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CLEVELAND LODGING MARKET AT BOTTOM WITH IMPROVEMENT PREDICTED

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The Cleveland lodging market, along with the Cleveland economic picture overall, is a mixed bag of positives and negatives. 2003 remained a buyers market for the lodging industry in Cleveland while 2004 should see improvement, at last, in both occupancy and ADR.

Occupancy and ADR's

Although occupancy within the Cleveland market grew slightly for the twelve months ending December 2003, it was paid for with a drop in ADR for the third consecutive year. The combination of a modest occupancy growth and declining ADR has led to the lowest market RevPAR in recent memory. For the first time in many years, the growth in demand in 2003 for rooms outpaced the available supply. The following chart shows the Cleveland MSA historical lodging performance and our projected performance for 2004. The Cleveland MSA includes all hotels (22,158 rooms) located in Cuyahoga, Lake and Medina counties.

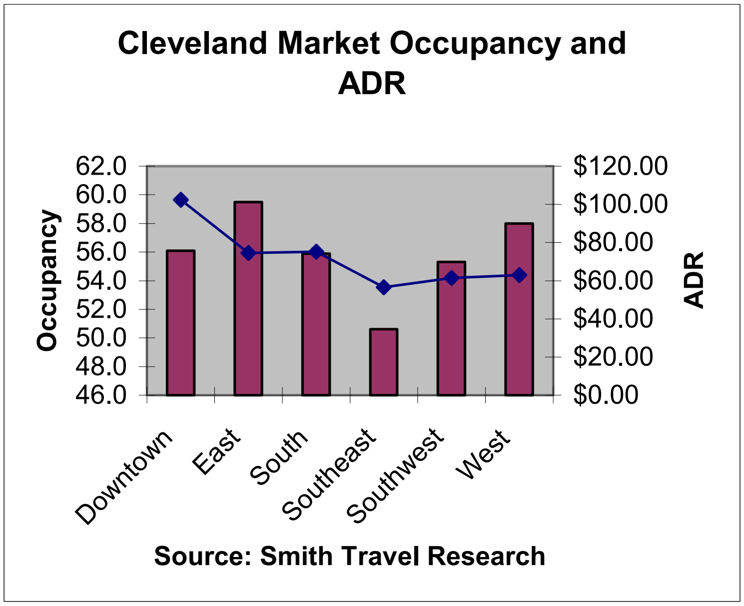
Historical & Projected Operating Performance
Cleveland, Ohio MSA 1997-2004

Year	OCC	Demand % Change	Supply % Change	ADR	% Chg.	RevPAR	% Chg.
1997	65.2%		--	$78.10	--	$50.92	--
1998	64.0%	5.8%	7.8%	$79.96	2.4%	$51.17	0.5%
1999	62.5%	3.4%	5.3%	$79.96	0.0%	$49.98	-2.3%
2000	62.2%	3.5%	4.9%	$81.31	1.7%	$50.57	1.2%
2001	57.4%	-4.8%	1.6%	$77.51	-4.7%	$44.49	-12.0%
2002	54.3%	-1.1%	3.2%	$75.32	-2.8%	$40.90	-8.1%
2003	54.6%	2.0%	1.4%	$73.16	-2.9%	$39.95	-2.3%
2004 Forecast	55.7%	3.0%	1.0%	$75.00	2.5%	$41.76	4.5%

Source: Smith Travel Research (STR) 1997 - 2003; USRC - 2004 Forecast

The downtown Cleveland market includes seventeen hotels with 4,014 rooms. For 2003, the downtown market finished with occupancy of 56.1% and an ADR of $102.32 which compared unfavorably to 2002's occupancy of 57.2% and ADR of $108.15. The market suffered its third consecutive year of RevPAR decline in 2003.

The following chart shows the occupancy and ADR for the Cleveland MSA submarkets for 2003.



New Supply

Unlike 2002, in which several new properties joined the supply of hotel rooms, 2003 saw only three new additions: the 300-room InterContinental Hotel and Conference Center in Cleveland, the 75-room Country Inn and Suites in Elyria and the 120-room Springhill Suites in Solon. New developments in 2004 are expected to be even more modest as the sluggish regional economy and tight money has kept developers on the sidelines. This, of course, is very positive to the ears of hotel operators who have been struggling to absorb the oversupply of recent years.

The following chart depicts recent and planned hotel supply additions in the greater Cleveland area since 2000.

HOTEL/MOTEL ROOM ADDITIONS CLEVELAND, OHIO PROPOSED ADDITIONS					
Completion Date	**Property**	**No. of Rooms**	**Market**	**Location**	**Status**
2004	Hampton Inn & Suites	140	Beachwood	Chagrin Highlands	U/C
2005	Marriott	300	East	Chagrin Highlands	P
2006	Comfort Suites	70	Twinsburg	Interstate 271	P
2006	Microtel	57	Madison	Interstate 90	P
	Total	**567**		**P - Proposed**	
	Source: US Realty Consultants, Inc.			**U/C - Under Construction**	
	January, 2004			**U/D - Under Development**	
		2000 - 2003 Openings			
2000	Residence Inn	175	Downtown	Colonial Arcade	
2000	Holiday Inn Express & Suites	74	Wadsworth	State Route 94 & I-76	
2000	Motel 6	63	Medina	State Route 18 & I-71	
2000	Super 8	52	Medina	State Route 18 & I-72	
2000	Residence Inn	96	Mentor	State Route 2 and Hidely Rd.	
2000	Wingate Inn	86	Streetsboro	9705 State Route 14	
2000	Hampton Inn	78	Medina	State Route 18 & I-71	
2001	Country Inn & Suites	60	Macedonia	State Route 8 and I-271	
2001	Lawnfield Inn & Suites	50	Mentor	Center Steet and Mentor Avenue	
2001	Hyatt Regency	293	Downtown	Colonial Arcade	
2001	Embassy Suites	271	Independence	Interstate 77 at Rockside Road	
2001	TownePlace Suites	71	Streetsboro	Near Interstate 80 and I-480 Intersection	
2002	Hampton Inn	81	Brooklyn	Interstate 480 & Tiedeman Rd.	
2002	Hilton Garden Inn	240	Downtown	Jacob's Field	
2002	Homewood Suites	86	Solon	Harper Rd. off 422	
2002	Sleep Inn & Suites	64	Ashtabula	State Route 218 & I-90	
2002	Extended Stay America	113	Beachwood	I-271 & Chagrin Blvd.	
2002	Fairfield Inn	69	Avon	State Route 611 & I-90	
2003	Country Inn & Suites	75	Elyria	Near State Route 67 & I-80	
2003	Intercontinental	300	Midtown	Cleveland Clinic	
2003	Springhill Suites	120	Solon	Aurora Rd. off 422	
	Total	**2,517**			

Regional Issues

The Cleveland – Lorain – Elyria MSA ranks twenty-fourth in the nation for population, yet Cleveland Hopkins International Airport is the thirty-eighth busiest airport in the country. To increase the airport's capacity a new runway was opened in December 2002. Currently a runway is being extended 2,000 feet to accommodate wide-bodied planes. When the airport expansion project is complete in 2016 it will double the number of airport jobs and have an estimated monetary impact of $5.1 billion dollars on the regional economy. The expansion of Hopkins Airport is the most important current economic development project in the Cleveland market.

As originally planned the airport expansion would require that the adjacent International Exposition Center (I-X Center) be demolished. The I-X Center has over 1 million square feet of space, with an 800,000 square foot main exhibit hall and is the ninth largest convention center in the world. Cleveland's other convention facility is the 375,000 square foot Cleveland Convention Center which is located in downtown. The Convention Center was constructed in 1964 and is built underground. The facility underwent a renovation in 1988, but is dated by current day meeting planner expectations. When the airport expansion was unveiled, along with the I-X Center demise was the expectation and enthusiasm for a new convention facility. As the City of Cleveland faces significant budget shortfalls, coupled with a stagnant regional economy, the new convention facility lacks strong political support and a method to finance its construction and operation. The business community continues to support such a facility, but has not yet found the vehicle to sell the project to the general public.

An upgrade in airport capacity coupled with a new state-of-the-art convention facility for Cleveland would help attract conventions to the Cleveland market. The following table presents historical convention activities in the Greater Cleveland area:

Historical Convention Activities Greater Cleveland Area				
Year	**Conventions/ year**	**% Change # of Groups**	**Room Nights**	**% Change Room Nights**
2003	333	0.3%	198,670	1.0%
2002	332	5.1%	196,738	-9.1%
2001	316	-9.2%	216,326	2.0%
2000	348	-14.9%	212,008	-0.2%
1999	409	8.8%	212,369	15.6%
1998	376	6.5%	183,788	-11.0%
1997	353	0.9%	206,391	15.5%
1996	350	NA	178,700	NA
Source: Convention & Visitors Bureau of Greater Cleveland				

As shown, the number of conventions is relatively flat when comparing 2003 to 2002, with a modest increase over 2001. Attendance of the past two years, however, pales when compared to the attendance figures of 2001. 2004 appears to be off to a better start as the Convention and Visitors Bureau of Greater Cleveland has stated that bookings for this year are 14% ahead of 2003. With growing competition from newer regional venues such as Pittsburgh and Cincinnati, the CVB has been pursuing groups which show a willingness to meet in atypical environments such as Cleveland State University Convocation Center and the Gund Arena.

The following table lists the top five conventions planned for the Cleveland area for 2004.

Cleveland Convention Activity Top Five Conventions in 2004		
Association	**Dates**	**Attendance**
Mid-American Conference Basketball	Mar 3 thru 6	12,000
Material Handling Industry of America	Mar 29 thru Apr 1	15,000
National Sports Collectors Convention	July 20 thru 25	30,000
Christian Congregation of Jehovah's Witnesses	Various*	40,000
Society of Manufacturing Engineers	Nov 2 thru 4	16,000

* The Jehovah's Witnesses meet over 4 weekends in July and August.
Source: Convention & Visitors Bureau of Greater Cleveland

As with the City of Cleveland, the CVB is being forced into belt tightening. The CVB is reducing programs and advertising in the face of budget reductions. In 2000, the CVB spent $2 million in leisure advertising, but only $400,000 in 2003. They look to spend between $600,000 and $800,000 in 2004 for leisure advertising.

Sales and Assessments

The stagnant economic conditions of the region have impacted the values of lodging properties. Some hotel owners have aggressively pursued dramatic downward valuations of their real estate holdings for tax purposes as recent sales indicate that assessed values are too high.

The following table indicates 2003 sales in the Cleveland market and the respective assessed value.

2003 Cleveland Hotel Sales
Sales Price vs Tax Assessed Value

Property	Location	Date of Sale	Sales Price	County Assessed Market Value	Difference	% Variance
Four Points by Sheraton	Independence	10/3/2003	$3,150,000	$8,805,100	-$5,655,100	-64%
Cross Country Inns	Middleburg Heights	12/30/2003	$1,485,333	$2,782,200	-$1,296,867	-47%
Cross Country Inns	Westlake	4/1/2003	$2,275,000	$3,320,200	-$1,045,200	-31%

Source: US Realty Consultants

As shown, recent sales were vastly over assessed by the Cuyahoga County assessor's office. We project more owners of hotels to ask for their property values to be reduced. The following table shows available listings for properties within the Cleveland market.

Properties Listed for Sale in the Cleveland MSA
As of January, 2004

Property	Location	# of Rooms	List Price	Price/Rm.
Holiday Inn Airport	I-71 & W. 150th St.	146	$9,500,000	$65,068
Radisson Cleveland Airport South	I-71 & Bagley Rd.	237	Not Set	--
Holiday Inn Westlake	I-90 & Crocker Rd.	266	Not Set	--

Source: US Realty Consultants

The Holiday Inn Airport opened in 1971 and most recently underwent a $5 million renovation in 2001. The Radisson and Holiday Inn Westlake opened in 1978 and 1970 respectively.

Regional Attractions

Regional attractions define a market as a tourist destination and improve the quality of life for the area residents. As with other aspects of the Cleveland market, the area attractions have been a mixed bag of performance. After years of division winning performances, the poor performance of the Cleveland Indians baseball team has caused attendance to drop. The Cleveland Cavaliers basketball team, after a terrible 2002 – 2003 season with many nights playing to a near empty arena, has new energy focused around the drafting of a local high school star LeBron James and the team's improved play. The Cleveland Browns have been a consistent draw since re-entering the National Football League, but in 2003 brought significant room nights to downtown when they appeared on Monday Night Football. Attendance fell again in 2003 at Six Flags Worlds of Adventure, the largest theme park within the Cleveland MSA. The park has struggled with issues associated with the combination of two theme parks into one and the failure to introduce new rides to the park. The park has no plans to introduce a new ride in 2004. Weather also played a significant roll as the summer was wet and cool. Cedar Point also had attendance issues early in the summer due to weather and mechanical difficulties with their new roller coaster Top Thrill Dragster. However, as the weather improved in August, coupled with the repair of the new coaster, attendance figures for the year managed to surpass 2002. Cedar Point is also not intending to introduce a new ride to its amusement park; however it is looking to upgrade the Soak City waterpark segment of the facility, as part of a $10 million renovation. This will include the introduction of a multi-level interactive play area called Splash Zone. They are also upgrading the Radisson Sandusky Hotel into an indoor waterpark resort called Castaway Cove which will open in November 2004. The following table shows attendance figures for leading attractions in the Cleveland market.

Greater Cleveland Attraction Attendence
1997 - 2003 Report

Year	Museums	Performing Arts	Amusement Parks	Arbortium, Zoo, others	Sports	Convention or IX Center	Total	% Change
2003	4,507,532	2,221,013	5,415,600	1,731,866	5,170,965	2,319,790	21,366,766	-7.0%
2002	4,757,256	2,240,939	5,400,000	1,474,971	6,673,330	2,313,720	22,860,216	-7.1%
2001	4,735,983	1,762,216	5,850,000	1,522,481	8,288,557	2,330,259	24,489,496	-1.1%
2000	4,246,860	1,567,952	6,530,000	1,590,471	8,323,053	2,504,000	24,762,336	5.1%
1999	4,486,224	1,619,100	5,500,000	1,459,429	8,322,560	2,100,000	23,487,313	3.2%
1998	4,573,644	1,708,158	5,600,000	1,451,648	6,785,465	2,612,846	22,731,761	-5.8%
1997	4,830,526	1,654,955	5,600,000	1,520,706	7,794,447	2,644,000	24,044,634	--

Source: Cleveland Convention & Visitors Bureau

Conclusion

The Cleveland lodging market has been soft for a number of years, exacerbated by the events of 9/11 and the slumping economy. As recent sales have shown, the market value of property assets has fallen with the economic climate and appeals are expected to occur for assessment purposes. But we are hopeful the bottom has been reached. With an improving national economy and minimal investment into new hotel rooms, hotel operators may show ADR growth in addition to occupancy improvement. The positive movement will still be modest as the area lacks a significant new demand generator and continues to side step the issue of a new convention center.

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