

# ***Capital Management Associates, Inc.***

Investment Management.....Financial Planning.....Estate Planning.....Tax Strategy

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## **CMA Update on Hospitality REIT Holdings in Client Portfolios**

Real Estate Investment Trusts (REITs) are publicly traded companies listed on the New York Stock Exchange (NYSE). These firms have been in existence for over a decade and were created to take advantage of changes in the US tax law for corporations. Traditionally, most US publicly traded companies are known as "C" Corps whereby their operating income is subject to a 35% federal tax rate, plus a state tax rate on income. Yet, for REITs which were organized by private market real estate partnerships, "S" Corps, and other real estate pools, these new REIT structures are exempt from paying any income taxes at the corporate level allowing all the operating income to flow tax-free to public shareholders...this saves a 35% federal tax expense.

Today, there are many REITs with diverse income property investments focused in sectors covering: shopping centers, healthcare, industrial & distribution facilities, multifamily apartment complexes, office buildings, and hotels. We think that the hospitality sector that focuses on upscale hotel properties has the best growth and income opportunities in the market at this time. Why is that? Upscale hotels cater to customers that have upper net worth and upper household income. This demographic sector of the population is less affected by high gas prices, the sub prime mortgage fallout, or a slow housing construction market. These are your upscale consumers, travelers, vacationers, business executives, business owners, affluent retirees, and foreign visitors to US resort and vacation destinations.

We feel that the upscale hotel properties will continue to benefit from the growth and stability in upscale household spending habits, and an increase in inbound foreign vacation travel to the US because of the US dollar's weakness this year versus the Canadian Dollar, UK Pound, Euro, Yen and other Asian currencies.

Upscale US hotel properties are typically located in the "primary" metropolitan centers like NY, San Francisco, LA, San Diego, Chicago, Atlanta, Miami, Boston and foreign city cultural and business centers. Many of the hotel ownership REITs and hospitality operating companies we own, including Marriott and Starwood, own and manage properties in foreign countries that have high valued currencies versus the US dollar. This makes their local hotel management income and REIT hotel investment incomes worth more in terms of US dollars.

Other attributes of hotel REITs are: 1) the annual room rate upside they are experiencing in rising rates for guests; 2) the US being a more cost-attractive foreign tourism destination; 3) any increase in US inflation should be reflected in a rise in hotel real estate market values. The financial advantages of upscale hotel REITs and Operating Companies (MAR & HOT) are: high current dividend distributions (up to 10% annually), a trend of "rising" REIT property income distributions, and appreciation in the market value of US income real estate and abroad.

The REITs and hotel operating companies we hold in CMA client portfolios are the most prominent in the marketplace, and are listed below showing their current dividend distributions in %, and a listing of several upscale hotels and locations that these REITs own or operate. These companies collectively own/operate over 4,000 upscale and luxury hotels and resorts in the global market. The total portfolio holdings of the REITs and operating companies listed below represent about 10% of common equity holding across CMA client accounts.

Strategic Hotels (5.5%)

Fairmont, Chicago  
Hotel Del Coronado, San Diego  
Intercontinental, Chicago  
Marriott Paris, Paris

Ashford Hospitality (11.7%)

J. W. Marriott, San Francisco  
Capital Hilton, Washington DC  
Hilton Santa Fe, Santa Fe NM  
Hyatt Regency Montreal, Montreal  
The Westin O'Hare, Rosemont IL

Sunstone Hotels (5.6%)

Embassy Suites, Chicago  
Fairmont Newport Beach, Newport Beach CA  
Marriott Park City, Park City UT  
Renaissance Washington DC

Hospitality Properties (8.8%)

Crowne Plaza, LA CA  
Crowne Plaza, Hilton Head SC  
InterContinental, Austin TX  
Residence Inn, Chicago IL

LaSalle Hotels (5.8%)

Hotel Sax, Chicago IL  
Westin Michigan Avenue, Chicago IL  
Westin Copley Place, Boston MA  
Le Parc Suite Hotel, West Hollywood CA

Marriott International (1%)

500 Marriott Hotels, Resorts and Conference Centers  
186 Hotels in Europe  
79 Hotels in Asia  
100 Hotels in Other global locations

Starwood Hotels & Resorts (3.3%)

The Phoenician, Scottsdale AZ  
Palace Hotel, San Francisco  
Hotel Prince de Galles, Paris  
Sheraton Park Tower, London

Currently, all of the above REITs and hotel operating companies, Marriott & Starwood, are rated 3-Star Hold by S&P.

We consider these stocks as long term core holdings for: Dividend income, Growth of dividends, and Appreciation potential of hotel properties owned.

Please call Chuck Dushek or Greg Nickum (630-963-4235) at CMA to discuss any/all of the company-specific or macro factors CMA uses in its portfolio strategy process.

Sincerely,

Chuck Dushek