

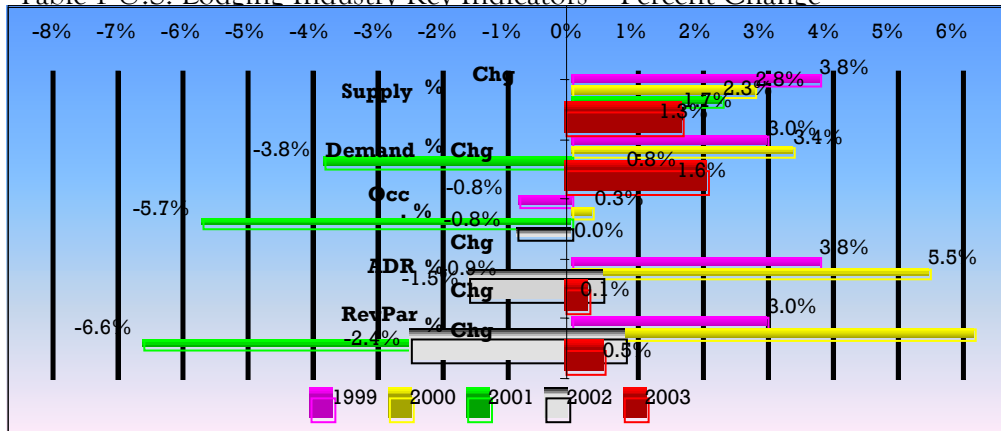
LODGING INDUSTRY OVERVIEW

Lodging industry performance trends since July 2003 have increased but the most significant increases were posted on a rolling 12-month average ending May 2004. For fiscal 2003/04 occupancy was 60.3%, up 4.8% while average daily rate (ADR) and RevPAR was up 3.5% and 8.6% respectively. The recent statistics indicate that a more robust recovery is underway than had been originally anticipated. For 2003 occupancy was 59.2% up 0.2% over 2002. ADR declined by 0.1 % to \$82.28 and RevPAR increased 0.2% to \$49.34. Key fundamentals fueling the hotel recovery are 1) increase in business travel in line with GDP growth 2) robust leisure travel increasing at 4-5%. 3) group and meeting demand in recovery 4) reduction in supply growth ranging from +1% to +1.4%. Most industry analysts estimate that the bottom of the cycle was reached in mid 2003 and that 2004 has provided a foundation for full industry recovery in 2005. For annual 2004 Smith Travel Research predicts occupancy of 60.8%, ADR to rise 2.4% and RevPAR to increase 5.2% Industry wide supply growth is estimated at 1.2%. Currently the major factors negatively and positively affecting the lodging market are listed as follows:

Negative Factors	Positive Factors
1. Economic Recovery not robust	1. Slowed Supply Growth
2. Recovery mild for most sectors not defense or security	2. Effective Cost reductions post 9/11
3. Terrorism & Safety Concerns	3. Domestic Leisure demand robust
4. Airline Industry demise & airport security inconvenience	4. Business demand returns in 2004
5. Rising energy & insurance costs	5. Pent up demand for conferences & meetings
6. Rising interest rates	6. Interest rates rising although at historic lows
7. Increase in labor cost & benefits	7. Capitalization rates lower shoring up values
8. Deferred Maintenance; deferred expense	8. Capital available for acquisitions
9. Fall-off in international travel to US	9. International traveler return will create windfall
10. Encroachment of internet on brands and pricing integrity	10. Demand growth should push ADR above inflation
11. Cost cuts difficult to maintain in economic recovery	11. Insurance, Energy and Property Taxes may fall

Key Indicators 1999-2003:

Table-1 U.S. Lodging Industry Key Indicators - Percent Change



Source: Smith Travel Research, HCI