



REIT Growth and Income Monitor

REIT Sector Comments

Hotel REITs

09/08/2009

Notes:

Despite drastically lower demand for rooms and discounted average daily rates, Hotel REITs outperformed other REIT sectors for 2009, with average stock price increase of 49% year to date for 2009, far outperforming average stock price gain of 13% for all REITs followed by **REIT Growth and Income Monitor**. This exceptional rebound is unsupported by fundamental improvement or by news events.

We see severely negative outlook for Hotel REITs for 2009 and 2010 as a result of lower spending on travel by corporations and consumers. Recession and flu fears both play a role in reduced demand. RevPAR (revenue per available room) is plunging to a level not seen in many years. **FelCor Lodging Trust** now expects RevPAR decline of as much as (17%) for 2009, **Host Hotels & Resorts** (23%), and **Hersha Hospitality Trust** (20%). Other Hotel REITs have not provided guidance due to uncertainty.

Suspension of dividends reflects management's efforts to preserve cash. Only **Hersha Hospitality Trust** with current yield of 6.9%, **MHI Hospitality** with current yield of 1.5% and **LaSalle Hotel Properties** (with yield of less than 1%), are still paying dividends. Valuations for Hotel REITs, as measured by ratio of total capitalization to FFO, range from 10.2X for **LaSalle Hotel Properties** to 42.5X for **Sunstone Hotel Investors**.

Equity financings provide liquidity, while dilution impacts FFO guidance. **Hospitality Properties Trust** sold stock offerings increasing total outstanding shares by 29%, **Host Hotels & Resorts** 14%, **LaSalle Hotel Properties** 25% and **Sunstone Hotel Investors** 39%.

Hotel REITs face liquidity issues, as credit workouts impact access to financing. **Sunstone Hotel Investors** forfeited San Diego W to lenders, as debt service on the CMBS loan was twice the hotel property's EBITDA. **FelCor Lodging Trust** also may forfeit hotels to lenders. Despite availability of attractive properties for sale by lenders, few transactions have occurred. Acquisitions and dispositions are restricted by tight credit markets.

Impairment losses impact book value. **Ashford Hospitality Trust** recorded (\$1.18) per share impairment charges, including potential total loss of (\$109) million mezzanine debt of bankrupt Extended Stay Hotels.

Debt repurchase reduces debt outstanding, while common share repurchase remains on hold, pending capital constraints. Debt was repurchased at a discount by **Sunstone Hotel Investors**, **Host Hotels & Resorts** and **Hospitality Properties Trust**. Gains on debt redemption provide non-recurring gains.

We maintain SELL rank on all Hotel REITs at this time. Investors should wait for liquidity and demand issues to be clarified before recommitting to Hotel REITs.

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