Austin	0.4351	0.4051	0.5984	0.6540	0.7843	1.0564	1.3906	1.6555	2.3925	2.2881	2.5404	2.4704	2.4750	3.0016	1.9856	1.5483	1.3396	1.4640
Baltimore	1.6761	1.3579	1.3255	0.9525	0.7848	0.8964	1.0175	1.3099	1.6238	1.8551	2.3907	2.5541	2.8260	3.3417	2.9361	3.3849	3.4189	3.7657
Boston	2.5887	2.7210	2.3710	2.5649	1.8469	2.0210	2.4507	3.2200	4.0789	4.6756	6.3448	6.7006	6.9736	8.1081	5.3164	4.5376	3.1407	4.4196
Buffalo	1.3403	1.2543	1.5339	1.4896	1.4780	1.2427	1.1446	1.0984	1.1606	1.1905	1.3748	1.2211	1.3335	1.4036	1.1524	1.2082	1.1022	1.0236
Charlotte	1.1279	1.1317	1.0571	0.7267	0.5236	0.5895	0.7018	0.9817	1.3245	1.6973	1.9541	1.9118	1.9132	1.5893	1.0084	1.0804	1.0355	1.2400
Chicago	1.6915	1.6673	1.4780	1.5106	1.3543	1.3845	1.6758	2.2908	2.7349	3.2368	4.0764	4.0924	4.1336	4.2240	2.7111	2.4766	2.5358	2.7508
Cincinnati	1.2118	1.2438	1.1738	1.1041	1.0181	1.0771	1.1067	1.2241	1.3506	1.4840	1.6462	1.5344	1.4762	1.3733	0.9428	1.0882	1.1660	1.4321
Cleveland	0.8814	0.9634	0.9735	0.7821	0.6835	0.7533	0.9329	1.2415	1.7523	1.6879	1.9703	1.7820	1.6880	1.5910	1.0667	0.9426	0.7968	1.0058
Dallas	0.9421	1.0040	1.2504	1.1406	1.1867	1.4323	1.5930	1.9876	2.4737	2.6726	2.8851	2.7899	2.4926	2.5735	1.5981	1.4867	1.2242	1.5385
Denver	0.8098	0.7627	0.7431	0.8958	1.0090	1.2037	1.5884	1.8170	2.1556	2.4102	2.8804	2.6439	2.2250	2.3740	1.8158	1.6177	1.4152	1.7082
Detroit	1.4494	1.1674	0.9172	0.5362	0.3245	0.4216	0.5779	0.9593	1.2969	1.4125	1.5865	1.7229	1.9849	2.1136	1.4777	1.1513	0.9382	1.1047
Fort Lauderdale	1.1126	0.9594	1.0630	0.9588	0.7540	1.5103	1.2837	1.0216	1.3942	1.7095	2.2803	2.0992	2.2585	2.3852	2.0759	1.7736	2.1558	3.2182
Houston	0.5612	0.7784	0.8923	1.0467	1.1365	1.1492	1.1943	1.2108	1.3845	1.4770	2.0027	2.1155	1.7526	1.8760	1.9096	1.7454	1.2595	1.4820
Indianapolis	1.1511	1.0465	1.0868	0.8734	0.9249	1.0486	1.1915	1.3951	1.7302	1.7310	1.9499	1.6295	1.4763	1.7668	1.5775	1.6159	1.5996	1.9492
Jacksonville	0.9147	0.8461	0.9393	0.7796	0.5859	0.8288	1.0245	1.2148	1.5455	1.8525	2.1448	1.7206	1.8355	2.0128	1.8077	2.0269	2.3833	2.7285
Kansas City	1.0249	1.0539	1.0027	0.7651	0.6481	0.7859	1.1075	1.3210	1.6978	1.8639	2.0575	1.7842	1.5883	1.5243	1.3037	1.2976	1.0077	1.2693
Las Vegas	0.8347	0.9100	0.9322	1.1082	0.7224	0.8222	1.3100	2.0221	2.4382	3.3458	3.2655	2.7325	2.9308	3.8189	3.2620	3.4598	4.8796	5.9308
Long Island	3.7995	2.9224	2.2847	1.3249	0.8961	0.8961	1.0907	1.4019	1.8341	2.0725	2.7075	3.2170	4.0562	5.2047	4.5578	4.0043	3.8021	3.6888
Los Angeles	1.6746	1.5750	1.5795	1.6319	1.0616	0.6262	0.5035	0.9206	0.9523	1.3486	2.1255	2.5158	2.7327	3.3357	2.4973	2.4022	2.5048	3.7310
Memphis	0.8879	0.6339	0.6402	0.5497	0.6159	0.6881	1.0044	1.3388	1.5107	1.4726	1.7229	1.5644	1.2994	1.0999	0.9129	1.0182	0.9621	1.2188
Miami	0.6169	0.8143	0.9656	1.2298	1.3282	2.3288	2.0616	0.9044	1.8629	2.1283	2.8192	2.7895	3.2609	3.3782	2.3237	1.5953	2.0336	3.5264
Milwaukee	0.9514	1.0120	0.9352	0.8963	0.7038	0.6862	0.7796	0.8642	1.0108	0.9891	1.2088	1.2620	1.2351	1.3626	1.0057	1.1127	1.1548	1.2456
Minneapolis	1.0862	0.8618	0.7476	0.6592	0.8906	1.2008	1.4348	1.7395	2.0640	2.0331	2.3336	2.3657	2.2139	2.3710	1.8443	1.7557	1.5234	1.9794
Nashville	1.0822	1.1116	1.1833	1.0182	0.9583	1.1649	1.3771	1.7639	2.1906	2.2147	2.4107	1.9431	1.7660	1.6456	1.2479	1.4110	1.5867	1.8533

HOTEL VALUATION INDEX – 1987 TO 2004 (CONTINUED)

	HISTORICAL ESTIMATES																	
Market	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
New Orleans	1.2188	1.5506	1.6234	1.6202	1.6767	2.0909	2.0693	2.6597	3.0275	2.9845	3.4064	3.4557	3.8112	4.0472	3.3812	3.2806	2.9824	3.2180
New York	1.3797	1.4248	1.3453	0.9640	0.8261	0.6884	0.8261	0.5507	1.2947	2.7283	4.8192	6.4272	6.8726	8.1415	3.6737	2.7640	2.7535	5.1592
Norfolk	1.5728	1.4097	1.3109	0.8717	0.7554	0.7736	0.7746	0.8289	0.9911	0.9256	1.1532	1.2559	1.1147	1.2078	1.1791	1.7371	2.0310	1.9119
Oahu	2.1171	2.4542	3.0784	3.8847	3.2099	3.7443	2.6411	2.9944	4.1802	4.3846	4.8869	3.8097	3.4009	4.5380	3.4018	3.6047	4.2659	6.2198
Oakland	1.2379	1.1692	1.2031	0.9779	0.9388	0.9667	0.8207	0.9129	1.2964	1.8124	2.6923	2.9146	3.0178	4.1026	3.2072	2.2217	1.5443	1.7597
Omaha	0.2638	0.3669	0.5119	0.4981	0.3843	0.3350	0.5225	0.5449	0.8975	0.8578	1.0316	1.2549	1.2672	1.1219	1.0867	1.1569	1.1898	1.4219
Orlando	1.7805	1.8700	2.4043	2.1918	1.8971	2.2058	2.0642	1.9847	2.3138	2.9837	3.7271	3.4167	3.1424	3.2889	2.1996	2.2945	2.1516	3.2187
Philadelphia	1.9684	1.5774	1.2754	0.9120	0.6305	0.5698	0.7395	1.1356	1.4466	1.9291	2.5361	2.4935	2.3315	2.3350	1.7231	2.1533	1.9572	2.3651
Phoenix	1.4309	1.1383	1.6138	1.4086	1.1924	1.4414	2.0056	2.6426	3.3312	3.6240	3.8971	3.1047	2.5848	2.6494	1.9937	1.7749	2.0113	2.8263
Pittsburgh	1.2009	1.1201	1.2339	1.1554	1.1031	1.2505	1.3006	1.4843	1.5268	1.6367	1.6560	1.5114	1.5816	1.6768	1.1805	1.2363	1.1904	1.4514
Portland	1.1464	1.4366	1.7389	1.7109	1.8405	1.7499	1.9200	2.0233	2.5404	2.7354	2.6510	2.1939	1.8787	1.7837	1.4116	1.4112	1.3283	1.6239
Raleigh-Durham	1.0541	0.8720	0.7619	0.6238	0.5728	0.8300	1.0305	1.1659	1.7135	2.1702	2.3677	1.7768	1.6387	1.7364	1.3409	1.2780	1.2337	1.4828
Richmond	1.4713	1.3752	1.3220	1.1784	0.9535	1.0068	1.0135	1.0505	1.1908	1.3951	1.6258	1.5599	1.3572	1.4025	1.1292	1.1569	1.5508	1.7260
Sacramento	1.0599	0.9831	0.9349	0.8250	0.7513	0.9878	1.1319	1.2633	1.5287	1.4088	1.7133	1.8742	1.7944	2.2024	1.8302	1.9011	1.9879	2.2440
Salt Lake City	1.1481	1.3413	1.5263	1.5497	1.5842	1.7823	2.1156	2.2971	2.5606	3.0634	3.1442	2.5187	1.9658	1.8751	1.7184	2.7921	1.8201	2.0035
San Antonio	0.8755	1.2023	1.4771	1.3655	1.4698	1.9955	2.3583	2.2651	2.2883	2.0312	2.1520	2.3283	2.2693	2.4253	2.2529	2.7115	2.4585	2.6206
San Diego	2.0498	1.8244	1.8147	1.3104	1.2925	1.2654	1.1496	1.3218	1.7581	2.1175	3.0305	3.7330	3.8823	4.3396	3.8826	4.0331	4.4065	4.7805
San Francisco	2.7092	2.5179	2.4021	2.9129	2.4602	2.4695	2.8739	3.3327	4.2291	5.2987	7.2715	7.4318	7.3840	9.0058	5.2184	3.2597	2.8918	4.0883
San Jose	1.5537	1.6491	1.8401	1.5499	1.2775	1.2042	1.2388	1.5314	2.3357	3.2710	4.4349	4.4026	4.5492	6.4818	3.9763	2.3718	1.2845	1.5844
Seattle	1.4792	1.6378	1.9670	1.9552	1.8923	1.8880	2.0163	2.1713	2.8102	3.0452	3.5139	3.3937	3.0536	3.0942	2.4153	2.1754	2.2504	2.7557
St. Louis	0.7871	0.7885	0.7602	0.7125	0.6822	0.7669	0.9525	1.1584	1.3585	1.3746	1.4584	1.2901	1.3172	1.4483	1.2303	1.4108	1.1916	1.3243
Tampa	0.6944	0.7384	1.0723	1.0335	0.9821	0.9856	0.9953	1.0316	1.1784	1.4771	1.9611	1.9238	2.0227	2.0772	1.9021	1.5829	1.5753	2.1535
Tucson	1.0796	1.1602	1.3591	1.2406	1.2092	1.3517	1.7452	1.8853	2.4654	2.4429	2.4401	2.1989	2.1010	2.0958	1.7863	1.5495	1.4759	1.7637
United States	1.0000	0.9931	1.0308	0.8703	0.7508	0.8079	0.8910	1.0202	1.2253	1.3679	1.6226	1.6380	1.6704	1.8821	1.4277	1.4186	1.4064	1.7880
Washington DC	1.9600	1.9723	2.0204	1.7925	1.5549	1.7657	2.3084	2.2701	2.8066	2.7788	3.7353	3.7256	4.0210	4.6065	3.6594	3.9464	4.2055	5.6083

HOTEL VALUATION INDEX – 2005 TO 2015

Market	HISTORICAL ESTIMATES					FORECAST					
	2005	2006	2007	2008	2009	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Albuquerque	1.2408	1.5881	1.5298	1.5240	1.1539	1.2640	1.4650	1.6169	1.9082	2.1974	2.3985
Anaheim	3.9814	4.7107	4.4973	3.7833	3.0950	3.3092	3.7882	4.0560	4.4115	4.5889	4.6992
Atlanta	2.4421	3.0278	2.6229	2.0425	1.5214	1.7015	2.0782	2.3349	2.7064	3.0094	3.4406
Austin	2.4330	3.7095	3.9366	3.8884	3.4543	3.5692	3.9654	4.4253	4.8295	4.9835	5.2173
Baltimore	3.9859	4.2883	3.7078	2.7842	2.5304	2.8797	3.2917	3.7144	4.1641	4.3811	4.6624
Boston	5.2596	5.9164	7.1997	6.2499	5.2590	6.2007	6.9638	7.7472	8.3466	8.5940	9.0246
Buffalo	1.3036	1.6869	1.8606	1.9975	2.0023	2.2588	2.6390	2.8481	3.1626	3.3730	3.5433
Charlotte	1.8020	2.6760	2.9210	2.5017	1.8583	1.9638	2.2417	2.5486	2.9531	3.2003	3.4147
Chicago	3.8337	5.4897	5.8170	4.5938	2.4233	2.2557	2.9276	3.7644	4.5566	4.9864	5.4906
Cincinnati	1.6483	1.9121	1.7131	1.6539	1.4111	1.5154	1.7203	1.8571	2.0376	2.2037	2.3783
Cleveland	1.0427	1.6071	1.5315	1.0828	0.7819	0.7431	0.9636	1.2306	1.5871	1.8188	1.9584
Dallas	2.2961	2.9547	2.7018	2.4479	1.7901	1.8906	2.2594	2.5386	2.6922	2.8219	2.9472
Denver	2.3911	3.4477	3.6449	3.5692	2.9930	3.4311	3.8274	4.1625	4.4313	4.6271	4.7879
Detroit	1.2732	1.6432	1.3868	1.0773	0.6884	0.5507	0.6333	0.6884	0.7267	1.0829	1.4523
Fort Lauderdale	3.8260	4.4039	3.8917	3.1522	2.3049	2.5138	3.2402	3.9672	4.7194	5.3796	5.9645
Houston	2.4338	2.9020	2.9797	3.5684	2.3939	2.1973	2.2342	2.4566	2.8957	3.3094	3.6734
Indianapolis	2.0488	2.4881	2.1822	1.7905	1.3333	1.3683	1.6412	2.0802	2.6146	2.9626	3.2179
Jacksonville	3.3097	3.3284	2.9388	2.1405	1.2962	1.4675	1.9158	2.3824	2.8416	3.1266	3.3067
Kansas City	1.4646	1.8356	1.6960	1.4556	1.0358	1.0710	1.2642	1.4910	1.7203	1.9170	2.0962
Las Vegas	5.8325	5.3636	6.0496	4.6581	1.4055	0.9716	1.3511	2.2348	3.4137	4.3362	5.1627
Long Island	4.2711	4.0551	3.9632	3.4175	2.6594	2.8188	3.2989	3.7651	4.3334	4.8741	5.4036
Los Angeles	4.8378	5.3723	5.9745	5.2999	3.5534	3.9301	4.6385	5.4003	6.0584	12.7348	6.8977
Memphis	1.6735	2.1492	2.0149	1.4599	1.1538	1.2209	1.4275	1.6018	1.8998	2.1544	2.3596
Miami	5.8194	6.1717	7.7873	6.8243	4.4013	5.6876	7.2214	8.6679	9.2249	9.2811	9.2982
Milwaukee	1.5451	2.1681	1.9491	1.8975	1.0106	0.8535	0.9832	1.1650	1.4667	1.7803	2.0950
Minneapolis	2.5887	3.0558	2.8464	2.4633	1.7004	1.8434	2.2408	2.6843	3.2245	3.5807	3.9924
Nashville	2.0835	2.9721	2.7682	2.2953	1.9042	2.0910	2.4497	2.7445	3.0690	3.3108	3.5442

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HOTEL VALUATION INDEX – 2005 TO 2015 (CONTINUED)

	HISTORICAL ESTIMATES					FORECAST					
Market	2005	2006	2007	2008	2009	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
New Orleans	3.7940	3.1973	1.9344	2.3435	1.9802	2.2767	3.1634	3.9466	4.6570	5.1861	5.9395
New York	8.5990	10.4235	13.7400	12.5096	5.3917	7.3161	11.1063	14.0506	15.1987	15.6356	16.4436
Norfolk	1.7694	1.7894	1.7252	0.9986	0.8107	0.4978	0.5863	0.8326	1.1868	1.5683	1.9670
Oahu	9.1684	9.3750	8.8332	7.4757	6.5145	7.4835	9.2440	10.3711	10.5972	10.8031	10.9193
Oakland	2.1522	2.7781	2.8562	2.2667	1.2728	1.3733	1.6948	2.0328	2.5149	2.9875	3.5075
Omaha	1.7109	2.3169	2.1056	1.9719	1.5140	1.5719	1.9549	2.3693	2.7307	2.9399	3.1440
Orlando	3.2667	3.4772	3.1480	2.5558	1.5133	1.7863	2.2224	2.6753	3.0613	3.4345	3.8551
Philadelphia	2.8184	3.3056	3.2211	2.7100	2.0259	2.2623	2.9658	3.4129	3.7106	3.7883	3.9249
Phoenix	3.6817	4.7180	4.2288	3.0637	1.3196	1.2934	1.7700	2.4371	3.0379	3.5569	4.0659
Pittsburgh	1.5877	2.4428	2.3364	2.6007	2.9512	2.7895	2.9567	3.1943	3.3570	3.4952	3.6816
Portland	2.2718	3.0703	3.1977	3.2192	2.7319	3.0321	3.6205	3.9947	4.3707	4.4631	4.4695
Raleigh-Durham	1.6255	2.2531	2.2520	1.8562	1.2400	0.9775	1.1489	1.4402	1.7902	2.1521	2.5000
Richmond	1.9396	2.2438	2.3065	1.7963	1.0316	0.9006	1.0560	1.2393	1.5736	1.8469	2.1077
Sacramento	2.4226	2.9444	2.2502	1.7731	0.7175	0.7334	1.0202	1.2732	1.6383	2.1225	2.6845
Salt Lake City	2.6538	3.5266	3.4596	3.1138	2.5239	2.7185	3.2564	3.5030	3.7473	3.9363	4.1871
San Antonio	3.1807	3.8843	3.3480	3.2784	2.2847	2.2879	2.8193	3.3958	3.8962	4.1264	4.2567
San Diego	5.2798	6.3472	5.9854	5.3342	4.0147	4.1833	5.0321	5.7549	6.4123	6.7212	7.0529
San Francisco	5.6473	6.6398	7.8933	8.2550	6.4073	6.8337	7.7287	8.5079	9.6922	10.3276	10.9211
San Jose	2.4352	3.6331	3.8545	3.4749	1.8367	1.7756	2.1948	2.6923	3.3716	3.7967	4.2765
Seattle	3.5036	4.8157	4.7156	4.2973	3.2877	3.7142	4.5828	5.1443	5.7169	5.9149	6.2066
St. Louis	1.5466	1.7440	1.7480	1.4818	1.1497	1.2159	1.5137	1.8421	2.1729	2.3262	2.4225
Tampa	2.6030	2.8313	2.3004	1.6464	0.9262	0.6978	1.1494	1.6424	2.1617	2.6389	3.2025
Tucson	2.5562	3.2854	2.9992	2.1345	0.8265	0.8617	1.0347	1.4488	1.9901	2.5466	3.1311
United States	2.2486	2.7357	2.6071	2.2273	1.5304	1.7763	2.2682	2.8694	3.4433	3.7439	3.8806
Washington DC	7.1323	6.6362	7.2875	6.7578	7.2958	7.1035	7.4817	8.2738	9.2302	9.1938	9.3770

The figures on the following two pages exhibit per-room values for 51 HVI markets and the United States from 2006 through 2009, 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 TO 2015

	HISTORICAL ESTIMATES				FORECAST						Prior Decline 2006 - 2009		*Forecast Decline in 2010?*	Forecast Recovery 2009-2015	
Market	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**	**AACG**		**Total**	**AACG**
Albuquerque	$57,675	$55,559	$55,347	$41,905	$45,905	$53,206	$58,722	$69,301	$79,805	$87,107	-27.3%	-10.1%	*NO*	108%	13.0%
Anaheim	171,080	163,330	137,400	112,403	120,182	137,577	147,301	160,214	166,658	170,661	-34.3%	-13.1%	*NO*	52%	7.2%
Atlanta	109,962	95,258	74,180	55,253	61,793	75,473	84,797	98,288	109,295	124,952	-49.8%	-20.5%	*NO*	126%	14.6%
Austin	134,718	142,967	141,217	125,452	129,622	144,014	160,715	175,394	180,987	189,477	-6.9%	-2.3%	*NO*	51%	7.1%
Baltimore	155,739	134,658	101,113	91,899	104,582	119,545	134,899	151,230	159,109	169,325	-41.0%	-16.1%	*NO*	84%	10.7%
Boston	214,867	261,472	226,979	190,991	225,195	252,906	281,357	303,128	312,110	327,748	-11.1%	-3.9%	*NO*	72%	9.4%
Buffalo	61,265	67,573	72,545	72,717	82,034	95,842	103,436	114,856	122,500	128,682	18.7%	5.9%	*NO*	77%	10.0%
Charlotte	97,187	106,084	90,855	67,490	71,321	81,411	92,557	107,248	116,225	124,011	-30.6%	-11.4%	*NO*	84%	10.7%
Chicago	199,370	211,256	166,835	88,008	81,920	106,322	136,715	165,482	181,093	199,402	-55.9%	-23.9%	*-6.9%*	127%	14.6%
Cincinnati	69,443	62,214	60,067	51,248	55,036	62,478	67,446	74,001	80,033	86,374	-26.2%	-9.6%	*NO*	69%	9.1%
Cleveland	58,367	55,621	39,323	28,397	26,986	34,995	44,693	57,638	66,055	71,123	-51.3%	-21.3%	*-5.0%*	150%	16.5%
Dallas	107,306	98,121	88,903	65,012	68,663	82,056	92,196	97,774	102,483	107,035	-39.4%	-15.4%	*NO*	65%	8.7%
Denver	125,210	132,373	129,622	108,696	124,609	138,999	151,170	160,933	168,043	173,883	-13.2%	-4.6%	*NO*	60%	8.1%
Detroit	59,675	50,363	39,126	25,000	20,000	23,000	25,000	26,390	39,327	52,743	-58.1%	-25.2%	*-20.0%*	111%	13.2%
Fort Lauderdale	159,939	141,335	114,479	83,708	91,296	117,677	144,080	171,395	195,371	216,614	-47.7%	-19.4%	*NO*	159%	17.2%
Houston	105,392	108,216	129,596	86,939	79,799	81,139	89,218	105,165	120,189	133,408	-17.5%	-6.2%	*-8.2%*	53%	7.4%
Indianapolis	90,363	79,250	65,026	48,421	49,692	59,605	75,547	94,954	107,592	116,867	-46.4%	-18.8%	*NO*	141%	15.8%
Jacksonville	120,880	106,728	77,736	47,076	53,296	69,575	86,523	103,200	113,549	120,092	-61.1%	-27.0%	*NO*	155%	16.9%
Kansas City	66,662	61,593	52,864	37,617	38,897	45,913	54,151	62,477	69,619	76,130	-43.6%	-17.4%	*NO*	102%	12.5%
Las Vegas	194,792	219,706	169,168	51,043	35,284	49,068	81,162	123,977	157,479	187,495	-73.8%	-36.0%	*-30.9%*	267%	24.2%
Long Island	147,271	143,932	124,114	96,581	102,370	119,808	136,737	157,379	177,014	196,245	-34.4%	-13.1%	*NO*	103%	12.5%
Los Angeles	195,108	216,978	192,478	129,049	142,731	168,458	196,124	220,023	462,495	250,505	-33.9%	-12.9%	*NO*	94%	11.7%
Memphis	78,052	73,175	53,019	41,904	44,340	51,842	58,173	68,996	78,242	85,694	-46.3%	-18.7%	*NO*	105%	12.7%
Miami	224,139	282,815	247,839	159,843	206,560	262,261	314,796	335,024	337,065	337,687	-28.7%	-10.7%	*NO*	111%	13.3%
Milwaukee	78,741	70,785	68,912	36,703	30,995	35,708	42,310	53,265	64,655	76,085	-53.4%	-22.5%	*-15.6%*	107%	12.9%
Minneapolis	110,979	103,375	89,459	61,754	66,949	81,378	97,488	117,107	130,041	144,994	-44.4%	-17.7%	*NO*	135%	15.3%
Nashville	107,939	100,535	83,360	69,157	75,941	88,966	99,673	111,459	120,240	128,716	-35.9%	-13.8%	*NO*	86%	10.9%

PER-ROOM VALUE BY MARKET – 2006 TO 2015 (CONTINUED)

	HISTORICAL ESTIMATES				FORECAST						Prior Decline 2006 - 2009		*Forecast Decline in 2010?*	Forecast Recovery 2009-2015	
Market	**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	-38.1%	-14.8%	*NO*	200%	20.1%
New York	378,554	499,000	454,315	195,813	265,701	403,350	510,279	551,976	567,842	597,188	-48.3%	-19.7%	*NO*	205%	20.4%
Norfolk	64,986	62,655	36,266	29,442	18,081	21,294	30,237	43,103	56,958	71,438	-54.7%	-23.2%	*-38.6%*	143%	15.9%
Oahu	340,473	320,798	271,498	236,589	271,779	335,718	376,652	384,863	392,340	396,558	-30.5%	-11.4%	*NO*	68%	9.0%
Oakland	100,892	103,730	82,322	46,226	49,876	61,549	73,827	91,334	108,497	127,384	-54.2%	-22.9%	*NO*	176%	18.4%
Omaha	84,145	76,469	71,613	54,983	57,086	70,996	86,048	99,173	106,770	114,182	-34.7%	-13.2%	*NO*	108%	13.0%
Orlando	126,281	114,328	92,819	54,961	64,872	80,712	97,160	111,179	124,732	140,008	-56.5%	-24.2%	*NO*	155%	16.9%
Philadelphia	120,052	116,982	98,422	73,574	82,161	107,712	123,948	134,759	137,582	142,543	-38.7%	-15.1%	*NO*	94%	11.7%
Phoenix	171,346	153,580	111,264	47,923	46,972	64,281	88,508	110,327	129,178	147,661	-72.0%	-34.6%	*-2.0%*	208%	20.6%
Pittsburgh	88,717	84,851	94,450	107,178	101,308	107,378	116,010	121,917	126,935	133,706	20.8%	6.5%	*-5.5%*	25%	3.8%
Portland	111,505	116,133	116,912	99,215	110,117	131,487	145,077	158,732	162,089	162,319	-11.0%	-3.8%	*NO*	64%	8.6%
Raleigh-Durham	81,827	81,785	67,414	45,032	35,499	41,725	52,302	65,015	78,157	90,793	-45.0%	-18.1%	*-21.2%*	102%	12.4%
Richmond	81,488	83,767	65,237	37,465	32,708	38,350	45,007	57,149	67,075	76,545	-54.0%	-22.8%	*-12.7%*	104%	12.6%
Sacramento	106,934	81,722	64,393	26,056	26,634	37,050	46,241	59,499	77,082	97,493	-75.6%	-37.5%	*NO*	274%	24.6%
Salt Lake City	128,077	125,642	113,086	91,662	98,730	118,264	127,220	136,091	142,955	152,066	-28.4%	-10.6%	*NO*	66%	8.8%
San Antonio	141,068	121,591	119,063	82,973	83,091	102,390	123,328	141,501	149,860	154,593	-41.2%	-16.2%	*NO*	86%	10.9%
San Diego	230,514	217,374	193,724	145,804	151,926	182,754	209,004	232,879	244,096	256,141	-36.7%	-14.2%	*NO*	76%	9.8%
San Francisco	241,139	286,662	299,799	232,696	248,182	280,684	308,983	351,995	375,072	396,624	-3.5%	-1.2%	*NO*	70%	9.3%
San Jose	131,944	139,986	126,198	66,703	64,484	79,710	97,777	122,446	137,885	155,310	-49.4%	-20.3%	*-3.3%*	133%	15.1%
Seattle	174,894	171,258	156,066	119,399	134,891	166,436	186,828	207,621	214,812	225,407	-31.7%	-11.9%	*NO*	89%	11.2%
St. Louis	63,336	63,483	53,813	41,752	44,159	54,972	66,901	78,913	84,481	87,978	-34.1%	-13.0%	*NO*	111%	13.2%
Tampa	102,824	83,543	59,791	33,638	25,341	41,743	59,647	78,507	95,838	116,308	-67.3%	-31.1%	*-24.7%*	246%	23.0%
Tucson	119,317	108,924	77,520	30,017	31,295	37,578	52,616	72,275	92,484	113,715	-74.8%	-36.9%	*NO*	279%	24.9%
United States	100,000	95,000	81,000	56,000	65,000	83,000	105,000	126,000	137,000	142,000	-44.0%	-17.6%	*NO*	154%	16.8%
Washington DC	241,009	264,664	245,423	264,965	257,981	271,714	300,482	335,214	333,896	340,547	9.9%	3.2%	*-2.6%*	29%	4.3%

ANNUAL PERCENTAGE CHANGES IN PER-ROOM VALUE BY MARKET – 2006 TO 2015

	HISTORICAL ESTIMATES				FORECAST					
Market	**2006**	**2007**	**2008**	**2009**	***2010***	***2011***	***2012***	***2013***	***2014***	***2015***
Albuquerque	28.0 %	(3.7) %	(0.4) %	(24.3) %	9.5 %	15.9 %	10.4 %	18.0 %	15.2 %	9.1 %
Anaheim	18.3	(4.5)	(15.9)	(18.2)	6.9	14.5	7.1	8.8	4.0	2.4
Atlanta	24.0	(13.4)	(22.1)	(25.5)	11.8	22.1	12.4	15.9	11.2	14.3
Austin	52.5	6.1	(1.2)	(11.2)	3.3	11.1	11.6	9.1	3.2	4.7
Baltimore	7.6	(13.5)	(24.9)	(9.1)	13.8	14.3	12.8	12.1	5.2	6.4
Boston	12.5	21.7	(13.2)	(15.9)	17.9	12.3	11.2	7.7	3.0	5.0
Buffalo	29.4	10.3	7.4	0.2	12.8	16.8	7.9	11.0	6.7	5.0
Charlotte	48.5	9.2	(14.4)	(25.7)	5.7	14.1	13.7	15.9	8.4	6.7
Chicago	43.2	6.0	(21.0)	(47.2)	(6.9)	29.8	28.6	21.0	9.4	10.1
Cincinnati	16.0	(10.4)	(3.5)	(14.7)	7.4	13.5	8.0	9.7	8.2	7.9
Cleveland	54.1	(4.7)	(29.3)	(27.8)	(5.0)	29.7	27.7	29.0	14.6	7.7
Dallas	28.7	(8.6)	(9.4)	(26.9)	5.6	19.5	12.4	6.1	4.8	4.4
Denver	44.2	5.7	(2.1)	(16.1)	14.6	11.5	8.8	6.5	4.4	3.5
Detroit	29.1	(15.6)	(22.3)	(36.1)	(20.0)	15.0	8.7	5.6	49.0	34.1
Fort Lauderdale	15.1	(11.6)	(19.0)	(26.9)	9.1	28.9	22.4	19.0	14.0	10.9
Houston	19.2	2.7	19.8	(32.9)	(8.2)	1.7	10.0	17.9	14.3	11.0
Indianapolis	21.4	(12.3)	(17.9)	(25.5)	2.6	19.9	26.7	25.7	13.3	8.6
Jacksonville	0.6	(11.7)	(27.2)	(39.4)	13.2	30.5	24.4	19.3	10.0	5.8
Kansas City	25.3	(7.6)	(14.2)	(28.8)	3.4	18.0	17.9	15.4	11.4	9.4
Las Vegas	(8.0)	12.8	(23.0)	(69.8)	(30.9)	39.1	65.4	52.8	27.0	19.1
Long Island	(5.1)	(2.3)	(13.8)	(22.2)	6.0	17.0	14.1	15.1	12.5	10.9
Los Angeles	11.0	11.2	(11.3)	(33.0)	10.6	18.0	16.4	12.2	110.2	(45.8)
Memphis	28.4	(6.2)	(27.5)	(21.0)	5.8	16.9	12.2	18.6	13.4	9.5
Miami	6.1	26.2	(12.4)	(35.5)	29.2	27.0	20.0	6.4	0.6	0.2
Milwaukee	40.3	(10.1)	(2.6)	(46.7)	(15.6)	15.2	18.5	25.9	21.4	17.7
Minneapolis	18.0	(6.9)	(13.5)	(31.0)	8.4	21.6	19.8	20.1	11.0	11.5
Nashville	42.6	(6.9)	(17.1)	(17.0)	9.8	17.2	12.0	11.8	7.9	7.0

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

	HISTORICAL ESTIMATES				FORECAST					
Market	**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 %	0.1 %	0.1 %
New York	21.2	31.8	(9.0)	(56.9)	35.7	51.8	26.5	8.2	0.0	0.1
Norfolk	1.1	(3.6)	(42.1)	(18.8)	(38.6)	17.8	42.0	42.5	0.3	0.3
Oahu	2.3	(5.8)	(15.4)	(12.9)	14.9	23.5	12.2	2.2	0.0	0.0
Oakland	29.1	2.8	(20.6)	(43.8)	7.9	23.4	19.9	23.7	0.2	0.2
Omaha	35.4	(9.1)	(6.4)	(23.2)	3.8	24.4	21.2	15.3	0.1	0.1
Orlando	6.4	(9.5)	(18.8)	(40.8)	18.0	24.4	20.4	14.4	0.1	0.1
Philadelphia	17.3	(2.6)	(15.9)	(25.2)	11.7	31.1	15.1	8.7	0.0	0.0
Phoenix	28.1	(10.4)	(27.6)	(56.9)	(2.0)	36.9	37.7	24.7	0.2	0.1
Pittsburgh	53.9	(4.4)	11.3	13.5	(5.5)	6.0	8.0	5.1	0.0	0.1
Portland	35.1	4.2	0.7	(15.1)	11.0	19.4	10.3	9.4	0.0	0.0
Raleigh-Durham	38.6	(0.1)	(17.6)	(33.2)	(21.2)	17.5	25.4	24.3	0.2	0.2
Richmond	15.7	2.8	(22.1)	(42.6)	(12.7)	17.3	17.4	27.0	0.2	0.1
Sacramento	21.5	(23.6)	(21.2)	(59.5)	2.2	39.1	24.8	28.7	0.3	0.3
Salt Lake City	32.9	(1.9)	(10.0)	(18.9)	7.7	19.8	7.6	7.0	0.1	0.1
San Antonio	22.1	(13.8)	(2.1)	(30.3)	0.1	23.2	20.4	14.7	0.1	0.0
San Diego	20.2	(5.7)	(10.9)	(24.7)	4.2	20.3	14.4	11.4	0.0	0.0
San Francisco	17.6	18.9	4.6	(22.4)	6.7	13.1	10.1	13.9	0.1	0.1
San Jose	49.2	6.1	(9.8)	(47.1)	(3.3)	23.6	22.7	25.2	0.1	0.1
Seattle	37.5	(2.1)	(8.9)	(23.5)	13.0	23.4	12.3	11.1	0.0	0.0
St. Louis	12.8	0.2	(15.2)	(22.4)	5.8	24.5	21.7	18.0	0.1	0.0
Tampa	8.8	(18.8)	(28.4)	(43.7)	(24.7)	64.7	42.9	31.6	0.2	0.2
Tucson	28.5	(8.7)	(28.8)	(61.3)	4.3	20.1	40.0	37.4	0.3	0.2
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	(0.0)	0.0

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 2009 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 82%, which means that hotel values are 82% 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 2009 and 2015.

VOLATILITY

Rank			Rank		
1	New York	131 %	43	Salt Lake City	-20 %
2	Miami	82	44	Portland	-21
3	Los Angeles	64	45	Kansas City	-24
4	Las Vegas	61	46	Indianapolis	-28
5	Anaheim	52	47	St. Louis	-30
6	Omaha	47	48	Richmond	-30
7	Austin	46	49	Orlando	-34
8	San Jose	39	50	Albuquerque	-44
9	San Diego	35	51	Buffalo	-46
10	Washington DC	33	52	Cincinnati	-50
28	United States	0%			

As illustrated by the preceding figure, Cincinnati is found to be the least volatile at –50%, while New York is the most volatile, at 131%. We note that Cincinnati is forecast to exhibit a recovery through 2015 at less than half the recovery rate (as a percentage) anticipated for the U.S. national average, while New York is forecast to exceed the U.S. average by roundly 31%, 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.

Market	Volatility Index	Per-Room Value Change
Orlando	-34%	$85,000
New Orleans	-17	146,000
Seattle	-11	106,000
Tucson	-11	84,000
Minneapolis	-1	83,000

Source: HVS

The per-room value of a typical hotel in the U.S. is anticipated to increase by roundly $86,000 between 2009 and 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 $86,000 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.

Market	Volatility Index	Per-Room Value Change
Sacramento	0%	$71,000
Detroit	6	33,000
Philadelphia	8	69,000
Houston	17	53,000
Denver	19	65,000
Charlotte	20	57,000
Jacksonville	22	73,000
Austin	46	64,000
Omaha	47	59,000
Anaheim	52	59,000

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 $401,000 per room from 2009 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

Continued stability and gradual macroeconomic growth are anticipated to bode well for the U.S. lodging industry. As highlighted in this report, per-room values are expected to increase at a healthy clip through year-end 2010 after witnessing their trough in 2009. Significant improvements in value are forecast between 2011 and 2013, supported by improving cash flows and limited supply pipeline activity. 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. Naturally, this presents quite a Catch-22. Going forward, this equation is expected to unfold with lenders finally forcing foreclosure and owners that have survived the downturn well but want out of their assets determine that the time is right.

Interpreting the Hotel Valuation Index

Steve Rushmore's annual NYU presentation always garners a great deal of attention, and stimulates discussions concerning his take on current and anticipated trends in the hospitality industry. One of the most popular – and upon occasion most controversial – components of that presentation is the Hotel Valuation Index (HVI). HVS routinely receives numerous inquiries as to how the data can be interpreted by hotel owners, investors, and lenders considering their own assets and investment strategies. Steve's response to these issues is as follows.

My annual presentation at the NYU conference is based on my firm's research, including our database of actual hotel transactions, and our observations of industry activity and trends. A key component of this presentation is the Hotel Valuation Index (HVI), which HVS prepares annually. 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.

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, 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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