



## 2006 MANHATTAN HOTEL MARKET OVERVIEW

28TH ANNUAL INTERNATIONAL HOSPITALITY INDUSTRY INVESTMENT CONFERENCE

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### Manhattan Hotel Market Overview

**HVS International**, in cooperation with New York University's Preston Robert Tisch Center for Hospitality, Tourism, and Sports Management, is pleased to present the ninth annual Manhattan Hotel Market Overview.

In 2005, the Manhattan lodging market continued growing strongly, with a RevPAR increase of roundly 18.0% compared to 2004. The market recorded double-digit growth in RevPAR each month of the year, ranging from a high of roundly 28.0% in September to a low of roundly 14.0% in January. Overall occupancy of 85.0% and average rate of \$232.31 exceeded the historical peak achieved in 2000 (83.7% at \$222.53); these 2005 performance figures are also higher than in any other year for which STR data for Manhattan is available. Continued RevPAR growth is expected in 2006, primarily fueled by a strong growth in average rate. Due to limited new supply and increased compression resulting from near-maximum-capacity occupancy levels, overall RevPAR is expected to experience continued growth for the next few years.

Based on an overall improved economic climate, strong barriers to entry, limited new supply, and increased compression, we forecast the Manhattan lodging market to achieve a robust  $\pm 12.0\%$  RevPAR growth in 2006.

#### **HVS International**

HVS International is a global consulting and services organization focused on the hotel, restaurant, timeshare, gaming, and leisure industries. Its clients rely on the firm's specialized industry knowledge and expertise for advice and services geared to enhance economic returns and asset value. Through a network of 24 offices staffed by more than 200 seasoned industry professionals, HVS offers a wide scope of services that track the development/ownership process.

Starting with the market feasibility and appraisal study, a project is conceived and justified. Financing through the HVS investment banking team is then arranged, interiors designed, and management hired. The latest technology solutions are implemented, marketing strategies developed, and organizational assessments made. When a client requires actual, on-site hotel or restaurant management, HVS offers these services as well. Lastly, HVS asset management provides constant operational oversight that ensures the maximization of economic returns and asset value. No other organization offers such a broad range of complementary services. HVS also has specialists in parking operations, golf courses, and convention centers.

Since 1980, HVS International has performed more than 15,000 assignments throughout the world for virtually every major industry participant. Its principals literally "wrote the book" on hospitality consulting, authoring numerous authoritative texts and hundreds of articles. HVS is client driven, entrepreneurial, and dedicated to providing the best advice and services in a timely and cost efficient manner.

**The Preston Robert Tisch Center for Hospitality, Tourism, and Sports Management at New York University** is a dynamic and growing educational and research center located in the heart of Manhattan. The Tisch Center offers an extensive complement of hospitality and tourism academic programs of study, including two bachelor's degree programs and three master's degree programs. In concert with its location in the financial and hotel capital of the world, coursework is focused on the areas of hospitality investments, hotel operations, revenue management, and customer relationship management relative to the international hospitality and tourism industry. As entrepreneurial educators, administrators and faculty are experienced in the profession and bring the reality of the industry into the classroom. The Tisch Center's motto encapsulates its uniqueness - The City is our laboratory, the industry is our faculty, and our students are the future of the profession.

#### **New York University Annual International Hospitality Investment Conference**

For 24 years, HVS International has played an integral role in New York University's Annual International Hospitality Industry Investment Conference. Once again, our team of professionals looks forward to welcoming you to this prestigious event, which is scheduled for Sunday – Tuesday, June 4 - 6, 2006, at the New York Marriott Marquis.

#### **Acknowledgements**

Randy Smith of **Smith Travel Research** has provided the Survey's comprehensive hotel statistics of Manhattan. Smith Travel Research continues to be the leading source of hospitality industry operating statistics. We would also like to thank Joseph E. Spinnato and Rick Amatto of the Hotel Association of New York City, as well as Kathie Stapleton, Thomas J. Travers, and Donna Quadri-Felitti of HSMIA Big Apple Chapter for their assistance. Additionally, in cooperation with New York University, the data-gathering process was largely a contribution of six graduate students, Suzyette Coletto, Shani Duplessy, Taneika Grant, Ana Mota, Wendy Saudjana, and Passang

Tsering, through the coordination of **Dr. Mark M. Warner**, Director of Graduate Programs. **HVS International** is pleased to have been a part of this enriching educational process.

HVS International would also like to thank its own **Roland de Milleret**, Senior Vice President; **Gisle Sarheim**, Senior Associate; and **Gabi Baumann**, Consulting and Valuation Analyst, for their invaluable contribution and dedication to this project.

### Stephen Rushmore

President & Founder, **HVS International**

Manhattan hotels shattered records in 2005, recording the highest average occupancy, 85%, since 1987, the earliest year for which STR data for Manhattan is available. RevPAR increased by 6% over the level for 2000, the former peak year, and registered double-digit growth ranging from 14% to 28% every month in 2005. The strong RevPAR performance was driven primarily by significant growth in average rate as hotels operated at near-maximum-capacity levels, increasing the already present compression in the Manhattan market. As a result of the strength of the Manhattan lodging market, hotel values increased between 30% and 50% in 2005 compared to the previous year. In most cases, hotels are again the highest and best use for Manhattan properties today. The Empire Hotel, for example, which was acquired in 2003 with the intention of converting the property to condominiums, is currently under renovation and will be reopened as a hotel. In light of the very positive sentiment in the Manhattan market, HVS expects further growth in hotel values over the next few years.

## Manhattan Operating History

The following table illustrates aggregate occupancies and average rates for contributing Manhattan hotels since 1987, as compiled by **Smith Travel Research** (STR). The table also summarizes marketwide rooms revenue per available room (RevPAR); this figure, which is calculated by multiplying occupancy by average rate, provides an indication of how well rooms revenue is being maximized.

Year	No. of Rooms	% Change	Occupied Rooms	% Change	Occupancy	% Change	Average Rate	% Change	RevPAR	% Change
1987	52,683	—	14,624,039	—	76.1%	—	\$113.05	—	\$85.98	—
1988	52,768	0.2%	14,634,194	0.1%	76.0%	(0.1)%	\$120.11	6.2%	\$91.26	6.1%
1989	52,724	(0.1)%	13,873,898	(5.2)%	72.1%	(5.1)%	\$132.09	10.0%	\$95.23	4.3%
1990	54,421	3.2%	14,139,816	1.9%	71.2%	(1.3)%	\$132.34	0.2%	\$94.21	(1.1)%
1991	55,058	1.2%	13,442,624	(4.9)%	66.9%	(6.0)%	\$127.54	(3.6)%	\$85.31	(9.4)%
1992	56,235	2.1%	13,871,555	3.2%	67.6%	1.0%	\$126.27	(1.0)%	\$85.33	0.0%
1993	56,190	(0.1)%	14,494,889	4.5%	70.7%	4.6%	\$126.33	0.1%	\$89.28	4.6%
1994	56,083	(0.2)%	15,156,219	4.6%	74.0%	4.8%	\$136.12	7.7%	\$100.78	12.9%
1995	56,285	0.4%	15,410,904	1.7%	75.0%	1.3%	\$149.33	9.7%	\$112.02	11.2%
1996	56,552	0.5%	16,654,408	8.1%	80.7%	7.6%	\$160.72	7.6%	\$129.68	15.8%
1997	57,424	1.5%	17,158,942	3.0%	81.9%	1.5%	\$176.86	10.0%	\$144.79	11.7%
1998	57,943	0.9%	17,415,191	1.5%	82.3%	0.6%	\$198.25	12.1%	\$163.24	12.7%
1999	59,585	2.8%	17,634,111	1.3%	81.1%	(1.5)%	\$208.44	5.1%	\$169.01	3.5%
2000	61,053	2.5%	18,644,871	5.7%	83.7%	3.2%	\$222.53	6.8%	\$186.19	10.2%
2001	62,790	2.8%	17,065,999	(8.5)%	74.5%	(11.0)%	\$195.65	(12.1)%	\$145.69	(21.8)%
2002	63,320	0.8%	17,340,430	1.6%	75.0%	0.8%	\$185.88	(5.0)%	\$139.47	(4.3)%
2003	64,470	1.8%	17,852,440	3.0%	75.9%	1.1%	\$181.24	(2.5)%	\$137.50	(1.4)%
2004	64,077	(0.6)%	19,445,724	8.9%	83.1%	9.6%	\$201.36	11.1%	\$167.42	21.8%
2005	63,101	(1.5)%	19,580,575	0.7%	85.0%	2.2%	\$232.31	15.4%	\$197.46	17.9%
<b>Average Annual Compounded Change</b>										
1987-2005:	1.0		1.6%		0.6%		4.1%		4.7%	

Source: Smith Travel Research

*Note: Some figures may be subject to small rounding errors*

**Thomas J. Travers**

**General Manager, Hotel Beacon**

**President, Hospitality Sales & Marketing Association International Big Apple Chapter**

Competition for travelers continues to intensify among world-class destinations with NYC at the top of that list. While the Big Apple has always caused some sticker shock to certain groups, the NYC visitor experience remains persuasive, as our product mix and quality constantly improves. The challenge continues to be managing our guests' ever-increasing expectations in the midst of escalating costs pressuring both profits and service.

The Manhattan hotel market has experienced dramatic cycles since the late 1980s. A significant downturn occurred in the early 1990s, reflecting the combined impact of supply additions, the nationwide recession, several disappointing years in the financial markets, and the Persian Gulf War; the result was a substantial decline in both occupancy and RevPAR. Signs of true recovery began to appear in 1993, and by the end of 1994, it was clear that a dramatic improvement in the market was underway. With the exception of 1999, which saw a substantial increase in supply, overall RevPAR registered double-digit growth each year from 1994 through 2000. A second significant downturn started in 2001, as a result of the slowdown in the national and regional economies, as well as the September 11 terrorist attacks; the result was even more dramatic than that of the previous recession, with a RevPAR decline of 21.7%. In 2002, marketwide occupancy rose slightly, as many hotels in the market employed a strategy of aggressive rate discounts to stimulate demand and maintain occupancy levels; marketwide average rate decreased further, resulting in a RevPAR decline of 4.3% compared to 2001. Despite a RevPAR decline of 1.4%, composed of a 1.1% growth in occupancy and a 2.5% decline in average rate, 2003 ended on a very positive note for the Manhattan lodging market. In 2004, for the first time since 1994, supply declined in Manhattan as a result of the closing of several hotels for condominium conversion. This trend continued in 2005, recording another 1.5% decline in supply. The continued compression in the market caused occupancy to increase further, by 2.0% in 2005, and enabled hotel operators to aggressively increase average rates, resulting in an overall gain of 15.4%.

The following table sets forth monthly changes in occupancy, average rate, and RevPAR for 2004 and 2005.

Month	Occupancy		Average Rate		RevPAR	
	2004	2005	2004	2005	2004	2005
January	11.1%	6.4%	(0.5)%	7.4%	10.6%	14.3%
February	8.2%	8.6%	0.3%	10.7%	8.5%	20.3%
March	23.9%	3.7%	7.6%	11.3%	33.3%	15.4%
April	28.5%	1.5%	9.5%	16.2%	40.7%	18.0%
May	13.7%	2.5%	14.3%	13.0%	29.9%	15.8%
June	8.7%	0.9%	14.7%	17.0%	24.7%	18.0%
July	9.2%	3.8%	12.3%	13.5%	22.6%	17.9%
August	2.0%	4.0%	15.4%	11.7%	17.7%	16.2%
September	7.0%	2.4%	14.1%	24.8%	22.0%	27.8%
October	3.0%	(1.8)%	13.4%	18.3%	16.9%	16.2%
November	3.2%	0.7%	14.9%	20.5%	18.6%	21.4%
December	3.5%	(2.9)%	15.0%	18.3%	18.9%	14.9%
<b>Total</b>	<b>9.6%</b>	<b>2.3%</b>	<b>11.1%</b>	<b>15.4%</b>	<b>21.8%</b>	<b>18.0%</b>

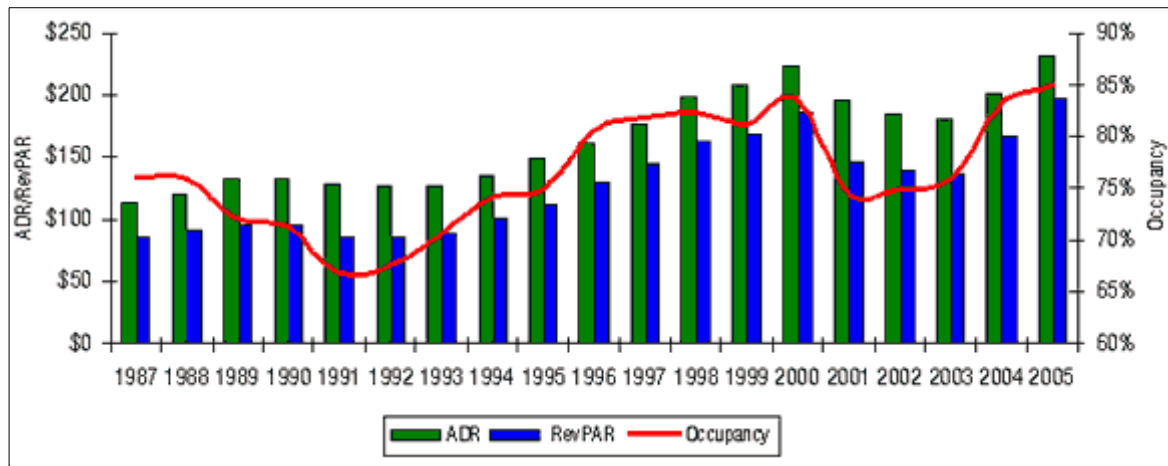
*Source: Smith Travel Research*

Demand levels in Manhattan increased strongly in 2004, especially during the first half of the year, with overall occupancy increasing from roundly 2.0% to 28.5% each month through the end of the year. The year 2005 started registering strong growth during the first three months, growing at a more modest pace the rest of the year. With demand compression increasing, average rate showed double-digit growth from May 2004 through December 2005, with the exception of January 2005. As a result of continued occupancy and especially average rate growth, overall RevPAR registered significant increases during all months of the year, rising at rates of roundly 18.0% on average.

The combination of a still growing and very optimistic economic climate in 2005, and the market's strong performance during the entire year, resulted in another strong 18.0% RevPAR increase in 2005, compared to 2004. Monthly statistics indicate that year-over-year RevPAR increases accelerated from roughly 14.3% in

January to 27.8% in September, then decelerated again to roundly 14.9% in December. The strong RevPAR growth in 2005 was generated primarily by the significant increases in average rate during every month of the year, suggesting that the continued demand compression in the market enabled hoteliers to achieve robust year-over-year room rate increases.

The following chart illustrates the Manhattan lodging market's performance from 1987 through 2005.



## New Supply

Four hotels entered the market during 2005. Three of the properties opened in the Times Square area: the 140-room Hotel QT in January, the 125-room Holiday Inn Express in September (the first hotel affiliated with the Holiday Inn Express brand in Manhattan), and the 357-room Residence Inn in December (the first hotel affiliated with the Residence Inn brand in Manhattan). The fourth hotel, a 136-room Hampton Inn, opened in February near Madison Square Garden, and represented the second hotel affiliated with the Hampton Inn brand in Manhattan.

In addition, two properties were reflagged. In August 2005, the 300-room Hampton Inn Times Square opened on Eighth Avenue, between West 51st and West 52nd Streets; previously, the hotel was affiliated with the Howard Johnson brand. The former Days Hotel located on Eighth Avenue, between West 48th and West 49th Streets, reopened as a 369-room Hilton Garden Inn in November 2005.

The following table lists some of openings of new hotels, as well as the reopening of hotels in Manhattan in recent years.

Name of Hotel	Location	Type	No. of Rooms	Opening Date	Developer/Comments
<b>Midtown West</b>					
Herald Hotel	34th St. & Broadway, SE corner	Extended-Stay	60	Jan-00	JEMB Realty
Red Roof Inn	6 West 32nd Street	Economy	171	Jun-00	Apple Core Hotels
Hilton Times Square	42nd St. (between 7th & 8th Aves.)	Upscale	455	Jun-00	Forest City Ratner
Sofitel	44th St. (between 5th & 6th Aves.)	Upscale	398	Jul-00	Accor
The Muse	130 West 46th Street	Boutique	200	Aug-00	Cornerstone
Hudson Hotel	57th St. (between 8th & 9th Aves.)	Mid-scale	810	Nov-00	Ian Schragger Hotels
Bryant Park Hotel	40th St. (between 5th & 6th Aves.)	Boutique	130	Feb-01	Pilevsky & McNally
The Chambers Hotel	56th St. (between 5th & 6th Aves.)	Boutique	77	Feb-01	Ira Drukier and Richard Born
Comfort Inn	442 W. 36th (between 9th & 10th Aves.)	Economy	56	Jun-01	Heena Hotel, LLC

W Times Square	47th St. & Broadway (SW corner)	Boutique	509	Dec-01	Intell Real Estate/Starwood
Best Western	522-24 W. 38th St. (bet. 10th & 11th Aves.)	Economy	83	Jan-02	Unigroup Hotel, LLC
City Club Hotel	55 West 44th Street	Boutique	65	Jan-02	Metropolitan Hotels, LLC
Ritz-Carlton	50 Central Park South	Luxury	277	May-02	Millennium Partners
Hotel 41	216 West 41st Street	Boutique	47	Aug-02	Private Investment Group
Westin Times Square	270 43rd St. & 8th Avenue	Upscale	863	Oct-02	Tishman Urban Development Corporation
La Quinta Inn Manhattan	17 West 32nd Street	Economy	182	May-03	Apple Core Hotels
Hampton Inn	W. 24th Street (between 6th & 7th Ave.)	Mid-scale	144	Aug-03	Hersha Hospitality
Mandarin Oriental	10 Columbus Circle	Luxury	251	Nov-03	Related Co./Mandarin Oriental Hotels
Sheraton Four Points	West 25th Street	Mid-scale	158	Dec-03	Unigroup Hotel, LLC
Dream Hotel (formerly Majestic)	210 West 55th Street	Boutique	220	Oct-04	Reopened following extensive renovation
<b>Midtown East</b>					
Thirty Thirty	East 29th St. (bet. Park & Lexington Aves.)	Mid-scale	251	Jul-00	PMG
Library Hotel	299 Madison Ave. at 41st St.	Boutique	60	Aug-00	Henry Kallan
Dylan Hotel	52 East 41st Street	Boutique	107	Oct-00	Morris Moinian/Allied Hospitality
Park South Hotel	122 East 28th Street	Boutique	143	Sep-01	Atlantic Stars
Le Marquis	12 East 31st Street	Boutique	123	Sep-01	Le Marquis Associates
The Alex	205 East 45th Street	Boutique	203	Sep-03	Izak Senbahar/Simon Elias
The San Carlos - Reopened	150 East 50th Street	Boutique	147	May-03	San Carlos Hotel, Inc.
70 Park Avenue Hotel	70 Park Avenue	Boutique	205	Jul-04	Kimpton Hotels
<b>SoHo/Lower Manhattan</b>					
Tribeca Grand	6th & White Streets	Boutique	203	May-00	Hartz Mountain Industries
W Hotel	Union Square, Park Ave. So. & 15th St.	Boutique	270	Nov-00	Starwood/Related Cos.
60 Thompson St.	60 Thompson Street	Boutique	101	Feb-01	Pomeranc Group
Howard Johnson	135 East Houston	Economy	46	Dec-01	Metro One Hotel, LLC
Maritime Hotel	Ninth Ave (between 16th and 17th Sts.)	Boutique	125	Jun-03	Private Developers
Hotel Gansevoort	Ninth Ave and 13th Street	Boutique	187	Mar-04	WSA Management, Ltd.
Solita Hotel	159 Grand Street	Mid-scale	42	Aug-04	SoHo Grand Center, LLC
Hotel on Rivington	107 Rivington Street	Boutique	110	Oct-04	Paul Stallings
<b>Downtown</b>					
Embassy Suites	Battery Park City	All-Suite	463	Jun-00	Forest City Ratner
Ritz-Carlton Battery Park	2 West Street	Luxury	298	Jan-02	Millennium Partners
Marriott Financial Center - Reopened	85 West Street	Upscale	504	Jan-02	Host Marriott Corporation

Embassy Suites - Reopened	Battery Park City	All-Suite	463	May-02	Forest City Ratner
Millenium Hilton - Reopened	55 Church Street	Upscale	565	May-03	CDL Hotels

As illustrated in the preceding table, the majority of the new supply in Manhattan since 2000 has been in the form of boutique properties. Overall, boutique hotels represent 21 of the 46 hotels that opened/reopened in Manhattan between 2000 and 2005. However, the boutique hotels represent only approximately one-third of the guestrooms that entered the market during that period. This dynamic is attributable mainly to the nature of the boutique hotels, which in general, contain fewer guestrooms than hotels in the other categories, with the exception of the W-branded properties. It is noteworthy that none of the boutique hotels opened or reopened in either Downtown or on the Upper East Side.

The following table illustrates recent and potential hotel closings.

Name of Hotel	Location	Type	No. of Rooms	Closing Date	Comments
<b>Midtown West</b>					
The Helmsley Windsor Hotel	100 West 58th Street	Upscale	(240)	Nov-03	Conversion to residential use
Inter-Continental CPS	112 Central Park South	Luxury	(211)	Jun-04	Conversion to residential use
The Plaza	Fifth Avenue at Central Park South	Luxury	(457)	May-05	Partial conversion to residential use
Wyndham	W. 58th Street	Mid-scale	(209)	Jul-05	Conversion to residential use
<b>Midtown East</b>					
Sheraton Russell	45 Park Avenue	Upscale	(146)	2006	Conversion to residential use
<b>Upper West Side</b>					
Empire Hotel*	44 West 63rd Street	Mid-scale	(381)	Dec-03	Expected to reopen by Jan. 1, 2007
Mayflower	15 Central Park West	Mid-scale	(365)	Oct-04	Conversion to residential use
<b>Upper East Side</b>					
Hotel Delmonico	Park Ave. and 59th Street	All-Suite	(152)	Apr-02	Conversion to residential use
Stanhope Park Hyatt	995 Fifth Avenue	Luxury	(185)	Feb-05	Conversion to residential use
The Melrose Hotel	140 East 63rd Street	Boutique	(306)	Jun-05	Conversion to residential use
<b>Downtown</b>					
Regent Hotel	55 Wall Street	Luxury	(144)	Feb-04	Conversion to residential use
<b>Total</b>			<b>(2,796)</b>		
<b>Excluding Empire Hotel</b>			<b>(2,415)</b>		

*\*Initially acquired for conversion to residential use*

### Joseph Spinnato President & CEO, Hotel Association of NYC

There is no question that 2005 was an extremely successful year for the hotel industry in New York City. The number of visitors, both domestic and international, rose significantly, causing occupancy rates to rise to record levels.

Projections for 2006 indicate another very positive year for the hotel industry. Also, the plans for the

expansion of the Jacob K. Javits Convention Center continue to move forward. The construction of the center is scheduled to begin later on this year, thereby allowing our marketing people to go ahead and book meetings and conventions into 2010 and beyond. This is a very exciting period for our industry, and 2006 should see some fascinating accomplishments.

Ten hotels closed for full or partial condominium conversions from April 2002 through 2005, accounting for a total of 2,415 guestrooms, or roundly 3.8% of the 2005 room inventory. These conversions reflect the strength of the Manhattan condominium market. We note that the condominium conversions were primarily limited to upscale residential neighborhoods, mainly around Central Park, where land and buildings are in short supply and condominium prices are high. These properties were all upscale or luxury in nature. Given the limited number of upscale/luxury lodging facilities available for condominium conversion, as well as the strength of the Manhattan lodging market, fewer conversions should occur in the next few years. The Empire Hotel, which was originally acquired for conversion to residential use, is currently being renovated and is slated to reopen as a mid-scale hotel by January 2007.

It is worth noting that Elad Properties acquired the 805-room Plaza in October 2004, and at the time of this survey, the plans were to convert the Plaza into a mixed-use development containing  $\pm$ 181 luxury condominium units,  $\pm$ 108,000 square feet of high-end retail space, three food and beverage outlets, and a 130-unit transient luxury hotel and a 152-unit condo hotel. The plans also called for the preservation of the Plaza's Palm Court, Oak Bar, and Ball Room. In addition, the 185-unit Stanhope Park Hyatt closed in February 2005 in connection with its sale for condominium conversion, while the 306-room Melrose closed on June 30, 2005, for conversion to luxury condominiums. Furthermore, the 209-room Wyndham Hotel closed in July 2005, and is expected to be converted to residential use.

The 495-room Swissotel, Drake New York, at 56th Street and Park Avenue, is under contract to be sold. The property reportedly will be demolished to make way for a new 70-story, mixed-use residential condominium. Three lodging facilities affiliated with Affinia Hotels are currently on the market and reportedly will be converted to rental or condominium apartments: the 172-room Beekman Tower, located a block from the United Nations; the 254-room Shelburne Murray Hill, at 37th Street and Lexington Avenue; and the 131-room Surrey Hotel, at 76th Street and Madison Avenue. If all four properties are converted to residential use, a total of 1,052 rooms will be taken out of inventory in 2006.

## PROPOSED HOTELS

As illustrated in the following table, as many as 3,119 rooms, or 19 properties, may enter the Manhattan market in 2006 and 2007. It is important to mention that even though the Manhattan lodging inventory declined in 2004 and 2005, supply is expected to continue to grow in 2006 and 2007, albeit at a slow pace.

Most of the anticipated new supply represents limited-service hotels, while seven of these properties can be classified as boutique hotels. It is interesting to note that no new lodging facilities have been proposed for the luxury segment apart from the reopening of the significantly smaller Plaza Hotel in 2007. Significant barriers to entry, including high construction costs, prohibitive land costs, and a lack of available sites, continue to remain key factors when considering construction of lodging facilities in Manhattan. Thus, only the most financially feasible projects are likely to reach fruition. The following table sets forth the number of new rooms that are anticipated to become available during 2006 and 2007.

Project	Location	Type	No. of Rooms	Anticipated Opening	Developer	Rating
<b>Midtown West</b>						
Comfort Inn	39th Street & Eighth Ave.	Mid-scale	80	Dec-06	Metro One Hotel, LLC	3
Wingate Inn	35th Street (between 7th and 8th Ave.)	Mid-scale	92	Mid 06	Private Developer	5
Holiday Inn Express	29th Street & Seventh Ave.	Mid-scale	233	Mid 06	Metro One Hotel, LLC	3
Plaza Hotel	5th Avenue at Central Park South	Luxury	282	Jan-07	Elad Properties	5
Fairfield Inn	40th Street (between 8th and 9th Ave.)	Mid-scale	248	Late 07	Lam's Group	3
Four Points	40th Street (between 8th and 9th Ave.)	Mid-scale	248	Late 07	Lam's Group	3
Sheraton	28th Street (between 7th and 8th Ave.)	First Class	175	Late 07	Lam's Group	2

<b>Midtown East</b>						
Fifth Avenue	373 Fifth Avenue	Boutique	60	Mid 06	Hersha Group	5
Gramercy Park Hotel	2 Lexington Avenue	Boutique	300	Mid 06	Morgans Hotel Group, LLC	5
<b>Upper East Side</b>						
Courtyard by Marriott	92nd Street and First Avenue	First Class	226	Mid 06	Madison Equities	5
Courtyard by Marriott	E 123th Street	First Class	204	Late 07	Majic Development Group	3
<b>Downtown</b>						
Blue Moon Hotel	100 Orchard Street	Boutique	22	Feb-06	Randy Settenbrino	Open
Hampton Inn Seaport	320 Pearl Street	Mid-scale	65	Mar-06	Hersha Group	Open
Downtown Hotel	TriBeCa	Boutique	83	Mid 06	Robert De Niro	5
The Loft	130 Duane Street	Boutique	45	Mid 06	Hersha Group/Sam Chang	5
Hilton Garden Inn	York St. and Avenue of the Americas	Mid-scale	150	Aug-06	Metro One Hotels, LLC	5
Four Points by Sheraton	66 Charlton Street and 7th Avenue	Mid-scale	150	Mar-07	SoHo Village Hotel, LLC	5
Allen Street*	Allen Street (bet. Houston and Stanton)	Boutique	112	Late 06	Jason Pomeranc	5
Standard NYC	W 13th St. (bet. Washington and West)	Boutique	344	Late 07	Hotels AB	5
<b>Total</b>			<b>3,119</b>			

1 = Planning Stage

2 = Rumored development, less than 50% chance of reaching fruition

3 = Land acquired, no financing in place, likely to occur

4 = Financing in place, not under construction

5 = Under construction

\*Including 32 hotel condominiums

## Manhattan Operating Statistics (Class)

HVS International compiled data provided by Smith Travel Research to illustrate the effects of the current state of the economy on different classes of hotels in Manhattan. The following tables compare the performance of all reporting hotels in Manhattan for year-end figures from 1999 through 2005; results are broken down by market segment: luxury, first class, boutique, and other.

### Luxury

Year	Occupied Room Nights	% Change	Available Room Nights	% Change	Occupancy	% Change	Average Rate	% Change	RevPAR	% Change
2000	2,497,484	—	8,455	—	80.9%	—	\$370.43	—	\$299.79	—
2001	2,143,067	(14.2)%	8,354	(1.2)%	70.3%	(13.2)%	\$329.64	(11.0)%	\$231.68	(22.7)%
2002	2,340,711	9.2%	8,871	6.2%	72.3%	2.9%	\$316.06	(4.1)%	\$228.48	(1.4)%
2003	2,416,680	3.2%	8,983	1.3%	73.7%	2.0%	\$308.77	(2.3)%	\$227.58	(0.4)%
2004	2,606,073	7.8%	8,955	(0.3)%	79.7%	8.2%	\$341.06	10.5%	\$271.95	19.5%
2005	2,438,363	(6.4)%	8,070	(9.9)%	82.8%	3.8%	\$398.48	16.8%	\$329.85	21.3%
<b>Average Annual Compounded Change: 2000-2005</b>		<b>(0.5)%</b>		<b>(0.9)</b>		<b>0.5%</b>		<b>1.5%</b>		<b>1.9%</b>

Source: Smith Travel Research



Note: Some figures may be subject to small rounding errors  
 Note: Statistics based on selected hotels from a large database

### First Class

Year	Occupied Room Nights	% Change	Available Room Nights	% Change	Occupancy	% Change	Average Rate	% Change	RevPAR	% Change
2000	6,435,987	—	20,937	—	84.2%	—	\$230.55	—	\$194.17	—
2001	5,878,573	(8.7)%	20,967	0.1%	76.8%	(8.8)%	\$202.76	(12.1)%	\$155.75	(19.8)%
2002	5,952,416	1.3%	21,009	0.2%	77.6%	1.1%	\$192.42	(5.1)%	\$149.37	(4.1)%
2003	6,265,601	5.3%	22,097	5.2%	77.7%	0.1%	\$184.84	(3.9)%	\$143.59	(3.9)%
2004	6,591,597	5.2%	21,443	(3.0)%	84.2%	8.4%	\$207.05	12.0%	\$174.38	21.4%
2005	6,841,094	3.8%	21,669	1.1%	86.5%	2.7%	\$243.38	17.5%	\$210.51	20.7%
<b>Average Annual Compounded Change: 2000-2005</b>		<b>1.2%</b>		<b>0.7%</b>		<b>0.5%</b>		<b>1.1%</b>		<b>1.6%</b>

Source: Smith Travel Research

Note: Some figures may be subject to small rounding errors  
 Note: Statistics based on selected hotels from a large database

### Boutique

Year	Occupied Room Nights	% Change	Available Room Nights	% Change	Occupancy	% Change	Average Rate	% Change	RevPAR	% Change
2000	1,448,801	—	4,855	—	81.8%	—	\$258.37	—	\$211.23	—
2001	1,625,989	12.2%	6,348	30.8%	70.2%	(14.2)%	\$217.86	(15.7)%	\$152.87	(27.6)%
2002	1,831,547	12.6%	6,826	7.5%	73.5%	4.8%	\$210.91	(3.2)%	\$155.05	1.4%
2003	1,868,804	2.0%	6,847	0.3%	74.8%	1.7%	\$212.38	0.7%	\$158.80	2.4%
2004	1,986,007	6.3%	6,924	1.1%	78.6%	5.1%	\$241.19	13.6%	\$189.53	19.4%
2005	2,105,751	6.0%	6,977	0.8%	82.7%	5.2%	\$277.48	15.0%	\$229.45	21.1%
<b>Average Annual Compounded Change: 2000-2005</b>		<b>7.8%</b>		<b>7.5%</b>		<b>0.2%</b>		<b>1.4%</b>		<b>1.7%</b>

Source: Smith Travel Research

Note: Some figures may be subject to small rounding errors  
 Note: Statistics based on selected hotels from a large database

### Other

Year	Occupied Room Nights	% Change	Available Room Nights	% Change	Occupancy	% Change	Average Rate	% Change	RevPAR	% Change
2000	4,026,745	—	13,031	—	84.7%	—	\$155.40	—	\$131.56	—
2001	3,584,306	(11.0)%	13,184	1.2%	74.5%	(12.0)%	\$138.34	(11.0)%	\$103.04	(21.7)%
2002	3,613,491	0.8%	13,325	1.1%	74.3%	(0.3)%	\$123.71	(10.6)%	\$91.91	(10.8)%
2003	3,669,309	1.5%	13,367	0.3%	75.2%	1.2%	\$121.59	(1.7)%	\$91.44	(0.5)%
2004	4,146,030	13.0%	13,348	(0.1)%	85.1%	13.2%	\$136.47	12.2%	\$116.14	27.0%
2005	4,154,808	0.2%	13,199	(1.1)%	86.2%	1.3%	\$166.94	22.3%	\$143.96	24.0%
<b>Average Annual Compounded Change: 2000-2005</b>		<b>0.6%</b>		<b>0.3%</b>		<b>0.4%</b>		<b>1.4%</b>		<b>1.8%</b>

Source: Smith Travel Research

Note: Some figures may be subject to small rounding errors  
 Note: Statistics based on selected hotels from a large database

**Jonathan M. Tisch****Chairman & CEO, Loews Hotels****Chairman, NYC & Company**

The year 2005 set a new benchmark for success and one that will help our industry reach new heights in the year ahead. Last year was a record-breaking year: 41 million people visited NYC; hotel occupancy was at 86 percent, the highest level in six years; and a record 22 million rooms were sold in 2005, an increase of more than one million over 2004. Travel and tourism is a vital force in our city today and a cornerstone of the City's bright future. 5000 new hotel rooms will be added to the market by the end of 2007. From luxurious boutique hotels to budget inns, from Harlem to Staten Island, hotel development is enlivening neighborhoods across the City. And the Javits Convention Center modernization and expansion, scheduled to begin later this year, will further support and strengthen the City's \$21 billion tourism industry.

A review of the previous tables reveals the following.

- The boutique segment registered the strongest growth in supply from 2000 through 2005, increasing at an average annual compounded rate of roundly 7.5%. All remaining segments exhibited supply increases below 1.0%, on an average annual compounded basis.
- Due to the very strong performance of the Manhattan lodging market in 2004 and 2005, all four segments showed positive average annual compounded growth in terms of both occupancy and average rate, during the historical period reviewed, resulting in RevPAR growth ranging between 1.6% in the first-class category and 1.9% in the luxury category.
- The boutique segment has shown stronger and earlier signs of recovery than the other segments, as evidenced by the positive RevPAR growth in both 2002 and 2003. In 2005, all segments registered very strong RevPAR growth in the low-20s as a percentage.
- All of the segments exceeded the former peak 2000 occupancy levels in 2005.
- In terms of average rate, all segments registered a positive average annual compounded change between 2000 and 2005, ranging between 1.1% and 1.5%.
- All of the segments recovered completely in 2005, and recorded further significant growth in terms of both occupancy and average rate, resulting in RevPAR growth ranging from a low of roundly 20.7% in the first-class segment to a high of roundly 24.0% in the other segment. The tremendous recovery recorded in 2004 and 2005 indicates the strength and unrivaled significance of the Manhattan lodging market.

## Operating Statistics by Neighborhood

The following tables compare the performance of all reporting hotels in Manhattan from 1999 through 2005; results are broken down by neighborhood, including Midtown West, Midtown East, and Downtown.

### Midtown West

Year	Occupied Room Nights	% Change	Available Room Nights	% Change	Occupancy	% Change	Average Rate	% Change	RevPAR	% Change
2000	8,268,323	—	26,825	—	84.4%	—	\$214.99	—	\$181.55	—
2001	7,824,540	(5.4)%	28,140	4.9%	76.2%	(9.8)%	\$189.49	(11.9)%	\$144.35	(20.5)%
2002	8,090,892	3.4%	29,195	3.7%	75.9%	(0.3)%	\$182.88	(3.5)%	\$138.86	(3.8)%
2003	8,375,251	3.5%	29,980	2.7%	76.5%	0.8%	\$180.08	(1.5)%	\$137.83	(0.7)%
2004	9,166,013	9.4%	29,836	(0.5)%	84.2%	10.0%	\$200.24	11.2%	\$168.54	22.3%
2005	9,073,389	(1.0)%	29,098	(2.5)%	85.4%	1.5%	\$232.62	16.2%	\$198.73	17.9%

<b>Average Annual Compounded Change: 2000-2005</b>	<b>1.9%</b>		<b>1.6%</b>		<b>0.2%</b>		<b>1.6%</b>		<b>1.8%</b>
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Source: Smith Travel Research

Note: Some figures may be subject to small rounding errors

Note: Statistics based on selected hotels from a large database

#### Midtown East

Year	Occupied Room Nights	% Change	Available Room Nights	% Change	Occupancy	% Change	Average Rate	% Change	RevPAR	% Change
2000	5,382,412	—	17,922	—	82.3%	—	\$265.43	—	\$218.41	—
2001	4,686,829	(12.9)%	18,098	1.0%	70.9%	(13.8)%	\$233.09	(12.2)%	\$165.38	(24.3)%
2002	4,888,429	4.3%	18,092	(0.0)%	74.0%	4.3%	\$217.70	(6.6)%	\$161.16	(2.6)%
2003	4,934,096	0.9%	18,040	(0.3)%	74.9%	1.2%	\$208.71	(4.1)%	\$156.40	(3.0)%
2004	5,164,268	4.7%	17,487	(3.1)%	80.9%	8.0%	\$234.65	12.4%	\$189.85	21.4%
2005	5,436,989	5.3%	17,485	(0.0)%	85.2%	5.3%	\$277.40	18.2%	\$236.31	24.5%
<b>Average Annual Compounded Change: 2000-2005</b>		<b>0.2%</b>		<b>(0.5)%</b>		<b>0.7%</b>		<b>0.9%</b>		<b>1.6%</b>

Source: Smith Travel Research

Note: Some figures may be subject to small rounding errors

Note: Statistics based on selected hotels from a large database

#### Downtown

Year	Occupied Room Nights	% Change	Available Room Nights	% Change	Occupancy	% Change	Average Rate	% Change	RevPAR	% Change
2000	758,282	—	2,532	—	82.1%	—	\$267.45	—	\$219.46	—
2001	720,566	(5.0)%	2,616	3.3%	75.5%	(8.0)%	\$240.62	(10.0)%	\$181.62	(17.2)%
2002	758,844	5.3%	2,744	4.9%	75.8%	0.4%	\$230.08	(4.4)%	\$174.34	(4.0)%
2003	911,047	20.1%	3,275	19.4%	76.2%	0.6%	\$229.78	(0.1)%	\$175.11	0.4%
2004	999,426	9.7%	3,347	2.2%	81.8%	7.4%	\$251.38	9.4%	\$205.67	17.4%
2005	1,029,638	3.0%	3,332	(0.4)%	84.7%	3.5%	\$287.13	14.2%	\$243.09	18.2%
<b>Average Annual Compounded Change: 2000-2005</b>		<b>6.3%</b>		<b>5.6%</b>		<b>0.6%</b>		<b>1.4%</b>		<b>2.1%</b>

Source: Smith Travel Research

Note: Some figures may be subject to small rounding errors

Note: Statistics based on selected hotels from a large database

#### Lalia Rach

Ed.D, Associate Dean, **The Preston Robert Tisch Center for Hospitality, Tourism, and Sports Management**

The Manhattan hotel market is the beneficiary of surging demand, diminished inventory, the weak dollar, and a positive economy. It is the era of exuberance as measured by rates, occupancy, and profits.

Dr. Lalia Rach Associate Dean and HVS International Chair Preston Robert Tisch Center for Hospitality, Tourism and Sports Management New York University.

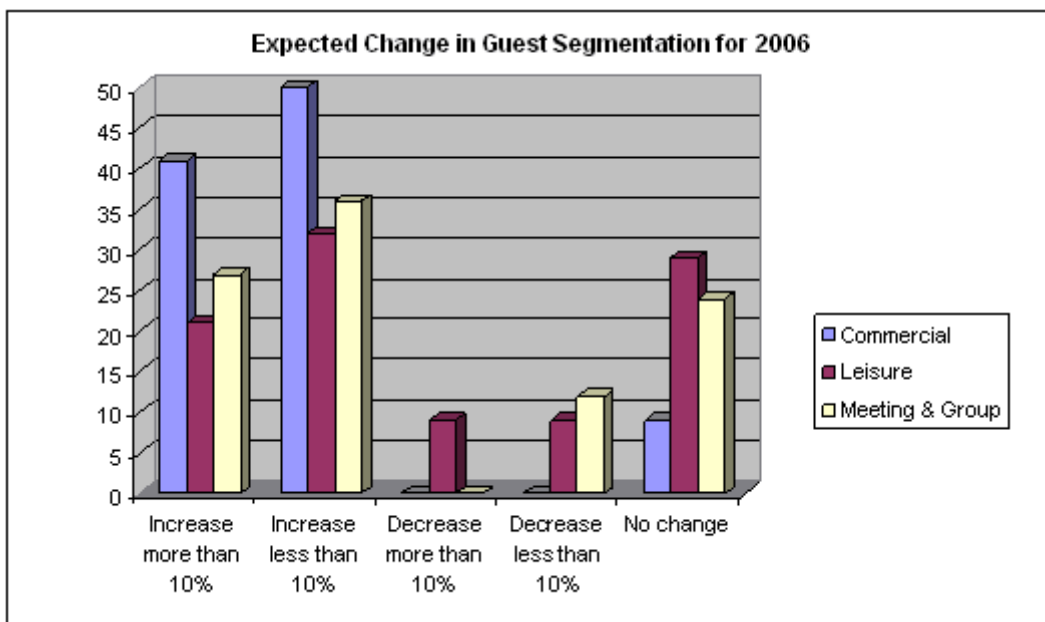
A review of the previous tables reveals the following.

- The Downtown neighborhood experienced the most rapid supply growth between 1999 and 2005 at roundly 5.6%, while the Midtown West neighborhood experienced some growth and the Midtown East neighborhood decreased slightly during the same period.
- All of the neighborhoods were negatively affected by the events of 9/11 as well as the adverse economic climate in 2001. Nevertheless, all neighborhoods have shown resilience in 2002 and 2003, recording slight to moderate increases in occupancies, with the exception of the Midtown West neighborhood, which recorded a slight decrease in occupancy in 2002.
- In 2005, all of the neighborhoods recorded significant growth in their respective occupancies, with all neighborhoods exceeding their 2000 occupancy levels. The strong growth in occupancy was coupled with double-digit growth in average rates in all of the neighborhoods, which resulted in double-digit RevPAR growth in all neighborhoods, ranging from a low of roundly 17.9% in the Midtown West neighborhood to a high of roundly 24.5% in the Midtown East neighborhood.

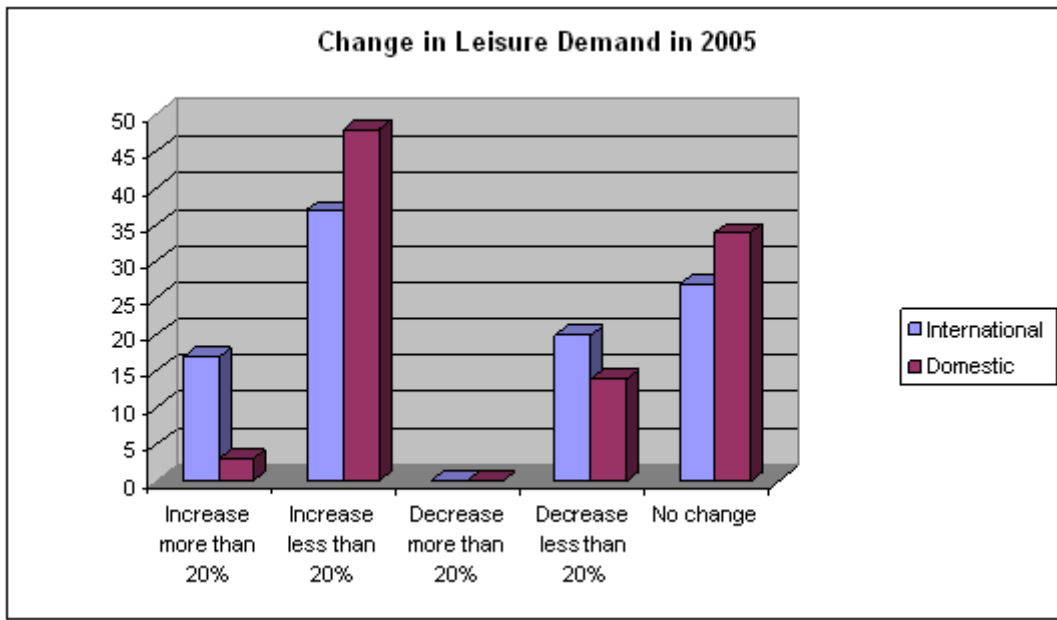
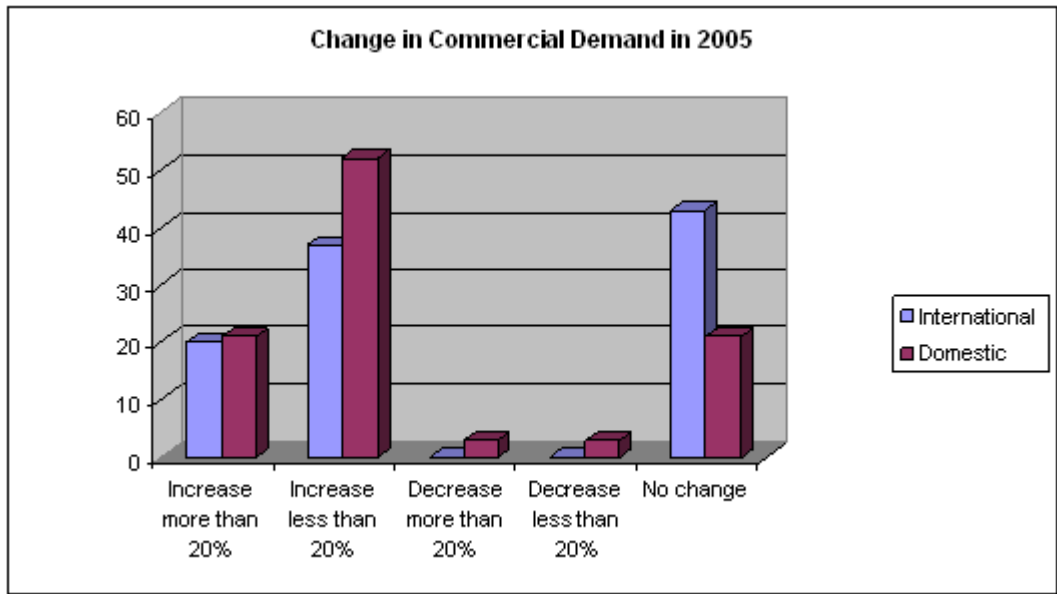
## Survey of the Members of the Hotel Association of New York and the Big Apple Chapter of Hotel Sales & Marketing Association International

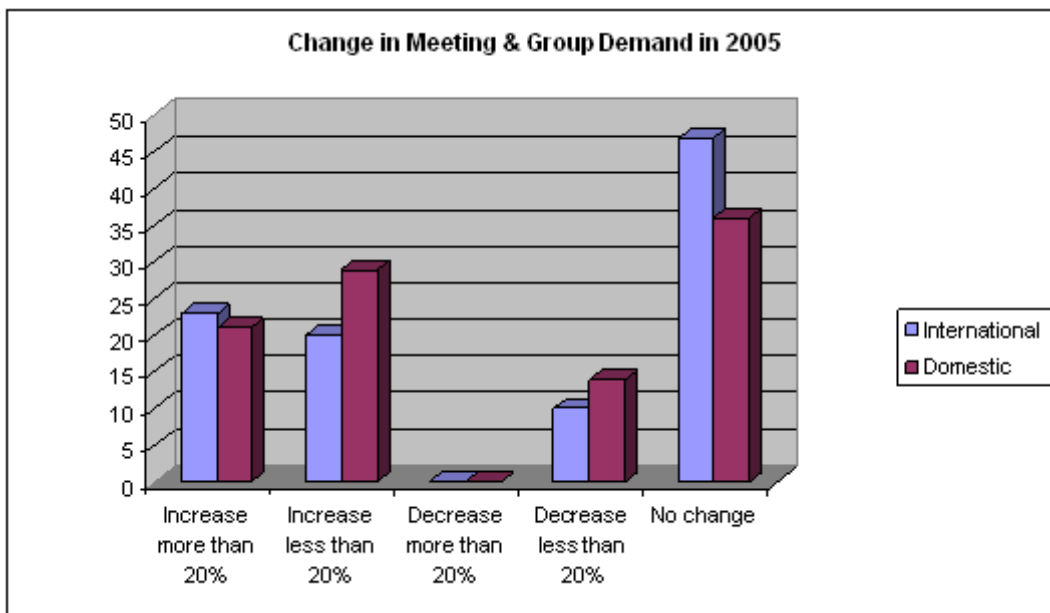
The graduate students of New York University's Preston Robert Tisch Center for Hospitality, Tourism, and Sports Management conducted an online survey of the members of the Hotel Association of New York City (HANYC) and the Big Apple Chapter of Hotel Sales & Marketing Association International (HSMAI). The purpose of the survey is to gain perspective relative to the hotel market in New York City. Members of HANYC and HSMAI who responded to the survey include General Managers, Managing Directors, Directors of Sales and Marketing, and Revenue Managers. A summary of the findings follows.

- Survey respondents categorized their hotel market segments as follows: luxury (22%), upscale (44%), mid-scale with food and beverage (11%), mid-scale without food and beverage (17%), and economy (6%).
- By averaging the numbers given by the survey respondents, customers of the New York City lodging industry can be segmented as follows: leisure (33%), commercial (50%), and meeting and group (17%).
- Fifty percent of the survey respondents expect that commercial travel will increase by growth rates less than 10% in 2006, compared to 2005, while leisure travel (32%) and meeting & group travel (36%) will experience growth at a slower pace.

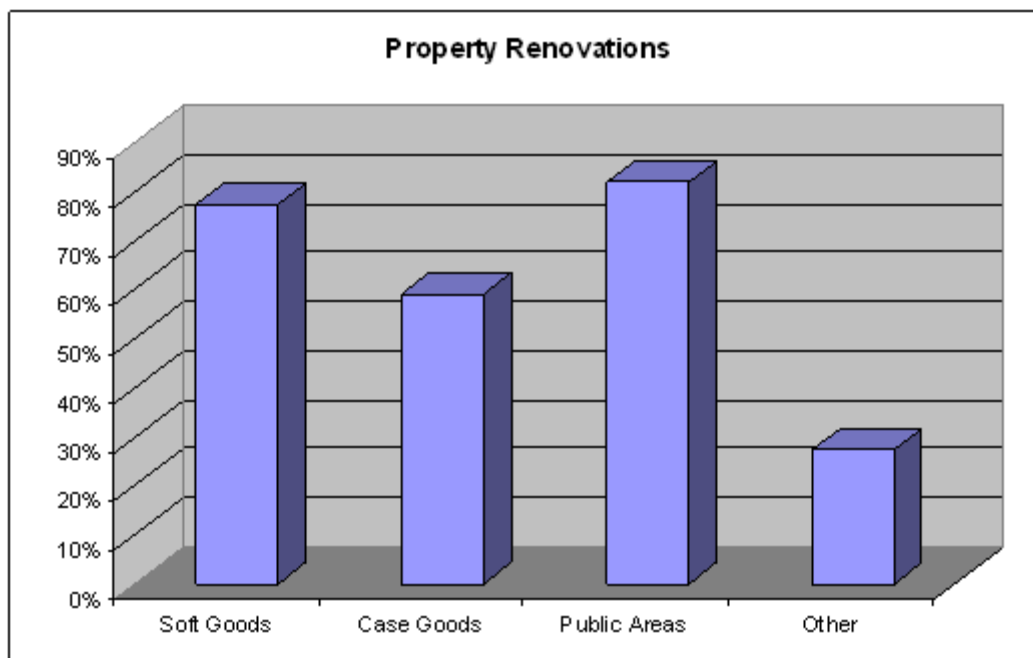


## Demand Change in the Three Major Market Segments in 2005





- Approximately seventy-five percent of the survey respondents indicate that Europe is the strongest generator of international travelers to New York City hotels, followed by travelers from Asia (14%) and Canada (3%).
- According to 40% of the survey respondents, their hotel properties have not been renovated since 2001. On the other hand, 60% of the survey respondents' hotels have been partially renovated.
- When asked what type of renovation has occurred in their hotels, 77% of the respondents stated that they upgraded their soft goods, including in-room soft goods and back-of-the-house technology. Additionally, 59% responded that they upgraded some case goods (changing furniture design, etc). Lastly 82% mentioned that they upgraded the public areas of their hotels.

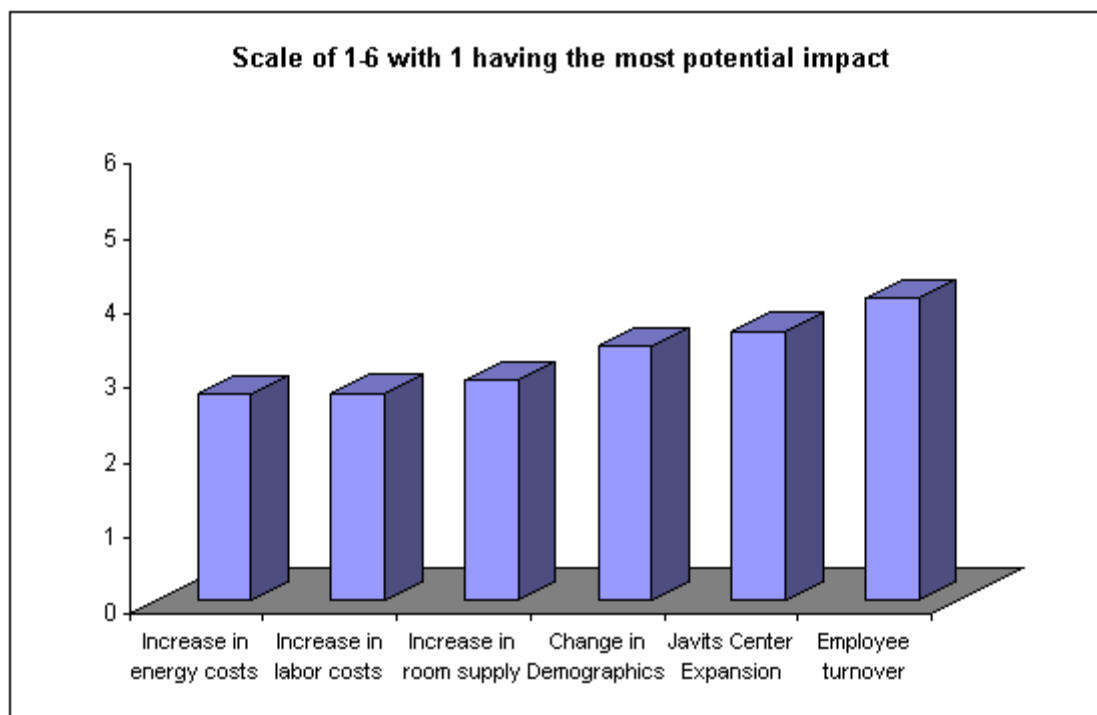


- Fifty-four percent of the survey respondents indicated that their hotel has already undergone a renovation. Almost 46% stated that their hotel is in need of renovation.
- According to 56% of the respondents, their hotels will be renovated within the next 18 months; while 44% of the survey respondents confirmed that their renovations were already completed.
- More than 33% of the survey respondents stated that their inventory will be reduced by between 5,000 to 10,000 room nights. Six percent of the survey respondents indicated that their inventory would be

reduced by between 16,000 to 20,000 room nights.

- The Manhattan hotel market will not convert many hotel rooms into condominiums or residencies in 2006 as 94% of the respondents said that they have no plans of converting their hotel room inventory into condominiums or residencies. Of the 6% of hotels that have plans of conversions into condos or residencies, only one hotel said it will convert all of its guestrooms into condominiums.
- More than two-thirds (72%) of total respondents feel that any compression in room supply due to condo conversions will increase their average daily rate (ADR). The remainder (28%) of the respondents said that it will have no bearing on their ADR.

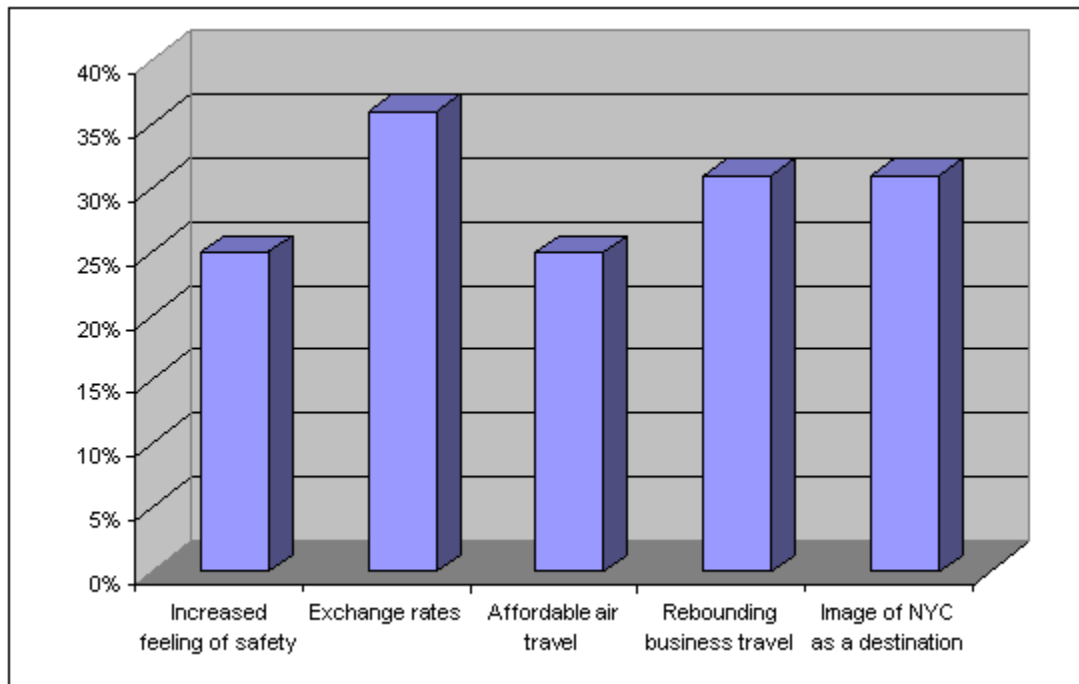
## Issues Impacting the Operation of a Hotel



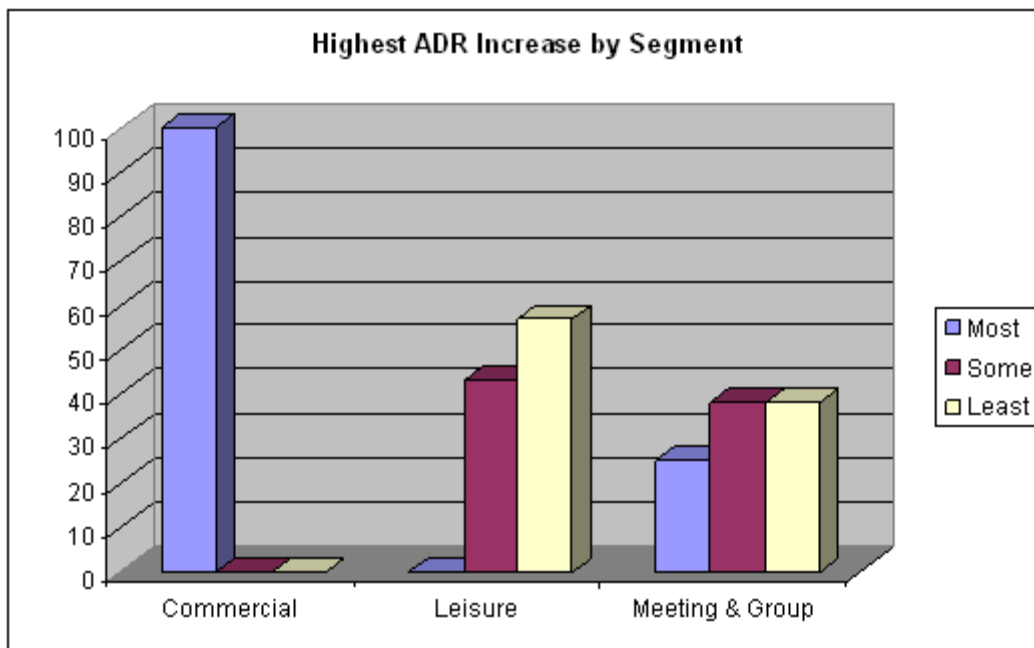
- Approximately 58% of the respondents feel that the planned addition of hotel rooms in Manhattan and outer boroughs within the coming years will have no impact on their ADR. Approximately one-quarter of the respondents (22%) believe that the room additions will decrease their ADR and 19% feel it will increase their ADR.
- Fifty percent of the respondents feel that newly built limited- and/or focused-service hotels will mainly accommodate leisure travelers. Forty-four percent of respondents feel that these hotels will primarily accommodate commercial travelers.
- Approximately 64% of survey respondents believe that leisure travelers are most sensitive to price. Twenty-two percent believe commercial travelers to be most price sensitive, while 14% of respondents identified meeting and group travelers as most price sensitive.
- According to 67% of survey respondents, the costs of NYC's room rates are displacing/forcing travelers into other markets. Fifty-four percent of the survey respondents feel leisure travelers will be most impacted, followed by meeting and group (27%) and commercial travelers (19%).
- Forty-nine percent of respondents feel that New Jersey receives the majority of overflow business from Manhattan. According to 15% of respondents, other markets such as Staten Island, Downtown Brooklyn, and other group cities receive the most overflow business from Manhattan. Another 15% of respondents feel that LaGuardia Airport is the biggest recipient overflow business from Manhattan, followed by Long Island City/Queens (12%), and JFK Airport (9%).
- Fifty percent of the survey respondents believe price sensitivity is the most influential factor for travelers choosing a hotel outside of Manhattan. Approximately 33% of respondents feel the lack of available rooms and inflexible travel plans influence travelers to stay in a hotel outside of Manhattan. Twenty-eight of respondents believe the aforementioned factors, as well as safety, are all influential factors for travelers

choosing a hotel outside of Manhattan, while 8% of the respondents noted factors such as convention/meeting space as most influential.

### Factors Influencing Travel to New York City



- Approximately 83% of the survey respondents felt that ADR has increased more or less equally among the three main market segments; nineteen percent of the survey respondents disagreed. Of that seventeen percent, the respondents ranked the commercial segment as the one absorbing the highest ADR increases. The leisure segment was ranked second, followed by the meeting and group segment.



**Cristyne L. Nicholas**  
**President & CEO, NYC & Company**

Exciting developments are under way for the New York City travel and tourism industry. NYC & Company, the city's convention and visitor bureau, is working in partnership with the



City and our tourism partners on initiatives designed to attract 50 million visitors to New York by 2015. To accomplish that goal, there are a number of developments and key investments in tomorrow's visitor market that are currently underway.

Our top priority is breaking ground on the Jacob K. Javits Convention Center expansion this summer. NYC & Company, under the leadership of our Chairman Jonathan M. Tisch, is spearheading the campaign to approve the proposed design and an immediate start for construction. The upgrade, expansion and modernization of the Javits into a world-class, state-of-the-art urban convention center will allow New York to recapture its market share and global advantage in the convention and trade show industry.

In 2005, a record 41 million visitors experienced the excitement of New York City and NYC & Company projects another banner year in 2006. Positive forecasts indicate that visitation to New York City will increase by 4.5 percent to an all-time high of 43.3 million visitors, including a record 7.2 million international visitors and 36 million domestic visitors. A key growth market for New York City's economy, tourism generates more than \$22 billion in spending, \$5.4 billion in taxes and \$13 billion in wages representing 329,000 travel and tourism jobs in all five boroughs.

To help accommodate the increased demand, nearly 5,000 new or renovated rooms will be added to the current inventory of approximately 70,000 hotel rooms by the end of 2007. NYC & Company continues to work with its tourism partners and the Bloomberg administration to promote the new Brooklyn Cruise Terminal in Red Hook and ongoing enhancements to the New York City Passenger Ship Terminal on the West Side of Manhattan, as well as the redevelopment and preservation of Governors Island, development of new stadiums for the Yankees and Mets baseball teams and other important initiatives.

- According to survey respondents, 51% have provided added value to their customers to justify the strong increases in average rate. The most commonly mentioned upgrade is complimentary high-speed Internet access. Other mentioned amenities are new beds, upgraded bed and/or bath linens, lounge and restaurant expansion, upgraded bath amenities, and complimentary water, snacks and breakfast for repeat guests.
- According to 71% of the respondents, average rates will peak within one to two years; 26% estimate it will happen in three to five years. Only 3% feel that the rate increases will take more than five years to peak.
- Fifty-one percent of the survey respondents believe that the New York City's year-end occupancy rates for 2006 will be higher than those of 2005. This shows a forty-seven percent decrease from last year's ninety-eight percent prediction of 2005 figures over those of 2004. Twenty-nine percent believe that year-end 2006 occupancy rates will be lower than those of 2005, and twenty percent believe there will be no change in occupancy rates in 2006.
- When asked about year-end ADR levels, ninety-four percent of survey respondents expect ADR to be higher in 2006 than 2005 year-end levels. This is down three percent from expected year-end ADR predictions for 2005 for this same survey.
- Seventy-nine percent responded that their property's total revenue in 2005 recovered to 2000 levels. Twenty-one percent of survey respondents answered that their property's total revenue in 2005 had not recovered to 2000 levels.
- Sixty-six percent responded that their 2005 Gross Operating Profit (GOP) has increased from 2000 levels. Results for respondents that believe that their GOP has decreased by less than ten percent as well as those that have decreased by ten to twenty percent is equal, at eleven percent each. Another ten percent of respondents said that their 2005 GOP stayed the same as 2000 measurements.
- A number of respondents foresee labor costs increasing by one to five percent (44%) while forty-four percent of respondents believe that labor costs will increase by six to ten percent. Nine percent believe that labor costs will increase by eleven to fifteen percent and three percent of respondents believe there will be no change at all in labor costs for 2006.

Overall, demand is increasing while supply levels are decreasing due to renovations taking place within many

hotels in 2006. Almost all hoteliers surveyed believe that ADR will be higher in 2006 in comparison to 2005. In order to retain existing customers and attract new ones, New York City hotels are upgrading their amenities. It was no surprise for us to find that more than half of our respondents agreed that there is a need to enhance their hotel product. The survey trend shows that three-fourths of the respondents have and will continue to upgrade their hotel's soft goods.

Additionally, the costs of NYC's room rates are displacing travelers into other markets. Half of the survey respondents feel leisure travelers will be most impacted with New Jersey receiving the majority of overflow business from Manhattan. In tune with the *2005 HVS Hotel Market Overview*, Europe continues to be the primary market providing international travelers to New York City hotels in 2006.

As found in the 2005 survey, labor costs remain an important issue for hotels and are expected to increase in 2006. Although the labor costs are increasing, the 2005 GOP still managed to exceed the 2000 level.

In summary, hoteliers are optimistic. The 2006 New York City hotel market continues to thrive. Future success may depend upon the weak dollar, economic conditions, and continued support of the domestic commercial travelers.

## Manhattan Operating History & Forecast

During the first four months of 2003, the uncertainties of the war in Iraq and the negative impact on international travel of the SARS epidemic greatly hampered the Manhattan lodging market's performance. However, market fundamentals started improving in the second half of the year, and strong RevPAR increases were attained in October through December 2003. The combination of an improved economic climate in 2004 and the market's poor performance during the first four months of 2003 resulted in exceptionally strong RevPAR gains in 2004. Due to the continued recovery of the regional and national economies, a favorable exchange rate of the euro against the U.S. dollar, the recent closing of several hotels for condominium conversions, and only moderate supply growth, marketwide RevPAR grew by roundly 18% in 2005, attributable to a 2.2% increase in occupancy and a 15.4% gain in average rate. As the national economy continued to recover, Manhattan's occupancy and average rate exceeded the 2000 levels in 2005.

Based on an analysis of the historical data and a review of proposed hotels and possible closings, we have prepared the following forecast for the Manhattan lodging market.

Year	No. of Rooms	% Change	Occupied Rooms	% Change	Occupancy	% Change	Average Rate	% Change	RevPAR	% Change
1987	52,683	—	14,624,039	—	76.1%	—	\$113.05	—	\$85.98	—
1988	52,768	0.2%	14,634,194	0.1%	76.0%	(0.1)%	120.11	6.2%	91.26	6.1%
1989	52,724	(0.1)%	13,873,898	(5.2)%	72.1%	(5.1)%	132.09	10.0%	95.23	4.3%
1990	54,421	3.2%	14,139,816	1.9%	71.2%	(1.3)%	132.34	0.2%	94.21	(1.1)%
1991	55,058	1.2%	13,442,624	(4.9)%	66.9%	(6.0)%	127.54	(3.6)%	85.31	(9.4)%
1992	56,235	2.1%	13,871,555	3.2%	67.6%	1.0 %	126.27	(1.0)%	85.33	0.0%
1993	56,190	(0.1)%	14,494,889	4.5%	70.7%	4.6 %	126.33	0.1%	89.28	4.6%
1994	56,083	(0.2)%	15,156,219	4.6%	74.0%	4.8%	136.12	7.7%	100.78	12.9%
1995	56,285	0.4%	15,410,904	1.7%	75.0%	1.3%	149.33	9.7%	112.02	11.2%
1996	56,552	0.5%	16,654,408	8.1%	80.7%	7.6%	160.72	7.6%	129.68	15.8%
1997	57,424	1.5%	17,158,942	3.0%	81.9%	1.5%	176.86	10.0%	144.79	11.7%
1998	57,943	0.9%	17,415,191	1.5%	82.3%	0.6%	198.25	12.1%	163.24	12.7%
1999	59,585	2.8%	17,634,111	1.3%	81.1%	(1.5)%	208.44	5.1%	169.01	3.5%
2000	61,053	2.5%	18,644,871	5.7%	<b>83.7%</b>	3.2%	<b>222.53</b>	6.8%	186.19	10.2%
2001	62,790	2.8%	17,065,999	(8.5)%	74.5%	(11.0)%	195.65	(12.1)%	145.69	(21.8)%
2002	63,320	0.8%	17,340,430	1.6%	75.0%	0.8%	185.88	(5.0)%	139.47	(4.3)%
2003	64,470	1.8%	17,852,440	3.0%	75.9%	1.1%	181.24	(2.5)%	137.50	(1.4)%
2004	64,077	(0.6)%	19,445,724	8.9%	83.1%	9.6%	201.36	11.1%	167.42	21.8%
2005	63,101	(1.5)%	19,580,575	0.7%	<b>85.0%</b>	2.2%	<b>232.31</b>	15.4%	197.46	17.9%
<b>Forecast</b>										
2006	64,074	1.5%	19,884,074	1.6%	85.0%	0.0%	\$260.19	12.0%	\$221.21	12.0%
2007	65,725	2.6%	20,401,060	2.6%	85.0%	0.0%	286.21	10.0%	243.39	10.0%

Sources: Smith Travel Research; HVS International  
 Note: Some figures may be subject to small rounding errors

### Mark Lomanno

President, Smith Travel Research

The performance of New York hotels continues to impress. Overall market occupancies have continued to improve and now rest at about 83 percent on an annualized basis. This level of occupancy is consistent with the peak reached in late 2000 and is driven by strong room night demand growth and a slight reduction in overall room supply. In fact, the supply/demand dynamics have begun to drive hotel performance in the areas outside of NYC, especially suburban New Jersey and Long Island. Mid-week occupancies are extremely strong, averaging just under 90 percent over the past year.

Room rate growth has also been strong with rates up over 14 percent in the last year. While the average cost of a hotel room in NYC is now above levels achieved in early 2001 in absolute terms, when one factors in the inflation rate, rates are still well below what guests paid at that time in real dollars. At the current rate of price acceleration it will still be several years before rates, again in real dollars, reach the levels achieved at the end of the last cycle.

Considering the factors mentioned above, it is a very dynamic time for hotels in NYC. Reduced supply, strong demand, and pricing will likely result in several very profitable years for hotels in this market.

## Overview of Sales Transactions in Manhattan

The table on the following pages sets forth an overview of Manhattan hotel sales from June 2000 through March of 2006.

Property	Date of Sale	Address	No. of Rooms	Seller	Buyer	Price	Price per Room
Drake Hotel	Pending	440 Park Avenue	495	Host Marriott Corporation	Macklowe Properties	\$440,000,000	\$889,000
<i>To be demolished for the development of a mixed-use residential condominium</i>							
Hilton Times Square *	Mar-06	234 West 42nd Street	444	Forest City Ratner Co. JV Hilton Hotels Corp.	Sunstone Hotel Investors	242,500,000	546,000
Additional \$15 million to convert property to a franchise							
The Mark Hotel *	Jan-06	25 East 77th Street	176	Mandarin Oriental Hotels	Izak Senbahar and Simon Elias	150,000,000	852,000
<i>Sold for Condo Conversion</i>							
Marriott East Side	Nov-05	525 Lexington Avenue	646	Strategic Hotel Capital, Inc.	Prime Property Fund (Morgan Stanley)	287,000,000	444,000
Westin Essex House	Sep-05	160 Central Park South	605	Strategic Hotel Capital, Inc.	Dubai Investment Group	400,000,000	661,000
<i>Assuming Partial Condo Conversion</i>							
				(as renovated, assuming a \$50-million infusion)		450,000,000	744,000
Portland Square	Sep-05	128-134 W 47th Street	140	David & Lina Putchall	47th Hotel Associates LLC	19,300,000	138,000

Howard Johnson Express	Sep-05	135 East Houston Street	45	Houston Lodging, LLC	Gemini Real Estate	13,750,000	306,000
Algonquin Hotel	Sep-05	59 West 44th Street	174	Miller Global	HEI Hospitality	74,100,000	426,000
					(as renovated, assuming a \$3.5-million infusion)	77,600,000	446,000
Avalon Hotel	Aug-05	16 East 32nd Street	100	Hotel Stanford LLC	Ferrado US LLC	35,700,000	357,000
Holiday Inn SoHo	Aug-05	138 Lafayette Street	227	Great Canal Plaza Inc.	Highgate Holdings	42,500,000	187,000
					(as renovated, assuming a \$4.5-million infusion)	47,000,000	207,000
Clarion Park Avenue	May-05	429 Park Avenue South	60	Palace International Properties, Ltd.	Park Avenue Hotels New York LLC	11,350,000	189,000
Crowne Plaza UN (35 years remaining)*	May-05	304 East 42nd Street	300	InterContinental Hotels Group	Highgate Holdings	34,000,000	113,000
					(as renovated, assuming a \$10-million PIP)	44,000,000	147,000
The Sutton	Apr-05	330 East 56th Street	85	Glenwood Management	Alchemy Properties	52,400,000	616,000
Rihga Royal*	Mar-05	151 West 54th Street	506	Lehman Brothers	Blackstone Real Estate Group	193,000,000	381,000
Best Western Convention Center	Feb-05	522-524 W 38th Street	83	Unigroup Hotel LLC	522 W 38th St NY LLC	15,785,000	190,000
Manhattan Seaport Suites	Jan-05	129-31 Front Street	57	Target Two Associates	129 Front Realty LLC/Heng Sang Realty	11,750,000	206,000
The Stanhope Park Hyatt*	Jan-05	995 Fifth Avenue	169	Hyatt Hotels	Intell Management	70,000,000	414,000
<i>Sold for Condo Conversion</i>							
Sheraton Russell	Dec-04	45 Park Avenue at 37th St.	146	Starwood Hotels & Resorts	SJP Residential Properties	40,250,000	276,000
<i>Sold for Condo Conversion</i>							
Clarion Fifth Avenue*	Dec-04	3-5 East 40th Street	189	ING Realty Partners	DiamondRock Hospitality	34,375,000	182,000
Park Central	Dec-04	870 Seventh Avenue	935	H. Park Central, LLC	Highgate Hotels	215,000,000	230,000
Courtyard Midtown East	Dec-04	866 Third Avenue	307	866 3rd Next Generation Hotel L.L.C.	DiamondRock Hospitality	75,000,000	244,000
The Plaza	Oct-04	768 Fifth Avenue	805	Plaza Operating Partners, Ltd.	Elad Properties	675,000,000	839,000
<i>Sold for Condo Conversion (except for 150 rooms)</i>							
Days Hotel	Aug-04	790 8th Avenue	368	Hampshire Hotels & Resorts	Highgate Hotels	\$58,000,000	\$158,000
Howard Johnson Plaza	Aug-04	851 8th Avenue	300	Hampshire Hotels & Resorts	Highgate Hotels	47,200,000	157,000
Paramount Hotel	Jun-04	235 West 46th Street	593	Ian Schragar Hotels	Becker Ventures, LLC	126,500,000	213,000
					(as renovated, assuming a \$50-million infusion)	176,500,000	298,000

Quality Inn Times Square	May-04	157 West 47th Street	160	Hampshire Hotels & Resorts	Cushlin Limited	20,200,000	126,000
Mayflower Hotel	May-04	15 Central Park West	365	Goulandris Family	William Lie Zeckendorf JV Whitehall RE Fund	401,000,000	1,099,000
<i>To be demolished for the development of a mixed-use residential condominium</i>							
The Mansfield*	May-04	12 West 44th Street	127	Credit Suisse First Boston	Ark Investment Partners, LP	12,500,000	98,000
InterContinental Central Park South*	Apr-04	112 Central Park S.	211	InterContinental Hotels Group	Anbau Enterprises	63,500,000	301,000
<i>Sold for Condo Conversion</i>							
The Shoreham*	Jan-04	33 West 55th Street	177	Credit Suisse First Boston	Ark Investment Partners, LP	14,500,000	82,000
Empire Hotel	Dec-03	44 West 63rd Street	381	Ian Schrager Hotels/NorthStar Capital	Joseph and Jack Chetrit	\$80,000,000	\$210,000
<i>Sold for Condo Conversion</i>							
Helmsley Hotel Windsor	Sep-03	100 West 58th Street	244	Leona Helmsley	Joseph and Jack Chetrit	55,000,000	225,000
<i>Sold for Condo Conversion</i>							
Gorham Hotel	Sep-03	136 West 55th Street	117	Private Investors	Richard Born and Ira Krukier	23,100,000	197,000
Roger Williams*	Sep-03	131 Madison Avenue	187	PTG Madison 31 Trust	JRK New York Hotel Partners	26,500,000	142,000
Hampton Inn Chelsea	Aug-03	108 West 24th Street	144	Chelsea Grand East, LLC	CNL Hospitality/Hersha Hospitality	28,000,000	194,000
Loews Metropolitan	Jul-03	Lexington Ave at 51st St.	722	Loews Hotels	Whitehall Street Real Estate Fund	110,250,000	153,000
				(as renovated, assuming a \$20-million infusion)		130,250,000	180,000
Doral Park Avenue (now Kimpton Hotel)	Jul-03	70 Park Avenue	188	Hayman Company	Kennedy Associates	38,240,000	203,000
			205	(as renovated and expanded, assuming a \$19-million infusion)		57,240,000	279,000
Hotel Wales	Nov-02	1295 Madison Ave.	87	PTG Wales Trust	DLJ Real Estate Capital Partners II LP	24,000,000	276,000
Fitzpatrick Hotel	Aug-02	127 East 55th Street	130	British Airways	Hotel Properties Ltd, Singapore	30,690,000	236,000
Algonquin Hotel	Jun-02	59 West 44th St.	174	Camberley Hotel Co./Olympus RE	Miller Global Properties	41,400,000	238,000
Delmonico Hotel	Nov-01	502 Park Avenue	152	N/A	Donald Trump	115,000,000	757,000
<i>Sold for Condo Conversion</i>							
The Barbizon	May-01	140E 63rd St.	300	Ian Schrager Hotels	Berwind Property Group	96,000,000	320,000
Rihga Royal*	Feb-01	151 W 54th St.	500	Royal Hotels Ltd.	Thayer Lodging Group, Inc.	193,000,000	386,000
The Carlyle	Jan-01	35 E 76th St	194	Mr. Norman Peck (et al)	Maritz Wolff & Co	127,500,000	657,000
Downtown Athletic Club Hotel	Oct-00	19 West St.	116	CBA Real Estate Partners 19 West Hotel (LLC)	Upper West St LLC	20,000,000	172,000
The Sutton	Jun-00	330 East 56th St.	84	Hong Kong & Shanghai Hotels	Glenwood Management	35,000,000	417,000

*\*Leasehold Interest*

*Note: Price for the Rihga Royal includes termination fees paid to Marriott*

**Michael R. Bloomberg**  
**Mayor of the City of New York**

As the "World's Second Home," New York City appeals to business and leisure travelers from every corner of the globe. In fact, 2005 was a banner year for tourism in our City, with a forecasted 41.4 million visitors, up 3.7% from 2004.

Millions of people are discovering the rich diversity of our cosmopolitan city. New York City's accommodations, attractions, dining, entertainment, shopping, sporting events, theater, and performing arts are the best in the world. In 2005, it is projected that more than 22 million hotel room nights were sold; Broadway had its most successful year ever, grossing more than \$825 million; and attendance at the Javits Center was the second highest on record.

New York is also seeing significant growth in international travel, including an increase in visitors from Mexico, China, Hong Kong, Brazil, India, and Russia. International visitors in 2006 are likely to exceed seven million, surpassing pre-9/11 records.

There has never been a better time to visit the greatest city on earth. New York remains the safest large city in the United States and the visitation forecast indicates that more than 43 million visitors will come to New York in 2006. Expect those visitor numbers to increase as more people experience the best of the Big Apple!

Following the events of September 11, 2001, hotel transaction activity declined due to the uncertainty regarding hotel operating performance and stricter underwriting by lenders. Well-capitalized owners were generally holding onto their assets until market conditions normalized. Those owners facing debt-service shortfalls modified loan payment terms with their lenders or brought in new equity to the investment. Few owners have been forced to sell their assets.

Since the end of 2001, numerous buyers have raised capital to purchase hotels at levels below replacement cost. Declining hotel performance in 2002, followed by the war in Iraq and the SARS epidemic in the first half of 2003, caused many transactions to stall due to a gap between seller and buyer expectations.

In the last quarter of 2003, hotel investors started to perceive the hotel industry in Manhattan as very attractive, with expectations of increases in occupancy as well as average rate; buyers started to meet seller expectations. We note that all seven sales that occurred in 2003 took place during the second half of the year, as the Manhattan lodging market was starting to turn around.

In 2004, the sales activity intensified as the market rebounded at a tremendous pace, and in total 13 hotels were sold during 2004, the highest number at that point in time.

Fourteen hotels were sold in 2005, exceeding the previous peak in transactions achieved in 2004. Hotel investors continue to have an upbeat perspective of the Manhattan lodging market, as average rate is expected to experience significant growth over the next few years. In addition, financing continued to be readily available in 2005, as lenders also seemed to be optimistic about the Manhattan lodging market.

Two transactions occurred in the first quarter of 2006, while a third sale was pending. Although we expect the Manhattan hotel market to remain active in terms of transactions in 2006, we anticipate the number of hotel sales to decrease gradually over the next few years.