June 2005

JONES LANG LASALLE HOTELS®

FocusOn

Global Hotel Management Agreement Trends

BEST WESTERN HOLIDAY INN DAYS INN MARRIOTT HOTELS, RESORTS AND SUITES COMFORT INNS & SUITES RAMADA SHERATON HOTELS SUPER 8 HAMPTON INN HILTON HOTELS RADISSON HOTELS & RESORTS MOTEL 6 HOLIDAY INN EXPRESS QUALITY INNS, HOTELS & SUITES HYATT REGENCY COURTYARD BY MARRIOTT GOLDEN TULIP MERCURE TRAVELODGE HILTON INTERNATIONAL IBIS HOWARD JOHNSON NOVOTEL WESTIN DOUBLETREE HOTELS ECONO LODGE RIU HOTELS CROWNE PLAZA INTER-CONTINENTAL EMBASSY SUITES LA QUINTA INNS FAIRFIELD INN RESIDENCE INN RED ROOF INN RENAISSANCE HOTELS & RESORTS CLUB MED VILLAS & VILLAGES WYNDHAM HOTELS & RESORTS STERLING HOTELS SUMMIT HOTELS & RESORTS LE MERIDIEN PRINCE HOTELS EXTENDED STAY AMERICA MELIA HOTELS SOFITEL DISNEY HOTELS FORMULE 1 CLARION CAMPANILE FOUR POINTS SCANDIC HOTELS KNIGHTS INN FAIRMONT HOTELS SLEEP INN & SUITES BAYMONT INNS HOMESTEAD VILLAGE SHANGRI-LA HOTELS WASHINGTON HOTELS NIKKO HOTELS POSTHOUSE COUNTRY INNS & SUITES BY CARLSON BARCELO SOL HOTELS ETAP OMNI HOTELS SUBURBAN LODGE JIN JIANG FOUR SEASONS HOTELS CONCORDE DORINT HOTELS MICROTEL INN & SUITES IBEROSTAR AMERISUITES TRAVEL INN SHERATON LUXURY COLLECTION ADAM'S MARK RITZ-CARLTON TRYP HOTELS SUNROUTE OCCIDENTAL HOTELS HUSA WESTCOAST PREMIERE CLASSE HOMEWOOD BY HILTON RODEWAY INN TREFF THISTLE HOTELS GRAND HYATT FIESTA HOTELS MARITIM LTI HOTELS ORBIS HOTELS HAWTHORN SUITES TOKYU INNS GRECOTEL BEST INNS & SUITES NH HOTELES RICA HOTELS VILLAGER G.S.M. HOTELS CANDLEWOOD SUITES SUN DRURY INN RINGHOTELS NATIONAL 9 INNS HARRAH'S ANA HOTELS MOVENPICK HOTELS KEMPINSKI NEW OTANI WINGATE TAJ HOTELS STAKIS STUDIOPLUS PARK ROYAL SHONEY INNS MGM GRAND HOTELS FIRST HOTELS & RESORTS DAI-ICHI HOTELS SOL ELITE COPTHORNE AMERICINN BUDGET HOST INN OKURA HOTELS JARVIS HOTELS STEIGENBERGER LOEWS JOLLY HOTELS SWISSOTEL TOKYU HOTELS PAN PACIFIC HOTELS ROBINSON CLUB FORUM ROMANTIK HOTELS TOWNEPLACE SUITES GRUPOTEL ASTON HOTELS & RESORTS CLIMAT DE FRANCE RED CARPET INN RIHGA HOTELS MOAT HOUSE FIESTA AMERICANAS RYDGES HOTELS PARK PLAZA/PARK INN INTERNATIONAL REGAL HOTELS JURYS DOYLE HOTELS SCOTTISH INNS SOKOS OUTRIGGER HOTELS & RESORTS CENTURY HOTELS WELLESLEY INN & SUITES PRINCESS HOTELS REGENT INTERNATIONAL HOTELS MANDARIN ORIENTAL MIYAKO HOTELS & INN MELIA CONFORT SWALLOW HOTELS CROSSLAND ECONOMY STUDIO SHILO INNS PARADORES WARWICK GLOBALES (AIRTOURS) AMERIHOST INN REGAL OHANA HOTELS OF HAWAII SUMMERFIELD SUITES BY WYNDHAM LOUIS HOTELS MARRIOTT VACATION CLUB INTL HUNGUEST PROTEA HOTELS HESPERIA CENTRA MILLENNIUM ABOU NAWAS JAMESON INNS FIESTA INN OBEROI HOTELS SONESTA HOTELS GREAT EAGLE HOTELS CHAM PALACES SAHID HOTELS CLARINE PARK HYATT CUMULUS ASHOK CAMINO REAL CAVANAUGH'S BALLADINS PESTANA MASTER INN REMA HOTELS AUSTRIA TREND HOTELS ROTANA HOTELS IMPERIAL LONDON HUNGAR HOTELS SPRINGHILLSUITES INTERCITY HOTELS GUESTHOUSE INTERNATIONAL PARK INN INTERNATIONAL RED LION INNS SUMMER SUITES DAN HOTELS DEVERE HOTELS GLORIA PLAZA HOTELS, INNS & RESORTS MANDARIN/MERITUS SUSSE CHALET TRUMP HOTELS SOL CLUB CUBANACAN ATAHOTELS PROVOBIS SIGNATURE INN MARC RESORTS STARHOTELS DUSIT HOTELS BELLAGIO SANDMAN HOTELS MIRAGE COUNTRY HEARTH INN PENINSULA HOTELS EXEL INNS, EXEL HOTEL HOTEL DES GOUVERNEUR IMPERIAL HOTELS VAGABOND INNS NUIT D' HOTEL PRINCIPAL COAST HOTELS & RESORTS WELLESLEY INN LONDON SIGNATURE LOTTE PARK LANE SUNWING (AIRTOURS) LUCIEN BARRIERE TREASURE ISLAND OTHON HOTELS SIVA (AIRTOURS) BERJAYA HOTELS & RESORTS ALLEGRO RESORTS MARCO POLO MAINSTAY SUITES PRIMADONNA HOTELS PROTEA HOTELS PREMIER AMARI HOTELS & RESORTS OTAKA HOTELS ORIENT EXPRESS RIO HOTEL TULIP INN WELCOMGROUP SOL INNS FURAMA HOTELS TRADERS PLAZA LA GLORIAS QUEENS MOAT DEDEMAN

HOTELS PARK
CONTINENTAL P
VILA GALE HOTI
WESTERN HOLI
HOTELS RADISS
MERCURE TRAV
INTER-CONTINE
HOTELS OKURA

IN CONJUNCTION WITH:

C/M/S/ Cameron McKenna

BAKER & McKENZIE
THE GLOBAL LAW FIRM

DEN NUGGET DANUBIUS HELMSLEY HOTELS CARLTON HOTELS
OLCE INTERNATIONAL MANHATTAN EAST SUITES BAYVIEW HOTELS
SNAPOLSY WOODFIN/CHASE BRISTOL/HARVEY TULIP INN BEST
TES RAMADA SHERATON HOTELS SUPER 8 HAMPTON INN HILTON
SUITES HYATT REGENCY COURTYARD BY MARRIOTT GOLDEN TULIP
OUBLETREE HOTELS ECONO LODGE RIU HOTELS CROWNE PLAZA
INN RENAISSANCE CLARION CAMPANILE FOUR POINTS SCANDIC
J HOTELS PAN PACIFIC HOTELS ROBINSON CLUB FORUM MERCURE

Foreword

Welcome to Jones Lang LaSalle Hotels' 2005 global review of recently negotiated hotel management agreements. This edition of FocusOn represents an update of the global survey conducted in 2001.

The results presented here are based on an analysis of over 80 hotel management agreements negotiated over the past four years across Asia Pacific, Europe and the Americas.

Given the prevalence of lease arrangements in the European hotel market, this year we have also included a separate analysis of the trends in leases in France, Germany, Italy, Spain, Switzerland and the UK.

At the outset we would like to give a word of warning. This survey identifies general trends based on the sample group of agreements. It would therefore be inappropriate to apply these trends (and in particular any averages) to a specific management agreement under negotiation.

We trust you find this research interesting and informative and as always, we welcome your feedback.

Arthur de Haast
Global CEO
Jones Lang LaSalle Hotels

Graeme Dickson
Partner
Baker & McKenzie

Daniel Braham
Director - Hotels Group
CMS Cameron McKenna LLP

Index

Welcome to Jones Lang LaSalle Hotels' 2005 global review of recently negotiated hotel management agreements.

As opposed to the previous survey conducted in 2001, which revealed a significant swing in power to the owner, this survey, which was conducted in conjunction with Baker & McKenzie and CMS Cameron McKenna LLP, reveals only minor global changes have occurred over the past four years. This is because the key commercial terms of hotel management agreements have moved as far as possible in favour of the owner.

Global Management Agreement Trends

Over the past four years, the length of management agreement terms has become more uniform as international operators spread their influence across the globe. Average European initial terms have declined from 19 years in 2001 to 15 years in 2005, while at the other end of the scale, average initial term lengths for American agreements have increased from 10 to 13 years. Average Asia Pacific initial terms have remained consistent at 12 years.

Across the board, the most common renewal options are one or two options of 5 years.

Renewal options are less prevalent in European agreements than in the agreements of other regions, allowing European owners increasing flexibility to change operators after the initial term has elapsed.

	Average Initial Term	% Agreements with Options	Most Common Option Term
Americas	13	92.0%	1 or 2 options of 5 yrs
Asia Pacific	12	75.0%	2 options of 5 yrs
Europe	15	48.3%	1 option of 5 yrs

While average base fees have remained largely unchanged in American and Asia Pacific agreements over the past four years, they have increased slightly from 1.8% to 2.2% in European agreements.

Of all three regions, Asia Pacific management agreements have the lowest base fees, with most falling between 2-2.9%. The most common base fee in the Americas is 3.0% and the majority of base fees in Europe are 3-3.9%. On the whole, base fees are relatively similar across the globe.

In contrast, incentive fees vary significantly between individual contracts and between regions. In fact, they vary so much that inter-regional analysis is meaningless.

	Average Base Fee (% Gross Revenue)	
	2005 Survey	2001 Survey
Americas	2.8%	2.7%
Asia Pacific	1.4%	1.5%
Europe	2.2%	1.8%

Performance clauses are common in the Americas and Europe and are becoming increasingly popular in Asia Pacific. These clauses may, for instance, require that the hotel achieve 80% of budgeted GOP or at least 90% of the competitive sets' RevPAR.

While gaining in popularity in Europe and Asia Pacific, operator guarantees are not found in the Americas. In the US, incentive fees are considered sufficient to apportion risk to the operator.

All regions have an increasing propensity to include FF&E Reserves in their agreements to set aside funds for ongoing capital expenditure requirements. It is now considered the norm to have such a Reserve. American agreements tend to specify a higher Reserve, with the average stabilised fee being 4.4% of Gross Revenue. The corresponding measures for Europe and Asia Pacific are 3.9% and 3.1% respectively.

	% Agreements with Specified FF&E Reserve
Americas	100.0%
Asia Pacific	96.4%
Europe	96.6%

Across all regions, agreements allowing termination without cause are increasingly rare. However, in Europe and Asia Pacific, owners are recognising the value of a vacant possession clause, and termination on sale is available in the majority of cases.

	% Agreements with Termination Without Cause	% Agreements with Termination on Sale
Americas	9.0%	32.0%
Asia Pacific	25.0%	82.1%
Europe	17.2%	55.2%

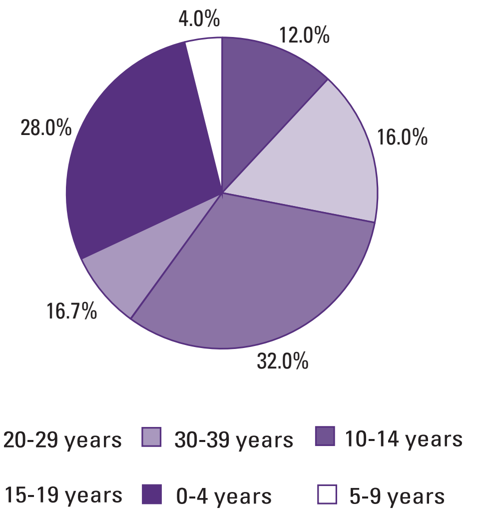
American Management Agreements

Our Americas survey covered 25 recently negotiated management agreements spanning 112 hotels with 31,000 rooms, the vast majority of which were in the US.

1. Term

Although the average term across all contracts is 13 years, the responses fell into two distinct camps. Branded operators report an average contract length of 18 years and independent operators, managing with a franchise or without benefit of a flag, report an average term of seven years. Term lengths appear to have increased slightly since our last survey, when the average term was 10 years.

Initial Term – Americas



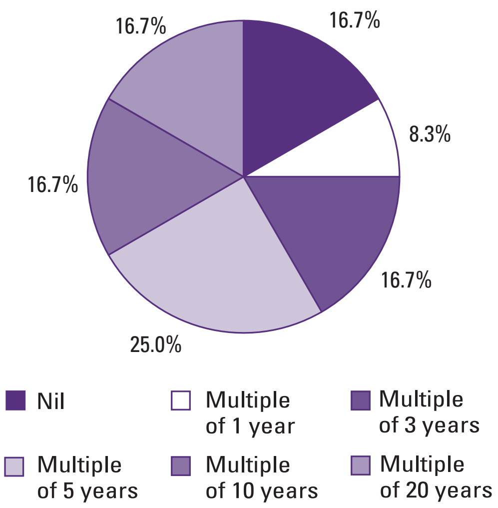
Source: Jones Lang LaSalle Hotels

2. Option Period / Renewal Terms

As revealed in the last survey, the vast majority (92.0%) of American management agreements contain renewal options. The most common renewal terms are either two options of five years or one option of five years.

Following the same pattern as found in the initial term, the average option period of branded operators is nine years, while independent operators' average renewal term is four years.

Term Renewals – Americas



Source: Jones Lang LaSalle Hotels

Extension by consensus is the most common feature with 50.0% of the contracts requiring the approval of both parties. The second most common characteristic, at 31.8%, is that of having the contracts extended if the operator has met all performance tests. This is illustrated in the table below.

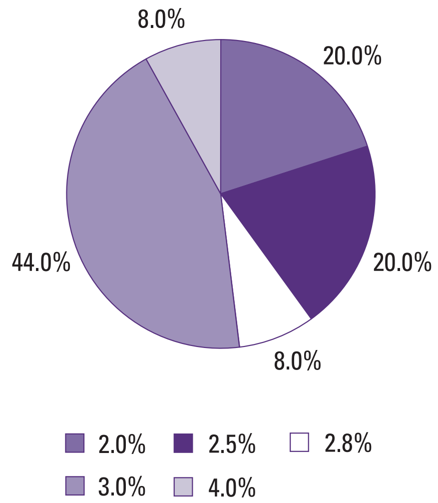
Who Can Exercise the Option	% of Agreements 2005 Survey	% of Agreements 2001 Survey
Operator only	9.1%	26.1%
Owner only	9.1%	4.3%
Mutual	50.0%	69.6%
Automatic	31.8%	0.0%

3. Base Fees

A typical contract in the Americas has reverted to a flat base fee. Only 16.0% of the contracts surveyed allow for the ramping-up of fees and these tend to be for new construction. Taking into account only the stabilised fee level for escalating fee structures, the average base fee for all contract types is 2.8% of Gross Revenue which is similar to the result of the 2001 survey. The average base fee for independent operators is 2.6%, while branded operators demand a higher fee at 3.0% of Gross Revenue.

There is an inverse correlation between hotel size and base fees – the larger the hotel, the lower the base fee. This relationship holds true for portfolios as well. Presented below is a graph of the distribution of base fees.

Base Fee (% Gross Revenue) – Americas

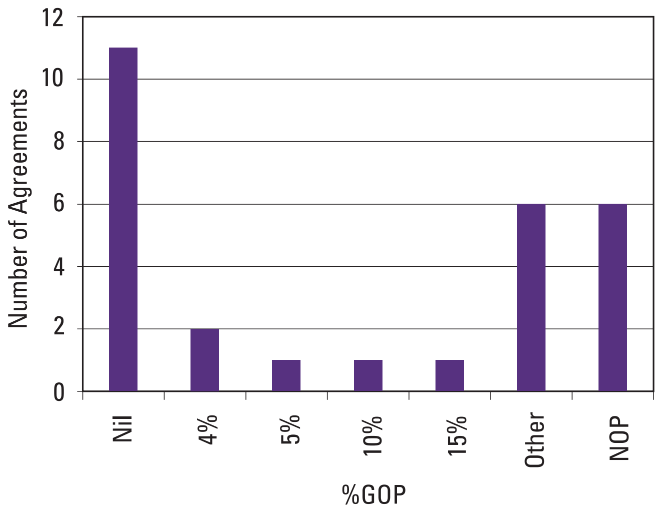


Source: Jones Lang LaSalle Hotels

4. Incentive Fees

American agreements exhibit a significant departure from the more straightforward global standard of structuring incentive fees as a percentage of Gross Operating Profit (GOP). By far the most common arrangement is to structure incentive fees on Net Operating Profit (NOP), after the payout of an Owner's Priority Return. The metric for Owner's Priority Return varies, as do definitions for Net Operating Profit, but the American contracts clearly recognised the burden of the acquisition or cost basis.

Incentive Fee – Americas



Source: Jones Lang LaSalle Hotels

Of the contracts with incentives structured to allow for an Owner's Priority Return, the majority allow for the return to be calculated on total project or acquisition cost versus the investor's actual equity. The most common and average owner preferred return is 10%. The most common incentive fee in such a structure is 20% after the owner's priority payout.

Only 31.8% of the contracts featured capped incentive fees.

5. Other Fees & Charges

Again there is a considerable variety in the American agreements in relation to head office expenses including sales and marketing. As with the term length and fees, independent operators do not pass on as many corporate charges as branded operators.

Reflecting the recent lawsuits regarding compulsory buying through operator-owner purchasing companies, approximately one-third of the contracts allow for optional use of operator subsidiary companies for either the purchasing of supplies or the purchasing of FF&E.

6. Operator Guarantee

This is the area in which contracts in the Americas differ most distinctly from the contracts in Europe and Asia Pacific. There are no operator guarantees in any of the contracts we surveyed. Having structured incentive fees to reflect a portion of the owner's risk, the prospect of a guarantee is not likely.

7. Performance

Performance clauses which specify that a contract may be terminated if an operator fails to meet the prescribed performance tests, are very typical in American hotel management agreements. Generally there are two tests and an operator must fail both of them. Less frequently, an operator may be terminated for failing one test only, or two of three tests.

When the tests involve negative variances from budgeted NOP or an owner's return, operators are generally given an opportunity to cure. However, the opportunities to cure are generally limited in number or in frequency. For example, the Operator is not allowed to cure a shortfall in three consecutive years.

Performance tests are less frequent among independent operators, with their shorter contract lengths and more difficult early termination options. Presented below is a table of the performance test for branded operators for which they are uniformly required. The most popular test is a RevPAR performance test, in which the subject hotel must achieve at least 90% of its defined competitive set. Other performance tests are detailed in the following table.

Performance Tests for Branded Operators	% of Agreements
RevPAR	92.9%
A percentage of the Budgeted NOP	57.1%
Owner's Priority return expressed as a % or in dollars	57.1%

8. Budget

a) Annual Budget

With very few exceptions, owners have the right to approve the annual operating budget. All contracts with independent operators allow the owner to approve the annual operating budget. Among branded operators, the ratio is slightly lower, but still an overwhelming 85.7%.

b) Capital Budgets

Ratios for owner approval of capital expenditure budgets are identical to those for the operating budget

c) Budget Dispute Resolution

As can be seen from the following table, arbitration is the most common form of dispute resolution in American management agreements. This is in contrast to the other regions where independent experts are used more frequently.

Method	% of Agreements	
	2005 Survey	2001 Survey
Arbitration	72.0%	38.5%
Independent Expert	8.0%	0.0%
Private Negotiation	0.0%	50.0%
Arbitration or Court	4.0%	0.0%
Arbitration or Expert	4.0%	0.0%
Prior Year's Budget	0.0%	7.7%
No mechanism / Silent	12.0%	3.8%

9. Restrictions on Operator

a) Appointment of Key Personnel

All contracts surveyed in the Americas provide owners with the right to approve the General Manager, either specifically or as part of their right to approve the entire Executive Committee. Over half (56.0%) of all contracts surveyed give this "full spectrum" right to the owner. The other two positions for which an owner is allowed approval rights are the Director of Sales/Marketing and the Financial Controller.

Approval	% of Agreements 2005 Survey	2001 Survey
Owner consent required	100.0%	48.1%
Owner permitted to comment	0.0%	22.2%
No approval required	0.0%	29.6%

b) Restrictions on Contracts and Leases

The majority of American contracts (62.5%) afford the owner approval rights of any leases over a stipulated length. Of these, most set the limit as one year. This review right is found in 81.8% of agreements with independent management, but is present in only 46.2% of the branded operators' agreements.

Restrictions on Operator's Contracting and Leasing	% of Agreements
Monetary limit and/or contract restrictions	62.5%
No approval required	37.5%

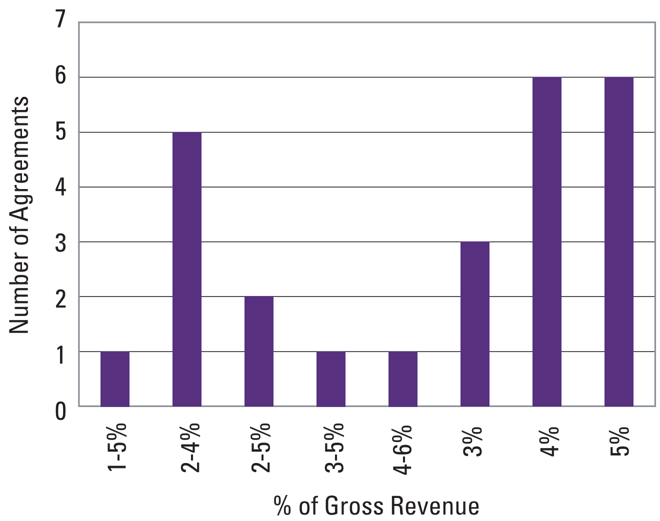
c) Approval of Major Disbursements

Almost a quarter (70.8%) of American agreements provide the owner with signature rights for any disbursement over a stipulated amount. There is less of a divergence between the results for branded and independent operators on the disbursement issue. 72.7% of agreements with independent operators and 69.2% of the agreements with branded operators required owner authorisation on disbursements over a specified amount.

10. Capital Expenditure

All contracts require that the owner establish an FF&E Reserve. 40.0% of agreements allow for an escalating structure that, within three to five years, ramp up to a stabilised percentage. The average stabilised year percentage, for both branded and independent operators is 4.4% of Gross Revenue. This has increased from the 4.0% revealed in our 2001 survey.

FF&E Reserve (% of Gross Revenue) – Americas



Source: Jones Lang LaSalle Hotels

11. Termination

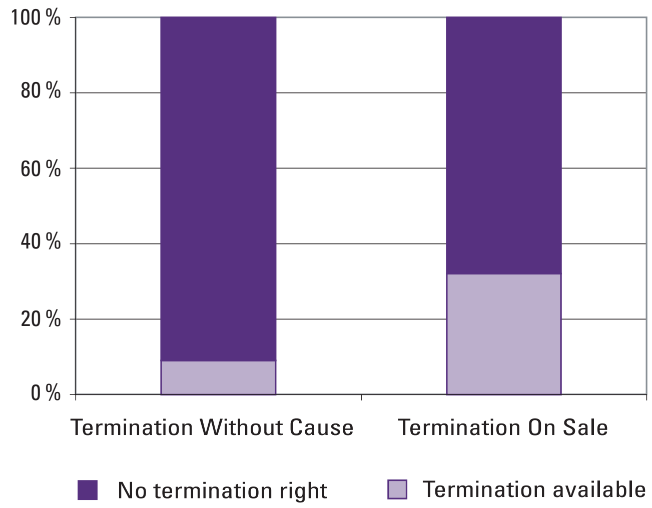
Not surprisingly, there are significant differences in termination features between branded and independent operators. The only agreements that are silent on termination or prohibit it are for branded operators and the only agreements that allow for termination "without cause" at any time during the initial term involve independent operators. Over half of the agreements involving independent operators allow for termination on sale at any time during the contract, whereas branded operators do not allow termination on sale until the latter years of the contract.

Presented below is a summary of the termination provisions.

Early Termination Issue	% Agreements
Agreement is Silent	3.2%
Specifically Prohibited	12.9%
On Sale at any Time	22.6%
On Sale in Latter Years	25.8%
In Bankruptcy	12.9%
Without Cause at any Time	9.7%
Without Cause in latter Years	12.9%

The highest early termination penalties reported are for branded operators. For these operators, the penalty half way through the term is three times the combined base and incentive fees for the prior year. For independent operators, the highest penalty occurs half way through the term and is calculated at two times the prior years' base and incentive fees. For both operators, the penalty fees decline in the latter years of the initial term.

Termination Clauses – Americas



Source: Jones Lang LaSalle Hotels

12. Non-Compete

Most relevant among branded operators, the proportion of total American agreements containing non-compete clauses is 20.0%.

Restriction	% of Agreements 2005 Survey	2001 Survey
Geographical restriction for initial 1 – 5 yrs	8.0%	10.7%
Geographical restriction for 15 yrs	4.0%	3.6%
Geographical restriction for term of contract	8.0%	32.1%
No geographical restriction	80.0%	53.6%

13. Dispute Resolution

The majority of agreements for the Americas now prescribe alternative dispute resolution, which is a marked change from our 2001 survey when only 17.9% called for arbitration and 21.4% called for arbitration before court proceedings.

None of the agreements surveyed cited court proceedings as a first or second option but 12.0% are silent on the matter, leaving that as a clear option.

Form of Resolution	% of Agreements 2005 Survey	2001 Survey
Independent Expert	12.0%	0.0%
Arbitration	84.0%	17.9%
Independent Expert and Court	0.0%	3.6%
Independent Expert, Arbitration and/or Court	0.0%	21.4%
Court	4.0%	57.1%

Asia Pacific Management Agreements

Written in conjunction with Baker & McKenzie

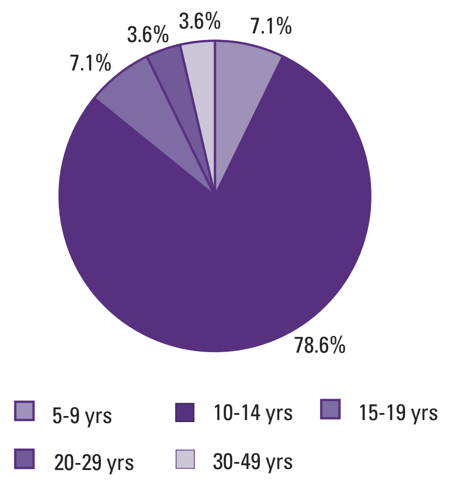
Our survey reviewed 28 recently negotiated hotel management agreements covering 9,176 rooms across eight countries.

1. Term

Analysis of recently negotiated management agreements reveals that the average initial term is 12 years with the most common term being 10 years. Although these results are consistent with the previous survey conducted in 2001, there is significantly less variance amongst the most recent sample. The vast majority (67.9%) of agreements have an initial term of 10 years.

As found in the previous survey, operators tend to negotiate longer initial terms for 5 star hotels than 3 to 4.5 star assets.

Initial Term – Asia Pacific



Source: Jones Lang LaSalle Hotels; Baker & McKenzie

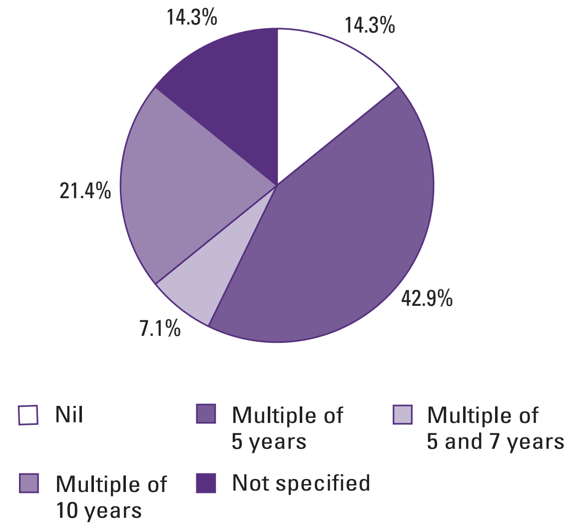
2. Option Period / Renewal Terms

Option periods are offered in 75.0% of Asia Pacific's management agreements, which is down from the 80.0% witnessed four years ago.

The most common renewal period is two options of five years which is consistent with the previous survey. The next most common options are one term of five years and one term of 10 years.

As revealed in the 2001 survey, of those agreements with options, the majority are options for multiple renewal periods.

Term Renewals – Asia Pacific



Source: Jones Lang LaSalle Hotels; Baker & McKenzie

Of the agreements that contain option periods, most are exercisable by both or either parties. Interestingly, four years ago the operator could exercise the renewal option in almost half the agreements. Now, only 5.0% of options are in favour of the operator, while 15.0% are in favour of the owner.

Of the management fees that contain specified renewal options, the breakdown as to which party can exercise the option is given in the table below.

Who Can Exercise the Option	% of Agreements	
	Survey 2005	Survey 2001
Operator only	5.0%	41.7%
Owner only	15.0%	11.1%
Either	5.0%	36.1%
Mutual	50.0%	11.1%
Automatic	25.0%	0.0%

3. Base Fee

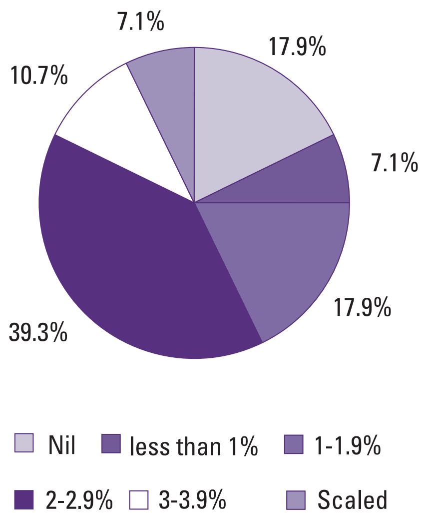
Base fees remain predominantly a fixed percentage of Gross Revenue which remains consistent throughout the term of the agreement. However, there are some interesting variations such as:

- Percentage increases as term progresses;
- Base fee is capped at a maximum in terms of percentage of GOP; and
- A minimum base fee in terms of percentage of GOP is set.

Average base fees have declined slightly from 1.5% in 2001 to 1.4% in the 2005 survey. We have noticed a trend towards agreements with no base fee, since 2003. These agreements generally provide for a higher incentive fee in the range of 5-15% GOP.

In general, agreements for 3 star hotels tend to have higher base fees than the contracts for their upper tier counterparts.

Base Fee (% Gross Revenue) – Asia Pacific



Source: Jones Lang LaSalle Hotels; Baker & McKenzie

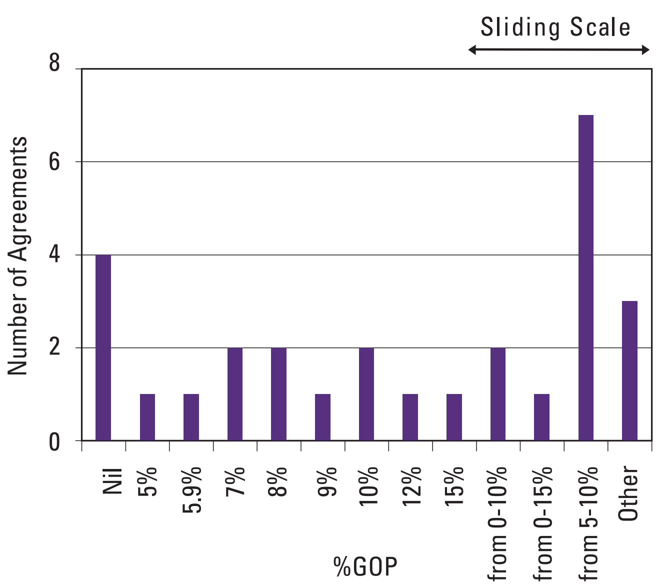
4. Incentive Fee

Incentive fees are generally calculated as a percentage of GOP or adjusted GOP and in many cases, include a sliding scale which depends on the level of GOP achieved. This allows the operator and owner to share in the upside of the hotels' performance. Our survey reveals that 46.4% of agreements include a sliding scale incentive fee.

Of the agreements with a fixed incentive fee, the most common are 7%, 8% or 10% of GOP. Of the agreements with a sliding scale, the most popular is 5-10% of GOP.

Not surprisingly, in contrast to the base fee scenario, incentive fees are generally higher for 4 and 5 star hotels than 3 star hotels.

Incentive Fee (% GOP) – Asia Pacific



Source: Jones Lang LaSalle Hotels; Baker & McKenzie

5. Other Fees and Charges

Other fees and charges vary significantly among the sample of management agreements. However, the majority of agreements specify a contribution for head office expenses incurred for sales and marketing, reservations and loyalty programs.

In 50.0% of the Asia Pacific management agreements, the owner must pay the operator a percentage of Room Revenue for sales and marketing services. These range from 0.5% to 4.0% with the most popular being 2.0%. In fewer cases, this fee is calculated as a percentage of Gross Revenue, the most common being 1.0% or 1.2%. In two cases where the fee is based on gross revenue, this payment covers reservation charges and loyalty programs in addition to sales and marketing.

Other agreements specify a fixed fee, a fixed fee plus a percentage of room revenue, a percentage of GOP or a proportion of the budgeted Sales and Marketing line expense.

Compared to the previous survey, more agreements calculate the fee based on Room Revenue rather than Gross Revenue, perhaps indicative of the growing diversity in hotels' income streams. This shift should heighten owners' focus on revenue allocations where packages are sold.

Reservation charges are calculated in a myriad of ways, the most common of which are a fixed fee per materialised revenue, reservation, room night, or a combination of all three.

While the majority of management agreements do not specify a separate contribution for loyalty programs, 32.1% of our sample include a fee which ranges from 2-5% of the materialised revenue.

6. Operator Guarantee

In the Asia Pacific sample, 28.6% of agreements contain performance guarantees by the operator, which is roughly the same proportion revealed in the 2001 survey. In these cases, the operator agrees to a minimum GOP either in terms of a percentage of Gross Revenue or a fixed sum in local currency. Of the agreements with operator guarantees, 50.0% are for the full term of the contract.

7. Performance

Most agreements contain a clause requiring that the hotel is operated to the standard of a particular star rating, relevant brand standards, relative to a competitive set or based on the annual budget.

The trend towards owners requiring operators to meet minimum performance standards has increased since the previous survey. In our most recent survey, 57.1% of Asia Pacific management agreements contain such clauses, the most common of which specifies achieving 80% of budgeted GOP. Owners may terminate the agreement if operators fail to achieve this for two consecutive years. In most cases, operators can pay the difference between the budget and actual amount. However, in some agreements this is only permitted once during the term. Other minimum performance clauses specify the hotel must achieve a certain RevPAR relative to the competitive set, market, or even a particular property, which is often a hotel managed by the same hotel operator.

8. Budget

a) Annual Budget

Consistent with our 2001 survey, the annual budget continues to be used as a key control mechanism by owners. Owner approval of the annual budget is required in 85.7% of management agreements. In most instances the operator is required to submit the annual budget to the owner 30-60 days prior to the commencement of the next financial year and the owner is allowed between 10-60 days to respond. The budget is typically considered to be approved if the owner fails to raise any objections within the specified time frame.

b) Budget Dispute Resolution

In the event that a dispute relating to the budget arises, the most common procedure continues to be implementing the agreed terms of the budget, and then attempting to resolve the disputed items. Where disputes are unable to be resolved within an agreed timeframe (usually 14 days), our 2005 survey found that resolution of disputes by an independent third party whose decision is final and binding continues to be the most popular mechanism with 64.3% of the agreements containing this type of mechanism.

Interestingly, whilst independent expert determination continues to be the most popular mechanism there has been an increasing use of arbitration, which is a more formal dispute resolution procedure. There has also been an increase in the proportion of agreements which do not have any formal dispute resolution procedure (increasing from 7.0% to 14.3%). The breakdown of the results is as follows:

Method	% of Agreements	
	2005 Survey	2001 Survey
Arbitration	17.9%	9.3%
Independent Expert	46.4%	55.8%
Dispute Resolution	0.0%	9.3%
Private negotiation	7.1%	9.3%
Owner takes precedence	3.6%	2.3%
Other	10.7%	7.0%
Mechanism	14.3%	7.0%

9. Restrictions on Operator

a) Appointment of Key Personnel

In most instances, if the owner's consent is required in relation to personnel, it is in respect of the General Manager and in some instances the Financial Controller. Beyond these appointments, the operator generally has free reign. Whilst there has been a slight decline in the proportion of agreements requiring consent, owner consent continues to be the norm. Where specified, the level of owner involvement is as follows:

Involvement of Owner	% of Agreements	
	2005 Survey	2001 Survey
Owner consent required	71.4%	80.4%
Owner permitted to comment	17.9%	2.2%
No approval required	10.7%	17.4%

b) Restriction on Contracting

Our 2005 survey reveals a relaxation in owners' control of operators' contracting practices. Since the last survey, the proportion of contracts where no owner approval is required has nearly doubled from 17.8% to 32.0%. Where approval is required this is increasingly by reference to a monetary limit (eg $20,000 and above) and/or the term of the relevant contract (eg one year and above). Where specified, the restrictions are as follows:

Restrictions on Operator	% of Agreements	
	2005 Survey	2001 Survey
Owner consent required for all contracts	0.0%	13.3%
Monetary limit and/or contract restrictions	64.0%	57.8%
Other restrictions	4.0%	11.1%
No approval required	32.0%	17.8%

c) Restriction on Granting of Leases and Concessions

The proportion of agreements which require that owner consent be obtained for the granting of leases and concessions appears to be static between our 2001 and 2005 surveys. Where approval is required it appears increasingly to be required in relation to all leases and concessions rather than being applied above a monetary limit or for a term longer than a specified minimum. Where specified, the restrictions are as follows:

Restrictions on Operator	% of Agreements	
	2005 Survey	2001 Survey
Owner consent required for all contracts	45.8%	28.3%
Monetary limit and/or contract restrictions	29.2%	39.1%
Other restrictions	0.0%	4.3%
No approval required	25.0%	28.3%

10. Capital Expenditure

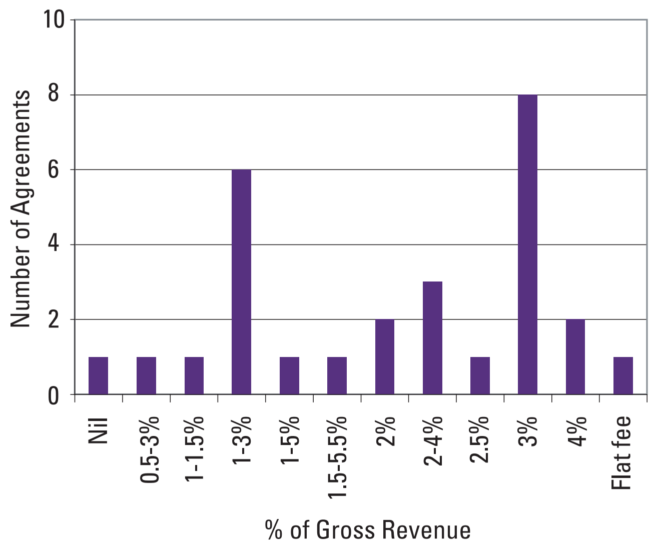
a) Extent of Owner's Obligation

Consistent with the position in 2001, most agreements impose an obligation upon owners to provide sufficient capital expenditure to maintain the hotel at its specified standard, particularly in relation to 5 star hotels. Otherwise, capital expenditure is usually at the owner's discretion.

b) FF&E Fund

Almost all agreements reviewed impose an obligation upon the owner to allocate a specified percentage of Gross Revenue to FF&E. As was the case in 2001, the most common allocation is 3% (with some agreements having a ramp up in the early years). The trend continues (particularly in Australia) for the FF&E allocation to be an accounting entry in the owner's books rather than an actual cash fund.

FF&E Reserve (% of Gross Revenue) – Asia Pacific



Source: Jones Lang LaSalle Hotels; Baker & McKenzie

11. Termination

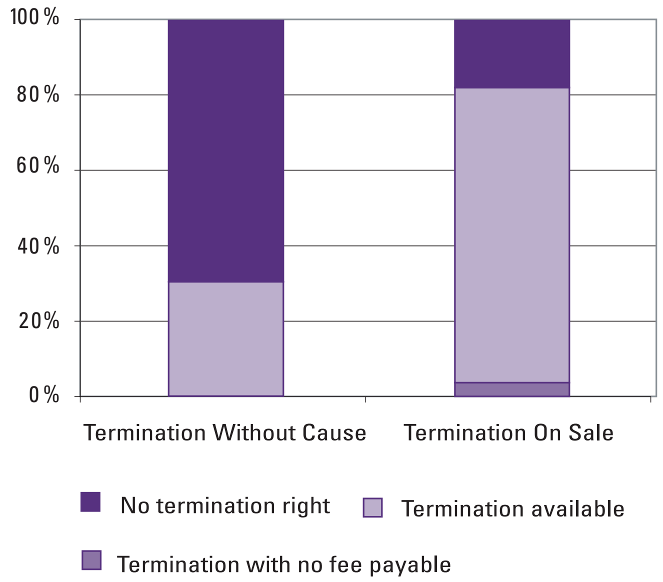
a) Termination Without Cause

Things have not changed significantly since 2001. The proportion of agreements containing a provision which allows the owner to terminate the agreement without cause is 25.0% in 2005, compared to 36.0% in 2001. Of these agreements, all provided for the payment of compensation to the operator. As was the case in 2001, the higher the star rating, the less likely there will be a termination without cause provision. In 72.0% of the five star agreements reviewed, there is no such clause.

b) Termination on Sale

Since 2001, the availability of vacant possession has increased. The proportion of agreements with a termination on sale clause has grown from 52.0% in 2001 to 82.1% in 2005. As revealed in 2001, almost all agreements with such a provision also provide for the payment of a termination fee to the operator.

Termination Clauses – Asia Pacific



Source: Jones Lang LaSalle Hotels; Baker & McKenzie

12. Non-Compete

Most agreements (67.9%) contain a geographic restriction, with the majority of these restrictions applying for the term of the agreement. This represents an increase from 58.0% in the previous survey and is perhaps indicative of the dominance of international operators with multiple properties.

Restriction	% of Agreements 2005 Survey	2001 Survey
Geographical restriction for initial 1 – 5 yrs	17.9%	4.0%
Geographical restriction for 6- 10 yrs	3.6%	2.0%
Geographical restriction for term of contract	46.4%	50.0%
Geographical restriction for 1 – 5 yrs after termination	0.0%	2.0%
No geographical restriction	32.1%	42.0%

13. Dispute resolution

As the table below indicates, all agreements surveyed contain some form of alternate dispute resolution. A binding determination of an independent expert is typically used to resolve budget disputes with a range of approaches taken for other kinds of disputes. In comparison to 2001, there has been a significant decrease in court action as a means of resolving disputes.

Form of Resolution	% of Agreements 2005 Survey	2001 Survey
Independent Expert	32.0%	34.0%
Arbitration	40.0%	26.0%
Independent Expert and Arbitration	24.0%	20.0%
Independent Expert and Court	4.0%	2.0%
Independent Expert, Arbitration and/or Court	0.0%	6.0%
Court	0.0%	12.0%

European Management Agreements

Written in conjunction with CMS Cameron McKenna LLP

Our survey reviewed management contracts agreed since 2001, the year of our previous survey. In total we reviewed contracts covering 29 hotels and 5,912 rooms in 11 countries across Eastern, Central and Western Europe.

Although operator guarantees appear to have become less common, European agreements have, on the whole, become more owner-friendly over the past few years as more international operators chase the same scarce prime sites in European city centres. We expect this trend to continue.

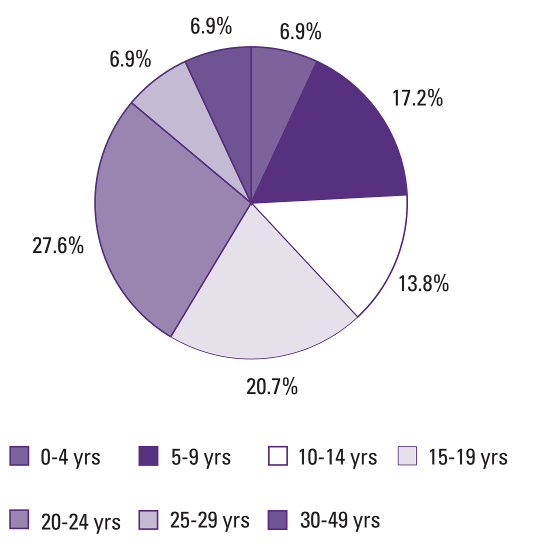
1. Term

Initial contract terms in Europe have reduced over the last four years. The majority of contracts show a shorter initial term, with the average term down four years from 19 in 2001 to 15 years in 2005.

As in 2001, the single largest segment is the 20 to 29 years group, which in the majority tends to be 20 years. However this segment has shrunk significantly from 51.7% in 2001 to 34.5% today.

If compared to the 2001 survey, a rapidly increasing proportion of contracts (58.6% in 2005 versus 37.9% in 2001) have an initial term shorter than 20 years. If this trend continues, it will bring Europe more in line with both Asia Pacific and the Americas and should increase owners' flexibility.

Initial Term – Europe



Source: Jones Lang LaSalle Hotels; CMS Cameron McKenna

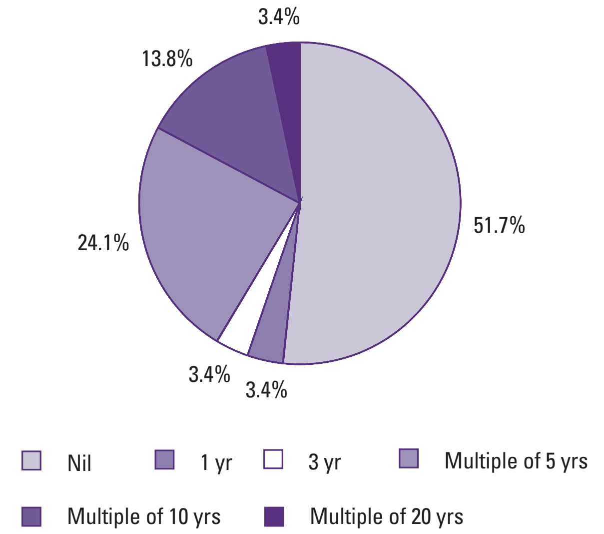
2. Option Period / Renewal Term

Consistent with the shorter initial terms, agreements that are silent on renewals or require mutual consent have increased since 2001 to now account for more than half of the total surveyed.

This result, if considered with the shortened initial terms highlights a trend that overall provides owners with increased flexibility or at least shorter-term commitment to one operator. At the same time, operators are moving into less established markets in Central and Eastern Europe and might like the opportunity to walk away from a property if the market proves disappointing.

Of those agreements that do specify renewal terms, the most common increment is a multiple of five years.

Term Renewals - Europe



Source: Jones Lang LaSalle Hotels; CMS Cameron McKenna

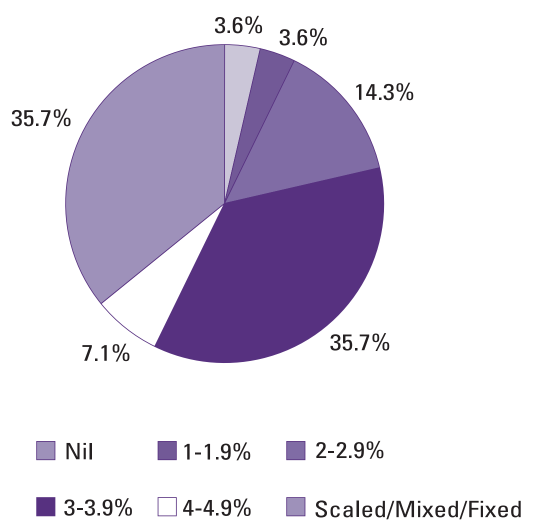
3. Base Fee

When compared to the previous survey, a slightly higher proportion of management contracts provide for a fixed base fee, sliding scales or a mixed percentage.

However, while the 2001 survey found a fairly even spread for each of the categories in the 0-5% range, today we see a strong preference for the 3-3.9% category, with 34.5% of the sample falling into this range. Almost a quarter (24.1%) of agreements have a lower base fee, while only 6.9% of contracts have a base fee of 4% or more.

On the whole, the average base fee has increased marginally from 1.8% in 2001 to 2.2% in 2005. We should note that the contractual relationship between owner and operator is increasingly governed not only by the traditional management agreement but also by parallel agreements such as Licence, Royalty or Service Agreements. To fully assess the value of the payments due to the operator, it is therefore necessary to look at the fee requirement of these parallel contracts. For the purpose of the graph below we have considered the accumulated base fees due under the various agreements.

Base Fee (% of Gross Revenue) – Europe



Source: Jones Lang LaSalle Hotels; CMS Cameron McKenna

4. Incentive Fee

A wide range of incentive fee levels are apparent in European management agreements. The most common (27.6%) incentive fee involves some form of profit share and the next single most popular (20.7%) fee is 10% of Adjusted Gross Operating Profit (AGOP).

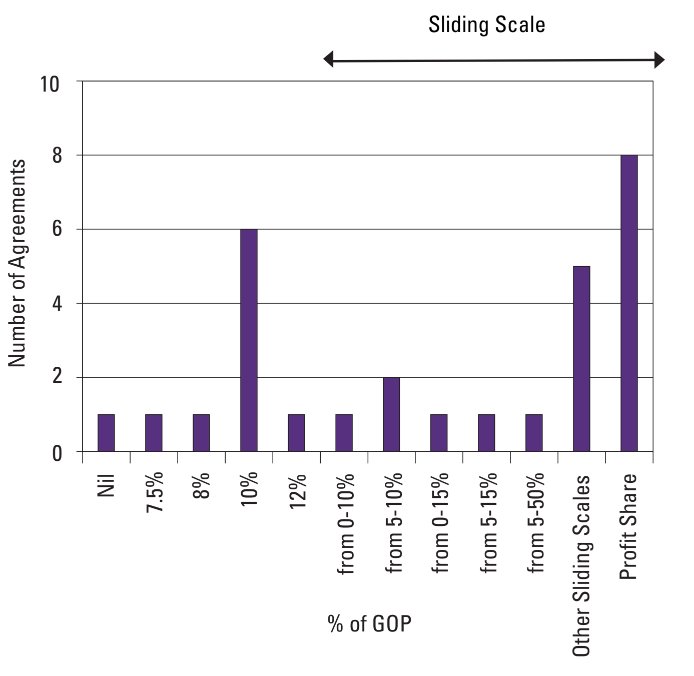
However, it is becoming more usual to see incentive fees calculated based on a sliding scale, as seen in 65.5% of the contracts surveyed. These mechanisms mean that the more profitable a hotel (either in absolute terms or as a percentage of revenue), the higher the percentage of profit the operator can earn as its fee. The idea behind this concept is to align the owner and operator interests by rewarding the operator for excellent performance. However, if the performance does not exceed expectations, incentives will be limited.

In the event of a profit share, the agreements stipulate either:

- NOP thresholds;
- Owner's priority return deducted from GOP; or
- GOP targets.

Sliding scale fees depend on the number of years of operation and/or certain profit targets.

Incentive Fee (% of GOP) – Europe



Source: Jones Lang LaSalle Hotels; CMS Cameron McKenna

5. Other Fees and Charges

A surprising 58.6% of contracts do not specify the level of such charges. These fees and charges may be included in side agreements that were not available to survey.

Half (50.0%) the contracts that deal with Sales & Marketing Charges do so as a percentage of Gross Revenue (1-3%) with the most common being 1% of Gross Revenue. 37.5% use Rooms Revenue as a basis for calculation and nearly all of these agreements specify 2% of Rooms Revenue.

6. Operator Guarantee

A mechanism for sharing risk is for the operator to guarantee minimum levels of profit or a certain percentage return on the owner's investment, requiring the operator to fund any shortfall.

This survey shows a marked trend away from guarantees, which are present in only 20.0% of the sample, compared to 44.8% in 2001. The decline in guarantees is due to a number of factors including:

- As a result of the events on 11 September 2001, operators restricted their guarantees from applying to factors outside their control. Now, many owners question the value of a guarantee, which does not pay out in the very circumstance in which they need them most.
- The Enron scandal has made listed hotel groups more cautious about signing up for contingent liabilities.
- Most guarantees are now structured like loans, with the operator entitled to "claw back" guarantee payments out of surplus profits in future years, sometimes with interest. This has led many owners to reassess the value of guarantees. Rather than a contingent loan in the future, owners would often prefer a loan or key money up front to help pay for the hotel's construction.
- In exchange for a guarantee, operators generally require tougher provisions elsewhere in the management agreement often including higher fees. Owners feel it is better to negotiate benefits such as lower fees elsewhere in the contract than have an operator guarantee.

A common provision is the deferral or subordination of the operator's incentive fee, so that it is not payable until a certain level of profit is achieved. This is more meaningful than the equivalent threshold for guarantees since operators have not restricted the cause of failure to circumstances within their control.

Operators have traditionally favoured management contracts as a way of earning an income stream without taking on the risks and liabilities of ownership. However, several owners (and particularly their lenders) increasingly look to operators to share in the risk by means of equity contributions, loans or guarantees.

Many owners think that an equity investment or loan by the operator will align their interests more closely and make the operator think more like an owner. However, this does not always happen in practice because several operators are concerned primarily with their management fees - they often look at sliver equity as the cost of acquiring a management contract rather than as an investment in its own right, immediately writing down the cost. Giving the operator equity also complicates decision making (with complicated rules dictating when the operator is allowed to vote on the owner's actions) and often introduces complex mechanisms governing the transfer of shares, such as "tag along" and "drag along" rights.

7. Performance

More than half the sample included a performance clause, which is similar to the 2001 result. Typically, non-performance is considered an underachievement over two consecutive years. An underachievement can be defined in different ways. More common definitions include the failure to achieve either a RevPAR above the average of the competitive set or a profit above a set percentage of the budgeted profit (most commonly 80% of GOP). However, as with guarantees, operators tend to escape liability if they can prove that the failure is due to circumstances beyond their control.

8. Budget

a) Annual Operating Budget

It is now standard for the owner to approve the operating budget (89.7%) and in most cases also the capital expenditure budget. The operator typically needs to be informed of any objections within a specified time, ranging from 20 to 90 days. Otherwise the budget is deemed to be agreed.

b) Budget Dispute Resolution

Generally, if no agreement on the budget can be reached, the previous year's budget will continue to form the basis for the operation. However, in practice, budget disputes will usually be resolved by private negotiation.

Form of Resolution	% of Agreements	
	2005 Survey	2001 Survey
Arbitration	17.9%	18.5%
Independent Expert	57.0%	37.1%
Private Negotiation	3.6%	7.4%
Owner Takes Precedence	3.6%	n/a
No Mechanism	17.9%	11.1%

9. Restrictions on Operator

a) Appointment of Key Personnel

Three quarters of agreements stipulate the owner must approve the operator's choice of key personnel. In some cases, the owner can decline up to three candidates. In nearly half these contracts (45.0%), the approval right goes beyond just the General Manager to include the director of Financial Controller and the Director of Sales. Occasionally the owner must also approve other members of the executive team.

Where specified, the level of owner involvement is as follows:

Involvement of Owner	% of Agreements	
	2005 Survey	2001 Survey
Owner consent required	95.2%	75.0%
Owner permitted to comment	0.0%	12.5%
No approval required	4.8%	12.5%

b) Restrictions on Contracting

More than two thirds of the contracts provide a monetary limit in terms of the liability incurred and / or a limit in terms of the length of contract or its termination period. Typically such time limits would be that the term of contract is not to exceed 12 months or that it can be terminated with a three-month termination period.

Indicative of owners' growing trend to exert more control over the operator and the liabilities they incur, the proportion of agreements that allow operators a free reign with contracting has decreased further from 28.6% in 2001 to 17.4% in 2005.

Where specified, the restrictions are as follows:

Restrictions on Operator	% of Agreements	
	2005 Survey	2001 Survey
Owner consent required for all contracts	13.0%	0.0%
Monetary limit and/or contract restrictions	69.6%	57.1%
Other restrictions	0.0%	14.3%
No approval required	17.4%	28.6%

c) Restriction on Granting of Lease & Concessions

Owners tend to exert more control over operators' granting of leases and concession than they do on operators entering into contracts. Two thirds of the sample require owner approval for all cases (up from 50.0% in 2001), while an additional 19.0% require it for material contracts, similar to those described in section 9.b above. Only in 14.3% of cases no owner approval is required. Again this is a smaller proportion than in 2001. Where specified, the restrictions are as follows:

Restrictions on Operator	% of Agreements	
	2005 Survey	2001 Survey
Owner consent required for all contracts	66.7%	50.0%
Monetary limit and/or contract restrictions	19.0%	26.9%
Other restrictions	0.0%	7.7%
No approval required	14.3%	15.4%

b) Restrictions on Incurring Expenses Outside the Approved Budget

Regulation of this area of operators' authority is less stringent. Generally, the operator is expected to make reasonable endeavours to keep within close parameters of the budget or if a material deviation of the operating budget is anticipated, the operator will need to inform the owner.

Where specified, the restrictions are as follows:

Restrictions on Operator	% of Agreements 2005 Survey	2001 Survey
Owner consent required at all times	27.2%	13.6%
Operator may only exceed by a fixed percentage	27.3%	18.2%
Operator must inform Owner immediately after exceeding	0.0%	4.5%
Operator must obtain prior approval for litigation-based expenses	0.0%	4.5%
Operator can only exceed without approval in emergencies	0.0%	18.2%
Other restrictions	0.0%	31.8%
No approval required	45.5%	9.1%

10. Capital Expenditure

a) Extent of Owner's Obligation

In general, the owner must provide adequate funds to maintain the hotel in accordance with agreed standards. At times the owner may be required to meet changes in the operator's standards as far as this is reasonable. The test of reasonableness is important to avoid the owner providing a "blank cheque" to the operator.

b) FF&E Reserve

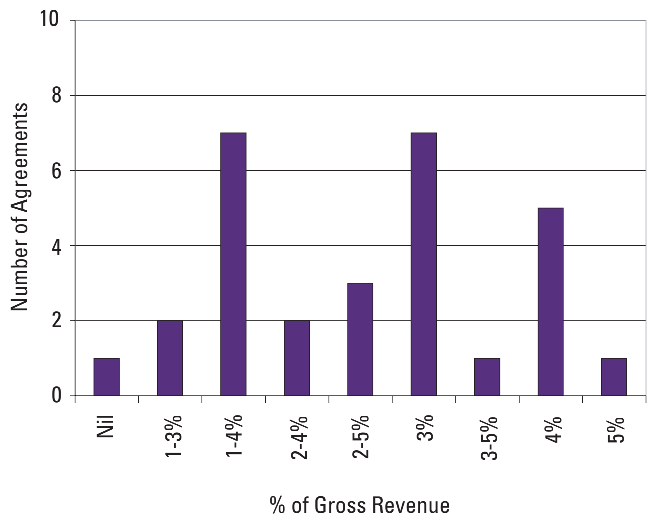
In our 2001 survey, 27.6% of contracts did not include an FF&E Reserve. This has changed significantly with this year's results, where only 3.4% do not provide for an FF&E Reserve. It can now be said that an FF&E Reserve is the norm for management agreements across Europe.

More than half of the agreements set out a range that increases by one percentage point for every year of operation over the first three to five years of a newly opened hotel.

Generally, from Year Five onwards, the FF&E Reserve is between 3-5% of Gross Revenue. Overall, the level of FF&E Reserve appears to have increased since the 2001 survey. The proportion of agreements specifying an amount equal to 4.0% or more of Gross Revenue in the stabilised year has increased from 48.3% in 2001 to 65.5% in 2005.

This reflects the experience of both owners and operators that historic levels of FF&E Reserve have proved insufficient to maintain hotels to their required standard. Arguably even at 5.0% it is likely that additional owners' capital expenditure will be required occasionally, but it is unlikely that owners will want to tie up more money in a Reserve account they don't directly control.

FF&E Reserve - Europe



Source: Jones Lang LaSalle Hotels; CMS Cameron McKenna

11. Termination

a) Termination without Cause

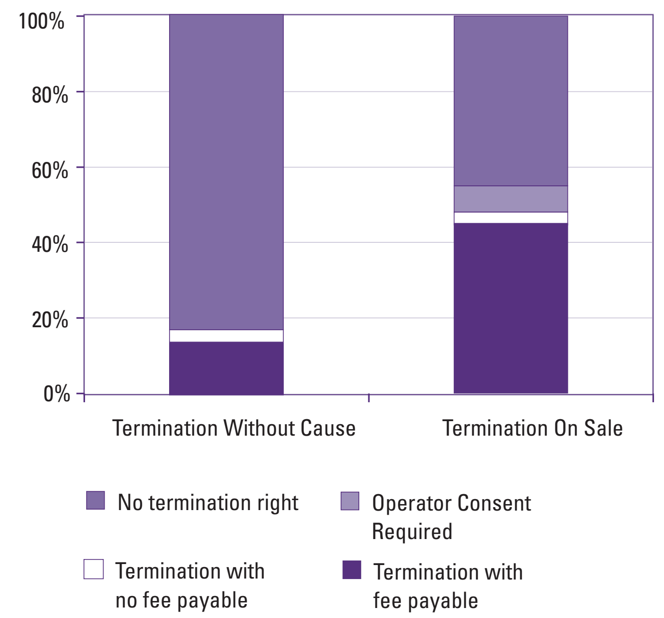
Only a minority of contracts (17.2%) in the 2005 sample allow for a termination without cause. This is nearly half as few as seen in 2001 (31.0%). In those cases that allow such a termination, a cancellation fee, which is typically an average of the fees over a specified period prior to termination, is due to the operator. With new hotels, any termination of the management agreement tends only to be possible after an initial specified period of several years.

b) Termination on Sale

There are now more agreements (55.2%) that allow for a termination on sale than we saw in 2001 (41.4%). Again this highlights the owners' desire for more flexibility. As a rule, the market places a higher value on a hotel offered with vacant possession than one encumbered by a management agreement. Given the increased competition between operators' to expand across Europe, it is likely that they will have to concede this point more often and forsake long-term security of their cash flows.

In many cases, termination on sale is possible only after a specified number of years, while the compensation fees payable reduces as the term progresses. Frequently, a termination period of several months must be observed.

Termination Clauses – Europe



Source: Jones Lang LaSalle Hotels; CMS Cameron McKenna

12. Non-Compete

Only 37.5% of the 2005 sample of management agreements set out non-compete clauses for either the whole or part of the term of the agreement. This is a decrease from the 2001 result where 48.3% of contracts provided such a restriction.

Over half of the contracts that provide a restriction, do so for the whole term of the contract, although such restriction is generally linked only to the particular brand rather than the family of brands run by an operator.

Agreements that specify a non-compete clause over a shorter time frame consider same brand competition in the early years as particularly harmful, as the subject hotel will not have established itself in the market. However, even a well established hotel may be adversely impacted by the entrance of a brand new hotel. There is therefore a strong case for including a non-compete term concurrent with the term of the agreement.

Restriction	% of Agreements 2005 Survey	2001 Survey
Geographical restriction for initial 1 – 5 yrs	8.3%	3.4%
Geographical restriction for 6- 10 yrs	8.3%	3.4%
Geographical restriction for term of contract	20.9%	41.4%
Geographical restriction for 1 – 5 yrs after termination	0.0%	0.0%
No geographical restriction	62.5%	51.7%

13. Dispute Resolution

More than a third of the agreements determine the independent expert as the sole mechanism of alternative dispute resolution or at least as the first step after the collapse of good faith discussions between owner and operator. Although nearly two thirds of contracts specify arbitration as the agreed route to follow, none expressly refer disputes to a court. A quarter of contracts provide for arbitration proceedings if the independent expert procedure has not provided a common agreement.

Form of Resolution	% of Agreements 2005 Survey	2001 Survey
Independent Expert	11.1%	7.4%
Arbitration	63.0%	29.6%
Independent Expert and Arbitration	25.9%	37.0%
Independent Expert and Court	0.0%	3.7%
Independent Expert, Arbitration and/or Court	0.0%	14.8%
Court	0.0%	3.7%

14. Governing Law

Interestingly, approximately a third of the contracts reviewed specify a governing law which is different to the local law. Given the multitude of jurisdictions across Europe and the strong cross border activity of investors, one likely explanation is that with neither owner nor operator being domestic to the market the hotel is situated in, they chose a governing law that is more familiar. However, depending on the issues in dispute, the choice of a foreign governing law may not avoid the need for local law advice.

European Lease Agreements

Written in conjunction with CMS Cameron McKenna LLP

Lease Agreements versus Management Agreements

Across Europe, hotel lease agreements are more consistent than other commercial lease agreements. The reasons for this homogeneity are twofold.

Firstly, hotel operators have specific requirements unique to hotels and different to the requirements of an occupier of commercial property. For instance, hotel operators generally seek a longer lease period than the average term for commercial property. Secondly, the large number of cross-border transactions has led to more standardised forms of legal documentation.

It is noticeable that in certain jurisdictions, there is an obvious preference to use management agreements in place of leases and vice versa. These preferences may not be solely the result of local practice. In general terms a management agreement may be advantageous from an operator's perspective as there is less risk to the operator while ownership of the business is retained by the hotel owner. As a lease confers a proprietary interest, it will impose upon the operator greater obligations than would be found in a management agreement in relation to the land and its buildings.

An obvious example is the obligation to repair (and a liability for dilapidations), albeit that for a number of jurisdictions this obligation is subject to legislative limitations. However, the downside of a management agreement is that there is likely to be less protection for the operator once the arrangement comes to an end. There may also be technical reasons favouring one over the other. For example the predominance of using management agreements in Poland no doubt results from the restrictions preventing the granting of a najem (lease) for a period of more than 10 years. The tax treatment of the agreement is likely to be a strong motivator. Take the UK, for example: Stamp Duty Land Tax is payable on a lease but is not payable on a management agreement. Additionally, recent accounting changes in the UK mean that with a lease, future rental burdens must be shown as liabilities on the operator's balance sheet.

In all jurisdictions there are a number of legislative restraints (and in the UK common law rules too) restricting what can and cannot be included as terms of a lease agreement. For example, it is generally not possible to include in a lease agreement a provision for determining disputes at a forum or under a choice of law other than the jurisdiction in which the hotel is situated while in a management agreement the parties can agree on a governing law.

In all jurisdictions, to become a lease the agreement will need to satisfy a number of technical requirements. Simply calling the document a lease does not create a lease agreement. Similarly, a recent decision of the English Courts found that an agreement dressed up as a "management contract" may be a lease if it satisfies the technical requirements for a lease. Although that case did not break any new ground, it reinforces the lesson that care should be taken to ensure that the agreement has whatever status the parties intend.

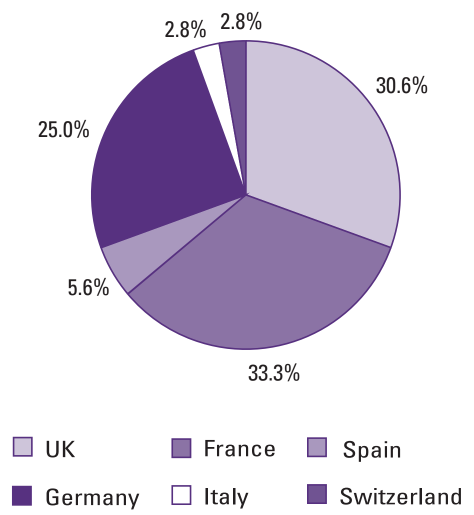
European Lease Features

As leases are particularly popular in Europe, we have included a separate analysis of European hotel lease agreements to complement the global management agreement survey. We have analysed 36 contracts covering 8,264 hotel rooms in six countries.

1. Country

Our survey included contracts from six countries that represent some of the major European hotel markets. The sample of agreements is as follows:

Lease Agreement Surveyed by Country

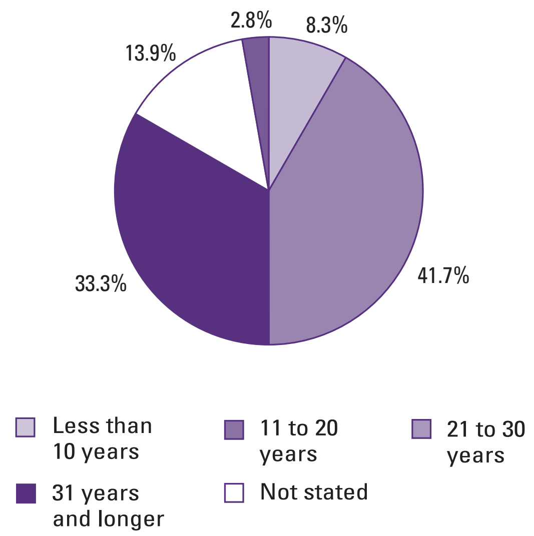


Source: Jones Lang LaSalle Hotels; CMS Cameron McKenna

2. Term

Across the sample, the most common length of term (41.7%) falls between 11 and 20 years. French leases commonly show a term of 12 years, while German and UK leases terms generally fall in the 21-30 year range. Typically, German terms tend to be either 20 or 25 years, while only the UK shows terms in excess of 30 years.

Term – European Lease Agreements



Source: Jones Lang LaSalle Hotels; CMS Cameron McKenna

3. Rent

Given the wide range of quality and location of the hotels in the sample, it is not feasible or meaningful to analyse rent in detail. However, on the basis of the total sample, rent per room ranges from less than €3,000 per annum to more than €50,000 per annum, with an average of about €13,000 per room per annum.

4. Type of Rent

Interestingly, the survey shows that fixed rents appear to be on the way out, with less than a third (30.6%) of contracts (30.3%) stipulating rent in this way.

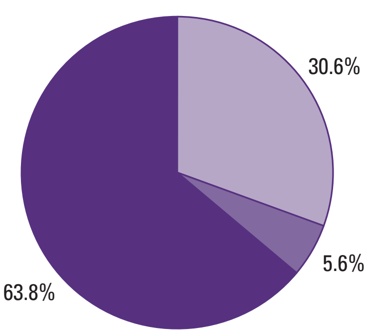
The dominant arrangement (63.8%) is a semi-variable structure, where the operator pays a relatively lower fixed rent, which is complemented by a performance linked variable 'top slice'. This 'top slice' can either be a percentage of Gross Revenues or of an agreed level of profit.

Such a rental structure requires the operator / tenant to share operational and financial information with the owner / landlord, allowing them to verify the rental calculation and comment on the performance. It also forces the owner / landlord actively to asset manage the operation, as part of their income is directly linked to the performance of the hotel.

Obviously, the further down on the profit and loss account (P&L) the basis for the variable rental element is set, the more influence the owner / landlord is likely to require in order to protect their income.

Only a small proportion (5.6%) of leases include a fully variable lease arrangement as this exposes the investor to the full operational risk without allowing them the same influence as under a management agreement. However, the operator / tenant benefits from the fact that such a lease will not show on the corporate balance sheet as a liability as would be the case with a fixed lease or the fixed element of a semi-variable lease.

Rent Type – European Lease Agreements



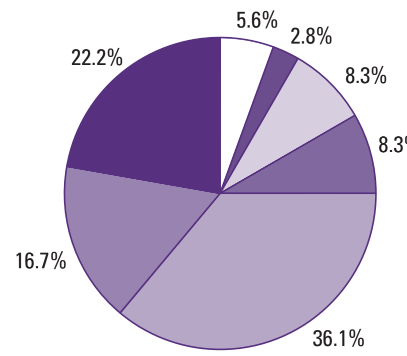
Source: Jones Lang LaSalle Hotels; CMS Cameron McKenna

5. Indexation / Uplifts

In order to protect the value of the income stream to the owner / landlord, nearly 80.0% of leases surveyed provide an indexation clause or pre-agreed rent step ups as a tool to mitigate the effect of inflation on the rental income.

36.1% of contracts use 100% of the nominated index for annual uplifts of the rent. The second most popular arrangement (16.7%) is a set of pre-agreed step-ups in the rental amount due. This tends not to be on an annual basis, but at agreed points in time. 5.6% of contracts do not look for an annual increase as a proportion of the index movement, but will look at certain thresholds in the index to be achieved before the rent will be increased by a proportion of that index movement.

Indexation – European Lease Agreements



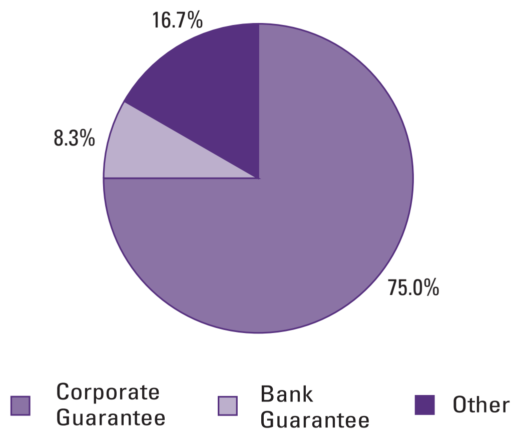
Source: Jones Lang LaSalle Hotels; CMS Cameron McKenna

6. Guarantee Arrangements

The majority of contracts (58.3%) benefit from some form of guarantee arrangement. This not only reduces the risk for the owner / landlord of missing out on rental payments during the long term contract, but also further enhances the opportunity for them to source debt finance on favourable terms. However, it is important to understand the covenant of the guarantor. For instance, is it a single purpose vehicle with limited capitalisation or a corporate guarantee of the parent company?

Our survey found that of those contracts that provide a guarantee arrangement only 8.3% used a bank guarantee, while 75.0% have provided a corporate guarantee of some form.

Type of Guarantee – European Lease Agreements



Source: Jones Lang LaSalle Hotels; CMS Cameron McKenna

7. Repairs and Maintenance

There are differences in the typical arrangement for repairs and maintenance across different countries, however, 63.9% of the sample leave the responsibility for structural repairs with the owner / landlord, while repairs are the tenant's responsibility.

A common approach in Germany is the "Dach & Fach" arrangement, which tends to leave the owner / landlord responsible for the roof and shell of the building and often, but not always, major repair or replacement requirements for significant plant and machinery and similar items.

Only 36.1% of contracts pass on all responsibility to the tenant. These are predominantly UK leases that provide for full repairs or full repairs and insurance arrangements.

8. Assignability

The vast majority of contracts are assignable to affiliated tenant companies (88.9%). However, in several countries, such as Germany, lease trading is not possible as it is in the UK.

Sample Summary

	Global Management Agreement Survey	European Lease Survey
Star Grade		
Five	38	11
Four	29	16
Three	7	7
Unknown / Various	6	2
Rooms		
Total Rooms*	46,088	8,264
Average Room Count	276	230
Brands	ANA, Courtyard by Marriott, Crowne Plaza, De Vere, Dolce, Express by Holiday Inn, Four Seasons, Hilton, Ibis, JAL, Jury's Inn, Kempinski, Le Meridien, Marriott, Mercure, Millennium, NH Hoteles, Nikko, Novotel, Paramount, Park Hyatt, Radisson, Radisson Edwardian, Radissan SAS, Raffles, Renaissance, Ritz Carlton, Robinson, St Regis, Sebel, Sheraton, Shangri-La, Sofitel, Westin	Cerrutti, Club Med, Country Inns & Suites, Courtyard by Marriott, Express by Holiday Inn, Hilton, Ibis, Le Méridien, Lindner, Marriott, NH, Pierre & Vacances, Radisson SAS, Regent, Rocco Forte, Shangri-La, Sofitel
Countries	Australia, China, Czech Republic, Fiji, Germany, Hong Kong, Indonesia, Italy, Japan, Mexico, Netherlands, Poland, Portugal, Russia, Singapore, Spain, Switzerland, Thailand, Turkey, UK, US	France, Germany, Italy, Spain, Switzerland, UK

* Americas sample includes management agreements for multiple properties which has elevated the number of rooms

Glossary

AGOP: Adjusted Gross Operating Profit. GOP less specified items (eg Base Management Fee).

Arbitration: Relates to the determination of disputes by an arbitrator using less technical rules than a court.

Base Management Fee: A fee paid to the operator for their services, usually based on a percentage of Gross Revenue.

Budget: Comprises forecast revenue, operating expenses, GOP, management fees, results of operation, capital expenditure, cashflow, payroll and staffing schedule and business / marketing plan.

Capital Expenditure: Relates to structural changes of the property, major remodeling, replacement of existing assets etc, in order to maintain the hotel and/or improve the profitability or extend the life of the asset.

Court: Judicial determination.

FF&E: Furniture, Fixtures and Equipment – non structural improvements as distinct to Capital Expenditure.

GOP: Gross Operating Profit equals Gross Operating Revenue less Operating Costs.

Gross Revenue: All revenue and income, exclusive of certain expenses, such as taxes, derived directly or indirectly from the operation of the hotel, including licence, lease, and concession fees and rentals.

Incentive Management Fee: A fee paid to the operator for their services based on a percentage of Gross Operating Profit.

Independent Expert: Expert in the area determining a dispute – usually a consultant from a leading accountancy or consulting firm with a hospitality division.

Management Fee: Payment which generally comprises a base management fee and an incentive management fee.

NOP: Net Operating Profit, which is equal to Gross Operating Profit less incentive fees, property taxes, reserve, ground rental, owner's costs and insurance.

Operating Costs: All costs of operating the hotel including group services, costs of any insurance claims, costs of preparing business plans, costs of any advisors.

RevPAR: Revenue Per Available Room. The product of occupancy and average daily rate.

Rooms Revenue: All revenue derived from the rooms department.

Shortfall: Difference between actual result and guarantee result.

Term: Number of years from the commencement date to the natural expiration of the term of the management agreement.

Jones Lang LaSalle Hotels®

Global Leadership

Jones Lang LaSalle Hotels, the world's leading hotel investment services group, provides clients with value-added investment opportunities and advice. In 2004, our success story included the sale of 23,103 hotel rooms to the value of US$5.2 billion in 85 cities and advisory expertise on 132,498 rooms to the value of US$27.9 billion across 301 cities, including asset management of hotels worth US$2.5 billion.

Global Office Network

Jones Lang LaSalle Hotels has 18 dedicated offices worldwide. The geographic spread of these offices enables us to monitor the key real estate investment markets and secure market intelligence for the benefit of our clients. Our dedicated offices worldwide are listed on the back of this publication.

Trusted Advisor

Our multi-disciplined approach ensures our clients benefit from the combined skills of our specialists professionals in each of our service offerings:

- Disposition and Acquisition;
- Valuation and Appraisal;
- Equity and Debt Sourcing;
- Asset Management;
- Operational Advice;
- Strategic Consulting;
- Asset Enhancement Services;
- Industry Research.

Management Agreement Expertise

Over the past five years, Jones Lang LaSalle hotels has negotiated a significant number of management agreements across the globe, placing us in an ideal position to identify current trends in market standards. Our diverse client base ranging from local private investors to multi-national conglomerates, signifies the recognition of Jones Lang LaSalle Hotels' expertise in this area.

Contacts

For your convenience, provided below is a single point of contact for any management agreement inquiry.

Americas:
Karen Johnson
Tel +1 213 680 7916
karen.johnson@am.jll.com

Asia Pacific
David Gibson
Tel +61 7 3231 1401
david.gibson@ap.jll.com

Europe:
Ascan Kókai
Tel: +44 20 7399 5617
ascan.kokai@eu.jll.com

www.joneslanglasallehotels.com

Baker & McKenzie
The Global Law Firm

C/M/S/ Cameron McKenna

Our Firm

Baker & McKenzie has provided sophisticated legal advice and services to many of the world's most dynamic and global organisations for more than 50 years.

With a network of more than 3,200 locally qualified, internationally experienced lawyers in 69 offices in 38 countries, we have the knowledge and resources to deliver the broad scope of quality legal services required to respond effectively to both international and local needs – consistently, with confidence and with sensitivity for cultural, social and legal practice differences.

Specialist Hotel Resort and Tourism Experience

Baker & McKenzie has a long standing involvement with and commitment to the hotel, resort and tourism industry. Our global Hotel Resort and Tourism Group has over 150 lawyers who are actively engaged on a day to day basis and very much interested and involved in the tourism industry. Because a large number of the organisations involved in the industry and the transactions are multi-jurisdictional, Baker & McKenzie - through its extensive network of offices - has traditionally been retained by many of the major participants in the industry both locally and regionally.

We have undertaken detailed and diverse assignments for developers, owners, operators, financiers and other prominent industry participants relating to a broad range of transactions including corporate mergers and acquisitions, asset sales and acquisitions, management agreements, joint ventures, capital raising, debt financing and development and construction contracts and operational issues.

Management Agreement Experience

A significant part of our global practice involves acting for owners, operators and financiers in regard to management agreements.

We are at the leading edge of the development of the modern management agreement that is continually evolving to address the complex matrix of issues relevant to such agreements including the allocation of risk and the sharing of rewards between the owners and the operators.

Contact For More Information

If you require more information in regard to our experience and capabilities and how we can assist you with management agreements or generally in the tourism industry in Asia Pacific or anywhere else in the world please contact:

Graeme Dickson
Partner
+61 2 9225 0228
graeme.dickson@bakernet.com

Leading Lawyers for the Hotel Industry

CMS Cameron McKenna LLP is a leading European law firm for the hotel industry, with clients including many of the continent's major hotel owners, operators and lenders.

We advise on every aspect of the hotel industry, including acquisitions and disposals, construction, financing and operational issues, often with a cross-border element. We are part of CMS, an association of 9 European law firms with 47 offices in 24 countries.

Management Agreements and Leases

Our lawyers are acknowledged experts, including some with experience of working within the hotel industry. They have advised owners, operators and lenders on management agreements and leases for more than 100 hotels across Europe. We have also created a standard form of cross-border hotel lease which has already successfully been used in Europe.

Awards

The firm is top-ranked for hotel transactions by the UK's independent Legal 500 directory, which describes it as having "a leading cross-departmental hotels group, praised by clients for being very focused and responsive."

Keep up to Date

Our Hotel Group regularly sends out updates and briefing guides through Law-Now, our free email alert and online information service. To register visit www.law-now.com - you will also have access to an archive of past hotel guides and articles through www.law-now.com/hotels.

Contacts

Leases: James Miller
tel +44 20 7367 2442
james.miller@cmck.com

Investments: Charles Romney
tel +44 20 7367 2727
charles.romney@cmck.com

Management Agreements: Daniel Braham
tel +44 20 7367 2857
daniel.braham@cmck.com

Dedicated Offices

Barcelona
Passeig de Gracia 11
4a Planta, Esc. A
08007 Barcelona
Spain
tel: +34 93 318 5353
fax: +34 93 301 2999

Beijing
China World Trade Centre
4/F West Wing Office
1 Jianguomenwai Avenue
Beijing 100004
PRC
tel: +8610 6505 1300
fax: +8610 6505 1330

Brisbane
Level 33
Central Plaza One
345 Queen Street
Brisbane QLD 4000
Australia
tel: +61 7 3231 1400
fax: +61 7 3231 1411

Chicago
200 Randolph Drive
Chicago IL 60601
United States
tel: +1 312 782 5800
fax: +1 312 782 4339

Frankfurt
Wilhelm-Leuschner-Strasse 78
60329 Frankfurt
Germany
tel: +49 69 2003 1041
fax: +49 69 2003 1040

Jakarta
Jakarta Stock Exchange
Building Tower 1,
28th Floor, Sudirman Central
Business District
Jl. Jend Sudirman Kav 52-53
Jakarta 12190
Indonesia
tel: +62 21 515 5665
fax: +62 21 515 5666

London
22 Hanover Square
London W1A 2BN
United Kingdom
tel: +44 20 7493 6040
fax: +44 20 7399 5694

Los Angeles
Suite 3100
355 South Grand Ave
Los Angeles CA 90071
United States
tel: +1 213 680 7900
fax: +1 213 680 4933

Madrid
Paseo de la Castellana 51
Edificio Fenix Planta 14
28046 Madrid
Spain
tel: +34 91 789 1100
fax: +34 91 789 1200

Miami
2655 Le Jeune Road, Suite 1004
Coral Gables FL 33134
United States
tel: +1 305 779 3060
fax: +1 305 779 3063

Milan
Via Agnello 8
20121 Milan
Italy
tel: +39 02 85 86 86 1
fax: +39 02 85 86 86 20

Moscow
Kosmodamianskaya Nab. 52/3
Moscow 115054
Russia
tel: + 709 5737 8000
fax: +709 5737 8011

Munich
Maximilianstrasse 52
80538 München
Germany
tel: +49 89 212 6800
fax: +49 89 212 68010

New York
153 E.53rd Street,
33rd Floor
New York NY 10022
United States
tel: +1 212 812 5700
fax: + 1 212 421 5640

Paris
58/60, Avenue de la
Grande Armee
75017 Paris
France
tel: +33 1 4055 1718
fax: +33 1 4055 1868

Singapore
9 Raffles Place
#38-01 Republic Plaza
Singapore 048619
tel: +65 6536 0606
fax: +65 6533 2107

Sydney
Level 18
400 George Street
Sydney NSW 2000
Australia
tel: +61 2 9220 8777
fax: +61 2 9220 8765

Tokyo
3rd Floor, Prudential Tower
2-13-10 Nagatacho
Chiyoda-ku
Tokyo 100-0014
Japan
tel: +813 5501 9240
fax: +813 5501 9211