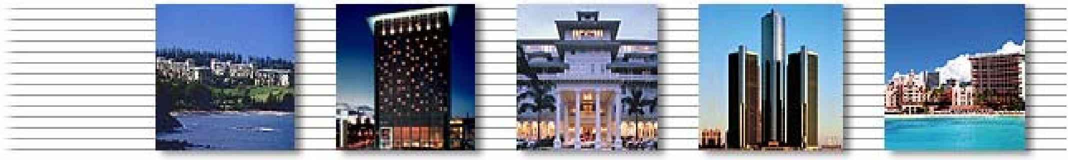

CAPITAL HOTEL MANAGEMENT, LLC 4Q/2005

Sunny with a High Chance of Profit — 2006 Hotel Investment Forecast

Interview with Ken Wilson, CEO, Capital Hotel Management

Question: What do you get when you cross sustained RevPAR growth, flooded capital markets and limited additions to supply? ***Answer:*** The 2006 hotel investment climate.

KEN WILSON, CEO
CAPITAL HOTEL MANAGEMENT

Ken Wilson, CEO and co-founder of CHM, and 25-year veteran of the hospitality industry, lends his thoughts on the current hotel cycle, including what opportunities exist for investing and where were headed for '06 and beyond.

Where are we in the cycle? As an industry, we have witnessed extremely strong growth in hotel operating performance and all signs point to sustained growth for 2006. Today, hotels represent the most attractive investment class within the real-estate sector, and are among the top non-real estate financial performers now, and probably will continue to be, over the next two to three years. Clearly, we are riding a strong investment growth and return side of the cycle.

Where are the greatest opportunities for investing over the next 12 to 18 months? The operating success experienced over the past year in particular has brought a lot of attention from the capital markets, bringing larger groups and many new entrants to the hotel investment arena. As a result, we are seeing more available capital chasing less available product, which has had a significant impact on upward pricing. We are looking at valuations, supported by sales comps, where income value may not catch up for as much as 36 months. High construction costs keeps development at bay and despite increasing interest rates, acquisition activity continues to be strong and more favorable than new construction at this stage in the cycle. Given current market dynamics, the window of buying individual assets at bargain rates is essentially closed. We are still seeing opportunity pricing in portfolio acquisitions and some corporate mergers, but these deals require significant capital to complete. We expect to see more product to come to market from the major brands, as they look to clean up their balance sheets and divest in company-owned real estate.

What are some of the trends that you envision will impact this year's investment climate? From an operating perspective, given limited supply growth, many markets will be approaching capacity from an occupancy standpoint, paving the way to push rates even further. The flip side of the rate equation is that we are in a huge renovation cycle right now, heavily focused on product improvement to sustain future rate growth. Increased levels of owner investment are needed when FF&E reserve accounts can not cover all costs. We have already seen some consolidation, but I would anticipate more activity on this front, basically picking up where we left off in 2000. The market is strong, everyone has cash; the next few years look very positive and conditions are prime for consolidation – corporate acquisitions, taking REITs private and/or re-mixing portfolios. A clear sign that we are in a strong market is the response from hotel companies, including the creation and/or expansion of brands and renewed attention to expanding services and amenities. Along the same lines, the impact of continued rate growth will be partially offset by the increased cost of service delivery, brand standards and amenity creep, and external events which have recently had a significant impact on costs, in particular, insurance and energy expenses.

How will increasing interest rates impact the current investment climate? We have already seen meaningful movement in the market, and interest rates will likely continue to be a major factor affecting transactions this year. The key will be ensuring profitability growth outpaces interest rate growth, paying close attention to operating efficiencies and tempering pressure to layer on additional services and costly amenities without a commensurate increase in rate.

Does a "buy low, sell high" strategy work in today's market? Opportunities exist on both sides of the table right now. Given pricing and future projections, now is obviously a good time to sell. From a buyer perspective, the economics of today's deals are still highly favorable but the strategy resembles more of a "buy high, reposition/re-develop and sell higher" approach. Prudent buyers are looking to acquire assets with expansion and/or conversion potential – large scale properties, including resorts and urban landmark hotels, with excess land or space capacity. Typically these properties are operationally stable but require an infusion of outside capital and creativity to take them to a new level or repositioning. With appropriate resources, knowledge and experience in development/re-development, considering a mix of asset uses such as hotel, residences, condo, fractional, retail, and office, can yield highly favorable returns on a single and multi-asset acquisitions in today's market.

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With a focus on lodging real estate investment, ownership and asset management, we are dedicated to enhancing value and maximizing returns for our clients and investment partners.

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