



INNsideISSUES

This issue compliments of



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INFORMATION REQUEST FORM

The fast-changing hotel real estate market is creating significant opportunities.

The challenge is to discover and mine those opportunities. As the leading hotel real estate brokerage organization, representatives of Hotel Brokers International offer the expertise to assist you in achieving your hotel investment goals.

For information about many ways HBI can assist your efforts, fill out the form below and mail or fax it to the address on the cover of this newsletter.

NAME _____

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

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

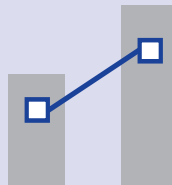


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Forecasts, Expectations and Reality

In late-autumn 2005, full-service hotels were predicted to lead the pack as the investment property of 2006, according to *Emerging Trends in Real Estate*® 2006, one of the real estate industry's longest-running and most-respected annual investment studies. The report, which was jointly released by Urban Land Institute and PricewaterhouseCoopers LLP last November, is based on surveys and interviews with more than 400 of the industry's leading authorities. Although the study noted that a continuous flow of capital had kept the real estate industry stable overall, growth throughout 2006 in all property segments (office, retail, hospitality, industrial and more) would be dependent upon a variety of factors: consumer spending, energy prices, housing demand, job growth, corporate productivity gains and inflation.

Full-service hotels' primacy marks the first time the category has led *Emerging Trends* rankings. In fact, hotels were predicted to make "a roaring comeback," boosting all segments (including limited-service properties). Significant gains would result from occupancies rising upwards of 70 percent - well above break-even levels of 55 percent - and corporate travel back at a pre-9/11 pace. Weaknesses cited in the report noted energy prices "as a wild card," not to mention higher fares and gas prices. Additional concerns were directed to the costs associated with makeovers. Apparently, many owners deferred maintenance and capital projects during the 9/11 downturn. The bottom line, according to *Emerging Trends 2006*: "Hotels have legs as long as the economy expands. It will be another two years before a new round of development kicks up room supplies and slows revenue growth."

What's Hot, What's Not, According to HBI Brokers

Now, halfway into 2006, how do HBI brokers view hotel investment values and interest levels in specific property segments?

According to respondents to the most recent "Hotel Investment Outlook Survey," which was e-mailed to brokers in early May, values are stable or up in many areas.

"The values are up in most areas because both ADR and occupancy are up. I think this can be [attributed] to all of the hurricanes and rooms still not online, as well as no new construction," noted Tony DeGeorge, CHB, president at Greene, Canfield, DeGeorge, Ltd., Clearwater, FL.

Several other respondents concurred with this assessment:

- "[It's a] very strong sellers' market still. A shortage of [available] hotels is impacting [investments]," said Gayna Flake, president at Corvallis, OR-based Western Hotel Brokers Inc. In response to activity levels within property segments and brands, Flake replied: "Everything is hot."
- "Hotels are still highly sought investments in the Northeast, in particular New York City, New York Metro, Philadelphia and Boston," explained Joe McCann, CHB, president at Optimum Hotel Brokerage, Philadelphia, PA. In McCann's experience, all upscale Full-Service and Select Service Marriott, Hilton and IHG hotels were doing well.



"Underwriting turnaround projects [is] tightening. Lenders are looking for a strategic turnaround scenario before rubber-stamping a repositioning deal with extensive renovations."

Joe McCann CHB
PRESIDENT
OPTIMUM HOTEL BROKERAGE
PHILADELPHIA PA

La Quinta: Spanish for "Growth"

By Rajiv Trivedi, Executive Vice President, Franchising, LQ Management, LLC

Not long ago, La Quinta was a hotel chain predominantly located in the Southwest with 300 or so properties. Over the past five years and as a result of our franchise program and corporate acquisitions, however, we have grown to become a 550-property chain with locations throughout the nation and in almost all high-profile strategic markets.

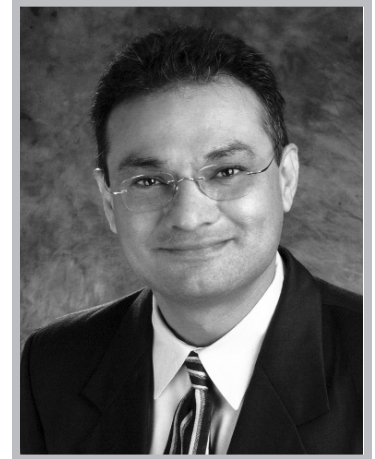
The year 2006 has continued to prove to be even more exciting for the brand. In First-Quarter 2006, we opened 12 new franchise locations, executed 13 new contracts and the company acquired three new locations in Santa Ana, Anaheim and LAX. Our franchise pipeline is 150 properties strong - each at various stages of development - and we anticipate this growth will continue. By year-end, we anticipate having 600 properties in our system.

In addition to our property growth, we are growing in other areas, too. Our brand continues to increase RevPAR at a faster pace than the industry average.

Hotel Brokers International is a vital supporter of La Quinta's growth. At the organization's Annual Meeting earlier this year, La Quinta identified for HBI brokers the markets within which we are pursuing franchise opportunities, as well as our interest in acquiring strategically located properties with 100-plus rooms to expand our brand.

In living up to its English translation, La Quinta - to us - truly means "growth," but growth with a continued commitment to service and quality. With our aggressive plans for the future through the franchise program and company acquisitions, we have become a preeminent hotel company that provides excellent experience and satisfaction to our guests. We take pride in providing top-notch services and quality at our locations; so much pride, in fact, that the company plans to spend \$250 million to further upgrade our corporate-owned locations in order to ensure their ability to compete more effectively in the marketplace. As for our franchisees, we are a true hotel company - one that provides these franchisees support, resources and training. We share our expertise in operations to bring them a high level of success. We respect our franchisees' investment in our brand and, as a brand parent, we are committed to ensuring that each franchisee has an opportunity to enjoy a nice return on that investment. We create a seamless environment for our guests at all La Quinta properties, regardless of the ownership.

That spells success, something to which we at La Quinta continually aspire - within our organization and with our franchisees, as well as through our collective efforts with such organizations as HBI. Simply stated (and using yet another translation for "La Quinta"): Thank you.



Rajiv Trivedi

For any franchise opportunities,
contact Rajiv Trivedi,
EXECUTIVE VICE PRESIDENT,
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rajiv.trivedi@laquinta.com.

For any acquisition opportunities,
contact Temple Weiss
at 214.492.6685 or e-mail
temple.weiss@laquinta.com

Calendar of Events

HBI brokers look forward to seeing you at the following industry events, conferences and trade shows:

THE LODGING CONFERENCE
September 18-21, 2006, Phoenix, AZ

HOTEL INVESTOR'S MARKETPLACE
November 1, 2006, Baltimore, MD

**INTERCONTINENTAL HOTELS GROUP
TRADE SHOW**
October 4-6, 2006, Toronto, ON, Canada

**AMERICAS BEST VALUE INNS
CONFERENCE & TRADE SHOW**
December 5-7, 2006, Las Vegas, NV

**BEST WESTERN INTERNATIONAL
TRADE SHOW**
October 5-7, 2006, Grapevine, TX

**AMERICAS LODGING INVESTMENT
SUMMIT**
January 22-24, 2007, Los Angeles, CA

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

Partners in Maximizing Value

Teague Hunter, CHB, vice president of Atlanta, GA-based Hunter Realty Associates, brings to his term as current HBI president an impressive professional record. He was recognized as HBI's salesperson of the year in 2005; captured top honors as regional salesperson in 2001, 2002 and 2004; and is currently an instructor in the Certified Hotel Broker program. Now, with nearly six months completed under his year-long leadership, he offers the following perspective:

Opportunities are robust for the hotel real estate market. Industry-wide, and as we progress into the new millennium, there's a keen realization that there's money to be made in hospitality - an optimism that continues from a 2004 rebound. A contributing factor, of course, is the scarcity of new construction. Add to that the already established high rate of return on hotel investments, as well as a lowering of the associated risk levels, and the market is now flooded with interested buyers - all looking to make "a deal," even though property values throughout the country are on the rise. The dilemma, then, for sellers is "Do I sell or hold? If I sell, how can I obtain top dollar for my property?"

That's where Hotel Brokers International and its brokers can assist owners and investors in addressing these challenges. The skill-sets of hotel brokers are virtually limitless, from perceiving value-added elements of a property as it is being brought to market, to sifting through investment offerings for potential. As a group of professionals, we bring expert advice and a clear understanding of the competition. We also are part of an organization that created and supports the continuing education and professionalism of hotel brokerage - the Certified Hotel Broker (CHB) designation. And because of our diversity in geography and within the hospitality spectrum, HBI brokers are leading the industry. Collectively, we sell more hotel real estate than anybody else.

Clearly, it's a sellers' market. But both buyers and sellers are antsy, and require a professional's guidance in making the best decisions about their investments. Through diligence, market intelligence and all the tools afforded through HBI membership, a broker can maximize the value of any property.

Hunter and members of HBI's Board of Directors welcome your questions and comments. Direct them to info@hotelbrokersinternational.com.



Teague Hunter, CHB
HBI PRESIDENT

2006 BOARD OF DIRECTORS

HBI's 2006 Board of Directors was appointed during the annual meeting, held earlier this year in Las Vegas.

PICTURED BOTTOM (LEFT TO RIGHT) ARE BOARD OFFICERS:

Secretary Jeff Westgor, CHB
WESTGOR & ASSOCIATES

President Teague Hunter, CHB
HUNTER REALTY ASSOCIATES

Vice President Charlie Fritsch, CHB
MBA HOTEL BROKERS

Treasurer Brandt Niehaus, CHB
HUF, NIEHAUS & ASSOCIATES

THE 11-MEMBER BOARD ALSO INCLUDES (PICTURED TOP, LEFT TO RIGHT):

Tony DeGeorge, CHB
GREENE, CANFIELD, DEGEORGE, LTD.

Steve Blue, CHB
SCOGGIN BLUE

Lili Gewargis
BRASH REALTY COMPANY

Dick Lopez, CHB
LODGING PROPERTY BROKERS

Jennifer Church, CHB
MILMARK HOTEL/MOTEL INVESTMENTS

Joe McCann, CHB
OPTIMUM HOTEL BROKERAGE

BOARD MEMBER
Steve Ferrarini, CHB of
PROCOM LODGING BROKERS
is not pictured.



2006 Recap Points to Positive Growth in the Hospitality Industry

Optimism about the hotel real estate market was in full swing in 2005, with transaction volume increasing by 22 percent. The appetite for hospitality properties seemed to be insatiable as hotel transactions topped 750 and capital invested in hotels increased by 63 percent, according to data compiled by the TransActions Data Services division of HBI and published in its recently released annual report, *TransActions Recap 2006 Edition*.

A number of factors contributed to the accelerated growth of the hotel real estate market. Most notable was the increased demand for lodging as both business and leisure travel increased by nearly four percent (4%), according to the Travel Industry Association of America. The encouraging outlook for the hospitality industry, along with the availability of financing and equity capital, combined to create a positive atmosphere for hotel acquisition. Strong fundamentals in the hospitality industry had a positive impact on net operating income (NOI) and contributed to keeping capitalization rates low.

Using input from Hotel Brokers International's brokerage offices located throughout the nation and abroad, *TransActions Recap 2006 Edition* and its complementary online search service offer a comprehensive look at year 2005 in review, including statistical analysis and sales information on a sizeable number of hotel transactions for 2005.

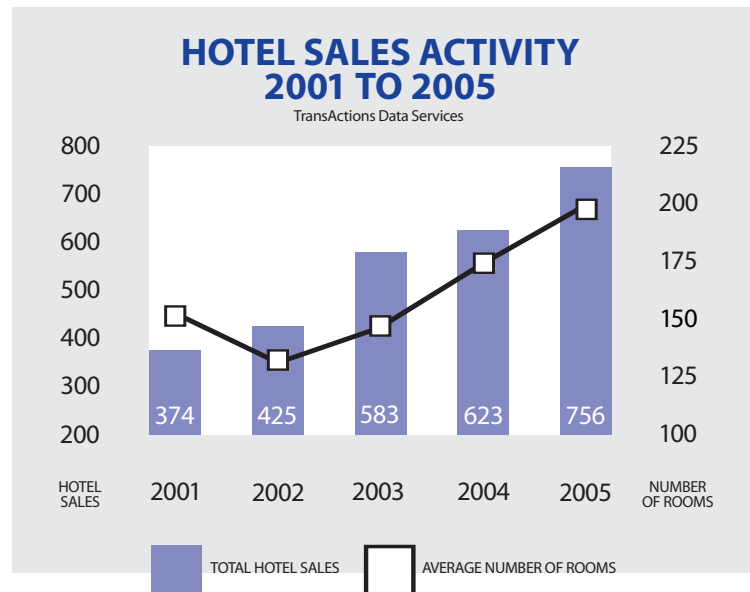
Numerous hospitality professionals rely on TransActions Subscription Service to assist in their analysis research. This service provides detailed property searches from data collected by HBI. Subscribers to TransActions Subscription Service receive a bound copy of the 2006 publication, plus three custom searches within a 12-month period, for only \$475 (USD)- a savings of more than \$225 (individual custom searches cost \$200 to \$500 each).

This year's *TransActions Recap* features:

- The transaction year 2005 in review
- Analysis by property segment, room count and brand
- Review and analysis by regions - New England/Mid-Atlantic, North Central, Mountain/Pacific, South Atlantic and South Central
- Summaries of HBI-member transactions for the period 2001-2005
- Hospitality financing survey 2006
- Lending sources
- HBI member office directory

In addition to the best-value purchase gained through HBI's *TransActions Subscription Service*, other options are available.

Go to www.hotelbrokersinternational.com and click on "Hotel Sales Comparables" for further information, to order online or download an order form. Direct additional questions to 816.505.4315.



Gas Prices May Affect Travel Volume Growth

In its Summer 2006 Forecast, the Washington, D.C.-based Travel Industry Association of America (TIA) has predicted travel volume growth of less than one percent (1%) this year amid relatively soft travel intentions. With person-trips defined as one person traveling 50-plus miles, one-way, away from home, TIA estimates that Americans will take 325.6 million leisure person-trips during June, July and August 2006. Among the "tipping points" at which 10 percent of travelers indicate they would seriously consider canceling a trip are \$3-per-gallon gasoline prices. An additional 26 percent note their trip plans would change or be cancelled if gasoline prices go higher (between \$3 and \$3.24 per gallon). However, TIA suggests that demand could grow as the summer wears on, particularly as travelers get used to high gasoline prices - but also assuming gas prices, at a minimum, have stabilized. Destinations near major population centers, as well as those offering creative incentives and new things to see and do, could benefit as leisure travelers tighten their belts.

Campaign to Build Awareness, Expand HBI Services

In further assisting members in their selling efforts, HBI has launched a massive public relations campaign aimed at building awareness of both the hotel brokerage profession, as well as the specific activities of HBI brokers and the organization. “The first half of 2006 has been directed toward building the program, and the second half of the year will be aimed at getting it done,” said HBI President Teague Hunter, CHB.

A large part of that program includes a late-2006 unveiling of a new HBI web site that will offer both members and investors a number of expanded benefits, including:

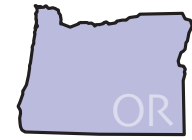
- Details on hundreds of listings, including the ability to sign up to receive notice - immediately - of new listings to the market.
- The capability of creating a one-page pdf file from any property listed.
- A user-friendly tool that enables visitors to the site to locate a hotel real estate specialist by state of interest.
- A search engine that directs individuals to the variety of services offered by HBI affiliates: lending, franchising, etc.
- HBI and industry news delivered directly to your Inbox (upon registration).
- A continually updated Calendar of Events - allowing you to plan your travel to conferences, trade shows, investor marketplaces, and other HBI- and industry-sponsored events.

Your input is invaluable. Please direct your comments and suggestions - now and in the future - about our web site to info@hotelbrokersinternational.com.

Selection of Recent HBI-Brokered Sales

Holiday Inn	Arlington, TX	237 units	Holiday Inn	Jonesboro, AR	179 units
Holiday Inn Express & Suites	Tampa, FL	76 units	Ramada Inn	Tucson, AZ	113 units
La Quinta Inn	Houston, TX	122 units	Comfort Inn	Bradford, PA	48 units
Howard Johnson	Bakersfield, CA	150 units	Fairfield Inn	Columbus, OH	105 units
Comfort Inn & Suites	Lancaster, CA	58 units	Quality Inn	Ozark, AL	84 units
Ramada Inn	Ft. Myers, FL	135 units	Comfort Inn	Enterprise, AL	78 units
Motel 6	Dalton, GA	68 units	Comfort Inn	Wilmington, NC	146 units
Days Inn	Rochester, NY	153 units	Comfort Inn & Suites	Ocean Shores, WA	60 units
Best Western	Lawton, OK	148 units	Nightengale Motel	Sturgeon Bay, WI	34 units
Economy Inn	Lake Havasu City, AZ	64 units	Hampton Inn Northlake	Atlanta, GA	129 units
Cabana Motel	Othello, WA	56 units	Hampton Inn	Morrow, GA	126 units
Best Value Inn	Brush, CO	44 units	Holiday Inn Express	Jonesboro, AR	102 units
Super 8	Saukville, WI	70 units	Holiday Inn Express	Milledgeville, GA	68 units
Suburban Lodge	Garner, NC	140 units	Sleep Inn	Henderson, KY	63 units
Lake of the Woods Resort	Maitland, FL	38 units	Red Rock Inn	Bedford Heights, OH	168 units
Travelodge	West Plains, MO	116 units	Rose Garden Inn	Pismo Beach, CA	101 units
Ramada Inn	Laurel, MS	145 units	Comfort Inn & Suites	Austintown, OH	109 units
Econo Lodge	Reno, NV	96 units	Best Western	Ft. Collins, CO	62 units
Knights Inn	Florence, KY	115 units	Guest House Motel	Bushnell, FL	48 units
Hampton Inn	Frederick, MD	161 units	Best Western	Maplewood, MN	117 units
Silver Fox Inn	Monticello, MN	70 units	Holiday Inn Express	Waterbury, CT	111 units
Freedom Inn	Leavenworth, KS	97 units	Days Inn	Williamsburg, IA	40 units
Hotel Marion	Marion, IN	120 units	AmericInn	Plover, WI	65 units
Americas Best Value Inn	Houston, TX	43 units	Hampton Inn	Tucson, AZ	126 units
Travelodge	Lancaster, PA	146 units	Americas Best Value Inn	Newport News, VA	95 units

- Brock Hotel Group President Alan D. Brock explained, “Values have been rising in our region (Grapevine, TX), along with hotel RevPARs. There is an abundance of financing of every sort for all hotel types. [However], there is a big discrepancy in values between the desired and undesirable hotels. All newer hotels (those built in the last seven years) with interior corridors are desired; Marriott and Hilton brands the most, with Intercontinental next desirable. Other mid-market full-service [properties], such as Ramada Inns, are a tough sell.”
- While Ronald R. McCord, CHB, president at Oconomowoc, WI-based Milmark Hotel/Motel Investments, LLC, agreed that values are stable or only slightly down from year-ago numbers, he offered the following caveats: “Competition is strong and some new construction is evident with more to come. Rising interest rates impact the selling prices, and overall expenses are impacting profits, which affect net operating income and capitalization rates (which are moving up from modern all-time lows). Another major factor is property assessments and rising property taxes.” He cited the mid-market arena - specifically Best Western, Hampton, Holiday Inn Express and Country Inn & Suites - as the most discussed properties. “While Super 8, Comfort Inn and Sleep Inn are also popular in the economy sector, Independents are not in favor but still sell if priced right for flagging to brands like Americas Best Value Inn or Budget Host.”
- In Michigan, said Arvind R. Patel, CHB, president at Everest Hotel Brokers, LLC, Farmington Hills, MI, “The travel and tourism industry is second to the auto industry.” Although he noted the abundance of family fun and recreation destinations throughout the state, “current hotel values are relatively low compared to the rest of the U.S. market, due to the cyclical and competitively challenged industry presenting great potential in the long run.” Upscale limited-service properties are hot, according to Patel, “but the over-expanded, economy-limited service segment is somewhat cold.”



“[It’s] looking very bright for sellers. Difficult for people to find 1031 replacement property. We project a very strong year - [a] great time for people to put their hotels on the market. Many purchasers are willing to pay top dollar.”

Gayna Flake
PRESIDENT
WESTERN HOTEL BROKERS INC
CORVALLIS OR



“In the Dallas area, we are seeing several new luxury hotels - almost all with condos attached. The condos make the economics work.”

Alan D. Brock
PRESIDENT
BROCK HOTEL GROUP
GRAPEVINE TX

Strong Activity - in Buying and Selling

Patel explained that investors with a lot of low-cost money at hand are most active in cities with historic preservation projects. As examples: “A pairing of 15 Detroit-area ministers with Herb Strather, a Detroit entrepreneur, have purchased the struggling Hotel St. Regis Detroit. The U.S. Department of Housing and Urban Development approved \$36.7 million of federally guaranteed loans to help the city in its efforts to redevelop the Book-Cadillac and the Pick-Fort Shelby hotels. [Additionally,] MGM Mirage has entered into an amended development agreement with the city of Detroit, which would allow construction of a permanent hotel and casino complex - the MGM Grand Detroit - in the city. Currently, none of the three casinos have hotels.”

Milmark’s McCord pointed to the strong activity of families and partnerships in his area of Wisconsin. “We recently sold a 70-unit Super 8 to a dentist and his wife. Also, a husband and wife purchased a resort property for their lodging-experienced son and daughter-in-law,” he said. Private groups with equity funds, experienced owners and real estate investment trusts (REITS) were also cited as investors most active in acquisitions.

According to survey respondents, owners that are divesting properties include burned-out sellers, business partners interested in getting back to their core competencies (in one case, a law and accounting practice) and large REITs and management companies disposing of non-strategic assets. In many cases, noted DeGeorge, very few owners are selling. If

they are, “they are looking to sell and buy another - either looking for a new area or better brand.”

Most respondents agreed that investor profiles have pretty much stayed the same over the past 12 months, but DeGeorge believed the market has changed due to the increased revenue numbers. Everest Hotel Brokers’ Patel noted an influx of “a fresh crop of investors around their mid-50s with at least a decade of income-producing need. ... Many of this age group are unemployed by means of a lay-off or an earlier retirement [from one of the big three auto companies] and a hefty severance package. They are Internet-savvy and broker-friendly investors.”

Available Funding and Second-Half 2006 Outlook

Respondents unanimously agree that financing is readily available for all facets of the lodging business as long as properties or projects are viable and buyers or borrowers are qualified. In fact, said DeGeorge, "We see [lenders] coming to us asking for deals."

That's good news for an industry that suffered post-9/11. Although Patel cited the influence of new homeland security laws on foreign national borrowers as a small issue, a handful of respondents were cautiously optimistic. On the downside: In one recent transaction, a buyer was required to purchase terrorism insurance. Another survey respondent noted the upswing - albeit slowly - of interest rates now almost five years after 9/11.

For the remainder of 2006, all agree: The market is full of motivated sellers and eager buyers. As long as there are no surprises, deal activity will remain strong.

Hotel Tax Lawsuits

The *Ars Technica* online news source reported in mid-May that a group of U.S. cities - San Antonio, Los Angeles, San Diego, Philadelphia, Atlanta and Chicago - have filed lawsuits against certain Web-based hotel travel companies, alleging that the firms have failed to pay enough hotel taxes over the past few years. The suits suggest that these firms have snapped up rooms at low rates, then sold them to consumers without paying hotel taxes on the higher prices. "The dispute centers on this price difference between the wholesale price and the retail price. Online travel sites insist that they are not marking up the price of the hotel room, but simply adding a service fee to the price. Such a service would not be taxable."

INNSideISSUES

Contents © 2006
 Inside Issues is published by
Hotel Brokers International
 1420 NW Vivion Road
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 Kansas City, Missouri 64118
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 www.hotelbrokersinternational.com

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