



INNsideISSUES

This issue compliments of

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Hotel Brokers International (HBI), founded in 1959, is the industry's oldest hotel real estate sales and consulting organization. HBI annually accounts for the largest market share of hotel real estate sales in the United States alone.

In addition to being the leader in hotel real estate brokerage, HBI offers the Certified Hotel Broker designation program, Hotel Investor's Marketplace and TransActions, the organization's hotel real estate sales comparables service.

HBI is a member of the American Hotel & Lodging Association (AH&LA), Asian American Hotel Owners Association (AAHOA) and FIABCI-International Real Estate Federation.

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HBI is a network of independently owned and operated real estate firms. In addition to brokerage services, many HBI offices offer such lodging related services as hotel consulting, interim or long-term management, market studies, opinions of value, appraisals, mortgage brokerage, syndication and development. For additional information on investment opportunities in the hotel industry, contact the HBI member office listed on the front of this publication, or visit us on the Web at www.hotelbrokersinternational.com

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INFORMATION REQUEST FORM

The fast-changing hotel real estate market is creating significant opportunities. The challenge is to discover and mine those opportunities. As the leading hotel real estate brokerage organization, representatives of Hotel Brokers International offer the expertise to assist you in achieving your hotel investment goals. For information about many ways HBI can assist your efforts, fill out the form below and mail or fax it to the address on the cover of this newsletter.

NAME _____

ADDRESS _____

CITY | STATE | ZIP _____

PHONE _____ FAX _____ E-MAIL _____

- | | |
|--|--|
| <input type="checkbox"/> Hotel Management Evaluation | <input type="checkbox"/> The Hotel Investor's Marketplace |
| <input type="checkbox"/> Listing a Hotel for Sale | <input type="checkbox"/> TransActions |
| <input type="checkbox"/> Purchase of a Hotel | HBI's sales comparables data service |
| Number of Units _____ | <input type="checkbox"/> Please add my e-mail address to your electronic distribution list to receive newsletters, special offers, hospitality industry news and information, etc. |
| Region / State _____ | |
| <input type="checkbox"/> The Deferred Exchanges | |

Return completed form to HBI representative featured on the cover of this newsletter.



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international presence



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Baymont acquired
for \$412 million



2004 Hotel Real Estate Transactions at Record Pace, 2005 Promises More of the Same

The pace of hotel real estate transactions accelerated through 2004, and 2005 promises a continuation of that trend, according to a recent informal poll of members of Hotel Brokers International (HBI), from across the United States. After three years of sluggish activity, the combination of a rebounding economy, low interest rates and the cumulative effect of lower-than-average increases to supply began to bring buyers and sellers back to the marketplace in earnest in 2004.

"This has been a good year for just about everyone in all asset classes," said Ronald McCord, CHB, HBI president, Milmark Hotel/Motel Investments, Milwaukee. "HBI completed as many transactions in the first nine months of this year as it did in all of 2003. In talks with offices around the country, it looks like 2005 promises to be as good, if not better than 2004 in number of transactions."

Renewed Confidence

"The positive changes in the economy have renewed buyers' and sellers' confidence in the future of hotel real estate, an optimism that has been relatively absent over the past two years," said Jeff Westgor, CHB, HBI director, Westgor & Associates, Inc., Minneapolis. "Buyers and sellers have spent the last two years holding off on doing much of anything. Consequently, this year there is a growing urge among buyers to let

loose their pent-up demand and acquire quality properties to participate in the rebound."

Lenders are playing a role in both buying and selling. As the economy strengthens, lenders are pressing troubled owners to get current with their loan obligations. Unlike in past downturns, lenders have been more reticent to

foreclose, but as the economy picks up speed, lenders are becoming more demanding.

For buyers, interest rates remained at or near historic low levels, in the 6 to 7 percent range. As the economy continues to improve, rates increasingly will come under upward pressure as concerns about higher inflation and rising energy prices intensify.

Most HBI brokers polled believe rates will increase somewhat in 2005, but will remain at attractive levels. "Rates may move upward by half a percent, beginning perhaps as early as the fourth quarter of 2004," said Teague Hunter, CHB, HBI treasurer, Hunter Realty Associates, Inc. "But even at that level, rates are still attractive."

Low interest rates and a rebounding economy had a strong effect on cap rates in 2004, which dropped by 1 to 2 points depending on the asset. Buyers also were more willing to negotiate prices on forward revenues to reflect the turnaround in the hotel industry, which is expected to continue for at least the next several years.

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In most markets, cap rates for premium brands dipped below 10 from the normal 11 to 12 percent range. Older, mid-market properties with food and beverage (F&B) had cap rates several points higher than hotels under 10 years old. Overall, cap rates in 2004 typically ranged between 9 and 14 percent, although it was not unusual to see hotels trading at a 7 percent cap rate and occasionally lower.

Who Sold What?

Sellers were divided into three major categories. The first group included multi-unit owners, primarily publicly held companies, who were pruning their portfolios of non-strategic assets; real estate investment trusts (REITs) were a particularly active subset. The second group comprised smaller owners who wanted to roll over their equity into larger transactions with greater profit potential. The third group consisted of owners who were more motivated sellers.

“Some sellers were owners with loans coming due or who simply wanted to get out of the business,” said Chuck Nester, CHB, CHA, Brown Hotel Group, Inc., Los Angeles. “Since 9/11 hotel real estate has been in a slump. Though the market is turning around, some owners wanted to cut their losses and move on.”

First to market were the less desirable, older properties, which initially led to concern about a lack of quality properties available on the market. This put upward pressure on pricing for more attractive, newer properties. Although the number of newer properties coming to market has increased, virtually all brokers said that demand still exceeded supply.



Metropolitan areas, including New York City, Washington D.C. and Chicago, as well as stronger secondary markets were quite active. Resorts, led by an increase in family-oriented travel, also attracted a lot of buyer attention.

Who Bought What?

“There has been a variety of buyers across the board, including REITs, individuals and regional management companies with capital sources,” said Alan Brock, CHB, Alan Brock and Associates Inc., Dallas. “The Asian American community continued to be quite active this year, with a growing influx of buyers from countries like Korea, China and Taiwan. This is a trend that I believe will continue.”

Most owners who have at least one property are buying hotels in order to move away from their “mom and pop shop” image and cultivate a successful portfolio. There was a noticeable number of first-time buyers who have ventured into the hospitality industry, primarily purchasing turn-around properties. Commercial investors, new to the hospitality industry, are active because they believe that hotel real estate now offers the highest potential returns of the real estate asset classes.

Hotel Real Estate at a Glance

- 2004 the strongest in recent years
- Interest rates to remain attractive
- 2005 expected to be as good or better
- High buyer interest

Premium branded upscale and limited service hotels under 200 rooms were the most sought-after properties. “There is a lot of new money coming into the industry from individuals and Wall Street. All buyers want the reassurance of success that comes with purchasing a proven, branded, upscale or limited-service hotel,” said Joseph McCann, CHB, Optimum Hotel Brokerage, Fairfield, Connecticut.

“Everyone is buying and everyone wants the recently built, major branded interior corridor, with consistent revenues,” said William Moyer, Donohoe Real Estate Services, Inc., Washington, D.C. “Mid-market locations, with food and beverage, lagged behind in sales this year.”

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HBI Expands International Reach

Hotel Brokers International has expanded to the Far East with the addition of multi-office hotel brokerage firms in Australia and New Zealand.

Resort Brokers Australia is that country's largest tourism and hospitality property and business broker, specializing in hotels, caravan parks, backpacker hostels and pubs. Resort Brokers of New Zealand provides brokerage services for tourism-related properties in that country. The separate companies combined have 11 offices in the two countries with approximately 40 brokers, and concluded approximately \$275 million in hospitality real estate transactions in 2003. Both organizations have extensive dealings throughout the Far East, in addition to their home countries.

The expanded HBI network already has two transactions under way. HBI broker Greer Lee of New Mexico-based Scoggin Blue LLC is working with Resort Brokers New Zealand's offices to help a Tahiti-based client locate a New Zealand hotel. Resort Brokers Australia recently secured a listing for a \$13 million hotel in Kuala Lumpur in part due to its new affiliation with HBI.

"This is a major step for hotel real estate and reflects the continued globalization of the hotel industry," said Ronald McCord, CHB, president of HBI. "Resort Brokers expands HBI to 37 offices and gives the organization a two-way bridge between the Far East and the Americas. We also are building relationships in Europe."

"HBI is the dominant hotel brokerage organization in the U.S. market and extremely well-connected," said Ian Crooks, Resort Brokers managing director. "We believe our joining forces will have long-term strategic advantages that will benefit everyone involved, as well as enhance international hotel real estate transactional activity."

Under the agreements, Resort Brokers Australia and Resort Brokers New Zealand will continue to maintain independent offices but will work with HBI to facilitate sales, improve training and certification programs, and enhance ethics and



Presentation of Resort Brokers' Certificate for membership in HBI.

Left to right: Darrell Innes and Ian Crooks, Resort Brokers Australia; Greer Lee, former HBI president; Gordon McGregor and Wayne Keene, Resort Brokers New Zealand.

professionalism. The agreements further strengthen HBI's international orientation and provide a gateway to the Far East, where markets continue to expand at a rapid rate.

U.S.-based HBI members will work with Resort Brokers in directing U.S.-based franchisors to Far Eastern properties that have brand potential. In addition, Resort Brokers will refer buyers from "down under" with an interest in acquiring U.S. hotel real estate, and act as liaisons to HBI's U.S. and South American clients who seek "on the ground" expertise for expansion in the Far East, especially Southeast Asia.

Resort Brokers Australia was established in Australia in 1985 by Ian Crooks, who introduced the concept of splitting of business and freehold into two parts, allowing an increase in the base of buyers for the product. In the last five years, Resort Brokers has grown in both size and product base and is now recognized as one of the most prominent and successful brokerages of its kind in the Pacific Rim. The company has staff of more than 60 personnel with offices from the Northern Territory in the North to Adelaide in the South.

With more than 30 years combined property experience, Resort Brokers New Zealand was founded by Wayne Keene and Gordon McGregor to provide dedicated and specialist services to owners of tourism-related properties and businesses.

"This is a major step for hotel real estate..."

La Quinta steps forward with Baymont acquisition

What a year for growth!

In the heart of a busy year for transactions in the lodging industry, recently La Quinta Corporation (NYSE: LQI) completed the acquisition of substantially all of the assets of The Marcus Corporation's limited-service lodging division for a total purchase price of approximately \$412 million.

As part of the agreement, La Quinta acquired 89 Baymont Inns & Suites, seven Woodfield Suites and one Budgetel. In addition, La Quinta acquired all of the trade rights associated with the Baymont, Woodfield Suites and Budgetel brands, and the current Baymont franchise system of 88 hotels, which includes five joint venture partnerships.

The 185 hotels are located across 32 states, with approximately half of the hotels in the Midwest region of the U.S.

La Quinta Chairman, President and CEO Francis (Butch) Cash said, "Baymont is an excellent fit with La Quinta and will become an important part of our growth strategy. With the Baymont acquisition, we gain geographic diversity in key Midwest markets and a strong brand with high quality assets. We look forward to growing the La Quinta and Baymont brands and increasing our scale and distribution."

With the acquisition, La Quinta Corporation increased its position as one of the largest owner/operators of limited-service hotels in the United States.

Heading up the integration effort is Alan Tallis, La Quinta's Executive Vice President and Chief Development Officer, who is also in charge of the company's franchising program. Tallis called the acquisition, "A huge plus for existing La Quinta franchisees as well as the Baymont franchisees that are joining our system."

Tallis indicated that bringing together La Quinta's Internet distribution, national marketing and advertising as well as its award-winning Returns program combined with Baymont's added distribution, will leverage the strengths of both brands.

Tallis concluded, "Strength builds on strength, and that means that even bigger things are ahead for La Quinta, Baymont and our entire franchise community. Stay tuned."

The La Quinta Corporation may be reached by mail at 909 Hidden Ridge, Suite 600, Irving, TX 75038 or by phone at 214.492.6600.



HBI Official Supporter of ALIS

HBI will serve as a Supporter of the Americas Lodging Investment Summit (ALIS) to be held January 18-20, 2005 in Los Angeles, California.

Attracting more than 1,500 participants, the summit brings together the hospitality industry's leading experts and investors to network and participate in an extensive array of seminars, think tanks, and presentations on important, timely issues facing the hospitality investment community.

To obtain information about attending the ALIS event, visit ALIS on the Web at ALIS.conference.com or call toll free 888.732.0212 (calls outside the U.S. +917.326.6348).

Happy Days are Here Again... for Hotel Buyers and Sellers

Not long ago, we saw a mile-long gap between what sellers were willing to sell their assets for and what buyers were willing to pay. This “big disconnect” led to a record low number of sale transactions in 2002 and the beginning of 2003; there was as much as a 4% difference in the capitalization rate between sellers and buyers expectations. Here’s the good news: As we come to the end of 2004, things have changed dramatically, leading to a record increase in sale transaction activity. We have identified 5 key factors for this increase:

A strong economy set the scene –

The lodging industry is heavily dependent on the performance of the overall economy. As the economy came out of recession in early 2003, businesses started to ease up on travel restrictions and people started to feel more secure in their jobs and take vacations.

The Trailing 12 Continues to Rise –

Hotels are typically sold based on historical performance of the prior twelve-month period (referred to in the industry as the “Trailing 12”). As each successive month in 2004 came along, it replaced a weaker less profitable month in 2003. This had the effect of not only increasing the Trailing 12 performance, but it also allowed the seller to create the “dream” in the buyers mind that monthly performance will continue to increase, thus leaving some upside on the table for the new owner.

Interest Rates are at Historic Lows –

As of press date, the interest rate index most commonly used for hotel loans, the 10-year treasury, is at almost a 45-year low and is hovering around 4.0%. The index combined with a credit spread of 175 basis points has allowed owners to lock in long term fixed rates at approximately 5.75% for periods of 5 to 15 years. This historically cheap source of capital, allows even marginal deals to work, and leaves a lot of room for price flexibility on the buyers part.

Trading Up –

This item is a little less tangible than the others. Hotel owners who are typically entrepreneurial by nature, often start out with smaller limited service properties. As they become proficient in the financial and operational issues of a hotel, they often look for the next challenge to trade up to larger and eventually full service properties. Because of the depressed market for sales during the recessionary years, many of these owners did not want to sell into a depressed market, and have held their properties longer than their original business plan called for. These owners are now eager to sell their properties and move on to larger more complicated properties.

Mezzanine Financing up to 85% loan-to-value –

The final item creating such an active sales climate is the plentiful amount of mezzanine financing available in the market. Mezzanine financing fills the gap in the capital structure between the first mortgage (usually up to 70%) and the equity that the owner has to invest in the project. The AFC Hotel Finance Group routinely works with many mezzanine lenders who provide up to 85% financing for both new construction and existing assets. The pricing for this type of capital ranges from 9% to 12%. When the mezzanine pricing is blended with the first mortgage, it results in an “all-in-rate” of somewhere in the low to mid 7% range. This low pricing and availability of mezzanine financing for full leveraged transactions, is the fuel helping buyers reach for larger transactions with less of an equity commitment.

Hotel Sales Activity Influences

- Economy
- Trailing 12
- Interest Rates
- Trading Up
- Mezzanine Financing

So what does the future hold? This year, more than any in the past, my crystal ball is telling me that the hotel sector will continue to be strong in 2005. Many of the reasons which led to such a robust 2004 are still strong as we go into 2005. An analysis of our winning factors for 2004 shows that the same should hold true for 2005:

Happy Days are Here Again... Continued from page 5

Economy –

The economy continues to improve with each quarter. Unemployment is on the decline and GDP is again growing at a normalized rate. Recessions tend to run in 7 to 10 year cycles between each one. With the last recession over in early 2003, we should have at least another 5 years of normal economic growth and activity.

Trailing 12 –

Trees don't grow to the sky, and eventually the Trailing 12 will stop showing year over year increases. However, through effective management, technology and implementing aggressive yield maintenance programs, the better owners will still be able to increase their cash flows.

Interest Rates –

Although interest rates are forecast to rise from their current historically low levels, the increase is expected to be modest and to parallel the improvement in the overall economy.

Trading Up –

There is still plenty of demand from smaller owners to trade up to larger full service properties. The lack of supply and bidding wars in 2004 have left behind many unsuccessful bidders. These unsuccessful bidders will become more aggressive in 2005 in order to win prime properties.

Mezzanine Financing –

There are new firms entering the mezzanine market on almost a daily basis. The AFC Hotel Finance Group maintains relationships with over 35 hotel mezzanine providers, each with a particular product emphasis and geographic preference. With interest rates still low, the mezzanine market allows capital providers to achieve slightly higher returns on their money for providing higher leveraged capital.

About the AFC Hotel Finance Group: The AFC Hotel Finance Group is a full service investment banking firm providing construction, permanent, bridge, equity and mezzanine financing to the lodging industry. The firm underwrites and executes approximately \$500 million worth of financing annually. For more information please contact Peter M. Berk, President AFC Hotel Finance Group at 212.245.2050.

HBI brokered sales up more than 31 percent

HBI brokers transacted nearly \$205 million in hospitality real estate during the first three quarters of 2004. This compares with \$158 million for the same period in 2003. HBI brokers were involved in 79 transactions through third quarter 2004, compared to 60 transactions through the same period in 2003, up more than 31 percent. The number of sales in the first three quarters of 2004 was equal to the entire total in 2003.

"This increased activity is indicative of this market in general as buyers seek out properties to take part in the improving economy and lodging sector," said Ron McCord, CHB, president, Hotel Brokers International. McCord continued, "We believe this increased activity will continue through the fourth quarter of 2004 and well into 2005. It is a great time to be a broker in the lodging real estate business as well as for our clients, the buyers and sellers of this market."

Contact an HBI broker to learn how you can benefit from this improving hotel market.

2004 Hotel Real Estate Transactions *Continued from page 2*

2005 Outlook

At HBI offices across the nation, the outlook for hotel real estate was upbeat. "We look for another strong year in 2005," said Brandt Niehaus, CHB, HBI past president director, Huff, Niehaus & Associates, Inc., Louisville. "It will be a good year for both buyers and sellers, with perhaps a slight edge going to the sellers."

Three caveats enter into the outlook for 2005: 1) rising

interest rates, which are not expected to increase substantially in the foreseeable future; 2) a surge in new construction that could lead to overbuilding; for now, new supply is not expected to have a measurable impact, if any, for several years; 3) a terrorist attack and its impact on the economy.

"Optimistic" and "upbeat" were the words most often used by HBI offices to describe the coming year. A strong fourth quarter 2004 is expected to set the stage for an even stronger year in 2005.

Selection of recent HBI-brokered sales

LaQuinta Inn	Tampa, FL	131 units	Days Inn	National City, CA	70 units
Holiday Inn Express	Owensboro, KY	70 units	Comfort Suites	Gurnee, IL	65 units
Homegate Studios & Suites	El Paso, TX	124 units	Country Inn & Suites	Gurnee, IL	68 units
Holiday Inn	Trinidad, CO	113 units	Best Western	Ashland WI	65 units
Harbor Lights Lodge	Kewaunee, WI	32 units	Cross Country Inn	Grove City, OH	120 units
Midway Inn	Cedar Falls IA	78 units	Country Inn & Suites	Tucson, AZ	83 units
Holiday Inn Express	Louisville, KY	81 units	Ramada Inn	Commerce CA	156 units
Venice Inn	Hagerstown, MD	221 units	Best Western	Lemoore, CA	66 units
Colony Motel	Brookfield, IL	37 units	Bailiwick Inn	Fairfax City, VA	14 units
Best Inn	Vancouver, WA	72 units	Super 8	Twinsburg, OH	59 units
Cleveland Inn	Cleveland, TX	59 units	Country Inn & Suites	Marion, OH	63 units
Canal Park Inn	Duluth, MN	144 units	Best Western	Junction, TX	33 units
Plaza Motel	Cicero, IL	34 units	Hampton Inn	Grapevine, TX	65 units
Travelodge	San Francisco, CA	25 units	Holiday Inn Conf. Center	Visalia, CA	256 units
Budget Lodge	El Paso, TX	48 units	Quality Inn	Santa Fe, NM	99 units
Country Inn & Suites	Albany, MN	48 units	Travelodge	Santa Rosa, NM	38 units
Big Ten Inn	Coralville IA	40 units	Comfort Inn	Red Bluff, CA	67 units
Thriftlodge	Mason City, IA	47 units	Best Western	Wauseon, OH	48 units

