

Real Estate Research

October 3, 2012

Robert W. Baird Equity Research Hotel Update: C-Corps and REITs

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Please refer to Appendix - Important Disclosures and Analyst
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Hotel Update: C-Corps and REITs

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- Hotel Stock Performance History: Buy and Sell Signals
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- Brand Pipeline and International Exposure

Our View on the Hotel Sector: Market-Weight

- **Near term**: Cautious given full stock valuations (11.5-14.5x 2013E EBITDA for the REITs), several macroeconomic uncertainties, and high investor expectations for continued growth
 - *We see better value in the brands* given their discounted valuation (10-12.5x 2013E EBITDA) relative to the REITs; earnings growth should begin to accelerate as well in the coming quarters
- **Long term**: Bullish given that industry fundamentals are expected to remain strong in the face of limited supply growth (sub-1% through 2014)
 - The current demand-to-supply spread is +3.5%
 - Sentiment is in check – owners/operators are only cautiously optimistic

Our View on the Hotel Sector: Market-Weight

- What would make us **incrementally positive**:
 - Pullback in valuations (~1-2x EV/EBITDA) but same growth outlook
 - Transaction market improvement – volume and attractively priced deals
 - Additional visa reform to increase international travel
- What would make us **incrementally negative**:
 - Significant deterioration in demand or a rapid increase in supply, both of which we view as highly unlikely

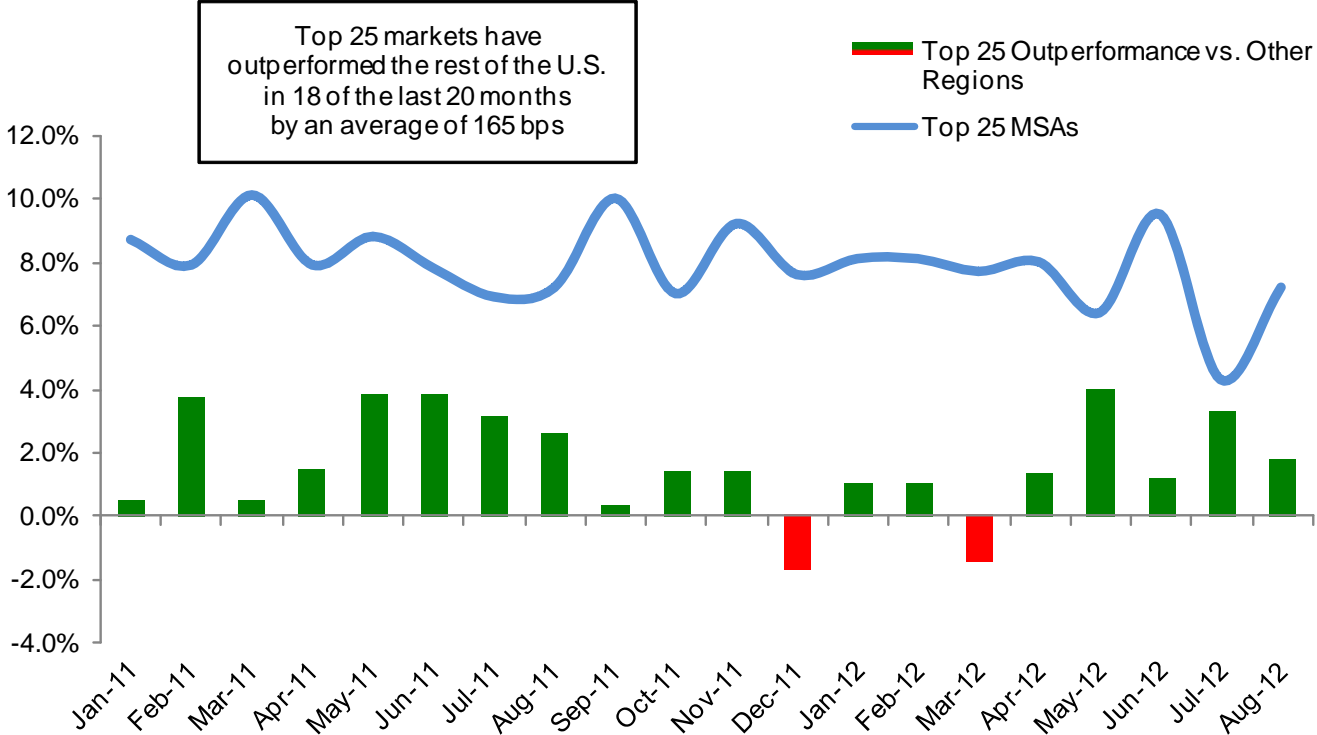
Industry Overview: Fundamentals Strong

- We are forecasting 6.6% RevPAR growth for 2013 and expecting REITs to outperform this figure
- Operators remain hesitant to aggressively push rates; occupancies at or near record levels in many markets → margin expansion and earnings should begin to accelerate
- Business transient demand remains very robust; leisure demand still strong; group demand picking up considerably
- Record in-bound international travel (with significant upside) an incremental demand driver – NYC, SF the key beneficiaries
- Relatively slow (but improving) transaction market has the REITs focused on asset management and redevelopment/value-add projects

Industry Overview: Fundamentals Strong

- Top 25 markets have been the relative outperformers, a trend that we expect to continue throughout the upcycle

RevPAR Growth: Top 25 MSAs vs. Other Regions



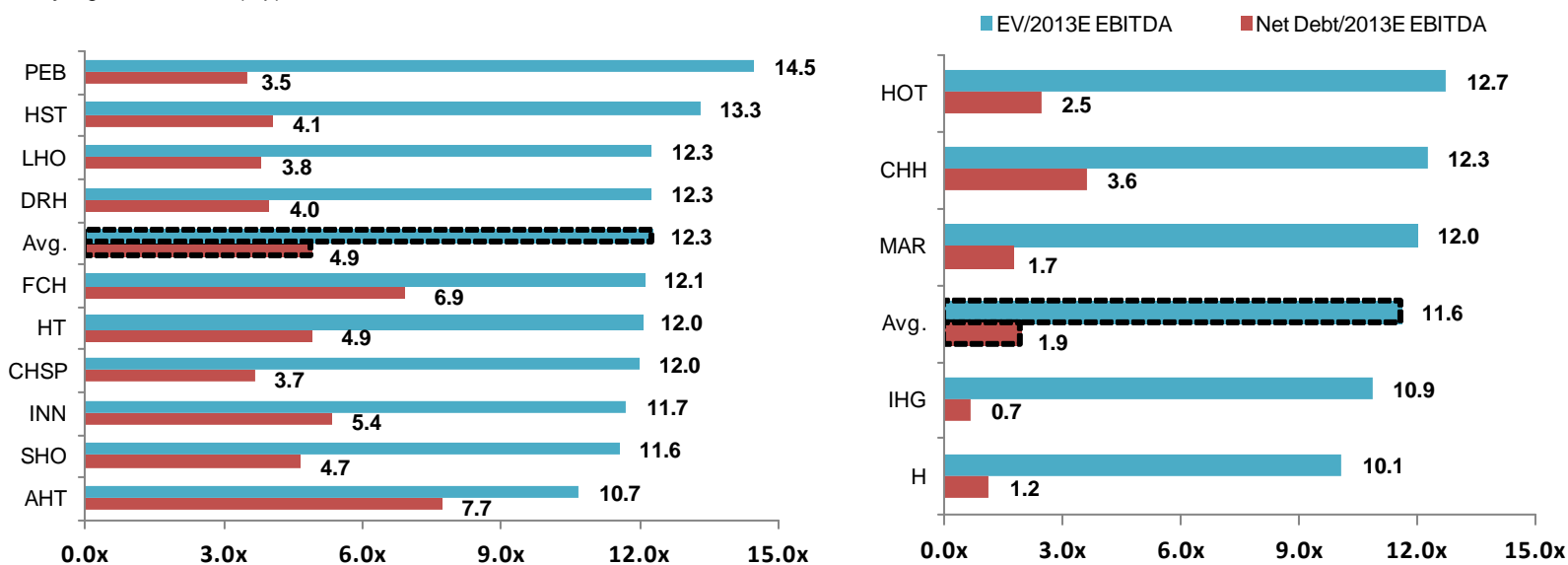
Source: Smith Travel Research

Low-Levered REITs Have Highest Multiples; Brands Relatively Inexpensive

- Investors demand **low-levered balance sheets** with staggered maturities and ample liquidity

Enterprise Value/2013E EBITDA: Leverage Measured by Net Debt/2013E EBITDA

Sorted by highest valuation (top) to lowest, as of 9/27/2012

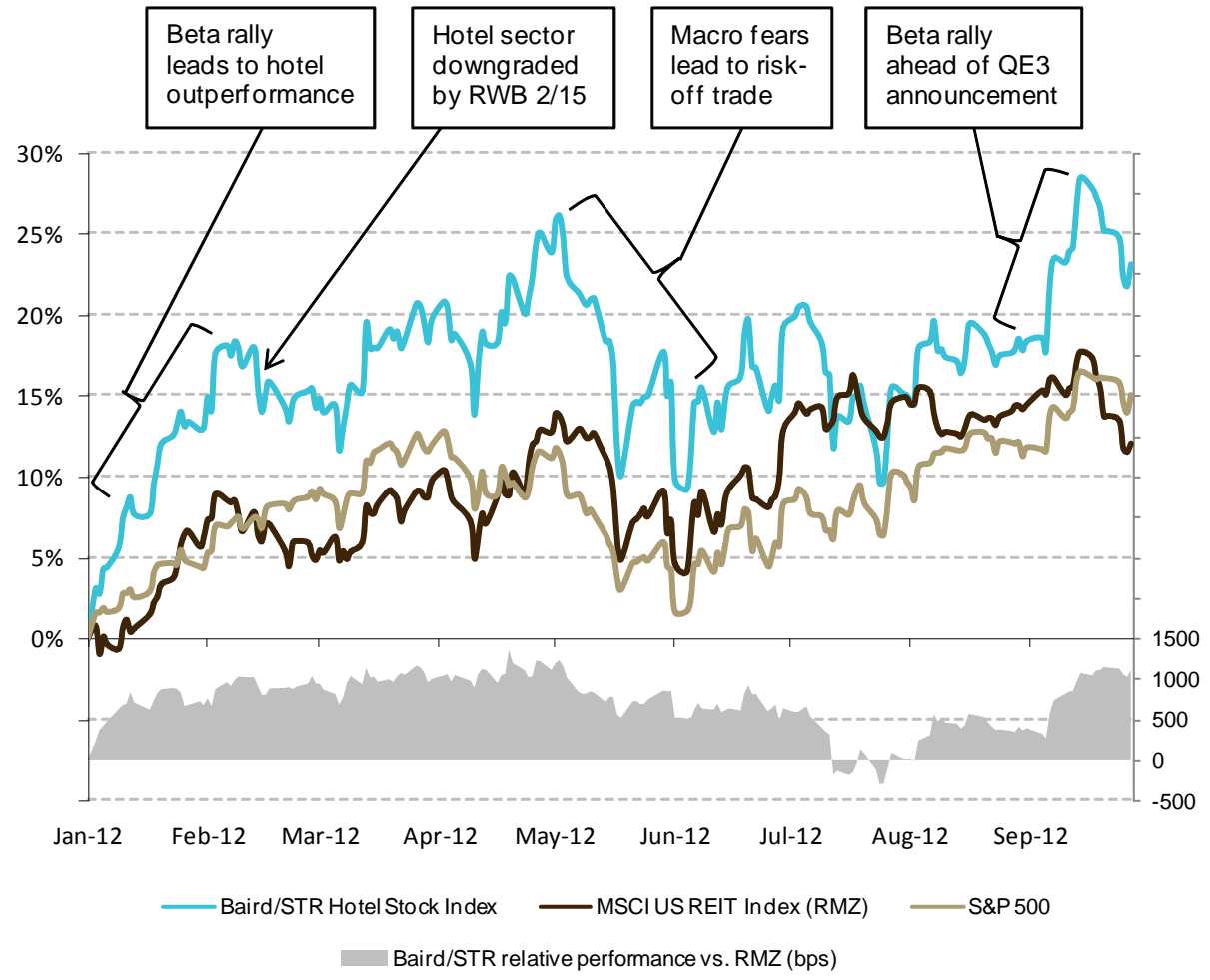


Note: Starwood (HOT) excludes EBITDA from Bal Harbour and non-cash amortization of deferred gains from asset sales

Source: Baird Research

Baird/Smith Travel Hotel Stock Index: YTD Performance

Baird / Smith Travel Research Hotel Stock Index vs. Other Major Stock Indices



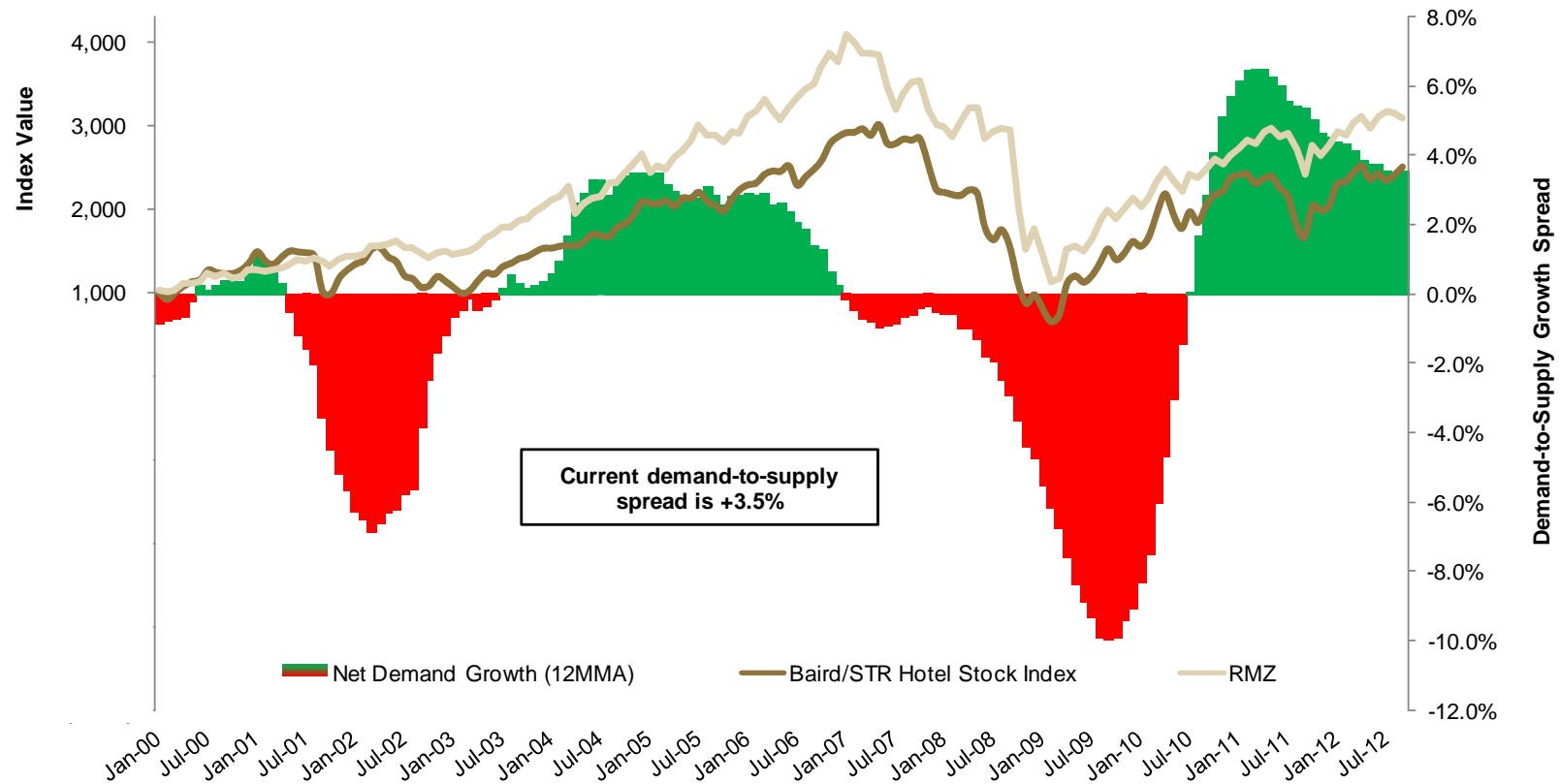
Source: Baird Research, SNL Financial; data through 9/27/2012

The Baird/STR Hotel stock index was created on June 1, 2010, and characterizes stock performance since January 1, 2000. Performance for time periods prior to the creation date is hypothetical. The index is comprised of 15 of the largest domestically available hotel stocks and reviewed quarterly for composition adjustments by Baird equity research. It is not possible to invest directly in the index.

Industry Overview: Fundamentals Strong

Baird/STR Hotel Stock Index vs. Demand-to-Supply Growth

Indices pegged to 1,000 at January 2000

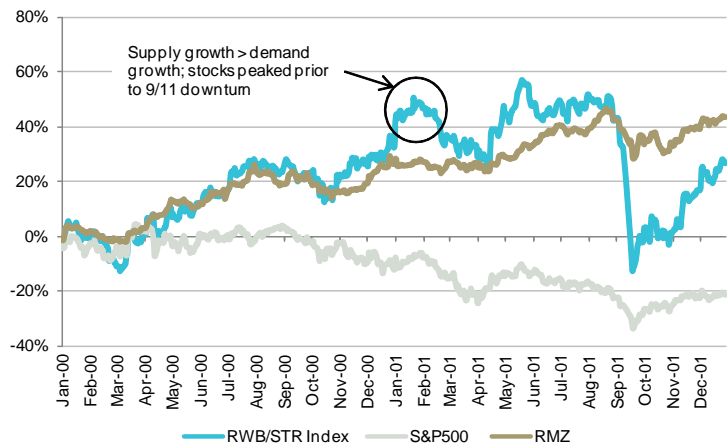


Source: Baird Research, Smith Travel Research

The Baird/STR Hotel stock index was created on June 1, 2010, and characterizes stock performance since January 1, 2000. Performance for time periods prior to the creation date is hypothetical. The index is comprised of 15 of the largest domestically available hotel stocks and reviewed quarterly for composition adjustments by Baird equity research. It is not possible to invest directly in the index. Past performance is no guarantee of future results.

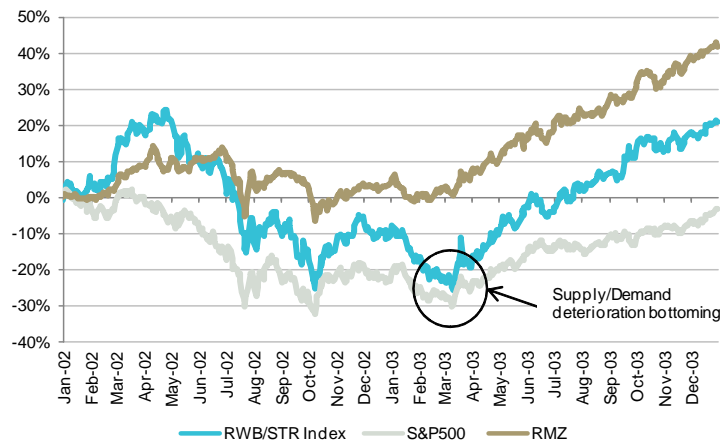
Prior Cycle Inflection Points – In Depth

Baird/STR Hotel Stock Index: 2000 & 2001



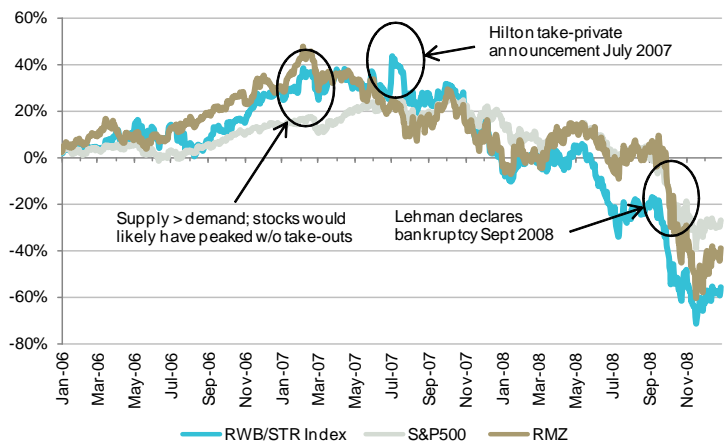
Source: Baird Research

Baird/STR Hotel Stock Index: 2002 - 2003



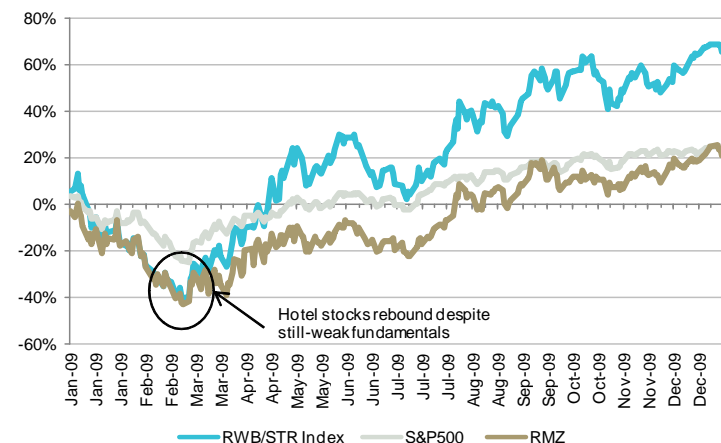
Source: Baird Research

Baird/STR Hotel Stock Index: 2006 - 2008



Source: Baird Research

Baird/STR Hotel Stock Index: 2009



Source: Baird Research

Note: Past performance is no guarantee of future results. The Baird/STR Hotel stock index was created on June 1, 2010, and characterizes stock performance since January 1, 2000. Performance for time periods prior to the creation date is hypothetical. The index is comprised of 15 of the largest domestically available hotel stocks and reviewed quarterly for composition adjustments by Baird equity research. It is not possible to invest directly in the index.



Prior Cycle Signals Preceded Dramatic Stock Performance

Lodging Industry Timeline: Key Sell and Buy Signals

Sell Signals: 12-month moving avg. S/D spread moves negative

Buy Signals: S/D spread moves positive or reverses after prolonged period of accelerating declines (2003) or show signs of flattening rate of decline (2009)

| | <u>Sell Signals</u> | <u>Buy Signals</u> | <u>% G/(L) till next signal</u> |
|--|---------------------|--------------------|---------------------------------|
| Initiation of Baird/STR Index (Jan 2000) | | | 49% |
| May-01 | -0.5% | | -32% |
| Mar-03 | | flattening decline | 185% |
| Jan-07 | -0.1% | | -75% |
| Mar-09 | | flattening decline | 250+% |

TTM Demand/Supply spread currently at 3.5%

% Gain/Loss based on Baird/STR Hotel Stock Index

Source: Smith Travel Research, Baird Research

2001 Sell Signal: 12-month MA moves negative

| <u>Month</u> | <u>Supply</u> | <u>Demand</u> | <u>Spread</u> | <u>Baird/STR Index</u> |
|--------------|---------------|---------------|---------------|------------------------|
| Nov-00 | 0.3% | 0.3% | 0.0% | 3% |
| Dec-00 | 2.1% | 0.7% | -1.4% | 7% |
| Jan-01 | 2.8% | 3.9% | 1.1% | 10% |
| Feb-01 | 2.8% | 3.7% | 0.9% | -8% |
| Mar-01 | 2.8% | 3.4% | 0.6% | -3% |
| Apr-01 | 2.7% | 3.0% | 0.3% | 7% |
| May-01 | 2.7% | 2.2% | -0.5% | 5% |
| Jun-01 | 2.7% | 1.5% | -1.2% | -1% |
| Jul-01 | 2.6% | 1.0% | -1.6% | 0% |
| Aug-01 | 2.6% | 0.6% | -2.0% | -3% |
| Sep-01 | 2.6% | -1.0% | -3.6% | -30% |

Source: Smith Travel Research, Baird Research

2007 Sell Signal: 12-month MA moves negative

| <u>Month</u> | <u>Supply</u> | <u>Demand</u> | <u>Spread</u> | <u>Baird/STR Index</u> |
|--------------|---------------|---------------|---------------|------------------------|
| Aug-06 | -0.2% | 1.7% | 1.8% | 4% |
| Sep-06 | 0.0% | 1.3% | 1.4% | 4% |
| Oct-06 | 0.0% | 1.3% | 1.2% | 4% |
| Nov-06 | 0.1% | 0.8% | 0.6% | 8% |
| Dec-06 | 0.2% | 0.4% | 0.2% | 3% |
| Jan-07 | 0.3% | 0.1% | -0.2% | 2% |
| Feb-07 | 0.4% | -0.1% | -0.5% | 0% |
| Mar-07 | 0.5% | -0.2% | -0.7% | 2% |
| Apr-07 | 0.6% | -0.2% | -0.8% | -3% |
| May-07 | 0.7% | -0.3% | -1.0% | 4% |
| Jun-07 | 0.8% | -0.1% | -0.9% | -8% |

Source: Smith Travel Research, Baird Research

Note: Past performance is no guarantee of future results.

Capital Markets Have Improved Considerably

- **REITs have begun to raise new equity capital** – \$1.43 billion YTD
 - HST, LHO, PEB have used their ATM programs
 - BEE, CHSP, DRH, HT, INN, PEB, SHO have done overnight deals
 - Proceeds generally used to fund acquisitions
- **Debt is widely available for high-quality sponsors** at record-low yields
 - Much cheaper alternative than preferred equity (7.0%-8.0% range)
 - HST, LHO, PEB have secured attractively priced term loans
- **Is this over?**
 - Risks to debt markets (broadly); rates have ticked up a bit lately
 - Stock prices have recovered, which should improve access to equity capital in the months ahead

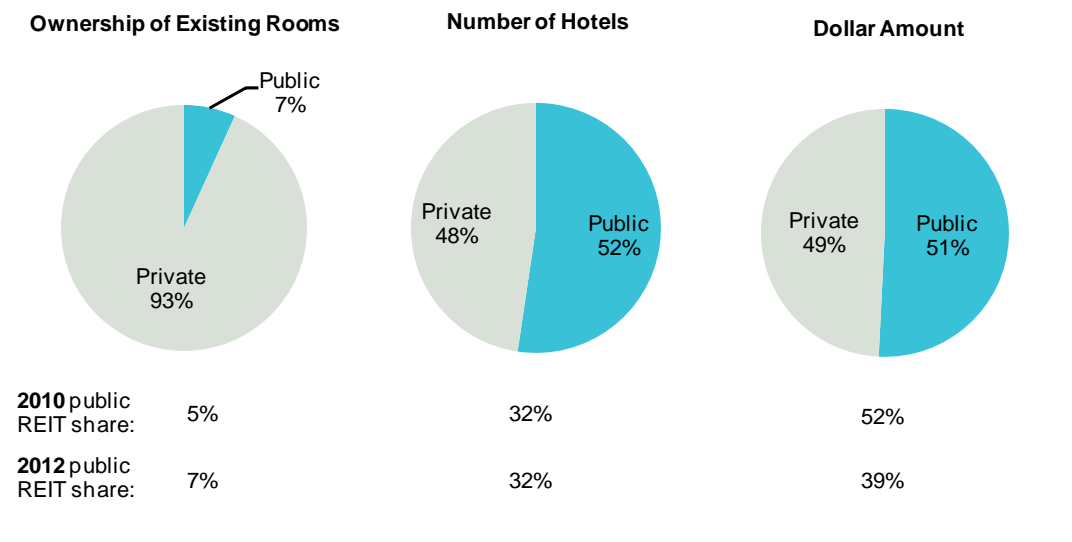
Transaction Market Thawing

- **Deal flow picking up considerably**; still well off 1H11 levels though
- REITs have avoided widely marketed deals; **focus on off-market**, relationship-driven, and stressed deals
- With REIT stock prices recovered, management teams are much more **willing to issue and commit equity capital**
- Looming debt maturities, capital improvement requirements are likely to **force stressed/distressed transactions** in 2H12
- **2012 YTD Statistics – REITs taking a breather (for now):**
 - REITs have accounted for 39% of the deal volume (\$) vs. 51% in 2011
 - REITs only own 7% of the total rooms in the U.S.

Acquisition Activity Totaled \$16.0 Billion in 2011; We Expect Similar Deal Flow in 2012

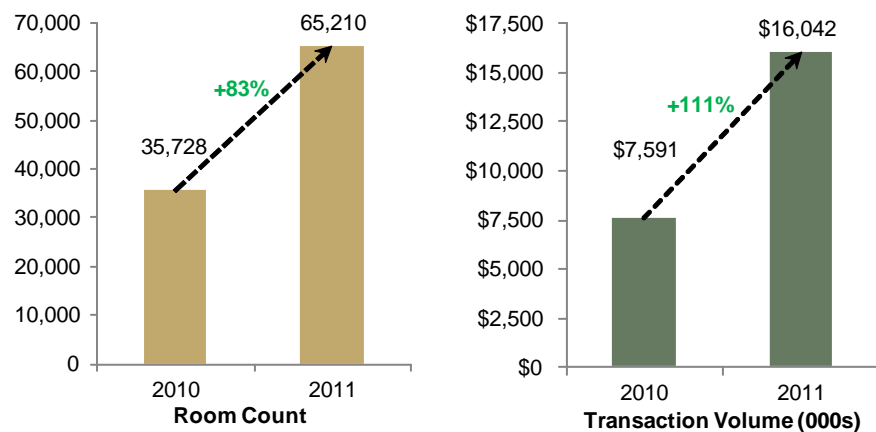


Summary of 2011 Hotel Transactions: \$16.0 billion and 275 hotels identified by Baird Research



Source: Baird Research

Total U.S. Transactions (Public and Private): 2010 vs. 2011

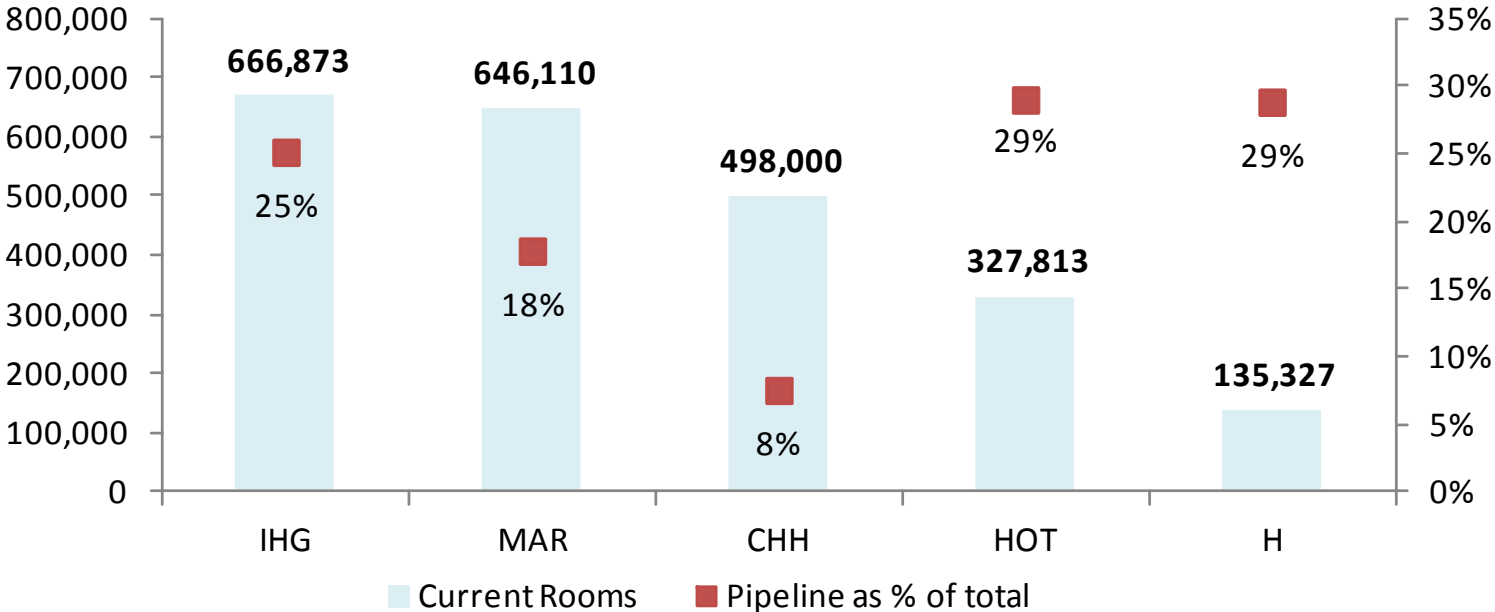


Source: Baird Research

Note: Baird tracks only institutional-quality private transactions; pricing not disclosed for some transactions

Hotel C-Corp Comparisons – System and Pipeline Size

Hotel C-Corps: Current Rooms and Pipeline

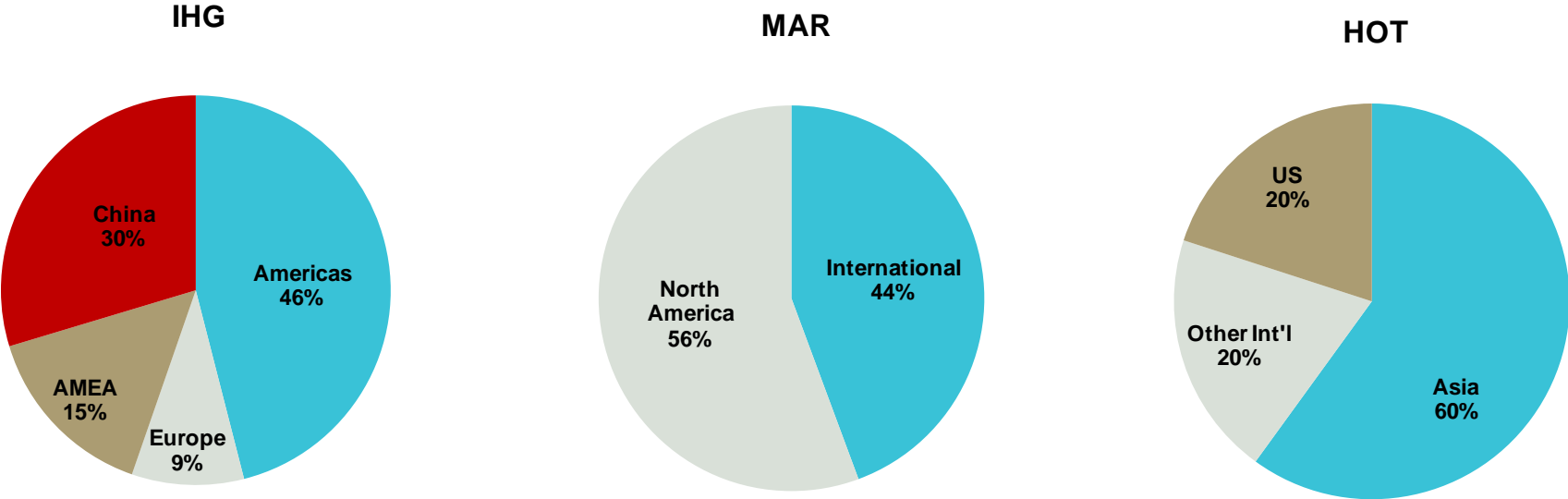


As of 2Q12

Source: Company Documents

Hotel C-Corp Comparisons – Geographic Exposure

Hotel C-Corps: Geographic Pipeline Composition

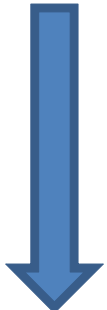


Hyatt does not provide geographic pipeline data for all properties (managed, franchised, owned)

Source: Company documents

Hotel C-Corp Comparisons – Europe Exposure

Hotel C-Corps: Exposure to Europe

| | | <u>Exposure</u> |
|-------------------------------|--|--|
| Starwood (HOT) | 14% of fees, 20% of owned EBITDA; owned hotels in Italy and Spain | Highest |
| InterContinental (IHG) | 14% of profits; half from owned hotels in London and Paris |  |
| Marriott (MAR) | 9% of total fees | |
| Hyatt (H) | 10% of Adjusted EBITDA | |
| | | |

Source: Baird Research, Company Documents

Appendix – Covered Companies Mentioned

| Company | Ticker | Current Price | Rating |
|------------------------------|--------|---------------|------------|
| Ashford Hospitality Trust | AHT | \$ 8.49 | Outperform |
| Chesapeake Lodging Trust | CHSP | \$ 19.83 | Outperform |
| Choice Hotels | CHH | \$ 32.04 | Neutral |
| DiamondRock Hospitality | DRH | \$ 9.75 | Neutral |
| FelCor Lodging Trust | FCH | \$ 4.79 | Neutral |
| Hersha Hospitality Trust | HT | \$ 4.97 | Outperform |
| Hospitality Properties Trust | HPT | \$ 23.70 | Outperform |
| Host Hotels and Resorts | HST | \$ 16.12 | Neutral |
| Hyatt Hotels Corporation | H | \$ 40.49 | Outperform |
| InterContinental Hotels | IHG | \$ 26.46 | Outperform |
| LaSalle Hotel Properties | LHO | \$ 26.74 | Neutral |
| Marcus Corporation | MCS | \$ 11.21 | Outperform |
| Marriott International | MAR | \$ 39.58 | Outperform |
| Pebblebrook Hotel Trust | PEB | \$ 23.69 | Neutral |
| Red Lion Hotels | RLH | \$ 6.30 | Neutral |
| Starwood Hotels & Resorts | HOT | \$ 58.04 | Neutral |
| Summit Hotel Properties | INN | \$ 8.24 | Outperform |
| Sunstone Hotel Investors | SHO | \$ 11.00 | Outperform |
| Supertel Hospitality | SPPR | \$ 1.05 | Neutral |

Note: Prices as of 9/27/12

Source: Baird Research



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