ASHFORD HOSPITALITY TRUST INC
Form 424B5
September 15, 2004

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Filed pursuant to Rule 424(b)(5)
Registration No. 333-114283

PROSPECTUS SUPPLEMENT
(To Prospectus dated September 15, 2004)

2,000,000 Shares

8.55% Series A Cumulative Preferred Stock

(Liquidation Preference $25 per Share)

We are offering 2,000,000 shares of our 8.55% Series A Cumulative Preferred Stock, par value $.01 per share, referred to as our Series A Preferred Stock. We will pay cumulative dividends on the Series A Preferred Stock from and including September 22, 2004, in the amount of $2.1375 per share each year, which is equivalent to 8.55% of the $25.00 liquidation preference per share. Dividends on the Series A Preferred Stock will be payable quarterly in arrears, beginning on January 18, 2005.

We may not redeem the Series A Preferred Stock before September 22, 2009, except to preserve our status as a real estate investment trust. On or after September 22, 2009, we may, at our option, redeem the Series A Preferred Stock, in whole or in part, by paying $25.00 per share, plus any accrued and unpaid dividends to and including the date of redemption. Our Series A Preferred Stock has no stated maturity, will not be subject to any sinking fund or mandatory redemption and will not be convertible into any of our other securities. Investors in our Series A Preferred Stock generally will have no voting rights, but will have limited voting rights if we fail to pay dividends for six or more quarters and under certain other circumstances.

Our Series A Preferred Stock is subject to certain restrictions on ownership designed to preserve our qualification as a real estate investment trust for federal income tax purposes. See Description of Series A Preferred Stock Restrictions on Ownership on page S-17 of this prospectus supplement and Description of our Capital Stock Restrictions on Ownership and Transfer on page 19 of the accompanying prospectus.

There is currently no public market for our Series A Preferred Stock. We intend to file an application to list our Series A Preferred Stock on the New York Stock Exchange under the symbol AHTPrA and, if listing is approved, expect that trading will commence within 30 days after the initial delivery of the Series A Preferred Stock.

Investing in our Series A Preferred Stock involves risks. See Risk Factors beginning on page S-4 of this prospectus supplement and on page 2 of the accompanying prospectus.

	Per Share	Total
Price to public	$25.0000	$50,000,000
Underwriting discounts and commissions	$ 0.7875	$ 1,575,000
Proceeds, before expenses, to us	$24.2125	$48,425,000

The underwriters expect to deliver the Series A Preferred Stock to purchasers on or about September 22, 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We have granted to the underwriters the right to purchase within 30 days from the date of this prospectus supplement up to an additional 300,000 shares of Series A Preferred Stock at the public offering price per share, less discounts and commissions, to cover over-allotments.

Wachovia Securities **Friedman Billings Ramsey**

Legg Mason Wood Walker Incorporated **Stifel, Nicolaus & Company Incorporated**

The date of this prospectus supplement is September 15, 2004.

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Prospectus Supplement

Prospectus

You should rely only on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not, and the underwriters have not, authorized anyone else to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. An offer to sell these securities will not be made in any jurisdiction where the offer and sale is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus, as well as information we previously filed with the Securities and Exchange Commission and incorporated by reference, is only accurate as of the date on the front cover of this prospectus supplement or accompanying prospectus, as applicable. Our business, financial condition, results of operations and prospects may have changed since that date.

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A WARNING ABOUT FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus supplement and the accompanying prospectus, and in the information incorporated by reference into this prospectus supplement and the accompanying prospectus, that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. Statements regarding the following subjects are forward-looking by their nature:

- our business and investment strategy;
- our projected operating results;
- completion of any pending transactions;
- our ability to obtain future financing arrangements;
- our understanding of our competition;
- market trends;
- projected capital expenditures; and
- the impact of technology on our operations and business.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity, results of operations, plans and objectives may vary materially from those expressed in our forward-looking statements. You should carefully consider this risk when you make an investment decision concerning our Series A Preferred Stock. Additionally, the following factors could cause actual results to vary from our forward-looking statements:

- the factors discussed in this prospectus supplement and the accompanying prospectus, and in the information incorporated by reference into this prospectus supplement and the accompanying prospectus, including those set forth under the sections titled Risk Factors in this prospectus supplement and the accompanying prospectus supplement
- general volatility of the capital markets and the market price of our securities;
- changes in our business or investment strategy;
- availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in our industry and the market in which we operate, interest rates or the general economy; and
- the degree and nature of our competition.

When we use the words will likely result, may, anticipate, estimate, should, expect, believe, intend, or similar expressions, we identify forward-looking statements. You should not place undue reliance on these forward-looking statements. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PROSPECTUS SUPPLEMENT SUMMARY

The following summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. It may not contain all of the information that is important to you. Before making a decision to invest in the Series A Preferred Stock, you should read carefully this entire prospectus supplement and the accompanying prospectus, including the sections entitled Risk Factors beginning on page S-4 of this prospectus supplement and on page 2 of the accompanying prospectus and the section entitled Where You Can Find More Information on page ii of the accompanying prospectus, as well as the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. This summary is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. All references to we, our and us in this prospectus supplement means Ashford Hospitality Trust, Inc. and all entities owned or controlled by us except where it is made clear that the term means only the parent company. The term you refers to a prospective investor. Unless otherwise indicated, the information in this prospectus supplement assumes that the underwriters over-allotment option is not exercised.

The Company

We are a Maryland corporation that was formed in May 2003 to take advantage of the existing and developing investment opportunities in the lodging industry. These diverse lodging investment opportunities may result from inefficiencies related to market illiquidity, supply/demand imbalances and general business cycles. We target specific opportunities created by the current recovering lodging market while retaining the flexibility to invest in the most attractive risk-reward opportunities as they develop in the lodging business cycle. Our target investments include (i) direct hotel investments; (ii) mezzanine financing through origination or through acquisition in secondary markets; (iii) first lien mortgage financing through origination or through acquisition in secondary markets; and (iv) sale-leaseback transactions. To our knowledge, we are one of the few publicly traded REITs exclusively focused on investing in the hospitality industry at all levels of the capital structure and across all segments where pricing, yield and capital appreciation advantages may exist.

We currently own 32 hotel properties in 13 states with 4,441 rooms and have mezzanine loan receivables of approximately $75.6 million. We are self-advised and own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership, our operating partnership. We currently own an 80.9% interest in our operating partnership. The remaining 19.1% is owned by limited partners who received units in connection with the acquisition of certain of our assets. The substantial majority of these limited partnership units are owned by certain of our executives, employees and employees of our affiliates. We are the sole general partner of our operating partnership.

We have elected to be treated as a real estate investment trust, or REIT, for federal income tax purposes. Our principal executive offices are located at 14185 Dallas Parkway, Suite 1100, Dallas, Texas 75254. Our telephone number is (972) 490-9600. Our website is http://www.ahtreit.com. The contents of our website are not a part of this prospectus supplement or the accompanying prospectus. Our shares of common stock are traded on the New York Stock Exchange, or the NYSE, under the symbol AHT.

Recent Developments

On September 7, 2004, we announced that we had completed the acquisition of a nine-property, 972-room portfolio from Dunn Hospitality Group for $62.0 million in total consideration. The purchase price includes $59.0 million in cash and $3.0 million in units of limited partnership interest in our operating partnership (333,333 units). Additionally, on September 7, 2004, we announced that we closed a $210 million term loan with Merrill Lynch Mortgage Lending, Inc. and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services, Inc. This loan is secured by 25 of our hotel properties.

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This Offering

Issuer	Ashford Hospitality Trust, Inc.
Securities Offered	2,000,000 shares of 8.55% Series A Cumulative Preferred Stock (plus up to 300,000 shares of Series A Preferred Stock issuable upon exercise of the underwriters over-allotment option).
Dividends	Dividends on the Series A Preferred Stock are cumulative from the date of original issuance and are payable quarterly, when and as declared, commencing on January 18, 2005 at the rate of 8.55% per annum of the $25.00 liquidation preference (equivalent to an annual dividend rate of $2.1375 per share). Dividends will be payable quarterly on the 15th day of January, April, July and October of each year, or if such day is not a business day, the next succeeding business day.
Liquidation Preference	$25.00 per share of Series A Preferred Share, plus an amount equal to accumulated, accrued and unpaid dividends (whether or not declared).
Maturity and Redemption	The Series A Preferred Stock has no maturity date and we are not required to redeem the Series A Preferred Stock at any time. The Series A Preferred Stock is not redeemable prior to September 22, 2009, except in certain limited circumstances relating to the ownership limitation necessary to preserve our qualification as a REIT. On and after September 22, 2009, the Series A Preferred Stock will be redeemable for cash at our option, in whole or from time to time in part, at a redemption price of $25.00 per share, plus accrued and unpaid dividends, if any, to the redemption date.
Ranking	The Series A Preferred Stock will rank senior to our common stock and future junior securities, equal with future parity securities and junior to future senior securities and to all our existing and future indebtedness, with respect to the payment of dividends and the distribution of amounts upon liquidation, dissolution or winding up.
Voting Rights	Holders of Series A Preferred Stock generally will have no voting rights. However, whenever dividends on the Series A Preferred Stock are in arrears for six or more quarterly periods (whether or not consecutive), the holders of such shares (voting together as a single class with all other shares of any class or series of shares ranking on a parity with the Series A Preferred Stock which are entitled to similar voting rights, if any) will be entitled to vote for the election of two additional directors to serve on our board of directors until all dividends in arrears on outstanding Series A Preferred Stock have been paid or declared and set apart for payment. In addition, the issuance of future senior shares or certain changes to the terms of the Series A Preferred Stock that would be materially adverse to the rights of holders of Series A Preferred Stock cannot be made without the affirmative vote of holders of at least 66 2/3% of the outstanding Series A Preferred Stock and shares of any class or series of shares ranking on a parity with the Series A Preferred Stock

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	which are entitled to similar voting rights, if any, voting as a single class.
Ownership Limit	Subject to certain exceptions, no person may own, directly or indirectly, more than 9.8% (in value or number of shares, whichever is more restrictive) of the outstanding shares of our Series A Preferred Stock.
Listing	We intend to apply to list the Series A Preferred Stock on the NYSE under the symbol AHTPrA. If approved for listing, trading of the Series A Preferred Stock on the NYSE is expected to commence within the 30-day period after the initial delivery of the Series A Preferred Stock.
Conversion	The Series A Preferred Stock is not convertible into or exchangeable for any of our other securities or property.
Use of Proceeds	We intend to use the net proceeds from the sale of the Series A Preferred Stock for general corporate purposes which may include the acquisition of additional hotel investments.

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RISK FACTORS

An investment in the Series A Preferred Stock involves various risks, including those described below and in the accompanying prospectus. Prospective investors should carefully consider such risk factors, together with all of the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus, in determining whether to purchase the Series A Preferred Stock offered hereby.

There is no established trading market for our Series A Preferred Stock, and the market price and trading volume of our Series A Preferred Stock may fluctuate significantly.

The Series A Preferred Stock is a new issue of securities with no established trading market. A number of factors may adversely influence the price of the Series A Preferred Stock in public markets, many of which are beyond our control. In particular, an increase in market interest rates will result in higher yields on other financial instruments and may lead purchasers of Series A Preferred Stock to demand a higher yield on the price paid for the Series A Preferred Stock, which could adversely affect the market price of the Series A Preferred Stock. Although we intend to list the Series A Preferred Stock on the NYSE, the daily trading volume of REITs in general and the Series A Preferred Stock in particular may be lower than the trading volume of many other industries. An active trading market for the Series A Preferred Stock may not develop. As a result, investors who desire to liquidate substantial holdings at a single point in time may find that they are unable to dispose of their shares in the market without causing a substantial decline in the market price of such shares.

Our future offerings of debt and preferred equity securities may adversely affect the value of the Series A Preferred Stock.

Our charter provides that we may issue up to 50 million shares of preferred stock in one or more series. The issuance of additional preferred stock in parity with or senior to the Series A Preferred Stock could have the effect of diluting the amounts we may have available for distribution to holders of the Series A Preferred Stock. The Series A Preferred Stock will be subordinated to all our existing and future debt. None of the provisions relating to the Series A Preferred Stock contains any provisions affording the holders of the Series A Preferred Stock protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all our assets or business, that might adversely affect the holders of the Series A Preferred Stock.

USE OF PROCEEDS

We expect that the net proceeds to us from the sale of the Series A Preferred Stock offered hereby (after deducting underwriting discounts and commissions and estimated offering expenses) will be approximately $48.0 million ($55.3 million if the underwriters over-allotment option is exercised in full). We intend to use the net proceeds from the sale of the Series A Preferred Stock for general corporate purposes, which may include the acquisition of additional hotel investments.

In the ordinary course of our business, we continually evaluate hotel properties for possible acquisition by us or in regard to the possibility of our making a mezzanine loan relating to a property. At any given time, we may be a party to one or more non-binding letters of intent or conditional purchase agreements with respect to these possible acquisitions or loans and may be in various stages of due diligence and underwriting as part of our evaluations. Consummation of any potential transaction is necessarily subject to significant outstanding conditions, including satisfactory completion of our due diligence. As a result, we can make no assurance that any such transaction will be completed, or, if completed, what the terms or timing of the transaction will be.

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CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2004 on a historical basis and as adjusted to give effect to (i) the consummation of this offering; (ii) the acquisition of the 14 hotel properties we have acquired since June 30, 2004; (iii) the origination of the mezzanine loan we originated since June 30, 2004; and (iv) the $210 million term loan we entered into since June 30, 2004.

	June 30, 2004 (unaudited)		
	Actual	Pro Forma Adjustments	Pro Forma As Adjusted
Debt:			
Mortgage notes payable	$133,159,210	$210,000,000(1)	$286,507,573
		32,861,962(2)	
		9,689,794(3)	
		19,600,000(4)	
		5,154,418(5)	
		(57,235,955)(6)	
		(66,721,856)(6)	
Capital leases payable	377,870	26,897(7)	404,767
Total debt	$133,537,080	$153,375,260	$286,912,340
Stockholders equity:			
Common Stock, $.01 par value per share 200,000,000 shares authorized, 25,810,447 issued and outstanding	$ 258,104	$	$ 258,104
8.55% Series A Cumulative Preferred Stock, no shares issued and outstanding, 2,000,000 shares issued and outstanding as adjusted		50,000,000	50,000,000
Additional paid in capital	180,047,727	(1,975,000)	178,072,727
Unearned compensation and accumulated deficit	(8,632,914)		(8,632,914)
Total stockholders equity	$171,672,917	$ 48,025,000	$219,697,917
Total capitalization	$305,209,997	$201,400,260	$506,610,257

(1) On September 2, 2004, we closed a $210 million term loan with Merrill Lynch Mortgage Lending, Inc. and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services, Inc. This loan is secured by 25 of our hotel properties.

(2) On July 13, 2004, we closed a $45.6 million revolving loan facility with CapitalSource Finance LLC. This facility was funded $37.5 million in July, 2004 and is secured by four of our mezzanine loan assets. On August 26, 2004, we paid down $4.6 million of the facility in connection with partial payoff of one of the mezzanine loan assets securing the facility.

(3) On July 7, 2004, we closed a $14.8 million term loan with Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc. This loan was funded $9.7 million at closing and is secured by one of our hotel properties.

(4) On July 23, 2004, we closed a $19.6 million term loan with Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc. This loan is secured by four of our hotel properties.

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(5) On August 12, 2004, we increased an existing term loan with General Electric Capital Business Asset Funding Corporation. This loan is secured by one of our hotel properties

(6) We used the proceeds from the funding of a $210 million term loan in September 2004, to repay three mortgage notes totaling approximately $54.1 million, pay down our credit facility by approximately $57.2 million and to partially repay another mortgage note by approximately $12.6 million.

(7) Represents new capital lease executed on one hotel property.

OUR COMPANY

Overview

We are a Maryland corporation that was formed in May 2003 to take advantage of the existing and developing investment opportunities in the lodging industry. These diverse lodging investment opportunities may result from inefficiencies related to market illiquidity, supply/demand imbalances and general business cycles. We target specific opportunities created by the current recovering lodging market while retaining the flexibility to invest in the most attractive risk-reward opportunities as they develop in the lodging business cycle. To our knowledge, we are one of the few publicly traded REITs exclusively focused on investing in the hospitality industry at all levels of the capital structure and across all segments where pricing, yield and capital appreciation advantages may exist.

We currently own 32 hotel properties in 13 states with 4,441 rooms and have mezzanine loan receivables of approximately $75.6 million. We are self-advised and own our lodging investments and conduct our business through Ashford Hospitality Limited Partnership, our operating partnership. We currently own an 80.9% interest in our operating partnership. The remaining 19.1% is owned by limited partners who received units in connection with the acquisition of certain of our assets. The substantial majority of these limited partnership units are owned by certain of our executives, employees and employees of our affiliates. We are the sole general partner of our operating partnership.

Our current investment strategy is intended to take advantage of strengthening lodging fundamentals. We believe that the U.S. economy is in the early stages of a recovery in the current business cycle and that the underlying cash flows of hotels will improve as the recently distressed lodging industry rebounds from its cyclical low point. We believe that our current investment policies will allow us to participate in future improvements in performance within the lodging industry. However, we also believe that as supply, demand and capital market cycles change, we will be able to quickly shift our investment strategies to take advantage of newly-created lodging investment opportunities as they develop. Currently, we do not focus our acquisitions on any specific geographical market. While our current investment strategies are well defined, our board of directors may change our investment policies at any time without stockholder approval.

We have elected to be treated as a real estate investment trust, or REIT, for federal income tax purposes. Because of limitations imposed on REITs in operating hotel properties, third-party managers manage each of our hotel properties. Remington Lodging & Hospitality, L.P., or Remington Lodging, is our primary property manager, managing 14 of our 32 hotel properties. Our remaining 18 hotel properties are managed by management companies unaffiliated with us.

Remington Lodging is wholly owned by Mr. Archie Bennett, our Chairman, and Mr. Montgomery J. Bennett, our President and Chief Executive Officer, and provides management and other related services for some of our hotel properties.

We currently have 23 full-time employees. The employees perform directly or through our operating partnership various acquisition, development, redevelopment, and corporate management functions. All persons employed in the day-to-day operation of our hotels are employees of the management companies engaged by our lessees, and are not our employees.

Our Team

We believe that we will continue to capitalize on the experience of our senior management in sourcing, underwriting, operating, repositioning, developing, selling and financing lodging-related assets. Our roots in the hotel industry trace back to 1968 when our Chairman, Archie Bennett, Jr., built his first hotel.

Together with our Chairman, the members of our senior management team have an average of 19 years experience in the hotel industry. With the exception of Mr. Douglas Kessler, our Chief Operating Officer, all members of our senior management team worked together at Remington Hotel Corporation, an affiliate of Remington Lodging, and related entities since 1992. Our management s experience prior to our initial public offering, or IPO, includes:

- investing in or managing 190 hotels or mortgage loans secured by hotels, totaling approximately 31,119 rooms in 33 states and developing 35 hotels, totaling approximately 9,201 rooms in 11 states;
- purchasing over $1 billion in hotels and mortgages secured by hotels;
- building seven hotels at a cost of $125 million;
- managing $1 billion of hotels, ranging from economy to upper up-scale, in 28 states;
- effectively asset managing over 145 predominantly non-performing hospitality loans (with a book value of approximately $500 million) acquired from third parties, substantially all of which were either recovered at par or foreclosed upon, with the assets sold for an amount in excess of the initial investment (approximately two-thirds of which we also operated as managers); and
- co-investing with major institutional investors, including, among others, G. Soros Realty Inc., Gordon Getty Trust, The Fisher Brothers, Olympus Real Estate Partners and Goldman Sachs Whitehall Real Estate Funds.

In addition, before Mr. Kessler, our Chief Operating Officer, joined Remington Hotel Corporation in July 2002, he assisted in overseeing the investment management, acquisition, sale and financing of more than $11 billion in real estate assets for Goldman Sachs Whitehall Real Estate Funds, including over $6 billion of lodging-related assets. During his nine years at Whitehall, Mr. Kessler served on the boards or executive committees of several lodging companies, including Westin Hotels and Resorts and Strategic Hotel Capital.

Our Business Strategy

We intend to continue to invest in a variety of lodging-related assets based upon our evaluation of diverse market conditions. These investments may include: (i) direct hotel investments; (ii) mezzanine financing through origination or through acquisition in secondary markets; (iii) first lien mortgage financing through origination or through acquisition in secondary markets; and (iv) sale-leaseback transactions.

Our strategy is designed to take advantage of current lodging industry conditions and adjust to changes in market conditions over time. In the current market, we believe we can continue to purchase assets at discounts to previous trading ranges or replacement costs and acquire or originate debt positions with yields at higher than recent historical interest rate ranges. Over time, our assessment of market conditions will determine asset reallocation strategies. While we seek to capitalize on the following favorable market fundamentals, conditions beyond our control may have an impact on overall profitability and on the investment returns.

As the current lodging market continues its recovery, new debt origination and acquisition opportunities remain available as hotel owners are faced with refinancing issues, defaults and opportunities to capitalize on historically low interest rates. As pools of commercial mortgage-backed security loans mature, hotel owners are faced with refinancing based on lower asset values than those values used in the prior financings, which provides us an opportunity to offer mezzanine financing to these borrowers at loan-to-value levels previously held by the first mortgage holders.

Our business strategy of combining lodging-related equity and debt investments seeks, among other things, to:

- maximize economic benefits from an industry that has suffered significant reductions in value and operating performance and appears to be at the early stages of a recovery;

capitalize on both current yield and price appreciation, while simultaneously offering diversification of types of assets within the hospitality industry;

vary investments across an array of hospitality assets to take advantage of market cycles for each asset class; and

offer an attractive liquidity alternative to asset sales (through structure and tax deferral) and traditional financing (due to rate, structure, loan-to-value and asset class).

Our investment strategy primarily targets limited and full service hotels in primary, secondary and resort markets throughout the United States. To take full advantage of current and future investment opportunities in the lodging industry, we will invest according to the asset allocation strategies described below. Due to ongoing changes in market conditions we will continually evaluate the appropriateness of our investment strategies, and our board of directors may change any or all of these strategies at any time.

Investments in Real Estate or Interests in Real Estate

Direct Hotel Investments. In connection with our initial public offering, we acquired six hotel properties. Since then, we have acquired 26 additional hotel properties. In selecting the hotels that we have acquired since our initial public offering, we have targeted hotels that either offer a high current return or have the opportunity to increase in value through repositioning, capital investments, market based recovery or improved management practices. We intend to continue acquiring existing hotels and, under appropriate market conditions, may develop new hotels. Our direct hotel acquisition strategy will follow similar investment criteria and will seek to achieve both current income and income from appreciation. We believe that values for, and operating performances of, lodging properties are currently below historical levels, making this an attractive time for acquisitions. Our direct hotel investments represent approximately 83% of our total investments made to date.

Sale-Leaseback Transactions. To date, we have not participated in any sale-leaseback transactions. However, if the lodging industry fundamentals shift such that sale-leaseback transactions become more attractive investments, we intend to purchase hotels and lease them back to their existing hotel owners.

Investments in Financial Assets

Mezzanine Financing. Since the date of our initial public offering, we have acquired or originated six subordinated loans, also known as mezzanine loans, secured by junior mortgages on hotels or pledges of equity interests in entities owning hotels and, in one instance, by a junior participation in a first mortgage. We expect the current yield, on a risk-adjusted basis, on each of these mezzanine loans to provide attractive returns. The loans we have acquired or originated relate to upscale or first class hotels that we believe require no significant near-term capital expenditures, have reputable managers and are located in good or emerging sub-markets.

We intend to continue to acquire or originate mezzanine loans. Mezzanine loans that we may acquire in the future may be secured by individual assets as well as cross-collateralized portfolios of assets. Although these types of loans generally have greater repayment risks than first mortgages due to the subordinated nature of the loans, we believe that a strong need for lodging mezzanine loans currently exists on behalf of hotel managers. We believe that the slowdown in the travel industry caused the value of hotel properties to decline below the values at which they were acquired or last refinanced. This decline in market value, coupled with more stringent underwriting criteria by senior hotel lenders, has caused a gap to develop in the loan-to-value ratio of these properties, making it increasingly difficult for owners to refinance their properties. We believe that mezzanine capital provides a solution for these owners by providing loans to cover the loan-to-value shortfalls. We expect this asset class to provide us with attractive yields and potentially allow us to participate in the improving economics of the underlying hotel. In addition, subject to restrictions applicable to REITs, we may acquire or originate corporate-level mezzanine

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loans on an unsecured basis. Our mezzanine loans currently represent approximately 17% of our total investments made to date.

First Mortgage Financing. To date, we have not originated or purchased any first mortgages other than one junior participation in a first mortgage, which we refer to as a mezzanine loan throughout this prospectus supplement. However, as interest rates increase and the dynamics in the hotel industry make first mortgage investments more attractive, we intend to acquire, potentially at a discount to par, or originate loans secured by first priority mortgages on hotels. We may be subject to certain state-imposed licensing regulations related to commercial mortgage lenders, with which we intend to comply. However, because we are not a bank or a federally chartered lending institution, we are not subject to the state and federal regulatory constraints imposed on such entities. Also, because we do not currently intend to securitize our assets, we expect to be able to offer more flexible terms than commercial lenders who contribute loans to securitized mortgage pools. We anticipate that this asset class will provide us with stable, attractive current yields.

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Our Existing Assets

Presented in the table below is certain information regarding our existing hotel portfolio.

Hotel Property	Location	Year Built/ Renovated	Rooms
Properties Acquired upon Completion of our IPO:			
Embassy Suites	Austin, TX	1998	150
Embassy Suites	Dallas, TX	1998	150
Embassy Suites	Herndon, VA	1998	150
Embassy Suites	Las Vegas, NV	1999	220
Radisson Hotel	Covington, KY	1972/2000	236
Radisson Hotel	Holtsville, NY	1989/2001	188
Properties Acquired since Completion of our IPO:			
Courtyard by Marriott	Bloomington, IN	1996	117
Courtyard by Marriott	Columbus, IN	1998	90
Courtyard by Marriott	Louisville, KY	2002	150
Doubletree Guest Suites	Columbus, OH	1985	194
Doubletree Guest Suites	Dayton, OH	1987	137
Embassy Suites	Flagstaff, AZ	1988	119
Embassy Suites	Phoenix, AZ	1981	229
Embassy Suites	Syracuse, NY	1990	215
Fairfield Inn & Suites	Kennesaw, GA	1996	87
Fairfield Inn by Marriott	Evansville, IN	1995	110
Fairfield Inn by Marriott	Princeton, IN	1998	73
Hampton Inn	Lawrenceville, GA	1997	86
Hampton Inn	Evansville, IN	1991	141
Hampton Inn	Terre Haute, IN	2000	112
Hampton Inn	Horse Cave, KY	1998	101
Hampton Inn Mall of Georgia	Buford, GA	2000	92
Hilton Garden Inn	Jacksonville, FL	1999	119
Homewood Suites	Mobile, AL	1998	86
Marriott Residence Inn	Lake Buena Vista, FL	2001	210
Residence Inn	Evansville, IN	1998	78
Sea Turtle Inn	Atlantic Beach, FL	1972/2000	193
Sheraton Bucks County	Langhorne, PA	1986	187
SpringHill Suites by Marriott	Baltimore, MD	2001	133
SpringHill Suites by Marriott	Kennesaw, GA	2001	90
SpringHill Suites by Marriott	Buford, GA	2001	96
SpringHill Suites by Marriott	Jacksonville, FL	2000	102
Total			4,441

We own each of these hotels in fee simple, except for the Radisson Hotel Cincinnati Riverfront, which we own part in fee simple and part pursuant to a ground lease which expires in 2070 (including all extensions) and the Doubletree Guest Suites in Columbus, Ohio, which has been built on an air rights lease above the parking garage with 42 years remaining.

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Presented in the table below is certain information regarding our existing loan portfolio as of the date of this prospectus supplement.

Property	Location	Origination or Acquisition Date	Loan Amount	Interest Rate	Maturity Date
Hilton Times Square	New York, NY	November 26, 2003	$10,000,000	LIBOR + 900 bps 2% LIBOR floor	August 2006, with two one-year extension options(1)
Adam s Mark	Denver, CO	January 23, 2004	15,000,000	LIBOR + 900 bps	February 2006, with three one-year extension options(2)
15 Wyndham-owned hotels(3)	12 states	March 4, 2004	18,000,000	LIBOR + 870 bps 2.5% LIBOR floor	July 2005, with three one-year extension options(4)
Embassy Suites	Boston, MA	March 19, 2004	15,000,000	LIBOR + 1025 bps 1.75% LIBOR floor	April 2007, with two one-year extension options(5)
Northland Inn & Conference Center	Brooklyn Park, MN	March 24, 2004	6,600,000	greater of 12% or LIBOR + 1000 bps 2% LIBOR floor	January 2006(6)