

April '05

Lodging Development Forecast & Trends

A Quarterly Report

- Industry-wide by Chain Scale
- Top 25 Markets
- Leading Hotel Companies

LODGING THE INDUSTRY AUTHORITY
FOR HOTEL REAL ESTATE
Econometrics



Lodging Econometrics' (LE) is pleased to provide you its quarterly report, **Lodging Development Forecast and Trends**: an accurate forecast of Supply Side growth for 2005, 2006, and for 2007 and beyond – Industry-wide by Chain Scale, for the Top 25 Markets, and for the Leading Hotel Companies.

Analysts, Investors, Lodging Executives and Franchise Development Teams can rely on this report as an accurate forecast of the Industry's planned development. This project-by-project empirical buildup is distilled from research gathered directly from hundreds of Lodging Developers by LE's real estate specialists. **The report contains only those projects being actively pursued by Developers.** LE's researchers continuously investigate the progress of each project and remove those that have been postponed, cancelled or are no longer actively pursued. Estimated Start and Completion dates are re-verified with over 60 Contractors and Project Managers so LE can update its Supply Side Forecasts each quarter. **LE's independent research findings are then re-verified with Brand Managers and are synchronized with their internal company reports.**

In This Issue

The Construction Pipeline Increased 11.2% in 1Q05, Lead by an Acceleration in Franchise Sales and a Spike in Casino Projects and Condo Hotels **Page 3**

Increased Franchise Sales Activity Contributes to a Growing Pipeline **Page 3**

LE's Supply Growth Forecast Remains on Track for '05 and '06 **Page 3**

New Project Announcements Accelerate **Page 4**

Development Expanding for Both Casinos and Condo Hotels **Page 4-5**

Planned Construction is Not Yet Significant in the Top 25 Markets **Page 5**

Development by Companies and Brands is Off to a Solid Start in the New Year **Page 5**

Development Forecasts and Trends – Charts/Graphs **Page 6-9**

The Construction Pipeline Increased 11.2% in 1Q05, Lead by an Acceleration in Franchise Sales and a Spike in Casino Projects and Condo Hotels.

In 1Q 05, the New Construction Pipeline increased for the fifth consecutive quarter. Total guestrooms increased by 36,157, or 11.2%, to 322,177 rooms. It's the largest Quarter-over-Quarter (QoQ) increase since the mid-'90's. The total project count

increased by 197 and stood at 2,388 hotels. Although New Project Announcements have started to accelerate, the size of the Construction Pipeline is still distant from the peak set in 3Q 98 at 3,913 hotels/545,849 rooms.

Increased Franchise Sales Activity Contributes to a Growing Pipeline

The biggest factor for the increase in the Construction Pipeline totals in 1Q are the great successes franchise companies are experiencing booking new agreements after redesigning their product lines and gearing up their sales staffs earlier in the decade in preparation for another development cycle. New franchise agreements for their core Upscale, Mid-market and Economy brands are being signed at an accelerated pace. This new momentum should sustain itself for another few years as developers and their lenders in the smaller secondary and tertiary markets are enthusiastically receiving their new product prototypes.

Development activity is strengthening as investor confidence is buoyed by 21 consecutive months of robust operating improvements. The early recovery period for the lodging industry, showing dramatic Year-over-Year (YoY) operating percentage increases, is drawing to a close as we are now entering into what should be a less dramatic but nonetheless solid period of expanding revenues lasting through the end of the decade.

Lodging's early recovery period was truly spectacular. In '04, the demand growth rate, at 4.6%, was the highest since '94, while supply growth, at 1.0%, was the lowest since '93. Occupancy rebounded to 61.3% – the highest level

New franchise agreements for the core Upscale, Midscale and Economy brands are being signed at an accelerated pace.

since 2000. ADR, at \$86.41, was the best ever recorded and RevPAR, at \$52.93, was second only to the peak set in 2000. As a result, developers are much less cautious, and are anxious to secure interest rate commitments and get under construction quickly in order to participate in the upswing. This renewed development momentum will probably not slow down until it's curtailed by much higher interest rates than what we currently foresee for the next two years.

LE's Supply Growth Forecast Remains on Track for '05 and '06

With the Construction Pipeline growing at a more rapid pace, Lodging Econometrics (LE) has made modest adjustments to its earlier forecast for New Supply Growth, adding 1,652 rooms in '05, raising forecasted guestroom openings to 70,251 and 3,978

LE's forecast for supply change remains at an estimated net growth rate of 1.2% in '05 and 1.4% in '06.

rooms to 82,619 for '06. On balance, these near-term increases are minimal as LE's forecast for supply change remains at an estimated net growth rate of 1.2% in '05 and 1.4% in '06, after accounting for anticipated project cancellations and hotel closings. The rise in New Project Announcements will not materially affect supply growth rates until 2007 and beyond, as it takes at least two years for new project announcements to flow through to completion; even longer as the projects increase in size. It's this moderate Supply Growth that well sets the stage for the industry's profitability expansion through the end of the decade.

New Project Announcements Accelerate

In 1Q, 445 new hotel projects with 63,005 rooms were announced into the Construction Pipeline. It's the largest number of new projects announced in 16 quarters. Midscale w/o F&B had the most announcements with 126 projects/10,517 rooms. 63 projects/7,746 rooms were announced in the Upscale segment, followed by nearly identical project counts in Midscale with F&B with 60 projects/4,810 rooms, and Economy with 60 projects/4,709 rooms. 12 new casino projects having 13,771 rooms entered the Pipeline. It's the highest room count for any Chain Scale.

Of the 110 Independent hotels/17,554 rooms announced in 1Q, only about 5,000 will actually open as Independents as the remainder are expected to become branded in various chain scales prior to opening.

Only four new Luxury and 10 Upper Upscale projects were announced in 1Q. There are now a total of 24 Luxury hotels in the Pipeline. Interestingly, 21 of them have a planned residential or condominium component.

Development Expanding for Both Casinos and Condo Hotels

Of the 36,157 room increase in the Construction Pipeline in 1Q, 12,965 rooms, or 37% of the increase came from casino hotels. Today, there are a total of 46 casino hotels/37,409 rooms in the Pipeline: 16 of the projects having 24,778 rooms are located in Las Vegas and average 1,548 rooms per project. 30 hotels/12,631 rooms are in other gaming jurisdictions, of which 12 hotels/3,866 rooms are Native American projects.

With 35 hotels/28,935 rooms, Las Vegas has by far the largest Pipeline of any city. The market is so active that it's non-casino Pipeline alone would rank 11th largest in the country.

Another reason for the spike in the Construction Pipeline is the rising popularity of "Condo Hotels," hotel projects with residential units or those hotels whose guestroom units will be sold to individual investors as investments; some of which will remain in the guestroom rental pool. As of 1Q, there were a total of 119 condo hotels/34,918 guestrooms in the Pipeline.

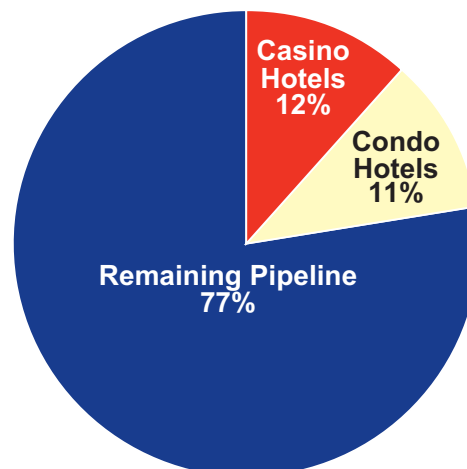
Seventy-six of the projects are located in urban areas having 14,286 rooms. Where apartment rental and condominium prices have soared, and there's a desire to reside in center city, living in a residence with traditional hotel services has considerable appeal.

The second "Condo Hotel" category is the traditional resort hotel where the condominium or timeshare unit is usually sold as a vacation experience, rather than as a primary residence. At the end of 1Q, there were 43 resort condo hotels/20,632 rooms in the New Construction Pipeline.

Hotel developments that include residential components are attractive to both developers and lenders. Front-end sales proceeds reduce the risk for the lender while providing an investment hedge for the developer, in case the lodging upturn can't completely provide for his hoped-for investment returns.

On balance, Casino Hotels and Condo Hotels enter the Pipeline in the Early Planning stage and will have day of announcement to day of opening timelines in excess of three years. Many Upscale, Midscale and Economy projects are entering the Pipeline in the "Start in the Next 12 Months" stage and will have timelines between two and three years outward.

Combined, Room Counts for Casino and Condo Hotels make up nearly 1/4 of the total New Construction Pipeline.



Planned Construction Is Not Yet Significant in the Top 25 Markets

In the Top 25 Markets, the total Construction Pipeline grew by just 21 projects/4,365 rooms. The room count represented 14% of total Pipeline growth and is not significant. New Openings bottomed in '04 at 125 hotels/16,352 rooms. '05 is forecasted to be substantially the same.

Operationally, the variance of the demand growth rate over the supply growth rate in these markets is running an impressive two-to-one over the balance of the industry. It's a very strong variance and should remain so well into the expansion phase of the economic cycle. It's all solid evidence and a reconfirmation that since supply growth will not be a concern for at least three years or more that this cluster of markets will continue to positively leverage and drive industry profitability.

Of the six markets with over 5,000 rooms in the Construction Pipeline, Los Angeles, New York, Orlando, San Diego, and Washington, DC are all recovering nicely, showing strong operational gains and should not experience a future absorption problem. Only Dallas may have difficulty as it had the lowest RevPAR of any of the Top 25 Markets in '04.

LE's earlier forecast that Los Angeles, Orlando, Philadelphia, Phoenix, St. Louis, and Washington, DC will recover to their pre-9/11 operating levels in '05 and that Nashville, New York, and Seattle, would reach their prior levels in '06, remains on-track.

The room count in the Top 25 Markets represents just 14% of total QoQ Pipeline growth.

These markets join Anaheim, Miami, Norfolk, Oahu, San Diego and Tampa, which have already fully recovered.

In 2006, industry wide profitability is expected to set a new record. Yet, by then, LE estimates that 10 of the Top 25 Markets will still not have returned to pre-9/11 operating levels. It's another indicator for strong industry-wide profitability throughout the expansionary phase and well into the back end of the decade.

Development by Companies and Brands Is Off to a Solid Start in the New Year

When adding New Construction and Reflagging activity together, Marriott has the largest Development Pipeline with 373 projects/55,663 rooms. Hilton follows with 415 projects/51,449 rooms, and InterContinental with 469 projects/45,938 rooms.

Practically all franchise companies produced solid net gains to their Pipeline totals in 1Q with New Construction Announcements for their core brands in excess of New Openings and project cancellations.

Practically all franchise companies produced solid net gains to their Pipeline totals in 1Q

Marriott announced 43 New Development projects in 1Q, and had 21 new openings. Hilton announced 52 new projects and had 36 New Openings.

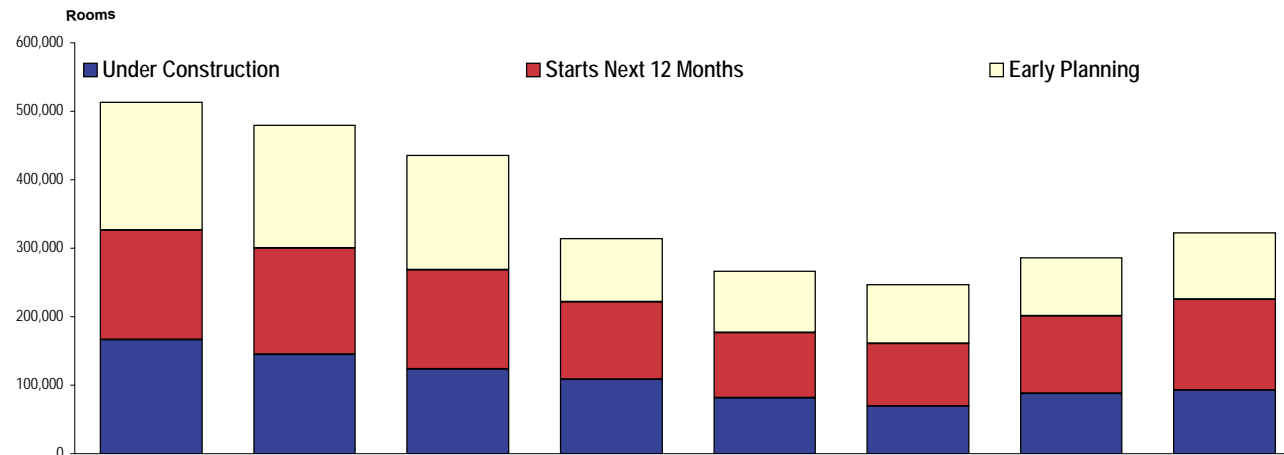
The most impressive variance belongs to InterContinental on the strength of Holiday Inn

Express, the fastest-growing brand in the country, and their resurgent Staybridge, Candlewood and Holiday Inn franchising activity. As a company, InterContinental recorded 99 New Project Announcements with 9,912 rooms against 27 New Openings.

InterContinental's activity, combined with other Mid-market increases recorded by Best Western, Choice, La Quinta and USFS, provide ample evidence that small town developers, particularly those building lodging facilities for the first time, are easily accessing local lending contacts and that both they and their lenders are well satisfied with these "hometown" prototypes that are "right-sized" for secondary and tertiary markets. They have nationally known brand names, are easy to operate and can be smoothly assimilated into a local businessperson's portfolio of investment activities.

Lodging operations are no longer viewed as complex or sophisticated to the first-time owner/operator.

At 1st Quarter 2005



	1998	1999	2000	2001	2002	2003	2004	1Q 2005
Under Construction								
Rooms	166,377	144,419	123,143	108,539	81,623	69,102	88,205	92,553
Hotels	1,388	1,036	864	759	570	521	671	708
Starts Next 12 Months								
Rooms	159,534	155,560	145,079	113,417	95,203	91,948	112,479	133,051
Hotels	1,105	1,035	1,058	902	708	767	955	1,070
Early Planning								
Rooms	187,207	179,867	167,749	92,229	89,886	85,845	85,336	96,573
Hotels	939	1,269	1,269	667	641	615	565	610
Total Construction Pipeline								
Rooms	513,118	479,846	435,971	314,185	266,712	246,895	286,020	322,177
Hotels	3,432	3,340	3,191	2,328	1,919	1,903	2,191	2,388

	1998	1999	2000	2001	2002	2003	2004	1Q 2005
New Openings								
Rooms	156,194	153,337	128,288	111,344	87,281	73,370	58,062	13,279
Hotels	1,517	1,402	1,261	1,055	763	604	553	121

Statistics in this chart represent the projects in the New Construction Pipeline at the end of each calendar year.
Individual project records are available for any line item iteration. For more information, please contact Bruce Ford, Sr. Vice President of Sales & Marketing, Lodging Econometrics, (603) 431-8740, ext. 18, or e-mail bford@lodging-econometrics.com.
PLEASE NOTE: The enclosed research information is intellectual property, is copyrighted and remains the property of Lodging Econometrics with all rights reserved. The nature of our relationship is that of a site licensee with specific rights granted for the subscribing client. Specifically, there are no republication rights granted, nor can the research be duplicated or transmitted electronically outside the organization nor can it be shared with or disclosed to other companies or other parties without the expressed written consent of Lodging Econometrics.
© Lodging Econometrics, Inc., the Industry Authority for hotel real estate, Portsmouth, NH 03801-3481 (603) 431-8740, ext. 25.

At 1st Quarter 2005

PROJECTED GROWTH RATES BY COMPANY — 2005 - 2007 ^{1,2}

	1Q 2005 ACTUAL					2Q-4Q 2005 FORECAST					2005 TOTAL					2006					2007 & BEYOND												
	Reflaggings	New Construction	Total	Growth Rate		Reflaggings	New Construction	Total	Growth Rate		Reflaggings	New Construction	Total	Growth Rate		Reflaggings	New Construction	Total	Growth Rate		Reflaggings	New Construction	Total	Growth Rate									
Marriott International	8	1,312	13	2,635	21	3,947	19	4,589	82	9,624	101	14,213	27	5,901	95	12,259	122	18,160	4.8%	18	3,598	75	9,347	93	12,945	3.3%	1	295	178	28,210	179	28,505	7.0%
Hilton Hotels	7	2,498	29	3,872	36	6,370	17	3,921	122	13,099	139	17,020	24	6,419	151	16,971	175	23,390	6.7%	7	1,834	180	19,732	187	21,566	5.8%	0	0	89	12,863	89	12,863	3.3%
InterContinental Hotels	12	1,597	15	1,220	27	2,817	26	3,873	101	8,922	127	12,795	38	5,470	116	10,142	154	15,612	4.4%	10	1,454	177	15,925	187	17,379	4.7%	0	0	155	15,764	155	15,764	4.1%
Starwood Hotels & Resorts	3	827	0	0	3	827	11	2,665	8	1,307	19	3,972	14	3,492	8	1,307	22	4,799	3.8%	4	1,331	5	1,828	9	3,159	2.4%	0	0	36	10,023	36	10,023	7.5%
Best Western	10	808	11	726	21	1,534	18	1,838	26	1,439	44	3,277	28	2,646	37	2,165	65	4,811	2.5%	17	1,693	36	2,022	53	3,715	1.9%	0	0	40	2,703	40	2,703	1.3%
Carlson Hospitality	0	0	7	710	7	710	4	721	18	1,502	22	2,223	4	721	25	2,212	29	2,933	3.4%	1	62	4	294	5	356	0.4%	1	261	18	2,069	19	2,330	2.6%
Cendant Corp.	21	1,776	8	445	29	2,221	64	5,323	42	3,432	106	8,755	85	7,099	50	3,877	135	10,976	2.1%	16	1,829	78	6,709	94	8,538	1.6%	1	249	118	11,627	119	11,876	2.2%
US Franchise Systems	2	206	3	191	5	397	5	410	29	1,969	34	2,379	7	616	32	2,160	39	2,776	5.0%	0	0	35	2,593	35	2,593	4.5%	0	0	61	4,362	61	4,362	7.2%
ACCOR	0	0	2	115	2	115	3	275	2	166	5	441	3	275	4	281	7	556	0.4%	0	0	1	75	1	75	0.1%	0	0	2	109	2	109	0.1%

TOTAL DEVELOPMENT PIPELINE — AT 1Q 2005 ⁴

	Under Construction					Start Next 12 Months					Early Planning					Total Pipeline					New Project Announcements, 1Q 05									
	Reflaggings	New Constr.	Total	Growth Rate		Reflaggings	New Constr.	Total	Growth Rate		Reflaggings	New Constr.	Total	Growth Rate		Reflaggings	New Constr.	Pipeline	Growth Rate		Reflaggings	New Constr.	Total	Growth Rate						
Marriott International	19	4,677	107	15,207	126	19,884	8	1,321	160	19,517	168	20,838	11	2,484	68	12,457	79	14,941	38	8,482	335	47,181	373	55,663	10	2,587	33	4,774	43	7,361
Hilton Hotels	19	4,517	164	19,836	183	24,353	4	1,142	212	23,406	216	24,548	1	96	15	2,452	16	2,548	24	5,755	391	45,694	415	51,449	10	2,666	42	4,867	52	7,533
InterContinental Hotels	23	3,723	125	11,848	148	15,571	10	1,350	235	22,229	245	23,579	3	254	73	6,534	76	6,788	36	5,327	433	40,611	469	45,938	11	1,857	88	8,055	99	9,912
Starwood Hotels & Resorts	9	2,265	13	3,135	22	5,400	3	841	21	5,636	24	6,477	3	890	15	4,387	18	5,277	15	3,996	49	13,158	64	17,154	1	222	8	1,847	9	2,069
Best Western	17	1,658	39	2,236	56	3,894	5	510	25	1,531	30	2,041	13	1,363	38	2,397	51	3,760	35	3,531	102	6,164	137	9,695	12	923	31	1,877	43	2,800
Carlson Hospitality	3	484	20	1,694	23	2,178	2	498	10	1,136	12	1,634	1	62	10	1,035	11	1,097	6	1,044	40	3,865	46	4,909	4	743	0	0	4	743
Cendant Corp.	58	5,072	43	3,562	101	8,634	12	915	94	8,447	106	9,362	11	1,414	101	9,759	112	11,173	81	7,401	238	21,768	319	29,169	36	3,059	48	4,639	84	7,698
US Franchise Systems	1	65	20	1,375	21	1,440	4	345	51	3,831	55	4,176	0	0	54	3,718	54	3,718	5	410	125	8,924	130	9,334	4	345	41	2,931	45	3,276
ACCOR	3	275	1	75	4	350	0	0	2	166	2	166	0	0	2	109	2	109	3	275	5	350	8	625	0	0	0	0	0	0

PRIOR GROWTH RATES BY COMPANY — 2002 - 2004

	2002					2003					2004					New Openings, 1Q 05					CURRENT SUPPLY								
	Reflaggings	New Construction	Total	Growth Rate		Reflaggings	New Construction	Total	Growth Rate		Reflaggings	New Construction	Total	Growth Rate		Reflaggings	New Construction	Total	Growth Rate										
Marriott International	27	4,849	119	17,660	146	22,509	7.1%	23	4,660	89	14,584	112	19,244	5.6%	26	5,062	79	10,033	105	15,095	4.2%	8	1,312	13	2,635	21	3,947	2,239	379,504
Hilton Hotels	23	4,402	115	12,853	138	17,255	5.7%	19	3,373	85	10,752	104	14,125	4.4%	13	3,595	109	11,682	122	15,277	4.6%	7	2,498	29	3,872	36	6,370	2,219	356,521
InterContinental Hotels	31	4,915	96	9,338	127	14,253	4.5%	35	4,342	78	6,858	113	11,200	3.4%	42	6,898	82	7,361	124	14,259	4.2%	12	1,597	15	1,220	27	2,817	2,659	358,000
Starwood Hotels & Resorts	5	1,235	9	4,211	14	5,446	4.7%	1	407	4	2,024	5	2,431	2.0%	8	2,599	2	282	10	2,881	2.3%	3	827	0	0	3	827	372	126,521
Best Western	51	4,883	37	2,196	88	7,079	4.0%	34	3,004	31	1,826	65	4,830	2.6%	39	4,084	25	1,556	64	5,640	3.0%	10	808	11	726	21	1,534	2,284	196,425
Carlson Hospitality	15	2,716	20	1,807	35	4,523	6.3%	11	1,836	28	2,742	39	4,578	6.0%	11	2,615	17	1,323	28	3,938	4.8%	0	0	7	710	7	710	620	85,858
Cendant Corp.	206	19,202	64	4,514	270	23,716	5.0%	140	13,331	65	4,412	205	17,743	3.6%	140	13,013	40	2,255	180	15,268	3.0%	21	1,776	8	445	29	2,221	6,470	534,792
US Franchise Systems	9	762	43	3,307	52	4,069	8.4%	4	370	13	842	17	1,212	2.3%	7	489	16	994	23	1,483	2.7%	2	206	3	191	5	397	633	55,879
ACCOR	12	1,108	10	1,506	22	2,614	2.1%	27	2,502	12	884	39	3,386	2.6%	21	1,672	9	683	30	2,355	1.8%	0	0	2	115	2	115	1,232	133,639

¹ Projected Company Growth Rates are not a forecast of all New Openings in the years ahead. It is only an estimate of the likely flow of completed projects from the existing known New Construction Pipeline and from Announced Reflaggings based on Developers' present estimates of their projected timetable and does not account for project delays that frequently occur, projects that may be cancelled or new project announcements that enter the pipeline and subsequently come to fruition. The Growth Rates do not account for the removal of closed hotels from the inventory.

² The above growth rates are gross rates and are calculated prior to the removal of closed hotels from the current supply.

³ Reflaggings have shorter timelines than New Construction projects, which often run 6-18 months start to finish. Brand Growth - projects, guestrooms and internal growth rates - for 06 and 07 are expected to increase further as additional Reflaggings will be to be announced and completed in those years.

⁴ Statistics in this chart represent the projects in the New Construction and Announced Reflaggings Pipeline as of March 31, 2005. Caution should be used when forecasting the number of projects that will actually come to fruition. Based on historical experience, the attrition rate for projects Scheduled to Start Next 12 Months can be up to 25% and the attrition rate for projects in Early Planning can be up to 60%. As successful projects move forward, the number of planned rooms frequently decreases. During difficult financing periods, time lines can lengthen, too.

Company and Brand project records are available for any line item iteration. For more information, please contact Bruce Ford, Sr. Vice President of Sales & Marketing, Lodging Econometrics, (603) 431-8740, ext. 18, or e-mail bford@lodging-econometrics.com. research duplicated or transmitted electronically outside the organization nor can it be shared with or disclosed to other companies or other parties without the expressed written consent of Lodging Econometrics.

© Lodging Econometrics, Inc., the Industry Authority for hotel real estate, Portsmouth, NH 03801-3481 (603) 431-8740, ext. 25.



To learn more about LE's other products and services including:

- Development Pipeline Reports for Individual Markets in the U.S. and Canada, with a Supply Side Forecast and Trends Report
- Development Growth Projections for the Leading Brands and Companies
- Supply Side Forecast and Trends Reports for Strategic Planning: for any of the 50 States, 197 Markets, or 593 Market Tracts that comprise your portfolio
- Individual Sales Comps Records with a Sales and Pricing Trends Report by Brand, Hotel Size, and Region

**Please contact Bruce Ford at
(603) 431-8740, ext. 18,
or by E-mail at
bford@lodging-econometrics.com.**