

Research Articles

HOTEL INVESTMENT

CHALLENGING TIMES

Over the last few years, private equity firms have been among the most active investors in the hospitality industry. Their ability to close highly leveraged transactions has allowed them to pursue aggressive acquisition strategies and realise significant returns on investment. During this time, specialised funds capable of creating additional value through active asset management and sophisticated operating contracts have been raised. However, the credit crunch and the enormous economic and financial dislocations of recent months have brought up a number of questions about what the future holds for hotel investment in general and for private equity investors in particular.

The current investment climate is characterised by a great deal of uncertainty. While there is consensus on a few issues - including increasing difficulty in getting hold of debt financing, declining property valuations and a tougher environment for new fundraising - hotel investment prospects remain challenging and open-ended. Private equity firms have effectively been dethroned by the crisis. Instead, more traditional investor types have assertively entered the sector. Over the last few months, several groups from Asia and the Middle East in particular have notably come onto the scene as prolific investors. Although it still remains to be seen whether the above is a mere temporary effect, time seems to be telling us that a deep structural industry change is underway.

This piece provides an explanation of the forces that have shaped the current investment climate in the recent past as well as an insight into what to expect down the road.

Cristina Badenes

T: +34 93 484 15 00

E: cbadenes@meridiacapital.com

Executive summary

This article explains recent and future trends in hotel investment, focussing on private equity

This article intends to provide an overview of current major trends in hotel investment. Our focus is on private equity investors, but the role of private equity within the industry can only be understood if we look at all major players. We have spoken to the hotel investment professionals listed below to get their views on the present and their expectations for the future. Within this article we refer to both specific comments but also to general patterns in their views. In Appendix 1 we offer greater detail, providing a summary table of our conversation transcripts with all of them.

Table 1: Hotel investors consulted by Meridia Capital

Company	Name	Title
Cedar Capital Partners	Ramsey Mankarious	Chief Executive Officer
H Partners	Fouad Chraibi	Chairman
Invesco	Jochen Schaefer-Suren	Head of Hotels / Leisure Fund Mgmt
JER Partners	Marc de Chassey	Director
Palm Capital	Reda Khatim	Partner
Patron Capital	Josh Wyatt	Director of Hospitality and Leisure
Realstar International	Ryan Prince	Vice Chairman
US Hospitality REIT	Anonymous	-----

Source: Meridia Capital.

Note: Names sorted by alphabetical order.

Increased sector transparency and other reasons led to unprecedented trading volumes...

We begin our analysis with a quick review of the industry's unprecedented transaction activity of the last few years. The enormous increase in trading volume was due to several reasons. Although these are not intended to be the subject of our study in this report, we do believe they well deserve a mention. Some include a buoyant economic climate, unparalleled high levels of liquidity, higher dissemination of industry information (which increased transparency and predictability for potential investors), a strong trading environment or a lack of investment alternatives in other sectors. For operators, this provoked a massive sell-off of real estate and allowed for a more efficient approach to their core business. Private equity firms were the dominant acquisitive player in the sector during this trading boom, snapping up hotel real estate and publicly traded operating companies.

...although the credit crunch brought that to an end

Yet the onset of the credit crunch 18 months ago marked the beginning of a new phase for the industry. The economic crisis has put sliding pressure on buyers' expectations regarding value, but sellers have yet to accept an adequate downward pricing adjustment. The market has therefore become increasingly illiquid, with fewer deals getting done.

The crisis has changed investors' profile

In addition, with financing becoming both more expensive and less accessible we have witnessed a significant change in investors' profiles. Private equity is losing ground to more traditional investor classes, although specialised funds are expected to weather the storm.

Furthermore, we have observed a significant activity increase on the part of Middle Eastern and Asian investors, less dependent on third-party debt.

Investors have been forced to undergo a few changes

Given that the credit crunch and an ensuing economic debacle affected financing, liquidity and fundraising, our next line of inquiry was investors' strategy. How has the crisis affected this? We found that although most firms remain committed to their pre-crisis strategy, many have had to make tactical changes to adapt to the new environment. While many private equity firms previously depended on ambitious acquisitions, firms are now more focused on creating value through asset management.

Hotel investors believe that there will soon be more investment opportunities

We also ask, "Are there really more buying opportunities out there now"? Most of the professionals who contributed their views to this article agree that while opportunities do not presently abound, they will emerge over the coming months. Additionally, although views vary in terms of magnitude, consensus shows hotel cap rates on the rise in the short to medium term.

Fundraising more challenging

The environment for fundraising has also gotten tougher under current market conditions. Some hospitality-specific funds have been raised since the onset of the crisis. Nonetheless, the majority of investors think that fundraising will be difficult for players who are not highly specialised and who do not have a proven track record.

Background

The past

Industry transparency was key to the investment boom

The unprecedented volume of transaction activity in the hospitality industry since the early 2000's was the result of a variety of factors, especially a more thorough understanding of the intricacies of the industry itself. The increase in transparency brought both owners/operators and potential investors to the negotiating table.

Operating companies adopted an asset-light strategy

Operating companies sought a strategic separation of ownership and management. By selling off their real estate, hotel operating companies sought to improve efficiency. Monetisation of real estate would allow for capital reallocation and a greater focus on these companies' core competency: hotel management. This major shift in strategy translated into a huge number of hotel assets being put up for sale.

Investor confidence increased in the context of cheap debt

The above coupled with increasingly attractive returns made of hotels an accepted asset class for the investment community. Analysts were confident that the industry was better understood. In a market flooded with liquidity, hotels started to become an interesting alternative to other more competitive and mature real estate segments.

Between 2002 and 2007 private equity emerged as the main acquisitive player

In the five years between 2002 and 2007 - in the context of relatively cheap and highly accessible financing - private equity firms emerged as an extremely powerful player in the industry. Their ability to gear up to very high levels increased their competitiveness and gradually cornered other investor types. In this respect, there were two very distinguished types of hotel investment activities:

Private equity firms bought hotel real estate

- **Acquisitions of hotel real estate assets:** the transformation of the ownership model prompted the sale of hotel real estate by operating companies. Furthermore, some publicly quoted hotel groups partly used disposal proceeds to finance share buybacks. Significant early transactions that demonstrate these trends most clearly include the divestiture by Intercontinental Hotel Group of 175 hotels for US\$5.2billion between 2003 and 2006. According to Jones Lang LaSalle Hotels, Intercontinental Hotel Groups secured management contracts for 88% of the hotels that it sold.

Public hotel companies were also common targets for private equity acquisitions

- **Privatisation of public hotel companies:** a variety of factors combined to contribute to the high volume of acquisitions of public hotel companies in recent years. The change in ownership structure described above is one, as it made many publicly traded operating companies appear more digestible to investors. Other factors include limits on public company leverage (as in the case of REITs under some jurisdictions), public company shares trading at a discount to net asset value or high regulatory costs for public companies, to name a few. The Blackstone Group's 2007 acquisition of Hilton Hotels Corporation for US\$26billion was notably the highest value transaction in the sector.

Table 2: Selected public-to-private hospitality-firm transactions

Date	Public Company Target	Private Company Acquirer	Price (US\$bn)
2007	Hilton Hotels	The Blackstone Group	26.0
2007	Harrah's	Apollo & Texas Pacific	17.1
2007	Crescent Real Estate Equities	Morgan Stanley Real Estate	6.5
2007	Highland Hospitality Corp.	JER Partners	2.0
2007	Innkeepers USA Trust	Apollo	1.5
2007	CNL Hotels & Resorts	Morgan Stanley Real Estate	6.6
2006	Four Seasons Hotels	Kingdom & Cascade & Triple	3.4
2006	Intrawest Corporation	Fortress	2.8
2006	Kerzner International	Investor Group	3.8
2006	Meristar Hospitality Corp.	The Blackstone Group	2.6
2006	Fairmont Hotels & Resorts	Kingdom & Colony Capital	3.9
2005	La Quinta Corporation	The Blackstone Group	3.4
2005	Raffles	Colony Capital	1.0
2005	Wyndham International	The Blackstone Group	3.2
2004	Boca Resorts	The Blackstone Group	1.1
2004	Extended Stay America	The Blackstone Group	2.0

Source: Report by John B. Corgel "Private Equity Investment in Public Hotel Companies"; Bear Stearns and PKF Hospitality Research.

Notes: Prices may not reflect assumption of debt. Technically, CNL Hotels & Resorts was not a public company but as an unlisted REIT it followed all SEC reporting requirements.

The present

The credit crunch changed the landscape

And then? Then the credit crunch arrived. As it has been the case in many other industries, the last 18 months have changed the sector's investment climate.

Fewer deals getting done

Scarce and more expensive debt financing provoked a major slowdown in hotel investment activity. According to Jones Lang LaSalle Hotels, investment activity in the sector during the first half of 2008 decreased by a staggering 76% (-81% in the US, -65% in Asia Pacific and -62% in the EMEA region). It is interesting to see as well that around 84% of all hotel transactions globally have been below US\$100M threshold.

Private equity is hit hardest

Private equity firms were the players that felt the impact the most given that their ability to reach very high leverage ratios had come to an end. The following section focuses on some of the most relevant investors globally and the new sector dynamics.

Change in investors' profile

Hotel investors

Appendix 2 provides an overview of some of the major players in hotel investment

Investment in the hotel sector has been carried out by a wide variety of investor types. We have published a table entitled "Selected hotel investors" in Appendix 2 to give an idea of some of the major players in hotel investment globally. The table includes 46 major players in the industry, providing information on the location of the investors' headquarters, investor type, strategy, investment value, and significant deals. In the case of funds, the table provides both the fund size and the close date. The list is by no means exhaustive – it simply attempts to provide the reader with a starting point for understanding who some of the industry's key investors are.

Specialised funds can capitalise on expertise

Specialisation, a plus

As a trend developed over the last few years, we could perhaps highlight the emergence of several specialised hotel funds. Some would argue that specialised players might overpay when compared to generalist funds pushed by a need to invest in one specific sector. Others, on the contrary, would provide a counterargument saying that niche funds are more highly regarded due to their expertise in one area and their more thorough understanding of key sector dynamics.

Some specialised funds believed that the market was overheated

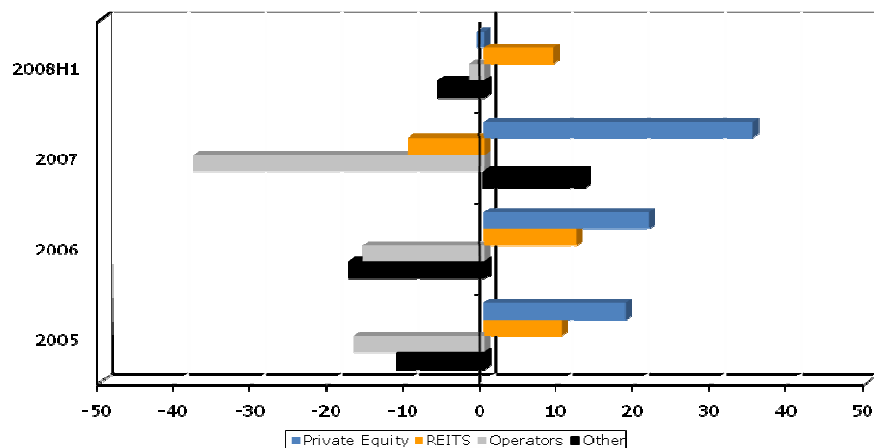
Sector players like Realstar, Cedar Capital Partners or Meridia Capital, to name a few, adopted a prudent approach in what refers to their acquisition strategy. Over the last couple of years they were rather reluctant to heavily invest in what they considered an overheated hotel market. **Ramsey Mankarious, Chief Executive Officer at Cedar Capital Partners**, says "Our strategy post credit crunch has not changed in the sense that we still look to buy underperforming or undermanaged assets and improve them; however, we have not acquired any assets over the last year and a half: everything was simply too expensive; more opportunities may come up now, especially in distressed deals".

Private equity has gone from being the dominant net buyer in 2007 to net seller in H1 08

Private equity loses favour

As a result of the turmoil in the world's financial markets, the hotel industry has seen new buyer types emerge. Private equity investors invested record amounts of funds in single assets in Europe in 2005. Their activity dropped slightly in 2006 but was again on the rise in 2007. However, during H1 2008 they went from being net buyers to net sellers in the sector, whilst REITs took the dominant buying position (quite surprising given the trough multiples that they are trading at, especially in the US). The following chart shows the evolution of private equity's interest in the hospitality industry in the recent past.

Chart 1: Global buyer/seller net shift analysis in % (2005 to 2008H1)



Source: Meridia Capital and Jones Lang Lasalle Hotels' "Hotel Investment Outlook" reports from 2006, 2007 and 2008 plus "Hotel Investment Highlights" from 2008.

Private equity has shifted focus from acquisitions to asset management

Various industry sources believe that private equity funds are today less competitive than they were a couple of years ago. Their focus has moved from aggressive acquisition strategies to very active asset management. Their credibility and reputation is under heavy scrutiny, although some believe that private equity may eventually re-flourish with the market's comeback.

Investors less reliant on gearing have emerged

More traditional investors re-emerge

Meanwhile, other traditional investors more reliant on equity are emerging. Institutional investors, Real Estate Investment Trusts (REITs), High Net Worth Individuals (HNWIs) or Sovereign Wealth Funds (SWFs) have gained territory in detriment of private equity players.

Importance of HNWIs

About HNWIs in particular, **Marc de Chasse**y, Director at **JER Partners**, comments "In the next 12 months, the market is likely to be driven by low leveraged, long term investors looking to selectively improve their portfolios through strategic and opportunistic acquisitions that would not be available in more buoyant market conditions, such as high-net worth individuals. HNWIs, several of which had been forced out of the market during the last few years as a result of the competition that existed at the time, will be the main buyers of hotels".

Middle Eastern / Asian investors, increasingly active

Middle Eastern/Asian players

We should perhaps draw special attention to the increasing interest of Middle Eastern/Asian money in the sector. Over the last year and a half we have witnessed various examples of this, which we show in the list below.

Table 3: Recently announced Middle Eastern and Asian investment activity

Date	Buyer	Seller	Portfolio	Hotels	Rooms	Country	Estimated price €M	Est. price per room €
Apr-07	Premier Group (Bahraini Royal Family)	Kingdom Hotel Investments	Four Seasons Park Lane London	1	219	UK	103	470,320
Aug-07	JJW Hotels and Resorts	Eton Collection	Eton Collection	5	271	UK	103	380,074
Jan-08	Middle Eastern Investor	Gregory Park Limited	Four Seasons Hampshire	1	133	UK	NA	NA
Jan-08	JJW Hotels and Resorts	Starman Hotels	The Dona Filipa Hotel, the Penina Hotel and Golf Resort & San Lorenzo Golf Course	2	350	Portugal	214	612,035
Feb-08	Qatar National Hotels	Grupo Evemarina	Park Hyatt Casares	1	170	Spain	70	411,765
Feb-08	Singapore Government Investment Corp	Morgan Stanley/Starwood Capital Group	Westin Hotel	1	438	Japan	492	1,123,516
Feb-08	IHA/ Istithmar/ Libyan Foreign Investment Company	Crown Estate	Metropole Building	1	283	UK	182	643,110
Mar-08	Abu Dhabi Royal Family	CPC Group	Thistle Portfolio	2	638	UK	408	639,498
Apr-08	Nakheel Hotels	Fontainebleau Resorts, LLC	50% Stake in Fontainebleau Miami Beach Resort	1	1.500	US	238	158,667
May-08	Omani Family	Accor	Sofitel the Grand Amsterdam	1	178	Netherlands	61	341,049
Jun-08	Kangho AMC ⁽¹⁾	Millennium & Copthorne	Millenium Seoul Hilton	1	495	South Korea	317	640,404
Jun-08	TCC Hotels & Development Co, Ltd.	Rockford Hotel Group	Novotel Rockford Darling Harbor	1	230	Australia	47	204,348
Aug-08	Oman Investment Group	Quinlan Private	50% Stake in Jurys Inns	23	NA	UK & Ireland	NA	NA
Aug-08	KOP Group Pte Ltd	Stein Group	50% Stake in Stein Gr.	13	473	Various	168	354,123
Sep-08	MH Limited Partnership	Caisse Autonome Nationale de las Securite Social dans les Mines	Hotel Prince de Galles	1	168	France	141	839,286
Sep-08	Mubadala Development Company	The Kor Hotel Group	50% Stake in Kor Group	10	NA	US, Mexico & Caribbean	NA	NA

Source: Meridia Capital and various industry sources.

Note: All prices quoted in Euros rounded to the million; when necessary, prices reported in other currencies converted at the rate on the 15th day of the month of the transaction.

⁽¹⁾ Deal announced last June; however, latest news suggest it will not close due to Kangho's difficulties to raise debt financing.

Apart from the transactions shown above, market and press rumours also point to the Bahraini Royal Family being interested in Grosvenor House, a JJW deal with Starwood and Zabeel and Mubadala's interest in Morgans Hotel Group earlier this year.

SWFs are here to stay...

Ernst & Young's US 2008 Lodging Report states that the impact of SWFs is expected to increase significantly over the next decade. According to their 2008 Real Estate Market Outlook, some forecasts suggest that their funds' assets could nearly triple over the next few years to US\$8trillion globally. SWFs are said to be among the first investors into emerging markets and are known to be fast decision-makers that can move quickly to tie up assets.

...although some believe that that expectations for Middle Eastern investment activity in the sector are perhaps overstated

Nonetheless, **Reda Khatim, Partner at Palm Capital**, takes a particular view on the role of SWFs within the hospitality industry. He told us "I think private money will always chase trophy assets and to some limited extent other hotel assets (for example, in the case of specialist gulf hotel buyers such as IFA). However, the likes of Qatar Investment Authority (QIA), ADIA or the Dubai entities will probably not be buying *en masse* hotel assets in leveraged deals - I think that was done at the tail end of the bull market. Dubai needs to massively de-leverage and QIA severed its ties with most of its asset managers involved in such transactions. Although Middle Eastern oil exporting states balance their budget using a \$40 per barrel oil price and it is still trading above that, SWFs may not be extremely active because of the commitments that they will have to make to bail out the stock market in their own countries. Furthermore, as a result of this crisis 'they got burned trying to play a game they don't really understand' so they may be reluctant to stray from their core areas of expertise. There is a possibility that we will see some indirect investments through SWFs backing of top-quality distressed investors, but I am not expecting to see a great deal of direct investment any time soon".

Interestingly enough, various hotel investors that we have interviewed mention Middle Eastern or Asian buyers as possible participants in their future exit strategies.

No change in investors' strategy

Investors have changed their tactics

As we mentioned above, current market conditions have forced hotel investors to divert their attention from acquisitions to portfolio management. Although various private equity groups that we interviewed deny that their strategy has changed (their commitment to their investors remains intact), almost all admit to having undergone several changes. **Marc de Chasse, Director at JER Partners**, told us, "In a downturn, our focus is on monitoring costs and effectively managing rates. A recession separates the good operators from the inexperienced ones. The strong operators will

survive and build their portfolios while the weaker and less capitalized managers will struggle”.

Private equity as a hotel asset owner

Specialised investors also known for their capabilities regarding more active asset management and sophisticated contracts

Across all industries, private equity funds strive to use leverage and time their acquisitions and divestitures in a manner that allows them to maximise profitability. In the case of private equity funds investing in hotel assets, some of the distinguishing characteristics of their approach to value creation are aggressive asset management and sophisticated negotiation of operating contracts. This, after the credit crunch in the world’s financial markets, is perhaps even more so the case. In this regard, specialisation becomes once more a differentiating factor amongst players. We believe that specialised funds are perhaps more apt to make profit-enhancing renovations with minimal resources and maximum efficiency.

We asked an operator what it is like to be owned by a private equity player

We also decided to ask an international hotel operator about the change that it is going through after being acquired by a private equity player in the recent past. The group argued that in various aspects no significant changes have been noticed yet (such as relationship with hotel owners, asset management strategy or positioning). Other aspects have indeed changed within the group, such as new executive management appointments or fewer regulatory/investor relations requirements.

A buyers’ market?

Are there really more buying opportunities out there?

Not many acquisition opportunities at present

According to the various funds that we have been talking to, the answer to this question is no. Most believe that, in fact, there are fewer acquisition opportunities, as the well-known gap between buyers and sellers remains very much open. There are fewer quality assets on the market and transactions take much longer to complete. The sector, according to some, remains overpriced and sellers’ expectations are still unrealistic both in terms of valuation and forward-looking statements.

More opportunities expected in the near future

That said, various sources share the view that this is likely to change in the near future. Over the next 18 months, the gap should get smaller and a pricing adjustment should occur. Buyers will be looking for deals in the debt markets due to the current dislocation and in particular for distressed deals as owners, developers and banks are forced to sell during 2009/10. It is also said that, due to the lack of readily available financing, over the coming months investors may only be able to go for those deals where debt is already inside the company.

Valuations

Valuations expected to decrease

Investors' return expectations remain surprisingly untouched. Most funds believe that they will still manage to achieve initial profitability targets. Most argue that, despite the fact that the market has changed entirely, valuations have either decreased or will do so over the next few months. Thus, the effect of lower leverage capabilities/higher equity portions (now at around 50/50) and higher cost of capital should be partly offset by a lower acquisition price.

Rising cap rates

In terms of hotel cap rates, our respondents believe that these will increase over the coming year. Some, conservatively, only talk about a 100bp adjustment (or even less). Others are more aggressive. **Josh Wyatt, Director of Hospitality and Leisure at Patron Capital**, says "We see cap rates returning to pre 2003 levels; in prime locations/cities, we would be talking about a 7% to 8% cap rate; in secondary cities and resorts, this would be closer to 9% or 10%". **Ryan Prince, Vice Chairman at Realstar International**, adds "I think that cap rates will continue to move out over the next 12 months as some distress emerges through refinancing; I think the more significant pricing adjustment will be via trading performance, which is just beginning to fall off across Europe".

How challenging is fundraising in today's markets?

Fundraising now more challenging

It seems clear to us that fundraising has become more difficult under current market circumstances. Although some new funds have seen or are about to see the light, many have had to be left by the wayside.

Examples of recent hotel industry specific funds include:

- Realstar European Capital I, a €300million pan-European opportunity fund focused on the hospitality and residential sectors.
- Losan Hotels World is targeting a second fund (LHWVA II) with equity of €500million. Total investment is expected to range between €1.6billion and €2.0billion. This amount will be directed towards acquisition of 28 hotels around 23 capital cities. The idea is to have this fund closed in early 2009.

As far as we understand, these two funds are backed by institutional investors. In the case of Realstar, investors are mostly Canadian and European institutions. In the case of Losan, investors are said to be around 10 Spanish savings banks, family offices and Asian SWFs.

Some fundraising initiatives postponed

A few investors that we have been talking to admit to have had to call off or put off their fundraising processes due to the situation in the world's markets. **Fouad Chraibi, Chairman at H Partners**, says "We had planned raising international funds this year end but we may have to wait for another semester to see how the financial situation

evolves”.

Some argue that potential new investors are reluctant to commit to new investment opportunities without knowing the precise situation of all the other investments in their portfolios – i.e. they are reluctant to make further allocations without knowing their total exposure and extent of damage to their current holdings. **Jochen Schaefer-Suren, Head of Hotels and Leisure Fund Management at Invesco**, explains “Fundraising is now more difficult given current market conditions; more acquisition opportunities may come up eventually, but it is now very difficult to get investors’ commitment for a project; there is no visibility, which makes things rather difficult at the moment”.

Fundraising for inexperienced players now near impossible

Expertise and reputation are also a degree in this market. According to **Ryan Prince, Vice Chairman at Realstar International**, “fundraising for new, untried players is going to be near impossible; for experienced players difficult, but achievable”.

Fundraising taking longer

Over the past weeks we have also been able to gather a couple of placement agents’ opinions on how the market is for fundraising at the moment. These highlighted the lengthier period of time that investors currently need to raise their funds. According to them, a minimum of a one year to 18 month period is needed. Another relevant aspect was the emphasis that they placed on niche funds, citing sector or geographical specialisation as a very positive feature under current market circumstances.

In spite of current difficulties, solid investors expected to recover with the market

Final thoughts

In this report we have tried to touch on the various issues that surround hotel investment today. We have concentrated on the investing side rather than on hotel trading performance and expectations. We can conclude that the market is not expecting hotel investment activity to re-start until 2010. Investors anticipate a very difficult 2009 in all areas and segments. Although conditions may never be the same again, the strongest hotel investors and private equity players in particular are expected to rebound once the market recovers.

Appendices

See tables below.

Appendix 1

Appendix 1: Summary of answers provided by various hotel investment groups to Meridia Capital

Group	Why hotels?	Target returns	Change in strategy since credit crunch?	More acquisition opportunities now?	Has role of PE funds changed?	A buyers' market?	Potential buyers for exit strategy	Difficulty in raising equity	Hotel valuations next 12m
Cedar Capital Partners	Our expertise	IRR: underwriting average at 20%	Core strategy not changed; however, financing now almost non-existent; perhaps not much sense in approaching banks right now	Not today, because gap between buyers and sellers still open; 6 months from now more opportunities likely	Absolutely; PE not as competitive because of changes in debt markets; now more focused on asset management	It depends on whether they can finance their acquisition; not the best time to sell but still buyers out there for good assets	Buyers dependant on asset types; buyers of high end assets are less dependant on financing than buyers of limited service portfolios	Easier now than before; this is what long term investors have been waiting for; best time to buy is when cycle is down	Cap rates will go up by at least 100bp; impact will vary according to asset type, city, location, etc.
H Partners	Wanted to create a vehicle to attract foreign operators reluctant to invest directly in emerging markets	IRR: 15%	No	Not yet, but hoping there will be some soon	Not locally	Not in our plans to sell at the moment; we operate long term; do not expect any asset disposals for the next 4 years	Only exit for the moment is an IPO in 4-5 years time, market conditions permitting	Had planned to raise int'l fund end of this year; will wait for another 6m to see how situation pans out	Locally, we do not expect any changes; very illiquid market
Invesco	Growth sector offering attractive returns long term	IRR: 11-13%; more an institutional investor than an opportunistic fund; happy with LTVs of 50%	Tactics may have changed but we remain committed to our strategy	Now fewer opportunities but pricing lower on deals that are getting done	PE funds now losing status due to: i) loss of credibility and ii) difficulty with underwritings; PE players may well rebound with market	Cap rates 100 - 200bp above last year; one does not sell now unless forced	Various possibilities: SWFs, Middle Eastern/Asian buyers; pension funds; insurance companies; possibly REITs in 2016	More acquisition opportunities may come up but difficult to get investors' commitment for a project	Short term, cap rates will rise; in 18-24 months cap rates at 2004/ 2005 levels at best

Appendix 1: Summary of answers provided by various hotel investment groups to Meridia Capital (cont)

Group	Why hotels?	Target returns	Change in strategy since credit crunch?	More acquisition opportunities now?	Has role of PE funds changed?	A buyers' market?	Potential buyers for exit strategy	Difficulty in raising equity	Hotel valuations next 12m
JER Partners	Sector is complex, management and capital intensive and has high return potential	---	Yes, now pursuing distressed opportunities: land, hotel and residential; owners needing refinancing; selective deals in debt markets	Opportunities exist where value can be added and in niche markets insulated from crisis; expect great buying opportunities in next 24 months	High LTV PE players no longer dominant, but well-capitalized PE funds will benefit from current market turmoil and distressed sales	Owners with no pending refinancing not pressured to sell as trading performance not yet very affected; situation to change in medium-term	HNWIs that were forced out of the market by competition in last years will be main hotel buyers	Established firms with track record will face fewer challenges than newer firms	Cap rates will further increase as prospects for RevPar growth fall; valuations will also depend on timing of banks recovery
Palm Capital	Not hotel specific; we invest in various asset classes but would consider quality hotel investments	IRR: above 25% on average, although this varies with investor and investment horizon	Yes, (fundraising / financing); Moroccan banks less affected but now more cautious; current LTVs (60-65%) may go to 50-55%	We expect more buying opportunities over the next 12-24 months as owners, developers and banks are forced to sell	"Middle of the pack" PE may have trouble fundraising; specialised PE may outperform general funds because of their expertise	Yes, but less so in emerging markets; huge demand for the right product; few adequately priced and well designed products	Specialised funds or SWF backing of top-quality distressed investors; do not expect much direct investment from SWFs any time soon	Yes; investors reluctant to make further allocations without knowing extent of damage to portfolios	Hotel prices likely to fall by at least 10%; trophy assets may be an exception due to status issues
Patron Capital	A sector that rewards investors who can react quickly to ever changing market conditions	---	We have even greater attention to detail with respect to all banking related documentation	Sector remains overpriced; sellers' expectations unrealistic; we expect a pricing adjustment	---	Transactions taking longer to close; sellers must be careful to select buyers who truly are qualified to complete a purchase	---	---	Cap rates will return to pre 2003 levels; prime location or city: 7-8%; secondary city or resort: c.9-10%

Appendix 1: Summary of answers provided by various hotel investment groups to Meridia Capital (cont)

Group	Why hotels?	Target returns	Change in strategy since credit crunch?	More acquisition opportunities now?	Has role of PE funds changed?	A buyers' market?	Potential buyers for exit strategy	Difficulty in raising equity	Hotel valuations next 12m
Realstar International	Niche sector permits a) differentiation through unique product/ service offerings; and b) higher returns for operational risk	IRR: 20%+ Equity multiple: 2x	No, but we expect to make more investments in this context; not seen any value in over 3 years therefore not made any acquisitions since 2005	Credit crunch will generate opportunities in the future, hence creation of our new fund	Difficult to say due to low transaction volume, but unlikely that newest funds without sector-specific experience/proven track record will stay	Due to lack of liquidity everyone will find it much more difficult to sell assets at prices which one feels they are worth	Different assets will attract different investors – eg. active management – private equity; mature – institutional; trophy – HNW/SWF	For new players, nearly impossible; for experienced investors, difficult, but achievable	Cap rates to move out over next 12 months; more significant adjustment via trading performance
US Hospitality REIT	Our expertise	IRR: low to mid teens (based on 65-75% LTV); however, in the current environment underwriting at high teens	No, but scrutinising acquisition opportunities much more	Nothing that meets our investment criteria today, but expect more to come starting 2H 2009	Now less competitive due to lower levels of debt available; some are looking at discounted debt	Deals take longer as more financing parties involved; still a discrepancy between seller and buyer price expectations	Unknown at this point; IPO of portfolio a possibility in the long term; interest from Middle East, Russia and Asia may continue	Short term: challenging conditions as investors are looking for more certainty/clarity before committing; longer term: there is still equity available for experienced sponsors with good track records	Cap rates will increase on average 50-100bps with assets in prime locations towards the lower end

Appendix 2

Appendix 2: Selected hotel investors

Name	HQ	Investor Type	Relevant Funds (Close Date)	Value	Strategy	Significant Deals
Apollo Real Estate	United States	PE with hospitality interests	16 Funds	\$8.1B Equity	Intensive operational and financial management to add value	2007 Acquisition of Innkeepers USA Trust for \$1.5B
Bahraini Royal Family	Bahrain	High net worth family		NA	Up-market hotels in London	2006 Acquisition of Marriott Park Lane for €142M; 2007 acquisition of Four Seasons Park Lane for €104M
The Blackstone Group	United States	PE with hospitality interests	9 Real estate funds	\$25.7B Equity	Privatisations of listed hotel operating companies, as well as hospitality real estate acquisitions	2005 Acquisition of Wyndham International for \$3.2B; purchase of Hilton Hotels for \$26B in 2007
CA Inmo International	Austria	Hospitality Specific PE	H1 Hotelfund (NA)	€275M Equity	Development of 3 & 4* hotels in Central Europe, management contracts with international operators	NA
Capital Hospitality Group	Netherlands	Hospitality Specific PE		NA	Invest in UK, Europe, US & Asia	Divestment of 4-hotel portfolio to Diamondrock in 2005 for \$315M
CapMan	Finland	Hospitality Specific PE	CapMan Hotels RE (2008)	€294.9M Equity	Acquire and lease hotels in Finland & Sweden	2008 Acquisition of 39-hotel portfolio from Northern European Properties Limited for €800M
Cascade	United States	Private investment company		NA	Asset management, investment in public equity, fixed income & alternative markets in US	2008 purchase of 5.6% stake (4.2M shares) in Strategic, 2006 acquisition with Kingdom et al of Four Seasons for \$3.4B

Appendix 2: Selected hotel investors (cont)

Name	HQ	Investor Type	Relevant Funds (Close Date)	Value	Strategy	Significant Deals
Cedar Capital Partners	United Kingdom	Hotel-Specific investment firm	FHR European Ventures	\$390M Equity	Co-invest with HNW individuals and institutional investors; luxury rebranding & renovation in Europe, Asia and US	2005 Acquisition of The Savoy in London for €350M; 2006 acquisition of Mandarin Oriental Prague
Colony Capital	United States	PE with hospitality interests	7 Funds	\$15.4B Equity	Rebranding, investments in out-of-favour markets	2005 Acquisition of 15 Raffles and 26 Swissotels for \$1B; 2006 acquisition with Kingdom Hotels of Fairmont for \$3.9 billion
Diamondrock Hospitality	United States	Hospitality REIT		Net investment in property and equipment: \$1.9B (31/12/07)	Acquire full service and select service hotels in gateway cities and destination resort locations in the US; management through contract with Marriott, Starwood or Hilton	Divestment in 2007 of SpringHill Suites Atlanta Buckhead for \$36M; acquisition in 2005 of 4-hotel portfolio including Frenchman's Reef & Morning Star Marriott Beach Resort from Capital hotel investments for \$315M
Emaar Properties PJSC	UAE (Dubai)	Publicly traded RE investment firm with hotel-specific business unit		Total assets: \$14.917B (31/12/07: No info on hotel business)	Development of Armani brand luxury hotels; major development project in India	Emaar and Giorgio Armani launched luxury Armani-branded hotel development JV; first hotel to open in Burj Dubai; JV with India's MGF Development Ltd to invest \$3.7 B in India to build 30,000 rooms by 2015
EQT	Sweden	Private equity	12 Funds	Total fund capital: €11B	Acquire high-quality, market-leading, medium-sized companies in growth industries in Europe & Asia with potential for top-line growth	March 2007 acquisition of 132 Scandic Hotels from Hilton for €833M
Eurozeo	France	Publicly traded multi-vehicle, multi-sector investor		Total assets: €16.8B (31/12/08)	Invest where there is high-quality management, high barriers to entry, profitability & recurrent cash flows	Owns 74.1% of B&B, France's 3rd largest budget hotel chain, and 10.8 % of Accor (23/10/08)
FelCor Lodging Trust	United States	Hospitality REIT		Net investment in hotels: \$2.4B (31/12/07)	Own a diversified portfolio of upscale hotels flagged under leading brands in US and Canada	2008 Rebranding of San Francisco Union Square to Marriott
Gencom	United States	Privately-owned investment & development fund specializing in hospitality & residential sectors		Projected \$6B investment in luxury and mixed use upon completion	Luxury and mixed-use hotels and resorts with significant residential components, often under Ritz-Carlton flag	2004 Investment with Lehman Brothers RE Partners in Hyatt Summerfield Suites Portfolio, sold to RLJ in 2008; Ritz-Carlton Turks and Caicos
Host Hotels and Resorts	United States	Hospitality REIT		Net investment in property and equipment: \$10.6B (31/12/07)	Acquire diverse high quality lodging assets in prime urban & resort locations	Acquisition of Hotel Arts, Barcelona for €417M; 2006 disposal of Swissotel The Drake, New York for \$440M

Appendix 2: Selected hotel investors (cont)

Name	HQ	Investor Type	Relevant Funds (Close Date)	Value	Strategy	Significant Deals
H Partners	Morocco	Hospitality-specific fund	Name unknown (2007)	€230M Equity	3, 4, & 5* resorts and business hotels in Morocco	In 2008 signed a 5-year deal with Barcelo to develop 6 hotels with 1,500 rooms and signed with Hotusa to develop hotel in Marrakesh
IFA Hotels & Resorts	Kuwait	Developer of integrated & mixed use hotel & tourism projects		Total assets: \$1.1B (30/06/08)	Development of mixed-use hotel and tourism projects in partnership with internationally prestigious industry experts	\$15.3M minority interest exchange with KHI in November 2008: Interest in 5 hotels in Kenya traded for that of Fairmont Zanzibar and Fairmont Palm Hotel & Resort development project
International Hotel Investments	Malta	Publicly traded hotel investment firm		Total assets: €989M (31/12/07)	Acquisition, development, & operation of upscale hotels in medium-risk EMEA countries	Isthmar Hotels FZE holds 178k shares; IHI is 70% owner of Corinthia Hotels International
Invesco	Luxembourg	Multi-sector investor with one hospitality-specific fund	Name unknown (2006)	€350M Equity	Mid-market acquisitions in the European Union	2008 Acquisition of Patio Hotel in Aberdeen, Scotland, rebranded as Hilton Doubletree for €44M; acquisitions in Germany, France, Sweden, & Poland
Isthmar Hotels FZE	UAE (Dubai)	Government-run hotel investment company		Total investment value: \$3B (29/10/2008)	Assemble portfolio of luxury and budget hotels in key target markets that earn exceptional returns while maintaining due regard for risk	2006 Acquisition of W Hotel Union Square for \$1.05M per room and 73% stake in \$340M Mandarin Oriental in NY
JER Partners	United States	Private equity investment arm of the J.E. Robert Companies, a fully integrated real estate investment management company	10 Funds	\$4.9B Equity; owns 200 hotels in North America & Europe with 27,000 rooms	Seek value add opportunity through repositioning, rebranding, & refurbishment all over Europe, the US and LatAm; investment horizon of 4-6 years	2004 Acquisition of 242-room Courtyard by Marriott hotel in Neuilly-Sur-Seine in Paris, 2007 acquisition of Morethanhotels Ltd.
JJW Hotels & Resorts	United Kingdom	Private hotel investor and operator		Gross asset value: \$1.7B (29/10/08)	EMEA ownership and operations of hotels ranging from budget to 5*	2008 Acquisition of 4 golf resort properties in Algarve, Portugal for \$268M

Appendix 2: Selected hotel investors (cont)

Name	HQ	Investor Type	Relevant Funds (Close Date)	Value	Strategy	Significant Deals
Kimpton Holding Group LLC	United States	Hospitality-specific PE	Kimpton Development Opportunity Fund (1997)	\$122M Equity	Acquisition, new developments, and adaptive reuse of boutique/lifestyle hotels in the US	Development of Hotel Palomar in Chicago and Philadelphia
			Kimpton Hospitality Partners (2005)	\$157M Equity		
			Kimpton Hospitality Partners II (2008)	\$246M Equity		
Kingdom Hotels	UAE (Dubai)	Publicly traded hotel investment firm		Total Assets: \$1.7B (31/12/07)	Acquire & develop hotels with ancillary real estate in Middle East, Africa & Asia, sell real estate, work with partners (especially Movenpick, Four Seasons, Raffles) to manage hotels	78% Equity participation in development of Four Seasons Hotel and Private Residences in Marrakesh
Lasalle Hotel Properties	United States	Hospitality REIT		Net investment in hotel property: \$1.9B (31/12/07)	Acquire luxury full-service hotels in urban, resort & convention markets with high barriers to entry and manage by contract	2003 Acquisition of Hotel George in Washington DC for \$24.1M; 2007 sale of La Guardia Marriott to RLJ for \$69M
Losan Hotels World	Spain	Hospitality Specific PE	Losan Hotels World Value Added I (2006)	€194M Equity	Acquisition of centrally-located, 3, 4 & 5* urban hotels in European and US cities, China and India	2008 Acquisition of the Silken Hotel London development project for €155M; acquisition of Hotel Dylan NY in 2007 for \$78M
			Losan Hotels World Value Added II (Not yet closed)	€500M Equity		
Lotus Hotel Investment Fund	United Kingdom	Hospitality Specific PE	Name unknown (2007)	\$1B	Acquisition, turnaround, development in China, India & Southeast Asia	2007 Strategic alliance with Carlson Hotels Worldwide
Meridia Capital	Spain	Hospitality Specific PE	Meridia Capital Hospitality I (2007)	€150M Equity	Acquire & develop luxury urban and resort hotels in Europe, Latin America & select emerging markets; manage through contracts with prestigious operators	2007 Acquisitions of Crowne Plaza and Ritz Carlton Santiago, Chile; 2008 conversion project in Paris and investment in Six Senses portfolio in Thailand

Appendix 2: Selected hotel investors (cont)

Name	HQ	Investor Type	Relevant Funds (Close Date)	Value	Strategy	Significant Deals
Morgan Stanley Real Estate Funds	United States	Investor, banker, and lender		\$96.3B RE assets under management (30/6/08)	Mid to up-market	2006 Acq. of 7 InterContinental for €634M from IHG; June 2007 acquisition of 13 hotels in Japan with asset management by Panorama Hosp., Tokyo-based wholly-owned subsidiary
		Real estate fund manager	MSREF V International (2006)	\$4.2B Equity	Invest in Americas, Asia, Europe	
			MSREF VI International (2007)	\$8B Equity	Focus on Japanese market	
Mubadala Development Company	UAE (Abu Dhabi)	Development and investment company owned by government		NA	Long-term capital-intensive investments to generate strong financial returns; focus on Abu Dhabi, with international expansion in some business areas	2008 Acquisition of 50% stake in The Kor Group, owners of 10 hotels located in the United States, Mexico and the Caribbean
Nakheel	UAE (Dubai)	Real estate developer and investor		NA	Investment, development, asset management	2008 Acquisition of 50% stake in the Fontainebleau Miami Beach Resort for \$375M ; \$500M renovation of asset completed 2008
Norgani	Norway	Publicly traded hotel investment firm		Total assets: €1.1B (30/06/07)	Turnover-based lease agreements for mid to up-market hotels in the Nordic Region	2007 sale of First Hotel Linne for €8.4M to Accome Invest
Orco Property Group	Luxembourg	Publicly traded investor, developer and asset manager	Endurance Hospitality Sub-Fund (NA)	€250M (Target equity)	Acquisition of assets with potential for redevelopment/ repositioning in Eastern & Central Europe	Acquisition by Endurance in 2007 of MaMaison Hotel portfolio from Orco for €171.1M
Palm Capital	Morocco	PE with hospitality interests		NA	Work with investors interested in different asset classes on project-by-project basis	NA
Patron Capital	United Kingdom	PE with hospitality interests	Fund I (2000-2001)	\$100M Equity		
			Fund II (2004)	€300M Equity		2006 Sale of 5% stake in €417M Hotel Arts Barcelona
			Fund III (2007H1)	€850M Equity	Move from luxury to budget & extended stay projects in Europe & the UK; 7 year investment horizon	The Generator youth hostel program

Appendix 2: Selected hotel investors (cont)

Name	HQ	Investor Type	Relevant Funds (Close Date)	Value	Strategy	Significant Deals
Quinlan Private	Ireland	International property investment and advisory group	European Strategic Property Fund (2008)	€385M Equity	Diversification of real estate assets and creation of value through gearing	2005 sale of the Savoy London for €350M; 2007 acquisition of Jurys Inns for €1.165B
			European Strategic Real Estate Fund (2008)	€725M Equity		
Realstar Group	Canada	Private real estate investment and management company with some closed investment funds		Assets under management: £3B (all RE asset classes) (18/02/08)	Acquisitions and development in all segments	Led consortium in 2005 acquisition of 73 Holiday Inns & Crowne Plazas in UK for £1B
			Realstar European Capital I (2008)	€300M Equity	Pan-European, with focus on existing assets in gateway Western European cities	
Related Group of Florida	United States	Luxury real estate developer		Current development portfolio valued at more than \$10B	Mixed-use projects in the US and Latin America	2008 Strategic partnership with Orient Express to develop hotels and multi-use projects in Florida, Colombia and Panama
RLJ Development	United States	Hospitality Specific PE	Urban Lodging Fund (2004)	\$315M Equity	Acquire, reposition, rebrand "select-service" hotels in USA & Caribbean; management contracts with leading international operators	Acquired 63 hotels from White Lodging Services for \$1B in 2006, New York LaGuardia Airport Marriot for \$69 M in 2007
			Lodging Fund II (06)	\$743M Equity		
			Real Estate Fund III (08)	\$1.2B Equity		
Roebuck Int'l Property Developers	Ireland	RE finance and development partnership		NA	Development of resort, commercial & residential projects in the US & Caribbean	Developing Ritz-Carlton St. Lucia, residential and hotel complex with expected value of \$1.5B
Sovereign Hospitality Holdings	Switzerland	Hospitality, tourism and RE investment company		\$800M under management (02/09/08)	Acquisitions, development, operation and management contracts in Africa, Asia, Middle East	Investment of \$35M in development project in Ethiopia in partnership with Accor, due to open 2010

Appendix 2: Selected hotel investors (cont)

Name	HQ	Investor Type	Relevant Funds (Close Date)	Value	Strategy	Significant Deals
Starwood Capital	United States	Hospitality Specific PE	Hospitality Fund I (2005)	\$900M Equity	Works with experienced local partners who provide in-depth knowledge of local real estate markets and practices to enhance skills as an integrated global team	\$3.2 Billion acquisition of Groupe Taittinger/Société du Louvre and more than 800 budget hotels throughout Europe; Groupe Taittinger/ Société du Louvre owns 14 luxury hotels, including Hôtel de Crillon
Strategic	United States	Hospitality REIT		Net Investment in Hotel RE: \$2.4B (31/12/07)	Asset management of high-end hotels in North America and Europe; management through contract with prestigious operators	2006 Acquisitions of Fairmount Scottsdale Princess for \$350.8M & Westin St. Francis for \$439.3 M
Sunstone Hotel Investors	United States	Hospitality REIT		Net Investment in Hotel RE: \$2.8B (31/12/07)	Acquire up-scale hotels with nationally recognized brands in markets with significant entry barriers	Acquisitions of Hilton Times Square (2006), Renaissance Orland Sea World (2005); disposition of Sheraton Salt Lake City (2007)
Warimpex	Austria	Publicly traded RE investment and development firm focused on hotels		Gross Asset Value: €614.8M (31/12/07)	Develop & acquire hotels in Central and Eastern Europe and use lean structures and long-term business partnerships to add value	Development of Hotel Le Palais in Warsaw; development with UBM of Intercontinental Warsaw

Source: Meridia Capital, investor websites and various industry sources.

Notes:

Values are provided in UK Pounds, US Dollars and Euros.

The table is intended for reference purposes only and does not include all of the investors in the sector.

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