“Life Near the Peak”
Atlanta’s Hotel Market
August 23, 2006
presented by:
R. Mark Woodworth
PKF Hospitality Research
Atlanta – Life Near the Peak

- National Overview
- Atlanta Performance
  - Things are Getting Better
  - Heavens to Katrina!
  - The Importance of Being Downtown
  - The Future is Bright
- Where is the Risk?
National Overview
The Hotel Market Cycle
Getting to the Peak

- Equilibrium ADR
- Long Run Occupancy
- Rapid Development (1997)
- Lodging Decline, Leads Other Sectors
- Development Picks Up
- Rapid Development
- ADR and Margins Recover
- U.S. is Here

- Atlanta is Here
- Development Slows
- Occupancy Declines, ADR Follows
- Development at Minimum Levels (2002)
- Lodging Recovers, Lags Other Sectors
- Occupancy Recovers
Emerging Signs of a Slow Down
Number of Markets with Declining Year-Over-Year Demand

Source: PKF-HR, STR
### All Hotels - Top 52 U.S. Markets

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006F</th>
<th>2007F</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Occupancy</strong></td>
<td>65.0%</td>
<td>67.6%</td>
<td>68.4%</td>
<td>68.8%</td>
</tr>
<tr>
<td><strong>% Change</strong></td>
<td>+5.5%</td>
<td>+4.0%</td>
<td>+1.2%</td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>ADR</strong></td>
<td>$97.93</td>
<td>$105.71</td>
<td>$114.47</td>
<td>$119.74</td>
</tr>
<tr>
<td><strong>% Change</strong></td>
<td>+4.3%</td>
<td>+8.0%</td>
<td>+8.3%</td>
<td>+4.6%</td>
</tr>
<tr>
<td><strong>RevPAR</strong></td>
<td>$63.65</td>
<td>$71.48</td>
<td>$78.29</td>
<td>$82.38</td>
</tr>
<tr>
<td><strong>% Change</strong></td>
<td>+10.0%</td>
<td>+12.3%</td>
<td>+9.6%</td>
<td>+5.2%</td>
</tr>
</tbody>
</table>

Source: STR, PKF-HR, TWR
Atlanta Performance: Things are Getting Better
Five Years of Below Average Construction
Annual Change in Supply

Source: PKF-HR, STR
It’s All About Demand
Annual Change in Rooms Sold

Source: PKF-HR, STR
10 Years of Lagging the Nation
Annual Occupancy Level

Source: PKF-HR, STR
Rates Finally Catch Up
Annual Change in Average Daily Room Rate

Source: PKF-HR, STR
Atlanta Performance: Heavens to Katrina!
August 29, 2005

- Hurricane Katrina Lands
- Residents Evacuate
  - Hotels Serve as Temporary Housing
- Group Meetings Displaced
  - Cities with Available Capacity
    Welcome with Open Arms
- Sporting Events Relocated
  - Sugar Rains on Atlanta
Measuring the Katrina Impact

Daily Increase in Rooms Sold – Full Service Hotels

Source: PKF-HR, STR

Forecast Demand

Actual Demand

Source: PKF-HR, STR
Measuring the Katrina Impact

Daily Increase in Rooms Sold – Limited Service Hotels

Source: PKF-HR, STR

- Forecast Demand
- Actual Demand

Source: PKF-HR, STR
Atlanta Performance:
The Importance of Being Downtown
Comparative Downtown Hotel Performance
2000 to 2005 Average Occupancy

- Atlanta
- Dallas
- Charlotte
- Houston
- Phoenix
- Los Angeles
- Orlando
- Denver
- Miami
- Philadelphia
- Chicago
- Tampa
- Seattle
- Washington, DC
- Boston
- San Diego
Atlanta Powers Ahead
Change in Occupancy - YTD June 2005 to 2006
Atlanta Performance: The Future is Bright
Employment Outlook
Once Again Ahead of the Pack

Source: Torto Wheaton Research
Total Personal Income Outlook
More Jobs = More Income

Top 52 Markets
Atlanta

Source: Torto Wheaton Research
Opening In Atlanta

- November 2005:
  - Georgia Aquarium

- April 2006:
  - Goliath at Six Flags Over Georgia

- May 2006:
  - Fifth runway at HJAIA Opens

- July 2006:
  - Centennial Olympic Games Museum

- October 2006:
  - Louvre Atlanta - the High Museum of Art

Source: ACVB
Opening In Atlanta

- March 2007:
  - NCAA Men’s Final Four
- Late Spring 2007:
  - New World of Coca-Cola
- Summer 2007:
  - Cobb Energy Centre for the Performing Arts
- Headquarters Moves:
  - Cousins Properties
  - American Cancer Society

Source: ACVB
Opening In Atlanta - Hotels

- **2006:**
  - The Glenn Hotel
  - TWELVE Hotels & Residences at Atlantic Station

- **2007:**
  - The Ellis
  - TWELVE Centennial Park
  - Hilton Garden Inn – Centennial Olympic Park
  - W Hotel & Residences at Allen Plaza
  - Marriott Marquis Expansion

- Less Panhandling?

Source: ACVB
The Trend Line is Positive

ACVB Historical Booking Pace Convention Room Nights (000’s)

Booked As Of 6/30/05

Booked As Of 6/30/06

Source: ACVB
## The Forecast for this Year and Next

**All Hotels - Atlanta**

<table>
<thead>
<tr>
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<th>2004</th>
<th>2005</th>
<th>2006F</th>
<th>2007F</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Occupancy</strong></td>
<td>60.4%</td>
<td>65.2%</td>
<td>66.2%</td>
<td>66.9%</td>
</tr>
<tr>
<td>% Change</td>
<td>+5.1%</td>
<td>+7.9%</td>
<td>+1.5%</td>
<td>1.1%</td>
</tr>
<tr>
<td><strong>ADR</strong></td>
<td>$75.93</td>
<td>$80.65</td>
<td>$89.02</td>
<td>$93.47</td>
</tr>
<tr>
<td>% Change</td>
<td>+3.0%</td>
<td>+6.2%</td>
<td>+10.4%</td>
<td>+5.0%</td>
</tr>
<tr>
<td><strong>RevPAR</strong></td>
<td>$45.88</td>
<td>$52.60</td>
<td>$58.94</td>
<td>$62.53</td>
</tr>
<tr>
<td>% Change</td>
<td>+8.3%</td>
<td>+14.6%</td>
<td>+12.1%</td>
<td>+6.0%</td>
</tr>
</tbody>
</table>

*Source: STR, PKF-HR, TWR*
## Is Atlanta at the Peak?
Factoring Out Katrina, We’re Just About There

<table>
<thead>
<tr>
<th></th>
<th>Long Term Average</th>
<th>2005</th>
<th>2006F</th>
<th>2007F</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply</strong></td>
<td>3.4%</td>
<td>0.3%</td>
<td>0.1%</td>
<td>0.4%</td>
</tr>
<tr>
<td><strong>Demand</strong></td>
<td>3.7%</td>
<td>8.3%</td>
<td>1.6%</td>
<td>1.5%</td>
</tr>
<tr>
<td><strong>Occupancy</strong></td>
<td><strong>63.7%</strong></td>
<td>65.2%</td>
<td>66.2%</td>
<td>66.9%</td>
</tr>
<tr>
<td><strong>ADR</strong></td>
<td>2.5%</td>
<td>6.4%</td>
<td>10.4%</td>
<td>6.0%</td>
</tr>
<tr>
<td><strong>RevPAR</strong></td>
<td>2.9%</td>
<td>14.9%</td>
<td>12.1%</td>
<td>4.6%</td>
</tr>
</tbody>
</table>

Source: STR, PKF-HR, TWR
Where is the Risk?
Much to Think About

- Strength of fundamentals continues to attract capital.
- Transaction activity remains high.
  - Condition will persist well into 2007.
- Upward pressure on Cap Rates.
- Development costs remain high – no downturn in sight.
- Short Term Economic Outlook:
  - Total Personal Income growth over the next two years will be lower in 40 of 52 markets compared to past two years – Atlanta is in this group
  - Lower Employment growth outlook in 24 of 52 markets
- Operating Costs are Up
History Repeats – Expenses Go Up

Change In Select Revenues And Expenses
2004 to 2005

- Rooms Revenue: 10.4%
- Food and Beverage Revenue: 5.8%
- Total Revenue: 8.8%
- Labor Costs: 5.1%
- Rooms Department: 7.3%
- Franchise Fees: 9.8%
- Utility Costs: 13.6%
- Management Fees: 8.9%
- Property Taxes: 6.2%
- Insurance: 3.8%
- NOI*: 15.5%

Note: * Before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

Source: PKF-HR
Summary

- Atlanta is clearly nearing the peak of performance.
  - The lack of meaningful new lodging supply growth will lead to sustained levels of above average performance.

- Continued investments in Downtown and Midtown accentuate the appeal of hotel development in these areas.

- Transaction activity high; significant capital remains.

- Watch those expenses!
Thanks!

For a copy of this presentation, please contact

Claude Vargo
(404) 842-1150 ext 237
Claude.Vargo@pkfc.com