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Ernst & Young Report Sees Further Expansion for U.S. Lodging Market in 2006 Report Points to Top Markets for Investment over Next 12 Months

LOS ANGELES – January 25, 2006 – The U.S. lodging market is set for another year of expansion, thanks to solid fundamentals, increased capital flows into the sector, and the opening of more foreign markets, according to a report by Ernst & Young LLP.

In its 2006 U.S. Lodging Report, released today at the Americas Lodging & Investment Summit in Los Angeles, Ernst & Young points to continuing high levels of debt and equity capital flowing into the lodging sector as one of the primary reasons for expansion in 2006.

“Last year saw a doubling of financing activity for hotel real estate in the commercial mortgage backed securities (CMBS) sector and we see another strong year ahead,” said Michael Fishbin, National Director of Hospitality Services, Ernst & Young Transaction Advisory Services. Fishbin added that of the more than \$100 billion held by real estate private equity funds for investment in the real estate sector, a significant amount --perhaps as much as \$20 billion -- would likely be channeled into lodging investments this year. “Given the fact that the lodging sector is clearly an asset class of choice – as evidenced by the huge flows of capital into the sector and cap rate compression we saw in 2005 – we expect investor appetite for hotel deals to grow in 2006, especially in major markets where room rates have shown strength and occupancy rates have improved,” Fishbin predicted.

One possible outcome of this increased capital interest in the hotel sector is an increase in the development of new hotels. “Despite the steady growth in hotel market fundamentals, such as occupancy, average daily room rates (ADR) and revenue per available room (RevPAR), there has been a disconnect between those numbers and development of new hotels. We expect this to change in 2006 as more developers deploy strategies to get new hotels built,” Fishbin said. One strategy Fishbin expects to see widely used is pre-selling of new projects. “Capital sources are circling the primary hotel markets in the U.S. now, looking for opportunities to own new hotels as soon as they are completed,” Fishbin added.

The E&Y report points to cities in which investment is likely to be particularly active this year. Among the most attractive cities for investment are: Chicago, New York City (Manhattan), Washington, D.C., San Francisco, Los Angeles, Dallas, Boston, Miami and Phoenix. In fact, the report also picks these markets – as well as Hawaii -- as among the most promising markets for investment based on projections for occupancy, ADR and RevPAR performance for 2006.

This good news in the lodging sector can be attributed in part to the increasing globalization of the industry. “2005 saw a rapid increase in the deployment of lodging brands around the world, especially in emerging hospitality markets such as India, China, the Middle East and Eastern Europe,” said Fishbin. “This in turn has created additional opportunities for U.S. hoteliers abroad as well as attracted foreign capital back into the U.S. markets.

In addition to providing detailed insight into lodging sector trends and performance throughout the United States, the report includes detailed summaries of 2005 performance and future conditions in six major lodging segments from economy to luxury hotels and 16 major markets.

Copies of the full report, including charts, are available from your local Ernst & Young office or on the firm's website at www.ey.com/us/realestate.

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