

# SALES TRANSACTION RESEARCH REPORT (PRELIMINARY)

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The reliability of analyzing hotel sales is based on these factors.

1. The availability of suitable hotel sales- similar type, location and timing.
2. The reliability of the data and the motivation of the buyer or seller.
3. The extent that they are comparable and the technique of adjusting for differences; room count, location, physical attributes, brand affiliation and other.

**I**n order to establish a selling price, asking price or an opinion of value for a hotel it is essential to evaluate the sales price of comparable hotels. An assumption is that a prudent buyer will pay no more for a hotel than the cost of acquiring a similar hotel. Therefore, in addition to a discounted cash flow analysis, an examination of the sales price of similar hotels is important due diligence. This involves analyzing the amounts paid for comparable properties. Adjustments may be required for differences. A prudent purchaser should also consider the cost of developing a similar hotel or acquiring and repositioning an existing property. This analysis requires both extensive comparable sales data and expertise. Without this analysis it is difficult to ascertain a listing price and appropriate sale price or to fully understand the value of the asset. Buyers and sellers are not always informed or prudent. They may lack the expertise to adequately evaluate the “the price point” where both sides may agree. Other motivations may also be a factor; buyer may only be interested in acquiring well below market value or the seller will sell only if there is a windfall and achieves above market value. Typically, such transactions require that at least one of the parties is not well informed. Other influences may be that the buyer needs the transaction to be consummated as their agenda is to acquire the hotel. The due diligence is a timely and expensive process only justified if a transaction occurs. Sellers may also be encouraged to sell to the highest bidder by other debt or equity partners or by timing considerations.

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## INDUSTRY SURVEYS

**HCI** Hotel Consulting International has compiled the most comprehensive research on hotels in the US. All sales over \$3 million since Jan. 2000 have been researched and our preliminary results of 1,457 transactions are presented in this summary report. This report includes overall sale transaction trends by month by property type, by top states, from boutique hotels to extended stay to luxury properties. . In addition our analysis includes sales by brand such as Marriott full service hotels, 79 Holiday Inns, 60 Hampton Inns, 48 Residence Inns, 30 Courtyard by Marriott, 48 Comfort Inns/Suites and , 42 Days Inns. We identify the top ranking buyers and sellers by number of hotels and dollar volume. The top buyer 2003-2004 is CNL Hospitality Properties Inc. with \$2.461 billion of sales and 56 hotels. Top seller is Marriott International with \$1.451 billion and 53 hotel sales.

Finally, we present reported capitalization rates. The capitalization rate is by far the most complex component of our research due to the limited reliable financial income and expense data. The “real cap” rates differ significantly from surveys conducted by most research firms. As cap rate surveys are reported opinions of buyers and sellers who rarely agree on an appropriate rate, and have different agendas these survey benchmarks may be misleading. In our view Real cap rate data is a *valuable tool* for a buyer and seller in understanding and negotiating price or value.

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**SALES TRANSACTION VOLUME BY YEAR**

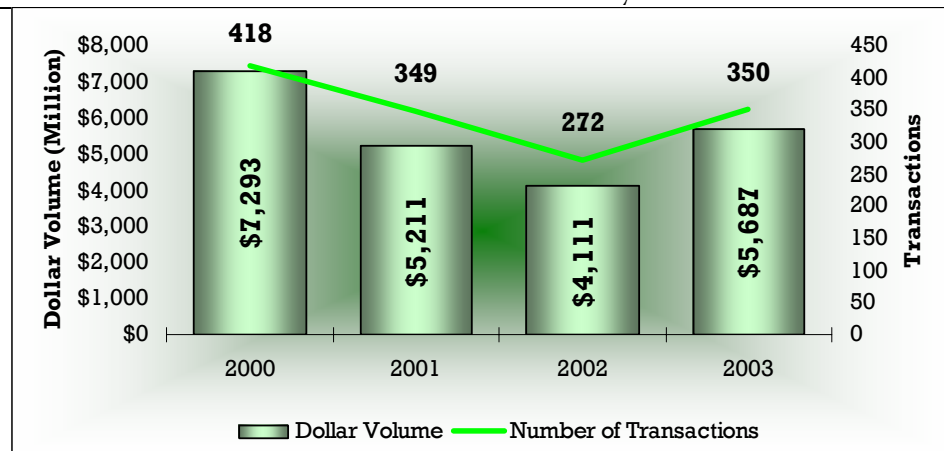
The following tables present hotel sales data from **HCI**'s Hotel Sales Database which contains 1,457 hotel sales for transactions over \$3 million from January 1, 2000 to 2003. Data was obtained from industry surveys, various publications, and county appraisal offices. The report is preliminary as we continue to receive last quarter sales for inclusion in a final report.

An Analysis of hotel acquisitions within **HCI**'s Hotel Sales Database indicates that sales transactions increased significantly in 2003 following a downward trend in the prior two years.

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**Table 1 - Sales Transactions and Dollar Volume by Year - 2000 - 2003**


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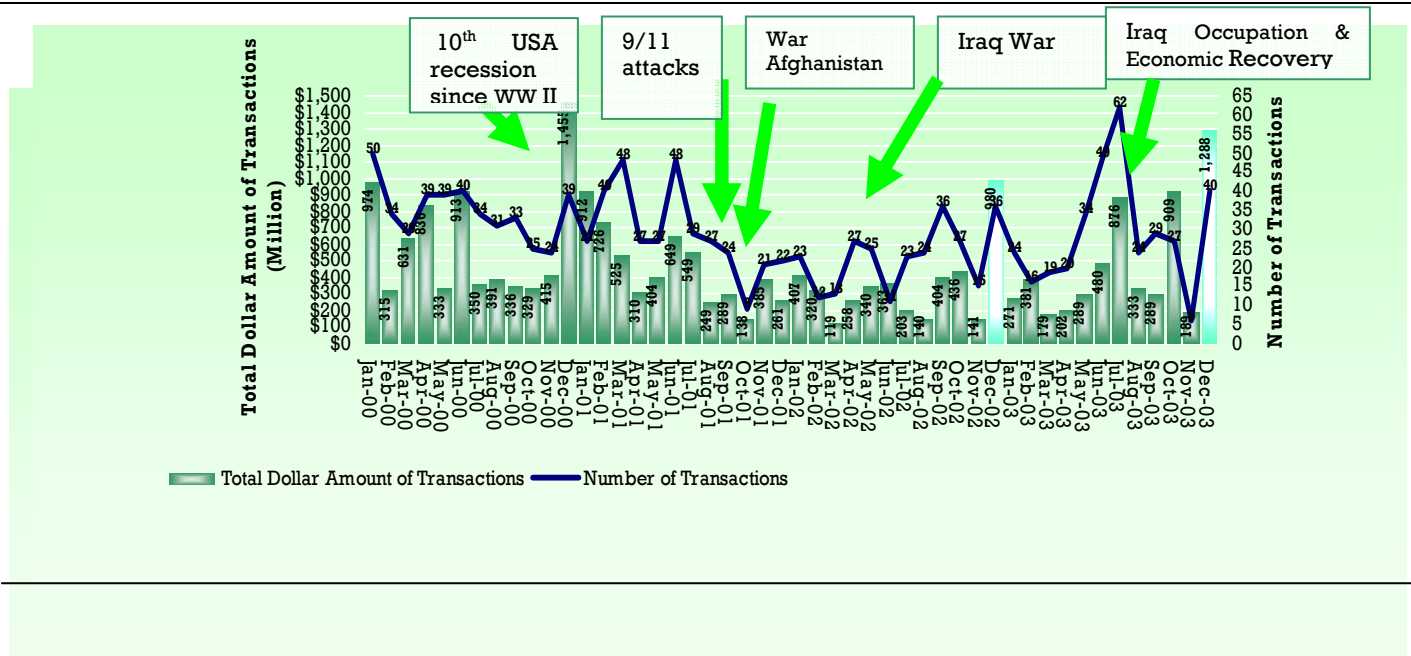


Hotel sales dollar volume increased approximately 38% from approximately \$4.1 billion in 2002 to \$5.7 billion in 2003. In addition, the number of transactions increased 29% in 2003, following declines of 22% and 17%, in 2002 and 2001, respectively. Initial sales reports for 2004 indicate that transaction momentum continues to trends upwards as more investment capital has become available for hotel acquisitions.

SALES TRANSACTIONS BY MONTH

Hotel Consulting International also analyzed the 1,457 hotel sales by month and charted against major events since January 2000. The graph on the following page exhibits total sales volume and transactions by month for 2000 through 2003. Sales activities significantly decreased following September 11<sup>th</sup> attacks, however both sales transactions and volume began trending downward prior to 9/11 as a consequence of result of the 2001 recession. Activity slowed to a three year low as the hotel industry struggled with the aftermath of the terrorist attacks. Many transactions that were agreed upon prior to the attacks were renegotiated downwards or were cancelled either by debt or equity participants. For the second half of 2003 transactions volume increased significantly.

Table 2 Sales Transactions by Month



SALES TRANSACTIONS BY PROPERTY TYPE & LOCATION

HCI's Hotel Sales Database was also analyzed to present sales by property type and by location from January 2000 to March 2004. Not all first quarter '04 sales were presented due to the time lag in the recording of sales. The highest prices were achieved by Independent (Upper Tier) at a three year room average of \$243,958 for the 79 hotel sales investigated. The second highest average was \$175,751 for Boutique Hotels with 42 sales in our data base. Our database included 168 sales of Luxury/First Class hotels that averaged \$137,021. The 94 Upscale Limited Services Hotels averaged \$94,165 almost twice the Mid-Market Full Service that average \$43,458 for 234 sales. Extended Stay Upper Tier exchanged favorably at an average of \$96,337. In terms of location Resort Hotels average the highest per room sale price of \$127,305 for the 264 sales researched. This was followed closely by Downtown Hotels that traded at \$126,509 per room. It is important to note that these property types are typically the most expensive to develop. The following table 3 presents the sales by property and by location.

Table 3 Sales Transactions - 2000 - 2004

Hotel Sales By Property Type															
Property Type	2000 - 2004			2000			2001			2002			2003		
	Number of Transactions	Avg. No. Rooms	Avg Selling Price/Room	Number of Transactions	Avg. No. Rooms	Avg Selling Price/Room	Number of Transactions	Avg. No. Rooms	Avg Selling Price/Room	Number of Transactions	Avg. No. Rooms	Avg Selling Price/Room	Number of Transactions	Avg. No. Rooms	Avg Selling Price/Room
Luxury/First Class	168	381	\$ 137,021	47	378	\$ 160,129	31	399	\$ 146,982	25	403	\$ 112,819	49	372	\$ 131,853
Upscale	69	273	67,242	15	259	68,018	15	233	63,837	14	269	76,253	20	283	68,702
Upscale (Ltd Service)	94	163	94,165	40	165	90,970	17	168	99,292	16	182	105,615	17	143	84,601
Mid-Market (Full Service)	234	174	47,420	72	190	45,775	61	166	50,140	46	172	48,099	47	167	43,458
Mid-Market (Ltd Service)	222	106	51,161	62	106	48,428	45	111	50,989	45	104	51,541	60	104	54,694
Economy/Budget	174	124	40,868	63	127	39,008	55	120	43,371	23	127	39,826	30	126	42,292
Extended Stay (Upper Tier)	74	128	96,337	24	146	91,685	22	117	106,617	10	128	83,697	14	121	93,816
Extended Stay (Middle Tier)	75	117	68,736	5	115	93,548	3	128	62,730	18	127	55,195	48	112	71,765
Extended Stay (Lower Tier)	9	129	44,242	0	0	-	9	129	44,242	0	0	-	0	0	-
Boutique Hotels	42	82	175,751	12	56	238,313	14	87	157,911	7	89	146,207	6	77	174,131
Independent (Upper Tier)	79	249	243,958	19	274	267,473	23	211	181,386	18	155	254,273	10	281	282,585
Independent (Middle Tier)	141	138	71,727	42	165	69,891	36	121	71,884	32	147	77,880	29	115	77,356
Independent (Lower Tier)	76	184	28,735	17	198	25,530	18	206	28,506	18	186	28,804	20	159	30,328
<b>Grand Total Sales</b>	<b>1,457</b>	<b>178</b>	<b>\$ 95,478</b>	<b>418</b>	<b>184</b>	<b>\$ 95,026</b>	<b>349</b>	<b>168</b>	<b>\$ 88,756</b>	<b>272</b>	<b>174</b>	<b>\$ 86,925</b>	<b>350</b>	<b>174</b>	<b>\$ 93,181</b>

Hotel Sales By Location															
Property Type	2000 - 2004			2000			2001			2002			2003		
	Number of Transactions	Avg. No. Rooms	Avg Selling Price/Room	Number of Transactions	Avg. No. Rooms	Avg Selling Price/Room	Number of Transactions	Avg. No. Rooms	Avg Selling Price/Room	Number of Transactions	Avg. No. Rooms	Avg Selling Price/Room	Number of Transactions	Avg. No. Rooms	Avg Selling Price/Room
Airport	166	180	\$ 65,832	51	198	\$ 64,508	30	181	\$ 70,600	28	168	\$ 68,020	46	170	\$ 61,915
Highway	278	120	46,086	95	124	44,134	74	118	50,621	48	115	44,738	53	125	44,465
Resort	264	234	127,305	61	252	159,750	64	243	120,839	62	189	101,850	58	226	107,304
Suburban	570	156	66,169	167	156	68,718	142	145	59,922	99	168	64,965	143	151	72,013
Downtown	179	258	126,509	44	304	134,654	39	215	134,598	35	247	133,183	48	240	109,235
<b>Grand Total Sales</b>	<b>1,457</b>	<b>178</b>	<b>\$ 95,478</b>	<b>418</b>	<b>184</b>	<b>\$ 95,026</b>	<b>349</b>	<b>168</b>	<b>\$ 88,756</b>	<b>272</b>	<b>174</b>	<b>\$ 86,925</b>	<b>350</b>	<b>174</b>	<b>\$ 93,181</b>

**Sales Volume**

Legend: 2000 (Blue), 2001 (Yellow), 2002 (Red), 2003 (Green)

**Sales Volume**

Legend: 2000 (Blue), 2001 (Yellow), 2002 (Red), 2003 (Green)

SALES TRANSACTION BY BRAND

The table on the following page presents HCI research on further analysis of the sales by brand under each category. As expected, the Four Seasons with five sales topped the list in the Luxury First Class category, averaging \$498,546 per room. The Ritz Carlton averaged \$292,436 with six transactions since 2000. A single W Hotel traded at \$343,811. Luxury brands Fairmont and Meridien had average sales that exceeded \$200,000 per room. The Upscale properties were notable for trading at low averages per room in comparison to acquisition costs. The Doubletree and Adams Mark trading above the category average at \$73,492 and \$73,006, respectively. The Upscale Limited Service brands were mostly super performers in terms of trading well above their development cost. The Courtyard by Marriott with 30 sales averaging \$108,029 exceeding the Marriott Hotels full service sales average of \$102,239 with 42 sales analyzed. The Extended Stay Upper Tier was also a top ROI performer that averaged \$96,337. The Summerfield Suites represented two sales in the category that averaged \$144,792. The Residence Inn with 48 sales examined traded at \$98,350 per suites. Hilton's Homewood Suites also was a top performer with an average of \$97,947. The Extended Stay Middle Tier also traded at a high price with the Marriott Hotel's Townplace Suites ranking the highest at \$85,029 per suite; well above development cost.



In the Mid Market Limited Service the 36 Holiday Inn Express sales averaged \$ 55,566 exceeding not only the 79 full service Holiday Inn sales at \$51,997 but also the more upscale Crowne Plaza Hotels that averaged \$52,711. Within the Choice Hotels family The Comfort Suites traded at \$65,388 exceeding Choice Hotels other brands, but also the category top ranking performer.

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#### SALES TRANSACTIONS BY STATE


Further analysis of  's hotel sales database reveals that a significant portion of sales transactions occurred in California and Florida; with 293 and 280 sales respectively. Number 3 was Texas with only 71 sales which verify the importance of these two states in terms of the business of transacting hotels. The top sales price per room was New York at an average of \$218,215 with 37 sales well above California and Florida that did make the top ten list. Hawaii averaged \$197,183 per room for 17 transactions, which placed it in 3<sup>rd</sup> place for dollar sales volume. The following table depicts the ranking of Sales Transactions by State from 2000 to first quarter 2004.

Table 5 Sales Transactions by State - 2000 - 2004

Sales Transactions by State (2000 - 2004)			
Top Ten States by Sales Volume		Top Ten States - Price Per Room	
1 California	\$5,591 Mil	1 New York	\$218,215
2 Florida	3,346 Mil	2 Hawaii	197,183
3 Hawaii	2,246 Mil	3 Wyoming	143,919
4 New York	1,800 Mil	4 Arizona	129,637
5 Arizona	1,155 Mil	5 California	118,529
6 Virginia	1,091 Mil	6 Rhode Island	116,679
7 Illinois	989 Mil	7 Indiana	115,774
8 Nevada	947 Mil	8 Massachusetts	98,536
9 Texas	901 Mil	9 Nevada	95,822
10 Georgia	735 Mil	10 Louisiana	95,788
Top Ten States by Number of Transactions		Bottom Ten States - Price Per Room	
1 California	293	1 Nebraska	\$14,419
2 Florida	280	2 Maine	26,589
3 Texas	71	3 Delaware	32,245
4 Georgia	62	4 Alabama	33,351
5 Virginia	55	5 Ohio	36,422
6 Illinois	51	6 Mississippi	43,177
7 Arizona	48	7 Missouri	47,109
8 New Jersey	42	8 Iowa	48,289
9 Maryland	41	9 Idaho	48,933
10 New York	37	10 North Carolina	49,238

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#### SALES TRANSACTIONS BY TOP BUYERS AND SELLERS

The following two charts presents the Top Ten list of buyers and sellers from 2000 through 2004 (1<sup>st</sup> quarter) ranked by total sales number and dollar volume. The list includes the total sales transactions for each company and it is important to note that in some cases the seller or buyer may have actually been a partnership and not purchased or sold solely by the company listed. The list of top buyers and sellers include a significant number of portfolio sales such as hotel purchases by Hospitality Properties Trust and Apple Suites, Inc. Homestead Studio Suites Hotel's sales transactions include a portfolio purchase of 17-MainStay Suites, representing 17 of their total 18 sales. The sales transactions for Barcello Hotels USA consist of a 17-hotel portfolio purchase of Wyndham Garden Hotels. Sales

transactions for Candlewood Hotel Company, Sunburst Hospitality Corporation, and InterContinental Hotels Group consist of portfolio sales for Candlewood Suites, MainStay Suites, and Staybridge Suites, respectively. Topping the list is CNL Hospitality Properties Inc. with \$2.4561 billion in acquisitions. Excluded from this analysis is the \$2 billion transaction to acquire KSL Recreation Corp. with 3,497 guestrooms. KSL was the second highest buyer of hotels. CNL continues to seek additional hotel investments. Hilton Hotels Corporation ranked 3<sup>rd</sup> place with 11 high profile sales. Hospitality Properties Trust acquired 51 hotels since 2000 for an investment of roundly \$600 million and a 4<sup>th</sup> place ranking.

Table 6 Top Ten Buyers and Sellers by Total Sales Dollars- 2000 - 2003

Top Ten Buyers and Sellers - Total Sales Dollars						
Top Ten Buyers		Total Sales	Average Sale Price	Total Rooms	Price Per Room	
1	CNL Hospitality Properties, Inc.	56	2,461,416,409	43,953,864	15,577	158,016
2	KSL Recreation Corporation	4	874,000,000	218,500,000	2,214	394,761
3	Hilton Hotels Corporation	11	786,703,306	71,518,482	5,241	150,106
4	Hospitality Properties Trust	51	599,963,881	11,763,998	6,955	86,264
5	Host Marriott Corporation	4	560,500,000	140,125,000	2,339	239,632
6	Maritz, Wolf & Co	4	446,460,000	111,615,000	1,077	414,540
7	Blackstone Group	2	443,000,000	221,500,000	2,007	220,727
8	Fairmont Hotels	3	438,000,000	146,000,000	1,367	320,410
9	Ty Warner	2	425,000,000	212,500,000	581	731,497
10	LaSalle Hotel Properties	8	402,245,000	50,280,625	2,489	161,609
Top Ten Sellers		Total Sales	Average Sale Price	Total Rooms	Price Per Room	
1	Marriott International	53	1,451,343,326	27,383,836	12,033	120,614
2	Wyndham International Inc.	37	947,267,990	25,601,838	10,268	92,254
3	Starwood Hotels & Resorts, Inc.	13	914,202,084	70,323,237	4,767	191,777
4	Lowe Enterprises	5	598,000,000	119,600,000	1,776	336,712
5	Barcello Crestline Corporation	30	549,471,710	18,315,724	5,532	99,326
6	Strategic Hotel Capital	10	416,412,180	41,641,218	2,801	148,666
7	Boca Resorts, Inc.	2	373,000,000	186,500,000	1,046	356,597
8	Blackstone Group	1	321,000,000	321,000,000	806	398,263
9	Lend Lease Real Estate Investment	5	246,250,000	49,250,000	1,880	130,984
10	Host Marriott Corporation	9	233,102,837	25,900,315	2,613	89,209

Top sellers were Marriott International and Wyndham International. Some of the sellers on our top ranking list are poised for acquisitions. Most notably Lowe Enterprises has funds available ready to acquire top quality hotel assets.

#### ACTUAL CAPITALIZATION RATES

Finally, we examined reported capitalization rates (overall cap rate = Sale price/ NOI). The capitalization rate is by far the most complex component of our research due to limited reliable financial income and expense data. *The cap rate is the most valuable tool for a buyer or seller of hotel real estate or indeed any hotel investor.* As value is determined by future benefits most buyers are basing their investment decisions on future cash flows including a hypothetical or actual sale at the end of a holding period. Resale value is an important factor for the seller to present. Many hotels have low 12 month trailing cap rates but their value is in repositioning and future disposition. Boutique hotels are an excellent example; while this category traded at an average of \$175,751, with 42 hotels averaging 82 rooms in our database; their twelve month cap rates were mostly likely below 5% (our estimate). Reversionary value at the end of a holding period factored significantly in this category. The boutique sector requires a unique operation and marketing expertise that each buyer intends bring to the asset.

In conducting our research our objective was to trend by month individual cap rates and present a composite in a future report. This is particularly critical to the industry during these challenging times as most national surveys have presented composites of buyers/sellers 'gestimate' cap rates rather than derived from actual transactions. This disconnect on cap rates has discouraged both debt and equity investing. Our investigation on capitalization rates was difficult to execute as our researchers did not obtain pertinent operating statement data. We are willing to provide results of all our sales research with participant buyers and sellers who share actual cap rate information with us. Net Operating Income (NOI) requested is for the 12 month period prior to the sale and the prior calendar year. Calendar year NOI's from 2000 to 2003 would provide an important industry benchmark. NOI's are calculated after deduction of Mgt fees, Franchise fees, Reserves for Replacement (please state 4 or 5%), Insurances and property taxes. Should we obtain reliable data the research result will correctly present actual market cap rate conditions and will be will be an excellent valuation tool for you and the industry. The following charts are provided for review only, because of the small sample examined and that the reliability of the data it is not intended for comprehensive analysis.

Table 8 Capitalization Rate Summaries – 2000-2003

